



Section 53

Annual Statement 2020

Section 53 of the National Asset Management Agency Act 2009 (“the Act”) requires NAMA to prepare and submit an Annual Statement to the Minister for Finance three months before the commencement of the financial year to which it relates. The Statement must specify:

- a) the proposed objectives of each NAMA group entity for the financial year concerned,
- b) the proposed nature and scope of activities to be undertaken,
- c) the proposed strategies and policies to be implemented, and
- d) the proposed application of resources.

The Act confers various powers and functions on NAMA in order to achieve its objectives. The Board has various statutory functions including ensuring that NAMA functions are performed effectively and efficiently, setting strategic objectives/targets and ensuring that appropriate systems and procedures are in place to achieve objectives/targets.

The following statement specifies the objectives, activities, strategies and resource allocation that the Agency proposes for 2020.

For the purpose of this Statement, NAMA and its group entities are considered as one.

Objectives

Section 10 (1) of the Act sets out NAMA's purposes, summarised as:

- a) Acquiring eligible assets from participating institutions,
- b) dealing expeditiously with acquired assets, and
- c) protecting and enhancing the value of assets, in the interests of the State.

NAMA's principal commercial objective, based on Section 10 (2) of the Act, is to achieve the best achievable financial return for the State, having regard to the cost of acquiring and dealing with bank assets and its own cost of capital and other costs.

In the context of this overarching statutory objective, the NAMA Board has adopted the following key objectives that guide its strategy and policies:

- 1. The Board's primary commercial objective is to meet all of its remaining subordinated debt and equity obligations and, subject to prevailing market conditions, to generate the largest surplus that can feasibly be achieved by the time it completes its work. It aims to meet all of its future commitments out of its own resources.***
- 2. In order to meet its primary commercial objective (as at 1 above), NAMA will manage assets intensively and invest in them so as to optimise their income-producing potential and disposal value. Through its disposal activity, it will continue to generate transactions aimed at sustaining the strong performance which the Irish property market has experienced over recent years.***
- 3. NAMA will facilitate the delivery of Grade A office accommodation in the Dublin Docklands Strategic Development Zone; it will contribute, not only in terms of project funding, if required, but also in bringing coherence, direction and drive to the delivery process.***

- 4. NAMA aims to facilitate the completion of 20,000 new residential units, subject to commerciality, principally in the Dublin area, in the period to the end of 2020 and, through intensive asset management of residential sites, aims also to maximise the number of sites that are ready for development.*
- 5. Subject to the primacy of its Section 10 commercial mandate but often complementing it, NAMA will seek to make a positive social and economic contribution across the broad range of its activities.*

During 2019, the NAMA Board reviewed the timeframe over which its objectives could be achieved and how they could be best achieved. On the assumption that market conditions would continue to be supportive, NAMA expects to complete almost all of its work by end 2021 including the majority of its deleveraging programme, its Dublin Docklands SDZ programme and its funding of residential development projects. However, in line with the experience of workout vehicles in other jurisdictions, the wind-down of the NAMA entity will take a number of years after completion of the bulk of its deleveraging activity to deal with unresolved assets and litigation.

The residual end-2021 portfolio – projected carrying value of €0.3 billion (<1% of original acquisition cost) – is expected to comprise two loan categories. The first comprises a number of loans that are unlikely to be resolved by 2021 due to ongoing litigation which is largely outside of NAMA’s control. The second category comprises a small number of loans secured by residential development sites mainly in Dublin with significant potential value uplift, which will not have been sold or otherwise finalised by end-2021.

This revised plan was endorsed by the Minister for Finance in July 2019 following the review of NAMA which he was required to conduct under Section 227 of the Act.

The third and fourth of the objectives set out above were adopted by the Board in 2014 and 2015 respectively against the background of a shortage of prime office accommodation in central Dublin and of residential accommodation in Dublin and a number of other cities. As is detailed below (pages 6-7), major progress has been made since mid-2014 on the development of the Docklands SDZ with the result that all remaining sites in which NAMA has an interest are complete or under construction.

In December 2015, NAMA announced details of a major residential funding programme that aims to facilitate, on a commercial basis, the delivery of 20,000 new homes in Dublin and in other areas of established demand by the end of 2020. Progress in relation to this initiative is set out below (pages 5-6).

Activities

NAMA's activities in 2020 will be primarily focused on the intensive management of its remaining loans and secured assets and on maximising the proceeds to be realised from them. Such activities will focus on progressing the residential funding initiative and completion of the Dublin Docklands SDZ programme. The implementation of the commercial delivery strategy for the Poolbeg West SDZ will be a key priority.

The successful implementation of these activities over the next two years should ensure that the subordinated debt and the private investors are repaid and that the projected surplus of €4 billion is realised and delivered to the Exchequer.

Favourable property market conditions in the period since 2013 enabled NAMA to make major progress in reducing its loan portfolio: loans and receivables balances, which stood at €22.8 billion at the end of 2012, had fallen to €1.9 billion by the end of 2018 and are projected to be €1.5 bn by end 2019.

