Annual Report & Financial Statements

2014

National Asset Management Agency

Contents

Gníomhaireacht Náisiúnta um Bhainistíocht Sócmhainní
National Asset Management Agency

12 May 2015

Mr. Michael Noonan T.D.
Minister for Finance
Government Buildings
Upper Merrion Street
Dublin 2.

Dear Minister,

We have the honour to submit to you the Report and Accounts of the National Asset Management Agency for the year ended 31 December 2014.

Yours sincerely,

Frank Daly	**Brendan McDonagh**
Chairman	Chief Executive

Key Strategic Objectives set by the NAMA Board

1. The Board's primary commercial objective is to redeem all of its senior debt (€30.2 billion) before the end of 2018. The Board also aims to redeem the NAMA subordinated debt (€1.593 billion) by 1 March 2020 and to generate a surplus by the time its work has been completed. It aims to meet all of its future commitments out of its own resources.

2. In order to meet its primary commercial objective (as at 1 above), NAMA will manage assets intensively and invest in them so as to optimise their income-producing potential and disposal value. Through its disposal activity, it will continue to generate transactions aimed at sustaining the strong performance which the Irish property market has experienced over recent years.

3. NAMA will facilitate the delivery of Grade A office accommodation in the Dublin Docklands SDZ; it will contribute, not only in terms of project funding, if required, but also in bringing coherence, direction and drive to the delivery process.

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

5. Subject to the primacy of its Section 10 commercial mandate but often complementing it, NAMA will seek to make a positive social and economic contribution across the broad range of its activities.

Key Performance Indicators

2014

OPERATING PROFIT

€648m

€9.1 billion
SENIOR BOND REDEMPTIONS

FROM INCEPTION TO END-MARCH 2015

€1 billion
DEVELOPMENT FUNDING IN IRELAND

€25 billion
CASH GENERATION

€19.9 billion
DISPOSAL RECEIPTS

€17.6 billion
SENIOR BOND REDEMPTIONS (58%)

€8.6 billion
CASH GENERATION

€7.8 billion
DISPOSAL RECEIPTS

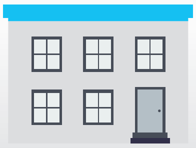
Other Key Business Highlights 2014

DUBLIN DOCKLANDS SDZ

75%

Development land

NAMA holds an interest in 75% of the 22 hectares of developable land within the Dublin Docklands SDZ.

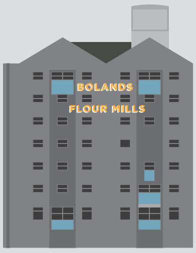


1,950

Potential apartments

It is estimated that up to 3.8m sq. ft. of commercial space and 1,950 apartments could be delivered in all the sites in the Dublin Docklands SDZ in which NAMA has an interest.

NAMA SDZ ACTIVITY



The planning application for the development of the landmark Boland's Mill site in the south Dublin Docklands.

Planning applications for the development of 5 Hanover Quay, 6-8 Hanover Quay and 76 Sir John Rogerson's Quay.

The selection of a preferred bidder for the development of a key site located at 72-80 North Wall Quay.

RESIDENTIAL DEVELOPMENT FUNDING

40%

New housing supply

NAMA funded more than 40% of Dublin's total new housing supply in 2014.

SOCIAL HOUSING

NAMA is facilitating local authorities and housing bodies to purchase and lease properties for social housing.

As part of this process NARPSL, a NAMA SPV, acquires residential units from NAMA debtors and receivers and leases them directly to approved housing bodies.

over
1,000
units

By end-2014, over 1,000 units were delivered under this initiative.

FACILITATING BUSINESS AND EMPLOYMENT IN IRELAND

Working with IDA Ireland

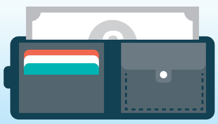
NAMA is working with IDA Ireland and other State agencies to identify suitable properties for companies looking to establish or expand existing business operations in Ireland.

15,000

NAMA, through the deployment of working capital, is directly supporting 15,000 jobs in Ireland in trading businesses linked to its loans.

€23m

NAMA has approved rent abatements with an annual aggregate value in excess of €23m.



€40m

NAMA has approved long-term rent reliefs worth €40m to support small and medium retail businesses throughout the country.

Chairman's Statement

Mr Frank Daly
Chairman

2014 was a year of major achievement for NAMA. We reported a profit for the fourth year in a row. Significantly, we also passed the half-way point in repaying our Senior Bonds. The extent of our progress during 2014 is demonstrated by the fact that we repaid more of our Senior Bonds in a single year (€9.1 billion) than we were able to do in the previous four years combined (€7.5 billion). We intend to build on this excellent progress by staying ahead of schedule for the remainder of NAMA's lifespan. Based on our current outlook, we hope to complete our core work by 2018, well ahead of our original target of 2020.

For too long in Ireland's recent past, big numbers meant bad news: billions lost as a result of poor lending, billions written off bank balance sheets and billions added to the national debt. But 2014 showed that big numbers can also mean good news – the billions invested in the Irish commercial property market and in Irish loan portfolios in 2014 reduced substantially the contingent liability of Irish taxpayers to IBRC and to NAMA and will give much-needed impetus to Ireland's economic recovery and to employment.

By the end of 2014, NAMA had generated €23.7 billion in cash from the loans it acquired. We sold assets totalling €18.7 billion to investors whose interest in investing in Ireland has been transformed by the economic recovery.

To date, we have approved €3.2 billion in loan advances to debtors and receivers, investing in our assets to make them worth more for Irish taxpayers, to support jobs and to stimulate further investment in our economy.

We finished 2014 in a strong position, closer to our destination, although much work remains to be done.

Ancillary mandates

2014 also saw NAMA being tasked by the Minister for Finance with additional responsibilities. Following the completion of the Minister's review of the Agency, undertaken under Section 227 of the NAMA Act, we have been asked to carry out two new mandates.

The first is to ensure the timely and coherent delivery of key Grade A office, retail and residential space within the Dublin Docklands SDZ and Dublin's Central Business District. The second is to maximise the delivery of residential housing units in areas of most need.

We believe we can deliver on these ancillary mandates and we are already making strong progress on both fronts. Major strides were made in 2014 on advancing the development of the Dublin Docklands SDZ. Following approval of the Docklands SDZ Scheme by An Bord Pleanála in May 2014, NAMA intensified preparatory work in relation to the development land within the SDZ in which it holds an interest (75% of the 22 hectares of developable land in the SDZ area). Initial appraisal work suggests that up to 3.8m sq. ft. of commercial space and 1,950 apartments could potentially be delivered if all the 15 sites in which NAMA has an interest are fully developed over the next decade.

In that context, a number of initiatives announced towards the end of 2014 will help, including the initiation of the planning process for the development of the landmark Boland's Mill site and the award of a long leasehold interest for a site on North Wall Quay to Oxley Holdings Limited (Project Wave). NAMA is also a minority shareholder in a number of funds which are engaged in the development of five other Docklands sites on some of which construction has already commenced.

The development potential offered by the SDZ is illustrated by the proposed redevelopment of the Boland's Mill site: it alone will deliver approximately 350,000 sq. ft. of new quality office space (the equivalent of almost 20% of the office space contained in the International Financial Services Centre), a block of 42 apartments, a cultural and exhibition space and substantial retail and restaurant space. When completed, the redevelopment will create a new urban quarter, opening up public access to a large city block with new streets and open spaces in a waterfront area adjoining the Grand Canal Dock Basin.

As part of its contribution to address emerging residential supply shortages in the Greater Dublin area, NAMA established a dedicated Residential Delivery team in April 2014. The team is driving delivery of NAMA's commitment to facilitate the completion of 4,500 new residential units in the period to the end of 2016 and to assess the scope for delivery of additional units thereafter. The end-2014 delivery target of 1,000 units has been exceeded; our target is to deliver another 1,500 units in 2015 with the residual to be delivered in 2016.

We have the capacity, if required, to invest up to €3 billion in these and other viable projects which can deliver high-quality offices and new homes in Dublin and other areas where there is strong demand.

Making a wider contribution

NAMA is not just about generating financial returns. We can and are making a broader contribution to the Irish economy. We have, for example, helped stimulate Ireland's property market recovery by bringing assets to the market in an orderly way, tapping into growing domestic and international investor interest and generating that interest.

We are working closely with IDA Ireland in relation to assets in our portfolio that may be suitable for companies looking to establish or expand existing business operations in Ireland. This has resulted in a number of important transactions in the Irish economy with companies such as Google, Facebook, Yahoo and LinkedIn.

We are supporting debtor businesses which, in total, directly employ more than 15,000 people in Ireland – this is in addition to people employed in construction projects that NAMA is funding.

We are facilitating the delivery of social housing. We exceeded our target of delivering 1,000 homes for social housing by the end of 2014 and our target is to deliver an additional 1,000 units in 2015, subject to local authorities and housing bodies confirming their intention to buy or lease these homes from NAMA debtors and receivers or directly from NAMA's social housing SPV, NARPSL.

NAMA is a commercial entity and of course we are delivering on the commercial mandate set for us by the Oireachtas, but NAMA does not operate in a vacuum. We are very sensitive to the impact of our work on the wider Irish economy and we work hard to ensure that our impact is a positive one.

Conclusion

Five years on from its establishment, NAMA is firmly on course to repay its senior and subordinated bonds and is confident of generating a surplus for Irish taxpayers. If we achieve these objectives, much of the credit must go to the dedication, hard work and ability of NAMA's Board and NAMA staff so ably led by CEO Brendan McDonagh. The coming years offer NAMA a unique opportunity to combine its blend of property and finance expertise, its lending capability and the assets under the control of its debtors and receivers, with the aim of making a major contribution to addressing current and prospective supply shortages and, more generally, of leaving a positive imprint on Ireland's economy and society after we complete our work. It is an opportunity that we look forward to tackling with energy and vigour.

Chief Executive's Statement

Mr Brendan McDonagh
Chief Executive

For NAMA, it may well be that 2014 will be seen as a pivotal year in terms of the progress made on our main commercial objective which is to redeem our Senior Bonds and thereby remove a major contingent liability for Irish taxpayers. At the start of 2014, we had redeemed a cumulative €7.5 billion – or 25% - of the €30 billion of the Senior Bonds that we issued to acquire our original portfolio of bank loans. By the end of 2014, we had brought cumulative redemptions up to €16.6 billion, 55% of the Senior Bonds originally issued. And indeed further progress has been made since then: by end-March 2015, our cumulative redemptions had reached €17.6 billion (58% of Senior Bonds). Assuming market conditions remain supportive, we are well on our way towards meeting our next major milestone – the redemption of a cumulative 80% of Senior Bonds by end-2016.

Market recovery

A major contributory factor to NAMA's progress in 2014 was an unprecedented level of demand and activity in the Irish commercial property market. This enabled us to authorise a significant increase in the flow of Irish assets offered for sale by our debtors and receivers. We generated total cash of €8.6 billion in 2014, almost twice the amount generated in 2013. A total of €7.8 billion was generated by asset disposals, including €3.7 billion from the disposal of Irish assets. By contrast, in the years between 2010 and 2013, Irish asset sales had generated a total of €1.8 billion for NAMA – this reflects our reluctance, during these years, to approve the sale of Irish assets in a thin, illiquid market at what we considered to be sub-optimal prices.

The strong recovery in the Irish market in 2014 and the fact that yields for certain asset classes reverted towards pre-crisis levels created opportunities for NAMA to increase the flow of assets offered for sale. Overall, the volume of activity in the Irish investment property market in 2014 is estimated to have exceeded €4.5 billion - over twice the level of activity in 2013 and well in excess of the previous peak of €3.5 billion achieved in 2006. There were a number of factors which gave rise to this buoyancy: the increased attractiveness of Ireland to investors following Ireland's exit from the Troika programme; the greater appeal of property assets in the context of an economic recovery which was gaining momentum in 2014; the attractive yields offered by Irish commercial real estate assets at a time when yields on many other asset classes had fallen to very low levels and, not least, the re-emergence of interest from domestic investors. NAMA made a notable contribution towards meeting investor demand for Irish assets: its major asset portfolio sales including a number of office portfolios in Dublin (Project Redwood and the Central Park complex), a Dublin residential portfolio (Project Orange) and two retail portfolios (Project Acorn, Project Parks).

A significant development in the Irish market in 2014 was the major upsurge in loan sales – it is estimated that over €22 billion of loans were sold by Irish vendors, including NAMA, in 2014. The principal NAMA loan sales included Project Eagle (loans secured by assets controlled by Northern Ireland debtors), Project Tower (loans secured by investment and developments assets, mainly in Ireland, Britain and Germany) and Project Holly and Project Spring (both of which were secured largely by commercial and development assets in Ireland). NAMA will continue to ensure that a strong flow of asset and loan portfolios will be offered to the market during the course of 2015, assuming that market conditions continue to support larger transactions.

NAMA continues to generate significant cash through disposal activity and non-disposal income. As of end-March 2015, total cash generated since inception had reached €25 billion, of which €19.9 billion related to asset disposals and €5.1 billion to other income, mainly rental receipts from properties controlled by debtors and receivers.

Challenges

The fact that NAMA made such major progress on a number of key objectives in 2014 does not mean that there is any room for complacency in terms of the remaining challenges ahead. Current benign market conditions cannot be taken for granted and it is our job to take advantage of them to the greatest extent possible while they exist. As of end-March 2015, we had a residual amount of €12.6 billion of Senior Bonds still to be redeemed in addition to €1.6 billion of subordinated debt. Our current projections suggest that, assuming that market conditions remain accommodating, we will have redeemed all of the Senior Bonds by 2018. We also hope to be in a position to return a surplus to the Exchequer by the time we complete our work.

Staff retention

The single most important factor which will determine whether NAMA ultimately achieves its objectives will be its ability to manage its staffing requirements over the coming years. On the one hand, we still have major challenges ahead and we will need to retain key staff with the expertise and the experience necessary to confront those challenges. On the other hand, NAMA is in accelerated wind-down mode and it would be entirely understandable if our staff – who are almost all on specified purpose contracts – left to take up permanent and better remunerated positions elsewhere.

In my remarks in both the 2012 and 2013 Annual Reports, I expressed concern at the impact on NAMA of the public sector remuneration adjustments which were introduced in 2013 and the associated implications for NAMA's ability to retain staff with the appropriate skillsets and experience to manage its portfolio. During the course of 2014, some 67 staff left NAMA – 20% of the headcount as at the beginning of the year. As the year progressed, the issue of key staff retention became more acute, particularly in the context of the Board's accelerated disposal and bond redemption strategies and its ancillary Dublin Docklands SDZ and residential delivery strategies. The risk was highlighted in the Minister's Section 227 review of NAMA which stated that *"any proposal that would help to safeguard NAMA's operational capacity and staffing expertise should receive careful consideration in light of potentially significant value implications associated with losing key employees"*.

In January 2015, I outlined to NAMA staff the key elements of a redundancy programme that would see NAMA reducing its headcount by 78 at the end of 2015 and by another 167 staff at the end of 2016. Subsequently, in March 2015, the Minister announced that, arising from his discussions with the NAMA Board, appropriate staff retention measures would be put in place to protect the financial performance of NAMA. He indicated that the overall costs of any redundancy scheme, including statutory redundancy, would be not more than €20m. I am hopeful that these measures will enable us to manage our staffing requirements so as to ensure that there will be no adverse impact on our ability to deliver on our various objectives.

To conclude, I wish to acknowledge the major commitment and effort of the Board, the Board Committees, the Executive team, the staff assigned to NAMA and also to those within the wider NTMA who contributed to the enormous progress made in 2014. We look forward in 2015 to maintaining a strong momentum towards achieving our key strategic objectives.

Business Review

Debtor Engagement

12,000 LOANS ACQUIRED

5,000 BORROWING ENTITIES

780 DEBTOR CONNECTIONS

60,000 INDIVIDUAL PROPERTIES

- NAMA acquired more than 12,000 loans linked to 5,000 borrowing entities (managed initially as 780 debtor connections). The loans were secured by 60,000 individual properties.
- Following the acquisition of the loans, NAMA directly managed the engagement with the largest debtor connections (referred to as NAMA-managed) and delegated the day-to-day management, within specific delegated authority limits, of smaller debtor connections to the Participating Institutions ('PIs') and Service Provider ('SP') (referred to as PI/SP-managed).
- All debtor business plans were assessed by mid-2012 and strategies approved.

Business Review (continued)

FIGURE A: Day-to-day debtor management

NAMA
191 Debtors

Intensively managed by NAMA

Credit decisions and relationship management carried out by seven NAMA teams

Loan administration performed by AIB and Capita

AIB and Capita
472 Debtors

NAMA employs dedicated teams in AIB and Capita to approve credit requests and participate where necessary in case management

Relationship management and loan administration carried out by AIB and Capita in line with NAMA strategy

- At end-2014, 663 debtor connections remain: 191 NAMA-managed and 472 PI /SP-managed.
- By value, NAMA is in a consensual workout with debtors who account for 70% of its loan portfolio. A consensual workout means that debtors manage the agreed property and realisation strategy, under close monitoring by NAMA. Consensual workout arrangements may include some or all of the following:
  - Schedules of agreed asset or loan sales.
  - Reversal of certain asset transfers.
  - Charges over unencumbered assets.
  - NAMA has obtained charges over additional security, through both the reversal of asset transfers and charges over unencumbered assets, with combined value of more than €800m.
  - Rental income from investment assets controlled by debtors have been brought within NAMA's control with rents lodged to bank accounts over which NAMA has security.
  - NAMA provides funding for viable commercial and residential development projects with a view to increasing the longer-term recoverable value of assets.
- During the period from 2010 to 2012, NAMA agreed business plans with the majority of its debtors. NAMA disclosed in its 2010 Annual Report (published in July 2011) that asset management and incentivisation mechanisms could be a feature if better-than-expected financial outcomes were achieved by debtors.

  The outcome of the review of some debtors' business plans included asset management and incentivisation mechanisms which would only be triggered if they met very ambitious or 'stretch' financial targets which were set for them. In certain cases, if debtors achieve these stretch targets, they may retain a proportion of any excess achieved above target levels. The major share of any excess will go to NAMA and ultimately to taxpayers if the stretch financial targets are achieved. Had such fee arrangements not been agreed with debtors, it is very probable that the consequences would have been a significantly reduced return in terms of the disposal value of assets and in the ultimate return to NAMA and to taxpayers.

  The objective of these mechanisms was to ensure that debtors were motivated to extract maximum value from the workout and realisation of their assets. At this stage, NAMA expects that very few debtors will achieve the stretch financial targets set for them. However, the continued strong improvement in property market conditions since the end of 2013 has triggered asset management fee payments in a small number of cases. The major part of the benefit of the strong financial outcomes likely to be achieved by these debtors will flow to NAMA and to taxpayers.
- To date there have been 456 insolvency appointments across 353 debtor connections who account for 30% of NAMA's loan portfolio by value (Table 1).

TABLE 1: Enforcements as at end-December 2014

Insolvency Appointments	NAMA Managed	PI/SP Managed	Total
Corporate	138	218	**356**
Fixed Charge	43	57	**100**
Total	**181**	**275**	**456**
Number of Debtor Connections	108	245	**353**

Business Review (continued)

NAMA Market Activity

NAMA Asset Disposals

Disposals by location

NAMA's strategy in each of its main markets has been to release assets for sale in a phased and orderly manner consistent with the level of demand, the availability of credit and the absorption capacity of each market. As Figure B illustrates, in the period 2010 to 2013, this meant concentrating sales activity in Britain, particularly London, where commercial investment property yields had fallen in some cases below 3%. Over that period, London assets accounted for 60% of total NAMA disposal proceeds disposal receipts, with assets in the rest of Britain accounting for a further 13%.

Irish assets, by contrast, accounted for just 16% of total disposal receipts in the same period. NAMA strategy was to limit asset disposals into a market where, prior to mid-2013, prices were still trending downwards. NAMA focused primarily during that period in Ireland on ensuring that debtor properties were efficiently managed, that rental and occupancy were optimised and that rental income was fully captured.

Improving conditions in the Irish property market, a desire amongst institutional investors to diversify their real estate risk over wider geographic areas and improving sentiment towards Ireland, enabled NAMA to substantially increase the scale of its disposal activity in the Irish market in 2014 and its overall disposal activity in general. The step change in disposal activity can be seen in total NAMA disposal receipts of €7.8 billion in 2014, an increase of €4.1 billion on total proceeds in 2013. Of the €7.8 billion, 47% or €3.7 billion was generated from the sale of Irish properties and loans. This compares to total Irish disposal receipts in the four years to end-2013 of just over €1.8 billion.

FIGURE B: Disposals by location 2010-2013

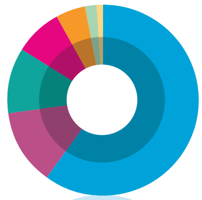
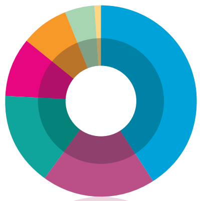


FIGURE C: Disposals by location 2014

FIGURE D: Disposals by location since inception



Disposals by sector

A breakdown of disposals (including loan sales and asset sales) by sector for both 2014 and from inception to end-2014 is shown in Figures E and F. This breakdown underlines the diversity of NAMA's portfolio with three sectors (residential, office and retail) each accounting for more than 20% of total disposals proceeds in 2014 and two further sectors each accounting for more than 10% of total proceeds.

FIGURE E: Disposals by sector 2014

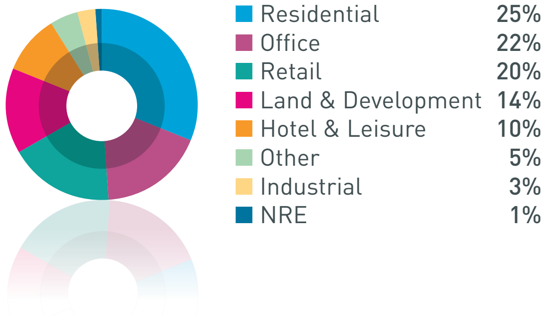
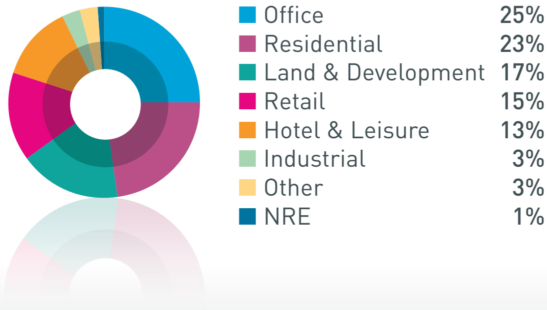


FIGURE F: Disposals by sector since inception



Business Review (continued)

Disposals by transaction type

A key feature of market demand in 2014 was the upsurge in institutional investor interest in multi-asset property portfolios and loan portfolios. This was driven in the main by the effects of monetary easing in the US, by the low level of bond yields worldwide and the relative attractiveness of Irish property yields. Reflecting this, property portfolio and loan portfolio sales have become an increasingly important part of the overall NAMA sales mix, accounting for 63% of Irish disposals in 2014 and 59% of total NAMA disposals in 2014. From inception to end-2014, property portfolio and loan sales accounted for nearly half of all Irish disposals and one-third of disposals across NAMA's entire portfolio.

NAMA's market engagements indicate that demand and interest remain strong for portfolio sales with new investors continuing to enter the market and existing investors extending their exposure. This is expected to ensure competitive pricing in 2015 as overseas investors continue to seek opportunities to capitalise on the emerging recovery in Irish commercial property markets at a time when many other asset classes are becoming less attractive.

As Table 2 illustrates, the sale of individual properties is also an important part of NAMA's overall sales activity. From inception to end-2014, NAMA had overseen almost 7,500 individual disposal transactions involving almost 31,000 individual property units.

FIGURE G: Disposals by transaction type 2014

FIGURE H: Disposals by transaction type since inception

FIGURE I: ROI Disposals by transaction type 2014

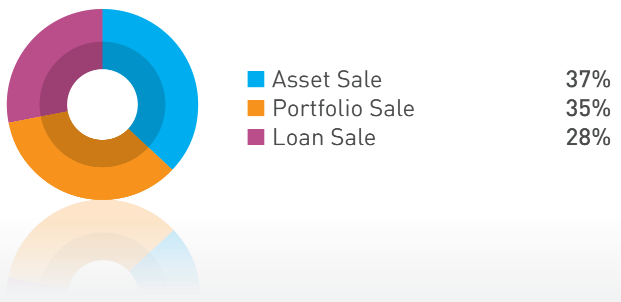


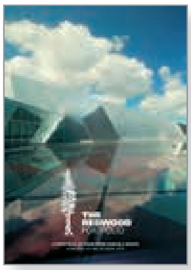
TABLE 2: Transactions and property unit disposals 2010 - 2014

	Transactions	No. of Units
2010	391	583
2011	1,167	2,707
2012	1,216	4,373
2013	1,859	5,172
2014	2,820	17,913
	7,453	**30,748**

FIGURE J: Selected portfolio sales

Redwood Collection Completed August 2014

- Dublin office collection comprising approx. 322,000 sq. ft.
- Approx. €8.5m of secure rental income with 93% occupancy
- WAULT*in excess of 10.7 years
- Strong tenant line up

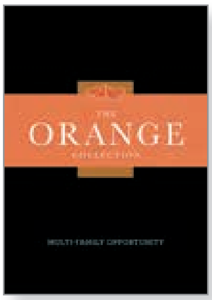


Acorn Portfolio Completed September 2014

- Approx. 720,000 sq. ft. of retail space and 130 tenants
- Over €13.25m per annum passing rent
- 9.75% approx. initial yield
- Over 70% of portfolio income from institutional grade tenants with a WAULT* of almost 11 years

Orange Collection Completed October 2014

- 761 modern apartments and 34,301 sq. ft. of commercial accommodation
- Gross passing rent approx. €10.4m per annum
- Four development sites extending to approx. 0.70 ha (1.74 ac)
- A further 187 apartments and approx. 85,863 sq. ft. of commercial space being developed



Parks Portfolio Completed November 2014

- 773,769 sq. ft. of retail space
- Mix of national and international tenants
- Passing rent of approx. €9.5m per annum
- 30 acres of land is available for development
- Overall portfolio WAULT* of 11.09 years

Tara Collection Completing Q2 2015

- Approx. 356,000 sq. ft. collection of five prime Dublin office buildings
- **4 & 5 Grand Canal Square** – Two buildings designed by Daniel Libeskind
- **One Grand Parade** – High profile modern office building
- **Alexandra House** – 6 storey detached office building with opportunity to refurbish
- **86-88 Leeson Street Lower** – 1970s office building in prime Dublin 2 location with planning permission to extend to provide high quality modern space

**WAULT - Weighted Average Unexpired Lease Term*

SIGNIFICANT PROPERTY PORTFOLIO SALES IN 2014

To help sustain positive momentum in the Irish market and provide investors with certainty as to transaction flow, NAMA signalled at the start of 2014 that it would offer for sale property portfolios in Ireland with a minimum value of €250m in each quarter. The extent of recovery in the Irish market during 2014 meant that the €250m minimum value was exceeded in each quarter. Reflecting this, NAMA approved the sale of a number of very substantial property portfolios with an aggregate market value in excess of €1 billion in Ireland in 2014, including:

Portfolio	Sector
Platinum	Office
Central Park	Office/Residential
Redwood	Office
Acorn	Retail
Orange	Residential
Parks	Retail

NAMA brought to the market in 2014 an additional €500m worth of portfolios which will complete in 2015:

Portfolio	Sector
Rockbrook	Residential
Plum	Residential
Tara	Office
Harvest	Retail

More than 80% of NAMA portfolio sales in Ireland from inception to end-2014 related to Dublin, mirroring both the dominant location of NAMA's Irish assets and the current focus of investor interest.

FIGURE K: Irish portfolio sales by location since inception

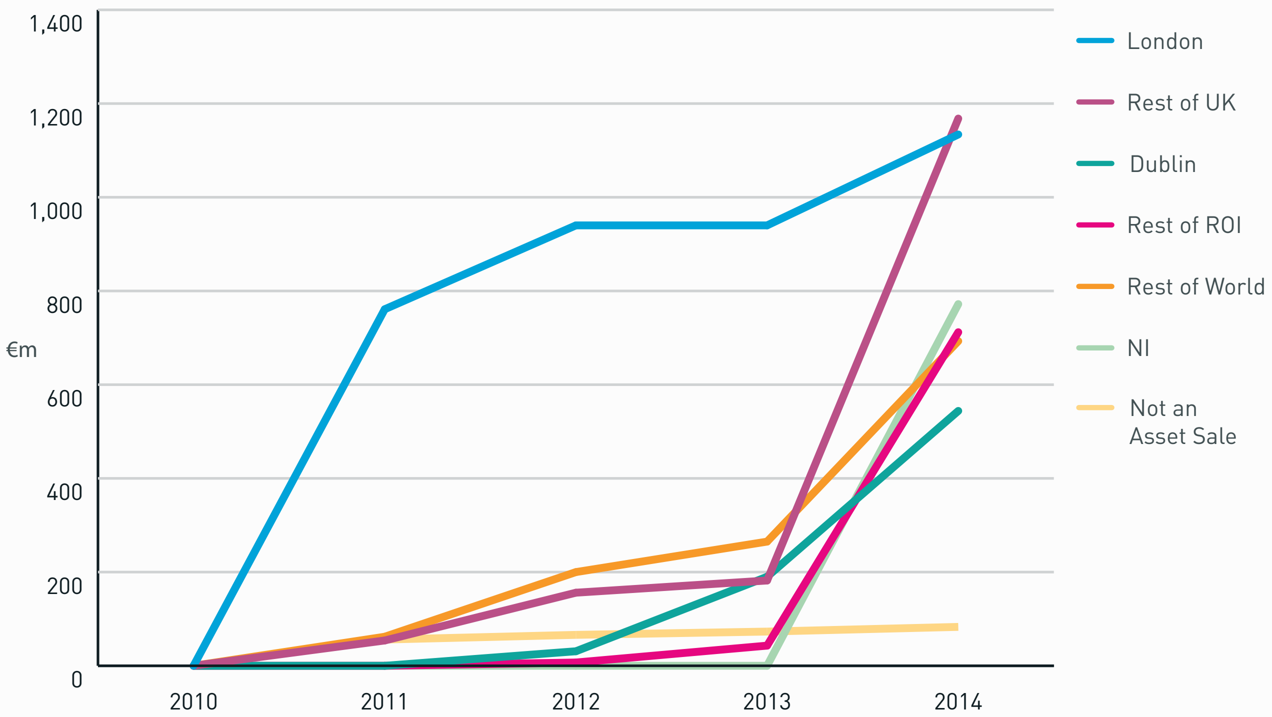
Dublin **84%**
Rest of ROI **16%**

Business Review (continued)

SIGNIFICANT LOAN SALES IN 2014

FIGURE L: Cumulative loan sale trend since inception by location

In the four years to end-2013, NAMA had completed sales of loans with nominal balances of €3.9 billion. By end-2014 that figure had increased to €13.3 billion, reflecting increased investor interest in larger transaction sizes and the maturing of Europe's loan sales market.



Some of the major loan portfolio sales which NAMA completed in 2014 are outlined below:

Project Tower
A €1.8 billion par debt portfolio secured on UK student accommodation, UK commercial and development property, Irish development land and Irish retail and residential property, which was sold to an affiliate of the Blackstone Group L.P in Q2 2014.

Project Eagle
A £4.6 billion par debt portfolio, consisting of loans advanced to Northern Ireland based debtors secured primarily by assets in Northern Ireland, Britain and Ireland, was sold to an affiliate of Cerberus Capital Management L.P. in Q2 2014.

Project Drive
A €226m par debt portfolio secured primarily on Irish retail and industrial assets, which was sold to Patron Capital in Q2 2014.

Project Spring
A €438m par debt portfolio secured primarily on Irish office assets, which was sold to Deutsche Bank AG in Q3 2014.

Property Portfolio and Loan Sales Processes

NAMA's policy is that the sale of all loans and the sale of properties by debtors and receivers should be openly marketed to ensure that the best price available in the market is achieved in all instances. NAMA enjoys a strong reputation in the market for the quality of information it provides as part of its property portfolio and loan sale processes and for the transparent and professional manner in which such transactions have been completed to date. Both its property portfolio and loan sales processes are built on international best practice and NAMA uses experienced advisers to ensure that transactions are executed to the highest market standards and that bidders are treated equally by mapping out a clear and rigorous process to be followed in each sale.

Prior to the launch of a property portfolio or a loan sale, all relevant data, including loan agreements, security and title documentation, data tapes, lease information and tenancy schedules, is assembled in a data room by NAMA in conjunction with its legal and sales advisors. An initial high-level summary of the property or loan portfolio is then issued to potential purchasers so as to generate as much interest as possible.

All potential investors must sign a Non-Disclosure Agreement (NDA) prior to gaining access to each portfolio or loan sale data room. Once the NDA is signed interested parties are legally bound not to have any further contact or share data room information.

Bidders are required to submit binding unconditional bids, proof of funding and marked-up contracts for sale. The final bids are assessed by NAMA with advice and recommendations from the portfolio sales agents or loan sales brokers, and a recommendation is made to the appropriate decision-making authority in NAMA. The successful and unsuccessful parties are advised of the outcome with the successful party also being notified of the timescale for completing the transaction.

A key consideration for NAMA is the mitigation of execution risk. NAMA, in line with standard industry practice in any property portfolio or loan sales process, will not accept conditional bids including bids that are contingent on funding.

To do so would expose NAMA to unnecessary execution risk and damage the credibility of the NAMA sales process and, by extension, the willingness of future prospective bidders to engage in such sales.

MARKET TRENDS

The European commercial real estate market experienced record levels of activity in 2014 as investors continued to view the returns offered by property as being attractively priced relative to other investment alternatives such as government bonds or bank deposits. Ireland attracted a very significant portion of this investor activity (an estimated 28%) in what was an unprecedented year for the Irish market. During 2014, it is estimated that over €14.5 billion of Irish assets traded in total, comprising of €4.5 billion of investment property sales and a further €10 billion (traded value) of Irish property loan sales. To put this in context, the previous peak for investment in the Irish property market was approximately €3.5 billion in 2006.

It is also worth noting that since the property crash in 2008-2012 the Irish investment market has transformed from a highly leveraged debt-funded model to an equity-based model, which should put the market on a more sustainable footing and bring it into line with general international best practice.

As the Irish property market continued to move through the recovery cycle in 2014, improving fundamentals across occupational markets replaced pricing as the key attraction for investors. Indeed, stronger pricing was evident across all prime markets as rents increased and yields contracted. Furthermore, there was evidence that as investors looked to move up the risk curve, price recovery slowly started to percolate out to secondary properties and prime regional locations. Also, given the supply-demand imbalances that exist in key segments of the occupier market, most notably Dublin prime office and residential property, a return to development activity became an emerging feature of the market.

Whilst US private equity continued to be the dominant source of investment in the market, a broadening of the investor pool was clearly evident in 2014 as the Irish Real Estate Investment Trusts ('REITs'), domestic institutions and European investors began to participate in the market, thereby adding to the level of competitive tension in asset sales bidding.

A distinguishing feature of the property market over the past two years has been the practice of pooling together assets, in the form of property portfolio sales and loan sales, in order to achieve transactions of sufficient scale to attract large investors. For NAMA, this has proven to be a very efficient and effective mechanism for capitalising on investor demand.

These market dynamics are underpinning the commercial feasibility of new development in Ireland and NAMA is currently providing substantial funding and is facilitating the delivery of new office and residential supply on a commercial basis in Ireland. This is covered in more detail in the Development Funding section of this report.

Business Review (continued)

DEVELOPMENT FUNDING

A key element in NAMA's strategic planning, by reference to its mandate to achieve the best financial return for the State from the loans acquired by it, is recognition of the need to invest in assets to make them more commercially attractive to purchasers and thereby enhance their ultimate disposal value. NAMA does not own properties and it is not a developer. Rather, NAMA's remit in relation to properties is, like a bank, that of a secured lender. In this capacity, NAMA facilitates development by funding viable commercial and residential construction projects under the control of its debtors and receivers and, where applicable, in joint ventures with credible investment partners.

To date, NAMA has approved funding of €1.6 billion across a range of construction projects in Ireland. €1 billion of this has already been drawn down to fund commercial and residential construction projects in Ireland, including the completion of existing projects and the development of new projects to meet prospective supply shortages in certain sectors.

These include large-scale projects such as the €65m completion and fit-out of Grade A office space at Grand Canal Square in Dublin's Docklands; the €14m completion of Block G in Central Park, Leopardstown, Co. Dublin; a mixed-use development on a 20-acre site in Sandyford, south Dublin; and substantial residential developments at, for example, Beacon South Quarter, the Grange and Honeypark in south Dublin; Bracken Park and Diswellstown in north Dublin; Castlepark in Maynooth, Co. Kildare; Forest Hill in Carrigaline, Co. Cork; and Roscam in Co. Galway.

NAMA's funding is focused, in particular, on meeting current and prospective shortages in the Dublin office and residential sectors and emerging shortages in the other major urban centres. NAMA has indicated that, if required, it could advance a further €3 billion in funding across these two key funding programmes. However, NAMA is open to joint ventures and partnership arrangements which could involve other parties meeting at least some of that funding requirement. NAMA is involved, for instance, as a minority shareholder in a number of Qualifying Investor Alternative Investment Funds ('QIAIFs') linked to sites in the Dublin Docklands and the wider Central Business District. It also recently announced a preferred bidder for a long leasehold interest in a key site located at 72-80 North Wall Quay within the Docklands Strategic Development Zone ('SDZ'). This site has the potential to deliver more than 645,000 sq. ft. of Grade A office space, with capacity to accommodate up to 5,500 employees, as well as 200 apartments. Construction is expected to begin in late 2015 / early 2016.

Dublin Docklands SDZ

A core objective of NAMA's development activities is to facilitate the delivery of office accommodation within the Dublin Docklands SDZ area. The North Lotts and Grand Canal Docks area of the Dublin Docklands was designated as a SDZ in December 2012 and the Docklands SDZ scheme was approved by An Bord Pleanála in May 2014. The SDZ plan divides the Docklands into development blocks. NAMA has an interest in 15 of the 20 development blocks identified in the Dublin Docklands SDZ and has developed detailed strategies for these blocks. Cumulatively NAMA has an exposure to 16.74 hectares (41.25 acres) - 75% of the 22 hectares of developable land in the Dublin Docklands SDZ area.

From an initial appraisal exercise, it is estimated that up to 3.8m sq. ft. of commercial space and 1,950 apartments could potentially be delivered if all the sites in which NAMA has an interest were to be fully developed over the lifetime of the Dublin Docklands SDZ scheme.

Following the approval of the Dublin Docklands SDZ in May 2014, NAMA intensified its preparatory work in relation to the sites in which it has an interest. This is illustrated by a number of SDZ initiatives announced in 2014 in which NAMA is directly involved:

- NAMA is funding a planning application to Dublin City Council for the development of the landmark Boland's Mill site in Dublin's south Docklands. The application submitted by the site's receivers includes proposed office, residential, cultural and retail development, totaling almost 400,000 sq. ft.
- NAMA is a minority shareholder in a fund – the South Docks Fund - which submitted a planning application to Dublin City Council for the development of over 450,000 sq. ft. of office and residential accommodation at 5 Hanover Quay and 76 Sir John Rogerson's Quay in the Docklands. Planning has been approved and the new developments are expected to accommodate up to 2,400 employees and 158 apartments.

- NAMA is also a shareholder in another fund - the City Development Fund – which has recently begun the construction of a new building, comprising 50,000 sq. ft. of office space, at 6-8 Hanover Quay. The building is entirely pre-let to US corporation, Airbnb. When completed, the new office development will accommodate 300 staff in Airbnb's new European headquarters. NAMA is providing construction finance to the City Development Fund and practical completion is expected by early 2016.
- In December 2014, NAMA announced Oxley Holdings Limited as its preferred bidder for a key site located at 72-80 North Wall Quay. Under the transaction, Oxley has acquired a long leasehold interest with the right to develop, manage and realise the site. NAMA retains the freehold interest and will receive a secure income stream in addition to a percentage of any future sales proceeds.
- NAMA also entered into a joint venture with Kennedy Wilson in December 2014, where adjoining sites owned by NAMA and Kennedy Wilson were combined and a fund created, structured as a QIAIF, which is authorised by the Central Bank of Ireland. The fund, KW Irish Real Estate Fund VIII, submitted a planning application in April 2015 to Dublin City Council seeking permission to develop 313,000 sq. ft. of office space and 204 apartments in the Dublin Docklands. The development has been branded as "Capital Dock" and is located on Sir John Rogerson's Quay in Dublin 2.

Hanover Quay, Dublin Docklands

The South Docks Fund – in which NAMA is a minority shareholder - submitted a planning application to Dublin City Council for the development of over 450,000 sq. ft. of office and residential accommodation at 5 Hanover Quay and 76 Sir John Rogerson's Quay in the Docklands.

76 Sir John Rogerson's Quay, Dublin Docklands

Boland's Mill, Dublin Docklands

NAMA was involved in a number of initiatives announced in 2014 in respect of the Dublin Docklands SDZ, including the planning application for the development of the landmark Boland's Mill site in the south Docklands.

Business Review (continued)

Diswellstown | Dublin 15

NAMA has approved funding for the development of 119 houses including the refurbishment of Diswellstown House and outbuildings. NAMA has approved funding of €35m for the project.

Piper's Hill | Naas, Co. Kildare

NAMA is currently providing €8.5m in development funding for the construction of 26 units in Phase 1, Piper's Hill, Naas, Co. Kildare.

Coill Dubh | Malahide, Co. Dublin

NAMA is currently providing €18m in development funding for 74 houses at Coill Dubh, Malahide, Co. Dublin.

Maoilín | Galway

NAMA is funding the development of 73 houses being built over four phases in Maoilín, Galway. NAMA has approved funding of €15.8m for the project.

Residential development funding in Dublin

As part of its contribution to addressing emerging residential supply shortages in the Greater Dublin area, NAMA established a dedicated Residential Delivery team in April 2014. The team's purpose is to co-ordinate and drive the delivery of NAMA's commitment to facilitate the completion of 4,500 new residential units in the period to the end of 2016 and to assess the scope for delivery of additional units thereafter. Of the 4,500 target, 1,362 units were delivered in 2014, across 23 individual projects, against a target to end-2014 of 1,000.

New projects for which NAMA funding has been approved and which are expected to commence in 2015 include:

- College Square, Terenure, Dublin 6
- Ballygossan Park, Skerries, Co. Dublin
- Diswellstown, Dublin 15
- Waterside, Malahide, Co. Dublin
- Coill Dubh, Malahide. Co. Dublin
- Anglesea Road, Ballsbridge, Dublin 4
- Thormanby Road, Howth, Co. Dublin
- Dublin Road, Shankhill, Co. Dublin
- Hazelbrook, Nutgrove Avenue, Churchtown, Dublin 14
- Meadowvale, Arklow, Co Wicklow
- Piper's Hill, Naas, Co Kildare
- Roseberry Hill, Newbridge, Co Kildare
- Heidelberg, Knockrabo, Dublin 14
- Maoilín, Ballymoneen Road, Galway

TABLE 3: Examples of NAMA-funded residential units

Project Name	Local authority	County	Number of NAMA funded homes delivered 2014
Belmayne, Balgriffin	Dublin City Council	Dublin	125
Block G, The Grange, Stillorgan	Dun Laoghaire Rathdown County Council	Dublin	120
Honeypark, Glenageary	Dun Laoghaire Rathdown County Council	Dublin	104
Beacon South Quarter, Sandyford	Dun Laoghaire Rathdown County Council	Dublin	85
Miller's Glen, Oldtown, Swords	Fingal County Council	Dublin	60
Rathborne, Ashtown	Dublin City Council	Dublin	60
Castlepark Maynooth	Kildare County Council	Kildare	52
Bracken Park, Castleknock	Fingal County Council	Dublin	36
Prospect Hill, Finglas	Dublin City Council	Dublin	35
Broadfield, Rathcoole	South Dublin County Council	Dublin	30
Clongriffin	Dublin City Council	Dublin	23
Waterside, Malahide/Swords	Fingal County Council	Dublin	23
Elmfield, Leopardstown Rd, Dublin 18	Dun Laoghaire Rathdown County Council	Dublin	21
College Square, Terenure	Dublin City Council	Dublin	17

Business Review (continued)

Residential development funding in London

NAMA's dual strategy in London, where demand and prices have remained favourable since 2010, has involved taking advantage of opportunities to sell completed investment assets at very strong yields, whilst at the same time funding new residential construction on undeveloped sites in key city locations. In line with this strategy, NAMA has funded a number of significant residential developments in London. This strategy is based on the superior returns which will be achieved from completed developments by comparison with the returns that would be achieved from the sale of undeveloped sites.

Embassy Gardens | Nine Elms, London

Embassy Gardens is a development of 639 private and affordable residential units together with retail and commercial space located adjacent to the new US Embassy site in Nine Elms. The handover of new units has commenced. The financing was successfully de-risked through the advance sale of all private and affordable residential units.

London City Island | London

NAMA is funding the construction of four buildings comprising 561 residential units together with new commercial/community floor space on a former industrial site in this regeneration area, now branded as "City Island". The development has been de-risked by the use of advance sales. NAMA also funded a pedestrian bridge to link this unique peninsula site to Canning Town Rail Station. The handover of new units is scheduled to commence in 2016. Having funded residential development on these sites, an enhanced return to the taxpayer was achieved for the residual elements through the sale of the remaining sites in a joint venture structure.

Lincoln Plaza | Canary Wharf, London

Lincoln Plaza is a development of 654 units on the Isle of Dogs, adjacent to Canary Wharf. The development is comprised of six buildings with both residential units and a hotel. Construction commenced in September 2012, with final units due to be handed over to residents in early 2016. A funding structure whereby NAMA limited its contribution to 65% of the construction costs was agreed. The financing was further successfully de-risked through advance sales of the hotel and all private and affordable residential units.

Social and Economic Contribution

In the context of its overriding commercial mandate, NAMA seeks to manage its portfolio in Ireland in a manner that complements the objectives of other public bodies, including Government departments, State agencies and local authorities. One way that NAMA gives practical effect to this is by giving public bodies first option on the purchase, at assessed market valuations, of property securing NAMA loans. In line with this, NAMA has facilitated the sale of land and property for a range of public uses including schools and healthcare facilities.

Another important part of NAMA's work is to facilitate important transactions in the Irish property market that might not otherwise take place. A good example of this is NAMA's on-going work in identifying suitable properties for companies looking to establish or expand existing business operations in Ireland and facilitating engagement between these companies and NAMA debtors and receivers. NAMA's work in this area is closely aligned with that of IDA Ireland and other State agencies whose core responsibility is to attract and expand Foreign Direct Investment activity and employment in Ireland.

