HOUSES OF THE OIREACHTAS

Volume 2 | **No. 1 Morning No. 2 Afternoon**

AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉIREACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Dé Céadaoin, 22 Aibreán 2015

Wednesday, 22 April 2015

The Committee met at 9.30 a.m.

MEMBERS PRESENT:

Deputy Pearse Doherty,	Senator Sean D. Barrett,
Deputy Joe Higgins,	Senator Michael D'Arcy,
Deputy Michael McGrath,	Senator Marc MacSharry,
Deputy Eoghan Murphy,	Senator Susan O'Keeffe.
Deputy Kieran O'Donnell,	
Deputy John Paul Phelan,	

DEPUTY CIARÁN LYNCH IN THE CHAIR.

Nexus Phase

National Asset Management Agency - Mr. Frank Daly and Mr. Brendan McDonagh

Chairman: As we have a quorum, the Committee of Inquiry into the Banking Crisis is now in public session, and we will commence session 1 this morning with a public hearing with Mr. Frank Daly and Mr. Brendan McDonagh of NAMA. Doing so, I would like to welcome everyone to the 19th public hearing of the Joint Committee of Inquiry into the Banking Crisis. As these committees proceed, the cold shadow of the banking and financial crisis can still be felt and seen in every corner of Ireland, yet we do not have a full picture of the events leading up to and during and after the crisis, and gaps still remain in our knowledge of that time. It is this committee's responsibility to unearth those missing pieces and to put them together. In commencing the Nexus Phase of the inquiry, I want to welcome members of the public watching our proceedings live this morning. You will have the opportunity to hear, at first-hand, from those who were involved in one of the major events in the history of our country. You will be able to see and hear from them as they are questioned and give their evidence to this committee. This inquiry has been set up to serve you, the Irish people, to get the answers and questions about the crisis and to ensure that a crisis of this nature is never revisited upon the Irish people again. As a committee we intend to fulfil that duty for you.

The Context Phase of the inquiry, which has just completed, served a purpose. It set out the background of the crisis and has prepared the ground for the Nexus Phase of public hearings, which start today. During this phase, the committee will engage with institutions and individuals who had central roles during the crisis period. This represents a significant step up in activity and responsibility for all, both the committee and the banking inquiry team, which is working behind the scenes. It will focus upon three broad elements: banking systems and practices; regulatory and supervisory systems and practices; and crisis management systems and policy responses, and how these three elements interacted with each other. It will identify and analyse all evidence and produce a final report in November.

We know we are facing into a huge task with over 64 public hearings ahead of us and we will be hearing from over 50 witnesses during that time, along with receiving witness statements. The inquiry has sought and received nearly 40,000 documents to date, amounting to hundreds of thousands of pages. This is the first time that all of the key documents over this period have been collated and examined in one place at one time. The real strength of the inquiry is its ability not to look at one document in isolation but to draw together the various strands and various sources along with the key public testimony to get a better picture of what happened to put in place the pieces of that jigsaw. While public hearings with witnesses are televised and webcast live, these are only part of the process. Much of the joint committee's work is less visible to the public. A parliamentary inquiry is a complex project, requiring significant behind-the-scenes work to support the public hearings leading to the final report, and in this regard I would like to thank the secretariat and investigators for their work they have done to date and will continue to do so on behalf of this inquiry.

Now I just want to address a number of matters to the media who are very, very welcome to our hearings and proceedings this morning. We recognise and appreciate the important role you've played and continue to play in these proceedings and coverage and reporting of these proceedings is of confidential information which can impair the working inquiry, and in that regard I just want to explain a number of matters. As part of our hearings and to facilitate them, you will be afforded with an opportunity to see some of the documentation displayed in this room which will be up on the monitors as the proceeding is actually taking place. The also, these ... it should be recognised though that this is to facilitate the reporting and these documents are not being published by the committee at this stage and are not for publication in that regard, so I just want to draw your attention to the restrictions and constraints on reporting under section 41 of the new Act, which creates an offence of publishing confidential documents or their content regardless of how the documents are acquired but in facilitating the proceedings this morning these documents will be displayed. I'm sure that you share our desire that the integrity of the inquiry is maintained and that it is successful in addressing the reasons Ireland experienced the banking crisis and that this will be reflected in your own reporting of proceedings today.

Finally I'd like to thank, take this opportunity to thank all the committee members for their hard work and commitment in getting to this stage. The fact we completed the context phase and are now starting the Nexus Phase on schedule reflects the co-operative and positive response and approach that the committee has adopted in how we set about our work and how we have worked as a team. A responsibility now rests on the shoulders of the members of this committee. It is the first committee to carry out its work under the new legislation, and has been entrusted to examine one of the major events in the history of the State, and a crisis which has impacted upon every household in Ireland. Only by having a complete picture of what happened can we learn lessons and apply these lessons into the future; only then can we move on as a nation, when confident that a crisis like this will never be revisited upon us all again.

So with that said, our witnesses today are Mr. Frank Daly, chairman, and Mr. Brendan McDonagh, CEO of NAMA. Mr. Frank Daly was appointed as chairman of the National Asset Management Agency by the Minister for Finance in December 2009. He also currently chairs the NAMA Northern Ireland advisory committee and previous to his NAMA appointment has served as a public interest director of the Irish ... of Anglo Irish Bank under the banks guarantee scheme and chairman of the commission of taxation which was established to review the structure and efficiency of the Irish taxation system. From 1963 to 2008 he worked in the Revenue Commissioners, becoming a commissioner in 1996 and then chairman of the Revenue Commissioners. He was appointed to the position on 5 May 2009 by the then Minister for Finance, Mr. Brian Lenihan. From 1994 to 2009 he worked with the National Treasury Management Agency where he was financial controller and later director of finance, technology and risk. Previously he worked for a number of years with the Electricity Supply Board of Ireland, ESB, in a number of areas. Mr. Daly and Mr. McDonagh you're very welcome in front of the inquiry this morning.

Now to commence with some of the formal proceedings and, in doing so, I would like to advise the witnesses that by virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect to their evidence to this committee. If you're directed by the Chairman to cease giving evidence in relation to a particular matter and you continue to do so you are entitled thereafter only to a qualified privilege in respect of your evidence. You are directed that only evidence connected with the subject matter of these proceedings is to be given, and I would remind members and those present that there are currently criminal proceedings ongoing and further criminal proceedings are scheduled during the lifetime of the inquiry which overlap with the subject matter and time frame of this inquiry; and I will then, on that basis, advise the utmost caution should be taken not to prejudice those proceedings which I spoke about.

Members of the public are reminded that photography is prohibited in the committee room. To assist the smooth running of the inquiry, we will display certain documents on the screens, as I have mentioned here in the committee room. For those sitting in the gallery those documents will be displayed on the screen to your left. Members of the public and journalists are reminded that these documents are confidential and they should not be published ... they should not be publishing any of the documents so displayed. The witnesses have been directed to attend this meeting of the joint inquiry into the banking crisis, and you will be furnished with booklets of core documents. These are before the committee which will be relied upon now in questioning and form part of the evidence of the final inquiry itself.

I will ask the Clerk to administer the oath of affirmation to you, Mr. Daly and Mr. McDonagh.

The following witnesses were sworn in by the Clerk to the Committee:

Mr. Frank Daly, Chairman, National Asset Management Agency

Mr. Brendan McDonagh, Chief Executive Officer, National Asset Management Agency

Chairman: Thank you very much. If I can commence proceedings by asking Mr. Daly and Mr. McDonagh to make their opening remarks. I believe Mr. Daly you are first, or Mr. McDonagh, whichever, you can choose.

Mr. Frank Daly: If it is okay, Mr. McDonagh might go first.

Chairman: Certainly.

Mr. Brendan McDonagh: Good morning, Chairman, and inquiry members. In this brief opening statement you have asked me to address five topics in particular: the acquisition process of eligible assets from participating institutions; the quality of documentation underlying collateral of acquired assets; the governance models in place in respect of loan and asset acquisition and management; the asset valuation methodologies utilised by the participating institutions prior to acquisition as compared to that used by NAMA; and the extent of commercial diligence conducted by borrowers.

Before addressing these points directly, I wish to emphasise that my comments are informed largely by NAMA's experience of acquiring a management portfolio of loans with a face value of €74 billion acquired from the participating institutions in 2010 and 2011 for a consideration of €31.8 billion. Regarding some of the points on which you have asked me to comment, I do not and could not have the level of detailed knowledge or insight that would be available to senior lending managers or to the credit committees of the financial institutions or to staff of the Financial Regulator or the Central Bank.

By the time of NAMA's establishment, the property lending crisis and the losses created by poor lending decisions were already irreversible, and while in this statement I may draw certain inferences about the causes of these losses based on what we found when we acquired the loans, I do not claim to have access to the full picture. In particular, as I was outside the banking system, I do not have an insight into the motivation behind the poor lending decisions of the financial institutions or indeed the borrowing decisions of the debtors in the years up to the end of 2008. I trust Chairman and committee members, you will accept my comments in that spirit.

The acquisition process has been described in detail in the Comptroller and Auditor General's first special report on NAMA acquisition of bank assets, which was published in 2010. The key elements of the process are outlined below. The institutions were required to identify assets which were eligible for transfer by reference to criteria in the NAMA Act 2009 and in regulations made by the Minister of Finance in December 2009, and subsequently in March 2010. They were also requested to provide detailed information on their eligible loans, including legal due diligence reports and up-to-date valuations of the property and other assets which were placed as collateral for these loans. The reference date for the market valuation of property was 30 November 2009.

NAMA then went through a process of validating key information provided by the financial institutions. Legal due diligence reports submitted by the institutions were reviewed by NAMA's external legal panel. The reviews were required to highlight any issues which gave rise to legal difficulties for NAMA in managing the loans or engaging in enforcement actions in respect of them. Particular attention was paid to enforceability of security, any deficiencies in title to property and the implications of such deficiencies.

The valuation process also covered property valuations supplied by the institutions. A key element in the valuation of each loan was the current market value of the property or other collateral securing the loan. The valuation was, in the first place, provided by a professional property valuer commissioned by the financial institution but also owing a duty of care to NAMA. Each property valuation submitted by the financial institution was referred by NAMA to its own property valuation panel which reviewed it and provided an opinion as to whether it considered it to be correct or not. If the NAMA property panel disagreed with the valuation it was referred to an independent property valuer for adjudication. This third party property valuation was accepted by NAMA and used as part of the loan valuation.

The valuation methodology used to value bank assets, usually loans, but also including derivatives, had to receive the formal approval of the European Commission because there was an element of state aid incorporated into the transfer price. Bank assets were acquired at an acquisition value which is determined in line Part 5 of the NAMA Act and the valuation regulations made by the Minister and published in March 2010. The acquisition value of each bank asset was its long-term economic value. Various factors were taken into account in the calculation of the long-term economic value, including the current market value of the security, typically property but also including non-property assets, such as shares etc., and in the case of property, its long-term economic value. The valuation regulations required that NAMA apply an uplift adjustment factor ranging from 0% to 25% to the current market value of property to reflect its long-term economic value.

Following completion of the property and legal due diligence processes, a loan-by-loan valuation was carried out by one of five loan valuation firms employed by NAMA. The loan valuation process was independently audited by KPMG, which acted as audit co-ordinator. The audit co-ordinator provided audit certification to the European Commission on the valuations ... that the valuations were in line with the methodology approved by them. By 2014, the Commission had confirmed its approval of the transfer of all nine loan tranches. Ultimately, of the €31.8 billion NAMA paid as consideration for the acquired loans, €5.6 billion was considered to be state aid, i.e. NAMA paid the financial institutions €5.6 billion more than the private sector market would have paid them at the time of acquisition.

I understand that one of the earlier contributors to this inquiry made a comment to the effect that NAMA acquired loans at rock bottom prices. This suggestion, frankly, does not bear much scrutiny. I have mentioned already the overpayment of the state aid element of €5.6 billion in acquisition price. In addition, NAMA's acquired loans were valued by reference to a property collateral date of 30 November 2009 and, as a result, NAMA had to absorb losses from the impact of a 25% to 30% decline in Irish property values which took place subsequently right up to the end of 2013. No private investor would have transacted on this basis, i.e. a private investor would have paid only on the basis of the market price at close to the actual dates of the loan transfers in 2010 and 2011; thus if the participating institutions had to sell to private investors, I estimate that the acquisition price would probably be reduced by another €4.5 billion. Essentially, therefore, the institutions would have been paid about €22 billion by the market rather than the €32 billion that NAMA did pay for the loans.

Incidentally, I gather that the same contributor expressed the opinion that NAMA was acting more like a debt collection agency than as a property value maximising entity, and apparently questioning our ethos in that respect. I think this reflects a poorly informed view of NAMA although I understand that the contributor indicated that it was only an impression that he had. Of course NAMA collects debts, as would any similar entity. We collect on the loans due to us, indeed this is due to the taxpayers, but our role has been much broader and much more positive than that.

To give you a sense of the scale of NAMA's role in the market since the end March 2010, NAMA has acted to stimulate market activity by disposing of close to €6 billion in Irish property since inception, involving over 20,000 individual property transactions. We have worked hard to bring foreign investors to the Irish market. We have injected €1 billion in capital to support the development of viable Irish projects which will continue to enhance the value of the underlying assets. We provided a vendor finance programme for commercial property lending at a time when the banks had stopped lending on Irish property. We set up a price protection scheme which addressed the concern about falling prices on the part of purchasers; the scheme involved a deferral of 20% of the cost of a residential purchase for five years. A further €3 billion is available in development funding, some of which will help fund the initiatives in the Dublin residential property market and also the docklands SDZ. We have worked assiduously to enhance planning permissions and to remove other obstacles to the development of assets so as to enhance their value and to ensure that they are shovel ready as soon as possible. By end 2015 we expect to have made 2,000 residential units available for social housing and we have supported businesses whose debt we acquired to employ about 15,000 people.

All of this work requires an intensive commitment by us in terms of time and resources involving experienced staff brought together from a wide range of disciplines for this unique asset management challenge. All in all, Chairman, I would suggest that well informed commentators would not regard these activities as those of an agency solely concerned with debt collection.

The legal due diligence process involved the submission by the participating institutions of comprehensive legal due diligence reports which included the disclosure of any matter which could materially affect the value of either the loan or the underlying security for the loan. NAMA retained the panel of legal advisers to review legal due diligence reports and report on the disclosures made and other matters not disclosed. In particular, their expertise was focused on highlighting any issues which would give rise to legal difficulties for NAMA in managing the loans or in engaging in enforcement actions in respect to them. As part of this acquisition process, the participating institutions provide the certificate and warranty to NAMA that, save as disclosed in the legal due diligence reports, the loan and security documentation are legal, valid and binding against the obligor, represents the entire agreement between the institution and the obligor and is fully enforceable against them.

Since the acquisition of loans commenced in 2010, NAMA has reviewed legal documentation of its acquired loans for the purposes of restructuring, sales, enforcement and providing new finance. Each participating institution had different operating practices concerning its legal documentation which included the use of standard form facilities and security documents and general terms and conditions, the use of bespoke loan security documents drafted by their external lawyers and a combination of both standard and bespoke documents. Recurring issues which NAMA encountered with legal documentation included items of security not actually taken, guarantees not confirmed on the granting of a new facility and development loans with no security over work in progress or step-in rights. Other issues included defective Land Registry dealings and in a few cases missing original documents, such as title. Where a documentation issue was identified following acquisition, it was generally capable of remediation and remediation was carried out by NAMA. Where remediation was not possible, NAMA sought to revisit the acquisition value of the loan in question and to claw back any amounts that may have been overpaid.

As regards the governance model in place in respect of loan and asset acquisition, NAMA dedicates substantial resources towards ensuring that the loan valuation and acquisition process was managed to highest professional standards. This was important not least to ensure that the process and the valuations which emerged received the approval of the European Commission. I have provided an outline earlier in the statement of the comprehensive rigorous approach that we adopted, particularly as regards the valuation of property collateral and the due legal diligence, both of which were key towards safeguarding the integrity of the whole process.

As regards the governance model in place in respect of post-acquisition loan management, the C&AG's second special report in NAMA - NAMA Management Loans since 2012 - provides a detailed account of the approach that we adopted to management loans and debtor relationships. NAMA decided that it would engage directly with its largest debtor connections, initially 189 NAMA-managed debtor connections with debt of €61 billion, that it would delegate the day-to-day relationship management of another 583 debtor connections with €13 billion in par debt within tight and specific delegated authority limits to the participant institutions, known as PI managed connections. We put in place a process to oversee the institutions and the performance of credit and operation of functions on our behalf.

As part of our initial engagement with debtors, we asked them to prepare business plans which set out how they propose to repay their liabilities. Following review of each connection's draft business plan, we adopted strategies which involved one or other of the following - debtor support, earlier asset disposal or enforcement. In return for support from NAMA, including funding of commercially-viable development projects, debtors were expected to agree a number of conditions, including asset sales disposals, reversing asset transfers to third parties, ceding unencumbered assets to NAMA as additional security, giving NAMA control over rental income from investments assets and agreeing to cuts in overhead costs. NAMA retained control of credit decisions to a cascading system of credit limits and delegated authority ranging from the NAMA board down successively to the credit committee to NAMA senior management and to NAMA units in the participating institutions.

As regard the loans acquired by NAMA from the participating institutions, banks would not have been required to measure them at fair value while they were still on their books. An asset valuation would only be carried out on a loan portfolio if it was mooted for sale or transfer. The participating institutions would have measured their loan books in accordance with the International Financial Reports and Standards, IFRS, specifically IAS 39. This accounting mechanism requires loans originally arranged in advance of them to be measured on an amortised cost basis. This was done on an assumption that the loans remain on the financial institutions books until maturity. At least once a year, banks would have had to perform an impairment exercise in respect ... in accordance with contra rules of IAS 39. This requires the banks to recognise an impairment provision against the book value loans where there is a reduction in the amount likely to be received or a change in the timing of future loan cash flows, commonly referred to as objective evidence of impairment. IAS 39 uses an incurred loss basis as opposed to an expected loss basis. Under IAS 39, banks cannot provide for expected future credit losses. As the impairment methodology operates on an incurred loss model, there can often be a time delay until those losses are identified, known as "the emergence period". During the duration of such emergence periods, it may be some time before the losses and loan portfolio are actually identified and have to be recognised as losses by the financial institutions. Following the banking crisis in 2008 and 2009, it was widely accepted among accounting practitioners that IAS 39 impairment methodology did not appropriately reflect potential losses in a loan portfolio or did not do so on a timely basis. As a result, the International Accounting Standards Board has redrafted IAS 39 and the new standard IFRS 9, which will be implemented later in this decade, changed impairment methodology to allow for future expected credit losses to be reported on a more timely basis. In summary there were significant differences between the valuation methodology used by NAMA and that used by the banks give the latter did not have to apply fair value methods to their loan portfolios. Because they originated loans, they could deal with them on a non-amortised basis. NAMA by contrast did not originate the loans and had to value them at acquisition at fair value basis in accordance with IAS 39 rules, i.e., recognising on NAMA's balance sheet on day one that €31.8 billion was the fair value of the loans, not €74 billion.

I should point out that the valuation methodology used by the Irish financial institutions was no different to that used internationally and that they were in no way departing from conventional accounting standards in the approach they adopted. If anything the accounting standard lagged the market reality whenever IFRS was used. One of the misguided comments directed at NAMA in the early days was that it crystallised a massive loss in the banking system through an overly stringent valuation approach. It acquired loan balances of €74 billion for €31.8 billion, equivalent to a discount of 57%. By contrast, it was argued the banks, left to their own devices, would eventually have recovered much of the €74 billion par debt. I strongly disagree with this contention and would suggest that much of the €74 billion was never going to be seen again.

The NAMA acquisition process forced institutions to recognise their losses earlier than their own IAS 39 accounting valuation methodology would have required of them. In the absence of NAMA, you would have probably seen a phased unveiling of losses over a three, four, five, or perhaps even more years, with a consequent drip-drip effect in terms of the needs for capital replenishment and the corrosive impact of the creditworthiness of the sovereign. The NAMA process enabled the Irish banking system to recognise and address upfront the loan loss difficulties that it had created for itself long before NAMA was ever conceived. The fact that the asset management company model is now being copied in other countries suggests that, belatedly, it is recognised that the impaired banking systems do not tend to rectify themselves. An external body is needed to bring a fresh independent approach to resolution.

I do not have direct knowledge of the extent of commercial due diligence conducted by borrowers or, indeed, conducted by the institutions at the time the loans were advanced. However, based on our own experience of the loans which we acquired and which we have since sought to manage, I am in a position to make some observations on the lending environment which prevailed prior to 2007. In that context I would like to draw the committee's attention to table 1 below which in my view provides an eloquent summary into the insight of some of the issues which are the subject of your inquiry. The table presents a distribution of NAMA's acquired portfolio by size of the debtor connection aggregate of loans acquired from five participating institutions.

In summary, we acquired the loans of 772 debtor connections who borrowed €74 billion from the institutions. This excludes any additional amounts borrowed by these same debtors from institutions not covered by NAMA. I do not know how much additional borrowing from non-NAMA banks was involved, but I conservatively estimate it to be at least €10 billion. There are 12 debtor connections with debt in excess of €1 billion each, aggregating to a par debt of €22.2 billion, an average of €1.85 billion per connection. Another 133 debtor connections have debt between €100 million and €999 million, aggregating to €35.7 billion par debt, an average of €269 million per connection. And finally, there are 627 so-called smaller debtor connections with a debt of less than €100 million, aggregated to €16 billion debt, an average of €26 million per connection. As mentioned the table does not include lending advanced by institutions such as Ulster Bank, Bank of Scotland Ireland and a number of institutions which were aside of the NAMA process. It does not include loans advanced by AIB and Bank of Ireland to borrowers whose aggregate borrowing was less than €20 million and it also excludes property loans which remained with the participating institutions on the basis that they were not eligible for transfer to us.

NAMA observations and concentration risk: You will note from table 1 above that some €34 billion par debt has been advanced to the largest 29 debtor connections. Lending on this scale to a relatively few debtors suggests that the banks consider property lending to be almost a one-way bet, not withstanding the well-established cyclical behaviour of property markets and the steep rise in prices from 2002 onwards. It is clear that financial institutions and debtors shared a groupthink view that prices would remain on an upward trajectory and that there was limited downside associated with property lending. The view was presumably supported by favourable medium-term economic and demographic projections produced by economists and commentators and by the expectations that any setback in the property market would be temporary and minor, in line with an expected soft landing of the Irish economy. There was an obvious mismatch that few economists or commentators called into question when, on the one hand, lending was growing at over 30% on average per annum in institutions, and, on the other, the economy was growing at rates at between 6% and 9% over the period 2003 to 2007. The impact of greater competition amongst lenders was to increase risky and imprudent lending. In particular, lending on the basis of it providing very high levels of project funding, sometimes at 100%, appears to have been quite common. The equity pledged by the debtor, when required, often took the form of unrealised paper equity from other transactions. Few, if any, financial institutions wanted to be left out of what was seen as a profitable business due to the larger lender margins and the relatively low operating costs. In normal market conditions, a finite number of viable development projects would be able to secure finance from a finite pool of the bank funding available for property development. In perverse conditions, which held sway in the Irish market up to 2007, there was far too much bank funding available and, ultimately, it found its way not only to a finite number of development projects which were viable, but also to many other projects which could be viable only on very heroic and often mistaken assumptions. The sheer weight of debt funding that was available caused an overflow effect into riskier projects which could not have been entertained in normal market conditions.

It was difficult to avoid the impression that the institutions perceived lending as a sales activity and that, in the rush to expand bank balance sheets, a rigorous focus on lending quality was lost. Some bank balance sheets doubled between 2003 and 2008. In one case, the size of the bank balance sheet quadrupled. Based on our experience of managing acquired loans, it is difficult to fathom a robust rationale for a significant portion of the property lending and, at the very least, it raises the question of whether lenders' remuneration was based on lending volume rather than on the quality of such lending. It is unclear to what extent there was analysis by bank strategists, by the Financial Regulator or by economists of the relationship between the volume of lending, by region or by sector, and the projected demand for property assets, by region and by sector. Nor is it clear to what extent did the institutions subject their lending to vigorous stress testing or, indeed, were required to do so by the Financial Regulator.

Net worth: In advancing additional funding during the years up to 2007, the lending institutions appear to have relied heavily on assessments of debtors' perceived net worth – the difference between a debtor's valuation of his assets and liabilities. Statements of affairs – a list of assets, liabilities and value – were relied upon to provide comfort that a debtor's financial position could support new lending and that he could service his liabilities. However, these documents were not always audited and were often self-certified with asset values assessed by the debtors themselves.

Compounding the weakness was the fact that, for most debtors, assets comprised mainly or exclusively property assets so that when the market collapsed, the value of the asset side of balance sheets plummeted and the net worth evaporated rapidly. As market prices rose in the years up to 2007, so the self-assessed net worth of debtors also appeared to rise, thereby giving rise to ... giving the lending institutions a sense of false comfort over additional security that did not exist.

Land and development assets: This issue was particularly acute in cases where a debtor's property portfolio had significant exposure to land and development assets. A fall ... A rise or fall in market prices has a multiplier effect on the value ... on the price of land indeed for residential or commercial development. The price of development land is a residual value after costs and developer's profit margin are deducted from projected sales proceeds. If projected sales proceeds based on market prices fall significantly, there may be little or no residual value. The land goes back to agricultural value or less. This is illustrated in table 2 below. This would explain the steep fall, in some cases of up to 90%, in the value of development land in the years after 2007. Much of the land had been bought speculatively. That is also why NAMA acquired some loans for only 10% or less of their face value. The fact that a substantial proportion of lending was secured by riskier land and development assets also explains why bank balance sheets suffered such extensive damage to their solvency. Unlike investment assets, there was no income flow associated with land and development assets and, in the absence of demand and liquidity, there was nothing to arrest the fall in prices as it gathered downward momentum.

Liquidity in the land market dried up completely. There were no buyers because residential prices had fallen to such a level that the construction of new houses was unprofitable. This point should be borne in mind whenever you hear the contention that NAMA or, indeed, any other market participant should have been funding the construction of houses in 2010 and 2011. It simply would have not made commercial sense by reference to market prices then prevailing and neither debt or equity providers would have made a compelling case for funding speculative development at that stage.

Smaller debtor connections: While the concentration of lending among the larger debtor connections was clearly excessive, our experience has been that the quality of such lending tended to be better quality than the lending to some of the smaller debtor connections. As set out in table 1 above, a total of €16 billion was advanced to 627 borrowers who had aggregate debts of less than €100 million each. Generally speaking, the initial discounts on these smaller debtor connection loans were higher and NAMA has to take even higher impairment provisions on them in the interim. While some of the lending was to professional, well-managed entities, much of it was to individuals or syndicates whose primary business was not property developments, or who became involved in property developments relatively late in the cycle. Much of the lending related to potential development projects in or near towns, or in rural areas, rather than main urban centres. In some cases, one can see how an individual project may have made commercial sense to a bank, if assessed in isolation. The problem was that similar projects were receiving funding from other financial institutions and clearly not all those projects could have ever been simultaneously viable.

Corporate infrastructure: some of the debtor connections who received this funding did not have adequate support in corporate infrastructure. In particular, some of the property businesses which built up ... quickly built up balance sheets of €1 billion or more, did not have the financial expertise required to manage bank balance sheets of that size and it does not appear that the institutions made much of an effort to push for improved governance of the debtor's businesses. By contrast with our situation, property lending in the UK is largely advanced to publically quoted companies, which are suitably resourced to manage their bank balance sheets and the risks; for instance, British Land, a listed UK development company, which has debt levels comparable to some of NAMA's larger debtors, have more than 200 employees. As the crisis emerged in 2008, 2009, UK property plcs accessed the equity market and used that funding to pay down debt. That option was not available here, given the majority of debtors were, in effect, sole traders and they were totally reliant on bank debt. A debtor's track record and reputation appear to be paramount consideration for the lenders. There appeared to be a highly accommodating attitude among financial institutions towards the more prominent debtors and a concern that, if that institution was not particularly amenable, the debtor would look elsewhere for the funding of future projects. Clearly debtors were not slow to exploit the unusual lending market. Some of the more professional debtor connections tended to focus on particular sectors in which they had developed a particular expertise. This is particularly the case for debtor connections whose main asset base was outside of Ireland. However, one of the more notable features of the acquired loan portfolio by NAMA was that many debtor connections had borrowed against a diverse range of assets. It was not unusual to find, when all the loan information was collated, that a connection had exposure to a number of jurisdictions and to a number of sectors, including office, retail, residential, in addition to ownership of one or more hotels, as well as undeveloped land. After NAMA acquired the loans, it was not always apparent to us what the debtor's strategy might have been in assembling such a range of assets which was so diverse, by reference to a sector and location. The obvious conclusion, in some cases, was that the compulsion to purchase more and more uncorrelated assets was entirely related to the almost unlimited availability of debt funding. Many of these asset sectors require specialist business skills which do not appear to have been available to some of the debtor connections involved. The fact that many of them had only small supporting teams means they could have found it difficult to devote the requisite skill sets to the range and scale of projects covered by their borrowings. A debtor who was a successful house builder will not necessarily have the expertise to manage a group of hotels, or run a shopping centre, but this does not appear to have inhibited the lenders involved.

I hope that these comments are helpful in terms of assisting the committee to obtain a fuller understanding of some of the issues which you have been asked to address. Following the Chairman's statement, I will be happy to respond to any particular questions you may wish to raise. Thank you, Chairman.

Chairman: Thank you very much, Mr. McDonagh. I call Mr. Daly.

Mr. Frank Daly: Thank you, Chairman and members of the committee for the opportunity to address you today. I need to say at the start that we're here, of course representing an agency that was a key part of the response to the banking crisis, rather than as a contributor to that crisis. You've asked me to deal with five lines of inquiry, and I will take them each in turn. The first one was the commercial real estate development model that existed before the crisis and that model was ultimately, of course, very costly for this State in terms of fixing the financial institutions that funded it and, as a consequence, an inordinate and painful burden has been placed on citizens as the necessary steps are taken to restore normality to our economy. Volumes have been, and I'm sure will be, written about the confluence of factors that made that model inherently high risk, vulnerable and unsustainable. Contributing factors, such as zoning and planning policy, tax incentives, irresponsible developer funding, consumer mortgage lending, absence of market analysis and others, have been well documented and no doubt will be explained to you by experts in these areas. The most effective way that I can contribute is to give you comment, informed largely by NAMA's experience over the past five years in dealing with the consequences of the banking crisis and our role in fixing it. As NAMA was established to acquire the loans of the largest real estate developers, I will focus on the structure of lending to these developers. NAMA, having bought these loans, is now for such developers the successor to the banks.

Let me talk first about debt funding dependence. From that vantage point what jumps out most of all is a commercial real estate model with an almost complete dependence on debt funding. This had the effect of placing all of the risk with the banks, and as it transpired, ultimately with the State and its citizens. By way of background, traditionally in lending equity is provided by the borrower to mitigate a bank's risk. Equity, in effect, puts the borrower, not the bank, in the riskiest capital position. In the event of default the borrower is the first to lose. New rules in mortgage lending, for example, require that a person buying a home now has to come up with a 20% deposit as equity. However, based on NAMA's experience that fundamental precondition of bank funding was rarely observed in the pre-crash commercial real estate model.

While internal bank lending documentation may indicate that loan-to-value ratios were typically less than 100% when the loan was drawn, the reality in many cases was that a developer's equity contribution was in the form of a rolling up of unrealised paper profit from other developments. This was presented as an equity position. Rarely, if ever, was it in the form of cash. On the face of it then, developers had some skin in the game, but in reality that amounted to nothing more than unrealised equity positions, levered by the developer to secure funding for new transactions. This meant that the banks were taking high equity grade risk for low debt grade returns, and in fact even those low debt returns were often not realised, but rather accrued as rolled-up interest booked as income in bank financial statements. These were, and continue to be, the accounting rules under IFRS, not just in Ireland but wherever IFRS is adopted.

In effect, therefore, the banks were providing all of the real cash funding for both acquisitions and development. It's safe to say that quite often the borrower's paper equity position never paid for an acre of land or concrete or scaffolding or a worker's wage at the end of the week. The safety zone of borrower equity usually existed only on paper. The result is that the borrower was typically not the first to lose. In the event of a crash the banks stood to take 100%

of the losses, and that's what happened. Those losses, as we now know to our cost, have had to be funded by Irish citizens to the tune of €64 billion. It would be no thanks to many of those who were the cause of this if, ultimately, that cost turns out to be less than the €64 billion.

There was a relaxed approach to project feasibility. The recycling of unrealised equity positions from project to project meant that the model could only keep working as long as prices kept rising and the banks kept lending, and few questioned those assumptions. Many decisions seemed to be based on a view, shared by bankers and developers, that property prices could continue to defy the fundamental law of any market that when prices rise unsustainably, there is always going to be a day of reckoning, and the steeper the price, the more painful the reckoning.

This was compounded by the fact that the model did not appear to require a stringent approach by borrowers to analysing project feasibility. It's much easier to take an optimistic view of a project when you are not being asked to put your own hard-earned capital at risk. Based on the loans that NAMA took over, feasibility analyses in respect of projects either didn't exist or were incomplete or were based on flawed, overly optimistic, assumptions about the future. In the residential development sector, for instance, feasibility workings seem to have been based on aspirational exit sales values in an already frenzied peak market. Very little, if any, consideration was given to the inherent cyclical nature of the property markets. The attitude appears to have been that the only way was up, that somehow the forces of gravity were suspended as far as the Irish market was concerned and that the long-established pattern of property market cycles was no longer relevant to Ireland. In this model the banks were taking the type of risk normally the preserve of private equity or hedge fund providers without demanding the same level of rigorous analysis that those providers would have made a condition of funding in the first place.

