National Asset Management Agency

Opening Statement by
Mr. Brendan McDonagh, Chief Executive of NAMA,
to the Committee of Public Accounts
Thursday, 28th September 2023

Chair, Deputies,

Good morning.

I am joined today by the NAMA Chairman – Aidan Williams; Chief Financial Officer – Noelle Condon; Chief Strategy and Transformation Officer – Jamie Bourke; and Chief Legal Officer – Alan Stewart.

A key control and accountability measure contained in the NAMA Act of 2009 is the Section 226 requirement for the Comptroller & Auditor General (C&AG) to prepare a report every three years, containing an assessment of the extent to which NAMA has made progress toward achieving its overall objectives.

NAMA is now 14 years in operation and the Section 226 report published earlier this year is the fourth such report. It covers the period to end December 2021.

You will have seen from the C&AG's report that it has summarised its analysis of NAMA's progress under seven headings:

1. The loans we acquired for €31.8 billion and the manner in which we have redeemed NAMA's outstanding debt significantly ahead of schedule, a process we completed in 2017 for our €30.2 billion in senior debt - three years ahead of schedule - and 2020 for our €1.6 billion in subordinated debt;

2. The recovery of our costs, which the C&AG notes has been completed fully and that, in addition to achieving full cost recovery, we are projecting a lifetime surplus of €4.5 billion plus we have paid €400m corporation tax to date – a return to Exchequer of €4.9 billion;

3. NAMA's internal rate of return or IRR, which at 6.7% per annum exceeds the 5% per annum IRR that would have been generated if we had simply recouped the cash projected when acquiring loans from Participating Institutions – this is another measure that shows we have exceeded the initial projections. In fact, if one excludes the €5.6 billion overpayment to the financial institutions on acquisition, the IRR achieved by NAMA is 12.9% per annum;

4. Our debtor management and loan sale activity, which notes that we acquired loans for a total consideration of €31.8 billion and which also contains references to an individual €265,000 loan sale transaction at market value that I will address separately;

5. Our objective to facilitate the delivery of commercial property in the Dublin Docklands, where the C&AG notes that only one Docklands site in our portfolio remained to be developed as at end 2022. A combined site and leasehold sale has been agreed with the freeholder, Waterways Ireland;

6. Our objective to deliver 20,000 new homes, where the C&AG notes that we directly delivered over 11,000 homes on sites in our portfolio by end 2021 and our position that we contributed indirectly to the delivery of approximately 10,000 more on sites that were sold – thus achieving the 20,000 unit target – and the proceeds used to repay NAMA's debt;

7. And, finally, our social housing delivery, where the report notes that we had exceeded our 2,000 homes target by 31% at end 2021, with over 2,600 social housing units delivered.

Progress in achieving objectives

The report demonstrates that NAMA has made significant progress towards achieving its overall objectives in the period under review by the C&AG – that is, the three years to 2021. We are pleased that we have been able to continue this progress subsequently.

In particular, our work in the Dublin Docklands SDZ, which has had a positive transformational impact on the area, is now successfully concluded with 99% of our original interests in the SDZ completed or sold.

Housing remains a principal focus as we seek to maximise the supply of new homes, both in terms of units delivered and sites ready for development. Since 2014, NAMA has been involved in the delivery of some 32,000 new homes and it is working to ensure as many sites as possible are shovel-ready for future development.

However, as has been noted by several major housebuilding companies in their public statements, there are a number of significant obstacles to delivering additional quantities of housing at the levels Ireland needs.

One of these is the achievement of the appropriate planning approvals. Planning costs are significant and average circa €3,000 per residential unit. Achieving a grant of planning continues to be a significant challenge, with many applications awaiting a decision from An Bord Pleanála (ABP) for almost 2 years.

In addition, our debtors and other housebuilders deem a judicial review almost inevitable when a planning approval is granted by ABP. This adds to the timeline, adds to uncertainty, adds to costs and halts the building of necessary housing. In turn, these issues either result in the development becoming unviable or add considerably to the cost that the ultimate buyer or renter will have to pay.

While construction cost inflation is starting to abate, NAMA's own analysis shows that the costs of building an urban 2-bed apartment (excluding land costs) increased by 18% in the year to end-2022 vs 2021 with more modest, albeit significant, increases of almost 6% to the development of an average 3-bed house (see Table 1 below).

Coupled with the difficulty of obtaining funding and higher borrowing costs, viable residential development is going to remain challenging for some time. With less supply of new housing and demand continuing to outstrip supply, new housing developments have sales price inflation running at circa 11% per annum. Meanwhile, second-hand housing sales price inflation has slowed to under 1% per annum and is slightly negative in Dublin.

Table 1: Construction Costs – year-on-year increase as at end-2022 vs 2021

	2-Bed Apartment (Urban and low rise)	3-Bed House (Dublin)
Development costs	+18.6%	+5.8%
Land costs	No change (assumed)	No change (assumed)
Finance costs	+22.5%	+21.6%
Developer margin (15%)	+18.6%	+5.8%
VAT (13.5%)	+17.2%	+5.4%

Source: NAMA. Refer to Appendix 1 for actual costs.

