



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

**Public Accounts Committee
Thursday, 9 July 2015**

Good morning Chairman and Deputies,

The NAMA Chairman has provided you with a chronology of the sales process for the Project Eagle portfolio. The NAMA Board approved the sale because it took the view in early 2014 that it represented the best financial outcome for Irish taxpayers, taking a range of factors into account.

The key point about the Eagle portfolio is the fact that five Irish banks advanced £4.5 billion to Northern Ireland (NI) debtors for property which subsequently lost over two-thirds of its value.

Taking into account the NI asset mix securing NAMA loans, we estimate that prices fell by over 50% from peak to the end of 2013. Lending by Irish banks to Northern Ireland debtors appears to have been particularly risky. 44% of the assets by number in the Eagle portfolio were land and development properties which were severely affected by the collapse in commercial and residential prices. Another 26% by number were residential assets. There was also a heavy concentration of lending secured by assets in regional British locations which did not benefit from the strong recovery which was experienced in London after 2009.

That element of the decline in asset values in NI and in regional locations in Britain which happened prior to November 2009 was reflected in the discounts applied when NAMA acquired the loans from the banks. The further decline in prices which took place

after November 2009, however, had to be absorbed by NAMA and, as was prudent, NAMA took appropriate impairment provisions against the loans of NI debtor connections which was fully reflected in each year's audited financial statements. In accordance with IFRS, NAMA must recognise impairment in its financial statements, to the extent that it arises, in each accounting period. Cumulatively, the write-downs taken against NI debtor connections totalled €800m between 2010 and 2014 and they would mainly have reflected falling collateral values. The provisions were included in successive NAMA Financial Statements from 2010 onwards. This included a closing write-down of over €200m recognised in the 2014 financial statements.

Clearly, it was fully recognised and understood by the Board and by the Executive that the impairment taken on this portfolio, while substantial, reflected poor lending decisions by the Irish banks in advancing £4.5 billion for the purchase of assets which were generally of mediocre or poor quality and which were seriously affected by the economic downturn primarily in Northern Ireland and regional UK.

In overall cash terms, taking into account disposal proceeds, non-disposal income, advances and the proceeds of the loan sale, the net cash loss to NAMA, in layman's terms, on the NI debtor portfolio was about €280m.

In January 2014, the Board approved the sale of the portfolio by reference to a minimum sale price of £1.3 billion. This reflected our valuation of the underlying assets. For a range of reasons which I will outline later, the Board's view was that NAMA could struggle to achieve this amount if we were to manage the loans out over a seven-year horizon to 2020, bearing in mind the size of the NI economy. The minimum sale price was adjusted to £1.24 billion by early April 2014 to reflect asset disposals which had taken place in the intervening period – the associated cash proceeds from these sales had been received by NAMA during the period.

Lazard, appointed by NAMA in January 2014 to oversee and advise NAMA on the loan sale, confirmed to the Board that the sales and marketing process was appropriate given the nature and scale of the transaction and given NAMA's objective of maximising the recovery to Irish taxpayers. Lazard also stated in a closing transaction letter to the

Board that “*sufficient competitive tension remained in the process*” following the withdrawal of PIMCO and, having reviewed the remaining two bids, they recommended moving forward solely with Cerberus with a view to executing the Loan Sale Agreement on agreed terms and at the agreed price.

Rationale for sale

There were a number of reasons why the Board took the view that the sale of the portfolio represented the best commercial option for NAMA. From 2010 to 2013, there had been relatively few sales of properties in our NI portfolio and there had been little/no investor interest in acquiring either NI assets or the associated loans. The total volume of investment activity in NI is estimated to have been only €75m in 2012 and €175m in 2013. Absorption capacity was a key strategic concern of the Board given that over 50% of the portfolio was based in NI. The asset portfolio securing NAMA loans was very granular and had few major assets which might have been of interest to purchasers if we had decided to proceed to sell the assets on an asset-by-asset basis.

That granularity is illustrated by the fact that, as of November 2013, only 2% of those properties had an acquisition value in excess of £20m and many of these were in regional locations in Britain. 81% of the properties by number had an acquisition value of less than £2m. 70% of the properties by number were categorised either as residential or land and development assets and the average acquisition value per asset in this group was about £800,000.

