



**National Asset
Management Agency**

Margaret Falsey
Committee of Public Accounts Secretariat
Leinster House
Dublin 2

23 November, 2016

Dear Ms Falsey,

Thank you for your correspondence of 15 November 2016 on behalf of the Public Accounts Committee (the "Committee") to which you appended lists of 83 questions regarding NAMA's sale of the loan portfolio of Northern Ireland debtors (Project Eagle).

Given the extensive volume of questions it has not been possible to answer within your 7 day deadline. Attached are responses to the questions that you submitted to us. You will find the responses as set out in your table titled "*Questions for NAMA 14.11.2016*" at Appendix 1.

I trust that our responses will be of assistance to the Committee in its work.

Yours sincerely,

Martin Whelan

Head of Public Affairs

INFORMATION SOUGHT BY THE PUBLIC ACCOUNTS COMMITTEE

(as sought in PAC Letter of 15 November 2016)

1. Table 4.6 of the C&AG Report 94 sets out the timeline for potential bidders, the Committee would like specific dates of when these bidders were invited into the sales process and dates of when they left or declined to be part of the process.

RESPONSE:

NAMA only deemed participants in the Project Eagle portfolio sale process to have officially entered the sales process when they signed a Non-Disclosure / Confidentiality Agreement (NDA), which allowed them access the virtual data room (VDR) to review confidential material.

While there would have been initial communications between NAMA/Lazard and potential participants prior to the signing of the NDA, no confidential information would have been disclosed at this time. Only when the NDA was signed were participants allowed to enter the VDR to review the due diligence materials with a view to making a bid.

Bidder	Date Party Signed NDA	Exit Date
A. Participants		
PIMCO	16 October 2013	17 March 2014
Blackstone	31 January 2014	6 February 2014
Starwood	31 January 2014	7 February 2014
Oaktree	5 February 2014	7 March 2014
Cerberus	11 February 2014	Successful Bidder – (deal closed 20/6/2014)
Apollo	11 February 2014	14 February 2014
Lone Star	19 February 2014	4 March 2014
Goldman Sachs	19 February 2014	4 March 2014
Fortress (issued on 14/2/14)	24 February 2014	3 April 2014

2. An unredacted copy of the NAMA documents contained in the C&AG Report (with the exception of the staff names).

RESPONSE:

Out of the Board minute extracts contained within the C&AG's Special Report 94 into the sale of Project Eagle, 21 redactions were made by the C&AG, 12 of which are the names of NAMA officers.

The remaining 9 redactions relate to NAMA debtors and third parties.

The basis for this information being withheld by the C&AG is that it would fall under the headings of personal information, debtor information and commercially sensitive information.

The C&AG and NAMA have a requirement to be cognisant of the type of information that is released into the public domain to ensure the protection of this information, including but not limited to, personal information, debtor information, commercially sensitive information and information that may have an adverse impact upon the management of an organisation. In this instance, the redactions relate to personal, debtor and commercially sensitive information.

The protection of such information is encompassed by NAMA's obligations as a data controller under the Data Protection Act, in relation to personal information, and Sections 99 and 202 of the NAMA Act 2009, which relates to the protection of certain debtor and commercially sensitive information.

3. Having discussed the PIMCO letter attached, the Committee agreed to seek a response from NAMA to the contents of the letter and asked NAMA to indicate each paragraph it may disagree with or wishes to comment on.

RESPONSE:

PIMCO Correspondence to PAC 8 November 2016	NAMA Response
<p>1. Origin of the PIMCO approach to NAMA</p>	
<p>In April 2013, PIMCO was approached by Mr. Tuvi Keinan, a partner at the law firm Brown Rudnick who then introduced PIMCO to Mr. Ian Coulter of Tughans and Mr. Frank Cushnahan, with whom Brown Rudnick appeared to be working to identify potential purchasers for the NAMA Northern Irish loan portfolio (which later became known as Project Eagle). As we understood it, PIMCO was one of three firms who were approached at the time by these three parties.</p>	<p>This is new information in PIMCO's 8 November 2016 letter that was not previously advised to NAMA. Based on what PIMCO advised NAMA in March 2014 it was NAMA's understanding - and the NAMA Board was advised - that PIMCO's engagement in April/May 2013 was with Brown Rudnick only, not Tughans or Frank Cushnahan.</p> <p>The information in PIMCO's 8 November 2016 letter that PIMCO was "one of three firms approached" is also new information to NAMA.</p>
<p>PIMCO saw the transaction as one which may be of interest to its BRAVO II Fund, subject of course to further investment analysis and due diligence.</p>	<p>PIMCO's commercial considerations are a matter for PIMCO.</p>
<p>PIMCO was informed by these parties that the Northern Ireland Government wanted to ensure that there would not be a "fire sale" of Northern Irish homes and businesses once the portfolio was sold, but rather that a longer term approach, investing in and developing the assets, would be taken by any eventual purchaser. PIMCO was advised that the sale of the loan portfolio was a sensitive political matter and would have a major impact on the Northern Irish economy.</p>	<p>As NAMA was not party to the discussions between PIMCO and its advisors or any other parties, it has no knowledge of these matters.</p>
<p>PIMCO was told that the Northern Ireland Government wanted to seek to ensure that a reputable and responsible purchaser would be found, that would manage the assets in a sensitive way post-completion, and this was the basis for interested parties being invited to meet with Northern Ireland Government Ministers. This desire for a reputable longer term investor seemed to be a good fit for PIMCO, given its usual investment approach.</p>	<p>The view of the "Northern Ireland Government" as outlined by PIMCO is new information. NAMA was not advised of this.</p>

<p>Following a meeting organised by the three parties with the First Minister Peter Robinson and Minister for Finance Sammy Wilson, which took place in May 2013, PIMCO was informed by Brown Rudnick that it was the Northern Irish Government's preferred purchaser for NAMA's Northern Irish loan portfolio.</p>	<p>NAMA first became aware of this meeting in Autumn 2015 when the First Minister, Peter Robinson, in his evidence to the Northern Ireland Committee for Finance and Personnel, referenced the meeting. NAMA was never made aware of such a meeting.</p>
<p>As reflected in documents made public in the course of the Northern Irish parliamentary inquiry, we understand that Brown Rudnick wrote to Minister Wilson in June 2013, purporting to act on behalf of two 'clients' and advising that both may be interested in purchasing the portfolio. This letter stated that proceeding with one party on a limited exclusivity would ensure a focused, expedient process with guaranteed confidentiality, which Brown Rudnick saw as vital to the process. Minister Wilson then wrote to Minister Noonan enclosing that letter from Brown Rudnick.</p>	<p>This reflects NAMA's evidence on this matter.</p> <p>During their appearance before the Committee on 9 July 2015, for example, the NAMA Chairman and Chief Executive outlined the timeline of events relating to the first contact made by Brown Rudnick, via Minister for Finance and Personnel Sammy Wilson, to Minister for Finance Michael Noonan in relation to the possible sale of the Northern Ireland loan portfolio.</p> <p>This timeline is as set out in the C&AG Report, (Page 22, Figure 1.1 Project Eagle key events timeline June 2013-June 2014). Figure 1.1 is based on information provided by NAMA to the C&AG.</p>
<p>That approach made to the Department of Finance by Brown Rudnick was made by Brown Rudnick acting in a deal-making capacity having identified (seemingly more than one) potentially interested prospective buyers. At no stage in the Project Eagle process did PIMCO conclude an agreement to be advised or represented by any of the three parties mentioned earlier.</p>	<p>NAMA was not party to any engagement between PIMCO and potential advisors or representatives and therefore has no first-hand knowledge of this matter. However, it is the case that Brown Rudnick entered the Project Eagle data room on behalf of PIMCO in November 2013 on the basis of being PIMCO's advisor and attended meetings that PIMCO had with NAMA.</p> <p>Moreover, based on PIMCO's engagement with NAMA in March 2014, NAMA understands that whilst the success fee arrangement may not have been captured in a binding agreement, PIMCO's legal team was actively reviewing the draft letter of engagement that contained this proposed fee arrangement. It was also our understanding in March 2014 that if NAMA had indicated that it had no difficulty with the proposed success fee arrangement involving Frank Cushnahan, PIMCO would have entered into the proposed arrangement with Brown Rudnick.</p>
<p>From public sources, we have now seen that Minister Noonan replied to Minister Wilson advising that parties with an interest in NAMA-held loans should make contact directly with NAMA and specifying that Brown</p>	<p>NAMA has already provided extensive evidence on this timeline and as advised above, this is reflected in the C&AG Report (Page 22, Figure 1.1 Project Eagle key events timeline June 2013-June 2014). Figure 1.1 is based on information</p>

<p>Rudnick should enter a dialogue with NAMA so that any interest in the loan portfolio could be fully assessed. As noted in the recent Committee hearings, the Comptroller and Auditor General Report indicates that NAMA was made aware of this approach no later than early July 2013.</p>	<p>provided by NAMA to the C&AG.</p>
<p>In September 2013, PIMCO sent a non-binding letter of interest to NAMA indicating an interest in purchasing the portfolio reflective of the approach suggested in the Brown Rudnick letter. Based on publicly available information at the time, PIMCO stated that it would be willing to submit an indicative total purchase price of €1.1bn in cash for the portfolio.</p>	<p>This has previously been outlined by NAMA to the Committee on numerous occasions, indeed as early as 9 July 2015.</p>
<p>2. The basis for making the initial bid for the Northern Irish loan portfolio</p>	<p>This is dealt with in the C&AG Report and reflects fully NAMA's position on the matter.</p> <p>NAMA, for example, provided evidence reflecting this to the Committee on 29 September 2016 and on 25 October 2016.</p>
<p>3. The circumstances of PIMCO's withdrawal from Project Eagle</p>	
<p>In June 2013, PIMCO was approached by Brown Rudnick with a request for a proposed success fee. However, there was little progress in the potential transaction across the summer period and the proposal was not reviewed in detail until September 2013. The proposed success fee was initially expressed as a percentage of portfolio value and was within a typical range for a brokerage fee.</p>	<p>NAMA had no knowledge of this detail until the the PIMCO letter of 8 November 2016. The letter includes more specific detail around who made the initial approach regarding a success fee, when this took place (June 2013) and when the success fee proposal made was reviewed in detail by PIMCO (September 2013). This and the basis for the proposed fee calculation is new information.</p>
<p>The Brown Rudnick proposal indicated that the success fee would be split equally three ways between Brown Rudnick and other parties, which led to enquiries by PIMCO as to whom the fee would be paid on to. PIMCO was advised by Brown Rudnick that the fee (later advised by Brown Rudnick to total £ 16million) was to be paid to Brown Rudnick and then split in equal one-third shares between Brown Rudnick, Tughans and Mr. Cushnahan. PIMCO was later advised that Tughans' one third share was to be paid to Mr. Coulter, personally, rather than to the law firm Tughans.</p>	<p>This is reflected in the notes and NAMA board minutes as advised by PIMCO to NAMA in March 2014. NAMA notes that PIMCO says it learned more information about the fee split and potential recipients, including that the share for Tughans was to be paid to Ian Coulter, at later stages. No timeframes are given for when this information came to light.</p>

<p>PIMCO did not agree to this fee proposal. PIMCO also sought various confirmations from Brown Rudnick including, whether NAMA had been informed and had approved of Mr. Cushnahan's potential involvement in the proposed transaction. After PIMCO raised these concerns around this fee proposal, no further request was made to PIMCO, at that time, to agree any fee.</p>	<p>The 8 November 2016 PIMCO letter is new information to NAMA. The information in the 8 November 2016 PIMCO letter that there were two separate success fee proposals is new information. From this paragraph, it appears that PIMCO, while not agreeing to the first fee proposal made in mid to late 2013, did raise concerns with Brown Rudnick about whether NAMA was aware of "<i>Mr Cushnahan's potential involvement in the proposed transaction.</i>" The question is why PIMCO did not bring this to NAMA's attention before end 2013 and waited until March 2014.</p>
<p>In February 2014, a new fee proposal was received by PIMCO from Brown Rudnick (under which the same parties were to benefit in a similar amount). At this point, it appeared to PIMCO that disclosures still had not been made by relevant parties to NAMA. Accordingly, PIMCO decided to contact NAMA directly and take it upon itself to disclose full details of the success fee arrangements that had been proposed by Brown Rudnick, including the amount and intended recipients. In particular, PIMCO sought clarification on NAMA's awareness of Mr. Cushnahan's role in Project Eagle.</p>	<p>The 8 November 2016 PIMCO letter is new information to NAMA. That a "new fee proposal" was received in February 2014 is new information, albeit that it involved the same parties and similar amount. This is important in that the PIMCO calls with NAMA from 10 March to 13 March 2014 only concerned one fee proposal.</p>
<p>March 2014 Withdrawal calls with NAMA</p>	
<p>As the Committee has heard from various parties, PIMCO provided details of these matters to NAMA in a series of calls in March 2014.</p>	<p>PIMCO did not provide all "details of these matters" to NAMA in March 2014. PIMCO provided some detail to NAMA but did not disclose in the level of detail appearing in this letter dated 8 November 2016.</p>
<p>PIMCO has been disappointed that PIMCO's withdrawal from Project Eagle has been repeatedly mischaracterised by NAMA We would suggest that NAMA has conflated what may or may not have been discussed at the NAMA Board level (upon which we cannot comment), and the reality of the calls that PIMCO made to NAMA and PIMCO's own decision to withdraw.</p>	<p>PIMCO withdrew from the sales process because the NAMA Board was unwilling to countenance its continued involvement once it became aware of PIMCO's proposed "success fee" arrangement involving Frank Cushnahan. It is NAMA'S view that if NAMA had indicated that it was happy for PIMCO to proceed in the process, notwithstanding that proposed fee arrangement, PIMCO would not have withdrawn.</p> <p>The position of the NAMA Board is clearly set out in the related March 2014 Board minutes, which have been previously provided to the Committee. Once NAMA was informed of PIMCO's proposed success fee arrangement involving Frank Cushnahan, NAMA could not continue to engage with it on this transaction and if PIMCO had not voluntarily exited the process NAMA would have exited</p>

	PIMCO.
The reality of PIMCO's decision to withdraw was reflected more accurately by Mr Stewart in his evidence to the Committee on 25 October 2016. PIMCO welcomes his confirmation that PIMCO withdrew from Project Eagle, and was not at any stage asked to leave the process by NAMA.	<p>This is not accepted by the NAMA Board. PIMCO would not have withdrawn from this sales process if NAMA had indicated that it was happy for it to proceed in the process, notwithstanding the proposed fee sharing arrangement with Frank Cushnahan.</p> <p>It was PIMCO, not NAMA that introduced discussion around the possibility of PIMCO continuing in the process on the call of 10 March 2014 if Frank Cushnahan was taken out of the equation. Under no circumstances would the NAMA Board have agreed to PIMCO's continued involvement in the process once the involvement of Frank Cushnahan had been identified. PIMCO's involvement was "fatally flawed".</p>
PIMCO is largely in agreement with the summarised call notes appended to the report of the Comptroller and Auditor General at Appendix E of the report entitled, "National Asset Management Agency's sale of Project Eagle", dated August 2016, although certain points are clarified below.	PIMCO's position in largely agreeing with Appendix E to the Comptroller & Auditor General's report is consistent with NAMA's statement to this effect.
It should be noted that the reference to "a success fee arrangement (being) in place between PIMCO and Brown Rudnick" noted in the report is inaccurate. Whilst an arrangement was proposed by Brown Rudnick, it was never agreed to by PIMCO.	Based on PIMCO's engagement with NAMA in March 2014, NAMA understands that whilst the success fee arrangement may not have been captured in a binding contractual agreement, PIMCO's legal team was actively reviewing the draft letter of engagement negotiated by PIMCO's commercial team that contained this fee arrangement. It is also our understanding that if NAMA had indicated that it had no difficulty with the proposed success fee arrangement involving Mr Cushnahan, PIMCO would have entered into the proposed fee arrangement with Brown Rudnick.
As described in the notes, following a request by PIMCO for a call on 7 March 2014, PIMCO Legal spoke to NAMA on 10 March 2014 and informed NAMA about the proposed success fee arrangement. PIMCO wanted to understand whether, and ensure that, NAMA was aware of Mr. Cushnahan's role and the fee arrangement that had been proposed to PIMCO. PIMCO stated that it would not proceed unless and until it was clear to PIMCO that NAMA was aware of Mr. Cushnahan's role in Project Eagle (including his potential interest as a beneficiary of a fee arrangement as had been proposed to PIMCO). PIMCO described details of the fee that had been	This is very pertinent. PIMCO state here in their 8 November 2016 letter that " <i>PIMCO stated that it would not proceed unless and until it was clear to PIMCO that NAMA was aware of Mr. Cushnahan's role in Project Eagle (including his potential interest as a beneficiary of a fee arrangement as had been proposed to PIMCO).</i> " This is what the NAMA Board understood to be PIMCO seeking NAMA's acquiescence. This has previously been outlined by NAMA to the Committee on 9 July 2015 and in subsequent appearances before the Committee on 1 October 2015, 29 September 2016, 18 October 2016 and 25 October 2016.

