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Joint Committee of Inquiry into the Banking Crisis

Witness Statement of

Michael Noonan

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JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Witness Statement

PURSUANT TO SECTION 67(1) OF

THE HOUSES OF THE OIREACHTAS (INQUIRIES, PRIVILIGES AND PROCEDURES) ACT 2013

Michael Noonan TD

Minister for Finance

13th August 2015

Statement of the Minister for Finance, Michael Noonan, T.D. to the Joint Oireachtas Committee of Inquiry into the Banking Crisis

I became Minister for Finance on 9 March 2011 and, in line with the request from the Committee, I will address in my statement, the thirty one lines of enquiry during my time as Minister for Finance.

At the time of my appointment as Minister for Finance in 2011, Ireland was in the throes of an unprecedented banking and fiscal crisis. In December 2010, Ireland had entered the Joint EU/IMF Programme of Financial Support, our banking system was struggling and the country was grappling with the consequences of the most severe economic downturn in the history of the State. These were very difficult times for our citizens.

The severe economic downturn was the result of the crisis in the banking system and the public finances. The banks were allowed to become too big for the economy, the financial regulatory system had failed to perform its primary function, and wrong policy decisions were made resulting in an overheated economy which was clearly not sustainable.

The country was left with a legacy of debt, rising unemployment, emigration of our young people on a scale not seen since the 1980s, falling living standards and a lack of trust in the political system.

Over the same period Ireland was struggling not only with banking losses, but with public finances which were in a poor state due to inflated public spending and the State's heavy reliance on transactional taxes from the property bubble which had all but disappeared following the financial crisis. General Government Debt had risen to over 100% of GDP and the General Government deficit reached was some 31% of GDP by 2010 (10.6% on an underlying basis).

In the face of this crisis, I as Minister for Finance and my colleagues in Government made a commitment to:

- fix the broken banking system,

- restore order to the public finances,
- regain and enhance our international competitiveness,
- support the protection and creation of jobs,
- radically reform our system of public administration, and
- rebuild Ireland's reputation on the international stage.

We had the aim of renegotiation to secure a Programme of Support and solution to the banking crisis that would be perceived as more affordable by both the Irish public and international markets, thereby restoring confidence, growth, job creation and the State's access to affordable credit from private lenders.

We recognised the growing danger of the State's debt burden becoming unsustainable and that measures to safeguard debt sustainability needed to be urgently explored. The programme of support was already in place, however we decided to renegotiate critical elements of it. We succeeded in a number of areas – achieving reduced interest rates, extended maturities, the promissory note arrangement, reversal of the minimum wage, the jobs initiative, and agreement on the use of some proceeds of asset sales for productive investment. We also replaced harmful revenue raising measures with more targeted growth friendly measures.

I: Regulatory, Supervisory and Government

Effectiveness of the regulatory, supervisory and governmental regime structure. (R1)

It is widely recognised that the financial crisis of the previous decade uncovered significant deficiencies in the financial regulatory and supervisory framework and its operation. These have been the subject of extensive and objective analysis. The reports from Professor Patrick Honohan, Regling and Watson, and the Nyberg commission point out the problems to be addressed. A significant amount of legislation has been enacted at national and EU level to deal with the emerging shortcomings and I propose to focus on these in my response.

There has been a substantial increase in the Central Bank's staff resources, particularly in the area of regulation.

The position of the Department of Finance at the time I took office is well documented in the Wright report which set out a fairly robust critique and a significant number of recommendations. A detailed report on this implementation, setting out the position as of January this year was already provided to the Committee by my Department (Ref: DOF02884).

I welcome the increase in the level of expertise in my Department and the high quality of the work of the officials in the Department.

Effectiveness of the supervisory practice (Central Bank, Financial Regulator and Department of Finance) (R2)

It is clear that there were weaknesses in this area as has been highlighted in a number of reports already mentioned.

