



**Gníomhaireacht Náisiúnta um Bhainistíocht Sócmhainní**  
**National Asset Management Agency**

29 September 2017

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 2018.

Yours sincerely,

**Frank Daly**  
Chairman

**Brendan McDonagh**  
Chief Executive Officer

## Section 53

# Annual Statement 2018

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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 2018.

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

## Objectives

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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 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, 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, 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).

NAMA's work has been conducted through three distinct phases of activity. The first phase involved acquiring €74 billion in loans from the participating institutions, recruiting the requisite expertise to manage the acquired portfolio and putting in place a governance framework that balanced the need for commercial agility with public accountability. The second phase involved engaging intensively with debtors and receivers, working assiduously to enhance asset values and implementing asset disposal schedules. NAMA has now entered the third phase of its evolution which involves completing its remaining deleveraging activity and implementing its residential delivery and Dublin Docklands SDZ programmes by 2020.

## Activities

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Much of NAMA's focus in 2018 will be on ensuring that additional progress is made on its Docklands and residential funding initiatives. Following the major progress that was made in terms of portfolio deleveraging, particularly over the period from 2014 to 2016, the carrying value of the loan portfolio had fallen to €3.9 billion by the end of 2016. As a result, asset disposal activity in 2017 and in later years will reduce significantly by comparison with the 2014-2016 period.

### ***1. Residential Housing Initiative***

NAMA has a statutory obligation under Section 10 of the NAMA Act 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 that statutory obligation.

NAMA made a commitment in late 2013 to facilitate the completion of 4,500 new residential units in the period 2014-2016. That target was exceeded with over 4,700 units delivered.

In late 2015, 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 sales prices prevailing 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-September 2017	5,566
Under construction	2,886
With planning permission but not yet under construction	6,373
<b>A. Sub-total – completed, under construction or ready to go</b>	<b>14,825</b>
Planning applications lodged	4,568
Planning applications to be lodged within 12 months	5,621
<b>B. Sub-total – planning system</b>	<b>10,189</b>
Pre-planning work underway	11,965
Feasibility and pre-planning on long-term sites	5,816
<b>C. Sub-total – Tier 3</b>	<b>17,781</b>
<b>TOTAL (A+B+C)</b>	<b>42,795</b>

In summary, over **5,500 units** were delivered through NAMA funding between the start of 2014 and end-September 2017. Another **9,300 units** are either under construction or have secured planning permission.

In addition, sites with a delivery capacity of over **10,000 units** are either in the planning system or will be within twelve months. These include the Irish Glass Bottle/Fabrizia site (part of the Poolbeg West SDZ) which is under the control of a receiver appointed by NAMA. This major site has the potential to deliver in excess of 3,000 residential units, in addition to commercial, educational and cultural facilities, over a period of seven to ten years. NAMA and the receiver, in conjunction with Dublin City Council, continue to devote much effort towards expediting its development.

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 **17,700 units**.

In addition to the activity outlined above, it is estimated that some 1,363 units have been delivered or are under construction on sites for which NAMA had funded planning

permission but which were subsequently sold or where the associated loans were subsequently sold or refinanced.

## **2. Dublin Docklands SDZ activities**

In addition to its expanded residential delivery funding programme, NAMA's asset management activities in 2018 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 4m square feet of commercial space and over 2,000 residential units. Site-by-site strategies were developed in conjunction with receivers, joint venture partners and QIAIF/ICAV<sup>1</sup> partners and following engagement with relevant 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 **48%** of the commercial space; planning permission has been obtained or lodged for another **27%** and pre-planning work is underway on another **8%**. NAMA has sold its interest in the remaining **17%** of commercial space. Most of the development work being carried out in the Docklands SDZ is being funded through private capital without taxpayers' money being placed at risk.

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

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

**TABLE 2: Progress on NAMA Docklands' sites**

	Commercial (square feet)	Residential (units)
Projects completed/sold	698,325	647
Construction commenced	1,932,437	478
Planning granted/lodged	1,055,610	904
Pre-planning	309,412	150
<b>TOTAL</b>	<b>3,995,784</b>	<b>2,179</b>

It is expected that some of the projects currently under construction will be completed in 2018 and that projects currently at the pre-planning stage will progress towards development.

### **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. Its extensive deleveraging activity of recent years has resulted in a significant reduction in the portfolio of assets securing its loans. Among the major transactions executed in 2016 were the sale of a number of multi-connection loan portfolios (Projects **Emerald**, **Ruby** and **Gem**) which totalled €6.7 billion in par debt and a number of single or connected debtor portfolios, including **Project Abbey**, **Project Beara** and **Project Tolka**, which aggregated €2.3 billion in par debt.

The carrying value of NAMA's loan portfolio, net of impairment, at end-December 2016 was €3.9 billion. The corresponding figures for end-2015 and end-2014 were €7.8 billion and €13.4 billion respectively. The loan portfolio is expected to reduce further throughout 2017 and 2018 but at a slower pace than in earlier years. This is partly because approximately 60% of the portfolio relates to the residential delivery and Dublin Docklands SDZ programmes which are expected to remain active until 2020.



It is also because the other 40% of the loan portfolio is secured by a large number of low-value assets and by assets which involve litigation and other complications which NAMA seeks to resolve. Notwithstanding the slower progress of the final phase of disposal, NAMA expects that much of its deleveraging will be completed by the end of 2018.

#### **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 August 2017, NAMA had identified **6,945** 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 **2,768** of the units, of which **2,398** had been delivered or committed by August 2017. 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**

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The strong performance of the Irish (2014-2017) and UK (2010-2016) 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 in excess of €3 billion over the three-year period from 2014 to 2016.

