

Section 53 Annual Statement 2015

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 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 2015.

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,
- 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 agreed five key objectives to guide its strategy and policies:

- 1. Over the projected ten-year life of NAMA, redeem, at minimum, the Senior Bonds issued as consideration for loans in addition to recovery of carrying costs and working and development capital advanced to debtors.***
- 2. Consistent with the first objective, generate transactions which will aim to contribute to a renewal of sustainable activity in the property market in Ireland.***
- 3. Meet its commercial objective (as at 1 above) over the shortest possible time span, having regard to market conditions and to optimising the realised value of its assets. Meet all of its future commitments out of its own resources.***
- 4. Consistent with the first objective, aim to contribute to the social and economic development of the State¹.***
- 5. Manage assets intensively and invest in them so as to optimise their income-producing potential and disposal value.***

¹ Section 2 (b) (viii) of the NAMA Act.

During 2014, a number of developments, including the strong performance of the Irish market, prompted a reassessment by the Board of the timeframe over which its objectives could be achieved and how they could best be achieved.

The strong improvement in conditions in the Irish commercial property market in 2013 and 2014 created opportunities for NAMA to increase the flow of Irish property assets and loan sales to the market. On the assumption that market conditions would continue to be supportive, the Board decided that its primary commercial objectives (the first and third objectives outlined above) could best be achieved through a managed and orderly process of accelerating disposals. The resultant increase in transactional activity would also contribute to meeting the Board's second objective - to generate transactions which would contribute to a renewal of sustainable activity in the property market in Ireland.

Arising from this, the Board set a revised debt redemption target: to redeem 80% of senior debt (a cumulative €24 billion) by the end of 2016. This revised target was endorsed by the Minister for Finance in July 2014 following the review of NAMA which he was required to conduct under Section 227 of the NAMA Act. Assuming that the revised end-2016 target can be achieved, the Board's current best estimate is that NAMA can expect to complete much of its work by end-2017 or mid-2018.

Against the background of an emerging shortage of office and residential accommodation in Dublin, the Board also took the view that land assets under the control of its debtors and receivers, particularly in the Dublin Docklands area, could, if developed, make a substantial contribution towards addressing current and prospective shortages. NAMA could contribute, not only in terms of project funding, but also in bringing coherence, direction and drive to the development process. As part of his Section 227 review, the Minister for Finance endorsed the Board's plans to facilitate the delivery of office accommodation within the Dublin Docklands area and its plans to facilitate the delivery of residential housing units in areas of most need.

NAMA's plans to facilitate the development of office and residential accommodation are aligned with its fourth objective (to contribute to the social and economic development of the State) and with its fifth objective (to manage assets intensively and invest in them so as to optimise their income-producing potential and disposal value).

Activities

NAMA's activities in 2015 will be primarily focused on its management of debtors and of property assets and on maximising the proceeds to be realised from its portfolio of loans and the assets securing them.

1. Engagement with debtors and receivers

Commercial arrangements were agreed with a majority of debtors during 2011 and 2012 and the various agreed strategies are currently in the process of phased implementation. NAMA's Asset Recovery team directly manages the largest 194 debtor connections which account for par debt of €48.5 billion. In addition, the team leads the recovery management of the residual portfolio which is managed on a day-to-day basis by AIB, Bank of Ireland and Capita under delegated authority from NAMA. This comprises par debt of €10 billion and some 482 debtor connections.

Asset Recovery activities include ensuring that assets controlled by debtors and receivers are offered for sale to the market in line with market demand. It also involves monitoring the cashflow generated by assets to ensure that it is properly applied towards debt reduction, approving working capital and new lending advances and oversight in relation to property and asset management decisions. In the case of debtors subject to enforcement, the management of the enforcement process requires intensive NAMA involvement.

Residential

As part of its contribution to address emerging residential supply shortages in the Greater Dublin area, NAMA established a dedicated Residential Delivery team in April 2014. The team's purpose is to co-ordinate and drive the delivery of NAMA's commitment to facilitate the completion of 4,500 new residential units in the period to the end of 2016 and to assess the scope for delivery of additional units thereafter. Of the end-2016 target, it is envisaged that 1,000 units will be delivered in 2014, another 1,500 units in 2015 with the residual to be delivered in 2016. Most of the units will be delivered on 62 sites where construction has already commenced or which are 'shovel ready' (**Tier 1** sites).

