Joint Committee of Inquiry into the Banking Crisis

Witness Statement of

Joe O’Reilly

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1 See s.37 of the Houses of the Oireachtas (Inquiries, Privileges and Procedures) Act 2013
JOE O’REILLY

STATEMENT

I have been asked to appear before the Joint Committee of Inquiry into the Banking Crisis and have been directed to make this Statement under Section 67(1) of the Houses of the Oireachtas (Inquiries, Privileges and Procedures) Act 2013 with reference to a series of points set out in a Direction issued by the Committee on 21 May 2015.

A. Introduction

I welcome the opportunity to appear before the Committee to assist it in its deliberations on the Banking Crisis.

I have been involved in property investment and development for the past 30 years. My professional background is in construction management and in my early days I worked for some of the country’s best known house-building companies. In 1989, with the support of a number of Partners, I established Castletown Construction which is the home building arm of the group. Chartered Land is the specialist retail and office division which followed later. While I own 100% of Chartered Land my interest in Castletown Construction was shared with two co-investors.

In the period 2001-08 Castletown Construction built out and sold approximately 3,000 homes and also sold development plots for an additional 1,250 residential units including successfully integrating Part V social and affordable homes in a number of developments. During this period the group generated turnover in the region of €1.2bn. Our better known projects include Adamstown in Lucan, Carysford and Avoca in Blackrock, Killeen Castle in Meath, Riverwood, Fernleigh and Woodbrook in Castleknock and Rathborne in Ashtown.

Chartered Land is the specialist retail and office development arm of the group. It develops, owns and manages some of the largest retail developments in Dublin. Our commercial office portfolio includes the Grand Canal Square scheme, home to Facebook’s European Headquarters and their 1,000 employees. The scheme comprises 400k sq ft of 4th generation office space which satisfied the needs of one of the world’s fastest growing and most demanding large space users. The Bord Gais Energy Theatre, with its complementary Martha Schwartz walkway to the Grand Canal dock, was also developed by Chartered Land in the same period and represents a significant addition to the cultural life of Dublin city today. The Chartered Land loan portfolio is currently the subject of an international sales process being undertaken by NAMA. This process is called “Project Jewel” and is subject to stringent confidentiality given NAMA’s objective of securing a strong outcome from the portfolio sale.

Another high profile part owned development is Dundrum Town Centre, a retail-led, mixed use scheme extending to 1.3m sq feet. In addition to 185 retail outlets, Dundrum includes a live broadcasting radio studio, an adult education centre, a civic square encouraging a strong evening economy, a theatre and a twelve screen cinema. The group also owns and asset manages 50% of the ILAC Shopping centre on Henry Street in Dublin and 50% of The Pavilions Shopping Centre in Swords, near Dublin Airport.

With more than 500 tenants under management, these three centres provide Chartered Land with a significant foothold in the Dublin retail market. The three centres, together with their co-located development sites, support in excess of 11,500 retail and non-retail jobs in the Irish economy.

B. Business Strategy

Most of our assets were developed or acquired during the last two decades and were part of a business strategy to deliver premium commercial/retail/residential real estate proximate to key transport infrastructure which was easily accessible to target catchment areas. The development of
Dundrum Town Centre and the purchase of The ILAC Centre and Pavilions Shopping Centre in Swords were the foundations of a retail plan to serve the greater Dublin market with three best-in-class regional shopping centres of a European standard.

Dundrum had already achieved this status before the downturn, while plans were well afoot to add significantly, on a phased basis, to the standing investment in Swords and ultimately deliver an equivalent to Dundrum in North Dublin. The first phase of the Pavilions development had completed in 2008, when the financial crisis halted any further investment. Notwithstanding this, we’ve managed to significantly increase the income from the Pavilions since its acquisition in 2006.

At the same time, our retail strategy had planned for a third major retail development in Dublin City Centre. This envisaged a significant rejuvenation of O’Connell Street, heralding the arrival of a new department store operator to the Irish market. Planning for that scheme was secured in 2010, but the implementation of the scheme has been interrupted by the Recession.

