National Asset
Management Agency

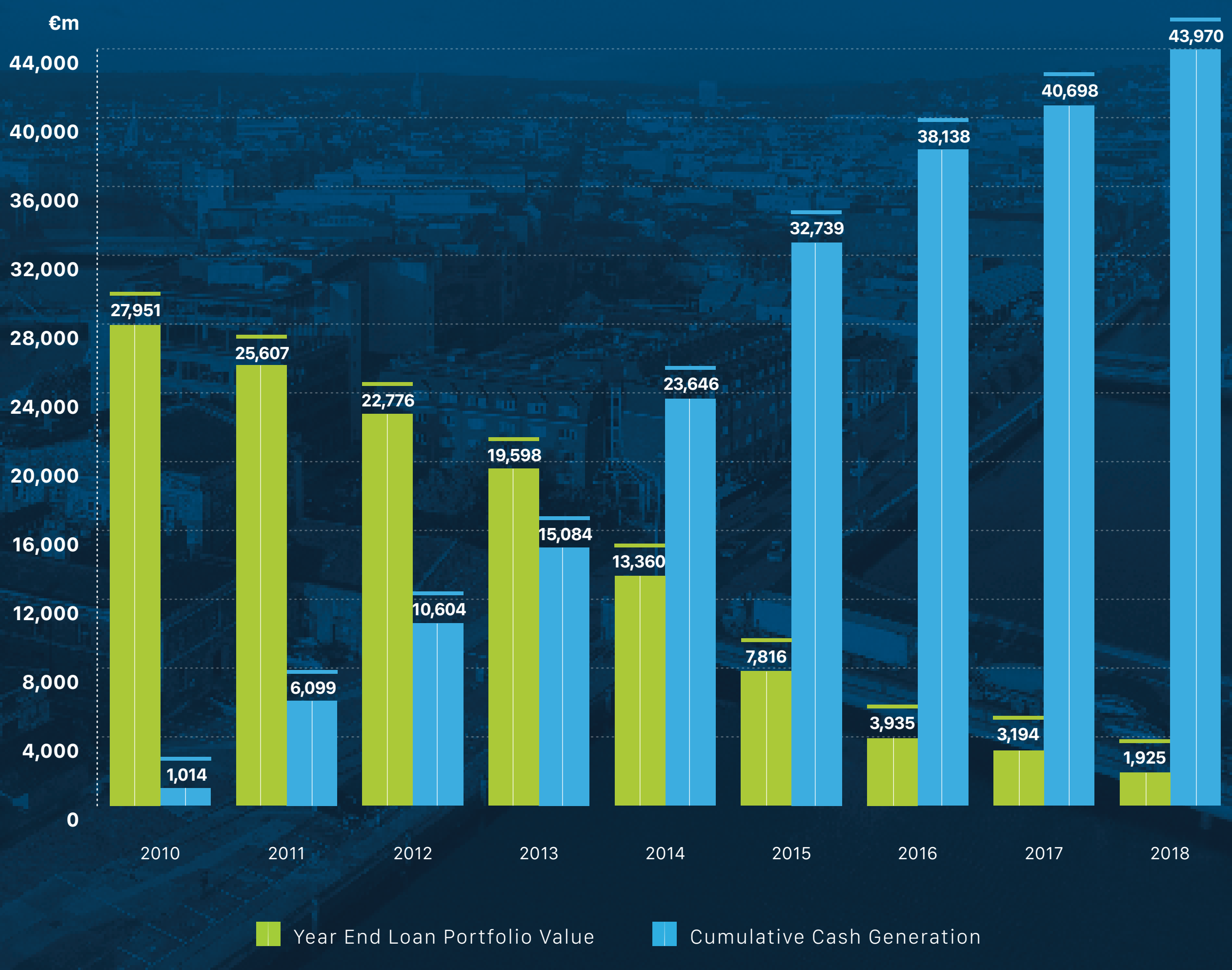
Annual Report & Financial Statements 2018

ANNUAL REPORT & FINANCIAL STATEMENTS

Delivering on its mandate

NAMA was mandated to deal expeditiously with the assets acquired by it and to obtain the best achievable financial return for the Irish State

DELEVERAGING PROGRESS 2010 – 2018



The evolution of NAMA

April 2009 – April 2019

2009

The Government decision to establish NAMA is first announced on 7 April 2009 by the then Minister for Finance, the late Mr. Brian Lenihan TD.

After enactment of the NAMA legislation in November 2009, NAMA is formally established in December 2009. Mr Frank Daly is appointed Chairman of the NAMA Board and Mr Brendan McDonagh is appointed as CEO.

2010

The EU Commission gives its formal approval for the NAMA scheme in February 2010.

€71bn

Over €71 billion in loan assets is acquired by NAMA from the five participating institutions (an additional €3 billion in loans is acquired in 2011).

2011

€30.2bn

The first repayment of the €30.2 billion government-guaranteed senior bonds is made – €1.25 billion is redeemed.

500

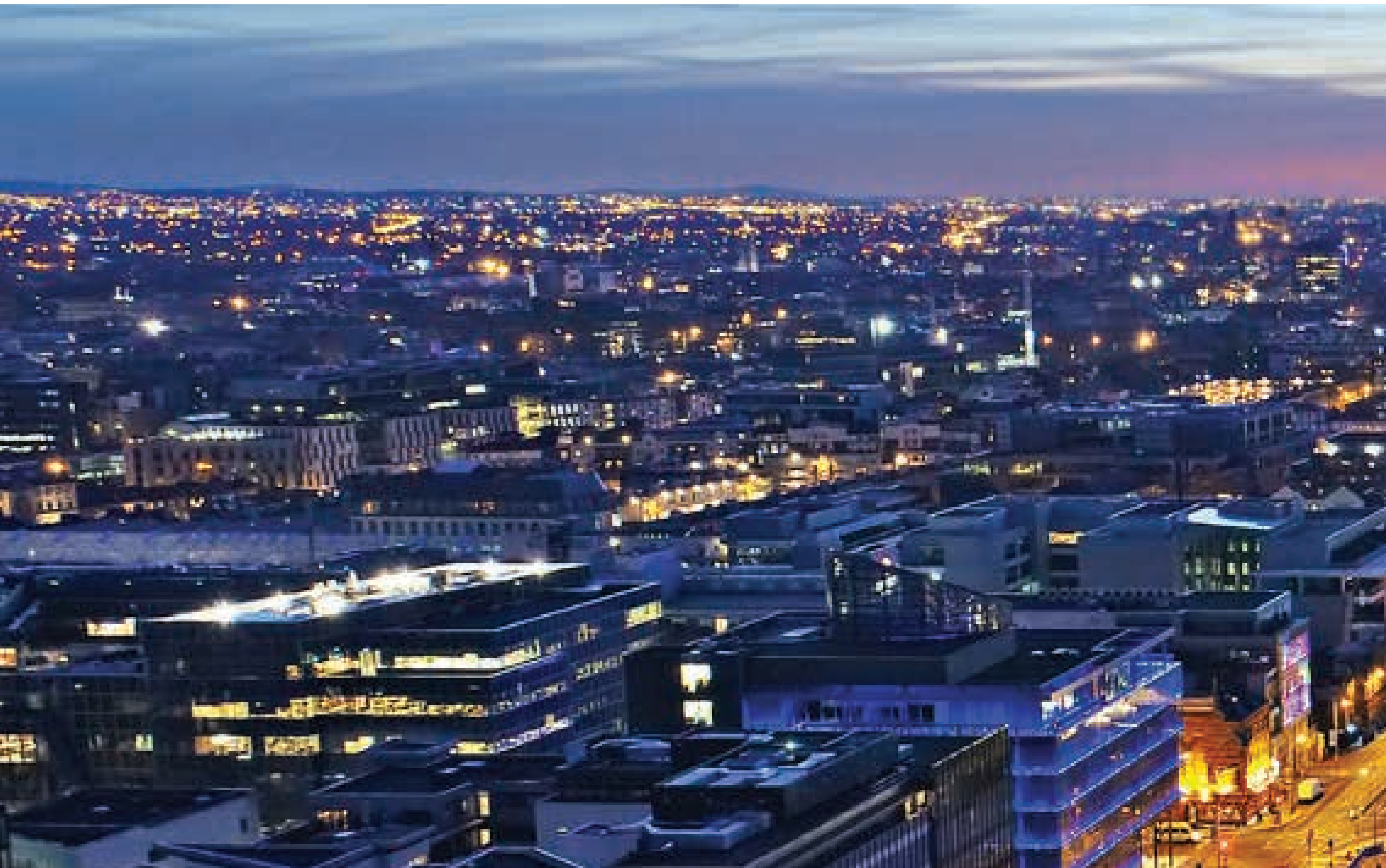
Debtor engagement intensifies with over 500 debtor business plans formally reviewed in 2011.

2012

NAMA establishes a special purpose vehicle - NARPS - to expedite the delivery of social housing.

75%

The North Lotts and Grand Canal Docks area of the Dublin Docklands is designated a Strategic Development Zone by Dublin City Council - NAMA has an interest in 75% of the developable area.



2013

25%
NAMA meets its first major milestone by redeeming a cumulative 25% of senior bonds.

IBRC is liquidated and NAMA is designated as the backstop purchaser of any unsold assets.

In response to improving market demand, NAMA completes its first major loan portfolio sale secured by Irish properties (Project Aspen).

2014

The Dublin Docklands SDZ Planning Scheme is approved by An Bord Pleanála and NAMA intensifies its preparatory work in relation to the 15 sites in which it holds an interest.

4,500 units
A dedicated residential delivery unit is established to enhance NAMA's return from loans secured by development sites - NAMA's initial target is to fund the delivery of 4,500 units by end-2016.

2015

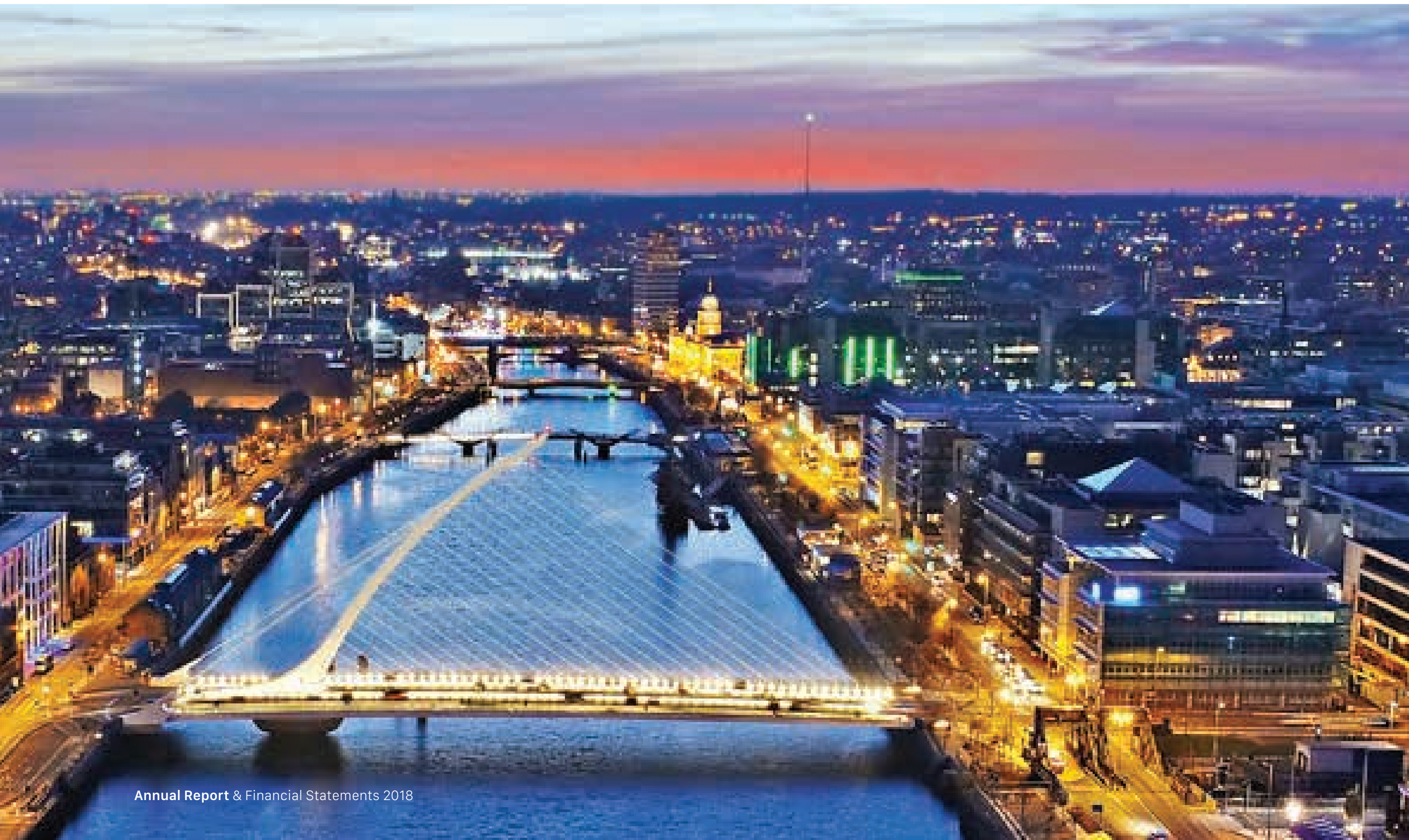
20,000
As more residential sites become commercially viable to develop, the residential delivery programme is expanded in late 2015 to facilitate the delivery of 20,000 new units in Ireland by 2020.

NAMA completes its largest transaction, in terms of sales proceeds, with the sale of the Project Jewel portfolio of loans, secured by Dundrum Town Centre and other retail assets.

2016

NAMA exceeds its end-2016 cumulative senior bond redemption target of 80% - by end-2016, a cumulative 91% of senior debt has been redeemed.

4,600+ units
NAMA exceeds its end-2016 residential delivery funding target - 4,650 units delivered.



2017

100%
In October, NAMA achieves its primary commercial objective by redeeming 100% of its senior debt, thus eliminating the contingent liability of the Irish State.

€40bn
In October, cumulative cash generation since inception exceeds €40 billion.

2018

€529m
NAMA commences the process of redeeming its subordinated debt of €1.6 billion - €529m is redeemed in 2018.

NAMA's last major loan sale - Project Lee - is completed.

2019

Major Dublin Docklands SDZ milestone is achieved - all sites have moved beyond the planning stage with construction in progress or completed on NAMA-related projects.

By end-April, a cumulative 10,000 residential units have been delivered since 2014 through NAMA funding under its residential delivery programme.

In this Report

Gníomhaireacht Náisiúnta um Bhainistíocht Sócmhainní
National Asset Management Agency

10 May 2019

Mr. Paschal Donohoe 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 2018.

Yours sincerely,

Frank Daly
Chairman

Brendan McDonagh
Chief Executive Officer

Introduction

Key Strategic Objectives set by the NAMA Board

Driving transformation through our strategic objectives

1

The Board's primary commercial objective is to meet all of its remaining subordinated debt and equity obligations and, subject to prevailing market conditions, to generate the largest surplus that can feasibly be achieved by the time it completes its work. It aims to meet all of its future commitments out of its own resources.

2

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

3

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

4

NAMA 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.

5

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

Key Financial Indicators 2018

A continued strong performance in terms of profitability

Cash generation and profit in 2018 represent notable increases on 2017 figures. This is despite the reduced size of NAMA's loan portfolio and reflects, in part, the realisation of value enhancement work undertaken in relation to the portfolio in earlier years.

NAMA's continued strong performance in terms of profitability has enabled the Board to revise its projected terminal surplus from €3.5 billion to **€4 billion**.

2018 PROFIT

€795m

2017: €481 million

2018 CASH GENERATION

€3.27bn

2017: €2.56 billion

2018 DISPOSAL RECEIPTS

€3.14bn

2017: €2.43 billion

2018 SUBORDINATED BOND REDEMPTIONS

€529m

2017: Zero

Key Business Highlights 2018

Delivering on our strategic objectives

RESIDENTIAL DELIVERY STATUS AT END-MARCH 2019

9,759

Since 2014, NAMA has funded the construction of 9,759 new residential units in Ireland on residential sites securing its loan portfolio.

3,000

An additional 3,000 units are under construction or have funding approved for construction in active residential developments controlled by NAMA debtors and receivers.

4,300

NAMA holds security over residential development land on which planning permission has been granted for an additional 4,300 units.

3,700

Over 3,700 residential units have been delivered on sites previously secured to NAMA for which NAMA had funded planning permission, enabling works, legal costs or holding costs.

13,400

The overall total number of residential units directly and indirectly facilitated and delivered by NAMA is over 13,400.

DUBLIN DOCKLANDS SDZ STATUS AT END-MARCH 2019

4.2m sq. ft.

Strategies have been agreed and are being implemented for 100% of Dublin Docklands SDZ sites in which NAMA originally had an interest. These sites will ultimately deliver 4.2m sq. ft. of commercial space and some 2,200 residential units.

1.14m sq. ft.

To date, NAMA has facilitated the construction of 1.14m sq. ft. of commercial space (mainly Grade A offices) and 190 apartments.

1.46m sq. ft.

The remaining sites in which NAMA retains an interest are currently under construction with expected completion of 1.46m sq. ft. and 416 residential units in phases during 2019, 2020 and 2021.

SOCIAL HOUSING STATUS AT END-MARCH 2019

2,544

2,544 residential properties have been delivered by NAMA for social housing, providing much-needed homes for thousands of families.

7,050

In total, NAMA has offered 7,050 houses and apartments in its secured portfolio to local authorities for social housing purposes. Demand has been confirmed by local authorities for 2,729 of these properties.

€350m

NAMA has invested or committed €350m as part of its social housing programme. These funds have been used to remediate and complete properties and estates and also to purchase houses and apartments for social housing use.

WIDER ECONOMIC CONTRIBUTION

Unfinished Housing Estates

All 335 unfinished housing estates, to which NAMA had an exposure in 2010, have been resolved or have active resolution strategies in place. Some of these estates were remediated as part of NAMA's social housing programme.

Facilitating Transactions

An important part of NAMA's work is to facilitate transactions in the Irish property market for social and economic purposes, including the identification of suitable properties for educational, community, and health purposes. NAMA continues to work closely with state agencies and government departments in this regard.

Chairman's Statement
Frank Daly

I think of how far we have come over the past ten years, particularly considering the enormity of the task that we faced when NAMA was established

This statement will be my last as Chairman of NAMA as 2019 marks my tenth and final year with the Agency. As I review NAMA's very positive results for 2018, I think of how far we have come over the past ten years, particularly considering the enormity of the task that we faced when NAMA was established.

The proposed establishment of NAMA was first announced in April 2009 by the then Minister for Finance, the late Mr. Brian Lenihan TD, in the Government's Supplementary Budget. By that stage, Ireland was in serious financial and economic difficulty, largely as a result of excessive and, in many cases, imprudent lending by Irish banks. Much, though not all, of this lending was for property. With the banks struggling to conduct their normal business due to the weight of their impaired loan assets, NAMA was asked to acquire the bulk of their property-related loan portfolios and to manage them with the aim of recovering as much as possible for Irish taxpayers. We were given a clear commercial remit – to obtain the best achievable financial return for the State. Over the next two years, NAMA acquired impaired loans with a par debt of €74 billion. In return, we paid the banks consideration of €32 billion, 95% of which was government-guaranteed senior debt and therefore a contingent liability for taxpayers. To put the amount paid for the loans into context, the Exchequer's tax revenue in 2009 was €33 billion.

A decade on and I am pleased to note that much has changed. We redeemed the last of the government-guaranteed senior debt in 2017 and our continued strong performance has now enabled us to revise our projected terminal surplus upward to €4 billion.

Before any part of the surplus can be transferred to the Exchequer, NAMA must meet its remaining debt obligations. In 2018, we repaid about a third of our subordinated debt which, in total, comprised €1.6 billion in bonds originally issued as part payment for the acquired loans. We expect to repay the remaining €1.1 billion of this subordinated debt on or before its first call date of 1 March 2020. Thereafter, we will repay €56m to our private investors – this comprises their initial investment and a final dividend. Our current expectation is that €2 billion of the terminal surplus will be transferred to the Exchequer in 2020 with the other €2 billion to follow in 2021.

It would be wrong, however, to give the impression that we have been focused exclusively on generating cash and that we have not been attentive to the wider social and economic impact of our activities. That has not been the case. Indeed, we have found that, for some initiatives, it has been possible to adopt a twin-pronged approach, namely, to pursue commercial objectives but also deliver housing and commercial supply with obvious social and economic benefits. This has been the case with our residential delivery and Dublin Docklands SDZ programmes.

We have now reached significant milestones in the achievement of both of these initiatives. In the case of residential delivery, we recently passed the 10,000 unit milestone in terms of funding housing construction in Ireland. Housing supply remains an issue of paramount importance and we are endeavouring to facilitate the delivery of as many new residential units as we can, subject to commercial viability.

Another important milestone was recently reached in the Dublin Docklands SDZ – all of the docklands sites in which we have an interest are now either complete or under construction. The new buildings and the many cranes currently visible on the Dublin Docklands skyline are testament to NAMA's work in the area. This new supply is addressing the shortage of Grade A office space in the capital and has been critical in attracting foreign direct investment. In 2014, when the Dublin Docklands SDZ Scheme was approved by An Bord Pleanála, NAMA held an interest in 75% of the developable land. This placed a major onus on us to facilitate, coordinate and drive the development of this strategic part of Dublin and, in the meantime, we have worked closely with other key parties and stakeholders to bring this about. When complete, the previously derelict sites will provide over 4 million square feet of commercial space and some 2,200 residential units.

For many Dublin Docklands projects, we have been able to source private capital to invest in the construction of the new offices and apartments. This has had the effect of limiting taxpayers' exposure to development risk whilst at the same time ensuring that the projects are delivered as expeditiously as possible. In some cases, we retain minority interests in the projects, thereby enabling us to benefit from future development profits. In this way, NAMA's commercial objectives operate in tandem with the wider economic and social objectives that are achieved by the delivery of office and residential space.

Personally, I am particularly proud of what has been achieved in terms of social housing delivery. Initially, the delivery of social housing from NAMA's secured portfolio encountered many difficulties, not least the lack of capital funding in the sector to purchase suitable housing units. We established a special vehicle – NARPS – in 2012 in direct response to these difficulties. NARPS, in conjunction with the Department of Housing, Planning and Local Government and the Housing Agency, developed a viable and commercial method for immediate delivery of high-quality housing to local authorities and housing bodies with limited capital. In addition, NAMA funded completion or remediation works for suitable properties as required.

To date, NAMA and NARPS have facilitated the delivery of over 2,500 units for social housing, providing much needed housing for more than 8,000 people. Our social housing initiative is a prime example of a commercial entity like NAMA working collaboratively with other government agencies toward a shared social objective.

NAMA was never intended to be permanent. It is now nearing the end of its expected lifespan but there is still much work to be done if the projected €4 billion surplus is to be delivered to the Exchequer. We expect that our work will be largely done by 2021. However, it is possible that a small number of loans may remain unresolved due to ongoing litigation that is outside our control. Additionally, there are some assets for which best value might not be achieved by short-term disposal and we have been in discussions with the Minister with the aim of ensuring that the State can extract maximum value from them.

In my statement for NAMA's first Annual Report in 2010, I said that most organisations start small and expand to grow large over time; NAMA, on the other hand, started with a huge portfolio and aspired to contract sharply. At the time, I indicated that a key measure of success would be to shrink our balance sheet – then in excess of €30 billion – and to recoup at a minimum all of the expenditure incurred on acquiring the loans, the capital and current expenditure required to enhance their value and the costs of running the business. I am pleased to say, in this my final Annual Report statement, that all that is within sight of being achieved and that we have the added bonus, which did not appear likely in NAMA's early years, of being in a position to hand back a substantial surplus to the Exchequer.

As I sign off, I must express my sincere thanks and appreciation to my colleagues, past and present, on the NAMA Board and to the CEO, Brendan McDonagh. I wish to pay tribute to two former Board colleagues, Willie Soffe and Brian McEnery, who completed their second terms on the Board in December 2018. During their nine years as members of the Board, Willie and Brian made an enormous contribution to what has been achieved by NAMA. And I also wish to thank all of the NAMA staff, past and present, whose expertise and commitment have made possible the achievements of this unique organisation.

FRANK DALY
Chairman

Chief Executive's Statement
Brendan McDonagh

Much of the profit realised in 2018 represents the outcome of years of slow, patient and intensive asset management and legal work

I am pleased to report a strong set of results for NAMA for the 2018 financial year. Profit after tax was €795m, a substantial increase on the 2017 profit of €481m. We generated cash proceeds of €3.3 billion in 2018 from a much reduced loan portfolio - the carrying value of NAMA's loan book now stands at less than 10% of its peak value. The main reason for the profit uplift was our performance in generating very good results from asset disposals and loan refinances during the year.

Much of the profit realised in 2018 represents the outcome of years of slow, patient and intensive asset management and legal work carried out on the assets securing our loans. In many cases, it meant retaining and resolving compromised assets and investing in them so as to generate long-term gains.

Our work in the Dublin Docklands SDZ illustrates the benefits of this patient approach. The Board approved an overall business plan for the Docklands SDZ in September 2014 and, based on this, individual strategies were devised for each of the sites in which we had an interest. Depending on the proposed strategy, NAMA, in conjunction with its receivers, brought the sites through the various stages in the development process: feasibility, design, planning, enabling works, pre-letting and construction. In many cases, there were legal and title issues to be resolved before a project could be initiated. Of necessity, this approach required a detailed and intensive engagement with a range of interested stakeholders, including planning authorities, investors, developers and so on. For instance, the substantial uplift achieved on Project Waterfront in 2018 reflected years of preparatory and planning work so as to ensure that the site was shovel-ready by the time it came to market. Likewise, profits were achieved on a number of other Docklands projects that were sold in 2018.

2018 was also a strong year for the development land market which recorded the highest volume of land sales since the property market crash. According to industry analysis, some €1.4 billion of development land sales were transacted, mainly in Dublin, Cork, Galway and Limerick, almost double the level for 2017. For some of our debtors and receivers, the buoyancy in the market created opportunities for land sales at strong prices, thereby enabling them to pay off some, and in other cases, all of their debt. In addition, the market-driven increases in property values enabled some of NAMA's debtors to refinance and repay their full par debt to NAMA. It was notable that, in 2018, 30% of NAMA's disposal proceeds was generated from loan redemptions.

Another notable feature of 2018 activity was the elimination of much of our residual exposure to the UK. By end-2018, our UK exposure had been reduced to about €30m (the market value of residual UK assets securing our loans). At inception, €12 billion – equating to 38% of NAMA's original loan portfolio – was secured by assets located in the UK (including Northern Ireland). Since then, we have generated over €16 billion in disposal proceeds from the sale of UK assets and loans; 96% of this had been generated by the end of 2016. Unlike the Irish market, the UK market had capacity to absorb asset sales during NAMA's early years when we were under pressure to make progress on redeeming our senior debt. Between 2010 and 2013, sales of UK assets accounted for almost 75% of all NAMA disposals and, in effect, this enabled us to meet the target of redeeming a quarter of our senior debt by end-2013.

Most of our residual loan book is secured by assets from which we expect to generate additional value. In particular, many of these loans are secured by sites which have the potential to contribute to new housing and office supply but which can also increase the amount of debt that we can recover. As the Chairman points out in his statement, we have successfully driven the delivery of new office and residential space in the Dublin Docklands SDZ. Not only has this activity helped to regenerate the area and to attract FDI to Dublin, it has also yielded additional recovery for taxpayers.

The ongoing shortage of housing in Ireland has dominated public discourse for many years and NAMA is sometimes mentioned as the solution to the problem. However, while we can, and do, make a significant contribution to funding new housing supply, the scope of our capacity in this area is frequently overestimated. NAMA can only deliver housing within the constraints of its commercial mandate and within EU State Aid rules. This means that when we approve residential development finance, it must be on commercial terms and the project concerned must return a profit.

That being said, we have funded the delivery of over 10,000 new houses and apartments in Ireland since 2014. In addition, at end-March 2019, some 3,000 units across 50 separate sites were under construction or had funding approved. Planning permission has been received for a further 4,300 units and planning applications have been lodged or are being prepared for another 3,600 units. These units are being delivered on sites secured to NAMA primarily in the main urban areas, where there is most demand.

The delivery of new housing is a slow process. A case study of a typical "best-case" residential development is included in this Annual Report. This case study outlines the stages involved and the time that it takes to bring a housing development through the process of planning, design, construction, marketing and sale. This point is further illustrated by the fact that some of the 2,500 houses delivered by NAMA debtors in 2018 were in the pipeline from as early as 2014. Complications that can slow the delivery of new housing include local issues such as lack of appropriate planning, services and infrastructure, or commercial constraints including viability and demand. The fact that there is a housing shortage in Ireland does not mean that all house-building is viable for developers or that any houses built will immediately be bought by willing purchasers.

One site which has the potential to make a large-scale housing contribution in central Dublin over the next few years is the Poolbeg West SDZ in Ringsend. This SDZ has the capacity to provide some 3,500 residential units as well as commercial and community space. The SDZ Planning Scheme was formally approved by An Bord Pleanála (ABP) in April 2019. NAMA holds security over a large portion of land within the SDZ and, in anticipation of ABP approval, we have been working intensively with the receiver, design team, and key stakeholders to prepare a commercial delivery strategy for the site. We are now assessing how best to implement the delivery strategy with a view to ensuring housing delivery as soon as practicable.

Implementing our strategy for the Poolbeg West SDZ, continuing to deliver new housing and completing our Dublin Docklands SDZ programme will comprise the bulk of NAMA's work over the next two years. We will also seek to extract as much value as possible from the remaining loans in our portfolio, with the objective of returning the largest possible surplus to the Exchequer in the years ahead.

I wish to thank the Board, members of Board committees, the Executive team, the staff assigned to NAMA and to all those within the wider NTMA who contributed much to NAMA's exceptionally strong performance in 2018. We look forward to completing our work over the coming years so as to achieve a very positive fiscal outcome for taxpayers in delivering at least €4 billion of a surplus and, more generally, in terms of our social and economic contribution.

BRENDAN McDONAGH
Chief Executive Officer

Deleveraging Activity

Maximising recovery from property-backed loans

NAMA's deleveraging activity is guided by the objective of maximising recovery from property-backed loans through intensive management and phased disposal of the underlying assets and, where appropriate, of the loans.

At this stage in NAMA's lifespan, its remaining loan portfolio is primarily secured by assets which form part of NAMA's residential delivery and Dublin Docklands SDZ programmes. The secured portfolio also contains a large number of low value assets, many of which require intensive management and remediation in order to maximise their value. Delivery of NAMA's projected surplus of €4 billion is contingent on the effective management of these loans and assets.

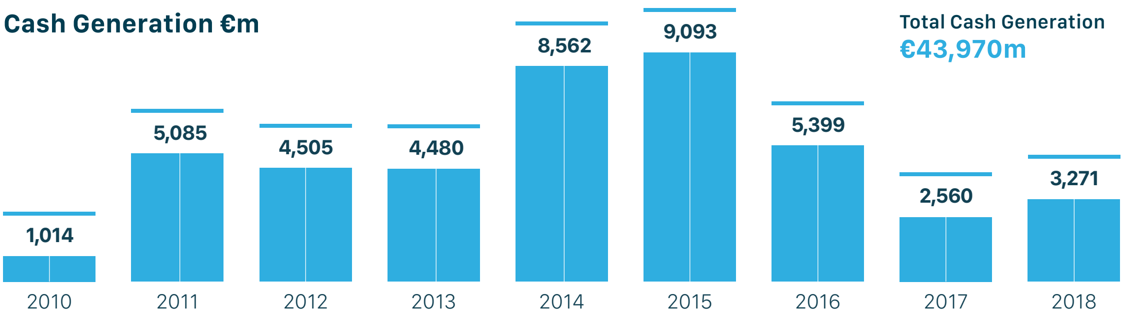
As at end-March 2019, the loans of some 215 debtor connections remained under the management of NAMA. Of these, 131 were in support or forbearance strategies and 84 were subject to enforcement.