This has resulted in a number of very significant property transactions in Ireland with companies such as Google, Facebook, Eli Lilly, Kerry Group, Novartis, LinkedIn, Amazon, BskyB, Adroll, and Scottish and Southern Energy. Examples of such transactions in 2014 include the letting of a combined 250,000 sq. ft. of Grade A office space at 4 and 5 Grand Canal Square to Facebook for its EMEA headquarters, the sale of an office development site in Dublin 2 to LinkedIn and a 10 year lease arrangement with Yahoo for over 71,000 sq. ft. of office space at the Point Village.

NAMA is also working with local authorities and other public bodies in the planning system to support the achievement of key policy objectives including, for example, the resolution of the problem of unfinished housing estates.

Social Housing

NAMA continues to work closely with the DECLG and the Housing Agency in seeking to match the residential stock held by its debtors and receivers with the requirements of local authorities for social housing. By end-2014, NAMA had identified over 5,750 residential properties as being available and potentially suitable for social housing. Of these, demand has been confirmed by local authorities for just over 2,200 residential properties.

The onus for determining the suitability of these properties for social housing purposes rests with the local authorities and the Housing Agency. An important consideration for local authorities when assessing the suitability of identified houses and apartments is the requirement to provide for an appropriate mix of housing tenures and to avoid undue housing segregation within individual developments and wider residential areas.

Once the suitability of a property has been confirmed, NAMA facilitates contact and negotiation between its debtor or receiver and a local authority or Approved Housing Body to acquire the property. Contractual arrangements can take the form of a lease or purchase. In addition, as a means of expediting the provision of social housing, NAMA established a special purpose vehicle – National Asset Residential Property Services Limited ('NARPSL') – to purchase units from its debtors and receivers and to make them available to Approved Housing Bodies by way of a long term lease. NAMA's involvement has facilitated what may potentially become one of the single largest allocations of social housing in the history of the State.

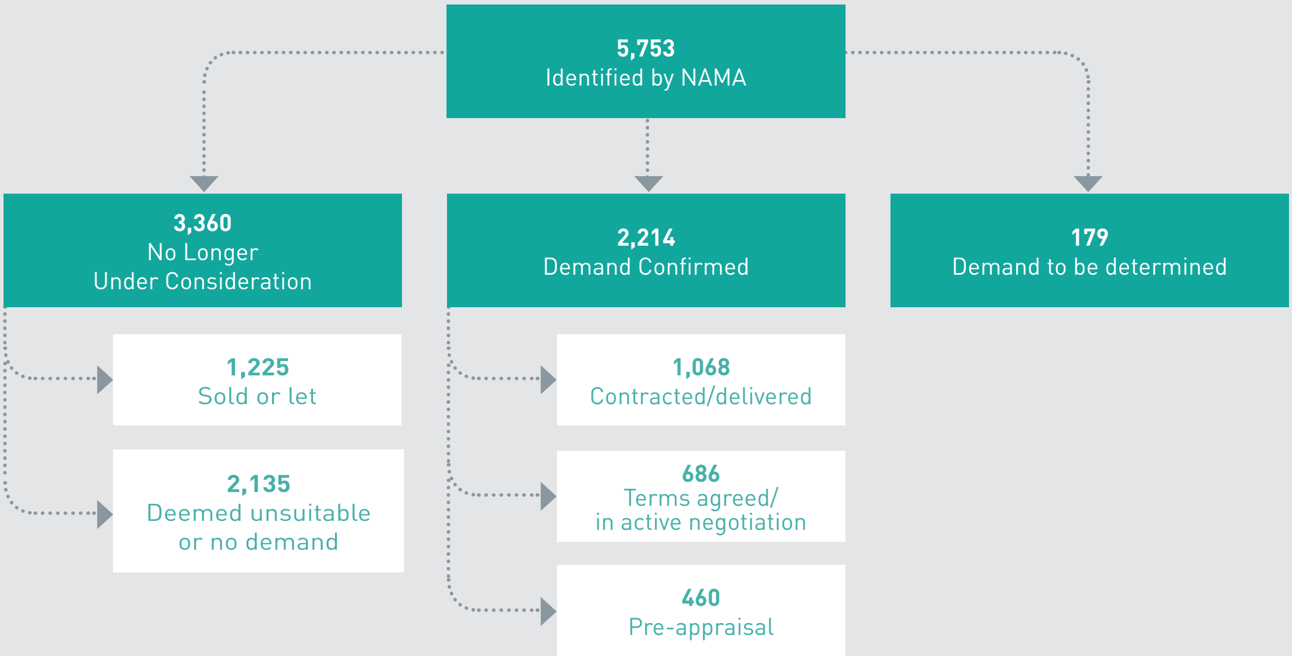
By end-2014, 1,068 residential units had been delivered under this initiative. The delivery of these units has involved 65 individual transactions across 15 counties.

Of the 472 properties which were delivered during 2014, almost 60% of them were located in Dublin. It is noteworthy that 53% of the 2014 properties were delivered through NARPSL which highlights the importance of the role of this mechanism. It is unlikely that these units would otherwise have been delivered due to the lack of available capital funding. NARPSL has to date spent €29m in acquiring 252 units for social housing. This initiative will generate a future rental income stream for NAMA.

Capital expenditure in excess of €20m has been incurred to date in completing residential properties for social housing use. Works funded by NAMA include both the completion of buildings and the remediation of building defects, such as non-compliance with regulatory standards which has been a prevalent feature of many of the residential developments that came within NAMA's portfolio following its acquisition of the related loans.

Business Review (continued)

FIGURE M: Units identified by NAMA for social housing at end-2014



Examples of properties delivered for social housing in 2014 through NAMA's social housing SPV, NARPSL include:

Ardmore | Bettystown, Co Meath

Long term lease of 11 houses and apartments to North and East Housing Association, **Completed and occupied in May 2014**

Woodfield House | Blarney, Co Cork

Long term lease of 12 apartments to Túath Housing, **Completed and occupied in September 2014**

The Tannery | Bandon, Co Cork

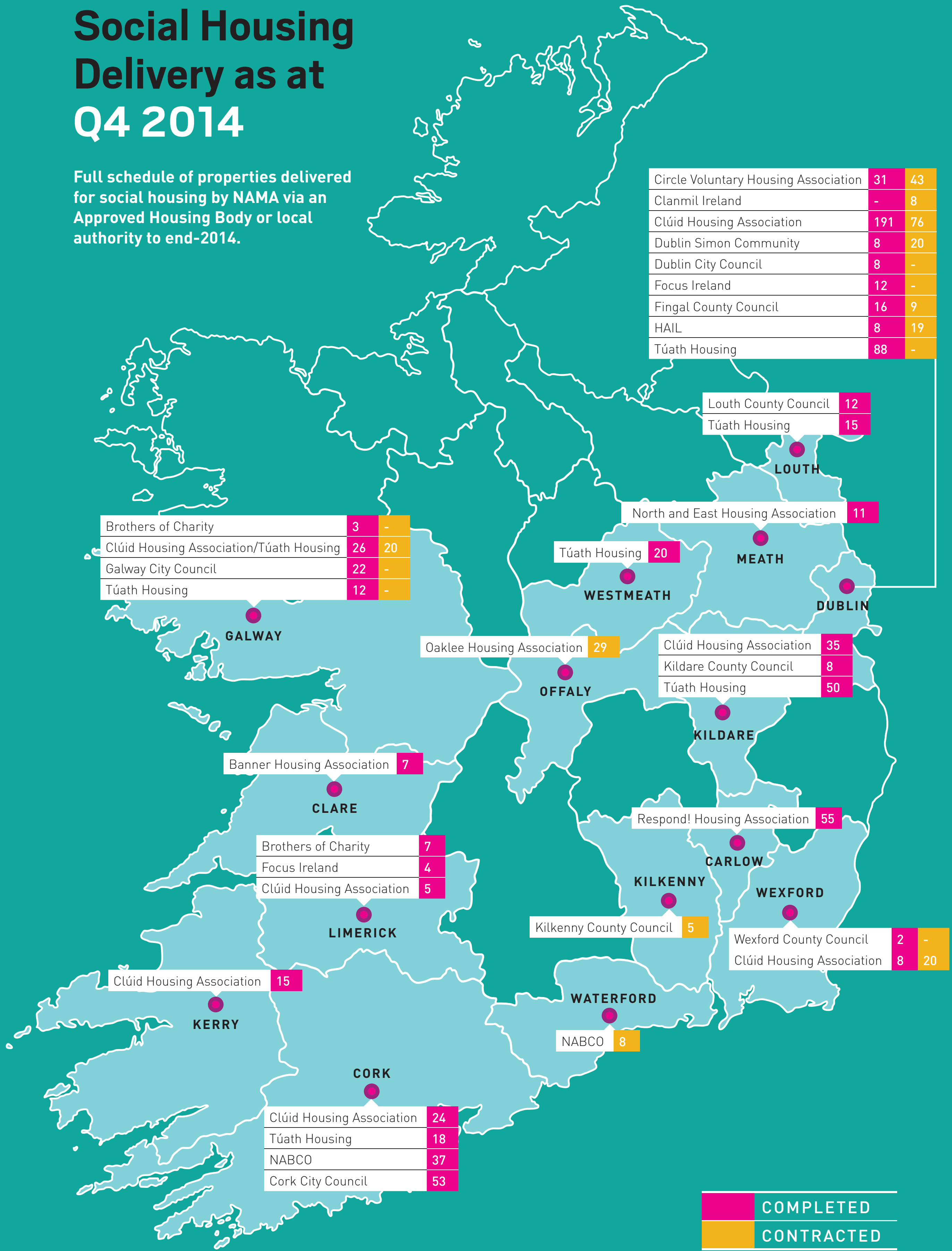
Long term lease of 24 houses to National Association of Building Co-operatives (NABCO), **24 units completed and occupied in October 2014**

Rathborne | Pelletstown, Dublin 15

Long term lease of 60 apartments to Circle Voluntary Housing Association. **60 units completed and occupied in December 2014 / Q1 2015**

Social Housing Delivery as at Q4 2014

Full schedule of properties delivered for social housing by NAMA via an Approved Housing Body or local authority to end-2014.



by individual transaction

Business Review (continued)

ESRI Study

NAMA, along with Banking & Payments Federation Ireland, is co-funding a programme of research by the Economic and Social Research Institute ('ESRI') on the Irish residential property market. The objective of the programme is to produce practical market research and insights that will facilitate informed decision making by policy makers and market participants, including potential purchasers, investors and the construction industry.

The initial phase of the research in 2014 was focused on the demand for housing, with reports delivered on demographic change, household formation and housing need, and the role of credit in the housing market. A number of papers have been published by the ESRI as a result of the research completed thus far. These are *Alternative Scenarios for New Household Formation in Ireland* (in April 2014), *Household Formation and Tenure Choice* (in July 2014), *Projected Population Change and Housing Demand: A County Level Analysis* (in August 2014) and *The Role of Credit in the Housing Market* (in December 2014) – all are available on www.esri.ie.

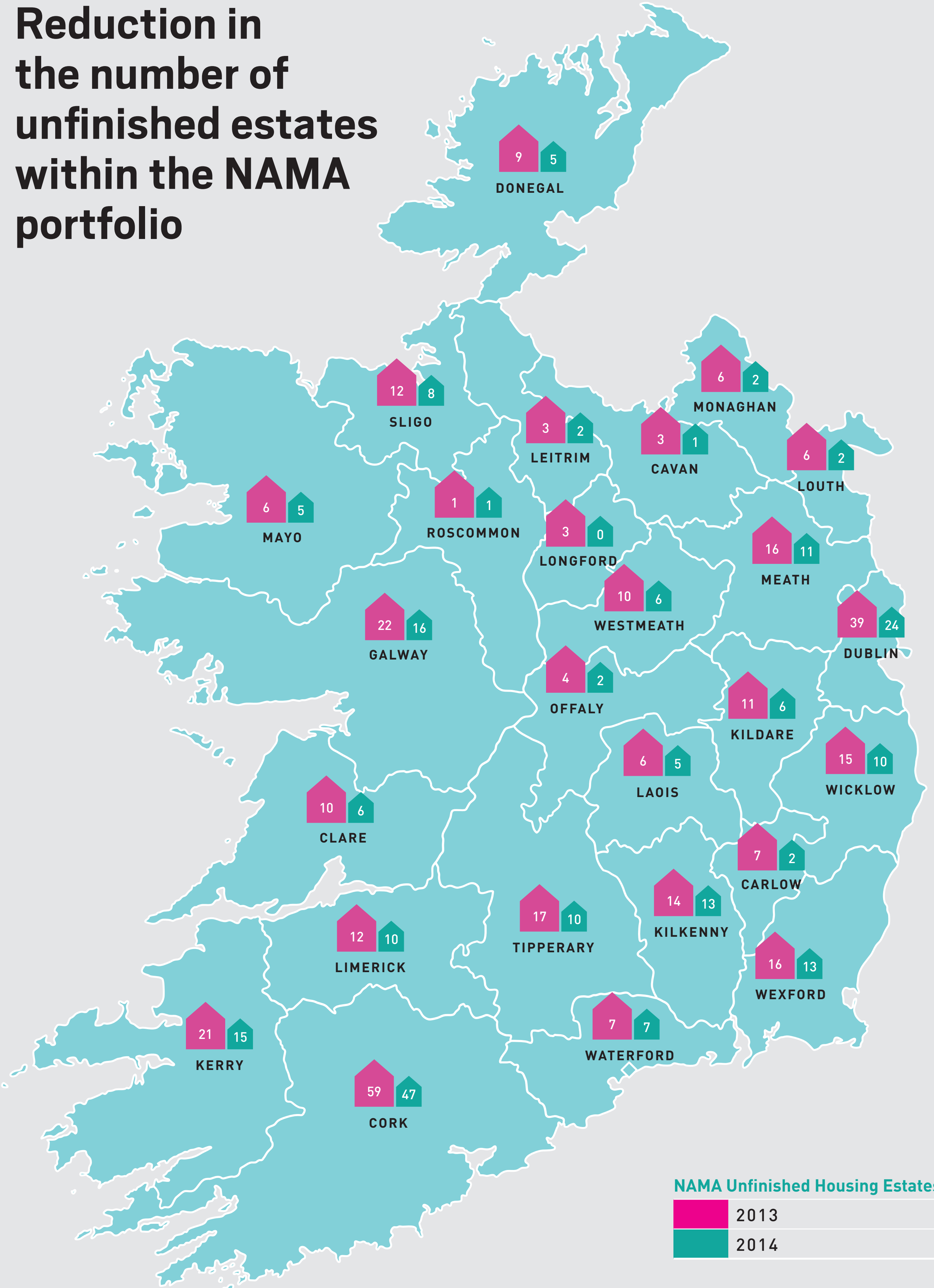
In September 2014, NAMA convened a special National Housing Supply Conference to bring together policy makers from national and local Government and wider stakeholders to discuss the supply issues facing the housing market. The results of the ESRI research helped to inform the conference and its deliberations.

The next phase of the research by the ESRI will focus on the supply of housing to meet demand, with initial research findings expected in mid-2015.

Resolution of unfinished housing estates

NAMA advances funding for site resolution works on unfinished housing estates in which it has an interest as a secured lender. The DECLG, in conjunction with local authorities throughout the country, prepared an updated survey in 2014 of unfinished housing developments. Based on that survey, NAMA has security over 229 or 23% of the revised estimate of 992 unfinished housing estates in the country. This represents a substantial reduction in the number of unfinished housing estates within the overall NAMA portfolio over the course of 2014 and reflects the impact of funding to debtors and receivers to undertake remedial works in line with Site Resolution Plans agreed with local authorities. NAMA has advanced in excess of €5m for such works to date, which include the completion of internal roads and paths and the completion of remaining housing units to a saleable standard.

Reduction in the number of unfinished estates within the NAMA portfolio



NAMA Unfinished Housing Estates

(pink)	2013
(teal)	2014

Financial Review

SUMMARY 2014 FINANCIAL HIGHLIGHTS

Financial Highlights	2014 €m	2013 €m	From Inception €m
Cash Generation			
Total cash generated	**8,562**	**4,480**	**23,646**
Disposal receipts	7,757	3,672	18,627
Non disposal income	809	792	4,416
Senior Bond Repayments			
Senior bonds redeemed	**9,100**	**2,750**	**16,600**
Profitability			
Operating profit before impairment	**648**	**1,198**	
Impairment charge	(137)	(914)	
Profit for the year	458	213	
Loan Portfolio			
Total loans and receivables (net of impairment)	**13,360**	**19,598***	

**Excluding National Asset Resolution Limited ('NARL')*

Financial Review (continued)

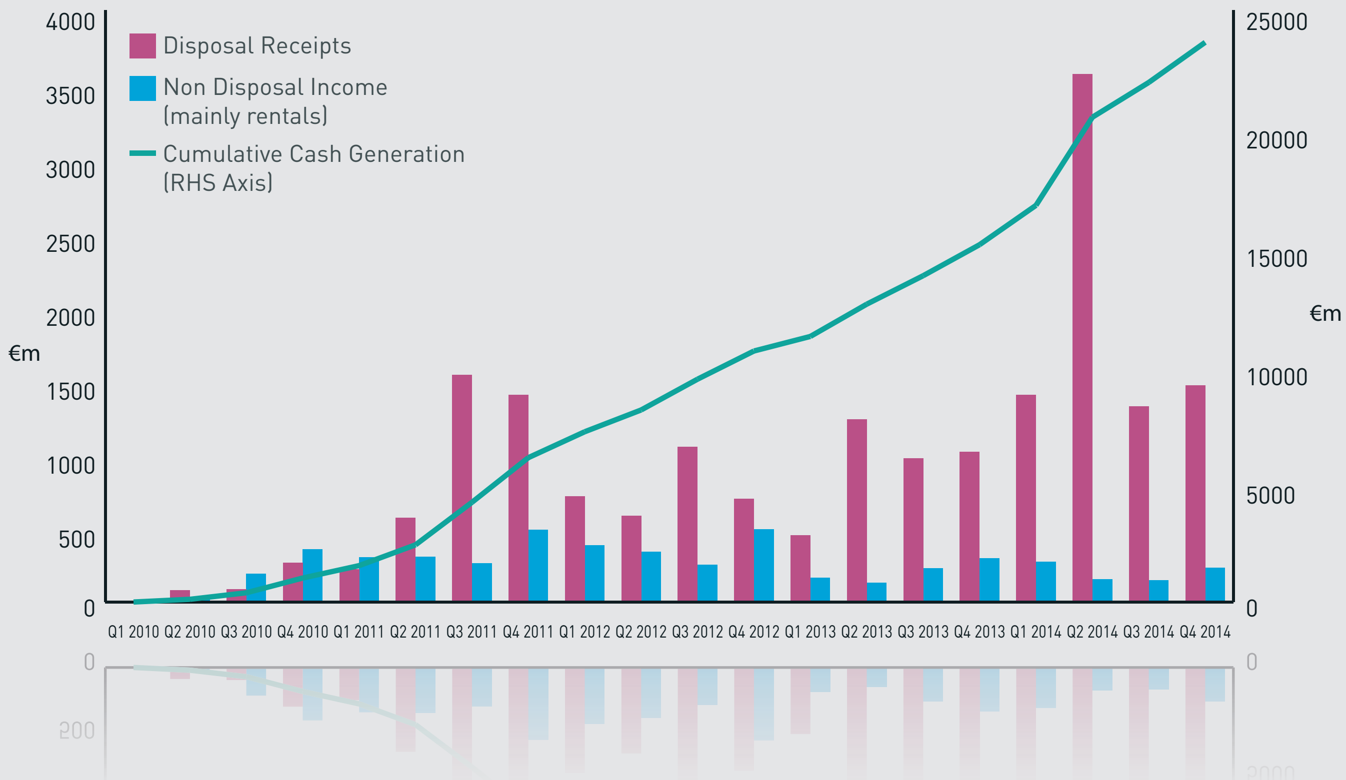
Cash Generation

Cash generation is a critical measure of the progress being made by NAMA in meeting its stated objectives. During 2014, NAMA Group (excluding NARL) generated €8.6 billion (2013: €4.5 billion) in cash, bringing total cash generated from inception to end-2014 to €23.7 billion.

Cash is generated principally through disposal receipts and non-disposal income. Disposal receipts comprise the proceeds of both property collateral and loan sales. Non-disposal income represents income generated by debtor assets, principally rental income.

Total cash generated is used to repay NAMA's Senior Bonds and to fund NAMA's administration expenses, debt servicing costs and advances to debtors.

FIGURE N: NAMA Cash generation since inception (excluding NARL)



NAMA's significant cash flow generation since inception and in 2014 reflects the Agency's continued active management of its loan portfolio including:

- Significant acceleration of disposal activity in response to a step-change improvement in the Irish property market.
- Intensive ongoing management of its debtors and receivers to ensure adherence to milestones set by NAMA, including property disposal milestones.
- Intensive management of assets so as to derive incremental value prior to disposal.
- Proactive engagement with potential investors and purchasers of NAMA loans to maximise sales proceeds from loan or portfolio asset sales.

TABLE 4: NAMA's summary cash flow since inception:

Cash flow generation	2014 €m	2013 €m	From inception €m
Opening cash balance	**4,400**	**3,644**	**-**
Inflows			
Disposal receipts	7,757	3,672	18,627
Non disposal income	809	792	4,416
Repayments from joint Special Liquidators – NARL	11,788	1,414	13,202
Other	(3)	16	604
Total cash generated	**20,351**	**5,894**	**36,849**
Outflows			
Foreign exchange and debt servicing	(798)	(579)	(2,497)
Loan advances to borrowers	(892)	(665)	(2,417)
Operating costs and other	(184)	(144)	(558)
Total operational outflows	**(1,874)**	**(1,388)**	**(5,472)**
Net cash generated	**18,477**	**4,506**	**31,377**
Debt reduction			
Senior Bond redemptions - NAMA	(9,100)	(2,750)	(16,600)
Senior Bond redemptions - NARL	(11,928)	(1,000)	(12,928)
Closing cash, cash equivalents and liquid assets	**1,849**	**4,400**	**1,849**

Disposal receipts

One of NAMA's primary activities is the origination and management of property and loan disposal transactions. Disposal receipts during 2014 totalled €7.8 billion (2013: €3.7 billion), comprising property collateral disposals of €3.8 billion (2013: €3.2 billion), loan sale transactions of €3.4 billion (2013: €0.3 billion) and other disposal transactions (including the sale of unencumbered assets, non-real estate assets and loan redemptions) of €0.6m (2013: €0.2m). Disposal receipts from inception to end-2014 total €18.6 billion.

During 2014, there were 2,798 property disposal transactions (2013: 1,840) and 22 loan sale transactions (2013: 19). From inception to date, there have been almost 7,500 property disposal transactions and 60 loan sales.

There was a marked increase in the volume of loan sale transactions during 2014 – the larger transactions are listed on page 18.

Financial Review (continued)

Non-disposal income

Cash generated during 2014 included non-disposal income of €809m (2013: €792m).

One of NAMA's key objectives is to manage assets so as to optimise, and capture for debt servicing purposes, their income-producing potential through the generation and collection of rental and other income. The capture and collection of such income was not widespread prior to NAMA's acquisition of the loans; indeed, there appears to have been a significant leakage of funds. By implementing strategies and operating structures to ensure capture of this income, NAMA has generated substantial incremental non-disposal income from its portfolio.

Furthermore, an integral part of NAMA's day-to-day asset management activity is to ensure that vacant space is made available for rent, that lease terms are enhanced and that rental income is thereby maximised. These initiatives have played a major part in the generation of non-disposal income which has totalled €4.4 billion from inception to end March-2015.

Profitability

TABLE 5: Income statement – NAMA Group

	2014 €m	2013 €m
Interest and fee income	955	1,335
Interest expense	(313)	(375)
Net interest income	**642**	**960**
Net profit on disposal of loans, property assets; and surplus income	285	505
Foreign exchange loss	(22)	(89)
Derivatives loss	(159)	(54)
Administration and other income / (expenses)	(98)	(124)
Operating profit before impairment	**648**	**1,198**
Impairment charge	(137)	(914)
Profit for the year before tax	**511**	**284**
Tax charge	(53)	(71)
Profit for the year	**458**	**213**

NAMA recorded an operating profit before impairment of €648m in 2014 (2013: €1,198m). The overall result after tax was a profit of €458m for 2014 (2013: €213m). NAMA has reported its fourth successive year of profit. The 2014 impairment charge of €137m has reduced significantly from the €914m impairment charge that was recorded in 2013.

Net interest income

TABLE 6: Net interest margin - NAMA Group

	2014 €m	2013 €m
Interest and fee income	955	1,133
Interest expense	(313)	(341)
Net interest income	**642**	**792**
Cash generated from non-disposal income	**809**	**792**
NAMA average loans and receivables (net of impairment)	**16,479**	**21,187**
Net interest margin	3.9%	3.7%

The decrease in net interest income from €792m in 2013 to €642m in 2014 is primarily due to the decline in loans and receivables balances. Interest income is recognised at a fixed rate of interest, which was set by reference to an estimation of cash flows carried out as part of NAMA's due diligence in respect of its original loan portfolio. Interest income is not recognised on any impaired portion of a loan. Debt servicing costs, which includes the cost of hedge derivatives in place and the interest paid on Senior Bonds securities, increased in 2014 due to the impact of accelerated Senior Bond redemptions and the related increase in the interest cost of hedges in place against the Senior Bonds. Average debt servicing costs in 2014 were 1.54% (2013: 1.3%).

TABLE 7: Net profit on disposal of loans, property assets; and surplus income

	2014 €m	2013 €m	From inception €m
Surplus income on loan repayments in excess of debt	572	531	1,748
Net (loss)/profit on disposal of loan and property assets	(287)	(26)	(227)
Total net profit	**285**	**505**	**1,521**

Net profit on disposal of loans, property assets; and surplus income of €285m in 2014 (2013: €505m), comprises losses on disposal of loans and property assets of €287m (2013: loss of €26m) which was offset by surplus income of €572m (2013: €531m).

NAMA acquired loans from the Participating Institutions at a significant discount to par value. The discounted acquisition value is the amount NAMA recognised on its balance sheet. Debtors are still required to repay the loan par value, which was originated with the Participating Institutions. Therefore NAMA has the potential to generate surplus cash if a debtor's repayments exceed the NAMA acquisition price. Where this occurs any surplus cash generated is taken directly to the income statement as profit (or surplus income). As part of its impairment exercise, NAMA estimates the expected future cash flows to be generated from each debtor connection. Where the net present value of the expected future cash flows is less than the total debt in a debtor connection, an impairment provision is booked. Where the net present value of the expected future cash flows exceeds the total debt in a debtor connection, in limited circumstances where stringent stress conditions are met, the excess cash is recognised as profit (or surplus income) in the current reporting period. Following the results of its 2014 impairment exercise, the net present value of total expected cash flows exceeds the total debtor connection carrying value by over €1.9 billion, of which €330m was recognised in 2014. The remaining amount of approximately €1.6 billion, if maintained, will be recognised as profit (or surplus income) over the remaining life of NAMA.

Financial Review (continued)

TABLE 8: Summary of NAMA's overall profit / loss recognised on the transactions relating to the disposal of underlying collateral and loans.

	2014			2013			Inception to end-2014		
Group	Disposals of underlying collateral €m	Disposals of loans €m	Total €m	Disposals of underlying collateral €m	Disposals of loans €m	Total €m	Disposals of underlying collateral €m	Disposals of loans €m	Total €m
Disposal proceeds	5,138	3,424	**8,562**	4,186	294	**4,480**	18,537	5,109	**23,646**
Profit / (loss) recognised in income statement	572	(290)	**283**	531	(29)	**502**	1,748	(226)	**1,522**
Crystallisation of existing impairment provision	(1)	(609)	**(610)**	(30)	(23)	**(53)**	(31)	(632)	**(663)**
Total profit/(loss)	**571**	**(899)**	**(327)**	**501**	**(52)**	**449**	**1,717**	**(858)**	**859**

From inception to end-2014, NAMA generated profits of €0.9 billion from the disposal of loans and collateral held as security against loans acquired.

The crystallisation of existing impairment provisions represents the amount of the previously recognised impairment provision that is attributed to the disposal of underlying collateral and loans. It does not represent an income statement charge in the period of crystallisation. Instead, the income statement recognition occurred when the impairment provision was previously recorded. Combined with the 'Profit / (loss) recognised in income statement', it presents an overall profit / (loss) in respect of the disposal of underlying collateral and loans for the period.

Derivatives

NAMA, as part of its interest rate-risk management, has entered into derivatives to hedge its exposure to borrower derivative financial instruments acquired from the Participating Institutions. NAMA does not enter into speculative interest rate derivative positions. The €159m derivative loss recorded in 2014 (2013: €54m) reflects both market movements in respect of interest rate derivatives during the year and termination fees paid. During the year, NAMA recognised termination fees of €147.7m (including NARL €32.7m) on the early termination of certain interest rate swaps. These costs would have arisen as an interest expense in the future, but, due to the early termination of the swaps, the accelerated loss is being recognised in the current period. The swaps were in place to hedge NAMA's interest rate risk arising from the Senior Bonds in issue. These swaps qualified for hedge accounting and gains/losses were previously recognised in the cashflow hedge reserve.

Following its review of strategy in early 2014, the Board revised its Senior Bond redemption targets with the aim of redeeming a minimum of 80% of its Senior Bonds by end-2016. Following Board approval, interest rate hedging was aligned to the revised strategy and this required the termination of interest rate swaps with nominal principal of €5.43 billion.

On acquisition of the loan facility deed and floating charge from IBRC, NARL entered into €1.9 billion of interest rate swaps to hedge its exposure to interest rate risk arising from the floating rate Senior Bonds issued to acquire the loan facility deed and floating charge. As the Senior Bonds have been repaid, the hedged item no longer exists and therefore the interest rate swaps were terminated during the year. A termination fee of €32.7m was paid in 2014. This has been recognised in the income statement as fair value losses on other derivatives.

At the reporting date, NAMA had residual interest rate swaps with nominal principal of €12.75 billion to hedge its exposure to interest rate risk arising from the Senior Bonds in issue (2013: €23 billion).

Net derivative interest income was €19m in 2014 (2013: €34m) for derivatives not designated into hedge relationships. Interest income on borrower acquired derivatives reduced throughout 2014 due to derivatives being sold or terminated in line with the disposal of the associated loans.

Administration expenses

Administration expenses amounted to €135m to the end of 2014. NAMA's operating costs from inception, €615m, represents approximately 2.5% of cash generation, which compares favourably with comparable international institutions. A breakdown of administration expenses for the period is provided below.

TABLE 9: Operating costs and other expenses

	2014 €m	2013 €m	Inception to end-2014
NTMA as service provider	54	41	175
Primary and Master Servicer fees	53	58	246
Legal fees	9	3	32
IBRC integration	7	7	14
Portfolio management fees	4	6	36
Finance, communication and technology costs	4	3	18
Due diligence costs	-	-	78
Other operating costs	4	6	16
Total operating costs and other expenses	**135**	**124**	**615**

The largest single expense was €54m (2013: €41m), payable to the NTMA as a service provider. Under Section 42 (4) of the Act, NAMA is required to reimburse the NTMA for the costs incurred by the NTMA in assigning staff and providing services to NAMA. Costs comprise staff costs of €41m (2013: €31m) and overheads and shared service costs of €13m (2013: €10m). The increase in staff costs is driven by an increase in headcount numbers during the year as NAMA increased the pace of deleveraging and created separate residential and SDZ delivery teams.

Primary and Master Servicer costs decreased in the year in line with reducing loan balances.

Legal fees relate to fees incurred in the ongoing management and support of debtors. 2014 saw a significant increase in the volume (34%) and complexity of transactions, thus resulting in an increase in legal fees incurred.

NAMA applies stringent cost control and budgeting processes. An annual budget is prepared and actual costs to budget are assessed quarterly and reviewed by the Finance and Operating Committee and the Board.

Tax

The tax charge in the period of €53m (2013: €71m) reflects the full release of deferred tax assets previously recognised in respect of unutilised tax losses and deferred tax on fair value gains and losses on derivatives. As a result of profit generated in the year, the entire remaining deferred tax asset on unutilised tax losses of €93m was released in 2014.

Financial Review (continued)

Impairment

Following completion of its 2014 impairment review, NAMA has recorded a cumulative impairment provision of €3.6 billion against its loans and receivables portfolio. An additional impairment charge of €137m was recorded in the 2014 income statement, which is a significant decrease from the 2013 impairment charge of €914m.

Loans and receivables assessed for impairment

TABLE 10: Loans and receivables assessed for impairment

	Carrying value at 31/12/2014 €m	2014 Impairment provision €m	2013 Impairment provision €m	Movement €m	Impairment coverage €m
Impaired portfolio	10,581	3,446	3,303	143	
Unimpaired portfolio	5,997	-	-	-	
Individually assessed portfolio	**16,578**	**3,446**	**3,303**	**143**	**21%**
Collectively assessed portfolio	**78**	**75**	**822**	**(747)**	**96%**
Total loans and receivables assessed for impairment	**16,656**	**3,521**	**4,125**	**(604)**	**21%**

Impairment is a key area of judgement in NAMA's financial statements.

The year-end impairment review was based on:

- A detailed assessment of expected future cash flows for all debtor connections which are considered individually significant. These comprised 627 debtor connections with loans and related derivatives with a carrying value of €16.6 billion (2013 €19.6 billion).
- The expected future cash flows represent NAMA's best estimate of expected future cash flows for each individually significant debtor. They include estimated cash flows arising from the disposal of property collateral, loan sales and non-disposal income (such as rental income).
- During 2014 the majority of the debtor connections, both NAMA and PI/SP managed were individually assessed for impairment. This differed from 2013, when the majority of the individually assessed debtors related to NAMA-managed connections only and PI/SP managed connections were grouped together and collectively assessed for impairment.

The total movement in the impairment provision in 2014 was a reduction of €604m from €4,125m to €3,521m. Of this, €137m was recognised in the income statement as an increase in the charge for 2014 and €742m was recognised against loans and receivables arising predominantly from the crystallisation of impairment previously recognised against loans sold.

In 2013 NAMA commenced a process for the preparation of cash flow information for all PI-managed debtors. By 30 June 2014, full cash flow information was available to NAMA for the PI/SP managed portfolio and the impairment provisions for this portfolio were recognised at a debtor connection level rather than through the application of an overall loss rate to PI/SP-managed connections. In the case of debtor connections for whom detailed cash flows were not prepared as at 31 December 2014, representing €78m of the loan portfolio, these were grouped together and collectively assessed for impairment.

Financial Position

TABLE 11: Financial position 2014 and 2013

Summary Balance Sheet	2014 €m	2013 €m
Assets		
Cash and cash equivalents and liquid assets	1,849	4,400
Loans and receivables (net of impairment)	13,360	31,314
Other assets	363	511
Total assets	**15,572**	**36,225**
Liabilities and reserves		
Senior bonds in issue	13,590	34,618
Other liabilities	744	797
Total liabilities	**14,334**	**35,415**
Total equity and reserves	**1,238**	**810**
Equity, reserves and liabilities	**15,572**	**36,225**

Cash management

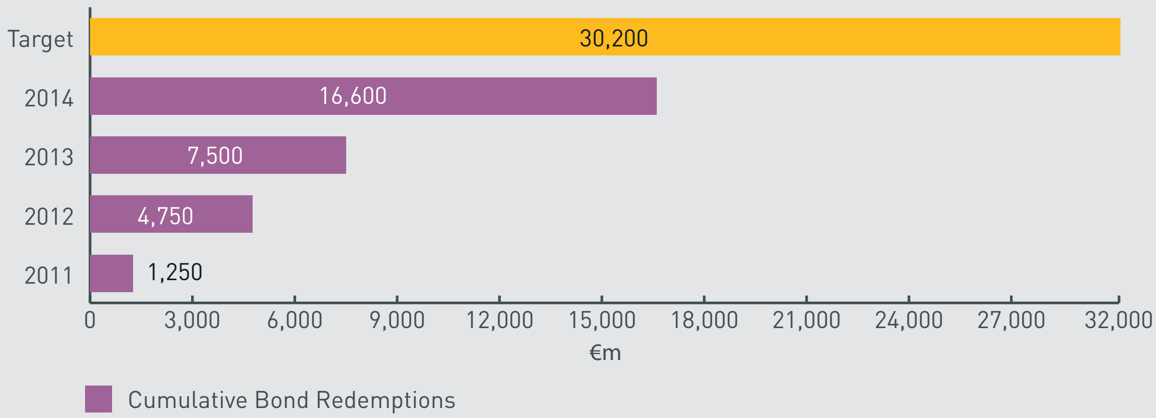
NAMA, under its Board-approved liquidity policy, must ensure that it has adequate cash resources to meet all its financial obligations as they fall due. Cash requirement levels vary during the financial year. As at 31 December 2014, the NAMA Group had cash and cash equivalents of €1.8 billion (2013: €4.4 billion). As at 31 December 2014, permitted liquid asset investments under the NAMA liquidity policy are short dated Irish Government securities.

Senior Bond redemptions

In redeeming €16.6 billion of Senior Bonds to the end of 2014, NAMA has exceeded its original target of redeeming, by end-2016, 50% of its original €30.2 billion Senior Bonds.

NAMA's revised target is to redeem at least 80% of its Senior Bonds (€24 billion) by end-2016.

FIGURE 0: Target Senior Bond redemption versus cumulative actual redemption



Financial Review (continued)

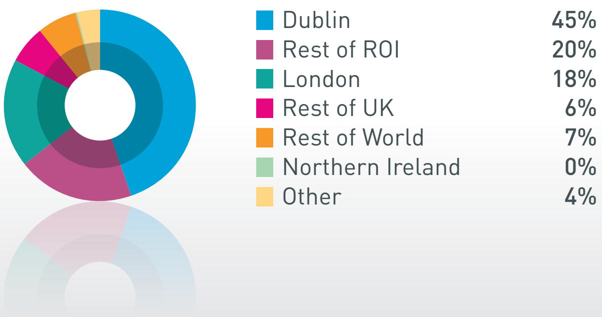
Loan portfolio

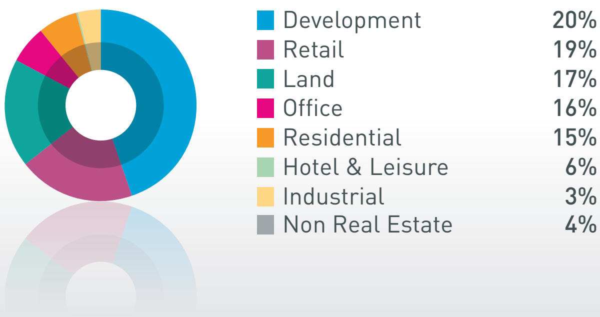
NAMA acquired loans with an original par debt value of €74 billion from the Participating Institutions for a consideration of €31.8 billion. The NAMA carrying value of the loans at end-2014 is €13.4 billion, net of the cumulative €3.6 billion impairment provision (2013: €19.6 billion, net of the cumulative €4.1 billion impairment provision).

TABLE 12: A summary of the movement in loans and receivables

	NAMA Debt 2014 €m	NAMA Debt 2013 €m	Par Debt 2014 €m	Par Debt 2013 €m
Loans and receivables - opening balance	19,598	22,776	67,140	70,812
Cash receipts	(8,430)	(4,295)	(8,430)	(4,295)
Interest income	844	1,058	1,729	1,973
Loan acquisitions / valuation adjustments	247	19	265	53
Working capital advances	645	665	645	665
Profit on loan sales and surplus income	294	502	-	-
Par loan sale movement[1]	-	-	(6,063)	(1,029)
Debt compromise/write off	(132)	-	(307)	(261)
Foreign exchange and other movements	300	(213)	612	(778)
Impairment crystallisations	(610)	(52)	-	-
Loans and receivables before impairment	**12,756**	**20,460**	**55,591**	**67,140**
Impairment provision - incremental charge	604	(862)	-	-
Loans and Receivables - closing balance	**13,360**	**19,598**	**55,591**	**67,140**

FIGURE P and Q: The concentration of NAMA's remaining acquired loan portfolio at end-2014 by location and sector of the underlying collateral





1 *Par loan sale movement principally relates to the par value of loans sold net of disposal cash received. There is no equivalent NAMA debt value. The movement in the NAMA debt balance as a result of loan sales is reflected in cash receipts and profit or loss on loan sales.*

NAMA must recover sufficient cash from its loan portfolio to repay its remaining Senior Bonds in issue. Total outstanding debt and equity issued by NAMA at end-2014 comprised €13.6 billion of Senior Bonds in issue, €1.6 billion of subordinated bonds and €99m of equity.

NAMA continually assesses its residual portfolio and expected cash flows from asset sales are updated on a weekly basis. Sales and cash flow data is aggregated and reported weekly to senior management. This detailed monitoring of cash flows enables NAMA to optimise its asset disposal activity.

The security underlying the NAMA portfolio is well located and concentrated in prime urban centres, with Dublin representing 45% and London 18% of the residual portfolio.

65% of the end-2014 portfolio is concentrated in Ireland. As a result, the performance of its Irish assets, and in particular those located in Dublin, will be a crucial factor in NAMA's ultimate performance.

RATE OF RETURN BENCHMARK

During the year, the Board approved an Entity Return on Investment ('EROI') target benchmark of 20%. The projected return as at end-2014 was 24%.

The EROI benchmark is calculated based on the comparison of NAMA's projected terminal surplus/(deficit) position, as per latest forecasted cashflows, 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.

NAMA Organisation and Service Providers

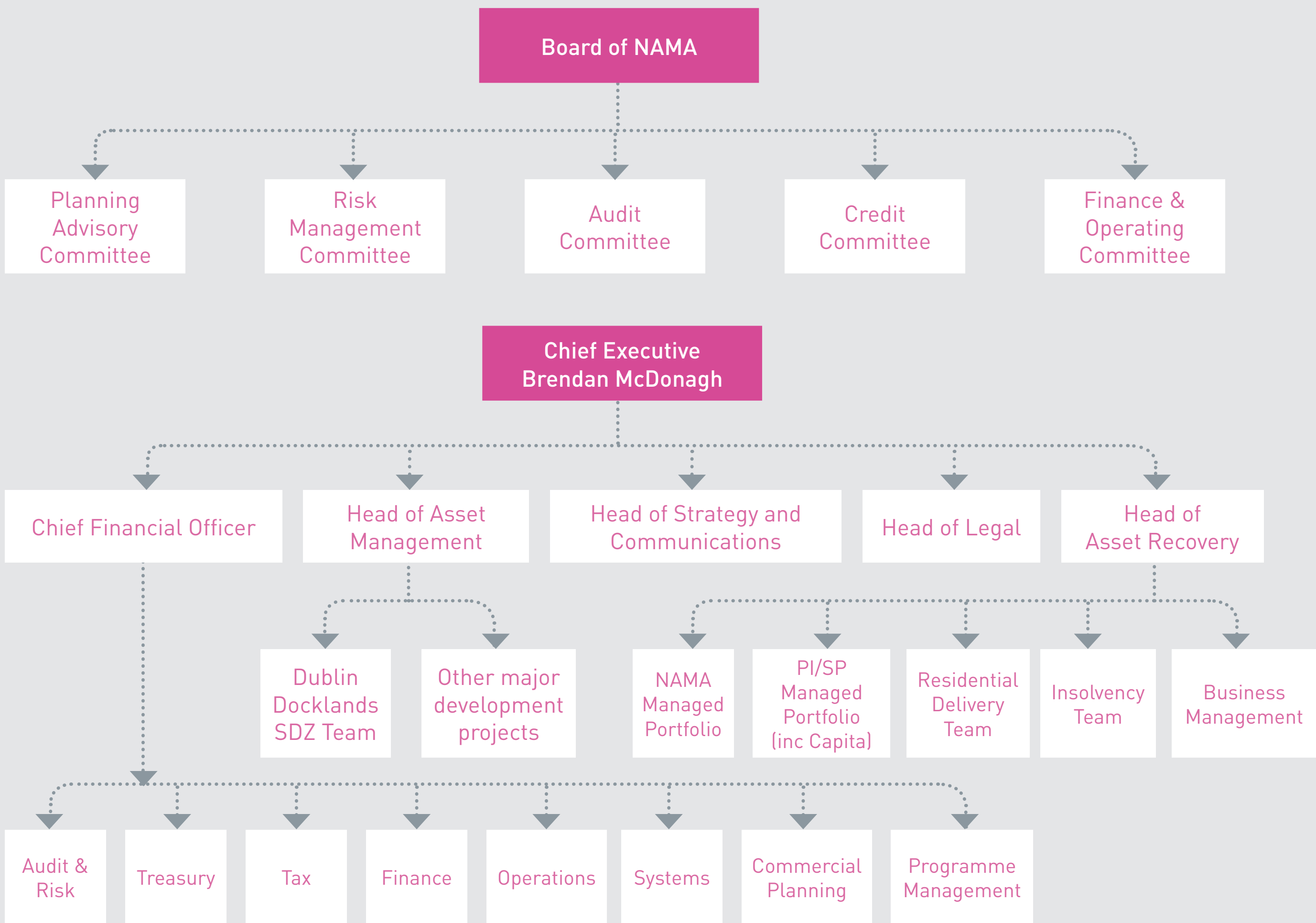
NAMA, through the NTMA, has recruited staff with a diverse range of skills and experience from the disciplines of banking, finance, law, property (quantity surveyors, engineers), insolvency and planning, among others. NAMA is organised across **five divisions (see Figure R below).** NAMA's structure continues to evolve as required: the Minister's Section 227 review of NAMA expanded NAMA's remit to (i) ensure the timely and coherent delivery of key Grade A office, retail and residential space within the **Dublin Docklands SDZ** and Dublin's Central Business District and (ii) maximise the delivery of residential housing units in areas of most need. To this end NAMA established a dedicated **Residential Delivery team** (within the Asset Recovery division) in April 2014 and created within its Asset Management division a team solely focused on the development of the Dublin Docklands SDZ.

Staff resources

The number of NTMA staff assigned to NAMA was 369 at end-2014. Between inception and end-March 2015, 126 members of staff resigned, including 67 resignations during 2014.

Organisational Structure

FIGURE R: NAMA organisational structure as at 1 January 2015



NAMA Organisation and Service Providers (continued)

ASSET RECOVERY

The Asset Recovery division which, at end-2014, comprised 193 staff, has a number of key functions: strategy delivery, management of debtors and receivers and maximising cashflow.

Asset Recovery is NAMA's principal interface with debtors and receivers and is responsible for the management and oversight of over 99% of the debtor connections (by number); both those directly managed by NAMA and indirectly managed through Allied Irish Bank p.l.c. ('AIB') and Capita Asset Services ('Capita'). This responsibility requires intensive daily management employing a range of workout methods including the following:

- Setting and actively monitoring clear strategies, targets and milestones.
- Minimising debtor and receiver costs.
- Securing and maximising income streams.
- Optimising sales values through proactive asset management.
- Providing additional capital expenditure funding where incremental value can be obtained or value protected.
- Executing sales of property portfolios or loans where appropriate.
- Reviewing, on a regular basis, asset sale versus asset hold options.

