National Asset Management Agency

Annual Report & Financial Statements 2016

National Asset Management Agency

Focused on Completing its Mandate Successfully

Section 10 of the NAMA Act requires NAMA to obtain the best achievable financial return for the State, deal expeditiously with the assets acquired by it and to protect or otherwise enhance the value of those assets. That is the core of NAMA's mandate.

Dublin Docklands SDZ

It is estimated that 4m sq. ft. of commercial space and in excess of 2,000 apartments could potentially be delivered if all 15 sites in which NAMA originally held an interest were to be fully developed over the lifetime of the Dublin Docklands SDZ scheme.

Residential Delivery

NAMA may fund, subject to commercial viability, the delivery of 20,000 new residential properties in Dublin, the surrounding counties of Wicklow, Kildare and Meath and larger urban centres such as Cork and Galway to end-2020. Since 2014, the Agency has already funded the delivery of 4,840 units countrywide.

Paying Back Debt

NAMA's primary commercial objective is to redeem all of its senior debt. To date, it has redeemed over 98% of the €30.2 billion of senior debt originally issued in 2010 and 2011 to acquire bank loans.

Gníomhaireacht Náisiúnta um Bhainistíocht Sócmhainní
National Asset Management Agency

17 May 2017

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 2016.

Yours sincerely,

Frank Daly
Chairman

Brendan McDonagh
Chief Executive Officer

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Key Strategic Objectives Set by the NAMA Board

Strategic Objective		Progress
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.	**98% redeemed** NAMA's senior debt as at end-April 2017 now stands at €500m, less than 2% of its original level.
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.	**€2.4 billon** €2.4 billion has been advanced to date in capital expenditure for new and existing projects since 2010.
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.	**82%** By end-2016, 82% of NAMA's original interests in the Docklands SDZ were under construction, had received planning permission or had been sold with the benefit of planning permission.
4	NAMA aims to facilitate the completion of 20,000 new residential units, subject to commercial viability, principally in the Dublin area, in the period to the end of 2020 and, through intensive asset management of residential sites, aims also to maximise the number of sites that are ready for development.	**4,840** Between 2014 and end-March 2017, a total of 4,840 new residential units were completed on sites funded by NAMA.
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.	**2,378** 2,378 homes were delivered for social housing by NAMA to end-2016.

Key Financial Indicators 2016

NAMA generated €1.5 billion profit in 2016. NAMA's continued strong performance since inception means that the NAMA Board expects to return a terminal surplus to the State – **currently estimated at €3 billion** - upon completion of its work.

2016 Profit

€1.5bn

2016 Senior Bond Redemptions

€5.5bn

Senior Bond Redemptions (98%)

€29.7bn

Inception to end-April 2017

2016 Cash Generation

€5.4bn

2016 Disposal Receipts

€5.0bn

Key Business Highlights

Dublin Docklands SDZ

Pre-Planning

760,000 sq. ft.

Pre-planning work is underway on the remaining sites to deliver an estimated 760,000 sq. ft. of commercial space and some 860 residential units.

Planning Permission

756,000 sq. ft.

Planning permission is in place for 756,000 sq. ft. of commercial development space and some 350 residential units across four sites.

Construction Commenced

1.8m sq. ft.

Construction has commenced on sites that will deliver 1.8m sq. ft. of commercial space (mainly Grade A offices) and some 230 apartments.

Construction Completed

47,500 sq. ft.

Construction has completed on 47,500 sq. ft. of office space and the completed development has been let and sold.

Sites Sold

650,000 sq. ft.

Sites with planning permission for 650,000 sq. ft. of commercial space and some 650 residential units were sold on the open market by NAMA receivers or investment partners after planning permission was received.

Residential Delivery

4,840

Since 2014, NAMA has funded the construction of 4,840 new residential units in Ireland on residential development land securing its loan portfolio.

7,475

Planning permission has been granted for an additional 7,475 units.

2,064

As at end-March 2017 an additional 2,064 units were under construction by NAMA-funded developers and receivers. Funding had been approved for an additional 1,114 units which had planning granted, but were not yet under construction.

10,000+

Planning applications have been lodged or will be lodged within 12 months for an additional 10,000+ units.

Social Housing

6,941

By end-2016, NAMA had offered 6,941 residential properties for social housing purposes. Demand was confirmed by local authorities for 2,748 properties.

2,378

2,378 homes were delivered for social housing by end-2016.

€300m+

NAMA has invested or committed over €107m to remediate and complete properties for housing and invested over €200m to purchase houses and apartments through its special vehicle for acquiring social housing units, NARPS.

Facilitating Business and Employment in Ireland

IDA Ireland

NAMA continues to work closely with IDA Ireland and other State agencies in identifying suitable properties for Foreign Direct Investment.

Rent Abatements

NAMA has approved rent abatements with an annual aggregate value in excess of €24.5m.

Chairman's Statement

2016 was a year in which NAMA made further significant progress towards meeting its various key objectives.

2016 was a year in which NAMA made further significant progress towards meeting its various key objectives. The €5.5 billion of senior debt redeemed during the year brought the total senior debt redeemed to end-2016 to €27.6 billion. Since then, we have redeemed another €2.1 billion which means that 98% of the €30.2 billion of NAMA senior debt has now been redeemed. We expect to redeem the remaining €500m in senior debt later in 2017 and our subordinated debt of €1.6 billion by 2020. In addition, we have revised upwards our expectation for our projected terminal surplus – the new projection is for a surplus of up to €3 billion.

Major progress has also been made on a number of other important objectives. In late 2013, we gave an undertaking to the Minister for Finance that we would seek to facilitate and fund the delivery of 4,500 homes by end-2016. That target was exceeded and some 4,700 homes were delivered by end-2016.

We remain committed to facilitating and funding much-needed housing delivery in the period to 2020. In addition to what has been delivered to date, much progress has been made in terms of preparing a pipeline of sites for development. Some 10,500 units are either under construction or have obtained planning permission. Sites with a delivery capacity of another 10,000 units are either in the planning system or will be shortly. Pre-planning and feasibility work is underway on sites which have a delivery capacity for another 20,000 units.

The housing supply shortage will require a range of responses from the public and private sectors and NAMA is committed to making its contribution by funding the delivery of housing from sites controlled by its debtors and receivers, subject to commercial viability. It must be recognised, however, that NAMA debtors and receivers control less than a quarter of the residential development sites in the Greater Dublin area and that means that the owners of the other 75% of residential land arguably have a much greater role to play in addressing the current supply shortage.

Overall, there is no shortage of residential sites available for development in Dublin or elsewhere. The difficulty is that many of these sites are not commercially viable to develop given current sales prices and current construction costs. It is widely recognised that Irish construction costs are relatively high, particularly by comparison with the UK. A working group on construction costs, chaired by the Department of Housing, Planning, Community and Local Government, has been charged with producing a comprehensive analysis of construction cost issues and we hope that its findings will act as a catalyst for any additional policy responses that may be required. However, it must also be recognised that there are some commercially viable sites which are not being developed and there is a need for a policy response to deal with such sites.

The commercial viability of apartment development presents particular challenges. In a submission that NAMA made to the Minister for Finance in January 2017, we suggested that consideration be given to relaxing current height restrictions on apartment developments in major densely-populated urban locations such as Dublin, Cork, Limerick and Galway. Greater flexibility in this respect would enhance the commercial viability of some apartment projects which would otherwise be marginal or uncommercial to develop. Ultimately, given the scale of residential need, particularly in Dublin, taller apartment buildings in selected areas must have a major contribution to make in fulfilling that need.

We also suggested that greater flexibility in relation to expensive basement car parking requirements would improve the commercial viability of certain apartment schemes, particularly in city centre locations or locations which are otherwise already well served in terms of access to good quality public transport. There are lessons to be learned here from comparable developments abroad.

We continue to work towards maximising the delivery of social housing from properties controlled by our debtors and receivers. We offered almost 7,000 vacant houses and apartments owned by our debtors and receivers to the Housing Agency. Demand was confirmed for 2,748 of these properties and, to date, close to 90% have been delivered or contracted for delivery to local authorities and approved housing bodies. By the time all properties are delivered under this initiative, we will have spent about €330m in remediating, completing and buying properties, some of which have been acquired through our special purpose social housing vehicle, NARPS.

In one respect, 2016 proved to be a difficult year for NAMA. In September 2016, the C&AG's special report into the sale of Project Eagle was published. This was followed in March 2017 by the Public Accounts Committee examination of the sale. Both reports included a number of findings with which we strongly disagreed. I do not wish to rehearse again the various arguments and counter-arguments which have been well aired at this stage. A decision has been taken to establish a commission of investigation into the sale and we will commit all necessary resources towards ensuring that the commission receives all of the information that it requires and that is held by NAMA. We welcome, in particular, the intention, as included in the commission's terms of reference, that the commission shall avail of appropriate and independent commercial and financial expertise to inform its investigation.

Broadly speaking, NAMA has evolved through three major phases of activity. The first phase involved acquiring €74 billion in loans (which were only worth €26 billion) from the Participating Institutions, recruiting the requisite expertise to manage the acquired portfolio and putting in place a governance framework that balanced the need for commercial agility with public accountability. The second phase involved engaging intensively with debtors and receivers, working assiduously to enhance asset values and implementing asset disposal schedules. We have now entered the third phase of our work – our wind-down - which involves completing our remaining deleveraging activity and implementing our residential delivery and Dublin Docklands SDZ programmes by 2020.

From the vantage point of 2017, we take particular pride in the fact that our senior debt will have been redeemed three years ahead of the 2020 target date originally envisaged. This is a major burden which has been taken off the heavily-indebted State.

I very much appreciate the hard work of my colleagues on the Board, and that of the Chief Executive Officer, the Executive team and the staff of NAMA and their contribution towards making 2016 a year of significant achievement for NAMA.

Frank Daly
Chairman

Chief Executive Officer's Statement

Critical to our ability to redeem our debt in full has been the cash that has been generated from asset sales by our debtors and receivers.

2017 represents an important milestone in NAMA's evolution. By the end of the year, we expect that our senior debt of €30.2 billion will be fully redeemed and our primary commercial objective thereby achieved. Elimination of this State-guaranteed contingent liability for Irish taxpayers is a significant achievement in itself but the progress that was made in reducing it by two-thirds (€20 billion) between early 2014 and late 2016 also made a major contribution in terms of enabling Ireland to re-access the debt markets and in stabilising and reducing the funding cost of Ireland's debt.

In the early years of NAMA, I, like many others, harboured some doubts as to whether we would ever be in a position to redeem all of our senior debt. The continued fall in Irish property prices in the three years up to end-2012 meant that, by then, the Irish assets securing our loans were worth a lot less than the November 2009 valuations which determined our loan acquisition prices.

Critical to our ability to redeem our debt in full has been the cash that has been generated from asset sales by our debtors and receivers and from a number of major loan sales. Crucial to that in turn has been the strong international and domestic investor interest in Irish assets since Ireland exited the Troika programme at the end of 2013. In total, almost €40 billion in cash has been generated from inception to date, including €5.4 billion generated in 2016.

Among the larger asset sales transacted during 2016 were the sale of One Spencer Dock, a major office development on Dublin's North Wall Quay, and the sale of the Gresham Hotel in Central Dublin. Major loan portfolio sales included a number of multi-connection portfolios (Projects Emerald, Ruby and Gem) which totalled €6.7 billion in par debt and a number of single or connected debtor portfolios, including Project Abbey, Project Beara and Project Tolka which totalled €2.3 billion in par debt.

Our sales programmes are recognised internationally to be among the best prepared and the most competitive and they attract strong interest from bidders. We currently envisage that only one more loan portfolio will be offered for sale in 2017 – Project Lee, a portfolio of loans secured largely by commercial assets located in Cork.

The carrying value of the overall loan portfolio at the end of 2016 was €4 billion and approximately 60% of this relates to the residential delivery and Dublin Docklands SDZ programmes. The other 40% of the loan portfolio is secured for the most part by a large volume of low-value assets, many of which will require meticulous workout if their value is to be optimised. To date, the sale of some of these assets has been delayed by litigation or by other complications, many of them legal. Notwithstanding the fact that this final phase of disposal will be a relatively slow process, we expect that much of our deleveraging work will be completed by 2018.

NAMA generated a profit of €1.5 billion in the 2016 financial year. In addition to net interest income of €315m, the main sources of profit were (i) surplus income of €729m and (ii) a profit of €381m on the disposal of loan and property assets. Surplus income arises when the total actual or projected net cash inflows relating to a debtor's loans exceed the carrying value of the loans. The surplus income contribution in 2016 reflects the impact of market recovery but also the detailed asset management and corporate finance work that has been dedicated by NAMA staff in earlier years towards enhancing asset values through planning work, remediation and capital expenditure. The treatment of the surplus income is in line with industry and accounting standards.

In addition to our residential funding programme, to which the Chairman has referred in his statement, another major area of activity for NAMA has been the development of the Dublin Docklands Strategic Development Zone (SDZ). In 2014, we originally held an interest in about 75% of the developable land area in the SDZ; this area has the capacity to deliver 4m square feet of commercial space and over 2,000 residential units.

The development of the Docklands SDZ has gathered strong momentum over recent years: construction has started on sites which are expected to deliver about 45% of the commercial space; planning permission has been obtained for another 19% and pre-planning work is underway on another 19%. NAMA has sold its interest in the remaining 17% of commercial space. Most of the development work being carried out in the Docklands SDZ is being funded through private capital without taxpayers' money being placed at risk.

Whilst the primary purpose of NAMA's residential funding and the Dublin Docklands development programmes is to enhance the commercial return on our acquired loans, the two programmes will also make a significant economic and social contribution by addressing supply shortages in prime office accommodation and in housing.

The major progress made in 2016 and indeed from inception reflects well on the commitment of the Board, Board Committees, the Executive team, the staff assigned to NAMA and to those within the wider NTMA who also contributed. I also wish to pay tribute to the contribution that was made by staff who have left NAMA as part of our voluntary redundancy programme over the past eighteen months.

Much still remains to be done in order to complete our work and achieve our strategic objectives. We look forward in 2017 to making further progress towards achieving those objectives in a manner that ensures positive outcomes, on a number of fronts, for the Irish State.

Brendan McDonagh
Chief Executive Officer

Paying Back Debt

Achieving our Primary Strategic Objective

NAMA's primary commercial objective is to redeem all of its senior debt (€30.2 billion). As of April 2017, 98% of senior debt had been redeemed.

Paying Back Debt

NAMA paid €31.8 billion for its acquired loan portfolio, comprising €30.2 billion in State-guaranteed senior debt and €1.6 billion in subordinated debt. After the NAMA Board had an opportunity to review the profile of the assets securing the acquired loan portfolio, it set strategic targets in early 2012 for redemption of its debt. This included a target of redeeming 50% of all of its debt by end-2016. This corresponded to a cumulative €15.5 billion in senior debt. During Ireland's participation in the EU/IMF/ECB programme of financial support (2010-13), the Troika monitored closely NAMA's end-2013 target of redeeming €7.5 billion (25%) of senior debt. The Board's targets were set at a time when Irish commercial and residential property prices were still falling and when the near-term outlook for the Irish economy was far from positive. Furthermore, it was unclear at that stage whether Ireland would be in a position to exit the Troika Programme at the end of 2013.

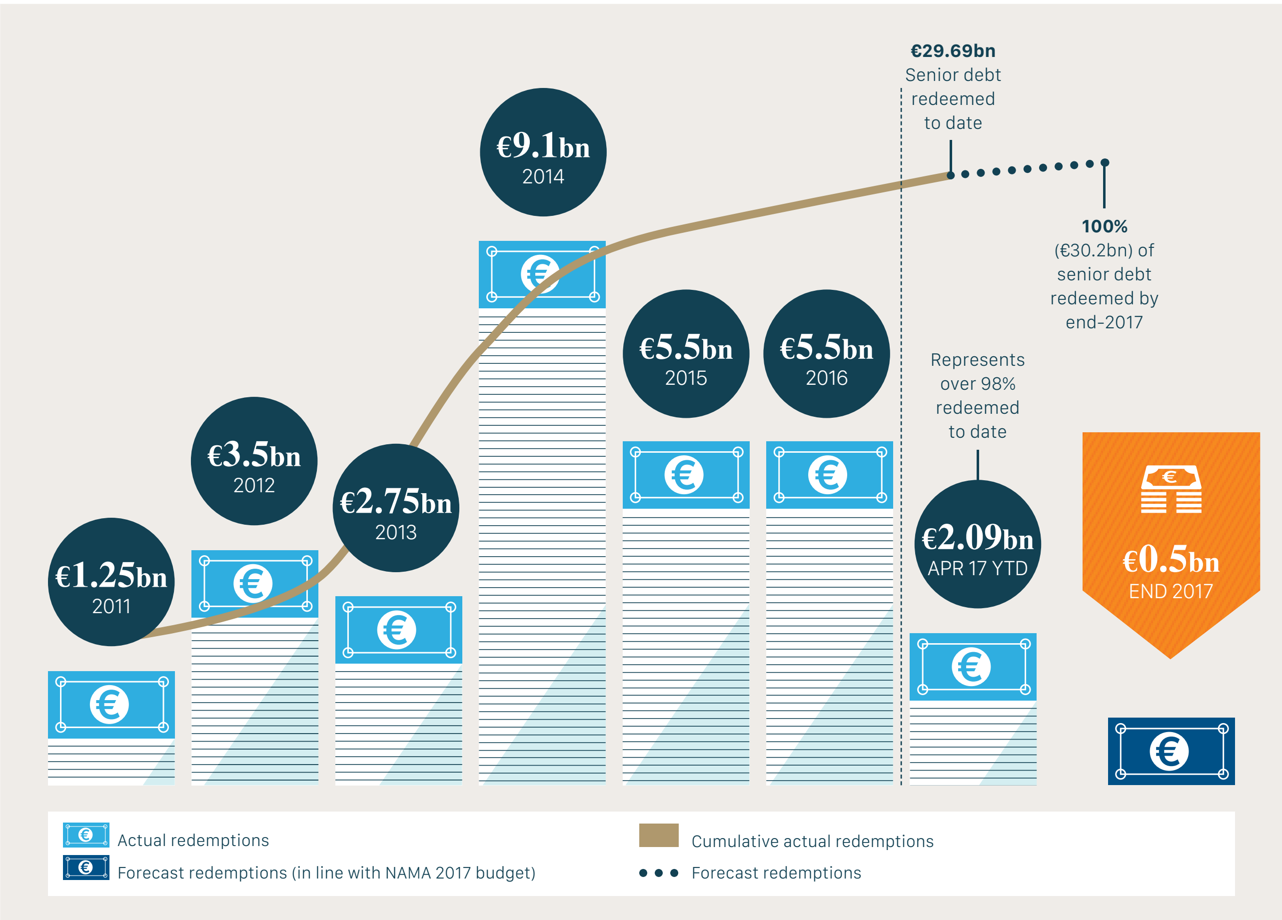
As Irish economic and property market recovery took hold in 2013 and 2014, and as it became evident that the influx of major investors into the Irish property market was creating opportunities for accelerated deleveraging, the NAMA Board revised its debt redemption targets. It set a revised target of redeeming 80% of its senior debt by end-2016. This target was ultimately outperformed: by end-2016, €27.6 billion or 91% of the senior debt had been redeemed.

An additional €2.09 billion of senior debt has been redeemed from the start of January up to end-April 2017, thereby bringing cumulative senior debt redemption to €29.69 billion, 98% of senior debt originally issued.

With the Government-guaranteed NAMA senior debt now reduced to €500m, less than 2% of its original level, NAMA is close to achieving, three years ahead of the 2020 target date originally envisaged, its primary objective of redeeming its senior debt. It is expected that the residual senior debt - €500m – will be redeemed by end-2017. This substantial debt repayment has not only eliminated a contingent liability for Irish taxpayers but it has also contributed to stabilising and reducing the funding cost of Ireland's debt. NAMA expects to redeem its subordinated debt of €1.6 billion by March 2020.

Senior debt redemption targets and actual redemptions are summarised below.

Senior Debt Repayments



Business Overview

NAMA has structured its business into three major activities which align to its overall objectives. The separate structure and business models applied to each activity are designed to facilitate the delivery of NAMA's key strategic objectives as outlined below:

Deleveraging Activity

This involves the workout of many of the residual loans held by NAMA. It seeks to maximise the value of these assets through effective workout strategies with debtors and receivers and through capital investment in assets where it will enhance value to the taxpayer. As at March 2017, there were 256 debtors remaining under management of which 158 were in consensual strategies and 98 were subject to enforcement.

Dublin Docklands SDZ

NAMA has committed to facilitating the timely and coherent delivery of key Grade A office, retail and residential space within the Dublin Docklands Strategic Development Zone (SDZ) where a number of assets secure NAMA loans. By end-2016, 82% of NAMA's original interests in the Docklands SDZ were under construction, had received planning permission or had been sold with the benefit of planning permission.

Residential Delivery

NAMA aims to maximise the delivery of residential units by end-2020 through funding debtor and receiver residential projects which are commercially viable.

NAMA expects that its deleveraging work will be mostly completed by 2018 and its focus over the period from 2018 to 2020 will be on completing its Dublin Docklands SDZ and residential delivery funding programmes.

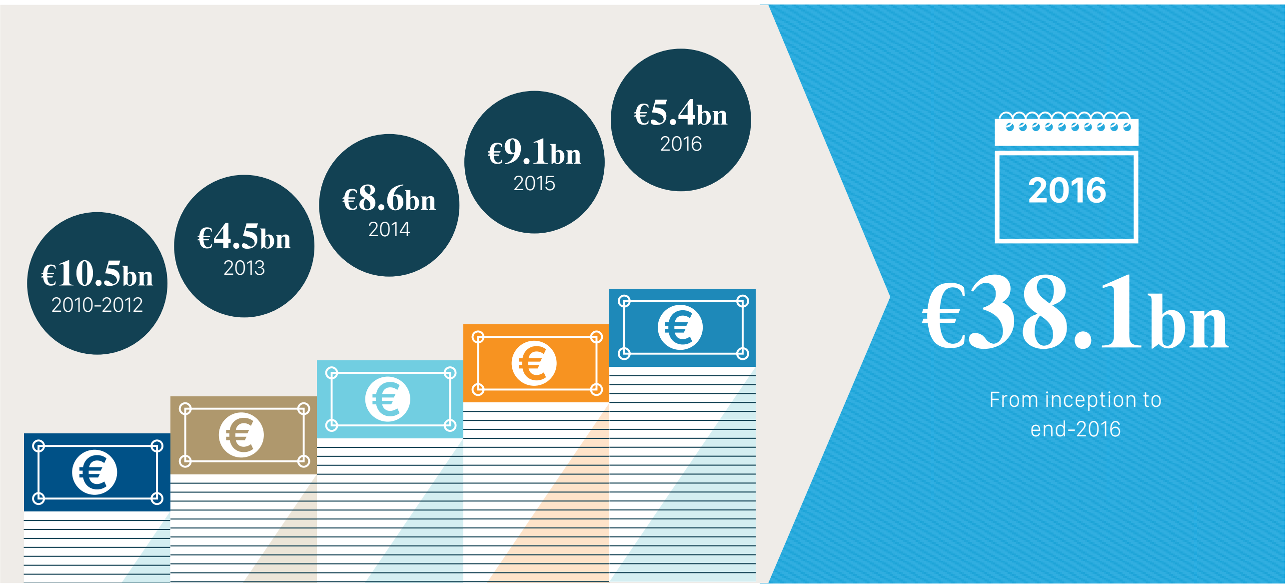
Deleveraging Activity

Disposals and Cash Generation

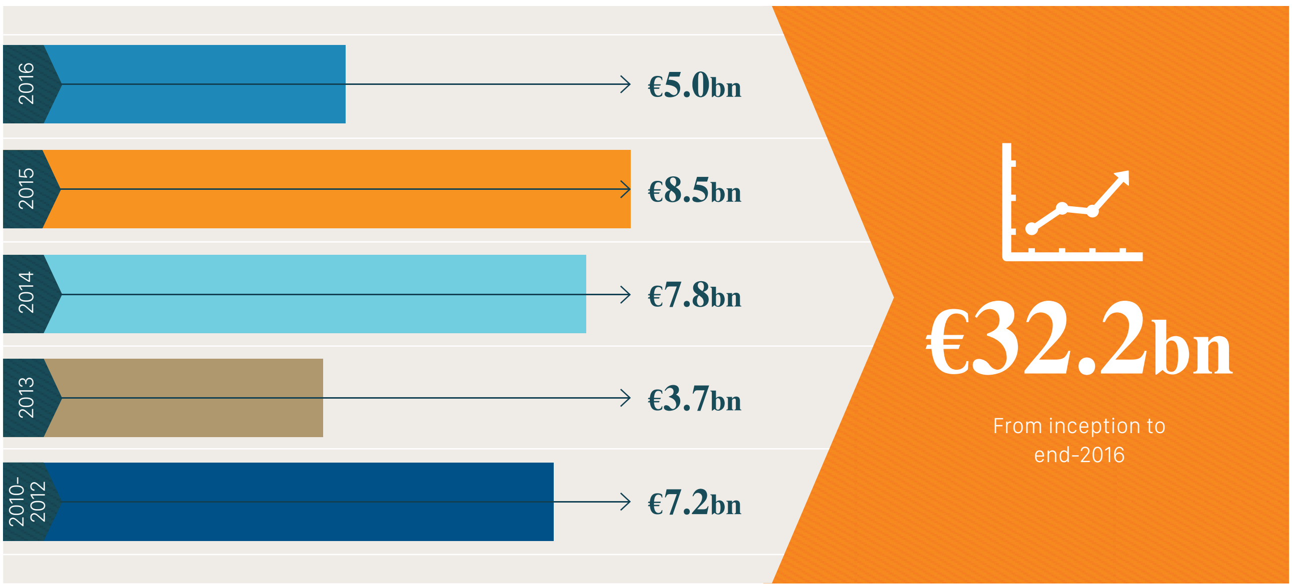
Cash generation is a critical measure of the progress being made by NAMA in meeting its stated objectives. By end-2016, NAMA had generated €38.1 billion in cash, principally through asset and loan sales. Due to this strong cash generation performance, NAMA remains on course, subject to market conditions, to redeem all of its senior debt by end-2017. During 2016, NAMA generated €5.4 billion in cash with €5.0 billion realised from the sale of loans, property and other assets.

In addition to ensuring, in accordance with Section 10 of the NAMA Act, that NAMA obtains the best achievable return for the State on its acquired bank assets, such deleveraging creates wider benefits for Ireland. NAMA's accelerated disposal programme has been a material factor in decisions by credit rating agencies to upgrade credit ratings for Ireland.

Cumulative Cash Generation



NAMA Asset Disposals



Asset and Loan Sales by Location

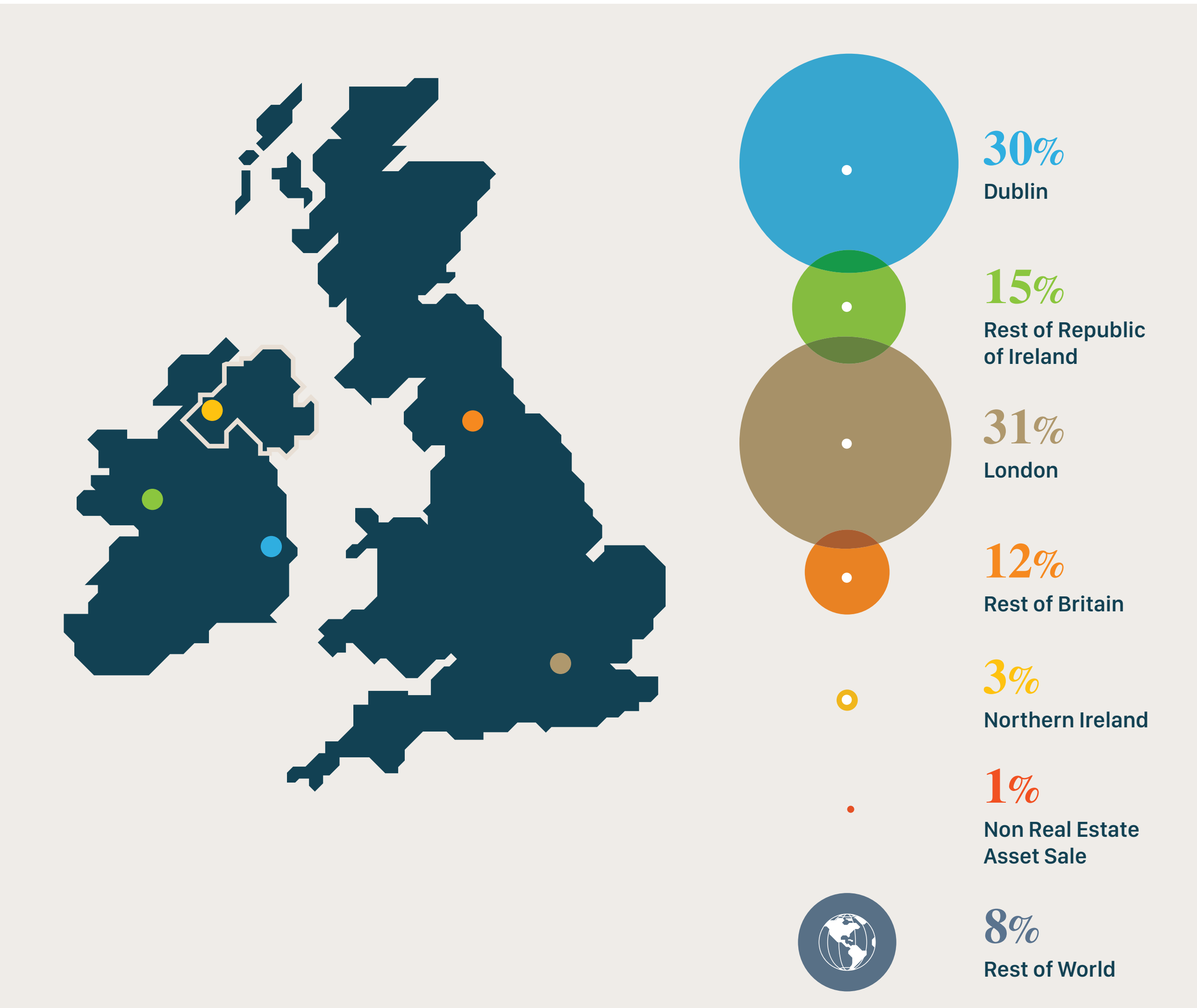
NAMA's approach in each of its main markets has been to release assets for sale in a phased and orderly manner that is consistent with the level of demand, the availability of credit and the absorption capacity of each market.