Mr. McDonagh has talked in some detail about another facet of the model: the dearth of professionally-run developer platforms. The banks were quite clearly lending to individuals and companies that, notwithstanding the massive sums involved, had little or no supporting corporate infrastructure, had poor governance and had inadequate financial controls and this applied to companies of all sizes. The banks failed to ensure that Irish property companies, to whom they advanced billions of euros in lending, operated to the same corporate governance standards as their peers in other jurisdictions or, indeed, similar-sized entities in other sectors of the Irish economy. There was over-production of residential accommodation in the economy and this, and a range of other factors at play, cumulatively resulted in the situation where development and construction output totally overshot what would have been considered the normal level of production in an economy of our size. This is best illustrated by the construction of 90,000 new houses and apartments in Ireland in 2006 - 90,000 new houses in one year for a population that was then 4.2 million. The output was more than five times the European average at the time. In the same year in Britain, to meet demand from a population which was 14 times the size of Ireland's, just 190,000 new residential properties were built. The Irish development model, fuelled by a combination of the poor lending practices that I have just described, a scattergun approach to tax incentives, poor zoning and planning decisions and a complete absence of rigorous, independent analysis of population and market trends, appears to have been relying blindly on the belief that if you build it, they will come, and no matter what price, they will buy. I should say, lest I give the wrong impression, that this problem was not peculiar to the residential sector. All segments of the market were affected by varying degrees of over-supply. You could be forgiven, indeed, for describing the sentiment that informed this over-supply as hubris, and perhaps in some of the more spectacular lendings as trophy-chasing. Part of the Irish landscape still bears the scars of that approach in the form of unfinished and half-finished housing estates, some of which have been inherited by NAMA and which NAMA is now funding to completion.

And the final point I would like to mention relates to the quality of construction, and, in some cases, the absence of much quality at all. NAMA has incurred multi-million euro costs in remediating building defects such as non-compliance with regulatory standards, including fire safety standards, as we prepare assets for sale or for occupation. Many of these defects stem from a lack of oversight and attention to detail from both the builder, developer and the building control divisions of the local authorities. This was compounded by the sheer volume of development which reduced the due diligence carried out. Hopefully, these issues have been fully addressed with the recently enacted Building Control (Amendment) Regulations Act of 2014. Chairman, that gives you a picture of what the model was like before the crash based, again I emphasise, on NAMA's experience of the aftermath.

So, what would a sustainable model look like? To finish off this segment could I suggest learning from NAMA's experience that a sustainable model for the future would, at a minimum, include all of the following features: In the funding area there would be a sustainable financing model that includes both debt and equity finance. There would be proper banking supervision, robust but not stifling. There would be macro prudential measures to flatten peaks and troughs. There would be adequate bonding for customers and there would be pertinent audit standards such indeed as IFRS 9 which is coming down the tracks and they would be implemented rigorously. In the development sector there would be properly resourced and governed development and construction companies, including publicly quoted companies. There would be active and skilled boards of directors with proper oversight. There would be prudent management of balance sheet exposures, especially debt arrangements, and there would be adequate building regulations and appropriate oversight in relation to building standards.

And then in the planning and market area in general there would be a holistic, centralised approach to zoning, planning and infrastructure provision. There would be long-term social housing planning and there would be publicly-available information of population projections, demand projections and the likely supply outlook. In regard to the latter, NAMA has, with the Irish bank and payments federation, taken an initiative to fund research by the ESRI into the residential housing market, specifically into the likely pattern of emerging demand and the potential supply constraints that may influence future market activity. That research, and similar research from other sources, will be important in terms of guiding future development investment plans in Ireland. What the initial findings, by the way, of that ESRI research tell us is that the vast majority of future housing demand will be in Dublin, the surrounding commuter belt and other major urban centres. Sadly, it is also clear from the research that some of the housing supply built at the height of the boom will never be occupied because it is located in areas where there is no demand. The second and third lines of inquiry which you asked me to deal with, Chairman, are the duty to ... NAMA's duty to obtain the best financial return and its contribution to property market activity, and if you agree, I will take both of those together.

NAMA's mandate derives from the NAMA Act and section 10 of that Act defines the purposes of NAMA. It requires NAMA to obtain the best achievable financial return for the State, to deal expeditiously with the assets acquired by it and to protect or otherwise enhance the value of those assets. That is the core of NAMA's mandate and it is clearly a commercial one. Our *raison d'être*, therefore, is to get the best financial return from the assets in our portfolio and, crucially, to do so expeditiously. It is not an option for us to adopt what might be termed a "long-term holding strategy" to await some optimum price level at some indeterminate point in the future before disposing of the assets. We have to do our business expeditiously, which means responding pragmatically to market conditions by taking advantages of opportunities to sell assets where demand and price are favourable. It's also the case, though, that the phrase, "achieving the best financial return for the State", has implications beyond simply getting the highest price for an asset, which, of course, we always seek to do.

NAMA paid for the loans it acquired from the banks with senior debt of €30.2 billion guaranteed by the State. Central to the best financial return for the State is repaying that senior debt and repaying it quickly. It is a contingent burden that should be removed from citizens as soon as practicable, not just because of the amount, not just because of the interest payable, not just because of the impact on the banks' balance sheets but because of the wider implications for the sovereign.

It became very clear very quickly from early engagement with the troika that they would have had serious concerns if NAMA had signalled or adopted any type of extended senior debt redemption schedule. They regarded repayment of the NAMA debt as one of the key recovery factors for this country and one of the key deliverables in exiting the bailout. I would contend that if NAMA had not reduced its debt as expeditiously as it has, Ireland could have been in a second bailout, as market concerns about the contingent liability would have been very real. The troika closely monitored the progress that we were making in meeting our first major senior debt redemption target - that was €7.5 billion by the end of 2013. To the troika, but also to the capital markets and the rating agencies, the signal effect of reducing the State's contingent liability was very important. It was recognised that in so far as NAMA could make significant progress on redeeming its senior debt, there would be collateral benefits in terms of the creditworthiness of the sovereign and, by extension, in terms of Ireland's borrowing costs. This has been recognised in Ireland's ratings upgrades and it is an obvious contributory factor to the very favourable position of Ireland right now in the bond and money markets and, indeed, it has been recognised as such.

I might also mention that, for the second year in succession, we have been in a position to pay a coupon on our subordinated debt. This has had a positive impact on the balance sheets of AIB and Bank of Ireland, manifested in the significant upward revision in the valuation of their holdings of our subordinated debt on their balance sheets. It is a simple fact that debt redemption needs cash generation and cash generation needs asset sales.

We have been able to repay our senior debt well ahead of schedule because of our strong cash performance - nearly €20 billion to date through asset and loan sales and €5 billion in non-disposal, mainly rental, income, €25 billion in total. Thoughtful, well aligned asset sales in the Irish and UK markets in particular have been key to this very strong cash generation.

NAMA actively instigated a programme of asset sales by its debtors in Britain in the period 2010 to 2012 when conditions were strong in that market and, likewise, we responded actively when conditions in the Irish market improved significantly in 2013 and 2014. That approach accords fully with two key principles underpinning NAMA's strategy: no fire sales and no hoarding. In each of our main markets our approach has been to release assets for sale in a phased and orderly manner that's consistent with the level of demand, the availability of credit, and the absorption capacity of the market. As a result, London and the UK accounted for almost 80% of all disposals between 2010 and 2012. Ireland in contrast accounted for just 12% of disposals during that period and that approach enabled NAMA not only to achieve the best possible return during its early deleveraging phase, but it also allowed the Irish market time to reach its trough and to begin its recovery. A fire sale in the Irish market at that time would have been ... would have had the effect of intensifying and prolonging the market's downturn, and would have been contrary to both NAMA's overriding commercial objective of achieving the best possible return for the State and its ancillary objective of contributing to a sustainable level of activity in the Irish property market. It could also have crystalised a loss on the NAMA portfolio, which because of the State guarantee would have created additional losses for taxpayers on top of the losses that they have already had to fund in recapitalising the various financial institutions.

We were not, however Chairman, during that time sitting on our hands...on our hands in Ireland in that 2010 to 2012 period. During that time NAMA placed a major emphasis on asset management to enhance the future value...disposal value of the collateral securing its loans, most notably by working with debtors and receivers to complete unfinished projects, to fund new viable commercial and residential development and to enhance planning permissions and remove other obstacles to development. During that period when there was little other activity in the Irish market we invested over €600 million in the sector and during that crucial period we also placed a major emphasis on stimulating the market's recovery and fostering the sense that the market was open for business despite perceptions to the contrary. One initiative was a vendor finance fund of two billion, and there is detail in the statement of how that was deployed, Chairman, but in the interest of brevity I won't read out the details. But that vendor finance fund played an important part in generating activity in the early days of recovery when the banks had stopped lending for commercial property and investors were still wary of committing funds to Ireland. These early transactions signalled to international and domestic investors that the Irish market was open for business and played a vital role in attracting finance and activity, particularly from overseas investors where previously there was little or none.

There is now an active Irish market and NAMA is now taking advantage of that. The major improvements in the market over the past 18 months have enabled us to shift our disposal focus more to the Irish market. Reflecting this, in 2014 disposals in Ireland accounted for 46% of all disposals, while London and the rest of the UK accounted for 33%. In addition to the opportunity to accelerate disposals through existing channels, we have also been taking advantage of new opportunities as they emerge, such as packaging assets for sale to satisfy demand, providing regular flows to the market or providing greater clarity to potential investors, allowing those with limited capacity to bid on a greater number of transactions, thus widening the number of potential bidders and increasing the potential return to the State.

In the light of the positive shift in the Irish property market and its outlook, the board of NAMA undertook a review of strategy in early 2014, and following that review we moved to take further advantage of strong investor appetite and to accelerate disposals with a view to redeeming 80% of senior debt by the end of 2016, a full two years ahead of the original schedule, and completing the deleveraging process in 2017-18.

In the context of the clear supply shortages evident in the Dublin residential and office markets, NAMA is also facilitating and funding the delivery of 4,500 new homes in Dublin and the greater Dublin area, and is also facilitating the provision of 3.84 million square feet of prime office space in the Dublin docklands SDZ, to ensure adequate office supply to meet growing demand.

In summary Chairman, as the committee has specifically asked the question, I would say that NAMA has played an important part in stimulating activity in the market. Our interventions were at all times strategic, helping to lift the market off the floor and to stimulate activity levels that are more sustainable in the long run. For quite a while, indeed, we were almost alone in doing this.

The fourth line of inquiry, Chairman, you asked me to deal with is the contribution to the social and economic development of the State. In the context of the overriding commercial mandate that we have just discussed, we seek to manage our portfolio in Ireland in a manner that complements the objectives of other public bodies, including Government Departments, State agencies and local authorities. One way that NAMA gives practical effect to this is by giving public bodies first option on the purchase at current assessed market valuations of property securing NAMA loans. In line with that commitment we have facilitated the sale of land and property for a range of public uses including schools and health care facilities. An aspect of that work that is very important to NAMA is the delivery of houses and apartments for social purposes...social housing. Where we can make properties available for social housing in a way that is consistent with section 10, it is a win-win for everybody involved. And we have identified more than 6,000 properties as being available and potentially suitable for local housing. Local authorities have confirmed demand for about 2,000 of theses, and while I am a little disappointed that take-up hasn't been higher, I do understand that local authorities and the Housing Agency are obliged to comply with their own policies on the location of social housing. But we are working hard to deliver on the properties for which demand has been confirmed, and at the end of 2014 more than 1,000 had been delivered and today that figure is very near 1,200, and by the end of the year we would hope to achieve the delivery of all of the remaining properties up to the 2,000 for which the local authorities have indicated demand. It is important to say, by the way, that it is not just a question of handing over the keys to the local authorities. In most cases significant investment is required to complete the property and to carry out estate-wide works. In this way, indeed, the beneficiaries of NAMA's social housing extend beyond the residents of the new properties. For existing residents, empty houses become inhabited and outstanding works are completed and capital expenditure in excess of €20 million, has been incurred to date in carrying out such work.

We also, Chairman, facilitate commercial transactions and that is another important part of work...of NAMA's work in the Irish property market that might not otherwise take place. A good example of this is NAMA's ongoing work in identifying suitable properties for companies looking to establish or expand existing business operations in Ireland and facilitating engagement between those companies and NAMA debtors and receivers. NAMA's work in this area is very closely aligned with that of IDA Ireland and other State agencies, whose core responsibility is to attract and expand foreign direct investment activity and employment in Ireland and there are similar examples of that, Chairman, in the written statement but I won't read them out.

NAMA makes a wider contribution also in its rent abatement initiative to help retailers that are struggling to meet their contracted rent obligations. The aggregate annual value of abatements agreed to date is in excess of €23 million. In addition to this, NAMA has agreed long-term rent reductions worth over €40 million. This does mean that NAMA has agreed to forego rent due to it, but the corollary is that we are safeguarding jobs and activity and businesses in the wider economy.

We also work hard, including through our interaction with public representatives such as yourselves, to facilitate the letting and saleing of land to local community and sporting organizations and to accommodate other local requests where we can. And often these may not be particularly high-profile initiatives but they are important locally. And a very recent illustration is our capacity to accommodate a request from the Blarney Community Association for the provision of temporary car parking facilities for the community's St. Patrick's Day festival. I just give it as an example of things we do like that. It is totally coincidental, Chairman, that it is in Cork.

Chairman: My constituency Mr. Chairperson, so you are okay, fire away.

Mr. Frank Daly: The overall point I would make, is that while NAMA is guided by its commercial objective, it doesn't operate in a vacuum. We are conscious of the impact of our work on the wider Irish economy and on communities and we work hard to ensure that our impact is a positive one.

The final line of inquiry you asked me to deal with Chairman, was the establishment of performance metrics by the board of NAMA. The key measure of NAMA is our capacity to repay our €31.8 billion debt. Progress we are making can be seen by the fact that we have already exceeded the cumulate ... excuse me, 50% senior debt redemption target originally set for the end of 2016. We have done that two years ahead of schedule.

Last month we redeemed another billion of our senior bonds, bringing to €17.6 billion the amount of senior debt that is redeemed to date. That is 58% of the senior debt originally issued in 2010-2011. We're able to repay our debt ahead of schedule because of the strong cash performance, the €25 billion that I talked about earlier. NAMA, while we're not a publicly limited company is an organisation that operates at the highest end of the public interest and governance spectrum. The fact alone that NAMA must publish quarterly financial statements that are prepared in accordance with IFRS shows that NAMA also operates at the highest end of the transparency spectrum. NAMA has adopted the best practices of corporate governance including financial and management reporting practices, board composition, and structure and risk management. NAMA has designed and implemented a robust management information system, and has clearly defined key performance indicators in place, which form the bases of its internal reporting and monitoring framework whereby the NAMA board and sub-committees are regularly kept informed of the organisation's commercial and operational progress. The board of NAMA also recently reviewed a C&AG recommendation to the effect that it should set an expected or target rate of return to measure its overall performance, and that it should also measure its performance by reference to targets for the return on disposals, and on property held by debtors and insolvency practitioners. In line with this, the board has approved a number of rate of return measures, which it considers appropriate for its business, and we propose to report on these additional measures in our 2014 annual report, which we expect to publish at the end of May.

In conclusion, Chairman, I would simply emphasise again the point I made at the outset that NAMA is here and is a key contributor to dealing with the fallout from the banking crisis and not a contributor to its cause. I know you have asked NAMA to attend this committee in the context of the appropriateness and effectiveness of the domestic policy responses, and it is for others, including yourselves, to ultimately take a view on whether NAMA has indeed been such an appropriate and effective response. However, I would say, in finishing up, that any assessment of this should take account of the following points: that NAMA has delivered in respect of each aspect of our mandate as laid down in the Act; we quickly and effectively acquire the eligible assets from the banks and the acquisition and evaluation of those assets has been cleared without qualification by the C&AG and the EU Commission. As the CEO has said this enabled the Irish banking system to recognise and address upfront the loan loss difficulties it had created for itself. We have generated €25 billion cash in the past five years; we have paid our own way; and we have generated profits of more than €200 million in each of the last four years despite the constraints of a challenged property backed up for much of that period.

We have actively intervened in the property market in Ireland and contributed to the recovery now taking place. That intervention was strategically timed to minimise further damage, stimulate the market at the right time and take advantage of growing investor interest. I do believe we called it right. We have advanced over €1 billion into construction projects in Ireland in the past five years, and we plan and have the capacity to invest another €3 billion if required. And we have, to date, funded the construction of more than 1,900 new homes in Dublin. In fact, NAMA funded the construction of 40% of all new homes delivered in Dublin in 2014, a statistic, I think, which is telling in itself.

We have made significant progress in facilitating the timely delivery of grade A office space, retail, leisure and residential accommodation in the Dublin docklands SDZ and wider central business district, and we have the capacity to invest €3 billion in this and other capital projects all over Ireland. We have facilitated the delivery of 1,200 properties for social housing, and we will have delivered 2,000 by the end of the year. We are supporting 15,000 jobs and trading businesses directly re-linked to our loans.

However, most important, and I'll finish on this, we have made excellent progress on debt repayment. We are already two years ahead of target in repaying our senior debt; we're committed to repaying 80% by the end of next year; we're committed to repaying 100% by 2017-18, and we are committed to full repayment of our subordinated date. Finally, should conditions in the economy and in the property market continue to remain favourable, we are hopeful, based on our current projections, that NAMA may realise a surplus of up to €1 billion for the taxpayer by the time we complete our work. Thank you, Chairman.

Chairman: Thank you, Mr. Daly. Thank you, Mr. McDonagh. I know that the proceedings are scheduled to run until close to 6 p.m. today, so members will have a number of opportunities to come in. I am very conscious, though, that we need to manage this both in terms of breaks and getting through our programme as well. We have four lead questioners this morning. Just before I bring in our first lead, which is Senator O'Keeffe, very briefly, Mr. Daly, can I ... just going over your opening statement, and I just need to get this substantiated before I just give you one question. Are you stating that during the crisis period borrowers were given 100% of funding to their development projects without actually having to make any cash contribution to those projects themselves while at the same times the banks were actually taking 100% exposure in terms of risk to those loans?

Mr. Frank Daly: Yes, that's pretty much what I am saying. I'm not saying that that happened in every single case, Chairman, but I am saying that in terms of what we saw when we took across the loans and when we looked at the paperwork, that happened in very many cases.

Chairman: Would that have been the exception or the norm, or the main practice?

Mr. Frank Daly: I think it would been a pretty common practice.

Chairman: Common practice, okay.

Mr. Frank Daly: But there were ... I mean, let me be clear, there were cases where it didn't happen and there were cases where you would say the project did have liability----

Chairman: And, Mr. ----

Mr. Frank Daly: I think the point that was made in Mr. McDonagh's statement that in many cases if you looked at a project in isolation and you didn't look at what was also happening in that same sector across the economy, the project might have looked better, but the fatality, the fatal flaw in it was everything else that was happening in the same sector.

Chairman: And we may come back to cross-lending around the projects later in the day. Can you just explain briefly, just in layman's terms because the general public will be looking in at these proceedings, as to how a bank would go about valuing its assets and loan book and so forth in terms of how projected losses or profits might be incurred, and how NAMA went about its valuation of those assets when they acquired it and if there was a difference in approach?

Mr. Frank Daly: I think its pretty much dealt with in Mr. McDonagh's statement. The NAMA one is quite clear; we were required to value all of the loans as ... in terms of their valuation in November 2009, so that was a fair value event at that time. And we went through that in a very rigorous way, which I think again is explained in Mr. McDonagh's statement and I won't repeat it. In relation to the banks, again it's the area of they were dealing on their IFRS, they were dealing under IAS 39, which means they were the originators of the loans.

Chairman: Try to bring this down to layman's terms, I think would be ...

Mr. Frank Daly: Yes.

Chairman: Earlier testimony that we had before this inquiry, and I just want to concur if that testimony stands up, that the banks would take a projected examination on these loans and their assets based upon what was happening retrospectively. So if there was a slight decline they would margin in that decline to continue adding some sort of aggregated or average into the future where ... in ... when NAMA loan books were put in place were you forward looking in terms of these were the losses to be expected or where you saying well there'll still be a gradual drop?

Mr. Frank Daly: There would be an element of both in it, Chairman. I mean we looked at what was the actual valuation in November '09, but we would also, every year we'd carry out a bottom-up impairment ... or exercise, which forms the basis of our impairment figure.

Chairman: Mr. McDonagh?

Mr. Brendan McDonagh: I think the major difference, Chairman, is that when NAMA acquired the loan portfolio as part of European Commission approval, we had to get a property valuation for every single asset as at a point in time, as at 30 November 2009. In a bank in doing its impairment exercise, it would only look at, as I say, has anything changed that I'm aware of at this point in time, 31 December, if their accounting year end was 31 December, that would cause me to say that something happened that actually would result in the cash flows, I expect then the loan not to occur. So you can have what is called this time lag effect that while you expect maybe prices to fall in the future or the economy is going into downturn that hasn't actually happened at that point in time. So you had this, I suppose, it's best illustrated by the following is that, you know, NAMA started acquiring the loans from institutions on 31 March 2010, but the first time the banks really recognised the scale of the losses they had was at the end of 2010 once NAMA had reported the loans, you know. They weren't obliged to recognise those losses at 31 December 2009 because under IFRS effectively the NAMA event had not yet happened. It was something that was going to happen after 31 December, and that is the fatal flaw in IAS 39. And IFRS, 9, the new regulatory context coming effective 1 January 2018, actually says if you're aware that something is likely to happen then you have to take account of that of that when you do-----

Chairman: That's the point I'm trying to establish-----

Mr. Brendan McDonagh: Yes.

Chairman: -----to clarify. Was the procedure because it was looking backwards-----

Mr. Brendan McDonagh: Yes.

Chairman: -----in terms of how it was evaluating in terms of looking into the future, which was very, very clear in and around 2009, 2011-----

Mr. Brendan McDonagh: Yes.

Chairman: -----and it wasn't future looking, so the valuations were not correct.

Mr. Brendan McDonagh: Well, I think the accounting rules allowed them to ignore what was going to happen in the future and that will change from 1 January 2018-----

Chairman: So it was the accountancy practice facilitated a situation where the valuations were not coming up correct in the balance sheets-----

Mr. Brendan McDonagh: Yes and plus the fact as well I suppose the other major difference is that we valued every single asset that came into us. The banks in terms of doing an impairment exercise while they're audited are probably going to be required to take a sort of a sample of the portfolio as well, and if that sample wasn't the right sample-----

Chairman: Okay, thank you.

Mr. Frank Daly: IAS 9 will actually require entities to take account of expected credit losses in the future but it doesn't come into effect until accounting periods are-----

Senator Susan O'Keeffe: Thanks Chair. Good morning gentlemen. I'd like if I might open by asking you to cast your minds back to the days and weeks when you first saw what those bad loans were that you'd taken on, because obviously as time passes you sort of create a new ... a new sense of them. But if you can cast your minds back, you were if you like the citizens tasked with looking at these. You had a huge responsibility, I think you've made that clear yourselves. And so while others of my colleagues will, will ask for specific questions in relation to roll-ups and hair cuts, I just want to know what, what went through your minds when you saw the bad loans in those banks. What did you think then, as opposed to what do you think about it now?

Mr. Brendan McDonagh: I suppose to be frank with you, Senator, we were shocked. The European Commission didn't approve the whole validation methodology until February 2010, the end of February 2010, and we took the first loans across from the institutions, which was known as tranche one, at the end of March 2010, and, as the loan valuations were coming through during the month of March, and you know really hectic time for everybody because the Government wanted us to get on, the Central Bank wanted us to get on in terms of taking the loans across, you could see that the losses coming through were, you know, much higher than what probably anybody in the system expected. And it almost became an event, you know, NAMA are you doing this process correctly? You know these losses aren't expected ... you know, you know this has huge consequences for the capital of the banks and I suppose we had to ... we spent a lot of time as an executive but also at the board, looking at the valuations and saying, "Jesus they're much worse than anyone expected but we have a job to do and our job is to value the loans in accordance with the methodology approved by the European Commission and being able to stand over it" and that we did. And I think you know thinking back to the first tranche one transfers, which happened at the end of March 2010, myself and the chairman here did a press conference, I think there was complete shock in the country and also I suppose within the system probably leading up to that day in terms of the losses that were emerging, and obviously the losses got much higher as you went down through the portfolio. And I suppose it came to, I suppose a head really in September 2010 when the Government instructed NAMA to acquire the residual amount of the loans in bulk form and estimate the discount to what they would eventually be. And we estimated discounts and the discounts turned out to be, you know, 99% accurate-----

Senator Susan O'Keeffe: We shall come back to the discount. Mr. Daly what, as I said, casting your mind back what-----

Mr. Frank Daly: It would be pretty much the same as Mr. McDonagh. I came probably slightly later to this because Mr. McDonagh had been there since kind of mid-May 2009 at the preliminary stage and the board was appointed in December, so our visibility on this came around kind of December, January. My overwhelming impression looking back on it is the ... I'm trying to find the right word but, what ... where was the business logic in a lot of this lending? And it would be really I suppose, maybe, back to the that table we provided to the committee about the distribution of NAMA debtors. The massive amount of lending to a very small number of people at the top, and then a lot of the what I would call lending on hope value to people at the bottom. A lot of that was related to land which wasn't even zoned, which had hope value more than anything else. And then it was also I think I remember one of our surprises would have been that the banks seemed to have been acting sort of almost in isolation. They didn't really have much interest in what a particular client's exposure was to another bank across the system. There was no doubt, I think, in terms particularly of those to whom most had been lent on an individual basis, there was an emphasis on a kind of relationship lending as much as lending for particular projects that actually seemed feasible.

Senator Susan O'Keeffe: Coming as you were, as strangers to the books because you weren't working in that area directly yourselves, these things were obvious to you?

Mr. Frank Daly: They became pretty obvious once you actually looked at the process of valuation and they began to talk about what's the discount going to be here. Is it going to be 40%, 50%, 57% as it turned out to be?

Senator Susan O'Keeffe: And this idea of relationship lending, that was obvious in the fact that a small amount of people had borrowed a lot of money ... that was clear?

Mr. Frank Daly: That was clear and I think it was related to a view in the banks that these ... I don't think, by the way, I'm not ascribing any bad faith to the banks or anything here. I'm just saying they fell into this sort of comfort zone of saying, "Ah, that's lender ... that's my client, they've a great track record, they have ... they're producing projects for lending. That seems very, very good. Sure, the country is on the up, everything is going grand, there's going to be a demand for all of this". And I think a lot of that was based on a relationship or a view of the standing of the debtor, which really should have been much more objective and should have ... there should have been much more rigorous analysis and independent analysis of proposals that debtors were putting forward.

Mr. Brendan McDonagh: Yes, I think once it became obvious, really once we got the initial pieces of information from the banks was that the lending was concentrated on a very small group of people - 776 as it turned out - but, you know, when you looked at the top 29 debtors they had €34 billion of borrowings, so €34 billion of the €74 billion that came to NAMA was borrowed by 29 people. I mean in a population of 4.2 million, that's sort of extraordinary really. And they warrant plcs like you'll see operating in the ... like I'm an accountant and, obviously boring in that respect, but I'd look at the UK market and see there that the plcs all there and they'd be probably the size of, you know, €4 billion, €5 billion, €6 billion as a plc and they have access to equity and then you see individuals with you know, sole traders, not to say that they don't have skills, because they do, but it's just the fact that they really didn't have the corporate infrastructure and they might have borrowed €2 billion or €2.5 billion and you just find that ... I personally from coming outside the system found that extraordinary that anyone could borrow that amount of money but that's what happened and, you know, they borrowed from ... and, as the chairman said, this whole issue is that you had borrowed from my institution but the borrower had also gone down the street and borrowed from another institution then gone further down the street and found a third institution, and, by the end of the process, they had borrowed from the five institutions. So-----

Senator Susan O'Keeffe: None of the institutions appeared to know that the other one had lent?

Mr. Brendan McDonagh: Yes, it didn't seem to be something that clicked, that seemed to be obvious that or if they did, "listen my loans are fine in any case on the day" and, of course, what NAMA did really was that when we acquired the loans, we grouped them altogether and we sort of said, you know, "if you had borrowed money from one institution and that produced a surplus, it wasn't available to that other institution to capture that surplus", so when it came to NAMA we said, " if there's a surplus here, it's going to apply if you, if you have borrowings there in your personal name then you are going to use that surplus to pay down a deficit in another group of loans". And that wasn't happening and that was the issue.

Senator Susan O'Keeffe: Mr. McDonagh, you say in your own opening statement it had become common for the lending to be on the basis of very high levels of project funding, sometimes 100%, and where an equity pledge from the borrower was required, it often took the form of unrealised paper equity from other transactions. Can you just draw that out or elaborate for us?

Mr. Brendan McDonagh: Yes, well maybe if I give sort of an example of this might be the best way to show it to you ... on day one the bank did lend 70% loan-to-value, they all seemed to ... in response to questions I put to them during 2009, all the institutions basically came back and said they were limited to a maximum 70% loan-to-value. There was one of the institutions admitted it was lending close to a 100% loan-to-value but that was an outlier.

So, on day 1, an institution might have lent somebody €70 million for a €100 million project. That would be a 70% loan to value. Typically, what happened as property prices begin to rise, the debtor went in and said:

> Listen, I have seen another building I want to buy. It's €100 million. Will you lend that to me? The reason you can lend that to me is that the original building which you lent me on which was 70% loan to value, valued at €100 million, is now worth €120 million.

The bank, it seems to me, then says, "Okay yes we will give you the full €100 million to buy the second building so, when you look at it, we have assets worth €220 million and you only have €170 million worth of borrowing so that's 77% loan to value." So it still looks very prudent to anyone who comes in to look at the paper files to say the banks are still within their limits of lending. Of course, the issue is that, when property prices start falling, that equity which was there from €100 million to €120 million disappears and also the new building that you bought which was effectively 100% lending at €100 million has probably dropped in value as well, so your loan valuations shoot through the roof. So, you can say that it looked to be clever lending, it looked to be good lending at the time but effectively the debtor was not putting up any additional equity for the second asset that he bought. He was using the increase in value of the existing building to get the money for the next thing. We've seen examples of that in the portfolio.

Senator Susan O'Keeffe: From the loan documentation that you had, new debts were being issued on the strength of other debts or unreleased equity.

Mr. Brendan McDonagh: Yes absolutely, we are in 2009. A senior person from an institution which is not in NAMA came in to talk to me and he was talking about the lending processes. He said to me that, at one stage, a debtor came in and said to him, "I want to borrow €200 million for a project". He said, "I asked him for a statement of his net worth." He said he took it out of his pocket. He said to me, "You can look at that for two minutes and then I'm taking it back off you, and he put it back in his pocket." He said he could not wait until he left the room to write down what net worth he had. I said "Did you lend him the money"? He said, "Yes I lent him the money to my shame." Effectively, somebody was perceived to be very rich and perceived to be very successful and things like this. I am not saying that this can happen all over the place but I am only saying in terms of one example of one person who said this to me. I think the practices got lax. The banks were seen to be very profitable, property lending was seen to be the clever thing to do, the economy was growing very strongly. As I said in my opening statement, there was a fundamental disconnect between property lending of the banks' balance sheets that somebody in the regulator just did not pick up on and say, "Bank lending has grown by, on average, over 30% per annum and the economy has grown between 6% and 9% per annum." There was a complete disconnect.

Senator Susan O'Keeffe: Yet banks would argue that the evidence is they would have employed chief risk officers, they would have had all sorts of regulations, the Financial Regulator, the Central Bank. There was an apparatus both internally and externally. Yet you are able to say at this point that the practices were lax. So how, what, where did that disconnect?

Mr. Brendan McDonagh: I think, I suppose I cannot answer for the banks or for the regulator because I came from outside. I think it didn't take somebody like myself or my colleagues or the chairman and the board to arrive in and to see this after a month or two of looking at it or looking at the data to figure out there's something fundamentally structurally wrong here, how this was not seen. I mean, it is for others to answer about why they did not see it and, like all things, you can look to have the appearance of all the correct structures, but whether they are doing the right thing is it. Sometimes, you know, I'm a great believer in what people call the maverick. Somebody who asks you the questions you never thought of or not the groupthink question and saying well, "What about this, what about that." Just to think about things in an alternative way and I think there have been other contributors here from across the spectrum to this inquiry to date. Effectively, everybody thought there was going to be a soft landing. Everybody thought it was a temporary slow down and that the economy would get up and running again and that it would not be as bad as it was. Unfortunately, it turned out to be much worse than it was because I think it's key from the figures when anyone looks at them, they are publicly available if you take any of the reports from any of the banks from 2003 to 2008. The two main banks' balance sheets were €100 billion in 2003 each. They were €200 billion in 2008. Anglo Irish Bank was €25 billion in 2003, €100 billion in 2008. I mean, that was an explosive level of growth. Where was most of that lending going? Most of that lending was going to, effectively, the biggest component of the banks' books was commercial property lending.

Mr. Frank Daly: Two points Senator, just to follow through on that. The scale of lending in Ireland in the overall sense into property is another thing that struck me when I first came across this. It was extraordinary. I am talking about the period of 2006, you had €160 billion loans in regard to property - land and development €60 billion and commercial €100 billion. You also had on top of that €140 billion lending in mortgages and another €100 billion in other areas such as agriculture or industrial. So you had €400 billion being lent into the property sector at a time when the GNP for Ireland was about €160 billion. That is the overall impression I got of the extraordinary level of lending that was going into that whole property sector.

Senator Susan O'Keeffe: If you had just those two figures in your hand, if you just had those figures alone and looked at them, would you know as a person with financial expertise, what would go through your head looking just at that?

Mr. Frank Daly: I do not claim Senator, to have any particular financial expertise but I would say that seems to me an extraordinary concentration of lending into one particular sector of the Irish economy. I am not saying all of it is not valid. Obviously it is and there would be lending in there to agriculture and industry and retail and mortgage lending, which is obviously, in many cases, quite valid. But €400 billion into an economy where the GNP was €160 billion seems to me extraordinary.

You asked about impressions. The other impression, I suppose, two points. One was the way, the extent to which interest was being rolled up by the banks. The extent in fact, to which, in some cases, new loans were being created to take account of the rolled up interest. That, it seemed to me, was quite unusual. Then, I suppose, the other aspect of it was - this may have come later but certainly we became aware of it fairly quickly, the extent to which banks were not really attempting to collect income that was coming to debtors. Rental income in particular is a case in point. One of the things we did in NAMA when we took across the loans and when we engaged with the debtors was to say, "Well you have a loan on an asset, and that asset is earning a rental income. Why do you think it should be going into your pocket now and not coming into NAMA"? We set about capturing all of that rental income. I am not sure that the banks were taking any great steps to do that in the years up to the crash.

Senator Susan O'Keeffe: Just to be clear, some of that money was not going back to the banks?

