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Mr John Buckley  
Comptroller and Auditor General  
Treasury Block  
Dublin Castle  
Dublin 2

1<sup>st</sup> November 2011

Dear Mr Buckley

I understand from Nama Wine Lake's excellent blog that it was signalled at a PAC meeting with Nama executives on 26<sup>th</sup> October that your office is giving consideration to publishing par values of loans in the accounts alongside the NAMA own accounts.

As a citizen and taxpayer, I would welcome this move in the interests of openness and transparency and as an aid to benchmark the underlying performance of Nama.

I have lobbied on this in letters to the Chairman and Board of Nama, Minister for Finance and EU Commission. I have commented in my blog on the need to show the performance of loans based on par value in Nama's accounts on several occasions and have had several letters on this matter published in the media.

In support of your proposal, I hope you will find the following attachments and references useful:

1. Letter to Neelie Kroes, Competition Commissioner, dated 17<sup>th</sup> December 2009. This examined in detail several issues linked to the financial projections contained in Nama's initial business plan with particular reference to rolled up interest and the projected default rate.
  2. Letter to Frank Daly and Nama's board dated 2<sup>nd</sup> June 2010. This dealt mainly with Nama's core objectives and a possible write off of €11 billion in rolled up interest which I estimated from the limited financial projections contained in Nama's initial business plan.
  3. Letter to Joaquín Alumina, Vice-President of the Commission, dated 17<sup>th</sup> September 2010. This expressed concern about Nama's use of the Amortised Cost (Effective Interest Rate) methodology for preparing its accounts; the handling of rolled up interest which could be written down/off without going through accounts; and exclusion of the €40 billion discount on the loans acquired. In the letter, I make suggestions for dealing with these matters and clarifying Nama's underlying legal objectives.
  4. My blog ("Brian's Blog") has an entire section dealing with Nama. It contains my comments and copies of letters about Nama published in the national press. It can be accessed at <<http://www.planware.org/briansblog/banks/nama/>>. While the above letters cover most of the key issues, the following entries are also relevant:
    - Nama – A flawed business plan (October 22<sup>nd</sup> 2009)
    - Nama – The "real" default rate (October 31<sup>st</sup> 2009)
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- Nama and rolled up interest (November 23<sup>rd</sup> 2009)
  - Open letter to Nama's board (June 3<sup>rd</sup> 2010)
  - Nama's new business plan (July 7<sup>th</sup> 2010)
  - Nama's accounting methods (August 23<sup>rd</sup> 2010)
  - Nama and creative accounting (November 2<sup>nd</sup> 2010)

I fully support the proposal that Nama (or your office) should produce financial statements based on the par value of loans to complement those based on the amortised cost method. This would only involve preparing shadow P&L accounts and balance sheets (no need for cashflow statements) which take full account of loan write-downs and -offs relative to the par value of loans as well as interest reductions, rollups and write offs based on original loan terms and arising after the loans were acquired by Nama<sup>1</sup>. Inclusion of these interest calculations is essential as, over time, unpaid interest mounts up to a very substantial sum.

These shadow accounts based on par values would provide 100% transparency on the loans acquired by Nama and a much truer measure of its overall performance from a national perspective than amortised cost based accounts. The latter may be more realistic from institutional and operational viewpoints but it must be borne in mind that they are prepared on a somewhat arbitrary and incomplete basis. They relegate huge write downs on the acquired loans and interest write offs amounting to about €50 billion to mere footnotes buried inside financial reports.

Thank you for your attention - feel free to contact me if you have any queries.

Yours sincerely

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Brian Flanagan

PS As has been my practice, I intend to post a copy of this letter on my blog but please be assured I will treat any subsequent communication with you as strictly private and confidential.

Enclosures: 3

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<sup>1</sup> Assumed that the par value of loans included any rolled up interest arising prior to Nama's acquisition.