DISPOSALS AND CASH GENERATION

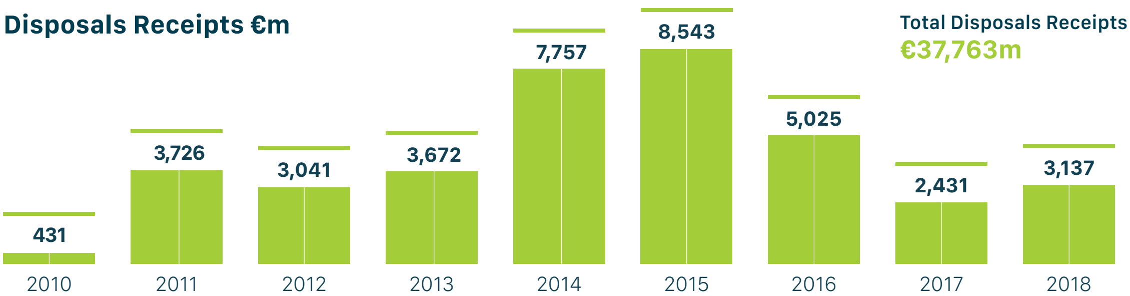
Cash generation is a critical measure of the progress being made by NAMA in meeting its stated objectives. During 2018, NAMA generated €3.3 billion in cash with €3.1 billion realised from the sale of loans, property and other assets. By end-2018, NAMA had generated a cumulative €43.97 billion in cash, principally through asset and loan sales. This figure had increased to €44.3 billion by end-March 2019.

The cash generated from NAMA's disposal programme enabled NAMA to complete the early repayment of €30.2 billion in government-guaranteed debt in October 2017 thus eliminating a significant contingent liability of the Irish State.

Cash Generation €m



Disposals Receipts €m



ASSET AND LOAN SALES

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.

Asset and Loan Sales by Location

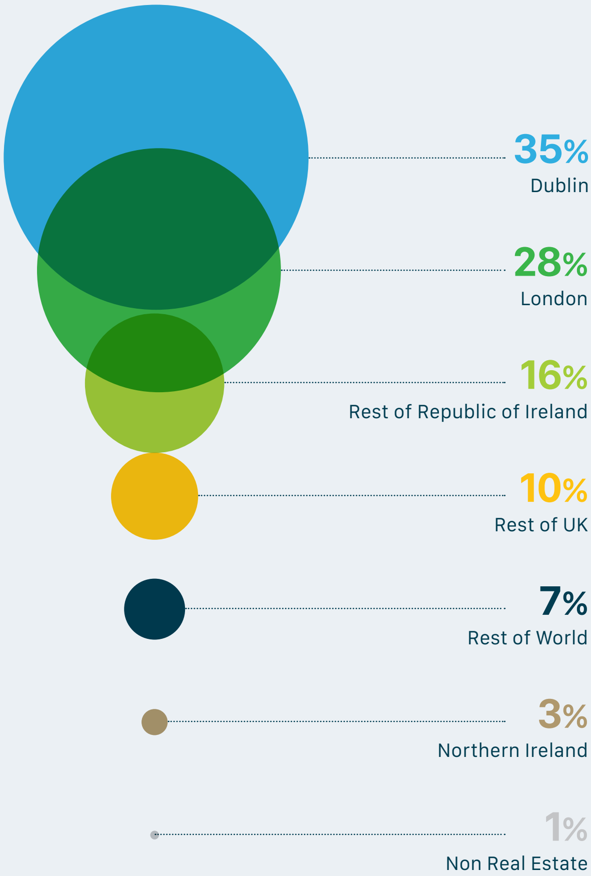
In the period between 2010 and 2013, assets located in the UK accounted for almost 75% of all NAMA disposals whereas assets located in Ireland, by contrast, accounted for just 16% of disposals during the same period. The Irish market experienced severe price falls and illiquidity during that period. NAMA considered that it would have been in breach of its statutory commercial obligation to maximise return to the State if it had commenced a major programme of disposals in such difficult market conditions. Instead, the focus was on asset management to enhance the future disposal value of Irish assets, most notably, by working with debtors and receivers to complete unfinished projects, to fund viable commercial and residential developments and to enhance planning permissions and remove other obstacles to development.

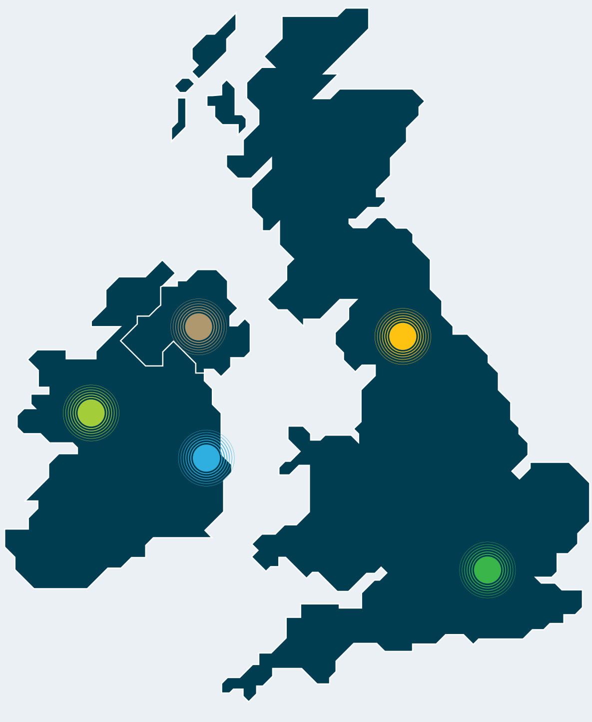
Since mid-2013, improved Irish market conditions have enabled NAMA debtors and receivers to sell assets on a phased basis into a market which has seen rising prices and much improved liquidity.

In 2018, NAMA completed almost all of its deleveraging of assets located outside of Ireland; as at end-2018, the residual portfolio of non-Irish assets was worth less than €70m and 97% of NAMA's remaining portfolio was secured by assets located in Ireland.

The cumulative value of loans and assets sold to end-2018 was €37.76 billion. The chart presents an analysis of disposals by location from 2010 to end-2018.

Disposals by location since inception:





Asset and Loan Sales by Sector

A breakdown of disposals by sector for 2018 is shown here. Sales of residential properties, land and development sites accounted for over 60% of disposal activity in 2018. This reflected the profile of the remaining assets securing NAMA's loan portfolio.

Asset and Loan Sales by Transaction Type

Since 2013, NAMA has taken advantage of increased investor interest in Irish commercial assets by creating portfolios of loans and property assets for sale. This disposal activity was phased in order to ensure a regular flow which could help sustain the positive momentum in the Irish market and maximise the return to NAMA.

In 2018, 62% of disposal income was generated by asset disposals with much of the disposal activity focused on the sale of individual property assets as opposed to portfolio sales.

In line with the reducing scale of NAMA's loan portfolio, NAMA completed what is expected to be its last significant loan sale in 2018. Overall, loan sales accounted for just 7% of disposal income in 2018.

It is notable that there was a relatively high level of loan redemptions in 2018; these accounted for over 30% of all disposal income generated during the year. This reflects the fact that increases in property values have enabled some NAMA debtors to refinance their loans and repay the full par value of their debt to NAMA.

Funding By Sector

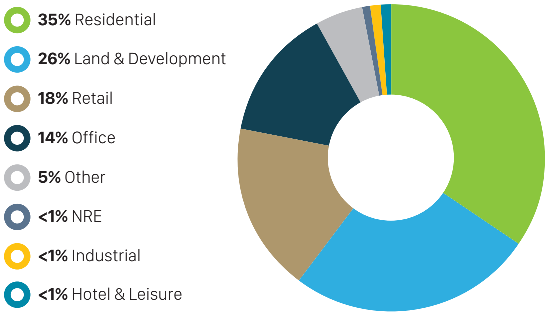
In line with its strategic objectives, NAMA advances funding to its debtors and receivers in cases where it can be shown that such funding will enhance the value of the assets securing NAMA's loan portfolio.

Primarily, NAMA provides capital expenditure for the planning, design and construction of new residential and commercial projects, subject to commercial viability. NAMA also funds infrastructure works, as necessary, to facilitate these developments. Additionally, NAMA invests in existing assets in order to improve their income producing potential and ultimately to make them more attractive to potential purchasers. Such investment includes funding advanced for essential remediation, such as fire safety works.

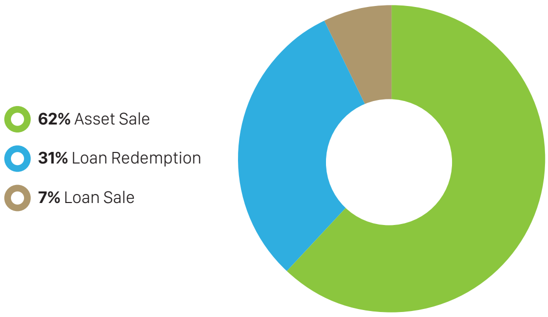
NAMA expects to approve additional funding for residential projects, on a commercial basis, over the period to 2020/2021. All of this funding is procured from within NAMA's own resources without any reliance on Exchequer funding.

The chart shows the breakdown of capital expenditure by sector since inception. A total of €3.3 billion has been advanced to date in capital expenditure for new and existing projects. Capital expenditure relating to the land and development sector includes amounts advanced as part of NAMA's residential and Dublin Docklands delivery programmes.

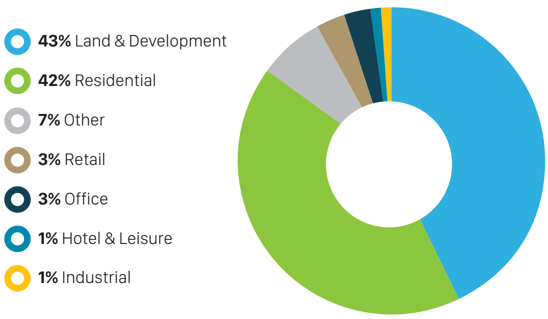
Disposals by sector – 2018:



Disposals by transaction type – 2018:



Capital expenditure by sector since inception:



Significant NAMA Transactions in 2018

Project Lee Loan Sale

A single connection loan sale with par debt of €300m. The loans were primarily secured on retail assets located in Cork and were purchased by Deutsche Bank. The sale completed in Q4 2018.

Bolands Quay

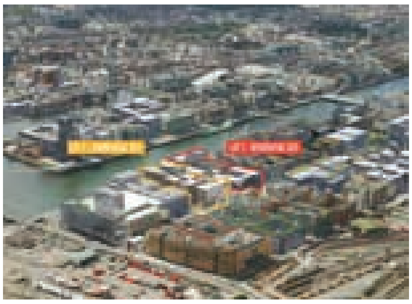
GRAND CANAL DOCK, DUBLIN 2

A landmark commercial and residential development located in the Dublin Docklands. This development is currently under construction and is due to be completed in phases during 2019 and 2020. The development was purchased by Google in Q2 2018.

Dublin Landings

NORTH WALL QUAY, DUBLIN 1

Two pre-let office blocks (No.1 and No.2) in a sizeable new development in the Dublin Docklands. The blocks were sold in separate transactions to international investors during 2018.



Project Waterfront

NORTH WALL QUAY, DUBLIN 1

A shovel-ready development site fronting onto the River Liffey and extending to 4.6 acres. The site has planning permission for 420 apartments and over 300,000 sq. ft. of commercial space and was purchased by an Irish-based property developer in Q4 2018.

City Block 3

MAYOR STREET, DUBLIN 1

A 5.9 acre site located in the North Dublin Docklands with planning permission for a commercial and residential development. The shovel-ready site was purchased by an international property investment company in Q4 2018.

Charlestown Shopping Centre

FINGLAS, CO DUBLIN

A well-established shopping centre including leisure facilities located in North County Dublin. NAMA funded the development of the final phase of this shopping centre in 2011, helping to secure tenants and further employment. The centre was purchased by Irish property investors in Q4 2018. The sale included an adjacent site with planning permission for residential and retail space.

Residential Delivery

Residential Delivery

As at end-March 2019, NAMA's remaining loans were secured by an estimated 1,150 hectares of residential development land in Ireland which is under the control of NAMA's debtors and receivers.

Section 10 of the NAMA Act requires NAMA to obtain the best achievable financial return for the State, deal expeditiously with its acquired assets and protect or otherwise enhance the value of those assets. In cases where sites are commercially viable to develop, the best financial return for NAMA is usually achieved by funding site development. In 2015, the NAMA Board set an objective of funding or otherwise facilitating the delivery of up to 20,000 new residential units in Ireland by 2020, subject to commercial viability.

Major progress has been made with a view to maximising residential delivery on sites controlled by NAMA debtors and receivers: some 26,600 units are potentially deliverable from sites that are completed or under construction or where planning has been granted, lodged or about to be lodged. These figures exclude sites that have been sold, contracted for sale, or are on the market for sale.

Residential Delivery Progress: 2014 to end-March 2019

Units	Total Ireland
Completed (across 104 developments) since start 2014	**9,759**
Under construction/funding approved for construction (across 50 sites)	**2,969**
Planning permission granted	**4,341**
Planning applications lodged	**681**
Preparing planning application	**2,988**
Approval to proceed to planning/consultation underway	**5,852**
Grand Total	**26,590**

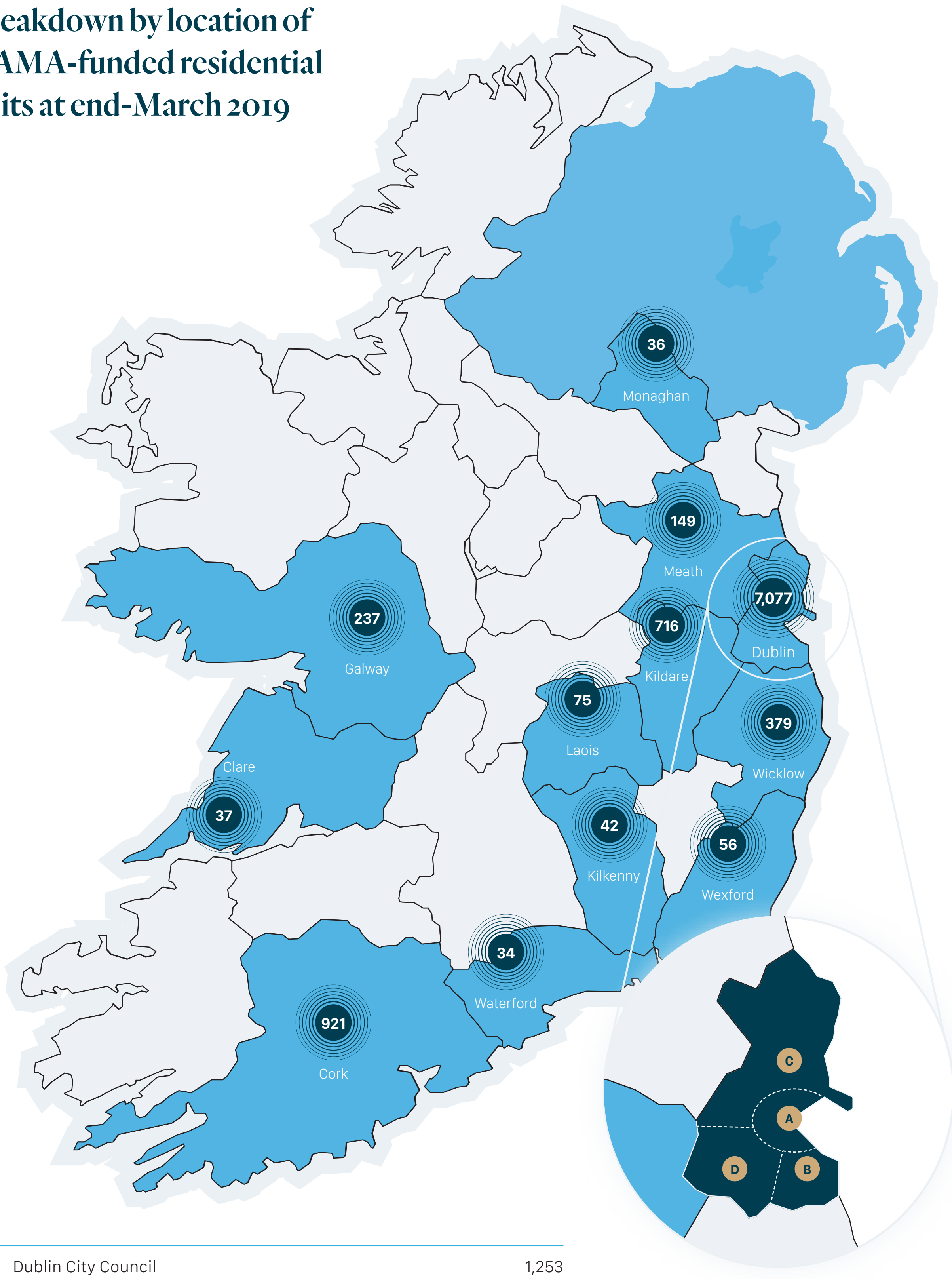
12,000 units

Sites with a delivery capacity of another 12,000+ units are at the pre-planning or feasibility stages. This figure includes the later phases of sites which are already under construction, or developments which are not commercially viable at current sales prices or which have specific infrastructural requirements (e.g. roads, water or sewerage) that will need to be addressed by local authorities and other State bodies before a planning application can be lodged.

3,722 units

An additional 3,722 residential units have been built to date on sites sold by NAMA debtors and receivers, many of which benefitted from NAMA funding in relation to planning. This brings the overall total number of residential units directly and indirectly delivered by NAMA to **13,481**.

Breakdown by location of NAMA-funded residential units at end-March 2019



A	Dublin City Council	1,253
B	Dun Laoghaire-Rathdown County Council	2,695
C	Fingal County Council	1,578
D	South Dublin County Council	1,551
Total Dublin		**7,077**

METHODS OF DELIVERY

Direct Funding

Residential development funding is provided to debtors and receivers on a commercial basis and is entirely consistent with NAMA's commercial obligation under Section 10 of the NAMA Act to optimise the value of its assets.

NAMA works with existing debtors who are willing to co-operate with NAMA and who have a proven track record of competence which enables them to commit to credible delivery targets on commercially viable projects.

NAMA also provides funding to receivers seeking to maximise the return on assets under their control.

Licence Agreements

As an alternative to providing residential development funding to receivers, NAMA has, in certain cases, agreed to the sale of sites under licence by receivers.

Under the licence agreement, the successful bidder (licencee) enters into a licence agreement with the receiver. The licencee pays a deposit up-front for the site and is responsible for obtaining development finance. Sales proceeds from the newly built houses are split between the licencee and the NAMA-appointed receiver.

Such arrangements first delivered new units in 2015. To date, two schemes have been fully completed and two have been refinanced. Seven schemes are currently under construction, one is pending construction, one is in the planning system and a further four schemes are in the pipeline.

Investment Ventures

As part of negotiated arrangements with certain debtors, NAMA may enter into investment ventures with credible, well-capitalised platforms to develop sites.

During 2018, NAMA entered into a new investment venture with Cairn Homes. This relates to developing residential zoned land in Balgriffin, Dublin 13. The land has the potential to deliver 90 houses, 56 duplex units and 327 apartments on a phased basis.

RESIDENTIAL SITES SOLD

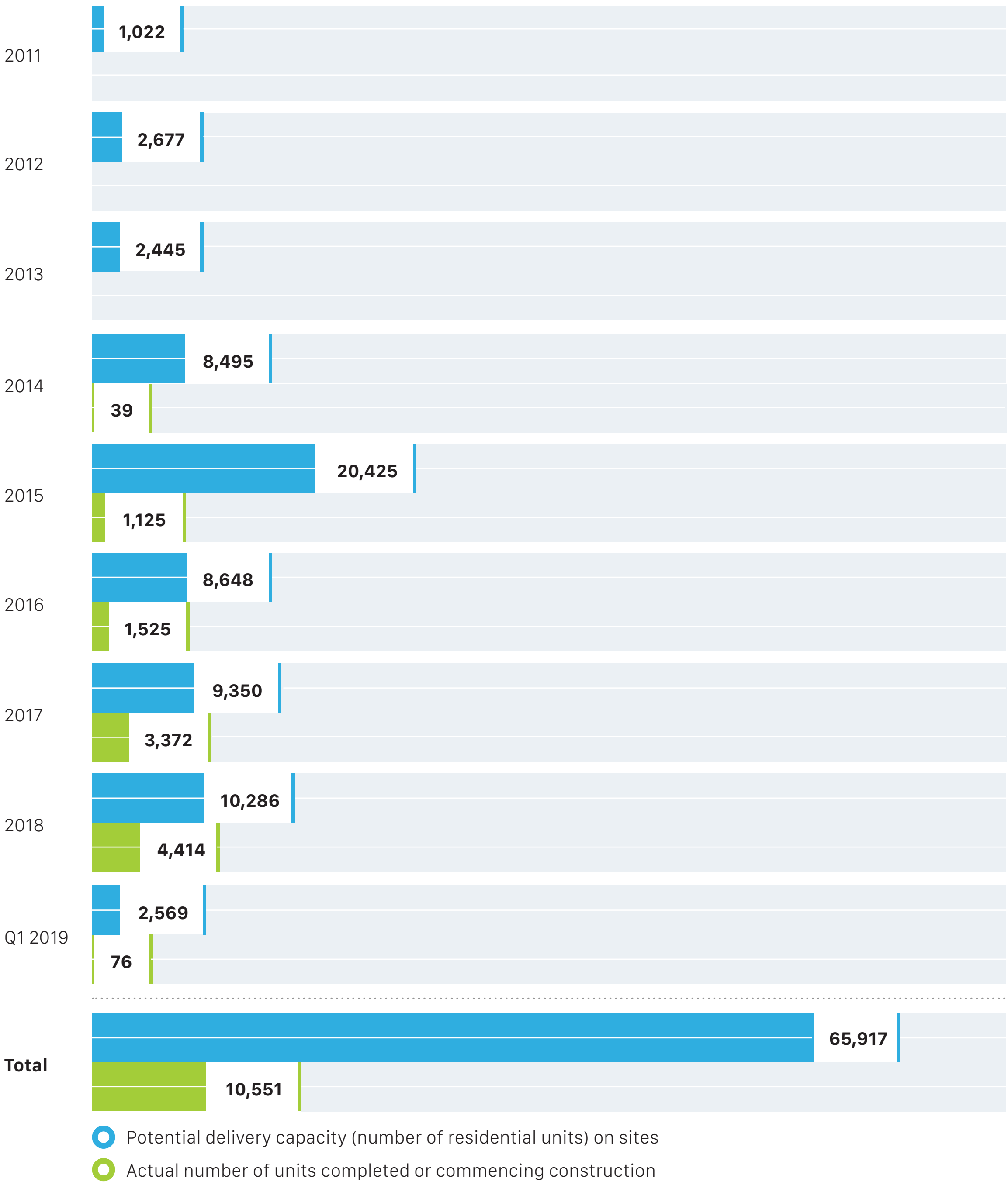
66,000 units capacity | over 10,000 units completed or under construction

NAMA has always sought to ensure that there is an adequate supply of development land available to private developers in the market. Since 2011, NAMA's debtors and receivers have sold sites with the potential to deliver some 66,000 residential units.

It is estimated that 3,722 units have been delivered to date on these sites and that an additional 6,829 units are under construction. The total number of 10,551 units delivered or under construction on these sites represents 16% of their delivery capacity.

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

Delivery Capacity of Residential Sites Sold



Project Case Study

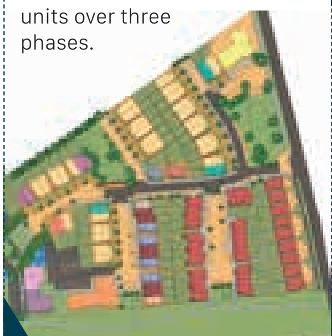
Delivering a NAMA-funded residential project

A planning, investment and development timeline

November 2006/ March 2014

Planning

Planning permission for the development of housing at Réileán was initially granted in 2006 with a planning extension approved in March 2014. Planning permission was obtained for 107 units over three phases.



June 2016

Funding

With Phase 1 completed and Phase 2 under construction, NAMA receives a funding proposal from the developer for the construction of Phase 3 - 36 houses.

August 2016

The development is deemed commercially viable and NAMA approves funding subject to a phasing restriction, which limits the number of units that can be constructed until sales targets are met.

September 2016

Sales Phase Launched

13 units are launched off plans prior to commencement of works.

December 2016

Construction Commenced

First drawdown of funds is completed and the construction of the initial 13 units within Phase 3 commences.

February 2017

Phasing targets are achieved allowing the commencement of works on further units.

March 2017

Sales Progressing

In light of construction progressing, a further 8 units are offered for sale.

Phase 3, Réileán, Roscam, Co. Galway

The Réileán housing development is located on a site in Roscam, Co. Galway. Situated beside other mature housing developments, it is also in close proximity to a favourable mix of social, retail and commercial facilities. The site is owned by an experienced residential developer and is secured to NAMA.

NAMA funding was approved for the development of the site over three separate phases. This case study outlines the timeline for Phase 3 from planning to completion. As this phase did not encounter any delays to the process, the case study illustrates a best-case scenario in terms of the timing of housing delivery on a typical site.

May 2017

First units are structurally complete. Mechanical, electrical and joinery works commence.

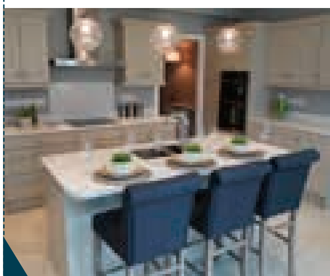
September 2017

Units delivered/Units marketed for sale

3 completed units are made available to purchasers. Show house is furnished and completed and development is formally launched to market.

December 2017

6 units sold with finishes being applied to a further 7 units for delivery to purchasers.



February 2018

Final units offered for sale

Final 9 units are marketed for sale.

July 2018

21 units have been sold to purchasers and finishes are being applied to another 8 contracted units. 5 units are ready to commence finishing works once contracts are signed.

December 2018

Phase 3 Completed and Occupied

31 out of 36 units are delivered and occupied by purchasers with finishes being completed on 4 contracted units. One remaining unit is sale agreed at this point.

Examples of residential projects completed

Phase 1, Bishops Gate
Kilternan, Dublin 18

Creston
Finglas, Dublin 11

St. Edmunds
Lucan, Dublin 20

Willow Glen
Glenamuck Road, Carrickmines, Dublin 18

Parkside
Balgriffin, Dublin 13

Earls Well
Waterfall, Co Cork

Examples of residential projects under construction

As of March 2019, construction was underway on 47 NAMA-funded residential projects. The majority of these are located in the Greater Dublin Area and in other urban centres such as Cork and Galway.

Belarmine
Stepaside, Dublin 18

Rathborne Park and Royal Canal Park
Ashtown, Dublin 15

Dún Ríoga
Dunshaughlin, Co Meath

Riverwood Square
Porterstown, Dublin 15

Dublin Docklands SDZ

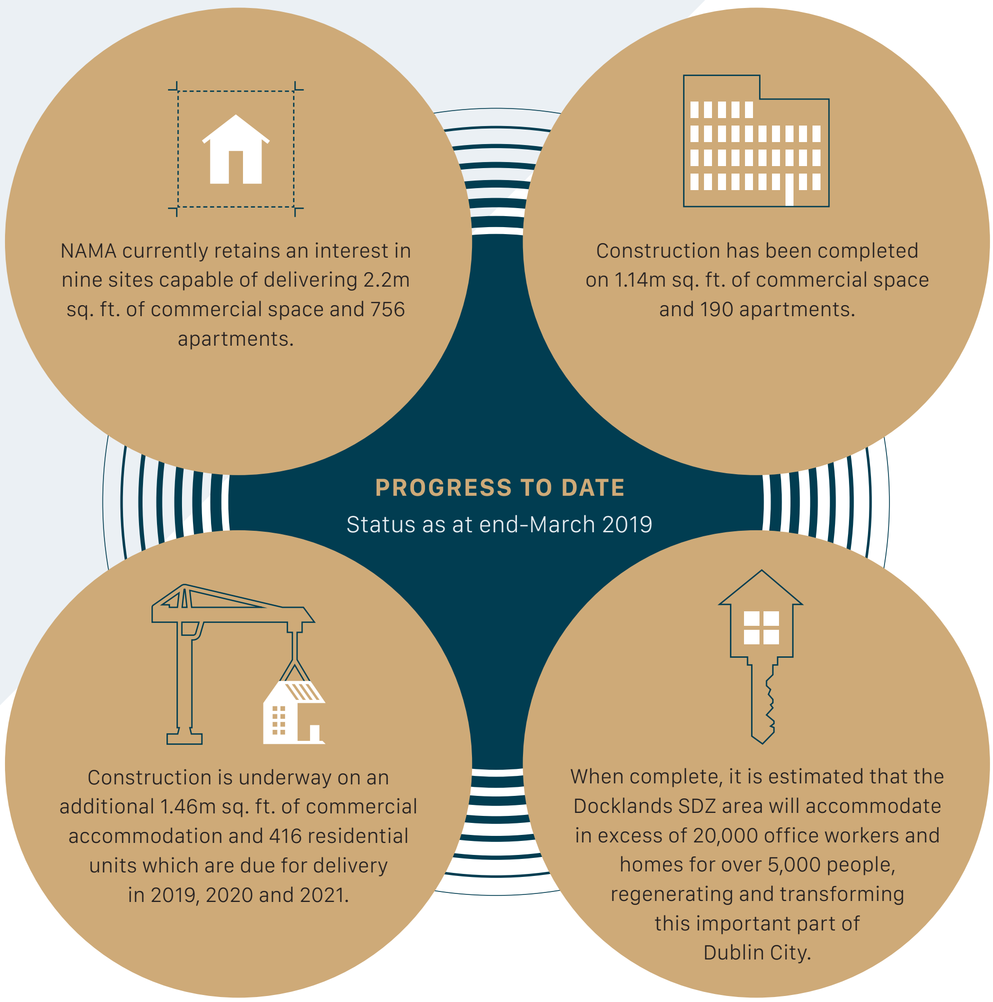
Dublin Docklands SDZ

The area of the Dublin Docklands incorporating the North Lotts and Grand Canal Docks 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 approved SDZ plan divided the Docklands area into 20 development blocks encompassing 22 hectares of developable land and provided for two new pedestrian bridges linking both sides of the Liffey.

At the outset, NAMA held an interest in 15 of the 20 SDZ blocks equating to 75% of the developable area. NAMA developed detailed strategies for each of the 15 blocks which are located over 16.74 hectares within the North and South Docks areas.

A dedicated Docklands SDZ team in NAMA, together with NAMA's receivers and investment partners, has worked closely with Dublin City Council as the Development Agency to deliver on the objectives of the SDZ Planning Scheme.

There is capacity for 4.2 million sq. ft. of commercial space and 2,183 residential units to be delivered when all 15 sites in which NAMA originally held an interest are fully developed. The extent and nature of NAMA's involvement varies from site to site.



Active NAMA Projects

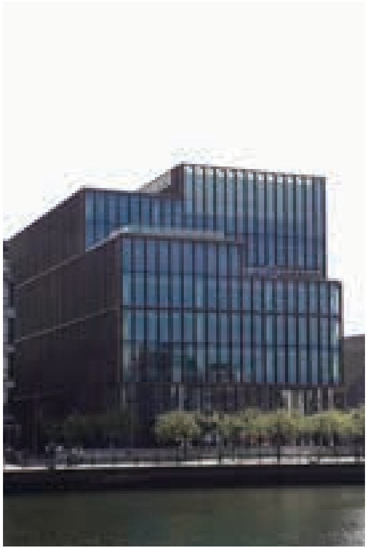
5 Hanover Quay - South Docks Fund

Size
Commercial = **205,000 sq. ft.** of office space.

Construction Status
The commercial office building achieved practical completion in May 2018.

Sale/Letting
A portion of the office building (38%) has been let to Aptiv since July 2018, with a lease for the remaining three floors agreed with Docusign in March 2019.

NAMA involvement
NAMA holds a minority shareholding in this fund, with Oaktree Capital Management as majority shareholder. The fund is structured as an ICAV (Irish Collective Asset-management Vehicle) which is authorised by the Central Bank of Ireland.



City Quay - City Development Fund

Size
Commercial = **130,000 sq. ft**. of office space over eight-storeys.

Construction status
The development was completed in September 2018.

Sale/Letting
In 2016, a pre-let was secured to Grant Thornton under a 25 year lease. The property was sold in a forward-funding structure to Irish Life Investment Managers.

NAMA involvement
NAMA holds a minority shareholding in this fund, with Oaktree Capital Management as the majority shareholder. The fund, which is structured as an ICAV, acquired the site in 2013.

Capital Dock - KW Irish Real Estate Fund VIII

Size
Commercial = **409,000 sq. ft.** of office and retail space.
Residential = **190** apartments.

Construction status
The entire scheme achieved practical completion by March 2019.

Sale/Letting
One building has been sold to JP Morgan and two buildings have been let to Indeed. Letting of residential units commenced in January 2019.

NAMA involvement
NAMA holds a minority shareholding in this fund, with Kennedy Wilson being the majority shareholder. The fund is structured as an ICAV.