<p>proposed and the reasons for its concerns.</p>	<p>This is also outlined in the contemporaneous notes of the conference calls taken by NAMA Legal, which were provided to the Committee on 24 October 2016.</p>
<p>The NAMA attendees confirmed that they were not aware of the proposal but enquired as to whether PIMCO would proceed in Project Eagle should Mr. Cushnahan's involvement, or the fee proposal to PIMCO, be an issue for NAMA PIMCO confirmed that it was not currently proceeding with the transaction and that any decision to proceed or not would be informed by NAMA's response. NAMA agreed to consider the matter further and revert to PIMCO.</p>	<p>The PIMCO November 2016 letter omits PIMCO's response to the PAC's question put to it, that is, if what had been outlined was an issue for NAMA, whether PIMCO would proceed with its work on the proposed transaction. PIMCO stated it certainly would not proceed with its legal due diligence and proceeded to say that if the arrangement was an issue for NAMA, PIMCO would need to consider if the transaction could progress without the involvement of the three counterparties concerned. This response is clear from NAMA's notes of the call and Appendix E of the C&AG's report, with which PIMCO has stated it is largely in agreement. PIMCO also stated that it was still making enquiries.</p>
<p>We can confirm that in no way did PIMCO seek the acquiescence of NAMA to any fee arrangement, nor seek NAMA's agreement that any fee arrangement was appropriate. That is also clear from NAMA's own minutes of the calls and the evidence of Mr Stewart to the PAC, who confirmed that did not happen.</p>	<p>This is not accepted. PIMCO state here in their 8 November 2016 letter that <i>"PIMCO stated that it would not proceed unless and until it was clear to PIMCO that NAMA was aware of Mr. Cushnahan's role in Project Eagle (including his potential interest as a beneficiary of a fee arrangement as had been proposed to PIMCO)."</i> This is what the NAMA Board understood to be PIMCO seeking NAMA's acquiescence.</p>
<p>As the notes outline, NAMA contacted PIMCO the following day (11 March 2014) to advise that the NAMA Board considered the involvement of Mr. Cushnahan to be a very serious issue for NAMA. PIMCO agreed to revert to NAMA and on a further call, later that afternoon, PIMCO informed NAMA of its disappointment that disclosures had not been made by the relevant parties to NAMA. PIMCO informed NAMA that it did not want to be part of any process where there was any suggestion of impropriety and was willing to withdraw.</p>	<p>This has previously been outlined by NAMA to the Committee on 9 July 2015 and in subsequent appearances before the Committee on 1 October 2015, 29 September 2016, 18 October 2016 and 25 October 2016.</p> <p>This is also outlined in the contemporaneous notes of the conference calls taken by NAMA Legal, which were provided to the Committee on 24 October 2016.</p>
<p>Whilst it is for NAMA to explain the reasons for the questions asked of PIMCO on the call (and we note Mr Stewart sought to address this topic in his evidence to the Committee), PIMCO can confirm that on that call we were asked by NAMA if we had considered "other options", such as proceeding without the three parties, and we were asked to consider, before closing any doors, whether every option was being considered. PIMCO agreed to give the matter final consideration and to revert again.</p>	<p>The question put by NAMA on 11 March 2014 as referred to in PIMCO's letter had followed on from the comments from PIMCO on the conference call of 10 March 2014 (see response above). That is, PIMCO introduced the discussion about continuing in the process on 10 March 2014 if Frank Cushnahan was removed from the equation.</p>
<p>On 12 March, PIMCO advised NAMA that it had no option but to withdraw</p>	<p>This has previously been outlined by NAMA to the Committee on 9 July 2015 and</p>

<p>from Project Eagle. NAMA expressed its disappointment but accepted the decision.</p>	<p>in subsequent appearances before the Committee on 1 October 2015, 29 September 2016, 18 October 2016 and 25 October 2016.</p> <p>This is also outlined in the contemporaneous notes of the conference calls taken by NAMA Legal, which were provided to the Committee on 24 October 2016.</p>
<p>PIMCO confirmed its decision to withdraw in writing on 13 March 2014.</p>	<p>This correspondence has been provided to the Committee on 24 October 2016.</p>

Appendix 1

(Questions for NAMA 14.11.2016 as sought in PAC Letter of 15 November 2016)

NAMA

Adequacy of Resources available to Comptroller and Auditor General		
REF : CAG 17	<p>Contrary to what has been stated elsewhere, my office did not seek external expert assistance to carry out the Project Eagle examination. (McCarthy, Seamus, Meeting of the Committee of Public Accounts, 29 September 2016, page 9)</p>	<p>Does NAMA accept the Comptroller and Auditor General's statement that his office did not seek external expert assistance to carry out the Project Eagle examination.</p>
<p>NAMA RESPONSE:</p> <p>NAMA was informed by the Office of the C&AG in June 2015 that the Office was seeking expert assistance to assist it in its preparation of the Section 226 review and that its review would begin with an examination of the Project Eagle transaction. The Office indicated that it proposed to begin fieldwork on the review in September/October 2015. In a public contract notice seeking expert assistance which was published by the C&AG's Office on the <i>e-tenders</i> website on 29 June 2015, it was stated that <i>"the expert's work would include a detailed review of a sample of both property and loan disposals, and of investment/lending transactions, by NAMA"</i>.</p> <p>On 9 July 2015, at a meeting of the Public Accounts Committee in relation to Project Eagle, the C&AG stated his intention to examine the Eagle loan sale in detail. He also stated that his Office had <i>"a budget to hire people if we need specific technical assistance with a particular project"</i>.</p> <p>Based on these developments, NAMA assumed that the expert assistance, if obtained, would have been required to assist the CAG's Office in its review of the Project Eagle loan sale, given (a) that the Public Accounts Committee had specifically sought an examination of the sale, (b) that the expertise sought by the C&AG was in the area of property and loan disposals and (c) that it was known that the C&AG's Office did not itself have any expertise in this specialist area.</p>		
NA MA 57	<p>[On the question of whether the Department of Finance had expressed any opinion with regard to the expertise the C&AG would require to prepare the PE report. NAMA stated that [the Department of Finance] "expressed the strong view that they were surprised that the Comptroller and Auditor General did not engage this type of expertise. I think there would have been agreement between us on that or, certainly, our opinions would have been the same." (Daly, Frank (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 91)</p>	<p>Is this minuted in any document?</p>

NAMA RESPONSE:

This comment is recorded in a document prepared within the Department of Finance. The Committee may wish to request this from them.

Carrying Value

NA MA 14	The end-2013 management letter, which was issued in mid-2014, includes the following: "Where a change in strategy is effected which results in either (i) a change in the sale of underlying collateral to a loan sale/portfolio sale or (ii) a change in the sale of a loan/loan portfolio to the sale of the underlying collateral, cash flows should be updated to reflect the most up to date position to mitigate the risk of an incorrect impairment provision being recognised." Two things are clear from this. One is that senior Comptroller and Auditor General staff in 2013 took the view that the carrying value of assets included in a loan sale could differ from their carrying value as individual items of collateral. Second, it shows that senior Comptroller and Auditor General staff in 2013 would have expected NAMA to update the portfolio's carrying value in response to a change in strategy and to the emergence of up-to-date information relevant to judgments on impairment. (McDonagh, Brendan (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 62)	How is the statement that "the carrying value of assets included in a loan sale could differ from their carrying value as individual items of collateral" considered to be in conflict with the conclusions of the report? Is this not simply saying that there can be expected to be a discount? Did NAMA "update the portfolio's carrying value in response to a change in strategy and to the emergence of up-to-date information relevant to judgments on impairment"? If so, when and on the basis of what "up-to-date information relevant to judgments on impairment" ?
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NAMA RESPONSE:

As noted in their 2013 audit management letter to NAMA, the Comptroller and Auditor General (C&AG) took the view that the carrying value of assets included in a loan sale could differ from their carrying value as individual items of collateral assets.

This was confirmed by the C&AG in his appearance before the Committee on 29 September 2016 when he discussed the impairment issue. *"NAMA's principal argument was that additional impairment should not have been recognised as it was a sale that might not proceed. I think it took accounting advice from accountancy advisers and presented a paper to us justifying it. We accepted this."*

The C&AG's report concludes that NAMA suffered a probable loss of £190m on the basis of comparison to the carrying value of the loans versus the reserve price of £1.3 billion. This carrying value (a technical accounting calculation which is derived by discounting the estimated future cash flows at an effective interest rate) was based on a long-term workout strategy, and was measured using IRFS rules. When the 2013 impairment figures were being prepared in November 2013, there was not sufficient clarity on the Project Eagle transaction to warrant a change to the strategy for impairment purposes.

If a change in strategy was reflected in the impairment calculation at this time, the cashflows would have been brought forward and an additional impairment

charged to the relevant loans to reflect the impending crystallisation of the real market value of the loans at that time, as verified by the market. However IAS 39 is very rule driven and we could only ever have adjusted for incurred losses and not expected losses so the impairment may not necessarily have been adjusted to reflect a lower carrying value.

Conflict of interest

BR 04	"Conflicts of interest must be an open-book situation." and later that "It is a decision of the NAMA board how to make available those conflict of interest issues. They are personal declarations and need the permission of the persons who have declared them to share them. " (Rowntree, Brian, Meeting of the Committee of Public Accounts, 13 October 2016, page 58;59-60)	Is it documented whether NAMA, in the context of the NIAC, discussed whether or not it would be appropriate to have an 'open-book situation' with regard to conflict of interests?
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NAMA RESPONSE:

The members of the NIAC were holders of designated directorships for the purposes of the Ethics in Public Office Act 1995 as amended by the Standards in Public Office Act 2001 (Ethics Acts) and thus had an obligation to disclose interests pursuant to this legislation. In addition they had obligations to disclose interests pursuant to Section 30 of the NAMA Act 2009.

There were two separate and distinct disclosure of interests obligations under the Ethics Acts: (i) Annual Statement of Interests: provided annually to the Chairman of the Board and to the Standards Commission (SIPO) and (ii) Statement of Material Interests: required to be disclosed to the NIAC, if the member (or their connected person) had a material interest in any matter to which any function of a designated directorship relates.

The Annual Statement of Interests and the Statement of Material Interests required by the Ethics Acts are two separate and distinct obligations. The Statement of Material Interest must be disclosed as and when a matter arises during the course of carrying out the designated director's functions (in this particular case during attendance at the NIAC meetings), irrespective of whether the interest has been disclosed in the individual's Annual Statement of Interest. The disclosure of interests' requirement under Section 30 of the NAMA Act is similar to the Statement of Material Interests obligation under the Ethics Acts (i.e. (ii) above) in that it was required to be made when a member had an interest material to a matter that fell to be considered by NIAC.

It should be noted that these obligations to make relevant disclosures are personal obligations of the individuals concerned. NAMA ensured that all members of the NIAC were made aware of their obligations to disclose interests, provided compliance training in this regard, and put procedures in place to assist members of the NIAC in complying with their obligations at committee meetings. NAMA, guided by the provisions of the Ethics Act and the NAMA Act, relied on these

arrangements. Where a member made a disclosure of material interests this was noted and dealt with at the NIAC meeting.

The appropriateness of an 'open-book situation' with regard to conflict of interests was never raised at NIAC by any committee member. To our knowledge, there is no documented discussion on the appropriateness of an 'open-book situation' with regard to the disclosure of interests in the context of the NIAC.

BR 12 [Referring to the University of Ulster documentation I had sight of confidential information. Documentation that comes with heavy caveats and confidential provisions surrounding agreements with various lending agencies is confidential in my view. In my determination, that is a confidential document. (Rowntree, Brian, Meeting of the Committee of Public Accounts, 13 October 2016, page 87)

This is a point that may need to be clarified with NAMA, i.e. how to define the nature of the information made available to members of NIAC and whether they agree with Mr Rowntree's assessment of the nature of the information provided to NIAC?

NAMA RESPONSE:

This issue was addressed in correspondence sent by NAMA to the Committee, dated 14 October 2016, which referred specifically to the University of Ulster report. The relevant portions of the correspondence sets out that the 2012 report; *“provides a profile of the aggregate of residential development land sites in Northern Ireland securing loans held by five financial institutions, including NAMA. There is a particular focus on the location, planning status and density of the development pipeline. As is clear from its contents, the report includes no debtor-specific or asset-specific information nor does it include NAMA valuations. The data that is included in the report would be of general interest to policymakers and planners.*

“Of the assets securing the Project Eagle loan portfolio, Northern Ireland residential land represented less than 8%. It can hardly be contended, therefore, that access to high-level information on NAMA’s residential land exposure in Northern Ireland would have been of major commercial value to any investor interested in acquiring the Eagle portfolio. In any event, the various investors who were given access to the Project Eagle data room in February 2014 had access to much more detailed information regarding debtors and their assets.

“Mr Rowntree suggested that the information in this report could potentially have been of commercial value if combined with data on Northern Ireland housing requirements. This aggregated analysis was not available to NAMA during 2012 and 2013 and only became available to NAMA when two UU staff members made a presentation to the NIAC on 8 September 2014. This was three months after the sale of Project Eagle which concluded in June 2014.”