The structure of Asset Recovery continued to evolve in 2014 with the establishment of a dedicated Residential Delivery team to facilitate the delivery by NAMA debtors and receivers of 4,500 new residential units in the Greater Dublin Area by the end of 2016. In order to expedite the significant increase in property portfolio sales and loan sales which were planned and executed in 2014, the Transaction Team was expanded and split into a dedicated Loan Sales team and a dedicated Property Portfolio Sales team. Preparation was also made for the transfer to Capita of the loan portfolio previously managed by Bank of Ireland, a project which was successfully completed in early 2015.

NAMA-managed portfolio

The NAMA-managed portfolio initially comprised €61 billion par debt. It currently includes 191 debtor connections. All but three[2] of these debtor connections are managed by seven multidisciplinary Asset Recovery teams with nine/ten staff per team; these teams engage directly with debtors in relation to credit applications and monitoring of targets and performance. Implementation of NAMA-approved business plans is now well advanced and is reflected in the level of substantial cash generation to date.

PI/SP-managed portfolio

The PI/SP-managed portfolio initially comprised €13 billion of par debt. It currently includes 472 debtor connections.

NAMA's enforcement activity (page 13) is overseen by a team of specialist insolvency practitioners (based in the Asset Recovery division) working in conjunction with the Legal division.

Both the NAMA-managed and PI/SP-managed portfolios are supported by the Asset Recovery Business Management team which includes Asset Search and Portfolio Operations units.

2 *Three substantial UK-based debtor connections are managed by NAMA's Asset Management team.*

ASSET MANAGEMENT

The Asset Management Division manages specific projects that have been identified as suitable for the team's specialist real estate and capital skills. The projects include key development schemes in Dublin and London which are considered to be commercially viable based on current or prospective demand. In line with the team's processes, all projects are subject to robust 'sell-hold' interrogation tests at various stages in their evolution and this testing has meant that certain projects originally intended for development have instead been sold.

The team was expanded in 2014 to include the establishment of a dedicated Dublin Docklands SDZ team (NAMA has security over substantial land holdings in this area). NAMA's role is to fund and facilitate specific development or redevelopment opportunities in Dublin's Docklands with the following objectives in mind:

a) Optimise the commercial return from the NAMA-secured sites through planning and development strategies.

b) Assist in the delivery of future supply of new office accommodation in Dublin's Central Business District in response to the ongoing expansion of the financial services sector and the development of new Foreign Direct Investment business and technology hubs in the Dublin Docklands.

Asset Management is also responsible for the delivery of social housing on NAMA secured sites.

Significant progress was achieved by Asset Management during 2014:

- A number of substantial planning applications were lodged with Dublin City Council in respect of the Dublin Docklands SDZ for up to 1m sq. ft. of commercial space.
- A tender for a key site at 72-80 North Wall Quay in the SDZ area was successfully completed (Project Wave).
- Over 1,000 social housing units were provided by end-2014, with a target to deliver a cumulative 2,000 units by end-2015.
- Substantial progress was made in terms of completing development and pre- sales across eight active London residential development sites.

NAMA Organisation and Service Providers (continued)

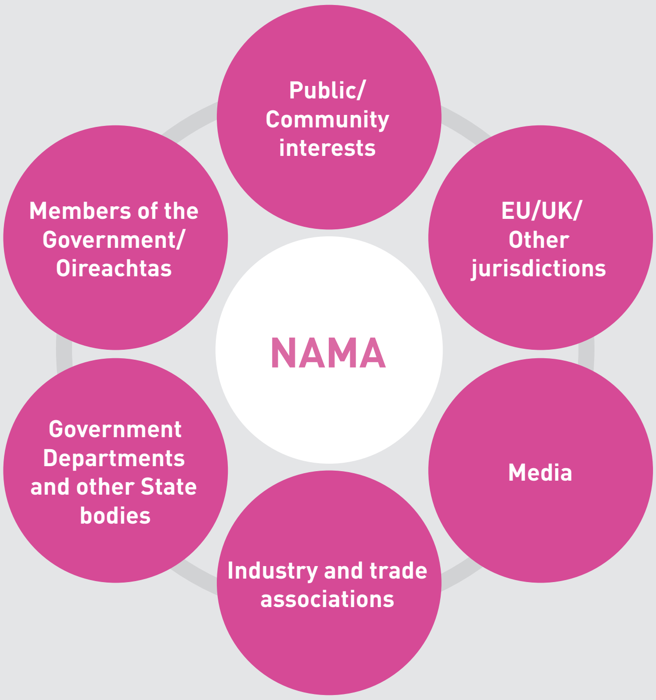
STRATEGY AND COMMUNICATIONS

The Strategy and Communications Division is responsible for strategic analysis of the portfolio and for developing strategies for NAMA on how to obtain the best achievable return on the portfolio. Its functions include regular formal review of NAMA strategy and the design and implementation of new products.

The division has responsibility for managing NAMA's communications activity, including the co-ordination of NAMA's engagement with the media, State agencies and with other key NAMA stakeholders.

In 2014, NAMA established a Freedom of Information (FOI) Unit within this division. NAMA became subject to FOI on 14th April 2015.

FIGURE S: Key NAMA stakeholders



LEGAL

The Legal Division provides independent advice to the Board, the CEO and to NAMA business divisions on a range of legal issues that affect NAMA and its operations. At end-December 2014, it comprised of a team of 61 legal professionals and support staff with expertise in commercial and residential property, banking and finance, insolvency and litigation.

The Legal Division provides legal advice and solutions to all NAMA business divisions. It is directly involved in all aspects of consensual and non-consensual strategies including: loan sales, property portfolio disposals; debt restructuring and debt settlements; asset management strategies; lending operations; enforcement and post-enforcement strategies; and litigation management. The Legal Division also advises on the operational structures underpinning outsourced loan servicing, governance of the NAMA group, public procurement law and NAMA's other regulatory and compliance obligations.

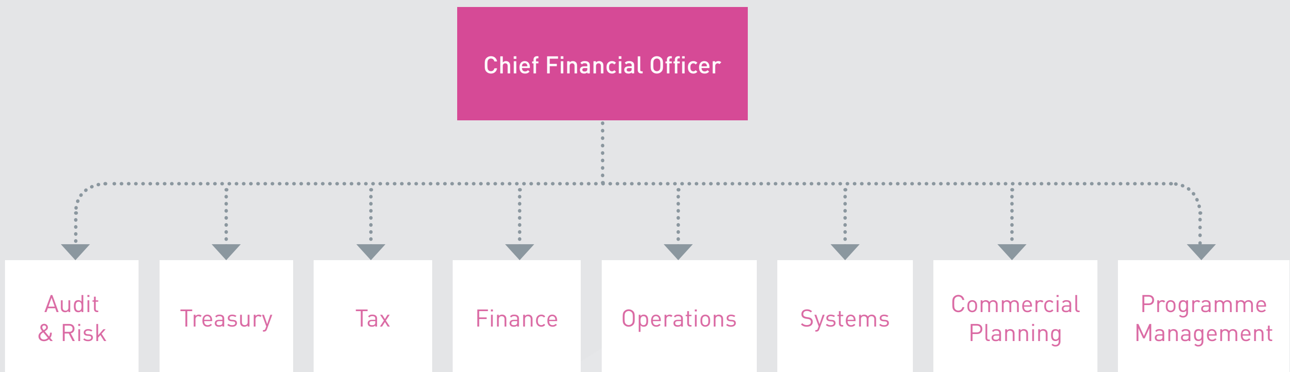
FIGURE T: Structure of Legal division

CHIEF FINANCIAL OFFICER

The Chief Financial Officer has direct responsibility for managing the organisation's financial and operational requirements. At end-2014, the CFO division comprised a team of 77 professional staff. The areas of responsibility include a wide range of business functions as set out graphically below:

The CFO Division provides financial leadership and acts as a specialist business partner to the wider NAMA organisation. It plays a key role in leading and supporting key commercial projects, investor and stakeholder relations activity and strategic financial planning. In particular, given NAMA's core transactional activity, the CFO Division provides unique, specialist skills that form a vital component in the ongoing project management and completion of NAMA's collateral and loan disposal transactions, especially the larger scale, more complex transactions.

FIGURE U: CFO Division organisational structure



NAMA Organisation and Service Providers (continued)

Service Providers to NAMA

NTMA

Under Section 41 of the Act, the NTMA provides NAMA with business and support services, including HR, IT, Market Risk analysis and accounts payable services. NAMA reimburses to the NTMA the cost of these services; this was €54m (including staff costs) in 2014.

At end-2014, 369 staff with extensive experience and expertise in the areas of lending, property, accountancy, law, banking and credit, were assigned to NAMA by the NTMA. For any potential employee to be assigned to NAMA, the NTMA must ensure that the person meets the character standards set out in Section 42 of the Act, has no material conflict of interest and provides to the NTMA a statement of interests, assets and liabilities.

Participating Institutions – servicing of NAMA loans

Five institutions (and their subsidiaries) were designated as Participating Institutions by the Minister for Finance in February 2010 (Allied Irish Bank, p.l.c., Bank of Ireland, Anglo Irish Bank, EBS Building Society and Irish Nationwide Building Society). On 1 July 2011, the business of Irish Nationwide Building Society transferred to Anglo Irish Bank and, on 14 October 2011, the combined entity changed its name to IBRC. EBS Building Society was acquired by AIB on 1 July 2011 and now operates as a subsidiary of AIB. The NAMA Units of the former Anglo and INBS were merged into one unit in 2012 as were the NAMA Units of AIB and EBS.

In February 2013, following the appointment of joint Special Liquidators to IBRC, NAMA invoked a clause in its Master Servicer agreement with Capita enabling the appointment of Capita as the back-up service provider to manage the IBRC NAMA loan portfolio. The transition completed in Q3 2014.

During 2014 a project was initiated to transfer the management and administration of commercial NAMA loans from Bank of Ireland to Capita. This project completed in February 2015. A new commercial agreement between NAMA and Bank of Ireland covers the management of a portfolio of mortgage loans which the bank continues to manage.

The two remaining loan service providers, AIB and Capita, are required to apply best industry practice in their management of NAMA loans. They have dedicated units in place to manage NAMA loans and they are required to ensure that these units operate on the basis of a segregation of staff, systems, data and infrastructure from other business areas.

Under Section 131 of the Act, NAMA issued a Direction to the Participating Institutions setting out their detailed obligations in relation to the services they provide to NAMA. Similarly, in the case of Capita, these obligations are set out in the Capita Operating Model Agreement.

The Direction and the Capita Operating Model Agreement cover such issues as governance structure and procedures, credit management procedures, customer relationship procedures, procedures for monitoring performance and procedures for reporting to, and working with, NAMA and the Master Servicer.

Regular steering committee meetings are held between NAMA and its loan service providers to oversee service delivery and performance. NAMA has assigned teams of its staff to AIB and to Capita. The teams are based in the NAMA units within AIB and Capita and have oversight of the management of NAMA debtors. In addition, AIB and Capita are monitored by reference to performance indicators and they are required to meet or exceed pre-determined service levels.

Fees for services provided by AIB to NAMA are calculated on the basis of the lower of 10 basis points (0.1%) of nominal loan value or actual costs incurred. In the case of Capita, the fee is based on the size of the loan portfolio under management. Aggregate Primary Service fees payable in respect of 2014 were €50m (2013: €55m). This was payment for the costs of all staff employed by AIB and Capita to carry out loan administration and to manage NAMA's engagement with those debtor connections whose loans are not directly managed by NAMA.

Master Servicer

Capita, in its capacity as Master Servicer, collates loan data gathered from AIB and Capita as Primary Servicer and provides NAMA with consolidated financial and management information on its portfolio. A fee of €2.5m was paid to Capita as Master Servicer, in respect of these services during 2014 (2013: €3.1m).

Procurement

From time to time, NAMA requires the assistance of specialist service providers in order to meet its statutory objective of obtaining the best achievable financial return for the State. A key criterion in the selection of service providers by NAMA is the extent to which they can provide value for money for the taxpayer.

NAMA as a contracting authority is subject to EU Directive 2004/18/EC as implemented in Ireland by the European Communities (Award of Public Authorities' Contracts) Regulations 2006 ('the Regulations'), in respect of the procurement of goods, works and services above certain value thresholds set by the EU.

Such tenders as they arise are advertised via the Irish Government and public sector procurement website www.etenders.gov.ie. The principles underpinning the Regulations are equal treatment, non-discrimination, mutual recognition, proportionality and transparency. Where the Regulations do not apply, either because the value of the procurement is below the EU thresholds or falls outside of the Regulations, NAMA adopts a process designed to obtain the best value for money that can be achieved. NAMA supports small and medium sized businesses in Ireland where that is possible without compromising its value-for-money principles.

A list of the tenders run via the etenders website and the corresponding results can be viewed on the NAMA website, www.nama.ie.

Governance

Governance

Board Members

1

1 Mr. Frank Daly | Chairman

(appointed 22nd December 2009 for a 5-year term and re-appointed 22nd December 2014 for a further 5-year term)

- Chairman of the Northern Ireland Advisory Committee (until its dissolution on 8th September 2014)

Frank Daly was appointed as a Public Interest Director of Anglo Irish Bank in December 2008. He resigned from this post on 22nd December 2009 when appointed Chairman of NAMA.

Mr Daly retired as Chairman of the Revenue Commissioners in March 2008 having been Chairman since 2002 and a Commissioner since 1996. He had joined Revenue in 1963.

In March 2008, Mr Daly was appointed Chairman of the Commission on Taxation which was set up to review the structure and efficiency of the Irish taxation system.

2

2 Mr. Brendan McDonagh | Chief Executive

- Board member *(ex-officio)*
- Member of the Finance and Operating Committee
- Member of the Risk Management Committee
- Member of the Credit Committee
- Member of the Planning Advisory Committee

Brendan McDonagh was appointed Chief Executive of NAMA by the Minister in December 2009. Prior to that, he was the Director of Finance, Technology and Risk at the NTMA from 2002 until 2009 and held the post of NTMA Financial Controller from 1998 to 2002.

Mr. McDonagh joined the NTMA in 1994 from the ESB, Ireland's largest power utility, where he worked in a number of areas including accounting, internal audit and treasury.

3

3 Mr. John C. Corrigan | Board member *(ex-officio)*

(Mr Corrigan's role as an ex-officio Board member ceased on 4th January 2015 following his retirement as NTMA Chief Executive Officer).

- Member of the Risk Management Committee (Mr Corrigan stepped down from this Committee in April 2014).
- Member of the Planning Advisory Committee (Mr Corrigan stepped down from this Committee in April 2014).

John Corrigan was appointed Chief Executive Officer of the NTMA in December 2009. He joined the NTMA in 1991 shortly after its establishment and was initially responsible for managing the domestic component of Ireland's National Debt. In 2001, Mr. Corrigan was involved in the establishment of the National Pensions Reserve Fund and was the Fund's Investment Director until his appointment as NTMA Chief Executive Officer.

Before joining the NTMA, Mr. Corrigan was Chief Investment Officer of AIB Investment Managers, having previously worked in the Department of Finance.

4

4 Mr. Conor O'Kelly | Board member *(ex-officio)*

(Mr O'Kelly's role as an ex-officio Board member commenced on 5th January 2015 following his appointment as NTMA Chief Executive Officer).

- Member of the Risk Management Committee (appointed 15th January 2015)
- Member of the Planning Advisory Committee (appointed 15th January 2015)

Conor O'Kelly was appointed Chief Executive Officer of the NTMA in January 2015. He is the former Deputy Chairman of Investec Holdings (Ireland) Ltd. Prior to that he was Chief Executive Officer of NCB Group and in 2003 successfully negotiated and led a management buyout of the firm which was subsequently acquired by Investec Plc. Before joining NCB as Head of Fixed Income, he had spent 11 years with Barclays Capital where he held senior management positions and worked in London, Tokyo and New York. He is a former director of the Irish Stock Exchange and a former member of the Trinity College Foundation Board. He is a graduate of Trinity College Dublin and holds a master's degree from Senshu University in Japan.

5

5 Mr. Oliver Ellingham | Board member

(appointed 10th April 2013 for a 5-year term)

- Chairman of the Risk Management Committee
- Member of the Audit Committee

Oliver Ellingham is a chartered accountant and a former Head of Corporate Finance (Europe) at BNP Paribas and a senior executive within BNP Paribas UK. He currently holds non-executive directorships in a number of companies and is Chairman and owner of Ellingham Limited. He previously also held senior management roles within Charterhouse Bank (now part of the HSBC Group) and Robert Fleming (now J P Morgan) and served as a member of the Board of IBRC from October 2011 to February 2013.

6

6 Ms. Mari Hurley | Board member

(appointed 8th April 2014 for a 5-year term)

- Chairperson of the Finance and Operating Committee
- Member of the Planning Advisory Committee
- Member of the Risk Management Committee
- Member of the Credit Committee (appointed effective 1st January 2015)

Mari Hurley was appointed to the Board by the Minister on 8th April 2014. Ms. Hurley is the Chief Financial Officer of Web Reservations International. She was previously Finance Director of Sherry FitzGerald Group and also worked at Bear Stearns Bank plc. She is a Fellow of the Institute of Chartered Accountants in Ireland having trained and qualified with Arthur Andersen. Ms. Hurley has a Bachelor of Commerce degree from University College Cork. She is a Director of Ervia.

7

7 Mr. Brian McEnery | Board member

(initially appointed 22nd December 2009 for a 4-year term and re-appointed for a 5-year term on 22nd December 2013)

- Chairperson of the Audit Committee
- Member of the Credit Committee (stepped down effective from 1st January 2015)
- Member of the Northern Ireland Advisory Committee (until its dissolution on 8th September 2014)

Brian McEnery (FCCA) specialises in corporate rescue and insolvency and is a partner in a leading firm of accountants and business advisors and practices in Limerick and Dublin. He is a Fellow of the Association of Chartered Certified Accountants ('ACCA') and a council member of ACCA. In 2010 he was the President of ACCA Ireland. He is a director of the Consultative Committee of Accounting Bodies and serves on its insolvency committee in Ireland.

8

8 Mr. Willie Soffe | Board member

(initially appointed 22nd December 2009 for a 4-year term and re-appointed for a 5-year term on 22nd December 2013)

- Chairperson of the Credit Committee
- Chairperson of the Planning Advisory Committee
- Member and interim Chairperson of the Finance and Operating Committee
- Member of the Northern Ireland Advisory Committee (until its dissolution on 8th September 2014)

Willie Soffe has over 45 years' service in Local Government in the Dublin area, during which time he has held the positions of Assistant City Manager, Dublin Corporation (now Dublin City Council) and County Manager, Fingal County Council.

Since retiring in 2004, Mr. Soffe has carried out a number of public service assignments including Chairman of the Dublin Transport Office, a member of the Commission on Taxation and a member of the Steering Group on the Review of Area-Based Tax Incentive Renewal Schemes.

Governance (continued)

Board and Committees of the Board

Under Section 19 of the Act, the Board comprises a Chairman and up to eight members. The Chairman and six members are appointed by the Minister while the Chief Executive of NAMA and Chief Executive Officer of the NTMA are *ex-officio* members of the Board. The Board's **principal functions** are provided for under Section 18 of the Act:

- To ensure that NAMA's functions are performed effectively and efficiently.
- To set strategic objectives and targets for NAMA.
- To ensure that appropriate systems and procedures are in place to achieve the strategic objectives and targets.
- To take all reasonable steps available to it to achieve these targets and objectives.

The Board has a schedule of matters reserved for its approval and deals with credit matters within its delegated authority level.

Three current members of the Board were appointed by the Minister on 22nd December 2009: Frank Daly (Chairman) (5 years), Brian McEnery (4 years), and Willie Soffe (4 years). These Board members were subsequently re-appointed for five year terms: Frank Daly was re-appointed as Chairman from 22nd December 2014 and Brian McEnery and Willie Soffe were re-appointed from 22nd December 2013. Oliver Ellingham and Mari Hurley were appointed by the Minster on 10th April 2013 and 8th April 2014 respectively. The two *ex-officio* members of the Board are Conor O'Kelly, Chief Executive Officer of NTMA (with effect from 5th January 2015, following John Corrigan's retirement from the position) and Brendan McDonagh (Chief Executive, NAMA). There are currently two vacancies on the Board.

The terms of office of Board members range between three and five years and no appointed member is eligible to serve more than two consecutive terms. The Minister determines the level of remuneration of appointed members and their entitlement to reimbursement for expenses. The *ex-officio* members do not receive any additional remuneration for their membership of the Board.

During 2014 the Board met on 23 occasions while the six committees of the Board met on 70 occasions. The attendance details for Board and committee meetings are outlined in Table 13.

The Board established four statutory committees under Section 32 of the Act and a further two advisory committees under Section 33 as follows:

- Audit Committee (chaired by Brian McEnery)
- Credit Committee (chaired by Willie Soffe)
- Risk Management Committee (chaired by Oliver Ellingham)
- Finance and Operating Committee (chaired by Mari Hurley)
- Planning Advisory Committee (chaired by Willie Soffe)
- Northern Ireland Advisory Committee (chaired by Frank Daly)

The Board, by agreement with the Minister and following the sale of the loans of Northern Ireland debtors ("Project Eagle"), resolved to dissolve the Northern Ireland Advisory Committee following its meeting on 8th September 2014.

The Board has adopted the Code of Practice for the Governance of State Bodies (2009) ('the Code'), as adapted to NAMA's particular governance structure and the statutory requirements of the Act. Where necessary it has put in place arrangements to ensure compliance with the Code, and it reviews its policies and procedures on a periodic basis to ensure compliance with the Code as well as with best practice in corporate governance.

The Board is supported in its functions by the Secretary to the Board who also co-ordinates the operation of the various Board committees; each of the committees is supported by a NAMA Officer with relevant expertise who acts as secretary to the committee.

TABLE 13: Attendance at Board and Board Committee Meetings in 2014

	Board	Audit	Credit	Finance & Operating	Risk Management	Planning Advisory	Northern Ireland
Board members:							
Frank Daly	23						2
John Corrigan	20				6	1***	
Brendan McDonagh	23		35	7	5	6	
Brian McEnery	22	13	20				0
Willie Soffe	22		36	7		6	2
Oliver Ellingham	23	13			6		
Mari Hurley*	11			4	3		
John Mulcahy**	2		1		1	1	
External members:							
Jim Kelly		13					
Michael Wall						6	
Alice Charles						5	
Brian Rowntree							2

* Mari Hurley was appointed 8th April 2014

** John Mulcahy resigned on 17th January 2014

*** John Corrigan stepped down from the Planning Advisory Committee in April 2014

Governance (continued)

Reports from Chairpersons of NAMA Committees

AUDIT COMMITTEE

Section 32 of the Act required the Board to establish an Audit Committee. The Audit Committee operates to Board-approved Terms of Reference as required under Section 32(6) of the Act.

The Audit Committee currently comprises two non-executive Board members and one external member.

The Audit Committee is comprised of the following:

- Brian McEnery (Chairperson, Board member)
- Oliver Ellingham (Board member)
- Jim Kelly (External member)

In accordance with Section 32(2) of the Act, the Audit Committee is to comprise six members, two of which are external to NAMA and appointed by the Minister. The remaining four members are appointed by the Board from among the members of the Board. It is expected that the vacancies in the Audit Committee will be filled after new appointments are made to the Board.

Mr. Kelly is a former senior official with the Revenue Commissioners. He has been a Board member of the Irish Auditing and Accounting Supervisory Authority (IAASA) and was Secretary to the Commission on Taxation 2008-2009.

The Board has determined that Brian McEnery is the Committee's financial expert and that Oliver Ellingham is the Committee's risk expert.

The Committee met on 13 occasions in 2014.

The Audit Committee assists the Board in fulfilling its oversight responsibilities in the following functions:

- The integrity of the financial reporting process
- The independence and integrity of the external and internal audit processes
- The effectiveness of NAMA's internal control system
- The processes in place for monitoring the compliance of the loan service providers with their contractual obligations to NAMA
- Compliance with relevant legal, regulatory and taxation requirements by NAMA
- Arrangements for reporting of relevant wrongdoing, for NAMA's employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters and ensuring that these arrangements allow proportionate and independent investigation and follow up action

The principal activities of the Committee in 2014 were as follows:

1. Financial reporting

The Committee reviewed the Annual Report and Financial Statements, as well as all other formal announcements relating to the Financial Statements, before submission to the Board. The review focused in particular on changes in accounting policy and practices, major judgement areas, and compliance with legal (including any requirements under the Act) and regulatory requirements.

2. External audit

The Comptroller and Auditor General ('C&AG') is the designated external auditor under the Act. No non-audit services were provided by him during 2014. The Committee reviewed the external audit plan in advance of the audit and met with the external auditor to review the findings from his audit of the financial statements.

3. Internal audit

The Committee received regular reports from the internal auditor. These included summaries of the key findings of each audit in the period and updates on the planned work programme. On an on-going basis, the Committee ensured that these activities are adequately resourced and have appropriate standing within NAMA. This included agreement of the annual internal audit plan. The Committee also ensured coordination between the internal and external auditors.

4. Internal controls

The Committee evaluated the system of internal controls, including procedures adopted by the NTMA in the performance of its compliance and control functions for NAMA. The Committee's findings were reported to the Board.

5. Monitoring of service providers

The Committee received regular updates from Management and the internal auditor on the performance of these service providers, benchmarked against agreed targets.

The Chief Financial Officer of NAMA, the Head of Audit and Risk, other senior NAMA executives and representatives of the internal and external auditors were invited as appropriate to attend all or part of any meeting. The Committee also met individually with the external auditor, the internal auditor, Chief Financial Officer, Head of Audit and Risk and NTMA Head of Compliance. Each of these has direct access, without restriction, to the Chairperson of the Audit Committee.

Brian McEnery
Chairperson

CREDIT COMMITTEE

Section 32 of the Act required the Board, which has ultimate responsibility for the credit risk of NAMA, to establish a Credit Committee operating under its delegated authority. The Credit Committee operates to Board-approved terms of reference as required under Section 32(6) of the Act.

The Credit Committee is comprised of the following members:

- Willie Soffe (Chairman, Board member)
- Brian McEnery (Board member) (stepped down with effect from 1st January 2015)
- Mari Hurley (Board member)
- Brendan McDonagh (Chief Executive, NAMA and Board member)
- Aideen O'Reilly (Head of Legal)
- Ronnie Hanna (Head of Asset Recovery)(resigned with effect from 31st October 2014)
- Michael Moriarty (Head of Asset Recovery)
- Dónal Rooney (Chief Financial Officer)
- Mary Birmingham (Head of Asset Management)
- John Collison (Deputy Head of Asset Recovery)
- Jonathan Milligan (Deputy Head of Asset Recovery)

The Committee, which met on 36 occasions in 2014, normally meets on a weekly basis but meets more or less frequently as required. By its very nature, the Credit Committee has a critical role in advising the Board on the establishment of NAMA credit policy and in ensuring that decision making on debtor management is consistent with overall Board policy.

Commensurate with the credit policy approved by the Board, and subject to agreed portfolio limits, the Credit Committee is the decision-making authority responsible for the approval or rejection of credit applications which are below the level required for Board approval but exceed the credit approval authority delegated to the NAMA Chief Executive and Head of Asset Recovery/Head of Asset Management by the Board. The Committee must operate in a considered and timely manner so as to support efficient credit-related decision making with respect to the acquired debts of close to 663 debtor connections.

A credit application is broadly defined to mean any event that materially changes the underlying risk profile of an exposure or debtor. It includes debtor strategy reviews, applications for additional credit including capital expenditure projects, the restructuring or compromise of loan obligations, approval for asset sales, applications for vendor finance or financing for joint venture projects, decisions with respect to personal guarantees and approval of enforcement action, including receivership, repossession and other such actions.

The Committee's principal responsibilities include:

1. Assessing credit applications which fall outside the delegated authority of the Chief Executive and the Head of Asset Recovery/ Head of Asset Management. These can be approved/declined/ amended as appropriate. Where the level of risk exceeds the authority of the Committee, a credit application is referred, with a Credit Committee recommendation, to the Board for decision.
2. Assessing proposed credit and sectoral policies for Board consideration/approval.
3. Determining Key Performance Indicators (KPIs) and monitoring them, establishing policies and strategies upon which the performance of the overall portfolio can be assessed and re-defined as appropriate on a periodic basis, and reporting its findings to the Board.

The principal activities of the Committee in 2014 were as follows:

1. Ensuring that systems in place for processing credit applications presented to the Committee and the Board were effective, efficient and appropriate.
2. Review of NAMA approved debtor strategies and progress made to date. The Committee also conducts a bi-annual review of NAMA's top debtor strategies (top debtors are defined as debtors whose combined debt represents 50% of total NAMA debt).

Governance (continued)

3. Assessing, recommending and approving over 250 individual credit requests ranging from asset management decisions to complex matters related to debtor strategy actions such as continued funding of development assets or final resolution of connections. 65 papers were reviewed by the Committee for recommendation to the Board. Additionally, the Committee oversaw more than 1,000 individual credit decisions made within the CEO and Head of Asset Recovery's level of delegated authority.
4. Making decisions in relation to debtor agreements, impairments, enforcements and exit strategies, including loan sales.
5. Developing and enhancing both credit policies and sectoral policies; and assimilation of associated management information.
6. Review of Asset Management strategy and regular reviews of progress on their selected projects.
7. Regular review of progress on business plans of social and economic importance; in particular, those relating to Residential Delivery and the Docklands SDZ.

It is expected that 2015 will be another active year for the Credit Committee as NAMA endeavours to maximise value from the portfolio while continuing to deleverage in a timely manner. NAMA now operates in an improving economic environment and an improved property market in Ireland. With increased national and international demand for Irish property, NAMA continues to monetise its portfolio through loan sales, property portfolio sales and individual asset sales. Simultaneously, NAMA is selectively financing the development of assets critical to its residential, social housing and office delivery mandates.

As NAMA is required to take a commercial but prudent view while maintaining the highest standards of objectivity and integrity, all proposals are rigorously assessed and the various options fully considered. The Committee recognises that its decisions may have a significant impact on the assets and the debtors concerned, and it is determined to support projects which add value with a view to stimulating activity and employment and to maximising the return for the Irish taxpayer.

Willie Soffe
Chairperson

FINANCE AND OPERATING COMMITTEE

The Finance and Operating Committee comprises two non-executive Board members and five senior NAMA executives (including the NAMA Chief Executive).

The Finance and Operating Committee is comprised of the following members:

- Mari Hurley (Chairperson, Board member)
- Willie Soffe (Board member)
- Brendan McDonagh (Chief Executive, NAMA and Board member)
- Aisling Synnott (Head of Treasury)
- Dónal Rooney (Chief Financial Officer)
- John Collison (Deputy Head of Asset Recovery)
- Seán Ó Faoláin (Head of Strategy and Communications)

The Committee met on seven occasions in 2014.

The principal responsibility of the Finance and Operating Committee is to monitor the financial and operational management of NAMA and its budgetary and management reporting, including:

- All financial and management reporting whether to the Minister, the Oireachtas or otherwise (except for NAMA's annual Financial Statements which are the responsibility of the Audit Committee).
- The preparation of management accounts.
- The preparation of annual budgets and other forecasts.
- The review of performance and variance against budget and prior year performance.
- Approving major capital expenditure.
- The management of procurement.
- Oversight of service providers (other than those whose oversight is reserved specifically to other Board committees).

The Finance and Operating Committee oversees the Executive Team's responsibilities for developing, implementing and managing NAMA's financial, operational and budgetary policies and reporting in relation thereto. It makes recommendations to the Board concerning NAMA's expenditure and budgetary requirements. The Chairperson reports formally to the Board on the key aspects of the Committee's proceedings.

During 2014, NAMA reached certain key operational milestones and made continued progress in terms of developing its underlying Finance, Operations and Systems infrastructure. Examples of some specific achievements / progress areas are set out below:

- The successful migration of the legacy IBRC and Bank of Ireland loans to Capita (as part of the wider project to replace IBRC (in liquidation) and Bank of Ireland as service providers to NAMA with Capita) represented a significant operational milestone for NAMA and a successful conclusion to what were highly complex and large scale projects.
- Ongoing developments were made to the management information provided to the NAMA Executive, Finance and Operating Committee and Board. New management information initiatives were launched in respect of NAMA's residential development activity and the Dublin Docklands SDZ projects. In addition, NAMA's forecasting and impairment processes were developed with the roll out of NAMA's forecasting tool to the NAMA Participating Institutions and Primary and Special Loan Servicer managed connections.
- Further developments were made to NAMA's systems during the year with a focus on both functionality and data/system security. In addition, NAMA developed and rolled out a new website in 2014.
- There was an ongoing strong focus on minimising costs in 2014. NAMA's operating costs, at approximately 2.5% of cash generation, compare highly favourably with recognised international benchmarks.

Mari Hurley
Chairperson

Governance (continued)

RISK MANAGEMENT COMMITTEE

The Risk Management Committee is responsible for overseeing the assessment and management of risks that, if they were to occur, would result in financial losses and/or a failure by NAMA to achieve its objectives as set out in its Strategic Plan.

The Risk Management Committee is comprised of the following members:

- Oliver Ellingham (Chairman, Board member)
- Brendan McDonagh (Chief Executive, NAMA and Board member)
- Mari Hurley (Board member)
- Conor O'Kelly (Chief Executive Officer, NTMA and Board member)
- Dónal Rooney (Chief Financial Officer)

John Corrigan (former NTMA Chief Executive Officer and NAMA Board member) stepped down from the Risk Management Committee with effect from 4th January 2015. Mari Hurley (NAMA Board member) and Conor O'Kelly (current NTMA Chief Executive Officer and NAMA Board member) were appointed to the Committee on 10th April 2014 and 15th January 2015 respectively.

The Committee met on six occasions in 2014.

The Committee's principal responsibilities include:

1. Reviewing and overseeing the Executive Team's plans for the identification, management, reporting and mitigation of the Principal Risks faced by NAMA.
2. Overseeing the implementation and review of an Enterprise Risk Management framework and satisfying itself that appropriate actions are taken in the event that any significant concerns are identified.
3. Ensuring that NAMA's risk management, governance and organisational model provide appropriate levels of independence and challenge.

Risk categories identified in the NAMA Enterprise Risk Policy cover a wide spectrum of risks to the achievement of NAMA's objectives.

The principal activities of the Committee in 2014 were as follows:

1. The NAMA Risk Management Committee identified five Principal Risks which were reviewed and approved by the Board and form the basis for the Principal Risks and Uncertainties disclosure in the Annual Report. A Principal Risk is defined as a risk, or combination of risks, that can seriously affect the performance, future prospects or reputation of NAMA. These Principal Risks should include those risks that would threaten its business model, future performance, solvency or liquidity.

The identification and assessment of Principal Risks is an ongoing process which responds to changes in strategy, business objectives and the external environment. The Principal Risk identified during 2013/14 relating to "day one fair value adjustment of IBRC transferred assets" was removed from the register by a decision of the Risk Committee at the September 2014 meeting as NAMA was not required to acquire any IBRC loans. At that same meeting the Risk Management Committee re-evaluated the Principal Risks and added a new risk. This related to the new mandates given to NAMA following the publication of the Section 227 Report by the Minister namely, to develop sites in the Dublin Docklands SDZ and to deliver 4,500 residential housing units by end-2016. In 2014, the Risk Management Committee was regularly briefed on a particular Principal Risk or specific elements of such risk by a subject matter expert to ensure all aspects of these risks were appropriately considered.

2. The composition of the NAMA balance sheet (and associated risks) was monitored throughout 2014. The Committee regularly reviewed the various components of balance sheet risk, the methods by which those risks are measured and reported and considered alternative strategies to mitigate those risks. The Committee made recommendations to the Board where changes in policy, measurement, risk limits or risk management strategy were required to reduce risk to a tolerable level having regard to the expanded balance sheet and changes in the underlying NAMA loan portfolio, interest rate and foreign exchange markets. The Committee made recommendations to the Board on revisions to hedging strategies due to changes in the NAMA risk profile as a result of new processes, initiatives or as a response to external events, such as the liquidation of IBRC, which impact on NAMA and the achievement of its objectives.

3. Operational risks are inherent to the operation of NAMA and the Risk Management Committee focused on the regular review of the Functional Risk Registers which were continually updated during 2014. Each of the Functional Risk Registers is subject to annual review to identify new and emerging risks and redundancy or changes in existing risks. The Risk Management Committee continued to review on a regular basis the Risk Registers of the Service Providers and Participating Institutions to gain oversight of the impact and likelihood of risks managed by these entities that could influence the achievement of NAMA's objectives. The Committee requires a quarterly control attestation and risk awareness training for NAMA employees. The Committee was supported in this effort by Audit & Risk (CFO) which ensured that the material and emerging risks were reported and considered by the Committee.

Expectations for 2015:

The focus on the Principal Risks will remain a priority for the Risk Management Committee in 2015, ensuring that they remain under constant review and any updates or changes in those risks are provided to the Board in a timely and thorough manner.

Integration of risk related data sources such as incident reporting, risk indicators and audit findings with overarching Risk Appetite statements that will provide a clearer relationship between the organisation's appetite (or lack thereof) for certain risks in the achievement of its strategic objectives will be explored. This will complement and reinforce the existing well established framework of risk tolerances and limits around key risks which have been delegated by the Board to various levels of NAMA management.

A Risk Appetite statement linked to the Principal Risks will be monitored and reported at regular intervals by Audit & Risk (CFO) function.

Oliver Ellingham
Chairman

Governance (continued)

NORTHERN IRELAND ADVISORY COMMITTEE

Section 33 of the Act provides for the establishment of advisory committees and, with the agreement of the Minister, NAMA established a Northern Ireland Advisory Committee on 7 January 2010. The purpose of the Committee was to advise the Board in relation to the strategy for Northern Ireland assets.

Dissolution of Northern Ireland Committee

The Board, having regard to the implications of the sale of the Northern Ireland loan portfolio ("Project Eagle") for the Committee, and with the agreement of the Minister, resolved to dissolve the Northern Ireland Advisory Committee following its 8th September 2014 Committee meeting.

The Northern Ireland Advisory Committee was comprised of the following members:

- Frank Daly (Chairman)
- Brian McEnery (Board member)
- Willie Soffe (Board member)
- Ronnie Hanna (Head of Asset Recovery)
- Brian Rowntree (External member)

Mr. Rowntree currently holds a number of non-executive appointments in the public and not-for-profit sectors. Mr. Rowntree is Chairman of the Northern Ireland Civil Service Commissioners and an Independent Member of the Northern Ireland Policing Board. He was formerly Chairman of the Northern Ireland Housing Executive (2004-2012), a member of the Advisory Board of the International Centre for Local and Regional Development, and Vice President of the European Social Housing Forum. He has held further public appointments at Chair and non-executive Director level in the Housing, Criminal Justice, Health and Education sectors and has chaired and participated in a wide variety of forums in Northern Ireland and on a cross-border basis.

The Committee met on two occasions in Belfast during 2014. The Belfast meetings (and separate engagements across Northern Ireland) provided an opportunity to engage with key Northern Ireland stakeholders in all sectors.

The principal responsibilities of the Northern Ireland Advisory Committee included:

Providing advice and making recommendations to the Board on Northern Ireland matters as they pertain to the Purpose and Objectives of the Advisory Committee set out below:

- Making recommendations to the Board on matters pertaining to Northern Ireland in the context of NAMA's objectives and functions as set down in Sections 10 and 11 of the Act.
- Ensuring these recommendations include the Committee's view in relation to the impact on Northern Ireland of the implementation of the Board's strategy.
- Making recommendations to the Board concerning strategy for NAMA in so far as it relates to the Northern Ireland assets.

Northern Ireland Advisory Committee Highlights

Policy Advice

NAMA's mandate is to recover the maximum amount from all loans irrespective of where the underlying loans happen to be located. Towards this objective, NAMA adopts a commercial approach in each of the jurisdictions in which it operates, while recognising the distinctive market characteristics of these areas. The Committee reviewed all strategic opportunities to bring creative and innovative solutions in respect of NAMA's portfolio in Northern Ireland. To that end the Committee continued to benefit during 2014 from the contribution of Brian Rowntree, External Committee Member, who provided a unique local knowledge and expertise to guide NAMA's work in Northern Ireland.

Project Eagle Loan Sale Transaction

The Committee was briefed in general terms on the significant amount of work undertaken in relation to Project Eagle, a complex loan sale transaction due to its scale and multi-debtor profile. Following the completion of the sale, the remaining Northern Ireland Portfolio to be managed by NAMA, is significantly reduced, comprising of less than 40 smaller assets. This residual portfolio will be disposed of in 2015.

Social Housing

The Committee provided advice to the Board in relation to NAMA's engagement with the Northern Ireland social housing sector with a view to identifying and offering suitable sites for social housing purposes where there was a match between need and assets within the portfolio.

Research

The Committee worked in partnership with the University of Ulster on key and innovative research to support a better understanding of the supply and demand dynamics of land across the region, including housing affordability and barriers to market entry. The final conclusions from the University of Ulster at Jordanstown (UUJ) research project, 'Residential Development Land: Supply Side Dynamics and Policy Implications', which had been sponsored by NAMA, were reviewed by the Committee. A final summary UUJ report, taking account of Project Eagle, will be presented to the Board in due course.

The Committee places on record its appreciation to Brian Rowntree, Willie Soffe (Board member), Brian McEnery (Board member), Ronnie Hanna (former Head of Asset Recovery) and Jonathan Milligan, current Deputy Head of Asset Recovery, who served on the Committee since inception in May 2010.

Frank Daly
Chairman

Governance (continued)

PLANNING ADVISORY COMMITTEE

The purpose of the Planning Advisory Committee is to advise the Board on planning, land and related matters that may have an impact on the valuation and realisation of NAMA assets and thereby affect the achievement of NAMA's purpose and functions as set down in sections 10 and 11 of the Act.

The Committee may make recommendations to the Board concerning NAMA's objectives with respect to approved strategies, guidelines and statutory plans, including SDZs and Local Area Plans and their impact on NAMA assets.

The Planning Advisory Committee is comprised of the following members:

- Willie Soffe (Chairman, Board Member)
- John Corrigan (Chief Executive Officer, NTMA and Board member) – resigned 10th April 2014
- Conor O'Kelly (Chief Executive Officer, NTMA and Board member) – appointed 15th January 2015
- Brendan McDonagh (Chief Executive, NAMA and Board member)
- Mary Birmingham (Head of Asset Management, NAMA) – appointed 15th January 2015
- Mari Hurley (Board member) – appointed 10th April 2014
- Michael Wall (External Member)
- Alice Charles (External Member)

Mr Michael Wall is an architect and barrister and a former Board member of An Bord Pleanála.

Ms Alice Charles has considerable planning experience and is a member of the Royal Town Planning Institute and the Irish Planning Institute.

The Committee met on six occasions during 2014. Mari Hurley was appointed to the Committee on 10th April 2014. Conor O'Kelly and Mary Birmingham were appointed to the Committee on 15th January 2015.

The principal activities of the Committee in 2014 were as follows:

1. Assessing planning matters which are of interest to the Agency and advising on such matters where appropriate, in particular focussing on SDZs and housing and infrastructure provision.
2. Engaging in discussions with Government departments, local authorities and other statutory bodies to align the objectives of those parties and NAMA on matters such as the provision of social housing, schools and unfinished estates, and the procurement of property where necessary.
3. Advising and guiding NAMA's participation in a number of specialist projects and public matters, involving external stakeholders which include new planning legislation, a proposed Vacant Land Levy, and the implementation of the National Planning Information System.

Over the course of 2014, the Committee's focus was on those areas where NAMA has assets located close to key areas with future development potential including the Dublin Docklands SDZ. The Committee advised on the value adding functions of NAMA in the SDZ, including co-ordination of matters such as road delivery, positioning of certain land uses across blocks and continued direct engagement with the SDZ Development Agency. It is hoped that this contribution will assist in achieving tangible economic and social benefits in this areas and improve NAMA's ability to recoup its outlay.

The Committee has continued to advise on the Agency's engagement with State bodies and is committed to aligning their needs with NAMA linked properties. NAMA has worked with the Housing and Sustainable Communities Agency, Local Authorities and Voluntary Housing Agencies to provide residential units for social and affordable purposes. Following the establishment of a NAMA SPV, NARPSL, to expedite this process, the Committee has had oversight of the development of a long-term leasing model which will assist in the provision of units. Since the inception of NAMA over 1,000 units have been delivered for social housing. These were delivered in direct sales or in long-term leasing through NARPSL. Other consultations have been ongoing with various State bodies, to align their requirements with those of the Agency – the Committee continues to appraise and advise on such matters.

The Agency's participation in the National Coordination Committee tasked with ensuring a solution to problematic unfinished housing estates has continued. The Committee has overseen significant improvements made to those affected assets relating to NAMA's portfolio over the course of 2014. NAMA is funding the site resolution process being undertaken by debtors/receivers, with emphasis on health and safety compliance. Loan/asset sales have also led to a drop in the number of unfinished housing estates. Consequently NAMA's exposure to these developments has been reduced by 32%. Progress on those sites with outstanding problems will continue to be reviewed.

The Committee also provided guidance in relation to the delivery of the targeted 4,500 residential units by end-2016. At end-2014, construction had begun on 2,642 units and works were at an advanced stage in relation to 3,147 units where planning permission was achieved. In addition, a further 6,128 units were in the pipeline for planning applications at year end. The intention is to ensure value-add to NAMA charged assets in order to achieve best value for the taxpayer while also ensuring that supply of new homes continues.

In carrying out its functions, the Committee is greatly assisted by the knowledge and support of NAMA's Planning and Development Unit.

Willie Soffe
Chairman

Governance (continued)

Disclosure and Accountability

Disclosure requirements on Board members

Sections 30 and 31 of the Act outline the requirements on members of the Board in terms of disclosure of interests.

Section 30 requires Board members to disclose to other members of the Board the nature of any pecuniary interest or other beneficial interest they may have in any matter that is under consideration by the Board. Members must absent themselves from a Board meeting while the matter is under consideration and they are precluded from any vote that may take place on the matter.

Section 31 of the Act imposes an obligation on each member of the Board of NAMA and each Director of a NAMA group entity to give notice to NAMA annually of all registrable interests within the meaning given by the Ethics in Public Office Act 1995.

The members of the Board, members of committees established under Sections 32 and 33 of the Act and Directors of the NAMA group entities are designated directors pursuant to the Ethics in Public Office Act 1995 as amended by the Standards in Public Office Act 2001 ('Ethics Acts') and are required to comply with the Ethics Acts in respect of the disclosure of interests.

Staff assigned to NAMA

Staff assigned to NAMA have obligations to make disclosures of interests pursuant to Section 13 (b) of the National Treasury Management Agency Act 1990 (as amended), Section 18 of the Ethics Acts and Section 42 of the Act.

In addition, staff assigned to NAMA are subject to a Code of Practice approved by the Minister under Section 35 of the Act, which sets out, inter alia, their obligations in respect of disclosure of interests, confidentiality, data protection, and insider dealing.