Much of the residual portfolio is now secured by residential sites on which development is being funded by NAMA or which are being prepared for development in the near future, subject to commercial viability.

The secured portfolio also contains a large number of low value assets, many of which require intensive management and remediation in order to maximise their value.

NAMA's projections are based on the overriding assumption that the current benign market conditions in Ireland will be sustained over the next two years, thereby enabling planned debtor exits and asset/loan sales to take place. If, however, market and economic conditions were to deteriorate, the likely consequence is that NAMA could be left with a larger residual portfolio in 2021 than is currently envisaged of €0.3 billion.

1. Residential Housing Initiative

Under Section 10 of the Act, NAMA is required to obtain the best achievable financial return from its acquired assets. In many instances, the funding by NAMA of the development of commercially viable residential sites, as opposed to their sale as undeveloped land, represents the option which best fulfils this statutory obligation. In late 2015, at the request of the Minister for Finance, NAMA reviewed the portfolio of residential sites within the control of its debtors and receivers. The review concluded that sites capable of delivering **13,200** residential units were commercially viable to develop at that stage. In addition, it was envisaged that intensive asset management work on other sites, including enhanced planning and the provision of strategic infrastructure, would ensure that another **6,800** units could be delivered by end-2020, thereby creating an overall target of **20,000** units for the period from 2016 to 2020. **Table 1** below summarises progress in relation to NAMA funding of residential delivery to date:

TABLE 1: Progress on delivery of residential units

Status	Total
Completed by end-August 2019	10,566
Under construction	1,825
With planning permission but not yet under construction	4,423
A. Sub-total – completed, under construction or ready to go	16,814
Planning applications lodged	609
Planning applications to be lodged within 12 months	12,323
B. Sub-total – planning system	12,932
Pre-planning work underway	9,149
Feasibility and pre-planning on long-term sites	2,642
C. Sub-total – Tier 3	11,791
TOTAL (A+B+C)	41,537

In summary, in excess of **10,500 units** have been delivered through NAMA funding between the start of 2014 and end-August 2019. Another **1,825 units** are under construction and **4,423** have secured planning permission. In addition, sites with a delivery capacity of around

13,000 units are either in the planning system or will be within twelve months. Pre-planning and feasibility work is underway on other sites under the control of NAMA debtors and receivers which are estimated to have a delivery capacity of almost **12,000 units**.

In addition to the activity outlined above, it is estimated that over **4,300** units have been delivered on sites for which NAMA had funded planning permission, legal costs, holding costs or enabling works but which were subsequently sold or where the associated loans were subsequently sold or refinanced.

Poolbeg West SDZ

In April 2019, the Planning Scheme for the Poolbeg West SDZ was formally adopted by An Bord Pleanála and facilitates a mechanism for the fast-tracking of planning applications for development. The development of site provides a unique opportunity to make a significant contribution to Dublin's housing needs as it is one of the few large, centrally located, development opportunities in Dublin city.

The site has the potential to provide up to 3,500 residential units (including 10% Part V and 15% social and affordable homes) and approximately 1 million sq. ft. of commercial development, as well as a school site and community and public open spaces.

In July 2019, NAMA invited interested parties, through an open market process, to subscribe for a majority 80% shareholding in a NAMA group entity which ultimately owns a development site located within the designated Poolbeg West Strategic Development Zone. The selection of a preferred bidder by NAMA is expected in Q1 2020.

2. Dublin Docklands SDZ activities

In addition to its expanded residential delivery funding programme, NAMA's asset management activities in 2020 will look to sustain the major progress made in recent years in advancing the delivery of office and residential accommodation in the Dublin Docklands SDZ area.

In 2014, NAMA held an interest in about 75% of the developable land area in the SDZ; this area has the capacity to deliver 4.2m square feet of commercial space and some 2,183 residential units. Site-by-site strategies were developed in conjunction with receivers, joint venture partners and QIAIF/ICAV¹ partners and following engagement with relevant stakeholders, notably Dublin City Council, the development agency and planning authority for the area.

The development of the Docklands SDZ has gained strong momentum over recent years: construction has started on sites which are expected to deliver about **35%** of the commercial space; construction has completed for another **15%** and NAMA has sold or agreed the sale of its interest in the remaining **50%** of commercial space. The development work being carried out in the Docklands SDZ is being funded largely through private capital without taxpayers' money being placed at risk. When complete, it is estimated that the Docklands SDZ area will accommodate in excess of 20,000 office workers and homes for over 5,000 people, regenerating and transforming this important part of Dublin City.

Table 2 below summarises current progress in respect of NAMA's Docklands interests.