To address this a number of pieces of legislation have been introduced, including:

- **The Central Bank Reform Act 2010** – This was introduced by my predecessor the late Mr Brian Lenihan TD. It amalgamated the Central Bank with the Irish Financial Services Regulatory Authority (IFSRA). It addressed the conclusion in the Honohan Report that separation of the supervisory and financial stability functions (although they were required to cooperate) had undermined the importance of macro prudential supervision.

- **The Central Bank and Credit Institutions (Resolution) Act 2011** – This provides for the orderly resolution of a financial institution which is in financial difficulties. In this context, the Central Bank is the resolution authority.

- **The Central Bank (Supervision and Enforcement) Act 2013 –** This has streamlined, enhanced and modernised the powers of the Central Bank.

- **The Credit Reporting Act 2013** – This provides for a credit register which gives credit institutions the capacity to check what loans potential borrowers have with other financial institutions. The Central Bank is currently putting this credit register in place.

Since I have taken office the international regulatory environment has changed radically in response to a financial crisis that was global in nature. In the EU, the Banking Union has been put in place thus implementing the commitment of the European Council in June 2012 to break the bank/sovereign link. This comprehensive response to the crisis covers an agreed and standard resolution mechanism, which will ensure that a standard procedure exists, and is understood in advance by all market participants. Concerns about the contagion aspects of any future bank resolutions should be mitigated. It also covers a single resolution mechanism and fund. A critical element of this is the establishment of the Single Supervisory Mechanism for the systemic banks in the Euro area. All these measures aim to ensure we do not repeat the errors of the past which saw deficiencies of financial regulatory systems become a public finance issue with significant impositions on taxpayers. Similarly, deficiencies in economic and fiscal surveillance resulted in imbalances which required painful correction.

Looking to the future, I would expect that the legislative and institutional changes in the area of financial regulation, and the enhanced capacity of the Department of Finance on banking should ensure both adequate communication and assessment in the future in relation to any issues of liquidity and solvency that may arise.

Clarity and effectiveness of the nexus of institutional roles and relationships (R3)

The deficiencies identified in the regulatory regime under the Central Bank/IFSRA regime have been addressed by a number of legislative acts. I believe these changes have improved clarity of roles and removed the potential for gaps.

In the case of the NTMA, the NTMA Act 2014 has rationalised its governance structures and puts in place a unified board to oversee all of the Agency's activities.

The Central Bank Reform Act 2010 has introduced a requirement for an annual performance statement which is laid before the Houses of the Oireachtas.

There is a professional and constructive relationship between the Central Bank and the Department of Finance both at official level and between myself as Minister and the Governor of the Central Bank while respecting the independence of the Central Bank. The Committee will be aware of the 'Principal's Group' which is made up of the most senior officials of the Department, the Central Bank and the NTMA which meets on a monthly basis.

Appropriateness and effective utilisation of the expert advice (R4)

In relation to expert advice, I will address the approach of the Department during my term as Minister.

During my time as Minister for Finance, the Secretaries General have significantly enhanced staffing and structures of the Department in accordance with the commitments in the Programme for Government, an assessment of needs and in line with strategy statements. One of the changes was to move the NTMA's Banking Unit to the Department. This ensured that the seconded private sector expertise in the Shareholding Management Unit and the policy expertise in the Department were integrated in the Shareholding Management Unit. Apart from this, expert advice was sought as necessary, particularly in relation to financial and legal issues. In addition, expertise was seconded in as required. For example a number of corporate finance staff from AIB were seconded to the Department to advise on options in relation to IBRC – a process that worked well. The sale of the State's assets in the banks requires specific expertise and advice; my Department has therefore established a panel of advisors in relation to disposal of our bank holdings. It has also established a panel of legal firms from which to draw advice.

My Department has availed of expert advice in other areas also. It has signed an agreement with the ESRI on a research programme covering macroeconomic and taxation issues. One example of this is the study currently being undertaken on the implications for Ireland of any potential "Brexit".