Chartered Land’s interests in Dundrum, ILAC, Dublin Central and Swords Pavilions provides the group with the opportunity to create three retail developments that individually service their respective catchments and collectively create a shopping centre business that straddles the Greater Dublin area and is the market leader in the provision of retail space in Ireland. The delivery of this strategy will in time maximise the individual asset values and create added value at the entity level, attracting additional long-term investor interest from across the world. Dundrum Town Centre is already recognised as one of Europe’s finest retail investments.

This portfolio comprises high quality income producing assets and co-located development sites with significant potential for capital appreciation. Notwithstanding the collapse of the property market these assets have stood the test of time. They have traded their way through the turbulence of the recession and now represent a significant investment opportunity for long-term institutional capital participating in Nama’s ‘Project Jewel’ loan sale.

Founded in 1989, Castlethorn Construction is one of Ireland’s most successful residential property developers. Over the past two decades, the company has developed a well-earned reputation for quality developments and the creation of new communities. Our pursuit of quality is apparent in the selection of our sites.

Our strategy has been and we continue, to acquire, plan, design and develop residential sites in quality locations across the four Dublin Counties and the Greater Dublin Area, and provide in demand quality built homes in areas which are or can be rich in physical and social amenities and which reflect the needs and aspirations of today’s homeowners, whether they be starter or growing families, young singles or couples, or ‘empty nesters’.

C. NAMA Involvement

In 2009 and 2010, the loans in respect of the group’s assets were acquired by NAMA and we began the process of working the agency to maximise value from the underlying assets. The Chartered Land portfolio is now the subject of a NAMA loan sale process called “Project Jewel”. This commenced in June 2015 and is expected to complete later this year. To date, Chartered Land and Castlethorn Construction has been working co-operatively with NAMA for 6 years.

D. Impact of the Financial Crisis

In the period leading up to 2008 the Property and Financial sectors became significantly intertwined. It has been acknowledged by other contributors to this Committee that lending to the Irish property sector comprised too great a proportion of the loan books of the principal Irish Banks. I am not skilled enough in economics to provide a detailed view on the reasons why this occurred and can only comment on the impact this had on the Property sector and the part of it relevant to our business.
There was clearly too much debt, too freely available, to too many borrowers and this led to a glut of inexperienced ‘developers’ many of whom traded with a short term horizon. This caused an unsustainable peak in the values of virtually all property segments and particularly in secondary properties in provincial areas.

This problem was not confined to the development community. The scale and nature of lending to many property developers was ill advised. There were many developers who had experience, allied with a professional approach and a depth of expertise in their operations. However, there were also a significant number of new developers who lacked experience and expertise, many of whom were exposed to over-priced secondary assets. Historically, our group had focused primarily on the greater Dublin area given that, among other considerations, it accounts for approximately 50% of the GDP of the country.

It is clear that easy access to debt inflated property prices. While there was much talk of a “soft landing” this proved illusory as the property sector was hit by the domestic impact of a severe contraction in liquidity and a collapse in valuations and the international consequences of the collapse of Lehman Brothers. This led to the overcorrection in property prices that was experienced in Ireland. It has to be borne in mind that the consensus messaging at the time from almost all sources was that Ireland was in a special place with almost unique economic characteristics in the western world. There was a sense that we were undergoing a transformation to catch up with other European economies, our 12.5% corporation tax rate provided us with a flow of high quality employment, our demographics were uniquely positive aided by our attractiveness as a location for inward migration. It is easy to see why there was a view at the time that there was a need for high quality commercial and residential developments.

All of this underpinned the view, at least in the first half of the decade, that the economic boom we were enjoying was justified. With the benefit of hindsight, this view was significantly misplaced.

Property development is a highly complex business with many factors outside of the control of the developer (planning permission, financing, co-operation of partners and land owners etc.). We attempted to control as many of the risk variables as we could. We focused primarily on developments in the Dublin region only, where the economic fundamentals were stronger. We adopted a strategy of developing quality commercial and residential developments underpinned by financially successful retailers prepared to enter into long term lease commitments. We avoided secondary locations outside of the Dublin area. We reinvested our own equity in successive projects and partnered with institutional co-owners in projects such as the ILAC Centre, The Pavilions in Swords, the Gaiety Centre and Castlereigh Construction residential sites.