Section 202 of the NAMA Act 2009 defines confidential Information in the context of NAMA’s work as being:

“information relating to the commercial or business interests of a participating institution or of a person who is or has been in a relationship with a participating

	<p><i>institution;</i></p> <p><i>(a) information that is subject at law or in equity to a duty of confidentiality;</i></p> <p><i>(b) information that, if it were contained in a document, would have the result that a person could not be compelled to disclose the document in evidence;</i></p> <p><i>(c) information, the disclosure of which would tend to place NAMA, a NAMA group entity or the NTMA at a commercial disadvantage; or</i></p> <p><i>(d) information about proposals of a commercial nature and tenders submitted to NAMA, a NAMA group entity or the NTMA."</i></p> <p>It is clear that none of the information that is contained within the University of Ulster report falls within this definition of confidential information that would have been of any commercial value.</p>
<p>NM B 54</p>	<p>Request made for material referred to in Appendix E of the C&AG's report, viz. communications between PIMCO and NAMA a typed minute of a conference call on 10 March 2014 ... contemporaneous notes taken by the senior divisional manager on 11, 12 and 13 March copies of e-mail correspondences. (Meeting of the Committee of Public Accounts, 18 October 2016, page 78)</p> <p>Can the relevant papers be made available?</p>
	<p>NAMA RESPONSE:</p> <p>All such correspondence, minutes and notes were provided to the Committee as part of NAMA's response on 24 October 2016 (Appendix 2).</p> <p>A contemporaneous note of the telephone conversation between NAMA and PIMCO which took place on 13 March, 2014, subsequent to PIMCO's withdrawal from the Project Eagle sales process, is included in Appendix 2.</p>
<p>NM B 67</p>	<p>[On the assertion that the board noted that PIMCO had advised that the negotiations had commenced in April 2013 and Frank Cushnahan had not resigned as a member of the NIAC until 7 November 2013] As far as I can see, it is not true that the negotiations had commenced in April 2013. I know it is in the minutes but.... As far as I can see, it is not true that the negotiations had commenced in April 2013. Can we come back to the Deputy on that date? ...The reason I think that may be an error is by then PIMCO was out of the process. Will the Deputy allow us to come back on that issue? (Ellingham, Oliver (NAMA board member), Meeting of the Committee of Public Accounts, 18 October 2016, page 89)</p> <p>Witness subsequently confirmed that there was no error. "I, along with the rest of the NAMA Board, only became aware of possible investor interest in acquiring the NI debtor portfolio in July 2013. Neither I nor my Board colleagues are aware of the identity of the parties with whom PIMCO commenced negotiations in April 20 13. My assumption was that those negotiations were with Brown Rudnick but only PIMCO or Brown Rudnick can clarify that matter definitively for the Committee" - see NAMA 170</p>

NAMA RESPONSE:

When NAMA appeared before the Public Accounts Committee on 9 July 2015 and in subsequent appearances before the PAC, the NAMA Chairman and Chief Executive outlined that NAMA had no knowledge of discussions by any party relating to the potential sale of the Northern Ireland portfolio. NAMA's first indication of any interest in the Northern Ireland portfolio came about when Minister for Finance and Personnel Sammy Wilson contacted Minister for Finance Michael Noonan on 24 June 2013, submitting an expression of interest by Brown Rudnick. This was forwarded to NAMA by the Department of Finance on 4 July, 2013 and Minister Noonan responded to Minister Wilson on 25 July 2013, outlining that any approach should be made directly to NAMA. Subsequently PIMCO contacted NAMA in September 2013 submitting an indicative bid for the Northern Ireland portfolio.

This is also outlined in NAMA's response to the Committee on 10 November 2016 (Q6), which stated that NAMA had no awareness of the involvement of Mr Cushnahan in any such discussions; *"until further information became available following evidence given in Autumn 2015 by the First Minister Peter Robinson, to the Northern Ireland Committee for Finance and Personnel in respect of a meeting attended by Mr Cushnahan in May 2013...."*

NA MA 113	In relation to the first call between PIMCO and NAMA the question was posed, "Is it correct to say that this phone call follows on from a request from Pimco on 7 October? Pimco needed to talk to NAMA or the legal team about something. Is that correct?". The response was, "Yes. What happened was that the head of legal in Pimco left a voicemail for my manager on 7 October seeking a call. A call was then scheduled for 4 p.m. on Monday, 10 March. My manager was unable to attend as she had an appointment that day so she asked me to sit in with Mr. Hanna for that call.". It was also clarified that Mr Stewart and Mr Hanna were the only NAMA representatives present. (Stewart, Alan (NAMA senior divisional solicitor), Meeting of the Committee of Public Accounts, 25 October 2016, page 41)	Should the reference to 7 October not be to 7 March (2014)?
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NAMA RESPONSE:

This is correct. The reference by Deputy Connolly should refer to 7 March 2014.

C&AG Assessment Methodology

NA MA 47	[On the question of whether, in light of the C&AG's clarification that day, NAMA accepted that the C&AG had not sought extra expertise to carry out the Project Eagle Report] "I am not sure I would fully accept it. Maybe it is a misunderstanding" (Daly, Frank (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 75)	Does it still remain a matter of dispute between NAMA and the C&AG as to whether thr C&AG had indicated that it needed expertise specifically for the PE report
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NAMA RESPONSE:

Please see response to Question CAG 17 above.

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When we complete our analysis and field work, our standard approach is to present the findings to the public bodies concerned and ask them for a formal written response. Where evidence presented to us shows a change is required, we gladly make that change. If comments or points of view presented by an audited body are relevant but not supported by evidence, we represent those comments as the audited body's views in the report, so readers of the reports have both sides of the argument to hand. I am satisfied that I have done that with this report. (McCarthy, Seamus, Meeting of the Committee of Public Accounts, 29 September 2016, page 9)

Does NAMA believe that comments or points of view presented by it and supported by evidence were not taken into account in the C&AG's conclusions? If so, can NAMA provide detail in relation to the points at issue and provide the documents in which the points at issue were put to the Comptroller and Auditor General?

NAMA RESPONSE:

Extensive market-based expert evidence was submitted by NAMA to the C&AG during the course of the examination but NAMA does not consider that the evidence was given adequate weight in the report's analysis or conclusions.

For instance, the evidence provided by NAMA that the nine investors who were allowed access to the sales process accounted for almost all of the major European loan sales during the period from 2013 to 2015 is reproduced in the report but appears to have had no impact on one of the report's key conclusions.

The evidence provided by NAMA was that the nine firms which were admitted to the sales process account for 88% (by par value) of all European CRE (commercial real estate) loan sales of large portfolios (in excess of €1 billion) transacted over the period from 2013 to 2015. They account for 92% of all UK/Ireland CRE loan sales of large portfolios (in excess of €1 billion) over the same period. The report seems to infer that eight potential bidders, which sought access to the sales process but were not considered to be credible bidders by Lazard, could have lodged credible bids if they had been allowed an opportunity to bid. This, as NAMA sees it, runs contrary to the available objective evidence. Lazard have stated, in relation to the firms that were not admitted into the process, that *"they did not meet NAMA's criteria, namely the ability to pay £1.3 billion in cash, the human capital and resources to review such a large, complex and granular portfolio, the ability to purchase the entirety of the Portfolio, and the ability to transact on the basis of the limited information available on the Portfolio."*

Expert evidence from Lazard is likewise not given any weighting in the report's conclusions. The report does not reflect key Lazard evidence that *"there is no evidence that any other investors existed at that time (Q1 2014) who were as credible and as well qualified such that it appeared that they were in a position to pay a higher price to NAMA than that secured from Cerberus"*. Lazard went on to state that *"the process was open to the most qualified and credible potential counterparties."*

There were fewer participants in this process than in some other transactions because there were fewer investors that were sufficiently qualified and credible."

The report does not reflect Lazard's evidence that *"the fact that seven of the nine suitably qualified investors admitted into the process decided not to submit a bid to acquire the Portfolio suggests that the Portfolio was not particularly appealing as an investment proposition."*

The report does not reflect Lazard's evidence that *"in our experience, it is not uncommon in a transaction of this complexity and scale for the number of bidders to be distilled down to just two or three final bidders. It is crucial to ensure in a process such as Project Eagle that bidders are sufficiently motivated to spend time and money on due diligence in a competitive situation. This objective was achieved in the Project Eagle process."*

Not only did the report fail to take into account the strong market evidence on these key points but it also did not offer any evidence from other market specialists which would counter Lazard's evidence.

Deliberations following PIMCO disclosure

C&AG Report para 5.22	Briefing notes compiled by the Department of Finance state that the Chairman of NAMA informed the Minister on 13 March 2014 of PIMCO's withdrawal from the process, and the reasons. The examination team found no contemporaneous record of the content of that communication. (National Asset Management Agency's Sale of Project Eagle - Special Report No. 94 of the Comptroller and Auditor General, page 93)	Are contemporaneous records available of contact between the Chairman of NAMA and the Minister for Finance on 13 March 2014 in relation to PIMCO's withdrawal from the process and the reasons?
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NAMA RESPONSE:

In his evidence to the Committee on 9 July 2015, the NAMA Chairman outlined that he made contact with Minister Noonan to inform him that an issue had arisen relating to a success fee that PIMCO had brought to NAMA's attention. This was a courtesy call to the Minister and it is not usual practise for such calls to be minuted.

Discount rate

NAMA 172	The title of 6.a is "Application of a 10% discount to Project eagle". NAMA's response at 6(a)i. quotes from the June 13th 2013 NAMA Board paper on discount rates and refers to "flexibility...when evaluating potential transactions" re alternative NPV scenarios using alternative discount rates and qualitative information. 6(a)ii. quotes from the Dec 12th 2013 Board paper on the PE portfolio disposal in relation to the discounting of non-performing	Is it the case that 6(a)(i) relates to the discount to be applied to estimate NPV; and that 6(a)(ii) relates to the discount to be applied to arrive at fair or market value? And that the second discount is a further incremental discount rather than an alternative discount used to arrive
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		portfolio asset values (rather than cashflows) by buyers by at least 10%. (Martin Whelan, Head of Public Affairs, NAMA, Letter from NAMA in response to requests for information made by the Committee on 5 and 12 October, page 6)	at fair value?
<p>NAMA RESPONSE:</p> <p>In relation to the responses issued by NAMA to the Committee on 24 October, 2016;</p> <p>Question 6(a)(i) relates to discount for calculating NPV.</p> <p>Question 6(a)(ii) relates to the discounting of the underlying security value, which is the key component of cashflows for NPV purposes, by 10%. This represents an alternative discount rate of 10% that was considered by the Board of NAMA.</p>			
NA MA 173		NAMA's response at 6(a)iii. addresses NAMA's 2012 and 2013 annual financial statements, as audited by the C&AG and concentrates on carrying value v fair value. "For the 2013 financial statements, the fair value cashflow discount rates were 5.5% for future cashflows between 2014-2016 and 10% for cashflows after 2016...the 10% discount rate was applied to the total NAMA portfolio." (Martin Whelan, Head of Public Affairs, NAMA, Letter from NAMA in response to requests for information made by the Committee on 5 and 12 October, page 6)	Please indicate whether the discount at issue in the evidence cited is what is termed the purchaser's discount and as such is separate and additional to the discount to be applied to cashflow to arrive at an estimate of NPV.
<p>NAMA RESPONSE:</p> <p>The 10% discount rate applied in the 2012 and 2013 audited financial statements, which were audited by C&AG, was the discount rate applied to measure the assets at "fair value".</p> <p>As noted in NAMA's response to the Committee on 24 October 2016 (Q 6(a)), fair value is where "<i>the objective to estimate the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions (i.e. to estimate an exit price)</i>". Fair value is a better estimation of the actual real world market value of the assets.</p> <p>This is the discount disclosed by NAMA in its 2013 audited financial statements in arriving at the fair value (i.e. the true market value) of its loans. The most current audited financial statements in existence at the time of NAMA's decision on Project Eagle were the 2012 Financial Statements, which discounted all cashflows at 10% to arrive at the fair / real market value.</p>			
NA MA 72		[On the question of documentary evidence in relation to the seller's discount as opposed to the purchaser's discount] "In saying that a purchaser was going to apply a discount of at least 10% means that we could not have sold it if we did not price in at least that 10% discount. It is the flipside. It is the two sides of the one coin." [On the question of whether the process was	If this is so, then was it not more important that papers presented to the board clearly showed the effect of the application of a 10% discount arising from the sale of the portfolio?

	<p>therefore effectively driven by the purchaser] Mr. Daly referred to "the paper of June 2013" and stated that "It is the exceptional circumstances clause...of that paper that is important. It is very clearly recognised that the 5.5% is effectively for accounting purposes and that in sales transactions one would always consider other issues including risk, quality...and qualitative measures". (Daly, Frank (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 115-116)</p>	
<p>NAMA RESPONSE:</p> <p>The December 2013 Board paper considered a 10% discount to the value of the underlying security. The effect of this was readily understood from the illustrative schedules provided in that same paper. This paper has previously been provided to the Committee on 24 October 2016 (Appendix 1) and is also contained in the C&AG's report.</p>		
<p>CAG 24</p>	<p>Regarding the use of 5.5% discount rate, in June 2013, NAMA itself considered what sort of rate it should use for assessing this exact kind of issue - the disposal or holding of an asset. At that stage, it was defending the appropriateness of the 5.5% figure for these kinds of general analyses. It had been using that figure against a background in which its cost of capital had already decreased significantly from the time it took on the loans. it was concluded that NAMA should use a range of discount rates when it is doing this kind of analysis. NAMA used the 5.5% rate in its cashflow analysis of Project Eagle, which was presented to the board in December. It used another rate of 2.5% as a kind of a variation when it wanted to see how sensitive the results were. There is no indication that NAMA was questioning the appropriateness of using the 5.5% rate at that time. (McCarthy, Seamus, Meeting of the Committee of Public Accounts, 29 September 2016, page 18)</p>	<p>Does NAMA take issue with the C&AG's summary description of NAMA's view of the appropriate discount rate as of June 2013? Are documents available that provide background to the reason for selecting an alternative 2.5% rate for purposes of analysis? What would the implications be if the discount rate had been set at 2.5%?</p>
<p>NAMA RESPONSE:</p> <p>NAMA's view of appropriate discount rates is clearly outlined in the June 2013 paper which was presented to the NAMA Board, where it outlined that flexibility would be required when considering the appropriate discount rate. NAMA's difficulty with the C&AG's viewpoint is that it relies on certain aspects of the June 2013 Board paper and ignores others (i.e. the flexibility requirement).</p> <p>When referring to another portfolio, the June 2013 Board paper states that "<i>such a decision [about the appropriate discount rate to use] cannot be made without more knowledge of the derivation of the underlying cashflows and, in particular, whether they have been adequately risk-adjusted</i>". Clearly, the 5.5% discount rate was not intended to be a hard rule and (as explicitly outlined in the June 2013 Board paper) required adjustment depending on the particular circumstances under review.</p>		

Other contemporaneous evidence available to the C&AG included the fact that NAMA, in practice at the time, used a 10% discount rate to arrive at the fair (i.e. real world market) value of the loans in its 2012 Financial Statements.

The 2.5% rate was provided for comparison purposes and sensitivity analysis, as acknowledged by the C&AG. This paper has previously been provided to the Committee on 24 October 2016 (Appendix 6).