In addition, the regular examinations and reports by the Irish Fiscal Advisory Council, the EU Commission, the IMF and the OECD provide welcome, good quality and independent advice on economic, fiscal and financial policy and related issues.

I found the advice from the Department of Finance over this period to be of a very high quality and displayed a deep understanding of the issues at hand and the overall impact of the measures under consideration on Ireland. The attendance of Department of Finance officials at Cabinet sub-committees, including the Economic Management Council, provide an opportunity for the Department to discuss, explain and address questions on the advice.

As Minister, I think it is also important that I listen to advice from a variety of sources apart from that provided by my Department. A number of bodies have been established to carry out functions including the Department of Finance, the Central Bank and the NTMA. Part of the role of such bodies is to provide the appropriate advice to the Minister of the day. That is a continuing process.

The issue of the reliance placed upon information and reporting from statutory auditors of the banks is a matter for the Central Bank, which has responsibility for financial regulation.

Contrarian Views

You may be aware that the Wright report identified the Department of Finance as one of the strongest contrarians during the previous decade and I can assure you that remains the case. More generally, I think we all recognise the need to give due weight to contrarian views. The art in this is to know which views to take on board. As Minister, I hope to receive the considered view of the Department. In this context, there have been a number of developments in my Department to provide for the airing of disparate views. More broadly, we have made institutional changes, for example, with the establishment of the Irish Fiscal Advisory Council on a statutory basis. As already noted, the EU, IMF and OECD are a continuing source of critical evaluation of Ireland's economic policy performance. The Central Bank, which is independent, is also an important source of critical advice. As Minister, I am aware of the broader views on any issue and I have the option to ask the Department to assess such positions if I so choose.

Clarity and effectiveness of the Government and Oireachtas oversight and the role (R5)

In addition to the actions taken to stabilise the banking sector and the Oireachtas scrutiny of such policies, Budget policy from 2011 onwards was focused on stabilising the public finances, returning growth to the economy and creating jobs.

In order to stabilise the public finances, fiscal policy was designed to reduce the deficit to below 3% by 2015 in line with our obligation under the excessive deficit procedure. Targets for each year were set out in the Budget and in each year these targets were bettered; a feature of the Irish recovery that helped rebuild market confidence in Ireland. There was very little debate in the Dáil or among external commentators on the overall fiscal strategy. Scrutiny of fiscal policy over the period focused more on the individual measures that were introduced to meet the targets. In this context, we are in danger of repeating mistakes of the past with simultaneous demands for increases to expenditure and tax reductions.

As we move to a new period in the Budget cycle, the new rules set out in the Stability and Growth Pact require an enhanced level of scrutiny and oversight of budgetary policy. The Irish Fiscal Advisory Council also play an important role in this regard.

I want to see robust, honest and informed debate and scrutiny of the budgetary choices facing Ireland. The reforms to the budgetary process I introduced in the Spring Economic Statement this year are designed to ensure a more "joined-up and integrated budgetary process; one that is more transparent, that promotes a shared understanding of the priorities and which, ultimately, leads to better budgetary outcomes." The recent National Economic Dialogue and the proposed introduction of an Independent Budget Office to facilitate independent costing of policy proposals by the Oireachtas will further enhance the ability of the Oireachtas to scrutinise Government policy and/or to bring forward alternative policies.

The advice from the Department of Finance was considered in full by me as Minister and by Government as part of the decision making process. The Joint Oireachtas Committee on Finance, Public Expenditure and Reform has, in my view, played a very important role in holding me as Minister to account on key pieces of legislation relating to the banking sector, fiscal policy, the economy and the ECOFIN agenda. The NAMA Act 2009 subjects NAMA to audit by the Comptroller and Auditors General and regular appearance before the Public Accounts Committee (PAC). This has proved to be a very important feature of the NAMA Act and has provided the PAC with the opportunity to raise issues and seek assurances from NAMA.