Dublin Landings - Oxley Holdings Limited

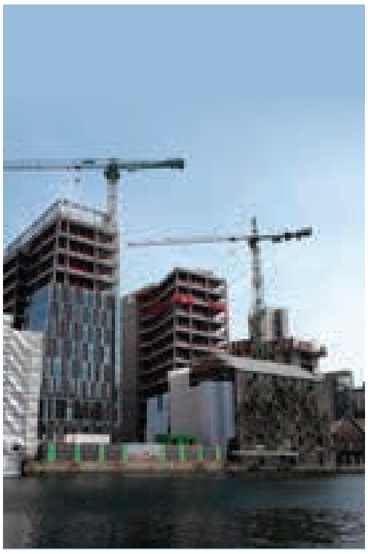
Size
Commercial = **719,000 sq. ft.** of office and retail space.
Residential = **298** apartments.

Construction status
Construction is complete on two of the office blocks. Construction has commenced on the remaining three office buildings and on both residential blocks with completion expected by Q3 2020 for the entirety.

Sale/Letting
Oxley Holdings Limited acquired a long leasehold interest from NAMA in 2014 with the right to develop, manage and realise the value of this site.

The National Treasury Management Agency (NTMA) has leased D1 Dublin Landings, a waterfront building, and WeWork has leased D2 Dublin Landings. Both blocks were sold during 2018.

NAMA involvement
NAMA retains the freehold interest and receives a secure income stream in addition to a percentage of any future sales proceeds.



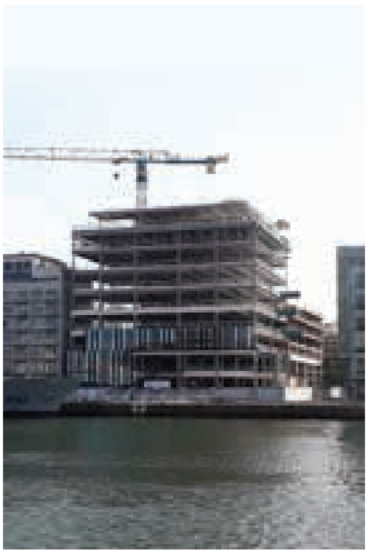
Bolands Quay

Size
Commercial = **330,500 sq. ft.** of commercial space.
Residential = **46** apartments and ancillary space.

Construction Status
Significant demolition, conservation and enabling works were initially carried out. Construction is underway with the project due for completion in phases up to Q1 2020.

Sale/Letting
The entire site was sold to Google through a forward sale and development agreement in 2018.

NAMA involvement
This development is under control of a NAMA-appointed receiver.



76 Sir John Rogerson's Quay - South Docks Fund

Size
Commercial = **137,000 sq. ft.** of office space.
Residential = **72** apartments.

Construction Status
Construction commenced in early 2018 with completion due in Q1 2020.

Sale/Letting
Agents have been appointed and are actively marketing the commercial and residential space.

NAMA involvement
NAMA holds a minority shareholding in this fund, with Oaktree Capital Management as the majority shareholder. The fund is structured as an ICAV.

Block 10a - TIO North Docks D.A.C.

Size
Commercial = **270,000 sq. ft.** of office space.

Construction Status
Construction commenced in January 2018. This is due for completion in Q1 2020.

Sale/Letting
Agents have been appointed and are actively marketing the offices to potential occupiers.

NAMA involvement
NAMA holds a minority interest in this entity with Oaktree Capital Management as majority shareholder of TIO North Docks D.A.C.

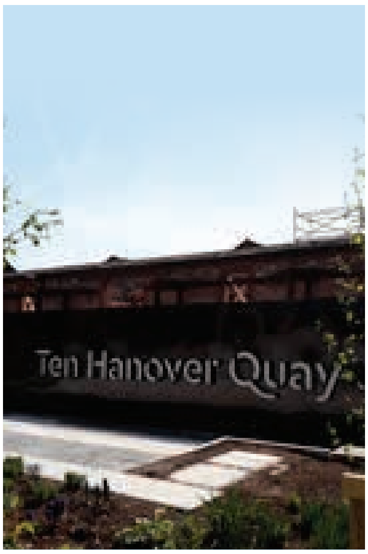
Exo Building

Size
Commercial = a **17 storey building** comprising **215,000 sq. ft.** of office space.

Construction Status
Construction commenced in January 2018. The target completion date is Q2 2020.

Sale/Letting
The building has been sold in a forward funding structure to CIO (Tristan Capital Partners/SW3).

NAMA Involvement
The development and letting strategy is controlled by a NAMA-appointed receiver.



10-12 Hanover Quay - KW Irish Real Estate Fund XIII

Size
Commercial = **87,000 sq. ft.** of office space.

Status
Construction commenced in Q1 2019 with completion expected by Q1 2021.

Sale/Letting
Occupier marketing commenced Q1 2019.

NAMA involvement
NAMA has a minority shareholding in this fund with Kennedy Wilson as the majority shareholder.

Poolbeg West SDZ

The Poolbeg West SDZ Planning Scheme was approved by Dublin City Council in October 2017, with the formal adoption of the Planning Scheme announced by An Bord Pleanála in April 2019.

Prior to the adoption of the SDZ Planning Scheme, NAMA along with the appointed receiver and the design team worked intensively on the preparation of a commercial delivery strategy for the site and consulted extensively with stakeholders. NAMA is now assessing how best to implement the delivery strategy with a view to ensuring housing delivery as soon as practicable.

The Poolbeg West SDZ encompasses land located to the east of Dublin's South Docks. The sites secured to NAMA within the SDZ area have the potential to deliver up to 3,500 residential units (including 10% Part V social housing and 15% social and affordable housing) and approximately 1m sq. ft. of commercial development as well as school sites and community space.

The development of Poolbeg West will make a strong contribution to the residential needs of a growing city as it is one of the few large, centrally located, development opportunities in Dublin City.

Social and Economic Contribution

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.

RESOLUTION OF UNFINISHED HOUSING ESTATES

Over the last 8 years, NAMA has advanced funding for site resolution works on unfinished housing estates in which it has an interest as secured lender. In 2010 NAMA had exposure to **335 unfinished housing estates**. By end-2018 that figure had reduced to three and by end-March 2019, NAMA's exposure has reduced further to just **two unfinished housing estates**.

Resolution strategies are agreed and in place for the two remaining housing estates. This progress largely reflects the impact of funding to debtors and receivers to undertake remedial and completion works to the unfinished developments, in many cases completing the unfinished housing estates in their entirety. In some cases, unfinished housing estates have been provided for social housing use following remediation by NAMA.

SOCIAL HOUSING

Since 2012, NAMA has facilitated the delivery of 2,544 properties for social housing in Ireland, providing homes for at least 8,000 people.

A significant method of delivery has been through NAMA's special purpose vehicle, NARPS, which has delivered over 1,370 residential properties to date. Other methods of social housing delivery include direct sales and leases by debtors and receivers to local authorities, approved housing bodies (AHBs), and the Housing Agency.

Identifying Suitable Properties

NAMA has worked closely with the Department of Housing, Planning and Local Government (DHPLG) and the Housing Agency in seeking to match the available residential stock held by NAMA's debtors and receivers with the requirements of local authorities. In this regard, NAMA has identified 7,050 residential properties from its secured portfolio as being potentially suitable for social housing use.

The responsibility for determining the suitability of properties for social housing use rests with the local authorities and the Housing Agency. An important consideration 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. To date, demand has been confirmed for 2,729 units.

Facilitating the Completion and Delivery of Units

In cases where the properties identified are incomplete and require remediation works, NAMA commits to funding these works subject to commercial viability. NAMA then facilitates the delivery of units by way of direct sale by its debtors or receivers to local authorities or AHBs, or by way of purchase and lease back through NARPS. All sales are transacted at an independently determined market value.

To date, NAMA's total expenditure on social housing (through drawn and committed payments) has been in the region of €350m. This includes costs incurred by NARPS in purchasing residential units and capital expenditure incurred by NAMA for the completion of housing units and estates.

Activity in 2018

The focus during 2018 was on completing the majority of the remaining contracted projects that required remediation and completion works. Some 110 properties were completed during the year and handed over to approved housing bodies for immediate occupancy. Of these, NARPS acquisitions comprised 66 units with the balance representing direct sales to AHBs, local authorities and the Housing Agency.

NAMA's social housing programme is now nearing completion as NAMA continues to wind down. A number of projects remain in negotiation and further delivery of units will continue, albeit on a smaller scale than in the past.

Delivering Sites

In addition to the units delivered, residential sites with planning permission for a total of 159 units have been sold during the year. Sales have been to both AHBs and local authorities.

Contracts have exchanged and terms are agreed with local authorities and AHBs for the sale of additional residential sites with planning permission for about 250 properties.

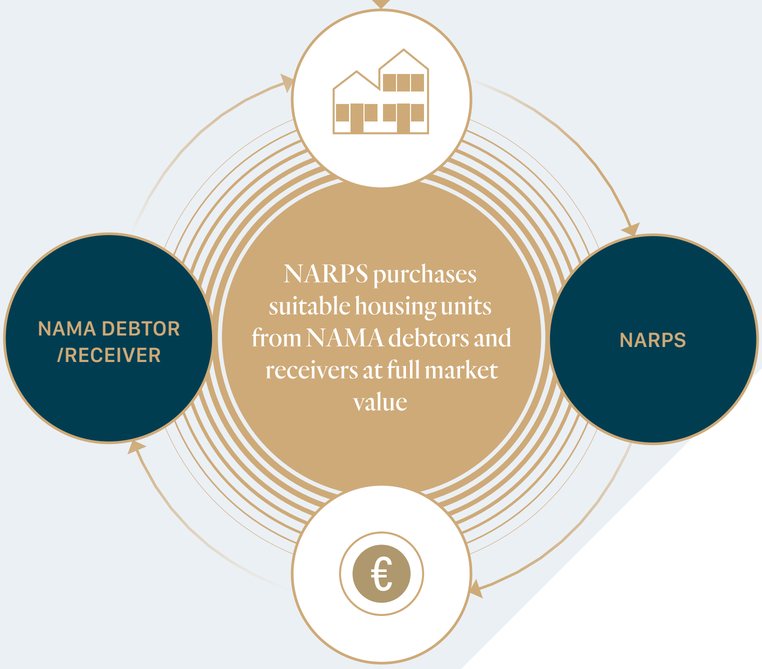
NARPS

National Asset Residential Property Services D.A.C. (NARPS) was established in July 2012 to expedite social housing delivery at a time when there were many barriers to quick and efficient delivery in the sector, including a lack of capital funding.

NARPS has developed strong partnerships with a number of AHBs and certain developments delivered through this tenure have received awards, in the areas of excellence and collaboration, from the Irish Council for Social Housing and the Chartered Institute for Housing.

How the NARPS model operates

NAMA funds necessary remediation and completion works prior to the purchase of units by NARPS



20 year lease

During the delivery process, NARPS engages with the following stakeholders:

- The **Housing Agency** liaises with the local authorities in relation to their social housing needs to confirm whether demand exists in an area. The Housing Agency also nominates AHBs, where applicable, through an expression of interest process.
- The **Local Authority** confirms demand for social housing units having regard to sustainable communities and an appropriate mix of housing tenures. It considers the appropriate delivery mechanism (i.e. lease directly or AHB to lease) and consults with the Housing Agency on proposed rents. It also executes the lease funding documentation.
- The **Approved Housing Body (AHB)** nominates the tenants and manages the properties during the lease term, paying quarterly rent to NARPS. Prior to the delivery of units, the AHB engages with NARPS to ensure tenant needs are catered for and each property is finished to a high standard.

Examples of recent NARPS purchases

Downview | Bishopstown, Co Cork

29 apartments leased to Co-Operative Housing Ireland (final phase of 6 units closed in 2018)

Aylmer Heath | Newcastle, Co Dublin

5 houses leased to Túath Housing

Creston Avenue | Finglas, Dublin 11

18 houses leased to Respond

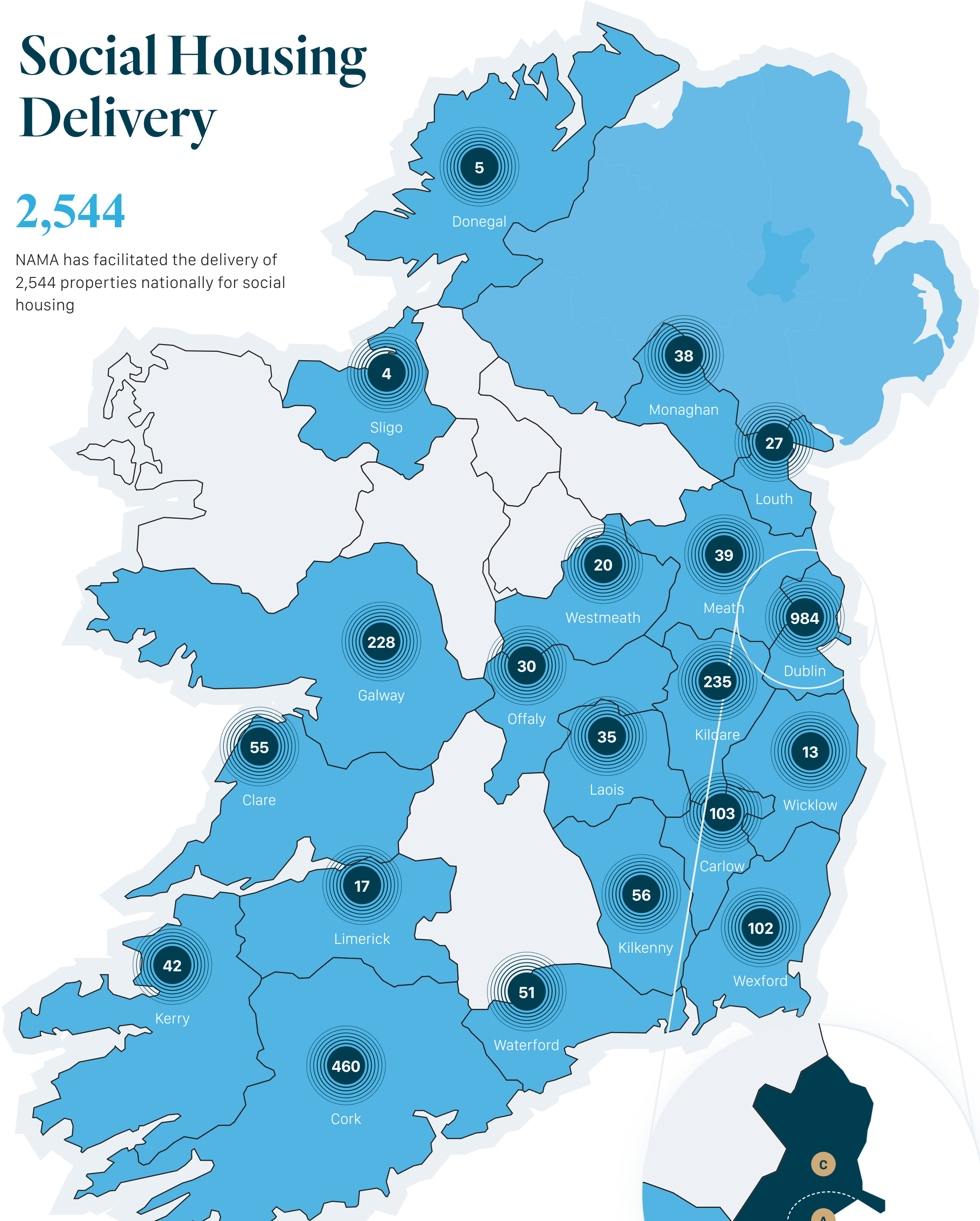
The Boroughs | Douglas, Co Cork

65 houses and apartments leased to Túath Housing (final 17 units closed in 2018)

Social Housing Delivery

2,544

NAMA has facilitated the delivery of 2,544 properties nationally for social housing



A	Dublin City Council	413
B	Dun Laoghaire-Rathdown County Council	282
C	Fingal County Council	143
D	South Dublin County Council	146

WIDER ECONOMIC CONTRIBUTION

An important part of NAMA's work is to facilitate transactions in the Irish property market which have wider social and economic benefits. This includes giving public bodies first option on the purchase (at full market value) of properties for public use and also working closely with the IDA in order to encourage and sustain foreign direct investment (FDI) in Ireland.

Facilitating Civic Transactions

The following transactions with local authorities were facilitated by NAMA during 2018:

- Completed sale to Longford County Council of a site (0.5 acres) off Great Water Street in Longford town.
- Completed sale to Kildare County Council of a 3.5 acre site in Kill, Co. Kildare with full planning permission for 25 residential properties.

Facilitating the Provision of Schools

There is ongoing engagement with the Department of Education and Skills in respect of potential school sites in areas of high demand. NAMA identifies suitable sites and facilitates negotiations between its debtors/receivers and the Department. Sales of the following four school sites completed in 2018:

- Site at Mooretown, Swords, Co. Dublin (14 acres) for a new post-primary school.
- Site at Maryborough Woods, Douglas, Co. Cork (22 acres) for a new post-primary school.
- Site at Citywest, Dublin 24 (8.6 acres) for a new primary school.
- Site at Pelletstown, Ashtown, Dublin 15 (1.57 acres) for a new primary school.

Facilitating Commercial Transactions

NAMA continues to facilitate FDI, primarily through the provision of Grade A office space in the Dublin Docklands. Notable recent transactions with multinational firms include the following:

- The forward sale to **Google** of office space in the Dublin Docklands for a new Irish HQ.
- The sale to **JP Morgan** and letting to **Indeed** of new office space at Capital Dock.
- The sale to **Intel** of 36 acres of land in Leixlip adjacent to the firm's existing plant.

INTERNATIONAL ENGAGEMENT

The progress which has been made by NAMA is perceived positively by many international organisations and by other sovereigns. NAMA regularly hosts representatives of foreign State-owned asset management companies (AMCs) in order to brief them on the establishment and operation of NAMA and to exchange information.

In September 2018, NAMA hosted delegates from the Korea Asset Management Corporation (KAMCO). KAMCO was established in 1962 and carries out a range of functions on behalf of the South Korean State, including the acquisition and resolution of non-performing loans, corporate restructuring and property management and development.

During the visit, the NAMA Chairman, Frank Daly, and KAMCO's Executive Vice President, Kyung-Yul Lee, signed a non-binding memorandum of understanding aimed at promoting cooperation and exchanging knowledge and expertise as regards distressed asset management and property management and development.

Financial Review

Financial Review

Financial Highlights 2018	2018 €m	2017 €m	From Inception to end-2018 €m
Cash Generation			
Total cash generated	**3,271**	**2,560**	**43,970**
Disposal receipts	3,137	2,431	37,763
Non-disposal income	134*	129	6,207
Senior Bonds & Subordinated Debt			
Senior bonds redeemed	**-**	**2,590**	**30,190**
Subordinated debt repurchased	**529**	**-**	**529**
Profitability			
Net gains on debtor loans measured at FVTPL **	605	n\a	
Profit for the year before tax	904	544	
Tax charge	(109)	(63)	
Profit for the year after tax	**795**	**481**	
Financial Position at year-end			
Cash and cash equivalents and liquid assets	3,186	1,254	
Debtor loans carrying value	1,925	3,194	

** Includes non-disposal income of €120m from loans and distributions from equity investments of €14m.*

*** Fair Value Through Profit or Loss.*

DEBT REDEMPTION

As part of its original acquisition of loans from the participating institutions, NAMA issued €30.2 billion of government-guaranteed senior debt and €1.6 billion of floating rate perpetual subordinated debt. The senior bonds represented a contingent liability to the Irish State as they were guaranteed by the Government prior to being fully redeemed in 2017. The first call date for the subordinated debt is 1 March 2020. As part of a liability management exercise, NAMA repurchased subordinated bonds with a nominal value of €529m for a total consideration of €571m in 2018.

KEY COMPONENTS OF NAMA'S 2018 PERFORMANCE

Income Statement NAMA Group	2018 €m	2017 €m
Net gains on debtor loans measured at FVTPL	605	-
Interest, fee & other income	76	272
Net profit on disposal and refinancing of loans	179	64
Net profit on disposal of property assets	134	2
Surplus Income	-	270
Other expenses (Interest expense, FX & derivative financial instruments)	(15)	(10)
Administration expenses	(75)	(67)
Total operating income	**904**	**531**
Impairment credit on loans and receivables	-	13
Profit for the year before tax	**904**	**544**
Tax charge	(109)	(63)
Profit for the year	**795**	**481**

KEY ACCOUNTING CHANGES

In accordance with its financial reporting requirements, NAMA implemented IFRS 9 with effect from 1 January 2018. This resulted in a change in accounting for the majority of debtor loans from amortised cost to a fair value measurement approach. Under IFRS 9, fair value movements on debtor loans has become the primary item in the Income Statement while surplus income and impairment no longer apply. As part of the initial application of IFRS 9, NAMA has recognised a transition adjustment amounting to a positive increase in retained earnings of €169m before tax on 1 January 2018.

NET FAIR VALUE GAINS ON DEBTOR LOANS MEASURED AT FVTPL

	2018 €m	2017 €m
Net fair value gains on debtor loans measured at FVTPL	605	n\a

Fair value is a key area of judgment in NAMA's financial statements and the judgment process is conducted as part of Fair Value Reviews. These reviews use a present value methodology to assess the fair value of debtor loans. NAMA has recognised a fair value gain of €605m (2017: N/A). This positive outcome reflects a number of factors such as progress towards monetisation timelines and the appreciation of collateral securing debtor loans; the latter is due in part to NAMA value adding activities coming to fruition combined with strong underlying market movements.

The Fair Value Reviews were based on a detailed individual assessment of expected future cash flows for all debtor connections with loans and related derivatives. These 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).

NET PROFITS GENERATED FROM DISPOSAL AND REFINANCING OF LOANS AND PROPERTY ASSETS

	2018 €m	2017 €m
Net profit on disposal and refinancing of loans	179	64
Net profit on disposal of property assets	134	2
Total profit	**313**	**66**

Profit or loss on disposal and refinancing of loans is measured as the difference between the consideration received (after sales costs) and the NAMA carrying value of the relevant loans. During the period, NAMA also sold certain trading property assets. These profits are measured as the difference between the sales proceeds and the property's carrying value. Again this positive result represents the coming to fruition of NAMA value adding activities.

Interest, fee & other income amounted to €76m. This represents interest income of €9m, fee income of €27m and other income of €40m.

Administration expenses amounted to €75m for 2018 (2017: €67m). For 2018, the level of costs represents 2.3% of cash received.

NAMA'S CASH GENERATION FROM DEBTOR LOANS

	2018 €m	2017 €m	Inception to end-2018 €m
Disposals of underlying collateral	2,800	1,777	**33,076**
Disposals of loans	471	783	**10,894**
Total Proceeds	**3,271**	**2,560**	**43,970**

Disposal and non-disposal receipts during 2018 totalled €3.3 billion (2017: €2.6 billion), comprising property collateral disposals of €2.8 billion (2017: €1.8 billion) and loan sale transactions of €0.5 billion (2017: €0.8 billion). A reduction in the value of disposal receipts is expected in 2019 in line with the reducing size of NAMA's balance sheet and the maturation of NAMA's deleveraging process.

LOAN PORTFOLIO

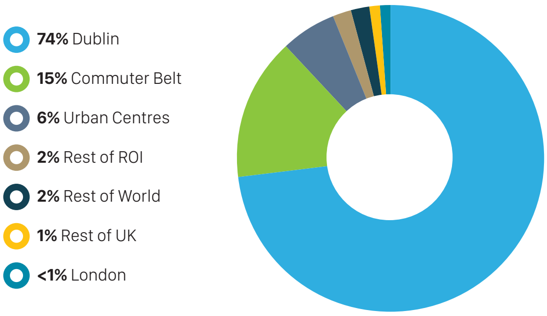
NAMA acquired loans from the participating institutions for a consideration of €31.8 billion. This acquisition value is the amount NAMA originally recognised on its statement of financial position as being the carrying value for those debtor loans. Debtors are legally obliged to repay the loan par value as per the original loan agreements with the participating institutions. NAMA's carrying value of loans at end-2018 was €1.9 billion (2017: €3.2 billion).

A summary of the movement in debtor loans during the year is provided below:

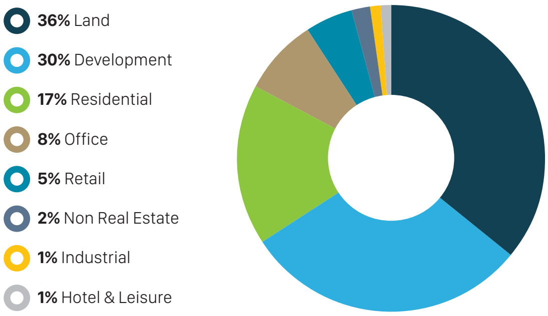
2018 movement in carrying value of debtor loans	€m
Loans and receivables carrying value under IAS 39 before impairment	4,600
Provision for impairment charges on loans and receivables under IAS 39	(1,406)
Transition adjustment on initial application of IFRS 9	169
Adjusted debtor loans balance on 1 January 2018 on application of IFRS 9	**3,363**
Receipts on debtor loans	(2,764)
Advances to borrowers	500
Other movements on debtor loans	41
Profit on disposal and refinancing of debtor loans	180
Net fair value gains on debtor loans	605
Debtor loans as at 31 December 2018	**1,925**

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

Remaining Portfolio 31 December 2018



Remaining Portfolio by Sector 31 December 2018



RATE OF RETURN BENCHMARK

In 2014, the NAMA Board approved an entity return on investment (EROI) target benchmark of 20%. The projected return as at end-2018 was 37%.

The EROI benchmark is calculated based on the comparison of NAMA's projected terminal surplus position 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.

When NAMA was first established, the expected rate of return on the acquired loan portfolio was 5%. Following a successful asset management and deleveraging programme and assuming future residential delivery funding, the acquired portfolio forecast internal rate of return (IRR), excluding costs, to the end of NAMA's lifespan is circa 12.8%.

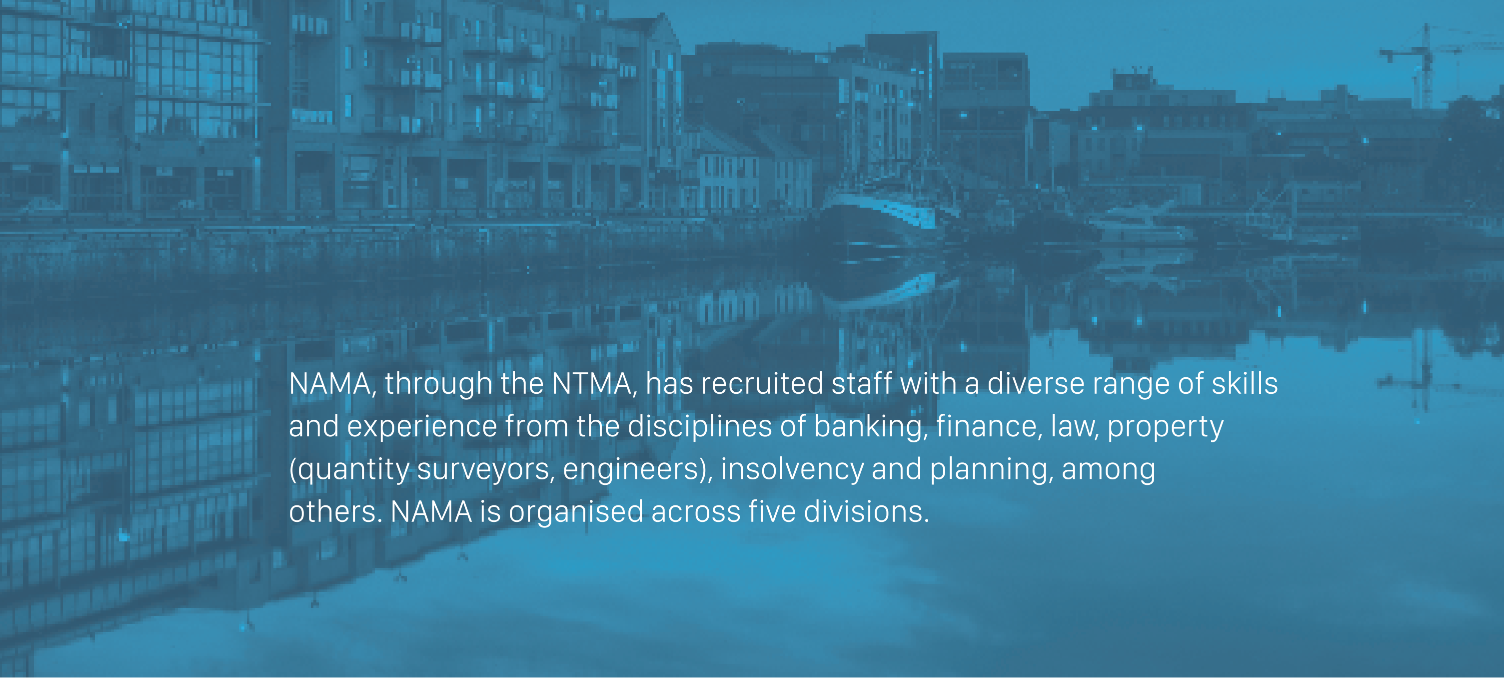
NAMA Organisation

A committed team with a diverse range of skills and experience

Organisational Structure

STAFF RESOURCES

The number of NTMA staff assigned to NAMA was 238 at end-2018. This includes 18 employees due to leave during 2019 as part of the 2018 Voluntary Redundancy Programme. At end-2018, the breakdown of staff by gender was 53% male and 47% female.



NAMA, through the NTMA, has recruited staff with a diverse range of skills and experience from the disciplines of banking, finance, law, property (quantity surveyors, engineers), insolvency and planning, among others. NAMA is organised across five divisions.

ASSET MANAGEMENT AND RECOVERY

The Asset Management and Recovery division was created in 2018 through the merger of the Asset Recovery and Asset Management divisions.

The division is responsible for maximising recovery from real estate backed loans through intensive management and phased deleveraging. It works with debtors, receivers and joint venture partners so as to identify, develop and manage secured assets where value can be added and future cashflow enhanced, thus supporting the achievement of NAMA's wider strategic objectives. This requires intensive daily management, with an innovative and solutions-based approach employing a range of work-out methods.

The division is responsible for the oversight and management of significant development land held by NAMA debtors and insolvency practitioners including extensive areas of the Dublin Docklands SDZ and the Poolbeg West SDZ (former IGB site) in Ringsend along with other strategic development projects. As part of this, the division manages NAMA's minority shareholdings in certain investment vehicles in the Dublin Docklands.

Additionally, the delivery of social housing from NAMA-secured properties and the management of NARPS are the responsibility of the Asset Management and Recovery division.

RESIDENTIAL DELIVERY

In October 2015, NAMA announced that it would seek to facilitate, primarily through its debtors and receivers, the delivery of up to 20,000 new residential units on NAMA-secured sites, subject to commercial viability. The Residential Delivery division was established to manage the residential delivery programme which had, as its ultimate objective, the maximisation of financial return from NAMA-secured residential sites.

The Residential Delivery division is primarily responsible for the intensive management of residential sites securing NAMA's loans in order to facilitate the delivery of new residential units and to maximise debt recovery.

The division works closely with debtors and receivers, across more than 70 debtor connections, in relation to all aspects of the residential delivery process, from the planning stages to the assessment of the commercial viability of residential development projects and the funding of the construction of housing and apartment units.

STRATEGY AND COMMUNICATIONS

The Strategy and Communications division is responsible for the ongoing monitoring and evaluation of NAMA's strategy to ensure that it remains appropriate in the context of obtaining the best achievable financial return for NAMA and for taxpayers.

The division also has overall responsibility for the Agency's communications activity and public affairs engagement. This involves co-ordination of NAMA's interaction with the media and engagement with individual members of the Oireachtas and with Oireachtas committees. The division also manages NAMA's wider public engagement, including the preparation of NAMA publications and co-ordination of NAMA's responses to a wide range of queries from members of the public.

LEGAL

The Legal division provides independent advice to the Board, CEO and to the other NAMA business divisions on the wide spectrum of legal issues affecting the Agency and its operations. With a core team of legal professionals and support staff, the division comprises a wealth of expertise spanning commercial property, banking, insolvency, litigation and other legal areas.

The Legal division supports NAMA's regulatory and compliance obligations, including responsibility for NAMA procurement and ensuring that the best value for money is achieved when selecting service providers. In 2018, the Legal division expanded to incorporate a team that deals with Freedom of Information (FOI) and the General Data Protection Regulation (GDPR).

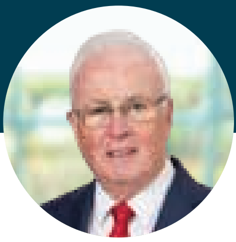
CFO

The CFO division has direct responsibility for managing the organisation's financial and operational requirements. This division provides financial leadership and acts as a specialist business partner to the wider NAMA organisation.