CAG 25	The question of whether a different discount rate, perhaps as high as 10%, would have been appropriate was tabled in June. 2016 We did not have a debate about it until then. (McCarthy, Seamus, Meeting of the Committee of Public Accounts, 29 September 2016, page 19)	Is there evidence available that a discount of up to 10% to estimate the workout value was previously under consideration by NAMA ?
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NAMA RESPONSE:

The previous question (CAG 24) outlines NAMA's view of the appropriateness of applying the 10% discount. Evidence of NAMA's overall view of the application of a 10% discount rate can be found in the June 2013 Board paper which deals with discount rates and outlines that flexibility is required in relation to discount rates, depending on the nature of the assets involved; the December 2013 Board paper outlining a likely discount to the underlying security values of at least 10% specifically relating to Project Eagle, and the 2012 and 2013 financial statements as audited by the C&AG, which use a 10% discount rate to arrive at fair (i.e. real market) values of loans.

These papers have previously been provided to the Committee on 24 October 2016 (Appendix 1 & 6) and are also contained in the C&AG's report. They outline that the 10% rate was under consideration by NAMA.

CAG 26	The extensive exercise through which NAMA went in the beginning resulted in much heavier discounting of the value of the loans. This reflected where they were and corrected the mistakes that had been made by banks in accepting much higher valuations than were appropriate. Having taken the price out at the beginning, and then having provided for impairments because the markets were falling thereafter, there was a danger of double-counting if a very high risk rate was built into the discount rate. In such circumstances, loans might have ended up being assessed on the basis that they were worth less than they may actually have been worth. (McCarthy, Seamus, Meeting of the Committee of Public Accounts, 29 September 2016, page 19)	Does NAMA still refute the point that using a higher discount rate based on risk was not appropriate as impairment had already been provided for on the portfolio and to use a higher discount based would have constituted at least an element of double counting. Is there evidence available that a discount of up to 10% was previously under consideration by NAMA ? NAMA Board members stated in evidence that there was [see NBM 41]
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NAMA RESPONSE:

It should be outlined that NAMA overpaid for its assets generally by about 20% as the acquisition value methodology was on the basis of long term economic value. In addition, asset values beyond 2016 were generally unadjusted (pursuant to NAMA's impairment policy at the time). Hence, there was no risk of double counting. The counter-argument may be made, given the fall in property values, that further impairment of the assets contained within the Northern Ireland loan portfolio could have taken place. As stated IAS39 only permits discounting of future cashflows at the EIR rate (avg 5%) and account can only be taken of incurred losses and not future expected losses. A higher discount rate of, for example; 10%, is a mechanism to deal with this risk.

NAMA's consideration of the 10% discount rate has been previously responded to (Question CAG 25).

NA MA 03	The Comptroller and Auditor General's view that a discount rate of 5.5% would have been appropriate to derive the market value of this portfolio ignores strong market evidence from international loan sales experts which would have supported the use of a discount in the 10% to 15% range. (McDonagh, Brendan (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 60)	(1) Is the KPMG letter referred to on P58 of the report the basis for the assertion made in the evidence cited above in relation to the discount rate required to derive market value? (2) What "strong market evidence from international loan sales experts" was available to and relied upon by NAMA at the time the sale of Project Eagle was considered? and can NAMA present contemporaneous evidence of the matters it relied upon? (3) Where (in the report of the C&AG or otherwise) is it stated that the C&AG's view was that a discount rate of 5.5% would have been appropriate to derive the market value of this portfolio?
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NAMA RESPONSE:

(1) NAMA has provided significant evidence, not only from KPMG, but also from other international loan sale experts, namely Eastdil Secured, Lazard, and Cushman & Wakefield to support its view. As outlined previously in Question CAG 24, NAMA's view of appropriate discount rates is clearly outlined in the June 2013 paper which was presented to the NAMA Board, where it outlined that flexibility would be required when considering the appropriate discount rate. *"Such a decision [about the appropriate discount rate to use] cannot be made without more knowledge of the derivation of the underlying cashflows and, in particular, whether they have been adequately risk-adjusted".*

(2) As internationally recognised loan sale specialists, Lazard provided advice and the ultimate recommendation in relation to the sale at the time. This, combined with the market knowledge and experience by NAMA's own staff, ensured that NAMA had sufficient expertise and advice to base their decision upon.

	(3) Section 3.81 of the C&AG's report implies support for the 5.5% discount rate. Further, the C&AG is basing his assertion that NAMA made a probable loss of £190m by way of comparison to cashflows using a discount rate of 5.5% versus the Board's minimum price of £1.3 billion	
NA MA 05	NAMA's view, which is supported by expert market evidence from four internationally recognised loan sales experts and which we provided to the committee last week, is that a discount rate in the 10% to 15% range was appropriate to apply to the cash flows associated with the Project Eagle portfolio. (McDonagh, Brendan (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 60)	Was the "expert market evidence from four internationally recognised loan sales experts ... provided to the committee" taken into account in the preparation of the Comptroller and Auditor General's Report?
NAMA RESPONSE: This information was provided to the C&AG in advance of the completion of his report in August 2016.		
NA MA 07	The report's valuation approach involved in our view a mechanistic and rigid application of a spuriously precise and abnormally low discount rate to cash flows which are assumed, unrealistically, to be fixed and certain. In both respects, the level of certainty attached to cash flows and the discount rate, are seriously at odds with how distressed debt portfolios such as Project Eagle are actually valued by investors and purchasers in reality. (McDonagh, Brendan (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 60)	Who set the "spuriously precise and abnormally low discount rate"? On what basis is NAMA asserting that the report assumed cash flows to be "fixed and certain"?
NAMA RESPONSE: The reference to the low discount rate - is the "5.5% discount rate" interpreted rigidly by the C&AG, without reference to contradictory evidence, in arriving at value of the Project Eagle portfolio. As noted in previous correspondence "fair value" rather than "carrying value" is a more preferable estimation of the real world market value of assets i.e. what a buyer may be willing to pay. Fair value for the overall portfolio was calculated at that time by NAMA using a 10% discount rate. Further, cashflow projections which formed the basis of the C&AG value assertion are uncertain by nature, but were assumed to be 'actual cashflow projections' in the C&AG's report by virtue of the 'probable loss' assertion. (See response to Questions NAMA 172 & 173).		
NA MA 01	A discount rate in the 10% to 15% range reflects the cost of capital that bidders would have incurred in early 2014. It also reflects the inherent risk associated with a loan portfolio which was secured, for the most part, by a granular portfolio of non-prime assets, located mainly in Northern Ireland and in northern parts of Britain. (McDonagh, Brendan (NAMA), Meeting of the	What contemporaneous evidence supports these assertions? What was this discount to be applied to? And was the inherent risk referred to not already reflected in impairments up to year end 2013?

NAMA RESPONSE:

This evidence has previously been provided to the Committee in NAMA's response of 24 October 2016 (Q6(a)). Discount rate was applied in the NAMA Board's considerations of the Project Eagle sale decision and to fair value (i.e. market value) disclosure calculations in the 2012 and 2013 NAMA Financial Statements as certified by the C&AG.

The accounting procedure IAS39 does not allow for the consideration of future expected losses and only refers to existing market conditions and incurred losses existing at Balance Sheet date.

<p>NA MA 08</p>	<p>The only evidence offered in the report to support the use of a 5.5% discount rate is a NAMA board decision of June 2013. However, for some reason, the report ignores important caveats which were applied by the board in the case of its approved discount rate methodology and which were clearly set out in the paper on which that decision was based. The board decision of June 2013 noted that a 5.5% rate should not be used as an overarching discount rate to evaluate all potential transactions and that flexibility should be maintained. In particular, the board approved the position that "care should be taken to ensure that both (a) alternative NPV scenarios are generated using alternative discount rates and (b) that qualitative information would be considered as part of the decision-making process". (McDonagh, Brendan (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 61)</p>	<p>Does the Comptroller and Auditor General accept NAMA's view that limited evidence was presented to support the use of a 5.5% discount rate? Does the Comptroller and Auditor General accept the implication that the report used evidence selectively? For NAMA: Does NAMA accept that there is no documented evidence from its meetings in relation to PE that a discount rate greater than 5.5% was discussed? If not can NAMA provide it? What qualitative information was considered as part of the decision-making process? Provide documented evidence of qualitative information considered</p>
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NAMA RESPONSE:

It was not documented but we have advised the Committee it was discussed. A 10% discount rate to underlying collateral values is discussed in the December 2013 Board paper. Various qualitative information such as market conditions, economic outlook, debtor cooperation and NAMA's overall strategy, were considered by the Board. Some of these are discussed in the December 2013 Board paper. However, as with any committee or Board, the rationale for the decision was predominantly based on comprehensive discussion of the various issues. The decision arising from these discussions is documented in Board meeting minutes and further evidence from NAMA Board members has been outlined during their appearances before the Committee.

<p>NM B 11</p>	<p>In the context of the NAMA Board's decision to "change sales strategy" and whether "papers [were] presented to the board to say why a higher rate than NAMA's 5.5% discount rate would have been applied", a quotation was provided from NAMA's 2013 accounts which stated that "Cash flows between 2014 and 2016 were discounted at a rate of 5.5% and cash flows between 2017 and 2020 were discounted at a higher rate of 10% due to greater uncertainty in predicting</p>	<p>The language used in the final sentence is unclear. The phrase "because of their profile" appears to apply only to the 5.5% rate. What was the amount (if any) of this discount that related to the cost of capital? And is NAMA stating that discounts of 10% applied to some of the assets</p>
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	<p>cash flows beyond 2016". It was then stated that "In effect we said in the 2013 financial statements...that we were using a range of discount factors to reflect the portfolio of assets we were looking at. We said some were being discounted at 5.5% because of their profile and some had a discount factor of 10%. That is the first reference to a 10% discount. When it is said that NAMA retrospectively came up with 10% to justify the number that is not true. It is here in the financial statements of 2013." (McEnery, Brian (NAMA board member), Meeting of the Committee of Public Accounts, 18 October 2016, page 18)</p>	<p>only and was unrelated (at least in part) to the profile of those assets? In the specific context of this item of evidence, please confirm that the assertion is that the fair value of the assets in the 2013 accounts was calculated by applying two discount rates to the cash flows (one of which was 10% applying to later years only and reflecting uncertainties arising from a longer forecasting horizon rather than any inherent actual or anticipated reduction in value emerging or anticipated) and fully reflected both rates of discount? Alternatively, please provide an equally succinct statement to clarify - see also NBM 69</p>
<p>NAMA RESPONSE:</p> <p>This discounting applied to the overall NAMA portfolio for fair value disclosure purposes, not just the Project Eagle Loans.</p> <p>In the 2012 audited Financial Statements, NAMA discounted all future cashflows by 10% to arrive at the fair value of the loans for disclosure purposes. These were the current financial statements at the time Project Eagle was being considered. The discount reflected market conditions at the time, which were challenging and uncertain in outlook. The 2012 accounts were certified by the C&AG.</p> <p>In the 2013 audited Financial Statements (prepared in 2014), the nearer term cashflows (i.e. the 3 years between 2014 and 2016) were discounted at 5.5% due to less uncertainty in the market and the shorter term forecasting horizon for this timeframe. Based on NAMA's approved FY 2013 impairment procedure the 2017-2020 cashflows were not formally reviewed to the same level of detail as the 3 year (2014-2016) cashflows and thus a higher discount of 10% was wholly appropriate for longer term cashflows due to greater uncertainty from a value prediction perspective.</p>		
<p>NM B 28</p>	<p>"The £190 million identified by the Comptroller and Auditor General is the difference between the £1.49 billion figure and the £1.3 billion figure. In actual fact, we got £1.32 billion. That is how the £190 million was calculated, by virtue of the fact that the Comptroller and Auditor General has discounted the future value of the cash flows that both his office and NAMA agreed on at the end of December 2013. We both agreed on them and he signed off on the financial statement...What then happened was that we decided that 5.5% was not realistic" (McEnery, Brian (NAMA board member), Meeting of the Committee of Public Accounts, 18 October 2016, page 56)</p>	<p>Where is the evidence of analysis involving a discounting of future value of the cash flows by a higher percentage (e.g. 10%) to arrive at an NPV value? Or is the point being made that a purchaser's discount should then be applied to the NPV as would normally be the case and which does not appear to be disputed by the Comptroller and Auditor General</p>

<p>NAMA RESPONSE:</p> <p>The cashflows before discounting are not disputed by either NAMA or the C&AG. As outlined in the response to Question NMB 11, the evidence of such analysis is available in the June 2013 Board paper requiring discount rates to be evaluated based on the individual transaction, the use of a 10% discount to the undiscounted cashflows to arrive at fair value of loans in the financial statements and the discount factor applied by a purchaser to underlying asset values when acquiring non-performing loans (NPL). As referred to above, this was estimated in the December 2013 Board paper as being at least 10%.</p> <p>These papers were supplied to the Committee on 24 October 2016 (Appendix 6 & Appendix 1).</p>		
NMB 41	Request made for documentation that the board had in relation to a 10% discount from before the process completed (Meeting of the Committee of Public Accounts, 18 October 2016, page 69)	Can all relevant papers be made available?
<p>NAMA RESPONSE:</p> <p>This information was provided to the Committee in NAMA's response of 3 November 2016 (Q3).</p>		
NMB 69	In our 2012 financial statements, clearly before Project Eagle, in the note in relation to the fair value of the assets we used a calculation based on a 10% discount and that was supplied to the Comptroller and Auditor General. (McEnery, Brian (NAMA board member), Meeting of the Committee of Public Accounts, 18 October 2016, page 93)	Can the document(s) and page(s), in the financial statements or otherwise, at which 10% is stated and/or demonstrated to be a part of the fair value calculation be indicated?
<p>NAMA RESPONSE:</p> <p>For the 2012 Financial Statements the methodology used by NAMA in arriving at fair value was to discount future estimated cashflows at 10%. The disclosure of the fair value of NAMAs financial assets and liabilities is set out in Note 24 of the 2012 Annual Report and Financial Statements (page 151).</p> <p>For the 2013 Financial Statements the fair value cashflow discount rates were 5.5% and 10% for cashflows forecast for periods after 2016. The disclosure of the fair value of the 2013 assets and liabilities is set out in Note 25 of the 2013 Annual Report Financial Statements (page 153).</p> <p>The 2012 and 2013 Financial Statements including the fair value disclosures using the 10% discount rates were certified by the C&AG in May 2013 and May 2014 respectively.</p>		
NAMA 100	In response to the question that, "What NAMA wanted us to believe...about the 10% discount rate that was applied it talked about the 2012 accounts, the 2013 accounts...Project Eagle was in 2014 so would it not follow logically that a 5.5% discount rate should have been applied to the cash flows? Is that not the policy...the fair value methodology?", the reply was that, "...for the	Is it the case therefore that NAMA's position is that a discount rate somewhere between 5.5% and 10% would have been the correct one?

	<p>2012 accounts, yes for the purpose of the fair value disclosure a 10% discount rate was used. For the 2013 accounts it was a blended approach, a 5.5% discount rate was used for the cash flows up to the end of 2017 and 10% thereafter. It was a change in methodology which can happen in the normal course of events year to year but that was a blended discount rate for the entire NAMA loan book. Project Eagle was only one component within that loan book. There are lots of other far superior assets, far superior loans as part of that loan book so therefore the blended approach of somewhere between 5.5% and 10% might have been appropriate." (Rooney, Donal (NAMA), Meeting of the Committee of Public Accounts, 25 October 2016, page 30)</p>	
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NAMA RESPONSE:

NAMA's position is that a discount rate of at least 10% was appropriate. The 10% fair value discount rate used for the overall NAMA portfolio in the 2012 Financial Statements applied at the time that the sale decision for the Project Eagle portfolio was being considered by the Board. Given that the loans comprising Project Eagle were among the riskiest of all loans held by NAMA, a fair value discount in excess of 10% would have been applicable had the Project Eagle Loans been evaluated in isolation.

