



**Comptroller and Auditor General
Special Report**

National Asset Management Agency

Second Progress Report

Report of the Comptroller and Auditor General

National Asset Management Agency

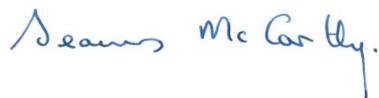
Second Progress Report

The National Asset Management Agency (NAMA) was established in December 2009 under the National Asset Management Agency Act 2009 (the Act).

Pursuant to Section 226 of the Act, I have assessed the extent to which NAMA has made progress toward achieving its overall objectives, as at end 2016.

This report was prepared on the basis of work undertaken by staff of my Office, drawing on information, documentation and explanations obtained from the bodies and persons referred to in the report. NAMA and the Department of Finance were asked to review and comment on the draft report. Where appropriate, the comments received were incorporated in the final version of the report.

I hereby submit my report for presentation to the Houses of the Oireachtas in accordance with Section 226 of the Act.



Seamus McCarthy
Comptroller and Auditor General

29 June 2018

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Summary

Summary

The National Asset Management Agency (NAMA) was established in December 2009 as part of the State's response to the 2008 banking crisis. The purposes and functions of NAMA are specified in the National Asset Management Agency Act 2009.

The core idea was for NAMA to acquire property-related loans from the commercial banks, to hold and manage the loans and related collateral — mainly property — and ultimately to dispose of all these assets in a manner that protected the State's interests. NAMA would then cease to exist.

This report assesses the extent to which NAMA has made progress in achieving its overall objectives. It considers progress in the context of the purposes of NAMA as set out in the Act and of strategic objectives set by NAMA's Board, namely

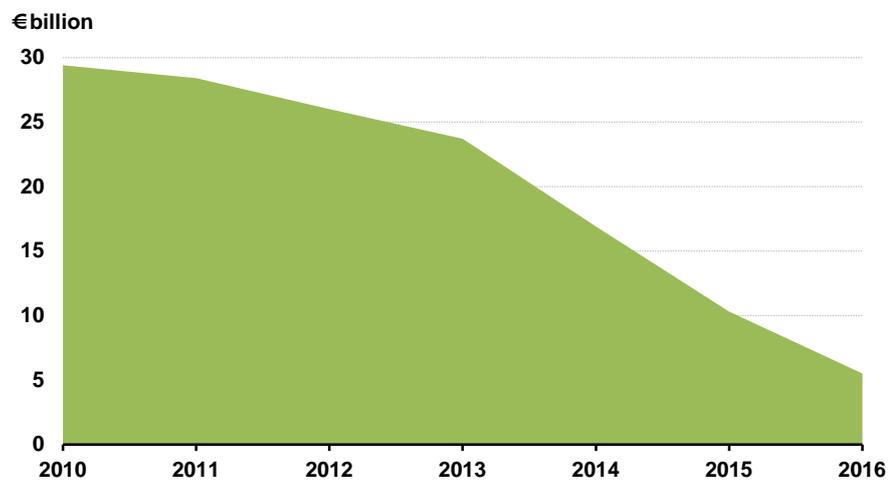
- at a minimum, to redeem senior debt and to meet all costs incurred by NAMA over its life — intermediate debt redemption targets were also set
- recover all costs over the projected ten year life of NAMA without recourse to further borrowing, meeting all of its future commitments from its own resources, over the shortest possible timeframe
- to optimise the realised value of assets.

The report also examines the disposal by NAMA of the underlying collateral (asset sale) and of loans (loan sale).

Loans and receivables

The loans acquired by NAMA from the participating institutions are classified as loans and receivables. The stock of loans reduced from €29.4 billion at the end of 2010 to €5.5 billion at the end of 2016, a reduction of just over 80%.

Loans and receivables



Source: NAMA

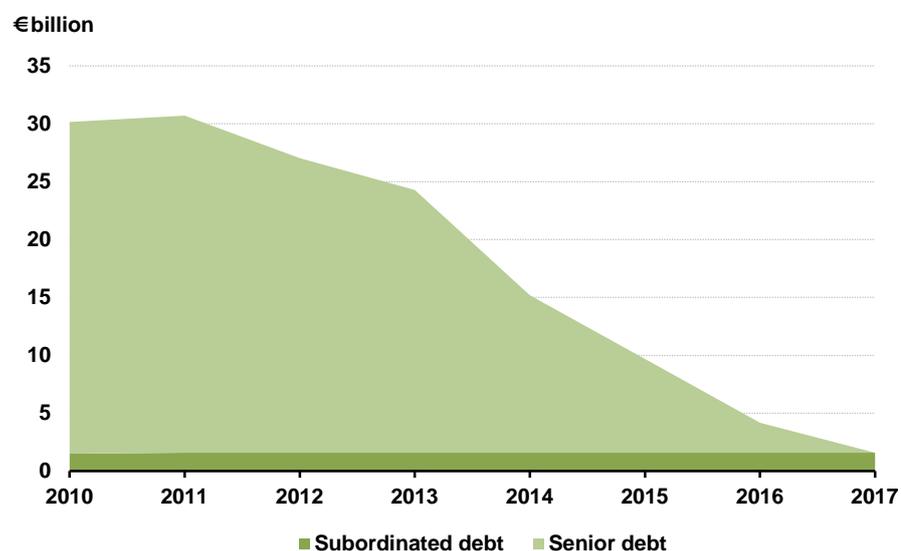
Redemption of senior debt

NAMA paid the banks €31.8 billion for the assets it acquired — €30.2 billion in government guaranteed (senior) bonds and €1.6 billion in subordinated debt.

In 2012, NAMA was forecasting full debt redemption by 2020, and adopted a phased disposal strategy to achieve this. In 2014, NAMA accelerated its disposal programme and set a debt redemption target of 80% by the end of 2016.

By the end of 2016, NAMA had exceeded its target, having redeemed 91% of its senior debt. The redemption of all senior debt was completed in October 2017, significantly ahead of the original target.

Debt redemption



Source: NAMA

Cost recovery

NAMA reported a cumulative gain of just over €3 billion to the end of 2016. Subsequently, the NAMA Board announced that it expects to return a surplus of €3 billion to €3.5 billion to the exchequer upon completion of the Agency's work, assuming market conditions remain favourable.

Up to the end of 2016, NAMA had generated €5.3 billion in rental and other non-disposal income relating to its loans. It incurred interest and similar expenses of €2.18 billion and €741 million in operating costs.

The largest expense recognised in the period 2010 to 2016 is the net charge made for impairment on loans and receivables of €3.9 billion.

Realised value of assets

By the end of 2016, NAMA had generated sales proceeds of €32.2 billion — €21.8 billion through the sale of underlying collateral and €10.4 billion through loan sales. Over €25 billion (78%) of the proceeds were generated in the four years 2013 to 2016. Up to the end of 2016, NAMA reported a cumulative net profit on disposal of debtor loans and surplus income of €4.2 billion.

The examination reviewed the disposal process for a sample of 80 property disposals with combined gross proceeds of €2.7 billion. The review examined the valuations, open marketing and other aspects of the process. Overall, the examination found evidence that almost all of the sales reviewed were disposed of through an open competitive process, or with regard to market prices.

The examination also reviewed the processes applied by NAMA in eleven loan sales covering the period 2011 to 2016. Two of the loan sales were not standard loan sale projects. In the case of three of the remaining nine loan sales, departures from the standard procedures were noted — the circumstances which gave rise to the non standard process are explained in chapter 6.

Rate of return

The Act requires NAMA to obtain 'the best achievable financial return' for the State. In 2014, NAMA set an **entity return on investment (EROI)** target of 20% to be achieved over its projected lifetime.¹ NAMA's projected EROI as at the end of 2016 was 33% i.e. 1.6 times the target. However, this measure does not take account of the time value of money.

While **internal rate of return** is a standard performance metric for property-related investments, NAMA does not use that measure. The payments to the banks were based on projected cash flows for each loan, discounted at an average rate of around 5% — an implied internal rate of return. At the end of 2012, the projected internal rate of return on the NAMA investments was around 3.8%, reflecting the decline in Irish property values that occurred after NAMA acquired the loans. In line with the subsequent strong recovery in the property market, the projected internal rate of return as at the end of 2016 is around 6.2%.

Other objectives

NAMA adopted a secondary objective, expressed in general terms: to make a positive social and economic contribution across the broad range of activities. The Board expressed this in strategies, viz

- facilitation of the delivery of residential units, and
- facilitation of the delivery of Grade A office accommodation in the Dublin Docklands Strategic Development Zone (SDZ).

In 2014, NAMA committed to delivering 4,500 new residential units to service the Dublin market over the three years to the end of 2016. In 2015, the target was replaced with a national target of 20,000 up to the end of 2020. NAMA estimated the total funding required for the 20,000 units would be in the region of €5.6 billion. At the end of 2016, it had delivered 4,647 units and was forecasting the delivery of 3,500 in 2017 and a further 14,000 between 2018 and 2020.

¹ NAMA's 2016 Annual Report (page 46) states that "EROI is calculated based on the comparison of NAMA's projected terminal surplus (€3 billion) with NAMA's initial investment, as adjusted to exclude the €5.6 billion in State aid which NAMA was required to pay to the participating institutions as part of the loan acquisition price."

In relation to the SDZ, the Board approved in 2014 initial strategies for the NAMA controlled sites and estimated gross development costs of €1.9 billion in the period 2016 to 2020.

National Asset Management Agency

Second Progress Report

1 Introduction

- 1.1** The National Asset Management Agency (NAMA) was established in December 2009 as part of the State's response to the banking crisis that had emerged in 2008. NAMA was established under the National Asset Management Agency Act 2009 (the NAMA Act) as a separate statutory body, with its own Board and Chief Executive Officer appointed by the Minister for Finance (the Minister).
- 1.2** The statutory purposes specified for NAMA in the Act required it to
- acquire impaired assets from the credit institutions participating in the NAMA scheme
 - deal expeditiously with the assets
 - protect, or otherwise enhance their value in the interests of the State and
 - insofar as possible and consistent with those purposes, obtain the best achievable financial return for the State.
- 1.3** Under the Act, NAMA was given extensive powers to enable it to carry out its functions in order to achieve its statutory purposes. It is also required to comply with written directions of the Minister concerning the achievement of the purposes of the Act.

Objectives and target setting

- 1.4** In accordance with section 18 of the Act, one of the functions of the Board of NAMA is to set the strategic objectives and targets of NAMA.
- 1.5** NAMA's initial strategic plan (June 2010) was superseded by a revised plan which was approved by the Board in March 2012. NAMA's primary commercial objectives were defined in the revised plan as being to
- redeem, at minimum, the senior bonds issued as consideration for loans
 - recover all costs over the projected ten year life of NAMA without recourse to further borrowing, meeting all of its future commitments from its own resources, over the shortest possible timeframe
 - optimise the realised value of assets acquired.
- 1.6** A secondary objective was expressed in general terms, to make a positive social and economic contribution across the broad range of its activities.
- 1.7** In 2014, following an external review of NAMA's strategic options, the Board decided to pursue a programme of accelerated disposal and early redemption of senior debt. While the strategic plan itself was not updated, internal targets for cash generation and debt redemption were revised and adopted by the Board. The NAMA Board adopted two new secondary objectives, which were stated to be
- facilitation of the delivery of residential units, and
 - facilitation of the delivery of Grade A office accommodation in the Dublin Docklands Strategic Development Zone (SDZ).

- 1.8** Separate business plans for both secondary objective programmes were approved by the Board in 2014. Reflecting the broadening of its objectives, NAMA's business activity is currently divided into three main areas
- asset and loan sales — portfolio deleveraging
 - residential — delivery of the residential programme
 - Strategic Development Zone — delivery of office accommodation.

Focus and scope of this report

- 1.9** Section 226 of the NAMA Act requires the Comptroller and Auditor General, as soon as may be after 31 December 2012 and every three years thereafter, to assess the extent to which NAMA has made progress toward achieving its overall objectives. The first report under section 226 was published in April 2014, covering the period 2010-2012.¹ This review considers NAMA's progress since then in relation to achievement of its objectives in the context of the purposes of NAMA set out in section 10 of the Act and of the strategic objectives set by the Board.
- 1.10** Part of the work initially undertaken for this progress report involved a review of the disposal process for NAMA's Project Eagle loan portfolio. Based on the initial findings in that regard, the Comptroller and Auditor General undertook a separate examination of that loan sale under the provisions of Section 9 of the Comptroller and Auditor General (Amendment) Act 1993. This resulted in publication of a special report on the loan disposal in September 2016.² The report was examined at a succession of meetings of the Public Accounts Committee in 2016/2017.
- 1.11** The key matters dealt with in this report are
- the organisation development of NAMA since inception (chapter 2)
 - finalisation of the loan acquisition and the impact of the liquidation of IBRC on NAMA (chapter 3)
 - NAMA's financial performance (chapter 4)
 - the effectiveness of the arrangements put in place by NAMA to manage debtors (chapter 5)
 - the disposal by NAMA of the underlying collateral (asset sale) and of loans (loan sale) (chapter 6)
 - NAMA's achievements in relation to its secondary objectives relating to residential and commercial property development (chapter 7).

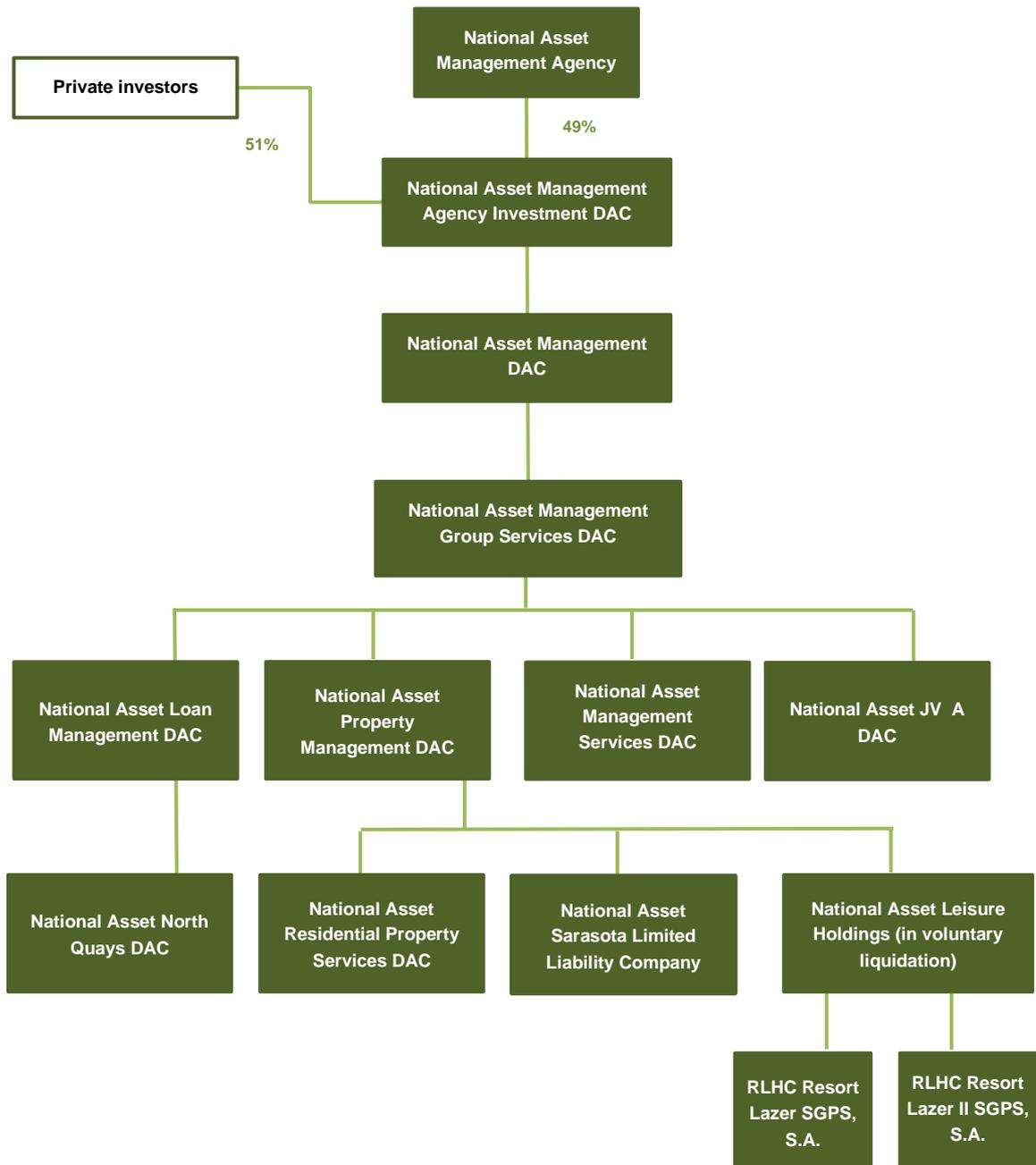
¹ The report is available at www.audgen.irlgov.ie

² Special Report 94 – *National Assets Management Agency's sale of Project Eagle*. In addition, two further reports on NAMA's activities have been published under section 9 of the Comptroller and Auditor General (Amendment) Act 1993.