We anticipate that following completion of the Project Jewel Loan sale a sum in excess of the capital due in respect of the Chartered Land loans and a sum well in excess of the amount NAMA paid to acquire these loans, will have been be paid to NAMA.

The recovery we are witnessing in property values is most apparent in Dublin and its hinterland reflecting the depth and strength of the economy in that region. Recovery for the rest of the country is bound to lag some way behind, perhaps by a number of years. What we evidenced during the Recession was a massive collapse in confidence with a corresponding flight to safety across all sectors of the economy. This led to significant levels of unemployment in a decimated construction sector.

What we are now witnessing is a recovery in collective confidence and developers with the benefit of the experience of the collapse of the Property and Financial sectors, must in future act with greater prudence, responding to market demand with product that is economically sustainable.

E. Overview of Relationship with our Banks

The Committee has asked me to make reference to our relationship with the principal financial institutions that funded us in the period 2001 – 2008 and to describe certain aspects of that relationship. Castlereigh Construction was primarily financed by Ulster Bank and AIB and Chartered Land, by Anglo Irish Bank and Bank of Ireland.
The use of bank debt is a normal part of the funding structure for most businesses. It represents a comparatively cost effective form of capital and, when properly structured, it is exposed to the least amount of risk. It is complemented by risk equity, that part of the capital stack which is intended to absorb negative movements in collateral value.

The availability of debt during the period 2001 – 2008 was such that, particularly during the latter half of that term, lenders competed with each other in a crowded market for the available business. We always sought to incorporate equity capital in our projects. However, when the downturn came, such was the severity of the loss in property values that not just the equity buffer but also a considerable percentage of the asset value securing the senior debt was also eroded.

Whenever we identified a business opportunity we appointed an internal team to initially assess the opportunity and determine the upside and downside risks. This required input from the planning and construction, development management and finance personnel. A new development is complicated as there are many stakeholders involved. Following initial appraisals, we always undertook extensive financial modelling, reviewing alternative funding structures, while critically examining profitability and exit routes. We also conducted detailed market research, assessing projected demand for the product because of the relatively long lead in times for large-scale developments. For this we engaged experienced property agents and international third-party research expertise. We also reviewed the planning framework, again using independent planning consultants who advised any necessary changes to ensure compliance with established planning guidelines and best practice. At all times, we engaged best-in-class expertise to inform our business model.

When all of this was complete, we would make an initial presentation of the refined business case to the Lender. Typically, we would have engaged with a senior relationship manager and their specialist property lending team. Once the Lender declared an interest in funding the project, a further detailed presentation would be made to the Lender’s team, leading to our engagement in due course with their external advisors. There would be intense communication with the Lender after that perhaps for a period of several weeks, while we produced all of the information required by the lending team in order for them to fully assess the opportunity and for them to complete their credit paper for presentation to their credit committee. The following is an example of the type of information required:

- Site development plan and appraisal / business plan with projected cashflows
- External planning report with risk analysis
- Fully modelled base case development plan, with upside and downside scenarios
- Formal site valuation and proof of site equity
- Evidence of letting strategy and targeted pre-lets, supported by external market research
- Nature of enabling works facility required until pre-lets were secured

Once the lender’s Credit Committee approved the funding of the project and a Term Sheet was agreed, then lawyers were engaged to negotiate the loan and security documentation. The bank would always conduct legal and technical due diligence as part of this process. Following that, we would then appoint our construction professionals and move to the construction phase of the project.

Once construction commenced the Lender’s monitor, an independent Quantity Surveying firm, would then be engaged to attend monthly site meetings and report to the lender on all aspects of the development works.