NAMA continues to identify opportunities to provide social housing from our portfolio, mainly from new housing constructed on NAMA-secured sites, to add to the 2,862 social homes already delivered. Of the circa 800 residential units being delivered by NAMA during 2023 and 2024, approximately 33% are expected to be provided for social and affordable housing; either in compliance with Part V of the Planning Act, or as direct sale to approved housing bodies, local authorities, or the LDA.

2022 Financial Statements

Your invitation to us today also referred to your planned discussion of our 2022 financial statements, which were published in June.

I am pleased to report that these results show we continue to generate strong cash and profits despite having a significantly smaller portfolio. We made €81m profit in 2022.

This strong performance reflects the detailed asset management and corporate finance work undertaken by NAMA towards enhancing asset values and strategic decisions to take advantage of market conditions.

The fact is, NAMA took full advantage of the opportunities presented between 2012 and 2022 when interest rates were low and large numbers of buyers were in the market. By doing this, we delivered large volumes of asset sales at significantly higher prices than what would be achievable today.

Crucially, our strong cash position and profitability have enabled us to continue our surplus transfers to the Exchequer with €3.5 billion cash paid to date. An additional €350 million is scheduled for transfer by end 2023.

Our projected surplus, coupled with corporation tax already paid of €400 million, brings the total paid by end 2023 to €4.25 billion and we are very confident that NAMA's lifetime contribution to the State will be at least €4.9 billion by end 2025.

I refer the Committee to the briefing material submitted in advance of this meeting, which contains an overview of NAMA's financial position as well as current progress in relation to our various strategic objectives.

Loan Sale

I will now return to the €265,000 loan sale at market value that was referred to in the C&AG report.

In respect of the report's references to the transaction I would like to make the following points:

- There is no suggestion in the report that the sale was conducted improperly, without sufficient due diligence, nor was non-compliant with the NAMA Act.
- The C&AG report refers to the loans being sold at a discount of 97.5%. It is important to stress that this is a discount to par value – i.e. the historical amount originally advanced by the Participating Institution prior to NAMA buying the loans (par debt of €8.6m), plus accrued unpaid interest (€1.9m). It should not be confused with a discount to the market value of the properties securing the loans at the time the sale was approved by the Board.
- The loans were sold for the full market value of the secured properties, as determined by independent professional valuers at the time of sale. There was no means available to NAMA to recover any additional money to reduce the losses on the loans.
- NAMA's rationale for the transaction was to maximise the amount recoverable for the taxpayer in line with its statutory mandate as set by the Oireachtas. NAMA's legislation takes precedence over any internal NAMA policy and the transaction was approved by the NAMA Board on the basis that it was consistent with this legislation.
- Ultimately this was an exceptional situation involving a highly contentious lender/borrower relationship that was inherited by NAMA from a Participating Institution. There was no possibility of NAMA achieving full repayment of all €10m par

debt owed to it and no alternative legal options to achieve any repayment at all from the debtor companies or their bankrupted guarantors.

- There was no amount that could be recovered other than the value of the property assets secured to NAMA, which, per the independent valuations, were only worth €265k irrespective of the €10m par debt (which includes €1.9m unpaid interest) owing under the loans.

- NAMA paid the financial institution €4.38m for these loans meaning the originating bank incurred a loss of €4.21m at acquisition.

- The courses of action available to NAMA were severely limited by a number of factors, including:

    - The resignation of the Receiver;

    - The debtor companies regaining full control of the property assets as a specific legal consequence of the Receiver resigning;

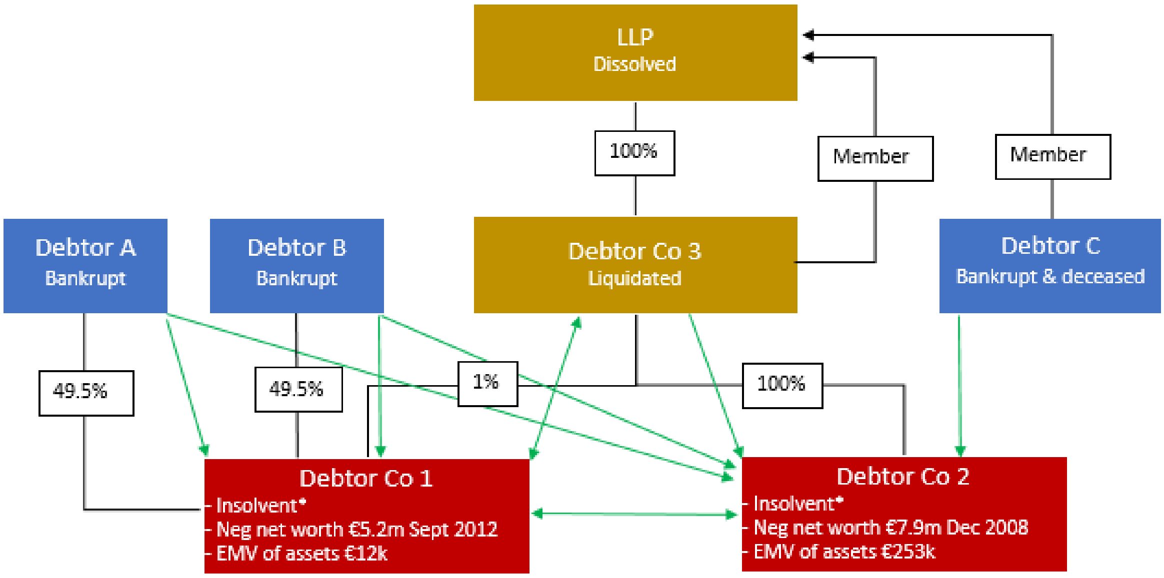
    - No estate agent willing to try to sell the properties – NAMA could not legally appoint a sales agent itself;