2 Organisational development

2.1 NAMA has established a complex group structure headed by a holding company, National Asset Management Agency Investment DAC (NAMAI), which is 51% owned by private investors. At the end of 2016, NAMA had a total of thirteen subsidiaries through which it conducted its business (see Figure 2.1). Appendix A sets out the function of each entity.

Figure 2.1 NAMA group corporate structure



Source: NAMA

Note: All NAMAI subsidiary companies are 100% owned.

Section 110 structure

- 2.2** Under section 214 of the NAMA Act, income and gains arising to NAMA the Agency, as a State body are exempt from income tax, corporation tax and capital gains tax. The exemption does not extend to NAMA subsidiaries.
- 2.3** One of the mechanisms used by some privately owned entities to minimise their tax exposure is the use of Section 110 companies.¹ NAMA stated that following consultation with its external advisors, it was decided that the establishment of section 110 companies was the most efficient structure to ensure that the Agency's returns were maximised.
- 2.4** At the end of 2016, four of the NAMA subsidiaries were operating as Section 110 Companies
- National Asset JV A DAC (NAJVA)
 - National Asset Loan Management DAC (NALM)²
 - National Asset Management Group Services DAC (Group Services)
 - National Asset Management DAC (NAM).
- 2.5** A number of profit participation loan (PPL) agreements were put in place between NAMA (parent or subsidiary) companies. Under the PPL agreements, Section 110 companies that earn profits pay interest on the PPL that varies based on the company's profitability, thereby reducing their tax exposure to almost zero.
- 2.6** The Finance Act 2016 made a number of changes to Section 110 of the Taxes Consolidation Act 1997 with effect from 6 September 2016.³ The amendments change the tax treatment of debt instruments which are secured on, or derive most of their value from Irish real estate.
- 2.7** The impact of the change means that where NAM was previously entitled to a tax deduction on PPL interest paid to NAMA, this tax deduction was restricted from 6 September 2016.
- 2.8** NAMA carried out a review of the trading activities in NALM and NAJVA as part of the 2016 end-year financial review. The review identified trading income from Irish real estate of 38% in NALM. Corporation tax (at a rate of 25%) resulted in a tax charge of €143 million to NAMA in 2016. This compared to a tax charge of €18,000 in 2015.
- 2.9** NAMA stated that it restructured NALM from operating as a Section 110 company to a regular trading company for tax purposes. NAMA also stated that Revenue confirmed that NALM would be taxable under Schedule D Case I. The current related tax rate is 12.5%.
- 2.10** In relation to the cash generation from NAMA equity investments, NAMA projects that an additional €17 million tax is payable in respect of income from the holding and realisation of the investments as a result of the impact of changes in Section 110 legislation.

¹ Section 110 refers to the Taxes Consolidation Act 1997 which entitles qualifying companies to special tax treatment (a company whose business is to hold and manage qualifying assets, such as shares and collateralised loans, and which, apart from activities ancillary to that business, carries on no other activities).

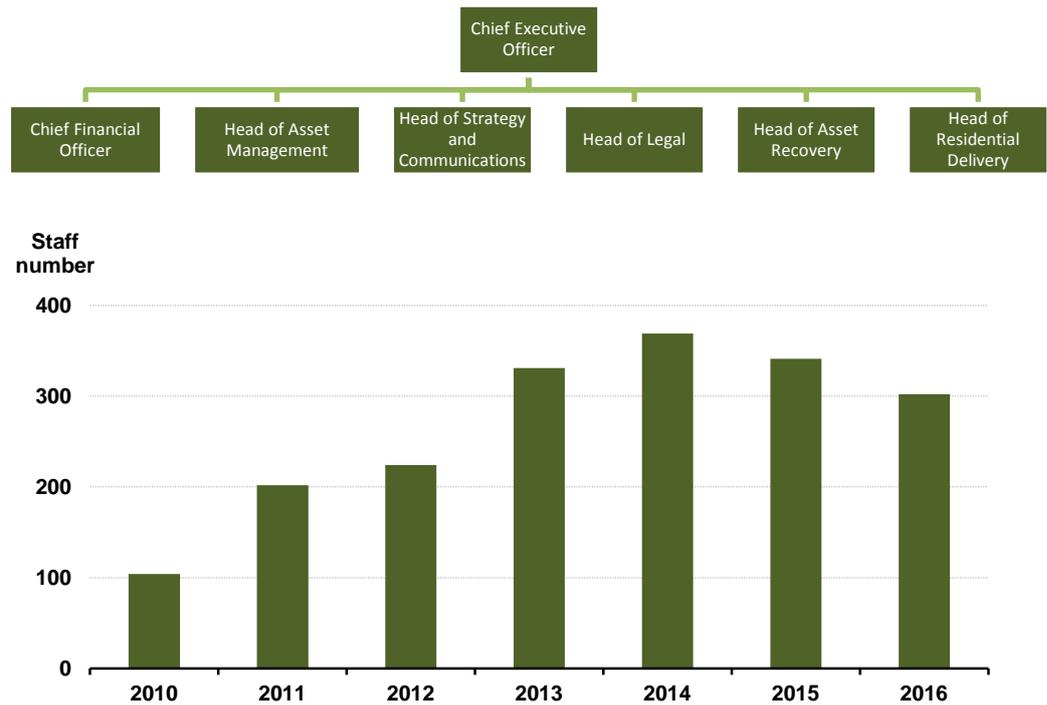
² NALM operated as a section 110 company until 1 July 2017.

³ The Finance Act 2017 further amended the position with effect from 19 October 2017.

NAMA staffing

2.11 NAMA's staff numbers increased year on year from 2010 to 2014 and subsequently decreased in 2015 and 2016. At the end of 2016, NAMA had 302 staff deployed across six divisions (see Figure 2.2). Over half of the staff were involved in debtor and asset management activities, across three divisions – asset recovery, asset management and residential delivery.

Figure 2.2 Organisation structure and staff numbers^a



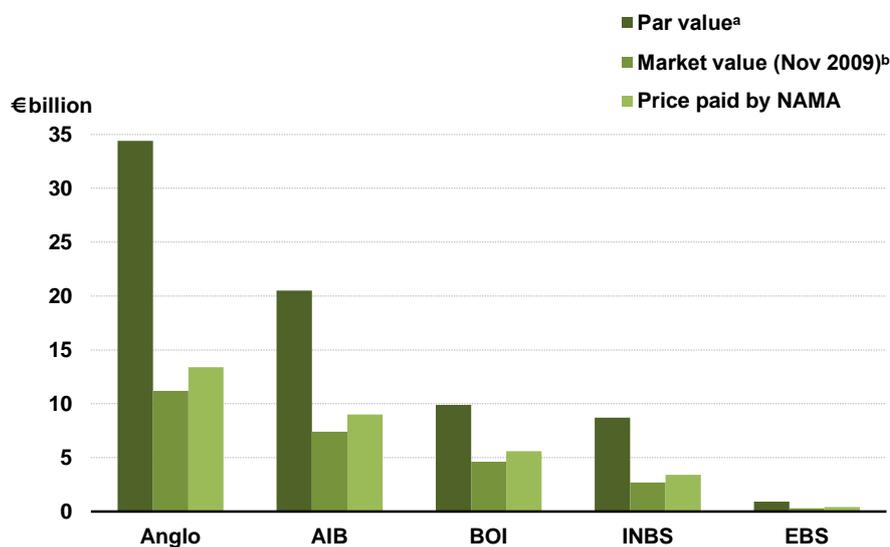
Source: NAMA and NAMA Financial statements 2010 – 2016

Note: a Staff assigned to NAMA are employed by the National Treasury Management Agency.

3 Finalisation of loan acquisition

- 3.1** NAMA's first key function was to acquire property related assets from participating institutions. It did this in a series of acquisition tranches, of which there were nine in total. The acquisition process was substantially completed in 2011.¹
- 3.2** Five banks designated by the Minister under the Act originally participated in the NAMA scheme. The original banks were
- Allied Irish Banks (AIB) and each of its subsidiaries except Bank Zachodni WBK SA
 - Anglo Irish Bank Corporation Ltd (Anglo) and each of its subsidiaries
 - Bank of Ireland (BoI) and each of its subsidiaries except Bank of Ireland (UK) plc
 - Educational Building Society (EBS) and each of its subsidiaries²
 - Irish Nationwide Building Society (INBS) and each of its subsidiaries.²
- 3.3** In total, NAMA acquired over 15,000 loans taken out by over 5,000 borrowing entities, involving around 1,000 individual borrowers.³ The loans were acquired at a cost of €31.8 billion. Figure 3.1 summarises the value of the loans acquired by NAMA from the five banks.

Figure 3.1 Loans acquired by NAMA, 2010 — 2011



Source: NAMA. Analysis by the Office of the Comptroller and Auditor General.

- Notes:
- a Par value refers to the full amount owed by the borrower based on the original terms and conditions with the participating institution and without taking account of any discount applied by NAMA when acquiring the loan.
 - b Market value of the loans at the time of acquisition was calculated using a model developed by NAMA's financial advisors.

1 The acquisition process was previously reported on in special report 76, National Asset Management Agency, Acquisition of Bank Assets and the first section 226 report.

2 In July 2011, AIB merged with EBS and the business of INBS transferred to Anglo. The latter's name subsequently changed to Irish Bank Resolution Corporation (IBRC). IBRC was subsequently placed in liquidation in February 2013.

3 NAMA manages the debt by reference to debtor connections – grouping closely connected debtors whose aggregate debt is considered by NAMA to be best managed as one cohesive connection rather than separately.

- 3.4** The difference between the par value of the loans at acquisition and the price that NAMA paid for the acquired loans represented a discount of 57% and crystallised losses of €42.6 billion for the banks. The discounts for individual banks varied between 44% and 61%.
- 3.5** NAMA's acquisition price was based on its assessment of the long-term value of the underlying collateral assets — the value NAMA estimated the property collateral would realise when market conditions stabilised. The price paid by NAMA exceeded the market value (at the time the loans transferred) by an estimated €5.6 billion.¹
- 3.6** The €5.6 billion uplift paid by NAMA for the acquired loans represents the value of State aid provided to the banks. Consequently, the transfer prices of the assets were subject to assessment by the EU Commission. By the end of 2010, the EU Commission had approved the transfer price of the first two tranches of loans acquired — just over 40% of the total consideration paid.² Commission approval for the remaining tranches was received in July 2014.³

Payment for the loans

- 3.7** NAMA paid 95% of the cost of acquiring the bank assets (€30.2 billion) by issuing debt securities guaranteed by the Minister (senior debt).⁴ The balance of 5% (€1.6 billion) was paid by issuing subordinated bonds.

Liquidation of IBRC

- 3.8** In February 2013, joint special liquidators were appointed under the Irish Bank Resolution Corporation (IBRC) Act 2013, to IBRC, formerly known as Anglo Irish Bank. At that time, it was decided that NAMA would acquire any residual commercial and residential loans which remained unsold after the special liquidators had completed a loan valuation and sales process. In order to do so, the Minister for Finance (the Minister) issued a direction under the 2013 Act requiring NAMA, or a subsidiary formed by NAMA, to acquire from the Central Bank a loan facility deed and floating charge over certain IBRC assets. NAMA established National Asset Resolution Limited (NARL) on 11 February 2013 for that purpose.
- 3.9** In March 2013, National Asset Management DAC (NAM) issued bonds to the value of €12.9 billion to allow NARL to acquire the loan facility and floating charge.
- 3.10** The sale of the IBRC assets (the collateral used by IBRC in its funding from the Central Bank) was carried out by the special liquidators. The sale proceeds were remitted to NAMA to reduce the NARL loan facility with NAM.
- 3.11** In April 2014, the special liquidators of IBRC confirmed to the Minister that the proceeds from the sale of IBRC assets would be sufficient to fully discharge the outstanding secured debt owed to NAMA. In response, the Minister announced that no IBRC assets would transfer to NAMA.
- 3.12** The outstanding loan was fully repaid on 21 October 2014 and NAMA in turn redeemed the debt securities. NARL was placed into voluntary liquidation and dissolved with effect from 23 March 2016.
- 3.13** Taking into account the income and expenses in the period 2013 to 2014 relating to NARL, a net gain of €164 million was obtained by NAMA (see Figure 3.2).

¹ Property collateral was valued as at 30 November 2009.

² Loans acquired by NAMA were transferred in tranches. There were nine tranches in total.

³ European Commission, Brussels 29 July 2014 C (2014) 5364.

⁴ The securities were issued by one of NAMA's subsidiaries, National Asset Management DAC.

Figure 3.2 NARL income and expenditure, 2013 and 2014

Description	2013	2014	Total
	€m	€m	€m
Interest and fee income	202	73	275
Interest expense	(34)	(16)	(50)
Losses on derivatives	(8)	(33)	(41)
Administration expenses ^a	(6)	(6)	(12)
Transition costs	(7)	(3)	(10)
Tax credit	2	—	2
Total	149	15	164

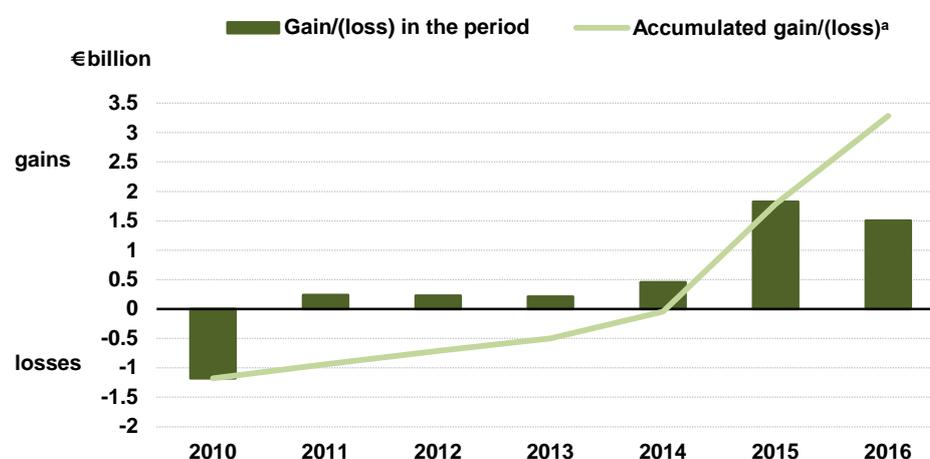
Source: NAMA

Note: a Administration expenses include the primary servicer fees.

4 Financial performance

- 4.1 To the end of 2016, NAMA has reported retained earnings of €3,034 million. Up to the end of 2014, NAMA was reporting accumulated losses (as shown in Figure 4.1).¹ The significant shift from an accumulated loss to a gain at the end of 2016 is mainly due to
- the reversal of impairment charges of €368 million in 2015 and 2016
 - a large increase in the net profit on disposal of debtor assets and surplus income of €2,697 million in the two year period 2015 to 2016.

Figure 4.1 NAMA gains/(losses), 2010 to 2016



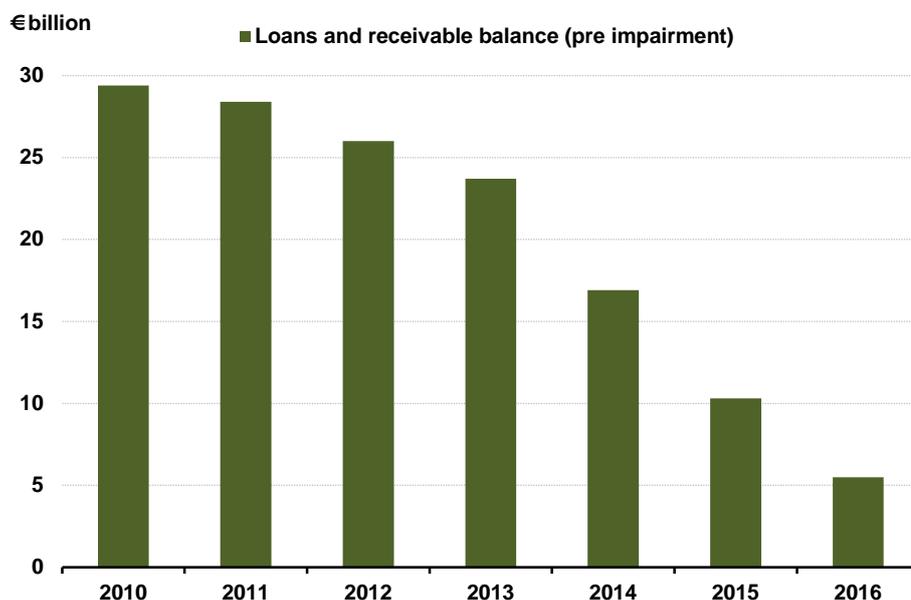
Source: NAMA consolidated income statement 2010 to 2016

Note: a Retained earnings disclosed in the 2016 financial statements amount to €3 billion. The variance is mainly due to the coupon payment of €252 million relating to the subordinated debt.