In addition to this, the CFO division incorporates a wide range of business functions with operational and strategic responsibilities. These areas of responsibility include the finance, audit & risk, systems, operations, tax and corporate change functions.

Governance

Board Members



Mr. Frank Daly
Chairman

Mr. Brendan McDonagh
Chief Executive Officer

Mr. Oliver Ellingham

Ms. Mari Hurley

LENGTH OF SERVICE

Appointed 22 December 2009 for a 5-year term and re-appointed 22 December 2014 for a further 5-year term.

Mr. McDonagh's role as an ex-officio Board member commenced on 22 December 2009 following his appointment as NAMA Chief Executive Officer.

Appointed 10 April 2013 for a 5-year term and re-appointed for a 5-year term on 10 April 2018.

Appointed 8 April 2014 for a 5-year term and re-appointed for a 5-year term on 8 April 2019.

BIOGRAPHY

Frank Daly was appointed Chairman of the NAMA Board on 22 December 2009 on establishment of the Agency. Prior to this, he had been a public interest director of Anglo Irish Bank since December 2008. He resigned from this post 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 originally 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. Daly holds a Bachelor of Commerce degree and a diploma in the History of European Art from UCD and a diploma in European Community Law from DIT. In 2010 Mr. Daly was conferred with the honorary degree of Doctor of Laws by the University of Limerick.

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.

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 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.

Mari Hurley is the Chief Financial Officer of Premier Lotteries Ireland and was previously Chief Financial Officer of Hostelworld Group plc. and Finance Director of Sherry FitzGerald Group. Ms. Hurley also worked at Bear Stearns Bank plc. She is a Fellow of the Institute of Chartered Accountants in Ireland having trained and qualified in Arthur Andersen. Ms Hurley has a Bachelor of Commerce degree from University College Cork. She is a director of Ervia.

COMMITTEE MEMBERSHIP

- Member of the Remuneration Committee

- 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

- Chairperson of the Risk Management Committee
- Chairperson of the Audit Committee
- Member of the Credit Committee

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

Ms. Eileen Maher

Appointed 3 July 2018 for a 5-year term.

Eileen Maher has 30 years' experience working in the telecoms industry with commercial, transformation, regulatory and legal expertise. She is a strategic advisor with experience developing and executing key strategic initiatives and has a history of negotiating commercial joint ventures, partnerships and acquisitions. Ms. Maher is also a member of the Board of Eirgrid and the Compliance Committee of the Broadcasting Authority of Ireland. She was the Director of Strategy and External Affairs in Vodafone and a member of the Vodafone Ireland Executive Board.

- Chairperson of the Finance and Operating Committee
- Member of the Risk Management Committee
- Member of the Audit Committee

Mr. Brian McEnery

Appointed 22 December 2009 for a 4-year term and re-appointed for a 5-year term on 22 December 2013.

Term of appointment completed 22 December 2018.

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. McEnery departed the Board of NAMA and a number of NAMA Board committees in December 2018 after completing his second term of appointment.

Formerly:

- Chairperson of the Audit Committee
- Member of the Risk Management Committee
- Member of the Remuneration Committee

Mr. Conor O'Kelly

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

Conor O'Kelly was appointed Chief Executive of the National Treasury Management Agency (NTMA) in January 2015. He is the former Deputy Chairman of Investec Holdings (Ireland) Ltd. Prior to that he was Chief Executive Officer of NCB Group and in 2003 successfully negotiated and led a management buyout of the firm which was subsequently acquired by Investec Plc. Before joining NCB as Head of Fixed Income, he had spent 11 years with Barclays Capital where he held senior management positions and worked in London, Tokyo and New York. 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.

- Board member (ex-officio)
- Member of the Risk Management Committee
- Member of the Remuneration Committee

Mr. Willie Soffe

Appointed 22 December 2009 for a 4-year term and re-appointed for a 5-year term on 22 December 2013.

Term of appointment completed 22 December 2018.

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.

Mr. Soffe departed the Board of NAMA and a number of NAMA Board committees in December 2018 after completing his second term of appointment.

Formerly:

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

Board Members Continued

Mr. Michael Wall

LENGTH OF SERVICE

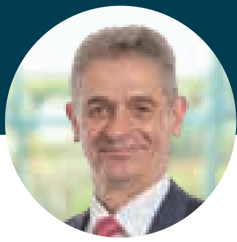
Appointed 3 July 2018 for a 5-year term.

BIOGRAPHY

Michael Wall is a barrister specialising in planning, environmental and construction law. He is a former member of the board of An Bord Pleanála and has worked as an architect in private practice and in project management. He is a Fellow of the Royal Institute of Architects of Ireland. Mr. Wall has an MBA from University College Dublin as well as degrees in architecture, planning and law. He is Chairman of the Irish Georgian Society, a board member of both the Abbey Theatre and Irish National Opera and is a director of the Sustainable Energy Authority of Ireland.

COMMITTEE MEMBERSHIP

- Chairperson of the Planning Advisory Committee
- Member of the Credit Committee
- Member of the Remuneration Committee



Mr. Aidan Williams

LENGTH OF SERVICE

Appointed 2 April 2019 for a 5-year term.

BIOGRAPHY

Aidan Williams has over forty years' experience in international capital markets, investment banking, fund management and stockbroking. He is a non-executive director and Chairman of Unicredit Bank Ireland plc and has recently been appointed a non-executive director and Chairman of Macquarie Capital Ireland D.A.C.

Mr. Williams holds a diploma in Company Direction from the Institute of Directors in London, is a Chartered Fellow of the Chartered Institute for Securities & Investment and is a former Registered Stockbroker of the Irish Stock Exchange. He is a member of the Institute of Directors in Ireland and the Irish Fund Directors Association.

COMMITTEE MEMBERSHIP

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

Key to Committee Membership

Audit Committee

Credit Committee

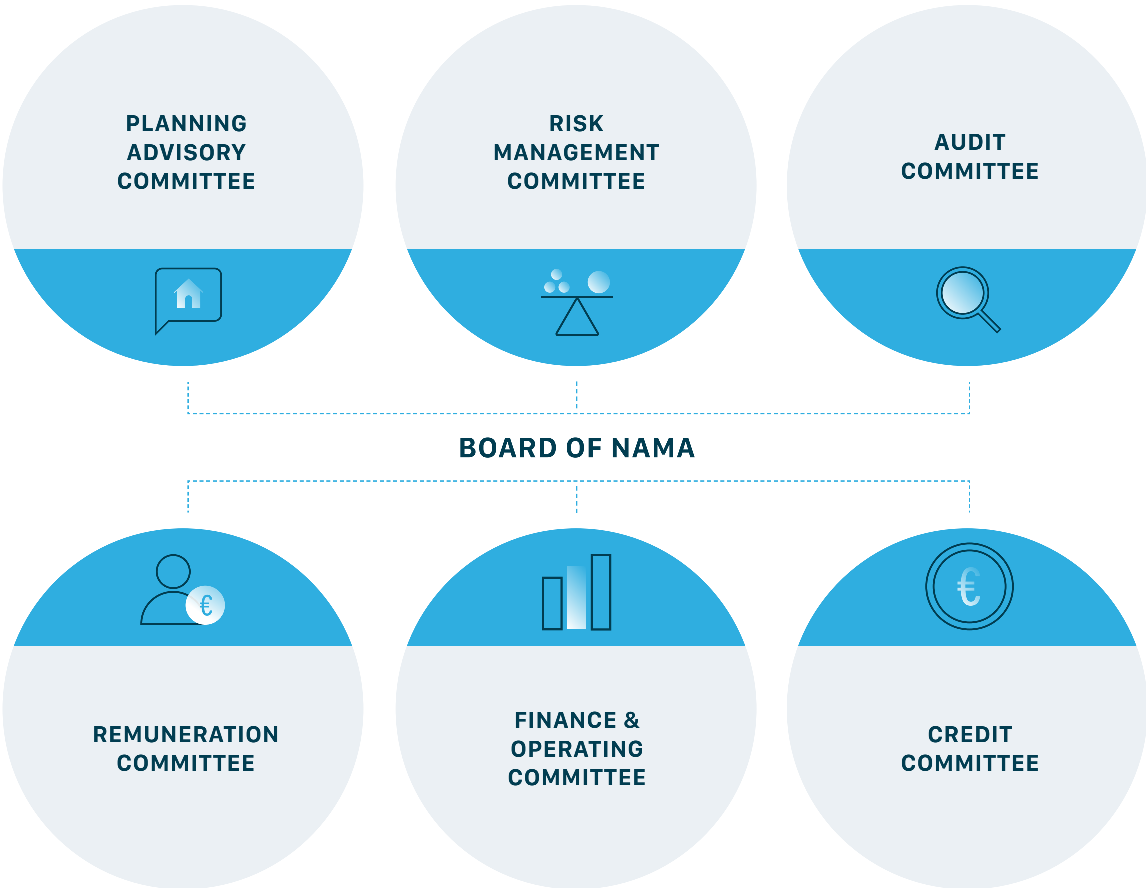
Finance and Operating Committee

Risk Management Committee

Planning Advisory Committee

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.

As of April 2019, the Board comprised eight members. Details of Board members and appointments are set out on pages 46 to 48.

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 2018 the Board met on 15 occasions while the six committees of the Board met on 66 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 8 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 2018. The Chief Executive Officer may sub-delegate some functions 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, the value of the transaction 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 most recent external evaluation, conducted by the Institute of Public Administration, was undertaken in 2016. In 2018 an internal evaluation was undertaken.

BOARD RESPONSIBILITY FOR PREPARATION OF ANNUAL REPORT & FINANCIAL STATEMENTS

The Board is responsible for preparing the 2018 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 2018.

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 2018

	Board	Audit	Credit	Finance & Operating	Risk Management	Planning Advisory	Remuneration
Frank Daly	15						4
Brendan McDonagh	15		19	6	6	6	
Conor O'Kelly	13				4	1 (iv)	3
Oliver Ellingham	15	10	4 (iii)		6		
Mari Hurley	15		18	6		4 (iv)	4
Eileen Maher	5 (i)	1 (ii)		1 (iii)	1 (iii)		
Michael Wall	6 (i)		5 (iii)			3 (v)	
Willie Soffe	15		19	6		6	
Brian McEnery	13	10			5		3
External Members:							
Jim Kelly		10					
Michael Wall						3 (v)	
Alice Charles						5	

Notes

(i) appointed to NAMA Board in July 2018
(ii) appointed to Committee in November 2018
(iii) appointed to Committee in September 2018
(iv) resigned from Committee in September 2018
(v) Michael Wall attended three meetings as an external member and three as a Board Member

Reports from Chairpersons of NAMA Committees

Audit Committee

OLIVER ELLINGHAM | Chairperson

Pursuant to Section 32 of the Act, the Board established an Audit Committee which operates to Board-approved Terms of Reference.

The Audit Committee is comprised of the following members:

- Oliver Ellingham (Chairperson, Board member) (appointed Committee Chairperson December 2018)
- Eileen Maher (Board member)
- Aidan Williams (Board member)
- Jim Kelly (External member)

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 following member resigned from the Committee in 2018:

- Brian McEnery (former Committee Chairperson, Board member) resigned December 2018, on retirement from the Board.

The Committee met on 10 occasions in 2018.

Under Section 32(2) of the Act, the Audit Committee may comprise six members, two of whom are external to NAMA and are appointed by the Minister. The remaining four members are appointed by the Board from among its members.

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

- The quality and 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 2018 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.

During 2018, the Committee focused significant time on overseeing and guiding NAMA's implementation of International Financial Reporting Standard 9 (IFRS 9) which resulted in several changes to NAMA's financial reporting. The Committee considered various options and proposals and approved decisions to ensure NAMA effectively and efficiently implemented the new accounting standard.

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 2018. Mazars continued as NAMA's Statutory Auditor. The Committee reviewed the external audit plans in advance of both statutory and external audits. The Committee also met with both the external and statutory auditors to review the findings from their audits of the financial statements.

3. Internal audit

Throughout the year 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 ensures 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, external and statutory auditors.

4. Internal controls

Another area of attention of the Committee is evaluating NAMA's 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 NAMA's service providers who are benchmarked against agreed targets.

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 auditors, 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.

Oliver Ellingham
Chairperson

Credit Committee

MARI HURLEY | Chairperson

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 the following members:

- Mari Hurley (Chairperson, Board member) (appointed Committee Chairperson December 2018)
- Oliver Ellingham (Board member)
- Michael Wall (Board member)
- Brendan McDonagh (Chief Executive, NAMA and Board member)
- Alan Stewart (Chief Legal Officer)
- Connor Owens (Head of Asset Management & Recovery)
- Noelle Condon (Chief Financial Officer)
- John Collison (Head of Residential Delivery)

The following members resigned from the Committee in 2018:

- Mary Birmingham (former Head of Asset Management) resigned May 2018, consequent on her departure from the Agency
- Willie Soffe (former Committee Chairperson, Board member) resigned December 2018, on retirement from the Board

The Committee convened on 19 occasions in 2018, typically meeting on a fortnightly basis or more or less frequently as required. 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 and Head of Asset Management & Recovery/Head of Residential Delivery by the Board). The Committee is required to operate in a considered and timely manner in order to support efficient credit-related decision making with respect to 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 2018 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 11 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. 6 papers were reviewed by the Committee for recommendation to the Board. Additionally, the Committee oversaw 446 individual credit decisions made within the CEO and Head of Asset Management & Recovery/Residential Delivery'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.

2019 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.) and continues its deleveraging activity. 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 lower value credit decisions required to meet cash generation targets.

The Credit Committee continues to ensure adherence to the Board's policy in funding development on commercially viable residential sites and the Docklands SDZ while ensuring that deleveraging activity 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 with a view to maximising the return for the Irish taxpayer.

Mari Hurley
Chairperson

Finance and Operating Committee

EILEEN MAHER | Chairperson

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:

- Eileen Maher (Chairperson, Board member) (appointed 17 September 2018)
- Mari Hurley (Board member)(resigned as Chairperson 16 September 2018, continues as Committee Member)
- Brendan McDonagh (Chief Executive, NAMA and ex-officio Board member)
- Noelle Condon (Chief Financial Officer)
- John Collison (Head of Residential Delivery)
- Seán Ó Faoláin (Head of Strategy and Communications)

The following member resigned from the Committee in 2018:

- Willie Soffe (former Board member) resigned December 2018, on retirement from the Board

The Committee met on six occasions in 2018.

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:

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

The 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.

IFRS 9 "Financial Instruments" is effective for all accounting periods beginning on or after 1 January 2018. The Committee was appraised throughout the year of the impact of IRFS 9 on NAMA's financial statements and operational activities.

The Committee was also updated on other key operational projects including the procurement and appointment of an IT staff augmentation services provider, the planned office relocation to Dublin Landings, and the Central Credit Register (CCR) project.

In 2019 the Committee will continue to receive updates on key operational projects.

Eileen Maher
Chairperson

Risk Management Committee

OLIVER ELLINGHAM | Chairperson

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

The Risk Management Committee is comprised of the following members:

- Oliver Ellingham (Chairperson, Board member)
- Eileen Maher (Board member)
- Aidan Williams (Board member)
- Brendan McDonagh (Chief Executive Officer, NAMA and ex-officio Board member)
- Conor O'Kelly (Chief Executive, NTMA and ex-officio Board member)
- Noelle Condon (Chief Financial Officer)
- Connor Owens (Head of Asset Management and Recovery)

The following members resigned from the Committee in 2018:

- Brian McEnery (former Board member) resigned December 2018, on retirement from the Board
- Mary Birmingham (former Head of Asset Management) resigned May 2018, consequent on her departure from the Agency

The Committee met on six occasions in 2018.

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 2018 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 ability to achieve its objectives, including 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 briefed on particular principal risks or specific elements of such risks by a subject matter expert, where appropriate, to ensure all aspects of the principal risks were 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 pursuit 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 2018. 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 an acceptable level having regard to the balance sheet and changes in the underlying NAMA loan portfolio, interest rate and reducing foreign exchange exposures.
4. The Risk Management Committee regularly reviewed Divisional Risk Registers, which were continually updated during 2018, and which include operational risks inherent to the business of NAMA. Each division presented at least one review of their risk register during the year to identify new and emerging risks, 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 ongoing risk awareness training for NAMA employees. The Committee was supported in this effort by Audit and Risk (CFO) which ensured that the material and emerging risks were reported and considered by the Committee.

Expectations for 2019

The focus on the principal risks will remain a priority for the Risk Management Committee in 2019, 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, is monitored and reported at regular intervals by Audit and Risk (CFO).

Oliver Ellingham
Chairperson

Planning Advisory Committee

MICHAEL WALL | Chairperson

The purpose of the Planning Advisory Committee is to advise the Board on planning, land and related legislative 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 the following members:

- Michael Wall (Chairperson, Board member) (appointed November 2018)
- Aidan Williams (Board member)
- Brendan McDonagh (Chief Executive Officer, NAMA and ex-officio Board member)
- Connor Owens (Head of Asset Management and Recovery)
- Alice Charles (External member)
- Charlotte Sheridan (External member)

Alice Charles has considerable planning experience and is a member of the Royal Town Planning Institute and the Irish Planning Institute. Charlotte Sheridan, who was appointed to the Committee in April 2019, is a qualified and registered architect and town planner with over 27 years' experience in the planning field.

The following members resigned from the Committee in 2018:

- Mary Birmingham (former Head of Asset Management) resigned in May 2018
- Mari Hurley (Board Member) resigned September 2018
- Conor O'Kelly (Chief Executive, NTMA and ex-offico Board member) resigned in September 2018
- Willie Soffe (former Chairperson and former Board Member) resigned November 2018, on retirement from the Board

The Committee met on six occasions during 2018.

The principal activities of the Committee in 2018 were as follows:

During 2018, the Committee continued to focus on NAMA assets located within key development areas, including the Dublin Docklands SDZ, Poolbeg West SDZ and the key viable residential development sites including in the Clonburris SDZ. The Committee advised on NAMA's external engagement strategy, primarily with planning authorities, the Department of Housing, Planning and Local Government, and infrastructure providers such as Irish Water and the National Transport Authority. The Committee also provided advice to NAMA on legislative/guidance changes including Strategic Housing Delivery legislation whereby strategic residential applications are lodged directly to An Bord Pleanála; the National Planning Framework (NPF), Regional Spatial and Economic Strategies (RSES), the Design Standards for New Apartments issued in March 2018 and the Urban Development and Building Heights Guidelines for Planning Authorities adopted in December 2018.

The Committee continues to advise and guide NAMA's participation in a number of policy initiatives including its liaison with the Housing Agency and local authorities and approved housing bodies to provide residential units for social housing purposes.

The Committee provides oversight of the development of the long-term leasing of residential properties via National Asset Residential Property Services D.A.C. (NARPS), a NAMA SPV established to expedite the delivery of social housing. Since the inception of NAMA, 2,544 units have been delivered for social housing, either through direct sales by NAMA debtors or Receivers or long-term leasing through NARPS, exceeding the targets set by the Government.

Significant progress has been made in relation to resolving unfinished housing estates. NAMA continues to fund site resolution plans being undertaken by debtors/receivers, with a particular emphasis on health and safety compliance. As NAMA has deleveraged, its exposure in this area has been reduced substantially and, as of March 2019, only two estates out of an initial total of 335, had not been fully resolved, although all have resolution plans in place.

The Committee also provides guidance in relation to facilitating the delivery of the targeted 20,000 residential units by end-2020 (assuming commercial viability). It monitored the significant progress which was made in 2018 in terms of units delivered and under construction and in terms of planning applications made and permissions received. 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.

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

Michael Wall
Chairperson

Remuneration Committee

MARI HURLEY | Chairperson

The Committee was established in June 2016, with formal Terms of Reference approved by the Board in September 2016. The Terms of Reference were reviewed by the Board in December 2017 and in December 2018.

The Remuneration Committee is comprised of the following members:

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

The following member resigned from the Committee in 2018:

- Brian McEnery (former Board member) resigned December 2018, on his retirement from the Board

The Committee met on four occasions in 2018.

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 to:

1. Review and make recommendations to the NAMA Board on NAMA's overall remuneration policy.
2. 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.
3. 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.
4. 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.
5. Be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the Terms of Reference for any remuneration consultants who advise the Committee.
6. Monitor succession planning of the NAMA Chief Executive Officer and Executive Team and the development of current and future leaders of the organisation.
7. 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 Remuneration Committee reviewed and approved HR and remuneration matters during 2018.

The Chairperson reports 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

GOVERNANCE

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.

STATEMENT OF COMPLIANCE

NAMA has implemented the Code subject to a limited number of explanations (as provided for in the 'comply or explain' approach to adopting the Code) all of which were notified and agreed in writing with the Department of Finance. In each case, these explanations achieve the objectives of the Code through alternative statutory or governance measures as summarised below:

- NAMA submits a Section 53 Annual Statement to the Minister under the NAMA Act, setting out its strategic plans.
- The Code requires the submission to the Minister of a confidential annual report conforming to specific reporting requirements in the Business and Reporting Requirements section of the Code. This is achieved through a slightly amended comprehensive report, as well as reference to points in the annual report.
- Following a public procurement process, NAMA's internal auditors undertake a periodic review of the effectiveness of the risk management framework, in lieu of the periodic external review.
- With regard to Audit and Risk Committee members, while NAMA will endeavour to comply with the Code, the provisions of the Act take precedence over the Code.
- NAMA's statutory oversight and reporting framework under the Act takes precedence over the corresponding provisions of the Code.
- In relation to Procurement, please see the Statement on Internal Control for details.
- Section 12 of the Act gives NAMA the power to acquire or dispose of property, taking precedence over the corresponding provisions of the Code on acquisition of land, buildings or other material assets.
- The Public Spending Code is not directly applicable to NAMA. In order to apply the best practice financial and economic appraisal principles contained in the Public Spending Code, NAMA utilises a range of market standard appraisal methods and techniques.
- NAMA has adopted policies with regard to business travel which comply with the economy and efficiency principles of the Code. NAMA does not provide subsistence claims to its officers but operates a vouched expense process for the re-imbursement of travel expenses and Department of Public Expenditure and Reform circulars and office notices regarding subsistence are therefore not applied. Revenue approved civil service mileage rates (reflecting Circular 07/2017) are applied.
- With respect to the diversification and establishment of subsidiaries and acquisitions by State Bodies, NAMA is governed by Sections 11 and 12 of the Act, which take precedence over corresponding provisions of the Code.
- NAMA does not operate its own pension scheme; therefore the relevant Code provisions thereon do not apply.
- NAMA applies its own internal Board-approved policies for tax compliance.
- Certain arrangements relating to Board membership and appointment of the Chief Executive Officer, and the system for providing staff to NAMA, have been implemented subject to the NAMA Act, the NTMA Act, and via Executive Committees.
- NAMA does not provide services to the general public; hence no customer charter is required.

Where necessary, as part of its implementation of the Code, NAMA has put in place arrangements to ensure its compliance with the Code. NAMA reviews its policies and procedures on a periodic basis to ensure compliance with the Code and principles of good corporate governance. The Board's adoption of the Code will evolve in line with good corporate governance practices.

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/about-us/governance/codes-of-practice-and-conduct.
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 and second Section 226 Progress Report on NAMA were published in May 2014 and June 2018 respectively. The Minister's first Section 227 Review was published in July 2014 and, as of April 2019, the second such review was underway.

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 and the Minister of Finance's expectation of a NAMA surplus. If there were a downturn in the Irish economy and property market, cash flows realised by NAMA assets could be lower than projected.

2. Human capital risk

If there is a material loss of human capital, and in particular, key staff with specialist expertise and experience, 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 could result in corporate knowledge loss, capacity constraints on the delivery or development 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 or delivery of supporting infrastructure.

4. Residential development risks

If NAMA fails to deliver on its target of facilitating and 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

If there is negative public, political or industry opinion it 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, where appropriate, to ensure that all aspects of these risks are 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. Risk status and management 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 makes recommendations to the Board where changes in policy, measurement, risk limits or risk management strategy are required to reduce risk to an acceptable level regarding the expanded balance sheet, changes in the underlying NAMA loan portfolio, interest rate and foreign exchange markets, for example.

The level of uncertainty associated with the composition of the NAMA balance sheet has significantly reduced with the monetisation to date of the NAMA loan portfolio. The operational model and reliance on retaining key skillsets continue to be risks that require attention. NAMA's risk profile has evolved as the core processes and systems have become established and embedded within its operational activities.

Financial Statements

Board and Other Information

BOARD

Frank Daly (Chairman)

Brendan McDonagh[1] (Chief Executive Officer)

Conor O'Kelly[1]

Oliver Ellingham

Mari Hurley

Brian McEnery (resigned 21 December 2018)

Eileen Maher (appointed 3 July 2018)

Willie Soffe (resigned 21 December 2018)

Michael Wall (appointed 3 July 2018)

Aidan Williams (appointed 2 April 2019)

REGISTERED OFFICE

Treasury Building

Grand Canal Street

Dublin 2

D02 XN96

PRINCIPAL BANKERS

Central Bank of Ireland

North Wall Quay

Dublin 1

D01 F7X3

Citibank

North Wall Quay

Dublin 1

D01 T8Y1

Allied Irish Banks, p.l.c.

Baggot Street Lower

Dublin 2

D02 X342

AUDITOR

Comptroller and Auditor General

3A Mayor Street Upper

Dublin 1

D01 PF72

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[1] *The Chief Executives of NAMA and the NTMA are ex-officio Board members of NAMA.*

Board Report

The Board of the National Asset Management Agency ('NAMA' or 'the Agency') presents its report and audited NAMA consolidated and Agency financial statements for the financial year ended 31 December 2018.

The financial statements are set out on pages 72 to 158.

STATEMENT OF BOARD'S RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Board of NAMA is responsible for preparing the financial statements of the NAMA Group ('the Group') and the Agency in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union 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 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.

RISK MANAGEMENT

The Group is exposed to principal risks which have the potential to have a significant impact on the achievement of the Group's overall strategic objectives:

- Domestic or international macroeconomic or financial shock
- Material loss of human capital
- A failure to deliver Dublin Docklands plans
- A failure to deliver Residential Delivery plans
- Reputational damage.

The principal risks remain under constant review by NAMA's Risk Management Committee and any changes are reported to the NAMA Board contemporaneously. In April 2018, the Board approved a Risk Appetite Statement for each of the Principal Risks which defines the propensity for NAMA Group to take certain risks in order to achieve its strategic objectives.

The Group is exposed to financial risks such as 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 financial risks are given in Notes 26 to 28 of the financial statements.

BOARD MEMBERS' INTERESTS

The Members of the Board have no beneficial interest (2017: nil) 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
24 April 2019

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 2018, with comparative results for the financial year ended 31 December 2017.

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 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. A revision to the 2009 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 has implemented 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 ongoing 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 December 2018. 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 was approved by the Board in November 2018. This 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 the 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 and the Primary and Master Servicers. 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 the Primary Servicers and the Master Servicer for the reporting of incidents, including control failures and escalation procedures;
- NAMA has sought and received assurances from the NTMA, Link Asset Services and Allied Irish Banks p.l.c. that they have reviewed their systems of internal control in relation to their service provision to NAMA.

NAMA continued during the financial year to ensure that an appropriate control environment exists within the NAMA group for compliance with all applicable tax laws. An application by the NAMA group to participate in the Co-operative Compliance Framework with the Revenue Commissioners during 2018 was accepted by Revenue. This regime will foster an ongoing co-operative engagement between Revenue and the NAMA group and as part of the Framework an annual meeting is held with Revenue.

Following a comprehensive self – review, an unprompted voluntary disclosure was made by NAMA to the Revenue Commissioners in November 2018. This review considered the VAT treatment of certain services received by NAMA from abroad and primarily related to situations where the net proceeds of asset disposals were remitted to NAMA after related costs had been discharged. The review was initiated by NAMA and conducted with external specialist tax assistance. As part of the review, a payment of €1.9m was made to Revenue of which €0.6m was in respect of interest and penalties. The unprompted voluntary disclosure was not financially material in the context of the overall NAMA Group Corporation Tax of €113m in 2018.

NAMA's internal control processes have been enhanced to ensure that a similar underpayment does not arise in the future. The unprompted voluntary disclosure has been fully accepted by Revenue and the matter is now closed. The Board of the NAMA Group remains committed to continued exemplary compliance with all applicable tax laws.

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 to ensure 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 the NAMA Audit and Risk function. These risk registers are reviewed by the NAMA Audit and Risk 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 plans;
- A failure to deliver Residential Delivery 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 2018, 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.

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

Statement on Internal Control (continued)

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 by their business owners 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 an automated consolidation process to mitigate the risks of error in the consolidated Financial Statements.

NAMA implements continuous improvements to its management information systems in order to facilitate enhanced reporting to the Board, Finance and Operating Committee and Senior Executive Team on its performance. NAMA continues to develop management information to support and monitor the achievement of NAMA's strategic objectives.

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 responsible for evaluating relevant 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 in relation to the Asset Management & Recovery and Residential Delivery functions in respect of NAMA's portfolio to support its decision making.

Audit Committee, by fulfilling its responsibilities as set out in its Terms of Reference, contributes to the Internal Control process.

Procurement

NAMA has an established Procurement Policy and a Procurement Guidance & Procedures Document (collectively "NAMA's Procurement Documents") which are reviewed and presented to the Board annually for approval. The procurement requirements of NAMA are carried out in accordance with the aforementioned documents which incorporate applicable laws.

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[2]. 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 pursuant to its Procurement Documents.

The Office of Government Procurement (OGP) has issued a series of procurement guidelines concerning the procurement of goods, works and services at values below the aforementioned EU thresholds. The requirement for public bodies to implement the OGP's procurement guidelines is contained in the Code.

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

- NAMA's Procurement Documents are 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 procurement processes which seek to provide optimum value for money while taking account of a number of other factors including, *inter alia*, efficiencies gained from the use of procured panels of suitable service providers/advisors, confidentiality, conflicts of interest and timelines for delivery of services. In certain instances, as provided for in NAMA's Procurement Documents, it is deemed appropriate to obtain duly authorised derogations from procurement (i.e. not run a competitive tender process). Derogations are only approved in limited circumstances underpinned by legitimate commercial reasons.

The use of derogations under NAMA's Procurement Documents does not amount to non-compliant procurement. 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.

Derogations to NAMA's Procurement Documents are approved by the CEO. All derogations are reported to the Finance and Operating Committee and then onto NAMA Board where the derogation exceeds €100,000.

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2 The current EU procurement threshold most relevant to NAMA is €221,000 which applies to the procurement of most goods and services. The EU procurement thresholds are subject to review every two years with the next review in January 2020. A different regime apples to certain other services such as non-contentious legal services where a threshold of €750,000 applies - see Note 1 below.

Details of the derogations are set out in tables 1.1 and 1.2 hereunder. During 2018, the CEO approved derogations to a total value of circa. €8.6m (circa. €7.4m being attributed to legal services - see notes under table 1.1). In 2017 total derogations amounted to circa. €4.6m of which circa. €3.5m was attributed to legal services. It should be noted that NAMA reports all derogations regardless of value and therefore includes derogations below €25,000 (which do not require reporting under the Code) to ensure complete spend transparency.

The rise in the 2018 derogations figure is primarily due to the increased need to retain legal services for contentious litigation related matters. In addition there has been a notable increase in costs associated with enhanced regulatory obligations.

The amounts attributed to derogations are based on estimates at the time the derogation is sought and contract awarded. Some contracts may have a term that extends over the financial year end and will be reported in the year the contract was awarded. An exception to this is where an increase in the estimated value of a contract under derogation is sought, where it is NAMA's policy to then seek a further derogation noting the revised cumulative estimated value. The contract noting its revised cumulative value is then recorded as a derogation in that reporting period also. Therefore and given the foregoing, NAMA includes in its derogation reports contracts that have a revised estimated value notwithstanding the original contract/preceding increase had been reported in a previous financial year.

The reasons for the derogations noted in the tables below include: the highly sensitive/confidential nature of the matter; where there are conflicts of interest issues; where the service providers have prior existing knowledge of the matter such as the debtor/asset in question resulting in material cost savings; and/or, for urgent or sensitive legal reasons.