TABLE 2: Progress on NAMA Docklands' sites

	Commercial (sq. ft. million)	Residential (units)
Projects completed/sold/ sale agreed	2.77	1,767
Construction commenced	1.46	416
TOTAL	4.23	2,183

3. Engagement with debtors and receivers

NAMA's deleveraging activity is guided by the objective of maximising recovery from property-backed loans through intensive management by working closely with debtors and receivers to enhance the value, and ultimately the disposal proceeds, of the underlying assets and, where appropriate, of the loans. The fair value of NAMA's loan portfolio at end-

¹ Qualifying Investor Alternative Investment Funds/ Irish Collective Asset-management Vehicles

December 2018 was €1.9 billion, down from €3.2 billion (net of impairment) at the end of 2017. The loan portfolio is expected to reduce further in 2019 and 2020 with almost all of the planned deleveraging expected to be completed by the end of 2021, other than loans which are the subject of litigation or which are secured by assets which have significant potential value uplift, which will not have been sold by end-2021.

4. Social housing

A major objective of the Board is to contribute to the social and economic development of the State and to conduct the Agency's commercial activities, in so far as possible, so as to co-ordinate with that objective. This objective is pursued through a range of initiatives including, most notably, the provision of social housing from housing stock within NAMA's control. Up to June 2019, NAMA had identified **7,050** residential units as potentially suitable for social housing. Confirmation of demand for units is a matter for local authorities and demand was confirmed for **2,729** of the units, of which **2,544** had been delivered or committed by June 2019. Delivery of the units is ultimately subject to the purchase and leasing of suitable properties by local authorities and approved housing bodies, following extensive completion works in some cases. Additional social housing will be delivered under Part V arrangements as part of the funding of new residential delivery on NAMA-secured assets over the coming years.

NAMA will continue to engage with Ministers, Departments, State agencies, local authorities and civic bodies to explore ways in it can advance public and social policy objectives.

Strategies

In working towards achieving its strategic objectives, NAMA's principal strategies have been to work closely with debtors/receivers to maximise the cashflow generated by the portfolio. In line with its strategic objectives, NAMA advances funding to its debtors and receivers in cases where it can be shown that such funding will enhance the value of the assets securing NAMA's loan portfolio. NAMA expects to approve additional funding for residential projects, on a commercial basis, over the period to 2020/2021.

The strong performance of the Irish and UK commercial property markets over recent years facilitated a managed process of phased asset disposals by debtors and receivers and enabled NAMA to achieve its primary commercial objective of redeeming all of its €30.2 billion senior debt and thereby eliminating a significant contingent liability of the Irish State by end-2017. From inception to end-August 2019, NAMA had generated cumulative cashflow of **€44.6 billion** from its loan portfolio. This comprised **€38.3 billion** in asset disposal proceeds and **€6.3 billion** from other income, principally rental income from property assets controlled by debtors and receivers. In addition, some €529m (nominal) of the €1.6 billion of subordinated debt has been redeemed since April 2018; the remaining subordinated debt (almost €1.1 billion) is expected to be redeemed by its first call date of 1 March 2020. Subject to current market conditions being sustained, NAMA expects to transfer a surplus of up to €4 billion to the Exchequer by the time it completes its work, of which €2 billion is expected to be transferred in H2 2020.

Resource Allocation

Table 3 below presents the main components of NAMA’s projected 2020 Budget:

TABLE 3: Projected 2020 Budget

	2020 Draft Budget	2019 Final Budget
	(€m)	(€m)
NAMA Direct Costs		
Primary Servicer/Master Servicer fees	9	9
Reimbursement to NTMA as service provider	39	45
Legal fees	5	6
Asset Recovery/Asset Management	4	5
Finance, communication, technology and other administration costs	22	21
Total - Direct Operating Costs	79	86

The principal element of NAMA’s projected 2020 Budget is the reimbursement to the NTMA for the cost – a projected €39m - of providing staff and for other services, including HR, IT,

office and business services. The Budget provides for a staff headcount of 219 at the start of 2020. Staff numbers are expected to fall over the course of 2020 as NAMA completes much of its remaining deleveraging activity.

Excluding the Executive team, the proposed headcount in early 2020 will be distributed across the five NAMA divisions as follows:

TABLE 4: Projected staffing of NAMA business divisions as at January 2020

Division	Responsibilities
Asset Management and Recovery (38 staff)	To implement business strategy, manage debtors, maximise income and minimise loss. To identify and develop property assets with debtors, receivers and joint venture partners so as to create and add value and enhance asset cash flow.
Residential Delivery (78 staff)	To maximise the return from existing assets by funding or otherwise facilitating, through debtors, receivers and joint venture partners, the development of commercially viable residential sites within NAMA's portfolio.
Strategy and Communications (5 staff)	To develop strategies that will deliver the best achievable return from acquired assets, and to coordinate engagement with the Oireachtas, media and other key stakeholders.
Legal (38 staff)	To provide legal advice on a range of issues relating to the operations of NAMA, including enforcement, procurement and the management of litigation.
CFO (53 staff)	To support the NAMA business by the provision of services across a number of key functions, including Finance, Operations, Systems, Programme Management, Treasury, Tax, Audit and Risk.