



FUND OF PROBLEM LOANS
ACQUISITION. MANAGEMENT. SALE.



The Ireland's experience
in the settlement of non-
performing loans

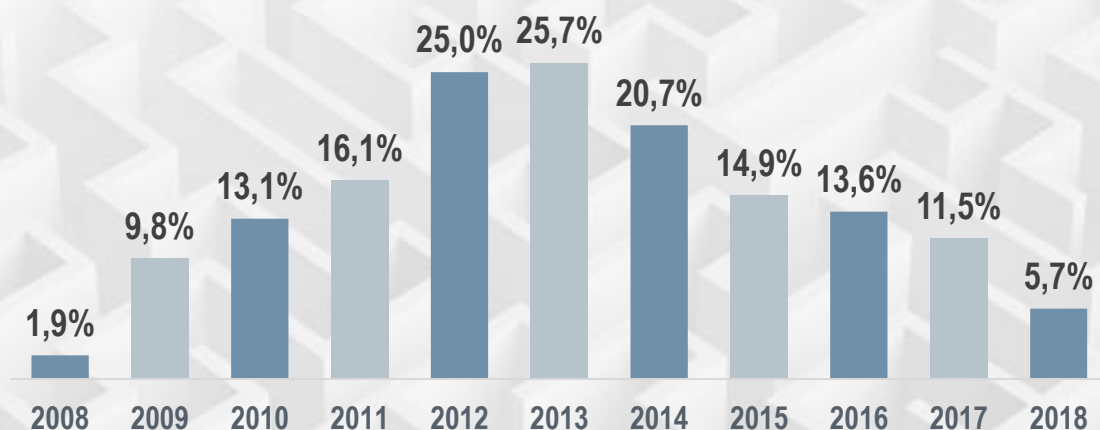


Prerequisites for the creation of NAMA

In the face of a sharp drop in bank share prices and the collapse of the construction sector and the real estate market, the Irish government announced at the end of 2008 that it would provide a total guarantee for all Irish banking obligations in the amount of 440 billion. euro, which is twice the annual gross domestic product (GDP). This guarantee was based on the belief that banks needed temporary liquidity, but were inherently solvent.

Bank share prices continued to fall sharply in 2008 amid a deepening recession and a steady drop in property prices, and in December 2008, the government announced its intention to capitalize on the three largest Irish banks. Anglo Irish was nationalized in January 2009 due to the continued outflow of deposits. In February 2009, the Irish government invested 3.5 billion euros in cash in the Union Irish Bank and the Bank of Ireland in exchange for preferred shares. In March 2009, a report by the Government's Special Adviser (Peter Bacon) on options for solving the problem of non-performing loans proposed the creation of a **National Asset Management Agency (NAMA)**.

Dynamics of the level of non-performing loans in the Irish banking sector

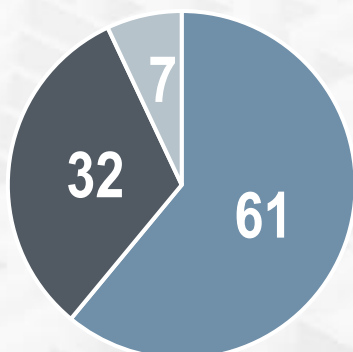


Data source: theglobaleconomy.com
Infographic: FPL JSC

Creation of NAMA, asset purchase

NAMA was established in accordance with the NAMA Act in 2009 to improve the economy and maintain financial stability in the banking system. The Law provided a legal framework for the repurchase, management and sale of stressed assets, as well as for increasing the investment attractiveness and valuation of repurchased assets. The law also gave NAMA special powers in the development of acquired land plots.

The structure of assets in the regional context, %



■ Ирландия ■ Великобритания ■ Северная Ирландия, США, ЕС

32 billion euros

purchase price of assets

12,000

number of loans

800

number of borrowers

By the end of 2011, NAMA had acquired non-performing loans to 800 debtors in the amount of 74 billion euros from five Irish banks at a significant discount of 57% - NAMA paid only 31.8 billion euros for the completed transactions. Of these, 30.2 billion euros were raised through the issuance of NAMA bonds guaranteed by the Irish Government, and 1.6 billion euros through subordinated bonds.

The assets being repurchased in accordance with the NAMA Act were assessed by determining their long-term economic value, i.e. based on NAMA's expectations of a recovery in market prices in the future.

Asset settlement strategy

The loans transferred to NAMA were mainly secured by collateral in the form of commercial real estate and land plots.

This allowed the NSA to develop a more focused settlement strategy. Thus, NAMA's strategy was to realize assets based on current market demand instead of forced sales, which contradicted NAMA's mandate to maximize the return on funds invested by the state.

The structure of collateral, %



NAMA's strategy has been well implemented in practice. From 2010 to 2013, assets located outside Ireland (mainly in the UK) accounted for 75% of NAMA's total asset portfolio. During this period, the Irish real estate market experienced a sharp drop in prices and low liquidity due to the severe financial and economic crisis in Ireland.

So, instead of selling Irish assets at a lower purchase price and contributing to further supply and demand imbalances in the market, NAMA focused on managing these assets to increase their future value and selling assets located abroad.