Table 1.1 Derogations from Procurement for legal services - contentious and non contentious:

Category	Number of Contracts 2018	Estimated value of contracts awarded 2018 €'000	Number of Contracts 2017	Estimated value of contracts awarded 2017 €'000
(A) Contentious legal services/Litigation related legal services	10	6,655	17	1,861
(B) Non contentious legal services	12	734	25	1,618
Total	**22**	**7,389**	**42**	**3,479**

Note 1: *Category (A) Contentious legal services/litigation related services are excluded services under the Procurement Regulations. Non-contentious legal services are caught by a "light touch" regime under the Procurement Regulations where the value of any one contract exceeds €750,000.*

Note 2: *NAMA identifies as derogations, appointments made from NAMA's established legal panels which were subject to an initial procurement process securing competitive hourly rates but that were not subject to a second round of tendering (or mini-tender) when a specific scope of services has been identified. This is NAMA's general practice under its frameworks as it can incorporate fixed fee elements where practicable to ensure best value for money is achieved. A large majority of the derogations noted in Table 1.1 come within this category.*

Table 1.2 Derogations from Procurement for NAMA Business Units (ex Legal):

NAMA Department	Number of Contracts 2018	Estimated value of contracts awarded 2018 €'000	Number of Contracts 2017	Estimated value of contracts awarded 2017 €'000
IT	3	400	3	270
Asset Management & Recovery	6	578	10	552
Corporate	4	132	3	143
Residential Delivery	1	52	2	138
Total	**14**	**1,162**	**18**	**1,103**

NAMA will continue to adhere to its Procurement Documents, which NAMA believes are sufficient to achieve the public expenditure objectives of the Code. NAMA incorporates a high level of transparency through its procurement processes and uses e-tenders and the Official Journal of the European Union (OJEU) where applicable. One matter, specifically concerning the use of e-tenders and publication to the OJEU arose and this is identified under *"Internal Control Issue"* below.

Statement on Internal Control (continued)

IT Systems and Infrastructure

NAMA follows a structured approach for business system projects undertaken, which is governed by detailed procedure documents. During 2018 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 due to staff changes or following an employee's notification of resignation. A bi-annual 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 General Data Protection Regulation and the Data Protection Act, 2018. As part of this framework, NAMA has also implemented systems and controls to restrict the access to confidential information. Where NAMA has become aware of a potential data breach or unauthorised use of confidential information, 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 financial information to each meeting of 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

PricewaterhouseCoopers Ireland 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 2018 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, Link Asset Services, 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.

Internal Control Issue

- In November 2016 and Q1 2017, four invitations to tender were advertised by NAMA on the Government's recently updated public tender website, www.e-tenders.gov.ie (e-tenders), and on the NAMA website.
- Following changes in personnel within the NAMA procurement team during that time period, it was established at end March 2017 that these four invitations to tender, posted on e-tenders and the NAMA website, had inadvertently been omitted from publication to the OJEU. From their use of e-tenders, the team members had mistakenly believed OJEU publication had occurred based on the e-tenders screenshot, but this was not the case.
- Having raised the matter with senior management, an assessment took place immediately as to how the matter arose and its consequences for NAMA. This assessment by senior management concluded that it was due to human error and the matter did not have consequences (in particular, there were no financial consequences) and did not result in a loss of value for NAMA; as such, the matter did not constitute an event or incident within the meaning of that term for NAMA's internal incident reporting purposes. It was further concluded that the matter arose from a lack of knowledge of the new format for the recently updated e-tenders website at that time by the persons concerned.
- Corrective actions were immediately identified and the staff member responsible for dealing with the e-tenders website attended external training on the use of e-tenders over two days in April 2017.
- Award notices for the four competitions were subsequently published on e-tenders and the NAMA website.
- Four subsequent invitations to tender were advertised by NAMA in late 2017 and early 2018 and all were published on e-tenders, the NAMA website and OJEU. Award notices for all four competitions were also published on all three websites.
- No financial loss or loss of value of any kind resulted to NAMA in 2017 or 2018 arising from this issue.
- Due to the conclusions reached by senior management on the lack of (primarily financial) consequences from the issue at the time, the matter was not brought to the attention of NAMA's internal or external audit nor recorded as an incident on the basis that it did not fall within the definition of same for reporting purposes.

- During 2017 expenditure of approximately €2.37M and during 2018, expenditure of approximately €1.98M, was incurred by NAMA on services arising from three of the four competitions in question. No appointments were made in 2017 or 2018 from the fourth competition, hence no expenditure was incurred on those services.

External legal advice was sought in March 2019 on whether omitting to publish the four competitions to OJEU amounted to a breach of procurement rules. This was the first time external legal advice was obtained on the matter. While the advice identified and agreed with the conclusions reached by senior management at the time as regards lack of consequences, it concluded that a technical administrative, non material breach of procurement requirements had taken place. In light of this advice, it is deemed appropriate to raise this as an internal control issue. The NAMA Audit Committee and NAMA's internal audit and external audit have been fully briefed on the matter and advised as to the conclusions of the external legal advice.

Monitoring of the performance of Service Providers

NAMA has established processes to monitor the performance of the Primary Servicers and the Master Servicer. These include monthly service reports, regular service reviews and regular steering committee meetings to review performance and operational issues.

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

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 2018. 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 2019. 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 and by the statutory auditors of NAMA Group's subsidiaries, in their work as external auditors;
- 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, Link Asset Services 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

Oliver Ellingham
Chairman, Audit Committee

25 April 2019

Ard Reachtaire Cuntas agus Ciste
Comptroller and Auditor General

REPORT FOR PRESENTATION TO THE HOUSES OF THE OIREACHTAS

NATIONAL ASSET MANAGEMENT AGENCY

OPINION ON FINANCIAL STATEMENTS

I have audited the group and Agency financial statements of the National Asset Management Agency for the year ended 31 December 2018 as required under the provisions of section 57 of 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, including a summary of significant accounting policies.

In my opinion, the financial statements give a true and fair view of the assets, liabilities and financial position of the National Asset Management Agency at 31 December 2018 and of its income and expenditure for 2018 in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and the provisions of the National Asset Management Agency Act 2009.

BASIS OF OPINION

I conducted my audit of the financial statements in accordance with the International Standards on Auditing (ISAs) as promulgated by the International Organisation of Supreme Audit Institutions (INTOSAI). My responsibilities under those standards are described in the appendix to this report. I am independent of the National Asset Management Agency and have fulfilled my other ethical responsibilities in accordance with the standards.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

REPORT ON INFORMATION OTHER THAN THE FINANCIAL STATEMENTS, AND ON OTHER MATTERS

The National Asset Management Agency has presented certain other information together with the financial statements. This comprises the annual report including the governance statement, and the statement on internal control. My responsibilities to report in relation to such information, and on certain other matters upon which I report by exception, are described in the appendix to this report.

Payment to Revenue Commissioners

The statement on internal control discloses that the Agency made a payment of €1.9 million to the Revenue Commissioners in November 2018 in respect of an underpayment of VAT on certain services received from abroad. The payment included €0.6 million in respect of interest and penalties.

Non-compliance with procurement rules

The statement on internal control discloses that NAMA undertook competitive tendering in respect of four contracts procured in 2017, but did not advertise them in the Official Journal of the EU, as required under EU tendering rules. The value of services procured under the competitions in 2017 and 2018 was €4.35 million. Although the non-compliant procurement process was identified in March 2017, it was not recorded in NAMA's incident reporting system and was not brought to the attention of NAMA's internal audit or external audit. The contracts were not disclosed as non-compliant procurements in the 2017 statement on internal control.

Seamus McCarthy.

Seamus McCarthy
Comptroller and Auditor General

7 May 2019

APPENDIX TO THE REPORT OF THE COMPTROLLER AND AUDITOR GENERAL

RESPONSIBILITIES OF BOARD MEMBERS

The Board report sets out the Board members' responsibilities. The Board members are responsible for

- the preparation of financial statements in the form prescribed under section 54 of the National Asset Management Agency Act 2009
- ensuring that the financial statements give a true and fair view in accordance with the International Financial Reporting Standards (IFRS)
- ensuring the regularity of transactions
- assessing whether the use of the going concern basis of accounting is appropriate, and
- such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

RESPONSIBILITIES OF THE COMPTROLLER AND AUDITOR GENERAL

I am required under section 57 of the Act to audit the financial statements of the National Asset Management Agency and to report thereon to the Houses of the Oireachtas.

My objective in carrying out the audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the ISAs, I exercise professional judgment and maintain professional scepticism throughout the audit. In doing so,

- I identify and assess the risks of material misstatement of the financial statements whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- I obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls.
- I evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures.
- I conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, on whether a material uncertainty exists related to events or conditions that may cast significant doubt on the National Asset Management Agency's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the National Asset Management Agency to cease being a going concern.
- I evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS

My opinion on the financial statements does not cover the other information presented with those statements, and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, I am required under the ISAs to read the other information presented and, in doing so, consider whether the other information is materially inconsistent with the financial statements or with knowledge obtained during the audit, or if it otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

REPORTING ON OTHER MATTERS

My audit is conducted by reference to the special considerations which attach to State bodies in relation to their management and operation. I report if there are material matters relating to the manner in which public business has been conducted.

I seek to obtain evidence about the regularity of financial transactions in the course of audit. I report if there is any material instance where public money has not been applied for the purposes intended or where transactions did not conform to the authorities governing them.

I also report by exception if, in my opinion,

- I have not received all the information and explanations I required for my audit, or
- the accounting records were not sufficient to permit the financial statements to be readily and properly audited, or
- the financial statements are not in agreement with the accounting records.

Consolidated income statement

For the financial year ended 31 December 2018

	Note	Financial year ended 31 December 2018 Group €'000	Financial year ended 31 December 2017 Group €'000
Net gains on debtor loans measured at FVTPL	4	605,204	-
Interest income	5	8,524	248,316
Fee income	7	27,137	3,044
Other income	8	40,034	21,698
(Losses)/gains on derivative financial instruments	9	(7,251)	57
Net profit on disposal and refinancing of loans	10	179,390	63,632
Net profit on disposal of property assets	11	133,827	1,561
Surplus income	12	-	269,842
Interest and similar expense	6	(6,076)	(3,280)
Net operating income		**980,789**	**604,870**
Administration expenses	13	(75,490)	(67,472)
Foreign exchange losses	14	(1,776)	(6,293)
Operating profit before impairment		**903,523**	**531,105**
Impairment credit on loans and receivables	15	-	12,625
Operating profit after impairment		**903,523**	**543,730**
Tax charge	16	(108,931)	(62,916)
Profit for the financial year		**794,592**	**480,814**
Profit attributable to:			
Owners of the parent		**794,592**	**480,814**

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

All results are from continued operations.

On behalf of the Board

24 April 2019

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

Consolidated statement of comprehensive income

For the financial year ended 31 December 2018

	Note	Financial year ended 31 December 2018 Group €'000	Financial year ended 31 December 2017 Group €'000
Profit for the financial year		**794,592**	**480,814**
Items that are or may be reclassified subsequently to profit or loss:			
Net movement in available for sale reserve before tax	*17,40*	-	(8,739)
Net movement in financial assets measured at FVOCI	*17,40*	(2,149)	-
Income tax relating to components of other comprehensive income	*17,32*	(91)	(1,014)
Other comprehensive expenses for the financial year net of tax		**(2,240)**	**(9,753)**
Total comprehensive income for the financial year		**792,352**	**471,061**
Total comprehensive income attributable to:			
Owners of the parent		**792,352**	**471,061**

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

All results are from continued operations.

On behalf of the Board

24 April 2019

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

Agency income statement

For the financial year ended 31 December 2018

	Note	Financial year ended 31 December 2018 Agency €'000	Financial year ended 31 December 2017 Agency €'000
Net gains on intercompany loan measured at FVTPL	*4*	1,258	-
Interest income	*5*	-	216,629
Other income	*8*	43,638	41,101
Total income		**44,896**	**257,730**
Interest and similar expense	*6*	(4)	(3)
Administration expenses	*13*	(43,981)	(41,404)
Total expenses		**(43,985)**	**(41,407)**
Profit for the financial year		**911**	**216,323**

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

All results are from continued operations.

On behalf of the Board

24 April 2019

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

Consolidated statement of financial position

As at 31 December 2018

	Note	31 December 2018 Group €'000	31 December 2017 Group €'000
Assets			
Cash and cash equivalents	*18*	2,689,891	733,470
Cash placed as collateral with the NTMA	*18*	25,000	25,000
Available for sale financial assets	*19*	-	495,097
Government bonds	*19*	470,746	-
Amounts due from Participating Institutions	*20*	-	20,151
Derivative financial instruments	*21*	7,726	18,437
Loans and receivables (net of impairment)	*24*	-	3,193,505
Debtor loans measured at FVTPL	*22*	1,925,462	-
Other assets	*33*	20,752	282,339
Inventories – trading properties	*25*	229,747	277,357
Property, plant and equipment	*30*	-	1,008
Investments in equity instruments	*31*	54,539	65,709
Total assets		**5,423,863**	**5,112,073**
Liabilities			
Amounts due to Participating Institutions	*20*	-	10,686
Derivative financial instruments	*21*	3,253	4,375
Other liabilities	*35*	30,543	14,201
Tax payable	*36*	6,119	363
Deferred tax	*32*	20,588	3,453
Total liabilities		**60,503**	**33,078**
Equity and reserves			
Other equity	*39*	1,064,000	1,593,000
Retained earnings	*41*	4,246,435	3,430,830
Other reserves	*40*	1,925	4,165
Equity and reserves attributable to:			
– Owners of the Group		**5,312,360**	**5,027,995**
– Non-controlling interests	*41,42*	51,000	51,000
Total equity and reserves		**5,363,360**	**5,078,995**
Total equity, reserves and liabilities		**5,423,863**	**5,112,073**

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

On behalf of the Board

24 April 2019

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

Agency statement of financial position

As at 31 December 2018

	Note	31 December 2018 Agency €'000	31 December 2017 Agency €'000
Assets			
Cash and cash equivalents	*18*	132	59
Intercompany loan measured at FVTPL	*22*	3,536,554	-
Other assets	*33*	13,116	3,540,144
Property, plant and equipment	*30*	-	1,008
Investment in subsidiary	*42*	49,000	49,000
Total assets		**3,598,802**	**3,590,211**
Liabilities			
Interest bearing loans and borrowings	*38*	53,426	53,568
Other liabilities	*35*	14,466	6,644
Total liabilities		**67,892**	**60,212**
Equity			
Retained earnings	*41*	3,530,910	3,529,999
Total equity		**3,530,910**	**3,529,999**
Total equity and liabilities		**3,598,802**	**3,590,211**

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

On behalf of the Board

24 April 2019

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

Consolidated statement of changes in equity

For the financial year ended 31 December 2018

	Note	Other equity Group €'000	Retained earnings Group €'000	Other reserves Group €'000	Non-controlling interests Group €'000	Total equity Group €'000
Balance as at 31 December 2017		**1,593,000**	**3,430,830**	**4,165**	**51,000**	**5,078,995**
Adjustment on initial application of IFRS 9, net of tax	*41*	-	147,697	-	-	**147,697**
Restated balance as at 1 January 2018		**1,593,000**	**3,578,527**	**4,165**	**51,000**	**5,226,692**
Profit for the financial year	*41*	-	794,592	-	-	**794,592**
Other comprehensive income:						
Movement in financial assets measured at FVOCI	*40*	-	-	(2,149)	-	**(2,149)**
Income tax relating to components of other comprehensive income	*17*	-	-	(91)	-	**(91)**
Total comprehensive income		**-**	**794,592**	**(2,240)**	**-**	**792,352**
Dividend paid on B ordinary shares	*41*	-	(454)	-	-	**(454)**
Coupon paid on subordinated bonds	*41*	-	(83,856)	-	-	**(83,856)**
Repurchase of subordinated bonds	*39, 41*	(529,000)	(42,374)	-	-	**(571,374)**
Balance as at 31 December 2018		**1,064,000**	**4,246,435**	**1,925**	**51,000**	**5,363,360**

	Note	Other equity Group €'000	Retained earnings Group €'000	Other reserves Group €'000	Non-controlling interests Group €'000	Total equity Group €'000
Balance as at 1 January 2017		**1,593,000**	**3,034,419**	**13,918**	**51,000**	**4,692,337**
Profit for the financial year	*41*	-	480,814	-	-	**480,814**
Other comprehensive income:						
Movement in available for sale reserve	*40*	-	-	(8,739)	-	**(8,739)**
Income tax relating to components of other comprehensive income	*17*	-	-	(1,014)	-	**(1,014)**
Total comprehensive income		**-**	**480,814**	**(9,753)**	**-**	**471,061**
Dividend paid on B ordinary shares	*41*	-	(547)	-	-	**(547)**
Coupon paid on subordinated bonds	*41*	-	(83,856)	-	-	**(83,856)**
Balance as at 31 December 2017		**1,593,000**	**3,430,830**	**4,165**	**51,000**	**5,078,995**

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

On behalf of the Board

24 April 2019

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

Agency statement of changes in equity

For the financial year ended 31 December 2018

	Note	31 December 2018 Agency €'000	31 December 2017 Agency €'000
Balance as at 1 January		**3,529,999**	**3,313,676**
Profit for the financial year	*41*	911	216,323
Total comprehensive income		**911**	**216,323**
Balance as at 31 December attributable to the Agency		**3,530,910**	**3,529,999**

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

On behalf of the Board

24 April 2019

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

Consolidated statement of cash flows

For the financial year ended 31 December 2018

	Note	Financial year ended 31 December 2018 Group €'000	Financial year ended 31 December 2017 Group €'000
Cash flow from operating activities			
Debtor Loans			
Receipts from loans		2,997,700	2,536,429
Receipts from derivatives acquired		2,698	2,458
Funds advanced to borrowers		(499,633)	(594,331)
New loans acquired		-	(18,000)
Movement in funds in the course of collection		(1,665)	316
Fee income		27,137	3,044
Net cash provided by debtor loans		**2,526,237**	**1,929,916**
Derivatives			
Cash inflow on foreign currency derivatives	*14*	1,921,966	3,287,104
Cash outflow on foreign currency derivatives	*14*	(1,925,265)	(3,265,603)
Net cash outflow on other derivatives		(502)	(488)
Net cash (used in)/provided by derivative activities		**(3,801)**	**21,013**
Other operating cashflows			
Payments to suppliers of services		(71,473)	(84,868)
Tax paid		(94,891)	(68,500)
Interest paid on cash and cash equivalents		(5,676)	(3,026)
Dividend paid on B ordinary shares	*41*	(454)	(547)
Coupon paid on subordinated debt issued	*41*	(83,856)	(83,856)
Net inflows from amounts placed as collateral with NTMA	*18*	-	33,000
Funds paid to acquire trading properties		(2,475)	(54,202)
Funds received on disposal of trading properties		202,050	-
Rental income received		13,653	12,333
Net cash used in other operating activities		**(43,122)**	**(249,666)**
Net cash provided by operating activities		**2,479,314**	**1,701,263**

Consolidated statement of cash flows (continued)

For the financial year ended 31 December 2018

	Note	Financial year ended 31 December 2018 Group €'000	Financial year ended 31 December 2017 Group €'000
Cash flow from investing activities			
Interest received on government bonds		21,970	21,970
Disposal of investments in equity instruments		13,247	-
Acquisition of investments in equity instruments		(2,496)	(3,201)
Distributions received from equity instruments	8	13,876	16,380
Net cash provided by investing activities		**46,597**	**35,149**
Cash flow from financing activities			
Redemption of senior debt securities	34	-	(2,590,000)
Repurchase of subordinated bonds		(569,567)	-
Net cash used in financing activities		**(569,567)**	**(2,590,000)**
Cash and cash equivalents held at the beginning of the financial year	18	733,470	1,587,789
Net cash provided by operating activities		2,479,314	1,701,263
Net cash provided by investing activities		46,597	35,149
Net cash used in financing activities		(569,567)	(2,590,000)
Effects of exchange-rate changes on cash and cash equivalents	14	77	(731)
Total cash and cash equivalents held at the end of the financial year	18	**2,689,891**	**733,470**
Financial assets and cash collateral			
Cash collateral placed with the NTMA	18	25,000	25,000
Government bonds/Available for sale financial assets	19	470,746	495,097
Total		**3,185,637**	**1,253,567**

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

Agency statement of cash flows

For the financial year ended 31 December 2018

	Note	Financial year ended 31 December 2018 Agency €'000	Financial year ended 31 December 2017 Agency €'000
Cash flow from operating activities			
Bank interest paid		(4)	(3)
Board fees paid		(283)	(306)
Rent paid		(2,436)	(2,803)
Net reimbursement from National Asset Loan Management D.A.C.		2,796	3,059
Net cash provided by/(used in) operating activities		**73**	**(53)**
Cash held at the beginning of the financial year	*18*	59	112
Net cash provided by/(used in) operating activities		73	(53)
Cash held at the end of the financial year	*18*	**132**	**59**

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

Notes to the Financial Statements

Notes to the Financial Statements

1. GENERAL INFORMATION

The proposed creation of the National Asset Management Agency (NAMA) was announced in the Minister for Finance's Supplementary Budget on 7 April 2009, and the National Asset Management Agency Act 2009 (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 NAMA Board and all committees established by the NAMA Board are also responsible for the oversight and governance of all NAMA Group entities.

NAMA is the ultimate and immediate parent of the NAMA Group. The smallest and largest group of which the Agency is a member and for which consolidated financial statements are prepared is NAMA.

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 and AIB. Link Asset Services 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 42.4.

The relationship between the NAMA Group entities is summarised in Chart 1 (page 86).

National Asset Management Agency Investment D.A.C. (NAMAI)

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)

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 were listed on the Irish Stock Exchange until their redemption in full in 2017.

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 part consideration for the loan assets acquired from the Participating Institutions.

Notes to the Financial Statements (continued)

1. GENERAL INFORMATION (CONTINUED)

1.1 National Asset Management Agency Group (continued)

NAM has eleven subsidiaries, defined collectively as 'NAM Group', at the reporting date:

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

NAMGS acts as the holding company for its ten subsidiaries: NALM, NANQ, NAMS, NAJV A, NAPM, 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.

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

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)

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. NANQ had one subsidiary, North Wall Plaza Management Company D.A.C. (NWPMC), which ceased to be a subsidiary and a NAMA group entity on 24 May 2018.

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

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

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

On 4 July 2013, NAMA established a subsidiary, National Asset JV A (NAJV A). NAJV A is a wholly owned subsidiary of NAMGS. NAMA entered an 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 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)

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. (NARPS)

On 18 July 2012 NAMA established a subsidiary NARPS. 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 2,481 (2017: 2,472) residential properties were delivered to the social housing sector by NAMA debtors from inception to the reporting date, of which 2,445 (2017: 2,335) were completed and contracts on a further 36 (2017: 137) properties (for both direct sale and through NARPS) were exchanged by the reporting date. Completed units delivered since inception include the direct sale of 1,004 (2017: 932) properties by NAMA debtors and receivers to various approved housing bodies and/or local authorities, the direct leasing of 89 (2017: 117) properties by NAMA debtors and receivers and the acquisition by NARPS of 1,352 (2017: 1,286) properties for lease to approved housing bodies.

8) National Asset Sarasota LLC (NASLLC)

On 1 August 2013, NAMA established a 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 following insolvency processes. Since its acquisition, NASLLC has acquired two assets located in the US and subsequently sold one. It is the intention of NASLLC to dispose of the second asset.

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

On 10 January 2014, NAMA established a 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.

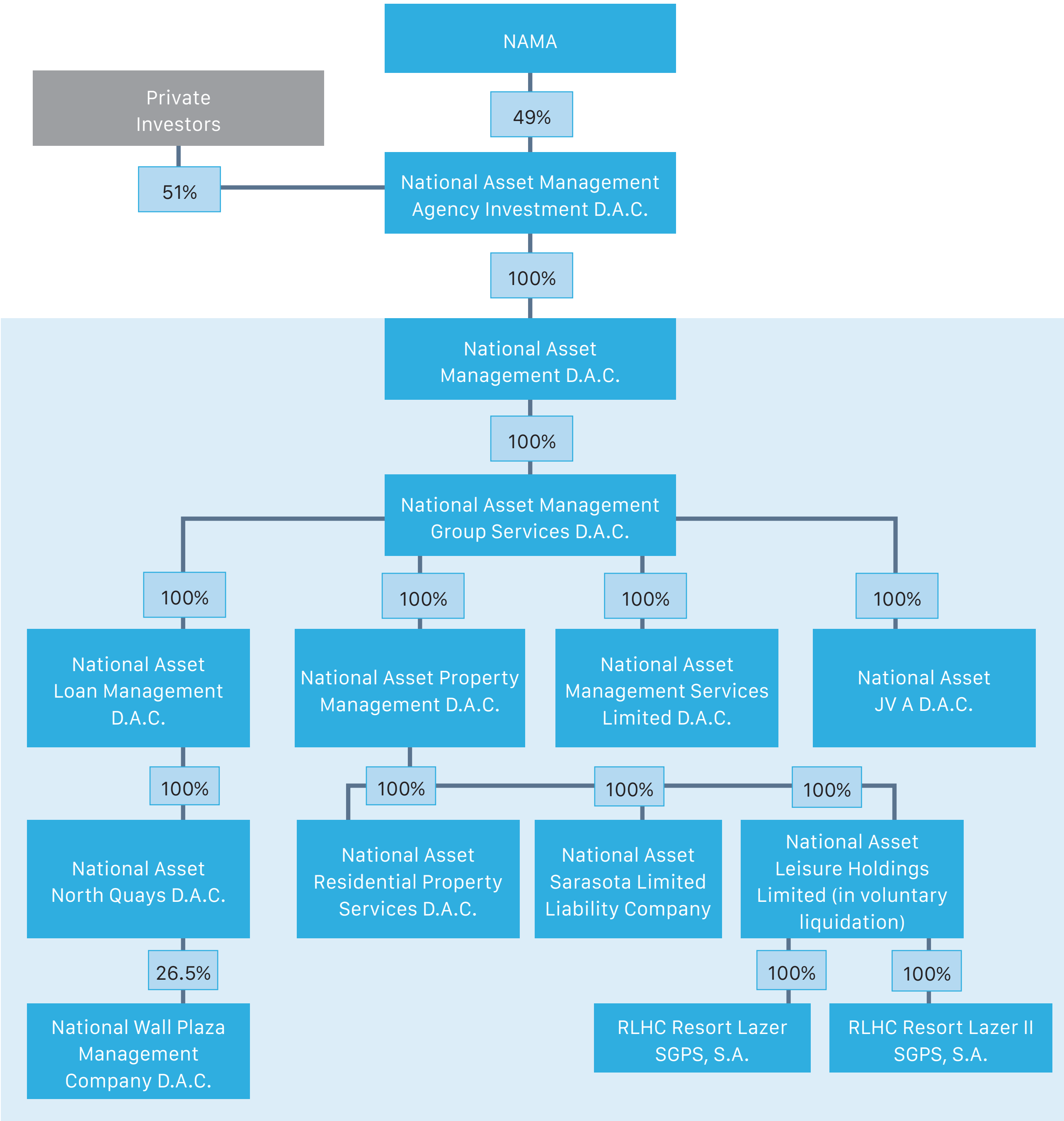
With the exception of RLHC and RLHC II, the address of the registered office of each company at the reporting date is Treasury Building, Grand Canal Street, Dublin 2. Each company is incorporated and domiciled in the Republic of Ireland, except for NASLLC, which is incorporated and domiciled in the US 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.

Notes to the Financial Statements (continued)

1. GENERAL INFORMATION (CONTINUED)

1.1 National Asset Management Agency Group (continued)

Chart 1 "NAMA Group"



2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

Going concern

The financial statements for the financial year ended 31 December 2018 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 reporting date of these annual financial statements.

At the reporting date, NAMA had equity and reserves of €5,363m (2017: €5,079m). The Group has available cash, cash equivalents and liquid assets at 31 December 2018 of €3,186m (2017: €1,254m) and liabilities of €40m (2017: €30m), 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 of the senior debt, 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 Statement of compliance and basis of measurement

The Group's consolidated and Agency financial statements for the financial year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, 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, debtor loans, intercompany loan and government bonds which have been measured at fair value where applicable.

The consolidated and Agency financial statements are presented in euro (€), which is the Group's presentational currency and the Agency's functional and presentational currency. The figures shown in the consolidated financial statements are stated in € thousands (€'000s) unless otherwise stated.

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.

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

Certain prior year income statement items have been reclassified to conform to the presentation in the 2018 financial statements.

2.3 Changes in significant accounting policies

The Group has initially applied IFRS 9 from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's financial statements. As permitted under IFRS 9, the Group is availing of the exemption not to restate the prior period comparatives and therefore recognises differences arising between IAS 39 carrying amounts and IFRS 9 carrying amounts at 1 January 2018 in opening retained earnings on that date. Accordingly, the comparative information presented for 2017 does not reflect the requirements of IFRS 9 but rather those of IAS 39.

a) Impact on Classification and Measurement of Financial Assets

IFRS 9 contains three principal classification categories for financial assets: amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. The classification and measurement of financial assets under IFRS 9 is further set out in Note 2.7.

Notes to the Financial Statements (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Changes in significant accounting policies (continued)

a) Impact on Classification and Measurement of Financial Assets (continued)

The table below details the transition impact of IFRS 9 on the classification and measurement basis of the Group's key financial assets at 1 January 2018.

Financial Asset IAS 39	Financial Asset IFRS 9	IAS 39 Measurement Basis	IFRS 9 Measurement Basis	IAS 39 Carrying Value 31 Dec 17 €'m	IFRS 9 Carrying Value 01 Jan 18 €'m
Loans and Receivables	Debtor Loans at FVTPL	Amortised cost	FVTPL	2,994	3,163
Loans and Receivables	Debtor loans at FVOCI	Amortised cost	FVOCI	200	200
Cash & Cash Equivalents	Cash & Cash Equivalents	Amortised cost	Amortised Cost	733	733
Cash Placed as Collateral with NTMA	Cash Placed as Collateral with NTMA	Amortised cost	Amortised Cost	25	25
Available for Sale Financial Assets	Government Bonds	FVOCI	FVOCI	495	495
Amounts due from Participating Institutions	Amounts due from Participating Institutions	Amortised cost	Amortised Cost	20	20
Derivative Financial Instruments	Derivative Financial Instruments	FVTPL	FVTPL	18	18
Investments in Equity Instruments	Investments in Equity Instruments	FVTPL	FVTPL	66	66

The table below details the transition impact of IFRS 9 on the classification and measurement basis of the Agency's key financial assets at 1 January 2018.

Financial Asset IAS 39	Financial Asset IFRS 9	IAS 39 Measurement Basis	IFRS 9 Measurement Basis	IAS 39 Carrying Value 31 Dec 17 €'m	IFRS 9 Carrying Value 01 Jan 18 €'m
Interest receivable on profit participating loan to NAM	Loans at FVTPL	Amortised cost	FVTPL	3,535	3,535

b) Impact on Classification and Measurement of Financial Liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The application of IFRS 9 has had no impact on the classification and measurement of the Group's or Agency's financial liabilities. The classification and measurement of financial liabilities under IFRS 9 is further set out in Note 2.8.

c) Impact on Impairment of Financial Assets

To assess impairment IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss model. The new impairment model applies to financial assets measured at amortised cost and at FVOCI. The expected credit losses are not material based on the credit risk characteristics of the financial assets within the scope of impairment under IFRS 9. No transition adjustment pertaining to expected credit losses has been recognised at 1 January 2018.

d) Overall Quantitative Impact of IFRS 9 Application

The quantitative impact on implementation of IFRS 9 is a positive increase in retained earnings of €148m after tax (€169m before tax). This all relates to the change in measurement basis of debtor loans which had been measured at amortised cost under IAS 39 and which are now measured at FVTPL under IFRS 9.

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

A number of new standards, amendments and interpretations have been issued but are not yet effective. The Group has not early adopted them in preparing these financial statements. Of these standards that are not yet effective, IFRS 16 is expected to have a significant impact on the Group's financial statements in the period of initial application.

IFRS 16 Leases

IFRS 16 Leases was issued in January 2016 and applies to annual reporting periods beginning on or after 1 January 2019. IFRS 16 addresses the definition of a lease as well as the recognition and measurement of leases. It establishes principles resulting in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 Leases. A key change arising from IFRS 16 is that lessees will recognise a 'right-of-use' asset and a corresponding financial liability on the statement of financial position.

The Group holds operating leases. As at 31 December 2018, the Group has non-cancellable operating lease commitments (refer to Note 37). The Group is currently assessing the nature and extent of the impact of the standard in this regard. A preliminary assessment indicates that these leases will meet the definition of a lease under IFRS 16 and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all of these leases. The nature of expenses related to these leases will now change because the Group will recognise a depreciation charge for right of-of-use assets and interest expense on lease liabilities.

The Group plans to apply IFRS 16 on 1 January 2019, using the cumulative catch up approach as permitted by the standard. Under the cumulative catch up approach comparative information is not restated. The Group recognises the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of application. Based on the information currently available, the Group estimates that it will recognise a lease liability of €18m and a right of use asset of €16m on 1 January 2019.

The estimates are based on a number of assumptions, judgements and other assessments that remain subject to change until the Group finalises its financial statements for the year ending 31 December 2019.