NA MA 103	<p>In response to the question, "Critically, I am not clear on why a 2.5% discount rate for Northern Ireland debtors was mentioned in that paper.", the response was, "That was just for the purpose of showing the sensitivity between rates" (Collison, John (NAMA head of residential delivery), Meeting of the Committee of Public Accounts, 25 October 2016, page 32)</p>	<p>If the use of 2.5% was simply to illustrate the difference resulting from the use of different discount rates, and a 10% plus rate was being considered, why was that not used rather than 2.5%?</p>
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NAMA RESPONSE:

Please see response to Question CAG 24 above.

Discounted cash flow valuations

C&AG Rep ort par a 3.7 6	<p>The cash flows presented to the Board indicated that NAMA forecast net receipts totalling £1.68 billion over the period 2014 to 2020, if it worked out the loans as planned. Taking account of the time value of money by discounting at NAMA's standard discount rate of 5.5%, the value that could be achieved by working out the loans was estimated by the examination team at £1.49 billion in NPV terms. The paper presented to the Board stated that the NPV of the forecast cash flows, after adjustment for additional impairment, was £1.38 billion. The difference of £108 million in the estimates of workout value is due to NAMA's adjustment of the projected 2017 disposal proceeds, which reduced the NPV by £69 million, and NAMA's treatment of all receipts as end year receipts, which reduces the NPV by £39 million (National Asset Management Agency's Sale of Project Eagle - Special Report No. 94 of the Comptroller and Auditor General, page 50)</p>	<p>Was it NAMA's consistent practice to treat all receipts as end year receipts? Or was the treatment of receipts in the board paper in any way unusual or exceptional? If so, was this brought to attention and was the rationale explained at the time?</p>
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NAMA RESPONSE:

The treatment of receipts in the Board paper is not considered unusual or exceptional. The impairment exercise is different as that feeds into the audited financial statements. The timing of disposal receipts is not specifically agreed and placing them at the end of a period is prudent and not unreasonable. In NAMA's experience, disposal timings quite often 'drift', especially when projected over a long time horizon. Supporting this prudent approach, the Committee will note a lack of transactions occurring in the relevant markets. This cash flow profile is supported by NAMA's actual cash generation in 2013, whereby, other than a large one-off transaction in May 2013, December was the highest month of cash generation in 2013.

In 2013, the volume of market transactions was low resulting in uncertainty in the estimation of the timing of cash flows for the purposes of the semi-annual impairment exercise. This is fully explained and disclosed in the 2012 financial statements, i.e. that the impairment was subject to estimation and may change due to timing and amount of future cash flows. The cash flows for the purposes of impairment was spread more evenly across the year on the expectation of a work-out strategy, however this is based on management judgement at end 2012 when the impairment exercise was carried out, and related to a higher quality portfolio (i.e. the overall NAMA portfolio vs the Project Eagle portfolio). The December 2013 Board paper estimated the carrying value at £1.475 billion, the audited year end 2013 was £1.49 billion so the difference was not material.

Factors influencing NAMA Board decision(s)

NA MA 70	[On the question of the evidence to support the assertion that a fractious relationship was building with NAMA's Northern Ireland debtors] "only €100 million worth of assets were sold between 2010 and 2013. This was too slow in terms of NAMA's lifecycle. We were putting a lot of pressure on the debtors to put assets on the market and do other things such as secure rental income to us. ...These debtors were dragging their heels. They were coming up with all sorts of reasons that they did not want to sell the assets. We were getting very frustrated by this. We have a formal review of every debtor twice a year and the big debtors come to a decision-making authority...We had this opportunity to sell the portfolio as a whole, but if we did not sell the portfolio we would have been going down the enforcement route...On the files of some of the biggest debtors, it is clearly documented that effectively the debtors were not co-operating." (McDonagh, Brendan (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 112)	What contemporaneous evidence is there to support NAMA's contention that its relationship with Northern debtors was deteriorating and evidence to indicate what the problem was?
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NAMA RESPONSE:

We have actual evidence but this is included in debtor credit formal reviews but we are unable to provide this to the Committee due to our obligations under Sections 99 and 202 of the NAMA Act 2009. We also refer the Committee to NAMA's response of 24 October 2016 (Q8). Reference is also made in the opening

	statement to the Committee by NAMA's Head of Residential Delivery, John Collision on 25 October 2016.	
CAG 32	We asked if they could provide us with some evidence of [deterioration of relationship with NI debtors]. This was a representation that was made to us by NAMA but we did not get any evidence to indicate what the nature of those problems was.They [NAMA] just said they expected that relationships with the Northern debtors were likely to deteriorate. (McCarthy, Seamus, Meeting of the Committee of Public Accounts, 29 September 2016, page 41)	Is contemporaneous documentary evidence available to support NAMA's assertion that there was a deterioration of relationship with NI debtors at the time?
NAMA RESPONSE:		
This is a repeat of a previous question (Question NAMA 70) and was previously answered.		
NA MA 84	"When PIMCO expressed an interest in this portfolio, the board instructed the executive to assess the opportunity. Following detailed assessment, the board took the view that the assets securing the Project Eagle loan portfolio did not have sufficient upside potential to justify a hold strategy and if NAMA could, in effect, lock down the value of the portfolio upfront by selling it in 2014, that would be the optimum commercial outcome. The NAMA executives supported that view." (Collison, John (NAMA head of residential delivery), Meeting of the Committee of Public Accounts, 25 October 2016, page 11)	Has a copy of the Board minutes, board paper or other document in the possession of NAMA in which the term "Project Eagle" was first used been made available to the Committee? And have copies of those documents in which the possible sale of the NI loan portfolio was raised prior to that date been similarly made available?
NAMA RESPONSE:		
All Board papers relating to the possible sale of the Northern Ireland portfolio have been supplied to the Committee on 24 October 2016 (Appendix 1). The papers are also available in the Comptroller & Auditor General's report (Appendix B & C).		
Financial outcome of the loan sale		
NA MA 17	... because NAMA was guided by its section 10 of the NAMA Act objective of getting the best price achievable, it set the minimum price at a more aggressive £1.3 billion. It achieved in excess of that price target. As a result, we are now being accused of losing £190 million because of the Comptroller and Auditor General report's misplaced attachment to an accounting value rather than the real world market value, which is ultimately what matters. (McDonagh, Brendan (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 63)	Whether the assertion that a minimum price of £1.3 billion was "more aggressive" is credible depends on one's starting point. Did the lower figure of €1.1bn referred to earlier in evidence feature in the reckoning at the time the minimum price was set? Apart from the end-2013 proxy accounting value of the portfolio of £1.465 billion, what were the key baseline figures in circulation at the time?

<p>NAMA RESPONSE:</p> <p>In the NAMA Board paper of 12 December 2013 under the paragraph headed “Background / Rationale” (Page 1), it is noted that “<i>On 4 December, PIMCO submitted a bid rate of £1.1m to £1.3m for the whole portfolio</i>”. It is also referenced under Section 1.2 “PIMCO Bid”. NAMA chose to stretch the target price by setting a floor of £1.3bn for the transaction. The December 2013 Board paper shows an estimated carrying value of £1.475 billion.</p> <p>The key baseline figures in circulation at the time were referenced in the Board paper of 12 December 2013.</p>		
NM B 34	<p>Sale of the Project Eagle portfolio realised £1.322bn. The sum of £35.3bn that NAMA is seeking to recoup from Cerebus is in addition to this ... if we get the £35 million back, it will increase the £1.322 billion to approximately £1.35 billion [Note explaining/ clarifying the point requested] (McEnery, Brian (NAMA board member), Meeting of the Committee of Public Accounts, 18 October 2016, page 66)</p>	<p>Can an explanatory note be provided?</p>
<p>NAMA RESPONSE:</p> <p>An explanatory note on this issue was addressed in correspondence sent by NAMA to the Committee, dated 3 November 2016 (Q4).</p>		
<p>Management of Conflicts of Interest</p>		
C& AG Rep ort par a 5.2 2	<p>Briefing notes compiled by the Department of Finance state that the Chairman of NAMA informed the Minister on 13 March 2014 of PIMCO’s withdrawal from the process, and the reasons. The examination team found no contemporaneous record of the content of that communication. (National Asset Management Agency’s Sale of Project Eagle - Special Report No. 94 of the Comptroller and Auditor General, page 93)</p>	<p>Are contemporaneous records available of contact between the Chairman of NAMA and the Minister for Finance on 13 March 2014 in relation to PIMCO’s withdrawal from the process and the reasons?</p>
<p>NAMA RESPONSE:</p> <p>This is a repeat question, answered above in this document.</p>		
<p>Market value of Project Eagle</p>		
NA MA 02	<p>The accounting value of the portfolio was derived using effective interest rate, EIR, discount rates, which are based on the IFRS accounting rules that NAMA has been required to follow since inception. They were not market rates and no potential purchaser would have applied them to value the portfolio. Valuation of the portfolio at EIR rates may be appropriate for ongoing NAMA accounting purposes but clearly not appropriate when determining a market</p>	<p>Has the basis for determining accounting value of this and other portfolios been used consistently by NAMA? What criteria did NAMA use to determine market sales value? Is there evidence that these were used by NAMA at the relevant time?</p>

		sales value. (McDonagh, Brendan (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 60)	
<p>NAMA RESPONSE:</p> <p>The accounting/carrying value of loans for NAMA is set out in its accounting policies. These have been consistently applied and the accounting treatment is reviewed on an annual basis by the C&AG as part of their annual audit. IFRS is very prescriptive.</p> <p>A major criteria used by NAMA in its deliberations on deciding the minimum price for the Project Eagle portfolio was a 10% discount rate. This information was most recently provided by NAMA in its response to the Committee on 3 November 2016 (Q3). Ultimately, the market determines the market value.</p>			
NA MA 07		The report's valuation approach involved in our view a mechanistic and rigid application of a spuriously precise and abnormally low discount rate to cash flows which are assumed, unrealistically, to be fixed and certain. In both respects, the level of certainty attached to cash flows and the discount rate, are seriously at odds with how distressed debt portfolios such as Project Eagle are actually valued by investors and purchasers in reality. (McDonagh, Brendan (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 60)	Who set the "spuriously precise and abnormally low discount rate"? On what basis is NAMA asserting that the report assumed cash flows to be "fixed and certain"?
<p>NAMA RESPONSE:</p> <p>This is a repeat question, answered above in this document.</p>			
NA MA 19		NAMA, under legislation enacted by the Oireachtas, has to operate by reference to commercial principles. Acceptance of the Comptroller and Auditor General's unrealistic and uncommercial position would make commercial decision-making impossible. That is why this issue goes to the heart of NAMA's commercial mandate and why we have no alternative but to contest the stance as evident in this report. (McDonagh, Brendan (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 63)	Can NAMA detail how and where the report has, in its view, crossed the line into matters strategic and commercial separated from considerations about how to assess value for money?
<p>NAMA RESPONSE:</p> <p>Mr McDonagh's point was that NAMA has to operate in a commercial manner and in the real world. In this particular instance, that meant that NAMA had to consider how the market would view the transaction and in particular the discount rate range (10%-15%) that the market would use to price it. Contrary to what the C&AG suggests, NAMA could not have relied on its own carrying value as a guide to the ultimate sale price. Such a perspective would have been utterly uncommercial – no property or loan sale would ever be transacted if NAMA ignored the market's valuation and instead stuck rigidly to its own carrying value. As Mr McDonagh pointed out, acceptance of the C&AG's unrealistic and uncommercial position would make commercial decision-making impossible and indeed</p>			

would run counter to NAMA's commercial mandate and to its Section 10 obligations.

The C&AG has stated that he considers it beyond his remit to comment on the strategic and commercial rationale underpinning the decision to sell the loan portfolio. NAMA's view is that, while it may not have been his intention to comment on strategic or commercial issues, the position he has adopted is, in effect, a position that favours one commercial strategy (long-term hold) over another (portfolio sales). The £190m probable loss could only be deduced by comparing one strategy with another by the C&AG. Mr McDonagh will elaborate on this point during his opening statement to the Committee on 24 November 2016.

NAMA has articulated clearly its view that the report should have taken into account the strategic considerations that NAMA had to address and should have taken account of the commercial reality of the loan sale market in early 2014. A value for money analysis of a transaction which ignores the strategic and commercial context in which the transaction has to be conducted is neither fair nor appropriate as a basis for assessment.

CAG 06	NAMA had sold about one eighth of the [Northern Ireland debtor] assets by the time the Project Eagle portfolio sale was completed. NAMA incurred a loss of 1% on average on those asset sales compared to a loss of 13% on the Project Eagle loan sale. (McCarthy, Seamus, Meeting of the Committee of Public Accounts, 29 September 2016, page 7)	Has NAMA confirmed that it accepts this as a factual statement of position? Does NAMA argue that the comparison is not appropriate or material?
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NAMA RESPONSE:

This comparison suggests that the assets connected to Northern Ireland debtors which were sold prior to the sale of Project Eagle are comparable to those within the Project Eagle portfolio. The C&AG report itself notes in Section 2.4 that "*NAMA sales outside Project Eagle include Project Shift, which was a portfolio of German assets held by a Northern Ireland debtor*".

It is not surprising that Northern Ireland loans and properties sold outside of the Project Eagle process suffered a lower level of loss than the residual Project Eagle loans because they were better assets in a better location. Because such assets were more marketable, stronger prices were likely to be achieved than the residual assets which included many secondary / tertiary properties which, by their nature, were less attractive to buyers. NAMA does not regard the two sets of assets as being directly comparable in terms of price performance. The discount includes a gain of 2% on Project Shift (German investment assets) which was unrepresentative of the Northern Ireland portfolio.