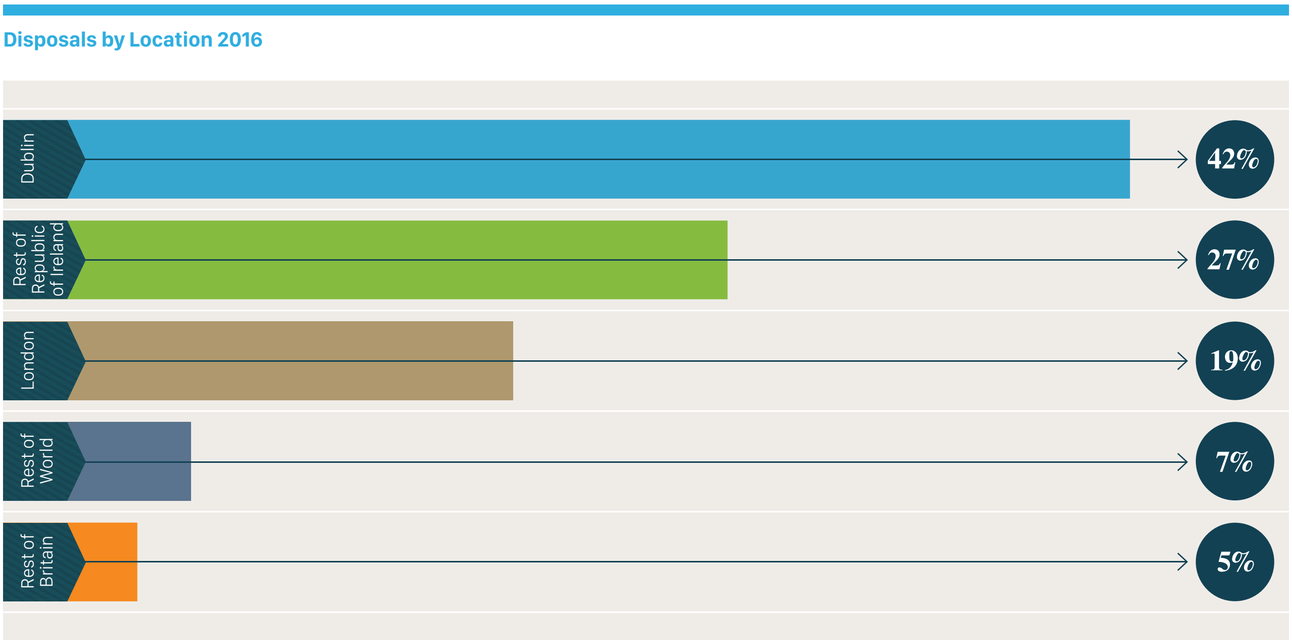
In the period between 2010 and 2012, assets located in Britain accounted for almost 80% of all NAMA disposals. Assets located in Ireland, by contrast, accounted for just 12% of disposals during that period. That approach meant that the Irish market was not overwhelmed with supply at a time when its absorption capacity was low. In relation to Irish assets, the focus was on asset management to enhance their future disposal value, most notably, by working with debtors and receivers to complete unfinished projects, to fund viable commercial and residential development and to enhance planning permissions and remove other obstacles to development.

Since mid-2013, improved Irish market conditions have enabled NAMA debtors and receivers to sell a much greater volume of assets at attractive pricing. That, in turn, has enabled NAMA to accelerate its senior debt repayments and thereby progressively reduce the contingent liability of Irish taxpayers. The value of loans and assets sold as at end-2016 was €32.2 billion.

The table below presents an analysis of disposals by location from 2010 to end-2016.

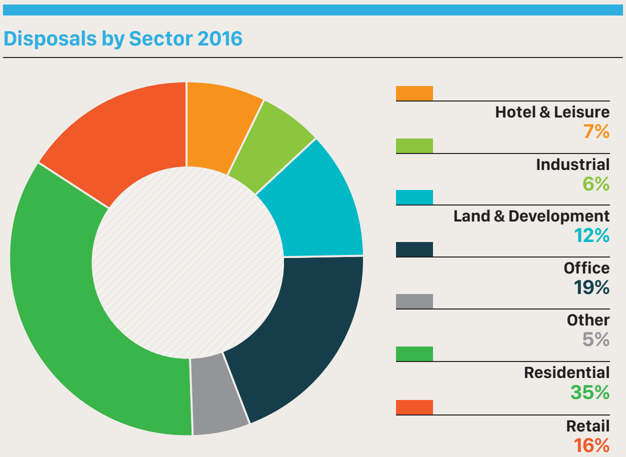
Disposals by Location 2010 to end-2016

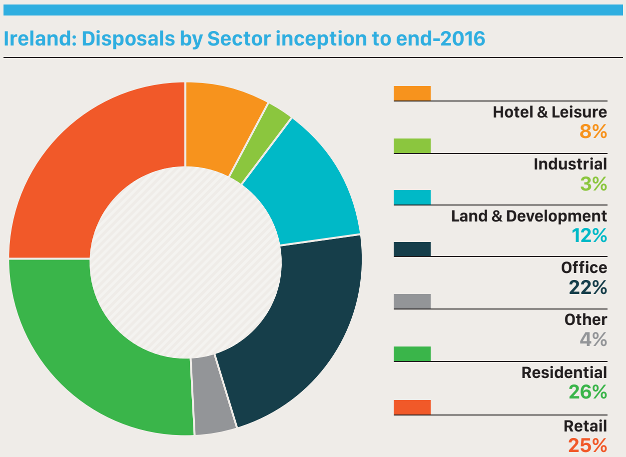




Asset and Loan Sales by Sector

A breakdown of disposals by sector for 2016 across all geographic locations and the breakdown of Irish disposals by sector for the period 2010 to end-2016 are shown below. The most active sectors in 2016 were Residential (35%) and Office (19%).





Asset and Loan Sales by Transaction Type

In 2016, asset sales accounted for 63% of disposals and loan sales accounted for another 32% with the residual 5% accounted for by loan redemptions.

Market Trends 2016

In 2016, investment in Irish commercial real estate (CRE) totalled €4.47 billion, just slightly below the record level of €4.51 billion set in 2014. Two non-NAMA retail transactions dominated activity – the sale of Blanchardstown Centre for a reported €950m and the sale of Liffey Valley Shopping Centre for a reported €630m. Other significant transactions included the sale of One Spencer Dock in the Dublin Docklands (€242m), Whitewater Shopping Centre in Newbridge, Co. Kildare (€180m) and The Oval, Ballsbridge (€140m).

2016 also witnessed the emergence of major European investors in the Irish market. Demand for prime Irish investment assets is now being driven mainly by Irish and European institutional investors.

A notable trend in 2016 was the reduced participation of private equity investors in direct asset purchases – their share of market turnover fell from 53% in 2012 to 12% in 2016. By contrast, the market share of long-term institutional investors increased from negligible levels in 2012 to 74% in 2016.

To date, the outcome of the Brexit referendum in June 2016 does not appear to have dampened international investor interest in prime Irish CRE assets. While Brexit may be negative for certain sectors of the Irish economy, commercial property is expected to benefit from relocation decisions by some businesses currently located in Britain.

Residential prices increased by 7.9% in 2016. A number of measures which are likely to support residential development over the coming years were also introduced during the year. In July 2016, the Government published its strategy on housing ***(Rebuilding Ireland)*** which aims to put in place a coherent, long-term housing policy.

Budget 2017 introduced a Help-to-Buy scheme to provide first-time buyers with a rebate of income tax of up to 5% of the purchase price of a new home (rebate capped at €20,000). In November 2016, the Central Bank of Ireland amended the macro prudential rules so as to reduce the deposit requirement (to 10%) for first time buyers up to certain price thresholds. In December 2016, the Rent Predictability Measure was introduced by the Minister for Housing, Planning, Community & Local Government– this caps rental inflation at 4% in certain designated areas.

Major NAMA Portfolio and Asset Sales in 2016

Project Liffey
Completed February 2016

A portfolio of four office developments in Dublin city centre with a total area of 145,000 sq. ft.

Whitewater Shopping Centre, Newbridge, Co. Kildare
Completed March 2016

A large shopping centre (321,000 sq. ft.) which attracted significant international and domestic investor interest.

Project Hazel
Completed April 2016

A portfolio of four retail shopping centres located in Cashel, Cork, Drogheda, and Galway.

One Spencer Dock
Completed August 2016

The PWC Headquarters on Dublin's North Wall Quay - one of the largest ever office sales in the Dublin market; the purchaser was a new international entrant to the Irish market.

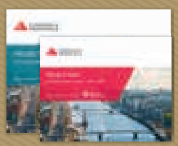
Project Gresham
Completed September 2016

The four-star Gresham Hotel, Central Dublin with 323 rooms and 10 suites; the purchaser was a new international entrant to the Irish market.

Madrid Collection
Completed December 2016

A collection of commercial and residential properties which formed a significant development block adjacent to Grafton Street in Central Dublin.

Major NAMA Loan Portfolio Sales in 2016

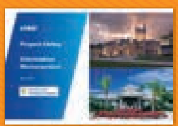


Projects Emerald and Ruby

Two multi-connection loan portfolios, totalling about €4 billion par debt and secured by assets predominantly located in Ireland and Britain, were sold to Oaktree Capital in Q3 2016.

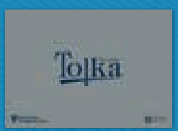
Project Beara

A single debtor connection portfolio, with a par debt of €230m and secured mainly by Irish retail assets, was sold to Deutsche Bank in Q3 2016.



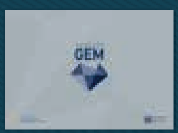
Project Abbey

A single debtor connection portfolio, with par debt of €630m and secured by hotels, shopping centres, offices and land located in Ireland, England and Antigua, was sold to Apollo Global Management in Q3 and Q4 2016.



Project Tolka

A €1.4 billion par debt portfolio, secured mainly by Irish office and hotel assets, was sold to Colony Capital in Q4 2016.



Project Gem

A €2.7 billion par debt multi-connection portfolio, secured by assets predominantly located in Ireland, was sold to Cerberus Capital Management in Q4 2016.

Funding by Sector

In addition to funding new residential and commercial projects, NAMA also provides capital expenditure to enhance the value of existing assets and thereby make them more attractive to purchasers. Since its inception, NAMA has advanced substantial development funding for Irish projects and expects to approve substantial additional funding for residential projects, on a commercial basis, over the period to end-2020. The table below shows the breakdown of capital expenditure by sector since inception. A total of €2.4 billion has been advanced to date in capital expenditure for new and existing projects. 68% of this related to the residential sector across NAMA's entire portfolio.

Capital Expenditure by Sector to date

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Dublin Docklands SDZ

Achieving our Key Strategic Objectives

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

A
Block 2
Spencer Dock
B
Block 3
Mayor St/
Castleforbes St
C
Block 5
Wintertide
D
Block 7
Spencer Dock
E
Block 8
Dublin Landings
F
Block 9
North Wall Quay
G
Block 10A
Wintertide
H
Block 10B
EXO
I
Point Square
Shopping Centre
D
K
L
P
N
O
Q


J
New Road
K
Block 14A
76 Sir John Rogerson's Quay
L
Block 14B
5 Hanover Quay
M
Block 15A
Capital Dock
N
Block 15B
8 Hanover Quay
O
Block 15C
10-12 Hanover Quay
P
Block 17
Bolands Quay
Q
Block 19
Waterways Ireland
A
B
E
C
F
G
H
I
M
J

Dublin Docklands SDZ

The North Lotts and Grand Canal Docks area of the Dublin Docklands was designated as a Strategic Development Zone (SDZ) in December 2012 and the Docklands SDZ planning scheme was approved by An Bord Pleanála in May 2014. The SDZ plan divides the Docklands into 20 development blocks. NAMA originally held an interest in 15 of the 20 blocks and developed detailed strategies for each of the 15 blocks. NAMA's interest related to 16.74 hectares (41.25 acres) - 75% of the 22 hectares of developable land in the Dublin Docklands SDZ area.

It is estimated that 4m sq. ft. of commercial space and in excess of 2,000 apartments could potentially be delivered if all 15 sites in which NAMA originally held an interest were to be fully developed over the lifetime of the Dublin Docklands SDZ scheme. The extent of NAMA's involvement varies from site to site. To date, planning has been secured for more than 3m sq. ft. of office space and 1,200 apartments in the SDZ area. Construction has commenced on 1.8m sq. ft. of office accommodation which is due for delivery in 2018/2019.

Infrastructure Works

The Dublin Docklands SDZ Planning Scheme required the provision of a new road connecting Sheriff Street Upper and North Wall Quay adjacent to the Point Village Hub. Planning permission for this road was granted in November 2015 and it is scheduled for completion in June 2017. The new road will facilitate commercial and residential development on the adjoining sites.

Planning and detailed design works continue on the remaining sites and a dedicated team in NAMA, together with NAMA's receivers and investment partners, works closely with Dublin City Council as the Development Agency to deliver on the objectives of the SDZ Planning Scheme.

Achieving Strategic Objectives

Dublin Docklands SDZ – Progress as at end-Q1 2017

Pre-planning	**760,000 sq.ft.** Commercial **860** Residential Units	O 10-12 Hanover Quay B Mayor St. F North Wall Quay Q Waterways Ireland
Planning submitted/granted	**756,000 sq.ft.** Commercial **350** Residential Units	E Dublin Landings (Residential) K 76 Sir John Rogerson's Quay G Wintertide H Exo Building
Construction commenced	**1.8m sq.ft.** Commercial **230** Residential Units	P Bolands Quay M Capital Dock City Quay* L 5 Hanover Quay (Commercial) J New Road E Dublin Landings (Commercial)
Construction completed	**47,500 sq.ft.** Commercial	N 8 Hanover Quay
Sites sold	**650,000 sq.ft.** Commercial **650** Residential Units	A/D Spencer Dock L 5 Hanover Quay (Residential) C Wintertide

** Outside Docklands SDZ area.*

Examples of Dublin Docklands SDZ Projects

Wintertide - Block 5

A NAMA-appointed Receiver controlled this site with NAMA and CIE holding a minority shareholding. Planning permission was granted in May 2016 for accommodation for 935 student residences. The site was subsequently sold in October 2016 to Blackrock Investments and is currently under construction.

South Docks Fund - 5 Hanover Quay

NAMA holds a minority shareholding in this fund, with Oaktree as majority shareholder. The fund is structured as an ICAV and is authorised by the Central Bank of Ireland. Planning permission was granted in April 2015 for 205,000 sq. ft. of commercial space and 100 residential units. In early 2016, the residential element was sold to Cairn Homes Plc. Construction works have commenced on the office element which is due for delivery in 2018.

Dublin Landings

Oxley Holdings Limited acquired a long leasehold interest from NAMA with the right to develop, manage and realise the value of the site. NAMA retains the freehold interest and will receive a secure income stream in addition to a percentage of any future sales proceeds. The project will include up to 700,000 sq. ft. of office and retail space, with five office buildings which are set to be completed by 2020. Construction is at an advanced stage on two of the office blocks. The National Treasury Management Agency has signed an Agreement for Lease in respect of 83,000 sq. ft. in a waterfront building which is scheduled for completion by late 2018. Construction works have also commenced on the three other office buildings and a residential block.

City Development Fund - 8 Hanover Quay

NAMA held a minority shareholding in this fund, with Oaktree as majority shareholder. The fund is structured as an ICAV and is authorised by the Central Bank of Ireland. One of the buildings in the fund, 8 Hanover Quay, comprising 47,000 sq. ft. office space, was pre-let to a US corporation, Airbnb, in December 2014 and sold to a BNP Paribas Real Estate Fund in early 2016.

City Development Fund - 13-18 City Quay

The City Development Fund acquired this site in 2013. During 2016, a pre-let of the eight-storey office block of 117,000 sq. ft. was secured to Grant Thornton under a 25 year lease and has been sold in a forward-funding structure to Irish Life Investment Managers. The development is due to be completed in 2018.

Capital Dock

NAMA holds a minority shareholding in this fund, with Kennedy Wilson being the majority shareholder. It is structured as a QIAIF and is authorised by the Central Bank of Ireland. Planning permission was granted in October 2015 for 409,000 sq. ft. of commercial development and 190 apartments. Construction is well advanced on the six buildings and is due for completion in 2019.

Bolands Quay

A NAMA-appointed Receiver controls this mixed-use development. Planning permission was granted in July 2015 for 330,500 sq. ft. of commercial development, 41 residential units and ancillary space. Demolition works, conservation works and enabling works were subsequently carried out and, in March 2017, following a detailed tender process, the Receiver appointed BAM Ireland Ltd as the main contractor to carry out the construction.

Exo Building

NAMA-appointed Receivers obtained planning permission in March 2016 for what will be Ireland's tallest office block, a 73 metre building at the Point Village.

The 17 storey building will have the capacity for approximately 2,000 office workers. In May 2017, the Receiver announced plans to seek tenders for the construction of the project which is expected to be completed in 2019.

Residential Delivery

Achieving our Key Strategic Objectives

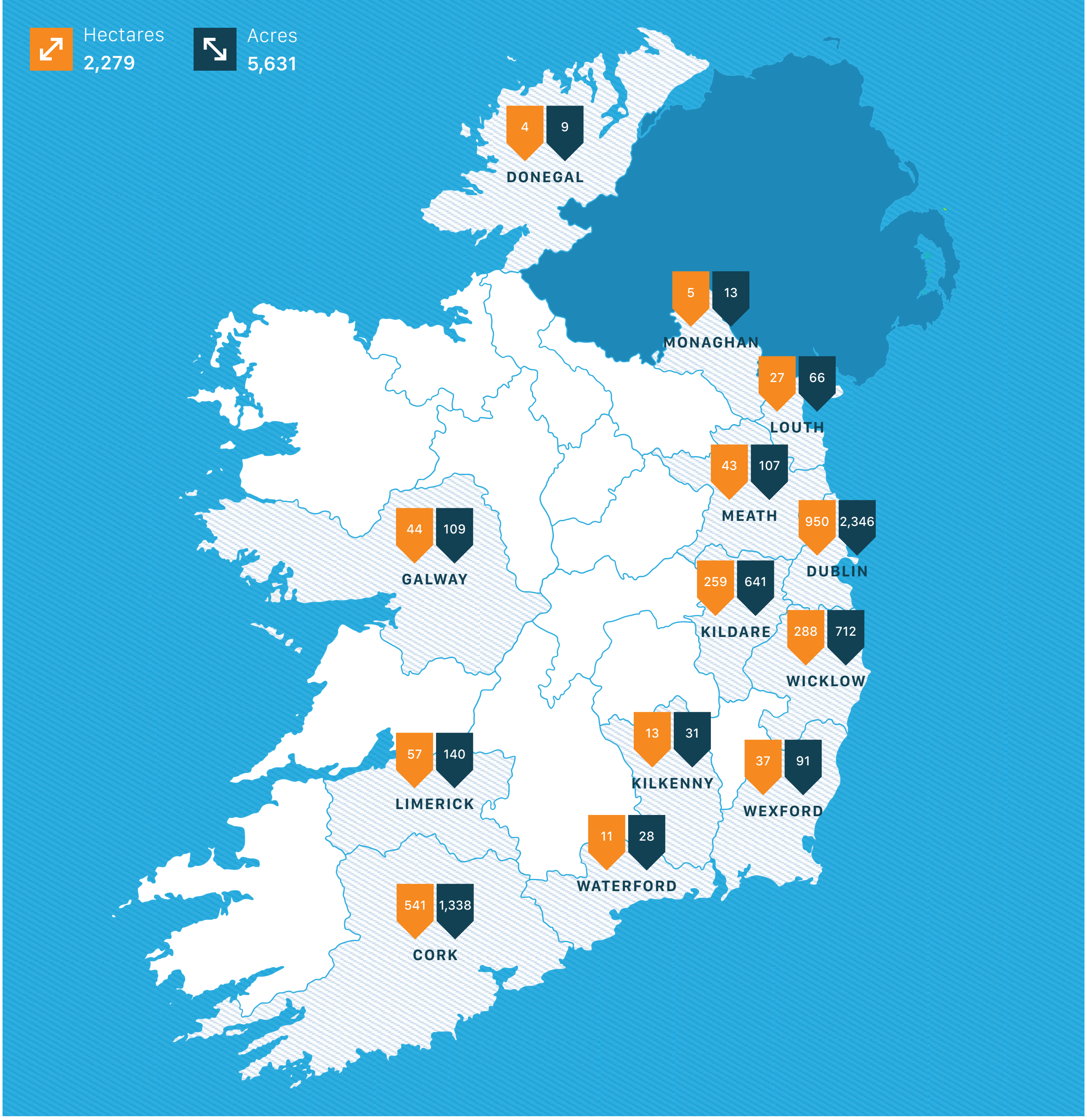
NAMA aims to facilitate the completion of 20,000 new residential units, principally in the Dublin area, in the period to end-2020 and, through intensive asset management of residential sites, aims also to maximise the number of sites that are ready for development.

Residential Delivery

Section 10 of the NAMA Act requires NAMA to obtain the best achievable financial return for the State, deal expeditiously with the assets acquired by it and protect or otherwise enhance the value of those assets. In line with this, NAMA is working with debtors and receivers to identify, where commercially feasible, opportunities to bring forward new residential development. In this respect, NAMA aims to facilitate the construction of up to 20,000 new residential units in Ireland by 2020, subject to commercial viability.

NAMA's loans are secured by 2,279 hectares of residential development land in Ireland which are under the control of its debtors and receivers.

Breakdown by county of residential development land controlled by NAMA debtors and receivers as of 31 December 2016



NAMA's funding of residential delivery to end-March 2017

Units	Greater Dublin Area	Total Ireland
Completed (across 83 developments) since start 2014	4,057	**4,840**
Under construction (across 45 sites)/Funding approved for construction	2,754	**3,178**
Planning permission granted	6,615	**7,475**
Planning applications lodged	2,301	**3,608**
Planning applications to be lodged within 12 months	5,605	**6,905**

26,006 units

Major progress has been made with a view to maximising residential delivery on sites controlled by NAMA debtors and receivers: some 26,006 units are potentially deliverable from sites that are completed or under construction or where planning has been granted, lodged or about to be lodged.

20,000+ units

Sites with a delivery capacity of another 20,000+ units are at the pre-planning or feasibility stages - these sites are either not commercially viable at current sales prices and/or have specific infrastructural requirements such as roads, water or sewerage that will need to be addressed by local authorities and other State bodies before a planning application can be lodged.

Breakdown of residential units delivered by local authority area to end-March 2017

	Total Completed since 2014 to end-March 2017
Dublin City Council	576
Dun Laoghaire-Rathdown County Council	1,066
Fingal County Council	868
South Dublin County Council	1,040
Sub-Total Dublin	**3,550**
Meath County Council	111
Kildare County Council	254
Wicklow County Council	142
Total Greater Dublin Area (GDA)	**4,057**
Cork	461
Galway	110
Rest of Ireland	212
Outside of GDA	**783**
TOTAL NATIONAL	**4,840**

50,043 units

3,220 delivered/
under construction

NAMA has always sought to ensure that there is an adequate supply of development land available to the market. Since 2011, NAMA debtors and receivers have sold sites with the potential to deliver over 50,000 residential units. It is estimated that some 1,116 units have been delivered to date on these sites and that an additional 2,104 units are under construction. The total of 3,220 units delivered or under construction on these sites represents 6% of the sites' delivery capacity.

Potential delivery capacity (number of residential units) of sites in which NAMA or its debtors/receivers have sold their interests from 2011 to date

	2011	2012	2013	2014	2015	2016	2017	Total
Potential delivery capacity (number of residential units) on sites	1,022	2,677	2,455	6,445	22,875	8,149	6,420	**50,043**
Number of units completed or under construction				39	1,125	689	1,367	**3,220**

It may be noted that development of some of the sites may be currently inhibited by one or more constraints relating to commercial viability, infrastructure or suitable planning permission.

NAMA's approach to selling loans secured on residential property and development sites

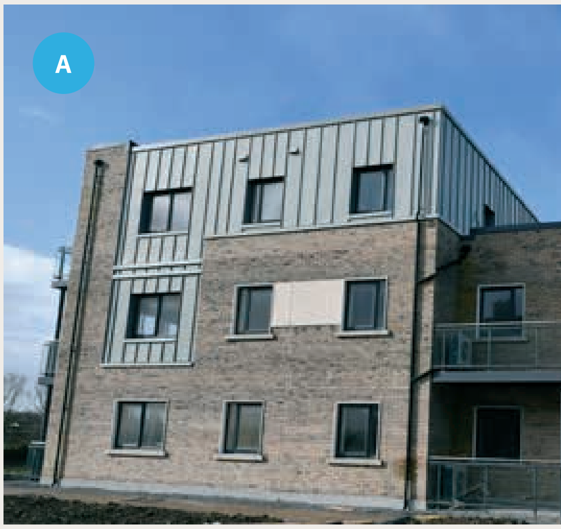
NAMA discourages debtors and receivers from seeking vacant possession of residential properties in advance of loan sales. This is to minimise disruption to people living in these properties. These loans are usually acquired by investors seeking long-term rental streams rather than short-term sales and therefore tenants of such properties continue to have the benefit of existing lease terms and of the statutory protections in place in the residential rental market.

Before any loan sale, NAMA reviews the assets securing the loans concerned in order to establish their suitability for residential development.

Arising from this, loans secured by land with the potential to deliver additional residential supply were removed from NAMA's Ruby and Emerald loan sales - this land has the potential to deliver 931 residential units on a commercial basis. NAMA adopted the same approach prior to marketing other loan sales in 2016.

In addition, prior to the sale of loans linked to residential property, NAMA reviews the potential of the underlying properties for delivery of social housing. In cases where local authorities indicate that certain residential units are suitable for social housing, the loans concerned are withdrawn from the sale.

Examples of NAMA-funded housing delivery



A **Reilean**
Roscam, Co. Galway - Block 4

B **Cualanor**
Dun Laoghaire, Co. Dublin - Block 6 A,B&C (Abbot Court & Greenbank House)

C **Honeypark**
Dun Laoghaire, Co. Dublin - Phase 1F/Block 8 Neptune

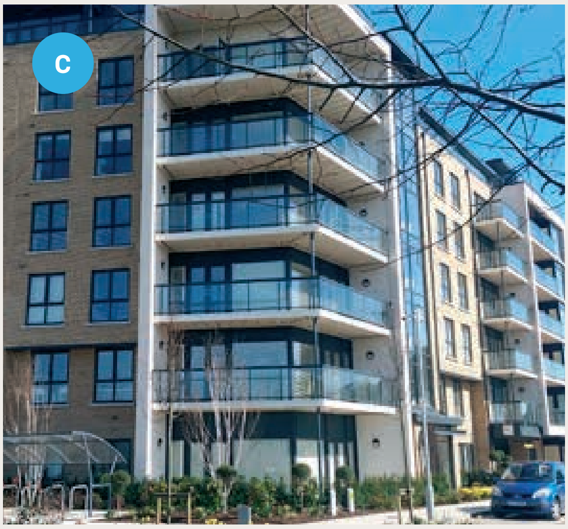
D **Cualanor**
Dun Laoghaire, Co. Dublin - Phase IIA - Roseland

E **Silken Park Avenue**
Saggart, Co. Dublin - Phase 2

F **The Grange**
Stillorgan, Co. Dublin - Block D

G **Terenure Gate**
Terenure, Dublin 6

H **Woodbank**
Dublin Rd, Shankill, Co. Dublin


B

C

E

F

H

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. This has been particularly evident in the area of social housing and in the resolution of unfinished housing estates.

Social Housing

NAMA continues to work with the Department of Housing, Planning, Community and Local Government (DHPCLG) 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.

The onus for determining the suitability of 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. Where the suitability of a property has been determined and terms have been agreed for delivery, NAMA has provided funding to its debtors or receivers to complete works to the properties to ensure that all units delivered are in full compliance with relevant planning and building regulations.

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 direct purchase from the debtor or receiver, or by way of long-term lease through National Asset Residential Property Services D.A.C. (NARPS).

By end-2016, of the 6,941 residential properties identified by NAMA as being potentially suitable for social housing, demand was confirmed by local authorities for 2,748 units and NAMA delivered 2,378 properties, either through direct sale by its debtors or receivers or through purchase and lease by NARPS.

The delivery by NAMA of 2,378 social housing units over the period from 2012 to 2016 is a very significant contribution to overall social housing delivery, particularly in the context of the delivery by local authorities and approved housing bodies of 3,161 newly-completed social housing units throughout the State over the same period.

The NARPS leasing model has been a significant source of residential unit delivery for many of the larger Approved Housing Bodies (AHBs) in recent years. A representative of one of the AHBs has commented that: **'the policy and framework for the NARPS scheme has been effective in terms of producing additional social housing at a time of great need and it is of course now rightly seen as a model of good practice for collaborative work between the public, private and voluntary sectors'.**

NARPS

NARPS was established by NAMA as a means of expediting the provision of social housing. It operates by purchasing properties from NAMA's debtors and receivers and making them immediately available to local authorities or Approved Housing Bodies by way of a standardised long term lease agreed with the Department of Environment, Community and Local Government in 2013. NARPS has been in operation since 2013 and has purchased over 1,300 units from NAMA debtors and receivers, all of which have been leased to the social housing sector. The establishment of NARPS has ensured the transfer of fully-furnished and compliant properties for immediate occupation by social housing tenants in a timely manner.

In its first year of operation, 32% of NAMA social housing delivery was provided through NARPS leasing; however, by 2016 this had increased to 85%, a reflection of how this form of delivery tenure is now becoming increasingly utilised in the provision of social housing. It is also unlikely that many of these units would otherwise have been delivered due to the lack of available capital funding in recent years.

The 2,378 residential units delivered by end 2016, comprised 167 individual transactions across 19 counties and has involved significant co-operation between various stakeholders, as well as substantial resources.

By end-2016, NARPS had committed over €200m to acquiring properties for social housing. Many of the properties acquired by NARPS had been incomplete vacant units in unfinished housing estates. The NARPS purchases have often had the effect of triggering a wider programme of completion and remediation for these estates, as detailed surveys have often revealed substantial areas of non-compliance with both building and fire safety regulations. This has been a feature of many of the residential developments within NAMA's portfolio following its acquisition of the related loans. In that regard, €107m has been provided in funding by NAMA to complete properties, to remedy previous building defects and ensure compliance with Site Resolution Plans and/or Multi-Unit Development legislation. This is in addition to the investment by NAMA/NARPS of over €200m in purchasing the properties from its debtors and receivers. Upon completion, NAMA's total investment in social housing is expected to be approximately €330m. NAMA's investment in social housing is conducted on a commercial basis.

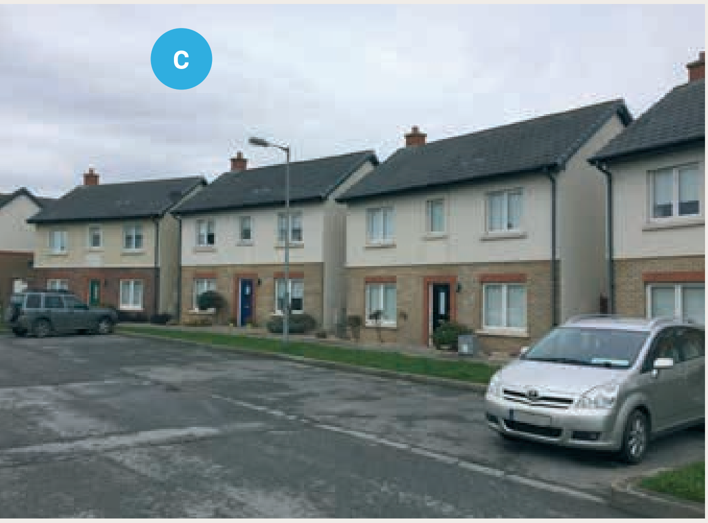
Examples of social housing units delivered during 2016

A
Ardmore, Bettystown, Co. Meath
18 houses and apartments purchased by NARPS and leased to North and East Housing Association

B
Downview, Farranlea Road, Co. Cork
23 apartments purchased by NARPS and leased to Co-Operative Housing Association

C
Goldenridge, Rush, Co. Dublin
30 houses and apartments purchased by NARPS and leased to North and East Housing Association

D
Boireann Bheag, Roscam, Co. Galway
16 apartments sold directly to Clúid Housing



Social Housing – Properties delivered for social housing by end-2016 by local authority area

	Completed	Contracted	Total
Carlow Co. Co.	134	4	138
Clare Co. Co.	32	23	55
Cork City Council	119	19	138
Cork Co. Co.	197	110	307
Donegal Co. Co.	5	-	5
Dublin City Council	384	1	385
Dún Laoghaire Rathdown Co. Co.	104	150	254
Fingal Co. Co.	101	15	116
Galway City Council	172	24	196
Galway Co. Co.	24	8	32
Kerry Co. Co.	42	3	45
Kildare Co. Co.	114	58	172
Kilkenny Co. Co.	55	1	56
Limerick City and County Council	16	-	16
Louth Co. Co.	27	-	27
Meath Co. Co.	38	-	38
Monaghan Co. Co.	-	38	38
Offaly Co. Co.	30	-	30
Sligo Co. Co.	4	-	4
South Dublin Co. Co.	141	5	146
Waterford Co. Co.	51	-	51
Westmeath Co. Co.	20	-	20
Wexford Co. Co	92	10	102
Wicklow Co. Co.	7	-	7
Grand Total	**1,909**	**469**	**2,378**

Social Housing

Properties delivered for social housing by local authority area to end-2016

Working Together
A shared commitment to social housing

- **Nama and Túath Housing partnership at Clare Village wins Chartered Institute of Housing Award**

  NAMA and Túath Housing, in collaboration with Dublin City Council, the Dublin Region Homeless Executive, Focus Ireland and the Peter McVerry Trust won the 'Special Recognition Award' at the All-Ireland Social Housing Awards event in Belfast City Hall on 4 March 2016. The Chartered Institute of Housing panel judged that the Clare Village scheme, Donaghmede, a NARPS-owned development, and the organisations involved had made an outstanding contribution to ensure better housing in Ireland. The housing project reflects a shared commitment to social housing and to combatting homelessness via innovative, joined-up thinking.