Loans and receivables

- 4.2 The loans acquired by NAMA from the participating institutions are classified as loans and receivables in its financial statements. Proceeds from the sale of assets held as security, loan repayments and the proceeds from the sale of loans reduce the carrying value of the loans. Funds advanced to borrowers increases the value of the loans held by NAMA. The movement in the loans and receivables balance before impairment is set out in Figure 4.2.

¹ As reported in NAMA's annual financial statements, which are prepared under International Financial Reporting Standards (IFRS).

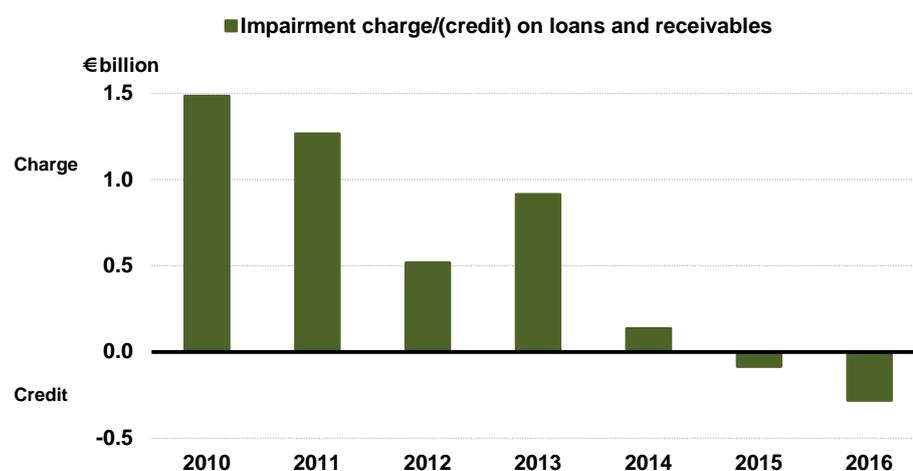
Figure 4.2 NAMA loans and receivables balance, 2010 to 2016

Source: NAMA financial statements 2010 to 2016

Note: a 2013 loans and receivables balance excludes new loans issued for NARL.

Impairment of loan assets

- 4.3** The largest expense recognised by NAMA in the period 2010 to 2016 is the impairment charge on loans and receivables. The cash flows the loans are expected to generate are reviewed semi-annually and any revisions downwards or upwards are reflected in loan impairment charges or credits (see Figure 4.3). Impairment charges reduce the loan values carried by NAMA. In 2015 and 2016, NAMA recognised impairment releases which increased the loan values carried by NAMA.

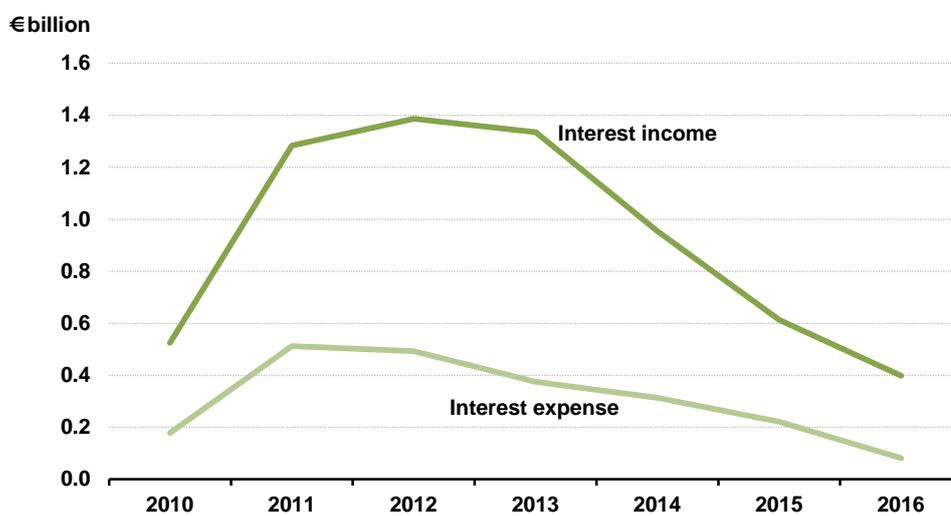
Figure 4.3 NAMA impairment charges/(credits) on loans and receivables from 2010 to 2016

Source: NAMA financial statements 2010 to 2016

Interest income and expenses

- 4.4** Interest income on loans and receivables is one of the main sources of income recognised by NAMA.¹ Between 2013 and 2016, NAMA's interest income has reduced each year by approximately a third. This reflects the reducing balance of loans carried by NAMA each year as a result of loan sales.
- 4.5** A significant cost that NAMA face is the interest expense on the debt issued to participating banks to pay for the loans acquired. This comprised government guaranteed senior bonds of €30.2 billion and subordinated debt of €1.6 billion.
- 4.6** Figure 4.4 outlines the interest income generated on the loans acquired by NAMA and the interest expense incurred on its debt to acquire those loans.

Figure 4.4 NAMA's annual interest income and interest expense, 2010 to 2016^a



¹ The recognition of this income is based on the effective interest rate (EIR) method of accounting. EIR recognises income at a constant rate over the life of the loans.

Source: NAMA financial statements 2010 to 2016

Note: a Includes similar income and expenses.

Cost of capital

- 4.7 The interest rate on the bonds issued by NAMA to acquire the loans from the PIs is set out in Figure 4.5.

Figure 4.5 Interest rate types applicable to NAMA bonds issued

Debt type	Issue value €billion	Interest rate type
Government guaranteed senior bonds	30.2	Variable rate — six-month Euribor paid semi annually ^a
Unguaranteed subordinated debt	1.6	Fixed rate 5.264% — based on ten-year yield on Irish Government bonds (as at the first issue date of end-March 2010) plus 0.75%. The payment of interest on subordinated debt is dependent on NAMA achieving certain financial targets and is at the discretion of the Board of National Asset Management DAC.

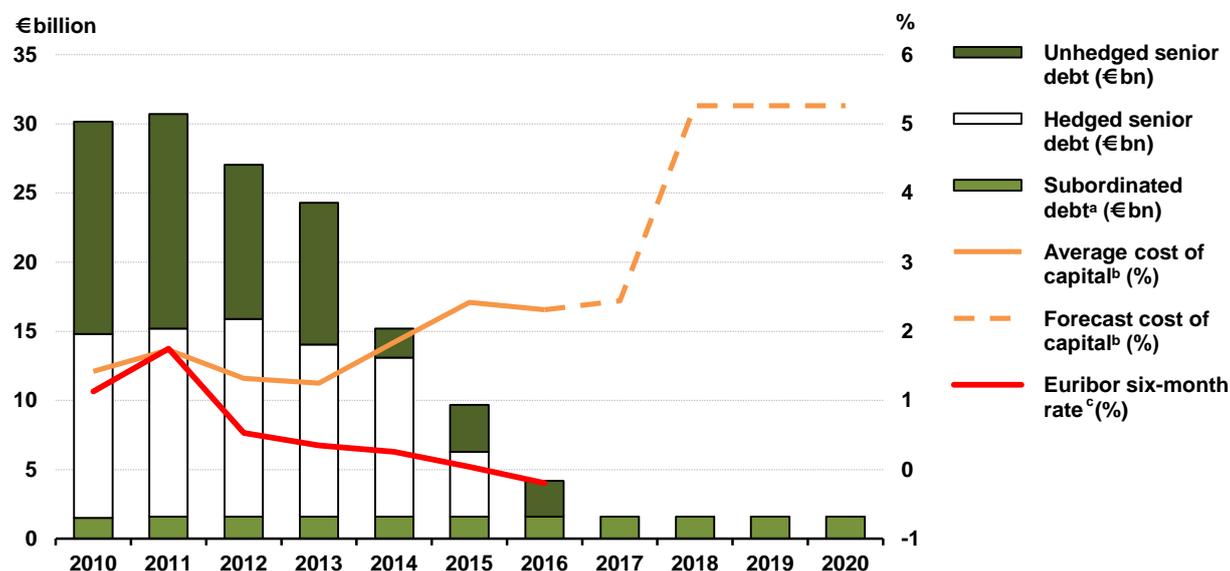
Source: NAMA

Note: a Euribor (Euro Interbank Offered Rate) is the rate at which euro interbank deposits are offered by one prime bank to another within the Eurozone.

- 4.8 NAMA put a hedging strategy in place to address interest rate risk and to reduce the risk and volatility in the financial accounts. The amount of senior bonds hedged and the period of hedging was reviewed and approved by the Board on a regular basis.
- 4.9 In the period from inception until the end of 2013, the weighted average percentage of senior debt hedged was 51%. In the period 2014 to 2016, a weighted average of 83% of the senior debt was hedged.
- 4.10 In July 2015, following a request from NAMA, the Minister issued a direction to NAMA to take appropriate steps in the event the six month Euribor reset at a negative rate.¹ The rate turned negative in November 2015 and on 28 January 2016, NAMA and Citibank executed the document to floor the coupon rate on the senior bonds in issue. NAMA stated that if the coupon rate had not been floored, the notes would have become ineligible as collateral with the ECB.
- 4.11 The structure of NAMA's debt, the variable rate of the six month Euribor and the average and forecast cost of capital is set out in Figure 4.6.

¹ The direction was issued under section 14 of the NAMA Act.

Figure 4.6 NAMA's debt structure, Euribor six-month interest rate and the average cost and forecast cost of debt, 2010 to 2020



Source: NAMA

- Notes:
- a The payment of the coupon on the subordinated debt began in 2014.
 - b Average and forecast cost of capital as reported to the NAMA Board.
 - c The Euribor six-month rate is set in March and September each year. The September rate is used in this chart.

4.12 The increased cost of capital from 2014 onwards can be attributed to the acceleration in senior debt redemption. This resulted in an increase in the proportion of subordinated debt relative to the overall debt level. Subordinated debt accounted for 7% of the debt outstanding at the end of 2013. This had increased to 38% by the end of 2016.

4.13 The forecast cost of capital for 2018 to 2020 is the cost of servicing the subordinated debt which is set at a fixed rate of 5.264%.

Redemption of debt

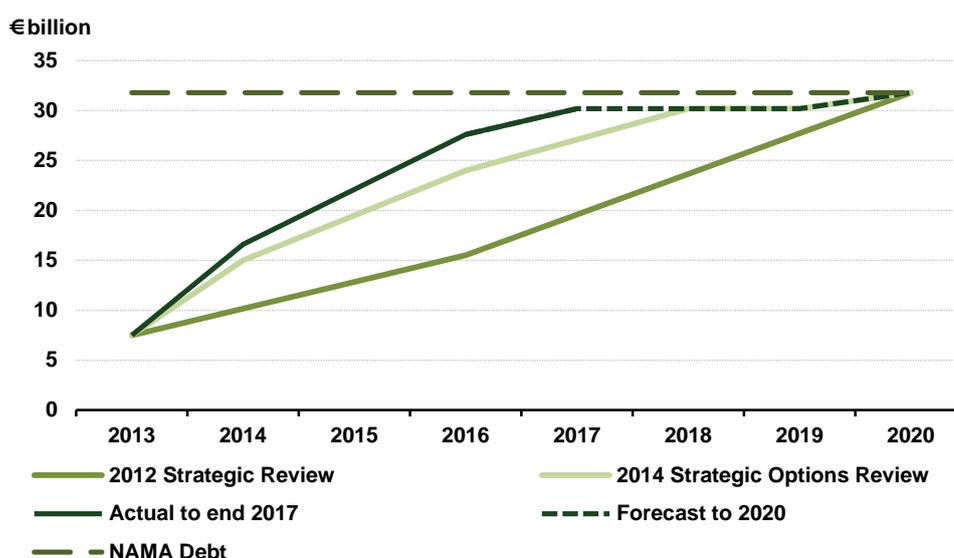
4.14 Since inception, NAMA's key commercial objective has been to redeem all of its senior debt within its projected ten year life. The sale of loans and assets by NAMA supports the achievement of this objective. NAMA uses the repayment of senior bond debt as a key performance metric.

4.15 Debt redemption targets were initially set out in NAMA's 2010 business plan and were subsequently amended in the 2012 strategic plan when full senior debt redemption was forecast by 2020. Up to 2014, NAMA adopted a phased disposal strategy. In February 2014, the Minister for Finance asked NAMA to consider

- alternative asset disposal strategies
- whether NAMA could advance the repayment schedule of senior bonds through accelerating asset disposals.

- 4.16** The Board requested a strategic analysis to be carried out and commissioned an external review of a number of strategic options which were under consideration. Based on this review, the Board decided in May 2014 to accelerate its asset disposal programme and the redemption of the senior bonds. A target debt redemption of (cumulatively) 80% by the end of 2016 was set, with all senior debt repaid by the end of 2018.
- 4.17** NAMA noted that the change in strategy was considered in the context of an improving outlook for the Irish economy, Ireland's exit from the Troika programme and improving conditions in the Irish property market.
- 4.18** NAMA redeemed all its senior debt by the end of October 2017 – 14 months ahead of the target date set in 2014 (see Figure 4.7). As a result of accelerated redemption of senior bonds, NAMA incurred early termination fees of €141 million in 2015 and €147 million in 2014 on interest rate swaps. The termination fee is the present value of contractual payments and receipts paid as a lump sum at termination rather than over the remaining life of the contract.

Figure 4.7 Cumulative debt redemption targets and actual, 2013 to 2020^a



Source: NAMA. Analysis by the Office of the Comptroller and Auditor General.

Note: a The redemption of debt related to IBRC is not included. The graph assumes that NAMA's debt redemption targets would have been realised on a straight-line basis.

- 4.19** Under the terms of the subordinated fixed term bonds, the principal may be called on 1 March 2020 and on each subsequent interest payment date.
- 4.20** On 3 April 2018, NAMA invited holders of the €1.6 billion floating rate perpetual subordinated bonds to offer bonds for buy back by NAMA. NAMA has stated that bonds with a nominal value of €243 million (15% of the total) were repurchased for a total consideration of €262.7 million as a result of that call.

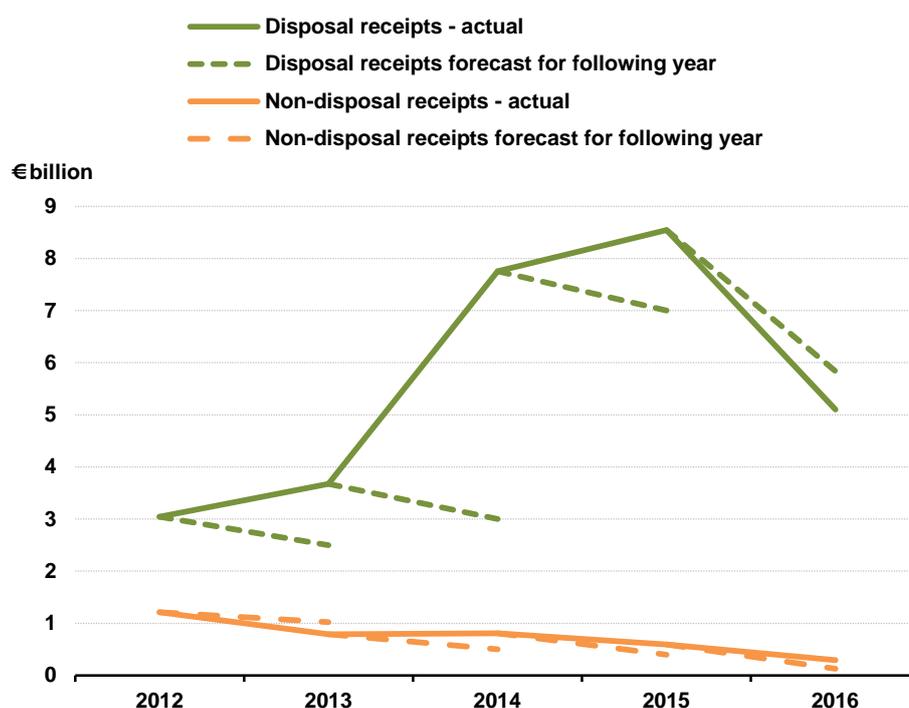
Operating costs

- 4.21** The operating costs of NAMA in the period from 2010 to 2016 were €741 million. Operating costs account for almost 10% of the total costs incurred by NAMA up to the end of 2016 (see Annex 4A.1). Primary servicer fees paid to AIB, BOI and Capita and staff costs make up approximately 70% of the operating costs (see Annex 4A.2).¹
- 4.22** Since 2014, NAMA's operating costs have fallen as the carrying value of its loan portfolio decreased. In addition, it implemented a revised payment structure for portfolio management fees.