Staff assigned to NAMA are required to sign an undertaking that they will comply with the provisions of the Code of Practice and compliance training is mandatory for all such staff.

NAMA Accountability

In carrying out its functions the Board of NAMA must comply with its obligations under the Act and is subject to a high level of public accountability.

1. NAMA submits quarterly reports to the Minister on its activities, as set out in Section 55 of the Act. This includes information about its loans, its financing arrangements and its income and expenditure. Each quarterly report is laid before both Houses of the Oireachtas.
2. NAMA submits annual accounts, in a form directed by the Minister, under Section 54 of the Act. The accounts must include a list of all debt securities issued, a list of all advances made from the Central Fund or by NAMA and its group entities and a list of asset portfolios with their book valuation. NAMA's accounts are audited by the C&AG and the audited accounts are laid before both Houses of the Oireachtas.
3. In addition to its annual accounts, NAMA is also required to submit to the Minister, under Section 53, an Annual Statement setting out its proposed objectives for each year, the scope of activities to be undertaken, its strategies and policies and its proposed use of resources. Each annual statement is laid before both Houses of the Oireachtas.
4. The Chief Executive and the Chairman, whenever required by the Committee of Public Accounts, attend and give evidence. The Chief Executive and the Chairman also appear before other committees of the Oireachtas whenever required to do so.
5. The Minister may require NAMA to report to him at any time on any matter including performance of its functions or information or statistics relating to performance.
6. NAMA has prepared codes of practice to govern certain matters including, amongst others, the conduct of its officers, servicing standards for acquired bank assets, risk management, disposal of bank assets and the manner in which NAMA is to take account of the commercial interests of non-participating banks. The codes of practice have been approved by the Minister and are published on www.nama.ie/CodesOfPractice.
7. In accordance with Section 226 and 227 of the Act, after 31 December 2012, the Minister and the C&AG were required separately to assess the extent to which NAMA had made progress toward achieving its overall objectives. Thereafter, the Minister will review progress every five years and the C&AG every three years. The C&AG's Section 226 Progress Report on NAMA was published in May 2014 and the Minister's Section 227 Review was published in July 2014.

Risk Management

PRINCIPAL RISKS AND UNCERTAINTIES

NAMA is exposed to a wide variety of risks which have the potential to affect the financial and operational performance of the Agency. The NAMA Risk Management Policy that is approved by the Board has an integrated approach designed to ensure that all material classes of risk are identified so that business strategy and execution are aligned to minimise the risk to the achievement of NAMA's Strategic Plan. The Risk Management Framework establishes the processes to identify, assess, evaluate, measure, report and mitigate risk. NAMA has identified the following principal risks and uncertainties which may adversely affect the achievement of its objectives.

1. Macro-economic and property risk

Risk that a domestic or international financial or macroeconomic shock causes an inability to meet NAMA's Senior Bond obligations. If the economy and property market in Ireland fail to fully and sustainably recover or the market in other locations in which NAMA has an exposure, principally the UK, deteriorates from present levels, cash flows realised by NAMA assets could be lower than projected.

2. Strategic risk

If the pace of deleveraging/disposals activity is incorrectly calibrated (i.e. it is too fast or too slow), NAMA may not achieve the Section 10 NAMA Act ('the Act') statutory requirement to obtain the "best achievable financial return for the State". The risk represents the potential opportunity cost associated with sell versus hold decisions for NAMA assets.

3. Human capital risk

If there is a material loss of human capital from NAMA it will not achieve its objectives. A failure to attract, motivate and retain key staff with requisite experience and expertise would result in institutional corporate knowledge loss, capacity constraints on the delivery of assets for sale or potential lower asset realisation values.

4. Reputation risk

This is the risk that negative public, political or industry opinion may adversely impact NAMA's core business activities and financial prospects and undermine the Agency's ability to achieve its objectives. Negative opinions can arise from how NAMA conducts its operations or is perceived to conduct its operations or from false or misleading claims arising externally to NAMA. NAMA's reputation could also be damaged if it were unsuccessful in a number of significant legal cases, incurred a material loss event or if it experienced a significant information security breach.

5. Dublin Docklands SDZ and Residential Development risks

This is the risk that NAMA fails to deliver on its target completion of 4,500 residential units in the Dublin area by end-2016 and on its plans for the Dublin Docklands SDZ. NAMA may fail to achieve its objectives if affected by delays in planning permission, delivery of supporting infrastructure and competing market supply.

The principal risks are routinely monitored by the Risk Management Committee and any changes in the risk profile or significant updates are contemporaneously reported to the Board. Subject matter experts are invited to present at the Risk Management Committee on a regular basis to ensure all aspects of these risks are appropriately considered.

NAMA has robust risk processes in place to manage risk related to its business so as to reduce the potential for significant unexpected losses, and to minimise the impact of losses experienced in the normal course of business. Risks identified by management are prioritised according to probability and impact and the risk status and management's response and control action plans are reviewed by the Risk Management Committee and the Board on a regular basis. Management is challenged to consider risks not already considered. NAMA's response strategies to each risk are designed to ensure that NAMA operates within a defined risk tolerance by avoiding the risk, transferring the risk where possible, reducing the likelihood and/or impact of the risk or accepting the risk subject to ongoing review. The Risk Management Committee recommends to the Board the adoption of new policies or changes to existing policies, the adoption of hedging strategies to manage certain balance sheet risks and recommendations for the deleveraging of the balance sheet through bond redemptions in response to changing internal and external influences and circumstances.

The uncertainties surrounding the risks associated with the composition of the NAMA balance sheet and operational model continue to reduce as the strategy to monetise the NAMA loan portfolio is implemented. The risk profile of NAMA has been continually changing from the start-up phase into maturity as the core processes and systems have become established and embedded within the core organisational operational activities.

Consolidated Financial Statements

Contents

BOARD AND OTHER INFORMATION

Board

Frank Daly *(Chairman)*
Brendan McDonagh *(Chief Executive Officer)*
John C. Corrigan[1] *(retired 4 January 2015)*
Oliver Ellingham
Mari Hurley *(appointed 8 April 2014)*
Brian McEnery
John Mulcahy *(resigned 17 January 2014)*
Conor O'Kelly[1] *(appointed 5 January 2015)*
Willie Soffe

Registered Office

Treasury Building
Grand Canal Street
Dublin 2

Principal Bankers

Central Bank of Ireland
Dame Street
Dublin 2

Citibank
I.F.S.C.
Dublin 1

Auditor

Comptroller & Auditor General
Dublin Castle
Dublin 2

1 The Chief Executive of the NTMA is an ex-officio Board member of NAMA.

BOARD REPORT

The Board of the National Asset Management Agency ('the Agency' or 'NAMA') presents its report and audited NAMA consolidated and Agency financial statements for the year ended 31 December 2014.

The financial statements are set out on pages 76 to 170.

Statement of Agency's Responsibilities for Financial Statements

The Agency has elected to apply IFRS as adopted by the European Union in preparation of the Group and Agency only financial statements. The Agency is required by the National Asset Management Agency Act 2009 ('the Act') to prepare financial statements in respect of its operations for each financial year.

In preparing those statements, the Agency:

- selects suitable accounting policies and then applies them consistently;
- makes judgements and estimates that are reasonable and prudent;
- prepares the financial statements on a going concern basis unless it is inappropriate to do so (see accounting policy 2.1);
- discloses and explains any material departure from applicable accounting standards.

The Agency is responsible for keeping in such form as may be approved by the Minister for Finance ('the Minister') all proper and usual accounts of all moneys received or expended by it and for maintaining accounting records which disclose with reasonable accuracy at any time the financial position of the Agency and its related entities.

The Agency is also responsible for safeguarding assets under its control and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial risk management

The Group is exposed to credit risk, market risk (in the form of interest rate risk and foreign exchange risk) and liquidity risk in the normal course of business. Further details on how the Group manages these risks are given in Notes 21 to 23 of the financial statements.

Board Members' interests

The Members of the Board have no beneficial interest in NAMA or any NAMA group entity and have complied with Section 30 of the Act in relation to the disclosure of interests.

Auditor

The Comptroller and Auditor General is the Group's auditor by virtue of Section 57 of the Act.

On behalf of the Board

28 April 2015

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

STATEMENT ON INTERNAL FINANCIAL CONTROL

The consolidated and Agency financial statements of National Asset Management Agency ('NAMA') are prepared within a governance framework established by NAMA. The NAMA Board ('the Board') and committees established by the Board are responsible for the monitoring and governance oversight of NAMA and all NAMA Group entities.

The results presented are for the year ended 31 December 2014, with comparative results for the year ended 31 December 2013.

Responsibility for System of Internal Financial Control

The Board acknowledges its responsibilities for NAMA's system of internal financial control. This system can provide only reasonable and not absolute assurance that assets are safeguarded, transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected in a timely period.

Control Environment

The National Asset Management Agency Act, 2009 (the 'Act') provides that the functions of the Board are:

a) to ensure that the functions of NAMA are performed effectively and efficiently;

b) to set the strategic objectives and targets for NAMA;

c) to ensure that appropriate systems and procedures are in place to achieve NAMA's strategic objectives and targets and to take all reasonable steps available to it to achieve those targets and objectives.

The Act provides that the Chief Executive Officer shall manage and control generally the administration and business of NAMA and the staff assigned to it and shall perform any other function conferred on him by the Board. The Chief Executive Officer is also the accountable person for the purposes of the Comptroller and Auditor General (Amendment) Act, 1993.

The Board has four statutory committees to oversee the operations of NAMA and its Senior Executive Team: an Audit Committee, a Risk Management Committee, a Credit Committee and a Finance and Operating Committee. The Board has agreed formal terms of reference for its statutory sub-committees which are subject to regular review. The Board has delegated certain credit decisions to the Credit Committee and Senior Executive Team through the Delegated Authority Policy, which is subject to regular review. The Board has also delegated the management of certain aspects of its balance sheet and treasury policies to the Risk Management Committee and Senior Executive Team.

The Board has adopted the Code of Practice for the Governance of State Bodies (2009) adapted in some instances to take account of NAMA's particular governance framework and the statutory requirements of the Act and has established a Governance framework, which is subject to annual review.

The Audit Committee operates in accordance with the principles outlined in the Code of Practice for the Governance of State Bodies. Its responsibilities include the overseeing of the financial reporting process, reviewing the system of internal control and reviewing the internal and external audit processes.

NAMA has adopted the National Treasury Management Agency's ('NTMA') Anti-Fraud policy. Under this policy the Audit Committee is to be advised of all reports of fraud or suspected fraud. NAMA has also adopted a NTMA-wide Good Faith Reporting Policy which was superseded by the Reporting of "Relevant Wrongdoing" and Protected Disclosures Policy in November 2014. This policy sets out the procedure to be followed for incident reporting by NTMA employees (including NAMA Officers). Reporting of wrong-doing or incidents is to the employees' line manager, who escalates the incident to the Head of Compliance. Reporting of incidents of wrongdoing can also be made directly to the Head of Compliance or to an independent external representative (the Nominated Person). The Head of Compliance and the Nominated Person are then required to report to the Chairperson of the Audit Committee. The Audit Committee is responsible for the ownership of the Reporting of 'Relevant Wrongdoing' and Protected Disclosure Policy insofar as it relates to the functions of NAMA, oversight of its implementation with regard to these functions and oversight of investigations to include liaison with the Head of Compliance to ensure any reports received are properly evaluated and investigated. The policy is reviewed annually or more frequently as the NTMA considers appropriate.

NAMA has a Senior Executive Team which is responsible for the management of the business of NAMA. Management responsibility, authority and accountability has been formally defined and agreed with the Board.

STATEMENT ON INTERNAL FINANCIAL CONTROL (CONTINUED)

Codes of Practice have been agreed with the Minister for Finance in accordance with Section 35 of the Act, including, inter alia, a Code setting out standards expected of the officers of NAMA. The Codes of Practice are reviewed annually by the Board and any amendments to the codes are submitted to the Minister for his approval.

NAMA depends to a significant degree on the controls operated by a number of third parties including the NTMA, Capita Asset Services ('Capita') and the Participating Institutions (Bank of Ireland and Allied Irish Banks, p.l.c). In this regard the following should be noted:

- The NTMA has a well-developed system of internal control and any shared services provided to NAMA are provided within this existing control framework.
- NAMA has established procedures with both Capita and the Participating Institutions for the reporting of incidents, including control failures and escalation procedures.
- NAMA seeks and receives annual assurances from the NTMA, Capita and the Participating Institutions that they have reviewed their systems of internal financial control in relation to services provided to NAMA.

On 7 February 2013, joint Special Liquidators were appointed to IBRC and four Directions were issued to NAMA by the Minister for Finance under the IBRC Act 2013. Amongst these Directions was the requirement for NAMA to acquire the underlying assets from the joint Special Liquidators in the event that the joint Special Liquidators were unable to sell the assets to the market. In 2014, the joint Special Liquidators completed the valuation and sales process and the Minister announced that no assets would transfer to NAMA.

Following their appointment, the joint Special Liquidators continued to act as a Participating Institution in respect of the existing NAMA IBRC loans. NAMA identified the risk of potential conflicts of interest in circumstances where the joint Special Liquidators or their firm are the appointed receiver on NAMA IBRC loans and agreed the most appropriate arrangements under the circumstances with the joint Special Liquidators to manage any such potential conflicts of interest.

While Capita assumed responsibility as Primary Servicer and Special Servicer on the existing NAMA IBRC loans in the second half of 2013, the joint Special Liquidators will continue to act as a Participating Institution until June 2015.

On 22 September 2014 Capita was appointed Primary and Special Servicer in respect of the NAMA Bank of Ireland Loans. Bank of Ireland continues to provide systems, support and other banking services in respect of these loans. Capita will assume responsibility for these services from 23 February 2015.

Risk Assessment

The Risk Management Committee is responsible for overseeing the implementation of the Board approved risk policies and tolerance levels. The Risk Management Committee ensures that risk is managed effectively and efficiently to achieve an overall commercial outcome in accordance with the Act. The Risk Management Committee has established reporting mechanisms to monitor and review key risks and mitigation strategies and ensures that those risks operate within Board approved limits.

A risk register is maintained which identifies and categorises risks which may prevent NAMA from achieving its objectives and assesses the impact and likelihood of various risk events across the organisation and its operating environment. On the basis of risks identified, actions are agreed to manage and mitigate these risks. The risk register is reviewed by the Risk Management Committee on a quarterly basis, and by the Board on a bi-annual basis. The Senior Executive Team is required to attest on a quarterly basis to the operation of controls that have been agreed to manage or mitigate risks.

During 2014 the Risk Management Committee identified five principal risks which have the potential to have a significant impact on the achievement of NAMA's overall strategic objectives. These principal risks are;

- Domestic or international macroeconomic or financial shock
- Material loss of human capital
- Delivery of residential property or Dublin Docklands (SDZ) plans
- Timing and rate of deleveraging of the portfolio
- Reputational damage

The principal risks are reviewed on an ongoing basis by the Risk Management Committee and any changes in the principal risks are reported to the Board.

Capita and each of the Participating Institutions have submitted individual risk registers in line with standard templates agreed with NAMA. These risk registers are submitted quarterly and are subject to quarterly review by the NAMA Audit and Risk (CFO) function and the Risk Management Committee.

The risk management function was reviewed by NAMA's internal auditor during the year and no issues were identified as part of this review.

Key Internal Financial Control Processes

NAMA has developed policies and procedures in respect of the key aspects of the administration and management of its business. These policies and procedures are regularly reviewed and updated to align with business processes.

NAMA has established a financial reporting framework to support its monthly, quarterly and annual financial reporting and for the preparation of consolidated and Agency financial statements which incorporates the processes and controls described in this statement. During 2014 NAMA has implemented a fully automated consolidation process to enhance the procedure for preparing the consolidated Financial Statements.

NAMA implements continuous improvements to its management information systems in order to facilitate enhanced reporting to the Board, Finance and Operating Committee and Senior Executive Team on its performance. NAMA continues to develop management information to support and monitor the achievement of NAMA's strategic objectives which includes facilitating the delivery of residential housing and facilitating the delivery of commercial and residential development in the Dublin Docklands.

The Credit Committee is responsible for making credit decisions within its delegated authority from the Board. These include, inter alia, the approval of debtor asset management / debt reduction strategies, advancement of new money, approval of asset / loan disposals, the setting and approval of repayment terms, property management decisions, decisions to take enforcement action where necessary, and debt compromise. The Credit Committee also reviews and makes recommendations to the Board in relation to specific credit requests where authority rests with the Board. It is also responsible for evaluating asset recovery policies for ultimate Board approval and provides an oversight role in terms of substantial credit decisions made below the delegated authority level of the Credit Committee. Finally, the Credit Committee reviews management information prepared by the Asset Recovery function in respect of NAMA's portfolio to support its decision making.

NAMA has an established procurement policy, which is reviewed and presented to the Board annually for approval. The procurement requirements of NAMA are carried out in accordance with the procurement policy which adopts relevant procurement legislation and best practice guidelines. NAMA is subject to EU Directive 2004/18/EC as implemented in Ireland by the European Communities (Award of Public Authorities' Contracts) Regulations 2006 (the 'Regulations'), in respect of the procurement of goods, works and services above certain value thresholds set by the EU. Where the Regulations do not apply – either because the value of the procurement is below the EU thresholds or falls outside of the Regulations – NAMA adopts a competitive process designed to obtain the best value for money that can be achieved. Save where the Regulations apply, any exceptions to NAMA's procurement policy are approved by the CEO or the Board depending on the value of the contract.

NAMA has put in place a detailed procedures document for the implementation of major system developments and follows a structured controls based approach for projects undertaken. During 2014 the core systems, which are the NAMA Loans Warehouse, the Portfolio Management System, the Document Management System and the Management Information System, underwent programmes of enhancements rather than significant change. A Corporate Change Steering Group was established during 2014 to oversee all projects (including IT development) for NAMA. NAMA has also put in place additional controls in respect of IT access following an employee's notification of resignation.

NAMA has put in place an appropriate framework to ensure that it complies with the Data Protection Acts. As part of this framework, NAMA has also implemented systems and controls to restrict the access to confidential data. Where NAMA has become aware of breaches or alleged breaches of confidential data, these have been fully investigated and where necessary reported to the appropriate authorities.

STATEMENT ON INTERNAL FINANCIAL CONTROL (CONTINUED)

Information and Communication

The Finance and Operating Committee monitors the financial and operational management of NAMA and its management reporting and budgeting, including the preparation of annual budgets. NAMA provides regular assessments of its actual to budget income and expenditure to the Finance and Operating Committee. The Finance and Operating Committee also monitors the development and implementation of NAMA's systems.

NAMA presents monthly, quarterly and annual financial information to the Finance and Operating Committee and Board and presents quarterly and annual financial information to the Minister for Finance as required under the Act.

In addition, NAMA provides monthly management information to the Senior Executive Team, the Finance and Operating Committee and the Board on the performance of debtors and the loan portfolio.

Monitoring

Deloitte acted as NAMA's Internal Auditor until 30 April 2014. NAMA appointed PwC to act as its Internal Auditor from 1 May 2014. NAMA's Internal Auditor has established an internal audit function, which operates in accordance with the Code of Practice for the Governance of State Bodies. An internal audit plan for 2014 was approved by the Audit Committee. In accordance with this plan, the internal auditor has carried out a number of audits of controls in operation in NAMA, Capita and the Participating Institutions. The Internal Auditor reports its findings directly to the Audit Committee. These reports highlight deficiencies or weaknesses, if any, in the systems of internal control and recommend corrective measures to be taken where deemed necessary. The Audit Committee receives updates, on a regular basis, on the status of the issues raised by the internal and external auditors and follows-up with NAMA management to ensure appropriate and timely action is being taken in respect of issues raised.

NAMA has established processes to monitor the performance of both the Participating Institutions (PIs) and Capita as Master Servicer and Special and Primary Servicer (SP), including monthly service reports, regular service reviews (including quality assurance of credit decisions taken under delegated authority) and the establishment of steering committees and credit review forums. Steering committees have been established for each of the Participating Institutions and Capita as Master Servicer and Special and Primary Servicer, and meet on a regular basis to review performance and operational issues. The performance of the loan book managed by the Participating Institutions is reviewed by NAMA via periodic credit review forums and NAMA participation in the credit committees of the Participating Institutions. A Quality Assurance Framework has also been implemented by NAMA to review the management of Participating Institution managed debtors on an ongoing basis in accordance with the authorities delegated to them by NAMA.

In respect of Capita as Special and Primary Servicer all credit decisions are made by NAMA personnel with Capita holding no credit delegated authority from NAMA.

A Quality Assurance Framework has been implemented to review the credit decisions and case management of debtors managed by NAMA, the PIs, and Capita. The Quality Assurance Framework is subject to annual review.

In addition, the activities of the Participating Institutions and Capita (in their roles as service providers to NAMA) are subject to audit by NAMA's internal and external auditors.

The Board's monitoring of the effectiveness of internal control includes the review and consideration of regular reporting to the Board by the Audit Committee (which oversees the work of the Internal Auditor), Risk Management Committee, Credit Committee, Finance and Operating Committee, the Head of Audit and Risk (CFO) and the Senior Executive Team.

Annual Review of Controls

We confirm that the Board has reviewed the effectiveness of NAMA's system of internal financial control for the year ended 31 December 2014. A detailed review was performed by the Audit Committee, which reported its findings to the Board. The review of the effectiveness of the system of internal financial control included:

- review and consideration of the work programme of the internal auditor and consideration of its reports and findings.
- review of internal financial control issues identified by the Office of the Comptroller and Auditor General in its work as external auditor.

- review of regular reporting from the internal auditor on the status of the internal financial control environment and the status of issues raised previously from their own reports and matters raised by the Office of the Comptroller and Auditor General. There is also follow-up by the Audit Committee with NAMA management to ensure appropriate and timely action is being taken in respect of issues raised.
- review of letters of assurance received from the NTMA, Capita and the Participating Institutions in respect of the operation of their systems of internal financial control during the year.
- review of control assurance statements completed by NAMA's Senior Executive Team and Senior Management in respect of the effectiveness of the system of internal financial control during the year.

Frank Daly
Chairman

28 April 2015

Brian McEnery
Chairman, Audit Committee

Comptroller and Auditor General

Report for presentation to the Houses of the Oireachtas

National Asset Management Agency

I have audited the Group and Agency financial statements of the National Asset Management Agency for the year ended 31 December 2014 under the National Asset Management Agency Act 2009. The financial statements, which have been prepared under the accounting policies set out therein, comprise the consolidated income statement, the consolidated statement of comprehensive income, the Agency income statement, the consolidated and Agency statements of financial position, the consolidated and Agency statements of changes in equity, the consolidated and Agency statements of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is the International Financial Reporting Standards (IFRS) as adopted by the European Union and the provisions of the National Asset Management Agency Act 2009.

Responsibilities of the Board

The Board is responsible for the preparation of the financial statements, for ensuring that they give a true and fair view of the state of the Group's and Agency's affairs and of the Group's income and expenditure, and for ensuring the regularity of transactions.

Responsibilities of the Comptroller and Auditor General

My responsibility is to audit the financial statements and report on them in accordance with applicable law.

My audit is conducted by reference to the special considerations which attach to State bodies in relation to their management and operation.

My audit is carried out in accordance with the International Standards on Auditing (UK and Ireland) and in compliance with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of audit of the financial statements

- An audit involves obtaining evidence about the amounts and disclosures in the financial statements, sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of
- whether the accounting policies are appropriate to the Group's and Agency's circumstances, and have been consistently applied and adequately disclosed
- the reasonableness of significant accounting estimates made in the preparation of the financial statements, and the overall presentation of the financial statements.

I also seek to obtain evidence about the regularity of financial transactions in the course of audit.

In addition, I read the Agency's annual report to identify if there are any material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the financial statements

In my opinion, the financial statements, which have been properly prepared in accordance with the IFRS as adopted by the European Union and with the provisions of the National Asset Management Agency Act 2009, give a true and fair view of the state of the Group's and the Agency's affairs at 31 December 2014 and of the Group's profit for the year then ended.

In my opinion, proper books of account have been kept by the Agency. The financial statements are in agreement with the books of account.

Without qualifying my opinion, I draw attention to the following matter.

Going concern

Note 2.1 to the financial statements describes the position in regard to the main funding source for the Agency and sets out the basis upon which the Board is satisfied that it is appropriate to prepare the financial statements on a going concern basis.

Matters on which I report by exception

I report by exception if

- I have not received all the information and explanations I required for my audit, or
- my audit noted any material instance where public money has not been applied for the purposes intended or where the transactions did not conform to the authorities governing them, or the information in the Agency's annual report is not consistent with the related financial statements, or
- the statement on internal financial control does not reflect the Agency's compliance with the Code of Practice for the Governance of State Bodies, or
- I find there are other material matters relating to the manner in which public business has been conducted.

I have nothing to report in regard to those matters upon which reporting is by exception.

Seamus Mc Carthy.

Seamus McCarthy

Comptroller and Auditor General

29 April 2015

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2014

	Note	2014 Group €'000	2013 Group €'000
Interest and fee income	*5*	955,289	1,334,716
Interest expense	*6*	(313,174)	(374,511)
Net interest income		**642,115**	**960,205**
Other income / (expenses)	*7*	36,245	(2,860)
(Losses) / gains on derivative financial instruments	*8*	(158,697)	(54,211)
Net profit on disposal of loans and property assets; and surplus income	*9*	284,813	505,411
Total operating income		**804,476**	**1,408,545**
Administration expenses	*10*	(135,116)	(121,460)
Foreign exchange losses	*11*	(21,634)	(89,336)
Total operating expenses		**(156,750)**	**(210,796)**
Operating profit before impairment		**647,726**	**1,197,749**
Impairment charges on loans and receivables	*12*	(137,371)	(914,345)
Operating profit after impairment		**510,355**	**283,404**
Tax charge	*13*	(52,075)	(69,802)
Profit for the year		**458,280**	**213,602**
Profit attributable to:			
Owners of the Group		**458,280**	**213,602**

The accompanying notes form an integral part of these consolidated financial statements.

On behalf of the Board

28 April 2015

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	2014 Group €'000	2013 Group €'000
Profit for the year		**458,280**	**213,602**
Items that are or may be reclassified subsequently to profit or loss:			
Net movement in cash flow hedge reserve before tax	*35*	71,941	256,012
Net movement in available for sale reserve before tax	*35*	1,720	(4,127)
Income tax relating to components of other comprehensive income	*14,27*	(17,950)	(65,134)
Other comprehensive income for the year net of tax		**55,711**	**186,751**
Total comprehensive income for the year		**513,991**	**400,353**
Total comprehensive income attributable to:			
Owners of the Group		**513,991**	**400,353**

The accompanying notes form an integral part of these consolidated financial statements.

On behalf of the Board

28 April 2015

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

AGENCY INCOME STATEMENT

For the year ended 31 December 2014

	Note	2014 Agency €'000	2013 Agency €'000
Interest and fee income	*5*	165,718	874
Costs reimbursable from the NAML Group	*10*	56,110	41,938
Total income		**221,828**	**42,812**
Interest expense	*6*	(186)	(836)
Administration expenses	*10*	(56,529)	(42,541)
Total expenses		**(56,715)**	**(43,377)**
Profit / (loss) for the year		**165,113**	**(565)**
Profit / (loss) attributable to:			
Owners of the Group		**165,113**	**(565)**

The accompanying notes form an integral part of these financial statements.

On behalf of the Board

28 April 2015

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Note	2014 Group €'000	2013 Group €'000
Assets			
Cash and cash equivalents	*15*	1,158,692	3,453,236
Cash placed as collateral with the NTMA	*15*	690,000	802,000
Financial assets available for sale	*16*	-	145,138
Amounts due from Participating Institutions	*17*	84,810	78,447
Derivative financial instruments	*18*	58,241	160,369
Loans and receivables (net of impairment)	*19*	13,360,034	31,313,699
Other assets	*28*	12,164	23,755
Inventories – trading properties	*20*	37,951	38,924
Property, plant and equipment	*25*	1,935	1,071
Investments in equity instruments	*26*	36,181	6,373
Deferred tax	*27*	132,364	202,387
Total assets		**15,572,372**	**36,225,399**
Liabilities			
Amounts due to Participating Institutions	*17*	20,428	24,676
Derivative financial instruments	*18*	595,528	599,784
Other liabilities	*30*	126,114	172,594
Senior debt securities in issue	*29*	13,590,000	34,618,000
Tax payable	*31*	1,769	407
Total liabilities		**14,333,839**	**35,415,461**
Equity and reserves			
Other equity	*34*	1,593,000	1,593,000
Retained earnings / (losses)	*36*	(74,715)	(447,599)
Other reserves	*35*	(279,752)	(335,463)
Total equity and reserves		**1,238,533**	**809,938**
Total equity, reserves and liabilities		**15,572,372**	**36,225,399**

The accompanying notes form an integral part of these consolidated financial statements.

On behalf of the Board

28 April 2015

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

AGENCY STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Note	2014 Agency €'000	2013 Agency €'000
Assets			
Cash and cash equivalents	*15*	101	1,152
Other assets	*28*	168,161	5,961
Property, plant and equipment	*25*	1,935	1,071
Investment in subsidiaries	*37*	49,000	49,000
Total assets		**219,197**	**57,184**
Liabilities			
Interest bearing loans and borrowings	*33*	53,699	53,513
Other liabilities	*30*	3,892	7,178
Total liabilities		**57,591**	**60,691**
Equity			
Retained earnings / (losses)	*36*	161,606	(3,507)
Total equity		**161,606**	**(3,507)**
Total equity and liabilities		**219,197**	**57,184**

The accompanying notes form an integral part of these financial statements.

On behalf of the Board

28 April 2015

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 31 December 2014

31 December 2014	*Note*	Other equity Group €'000	Retained earnings Group €'000	Other reserves Group €'000	Total equity Group €'000
Balance at the beginning of the year		**1,593,000**	**(447,599)**	**(335,463)**	**809,938**
Profit for the year	*36*	-	458,280	-	**458,280**
Dividend paid on B ordinary shares	*36*	-	(1,540)	-	**(1,540)**
Coupon paid on subordinated bonds	*36*	-	(83,856)	-	**(83,856)**
Other comprehensive income:					
Movement in cash flow hedge reserve	*35*	-	-	71,941	**71,941**
Movement in available for sale reserve	*35*	-	-	1,720	**1,720**
Income tax relating to components of other comprehensive income	*14*	-	-	(17,950)	**(17,950)**
Total comprehensive income / (expenditure)		**1,593,000**	**(74,715)**	**(279,752)**	**1,238,533**
Balance at 31 December 2014 attributable to owners of the parent		**1,593,000**	**(74,715)**	**(279,752)**	**1,238,533**

31 December 2013	*Note*	Other equity Group €'000	Retained earnings Group €'000	Other reserves Group €'000	Total equity Group €'000
Balance at the beginning of the year		**1,593,000**	**(659,039)**	**(522,214)**	**411,747**
Profit for the year	*36*	-	213,602	-	**213,602**
Dividend paid on B ordinary shares	*36*	-	(2,162)	-	**(2,162)**
Other comprehensive income:					
Movement in cash flow hedge reserve	*35*	-	-	256,012	**256,012**
Movement in available for sale reserve	*35*	-	-	(4,127)	**(4,127)**
Income tax relating to components of other comprehensive income	*14*	-	-	(65,134)	**(65,134)**
Total comprehensive income / (expenditure)		**1,593,000**	**(447,599)**	**(335,463)**	**809,938**
Balance at 31 December 2013 attributable to owners of the parent		**1,593,000**	**(447,599)**	**(335,463)**	**809,938**

The accompanying notes form an integral part of these consolidated financial statements.

On behalf of the Board

28 April 2015

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

AGENCY STATEMENT OF CHANGES IN EQUITY

As at 31 December 2014

	Note	2014 Agency €'000	2013 Agency €'000
Balance at the beginning of the year		**(3,507)**	**(2,942)**
Profit / (loss) for the year	*36*	165,113	(565)
Total comprehensive income / (expenditure)		**161,606**	**(3,507)**
Balance at 31 December attributable to the Agency		**161,606**	**(3,507)**

The accompanying notes form an integral part of these financial statements.

On behalf of the Board

28 April 2015

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	Note	2014 Group €'000	2013 Group €'000
Cash flow from operating activities			
Loans and receivables			
Receipts from loans[2]	19	8,452,459	4,240,638
Receipts from derivatives acquired		96,401	58,045
Funds advanced to borrowers	19	(644,950)	(664,952)
New loans issued / acquired	19	(246,601)	(19,768)
Funds in the course of collection	19	(19,827)	51,377
Cash held on behalf of debtors		(2,046)	2,191
Fee income from loans and receivables	5	7,294	5,042
Repayment of loan facility deed by joint Special Liquidators	19	11,715,089	1,225,000
Cash balances held on behalf of NARL (in Voluntary Liquidation)[3]		(259)	-
Interest received on loan facility deed		73,349	189,047
Net cash provided by loans and receivables		**19,430,909**	**5,086,620**
Derivatives			
Cash inflow on foreign currency derivatives	11	11,858,107	21,876,254
Cash outflow on foreign currency derivatives	11	(12,066,252)	(21,980,877)
Net cash outflow on derivatives where hedge accounting is applied		(210,662)	(232,102)
Net cash (outflow) / inflow on other derivatives		(187,529)	10,205
Net cash used in derivative activities		**(606,336)**	**(326,520)**

2 Includes non-disposal cash receipts of €0.8bn (2013: €0.8bn), proceeds from the disposal of collateral secured against loans and receivables of €4.2bn (2013: €3.2bn) and proceeds from the sale of loans of €3.4bn (2013: €0.3bn).

3 Consists of cash balances held by the liquidator until finalisation of the liquidation of NARL.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2014

	Note	2014 Group €'000	2013 Group €'000
Other operating cashflows			
Payments to suppliers of services		(190,993)	(131,971)
Interest paid on senior debt securities in issue		(108,476)	(130,487)
Interest received on cash and cash equivalents		11,892	12,968
Dividend paid by NAMAIL on B ordinary shares	*36*	(1,540)	(2,162)
Coupon paid by NAML on subordinated debt issued	*36*	(83,856)	-
Payments of corporation tax by NAMAIL		-	(66)
Net inflows on amounts placed as collateral with NTMA	*15*	112,000	348,000
Funds paid to acquire trading properties		(1,696)	(6,708)
Interest received on working capital loan to joint Special Liquidators		-	872
Rental income received from social housing units		636	45
Net cash (used in) / provided by other operating activities		**(262,033)**	**90,491**
Net cash provided by operating activities		**18,562,540**	**4,850,591**
Cash flow from investing activities			
Investments in equity instruments		(5,375)	(1,477)
Purchase of available for sale assets		-	(149,719)
Sale of available for sale assets		145,000	267,750
Distributions received from equity instruments	*7*	30,429	97
Net cash provided by investing activities		**170,054**	**116,651**
Cash flow from financing activities			
Redemption of senior debt securities	*29*	(21,028,000)	(3,750,000)
Net cash used in financing activities		**(21,028,000)**	**(3,750,000)**

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	Note	2014 Group €'000	2013 Group €'000
Cash and cash equivalents held at the beginning of the year	*15*	3,453,236	2,235,822
Net cash provided by operating activities		18,562,540	4,850,591
Net cash provided by investing activities		170,054	116,651
Net cash used in financing activities		(21,028,000)	(3,750,000)
Effects of exchange-rate changes on cash and cash equivalents	*11*	862	172
Total cash and cash equivalents held at the end of the year	*15*	**1,158,692**	**3,453,236**
Financial assets and cash collateral			
Financial assets available for sale	*16*	-	145,138
Cash collateral placed with the NTMA	*15*	690,000	802,000
Total		**1,848,692**	**4,400,374**

AGENCY STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	Note	2014 Agency €'000	2013 Agency €'000
Cash flow from operating activities			
Bank interest received		1	2
Board fees paid		(590)	(523)
Rent paid		(1,980)	(997)
Net reimbursement from NALML for expenses		1,518	1,173
Net cash used in operating activities		**(1,051)**	**(345)**
Cash flow from financing activities			
Working capital loan to joint Special Liquidators		-	(511,130)
Repayments of working capital loan to joint Special Liquidators		-	511,130
Interest received on loan to joint Special Liquidators		-	872
Loan from NALML[4]		-	(511,130)
Repayment of loan from NALML		-	511,130
Interest paid on loan from NALML		-	(643)
Net cash provided by financing activities		**-**	**229**
Cash held at the beginning of the year	*15*	1,152	1,268
Net cash used in operating activities		(1,051)	(345)
Net cash provided by financing activities		-	229
Cash held at the end of the year	*15*	**101**	**1,152**

4 Following the liquidation of IBRC, NAMA provided a loan facility of up to €1 billion to the joint Special Liquidators of IBRC. Funding for the loan facility was provided by NALML, a Group entity, which was repaid in full in 2013.

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The proposed creation of the National Asset Management Agency was announced in the Minister for Finance's Supplementary Budget on 7 April 2009 and the Act was passed in November 2009.

The Act established NAMA as a separate statutory body, with its own Board and Chief Executive Officer appointed by the Minister for Finance, in December 2009.

The main purpose of NAMA is to acquire assets in the form of property related loans from credit institutions which were designated by the Minister for Finance as Participating Institutions under Section 67 of the Act. The original Participating Institutions were: Allied Irish Banks, p.l.c. ('AIB'), Anglo Irish Bank Corporation Limited ('Anglo'), Bank of Ireland ('BOI'), Irish Nationwide Building Society ('INBS') and EBS Building Society ('EBS').

On 1 July 2011, AIB merged with EBS. On 1 July 2011, the business of INBS transferred to Anglo and on 14 October 2011 the latter's name was changed to Irish Bank Resolution Corporation ('IBRC'). IBRC was subsequently liquidated on 6 February 2013. On 7 February 2013, the joint Special Liquidators were appointed under the IBRC Act 2013 and assumed the role of the primary servicer, and with effect from 12 August 2013, the role of the primary servicer of NAMA loans in IBRC is being fulfilled by Capita Asset Services ('Capita').

On 22 September 2014, the case management for BOI NAMA loans transitioned to Capita, and from 23 February 2015 a full transition (excluding residential loans) has been made with Capita maintaining the system of records for loans originally acquired from BOI.

1.1 National Asset Management Agency Group

For the purposes of these financial statements, the 'NAMA Group' comprises; the parent entity NAMA, National Asset Management Agency Investment Limited (NAMAIL), National Asset Resolution Limited (in Voluntary Liquidation) (NARL), National Asset Management Limited (NAML), National Asset Management Group Services Limited (NAMGSL), National Asset Loan Management Limited (NALML), National Asset Management Services Limited (NAMSL), National Asset JV A Limited (NAJVAL), National Asset Property Management Limited (NAPML), National Asset Residential Property Services Limited (NARPSL), National Asset Sarasota LLC (NASLLC), National Asset Leisure Holdings Limited (in Voluntary Liquidation) (NALHL), RLHC Resort Lazer SGPS, SA (RLHC I) and RLHC Resort Lazer II SGPS, SA (RLHC II).

On 18 December 2014, NARL (in Voluntary Liquidation) and NALHL (in Voluntary Liquidation) were placed into liquidation by its members. NARL's results from 1 January 2014 up to the date of liquidation have been consolidated into the results of the NAMA Group and are included in the consolidated income statement. As the liquidator has assumed the rights of the shareholder and now controls both of these entities and NALHL's subsidiaries, NARL (in Voluntary Liquidation), NALHL (in Voluntary Liquidation) and its subsidiaries, RLHC I and RLHC II, are not consolidated into the results of the NAMA Group at the reporting date. For further information see Note 37.4.

The Group and the relationship between NAMA Group entities is summarised in Chart 1.

National Asset Management Agency Investment Limited (NAMAIL)

NAMAIL was incorporated on 27 January 2010. NAMAIL is the company through which private investors have invested in the Group. NAMA holds 49% of the shares of the company. The remaining 51% of the shares of the company are held by private investors.

NAMA has invested €49m in NAMAIL, receiving 49 million A ordinary shares. The remaining €51m was invested in NAMAIL by private investors, each receiving an equal share of 51 million B ordinary shares. Under the terms of a shareholders' agreement between NAMA and the private investors, NAMA may exercise a veto over decisions taken by NAMAIL. As a result of this veto, the private investors' ability to control the financial and operating policies of the entity is restricted and NAMA has effective control of the company. By virtue of this control, NAMA has consolidated NAMAIL and its subsidiaries and the 51% external investment in NAMAIL is reported as a non-controlling interest in these financial statements.

National Asset Resolution Limited (in Voluntary Liquidation) (NARL)

On 7 February 2013, joint Special Liquidators were appointed to IBRC under the Irish Bank Resolution Corporation Act 2013. On 11 February 2013, NAMA established a new NAMA Group Entity, National Asset Resolution Limited (in Voluntary Liquidation) (NARL). The entity was formed in response to a Direction issued by the Minister for Finance under the Irish Bank Resolution Corporation Act 2013 to NAMA to acquire a loan facility deed and floating charge over certain IBRC assets. Consideration was in the form of Government Guaranteed debt securities and cash. The debt securities were issued by NAML and transferred to NARL (in Voluntary Liquidation) via a profit participating loan facility. NARL (in Voluntary Liquidation) is a 100% subsidiary of NAMAIL.

NARL (in Voluntary Liquidation) is the senior creditor of IBRC (in liquidation), therefore funds received by the joint Special Liquidators were used to reduce the loan facility deed in the first instance. NAMA had no involvement in the liquidation process and the financial statements recognise funds received from the joint Special Liquidators and other transactions to facilitate the orderly wind up of IBRC arising from the Minister's directions under the Act. On 22 April 2014, the Minister announced that no assets would transfer to NAMA from IBRC (in liquidation). The loan facility deed was fully repaid on 21 October 2014 and NARL (in Voluntary Liquidation) was placed into voluntary liquidation by its members on 18 December 2014.

National Asset Management Limited (NAML)

NAML was incorporated on 27 January 2010. NAML is responsible for issuing the government guaranteed debt instruments and the subordinated debt, which were used as consideration in acquiring loan assets. The Government guaranteed debt securities issued by NAML are listed on the Irish Stock Exchange.

The government guaranteed debt instruments and the subordinated debt instruments, issued in respect of the original loan portfolio, were transferred to NAMGSL and by NAMGSL to NALML. The latter used these debt instruments as consideration for the loan assets acquired from the Participating Institutions.

The government guaranteed debt instruments issued in respect of the IBRC loan facility deed were transferred to NARL (in Voluntary Liquidation). NARL (in Voluntary Liquidation) used these debt instruments as consideration for the loan facility deed acquired from the Central Bank of Ireland. The NARL senior bonds were fully redeemed in October 2014.

NAML has ten subsidiaries at the reporting date:

1) National Asset Management Group Services Limited (NAMGSL)

NAMGSL acts as the holding company for its nine subsidiaries; NALML, NAMSL, NAJVAL, NAPML, NARPSL, NASLLC, NALHL (in Voluntary Liquidation), RLHC I and RLHC II.

NAMGSL was incorporated on 27 January 2010. NAMGSL acquired certain debt instruments issued by NAML under a profit participating loan (PPL) agreement, and in turn, made these debt instruments available to NALML on similar terms. NAMGSL is wholly owned by NAML.

2) National Asset Loan Management Limited (NALML)

NALML was incorporated on 27 January 2010. The purpose of NALML is to acquire, hold, and manage the loan assets acquired from the Participating Institutions.

3) National Asset Management Services Limited (NAMSL)

NAMSL was incorporated on 27 January 2010. Previously a non-trading entity, NAMSL acquired a 20% shareholding in a general partnership associated with the NAJVAL investment during 2013.

4) National Asset JV A Limited (NAJVAL)

On 4 July 2013, NAMA established a new subsidiary, National Asset JV A Limited (NAJVAL). NAJVAL is a wholly owned subsidiary of NAMGSL. NAMA entered a joint venture arrangement with a consortium whereby a 20% interest in a limited partnership was acquired, and NAJVAL was established to facilitate this transaction. The Group is not able to exercise significant influence over the partnership as the other 80% interest is held by one shareholder who controls the decision making of the partnership. NAJVAL's 20% investment in the partnership is recognised as an equity investment.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION (CONTINUED)

1.1 National Asset Management Agency Group (continued)

5) National Asset Property Management Limited (NAPML)

NAPML was incorporated on 27 January 2010. The purpose of NAPML is to take direct ownership of property assets if and when required.

NAPML has five subsidiaries; NARPSL, NASLLC and NALHL (in Voluntary Liquidation), RLHC I and RLHC II:

6) National Asset Residential Property Services Limited (NARPSL)

On 18 July 2012 NAMA established a new subsidiary National Asset Residential Property Services Limited (NARPSL). NARPSL is a wholly owned subsidiary of NAPML, and was established to acquire residential properties and to lease and ultimately sell these properties to approved housing bodies for social housing purposes.

1,068 residential properties were delivered to the social housing sector by NAMA debtors from inception to the reporting date, of which 811 were completed and contracts on a further 257 properties (for both direct sale and through NARPSL) exchanged at the reporting date. This includes the direct sale of 443 properties by NAMA debtors and receivers to various approved housing bodies, the direct leasing of 116 properties by NAMA debtors and receivers and the acquisition by NARPSL of 252 properties for lease to approved housing bodies.

7) National Asset Sarasota LLC (NASLLC)

On 1 August 2013 NAMA established a new US subsidiary, National Asset Sarasota Limited Liability Company (NASLLC). NASLLC is a wholly owned subsidiary of NAPML, and was established to acquire a property asset located in the US, in settlement of debt owed to NAMA. The property was sold by NAMA in December 2014; however the subsidiary will remain in existence to acquire any future US assets if required.

8) National Asset Leisure Holdings Limited (in Voluntary Liquidation) (NALHL)

On 10 January 2014, NAMA established a new subsidiary National Asset Leisure Holdings Limited (in Voluntary Liquidation) (NALHL). NALHL (in Voluntary Liquidation) is a wholly owned subsidiary of NAPML and was established to acquire 100% of the share capital of two Portuguese entities, RLHC and RLHC II.

The establishment of these entities was required to facilitate the legal restructure of a number of entities with Portuguese property assets. Following the completion of the legal restructure, NALHL (in Voluntary Liquidation) was placed into liquidation. The control of NALHL (in Voluntary Liquidation) is with the liquidator who will realise the assets of NALHL (in Voluntary Liquidation).