- **North and East Housing Association** - Ardmore, Bettystown, Co Meath (29 houses and apartments in two phases in 2015 and 2016).

  Speaking at the launch of the development in October 2016, the Chairman of North & East Housing Association, Mr Pat Lennon, said: *'We have a very positive and constructive relationship with NAMA and Meath County Council. We lease units on long term leases (20 years plus) from NAMA and we then provide them to suitable families from local authority housing lists for use as social housing'.*

- **Túath Housing** - La Touche Place, Greystones, Co Wicklow (7 apartments). At the official opening of La Touche Place on Monday 23 May 2016, Túath Housing Chairman, Mr. Seamus Doherty, said that *'this development provides excellent affordable housing specifically designed to cater for the needs of its residents. The project evidences the strong partnership between Wicklow County Council, NAMA, Government Departments and ourselves. We look forward to working with our partners in future developments'.*

- In a statement in relation to 20 Cork properties delivered in the first half of 2016, a spokesperson from **Túath Housing** said: *'We worked closely with NAMA and Cork County Council to deliver houses in Tír Cluain, Midleton which have been allocated to families from the Council's waiting list and also to tenants who had to decant from their existing homes due to flood damage'.*

- **Respond! Housing Association** – Ashmount Mews, Silversprings, Cork City (34 houses). At the launch of the Ashmount Mews development in Cork in September 2016, Ned Brennan (Chief Operations Officer of Respond!), said that *'Ashmount Mews is exactly the type of integrated development envisaged in Rebuilding Ireland as our tenants will be alongside the wider Ashmount private development .... We are particularly pleased that this development has gone so well as it is our first leasing from NARPS – NAMA's social housing vehicle'.*

Examples of unfinished housing estates remediated for social housing purposes

A
Fruithill Manor, Graiguecullen, Co. Laois

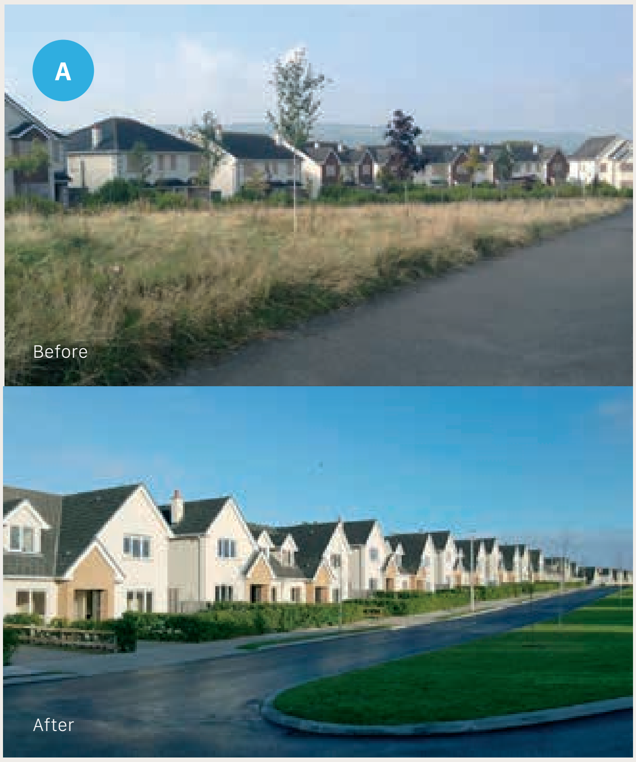
71 houses purchased by NARPS and leased to Co-Operative Housing Ireland. Completed in December 2016.

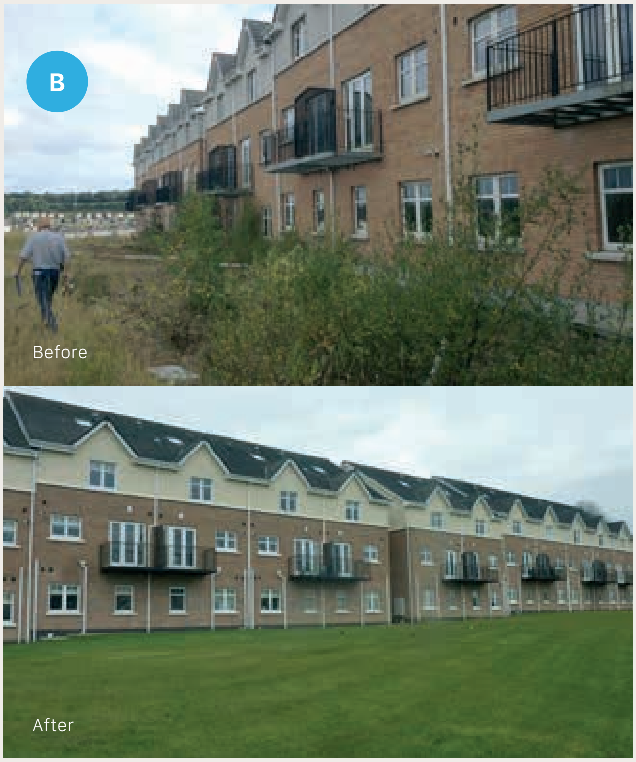
B
Harbour Heights, Passage West, Co. Cork

Purchase of 30 apartments and duplexes by NARPS for long-term lease to Túath Housing. Completed in September 2016.

C
Ashmount Mews, Silversprings, Co. Cork

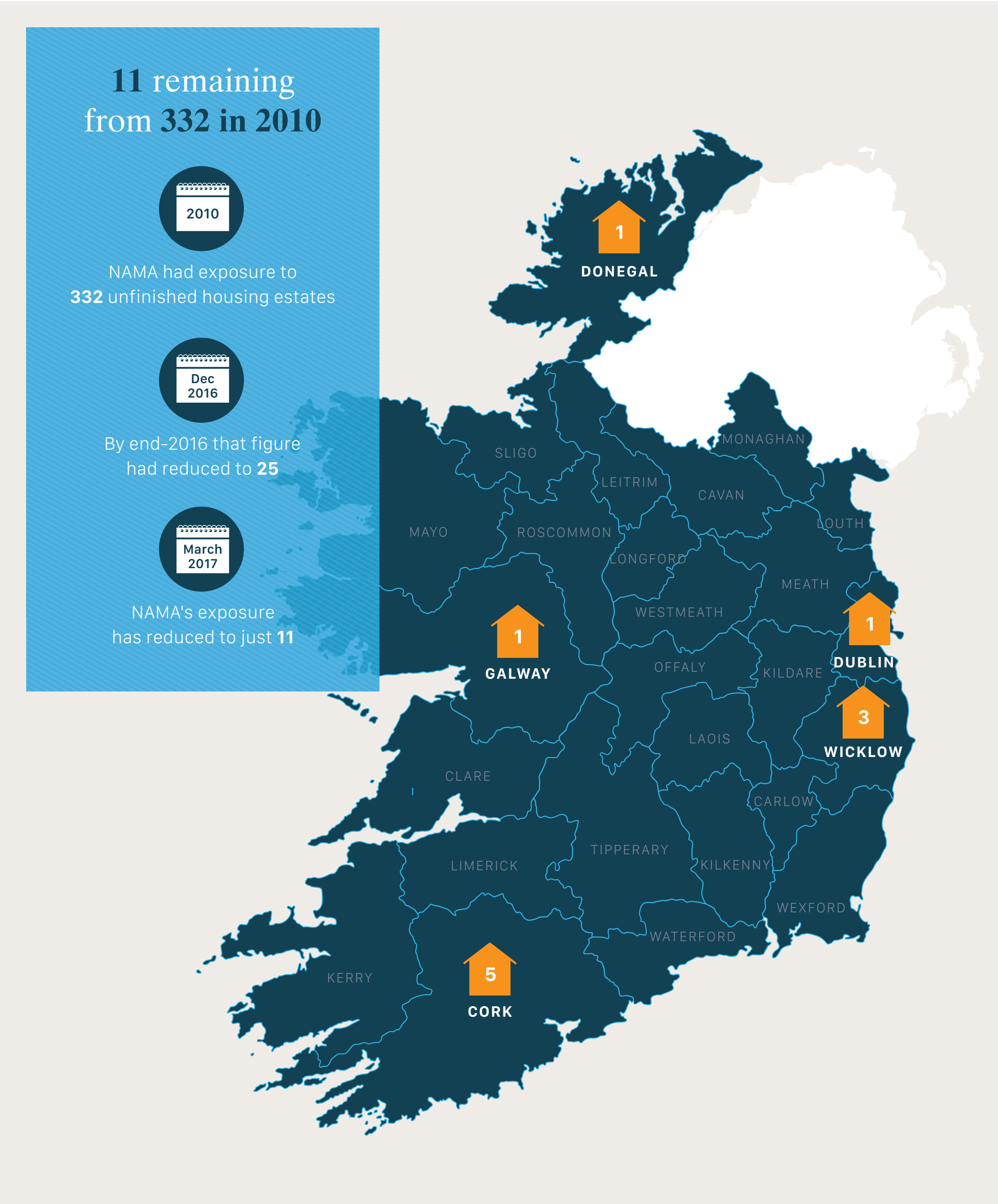
34 houses purchased by NARPS in 2016 and early 2017 for onward leasing to Respond! Housing Association.





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. In 2010 NAMA had exposure to **332 unfinished housing estates**. By end-2016 that figure had reduced to 25 and by end-March 2017, NAMA's exposure had reduced further to just **11 unfinished housing estates**. It is expected that these remaining housing estates will be resolved by end-2017. This represents a substantial reduction in the number of unfinished housing estates within the overall NAMA portfolio since inception. This partially reflects the impact of a number of loan sales but it largely reflects the impact of funding to debtors and receivers to undertake remedial works in line with Site Resolution Plans agreed with local authorities.



Wider economic contribution

An important part of NAMA's work is to facilitate transactions in the Irish property market by working closely with Government departments, State agencies including IDA Ireland, and local authorities in delivering identified properties.

Facilitating Commercial Transactions - Key Examples in 2016

National Parks and Wildlife Service

4,500 acres of land in the Dublin Mountains sold to the **National Parks and Wildlife Service**.

COMHAIRLE CONTAE MHAIGH EO
MAYO COUNTY COUNCIL

Terms agreed with **Mayo County Council** for the sale of loans relating to Westport House estate.

SLIGO COUNTY COUNCIL

Lands sold to **Sligo County Council** for road widening purposes.

Comhairle Cathrach Bhaile Átha Cliath
Dublin City Council

Tolka Park (long leasehold interest) sold to **Dublin City Council** for housing development.

LIT
LIMERICK INSTITUTE OF TECHNOLOGY

The unfinished Coonagh Cross Shopping Centre in Limerick sold to **Limerick Institute of Technology**.

Facilitating the Provision of Schools

There has been ongoing engagement with the Department of Education and Skills in respect of potential school sites in areas of high demand. NAMA identified certain sites and facilitated negotiations between its debtors/receivers and the Department in respect of the sale of these sites.

- Site at Bray, Co. Wicklow, which will accommodate both a primary and post-primary school.
- Site at Arklow, Co. Wicklow, which will allow for the development of a new primary and post-primary school.
- Site at Knocknacarra, Galway to facilitate the construction of a primary Gaelscoil.

A number of additional transactions, currently the subject of discussions with the Department, are expected to complete during 2017.

Financial Review

Financial Highlights 2016	2016 €m	2015 €m	From Inception to end-2016 €m
Cash Generation			
Total cash generated	**5,399**	**9,093**	**38,138**
Disposal receipts	5,025	8,543	32,195
Non-disposal income	374*	591	5,381
Senior Bond Repayments			
Senior bonds redeemed	**5,500**	**5,500**	**27,600**
Profitability			
Operating profit before impairment	1,386	1,769	
Impairment credit	282	86	
Profit for the year before income tax	1,667	1,854	
Tax charge	(164)	(28)	
Profit for the year after income tax	**1,503**	**1,826**	
Financial Position			
Cash and cash equivalents and liquid assets	2,165	3,402	
Total loans and receivables (net of impairment)	3,919	7,816	
Senior bonds in issue	2,590	8,090	
Equity, reserves and liabilities	7,336	11,566	

**Includes non-disposal income from loans of €342m and distributions from equity investments of €32m.*

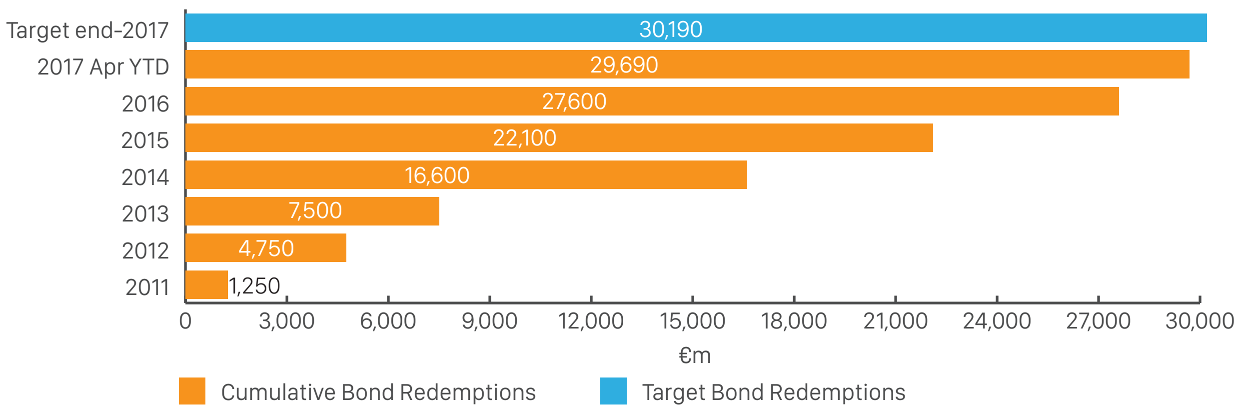
Senior bond redemptions

NAMA redeemed €27.6 billion of senior bonds by end-2016, representing 91% of the €30.2 billion of senior debt originally issued in 2010 and 2011 to acquire bank loans.

An additional €2.09 billion of senior bonds were redeemed in the four months to end-April 2017. This brings the amount of senior debt redeemed at end-April 2017 to €29.69 billion (98% of senior debt originally issued). As a result, NAMA is on course to redeem all of its remaining senior debt of €0.5 billion by end-2017.

The senior bonds represent a contingent liability to the Irish State as they are guaranteed by the Government. Progress in redeeming the senior bonds will result in this contingent liability being extinguished by the end of 2017, thereby fully removing what was once a significant factor in determining the cost of Ireland's debt funding.

Target bond redemption versus cumulative actual redemption



Profitability

Income statement NAMA Group	2016 €m	2015 €m
Interest and fee income	398	614
Interest expense	(83)	(221)
Net interest income	**315**	**393**
Other income/(expense)	35	48
Net profit on disposal of loans, property assets; and surplus income	1,110	1,587
Foreign exchange gain/(loss)	9	(14)
Derivatives loss	(3)	(134)
Administration and other expenses	(80)	(111)
Operating profit before impairment	**1,386**	**1,769**
Impairment credit	282	86
Profit for the year before tax	**1,667**	**1,854**
Tax charge	(164)	(28)
Profit for the year	**1,503**	**1,826**

Net interest income

	2016 €m	2015 €m
Interest and fee income	398	614
Interest expense	(83)	(221)
Net interest income	**315**	**393**
Cash generated from non-disposal income	**374**	**591**
Average loans and receivables (net of impairment)	**5,929**	**10,588**
Net interest margin	**5.3%**	**3.7%**

The decrease in net interest income from €393m in 2015 to €315m in 2016 is primarily attributable to the fact that interest was earned on lower loans and receivables balances in 2016. This is consistent with NAMA's ongoing asset deleveraging programme. Similarly, non-disposal cash generation, primarily sourced from the rental income of secured assets, reduced in line with the average loans and receivables balance.

Interest income is recognised at a fixed rate of interest which was originally set by reference to an estimation of cash flows carried out as part of NAMA's due diligence in respect of its acquired loan portfolio. Interest income is not recognised on any impaired portion of a loan.

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

	2016 €m	2015 €m	From Inception
Surplus income on loan repayments in excess of debt	729	738	3,215
Net profit/(loss) on disposal of loan and property assets	381	849	1,034
Total profit	**1,110**	**1,587**	**4,249**

Net profit on disposal of loans, property assets; and surplus income of €1,110m in 2016 (2015: €1,587m), comprises profit on disposal of loans and property assets of €381m (2015: €849m) and surplus income of €729m (2015: €738m).

NAMA paid €31.8 billion to the originating banks and building societies for its loans. This acquisition value is the amount NAMA originally recognised on its balance sheet as being the carrying value of loans and receivables. Debtors are legally obliged to repay the loan par value as per the original loan agreements with the Participating Institutions. NAMA has the potential to generate surplus income if the total actual or projected net cash inflows relating to a debtor's loans exceed the NAMA carrying value for the loans (as impaired, if applicable). Where this occurs, any surplus is taken directly to the income statement as profit (or surplus income).

The corresponding amount recognised in 2016 was €729m (2015: €738m) of which €402m (2015: €605m) related to actual repayments made by debtors in excess of NAMA's carrying value of the relevant loans, while €327m (2015: €133m) related to expected repayments in excess of the carrying value of the loans.

Following the results of its 2016 impairment exercise, there is a remaining unrecognised surplus of €469m which, if maintained, will be recognised as profit (or surplus income) over the remaining life of NAMA.

Summary of NAMA's overall profit/(loss) recognised on the disposal of underlying collateral and loans

€m	2016			2015			Inception to end 2016		
	Disposals of underlying collateral	Disposals of loans	Total	Disposals of underlying collateral	Disposals of loans	Total	Disposals of underlying collateral	Disposals of loans	Total
Proceeds*	4,243	1,156	**5,399**	5,754	3,339	**9,093**	28,534	9,604	**38,138**
Profit/(loss) recognised in Income Statement	729	378	**1,107**	738	849	**1,587**	3,215	1,034	**4,249**
Crystallisation of existing impairment provision	-	(633)	**(633)**	(24)	(935)	**(959)**	(55)	(2,201)	**(2,256)**
Total	**729**	**(255)**	**474**	**714**	**(86)**	**628**	**3,160**	**(1,167)**	**1,993**

**includes non-disposal income generated from underlying assets.*

From inception to end-2016, NAMA has recognised profits of almost €2 billion from the disposal of loans and collateral held as security against loans acquired.

The crystallisation of the existing impairment provision represents the amount of the previously recognised impairment provision that is attributed to the disposal of the 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 the income statement', it represents the overall profit/(loss) in respect of the disposal of underlying collateral and loans for the period.

Disposal and non-disposal receipts

Disposal and non-disposal receipts during 2016 totalled €5.4 billion (2015: €9.1 billion), comprising property collateral disposals of €3.5 billion (2015: €5.1 billion), loan sale transactions of €1.2 billion (2015: €3.3 billion) and other disposal transactions of €0.3 billion (2015: €0.1 billion). Non-disposal receipts of €0.4 billion were generated in the year (2015: €0.6 billion).

A reduction in disposal receipts is expected in line with the reducing size of NAMA's balance sheet and the maturation of NAMA's deleveraging process.

Administration expenses

Administration expenses amounted to €80m for 2016 (2015: €111m). For 2016, the level of costs represents 1.3% of average loans and receivables which compares positively with industry norms.

Impairment

Following completion of its 2016 impairment review, NAMA has recognised an impairment credit of €282m (2015: €86m) and a cumulative impairment provision of €1.56 billion against its loans and receivables portfolio.

	Carrying value at 31/12/2016 €m	2016 Impairment provision €m	2015 Impairment provision €m	Movement €m	Impairment coverage %
Impaired portfolio	3,507	1,561	2,476	(915)	
Unimpaired portfolio	1,998	-	-		
Total	**5,505**	**1,561**	**2,476**	**(915)**	**28%**

Impairment is a key area of judgment in NAMA's financial statements. NAMA acquired a portfolio of loans where the vast majority was impaired by reference to the November 2009 valuation date.

The 2016 year-end impairment review was based on:

- A detailed individual assessment of expected future cash flows for all debtor connections with loans and related derivatives with a carrying value (gross of impairment) of €5.5 billion (2015: €10.3 billion).
- The assessments represent NAMA's best estimate of expected future cash flows for each debtor connection. They include estimated cash flows arising from the disposal of property collateral, loan sales and non-disposal income (such as rental income).

The total movement in the impairment provision in 2016 was a reduction of €915m from €2,476m to €1,561m. Of this, €282m was recognised in the income statement as a credit for 2016 and €633m was recognised against loans and receivables arising predominantly from the crystallisation of impairment previously recognised against loans sold.

Loan portfolio

NAMA acquired loans from the Participating Institutions for a consideration of €31.8 billion. NAMA's carrying value of loans at end-2016 was €3.9 billion (net of the cumulative €1.6 billion impairment provision) (2015: €7.8 billion, net of the cumulative €2.5 billion impairment provision).

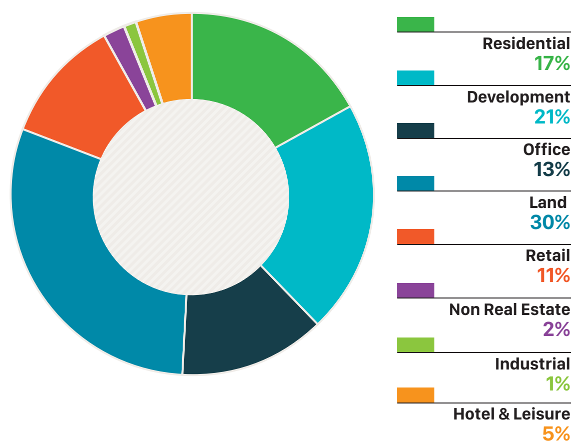
A summary of the movement in loans and receivables is provided below:

Financial Review	NAMA Debt 2016 €m	NAMA Debt 2015 €m	PAR Debt 2016 €m	PAR Debt 2015 €m
Loans and receivables - opening balance	7,817	13,360	41,069	55,591
Cash received from loans and receivables	(5,290)	(9,004)	(5,290)	(9,004)
Deferred consideration on the sale of loans	(751)	-	-	-
Consideration for trading properties	(123)	-	-	-
Interest income	368	576	908	1,624
Loan acquisitions/valuation adjustments	-	139	-	153
Working capital advances	648	856	648	856
Profit on loan sales and surplus income	1,123	1,606	-	-
Par loan sale movement[1]	-	-	(7,637)	(7,922)
Debt compromise/write off	-	-	(594)	(762)
Foreign exchange and other movements	(155)	198	(723)	533
Impairment crystallisations	(633)	(959)	-	-
Loans and receivables before impairment	**3,004**	**6,772**	**28,381**	**41,069**
Impairment provision - incremental credit	915	1,045	-	-
Loans and receivables - closing balance	**3,919**	**7,817**	**28,381**	**41,069**

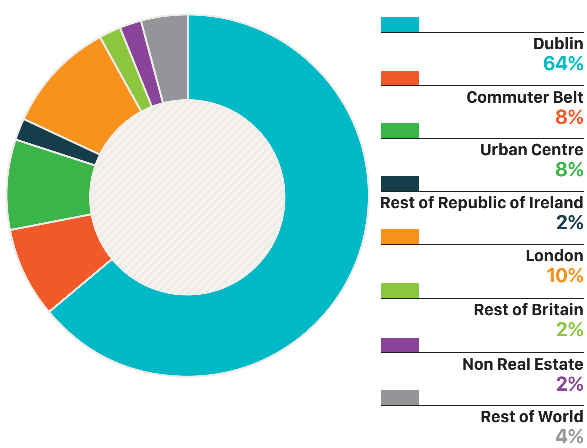
1. *Par loan sale movement principally relates to the par value of loans sold net of disposal cash received. There is no equivalent NAMA debt value. The movement in the NAMA debt balance as a result of loan sales is reflected in cash receipts and profit or loss on loan sales.*

The concentration of NAMA's remaining acquired loan portfolio by sector and geography based on the underlying security is outlined below:

Remaining Portfolio Sectoral Distribution as at end-2016



Remaining Portfolio Geographic Distribution as at end-2016



Rate of return benchmark

In 2014, the Board approved an Entity Return on Investment ('EROI') target benchmark of 20%. The projected return as at end-2016 was 33%.

The EROI benchmark is calculated based on the comparison of NAMA's projected terminal surplus position (€3 billion) with NAMA's initial investment, as adjusted to exclude the €5.6 billion in State Aid which NAMA was required to pay to the Participating Institutions as part of the loan acquisition price.

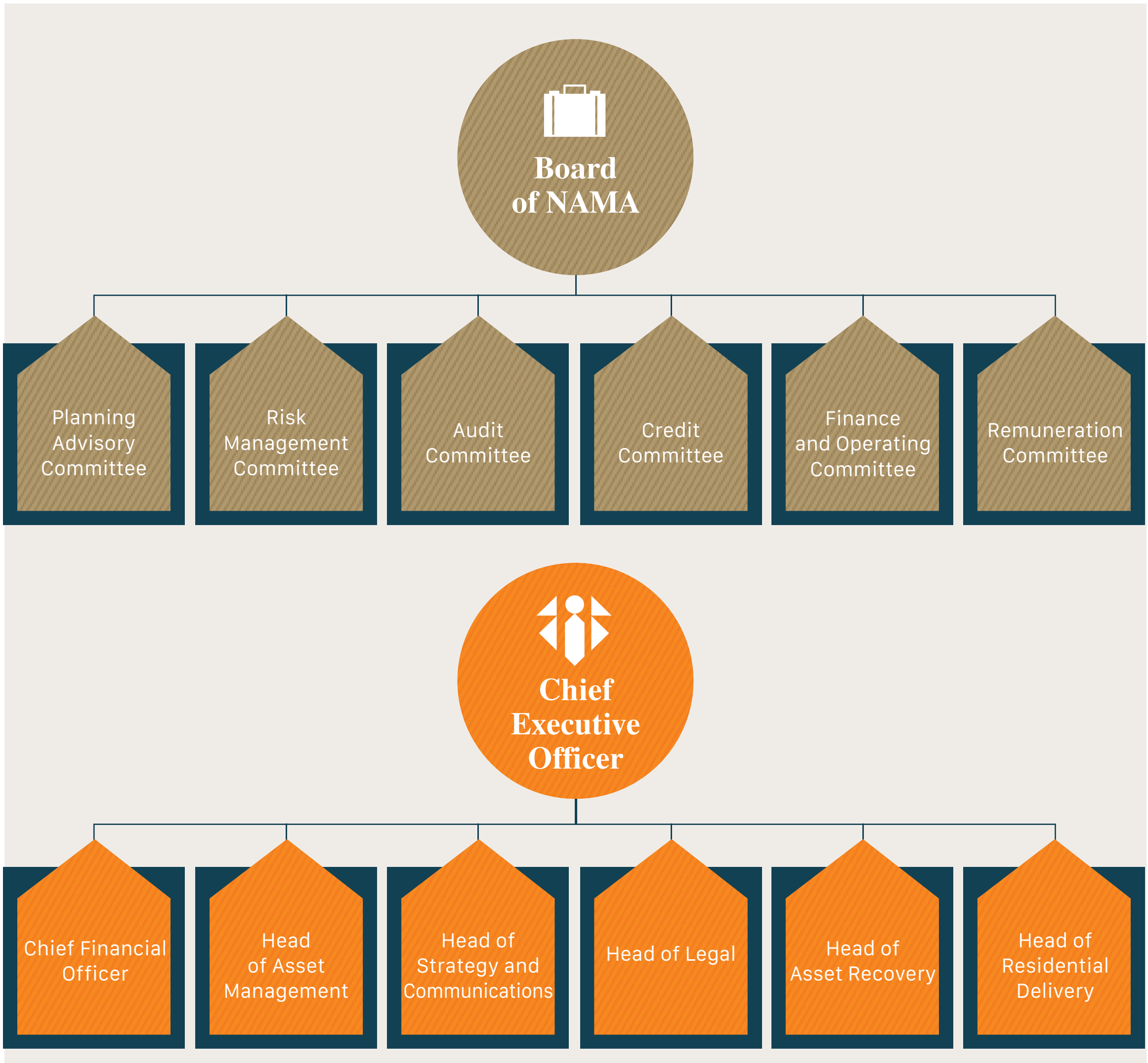
NAMA Organisation

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 six divisions.

Staff resources

The number of NTMA staff assigned to NAMA was 302 at end-2016. This includes 41 employees due to leave in the first half of 2017 as part of the 2016 Voluntary Redundancy Programme.

Organisation structure



Governance

Board Members

Mr. Frank Daly | Chairman F

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

- Member of the Remuneration Committee

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.

Mr. Brendan McDonagh | Chief Executive Officer B C D E

- 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 Officer of NAMA by the Minister for Finance 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.

Mr. Conor O'Kelly | Board member (ex-officio) D E F

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

- Member of the Risk Management Committee
- Member of the Planning Advisory Committee
- Member of the Remuneration Committee

Conor O'Kelly 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. Mr. O'Kelly 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.

Mr. Oliver Ellingham | Board member A D

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

- Chairperson 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 JP Morgan) and served as a member of the Board of IBRC from October 2011 to February 2013.

Ms. Mari Hurley | Board member B C E F

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

- Chairperson of the Finance and Operating Committee
- Chairperson of the Remuneration Committee
- Member of the Planning Advisory Committee
- Member of the Credit Committee

Mari Hurley is the Chief Financial Officer of Hostelworld Group. 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.

Mr. Brian McEnery | Board member A D F

(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 Risk Management Committee
- Member of the Remuneration Committee

Brian McEnery (FCCA) specialises in corporate rescue and insolvency and is a Partner, Corporate Finance & Head of Healthcare with BDO, and practises in Limerick and Dublin. He is a Fellow of the Association of Chartered Certified Accountants ('ACCA') and a council member of ACCA, as well as a member of Chartered Accountants Australia & New Zealand CA ANZ. In 2009/2010 he was the President of ACCA Ireland and in 2016 Mr. McEnery was elected as the ACCA Global President for the term 2016/2017. He is a member of the London Court of Arbitration and Chairperson of the Board of the Health Information and Quality Authority.

Mr. Willie Soffe | Board member B C E

(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 of the Finance and Operating Committee

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.

Committee Membership Key

A	Member of the Audit Committee	D	Member of the Risk Management Committee
B	Member of the Credit Committee	E	Member of the Planning Advisory Committee
C	Member of the Finance and Operating Committee	F	Member of the Remuneration Committee

Board and Committees of the Board

Pursuant to Section 19 of the National Asset Management Agency Act 2009 (the "Act"), the Board comprises a Chairperson and up to eight members. The Chairperson and six members are appointed by the Minister for Finance while the Chief Executive Officer of NAMA and Chief Executive of the NTMA are ex-officio members of the Board. The Board's principal functions are set out in 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.

The Board is currently comprised of seven members. Three members were originally appointed by the Minister on 22nd December 2009: Frank Daly (Chairperson) (5 years), Brian McEnery (4 years), and Willie Soffe (4 years) and subsequently re-appointed for five year terms (Frank Daly was re-appointed as Chairperson 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 of NTMA and Brendan McDonagh (Chief Executive Officer of NAMA). There are currently two vacancies on the Board.