Mr. Frank Daly: No, it was not, the people who had borrowed the money to build assets, to build shopping centres, to build hotels or whatever and had income coming from those areas were taking the income and I do not know what they were doing with it but what they were not doing with it was actually repaying it to the banks.

Senator Susan O'Keeffe: Are we talking about millions of euro here?

Mr. Frank Daly: Oh yes, definitely.

Senator Susan O'Keeffe: People may not know.

Chairman: Is €9 billion the sum? There was €9 billion rolled up in interest.

Mr. Frank Daly: No, that was the rolled up interest. I am talking about the extent of rental income that actually could have come to the banks if they had been rigorous enough and that was actually going back into the-----

Senator Susan O'Keeffe: So you effectively re-routed that money back to where it ought to be going?

Mr. Brendan McDonagh: When we acquired the loan portfolio, Senator, only 20% of the income that was coming off investment assets - office blocks, shopping centres, whatever else was being mandated to the banks. I found this personally extraordinary that 80% of income could be just diverted away and nobody seemed to be following up on it. A lot of debtors just stopped paying when the crisis happened in the case on the day, so whatever they were using that income for, they might be trying to save their businesses, put it in their business to keep going to get through this temporary crisis as was the case on the day, or some of them might be ... might try to maintain a lifestyle that they had before the crash. So one of the first things we decided and really on day one, once we saw this, we will say, we want that income coming to NAMA so we want that income diverted to us and we have financial monitors on trading businesses to make sure that there is not unnecessary overheads being taken out. So, one of the key successes of NAMA is when I talked to credit rate agencies as was the case on the day, is NAMA's collected €25 billion to date in five years. We have got €20 billion collected from asset sales. We have got €5 billion collected from income on the assets. That €5 billion has been crucial. If we did not collect that income and left it with the debtor, the debtor would have probably kept it and spent it or whatever in the case on the day. We have collected that. That is a huge sum in terms of the amount of cash flow for any businesses and our view is that that has to go to servicing your debt or amortising down your debt or whatever the case is and you know, we controlled ... we kept income in and we controlled the amount that we give back out to allow businesses and people to run their businesses which is appropriate.

Senator Susan O'Keeffe: Finally can I ask you, in relation to the 772 debtor connections who borrowed €74 billion, and I am obviously quoting from your own, from the participating institutions, you estimate, I think conservatively, that these same debtors borrowed at least a further €10 billion from non-participating institutions. How did NAMA manage the process in instances where a large development was being backed by a combination of loans from participating and non-NAMA participating banks?

Mr. Brendan McDonagh: There were very few loans that came to NAMA which we would call syndicated lending. Syndicated lending is very common in other markets that effectively no banks takes a total 100% exposure to projects. They usually try to get other banks to come in to share the risks, but in the Irish market, there was only about five syndicated loans that came to NAMA. But it did mean that a debtor might have borrowed, say, €500 million from the NAMA banks and he might have borrowed another €250 million from a non-NAMA bank which was operating in the market but they were completely separate. Usually in that situation, we ask the debtors when they submitted their business plans to tell us have you money borrowed from other banks and what is the arrangement for them. Sometimes it is like a juggling act, that money was moving between assets which were funded by NAMA banks and assets which were funded by non-NAMA banks, by the debtor because he was trying to keep the balls in the air in terms of trying to keep everybody satisfied. When we came in we said listen, this is our money, you have to deal with your other bank separately. In cases of syndicate arrangements, there was a code of practice which was required as part of European Commission approval where effectively we had to work with those institutions to effectively ... we would operate together in a fair practice with each other to try and make sure both parties were not disadvantaged at ... against each other. That was where the lending was in a common project but there was very few lending to common projects.

Senator Susan O'Keeffe: Mr. Daly you made the observation that banks were taking the type of risk that were normally the preserve of private equity or hedge fund providers, without demanding the same level of rigorous analysis that those providers would have made a condition of funding. They may say otherwise.

Mr. Frank Daly: The banks would say otherwise?

Senator Susan O'Keeffe: Yes.

Mr. Frank Daly: Well, they may, but I would just base it on, sort of, first of all what we saw in terms of project analysis, in terms of analysis of concentration risk. I do not think any hedge fund or equity partner would go in and partner with some of the developers and particularly in some of the large-scale lending without doing an absolute, deep dive into the financial situation of the developer, into the project feasibility, into the valuation of assets because there is certainly ... One of the things that did surprise me is that in many cases, the valuation of assets which the banks took was actually provided by the debtor. There is nothing sort of fundamentally wrong with that provided you do actually verify it and test it independently. I do not think a hedge fund would actually have gone in without that type of analysis. I think the other thing that a hedge fund or an equity partner will do is they will probably have rights to step in along the way. They will have rights to actually keep intruding into the project or into what the money is being used for and how it is being spent and they would be all over you, to put it that way.

Senator Susan O'Keeffe: Did you say effectively that our retail banks, the ones where all of us probably, you know, would have banked and taken out our money and taken ... they almost became hedge funds? They changed their identity-----

Mr. Frank Daly: In terms of the lending they did, they might have become hedge funds but I think in terms of the actual way they went about it they did not impose the rigour that hedge funds would have imposed for lending that sort of-----

Chairman: Thank you very much, Senator. I am going to now propose that we would suspend the meeting just for 15 minutes to return at 11.30 a.m. just for a quick comfort and coffee break. I just want to remind witnesses that once they begin giving their evidence they should not confer with any person other than their legal team in relation to their evidence and matters that are being discussed before the committee. With that in mind I suspend the meeting until 11.30 a.m. I remind Mr. McDonagh and Mr. Daly that they are still under oath when we resume. Is that agreed? Agreed.

Sitting suspended at 11.16 a.m. and resumed at 11.35 a.m.

Chairman: I now propose that we go back into public session. Is that agreed?

As we continue with these questions I just want to round off one thing in regard to Senator O'Keeffe's questions, Mr. Daly and Mr. McDonagh and that is can you establish whether it is your view or not your view, in how the banks engaged with senior borrowers-debtors, were they or were they not by your account behaving in a deferential manner towards banks or bankers towards developers?

Mr. Frank Daly: Chairman, I can only speak from what we found in the documentation and in the engagement with the banks when we were taking across the loans and subsequent engagements, so I think what you're asking me to do is comment on actual behaviour of it between a banker and a debtor and really...I mean I don't have first-hand knowledge of that. What we're doing is giving you our impressions on the basis of the documentation and the loans that we came across but as to whether, in terms of one-to-one dealings with a particular debtor or a group of debtors, what type of behaviour the banks displayed, you're really asking me to comment on meetings between the banks and debtors and I-----

Chairman: Mr. McDonagh?

Mr. Brendan McDonagh: Chairman, I would agree with Mr. Daly here. I mean it's very hard for us because we weren't there at the time, to see what type of relationship it is but I think in one of the questions that you asked which forms part of the booklet, you would see that the top 29 debtors, in table 6 of the supplementary booklet, borrowed €34 billion and while it was spread around by banks, there was certainly a concentration of lending around one institution. So I think the issue really comes down to the fact that, and this has been said by people in the banks before, and certainly by others, is that relationship lending was a big part of it. You know it's almost like in terms of a horse race where you're backing the jockey rather than the horse. It's the horse that has to win the race for you, that has to run the race for you.

Chairman: Okay. Thank you.

Deputy Michael McGrath: Thank you very much Chair and I'd like to welcome Mr. Daly and Mr. McDonagh here today and thank them for their opening statements. If I can just start, I suppose, standing back from the detail, Mr. McDonagh in particular, one of the issues that we are tasked with examining is to assess the appropriateness and the effectiveness of the policy responses to the crisis and the establishment of NAMA was a key part of that and on page 9 of your opening statement I think you seek to address that, Mr. McDonagh. We know the direct consequence of establishing NAMA. NAMA bought loans with a par value of €74 billion, paid €31.8 billion, so it resulted in losses of €42 billion hitting the accounts of the participating financial institutions. The obvious alternative could have been to leave the loans relating to the property and development sector on the books of the banks and work them out over time. You seem to come to the view that the establishment of NAMA was the correct course of action. You say it is recognised that impaired banking systems do not tend to rectify themselves so what's your basis for saying that and your basis for believing that the establishment of NAMA, and how things worked out subsequently, was a better outcome?

Mr. Brendan McDonagh: Well I suppose, even though I said it, I wasn't just basing it on my own view, Deputy. I mean, we have met other countries who have had difficulties in their banking system. They have come to talk to us about the model pursued by NAMA and, you know ... and the type of approach, and they have followed it. It has been endorsed both by the IMF and the ECB as being the right thing to do. And I suppose I would, you know, in a very, I suppose, local way look at the way, I suppose, you know, we took the assets - these problem assets - out of the banking system, brought them into NAMA and had to deal with them. And it's a very expensive consequence for the taxpayer, who's had to recapitalise on the back of that, but I think when you look at the assets which remain within the banking system, the banking system has been quite slow to deal with their existing assets. And, whereas, you know ... in terms of NAMA, like, we're five years in, we've collected €25 billion in cash and we were originally designed to maybe ... that everybody expected we'd have a ten-year life, and now we're sort of saying we'll probably be finished in eight years. So I think, you know, we are doing what it says on the tin. It says ... the Act says, deal with the assets expeditiously, and we're getting on and doing that.

As the chairman says in his own remarks, it'll be for others to judge whether we did a good or bad job at the end, but, you know, we believe that we're, you know, to date that we're doing everything that we are expected to do and trying to deal with the situation and the hand that we're dealt with.

Deputy Michael McGrath: As I mentioned there, the purchasing of the loans by NAMA resulted in €42 billion of losses hitting the accounts of the banks, you know, pretty much immediately. That hole then had to be plugged by way of taxpayer recapitalisation. In terms of the overall performance of NAMA, what you're saying is that you will pay back your €31.8 billion of debt, you'll cover your operating costs and potentially have a surplus then of about €1 billion. Do you think that that is a better outturn than might've been achieved if the property and development loans were left on the books of the banks and the banks to work them out over a period of time and perhaps benefit from an uplift in property values?

Mr. Brendan McDonagh: Well, I think the issue here, Deputy, is that the policy ... you know, the Government made the decision at the time to set up NAMA, and it's our job to implement it, and that's what we've got to do. I mean, there was this contingent liability hanging around that, you know, there'd be a black hole in NAMA and, therefore, the Government would have to cover those losses. We're saying that's not on the ... that's on the horizon. In fact, we're turning a surplus.

I mean, the issue is that the world financial markets had made the decision in ... first of all reflected in the share prices of the banks that collapsed around 2008, but also in 2010 when Ireland had to go into bailout, that the banking system really had brought ... you know, had huge consequences for the sovereign, put ... resulted in us getting a bailout from the troika. And, I think the ... maybe if somebody wanted to do the sort of experiment of leaving these problem loans with the banks, really wasn't an option. It wasn't an option from, I suppose, the troika in terms of this, that they decided they wanted these assets removed.

So, you know, other countries did different things. Like, in the UK, they did an asset protection scheme where effectively they insured the assets of Royal Bank of Scotland, about €280 billion. And, you know ... but I suppose the big difference in terms of the UK and here was the UK probably had the firepower to be able to deal with that. But also in terms of Ireland, once Ireland had done the bailout in September 2008, doing an asset protection scheme really wasn't an option. It was certainly looked at by Dr. Bacon as one of the options, and it just really ... I think he concluded, which I think was a fair conclusion, that it really wasn't an option to do an asset protection scheme after doing a bank guarantee.

Deputy Michael McGrath: Okay.

Mr. Frank Daly: I think ... if I may just add to that. In the general sense, Deputy, I think the ECB analysis in their financial stability review of 2013, which was kind of an analysis of why a NAMA-type operation as opposed to other, is useful for ... would be useful for the committee if ... I'm sure you have it already.

I think there's two other points, though, as to why breaking the links with the banks was important. First of all, the other alternative .. well, you've three possibilities. You've nationalisation, which we're not discussing; you have leaving them with the banks. I think the big question mark there is ... the banks have been struggling since the crash. They're still struggling. They're getting better. They're improving, but they're still struggling, for example, with mortgage arrears, so they're still struggling with other property loans that are on their books. So, you can only imagine what state they would be in if they had another €74 billion on top of that.

I think the other point is that ... and we've discussed relationship banking earlier. Removing the loans out into NAMA, it broke the link decisively between the originator of the loan and the borrower. And I think that has been hugely important. I'm not saying we don't have a relationship with our debtors – of course we do – but it's a far different relationship to the type that some of the banks have had.

And I think, then, there is the actual practical stuff of just concentrating all of that €74 billion in one agency with one focus. We have ... we're not distracted by anything like mortgages or anything like that. We have one focus, which is the €74 billion, the repayment of the debt. So, there's a concentration of skills and efficiencies and costs and scale and flexibility that you could actually bring to that. And we're able to do that when we're going to the market with asset sales or loans sales, because we're not just one bank trying to work out its own piece of the action. We have everything. We can look across it. We can amalgamate portfolios. I think it's a very-----

Deputy Michael McGrath: I'll move on, if you don't mind, Mr. Daly. Can I raise the issue of interest roll-up? Because a figure of €9 billion is quoted in the core documents volume 1, question 7, which you ... which was returned. That's quite a staggering figure - €9 billion of interest roll-ups. Can you explain to us in practice how that occurred? Does it mean that many loans were not being repaid at all by debtors to the banks prior to NAMA coming on the scene? And how could such a huge amount of interest be rolled up on those loans, or are many of those loans with no repayments being made still being regarded as performing loans in accordance with the loan agreement?

Mr. Brendan McDonagh: Well, I suppose ... going back to what the chair ... Mr. Daly said earlier, when you looked at the balance sheets of the banks at the end of 2008, of the €160 billion that was lent in land and development lending, €60 billion of that €160 billion was to pure land and development lending. Typically, land and development ... when you're involved in that type of lending, there really ... there's no income coming on the assets until the assets are built out, either rent at that stage or sold. So, typically, in that type of lending, the banks roll up the interest. There's interest accruing each year. Say, if they lent a loan at €100 million of a loan, for argument's sake, to buy land and to build an office building-----

Deputy Michael McGrath: Was anything repaid on those loans or was it all just being rolled up?

Mr. Brendan McDonagh: No. It's all being rolled up on the expectation that when ... if it costs €100 million to buy the land and build, say, the office block,-----

Deputy Michael McGrath: Yes.

Mr. Brendan McDonagh: -----that the building would be sold for greater than €100 million ... you know, greater than €100 million. So, if it's built over two years,-----

Deputy Michael McGrath: Yes.

Mr. Brendan McDonagh: -----it'd be about €10 million of accrued interest, which is the interest roll-up.

Deputy Michael McGrath: Okay.

Mr. Brendan McDonagh: That means the loan is now €110 million rather than €100 million. Once you sell for more than €110 million, the principal and-----

Deputy Michael McGrath: And in the interim would the banks have regarded those loans as being performing-----

Mr. Brendan McDonagh: Yes. Yes.

Deputy Michael McGrath: -----because no payments were due?

Mr. Brendan McDonagh: Yes. There-----

Deputy Michael McGrath: But not a cent was being repaid for those loans.

Mr. Brendan McDonagh: Yes. In typical land and development lending, there's usually ... interest is rolled up.

Deputy Michael McGrath: For how long would the interest be allowed to be rolled up in that manner?

Mr. Brendan McDonagh: Usually ... it's usually rolled up usually for the timeframe for the development of the project. So, you know, somebody might buy a piece of land and say, "I've bought the land", and they might come on and say, "First of all, we bought the land for €25 million-----

Deputy Michael McGrath: Yes.

Mr. Brendan McDonagh: -----we need to get improved planning, which'll take us one year". That's one year interest roll-up. And then, once I've got my planning in a year's time, I'll come back to the bank and say, "Now I want to borrow the money to build the office block-----

Deputy Michael McGrath: Okay.

Mr. Brendan McDonagh: -----and will interest roll up on that again? And, you know, when the asset is sold, you'll get paid ... the bank'll get paid back its principal and get paid back its interest." And, you know, under IFRS accounting, Deputy, as you would well understand, you've got a loan which is accruing interest at 5% per annum, the interest is not being ... cash is not ... that 5% is not being paid, but it's being added on.

Deputy Michael McGrath: Okay.

Mr. Brendan McDonagh: And then when they could do their impairment exercise, they'll say, "Oh, well, that loan is still performing and the office block is being built and, sure, it will be sold for greater than the interest and principal."

Deputy Michael McGrath: From the developer buying land speculatively, which was not even zoned for development-----

Mr. Brendan McDonagh: Yes.

Deputy Michael McGrath: -----and where the zoning would have to come on stream, hopefully from their perspective,-----

Mr. Brendan McDonagh: Yes.

Deputy Michael McGrath: -----planning permission secured, construction completed, units sold ... that for all of that period of time no repayments, whatsoever might be made on those loans.

Mr. Brendan McDonagh: Yes.

Deputy Michael McGrath: -----and the interest just rolling up.

Mr. Brendan McDonagh: All I can speak about, Deputy, is the loans, the land development loans that we acquired-----

Deputy Michael McGrath: Okay.

Mr. Brendan McDonagh: -----there were very few of those loans, and I mean very few of those loans, where there was any cash being paid back.

Deputy Michael McGrath: And the final figure, was it around €9 billion, or interest rolled up on the loans that you acquired?

Mr. Brendan McDonagh: Yes. I mean, when I did a questionnaire with the banks back in May 2009 and I questioned them, I asked them to estimate how much the amount of interest roll up was, they came back with their own figures and they sort of said it would be somewhere between €6 billion and €7 billion-----

Deputy Michael McGrath: Yes.

Mr. Brendan McDonagh: -----but they couldn't stand over it because they qualified it by saying they didn't have the systems to capture it and, you know, this was their best estimate of getting the ... so, I suppose when I sat down with my colleagues to look at it, I said that doesn't look to be, you know, to be credible in terms of the period that's being elapsed-----

Deputy Michael McGrath: Yes.

Mr. Brendan McDonagh: And she sort of said, listen, if we accrue this at another, you know, 5% for another year, that's probably more credible because the financial crisis is...it'll be going into a third year.

Deputy Michael McGrath: Yes.

Mr. Brendan McDonagh: Then that's how we came up with a figure of €9 billion.

Deputy Michael McGrath: And so, of the €74 billion of the par value of loans that you acquired-----

Mr. Brendan McDonagh: Yes.

Deputy Michael McGrath: -----the €9 billion was part of that?

Mr. Brendan McDonagh: Yes.

Deputy Michael McGrath: So, €9 billion of the €74 billion worth of loans that you acquired was just interest that had been rolling up?

Mr. Brendan McDonagh: Yes. In the land and development loans, of the €74 billion loans that we acquired, we believe about €40 billion of the €74 billion was land and development loans that we ultimately acquired.

Deputy Michael McGrath: Okay. And the €9 billion-----

Mr. Brendan McDonagh: Almost in all those loans, all those loans were just on interest roll up.

Deputy Michael McGrath: And did the €9 billion largely relate to that €40 billion of land and development loans?

Mr. Brendan McDonagh: Well, I mean, if you think about it in very simple terms, Deputy, then you'd probably say, you know, if you're accruing at 5% per annum on €40 billion, that's about €2 billion per annum. Assuming that these loans might have originated in 2005, 2006, you had on average two or three, two or three-----

Deputy Michael McGrath: What interest rate typically would have applied to loans like that and what would determine-----

Mr. Brendan McDonagh: Well, typically on those loans, the interest rate should be risk adjusted in the first place, to deal with that, because it's risky lending.

Deputy Michael McGrath: Sure.

Mr. Brendan McDonagh: But, because of the nature of competition there was in the market and the relationship model, then the margin applying to those loans was actually much lower than what probably the risk merited, so, you know, it wasn't unusual to see those loans priced, you know, three month EURIBOR, whatever the three month EURIBOR rate was, at sometimes at 1.5%, 1.75% margin, which is quite low for that type of lending. That type of lending is probably okay for an income producing asset.

Deputy Michael McGrath: Yes, okay. Can I move on to the issue of the enforceability of security because issues arose around that and were identified during the legal review and it made it necessary to impose legal discounts of €477 million, which is broken down on table 3, Vol. 2, page 5 of the book that we have. Can you give us an indication of the type of issues that would have arisen which necessitated writing down the value, as such, by almost a €0.5 billion because of unenforceability of security?

Mr. Brendan McDonagh: Yes, I mean typically the issues were where the bank solicitors hadn't taken correct security and, I mean, the banks warranted to us, when they submitted to us that they had first charges over the assets and, when you go to examine those first charges, you'll probably find a defect in that; or else, you know, the title deeds were missing, they couldn't produce the title deeds and, you know, they're typically the most common type of features that effectively ... that you can't enforce on the security, that there's some defect in the security, so I don't think it was unusual in terms of the banks which were covered by NAMA. I think other banks, who were not in NAMA, found the same sort of types of issues.

Deputy Michael McGrath: Okay. And then subsequently, when you did acquire the loans, further issues emerged when you went into more detail assessing each loan and a total of €334 million of overpayments were identified that you had to get back from the banks.

Mr. Brendan McDonagh: Yes, yes.

Deputy Michael McGrath: How were those issues missed when you had the loan-by-loan review during the due diligence phase?

Mr. Brendan McDonagh: Well, when we had...well, I suppose when initially we had the loan-by-loan review and we had 60,000 properties, I mean, there was an effort made, you know, that...to check the security, but it wasn't possible to check the full amount and I suppose then when you actually look into detail, and typically, a lot of these issues arose when we acquired loans, it looked *prima facie* to be okay, that you had security, and then when you actually went maybe to sell the asset, or you went to enforce on the asset, you suddenly found that effectively the security documentation was defective and, I mean, you're right, there was €334 million of an extra clawback and that's about 1% of the consideration of the €32 billion that we paid.

Deputy Michael McGrath: Okay. And you mentioned that that's to date?

Mr. Brendan McDonagh: Yes.

Deputy Michael McGrath: Are there further issues that are being worked on-----

Mr. Brendan McDonagh: No, no. No, we've spent the last five years going through each of the loans, preparing them for sale, or preparing for enforcement, and most of that arose really in the ... probably the 18 to 24 months after acquisition, once we were getting into further detail of managing the portfolios and finding out what the...you know, checking the security further as we wanted to take asset management actions to deal with the assets.

Deputy Michael McGrath: Okay. You mentioned in your opening statement, page 14, that in some cases NAMA acquired some loans for only 10% or less of their face value. Presumably that would have been development land in many cases, or land which was unzoned.

Mr. Brendan McDonagh: Yes.

Deputy Michael McGrath: Speculative land. Do you know what the lowest percentage of face value that NAMA would have paid for any individual loan? Are we down into ... we're down into single digits, presumably, percentage wise?

Mr. Brendan McDonagh: Yes. I think in ... I think ... I don't have the information at hand, Deputy.

Deputy Michael McGrath: Yes.

Mr. Brendan McDonagh: Because there's just such a range of information, but, you know, every piece of land is worth something, right, so, you know, something might have been bought for €200,000 ... might have been lent to buy at €200,000 an acre and, when we came to buy it from the banks, we probably would have just paid agricultural value for it, so I would say that probably, in that type of scenario, you're talking about 5% is probably the lowest that we would have paid for it, yes.

Deputy Michael McGrath: So, in some cases, a loan with a face value of €100 million, NAMA would have paid €5 million, proportionately?

Mr. Brendan McDonagh: Yes. I mean, there has been some spectacular examples of high-profile deals around where hundreds of million was paid for land and we would have only paid

10% or less for it, yes.

Deputy Michael McGrath: Okay. Senator O'Keeffe spoke about the issue of the concentration of lending in the hands of a relatively small number of debtors and the figures show that 63 debtors accounted for €45.5 billion in par debtor, 61% of the total; 145 debtors accounted for 78% of the total, or €58 billion. In your experience, having gone in and looked at these loans and the practices of lending by the banks, how did it arise that the debt could be concentrated in the hands of such a small number of borrowers?

Mr. Brendan McDonagh: I've often asked myself that question, Deputy. I think it was by the nature, is that there's probably ... you had the big names, who are probably household names, who were involved in the big projects, and they borrowed a huge amount, as set out in the table that I mentioned in my opening remarks, in table 1, but I think you had to follow on effective people who were probably in the ... maybe some of them were in the building ... I'd say in the top 100 debtors, or the top 180 debtors in NAMA, they had some involvement previously in the construction industry and they were involved in some scale development; they might have been house builders and then they branched out into building offices or, you know, building a hotel or whatever the case is, but I think, in the ... certainly in ... after the top 180 debtors, a lot of the debtors there were ... the next, you know, 600 or so debtors, they really had ... very few of them seemed to have any expertise in construction.

Deputy Michael McGrath: They were relatively new arrivals to property and construction?

Mr. Brendan McDonagh: They were new arrivals, a lot of the professional class. A lot of the professional class got into syndicates, particularly to buy land, and particularly to buy land mainly in ... a lot of it in regional Ireland.

Deputy Michael McGrath: Okay. Can I ask how much of the original €74 billion of par value of loans remains to be sold today by NAMA?

Mr. Brendan McDonagh: Probably close ... probably less than €50 billion ... probably about ... I'd say about €47 billion, €48 billion in par terms. In NAMA debt terms, it's probably around €16 billion.

Deputy Michael McGrath: But in the context of the €74 billion-----

Mr. Brendan McDonagh: Yes.

Deputy Michael McGrath: -----par value €47 billion to €48 billion?

Mr. Brendan McDonagh: About €47 billion to €48 billion, yes. I don't have the figures at hand, I'm just sort of-----

Deputy Michael McGrath: Yes, there or thereabouts.

Mr. Brendan McDonagh: Yes.

Deputy Michael McGrath: That sounds quite a high figure, given the huge level of activity that you had?

Mr. Brendan McDonagh: Yes.

Deputy Michael McGrath: That you still have well over half of the loan book?

Mr. Brendan McDonagh: But I think the point made there in the speech is that a lot of the par debt write-off, you know, the bigger debtors have better quality assets, and as was the case in the day, and this counts for much less. As you move down through the portfolio you've got a bigger difference between par debt and the value of the assets remaining.

Deputy Michael McGrath: And what's the profile of what's left?

Mr. Brendan McDonagh: In the profile of what's left in NAMA we have still ... we've just over 600 debtors still remaining in NAMA, and our plan is to sell off probably all the smaller debtors in a portfolio sale later on this year. So we'd be left with the larger debtors remaining, probably about 140 of the larger debtors remaining.

Deputy Michael McGrath: And what timeline are you working towards for the wind-up of NAMA?

Mr. Brendan McDonagh: We are working towards that we will have enough assets realised that we will have paid off our senior debt by probably early 2018, potentially in 2017, if we have a really good wind behind us, as we've had for the last 18 months. And then we have the sub-debt, and the first repayment date on the sub-debt is 1 March 2020 and, you know, as we've said, we are very confident as of today of where we stand. Obviously if market conditions can change, that we'd pay off the senior and sub-debt and we'd generate a surplus for the taxpayer.

Deputy Michael McGrath: By around 2020, is it?

Mr. Brendan McDonagh: I would say the surplus would probably come to the taxpayer probably around 2020.

Deputy Michael McGrath: And the more accelerated wind-up wouldn't be the optimum strategy, in your view?

Mr. Brendan McDonagh: No. Well, you know, the board has looked at this, looked at this quite regularly, you know.

Deputy Michael McGrath: Yes?

Mr. Brendan McDonagh: And we've taken external advice as well in terms of whether we could do a more accelerated wind-up, and the ... if you go to the market with the size of portfolio of NAMA the likelihood is that the market will see you, will obviously see you coming, because it's such a big thing, and they will take advantage of you in terms of that, so that if you can work out the assets over a slightly longer period you get a greater realisation.

Deputy Michael McGrath: Okay. Final question. During the course of your work you identified a lot of assets which were essentially put beyond the reach of NAMA, and you successfully reversed many of those transactions and brought them within the ambit of NAMA. Can you characterise the nature of some of those transactions and give us any information you have on the scale of such transactions which you've managed to have successfully reversed?

Mr. Brendan McDonagh: Yes. Well, I suppose there's two types in terms of that. We've got about €800 million of additional security from debtors, in terms of ... as quite a, you know ... this is additional assets that they had. Probably about €300 million of that additional security debtors decided that they would transfer them to third parties, friends, relatives, rather than hand them over to the banks or NAMA, and they probably had about €500 million worth of additional assets which were effectively unencumbered additional assets that they have that they had never given up the security. So when we went through the business plan with debtors we said to them, "Give us a list of your asset transfers in the last five years, and tell us what level of unencumbered assets you were." And, I suppose, everybody was thinking that all these people had a huge amount of assets outside the system, the case in the day. And when you look at it, that these same people had borrowed €74 billion, but all they had was €800 million worth of assets effectively outside the system, so it really ... they hadn't put that much aside in terms of the amount of money that they had borrowed, so we said to debtors, "If you want to work with NAMA and to prevent us taking enforcement action against you, or to prevent us taking actions under the NAMA Act, and with a very powerful section, under 2(11) of the NAMA Act, where we can pursue reversal of asset transfers, you bring those assets back in and give them to NAMA as additional security." And the majority of people did do that as part of their co-operation with NAMA.

Chairman: Okay, thank you very much, Deputy. I now move on to Deputy Joe Higgins. Deputy, you've 25 minutes.

Deputy Joe Higgins: Yes. Thanks, gentlemen. If I could reprise very briefly the issue that was raised at the beginning of the meeting in relation to the type of securities or non-security that the banks required for large loans. Just very briefly to quote Mr. Daly. You said the "developer's equity contribution was a form of a rolling up of unrealised paper profit from other developments." You said, "In reality that amounted to nothing more than unrealised equity positions, levered by the developer to secure funding for new transactions." You said:

> The safety zone of borrower equity usually existed only on paper. ... In the event of a crash the banks stood to take 100% of the losses [. That is] what happened.

You said, "the model did not appear to require a stringent approach by borrowers to analysing project feasibility." And finally, Mr. Daly, you said:

> Very little, if any, consideration was given to the inherent cyclical nature of the property markets. The attitude appears to have been that the only way was up, that somehow the forces of gravity were suspended as far as the Irish market was concerned, and the long established pattern of property market cycles was no longer relevant.

Now, Mr. Daly, when the Chair asked you, you weren't prepared to say, or you couldn't say, because you hadn't direct knowledge, that the relationship that was the subject of this, these actions, was as a result of a deferential relationship between a borrower and a lender. I can understand why you would say that. But would you say, objectively speaking, what you found showed a reckless behaviour by the banks?

Mr. Frank Daly: I think, Deputy, and again it's based objectively on what we found, that it displayed an attitude to lending that, to my mind, did not include a rigorous assessment of the ... what the lending was for, and didn't really take into account the broader, overarching degree of lending to the property sector in this country during those years, and in particular lending that might have been going on elsewhere to the same debtor or, I suppose, a holistic view of supply and demand. All of that money would be-----

Deputy Joe Higgins: Would that amount or not amount to recklessness, just what you said there, Mr. Daly?

Mr. Frank Daly: But I'm not going to take a view on what that amounts to, Deputy, except simply to give you my analysis of what we actually found. Banks may have a particular view of the type of rigour they put into such analysis, or the type of rigour they put into the evaluation of any loan application. It just seemed to me, in the context of what we found, that there was more that could have been done. It was done, by the way, I suppose, at that time in the context of, I suppose really a view in Ireland about the property market and about the characteristics of the property market-----

Deputy Joe Higgins: Yes, no, I understand that, Mr. Daly, and you have explained that previously.

Mr. Frank Daly: Yes.

Deputy Joe Higgins: But, Mr. Daly, somebody who thinks the forces of gravity are suspended, jumps off buildings and thinks they will float. Now, tragically in some cases it happens with people who are disturbed or are on psychedelic drugs. Now, presumably, that didn't apply to the banks when they were dealing with the developers. But, really, the list that you have outlined here - could I put it to you like this: that perhaps an ordinary citizen out there, or a taxpayer who is paying the price for all this, would say that what you have put here is a damning indictment of the practice by some, at least, if not all banks?

Mr. Frank Daly: I will say the questions I would ask the banks were ... would be in the area of: "How much rigour did you put into this type of analysis? Were you driven too much by competition with other banks?" Because there was, and it's been said before this committee before now, a sort of a follow the crowd, a kind of a herd instinct. How much were they influenced by the talking up of property, right across the Irish sort of spectrum, about the very favourable economic backdrop that was there up to 2008? We'd great growth, we'd great growth predictions, we'd the fastest growing economy in Europe, remember. How much were they influenced by all of that as opposed to how much were they looking at the individual application for a loan for this project, for this amount of money, with, as my colleague has said, particularly in land and development where you will not expect a stream of income for ... I would also look, by the way, at the make-up of who was actually borrowing at that time because that changed, and I know one of your previous contributors has indicated the way in which syndicates became a particular feature of the property market in the period preceding the crash. If I were in a bank I would certainly be looking beyond that syndicate and I would be looking at who's in it, where's the expertise and how much did they know about the property market.

Deputy Joe Higgins: Yes but ... which begs the question as to why. Now, banks presumably are hard-nosed business enterprises who shouldn't be influenced by loose talk. I mean if a scientist is sitting in a pub and everybody around him is saying there is no such thing as gravity ... I mean there is a lot going on but he won't believe it, or she won't believe it, but apparently the banks did. How can that be?

Mr. Frank Daly: I think you had it in the banks. You also had it, by the way, in the people who were actually borrowing. It is interesting you should mention pub talk. When you look at the lower tranche of people who borrowed, the 627 in the €16 billion category, a lot of those were in property syndicates. A lot of that was based, I think, on what has been described in the past as sort of golf club talk - that property is the place to be, if you're not in property you're not really in the game at all. So I think right across the spectrum there was a lack of rigour in wondering what we were getting into and I think you would have to ask the banks the extent to which they actually subscribe to that view or not.

Deputy Joe Higgins: Well indeed and the banks will be questioned as well no doubt. Mr.

McDonagh, you present us with a table on page ten of your introduction showing €34 billion was lent to 29 individual borrowers. You said 12 individuals of these accounted for €22.2 billion, including three total loans greater than €2 billion, nine total loans between €1 billion and €2 billion. Then on page 11 you said lending on this scale suggests that banks considered property lending a one-way bet. Could I put it to you, if what you have said this morning and what Mr. Daly said this morning ... and these figures, do they or not amount to a damning indictment of what the banks were doing during the bubble period?

