

Section 53
Annual Statement 2012

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

- a) the proposed objectives of NAMA’s activities and those of each NAMA group entity for the financial year concerned,
- b) the proposed nature and scope of the activities to be undertaken,
- c) the proposed strategies and policies for achieving those objectives, and
- d) the uses to which it is proposed to apply NAMA’s resources and those of each NAMA group entity.

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

Outlined below are NAMA’s objectives for 2012, the strategies and policies proposed for achieving them, an outline of prospective activities in 2012 and the proposed resources to be applied.

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

A. NAMA objectives in 2012

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

- (a) the acquisition from participating institutions of such eligible bank assets as is appropriate,
- (b) dealing expeditiously with the assets acquired by it,
- (c) protecting or otherwise enhancing the value of those 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 to the Exchequer of acquiring and dealing with bank assets and its own cost of capital and other costs.

In 2012, NAMA aims to make further progress towards achieving this overarching objective through further reduction in its debt in the context of a series of debt reduction milestones set out by the NAMA Board in its Business Plan of July 2010. Another major objective of NAMA is to contribute to the social and economic development of the State and its commercial activities will be conducted, in so far as possible, so as to co-ordinate with that objective.

B. Strategies and policies

NAMA redeemed €500m in Senior Notes in September 2011. In conjunction with earlier redemptions of €750m and the repayment of €299m in borrowings from the Minister for Finance, this has brought the total debt repaid to date by NAMA to €1.55 billion.

Further debt repayment is likely before the end of 2011 and into 2012 with the objective of making significant progress towards meeting the first debt reduction milestone – a target reduction of 25% in NAMA debt by end-2013. Progress towards this target is monitored, on a quarterly basis, by the EU/IMF/ECB troika.

To achieve its debt reduction target, NAMA will continue to pursue a number of strategies, notably the following:

1. Agree detailed asset sales schedules with debtors.
2. Optimise NAMA cashflow from loans and debtors.
3. Adopt an active loan sales strategy.
4. Attract international investor capital.
5. Through a number of initiatives, increase market activity in both commercial and residential markets.

1. Agree detailed asset sales schedules with debtors

As part of the business plan process, schedules of asset sales are being agreed with debtors and the proceeds from these sales will be used to reduce debtor liabilities and ultimately NAMA's indebtedness.

As regards the business plans of the major 180 debtors whose loans are being directly managed by NAMA, two-thirds had been reviewed by September 2011. It is expected that the remainder will have been reviewed by the end of 2011. For over 90% of NAMA debt, NAMA strategy will have been determined by year-end. For a majority of debtors, loan restructuring arrangements and asset management strategies will have been formulated with the debtors concerned before end-2011 and these will incorporate a phased schedule of asset disposals over a five/seven year period. These disposal schedules, and the resulting proceeds which will be used to reduce debtor liabilities, are intended to dovetail with NAMA's own debt repayment targets. The implementation by debtors of sales strategies is monitored closely by NAMA. For certain debtors, enforcement action will be required and receivers will be appointed.

2. Optimise NAMA cashflow from loans and debtors

A key strategy for NAMA is to optimise the cash flow available from its acquired loans. This strategy is pursued through the following:

- Ensuring that rental income from assets controlled by the debtor is brought under NAMA control.
- Significant reductions in debtor overheads.
- The reversal of asset transfers to spouses, relatives and other parties.
- Obtaining security over unencumbered assets.

3. Adopt an active loan sales strategy

The sale of property assets by debtors or by receivers appointed by NAMA will generate cash proceeds which will enable NAMA debt to be reduced. The sale of loans provides NAMA with another option to monetise its portfolio. There has been substantial interest to date from investors wishing to purchase particular loan sub-portfolios. The loan sale market is well developed in the US but less so in Europe. However, with a requirement on financial institutions under Basel III to hold more capital which may involve reducing their balance sheets, the market in Europe is expected to develop significantly in the coming years.

In order to ensure that it is well placed to avail of loan sales opportunities, NAMA is establishing a panel of loan brokers in each of its main jurisdictions to manage its loan sales process. It has initiated a tendering process under EU Public Procurement rules to appoint a panel of loan sale advisers in Europe and the US. It will look to sell loans which can be packaged in a number of different ways, including the sale of all loans of a single debtor or debtor connection and the sale of loans held in individual SPVs or corporate entities with no recourse beyond the assets of the SPV/corporate entity. It will also assess the scope for selling sub-portfolios of loans assembled by reference to underlying property asset type or location.