9) RLHC Resort Lazer SGPS, S.A. (RLHC I), RLHC Resort Lazer II SGPS, S.A. (RLHC II)

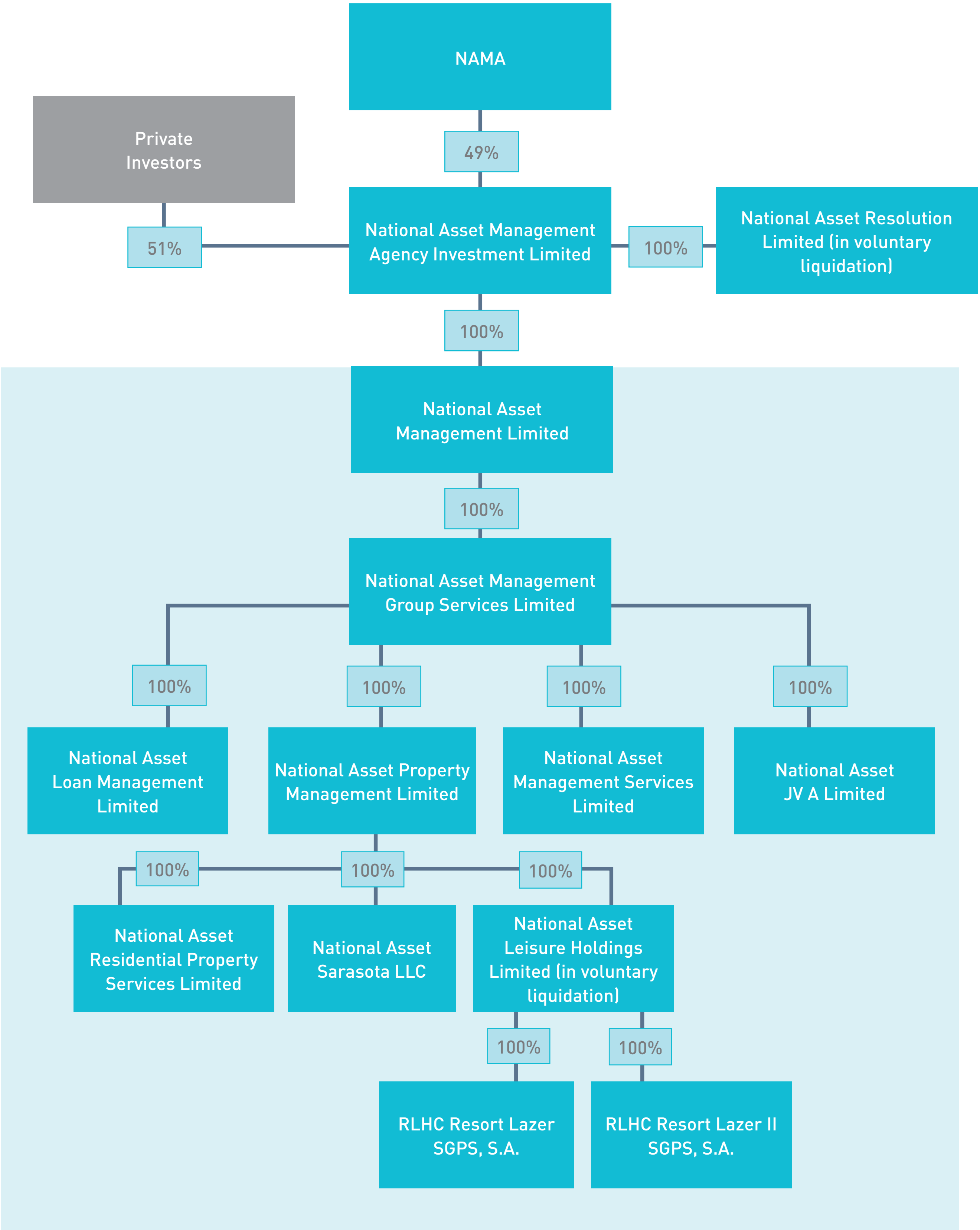
On 5 February 2014, NAMA established two new subsidiaries, RLHC Resort Lazer SGPS, S.A. (RLHC I) and RLHC Resort Lazer II SGPS, S.A. (RLHC II). RLHC I and RLHC II are wholly owned subsidiaries of NALHL (in Voluntary Liquidation) and acquired 90% and 10% respectively of the share capital of a number of Portuguese entities, following the legal restructure of the debt owed by these entities.

10) National Asset North Quays Limited (NANQL)

On 8 April 2015, NAMA established a new subsidiary National Asset North Quays Limited (NANQL). NANQL is a 100% wholly owned subsidiary of NALML and was established to hold the lands acquired by NAMA at 72-80 North Wall Quay, Dublin 1 in February 2015 and to earn a secure rental income stream from the lands in the form of a fixed percentage of rent or a percentage of sales proceeds of any completed development to be built on the lands.

With the exception of RLHC I and RLHC II, the address of the registered office of each company at the reporting date is Treasury Building, Grand Canal Street, Dublin 2. Each Company is incorporated and domiciled in the Republic of Ireland, except for NASLLC, which is incorporated and domiciled in the US and RLHC I and RLHC II which are incorporated and domiciled in Portugal. The address of the registered office of RLHC I and RLHC II is Rua Garrett, n.º 64, 1200-204 Lisbon, Portugal.

CHART 1 NAMA GROUP



NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

Going concern

The financial statements are prepared on a going concern basis and the Board is satisfied that the Group will continue as a going concern for the foreseeable future.

Most of the Agency's funding is in the form of short term Government Guaranteed Floating Rate Notes ("the Notes"). The outstanding balance of these Notes at 31 December 2014 is €13,590m.

The Notes in issue are redeemable at the option of the holder in cash or by the issuance of new notes. Consequently, a requirement to redeem some or all of the Notes for cash could leave the Agency in a position where it would have to call on the Government to fund such cash redemption, if sufficient own resources were not available.

The Agency was established under statute with a specific statutory mandate. In its consideration of whether accounting on a going concern basis is appropriate, the Board has had regard to the purposes of the Act as set out therein. These are, inter alia, to address a serious threat to the economy and the stability of credit institutions in the State generally and the need for the maintenance and stabilisation of the financial system in the State. The Board believes it is reasonable to assume that, given the purpose of the legislation, the State will take appropriate steps to ensure that the Agency is in a position to discharge its mandate.

During 2014, the Minister completed his review of NAMA in accordance with Section 227 of the Act. The review was carried out to assess the extent to which NAMA has made progress toward achieving its overall objectives and whether continuation of NAMA is necessary having regard to the purposes of the Act.

The Minister concludes in his report that:

- NAMA has made significant progress in achieving its overall objectives; and
- based on its performance to date and financial projections in light of current investor interest in Ireland, NAMA is well positioned to achieve its overall objectives and so continues to be necessary.

The Agency's activities are subject to risk factors including credit, liquidity, market, and operational risk. The Board has reviewed these risk factors and all relevant information to assess the Agency's ability to continue as a going concern. The Board and its Committees review key aspects of the Agency's activities on an ongoing basis and review, whenever appropriate, the critical assumptions underpinning its long-term strategies.

At the reporting date, the Notes issued relating to the original loan acquisitions from Participating Institutions were €13,590m (2013: €22,690m). The note holders are primarily Credit Institutions covered by the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 and are subject to direction from the Minister for Finance and the Notes are guaranteed by the Government. Given these circumstances, the Board believes that its assumption that, on the maturity of the Notes, NAMA will be able to settle its liability with new Notes, issued on similar terms, is a reasonable one. All notes in issue that matured on 2 March 2015 were settled by issuing new Notes with a maturity of 1 March 2016.

At the reporting date NAMA had equity and reserves of €1,239m (2013: €810m). The Group has available cash, cash equivalents and liquid assets at 31 December 2014 of €1.8bn (2013: €4.4bn) and current liabilities (other than senior debt) of €0.7bn (2013: €0.8bn), therefore the Board is satisfied that it can meet its current liabilities as they fall due for the foreseeable future. The Group has repaid all loans and borrowings to the Minister and has no other external borrowings.

On this basis, the Board is satisfied that the Agency will have access to adequate resources to continue its operations for the foreseeable future and that it is appropriate to prepare the financial statements on a going concern basis.

2.2 Basis of compliance and measurement

The Group's consolidated and Agency financial statements for the year ended 31 December 2014 have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, the International Financial Reporting Interpretations Committee (IFRIC) interpretations and the NAMA Act 2009.

The consolidated and Agency financial statements have been prepared under the historical cost convention, except for derivative financial instruments, equity instruments and available for sale assets, which have been measured at fair value.

The consolidated and Agency financial statements are presented in euro (€), which is the Group's functional and presentational currency. The figures shown in the consolidated financial statements are stated in € thousands.

The consolidated statement of cash flows shows the changes in cash and cash equivalents arising during the year from operating activities, investing activities and financing activities. The cash flows from operating activities are determined using the direct method, whereby major classes of gross cash receipts and gross payments are disclosed.

Cash flows from investing and financing activities are reported on a gross basis. The Group's assignment of the cash flows to operating, investing and financing categories depends on the Group's business model (management approach).

In accordance with IAS 1, assets and liabilities are presented in order of liquidity.

2.3 IFRS Standards, amendments and interpretations issued but not yet effective

The following standards and interpretations have been issued and are expected to be relevant to the Group.

Standards issued but not effective:

IFRS 9 Financial Instruments: This standard will be applicable for accounting periods beginning on or after 1 January 2018 subject to EU endorsement.

IFRS 9 applies one classification approach for all types of financial assets. Two criteria are used to determine how financial assets should be classified and measured, namely the entity's business model for measuring the financial assets and the contractual cash flow characteristics of the financial assets. The standard identifies three categories of financial assets, i.e. amortised cost, fair value through other comprehensive income and fair value through profit and loss.

The key change for the Group is in relation to its accounting for loans and receivables. Loans and receivables are likely to be reclassified from being carried at amortised cost to being carried at fair value through profit and loss. Any improvements or deterioration in the loan portfolio will be recognised as fair value movements in the income statement, rather than gains or impairment, as is currently the process under IAS 39.

IFRS 9 retains almost all of the existing requirements from IAS 39 on the classification of financial liabilities.

The revised standard has not yet been EU endorsed and therefore is not early adopted by the Group.

Amendments to IFRS 7 Financial Instruments: Disclosures: The International Accounting Standards Board (IASB) published *Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7),* to amend the effective date of IFRS 9 to annual periods beginning on or after 1 January 2015 (or such other date as when an entity applies IFRS 9) and to modify the relief from restating prior periods and the associated disclosures in IFRS 7. These amendments are required to be applied when IFRS 9 is first adopted. The provision of modified disclosures on transition from IAS 39 to IFRS 9 on the basis of the entity's date of adoption replaces the entity's original requirement to restate comparative prior year figures. An entity can choose to restate prior periods.

This standard will have an impact on the current disclosure requirements of the Group only when IFRS 9 is adopted. This amendment has not yet been EU endorsed and therefore is not early adopted by the Group.

New standards in issue and adopted:

Amendments to several standards and interpretations, resulting from improvements to IFRSs, apply for the first time in 2014. However, they did not have any impact on the accounting policies, financial position or performance of the Group.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Basis of consolidation

The consolidated financial statements of the Group comprise the financial statements of the parent entity, NAMA and its subsidiaries, with the exception of NARL (in Voluntary Liquidation), NALHL (in Voluntary Liquidation), RLHC I and RLHC II. Refer to note 37.4 for further detail. The financial statements of the subsidiaries used to prepare the consolidated financial statements were prepared as of the same reporting date as that of the parent.

The Group consolidates all entities where it directly or indirectly holds the majority of the voting rights and where it determines their financial and business policies and is able to exercise control over them in order to benefit from their activities.

Investments in subsidiaries are accounted for at cost less impairment. Accounting policies of the subsidiaries are consistent with the Group's accounting policies.

Inter-company transactions and balances and gains on transactions between group companies are eliminated. Intergroup losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

Details of subsidiaries are provided in Note 37.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

The consolidated financial statements are presented in euro, which is the Group's presentation and functional currency.

(b) Transactions and balances

Transactions denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated using the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated using the exchange rate as at the date of initial recognition.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

All foreign exchange gains and losses recognised in the income statement are presented as a separate line item in the consolidated income statement.

2.6 Financial assets

The Group classifies its financial assets into the following IAS 39 categories:

(a) Financial assets at fair value through profit or loss;

(b) Loans and receivables and;

(c) Available for sale financial assets.

The Group determines the classification of its financial instruments at initial recognition.

(a) Financial assets at fair value through profit or loss

This category of assets comprises derivatives other than derivatives that are designated and are effective as hedging instruments and equity instruments.

Derivatives

These assets are recognised initially at fair value and transaction costs are taken directly to the consolidated income statement. Interest income and expense arising on these derivatives (other than on cross currency interest rate swaps) are included in interest income and interest expense in the consolidated income statement. Fair value gains and losses on these financial assets are included in gains and losses on derivative financial instruments in the consolidated income statement or as part of foreign exchange gains and losses where they relate to currency derivatives. Interest on cross currency interest rate swaps is recognised as part of fair value gains and losses on currency derivatives.

Equity instruments

An equity instrument is any contract that results in a residual interest in the assets of an entity after deducting all of its liabilities. An equity instrument has no contractual obligation to deliver cash or another financial asset.

Equity instruments are initially measured at fair value. Equity instruments are subsequently measured at fair value unless the fair value cannot be reliably measured, in which case the equity instrument is measured at cost. The fair value of equity instruments is measured based on the net asset value of the entity at the reporting date. Changes in fair value are recognised in the income statement as part of other income/(expenses).

Equity instruments are separately disclosed in the statement of financial position.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans acquired by the Group are treated as loans and receivables because the original contracts provided for payments that were fixed or determinable. The Group has classified the loan assets it acquired from Participating Institutions as loans and receivables.

Loans and receivables are initially recognised at fair value plus transaction costs. Loan assets acquired by the Group from Participating Institutions, as provided for in the Act, are treated as having a fair value at initial recognition equal to the acquisition price paid for the asset, taking into account any cash flow movements in the loan balance between the valuation date and transfer date.

Loans and receivables are subsequently measured at amortised cost using the effective interest rate (EIR) method (see accounting policy 2.9).

Loans and receivables are classified as follows;

- Land and development loans
- Investment property loans

Land and development loans includes loans secured on land which have been purchased for the purpose of development, and loans secured on partly developed land.

Investment property loans are loans secured on any property purchased with the primary intention of earning the total return, i.e. income and/or capital appreciation, over the life of the interest acquired.

(c) Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available for sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or exchange rates.

Available for sale financial assets are initially recognised at fair value plus transaction costs. They are subsequently held at fair value. Interest income calculated using the EIR method is recognised in profit or loss. Other changes in the carrying amount of available for sale financial assets are recognised in other comprehensive income in the available for sale reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the available for sale reserve is reclassified to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial assets (continued)

Financial assets and liabilities at fair value

Financial assets and liabilities at fair value through profit or loss comprise derivative financial instruments. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Fair value gains or losses on derivatives are recognised in the income statement.

Borrower derivatives

Borrower derivatives comprise of derivatives acquired from Participating Institutions that were originally put in place to provide hedges to borrowers ('borrower derivatives'). These derivatives were acquired from each Participating Institution as part of a total borrower exposure.

Borrower derivatives are measured at fair value with fair value gains and losses being recognised in profit or loss. Borrower derivatives are classified as performing and non-performing. A performing derivative is one that is meeting all contractual cash flow payments up to the last repayment date before the end of the reporting period. The performing status of borrower derivatives is assessed at each reporting date.

Borrower derivatives comprise of interest rate derivatives. The fair value is determined using a valuation technique based on independent valuations obtained using observable market inputs such as Euribor and Libor yield curves, FX rates and par interest swap rates.

NAMA derivatives

NAMA derivatives comprise of derivatives entered into to hedge exposure to loans and receivables acquired and debt securities in issue ('NAMA derivatives'). NAMA derivatives include interest rate and cross currency swaps. The fair value of NAMA derivatives is determined using a mark to market valuation technique based on independent valuations obtained using observable market inputs such as Euribor and Libor yield curves, par interest and FX rates. Fair value movements arising on interest rate swaps are recognised in profit or loss. Gains and losses on currency swaps are recognised in profit or loss as part of foreign exchange gains and losses.

Hedge accounting

The Group designates certain derivatives as hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedges). The Group documents, at the inception of the transaction, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The Group has entered into cash flow hedge relationships only.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income within equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement. Amounts accumulated in equity are recycled to the income statement in the periods when the hedged item affects profit or loss. They are recorded in the revenue or expense lines in which the associated related hedged item is reported. Amounts recycled to profit or loss from equity, are included in net interest income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

2.7 Financial liabilities

The Group carries all financial liabilities at amortised cost, with the exception of derivative financial instruments, which are measured at fair value. Further information on derivative liabilities is included in accounting policy 2.15.

2.8 De-recognition of financial assets and financial liabilities

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets have also been transferred. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

2.9 Interest income and interest expense

Interest income and interest expense for all interest-bearing financial instruments is recognised as interest income and interest expense in the income statement using the EIR method.

The EIR method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability.

When calculating the EIR, the Group estimated cash flows using the mandated Long Term Economic Value (LTEV) methodology but did not consider future credit losses beyond any already recognised in the acquisition price of loans. The calculation includes transaction costs and all fees paid or received between parties to the contract that are an integral part of the EIR.

Where loan cash flows cannot be reliably estimated on initial recognition (generally when the due diligence process has not yet completed), interest income is recognised on a contractual interest receipts basis until the cash flows can be estimated, at which time interest income will be recognised using the EIR method. All loans and receivables acquired were recognised using the EIR method by the reporting date.

The EIR on the IBRC loan facility deed acquired is calculated with reference to the ECB Marginal Lending Facility Rate plus a fixed margin of 1%.

When a loan and receivable is impaired, the Group reduces the carrying amount to its estimated recoverable amount (being the estimated future cash flows discounted at the original EIR) and continues unwinding the remaining discount as interest income.

Once a financial asset (or a group of similar financial assets) has been written down as a result of an impairment loss, interest income is recognised using the original rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest income on impaired loans is only recognised on the unimpaired amount of the loan balance using the original EIR rate.

Fees and commissions which are not an integral part of the EIR are recognised on an accrual basis when the service has been provided.

2.10 Fee income

Fee income that is an integral part of calculating the EIR or in originating a loan is recognised as part of EIR as described in accounting policy 2.9. Fees earned by the Group that are not part of EIR are recognised immediately in profit or loss as fee income.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Profit / (loss) on the disposal of loans, property assets; and surplus income

(a) Profit and loss on the disposal of loans and property assets

Profits and losses on the disposal of loans/property assets are calculated as the difference between the carrying value of the loans/property assets and the contractual sales price at the date of sale. The contractual sales price includes any deferred consideration where NAMA has the contractual right to receive any deferred cash flow in accordance with IAS 32. Profits and losses on the disposal of loans/property assets are recognised in the income statement when the transaction occurs. Profit on disposal of loans is not recognised when the overall debtor connection is impaired in accordance with latest available impairment assessment data, or if the recognition of profit on disposal of loans may result in future impairment in the connection.

(b) Surplus income

Surplus income is calculated as the excess cash recovered on a total debtor connection over the loan carrying value and is recognised in the income statement:

(i) to the extent that actual cash flows for a total debtor connection are in excess of the total debtor connection loan carrying values, i.e. to the extent that the debtor has repaid all of its NAMA debt. Such income is recognised semi-annually; or

(ii) when the estimated discounted cash flows for the total debtor connection are greater than the total debtor connection loan carrying value. Such surplus income, to the extent that cash is realised from specific loan assets within the connection, is assessed on a semi-annual basis.

2.12 Impairment of financial assets

The Group assesses, on a semi-annual basis, whether there is objective evidence that a financial asset or group of financial assets, measured at amortised cost, is impaired.

(a) Loans and receivables carried at amortised cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. The individually significant assessment is completed in respect of the total portfolio of borrowings of each individually significant debtor connection, rather than on an individual loan basis (i.e. the unit of account is the overall total debtor connection).

Objective evidence that an asset or portfolio of assets is impaired after acquisition by NAMA includes:

- International, national or local economic conditions that correlate with defaults on the assets in the group (e.g. a decrease in property prices in the relevant area or adverse changes in industry conditions that affect the debtor);
- Observable data indicating that there is a measurable decrease in the value of estimated future cash flows from a portfolio of assets since the initial recognition of those assets;
- Adverse changes in expectations about the amount likely to be realised from the disposal of collateral associated with the loan or loan portfolio;
- Adverse changes in expectations of the timing of future cash flows arising from disposals of collateral;
- Adverse changes in the payment status of the debtor (e.g. an increased number of delayed payments);
- Further significant financial difficulty of the debtor since acquisition;
- Additional breaches of contract, such as a default or delinquency in interest or principal payments;
- It becoming increasingly probable that the debtor will enter bankruptcy or other financial reorganisation.

Individually Significant

For the purpose of the individually significant assessment, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original EIR. This is assessed at a total debtor connection level, which is the unit of account applied by NAMA. The carrying amount of the asset is reduced through use of an allowance account. The amount of the impairment loss is recognised in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is released by adjusting the allowance account. The amount released is recognised in the consolidated income statement.

Where there is no further prospect of recovery of the carrying value of a loan, or a portion thereof, the amount that is not recoverable is written off against the related allowance for debtor impairment as impairment crystallisation. Such financial assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

NAMA may dispose of loans within a debtor connection or a portfolio of loans across multiple connections. The disposal of loans gives rise to a release or crystallisation of any impairment previously recognised relating directly to the loans sold.

When a loan or group of loans is sold the rights to the cash flows from the loans expire and the loan assets are de-recognised from the statement of financial position. On de-recognition, a gain or loss on the loans sold is calculated and is recognised in the consolidated income statement. The gain or loss is calculated as the difference between the consideration received net of transaction costs and the carrying value of the loans sold.

The assessment of the carrying value of the loans sold takes into account impairment previously recognised against these loans.

If impairment has previously been recognised on the loans

- a calculated profit on disposal results in the associated impairment provision for these assets being released.
- a calculated loss on disposal will result in the associated impairment provision being crystallised, whereby both the provision held and the carrying value of the loans are reduced.

Collective Assessment

Debtor connections which are not subject to individually significant assessment are grouped collectively for the purposes of performing an impairment assessment. When collectively assessed loans are disposed of, the calculated profit or loss on disposal does not take into account any previously recognised collective provision as this provision is not directly attributed to the loans. The related impact on the overall collective provision is reassessed following disposal of the loans.

2.13 Impairment of non-financial assets

The carrying amount of the Group's non-financial assets is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. An impairment loss is recognised in profit or loss if the carrying amount exceeds its recoverable amount.

2.14 Cash and cash equivalents

Cash comprises cash on hand, demand deposits and exchequer notes.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Derivative financial instruments and hedge accounting

Derivatives, such as interest rate swaps, cross-currency swaps and foreign exchange swaps are used for hedging purposes as part of the Group's risk management strategy. In addition, the Group acquired, at fair value, certain derivatives associated with the loans acquired from the Participating Institutions. The Group does not enter into derivatives for proprietary trading purposes.

The Group's policy is to hedge its foreign currency exposure through the use of currency derivatives. Interest rate risk on debt issued by the Group and some loans and derivatives acquired from the Participating Institutions are hedged using interest rate swaps.

Derivatives are accounted for either at fair value through profit or loss or, where they are designated as hedging instruments, using the hedge accounting provisions of IAS 39.

Derivatives at fair value through profit or loss

Derivatives at fair value through profit or loss are initially recognised at fair value on the date on which a derivative contract is entered into or acquired and are subsequently re-measured at fair value.

The fair value of derivatives is determined using a mark to market valuation technique based on independent valuations obtained using observable market inputs such as Euribor and Libor yield curves, par interest and foreign exchange rates.

The assumptions involved in these valuation techniques include the likelihood and expected timing of future cash flows of the instrument. These cash flows are generally governed by the terms of the instrument, although management judgement is required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt.

Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Fair value gains or losses on derivatives (other than currency derivatives) are recognised in the income statement. However where they are designated as hedging instruments, the treatment of the fair value gains and losses depends on the nature of the hedging relationship.

Gains and losses on currency swaps are recognised in profit or loss as part of foreign exchange gains and losses.

Derivatives designated in hedge relationships

The Group designates certain derivatives as hedges of highly probable future cash flows, attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedges).

At the inception of the hedge relationship, the Group documents the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and included in the cash flow hedge reserve, which is included in equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement.

Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item affects profit or loss. Amounts reclassified to profit or loss from equity are included in net interest income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the income statement when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to the income statement.

2.16 Inventories - trading properties

Trading properties include property assets and non real estate assets which are held for resale and are stated at the lower of cost and net realisable value. Costs are determined on the basis of specific identification of individual costs relating to each asset. Net realisable value represents the estimated selling price for properties less all estimated costs of completion and costs necessary to make the sale.

2.17 Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

(a) Current income tax

Current income tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Current income tax payable on profits, based on the applicable tax law in the relevant jurisdiction, is recognised as an expense in the period in which the profits arise.

The tax effects of current income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses are utilised.

The Group does not offset current income tax liabilities and current income tax assets.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised when it is probable that future taxable profit will be available against which these temporary differences can be utilised.

Deferred income tax related to cash flow hedges is recognised in equity and subsequently in the consolidated income statement together with the deferred gain or loss.

Deferred income tax related to available for sale reserves is recognised in other comprehensive income and subsequently in the consolidated income statement together with the deferred gain or loss.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The Group assesses, on an annual basis only, the deferred tax relating to unutilised tax losses.

2.18 Provisions for liabilities and charges and contingent assets and liabilities

Provisions

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. The Group recognises no provisions for future operating losses.

Contingent liabilities

Contingent liabilities are not recognised by the Group but are disclosed unless the probability of their occurrence is remote.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Provisions for liabilities and charges and contingent assets and liabilities (continued)

Contingent assets

Contingent assets are not recognised by the Group but are disclosed where an inflow of economic benefits is probable. If the realisation of income becomes virtually certain then the related asset is recognised.

Contingent assets and liabilities are assessed continually to ensure that they are appropriately reflected in the financial statements.

2.19 Amounts due to and from Participating Institutions

Unsettled overdraft positions

The Participating Institutions fund overdraft accounts and collect cash repayments on overdraft accounts on NAMA's behalf. The amounts funded by Participating Institutions are recognised in the statement of financial position as amounts due to Participating Institutions and the amounts collected are recognised as amounts due from Participating Institutions. The net amount due to / from Participating Institutions is applied against the outstanding loans and receivables balance.

2.20 Financial guarantee contracts acquired

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was acquired. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18 and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated income statement within other operating expenses.

2.21 Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual terms of the instruments. Instruments which do not carry a contractual obligation to deliver cash or another financial asset to another entity are classified as equity and are presented in equity. The coupon payments on these instruments are recognised directly in equity. The subordinated bonds issued by the Group contain a discretionary coupon and have no obligation to deliver cash, and are therefore classified as equity instruments.

Senior debt securities issued by the Group are classified as debt instruments as the securities carry a fixed coupon based on Euribor and the coupon payment is non-discretionary.

Debt securities in issue are initially measured at fair value less transaction costs and are subsequently measured at amortised cost using the EIR method.

2.22 Share capital

(a) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the year in which they are approved by the Company's shareholders. Dividends for the period that are declared after the date of the consolidated statement of financial position are dealt with in Note 40, Events after the reporting date.

(b) Coupon on other equity

Coupon payments on subordinated bonds that are classified as equity are reflected directly in equity when they are declared.

2.23 Cash placed as collateral with the NTMA

The Group is required to post cash collateral with the NTMA under a collateral posting agreement (CPA) agreed between the NTMA and NAMA. The NTMA is the counterparty to all NAMA derivatives (other than those acquired from borrowers). The NTMA require cash to be placed with it as collateral to reduce the exposure it has to NAMA with regard to its derivative positions. The amount of collateral required depends on an assessment of the credit risk by the NTMA.

Cash placed as collateral is recognised in the statement of financial position. Any interest payable or receivable arising on the amount placed as collateral is recorded in interest expense or interest income respectively.

2.24 Property, plant and equipment

The Agency incurred costs for the fit-out of leased office space. Costs incurred are capitalised in the statement of financial position as property, plant and equipment in accordance with IAS 16. The recognised asset is depreciated on a straight line basis over 10 years. A full year's depreciation is recognised in the year the asset is capitalised.

2.25 Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the NAMA CEO who allocates resources to and assesses the performance of the operating segments of NAMA.

2.26 Operating leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. The leased asset is recognised on the statement of financial position of the lessor. Properties acquired by NARPSL for the purposes of social housing are recognised as inventories in accordance with IAS 2. Rental income arising from operating leases on inventory property is accounted for on a straight line basis over the lease term.

2.27 Non-controlling interests in subsidiaries

Non-controlling interests in subsidiaries comprise ordinary share capital and/or other equity in subsidiaries not attributable directly or indirectly to the parent entity.

Profits which may arise in any year may be allocated to the non-controlling interest in accordance with the maximum investment return which may be paid to the external investors. Losses arising in any period are allocated to the non-controlling interest only up to the value of the non-controlling interest in the Group, as NAMA takes substantially all the economic benefits and risks of the Group.

2.28 Determination of fair value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date.

Financial instruments are initially recognised at fair value and, with the exception of financial assets at fair value through profit or loss, the initial carrying amount is adjusted for direct and incremental transaction costs. In the normal course of business, the fair value on initial recognition is the transaction price (fair value of consideration given or received).

Subsequent to initial recognition, fair values are determined using valuation techniques. These valuation techniques maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The valuation techniques used incorporate the factors that market participants would take into account in pricing a transaction. Valuation techniques include the use of recent orderly transactions between market participants, reference to other similar instruments, option pricing models, discounted cash flow analysis and other valuation techniques commonly used by market participants.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.28 Determination of fair value (continued)

Valuation techniques

In the absence of quoted market prices, and in the case of over-the-counter derivatives, fair value is calculated using valuation techniques. Fair value may be estimated using quoted market prices for similar instruments, adjusted for differences between the quoted instrument and the instrument being valued. Where the fair value is calculated using discounted cash flow analysis, the methodology is to use, to the extent possible, market data that is either directly observable or is implied from instrument prices, such as interest rate yield curves, equities and commodities prices, credit spreads, option volatilities and currency rates.

The valuation methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. The assumptions involved in these valuation techniques include:

- the likelihood and expected timing of future cash flows of the instrument. These cash flows are generally governed by the terms of the instrument, although management judgement may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. In addition, future cash flows may also be sensitive to the occurrence of future events, including changes in market rates; and
- selecting an appropriate discount rate for the instrument, based on the interest rate yield curves including the determination of an appropriate spread for the instrument over the risk-free rate. The spread is adjusted to take into account the specific credit risk profile of the exposure.

All adjustments in the calculation of the present value of future cash flows are based on factors market participants would take into account in pricing the financial instrument.

Certain financial instruments (both assets and liabilities) may be valued on the basis of valuation techniques that feature one or more significant market inputs that are not observable. When applying a valuation technique with unobservable data, estimates are made to reflect uncertainties in fair values resulting from a lack of market data. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on non-observable data are inherently uncertain because there is little or no current market data available from which to determine the price at which an orderly transaction between market participants would occur under current market conditions.

The calculation of fair value for any financial instrument may require adjustment of the valuation technique output to reflect the cost of credit risk, if market participants would include one, where these are not embedded in underlying valuation techniques.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As management judgement involves an estimate of the likelihood of future events, actual results could differ from those estimates, which could affect the future reported amounts of assets and liabilities.

Management believes that the underlying assumptions used are appropriate and that the Group's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are described as follows:

3.1 Impairment of loans and receivables and related derivatives acquired

The Group's policy is to review its portfolio of loans and receivables for impairment semi-annually. In determining whether an impairment loss should be recorded in the consolidated income statement at the reporting date, the Group makes judgements as to whether any observable data exists indicating evidence of impairment which would be likely to result in a measurable delay in timings or decrease in amounts of the estimated future cash flows. The Group's policy on impairment of financial assets is set out in accounting policy 2.12.

Loans and receivables are either individually assessed or grouped together and collectively assessed for impairment.

During 2014 the majority of the debtor connections, both NAMA and PI/SP managed were individually assessed for impairment. This differs to 2013, where the majority of the individually assessed debtors related to NAMA managed connections only and PI/SP managed connections were grouped together and collectively assessed for impairment.

In 2013 NAMA commenced a process for preparing cash flow information for all PI managed debtors. By 30 June 2014, full cash flow information was available to NAMA for the PI/SP managed portfolio and the impairment provisions for this portfolio were recognised at a debtor connection level rather than applying a loss rate to the group of debtor connections managed by the PI/SP. The availability of detailed cash flow information on assets managed by PI's increased the loss rate on the PI/SP managed portfolio. Debtor connections where detailed cash flows were not prepared, representing €0.08bn of the loan portfolio are grouped together and collectively assessed for impairment in the year-end assessment.

The impairment charge for 2014 is €137m (2013: €914m). The total cumulative impairment provision is €3,521m (2013: €4,125m), representing a coverage of 21% of the total loans and receivables balance at 31 December 2014 (2013: 17.5%).

Individually assessed debtors

Loans and receivables and associated derivatives individually assessed for impairment at the reporting date were €16.2bn (2013: €19.6bn).

The impairment assessment of individually assessed debtors is based on cash flow projections which were prepared by individual case managers and reviewed by management for each individually assessed debtor connection.

The cash flows reflect NAMA's best estimate of expected future cash flows for each individually assessed debtor and include the future estimated cash flows from the disposal of property collateral and other non-disposal income (such as rental income).

The projection of cash flows involves the exercise of considerable judgement and estimation by management (taking into account the actual underlying cash flows) involving assumptions in respect of local economic conditions, the performance of the debtor and the value of the underlying property collateral. As a result the actual cash flows, and their timing, may differ from the projected cash flows prepared by management for the purposes of determining the amount of impairment provision for individually significant debtors. Cash flow projections are prepared generally based on the most recently agreed strategy for each debtor. Cash flow estimates may change if there is a change in a strategy for example from an asset disposal strategy to a loan sale strategy.

NOTES TO THE FINANCIAL STATEMENTS

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

3.1 Impairment of loans and receivables and related derivatives acquired (continued)

The assumptions used for projecting both the amount and timing of future cash flows for individual debtors are reviewed regularly by management and cash flow projections are updated.

Following the completion of all individual debtor cash flows these are grouped together and the cash flows are subject to sensitivity analysis to assess the likely impact on the impairment provision of a change in the timing and amount of cash flows.

Sensitivity analysis

The 2014 impairment provision is determined after the following inputs are assessed:

- Estimated cash flows generated from underlying security as collateral to a loan
- Expected disposal value of the underlying security
- Expected timing of the realisation of cash flows including the timing of the expected future disposal of the security.

Following the completion of a detailed cash flow assessment of debtors with a combined outstanding loan value of €16.2bn (2013: €19.6bn) the consolidated results of this cash flow assessment allow NAMA to apply certain sensitivities to its portfolio and assess the impact of these sensitivities on the impairment provision.

Individual cash flows are projected for each individual property (collateral) asset. These are then consolidated into a single cash flow for each debtor connection for the purposes of the impairment assessment exercise.

NAMA performs its sensitivity analysis at a property (collateral) asset level. In practice, this means the projected disposal value for each individual property asset by location is reduced by 1%. The debtor connection cash flows are then updated with the revised projected disposal values and a revised impairment provision is calculated for each debtor connection. The overall revised provision is then compared to the actual impairment provision to demonstrate the impact of a 1% reduction in projected disposal values.

The table below sets out the impact (in €m) on the 2014 impairment provision of a 1% change in the amount of disposal cash flows over certain geographies and asset types.

				2014				**2013**
	Ireland	**UK (including Northern Ireland)**	**ROW**	**Total**	**Ireland**	**UK (including Northern Ireland)**	**ROW**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Land and development	23	2	1	**26**	25	4	2	**31**
Residential	16	1	1	**18**	15	3	1	**19**
Commercial	10	3	2	**15**	18	4	2	**24**
Retail	12	1	-	**13**	21	8	1	**30**
Hotel and leisure	4	-	2	**6**	6	3	3	**12**
Total effect of 1% change	**65**	**7**	**6**	**78**	**85**	**22**	**9**	**116**

The net present value of cash flows is also affected by the timing of their realisation arising from the sale of assets. Therefore sensitivity analysis was also undertaken on the timing of the realisation of projected cash flows to assess the potential maximum impact on the impairment charge. This exercise, which was conducted without taking account of whether the underlying collateral assets relate to impaired connections, indicates that for each €1 billion in projected disposal cash flows which are moved from 2015 to 2016, an additional impairment charge of the order of €50m would arise. This amount was estimated without taking account of potential additional non-disposal income and without factoring in potential future upside to the cash flows. The maximum potential additional impairment charge estimated under this exercise amounts to around €160m.

Collectively assessed debtors

Debtors that are not individually assessed are considered collectively for the purposes of performing an impairment assessment ('collective assessment'). The total value of loans and receivables subject to collective assessment is €78m (2013: €3,576m). This relates predominantly to debtor connections where there are no assets remaining in the connection and therefore no cash flow forecasts were prepared. The collective portfolio impairment provision is €75m (2013: €822m), which represents coverage of 95% (2013: 23%) of the collectively assessed portfolio.

An independent review is carried out by NAMA's internal auditors of the impairment process annually. The scope of this review includes assessing the impairment review process and the accuracy and completeness of inputs to the individual and collective assessments.

3.2 Income recognition on loans and receivables

EIR income recognition

The accounting policy for the recognition of interest income for loans and receivables is set out in accounting policy 2.9. The original loan portfolio acquired by the Group was acquired at a significant discount to the Par value of the loans, reflecting loan losses already incurred on the loans pre acquisition by NAMA. The EIR of this portfolio is set as the discount rate that equates the present value of the cash flows assumed in the loan acquisition valuation model to the acquisition value. This rate is set at valuation date and becomes the original EIR of the loan.

Actual cash flows over the life of a debtor may differ positively or negatively from the expected cash flows assumed in the acquisition valuation model. The Group reviews expected cash flows semi-annually as part of its impairment review (see Note 3.1). Any changes to assumptions would have an impact on interest income on loans and receivables carried at amortised cost as disclosed in Note 5. Interest income will not be recognised on any impaired portion of an asset, thus reducing interest income where revised estimated cash flows are less than the original expected cash flows in the loan acquisition model.

3.3 Surplus income

The Group's policy is to review its portfolio of debtors for surplus income semi-annually. The Group recognises surplus income in two instances:

1) Debtors who have made debt repayments in excess of their NAMA debt. These repayments resulted in the recognition of €243m in 2014 (2013: €306m).

2) Debtors with positive net present values and who have passed stringent stressed conditions. The Group realised €330m (2013: €225m) from these debtors in 2014.

The net present value (NPV) for each individually assessed debtor involves the projection of their future cash flows (including the future estimated cash flows from the disposal of property collateral and other non-disposal income). The estimated discounted future cash flows are then compared to their carrying value in order to calculate the NPV surplus for each debtor.

In the case of debtors that result in a NPV positive value, stringent stressed conditions are then applied which may result in the recognition of surplus income for a very limited number of debtors with significant positive NPVs. These stressed conditions which include an assessment of the level of workout of the debtor and the application of a NPV sensitivity buffer are assessed semi-annually.

The projection of cash flows involves the exercise of judgement and estimation by management, as a result the actual cash flows, and their timing, may differ from the projected cash flows. Assumptions used for the cash flow projections are reviewed and updated regularly by management.

NOTES TO THE FINANCIAL STATEMENTS

4. SEGMENTAL ANALYSIS

Operating segments are reported in accordance with the internal reporting provided to the NAMA Chief Executive Officer (the chief operating decision-maker). The Act provides that the Chief Executive Officer shall manage and control generally the administration and business of NAMA and the staff assigned to it and shall perform any other function conferred on him by the Board. The Chief Executive Officer is also the accountable person for the purposes of the Comptroller and Auditor General (Amendment) Act, 1993.

The Group has determined it has only one operating segment on a worldwide basis, which is its acquired loan portfolio. The primary activity of the business is that of the acquisition from Participating Institutions of eligible loans, dealing expeditiously with the loans acquired and protecting or otherwise enhancing the value of those loans.

The information provided about the segment is based on monthly and quarterly financial reports and monthly management information, which is reviewed by the Chief Executive Officer.

NAMA reports monthly key performance indicators (KPIs) to the Senior Executive Team and the Board. The critical KPIs reported by NAMA are cash generation, disposal receipts and non-disposal income and debt redemption.

Segmental results of operations

The segmental information provided to the Chief Executive Officer for the reportable segment is the same information as the consolidated income statement and consolidated statement of financial position and is not re-presented in the Notes. The table below shows the geographical analysis of external revenue, assets and liabilities. The analysis is shown for assets and liabilities external to the Group and does not show inter-group assets or liabilities.

Geographical analysis

31 December 2014 Group	Ireland excluding Northern Ireland €'000	UK including Northern Ireland €'000	Rest of World €'000	Loan impairment €'000	Total €'000
Gross external revenue	713,499	176,126	65,664	-	**955,289**
External assets					
Loans and receivables before impairment	12,608,163	3,112,302	1,160,344	-	**16,880,809**
Impairment of loans and receivables	-	-	-	(3,520,775)	**(3,520,775)**
Loans and receivables	**12,608,163**	**3,112,302**	**1,160,344**	**(3,520,775)**	**13,360,034**
Other external assets	2,044,999	24,275	10,700	-	**2,079,974**
Total external assets	**14,653,162**	**3,136,577**	**1,171,044**	**(3,520,775)**	**15,440,008**
External liabilities	14,333,839	-	-	-	**14,333,839**
Total liabilities	**14,333,839**	**-**	**-**	**-**	**14,333,839**

31 December 2013 Group	Ireland excluding Northern Ireland €'000	UK including Northern Ireland €'000	Rest of World €'000	Loan impairment €'000	Total €'000
Gross external revenue	885,570	346,308	102,838	-	**1,334,716**
External assets					
Loans and receivables before impairment	27,559,422	5,954,661	1,924,876	-	**35,438,959**
Impairment of loans and receivables	-	-	-	(4,125,260)	**(4,125,260)**
Loans and receivables	**27,559,422**	**5,954,661**	**1,924,876**	**(4,125,260)**	**31,313,699**
Other external assets	4,634,555	72,936	1,822	-	**4,709,313**
Total external assets	**32,193,977**	**6,027,597**	**1,926,698**	**(4,125,260)**	**36,023,012**
External liabilities	35,415,461	-	-	-	**35,415,461**
Total liabilities	**35,415,461**	**-**	**-**	**-**	**35,415,461**

Revenue and assets are attributed to countries on the basis of the location of collateral.

Impairment of loans and receivables by geographic sector is not provided as the impairment assessment is carried out at a debtor level and individual debtors will have collateral located across the different geographic sectors.

The majority of external liabilities includes senior debt securities in issue, which are issued in euro on the Irish Stock Exchange and are therefore reported as part of Ireland's geographic segment.

No revenues were derived from transactions with a single external customer that amounted to 10% or more of the Group's revenues.

5. INTEREST AND FEE INCOME

Group	2014 €'000	2013 €'000
Interest on loans and receivables - NAMA	844,984	1,058,032
NARL	72,849	201,291
	917,833	1,259,323
Interest on acquired derivative financial instruments	24,402	50,422
Interest on cash and cash equivalents	5,716	13,129
Interest on available for sale financial assets	44	5,928
Interest on working capital loan to joint Special Liquidators	-	872
Total interest income	**947,995**	**1,329,674**
Fee income from loans and receivables	7,294	5,042
Total interest and fee income	**955,289**	**1,334,716**

Interest income on loans and receivables is recognised in accordance with accounting policy 2.9.

NOTES TO THE FINANCIAL STATEMENTS

5. INTEREST AND FEE INCOME (CONTINUED)

Interest income on loans and receivables is calculated using the EIR method of accounting. This method seeks to recognise interest income at a constant rate over the life of the loan and will differ from actual cash received. This implies that in any given reporting period the amount of interest recognised will differ from the cash received. However, over the life of the loan, the total cash received in excess of the acquisition value of the loan will, following adjustment for any impairment loss recognised, equal the interest income recognised. No interest income is recognised on the element of any loan balance which is considered to be impaired.

Interest on loans and receivables recognised for the year was €0.92bn (2013: €1.26bn) and of this, €0.84bn (2013: €1.06bn) relates to the NAMA group excluding NARL (in Voluntary Liquidation). Of this amount €0.72bn (85%) was realised in non-disposal cash receipts (2013: €0.9bn; 87%). Any difference between the EIR income recognised and the element realised in cash in any particular period is factored into NAMA's impairment process.

NARL (in Voluntary Liquidation) was established on 11 February 2013 in response to a Direction issued by the Minister for Finance under the Irish Bank Resolution Corporation Act 2013 to NAMA to acquire a loan facility deed and floating charge over certain IBRC assets which were used as collateral by IBRC as part of its funding arrangements with the Central Bank of Ireland. In March 2013 NAMA acquired the loan facility deed and floating charge at a value of €12.9bn. Interest on this loan accrued at the ECB Marginal Lending Rate plus a fixed margin of 1%. The average interest rate on the facility in 2014 was 1.58%.

The principal balance of the loan facility deed was repaid by the joint Special Liquidators during 2013 and 2014 from sale proceeds of the liquidation of IBRC. The loan facility deed was repaid in full by the joint Special Liquidators in October 2014.

Following the full settlement of the loan facility and the redemption of all senior bonds issued by NAML to the Central Bank of Ireland as consideration for the loan facility deed, NARL (in Voluntary Liquidation) was no longer deemed necessary as it had fulfilled its purpose and was placed into voluntary liquidation by its members on 18 December 2014.

Up to the date of the liquidation, NARL (in Voluntary Liquidation) had generated €73m (2013: €201m) in interest income on the loan facility deed.

Interest income on acquired derivative financial instruments relates to interest receivable on derivatives acquired from Participating Institutions that were associated with loans acquired.

Interest on cash and cash equivalents comprises interest earned on cash, short-term deposits and exchequer notes held during the year.

Interest on available for sale assets comprises interest earned on short term government bonds held for liquidity purposes. Refer to Note 16 for further detail on available for sale assets.

Fee income from loans and receivables includes fee income from borrowers that is an integral part of calculating the EIR or originating a loan and is recognised as part of EIR as described in accounting policy 2.9. Fees earned by the Group that are not part of EIR, such as exit or performance fees, are recognised immediately in profit or loss as fee income. Fee income recognised in the year includes arrangement fees and restructuring fees.

Agency	**2014 €'000**	**2013 €'000**
Interest on loan to NAML	165,717	-
Interest on loan to joint Special Liquidators	-	872
Interest income on cash	1	2
Total interest income	**165,718**	**874**

In 2014, NAMA Group subsidiaries generated taxable profits, which is ultimately payable to NAML as interest income under profit participating loan agreements in place. Subsequently, after utilisation of any available tax losses and the deduction of interest expense on its senior and subordinated debt securities, NAML generated taxable profits of €166m which is payable to NAMA the Agency, as interest income. This amount payable by NAML to NAMA the Agency is subordinated to senior creditors after all senior debt is repaid.

In 2013, in response to a Ministerial direction, NAMA and the joint Special Liquidators of IBRC entered into a loan facility, with a maximum drawdown of €1bn. The purpose of the facility was to provide the joint Special Liquidators with working capital and cash collateral to post to derivative counterparties of IBRC. The loan was repaid in full by 31 December 2013. Interest charged by NAMA on this loan in 2013 was 1.4% per annum totalling €872,000.