By the end of 2018, NAMA had completed the sale of almost all assets outside of Ireland and was able to focus exclusively on assets in Ireland.

Asset settlement strategy

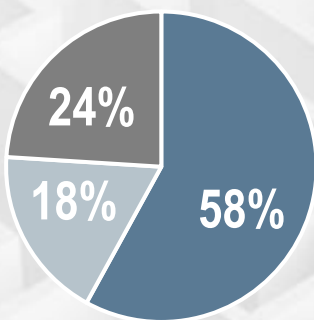
To date, NAMA manages non-performing loans to 180 debtors with a total nominal debt of 61 billion euros. To determine a strategy for dealing with non-performing loans, NAMA requires borrowers to submit a detailed business plan that includes the borrower's current financial condition and a repayment plan for NAMA.

Next, the borrowers' business plan is reviewed by an independent business expert, who conducts a detailed analysis of the cash flow forecast and submits the results of the examination to the Board of Directors, the credit committee and NAMA management. Based on an independent examination, the NAMA authorized body decides whether to approve a business plan or initiate debt collection.

Independent business experts are appointed from among the members of the commission formed by NAMA from representatives of 38 private companies.

By the end of 2012, NAMA had reviewed 789 debtors' business plans. As a result, one or another settlement strategy was adopted for 775 debtors.

Settlement strategies of NAMA's assets



- Сотрудничество с заемщиком
- Выбытие
- Взыскание

Cooperation with borrowers provided for both the provision of restructuring to NAMA and the fulfillment by the debtor of a number of conditions to repay its obligations to NAMA.

The exit strategy was applied in case of lack of expediency in long-term cooperation with borrowers.

Asset sales

After the economic crisis, NAMA implemented measures to increase the future value of its assets through the implementation of investment projects, including jointly with cooperating borrowers.

In mid-2013, with the beginning of the recovery of the Irish real estate market, NAMA began a phased sale of local assets.

In 2014, institutional investors returned to the market and NAMA began a portfolio asset sale recommended by external consultants. Over time, NAMA switched to a "mixed" sales strategy – assets were sold both individually and in pools. For example, in 2018, 62% of assets were sold individually.

To ensure the effectiveness of sales, NAMA uses marketing tools that ensure transparency and maximum awareness of potential buyers, including advertising in local and foreign media, as well as the involvement of professional international real estate agents.

After conducting the marketing campaign, NAMA forms a long list of participants who sign a non-disclosure agreement to gain access to the register of data on realizable assets (loans or real estate).

The NAMA's Law sets certain restrictions for auction participants – former borrowers are not allowed to bid on assets previously owned by them.

If the bidding is declared invalid, NAMA analyzes the marketing activities carried out, the need to further improve the quality of unrealized assets and the current state of the market, or decides to reduce the price of the asset.

Performance results

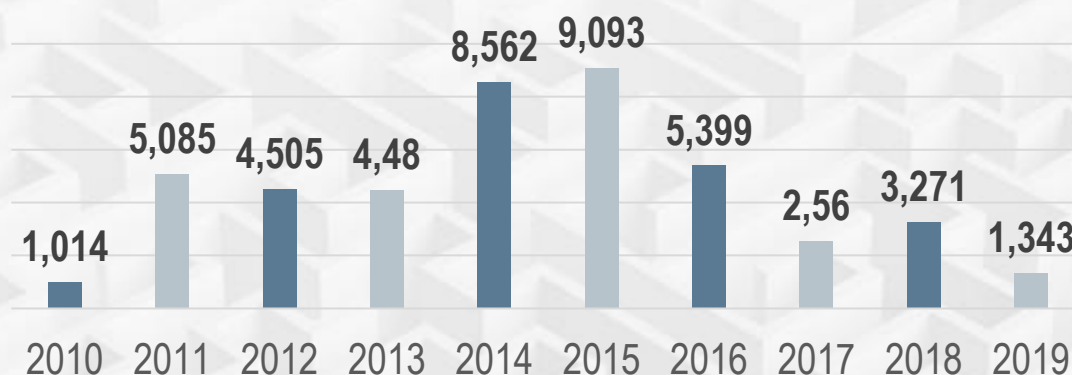
To date, NAMA continues to work with its portfolio of non-performing assets and has remained a profitable organization for 10 years of its operation.

As a result of the management and sale of assets, NAMA transferred 2 billion euros to the Irish Treasury account in June 2020, and plans to allocate another 1 billion euros during 2021.

In total, NAMA plans to transfer 4 billion euros to the Treasury account, taking into account the transfers already made.

The total amount of cash receipts for 2020 amounted to 900 million euros, which, despite the pandemic of coronavirus infection, exceeded the planned targets. Since the establishment of the agency, a total of 46 billion euros in cash flows have been generated as a result of the management and sale of assets.

Cash receipts from the management and sale of assets, million euros



Data source: NAMA Annual Report for 2019
Infographic: FPL JSC

In addition, NAMA has repaid all its bond obligations with these proceeds and is currently fully owned by the State represented by the Ministry of Finance.