4. Attract international investor capital

Creation of monetisation vehicles such as QIF which are attractive to investors

When it enforces against debtors, NAMA's principal strategy at present is to maximise debt repayment through the appointment of receivers or other insolvency professionals to realise the value of underlying property assets. An alternative option would be for NAMA to acquire property assets, on an arm's length basis, from receivers (or for debtors to cede secured property directly to NAMA) and to package them into various combinations which could then be monetised through sale to investors.

A vehicle which could be used for this purpose is the Qualifying Investor Fund (QIF) which is a well-established and accepted structure for attracting worldwide investment capital. A QIF is a regulated, specialist investment fund usually targeted at institutional investors. QIFs can take the form of unit trusts, investment limited partnerships or investment companies. It would be possible to assemble portfolios based on asset types (office, residential, retail, etc.) or geographical region (Ireland, Dublin, UK, etc.) and to secure international investment based on specialist investor preferences. The option of using QIFs is currently under review and, if considered suitable, a number of such funds are likely to be established by NAMA in 2012.

5. Measures to generate activity in both commercial and residential markets

Commercial staple debt finance

Liquidity continues to act as a serious constraint on activity in the current commercial property market. Financial institutions are reluctant to underwrite a high proportion of lending to individual property ventures. With a view to generating sales transactions which would not otherwise take place in the Irish market and to attracting new equity into the market, NAMA is willing to provide up to 70% stapled (vendor) debt finance to purchasers of property which is either under the control of its debtors or of receivers engaged by it. Purchasers – including pension funds, insurance companies, private equity firms and sovereign wealth funds - will be expected to be in a position to inject significant equity capital upfront and the assets most likely to attract interest include large office buildings, shopping centres and other retail and industrial properties. The first financing under this programme is expected to take place in October 2011 and the programme is likely to gain significant momentum in 2012 as more properties are offered to the market.

Residential property – deferred consideration initiative

As is the case with commercial property, liquidity is also a major constraint on residential market activity. It is estimated that the portfolio of property assets securing NAMA loans includes about 8,000 apartments and some 1,700 houses in Ireland. NAMA is in discussion with a number of government departments on an initiative which could be used to target a particular segment of the market i.e. potential house buyers who have an interest and a capacity to purchase but who are constrained by fears that prices may fall further from

current levels. The initiative under consideration would offer limited price protection to potential buyers for the first five years of their mortgage. If a decision is made to proceed with the initiative, it will first be offered on a pilot basis for a small number of properties and further rollout will depend on the response to the pilot project.

NAMA – Social and public policy objectives

NAMA has taken the initial key step of removing almost all of the land and development and associated loans off the balance sheets of the five participating institutions and paying them over €30 billion in securities. This has enabled the institutions to access funding which would not otherwise be available, has helped them to deleverage quickly and has removed a major obstacle inhibiting their return to normal banking business. The various initiatives outlined above are intended to generate activity in the property market.

In addition, NAMA is engaged with various Ministers, Departments, State agencies, local authorities and civic bodies to explore ways in which we can help to advance public and social policy objectives, subject to fulfilling its commercial mandate. In cases where property has been identified which may be particularly suitable for the needs of such bodies, NAMA is willing to offer the property for sale to them at its minimum, independently-appraised, reserve price. Offers are open for a period of four weeks and, if not accepted, properties will be placed for sale on the open market. NAMA is also in discussion with the Minister for Housing and his officials with a view to identifying the scope there may be for NAMA to dovetail its activities with State policy as regards housing. It is expected that these various discussions will lead to a number of practical initiatives in 2012.