Mr. Brendan McDonagh: I think it is a highly unusually level of lending to a small group of individuals. I have often asked myself how did nobody pick up on this? How did a regulator not pick up on this? Because while the banks might be justified that they were lending what they thought to be ... what they thought were good borrowers and good projects, it does not seem to me that anybody looked and said listen, are these same names turning up in institution A,B, C, D, E and F. And I think when you ... if you looked at it which we did when we got the data together and we got through ... and it was very quickly obvious that this level and concentration of lending was done, I don't think you'll find that level of lending anywhere.

Deputy Joe Higgins: Would you say it amounts to recklessness or not on behalf of the banks? In pursuit of this ... there was no mystery of what the banks were after, I assume it was maximisation of profit.

Mr. Brendan McDonagh: Yes, and they are obliged to maximise in terms of their shareholders and that's what their shareholders expect them to do. But I don't think any of their shareholders, whether they be the individual that has a few shares in the bank or an institutional shareholder who as a pension fund might have a large percentage sharehold in the bank, was in any way aware that the concentration of lending was like this. I just think that is highly unusual.

Deputy Joe Higgins: I won't press you much further on it Mr. McDonagh, I mean what was suggested earlier essentially is that somebody comes in to a bank and says "I have a field north of Mullingar that I want to buy for so many tens of millions", and then by the time it arrives on your desk, it is worth 10% of what the banks lent without any due diligence whatsoever. What would you call that? Could you put a name on it?

Mr. Brendan McDonagh: I think that others have called it ... it was highly speculative lending. It was highly speculative borrowing by the borrower and highly speculative lending by the lender, but the lender took all the risk.

Deputy Joe Higgins: Ok. I'll move on briefly now. Deputy McGrath dealt with the €9 billion in rolled-up interest. I won't ask you to repeat that, but just to comment on the distribution by the individual institutions of that €9 billion in terms of the ... in terms of the actual interest charged to individual institutions. Could you do that briefly please?

Mr. Brendan McDonagh: I should add that that €9 billion was based on data which was given to the banks before NAMA came into existence, so it was based on information we got back in the summer of 2009. We estimated that that €9 billion was broken down as follows; AIB about just over €3 billion, Anglo Irish Bank €3 billion, Bank of Ireland €1.8 billion, INBS €1 billion and EBS €0.1 billion.

Deputy Joe Higgins: Thank you. If I might move on then to an issue that has also been dealt with in the sense of the type of security, or not security, that was given by borrowers, that the banks did or did not demand. That has been dealt with quite comprehensively but can I just ask you finally on that, were there variances by scale of debtor in regard to this practice? You refer to somebody taking paper out of their pocket and showing it to a banker and this was accepted as good coin. Did the ... how ... did acceptance of that relate to the scale or the wealth of the person seeking loans?

Mr. Brendan McDonagh: No. I think all banks ... one of the things they do try to do is to take correct security if they issue a loan. That is one of the fundamental principals of banking, but I think that there was so much lending, at such a volume of lending at the time that up until 2010, until it was outlawed by the Law Society, banks probably relied on third party solicitors more to take security for them, and relied on that. There has been a number of cases where banks have sued solicitors where the form of security was defective. I just think there was such a volume and scale of activity that it was all about more and more lending as opposed to concentrating and doing the sort of nitty gritty, ensuring that you had correct security over it. I mean, if you think about it Deputy, we almost ... we knocked about €500 million off the price we paid the banks at acquisition in terms of insufficient security, and we knocked over €300 million subsequently, that's about €800 million. That's about 1% of the loans, just over 1% of the loans that actually ... that came to NAMA, €74 billion. I think it was expensive for them. It cost them €800 million in terms of lost money that they didn't need to lose but I certainly think that it is not on the scale that would indicate a systemic problem, it just indicated a bit of a ... it was probably a lot of it down to the volume of activity and not enough dotting the i's and crossing the t's.

Deputy Joe Higgins: Okay. Mr Daly, on page 16 of your introduction you say "NAMA may realise a surplus of up to €1 billion for the Irish taxpayer by the time it completes its work." Do you mean by this that the projection you make is that when NAMA is wound up you will have paid to the banks the €31.8 billion that was agreed in September 2009 for the loans that you took - you'll have paid that from the properties you sold or from income like rent for the properties before you sold them - that you'll also have paid the same banks' interest in the interim on those loans, covered your own running costs and there will be €1 billion surplus? Is that in a nutshell what you mean?

Mr. Frank Daly: Yes, essentially that. It's the ... if you start at the ... our first priority is the €30.2 billion senior debt.

Deputy Joe Higgins: Yes, okay, but-----

Mr. Frank Daly: The second is the subordinated debt, the €1.6 billion. We pay our own way. We have never been a drain on the State in terms of our own operating costs. They will all be paid. I suppose there are two other pieces. So on top of that, yes, there will be €1 billion.

Deputy Joe Higgins: Yes.

Mr. Frank Daly: That is, we hope there will be €1 billion.

Deputy Joe Higgins: Okay. Now, can I ask you there, Mr. Daly ... no, I understand the elements are, as I've ... in general as I've outlined, but can I ask you this: is it fair, from the viewpoint of the Irish people, to call this a surplus or a profit? Now, let me just explain. The chief executive told us, on page 3, "NAMA paid the [banks] €5.6 billion more than the private sector market would have paid them at the time of acquisition." In fact, the EU said this was state aid. Not only that but the valuation was set at 30 September, I think, 2009.

Mr. Frank Daly: November.

Deputy Joe Higgins: November. And then Mr. McDonagh, chief executive, said, "NAMA had to absorb losses arising from the impact of the 25%-30% decline in Irish property values ... right up to the end of 2013." Mr. McDonagh continues, "Essentially, therefore, the institutions [i.e., the banks] would have been paid about €22 billion by the market." In other words, if the supposed rules of the capitalist markets applied, the banks would have been given €10 billion less for the loans that you bought than you actually gave them. So, Mr. Daly, rather than a €1 billion surplus to taxpayers, would it be more accurate to say that NAMA was used to give a further €10 billion by way of a bailout to the banks on top of the €40 billion that the taxpayers were forced to put in? Or could I ask you, to put it another way, instead of your €1 billion, should it ... should you say there was a loss of €49 billion rather than a surplus of €1 billion? Would that more accurately sum up, or not, the situation?

Mr. Frank Daly: You have to take the view, Deputy, if the banks had been paid less by NAMA, and we didn't have really much say over what was actually paid to the banks because the valuation regulations were the valuation regulations, okay, at November 2009, including a long-term economic value uplift and all of that, which is in the draft regulations which are in the core booklet. What we're saying is that on top of everything that NAMA will repay, we will make €1 billion of a surplus. Now, if NAMA had paid the banks €10 million ... €10 billion less, the reality is that that money would have had to be put into the banks anyway, you know, they would have had to be recapitalised. So you really ... and that's all coming ... still coming from the taxpayer.

Deputy Joe Higgins: Yes, but what-----

Mr. Frank Daly: The point is, I suppose, when we talk about €1 billion, we were dealt a particular hand of cards; we had to pay the banks on the basis of an approved valuation methodology approved by the Oireachtas, the European Commission. So that's what we paid. All we're saying is that on our performance on top of that we will not just realise every bit of debt that was incurred, not just cover our own expenses, but return a surplus. Now, you go back to the ... you go back to the early days of NAMA and the debate about NAMA and all of the talk about NAMA being another big black hole and they would never actually repay anything like the senior debt or the subordinated debt and they would make a massive loss, we're saying no, that's not the case, that will be reversed and we will make a-----

Deputy Joe Higgins: Can I read the following to you-----

Chairman: You've about five minutes, Deputy, but I'm picking up phone interference there so I'm not too sure if it's in the proximity of the mics that are currently in use so I'd ask people to turn off their phones please because it's disrupting proceedings. You have five minutes, Deputy.

Deputy Joe Higgins: Can I put it to you ... Mr. Simon Carswell, a journalist, in a book called *Anglo Republic*, page 276, says as follows ... I put this to you for a comment, "Critics of NAMA viewed the agency as another bailout for the banks: a political tool to recapitalize them by stealth by overpaying for assets that nobody else in the world would touch, and to deceive the public about the true cost." Would you have a comment on that?

Mr. Frank Daly: We have certainly never ... and I don't think there has been any deceit of the public about the true cost of NAMA. It's been absolutely upfront from day one. We go back ... I go back to the discussion that was had earlier with Deputy McGrath. There had to be a solution. We had an extraordinary economic situation at that time. The whole credibility of this country was at stake. Fundamental to that credibility issue was what was going on in the banks, what was on the balance sheet of the banks. The whole ... to quote somebody, I think from Sweden, a hole in the balance sheets of the banks is a hole in the balance sheets of the banks. Don't let's fudge it. You had various options, which were open to Government, and I'm not going to get into a political debate. The asset management agency approach was taken, given the scale of what was involved in Ireland, and that is what ... that is the mandate, that's where NAMA started from.

Deputy Joe Higgins: I'm not getting at you personally whatsoever, Mr. Daly, in any sense, but I'm just saying, from the point of view of the taxpayer out there, would you understand if they felt that rather than saying there's a surplus of €1 billion from the whole mess, that we have a loss of €49 billion-----

Mr. Frank Daly: What I would expect them to understand is that if NAMA, after five or six or seven years, was making ... was not repaying its debt, if NAMA was making a loss, that then the ultimate cost to the taxpayer would be hugely different and hugely more than it is now. What I'm saying is that in the overall scheme of things, if NAMA makes €1 billion of a surplus, that is €1 billion less that the taxpayer will have to fork out for this whole debacle.

Deputy Joe Higgins: Yes. Having-----

Mr. Frank Daly: And that's what I would hope ... that's what I would hope they will understand.

Deputy Joe Higgins: Having lost €49 billion already, but may I just go on to the last-----

Mr. Frank Daly: Sorry, NAMA ... hold on now, hold on. NAMA didn't lose €49 billion.

Deputy Joe Higgins: No, no, but the whole situation. That's what I'm ... just the last theme, Mr. Daly and Mr. McDonagh, because time is ... now, both of you will say and you indicated that NAMA has been essentially a very socially progressive influence in relation to how it has operated and the outcome. Can I just put a quote to you, which is from the chief executive of Blackstone, which is a major fund that NAMA has sold a lot of property to? And this person says, a few years ago, "As we look at the current situation in Europe, we are basically waiting to see how beaten up people's psyches get, and where they're willing to sell assets ... You want to wait until there's really blood in the streets." Now, Mr. Daly, with that type of philosophy, you have sold substantial assets in this country to funds like this. Some would say vulture funds; I won't comment. How can it possibly be in the interests of the Irish people ... and just to say, Mr. David McWilliams, whom you're familiar with-----

Chairman: May ... witnesses to ... allow time as well to them to respond, Deputy Higgins, so I need you to make the question as quickly as possible.

Deputy Joe Higgins: Yes. I'll be very brief. The dynamic, says Mr. McWilliams :

> The dynamic of foreign funds buying up Irish property at deep, deep discounts, only to sell the same assets on in a few years at a significant profit, is the Hibernian piece in a global jigsaw which is seeing the very rich get even richer. To misquote Doctor Spock, "It's capitalism, Jim, but not as we know it."

He goes on to say that ... in other words, that it's deeply, and will be deeply damaging, that this type of speculation is now taking place in the wake of what NAMA has done as supposed rescue of the situation, that, in fact, it's deeply negative. And, lastly, that ... are there apartment owners or people who have mortgages-----

Chairman: Deputy, I need to facilitate time for a response.

Deputy Joe Higgins: -----that are caught up in this situation? Thank you.

Mr. Frank Daly: Sorry, I'd just-----

Chairman: Briefly, Mr. Higgins ... or Mr. ... Deputy Higgins, thanks for that. Briefly, Mr. Daly and Mr. McDonagh, but I need to move onto the next question.

Mr. Frank Daly: On the Blackstone quote, I mean, I've read it. I'm not going to comment on it but I think it does actually point to the fact that if they were coming to Ireland in the years after NAMA was established expecting that they were going to pick up cheap assets, they didn't, because we didn't put them on the market. There were plenty that came in. They kicked the tyres. They offered us derisory prices and we said:

> Go away. Cop yourselves on. Go off. We're not under pressure to sell here.

And we weren't under pressure to sell because we had the UK market being actually good to us, which is the point I made in my statement. So we didn't sell at fire sale prices.

As to whether they are all vulture funds or whatever, you know they are investing in Ireland now. And whether you like it or not, we actually do believe for a functioning property market, we do actually need investors coming in. I would love to see more Irish investors buying Irish assets and I am glad to say that is beginning to happen, you have investors coming from all over the world. But you know, in some cases these are ... I know the white tailed eagle in your own home county, Deputy, may not be totally accepted, but in some cases these investors coming into Ireland are actually good for the country. The main point is that we have not been selling cheaply, we have not been fire-selling, and, in fact, we are at the situation now where it is impossible really to forecast when a market will peak or what is the optimum day that you sell your assets.

But I think we have called it right in relation to that. So, if you go back to that quote from Blackstone ... I think you went and you asked any of the funds that have been dealing with us over the last four or five years how they found NAMA to deal with, the one word that would come through is "tough" and "difficult.", and looking always for the best price.

Chairman: Deputy ... or Senator Michael D'Arcy. Senator D'Arcy, you have 25 minutes.

Senator Michael D'Arcy: Thank you Chairman. I am just going to continue where you finished Mr. Daly please. These private equity funds that have come in, you have commented that there has been a sale in the region of €6 billion towards private equity funds. The oversight of these funds- both nationally, here, and internationally - is there any?

Mr. Frank Daly: The oversight of those funds? I think there is probably general regulatory oversight, but to be honest with you Deputy, I am not ... Senator, I am not familiar with the detail of that. I don't know whether Mr. McDonagh is-----

Mr. Brendan McDonagh: No I mean most of the people-----

Mr. Frank Daly: Some of them are quoted entities, by the way, so there would be a degree of control there.

Mr. Brendan McDonagh: Some of them are quoted entities, and have got their own their own rules about that. But most of the money that these private equity buyers have is secured ... is institutional money. And is typically from US endowment funds and college funds and things of the day. And you know, like the teachers' fund and CalPERS and things like this. And ... and ... they give the money to these private equity funds to invest it for them and to earn a return. And those people when they are giving their money to these funds insist on a certain level of governance and things like that. Whether the issue of about ... whether it is regulated in each end of the market they are operating in, you know, I am not an expert in that either. But ... but they do have to observe the laws in each particular jurisdiction.

Mr. Frank Daly: And I think, perhaps, the point I should have made in response to Deputy Higgins was that why it is a good thing that some of these funds are coming into Ireland is that it is bringing equity funding into the market. And part of the problem that was in the property market here over the years has been the almost total reliance on bank ... bank debt. So I think in future if you have a mixture of that, of equity and debt funding, you are getting away from a vulnerable model and you are getting in some of these investors, the type of ones that Mr. McDonagh has talked about, that they have a longer-term horizon. So you get a more stable involvement and, crucially, when they buy properties they invest in them and they develop them out and they refurbish them. And that is creating activity in the construction sector as well.

Mr. Brendan McDonagh: Or they sell them on.

Mr. Frank Daly: Or they sell them on, but ... you know, it is market. You can never get to the situation where people won't decide to sell on.

Senator Michael D'Arcy: Can I ask Mr. McDonagh ... the average loan discount ... and I am operating from the core documents of NAMA - NAMA C4b Vol. 1, dated 31 March, page 26. And this is a presentation you made, Mr. McDonagh to the public accounts committee on 13 January 2011, "[The] loans transferring to NAMA was actually going to be less than the 30% estimate in the [Minister ...] Minister's September announcement." As it transpired, the real discount that has been applied across all five institutions to date is, as we all now know, an average of 58%. Could you explain how we moved from a position where it was going to be less than 30%, to an average amount of 58%?

Mr. Brendan McDonagh: Yes, Deputy, I dealt with that at the time. When we were compiling information from the institutions during the summer 2009, which was pre-NAMA - the NAMA Act hadn't been passed at that stage, it was purely an information exchange between the banks and myself and my team - we asked the banks what their loan to values were. They typically, as I said earlier, came back and said that their loan-to-value lending was around 70%, except for one institution which said it was lending about 100% loan to value. And we did an estimation that, based on their returns ... that they ... that their average loan-to-value lending at origination was around 77%. Subsequently, when the banks provided the information to us as part - when the NAMA Act was passed, that they were giving us information as part of the loan transfer - and we looked at the valuations of the property and ... then came to our own conclusion was that the loan-to-value ratios were probably closer to 100%, rather than 77%. And therefore that would result for the majority of the increase in the discount from 30% towards mid-50s.

Senator Michael D'Arcy: Can I ask the information that was exchanged between the bank

... the banks and yourself? Was Project Atlas part of that information?

Mr. Brendan McDonagh: No.

Senator Michael D'Arcy: The PwC report?

Mr. Brendan McDonagh: No. No. That's not ... that wasn't part of the information. It is in the booklet here. There is a copy of the questionnaire I sent to the banks. I asked the banks a number of questions about the type of books that they had, how much loans were performing, what was their loan-to-value ratios, what was the geographic breakdown? It was a high level information, initial fact-finding exchange that the banks were told to co-operate with me, as the interim managing director of NAMA at that stage, to get high-level information from the banks. They weren't obliged to give any specific information ... they were ... it was up to them to provide information to me and co-operate with me. That was the direction from the Minister and the regulator to them. And subsequently, when we actually got the real information after the NAMA Act was passed, the only reasonable conclusion that myself and my colleagues could draw was that the loan-to-value ratios were not what was represented to us.

Senator Michael D'Arcy: Just to be very clear, Chairman ... I suppose what I am trying to probe is ... Project Atlas was the PwC report commissioned by the Financial Regulator and it was presented to the Minister in March '09.

Chairman: Can you just move a bit closer to the mic, Deputy?

Senator Michael D'Arcy: Was presented to the Minister in March '09. And you're dealing with the banks in ... at what, summer '09? That report ... PwC were paid €5 million for the valuations for ... I think the fieldwork was concluded December '08. So what you are telling me was Project Atlas, which was commissioned by the Financial Regulator, was presented to the Minister in March, wasn't given to you in summer - three months afterwards - for the banks' valuations?

Mr. Brendan McDonagh: I was aware of the existence of Project Atlas, but that is a different thing which is not covered in the inquiry here ... here today, in the booklet that-----

Senator Michael D'Arcy: Did you request any of the Project Atlas information?

Mr. Brendan McDonagh: Well the information really wouldn't have made ... wouldn't have been much help because effectively what the PwC report did was that it extracted information ... again, what I was looking is aggregate information which made up a bigger quantity of the books ... of the type of loans that would come to NAMA. And I asked the banks to provide that information to me ... in good faith, so I could do my work as part of it ... as part of compilation of NAMA. And I had to use that information then to compile as ... my own analysis of the books.

Senator Michael D'Arcy: But, by virtue of the fact that the commissioned work was only a matter of a few weeks - a few months old - you didn't request it?

Mr. Brendan McDonagh: But ... but ... I was aware of the work, Senator, right-----

Senator Michael D'Arcy: But you didn't request it?

Mr. Brendan McDonagh: -----but the reality is ... about that information ... the information was compiled in a completely different form that was going to be useful to me in terms of trying to figure out what was the universe of loans that would come to NAMA, and the constituent make-up of those loans, by type, geography, loan-to-value ratios. It was compiled in a different form. It was compiled in the form of lending to individuals debtors. And that's all I can say about that, Senator.

Senator Michael D'Arcy: Can I ask, in terms of the participating institutions, you stated that the banks covered - as participating institutions - led you to believe that 40% ... 40% of the loans that were transferred were income producing. You say today that it was 23%?

Mr. Brendan McDonagh: Yes, false acquisition. Again, once we got the loans and we sat down and started analysing the loans. At the end of 2010, which was the first reporting period, we were obliged do it ... it turned out to be 23%.

Senator Michael D'Arcy: Could you just expand upon how it turned out to be the case that the banks can tell you that 40% of their loans are income producing, and it goes closer to half of it?

Mr. Brendan McDonagh: I can't explain that Senator, that wasn't my ... I mean I asked the banks for information, they gave me an estimate that there about 40% of them were income producing when you compiled them with ... across institutions. When we actually acquired a loan that turned out to be 23%. Then all we can look at then once we acquire them is saying, you know, is our definition of performing different, maybe, to their definition of performing, you know. So I have to report on the facts as I find them, and I am statutorily bound, as NAMA board is, to report on the facts as we find them, and we reported the facts post-acquisition that their performance level was 23%.

Senator Michael D'Arcy: Chairman, if you ... I do apologise for this - I just want to go back to the previous point that I was discussing with you in relation to the loan, with your permission please. In that ... sorry, in the loan amount that was transferred. When it was said it was less than 30%, but it turned out to be 58%. In that same public accounts committee meeting, Mr. McDonagh, you said:

> I, [yourself] and [my chairman,] Mr. Daly, have met with the Garda and have exchanged correspondence with the Financial Regulator's office on this matter. We made it clear that our legal advice is that the loan-to-value information was provided [at a time] before the enactment of the NAMA legislation. As the NAMA Act did not exist at that time, any examination of the information provided prior to the Act could not be carried out under the NAMA Act or be actionable by NAMA under section 7 or section 203 of the Act. [That] of course ... does not mean that it is not a matter worthy of consideration by other authorities with the relevant powers. The Financial Regulator, as far as I am aware, is responsible for the conduct of the financial institutions and is also responsible for ensuring the publicly quoted banks provide correct and timely information to the market.

Have you had any other correspondence with the Financial Regulator in relation to the 30% ... less than 30% figure that was given initially that turned out to be 58% in practice?

Mr. Brendan McDonagh: No. The regulator looked at the time - we provided some information to the regulator, and the information ... and the regulator is independent of NAMA, and went off and did his own exercise, and you know, whatever the conclusions on that is a matter for him.

Senator Michael D'Arcy: In previous evidence, Mr. Peter Bacon, you seemed a little bit piqued, Mr. McDonagh, in relation to his evidence that he gave that NAMA is a ... I'll get the exact term that he used, I think - "a debt collection agency". You seemed a little bit piqued at that. Do you feel that is an unfair characterisation of NAMA?

Mr. Brendan McDonagh: I think factually it's unfair. Personally, I know Peter. Peter's a good guy, but I just thought, and in fairness to him he did say on the day of the evidence that effectively he didn't have any particular insight into NAMA that was just his opinion. So, and I suppose what I'm pointing out here is that just to, I suppose from the record from our point of view, we do many other things which is not just a pure remit of a debt collection agency. We are obliged to collect debts, that's what we're expected to do and we do it, and we do it to the best of our ability, but we do many other things, as I outlined in my statement.

Senator Michael D'Arcy: Mr. Daly, in your statement you quote the figure of €40 million and----

Chairman: Can I just give you a little bit of clarification on the Peter Bacon comment because it could be construed correctly or incorrectly that Mr. Bacon was making a statement not just in terms of NAMA becoming a debt collection agency, but there had been a mission drift from its original purpose, and this is what it was becoming and it wasn't functioning as it was set up to be. So I suppose that is the question that's being put to you. Has there been mission creep, or mission drift?

Mr. Frank Daly: No, but I think what you have to take into account, Chairman, is Mr. Bacon produced a report, and then that report became the basis of a NAMA Act, which went through a very extensive consultation process - there were something like 400 amendments put during the passage to the Oireachtas. So I don't think there ... certainly the most important thing for us would be that there is absolutely no mission creep from the Act, because the Act is our ... viable, not any report, and there certainly hasn't been. But I've reread Dr. Bacon's report recently in the context of this hearing and I would certainly say there has not been any significant mission creep from that. I think he might have had a general view. I know he gave evidence to the committee, for example, back in that ... or he didn't give evidence, but I think it was quoted to him by somebody in the committee that in 2010 he had said we should have sold assets quicker, and I think he said this he was maybe being quoted out of context. So, certainly no mission creep, mission drift.

Chairman: I just felt that that needed a bit time to be responded to, Senator.

Senator Michael D'Arcy: In terms of your evidence, Mr. Daly, €63 million for rent abatement, is that per annum or for the five-year period?

Mr. Frank Daly: No, it's €23 million - if I can just find the case - but it's €23 million per annum and then long term it's €40 million.

Senator Michael D'Arcy: What's the total figure over the five year period, sorry, €23 million by five?

Mr. Frank Daly: No, €40 million.

Senator Michael D'Arcy: Plus €40 million?

Mr. Frank Daly: No, €40 million.

Senator Michael D'Arcy: It's €40 million.

Mr. Frank Daly: Yes.

Senator Michael D'Arcy: In terms of €40 million rent abatement, Mr. Daly, it's a very small amount of money; it's less than 1% of your rent on a stream of €5 billion over the five-year period.

Mr. Frank Daly: But it's not intended to cover the whole gamut of our debtors. It's intended to cover a situation where you have ... and it's primarily in the retail side where you have somebody in a retail business who is tied into an upward-only rent review, and who is struggling. And that is what it's intended to do, so that would certainly be a much smaller percentage of our rental income than the €5 billion----

Senator Michael D'Arcy: I understand what it's for, but I think---

Mr. Frank Daly: The reality is, by the way, I don't have the figures to hand, but in terms of people who have applied for us for rent abatement under that initiative, my recollection is that there is almost 100% granting by now.

Mr. Brendan McDonagh: It's about 350 applications for rent abatement and I think we've only refused ten.

Senator Michael D'Arcy: Some 350?

Mr. Brendan McDonagh: Yes.

Senator Michael D'Arcy: But I'm making the point to you on a rent stream of €5 billion it's less than 1%.

Mr. Frank Daly: I don't think the €5 billion is a correct comparator in this case because I suppose what you would want to do is look at the three hundred----

Senator Michael D'Arcy: It's the only figure that I have for rent from NAMA.

Mr. Frank Daly: Well, okay, but look at the, look at the three hundred and - what did you say it was?

Mr. Brendan McDonagh: About 350 applications.

Mr. Frank Daly: Applications. Look what their rental ... the rental stream from them is and then examine the €23 million or the €40 million as a ... I think you would get a much more, closer----

Mr. Brendan McDonagh: I mean, Senator, the Minister in his budget, I think it was budget 2011, sorry budget 2012, announced that, you know, NAMA would be publishing guidance so now people could get rent abatements. And we gave that, and we were upfront and we were explicit and transparent about it. If people follow that and they make a genuine request and gave us the information that allows us to assess it, then, you know, the evidence has been we've had 350 applications, 340 of them are going to be granted and have been granted, and only ten have been refused. And the ten that have been refused have been really to firms which are profitable across their whole operations but might have one particular store which is causing difficulty, and reality is that, you know, we can't give taxpayers' money away unnecessarily. So if more than 350 applications come in then they would be all looked at and assessed, but all you can deal with is the ones that came to us for-----

Senator Michael D'Arcy: Mr. Daly, on page 2 of your submission you state, "Contributing factors such as zoning and planning, tax incentives, irresponsible developer funding, consumer mortgage lending, absence of market analysis and others". That's five different factors; "and others", I assume they're the primary factors?

Mr. Frank Daly: Yes.

Senator Michael D'Arcy: Could you rate those by one to five, which are the most ... which are the largest impact on the banking crisis?

Mr. Frank Daly: I think you would have to go into the third one there, the irresponsible developer funding.

Senator Michael D'Arcy: Is?

Mr. Frank Daly: Number one ... assuming-----

Senator Michael D'Arcy: Number one is number one.

Mr. Frank Daly: It's, it's probably then an absence of market analysis I think must come high up on the list, OK ... don't hold me to an exact one, two, three, four. But if I wanted to say what were the three top ones it would be the irresponsible developer funding, the absence of market analysis and then there would be zoning and planning policy because to a certain extent actually that and market analysis are they're, they are a bit of the same thing. The tax incentives is one, obviously I have an interest in that from my previous existence, but the reality is that the tax incentives that were there during that period, were probably ... I'm not saying that some of them weren't justified, initially they certainly were, but certainly some of them continued far too long as you know there's hardly any left in that. I chair the Commission on Taxation, as the Chairman mentioned in his opening remarks, and we just identified three instances where tax incentives might be appropriate, that is, to correct market failure, to attract mobile investment and to offset shortcomings in other policy areas. I think when some of those incentives were developed, they were definitely fitted into those criteria, the reality is over the years they didn't fit any of them and they were still continued ... so I think that was ... Then consumer mortgage lending ... again, I'm not sure there was any great irresponsible mortgage lending as such but again you were lending into a market where prices were grossly inflated and therefore the value of mortgages were grossly inflated.

Senator Michael D'Arcy: And you've commissioned research, NAMA have ... you've commissioned research?

Mr. Frank Daly: We have commissioned research, together with the Irish banking and payments association, from the ESRI, which will be independent research. We're funding it but it is very, very clear that the ESRI has independence in terms of its analysis and its conclusions. Some of that has been presented already and I referenced in my statement, and there are two or three other reports due to come in the next couple of months. All of those I think will feed into a situation where you will have a much greater understanding of the housing market in particular, the demographics, the growth areas, the demand areas and supply issues.

Senator Michael D'Arcy: Will they be made available?

Mr. Frank Daly: They will yes.

Senator Michael D'Arcy: They will; good.

Mr. McDonagh, can I ask you ... you had a better insight than most people in relation to the condition of the banks with the numbers that were made available to you in summer '09. In your view were the banks solvent or not on the night of the bank guarantee? You had sight of practically all of the information within nine months.

Mr. Brendan McDonagh: I think the evidence has been that, from what's in the public domain ... is that, there was a view they had a, the banks had a liquidity problem when in fact they had a solvency problem. So I think the market made its own assessment subsequently that the banks weren't solvent.

Senator Michael D'Arcy: And what was your view? What is your view?

Mr. Brendan McDonagh: I think based on the information that's in the public domain that everyone has seen, I don't think they were solvent.

Senator Michael D'Arcy: The €42.2 billion Mr. Daly, or Mr. McDonagh that you said ... you said the banks would not perhaps have returned, wouldn't see much of the €74 billion and that they will see all of their €31.8 billion from yourselves, plus the subordinated moneys. How much of the €42.2 billion will they see from the banks?

Mr. Brendan McDonagh: Well I suppose that's what we're saying, is that once we pay off our €31.8 billion of debt, which is a senior and sub debt, the chairman has outlined here this morning that, based on the current conditions, we expect there will be a €1 billion surplus that will go back to the taxpayer, it won't go to the banks. But the banks took a €42 billion loss and that loss had to be covered by recapitalisation of the banks by the taxpayer. So, you know, everybody talks about the €64 billion that went into the banking system. Over €40 billion of that was accounted by losses related to NAMA's assets but also another €20 billion was related to losses in relation to loans, loans which never came near NAMA.

Senator Michael D'Arcy: The bank guarantee, we were informed, would be the cheapest in history. We were told €4 million to €5 million; the expectation was NAMA would have a write-down of less than 30%, it was double that. Did the bank guarantee and then the establishment of NAMA with the crystallisation of the losses to the banks, did that lead to the national bailout in your view, Mr. Daly?

Mr. Frank Daly: I think there were other factors at play that led to the bailout, Senator. I think after the guarantee that the markets, the capital markets certainly were finding it difficult really to make up their minds about what, exactly what exposure there was there.

Senator Michael D'Arcy: But you were not clear about the 58% write-down-----

Mr. Frank Daly: There were far more, far wider factors than the actual NAMA issue there. I think NAMA certainly brought great clarity to the property end of it, and the real question would be if NAMA hadn't done that, you would still have had those loans on the books of the banks. The capital markets would have taken an even more jaundiced view of Ireland and of the banking and financial system in particular. So what we did was we removed €74 billion, we helped stabilise the banks we helped stabilise their capital adequacy, we gave them bonds which were actually collateral that could be used with the ECB so that, to enable them to get back into some sort of commercial reality or commercial lending. But NAMA and property was not the only issue around at the time of the guarantee.

Mr. Brendan McDonagh: If you think about it, Senator, the markets had decided there was a big problem with the Irish banks. The share price had plummeted substantially, I mean the share prices of, say the two main banks, were probably €16 and €20 probably back in January 2007 and in late ‘08, early ‘09 their share prices were down to maybe 5 cent to 10 cent. So the markets had decided that the banks had a big problem and people were just selling their shares in the banks rapidly which drove down the share price. I think that, you know, markets have no sentimentality, they don’t care how much profits you made in previous years, they care about the situation as of now and what they see, and they made the view that the banking system really was in big difficulty and the reality was that the only option to secure the banking system was for the State to rescue it. By the State rescuing it, it resulted in that the international community was lending to Ireland as a sovereign through the NTMA, was no longer going to lend to Ireland as a sovereign because of the weight of the losses in the banking system which needed to be rescued by the State. That resulted ultimately in the bailout.

Chairman: Thank you very much. On that matter I’d like to see we will be concluded the lead questioning. We will now go into the secondary question. Before I bring in Deputy Doherty, I just want to stay in that space with you for a moment Mr. McDonagh and just to clarify something you said with Senator D’Arcy, are you on record as saying that it is your view the banks were insolvent on the night of the guarantee?

Mr. Brendan McDonagh: Yes I said that, based on everything that’s been presented -----

Chairman: Just to clarify that. I wasn’t too sure.

Mr. Brendan McDonagh: It is a personal view.

Chairman: In my opening comments today I referenced your involvement with the NTMA and with your permission, I’d like to maybe drift into that area now that we’re speaking about the guarantee. Was the NTMA contacted, or you in your capacity in the NTMA contacted by Government or the Department of Finance in the lead up or during the eve of the night of the guarantee?

Mr. Brendan McDonagh: Yes Deputy, myself and my colleagues in the NTMA were requested by senior officials in the Department of Finance to attend meetings in the Central Bank with them, probably from about mid-September 2008 onwards. They asked us for our technical assistance in terms of trying to understand what was going on, given that people in the NTMA would seem to be more market-facing and have an understanding of capital markets.

Chairman: Was there a guarantee document at that time as to how a guarantee would be rolled out or modelled?

Mr. Brendan McDonagh: No.

Chairman: On the night of the guarantee, were the NTMA present in Government Buildings during that period?