In addition, NAMA is engaged in preparatory work on a second group of sites in the Greater Dublin area which are currently in the planning process or where additional planning work is required (**Tier 2** sites). If all of these 287 sites were to be developed, it is estimated, based on a preliminary analysis, that they could deliver over 25,000 units in the years after 2016. However, for a variety of reasons, including commercial viability, planning constraints, planning authority inflexibility and, for certain sites, an absence of demand for housing in the areas concerned, it would be reasonable to assume that not all of the sites will prove to be suitable for development.

For a third group of sites in Dublin (some 22 **Tier 3** sites), significant infrastructural or planning impediments have been identified. If such impediments could be removed in all cases, it is estimated that these sites have the capacity to deliver an additional 5,000 residential units.

NAMA's work in 2015 will focus on the following:

- Overseeing delivery of the 4,500 units targeted for completion by the end of 2016.
- Driving progress on planning work on those **Tier 2** sites in the Greater Dublin area which are assessed to be commercially viable.
- Working to resolve infrastructural and planning impediments to the development of **Tier 3** sites.

2. NAMA's asset management activities

Asset management activity involves developing and implementing value-enhancing strategies that will deliver the best achievable return from property assets. NAMA's asset management activities over the coming years will be largely focused on three areas:

1. Completion in 2015 and 2016 of its development programme for a number of residential projects in London.
2. Planning and facilitating the delivery of residential accommodation in the Greater Dublin area and in Cork, Limerick and Galway.
3. Planning and facilitating the delivery of office accommodation in Dublin with a particular focus on the Docklands SDZ area.

Dublin Docklands

The North Lotts and Grand Canal Docks area of the Dublin Docklands was designated as a Strategic Development Zone (SDZ) in December 2012. Following the adoption of the Docklands SDZ Scheme by Dublin City Council in May 2014, future planning applications which are consistent with the scheme must be granted permission and there is no avenue of appeal against such permissions. As part of the Section 227 review of NAMA conducted by the Minister for Finance, the Minister endorsed the Board's proposal that a major priority for NAMA would be to facilitate the delivery of key Grade A office space within the Dublin Docklands SDZ and Dublin's Central Business District.

The Docklands SDZ area comprises some 66 hectares of which 22 hectares comprise undeveloped lands. As NAMA holds an interest in sites comprising over 75% of the available development land within the Docklands SDZ area, approval of the Docklands SDZ Scheme represents a clear opportunity for NAMA to facilitate the delivery of new commercial and residential development in the area. Such development will support the expansion of the financial services sector and the development of new FDI business and technology hubs in the Docklands area.

NAMA has an interest in thirteen sites in the SDZ area; the extent of its interest ranges from 15% to 100%, depending on the ownership structure of each site. Four of the sites are controlled by QIFs in which NAMA holds minority interests. An initial appraisal indicates that the thirteen sites in which NAMA has an interest have the capacity to provide about 3.4m square feet (316,000 square metres) of commercial space and some 1,850 apartments.

NAMA is currently preparing a Business Plan which will incorporate individual strategies for each of the thirteen sites within the Docklands SDZ in which it has an interest. Strategies will be developed in close conjunction with receivers, joint venture partners and QIF partners. NAMA will also engage with other relevant stakeholders such as the Dublin City Council - the development agency and planning authority for the area - to resolve planning and infrastructural issues which require resolution before development can proceed.

Given that the development of the Docklands SDZ is, as yet, at an early stage, NAMA's main focus throughout much of 2015 will be on liaising with receivers to expedite the preparatory

work necessary to ensure that construction can be commenced on each of the sites as soon as is feasible, subject to commercial viability. This preparatory work will include feasibility assessments, the resolution of title and ownership issues, the development of site strategies, masterplanning and the preparation and submission of planning applications, the preparation of Environmental Impact Statements for larger sites, the commissioning and funding of site decontamination and demolition work on certain sites, facilitating the provision of infrastructure (where appropriate) and detailed design work. In relation to a number of sites, planning and design work is already well advanced by NAMA receivers. It is envisaged that construction activity will begin in 2015.

3. Engagement with key stakeholders

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. Activity in 2015 will continue to be geared towards meeting public policy objectives, including, in addition to activities outlined above, the provision of social housing from housing stock within NAMA's control. NAMA will continue to engage with Ministers, Departments, State agencies, local authorities and civic bodies to explore ways in which it can advance public and social policy objectives.

