An Roinn Airgeadais
Department of Finance

Ms. Sarah Cremin
Committee Secretariat
Committee of Public Accounts
Leinster House
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R0960 PAC33

6 December 2021

Re: S0645 PAC33

Dear Ms. Cremin,

I refer to your letter of 22 November 2021, in relation to the Special Liquidation of IBRC, in which further information was requested on the following;

1. Clarification in relation to holding costs which are above original projections and why they fluctuate from year to year;
2. The basis on which the Department expects the large increase in asset value over the specified timeframe that merits the expenditure of almost €30 million extra in holding costs; and
3. Details regarding the overall quantum of assets by category that remain to be disposed of and forecasted net returns projections by year of disposal.

As set out in previous correspondence, the impact of Covid-19 caused an unforeseen disruption to the liquidation process and had a materially negative impact on asset values across all asset categories in 2020. In order to fully assess this impact, and to identify the optimal approach for the State, the Department requested that the Special Liquidators set out a range of scenarios for the windup of the liquidation and the projected impact of each scenario on the asset realisation values and corresponding costs.

As you are aware from previous correspondence, these scenarios illustrated that no loss would be incurred on the assets if the end date of the completion of the liquidation was extended to end-2024. However, additional holding costs of €26.5m above original projections would be incurred. Nonetheless, this projected outcome was more favourable when compared with other scenarios for disposing of the assets within a shorter timeframe, as each alternative scenario projected a loss in asset values on disposal. On this basis, it was considered in the State's best interest to extend the timeline of the liquidation to end-2024.

In relation to the holding costs, these costs fluctuate from year to year as they reflect the level of work associated with the sales of assets in the given period, including management of assets and overseeing and managing disposals.

Some additional context which is of particular note is that, while there are additional holding costs incurred in extending the timeline of the liquidation, the assets continue to generate net revenue and profits across the holding period and are projected to make significant levels of debt repayments to IBRC from trading surpluses until the point of sale.

To illustrate this, the total funds flow by year is set out in the table below. This shows that the total additional net funds (total funds generated less additional holding costs) is projected to be €77.75m over the period 2021-2024. Therefore, while there are additional holding costs in the period of the extension of the liquidation, these are more than offset by the revenue generated from the assets over the period.

Total funds flow by year (€'000)	2021	2022	2023	2024	Total
Total funds generated	36,000	25,500	36,500	6,250	104,250
Additional holding costs	(2,000)	(5,000)	(11,000)	(8,500)	(26,500)
Total additional net funds projected	**34,000**	**20,500**	**25,500**	**(2,250)**	**77,750**

In relation to the rationale for holding the assets over the period, as outlined previously, Covid-19 had a materially negative impact on asset values across all categories in 2020. While the general market has improved over the course of 2021, it is clear that it has not recovered fully to 2019 values and were IBRC to have placed any of the assets on the market in 2020 or 2021 they would have generated a lower return than the value that could have been achieved in 2019. Furthermore, as illustrated above, the assets continue to generate net revenue and profits and are projected to make significant levels of debt repayments to IBRC from trading surpluses until the point of sale.

The Special Liquidators continue to work closely with all companies and asset managers to monitor and maximise cashflows from all remaining assets across commercial, retail, industrial and hospitality sectors. The liquidators also liaise with property advisors in order to understand the asset values and impact of Covid-19. As requested, further detail is set out below in relation to asset disposals. This includes detail on projected asset sales proceeds by year, while preserving any commercial sensitivities, which may impact upon the liquidation process.

The table below sets out a comparison between the total projected asset sales values as prepared in previous reports and current projections updated in November 2021.

<u>Total Projected Sales Proceeds (November 2021)</u>

Projected Sales Proceeds (€'000)	**2022**	**2023**	**2024**	**Total**
Total projected sales proceeds (per Feb 21 report)	27,513	69,208	535,043	631,764
Total projected sales proceeds (updated)	42,982	238,979	360,000	641,961
Updated projected value	**15,469**	**169,771**	**(175,043)**	**10,197**

This illustrates a projected uplift in values of €10.1m, which is based on certain assets recovering to 2019 values sooner than anticipated.

It goes without saying that all the figures referred to above are projections made at a point in time and, as such, they are subject to material revision in the event of the underlying assumptions changing. In particular, I would highlight the fluid and evolving nature of the pandemic as a factor which could have a material impact on the projections.

As set out in my previous correspondence, the Department considers it important that the timeline of the liquidation remains under review, given the evolving nature of the impact of the pandemic both domestically and internationally. Therefore, the Department has requested that the Special Liquidators provide an updated scenario analysis by the end of Q1 2022 in order to assess the optimal timeline for the conclusion of the liquidation process and ensuring that the most up-to-date market information is considered. The Special Liquidators will update the Department on asset values and anticipated timelines for bringing assets to the market across the relevant jurisdictions. This updated information will inform the Department's views on the ongoing timeline of the special liquidation. As always, any recommendation in this regard will be led by the guiding principle of ensuring the optimal outcome for the State.

The Department will continue to actively engage with the Special Liquidators to ensure that all efforts are made to achieve this outcome and maximise the overall return for the State.

Yours sincerely,

John Hogan

John Hogan
Secretary General