Address to the Institute of Directors

Mr. Frank Daly, Chairman of NAMA

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NAMA: Challenges, opportunities and banana skins

Thank you for inviting me to address you today.

I've been asked to talk about challenges, opportunities and banana skins – I'll go on to give a reasonable account of the challenges and the opportunities but as I'm going to say very little about banana skins (and I'm not sure much was expected!) let me say that little bit first.

Maybe the main point to be made about banana skins is that by their nature you are pretty much airborne by the time you spot them. But they will come and any business that doesn't assume so will get itself into trouble. What can you do? Only two meaningful things really.

Build the best early warning systems you can with robust risk management to avoid standing on them in the first place. That won't always work of course so when inevitably you are unexpectedly airborne the key response is a quick reaction. It's really surprising how flexibility and agility can help you land on your feet rather than your backside.

Enough said about banana skins! Back to challenges and opportunities.

I suppose there has rarely been a time over the past four years when NAMA has been out of the headlines or has not been the subject of commentary in media, political and other quarters. Not surprising of course – we were conceived in unusual circumstances, reared in difficult times and are now approaching maturity in a more benign climate.

So right now is indeed a very interesting time to be talking to an audience like yourselves about NAMA, not least because in recent weeks there has been speculation about whether our planned life expectancy could be shortened – the question posed is essentially whether we can achieve our objectives earlier than the planned date of 2020. That question is one the NAMA Board is
actively considering right now – and that question has to be considered in the context of what’s been achieved to date and the different ways in which we could address our future challenges.

**Challenges**

The main challenge facing NAMA is the same today as it has always been – to recover for the taxpayer the €31.8 billion that was committed to acquire the property loans which transferred to NAMA from the banks in 2010 and 2011. 95% of this, the €30.2 billion issued in Senior Bonds, was guaranteed by the Government and is a contingent liability on the Irish people; the other 5% comprises €1.6 billion in subordinated debt not guaranteed by Government.

The Senior debt - €30.2 billion - is the key figure for us. We have redeemed €7.5 billion of it to date. That was our target to end 2013 – a target that has been fully met and that was an important factor in the exit of Ireland from the TROIKA programme.

**That leaves €22.7 billion of Senior Bonds as of today as a contingent liability on Irish taxpayers.**

So our main challenge today can be expressed very simply: clear that €22.7 billion contingent liability expeditiously by realising assets and maximising income but do so in a way that makes commercial sense. The taxpayer has already paid more than enough for the Irish banking crisis – NAMA has no intention of adding to the bill – in fact we might even be able to reduce it if we achieve an overall surplus after all assets are sold.

Right from the beginning, our primary commercial objective has been to redeem our Senior Bonds together with covering all our operating costs, and providing any working capital and development funds to debtors where justified.

But we always wanted to do more and we always aspired to produce a surplus for the taxpayer by being strategic and commercially sensible. A year ago, just after IBRC was placed into liquidation, the prospect of achieving a surplus might have seemed really ambitious, but now, if the Irish property market and the economy continue to recover, we may well deliver it.

When setting our primary objective, we determined that we would achieve it over the shortest possible time span, having regard to market conditions and to optimising the realised value of our assets. If I had been speaking to you this time last year, I would have said that our projections suggested that we would have redeemed all our Senior Bonds by 2020. Today, given the recent improvement in the Irish economy and property market, there may be scope to
advance that 2020 date. Against that background, we have, since Q4 of 2013, been reviewing our asset disposal projections and the timeframe over which we can expect to repay our liabilities.

**Section 227 review**

I might mention, in this context, that the Minister for Finance is required, under Section 227 of the NAMA Act, to assess, on a periodic basis, the extent to which NAMA has made progress towards achieving its overall objectives. The first such review is currently taking place. In that context, the Minister recently asked us to explore options to further accelerate the redemption of our Senior Bonds. That’s a very timely request and we are currently analysing the financial implications of possible options in that respect.

This analysis will be comprehensive and, to use the Minister’s own words, be evidence-based. It will assess the pros and cons for example of continuing with the current phased asset sale approach, accelerating that approach, further bundling of assets for earlier sale and large scale packaging of assets for sale. We have no preconceived disposition towards any particular outcome – but we will be absolutely guided by the clear objective in Section 10 of the Act which requires us to **obtain the best achievable financial return for the State**.

