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Opening Statement by Mr. Brendan McDonagh, Chief Executive of NAMA, to the Committee of Public Accounts Thursday, 8th October 2020

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to the Committee of Public Accounts
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Good morning Chairman and Deputies,

You have invited us to discuss NAMA's 2019 Financial Statements and the C&AG's special report on Project Nantes. I am joined by Aidan Williams, the NAMA Chairman, Jamie Bourke, our Head of Strategy and Communications and Noelle Condon, our Chief Financial Officer.

2019 Financial Statements

2019 was another successful year for NAMA. We reported a profit of €265m and continued to make material progress on all of our objectives. Coupled with our 2018 results, in the last two years alone, NAMA has generated profits in excess of €1 billion.

We generated over €1.3 billion in cash during the year, exceeding our deleveraging targets. This and further cash generation during 2020 brings cumulative cash generated by NAMA since inception to €45.7 billion.

As a result of a programme of efficient and focused deleveraging over the past 10 years, our loan portfolio is now 97% reduced from its €32 billion acquisition cost. Our deleveraged position means that NAMA is far less vulnerable to potential falls in asset values than it would have been just a few years ago.

However, NAMA is not immune to the effects of the economic crisis created by Covid-19. The impact of Covid-19 can already be seen in our Q1 2020 financials where we reported a loss of €49m. The widespread and unexpected market disruption caused the

NAMA Board to make a management judgement on the possible reduction in value of our residual assets. Thankfully, some parts of the portfolio have performed better than expected since the end of Q1 and we are reporting improved results for Q2. The disruption continues to impede the completion of some of our activities and delay planned debtor exits and asset sales. Accordingly, it is increasingly likely that NAMA may be left with a larger residual portfolio by end-2021 than the circa €300m previously envisaged.

C&AG Special Report on Project Nantes (Report no. 109)

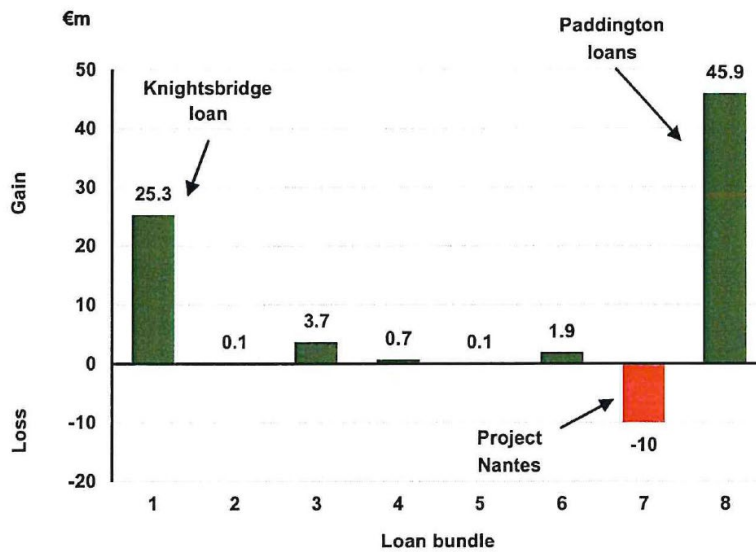
I now turn to the C&AG special report on Project Nantes. At the outset, I would like to make the Committee aware of our statutory confidentiality obligations under sections 99 and 202 of the NAMA Act, as well as the confidentiality clause in the Nantes loan sale deed. These clauses effectively preclude us from discussing or disclosing specific information regarding debtors, their loans or transactions. In this context, and in consideration of the published report which does contain a great deal of information, I will endeavour to be as comprehensive as possible in my remarks.

Following our last appearance at this Committee, we engaged in extensive correspondence with the Committee regarding the Project Nantes loan sale. These queries originated, in part, because of an allegation that the loan sale was not compliant with section 172 of the NAMA Act. This allegation has been found to be incorrect.

As regards the other findings in the report, from our perspective, there are a number of fundamental points to be made:

1. The Nantes loan sale cannot be viewed in isolation. It must be viewed in the context of the global connection exit strategy. NAMA achieved profits of €78m on six out of the seven connection loan bundles (as evidenced by the graph on page 12 of the special report and copied below) but made a €10m loss on Nantes, resulting in an overall profit for the taxpayer of €68m.

Figure 3 Avestus loans cash outturn, 2010 to 2013



Source: NAMA. Analysis by the Office of the Comptroller and Auditor General.

2. A consensual loan sale ensured the achievement of the global exit target in the most efficient manner. It is NAMA's experience that, in certain circumstances, higher returns can be achieved from the targeted sale of assets to credible specialist buyers. That is to say, open marketing does not always result in the best possible outcome.
3. As regards NAMA not seeking up to date valuations, the loans were independently valued in 2009 prior to acquisition by NAMA and reassessed in an Independent Business Review (IBR) by a large accounting firm in 2011. These earlier valuations were arguably overstatements by the time the loan sale completed in January 2012 as Irish asset values continued to decline by approximately 30% from late 2009. We did however have up to date appraisals of valuation on the assets.

We fully accept and regret that there was a miscalculation on the part of NAMA in setting the €125.5m target, as certain loans were inadvertently misclassified in the IBR report. This transaction occurred early in NAMA's lifecycle when we had no central IT systems and relied on multiple spreadsheets with volumes of data. Since then, our internal controls and IT systems have evolved and improved and are significantly more robust as well as being subject to rigorous control testing by our auditors. Nonetheless, we are of the strong view that the miscalculation of the target did not affect the ultimate

commercial outcome from the portfolio. The gross proceeds achieved of €210m exceeded the restated global target of €151.8m by €58m. This was a notable return in a very depressed market; Irish Government bond yields were close to 18% and Ireland was in the middle of a Troika bailout. Equally, it is acknowledged in the C&AG's report that *"Had NAMA set a higher repayment target for the Project Nantes loans, there is no guarantee that a sale could have been concluded at that higher price"*.

All commercial transactions carry risk. If NAMA withheld the sale of every asset because it may subsequently increase in value, we would never have disposed of a single asset. NAMA makes considered decisions based on its section 10 mandate, the information available at the time and the expertise and experience of our staff.

Conclusion

We still have much work to do in order to maximise the value in NAMA's residual portfolio. However, in a very real sense, we have already achieved the primary statutory mandate set out for NAMA when it was established:

- We have fully repaid all €32 billion in debt issued to acquire loans. Importantly, we repaid the Government-guaranteed portion three years ahead of schedule in 2017. This not only removed a contingent liability for the State but significantly aided Irish banks in returning to the financial markets.
- We have deleveraged over 97% of NAMA's acquired portfolio and made a substantial and tangible economic and social contribution through: our residential funding programme which has delivered in excess of 17,000 units to date; our Dublin Docklands SDZ programme which is 75% complete and our social housing programme which has provided over 2,600 homes to date.
- Finally, and most remarkable in my opinion, this year we accomplished a goal that was simply not considered possible when NAMA was first established. We delivered a sizeable surplus payment of €2 billion to the Exchequer in June of this year. Our surplus will provide the Exchequer with valuable resources that the Government may use to alleviate some of the immense pressures currently being experienced

throughout our society and our economy. Further transfers totalling €2 billion are anticipated over the next two years.

Our progress in the achievement of NAMA's objectives demonstrates that our decisions have overwhelmingly been the correct ones. We all can see the effects of Covid-19 in causing lower valuations of assets and we are fortunate most of the portfolio was disposed by end 2019. We have the capability to effectively address any challenges that may arise from dealing with our residual portfolio and we remain reasonably confident we can preserve the €4 billion surplus.

Thank you.