



Gníomhaireacht Náisiúnta um Bhainistíocht Sócmhainní
National Asset Management Agency

30 September 2016

Mr. Michael Noonan T.D.,
Minister for Finance,
Department of Finance,
Upper Merrion Street,
Dublin 2.

Dear Minister,

We have the honour to submit to you the Section 53 Annual Statement for 2017 of the National Asset Management Agency.

Yours sincerely,


pp Frank Daly
Chairman


Brendan McDonagh
Chief Executive Officer



Section 53 Annual Statement 2017

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 2017.

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 reviewed and modified during 2016 the key objectives that guide its strategy and policies:

- 1. The Board's primary commercial objective is to redeem all of its senior debt (€30.2 billion) before the end of 2018. The Board also aims to redeem the NAMA subordinated debt (€1.593 billion) by 1 March 2020 and to generate a surplus by the time its work has been completed. 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, 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.**

The third and fourth of the objectives set out above were adopted by the Board in 2014 and 2015 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. The Board took the view that land assets under the control of its debtors and receivers in the Dublin Docklands Strategic Development Zone (SDZ) could, if developed, make a substantial contribution towards addressing current and prospective shortages. As is detailed below (page 6), major progress has been made since mid-2014 on the development of the Docklands SDZ.

In December 2015, NAMA announced details of a major residential funding programme that aims to deliver, on a commercially viable basis, 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 4-5).

Activities

NAMA expects that its Docklands and residential funding initiatives will form a substantial part of its overall activities in 2017 and, in line with the major progress which has been made in terms of portfolio deleveraging over recent years, that asset disposal activity will be a less prominent part of its activities.

1. Residential Housing Initiative

As part of its contribution to address residential supply shortages which were beginning to emerge at that point, NAMA made a commitment in late 2013 to facilitate the completion of 4,500 new residential units in the period 2014-2016. NAMA expects that this target will be achieved.

The recovery in market prices in the intervening period has meant that a greater number of residential sites under the control of NAMA debtors and receivers have become commercially viable to develop. The Board has a statutory obligation under Section 10 of the NAMA Act to obtain the best achievable financial return from its acquired assets and, in many instances, the funding by NAMA of the development of residential sites, as opposed to their sale as undeveloped land, represents the option which best fulfils the Board's statutory obligations.

The 2014-2016 residential delivery programme was superseded in late 2015 by a delivery programme comprising 20,000 units for the period from 2016 to 2020. The Board had completed a detailed review of a large number of sites within the control of its debtors and receivers and concluded that sites capable of delivering 13,200 residential units were commercially viable to develop at sales prices prevailing in Q4/2015. In addition, the Board was confident 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.

Following approval by the Board of an expanded Residential Delivery Programme in November 2015, NAMA established a new **Residential Delivery** division to bring drive and focus to its expanded residential delivery programme. The expanded programme represents a major new challenge for NAMA: through its funding and management activity, it aims to increase delivery from an average of 1,250 units per annum (2014-2015) to an annual average of 4,000 units (2016-2020). The residential programme is expected to require total funding of €5.6 billion with peak funding expected to be €1.8 billion. NAMA does not expect that the expanded residential programme will affect its plan to redeem all of its senior debt by 2018 and its subordinated debt by 2020.

Table 1 below summarises progress in relation to NAMA funding of residential delivery:

TABLE 1: Progress on delivery of residential units

| | Status | Total |
|--|---|--------|
| Tier 1 sites | Completed by end-August 2016 | 3,180 |
| | Under construction | 3,632 |
| | With planning permission but not yet under construction | 6,513 |
| A. Sub-total – under construction or ready to go | | 13,325 |
| Tier 2 sites | Planning applications lodged | 3,279 |
| | Planning applications to be lodged within 12 months | 6,318 |
| | B. Sub-total – planning system | 9,597 |
| Tier 3 sites | Pre-planning work underway | 12,236 |
| | Feasibility and pre-planning on long-term sites | 12,722 |
| | C. Sub-total – Tier 3 | 24,958 |
| TOTAL (A+B+C) | | 47,880 |

In summary, almost **3,200 units** were delivered through NAMA funding between the start of 2014 and end-August 2016. The increased level of debtor and receiver construction activity is evident from the fact that another **10,000 units** are either under construction or have secured planning permission. In addition, sites with a delivery capacity of **9,600 units** are either in the planning system or will be within twelve months. Pre-planning and feasibility work is underway on other sites which are estimated to have a delivery capacity of **25,000 units**. In addition to the sites that remain within the control of its debtors and receivers, NAMA has overseen the disposal of sites with a delivery capacity of over 29,000 residential units since the start of 2014. To date, it is estimated that about 1,700 units have been delivered or are under construction on these sites.