As with any assessment of this type, there will be so much that can be adduced from financial analysis, projections and hard data. But there will also be fine judgement calls to be made. Not the least of these will be trying to forecast what the market will do, the extent to which the very positive investor sentiment in Ireland right now will be sustained and the timing considerations in leveraging off that sentiment. Hard choices - reflected indeed in some of the media commentary during the past week or so which recognises those difficult choices and acknowledges that in the end it will come down to making the right judgement and timing decisions. Nobody has that crystal ball – but we are encouraged by the fact that to date we have made good calls on timing as evidenced by the success of our asset sales, cash generation and debt repayments.

**Phased and orderly disposal**

Our strategy for asset disposals has been very clear all along – sell in each of our main markets to the extent to which that market has the capacity to absorb supply. One of our mantras to date has been: no fire sales and no hoarding of assets. Given conditions in the Irish market during
the period from 2010 to 2012, it would have made no sense to dump large numbers of assets into a market where demand was practically non-existent. We would simply have gotten poor prices and damaged a very fragile market struggling to show some semblance of recovery. By necessity, we had to tread carefully so as not to exacerbate the battering which the market had taken between 2007 and 2010. By 2012, we felt that market prices were showing signs of stabilisation and that commercial yields were approaching levels which would soon attract the attention of serious investors.

And thankfully those investors surfaced in 2013 and they contributed greatly to the exceptionally strong performance of the Irish commercial market particularly during the latter half of last year. Unlike the period from 2009 to 2011, it was no longer a case of a handful of opportunistic investors looking for a chance to turn a quick profit on assets acquired at distressed prices. International investors were now seeing Ireland as a positive story and seeing the Irish property market as an excellent medium to long-term investment opportunity.

They still do.

That resurgent market enabled NAMA to sell substantial asset and loan portfolios at very competitive prices – the most immediate examples include Project Platinum (a portfolio of office buildings located in the centre of Dublin) and Central Park (a development of five office buildings and an apartment block in Leopardstown). Total sales in 2013 added €3.7 billion to our coffers and to date in 2014 – in just two months - we have added over €1 billion in cash receipts, mainly from asset disposals.

Obviously we are keen that this should continue.

We want to have a pipeline of large portfolios of mainly Irish property assets available for sale to the market and, with that in mind, we are now committing that, each quarter, packaged transactions of properties with a minimum value of €250m will be offered for sale. That’s a minimum - in many cases, the packages will be much larger than that but essentially we aim to provide certainty about regular asset flows which will provide clarity to potential investors, including international investors and REITs, and thus help to sustain the positive momentum in the market. I should mention that this will be in addition to the €1.5 billion of property assets which are currently for sale through our debtors and receivers and will be in addition also to any loan portfolios that may be offered to the market.

Right now, in addition to the assets which are for sale through our debtors and receivers, there are two large loan portfolios and other asset portfolios on active sale here in Ireland with an aggregate book value of in excess of €2 billion. We have also received expressions of interest in
our Northern Ireland portfolio and we have appointed Lazards to oversee a competitive sale and marketing process in respect of this portfolio. NAMA has managed its portfolio in the North in a very responsible and supportive manner and has been very cognisant of the concerns of the Northern Ireland Executive. This recent strong interest in the Northern Ireland portfolio is an encouraging sign for the economy in Northern Ireland and we welcome it.

So right now, NAMA has, in aggregate, over €3.5 billion in loan and property assets for sale in the Republic and close to €4.5 billion on the island of Ireland.

To summarise, our strategy now, as before, is to supply assets to the Irish market to the extent that it can absorb that supply. And clearly, the scale of what is achievable in terms of Irish asset disposals is now greater than would have been up to quite recently.

2014 Bond redemptions

Which brings me back to that main target of senior bond redemption.

Last year, having met our end 2013 target of repaying €7.5 billion, we set ourselves the further target of repaying another €7.5 billion by end 2016 and, within that, a target of €2.5 billion by end of this year.

But circumstances have changed for the better – and this is where you as Directors will understand the serendipity that sometimes occurs between challenge and opportunity. Being agile in business is essential.

With greater scope now for Irish asset disposals (and with the UK market, where we have substantial interests, still buoyant), the Board has been reviewing its asset disposal projections and its Senior Bond redemption targets with a particular focus on this year and on the next two years.