Mr. Brendan McDonagh: Deputy, on the night of the guarantee, I arrived home at 7:45 that Monday evening. I got a call from Secretary General Cardiff to come to Government Buildings. I asked him what it was about, he would not tell me. I contacted a colleague of mine Mr. Whelan who headed up the funding of that management agency, because Dr. Somers and John Corrigan were abroad travelling. The two of us went to Government Buildings on the night of the guarantee.

Chairman: Yourself and who?

Mr. Brendan McDonagh: Mr. Whelan, on the night of the bank guarantee, and we were brought into Government Buildings, we were put into a meeting room and we were never consulted or asked any questions until about 1 a.m., when we were told that the Government had made a decision to guarantee the banks.

Chairman: So the guarantee was presented to you as a *fait accompli*, as a completed document? You were not part of the discussions to the finalised document?

Mr. Brendan McDonagh: We were not part of the discussions on the bank guarantee.

Chairman: On the course of the evening, was it just Mr. Cardiff you engaged with by telephone call or what were the physical engagements with officials or politicians?

Mr. Brendan McDonagh: Well, Mr. Cardiff called me. I had no contact with Mr. Cardiff until after 1 o'clock in the morning. When we arrived in Government Buildings, myself and Mr. Whelan were shown into a meeting room and there were two other people in that meeting room. One was Mr. Beausang, who was assistant secretary in the Department of Finance and the other at the time was - and I did not know who he was at the time - was Pádraig Ó Ríordáin, who is a managing partner of Arthur Cox's. The four of us were left in that meeting room. Nobody came in to consult with us or discuss anything with us. There were people coming in and out of the room but we did not know what was going on until after 1 o'clock in the morning, we were told that the Government had made a decision to-----

Chairman: This might sound a silly question but I just need to ask it. Were you aware that a guarantee was being worked on in the adjacent room?

Mr. Brendan McDonagh: No.

Chairman: Did you know what your purpose of being over at Government Buildings that night was actually for?

Mr. Brendan McDonagh: No I did not Deputy, to be honest with you. We had been providing technical assistance to Mr. Cardiff and his colleagues in terms of going with them to meetings at the Central Bank and the Financial Regulator from September 2008 onwards. People were trying to figure out what was going on. I had no knowledge that the Government was considering a bank guarantee.

Chairman: So, even though there had been engagement with the NTMA and the Central Bank in the earlier September period, on the eve of the guarantee you were physically present in the building but no engagement actually taking place between Government officials, the Department of Finance or anybody else with you, other than you waiting in the room with a document presented?

Mr. Brendan McDonagh: No, absolutely. I think it is very telling Deputy, that when the press release was released on the night of the bank guarantee, there was mention of the Central Bank, Financial Regulator, Department of Finance. There was no mention of the NTMA.

Chairman: Did the NTMA have any role or input into the design of the guarantee when it was finalised?

Mr. Brendan McDonagh: Once the Government made a decision that it was a bank guarantee, as public officials we were involved in terms of designing, of helping the Central Bank and Department of Finance in terms of trying to design some of the features around the bank guarantee post the decision.

Chairman: Would it be an accurate description to describe the NTMA as the nation's banker, in that you manage the finances of the State?

Mr. Brendan McDonagh: I think the NTMA is recognised as an agency with a lot of financial and technical expertise. We were the borrowing entity on behalf of the State.

Chairman: You would manage the country's international finances, that would be part of your role?

Mr. Brendan McDonagh: Yes. We would have managed the asset liabilities side of the State's balance sheets, both as loans and, if we had cash, for investment or whatever the case might be.

Chairman: And an international financial agreement that was being put in place, in unprecedented arrangement, you were not inclusive of?

Mr. Brendan McDonagh: No. To be frank with you Deputy, a lot of options were being considered in terms of providing ... because people, there was this view that the banks had a liquidity problem not a solvency problem. There were lots of discussions going on, including on that Sunday, the day before, which was basically talking about would the NTMA provide additional funding to the banks. We already had some bank deposits with the banks and things like that, but there was no substantive discussion about the bank guarantee. The first I heard that they had decided the bank guarantee, had guaranteed the banks, was about 1 o'clock in the morning when we were told and that's the way it was.

Chairman: Did the NTMA have a view of the guarantee when it was actually put in place with regard to how extensive it was and how it may actually impact upon the NTMA's operation, because you said earlier that the NTMA was being locked out of the international financial market? So what was the NTMA's view of the guarantee when it was put in place?

Mr. Brendan McDonagh: Once the Government made the decision about the bank guarantee, myself and Mr. Whelan, my colleague, had to work to have ... The whole issue of the guarantee was going to be announced the following morning, if you recall, when the markets opened, to get ready so that it could be explained to the markets that the Government had entered into a bank guarantee. Myself and Mr. Whelan's view at the time was that this would weigh heavily on the sovereign and would weigh heavily on the cost of money, the cost at which we could raise money in the markets.

Chairman: Finally upon that ... So when you left the building that night was there any further discussion with the Taoiseach, the then Minister for Finance, the Department of Finance officials, was it a case of this is what it is and thank you, good night? Or did you go into a huddle with them to say this is how it is going to play out?

Mr. Brendan McDonagh: No. There was one technical aspect which Mr. Cardiff asked me to go and talk to the Taoiseach about. The Attorney General and Minister Lenihan had left at that stage, which was basically around whether the guarantee applied just as an Irish entity or whether it applied to oversea subsidiaries. My technical advice was that overseas subsidiaries had also borrowed in their own name, and that it would be very hard to limit the guarantee only to the Irish operations and not to the overseas subsidiaries. People are linked to AIB as an entity, by and large, not just AIB UK or whatever the case is. That was the only technical thing. It lasted about 90 seconds. I left the room. Myself and my colleague, Mr. Whelan, left Government Buildings probably about, I do not know what time it was, 3.30 a.m. or 4 a.m. in the morning. I went off then to prepare for being ready for the opening of the markets at 7 o'clock.

Chairman: Just for the record, what time did you arrive in that anteroom at?

Mr. Brendan McDonagh: I think it was about 9 p.m. when myself and my colleague arrived at Government Buildings.

Chairman: From 9 p.m. in the evening until 1 o'clock in the morning or so and no engagement until 1 a.m. What do you believe was the purpose of actually having you over in Government Buildings that night?

Mr. Brendan McDonagh: I do not know. Maybe it was that they required technical assistance, that they could call on us. I am only purely speculating Deputy, but we had provided some technical input in the weeks before that on different things. I think, I do not know, we were not consulted.

Chairman: Thank you very much. Deputy Doherty, you have ten minutes.

Deputy Pearse Doherty: Go raibh maith agat a Chathaoirligh. Tá fáilte roimh an beirt chuig an coiste fiosrúcháin. Just to pick up on the Chairperson's line of questioning there and to go through the sequence of events, from what you have informed the committee Mr. McDonagh, you were called by Kevin Cardiff at around quarter to eight, you arrived in Government Buildings at 9 o'clock. You were left with Mr. Whelan, Mr. Beausang, Mr. Ó Riordáin until 1 o'clock in the morning, is that correct?

Mr. Brendan McDonagh: Yes.

Deputy Pearse Doherty: And did anybody say to you why you were here? Did you ask?

Mr. Brendan McDonagh: No but you ... I mean, we were in a room, the door was closed, there was something else, we could see that there was probably something else going on and figured out that there was something else was going on in another room but we did not know what it was.

Deputy Pearse Doherty: And Mr. Beausang was the assistant secretary who was there with you. Did you ask Mr. Beausang, was he aware of what was going on?

Mr. Brendan McDonagh: I think we did as far as I can recall and I do not think he was fully aware either.

Deputy Pearse Doherty: Okay, so he did not discuss the idea of a bank rescue-----

Mr. Brendan McDonagh: No.

Deputy Pearse Doherty: -----or a bank guarantee?

Mr. Brendan McDonagh: No.

Deputy Pearse Doherty: Okay, and at 1 o'clock you were informed that the Government had made a decision to guarantee the banks. Is that correct?

Mr. Brendan McDonagh: Yes.

Deputy Pearse Doherty: Okay, and you were informed that it was a Government decision or was a recommendation from Cabinet or from the Taoiseach or the Minister of Finance. How was it informed to you? Who informed you?

Mr. Brendan McDonagh: I think it was, you know, it was not a formal communication, Deputy, if you would appreciate it. It was just saying the Government have decided to guarantee the banks and there is a lot of work to be done now to prepare and, like they discussed, this was going to be announced at ... when the markets open in the morning at 7 o'clock.

Deputy Pearse Doherty: And who said that to you?

Mr. Brendan McDonagh: I think it was Mr. Cardiff.

Deputy Pearse Doherty: What was your gut reaction on hearing that?

Mr. Brendan McDonagh: I was surprised.

Deputy Pearse Doherty: Why would you be surprised?

Mr. Brendan McDonagh: Because I suppose there was no substantive discussion before that.

Deputy Pearse Doherty: Okay.

Mr. Brendan McDonagh: And I would personally ... Well, listen, not that it needs to involve me in the case in the day, because, you know, we were only there as technical advisers for a couple weeks previously. It just seemed a big decision that probably there are lots ... other people have to answer about the reasons for the decision. But I was just a bit surprised and I suppose the scale of it, really, to be honest.

Deputy Pearse Doherty: Did Mr. Cardiff inform you that it was all of the banks including Anglo and Nationwide and subordinate debt?

Mr. Brendan McDonagh: Yes.

Deputy Pearse Doherty: Did you offer an opinion when he mentioned that to you?

Mr. Brendan McDonagh: I think Mr. Cardiff would have been aware of my views before that night in terms of-----

Deputy Pearse Doherty: On the night, did you offer an opinion when he mentioned that they were guaranteeing Anglo and Nationwide?

Mr. Brendan McDonagh: Things were moving at a huge pace, Deputy.

Deputy Pearse Doherty: I understand.

Mr. Brendan McDonagh: And there were lots of people who ... you know, things were moving very quickly. You did not have time to have discussions. My view is, as a public official, you know, if the Government had made the decision to do something and we had to think it in about 7 o'clock the markets were opening the following morning, how was NTMA ... myself and Mr. Whelan had to think about, how was the NTMA going to be able to handle this and deal with it?

Deputy Pearse Doherty: You say Mr. Cardiff was well aware of your position in relation to Anglo and Nationwide. What was that position that he was aware of?

Mr. Brendan McDonagh: My position, and I think for some of my colleagues ... and I will only speak for myself because my colleagues can speak for themselves, I am sure if they turn up here, would have been that we were very sceptical about the operating models of those two institutions.

Deputy Pearse Doherty: Okay and then you had a 90-second discussion with the Taoiseach.

Mr. Brendan McDonagh: Yes.

Deputy Pearse Doherty: And between 1 o'clock and 3.30 a.m. to 4 o'clock, what was happening then, between then?

Mr. Brendan McDonagh: Well what was happening then was that the statement which ultimately came out was being prepared and there was, sort of, meetings you know, going on about people were feeding into the statement about, you know, what was going to be said.

Deputy Pearse Doherty: Were you part of that?

Mr. Brendan McDonagh: Sorry?

Deputy Pearse Doherty: Were you part of that?

Mr. Brendan McDonagh: Yes, we were shown the statement as it was going along because obviously we had a vested interest because we had to be market face at 7 a.m. in the morning.

Deputy Pearse Doherty: Can I ask you question in relation to the statement? Were there a number of drafts of the statement? Or there would have been a discussion in relation to what should go in?

Mr. Brendan McDonagh: I think there was more of a discussion in terms of what would go in. I mean, the primary drafters of the statement would have been probably ... I would say probably ... I do not know because I was not in the room the whole time, but it probably would have been probably Mr. Cardiff and Mr. Doyle.

Deputy Pearse Doherty: Are you aware, or was there a situation where a section of the statement was deleted that would have made claim in relation to the solvency of the banking system and of the individual banks?

Chairman: You are going into the realms of speculation rather than what may be informed opinion.

Mr. Brendan McDonagh: I have no idea.

Deputy Pearse Doherty: You have no information-----

Mr. Brendan McDonagh: I have no information, Deputy.

Deputy Pearse Doherty: Okay, I appreciate that. And it is important just to try to patch together, you know, the events of the night. Can I just return in relation to NAMA. Mr. Daly, you mentioned that there was an explosion of credit and a huge amount of credit into the Irish economy. In relation to the €74 billion worth of loans that were transferred to NAMA, how much of them were in the Irish State? In terms of percentage wise?

Mr. Frank Daly: About 50% to 60%.

Deputy Pearse Doherty: So, half of ... just over half of all the NAMA loans and Mr. McDonagh you talked about that this cost about €40 billion in terms of the recapitalisation of the banks. Just over half of it were actually in the Irish State?

Mr. Frank Daly: Yes.

Deputy Pearse Doherty: Okay. In relation to the security that underpinned some of these loans, and you mentioned in Vol. 2, page 5, table 3 and again Vol. 1, page 4, table 2, where NAMA wrote down €477 million as a result of not being able to ... inadequate security, and then claimed back €334 million from the banks for the same purposes, which totals €811 million of unenforceable securities. I assume, and correct me if I am wrong, that that is at the consideration price, that that is not at the par value.

Mr. Frank Daly: That was the consideration price.

Deputy Pearse Doherty: Okay. So in relation to the unenforceable security of loans, what was the par value of unenforceable security?

Mr. Frank Daly: We do not have the information at hand, Deputy, but if you were to assume that it was an over 50% discount, you can reasonably assume that it was double that.

Deputy Pearse Doherty: So we are talking about somewhere in the region of €1.7 billion-----

Mr. Frank Daly: Probably €2 billion.

Deputy Pearse Doherty: About €2 billion of loans that the institutions had that .... the money could not be collected or the assets could not be sold because the security-----

Mr. Frank Daly: Absolutely. And I am on record before, Deputy, in terms of this, that in tranche one, there were €1 billion worth of loans from one particular institution which did not transfer to us in tranche one because when they looked at security, they did not have first rank on security and they had to go to the courts to perfect our security.

Deputy Pearse Doherty: So did those people who took out the money just walk away because the security is not there? Is that what happens in a case like this?

Mr. Frank Daly: Well, on a case like that, we do not pay for anything we cannot enforce, but what we will try to do then is remedy the security. So we will say to the debtor, you know, "We need you to sign new loan documentation to remedy the security." Clearly the debtor knows what the issue is. But I suppose he has to think in terms of this, unlike the banks who have five institutions, and he could say to one institution, "I do not need to deal with you because you know, that is your problem." Whereas with us, he was aggregated and we had a lot of levers to be able to encourage him to co-operate with us.

Deputy Pearse Doherty: Okay. Mr. Daly, you mentioned commercial property was basically NAMA is commercial property, the €74 billion, the majority of this is commercial property and you give a good breakdown in relation to where the institutions and the type of property that were held in Vol. 2, page 7. We have the consideration amount, the €32.4 billion that was paid and we can see very clearly that, for example, you paid over €3 billion for hotels, €14.9 billion for investment properties which are office blocks and retail I assume, €4.9 billion for residential and development property €1.5 billion and land €7.8 billion. Do we have a breakdown of the actual par value of this? What was the ... What I am trying to understand is what was the write-down for example in hotels, was it 57%, was it greater or was it less? You have talked to the committee about up to 90% write-down in land. Do we have any idea in terms of five categories there, what were the individual write-downs?

Chairman: We will conclude on that question if you do not mind and we will resume after lunch and Mr. McDonagh-----

Mr. Brendan McDonagh: As effectively all the lending was ... it was very unusual structure of lending. It was not just lending to hotels. There was, within the same loan, there was land lending, there was hotel lending, there was office lending, so it was very hard to disaggregate it out in the way that you requested.

Deputy Pearse Doherty: You can give an estimation for land but in terms of ... are there no kind of guidelines in terms of hotels, investment property-----

Mr. Brendan McDonagh: Well ... you know, our best estimate is that we acquired €40 billion worth of par debt of the €74 billion was land and development loans. The average discounted of that is around 75% so we ended up paying about €10 billion for the land and development loans if you add those two categories together. And all the other categories which are grouped together, known as investment loans, is about €34 billion par debt and the average discount is around 36% and that is so you would get about €22 billion, so you sorry, €21.8 billion plus €10 billion is €31.8 billion is what we would pay for it.

Deputy Pearse Doherty: Thank you.

Chairman: Thank you very much. I now propose that we will break until 2.45 p.m. as we have run over a bit. Just to remind witnesses once more, that once they have given evidence they must not confer with any persons other than their legal team in relation to their evidence or matters that are being discussed before the committee. With that in mind, I will now suspend the meeting until 2.45 p.m. and remind Mr. McDonagh and Mr. Daly that they are still both under oath. So back at 2.45 p.m. sharp. Thank you very much.

Sitting suspended at 1.20 p.m. and resumed at 2.45 p.m.

Chairman: I will tell people again, because they may have had their phones and other technologies fully enabled during the lunch recess, that they now just need to put them back onto the appropriate mode. Okay? All right. So, with that said, I'm now proposing that we return to public hearings of today's engagement with Mr. Frank Daly and Mr. Brendan McDonagh. Is that agreed?

Deputy Pearse Doherty: Agreed, yes.

Chairman: Agreed. And I'll now proceed on to the next questioner, which is Senator Sean Barrett. Senator, you've ten minutes.

Senator Sean D. Barrett: Thank you, Chairman, and welcome back to our visitors and thank you for your answers earlier. The picture that you both painted of Irish banking when you went in ... €2.5 billion you found borrowed with no collateral and you've recouped €5 billion which the banks weren't collecting. Are those numbers correct, for a start?

Mr. Brendan McDonagh: Yes. In fact, just to correct the record - and thank you for the opportunity in relation to Deputy Doherty ... I've just went back through my notes, because there's such a volume of notes ... the value of collateral where we paid nil consideration was €3.5 billion in nominal terms. It wasn't €2 billion - it was €3.5 billion. And, yes, we have collected €5 billion of income on the portfolio since the start, yes.

Senator Sean D. Barrett: Now, in that picture, as we listen in in the inquiry ... one is that the management of banks themselves changed. They seemed to centralise all decisions and that the conservative old-style bank management based in towns around the country which, you know, didn't lose much money was replaced by one which was meant to be better, obviously, but do you think moving discretion and moving local managers caused a gap between the manager and the people who were doing the borrowing?

Mr. Frank Daly: I think there's probably two elements to that, Senator. There's no doubt that local managers would have been more in touch with what was going on in a particular locality. And, in terms of what we talked earlier in relation to, I suppose, planning and zoning and hope value, local managers I think would probably have been more on top of that. On the other hand, it may be that the amount of discretion allowed to local managers was not consistent, let's say, across the banks or even maybe within some banks. The centralisation of lending certainly probably had the capability to bring a greater discipline to it, and you could expect, in fact, that that's where the greater ... the better analysis of overarching or macro market demand and supply might have been better located.

I suppose the one thing we would say is that, in terms of the documentation that came across to us in relation to the loans, is that I think part of the problem that the banks had in the end was the way in which, in many cases, the actual loan documentation and the detail about the origination of the loans was actually located in the local banks rather than necessarily all centralised in a particular ... one particular IT record or whatever. And that in itself probably created some difficulties for the banks. Again, that's in terms of what we saw in the documentation coming across. So, if you have dispersed lending, if you don't have centralisation of records and if you don't have that sort of centralised oversight, then you do run the risk of not having a full picture of what your lending is.

Senator Sean D. Barrett: In the evidence this morning, the words "regulator was not aware" ... did we have the right system of regulation? Because you probably remember the controversy of whether it should be done in the Central Bank or some amalgam or an entirely separate body, as was recommended by the McDowell report.

Mr. Frank Daly: I mean, I would give you no more than a sort of a personal opinion on that, Senator. Indeed, I'm not going to be very definitive about it because I was outside the system and I'm only really somebody looking in from outside. I think, in terms of the principles that were there in the regulatory system - p-r-i-n-c-i-p-l-e-s as against to p-a-l-s - certainly, I think those principles were by and large pretty okay. The ... it is, I think, commonly agreed that the difficulty was in the application of those principles and, in particular, the whole concept of a principles-based approach. I think, going back to my own opening statement ... where we need to get to is one where there is a more rigorous regulatory system, but we do, I would say, need to be sure that we don't fall into the trap of making that so onerous and detailed that it actually stifles the banks in their recovery in their future business.

Senator Sean D. Barrett: In Mr. McDonagh's evidence, he referred to IAS 39 becoming IFRS 9 in 2018. Is that about 15 years too late?

Mr. Frank Daly: It is. And again, certainly as a lay person, I'd find it difficult enough - and I'm not an auditor and I'm not an accountant ... the problem seems to have been recognised two to three or maybe more years ago. It's a puzzle to me as to why it is taking so long to actually ... because it will only kick in in respect of reporting periods after 1 January 2018. Now, what I have to accept is that IFRS is a worldwide standard and there're a whole lot of countries and a whole lot of individual regulatory bodies to ... who have to buy into that. It does seem to be me to be an inordinately long time.

Senator Sean D. Barrett: Did you have dialogue with the auditors of the banks when you were taking all this stuff on board?

Mr. Brendan McDonagh: No.

Mr. Frank Daly: No. It wouldn't really have been within our remit. We found it much more productive to just take the documentation and do our own analysis and our own valuations and our own security due diligence rather than engage with anybody else or, indeed - maybe it's not implied in your question - but begin to rely on anybody else.

Senator Sean D. Barrett: And you referred to, chairman, on page 11 "stimulating activity in the market". Is that dangerous? I mean, that's what happened the last time. When do we turn that off lest we precipitate another bubble, which some people fear?

Mr. Frank Daly: Well, I think what you try to do is you try to ... particularly for NAMA, as a State body, I think the one thing we cannot do is engage in any speculative sort of ... speculative activity. So, if you take that as a starting point ... but if you take it that there is a market that, for a number of years now, has been pretty much dead in terms of activity, in terms of the provision of much needed office space, particularly grade A space in the Dublin central business district, and if you take, in particular, the problem that there is in housing in this country, or particularly in the capital and some of the other urban areas, then there is a case to step in - for NAMA to step in - both because we have the capital wherewithal to do it, but also because a lot of the debtors who are in NAMA, whether you like it or not, are the ones who have the ... possibly the capacity to do some of that activity. I mean, housing I think is a particularly interesting one because that supply has fallen to really very, very low levels. There were just over 11,000 completions in 2014, 3,200 or 3,300 of those were in Dublin. The telling statistic is that, of those 3,300, NAMA delivered about 40% of them, so there would have been relatively little delivery of housing in Dublin in the last year or so if NAMA had not been active in that market And that level of completions is well short of what the ESRI is predicting or the Housing Agency is predicting. They're all predicting a minimum of something like 70 to 80 or 90-----

Senator Sean D. Barrett: Final question, because the time's running down, and thank you both again. Were we prepared for the euro, where wholesale deposits can flow in ... a banking system traditionally based on deposits and not wholesale lending, not knowing what to do with the extra money ... and, I mean, should we, as a nation ... worked out what would happen in the euro currency much better than we actually did?

Mr. Frank Daly: I think - and Mr. McDonagh may want to come in on this - for me the key point in relation to that is that once we joined the euro, then the risk versus the Irish pound, or the currency risk, pretty much disappeared and there was ... essentially a wall of money became available to the Irish system and, to put it frankly, we didn't use that wisely. We were concerned about certain aspects of it. There'd be a lot of debate about the rate of interest; I think there was little enough debate about whether that would suddenly ... that tap would suddenly be turned off.

Senator Sean D. Barrett: Mr. McDonagh, do you want to add to that?

Mr. Brendan McDonagh: Yes. I think, when you look at the ... again, at the growth in the balance sheets of the banks between 2003 and 2008 ... the banks were lending, but they were effectively lending to a longer-term asset class, which was property, but they were funded by short-term cheap, wholesale money market deposits. So, they were borrowing at, you know, one month, three month, six months at around 2% ... a lot of it, you know, German money coming into Ireland, looking for a home. And, you know, once the crisis happened, all those depositors withdrew, took their money back and the banks were left long on assets but short on cash and, of course, that again precipitates, I suppose, the initial ... and I've looked at this across other banking systems which collapsed - I know some of you have as well - and it's a common feature, you know, the quick liquidity leaves the system first and, you know, and then you've got to try and fiddle that liquidity gap. So, it's not uncommon that the first signs of a banking crisis is that people think there's a liquidity crisis, and, in fact, it's not a liquidity crisis at all.

Chairman: Thank you very much. The next questioner is Deputy Eoghan Murphy. Deputy?

Deputy Eoghan Murphy: Thank you, Chairman, and thank you to the two witnesses. Mr. McDonagh, I'd like to just briefly, with a couple of short questions, return to your work in September 2008 with the NTMA. I think you mentioned earlier, before we broke, that the NTMA was called in to advise the Department of Finance in September '08?

Mr. Brendan McDonagh: Since September '08, we were asked to provide technical assistance to the Department, yeah.

Deputy Eoghan Murphy: Technical assistance?

Mr. Brendan McDonagh: Yes, yes.

Deputy Eoghan Murphy: And were you the person leading on that from the NTMA with the Department of Finance?

Mr. Brendan McDonagh: No, there was three of us involved. It was myself, the former chief executive of the NTMA, John Corrigan, and Oliver Whelan, who was director of debt management. We were the three people who were involved, yes.

Deputy Eoghan Murphy: And you were brought in to advise on what, exactly?

Mr. Brendan McDonagh: Well, as ... I think what was beginning to happen in September 2008 and, you know, my perception of it now, as opposed ... other people have their own perceptions of it, but ... was that the Department of Finance, I think, were becoming understandably concerned maybe about the Central Bank and the regulator and the banking system. And the way it was put to us was that would we come to a meeting, I remember it was a Saturday morning in ... I think around the second Saturday in September 2008, will we come to a meeting in the Central Bank ... with the Central Bank ... with the Central Bank at the Department of Finance, and just sit there and listen and observe and, you know, advise the Department if there was anything we thought that they mightn't have fully understood. And that's how it started.

Deputy Eoghan Murphy: What was being discussed at that meeting?

Mr. Brendan McDonagh: Well, I think at that stage, there was ... again ... an emergence of a liquidity crisis. The banks were losing liquidity ... starting to lose liquidity quite rapidly and particularly, it was probably more pronounced in terms of Irish Nationwide and Anglo.

Deputy Eoghan Murphy: And you said earlier that when you were informed of the guarantee decision, the banker guarantee, that the person I think was Kevin Cardiff who might have informed you; is that-----

Mr. Brendan McDonagh: As far as I can recall, I think it was Kevin.

Deputy Eoghan Murphy: Who wouldn't have been surprised as to your views on the scope of the guarantee. So, you would have communicated your views to them previously to-----

Mr. Brendan McDonagh: No, no, no, I didn't say that, Deputy.

Deputy Eoghan Murphy: No, that's what I'm trying to figure out, why they wouldn't have been surprised as to your views.

Mr. Brendan McDonagh: No. No. As I said, the thing that surprised me was that there was no substantive discussion about the bank guarantee before the bank guarantee was announced ... well, certainly with me and, as far as I'm aware, my NTMA colleagues.

Deputy Eoghan Murphy: Sorry, no substantive discussion on that evening and including prior?

Mr. Brendan McDonagh: Including prior.

Deputy Eoghan Murphy: Okay.

Mr. Brendan McDonagh: And most of the discussion prior had been around would the NTMA provide an additional substantial credit line to the banks.

Deputy Eoghan Murphy: Okay.

Mr. Brendan McDonagh: Because we had deposits with AIB and Bank of Ireland - which is about €200 million each with them - and we had a €40 million deposit with Anglo Irish Bank, I think around a €25 million deposit with EBS and we had no deposits with INBS.

Deputy Eoghan Murphy: Okay. So, no formal recommendation or no formal advice from the NTMA to the Department of Finance prior to the guarantee being notified to you?

Mr. Brendan McDonagh: No. I mean, Deputy, it's on the record. The NTMA were instructed to engage an adviser, which was Merrill Lynch, I think around 22 September 2008 or 23 September 2008. Merrill Lynch were on the scene for about a week before the bank guarantee and that's ... and there was sort of work going in, in terms of looking at options. But most of the discussion that I was aware of, and I'm not saying other people weren't aware of other things, or my colleagues, because that's for them to answer, was around would NTMA provide additional liquidity to the Irish banking system.

Deputy Eoghan Murphy: Okay. So, in terms of Merrill Lynch's work, the NTMA wasn't working with Merrill Lynch on that options-----

Mr. Brendan McDonagh: No. Well, I mean ... I mean Merrill Lynch were working ... let's just put it like this: Merrill Lynch were contracted by the NTMA, because that's what the NTMA were instructed to do, but Merrill Lynch were effectively working for, let's just call it "the system", which, I mean, and the central nervous ... or, sorry, you know, the system was really being controlled by the Department of Finance, who had, I suppose, in terms of the central role, in terms of advising Government.

Deputy Eoghan Murphy: And the final question in this area: when you were notified that the guarantee was taking place, I think you said it was about 1 o'clock in the morning. Was the Minister for Finance present?

Mr. Brendan McDonagh: No, no.

Deputy Eoghan Murphy: Wasn't present when you were told or wasn't present in Government buildings, as far as you were aware?

Mr. Brendan McDonagh: Oh, I believe he was present earlier, but I didn't see him. I mean, I didn't see him. When I was told at 1 o'clock in the morning, I think the Minister for Finance was ... I didn't see him, he wasn't there and I didn't see him at all that-----

Deputy Eoghan Murphy: You didn't see him again that evening?

Mr. Brendan McDonagh: No.

Deputy Eoghan Murphy: No, okay. Thank you. Just now to look back at NAMA then since the beginning of its operation. One of the questions and one of the things that we've heard through previous testimony is about a possible delay in establishing NAMA. Was there a delay, from when it was first signalled to the first tranche being completed?

Mr. Brendan McDonagh: Well, I think two things here, Deputy. NAMA was announced as a concept in the supplementary budget in April 2009. Work had to go on to prepare new legislation and that first draft of that legislation was published on 30 July 2009, it was put out for a consultation and it went back into the Dáil in the Second Stage and I think on 16 September 2009; and between 16 September 2009 and, I think, sometime around 21 or 22 November 2009, I think there was 400 amendments proposed to the legislation. And I think it was finally signed into law by the President towards the end of November 2009 and the board was brought into operation I think on 22 December 2009 and I was appointed chief executive on that day. And that was fine in terms of a national piece of legislation, but we had no authority to start taking any loans from the banks until the European Commission gave approval. And the European Commission did not give approval to NAMA until the end of February 2010, and the first loan transfers started to transfer from the banks one month later, at the end of March 2010. And the loan transfers then continued on for effectively 18 months, but 95% of the loans were transferred to NAMA by the end of 2010.

Deputy Eoghan Murphy: Whether it's a delay or not. let's just say that time lag between certainly the intention to set up NAMA and the first tranche being passed, did that favour people who owed the banks money?

Mr. Brendan McDonagh: I don't think ... I don't think it favoured anybody.

Deputy Eoghan Murphy: You didn't allow people to make certain arrangements with their affairs?

Mr. Brendan McDonagh: It's not obvious to me, and the reason why is that when you look at probably the €800 million of unencumbered assets which were given to us as additional security, and we looked at the asset transfers where people had to give us statements of affairs and things like that, it wasn't obvious that ... and I'm sure there was some who certainly did move to put assets beyond reach, but I think the majority thought that it was an interregnum, that this was a period of slowdown and that the economy would begin to improve again around that period. I mean, if it was feasible in April 2009 to say we're just taking €70 billion of loans out of the banking system, dropping them on Treasury Buildings and just deal with it like that - but that clearly, with 12,000 loans, 5,000 borrowing entities, 60,000 individual properties, that was never feasible.

Deputy Eoghan Murphy: I'm not asking about it being feasible. I mean, it probably wasn't feasible. I'm just wondering about what it might have allowed debtors to do with some of their affairs, which have then had to have been pursued by the agency but did it allow the banks, I mean ... or not did it allow the banks? ... Were you aware of the banks treating debtors any differently in that period? When we look at things like the change in the assumptions about interest roll-up, or in the assumptions about the performance of loans, did the attitude of the banks towards their borrowers change in that period?

Mr. Brendan McDonagh: No, well, I mean, the banks and the debtors were unwilling participants in terms of coming to NAMA. Let's be clear on that. The banks were-----

Deputy Eoghan Murphy: Sorry, unwilling participants?

Mr. Brendan McDonagh: Unwilling participants. I mean, you know-----

Deputy Eoghan Murphy: Can you expand on what that means in practice?

Mr. Brendan McDonagh: Well, in practice it would mean that neither of them wanted to come to a new body. Right? And the debtors were quite happy to stay with the banks. The banks were quite happy to stick with the debtors and nobody wanted to crystallise the losses. So, you know, of course when you crystallise losses it effectively, probably, personally life-threatening for some of the executives in the banks, as did happen, as, you know, people left. But I think the issue was that, you know, if you're saying in terms of behaviour, I can't say that there was any, you know, huge change in behaviour. I ... the thing that surprised me personally the most, and this is just purely common sense, you don't have to be any way ... have a professional qualification in law or accounting to know this, is that when we acquired the loans from the banks only 20% of the income that was on the portfolio was being mandated to the banks. It surprised me that the banks didn't move to capture that income earlier.

Deputy Eoghan Murphy: That they didn't move to-----

Mr. Brendan McDonagh: Move to capture that income.

Deputy Eoghan Murphy: -----capture that income? And does that signify a lack of co-operation, or what does that mean to you?

Mr. Brendan McDonagh: I don't-----

Deputy Eoghan Murphy: On the side of the banks?

Mr. Brendan McDonagh: I don't know whether it was maybe ... whether they didn't think about doing it. Maybe they had just so many other things, maybe they went on the, you know, a state of stasis, or maybe they were always thinking about, you know, survival and just didn't do the simple things.

Deputy Eoghan Murphy: But you are satisfied that the banks co-operated with you appropriately in that period of moving their loans across?

Mr. Brendan McDonagh: Yes, once the decision was made that the loans were coming across and they had to apply to be participant institutions, the banks at an operational level worked very hard to get the loans across to us. Their issue was trying to compile the data together for the due diligence, which was very difficult for them.

Chairman: Deputy O'Donnell.

Deputy Kieran O'Donnell: Thanks, Chairman. Welcome, Mr. McDonagh, Mr. Daly. Mr. McDonagh, just to, I suppose, to round off on the ... around the night of the guarantee. I just wanted to ... just to clarify just a few points, following up on my colleagues. You mentioned that you met Mr. Cowen, the former Taoiseach on the night. What was ... how did that arise or what was the context?