Social housing

To date, NAMA has identified 5,300 residential units as potentially suitable for social housing. Demand has been confirmed by local authorities for close to 2,000 of these and demand is still being assessed for another 540 units, bringing the total number of properties that may ultimately be delivered under this initiative to over 2,500. Delivery, however, is ultimately subject to the expeditious purchase and leasing of suitable properties by local authorities and approved housing bodies. To date, over 700 units have been delivered. By the end of 2014, NAMA expects that its target of delivering 1,000 units will be achieved and that the residual units will be delivered in 2015 and 2016 (with the actual number depending on the level of demand that is confirmed by local authorities).

4. Balance sheet management

Management of NAMA's Balance Sheet risks and liquidity requirements include the management of day-to-day funding and liquidity, as well as monitoring and forecasting medium and long-term liquidity needs. Asset and liability management will continue to be heavily focused on currency and interest rate risks. NAMA currently manages (a) foreign currency risk on about €3 billion of foreign currency loans and (b) interest rate risk on both its assets and liabilities, including some €16.4 billion of variable rate Senior Notes issued to various financial institutions.

Strategies

One of the key early objectives set by the NAMA Board was to redeem, at minimum, all €30 billion of Senior Bonds by 2020, in addition to recovering its carrying costs and any working and development capital advanced to debtors. The Board achieved its first major interim milestone - the redemption of €7.5 billion of Senior Bonds by the end of 2013. **Table 1** below summarises progress in relation to the redemption of senior bonds² issued to acquire the NAMA loan portfolio:

TABLE 1: NAMA SENIOR BOND REDEMPTIONS

	Senior Bonds redeemed (€ billion)	Cumulative redemptions (€ billion)	End-year cumulative target (€ billion)
2011	1.25	1.25	
2012	3.50	4.25	
2013	2.75	7.50	
2014 (to end-Q3)	7.00	14.50	15.00
2016			24.00

² In addition to the €30.2 billion in senior debt issued to acquire the original NAMA portfolio, NAMA issued another €12.9 billion in senior bonds in March 2013 to acquire from the Central Bank the IBRC floating charge. NAMA was directed to acquire the floating charge as part of the Government's decision to appoint Special Liquidators to IBRC. By mid-August 2014, all but €134m of these bonds had been redeemed.

The Board's initial target was to redeem, by the end of 2016, 50% (€15 billion) of the senior bonds issued as consideration for the portfolio acquired under the NAMA Act 2009. Strong levels of market activity in 2013 and 2014 have enabled NAMA to increase the volume of disposals; as a result, it expects to have achieved its 50% target by end-2014 and it has now adjusted its end-2016 redemption target to 80% (a cumulative €24 billion) of senior bonds.

Based on its analysis of the residual portfolio and on the assumption that the improved Irish market conditions can be sustained into 2015 and 2016, the Board is confident that it will be in a position to redeem in full the senior and subordinated debt and that it may, potentially, be in a position to generate a surplus. The Board's current best estimate is that NAMA can expect to complete much of its work by end-2017 or mid-2018.

In working towards achieving its debt redemption targets, NAMA's principal strategies have been (a) to work closely with debtors/receivers to maximise the cashflow generated by the portfolio and (b) to ensure that a substantial flow of assets is available to both international and domestic investors interested in acquiring an exposure to the Irish property sector.

Portfolio cashflow generation and transactional activity

Up to end-August 2014, NAMA had generated cashflow of €21.5 billion from its loan portfolio. This comprised €16.6 billion in asset disposal proceeds and €4.9 billion from other income, principally rental income from property assets controlled by debtors and receivers. A feature of disposal activity in 2014 has been the resurgence of transactional activity in the Irish market, supported by interest from international investors and from domestic investors including a number of REITs established in Ireland following the enactment of REIT legislation in 2013. Up to end-July 2014, some 37% of 2014 disposal transactions (by value) involved Irish assets.

In 2015, NAMA expects to make strong progress towards achieving its end-2016 senior debt redemption target (a cumulative €24 billion). Achieving the end-2016 target will require a cumulative redemption of €9 billion of senior debt in the years 2015 and 2016. It is expected that asset and loan disposal activity in Ireland in 2015 will make a significant contribution

towards meeting this target, assuming that the more benign market conditions evident in 2013 and 2014 continue to prevail.

Loan sales have become an important element in NAMA's disposal activity. Two major transactions – the sale of the Project Tower and the Project Eagle portfolios - were completed during the first half of 2014 and, more generally, the scale of investor interest has enabled NAMA to secure very competitive pricing on the sale of a number of other loan portfolios. Assuming that investor interest is sustained, NAMA expects that loan sales will continue to contribute significantly to cash generation in 2015.