2.5 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 1.1 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 which it controls. Control is considered to be achieved when the Group

- has power over the entity;
- is exposed to, or has rights, to variable returns from its involvement with the entity; and
- has the ability to use its power to affect its return.

Investments in subsidiaries are accounted for at cost less impairment in the Agency's separate financial statements. The accounting policies of the subsidiaries are consistent with the Group's accounting policies.

Intercompany 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 1.1.

2.6 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 each entity operates ('the functional currency').

The consolidated financial statements are presented in €, which is the Group's presentational currency.

Notes to the Financial Statements (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Foreign currency translation (continued)

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 that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. 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 are presented as a separate line item in the consolidated income statement.

2.7 Financial assets

Recognition and initial measurement

The Group recognises financial assets in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets are measured initially at fair value. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognised immediately in profit or loss. For assets measured other than at FVTPL, transaction costs that are directly attributable to the acquisition or issue of financial assets are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition.

Classification and Measurement

Subsequent to initial recognition, a financial asset is classified and subsequently measured at

(a) Amortised cost

(b) Fair value through other comprehensive income (FVOCI)

(c) Fair value through profit or loss (FVTPL)

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition, the Group may irrevocably designate an equity instrument as FVOCI. The election to designate an investment in equity instrument at FVOCI is made on an instrument-by-instrument basis.

Any financial asset that does not qualify for amortised cost measurement or measurement at FVOCI must be measured subsequent to initial recognition at FVTPL except if it is an investment in an equity instrument designated at FVOCI. The Group may irrevocably elect on initial recognition to designate a financial asset at FVTPL if the designation eliminates or significantly reduces an accounting mismatch that would have occurred if the financial asset had been measured at amortised cost or FVOCI.

Contractual cash flows are solely payments of principal and interest assessment

For the purpose of the solely payments of principal and interest "SPPI" assessment, principal is the fair value of the financial asset at initial recognition. However, that principal amount may change over the life of the financial asset. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

2.7 Financial assets (continued)

Business model assessment

The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets, or both. The Group considers the following information when making the business model assessment:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel; and
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed.

At initial recognition of a financial asset, the Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassess its business models each reporting period to determine whether the business models have changed since the preceding period.

a) Amortised Cost

The Group has classified and measured cash and cash equivalents, cash placed as collateral with NTMA and other assets at amortised cost less any expected credit loss allowance.

b) Fair value through other comprehensive income

Due to their cash flow characteristics and the business model for managing the assets, the Group has classified and measured certain loans not held primarily to realise collateral value and which do meet the SPPI test at FVOCI. Fair value is determined in the manner described in Note 2.28.

The Group's portfolio of Irish government bonds is also classified and measured at FVOCI. Fair value is determined in the manner described in Note 2.28. These bonds were acquired for liquidity purposes. They are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or changes in interest rates or exchange rates.

Changes in the fair value of financial assets at FVOCI are recognised in other comprehensive income within the other reserve. When a financial asset at FVOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. Financial assets at FVOCI must be assessed for impairment with any expected credit losses being recognised in the income statement. Interest is recognised using the effective interest method. The changes in the carrying amount of the government bonds due to the amortisation of premium on purchase are recognised in other comprehensive income.

c) Fair value through profit or loss

The Group has classified and measured certain debtor loans at FVTPL on the basis that they are held to realise associated collateral value through on going disposal of loans, property and collateral and where collecting contractual cashflows is incidental. These assets are measured at fair value, with any gains/losses arising on re-measurement recognised in the income statement. Fair value is determined in the manner described in Note 2.28.

Other financial instruments that are classified and measured at FVTPL include derivative and equity investments.

Derivatives

Interest income and expense arising on derivatives (other than on cross currency interest rate swaps) are included in gains and losses on derivative financial instruments in the consolidated income statement. Fair value gains and losses on derivatives are included in gains and losses on derivative financial instruments in the 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 measured at FVTPL. The fair value of these equity instruments is measured based on valuation techniques which consider the value of the Group's claim to the underlying assets of the entity. 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.

Notes to the Financial Statements (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Financial liabilities

The Group recognises financial liabilities in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are measured initially at fair value. The Group classifies and subsequently measures its financial liabilities at amortised cost with the exception of derivatives classed as FVTPL, with any difference between the proceeds net of transaction costs and the redemption value recognised in the income statement using the effective interest method. Where financial liabilities are classified as FVTPL, gains and losses arising from subsequent changes in fair value are recognised directly in the income statement. Further information on derivative liabilities is included in accounting policy 2.18.

2.9 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.

2.10 Fair value gains/losses on debtor loans at fair value through profit or loss

Fair value gains/(losses) on debtor loans at FVTPL includes all gains and losses from changes in the fair value of debtor loans at FVTPL. The Group has elected to present the full fair value movement on this line, including the impact of net cash collections in the period.

2.11 Interest income and interest expense

Interest income and interest expense for all interest-bearing financial instruments other than debtor loans at FVTPL are recognised as interest income and interest expense in the income statement using the effective interest rate ("EIR") method.

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of a financial asset or the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For purchased or originated impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the financial asset except for impaired financial assets or to the amortised cost of the financial liability. For financial assets that have become impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

2.12 Fee income

Fee income is income associated with debtor connections that is not considered as a reduction in the debt obligations of the debtor. Fee income is recognised in the income statement.

2.13 Profit/(loss) on the disposal and refinancing of loans

Profits and losses on the disposal and refinancing of loans are calculated as the difference between the carrying value of the loans 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. Profits and losses on the disposal and refinancing of loans 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.

2.14 Profit/(loss) on disposal of property assets

Profits and losses on the disposal of property are calculated as the difference between the carrying value of the property assets and the contractual sales price at the contractual date of sale less related transaction costs. The contractual sales price includes any deferred consideration where the Group has the contractual right to receive any deferred cash flow. Profits and losses on the disposal of property are recognised in the income statement when the transaction occurs.

2.15 Impairment of financial assets

The Group assesses, on a regular basis, the impairment of financial assets measured at amortised cost and at FVOCI on an expected credit loss (ECL) basis. The measurement of ECL is based on a three-stage approach:

- **Stage 1:** where financial instruments have not had a significant increase in credit risk since initial recognition, a provision for 12-month ECL is recognised, being the ECL that results from default events that are possible within 12 months of the reporting date;
- **Stage 2:** where financial instruments have had a significant increase in credit risk since initial recognition but does not have objective evidence of impairment, a lifetime ECL is recognised, being the ECL that result from all possible default events possible over the lifetime of the financial asset;
- **Stage 3:** where financial assets show objective evidence of impairment, a lifetime ECL is recognised.

There are a variety of approaches that could be used to assess whether the credit risk on a financial instrument has increased significantly since initial recognition. In some cases, detailed quantitative information about the probability of default of a financial instrument or formal credit rating will be available which is used to compare changes in credit risk. The Group monitors financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition on a regular basis.

The measurement of the loss allowance is based on the present value of the applicable financial assets expected cash flows using the financial asset's effective interest rate.

The general approach for recognising and measuring a loss allowance is the same for financial instruments measured at amortised cost and those instruments that are measured at FVOCI. However, unlike amortised cost, the loss allowance on instruments at FVOCI is recognised in other comprehensive income and does not reduce the carrying amount of the financial asset in the statement of financial position.

2.16 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.

2.17 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.

2.18 Derivative financial instruments

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.

All derivatives are accounted for at fair value through profit or loss.

Borrower derivatives

Borrower derivatives comprise of interest rate 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 income statement. 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.

Notes to the Financial Statements (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Derivative financial instruments (continued)

NAMA derivatives

NAMA derivatives comprise of derivatives entered into to hedge exposure to loans acquired and debt securities in issue ('NAMA derivatives'). NAMA derivatives include interest rate and cross currency swaps.

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 judgment 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 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 the income statement as part of foreign exchange gains and losses.

2.19 Inventories - trading properties

Trading properties include property assets and non-real estate assets which are held for resale in accordance with IAS 2 Inventories. They are recognised initially on the statement of financial position at the point at which the purchase contract has been signed with the vendor. Subsequent to initial recognition, trading properties 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 ('NRV') represents the estimated selling price for properties less all estimated costs of completion and costs necessary to make the sale. Revisions to the carrying value of trading properties are recognised as follows:

(i) in the case of contracted units recognised on the statement of financial position, revisions to NRV are offset against loans, and

(ii) in the case of completed trading properties, revisions to carrying value are recognised in the income statement.

Profits and losses on the disposal of trading properties are recognised in the income statement when the transaction occurs.

2.20 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.

2.20 Taxation (continued)

(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 FVOCI 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.

2.21 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.

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.

2.22 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.

2.23 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 Group's shareholders. Dividends for the period that are declared after the date of the consolidated statement of financial position are dealt with in Note 46, 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.

Notes to the Financial Statements (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 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 the Group 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.

2.25 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 Property, Plant and Equipment. The recognised asset is depreciated over the remaining life of the asset in compliance with IAS 16.

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. The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or whether the arrangement conveys a right to use the asset. 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. Operating lease payments are recognised as an expense in the income statement 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 Group measures fair values in accordance with IFRS 13 which defines fair value as 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 market, or in its absence, the most advantageous market to which the Group has access at that date, regardless of whether that price is directly observable or estimated using another valuation technique.

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 seek to maximise the use of publically available relevant observable inputs and minimise the use of unobservable inputs. The valuation techniques used incorporate the factors that management believe market participants would take into account in pricing a transaction. Valuation techniques may 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.

2.28 Determination of fair value (continued)

Valuation techniques

In the case of debtor loans measured at FVTPL, the fair value of these instruments is determined with input from management and using internally generated valuation models based on selected comparable market data points. The majority of the significant inputs into these models are not readily observable in the market and the inputs are therefore derived from market prices for similar assets or estimated based on certain assumptions. The determination of key inputs used such as the expected future cash flows on the financial asset, stratification of portfolio and the appropriate discount rates applicable require management judgement and estimation.

The valuation methodology for debtor loans at FVTPL is to estimate the expected cash flows to be generated by the financial asset and then discount these values back to a present value. The assumptions involved in these valuation techniques include:

- determining suitable stratifications for the portfolio to segment assets with similar risk characteristics;
- the likelihood and expected timing of future cash flows; and
- selecting an appropriate discount rate for the financial asset or group of financial assets, based on management's assessment of the characteristics of the collateral/cashflow and relevant market information.

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.

Adjustments to the calculation of the present value of future cash flows are based on factors that management believe market participants would take into account in pricing the financial instrument.

Certain other financial instruments (both assets and liabilities) may be valued on the basis of valuation techniques that feature one or more significant inputs that are not observable in the market. 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. 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.

2.29 Administration expenses

Administration expenses are recognised on an accruals basis.

Notes to the Financial Statements (continued)

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 financial statements are described as follows:

3.1 Fair value assessment of debtor loans at fair value through profit or loss

The fair value of debtor loans at fair value through profit or loss ('FVTPL') is assessed at the end of each reporting period. Key inputs to the assessment of fair value include cash flow forecasts, discount rates, timing assumptions and management judgement. The projection of cash flows involves the exercise of considerable judgement and estimation by management involving assumptions in respect of factors such as 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 purpose of estimating fair value for each debtor connection. Cash flow projections are generally based on the most recently agreed strategy for each debtor which is subject to change.

The assumptions used for projecting both the amount and timing of future cash flows for individual debtors, stratification of the collateral asset portfolio and appropriate discount rates for utilisation in discounted cash flow calculations are reviewed periodically by management. NAMA may apply management judgement to computed fair values or the inputs to the fair value computation where it believes this more accurately reflects the fair value of the asset.

For the purpose of recognition, debtor loans at FVTPL are grouped together on a connection level. A connection is a number of loans which have been grouped together which have been issued to the same borrower or group of economically connected borrowers.

Fair value is estimated for each connection by calculating the present value of the cash flow forecast to be generated by each connection. The cash flows represent NAMA's best estimate of expected future cash flows for each connection and include the disposal of property collateral and other non-disposal related cash flows (such as rental income).

The Group's policy on fair value measurement of financial assets is set out in accounting policy 2.28.

The significant estimates in relation to the fair value of the Group's debtor loans include the timing, discount factors and value of the realisation of asset values as well as related outflows. The carrying value of the debtor loans at FVTPL measured using fair value as at 31 December 2018 is €1,925m with the change in fair value during the year being €605m.

The table below shows the impact of changes in collateral values on fair value on debtor loans.

Sector	+/-1% €m	+/-3% €m	+/-5% €m
Land and Development	+/- 13	+/- 40	+/- 67
Investment Property	+/- 7	+/- 21	+/- 35
Total	**+/- 20**	**+/- 61**	**+/- 102**

The table below shows the impact of changes in discount factors on fair value on debtor loans.

Sector	(5%) €m	(3%) €m	(1%) €m	+1% €m	+3% €m	+5% €m
Land and Development	94	55	18	(17)	(51)	(83)
Investment Property	43	25	8	(8)	(24)	(38)
Total	**137**	**80**	**26**	**(25)**	**(75)**	**(121)**

3.1 Fair value assessment of debtor loans at fair value through profit or loss (continued)

The table below shows the impact of changes in timing of cash flows on fair value on debtor loans.

Sector	+3 months €m	(3) months €m
Land and Development	(32)	33
Investment Property	(14)	14
Total	**(46)**	**47**

3.2 Other management judgement and estimates

In the preparation of the financial statements, management has made judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the year-end date. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis.

The most significant judgements made by the Group, other than those relating to the fair value of debtor loans, in the preparation of the financial statements are:

- inventories - trading properties, and
- investments in equity instruments.

Inventories - trading properties

(a) Judgements made

Inventories - trading properties are accounted for under IAS 2 Inventories, as opposed to IAS 40 Investment Property. Trading properties include property assets and non-real estate assets which are held for resale. They are recognised initially on the statement of financial position at the point at which the purchase contract has been signed with the vendor, in line with accounting policy 2.19. Subsequent to initial recognition, trading properties are stated at the lower of cost and net realisable value. Cost is determined on the basis of specific identification of individual costs relating to each asset.

(b) Estimates used

Net realisable value represents the estimated selling price for properties less all estimated costs of completion and costs necessary to make the sale. Revisions to the carrying value of trading properties are recognised as follows; i) in the case of contracted units recognised on statement of financial position, revisions to NRV are offset against loans, and ii) in the case of completed trading properties, revisions to carrying value are recognised in the income statement. The assessment of the net realisable valuation of trading properties is an estimate based on the percentage of completion of property/properties that are in the course of development or based on the assessment of market information for completed trading properties. This assessment, being an accounting estimate, is subject to uncertainty.

Investments in equity instruments

In determining the appropriate accounting treatment of investments in equity instruments, the existence of significant influence is considered on a case-by-case basis, using the following indicators:

- representation on the board of directors or equivalent governing body;
- participation in the policy-making process;
- material transactions between the two parties;
- interchange of managerial personnel;
- provision of essential technical information; and
- potential voting rights.

At the reporting date, there were no investments in equity instruments in which control or significant influence by the Group existed.

Notes to the Financial Statements (continued)

4. NET GAINS ON DEBTOR LOANS/INTERCOMPANY LOAN MEASURED AT FVTPL

Group	Note	2018 €'000	2017 €'000
Fair value movement on debtor loans at FVTPL	22	605,204	-

The Group assesses the classification and measurement of each financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing that asset. A significant proportion of the Group's loan portfolio, which was reported as 'Loans and receivables' and measured at amortised cost prior to 1 January 2018, is now classified as 'Debtor loans measured at fair value through profit or loss' under IFRS 9. Changes in fair value are recognised in the income statement in accordance with accounting policy 2.10. See Note 22 for further details on debtor loans measured at FVTPL held by the Group at the reporting date. Debtor loans measured at FVTPL include debtor loans acquired from the participating institutions, shareholder loans and a guaranteed income stream.

Agency	Note	2018 €'000	2017 €'000
Interest income on intercompany loan measured at FVTPL	22	1,258	-

The Agency assesses the classification and measurement of each financial asset based on the contractual cash flow characteristics of the asset and the Agency's business model for managing that asset. The intercompany loan to NAM is now classified as 'Intercompany loan measured at fair value through profit or loss' under IFRS 9. Changes in fair value are recognised in the income statement in accordance with accounting policy 2.10. See Note 22 for further details on intercompany loans measured at FVTPL held by the Agency at the reporting date.

NAMA Group subsidiaries generated profits, which are in the main 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 subordinated debt securities, if NAM generates profits they are payable to NAMA the Agency, as interest income.

5. INTEREST INCOME

Group	Note	2018 €'000	2017 €'000
Interest on loans and receivables		6,474	248,238
Interest on financial assets at FVOCI	23	2,020	-
Interest on cash and cash equivalents		30	78
Total interest income		**8,524**	**248,316**

In 2017, interest income on loans and receivables was calculated using the EIR method of accounting. This method recognises interest income at a constant rate over the life of the loan and differed from actual cash received and amounts ultimately recognised in the financial statements. The 2018 amount relates to finalisation of recognition of EIR associated with loans and receivables on clarification of final positions.

Interest income on financial assets at FVOCI is calculated using the EIR method of accounting.

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

Agency	2018 €'000	2017 €'000
Interest on loan to NAM	-	216,629

Following the application of IFRS 9, the 2018 interest income is included in the fair value gain on intercompany loan measured at FVTPL. See Note 4 for further details.

6. INTEREST AND SIMILAR EXPENSE

Group	2018 €'000	2017 €'000
Interest on available for sale financial assets	-	231
Interest on government bonds	231	-
Negative interest expense on cash and cash equivalents	5,845	3,049
Total interest and similar expense	**6,076**	**3,280**

Interest on government bonds/available for sale financial assets comprises interest on short term government bonds held for liquidity purposes, recognised using the EIR method. The nominal value of government bonds at the reporting date was €430m (2017: €430m).

During 2018, the Group incurred interest expense of €6m (2017: €3m) on cash and cash equivalents due to negative interest rates.

Agency	2018 €'000	2017 €'000
Negative interest expense on cash and cash equivalents	4	3

Due to negative interest rates, there is negative interest expense on cash and cash equivalents of €0.004m (2017: €0.003m).

7. FEE INCOME

Group	2018 €'000	2017 €'000
Fee income from loans and receivables	-	3,044
Fee income from debtor loans	27,137	-
Total fee income	**27,137**	**3,044**

Fee income from debtor loans is income associated with debtor connections that is not considered as a reduction in the debt obligations of the debtor. Fee income can include arrangement fees, restructuring fees, exit fees, performance fees and transaction fees from loan sales. The level of fee income is based on the nature of transactions during the year.

8. OTHER INCOME

Group	2018 €'000	2017 €'000
Distributions from equity instruments (a)	13,876	16,380
Fair value loss on equity instruments (b)	(1,843)	(5,237)
Licence fee income (c)	-	549
Lease rental income (d)	11,666	10,489
Revaluation of trading properties (e)	(458)	-
Other expenses (f)	(10,554)	(483)
Other income (g)	27,347	-
Total other income	**40,034**	**21,698**

(a) The Group received dividends totalling €13.9m (2017: €16.4m) on its investments during the reporting period.

(b) The fair value of NAMA's equity instruments is based on valuation techniques which consider the value of the Group's claim to the underlying assets of the entity. Changes in fair value are recognised in the income statement in accordance with accounting policy 2.7. See Note 31 for further details on equity instruments held by the Group at the reporting date.

Notes to the Financial Statements (continued)

8. OTHER INCOME (CONTINUED)

(c) 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. Under IAS 39, an amount of the discount from present value of the secure income stream was unwound over the life of the agreement. This guaranteed income stream was measured at FVTPL on the application of IFRS 9.

(d) 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 financial year.

(e) In accordance with accounting policy 2.19, trading properties are measured at the lower of cost and net realisable value. At the reporting date, the Group recognised a revaluation loss of €0.5m (2017: no revaluation gain or loss) on these assets. See Note 25 for further details on trading property assets.

(f) Other expenses includes a €1.9m (2017: €0.5m) contracted fee paid in the financial year following the reaching of a designated rate of return on an equity investment and €8.7m for the discharge of receivership property liabilities (2017: €Nil).

(g) NAMA reached an agreement with the IBRC special liquidator for a dividend in respect of unsecured claims of €13.9m. In 2018, there was a complete settlement of all amounts receivable from the participating institutions in relation to overdrafts. This settlement gave rise to additional income of €13.4m.

Agency	*Note*	**2018 €'000**	**2017 €'000**
Costs reimbursable from the NAMAI Group	*13*	43,496	40,970
Negative interest income on intergroup loans		142	131
Total other income		**43,638**	**41,101**

The negative interest income of €0.14m (2017: €0.13m) on the intergroup loan is due to negative interest rates on the intercompany loan from NALM. Refer to Note 38 for further detail.

9. (LOSSES)/GAINS ON DERIVATIVE FINANCIAL INSTRUMENTS

Group	**2018 €'000**	**2017 €'000**
Losses on derivatives acquired from borrowers	(8,549)	(2,112)
(Losses)/gains on other derivatives	(121)	629
Interest on acquired derivative financial instruments	1,920	2,032
Interest expense on other derivative financial instruments	(501)	(492)
Total (losses)/gains on derivative financial instruments	**(7,251)**	**57**

The gains/(losses) on derivative financial instruments include the fair value movements on these instruments and any expenses payable. 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 21.

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

Interest expense on other derivative financial instruments relates to interest payable on derivatives entered into to hedge exposure to interest rate risk.

There are no derivatives held in the Agency.

10. NET PROFIT ON DISPOSAL AND REFINANCING OF LOANS

Group	2018 €'000	2017 €'000
Net profit on disposal and refinancing of loans	179,390	63,632

During the financial year, the Group disposed of a number of debtor loans to third parties and some other loans were refinanced. Profit or loss on disposal and refinancing of loans is measured as the difference between the proceeds received, including any deferred consideration, less related selling expenses and their net carrying value. The Group realised a net profit of €179m (2017: €64m) on the disposal and refinancing of loans in the financial year. The Group earned gross profit of €181m (see Note 22 and 23) (2017: €65m), which when combined with disposal costs of €1.4m (2017: €1m), resulted in the net profit on disposal of loans of €179m.

The following table summarises NAMA's overall net profit recognised on the transactions relating to the disposal and refinancing of loans for the years 2018 and 2017:

Group	*Note*	2018 €'000	2017 €'000
Profit recognised in income statement		179,390	63,632
Crystallisation of existing impairment provision	*24*	-	(15,229)
Total		**179,390**	**48,403**

The crystallisation of existing impairment provision relates to the accounting treatment under IAS 39 and represented the amount of the previously recognised impairment provision attributed to the disposal of loans in 2017. It did 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', the crystallisation presented an overall net profit in respect of the disposal of loans.

There were no disposals of loans by the Agency.

11. NET PROFIT ON DISPOSAL OF PROPERTY ASSETS

Group	2018 €'000	2017 €'000
Gross proceeds from disposal of property assets	192,039	15,584
Related cost of property assets sold	(58,212)	(14,023)
Total net profit on disposal of property assets	**133,827**	**1,561**

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 less related selling expenses. The Group realised a net profit of €133.8m (2017: €1.6m) on the disposal of trading property assets in the financial year.

There were no disposals of properties by the Agency.

12. SURPLUS INCOME

Group	*Note*	2018 €'000	2017 €'000
Surplus income on loan repayments (in excess of loan carrying values)	*24*	-	269,842

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 was recognised in the income statement as realised profits on loans up to the application of IFRS 9.

Notes to the Financial Statements (continued)

13. ADMINISTRATION EXPENSES

Group	Note	2018 €'000	2017 €'000
Costs reimbursable to the NTMA	*13.1*	39,128	37,980
Primary servicer fees	*13.2*	8,258	9,881
Master servicer fees	*13.3*	1,727	1,600
Portfolio management fees	*13.4*	2,822	2,417
Legal fees	*13.5*	9,118	6,534
Finance, communication and technology costs	*13.6*	6,005	4,602
Rent and occupancy costs	*13.7*	6,326	2,636
Internal audit fees	*13.8*	717	751
External audit remuneration	*13.9*	904	634
Board and Committee fees and expenses	*13.10*	485	437
Total administration expenses		**75,490**	**67,472**

Agency	Note	2018 €'000	2017 €'000
Administration expenses			
Costs reimbursable to the NTMA	*13.1*	39,128	37,980
Rent and occupancy costs	*13.7*	4,368	2,990
Board and Committee fees and expenses	*13.10*	485	434
Total administration expenses		**43,981**	**41,404**

Costs reimbursable to the NTMA are recognised as an expense to NAMA the Agency. All costs, other than Board and Committee fees and expenses incurred by NAMA are reimbursed to it by the NAMAI Group. Total costs of €43.5m (2017: €41.0m) were reimbursed by the NAMAI Group to NAMA the Agency.

Agency	Note	2018 €'000	2017 €'000
Costs reimbursable by the NAMAI Group			
Costs reimbursable to the NTMA	13.1	39,128	37,980
Rent and occupancy costs	13.7	4,368	2,990
Total costs reimbursable by the NAMAI Group		**43,496**	**40,970**

13.1 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 €30.9m (2017: €30.3m) and overheads and shared service costs of €8.2m (2017: €7.7m).

The NTMA incurs direct costs for NAMA such as salaries, IT, office and business services. NTMA also provides shared services to NAMA including IT, HR and Finance. The allocated salary cost of the NTMA employees (non NAMA Officers) providing these shared services to NAMA during 2018 was €3.2m (2017: €3.4m).

NAMA has agreed to reimburse the NTMA for its proportionate share of the 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 NAMAI Group.

13.1 Costs reimbursable to the NTMA (continued)

Staff costs

The Group has no employees. All personnel are employed by the NTMA and the remuneration cost of staff who are engaged full time in the NAMA business are recharged to the Group by the NTMA. The total remuneration cost including pension costs for the reporting period was €30.9m (2017: €30.3m). The following remuneration disclosures are required under The Code of Practice for the Governance of State Bodies (2016).

Aggregate Employee Benefits	2018 €m	2017 €m
Basic Pay	22.0	23.2
Performance related pay	1.0	-
Allowances	0.2	0.3
Staff short-term benefits	23.2	23.5
Termination benefits	1.9	0.9
Pay related social insurance	2.5	2.4
Pension contributions	3.3	3.5
Total aggregate employee benefits	**30.9**	**30.3**

The number of employees of the NTMA directly engaged in the Group ('NAMA Officers') at the reporting date was 238 (2017: 264). Of this, 18 employees (2017: 10 employees) will be placed on garden leave in 2019 as part of the Voluntary Redundancy Scheme ("VRS").

The 2018 performance related payments of €1.0m were made to 107 staff members and relate to the period from 1 July 2017 to 31 December 2018.

Costs of €1.9m (2017: €0.9m) relating to termination benefits (including VRS and garden leave) have been recognised in 2018, of which €0.9m (2017: €0.4m) is attributable to statutory and other redundancy payments, €0.4m (2017: €0.2m) relates to the "retention scheme"[3], and €0.6m (2017: €0.3m) 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. Under the VRS, 18 staff were entitled to garden leave of three months. In addition to those accepted for the VRS, 4 staff (2017: 5) were placed on garden leave during 2018. The average period of garden leave for the 4 staff was two months (2017: two months). The decision on whether to place these four 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. Further redundancies will take place on a phased basis each year over the remaining life of NAMA.

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 is recharged to NAMA. The cost of the pension contributions made by the Group is disclosed in Note 43.

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

Brendan McDonagh (Chief Executive Officer)	2018 €	2017 €
Salary	413,377	400,079
Taxable benefits	21,638	22,728
	435,015	**422,807**

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. Taxable benefits include benefits/allowances earned in the reporting period, and can include health insurance, company car and professional subscriptions. The Chief Executive Officer was entitled to be considered to be awarded performance payments for 2017 and 2018, but in view of the economic challenges facing the country, waived his entitlement to be considered for these payments.

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

Notes to the Financial Statements (continued)

13. ADMINISTRATION EXPENSES (CONTINUED)

13.1 Costs reimbursable to the NTMA (continued)

The pay reductions provided for in the Financial Emergency Measures in the Public Interest (FEMPI) Act 2013, which came into effect from 1 July 2013, apply to NAMA officers. The FEMPI Act 2015 allowed for restoration of those pay reductions for all those affected by the 2013 legislation. In April 2017, the first restoration under the FEMPI Act 2015 was implemented, resulting in a one third restoration of the 2013 reduction to the Chief Executive Officer's salary. In April 2018, the second restoration was implemented.

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

The remuneration of the Chief Executive Officer is determined by the NTMA CEO after consultation with the 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 (the 'Code'), as management who report directly to the Chief Executive Officer. The Chief Executive Officer had 7 (2017: 9) direct management personnel reports during 2018 and the total compensation paid to them in 2018 was €1.7m (2017: €1.7m), comprising salaries and performance related pay totalling €1.4m, termination benefits of €0.25m and benefits of €0.03m. Benefits include benefits/allowances earned in the reporting period, and can include health insurance, car allowances and professional subscriptions.

Total employee benefits

Total employee benefits, within pay bands of €25,000 from €50,000 upwards is set out in the table below as at 31 December 2018 and 2017.

Pay band	No. of employees 2018	No. of employees 2017
up to €50,000	42	47
€50,001 - €75,000	45	56
€75,001 - €100,000	53	75
€100,001 - €125,000	43	47
€125,001 - €150,000	33	23
€150,001 - €175,000	13	7
€175,001 - €200,000	3	5
€200,001 - €225,000	-	1
€225,001 - €250,000	4	1
€250,001 - €275,000	1	1
€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
€425,001 - €450,000	1	-
Total	**238**	**264**

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.

13.1 Costs reimbursable to the NTMA (continued)

Hospitality expenditure

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

	2018 €	2017 €
Staff Wellbeing	10,830	12,456
Sports and Social Contributions	11,441	12,375
Staff events	10,127	12,323
Flowers	70	420
	32,468	**37,574**

The majority of the staff wellbeing cost comprises the cost of staff health screenings (2018: €9k; 2017: €8k), flu vaccines (2018: €2k; 2017: €2k) and lunchtime classes and lectures. These are organised by the NTMA as employer and NAMA officers are eligible to receive these benefits.

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 €11k in 2018 (2017: €12k) in relation to sports and social activities organised by the Committee.

An event was held during the year to recognise the important and valued contribution made by NAMA staff, both those staff departing under the 2018 voluntary redundancy scheme and remaining staff, to the successful achievement of NAMA's objectives in the period from the start of 2010 to end-2018. An estimated 250 (2017: 250) people attended at a cost of €7,692 (2017: €9,459). Other staff event costs comprise mainly NAMA's share of staff events organised by the NTMA which NAMA officers are invited to attend.

Travel costs

The total travel costs incurred during 2018 was €58k (2017: €85k), of which €13k (2017: €23k) related to international travel and €45k (2017: €62k) related to domestic travel.

13.2 Primary Servicer fees

Primary Servicer fees comprise fees paid to AIB and Link Asset Services who administer the loans 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 relevant service agreement with the service provider (Link Asset Services) and cost recovery up to 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 43 related party disclosures. Primary servicer fees were €8.3m during the financial year (2017: €9.9m).

13.3 Master servicer fees

Master servicer fees comprise fees paid to the master servicer, Link Asset Services. Link Asset Services provides loan administration and data management services to the Group. Master servicer fees were €1.7m in the financial year (2017: €1.6m).

13.4 Portfolio management fees

Portfolio management fees relate to fees incurred in the on-going management and support of debtors. Costs include property valuation, asset search and asset registry fees, and insurance costs.

13.5 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 increase in legal fees is driven by increased legal activity. Included in the legal fees of €9.1m are total settlement costs of €909k.

13.6 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.

Notes to the Financial Statements (continued)

13. ADMINISTRATION EXPENSES (CONTINUED)

13.7 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 €1,008k (2017: €336k).

The Agency has leased the third floor of its current office premises since 2010 for a period of ten years, the first floor of its current office premises since 2014 for a period of 15 years, and the first floor annexe of its current office premises for a period of 12 years and 4 months since 2013.

In line with the lease agreements, the rent was subject to a rent review during 2017, resulting in an increase in the annual rent costs. The effective date of the increase was 2015, and the rent due from that date was paid during 2017. The table below outlines the annual rent charge as at 31 December:

Annual rent (including VAT) **Agency**	**2018** **€m**	**2017** **€m**
Third floor	1.3	1.3
First floor	1.0	1.0
First floor annexe	0.1	0.1

Included in the rent and occupancy costs is an amount of €1.2m (2017: €1.2m) reimbursed/reimbursable to NAMA by the NTMA for the occupation for the first floor and first floor annexe.

The Group has agreed heads of terms with the NTMA with regard to the lease of a new premises. The agreement is effective from May 2018 for a lease term of 4 years. The 2018 charge for this new premises is €2.6m.