Mr. Brendan McDonagh: I think, as I explained earlier, Deputy, there was an issue about the extent of the bank guarantee, and Mr. Cardiff approached me and said that there was a view that maybe you just ... that the guarantee should be just limited to the main bank, which is like, you know, the main banks operating out of Ireland, and that it wouldn't apply to their overseas subsidiaries. His view and a few of his colleagues' view was that, you know, that mightn't be enough, because the overseas entities had also borrowed in the money markets and in the euro commercial paper markets. And he asked me my view from a technical point of view, myself and my colleague, Mr. Whelan. And we said, "Well, you can't ignore the overseas subsidiaries because they're guaranteed by the parent and, you know, if you'd decided to guarantee, we think that, you know, you can't ignore the overseas subsidiaries."

Deputy Kieran O'Donnell: Had ye any general discussion on the guarantee?

Mr. Brendan McDonagh: No.

Deputy Kieran O'Donnell: So it was just very specific discussion?

Mr. Brendan McDonagh: And then Mr. Cardiff says to me, "Okay, would you come with me in to meet the Taoiseach and the Attorney General?" And I went into the room and I think at that stage there was Mr. McCarthy, who was the Secretary General of the Taoiseach, Mr. Doyle, who was Secretary General of the Department of Finance, and I think Mr. Hurley, who was the Governor of the Central Bank. I can't-----

Deputy Kieran O'Donnell: What time was this?

Mr. Brendan McDonagh: Oh, this was probably 2.30 in the morning.

Deputy Kieran O'Donnell: And was there any question as to why the Minister of Finance, Brian Lenihan at the time, wasn't present at that meeting?

Mr. Brendan McDonagh: No, I found out afterwards that he was sent home because he'd have to be up for this press conference, which I think he gave at quarter to seven that morning.

I think he was sent home, or he went home to get some sleep first. That's my understanding, Deputy, I wasn't there, so this is what I heard-----

Deputy Kieran O'Donnell: And can I just go back. If you had been consulted on the night, what view would you have taken on the guarantee in relation to Anglo and Irish Nationwide?

Mr. Brendan McDonagh: My personal view was that they should have been nationalised.

Deputy Kieran O'Donnell: And would ye have communicated that in previous discussions in consultation with the Department of Finance or the Minister for Finance, Brian Lenihan or the Taoiseach at the time?

Mr. Brendan McDonagh: No, I wouldn't have discussed that with the Minister for Finance or the Taoiseach at the time because they hadn't ... I didn't have a meeting with-----

Deputy Kieran O'Donnell: No, but you were brought in by way of ... you were brought in by the Department of Finance, in terms of discussions?

Mr. Brendan McDonagh: As technical assistants to them. We didn't have discussions with the Minister or the Taoiseach.

Deputy Kieran O'Donnell: Did ye at the time when you were asked to provide additional funding deposits to Anglo and Irish Nationwide, what view did the National Treasury Management Agency take?

Mr. Brendan McDonagh: We took the view that, if we would do it as a State body, that we didn't think it would be prudent thing to do to take the decision on our own bat, and that if we were asked to do it, we'd have to get a direction from the Minister for Finance.

Deputy Kieran O'Donnell: When did that ... when did those discussions take place, where that particular viewpoint was arrived at by-----

Mr. Brendan McDonagh: That happened during the, I suppose, the final two weeks of September 2008.

Deputy Kieran O'Donnell: So at the end of ... sorry, before the guarantee, in the previous ten days maybe, you would have been approached by ... was that by the Central Bank or who were you approached by in terms-----

Mr. Brendan McDonagh: No, there would have been meetings with the Department of Finance and the Central Bank, would have had, and we would have been invited along to those meetings, and there would have been a view expressed that the NTMA could give a credit line, use it ... because we had extensive cash resources at the time, between the National Pensions Reserve Fund, between some cash we were managing as part of the Social Insurance Fund, which was in surplus, between some cash we had ... we had raised a lot of money in the debt markets, and-----

Deputy Kieran O'Donnell: And who did ye ... and two questions: who did you communicate that viewpoint to? And why did ye express that viewpoint, that ye would not - on a prudence basis - ye would not extend additional funding deposits to Anglo or Irish Nationwide?

Mr. Brendan McDonagh: I think our view was that we weren't going to extend deposits to anybody in the banking system more than what we had done ... we had allocated at the time.

Deputy Kieran O'Donnell: Why?

Mr. Brendan McDonagh: Because we had taken a view from August 2007 which was really even a month before the Northern Rock thing, that there was trouble brewing in the capital markets and we had a lot of money, and what we called wholesale money, short-term money, money deposit, and we had taken a view ... I was responsible for counterparty credit limits at the time, as the NTMA's director of finance I had a discussion with Dr. Somers, chief executive, and we discussed the thing that the financial markets were acting strangely. A number of hedge funds were beginning to fail. I think the first hedge funds began to fail around August 2007 which was some BNP Paribas hedge funds. I agreed with Dr. Somers that I would instruct our dealing team that as deposits matured we would just hold those deposits in the Central Bank of Ireland.

Deputy Kieran O'Donnell: Was there ... did you at any stage at that time take the view that there was a solvency issue within the Irish institutions, namely Anglo and Irish Nationwide?

Chairman: I think the question in general now would be do you believe there were insolvency issues in the broader banking area?

Deputy Kieran O'Donnell: It was more around that witnesses said ... that you would be-----

Chairman: I have reframed it now you can come back in.

Mr. Brendan McDonagh: In 2007 we had no idea. We had a concern that international markets were acting strangely, Northern Rock happened a month later. We felt validated by our decision and as deposits matured we just kept them back in the Central Bank, other than the deposits which we had placed with AIB, Bank of Ireland, Irish Life & Permanent, EBS and Anglo Irish Bank, and we had no deposits with Irish Nationwide Building Society.

Deputy Kieran O'Donnell: It's the solvency issue in 2008?

Mr. Brendan McDonagh: On the night of the guarantee it struck me that there wasn't very much information available for anybody to make a big assessment about anything.

Deputy Kieran O'Donnell: Do you believe that it was ... what information should have been available on the night?

Mr. Brendan McDonagh: Well, I wasn't part of the decision Deputy, as I explained-----

Deputy Kieran O'Donnell: No, but as a professional in the area, what information would you have liked to have seen available to make a decision?

Mr. Brendan McDonagh: Well, I suppose I don't know what information was made available by the Central Bank or the regulator that night, but I think in terms of when you look at the ... I suppose ... you would look at the ... a financial regulator would probably expect to have a view in terms of how much liquidity the banking system has, when is that liquidity going to mature and you know ... I suppose scenario planning around that. I am not saying there wasn't scenario planning around that. I suppose the thing that people have to understand is that is wasn't necessarily the loss of liquidity that was happening, it was the rates of loss.

Deputy Kieran O'Donnell: I suppose if it had come on your desk would you have considered solvency on the night?

Mr. Brendan McDonagh: I personally was quite sceptical for some time about Irish Nationwide and Anglo Irish Bank. I wasn't that sceptical about AIB or Bank of Ireland.

Deputy Kieran O'Donnell: And you were sceptical in terms of solvency?

Mr. Brendan McDonagh: I suppose the way I would put it you Deputy, and it is easy for somebody to say that they knew what was happening with the case in the day, I suppose I couldn't understand their business model, it is something I don't understand. I take a very conservative position.

Chairman: In general, to clear this ... on the eve of ... on the night in question, did the NTMA in general - with regard to the Irish banking, Irish-owned sector, what they call the pillar banks and so forth - have concerns with regard to their solvency, whether they were substantiated or not? Did the NTMA formally have concerns or discussions internally about the solvency of Irish banks? Before they arrived out to Government buildings that night, was there a view in the NTMA offices that there was solvency concerns with Irish banks?

Mr. Brendan McDonagh: Not in terms of the main banks.

Chairman: But of some banks.

Mr. Brendan McDonagh: I think we might, and I speak again personally here Deputy, I think a few of my colleagues and myself would have been sceptical about the business model of INBS and Anglo Irish Bank.

Chairman: And was there an opportunity at any time for you, and the NTMA is what I mean by you, to express those concerns, either before that evening or on that night - that there could be potential solvency difficulties in regard to putting a guarantee in place?

Mr. Brendan McDonagh: No ... there would have probably been a view, and senior Department of Finance officials would have been aware of a view, certainly myself, and my colleagues can speak for themselves, that there was something unusual about the two particular institutions in the -----

Chairman: And did the Department of Finance ----- Okay, all right, we will move on.

Deputy John Paul Phelan: I had a series of questions about the night of the guarantee but I think most of them have been asked. Just a brief recap on where the Chairman finished Mr. McDonagh. In relation to your own scepticism that you expressed about the two named institutions-----

Chairman: We are avoiding that area, that is why I ceased -----

Deputy John Paul Phelan: I am not going to name or get into any specifics about the two institutions. It's about his scepticism more than the institution. Just to be clear, were there any formal or informal opportunities for you to ... with colleagues in the NTMA at the time, to express those scepticisms? Or was this just something that you held internally yourself or was there an opportunity?

Chairman: I need to ... I am not going to press the witness on this but I think the issue is very, very simple - were concerns in general held by the NTMA at any time expressed to the Department of Finance?

Deputy John Paul Phelan: Or expressed internally within the NTMA?

Chairman: That has been answered, this question is were they expressed to Finance?

Mr. Brendan McDonagh: The formal communication between the Minister of Finance and the NTMA is through the chief executive of the NTMA.

Deputy John Paul Phelan: Mr. Daly, the issue was touched on briefly earlier with regard to personal guarantees and cross-lending where individuals or groups gave personal guarantees to several different institutions. Do you have any breakdown as to the extent of that practice within the Irish banks in the period, obviously prior to the establishment of NAMA?

Mr. Frank Daly: I don't think Deputy that we have particular, specific figures but I mean it would have been common across all of the banks and it would have been pretty commonplace in each of the banks that there were personal guarantees. I suppose the point we were making in both our opening statements was that once you begin to rely on personal guarantees then by definition you are relying on the personal wealth of the debtor. If the process by which that personal wealth is assessed is in any way doubtful - in other words if it is done on the basis of statements of affairs where the valuation of assets is essentially done by the debtor and maybe not rigorously examined or overseen by the banks - then you are getting into a cross-collateralisation right across the loan book and you are getting into it on the basis again of relationship banking, with not a huge amount of oversight. There is nothing wrong with statements of affairs, but in very many cases they weren't audited, in very many cases some of the asset valuation was actually done by the person presenting the statement of affairs to the bank and in very many cases you would have to say the bank wasn't looking into those.

Deputy John Paul Phelan: Can I ask you both, in relation to the establishment of NAMA itself, how did you both become involved? Essentially who recruited you to the positions that you now occupy? And, furthermore, in relation to the construct of NAMA, did you both have an input into, not, obviously, specifically the legislation, but the way that the institution was constructed?

Mr. Frank Daly: Well, I probably came later to this than Mr. McDonagh, because I was ... I simply got a phone call in December 2009. I was then a public interest director on the board of Anglo. I'd been there from earlier that year and I was asked if I would take on the chair. That was on a Sunday morning, as I recall, and I was asked for a decision within a couple of hours.

Deputy John Paul Phelan: Who asked you?

Mr. Frank Daly: I was initially contacted by David Doyle, who was the Secretary General of the Department of Finance, and I subsequently got a call from the Minister, Brian Lenihan. I asked for a day or two to think about it and I was told, "No, we want a decision today." So, if you want some colour, I walked Dún Laoghaire pier and thought about it and then said "Yes".

The actual construction then beyond that ... I mean, at that stage the board ... the membership of the board had by and large been decided and I think ... I'm not sure of this, but I may have been the last piece of the jigsaw being slotted in. It was an unusual board in the sense that my understanding is that while you couldn't say it was approved across the political spectrum, there was, as I understand it, consultation with all of the political parties about the overall representation and that I think was to ... I think quite usefully to get political buy-in to the whole NAMA scheme but also to get a view across the spectrum that the board was going to be independent. So that was sort of my involvement on it. We had our first board meeting, I think in

December and ... 23 December, and a lot of work had been done by Mr. McDonagh and a small team and then we began to scale up the organisation to put in place all of the procedures and processes and all of that.

Deputy John Paul Phelan: Mr. McDonagh, can you answer that?

Mr. Brendan McDonagh: I was contacted by Minister Lenihan on 5 May 2009 and he advised me that he had consulted, as far as I recall, with the Government or the Taoiseach, and asked me would I take on the role as interim managing director of NAMA to get ... start working on putting the NAMA model together, work with the Department of Finance and Attorney General in terms of preparing the legislation and that was how I was asked to do the role. I had no warning or no forewarning or any indication before that.

Deputy John Paul Phelan: And would there be ... was there any indication as to why you were ... you were singled out for that or did you ... did the Minister, in his conversation, indicate?

Mr. Brendan McDonagh: No. I mean, clearly I had been, I suppose, around the place, let's just put it that way, since September 2008 and I suppose they saw what I did. I had technical skills. I wasn't affiliated with the banking system. I wasn't affiliated with the property market. So, I don't know. I believe they may have been ... I understand that subsequently that there was a discussion previous to that between Governor Hurley, Mr. Doyle, and Dr. Somers, but I wasn't aware of that discussion before I got the phone call.

Deputy John Paul Phelan: Can I ask you then in relation to when you had taken up that interim appointment and subsequently when NAMA was being discussed in the Oireachtas in 2009, the late Minister Lenihan indicated that one of the chief reasons for the establishment of NAMA was that it would lead to significant increase in lending by the banks.

Chairman: Just one minute now, Deputy.

Deputy John Paul Phelan: Yes, I just want to ask Mr. McDonagh, had you given advice to that effect and, if so, does it exist or ...

Mr. Brendan McDonagh: No.

Deputy John Paul Phelan: Okay. I specifically want to refer, Chairman, to an article in February 2010, 8 February, Simon Carswell.

Chairman: Is that coming out of here or is it that your own?

Deputy John Paul Phelan: Well, I spoke to-----

Chairman: To cite to it, yes.

Deputy John Paul Phelan: -----earlier on. It's 8 February 2010, Simon Carswell, *The Irish Times*, that the IMF told the late Minister Lenihan in April 2009 that NAMA would not lead to a significant increase in lending by the banks in light of the fact that one of the chief reasons for ... given at the time in the Oireachtas for the establishment of NAMA was that it would lead to an increase. Were you aware of that advice from the IMF that was quoted in that particular article?

Chairman: Deputy Phelan, I will begin to commence the second round as we move on so. So the next up is Senator O'Keeffe, ten minutes.

Senator Susan O'Keeffe: Thanks, Chair. Can you ... can you say if any ... at the time, you know, when you took on the loans and you started examining them and obviously you're familiar with them, can you say if any serving members of the Government or the Oireachtas were involved in any of the so-called debtor connections through syndicates or through companies?

Mr. Frank Daly: Senator, I think we have to respect confidentiality. We have never indicated who or, indeed, what category of individuals would be involved in any debtor connections. There is a ... there is confidentiality in the NAMA Act. There is banking confidentiality, because when we took on the loans, we also took on the banking confidentiality restrictions around those. So I don't think it would be appropriate for us to confirm or not that there was anybody because if we begin to confirm it for any particular group or sector, then the next question is was there somebody in some other sector.

Senator Susan O'Keeffe: Well-----

Mr. Frank Daly: But if you're ... I mean, if the inference-----

Senator Susan O'Keeffe: With respect in terms of the political, I'm not asking you to name them, but if-----

Chairman: There's a confidentiality practice here now as well that NAMA would be obliged to under legislation and you know that, Senator, as much as I do.

Mr. Frank Daly: Yes. But, I mean, if the implication of the question is was NAMA in any way, at any stage, either in its construction or in relation to the way it transferred the loans or the way it's dealt with the loans, influenced by any particular category of individual in our loan book, the answer is absolutely "No".

Senator Susan O'Keeffe: Yes. That wasn't the purpose of the question. I was-----

Mr. Frank Daly: Okay, sorry.

Senator Susan O'Keeffe: In fairness, thank you for saying that. I suppose the nexus between the political establishment, the bankers and the developers has been much discussed by the public in the last God knows how many years. That's the whole purpose of this exercise. All I was trying to establish was whether or not any Members would have been involved because obviously that's quite important because that might change the shape of how people observe. So I didn't think that that aspect was confidential with all due respect.

Chairman: Well, if you're asking for names and names are confidential-----

Senator Susan O'Keeffe: I was not asking for names, Chair.

Chairman: Okay.

Senator Susan O'Keeffe: I didn't ask for names.

Mr. Frank Daly: Even in a general sense, Senator, and I now understand the purpose of your question, I can say that in so far as I'm aware, the construction, the approach and the subsequent operation of NAMA has never been influenced by the make-up of any particular group of people, whether they be politicians or doctors or lawyers or whatever.

Senator Susan O'Keeffe: I'm not asking that either, Mr. Daly, with all due respect.

Mr. Frank Daly: Yes.

Senator Susan O'Keeffe: All I'm asking, simply, is whether or not in that cohort of people, your debtor ... your connector ... connections, there were, among those people, people who had taken out serious loans - you were involved in big borrowings - whether any of them were members of Government, serving members of Government or the Oireachtas in that period of time. That's what the question was, plain and simple, "Yes" or "No"?

Mr. Frank Daly: I don't think it's appropriate for me to answer, Senator, but I would hate you to ... or leave the committee with the impression that because I'm not answering it that there were. Put it that way.

Senator Susan O'Keeffe: Okay. Can I ... it's a small clarification, if I may, Mr. McDonagh, I know that you've answered various questions about the night of the guarantee. Just to be clear, the two other gentlemen that were in the room with you, can you recall, Mr. Beausang and Mr. Ó Riordáin, whether or not they came or went or whether they stayed there all the time, or do you remember, because I know you'd remember what you did but perhaps not what they did?

Mr. Brendan McDonagh: There was three other people in the room: Mr. Whelan, my colleague, and Mr. Beausang, the Department of Finance, and Mr. Ó Riordáin. I don't think we ... as far as I recall, I don't think we left the room. I think we were left in the room and my most abiding memory of that time is that there was a small portable television in the room and the channel was stuck on CNBC or MSNBC or whatever it is and the Dow Jones was falling by 700 points. That's my most abiding memory of that night, that we were there and there was a TV on in the corner and you could see that the world was collapsing not just in Ireland, but this was post-Lehman's in the US the Dow Jones was tanking by 700 points and-----

Senator Susan O'Keeffe: But nobody left the room until----

Mr. Brendan McDonagh: I am not ... except for myself I don't think I left ... I don't believe I ... I don't believe any of the other guys left the room either, but-----

Senator Susan O'Keeffe: We can check.

Mr. Brendan McDonagh: But if they did it would only be momentarily as far as I can recall.

Senator Susan O'Keeffe: Can I ask you, am I clear in understanding that the NTMA came under pressure in December 2007 in relation to those deposits? I am not now talking about 2008; I'm talking about 2007, December, 2007. Is that correct ... in relation to the NTMA deposits in banks, and that there was pressure put on to keep, either to keep to them or add to them? I'm not clear, I don't know, I am asking you.

Mr. Brendan McDonagh: There was ongoing discussions with the Department of Finance about the amount of deposits we placed with the banking system, and the NTMA took a very pragmatic view that we would put a certain amount on deposit with the banking system and we would maintain those deposits if the Department of Finance and the Minister for Finance asked us to continue to do so.

Senator Susan O'Keeffe: Given that you had already started those conversations back, I think you said earlier in response to someone else, in August 2007. You were already ... concerns were emerging. Did the NTMA write or e-mail or phone or put down those concerns in any other way to the regulator, to the Central Bank, to anybody, to the Banks themselves? Is there a record of those concerns?

Mr. Brendan McDonagh: Senator, the relationship with the NTMA was primarily a relationship between the chief executive of the NTMA and the Minister for Finance. There was no reporting lines from the NTMA to the Department of Finance to the Central Bank, the regulator. We were a completely separate body. We had to look after our own ... our own business and whatever discussions would have happened, I can't say, because I wasn't party to those discussions. But, certainly when we set out our view on our deposits, it wasn't just with respect to Irish banks, it was with respect to banks all over the world where we had deposits.

Senator Susan O'Keeffe: And for yourself, would you have in that period of time, I am talking again still I suppose between August 2007 and August 2008, would you personally have ever in an e-mail in to your boss, or bosses, put your concerns or thoughts or views about the stability of the banking system, about the ... perhaps the crisis, for want of a better word, impending problems to them? Whatever they did with it afterwards, of course, would have been their responsibility. But did you do that?

Mr. Brendan McDonagh: There is a formal process each year in the NTMA where you have to go through the counterparty threat limits with the banks and you'd have to get approval of the chief executive. I was a former member on that. It was more, I suppose in terms of the ... NTMA was quite a small organization, we were all on the same floor at the time and there would have been quite interactive discussions between the senior management team in the NTMA about what we were doing in the debt markets and what we were doing with any our ... any deposits we had.

Senator Susan O'Keeffe: So there was a shared knowledge, am I in correct in understanding that?

Mr. Brendan McDonagh: There was a shared knowledge certainly amongst the senior executives in the NTMA, yes.

Senator Susan O'Keeffe: But not necessarily in writing? Am I ... I'm sorry I'm just trying to be clear here. But not necessarily, formally in writing.

Mr. Brendan McDonagh: It's a small organisation, but ... you know ... it is very much hands on type of organisation. And I suppose once the decision was taken for us to withdraw deposits out of the bank, gradually out of the banking system, yes that would have been in writing.

Senator Susan O'Keeffe: How soon after the night of the guarantee did you meet with Minister Lenihan again and in what context and how did your relationship with him start then in terms of the future legislation and the work that you did? Would you say you knew him well?

Mr. Brendan McDonagh: I ... I-----

Chairman: Interference there.

Mr. Brendan McDonagh: I did not know Mr. Lenihan at all. I'd met him probably on two occasions just in passing before the guarantee. The first time I had met him was actually at the launch of the NTMA annual report in July 2008, when he was just appointed Minister for Finance. He was there for the NTMA ... he came to the NTMA to launch the annual report. And ... but subsequent to the guarantee, I suppose myself and my colleagues had much more interaction with Minister Lenihan because the whole implementation of the design of the guarantee, and what was involved. And then the, I suppose in December 2009, there was a first recapitalisation announced of the banking system. In February ... Sorry that was in December of 2008-----

Senator Susan O'Keeffe: I am about to run out of time, so I'm sorry.

Chairman: Last question.

Senator Susan O'Keeffe: Can I just ask you something in particular. Did Mr. Lenihan in that time post the guarantee ever observe to you that he was, you know, concerned or that they shouldn't have done what ... or did he have reservations about the guarantee afterwards?

Mr. Brendan McDonagh: He never expressed those to me ... Mr Lenihan never expressed those views to me.

Chairman: Deputy Michael McGrath, ten minutes.

Deputy Michael McGrath: Just to clear up one point there in response to Senator O' Keeffe, Mr. McDonagh. I just wasn't entirely clear on what you said to the question of whether you raised your concerns with your direct superior, Dr. Somers, in terms of the model of Anglo, INBS and the potential solvency issues in September 2008. Were they raised directly with your superior?

Chairman: There is a set amount of questions on what you are clarifying, just to be careful there as well.

Deputy Michael McGrath: The question is clear.

Mr. Brendan McDonagh: Yes, Dr. Somers would have had discussions with me and my senior colleagues, yes.

Deputy Michael McGrath: In which you would have expressed your views?

Mr. Brendan McDonagh: Yes, that we had concerns about placing the deposits, particularly with INBS and Anglo. We stopped placing deposits-----

Deputy Michael McGrath: I am talking about the autumn of 2008, as opposed ... what I am talking about immediately in the lead-up to late September 2008. You expressed a view earlier that in your view Anglo-INBS should have been nationalised. You expressed scepticism about the model that they were pursuing and about the solvency and I am asking you directly, did you convey those views to your superior, Dr. Michael Somers, the CEO of the NTMA, at that time?

Mr. Brendan McDonagh: Yes, they would have formed part of all the senior management discussions.

Deputy Michael McGrath: And you have no idea then of where they went, if anywhere, from there?

The relationship you said was between the NTMA and the Department was between the CEO and the Minister, is that what you are-----

Mr. Brendan McDonagh: Yes, absolutely yes.

Deputy Michael McGrath: Okay, so you wouldn't have had any involvement.

Mr. Brendan McDonagh: No.

Deputy Michael McGrath: Okay ... but ... okay.

Mr. Daly, can I just ask about the issue of the manner in which banks competed with each other to lend to the top developers in the country? We have spoken a lot about personal guarantees, cross-collateralisation, but to what extent was there intense competition from the banks to get the biggest clients, to bankroll or finance the largest developments in the country? Did you find evidence of that when your agency went in and looked in detail at the loan books and the practices that went on?

Mr. Frank Daly: I think you have to ... when you ... when you look at what came across to us, certainly you had a lot of debtors and some of them debtors of ... with very big exposures, who had exposures across the banks. So there was ... they were dealing with several banks and I have no doubt at all that the banks were in competition.

I don't want to get into making sort of qualitative, giving qualitative opinions about the banks, but there was certainly a question of, as I said earlier, a wall of money being available to all of the banks and, to a certain extent, the banks just chasing investments for that money.

And it was quite clearly the situation that if you had one particular bank that was being very, very successful at that, then questions were being asked of the other banks by their shareholders as to, "why you are not ... why are you not chasing this? Why are you not growing at the same rate? Why is your lending" ... because everybody believed, of course, that in that whole area of property lending that there was no downside.

So, yes, there was competition right across the banks.

Deputy Michael McGrath: And to what extent do you believe-----

Mr. Frank Daly: And there was competition by the way, not just among the NAMA banks but there were a couple of other major players in the Irish market who shouldn't be forgotten about.

Deputy Michael McGrath: And to what extent do you believe that the availability of funding for the banks at the wholesale level, the funding coming into Ireland on the interbank market, for example, to what extent did that play any role in the bank subsequently lending that on to the end borrowers?

Mr. Frank Daly: I think it played a significant role because it was there ... after the eurozone, there was that wall of money. The exchange rate risk was removed, so certainly the wholesale markets were quite willing to provide the Irish banks with funding. The Irish banks were quite willing to accept that because they were getting funding at relatively cheap rates and they had, in their debtors - in property in particular - ready recipients of that money. So, I have no doubt at all it was a factor. And I think in so far as, and I mentioned it earlier ... in so far as anybody was concerned about any aspect of that, it would have been keeping an eye on interest rates rather than keeping an eye on whether that particular amount ... money was going to be turned off at some stage, as happened just before the crash.

Deputy Michael McGrath: And to what extent, for either of you, was there evidence that the banks were lending money - huge sums of money - to borrowers without knowing the full exposure of that borrower to other banks ... that bank X was lending money, not knowing that the person already owed bank Y several hundred million euro? To what extent did they have a full handle on the overall indebtedness of the people that they were lending to?

Mr. Frank Daly: I don't think they had a particularly full handle on it. I think we saw it from the documentation and when we began to engage with debtors ... and this was particularly so in relation to the non-NAMA banks because we had a ... we had ... we were able to collate a full picture of the lending across the NAMA banks. But you had the situation where when we looked for business plans, when we began to assess the debtors that came across to us from the NAMA banks, you suddenly discovered this exposure to the non-NAMA institutions. I don't think that the NAMA banks, or indeed the other ones, had a particular full view right across the spectrum of lending by individual debtors. And I'm not ... I don't want to make a generalisation; I'm just saying that it was there to a very large extent. There may have been some cases or some banks where they had a better handle on that than others. I think it was part of this ... the kind of culture of: "Well let's not dig too deeply here. We have the money, here's a proposition, it sounds good, it's property related, property is on the up; everybody is saying that there's never going to be real crash, at worst it'll be a soft landing." So the temptation was there.

Deputy Michael McGrath: And to what extent did the banks have access to experts in the area of property? To what extent did they have those resources in-house? You referred in your opening statement to the laws of gravity. So when the banks were looking at their overall exposure to the property and development sector, did they have in-house expertise in the property area. And also looking at individual loans that they were making ... to look at the underlying value of the security and the likelihood of that value being maintained or increased over time, is there any evidence that there was a good level of expertise available?

Mr. Frank Daly: I think they all had experts, and the experts ranged from people who would have had property expertise - as you talk about it - to economists advising the banks. But I ... I think, I mean there was a phrase used at some stage, and I can't remember who used it, that the people in the background who are trying to put a break on the lending ... the people in finance, in audit, in compliance, in the ... the general property experts, that they were kind of boils on the heel of progress of the banks and that lending was the area to be in, and if you were kind of indicating that lending was unwise or that ... I don't think you were listened to very much within the banks. I think they began to believe their own lenders and didn't pay enough attention to the experts that they would have had in the banks. I think they had them. How much of a voice they had within the banks I don't know, but I mean I can only ... we can only comment on that, from what we saw when the loans came across. You would really have to take that up with the banks themselves.

Deputy Michael McGrath: That's okay. I'll leave it there, Chair.

Chairman: Okay, thank you. Can I just round off one thing in regard to what Deputy McGrath was asking you there. Just by your own assessment, when the loan portfolio started coming over to NAMA - and Deputy McGrath was talking about the ... the exposure that different borrowers may have had to different institutions - did you see any protocols that were in the banks or practices that they were examining maybe the way that personal guarantees might ... the same personal guarantee could be maybe given to a number of banks rather than just one or a situation whereby there was a level of cross-lending that the banks were actually aware of that such a person was so much into one bank or as opposed to one and did the banks actually have protocols to chase this level of risk or exposure?

Mr. Frank Daly: There was an awareness of some cross-lending but I don't think it was common across the banks and I don't think the extent of it across the banks was consistent. I mean Mr. McDonagh may have a comment on this, but certainly I don't think there was anything like the structured approach to cross-lending and examination of cross-collateralisation or of personal guarantees in the banks that ... to the standard ... to the extent, for example, that NAMA put in place when we took the loans across, or to the standard or extent that should have been there in the first place.

Chairman: Okay, thank you. Deputy Higgins.

Deputy Joe Higgins: Yes.

Chairman: Phone reverb there. Wherever it is coming from.

Deputy Joe Higgins: In July of 2009, when the Government was setting up-----

Chairman: I'll stop you there, Deputy. I'll just stop the clock for a second but there is a bit of phone interference coming from somewhere. It might not be ... it could be in the proximity to you or something, I'm not too sure.

Deputy Joe Higgins: It's not coming from here either.

Chairman: Okay. Drive on Deputy Higgins; we'll try to sort it out as you're talking.

Deputy Pearse Doherty: It's the water meters, Joe.

Chairman: Technology can work now, okay. Please, Deputy?

Deputy Joe Higgins: It's probably a vulture fund listening in. In 2009 when NAMA legislation was being presented, the then Minister for Finance, Brian Lenihan, said in a statement "There is nothing in the proposed Bill that would provide a bailout for borrowers whether builders, developers or otherwise. Anyone who owes money before NAMA continues to owe it and is expected to repay the full amount of the debt". Mr. McDonagh, of the 772 debtors that you've showed in your table - whose debts amounted to €74 billion nominally ... and that was taken over by NAMA - has any of them paid the full nominal value of their loans?

Mr. Brendan McDonagh: Yes.

Chairman: What percentage?

Mr. Brendan McDonagh: A very small percentage.

Deputy Joe Higgins: Could you tell us numbers, roughly?

Mr. Brendan McDonagh: Less than five.

Deputy Joe Higgins: Five out of 772?

Mr. Brendan McDonagh: Yes.

Deputy Joe Higgins: In November 2010 a research report on NAMA commissioned by the Construction Industry Federation made a case for what it called debt restructuring, and the main case really was economic inefficiency of no loan restructuring. It states that:

the pursuit of 100% repayment acts counter to NAMA's aims and is economically inefficient. It is vital to recognise that writing off debts - acknowledging the destruction of economic value caused by the bursting of the construction bubble - is an important steppingstone in re-establishing a viable construction sector.

And then, Mr McDonagh, in 2014 you told a conference that 25% of NAMA debt had been restructured by the end of 2013. What does restructuring mean in that context and was NAMA policy influenced there by the demands of the Construction Industry Federation in regard to writing off debt?

Mr. Brendan McDonagh: I can assure you we're not influenced by the CIF because when the CIF issued that report I think we issued a quite robust response to it. The whole issue, as far as NAMA's concerned, is that when we restructure a debtor's debt - and we explain this in our 2010 annual report - is that we split the debt into two categories. One part of the debt is called tranche A, which effectively is what we ... after assessing the business plan what we think the ... what will be recovered on the assets and any additional security the debtor can actually give up. And then tranche B is a sort of ... where the debtor still owes tranche B, but unless there was some sort of a super performance in terms of recovery in asset values, only part ... an unlikely the whole amount of tranche B would be repaid, but the debtor would still owe the full amount.

Deputy Joe Higgins: Mr. McDonagh can you relate what's already on the public record just very quickly? The debts that you took over that Mr. Michael O'Flynn, developer, was responsible for, and then they were sold to Blackstone.

Chairman: I think that NAMA would be prohibited not under the legislation, nothing to do with this committee, but under NAMA's own legislation to be discussing individual portfolios but in a general context if maybe you could respond to Deputy Higgins's question.

Deputy Joe Higgins: This is in the public domain Chairman-----

Chairman: I know that, but being in the public domain doesn't make it legally possible I think for NAMA to answer a question with regards to somebody who is on the books. Maybe Mr. McDonagh and Mr. Daly can clarify that?

Mr. Brendan McDonagh: We are not in a position to talk about any individual debtor.

Chairman: That's a legislation requirement from NAMA it's not coming from this committee.

Mr. Frank Daly: The NAMA Act and ... There's a lot of stuff in the public domain that may or may not be accurate ... sometimes we'd love to talk about it but-----

Chairman: There's nothing stopping you now, but-----

Deputy Joe Higgins: What's in the public domain gentlemen is that you took over a substantial debt that developers are responsible for, or let me put it generically so to see if we can get some satisfaction here ... That you took over debts that developers are responsible for, that they were sold off to major hedge funds, etc., at a cut, a reduced, quite a reduced rate. Where then stands Mr. Lenihan's and the developer goes with them, where there stands Mr. Lenihan's and the Government's assurance that anyone who owes money before NAMA will continue to owe it and is expected to repay the full amount?