Unfinished estates

NAMA participated in the Working Group set up by the Government to examine the issue and extent of unfinished estates in Ireland. The Group's report was published by the Minister for Housing in June 2011. NAMA debtors have exposure to 31 of the 225 Category 4¹ estates identified in the Group's report and NAMA has committed to funding the €3m estimated cost of carrying out the necessary remedial work in these estates. A provision of €5m is being made by the Minister towards the cost of urgent remedial work on non-NAMA estates. The report identified, in total, 2,800 unfinished estates that were categorised by reference to the

¹ Category 3 estates are defined as estates where the developer is in place but where there is no on-site activity and where there are significant planning, building control compliance and public safety issues to be addressed. Category 4 estates are estates where the developer or site owner is effectively not contactable and where no receiver has been appointed and where similar problems to Category 3 estates exist.

extent to which they required remediation work. NAMA will work closely with the Minister's Department to address any serious issues arising with respect to any NAMA-related Category 3 estates.

C. Activities

In addition to activities that will arise from implementation of the strategies and policies outlined above, the following will be significant areas of activity for NAMA in 2012:

1. Completion of the loan acquisition process
2. Consolidation of loan servicing arrangements
3. Liquidity and Balance Sheet management
4. Management Information Systems
5. Communications strategy

1. Completion of the loan acquisition process

NAMA acquired loan balances of €71.2 billion in 2010 and an additional €1.1 billion in March 2011. Following the Supreme Court decisions in the *Dellway* case which were delivered in April 2011, NAMA entered into a process of consultation with debtors whose loans, totalling €2.6 billion, had not yet been acquired at that stage. Having reviewed written representations received from debtors, the NAMA Board in September 2011 exercised its discretion to acquire €1.9 billion of the eligible loans and not to acquire €400m. An additional €250m of loans are considered to be ineligible and cannot be acquired. The residual loans that are to be acquired will be transferred in October 2011 and will bring the total NAMA loan acquisitions to €74.2 billion.

Of the €71.2 billion acquired in 2010, due diligence had been completed on €33 billion by the end of 2010. NAMA expects to have completed due diligence and final valuations on all acquired loans (€74.2 billion by par value) by the end of 2011, subject to due diligence being submitted by the participating institutions on time.

There are a number of residual aspects of loan acquisition which will require to be completed in 2012. One is to obtain EU Commission sign-off that all loan valuations have conformed to the methodology approved by the Commission in February 2010 and that the overall

transaction is in line with EU State Aid rules. Secondly, NAMA will deal with any valuation appeals which may be submitted by one or more of the participating institutions under Part 7 of the Act. Institutions have the right to appeal, to a valuation panel appointed by the Minister for Finance, the total portfolio acquisition value of loans transferred to NAMA.

2. Consolidation of loan servicing arrangements

From the early part of 2012, loans acquired from EBS will be managed by the AIB NAMA Unit following the merger of the two institutions in mid-2011. Likewise, following the merger of Anglo Irish Bank and INBS in July 2011, loans acquired from the two institutions will be managed by one NAMA unit within the renamed Irish Bank Resolution Corporation (IBRC). The consolidation of five participating institutions into three will require changes to the operating models which have been in place to date for the management and administration of NAMA loans. These changes will be introduced on a phased basis during the early part of 2012 in line with the integration of staff and systems in the two integrated units.

With NAMA expected to complete its recruitment in the last quarter of 2011, the early part of 2012 will see it assuming direct charge of portfolio management for the largest 180 debtors; the participating institutions will manage the other 670 debtors under delegated authority.

3. Liquidity and Balance Sheet Management

Management of NAMA's Balance Sheet risks and liquidity requirements in 2012 will include the management of day-to-day funding and liquidity, as well as monitoring and forecasting medium and long-term liquidity needs. The need for short- and medium-term funding programmes will be assessed against liquidity forecasts and market conditions. NAMA will work closely with the four rating agencies throughout 2012 with the aim of maintaining credit ratings on the NAMA Senior Notes which are used by participating institutions as collateral in liquidity operations. Market risk on debtor derivatives acquired as part of the loan transfer process will continue to be managed, with hedging strategies adjusted, where necessary, to reflect swap terminations or changes in performance levels.

Asset and liability management activity in 2012 will continue to be heavily focused on the management of currency and interest rate risks. NAMA has foreign currency risk on about

€10 billion of foreign currency loans and currency hedges executed on acquisition need to be adjusted as foreign currency assets are sold or additional credit is advanced in foreign currency. In addition, NAMA faces interest rate risk on both its assets and liabilities but particularly on some €28 billion of variable rate NAMA Senior Notes and management of this risk will continue to be a key objective in 2012.

