



Gníomhaireacht Náisiúnta um Bhainistíocht Sócmhainní
National Asset Management Agency

26 September 2018

Mr. Paschal Donohoe 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 of the National Asset Management Agency for 2019.

Yours sincerely,


Frank Daly
Chairman


Brendan McDonagh
Chief Executive Officer



Section 53 Annual Statement 2019

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 2019.

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 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.***

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. 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 (pages 5-6), major progress has been made since mid-2014 on the development of the Docklands SDZ with the result that the majority of the sites are now 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 4-5).

Activities

NAMA's principal focus in 2019 will be on pressing ahead with its Docklands and residential funding initiatives. 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 €3.2 billion (net of impairment) by the end of 2017. Much of the residual portfolio is 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.

1. Residential Housing Initiative

Under Section 10 of the NAMA 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 2018	7,881
Under construction	2,862
With planning permission but not yet under construction	8,144
A. Sub-total – completed, under construction or ready to go	18,887
Planning applications lodged	387
Planning applications to be lodged within 12 months	7,652
B. Sub-total – planning system	8,039
Pre-planning work underway	10,203
Feasibility and pre-planning on long-term sites	4,635
C. Sub-total – Tier 3	14,838
TOTAL (A+B+C)	41,764

In summary, almost **7,900 units** have been delivered through NAMA funding between the start of 2014 and end-August 2018. Another **11,000 units** are either under construction or

have secured planning permission. In addition, sites with a delivery capacity of over **8,000 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 over **14,800 units**.

In addition to the activity outlined above, it is estimated that over 2,400 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 October 2017, Dublin City Council approved the Poolbeg West Planning Scheme. The Poolbeg West SDZ has the potential to provide up to 3,500 residential units and 860,000 sq. ft. of commercial development as well as school sites and community space. The development of Poolbeg West will make a strong contribution to the residential needs of Dublin as it is one of the few large, centrally located, development opportunities in the city. A NAMA-appointed receiver is working with Dublin City Council and the Department of Housing, Planning and Local Government to advance the Poolbeg West SDZ. Final adoption of the Poolbeg planning scheme by An Bord Pleanála is expected to occur in Q1 of 2019.

2. Dublin Docklands SDZ activities

In addition to its expanded residential delivery funding programme, NAMA's asset management activities in 2019 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

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

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 **61%** of the commercial space; planning permission has been obtained for another **21%** and NAMA has sold or agreed the sale of its interest in the remaining **18%** 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.

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	0.76	797
Construction commenced	2.56	606
Planning granted	0.88	780
TOTAL	4.20	2,183

3. Engagement with debtors and receivers

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. The carrying value of NAMA's loan portfolio, net of impairment, at end-December 2017 was €3.2 billion, down from €3.9 billion at the end of 2016. The loan portfolio is expected to reduce further in 2018 and 2019 with almost all of the planned deleveraging expected to be completed by the end of 2019, other than loans which are the subject of litigation or which are secured by assets which have the capacity to contribute to the residential delivery and Dublin Docklands SDZ programmes.

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.

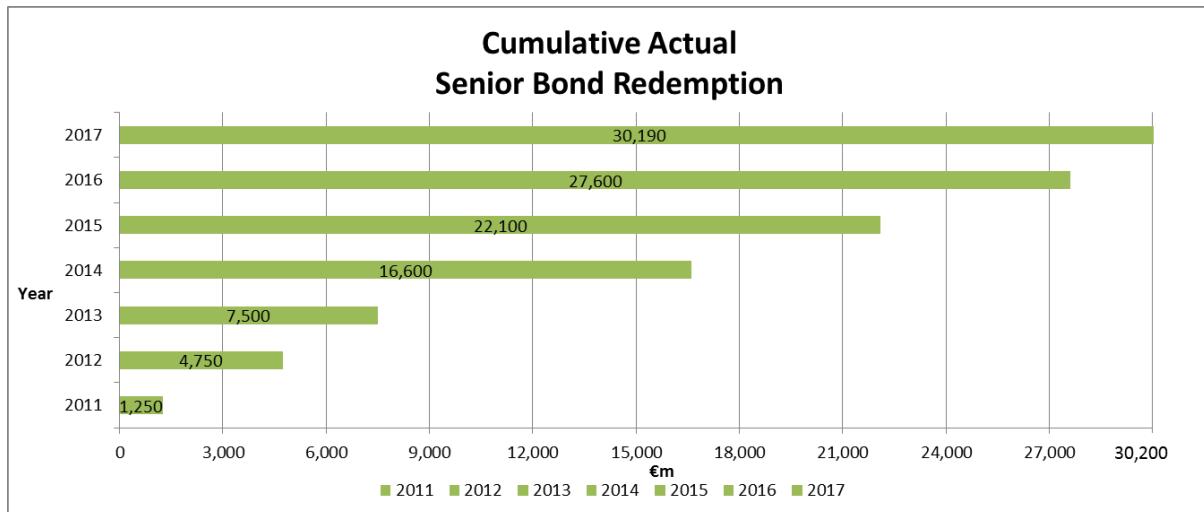
Up to end-June 2018, NAMA had identified **6,984** residential units as potentially suitable for social housing. Confirmation of demand for units is a matter for local authorities and demand was confirmed for **2,717** of the units, of which **2,474** had been delivered or committed by end-June 2018. 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.

Strategies

The strong performance of the Irish and UK commercial property markets over recent years facilitated a managed process of 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. From inception to end-August 2018, NAMA had generated cumulative cashflow of **€42.6 billion** from its loan portfolio. This comprised **€37 billion** in asset disposal proceeds and **€5.6 billion** from other income, principally rental income from property assets controlled by debtors and receivers.

NAMA achieved its primary objective of redeeming its senior debt and thereby eliminating a significant contingent liability of the Irish State some three years ahead of schedule in October 2017. **Figure 1** below summarises progress on the redemption of senior debt between 2011 and 2017. 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 €3.5 billion to the Exchequer by the time it completes its work.

FIGURE 1: NAMA Senior Bond redemptions (€bn)



Resource Allocation

Table 3 below presents the main components of NAMA's projected 2019 Budget:

TABLE 3: Projected 2019 Budget

	2019 Draft Budget	2018 Final Budget
NAMA Direct Costs	(€m)	(€m)
Primary Servicer/Master Servicer fees	9	12
Reimbursement to NTMA as service provider	45	41
Legal fees	6	6
Asset Recovery/Asset Management	6	5
Finance, communication, technology and other administration costs	18	22
Total - Direct Operating Costs	85	85

The principal element of NAMA's projected 2019 Budget is the reimbursement to the NTMA for the cost – a projected €45m - of providing staff and for other services, including HR, IT, office and business services. The Budget provides for a staff headcount of 258 at the start of

2019. Staff numbers are expected to fall over the course of 2019 as NAMA completes much of its remaining deleveraging activity, particularly in the Asset Recovery and Asset Management areas which have now been merged into one division.

Excluding the Executive team, the proposed headcount in early 2019 will be distributed across the five NAMA divisions as follows:

TABLE 4: Projected staffing of NAMA business divisions as at January 2019

Division	Responsibilities
Asset Management and Recovery (53 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 (86 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 (6 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 (47 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 (58 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.