Appropriateness of the relationship between Government, the Oireachtas, the banking sector and the property sector

Every modern economy needs a stable and functioning banking and property sector. As with all stakeholders, I think that it is appropriate that members of the Government, the Oireachtas and officials would meet with representatives from these sectors. However, we must never allow a position where there is a perception or a reality of a close relationship between the State and certain sectors. We must have faith and confidence in the institutions of the State to withstand criticism from particular sectors which are motivated by self-interest.

The Banking Crisis has resulted in a situation where the State is a major stakeholder in the Irish Banking sector. This has required a formalisation of the relationship between the State and the individual banks. The relationship frameworks in place are designed to ensure that the Banks in which the State has a shareholding are managed by their boards and management teams on a commercial basis. This is appropriate. The taxpayer's investment in the banks should not be viewed as a mechanism to control the banks for political purposes nor to absolve the bank boards of their responsibilities. Any attempt to blur the lines between the role of Government and the role of the banks is not in the best interest of the Irish taxpayer or the Country.

Relationship with and oversight by international stakeholders and effectiveness of institutional response (R6)

Prior to the crisis, regulation was largely a national affair, with some level of international coordination. However, the international response since the crisis is itself a strong commentary on what was in place beforehand.

Much of what has been put in place is very recent. It represents the outcome of lengthy discussion at all levels from the technical groups through to the ECOFIN and European Council. However, these measures are only now being implemented and time will tell if we have got it right. We must of course critically assess our systems continuously and amend accordingly.

Effectiveness of the policy and institutional responses post crisis (R7, C6)

The principal recommendations of the previous reports have been largely implemented. The reforms to the Central Bank and financial regulation largely follow the recommendations of the Honohan report, taking account of national and EU developments since the report was written, particularly the EU's Banking Union measures. The Wright report's recommendations for the Department of Finance have similarly been largely implemented.

The policy and institutional frameworks have been considerably strengthened in response to the crisis. At EU level, measures include the Two Pack, the Six Pack, the Stability Treaty and the Banking Union measures and the establishment of the European Stability Mechanism.

The Department of Finance has been considerably restructured in recent years, it has adopted a new governance framework, a considerable number of new staff have been employed at all levels, the HR function has been professionalised and structures have been put in place to improve communication and discussion within the Department.

At EU level, fiscal and economic policy surveillance and coordination have been strengthened. The Stability and Growth Pact have been reformed with the position of the Commission now considerably strengthened. Eurostat has a direct scrutiny role in relation to national statistical offices. New procedures are in place to warn of systemic risks. This will ensure that problems cannot be ignored.

In 2011 the EU-wide policy responses were still at a very early stage in their development. There was no banking union at this point. Most relevant in this discussion on the recapitalisation of the banks, there was no agreement on regular stress tests, the rules and parameters that would apply and the steps that must be taken to deal with the results of the tests.

These came later with agreement on CRD IV and the establishment of the Single Supervisory Mechanism and the Single Resolution Mechanism. There was no commitment from the ECB to "do whatever it takes" to support the Euro. There was no fiscal compact and the permanent financing mechanism – the ESM – was still under discussion. There was no commitment to break the link between the banks and the sovereign. This did not come until June 2012.

The lack of these policy instruments represented a significant weakness in the initial EU-wide policy response. I continued to push for such instruments at EU level and in particular to break the link between the banks and the sovereign and replace bailouts of banks with robust "bail-in" procedures. We made very significant progress throughout the course of our European Presidency in 2013 and the benefits of progress on all of these fronts is evident, in my view, to the market reaction to the most recent Greek crisis. Europe is now much better prepared to halt future crisis occurring in the first instance but also to deal with any future difficulties that may occur.