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 2016 the Board met on 19 occasions while the six committees of the Board met on 59 occasions. Details of Board and Committee member attendance at meetings are outlined on Page 51.

In accordance with Section 32 of the Act, the Board established four statutory committees: Audit Committee, Credit Committee, Finance and Operating Committee and Risk Management Committee. The Board also established three committees under Section 33: the Planning Advisory Committee, the Remuneration Committee and the Northern Ireland Advisory Committee, the latter of which was subsequently dissolved on 8th September 2014 following sale of the loans of Northern Ireland debtors.

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.

Schedule of Reserved Matters

Under Section 18 of the Act, the Board is responsible for ensuring the functions of NAMA are performed effectively and efficiently. The Board may delegate performance of its functions to an officer of NAMA. The Board has approved a Schedule of Reserved and Delegated Matters as part of a comprehensive formal delegation of Board functions and powers to the Chief Executive Officer. This was most recently approved by Board in October 2016 and the Chief Executive Officer who may sub-delegate to a member of the Senior Executive Team under his overall control and supervision. The Board has also approved delegations of functions in a Delegated Authority Credit Policy and Balance Sheet Policy.

Board Delegated Authority Policy

The Board has delegated certain credit decisions to the Credit Committee and Senior Executive Team through its Delegated Authority Credit Policy, which is subject to regular review. Under this policy, the Board has set varying authority levels for approving proposals. These depend on the debtor's total financial exposure and on whether or not new funds have been requested. Under the Delegated Authority Credit Policy, lower level authorities may refer their decisions to higher level authorities if a second opinion is deemed desirable or where there is a conflict of opinion.

Board and Committee Evaluation

The Board and each committee undertake a self-assessment evaluation annually in relation to the effectiveness and efficiency of its decision making. In accordance with Section 4.6 of the Code of Practice for the Governance of State Bodies 2016, the Board undertakes an external evaluation approximately every three years. The Board undertook an external evaluation in 2016 which was conducted by the Institute of Public Administration.

Board responsibility for preparation of Annual Report & Financial Statements

The Board is responsible for preparing the 2016 Annual Report and Financial Statements and following detailed review and having regard to the recommendations of the Audit Committee[1], the Board considers that the Financial Statements represent a true and fair view of NAMA's financial performance and financial position at year-end 2016.

1 *In addition to the Audit Committee, the Risk Management Committee also has a role in the review of the Statement of Internal Control*

Attendance at Board and Board Committee Meetings in 2016

	Board	Audit	Credit	Finance & Operating	Risk Management	Planning Advisory	Remuneration
Frank Daly	19						2
Brendan McDonagh	19		30	5	6	6	
Conor O'Kelly	18				5	3	2
Oliver Ellingham	19	8			6		
Mari Hurley	17		28	6		6	2
Brian McEnery	17	8			2		1
Willie Soffe	19		31	6		6	
External members:							
Jim Kelly		8					
Michael Wall						6	
Alice Charles						5	

Reports from Chairpersons of NAMA Committees

Brian McEnery
Chairperson

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

In accordance with Section 32(2) of the Act, the Audit Committee is to comprise six members, two of whom are external to NAMA and appointed by the Minister. The remaining four members are appointed by the Board from among its members. Vacancies in the Audit Committee may 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 8 occasions in 2016.

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 2016 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 the C&AG during 2016. 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.

6. Code of Practice for the Governance of State Bodies 2016

The Committee received regular updates from the management team on the changes arising from the revised Code, the implementation of which commenced in Q4 2016. The Committee reviewed the additional disclosures included in the Annual Report and Financial Statements arising from the revised Code.

Committee Interactions

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.

Statutory Auditor

The Comptroller and Auditor General ('C&AG') is NAMA's auditor in accordance with Section 57 of the Act. The C&AG is not a statutory auditor for the purposes of the Companies Act 2014, except in respect of companies not trading for gain. As the NAMA Group entities are 51% privately owned and operate to return dividends to shareholders, the companies are deemed to be trading for gain and the C&AG is not therefore in a position to audit the statutory financial statements of the NAMA Group entities for the financial years commencing after 15 June 2015. A tender process to appoint a statutory auditor has recently been undertaken.

Brian McEnery
Chairperson

Willie Soffe
Chairperson

CREDIT COMMITTEE

Pursuant to Section 32 of the Act, notwithstanding that the Board retains ultimate responsibility for the credit risk of NAMA, the Board established a Credit Committee operating under its delegated authority. In accordance with Section 32(6) of the Act, the Credit Committee operates to Board-approved Terms of Reference.

The Credit Committee is comprised of Willie Soffe (Chairperson, Board member), Mari Hurley (Board member), Brendan McDonagh (Chief Executive Officer, NAMA and ex-officio Board member), Aideen O'Reilly (Head of Legal), Michael Moriarty (Head of Asset Recovery), John Coleman (Chief Financial Officer), Mary Birmingham (Head of Asset Management) and John Collison (Head of Residential Delivery). Dónal Rooney (former Chief Financial Officer) (resigned June 2016).

The Committee met on 31 occasions in 2016. The Credit Committee plays a critical role in advising the Board on NAMA credit policy and in ensuring that credit decision making in relation to debtors is consistent with Board policy.

The Credit Committee is responsible for the approval or rejection of credit applications within its Delegated Authority (DA) level (below Board level DA but exceeding the credit approval authority delegated to the NAMA Chief Executive Officer and Head of Asset Recovery/Head of Asset Management/Head of Residential Delivery). The Committee is required to operate in a considered and timely manner in order to support efficient credit-related decision making with respect to the acquired debts of its 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, *inter alia*, 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 within the Committee's Delegated Authority, noting that it may approve/decline and/or amend same 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 2016 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).
3. Assessing, recommending and approving 64 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. 49 papers were reviewed by the Committee for recommendation to the Board. Additionally, the Committee oversaw 793 individual credit decisions made within the Chief Executive Officer 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.

2017 is expected to be another active year for the Credit Committee as NAMA endeavours to maximise value from the portfolio by supporting active management of NAMA debtors and receivers in relation to underlying security (obtaining planning approvals, remediating infrastructural deficits etc.). NAMA will also continue with its deleveraging activity, including its international portfolio which, it is expected, will be largely monetised during 2017. At this point in its deleveraging programme, with large loan sale and portfolio sale activity tapering off, there is expected to be a much higher volume of relatively low value credit decisions required to meet cash generation targets.

The Credit Committee continues to monitor adherence to the Board's policy of funding development on commercially viable residential sites and the Docklands SDZ while ensuring deleveraging continues in a timely manner.

The Credit Committee, taking cognisance of NAMA's commercial mandate and its Section 10 objective to maximise returns for the State, assesses all proposals rigorously, with the various commercial options being 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 but at all times trying to maximise the return for the Irish taxpayer.

Willie Soffe
Chairperson

Mari Hurley
Chairperson

FINANCE AND OPERATING COMMITTEE

The Finance and Operating Committee comprises two non-executive Board members, one ex-officio Board member and three senior NAMA executives.

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

- Mari Hurley (Chairperson, Board member)
- Willie Soffe (Board member)
- Brendan McDonagh (Chief Executive Officer, NAMA and ex-officio Board member)
- John Coleman (Chief Financial Officer)
- John Collison (Head of Residential Delivery)
- Seán Ó Faoláin (Head of Strategy and Communications)
- Aisling Synnott (Head of Treasury), (resigned January 2017)
- Dónal Rooney (former Chief Financial Officer) (resigned June 2016)

The Committee met on six occasions in 2016.

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 for Finance, 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.

A detailed strategic review of NAMA Systems was conducted in 2016 to ensure that all NAMA systems continue to be fit for purpose. Significant progress was also made during 2016 in relation to the development of Residential Delivery systems and infrastructure to support the business in achieving its objectives.

2017 will see changes to business unit reporting so as to facilitate greater divisional reporting. There will also be a project to support IFRS 9, the revised reporting standard for financial instruments which is due for implementation in 2018. The Committee will also have a continued focus on financial performance, on KPIs and on cost monitoring and control.

Mari Hurley
Chairperson

Oliver Ellingham
Chairperson

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 Oliver Ellingham (Chairperson, Board member), Brendan McDonagh (Chief Executive Officer, NAMA and ex-officio Board member), Conor O'Kelly (Chief Executive, NTMA and ex-officio Board member), Brian McEnery (Board member), John Coleman (Chief Financial Officer) and Mary Birmingham (Head of Asset Management). Dónal Rooney (former Chief Financial Officer) resigned in June 2016.

The Committee met on six occasions in 2016.

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 2016 were as follows:

1. The NAMA Risk Management Committee continuously reviewed NAMA's five Principal Risks which 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 could seriously impact NAMA's business model, its solvency or liquidity, performance or reputation.

   The identification and assessment of Principal Risks is an on-going process which responds to changes in strategy, business objectives and the external environment. 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. Integration of risk related data sources such as incident reporting, key risk indicators and audit findings and the overarching Risk Appetite statements provide a clearer relationship between the organisation's appetite (or lack thereof) for certain risks in the achievement of its strategic objectives. This analysis complements and reinforces 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.
3. The composition of the NAMA balance sheet (and associated risks) was monitored throughout 2016. 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.
4. The Risk Management Committee regularly reviewed Divisional Risk Registers, which were continually updated during 2016, and which include operational risks inherent to the business of NAMA. Each division presented an annual review of their risk register to identify new and emerging risks and redundancy or changes in existing risks. The Risk Management Committee continued to regularly review the risk registers of the Service Providers 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 2017

The focus on the Principal Risks will remain a priority for the Risk Management Committee in 2017, ensuring that these risks remain under constant review and that the Board is advised of any updates or changes in those risks in a timely and thorough manner.

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

Oliver Ellingham
Chairperson

Willie Soffe
Chairperson

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 out 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 Willie Soffe (Chairperson, Board member), Mari Hurley (Board member), Conor O'Kelly (Chief Executive, NTMA and ex-officio Board member), Brendan McDonagh (Chief Executive Officer, NAMA and ex-officio Board member), Mary Birmingham (Head of Asset Management), Michael Wall (External member) and 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 2016.

During 2016, the Committee continued to focus on NAMA assets located close to key areas with future development potential, including the Dublin Docklands SDZ, Poolbeg West SDZ and the key viable residential development sites including Clonburris SDZ. The Committee advised on NAMA's external engagement strategy, primarily with planning authorities, the Department of Housing, Planning, Community and Local Government (including engagement in relation to the distribution of the Local Infrastructure Housing Activation Fund), infrastructure providers such as Irish Water and the National Transport Authority. The Committee also provided advice to NAMA on emerging legislative/guidance changes including the Planning and Development (Housing) and Residential Tenancies Act 2016.

The Committee continues to advise and guide NAMA's participation in a number of policy initiatives including, among other things, liaison with the Housing and Sustainable Communities Agency, Local Authorities and Voluntary Housing Agencies to provide residential units for social and affordable purposes.

The Committee provides oversight of the development of a long-term leasing model via a NAMA SPV (NARPS DAC) to expedite the provision of social and affordable housing units. Since the inception of NAMA, over 2,000 units have been delivered for social housing, either through direct sales or long-term leasing through NARPS D.A.C.

Significant progress has been made in relation to resolving unfinished housing estates. NAMA continues to fund site resolution processes being undertaken by debtors/receivers, with emphasis on health and safety compliance. As NAMA has deleveraged, NAMA's exposure to these developments has been reduced substantially and, as of February 2017, only 11 such developments were awaiting resolution.

The Committee also provides guidance in relation to facilitating the delivery of the targeted 20,000 residential units by end-2020 (assuming commercial viability) and monitored the significant progress which was made in 2016 in terms of units delivered and under construction and in terms of planning applications. The intention is to ensure that the value of NAMA-charged assets is enhanced in order to maximise recovery for taxpayers while also contributing to the supply of new homes. NAMA is also a member of the Housing Supply Co-ordination Task Force for Dublin and provides input as required.

In carrying out its functions, the Committee is greatly assisted by the knowledge and support of the NAMA Planning Team.

Willie Soffe
Chairperson

Mari Hurley
Chairperson

REMUNERATION COMMITTEE

The Remuneration Committee comprises three non-executive Board members and one ex-officio Board member as follows.

- Mari Hurley (Chairperson, Board member)
- Frank Daly (Chairman of the Board)
- Brian McEnery (Board member)
- Conor O'Kelly (Chief Executive, NTMA and ex-officio Board member)

The Committee was established in June 2016, with formal Terms of Reference approved by the Board in September 2016. The Committee met on two occasions in 2016.

Without prejudice to the role of the NTMA as employer of the NAMA Officers, the NAMA Board is responsible for NAMA's overall Remuneration Policy and any performance related pay/retention and redundancy schemes for NAMA Officers and is guided in its responsibilities by the advice and recommendations of the NAMA Remuneration Committee.

The principal responsibilities of the Remuneration Committee include:

- Review and make recommendations to the NAMA Board on NAMA's overall remuneration policy.
- Review and make recommendations to the NAMA Board on any redundancy, retention and/or performance related pay schemes for NAMA Officers and on the total annual payments to be made under any such schemes.
- Make recommendations to the NAMA Board on the remuneration of the NAMA Chief Executive Officer and Executive Team and any changes thereto having regard, *inter alia*, to Government policy and the requirements of the *Code of Practice for the Governance of State Bodies 2016* in relation to such remuneration.
- Obtain reliable, up-to-date information about remuneration in other bodies of comparable scale and complexity. To help it fulfil its obligations, the Committee may appoint remuneration consultants and commission or purchase reports, surveys or information it deems necessary at NAMA's expense but within budgetary constraints set by the Board.
- Be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the Terms of Reference for any remuneration consultants who advise the Committee.
- To monitor succession planning of the NAMA Chief Executive Officer and Executive Team and the development of current and future leaders of the organisation.
- To review the criteria and oversight arrangements relating to remuneration matters for NAMA Officers which are agreed from time to time between the NAMA Chief Executive Officer and the NTMA.

Responsibility for agreeing with the NTMA on behalf of NAMA the contract terms (including remuneration) which are to apply for any individual employee has been delegated by the Board to NAMA Chief Executive Officer who in this regard, must comply with the terms of the Remuneration Policy and any other relevant decisions of the NAMA Board/NAMA Remuneration Committee.

The Committee recommended its Terms of Reference and NAMA Remuneration Policy to Board for approval in 2016. The Committee further reviewed and approved the criteria and oversight arrangements relating to remuneration matters for NAMA Officers which are agreed from time to time between the NAMA Chief Executive Officer and the NTMA. The Remuneration Committee oversaw the appointment of the new Chief Financial Officer in July 2016.

The Chairperson reports regularly to the Board on the key aspects of the Committee's proceedings.

Mari Hurley
Chairperson

Code of Practice for the Governance of State Bodies 2016

At its inception, NAMA adopted the 2009 Code of Practice for the Governance of State Bodies ("2009 Code") as adapted to its particular governance structure and the statutory requirements of the Act.

The revised Code (the "Code") was launched by the Minister for Public Expenditure and Reform in August 2016 with an effective date of 1 September 2016. The revised Code represents a substantial revision of the 2009 Code to take account of governance developments, public sector reform initiatives and stakeholder consultations.

The provisions of the Code do not override existing statutory requirements and obligations imposed by, *inter alia*, the Companies Acts, Ethics legislation, Standards in Public Office legislation, employment legislation or equality legislation or the statutory provisions of the NAMA Act 2009. The NAMA Act sets out a detailed and extensive statutory framework which provides a number of governance measures equivalent to the provisions of the Code, including, *inter alia*, the preparation of strategic plans, the framework for Department of Finance oversight, periodic reviews of NAMA, reporting and accounting obligations, arrangements relating to Board membership and appointment of the Chief Executive Officer and the system for providing staff to NAMA. NAMA is implementing the Code subject to a limited number of explanations (as provided for in the 'comply or explain' approach to adopting the Code) which, in each case, achieve the objectives of the Code through alternative statutory or governance measures.

Where necessary, as part of its implementation of the Code, NAMA has put in place arrangements to ensure its 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. NAMA Board's adoption of the 2016 Code will evolve in line with established best practice.

Disclosure and Accountability

Disclosure requirements

NAMA Board members are subject to a number of disclosure of interests requirements including Section 30 and 31 of the Act, Section 17 of the Ethics in Public Office Act 1995 and Section 5.8 of the Code of Practice for the Governance of State Bodies 2016.

Section 30 of the Act 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 Section 17 of the Ethics Acts in respect of the disclosure of interests.

NAMA Board and Committee members are also required to comply with Section 5.8 of the Code of Practice for the Governance of State Bodies 2016.

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 - Conduct of Officers of NAMA approved by the Minister for Finance under Section 35 of the Act, which sets out 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 regular compliance training is mandatory for all 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 for Finance 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 for Finance, 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 for Finance, under Section 53 of the Act, 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 Officer and the Chairman, whenever required by the Committee of Public Accounts, attend and give evidence. The Chief Executive Officer and the Chairman also appear before other committees of the Oireachtas whenever required to do so.
5. The Minister for Finance 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 in accordance with Section 35 of the Act to govern certain matters including 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 for Finance 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 first Section 226 Progress Report on NAMA was published in May 2014 and the Minister's Section 227 Review was published in July 2014. The C&AG is currently preparing its second Section 226 Report for the three year period ending 31 December 2015.

Risk Management

PRINCIPAL RISKS AND UNCERTAINTIES

NAMA is exposed to a wide variety of risks which have the potential to impact the financial and operational performance of the Agency and its reputation. The NAMA Risk Management Policy 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 debt and equity obligations. If the Irish economy and property market 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. Human capital risk

If there is a material loss of key people with specialist skills from NAMA, it increases the risk of the Agency not achieving its objectives. A failure to attract, motivate and retain key staff with requisite experience and expertise would result in corporate knowledge loss, capacity constraints on the delivery of assets for sale and/or potentially lower asset realisation values.

3. Dublin Docklands SDZ risks

This is the risk that NAMA fails to deliver on its plans for the Dublin Docklands SDZ. NAMA may not achieve its objectives, including the NAMA Act statutory requirement to obtain the best achievable financial return for the State, if certain risks materialise such as delays in the receipt of planning permission, delays in the delivery of supporting infrastructure, and market competition.

4. Residential Development risks

This is the risk that, if NAMA fails to deliver on its target of funding the delivery of up to 20,000 residential units by end-2020, there may be a significant adverse impact on NAMA's ability to achieve its objectives including the NAMA Act statutory requirement to obtain the best achievable financial return for the State.

5. 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.

The principal risks are routinely monitored by the Risk Management Committee and any changes in the risk profile or significant updates are reported to the Board on a timely basis. 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 risks related to its business so as to reduce the potential for, and the impact of, unexpected losses. Risks identified by management are prioritised according to probability and impact. Risks' status and management's assessment including control action plans are reviewed by the Risk Management Committee and the Board on a regular basis. Management is challenged to identify risks which have not already been 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 parameters for the deleveraging of the balance sheet through bond redemptions in response to changing internal and external influences and circumstances.

The uncertainties driving risks associated with the composition of the NAMA balance sheet continue to reduce as the strategy to monetise the NAMA loan portfolio is implemented. The operational model and reliance on retaining key skillsets continues to be a risk that requires attention. The risk profile of NAMA has evolved continuously as the core processes and systems have become established and embedded within the organisation's operational activities.

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Board and Other Information

Board

Frank Daly *(Chairman)*

Brendan McDonagh *(Chief Executive Officer)*

Conor O'Kelly[1]

Oliver Ellingham

Mari Hurley

Brian McEnery

Willie Soffe

Registered Office

Treasury Building

Grand Canal Street

Dublin 2

D02 XN96

Principal Bankers

Central Bank of Ireland

Dame Street

Dublin 2

Citibank

I.F.S.C.

Dublin 1

Allied Irish Banks, p.l.c.

Baggot Street Lower

Dublin 2

D02 XN96

Auditor

Comptroller and Auditor General

3A Mayor Street Upper

Dublin 1

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 financial year ended 31 December 2016.

The financial statements are set out on pages 74 to 156.

Statement of Board's Responsibilities for Financial Statements

The Board of NAMA is responsible for preparing the financial statements of the Group and the Agency in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, the International Financial Reporting Interpretations Committee (IFRIC) interpretations and the Code of Practice for the Governance of State Bodies (2016). The Board is also required by the National Asset Management Agency Act 2009 ('the Act') to prepare financial statements in respect of its operations for each financial year.

The Board considers that the financial statements give a true and fair view of the assets, liabilities and financial position of the Group and Agency as at the financial year end date and of the profit or loss of the Group and Agency for the financial year.

In preparing the financial statements, the Board:

- selects suitable accounting policies and then applies them consistently;
- makes judgements and estimates that are reasonable and prudent;
- states whether the financial statements have been prepared in accordance with applicable accounting standards, identifies those standards, and notes the effect and the reasons for any material departure from those standards; and
- prepares the financial statements on a going concern basis unless it is inappropriate to do so.

The Board 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 monies received or expended by it and for maintaining adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Agency and its related entities.

The Board 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, foreign exchange risk and other price 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

27 April 2017

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

Statement on Internal 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 financial year ended 31 December 2016, with comparative results for the financial year ended 31 December 2015.

Responsibility for the System of Internal Control

The Board acknowledges its responsibilities for NAMA's system of internal 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. In addition, the Board has two other committees: a Planning Advisory Committee and a Remuneration Committee. The Remuneration Committee was established in June 2016. The Board has agreed formal terms of reference for its 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'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 Remuneration Committee, the Head of Audit and Risk (CFO) and the Senior Executive Team.

The Board adopted the 2009 Code of Practice for the Governance of State Bodies ("2009 Code") as adapted to its particular governance structure and the statutory requirements of the Act. The revised Code (the "Code") was launched by the Minister for Public Expenditure and Reform in August 2016 with an effective date of 1 September 2016. The Board is implementing the Code from its effective date, subject to a limited number of explanations (as provided for in the 'comply or explain' approach to adopting the Code) which, in each case, achieve the objectives of the Code through alternative statutory or governance measures. Where necessary, as part of its implementation of the Code, NAMA has put in place arrangements to ensure its 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 Audit Committee operates in accordance with the principles outlined in the Code. Its responsibilities include the overseeing of the financial reporting process, reviewing the system of internal control, reviewing the internal and external audit processes and adoption of the Anti–Fraud Policy.

NAMA's Anti–Fraud Policy is reviewed annually by the Board and Audit Committee and was most recently approved by the Board in November 2016. Under this policy the Audit Committee is to be advised of all reports of fraud or suspected fraud. NAMA has also a Reporting of "Relevant Wrongdoing" and Protected Disclosures Policy which is reviewed annually by the Board and was last approved by the Board in May 2016. The policy promotes principles of good corporate governance by providing a procedure for reporting and addressing concerns about possible relevant wrongdoing within the meaning of the Protected Disclosures Act 2014. The policy applies to all NAMA "workers" and makes provision for disclosure of relevant information either internally through a line manager or the NTMA's Head of Compliance or externally by means of a "Nominated Person". The NTMA 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 NTMA Head of Compliance to ensure any reports received are properly evaluated and investigated.

In accordance with Section 22 of the Protected Disclosures Act 2014, NAMA publishes a report on its website in June each year relating to the number of protected disclosures made in the preceding year and any actions taken in response to such disclosures.

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

Codes of Practice have been approved by the Minister for Finance ('the Minister') in accordance with Section 35 of the Act, including, *inter alia*, a Code of Conduct setting out standards expected of the officers of NAMA. The codes of practice are reviewed annually by the Board and any proposed amendments to the codes are submitted to the Minister for his approval prior to publication on NAMA's website.

NAMA depends to a significant degree on the controls operated by a number of third parties including the NTMA, Capita Asset Services ('Capita'), 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 Capita, Bank of Ireland and Allied Irish Banks p.l.c. for the reporting of incidents, including control failures and escalation procedures.
- NAMA has sought and received assurances from the NTMA, Capita, Bank of Ireland and Allied Irish Banks p.l.c. that they have reviewed their systems of internal control in relation to their service provision to NAMA.

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 by each NAMA division, 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. Divisional risk registers are reviewed on a quarterly basis by Divisional Heads and sign off attestations are submitted to NAMA Audit and Risk (CFO) function. These risk registers are reviewed by the NAMA Audit and Risk (CFO) function and the Risk Management Committee.

Divisional risk registers are combined into an overall entity-wide risk register which is reviewed by the Risk Management Committee on a quarterly basis, and by the Board on a semi-annual basis. On a quarterly basis, the Senior Executive Team is required to attest to the operation of controls that have been agreed in their divisions to manage and mitigate risks.

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
- A failure to deliver Dublin Docklands (SDZ) plans
- A failure to deliver residential property plans
- Reputational damage

The principal risks remain under constant review by the Risk Management Committee and any changes are reported to the NAMA Board contemporaneously. In April 2016, the NAMA Board approved a Risk Appetite Statement for each of the Principal Risks which defines the propensity for NAMA to take certain risks in order to achieve its strategic objectives. Considering the significant progress made by NAMA to date, the Board and Risk Management Committee agreed to remove the principal risk relating to timing and rate of deleveraging in November 2016.

Capita and Allied Irish Banks, p.l.c. also submit quarterly risk registers in line with standard templates agreed with NAMA.

Key Internal 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 objectives and for the preparation of consolidated and Agency financial statements which incorporates the processes and controls described in this statement. NAMA operates a fully automated consolidation process to mitigate the risks of error in the consolidated Financial Statements.

Statement on Internal Control (continued)

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 such as residential delivery and the delivery of development in the Dublin Docklands SDZ.

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, Asset Management and Residential Delivery functions in respect of NAMA's portfolio to support its decision making.

Procurement

NAMA has an established procurement policy and Procurement Guidance and Procedures document which is reviewed and presented to the Board annually for approval. The procurement requirements of NAMA are carried out in accordance with the aforementioned documents, which adopts relevant procurement legislation and best practice.

In a letter to the Department of Finance regarding the implementation of the Code, NAMA has set out that it does not propose to comply with the current procurement rules and guidelines as set out the by the Office of Government Procurement (OGP) due to the reasons set out below:

- NAMA's Procurement Policy is consistent with the principles of the various guidelines set by the OGP save in respect of that part of the Department of Public Expenditure and Reform's Circular 10/2014 which requires all procurements over €25,000 to be advertised on the national procurement website www.eTenders.gov.ie. Given that NAMA operates in a commercial environment and must maintain its commercial competitiveness, NAMA has adopted alternative processes which seek to provide optimum value for money from its procurements while taking account of a number of other factors including, *inter alia*, efficiencies gained from the use of panels, confidentiality, conflicts of interest and timelines for delivery of services. In certain instances, as provided for in NAMA's Procurement Policy, it is deemed appropriate to obtain duly authorised derogations from NAMA's procurement policy (i.e. not run a competitive tender process) e.g. for highly sensitive, confidential matters, where there are conflicts of interest issues, for expediency or where the service providers have prior existing knowledge of the debtor/asset (the latter of which can result in cost saving benefits).
- NAMA will continue to adhere to its Procurement Policy which NAMA believes is sufficient to achieve the public expenditure objectives of the Code which includes a high level of transparency in procurement through its processes and the use of the e-tenders system and Official Journal of the European Union (OJEU) where applicable.

NAMA is subject to EU Directive 2014/24/EU as implemented in Ireland by the European Union (Award of Public Authority Contracts) Regulations 2016 (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 process that is designed to achieve the best value for money. Save where the Regulations apply, any derogations to NAMA's procurement policy and procedures are approved by the Chief Executive Officer or the NAMA Board depending on the value of the contract.

The use of derogations does not amount to non-compliance with NAMA's procurement policy as derogations are circumstances in which NAMA is allowed to deviate from the procurement policy and to not run a competitive tender process. For contracts that are over the EU threshold, EU legislation applies, and the 2016 EU Procurement Regulations permit derogations from a competitive EU tender process in very restricted circumstances. NAMA did not approve any derogations from a competitive EU tender process during the reporting period.

During 2016, the Chief Executive Officer approved derogations to a value of €3.5m (2015: €3.4m). This comprises derogations from existing frameworks in place of €2.3m (2015: €1.9m), whereby a service provider was directly appointed from an existing framework panel established by tender, without a mini-tender process being run. The remaining derogations totalling €1.2m (2015: €1.5m) are direct appointments to service providers and are permitted exceptions under the NAMA Procurement Policy. The rationale for any derogation is considered and approved by the Chief Executive Officer and reported to the Finance and Operating Committee. Derogations over a certain value are also approved by the Board. A breakdown of framework and procurement policy derogations is provided in the tables below.

Table 1.1 - Derogations granted from existing framework panels

Reason for derogation	Number of contracts 2016	Value €'000 2016	Number of contracts 2015	Value €'000 2015
Service provider had prior existing knowledge of the debtor/asset	29	2,027	16	1,372
Urgent nature of work required did not allow sufficient time to run a mini-tender process	10	252	14	368
Sensitive or confidential nature of work prohibited the running of a mini-tender process	-	-	1	200
Total	**39**	**2,279**	**31**	**1,940**

Table 1.2 - Derogations granted from existing framework panels by Division

Division	Reason for derogation	Number of contracts 2016	Value €'000 2016	Number of contracts 2015	Value €'000 2015
Legal	Service provider had prior existing knowledge of the debtor/asset	27	1,873	16	1,372
	Urgent nature of work required did not allow sufficient time to run a mini-tender process	10	252	10	300
IT	Service provider had prior existing knowledge of the debtor/asset	2	154	-	-
	Sensitive or confidential nature of work prohibited the running of a mini-tender process	-	-	1	200
Asset Recovery	Urgent nature of work required did not allow sufficient time to run a mini-tender process	-	-	3	43
Insolvency	Urgent nature of work required did not allow sufficient time to run a mini-tender process	-	-	1	25
Total		**39**	**2,279**	**31**	**1,940**

Table 2.1 - Derogations granted from NAMA Procurement Policy

Reason for derogation	Number of contracts 2016	Value €'000 2016	Number of contracts 2015	Value €'000 2015
Service provider had prior existing knowledge of the debtor/asset	14	700	15	838
Urgent nature of work required	7	421	10	625
Sensitive or confidential nature of work prohibited a competitive tender process	4	128	-	-
Total	**25**	**1,249**	**25**	**1,463**

Statement on Internal Control (continued)

Table 2.2 - Derogations granted from NAMA Procurement Policy by Division

Division	Reason for derogation	Number of contracts 2016	Value €'000 2016	Number of contracts 2015	Value €'000 2015
Legal	Service provider had prior existing knowledge of the debtor/asset	3	75	8	249
	Urgent nature of work required	1	25	6	486
	Sensitive or confidential nature of work prohibited a competitive tender process	1	13	-	-
IT	Service provider had prior existing knowledge of the debtor/asset	4	297	6	534
	Urgent nature of work required	2	209	1	25
	Sensitive or confidential nature of work prohibited a competitive tender process	2	15	-	-
Asset Recovery	Service provider had prior existing knowledge of the debtor/asset	4	144	1	55
	Urgent nature of work required	1	32	1	14
Asset Management	Service provider had prior existing knowledge of the debtor/asset	1	15	-	-
	Urgent nature of work required	1	10	1	85
	Sensitive or confidential nature of work prohibited a competitive tender process	1	100	-	-
Corporate	Use of a large venue to locate staff for an event	1	15	1	15
Residential Delivery	Service provider had prior existing knowledge of the debtor/asset	2	169	-	-
	Urgent nature of work required	1	130	-	-
Total		**25**	**1,249**	**25**	**1,463**

IT Systems and Infrastructure

NAMA follows a structured approach for business system projects undertaken, which is governed by detailed procedure documents. During 2016 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. NAMA has in place controls in respect of IT access for new hires, changes in access rights from staff changes or following an employee's notification of resignation. A quarterly review of access to systems and data is carried out by Senior Management and reported to NAMA Business Systems Support Team.

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.

Financial and Management Reporting

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 budgeted income and expenditure and cash flow 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 as required under the Act.