Our original target for this year was, as I’ve said, to redeem €2.5 billion of Senior Bonds. However our strong cash performance over the second half of last year, and our positive view of the immediate future, means we can aim much higher for this year.

I am pleased to be able to confirm today then that we will redeem €3 billion in Senior Bonds within the next two weeks – so just ten weeks into the year we are not just meeting our full year target but we are exceeding it by half a billion Euro. That means that we will have redeemed a total of €10.5 billion representing just about 35% of our senior debt.
That is not by any means the end of bond redemptions for 2014. We fully expect to redeem, at a minimum, a similar amount before year end. The precise figure will be influenced by the outcome of the portfolio and asset sales that I mentioned earlier. However it would not be heroic to suggest that by year-end 2014, we will be approaching a position where 50% of our senior debt might be repaid if we can achieve all the sales that we currently have in the pipeline.

**Coupon on subordinated debt**

There is another positive consequence of the improved market conditions and outlook and its impact on our cash generation and performance. This year, for the first time, NAMA will be in a position to pay a coupon on the subordinated debt that we issued as 5% of the consideration for our acquired loans: this subordinated debt is of the order of €1.6 billion and the coupon payment will be just under €84m. The fixed coupon on the subordinated debt – 5.264% - was set by reference to the Irish 10-year government bond yield (plus 75 basis points) on the date that the subordinated debt was first issued in March 2010.

This coupon goes directly to the NAMA banks but its impact is not just that of the €84 million in cash – the very fact that the sub debt is now attracting a coupon means that its valuation on the balance sheets of the banks is now enhanced and therefore positive in its implications for bank capital. It also clearly signals our confidence in NAMA's financial outlook.

**Wider impact of bond redemption and coupon payment**

We are very conscious that we are not operating in a cocoon and that our activities have a wider impact throughout the financial system and the economy in general. Our bond redemptions and subordinated debt coupon payments will have a positive impact for the banks and will help to accelerate their return to financial health. This will also contribute to the improving perception of Ireland that is developing among ratings agencies and international investors. We very much recognise the positive part that we can play from that wider perspective.

**Beyond 2014 – deleveraging competition and other challenges**

The extent to which we can maintain a high level of Senior Bond redemptions beyond 2014 and into 2015 and 2016 will depend on the market’s appetite for other large loan and asset portfolios which we may offer to the market throughout the rest of this year and into next year.
While market appetite for large transactions is currently very strong, bear in mind that there is a heavy volume of deleveraging and disposal activity still in the pipeline in Ireland. Further substantial deleveraging is to be carried out by institutions such as Ulster Bank, Danske Bank and others.

And of course the Special Liquidators to IBRC are in the process of selling €8.5 billion (par value) in Irish commercial property loans. This sale, – known as *Project Stone* – will be an important indicator of the depth of international investor interest in the Irish commercial market. I understand that the outcome of that sales process should be known by the end of March.

Taking NAMA, IBRC and other institutions, we estimate that the current market value of assets and loans either on the Irish market already or about to be offered for sale soon is in excess of €16 billion.

On the broader front, NAMA’s capacity to accelerate the achievement of its objectives is heavily dependent on a continuation of improved economic performance. There has been a remarkable turnaround in Ireland’s credit worthiness since 2011 and there is a welcome expected recovery in domestic demand although credit availability is still inadequate. All of these will have a major bearing on demand for a significant block of Irish assets securing our loans, particularly those in the retail and industrial sectors.

Progress and signs are encouraging but no business, NAMA included, can fully insulate itself against such risks.

**Planning**

Planning may also potentially present challenges as many of our investment plans are predicated on the resolution of various planning and/or infrastructural issues. This includes planned substantial investment in the Dublin Docklands, which is dependent on the adoption of a workable SDZ planning scheme and clarity on the provision of infrastructure. The SDZ designation reflects the area’s importance as a prime location for inward investment into Ireland. That planning scheme is currently the subject of an oral hearing by An Bord Pleanála and we would hope for an early adjudication on the scheme, complemented by certainty around the delivery of infrastructure needed to facilitate development in the area of the SDZ.