Nationally, we are reforming our own budgetary processes as discussed, with the introduction of the Spring Economic Statement to improve discussion around Budget options and the establishment of the Irish Fiscal Advisory Council. In the financial regulation area, the Central Bank legislation has been strengthened and streamlined with the Central Bank Supervision and Enforcement Act 2013 and the Central Bank's resources have been greatly increased.

It is probably too early to make a definitive pronouncement about the efficacy of all these measures. Only time will tell. What is clear is that the recommendations of various assessments nationally and internationally have been largely put in place.

II: Crisis Management and Policy Response

EU/IMF Programme

The EU/IMF Programme included an envelope of up to €35 billion for recapitalisation purposes. While the incoming Government supported the overall objective of the programme i.e. to restructure and recapitalise the banks, our view was that the commitments in relation to the banks amounted to a continuation of the "blank cheque for banks" policy and had failed to restore public or market confidence in the banks and indeed Ireland. This, in my view, was indecisive and led to serious questions about the affordability of the plan and potentially enormous and unaffordable cost to the Irish taxpayer.

In the Programme for Government we committed to deferring the recapitalisation of banks until the results of the 2011 Prudential Capital Assessment Review (PCAR) was known. We also committed to taking decisive action and to taking a broader perspective in relation to the bank recaps. We sought to balance the demands from some quarters to make a massive contribution to the banking system against the need to minimise the cost of the Irish taxpayer, make the programme more affordable, and keep our debt sustainable and position Ireland to exit the programme.

31 March 2011 – Statement on Banking Policy – the recapitalisation of AIB, Bank of Ireland, EBS, PTSB (C4c)

On the 31st of March 2011, building upon the advice of the Department of Finance, the NTMA and the Central Bank, I announced the Government's Pillar Banking strategy. This strategy was designed to address the challenges in the banks, build confidence in the banking system and the county and to draw a line once and for all under the cost of the banking collapse to Ireland.

Restructuring the Banking Sector

The Pillar Banking Strategy set out the Government's plans in relation to what I would describe as the "going concern" banks i.e. Bank of Ireland, AIB, EBS and Irish Life and Permanent (ILP). Essentially, the strategy was to have smaller, domestically focused and well capitalised banks operating in Ireland.

A joint restructuring plan for the "other" banks i.e. Anglo Irish Bank and Irish Nationwide, had been submitted to the European Commission by the previous Government in January 2011 and these institutions had no role in the Pillar Banking strategy. Both institutions did however represent a very real and significant risk to the Financial Stability of the State and I will address this issue in due course.

Recapitalising AIB, Bank of Ireland and ILP

The Pillar Banking Strategy coincided with, and was the Government's response to, the announcement by the Central Bank of Ireland of the results of their PCAR or Stress-Tests. The Memorandum to Government on 29 March 2011 made clear that any doubt over the Government's commitment to recapitalising the banks would create a serious risk of severe financial instability in view of the likely response to the markets, the external authorities and potentially depositors. Building the banking strategy around a robust PCAR exercise was vital, in my view, to rebuild confidence in the Irish Banking system and the Government was fully committed to the process from the outset.

The recapitalisation of the individual banks announced in March 2011 proceeded later that year (see Appendix 1).

Ultimate cost of recapitalising AIB, Bank of Ireland and ILP

To reduce the cost of the €24 billion identified in the 2011 PCAR on the taxpayer, in the case of AIB, Bank of Ireland and ILP we pursued:

- Liability management exercises with subordinated bondholders,
- Asset sales, and
- the injection of private capital.

By the end of 2011, actions on all three fronts had reduced the total cost of the 2011 recapitalisation to €16.4 billion. Burden sharing with junior bondholders contributed €5.4 billion to this reduction.