NAMA financial projections

- 4.23** NAMA prepares detailed cash flow estimates of its aggregate net receipts from debtors. The estimated cash flows for debtors are revised regularly to take account of strategic revisions of debtor business plans, revised information about the rental and disposal expectations of individual properties, as well as changes to broader assumptions that inform the reviews such as the conditions in the markets in which NAMA operates and NAMA's view of future prospects. As part of NAMA's impairment process individual debtor cash flow forecasts are subject to a formal quality assurance process on a semi-annual basis.
- 4.24** In general, NAMA has achieved higher levels of receipts than its short-term forecast levels (see Figure 4.8). In 2014, disposal receipts were 2.5 times the amount forecast. This reflects the change in strategy in mid-2014, resulting in accelerated disposals. NAMA has also indicated that the disposal prices achieved were generally higher than what had been projected.

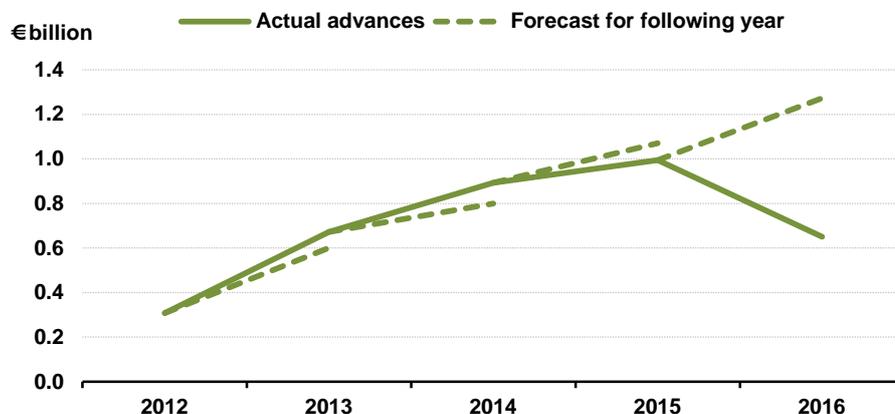
Figure 4.8 NAMA receipts forecast and outturn, 2012 to 2016



¹ The primary servicer role includes maintaining and updating debtors' loan records, the disposal of underlying collateral, processing receipts from debtors and transferring cash received to NAMA, and reporting transactions to the master servicer.

- 4.25 NAMA's forecasts of advances to debtors have generally been closer to outturn (see Figure 4.9). The exception was 2016, when advances fell significantly short of forecast.

Figure 4.9 Funds advanced to debtors, forecast and outturn, 2012 to 2016



Source: NAMA

Rate of financial return

- 4.26 NAMA paid a total of €31.8 billion for the loans it acquired from the participating institutions. The payments to the institutions were based on cash flows which NAMA projected would materialise over the time it would hold each loan. Based on a formula designed to yield the long term economic value of the loans, NAMA paid the banks an estimated €5.6 billion more than the estimated market value. This €5.6 billion was approved by the EU as permissible State aid for the distressed banks.
- 4.27 In 2014, NAMA set an **entity return on investment (EROI)** target of 20% to be achieved over the Agency's projected lifetime i.e. by the time it winds up at the end of 2020. By that measure, NAMA projected at the end of 2016 that the EROI would be 33% i.e. 1.6 times the target.¹ The key shortcoming of EROI as a performance measure is that it does not take account of the time value of money.

Internal rate of return — entity level

- 4.28 A standard performance metric for property related investments is the **internal rate of return**.² However, NAMA does not consider the internal rate of return appropriate to measure its performance, and has not set a target in that regard.
- 4.29 When NAMA was acquiring the loans in 2010, it projected cash flows over the lives of the loans, which were discounted at an average rate of around 5% to yield the acquisition value of the loans. If the cash flows had occurred as projected at that time, NAMA would generate an internal rate of return on investment of 5%.
- 4.30 At the end of 2012, primarily as a result of the decline in Irish property values after NAMA acquired the loans, the projected internal rate of return on the NAMA investments was around 3.8%.³ Given the subsequent strong recovery in the property market and NAMA's investment performance, the projected internal rate of return at the end of 2016 is calculated to be around 6.2%.⁴

1 NAMA's 2016 Annual Report (page 46) states that "EROI is calculated based on the comparison of NAMA's projected terminal surplus (€3 billion) with NAMA's initial investment, as adjusted to exclude the €5.6 billion in State aid which NAMA was required to pay to the participating institutions as part of the loan acquisition price."

2 Internal rate of return is defined as the discount rate which, when applied to the cash flows of a project, produces a net present value of nil.

3 Report number 81, *National Asset Management Agency Progress Report 2010 – 2012*.

4 The projected internal rate of return as calculated by the examination team is based on the €31.8 billion paid by NAMA, the actual and projected cash flows on all NAMA investments (including equity investments and planned future investments) and property assets as reported to the Board as part of the 2017 budget.

Internal rate of return - debtor level

4.31 At the end of 2010, NAMA had over 750 debtor connections in its loan portfolio. By the end of 2016, 498 debtor connections had exited NAMA through loan sales, refinancing or full repayment of par debt, or by way of debt compromise arrangements.¹

4.32 The examination team applied an internal rate of return methodology to determine a rate of return on the connections that had exited NAMA. This approach is based on what NAMA paid for the loans and the actual cash receipts generated by the connections before exiting NAMA. The weighted average internal rate of return to NAMA of exited connections as at end 2016 was approximately 3.4%.

1 Debtor exits include cases where no additional cash flows are expected and there is no active management of these debtors.

4.33 NAMA's view is that it would be more appropriate to compute the internal rate of return by reference to the market value of the loans at acquisition and not what NAMA paid for them.² Using this measure of the investment, NAMA estimates the weighted average internal rate of return for exited connections at around 10.3%.

2 For the portfolio as a whole, the estimated market value at acquisition was €26.2 billion, compared to the €31.8 billion paid to the banks.

Annex 4A

Figure 4A.1 NAMA income and expenditure to end 2016

	2010	2011	2012	2013 ^a	2014	2015	2016	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Income recognised								
Interest and similar income	525	1,283	1,387	1,335	955	613	398	6,496
Net gains on derivatives and foreign exchange	5	86	—	—	—	—	9	100
Net profit on disposal of debtor assets and surplus income	—	549	188	505	285	1,587	1,110	4,224
Impairment credit	—	—	—	—	—	86	282	368
Tax credit	—	235	—	—	—	—	—	235
Other income	—	—	—	—	36	48	35	119
	530	2,153	1,575	1,840	1,276	2,334	1,834	11,542
Interest and similar expenses	(179)	(512)	(493)	(375)	(313)	(221)	(82)	(2,175)
Net losses on derivatives and foreign exchange	—	—	(137)	(144)	(181)	(148)	(4)	(614)
Administration expenses	(46)	(128)	(119)	(121)	(135)	(112)	(80)	(741)
Impairment charges on loans and receivables	(1,485)	(1,267)	(518)	(914)	(137)	—	—	(4,321)
Tax expense	—	—	(76)	(70)	(52)	(28)	(165)	(391)
Dividend paid	—	(5)	(3)	(2)	(2)	—	—	(12)
Other expenses	—	—	—	(3)	—	—	—	(3)
	(1,710)	(1,912)	(1,346)	(1,629)	(820)	(509)	(331)	(8,257)
Gain/(loss) in the period	(1,180)	241	229	211	456	1,825	1,503	3,285^b

Source: NAMA financial statements 2010 to 2016

Note: a The 2013 figures are shown net of interest expense and interest income from NARL.

b Retained earnings disclosed in the 2016 financial statements amount to €3 billion. The variance is mainly due to the coupon payment of €252 million relating to the subordinated debt.

Figure 4A.2 NAMA operating costs 2010 to 2016

Cost	2010	2011	2012	2013	2014	2015	2016	Total
	€m							
Primary servicer	13	57	56	55	50	39	15	285
Master servicer	2	3	3	3	3	1	1	16
Portfolio transition costs	—	—	—	7	7	—	—	14
Portfolio management	5	16	7	5	4	5	3	45
NTMA staff	10	24	30	34	45	47	41	231
NTMA shared services	5	4	7	7	9	7	7	46
Due diligence	30	44	4	—	—	—	—	78
Due diligence fees recovered	(30)	(34)	—	—	—	—	—	(64)
Legal fees	3	9	5	3	8	6	3	37
Other ^a	8	5	7	7	9	7	10	53
Total	46	128	119	121	135	112	80	741

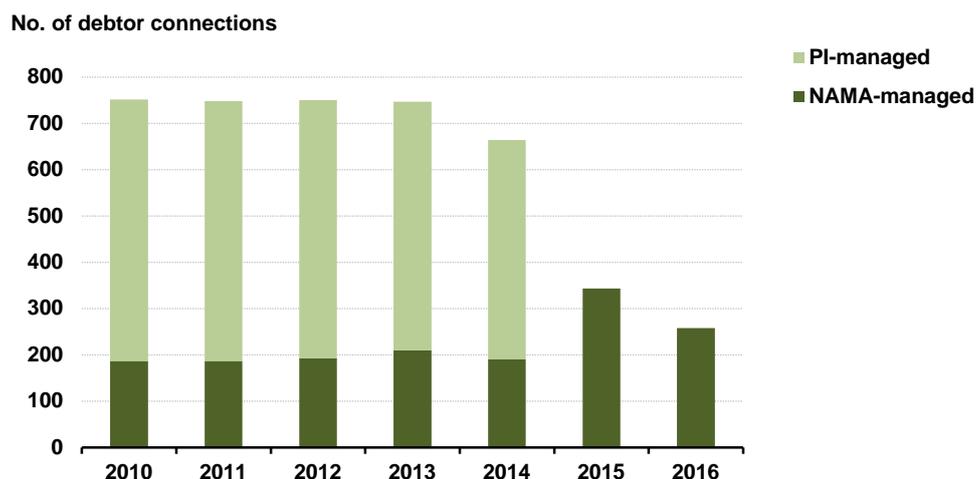
Source: NAMA financial statements 2010 to 2016

Note: a Other costs include rent, audit, finance, communication and technology costs as well as Board and Committee fees and expenses.

5 Debtor management

- 5.1 The total number of debtor connections managed by NAMA has fallen progressively since 2010, as a result of loan and asset sales, and in some cases, loan repayments (see Figure 5.1).

Figure 5.1 NAMA-managed and PI-managed debtor connections



Source: NAMA

- 5.2 To facilitate the administration of the loan assets acquired, including the performance of case management functions for certain loans, NAMA appointed the participating institutions to act as primary servicers. Primary servicer functions are carried out by the participating institutions (PIs) in accordance with directions issued by NAMA under section 131 of the Act.
- 5.3 NAMA managed larger connections directly while the PIs managed lower value connections on NAMA's behalf. Substantial loan sales in 2014 and 2015 significantly reduced the number of debtor connections, and since the disposal of Project Arrow in December 2015, the management of debtor connections has been carried out solely by NAMA.¹
- 5.4 Capita Asset Management Services (Capita) was appointed by NAMA in 2010 as master servicer with responsibility for the collation of loan information, providing NAMA with consolidated financial and management information and co-ordinating cash movements between the PIs and NAMA.² Capita's master servicer fees for the period 2010 to 2016 amounted to €17 million.
- 5.5 After IBRC was placed in special liquidation in February 2013, it remained as a PI until 1 July 2015. Capita was appointed as primary servicer (Capita PS) for the loans previously administered and managed by IBRC.

¹ Project Arrow was a sale of loans that included the majority of the loans managed by the participating institutions. It was a granular portfolio of loans held by approximately 300 smaller debtor connections and secured by over 1,800 assets.

² Capita Asset Management Services is now called Link Asset Services.

Debtor strategies

5.6 Following acquisition, debtors were requested to submit business plans to NAMA setting out how they proposed to discharge their debt. NAMA reviewed the business plans submitted. The plans for NAMA-managed debtors were also subject to a further review by NAMA appointed independent business reviewers. Following completion of the business plan process, the following debtor strategies were applied by NAMA, as considered appropriate

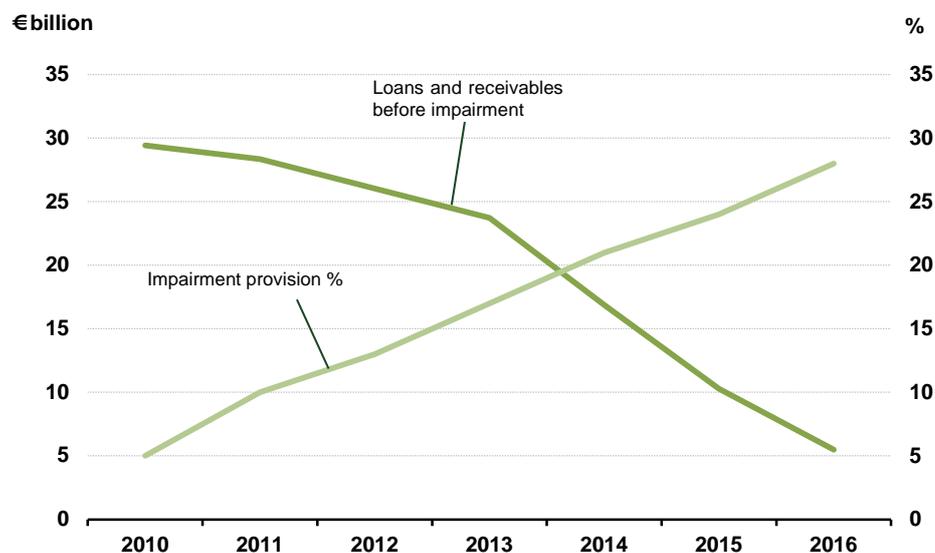
- **Full restructuring** — whereby loan agreements for existing debt were replaced with new loan agreements with revised terms and conditions.
- **Partial restructuring** — while similar to full restructuring it did not result in new loan agreements. Connection management agreements (CMAs) were agreed with debtors which set out the terms for implementing business plans.
- **Support for debtors** — required a debtor to implement a number of milestones in relation to debt reduction.
- **Consensual disposal strategy** — in instances where the implementation of the disposal strategy is based on a short-term horizon.
- **Enforcement** — pursued in instances where the business plan is not acceptable to NAMA or the debtor is non-co-operating.

5.7 NAMA monitors the strategies adopted through the strategic credit review (SCR) process. This process seeks to assess the performance of the debtor against the approved strategy including key milestones carried forward from the previous SCR. A minimum of two SCRs per annum is required for each debtor connection.

Debtor performance

5.8 As a result of loan/asset sales, NAMA's loan balances had reduced to €5.5 billion by the end of 2016 before an impairment provision of €1.6 billion. At that time, NAMA also anticipated that it would make a surplus of €3 billion upon completion of its work. In 2018, NAMA revised the surplus up to €3.5 billion, assuming market conditions remain favourable.

5.9 As the loans and receivables balance reduced, the overall rate of impairment provided for by NAMA increased. Figure 5.2 shows the movement in loan balances and impairment provisions between 2010 and 2016. NAMA stated that the increasing impairment rate reflects the early sale of better performing assets which attract greater interest from purchasers.

Figure 5.2 Loan balances and impairment provisions, 2010 to 2016

Source: NAMA financial statements 2010 to 2016

Note: 2013 end-year loans and receivables figure excludes €11.7 billion for NARL to acquire the loan facility and floating charge over IBRC. The loan was fully repaid in October 2014.

- 5.10** Some debtors permit the use of the excess over their par debt generated on some loans to be applied towards a deficit on another of their assets where there is a shortfall. NAMA has indicated that at 30 June 2017, 60 connections had repaid in excess of their acquisition par debt and much of this excess over par debt arises from interest accrued in the period following initial acquisition.
- 5.11** The strategic credit review for each debtor includes a credit grading whereby the debtor is rated by reference to the expectation of recovery of NAMA's carrying value of the loans and whether the debtor is impaired. The credit gradings are
- **High recovery rating** is applied when there is no impairment provision as the net present value of future cash expected is greater than the carrying value of the loans.
 - **Medium recovery rating** is applied when the future undiscounted cash receipts are greater than the carrying value of the loans.
 - **Low recovery rating** is applied when the future undiscounted cash receipts are less than the carrying value of the loans.