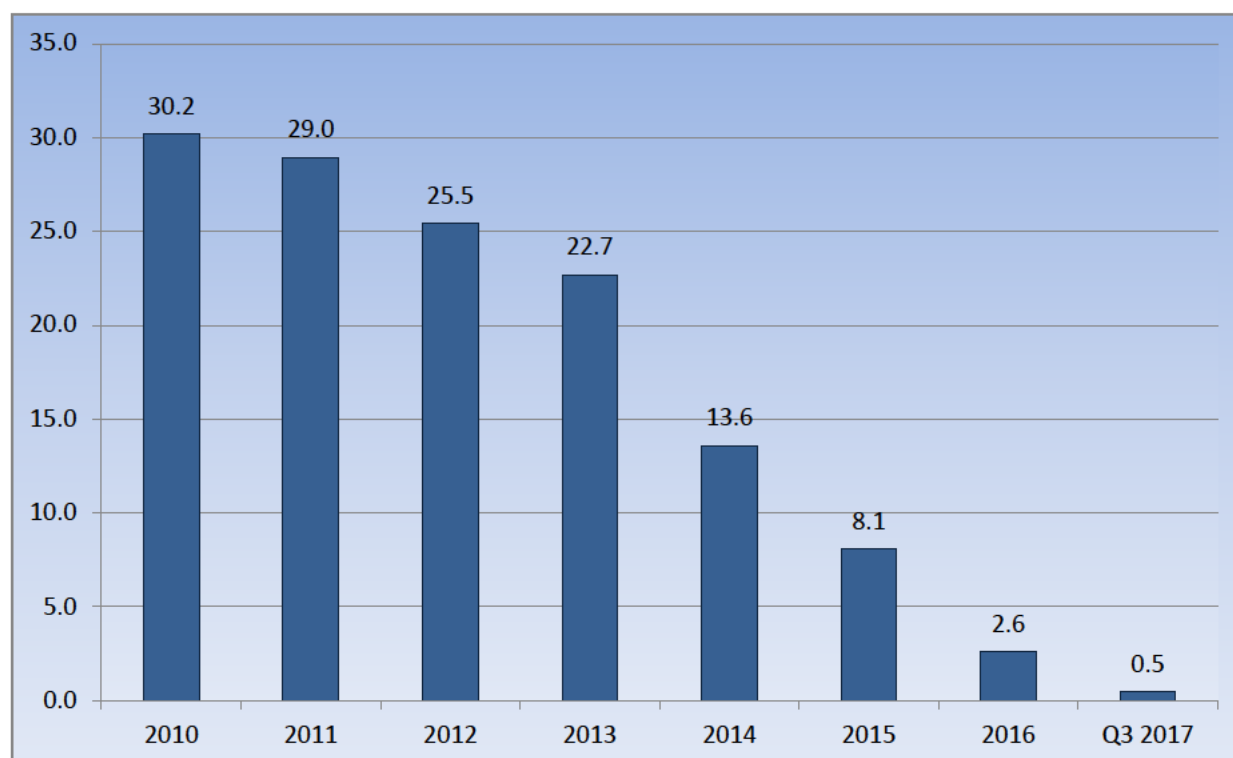
From inception to end-August 2017, NAMA had generated cumulative cashflow of **€39.8 billion** from its loan portfolio. This comprised **€33.7 billion** in asset disposal proceeds and

**€6.1 billion** from other income, principally rental income from property assets controlled by debtors and receivers.

These proceeds have enabled NAMA to redeem €29.7 billion of senior debt by the end of September 2017, 98% of the €30.2 billion in senior debt originally issued. NAMA aims to redeem the residual €500m in the last quarter of 2017. It remains on course to redeem its subordinated debt (€1.6 billion) by March 2020 and, subject to current market conditions being sustained, to produce a surplus of up to €3 billion by the time it completes its work.

**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 Q3/2017 (€bn)***



## Resource Allocation

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**Table 3** below presents the main components of NAMA's projected 2018 Budget:

***TABLE 3: Projected 2018 Budget***

	<b>2018 Draft Budget</b>	<b>2017 Final Budget</b>
<b>NAMA Direct Costs</b>	<b>(€m)</b>	<b>(€m)</b>
Primary Servicer/Master Servicer fees	10	14
Reimbursement to NTMA as service provider	41	44
Legal fees	3	3
Asset Recovery/Asset Management	3	3
Finance, communication, technology and other administration costs	21	20
<b>Total - Direct Operating Costs</b>	<b>78</b>	<b>84</b>

NAMA's projected 2018 Budget is 7% (€6m) less than the corresponding budget for 2017.

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 €41m, 7% less than the corresponding estimate in the 2017 Budget.

The 2018 Budget provides for a staff headcount of 256 at the start of 2018. This reflects a small reduction from the headcount of 261 at the start of 2017 (excluding staff members who departed during the early part of 2017 as part of the 2016 Voluntary Redundancy Programme). The smaller loan portfolio has reduced the staffing requirement in the Asset Recovery division and in a number of other divisions but this has been largely offset by the increase in the number of staff required to manage NAMA's expanded Residential Delivery programme.

Excluding the Executive team, the proposed headcount in early 2018 will be distributed across the six NAMA divisions as follows:

***TABLE 4: Projected staffing of NAMA business divisions as at January 2018***

<b>Division</b>	<b>Responsibilities</b>
<b>Asset Recovery</b> (35 staff)	To implement business strategy, manage debtors, maximise income and minimise loss.
<b>Asset Management</b> (19 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.
<b>Residential Delivery</b> (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.
<b>Strategy and Communications</b> (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.
<b>Legal</b> (40 staff)	To provide legal advice on a range of issues relating to the operations of NAMA, including enforcement and the management of litigation.
<b>Chief Financial Officer</b> (57 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.