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

Internal Audit

PwC act as Internal Auditor for NAMA. NAMA's Internal Auditor has established an internal audit function, which operates in accordance with the Code. An internal audit plan for 2016 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, Bank of Ireland and Allied Irish Banks p.l.c. 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.

Monitoring of the performance of Service Providers

NAMA has established processes to monitor the performance of Bank of Ireland and Allied Irish Banks p.l.c., and Capita as Master Servicer and Primary Servicer. These include monthly service reports, regular service reviews and the establishment of steering committees. Steering committees have been established for Allied Irish Banks p.l.c. and Capita as Master Servicer and Primary Servicer and meet on a regular basis to review performance and operational issues.

The NTMA/NAMA Service Committee was established in 2014 and the Committee meets as and when required during the year to oversee the delivery of shared services provided by the NTMA to NAMA and to monitor the costs being incurred.

Public Reporting

NAMA has established a Strategy and Communications function whose responsibility is to manage external communications with stakeholders and with the press to ensure that the Agency acts as transparently as possible, within the parameters of its legal obligations.

Processes for receiving, reviewing and responding to general public queries have been established as well as processes for handling and responding to Parliamentary Questions, Oireachtas queries and Freedom of Information requests. The NAMA Communications Team has overall responsibility for providing information to and responding to follow up queries from the Public Accounts Committee.

Annual Review of Controls

We confirm that the Board has reviewed the effectiveness of NAMA's system of internal control for the financial year ended 31 December 2016. A detailed review of the effectiveness of the system of internal control was performed by the Audit Committee and Risk Management Committee, which reported their findings to the Board in March 2017. This review of the effectiveness of the system of internal control included:

- review and consideration of changes since the last review in the significant risks facing NAMA and its ability to respond to changes in business and the external environment.
- review and consideration of regular reporting to the Board by the Audit Committee and Risk Management Committee on the system of internal control.
- review and consideration of the effectiveness of NAMA's public reporting process.
- 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 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, Bank of Ireland and Allied Irish Banks p.l.c. in respect of the operation of their systems of internal control during the financial 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 control during the financial year.

Frank Daly
Chairman

27 April 2017

Brian McEnery
Chairman, Audit Committee

Comptroller and Auditor General

Report for presentation to the Houses of the Oireachtas

I have audited the Group and Agency financial statements of the National Asset Management Agency for the year ended 31 December 2016 under the National Asset Management Agency Act 2009. The financial statements 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 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 or to identify if there is any information that is apparently materially incorrect or inconsistent based on the knowledge acquired by me in the course of performing the audit. 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 assets, liabilities and financial position of the Group and the Agency at 31 December 2016 and of the Group's profit for 2016.

In my opinion, the accounting records of the Agency were sufficient to permit the financial statements to be readily and properly audited. The financial statements are in agreement with the accounting records.

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 if I find

- 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 with the knowledge acquired by me in the course of performing the audit, or
- the statement on internal control does not reflect the Agency's compliance with the Code of Practice for the Governance of State Bodies, or
- there are other material matters relating to the manner in which public business has been conducted.

Non-competitive procurement

The statement on internal control discloses that, in 2016, NAMA approved procurement of contracted services to the value of €3.5 million that were not based on competitive selection procedures.

Seamus McCarthy.

Seamus McCarthy

Comptroller and Auditor General

28 April 2017

Consolidated Income Statement

For the financial year ended 31 December 2016

	Note	Financial year ended 31 December 2016 Group €'000	Financial year ended 31 December 2015 Group €'000
Interest and fee income	5	398,127	613,736
Interest and similar expense	6	(82,578)	(220,585)
Net interest income		**315,549**	**393,151**
Other income/(expenses)	7	35,181	48,275
Losses on derivative financial instruments	8	(4,066)	(134,384)
Net profit on disposal of loans and property assets; and surplus income	9	1,109,817	1,586,965
Total operating income		**1,456,481**	**1,894,007**
Administration expenses	10	(80,044)	(111,576)
Foreign exchange gains/(losses)	11	9,293	(13,795)
Total operating expenses		**(70,751)**	**(125,371)**
Operating profit before impairment		**1,385,730**	**1,768,636**
Impairment credit on loans and receivables	12	281,578	85,620
Operating profit after impairment		**1,667,308**	**1,854,256**
Tax charge	13	(164,603)	(28,362)
Profit for the financial year		**1,502,705**	**1,825,894**
Profit attributable to:			
Owners of the Group		**1,502,705**	**1,774,894**
Non-controlling interests	36,37	**-**	**51,000**

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

On behalf of the Board

27 April 2017

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

Consolidated Statement of Comprehensive Income

For the financial year ended 31 December 2016

	Note	Financial year ended 31 December 2016 Group €'000	Financial year ended 31 December 2015 Group €'000
Profit for the financial year		**1,502,705**	**1,825,894**
Items that are or may be reclassified subsequently to profit or loss:			
Net movement in cash flow hedge reserve before tax	*35*	72,401	300,601
Net movement in available for sale reserve before tax	*35*	13,516	-
Income tax relating to components of other comprehensive income	*14,27*	(17,699)	(75,149)
Other comprehensive income for the financial year net of tax		**68,218**	**225,452**
Total comprehensive income for the financial year		**1,570,923**	**2,051,346**
Total comprehensive income attributable to:			
Owners of the Group		**1,570,923**	**2,000,346**
Non-controlling interests	*36,37*	**-**	**51,000**

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

On behalf of the Board

27 April 2017

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

Agency Income Statement

For the financial year ended 31 December 2016

	Note	Financial year ended 31 December 2016 Agency €'000	Financial year ended 31 December 2015 Agency €'000
Interest and fee income	5	1,495,779	1,657,170
Other income	7	49,719	55,846
Total income		**1,545,498**	**1,713,016**
Interest and similar expense	6	(2)	(58)
Administration expenses	10	(50,096)	(56,288)
Total expenses		**(50,098)**	**(56,346)**
Profit for the financial year		**1,495,400**	**1,656,670**
Profit attributable to:			
Owners of the Group		**1,495,400**	**1,656,670**

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

On behalf of the Board

27 April 2017

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

Consolidated Statement of Financial Position

As at 31 December 2016

	Note	31 December 2016 Group €'000	31 December 2015 Group €'000
Assets			
Cash and cash equivalents	*15*	1,587,789	3,145,604
Cash placed as collateral with the NTMA	*15*	58,000	256,000
Available for sale financial assets	*16*	519,378	-
Amounts due from Participating Institutions	*17*	20,481	87,188
Derivative financial instruments	*18*	25,999	44,290
Loans and receivables (net of impairment)	*19*	3,918,666	7,815,945
Other assets	*28*	802,271	29,550
Inventories – trading properties	*20*	346,703	108,473
Property, plant and equipment	*25*	1,344	1,680
Investments in equity instruments	*26*	55,500	48,211
Deferred tax	*27*	-	28,870
Total assets		**7,336,131**	**11,565,811**
Liabilities			
Amounts due to Participating Institutions	*17*	10,763	20,799
Derivative financial instruments	*18*	4,365	179,256
Other liabilities	*30*	27,839	69,397
Senior debt securities in issue	*29*	2,590,000	8,090,000
Tax payable	*31*	534	722
Deferred tax	*27*	10,293	-
Total liabilities		**2,643,794**	**8,360,174**
Equity and reserves			
Other equity	*34*	1,593,000	1,593,000
Retained earnings	*36*	3,034,419	1,615,937
Other reserves	*35*	13,918	(54,300)
Equity and reserves attributable to owners of the Group		**4,641,337**	**3,154,637**
Non-controlling interests	*36,37*	51,000	51,000
Total equity and reserves		**4,692,337**	**3,205,637**
Total equity, reserves and liabilities		**7,336,131**	**11,565,811**

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

On behalf of the Board

27 April 2017

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

Agency Statement of Financial Position

As at 31 December 2016

	Note	31 December 2016 Agency €'000	31 December 2015 Agency €'000
Assets			
Cash and cash equivalents	*15*	112	268
Other assets	*28*	3,324,368	1,828,531
Property, plant and equipment	*25*	1,344	1,680
Investment in subsidiaries	*37*	49,000	49,000
Total assets		**3,374,824**	**1,879,479**
Liabilities			
Interest bearing loans and borrowings	*33*	53,699	53,757
Other liabilities	*30*	7,449	7,446
Total liabilities		**61,148**	**61,203**
Equity			
Retained earnings	*36*	3,313,676	1,818,276
Total equity		**3,313,676**	**1,818,276**
Total equity and liabilities		**3,374,824**	**1,879,479**

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

On behalf of the Board

27 April 2017

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

Consolidated Statement of Changes in Equity

As at 31 December 2016

31 December 2016	Note	Other equity Group €'000	Retained earnings Group €'000	Other reserves Group €'000	Non-controlling interests Group €'000	Total equity Group €'000
Balance at the beginning of the financial year		**1,593,000**	**1,615,937**	**(54,300)**	**51,000**	**3,205,637**
Profit for the financial year	*36*	-	1,502,705	-	-	**1,502,705**
Dividend paid on B ordinary shares	*36*	-	(367)	-	-	**(367)**
Coupon paid on subordinated bonds	*36*	-	(83,856)	-	-	**(83,856)**
Other comprehensive income:						
Movement in cash flow hedge reserve	*35*	-	-	72,401	-	**72,401**
Movement in available for sale reserve	*35*	-	-	13,516	-	**13,516**
Income tax relating to components of other comprehensive income	*14*	-	-	(17,699)	-	**(17,699)**
Total comprehensive income		**1,593,000**	**3,034,419**	**13,918**	**51,000**	**4,692,337**
Balance at 31 December 2016		**1,593,000**	**3,034,419**	**13,918**	**51,000**	**4,692,337**

31 December 2015	Note	Other equity Group €'000	Retained earnings Group €'000	Other reserves Group €'000	Non-controlling interests Group €'000	Total equity Group €'000
Balance at the beginning of the financial year		**1,593,000**	**(74,715)**	**(279,752)**	**-**	**1,238,533**
Profit for the financial year	*36*	-	1,774,894	-	51,000	**1,825,894**
Dividend paid on B ordinary shares	*36*	-	(386)	-	-	**(386)**
Coupon paid on subordinated bonds	*36*	-	(83,856)	-	-	**(83,856)**
Other comprehensive income:						
Movement in cash flow hedge reserve	*35*	-	-	300,601	-	**300,601**
Movement in available for sale reserve	*35*	-	-	-	-	**-**
Income tax relating to components of other comprehensive income	*14*	-	-	(75,149)	-	**(75,149)**
Total comprehensive income/(expenditure)		**1,593,000**	**1,615,937**	**(54,300)**	**51,000**	**3,205,637**
Balance at 31 December 2015		**1,593,000**	**1,615,937**	**(54,300)**	**51,000**	**3,205,637**

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

On behalf of the Board

27 April 2017

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

Agency Statement of Changes in Equity

As at 31 December 2016

	Note	31 December 2016 Agency €'000	31 December 2015 Agency €'000
Balance at the beginning of the financial year		**1,818,276**	**161,606**
Profit for the financial year	*36*	1,495,400	1,656,670
Total comprehensive income		**3,313,676**	**1,818,276**
Balance at 31 December attributable to the Agency		**3,313,676**	**1,818,276**

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

On behalf of the Board

27 April 2017

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

Consolidated Statement of Cash Flows

Financial year ended 31 December 2016

	Note	Financial year ended 31 December 2016 Group €'000	Financial year ended 31 December 2015 Group €'000
Cash flow from operating activities			
Loans and receivables			
Receipts from loans[2]	19	5,357,333	9,018,112
Receipts from derivatives acquired		5,350	17,269
Funds advanced to borrowers	19	(648,401)	(855,512)
New loans issued/acquired	19	-	(139,071)
Movement in funds in the course of collection	19	500	1,363
Cash held on behalf of debtors		-	(125)
Fee income from loans and receivables		12,522	31,881
Net cash provided by loans and receivables		**4,727,304**	**8,073,917**
Derivatives			
Cash inflow on foreign currency derivatives	11	4,651,446	9,378,362
Cash outflow on foreign currency derivatives	11	(4,565,340)	(9,677,265)
Net cash outflow on other derivatives		(107,802)	(397,030)
Net cash used in derivative activities		**(21,696)**	**(695,933)**
Other operating cashflows			
Payments to suppliers of services		(103,866)	(171,207)
Preliminary tax paid		(168,360)	-
Interest paid on senior debt securities in issue		(1,595)	(25,147)
Interest paid on cash and cash equivalents		(7,955)	(473)
Dividend paid by NAMAI D.A.C. on B ordinary shares	36	(367)	(386)
Coupon paid by NAM D.A.C. on subordinated debt issued	36	(83,856)	(83,856)
Net inflows on amounts placed as collateral with NTMA	15	198,000	434,000
Funds paid to acquire trading properties		(101,019)	(79,941)
Rental income received		6,489	3,481
Net cash (used in)/provided by other operating activities		**(262,529)**	**76,471**
Net cash provided by operating activities		**4,443,079**	**7,454,455**

2 *Includes non-disposal cash receipts of €0.4bn (2015: €0.6bn), proceeds from the disposal of collateral secured against loans and receivables of €3.8bn (2015: €5.1bn) and proceeds from the sale of loans of €1.2bn (2015: €3.3bn).*

Consolidated Statement of Cash Flows (continued)

Financial year ended 31 December 2016

	Note	Financial year ended 31 December 2016 Group €'000	Financial year ended 31 December 2015 Group €'000
Cash flow from investing activities			
Purchase of available for sale financial assets - principal		(520,985)	-
Purchase of available for sale financial assets - interest		(11,512)	-
Interest received on available for sale financial assets		19,945	-
Investments in equity instruments		(1,936)	(589)
Distributions received from equity instruments	7	24,791	24,138
Dividends from equity instruments		-	553
Net cash (used in)/provided by investing activities		**(489,697)**	**24,102**
Cash flow from financing activities			
Redemption of senior debt securities	29	(5,500,000)	(5,500,000)
Net cash used in financing activities		**(5,500,000)**	**(5,500,000)**
Cash and cash equivalents held at the beginning of the financial year	15	3,145,604	1,158,692
Net cash provided by operating activities		4,443,079	7,454,455
Net cash (used in)/provided by investing activities		(489,697)	24,102
Net cash used in financing activities		(5,500,000)	(5,500,000)
Effects of exchange-rate changes on cash and cash equivalents	11	(11,197)	8,355
Total cash and cash equivalents held at the end of the financial year	15	**1,587,789**	**3,145,604**
Financial assets and cash collateral			
Cash collateral placed with the NTMA	15	58,000	256,000
Available for sale financial assets	16	519,378	-
Total		**2,165,167**	**3,401,604**

Agency Statement of Cash Flows

Financial year ended 31 December 2016

	Note	Financial year ended 31 December 2016 Agency €'000	Financial year ended 31 December 2015 Agency €'000
Cash flow from operating activities			
Bank interest paid		(2)	(1)
Board fees paid		(439)	(438)
Rent paid		(2,181)	(2,136)
Net reimbursement from National Asset Loan Management D.A.C.		2,466	2,742
Net cash (used in)/provided by operating activities		**(156)**	**167**
Cash held at the beginning of the financial year	*15*	268	101
Net cash (used in)/provided by operating activities		(156)	167
Cash held at the end of the financial year	*15*	**112**	**268**

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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 was 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').

At the reporting date, the management of all loans acquired from Participating Institutions is being performed by NAMA. AIB, BOI and Capita provide loan administration services only.

For internal management purposes and to align with the Board Strategy and NAMA's objectives, the original NAMA portfolio has been split into three business units: Deleverage, Dublin Docklands Strategic Development Zone (SDZ) and Residential Delivery.

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 D.A.C. (NAMAI), National Asset Management D.A.C. (NAM), National Asset Management Group Services D.A.C. (NAMGS), National Asset Loan Management D.A.C. (NALM), National Asset North Quays D.A.C. (NANQ), National Asset Management Services D.A.C. (NAMS), National Asset JV A D.A.C. (NAJV A), National Asset Property Management D.A.C. (NAPM), National Asset Residential Property Services D.A.C. (NARPS), National Asset Sarasota LLC (NASLLC), National Asset Leisure Holdings Limited (in Voluntary Liquidation) (NALHL), RLHC Resort Lazer SGPS, SA (RLHC) and RLHC Resort Lazer II SGPS, SA (RLHC II).

On 18 December 2014, NALHL (in Voluntary Liquidation) was placed into liquidation by its members. As the liquidator has assumed the rights of the shareholder and now controls NALHL (in Voluntary Liquidation) and its subsidiaries, RLHC and RLHC II, NALHL (in Voluntary Liquidation) is 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 D.A.C.

NAMAI was incorporated on 27 January 2010. NAMAI 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 NAMAI, receiving 49 million A ordinary shares. The remaining €51m was invested in NAMAI 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 NAMAI. 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 NAMAI and its subsidiaries and the 51% external investment in NAMAI is reported as a non-controlling interest in these financial statements.

National Asset Management D.A.C.

NAM was incorporated on 27 January 2010. NAM 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 NAM are listed on the Irish Stock Exchange.

The government guaranteed debt instruments and the subordinated debt instruments were transferred to NAMGS and by NAMGS to NALM. The latter used these debt instruments as consideration for the loan assets acquired from the Participating Institutions.

NAM has eleven subsidiaries at the reporting date:

1) National Asset Management Group Services D.A.C.

NAMGS acts as the holding company for its ten subsidiaries: NALM, NAMS, NAJVA, NAPM, NANQ, NARPS, NASLLC, NALHL (in Voluntary Liquidation), RLHC and RLHC II.

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

Notes to the Financial Statements

1. GENERAL INFORMATION (CONTINUED)

1.1 National Asset Management Agency Group (continued)

2) National Asset Loan Management D.A.C.

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

3) National Asset North Quays D.A.C.

NANQ was incorporated on 8 April 2015. NANQ is a 100% wholly owned subsidiary of NALM and was established to hold the freehold lands acquired by NAMA at 72-80 North Wall Quay, Dublin 1 in February 2015 and to receive proceeds from a secure income stream from the lands in the form of a licence fee. The licence was granted to a third party for a period of six years to enable the development of the site for long-term commercial benefit. In addition to the secure income stream, a fixed percentage of rents and a percentage of sales proceeds of any completed development to be built on the lands are due to NANQ.

As a result of the acquisition of the lands, NANQ acquired a 26.5% shareholding in North Wall Plaza Management Company D.A.C. (NWPMC), a management company responsible for the management of the public areas of the lands at North Wall Quay. NANQ has appointed two Non-Executive Directors to manage and control NWPMC. There are no employees in the Company. Profit/loss for the period was €nil and the net assets of the Company is €4, which comprises its called up share capital.

4) National Asset Management Services D.A.C.

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

5) National Asset JV A D.A.C.

On 4 July 2013, NAMA established a new subsidiary, National Asset JV A (NAJVA). NAJVA is a wholly owned subsidiary of NAMGS. NAMA entered a joint venture arrangement with a consortium whereby a 20% interest in a limited partnership was acquired, and NAJV A was established to facilitate this transaction. Since its incorporation, NAJV A has invested in other joint arrangements with third parties where it has taken a minority, non-controlling equity interest in an investee to facilitate the delivery of commercial and residential real estate property.

6) National Asset Property Management D.A.C.

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

NAPM has five subsidiaries: NARPS, NASLLC, NALHL (in Voluntary Liquidation), RLHC and RLHC II.

7) National Asset Residential Property Services D.A.C.

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

A total of 2,378 (2015: 2,001) residential properties were delivered to the social housing sector by NAMA debtors from inception to the reporting date, of which 1,909 (2015: 1,427) were completed and contracts on a further 469 (2015: 574) properties (for both direct sale and through NARPS) were exchanged by the reporting date. Completed units delivered since inception include the direct sale of 778 (2015: 669) properties by NAMA debtors and receivers to various approved housing bodies, the direct leasing of 117 (2015: 116) properties by NAMA debtors and receivers and the acquisition by NARPS of 1,014 (2015: 642) properties for lease to approved housing bodies.

8) 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 NAPM, and was established to acquire property assets located in the US. Since its acquisition, NASLLC has acquired and subsequently sold one asset located in the US. There were no properties held in NASLLC at the reporting date.

9) 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 NAPM and was established to acquire 100% of the share capital of two Portuguese entities, RLHC and RLHC II.

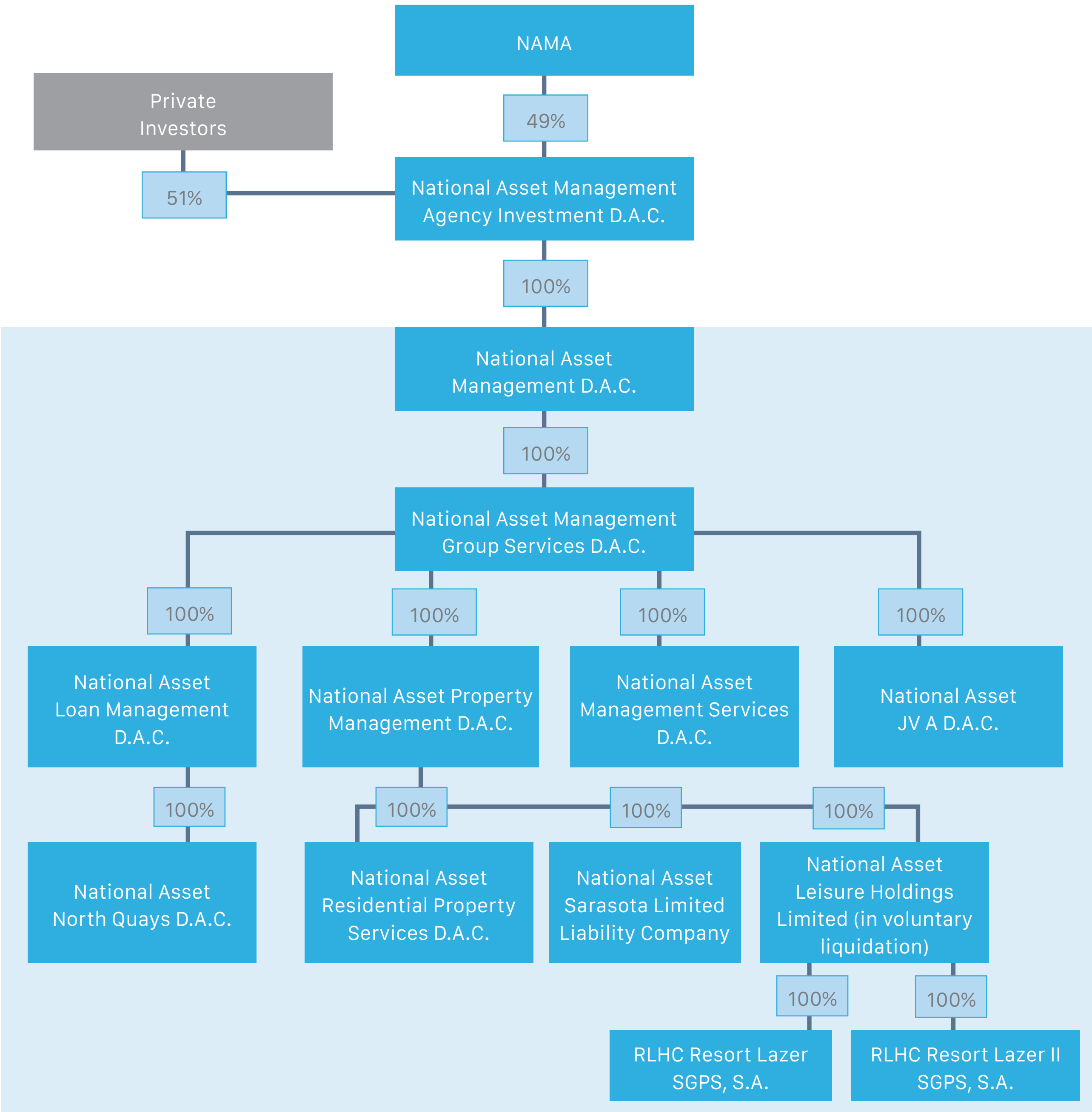
The establishment of these entities was required to facilitate the legal restructure of a number of entities with Portuguese property assets. Following the completion of the legal restructure, NALHL (in Voluntary Liquidation) was placed into liquidation on 18 December 2014. The control of NALHL (in Voluntary Liquidation) is with the liquidator who will realise the assets of NALHL (in Voluntary Liquidation).

10) and 11) RLHC Resort Lazer SGPS, S.A. (RLHC), 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) and RLHC Resort Lazer II SGPS, S.A. (RLHC II). RLHC 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.

With the exception of RLHC 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 and RLHC II which are incorporated and domiciled in Portugal. The address of the registered office of RLHC and RLHC II is Rua Garrett, N°. 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 for the financial year ended 31 December 2016 have been prepared on a going concern basis as the Board are satisfied, having considered the principal risks and uncertainties impacting the Group and Agency, that it has the ability to continue in business for the period of assessment. The period of assessment used by the Board is twelve months from the date of approval of these annual financial statements.

At the reporting date, the Government Guaranteed Floating Rate Notes ("Notes") issued relating to the original loan acquisitions from Participating Institutions were €2,590m (2015: €8,090m).

At the reporting date, NAMA had equity and reserves of €4,692m (2015: €3,206m), of which €4,641m is attributable to the Group and €51m is attributable to non-controlling interests. The Group has available cash, cash equivalents and liquid assets at 31 December 2016 of €2,165m (2015: €3,402m) and other liabilities (other than senior debt) of €54m (2015: €270m), and 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.

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.

Accordingly, the Board believe that it is appropriate to prepare the financial statements on a going concern basis having concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the Agency's ability to continue as a going concern over the period of assessment.

2.2 Basis of compliance and measurement

The Group's consolidated and Agency financial statements for the financial year ended 31 December 2016 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 financial 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 financial 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

IFRS 9 Financial Instruments: This standard will be applicable for accounting periods beginning on or after 1 January 2018, with early adoption permitted.

Classification and measurement

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.

Classification and measurement (continued)

During 2016, NAMA completed an initial impact assessment of IFRS 9 on its financial instruments portfolio. Based on this initial assessment the new standard will change the measurement basis for certain portfolios of loans and receivables in the Group's Statement of Financial Position. NAMA's business activity is divided into three main divisions, 1) Deleverage portfolio, 2) Residential Delivery portfolio and 3) SDZ (Docklands Strategic Development Zone) portfolio. The portfolios operate to different business models which will result in a different measurement basis for portfolios under IFRS 9. The Deleverage portfolio is expected to be measured at fair value through profit or loss while the SDZ and Residential Delivery portfolios will be measured at amortised cost.

As IFRS 9 moves from an incurred loss model for impairment to an expected loss model this will result in changes in impairment measurement and assets that were not previously assessed for impairment, such as available for sale financial assets and undrawn loan commitments, being assessed for impairment under IFRS 9. Similarly as NAMA now has three separate business divisions with different business models, NAMA intends to develop a new credit risk measurement and impairment model for its residential delivery business which was only established at the end of 2015. This is expected to be in place by end-2017. As the deleverage portfolio will be measured at fair value, impairment of this portfolio will no longer be required, however NAMA will utilise its existing impairment model and processes to calculate the fair value of the deleverage portfolio.

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

The updated IFRS 9 will impact associated IFRS 7 disclosures.

Transition

The changes to the loan portfolio arising from IFRS 9 will result in significant presentation and disclosure changes for the year end 31 December 2018 and the change in measurement basis for different portfolios will require system and process changes. The Group is currently assessing the impact that IFRS 9 will have on its financial statements and also on its systems and processes to meet the requirements for implementation of IFRS 9. An internal project team is to be put in place during Q2 2017 that will be supported by external credit risk, modelling and technical expertise. The project Team Lead will report on its progress to the Chief Executive Officer and the NAMA Audit Committee.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and applies to annual reporting periods beginning on or after 1 January 2019. The Group holds operating leases. This standard will have an impact on the current disclosures requirements of the Group only when IFRS 16 is adopted. The standard 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 2016. However, they did not have any impact on the accounting policies, financial position or performance of the Group.

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 NALHL (in voluntary liquidation), RLHC 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.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

All 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.

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.

(b) Loans and receivables (continued)

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).

(c) Available for sale financial assets

Available for sale financial assets comprise Irish Government Bonds acquired for liquidity purposes. 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.

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.

The Group's accounting policy on Derivatives is set out in accounting policy 2.15.

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.

The Group does not offset financial assets and financial liabilities.

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.

All loans and receivables acquired and originated are recognised using the EIR method at the reporting date.

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.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, less related loan sale costs. 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. In a small number of instances, when an individual loan account is sold, the profit/loss on disposal is only recognised when the entire connection/loan pack related to that account is sold.

(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 for recognition 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.

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 the use of an allowance account. The amount of the impairment loss is recognised in the consolidated income statement. Management may apply judgement to adjust the computed impairment where it more accurately reflects the recoverable value of an asset.

Individually significant (continued)

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.

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. The disposal of loans gives rise to a release or crystallisation of any impairment previously recognised relating directly to the loans sold.

If impairment has previously been recognised on the loans

- a calculated profit on disposal results in the associated impairment provision for these assets being recognised under net profit on disposal on loans and property assets.
- 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 the Income Statement 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.

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 is hedged using interest rate swaps. Interest rate risk on performing borrower derivatives acquired from the Participating Institutions is 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.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Derivative financial instruments and hedge accounting (continued)

a. 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, option volatilities and par interest swap rates.

b. 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.

c. 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.

d. 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. They are recorded in the revenue or expense lines in which the associated related hedged item is reported.

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.

Derivatives previously subject to cash flow hedge accounting matured in September 2016. There was no hedge accounting applied by the Group at 31 December 2016.

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 financial 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.

An entity shall offset current tax assets and current tax liabilities if, and only if, the entity:

- has a legally enforceable right to set off the recognised amounts; and
- intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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.

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.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 financial 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 Chief Executive Officer 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 in the statement of financial position of the lessor. Properties acquired by NARPS 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 financial 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.

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.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.28 Determination of fair value (continued)

Valuation techniques (continued)

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 credit or provision 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.

All debtor connections are managed by NAMA and are individually assessed for impairment.

The impairment credit for 2016 is €282m (2015: €86m). The total cumulative impairment provision is €1,561m (2015: €2,476m), representing a coverage of 28% of the total loans and receivables balance at 31 December 2016 (2015: 24%).

Individually assessed debtors

Loans and receivables and associated derivatives individually assessed for impairment at the reporting date were €5.5bn (2015: €10.2bn).

During 2016, a number of existing connections were split into new connections to facilitate the management of these connections within the Residential Delivery portfolio. This resulted in an increased number of debtor connection cash flows being individually assessed for impairment.

The impairment assessment of individually assessed debtors is based on cash flow projections which were prepared by 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 involving assumptions in respect of local economic conditions, the performance of the debtor, the value of the underlying property collateral and the latest agreed strategy for that debtor. The actual cash flows, and their timing, may differ from the projected cash flows for the purposes of determining the amount of impairment provision for individually significant debtors. Cash flow projections are 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 or in the case of the residential delivery portfolio, from site disposal to approved residential development.

NAMA may apply management judgement to adjust computed impairments where it more accurately reflects the recoverable value of an asset. In particular, for the Residential Delivery Portfolio, only cash flows for residential projects that are approved under the Delegated Authority Policy are included in future cash flow projections in the calculation of impairments for residential delivery debtor connections. Cash flows for projects that may commence in later years and that are not yet approved for development under the Delegated Authority Policy are not included in the projected future cash flows. This may result in impairments in the current year which may be reversed in subsequent years as further development projects are approved. In these cases management may apply a development cash flow overlay to more accurately reflect projected future cash flows for these connections and consequently a more accurate computed impairment.

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 2016 impairment provision was determined after the following key inputs were 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.

A detailed cash flow assessment of debtors with a combined outstanding loan value of €5.5bn (2015: €10.2bn) was completed. The consolidated results of this cash flow assessment allows NAMA to apply certain sensitivities to the key assumptions used to determine the impairment provision on its portfolio and assess the impact of these changes on the impairment provision.