5.12 Figure 5.3 sets out the value of NAMA debt in each rating category at the end of 2016.

Figure 5.3 Credit grading of debtors at end 2016

Credit Grade	NAMA Debt end 2016 €m ^a	Impairment €m	No of connections ^b
High recovery rating (not impaired)	1,998	—	50
Medium recovery rating (impaired)	37	4	2
Low recovery rating (impaired)	3,470	1,557	155
Total	5,505	1,561	207

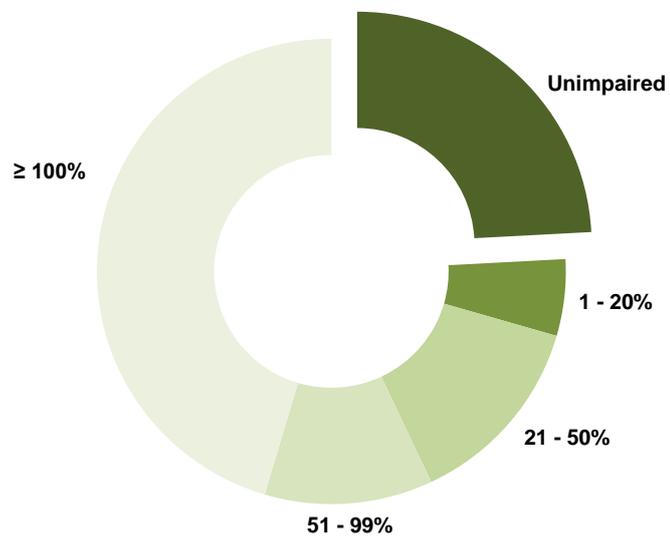
Source: NAMA. Analysis by the Office of the Comptroller and Auditor General.

Notes: a Does not include uncategorised tier 1 amounts, overdrafts and borrower derivatives.

b Analysis excludes connections with a NAMA debt balance of zero.

5.13 The actual rate of impairment across loans varied significantly, with some connections deemed not to be impaired while others were 100% impaired. Figure 5.4 provides a breakdown of the impairment charge applied to connections at 31 December 2016. The impairment charge relating to three connections exceeded the carrying value of the loans. NAMA notes that the negative value reflects additional costs in excess of the carrying value of the assets. These costs relate to arbitration costs and capital expenditure on remediation works relating to certain residential units contracted for sale to the National Asset Residential Property Services (NARPS).

Figure 5.4 Rate of impairment applied to loans at 31 December 2016



Source: NAMA. Analysis by the Office of the Comptroller and Auditor General.

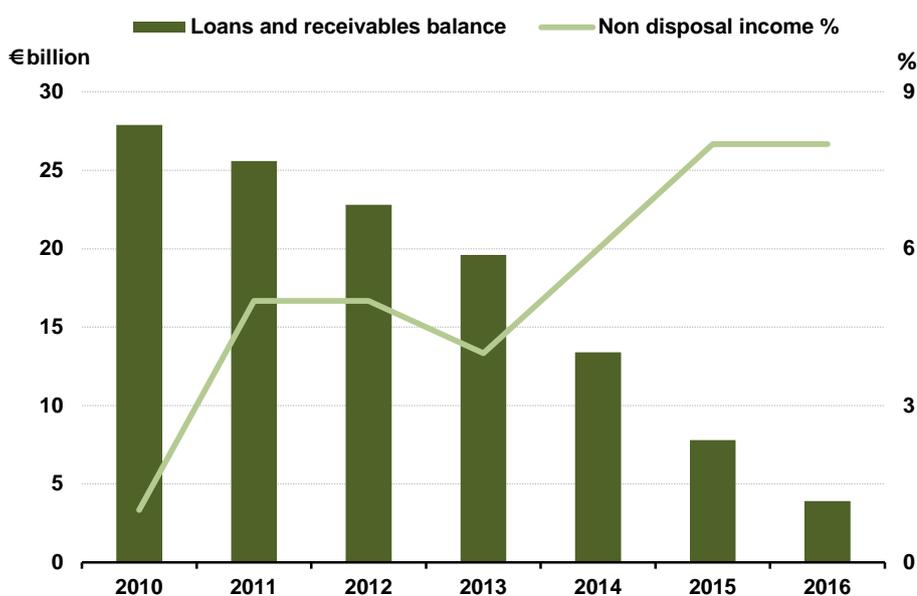
Optimising income from debtors

- 5.14 The overall performance of debtors is influenced by a number of factors including changes in property values since 2009, the extent to which NAMA has maximised non-disposal receipts or acquired previously unencumbered assets and any gains arising from further development of assets.

Non-disposal income

- 5.15 By the end of 2016, NAMA had generated non-disposal income of €5.3 billion relating to its loans. In the years 2013 to 2016, NAMA's primary source of non-disposal income was rental income from the letting of debtor properties. As assets were sold, the level of non-disposal income has declined. Relative to its loans and receivables balance (after impairment) the non disposable income rate has increased (see Figure 5.5).

Figure 5.5 Non disposal income as a percentage of the net loans and receivables balance, 2010 to 2016



Source: NAMA

- 5.16 NAMA stated that a comparison of residual loans and receivables with non-disposal income is not a valid metric in assessing the performance of the Agency because it is disposing of assets.

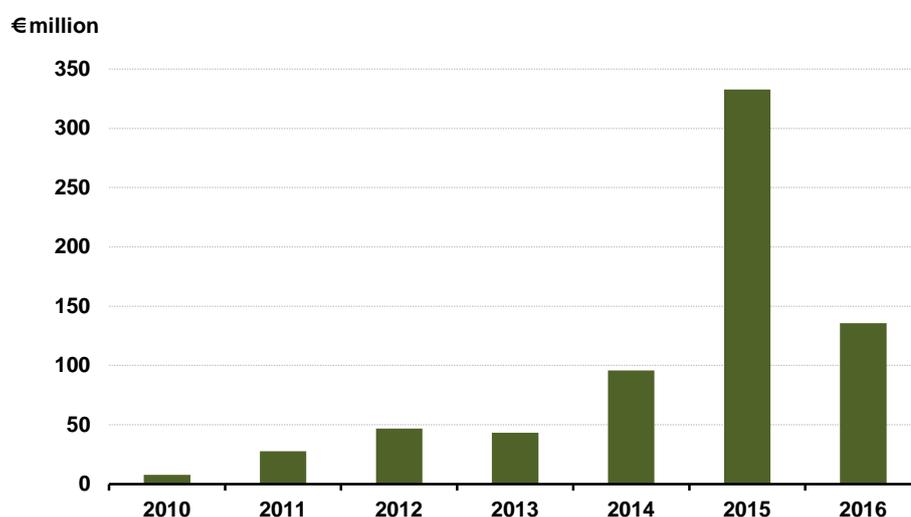
Securing unencumbered assets

- 5.17 Debtors were required to submit a sworn statement of affairs that included details of any unencumbered assets as part of the business plan process.¹ In certain cases, NAMA has conducted asset searches designed to verify debtors' asset statements. Where NAMA identified assets in the course of the business plan process (or otherwise), it requested the debtor to make the assets available as a condition of NAMA continuing to support the debtor.

¹ NAMA has made three formal complaints to the Garda National Economic Crime Bureau regarding possible failures by debtors to properly disclose their affairs.

- 5.18** NAMA may take security over a property asset and therefore have a legal charge. Alternatively, the debtor may agree to give NAMA cash flows from an asset or the disposal of a property asset that remains unsecured. The sale of any unsecured assets is arranged by the debtor.
- 5.19** NAMA may also perform an asset search prior to a debtor connection's exit from NAMA. It is NAMA's policy to always perform an asset search in cases where debt compromise arrangements are put in place.
- 5.20** In certain instances, NAMA has also come to agreements with debtor connections for proceeds in excess of par cash to flow to NAMA.
- 5.21** From inception to the end of 2016, NAMA has received proceeds from the sale of 749 unencumbered assets from 192 debtor connections to a value of €690 million.¹ €305 million (44%) of the sale proceeds came from two debtor connections. The highest amount from a single debtor connection was €181 million and the lowest amount was €14,000.
- 5.22** Figure 5.6 sets out the proceeds from the sale of unencumbered assets from 2010 to 2016.
- 5.23** As at end 2016, NAMA had identified a further 495 assets from which an estimated value of €283 million from 51 debtors is projected.

Figure 5.6 Value of unencumbered assets sold from inception to end 2016



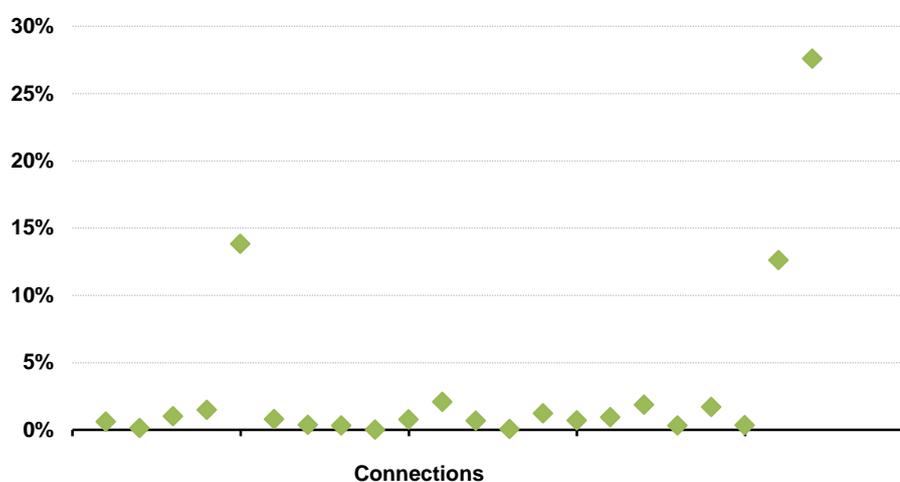
¹ 'Unencumbered' includes all assets that NAMA took security over post initial acquisition of loans in November 2009 (secured) as well as assets that NAMA does not hold security over but has received or will receive proceeds from their disposal (unsecured). This includes both real estate properties and non real estate assets.

Source: NAMA. Analysis by the Office of the Comptroller and Auditor General.

Debtor arrangements

- 5.24** The outcome of the review of some debtors' business plans included asset management and incentivisation arrangements which would only be triggered if the debtor met financial targets set for them. NAMA disclosed in its 2010 annual report that such arrangements can be used if better-than-expected financial outcomes are achieved by debtors.
- 5.25** The debtor arrangement measures used are specific to individual debtors and the purpose of any arrangement is to achieve a higher return for the State. It is NAMA's policy only to make debtor arrangements with co-operating debtors.
- 5.26** Some of the arrangements considered by NAMA are
- personal guarantee compromise (write off or write down)
 - debt compromise (par or NAMA debt)
 - interest payments compromise
 - return of pledged assets
 - full or partial restructure
 - principal private residence downsizing
 - profit share arrangements.
- 5.27** NAMA record arrangements agreed with debtors in a debtor arrangements log. As at 31 December 2016, there were 42 arrangements with 34 connections put in place. Debtors (22) have benefited from 27 arrangements to the value of €367 million. The arrangement put in place with 19 of those debtors is now complete. Three of the 19 repaid par debt, while another two repaid NAMA debt. There are currently 23 active arrangements in place.
- 5.28** An analysis of the value received by the debtor as a result of the arrangement as a percentage of the relevant NAMA debt is set out in Figure 5.7.

Figure 5.7 Value of debtor arrangement as a percentage of NAMA debt



Source: NAMA

- 5.29** The value of the arrangement received by three debtors as a percentage of the carrying value of the debt by NAMA at acquisition is significantly more when compared with other connections. The debtor arrangements log maintained by NAMA records the detail of arrangements, the cost and the estimated value to NAMA. The types of arrangements put in place for the three debtors include
- debt restructure (2 debtors)
 - profit share arrangement (2 debtors)
 - debtor management fees (2 debtors)
 - joint venture finance (1 debtor)
 - a percentage fee of all sales proceeds (1 debtor)
 - release of assets after meeting target debt reduction (1 debtor).
- 5.30** NAMA's view is that in assessing the debtor arrangements, it is appropriate to consider the incremental and substantial return and benefits generated for the State arising from those arrangements.

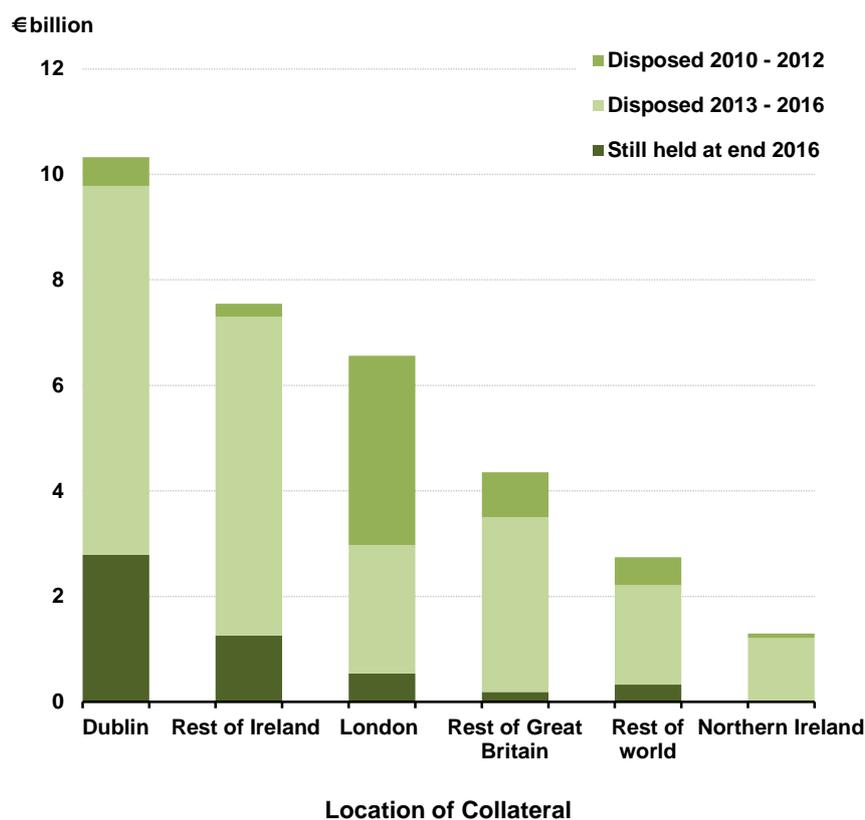
Debtor salaries

- 5.31** For some consensual debtor connections, NAMA permits the payment of a salary to debtors. The payments are retained by the debtor through cash recycling of net rental income and/or sales proceeds from the disposal of underlying collateral. NAMA case managers are required to capture the cost of forecasted developer salaries as part of the expected cash outflows for impairment calculations.
- 5.32** NAMA informed the examination team that payments are permitted from overheads only if the principal debtor is deemed to be necessary for the delivery of the agreed strategy to maximise the return from the connection.
- 5.33** NAMA also noted that consensual connections are subject to Financial Monitor (FM) reviews where appropriate. The FM under duty of care to NAMA is obliged to review and comment on actual overheads by reference to the approved budget which includes the remuneration of the debtor and it is thereby reviewed. The debtors performance is monitored through the strategic credit review process in addition to the monitoring role performed by the FM.
- 5.34** NAMA does not monitor on a centralised basis the actual amounts paid in developer salaries consequently it was unable to say how much in total was paid. NAMA stated that the information is available in individual debtor records but that there is no central repository of such information.

6 Asset disposals

- 6.1** NAMA acquired rights over around 10,700 properties and 59,000 individual units as underlying collateral for NAMA loans at inception. The majority of properties acquired, by value, were located in Ireland (54%) and the UK (34%). Of the remaining 12%, 4% was in Northern Ireland and 8% mainly located in Europe.
- 6.2** NAMA's outstanding loans and receivables fell in value from €29.4 billion at the end of 2010 to €5.5 billion at the end of 2016.¹ Initial disposals, in the period 2010 – 2012, related mainly to property assets located in London. Disposals in the period 2013 – 2016 were spread throughout all geographical locations. (see Figure 6.1).
- 6.3** NAMA's disposal of the assets has been by way of
- sales of assets organised by debtors or receivers
 - sales by NAMA of loans.