Sales pipeline

NAMA has committed to ensuring that a pipeline of large portfolios of mainly Irish property assets will be available for sale to the market. In particular, it has committed that packaged transactions of properties with a minimum value of €250m will be offered for sale in each quarter. The aim is to provide certainty about regular asset flows which will provide clarity to potential investors, including international investors and REITs, and thus help to sustain the positive momentum in the market. As with loan sales, large portfolio sales have become an important element in NAMA's disposal activity.

Joint Ventures

NAMA is also keen to explore the scope for joint venture (JV) partnership initiatives. Early in 2014, it invited expressions of interest from parties which have the capacity to invest on a JV basis with NAMA where such opportunities arise. NAMA is reviewing the various expressions of interest received and will commence discussions in due course on particular joint ventures with suitable parties. To date, NAMA has engaged in a number of notable JV arrangements including the Project Aspen JV³ and JV arrangements which are part of QIFs whose purpose is the development of a number of sites in the Dublin Docklands.

³ This involved the sale of a loan portfolio to a new JV entity owned by Starwood Capital Group (80%) and NAMA (20%)

Resource Allocation

Table 2 below presents the main components of NAMA's projected 2015 Budget⁴:

TABLE 2: NAMA PROJECTED 2015 BUDGET

	2015	2014
	Budget	Budget
NAMA Direct Costs	(€m)	(€m)
Primary Servicer/Master Servicer Fees	46	56
Reimbursement to NTMA as Service Provider	54	51
Legal Fees	10	11
Asset Recovery/Asset Management	5	8
Finance, communication, technology & other administration	17	11
Total - Direct Operating Costs	132	137

The two principal elements of the projected Budget are the servicing fees payable to the participating institutions and to Capita Asset Services (a projected €46m) and the reimbursement to NTMA for the cost of providing staff and for other services (a projected €54m).

Servicing Fees

Primary and special servicing on NAMA loans is currently provided by AIB, Bank of Ireland and Capita. In the latter part of 2014, servicing activity on the Bank of Ireland portfolio is scheduled to migrate to Capita.

Primary servicing, also known as loan administration services, comprises the administrative and operational activities associated with the management of loans, including the processing and charging of loan interest and fees. **Special servicing** is also known as case management

⁴ Loan sale costs were included in the 2014 Budget as direct operating costs. Such costs are now recorded under the 'Net profit/loss on disposal of loans' heading in the NAMA Financial Statements and are no longer recognised as direct operating costs. They are not therefore included in the 2015 Budget outlined in Table 2.

or relationship management and involves on-going interaction with debtors and the assets securing their loans with the objective of maximising the cash realised from loans and assets. AIB, Bank of Ireland and Capita currently carry out primary servicing on the full NAMA loans portfolio (currently €59 billion in par debt). They also provide special servicing on the loans of the debtor connections which are not directly managed by NAMA.

Staff and other costs

Excluding the Executive team of seven, the approved end-2014 allocation of headcount across the various divisions is as follows:

TABLE 3: PROJECTED END-2014 STAFFING OF NAMA BUSINESS DIVISIONS

Division	Responsibilities
Asset Recovery (199)	To implement business strategy, manage debtors, maximise income and minimise loss. Asset Recovery directly manages the largest 194 debtor connections, incorporating par debt of €48.5 billion. In addition, it leads the recovery management of the residual portfolio which is managed by AIB, Bank of Ireland and Capita, comprising nominal debt of €10 billion and 482 debtor connections.
Asset Management (22)	To identify and facilitate the development of property assets with debtors, receivers and joint venture partners so as to create and add value and enhance asset cash flow.
Strategy and Communications (13)	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 (61)	To provide legal advice on a range of issues relating to the operations of the Agency, including enforcement and the management of litigation involving NAMA.
Chief Financial Officer (80)	To support the NAMA business by the provision of services across a number of key functions, including Finance, Operations, Systems, Treasury, Tax, Audit and Risk.

In addition to staff, the NTMA provides a number of services to NAMA, including HR, IT, office and business services and the costs of such services are reimbursed by NAMA on an annual basis. The projected reimbursement for 2015, including staff costs, is €54m.

NAMA's operating costs - 2% of cash generated in 2013 - compare very favourably with comparable international institutions where such costs are typically of the order of 6%.