Loan drawdowns were at all times supported by an Architect’s Certificate of Value with the development budget reported against actual spend on a monthly basis. Material variations from budget had to be investigated, evaluated and resolved and there was periodic reporting on critical milestone achievements. The achievement of such milestones constituted de-risking events for the lender. Examples of these included, the achievement of satisfactory planning within agreed timeframes, securing pre-lets, various practical completion events, etc. At the same time, there were regular updates and presentations from agents on market demand, user requirements, competition, pricing etc. Lender input and approval was normally required for the key commercial terms of proposed Letting Agreements and tenant covenant strength tests.

The lender was also heavily involved in the negotiation of tenant incentive packages such as fit-out allowances etc. The extent of lender oversight was normally recited in the Facility Agreement itself.
In terms of overall governance arrangements for loan oversight we had regular review meetings in respect of the progress of all loans and assets. In addition to this, the Facility Agreements required the delivery of comprehensive periodic financial and asset management compliance reports.

I've outlined in Part I under Business Strategy, the business model of the group in the years leading up to the crisis. This was executed on the residential side by Castletown Construction and on the commercial side by Chartered Land, both of which were separately resourced by teams of property professionals in the key disciplines of financial management, asset management, development management and administration. Prior to the Recession, these entities employed more than 250 people across the group’s head office and site operations.

Capacity in each organisation facilitated the growth strategy, complemented by a team of external consultants and advisors. When the crisis hit in 2008, the group had a full complement of professionals in both companies capable of continuing to manage and develop out the portfolios over subsequent challenging years, complementing NAMA’s work out and value realisation strategy.

While the nature of the two businesses are quite distinct, requiring different combinations of skillsets, there are frequent occasions when one calls on the experience of the other to provide advice in relation to specific matters.

The group did engage in multi-bank lending. One of the multi bank loan arrangements we entered into was in respect of Dundrum Town Centre where a syndicate of six banks advanced the significant sums needed to develop this asset. Anglo Irish Bank was appointed as agent for the five Lenders (Bank of Ireland, AIB, Ulster Bank, KBC and Anglo Irish Bank) on the investment facility and all communications with the syndicate were undertaken through Anglo who then updated the individual syndicate members. Individual lenders would at times pose specific queries which were responded to by Chartered Land with copies to the Agent.

Standard reporting to the syndicate took the form of a quarterly compliance report which continues to issue to this day with NAMA as the sole lender on this asset. Practical day to day administration of the loan and each lender’s entitlements was performed by Chartered Land which continues to maintain detailed records of each lender’s position.

F. Responses To 14 Specific Questions

Responses to the specific queries the Committee has raised are set out below:

1. Profile of business specifying the nature of the property segment, turnover and scale of activity (2001 to 2008)

This was a period of significant activity for the group.

Our business comprised the acquisition and development of a series of retail, office and residential projects. It was the period during which the Adamstown SDZ vision was realised by Castletown, while Dundrum Town Centre was developed and brought to the market by Chartered Land and its partners.

Interests in the ILAC Centre and Swords Pavilions Shopping Centre were acquired and the development of the Grand Canal Square Theatre and related office developments was commenced. At the same time, significant resources were invested in the acquisition of a development site on O’Connell Street and the submission of related planning applications, while a retail-led, mixed use scheme was completed on South King Street and sold to an institutional investor.

The level of group activity during this period was significant. In the period 2001 – 2008, the group’s total sales turnover was c. €1.2bn.

2. Outline the Board/Company Structures, including skills of Directors, management structures, risk assessment and business planning.
Some of the property assets are owned by me personally while the others are held through corporate vehicles. Castletorhn Construction is the vehicle that owns my residential interests, while Chartered Land oversees a portfolio of commercial assets.

Directors of the Chartered Land Group of companies during this period comprised a Group Chairman, a group Chief Executive Officer and a Group Finance Director & Company Secretary. My co-directors are long-standing members of their respective professional bodies with many years' experience in senior management positions.

Chartered Land Management (CLM) is the appointed Asset and Development Manager for the portfolio of commercial real estate assets. The company currently employs 15 professionals who together have 330 years of accumulated property experience between them. Throughout the downturn, the assets have outperformed their peers and together they comprise one of the most important portfolios of collateral in NAMA's loan book.