6. INTEREST EXPENSE

Group	2014 €'000	2013 €'000
Interest on senior debt securities in issue	79,395	126,016
Interest on derivatives where hedge accounting is applied	228,503	231,590
Interest on other derivative financial instruments	5,276	16,905
Total interest expense	**313,174**	**374,511**

On 28 March 2013, NAML issued bonds to the value of €12.9bn as consideration for the acquisition by NARL (in Voluntary Liquidation) of a loan facility deed and floating charge over the assets of IBRC from Central Bank of Ireland. These bonds were fully redeemed by 23 October 2014. The interest expense incurred by NAML on these bonds in the year was €15.8m (2013: €33.7m). The reduction on the prior year interest expense is as a result of bond redemptions.

Agency	2014 €'000	2013 €'000
Interest on intergroup loans	**186**	**836**

7. OTHER INCOME / (EXPENSES)

Group	2014 €'000	2013 €'000
Dividend income from equity instruments	29,501	-
Fair value gain on equity instruments	7,826	-
Lease rental income	777	54
Transfer from available for sale reserve	(1,679)	-
Write-down of trading properties	(180)	(2,914)
Total other income / (expenses)	**36,245**	**(2,860)**

As a result of the restructure of one of the NAMA managed debtors in 2011, the Group acquired an equity investment of £2 Stg in a debtor company. This equity investment provided NAMA with an entitlement to a share of any future profits generated by the debtor company. The Group received dividends totalling €29.5m (2013: €nil) on its investment during the reporting period.

Lease rental income is earned from the lease of residential properties to approved housing bodies for social housing purposes and from the lease of certain trading properties. It is accounted for on a straight line basis over the lease term in accordance with accounting policy 2.26.

During the year, the Group transferred €1.7m from the available for sale reserve to the income statement. The Group held no treasury bonds at the end of the year, therefore any net changes in fair value on treasury bonds recorded in the available for sale reserve in prior years were recycled to the income statement in 2014.

The fair value of NAMA's equity instruments is based on the net asset value of the investee entity at the reporting date, and changes in fair value recognised in the income statement in accordance with accounting policy 2.6. See Note 26 for further details on equity instruments held by the Group at the reporting date.

As at 31 December 2014, trading properties have been written down to net realisable value and the amount of the write down of €0.2m (2013: €2.9m) is recognised as an expense, in accordance with accounting policy 2.16. The write down of trading properties recognised in the prior year relates to property held in the US, which was sold during the reporting period. See Note 9 for further details on property assets disposed of during the year.

Agency	2014 €'000	2013 €'000
Costs reimbursable by the NAML Group	**56,110**	**41,938**

NOTES TO THE FINANCIAL STATEMENTS

8. (LOSSES) / GAINS ON DERIVATIVE FINANCIAL INSTRUMENTS

Group	2014 €'000	2013 €'000
Fair value losses on derivatives acquired from borrowers	(1,349)	(90,923)
Termination fees on derivatives that were in cash flow hedge relationships	(147,668)	-
Fair value (losses) / gains on other derivatives	(2,807)	29,922
Hedge ineffectiveness	(6,873)	6,790
Total (losses) / gains on derivative financial instruments	**(158,697)**	**(54,211)**

Fair value movements on derivatives are driven by market movements that occurred during the year. The fair value of these swaps are impacted by changes in Euribor rates and borrower derivatives performance levels. Further information on derivative financial instruments is provided in Note 18.

Gains / losses on derivatives acquired from borrowers comprise fair value movements on these derivatives. Other derivatives hedge NAMA's interest rate risk exposure arising from derivatives acquired from the Participating Institutions. Hedge accounting has not been applied on these derivatives.

During the year, NAMA recognised termination fees of €147.7m (including NARL (in Voluntary Liquidation) €32.7m) on the early termination of certain interest rate swaps. These costs would have arisen as an interest expense over their remaining life, but due to the early termination of the swaps arising from NAMA's accelerated senior notes repayment, the accelerated loss is being recognised in the current period in the income statement. The swaps were in place to hedge NAMA's interest rate risk arising from the senior notes in issue. These swaps qualified for hedge accounting and gains / losses were previously recognised in the cashflow hedge reserve.

On acquisition of the loan facility deed and floating charge, NARL (in Voluntary Liquidation) entered into €1.9bn of interest rate swaps to hedge its exposure to interest rate risk arising from the floating rate senior bonds issued to acquire the loan facility deed and floating charge. As the senior bonds have been repaid, the hedged item no longer exists and therefore the interest rate swaps were terminated during the year. A termination fee of €32.7m was paid in 2014.

Following the Board's review of its strategy and the publication of the Minister for Finance's Section 227 Review in July 2014, a revised senior bond redemption profile was approved by the Board. The revised senior bond redemption profile includes a target of a minimum of 80% reduction in senior bonds by end 2016. Following Board approval interest rate hedging was aligned to NAMA's updated strategy which resulted in the termination of €5.43bn of interest rate swaps at a cost of €115m.

At the reporting date, NAMA had €12.75bn (2013: €23bn) of interest rate swaps remaining to hedge its exposure to interest rate risk arising from the senior bonds in issue.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income within equity (see Note 35). The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

A €6.9m loss was recognised as hedge ineffectiveness in 2014 (2013: €6.8m gain). This net loss is due to €7.1m hedge ineffectiveness which occurred in the year and a hedge ineffectiveness adjustment of €14m in respect of amounts recognised in previous years.

There are no derivatives in the Agency.

9. NET PROFIT ON DISPOSAL OF LOANS AND PROPERTY ASSETS; AND SURPLUS INCOME

Group	Note	2014 €'000	2013 €'000
Surplus income on loan repayments (in excess of loan carrying values)	*19*	572,517	530,838
Net loss on disposal of loans	*19*	(289,705)	(29,386)
Net profit on disposal of property assets		2,001	3,959
Total net profit on disposal of loans and property assets; and surplus income		**284,813**	**505,411**

For certain assets acquired, the proceeds from the disposal of the underlying collateral in a debtor connection exceeded the carrying value of those loans and receivables. This surplus is recognised in the income statement as realised profits on loans. Of the total amount of €573m recognised, €243m (2013: €306m) was generated from debtors who have fully repaid all NAMA debt and any further cash received is recognised as profit. A further €330m (2013: €225m) of surplus income is recognised on specific loan assets within a debtor connection where the cash generated and received by NAMA at the reporting date has exceeded the loan carrying value; and the estimated discounted cash flows for the total debtor connection are greater than the total loan carrying values. Further information on the recognition of surplus income is included in Note 3, critical accounting estimates and judgements.

During the year, the Group disposed of certain loans and receivables to third parties. Profit or loss on disposal of loans is measured as the difference between the cash received, including any deferred consideration, less related selling expenses less the net carrying value of those loans and receivables. The Group realised a net loss of €289.7m (2013: net loss of €29.4m) on the disposal of loans in the year. Of the €289.7m, €11.3m related to costs of disposal, and €278.4m was recognised against loans and receivables (see Note 19). Profit on disposal of loans is not recognised where the overall debtor connection is impaired in accordance with the latest available impairment assessment data.

The costs of €11.3m incurred on the disposal of loans have been recognised within net profit on disposal of loans in 2014 in line with IFRS, which outlines that any profit or loss on the derecognition of loans and receivables should be recognised after deduction of selling costs from disposal proceeds. This differs to 2013, whereby such costs of €2.6m were recognised directly within administration expenses (refer to Note 10.5).

During the year, the Group sold certain trading property assets to third parties. Profit or loss on disposal of properties is measured as the difference between proceeds of sale received and the carrying value of those property assets. The Group realised a net profit of €2.0m (2013: €3.9m) on the disposal of trading property assets in the year.

The following table summarises NAMA's overall profit / (loss) recognised on the transactions relating to the disposal of underlying collateral and loans for the years 2014 and 2013:

			2014			2013
Group	Disposals of underlying collateral €m	Disposals of loans €m	Total €m	Disposals of underlying collateral €m	Disposals of loans €m	Total €m
Proceeds of disposal	5,138	3,424	**8,562**	4,186	294	**4,480**
Profit / (loss) recognised in income statement (Note 9)	572	(290)	**282**	531	(29)	**502**
Crystallisation of existing impairment provision (Note 19)	(1)	(609)	**(610)**	(30)	(23)	**(53)**
Total	**571**	**(899)**	**(328)**	**501**	**(52)**	**449**

NOTES TO THE FINANCIAL STATEMENTS

9. NET PROFIT ON DISPOSAL OF LOANS AND PROPERTY ASSETS; AND SURPLUS INCOME (CONTINUED)

The crystallisation of existing impairment provision represents the amount of the previously recognised impairment provision that is attributed to the disposal of underlying collateral and loans. It does not represent an income statement charge in the period of crystallisation. Instead, the income statement recognition occurred when the impairment provision was previously recorded. Combined with the 'Profit / (loss) recognised in income statement', it presents an overall profit / (loss) in respect of the disposal of underlying collateral and loans for the period.

There were no disposals of loans or property assets by the Agency.

10. ADMINISTRATION EXPENSES

Group	Note	2014 €'000	2013 €'000
Costs reimbursable to the NTMA	*10.1*	53,894	40,768
Primary servicer fees	*10.2*	50,255	54,787
Master servicer fees	*10.3*	2,543	3,082
Portfolio transition costs	*10.4*	7,015	7,369
Portfolio management fees	*10.5*	3,772	5,549
Legal fees	*10.6*	8,574	2,975
Finance, communication and technology costs	*10.7*	4,387	3,423
Rent and occupancy costs	*10.8*	2,964	1,482
Internal audit fees	*10.9*	743	911
External audit remuneration	*10.10*	550	515
NAMA Board and Committee fees and expenses	*10.11*	419	599
Total administration expenses		**135,116**	**121,460**

Agency	Note	2014 €'000	2013 €'000
Administration expenses			
Costs reimbursable to the NTMA	*10.1*	53,894	40,768
NAMA Board and Committee fees and expenses	*10.11*	419	599
Rent and occupancy costs	*10.8*	2,216	1,174
Total administration expenses		**56,529**	**42,541**

Costs reimbursable to the NTMA are recognised as an expense to NAMA. All costs, other than Board and Committee fees and Board expenses incurred by NAMA are reimbursed to it by the NAML Group. Total costs of €56.1m (2013: €41.9m) were reimbursed by the NAML Group to NAMA.

Agency	Note	2014 €'000	2013 €'000
Costs reimbursable by the NAML Group			
Costs reimbursable to the NTMA	*10.1*	53,894	40,768
Rent and occupancy costs	*10.8*	2,216	1,170
Total costs reimbursable by the NAML Group		**56,110**	**41,938**

10.1 Costs reimbursable to the NTMA

Under Section 42 (4) of the Act, NAMA is required to reimburse the NTMA for the costs incurred by the NTMA in consequence of it assigning staff and providing services to NAMA.

Costs comprise staff costs of €40.9m (2013: €31.1m) and overheads and shared service costs of €13.0m (2013: €9.6m).

The NTMA incurs direct costs such as salaries, rent, IT, office and business services. NAMA has agreed to reimburse the NTMA for their proportionate share of external overhead costs on a centralised basis where NAMA benefits directly or indirectly from the provision of the related goods or services. These costs include central IT costs, office and business services, together with depreciation in respect of the use of NTMA fixed assets and other central overheads.

The costs incurred by the NTMA are charged to NAMA (the Agency) and the Agency is reimbursed by the NAML Group.

Staff costs

The Group has no employees. All personnel are employed by the NTMA and the salary cost of staff who are engaged full time in the NAMA business are recharged to the Group by the NTMA. The number of employees of the NTMA, directly engaged in the Group ('NAMA Officers') at the reporting date was 369 (2013: 331) and the total salary cost including pension costs was €40.9m (2013: €31.1m). In addition the NTMA provide shared services to NAMA including IT, HR and Finance. The cost of NTMA employees (non NAMA Officers) providing these shared services to NAMA during 2014 was €3.8m (2013: €2.5m).

17 staff were placed on garden leave during 2014 with an attributable 2014 cost of approximately €0.4m. This does not represent an incremental cost for NAMA but instead forms part of the overall NAMA salary cost that would have been incurred regardless of the decision to place the relevant staff on garden leave. The decision on whether or not to place staff on garden leave is made on a case-by-case basis and would include consideration, inter alia, of the person's role within NAMA and the person's new employer. The average period of garden leave for the 17 staff was for two months.

NAMA Officers are members of the NTMA Staff Pension Scheme and the NTMA contributes to the scheme on behalf of these employees. The cost of these pension contributions are recharged to NAMA.

Staff costs include the Chief Executive Officer's salary as detailed below:

Brendan McDonagh (Chief Executive Officer)	2014 €	2013 €
Salary	366,001	365,500
Taxable benefits	20,776	21,710
Performance related bonus	-	-
	386,777	**387,210**

The remuneration of the Chief Executive Officer consists of basic salary, taxable benefits and a performance related payment of up to 60% of annual salary. The Chief Executive Officer was entitled to be awarded a performance payment for 2013 and 2014, but in view of the economic challenges facing the country, waived his entitlement to this payment.

The Chief Executive Officer's pension entitlements do not extend beyond the standard terms of the model public sector superannuation scheme.

The remuneration of the Chief Executive Officer is determined by the NTMA CEO after consultation with the NTMA Board. In giving advice on remuneration, the NTMA Board is informed by the views of the NTMA Remuneration Committee.

NOTES TO THE FINANCIAL STATEMENTS

10. ADMINISTRATION EXPENSES (CONTINUED)

10.2 Primary Servicer fees

Primary Servicer fees comprise fees paid to each Participating Institution (AIB and BOI) and the Primary Servicer (Capita) for the servicing of eligible bank assets. The Participating Institutions and Primary Servicer administer the loans and receivables that originated within each Participating Institution. The amounts payable to each Participating Institution are set out in Note 38 related party disclosures. Primary Servicer fees were €50.2m during the year (2013: €54.8m). Of this, the fees paid and accrued by NAMA (excluding NARL (in Voluntary Liquidation)) to the Participating Institutions and the Primary Servicer were €46.1m (2013: €45.2m), which equates to an average fee of 7 basis points (2013: 7 basis points) of the par debt loan balances administered.

10.3 Master servicer fees

Master servicer fees comprise fees paid to the master servicer, Capita. Capita provides loan administration and data management services to the Group. Master servicer fees were €2.5m in the year (2013: €3.1m).

10.4 Portfolio transition costs

Following the IBRC liquidation in February 2013, NAMA incurred costs on the transition of the existing €41 billion par debt NAMA loans managed by IBRC to Capita. Costs incurred in 2014 totalled €3.0m (2013: €7.4m). The transition costs comprise amounts paid to Capita for project and integration costs, fees to the joint Special Liquidators for services provided for the transition of the existing portfolio and other project costs which include the cost of secondees engaged to provide assistance and advisory services to the NAMA integration team.

During 2014, NAMA also commenced the process for the transitioning of the existing €6.5 billion par debt NAMA loans managed by BOI to Capita. Similar to the IBRC integration costs, costs comprise amounts paid to Capita for project and integration costs, fees to BOI for the transition of the existing portfolio and other project costs which include the cost of secondees engaged to provide assistance and advisory services to the Project Bank team.

A breakdown of the costs incurred in 2014 and 2013 is set out below.

Portfolio transition costs	2014 €'000	2013 €'000
IBRC integration		
Capita	1,818	2,727
IBRC joint Special Liquidators	1,142	3,950
Other project costs	78	692
Total IBRC integration	**3,038**	**7,369**
Project Bank		
Capita	1,626	-
BOI	1,680	-
Other project costs	671	-
Total Project Bank	**3,977**	**-**
Total portfolio transition costs	**7,015**	**7,369**

10.5 Portfolio management fees

Portfolio management fees relate to fees incurred in the ongoing management and support of debtors. Costs included are property valuation, asset search and asset registry fees, and insurance costs.

Costs incurred on the disposal of loans have been recognised within net profit on disposal of loans in 2014 in line with IFRS, which outlines that any profit or loss on the derecognition of loans and receivables should be recognised after deduction of selling costs from disposal proceeds. This differs to 2013, whereby such costs of €2.6m were recognised directly within administration expenses.

10.6 Legal fees

Legal fees comprise fees paid to professional service firms with respect to legal advice.

10.7 Finance, communication and technology costs

Finance, communication and technology costs comprise costs incurred during the year in relation to IT, derivative valuation, tax advice and other administration costs.

10.8 Rent and occupancy costs

Rent and occupancy costs comprise costs incurred during the year in relation to the premises occupied by the Group.

The Agency has leased the third floor of its current office premises since 2010 for a period of ten years at an annual rent of €1.0m, and the first floor of its current offices premises since 2014 for a period of 15 years at an annual rent of €0.8m and the first floor annexe of its current offices premises for a period of 12 years and 4 months at an annual rent of €0.1m since 2013. Further information on leases is included in Note 32, commitments and contingent liabilities. The remaining balance relates to occupancy costs.

10.9 Internal audit fees

The Group have engaged the services of an external professional services firm to perform the role of internal auditor for the Group. Fees incurred relate to the audit of business processes by the Internal Auditor and the reporting on the results of internal audits performed.

10.10 External audit remuneration

Group	**2014 €'000**	**2013 €'000**
Audit of NAMA Group and subsidiaries	550	515
Total external audit remuneration	**550**	**515**

The Comptroller and Auditor General (as external auditor) does not provide other assurance, tax advisory or other non-audit services to NAMA.

NOTES TO THE FINANCIAL STATEMENTS

10. ADMINISTRATION EXPENSES (CONTINUED)

10.11 NAMA Board and Committee fees and expenses

Board fees are set out in the table below, and have been approved by the Minister for Finance.

	2014 €	2013 €
Frank Daly (Chairman)	150,000	150,000
Oliver Ellingham (appointed 10 April 2013)	60,000	41,750
Eilish Finan (term ended 21 December 2013)	-	58,549
Brian McEnery	60,000	60,000
Mari Hurley (appointed 8 April 2014)	43,033	-
Steven A. Seelig (term ended 25 May 2013)	-	24,032
Willie Soffe	75,000	75,000
Board fees	**388,033**	**409,331**
Board expenses	8,762	162,518
Total Board fees and expenses	**396,795**	**571,849**
Planning Advisory Committee		
Alice Charles	5,000	5,000
Michael Wall	5,000	5,000
Audit Committee		
Jim Kelly	10,000	10,000
Northern Ireland Advisory Committee (dissolved 8 September 2014)		
Frank Cushnahan (resigned 8 November 2013)	-	3,000
Brian Rowntree	2,025	5,000
Committee fees	**22,025**	**28,000**
Total Board and Committee fees and expenses	**418,820**	**599,849**

John Corrigan (NTMA Chief Executive, retired 4 January 2015), Conor O'Kelly (NTMA Chief Executive, appointed 5 January 2015), Brendan McDonagh (NAMA Chief Executive Officer), as *ex-officio* members, and John Mulcahy (resigned 17 January 2014) received no remuneration as members of the Board. Expenses payable in respect of Board and Committee members are set out below.

2014	Travel Expenses €	Accommodation and Subsistence €	Other €	2014 Total €	2013 Total €
Frank Daly (Chairman)	1,133	233	-	**1,366**	**6,418**
Oliver Ellingham[5]	6,055	3,416	-	**9,471**	**6,316**
Brian McEnery[5]	5,784	2,525	-	**8,309**	**19,311**
Steven A. Seelig	-	-	(10,384)	**(10,384)**	**130,473**
	12,972	**6,174**	**(10,384)**	**8,762**	**162,518**

Other amounts in the table above represents tax accrued in 2013 and was based on an initial estimate. An adjusted lower amount was paid to the Revenue Commissioners in 2014 on confirmation of the actual tax amount payable.

5 *Included in travel expenses and accommodation and subsistence is an amount of €9,855 which represents NAMA's tax liability on benefit-in-kind in respect of board expenses paid in 2014 (2013: €25,338).*

10.12 NARL operating costs

In response to a Direction issued by the Minister for Finance under the IBRC Act, NAMA established a new NAMA group entity, National Asset Resolution Limited (in Voluntary Liquidation) (NARL) on 11 February 2013 to acquire a loan facility deed and floating charge over certain IBRC assets. At the time of IBRC's liquidation and prior to the commencement of the loan sales process by the joint Special Liquidators, it was expected that NAMA would acquire loan assets from IBRC.

To facilitate the potential acquisition of loan assets, NAMA put in place a project team to establish new systems and processes for this purpose. While the Minister subsequently announced in late April 2014 that no IBRC loan assets would transfer to NAMA, costs incurred by NARL (in Voluntary Liquidation) in response to the original Direction issued by the Minister to acquire IBRC assets totalled €11.6m (€5.9m in 2014 and €5.7m in 2013).

Over half of the costs incurred related to amounts paid to the joint Special Liquidators for the provision of support services to NAMA in the current year related to the anticipated transition of the new portfolio.

A breakdown of the costs incurred in 2014 and 2013 is set out below. These costs are included in the overall administration costs incurred by NAMA as set out in Note 10.

NARL operating costs	*Note*	**2014 €'000**	**2013 €'000**
NTMA recharge - salaries	*10.1*	656	1,745
NTMA recharge - general overheads	*10.1*	332	1,731
Primary servicer fees	*10.2*	4,126	2,200
Other administration expenses		757	20
Total NARL operating costs		**5,871**	**5,696**

11. FOREIGN EXCHANGE GAINS AND LOSSES

Group	*Note*	**2014 €'000**	**2013 €'000**
Foreign exchange translation gains / (losses) on loans and receivables	*19*	288,967	(193,043)
Unrealised foreign exchange (losses) / gains on derivative financial instruments		(104,494)	208,206
Realised foreign exchange losses on currency derivative financial instruments		(208,145)	(104,623)
Foreign exchange gains on cash		862	172
Other foreign exchange gains / (losses)		1,176	(48)
Total foreign exchange gains and losses		**(21,634)**	**(89,336)**

Foreign exchange translation gains and losses on loans and receivables arise on the revaluation of foreign currency denominated loans and receivables. Foreign currency translation amounts are recognised in accordance with accounting policy 2.5.

Gains and losses on foreign exchange derivatives arise from market movements that affect the value of the derivatives. On a cumulative basis since 2010, NAMA has recorded a loss on foreign exchange derivatives, which is offset by a foreign exchange translation gain on loans and receivables, resulting in a cumulative net loss of €126m (2013: €104m) on foreign exchange. This cumulative cost is akin to an "insurance" cost of protecting NAMA from the impact of foreign exchange rate fluctuations.

Following the transfer of assets from Participating Institutions, the Group entered into currency derivatives to reduce its exposure to exchange rate fluctuations arising on foreign currency denominated loans and receivables acquired. The gain or loss on derivative products comprises realised and unrealised gains and losses. Realised and unrealised gains are recognised in accordance with accounting policy 2.15. Currency derivatives are explained in more detail in Note 18.

NOTES TO THE FINANCIAL STATEMENTS

12. IMPAIRMENT CHARGES ON LOANS AND RECEIVABLES

Group	2014 €'000	2013 €'000
Balance at the beginning of the year	**4,125,260**	**3,263,422**
Increase in specific provision	1,528,026	847,227
Release of specific provision	(1,384,749)	(295,026)
(Release)/increase in collective provision	(747,762)	309,637
Total movement in provision	**(604,485)**	**861,838**
Balance at the end of the year	**3,520,775**	**4,125,260**
Recognised in the income statement	137,371	914,345
Recognised against loans and receivables (Note 19)	(741,856)	(52,507)
Total movement in provision	**(604,485)**	**861,838**
Balance as at 31 December analysed as:		
Specific impairment	3,446,050	3,302,773
Collective impairment	74,725	822,487
Total impairment provision at the end of the year	**3,520,775**	**4,125,260**

The impairment provision for each specifically assessed debtor connection is calculated as the difference between the carrying value of each debtor connection's total loans and the present value of expected future cash flows for the connection. The release in the specific provision includes the crystallisation of impairment on disposals, and the effect of an increase in the expected disposal value or accelerated disposal of property collateral and loan sales across a number of debtor connections.

In 2014 the majority of debtor connections, both NAMA and Participating Institution / Service Provider managed, were individually assessed for impairment. This differs to 2013, where the individually assessed debtors related to NAMA managed connections only, and Participating Institution / Service Provider managed connections were grouped together and collectively assessed for impairment. Enhancement of the impairment assessment process was undertaken in 2014 and as a result a significant number of Participating Institution / Service Provider managed connections which were included in the collective provision at 31 December 2013 are included in the specific provision at 31 December 2014, contributing to the increase in the specific provision and the release in the collective provision.

Debtor connections where detailed cash flows were not prepared, representing €78m of NAMA debt and less than 1% of the loan portfolio, are grouped together and collectively assessed for impairment. An impairment rate of 95% has been applied to the collectively assessed portfolio.

Further information on the impairment of loans and receivables is included in Note 3, Critical accounting estimates and judgements, Note 19, Loans and receivables and Note 22, Credit Risk.

13. TAX CHARGE

Group	*Note*	2014 €'000	2013 €'000
Current tax			
Irish corporation tax		(2)	(35)
Deferred tax			
On fair value gains / (losses) on derivatives		40,495	(28,942)
On unutilised tax losses forward	*27*	(92,568)	(40,825)
Total deferred tax recognised in income statement		**(52,073)**	**(69,767)**
Total tax charge		**(52,075)**	**(69,802)**

The reconciliation of tax on profit at the relevant Irish corporation rate to the Group's actual tax charge for the year is as follows:

Reconciliation of tax on profits

Group	2014 €'000	2013 €'000
Profit before tax	510,355	283,404
Tax calculated at a tax rate of 25%	127,589	70,851
Effect of:		
Non-deductible derivative movements	-	(26,090)
Deductible derivative movements	29,912	-
Tax on interest income	(31)	(31)
Non-deductible (income) / expenses	(64,218)	141
Utilised tax losses forward	(93,212)	(44,836)
Movement in deferred tax (liability) / asset recognised	(40,495)	28,942
Movement in deferred tax recognised on tax losses	92,568	40,825
Refund in respect of the prior year	(38)	-
Taxation (credit) / charge	**52,075**	**69,802**

The current tax charge of €0.002m (2013: €0.04m) arises on the profits earned by NAMAIL. No other tax charges arose in other NAMA Group entities and the Agency is exempt from Irish income tax, corporation tax and capital gains tax.

The corporation tax rate applicable to the majority of the Group's income is 25% with the exception of NAMAIL, where the applicable tax rate is 12.5%.

The Group and Agency have no tax-related contingent liabilities and contingent assets in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets. No significant effects arise from changes in tax rates or tax laws after the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

14. INCOME TAX RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

Group	Note	2014 €'000	2013 €'000
Movement in cash flow hedge reserve before tax	35	71,941	256,012
Movement in available for sale reserve before tax	35	1,720	(4,127)
Total movement		**73,661**	**251,885**
Deferred tax expense	27	(17,950)	(65,134)
Total income tax relating to components of other comprehensive income		**(17,950)**	**(65,134)**

The movement in the cash flow hedge reserve represents a temporary difference between the tax base of the derivatives where hedge accounting has been applied and their fair value. The movement in the available for sale reserve represents a temporary difference between the tax base of available for sale financial assets and their fair value. The Group has recognised a deferred tax asset on the temporary difference that arises on the cash flow hedge and available for sale reserve.

15. CASH AND CASH EQUIVALENTS AND COLLATERAL

Group	2014 €'000	2013 €'000
Balances with the Central Bank of Ireland	228,087	1,738,183
Balances with other banks	101,542	83,813
Term deposits	154,063	31,240
Exchequer note investments	675,000	1,600,000
Total cash and cash equivalents	**1,158,692**	**3,453,236**
Cash placed as collateral with the NTMA	690,000	802,000
Total cash, cash equivalents and collateral	**1,848,692**	**4,255,236**

Agency	2014 €'000	2013 €'000
Balances with the Central Bank of Ireland	101	1,152
Total cash and cash equivalents	**101**	**1,152**

Balances with other banks comprise balances held with Citibank, AIB and BNP. Exchequer notes are short term interest bearing notes, with maturities generally less than 30 days, which are held with the NTMA.

NAMA is required to post cash collateral with the NTMA under a collateral posting agreement (CPA) entered into in 2012. The NTMA is the counterparty to all NAMA derivatives (other than those acquired from borrowers). The NTMA require cash to be placed with it as collateral to reduce the exposure it has to NAMA with regard to its derivative positions. At 31 December 2014, NAMA's derivative liability exposure was €0.6bn (2013: €0.6bn) as set out in Note 18.

In 2011 an amount of $135,515 was placed on deposit in a segregated account. This amount will be held in the segregated account until a legal claim pending in relation to a debtor is settled. On settlement the amount will be refunded to NAMA or retained by a third party. This amount has not been reported as part of the Group's cash balance and was still held in escrow at the reporting date.

At the reporting date there is an amount of €14.6m held in an escrow account in the Group's name. This amount is in respect of the outcome of due diligence procedures on AIB Tranche 9 loans. The due diligence procedures were completed in April 2015, and a settlement amount of €2.3m is expected to be transferred to NAMA.

16. FINANCIAL ASSETS AVAILABLE FOR SALE

Group	2014 €'000	2013 €'000
Short term treasury bonds	-	145,138
Total available for sale financial assets	**-**	**145,138**

Available for sale financial assets comprise Irish government treasury bonds acquired for liquidity management. The nominal value of available for sale assets at 31 December 2014 was €nil (2013: €145m).

17. AMOUNTS DUE (TO) / FROM PARTICIPATING INSTITUTIONS

NAMA legally acquired overdraft accounts attached to debtor loan accounts in 2010 and 2011. At 31 December 2014 the following amounts were receivable from and payable to the Participating Institutions for cash collected or paid out by the Participating Institutions in relation to NAMA debtors' overdraft accounts. Amounts due are generally only settled by NAMA and the Participating Institutions upon a terminating event such as account closure. Amounts settled may differ to the balances reported at year end. All amounts are classified as current.

Unsettled overdraft positions	Receivable €'000	Payable €'000
Balance at 31 December 2013	**78,447**	**(24,676)**
Movement in overdraft accounts during the year (Note 19.8)	6,363	4,248
Balance as at 31 December 2014	**84,810**	**(20,428)**

All overdraft accounts held with BOI were closed and a number of them were converted to loans as at the reporting date. There are eight settlement amounts yet to be agreed and these have not been included in the closing overdraft positions above.

18. DERIVATIVE FINANCIAL INSTRUMENTS

As part of the process of acquisition of loans from Participating Institutions, the Group acquired a number of derivatives that were related to underlying loans.

In addition the Group enters into derivative contracts to hedge its exposure to interest rate and foreign exchange risk.

The Group has established policies to manage the risks that arise in connection with derivatives, including hedging policies, which are explained in Notes 21 and 22.

The notional amounts of certain types of financial instruments do not necessarily represent the amounts of future cash flows involved or the current fair value of the instruments and, therefore, are not a good indication of the Group's exposure to credit or market risks. Derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The fair value of derivative financial assets and liabilities can fluctuate significantly over time.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (e.g. cross-currency interest rate swaps). The Group's credit risk represents the potential cost of replacing the swap contracts if a counterparty fails to fulfil its obligations under the contract. This risk is monitored on an ongoing basis with reference to the current fair value.

NOTES TO THE FINANCIAL STATEMENTS

18. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The fair values, and notional amounts thereon, of derivative financial instruments held are set out below.

		Fair values		
Group **31 December 2014**	**Notional amount €'000**	**Assets €'000**	**Liabilities €'000**	**Net €'000**
(a) Derivatives at fair value through profit or loss				
Derivative financial instruments acquired from borrowers	149,118	39,123	-	39,123
Other derivative financial instruments	95,000	17,591	(23,630)	(6,039)
Foreign currency derivatives	2,991,116	1,527	(192,021)	(190,494)
(b) Derivative financial instruments designated in hedge relationships				
Interest rate swaps	12,750,000	-	(379,877)	(379,877)
Total derivative assets / (liabilities)	**15,985,234**	**58,241**	**(595,528)**	**(537,287)**

		Fair values		
Group **31 December 2013**	**Notional amount €'000**	**Assets €'000**	**Liabilities €'000**	**Net €'000**
(a) Derivatives at fair value through profit or loss				
Derivative financial instruments acquired from borrowers	2,408,710	107,301	-	107,301
Other derivative financial instruments	454,843	13,334	(29,105)	(15,771)
Foreign currency derivatives	5,637,327	18,162	(104,162)	(86,000)
(b) Derivative financial instruments designated in hedge relationships				
Interest rate swaps	23,030,000	21,572	(466,517)	(444,945)
Total derivative assets / (liabilities)	**31,530,880**	**160,369**	**(599,784)**	**(439,415)**

Movement recognised in the income statement and other comprehensive income

The table below shows the net fair value position on derivatives at 31 December 2014 and 2013. The movement is recognised either in the income statement on derivatives where hedge accounting is not applied, Note 8, in unrealised foreign exchange losses on derivative financial instruments, Note 11, or in other comprehensive income where hedge accounting is applied, Note 35.

Group	*Note*	**Fair values** **2014 €'000**	**2013 €'000**	**Movement 2014 €'000**
(a) Derivatives at fair value through profit or loss				
Derivative financial instruments acquired from borrowers	*8*	39,123	107,301	(68,178)
Other derivative financial instruments	*8*	(6,039)	(15,771)	9,732
Foreign currency derivatives	*11*	(190,494)	(86,000)	(104,494)
(b) Derivative financial instruments designated in hedge relationships				
Interest rate swaps	*35*	(379,877)	(444,945)	65,068
Net derivative fair value movement		**(537,287)**	**(439,415)**	**(97,872)**

(a) Derivative financial instruments at fair value through profit or loss

The fair value of derivatives acquired from borrowers (that were associated with loans acquired) at year end was €39m (2013: €107m). The fair value movement recognised in the income statement on these derivatives in the year was a net loss of €1m (2013: €90m) (see Note 8), comprising a loss of €68m (2013: €215m) and an amount received of €67m (2013: €125m) in respect of termination fees on acquired borrower derivatives, which have been recognised as a fair value gain in the income statement.

The fair value movement recognised in the income statement in the year on other derivative financial instruments was a net loss of €150m (2013: net gain of €30m) (see Note 8). This relates to fair value movements on derivatives entered into by the Group to hedge derivative financial instruments acquired from borrowers that were not designated into hedge relationships and termination fees incurred on the early termination of interest rate swaps that were previously designated into hedge relationships.

Of the net loss of €150m (2013: net gain of €30m), €147m (2013: €nil) relates to termination fees paid on interest rate swaps in NAMA and NARL (in Voluntary Liquidation) previously designated into hedge relationships. The remaining amount comprises a fair value gain of €9.7m (2013: €122m) on other derivatives and termination fees paid of €12.5m (2013: €92m) on borrower derivative hedges.

NAMA uses currency derivatives to hedge the foreign exchange exposure which arose on the transfer of foreign currency loans from Participating Institutions with Euro denominated NAMA Securities. The foreign currency derivatives are used to reduce its exposure to exchange rate fluctuation arising on foreign denominated loans and receivables acquired.

(b) Derivative financial instruments designated in hedge relationships

At the reporting date, NAMA had entered into €12.8bn (2013: €23bn) of interest rate swaps to hedge its exposure to interest rate risk arising from Euribor floating rates.

At the reporting date, NAMA has in issue debt securities of €13.6bn (2013: €34.6bn) with a floating rate coupon based on 6 month Euribor (see Note 29). Financial instruments, priced at floating rate, are sensitive to interest rate fluctuations in Euribor rates, which in turn impacts on the amount of interest expense payable on debt securities in issue. These swaps allow NAMA to exchange floating cash flows for fixed cash flows, i.e. it pays fixed interest to the swap counterparties and receives floating interest, which in turn NAMA uses to pay floating interest to the holders of its debt securities in issue.

NOTES TO THE FINANCIAL STATEMENTS

18. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(b) Derivative financial instruments designated in hedge relationships (continued)

As market interest rates fluctuate up or down, this impacts on the value of the interest rate swaps. For example if Euribor rates decrease, and the swap is paying fixed cash flows at a rate higher than Euribor, then the value of that derivative declines because it is cheaper to borrow in the open market.

The value of the derivatives will fluctuate over the life of the derivative but these fluctuations are unrealised gains and losses and will ultimately mature with a nil value. The derivatives are entered into for risk management purposes and under IFRS are allowed to be designated into hedge relationships. Any gains or losses on derivatives in hedge relationships are not immediately recognised through profit or loss as the intention is to reduce volatility in the income statement. Therefore the gains and losses are recognised in other comprehensive income.

The Agency held no derivatives at the reporting date.

The table below represents a) the periods in which the actual cash flows are expected to occur and b) the period in which the hedged cash flows are expected to impact the income statement, excluding any hedge accounting adjustments that may be applied. The cash flows in a) differ from b) by the amount of interest already accrued and not yet paid in the year.

Group 31 December 2014	**0-6 months €'000**	**6 months - 1 year €'000**	**1-5 years €'000**	**More than 5 years €'000**	**2013 Total €'000**
a) Expected to occur	15,438	9,167	23,849	-	**48,454**
b) Expected to accrue	11,179	7,180	19,825	-	**38,184**

Group 31 December 2013	**0-6 months €'000**	**6 months - 1 year €'000**	**1-5 years €'000**	**More than 5 years €'000**	**2013 Total €'000**
a) Expected to occur	21,596	27,138	388,864	44,632	**482,230**
b) Expected to accrue	25,306	29,959	355,993	30,767	**442,025**

There is no cash flow hedging applied in the Agency.

19. LOANS AND RECEIVABLES

Group	*Note*	**2014 €'000**	**2013 €'000**
Loans and receivables carrying value before impairment		16,880,809	35,438,959
Less: provision for impairment charges on loans and receivables	*12*	(3,520,775)	(4,125,260)
Total loans and receivables		**13,360,034**	**31,313,699**

The above table reflects the carrying value of the loans acquired from the Participating Institutions, taking into account the amount the Group acquired the loans for, which was at a discount to the contractual amounts owed under the loan agreements, and loan movements since acquisition, less any additional impairment deemed to have occurred subsequent to acquisition.

The following table summarises the movement in loans and receivables for the reporting period.

Reconciliation of movement in loans and receivables

Group	*Note*	**2014 €'000**	**2013 €'000**
Loans acquired – opening balance			
– NAMA		23,723,370	26,039,684
– NARL	*19.1*	11,715,589	-
		35,438,959	26,039,684
New loans issued / acquired			
– NAMA	*19.2*	246,601	19,424
– NARL	*19.1*	-	12,928,345
Receipts from and payments to borrowers			
Non-disposal income	*19.3*	(808,756)	(792,230)
Proceeds from the sale of collateral as security against loans and receivables and other loan repayments	*19.4*	(4,221,417)	(3,146,290)
Proceeds from the sale of loans	*19.5*	(3,419,959)	(293,695)
Funds advanced to borrowers		644,950	664,952
Funds in the course of collection	*19.6*	19,827	(51,377)
Deferred consideration on sale of loans		-	(10,986)
Principal and interest payments on the NARL loan facility deed	*19.1*	(11,715,589)	(1,212,756)
Costs recoverable from borrowers	*19.7*	24,386	18,465
Total receipts from and payments to borrowers		**(19,476,558)**	**(4,823,917)**
Other loan movements			
Loan interest income earned - NAMA	*5*	844,984	1,058,032
Movement in overdraft accounts	*17,19.8*	(10,019)	(11,282)
Loss on disposal of loans	*9*	(278,377)	(29,386)
Surplus income	*9*	572,517	530,838
Foreign exchange gain/(loss) on loans and receivables	*11*	288,967	(193,043)
Impairment crystallised from disposals	*9,12,19.9*	(610,069)	(52,507)
Impairment crystallised from debt restructures	*12,19.10*	(131,787)	-
Other		(4,409)	(27,229)
Total other loan movements		**671,807**	**1,275,423**
Total loan movements		**(18,804,751)**	**(3,548,494)**
Loans and receivables pre impairment			
Loans and receivables - NAMA		16,880,809	23,723,370
Loan facility deed - NARL	*19.1*	-	11,715,589
Total loans and receivables pre impairment		**16,880,809**	**35,438,959**
Impairment of loans and receivables	*12*	(3,520,775)	(4,125,260)
Net loans and receivables after impairment		**13,360,034**	**31,313,699**

NOTES TO THE FINANCIAL STATEMENTS

19. LOANS AND RECEIVABLES (CONTINUED)

The net movement in the loan balance after impairment in the year is a decrease of €17.9bn (2013: increase of €8.5bn). The total cumulative impairment provision in respect of NAMA loans and receivables at 31 December 2014 is €3.5bn (2013: €4.1bn). There is no impairment on the NARL loan facility deed.

Pre-impairment loan movements occurring in the year are €18.8bn (2013: €3.5bn), which includes the repayment of the loan facility deed by joint Special Liquidators of €11.7bn (2013: €1.2bn), and €7.6bn (2013: €3.5bn) of cash receipts from debtors, generated from the sale of loans and properties and non-disposal income of €0.8bn (2013: €0.79bn).

Funds advanced to debtors for working and development capital was €0.6bn (2013: €0.7bn). Loan interest income of €0.8bn (2013: €1.1bn) was earned in the year. Further information on certain loan movements are provided below.

19.1 Loan facility deed - NARL

With the establishment of NARL (in Voluntary Liquidation) in 2013, NAMA acquired a loan facility deed and floating charge over certain IBRC assets which were used as collateral by IBRC as part of its funding arrangements with the Central Bank of Ireland. In 2014, NARL (in Voluntary Liquidation) received €11.7bn (2013: €1.4bn) of principal and interest repayments from the joint Special Liquidators of the loan facility deed. The loan was fully repaid on 21 October 2014.

19.2 New loans issued / acquired - NAMA

New loans issued / acquired – NAMA – includes loans of €234m acquired from two financial institutions in relation to an existing NAMA debtor connection. The acquisition of the additional loans provides NAMA with control over the associated debts of the secured asset.

19.3 Non-disposal income

Non-disposal income receipts in 2014 were €0.8bn (2013: €0.8bn). This amount comprises primarily rental income received during the year.

19.4 Proceeds from the sale of collateral as security against loans and receivables and other loan repayments

Proceeds from the sale of collateral as security against loans and receivables of €4.2bn (2013: €3.2bn) represents any receipts relating to the disposal of assets or as a reduction in the debt held by NAMA.

19.5 Proceeds from the sale of loans

Proceeds from the sale of loans of €3.4bn (2013: €0.3bn) represents any receipts relating to the disposal of loans and receivables by the Group.

19.6 Funds in the course of collection

Funds in the course of collection comprise transactions which clear bank accounts after the reporting date but which relate to transactions occurring within the reporting period.

19.7 Costs recoverable from borrowers

Costs recoverable from Borrowers are costs incurred by NAMA which are recoverable from the debtor and added to the carrying value of loans and receivables.

19.8 Overdraft accounts

Participating Institutions continue to fund debtor overdraft accounts and collect cash repayments on these accounts on NAMA's behalf. During the year, the net amount due to NAMA in respect of unsettled overdrafts increased by €10m (2013: €11m). The movement is recognised as a decrease in loans and receivables.

19.9 Impairment crystallised from disposals

Impairment is crystallised on the sale of loans and assets when an existing impairment provision had previously been recognised.

19.10 Impairment crystallised from debt restructures

Impairment crystallisations from debt restructures occur when, on the agreement of a debt restructure, impairment previously recognised on the loans affected are crystallised. The majority of the impairment crystallised from debt restructure relates to the court-approved restructure of a NAMA debtor.

20. INVENTORIES – TRADING PROPERTIES

Group	2014 €'000	2013 €'000
Social housing units	29,050	7,163
Other	8,901	31,761
Total trading properties	**37,951**	**38,924**

Trading properties are recognised in accordance with accounting policy 2.16.

The movement in carrying values relate to the following activity by the Group in 2014:

- acquisition of an additional 192 social housing units as part of the social housing initiative;
- acquisition of lands in settlement of debt and lands considered to be of strategic importance to the Group in terms of ongoing development strategies;
- disposal of lands in the Dublin docklands to a qualifying investor alternative investment fund (QIAIF) in return for an equity interest in the fund. Please see Note 26 for further information;
- disposal of lands in the US that were acquired in 2013 in settlement of debt;
- disposal of minor non real estate assets previously acquired in settlement of debt.

21. RISK MANAGEMENT

The Group is subject to a variety of risks and uncertainties in the normal course of its business activities. The principal business risks and uncertainties include general macro-economic conditions. The precise impact or probability of these risks cannot be predicted with certainty and many of them lie outside the Group's control. The Board has ultimate responsibility for the governance of all risk taking activity and has established a framework to manage risk throughout the Group.

In addition to general risks mentioned above, specific risks arise from the use of financial instruments. The principal risk categories identified and managed by the Group in its day-to-day business are credit risk, liquidity and funding risk, market risk and operational risk.

Asset and liability management

The management of NAMA's assets and liabilities is achieved through the implementation of strategies which have been approved by the Board. Day-to-day management is carried out by the NAMA Treasury team with transactions executed on NAMA's behalf by the NTMA.

As a result of acquiring loans and derivatives, NAMA is exposed to currency and interest rate risks. Foreign currency risk arises at the point of loan acquisition when euro-denominated securities are issued as consideration for loan assets in GBP or other currencies, thereby creating an asset/liability currency mismatch for NAMA. NAMA also faces ongoing currency risks after loan acquisition as non-euro facilities are drawn, repaid or rescheduled and assets are disposed. NAMA is also exposed to interest rate risk on acquired loans and derivatives. The current and expected performance of a loan or derivative is a key driver in the assessment of the interest rate risk to be managed.

NOTES TO THE FINANCIAL STATEMENTS

21. RISK MANAGEMENT (CONTINUED)

Asset and liability management (continued)

The Risk Management Committee and the Board have adopted a prudential liquidity policy which incorporates ongoing liquidity stress-testing and the maintenance of a minimum liquidity buffer or cash reserve. This buffer is kept under review in line with overall asset and liability management strategy.

Risk Oversight and Governance

Risk Management Committee

The Risk Management Committee, a subcommittee of the Board, oversees risk management and compliance throughout the Group. It reviews, on behalf of the Board, the key risks inherent in the business and ensures that an adequate risk management framework is in place to manage the Group's risk profile and its material exposures.

Audit Committee

The Audit Committee seeks to ensure compliance with financial reporting requirements. It reports to the Board on the effectiveness of control processes operating throughout the Group. It reports on the independence and integrity of the external and internal audit processes, the effectiveness of NAMA's internal control system, the processes in place for monitoring the compliance of the loan service providers with their contractual obligations to NAMA and compliance with relevant legal, regulatory and taxation requirements by NAMA.