Burden sharing with bondholders - Options to reduce the cost (C7)

From the outset it was essential to differentiate between the treatments of bondholders in the "going concern" banks around which the banking strategy was built and Anglo Irish Bank and Irish Nationwide. However, the issue of burden sharing with senior bondholders in the "going concern" banks in 2011 was also considered. At that time there was €12.7 billion of unsecured unguaranteed senior debt and it was evident that burden sharing with the unsecured unguaranteed senior bondholders could help reduce the cost of the PCAR recapitalisation.

However, there were other considerations and on weighing up these considerations, the Government took the decision that it was in the best interest of financial stability and of the Irish taxpayer not to pursue burden sharing with senior bondholders in the pillar banks. The Government did however pursue with the ECB the proposal to burden share with senior bondholders in IRBC.

IBRC (C5b)

The decision to recapitalise and nationalise Anglo Irish Bank and Irish Nationwide was taken by the previous Government and €34.7 billion had been injected in these banks in 2009 and 2010. However, there remained no clear strategy for IBRC and decisive action was required. The decision the Government took was to wind down the bank in its entirety in a manner that limited the cost to the Irish taxpayer. However, the institutions represented a major financial risk to the financial stability of the state and ECB funding and support was essential throughout the wind down period.

IBRC was at that time reliant on some €41 billion in Emergency Liquidity Assistance (ELA) from the Central Bank and the revised restructuring plan for IBRC submitted by the previous Government in January 2011 assumed a funding strategy of c. €50 billion. In the absence of an alternative funding model from the ECB it was essential that the merged institution retained its banking licence and access to ELA. While the ECB did continue to support IBRC through to its ultimate liquidation in 2013, a commitment from the ECB to fund the wind down would have had a very positive impact on financial stability and the economic recovery.

As such maintaining Central Bank funding to support the wind-down of IBRC was the most prudent approach to protect the taxpayer. Various alternative sources of long term funding were explored but did not prove possible. It was only when a long term viable solution for the Promissory Notes was found and the system more generally had stabilised, that we decided to liquidate the bank.

Burden sharing with senior bondholders in IBRC (C7)

Against this background, the issue of burden sharing with IBRC was considered. There was €3.7 billion of unsecured unguaranteed senior debt in Anglo and INBS in early 2011. Many of the considerations outlined above in relation to burden sharing were considered. However, IBRC was different to the other banks and the Government pushed for burden sharing with these bondholders, conditional on the support of the ECB.

In advance of my statement on banking matters on the 31st of March 2011, I had sought ECB support and, the draft of my speech at 13.30 on the day included the following statement:

"As regards, Anglo Irish Bank and Irish Nationwide, there is no immediate need for additional capital. The Government will, however, having consulted with the external partners, legislate if necessary to allow for burden sharing with senior bondholders in those institutions."

However, despite our best efforts, it was made clear to both the Taoiseach, myself and my officials that the ECB would not support such a statement or moves to burden share with IBRC. Specifically, the ECB stated that they would view any move to burden share as a default, that they would view IBRC as being insolvent and that the ECB does not fund insolvent banks. Weighing up the potential savings of c. €3.7 billion that would accrue to IBRC and reduce the cost of IBRC in the long term against the immediate and devastating impact of withdrawal of ECB support on Ireland, the impact on financial stability, jobs and the daily lives of Irish citizens, the Government took the decision not to make the Statement and not to proceed with burden sharing with senior bondholders.

The Voluntary Liability Management Exercise

As part of the Central Bank's 2011 PCAR the banks were required to raise a total of €24 billion. It should be recognised that primarily as a result of successful burden sharing with bondholders in the form of the Liability Management Exercise (LME's), completed by the covered institutions in conjunction the Department and together with private equity contributions and asset sales, the burden on the taxpayer was significantly reduced to €16.5 billion. The LME transactions on their own resulted in a €5.4 billion saving since 2011 which consisted of "buy-back" of subordinated debt at a discount of 70% (or more) of their nominal value.

Furthermore, prior to the 2011 PCAR, it should be noted that burden sharing with subordinated bondholders raised c. €10 billion of capital gains across the covered institutions thereby reducing the total cost of recapitalising the banks to €15.4 billion.