Castletorhn had a similar structure during this period, with the Board comprising the three owners of the business together with a fourth non-executive director with a legal background in property-related matters. In addition to the formal Board, the company also referred at key times to a number of external advisors. Below the Board, the company employed a full team of property and construction professionals satisfying the requirement for financial management, planning expertise, project management, quantity surveying, contracts management, health & safety, site management, sales and marketing and administration. This comprehensive resourcing of the organisation enabled the company to grow during the period 2001–2008 and to deliver some of the best residential schemes in the city.

The management of operational risks is integral to the running of any business. Chartered Land and Castletorhn are responsible for ensuring the optimum performance of the portfolio of assets under their stewardship. This requires the management to oversee the interaction and output of a large team of professionals with a variety of skillsets both internal and external to the organisation. Translating macro strategy into micro implementation involves a constant process of debating, delegating, relating and evaluating. This is a very structured, tiered process, driven by weekly asset management meetings involving principal and senior management, whose decisions are communicated effectively and efficiently down the chain of responsibility to every team member.

The group is insured against all of the commercial risks one would normally expect for an organisation of its kind.

The group employs its own in-house expertise to oversee the transition from building concept and design, through construction and finally to occupation and technical handover. This requires Chartered Land and Castletorhn to oversee the implementation and regular review of the facilities function for all elements of the building, including mechanical, electrical and public health services. This oversight ensures that the statutory and regulatory standards are fully complied with.

The assembly of an Asset Register and Planned Preventative Maintenance programmes are structured to address key aspects of building fabric and its equipment, in order to ensure its optimum efficiency and longevity.

3. An outline of the total outstanding debt by property type (unzoned land, zoned land, residential specifying type) by financial institution on 30/09/2008.

4. Profile of total outstanding debt by geographic area, including the Republic of Ireland, Northern Ireland, UK, Poland, other places specify, on 30/09/2008.

5. Detail collateral by type and value of all outstanding debt on 30/09/2008.

The total outstanding par debt attributable to my ownership interests was €2bn at 30th September 2008. In relation to the Chartered Land portfolio, 86% of its capital was invested in retail property, 6% in commercial office developments, with the balance in passive investments, residential assets and unzoned land, practically all of which was located in Ireland. For Castletorhn Construction, 23% was
invested in work-in-progress and 70% in zoned land, with the balance funding investments and unzoned land. All of Castletown’s assets were located in Ireland.

Anglo Irish Bank was the principal lender to the Chartered Land group during this time, accounting for 65% of all debt due. Other significant lenders were AIB (9%), Bank of Ireland (11%) Ulster Bank (7%), KBC (5%) and others (3%). Castletown’s principal lender was Ulster Bank which accounted for 38% of borrowings, followed by AIB (30%), Anglo Irish Bank (25%) and others (7%). As most of the lending to the group was property based, the banks secured first fixed charges over the related property assets including development work-in-progress, with additional fixed and floating charges over bank accounts and where relevant, debentures and share charges in respect of corporate borrowings. The latter were in most cases also personally guaranteed by the principals.

6. **Detail of the valuation methods and firms used to determine the current market value of land and property in your portfolio (2001 to 2008)**

Both organisations engaged a number of professional valuation firms to value the assets in the portfolio. During this period valuations were provided by DTZ, Bannon, Lambert Smith Hampton, JLL, Harrington Bannon, Atis Real and Savills. These valuations were generally open market valuations carried out in accordance with Royal Institute of Chartered Surveyors Valuation Standards. The definition of “Market Value” in these standards was:

“The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing where in the parties had each acted knowledgeably, prudently and without compulsion.”

In the case of some development land sites Residual Development valuation exercises or a discounted cash-flow were carried out by the Valuers.

7. **If a residential developer, detail of the cost apportionment of different houses, outlining the cost of land, the cost of servicing the land, construction costs, finance costs and profits on sale (2001 to 2008). How did the cost apportionment develop for different phases of development of the same site?**

For Castletown Construction, each phase of development was accounted for on a standalone basis.

In the early 2000’s the historic site costs were low relative to the increasing residential sales prices. Over the course of the period 2001-2008, residential densities increased, particularly in sites located close to transport nodes such as train stations, quality bus corridors and major road networks.