Credit Committee

The Credit Committee is responsible for making credit decisions within its delegated authority from the Board. These include inter alia the approval of debtor asset management / debt reduction strategies, advancement of new money, approval of asset / loan disposals, the setting and approval of repayment terms, property management decisions and decisions to take enforcement action where necessary. The Credit Committee also makes recommendations to the Board in relation to specific credit requests where authority rests with the Board and provides an oversight role in terms of key credit decisions made below the delegated authority level of the Credit Committee. It is also responsible for evaluating the overall credit framework and sectoral policies for ultimate Board approval. Finally, the Credit Committee reviews management information prepared by the Asset Recovery, Asset Management and CFO functions in respect of the NAMA portfolio.

Audit and Risk – Chief Financial Officer (CFO) Division

The Audit and Risk unit is part of the CFO division of NAMA and is responsible for the co-ordination and monitoring of internal and external audit and risk. The unit supports the NAMA CFO to ensure that NAMA operates within the Board approved risk limits and tolerances. Audit and Risk is also responsible for the design and implementation of the NAMA Risk Management Framework. The unit provides an independent assessment and challenge of the adequacy of the control environment, it coordinates the internal and external audit activities across NAMA, Participating Institutions and Primary and Master Servicer and monitors and reports to the Audit Committee and Board the progress in addressing actions highlighted in audit findings.

Treasury – CFO Division

The Treasury unit has primary responsibility for managing market risk, liquidity and funding risk. Credit risk is dealt with in detail in Note 22.

NTMA Risk unit

The NTMA Risk unit provides market risk support to the Group. Furthermore the management of the Group's counterparty credit risk on market related transactions (derivatives and cash deposits), in line with the Board's policy, has also been delegated to the NTMA.

21.1 Market risk

Market risk is the risk of a potential loss in the income or net worth of the Group arising from changes in interest rates, exchange rates or other market prices.

Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements, and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and foreign exchange rates. The Group is exposed to market risk on its loans and receivables, senior debt and derivative positions. While the Group has in place a comprehensive set of risk management procedures to mitigate and control the impact of movements in interest rates, foreign exchange rates and other market risks to which it is exposed, it is difficult to predict accurately changes in economic or market conditions or to anticipate the precise effects that such changes could have on the Group.

The Group's senior debt securities are denominated in euro, while certain of the Group's acquired assets are denominated in GBP. As a consequence, the Group has made use of foreign currency derivatives to manage the currency profile of its assets and liabilities. Similarly, interest rate swaps are used to manage mismatches in the Group's interest rate profile.

21.2 Market risk management

Objective

The Group has in place effective systems and methodologies for the identification and measurement of market risks in its statement of financial position. These risks are then managed within strict limits and in the context of a conservative risk appetite that is consistent with the NAMA legislation.

Policies

The management of market risk within the Group is governed by market risk policies approved by the Risk Management Committee and the Board. The Board approves overall market risk tolerance and delegates the lower level limit setting to the Risk Management Committee. The management of the Group's key market risks (such as interest rate and foreign exchange risk) is centralised within the Group's Treasury unit. NAMA's Audit and Risk unit provides oversight and is responsible for the monitoring of the limit framework within the context of limits approved by the Risk Management Committee and Board. Market risk support is provided by the NTMA Risk unit.

Risk mitigation

Risk mitigation involves the matching of asset and liability risk positions to the maximum extent practicable, and the use of derivatives to manage cash flow timing mismatch and interest rate sensitivity within the approved limit structure. The Group's Balance Sheet policies are designed to ensure a rigorous system of control is in place which includes prescribing a specific range of approved products and limits that cover all of the risk sensitivities associated with approved products.

The Group provides bi-monthly reporting to the Risk Management Committee with detailed analysis of all significant risk positions and compliance with risk limits. In addition to market risk position limits, stress testing is used to gauge the impact on the Group's position of a range of extreme market scenarios. Scenario based stress tests and long run historic simulations (going back to the 1990s) on current positions are used to assess and manage market risk.

The Risk Management Committee reviews, approves and makes recommendations concerning the market risk profile and limits across the Group. In addition, a Market Risk Management Group, comprising senior managers from the NAMA CFO Division and the NTMA Risk unit meets regularly to review the market risk position and ensure compliance with the decisions of the Board and the Risk Management Committee. The weekly report produced by the NTMA Risk unit includes detailed analysis of all significant risk positions and compliance with risk limits.

NOTES TO THE FINANCIAL STATEMENTS

21. RISK MANAGEMENT (CONTINUED)

21.3 Market risk measurement

21.3.1 Interest rate risk

The Group is exposed to interest rate risk through movements in interest rates to which it is exposed. Effective systems have been put in place to mitigate such exposure.

The Group acquired fixed and variable rate loans from the Participating Institutions, as well as derivatives that were used to convert (for debtors) variable rate loans to fixed rate loans. In addition, the Group has issued floating rate senior debt securities and has entered into derivative transactions to manage mismatches in its asset and liability profile. The Group employs risk sensitivities, risk factor stress testing and scenario analysis to monitor and manage interest rate risk. Risk sensitivities are calculated by measuring an upward parallel shift in the yield curve to assess the impact of interest rate movements.

Information provided by the sensitivity analysis does not necessarily represent the actual change in fair value that the Group would incur under normal market conditions because, due to practical limitations, all variables other than the specific market risk factors are held constant.

The following tables summarise the Group's and the Agency's time-bucketed (defined by the earlier of contractual re-pricing or maturity date) exposure to interest rate re-set risk. It sets out, by time bucket, the assets and liabilities which face interest rate re-setting.

Financial instruments are shown at nominal amounts. These tables take account of hedging instruments which have the effect of significantly reducing interest rate sensitivity.

Interest rate risk Group 2014	**0-6 months €'000**	**Greater than 6 months €'000**	**Non- interest bearing €'000**	**Total €'000**
Financial assets				
Cash and cash equivalents	1,158,692	-	-	1,158,692
Cash placed as collateral with the NTMA	690,000	-	-	690,000
Loans and receivables	13,360,034	-	-	13,360,034
Amounts due from Participating Institutions	-	-	84,810	84,810
Investments in equity instruments	-	-	36,181	36,181
Other assets	-	-	12,164	12,164
Total financial assets exposed to interest rate re-set	**15,208,726**	**-**	**133,155**	**15,341,881**
Liabilities				
Amounts due to Participating Institutions	-	-	20,428	**20,428**
Senior debt securities in issue	13,590,000	-	-	**13,590,000**
Derivative financial instruments	(11,500,000)	(1,250,000)	-	**(12,750,000)**
Other liabilities	-	-	126,114	**126,114**
Tax payable	-	-	1,769	**1,769**
Total financial liabilities exposed to interest rate re-set	**2,090,000**	**(1,250,000)**	**148,311**	**988,311**

Interest rate risk Group 2013	0-6 months €'000	Greater than 6 months €'000	Non- interest bearing €'000	Total €'000
Financial assets				
Cash and cash equivalents	3,453,236	-	-	**3,453,236**
Cash placed as collateral with the NTMA	802,000	-	-	**802,000**
Financial assets available for sale	145,138	-	-	**145,138**
Loans and receivables	31,313,699	-	-	**31,313,699**
Amounts due from Participating Institutions	-	-	78,447	**78,447**
Investments in equity instruments	-	-	6,373	**6,373**
Other assets	-	-	23,755	**23,755**
Total financial assets exposed to interest rate re-set	**35,714,073**	**-**	**108,575**	**35,822,648**
Liabilities				
Amounts due to Participating Institutions	24,676	-	-	**24,676**
Senior debt securities in issue	34,618,000	-	-	**34,618,000**
Derivative financial instruments	(14,350,000)	(8,680,000)	-	**(23,030,000)**
Other liabilities	-	-	172,594	**172,594**
Tax payable	-	-	407	**407**
Total financial liabilities exposed to interest rate re-set	**20,292,676**	**(8,680,000)**	**173,001**	**11,785,677**

NOTES TO THE FINANCIAL STATEMENTS

21. RISK MANAGEMENT (CONTINUED)

21.3 Market risk measurement (continued)

21.3.1 Interest rate risk (continued)

Interest rate risk Agency 2014	0-6 months €'000	Non- interest bearing €'000	Total €'000
Financial assets			
Cash and cash equivalents	101	-	**101**
Other assets	-	168,161	**168,161**
Total financial assets exposed to interest rate re-set	**101**	**168,161**	**168,262**
Liabilities			
Interest bearing loans and borrowings	53,699	-	**53,699**
Other liabilities	-	3,892	**3,892**
Total financial liabilities exposed to interest rate re-set	**53,699**	**3,892**	**57,591**

Interest rate risk Agency 2013	0-6 months €'000	Non- interest bearing €'000	Total €'000
Financial assets			
Cash and cash equivalents	1,152	-	**1,152**
Other assets	-	5,961	**5,961**
Total financial assets exposed to interest rate re-set	**1,152**	**5,961**	**7,113**
Liabilities			
Interest bearing loans and borrowings	53,513	-	**53,513**
Other liabilities	-	7,178	**7,178**
Total financial liabilities exposed to interest rate re-set	**53,513**	**7,178**	**60,691**

Interest rate risk sensitivity

The following table represents the interest rate sensitivity arising from a 50 basis point (bp) increase or decrease in interest rates across the curve, subject to a minimum interest rate of 0%. This risk is measured as the net present value impact, on the statement of financial position, of that change in interest rates. This analysis shifts all interest rates for each currency and each maturity simultaneously by the same amount.

The interest rates for each currency are set as at 31 December 2014. The figures take account of the effect of hedging instruments, loans and receivables and securities issued.

Interest rate sensitivity analysis – a 50bp move across the interest rate curve

	2014		2013	
Group	**+50bp €'000**	**-50bp €'000**	**+50bp €'000**	**-50bp €'000**
EUR	82,994	(84,382)	217,934	(223,403)
GBP	3,220	(3,236)	(1,218)	1,623
USD	(24)	24	(146)	146
Other	(102)	102	(104)	104

21.3.2 Foreign exchange risk

As part of the acquisition of loans and derivatives from the Participating Institutions, the Group acquired a number of loans and receivables denominated in foreign currency, principally in GBP. As a result, the Group is exposed to the effects of fluctuations in foreign currency exchange rates, on its financial position and cash flows. The Group monitors on a regular basis the level of exposure by currency and has entered into hedges to mitigate these risks.

The following table summarises the Group's exposure to foreign currency risk at 31 December 2014. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency. These tables take account of hedging instruments which have the effect of significantly reducing currency risk.

Group 2014	USD €'000	GBP €'000	Other €'000	Total €'000
Assets				
Cash and cash equivalents	8,047	193,868	958	**202,873**
Loans and receivables	23,818	2,688,466	97,862	**2,810,146**
Derivative financial instruments	(30,887)	(2,906,103)	(96,217)	**(3,033,207)**
Total assets exposed to currency risk	**978**	**(23,769)**	**2,603**	**(20,188)**

Group 2013	USD €'000	GBP €'000	Other €'000	Total €'000
Assets				
Cash and cash equivalents	9,288	45,590	2,937	**57,815**
Loans and receivables	138,265	5,655,355	99,422	**5,893,042**
Derivative financial instruments	(145,022)	(5,475,686)	(101,698)	**(5,722,406)**
Total assets exposed to currency risk	**2,531**	**225,259**	**661**	**228,451**

All the Agency's assets and liabilities are stated in euro. Therefore the Agency has no exposure to foreign currency risk.

Exposure to foreign exchange risk - sensitivity analysis

A 10% strengthening of the euro against the following currencies at 31 December 2014 would have increased equity and profit before taxation by the amounts set out below. This analysis assumes that all other variables, in particular interest rates, remain constant. A 10% weakening of the euro against the same currencies would have had the equal but opposite effect, on the basis that all other variables remain constant.

Group	2014 €'000	2013 €'000
GBP	2,161	(20,484)
USD	(89)	(226)
Other	(237)	(53)

21.3.3 Other price risk

The Group is exposed to equity price risk arising from equity instruments. The fair value of equity instruments is measured based on the net asset value of the investment entity at the reporting date.

Equity price sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 10% higher / lower, profit before taxation for the year ended 31 December 2014 would increase / decrease by €3.6m as a result of the changes in fair value of NAMA's equity instruments, which are classified as fair value through profit or loss, in accordance with accounting policy 2.6.

NOTES TO THE FINANCIAL STATEMENTS

22. CREDIT RISK

Credit risk is the risk of incurring financial loss, taking account of collateral pledged as security that would arise from the failure of a debtor or market counterparty of the Group to fulfill its contractual obligations to the Group. NAMA's main credit risk arises from the performance of its debtors, and related assets held as security.

The Group's debtor-related exposures arose in the first place from the acquisition of a substantial portfolio of property related loans, mostly in the commercial and residential property sector in Ireland and the UK, and to a lesser extent in Europe, the USA and the rest of the world. Credit risk also arises in relation to the Group's lending activities, which are undertaken in order to preserve or enhance value with the aim of achieving the maximum financial return for the State subject to acceptable risk. Financial instruments, such as undrawn loan commitments and guarantees, also create credit risk.

Credit risk is the most significant risk to the Group's business. The Group therefore carefully manages its exposure to credit risk. The credit risk arising from the original acquisition of the loan portfolio was mitigated by the completion of an intensive property and legal due diligence process. This was designed to ensure that loans were properly valued in accordance with the statutory scheme that provided for their acquisition by the Group. The credit risk arising from the Group's ongoing lending and credit risk management activities is mitigated by the Group's Asset Recovery/Asset Management Policy and Procedures Framework.

NAMA Asset Recovery

The Asset Recovery division, has three primary functions: strategy delivery, management of debtors/receivers and maximising cash flow while minimising loss.

Asset Recovery is the principal interface with debtors/insolvency practitioners responsible for managing the majority of debtors both directly by NAMA and indirectly through the Participating Institutions/Primary Servicer. This responsibility requires intensive daily management, with an innovative and solutions based approach, employing a range of work-out methods including: setting and actively monitoring clear strategies, targets and milestones; minimising debtor and insolvency practitioner costs; securing and maximising income; optimising sales values through proactive asset management; providing additional capital expenditure where incremental value can be obtained or value protected; employing vendor finance and executing loan sales and portfolio sales, where appropriate; regularly reviewing asset sale versus asset hold options, employing inter alia a discounted cash flow analysis.

Asset Recovery Policy and Procedures Framework

The overall objective of the Asset Recovery Policy and Procedures Framework is to safeguard the Group by protecting and enhancing the value of loans acquired.

Ultimate responsibility for the management of credit risk in the Group rests with the Board. Credit risk management and control is centralised in the Asset Recovery function. Credit risk is reported to the Board and Credit Committee on a regular basis and the Framework is subject to a formal annual review.

The Group is responsible for managing loans, which were acquired under the provisions of the NAMA Act. Loans acquired from Participating Institutions have been grouped together and managed by debtor connection.

Debtors fall into two categories:

NAMA managed debtors: In this category key credit decisions, and relationship management, is undertaken by the Group. Loan administration is carried out by Participating Institutions and the Primary Servicer.

Participating Institution / Primary Servicer managed debtors: In this category debtor management and loan administration is carried out by the Participating Institutions and the Primary Servicer. Credit decisions are taken by Participating Institutions and the Primary Servicer under a Delegated Authority and are subject to a Policy and Procedures Framework mandated by the Group, together with ongoing 'on the ground' involvement from the NAMA Participating Institutions/Primary Servicer Teams and oversight by the Group's Audit and Risk function. Capita, in its capacity as Master Servicer and Special and Primary Servicer, does not have delegated authority for credit decisions.

The Group is required to make various credit decisions, which may involve new lending, the restructuring of loans and receivables or the taking of enforcement action. Specifically, a credit decision can arise out of any event that could materially change the underlying risk profile of an exposure or debtor, including:

- An application for credit by a debtor;
- Approval of asset sales;
- A proposal by a debtor which may involve pragmatic/commercial compromises or incentives in order to maximise NAMA's overall position;
- An application for finance;
- A proposed debtor or insolvency practitioner strategy;
- A proposed extension or amendment of terms for any or all of a debtor's exposures;
- A proposal to initiate insolvency action;
- An action by a third party concerning a common debtor e.g. non participating institution.

Credit risk is measured, assessed and controlled for all transactions or credit events that arise from the Group's acquisition of loans, and from the ongoing management of those loans.

22.1 Credit risk measurement

The Group applies the following measures of exposure:

Loan portfolio - credit exposure measurement

- Par debt exposure - the gross amount owed by the debtor, i.e the total amounts due in accordance with the original contractual terms of acquired loans. The total Par debt acquired by the Group was €74bn. Total Par debt outstanding at the reporting date is €55.6bn.
- NAMA debt exposure - the acquisition amount paid by the Group (plus any new money lent by the Group and interest charge added, less cash payments received). The total consideration paid for loans and related derivatives acquired was €31.8bn. Total Gross NAMA debt outstanding at the reporting date is €16.9bn.

In accordance with Section 10 of the Act, NAMA is required to obtain the best achievable financial return for the State having regard to Par debt, acquisition cost, any costs as a result of dealing with the assets, its cost of capital and other costs. These are the fundamental measures upon which credit and case strategy decisions will be made. They are also the basis for determining the appropriate Delegated Authority level for credit decisions made by the Group, Participating Institutions or the Primary Servicer. NAMA monitors Par and NAMA debt exposure in parallel and uses them in support of all credit decisions.

Derivative portfolio - credit exposure measurement

In addition to the loans that were acquired by the Group, a number of derivative financial instruments were acquired which were attached to debtors' loans acquired from the Participating Institutions.

At any time, the Group's credit risk exposure is limited to the positive fair value of these derivative instruments (i.e. assets with a positive mark-to-market value). This mark-to-market value is usually only a small fraction of the contract value (or notional value of the outstanding instruments).

22.2 Credit risk assessment

Credit risk assessment focuses on debtor repayment capacity and all credit enhancements available, including security. Loans and advances to debtors are collateralised principally by charges over real estate assets, other assets, liens on cash deposits, and are supplemented in many cases by personal and corporate guarantees.

The Group relies initially on the valuations placed on existing security and recourse attached to loans acquired as part of the acquisition process. However the Group seeks to ensure that an appropriate, up-to-date, valuation of any additional forms of security or recourse are included in any debtor's new credit proposal. Existing security may also be revalued as part of that process.

NOTES TO THE FINANCIAL STATEMENTS

22. CREDIT RISK (CONTINUED)

22.2 Credit risk assessment (continued)

A key consideration in advancing funding is whether or not the debtor's or insolvency practitioner's credit proposal is value enhancing. In advancing additional debt or undertaking any new credit decision, the Group will seek to obtain additional security or recourse from the debtor or insolvency practitioner where it is necessary to protect its interests.

In determining additional or alternative forms of security or recourse, the Group may commission personal asset assessments of a debtor to identify any security or recourse that may be available to protect the Group's interests.

22.3 Credit risk control

Credit risk policy, as determined by the Group, applies to both NAMA managed, and Participating Institution/ Primary Servicer managed loans. The Group has defined an Asset Recovery/Asset Management Policies and Procedures Framework for the Group and for Participating Institutions and the Primary Servicer. This sets out authority levels for permitted credit decisions and credit limits, as well as credit risk monitoring and reporting to be carried out by the Group, Participating Institutions and the Primary Servicer.

The Asset Recovery/Asset Management Policy and Procedures Framework sets out the permitted decision making and credit limits, for example relating to:

- The approval of Debtor Business Plans and Strategic Credit Reviews;
- The approval of new lending;
- Loan restructuring or renegotiation where no additional debt is provided;
- Enforcement action being taken by the Group;
- Sales of assets / loans;
- Property and asset management requirements.

The level of approval required for each of these credit decisions is determined by reference to the size of the debtor's outstanding balance. Credit decisions are approved by one or more of the following within a cascading level of approved delegated authority:

- Asset Recovery/Asset Management Panel A or Panel B Delegated Authority Policy holders;
- Senior Divisional Manager Asset Recovery/ Asset Management;
- Head of (or Deputy Head of) Asset Recovery/ Head of Asset Management;
- CEO and Head of (or Deputy Head of) Asset Recovery/ Head of Asset Management ;
- Credit Committee;
- Board.

All credit decisions relating to Participating Institution managed loans, within Group approved limits, are required to be approved by the Participating Institution Credit Committee and/or Head/Deputy Head/Senior Manager of Credit in the NAMA unit of the Participating Institution. All credit decisions relating to the Primary Servicer managed loans are required to be approved by the relevant delegated authority within the Group.

Oversight of the compliance with the Delegated Authority Policy is performed by the Quality Assurance Team, and by the Internal Audit function.

Specific control and mitigation measures adopted by the Group are outlined below:

(a) Cash Management

Management of cash within a debtor connection is a key control with the aim of ensuring that overheads, working capital or development capital expenditure payments are appropriate and verified so that potential cash leakage is eliminated. The full visibility of all rental/trading income is also required.

(b) Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of first fixed charge security for any working or development capital advanced.

The principal collateral types acceptable for credit risk mitigation of loans and receivables are:

- Mortgages over various land and properties;
- Floating charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities;
- Charges over bank deposits.

(c) Derivatives

The security for derivatives acquired is from the collateral acquired with the loan, and is reflected in the loan acquisition price paid. The Group also transacts derivatives with the NTMA to hedge interest rate and foreign currency exposures.

The credit exposure of derivatives acquired, together with potential exposures arising from market movements, is managed as part of the overall debtors exposure management.

With respect to derivatives entered into by the Group, the sole counterparty is the NTMA and the counterparty risk is covered by a Collateral Posting Agreement.

22.4 Maximum exposure to credit risk - before collateral held or other credit enhancements

The table below sets out the maximum exposure to credit risk for financial assets with credit risk (net of impairment) at 31 December 2014, taking no account of collateral or other credit enhancements held. Exposures are based on the net carrying amounts as reported in the Group's Statement of financial position.

Group	*Note*	**Maximum exposure 2014 €'000**	**Maximum exposure 2013 €'000**
Cash and cash equivalents		1,158,692	3,453,236
Cash placed as collateral with the NTMA		690,000	802,000
Financial assets available for sale		-	145,138
Amounts due from Participating Institutions		84,810	78,447
Derivative financial instruments		58,241	160,369
Loans and receivables - NAMA			
Land and development		5,290,320	5,943,029
Investment property		11,590,489	17,780,341
Impairment		(3,520,775)	(4,125,260)
Loans and receivables (net of impairment) – NAMA		13,360,034	19,598,110
Loan facility deed – NARL		-	11,715,589
Other assets		12,164	23,755
Investments in equity instruments		36,181	6,373
Total assets		**15,400,122**	**35,983,017**
Loan commitments	*23.4*	660,303	765,320
Total maximum exposure		**16,060,425**	**36,748,337**

NOTES TO THE FINANCIAL STATEMENTS

22. CREDIT RISK (CONTINUED)

22.4 Maximum exposure to credit risk - before collateral held or other credit enhancements (continued)

Agency	Maximum exposure 2014 €'000	Maximum exposure 2013 €'000
Cash	101	1,152
Investments in equity instruments	49,000	49,000
Other assets	168,161	5,961
Total maximum exposure	**217,262**	**56,113**

22.5 Information regarding the credit quality of loans and receivables

(a) Loans and receivables neither past due nor impaired

The Group has implemented a grading policy to provide a risk profile of NAMA's portfolio which applies to all debtors. NAMA's credit grade scale seeks to assign a measure of the risk to the recovery of a financial asset and is based on two dimensions with nine possible grades expressed as a combination of a number and letter 1A, 3B etc.

- The first dimension (scale 1, 2, 3) measures the quality of the underlying assets acquired and the expectation for debt recovery relative to the NAMA debt. This first dimension ranges from instances where recovery is expected to exceed the NAMA debt to situations where a shortfall on NAMA debt is anticipated and an impairment provision has been marked against the exposure.
- The second dimension (scale A, B, C) rates the level of debtor performance and cooperation by measuring the achievement of financial and non-financial milestones that have been agreed through the debtor engagement process.

The 9 possible grade outcomes can be summarised into the following categories:

- Satisfactory: Capacity to meet financial commitments and low likelihood of expected loss.
- Watch: Requires closer monitoring but demonstrates capacity to meet financial commitments.
- Impaired: Exposures require varying degrees of close attention and active portfolio management and loss expectations is a concern.

The distribution of grades for loans and receivables and debtors neither past due nor impaired

	2014 €'000	2013 €'000
Satisfactory	5,130,393	3,216,972
Satisfactory (loan facility deed – NARL)	-	11,715,589
Watch	866,163	968,991
Loans and receivables neither past due nor impaired	**5,996,556**	**15,901,552**

All the assets of the Agency are inter-group assets and are current.

(b) Loans and receivables past due not impaired

The disclosure required by paragraph 37(a) of IFRS 7 regarding the aged analysis of loans and receivables that are 'past due but not impaired' is not being provided. Current ageing analysis is based on the original contractual terms of loans acquired from Participating Institutions, and is not reflective of loan performance compared to loan acquisition value.

All of the Agency's receivables are due from related entities and are current. None are past due or impaired.

(c) Loans and receivables individually assessed for impairment

Loans and associated derivatives which were determined to be impaired as a result of the individual impairment review had a carrying value of €10.6bn (2013: €15.8bn) (see following table).

The Group has availed of the exemption under IFRS 7 not to disclose the fair value of collateral held as security against the loans, as it would be impractical to do so.

Loans and receivables individually assessed for impairment

	2014 €'000	2013 €'000
Gross loans and associated derivatives	16,220,078	19,593,708
Individually impaired loans and associated derivatives	(10,581,233)	(15,789,439)
Loans and associated derivatives not individually impaired	**5,638,845**	**3,804,269**

Vendor finance arrangements were initiated subsequent to the initial transfer of loans and derivatives from covered institutions. These are assessed for indicators of impairment semi-annually in accordance with the impairment accounting policy 2.12. To date, no indicators of impairment for vendor finance connections have been identified and as such, they are not included in the individually assessed debtors category above. Vendor finance debtors had an outstanding loans and receivables balance of €358m at the reporting date.

None of the assets exposed to credit risk in the Agency are individually impaired.

(d) Loans and advances renegotiated

Certain loans are being renegotiated and restructured through the debtor engagement process.

Restructuring activities may include extended payment arrangements, modification and/or deferral of payments. Restructuring polices are set out in the NAMA Pricing and Restructuring Policy included in the Asset Recovery/ Asset Management Policy and Procedures Framework. Each loan is restructured based on the most appropriate strategy to achieve repayment of all outstanding debt obligations, taking into account structures, guarantees, tax issues and sales strategies. The details of each proposed restructuring plan including any deviations from policy are reviewed and approved by the Delegated Authority/Credit Committee and, where relevant, the Board.

The restructuring of debtors in 2014 involved in the majority of cases the restructuring of loans into a reduced number of interest bearing facilities for easier engagement and debtor management. The total carrying value of loans subject to restructure of this nature in 2014 was €0.1bn (2013: €1.5bn).

None of the assets exposed to credit risk of the Agency were renegotiated in the period.

NOTES TO THE FINANCIAL STATEMENTS

22. CREDIT RISK (CONTINUED)

22.6 Geographical sectors

The following table analyses the Group's main credit exposures at their carrying amounts, based on the location of the collateral securing loans and receivables.

Geographical sector 2014 Group	Ireland excluding Northern Ireland €'000	UK including Northern Ireland €'000	Rest of World €'000	Loan impairment €'000	Total €'000
Loans and receivables					
– Land and development	3,690,497	1,334,763	265,060	-	**5,290,320**
– Investment property	8,917,666	1,777,539	895,284	-	**11,590,489**
Impairment of loans and receivables	-	-	-	(3,520,775)	**(3,520,775)**
Total loans and receivables	**12,608,163**	**3,112,302**	**1,160,344**	**(3,520,775)**	**13,360,034**
Cash and cash equivalents	1,158,692	-	-	-	**1,158,692**
Cash placed as collateral with the NTMA	690,000	-	-	-	**690,000**
Derivative financial instruments	32,642	24,275	1,324	-	**58,241**
Amounts due from Participating Institutions	84,810	-	-	-	**84,810**
Deferred tax asset	132,364	-	-	-	**132,364**
Inventories – trading properties	36,021	-	1,930	-	**37,951**
Other assets	12,164	-	-	-	**12,164**
Investments in equity instruments	28,735	-	7,446	-	**36,181**
Property, plant and equipment	1,935	-	-	-	**1,935**
Total assets	**14,785,527**	**3,136,577**	**1,171,044**	**(3,520,775)**	**15,572,372**

Geographical sector 2013 Group	Ireland excluding Northern Ireland €'000	UK including Northern Ireland €'000	Rest of World €'000	Loan impairment €'000	Total €'000
Loans and receivables					
– NAMA Land and development	4,128,097	1,365,778	449,154	-	**5,943,029**
– Investment property – NAMA	11,715,736	4,588,883	1,475,722	-	**17,780,341**
– Loan facility deed – NARL	11,715,589	-	-	-	**11,715,589**
Impairment of loans and receivables	-	-	-	(4,125,260)	**(4,125,260)**
Total loans and receivables	**27,559,422**	**5,954,661**	**1,924,876**	**(4,125,260)**	**31,313,699**
Cash and cash equivalents	3,453,236	-	-	-	**3,453,236**
Cash placed as collateral with the NTMA	802,000	-	-	-	**802,000**
Financial assets available for sale	145,138	-	-	-	**145,138**
Derivative financial instruments	85,611	72,936	1,822	-	**160,369**
Amounts due from Participating Institutions	78,447	-	-	-	**78,447**
Deferred tax asset	202,387	-	-	-	**202,387**
Inventories – trading properties	38,924	-	-	-	**38,924**
Other assets	23,755				**23,755**
Investments in equity instruments	6,373	-	-	-	**6,373**
Property, plant and equipment	1,071	-	-	-	**1,071**
Total assets	**32,396,364**	**6,027,597**	**1,926,698**	**(4,125,260)**	**36,225,399**

The Agency statement of financial position, comprises inter-group assets in respect of the reimbursement of administration expenses from the Group, therefore all of the assets exposed to credit risk in the Agency are located in Ireland.

23. LIQUIDITY RISK

Liquidity risk is the risk that the Group is unable to meet all of its financial obligations as and when they fall due. Liquidity risk arises from differences in timing between cash inflows and outflows.

23.1 Liquidity risk management process

The Group's liquidity risk management process as carried out within the Group and monitored by a separate team in NAMA Treasury includes:

- Management of NAMA's day-to-day liquidity and funding requirements so as to ensure that it will meet all obligations as they fall due: these include future lending commitments, interest on liabilities, collateral posting, day-to-day operating costs, fees and expenses.
- Asset and Liability management; by monitoring the maturity profile within the Group's statement of financial position to ensure that sufficient cash resources are retained and or funding established where mismatches are likely to occur, thereby minimising the impact of liquidity outflows.

NOTES TO THE FINANCIAL STATEMENTS

23. LIQUIDITY RISK (CONTINUED)

23.1 Liquidity risk management process (continued)

Monitoring and reporting takes the form of cash flow measurement and projections for periods of one week to one year with the planning process covering periods beyond one year. The NTMA Risk unit independently produces liquidity forecasts that are provided bi-monthly to the Risk Management Committee and Board. All projections include a 'stressed' forecast to cater for prolonged periods of uncertainty. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected repayment date of the financial assets.

The key liquidity risk for the Group is the funding of the senior debt securities (securities) issued by NAMA as consideration for 95% of the value of acquired assets. The securities in issue permit the issuer (where the issuer has not received a Holder Physical Delivery Rejection Notice) to physically settle all, or some only, of the securities at maturity by issuing a new security on the same terms as the existing security (other than as to maturity which may be up to 364 days from the date of issue, notwithstanding that the existing security may have had a shorter maturity).

In May 2011, the Board, on receipt of a direction, issued under Section 14 of the Act, from the Minister, resolved to remove the extendible maturity option from the NAMA senior debt securities (see Note 29).

All of the securities which matured on 2 March 2015 were physically settled by issuing new securities with a maturity of 1 March 2016.

23.2 Non-derivative cash flows

The following table presents the cash flows payable by the Group and the Agency on foot of its non-derivative financial liabilities by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative cash flows Group 31 December 2014	**0-6 months €'000**	**6-12 months €'000**	**Total €'000**
Liabilities			
Amounts due to Participating Institutions	20,428	-	20,428
Senior debt securities in issue (including interest)	13,602,196	-	13,602,196
Other liabilities	30,851	-	30,851
Total liabilities	**13,653,475**	**-**	**13,653,475**
Assets held for managing liquidity risk	**1,848,692**	**-**	**1,848,692**

Non-derivative cash flows Group 31 December 2013	**0-6 months €'000**	**6-12 months €'000**	**Total €'000**
Liabilities			
Amounts due to Participating Institutions	24,676	-	24,676
Senior debt securities in issue (including interest)	34,659,277	-	34,659,277
Other liabilities	44,047	-	44,047
Total liabilities	**34,728,000**	**-**	**34,728,000**
Assets held for managing liquidity risk	**4,400,374**	**-**	**4,400,374**

Non-derivative cash flows Agency 31 December 2014	**0-6 months €'000**	**6-12 months €'000**	**Total €'000**
Liabilities			
Interest bearing loans and borrowings	53,699	-	53,699
Other liabilities	3,892	-	3,892
Total liabilities	**57,591**	**-**	**57,591**

Non-derivative cash flows Agency 31 December 2013	**0-6 months €'000**	**6-12 months €'000**	**Total €'000**
Liabilities			
Interest bearing loans and borrowings	53,513	-	53,513
Other liabilities	7,178	-	7,178
Total liabilities	**60,691**	**-**	**60,691**

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash and cash equivalents, collateral and term deposits.

23.3 Derivative cash flows

(a) Derivatives settled on a net basis

The Group's derivatives that will be settled on a net basis include interest rate derivatives:

- interest rate swaps,
- forward rate agreements,
- over the counter (OTC) interest rate options,
- other interest rate contracts.

The following table analyses the Group's derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group 31 December 2014	**0-6 months €'000**	**6 -12 months €'000**	**1-5 years €'000**	**Over 5 years €'000**	**Total €'000**
Interest rate derivatives – where hedge accounting does not apply	958	2,687	8,256	7,103	19,004
Interest rate derivatives – where hedge accounting is applied	3,013	(234,623)	(230,735)	-	(462,345)
Total	**3,971**	**(231,936)**	**(222,479)**	**7,103**	**(443,341)**

Group 31 December 2013	**0-6 months €'000**	**6 -12 months €'000**	**1-5 years €'000**	**Over 5 years €'000**	**Total €'000**
Interest rate derivatives – where hedge accounting does not apply	8,695	9,096	33,080	11,899	62,770
Interest rate derivatives – where hedge accounting is applied	3,909	(218,980)	(327,725)	10,305	(532,491)
Total	**12,604**	**(209,884)**	**(294,645)**	**22,204**	**(469,721)**

NOTES TO THE FINANCIAL STATEMENTS

23. LIQUIDITY RISK (CONTINUED)

(b) Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis include:

- Foreign exchange derivatives: currency forwards, currency swaps; and
- Cross currency interest rate swaps.

The following table analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group 31 December 2014	0-6 months €'000	6 -12 months €'000	1-5 years €'000	Total €'000
Foreign exchange derivatives:				
– Outflow	(448,070)	-	-	(448,070)
– Inflow	440,743	-	-	440,743
Cross-currency interest rate derivatives:				
– Outflow	(1,013,566)	(792,298)	(796,175)	(2,602,039)
– Inflow	936,276	730,587	732,788	2,399,651
Total outflow	**(84,617)**	**(61,711)**	**(63,387)**	**(209,715)**

Group 31 December 2013	0-6 months €'000	6 -12 months €'000	1-5 years €'000	Total €'000
Foreign exchange derivatives:				
– Outflow	(660,538)	-	-	(660,538)
– Inflow	659,407	-	-	659,407
Cross-currency interest rate derivatives:				
– Outflow	(786,546)	(505,571)	(3,896,306)	(5,188,423)
– Inflow	733,723	497,477	3,812,325	5,043,525
Total outflow	**(53,954)**	**(8,094)**	**(83,981)**	**(146,029)**

23.4 Loan commitments

The dates of the contractual amounts of the Group's financial instruments that commit it to extend credit to customers and other credit facilities, are summarised in the following table. This amount includes commitments already in existence at acquisition of the loans and further commitments given since transfer of loan assets to the Group.

Group 31 December 2014	No later than 1 year €'000	1-5 years €'000	Over 5 years €'000	Total €'000
Commitments to lend	152,044	490,529	16,862	659,435
Overdrafts	868	-	-	868
Total	**152,912**	**490,529**	**16,862**	**660,303**

Group 31 December 2013	No later than 1 year €'000	1-5 years €'000	Over 5 years €'000	Total €'000
Commitments to lend	262,616	476,611	17,424	756,651
Overdrafts	8,669	-	-	8,669
Total	**271,285**	**476,611**	**17,424**	**765,320**

The Agency has no loan commitments.

24. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

(a) Comparison of carrying value to fair value

The table below summarises the carrying amounts and fair values of financial assets and liabilities presented In the Group and Agency's statement of financial position.

Group	2014 Carrying value €'000	2014 Fair value €'000	2013 Carrying value €'000	2013 Fair value €'000
Financial assets				
Cash and cash equivalents	1,158,692	1,158,692	3,453,236	3,453,236
Cash placed as collateral with the NTMA	690,000	690,000	802,000	802,000
Available for sale financial assets	-	-	145,138	145,138
Amounts due from Participating Institutions	84,810	84,810	78,447	78,447
Derivative financial instruments	58,241	58,241	160,369	160,369
Loans and receivables - NAMA	13,360,034	15,011,030	19,598,110	20,459,016
- NARL	-	-	11,715,589	11,715,589
Other assets	12,164	12,164	23,755	23,755
Investments in equity instruments	36,181	36,181	6,373	6,373
Total assets	**15,400,122**	**17,051,118**	**35,983,017**	**36,843,923**
Financial liabilities				
Amounts due to Participating Institutions	20,428	20,428	24,676	24,676
Derivative financial instruments	595,528	595,528	599,784	599,784
Senior debt securities in issue	13,590,000	13,582,294	34,618,000	34,579,669
Other liabilities	126,114	126,114	172,594	172,594
Tax payable	1,769	1,769	407	407
Total liabilities	**14,333,839**	**14,326,133**	**35,415,461**	**35,377,130**

NOTES TO THE FINANCIAL STATEMENTS

24. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(a) Comparison of carrying value to fair value (continued)

Agency	2014 Carrying value €'000	2014 Fair value €'000	2013 Carrying value €'000	2013 Fair value €'000
Financial assets				
Cash and cash equivalents	101	101	1,152	1,152
Other assets	168,161	168,161	5,961	5,961
Investment in subsidiaries	49,000	49,000	49,000	49,000
Total assets	**217,262**	**217,262**	**56,113**	**56,113**
Financial liabilities				
Interest bearing loans and borrowings	53,699	53,699	53,513	53,513
Other liabilities	3,892	3,892	7,178	7,178
Total liabilities	**57,591**	**57,591**	**60,691**	**60,691**

Financial assets not subsequently measured at fair value

For financial assets and liabilities which are not subsequently measured at fair value in the statement of financial position, the methods and assumptions used to calculate the fair value of these assets and liabilities are set out below.

(i) Cash and balances with banks

The fair value of floating rate placements and term deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is equal to their carrying value at the period end as deposits are short term and the effect of discounting is minimal.

(ii) Amounts due from Participating Institutions

The estimated fair value of amounts due from Participating Institutions is equal to their carrying value at the period end as receivables are current and will be settled in cash.

(iii) Loans and receivables

Loans and receivables are shown net of charges for impairment. The fair value of loans and receivables has been estimated using the expected future cash flows in the portfolio. Expected future cash flows for individually significant debtors were reviewed as part of the impairment cash flow assessment at the reporting date. During 2014, the Board agreed a target minimum debt redemption strategy of 80% by end 2016, therefore the majority of future cash flows are expected to occur in the years 2015 and 2016. Future cash flows are discounted at a rate ranging from 4.57% to 5.04%, which is a rate considered appropriate by management, taking into consideration the time value of money and the risks involved. The fair value of loans and receivables reported in 2013 was calculated using a similar method, whereby cash flows that that were expected to occur in the years 2014-2016 were discounted at a rate of 5.5%. However cash flows that were expected to occur in 2017 and 2020 were discounted at a higher rate of 10% due to greater uncertainty in predicting cash flows beyond 2016. The estimation of future cash flows in any year is subject to judgement by management in relation to the discount rate used and the timing and amount of future cash flows.

(iv) Debt securities in issue

The aggregate fair values are calculated based on a valuation model using similar quoted instruments and applying a current yield curve appropriate for the remaining term to maturity.

(b) Fair value hierarchy

IFRS 13 specifies a three level hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. The fair value hierarchy comprises:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on recognised exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes OTC derivative contracts. The sources of input parameters use the standard LIBOR / EURIBOR yield curve.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

Fair value hierarchy for assets and liabilities measured at fair value

Group 31 December 2014	**Level 1 €'000**	**Level 2 €'000**	**Level 3 €'000**	**Total €'000**
Assets				
Derivative financial instruments	-	56,714	-	**56,714**
Foreign currency derivatives	-	1,527	-	**1,527**
Investments in equity instruments	-	36,181	-	**36,181**
Total assets	**-**	**94,422**	**-**	**94,422**
Liabilities				
Derivative financial instruments	-	403,507	-	**403,507**
Foreign currency derivatives	-	192,021	-	**192,021**
Total liabilities	**-**	**595,528**	**-**	**595,528**

Group 31 December 2013	**Level 1 €'000**	**Level 2 €'000**	**Level 3 €'000**	**Total €'000**
Assets				
Derivative financial instruments	-	142,207	-	**142,207**
Foreign currency derivatives	-	18,162	-	**18,162**
Available for sale financial assets	-	145,138	-	**145,138**
Investments in equity instruments	-	6,373	-	**6,373**
Total assets	**-**	**311,880**	**-**	**311,880**
Liabilities				
Derivative financial instruments	-	495,622	-	**495,622**
Foreign currency derivatives	-	104,162	-	**104,162**
Total liabilities	**-**	**599,784**	**-**	**599,784**

None of the assets and liabilities of the Agency are carried at fair value.

NOTES TO THE FINANCIAL STATEMENTS

24. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(b) Fair value hierarchy (continued)

Categories of financial assets and financial liabilities

Financial assets and liabilities are categorised in accordance with IAS 39 as follows:

- Loans and receivables
- Financial assets or liabilities at fair value through profit or loss – held for trading (FVTPL)
- Available for sale financial assets (AFS)
- Financial liabilities measured at amortised cost

Financial assets Group 31 December 2014	**Loans and receivables €'000**	**FVTPL €'000**
Cash and cash equivalents	1,158,692	-
Cash placed as collateral with the NTMA	690,000	-
Amounts due from Participating Institutions	84,810	-
Derivative financial instruments	-	58,241
Loans and receivables	13,360,034	-
Investments in equity instruments	-	36,181
Other assets	12,164	-

Financial liabilities Group 31 December 2014	**Financial liabilities measured at amortised cost €'000**	**FVTPL €'000**
Amounts due to Participating Institutions	20,428	-
Derivative financial instruments	-	595,528
Senior debt securities in issue	13,590,000	-
Other liabilities	126,114	-

No held to maturity investments were held by the Group at the reporting date.

25. PROPERTY, PLANT AND EQUIPMENT

Group and Agency	2014 €'000	2013 €'000
Cost		
Balance at 1 January	1,403	1,023
Additions	1,143	380
Balance at 31 December	**2,546**	**1,403**
Depreciation		
Accumulated depreciation at 1 January	(332)	(192)
Depreciation charge for the year	(279)	(140)
Balance at 31 December	**(611)**	**(332)**
Net book value at 31 December	**1,935**	**1,071**

Property, plant and equipment includes lease fit out costs incurred to date. Capitalised lease fit out costs are depreciated on a straight line basis over 10 years in accordance with accounting policy 2.24. A full year's depreciation is charged in the year the lease fit out costs are incurred and capitalised.

26. INVESTMENTS IN EQUITY INSTRUMENTS

Group	2014 €'000	2013 €'000
Financial assets at fair value through profit or loss	**36,181**	**6,373**

The Group may invest in equity instruments to maximise value or gain control of an asset. Equity investments at the reporting date comprise:

- a 20% interest in a partnership of €1.2m (2013: €1.2m), held by NAJVAL. The interest was acquired by the Group in 2013 as consideration for the sale of certain loans. The Group is not able to exercise significant influence over the partnership, as the other 80% interest is held by one shareholder who controls the decision making of the partnership.
- a 16.5% ownership in a qualifying investor alternative investment fund ("QIAIF 1"), a 47.75% ownership in a second QIAIF ("QIAIF 2"), and a 15% ownership in a third QIAIF ("QIAIF 3") with a combined value of €27.5m, held by NALML.

	2014 €'000	2013 €'000
QIAIF 1	8,139	5,125
QIAIF 2	10,067	-
QIAIF 3	9,281	-
	27,487	**5,125**

The units in QIAIF 1 and QIAIF 3 were acquired as consideration for the sale of certain property assets held by NAMA to these funds in 2013 and 2014 respectively. The units in QIAIF 2 were acquired by the Group in 2014 to facilitate the fund's purchase of property assets. The objective of these funds is to enhance the development potential of combined sites in the South Docks area of Dublin, thereby generating capital growth over the longer term. NAMA has invested in these funds in line with its strategy to facilitate the delivery of commercial and residential development in the Dublin Docklands.

- as a result of a restructure of one of the NAMA managed debtors in 2014, the Group acquired a 98% ownership of one fund and 54% ownership of a second fund with a combined value of €7.4m (2013: €nil). These funds hold real-estate assets in Portugal. All decision making is controlled by the funds' management company, therefore NAMA is not able to exercise control over the funds.

NOTES TO THE FINANCIAL STATEMENTS

27. DEFERRED TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Deferred income tax assets and liabilities are attributable to the following items:

	Deferred tax on derivatives			
Group	**Assets €'000**	**Liabilities €'000**	**Deferred tax on tax losses €'000**	**Total €'000**
Balance at 1 January 2013	**292,172**	**(88,277)**	**133,393**	**337,288**
Movement in the year	(147,619)	53,543	(40,825)	**(134,901)**
Balance at 31 December 2013	**144,553**	**(34,734)**	**92,568**	**202,387**
Balance at 1 January 2014	**144,553**	**(34,734)**	**92,568**	**202,387**
Movement in the year	4,328	18,217	(92,568)	**(70,023)**
Balance at 31 December 2014	**148,881**	**(16,517)**	**-**	**132,364**

Reconciliation of movement in total deferred tax to tax charge in the income statement and other comprehensive income

Group	*Note*	**2014 €'000**	**2013 €'000**
Movement in deferred tax recognised in the income statement	*13*	(52,073)	(69,767)
Movement in deferred tax recognised in other comprehensive income	*14,35*	(17,950)	(65,134)
Total movement in deferred tax in the year		**(70,023)**	**(134,901)**

The Agency has no deferred tax assets or liabilities.