In relation to senior bank debt it was decided by past and current Governments as part of a commitment to deliver a return to a successful vibrant economy that there would be no private sector involvement (burden sharing) for senior bank paper or Irish Sovereign debt without the agreement of our external partners. In this context it should be noted that of the €35 billion of senior unguaranteed bonds remaining in the covered institutions at the time this Government took office, only €3.7 billion was held by Anglo and INBS with the remaining debt held by AIB, Bank of Ireland and Permanent TSB.

The Promissory notes and Liquidation of IBRC (C5b)

IBRC was a severe drag on the rehabilitation of the Irish financial system and a resolution of its funding position became an outstanding issue that needed to be addressed urgently. The structure of the promissory notes for IBRC required a payment of €3.1 billion each March to the Central Bank and during a time of significant fiscal consolidation, the continued payment of these payments was not acceptable to the Irish public.

I discussed proposals, in consultation with the Central Bank, the NTMA and our Troika partners, to restructure the banking sector, to improve the terms of the debt associated with the IBRC Promissory Notes and replace the ELA funding provided to IBRC on an ongoing basis.

I engaged in a series of meetings with my European counterparts to bolster support at political level in the EU for our approach on IBRC. Because of the many efforts I made to garner support, agreement was achieved on the strategy to liquidate IBRC. This involved a) the appointment a Special Liquidator to IBRC to accelerate the winding up of its business and operations, b) discharging the liability of IBRC to the Central Bank in a way that ensured no capital loss for the Central Bank, while the remaining loans of IBRC would be sold on the market or, if necessary, transferred to NAMA, and finally c) converting the IBRC Promissory Notes to a portfolio of fully marketable long term Irish Government bonds. Through these actions, the Promissory Notes and IBRC were to be eliminated from the Irish financial landscape with consequent reputational benefits.

The 6th of February 2013

The proposed Promissory Note transaction was due to be discussed at the ECB Governing Council meeting on the 6th and 7th of February 2013. As I stated in the Dáil at the Second Stage of the Irish Bank Resolution Bill 2013, I would have preferred to have had the opportunity to introduce the Bill in tandem with agreement from the ECB on the wider proposal.

However, when it was brought to my attention that specific details on the plan, including facts around the liquidation of the bank, had been leaked to Reuters in London, I took immediate action to secure the Bank and the value of its assets on behalf of the Irish State by appointing the Special Liquidator. At this point ECB "noting" of the proposal had not occurred.

Outcome of the liquidation

The success of the liquidation to date has far exceeded expectations at the outset of the Promissory Note transaction in 2013. The success of the liquidation, along with the numerous benefits obtained through the promissory note transaction itself, have been critical to the restoration of confidence in Ireland. In March 2014, I announced that the debt acquired by NAMA as part of the Promissory Note transaction was now expected to be repaid in full following the successful conclusion of the majority of assets in IBRC. This debt was fully repaid in October 2014. The success of the loan sales processes negated the need to transfer any assets to NAMA as part of this process and removed any residual risk of further calls on the Exchequer. At this stage, loans with a par value of €21.7 billion have been prepared, brought to the market and sold. Among other assets, loans with a par value of €3.6 billion remain which the Special Liquidators continue to manage. The success of the loan sales processes illustrates the strong confidence of investors in the Irish economy and its future prospects with 355 parties across 13 countries interested in the various portfolios. Up to 6 February 2015 (the 2 year anniversary of the IBRC liquidation), the liquidation had generated €16.5 billion of cash inflows. This has allowed for the payment of €14.7 billion to IBRC's creditors and costs to date. This has resulted in a cash balance of c. €1.85 billion which will ultimately be available for distribution to creditors. I am attaching the most recent report of the Special Liquidator provided to the Oireachtas in accordance with the NAMA Act 2009 (see Appendix 2).