Where a site is earmarked for semi-detached housing, it’s possible to reasonably apportion the attributed costs on a per unit basis. Where however there is higher density and there is a requirement for a mix of unit types, including apartments, duplexes and townhouses, often also incorporating an element of mixed use development, an apportionment becomes considerably more subjective. As land is our limiting resource, our aim was to maximise the return on a per acre basis for the sites that we owned. This did not necessarily mean maximising the density, as we took into consideration the location and quality of a development, the living experience of the ultimate purchasers and the saleability of the units.

In the period under review we built houses in the starter home, mid-market and upper market sectors. Because the costs and profits relating to each category of home varied significantly in the period, our comments relate to the market as a whole. The key determinant of profitability is the cost of the site. A site acquired in 1996 would have cost more in 2001, and would have been more expensive again in 2006.

**Cost of Land** – this increased exponentially in the period.

**Cost of Servicing Land** – This varies significantly from site to site depending on the availability of local roads, services, and amenities. Increased regulatory standards contributed to increased costs of site development.
Construction Costs – construction costs increased significantly during the period, due to:

- Increasing labour demand, material and wage costs
- Increasing local authority financial contribution levels
- Part V contributions, linked to the value of the site, resulting in higher costs to be borne by private units relating to the provision of social and affordable housing.
- More stringent construction regulations increased the cost of delivering new homes.
- Increased densities.
- Increased physical and social infrastructure demands.

Finance Costs - Interest rates remained low throughout the period. Finance costs depended on the holding period from date of acquisition to the completion of a development.

Profits on Sale – profitability was primarily determined by the cost and date of acquisition of the site and the holding period under completion of construction.

8. Detail of the nature of due diligence, known to you, carried out by the financial institution on loans acquired (2001 to 2008)

I refer you to the earlier section of the statement dealing with our banking relationships. The type of due diligence undertaken by the Lenders differed by reference to the type of asset being funded. Generally the assets fell into two categories, Investment property lending and Development property lending.

Investment Property Lending

Investment property lending was regarded as less risky as the asset was in place and there was normally a contracted flow of rental income from the property. I was not privy to all of the due diligence conducted by the banks, but it is clear that they undertook a detailed verification of title to ascertain certain ownership of the property, they briefed an independent valuer to provide a valuation of the property, focussing on the quantity and quality of the investment income and probability of projected cash flows. To assist in this we provided detailed tenancy schedules and cash flow projections, incorporating modelling assumptions such as market rental growth rates, lease break assumptions etc.

Development Lending

Development property financing normally comprised funding for site acquisition and development finance. Some of the sites we acquired were brown field sites that generated short term investment income. For this element of development financing the Banks normally undertook a similar analysis to that undertaken in respect of the funding of investment properties in assessing the quantity and quality of the income flows and assumptions used in underlying financial modelling.

Due diligence on development finance differed as there was clearly more uncertainty in the proposal as the Bank were dependent on the construction of buildings, planning permission, tenancies rental streams etc.

The Bank would seek information from us to critique the development assumptions, projected costs and revenue streams were reviewed in detail prior to any development lending and the Bank would review reports provided by our outside consultants on the technical aspects of the project.

The Bank would review all of the contract documentation related to the project and take security over all rights pertaining to development work. The Banks would also normally have enjoyed step in rights to finish the project if for any reason the Developer was unable to do so.

Key milestones were sometimes laid down by the lenders such as securing planning consents, contracted sales or lettings etc., before additional tranches of development funding were released, while the Lender would normally have appointed its own Quantity Surveying firm to monitor and report on progress.
Development budgets were constantly reviewed with development finance only being made available against invoiced works supported by Architects’ certificates of value.