Mr. Brendan McDonagh: The commercial reality is, Deputy, that when NAMA sells on the debt we sell on the full debt. So if a debtor hypothetically had €1 billion worth of debt and somebody came to buy that debtor's debt off NAMA and the assets were only worth €600 million, then these private equity funds or hedge funds, or whatever you want to call them, aren't charities, they'll only pay you what the assets are worth. They will pay you ... if the market value of the assets is €600 million they will pay you €600 million, they will not pay you €1 billion because that is that, but they acquire the whole €1 billion worth of debt, so as far as the debtor is concerned he's with NAMA today he owes €1 billion worth of debt, he is with hedge ... private equity fund tomorrow, he still owes €1 billion worth of debt.

Deputy Joe Higgins: It is easily known that he will do deals with them and won't pay a fraction of that.

Mr. Brendan McDonagh: But listen, I can't, or the board of NAMA can't control what the new owner of debt will do the following day.

Deputy Joe Higgins: Yes but what the Government said is not realisable then in regard to what is going on.

Mr. Brendan McDonagh: I think the difference is and you know, I'm not responsible for any political comments around the NAMA legislation, but I think to be fair when we're involved if you owe us €1 billion worth of debt then you owe us €1 billion worth of debt. If the assets can only realise €600 million, then that's what the assets can realise at €600 million, there's a €400 million shortfall. You know, if you have a debtor and he has €1 million sitting in a bank account then we want that €1 million to go towards that €400 million shortfall.

Deputy Joe Higgins: Is the reality, Mr. McDonagh, that the vast majority of the 772 will never pay back the full amount-----

Mr. Brendan McDonagh: That is the reality. Absolutely.

Deputy Joe Higgins: That is the reality, okay. Mr. McDonagh you made a comment in another document you may recognise perhaps that these loses that developers made, if I get it right, that in the future they might be able to use those for tax concessions down the line, are you familiar with that?

Mr. Brendan McDonagh: It's in the booklet there. This was correspondence, an e-mail which I sent again to Mr. Cardiff in June or July 2009.

Deputy Joe Higgins: So the losses they made they'll be able to get tax breaks in the future if they continue, say as developers against those losses?

Mr. Brendan McDonagh: Yes, but while they are in we take a keen interest in that, Deputy, I assure you and if any of our debtors secure tax refunds, we have, and continue to get, the benefits of those tax refunds.

Deputy Joe Higgins: Equally when they go out of your ambit they're still -----

Mr. Brendan McDonagh: I mean the reality is, Deputy Higgins, is that very few of these people are in the process of actually, while they're generating profits again where they can shelter those profits ... you know, because their debt is at such a level compared to what the assets are worth.

Deputy Joe Higgins: It is the case I believe that you continue to pay salaries to some of these developers ... and because my time is up can I finish by asking you, considering all this - the huge write downs, future tax breaks, very significant salaries I understand for some of these developers that are on your books. Would the hard-pressed taxpayer out there and the victims of the austerity that resulted from the bubble and the crash, be forgiven for feeling somewhat bitter about how you treat as an arm of the State, developers, considering how they've suffered from what went on?

Mr. Brendan McDonagh: We have made no secret of the fact that we pay people money to help us maximise the value in the portfolios, it is by no means the salaries they were paying themselves before NAMA came into operation. The alternative for us is to appoint receivers where the cost would be a multiple of what it costs us to pay people to help us to maximise the return on the assets. So it is a commercial fact of life for NAMA that we have to maximise the return on the assets and to do it in the most economic efficient way possible, and that's what we do.

Chairman: Thank you very much Deputy Higgins, Deputy D'Arcy and then we will proceed towards a break after that.

Senator Michael D'Arcy: Thank you. Mr. McDonagh you used what I consider an unusual statement, you said the Minister for Finance was sent home. You did.

Mr. Brendan McDonagh: No. I then subsequently said-----

Chairman: I wouldn't be putting words into Mr. McDonagh's mouth-----

Senator Michael D'Arcy: No, sorry Chairman Mr. McDonagh said ... allow me finish please, you subsequently said the Minister for Finance went home. Was the Minister for Finance sent home or not?

Mr. Brendan McDonagh: Senator, my understanding is that the Minister for Finance was advised to go home, to have a rest because that was late in the night and that he would be up early in the morning to be back in for the press conference which I think was at a quarter to seven that morning. So whether he wanted to go home, I wasn't in the room, I'm just relating to you as a third party who wasn't in the room what I heard. Because when I went in to meet the Taoiseach I was surprised the Minister for Finance wasn't there, I probably mentioned in passing I wonder where Minister Lenihan was and it was said, "Oh he's gone because he's to be up early in the morning to do the press conference." That's all I know Deputy, there's nothing more and nothing less.

Senator Michael D'Arcy: To your knowledge what time did the Minister leave at?

Mr. Brendan McDonagh: I have no knowledge at what time the Minister left at, he just wasn't there when I-----

Senator Michael D'Arcy: What time did you meet with the Taoiseach at when the Minister was not there?

Mr. Brendan McDonagh: I think it was some time after two o'clock or half two in the morning.

Senator Michael D'Arcy: Two o'clock?

Mr. Brendan McDonagh: I can't specifically tell you it was two o'clock, I can say it was sometime between two and two thirty, it's an approximation.

Senator Michael D'Arcy: You said yourself you were surprised that the Minister wasn't there, there were important ... the question that was put to you while the Taoiseach was present in relation to the potential exclusion of the non-Irish subsidiaries, that would have been a significant question to be answered.

Mr. Brendan McDonagh: Of course it was a significant question ... but, it was ... my view was of a ... very sort of technical question around whether, whether they should include him or not when, when ... as part of the bank guarantee.

Senator Michael D'Arcy: A technical question that could, or may not have been an additional cost or lesser cost for the State if the non-Irish subsidiaries had been excluded?

Mr. Brendan McDonagh: In our technical view ... you could not have walked away from the overseas subsidiaries because effectively they were 100% owned subsidiaries of the main banks here operating in Ireland.

Senator Michael D'Arcy: Should the Minister for Finance have been available for that conversation with you?

Mr. Brendan McDonagh: That's not for me to question-----

Senator Michael D'Arcy: I'm asking your opinion.

Mr. Brendan McDonagh: If he wasn't available he wasn't available, I can't say whether he should have been available or not available-----

Chairman: To be fair as well ... public servants and other officials are not responsible for the actions of politicians. Politicians are responsible for the actions of politicians. So if a politician was there or not on the night, that was a decision by the political establishment. Mr. McDonagh is relevant to the information that he may have been provided or not. He is not accountable for a decision made by a politician. That is very, very clear.

Senator Michael D'Arcy: Did anybody tell you the Minister had been sent home?

Mr. Brendan McDonagh: No, Senator, you are trying to suggest-----

Senator Michael D'Arcy: No-----

Mr. Brendan McDonagh: Hold on now, Senator, let me answer this. You asked me a question so, if you would not mind, I would like to answer it. On the night when I went into the room, the Minister for Finance wasn't there. I think coming out of the room I might've said to Mr. Cardiff, I says: "Where's Minister Lenihan" and I think the view was: "Ah, he's either gone home or sent home so that he's up early in the morning for this press conference at quarter to 7". Did I find that unusual and the fact that he would have to go home to be up early in the morning for quarter to 7? I certainly didn't. So that's it. No more, no less.

Senator Michael D'Arcy: In your view, as somebody who has experience in that area of potential damage to the sovereign in terms of raising funds, were all the details in relation to the bank guarantee concluded before the Minister for Finance had left?

Mr. Brendan McDonagh: I have no idea. I wasn't in ... as I said, I wasn't in the room when this was all discussed. I was brought in at a very late stage to discuss a very technical point.

Senator Michael D'Arcy: Thank you.

Chairman: Thank you very much. I now propose we go for a break but I just want to round up one thing before we go at quarter past. It's just in regard to lobbying. And when NAMA were putting in place ... and the whole issue of how the valuation model of NAMA was being put in place was going to reduce and result in a reduction in the valuation of the assets that were coming over to you and this was going to result in haircuts and all the rest. At any time, were NAMA lobbied on the particular model of valuation and how the haircuts were going to be applied?

Mr. Brendan McDonagh: No. I mean, the banks clearly had strong views on the valuation process and I suppose that was normal. They were trying to protect their stakeholders. But the reality is that the valuation model that was done for the loans was one which we had commissioned HSBC to advise us on. And ... but that model then went to the European Commission technical people and they basically decided what the final valuation model would be.

Chairman: Okay, and so lobbying may come at a particular term. Was there a push back from the banks with regard to how the valuation and the haircut was going to be ... the rate at which it was going to be set and how it was going to be applied?

Mr. Brendan McDonagh: I think the banks were very concerned that the valuation model could produce higher losses for them. They would've seen probably the draft ... they would've seen the early cuts of the valuation model. And, I suppose, they would have been the person ... people with better knowledge of the loan books than we had at that stage, because we did not have the information. And, I suppose, the reality is that the discounts did turn out to be much higher than anybody thought and probably the first people maybe to recognise that would have been the banks themselves.

Chairman: And Mr. Daly, at your end was there lobbying or push-back that you'd received directly from financial institutions, from politicians or what you might call related parties with regard to how the valuation was going to be applied and the haircut?

Mr. Frank Daly: No. No, Chairman.

Chairman: All right. Just one other related matter to that. After the valuation had been applied and the haircut had been put in place and all the rest of it, there was an intention at the time for the Government to bring in a reform to the upward-only rent review legislation. There would have been concerns, and for a number of different reasons but one would've been that this could have an impact upon the asset base of properties because of the rental income that was being derived off them. Did NAMA at any time approach Government - the Department of Finance - and express a concern with regards to reforming the upward only rent review?

Mr. Frank Daly: We did, Chairman. Yes, we had a discussion about that. We had to look at our own asset base and likely impact on our income. We did express, in general terms, the impact that this could have on the NAMA book. Obviously, I don't think in the final analysis that that was an influencing factor on Government. I think the influencing factor in the end was a constitutional issue about interfering with the rents. But the Government did then ask us to, in respect of debtors - in particular, people in the retail trade - who were in NAMA ... or, sorry, who were tenants of NAMA debtors, where we could have some influence or control ... they did ask us to look at that and to examine that. I've already put on the record - so I won't not repeat it - what NAMA has been doing in that area.

Chairman: Yes, that was in your own ... So your engagement with Government, was that with Ministers or with general secretaries or Department officials? What was that?

Mr. Frank Daly: I think in relation to indicating to Government the impact on our thing, it was probably a letter to the Minister.

Chairman: Justice or Finance?

Mr. Frank Daly: Sorry?

Chairman: Justice or Finance? Which Minister?

Mr. Frank Daly: Minister for Finance.

Chairman: The Minister for Finance. Okay.

Mr. Frank Daly: And that came from the board of NAMA. And then subsequently, again, in terms of being asked to do something, that would have come via the Minister or Department of Finance.

Chairman: The Minister. And just to clarify, in your engagements with regard to your concerns ... your concerns were not about the constitutional difficulties that may or may not arise out of the legislation. Your concerns, just so we can clarify this, were about how that legislation would impact upon the valuation book that NAMA now had.

Mr. Frank Daly: Exactly, because we have to go back to the Act and our mandate to get the best financial outcome we can for the State. And obviously, any dilution in our asset value or particularly our income stream from that would ... it was a material concern as far as the board was concerned.

Chairman: Okay. Thank you very much. I now propose that we suspend. It has just gone 4.15 p.m. That we would resume at no later than ... will be say 4:35 p.m.? With that said, I now propose we take a break. And to remind witnesses once again that their evidence ... in giving their evidence they should not confer with any other person other than their legal team in relation to their evidence or matters being discussed before the committee. I now propose we suspend until 4.35 p.m.

Sitting suspended at 4.20 p.m. and resumed at 4.35 p.m.

Chairman: I now propose that we go back into public session. Is that agreed? Agreed.

And the next questioner is Deputy Pearse Doherty. Deputy Doherty, you have ten minutes.

Deputy Pearse Doherty: Go raibh maith agat, a Chathaoirligh. Mr. McDonagh, just, when we came back from the previous break you just clarified a response that you gave to myself and the question I was asking you earlier on was of the €811 million that was clawed back, or wasn't paid by NAMA, as a result of security issues, you mentioned that the loan book value of that was actually €3.5 billion, is that correct?

Mr. Brendan McDonagh: Yes, you asked me before the lunchtime break, Deputy, about what was the par value of those things so I said I didn't have the information at the time and I made an estimation and said it was somewhere around €2 billion and I went and looked at my notes at lunch time. I did find that the answer to the parliamentary question previously were ... basically, the figure was €3.5 billion of par debt where we effectively paid nothing for the security.

Deputy Pearse Doherty: But these banks which have transferred their loans to NAMA had issued loans of the value of €3.5 billion that cannot be called on because of securities, that can't be-----

Mr. Brendan McDonagh: Yes, we paid nothing to the banks for those loans.

Deputy Pearse Doherty: No I understand you paid nothing to the banks but the Irish taxpayer paid for the banks, paid for-----

Mr. Brendan McDonagh: No, I, yes, you're correct.

Deputy Pearse Doherty: And is there any recourse in a situation like that there, where, because of documentation, you've outlined some of the issues that would arise in these circumstances, is there any recourse in relation to this €3.5 billion?

Mr. Brendan McDonagh: No. Well, clearly, if there was unencumbered assets there, we would go to the asset debtor and would try to give to them as security and use whatever leverage we can but, you know,-----

Deputy Pearse Doherty: It's gone.

Mr. Brendan McDonagh: -----it really wasn't-----

Deputy Pearse Doherty: It's gone. Right. In relation ... it's absolutely staggering, the figure of €3.5 billion, for, I'm sure, for the general public there. In relation to the Vol. 1, page 35 figure, €2.5 billion ... we look at the property valuation process that NAMA used, and particularly the property uplift adjustments - this is the long-term economic value - that NAMA used and approved by the Commission, and you give us an interesting table there in relation to the five tranches that were transferred to NAMA. You estimated that Anglo Irish Bank's assets would recover more than any of the other banks' at 9.5%, with the lowest being EBS. Can I ask you in relation to the uplift that was expected, has NAMA any way of monitoring whether that uplift actually happened, whether it was below expectations or above expectations for the individual institutions?

Mr. Brendan McDonagh: Well, the reality is, Deputy, is that those uplifts directly fed into the state aid element of ... which is the €5.6 billion overpayment. So, the fact that we're saying today that, actually, we'll recover potentially €1 billion over the amount of the debt means those uplifts have effectively come true, that we've been able to-----

Deputy Pearse Doherty: I understand. Across the board,-----

Mr. Brendan McDonagh: Yeah, across the board.

Deputy Pearse Doherty: -----the average uplift, which was 8.8%, will have materialised, and maybe not, because there's a rental issue, as you have mentioned, income as well that has been generated.

Mr. Brendan McDonagh: Well-----

Deputy Pearse Doherty: But the question I have specifically is, for example, the 9.5% uplift in NAMA's properties that were secured in the loans ... do we know if that was achieved? Do we know if it was exceeded?

Mr. Brendan McDonagh: Yeah. No. We don't ... you can't track them by individual properties because, when we got the loans of a debtor,-----

Deputy Pearse Doherty: Yeah.

Mr. Brendan McDonagh: -----we grouped them all together.

Deputy Pearse Doherty: Okay.

Mr. Brendan McDonagh: And that's ... and they're aggregated.

Deputy Pearse Doherty: I appreciate that. And Mr. McDonagh, just to finish this point, do you have any sense ... because, obviously, while it would be impossible, as you say, to track them because of they're bundled together, do you have any sense, for example, that NAMA's loans could've outperformed the uplift that was expected, given that they were heavily concentrated in the UK market? This suggestion has been made in the public.

Mr. Brendan McDonagh: No. I think the ... I mean, the portfolio that we acquired was 56% Ireland and 44% outside of Ireland. The majority - I think around 33% of that 44% - was UK, primarily London. London has been very good to us in terms of the prices that we achieved but, you know, I suppose we have to look at this on the ground and say, you know, we're not ... like, the situation was that, if somebody had borrowed a loan from, for argument's sake, Bank of Ireland and that produced a surplus, he might have another loan with AIB and that produced a loss. The surplus wasn't available to AIB because the surplus ... it mightn't even be aware that he has a surplus on his Bank of Ireland loan, whereas we group them all together and we're able to apply the pluses and the minuses.

Deputy Pearse Doherty: Okay. So, there's no way of determining-----

Mr. Brendan McDonagh: No. It's very difficult.

Deputy Pearse Doherty: -----whether these uplifts happened.

Mr. Brendan McDonagh: No, no. I mean, that's the whole *raison d'être* of NAMA, is to group it together to make sure you manage it holistically.

Deputy Pearse Doherty: Yes. In relation to, again, evidence that's supplied to the committee here which deals with bankruptcies - it's in Vol. 1, page 6, table 2 - you give us a detail of the number of NAMA-managed debtors, which is 207 debtor connections. And there're 24 connections with at least one bankruptcy. And it's obvious that the majority of them are in the UK. It also states that NAMA is in a consensual work-out with 70% of its debtors.

Mr. Brendan McDonagh: Yes. By-----

Deputy Pearse Doherty: And that's still the case.

Mr. Brendan McDonagh: Yes, by asset value. I mean, in case ... Yes.

Deputy Pearse Doherty: Okay.

Mr. Brendan McDonagh: Yes.

Deputy Pearse Doherty: And you mention in this evidence - and I just want you to clarify this here - the 770 debtor connections comprised 5,000 borrowing entities - you might clarify that - 12 loans and over six-----

Mr. Brendan McDonagh: It's 12,000 loans. That was a typo, of course.

Deputy Pearse Doherty: It's a typo. I was-----

Mr. Brendan McDonagh: Yeah. Sorry. I wish it was 12 loans, Deputy.

Deputy Pearse Doherty: We've been examining the concentration and the 29 borrowers who had a huge amount of lending, but 12 loans was, I think, a bit optimistic. And 60,000 individual properties in security, so that's the total portfolio of NAMA; would that be-----

Mr. Brendan McDonagh: At the start, yes.

Deputy Pearse Doherty: At the start. And, in relation to … of the borrowers that you're in a workout relationship with, is that relationship that they will pay back the original loan that they took out, or will it be the amount that was acquired … that NAMA paid for the loan?

Mr. Brendan McDonagh: As I said, Deputy, there's very few debtors in the position that their assets are going to realise enough to pay back the original amount that they took out. It really is, in a conscientious relationship, that they maximise … they work with us to maximise the value of the assets we got, based on what they're worth over the period of time when we agree disposal schedules with those debtors of when the assets would be realised to maximise return, but clearly that is linked by reference to the … fact is that the banks had lent €74 billion, that's what we acquired. We paid €32 billion for them. The market value of the property was close enough to €32 billion. At the time of acquisition, there was a decline in the market after acquisition; it's come back, and we would expect to get back around €33 billion.

Deputy Pearse Doherty: So, when NAMA was established and when the five tranches were transferred, NAMA was due, from the borrowers, €74 billion; is that correct?

Mr. Brendan McDonagh: Yes.

Deputy Pearse Doherty: And NAMA expects to repay back €31.8 billion?

Mr. Brendan McDonagh: Yes.

Deputy Pearse Doherty: They expect to also, in 2020, pay the State in the region of €1 billion, if things stay on track, and would I be right in extrapolating from that that NAMA intend to write off €41.4 billion?

Mr. Brendan McDonagh: At the time, there will be no assets, there will be no assets remaining. We mightn't necessarily write it off, Deputy, but there'll be no assets to meet the €40 billion deficit.

Deputy Pearse Doherty: But, well, when you sell a loan-----

Mr. Brendan McDonagh: Yes, but if you're-----

Deputy Pearse Doherty: When you're selling a loan at this point in time, are you not writing off?

Mr. Brendan McDonagh: Yes, but I mean when we sell on the loan, we're selling on the debts related to the €74 billion, we're not selling the debts related to the €31.8 billion.

Deputy Pearse Doherty: Yes, so-----

Mr. Brendan McDonagh: So, he'll owe the money to somebody else.

Deputy Pearse Doherty: Yes, I understand that, and that somebody else won't be giving any uplift to the State, I would expect.

Mr. Brendan McDonagh: No, I mean they acquire the assets based at the value at the point in time when you put the assets on the market and the best way to get competitive bidding is to put them on the market where a number of interested parties can bid for them.

Deputy Pearse Doherty: Okay.

Mr. Frank Daly: It is important, Deputy, just to make the point that if there are losses at that stage, what you refer to as write-offs, the cause of those losses is not NAMA.

Deputy Pearse Doherty: I understand.

Mr. Frank Daly: The cause of those losses is the banks.

Deputy Pearse Doherty: That's been made-----

Mr. Frank Daly: I think it's important that's-----

Deputy Pearse Doherty: That is being made crystal clear. I don't think there's anyone on this committee that think otherwise. Can I ask you, just in relation to, Mr. McDonagh, in relation to the NTMA and I just want to clarify this for my own mind. You mentioned that the NTMA came under pressure in 2007 for liquidity of the banks, to place deposits in a number of the institutions and that you, the NTMA, the institution, made a decision that, if that were to happen, it needed to be on the direction of the Minister for Finance. Can I ask you where did the pressure come from, and specifically did it come from the Minister for Finance, either formally or informally, or somebody acting on behalf of the Minister for Finance?

Mr. Brendan McDonagh: There was correspondence from the Minister and senior officials to Dr. Somers.

Deputy Pearse Doherty: And did that include all of the institutions that are in NAMA, or a number of them? When you say there was correspondence, was that ... was the correspondence to place liquidity deposits in a number of the institutions, a few of the institutions, or all of the Irish institutions?

Mr. Brendan McDonagh: No, well it was much more generic than that and you will appreciate, Deputy, that the NTMA are likely to be called here separately to the banking inquiry, I wasn't called here to speak specifically about this.

Deputy Pearse Doherty: Yes, I appreciate that.

Mr. Brendan McDonagh: But I want to be helpful to you all, in the case of the day. It was about .. along the lines of can the NTMA look at what support it can give to the Irish banking system.

Deputy Pearse Doherty: Okay, thank you. Thank you.

Chairman: Senator Barrett, ten minutes.

Senator Sean D. Barrett: Thank you very much, Chairman. On page 6 of the C4b document, we have the discounts and the average was 57%. A matter of concern, Chairman, would be that AIB at 56% is only 5% off Anglo and, you know, that compares adversely with Bank of Ireland, which at 43% is 18 points off Anglo. Does that have implications for this committee? Does AIB require substantial reform given it got so close to the Anglo in those percentages?

Mr. Brendan McDonagh: I think, Senator, the biggest transfer of loans into NAMA was Anglo Irish Bank, about €34 billion par debt of loans. AIB was the second biggest transfer, of about €20 billion of loans. I think, as I said earlier on, AIB and Bank of Ireland both doubled their balance sheets between 2003 and 2008, and Anglo quadrupled from €25 billion to €100 billion balance sheet. I think AIB got very aggressive into the property business and they certainly probably had ... the consequence of that has been that the discounts are quite high, and whereas Bank of Ireland transferred €10 billion par debt of loans to NAMA, and at a lower discount, because they were more risk averse didn't mean to say that they were fully risk averse, but they were more risk averse than the other institutions, and that's what the discounts signify.

Senator Sean D. Barrett: Are Irish banks reformed? Have they new people? The property fixation that you've mentioned, you know, do they know about high tech, aviation, pharma, start-ups, small and medium enterprises? I mean when NAMA's gone in a few years time will Irish banks be reformed so that they don't need it to be re-established in, say, five years after that?

Mr. Frank Daly: I think it's for others probably to say whether Irish banks have reformed. I suppose the comment I'd make in relation to the areas you mentioned, pharma, and they're now very much into agri, I think they have the expertise, I think they have a greater prudence, level of prudence and caution. They're obsessed with the property market now, but they're probably obsessed, actually, at the other end of the spectrum, in that they don't really have any great enthusiasm for getting involved in it at all, and that in itself is a, you know, ultimately for the country is something that needs to be ironed out. I think, in fairness to the banks, they have made great strides. You know, it's a matter for you to discuss with the banks about the changes in their structures, and the changes in their personnel. It's well known, without NAMA being the experts in that area, that there have been significant changes in the personnel and structures of the bank. I think they have a much more risk-based approach now, and I think the boards of the banks, in particular, I would say if there's one thing that has happened over the last number of years as a consequence of all of this, is that directors in the banks are very, very keenly aware of their responsibilities as directors, and what you might want to explore with the banks is the extent to which that was there pre the crash. So I think they've improved. Are they perfect? I'm not going to pronounce on that.

Senator Sean D. Barrett: Did you encounter a problem with directors' loans?

Mr. Frank Daly: Well, directors' loans were not transferred to NAMA.

Chairman: Don't give me a heart attack coming up to five o'clock and indigestion for my dinner, Senator Barrett.

Senator Sean D. Barrett: If we reform Irish banks, and we share your aspirations in that, in fact I must ask you about your experience as a public interest director in Anglo, first, that was presumably for a short while before it was abolished, was it?

Mr. Frank Daly: It was. The Chairman will be aware I have a difficulty in relation to that.

I'm a prosecution witness in a case that's ... or a couple of cases that will be before the courts, so I need to tread very carefully.

Chairman: And I would concur with that, so I'd ask the Senator to move on.

Senator Sean D. Barrett: We had at the same time Ulster Bank, Royal Bank of Scotland, DEPFA, Saxony Land Bank: I mean, it wasn't just the banks that you had to deal with, there seemed to be just a culture of banking in Ireland that involved losing large amounts of money by just being here, whether they were headquartered elsewhere or not. Have you had thoughts on why that happened?

Mr. Frank Daly: I referenced this earlier. It is important when you are talking about, particularly in the property area, that you don't just finger the five NAMA banks or whatever, that there were others in there who were just as active and in some cases, actually in relation to particular products - I am talking about 100% mortgages and all of that - who were just as active in that area. Some of them didn't come into NAMA, and in fact they are pretty much gone from the Irish scene. So it was wider. As to what encouraged it - and I am not talking about the IFSC banks which by and large have been better run and better managed than some of the others - I think it was a culture of competitiveness, it was the easy money that we talked about earlier and it was the sort of hands-off regulatory regime. It was a combination of all of that.

Senator Sean D. Barrett: Of the 772 people who borrowed €73.9 billion, Mr. McDonagh mentioned five people had repaid. Were those out of the first group, the 12 who borrowed €22.2 billion? And the danger is moral hazard, if they got away with it, well then there's no penalty for the way they were conducting themselves. Was it just five people you said earlier about the people who had repaid?

Mr. Brendan McDonagh: Yes, but I mean they were across a range of a size of debtors. I mean, to be frank with you Senator, there is not one debtor who I have come across who wants to be in NAMA. It is not exactly a convalescent home, so I think if they can pay off their debts they will try and get out of NAMA as quickly as possible.

Mr. Frank Daly: And there are five to date, but I mean there is a way to go yet, and there is a possibility that that number will increase.

Senator Sean D. Barrett: There are 767 to go maybe?

Mr. Frank Daly: It is important to say, to go back to the point of does NAMA continue to chase the full debt where we can? Yes we do. We have to be realistic and say that in a lot of cases that is not going to happen. If that was going to happen, you could really have left all these things with the banks. Could it happen if NAMA had the luxury of waiting ten or 20 or 30 years, as indeed a lot of our debtors would actually like us to do? Possibly. But nobody, and I don't think anybody in this room, or anybody in NAMA, or anybody in the banking system can actually indicate what is the one day that the market will peak and dispose of our assets, or hold our assets until then. Anybody in the business will say that you can't predict that. For NAMA, with the additional constraints of senior debt, contingent liability for the taxpayer, we have to be active in the market.

Senator Sean D. Barrett: I think I share your surprise and disappointment that of the 6,000 houses you offered to local authorities, about 1,200 have been taken up. Should the rest be a fire sale, if somebody can buy them for a couple of hundred and do them up? It's better than having them going into rack and ruin?

Mr. Frank Daly: We offered 6,000 and 2,000 have been accepted. We delivered 1,200 and the other 800 will be delivered before the end of the year. In respect of the other 4,000, once the local authorities or the housing agency said "No, we are not interested", NAMA either disposed of some of those or rented them. So there is no one of those 4,000 properties which is unoccupied at the moment.

Deputy Eoghan Murphy: Mr. McDonagh you said earlier on that it's a technical point as to whether or not you would include the activities of an Irish bank overseas in the State guarantee that was offered. It is a technical point, but is it not very significant as well because is it not fundamental to the question "what are we guaranteeing"?

Mr. Brendan McDonagh: At that point, on the night of the guarantee, the Government had decided to guarantee the liabilities of the banks and they also ... these banks had 100% owned overseas subsidiaries who had issued debt and if these overseas subsidiaries didn't have the money to pay back ... weren't guaranteed and didn't have the money to pay back the things, that the money then ... then there would have been a recourse back to the main bank operating here so it's purely a legal, technical mechanism.

Deputy Eoghan Murphy: Before they consulted you, had they decided to extend that guarantee to the overseas liabilities?

Mr. Brendan McDonagh: They ... I don't know what they decided because I wasn't in the room, Deputy, but there clearly was some discussion about it, about what was included, what wasn't included, and ... you know.

Deputy Eoghan Murphy: So we could say it wasn't final, as to what was included before you were consulted.

Mr. Brendan McDonagh: I'd say the guarantee was meant to be universal. That's my impression. And then there was a question asked about what does it include. Does it include ... what I was advised at the time was everybody thought it was universal, and then the question was, if it wasn't universal what would the implications be if it wasn't universal and it was in place?

Deputy Eoghan Murphy: That it was universal but there was confusion as to what universality meant?

Mr. Brendan McDonagh: That's my impression, yes.

Deputy Eoghan Murphy: And then you were brought into the Taoiseach's office to explain your particular advice, which was that you hadn't to include them?

Mr. Brendan McDonagh: My view was that if the subsidiaries could not pay back their debts because they weren't covered by the guarantees, this would have meant that the guarantee may well be worthless because they would come after the parent and the guarantee would effectively be, you know, called on almost immediately if the subsidiaries could not pay back their debts.

Deputy Eoghan Murphy: And so you were brought into the Taoiseach's office to the Taoiseach to explain this to him?

Mr. Brendan McDonagh: Yes.

Deputy Eoghan Murphy: Is it not fair to conclude then that it hadn't actually been decided at that point that it was absolutely necessary to include the foreign subsidiaries of the banks in the guarantee?

Mr. Brendan McDonagh: That's pure conjecture.

Chairman: Mr. McDonagh wouldn't be able to answer that.

Mr. Brendan McDonagh: No, that's pure-----

Deputy Eoghan Murphy: I beg ... well, sorry, Chair, I think it's an important point as to the advice you were giving.

Mr. Brendan McDonagh: I wasn't present for all the discussions.

Chairman: It may be an important point but Mr. McDonagh will not be qualified to answer that question.

Deputy Eoghan Murphy: I'm only asking as to the advice that he gave and what that meant.

Chairman: Not to be reading other people's interpretations-----

Mr. Brendan McDonagh: Well, I've advised you what my technical advice was, that if they didn't, the likelihood would be the overseas subsidiaries would fail and then there would be recourse back to the parent, and that would have implications for the parent.

Deputy Eoghan Murphy: Okay, and then just to confirm, because I asked you a moment ago, about the universality of the guarantee wasn't fully understood then until you had given that advice. It was going to be a universal guarantee but you would clarify on this point?

Mr. Brendan McDonagh: Deputy, there is not much more I can say about ... than what I've said.

Chairman: This is very repetition now. Mr. McDonagh has said-----

Deputy Eoghan Murphy: I'll go back to the record then.

Chairman: -----he doesn't know what the status was. It could have been the case that the guarantee was in place and they were now looking to find out what the extension of that was. The guarantee could still have been in a processing mode at that time but in fairness to Mr. McDonagh, he has been on record as saying he's not qualified to state what the status of the guarantee was at that time.

Deputy Eoghan Murphy: That's a fair point. My apologies. It's a fundamental question; it's not just a technical point, in my view.

Chairman: Okay, but I'm trying to avoid repetition but that point has been made over and over and I will not be asking it again.

Deputy Eoghan Murphy: Thank you, Chair. Mr. Daly, in your opening statement, you talked about the first bond repayment due in 2013 of €7.5 billion.

Mr. Frank Daly: €7.5 billion, yes.

Deputy Eoghan Murphy: And you mentioned the pressure from the troika or supervision from the troika on that first repayment.

Mr. Frank Daly: Yes, what I mentioned ... what I talked about was that, you know, from the ... from the time the troika came ... came to Ireland and had an influence in Ireland, and they met on a very regular basis with all of the players including NAMA, and it was quite obvious at those meetings, and particularly the ECB representatives at those meetings that they regarded early debt repayment by NAMA as a fundamental indicator that NAMA was taking its business seriously, that NAMA was working out the assets, was acting as a real asset management company, and, in the broader sense, that the country was serious about repaying its debt. So it was ... I mean, I don't think anybody at any stage said to us, "You have to do this by this date," but it was very obvious that that was the approach that they favoured and that continued after the €7.3 billion ... or, €7.5 billion payment.

Deputy Eoghan Murphy: Was there pressure on you to dispose of particular types of assets in a particular geographic location to meet that target?

Mr. Frank Daly: There wasn't, no. No, no. No, that was left ... that was left totally to the discretion of the board.

Deputy Eoghan Murphy: To decide where and when different assets would go?

Mr. Frank Daly: They didn't really care where we got the money from so long as we got the money and repaid it. So there was no pressure, whether it be UK, whether it be Ireland, whether it be any particular type of asset or-----

Mr. Brendan McDonagh: What price you got for it, that was your decision.

Deputy Eoghan Murphy: As long as that bond target was met at that stage.

In relation to the institutions, the participating institutions who are coming before us now in the next few weeks, documentation for what exposure they had, what lenders with them had to other institutions ... just to clarify, was that documentation not there or was it not fully complete? I mean it wasn't until you brought the documentation together yourself or the knowledge from the different banks that you could see a picture.