Figure 6.1 Collateral acquired and collateral disposals, by location

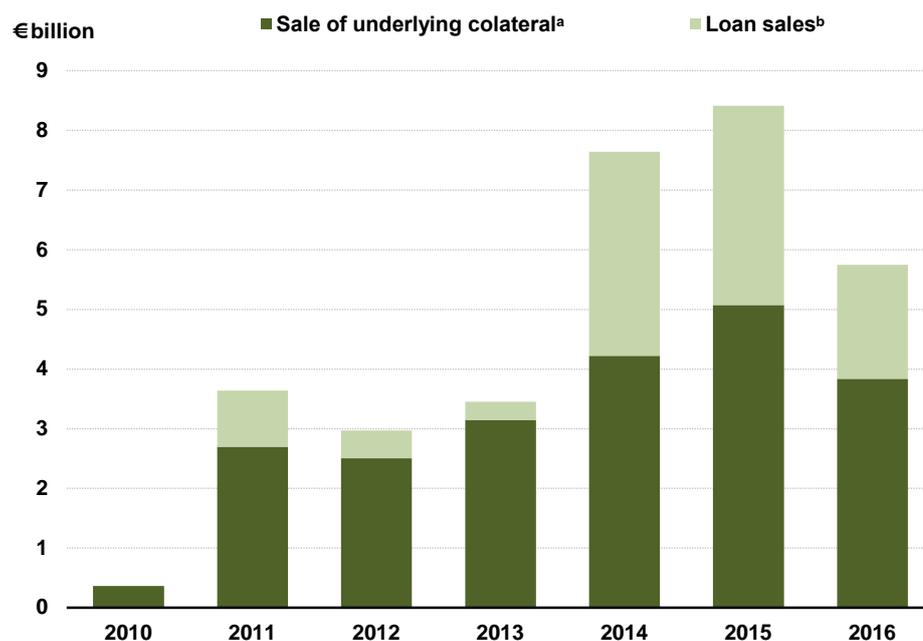


¹ Pre-impairment loans and receivable balance.

Source: NAMA

- 6.4** By the end of 2016, NAMA reported in its financial statements that it had generated sales proceeds of €32.2 billion. Sales proceeds of €7 billion were generated in the period 2010 to 2012 and €25.2 billion from 2013 to 2016.
- 6.5** Loan sales occurred each year since 2011 (this included some asset sales that were structured by agreement as loan sales for tax and other purposes). There was a significant acceleration in the level of loan sales from 2014 (see Figure 6.2).

Figure 6.2 Proceeds from sales 2010 to 2016



Source: NAMA financial statements 2010 to 2016

Notes: a Figures for 2011 include principal cash repayments.

b Figures include deferred consideration on loan sales.

Property disposals process review

- 6.6** As part of the review, the examination team selected 80 property asset disposals, with a gross disposal value of €2.7 billion, from NAMA's asset disposal log to examine the disposal process. 60 assets were individual asset sales and 20 assets formed part of seven portfolio sales. The sample covered the period 2013 to 2016.

Valuations

- 6.7** NAMA's disposal process does not require the commissioning of red book valuations for assets.¹ Instead, sales agents provide a guide price for the asset to be disposed of and this is used to set the minimum expected gross proceeds when obtaining approval within the delegated authority framework to market the sale. Gross proceeds from the sales reviewed as part of this examination were 113% of the relevant sales agent's valuations and 153% of NAMA's November 2009 value.²

- 6.8** In almost all the 80 asset sales reviewed, the examination noted that the disposal option selected was the option assessed by NAMA to have the highest value option.

¹ Red book valuations are undertaken in accordance with valuation standards published by the Royal Institution of Chartered Surveyors.

² One of these assets was originally an unencumbered asset and NAMA secured it as collateral subsequent to the transfer. The proceeds obtained for this asset was €175,000.

- 6.9** In one case, a bidder indicated to NAMA's sales agent at the first round bid phase that it wanted the asset at any price. Rather than continue the competitive bidding process, NAMA took the decision to offer the bidder the asset at a 5% premium over the (then) highest offer.

Open marketing

- 6.10** It is NAMA's policy generally to openly market assets for sale. In certain circumstances, it does allow for assets to be sold in alternative ways, providing the appropriate delegated authority is obtained prior to the sale.

- 6.11** The results of the examination showed that 72 of the 80 reviewed were openly marketed. The gross proceeds for the openly marketed assets amounted to around €2.5 billion or 93% of the sample.

- 6.12** In relation to the other eight cases reviewed (7% of the value of the sample), the examination found that

- In three cases, the case management team sought approval, in line with NAMA's delegated authority policy, prior to the sale of the property asset. The reasons set out were found to be reasonable. The gross proceeds from the sale of these property assets were €123.3 million.
- In another two cases, properties were sold to NAMA group companies (gross proceeds of about €21.8 million).¹
- In the case of one asset, the asset was sold without being openly marketed on the foot of a reverse enquiry. The asset was not scheduled for sale at the time. NAMA obtained two valuations, €5.2 million and €5.7 million which were lower than the reverse enquiry offer of €6.5 million.² NAMA is satisfied on that basis that a better price would not have been achieved through open marketing.
- In relation to two cases, NAMA has stated that it was unable to provide evidence that the assets had been openly marketed, because the special liquidator has been unable to provide NAMA with the relevant documents. Gross proceeds amounted to €14.2 million.

Section 172 declarations

- 6.13** Under Section 172 of the NAMA Act, a person who is the debtor (or a debtor-connected party) in relation to an acquired bank asset is prohibited from acquiring from NAMA any acquired bank asset in relation to which default has occurred. Section 172 as prescribed in the NAMA Act is set out in Appendix B.

- 6.14** The prohibition is limited and applies only to a sale

- by NAMA and not by a borrower or receiver
- of a property (or interest in a property) and not of a loan
- specifically securing a loan in default
- to a debtor or to a debtor connected party (within the meaning of S172(3)).

- 6.15** In almost all cases, the sale of the underlying collateral (property assets) is carried out by the debtor or the receiver, not NAMA. In July 2011, the Board agreed to extend the prohibition to debtor sales and where possible receiver sales (having regard to the receiver's statutory obligation to obtain the best price).

¹ The companies that acquired these assets were NAPM and NALM.

² The purchaser of the asset was the original owner of the asset prior to the debtor acquiring it.

- 6.16** In April 2012, the NAMA Board reviewed the policy pertaining to the application of Section 172 and acknowledged that the policy in place should not preclude the completion of good commercial deals for NAMA. Consequently, the Board agreed that, on a case-by-case basis should the policy conflict with achieving the best financial return, exceptions to the policy could be approved at the appropriate delegated authority level.
- 6.17** The examination team found that 78 of the 80 assets were required to have a completed Section 172 declaration. 74 of the 78 with total gross proceeds of €2.6 billion had Section 172 declarations available for review. In the case of four assets, a Section 172 declaration was not available.
- 6.18** While Section 172 declarations are received in most cases, NAMA case managers do not carry out a verification process. For 55 of the 74 reviewed, the asset sales contract was available, and the examination team could agree the purchaser from the contract to the Section 172 declaration. For 19 sales, the contracts were not available to NAMA and therefore it was not possible to complete the testing.
- 6.19** NAMA's asset disposal policy does not require it to receive or hold an executed version of the sales contract.

Duty of care — sales agents

- 6.20** When selling an asset, it is expected that a sales agent will be appointed. While the sales agent is generally appointed by the debtor/receiver, they are expected to enter into a duty of care agreement with NAMA. For the 80 asset sales reviewed, it was deemed that a duty of care agreement was not required in 10 cases. Of the remaining 70 sales, evidence of a duty of care agreement was provided in relation to the sale of 60 (86%) assets. No evidence of an agreement being in place for the remaining 10 asset sales was provided.¹

Conflicts of interest — sales agents

- 6.21** A sales agent is required to disclose to NAMA at the outset of the sales process any commercial relationship with the debtor in the last five years. At the end of the process, the sales agent must disclose any actual or perceived conflict of interest between the agent, debtor and purchaser.
- 6.22** Based on a review of the 70 assets sales with sales agents in place, disclosures by sales agents were made in relation to 18 assets (see Figure 6.3).

Figure 6.3 Conflicts of interest disclosed by sales agents

Conflict of interest disclosed	No. of disclosures^a	No. of assets
at outset	4	12
during/at end	2	6
Total	6	18

Source: Office of the Comptroller and Auditor General

Note: a A different conflict of interest disclosure may occur at both stages for the same asset.

¹ In one of the 10 cases noted as having no duty of care agreement in place, the sale had been handled by two sales agents and only one of the sales agents had a duty of care agreement with NAMA.

- 6.23** The process followed by NAMA following the disclosure of conflicts of interest in three of the 18 asset sales was deemed reasonable by the examination, based on responses provided by NAMA.
- 6.24** The sale of fifteen of the assets occurred in two separate portfolio sales. Conflict of interest disclosures were made by the sales agent at the outset (10 assets) and at the end of the process (5 assets). In each case, when the disclosure was made, there was more than one scenario provided that would give rise to a potential conflict of interest. No evidence of assessment by NAMA of the implication of the conflicts was available. In response to the examination queries, NAMA indicated that the conflicts disclosed were not deemed material to affect the transaction/performance of the sales agent. In addition, it noted that the judgement made by the portfolio sales team at the time was not documented.
- 6.25** In one of the 70 assets sold, the examination noted that the receiver was also the sales agent. A conflict of interest disclosure was not made. NAMA has stated that the full par debt was recovered through this sale, that this was anticipated when the receiver was appointed; and the (expected) recovery of the full par debt negated the need for a conflict of interest disclosure when the receiver appointed another division to act as sales agent.

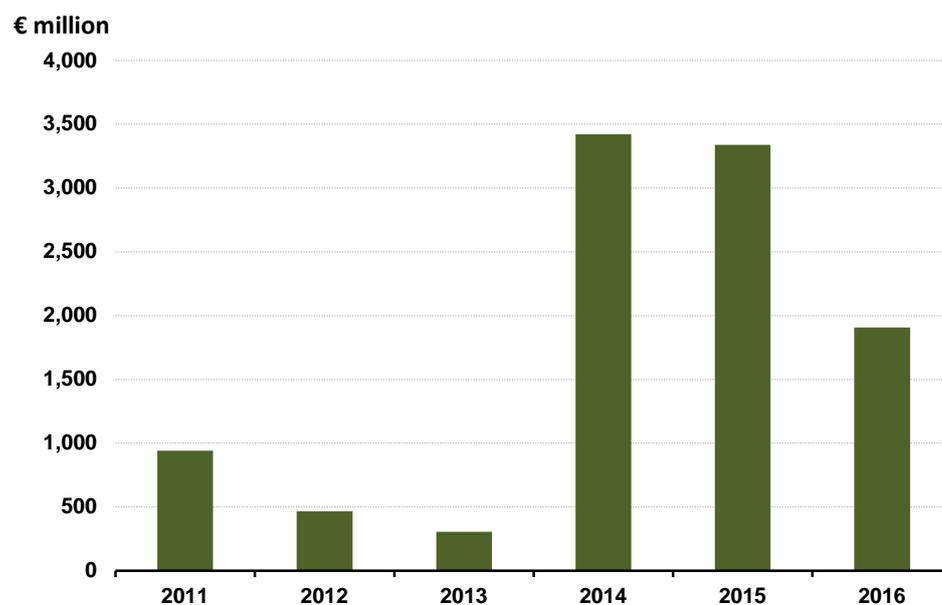
Return on asset sales

- 6.26** An analysis of the return achieved by NAMA on the sale of some assets in the sample reviewed was attempted by the examination team. The value of the asset in November 2009 was compared with the sale proceeds achieved. However because NAMA did not capture all the capital expenditure incurred between acquisition and sale on an asset-by-asset basis, comparison of the November 2009 value and the sale proceeds may overstate performance.

Loan sales

6.27 By the end of 2016, NAMA had carried out 88 loan sales with gross proceeds of €10.4 billion. Figure 6.4 sets out an overview of the loan sales from inception to the end of 2016.

Figure 6.4 Gross proceeds from loan sales, inception to end-2016



Source: NAMA financial statements

6.28 Loan sales can be initiated through reverse enquiry, through NAMA's bundling of a package of loans for sale or where the preferred bidder of the underlying collateral asks to purchase the loan. The Board approved the Loan Sale Policy in September 2011, and updated it in September 2013. Loan sales are NAMA led.

6.29 Unless a proposed loan sale is expected to recover par debt value, NAMA's policy is to openly market loan sales. NAMA established a Loan Sales Team to prepare and manage loan sale transactions. The team also provides case managers with advice on bundling of loan sales.

Loan sale process

- 6.30** As part of this review, the examination team examined the processes applied by NAMA in eleven loan sales, covering the period 2011 to 2016. Two of the eleven loan sales reviewed were not standard loan sale projects.
- 6.31** In one case, NAMA accepted an offer from the purchaser of an amount that was sufficient to repay the par debt outstanding. NAMA is not entitled to funds in excess of par debt.
- 6.32** In the other case, two separate unsolicited bids of £105 million were submitted to NAMA to purchase loans that were not being marketed at the time related to all assets of a debtor (including two unencumbered assets). A valuation of the assets undertaken by NAMA valued them at £110 million. NAMA rejected the bids but decided to openly market the portfolio of assets.¹
- 6.33** The marketing material for the portfolio did not include the two unencumbered assets.² Bids of £108 million and £106 million were received but were deemed not credible because the bidders were unable to provide proof of funds. The only bid deemed credible was an offer of £100 million jointly from those that submitted the original unsolicited offers. Following the bids, the debtor negotiated an increase in the bid price of £3 million, a sale through a loan sale mechanism as opposed to a disposal of the assets, and inclusion of the two unencumbered assets. NAMA approved the sale, noting that the sale price was less than the original unsolicited offers (seven months previously). NAMA stated that it is satisfied that no unsuccessful bidder was disadvantaged by the exclusion of the two assets in the initial phase, and that the market value was obtained.
- 6.34** The sales of the other nine loan portfolios followed, in whole or in part, the standard NAMA loan sale process (see Figure 6.5). The prescribed process was substantially followed in six cases. In three cases — Project Tolka, Project Alba and Project Dynamo — a number of departures from the standard procedures were found. The particular circumstances of the sales are set out in Figures 6.6 and 6.7.

¹ The two unencumbered assets (included in the valuation) were valued at £3.6 million.

² NAMA stated that the unencumbered assets were not included as it did not hold a legal charge over the assets.

Figure 6.5 Loan sale process comparison

	2012 Quattro	2013 Aspen	2014 Tower	2014 Alba
Summary description	One debtor connection	One debtor connection	One debtor connection	One debtor connection
Evaluation				
<i>Comparison of projected loan disposal proceeds to NPV of cash flows</i>	●	●	●	○
<i>Board approval to commence an open market process</i>	●	●	●	●
Preparation				
<i>Appointment of loan sales advisor</i>	●	●	●	●
<i>Loan sales advisor input into loan sale strategy</i>	●	●	●	◐
<i>Loan sales advisor valuation of portfolio</i>	●	●	●	◐
<i>Loan sales advisor minimum price analysis</i>	●	●	●	◐
<i>Gathering due diligence information</i>	●	●	●	○
Launch				
<i>Open marketing</i>	●	●	●	○
<i>Non disclosure agreements with prospective bidders in place</i>	●	●	●	○
<i>Minimum or guide price disclosed to potential bidders^a</i>	○	●	●	◐
Selection				
<i>Round 1 data room</i>	◐	●	●	○
<i>First round bids</i>	●	●	●	○
<i>Shortlisting of bidders</i>	●	●	●	○
<i>Round 2 data room^b</i>	◐	●	●	○
<i>Binding bids</i>	●	●	●	●

Source: NAMA. Analysis by the Office of the Comptroller and Auditor General.

Notes: a Projects Tolka, Alba, Tower and Dynamo – minimum price.
Projects Aspen and Arrow – guide price.

b Projects Alba and Dynamo – unclear of process; Project Tolka – one-phase process

2015 Dynamo	2015 Jewel	2015 Arrow	2016 Emerald/ Ruby	2016 Tolka
One debtor connection	One debtor connection	Multiple debtor connections	Multiple debtor connections	Multiple debtor connections
○	●	●	●	●
●	●	●	●	○
●	●	●	●	●
⊖	●	●	●	⊖
⊖	●	●	●	●
⊖	●	●	●	●
○	●	●	●	●
○	●	●	●	○
○	●	●	●	●
⊖	○	●	○	●
○	●	●	●	○
○	●	●	●	○
○	●	●	●	⊖
○	●	●	●	●
●	●	●	●	●

● Feature present
○ Feature absent

⊖ Feature present but differences with other major loan sales processes noted or partially present.

Figure 6.6 Project Tolka

The initiation of the Project Tolka loan sale came from a reverse enquiry to NAMA from a number of interested investors in 2014. The Tolka portfolio consisted of loans related to three main debtor connections and a large number of other debtors. The NAMA Board approved the commencement of a loan sale process in November 2014, subject to consensual agreement being reached with each of the connections.

In early 2015, it came to light that NAMA had acquired significantly flawed security on one property asset that had been pledged as collateral for a loan issued by Anglo Irish Bank Corporation Limited (Anglo).