By way of example, the following is a list of some of the information that was required by lenders in support of a development loan application:

- Business Plan
- Projected Profit and Loss account together with monthly cash-flows
- Details on underlying assumptions
- Construction costs
- Any abnormal costs such as infrastructure
- Access to services
- Projected closing schedule
- Maximum projected working capital exposure
- Social and Affordable housing assumptions
- Details of onerous planning conditions
- Copy of planning permission where consent was in place
- Site Layout and maps
- Infrastructure reports
- Title reports
- Confirmation of all insurance policies in place and the limits insured (Employers Liability, Public Liability and Contractors All Risks Insurance.)
- Copy of Environmental Appraisal or Environmental Impact Study (EIS) if appropriate.
- Proposal in relation to the provision of a bond for the relevant county council.
- Proposal in relation to interest rate risk management
- Updated status on existing security and facilities, both relating to the bank and for the company as a whole
- Details of group borrowing and activity in related entities
- Most recent audited accounts with regular up to date management accounts information

9. Detail the collateral required by financial institutions by type of loan (2001 to 2008)?

See response to Question 5 above.

In addition to taking a first fixed charge over property assets securing loans, the following collateral was also provided to the Lenders:

(a) Investment Loans

- Charge over lease receivables
- Charge over bank accounts
- Charge over insurance receivables
- Fixed and floating debentures (corporate borrowings)
- Cross-collateralisation by other assets
- Personal guarantees (corporate borrowings)
- Share charges (Corporate borrowings)

(b) Development Loans

- Assignment of interest in contract documentation, Collateral Warranty Agreements, etc.
- Step-in rights
- Charge over lease receivables
- Charge over rent accounts
- Charge over insurance receivables
- Fixed and floating debentures (corporate borrowings)
- Cross-collateralisation by other assets
- Personal guarantees (corporate borrowings)
• Share charges (Corporate borrowings)

10. Outline, if any, the extent of equity and interest roll up provided to you (2001 to 2008)?

**Investment Loans**
Investment loans were in general negotiated on the basis that interest was fully paid when charged and that there was an interest cover ratio maintained at all times, this being a key covenant of the borrower under the terms of the facility agreement.

Limited roll-up of interest on investment assets was occasionally permitted as an interim measure pending the full flowing of investment income.

By way of example, under the Facility Agreement entered into in relation to the Swords Pavilions Shopping Centre, we had to report formally in writing to the lenders on a quarterly basis, regarding the borrower's satisfaction of two interest covenant tests.

**Development Loans**
Interest roll-up was granted in respect of development loans where capital receipts and / or rental income would only materialise on completion of the development itself. It was therefore necessary to defer the payment of interest until that completion date.

Up until the property crash, the levels of interest roll-up were carefully monitored by the lender and critiqued periodically against the value of the under-lying development works as independently valued by third party valuers.

The group made one acquisition in 2006 in an SPV where the funding for this project included €52m of third party mezzanine/capped equity finance.

11. Details of corporate hospitality, if any, provided to you or your senior management team by financial institutions (2001 to 2008)?

During this period senior management within Chartered Land and Castletown were periodically invited to a range of sporting and other events as part of the Bank's corporate hospitality activities. This was common practice at the time and extended beyond the property sector. Examples include tickets for rugby and soccer internationals, customer golf days, international golf and other sporting events. Participation in these events had no bearing on the commercial decisions made by management in relation to the Group's banking relationships.

12. Detail contributions, if any, made to public representatives or political parties (2001 to 2008)

Because our business is embedded in the greater Dublin community we were regularly asked to contribute to community causes which often included political donations. In the period 2002 to 2008 we made a total of €74,000 in political donations to the main political parties and some of the independent politicians. We were reactive in contributing and did so in small amounts when asked. On occasion we made available a vacant building to politicians of different parties for a short period during an election campaign.

13. Details of lobbying on property related matters, including taxation, by you specifying who was lobbied, the nature of the lobbying and the outcome of the lobbying – (2001 to 2008)

During the period 2001 to 2008 both Castletown Construction and Chartered Land were companies of scale, with significant sites and projects for residential, commercial, retail and
leisure development. The group policy was, and remains, to try to ensure that all relevant and interested parties / groups and stakeholders, including Local Authorities, are fully briefed and understand clearly the rationale for and the technical detail of such planning and development proposals during the various stages of the process with a view to ensuring simply that they make informed observations and/or decisions as appropriate on such proposals.

