

**Opening Statement by
Mr. Brendan McDonagh, Chief Executive of NAMA**

**Public Accounts Committee
Thursday, 1 October 2015**

Good morning Chairman and Deputies,

We have been invited to reappear before the Committee today to discuss our 2014 Annual Report and Financial Statements and to outline progress made since the end of last year.

I also propose to comment on a number of NAMA-related issues which are currently receiving media attention, not least the content of statements recently submitted to the Joint Committee of Inquiry into the Banking Crisis (Joint Committee). Certain contentions made in these statements have been given widespread publicity and, if left unchallenged, could damage taxpayers' confidence in NAMA's capacity to carry out its work in an objective, commercial and professional manner. I will discuss this later in this statement.

Progress on key targets

We have circulated to the Committee a presentation which summarises our performance across a number of key areas and I will highlight just a number of points below:

- 2014 was an exceptionally strong year for NAMA. We reported an after-tax profit of €458m for 2014, an increase of 115% on 2013.
- Cash inflows of €8.6 billion in 2014 enabled us to redeem €9.1 billion in senior bonds, almost a third of the senior bonds originally issued.

- Yesterday, we submitted to the Minister for Finance our financial results for the first half of 2015 and I am pleased to say that the profit for the first six months exceeded the full-year profit figure for 2014. We expect that the half-year 30 June results will be published by the Minister over the coming weeks.
- Since the end of 2014, we have redeemed an additional €4.5 billion in senior bonds, including another €1.75 billion redeemed yesterday. This brings our cumulative redemption to €21.1 billion, **70%** of the total of €30.2 billion originally issued. It leaves us well placed to achieve our end-2016 target of 80% senior bond redemption (€24 billion) and our ultimate aim is to have all senior debt redeemed by 2018.
- Based on our 30 June 2015 impairment review, we have increased our projected terminal surplus from €1 billion, which was estimated at the end of 2014, to €1.75 billion. We will undertake a further review at the end of 2015.
- NAMA is on course to fund the delivery of 5,000 residential units by the end of 2016. This will exceed our 4,500 unit target.
- NAMA will deliver 2,000 social housing units by the end of 2015.

Accelerated disposals strategy

Total cash inflows since inception have now reached €29 billion. It is worth bearing in mind that, as recently as February 2013, the contingent liability on Irish taxpayers from IBRC and NAMA was in excess of €40 billion (corresponding to about 24% of GDP). Today, it is €9 billion or less than 5% of GDP – a reduction of over 75% in 18 months. There have been some criticisms of NAMA’s accelerated deleveraging strategy and, in particular, there have been suggestions that we would have been better off waiting holding all our assets until the market had improved further. Let me make a number of points on this.

First, NAMA is accountable under the NAMA Act to the Minister for Finance, to the Government and to the Oireachtas. We were asked by the Minister, following his Section 227 review of NAMA in July 2014, to take full advantage, subject to commercial criteria, of the strong investor interest in Irish assets and to maintain a flexible approach with a view to accelerating disposals and senior debt redemptions beyond the 80% target that we had set for the end of 2016. That is what we have done and it reflects the agreed strategy.

The Minister, in requesting that we accelerate disposals to the greatest extent commercially feasible, was conscious of the wider positive impact of such deleveraging and, in particular, the impact that it had, and continues to have, in terms of reducing the State's contingent liability. The reduction in the contingent liability has been a major factor quoted by a number of credit rating agencies following their upgrades of Ireland's sovereign credit rating over the past year. These upgrades have had the effect of widening the pool of investors who may hold Ireland's sovereign bonds and, ultimately, they have contributed to a reduction in Ireland's borrowing and debt servicing costs. Reduced debt servicing costs on the National Debt – currently over 100% of GDP - mean that Exchequer funds are available for other, more productive, purposes in the economy.

Secondly, as a major participant in the Irish property market, NAMA did not have the luxury of taking a back seat in terms of instigating market recovery; to get activity going and then to consolidate market recovery, NAMA had to ensure that a flow of transactions was released to the market, not least to sustain emerging interest from investors. NAMA's market activity and deleveraging has contributed to the strong inflows of foreign capital which have been committed to the Irish commercial property market over recent years. Without this capital, and given that the domestic banking system has been slow to recover, it is arguable that there would have been no property market recovery and that the overall recovery of the Irish economy would have been much more subdued.