Individual cash flows are projected for each property asset held as collateral. 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 asset level. Property is categorised by geographical location and sectoral distribution, as outlined in the table below. In performing the sensitivity analysis, the projected disposal value for each individual property by asset location and sector is reduced by 1%. The debtor connection cashflows 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 2016 impairment provision of a 1% change in the amount of projected disposal cash flows over certain geographies and asset types.

	2016				2015			
	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	12	-	-	12	16	1	-	**17**
Residential	5	-	-	5	9	-	-	**9**
Commercial	2	-	-	2	6	2	2	**10**
Retail	2	-	-	2	8	-	1	**9**
Hotel and leisure	-	-	1	1	1	-	2	**3**
Total effect of 1% change	**21**	**-**	**1**	**22**	**40**	**3**	**5**	**48**

The net present value (NPV) 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 2017 to 2018, an additional impairment charge of the order of €8 million (2015: €17m) would arise. This amount was estimated without taking account of potential additional non-disposal income (mainly rental income) that would be generated from an asset if its disposal was delayed by 12 months and without factoring in potential future upside to the cash flows.

An independent review of the impairment process is carried out by NAMA's internal auditors 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.

Notes to the Financial Statements

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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 €402m in 2016 (2015: €605m).
2) Debtors with positive net present values and who have passed stringent stressed conditions. The Group realised €327m (2015: €133m) from these debtors in 2016.

The 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 number of debtors with positive NPV. 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.

During 2016, the buffers applied in assessing the level of surplus income to recognise were updated to take into account the remaining lifecycle pertaining to NAMA's asset recovery activities. If the buffers from the previous period were retained, the surplus income recognised in the financial year 2016 would be €225m less with a consequent increase in the value of the unrecognised NPV surplus for each debtor.

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 to manage expeditiously 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

Group 2016	Ireland excluding Northern Ireland €'000	UK including Northern Ireland €'000	Rest of World €'000	Loan impairment €'000	Total €'000
Gross external revenue	303,107	76,408	18,612	-	**398,127**
External assets					
Loans and receivables before impairment	4,191,036	1,011,503	277,056	-	**5,479,595**
Impairment of loans and receivables	-	-	-	(1,560,929)	**(1,560,929)**
Loans and receivables	**4,191,036**	**1,011,503**	**277,056**	**(1,560,929)**	**3,918,666**
Other external assets	3,405,740	-	11,725	-	**3,417,465**
Total external assets	**7,596,776**	**1,011,503**	**288,781**	**(1,560,929)**	**7,336,131**
External liabilities	2,633,501	-	-	-	**2,633,501**
Total liabilities	**2,633,501**	**-**	**-**	**-**	**2,633,501**

Group 2015	Ireland excluding Northern Ireland €'000	UK including Northern Ireland €'000	Rest of World €'000	Loan impairment €'000	Total €'000
Gross external revenue	429,533	145,414	38,789	-	**613,736**
External assets					
Loans and receivables before impairment	7,202,923	2,438,475	650,453	-	**10,291,851**
Impairment of loans and receivables	-	-	-	(2,475,906)	**(2,475,906)**
Loans and receivables	**7,202,923**	**2,438,475**	**650,453**	**(2,475,906)**	**7,815,945**
Other external assets	3,709,553	-	11,443	-	**3,720,996**
Total external assets	**10,912,476**	**2,438,475**	**661,896**	**(2,475,906)**	**11,536,941**
External liabilities	8,360,174	-	-	-	**8,360,174**
Total liabilities	**8,360,174**	**-**	**-**	**-**	**8,360,174**

Revenue and loan assets are attributed to countries on the basis of the location of collateral. Other external assets are classified by location of the asset.

Impairment of loans and receivables by geographic sector is not provided as the impairment assessment is carried out at a debtor connection 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.

Notes to the Financial Statements

5. INTEREST AND FEE INCOME

Group	Note	2016 €'000	2015 €'000
Interest on loans and receivables	*19*	368,108	576,349
Interest on acquired derivative financial instruments		2,892	5,038
Fee income from overdrafts		834	-
Interest on cash and cash equivalents		328	468
Total interest income		**372,162**	**581,855**
Fee income from loans and receivables		25,965	31,881
Total interest and fee income		**398,127**	**613,736**

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

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 financial year was €368m (2015: €576m). Of this amount, €342m (93%) was realised in non-disposal cash receipts (2015: €570m; 98%). Any difference between the EIR income recognised and the element realised in cash in any particular financial period is factored into NAMA's impairment process. The decrease in interest on loans and receivables is primarily attributable to interest being earned on a lower loans and receivables balance during the year.

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

Fee income on overdrafts relates to fee income earned by NAMA on debtor overdraft accounts.

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

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 financial year includes arrangement fees, restructuring fees and transaction fees from loan sales.

Agency	2016 €'000	2015 €'000
Interest on loan to NAM	1,495,779	1,657,170
Total interest income	**1,495,779**	**1,657,170**

During 2016, NAMA Group subsidiaries generated taxable profits, which are ultimately payable to NAM as interest income under profit participating loan agreements in place. Subsequently, after utilisation of any available losses and the deduction of interest expenses on its senior and subordinated debt securities, NAM generated taxable profits of €1,496m (2015: €1,657m) which are payable to NAMA the Agency, as interest income. The amount payable by NAM to NAMA the Agency is subordinated to senior creditors after all senior debt is repaid.

6. INTEREST AND SIMILAR EXPENSE

Group	Note	2016 €'000	2015 €'000
Interest on senior debt securities in issue		526	14,020
Interest on derivatives where hedge accounting is applied	35	73,207	203,606
Interest on other derivative financial instruments		469	1,955
Interest on available for sale financial assets		31	-
Negative interest expense on cash and cash equivalents		8,345	1,004
Total interest and similar expense		**82,578**	**220,585**

Interest expense on senior debt securities reduced in the year as a result of redemptions and negative Euribor rates. Interest is paid semi-annually on 1 March and 1 September. There was no interest paid to holders of senior debt securities at the 1 September coupon date as the interest rate, which is based on Euribor, was negative and the coupon rate is floored at 0%.

Interest on derivatives where hedge accounting is applied reduced during the year as all derivatives that were previously designated into hedge relationships expired in September 2016.

Interest on available for sale financial assets comprises interest on short term government bonds held for liquidity purposes. The nominal value of available for sale financial assets at the reporting date was €430m (2015: €nil).

During 2016, the Group incurred interest expense of €8m (2015: €1m) on cash and cash equivalents due to negative interest rates.

Agency	2016 €'000	2015 €'000
Interest expense on intergroup loan	-	58
Negative interest expense on cash and cash equivalents	2	-
Total interest and similar expense	**2**	**58**

Due to negative interest rates on the intergroup loan, there is no interest expense for 2016 (2015: €0.058m) for the Agency. The Agency incurred interest expense of €0.02m on cash and cash equivalents due to negative interest rates.

7. OTHER INCOME/(EXPENSES)

Group	2016 €'000	2015 €'000
Distributions from equity instruments (a)	24,791	24,138
Dividend income from other investments (b)	-	251
Fair value gain on equity instruments (c)	3,462	11,441
Licence fee income (d)	523	9,411
Lease rental income (e)	6,502	3,664
Revaluation of trading properties (f)	(97)	(630)
Total other income/(expenses)	**35,181**	**48,275**

(a) As a result of the restructure of one of NAMA's debtor connections in 2011, the Group acquired an equity investment of £2 in a debtor company. This equity investment provided NAMA with an entitlement to its share of any future profits generated by the debtor company. The Group received dividends totalling €24.8m (2015: €24.1m) on its investments during the reporting period.

(b) Dividend income from other investments relates to dividend income received by the Group in 2015 associated with the liquidation of NARL. NARL was dissolved with effect from 23 March 2016.

Notes to the Financial Statements

7. OTHER INCOME/(EXPENSES) (CONTINUED)

(c) 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 are 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.

(d) In 2013, NAMA acquired certain lands at North Wall Quay and subsequently entered into an income sharing agreement to develop the site, which provides a secure income stream from the lands in the form of a licence fee. The licence was granted to a third party for a period of six years to enable the development of the site for long-term commercial benefit. In addition to the secure income stream, a fixed percentage of rent and a percentage of sales proceeds of any completed development to be built on the lands are also due to NANQ. The secure income stream was recognised at its present value in 2015 (€9.4m), in line with accounting policy 2.9. The discount from present value will be unwound over the life of the agreement, with the unwind recognised as license fee income (2016: €0.5m).

(e) 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. The increase in the year is due to increased leasing activity during the year.

(f) In accordance with accounting policy 2.16, trading properties are measured at the lower of cost and net realisable value. At the reporting date, the Group recognised a revaluation loss of €0.1m (2015: €0.6m) on certain assets that were revalued downwards from cost to net realisable value. See Note 20 for further details on property assets.

Agency	*Note*	**2016 €'000**	**2015 €'000**
Costs reimbursable from the NAM Group	*10*	49,661	55,846
Negative interest income on intergroup loans	*6*	58	-
Total other income		**49,719**	**55,846**

The interest income of €0.058m (2015: interest expense of €0.058m) on the intergroup loan is due to negative interest rates on the intercompany loan.

8. LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS

Group	**2016 €'000**	**2015 €'000**
Fair value losses on derivatives acquired from borrowers	(1,088)	(4,268)
Termination fees on derivatives previously designated as cash flow hedges	-	(140,705)
Fair value (losses)/gains on other derivatives	(961)	1,699
Hedge ineffectiveness	(2,017)	8,890
Total (losses) on derivative financial instruments	**(4,066)**	**(134,384)**

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

NAMA previously applied hedge accounting to a portion of its senior notes 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. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. All remaining cash flow hedge relationships were derecognised on 28 January 2016 and the derivatives subsequently matured in September 2016.

There are no derivatives in the Agency.

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

Group	Note	2016 €'000	2015 €'000
Surplus income on loan repayments (in excess of loan carrying values)	19	729,016	738,073
Net profit on disposal of loans	19	378,163	848,892
Net profit on disposal of property assets		2,638	-
Total net profit on disposal of loans and property assets; and surplus income		**1,109,817**	**1,586,965**

For certain loan 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 €729m recognised in 2016, €402m (2015: €605m) was generated from debtor connections who have fully repaid all NAMA debt and any further cash received is recognised as profit. A further €327m (2015: €133m) 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 financial 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 and the net carrying value of those loans and receivables. The Group realised a net profit of €378m (2015: €849m) on the disposal of loans in the financial year. The gross profit on disposal amounted to €394m (see note 19) and disposal costs amounted to €16m resulting in a net profit on disposal of loans of €378m. Profit on disposal of loans is not recognised where the overall debtor connection is impaired in accordance with the latest available impairment assessment data.

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 €2.6m (2015: nil) on the disposal of trading property assets in the financial year.

The following table summarises NAMA's overall net profit recognised on the transactions relating to the disposal of underlying collateral and loans for the years 2016 and 2015:

	2016			2015		
Group	Disposals of underlying collateral €m	Disposals of loans €m	Total €m	Disposals of underlying collateral €m	Disposals of loans €m	Total €m
Proceeds	4,243	1,156	**5,399**	5,754	3,339	**9,093**
Profit recognised in income statement (Note 9)	729	378	**1,107**	738	849	**1,587**
Crystallisation of existing impairment provision (Note 19)	-	(633)	**(633)**	(24)	(935)	**(959)**
Total	**729**	**(255)**	**474**	**714**	**(86)**	**628**

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 recorded. Combined with the 'Profit recognised in Income Statement', it represents an overall net profit in respect of the disposal of underlying collateral and loans for the year.

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

Notes to the Financial Statements

10. ADMINISTRATION EXPENSES

Group	Note	2016 €'000	2015 €'000
Costs reimbursable to the NTMA	10.1	47,229	53,495
Primary servicer fees	10.2	15,215	39,338
Master servicer fees	10.3	1,479	1,399
Portfolio management fees	10.4	3,205	4,604
Legal fees	10.5	3,484	5,658
Finance, communication and technology costs	10.6	4,112	2,455
Rent and occupancy costs	10.7	2,883	2,899
Internal audit fees	10.8	752	736
External audit remuneration	10.9	1,250	550
Board and Committee fees and expenses	10.10	435	442
Total administration expenses		**80,044**	**111,576**

Agency	Note	2016 €'000	2015 €'000
Administration expenses			
Costs reimbursable to the NTMA	10.1	47,229	53,495
Rent and occupancy costs	10.7	2,432	2,351
Board and Committee fees and expenses	10.10	435	442
Total administration expenses		**50,096**	**56,288**

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 NAM Group. Total costs of €49.6m (2015: €55.8m) were reimbursed by the NAM Group to NAMA.

Agency	Note	2016 €'000	2015 €'000
Costs reimbursable by the NAM Group			
Costs reimbursable to the NTMA	10.1	47,229	53,495
Rent and occupancy costs	10.7	2,432	2,351
Total costs reimbursable by the NAM Group		**49,661**	**55,846**

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. The costs included above may differ to the amounts disclosed in the NTMA financial statements due to the timing of the preparation of the NAMA financial statements.

Costs comprise staff costs of €37.3m (2015: €43.1m) and overheads and shared service costs of €9.9m (2015: €10.4m).

The NTMA incurs direct costs for NAMA such as salaries, rent, IT, office and business services. NTMA also provides shared services to NAMA including IT, HR and Finance. The salary cost of the NTMA employees (non NAMA Officers) providing these shared services to NAMA during 2016 was €3.4m (2015: €3.7m).

Costs reimbursable to the NTMA are offset by €0.061m relating to rent due from the State Claims Agency to NAMA, which occupies the first floor of the premises that the Agency has leased out.

NAMA has agreed to reimburse the NTMA for its proportionate share of external overhead costs incurred by the NTMA 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 NAM 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 total salary cost including pension costs for the reporting period was €37.3m (2015: €43.1m).

The number of employees of the NTMA directly engaged in the Group ('NAMA Officers') at the reporting date was 302 (2015: 341). Of this, 41 employees (2015: 50 employees) will be placed on garden leave as part of the Voluntary Redundancy Scheme ('VRS') in 2017.

Costs of €3.9m relating to the VRS have been recognised in 2016, of which €1.7m is attributable to statutory and other redundancy payments, €0.8m relates to the "retention scheme"[3], and €1.4m is for garden leave. Garden leave 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 period of garden leave for 39 staff, under the VRS, is three months, and for two staff is six months.

NAMA's original redundancy schedule to reduce staffing was modified in 2016 to accommodate the staffing needs of the expanded residential delivery programme. Further redundancies will take place on a phased basis each year between 2017 and 2020 rather than 2018 as originally planned. In addition to those accepted for the VRS, seven staff (2015: 15) were placed on garden leave during 2016 with an attributable 2016 cost of approximately €0.2m (2015: €0.3m). The average period of garden leave for the seven staff was two months (2015: two months). The decision on whether to place these seven staff members on garden leave was made on a case-by-case basis and included consideration, *inter alia*, of the person's role within NAMA and the person's new employer.

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. The cost of the pension contributions made by the Group is disclosed in Note 38.

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

Brendan McDonagh (Chief Executive Officer)	**2016 €**	**2015 €**
Salary	390,105	390,105
Taxable benefits	21,188	20,166
	411,293	**410,271**

The remuneration of the Chief Executive Officer consists of basic salary, taxable benefits and a discretionary performance related payment of up to 60 per cent of annual salary. The Chief Executive Officer was entitled to be considered to be awarded a performance payment for 2015 and 2016, but in view of the economic challenges facing the country, waived his entitlement to be considered for 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 Chief Executive after consultation with the NAMA Board, who in giving advice on remuneration, are informed by the views of the NAMA Remuneration Committee, having regard to the obligations of the Board to implement Government policy in relation to such remuneration.

Key management personnel

Key management personnel is defined under the Code of Practice for the Governance of State Bodies 2016, as those staff who report directly to the Chief Executive Officer. The Chief Executive Officer has eight direct reports and the total compensation paid to key management personnel in 2016 was €1.4m.

3 *The retention scheme only applies in circumstances where staff members are made redundant, have met all required performances standards, and have remained with NAMA for the period required to fulfil the Agency's statutory mandate.*

Notes to the Financial Statements

10. ADMINISTRATION EXPENSES (CONTINUED)

10.1 Costs reimbursable to the NTMA (continued)

Total Employee Benefits

As required under the Code, total employee benefits, within pay bands of €25,000 from €50,000 upwards is set out in the table below.

Pay band	No. of employees 2016	No. of employees 2015
up to €50,000	52	42
€50,001 - €75,000	74	95
€75,001 - €100,000	80	96
€100,001 - €125,000	51	52
€125,001 - €150,000	27	33
€150,001 - €175,000	8	11
€175,001 - €200,000	4	5
€200,001 - €225,000	2	3
€225,001 - €250,000	1	1
€250,001 - €275,000	2	2
€275,001 - €300,000	-	-
€300,001 - €325,000	-	-
€325,001 - €350,000	-	-
€350,001 - €375,000	-	-
€375,001 - €400,000	-	-
€400,001 - €425,000	1	1
Total	**302**	**341**

Total remuneration includes base salary and any other taxable benefits paid to employees. It does not include employer pension contributions. The public service pension related deduction is applied to NTMA employees.

Hospitality expenditure

As required to be disclosed under the revised Code, hospitality expenditure incurred during the year is set out below:

	2016 €
Staff Wellbeing	39,055
Sports and Social Contributions	13,000
Staff events	15,178
Flowers	840
	68,073

The majority of the staff wellbeing cost comprises the cost of staff health screenings (€34,500), flu vaccines (€1,825) and lunchtime classes and lectures. These are organised by the NTMA and NAMA staff are eligible to receive these benefits.

Hospitality expenditure (continued)

The NTMA has established a Sports and Social Committee for all staff, who can join on a voluntary basis and pay membership fees. NAMA has agreed to contribute to the costs of the activities organised by the Committee where NAMA staff benefit from the activities. NAMA incurred €13,000 in 2016 in relation to the activities organised by the Committee.

In December 2016, an event was held to recognise the important and valued contribution made by NAMA staff, both those staff departing under the 2016 voluntary redundancy scheme and remaining staff, to the successful achievement of NAMA's objectives in the period from the start of 2010 to end-2016. An estimate of 300 people attended at a cost of €11,067 (2015: €11,592). Other staff event costs comprise mainly NAMA's share of staff events organised by the NTMA which NAMA staff are invited to attend.

Travel costs

The total travel costs incurred during 2016 was €123,756, of which €60,087 related to international travel and €63,669 related to domestic travel.

10.2 Primary Servicer fees

Primary Servicer fees comprise fees paid to AIB, BOI and Capita who administer the loans and receivables that originated within each Participating Institution as well as the management of charged current accounts and mortgage accounts. The Primary Servicer fees are based on the service agreements with the service providers (BOI and Capita) and cost recovery with a maximum of 10 basis points of the par debt loan balances administered (for AIB).

The amounts payable to related parties for Primary Servicer fees are set out in Note 38 related party disclosures. Primary servicer fees were €15.2m during the financial year (2015: €39.3m).

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 €1.5m in the financial year (2015: €1.4m). The increase in master servicer fees is mainly driven by additional change requests in the period.

10.4 Portfolio management fees

Portfolio management fees relate to fees incurred in the on-going management and support of debtors. Costs included are property valuation, asset search and asset registry fees, and insurance costs. The decrease in portfolio management fees is primarily due to the decrease in NAMA's business activities.

10.5 Legal fees

Legal fees comprise fees paid to professional service firms with respect to legal advice in the on-going management and support of debtors. The decrease in legal fees is primarily due to the decrease in NAMA's business activities.

10.6 Finance, communication and technology costs

Finance, communication and technology costs comprise costs incurred during the year in relation to IT, tax advice and other administration costs. Finance, communication and technology costs also include a payment made to the Revenue Commissioners arising from an internal review of the operation of Professional Services Withholding Tax (PSWT) by the NAMA Group.

10.7 Rent and occupancy costs

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

Rent and occupancy costs also include a depreciation charge on the capitalised lease fit out costs of €336k (2015: €255k).

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 office premises since 2014 for a period of 15 years at an annual rent of €0.8m and the first floor annexe of its current office premises for a period of 12 years and 4 months at an annual rent of €0.1m since 2013. Included in the rent costs is an amount of €46k reimbursable to NAMA for part of the first floor annexe, occupied by the Strategic Banking Corporation of Ireland (SBCI). Further information on leases is included in Note 32, commitments and contingent liabilities.

The remaining balance relates to occupancy costs.

Notes to the Financial Statements

10. ADMINISTRATION EXPENSES (CONTINUED)

10.8 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.

10.9 External audit remuneration

Group	2016 €'000	2015 €'000
Audit of NAMA Group and subsidiaries by the C&AG	500	550
Audit of NAMA subsidiaries by the Statutory Auditor	750	-
Total external audit remuneration	**1,250**	**550**

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

The Comptroller and Auditor General is NAMA's Auditor in accordance with Section 57 of the NAMA Act. Pursuant to the requirements of the Irish Companies Act 2014, NAMA is required to separately appoint a statutory auditor in respect of companies within the NAMA Group which are deemed to be trading for gain. As the NAMA Group is 51% privately owned and operates to return dividends to its shareholder it is deemed to be trading for gain. NAMA has accrued €0.75m for the estimated cost of the Statutory Audit of the NAMA subsidiaries for 2016.

10.10 Board and Committee fees and expenses

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

	2016 €	2015 €
Frank Daly (Chairman)	150,000	150,000
Oliver Ellingham	60,000	60,000
Brian McEnery	60,000	60,000
Mari Hurley	60,000	60,000
Willie Soffe	75,000	75,000
Board fees	**405,000**	**405,000**
Board expenses	10,189	16,767
Total Board fees and expenses	**415,189**	**421,767**
Planning Advisory Committee		
Alice Charles	5,000	5,000
Michael Wall	5,000	5,000
Audit Committee		
Jim Kelly	10,000	10,000
Committee fees	**20,000**	**20,000**
Total Board and Committee fees and expenses	**435,189**	**441,767**

Conor O'Kelly (NTMA Chief Executive Officer), and Brendan McDonagh (NAMA Chief Executive Officer), as ex-officio members, received no remuneration as members of the NAMA Board. Expenses payable in respect of Board and Committee members are set out below.

2016	**Travel Expenses €**	**Accommodation and Subsistence €**	**Other €**	**2016 Total €**	**2015 Total €**
Frank Daly (Chairman)	571	106	595	**1,272**	**683**
Oliver Ellingham[4]	2,680	1,500	125	**4,305**	**9,911**
Brian McEnery[4]	4,050	562	-	**4,612**	**6,173**
	7,301	**2,168**	**720**	**10,189**	**16,767**

11. FOREIGN EXCHANGE GAINS/(LOSSES)

Group	*Note*	**2016 €'000**	**2015 €'000**
Foreign exchange translation (losses)/gains on loans and receivables (a)	*19*	(154,285)	170,375
Unrealised foreign exchange gains on derivative financial instruments (b)		90,710	105,276
Realised foreign exchange gains/(losses) on currency derivative financial instruments (b)		86,106	(298,903)
Foreign exchange (losses)/gains on cash (c)		(11,197)	8,355
Other foreign exchange (losses)/gains		(2,041)	1,102
Total foreign exchange gains and losses		**9,293**	**(13,795)**

(a) 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.

(b) Gains and losses on foreign currency 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 currency derivatives, which is offset by a foreign exchange translation gain on loans and receivables, resulting in a cumulative net loss of €131m (2015: €140m) 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 acquisition 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.

(c) Foreign exchange gains on cash arise as a result of the fluctuation in foreign exchange rates on the various non-Euro cash balances.

4 Included in travel expenses and accommodation and subsistence is an amount of €4,062 which represents NAMA's tax liability on benefit-in-kind in respect of board expenses paid in 2016 (2015: €7,498).

Notes to the Financial Statements

12. IMPAIRMENT CREDIT ON LOANS AND RECEIVABLES

Group	2016 €'000	2015 €'000
Balance at the beginning of the financial year	**2,475,906**	**3,520,775**
Increase in specific provision	178,607	458,403
Release in specific provision	(1,093,584)	(1,428,547)
Release in collective provision	-	(74,725)
Total movement in provision	**(914,977)**	**(1,044,869)**
Balance at the end of the financial year	**1,560,929**	**2,475,906**
Recognised in the income statement against impairment	(281,578)	(85,620)
Recognised against loans and receivables (Note 19)	(633,399)	(959,249)
Total movement in provision	**(914,977)**	**(1,044,869)**

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. Management may apply judgement to adjust the computed impairment where it more accurately reflects the recoverable value of an asset. Further information on management judgement is set out in Note 3.1

The movement in the specific provision in 2016 comprises an increase of €179m and a release of €1,094m for certain debtor connections. The increase in the specific provision reflects principally a deterioration in the amount and/or a change in the timing of expected cash flows from collateral assets.

The release in the specific provision is due to an increase in expected and realised cash flows including earlier receipt of cash flows. The €633m release in the specific provision recognised against loans and receivables relates to the crystallisation of previously recognised impairment on loans sold during the year and the conclusion of debt compromise arrangements.

Since 1 January 2015, all debtor connections have been individually assessed for impairment so there no longer is a requirement for a collective portfolio impairment provision.

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	2016 €'000	2015 €'000
Current tax		
Irish corporation tax	(143,139)	(18)
Deferred tax		
On fair value gains/(losses) on derivatives and equity instruments	(21,518)	(28,290)
On other timing differences	54	(54)
Total deferred tax recognised in income statement	**(21,464)**	**(28,344)**
Total tax charge	**(164,603)**	**(28,362)**

13. TAX CHARGE (CONTINUED)

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

Reconciliation of tax on profits

Group	2016 €'000	2015 €'000
Profit before tax	1,667,308	1,854,256
Tax calculated at a tax rate of 25%	416,827	463,564
Effect of:		
Deductible derivative movements	(21,145)	(28,406)
Tax on interest income	(31)	(63)
Non deductible income/(deductible expenses)	(252,563)	(414,311)
Utilised tax losses forward	-	2
Additional taxable income/(deductible expenditure)	100	(20,872)
Movement in deferred tax (liability)/asset recognised	21,464	28,344
Tax losses utilised on value basis	(49)	-
Tax losses surrendered	-	104
Taxation charge	**164,603**	**28,362**

The current tax charge of €143m (2015: €0.02m) arises on the profits earned by NAMAI and its subsidiaries. The Agency is exempt from Irish income tax, corporation tax and capital gains tax.

The increase in the tax charge for the year is primarily attributable to the Finance Act 2016 amendments to Section 110 of the Taxes Consolidation Act 1997. As a result of the Finance Act 2016 amendments, with effect from 6th September 2016, NAM D.A.C.'s entitlement to a tax deduction for PPL interest payable to NAMA is restricted to the extent that it is attributable to income from loans which are secured on, and which derive their value directly or indirectly from, Irish real estate.

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

14. INCOME TAX RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

Group	*Note*	2016 €'000	2015 €'000
Movement in cash flow hedge reserve before tax	*35*	72,401	300,601
Movement in available for sale reserve before tax	*35*	13,516	-
Total movement		**85,917**	**300,601**
Deferred tax expense (net)	*27*	(17,699)	(75,149)
Total income tax relating to components of other comprehensive income		**(17,699)**	**(75,149)**

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. As all derivatives designated into hedge relationships expired in September 2016, any related deferred tax asset or liability was recycled to income statement. 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.

Notes to the Financial Statements

15. CASH AND CASH EQUIVALENTS AND COLLATERAL

Group	2016 €'000	2015 €'000
Balances with the Central Bank of Ireland	792,523	3,014,958
Balances with other banks	53,187	69,334
Term deposits	70,079	61,312
Exchequer note investments	672,000	-
Total cash and cash equivalents	**1,587,789**	**3,145,604**
Cash placed as collateral with the NTMA	58,000	256,000
Total cash, cash equivalents and collateral	**1,645,789**	**3,401,604**

Agency	2016 €'000	2015 €'000
Balances with the Central Bank of Ireland	112	268
Total cash and cash equivalents	**112**	**268**

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 6 months, which are held with the NTMA.

NAMA is required to post cash collateral with the NTMA under a collateral posting agreement (CPA) (as amended) 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 2016, NAMA's derivative liability exposure was €4.4m (2015: €179m) as set out in Note 18.

During 2015, an amount of €250,000 was placed on deposit in an account in the Group's name. This amount will be held in the deposit account to cover a potential legal claim in relation to a debtor. On settlement the amount will be remitted 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 on deposit at the reporting date as there was no change in the status of the legal claim during 2016.

During 2011, an amount of $135,515 was placed on deposit in a segregated account. This amount was being held as security for costs for a case that has subsequently completed. These funds were released to the Group in September 2016.

16. AVAILABLE FOR SALE FINANCIAL ASSETS

Group	2016 €'000	2015 €'000
Short term treasury bonds	519,378	-
Total available for sale financial assets	**519,378**	**-**

Available for sale financial assets comprise Irish government treasury bonds acquired for liquidity management. The nominal value of available for sale financial assets at 31 December 2016 was €430m (2015: €nil).

The movement on available for sale financial assets is analysed as follows:

	Note	2016 €'000	2015 €'000
At beginning of year		-	-
Purchase of available for sale financial assets		520,985	-
Net changes in fair value	*35*	(1,607)	-
At end of year		**519,378**	**-**

17. AMOUNTS DUE (TO)/FROM PARTICIPATING INSTITUTIONS

NAMA acquired overdraft accounts attached to debtor loan accounts in 2010 and 2011. At 31 December 2016 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 settled may differ to the balances reported at financial year end. All amounts are classified as current.

Unsettled overdraft positions	**Receivable €'000**	**Payable €'000**
Balance at 31 December 2015	**87,188**	**(20,799)**
Movement in overdraft accounts during the financial year	(66,707)	10,036
Balance as at 31 December 2016	**20,481**	**(10,763)**

The total movement in overdraft accounts during the year of €56.7m comprises a settlement of outstanding overdraft accounts with AIB of €48.2m and a reversal of estimated overdraft settlements of €8.5m. During 2015 NAMA agreed to settle the majority of outstanding debtor overdraft accounts held with AIB. The estimated amount which was recognised against loans and receivables at end 2015 was €56.7m. Following a review of the estimated settlement amount in 2016, the final amount settled between NAMA and AIB was €48.2m. The remaining estimate of €8.5m which was previously adjusted against loans and receivables in 2015, was reversed in the current year (refer to Note 19.11).

The balance as at 31 December relates solely to unsettled overdraft positions currently in place with BOI, following complete settlement of all amounts receivable from AIB during the financial year.

All BOI overdraft accounts have been closed and a number of them were converted to loans during 2015. There are seven 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 the 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, 22 and 23.

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 contracted 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 contract 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.

The fair values, and notional amounts thereon, of derivative financial instruments held are set out below.

		Fair values		
Group 2016	**Notional amount €'000**	**Assets €'000**	**Liabilities €'000**	**Net €'000**
(a) Derivatives at fair value through profit or loss				
Derivative financial instruments acquired from borrowers	44,723	19,458	-	19,458
Other derivative financial instruments	20,000	-	(3,316)	(3,316)
Foreign currency derivatives	637,707	6,541	(1,049)	5,492
Total derivative assets/(liabilities)	**702,430**	**25,999**	**(4,365)**	**21,634**

Notes to the Financial Statements

18. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Group 2015	Notional amount €'000	Fair values Assets €'000	Fair values €'000	Net Liabilities €'000
(a) Derivatives at fair value through profit or loss				
Derivative financial instruments acquired from borrowers	47,802	22,992	-	22,992
Other derivative financial instruments	20,000	-	(2,355)	(2,355)
Foreign currency derivatives	1,733,871	21,298	(106,516)	(85,218)
(b) Derivative financial instruments designated in hedge relationships				
Interest rate swaps	4,700,000	-	(70,385)	(70,385)
Total derivative assets/(liabilities)	**6,501,673**	**44,290**	**(179,256)**	**(134,966)**

Movement recognised in the income statement and other comprehensive income

The table below shows the net fair value position on derivatives at 31 December 2016 and 2015. The movement is recognised either in the income statement on derivatives where hedge accounting is not applied (Note 8), in unrealised foreign exchange gains/(losses) on derivative financial instruments (Note 11), or in other comprehensive income where hedge accounting is applied (Note 35).