2. Dublin Docklands SDZ activities

Asset management activity involves developing and implementing value-enhancing strategies that will deliver the best achievable return from property assets under NAMA's control. In addition to its expanded residential delivery funding programme, NAMA's asset management activities in 2017 will be largely focused on facilitating the delivery of office and residential accommodation in the Dublin Docklands SDZ area.

NAMA holds an interest in sites comprising over 75% of the available development land within the SDZ area and it is estimated that up to 3.95 million sq. ft. of gross commercial space and almost 2,000 apartments could be delivered if these sites were to be fully developed over the lifetime of the SDZ.

Since the SDZ Scheme was adopted in May 2014, NAMA has sought to expedite the preparatory work necessary to ensure that construction activity can begin on each of the sites as soon as is feasible, subject to commercial viability. Site-by-site strategies have been developed in close 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.

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

TABLE 2: Progress on NAMA Docklands' sites

| | Commercial (square feet) | Residential (units) |
|--------------------------------|--------------------------|---------------------|
| Projects completed/sold | 47,509 | 100 |
| Construction commenced | 1,388,858 | 231 |
| Planning granted | 1,607,812 | 683 |
| Planning lodged | 9,957 | 124 |
| Pre-planning | 896,303 | 853 |
| TOTAL | 3,950,439 | 1,991 |

¹ Qualifying Investor Alternative Investment Funds/ Irish Collective Investment Vehicles

3. Engagement with debtors and receivers

Since its inception, NAMA has sought to maximise the recovery from its acquired loans by working closely with debtors and receivers to enhance the value, and ultimately the sales proceeds, of the assets securing them. Its extensive deleveraging activity of recent years has resulted in a significant reduction in the portfolio of assets securing its loans. The carrying value of NAMA's loan portfolio at end-June 2016, net of cumulative impairment provision of €2.2 billion, was €6.4 billion (end-December 2015: €7.8 billion).

Among the major sales completed in 2015 was the sale of the Project Arrow loan portfolio which comprised par debt loans of €6.25 billion held by 302 debtor connections which had previously been managed, under delegated authority from NAMA, by the participating institutions (PI) and by a service provider (SP). The sale of Project Arrow, and of the Emerald and Ruby loan portfolios, in conjunction with other deleveraging activity in 2015 and 2016 has reduced significantly the number of debtor connections now dealing with NAMA. The number of debtor connections is expected to have fallen to 150 or less by the end of 2016; this compares with 663 debtor connections which were under NAMA and PI/SP management at the start of 2015.

4. 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. 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 end-August 2016, NAMA had identified 6,839 residential units as potentially suitable for social housing. Confirmation of demand for units is a matter for local authorities and NAMA does not have a role in that regard. Demand has been confirmed by local authorities for 2,792 of the units, of which 2,276 had been delivered or committed by end-August 2016. 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 over the coming years.