CAG 07	The key choice for NAMA, following the PIMCO-Brown Rudnick approaches in 2013, was whether to continue with its planned workout of the Northern Ireland debtor loans through disposal of the assets over time or to put the loans on the market in a single portfolio sale.	NAMA has stated in its evidence that there were pressures to sell as much as expeditiously as possible. There were troika pressures on NAMA in general but it is
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	(McCarthy, Seamus, Meeting of the Committee of Public Accounts, 29 September 2016, page 7)	not clear whether there was any pressure exerted to sell the NI portfolio per se. Can the position be clarified and supporting documentation be provided if necessary?
NAMA RESPONSE:		
Both NAMA and the Department of Finance have stated that pressure was exerted on a regular basis by the Troika in their quarterly meetings to accelerate the redemption of NAMA's senior debt. Realistically, major progress in this respect could only have been achieved through a number of major loan sales. Neither NAMA nor the Department have, at any stage, suggested that there was particular pressure from any source to sell the Northern Ireland debtor portfolio. The portfolio would not have been sold if the Board's minimum price target had not been achieved. When achieved, however, the £1.322 billion realised from the sale of the Eagle portfolio made a major contribution to NAMA's capacity to redeem senior debt in 2014.		
CAG 08	Prior to other loan portfolio sales, NAMA obtained current market valuations of the property assets from its loan sale advisers. This did not happen with Project Eagle. In assessing the proposal from PIMCO, NAMA relied on its existing cashflow projections for the assets. (McCarthy, Seamus, Meeting of the Committee of Public Accounts, 29 September 2016, page 7)	Does NAMA accept the Comptroller and Auditor General's view that NAMA relied on its existing cashflow projections to estimate market value?
NAMA RESPONSE:		
As already outlined by Mr. Collison in his evidence to the Committee on 25 October 2016, 54% of assets comprising Project Eagle had independent verification of value since its acquisition, with 84% of this property valuation advice received in 2013. Other assets were estimated using management judgment and NAMA portfolio manager knowledge, which fed into the cashflow projections that formed the basis of NAMA calculating the loan valuation.		
CAG 10	The board decided that it would be willing to sell the loans at a minimum price of £1.3 billion, as recommended to it by the NAMA executive. The difference between that minimum price and the projected net present value was around £190 million in net present value terms. As a result, the decision to sell the loans in a portfolio, as opposed to continuing with the loan workout as planned, involved a significant probable loss of value. (McCarthy, Seamus, Meeting of the Committee of Public Accounts, 29 September 2016, page 7)	Does NAMA agree that the difference between the minimum sale price of £1.3 billion and the projected net present value of an asset-by-asset workout, whatever that might be, reflects the loss that NAMA was prepared to accept? And that NAMA's view is that the "significant probable loss" at issue was £81m - viz. the difference between a minimum bid price of £1.3 bn and an NPV of £1.381 bn (as opposed to the NPV of £1.489 bn being relied upon by the C&AG)?
NAMA RESPONSE:		
For reasons which are set out in the opening statements of the Chairman and Chief Executive on 24 November 2016, NAMA does not accept that there was "a significant probable loss" associated with the sale of the Eagle portfolio. The NAMA board in setting the minimum price of £1.3 billion versus the carrying value of		

£1.475 billion accepted there would be a loss on disposal and the actual loss was £162 million, which was recognised in the 2014 NAMA accounts which were signed off by the C&AG.

NI Property Market conditions

NAMA 10	The Northern Ireland property market did not have the capacity to absorb a large volume of asset sales over a short time; this lack of market liquidity was evidenced by the fact that in the four years from 2010 to the end of 2013, sales of NAMA-secured assets in Northern Ireland realised a total of only £100 million. (McDonagh, Brendan (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 62)	What was the gain or loss (as against book or other appropriate value) on these €100m sales? What indicators or market conditions are available for the periods post 2013? Contrast with C&AG evidence re market conditions
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NAMA RESPONSE:

NAMA acquired loan assets from financial institutions that were secured by property assets. As debtors or receivers dispose of properties, the proceeds of disposal are applied to repay debtors’ loan debt. NAMA will only generate a profit or loss from debtor loans when all the property assets of that debtor are sold and any excess is recognised as a profit. Where NAMA does not expect to recover its price paid for the debt from disposal of the underlying property assets, it records an impairment provision until the loan is sold or the debtor exits NAMA. In light of this, the £100m sales of Northern Ireland assets would have been applied against debt owed by the Northern Ireland debtors but would not at that point realised a profit in excess of the debtors total debt owed until all the debtors assets were sold.

The C&AG sets out the performance of the Northern Ireland MSCI property index in 3.36 showing a decline of 10% between 2009 and 2013. Based on the information available from the University of Ulster and MSCI, the Northern Ireland property market witnessed a 2.3% increase in the capital values in 2014. The same indices indicate a decline of 1.5% in 2015. Therefore this outlines a combined 0.8% gain since end-2013.

NMB 35 it is my sense as a board member, that there were business plans [with NI debtors] , but the actual performance of the debtor[s] in delivering the business plan with the milestones that were set was constantly slipping. For instance, let us say that there was a deleveraged target in 2013 They [the NI debtors] were halting and not meeting it. (McEnery, Brian (NAMA board member), Meeting of the Committee of Public Accounts, 18 October 2016, page 66)	Is evidence available of performance against targets in 2013 and preceding years for debtors in both the NI and Southern jurisdictions?
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NAMA RESPONSE:

The Committee will be aware that NAMA is legally precluded from disclosing specific details relating to individual debtor’s financial affairs.

However, as referenced in NAMA’s correspondence to the Committee on 24 October 2016 (Q8) NAMA carries out continuous credit grading of its debtors to ensure that they are working to agreed strategies and are reaching their agreed milestones. This credit grading is supported by an analysis of the Credit Grading Profile of

the NAMA loan book. NAMA assigned a risk rating to each connection on a credit grading matrix based on certain criteria. The key criteria was predominantly based on (a) the projected financial outcome (level of recovery of our debt) and (b) the overall level of cooperation largely measured by their performance in terms of meeting milestones. The most co-operative debtors receive a grading of 1, while debtors with the worst credit rating have a credit grading of 3.

Comparing the levels of co-operation by debtors within the Project Eagle portfolio with the rest of the NAMA portfolio, just 15% of Eagle debtors were graded as Cooperating (Grade 1), compared with 28% on the rest of the NAMA portfolio. Also, based on the limited number of sales achieved, falling asset values and increasing impairments, the percentage of Eagle debtors which attracted a credit grading of either 3B or 3C (enforced or likely to be enforced) was 76%.

These credit gradings of 3B or 3C relate to debtors whose NAMA case managers projected the worst financial outcome and by definition those that were projecting a loss greater than 20% below original expected recovery targets. In addition, debtors with these gradings also had evidence of significant milestone slippage (eg: missed sales, assets not being pledged to NAMA, difficulty in supplying documentation etc).

This 76% poor credit grading for Northern Ireland debtors compares with just 36% poorer credit grading for the rest of the NAMA portfolio and clearly demonstrates the extent of the challenges we were facing with these debtors. The credit gradings were made available to C&AG as part of his audit work.

NM B 36	The level of enforcement over Northern Ireland debtors was similar to the level in the South. (McEnery, Brian (NAMA board member), Meeting of the Committee of Public Accounts, 18 October 2016, page 67)	Appears to conflict with evidence given by John Collison in his opening statement on 25 October. Is information in relation to enforcement levels, North and South, available (e.g. see NBM 122)?
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NAMA RESPONSE:

There is no conflict with Mr Collison’s evidence. In his opening statement, Mr Collison clearly stated that *“Whilst the enforcement rate - 39% - was the same as for the overall portfolio, it was clear that, if Eagle did not go ahead, there were a number of probable additional enforcements in the pipeline.”*

Mr Collison was merely expressing that should the sale of Project Eagle not proceed, a higher number of enforcements was foreseeable, given the deteriorating trend of the Northern Ireland loan book. This is supported by an analysis of the Credit Grading profile of the NAMA loan book.

PIMCO’s withdrawal

NM B	Commitment given to checking whether there was any specific discussion of "the PIMCO issue" by NAMA's risk committee (Ellingham, Oliver (NAMA board member), Meeting of the	Can papers containing reference to any specific discussion of "the PIMCO issue" by NAMA's risk committee be made
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40	Committee of Public Accounts, 18 October 2016, page 68)	available?
<p>NAMA RESPONSE:</p> <p>As previously stated in NAMA's correspondence to the Committee, dated 3 November 2016 (Q8), there was no discussion of PIMCO at the Risk Management Committee as it was a Board matter.</p> <p>Discussions regarding PIMCO took place at the level of the NAMA Board which is the highest decision-making authority in NAMA and the appropriate decision-making authority for this matter. The NAMA Board at the time consisted of eight members, four of whom were also members of the Risk Management Committee, including Mr. Oliver Ellingham who was the Chairman of that Committee. The Board considered that the issue was resolved by the withdrawal of PIMCO from the bidding process.</p>		
<p>Process Assurance</p>		
CAG 23	<p>In regard to the [Lazard] statement of assurance, there is a significant quote from it in the report. The assurance in my view is not an absolute assurance, that the price that NAMA had got from this competition is the best price, reasonably available in the market. It is an assurance that the better of the prices from the competition that Lazard ran, is the Cerberus Capital Management one and that the process that was undertaken for the sale was appropriate, given NAMA'S objectives and the information that was available to Lazard at that time. (McCarthy, Seamus, Meeting of the Committee of Public Accounts, 29 September 2016, page 16)</p>	<p>Does NAMA take issue with the C&AG's view of the qualified nature of the statement of assurance?</p>
<p>NAMA RESPONSE:</p> <p>NAMA does not accept the C&AG's view on this point. Lazard stated unequivocally that <i>"there is no evidence that any other investors existed at that time (Q1 2014) who were as credible and as well qualified such that it appeared that they were in a position to pay a higher price to NAMA than that secured from Cerberus"</i>.</p>		
<p>Record keeping by NAMA</p>		
NA MA 69	<p>[On the question of the apparent absence of detail of the other options discussed or of a discussion of what other options were available to execute the disposal of the PE Portfolio] "... in my view, there is an evaluation in the board paper and there certainly was a discussion about it at the board. I accept the fact that it is not noted specifically in the minutes of the board meeting but that is a general area where, perhaps, there is a learning curve for us." (Daly, Frank (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 110-111)</p>	<p>What is the board paper referred to and on what dates was it evaluated by the Board?</p>

<p>NAMA RESPONSE:</p> <p>All Board papers relating to the possible sale of the Northern Ireland portfolio have been supplied to the Committee on 24 October 2016 (Appendix 1). The papers are also available in the C&AG's report (Appendix B & C).</p> <p>The December 2013 Board paper includes detail of the number of Top debtors in the portfolio and the value they represented. The minute of the NAMA Board meeting (private session) of 12 December 2013, clearly outlines that <i>"Following considerable discussion of the options available, the Board agreed that a limited, focused and time bound open marketing process would be the best and prudent course of action to take...."</i></p>		
NA MA 41	<p>As regards board minutes, they are, by their nature, no more than a summary of what was ultimately agreed. The Office of the Director of Corporate Enforcement quotes one of the leading texts on the role of company secretaries as stating that minutes "are meant to record decisions, rather than discussions". They are not intended to act as a transcript of board discussions and they can never capture all the complexity and nuances of the deliberations that ultimately lead to a board decision. (Daly, Frank (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 71)</p>	<p>Was the evidence cited above presented solely in support of an argument that the C&AG should have met with members of the board of NAMA or was it intended to be relevant to specific paragraphs of the report? The report of the C&AG found at paragraph 4.84 that the Board minutes do not record the basis of the decision for a minimum price of £1.3 bn. Paragraphs 3.60 to 3.63 of the report indicate that the basis for the decision now put forward differs from the basis apparently recorded in the minutes. Does NAMA disagree with these paragraphs?</p>
<p>NAMA RESPONSE:</p> <p>The NAMA Chairman's comments relate to Board minutes in general but were made in the particular context of a discussion of the Board's deliberations during meetings held on 12 December 2013 and 8 January 2014. It was simply not feasible to capture in the minutes of these meetings the full range and detail of the discussions amongst Board members regarding the possible sale of the Northern Ireland debtor portfolio. The Board did seek meetings with C&AG during 2016 while he was writing his report to advise him of their views and he refused to meet them.</p>		
NA MA 54	<p>[On the issue of apparent of gaps in the minutes as regards the logic the board used in respect of ... business risk, debtor engagement, political pressure and diplomacy] "Business risk, debtor engagement and fractious engagement are certainly mentioned in NAMA papers." (Daly, Frank (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 89)</p>	<p>What are these NAMA papers that refer to business risk, debtor risk and are they associated with the Board meetings where the sale of PE was considered? - see also NAMA 70</p>

NAMA RESPONSE:

The topics of business risk and debtor risk/engagement featured in individual case reports on Northern Ireland debtor connections and in summary updates to Credit Committee and Board regarding the major cases in the portfolio and on enforcements etc. These are the reports referred to and of which NAMA Board members would be cognisant.

Certain larger connections were on report to Credit Committee and, on a more limited basis, to Board.

Credit Committee has sight of all key decisions taken at lower Delegated Authority levels among the executive, including any enforcements. Board in turn receives Credit Committee minutes for information.

Credit Committee and Board receive a summary report twice a year on the largest connections which cumulatively represent 50% of total NAMA debt. Likewise, reports are provided to Credit Committee and Board on all insolvency cases and on litigation. The Risk Committee terms of reference deals with all risks. From all of the specific and general reports mentioned above, Board would be cognisant of key facts and trends in the overall portfolio including the connections in Project Eagle.

NM B 17	With regard to whether NAMA "would have done one thing differently, that is, the documentation", "The chairman, in his statement on 29 September, when I was here, stated that the important thing around documentation and minutes was that they recorded the decisions and not the discussions. The well-known publication, Company Secretaries, states record of decisions and resolutions passed, not discussions, and that is referenced by the Director of Corporate Enforcement. That is the basis on which NAMA has kept its records since." (McEnery, Brian (NAMA board member), Meeting of the Committee of Public Accounts, 18 October 2016, page 36)	That is the basis on which NAMA has kept its records since when?
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NAMA RESPONSE:

Mr McEnery was referring to NAMA policy on record-keeping, which was in place since the inception of the Agency, and which Mr McEnery pointed out was in compliance with best practise as referenced by the Director of Corporate Enforcement.

In his opening statement to the Committee on 29 September 2016, the NAMA Chairman referred to Board Minutes as being *"by their nature, no more than a summary of what was ultimately agreed. The Office of the Director of Corporate Enforcement quotes one of the leading texts on the role of company secretaries as*

stating that minutes "are meant to record decisions, rather than discussions". They are not intended to act as a transcript of board discussions and they can never capture all the complexity and nuances of the deliberations that ultimately lead to a board decision."

Strategic considerations

<p>NM B 38</p>	<p>[On the question of the documents the risk committee drafted, reports made by or specific discussion by the risk committee regarding the potential risk of Project Eagle] "It came up on some of the risk registers and there were discussions. As to what documents were prepared, I would need to look through the data." (Ellingham, Oliver (NAMA board member), Meeting of the Committee of Public Accounts, 18 October 2016, page 67)</p>	<p>Can all relevant papers be made available?</p>
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NAMA RESPONSE:
Please see response to Question NAMA 54 above.

The basis for the decision to sell the Northern Ireland debtor loans

<p>CAG 32</p>	<p>We asked if they could provide us with some evidence of [deterioration of relationship with NI debtors]. This was a representation that was made to us by NAMA but we did not get any evidence to indicate what the nature of those problems was.They [NAMA] just said they expected that relationships with the Northern debtors were likely to deteriorate. (McCarthy, Seamus, Meeting of the Committee of Public Accounts, 29 September 2016, page 41)</p>	<p>Is contemporaneous documentary evidence available to support NAMA's assertion that there was a deterioration of relationship with NI debtors at the time?</p>
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NAMA RESPONSE:
Please see Question NAMA 70.