Group	*Note*	Fair values 2016 €'000	Fair values 2015 €'000	Movement 2016 €'000
(a) Derivatives at fair value through profit or loss				
Derivative financial instruments acquired from borrowers	*8*	19,458	22,992	(3,534)
Other derivative financial instruments	*8*	(3,316)	(2,355)	(961)
Foreign currency derivatives	*11*	5,492	(85,218)	90,710
(b) Derivative financial instruments designated in hedge relationships				
Interest rate swaps	*35*	-	(70,385)	70,385
Net derivative fair value movement		**21,634**	**(134,966)**	**156,600**

(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 the reporting date was €19m (2015: €23m). The fair value movement recognised in the income statement on these derivatives in the financial year was a net loss of €1m (2015: €4m) (see Note 8), with a further reduction in the asset value due to cash having been received in respect of matured derivatives of €2m.

The fair value movement recognised in the income statement in the financial year on other derivative financial instruments was a net loss of €1m (2015: net loss of €139m) (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.

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

Interest rate swaps relate to fair value derivatives entered into by the group to hedge its interest rate risk arising from Euribor floating rates on its senior debt securities. These derivatives were originally designated into hedge relationships but pursuant to a direction issued by the Minister on 31 July 2015, on 28 January 2016 the Group executed documentation to floor the coupon rate on the senior notes in issue at zero percent if the 6 month Euribor rate turned negative. This resulted in €4.7bn of cashflow hedge relationships being derecognised on this date, with future mark-to-market (MTM) movements being recognised in profit or loss.

At the reporting date, the Group had no remaining interest rate swaps to hedge its exposure to interest rate risk arising from Euribor floating rates (2015: €4.7bn).

The Agency held no derivatives at the reporting date, and there is no cash flow hedging applied in the Agency.

19. LOANS AND RECEIVABLES (NET OF IMPAIRMENT)

Group	Note	2016 €'000	2015 €'000
Loans and receivables carrying value before impairment		5,479,595	10,291,851
Less: provision for impairment charges on loans and receivables	12	(1,560,929)	(2,475,906)
Total loans and receivables (net of impairment)		**3,918,666**	**7,815,945**

The above table reflects the carrying value of the loans at the reporting date 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	2016 €'000	2015 €'000
Loans acquired – opening balance		10,291,851	16,880,809
New loans issued/acquired in the year	19.1		139,071
Proceeds from and payments to borrowers			
Non-disposal income	19.2	(294,917)	(592,045)
Proceeds from the sale of collateral held as security against loans and receivables and other loan repayments	19.3	(3,838,934)	(5,073,202)
Proceeds from the sale of loans	19.4	(1,156,022)	(3,338,869)
Deferred consideration on loan sales	19.5	(750,707)	-
Consideration for trading properties	19.6	(122,657)	-
Settlement proceeds received by NAJV A	19.7	(12,105)	-
Funds advanced to borrowers		648,401	855,512
Funds in the course of collection	19.8	(500)	(1,363)
Deferred income - NANQ	19.9	123	9,150
Costs recoverable from borrowers	19.10	11,463	27,725
Total proceeds from and payments to borrowers		**(5,515,855)**	**(8,113,092)**
Other loan movements			
Loan interest income earned	5	368,108	576,349
Movement in overdraft accounts	17,19.11	8,451	(2,392)
Profit on disposal of loans	9	394,356	868,273
Surplus income	9	729,016	738,073
Foreign exchange (loss)/gain on loans and receivables	11	(154,285)	170,375
Impairment crystallised from disposals	9,12,19.12	(633,399)	(959,249)
Other	19.13	(8,648)	(6,366)
Total other loan movements		**703,599**	**1,385,063**
Total loan movements		**(4,812,256)**	**(6,728,029)**
Total loans and receivables before impairment		**5,479,595**	**10,291,851**
Impairment of loans and receivables	12	(1,560,929)	(2,475,906)
Net loans and receivables after impairment		**3,918,666**	**7,815,945**

Notes to the Financial Statements

19. LOANS AND RECEIVABLES (NET OF IMPAIRMENT) (CONTINUED)

Reconciliation of movement in loans and receivables (continued)

The net movement in the loan balance after impairment in the financial year is a decrease of €3.9bn (2015: decrease of €5.5bn). The total cumulative impairment provision in respect of NAMA loans and receivables at 31 December 2016 is €1.6bn (2015: €2.5bn).

Pre-impairment loan movements occurring in the financial year are €4.8bn (2015: €6.7bn), which includes €5bn (2015: €8.4bn) of cash receipts from debtors, generated from the sale of loans and properties and non-disposal income of €0.3bn (2015: €0.6bn) and deferred consideration on loan sales of €751m (2015: €nil).

Funds advanced to debtors for working and development capital was €0.6bn (2015: €0.9bn). Loan interest income of €0.4bn (2015: €0.6bn) was earned in the financial year. Further information on certain loan movements are provided below.

19.1 New loans issued/acquired

New loans issued/acquired includes loans of €nil (2015: €139m) acquired from financial institutions in relation to existing NAMA debtors.

19.2 Non-disposal income

Non-disposal income receipts recorded against NAMA's loans and receivables in 2016 were €0.3bn (2015: €0.6bn). This amount comprises primarily rental income received during the financial year.

19.3 Proceeds from the sale of collateral held as security against loans and receivables and other loan repayments

Proceeds from the sale of collateral held as security against loans and receivables of €3.8bn (2015: €5.1bn) represent any receipts relating to the disposal of assets applied as a reduction in the debt held by NAMA.

19.4 Proceeds from the sale of loans

Proceeds from the sale of loans of €1.2bn (2015: €3.3bn) represent any receipts relating to the disposal of loans and receivables by the Group.

19.5 Deferred consideration on loan sales

Deferred consideration has been recognised in Other assets (Note 28). This relates to two loan sales which were contracted in December 2016, however the full proceeds of sale were not received until end of January 2017.

19.6 Consideration for trading properties

Consideration for trading properties comprises the purchase price for property assets that are directly acquired by NAMA, which were contracted at the reporting date but had not yet completed. The property assets contracted include the purchase by NARPS of a number of social housing units from debtors and the acquisition of two properties in the Dublin's Docklands Strategic Development Zone. The consideration (purchase price) of the properties is recognised as a reduction in the debtor's outstanding debt to NAMA and an increase in trading properties as set out in Note 20, Inventories – Trading properties.

19.7 Settlement proceeds received by NAJV A

Proceeds received by NAJV A relate to the repayment of a loan advanced by NAJV A to a limited liability partnership, which invested in a joint venture arrangement with a consortium in 2013.

19.8 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.

19.9 Deferred income - NANQ

Deferred income represents the financial asset in NANQ, which is carried at amortised cost and is assessed for changes in value at various stages of development. In accordance with IAS 39, the financial instrument is classified as loans and receivables. The company earns secured income on the financial asset which increases the value of the asset throughout the financial year. The secure income stream was recognised at its present value in 2015 and the discount from present value will be unwound over the life of the agreement, with the unwind recognised as license fee income which is included in Note 7.

19.10 Costs recoverable from borrowers

Costs recoverable from borrowers are costs incurred by NAMA which are recoverable from the debtor and are added to the carrying value of loans and receivables.

19.11 Overdraft accounts

During 2015 NAMA agreed to settle the majority of outstanding debtor overdraft accounts held with AIB. The estimated amount which was recognised against loans and receivables at end-2015 was €56.7m. Following a review of the estimated settlement amount in2016, the final amount settled between NAMA and AIB was €48.2m. The remaining estimate of €8.5m which was previously adjusted against loans and receivables in 2015, was reversed in the current year (Refer to Note 17).

19.12 Impairment crystallised from disposals

Impairment provisions that were previously recognised against loans and receivables are crystallised on the sale of loans and collateral assets.

19.13 Other

Included in 'Other' is an amount of €3.1m related to the conversion of a shareholder loan to an equity investment in a QIAIF held by the Group.

20. INVENTORIES – TRADING PROPERTIES

Group	2016 €'000	2015 €'000
Trading properties	**346,703**	**108,473**

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 2016:

- acquisition of an additional 709 (2015: 390) social housing units as part of the social housing initiative;
- acquisition of lands in the Dublin Docklands in settlement of debt considered to be of strategic importance to the Group in terms of ongoing development strategies; and
- disposal of property assets previously acquired in settlement of debt.

As set out in Note 19.6, certain of these assets acquired in the year were contracted but had not yet completed by the reporting date. The consideration for these properties is recognised as a reduction in the debtor's outstanding debt to NAMA and an increase in trading properties held by NAMA. The consideration for the acquisition of social housing includes properties that were contracted during the periods 2014-2016, which were only recognised in 2016.

Amounts payable to acquire trading properties relating to acquisition of a property by NAPM is included in Note 30.

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. During 2016, day-to-day treasury management was carried out by the NAMA Treasury team with transactions executed on NAMA's behalf by the NTMA. With effect from 1 January 2017, treasury functions are provided to NAMA by the NTMA Funding and Debt Management Unit.

Notes to the Financial Statements

21. RISK MANAGEMENT (CONTINUED)

Asset and liability management (continued)

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's foreign currency exposure has significantly reduced in 2016 due to its reduced exposure to non-euro markets (refer to Segmental Analysis in Note 4). 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.

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 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, Residential Delivery 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. 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 (BOI and AIB) and Primary and Master Servicer and monitors and reports to the Audit Committee and Board the progress in addressing actions highlighted in audit findings. The Quality Assurance team within the Audit & Risk unit reviews the portfolio of NAMA assets to assess whether they are being managed in compliance with all policies and procedures and that connection strategies are implemented to maintain and enhance the value of assets under management.

Treasury – CFO Division

During 2016, the Treasury unit had the 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.

At the reporting date, the Group had no remaining interest rate swaps to hedge its exposure to interest rate risk arising from Euribor floating rates (2015: €4.7bn).

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 analysis of all significant risk positions and compliance with risk limits.

21.3 Market risk measurement

21.3.1 Interest rate risk

The Group is exposed to interest rate risk on certain financial assets and liabilities. 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.

Notes to the Financial Statements

21. RISK MANAGEMENT (CONTINUED)

21.3 Market risk measurement (continued)

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 2016	**0-6 months €'000**	**Greater than 6 months €'000**	**Non-interest bearing €'000**	**Total €'000**
Financial assets				
Cash and cash equivalents	1,587,789	-	-	**1,587,789**
Cash placed as collateral with the NTMA	58,000	-	-	**58,000**
Available for sale financial assets	430,000	-	-	**430,000**
Loans and receivables	3,918,666	-	-	**3,918,666**
Amounts due from Participating Institutions	-	-	20,481	**20,481**
Investments in equity instruments	-	-	55,500	**55,500**
Other assets	-	-	777,061	**777,061**
Total financial assets exposed to interest rate re-set	**5,994,455**	**-**	**853,042**	**6,847,497**
Liabilities				
Amounts due to Participating Institutions	-	-	10,763	**10,763**
Senior debt securities in issue	2,590,000	-	-	**2,590,000**
Other liabilities	-	-	27,839	**27,839**
Total financial liabilities exposed to interest rate re-set	**2,590,000**	**-**	**38,602**	**2,628,602**

Interest rate risk Group 2015	**0-6 months €'000**	**Greater than 6 months €'000**	**Non-interest bearing €'000**	**Total €'000**
Financial assets				
Cash and cash equivalents	3,145,604	-	-	**3,145,604**
Cash placed as collateral with the NTMA	256,000	-	-	**256,000**
Loans and receivables	7,815,945	-	-	**7,815,945**
Amounts due from Participating Institutions	-	-	87,188	**87,188**
Investments in equity instruments	-	-	48,211	**48,211**
Other assets	-	-	29,550	**29,550**
Total financial assets exposed to interest rate re-set	**11,217,549**	**-**	**164,949**	**11,382,498**
Liabilities				
Amounts due to Participating Institutions	-	-	20,799	**20,799**
Senior debt securities in issue	8,090,000	-	-	**8,090,000**
Derivative financial instruments	(4,700,000)	-	-	**(4,700,000)**
Other liabilities	-	-	69,397	**69,397**
Total financial liabilities exposed to interest rate re-set	**3,390,000**	**-**	**90,196**	**3,480,196**

21.3.1 Interest rate risk (continued)

Interest rate risk Agency 2016	0-6 months €'000	Non- interest bearing €'000	Total €'000
Financial assets			
Cash and cash equivalents	112	-	**112**
Other assets	-	3,324,368	**3,324,368**
Total financial assets exposed to interest rate re-set	**112**	**3,324,368**	**3,324,480**
Liabilities			
Interest bearing loans and borrowings	53,699	-	**53,699**
Other liabilities	-	7,449	**7,449**
Total financial liabilities exposed to interest rate re-set	**53,699**	**7,449**	**61,148**

Interest rate risk Agency 2015	0-6 months €'000	Non- interest bearing €'000	Total €'000
Financial assets			
Cash and cash equivalents	268	-	**268**
Other assets	-	1,828,531	**1,828,531**
Total financial assets exposed to interest rate re-set	**268**	**1,828,531**	**1,828,799**
Liabilities			
Interest bearing loans and borrowings	53,757	-	**53,757**
Other liabilities	-	7,446	**7,446**
Total financial liabilities exposed to interest rate re-set	**53,757**	**7,446**	**61,203**

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 (NPV) 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 2016. 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

	2016		2015	
Group	**+50bp €'000**	**-50bp €'000**	**+50bp €'000**	**-50bp €'000**
EUR	(1,392)	(1,789)	10,070	(10,171)
GBP	(580)	580	1,236	(1,243)
USD	(30)	30	(41)	41
Other	-	-	(23)	23

Notes to the Financial Statements

21. RISK MANAGEMENT (CONTINUED)

21.3 Market risk measurement (continued)

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 2016. 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 2016	USD €'000	GBP €'000	Total €'000
Assets			
Cash and cash equivalents	2,258	81,479	**83,737**
Loans and receivables	32,196	537,136	**569,332**
Derivative financial instruments	(30,358)	(607,349)	**(637,707)**
Total assets exposed to currency risk	**4,096**	**11,266**	**15,362**

Group 2015	USD €'000	GBP €'000	Other €'000	Total €'000
Assets				
Cash and cash equivalents	2,675	98,762	863	**102,300**
Loans and receivables	42,528	1,290,657	21,833	**1,355,018**
Derivative financial instruments	(41,334)	(1,683,607)	(21,116)	**(1,746,057)**
Total assets exposed to currency risk	**3,869**	**(294,188)**	**1,580**	**(288,739)**

All of 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 2016 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	2016 €'000	2015 €'000
GBP	(1,024)	26,744
USD	(372)	(352)
Other	-	(144)

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 financial year ended 31 December 2016 would increase/decrease by €5.5m 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.

22. CREDIT RISK

Credit risk is the risk of incurring financial loss from the failure by debtors or market counterparties of the Group to fulfil contractual obligations to the Group taking account of the realisable value of collateral pledged as security for such obligations. NAMA's main credit risk arises from the repayment performance of its debtors and the ultimate value realisable from assets held as security.

The Group's debtor-related exposures arose in the first place from the acquisition of a substantial portfolio of loans secured mostly on property in the commercial and residential 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 (including funding of residential units) with the aim of achieving the maximum financial return for the State subject to acceptable risk. Undrawn loan commitments, guarantees and financial instruments such as fixed interest rate agreements 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 as far as possible 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, such valuations being independently verified to the satisfaction of the relevant authorities. The credit risk arising from the Group's ongoing lending and credit risk management activities is mitigated by the Group's Policy and Procedures Framework.

Credit risk arises and is managed principally in three divisions of the Group being Asset Recovery, Residential Delivery and Asset Management.

NAMA Asset Recovery

The Asset Recovery division has three primary functions: strategy delivery, management of debtors/insolvency practitioners and maximising cash flow while minimising loss.

Prior to the formation of the Residential Delivery division in the latter part of 2015, Asset Recovery was 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.

NAMA Residential Delivery

Following the decision in late 2015 to increase the funding of commercially viable residential development to maximise the return from secured development assets and to facilitate increased debt reduction, the Residential Delivery division was created. The Credit Approval process within Residential Delivery is operated within the current Group's Policy and Procedure Framework. In addition, a separate and dedicated Credit and Risk Team has been created to provide additional oversight of the application of lending guidelines, attainment of viability hurdles and delivery on cashflow assumptions in relation to all additional funding advanced. This is achieved through ongoing monitoring of development projects against approved budgets/ cashflows. A key control within this area requires the Residential Delivery division to modulate its funding of construction activity to ensure it is in line with actual sales volumes being achieved. Furthermore, the Residential Delivery division continues to manage the orderly deleveraging of debtors' existing borrowings through the ongoing sale of their non-development assets, and development assets where relevant.

NAMA Asset Management

The Asset Management division is responsible for the oversight and management of the maximisation of the value of significant development land held by NAMA debtors and insolvency practitioners, including, *inter alia*, the extensive acreage of development land in the Dublin Docklands area, which includes the former Irish Glass Bottle (IGB) site in Ringsend held as collateral for the loans of various connections in receivership. Asset Management has also managed since 2012 credit exposure for significant residential developments in London and the entire credit exposure for a small number of significant debtors involved mainly in such UK development. As at end 2016 this UK activity is largely complete. The Asset Management team is also responsible for the management of NAMA's minority shareholdings in certain investment vehicles, primarily in the Dublin Docklands, which include investments in certain Qualifying Investor Alternative Investment Funds (QIAIF) and Irish Collective Asset-Management Vehicles (ICAVs) (Refer to Note 26).

Notes to the Financial Statements

22. CREDIT RISK (CONTINUED)

Policy and Procedures Framework

The overall objective of the Group's Policy and Procedures Framework is to safeguard the NAMA 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 implemented by the three relevant divisions as described above. 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 have been acquired under the provisions of the NAMA Act. Loans acquired from Participating Institutions are grouped together and managed on a connection basis.

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, including the funding of residential developments by a debtor/insolvency practitioner
- 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
- 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/insolvency practitioner.

A number of debtors' business plans include possible commercial arrangements which are triggered when ambitious or 'stretch' financial and operational targets are met. In certain cases, if debtors achieve these stretch targets, they may retain a proportion of any excess achieved above target levels. The objective of this is to ensure that debtors are motivated to extract maximum value from the workout and realisation of their assets. The continued strong improvement in property market conditions since the end of 2013 has triggered payments in a number of cases. Where appropriate, payment of development management fees are considered on a case-by-case basis as part of commercially viable residential development funding.

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 €28.4bn (2015: €41.1bn).
- 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 €5.5bn (2015: €10.3bn).

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. 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). The total remaining number of these derivative instruments at the reporting date was three, with an outstanding fair value of €19m (2015: €23m).

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 relied 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.

A key consideration in advancing funding is whether or not the debtor's or insolvency practitioner's credit proposal is value enhancing in terms of its potential ability to maximise capacity to repay debt reduction ability rather than disposal of assets "as is".

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

The Group has a defined Policy and Procedures Framework which sets out authority levels for permitted credit decisions and credit limits, as well as credit risk monitoring and reporting.

The 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 total amount of the debtor's outstanding balance and the level of additional funding being sought.

Credit decisions are approved by one or more of the following within a cascading level of approved delegated authority:

- Panel A or Panel B Delegated Authority Policy holders;
- Senior Divisional Manager;
- Divisional Head (or Deputy Head);
- Chief Executive Officer and Head of Division;
- Credit Committee;
- Board.

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.

(b) Collateral

Loans and advances to debtors and insolvency practitioners 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 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.

Notes to the Financial Statements

22. CREDIT RISK (CONTINUED)

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 including sales receipts accounts for Debtors who avail of approved residential development funding.

(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 debtor's exposure management.

With respect to derivatives entered into by the Group, the sole counterparty is the NTMA.

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 2016, 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 2016 €'000	Maximum exposure 2015 €'000
Cash and cash equivalents		1,587,789	3,145,604
Cash placed as collateral with the NTMA		58,000	256,000
Available for sale financial assets		519,378	-
Amounts due from Participating Institutions		20,481	87,188
Derivative financial instruments		25,999	44,290
Loans and receivables			
Land and development		2,636,920	4,079,146
Investment property		2,842,675	6,212,705
Impairment		(1,560,929)	(2,475,906)
Loans and receivables (net of impairment)		3,918,666	7,815,945
Other assets		777,061	29,550
Investments in equity instruments		55,500	48,211
Total assets		**6,962,874**	**11,426,788**
Loan commitments	*23.4*	377,972	556,148
Total maximum exposure		**7,340,846**	**11,982,936**

22.4 Maximum exposure to credit risk - before collateral held or other credit enhancements (continued)

Agency	Maximum exposure 2016 €'000	Maximum exposure 2015 €'000
Cash	112	268
Investments in equity instruments	49,000	49,000
Other assets	3,324,368	1,828,531
Total maximum exposure	**3,373,480**	**1,877,799**

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 expectation is a concern.

The distribution of grades for loans and receivables and debtors neither past due nor impaired

	2016 €'000	2015 €'000
Satisfactory	1,381,484	2,225,712
Watch	763,460	1,114,473
Loans and receivables neither past due nor impaired	**2,144,944**	**3,340,185**

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 €3.5bn (2015: €7.0bn) at the reporting date and generated interest income of €142m in 2016 (2015: €288m).

NAMA's loans are secured by debtor assets primarily located in the Republic of Ireland. In certain situations, NAMA may have received charges over additional assets by way of judgement or agreements with debtors which may be used in order to satisfy amounts owed by debtors to NAMA.

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.

Notes to the Financial Statements

22. CREDIT RISK (CONTINUED)

Loans and receivables individually assessed for impairment

	2016 €'000	2015 €'000
Gross loans and associated derivatives	5,504,753	10,372,475
Individually impaired loans and associated derivatives	(3,507,065)	(7,032,290)
Loans and associated derivatives not individually impaired	**1,997,688**	**3,340,185**

Gross loans and associated derivatives assessed for impairment differ from Gross loans and receivables as per Note 19, as the balance above excludes overdrafts of €34m and cash in transit of €8m and other loans and receivables of €16m.

None of the assets exposed to credit risk in the Agency are individually impaired.

(d) Loans and receivables renegotiated

None of the loans exposed to credit risk of the Group were renegotiated in the period (2015: €0.08bn). The restructuring of debtors in 2015 involved in the majority of cases the restructuring of loans into a reduced number of interest bearing facilities for easier engagement and debtor management.

None of the assets exposed to credit risk of the Agency were renegotiated in the period (2015: €nil).

22.6 Geographical sectors

The following table analyses the Group's main credit exposures at their carrying amounts, with loans and receivables based on the location of collateral securing them and all other assets based on the location of the asset.

Geographical sector 2016 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	1,938,907	586,610	111,403	-	**2,636,920**
– Investment property	2,252,129	424,893	165,653	-	**2,842,675**
Impairment of loans and receivables	-	-	-	(1,560,929)	**(1,560,929)**
Total loans and receivables	**4,191,036**	**1,011,503**	**277,056**	**(1,560,929)**	**3,918,666**
Cash and cash equivalents	1,587,789	-	-	-	**1,587,789**
Cash placed as collateral with the NTMA	58,000	-	-	-	**58,000**
Available for sale financial assets	519,378	-	-	-	**519,378**
Derivative financial instruments	25,999	-	-	-	**25,999**
Amounts due from Participating Institutions	20,481	-	-	-	**20,481**
Inventories – trading properties	345,403	-	1,300	-	**346,703**
Other assets	777,061	-	-	-	**777,061**
Investments in equity instruments	45,075	-	10,425	-	**55,500**
Property, plant and equipment	1,344	-	-	-	**1,344**
Total assets	**7,571,566**	**1,011,503**	**288,781**	**(1,560,929)**	**7,310,921**

22.6 Geographical sectors (continued)

Geographical sector 2015 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	2,535,587	1,380,020	163,539	-	**4,079,146**
– Investment property	4,667,336	1,058,455	486,914	-	**6,212,705**
Impairment of loans and receivables	-	-	-	(2,475,906)	**(2,475,906)**
Total loans and receivables	**7,202,923**	**2,438,475**	**650,453**	**(2,475,906)**	**7,815,945**
Cash and cash equivalents	3,145,604	-	-	-	**3,145,604**
Cash placed as collateral with the NTMA	256,000	-	-	-	**256,000**
Derivative financial instruments	44,290	-	-	-	**44,290**
Amounts due from Participating Institutions	87,188	-	-	-	**87,188**
Deferred tax asset	28,870	-	-	-	**28,870**
Inventories – trading properties	106,543	-	1,930	-	**108,473**
Other assets	29,550	-	-	-	**29,550**
Investments in equity instruments	38,698	-	9,513	-	**48,211**
Property, plant and equipment	1,680	-	-	-	**1,680**
Total assets	**10,941,346**	**2,438,475**	**661,896**	**(2,475,906)**	**11,565,811**

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 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.

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 NAMA Finance 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.

Notes to the Financial Statements

23. LIQUIDITY RISK (CONTINUED)

23.1 Liquidity risk management process (continued)

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 1 March 2017 were physically settled by issuing new securities with a maturity of 1 March 2018, with the exception of one note holder, whose securities were settled in cash.

The outstanding balance of debt securities in issue at the reporting date was €2.6bn, which is 9% of the original debt securities of €30.2bn issued in 2010 and 2011. NAMA also redeemed a further €2.09bn in 2017 (refer to Note 40), bringing the balance of debt securities in issue to €0.5bn, less than 2% of the original issuance. Therefore, the exposure of the Group to liquidity risk arising from its debt securities in issue has significantly reduced.

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 2016	0-6 months €'000	6-12 months €'000	Total €'000
Liabilities			
Amounts due to Participating Institutions	10,763	-	**10,763**
Senior debt securities in issue (including interest)	2,590,000	-	**2,590,000**
Other liabilities	27,679	-	**27,679**
Total liabilities	**2,628,442**	**-**	**2,628,442**
Assets held for managing liquidity risk	**2,165,167**	**-**	**2,165,167**

Non-derivative cash flows Group 2015	0-6 months €'000	6-12 months €'000	Total €'000
Liabilities			
Amounts due to Participating Institutions	20,799	-	**20,799**
Senior debt securities in issue (including interest)	8,091,069	-	**8,091,069**
Other liabilities	34,041	-	**34,041**
Total liabilities	**8,145,909**	**-**	**8,145,909**
Assets held for managing liquidity risk	**3,401,604**	**-**	**3,401,604**

Non-derivative cash flows Agency 2016	0-6 months €'000	6-12 months €'000	Total €'000
Liabilities			
Interest bearing loans and borrowings	53,699	-	**53,699**
Other liabilities	7,449	-	**7,449**
Total liabilities	**61,148**	**-**	**61,148**

23.2 Non-derivative cash flows (continued)

Non-derivative cash flows Agency 2015	0-6 months €'000	6-12 months €'000	Total €'000
Liabilities			
Interest bearing loans and borrowings	53,757	-	53,757
Other liabilities	7,446	-	7,446
Total liabilities	**61,203**	**-**	**61,203**

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash and cash equivalents, collateral, term deposits and available for sale financial assets. Assets held for managing liquidity risk do not take into account loans and receivables balances which are on-demand.

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.

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 2016	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	1,040	552	4,918	3,033	9,543

Group 2015	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	1,067	585	5,223	4,371	**11,246**
Interest rate derivatives – where hedge accounting is applied	950	(105,444)	-	-	**(104,494)**
Total	**2,017**	**(104,859)**	**5,223**	**4,371**	**(93,248)**

(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 2016	0-6 months €'000	6 -12 months €'000	1-5 years €'000	Total €'000
Foreign exchange derivatives:				
– Outflow	(637,707)	-	-	**(637,707)**
– Inflow	641,657	-	-	**641,657**
Total inflow	**3,950**	**-**	**-**	**3,950**

Notes to the Financial Statements

23. LIQUIDITY RISK (CONTINUED)

23.3 Derivative cash flows (continued)

Group 2015	0-6 months €'000	6 -12 months €'000	1-5 years €'000	Total €'000
Foreign exchange derivatives:				
– Outflow	(907,194)	-	-	**(907,194)**
– Inflow	925,101	-	-	**925,101**
Cross-currency interest rate derivatives:				
– Outflow	(286,607)	(556,551)	-	**(843,158)**
– Inflow	248,401	483,029	-	**731,430**
Total outflow	**(20,299)**	**(73,522)**	**-**	**(93,821)**

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.

Group Commitments to lend	No later than 1 year €'000	1-5 years €'000	Over 5 years €'000	Total €'000
31 December 2016	172,959	183,340	21,673	**377,972**
31 December 2015	190,780	360,968	4,400	**556,148**

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	2016 Carrying value €'000	2016 Fair value €'000	2015 Carrying value €'000	2015 Fair value €'000
Financial assets				
Cash and cash equivalents	1,587,789	1,587,789	3,145,604	3,145,604
Cash placed as collateral with the NTMA	58,000	58,000	256,000	256,000
Available for sale financial assets	519,378	519,378	-	-
Amounts due from Participating Institutions	20,481	20,481	87,188	87,188
Derivative financial instruments	25,999	25,999	44,290	44,290
Loans and receivables	3,918,666	4,519,705	7,815,945	9,091,168
Other assets	802,271	802,271	29,550	29,550
Investments in equity instruments	55,500	55,500	48,211	48,211
Total assets	**6,988,084**	**7,589,123**	**11,426,788**	**12,702,011**
Financial liabilities				
Amounts due to Participating Institutions	10,763	10,763	20,799	20,799
Derivative financial instruments	4,365	4,365	179,256	179,256
Senior debt securities in issue	2,590,000	2,591,659	8,090,000	8,072,926
Other liabilities	27,839	27,839	69,397	69,397
Tax payable	534	534	722	722
Total liabilities	**2,633,501**	**2,635,160**	**8,360,174**	**8,343,100**

Agency	2016 Carrying value €'000	2016 Fair value €'000	2015 Carrying value €'000	2015 Fair value €'000
Financial assets				
Cash and cash equivalents	112	112	268	268
Other assets	3,324,368	3,324,368	1,828,531	1,828,531
Investment in subsidiaries	49,000	49,000	49,000	49,000
Total assets	**3,373,480**	**3,373,480**	**1,877,799**	**1,877,799**
Financial liabilities				
Interest bearing loans and borrowings	53,699	53,699	53,757	53,757
Other liabilities	7,449	7,449	7,446	7,446
Total liabilities	**61,148**	**61,148**	**61,203**	**61,203**

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 term deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is equal to their carrying value at the financial year 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 financial year 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. Future cash flows are discounted at a rate ranging from 4.03% to 5.04%. The rates used are considered appropriate by NAMA for calculating the fair value of the assets which take into consideration the time value of money and the risks involved.

(iv) Debt securities in issue

The fair values are calculated based on quoted prices provided by the Central Bank of Ireland.

(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 assumptions that are specific to the asset and are not necessarily based on observable market data. The fair value hierarchy comprises:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes available for sale financial assets where quoted market prices are available.
- 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 with significant unobservable components. The fair value of equity investments is based on the fair value of the underlying investment properties. The fair value is calculated using residual valuation approach and market evidence of comparable transactions. The significant unobservable components used for valuation include capitalisation yields, rent per square foot and value of comparable land.