In accordance with the NAMA loan acquisition process, Anglo had commissioned external consultants to carry out a due diligence review of the collateral in October 2009. No issues of concern were identified. The bank engaged a separate firm to provide an appraisal and valuation of the asset as at 30 November 2009 and a value of €27 million was submitted. NAMA subsequently appointed a firm to review the valuation and a revised value of €25 million was provided. This was accepted by NAMA and was incorporated into the pricing of the loan.

In 2011, NAMA engaged two firms of solicitors to review the security of the assets relating to the connections as part of a potential sale. The reviewers did not specifically identify any material issue with the security.

When preparation for the Tolka portfolio sale got underway in late 2014, NAMA sought advice as to the enforceability of the security over the key asset. In February 2015, senior counsel identified defects in the security obtained by Anglo. NAMA assessed that there was a risk that, if the debtors sought to sell the property, it could prove difficult for NAMA to assert a claim to the proceeds of sale.

NAMA met with the debtors in February 2015, and began discussions about the possibility of a consensual loan sale. By February 2016, NAMA and the debtors had provisionally agreed a basis for proceeding with a loan sale through a co-operation agreement, and heads of terms were agreed and signed by all parties. The NAMA Board agreed, at the debtors' request, to a restricted loan sale (viz a one-phase bidding process and a limit on the number of potential bidders) and noted certain good faith gestures by the debtors.

In March 2016, NAMA appointed a loan sale advisor for the Tolka loan sale. While the loan sale advisor estimated the market value of the key asset at €42 million, the value to NAMA attributable to the asset would only be between €2.1 million and €6.3 million unless there was a properly structured co-operation agreement involving an obligation on the debtors to assist in remediating security defects.

In September 2016, the Board approved the terms of a co-operation agreement, which was executed on 2 November 2016. The loan sale advisor's valuation of the portfolio of loans at €450 million (including €42 million for the key asset) was used as the minimum price for the portfolio. In the event, Project Tolka was sold for a value of €475.8 million in December 2016. As NAMA sought bids on the loan sale as a whole, it is not possible to determine what it received for the key asset.

NAMA has submitted a claim for €87,400 to the liquidators of IBRC, which is under active negotiation. The amount of the claim is limited to the recovery of legal costs to NAMA following completion of the remediation exercise and the Tolka loan sale.

Figure 6.6 Project Tolka (continued)

The significant departures from a standard loan sale process are set out below.

Summary description of process standard	Detail of deviation
Board approval to commence an open market process	The Board approved a restricted one phase loan sale process with not more than three bidders.
Loan sales advisor input into loan sale strategy	The loan sales advisor was aware of the strategy that NAMA wanted to follow i.e. restricted process with one phase. The advisor however was involved in confirming bidders credibility once selected by NAMA and the debtors. The loan sale advisor advised NAMA to sell the whole portfolio in one lot, rather than in two tranches which NAMA had initially proposed.
Open marketing	The sale was not openly marketed. A one-round process with three target bidders and a replacement panel of six bidders was approved. Only three would ever have been allowed into the process at any one time, as per the cooperation agreement.
Two-phase bidding round	There was only a one-phase process for this loan sale. NAMA consider that the process of selecting the three potential bidders to enter into the process and their limited review of documents (supplied by the loan sale advisor) prior to their giving confirmation that they were willing to bid on the portfolio was akin to phase one of a normal loan sale. Bids were only provided once.

Figure 6.7 Projects Dynamo and Alba

The loans and assets associated with Projects Dynamo and Alba belonged to one debtor connection and included an incomplete development in another jurisdiction. NAMA attempted unsuccessfully on three occasions to sell the entire debtor connection in a single loan sale in 2011. The loan sale advisor valued the incomplete development at approximately €60 million as at end 2011. However, the advisor also noted that from January 2012, the local authority in whose area the development was located would impose a penalty of €516,000 per day for not developing the site within the permit timeline.

In 2013, NAMA decided to sell the debtor connection through any means. As a result of this change in strategy, NAMA bundled the connection's loans (and their underlying collateral) into the loan sales code named Project Dynamo and Project Alba. Project Dynamo contained the incomplete development.

By mid 2014, NAMA estimated the penalty accrued on the incomplete development was €490 million. The accumulated penalties led to difficulties in finalising the loan sale for Project Dynamo. In order to address the issue, the debtor, with NAMA's agreement, transferred a part of the development to the local authority to discharge the penalty that had accrued. NAMA achieved a gross sale price of €50 million for Project Dynamo of which approximately €20 million was for the remainder of the incomplete development.

The significant departures from a standard loan sale process are set out below.

Summary description of process standard	Detail of deviation
Preparation of the loan sale with loan sale advisor input	For the original loan sale attempt in 2011, the loan sale advisor provided input to the sale strategy, prepared valuations, and set out a minimum price reserve to NAMA. Approval was obtained to retain the loan sale advisor's services. As the debtor introduced buyers into the loans/assets sale, the role of the loan sale advisor was to confirm market value was achieved. The loan sale advisor provided a letter in support of both sales.
Loan sale launch (open market; non-disclosure agreement; minimum price notification)	The debtor entered into a co-operation agreement with NAMA. As part of this agreement, the debtor had to actively seek out buyers for the loans (and underlying collateral). No evidence could be provided of the target audience, non-disclosure agreements or if the minimum price was communicated to potential bidders for this loan sale.
Competitive bid selection	No evidence was available of the data-room or the gathering of information to be presented in the data-room, first round bids, or shortlisting of bidders for this loan sale.

Delegated authority

- 6.35** For loan sales, the value attributed to the sale determines the Board-approved level of delegated authority required to approve the transaction. All loan sales reviewed followed the required delegated authority procedures that were applicable at the time.

Assets offered for sale twice

- 6.36** NAMA maintains its list of secured assets on a Property Management System (PMS). When an asset is sold, the PMS status should be updated, but the examination team noted delays in updating the PMS. The delay in applying the correct classification can result in an asset being offered for sale again.
- 6.37** The examination noted in one loan sale, comprising a total of 2,000 units, that four apartments (in a block of 96) were offered for sale but had already been sold for €835,000 (NAMA has stated that it received the net proceeds of the sale). The prior sale of these assets was identified by the purchaser of the loan. A refund of the cost of these assets was provided to the purchaser.
- 6.38** NAMA has noted that the procedure for updating an asset's status on PMS following a sale has been amended. It further noted that value had already been obtained for the properties by NAMA as asset sales pre loan sale.
- 6.39** For another loan sale, the examination team noted that there is a claim outstanding from the purchaser. The claim relates to a number of issues including the inappropriate inclusion in the loan sale of previously sold assets. Other issues in dispute include
- information that had not been provided to the purchaser which would have impacted the price allocated to the loan sale
 - a judgement mortgage which was registered on incorrect folios
 - amounts refundable to NAMA as funds that receivers had drawn down (prior to the loan sale completion) were not required.
- 6.40** NAMA stated that in a complex, multi-asset loan sale there are always matters identified post completion that are subject to a price adjustment process.

Bidding process

- 6.41** As part of the sales process, loan sales agents, on behalf of NAMA, invite potential bidders to submit bids for a loan sale by a specific time and date. The loan sales agents set out in a process letter to the bidders the applicable deadline and the sale process to be followed. The letter states that offers received after the deadline may be rejected at the discretion of NAMA.
- 6.42** For one of the loan sales, the agent received bids for the final stage of the loan sale process after the deadline that was set. It was reported to the NAMA Board that the offers had been received on time.¹ In the case of one of these bids which subsequently became the successful bid, NAMA stated that the bid was received on time but it was blocked by IT security and released after the deadline.

¹ The Board paper notes 'Binding bids received from Bidder 1 and 2 in advance of required deadline.'

7 Residential and commercial property development

- 7.1 At the time when NAMA was established there had been a collapse in commercial development and house building, with many projects and housing estates remaining unfinished. NAMA introduced a number of initiatives and programmes in order to stimulate investment in commercial properties and support the viability of small and medium businesses through rent abatement.
- 7.2 The Government's *Construction 2020* strategy issued in May 2014 sets out NAMA's role in the provision of funding for the development of commercial and residential projects.¹

Commercial rent abatement

- 7.3 In December 2011, NAMA introduced a rent abatement initiative. It provides an abatement of rent to commercial tenants of NAMA debtors where the rent payable on the current lease is in excess of market levels and as a result the viability of their business is threatened.
- 7.4 The purpose of the initiative is to support the short term viability of small and medium businesses. In addition, it helps to preserve the value of the collateral supporting NAMA loans by helping businesses stay in business and continue to generate rental income.
- 7.5 In the period 2013 to 2016, NAMA approved rent abatements of €13.3 million relating to contracted rent of €36.9 million. This is an average abatement of approximately 36%.

Vendor finance

- 7.6 Due to limited availability of finance in 2012, NAMA introduced vendor finance as one of a range of measures to stimulate investment in commercial properties held by its debtors and receivers in both Ireland and the United Kingdom. It was envisaged that NAMA would make up to €2 billion available in vendor finance over four years. However, NAMA has confirmed that it was, and is, its preference that sales transactions should complete with full proceeds paid.
- 7.7 At the end of 2016, NAMA has provided €384 million to eight vendor finance connections. By the end of May 2017, five of the transactions had been repaid. The remaining three transactions are due to be repaid by the end of 2018.
- 7.8 NAMA confirmed that a number of factors influenced the limited amount of vendor finance provided to the market. These include Ireland's exit from the Troika programme, the recovery in the Irish economy in recent years, increased investment in Ireland by international investors and the wider availability of capital provided by international and debt providers.

¹ Construction 2020: A Strategy for a renewed Construction Sector, published May 2014 is available at www.housing.gov.ie

Strategic development zone

- 7.9** In December 2012, the Minister for Housing, Planning and Local Government announced that the North Lotts and Grand Canal Dock areas of the Dublin Docklands had been designated as a Strategic Development Zone (SDZ) in order to facilitate the development of an area of economic or social importance to the State.
- 7.10** The North Lotts and Grand Canal Dock Planning Scheme was approved by An Bord Pleanála in May 2014. The scheme put in place a fast-track planning process for the SDZ.
- 7.11** At the outset, NAMA held security over the majority of the available development land (75%) in 15 sites within the docklands SDZ area. The majority of the lands in which NAMA has an interest (12.76 hectares out of a total of 16.74 hectares) are under the control of receivers. There is no longer original debtor involvement in any of the SDZ sites.
- 7.12** The NAMA Board approved a Docklands Business Plan in September 2014. The plan outlined a number of delivery options
- site sale by NAMA-appointed receiver
 - joint venture agreement between NAMA and a third party
 - fund receiver to carry out development with an agreed exit strategy
 - securing occupier/purchaser for completed development
 - creating long lease hold interest.
- 7.13** The business plan set out the initial strategies for 13 NAMA controlled sites and estimated gross development costs of €1.9 billion in the period 2016 to 2020 to deliver all development on the sites in which NAMA had an interest.¹
- 7.14** NAMA has varying levels of control of five sites held within qualifying investor alternative investment fund (QIAIF). There are three QIAIFs in place
- two sites are held in one fund with a NAMA investment of 16.5%
 - two sites are held in another fund in which NAMA has an investment of 47.75%
 - NAMA has a 15% investment in the last fund (one site).
- 7.15** Up to the end of 2016, €252 million of NAMA funding was approved (€235 million in debt funding and €17 million in infrastructure funding), and of this, €42.6 million (17%) was drawn down.
- 7.16** NAMA stated that at the end of 2016, construction had commenced on projects comprising 165,871 gross square metres of commercial space and 231 residential units.
- 7.17** In order to assess the delivery and achievement of its SDZ objectives, the NAMA Board receives bi-monthly reports on project performance and status. The reports provide an update on the delivery of the projects and relevant metrics in terms of area of commercial space and anticipated residential units. In addition, each individual site strategy is subject to NAMA Board approval.

¹ There are 15 sites in total. In the 2014 business plan, two sites were consolidated for reporting purposes and one site was not included.

Risks to the delivery of the SDZ objective

- 7.18** In the business plan, NAMA set out a number of risks to the delivery of the SDZ programme and the strategies to address those risks. When approving the plan, the Board noted three key issues related to planning, infrastructure and procurement. The Board received legal advice on the issue of procurement and agreed to be guided by it.
- 7.19** NAMA indicated concentration risk as another key risk which is addressed through adopting a site-specific approach and strategies, for example, creation of minority equity interests and receiver led developments.

Deferred payment initiative

- 7.20** In 2012, NAMA launched the deferred payment initiative (DPI). The purpose of the initiative is to reduce the risk faced by potential purchasers of residential properties that prices may fall after they purchase. The key features of the scheme are
- A buyer pays 80% of the purchase price up-front, funded by the purchaser's own equity or loan.
 - If, after five years, the value of the house has fallen by 20% or more relative to its original purchase price, no additional amount will be paid by the purchaser.
 - If, after five years, the value of the house has fallen by less than 20% or has increased, the amount ultimately payable will be the lesser of the value of the house or the original purchase price. Any additional amount of consideration due will be paid to NAMA by the mortgage provider on behalf of the purchaser.
- 7.21** The initiative was closed to new entrants at the end of May 2014. NAMA noted that between 2012 and 2014, the purchasers of 103 properties benefited from the scheme and as a result NAMA is due €4 million in deferred payments. As at the end of 2016, €82,000 had been collected. The outstanding balance of €3.9 million is due for payment (subject to property values) up to December 2019.

Unfinished housing estates

- 7.22** A report on Unfinished Housing Developments published in May 2011 identified 1,655 unfinished housing estates (UFHEs) in Ireland.¹
- 7.23** By November 2013, the Department of Housing, Planning and Local Government's National Housing Survey reported that the number of UFHEs had fallen to 1,258. NAMA carried out a review of its portfolio and estimated that 335 UFHEs were under its control.
- 7.24** NAMA's approach to managing UFHEs is to manage them as part of the overall debtor connection. Funding approvals are subject to the standard delegated authority framework. In some cases, demolition is required. NAMA indicated that, in total, 123 units were demolished (across eight estates) at a cost of €1 million.
- 7.25** Progress on UFHEs is monitored by NAMA's Planning Advisory Committee (NPAC). Regular updates on UFHEs are provided to the Board. NAMA is a member of the National Co-ordination Committee.²

¹ The report was prepared by an Advisory Group established by the Minister of State with responsibility for housing.

² The National Co-ordination Committee was established to progress the implementation of the recommendations of the report of the Advisory Group on Unfinished Housing Developments.

- 7.26** Following the 2014 budget, the Government put in place the Special Resolution Fund (SRF), to assist in addressing the legacy of unfinished housing developments. Funding of €10 million was made available through the local authorities. NAMA debtors were eligible to apply for this funding. NAMA stated that thirteen UFHEs were approved for funding totalling €2.1 million across eight counties and by the end of 2016, €1.75 million was drawn down.¹
- 7.27** By October 2016, NAMA had 26 unfinished housing estates on its books with a forecast to the end of 2016 of 14.
- 7.28** Residential units from UFHE and incomplete apartment blocks form part of the residential delivery programme outputs once they meet the following criteria
- the unit has not previously been occupied
 - the amounts to be spent on the completion works are in excess of €10,000 per unit
 - the date of completion of the works is after 1 January 2014.
- 7.29** Of the 4,647 residential units delivered up to the end of 2016, NAMA noted that 2,599 units were accounted for by the finishing out of UFHE.

NAMA sales to public bodies

- 7.30** Since inception, NAMA has sold a number of sites and properties to State agencies and bodies. Assets sold to these bodies are not underpinned by an open market process. However, a market valuation is obtained to inform the selling price. NAMA's policy is that information on these disposals is maintained in an 'exceptions to policy' log.
- 7.31** In the period 2014 to 2016, 34 assets were either sold or partially sold to State bodies, with gross proceeds of €154.5 million.²

Residential delivery

- 7.32** In late 2013, NAMA estimated that it could contribute to the delivery of 4,500 new residential units to service the Dublin market over the three years to end 2016.³ To facilitate delivery of residential development, NAMA established a dedicated residential delivery team in April 2014.
- 7.33** The Board subsequently approved a three year residential delivery business plan in July 2014. The business plan set out that NAMA had available to it 39 sites to deliver 3,328 units which were under construction or 'shovel ready' and 183 sites to deliver 17,489 units which were subject to planning. A further 48 sites with potential to deliver 10,000 units were classified as having infrastructural impediments which NAMA was continuing to review.

¹ Funding of €250,000 approved by one local authority was subsequently withdrawn.

² This information was sourced from NAMA's 'Exceptions to policy' log. Assets such as land can be partially sold.