The property market recovery has led to increased development activity and to job creation. It is entirely unrealistic to suggest that recovery would have happened if NAMA and other major participants had stayed on the sidelines. If we had not acted to instigate market activity, I can well imagine that we would have been subject to severe criticism from this committee and from others. Sitting on our hands, waiting for something to turn up, was not an option.

More generally, if you were to listen to some of the commentary over recent months, you would get the impression that some pundits hold the view that NAMA should only sell assets if NAMA were absolutely certain that the assets concerned would never appreciate in price after their sale. This is a bizarre perspective and, it would mean, in effect, that we would never sell anything. Why would any professional investor commit their clients' money (mainly pension funds, sovereign wealth funds and investment funds) to Ireland if they did not believe they could make a return on their investment?

The reality is that NAMA has been faced from the beginning with managing numerous objectives and stakeholder interests: the public interest imperatives of reducing the State's contingent liability and facilitating the provision of housing and office accommodation where they are needed, the commercial imperative of optimising the disposal value of the assets under our control and the need to ensure that we manage in a professional manner our engagement with our debtors, receivers, investors and members of the public who have an interest in, or are otherwise affected by, assets under our control. What we have tried to do is to manage these potentially competing objectives and interests as professionally as possible while recognising that we cannot hope to satisfy all of them all the time. We have been crystal clear and open about our strategies.

Docklands and residential initiatives

NAMA has an interest in 14 of the development blocks in the SDZ and detailed strategies have now been developed for most of those sites:

Dublin Docklands SDZ

- Construction activity has begun on **one** of the sites, 8 Hanover Quay, in which NAMA holds a minority interest as part of a Qualifying Investor Alternative Investment Fund. The development is pre-let.
- Planning permission has been granted for **three** other sites, including the Boland's Mill site which is expected to deliver office, residential, cultural and retail accommodation totaling almost 400,000 sq. ft.
- Planning applications have been submitted to Dublin City Council on a further **five** sites. These include a site at 72-80 North Wall Quay for which Oxley Holdings Limited acquired a long leasehold interest from NAMA with the right to develop, manage and realise the site. NAMA retains the freehold interest and will receive a secure income stream in addition to a percentage of any future sales proceeds. It also includes a site in Point Village where the proposed development will consist of Dublin's tallest office tower (17 storeys), comprising over 200,000 sq.ft.

- Of the remaining **five** sites, it is expected that planning applications will be lodged for one of them in the third quarter of 2015 with two more to follow in early 2016.
- In addition, it is expected that a planning application will be lodged for a planned new north/ south road serving the Point Village area.

Much progress therefore is being made in facilitating the delivery of new commercial and residential development in the Docklands area. Based on appraisal work carried out to date, it is estimated that up to 3.8 million sq. ft. of gross commercial space and 2,000 apartments could potentially be delivered if all the sites in which NAMA has an interest were to be fully developed over the lifetime of the SDZ. Regarding the 3.8 million sq ft of commercial space, our Asset Management team has worked, over the past 15 months, towards securing planning permission for over 2 million sq ft. of this. This development will support the expansion of the financial services sector and the development of new FDI business and technology hubs in the Docklands area.

Residential

As regards residential delivery, we made a commitment in late 2013 to fund the delivery of 4,500 residential units in the Dublin area by the end of 2016. Some 1,900 units have been completed to date and planning permission had been secured for another 6,350 units, 1,600 of which were under construction. With a total of 40 sites now active, we are confident that the end-2016 target will be achieved. In addition to the units already delivered and the units for which planning permission has been obtained, planning permission has been sought or will be sought by mid-2016 for another estimated 7,200 units. We have sold to a range of private sector buyers sites that could potentially deliver over 11,000 units; only 900 units have been completed or are under construction on these sites to date.

NAMA's engagement with debtors

As I mentioned earlier, NAMA's engagement with debtors has recently received considerable media attention, largely arising from certain witness evidence submitted to the Joint Committee of Inquiry and associated debtor engagement with the media.

We have written to the Joint Committee of Inquiry and have provided them with a detailed and comprehensive rebuttal of many of the contentions put forward in witness evidence. It is possible that the Joint Committee may approve publication of our detailed rebuttal and indeed we would be keen that they put the facts on the public record. As of now, however, the Joint Committee has advised us that we cannot publish our statement to them and indeed that we are prohibited from making any comment to the Public Accounts Committee or any other public forum about specific witness evidence. Therefore, in the comments that follow, I must confine myself to observations about our engagement with debtors in general.