<p>NA MA 84</p>	<p>"When PIMCO expressed an interest in this portfolio, the board instructed the executive to assess the opportunity. Following detailed assessment, the board took the view that the assets securing the Project Eagle loan portfolio did not have sufficient upside potential to justify a hold strategy and if NAMA could, in effect, lock down the value of the portfolio upfront by selling it in 2014, that would be the optimum commercial outcome. The NAMA executives supported that view." (Collison, John (NAMA head of residential delivery), Meeting of the Committee of Public Accounts, 25 October 2016, page 11)</p>	<p>Has a copy of the Board minutes, board paper or other document in the possession of NAMA in which the term "Project Eagle" was first used been made available to the Committee? And have copies of those documents in which the possible sale of the NI loan portfolio was raised prior to that date been similarly made available?</p>
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NAMA RESPONSE:
All Board papers relating to the possible sale of the Northern Ireland portfolio were supplied to the Committee on 24 October 2016 (Appendix 1). The papers are also available in the C&AG's report (Appendix B & C)

The Project Eagle loan sale process

APD X3 1	Apollo disappointed that there had been "extensive discussions with one investor in advance of the start of the process" and believes that it creates a "very material advantage for that party". Also refers to the problems posed for them due to limitations imposed on "the retention of certain advisors or prospective financing partners". (Steve McElwain to Ronnie Hanna & Cian Kiely, Appendix 3 to NAMA letter of 24/10/2016: Communications with potential or unsuccessful bidders, page 4)	What limitations are Apollo referring to in this e-mail? Presumably this relates to APDX3 2?
<p>NAMA RESPONSE:</p> <p>Mr McElwain's correspondence also outlined his appreciation for NAMA's objectives for <i>"a discrete, single stage sale process and the issues for consideration given the size of the portfolio and sensitivities surrounding its potential divestment."</i></p> <p>Correspondence sent by Ronnie Hanna in reply to Mr McElwain's email outlined NAMA's view that <i>"We are fully satisfied that Lazard will ensure that a fair and professional marketing process will take place and that there is a 'level playing field' for all participants. Indeed two recent loan sales we have completed confirm that any pre-sale discussions do not confer an advantage."</i></p> <p>Please refer to NAMA's response to the Committee of 24 October 2016 (Appendix 3).</p>		
NA MA 64	[On the question of how many bidders there were involved in the process and whether there were nine as they "repeatedly pointed out"?] The witness acknowledged that "NAMA accepted the three bidders and there were never nine. It was three and then two subsequently came forward. After the leak, ten came forward, of which Lazard rejected eight and accepted two" [however] "There were nine participants. We have never said there were nine bidders". (McDonagh, Brendan (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 105)	This makes a total of seven bidders. Frank Daly later (p.106) clarifies that "there were nine participants...If I said 'bidders' instead of 'participants', it was just a slip of the tongue". This does not reconcile with the seven bidders or participants.
<p>NAMA RESPONSE:</p> <p>A total of nine participants were invited on a phased basis into the Project Eagle sales process by Lazard and signed Non-Disclosure Agreements (NDAs) allowing them access to the virtual data room (VDR). The list of participants was previously submitted by NAMA to the Committee in their response of 3 November 2016 (Q7).</p> <p>Subsequently, three of the nine participants who signed the NDA; Blackstone, Starwood and Apollo, indicated that they would not be participating in the Project Eagle sales process and withdrew without having accessed the VDR. This left six participants who accessed the Data Room.</p>		

NA MA 25	<p>There was a concern that a fully open sales process, which would by its nature take longer to conduct and would freeze activity in the Northern Ireland market for a period of nine to 12 months. As is clear from the Department of Finance minutes of a conference call between the Minister for Finance, Deputy Noonan, and the Northern Ireland First Minister, Mr. Robinson, and Deputy First Minister, Mr. McGuinness, on 14 January 2014, there was very broad political consensus on the need for sensitive management of this sale. The minutes record that, during that call, the Minister, Deputy Noonan, "agreed that confidentiality was important and that both his department and NAMA would take appropriate steps". (Daly, Frank (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 67)</p>	<p>Whose concern is being presented throughout? Are the points made here directly related and supported by evidence?</p>
<p>NAMA RESPONSE:</p> <p>These views were outlined by politicians in both administrations and were recorded during a conference call on 14 January 2014. Minister for Finance Michael Noonan, First Minister Peter Robinson and Deputy First Minister Martin McGuinness were present on the call. A minute of the call by the Department of Finance was supplied to the Committee on 30 September 2015, while the Department of Finance re-submitted it to the Clerk of the Committee on 30 September 2016.</p> <p>In addition, the transcript of the Dáil Debate of 3 October 2013 and 18 September 2015, where Minister Noonan was responding to questions, also outlined similar views. This document was provided to the Committee as part of Minister Noonan's appearance before the Committee on 6 October 2016 (<i>Document 3: Documentation related to Minister Noonan's meeting with First Minister Peter Robinson and Finance Minister Simon Hamilton on 27 November 2013</i>).</p>		
NA MA 26	<p>It is understandable that senior Northern Ireland politicians would have been concerned about the risk of an auction as they saw it and that they would have expressed those concerns. It is also understandable that the Minister for Finance would have sought, in the spirit of positive North-South engagement, to accommodate their concerns on this point. However, it is also clear that from the beginning the Minister for Finance understood and supported NAMA's policy in regard to open marketing. (Daly, Frank (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 68)</p>	<p>Is this speculation as to views and concerns or does this summarise concerns etc. actually expressed? Is there contemporaneous evidence to support the assertions made?</p>
<p>NAMA RESPONSE:</p> <p>This has been answered previously – Question NAMA 25.</p>		
NA MA 29	<p>Lazard advised that: ... the process was open to the most qualified and credible potential counterparties. There were fewer participants in this process than in some other transactions because there were fewer investors that were sufficiently qualified and credible. (Daly, Frank (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 68)</p>	<p>At what point in or after the sales process was the advice quoted received?</p>

	<p>NAMA RESPONSE:</p> <p>Lazard provided its opinion to NAMA in correspondence dated 2 April 2014 and 25 June 2014.</p> <p>NAMA sought Lazard’s prior written consent to providing this correspondence to the Committee. In response, Lazard stated that it would be willing to provide its consent subject to an undertaking from the Committee that the confidentiality of the correspondence would be respected and that the correspondence would not be published by the Committee as part of any report on Project Eagle or otherwise. On 17 October 2016, NAMA communicated Lazard’s response to the Committee.</p> <p>Following receipt by NAMA of the Committee’s assurances of 23 November 2016 in relation to the 2 April 2014 letter, NAMA has supplied the Committee with a copy of this correspondence.</p>	
NA MA 32	<p>the suggestion that the NAMA board should have halted the sale when it became aware in March 2014 of PIMCO’s proposed fee arrangement with Mr. Frank Cushnahan ... was not a straightforward or an easy decision. (Daly, Frank (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 69)</p>	<p>Is the issue not one of whether NAMA should have considered halting the process? And the absence of evidence that the issue was considered?</p>
	<p>NAMA RESPONSE:</p> <p>Former Board member, John Corrigan, in his evidence to the Committee on 17 November 2016, outlined that the sale represented a good transaction in terms of NAMA’s objectives, stating that the alternative was to go back and sell the portfolio on a piecemeal process but the Board considered that a bulk sale was a superior strategy. <i>“We would have discussed whether we would abandon the process but we decided to press ahead with it. If we consider it as a bulk sale, all of the players that we believed were relevant had, on Lazard’s advice, been invited into the competition.....however; we did not believe that [piecemeal sale] would have been a good decision.”</i></p> <p>Mr Corrigan also outlined that there was significant pressure from the European Central Bank on Ireland to repay its debts and such a sale of the portfolio would bring in a significant amount of funds, crucial at a time when NAMA was looking to repay its senior debt.</p>	
NA MA 45	<p>certain features of the normal sales process would not actually apply, including the commissioning of property valuations. That was related to sensitivities about the Northern Ireland market and the fact that if we had started doing that it would have been very apparent very quickly that we were about to embark on a sale of the portfolio. I believe we would have been totally frustrated by some of the debtors if they got wind of that. (Daly, Frank (NAMA),</p>	<p>Was any risk analysis carried out of the consequences of suspending "certain features of the normal sales process", e.g. not commissioning property valuations? Is it also possible that knowledge that the sale of the loan portfolio was intended would have been welcomed by NI debtors?</p>

	Meeting of the Committee of Public Accounts, 29 September 2016, page 72)	Was this approach adopted in relation to any other markets or solely in relation to NI?
<p>NAMA RESPONSE:</p> <p>In response to the reference to a normal sales process, this was discussed by NAMA's Head of Residential Delivery, John Collision in his opening statement to the Committee on 25 October 2016; <i>"It is important to note that there was, and is, no single correct way for NAMA or any other loan seller to market a loan portfolio. Marketing approach depends on the size, value and granularity of the portfolio and the size of the potential investor pool.</i></p> <p><i>"Some sales are single phase and some are in two phases. A two-phase marketing approach is generally used where there is a long list of potential buyers who have the financial capacity and credibility to be approached and that list needs to be substantially reduced before going into phase two. In a two-phase process, the phase one data room has only very limited information and full due diligence is only provided to the short list of bidders, typically three final bidders who reach phase two. By reference to the loan sale practice at the time, the data room for Project Eagle was appropriate for the portfolio.</i></p> <p><i>"NAMA has always sought to implement best practice in its loan sales in order to maximise value. It continually makes changes to its processes to improve efficiency and to retain investor interest."</i></p>		
NA MA 49	[On the question of whether NAMA changed its asset disposal strategy and its sales process or stepped outside its established practice] "We are not arguing that there was [not] a change or a bespoke process here. We never have and that is very clear from our responses to the Comptroller and Auditor General and from our statements here today. What we are saying is that the process that was put in place - bespoke, as it were, or whatever the Deputy likes to call it - had all sorts of checks and balances, that it was not what PIMCO was looking for, which was a closed sale...." (Daly, Frank (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 77)	Were these checks and balances approved by the Board of NAMA, documented and taken into account by the C&AG?
<p>NAMA RESPONSE:</p> <p>When PIMCO's interest in acquiring the portfolio was first communicated to NAMA, the Board wanted to ensure that its interest would ultimately be reflected in a competitive offer. For that reason, arrangements were made to provide PIMCO with access to sufficient data that would enable it to prepare an informed bid based on the Top 55 assets.</p> <p>In early December 2013, PIMCO indicated a bid range of £1.1 billion to £1.3 billion. This indicated to the Board that PIMCO's interest was serious and that the</p>		

	<p>strategic option of a loan sale was now available, something that had not been considered feasible up to that point.</p> <p>The Board then asked the executive to initiate a limited, focused and time bound open marketing process which would enable other credible investors to indicate their interest in participating in the sale. All of these key decisions were made by the Board which is the highest decision-making authority in NAMA.</p>	
<p>NA MA 52</p>	<p>[On the question of whether the actions of or information going to the board were tempered or influenced by diplomatic concerns rather than section 10] "Section 10 requires us to get the best achievable financial outcome for the taxpayer. Our view is that the sale of the Northern Ireland portfolio at that time, and broadly in that manner, was the best way to achieve that. Then, we go to whether we accommodated the views of the North-South Governments. We did, up to a point. As I said in my opening statement, we do not operate in a bubble as a commercial organisation. At the end of the day, the other issue is we would not have gone this route if we were not sure we would get our minimum price and, therefore, achieve the best possible outcome. Section 10(c) also requires us to take account of any other factor which NAMA considers relevant to the achievement of its purposes ... [NAMA's judgement] was absolutely influenced by the commercial outcome, the price we would get. It was influenced by sensitivities, but we reconciled the two. If anything was suggested to us - the best example is the closed sale process - that compromised the commercial objective, we would not have gone with this" (Daly, Frank (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 83)</p>	<p>Is it appropriate to conflate "minimum price" and "best possible outcome"?</p>
<p>NAMA RESPONSE:</p> <p>The Board set the minimum price as it believed the £1.3 billion reflected the best commercial outcome. In this instance, it is clear that, following a competitive sales process, the minimum price set by the Board was close to the best price then available in the market.</p>		
<p>NA MA 58</p>	<p>[On the question of the briefing given to Lazards (including the objective of the loans sale)] "[Lazards "was briefed on the objectives of the loan sale verbally ... There is a document which was available to the Comptroller and Auditor General ... It forms part of the documentation. It is quite a generic document. As part of the engagement with any investment bank or loan sale adviser it makes a pitch in what is known as a "pitch book" in terms of who they should target and the type of buyers in the market, which they tier into division one, two or three buyers and so on." (McDonagh, Brendan (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 92)</p>	<p>Can this document, which is described as "quite a generic" one, be made available?</p>

NAMA RESPONSE:

As outlined in NAMA's responses to the Committee on 19 October 2016, 24 October 2016 (Q6b) and 3 November 2016 (Q6); *"the bespoke plan (the 'Pitch Book') for the sale of Project Eagle is subject to a confidentiality clause between the parties. It includes the following clause: "other than as may be disclosed by you on a confidential basis to the Minister for Finance and to your auditors, [the letter] may not be used or relied upon by, or disclosed, referred to or communicated by you (in whole or in part) to any third party for any purpose whatsoever except with our prior written consent".*

"NAMA wrote to the Committee on 17 October 2016 to advise that Lazard will only consent to release of the Pitch Book to the Committee on the basis of an undertaking from the Committee that the confidentiality of the correspondence will be respected and that the correspondence would not be published by the Committee as part of any report on Project Eagle or otherwise. At the time of writing, the Committee has yet to respond to NAMA on this request."

The services to be performed by Lazard in relation to the Project Eagle sales process are set out in detail in Schedule 1 of the Contract Order for Services. This was provided to the Committee on 20 October 2016 and 24 October 2016.

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[On the question of why Fortis was not invited to participate in the first or second call of the sales process] "Fortis was invited to join the process at the same time Cerberus was invited to join it.... It was an iterative process. By 13 February, Fortis and Cerberus both had been contacted about coming into the process. As I said, there is a league table. We take Lazard's advice in terms of who should be approached. We were not going to second-guess that. It approached some of the big players, some of whom expressed an interest and others did not and it then progressed down through the list... The top nine people were approached and invited to have a look at this portfolio. Some of them chose to come in and some of them did not. Some chose to come in and then dropped out." (McDonagh, Brendan (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 92-93)

Was this league table and the iterative nature of the invitations notified to the Board?

NAMA RESPONSE:

The Board was kept informed of the sales process at its Board meetings in February and March 2014 but it did not consider the selection of potential investors to be part of its role, the Board only set the parameters. This was a matter for the NAMA senior team involved acting on the advice of Lazard.