    - The debtor companies were insolvent, the owner SPV was in liquidation and their promoters / guarantors were bankrupt (see Figure 1). Once an individual is made bankrupt, all their debts are extinguished, i.e. they no longer legally owe any money on those debts. The insolvent and liquidated companies had no other assets to meet the €10m par debt.

    - External professional independent valuers assigning a valuation of €265,000 to the bundle of property assets in October 2020 based on their assessment that the assets could not be sold in the circumstances. The Board relied on this information when making its decision to sell the loans in November 2020.

    - To pursue or have to defend litigation would have been an expensive and drawn-out process, the legal costs of which would almost certainly have exceeded the value of the properties that were independently valued at €265,000. There was a history of protracted litigation with this debtor and their companies, including prolonged litigation in relation to assets owned by the debtors in the UK which was exacerbated by multiple appeals in multiple jurisdictions. While the courts consistently found in favour of NAMA and the insolvency practitioners, we were unable to recover the significant litigation and other costs of STG£2.5m from the debtors or the companies involved.

Figure 1: Debtor recourse overview



Green arrow = guarantor
**Company previously dissolved but was reinstated*

- NAMA's only viable option to recover cash from these assets and minimise costs was to conduct an off-market loan sale to a third party with both the appetite and the resources to acquire the property assets. The loan sale was approved by the NAMA Board after careful consideration of all material facts and an acceptance of the lack of possible commercial alternatives, and we are fully confident that it was the best and only viable option available to achieve a return on the loans in accordance with our legal obligation under Section 10 of the NAMA Act.

- We are not in a position to identify the debtors or parties connected to them, as this would be in breach of our legislative obligations and could expose NAMA and the State to the risk of litigation for breach of confidentiality.

- In relation to the loan purchaser, I can confirm that a newly established corporate entity purchased the loans, and that written confirmation was received from the company's directors (not related to the original debtors), via their solicitors, stating that they were not connected persons as prescribed by Section 172(3) of the NAMA Act, although we understand that a relative of the debtor (who was never a NAMA Debtor) provided funding to finance the purchase.

Conclusion

I will conclude by saying there is still much work to be done by NAMA to deliver additional surplus monies to the Exchequer. Our focus now is twofold: first, extract as much value as possible from our residual portfolio with a view to maximising the surplus that we ultimately hand over to the Exchequer; and second, progress the orderly resolution and wind-down of the Agency.

We welcome the publication by the C&AG of the NAMA progress reports. It is important that we can demonstrate to the public that NAMA is adhering to the ambitious commercial mandate assigned to it on establishment; not every transaction is straightforward nor easy to complete but we do fulfil our legal obligations. Moreover, the Agency has and will continue to effectively utilise its unique position to continue to provide a valuable social and economic contribution from its operations.

Thank you.

APPENDIX 1: Residential Construction Costs: End-2021 vs End-2022

2-bed apartment (urban and low rise)

	Costs at end-2021	Costs at end-2022	Cost increase year on year	% increase year on year
Development costs	€291,766	€346,007	€54,241	+18.6%
Land costs	€35,000	€35,000	No change	No change
Finance costs	€27,617	€33,818	€6,201	22.5%
Developer margin (15%)	€43,765	€51,901	€8,136	18.6%
VAT (13.5%)	€53,750	€63,008	€9,258	+17.2%
Implied minimum sales price	**€451,898**	**€529,734**	**€77,836**	**17.2%**

3-bed semi-detached house (starter to mid-market)

	Costs at end-2021	Costs at end-2022	Cost increase year on year	% increase year on year
Development costs	€229,785	€243,004	€13,219	5.8%
Land costs	€77,500	€77,500	No change	No change
Finance costs	€19,396	€23,578	€4,182	21.6%
Developer margin (15%)	€34,468	€36,451	€1,983	5.8%
VAT (13.5%)	€48,755	€51,372	€2,617	5.4%
Implied minimum sales price	**€409,904**	**€431,904**	**€22,000**	**5.4%**

Notes:
- Analysis based on a small number of residential developments funded by NAMA
- Development schemes are fully serviced and located in Dublin
- Developers are medium-sized Dublin developers
- Analysis assumes no change in land values