4. Management Information Systems

A Document Management System is currently being implemented within NAMA. The early part of 2012 will see the full implementation of a Portfolio Management System which is currently being introduced on a phased basis. This will provide a consolidated view of acquired loans, restructured loans and the property and other assets securing them and will provide significantly enhanced management information (MI) to inform decision-making.

The Department of the Environment, Community and Local Government is working towards establishing an internet-based GIS planning information system incorporating all national planning spatial data sets including OS and aerial photography information, zoning, civil and social infrastructure, unfinished housing developments, housing land availability, etc. Data has been collected for the larger cities and surrounding counties and it is expected that all national data will have been collected by the end of 2011.

NAMA intends to integrate data on property securing its loans with other data in the GIS system and to integrate the results into its Portfolio Management System. This will act as a valuable tool in the formulation of NAMA planning strategy, particularly in informing NAMA decision-making as regards strategy for development land.

5. Communications strategy

In its first Annual Report (published in July 2011) and in its listing of properties under the control of NAMA-appointed receivers (available on its website), NAMA, in 2011, significantly increased the amount of information available about its activities. In October 2011, its website (www.nama.ie) was substantially enhanced. NAMA's communication

strategy will continue to evolve in 2012 so as to be as pro-active and as informative as possible within the constraints imposed by legal and commercial considerations.

D. Resources

By the end of September 2011, NAMA had recruited 190 of the permanent staff that it expects to employ. The Agency will engage in a continuous review of resource requirements in the context of an evolving business environment.

The functions of each of the NAMA business units are outlined in **Appendix 1**.

In addition, some 500 staff in the participating institutions have been assigned to deal with NAMA debtors and with associated administrative work.

Role of NTMA

NTMA provides a number of services to NAMA, including Finance, HR, IT, Treasury, Market Risk, Office Services and Communications. The cost of these services is reimbursed by NAMA to the NTMA on an annual basis. The estimated cost for 2012 is €44 million, including staff costs.

NAMA's projected expenditure for 2012 is set out at **Appendix 2**.

APPENDIX 1: NAMA – Business Unit responsibilities

Business Unit	Responsibilities
Portfolio Management	Portfolio Management has responsibility for the active management of NAMA’s loan portfolio with the objective of maximising recoveries. It develops debtor strategies based on its assessment of their long-term prospects.
Credit and Risk	Credit and Risk is responsible for independent oversight of the credit approval/monitoring and provisioning processes within NAMA and the participating institutions. It also has responsibility for developing and implementing best practice credit risk management and general risk management policies.
Business Services	Business Services oversees the performance of the participating institutions in their servicing of NAMA loans and the performance of the Master Servicer. It also has responsibility for the development of management information systems for loan monitoring and management and for statutory and other reporting.
Legal and Tax	Legal and Tax has responsibility for the management of the legal process for the acquisition of bank assets by NAMA, the management of NAMA litigation and for the provision of advice on enforcement and on disposal options for NAMA assets.
Lending	Lending works in close conjunction with Portfolio Management to assess the commercial viability of debtors and, where viability is established, to devise appropriate loan and asset financing strategies.
Treasury	Treasury is responsible for developing asset and liability strategies in relation to NAMA’s balance sheet, including the management of funding and liquidity.
Finance	Finance has primary responsibility for developing and implementing robust financial and management reporting.

APPENDIX 2: NAMA - Projected 2012 Expenditure²

NAMA Direct Expenses	€m
Primary Servicer/Master Servicer Fees ³	(78)
Legal Fees	(25)
Reimbursement to NTMA as Service Provider	(44)
Accounting/Audit fees	(2)
Advisory Fees	(10)
IT/MIS costs	(3)
Miscellaneous Costs – Contingency	(5)
Total - Direct Expenses	(167)
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NAMA Indirect Expenses	
Recovery/Insolvency Costs ⁴	(75)
Total Projected Expenditure (including VAT)	(242)

² 2012 Budget to be finalised by the Board in December 2011

³ Primary Servicer fees are paid to the participating institutions for the day-to-day servicing of NAMA loans. The fee – 10 basis points - has been agreed, on a cost recovery basis, with the EU Commission.

⁴ Based on an average cost of up to 1.5% of the asset value of projected 2012 enforcements.