More generally, a number of critical projects within the NAMA portfolio currently have no planning permission or have permissions that are no longer viable. As an example, there is extant planning permission on NAMA-secured sites in south county Dublin for 1,500 residential
properties. However we estimate that, whether for planning, infrastructural or economic reasons, just over 200 of these properties are currently deliverable. It is clear, therefore, that revised sustainable planning is a prerequisite if more housing is to be delivered.

NAMA is working closely with the local authorities in Dublin and in the other main urban centres to identify ways to overcome barriers, including funding barriers, to required development. We have also contributed at a national level, through engagement with the Department of the Taoiseach and the Department of the Environment, Heritage and Local Government, to policy discussions aimed at process improvements within the planning system.

In all of these engagements, NAMA has stressed that an efficient planning process will mean greater certainty for projects, for investment and for employment and for meeting current and future demand for housing and offices.

**Opportunities**

Every challenge is also, of course, an opportunity. I do not want to give you the impression that our only concern is to collect debts and repay our liabilities. Clearly, given the scale of what we are dealing with, there are opportunities to create what might be called wider collateral benefits from NAMA’s activities.

Part of our business is to invest in assets so as to enhance the ultimate return that the taxpayer derives from them. We invest only where it makes commercial sense to do so. In practice, much of our immediate focus is on addressing emerging shortages in residential and Grade A office accommodation in Dublin and in some other urban areas. We advance funds with the objective of enhancing the value of assets in our portfolio but they also generate economic activity and create substantial employment, both directly and indirectly.

In Ireland we have already provided €580m in financing for viable construction projects, we have approved a further €1 billion and expect to advance €2 billion over the next three years – making over €2.5 billion in all. This is getting people back to work in construction and helping that sector to recover – a recovery which is vital to the well-being of the wider domestic economy.

This financing is also addressing emerging infrastructural deficits in certain sectors of the economy. It is unrealistic to think that NAMA alone can provide all the office space and housing that Ireland needs. Our exposure, through our debtors and receivers, for example, is to only 1%
of the entire housing stock in the country and to only 5% of all development land. But what we can do, we will.

NAMA funding, for example, will facilitate the construction of up to 4,500 houses and apartments in the Dublin area over the period to 2016 and we will front load this as much as possible. To put this in context, in 2013, only 1,360 houses and apartments were built in Dublin. NAMA funding will also facilitate the construction of substantial new Grade A office accommodation in the Dublin Docklands and other main urban centres, which is essential in terms of Ireland’s ability to compete internationally for FDI.

On a day to day basis, we also support employment - our debtors employ 15,000 people directly – which is very important to us and we believe that our investment programme can deliver another 20,000 jobs.

Moving to more Joint Ventures

NAMA investment generally takes the form of providing funding to debtors or receivers to develop projects. However, in certain circumstances, NAMA may seek to partner through joint venture arrangements with domestic or international counterparties to develop NAMA-secured sites. To date, we have entered into joint ventures to develop two strategic sites in the Dublin Docklands, on City Quay and Hanover Quay.

And we would like to enter into many more of these JV arrangements. With that in mind, we are now publicly seeking expressions of interest from credible counterparties to invest with NAMA to develop further potential joint venture opportunities in Ireland. A notice to this effect has been published today on the NAMA website and expressions of interest are invited by 31st March. It is envisaged that the minimum project lot size will be €20m based on completed development value. There is no upper cap on the potential project value.

Conclusion

So ahead of us we have plenty of challenges and plenty of opportunities but today we are in a good place – certainly better than we might have anticipated in our earlier years.

Four years on NAMA finds itself today reporting some very positive outcomes:
• Redeeming €10.5 billion or 35% of our senior debt;
• Confident of that figure rising towards €15 billion or 50% by year end;
• Paying a coupon on our sub debt for the first time;
• Already having put €580 million to work in the Irish construction sector with a further €1bn approved for drawdown and the guts of €2 billion yet available;
• Considering whether opportunity knocks for further acceleration of our debt repayment programme.

This time last year, we sensed that the market was showing signs of resurgence and thankfully that resurgence gathered a strong momentum during the year. There has been a lot of positive news over the past four or five months in particular and, for the first time in seven years, we have solid grounds, not only for the hope, but for the belief that the property market has turned the corner. Much has been done but there is still some way to go before we can say that the market is functioning fully and normally again.

I would hope, however, that based on what you have heard today, you are at least better assured that NAMA is playing a vigorous and forceful role in accelerating that full recovery.

Thank you.