Further information on leases is included in Note 37, commitments and contingent liabilities.

The remaining balance relates to occupancy costs. The Agency has recognised a dilapidation provision within occupancy costs with regard to its current premises in 2018.

13.8 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.

13.9 External audit remuneration

Group	**2018** **€'000**	**2017** **€'000**
Audit of NAMA Group and subsidiaries by the OC&AG	424	400
Audit of NAMAI Group and subsidiaries by the Statutory Auditor	480	234
Total external audit remuneration	**904**	**634**

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 the auditor of the NAMA Group 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 NAMAI Group is 51% privately owned and operates to return dividends to its shareholder it is deemed to be trading for gain. As such, Mazars, Chartered Accountants and Statutory Audit Firm, were appointed as statutory auditors of NAMA Group's subsidiaries in June 2017. NAMA accrued €750k for the estimated cost of the Statutory Audit of the NAMAI Group and its subsidiaries for the 2016 year-end. The agreed audit fee was €390k (excluding VAT). The 2017 cost includes the release of the prior year's over-accrual.

During the year Mazars provided insolvency services whereby they were appointed by NAMA to act on behalf of NAMA debtors with a duty of care to NAMA as prescribed in law. Fees incurred during the year of €1.0m (2017: €1.2m) are ultimately borne by the respective debtors of NAMA and do not represent an operational expense of NAMA, and accordingly are not reflected in the income statement of the Group.

13.10 Board and Committee fees and expenses

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

	2018 €	2017 €
Frank Daly (Chairman)	150,000	150,000
Oliver Ellingham	60,000	60,000
Brian McEnery (resigned 21 December 2018)	58,370	60,000
Mari Hurley	60,408	60,000
Willie Soffe (resigned 21 December 2018)	72,962	75,000
Eileen Maher (appointed 3 July 2018)	27,609	-
Michael Wall (appointed 3 July 2018)	27,609	-
Board fees	**456,958**	**405,000**
Board expenses	10,040	9,347
Total Board fees and expenses	**466,998**	**414,347**
Planning Advisory Committee		
Alice Charles	5,000	5,000
Michael Wall	3,000	5,000
Audit Committee		
Jim Kelly	10,000	10,000
Committee fees	**18,000**	**20,000**
Total Board and Committee fees and expenses	**484,998**	**434,347**

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.

2018	Travel Expenses €	Accommodation and Subsistence €	Other €	2018 Total €	2017 Total €
Frank Daly (Chairman)[4]	255	571	325	**1,151**	**1,691**
Oliver Ellingham[4]	3,288	1,381	-	**4,669**	**4,164**
Brian McEnery[4]	3,620	600	-	**4,220**	**3,492**
	7,163	**2,552**	**325**	**10,040**	**9,347**

13.11 Consultancy fees

Consultancy costs, as defined in the Code, include the cost of external advice to the business and exclude outsourced 'business-as-usual' functions. Included in the relevant headings in administration expenses are the following consultancy costs paid during the year:

Group	2018 €'000	2017 €'000
Legal fees	1,731	851
Finance, communication and technology costs	138	481
Rent and occupancy costs	-	33
Total consultancy fees	**1,869**	**1,365**

Included within the NTMA recharge is a cost of €0.5m (2017: €0.2m) for consulting fees incurred by the NTMA and recharged to NAMA.

4 *Included in travel expenses, accommodation and subsistence and other is an amount of €2,059 which represents NAMA's tax liability on benefit-in-kind in respect of board expenses paid in 2018 (2017: €2,822).*

Notes to the Financial Statements (continued)

14. FOREIGN EXCHANGE LOSSES

Group	Note	2018 €'000	2017 €'000
Foreign exchange losses on loans and receivables (a)	24	-	(20,999)
Foreign exchange gains on debtor loans at FVTPL (a)	22	767	-
Foreign exchange gains on debtor loans at FVOCI (a)	23	688	-
Unrealised foreign exchange losses on derivative financial instruments (b)		(191)	(5,715)
Realised foreign exchange (losses)/gains on currency derivative financial instruments (b)		(3,299)	21,501
Foreign exchange gains/(losses) on cash (c)		77	(731)
Other foreign exchange gains/(losses)		182	(349)
Total foreign exchange losses		**(1,776)**	**(6,293)**

(a) Foreign exchange translation gains and losses on loans and receivables/debtor loans arise on the revaluation of foreign currency denominated loans. Foreign currency translation amounts are recognised in accordance with accounting policy 2.6.

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 €139m (2017: €137m) on foreign exchange. This cumulative cost is akin to an "insurance" cost of protecting NAMA from the impact of foreign exchange rate fluctuations.

(b) 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 financial instruments comprises realised and unrealised gains and losses. Realised and unrealised gains are recognised in accordance with accounting policy 2.18. Currency derivatives are explained in more detail in Note 21.

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

15. IMPAIRMENT CREDIT ON LOANS AND RECEIVABLES

Group	2018 €'000	2017 €'000
Balance at the beginning of the financial year	**1,405,783**	**1,560,929**
Application of IFRS 9		
Reclassification of impairment provision to debtor loans at FVTPL (Note 22)	(1,405,783)	-
	(1,405,783)	-
Increase in specific provision	-	152,489
Release of specific provision	-	(307,635)
Total movement in provision	**(1,405,783)**	**(155,146)**
Balance at the end of the financial year	**-**	**1,405,783**
Recognised in the income statement against impairment	-	(12,625)
Recognised against loans and receivables (Note 24)	-	(142,521)
Reclassification due to IFRS 9	(1,405,783)	-
Total movement in provision	**(1,405,783)**	**(155,146)**

The Group's loan portfolio, which was reported as 'Loans and receivables' and measured at amortised cost prior to 1 January 2018, is now classified as either 'Debtor loans measured at fair value through profit or loss' or 'Debtor loans measured at fair value through other comprehensive income' under IFRS 9. As part of this reclassification on the date of application, the impairment provision on loans and receivables was reclassified (see Note 22).

The release in the specific provision in 2017 was due to an increase in expected and realised cash flows including earlier receipt of cash flows. The €143m release in the specific provision recognised against loans and receivables in 2017 relates to the crystallisation of previously recognised impairment on loans sold during the year and the conclusion of debt compromise arrangements.

Notes to the Financial Statements (continued)

16. TAX CHARGE

Group	Note	2018 €'000	2017 €'000
Current tax			
Irish corporation tax		(113,077)	(70,770)
Deferred tax			
On fair value gains on equity instruments		(93)	7,854
On IFRS 9 transition adjustments		4,239	-
Total deferred tax recognised in income statement	*32*	**4,146**	**7,854**
Total tax charge		**(108,931)**	**(62,916)**

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	2018 €'000	2017 €'000
Profit before tax	903,523	543,730
Tax calculated at a tax rate of 25%	225,881	135,933
Effect of:		
Non-taxable derivative movements	(724)	(669)
Deductible expenditure	(18,767)	(34,078)
Tax losses not utilised	4,390	308
Movement in deferred tax liability	(4,146)	(7,854)
Prior year adjustments	974	312
Withholding tax charge/(refund)	1,844	(676)
Transitional adjustments	4,189	(49)
Tax suffered in foreign jurisdiction	2	-
Income taxed at lower rate	(104,712)	(30,311)
Taxation charge	**108,931**	**62,916**

The current Irish corporation tax charge of €113m (2017: €71m) 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 profits of the majority of the companies within the Group are subject to tax at the rate of 25% with the exception of NALM, 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.

17. INCOME TAX RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

Group	Note	2018 €'000	2017 €'000
Movement in available for sale reserve before tax	40	-	(8,739)
Movement in financial assets measured at FVOCI reserve before tax	40	(2,149)	-
Total movement		**(2,149)**	**(8,739)**
Deferred tax charge (net)	32	(91)	(1,014)
Total income tax relating to components of other comprehensive income		**(91)**	**(1,014)**

The movement in the reserves represents a temporary difference between the tax base of the financial assets and their fair value.

18. CASH AND CASH EQUIVALENTS AND COLLATERAL

Group	2018 €'000	2017 €'000
Balances with the Central Bank of Ireland	2,670,453	692,004
Balances with other banks	19,438	41,466
Total cash and cash equivalents	**2,689,891**	**733,470**
Cash placed as collateral with the NTMA	25,000	25,000
Total cash, cash equivalents and collateral	**2,714,891**	**758,470**

Agency	2018 €'000	2017 €'000
Balances with the Central Bank of Ireland	132	59

Balances with other banks comprise balances held with Citibank, AIB, BNP and BCP.

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 2018, NAMA's derivative liability exposure was €3.3m (2017: €4.4m) as set out in Note 21.

No expected credit loss has been recognised on cash and cash equivalents and collateral.

Notes to the Financial Statements (continued)

19. GOVERNMENT BONDS/AVAILABLE FOR SALE FINANCIAL ASSETS

Group	2018 €'000	2017 €'000
Short term treasury bonds	470,746	495,097

Government bonds/Available for sale financial assets comprise Irish government treasury bonds acquired for liquidity management. The nominal value of government bonds at 31 December 2018 was €430m (2017: €430m). As at date of application of IFRS 9, the available for sale financial assets were reclassified as financial assets measured at FVOCI.

The movement on the government bonds are analysed as follows:

	Note	2018 €'000	2017 €'000
At beginning of year		495,097	519,378
Amortisation of premium on purchase		(22,202)	(22,201)
Net changes in fair value	*40*	(2,149)	(2,080)
Total government bonds/available for sale financial assets		**470,746**	**495,097**

No expected credit loss has been recognised on government bonds.

20. AMOUNTS DUE FROM/(TO) PARTICIPATING INSTITUTIONS

The Group acquired overdraft accounts attached to debtor loan accounts in 2010 and 2011. The balance as at 31 December 2017 related solely to unsettled overdraft positions in place with Bank of Ireland (BOI), following the complete settlement of all amounts receivable from AIB during 2016. There was a complete settlement of all amounts receivable from BOI during 2018.

Unsettled overdraft positions	Receivable €'000	Payable €'000
Balance at 31 December 2017	**20,151**	**(10,686)**
Movement in overdraft accounts during the financial year	(20,151)	10,686
Balance as at 31 December 2018	**-**	**-**

21. 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 26, 27 and 28.

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 on-going basis with reference to the current fair value.

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

Group 31 December 2018	Notional amount €'000	Fair values Assets €'000	Fair values Liabilities €'000	Net €'000
Derivatives at fair value through profit or loss				
Derivative financial instruments acquired from borrowers	38,868	7,695	-	7,695
Other derivative financial instruments	20,000	-	(2,808)	(2,808)
Foreign currency derivatives	44,996	31	(445)	(414)
Total derivative assets/(liabilities)	**103,864**	**7,726**	**(3,253)**	**4,473**

Group 31 December 2017	Notional amount €'000	Fair values Assets €'000	Fair values Liabilities €'000	Net €'000
Derivatives at fair value through profit or loss				
Derivative financial instruments acquired from borrowers	42,149	16,972	-	16,972
Other derivative financial instruments	20,000	-	(2,687)	(2,687)
Foreign currency derivatives	421,554	1,465	(1,688)	(223)
Total derivative assets/(liabilities)	**483,703**	**18,437**	**(4,375)**	**14,062**

Movement recognised in the income statement

The table below shows the net fair value position on derivatives at 31 December 2018 and 2017. The movement is recognised in the consolidated income statement.

Group	Note	Fair values 2018 €'000	Fair values 2017 €'000	Movement 2018 €'000
Derivatives at fair value through profit or loss				
Derivative financial instruments acquired from borrowers		7,695	16,972	(9,277)
Other derivative financial instruments		(2,808)	(2,687)	(121)
Foreign currency derivatives	*14*	(414)	(223)	(191)
Net derivative fair value movement		**4,473**	**14,062**	**(9,589)**

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 €7.7m (2017: €17m). The fair value movement recognised in the income statement on these derivatives in the financial year was a net loss of €9.3m (2017: €2.4m).

The fair value movement recognised in the income statement in the financial year on other derivative financial instruments was a net loss of €0.1m (2017: net gain €0.6m). 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 acquired.

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

Notes to the Financial Statements (continued)

22. DEBTOR LOANS/INTERCOMPANY LOAN MEASURED AT FVTPL

Group	2018 €'000
Debtor loans measured at fair value through profit or loss	1,925,462

The above reflects the carrying value of the debtor loans at the reporting date which have been classified and measured at FVTPL. The Group assesses the classification and measurement of each financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing that asset. A significant proportion of the Group's loan portfolio, which was reported as 'Loans and receivables' and measured at amortised cost prior to 1 January 2018, is now classified as 'Debtor loans measured at FVTPL' under IFRS 9. Included within this balance are debtor loans acquired from the participating institutions, shareholder loans and a guaranteed income stream.

The following table summarises the movement in debtor loans measured at FVTPL for the reporting period.

Group	*Note*	2018 €'000
Application of IFRS 9		
Loans and receivables carrying value under IAS 39 before impairment	*24*	4,399,498
Provision for impairment charges on loans and receivables under IAS 39	*15*	(1,405,783)
Adjustment on initial application of IFRS 9	*41*	168,887
		3,162,602
Movement in year		
Receipts on debtor loans at FVTPL		(2,560,702)
Advances to borrowers		499,633
Foreign exchange gains on debtor loans at FVTPL	*14*	767
Other movements on debtor loans at FVTPL		38,135
Profit on disposal and refinancing of debtor loans at FVTPL	*10*	179,823
Fair value gains on debtor loans at FVTPL	*4*	605,204
Total debtor loans measured at FVTPL		**1,925,462**

Agency	2018 €'000
Intercompany loan measured at FVTPL	3,536,554

The above reflects the carrying value of the profit participating loan to NAM at the reporting date which have been classified and measured at fair value through profit or loss. This loan was classified as a 'Loans and receivables' and measured at amortised cost prior to 1 January 2018 and is now classified as 'Intercompany loan measured at fair value through profit or loss' under IFRS 9.

The following table summarises the movement in debtor loans measured at FVTPL for the reporting period

Agency	*Note*	2018 €'000
Application of IFRS 9		
Interest receivable on PPL to NAM as reclassified under IFRS 9	*33*	3,535,296
Movement in year		
Interest income on intercompany loan measured at FVTPL	*4*	1,258
Total intercompany loan measured at FVTPL		**3,536,554**

As this intercompany loan is on demand there is no fair value gain or loss.

23. DEBTOR LOANS MEASURED AT FVOCI

Group	2018 €'000
Debtor loans measured at fair value through other comprehensive income	-

The above table reflects the carrying value of the debtor loans at the reporting date which have been classified and measured at fair value through other comprehensive income. The Group assess the classification and measurement of each financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing that asset. Debtor loans classified as financial assets at FVOCI were vendor finance loans. The loans were fully refinanced during 2018.

The following table summarises the movement in debtor loans measured at FVOCI for the reporting period.

Group	*Note*	2018 €'000
Application of IFRS 9		
Loans and receivables carrying value under IAS 39 after impairment	*24*	199,790
Movement in year		
Receipts on debtor loans at FVOCI		(203,532)
Foreign exchange gain on debtor loans at FVOCI	*14*	688
Interest earned on debtor loans at FVOCI	*5*	2,020
Profit on disposal and refinancing of debtor loans at FVOCI	*10*	1,034
Total debtor loans measured at FVOCI		**-**

24. LOANS AND RECEIVABLES (NET OF IMPAIRMENT)

Group	*Note*	2018 €'000	2017 €'000
Loans and receivables carrying value before impairment		-	4,599,288
Less: provision for impairment charges on loans and receivables	*15*	-	(1,405,783)
Total loans and receivables (net of impairment)		**-**	**3,193,505**

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, including funds advanced to borrowers, less any additional impairment deemed to have occurred subsequent to acquisition.

Notes to the Financial Statements (continued)

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

The following table summarises the movement in loans and receivables for the reporting period.

Reconciliation of movement in loans and receivables

Group	Note	2018 €'000	2017 €'000
Loans acquired – opening balance		**4,599,288**	**5,496,080**
Application of IFRS 9			
Loans and receivables reclassified to debtor loans measured at FVTPL	*22*	(4,399,498)	-
Loans and receivables reclassified to debtor loans measured at FVOCI	*23*	(199,790)	-
Loans acquired – opening balance adjusted for application of IFRS 9		-	5,496,080
New loans acquired in the year	*24.1*	-	18,000
Proceeds from and payments to borrowers			
Non-disposal income	*24.2*	-	(110,402)
Proceeds from the sale of collateral held as security against loans and receivables and other loan repayments	*24.3*	-	(1,636,836)
Proceeds from the sale of loans	*24.4*	-	(22,342)
Deferred consideration on loan sales	*24.5*	-	(241,835)
Funds advanced to borrowers		-	594,331
Funds in the course of collection	*24.6*	-	(316)
Costs recoverable from borrowers	*24.7*	-	3,292
Total proceeds from and payments to borrowers		**-**	**(1,414,108)**
Other loan movements			
Loan interest income earned	*5*	-	248,238
Profit on disposal of loans	*10*	-	63,084
Surplus income	*12*	-	269,842
Foreign exchange loss on loans and receivables	*14*	-	(20,999)
Impairment crystallised from disposals	*15,24.8*	-	(142,521)
Movement in consideration for trading properties	*24.9*	-	98,664
Conversion of shareholder loan to equity	*24.10*	-	(12,243)
Other		-	(4,749)
Total other loan movements		**-**	**499,316**
Total loan movements		**(4,599,288)**	**(896,792)**
Total loans and receivables before impairment		**-**	**4,599,288**
Impairment of loans and receivables	*15*	-	(1,405,783)
Net loans and receivables after impairment		**-**	**3,193,505**

On initial application of IFRS 9, the loans and receivables balance was reclassified to debtor loans measured at FVTPL and debtor loans measured at FVOCI.

24.1 New loans acquired

New loans acquired in 2017 related to loans of €18m acquired during the period in relation to existing NAMA debtors.

24.2 Non-disposal income

Non-disposal income receipts recorded against NAMA's loans and receivables in 2017 were €110m. This amount primarily comprised rental income on collateral received during the financial year.

24.3 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 and other loan repayments of €1.6bn in 2017 represented any receipts relating to the disposal of assets applied as a reduction in the debt held by NAMA.

24.4 Proceeds from the sale of loans

Proceeds from the sale of loans of €22m in 2017 represented any receipts relating to the disposal of loans and receivables by the Group.

24.5 Deferred consideration on loan sales

Deferred consideration was recognised in Other assets in 2017 (Note 33). This related to loan sales which were contracted pre year-end, and the full proceeds of sales were received post year-end.

24.6 Funds in the course of collection

Funds in the course of collection comprise transactions which clear bank accounts after the reporting date but which related to transactions occurring within the reporting period.

24.7 Costs recoverable from borrowers

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

24.8 Impairment crystallised from disposals

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

24.9 Movement in consideration for trading properties

Movement in consideration for trading properties comprised the movement in carrying values of property assets which were contracted for purchase by NAMA 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 properties in the Dublin Docklands Strategic Development Zone. The consideration for these 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 25, Inventories – trading properties. Periodic valuations of these contracted assets can result in increases or decreases to carrying values, which will result in equal and opposite changes being recognised in loans and receivables.

24.10 Conversion of shareholder loan to equity

Included in 'Conversion of shareholder loan to equity' in 2017 were amounts totaling €12.2m related to the conversion of a shareholder loan to an equity investment in a QIAIF held by the Group.

Notes to the Financial Statements (continued)

25. INVENTORIES – TRADING PROPERTIES

Group	2018 €'000	2017 €'000
Trading properties	**229,747**	**277,357**

Trading properties are recognised in accordance with accounting policy 2.19.

The movement in carrying values in 2018 relates to the disposal of property assets previously acquired and the revaluation of property assets to the lower of cost or net realisable value.

26. 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, price 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.

As a result of acquiring loans and derivatives, NAMA is exposed to currency and interest rate risks. Foreign currency risk arises at the point of loan acquisition when euro-denominated securities are issued as consideration for loan assets in GBP or other currencies, thereby creating an asset/liability currency mismatch for NAMA. NAMA also faces ongoing currency risks after loan acquisition as non-euro facilities are drawn, repaid or rescheduled and assets are disposed. NAMA is also exposed to interest rate risk on acquired loans and derivatives. The current and expected performance of a loan or derivative is a key driver in the assessment of the interest rate risk to be managed.

The Risk Management Committee and the Board have adopted a prudential liquidity policy which incorporates 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 Management and Recovery, 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, the Participating Institutions and the Primary and Master Servicer and it monitors and reports to the Audit Committee and Board the progress in addressing actions highlighted in audit findings. The Quality Assurance team reviews the portfolio of NAMA assets to assess the level of compliance with policies and procedures and to provide advice where opportunities for enhanced control are identified.

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.

26.1 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 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 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.

26.2 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 NTMA'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 reporting to the Risk Management Committee with detailed analysis of all significant risk positions and compliance with risk limits.

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 as required to review the market risk profile following changes in the risk position or market influences and to ensure compliance with the decisions of the Board and the Risk Management Committee. The reporting produced by the NTMA Risk unit includes analysis of all significant risk positions and compliance with risk limits.

Notes to the Financial Statements (continued)

26. RISK MANAGEMENT (CONTINUED)

26.3 Market risk measurement

26.3.1 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. The Group employs risk sensitivities, risk factor stress testing and scenario analysis to monitor and manage interest rate risk. Risk sensitivities are calculated by measuring an upward parallel shift in the yield curve to assess the impact of interest rate movements.

Information provided by the sensitivity analysis does not necessarily represent the actual change in fair value that the Group would incur under normal market conditions because, due to practical limitations, all variables other than the specific market risk factors are held constant.

The following tables summarise the Group's and the Agency's time-bucketed (defined by the earlier of contractual re-pricing or maturity date) exposure to interest rate re-set risk. It sets out, by time bucket, the assets and liabilities which face interest rate re-setting. Financial instruments are shown at nominal amounts.

Interest rate risk Group 2018	**0-6 months €'000**	**Non- interest bearing €'000**	**Total €'000**
Financial assets			
Cash and cash equivalents	2,689,891	-	**2,689,891**
Cash placed as collateral with the NTMA	25,000	-	**25,000**
Government bonds	430,000	-	**430,000**
Debtor loans measured at FVTPL	1,925,462	-	**1,925,462**
Investments in equity instruments	-	54,539	**54,539**
Other assets	-	20,752	**20,752**
Total financial assets exposed to interest rate re-set	**5,070,353**	**75,291**	**5,145,644**
Financial liabilities			
Other liabilities	-	30,543	**30,543**
Total financial liabilities exposed to interest rate re-set	**-**	**30,543**	**30,543**

Interest rate risk Group 2017	**0-6 months €'000**	**Non-interest bearing €'000**	**Total €'000**
Financial assets			
Cash and cash equivalents	733,470	-	**733,470**
Cash placed as collateral with the NTMA	25,000	-	**25,000**
Available for sale financial assets	430,000	-	**430,000**
Loans and receivables	3,193,505	-	**3,193,505**
Amounts due from Participating Institutions	-	20,151	**20,151**
Investments in equity instruments	-	65,709	**65,709**
Other assets	-	259,395	**259,395**
Total financial assets exposed to interest rate re-set	**4,381,975**	**345,255**	**4,727,230**
Financial liabilities			
Amounts due to Participating Institutions	-	10,686	**10,686**
Other liabilities	-	14,201	**14,201**
Total financial liabilities exposed to interest rate re-set	**-**	**24,887**	**24,887**

26.3 Market risk measurement (continued)

26.3.1 Interest rate risk (continued)

Interest rate risk Agency 2018	0-6 months €'000	Non-interest bearing €'000	Total €'000
Financial assets			
Cash and cash equivalents	132	-	**132**
Intercompany loans measured at FVTPL	3,536,554	-	**3,536,554**
Other assets	-	13,116	**13,116**
Total financial assets exposed to interest rate re-set	**3,536,686**	**13,116**	**3,549,802**
Financial liabilities			
Interest bearing loans and borrowings	53,426	-	**53,426**
Other liabilities	-	14,466	**14,466**
Total financial liabilities exposed to interest rate re-set	**53,426**	**14,466**	**67,892**

Interest rate risk Agency 2017	0-6 months €'000	Non- interest bearing €'000	Total €'000
Financial assets			
Cash and cash equivalents	59	-	**59**
Other assets	-	3,540,144	**3,540,144**
Total financial assets exposed to interest rate re-set	**59**	**3,540,144**	**3,540,203**
Financial liabilities			
Interest bearing loans and borrowings	53,568	-	**53,568**
Other liabilities	-	6,644	**6,644**
Total financial liabilities exposed to interest rate re-set	**53,568**	**6,644**	**60,212**

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 2018. The figures take account of the effect of hedging instruments and debtor loans.

Interest rate sensitivity analysis – a 50bp move across the interest rate curve

	2018		2017	
Group	**+50bp €'000**	**-50bp €'000**	**+50bp €'000**	**-50bp €'000**
EUR	(1,937)	1,907	(3,073)	(3,053)
GBP	(28)	28	(423)	423
USD	(5)	5	(16)	16

The Agency's financial assets and financial liabilities are interest rate insensitive.

Notes to the Financial Statements (continued)

26. RISK MANAGEMENT (CONTINUED)

26.3 Market risk measurement (continued)

26.3.2 Foreign exchange risk

As part of the acquisition of loans and derivatives from the Participating Institutions, the Group acquired a number of loans 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 2018. 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 2018	**USD €'000**	**GBP €'000**	**Total €'000**
Assets			
Cash and cash equivalents	274	2,074	2,348
Debtor loans measured at FVTPL	6,222	27,013	33,235
Derivative financial instruments	(6,987)	(38,009)	(44,996)
Net exposure to foreign currency risk	**(491)**	**(8,922)**	**(9,413)**

Group 2017	**USD €'000**	**GBP €'000**	**Total €'000**
Assets			
Cash and cash equivalents	608	4,954	5,562
Loans and receivables	17,043	402,424	419,467
Derivative financial instruments	(19,178)	(402,376)	(421,554)
Net exposure to foreign currency risk	**(1,527)**	**5,002**	**3,475**

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 2018 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	**2018 €'000**	**2017 €'000**
GBP	811	(455)
USD	45	139

26.3.3 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 risk is monitored through the review of net asset valuations, which are provided by the fund managers.

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 the fair values of the equity investment held had been 10% higher/lower, profit before taxation for the financial year ended 31 December 2018 would increase/decrease by €5.5m (2017: €6.6m) as a result of the changes in fair value of NAMA's equity instruments, which are classified as fair value through profit or loss, in accordance with accounting policy 2.7.

The Agency is not exposed to other price risk.

27. 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.

NAMA is also exposed to concentration risk arising from exposures across its loan book. Concentrations in particular portfolio sectors, such as property, can impact the overall level of credit risk.

The Group's debtor-related exposures arose 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 other financial assets 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 two divisions of the Group being Asset Management and Recovery and Residential Delivery.

NAMA Asset Management and Recovery

The Asset Management and Recovery Division was created in 2018 through the merger of the Asset Recovery and Asset Management Divisions. It is responsible for maximising recovery from real estate backed loans, through intensive management and phased deleveraging. It also works with debtors, receivers and joint venture partners so as to identify, develop and manage secured assets where value can be added and future cashflow enhanced, thus supporting the achievement of NAMA's wider strategic objectives.

As part of maximising recovery there is significant interaction with debtors/insolvency practitioners and this 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, service provider 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.

The division is also responsible for the oversight and management of significant development land held by NAMA debtors and insolvency practitioners including extensive areas of the Dublin Docklands SDZ and the former Irish Glass Bottle ("IGB") site in Ringsend which are held as collateral for the loans of various connections in receivership. The division is also responsible for the management of NAMA's minority shareholdings in certain investment vehicles 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 31).

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 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.

Notes to the Financial Statements (continued)

27. CREDIT RISK (CONTINUED)

Policy and Procedures Framework

The overall objective of the Group's Policy and Procedures Governance Framework is to assist in implementing and maintaining an efficient and effective control environment.

Ultimate responsibility for the management of credit risk in the Group rests with the Board. Credit risk management and control is implemented by the two 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 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 or enforcement action;
- An asset management proposal for secured assets, e.g. approving new leases; and
- An action by a third party concerning a common debtor e.g. non participating institution/ insolvency practitioner.

A number of debtors' NAMA-approved work-out strategies 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 or actions in a number of cases. Where appropriate, payment of development management fees is 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.

27.1 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 €23.1bn (2017: €25.8bn).
- NAMA debt exposure - the acquisition amount paid by the Group (plus any new money lent by the Group, fair value changes 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 €1.9bn (2017: €4.6bn).

In accordance with Section 10 of the Act, NAMA is required to expeditiously 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). At the reporting date, three of these derivative instruments remained, with an outstanding fair value of €7.7m (2017: €17m).

Concentration risk

Concentration risk arises where any single exposure or group of exposures, based on common risk characteristics, has the potential to produce losses large enough relative to the Group's capital, total assets, earnings or overall risk level to threaten its ability to deliver its core objectives.

The Group carefully manages its exposure to risk through the Group's risk appetite statement and monitors exposures to prevent excess concentration of risk. Concentration risk to divisions and sectors, and movements in such concentrations are monitored regularly to prevent excessive concentration of risk, and to provide early warning for potential excesses. These measures facilitate the measurement of concentrations within the Group and in turn facilitate appropriate management action and decision making.

27.2 Credit risk assessment

Credit risk assessment focuses on debtor and counter party 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.

27.3 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 and Insolvency Practitioner work-out strategies 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; and
- Debtor and third party costs required to implement approved work-out strategies.

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);
- CEO and Head of Division;
- Credit Committee;
- Board.

Oversight of the compliance with the Delegated Authority Policy is performed by the Business Management Team, and by the internal audit function.

Specific control and mitigation measures adopted by the Group are outlined below:

(a) Cash Management

Management of cash within a debtor connection is a key control with the aim of ensuring that overheads, working capital or development capital expenditure payments are appropriate and verified so that potential cash leakage is eliminated. The full visibility of all rental/trading income and asset sales income including income derived from completed NAMA funded residential units is also required.

Notes to the Financial Statements (continued)

27. CREDIT RISK (CONTINUED)

27.3 Credit risk control (continued)

(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.

The principal collateral types acceptable for credit risk mitigation of loans 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.

27.4 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 at 31 December 2018, 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 2018 €'000	Maximum exposure 2017 €'000
Cash and cash equivalents		2,689,891	733,470
Cash placed as collateral with the NTMA		25,000	25,000
Available for sale financial assets		-	495,097
Government bonds		470,746	-
Amounts due from Participating Institutions		-	20,151
Derivative financial instruments		7,726	18,437
Loans and receivables			
Land and development		-	2,267,831
Investment property		-	2,331,457
Impairment		-	(1,405,783)
Loans and receivables (net of impairment)		-	3,193,505
Debtor loans measured at FVTPL		1,925,462	-
Other assets		20,752	259,395
Investments in equity instruments		54,539	65,709
Total assets		**5,194,116**	**4,810,764**
Loan commitments	*28.4*	462,304	493,450
Total maximum exposure		**5,656,420**	**5,304,214**

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

Agency	Maximum exposure 2018 €'000	Maximum exposure 2017 €'000
Cash and cash equivalents	132	59
Intercompany loan at FVTPL	3,536,554	-
Investments in subsidiaries	49,000	49,000
Other assets	13,116	3,540,144
Total maximum exposure	**3,598,802**	**3,589,203**

27.5 Information regarding the credit quality of debtor loans and other financial instruments

(a) Debtor loans

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.
- 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 possible grade outcomes can be summarised into the following categories:

- *Satisfactory:* Connection deemed to be co-operating with NAMA with agreed milestones being achieved
- *Watch:* Connection requires closer monitoring with evidence of actual/potential milestone slippage
- *Other:* Connection has had milestone slippage and/or has an insolvency practitioner appointed

The table below sets out the distribution of debtor loans at FVTPL based on the 3 possible grade outcomes at year end.

	2018 €'000
Satisfactory	732,327
Watch	309,170
Other	883,965
Debtor loans	**1,925,462**

The change in fair value on debtor loans is primarily attributable to changes in credit risk associated with the underlying debtors and secured collateral.

All the assets of the Agency are inter-group assets and are current.

(b) Other financial instruments amounts

The credit quality of the following financial instrument amounts at the reporting date have been graded satisfactory.

- Cash and cash equivalents
- Government bonds
- Other derivatives
- Investments in equity instruments
- Other assets

The credit quality of derivatives acquired is linked to the credit quality of the related debtor loans in Note 27.5(a).

Default occurs when a counterparty does not meet its obligations.

