



Gníomhaireacht Náisiúnta um Bhainistíocht Sócmhainní
National Asset Management Agency

30 September 2015

Mr Michael Noonan TD
Minister for Finance
Government Buildings
Merrion Street
Dublin 2

Dear Minister,

We have the honour to submit to you the Section 53 Annual Statement for 2016 of the National Asset Management Agency.

Yours sincerely

Frank Daly
Chairman

Brendan McDonagh
Chief Executive Officer

Section 53 Annual Statement 2016

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 2016.

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 during 2015 the key objectives that guide its strategy and policies and reformulated them as follows:

- 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 SDZ; 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 will facilitate the completion of 4,500 new residential units in the Dublin area in the period to the end of 2016 and, through intensive asset management of residential sites, will aim to ensure that additional new supply can be delivered as expeditiously as possible thereafter, particularly in Dublin.**

- 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.**

During 2014, the strong performance of the Irish commercial property market prompted a reassessment by the Board of the timeframe over which its key objectives could be achieved. Given the opportunities provided by the more supportive market conditions, the Board decided in 2014 that its primary commercial objective (the first objective outlined above) could best be achieved through a managed and orderly process of accelerating disposals.

The improved liquidity in the Irish market, which emerged in 2013 and gathered momentum in 2014, has continued into 2015 and has enabled NAMA to release a substantial flow of Irish property assets and loans for sale. The resultant increase in transactional activity has also contributed to meeting the Board's second objective – to generate transactions aimed at sustaining the strong performance of the Irish market.

Arising from this increased transactional capacity, the Board set a revised debt redemption target: to redeem, at minimum, 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.

In 2014, the Board also adopted a number of new strategic objectives. Against the background of an emerging shortage of prime office accommodation in central Dublin and of residential accommodation throughout the Greater Dublin area, the Board 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 direct funding, but also

in bringing coherence, direction and drive to the development process. As part of his 2014 Section 227 review, the Minister for Finance endorsed the Board's plans for the delivery of office accommodation within the Dublin Docklands area and its plans to maximise the delivery of residential housing units in areas of most need.

Activities

NAMA's activities in 2016 will continue to be focused on the 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

Asset Recovery activities include ensuring that assets controlled by debtors and receivers are offered for sale to the market in line with asset disposal schedules. 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 making decisions in relation to property and asset management. In the case of debtors subject to enforcement, the management of the enforcement process requires intensive NAMA involvement.

From inception to 2015, NAMA has directly managed the loans of the largest debtor connections. It has also overseen the management of the loans portfolio of smaller debtor connections which has been managed on a day-to-day basis, under delegated authority from NAMA, by a number of participating institutions and by a services provider, Capita Asset Services (the *PI/SP portfolio*).

In July 2015, the PI/SP portfolio – comprising par debt of €7.2 billion and some 340 debtor connections – was placed on the market in a loan sales process (*Project Arrow*). If, as planned, the sale completes in Q4 of 2015, the residual NAMA loans portfolio as at the start of 2016 is likely to comprise approximately 165 debtor connections with projected NAMA debt (pre-impairment) of the order of €10 billion which will be directly managed by NAMA.

This compares with 663 debtor connections which were under NAMA and PI/SP management at the start of 2015.

Residential Housing

As part of its contribution to address emerging residential supply shortages in the Greater Dublin area (GDA), 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 GDA in the period to the end of 2016 and to work towards maximising the delivery of additional units in the years thereafter.

As of end-August 2015, **1,841** residential units had been delivered¹ and planning permission had been secured for another **6,350** units, 1,600 of which were under construction.

The focus for the period to **end-2016** will be on fulfilling the **4,500** unit delivery target and on driving progress towards securing planning permission for additional housing:

- In addition to the 1,841 units already delivered and the 6,350 units for which planning permission has been obtained, planning permission has been sought or will be sought by mid-2016 for another estimated **7,200** units.
- Sites capable of producing another estimated **12,600** units are at the pre-planning assessment stage and NAMA will press ahead with securing planning permission for those sites which prove to be commercially viable to develop.
- In addition, NAMA is currently engaging with debtors, receivers, local authorities and other agencies with the aim of removing impediments to development on a number of large residential sites (**Tier 3** sites) which have capacity to deliver an estimated **13,200** units.