In addition, the Special Portfolio of Government Bonds held by the Central Bank continues to accrue significant savings to the Exchequer compared to the cost of servicing the IBRC Promissory Notes had this transaction not been achieved.

The Promissory Note transaction is well regarded as an astute piece of financial engineering which has been successful in saving and will continue to save the Irish taxpayer billions of euros over a number of years.

NAMA (C4b)

Similar to the overall approach to the banking system, my objective when it came to NAMA was to draw a line under the cost of NAMA and to support the agency to meet its primary objective i.e. redeem its senior debt and maximise its return to the taxpayer. At the time NAMA was viewed as a risk to the financial stability of the State and market expectations that NAMA would be in a position to meets its redemption targets were low.

NAMA is now fully engaged in its core role of managing and selling the assets under its control, with a view to achieving the best financial return for the State. To date NAMA has repaid just under €20 billion of its senior debt, will have repaid 80% by 2016 and 100% by 2018; two years ahead of target.

NAMA has also played an important and in my view effective role in reactivating the commercial property market in Ireland. In addition, NAMA has committed to deliver 4,500 residential units and to develop the Dublin Docklands strategic development zone and Dublin's Central Business District.

Review of NAMA and establishment of the Advisory Group

A number of reviews of NAMA were initiated that contributed to the achievement of these goals.

In 2011, I requested Michael Geoghegan to carry out a review of NAMA.

In Budget 2012, I established a NAMA Advisory group to advise me on the operations of NAMA and on the future strategic direction of NAMA. Michael Geoghegan chaired the group and the group's other members were the Chairman of NAMA and Denis Rooney.

Last year my Department carried out a review of NAMA's progress to date, under Section 227 of the NAMA Act 2009. Michael Geoghegan, in his role as a member of the Advisory Group, was also consulted by the Minister's officials in the context of the Section 227 Review of NAMA.

Following the completion of the report and taking into account what NAMA has achieved to date, my officials concluded that:

- NAMA has made significant progress in achieving its overall objectives.
- Based on NAMA's performance to date and its financial projections in light of the strength of current investor interest in Ireland, NAMA is well positioned to achieve its objectives.
- As a result, NAMA's continuation is necessary to achieve these objectives.

The NAMA review was published in July 2014.

Concluding remarks

Ultimate cost of the decision to recapitalise Bank of Ireland, AIB, PTSB & indeed the banking crisis

The approach this Government has taken in dealing with the banks is working, it is in the best interest of the Irish taxpayer and will deliver the best results.

While every effort was made to reduce the size of the investment at the time, it was vitally important that the right strategies, management teams and boards were put in place to return the banks to profitability.

Since 2011 we have started to recoup the taxpayer's investment through fees and disposals and have seen the value of the taxpayer's shareholding in AIB, Bank of Ireland and PTSB rise. At the end of May 2015, we had recovered €5.5 billion from disposals and €5.5 billion in fees and income. In addition, our shareholding in AIB is valued at €13.3 billion and market value of our shareholding in both Bank of Ireland and PTSB stand at €1.6 billion each; a shareholding in each bank of 14% and 75% respectively. Bank of Ireland and AIB have returned to profitability and profitability for PTSB is forecast this year. This will have positive, knock on benefits for the taxpayer.

As a result we are now in a position where I am confident that overtime we will, at a minimum, fully recover the funds that this Government invested in these banks. However, we will take our time in assessing all options to ensure that the banks are operated in the best interest of the Irish economy and that the return to the taxpayer is maximised.

In addition, it is likely that NAMA and IBRC will produce a surplus for the Exchequer. Taking all of these figures together, it is now apparent that the ultimate direct cost of the bank recapitalisations will be the funds invested by the previous Government into Anglo Irish Bank. We have taken steps to limit this cost but the final cost, based on the best information available to me at present, will be between €30 and €35 billion.