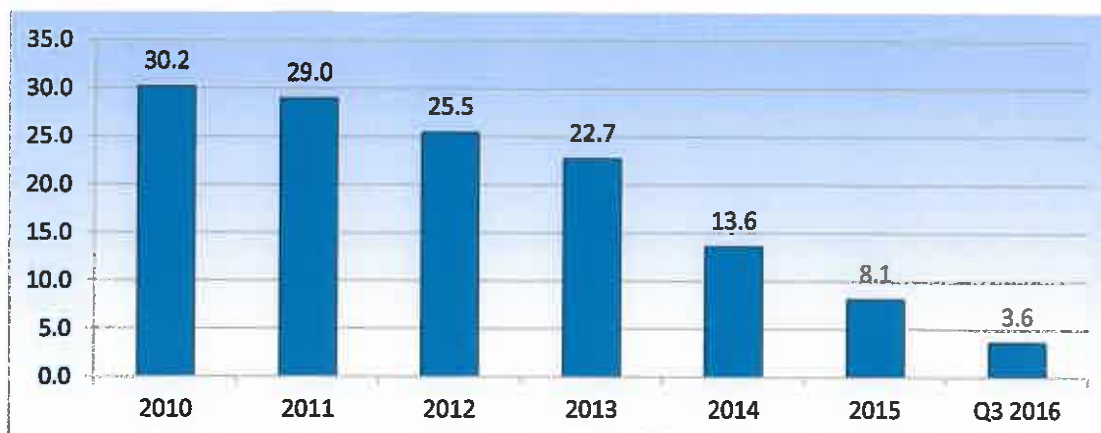
Strategies

The strong performance of the Irish and UK commercial property markets over recent years has enabled NAMA to make major progress towards achieving its primary commercial objective of redeeming all of its €30.2 billion senior debt by 2018. Favourable market conditions facilitated a managed process of asset disposals by debtors and receivers which realised sales proceeds of €20 billion between the beginning of 2014 and end-August 2016. From inception to end-August 2016, NAMA had generated cumulative cashflow of **€36.56 billion** from its loan portfolio. This comprised **€30.84 billion** in asset disposal proceeds and **€5.72 billion** from other income, principally rental income from property assets controlled by debtors and receivers.

These proceeds have enabled NAMA to exceed its target of redeeming 80% of senior debt (a cumulative €24 billion) by the end of 2016: by end-September, €26.6 billion of senior debt had been redeemed, 88% of the €30.2 billion in senior debt originally issued. Given that the residual €3.6 billion senior debt is guaranteed by the Government, this is a contingent liability of Irish taxpayers. The major progress made in reducing that contingent liability over recent years has been cited by a number of credit rating agencies as a contributory factor in their decisions to upgrade Ireland's sovereign credit ratings.

Figure 1 below summarises progress to date in relation to the redemption of senior bonds issued to acquire the NAMA loan portfolio:

FIGURE 1: NAMA Senior Bonds outstanding – end-2010 to Q3/2016 (€bn)



Of the €3.6 billion in senior debt still outstanding, NAMA aims to redeem most of this in 2017. It remains on course to meet its ultimate target of redeeming all senior debt by 2018 and of redeeming its subordinated debt (€1.6 billion) by March 2020. In addition, subject to current conditions being sustained, NAMA expects to produce a surplus within a range of €1.6 billion to €2.3 billion by the time it completes its work.

Resource Allocation

Table 3 below presents the main components of NAMA's projected 2017 Budget:

TABLE 3: Projected 2017 Budget

| | 2017 Budget | 2016 Budget |
|---|----------------|----------------|
| | (€m) | (€m) |
| NAMA Direct Costs | | |
| Primary Servicer/Master Servicer fees | 14 | 30 |
| Reimbursement to NTMA as service provider | 42 | 46 |
| Legal fees | 2 | 7 |
| Asset Recovery/Asset Management | 3 | 7 |
| Finance, communication, technology and other administration costs | 10 | 18 |
| Total - Direct Operating Costs | 72 | 108 |

NAMA's projected 2017 Budget is 33% (€36m) less than the corresponding budget for 2016. The principal element of the projected Budget is the reimbursement to the NTMA for the cost of providing staff and for other services, including HR, IT, office and business services. This is projected to be €42m, 9% less than the corresponding estimate in the 2016 Budget. It reflects a planned reduction in staff numbers from a headcount of 303 at the end-Q2/2016 to 280 at end-Q4/2016 and further to 255 at the end of Q1/2017. Excluding the Executive team of nine, the proposed headcount as at end-March 2017 (246) will be distributed across the six NAMA divisions as follows:

TABLE 4: Projected staffing of NAMA business divisions as of Q1/2017

| Division | Responsibilities |
|---|--|
| Asset Recovery (43 staff) | To implement business strategy, manage debtors, maximise income and minimise loss. |
| Asset Management (20 staff) | 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 (68 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, with a view to delivering 20,000 residential units during the period 2016-2020. |
| Strategy and Communications (10 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 (45 staff) | To provide legal advice on a range of issues relating to the operations of NAMA, including enforcement and the management of litigation. |
| Chief Financial Officer (60 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. |