The Appendix to this paper provides a breakdown (by value) of the portfolio as it was at the point of sale. As mentioned earlier, most of the assets securing the portfolio declined substantially in value between NAMA’s reference acquisition date (November 2009) and late 2013. It was clear that realising even the carrying value of a portfolio secured by so many small assets was going to be a long and difficult process.

The medium-term outlook for the NI economy was uncertain and it was clear to us, even if there was to be a sustained recovery in the years ahead, that the assets securing our loans would have been slow to benefit from such a recovery. In other words, in the

event of a sustained recovery, the larger commercial income-producing assets would be the first to gain and it would be some time before the impact of recovery would percolate down to smaller assets.

The Project Eagle portfolio included 36 smaller debtor connections that were managed by NAMA's participating institutions. Many of these connections had little or no property management platform or capability and it was likely, in the Board's view, that the workout process would be protracted and costly and there was no certainty that it would have yielded a superior commercial outcome to a loan sale. A loan sale would eliminate the risks, uncertainties and costs associated with a protracted workout of a portfolio which had limited capacity to appreciate in value over a medium-term horizon.

The Board and the Executive also considered the impact of a potential Eagle sale on our ability to manage the rest of our portfolio. From a risk management perspective, sale of the Eagle portfolio would help to de-risk the overall portfolio by removing a heavy concentration of assets in markets with significant liquidity challenges and where recovery was likely to lag major markets. It would also free up our resources to focus more on the portfolio of assets in the Republic and in London where, in our view, asset management work and effort would yield better results.

For all those reasons, we made a decision that the best return that we could generate from the portfolio would be from a loan sale. This assumed that we could achieve a price that matched our expectations as to what the portfolio should realise, based on the information available to us. As a commercial entity, decisions to sell or hold assets are decisions that we are required to make all the time. All our decisions are based on the best available information at the time the decision is taken.

Loan sales process in general

The key consideration for NAMA in any loan sale process is that all interested parties are given the opportunity to bid and all bidders are treated equally and fairly. We insist on the open marketing of loans through experienced loan sales advisors. We set clear ground rules at the start of each loan sale. Everybody knows the rules. We ensure that

all bidders are given access to the same information at the same time – including all loan agreements, security and title information, data tapes, lease information and tenancy schedules. We evaluate all bids on the same basis. We execute our loans sales to best practice international standards. This is recognised in the global loan sales market where NAMA enjoys a strong reputation for the quality of information that is provided in its data rooms and for the transparent and professional manner in which all loan sales transactions have been completed to date.

Conclusion

To conclude, I wish to reiterate a number of important points:

I believe that the commercial decision taken by the NAMA Board to dispose of the NI loan portfolio was the right one. The Board took the view that this option would provide the best financial outcome for Irish taxpayers, taking into account the quality of assets in the portfolio, the lack of liquidity in the NI property market, the availability of a number of investors with the capacity to bid competitively on the portfolio and NAMA's need to focus on its assets in the Republic and in London which were more likely to benefit from intensive asset management attention.

The sale was conducted in line with best international practice and all bidders had access to the same detailed information on the portfolio. NAMA took care at all stages to ensure that the integrity of the sales process was fully protected and the NAMA Board acted quickly and decisively as soon as the proposed fee arrangement to a former NIAC member came to light.

Lazard advised on and recommended the outcome of the Eagle sales process to the Board. I am satisfied, from a commercial perspective, that the transaction would stand up to rigorous scrutiny from any independent assessor.

I am also satisfied that there has been no wrongdoing on the part of any current or former member of the NAMA Board or of NAMA staff and it is entirely unfair that there

has been an attempt to besmirch NAMA's reputation on the basis of the alleged behaviour of certain individuals in Northern Ireland who were at the periphery of the transaction and were advising potential purchasers, rather than NAMA.

Thank you for your time and attention. We will now respond to any issues that you may now wish to address.

APPENDIX: Asset analysis

Debtor connections included in Eagle	55
Assets sold	794
Units sold	4,118