Lazard, in correspondence to NAMA on 22 January 2014, set out a short list of the potential bidders best qualified to bid for the Eagle portfolio. Based on its market knowledge, Lazard stated that *"all the suggested investors below are highly credible in terms of both demonstrated appetite for this type of asset as well as funding*

	<i>availability</i> ". Fortress was not on that short list.	
NM B 5	"nine of the largest loan purchasers in the world were approached on Project Eagle, five of whom proceeded with due diligence and two of whom ultimately submitted bids based on their view as to what the portfolio was worth. The fact that there were two final bidders is a common outcome for many loan sales and to describe the process as uncompetitive is simply wrong." (Soffe, William (NAMA board member), Meeting of the Committee of Public Accounts, 18 October 2016, page 5)	Did Lazards summarise the sales process parameters in this way to NAMA, i.e. the number of bidders, the number that should proceed to other stages and the number of final bidders necessary to achieve the optimal outcome?
<p>NAMA RESPONSE:</p> <p>Lazard's formal advice to NAMA in relation to the sales process is contained in correspondence which has been requested by the Committee.</p> <p>NAMA sought Lazard's prior written consent to providing this correspondence to the Committee. In response, Lazard stated that it would be willing to provide its consent subject to an undertaking from the Committee that the confidentiality of the correspondence would be respected and that the correspondence would not be published by the Committee as part of any report on Project Eagle or otherwise. On 17 October 2016, NAMA communicated Lazard's response to the Committee.</p> <p>Following receipt by NAMA of the Committee's assurances of 23 November 2016 in relation to the 2 April 2014 letter, NAMA has supplied the Committee with a copy of this correspondence.</p>		
NM B 6	"The board rejects the Comptroller and Auditor General's unsubstantiated suggestion that serious credible bidders were excluded from the process " (Soffe, William (NAMA board member), Meeting of the Committee of Public Accounts, 18 October 2016, page 6)	Please confirm that the assertion made was that it was the C&AG's position that, as a matter of fact, serious credible bidders were excluded from the process; and indicate whether this remains the position of NAMA. If this assertion is being sustained, please cite the relevant paragraph of the report or other evidence supporting it.
<p>NAMA RESPONSE:</p> <p>The C&AG report is based on findings that include an implied suggestion that the competition run by Lazard excluded potentially credible bidders for the Project Eagle portfolio. This is clearly not the case as was confirmed by Lazard to NAMA at the time of the sale and subsequently by Lazard to the Committee. All bidders with the financial wherewithal and capabilities were given the opportunity to participate in the process. While the suggestion may be that credible bidders who became aware of the Project Eagle sale process through media reports were excluded from the sale process, Lazard have confirmed their view that no credible</p>		

	<p>bidders were excluded. Mr Patrick Long of Lazard, giving evidence to the Committee on 22 November 2016, outlined his view that he did not feel that any of these firms would have been <i>"additive to the sales process."</i></p>	
NM B 39	<p>Request made for papers made available to the board of NAMA supporting the assertion [by Mr. Daly] that NAMA had designed a specific mechanism to deal with this process from the beginning. (Meeting of the Committee of Public Accounts, 18 October 2016, page 68)</p>	<p>Can the papers detailing the specific mechanism to deal with the project Eagle sale process be made available?</p>
<p>NAMA RESPONSE:</p> <p>The minutes of the Board meeting of 8 January 2014 set out the Board's decision as to the nature of the sales process for the Eagle portfolio. The Board's decision was subsequently communicated to Lazard. Lazard summarised its understanding of the process stipulated by the Board in a document forwarded to NAMA on 22 January 2014.</p> <p>NAMA sought Lazard's prior written consent to providing this correspondence to the Committee. In response, Lazard stated that it would be willing to provide its consent subject to an undertaking from the Committee that the confidentiality of the correspondence would be respected and that the correspondence would not be published by the Committee as part of any report on Project Eagle or otherwise. On 17 October 2016, NAMA communicated Lazard's response to the Committee.</p>		
<p>Timeline</p>		
C&AG Rep ort par a 5.2 2	<p>Briefing notes compiled by the Department of Finance state that the Chairman of NAMA informed the Minister on 13 March 2014 of PIMCO's withdrawal from the process, and the reasons. The examination team found no contemporaneous record of the content of that communication. (National Asset Management Agency's Sale of Project Eagle - Special Report No. 94 of the Comptroller and Auditor General, page 93)</p>	<p>Are contemporaneous records available of contact between the Chairman of NAMA and the Minister for Finance on 13 March 2014 in relation to PIMCO's withdrawal from the process and the reasons?</p>
<p>NAMA RESPONSE:</p> <p>This is a repeat question, answered above in this document.</p>		
<p>Value of Portfolio</p>		
NA MA	<p>"To assist the Board with analysing the future cash flows, AR and NAMA Finance present two scenarios in table 11 using the baseline numbers from Table 10" [in addition to the baseline</p>	<p>In response to a draft of the report, NAMA reportedly stated that the discounted cash flow analysis in the</p>

190	<p>from Table 9]. These scenarios depart from the baseline set out in detail in Table 9 as follows: Scenario 1: disposal income is generated equally over 7 years; Scenario 2: disposal income is generated equally over 7 years plus both disposal impairment 2017-2020 and PI impairment increases from 17% to 25%. (Presenter (redacted) to NAMA Board, Appendix 6 to NAMA letter of 24/10/2016: Minutes of Board Meetings 13th June 2013 & 12th December 2013, page 13)</p>	<p>December 2013 Board paper – which used discount rates of 5.5% and 2.5% – was not intended as representing a loan workout value and that it would have been appropriate to use a discount rate of at least 10% in evaluating the Project Eagle cash flows to reflect all of the risks in the portfolio [C&AG Report para 3.80]. What was the purpose of the analysis and why was a discount rate of 10% to calculate the value that could be achieved by working out the loans not included as a scenario or part of a scenario?</p>
<p>NAMA RESPONSE:</p> <p>See response to Question NAMA 72.</p>		
NAMA 182	<p>"On 4 December, PIMCO submitted a bid range of £1.1m [b]to £1.3m [b] for the whole portfolio. This bid is based on financial due diligence by PIMCO on the top 55 assets by value (£950m) and a bid range of £150m to £350m for the remaining 878 assets, subject to further diligence on the latter assets." (Presenter (redacted) to NAMA Board, Appendix 6 to NAMA letter of 24/10/2016: Minutes of Board Meetings 13th June 2013 & 12th December 2013, page 4)</p>	<p>Was cashflow analysis undertaken of a scenario in which only the top 55 assets would be disposed of? If not, could retrospective cash flow analysis of such a scenario be undertaken based on the same assumptions used in December 2013?</p>
<p>NAMA RESPONSE:</p> <p>Section 1.2 of the Board paper which went before the NAMA Board on 12 December 2013 sets out the projected cashflows from disposal of the Top 55 Assets. However it should be noted that the Project Eagle portfolio sale was the sale of Northern Ireland debtor connections as distinct from the underlying secured assets. NAMA's practice, generally speaking, is to sell entire connections when selling loans.</p>		
CAG 21	<p>... Property valuations as of November 2009 included originally in the cashflow projections that [NAMA] established from the beginningused to figure out the price it paid for the loans when it bought them. Subsequently, NAMA's asset managers would have looked at those values. In some cases they might have received new valuations... so those would have been fed into the cashflows, but in other situations they would have reduced the cashflows to reflect trends in the market. ... those types of adjustments to the cashflows are examined every year by our office in the course of the audit. We ... involved the Valuation Office ... at the end of the audit of 2013 to look again at how NAMA was managing that process of adjusting values for properties in the cashflow. If a cashflow projection is to be useful for decision-making purposes, it should reflect the best estimate there can be at a point in time. (McCarthy, Seamus, Meeting of the Committee of Public Accounts, 29 September 2016, page 10)</p>	<p>Does NAMA take issue with the C&AG's summary description of how cashflow projections were relied upon by it? Does NAMA agree with the assertion that ".... If a cashflow projection is to be useful for decision-making purposes, it should reflect the best estimate there can be at a point in time"? Is NAMA arguing that its adjusted values for properties in the cashflow were not to be relied upon? If so, is this still the case?</p>

<p>NAMA RESPONSE:</p> <p>NAMA estimated cashflow projections based on the knowledge it had available in December 2013, appropriately discounted at 10%, were used to inform decision making.</p>		
NA MA 02	<p>The accounting value of the portfolio was derived using effective interest rate, EIR, discount rates, which are based on the IFRS accounting rules that NAMA has been required to follow since inception. They were not market rates and no potential purchaser would have applied them to value the portfolio. Valuation of the portfolio at EIR rates may be appropriate for ongoing NAMA accounting purposes but clearly not appropriate when determining a market sales value. (McDonagh, Brendan (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 60)</p>	<p>Has the basis for determining accounting value of this and other portfolios been used consistently by NAMA? What criteria did NAMA use to determine market sales value? Is there evidence that these were used by NAMA at the relevant time?</p>
<p>NAMA RESPONSE:</p> <p>This is a repeat question, answered above in this document.</p>		
NA MA 07	<p>The report's valuation approach involved in our view a mechanistic and rigid application of a spuriously precise and abnormally low discount rate to cash flows which are assumed, unrealistically, to be fixed and certain. In both respects, the level of certainty attached to cash flows and the discount rate, are seriously at odds with how distressed debt portfolios such as Project Eagle are actually valued by investors and purchasers in reality. (McDonagh, Brendan (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 60)</p>	<p>Who set the "spuriously precise and abnormally low discount rate"? On what basis is NAMA asserting that the report assumed cash flows to be "fixed and certain"?</p>
<p>NAMA RESPONSE:</p> <p>This is a repeat question, answered above in this document.</p>		
NA MA 23	<p>£1.674 billion, the adjusted carrying value at the end of 2013. That is where we are agreed. We and the Comptroller and Auditor General are more or less ad idemon that before discount. Then we get to this discount figure. Is it 5.5% or 10%? The Comptroller and Auditor General applied 5.5% and he comes to a value of £1.49 billion. We apply 10% and we come to a value of £1.3 billion. Take one from the other and one gets the £190 million that is the very contentious figure running right through that. That is all I wanted to say. Obviously, there are other issues around the sales process. A core issue seems to come through the Comptroller and Auditor General's report. Should we have held on to these assets or should we have sold them? That is an interesting debate we can have later on. (Daly, Frank (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 65)</p>	<p>Is it not the case that two different discounts are being conflated here? Is it not the case that the 5.5% discount rate cited by the C&AG is the discount to be applied to cashflow forercasts to arrive at NPV in a loan workout context whereas the 10% discount referred to is that applied to the carrying value in order to determine fair value in a loan sales context; and that these separate calculations are intended to assist in a decision as to whether to sell or hold?.</p>

	<p>NAMA RESPONSE:</p> <p>5.5% is not an appropriate rate to discount the Eagle cashflow for a workout scenario due to the high risks associated with such cashflows. 5.5% would barely have covered NAMA's cost of capital and other operational expenses for the period of the cashflow, hence allowing no room for a risk premium. 10% is an appropriate rate in this scenario. NAMA's cost of capital to 2020 at end 2013 was close to 5%.</p> <p>10% is applied to the projected cashflows to arrive at a fair value for the purposes of disclosure in the accounts and does not refer to a loan sale per se.</p>	
<p>NA MA 44</p>	<p>It is not correct...to say that at no stage did we value those properties. In fact, we had read book values for many of them at the year end. In some of the individual ones, for example, one of the biggest assets in that whole portfolio was a UK asset and we had a value for that of €200 million. We had other sales going on during the period prior and after. Sales are the very best indication of property values. We would say, in fact, that approximately 50% of the Project Eagle assets were directly or indirectly based on valuations. (Daly, Frank (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 72)</p>	<p>Precisely what properties is NAMA referring to in this evidence? Can NAMA elaborate on precisely what it means by "indirect valuations" and what is the breakdown as between "direct" and "indirect" valuations that were available at the time? In six-monthly periods and by amount of adjustment to the PE valuations, when did these valuations become available?</p>
	<p>NAMA RESPONSE:</p> <p>54% of the Project Eagle assets by value had supporting independent value verification. Direct valuations are those sourced from third party independent agents. Of the Top 55 assets. 46 assets had independently assessed valuations. This accounted for 54% by value of the Project Eagle portfolio.</p> <p>Of these independent valuations, 7% were received in 2011, 10% in 2012, 23% in Jan – June 2013 and 61% in the period July – Dec 2013.</p>	
<p>NA MA 53</p>	<p>[On the question of valuation of the portfolio] "we had up to date valuations for the biggest assets in the portfolio for 48 out of the 55 biggest assets in the portfolio" (McDonagh, Brendan (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 87)</p>	<p>What portion of the Project Eagle portfolio value was covered by the assets for which an up to date valuation was available? [see also NAMA 44]</p>
	<p>NAMA RESPONSE:</p> <p>NAMA had commissioned third party valuation in relation to 54%, by value, of the Project Eagle property portfolio since its acquisition A total of 84% of this valuation advice was received in 2013.</p>	
<p>NA MA 61</p>	<p>[On the question of whether the asset recovery section of NAMA agreed the valuations or approved the portfolio] "No. The figures in the paper, particularly the end-2013 impairment figures, are collated by the chief financial officer's unit in NAMA, assisted by asset recovery, legal and a whole lot more." (Daly, Frank (NAMA), Meeting of the Committee of Public Accounts, 29 September 2016, page 94)</p>	<p>Is this how the portfolio evaluation was carried out in other cases / did this process follow that which was set out by NAMA in internal documentation?</p>

<p>NAMA RESPONSE:</p> <p>Mr. Daly's response refers to the twice-annual impairment process run by NAMA, which formed the basis, along with other supporting information, for other assessments.</p>		
NM B 46	<p>Request made for best estimate of the value of the assets NAMA controlled in Northern Ireland [view expressed that NAMA not as dominant in Northern Ireland as it has been giving Committee to understand all along]. (Meeting of the Committee of Public Accounts, 18 October 2016, page 71)</p>	<p>Can relevant papers be made available?</p>
<p>NAMA RESPONSE:</p> <p>This information has been provided by NAMA to the Committee in their response of 3 November 2016 (Q9). Property Assets located in Northern Ireland accounted for an estimated £0.75bn or 50% of the collateral value of the entire Eagle Portfolio.</p>		
NM B 61	<p>Request made for the value of the 8% of the Project Eagle portfolio that was residential and whether that 8% was all in Northern Ireland [Mr. Soffe replied that "From the figures I have seen, looking at it in the totality of the Project Eagle portfolio, residential was about 6% but it was 8% in respect of Northern Ireland"] (Meeting of the Committee of Public Accounts, 18 October 2016, page 82)</p>	<p>Can relevant information be made available?</p>
<p>NAMA RESPONSE:</p> <p>This information has been provided by NAMA to the Committee in their response of 3 November 2016 (Q9 & 10).</p>		

Appendix 1

(Contemporaneous Call Note between PIMCO & NAMA 13th March 2014)

Contemporaneous Notes of Telephone Call with Pimco, 13 March 2014

Present:

Pimco - Tom Rice, European Legal Counsel (**TR**); Hugh Mildred, Legal Counsel (**HM**)

Dechert – Neil Gerrard (**NG**); Jonah Anderson (**JA**)

NAMA – Aideen O'Reilly (**AOR**); Alan Stewart (**AS**)

Call concerned communication around PIMCO's withdrawal

TR outlined that PIMCO would give a short message back to its advisors, e.g. that it was not proceeding with a bid due to technicalities relating to the deal. TR requested that PIMCO and NAMA coordinate in future for any press message.

AOR said that regardless of how PIMCO communicated to its advisors, there could be press queries and PIMCO/NAMA should coordinate on these and monitor press coverage.

AOR said its communications people were involved and TR said PIMCO had done the same and put its PR on alert.

TR said PIMCO's letter to NAMA would be short and sweet, that for reasons discussed it was withdrawing from the process.

TR referenced a possible NI government call, likely soon, and asked if NAMA was comfortable with PIMCO telling the NI government the reasons why it had pulled out of this deal. PIMCO would be comfortable with NAMA being candid with the political system about the reasons for PIMCO's withdrawal. TR raised whether or not PIMCO should be proactive in approaching Belfast.

AOR suggested that the same approach be taken with both NI and Irish governments ie: if PIMCO were going to inform the NI government of its reasons for not proceeding, that the same message could be communicated by NAMA here, possibly through the Minister for Finance.

NG said that Belfast was demanding answers and unlikely to continue to do so if made aware of what had happened. TR asked that NAMA let PIMCO know if NAMA was being proactive with a message to NI and would recommend that NAMA contact Belfast.

Call ended.