Mr. Brendan McDonagh: Well in reality, Deputy, the only person that could, realistically, have put that documentation together would have been the regulator who would have an overview of the whole banking system. I think if you were sitting in AIB or Bank of Ireland, you might have an idea that, for argument's sake, Brendan McDonagh as a debtor has just bought a building down in Baggot Street but he didn't get the money from AIB, so I wonder who he got the money from? Did he get it from X bank, Y bank, Z bank or-----

Deputy Eoghan Murphy: But if an individual goes to a bank for a loan, do they not have to disclose what other debts that they have? Would there not be documentation to that effect?

Mr. Brendan McDonagh: It ... you would have thought so Deputy, but it doesn't seem to have been-----

Mr. Frank Daly: I think that is the point that we are making that they weren't asked. They weren't being asked, on a systematic basis-----

Mr. Brendan McDonagh: It is for the banks to answer that question. To us it doesn't seem to be that if you knew that debtor X had borrowed €1 billion from you, and if you knew that he had borrowed another €1 billion from bank B, that you would be looking at him with the same level of creditworthiness as you would if he was just borrowing from you.

Deputy Eoghan Murphy: So the documentation wasn't there to show that the banks had gotten that information from the people they were lending to?

Mr. Brendan McDonagh: Well, it wasn't ever presented to us.

Deputy Eoghan Murphy: Okay, so when we talk about the different institutions coming before us, there is different ways we can rank them. If we look at the metrics you have given us, you know you could rank them in terms of the par debt transferred, the percentage discount, the percentage of non-performing loans. Do you ... has NAMA ranked the banks in those particular ways in terms of the quality of documentation, depending on the different institution?

Mr. Brendan McDonagh: No, because once we got the loans, we had to deal the... deal with the hand we were dealt with. And we actually had to manage the debtor in aggregate and where there was gaps in security ... for argument's sake, if there was a surplus in one asset and it wasn't cross-capitalised we'd try to move to get that surplus cross-capitalised onto other assets. So that is something you can do when you're aggregating together, it's not something you can do when you are dealing with a bankable sum.

Deputy Eoghan Murphy: And then, in terms of the banks, the feasibility analyses, you said they didn't exist or they were incomplete or they were flawed as to what they were estimating. Did you rank the banks in that way in terms of their practices?

Mr. Brendan McDonagh: I mean the only ranking of the banks is the level of discount that they ended up in terms of the loans that they sent to us and that's set out in the table there in ... I don't know what the table is. It is in document C4b, page 6, when you look at the discounts across the institutions. I mean that ranking discount tells its own story in terms of the losses that each of the banks incurred.

Deputy Eoghan Murphy: Just then, in terms of new debt being issued on the back of old debt, did you ... have you looked at the banks of who was doing more than the other or who was more, say, delinquent in that regard or was, ultimately, more exposed, I am just trying to ... apart from the naked figures that we have which tell us different things depending on what you're looking at whether it's roll-up of interest or discount. They put banks in different position, but given the detail-----

Mr. Brendan McDonagh: Yes, I think there's an interesting table in the first, the main booklet document, which is C4b, I think, on page 6. The big document, the original document.

Chairman: Vol. 2? There is two books.

Mr. Brendan McDonagh: Vol. 1. Vol. 1, sorry.

Chairman: What page there Mr. McDonagh?

Mr. Brendan McDonagh: Page six, the table there in terms of qualifying advances. It is above question nine, the table above question nine.

Can people see that table?

Deputy Eoghan Murphy: Yes, it is page 8.

Mr. Brendan McDonagh: Once NAMA was announced, they ... effectively the banks were concerned that the portfolios were frozen and, obviously, clearly that wasn't in anybody's interest that the portfolios be frozen so a letter went from the Central Bank under the guarantee Act of 2008 which basically said to the banks, "continue to lend to projects but make sure that it is commercially sensible and that it stands up. If it stands up with scrutiny with NAMA, then NAMA will pay you 100% for every euro that you give to keep projects going if it is adding value to the asset".

Deputy Eoghan Murphy: NAMA would pay the participating institutions?

Chairman: Sorry, you are over the time.

Deputy Eoghan Murphy: Oh, sorry. We are-----

Mr. Brendan McDonagh: Yeah, it was definitely at 100%. So in that period between May 2009 and the date of acquisition by NAMA of the loans, the banks issued €2 billion. ... almost €2.2294 billion, almost €2.3 billion worth of loans to the debtors. And when we came to look at them and examine and saying, how ... you know, are they entitled to that full amount back, then we only refunded them €1.169 billion back, and we disqualified the remaining. So, effectively, there was €1 billion they had advanced in that period which we deemed to be eligible that they didn't stand up commercially. And you can see there by institution how much is eligible in each institution, and some ... you know, every institution suffered a loss in terms of that. So, you know, their lending practices even post-NAMA probably would have thought ... you'd have thought should have been tight after ... post ... because the loans were coming to NAMA, and obviously this shows that, you know, when we looked at the loans and acquisitions and said ... questioned them, and said, "Show us the commercial rationale of why you issued this money so that we can actually refund you 100% as under the Central Bank letter," they weren't able to justify it and we qualified €1 billion worth of money that they issued between May 2009 and the acquisition during 2010.

Chairman: Thank you, Mr. McDonagh. Deputy O'Donnell, ten minutes.

Deputy Kieran O'Donnell: Thanks, Chairman. Can I deal with NAMA? I suppose I want to put a question to both of you. If Anglo and Irish Nationwide were not involved would there have been any need for NAMA? I pose that question on the basis that of the par values, Anglo and Irish Nationwide make up 58%, of the discounted values they make up 53%, of the top 29 of the borrowers they account for ... the top 29 account for 46%, nearly 50% of the overall loans taken into NAMA, and of those 29, Anglo and Irish Nationwide account for 67%, over two thirds of those alone. The collateral involved and of the ... where you took, and I just----

Chairman: What evidence page are you on there?

Deputy Kieran O'Donnell: I'm dealing, Chairman, with NAMA C4, Vol. 2.

Chairman: What page?

Deputy Kieran O'Donnell: It's ... there's only a handful of pages involved.

Chairman: Alright, it's over a number of pages.

Deputy Kieran O'Donnell: Really, what I'm referring to really is that it makes for very,

very interesting reading that even on the security so ... when the security wasn't strong enough you took nearly €500 million back, and Anglo and Irish Nationwide made up 82% of that pull-back. So the question I'm asking really is, is that if Anglo and Irish Nationwide were not there, would there have been a need for NAMA?

Mr. Frank Daly: I think you ask both of us that, Deputy. I suppose, maybe can I talk two facets of that? If you go back to the whole crash and the difficulties, if Anglo and Irish Nationwide were not there would the other banks have followed into this lending frenzy in property? I think it's fairly well accepted that Anglo and Nationwide were the leaders and that the other banks followed, so that's maybe one aspect of it. If they weren't there at the time who knows what might have happened.

If you get into the situation where there is a problem and you're thinking about an asset management solution and you don't have the Anglo and the INBS one, would the scale of the losses in the other banks still justify a NAMA type approach? I think we probably would, and I think when you're getting to that stage, because you'd still have had a very considerable par debt lending into property, I still think that the banks would not have been capable of dealing with that themselves, and you would be left of course with the question of well what do you do with all those loans in Anglo and INBS. Anglo at the time, of course, had been, you know, had been nationalised, but you still have to deal with the loans. So, do you let them in the nationalised bank for that bank to work them out? Do you actually push them into the other banks, Bank of Ireland and AIB? I think that would have been pretty much disastrous, or do you take the view that an assessment management approach is the best way to go? I'm fairly strong in my view that right across the system, and whether Anglo and INBS were still there or not, that you would still have needed an asset management approach for all of the reasons we discussed this morning about why that approach was appropriate. Mr. McDonagh may have-----

Mr. Brendan McDonagh: If you are saying, Deputy, that if Anglo and Irish Nationwide effectively were nationalised ... but I mean you were still left then with AIB transferring €20 billion worth of loans to NAMA and they suffered an €11 billion loss on that transfer, and Bank of Ireland transferred roughly about €10 billion and had almost €1.5 billion loss. They're still substantial figures. I think the issue boils down to the following: the game was up. The borrowing had happened, the assets weren't worth what anybody had thought they were worth, the debtors were exploiting the lack of synergy between the banks in terms of knowing how much each was borrowing from each institution ... I still think you would probably have had to have brought them together to actually capture the surpluses of some assets to deal with the deficits in other banks.

Deputy Kieran O'Donnell: The point I'm making really ... that by NAMA being established, it crystallised losses of the order of 61% discounts in Anglo and Irish Nationwide at a time - and there is a direct correlation between our spiking of our sovereign debt cost and the establishment of NAMA - and the point I'm making really is if Irish Nationwide and Anglo Irish had been nationalised the night of the guarantee, is it possible that you could have ring-fenced both banks and, ultimately, the cost to the taxpayer and the Irish citizen would have been less?

Mr. Brendan McDonagh: I don't think so, I think the losses were already there, Deputy. The losses would have to be dealt with at some stage. Once you nationalise them, you brought them onto your State's balance sheet, and you had to deal with them. If you had a resolution mechanism, which wasn't in Ireland at the time in September 2008, you probably could have just left ... the view has been expressed, maybe would you just put them into liquidation and things like that? But I think the reality is that that would have been read straight through to Ireland as a sovereign and the other banks, and, you know, would have been a very risky approach.

Deputy Kieran O'Donnell: What has been the level of debt write-off by NAMA since its establishment in terms of debts? Level of write-off?

Mr. Brendan McDonagh: In terms of debt write-off, we've wrote off just over, as far as I can recall, Deputy, €300 million worth of debt so far.

Deputy Kieran O'Donnell: In total?

Mr. Brendan McDonagh: Yes.

Deputy Kieran O'Donnell: And the top 29 borrowers who made up 46% of the overall loans ... how many of those are still in NAMA?

Mr. Brendan McDonagh: Out of the top 29? The majority of them.

Deputy Kieran O'Donnell: How many of those are being paid a salary by NAMA?

Mr. Brendan McDonagh: In total we are paying across our 600 and something connections, I think about ... I think it's about 150 debtors, which costs about €10 million a year.

Deputy Kieran O'Donnell: And, on average, what are they being paid?

Mr. Brendan McDonagh: Well, on average, I think it works out about 60 grand a year.

Deputy Kieran O'Donnell: And how many of those are on over €200,000 or over €100,000 a year at the moment?

Mr. Brendan McDonagh: I don't have that information with me but I know ... we had three debtors on €200,000 with multi-billion euro portfolios ... I think there is two at present.

Deputy Kieran O'Donnell: So roughly you're saying about 20% of all debtors are on salaries at the moment?

Mr. Brendan McDonagh: Yes, where we believe that they're adding value and it's cheaper than applying ... than having a receiver in place.

Deputy Kieran O'Donnell: And can I, to follow on, in terms of the measurement of what NAMA is delivering to the Irish citizen and taxpayer, the whole issue of the rate of return metric ... that has come up, as you well know, and the C&AG has carried out a report on it. What's ye're view on that now in terms of providing, I suppose, an independent metric of how NAMA has performed on behalf of the taxpayer?

Mr. Brendan McDonagh: Well the board, I mean, you are aware, Deputy, because you are on the committee, we've discussed it at PAC ... We didn't think ... we originally thought it didn't make sense. We had a discussion with yourself and other colleagues on the PAC about it and the board has reconsidered it and we ... and the board has adapted a performance metric which we will publish in our annual report at the end of May, once the Minister approves it.

Deputy Kieran O'Donnell: What form will that take?

Mr. Brendan McDonagh: It will take the form of a standardised rate of return, metric in terms of how NAMA's performing.

Chairman: Thank you very much. A final question, then I will pick up on the leads and very very briefly, a quick wrap up. Deputy John Paul Phelan, ten minutes.

Deputy John Paul Phelan: Briefly Mr. McDonagh, I want to go back to a question I asked earlier in relation to the rationale that was given by many people at the time of the legislation to establish NAMA, that its establishment would lead to an increase in bank lending. I want to put a quote to you. It is a quote from the Dáil of 16 September 2009 during the discussion on the NAMA legislation. The former and late Minister for Finance said and I quote: "The establishment of NAMA and the removal of identified risky assets form the balance sheets should in itself improve credit supply." You said on the record already that you did not offer that opinion yourself to the Minister. Do you have a view or any evidence as to where that opinion was coming from? I was a Member of the Oireachtas myself at the time. A significant amount of the rationale for the establishment of NAMA was that it would lead to an increase in bank lending. Do you have any view to express to the committee as to where that opinion was coming from?

Mr. Brendan McDonagh: No, I have no idea. I was not part of the Minister's speech.

Mr. Frank Daly: I do think, Deputy, if you are creating an entity which eventually was able to put over €30 billion into the banks and remove risk rated assets off the balance sheets of the banks and you put that €30 billion in, which is collateral that can be directly repo'd at the ECB, which gives the banks cash ... I think it is not unreasonable to think that that volume of funding going into the banks should have triggered some possibility of lending, of credit. As to why it didn't, I think it is a whole other story that maybe is one to explored with the banks. I do not think it is unreasonable to say that with that volume of effectively cash going into the banks that you could have expected some easement of credit.

Mr. Brendan McDonagh: Deputy, if I may just add, there is one thing I am absolutely sure about. The ECB is very accommodating at present. It's providing lots of liquidity into the system and it's taking different types of collateral now. Back in 2008 and 2009, the ECB was not very accommodative. It did not want land and development loans from Irish banks as collateral to advance money to the Irish banks and system. The whole rationale for NAMA was to take the land and development loans which the ECB did not want, put them into NAMA, NAMA issued Government-guaranteed bonds, the banks could bring these Government-guaranteed bonds to the ECB, and the ECB was happy to give them money on the back of this mechanism. The banks lost, if you look at the Central Bank figures that have been published on an ongoing basis through the years, the banks lost about €100 billion worth of liquidity during the crisis. We gave them €30 billion of assets that they could use to replenish that liquidity. If they still had the land and development assets, they wouldn't have that €30 billion liquidity and the situation would be a whole lot worse, I would suggest.

Deputy John Paul Phelan: That is fair enough. At the time that the legislation was happening, this was the major element of support for the establishment of NAMA that was expressed in the Oireachtas by different people, not just the late Minister for Finance. I felt I just needed to put that question. Perhaps it has been a long day and you were a little bit brief in your answer.

Chairman: To put another question to the Deputy. Please can we wrap proceedings up.

Deputy John Paul Phelan: We will not wrap them up yet Chairman. A couple of more questions in relation to Mr. Daly. The broader context of NAMA ... you obviously have a responsibility to obtain value for money for the taxpayer. There was also a social responsibility element which I can remember being discussed at length in both Houses at the time. I do not want you to obviously refer to specific examples but how, in the broad context, are those two seemingly and potentially often conflicting objectives balanced?

Mr. Frank Daly: Well I think I was making the point in my statement that you have to start with the financial return. That's our ... that's what's in the Act. We can't depart from that. There is a secondary objective in the Act of a social and economic dividend and the way we try to reconcile it ... first of all, by saying that, and I have said this before, is that the best social and economic dividend, I think, that we can get out of all of this is that NAMA is successful then that our senior debt is repaid and if we have a surplus then that in itself is an economic and a social dividend because that billion can go wherever the Government decides to put it. Side by side with that, it is everything from social housing that we spoke about earlier. It is the funding of much needed, if I can put it, ordinary housing in Dublin, which we are doing. We have committed to 4,500 of those by the end of 2016. We are examining the potential in what would be our asset base to ... for another 20,000 to be delivered over the ensuing five years. It is the whole docklands SDZ area which we really haven't referred to today, which is economic in the sense that it is going to provide much needed grade A office accommodation for FDI and other local industry. It is social in the sense that in that mix there will be residential accommodation as well. It is the ... and then all of the other stuff in relation to the sites that we have engaged with Department of Education in relation to schools, Department of Health and the HSE in relation to primary care centres and all of that. And then all of the, I do not want to sound pejorative, but all of the local stuff where we have engaged sometimes with representatives like yourselves, where there is a local community group or sporting group or whatever and they are interested in a particular facility or piece of land or building and we do our utmost to actually engage on that. So it is all of that is the social dividend. I don't think it conflicts with our commercial objective. Sometimes it's a balancing act to actually run the two together but I think we try to do our best.

Deputy John Paul Phelan: And finally, both of you, and I think Mr. McDonagh on page four of your opening statement, you referred to, and he went off script I think even a little bit, to refer to the fact that there was no fire sale ... you mentioned Dr. Bacon specifically. There is evidence that exists of property sold by NAMA that were subsequently resold at significantly increased prices which would seem to contradict the evidence ... or the statement that you made with regard to the absence of a fire sale element within NAMA. And you particularly referenced a good performance in the UK market. I will just ask briefly maybe for you to comment on, not specific examples, but on some of those.

Mr. Brendan McDonagh: Deputy, when we sell assets we take ... we look at asset sales, we make decisions, we take advice ... appropriate advice, and we openly market them ... the properties and where there's multiple bids on the property, we obviously try and get the best price we can. We don't have the luxury and we don't have the magic wand of knowing when is the absolute perfect time to sell a particular asset. There are, of course, individual examples of where some assets were sold and they have been sold on for higher values but that has to be put into the context as well of people risking their capital in the market at the time when nobody was risking their capital in the market and they were coming in to make bids for the assets. We made a very conscious decision that between 2010 and 2012, we held back on putting assets into the Irish market, despite everybody telling us we should be putting them onto market and accepting much lower prices. We only sold €1 billion worth of assets. As of today, we have sold €6 billion worth of assets and most of that ... €4 billion of that mostly came from 2013 onwards as the market improved. And, you know, there's many other examples of assets where we sold where we got very good prices and people subsequent to them haven't sold them at the price that they bought them from NAMA. So, I think you know, even the private equity people who bought some assets in the Irish market have sold on individual examples of assets to people who made profits subsequent to that. So, that's the market, that's the model that's there and you know, do I wish that I had a magic ... that every single time I sold an asset, that would be the maximum peak of the asset and nobody else would make any profit on it? Of course I would in terms on behalf of the taxpayer but in terms of the information that we have at the time, we make the best decision we can, and we don't make it lightly, to sell the assets and of course there will be individual examples. You can't dispose of 60,000 individual units where you are going to find that every single time you have hit the market at the optimal time but there are certainly many more examples which nobody talks about where we have made substantial profits and it was the right time to sell and nobody talks about that.

Mr. Frank Daly: And I think just a very quick point in relation, some of that criticism relates to one or two UK sales and yet last week or the week before, you have reports from Bloomberg and *The Irish Times* about the UK property market, particularly in London and particularly the high-end stuff which, where it was kind of opined that NAMA really should hang on for the next four or five, ten years and that is now under severe pressure. So, we would say we called it right in relation to that market.

Chairman: Moving into the lead's brief supplementaries, I am going to facilitate a situation of five minutes maximum where I will be asking members to be tighter on their time with that and if I can ask the questions to be short and the responses to be equally short.

Senator Susan O'Keeffe: Thank you. I have two clarifications. Mr. McDonagh, when Mr. Cardiff came and said there is a guarantee in place for the banks, he did say they were for all the banks?

Mr. Brendan McDonagh: Yes.

Senator Susan O'Keeffe: Did he ask for your opinion on that?

Mr. Brendan McDonagh: No.

Senator Susan O'Keeffe: Did you offer it? Did you offer an opinion?

Mr. Brendan McDonagh: I said I was surprised. He said this ... I think the conversation was - "This is a Government decision, that's our job to implement the Government decision."

Senator Susan O'Keeffe: And that was that?

Mr. Brendan McDonagh: Yes.

Senator Susan O'Keeffe: Were you ever, and forgive me if you have answered this before, I just can't quite recall. Were you ever consulted or involved or engaged in any way, shape or form with any kind of draft guarantee, maybe in the nine months prior to September? I just couldn't remember, Chair.

Mr. Brendan McDonagh: No.

Senator Susan O'Keeffe: Now, given that we talked earlier on about the concerns that you had and obviously the Department of Finance had them as well, the Minister for Finance had them in the turn of August 2007, moving into December 2007-January 2008. How was it, if you were listening as a member of the public, how was it that it took a full further nine months for us to arrive at that night of panic given that there were lots of concerns already accumulating?

Mr. Brendan McDonagh: You know, I think you've got to understand, Senator, is that people can have concerns that something might happen and it hasn't happened but during September 2008, certainly around the time of the Lehman's collapse, that was a game-changer. You know, everybody sat back and started withdrawing liquidity and if you are a chief risk officer sitting in New York and you have lent €1 billion of money market deposits to the Irish banking system and you hear that there might be some potential problem in the Irish banking system, you are not going to wait for the clarification, as chief risk officer, of what that problem might be. You want your €1 billion back. So the game changer was that everybody started withdrawing liquidity very suddenly very quickly out of the system at the same time and it has been, I think, documented elsewhere or reported that, you know, that was the real like, that what people have a worry-concern that what potentially might happen, was beginning to happen and when it began to happen, it happened very quickly.

Senator Susan O'Keeffe: Yes, but bells were ringing. Indeed, you were kind of ringing the bells yourself by saying "Well, we don't really want to put any more into ..."

Mr. Brendan McDonagh: Well, you know, I mean-----

Senator Susan O'Keeffe: Who was listening to that?

Mr. Brendan McDonagh: Well, you know, it's a bit like saying you can have concern and the boy who cried wolf and all these things of the day. It is when the wolf actually turns up, that's actually a much different story. So I think you know, I am very conservative personally by nature. So, I would be, you know, seeing the-----

Senator Susan O'Keeffe: So for you to be concerned in fact in 2007, for a guy who is conservative, the wolf was well out of the picture there-----

Mr. Brendan McDonagh: Well the wolf ... well I thought the wolf would turn up the following morning, I mean, that's just the nature of what it is, but I think the reality is that it took a long time to come through and, you know, there ... I suppose there were some similar moments, I mean, everybody saw the queues in Northern Rock in September 2007 in the case of the day including the office here in Dublin in the case of the day, but that seemed to quieten down and, you know, that seemed to be a once off, the British Government seemed to deal with Northern Rock very quickly, and things like that. So then when you come into 2008 people were saying "Ah maybe it's not as bad as what it is", you know, it-----

Chairman: Final question 'cause I won't be bringing you in after your next question.

Mr. Brendan McDonagh: -----is liquidity coming into the banking system again, is it not ... you know it's still there, people are coming back. They might have been giving you three month deposits but they're now giving you one month deposits but they're still giving you a deposit.

Senator Susan O'Keeffe: Finally, in relation to the conversation you had with Deputy O'Toole earlier on, and you were talking about, you know, I'm sorry ... I'm sorry there were several conversations, I'm sorry, I'll start again. Conversations we had about unpaid debt and the pursuit of people who were not ... you know ... who were still going to owe money. On foot of Mr. Lenihan's, you know, promise that all ... all the money should be paid back. Again, for the public, what is it exactly that NAMA can do to pursue the debts that remain unpaid? I mean, literally, do you pursue them or do you just hope? You've clarified that some of it won't be paid.

Mr. Brendan McDonagh: I think the evidence is that we do pursue them. We have about 324 cases in the High Court. They're reported quite regularly where we're pursuing people for judgments to try and get as much money back as possible, but you have to take a view sometimes that there's, you know ... somebody has sold all their assets and they have no assets left. Are you going to spend money pursuing judgments just for the sake of pursuing judgments when it's actually going to cost you lots of money legally to do that when effectively there's nothing there to pick up? So the reality is that everybody wishes that the assets were there to pay back the €74 billion. I'm saying to you, the value of the assets isn't there to pay back the €74 billion and what we think we'll get back ultimately will be ... pay off the €31.8 billion debt plus a bill in surplus at the-----

Deputy Michael McGrath: I will be brief, Chair. Mr. McDonagh, you correctly stated the Government statement on Tuesday, 30 September 2008, made no reference to any consultation or advice with the NTMA in terms of the decision in the early hours of that morning to guarantee the banks. You mentioned that Mr. Corrigan and Dr. Somers were travelling on that evening so they weren't available to attend Government Buildings, is that correct, on the night of the 29th?

Mr. Brendan McDonagh: They were abroad since the week ... they had travelled I think on the Sunday to the States, yeah.

Deputy Michael McGrath: Okay, and was there any telephone contact between you and those gentlemen while you were waiting in Government Buildings on that night of Monday the 29th?

Mr. Brendan McDonagh: No because we didn't know what was going on and, you know, I couldn't ... they were in a meeting in New York. We knew they were in a business meeting in New York, and there'd be no point in me, Deputy, ringing Dr. Somers or Mr. Corrigan, who I knew were in a meeting in New York and say to them, "I'm here in Government Buildings, I'm in a room with three other guys who are listening to my conversation that I don't know what's going on."

Deputy Michael McGrath: And to the best of your knowledge there was no direct contact from the Department of Finance or the Department of the Taoiseach with either of them during those crucial hours in question?

Mr. Brendan McDonagh: No, my understanding is that there was no contact with them but they'll have to answer that for themselves.

Deputy Michael McGrath: So would it be fair to say that there was no direct input by the NTMA on the night in question in terms of the decision that was made, on the night in question?

Mr. Brendan McDonagh: To my absolute belief and knowledge there was no ... that was the case, yes.

Deputy Michael McGrath: None.

Mr. Brendan McDonagh: Yes.

Deputy Michael McGrath: Thank you.

Chairman: Thank you. Deputy Joe Higgins.

Deputy Joe Higgins: Mr. Daly, you put forward some points as to what you ... what a sustainable model might look like in regard to property and financing and development, going into the future, based on your experience. Can I ask you in that regard, is it ironic or not that, currently, I mean by common consent, speculation and profiteering in land caused a massive bubble which caused a disastrous crash which the Irish people were forced to bail out, and the entities that cost them so much, the property and the land and the buildings, etc., are now again the subject of speculation by new forces coming into the market. Is it a question of *plus ça change*? And in relation to that, Mr. Daly-----

Chairman: Would the Deputy explain? Sometimes members say “for the public to understand”, but just for the Chairperson to understand, what does that comment mean, Deputy Higgins?

Deputy Michael McGrath: It’s not all about-----

Deputy Joe Higgins: Okay. It’s a French expression, Chairman.

Deputy Kieran O’Donnell: It’s not out of ... is it in your manual, is it?

Deputy Joe Higgins: *Plus ça change, plus ça reste encore*. The more things-----

Chairman: Magnificent, but what does it mean, Deputy?

Deputy Joe Higgins: It’s a cynical-----

Deputy Kieran O’Donnell: The more things change, the more-----

Deputy Joe Higgins: -----proposition that, the more things change, the more they remain the same.

Senator Susan O’Keeffe: They stay the same.

Chairman: Okay. Correct.

Deputy Joe Higgins: Okay. I’m sure you knew that already.

Chairman: Thank you very much, Deputy.

Deputy Joe Higgins: But Mr. Daly-----

Deputy Eoghan Murphy: It’s the dilemma of your job. You can’t do the-----

Chairman: Okay.

Deputy Joe Higgins: We have to be very serious. I mean, would your sustainable model not outlaw, or not, speculation and profiteering in building land and the implementation of something like the Judge Kenny report of 1974, which you may be familiar with, which recommended control of speculation in building land?

Mr. Frank Daly: I don’t think the sustainable-----

Chairman: Could you answer in English, please, Mr. Daly?

Mr. Frank Daly: Go raibh maith agat, a Chathaoirligh. I don't think the sustainable model that we're suggesting here would necessarily outlaw bad practice. There'll always be people who will be on the edge, on the margins and all of that. All we're saying is that that sustainable model across the four - or the three - areas of funding, development and planning in the market would actually make it much more difficult for the type of crash and the type of speculation and the type of funding that caused, or contributed to, all of that to happen now. As to whether any of those, or how many of those ... I don't know how many bullet points are there. There's about ten or 12. As to how many of them progress has been made on, I think progress has been made on some of them, but I think progress needs to be made on more of them. And that's right across the funding, the planning, the whole tax incentive area, the banking supervision and crucially - and I don't think we can keep emphasising this enough - the availability of hard analysis about-----

Deputy Joe Higgins: Data.

Mr. Frank Daly: -----supply and demand in the construction sector.

Chairman: A final question, Deputy, please.

Deputy Joe Higgins: Finally, Mr. McDonagh to yourself, you are a veteran of the National Treasury Management Agency, so you have seen over a long period, if you like, how pitiless the financial markets are in the way they operate, these major banks and what they've done to people. In terms of a sustainable model going into the future, would you see any merit in a publicly-owned banking system devoted to the needs of society rather than the private profits of elites and shareholders?

Mr. Brendan McDonagh: Well, I think the reality, Deputy, is that the State is effectively majority owner of AIB and Permanent TSB, as at present. So, it's a big part of the banking system. I think when, you know ... I've met other countries who've had banking problems as well, and they would've had publicly owned banking systems and private sector banking systems. And, unfortunately, their public-owned banks also had the same problems as the private sector banks because they all seemed to move in tandem. And it doesn't necessarily mean that you'll be saved because you have a publicly-owned banking system.

Deputy Joe Higgins: A new ethos.

Mr. Brendan McDonagh: A new ... you know, people have got to learn from this crisis. It's been very expensive for the taxpayer. And, you know, it's incumbent upon us all to take the lessons here and to try and make sure it doesn't happen again.

Chairman: Okay. Thank you very much. Senator D'Arcy, final wrap-up.

Senator Michael D'Arcy: Final wrap-up, Chair. Mr. Daly, there is about €3 billion in funds available for development.

Mr. Frank Daly: Yes.

Senator Michael D'Arcy: Have you a breakdown in what quantum of that money is available to be spent outside of Dublin, Cork, Limerick and Galway?

Mr. Frank Daly: No, I don't have a breakdown of that. I think what ... the point we're making is that, in terms of our capacity to actually deploy capital, the overall figure is about €3 billion. We certainly believe that a very substantial portion of that will be needed to develop out the Dublin docklands SDZ. We also believe that a proportion of that will be needed to develop the housing that I have talked about. And those are two mandates that we have been given in recent times following the review of NAMA last year by the Minister for Finance. So ... but, there is no Dublin-centric approach to this. It is available elsewhere, but it has to be where there are NAMA assets located because we, you know, we're ... we can't ... we're not ... can't under the Act advance funding or get involved with non-NAMA debtors or assets or land or whatever that is not on our books. The reality is that most of those assets, and I think Mr. McDonagh referred to them earlier, the remaining assets are in either the Dublin area or the Dublin conurbation, or in the other major centres, but I mean over the years, and I don't have the figures with me, but certainly they would have appeared in our annual report and I'm sure there'll be reference to them in our upcoming annual report, of areas where we have invested outside Dublin and indeed I didn't read it out in my statement, but if you look at page 12, where we talked about property transactions in Ireland that we have facilitated and that is certainly all of around Dublin, around Cork, around various places like that. The housing, in relation to input to social housing, input to the remediation of ghost estates, is all over the country. The investment in land and in development assets straddles everywhere, but it has to be where NAMA happens to have the assets and the reality is that most of those are in Dublin, Cork, Limerick and Galway, or around that area.

Chairman: Yes, thank you very much.

Senator Michael D'Arcy: Yes, just very quickly, just very quickly-----

Chairman: Yes, sure.

Senator Michael D'Arcy: -----while I have a moment. Mr. McDonagh I'm sure you will probably have had sight of Mr. Daly's statement and I did ask Mr. Daly his one to five of the factors that contributed to the crisis; could you give me your one to five of those, or are they similar to Mr. McDonagh's ... or to Mr Daly, sorry.

Mr. Brendan McDonagh: I think they're similar to Mr. Daly's. We'd have a very common view on that.

Senator Michael D'Arcy: So, your No. 1 is irresponsible developer funding?

Mr. Brendan McDonagh: Yes.

Chairman: All right, thank you very much, Senator. I'm going to wrap up. In wrapping up, I might just invite Mr. Daly and Mr. McDonagh if there's anything further that they would like to add. I will say the inquiry is not just about the past, it's also about learning lessons into the future and I do know in your opening statements you did give a lot of suggestions with regard to how we ensure that we do not have to recreate another NAMA into the future. So, just by means of any closing comments, is there anything you'd like to add, Mr. Daly or Mr. McDonagh?

Mr. Frank Daly: Thank you, Chairman. I'll be brief, it's been a long day for everybody. I want to make three points. The first is to emphasise again, as I did in my opening statement, that we are attending here as part of the solution. We were not the cause of the crash. We are essentially the ambulance, or whatever comes across, coming along afterwards to actually tidy it up. And then, you know, we're here because you are considering the appropriateness and effectiveness of the domestic policy response and NAMA was an element of that. I think there's two elements to that then: the appropriateness of it is one we have discussed, as to whether you go down the asset management agency route and we've had a general discussion about that.

I'm not going to repeat it, but it is generally now acknowledged worldwide that where you have a crash of such proportions and where you have such a concentration of lending by financial institutions into a sector like property, that banks don't fix themselves and you have to take it off their books. I think we've generally discussed that.

There is some material, which I referred to earlier, by the ECB and wherever in relation to that theoretical, what is the correct approach, what is the appropriate approach, and to the extent that the inquiry may not have that, we would be happy to pass it on to you. So, you consider the theory of the appropriateness of the approach and then you must move on to the effectiveness, did it work? That was the theory, that was the approach; did it work in practice? And that's where you get in, I think, to NAMA's performance over the past five years, and to the figures that we have provided to the inquiry today and maybe updated figures that we can provide to the inquiry by November, or whenever you're going to write your report. We would say, and you won't be surprised, that NAMA has been a very effective response. I've outlined in the last page of my statement why and I'm not going to repeat it. I would just like to thank you, Chairman, and members of the committee and the staff for your courtesy.

Chairman: Is there anything further you want to add to that, Mr. McDonagh?

Mr. Brendan McDonagh: No, I just want to echo what the chairman said. I thank the inquiry for the opportunity to speak to you today. I hope it was useful for you and I wish you well in your work.

Chairman: Thank you very much, Mr. Daly and Mr. McDonagh. And I, in doing so, I would like to thank both of you on behalf of the inquiry for your participation here today and for your positive engagement with the inquiry. And now to bring in matters to a conclusion, to say that you're now excused and to call that the meeting be adjourned, to resume at 9.30 a.m. on Thursday, 23 April 2015. Is that agreed? Agreed.

The joint committee adjourned at 5.50 p.m. until 9.30 a.m. on Thursday, 23 April 2015.