I would point out initially that, while debtors are free to discuss their engagement with NAMA, NAMA, on the other hand, is constrained by law – particularly by sections 99 and 202 of the NAMA Act enacted by the Oireachtas - from disclosing details concerning its engagement with debtors.

Let me state emphatically that NAMA deals with debtors objectively, commercially and professionally. There is no question of any bias in favour of, or against, particular debtors. NAMA deals with its debtors, regardless of their public profile or the particulars of any case, in a consistent and reasonable manner having regard to its statutory mandate. Any suggestion that NAMA had some kind of unwritten agenda to damage debtors is utterly without foundation. In fact, it is risible, not least given the considerable financial support that NAMA has provided over the past five years to a total of 265 debtors (large and small).

In its engagement with larger debtors in particular, NAMA adopted an approach which was far more patient, protracted and intensive than private investors would have been willing to adopt. However, at some point in any protracted process of negotiation, agreement has to be reached and debtors must start delivering on debt reduction targets. Engagement with debtors and their professional advisors can be robust on both sides as each side negotiates to enhance their commercial position. That is entirely to be expected. I would rather hear debtors complaining about our toughness than to hear that NAMA is being accused of being a pushover and not doing enough to extract the best return for taxpayers.

Did NAMA press its debtors to sell property in order to pay back some of their debt so that NAMA could reduce the State's massive contingent liability and thereby contribute to Ireland's exit from the Troika Programme? We certainly did and we make no apology for that.

Many of our debtors made it clear to us since 2010 that they wanted to sit tight, retain their assets and wait for years for prices to recover to pre-crisis levels. This was not an option, not least because Ireland had entered into a *Programme of Financial Support* (Troika bailout) with the EU, the ECB and the IMF and it was clear from our engagement with the Troika that they regarded NAMA's commitment to redeem 25% of its senior debt by the end of 2013 as a major milestone that had to be achieved if Ireland was to successfully exit the programme.

Furthermore, it was unacceptable to us – and I expect that it would have been unacceptable to the Government and to members of the Oireachtas - that NAMA debtors should enjoy long debt repayment holidays at a time when almost 100,000 personal borrowers with distressed mortgages (and indeed many others) who were making huge personal sacrifices were being placed under pressure to make their monthly debt repayments. Many of these personal debtors lost their jobs or had their incomes cut. Many may certainly legitimately feel that they bear no responsibility for the financial and property crisis that engulfed this country.

NAMA is still working consensually with 70% (by value) of its debtors. I will not suggest that all of these engagements are amicable: there has to be an inherent tension and robustness in a situation where NAMA is seeking to optimise the ultimate return for the Irish taxpayer and debtors want to optimise their own position; some will look to repay as little as possible; in fairness, others will seek to repay to their full capacity.

Needless to say, in those cases where it emerged that illegal attempts were made to put assets beyond our reach, we had to take appropriate action in the courts. That would certainly have coloured our view of the claims made by certain debtors that they were willing to work with us to maximise the ultimate return for the Irish taxpayer. We have recovered over €800m from these debtors.

It should be clear to everyone at this stage that NAMA debtors do not consider NAMA to be a cosy bailout. We make no apology for being rigorous, professional and fair.

It has been suggested recently that NAMA staff lack adequate experience in finance and property. This is untrue. From the very outset of its operations, NAMA, through the NTMA, recruited staff with a diverse range of skills and experience from disciplines including banking, finance, law, insolvency, property development, asset management, architecture, engineering, surveying, planning, and construction. Indeed, an important rationale for the establishment of a single asset management entity in Ireland was the requirement for specialist skills, particularly

specialist real estate skills, which had not been available in banks responsible for the pre-crash lending.

We do not expect to receive eulogies from our debtors but more objective commentators, such as the IMF, EU, ECB, World Bank, the credit rating agencies, the Construction Industry Federation and indeed many of the witnesses before the Joint Committee, have all stated that they consider that NAMA is carrying out its mandate successfully.

Finally I would like to commend the professional staff who work in NAMA and the NAMA Board. They have a difficult job to do in often difficult circumstances and I believe that they perform it to the best of their abilities in the interest of taxpayers.

Thank you for your time and attention.