

Section 53

Annual Statement 2013

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 refers. 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 2013.

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.

Activities

Having completed its acquisition of loans in 2011 and completed its assessment of debtors' viability in 2012, NAMA's establishment phase has now concluded. Its current activities and its activities in 2013 will be heavily focused on asset management, on its management of debtors and on maximising the proceeds to be realised from its portfolio.

1. Debtor engagement

Led by the Asset Recovery Division, this includes managing the implementation of debtor business plans to maximise income and minimise loss, including the direct management of the largest 189 debtor connections. The remaining 591 debtor connections are managed by the participating institutions with Asset Recovery leading the management of these connections in line with NAMA Strategy.

NAMA has approved consensual strategies with about two-thirds of its debtors; ongoing management of these debtors requires regular assessment of their implementation of business plans, approval of new lending, approval of asset sales and decisions in relation to property and asset management. In the case of debtors subject to enforcement, the management of the enforcement process requires intensive involvement by the Asset Recovery, Legal and Insolvency teams.

2. Asset management

This involves developing and implementing value-enhancing strategies that will deliver the best achievable return from certain key property assets under NAMA's control. Significant asset management is undertaken by the Asset Recovery Division and, following the establishment of a dedicated Asset Management Division in 2012, there will be a strong focus in 2013 on identifying and appraising development projects, in conjunction with debtors, receivers and joint venture partners, to enhance cash flows in the period after 2013. NAMA plans to invest, given the right opportunities, at least €2 billion in Ireland in development capital in order to preserve, enhance and complete commercial and residential projects in Ireland over the period to 2016. This includes the completion of properties which are currently under development and the development of land in anticipation of future supply shortages and demand.

3. 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 manages (a) foreign currency risk on about €8 billion of foreign currency loans and (b) interest rate risk on both its assets and liabilities, including some €27 billion of variable rate Senior Notes.

4. Engagement with key stakeholders

This includes engagement with Government and State agencies, public representatives, the media and members of the public.

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 2013 will continue to be geared towards meeting public policy objectives, including, for instance, 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 it can advance public and social policy objectives.

The Agency has dedicated substantial resources, in terms of staffing and systems, to enable extensive financial and management reporting and strategic analysis of its portfolio of loans and underlying property assets. A Portfolio Management System which has been introduced on a phased basis during 2012 provides a consolidated view of acquired assets and underlying security. This will be enhanced to incorporate data from an internet-based GIS planning information system which will significantly inform and augment decision-making, particularly in relation to the utilisation of development land.

In 2013, NAMA will seek to provide as much information on its portfolio and its activities as is possible within legislative and commercial constraints. It will continue to facilitate public scrutiny of its strategies, policies and activities through parliamentary questions and through direct engagement with Ministers, with members of the Oireachtas and with Oireachtas committees.

Strategies

One of the key objectives set by the NAMA Board is to redeem, at minimum, all Senior Bonds by 2020, in addition to recovering its carrying costs and any working and development capital advanced to debtors. Its first key milestone is to repay €7.5 billion of Senior Bonds by the end of 2013. Progress towards this target is monitored, on a quarterly basis, by the EU/IMF/ECB troika and the Board is confident that it will be met. The Agency redeemed €1.25 billion of Senior Notes in 2011 and a further €2 billion in June 2012.

In working towards achieving the above target, NAMA will continue to pursue a number of strategies, notably the following:

1. Phased and orderly disposal of assets
2. Protection and enhancement of available cash flows
3. Initiatives aimed at increasing transactional activity
4. Attracting international capital

1. Phased and Orderly Disposal of Assets

Business plans have been reviewed for all debtor connections. As part of this process, schedules of asset sales by debtors have been agreed and the proceeds from these sales will be used to reduce debtor liabilities and ultimately NAMA's indebtedness. In addition, NAMA will identify property assets which can be enhanced through capital investment so as to yield a substantial return to the taxpayer over time (including an investment of at least €2 billion in Irish assets).

2. Protect and Enhance Cash Flows

A key strategy for NAMA is to optimise the cash flow available from its acquired loans. There will continue to be a focus during 2013 on ensuring that rental income is brought under its control, on significantly reducing debtor overheads, on reversing the transfer of assets to related parties and on obtaining security over unencumbered assets.