¹ In addition, it is estimated that another 916 units have been completed or are under construction on sites secured by NAMA loans which have been sold or refinanced since January 2014.

In total, therefore, NAMA is working to fund the completion or to otherwise facilitate the delivery of over **41,000** residential units in the GDA.

In addition, since January 2014, sales and refinancing activity by NAMA debtors and receivers has resulted in the disposal of 68 sites which have capacity to deliver another **11,100** residential units in the GDA.

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 under NAMA's control.

NAMA's asset management activities in 2016 will be largely focused on two areas:

1. Completing its development programme for a number of major residential projects in London.
2. Developing and implementing its plans for 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 in May 2014, future planning applications which are consistent with the scheme must be granted permission. 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. NAMA holds an interest in sites comprising over 75% of the available development land within the SDZ area and one of its major priorities is 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 14 of the development blocks in the SDZ (the extent of its interest ranges from 15% to 100%, depending on the ownership structure of each site). Based on appraisal work carried out to date, it is estimated that up to 3.8 million sq. ft. of gross commercial space and 2,000 apartments could potentially be delivered if all the sites in which NAMA has an interest were to be fully developed over the lifetime of the SDZ.

Since adoption of the SDZ in May 2014, NAMA's main focus has been on expediting 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. This has included feasibility assessments, the resolution of title and ownership issues, the development of site strategies, masterplanning and the preparation and submission of planning applications, the commissioning and funding of site decontamination and demolition work on certain sites, facilitating the provision of infrastructure (where appropriate) and the preparation of detailed design work.

Detailed strategies have now been developed for most of the 14 SDZ sites in which NAMA has an interest:

- Construction activity has begun on **one** of the sites, 8 Hanover Quay, in which NAMA holds a minority interest as part of a QIAIF^[1]. The development is pre-let.
- Planning permission has been granted for **three** other sites, including the Boland's Mill site which is expected to deliver office, residential, cultural and retail accommodation totaling almost 400,000 sq. ft.
- Planning applications have been submitted to Dublin City Council on a further **five** sites. These include:
 - A site at 72-80 North Wall Quay for which Oxley Holdings Limited acquired a long leasehold interest from NAMA with the right to develop, manage and

^[1] Qualifying Investor Alternative Investment Fund

realise the site. NAMA retains the freehold interest and will receive a secure income stream in addition to a percentage of any future sales proceeds.

- A site in Point Village where the proposed development will consist of Dublin's tallest office tower (17 storeys), comprising over 200,000 sq.ft.
- Of the remaining five sites, it is expected that planning applications will be lodged for one of them in the third quarter of 2015 with two more to follow in early 2016.
- In addition, a planning application is expected to be lodged for a planned new north/south road serving the Point Village area.

NAMA's approach varies from site to site. Four of the sites are controlled by QIAIFs in which NAMA holds minority interests. Strategies are being developed in close conjunction with receivers, joint venture partners and QIAIF partners and following engagement with other relevant stakeholders, notably Dublin City Council, the development agency and planning authority for the area. Subject to planning permission, it is expected that construction activity will begin on a majority of the 14 sites in 2016.

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 2016 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 it can advance public and social policy objectives.

Social housing

To end-August 2015, NAMA had identified 6,590 residential units as potentially suitable for social housing. Demand has been confirmed by local authorities for 2,554 of these. Delivery of the units, which is a priority for NAMA, 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.

Up to end-August 2015, almost 1,500 units had been delivered. By the end of 2015, the number of units delivered is expected to approach 2,000 with the residual units to be delivered in early 2016. Subsequently, any social housing delivered will be under Part V arrangements as part of the funding of new residential delivery.

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 €2 billion of foreign currency loans and (b) interest rate risk on both its assets and liabilities, including some €9 billion² of variable interest rate Senior Notes issued to various financial institutions.