Deferred income tax assets are recognised in respect of tax losses carried forward only to the extent that realisation of the related tax benefit is probable.

Deferred tax on derivatives is recognised on the difference between the tax base of derivatives (nil) and the fair value of derivatives at the reporting date. A net deferred tax asset of €132m (2013: €110m) has been recognised in relation to derivatives. In accordance with accounting standards, deferred tax on the fair value movement on derivatives is recognised where the related fair value is accounted for, i.e. either in the income statement or in other comprehensive income. A deferred tax charge of €17.9m (2013: €65m) has been recognised in other comprehensive income relating to deferred tax on the fair value movement on derivatives where hedge accounting is applied and available for sale assets (See Note 35).

Deferred tax assets and liabilities recognised in respect of derivatives will be realised as derivatives mature or are terminated.

28. OTHER ASSETS

Group	2014 €'000	2013 €'000
Accrued swap interest receivable	1,417	6,587
Interest receivable on available for sale assets	-	5,578
Interest receivable on cash and cash equivalents	-	315
VAT receivable	-	299
Deferred consideration receivable from loan sales	9,732	10,148
Other assets	1,015	828
Total other assets	**12,164**	**23,755**
Current	**12,164**	**23,755**
Non-Current	**-**	**-**

Accrued swap interest relates to derivatives associated with loans acquired by the Group from Participating Institutions.

Agency	2014 €'000	2013 €'000
Costs reimbursable from NALM	1,935	5,468
Interest receivable on loan to NAML	165,717	-
Other receivables	509	493
Total other assets	**168,161**	**5,961**
Current	**168,161**	**5,961**
Non-Current	**-**	**-**

29. SENIOR DEBT SECURITIES IN ISSUE

Group	2014 €'000	2013 €'000
In issue at the start of the year	34,618,000	25,440,000
Issued during the year	-	12,928,000
Redeemed during the year	(21,028,000)	(3,750,000)
In issue at 31 December	**13,590,000**	**34,618,000**
Current	**13,590,000**	**34,618,000**
Non-current	**-**	**-**

Terms of notes issued for the acquisition of loans by NALML

The total debt securities outstanding at 31 December 2014 issued in respect of the original acquisition of loans by NALML is €13.6bn (2013: €22.7bn). The debt securities are all government guaranteed Floating Rate Notes, which were issued by NAML and transferred to NAMGSL under a profit participating loan facility and by it to NALML. The latter company used these securities as consideration (95%) for the loan portfolio acquired from each of the Participating Institutions.

NOTES TO THE FINANCIAL STATEMENTS

29. SENIOR DEBT SECURITIES IN ISSUE (CONTINUED)

Terms of notes issued for the acquisition of loans by NALML (continued)

Interest accrues from the issue date of the Notes and is paid semi-annually on 1 March and 1 September. The interest rate is 6 month Euribor reset on 1 March and 1 September in each year. To date only euro denominated notes have been issued.

The securities in issue permit the issuer (where the issuer has not received a Holder Physical Delivery Option Rejection Notice) to physically settle all, or some only, of the securities at maturity which may be up to 364 days from the date of issue, notwithstanding that the existing security may have had a shorter maturity.

All of the securities which matured on 2 March 2015 were physically settled by issuing new securities with a maturity of 1 March 2016.

Terms of notes issued for the acquisition of the loan facility deed and floating charge by NARL (in Voluntary Liquidation)

On 28 March 2013, NAML issued government guaranteed senior debt securities to the value of €12.9bn as consideration for the acquisition by NARL (in Voluntary Liquidation) of a loan facility deed and floating charge over certain assets of IBRC as part of its funding arrangements with the Central Bank of Ireland (CBI).

The debt securities were all government guaranteed senior unsecured floating rate notes, which were issued at par and transferred to NARL (in Voluntary Liquidation) under a profit participating loan arrangement, which were used as consideration for the loan facility deed and floating charge acquired from the CBI. All debt securities were fully redeemed on 22 October 2014.

30. OTHER LIABILITIES

Group	**2014 €'000**	**2013 €'000**
Accrued interest on debt securities in issue	12,196	41,277
Accrued swap interest payable on derivatives where hedge accounting is applied	81,367	82,786
Accrued swap interest payable on other derivatives	1,700	4,484
Accrued expenses	24,805	41,057
VAT payable	2,581	-
Other liabilities	3,465	2,990
Total other liabilities	**126,114**	**172,594**
Current	**126,114**	**172,594**
Non-current	**-**	**-**

Agency	**2014 €'000**	**2013 €'000**
Amounts due to the NTMA	1,344	5,281
Amounts due to Group entities	1,934	1,414
Other liabilities	614	483
Total other liabilities	**3,892**	**7,178**
Current	**3,892**	**7,178**
Non-current	**-**	**-**

31. TAX PAYABLE

Group	2014 €'000	2013 €'000
Professional services withholding tax and other taxes payable	1,736	398
Current income tax liability	33	9
Total tax payable	**1,769**	**407**

32. COMMITMENTS AND CONTINGENT LIABILITIES

As part of the acquisition of loan assets, certain guarantees and letters of credit, previously provided by Participating Institutions, were acquired by the Group. The guarantees were acquired because they were connected to loan assets acquired by the Group. It is the general policy of the Group not to acquire guarantees. The Group has no guarantees or letters of credit at the reporting date.

As at year end, NAMA is party to a number of on-going legal cases, as part of its ordinary course of business. The possible outflow of economic resources cannot be reliably estimated and therefore no legal provisions in respect of these cases are recognised by the Group at the reporting date.

The Group holds operating leases in respect of the third floor and first floor of its registered office, Treasury Building. At the reporting date the length of the lease until the first break clause is less than 1 year for the third floor, 3.5 years for the first floor annexe and 6 years for the first floor.

Operating lease amounts recognised in profit or loss for the year were €1.9m (2013: €1.2m).

The future minimum operating lease payments are set out in the following tables:

Group	2014 €'000	2013 €'000
Less than one year	1,992	1,154
Between one and five years	4,501	1,356
More than five years	830	-
Total future minimum operating lease payments	**7,323**	**2,510**

33. INTEREST BEARING LOANS AND BORROWINGS

Agency	2014 €'000	2013 €'000
Loan due to NALML and related interest	53,699	53,513
	53,699	**53,513**

On 25 February 2011, NALML, a Group entity, issued an interest bearing loan of €52m to NAMA. The purpose of the loan was to provide funding from the Group to NAMA to repay a loan of €49m and accrued interest to the Central Fund. Interest is based on the 6 month Euribor rate. The loan is extended annually on 25 February unless terminated as agreed between the parties. The Group has no external loans or borrowings.

NOTES TO THE FINANCIAL STATEMENTS

34. OTHER EQUITY

Group	2014 €'000	2013 €'000
In issue at the beginning of the year	1,593,000	1,593,000
In issue at 31 December	**1,593,000**	**1,593,000**

The above are Callable Perpetual Subordinated Fixed Rate Bonds that were issued by NAML and transferred to NAMGSL under a profit participating loan arrangement and by NAMGSL to NALML. The latter company used these securities as consideration (5%) for the loan portfolio acquired from each of the Participating Institutions.

The interest rate on the instruments is the 10 year Irish Government Bond rate at the date of first issuance, plus 75 basis points. This rate has been set at a fixed return of 5.264%. Interest is paid annually if deemed appropriate to do so, however the coupon is declared at the option of the issuer. Coupons not declared in any year will not accumulate. NAMA paid the first coupon of €83.86m on its subordinated debt during 2014. NAMA paid a second coupon of €83.86m on its subordinated debt on 2 March 2015.

Although the bonds are perpetual in nature, the issuer may "call" (i.e. redeem) the bonds on the first call date (which is 10 years from the date of issuance), and every interest payment date thereafter (regardless of whether interest is to be paid or not).

Under IAS 32, 'Financial Instruments: Presentation', it is the substance of the contractual arrangement of a financial instrument, rather than its legal form, that governs its classification. As the subordinated notes contain no contractual obligation to make any payments (either interest or principal) should the Group not wish to make any payments, in accordance with IAS 32 the subordinated debt has been classified as equity in the statement of financial position, with any coupon payments classified as dividend payments (Note 36).

35. OTHER RESERVES

Group	*Note*	2014 €'000	2013 €'000
Cash flow hedge reserve			
At the beginning of the year		(333,708)	(524,019)
Changes in clean fair value		71,941	256,012
Hedge interest settled during year		229,922	231,076
Movement in interest accrual		(1,419)	514
Transferred to the income statement	*6*	(228,503)	(231,590)
Net movement in cash flow hedge reserve before tax	*14*	71,941	256,012
Deferred tax recognised in other comprehensive income	*14,27*	(17,985)	(65,701)
At 31 December		**(279,752)**	**(333,708)**
Available for sale reserve			
At the beginning of the year		(1,755)	1,805
Transferred to the income statement		1,720	(4,127)
Net movement in available for sale reserve before tax	*14*	1,720	(4,127)
Deferred tax recognised in other comprehensive income	*14,27*	35	567
At 31 December		**-**	**(1,755)**
Total other reserves		**(279,752)**	**(335,463)**

Other reserves comprise the cash flow hedge reserve and the available for sale reserve.

NAMA applies hedge accounting to a portion of its senior notes in issue. Changes in fair value for derivatives designated in hedge relationships, and that are effective, are recognised in reserves.

NAMA acquires government bonds for the purposes of liquidity management and to maximise its return on cash balances. Government bonds are classified as available for sale assets in accordance with IAS 39. Changes in fair value are recognised in reserves.

The net movement in the cash flow hedge reserve for 2014 was an increase of €72m (2013: €256m) before tax, which was the fair value movement in derivatives where hedge accounting is applied of €65.1m (2013: €249.2m) plus an adjustment relating to hedge ineffectiveness of €6.8m (2013: €6.8m).

The net movement in the available for sale reserve for the year was an increase of €1.7m (2013: decrease of €4.1m) which reflects the maturity of available for sale assets held during the year.

36. RECONCILIATION OF RESERVES AND NON-CONTROLLING INTERESTS IN SUBSIDIARIES

Group	2014 €'000	2013 €'000
Retained earnings / (losses)		
At the beginning of the year	(447,599)	(659,039)
Profit for the year	458,280	213,602
Dividend paid on B ordinary shares	(1,540)	(2,162)
Coupon paid on subordinated bonds	(83,856)	-
At 31 December	**(74,715)**	**(447,599)**

Agency	2014 €'000	2013 €'000
Retained earnings / (losses)		
At the beginning of the year	(3,507)	(2,942)
Profit / loss for the year	165,113	(565)
At 31 December	**161,606**	**(3,507)**

On 13 March 2014, the Board of NAMAIL declared and approved a dividend payment of €0.0302 per share (2013: €0.0424 per share). The amount of the dividend per share was based on the ten year Irish government bond yield as at 31 March 2014, and amounted to €1.54m (2013: €2.162m). The dividend was paid to the holders of B ordinary shares of NAMAIL only, the private investors, who have ownership of 51% in the Company. No dividend was paid to the A ordinary shareholders, NAMA the Agency, which has a 49% ownership in the Company.

On 13 February 2014, the Board of NAML resolved that it was appropriate, in the context of NAMA's overall aggregate financial performance and objectives, that the annual coupon on the subordinated bonds of €83.86m due on 1 March 2014 be paid. The subordinated bonds are classified as equity in the statement of financial position, and therefore the related coupon payments are recognised in equity. Refer to Note 34 for further details.

Non-controlling interests in subsidiaries comprises ordinary share capital in subsidiaries not attributable directly or indirectly to the parent entity. In respect of the Group this represents the investment by private investors in the ordinary share capital of NAMAIL.

NAMA has, along with the private investors, invested in NAMAIL. NAMA holds 49% of the issued share capital of NAMAIL and the remaining 51% of the share capital is held by private investors. Under the terms of the shareholders' agreement between NAMA and the private investors, NAMA can exercise a veto over decisions taken by NAMAIL.

NOTES TO THE FINANCIAL STATEMENTS

36. RECONCILIATION OF RESERVES AND NON-CONTROLLING INTERESTS IN SUBSIDIARIES (CONTINUED)

Under the shareholder's agreement, the maximum return which will be paid to the private investors by way of dividend is restricted to the 10 year Irish Government Bond Yield applying at the date of the declaration of the dividend. In addition the maximum investment return to the private investors is capped under the Articles of Association of NAMAIL.

NAMA's ability to veto decisions taken by NAMAIL restricts the ability of the private investors to control the financial and operating policies of the Group, and as a result NAMA has effective control over NAMAIL and the subsidiaries in the Group, as well as substantially all the economic benefits and risks of the Group. While the private investors are subject to the risk that NAMAIL may incur losses and the full value of their investment may not be recovered, they are not required to contribute any further capital to NAMAIL.

By virtue of the control NAMA can exercise over NAMAIL, NAMA has consolidated NAMAIL and its subsidiaries, and for the purposes of recognising the non-controlling interests in the subsidiaries, the losses have been attributed to the non-controlling interest only up to its equity interest of €51m.

37. SHARES AND INVESTMENTS IN GROUP UNDERTAKINGS

NAMA has invested €49m in NAMAIL, receiving 49 million A ordinary shares. The remaining €51m was invested in NAMAIL by private investors, each receiving an equal share of 51 million B ordinary shares. Under the terms of a shareholders' agreement between NAMA and the private investors, NAMA may exercise a veto over decisions taken by NAMAIL. As a result of this veto, the private investors' ability to control the financial and operating policies of the entity is restricted and NAMA has effective control of the company. By virtue of this control NAMA has consolidated NAMAIL and its subsidiaries and the 51% external investment in NAMAIL is reported as a non-controlling interest in these financial statements.

37.1 Subsidiaries

The NAMA Group structure is set out in Note 1 to the Financial Statements. The subsidiary undertakings and percentage ownership of NAMA in those subsidiaries are as follows:

Group Subsidiary	Percentage ownership	Percentage voting rights	Principal Activity	Country of incorporation
National Asset Management Agency Investment Limited	49%	100%	Holding company and lending	Ireland
National Asset Resolution Limited (in Voluntary Liquidation)	49%	100%	Securitisation and asset management	Ireland
National Asset Management Limited	49%	100%	Debt issuance	Ireland
National Asset Management Group Services Limited	49%	100%	Holding company, securitisation and asset management	Ireland
National Asset Loan Management Limited	49%	100%	Securitisation and asset management	Ireland
National Asset Property Management Limited	49%	100%	Real estate	Ireland
National Asset Management Services Limited	49%	100%	Holding company for shareholding in a general partnership	Ireland
National Asset JV A Limited	49%	100%	Investment in a partnership as a limited partner	Ireland
National Asset Residential Property Services Limited	49%	100%	Provision of residential properties for the purposes of social housing	Ireland
National Asset Sarasota Limited Liability Company	49%	100%	Acquisition of certain property assets located in the US in settlement of debt owed to NAMA	US
National Asset Leisure Holdings Limited (in Voluntary Liquidation)	49%	100%	Holding Company	Ireland
RLHC Resort Lazer SGPS, S.A.	49%	100%	Facilitate legal restructure	Portugal
RLHC Resort Lazer II SGPS, S.A.	49%	100%	Facilitate legal restructure	Portugal

37.2 Investment in subsidiaries

Agency	2014 €'000	2013 €'000
49,000,000 shares in NAMAIL	**49,000**	**49,000**

In 2010 the Agency made an investment of €49m in NAMAIL.

At the reporting date, all subsidiaries have their registered offices in Treasury Building, Grand Canal Street, Dublin 2, with the exception of RLHC and RLHC II. The registered office of RLHC I and RLHC II is Rua Garrett, n.º 64, 1200-204 Lisbon, Portugal.

NOTES TO THE FINANCIAL STATEMENTS

37. SHARES AND INVESTMENTS IN GROUP UNDERTAKINGS (CONTINUED)

37.3 Details of non-wholly owned subsidiaries where NAMA has a material non-controlling interest

The remaining 51% of the subsidiaries listed in 37.1 is owned by the private investors, by virtue of their 51% ownership in NAMAIL.

A dividend was paid to the private investors during the year of €1.5m (2013: €2.1m). The private investors have no further interest in the group activities or cashflows. Profit of €nil was allocated to the non controlling interest during the year (2013: €nil). Accumulated non controlling interest at the end of the reporting period was €nil (2013: €nil).

Profits or losses which may arise are allocated to the non controlling interest in accordance with accounting policy 2.27.

37.4 Details of non-consolidated subsidiaries

National Asset Resolution Limited (in Voluntary Liquidation)

On 7 February 2013, joint Special Liquidators were appointed to IBRC under the Irish Bank Resolution Corporation Act 2013. On 11 February 2013, NAMA established a new NAMA Group Entity, National Asset Resolution Limited (in Voluntary Liquidation) (NARL). The entity was formed in response to a Direction issued by the Minister for Finance under the Irish Bank Resolution Corporation Act 2013 to NAMA to acquire a loan facility deed and floating charge over certain IBRC assets. Consideration was in the form of Government Guaranteed debt securities and cash. The debt securities were issued by NAML and transferred to NARL (in Voluntary Liquidation) via a profit participating loan facility. NARL (in Voluntary Liquidation) is a 100% subsidiary of NAMAIL.

NARL (in Voluntary Liquidation) is the senior creditor of IBRC (in liquidation), therefore funds received by the joint Special Liquidators were used to reduce the loan facility deed in the first instance. NAMA had no involvement in the IBRC liquidation process and the NAMA financial statements recognise funds received from the joint Special Liquidators and other transactions to facilitate the orderly wind up of IBRC arising from the Minister's directions under the Act. On 22 April 2014, the Minister announced that no assets would transfer to NAMA from IBRC (in liquidation). The loan facility deed was fully repaid on 22 October 2014, and NARL was placed into voluntary liquidation by its members on 18 December 2014.

National Asset Leisure Holdings Limited (in Voluntary Liquidation)

On 10 January 2014, NAMA established a new subsidiary National Asset Leisure Holdings Limited (in Voluntary Liquidation) (NALHL). NALHL (in Voluntary Liquidation) is a wholly owned subsidiary of NAPML and was established to acquire 100% of the share capital of two Portuguese entities, RLHC and RLHC II.

The establishment of these entities was required to facilitate the legal restructure of a number of entities with Portuguese property assets. Following the completion of the legal restructure, NALHL (in Voluntary Liquidation) was placed into liquidation on 18 December 2014. The control of NALHL (in Voluntary Liquidation) is with the liquidator who will realise the assets of the Company.

As the liquidator has assumed the rights of the shareholder and now controls both NARL (in Voluntary Liquidation) and NALHL (in Voluntary Liquidation), NARL (in Voluntary Liquidation), NALHL (in Voluntary Liquidation) and its subsidiaries, RLHC I and RLHC II, are not consolidated into the results of the NAMA Group.

See Note 39.6 for details of the assets held by these companies.

38. RELATED PARTY DISCLOSURES

The related parties of the Group comprise the following:

Subsidiaries

Details of the interests held in NAMA's subsidiaries are given in Note 37.1 and Note 1 to the financial statements.

NTMA

The NTMA provides staff, finance, communication, technology, risk and human resources services to NAMA. The costs incurred by the NTMA are charged to NAMA (the Agency) and the Agency is reimbursed by the Group. Details of the costs charged to the Group are given in Note 10. The NTMA is the counterparty for NAMA's derivative positions in its management of foreign exchange and interest rate exposure. NAMA is required to post cash collateral with the NTMA under a Collateral Posting Agreement (CPA) to reduce the NTMA's exposure to NAMA derivatives. NAMA holds Exchequer note investments and Short Term Treasury Bonds that were issued by the NTMA. The bonds held at 31 December 2013 matured on 15 January 2014. At the reporting date, NAMA held €nil (2013: €145m) nominal of the Irish 4% Government bonds. Exchequer notes of €0.7bn (2013: €1.6bn) issued by the NTMA are treated as cash and cash equivalents (see Note 15).

NTMA Defined Benefit Pension Scheme

All staff are employed by the NTMA and the NTMA contributes to the NTMA Defined Benefit Pension Scheme on behalf of these employees. The pension scheme is controlled and managed by independent trustees as appointed by the NTMA. As part of the consideration for the provision of staff, the Group has made a payment of €4.8m (2013: €2.8m), representing the refund of the NTMA's contribution to the pension scheme in respect of these NAMA Officers.

Minister for Finance

The Minister established NAMA under the NAMA Act 2009. Sections 13 and 14 of the Act grant certain powers to the Minister in relation to NAMA. Section 13 provides that the Minister may issue guidelines to NAMA for the purposes of the Act and, in particular, in relation to the purpose of contributing to the social and economic development of the State. NAMA is required to have regard to any such guidelines in performing its functions. Section 14 provides that the Minister may issue directions to NAMA concerning the achievement of the purposes of the Act and, in particular, in relation to the purpose of contributing to the social and economic development of the State. NAMA is obliged to comply with any such direction.

The effect of these statutory provisions is that the Minister has the ability to exercise significant influence over NAMA.

Participating Institutions

During 2010, a number of legislative measures were enacted that gave the Minister rights and powers over certain financial institutions in respect of various matters of ownership, board composition, acquisition or sale of subsidiaries, business activity, restructuring and banking activity. The Participating Institutions have also agreed to consult with the Minister prior to taking any material action which may have a public interest dimension.

Participating Institutions are credit institutions that have been designated by the Minister, under Section 67 of the Act, as a Participating Institution. The Participating Institutions that have transferred loan assets to NAMA as at the reporting date are Allied Irish Banks, p.l.c (incorporating EBS), and Bank of Ireland.

The Group issued senior and subordinated securities and transferred them to the Participating Institutions in return for loan assets. Transactions with Participating Institutions are disclosed in the financial statements primarily under Note 19, Loans and Receivables, Note 17, Amounts due to and from Participating Institutions and the related Income Statement notes.

The Group has operating accounts with Allied Irish Banks, p.l.c that have a balance of €7.1m (2013: €1.7m) at the reporting date. The average closing daily balance throughout the year was €5.2m (2013: €2.5m).

NOTES TO THE FINANCIAL STATEMENTS

38. RELATED PARTY DISCLOSURES (CONTINUED)

During the year the Group placed deposits with Allied Irish Banks, p.l.c (incorporating EBS) and Bank of Ireland. The average amount deposited with each bank was €44m (2013: €51m) and €17m (2013: €61m) respectively.

Fees payable to the Participating Institutions with respect to loan servicing costs incurred during the year are as follows:

Participating Institutions	2014 €'000	2013 €'000
Allied Irish Banks, p.l.c	15,955	16,364
Bank of Ireland	5,040	5,379
IBRC (in liquidation)	2,483	23,427
	23,478	**45,170**

New Ireland Assurance Co p.l.c.

New Ireland Assurance Co p.l.c, a subsidiary of Bank of Ireland holds a 17% share of the share capital of NAMAIL, a subsidiary of NAMA (corresponding to 15 million of the 51 million B shares issued by NAMAIL to private investors). Dividend payments made to private investors are disclosed in Note 36.

IBRC joint Special Liquidators

On 6 February 2013, the Irish Government enacted the Irish Bank Resolution Corporation (IBRC) Act 2013 which provided for the winding up of IBRC. On 7 February 2013, the Minister appointed Kieran Wallace and Eamonn Richardson of KPMG as joint Special Liquidators of IBRC and provided them with a set of instructions to give effect to the orderly winding up of IBRC. Section 13 of the Act provides that the Minister may give directions in writing to NAMA in relation to:

(i) the acquisition by NAMA of the debt of IBRC to the Central Bank;

(ii) the purchase of assets of IBRC from the joint Special Liquidators; and

(iii) the provision of such credit facilities to the joint Special Liquidators or IBRC.

The joint Special Liquidators provided primary servicer services until NAMA's appointment of Capita as its primary servicer of the IBRC Participating Institution loan book on 12 August 2013. In response to the Ministers directions, NAMA established a new NAMA group entity, National Asset Resolution Limited (in Voluntary Liquidation) (NARL), which was incorporated on 11 February 2013. On 28 March 2013, NAML issued bonds to the value of €12.928bn as consideration for the acquisition by NARL (in Voluntary Liquidation) of a loan facility deed and floating charge over the assets of IBRC from the Central Bank of Ireland. This was recharged to NARL (in Voluntary Liquidation) by a Profit Participating Loan agreement. All bonds were fully redeemed on 22 October 2014.

Key management personnel

The Agency is controlled by the NAMA Chief Executive Officer and the Board. The Chief Executive Officer of the NTMA is an *ex-officio* member of the Board. The Chief Executive Officer and Board have the authority and responsibility for planning, directing and controlling the activities of NAMA and its subsidiaries and therefore are key management personnel of NAMA. Fees paid to Board members are disclosed in Note 10. The Group has no employees.

Transactions with Group entities

The following are the amounts owed to and from related parties at the reporting date. All transactions with related parties are carried out on an arm's length basis.

Loan due to NALML

An interest bearing loan of €52m was advanced from NALML to the Agency in 2011. Interest is earned on this loan at the six month EURIBOR rate. Interest earned on this loan for the year was €0.2m (2013: €0.2m).

Intergroup loan agreements

NAML has entered into a profit participating loan agreement with NAMGSL, and in turn NAMGSL has entered into a further profit participating loan agreement with NALML on similar terms.

During 2013, NAMGSL entered into a profit participating loan agreement with NAJVAL and NAML entered into a profit participating loan agreement with NARL (in Voluntary Liquidation). The profit participating loan agreement between NAML and NARL (in Voluntary Liquidation) was settled during the year on full redemption of the NARL bonds.

NAMAIL has entered into an intergroup loan agreement with NAML. NALML has entered into intergroup loan agreements with NARPSL, NAPML and NASLLC. NAPML has entered into an intergroup loan agreement with NALHL (in Voluntary Liquidation).

Refer to Note 39 for balances outstanding in respect of intergroup loan agreements at the reporting date.

NTMA recharge

The NTMA incurs overhead costs for providing staff, finance, communication, technology risk and human resource services to the Group. These overhead costs are charged to NAMA (the Agency) on an actual cost basis. The total of these costs for the year was €53.9m (2013: €40.8m). Further details in respect of these costs are disclosed in Note 10.1.

39. SUPPLEMENTARY INFORMATION PROVIDED IN ACCORDANCE WITH SECTION 54 OF THE ACT

In order to achieve its objectives NAMA has established special purpose vehicles as outlined in Note 1. These entities prepare and present separate financial statements. In accordance with the requirements of Section 54 of the Act the following additional information is provided, in respect of NAMA and each of its Group entities.

39.1 Administration fees and expenses incurred by NAMA and each NAMA Group entity

The administration fees incurred by the NAMA Group are set out in Note 10.

The expenses of each NAMA Group entity are shown in the tables below. The expenses of NALML includes a recharge of €53.9m (2013: €40.8m) in respect of NTMA costs incurred by the Agency. These costs are also included in the consolidated accounts.

National Asset Loan Management Limited (NALML) **Expense type**	*Note*	**2014** **€'000**	**2013** **€'000**
Costs reimbursable to NTMA	*10.1*	53,894	40,768
Primary servicer fees	*10.2*	46,129	52,587
Master servicer fees	*10.3*	2,543	3,082
Portfolio transition costs	*10.4*	7,015	7,369
Portfolio management fees	*10.5*	3,196	5,256
Legal fees	*10.6*	8,046	2,772
Finance, communication and technology costs	*10.7*	3,762	3,376
Rent and occupancy costs	*10.8*	2,964	1,482
Internal audit fees	*10.9*	743	911
External audit remuneration	*10.10*	550	495
Total NALML administration expenses		**128,842**	**118,098**

NOTES TO THE FINANCIAL STATEMENTS

39. SUPPLEMENTARY INFORMATION PROVIDED IN ACCORDANCE WITH SECTION 54 OF THE ACT (CONTINUED)

National Asset Property Management Limited (NAPML) Expense type	2014 €'000	2013 €'000
Costs reimbursable to NALML	106	86
Portfolio management fees	58	47
Legal fees	20	1
Finance, communication and technology costs	-	21
Total NAPML administration expenses	**184**	**155**

National Asset Sarasota LLC (NASLLC) Expense type	2014 €'000	2013 €'000
Portfolio management fees	312	61
Legal fees	32	10
Total NASLLC administration expenses	**344**	**71**

National Asset Residential Property Services Limited (NARPSL) Expense type	2014 €'000	2013 €'000
Portfolio management fees	206	185
Legal fees	348	192
Finance, communication and technology costs	(3)	22
Total NARPSL administration expenses	**551**	**399**

National Asset Resolution Limited (NARL) (in Voluntary Liquidation) Expense type	2014 €'000	2013 €'000
Costs reimbursable to NALML	988	3,476
Primary servicer fees	4,126	2,200
External audit remuneration	-	20
Finance, communication and technology costs	628	-
Legal fees	129	-
Total NARL administration expenses	**5,871**	**5,696**

RLHC Resort Lazer SGPS, S.A. (RLHC I) Expense type	2014 €'000	2013 €'000
Finance, communication and technology costs	11	-
External audit remuneration	5	-
Legal fees	1	-
Total RLHC I administration expenses	**17**	**-**

RLHC Resort Lazer II SGPS, S.A. (RLHC II) Expense type	2014 €'000	2013 €'000
Finance, communication and technology costs	9	-
External audit remuneration	4	-
Legal fees	1	-
Total RLHC II administration expenses	**14**	**-**

39.2 Debt securities issued for the purposes of the Act

Group	2014 €'000	2013 €'000
Senior notes issued by NAML	13,590,000	34,618,000
Subordinated debt issued by NAML	1,593,000	1,593,000
Total	**15,183,000**	**36,211,000**

39.3 Debt securities issued, transferred and redeemed in the period to the Financial Institutions

39.3.1 Government guaranteed senior debt securities

Financial Institution	Outstanding at 1 Jan 14 €'000	Issued €'000	Transferred €'000	Redeemed €'000	Outstanding at 31 Dec 14 €'000
AIB[6]	15,820,000	-	-	(6,343,000)	9,477,000
BOI	3,991,000	-	-	(1,602,000)	2,389,000
IL&P	2,169,000	-	-	(871,000)	1,298,000
CBI[7]	12,638,000	-	-	(12,212,000)	426,000
Total	**34,618,000**	**-**	**-**	**(21,028,000)**	**13,590,000**

Financial Institution	Outstanding at 1 Jan 13 €'000	Issued €'000	Transferred €'000	Redeemed €'000	Outstanding at 31 Dec 13 €'000
AIB[6]	17,425,000	-	285,000	(1,890,000)	15,820,000
BOI	4,475,000	-	-	(484,000)	3,991,000
IBRC (in liquidation)[6,7]	796,000	-	(796,000)	-	-
EBS	312,000	-	(285,000)	(27,000)	-
IL&P	2,432,000	-	-	(263,000)	2,169,000
CBI[7]	-	12,928,000	796,000	(1,086,000)	12,638,000
Total	**25,440,000**	**12,928,000**	**-**	**(3,750,000)**	**34,618,000**

39.3.2 Subordinated debt securities held

Financial Institution	Outstanding at 1 Jan 14 €'000	Issued €'000	Redeemed €'000	Cancelled €'000	Outstanding at 31 Dec 14 €'000
AIB	451,000	-	-	-	451,000
BOI	281,000	-	-	-	281,000
IBRC (in liquidation)[8]	841,000	-	-	-	841,000
EBS	20,000	-	-	-	20,000
Total	**1,593,000**	**-**	**-**	**-**	**1,593,000**

6 *On 1 July 2011, the High Court approved a Transfer Order under Part 5 of the Credit Institutions Stabilisations Act 2010 (CISA) that the assets and liabilities of INBS be transferred to Anglo Irish Bank. The transfer order extinguished INBS. On 14 October 2011 the name was changed to IBRC. As part of the reorganisation and restructuring of the Irish banking system, €285m of NAMA senior debt securities in issue and held by EBS were transferred to AIB in 2013.*

7 *On 28 March 2013, €12.9bn of senior bonds were issued by NAML to the CBI in consideration for NARL's (in Voluntary Liquidation) acquisition of the loan facility deed and floating charge over IBRC's assets from the CBI, following the liquidation of IBRC on 6 February 2013. In addition, €796m of senior bonds held by IBRC at the date of liquidation were transferred to CBI. During 2013, €1.1bn of bonds were redeemed. By the end of 2014, following the sale of assets by IBRC, €11.9bn of bonds relating to the loan facility deed and floating charge had been fully redeemed.*

8 *In October 2014, the €841m of subordinated bonds held by IBRC (in liquidation) were sold by the joint Special Liquidators. This debt is now traded on the secondary market.*

NOTES TO THE FINANCIAL STATEMENTS

39. SUPPLEMENTARY INFORMATION PROVIDED IN ACCORDANCE WITH SECTION 54 OF THE ACT (CONTINUED)

39.3 Debt securities issued, transferred and redeemed in the period to the Financial Institutions

Financial Institution	Outstanding at 1 Jan 13 €'000	Issued €'000	Redeemed €'000	Cancelled €'000	Outstanding at 31 Dec 13 €'000
AIB	451,000	-	-	-	451,000
BOI	281,000	-	-	-	281,000
IBRC (in liquidation)	841,000	-	-	-	841,000
EBS	20,000	-	-	-	20,000
Total	**1,593,000**	**-**	**-**	**-**	**1,593,000**

39.4 Advances to NAMA from the Central Fund in the year

There were no advances to NAMA from the Central Fund in the year.

39.5 Advances made by NAMA to debtors via Participating Institutions in the year

Participating Institution	Amount advanced 2014 €'000	Amount advanced 2013 €'000
AIB	156,174	96,906
IBRC (in liquidation) / Capita	429,891	184,434
BOI	35,485	46,875
Vendor finance	23,400	336,737
Total	**644,950**	**664,952**

39.6 Asset portfolios held by NAMA and each NAMA Group entity

The assets held by NAMA and each NAMA Group entity are set out below. The assets include intergroup assets and liabilities and intergroup profit participating loans between NAMA Group entities.

National Asset Management Agency (NAMA)	2014 €'000	2013 €'000
Investment in NAMAIL	49,000	49,000
Cash	101	1,152
Interest receivable on loan to NAML	165,717	-
Intergroup receivable	1,935	5,468
Other receivables	509	493
Property, plant and equipment	1,935	1,071
Total	**219,197**	**57,184**

National Asset Management Agency Investment Limited (NAMAIL)	2014 €'000	2013 €'000
Intergroup loan to NAML	99,900	99,900
Interest on intergroup loan	5,028	19,243
Intergroup receivable	33	100
Total	**104,961**	**119,243**

National Asset Management Limited (NAML)	2014 €'000	2013 €'000
Profit participating loan with NAMGSL	15,183,000	24,283,000
Profit participating loan with NARL	-	11,928,000
Interest on profit participating loan	674,477	177,339
Intergroup assets	278,068	99,900
Deferred tax asset	-	92,568
Total	**16,135,545**	**36,580,807**

National Asset Resolution Limited (in Voluntary Liquidation) (NARL)	2014 €'000	2013 €'000
Cash	-	332,440
Cash placed as collateral with the NTMA	-	63,000
Loan facility deed	-	11,703,344
Interest on loan facility deed	-	12,245
Other assets	3	5
Deferred tax asset	-	2,051
Total	**3**	**12,113,085**

National Asset Management Group Services Limited (NAMGSL)	2014 €'000	2013 €'000
Profit participating loan with NALML	15,183,000	24,283,000
Profit participating loan with NAJVAL	13,450	13,450
Interest on profit participating loans	674,523	487,036
Intergroup receivable	662,911	-
Total	**16,533,884**	**24,783,486**

National Asset Loan Management Limited (NALML)	2014 €'000	2013 €'000
Cash	1,156,893	3,119,500
Cash placed as collateral with the NTMA	690,000	739,000
Financial assets available for sale	-	145,138
Receivable from Participating Institutions	84,810	78,447
Financial assets at fair value through profit or loss	58,241	160,369
Loans and receivables	13,347,929	19,585,959
Intergroup assets	774,870	614,127
Accrued interest receivable	1,417	12,474
Investments in equity instruments	34,933	5,125
Inventories – trading properties	1,930	-
Other assets	9,983	10,748
Deferred tax asset	132,364	107,769
Total	**16,293,370**	**24,578,656**

NOTES TO THE FINANCIAL STATEMENTS

39. SUPPLEMENTARY INFORMATION PROVIDED IN ACCORDANCE WITH SECTION 54 OF THE ACT (CONTINUED)

39.6 Asset portfolios held by NAMA and each NAMA Group entity (continued)

National Asset Property Management Limited (NAPML)	2014 €'000	2013 €'000
Investments	-	5,798
Inventories – trading properties	7,271	6,173
Intergroup assets	100	-
Other assets	8	27
Total	**7,379**	**11,998**

National Asset Residential Property Services Limited (NARPSL)	2014 €'000	2013 €'000
Cash	673	47
Inventories – trading properties	29,050	7,163
Other Assets	149	8
Total	**29,872**	**7,218**

National Asset JV A Limited (NAJVAL)	2014 €'000	2013 €'000
Cash	1,025	97
Investments in equity instruments	1,248	1,248
Loan receivable	12,105	12,151
Total	**14,378**	**13,496**

National Asset Sarasota LLC (NASLLC)	2014 €'000	2013 €'000
Inventories – trading properties	**-**	**26,104**

National Asset Leisure Holdings Limited (in Voluntary Liquidation) (NALHL)	2014 €'000	2013 €'000
Investment in subsidiaries	**4,947**	**-**

RLHC Resort Lazer SGPS, S.A. (RLHC I)	2014 €'000	2013 €'000
Investment in subsidiaries	**4,362**	**-**

RLHC Resort Lazer II SGPS, S.A. (RLHC II)	2014 €'000	2013 €'000
Investment in subsidiaries	**485**	**-**

39.7 Government support measures, including guarantees, received by NAMA and each NAMA Group entity

Entity	Description	Amount in issue at 31 December 2014 €'000	Amount in issue at 31 December 2013 €'000
National Asset Management Limited	On 26 March 2010, the Minister for Finance guaranteed Senior Notes issued by NAMA as provided for under Section 48 of the NAMA Act 2010. The maximum aggregate principal amount of Senior Notes to be issued at any one time is €51.3bn.	13,590,000	34,618,000
		13,590,000	**34,618,000**

39.8 Supplementary disclosure for NARL (in Voluntary Liquidation)

On 7 February 2013, joint Special Liquidators were appointed to IBRC under the Irish Bank Resolution Corporation Act 2013. On 11 February 2013, NAMA established a new NAMA Group Entity, NARL, now in Voluntary Liquidation. The entity was formed in response to a Direction issued by the Minister for Finance to NAMA under the Irish Bank Resolution Corporation Act 2013 to acquire a loan facility deed and floating charge over certain IBRC assets. The table below sets out the cumulative asset and liability and cash flow position of NARL from its inception to 18 December 2014 when it was placed in voluntary liquidation.

	Asset/(Liability) €'000	Asset/(Liability) €'000
Loan facility deed acquired from Central Bank of Ireland	12,928,343	
Consideration paid for loan facility deed		
- Bonds issued to Central Bank of Ireland		(12,928,000)
- Cash settlement	(343)	
Asset/(Liability) position at establishment of NARL	**12,928,000**	**(12,928,000)**
Cash payments/(receipts) from inception of NARL to the date of liquidation		
Inflows		
Repayment of loan facility deed by joint Special Liquidators	(12,928,000)	
Interest received on loan facility deed	(274,390)	
Interest earned on cash balances held in NARL	(820)	
Total cash inflows to NARL	**(13,203,210)**	
Outflows		
Partial cash payment to acquire loan facility deed		343
Repayment of bonds issued		12,928,000
Payment of coupon interest on bonds issued		49,482
Payment of operating expenses in respect of NARL		11,255
Payment of termination fees on hedge derivatives		35,651
Total cash outflows from NARL		**13,024,731**
Net cash (inflow)/outflow to NARL	**(178,479)**	
Paid to NAMA Group as profit	**178,220**	
Transferred to liquidator for liquidation expenses	**259**	

NOTES TO THE FINANCIAL STATEMENTS

39. SUPPLEMENTARY INFORMATION PROVIDED IN ACCORDANCE WITH SECTION 54 OF THE ACT (CONTINUED)

39.8 Supplementary disclosure for NARL (in Voluntary Liquidation) (continued)

The valuation of the loan facility deed and floating charge at inception was €12,928m. Consideration was in the form of cash (€343,000) and the issuance of Government Guaranteed debt securities (€12,928m) to the Central Bank of Ireland.

From inception to 21 October 2014, the joint Special Liquidators repaid outstanding principal and interest of €13,202m from proceeds of sale of the assets of IBRC. Following each repayment of the loan facility deed by the joint Special Liquidators, NARL then used these proceeds to redeem bonds issued to the Central Bank. From inception to end October 2014, NAMA redeemed in full all bonds issued at inception of €12,928m and settled €49m of coupon interest on these bonds.

NARL also settled operating expenses and derivative payments of €47m since inception.

The net cash flow generated by NARL from inception to the date of liquidation was €178m, which after deduction of liquidation expenses was paid to the NAMA Group as profit.

40. EVENTS AFTER THE REPORTING DATE

a) Dividend

On 31 March 2015, the Board of NAMAIL declared and approved a dividend payment of €0.00757 per share, amounting to €0.39m. This was paid to the owners of B ordinary shares only.

b) Coupon on Subordinated Debt

On 2 March 2015, NAMA made a coupon payment of €83.86m on the servicing of interest on the subordinated debt. For more information on subordinated debt, see Note 34, Other equity.

c) Redundancy programme

In January 2015, the NAMA Chief Executive Officer outlined to NAMA staff the key elements of a redundancy programme that would see NAMA reduce its headcount by 78 at the end of 2015 and another 167 staff at the end of 2016. Subsequently in March 2015, the Minister for Finance announced that, arising from his discussions with the Board, appropriate staff retention measures would be put in place to protect the financial performance of NAMA.

41. APPROVAL OF FINANCIAL STATEMENTS

The Board approved the financial statements on 28 April 2015.

GLOSSARY

Collateral A borrower's pledge of specific property to a lender, to be forfeited in the event of default.

Counterparty The party with whom a contract or financial transaction is effected.

Cross Currency Swap An agreement to swap cash flows on loans of the same size and terms but denominated in different currencies. These agreements are used by the Group to fix the Euro cost of transactions denominated in foreign currency.

Current Market Value The estimated amount for which a property would exchange between a willing buyer and seller in an arm's-length transaction.

Debtor A borrower, whose loans were deemed eligible and those loans have transferred to the Group. The borrower is referred to by the Group as a debtor. A debtor connection is a group of loans that are connected to a debtor.

Debtor business plans Business plans produced by each debtor setting out how they intend to pay back debt and the plan for achieving debt repayment. Debtor business plans are independently reviewed and approved between NAMA and the debtor.

Derivative A derivative is a financial instrument that derives its value from an underlying item e.g. interest rates or currency, and can be used to manage risks associated with changes in the value of the underlying item.

Discount Rate The rate used to discount future cash flows to their present values.

Due Diligence A comprehensive appraisal of a business especially to establish the value of its assets and liabilities. There are two types of due diligence carried out by the Group, Legal and Property due diligence.

Enforcement Proceedings Proceedings to compel compliance with legal contracts.

Equity Instrument Any contract that results in a residual interest in the assets of an entity after deducting all of its liabilities.

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

Floating Charge from CBI Under the IBRC Act 2013, NAMA acquired a loan facility deed and floating charge over certain IBRC assets from the Central Bank of Ireland.

Floating Rate An interest rate that changes periodically as contractually agreed.

Foreign Exchange Derivative / Cross Currency Swap A financial contract where the buyer and seller agree to swap floating cash flows between two different currencies, during a defined period of time.

FX Swap An FX Swap is a simultaneous purchase and sale of identical amounts of one currency for another with two different value dates (normally spot to forward).

Garden Leave A period of time, typically the notice period, where an employee leaving NAMA may be relieved from duty as an officer of NAMA until the expiry of their notice period. During any period of garden leave the NTMA continues to pay remuneration until the expiry date of the notice period.

Hedge Entering into an agreement to manage the risks of adverse changes in the price of an asset or liability.

Impaired Loan A loan is impaired when it is unlikely the lender will collect the full value of the loan.

Interest Rate Swap A derivative in which one party exchanges a stream of cash flows for another party's stream of cash flows based on a specified principal amount. Typically this comprises a swap of the cash flows equivalent to variable interest payments for cash flows equivalent to fixed interest payments on the same principal amount.

Inventories Properties acquired by NAMA and held on its statement of financial position.

Land and Development Loan Land and development loans include loans on land which have been purchased for the purpose of development, and loans secured on partly developed land.

Loan commitments Balance of credit NALML has committed to extend to customers.

GLOSSARY (CONTINUED)

Long-Term Economic Value (LTEV) The value as determined by NAMA in accordance with the NAMA Act, that an asset can be reasonably expected to attain in a stable financial system when the crisis conditions prevailing at the time of the passing of the Act are ameliorated and, in the case of property, in which a future price or yield of the property is consistent with reasonable expectations having regard to the long-term historical average.

Mark-to-Market Value The price or value of a security, portfolio or account that reflects its current market value rather than its book value.

OTC Over the Counter, refers to derivatives that are not traded on a recognised exchange.

Participating Institution A Credit Institution that has been designated by the Minister under Section 67 of the Act as a Participating Institution, including any of its subsidiaries that has not been excluded under that section.

Present Value A value on a given date of a future payment or series of future payments, discounted to reflect the time value of money and other factors such as investment risk.

Primary Servicer A Participating Institution managing debtors on NAMA's behalf within authority limits approved by the NAMA Board.

Profit Participating Loan A loan that provides the lender with a return that depends, at least in part, on the profitability of the borrower.

QIAIF - Qualifying Investor Alternative Investment Fund This is a regulated, specialist investment fund targeted at professional and institutional investors, who must meet minimum subscription and eligibility requirements.

Qualifying Advance An advance made by a Participating Institution to a borrower (whose loans are eligible assets) following the announcement of NAMA by the Minister for Finance on 7 April 2009. The advance is only qualifying if it was made as part of normal commercial banking arrangements. No discount applied to these advances.

Security Includes *(a)* a Charge, *(b)* a guarantee, indemnity or surety, *(c)* a right of set-off, *(d)* a debenture, *(e)* a bill of exchange, *(f)* a promissory note, *(g)* collateral, *(h)* any other means of securing—(i) the payment of a debt, or (ii) the discharge or performance of an obligation or liability, and *(i)* any other agreement or arrangement having a similar effect.

Short term treasury bonds Irish government treasury bonds acquired for liquidity management.

Special Purpose Vehicle A legal entity created to fulfill a narrow, specific or temporary well defined objective.

Subordinated Debt Debt which is repayable only after other debts have been repaid. NAMA pays 5% of the purchase price of the loans it acquires in the form of subordinated bonds.

Tranche A group of loans of different debtors, which transfer to NAMA at a specific point in time. The transfer of assets from Participating Institutions to the Group occurs in tranches.

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