The process of provision of information was, and is, related to the scale of a proposed development. On very large residential and commercial / retail proposals, for example, Information Centres were set up and manned, whereby interested parties / groups and stakeholders, including Local Councillors and TD's, would either visit or make contact with the Information Centre to have queries or concerns answered or taken on board, and to facilitate them understanding and being fully and clearly informed regarding the technical detail of a planning and development proposal. Another process of information provision for more medium sized projects was to hold information evenings in a local room / hall where stakeholders and interested parties / groups, including Local Councillors and TD's, were contacted and invited to attend a presentation on the proposal from the project professional team which was generally followed by questions and answers sessions. On other occasions we would make contact with various interested parties / groups and stakeholders, such as residents groups for example, and Local Councillors and / or TD's, directly and offer to meet to present a proposed plan for a development and answer and seek to respond to any particular queries or concerns that they may have. As Local Councillors and / or TD's often made representations on behalf of local residents or groups, it was not unusual for them to contact us directly on behalf of their constituents or for their own knowledge to aid their deliberations regarding a planning and development proposal. This policy and process of endeavouring to ensure that interested parties / groups and stakeholders, including Local Authority staff and management, Local Councillors and TD's, were appropriately informed and aware of the planning and development aspirations for our landholdings was followed whether proposals involved material contravention applications, or planning applications. Occasionally we were asked to meet TDs to update them on projects within their constituencies.

We were, and remain, key stakeholders in the development of lands in our ownership and we actively engage with a very wide range of other stakeholders in the planning and development process ranging from the 'micro' such as seeking to address the concerns of an adjoining local resident to the 'macro' in terms of us making formal submissions to the Department of the Environment, Heritage and Local Government, the Railway Procurement Agency, the Dublin Transportation Authority, Eirgrid and other State Authorities as well as Local Authorities and often includes meeting with or engaging with Local Authority officials and Elected Members, whether at our or their initiation. Our aim is always the same and that is simply to communicate our vision for our sites, land-banks and indeed sometimes for the City and allow the relevant authorities and decision-makers to be informed and for the wider public to be
aware of and clearly understand our perspective on such matters. This extends to staff members involvement with their professional bodies, educational institutions and on bodies such as the Construction Industry Federation (CIF) and Irish Home Builders Association (IHBA), where the Castlemthorn Director of Operations is currently Chair.

On matters such as taxation we generally supported and contributed to industry wide submissions through industry groups such as the Construction Industry Federation (CIF) and the Irish Home Builders Association (IHBA), and continue to do so today.

14. Your views on the establishment, operation and effectiveness of NAMA excluding commercially sensitive information?

NAMA was established at the end of 2009 as part of a series of co-ordinated measures by the then government aimed at addressing the banking crisis.

There was tremendous uncertainty around that time, falling as it did between the date of the initial government bank guarantee, which did restore a measure of market stability and the request for financial support from the IMF in November 2010. The concept of NAMA in itself – that is, the creation of a bad bank – was not unique. It had been done in other jurisdictions. There were different views from experts at the time who voiced support and objection to the idea in equal measure. From my point of view, the establishment of the agency marked a decisive step by government to deal with the crisis and for that reason, it had to be welcomed.

From my first dealings with NAMA in late 2009, it struck me that the organisation was quick and adept at establishing a structure, underpinned by a team of professionals, capable of tackling the enormous challenges it faced. From the earliest days, NAMA was a well-run organisation which went about it's business in a professional and organised manner. The speed with which our initial portfolio team familiarised themselves with the assets was impressive.

With our co-operation and assistance, significant value has been realised for the taxpayer over the past 6 years. Castlemthorn and Chartered Land have worked successfully with NAMA and continue to develop and manage their respective portfolios of real estate. We are now approaching the completion of the Project Jewel loan sale. Notwithstanding the overcorrection in property values during the downturn, we expect that the execution of this transaction will see the Chartered Land organisation repay its borrowed capital and deliver a significant return for NAMA on its original outlay for the Connection loans.

Joseph O’Reilly
25 June 2015