Strategies

One of the key objectives of the NAMA Board is to redeem all €30 billion of its senior debt by 2018. As a major interim milestone, the Board has set a target of redeeming at least 80% of senior debt by end-2016. Strong levels of Irish market activity in 2014 and 2015 enabled NAMA to increase the volume of asset and loan disposals and this was reflected in an accelerated rate of debt redemption. As at end-September 2015, €21.1 billion of senior debt has been redeemed – 70% of the total senior debt originally issued. Given that it is guaranteed by the Government, NAMA's senior debt is a contingent liability of Irish taxpayers. A number of credit rating agencies have referred to NAMA's accelerated debt

² This is the balance outstanding as at 30 September 2015

redemption programme as a contributory factor in their decisions to upgrade Ireland's sovereign credit ratings.

Table 1 below summarises progress to date in relation to the redemption of senior bonds 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	4.75	
2013	2.75	7.50	
2014	9.10	16.60	
2015 (to end-September)	4.50	21.10	
2016			24.00
2018			30.20

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.

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 deleveraging work by 2018.

Portfolio cashflow generation and transactional activity

Up to late September 2015, NAMA had generated cashflow of €29 billion from its loan portfolio. This comprised €23.5 billion in asset disposal proceeds and €5.5 billion from other income, principally rental income from property assets controlled by debtors and receivers. A feature of Irish market activity has been the high level of interest in large transactions from a broad range of investors including US private equity firms, sovereign wealth funds, major European institutional funds and domestic investors including a number of REITs established in Ireland in recent years. Almost 50% of 2015 disposal transactions (by value) involved Irish assets.

In 2016, 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 €2.9 billion of senior debt in the period from end-September 2015 to the end of 2016. It is expected that a number of substantial loan portfolios which were offered for sale during the third quarter of 2015 will make a major contribution towards meeting the end-2016 debt redemption target. NAMA will also act to sustain the positive momentum in the market by ensuring that a pipeline of asset portfolios is available for sale to international and domestic investors.

Resource Allocation

NAMA's operating costs since inception – 2.5% of cash generated - compare favourably with comparable international institutions.

Table 2 below presents the main components of NAMA's projected 2016 Budget:

TABLE 2: NAMA PROJECTED 2016 BUDGET

	2016	2015
	Budget	Budget
NAMA Direct Costs	(€m)	(€m)
Primary Servicer/Master Servicer fees	30	46
Reimbursement to NTMA as service provider	57	62
Legal fees	7	10
Asset Recovery/Asset Management	6	5
Finance, communication, technology and other administration costs	15	17
Total - Direct Operating Costs	115	141

NAMA's projected 2016 Budget is 18% (€26m) less than the corresponding budget for 2015. This is largely due to the impact of the reduction in the NAMA loan portfolio on loan servicing costs. The Budget assumes that the sale of the Arrow portfolio will complete, as planned, in Q4 2015 and that accordingly loan servicing fees payable to AIB and Capita Asset Services will reduce substantially in 2016.

The principal element of the projected Budget is the reimbursement to NTMA for the cost of providing staff and for other services, including HR, IT, office and business services. This is projected to be €57m, 8% down on the corresponding estimate in the 2015 Budget. It reflects a planned reduction in staff numbers from a peak headcount of 370 staff in January 2015 to a headcount of 292 by end-2015. It is planned, based on current strategy, to reduce staff numbers by another 167 to 125 by the end of 2016. Excluding the Executive team of eight, the proposed end-2015 headcount (284) across the various divisions is as follows:

TABLE 3: PROJECTED END-2015 STAFFING OF NAMA BUSINESS DIVISIONS

Division	Responsibilities
Asset Recovery (132 staff)	To implement business strategy, manage debtors, maximise income and minimise loss. Asset Recovery directly manages the largest debtor connections and oversees the recovery management of the PI/SP residual portfolio which is managed on a day-to-day basis by AIB and Capita Asset Services.
Asset Management (23 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.
Strategy and Communications (11 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 (51 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 (67 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.