Notes to the Financial Statements

24. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(b) Fair value hierarchy (continued)

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 2016	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Assets				
Derivative financial instruments	-	19,458	-	**19,458**
Foreign currency derivatives	-	6,541	-	**6,541**
Available for sale financial assets	519,378	-	-	**519,378**
Investments in equity instruments	-	-	55,500	**55,500**
Total assets	**519,378**	**25,999**	**55,500**	**600,877**
Liabilities				
Derivative financial instruments	-	3,316	-	**3,316**
Foreign currency derivatives	-	1,049	-	**1,049**
Total liabilities	**-**	**4,365**	**-**	**4,365**

Group 2015	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Assets				
Derivative financial instruments	-	22,992	-	**22,992**
Foreign currency derivatives	-	21,298	-	**21,298**
Investments in equity instruments	-	-	48,211	**48,211**
Total assets	**-**	**44,290**	**48,211**	**92,501**
Liabilities				
Derivative financial instruments	-	72,740	-	**72,740**
Foreign currency derivatives	-	106,516	-	**106,516**
Total liabilities	**-**	**179,256**	**-**	**179,256**

Following a review of the valuation technique used for Investments in equity instruments in 2016, there are significant unobservable components used for valuation and therefore it is more appropriate to classify Investments in equity instruments as Level 3. This classification has also been applied to the comparatives.

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets which are recorded at fair value.

Group Investments in equity instruments	*Note*	2016 €'000	2015 €'000
Balance as at 1 January 2016		48,211	36,181
Additional investments		5,075	589
Redemptions		(1,248)	-
Fair value movements	*7*	3,462	11,441
Balance as at 31 December 2016		**55,500**	**48,211**

IFRS requires that financial assets and liabilities not carried at fair value but for which fair value is disclosed are also classified within the fair value hierarchy. Financial assets and liabilities measured at amortised cost are classified under Level 3, except for cash and cash equivalents which are classified as Level 1.

None of the assets and liabilities of the Agency are carried at fair value.

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 2016	**Loans and receivables €'000**	**FVTPL €'000**	**AFS €'000**
Cash and cash equivalents	1,587,789	-	-
Cash placed as collateral with the NTMA	58,000	-	-
Available for sale financial assets	-	-	519,378
Amounts due from Participating Institutions	20,481	-	-
Derivative financial instruments	-	25,999	-
Loans and receivables	3,918,666	-	-
Investments in equity instruments	-	55,500	-
Other assets	777,061	-	-

Financial liabilities Group 2016	**Financial liabilities measured at amortised cost €'000**	**FVTPL €'000**
Amounts due to Participating Institutions	10,763	-
Derivative financial instruments	-	4,365
Senior debt securities in issue	2,590,000	-
Other liabilities	27,839	-

Financial assets Group 2015	**Loans and receivables €'000**	**FVTPL €'000**	**AFS €'000**
Cash and cash equivalents	3,145,604	-	-
Cash placed as collateral with the NTMA	256,000	-	-
Amounts due from Participating Institutions	87,188	-	-
Derivative financial instruments	-	44,290	-
Loans and receivables	7,815,945	-	-
Investments in equity instruments	-	48,211	-
Other assets	29,550	-	-

Notes to the Financial Statements

24. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(b) Fair value hierarchy (continued)

Financial liabilities Group 2015	Financial liabilities measured at amortised cost €'000	FVTPL €'000
Amounts due to Participating Institutions	20,799	-
Derivative financial instruments	-	179,256
Senior debt securities in issue	8,090,000	-
Other liabilities	69,397	-

No held to maturity investments were held by the Group at the reporting date.

Cash and cash equivalents and Other assets in Agency are classified as Loans and receivables.

25. PROPERTY, PLANT AND EQUIPMENT

Group and Agency	2016 €'000	2015 €'000
Cost		
Balance at 1 January	2,546	2,546
Additions	-	-
Balance at 31 December	**2,546**	**2,546**
Depreciation		
Accumulated depreciation at 1 January	(866)	(611)
Depreciation charge for the year	(336)	(255)
Balance at 31 December	**(1,202)**	**(866)**
Net book value at 31 December	**1,344**	**1,680**

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 financial year the lease fit out costs are incurred and capitalised.

During 2016, the Group reviewed the residual value and useful life of the capitalised lease fit out costs. It was decided to accelerate the depreciation charge in line with the remaining lifetime of the Group and the Agency and therefore the asset. This has resulted in an increase in the depreciation charge for 2016.

26. INVESTMENTS IN EQUITY INSTRUMENTS

Group	2016 €'000	2015 €'000
Financial assets at fair value through profit or loss	55,500	48,211

The Group may invest in equity instruments to maximise value and to facilitate the effective delivery of commercial or residential developments. Equity investments held by the Group at the reporting date comprise:

	Ownership interest	2016 €'000	2015 €'000
South Docks Fund	16.5%	9,690	12,008
City Development Fund	47.75%	18,131	14,701
Kennedy Wilson Real Estate Fund VIII	15%	17,254	10,743
		45,075	**37,452**

- The objective of the three 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 €10.4m (2015: €9.5m) at the reporting date. 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.

The movement in investments in equity instruments is a combination of fair value movements, equity investments and distributions.

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			
Group	Assets €'000	Liabilities €'000	Deferred tax on other timing differences €'000	Total €'000
Balance at 1 January 2016	**44,813**	**(15,889)**	**(54)**	**28,870**
Movement in the financial year	(43,722)	4,505	54	**(39,163)**
Balance at 31 December 2016	**1,091**	**(11,384)**	**-**	**(10,293)**
Balance at 1 January 2015	**148,881**	**(16,517)**	**-**	**132,364**
Movement in the financial year	(104,068)	628	(54)	(103,494)
Balance at 31 December 2015	**44,813**	**(15,889)**	**(54)**	**28,870**

Reconciliation of movement in total deferred tax to tax charge in the income statement and other comprehensive income

Group	*Note*	2016 €'000	2015 €'000
Movement in deferred tax recognised in the income statement	*13*	(21,464)	(28,344)
Movement in deferred tax recognised in other comprehensive income	*14,35*	(17,699)	(75,149)
Total movement in deferred tax in the financial year		**(39,163)**	**(103,494)**

Notes to the Financial Statements

27. DEFERRED TAX (CONTINUED)

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 liability of €10m (2015: deferred tax asset of €29m) has been recognised in relation to derivatives, equity investments and available for sale financial assets. 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 €18m (2015: €75.1m) 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 financial assets (see Note 35).

Deferred tax assets and liabilities recognised in respect of derivatives will be realised as derivatives mature or are terminated.

Deferred tax on other timing differences is recognised in respect of interest income and unrealised foreign exchange gains.

28. OTHER ASSETS

Group	2016 €'000	2015 €'000
Accrued swap interest receivable	882	894
Interest receivable on available for sale financial assets	6,658	-
Deferred consideration on loan sales	763,440	6,404
Tax prepaid	25,210	-
Other assets	6,081	22,252
Total other assets	**802,271**	**29,550**

Accrued swap interest relates to derivatives associated with loans acquired by the Group from Participating Institutions.

Deferred consideration relates to two loan sales which were contracted in December 2016, with final receipt of proceeds received in January 2017. NAMA signed contracts with the loan purchasers in mid-December 2016 and received deposits against the purchase price. NAMA's contractual right to the cash flows expired on this date. Loans and receivables were derecognised and a receivable for the remaining balance of the purchase price was recognised as deferred consideration. The deferred consideration also includes deferred fee income and other fees receivable of €8.6m.

The Group made a preliminary corporation tax payment in November 2016 of €159m in respect of its corporation tax liability for 2016. The corporation tax liability for 2016 computed at end-December 2016 amounted to €143m (Note 13) resulting in an overpayment of corporation tax of €16m. This is recognised as a tax prepayment to be offset against the 2017 tax liability. The tax prepaid also includes Section 96.3 tax prepayment of €9m.

Agency	2016 €'000	2015 €'000
Costs reimbursable from NALM	5,156	5,136
Interest receivable on profit participating loan to NAM	3,318,667	1,822,888
Other receivables	545	507
Total other assets	**3,324,368**	**1,828,531**

All other assets in the Group and Company are current assets.

29. SENIOR DEBT SECURITIES IN ISSUE

Group	2016 €'000	2015 €'000
In issue at the start of the financial year	8,090,000	13,590,000
Redeemed during the financial year	(5,500,000)	(5,500,000)
In issue at 31 December	**2,590,000**	**8,090,000**

Terms of notes issued for the acquisition of loans by NALM D.A.C.

The total debt securities outstanding at 31 December 2016 issued in respect of the original acquisition of loans by NALM is €2.6bn (2015: €8.1bn). The debt securities are all government guaranteed floating rate notes, which were issued by NAM and transferred to NAMGS under a profit participating loan facility and by it to NALM. The latter company used these securities as consideration (95%) for the loan portfolio acquired from each of the Participating Institutions.

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. Only euro denominated notes have been issued.

Interest is paid semi-annually on 1 March and 1 September. There was no interest paid to holders of senior debt securities at the 1st September coupon date as the interest rate, which is based on Euribor, was negative and the coupon rate is floored at 0%.

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 1 March 2017 were physically settled by issuing new securities with a maturity of 1 March 2018, with the exception of one note holder, whose securities were settled in cash.

All Senior debt securities in issue in the Group are current liabilities.

30. OTHER LIABILITIES

Group	2016 €'000	2015 €'000
Accrued interest on debt securities in issue	-	1,069
Accrued swap interest payable on derivatives where hedge accounting is applied	-	34,143
Accrued swap interest payable on other derivatives	160	144
Interest payable on cash and cash equivalents	290	193
Accrued expenses	18,248	24,535
VAT payable	5,192	2,605
Amounts payable to acquire trading properties	3,000	-
Other liabilities	949	6,708
Total other liabilities	**27,839**	**69,397**

There was no interest accruing to holders of senior debt securities in issue at the 1st September coupon date as the coupon rate, which is based on Euribor, is floored at 0%. Euribor rates were negative at the coupon date.

Amounts payable to acquire trading properties relates to an amount outstanding following the acquisition of a property by NAPM. This is due to be paid in 2017.

Agency	2016 €'000	2015 €'000
Amounts due to the NTMA	5,299	5,194
Amounts due to Group entities	1,625	1,680
Other liabilities	525	572
Total other liabilities	**7,449**	**7,446**

All other liabilities in the Group and Company are current liabilities.

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31. TAX PAYABLE

Group	2016 €'000	2015 €'000
Professional services withholding tax and other taxes payable	534	662
Current income tax liability	-	60
Total tax payable	**534**	**722**

The Group made preliminary corporation tax payment of €159m in respect of its corporation tax liability for 2016. The corporation tax liability for 2016 amounted to €143m resulting in a corporation tax prepayment of €16m, disclosed in Note 28.

32. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Contingent liabilities

On 26 February 2010, the European Commission (the 'Commission') approved, under EU state aid rules, the establishment of NAMA. The Commission stated that it was satisfied that the scheme was in line with its guidelines on impaired asset relief for banks that allow state aid designed to remedy a serious disturbance in a Member State's economy and that the scheme would help address the issue of asset quality in the Irish banking system and promote the return to a normally functioning financial market.

A complaint has been made to the Commission which includes an allegation of the unauthorised granting of state aid through NAMA's operations and activities. NAMA, in conjunction with the Department of Finance, is contesting the complaint through engagement with the Commission. At the time of the approval of NAMA's 2016 financial statements, uncertainty exists in relation to the outcome of the Commission's assessment of the complaint and the remedies that may be applied if the complaint is upheld. As a result it is not possible to determine the potential financial impact on NAMA, if any.

Separate to the above, at the reporting date, 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.

(b) Commitments

The Group has no guarantees or letters of credit 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 remaining lease term on the third floor is 3 years and 10 months. The length of the lease remaining until the first break clause is 1.5 years for the first floor annexe and 4 years for the first floor.

Operating lease amounts recognised in profit or loss for the financial year were €2.1m (2015: €2.1m).

The future minimum operating lease payments are set out in the following tables:

Group	2016 €'000	2015 €'000
Less than one year	1,255	1,992
Between one and five years	4,876	4,147
Total future minimum operating lease payments	**6,131**	**6,139**

Following a reduction in occupancy needs of NAMA in 2017, part of the first floor and first floor annexe is occupied by other NTMA agencies. The future minimum operating lease commitments disclosed above includes estimated reimbursement of €1.8m that will be received from the NTMA agencies for the space that is occupied by them.

33. INTEREST BEARING LOANS AND BORROWINGS

Agency	2016 €'000	2015 €'000
Loan due to NALM and related interest	53,699	53,757
	53,699	**53,757**

On 25 February 2011, NALM, 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 term is extended annually on 25 February unless terminated as agreed between the parties. The Group has no external loans or borrowings.

Due to the Euribor rate being negative during the year, negative interest income of €0.058m was recognised on the loan (Refer to Note 7).

34. OTHER EQUITY

Group	2016 €'000	2015 €'000
In issue at the beginning of the financial 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 NAM and transferred to NAMGS under a profit participating loan arrangement and by NAMGS to NALM. 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 financial year will not accumulate. NAMA has paid an annual coupon of €83.86m on its subordinated debt each year since March 2014. Withholding tax of €0.7m (2015: €0.8m) was paid to the Revenue Commissioners in respect of the coupon payments in 2016.

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).

Notes to the Financial Statements

35. OTHER RESERVES

Group	Note	2016 €'000	2015 €'000
Cash flow hedge reserve			
At the beginning of the financial year		(54,300)	(279,752)
Changes in clean fair value		72,401	300,601
Hedge interest settled during the financial year		107,350	250,831
Movement in interest accrual		(34,143)	(47,225)
Transferred to the income statement	*6*	(73,207)	(203,606)
Net movement in cash flow hedge reserve before tax	*14*	72,401	300,601
Deferred tax recognised in other comprehensive income	*14,27*	(18,101)	(75,149)
At 31 December		**-**	**(54,300)**
Available for sale reserve			
At the beginning of the financial year		-	-
Amortisation of premium paid at acquisition		15,123	-
Changes in fair value	*16*	(1,607)	-
Net movement in available for sale reserve before tax	*14*	13,516	-
Deferred tax recognised in other comprehensive income	*14,27*	402	-
At 31 December		**13,918**	**-**
Total other reserves		**13,918**	**(54,300)**

Other reserves comprise the cash flow hedge reserve and the available for sale reserve.

NAMA previously applied hedge accounting to a portion of its senior notes in issue. Any fair value gains or losses arising on these derivatives were recognised in the cash flow hedge reserve up until the hedge relationships were derecognised or the derivatives matured. All remaining hedge relationships were derecognised on January 28 2016 and the derivatives subsequently matured in September 2016.

The net movement in the cash flow hedge reserve for 2016 was an increase of €72m (2015: €301m) before tax, which was the fair value movement in derivatives where hedge accounting is applied of €74m (2015: €309.5m) offset in part by an amount recycled from the cashflow hedge reserve to the income statement of €2m (2015: €8.9m).

Government bonds are classified as available for sale financial assets in accordance with IAS 39. Changes in fair value are recognised in reserves. During 2016, NAMA acquired Irish government treasury bonds with a nominal value of €430m.

The net movement in the available for sale reserve for the year was an increase of €14m (2015: €nil) which reflects the movement in fair value of available for sale financial assets acquired during the year.

36. RECONCILIATION OF RESERVES AND NON-CONTROLLING INTERESTS IN SUBSIDIARIES

Group	2016 €'000	2015 €'000
Retained earnings		
At the beginning of the financial year	1,615,937	(74,715)
Profit for the financial year	1,502,705	1,774,894
Dividend paid on B ordinary shares	(367)	(386)
Coupon paid on subordinated bonds	(83,856)	(83,856)
At 31 December	**3,034,419**	**1,615,937**
Non controlling interests		
Profit for the financial year	-	51,000

Agency	2016 €'000	2015 €'000
Retained earnings		
At the beginning of the financial year	1,818,276	161,606
Profit for the financial year	1,495,400	1,656,670
At 31 December	**3,313,676**	**1,818,276**

On 31 March 2016, the Board of NAMAI declared and approved a dividend payment of €0.00719 per share (2015: €0.00757 per share). The amount of the dividend per share was based on the ten year Irish government bond yield as at 31 March 2016, and amounted to €0.37m (2015: €0.39m). The dividend was paid to the holders of B ordinary shares of NAMAI 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.

In February 2016, the Board of NAM 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 (2015: €83.86m) due on 1 March 2016 be paid. The subordinated bonds are classified as equity in the statement of financial position, and related payments thereon are classified as coupon payments and recognised in equity. Refer to Note 34 for further details.

Non-controlling interests in subsidiaries comprise 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 NAMAI.

NAMA has, along with the private investors, invested in NAMAI. NAMA holds 49% of the issued share capital of NAMAI 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 NAMAI.

Under the shareholders' 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 NAMAI.

NAMA's ability to veto decisions taken by NAMAI 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 NAMAI 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 NAMAI may incur losses and the full value of their investment may not be recovered, they are not required to contribute any further capital to NAMAI.

By virtue of the control NAMA can exercise over NAMAI, NAMA has consolidated NAMAI and its subsidiaries.

Notes to the Financial Statements

37. SHARES AND INVESTMENTS IN GROUP UNDERTAKINGS

NAMA has invested €49m in NAMAI, receiving 49 million A ordinary shares. The remaining €51m was invested in NAMAI 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 NAMAI. 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 NAMAI and its subsidiaries and the 51% external investment in NAMAI 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 D.A.C.	49%	100%	Holding company and lending	Ireland
National Asset Management D.A.C.	49%	100%	Debt issuance	Ireland
National Asset Management Group Services D.A.C.	49%	100%	Holding company, securitisation and asset management	Ireland
National Asset Loan Management D.A.C.	49%	100%	Securitisation and asset management	Ireland
National Asset North Quay D.A.C.	49%	100%	Acquisition of certain property assets in settlement of debt owed to NAMA	Ireland
National Asset Property Management D.A.C.	49%	100%	Real estate	Ireland
National Asset Management Services D.A.C.	49%	100%	Holding company for shareholding in a general partnership	Ireland
National Asset JV A D.A.C.	49%	100%	Investment in a partnership as a limited partner	Ireland
National Asset Residential Property Services D.A.C.	49%	100%	Provision of residential properties for the purposes of social housing	Ireland
National Asset Sarasota Limited Liability Company	49%	100%	Acquisition of 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

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 and RLHC II is Rua Garrett, n.º 64, 1200-204 Lisbon, Portugal.

37.2 Investment in subsidiaries

Agency	2016 €'000	2015 €'000
49,000,000 shares in NAMAI	**49,000**	**49,000**

In 2010 the Agency made an investment of €49m in NAMAI.

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 NAMAI.

A dividend was paid to the private investors during the year of €0.4m (2015: €0.4m). 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 (2015: €51m). Accumulated non controlling interest at the end of the reporting period was €51m (2015: €51m). At year end 31 December 2015, NAMA was in a cumulative net profitable position and the losses of €51m that were allocated to non-controlling interest in 2010 were reversed and profits of €51m were allocated to the non-controlling interest, up to its equity interest of €51 million. No further profits are allocated to the non-controlling interest in 2016.

Under the shareholders' 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 at 10% of the equity interest under the Articles of Association of NAMAI.

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 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 NAPM 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. There was no change during 2016 in the status of NALHL (in Voluntary Liquidation).

As the liquidator has assumed the rights of the shareholder and now controls NALHL (in Voluntary Liquidation), NALHL (in Voluntary Liquidation) and its subsidiaries, RLHC 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 acquires Exchequer note investments that were issued by the NTMA. NAMA held €0.67m (2015: €nil) of Exchequer notes issued by the NTMA at the reporting date which were 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 its 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 €4.0m (2015: €4.6m), representing the refund of the NTMA's contribution to the pension scheme in respect of these NAMA Officers.

Notes to the Financial Statements

38. RELATED PARTY DISCLOSURES (CONTINUED)

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 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 were 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.

During the year, the Group sold a loan to Allied Irish Banks p.l.c. for a total of €41m (2015: €97m).

The Group has operating accounts with Allied Irish Banks, p.l.c that have a balance of €25m (2015: €12.3m) at the reporting date. The average closing daily balance throughout the year was €15m (2015: €8.6m).

During the year the Group placed deposits with Allied Irish Banks, p.l.c. The average amount deposited with the bank was €33m (2015: €48m).

Fees payable to the Participating Institutions with respect to loan servicing costs incurred during the year are as follows:

Loan servicing costs	2016 €'000	2015 €'000
Allied Irish Banks, p.l.c	3,278	13,456
Bank of Ireland	546	406
IBRC (in liquidation)[5]	-	595
	3,824	**14,457**

New Ireland Assurance Co p.l.c.

New Ireland Assurance Co p.l.c, a subsidiary of Bank of Ireland owns 17% of the share capital of NAMAI, a subsidiary of NAMA (corresponding to 17 million of the 51 million B ordinary shares issued by NAMAI to private investors). Dividend payments made to private investors are disclosed in Note 36.

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.

Under the revised Code of Practice for the Governance of State Bodies (2016), Key Management Personnel is defined as the personnel who report directly to the Chief Executive Officer. NAMA has eight staff who report to the Chief Executive Officer. The aggregate remuneration of these officers is disclosed in Note 10.

5 *In February 2013, the Irish Bank Resolution Corporation Act 2013 was enacted and a special liquidation order was signed by the Minister for Finance placing IBRC into special liquidation.*

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 NALM

An interest bearing loan of €52m was advanced from NALM to the Agency in 2011. Interest is earned on this loan at the six month EURIBOR rate. During the year, Euribor rates were negative. Negative interest on this loan for the year was €0.1m (2015: €0.1m).

Intergroup loan agreements

The Group has entered into a number of profit participating loan agreements and intergroup agreements which are set out in the tables below:

Profit participating loan agreements	2016 €'000	2015 €'000
NAM to NAMGS (entered in 2010)	4,183,000	9,683,000
NAMGS to NALM (entered in 2010)	4,179,571	9,683,000
NAMGS to NAJVA (entered in 2013)	16,879	13,450

Intergroup loan agreements	2016 €'000	2015 €'000
NAMAI to NAM (entered in 2010)	105,010	104,823
NALM to NARPS (entered in 2012)	209,605	82,654
NALM to NAPM (entered in 2012)	123,468	20,171
NALM to NASLLC (entered in 2013)	2,303	2,210
NALM to NANQ (entered in 2015)	31,745	31,334
NAPM to NALHL (in Voluntary Liquidation) (entered in 2014)	100	100

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 €47.2m (2015: €53.5m). Further details in respect of these costs are disclosed in Note 10.1.

Notes to the Financial Statements

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 NAMA are set out in Note 10.

The expenses of each NAMA Group entity that incurs administrative expenses are shown in the tables below. The expenses of NALM and NAPM (combined) includes a recharge of €47.2m (2015: €53.5m) in respect of NTMA costs incurred by the Agency. These costs are also included in the consolidated accounts.

NALM **Expense type**	*Note*	**2016** **€'000**	**2015** **€'000**
Costs reimbursable to the NTMA	*10.1*	46,966	53,495
Primary servicer fees	*10.2*	15,215	39,338
Master servicer fees	*10.3*	1,479	1,399
Portfolio management fees	*10.4*	2,703	4,255
Legal fees	*10.5*	2,882	4,845
Finance, communication and technology costs	*10.6*	4,013	2,420
Rent and occupancy costs	*10.7*	2,883	2,899
Internal audit fees	*10.8*	752	736
External audit remuneration	*10.9*	1,250	550
Total NALM administration expenses		**78,143**	**109,937**

NAPM **Expense type**	*Note*	**2016** **€'000**	**2015** **€'000**
Costs reimbursable to NALM	*10.1*	263	168
Portfolio management fees		171	14
Legal fees		122	48
Finance, communication and technology costs		46	35
Total NAPM administration expenses		**602**	**265**

NASLLC **Expense type**	**2016** **€'000**	**2015** **€'000**
Finance, communication and technology costs	24	-
Total NASLLC administration expenses	**24**	**-**

NARPS **Expense type**	**2016** **€'000**	**2015** **€'000**
Portfolio management fees	331	167
Legal fees	446	765
Total NARPS administration expenses	**777**	**932**

NANQ Expense type	2016 €'000	2015 €'000
Legal fees	40	-
Management fee	20	-
Taxation fees	3	-
Total NANQ administration expenses	**63**	**-**

RLHC Resort Lazer SGPS, S.A. (RLHC) Expense type	2016 €'000	2015 €'000
Professional services	13	4
Total RLHC administration expenses[6]	**13**	**4**

RLHC Resort Lazer II SGPS, S.A. (RLHC II) Expense type	2016 €'000	2015 €'000
Professional services	10	4
Total RLHC II administration expenses[6]	10	4

39.2 Debt securities issued for the purposes of the Act

Group	2016 €'000	2015 €'000
Senior notes issued by NAM	2,590,000	8,090,000
Subordinated debt issued by NAM	1,593,000	1,593,000
Total	**4,183,000**	**9,683,000**

39.3 Debt securities redeemed in the financial period to the Financial Institutions

39.3.1 Government guaranteed senior debt securities

Financial Institution	Outstanding at 1 Jan 16 € '000	Redeemed € '000	Outstanding at 31 Dec 16 € '000
AIB	5,643,000	(3,838,000)	1,805,000
BOI	1,421,000	(967,000)	454,000
Permanent TSB (formerly IL&P)	772,000	(524,000)	248,000
Central Bank of Ireland	254,000	(171,000)	83,000
Total	**8,090,000**	**(5,500,000)**	**2,590,000**

6 *These amounts are estimated based on 31 December 2015 audited accounts, pending final 2016 year-end audited accounts. The 2015 comparatives were based on 30 September 2015 unaudited accounts. As set out in Note 37.4, these investments are not consolidated into the NAMA Group financial statements.*

Notes to the Financial Statements

39. SUPPLEMENTARY INFORMATION PROVIDED IN ACCORDANCE WITH SECTION 54 OF THE ACT (CONTINUED)

39.3 Debt securities redeemed in the financial period to the Financial Institutions (continued)

39.3.1 Government guaranteed senior debt securities (continued)

Financial Institution	Outstanding at 1 Jan 15 € '000	Redeemed € '000	Outstanding at 31 Dec 15 € '000
AIB	9,477,000	(3,834,000)	5,643,000
BOI	2,389,000	(968,000)	1,421,000
Permanent TSB (formerly IL&P)	1,298,000	(526,000)	772,000
Central Bank of Ireland	426,000	(172,000)	254,000
Total	**13,590,000**	**(5,500,000)**	**8,090,000**

39.3.2 Subordinated debt securities held

Financial Institution	Outstanding at 1 Jan 16 € '000	Outstanding at 31 Dec 16 € '000
AIB	451,000	451,000
BOI	281,000	281,000
Other Noteholders	841,000	841,000
EBS	20,000	20,000
Total	**1,593,000**	**1,593,000**

Financial Institution	Outstanding at 1 Jan 15 € '000	Outstanding at 31 Dec 15 € '000
AIB	451,000	451,000
BOI	281,000	281,000
Other Noteholders	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 financial year

There were no advances to NAMA from the Central Fund in the financial year.

39.5 Advances made by NAMA to debtors via Participating Institutions in the financial year

Participating Institution	Amount advanced 2016 €'000	Amount advanced 2015 €'000
AIB	348,775	175,754
Capita	288,679	676,373
BOI	-	2,420
Vendor finance	2,645	965
Total	**640,099**	**855,512**

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.

NAMA	2016 €'000	2015 €'000
Investment in NAMAI	49,000	49,000
Cash	112	268
Interest receivable on loan to NAM	3,318,667	1,822,888
Intergroup receivable	5,156	5,136
Other receivables	545	507
Property, plant and equipment	1,344	1,680
Total	**3,374,824**	**1,879,479**

NAMAI	2016 €'000	2015 €'000
Intergroup loan to NAM	99,900	99,900
Interest on intergroup loan	5,110	4,923
Intergroup receivable	-	3
Other receivables	-	251
Cash	251	-
Total	**105,261**	**105,077**

NAM	2016 €'000	2015 €'000
Profit participating loan with NAMGS	4,183,000	9,683,000
Interest on profit participating loan	3,177,144	1,755,298
Intergroup assets	278,068	278,068
Tax prepayments	15,658	-
Total	**7,653,870**	**11,716,366**

NARL (dissolved)	2016 €'000	2015 €'000
Other assets[7]	-	3
Total	**-**	**3**

NAMGS	2016 €'000	2015 €'000
Profit participating loan with NALM	4,179,571	9,683,000
Profit participating loan with NAJVA	16,879	13,450
Interest on profit participating loans	3,178,074	1,756,225
Intergroup receivable	183,243	97,792
Total	**7,557,767**	**11,550,467**

7 NARL (dissolved) was a 100% subsidiary of NAMAI. NARL was dissolved with effect from 23 March 2016.

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)

NALM	2016 €'000	2015 €'000
Cash	1,574,204	3,139,604
Cash placed as collateral with the NTMA	58,000	256,000
Receivable from Participating Institutions	20,481	87,188
Available for sale financial assets	519,378	-
Derivative financial instruments	25,999	44,290
Loans and receivables	3,899,930	7,791,373
Intergroup assets	624,483	306,515
Accrued interest receivable	882	894
Investments in equity instruments	38,246	46,964
Inventories – trading properties	1,300	1,300
Other assets	784,168	19,944
Deferred tax asset	-	28,924
Total	**7,547,071**	**11,722,996**

NANQ	2016 €'000	2015 €'000
Cash	717	343
Loans and receivables	9,734	9,611
Inventories – trading properties	21,750	21,750
Other assets	4	-
Total	**32,205**	**31,704**

NAPM	2016 €'000	2015 €'000
Cash	2,880	20
Investments in subsidiaries	534	533
Inventories – trading properties	118,462	7,362
Intergroup receivable	93	7,100
Other assets	-	12
Total	**121,968**	**15,027**

NARPS	2016 €'000	2015 €'000
Cash	4,129	3,791
Inventories – trading properties	205,492	78,362
Other assets	921	656
Total	**210,542**	**82,809**

NAJVA	2016 €'000	2015 €'000
Cash	5,495	1,579
Investments in equity instruments	17,254	1,248
Loan receivable	5,781	12,105
Other assets	53	186
Total	**28,583**	**15,118**

NASLLC	2016 €'000	2015 €'000
Loans and receivables	**3,168**	**2,857**

NALHL (in Voluntary Liquidation)	2016 €'000	2015 €'000
Investment in subsidiaries[8]	**7,686**	**13,181**

RLHC Resort Lazer SGPS, S.A. (RLHC)	2016 €'000	2015 €'000
Investment in subsidiaries[8]	**6,899**	**11,840**

RLHC Resort Lazer II SGPS, S.A. (RLHC II)	2016 €'000	2015 €'000
Investment in subsidiaries[8]	**787**	**1,341**

39.7 Government support measures, including guarantees, received by NAMA and each NAMA Group entity[8]

Entity	Description	Amount in issue at 31 December 2016 €'000	Amount in issue at 31 December 2015 €'000
National Asset Management	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.	2,590,000	8,090,000
		2,590,000	**8,090,000**

Refer to Note 29 for further detail.

8 *These amounts are estimated based on 31 December 2015 audited accounts, pending final 2016 year-end audited accounts. The 2015 comparatives were based on 30 September 2015 unaudited accounts. As set out in Note 37.4, these investments are not consolidated into the NAMA Group financial statements.*

Notes to the Financial Statements

40. EVENTS AFTER THE REPORTING DATE

a) Bond redemption

On 8 February 2017, NAMA redeemed €1.09 billion of its senior bonds. Further redemptions of €48m were made on 1 March 2017 and €952m on 5 April 2017.

b) Dividend

On 16 March 2017, the Board of NAMAI declared and approved a dividend payment of €0.547m. The applicable dividend rate was 1.072% based on the Irish Government Bond 10 year bond yield. This was paid to the owners of B ordinary shares only.

c) Coupon on Subordinated Debt

On 28 February 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.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The Board approved the financial statements on 27 April 2017.

Glossary of Terms

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 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.

Irish Collective Asset Management Vehicles (ICAV's) This is a fund vehicle which can be used to establish both Undertakings for Collective Investment in Transferable Securities (UCITS) and alternative investment funds.

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 NALM has committed to extend to customers.

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.

Glossary of Terms (continued)

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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