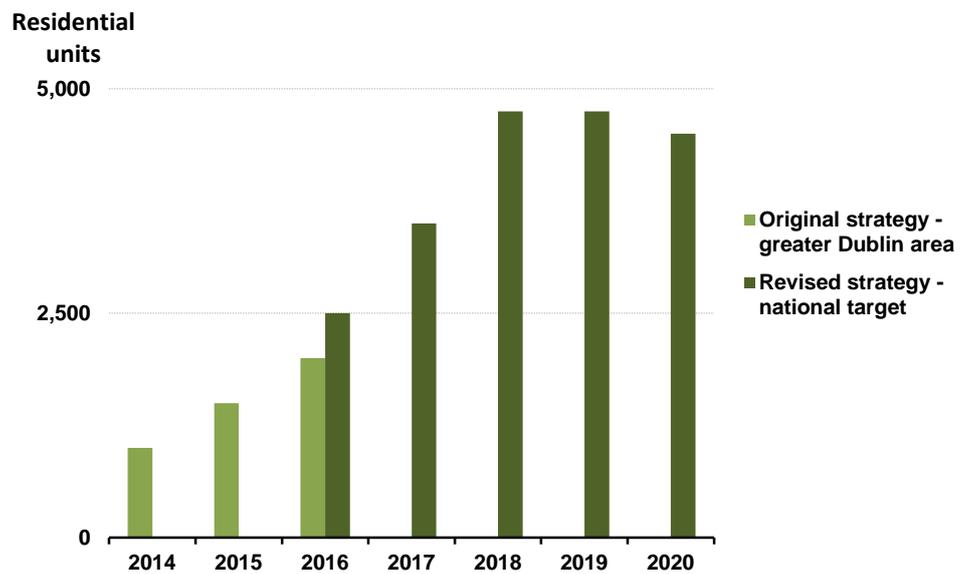
³ NAMA disclosed this as a target in its 2014 annual report (published in May 2015).

Expanded residential business plan

7.34 In September 2015, following a request from the Minister for Finance, the Board assessed the increased contribution that NAMA might be in a position to make in the delivery of housing by 2020. The target of 4,500 for the greater Dublin area was replaced in November 2015 with a national target of 20,000 covering the period October 2015 to December 2020.

7.35 Figure 7.1 sets out the annual targets set under both the original and revised programme of delivery.

Figure 7.1 NAMA’s residential delivery programme targets, 2014-2020



Source: NAMA. Analysis by the Office of the Comptroller and Auditor General

Note: The target for 2016 under the revised strategy covered the period October 2015 to December 2016.

7.36 NAMA employs the use of a residential tracker to record the status of each residential unit. NAMA has confirmed that a residential unit is considered delivered as soon as it is ‘ready for snagging’ by a potential purchaser.¹ The tracker records that NAMA delivered 2,530 residential units for the period 2014 and 2015 — 2,024 in Dublin and 506 outside of Dublin. At the end of 2016, the number of units delivered was 4,647 which was in line with its revised target (See Figure 7.2). NAMA indicated that 98% of units delivered have been sold or are occupied.

¹ The ‘ready for snagging’ stage is determined by the appointed monitoring surveyor.

Figure 7.2 Location of units delivered to end 2016 and forecast to end 2020

County	Delivered to end 2016 ^a	Projected units 2017-2020
Dublin	3,396	15,693
Cork	425	2,456
Kildare	253	1,546
Wicklow	140	1,624
Galway	110	800
Meath	81	263
Laois	71	4
Kilkenny	41	72
Wexford	52	164
Waterford	34	80
Louth	30	123
Clare	14	23
Monaghan	—	36
Limerick	—	450
Total	4,647	23,334

Source: NAMA

Note: a NAMA noted that 39% of the units were delivered by enforced connections i.e. appointed receivers.

- 7.37** In March 2017, the residential delivery update to the Board noted a revised target for the delivery of residential units by 2020 of 18,000, down from 20,000. The challenge to target achievement as advised to the Board is due to 9,701 potential residential units no longer being considered feasible due to exited debtors or failed viability tests.
- 7.38** NAMA stated that it remains its objective to fund or otherwise facilitate the delivery of 20,000 units by 2020, subject to commercial viability. NAMA projects that it will fund 14,400 directly and 5,750 will be indirectly facilitated.¹

Cost of funding residential development

- 7.39** In November 2015, NAMA estimated that the total funding required to deliver the 20,000 residential units would be in the region of €5.6 billion. This includes €670 million for the carrying value of land already acquired.² NAMA estimated at that time that allowing for the recycling of sales proceeds, its peak net funding requirement of €1.77 billion would occur in 2019. By end 2016, NAMA had issued new lending of €297 million as part of the residential delivery programme, 5.3% of the overall estimated figure.
- 7.40** NAMA stated that the €5.6 billion estimate was based on 20,000 units, equivalent to an average of 3,800 units per year. It was expected that output would be lower in the early years. NAMA also noted that for some projects, the construction finance was or is being provided by a third party i.e. the site licenced to a third party or NAMA has a shareholding in a joint venture.

¹ 'Units delivered indirectly' relates to sites that NAMA has asset-managed or has progressed towards development through funding the planning process.

² NAMA's Business Plan Expanded Residential Delivery Programme 2016-2020.

Maximising the return to the State

- 7.41** In 2014 and 2015, NAMA's assessment basis for the approval of residential developments was based, in the main, on the contribution to repayment of the outstanding NAMA debt including any new lending and interest payments. A revised policy for the residential delivery section (introduced in November 2015) set out a requirement that NAMA perform a commercial viability test for all developments.
- 7.42** The debtor/receiver provides forecasts of revenue and expenditure on the development. NAMA's viability test applies a set percentage for notional interest rate costs, development management fees, house price inflation and construction cost inflation. The outcome of the viability test requires the cash position to be positive. In the event the cash flows are negative, further engagement with the debtor/receiver may follow to ascertain if there is scope to reduce costs or increase revenue.
- 7.43** The decision to proceed (or not) with a proposed residential investment is made within the delegated authority framework. The delegated authority may approve funding for proposals that do not pass the commercial viability test. All exceptions have to be reviewed and approved by NAMA's head of residential delivery and by the CEO. Exceptions must also be reported to both the Credit Committee and the NAMA Board.
- 7.44** The viability testing process for a development of 150 units and a funding request of €46 million was reviewed by the examination team. The development did not pass the viability test. The request was submitted to the NAMA Credit Committee and while it noted the failed viability test, it approved the request for funding for the development.¹ In providing approval, the Credit Committee accepted the following mitigating points raised by the case manager
- the connection was not in fact receiving a debtor management fee — when this was excluded, the project passed the viability test
 - costs were frontloaded for this phase of the project and were expected to benefit the profitability of the remaining phases.
- 7.45** In addition, the connection had previously exceeded the projected return on a similar project. As required by policy, the exception was reported to and noted by the Board.

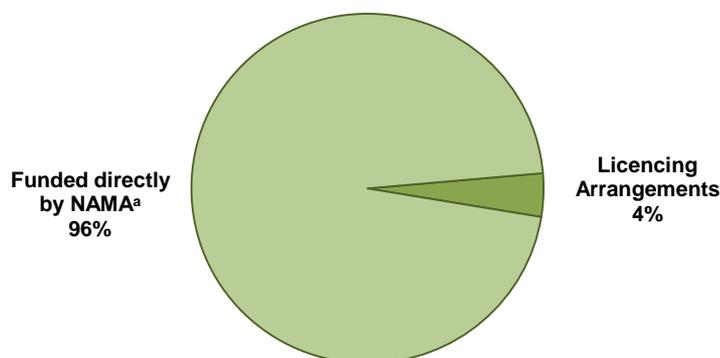
Delivery methods

- 7.46** NAMA has identified three potential delivery mechanisms to progress residential developments
- **Joint venture** — NAMA enters into partnership agreements with Irish and/or international firms to facilitate the build out of the residential units.
 - **Licence** — NAMA licences a site to a developer to develop it and NAMA funding is, in the main, not required.
 - **Funded by NAMA** — NAMA provides funding to the debtors/receivers to develop the residential units.

¹ The Credit Committee is responsible for the approval or rejection of credit applications within its delegated authority level. Its role is to ensure that credit decision making in relation to debtors is consistent with Board policy.

7.47 Figure 7.3 profiles the delivery mechanisms available to end 2016.

Figure 7.3 Delivery mechanisms for residential units to end 2016



Source: NAMA

Note: a In the case of 241 units classified as funded directly by NAMA, the connection provided 20% of the funding.

7.48 Of the 3,328 units which were classified as under construction or 'shovel ready' as of July 2014, 70% (2,323 units) were projected to come from eight connections.

7.49 In December 2015, NAMA was notified of a State aid complaint filed with the European Commission in respect of NAMA's residential delivery activity. The complaint was filed by five Irish developers. The Department of Finance managed the engagement with the Commission on behalf of the State. In January 2018, the Commission concluded that the measures raised in the complaint did not constitute State aid.

Social housing

7.50 NAMA had a target of delivering 2,000 social housing units by the end of 2015. NAMA regularly reviews its portfolio to identify residential properties which are vacant and might be suitable for social housing.

7.51 In order to aid its remit, NAMA retained 425 properties deemed suitable for social housing that could have transferred as part of the sale of the PI portfolio in the Project Arrow loan sale.

7.52 By the end of 2016, NAMA had identified 6,941 (2015: 6,635) residential properties that were potentially suitable for social housing needs. The local authorities confirmed demand for 40% of the properties offered.

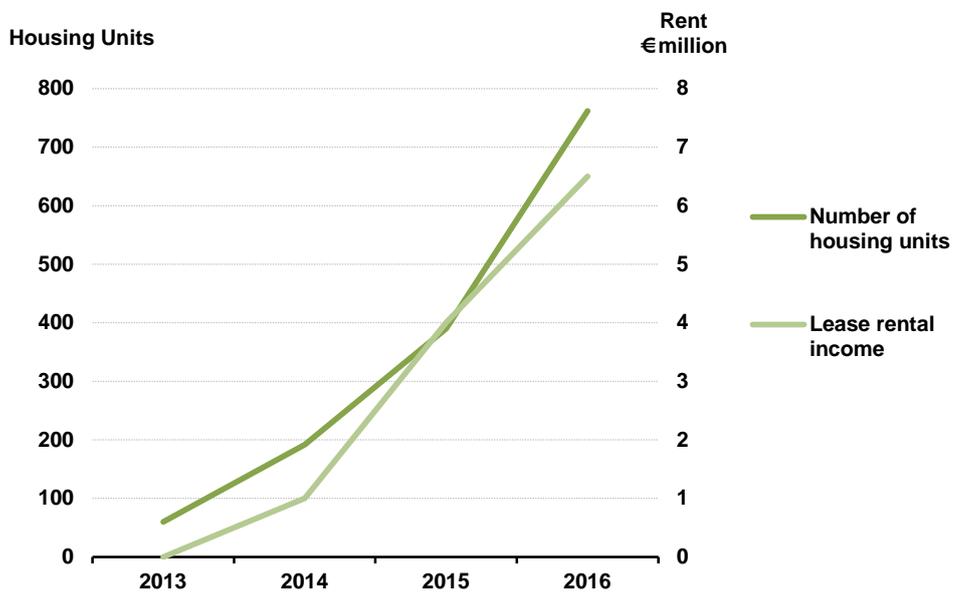
7.53 NAMA achieved its targeted delivery of 2,000 social housing units by 2015. At the end of 2015, NAMA reported it had delivered 2,001 social housing units, 1,427 completed and 574 contracted units. By 2016, 2,378 units have been delivered, 1,909 completed and 469 contracted units.

7.54 The provision of social housing occurs through either

- direct sales to an approved housing body or local authority, or
- purchase by the National Asset Residential Property Services DAC (NARPS) for leasing to approved housing bodies.¹

7.55 NARPS acquired its first 60 properties in 2013 with a carrying value of €7.2 million. The properties acquired by NARPS are leased to housing bodies and generate rental income for NAMA. At the end of 2015, NAMA’s lease agreements are valued at €3.6 million. Due to the acquisition of an additional 372 units in 2016, lease rental income at the end of 2016 increased to €6.5 million. Figure 7.4 profiles the increase in rental income relative to the increase in leased properties between 2013 and 2016.

Figure 7.4 Number and lease rental for housing units acquired by NARPS



¹ National Asset Residential Property Services DAC (NARPS) was set up in July 2012 to acquire residential properties from debtors and receivers.

Source: NARPS Financial Statements

Appendices

Appendix A

Figure A.1 Functions of NAMA group entities as at 31 December 2016

Entity	Function
National Asset Management Agency Investment DAC	Facilitates making a return by way of dividend to private investors.
National Asset Management DAC	Creates debt securities and subordinated debt that are transferred to the participating banks in return for the loans.
National Asset Management Group Services DAC	Holding company for subsidiaries.
National Asset Loan Management DAC	Acquired and manages the loan assets from the participating banks.
National Asset North Quays DAC	NANQ holds land acquired by NAMA in 72-80 North Wall Quay. It receives income from the land in the form of a licence fee, a fixed percentage of rent or a percentage of sales proceeds of any completed development to be built on the land.
National Asset Management Services DAC	An administrative company through which expenses are paid.
National Asset JV A DAC	Established in July 2013 to facilitate the acquisition of a twenty per cent interest in a partnership, incidental to a joint venture arrangement entered into by NAMA with a consortium.
National Asset Property Management DAC	Holds property acquired after enforcement of security
National Asset Residential Property Services DAC	Established in 2012, to acquire residential properties and to lease these properties to approved housing bodies for social housing purposes.
National Asset Sarasota Limited Liability Company	Established in 1 August 2013 in the US state of Florida to acquire certain property assets located in the US, in settlement of debt owed to NAMA.
National Asset Leisure Holdings Limited ^a	Established in February 2014 in order to acquire 100% of the share capital in two Portuguese entities – RLHC Resort Lazer SGPS, S.A. and RLHC Resort Lazer II SGPS, S.A .
RLHC Resort Lazer SGPS, S.A.	Established to facilitate the legal restructure of a number of entities with Portuguese property assets
RLHC Resort Lazer II SGPS, S.A.	Established to facilitate the legal restructure of a number of entities with Portuguese property assets

Source: NAMA

Notes: a National Asset Leisure Holdings Ltd (NALH) is in voluntary liquidation. The liquidator has assumed the rights of the shareholder and now controls NALH and its subsidiaries RLHC Resort Lazer SGPS S.A. and RLHC Resort Lazer II SGPS S.A. All decisions are taken by the liquidator. NALH is not consolidated into the results of the NAMA Group.

Appendix B

Figure B.1 Extracts from the NAMA Act 2009

Section 172

(1) If a person owns charged land and

(a) the person

(i) owns other land (in this subsection referred to as the “ relevant land ”) or holds an option to acquire such land, or

(ii) holds an interest in other land, or an option to acquire such an interest, and

(b) unless the relevant land, the interest or the option were owned or held (as the case requires) by NAMA, the charged land would be unable to realise its full value for development, sale, leasing or any other use,

the person shall not deal with the relevant land, the interest or the option without giving reasonable written notice to NAMA.

(2) A dealing in contravention of subsection (1) is voidable at NAMA's option except against a person who has in good faith and for value acquired an interest in the land concerned.

(3) A person who is the debtor in relation to an acquired bank asset, who is a person referred to in any of subparagraphs (i), (ii), (iii), (v) or (vi) of section 70 (1)(b) or who is a person on whose behalf the debtor or the person referred to in one of those subparagraphs acts as a nominee or trustee in relation to an acquired bank asset shall not, if any of those persons is in default in relation to any acquired bank asset, acquire from NAMA or a NAMA group entity, any legal or beneficial interest in property comprised in the security forming part of any acquired bank asset in relation to which the default has occurred.

(4) The Minister may, if in the opinion of the Minister it is necessary to do so having regard to the purposes of this Act and, in particular, to the interests of taxpayers and the nature and extent of the default, make regulations

(a) prohibiting or restricting the acquisition by a person who is in a prescribed class of debtors, or of persons directly or indirectly connected to debtors, of any legal or beneficial interest in property comprised in the security forming part of any acquired bank asset or any acquired bank asset of a prescribed class of acquired bank assets, where the debtor concerned is in material default of any payment obligation to NAMA or a NAMA group entity for which a satisfactory arrangement to remedy the default has not been made, and

(b) prescribing the requirements which such persons would be required to meet in order to acquire property comprised in the security forming part of any acquired bank asset or any acquired bank asset of a specified class of acquired bank assets from NAMA or a NAMA group entity.

(5) A draft of every regulation proposed to be made under subsection (4) shall be laid before each House of the Oireachtas and the regulation shall not be made until a resolution approving of the draft has been passed by each such House.