3. Increasing transactional activity

There is significant investor interest in NAMA's portfolio but the availability and cost of finance are major constraints, both in Ireland and internationally. To address this, NAMA has

launched a vendor finance programme under which loan finance of up to 75% of the purchase price of NAMA-controlled properties is available to suitable purchasers. The first transaction was completed in April 2012. It is expected that vendor finance will be used increasingly in commercial property transactions completed in the latter part of 2012 and in 2013. NAMA envisages that, ultimately, some €2 billion will be made available in the form of vendor finance.

Liquidity is also a major constraint on residential market activity. In 2012, NAMA launched an initiative – the Deferred Payment Initiative (DPI) - 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 from current levels. The DPI offers limited price protection to buyers for five years. It has been offered on a pilot basis for a small number of properties and it is expected that additional properties, up to a potential total of 750, will be offered for sale on a phased basis during the latter part of 2012 and into 2013.

4. Attracting International Capital

NAMA is keen to attract international capital interested in acquiring loans or property assets under its control and under the control of its debtors and receivers. It has established two loan sales advisory panels to advise and assist it on the sale of loan portfolios. To date, loans with a value in excess of €1 billion have been sold and this is expected to increase over the course of 2013 in response to an active marketing strategy.

Among the other options available to NAMA is to acquire property assets, on an arm's length basis, from receivers (or from debtors who voluntarily cede control of assets) and to package them into various combinations which could then be monetised through sale to investors. NAMA aims to launch at least one qualifying investor fund (QIF) to attract capital from institutional investors such as pension funds and sovereign wealth funds. The QIF will operate as a standalone entity with its own independent directors. The suitability of Real Estate Investment Trust (REIT) structures is also under review and may provide an additional option for monetisation of the portfolio.

Resource Allocation

By the end of August 2012, NAMA had recruited 206 staff². Excluding the Executive team of six, staff are allocated across the various divisions as follows:

TABLE 1: STAFFING OF NAMA BUSINESS DIVISIONS

Division	Responsibilities
Asset Recovery (128)	To implement business strategy, manage debtors, maximise income and minimise loss. Asset Recovery directly manages the largest 189 debtor connections, incorporating nominal debt of €61bn. In addition Asset Recovery leads the recovery management of the residual portfolio which is managed by the participating institutions, comprising nominal debt of €13bn and 591 debtors.
Asset Management (11)	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, particularly in the period after 2013.
Strategy and Communications (8)	To develop organisational strategies that will deliver the best achievable return from acquired assets, and to coordinate engagement with the Oireachtas, media and other key stakeholders.
Legal (28)	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 (25)	To manage a number of key functions, including Finance, Operations, Systems, Treasury, Tax, Audit and Risk.

Staff numbers are expected to increase moderately from current levels over the latter part of 2012 and early 2013. In addition to staff directly employed by NTMA for assignment to NAMA, approximately 550 staff members in three participating institutions – AIB, Bank of

² Other than a small number of staff reassigned from other functions within the NTMA, NAMA staff are employed by the NTMA on the basis of specified purpose contracts - their employment lasts for as long as their particular skills and experience are required by NAMA.

Ireland and IBRC - have also been assigned to deal with NAMA debtors and with the associated administrative work. The projected cost of this service in 2013 is €68m.

In addition to staff, the NTMA provides a number of services to NAMA, including transactions processing, HR, IT, execution of market transactions, Market Risk and Office Services. The cost of these services, which is reimbursed by NAMA on an annual basis, is projected to be €42m in 2013, including staff costs.

Primary service fees payable to participating institutions and costs reimbursed to NTMA are the two main items in NAMA's projected Budget for 2013 which is set out below.

TABLE 2: NAMA PROJECTED 2013 BUDGET

	2013	2012
	Budget	Budget
NAMA Direct Costs	(€m)	(€m)
Primary Servicer/Master Servicer Fees ³	71	78
Legal Fees	13	25
Reimbursement to NTMA as Service Provider	42	44
Accounting/Audit/Tax and other administrative costs	5	7
Asset Recovery/Asset Management	6	10
IT/MIS costs	3	3
Total - Direct Operating Costs	140	167

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