Notes to the Financial Statements (continued)

27. CREDIT RISK (CONTINUED)

27.5 Information regarding the credit quality of debtor loans and other financial instruments (continued)

(b) Other financial instruments amounts (continued)

Government bonds comprise Irish treasury bonds which are held for liquidity management purposes. The bonds are traded in an active market and are readily convertible to cash. The bonds at 31 December 2018 have a credit rating of A+/A2. There is a very low credit risk of these bonds defaulting or otherwise materially reducing in value.

Cash and cash equivalents and collateral are held with central banks and other banks/counterparties which have a very low risk of default and a low credit risk profile. All banks/counterparties are rated investment grade by credit rating agencies at 31 December 2018.

27.6 Geographical reporting

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

Geographical reporting 2018 Group	Ireland excluding Northern Ireland €'000	UK including Northern Ireland €'000	Rest of World €'000	Total €'000
Debtor loans measured at FVTPL				
– Land and development	1,255,208	11,938	2,118	**1,269,264**
– Investment property	612,875	14,826	28,497	**656,198**
Total debtor loans	**1,868,083**	**26,764**	**30,615**	**1,925,462**
Cash and cash equivalents	2,689,891	-	-	**2,689,891**
Cash placed as collateral with the NTMA	25,000	-	-	**25,000**
Government bonds	470,746	-	-	**470,746**
Derivative financial instruments	7,726	-	-	**7,726**
Other assets	20,752	-	-	**20,752**
Investments in equity instruments	54,539	-	-	**54,539**
Total assets	**5,136,737**	**26,764**	**30,615**	**5,194,116**

27.6 Geographical reporting (continued)

Geographical reporting 2017 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	1,967,531	196,717	103,583	-	**2,267,831**
– Investment property	1,846,617	346,884	137,956	-	**2,331,457**
Impairment of loans and receivables	-	-	-	(1,405,783)	**(1,405,783)**
Total loans and receivables	**3,814,148**	**543,601**	**241,539**	**(1,405,783)**	**3,193,505**
Cash and cash equivalents	733,470	-	-	-	**733,470**
Cash placed as collateral with the NTMA	25,000	-	-	-	**25,000**
Available for sale financial assets	495,097	-	-	-	**495,097**
Derivative financial instruments	18,437	-	-	-	**18,437**
Amounts due from Participating Institutions	20,151	-	-	-	**20,151**
Other assets	259,395	-	-	-	**259,395**
Investments in equity instruments	51,611	-	14,098	-	**65,709**
Total assets	**5,417,309**	**543,601**	**255,637**	**(1,405,783)**	**4,810,764**

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.

28. 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.

28.1 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 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.

In 2018, the key liquidity risk for the Group is the settlement of other liabilities. Prior to 31 December 2017, the key liquidity risk for the Group was the funding of the senior debt securities (securities) issued by NAMA as consideration for 95% of the value of acquired assets.

Notes to the Financial Statements (continued)

28. LIQUIDITY RISK (CONTINUED)

28.2 Non-derivative cash flows

The following table presents the cash flows payable by the Group and the Agency on foot of its non-derivative financial liabilities by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative cash flows Group 31 December 2018	**0-6 months €'000**	**Total €'000**
Liabilities		
Other liabilities	30,380	**30,380**
Total liabilities	**30,380**	**30,380**
Assets held for managing liquidity risk	**3,185,637**	**3,185,637**

Non-derivative cash flows Group 31 December 2017	**0-6 months €'000**	**Total €'000**
Liabilities		
Amounts due to Participating Institutions	10,686	10,686
Other liabilities	14,037	14,037
Total liabilities	**24,723**	**24,723**
Assets held for managing liquidity risk	**1,253,567**	**1,253,567**

Non-derivative cash flows Agency 31 December 2018	**0-6 months €'000**	**Total €'000**
Liabilities		
Interest bearing loans and borrowings	53,426	**53,426**
Other liabilities	14,466	**14,466**
Total liabilities	**67,892**	**67,892**
Assets held for managing liquidity risk	**132**	**132**

Non-derivative cash flows Agency 31 December 2017	**0-6 months €'000**	**Total €'000**
Liabilities		
Interest bearing loans and borrowings	53,568	53,568
Other liabilities	6,644	6,644
Total liabilities	**60,212**	**60,212**
Assets held for managing liquidity risk	**59**	**59**

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash and cash equivalents, collateral and government bonds. Assets held for managing liquidity risk do not take into account debtor loan balances which are on-demand.

28.3 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 31 December 2018	0-6 months €'000	6 -12 months €'000	1-5 years €'000	Over 5 years €'000	Total €'000
Interest rate derivatives	905	398	3,286	915	**5,504**

Group 31 December 2017	0-6 months €'000	6 -12 months €'000	1-5 years €'000	Over 5 years €'000	Total €'000
Interest rate derivatives	978	488	4,184	1,988	**7,638**

(b) Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis include:

- Foreign exchange derivatives: currency forwards, currency swaps; and
- Cross currency interest rate swaps.

The following table analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group 31 December 2018	0-6 months €'000	Total €'000
Foreign exchange derivatives:		
– Outflow	(44,996)	(44,996)
– Inflow	44,463	44,463
Total outflow	**(533)**	**(533)**

Group 31 December 2017	0-6 months €'000	Total €'000
Foreign exchange derivatives:		
– Outflow	(421,554)	(421,554)
– Inflow	420,274	420,274
Total outflow	**(1,280)**	**(1,280)**

28.4 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 2018	297,215	160,362	4,727	**462,304**
31 December 2017	188,864	295,205	9,381	**493,450**

The Agency has no loan commitments.

Notes to the Financial Statements (continued)

29. 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	2018 Carrying value €'000	2018 Fair value €'000	2017 Carrying value €'000	2017 Fair value €'000
Financial assets				
Cash and cash equivalents	2,689,891	2,689,891	733,470	733,470
Cash placed as collateral with the NTMA	25,000	25,000	25,000	25,000
Available for sale financial assets	-	-	495,097	495,097
Government bonds	470,746	470,746	-	-
Amounts due from Participating Institutions	-	-	20,151	20,151
Derivative financial instruments	7,726	7,726	18,437	18,437
Loans and receivables	-	-	3,193,505	3,345,456
Debtor loans measured at FVTPL	1,925,462	1,925,462	-	-
Other assets	20,752	20,752	282,339	282,339
Investments in equity instruments	54,539	54,539	65,709	65,709
Total assets	**5,194,116**	**5,194,116**	**4,833,708**	**4,985,659**
Financial liabilities				
Amounts due to Participating Institutions	-	-	10,686	10,686
Derivative financial instruments	3,253	3,253	4,375	4,375
Other liabilities	30,543	30,543	14,201	14,201
Total liabilities	**33,796**	**33,796**	**29,262**	**29,262**

Agency	2018 Carrying value €'000	2018 Fair value €'000	2017 Carrying value €'000	2017 Fair value €'000
Financial assets				
Cash and cash equivalents	132	132	59	59
Intercompany loan at FVTPL	3,536,554	3,536,554	-	-
Other assets	13,116	13,116	3,540,144	3,540,144
Investment in subsidiaries	49,000	49,000	49,000	49,000
Total assets	**3,598,802**	**3,598,802**	**3,589,203**	**3,589,203**
Financial liabilities				
Interest bearing loans and borrowings	53,426	53,426	53,568	53,568
Other liabilities	14,466	14,466	6,644	6,644
Total liabilities	**67,892**	**67,892**	**60,212**	**60,212**

Financial assets and liabilities 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 cash is its carrying amount due to its short term nature.

(b) Fair value hierarchy

IFRS 13 *Fair Value Measurement* 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 government bonds 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 net asset value of the underlying companies. The net asset values of the underlying companies are primarily derived from the fair value of the underlying properties. The fair value is calculated using a residual valuation approach and market evidence of comparable transactions. The significant unobservable component used for valuation is net asset value. This level also includes debtor loans measured at FVTPL. The valuation methodology for debtor loans at FVTPL is to estimate the expected cash flows to be generated by the financial asset and then discount these values back to a present value. The assumptions involved in this technique include:
  - determining suitable stratifications for the portfolio to segment assets with similar risk characteristics (Deleveraging Retail, Deleveraging Land & Development, Deleveraging Residential, Deleveraging Commercial, Deleveraging NRE, L&D Core Active, L&D Core Not Active);
  - the likelihood and expected timing of future cash flows; and
  - selecting an appropriate discount rate for the financial asset or group of financial assets, based on management's assessment of the characteristics of the instrument and relevant market information. Discount rates range from 7% to 12%.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

Fair value hierarchy for assets and liabilities measured at fair value

Group 31 December 2018	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Assets				
Derivative financial instruments	-	7,695	-	**7,695**
Foreign currency derivatives	-	31	-	**31**
Debtor loans measured at FVTPL	-	-	1,925,462	**1,925,462**
Government bonds	470,746	-	-	**470,746**
Investments in equity instruments	-	-	54,539	**54,539**
Total assets	**470,746**	**7,726**	**1,980,001**	**2,458,473**
Liabilities				
Derivative financial instruments	-	2,808	-	**2,808**
Foreign currency derivatives	-	445	-	**445**
Total liabilities	**-**	**3,253**	**-**	**3,253**

Notes to the Financial Statements (continued)

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

(b) Fair value hierarchy (continued)

Group 31 December 2017	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Assets				
Derivative financial instruments	-	16,972	-	**16,972**
Foreign currency derivatives	-	1,465	-	**1,465**
Available for sale financial assets	495,097	-	-	**495,097**
Investments in equity instruments	-	-	65,709	**65,709**
Total assets	**495,097**	**18,437**	**65,709**	**579,243**
Liabilities				
Derivative financial instruments	-	2,687	-	**2,687**
Foreign currency derivatives	-	1,688	-	**1,688**
Total liabilities	**-**	**4,375**	**-**	**4,375**

Agency 31 December 2018	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Assets				
Intercompany loan measured at FVTPL	-	-	3,536,554	**3,536,554**
Total assets	**-**	**-**	**3,536,554**	**3,536,554**

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole at the end of each reporting period). The Group's policy is to recognise transfers into and out of the fair value hierarchy levels at the date of the event or change in circumstances that caused the transfer.

There were no transfers between hierarchy levels during 2018. Due to the application of IFRS 9, loans and receivable which were measured at amortised cost are now measured either at fair value through profit or loss or at fair value through other comprehensive income.

IFRS 13 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 1.

None of the assets and liabilities of the Agency are carried at fair value apart from the intercompany loan measured at fair value through profit or loss.

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*	2018 €'000	2017 €'000
Balance as at 1 January		65,709	55,500
Additional investments		3,215	15,446
Disposal of investments		(12,542)	-
Fair value movements	*8*	(1,843)	(5,237)
Balance as at 31 December		**54,539**	**65,709**

Included in fair value movements is a realised loss of €1.9m which was incurred during the financial year (2017: €Nil).

Group **Debtor loans at FVTPL**	**2018** **€'000**
Balance as at 1 January	3,162,602
Receipts on debtor loans at FVTPL	(2,560,702)
Advances to borrowers	499,633
Foreign exchange losses on debtor loans at FVTPL	767
Other movements on debtor loans at FVTPL	38,135
Profit on disposal and refinancing of debtor loans at FVTPL	179,823
Fair value gains on debtor loans at FVTPL	605,204
Balance as at 31 December	**1,925,462**

Agency **Intercompany loans at FVTPL**	**2018** **€'000**
Balance as at 1 January	3,535,296
Interest earned	1,258
Balance as at 31 December	**3,536,554**

Quantitative information about fair value measurements (Level 3)

			Fair value	
Level 3 assets	**Valuation technique**	**Unobservable input**	**31 December 2018 €'000**	**31 December 2017 €'000**
Investments in equity instruments	Residual valuation approach	(1) Net asset value	54,539	65,709
Debtor loans	Discounted cashflow	(1) Portfolio Stratification (2) Timing of cashflows (3) Discount rates	1,925,462	-

The intercompany loan is repayable on demand so the par value is its fair value.

Sensitivity of Level 3 measurements

The implementation of valuation techniques involves a considerable degree of judgement. The sensitivity analysis has been determined based on the exposure to possible alternative assumptions in the valuation methodology at the end of the reporting period. It is considered that a 10% increase in the net asset value of equity investment would result in a 10% increase in fair value.

Notes to the Financial Statements (continued)

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

(b) Fair value hierarchy (continued)

Sensitivity of Level 3 measurements (continued)

The sensitivity analysis for debtor loans measured at FVTPL is set out below

The table below shows the impact of changes in collateral values on fair value on debtor loans.

Sector	+/-1% €m	+/-3% €m	+/-5% €m
Land and Development	+/- 13	+/- 40	+/- 67
Investment Property	+/- 7	+/- 21	+/- 35
Total	**+/- 20**	**+/- 61**	**+/- 102**

The table below shows the impact of changes in discount factors on fair value on debtor loans.

Sector	(5%) €m	(3%) €m	(1%) €m	+1% €m	+3% €m	+5% €m
Land and Development	94	55	18	(17)	(51)	(83)
Investment Property	43	25	8	(8)	(24)	(38)
Total	**137**	**80**	**26**	**(25)**	**(75)**	**(121)**

The table below shows the impact of changes in timing of cash flows on fair value on debtor loans.

Sector	+3 months €m	(3) months €m
Land and Development	(32)	33
Investment Property	(14)	14
Total	**(46)**	**47**

Categories of financial assets and financial liabilities

Financial assets and liabilities are categorised in accordance with IFRS 9 as follows:

- Amortised cost
- Fair value through profit or loss (FVTPL)
- Fair value through other comprehensive income (FVOCI)

Financial assets Group 31 December 2018	**Amortised Cost €'000**	**FVTPL €'000**	**FVOCI €'000**
Cash and cash equivalents	2,689,891	-	-
Cash placed as collateral with the NTMA	25,000	-	-
Government bonds	-	-	470,746
Derivative financial instruments	-	7,726	-
Debtor loans	-	1,925,462	-
Investments in equity instruments	-	54,539	-
Other assets	20,752	-	-

Categories of financial assets and financial liabilities (continued)

Financial liabilities **Group** **31 December 2018**	**Amortised cost** **€'000**	**FVTPL** **€'000**
Derivative financial instruments	-	3,253
Other liabilities	30,543	-

Financial assets **Group** **31 December 2017**	**Loans and receivables** **€'000**	**FVTPL** **€'000**	**AFS** **€'000**
Cash and cash equivalents	733,470	-	-
Cash placed as collateral with the NTMA	25,000	-	-
Available for sale financial assets	-	-	495,097
Amounts due from Participating Institutions	20,151	-	-
Derivative financial instruments	-	18,437	-
Loans and receivables	3,193,505	-	-
Investments in equity instruments	-	65,709	-
Other assets	259,395	-	-

Financial liabilities **Group** **31 December 2017**	**Amortised cost** **€'000**	**FVTPL** **€'000**
Amounts due to Participating Institutions	10,686	-
Derivative financial instruments	-	4,375
Other liabilities	14,201	-

In 2018 cash and cash equivalents and other assets in the Agency are classified at amortised cost. The intercompany loan is classified at fair value through profit or loss. Interest bearing loans and borrowings and other liabilities in the Agency are classified as amortised cost.

In 2017 cash and cash equivalents and other assets in the Agency were classified as Loans and receivables. Interest bearing loans and borrowings and other liabilities in the Agency were classified as financial liabilities measured at amortised cost.

Notes to the Financial Statements (continued)

30. PROPERTY, PLANT AND EQUIPMENT

Group and Agency	2018 €'000	2017 €'000
Cost		
Balance at 1 January	**2,546**	**2,546**
Depreciation		
Accumulated depreciation at 1 January	(1,538)	(1,202)
Depreciation charge for the year	(1,008)	(336)
Balance at 31 December	**(2,546)**	**(1,538)**
Net book value at 31 December	**-**	**1,008**

Property, plant and equipment includes lease fit out costs incurred to date. Capitalised lease fit out costs are depreciated over the remaining life of the asset in accordance with accounting policy 2.25. As the Group entered into an agreement for a new premises in 2018, the lease fit out costs for the current building were fully depreciated by the end of 2018.

31. INVESTMENTS IN EQUITY INSTRUMENTS

Group	2018 €'000	2017 €'000
Financial assets at fair value through profit or loss	**54,539**	**65,709**

The Group may invest in equity instruments to maximise value and to facilitate the effective delivery of commercial or residential developments.

The movement in investments is a combination of fair value movements, redemptions and acquisitions. Fair value movements are driven by movements in the net asset value of the underlying funds which is impacted also by distributions made during the year.

The Agency held no investments in equity instruments.

32. 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:

Group	Deferred tax Assets €'000	Deferred tax Liabilities €'000	Deferred tax on IFRS 9 transition adjustment €'000	Total €'000
Balance at 1 January 2018	**1,967**	**(5,420)**	**-**	**(3,453)**
Movement in the financial year	(618)	434	(16,951)	(17,135)
Balance at 31 December 2018	**1,349**	**(4,986)**	**(16,951)**	**(20,588)**
Balance at 1 January 2017	**1,091**	**(11,384)**	**-**	**(10,293)**
Movement in the financial year	876	5,964	-	6,840
Balance at 31 December 2017	**1,967**	**(5,420)**	**-**	**(3,453)**

Movement in deferred tax recognised

Group	*Note*	2018 €'000	2017 €'000
Movement in deferred tax recognised in the income statement (excluding IFRS 9 transitional adjustment)	*16*	(93)	7,854
Movement in deferred tax recognised in other comprehensive income	*17,40*	(91)	(1,014)
Movement in deferred tax recognised in retained earnings for IFRS 9 transitional adjustment	*41*	(21,190)	-
Movement in deferred tax recognised in the income statement for IFRS 9 transitional adjustment	*16*	4,239	-
Total movement in deferred tax in the financial year		**(17,135)**	**6,840**

The Agency has no deferred tax assets or liabilities.

A net deferred tax liability of €20.6m (2017: €3.5m) has been recognised in relation to equity investments, transitional adjustments and financial assets measured at FVOCI. In accordance with accounting standards, deferred tax is recognised where the corresponding entry is accounted for i.e. either in the income statement or in other comprehensive income. With effect from 1 July 2017, any unrealised fair value movements in the derivatives and equity investments held on trading account will no longer be subject to deferred tax as the tax treatment will follow the accounting treatment. Transitional adjustments relating to previous unrealised fair value movements will be brought into the charge to tax over a period of 5 years (or earlier where appropriate) beginning in the prior year. A transitional adjustment has also been recognised on the fair value adjustment to retained earnings following the Group's adoption of IFRS 9. This transitional adjustment will be recognised as a charge to the income statement over a five year period following the initial adoption of IFRS 9.

A deferred tax charge of €0.1m (2017: €1m) has been recognised in other comprehensive income relating to deferred tax on the financial assets measured at FVOCI/available for sale financial assets.

Notes to the Financial Statements (continued)

33. OTHER ASSETS

Group	2018 €'000	2017 €'000
Accrued swap interest receivable	780	830
Deferred consideration on loan sales	-	242,894
Tax prepaid	-	22,944
Other assets	19,972	15,671
Total other assets	**20,752**	**282,339**

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

Deferred consideration on loan sales relates to loan sales which are contracted pre year-end, and the full proceeds of sale were received post year-end.

Included in other assets is an amount receivable of €1.9m (2017:€3.4m) relating to the Deferred Payment Initiative.

Agency	2018 €'000	2017 €'000
Costs reimbursable from NALM	12,507	4,239
Interest receivable on profit participating loan to NAM	-	3,535,296
Other receivables	609	609
Total other assets	**13,116**	**3,540,144**

On the adoption of IFRS 9, the interest receivable on profit participating loan was reclassified to intercompany loan measured at fair value through profit or loss.

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

34. SENIOR DEBT SECURITIES IN ISSUE

Group	2018 €'000	2017 €'000
In issue at the start of the financial year	-	2,590,000
Redeemed during the financial year	-	(2,590,000)
In issue at 31 December	**-**	**-**

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

The outstanding senior debt securities of €2.59bn issued in respect of the original acquisition of loans by NALM were fully repaid during 2017. The debt securities were 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.

Changes in liabilities arising from financing activities

Group	Senior debt securities 2018 €'000	Senior debt securities 2017 €'000
As at the beginning of the year	-	2,590,000
Cash flows		
– Redemption of senior debt securities	-	(2,590,000)
Non-cash changes	-	-
At the end of the year	**-**	**-**

During the year ended 31 December 2018, the non-cash changes in the Agency on liabilities arising from financing activities amounted to €nil (2017: €nil).

35. OTHER LIABILITIES

Group	2018 €'000	2017 €'000
Accrued swap interest payable on other derivatives	163	164
Interest payable on cash and cash equivalents	581	310
Accrued expenses	22,050	8,381
VAT payable	5,017	4,482
Other liabilities	2,732	864
Total other liabilities	**30,543**	**14,201**

Agency	2018 €'000	2017 €'000
Amounts due to the NTMA	6,634	1,726
Amounts due to Group entities	6,449	4,475
Other liabilities	1,383	443
Total other liabilities	**14,466**	**6,644**

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

36. TAX PAYABLE

Group	2018 €'000	2017 €'000
Professional services withholding tax and other taxes payable	885	363
Corporation tax payable	5,234	-
Total tax payable	**6,119**	**363**

Notes to the Financial Statements (continued)

37. 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 was made to the Commission that included an allegation of the unauthorised granting of State aid through NAMA's operations and activities. The Commission has made its decision on this complaint, finding that the alleged measures (a) are "existing" and do not constitute new nor unlawful aid, with regard to certain of the matters alleged, and (b) do not constitute State aid, with regard to the remaining allegations made by the complainants. The complainants have appealed the Commission's decision to the European General Court.

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.

The Group has issued guarantees and letters of comfort at the reporting date but as the possible outflow of economic resources cannot be reliably estimated no further disclosure is being made.

(b) Commitments

The undrawn loan commitments of the Group at the reporting date are set out in Note 28.4.

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 1 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 1.75 years for the first floor.

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

Group and Agency	2018 €'000	2017 €'000
Gross (before reimbursement)		
Less than one year	2,383	2,357
Between one and five years	1,922	4,123
Total future minimum operating lease payments	**4,305**	**6,480**
Reimbursement		
Less than one year	467	890
Total future reimbursements	**467**	**890**
Net (after reimbursement)		
Less than one year	1,916	1,467
Between one and five years	1,922	4,123
Total net future minimum operating lease payments	**3,838**	**5,590**

Following a reduction in occupancy needs of the Group in 2017, part of the first floor and first floor annexe is occupied by other NTMA agencies. The future minimum operating lease commitments note disclosed above includes estimated reimbursement of €0.5m (2017: €0.9m) that will be received from the NTMA agencies for the space that is occupied by them until the NTMA moves to a new premises in 2019.

The Group has agreed heads of terms with the NTMA for occupancy of a new premises with a 4 year term. The arrangement will be finalised in 2019 and the estimated relevant future minimum operating lease payments (which includes rent, fitout and ICT) are set out in the following tables:

Group	2018 €'000
Less than one year	12,539
Between one and five years	5,336
Total future minimum operating lease payments	**17,875**

Other operating leases

Future minimum operating lease rental receipts relating to the trading properties owned by the Group is set out in the following table:

Group	2018 €'000	2017 €'000
Less than one year	12,140	11,614
Between one and five years	48,561	46,382
More than five years	160,175	158,813
Total future minimum operating lease receipts	**220,876**	**216,809**

Operating lease receivables comprise leases held by NARPS (2017: NARPS and NAPM).

Operating leases in NARPS relate to the trading properties owned by the Company with lease terms of 20 years and 9 months. Certain lessees have an option to purchase the units of property at the open market value of the property, discounted by 10%, for a period of 6 months commencing on the fourteenth year of the lease term.

The operating lease in NAPM related to a trading property owned by the Company which was sold in 2018 and which had been leased out to a third party.

The Agency has no future minimum operating lease rental receipts.

38. INTEREST BEARING LOANS AND BORROWINGS

Agency	2018 €'000	2017 €'000
Loan due to NALM and related interest	53,426	53,568

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 €0.14m (2017: €0.13m) was recognised on the loan (Refer to Note 8).

39. OTHER EQUITY

Group	2018 €'000	2017 €'000
In issue at 1 January	1,593,000	1,593,000
Repurchased during the year	(529,000)	-
In issue at 31 December	**1,064,000**	**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 ten 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 €0.3m (2017: €0.7m) was paid to the Revenue Commissioners in respect of the coupon payments in 2018.

Notes to the Financial Statements (continued)

39. OTHER EQUITY (CONTINUED)

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, 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 41).

In 2018, bonds with a nominal value of €529m were repurchased for a total consideration of €571m.

40. OTHER RESERVES

Group	Note	2018 €'000	2017 €'000
Available for sale/financial assets measured at FVOCI reserve			
At 1 January		4,165	13,918
Other adjustments		-	(6,659)
Changes in fair value	*19*	(2,149)	(2,080)
Net movement in reserve before tax	*17*	(2,149)	(8,739)
Deferred tax recognised in other comprehensive income	*17,32*	(91)	(1,014)
At 31 December		**1,925**	**4,165**
Total other reserves		**1,925**	**4,165**

Other reserves comprise the available for sale reserve in 2017 and the financial assets measured at fair value through other comprehensive income reserve in 2018.

Government bonds were classified as available for sale financial assets in accordance with IAS 39 and on the application of IFRS 9 as financial assets measured at fair value through other comprehensive income. Changes in fair value are recognised in reserves. No additional government bonds were acquired during the financial year.

The net movement in other reserves before tax for the year was a decrease of €2m (2017: €9m) which reflects the movement in fair value of the government bonds.

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

Group	2018 €'000	2017 €'000
Retained earnings		
At 1 January	3,430,830	3,034,419
Adjustment on initial application of IFRS 9 (net of tax)	147,697	-
At 1 January (restated on initial application of IFRS 9)	3,578,527	3,034,419
Profit for the financial year	794,592	480,814
Dividend paid on B ordinary shares	(454)	(547)
Coupon paid on subordinated bonds	(83,856)	(83,856)
Premium on repurchase of subordinated bonds	(42,374)	-
At 31 December	**4,246,435**	**3,430,830**
Non controlling interests		
Profit for the financial year	-	-

Agency	2018 €'000	2017 €'000
Retained earnings		
At 1 January	3,529,999	3,313,676
Profit for the financial year	911	216,323
At 31 December	**3,530,910**	**3,529,999**

In March 2018, the Board of NAMAI declared and approved a dividend payment based on the ten year Irish government bond yield as at 31 March 2018. 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. The dividend payment was €0.00891 per share (2017: €0.01072 per share) amounting to €0.45m (2017: €0.55m).

In February 2018, 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 (2017: €83.86m) due on 1 March 2018 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 39 for further details.

Effective from 1 January 2018, the Group has adopted IFRS 9 which is the standard replacing IAS 39. The Group has assessed the classification and measurement of each of its financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset. As a result of this assessment and the transition to fair value accounting for debtor loans, the Group has recognised on 1 January 2018 an adoption adjustment in retained earnings of €169m, before tax of €21m (see Note 32).

Subordinated bonds with a nominal value of €529m were repurchased for a total consideration of €571m in 2018. The consideration for these transactions along with any incremental transaction costs have been accounted for in equity.

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 (continued)

42. SHARES AND INVESTMENTS IN GROUP UNDERTAKINGS

NAMAI has €100m in share capital, of which NAMA has invested €49m, receiving 49 million A ordinary shares, and 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.

42.1 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%	Investments	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.

42.2 Investment in subsidiaries

Agency	2018 €'000	2017 €'000
49,000,000 shares in NAMAI	**49,000**	**49,000**

In 2010 the Agency made an investment of €49m in NAMAI. The Agency has considered whether there is evidence of the existence of impairment of its investment in NAMAI under IAS 36 *Impairment of Assets*. The Agency is satisfied that there are no indicators of impairment.

42.3 Details of non-wholly owned subsidiaries where NAMA has a non-controlling interest

The remaining 51% of the subsidiaries listed in 42.1 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 €0.45m (2017: €0.55m). The private investors have no further interest in the group activities or cashflows. Accumulated non-controlling interest at the end of the reporting period was €51m (2017: €51m).

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.

42.4 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 2018 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 44.6 for details of the assets held by these companies.

43. 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 42.1 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) on an actual cost basis and the Agency is reimbursed by the Group. The total of these costs for the year was €39.1m (2017: €38.0m), with a closing payable balance to the NTMA of €6.6m at end-2018 (2017: €1.7m). Further details in respect of these costs are disclosed in Note 13. 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 no Exchequer notes (2017: €nil) issued by the NTMA at the reporting date which were treated as cash and cash equivalents (see Note 18).

During the year, NAMA incurred costs of €1.5k (2017: €4k) for insurance costs, payable to the State Claims Agency. The closing payable balance to the State Claims Agency at end-2018 was €nil (2017: €nil).

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 €3.3m (2017: €3.5m), representing the refund of the NTMA's contribution to the pension scheme in respect of these NAMA Officers.

Notes to the Financial Statements (continued)

43. 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 22, Debtor loans measured at FVTPL, Note 24, Loans and Receivables, Note 20, Amounts due to and from Participating Institutions and the related Income Statement notes. No loans were sold to participating institutions during 2017 or 2018.

The Group has operating accounts with Allied Irish Banks p.l.c that have a balance of €16m (2017: €26m) at the reporting date. The average closing daily balance throughout the year was €19m (2017: €22m).

During the year the Group placed no deposits with Allied Irish Banks p.l.c. The average amount deposited with the bank was €Nil (2017: €23m).

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

Loan servicing costs	2018 €'000	2017 €'000
Allied Irish Banks p.l.c	2,516	2,823
Bank of Ireland	271	357
	2,787	**3,180**

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 41.

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 13. NAMA made a payment of €18k (2017: €18k) relating to the pension levy on the Board fees. The Group has no employees.

Under the revised Code of Practice for the Governance of State Bodies (2016), Key Management Personnel is defined as management who report directly to the Chief Executive Officer. At the reporting date, NAMA has five management staff who report to the Chief Executive Officer. The aggregate remuneration of the key management personnel is disclosed in Note 13.

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.

	2018 €'000	2017 €'000
Interest income:		
Agency		
Interest on loan to NAM	-	216,629
Gains on intercompany loan measured at FVTPL:		
Interest on loan to NAM	1,258	-
Other expenses:		
Agency		
Costs reimbursable from the NAMAI Group	43,496	40,970
Intercompany loan measured at FVTPL:		
Profit participating loan to NAM	3,536,554	-
Other assets:		
Agency		
Costs reimbursable from NALM	12,507	4,239
Interest receivable on profit participating loan to NAM	-	3,535,296
	12,507	3,539,535
Other liabilities:		
Agency		
Amounts due to Group entities	6,449	4,475

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 earned on this loan for the year was €0.14m (2017: €0.13m). The balance payable at end-2018 was €53m (2017: €54m).

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	2018 €'000	2017 €'000
NAM to NAMGS (entered in 2010)	4,467,313	5,072,137
NAMGS to NAJV A (entered in 2013)	27,709	22,230

Notes to the Financial Statements (continued)

43. RELATED PARTY DISCLOSURES (CONTINUED)

Intergroup loan agreements (continued)

Intergroup loan agreements	2018 €'000	2017 €'000
NAMAI to NAM (entered in 2010)	104,110	105,259
NAMGS to NALM (entered in 2010, amended in 2017)	4,439,612	5,064,288
NALM to NARPS (entered in 2012)	218,155	214,779
NALM to NAPM (entered in 2012)	85,293	66,153
NALM to NASLLC (entered in 2013)	2,198	2,051
NALM to NANQ (entered in 2015)	81,732	32,135
NALM to NAJVA (entered in 2017)	31,482	27,607
NAPM to NALHL (in Voluntary Liquidation) (entered in 2014)	100	100

During 2017, NALM elected out of the section 110 regime. Its profit participating loan agreement with NAMGS was amended by a Supplemental Facility Agreement and an Amending and restating loan facility with NAMGS, as approved by NALM Board.

44. 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.

44.1 Administration fees and expenses incurred by NAMA and each NAMA Group entity

The administration fees incurred by NAMA are set out in Note 13.

The expenses of each NAMA Group entity that incurs administrative expenses are shown in the tables below.

The expenses of NALM and NAPM (combined) include a recharge of €39.1m (2017: €38.0m) in respect of NTMA costs incurred by the Agency. These costs are also included in the consolidated accounts.

NALM Expense type	*Note*	2018 €'000	2017 €'000
Costs reimbursable to the NTMA	*13.1*	38,879	37,677
Primary servicer fees	*13.2*	8,258	9,881
Master servicer fees	*13.3*	1,727	1,600
Portfolio management fees	*13.4*	2,363	2,170
Legal fees	*13.5*	8,737	5,686
Finance, communication and technology costs	*13.6*	5,942	4,517
Rent and occupancy costs	*13.7*	6,326	2,636
Internal audit fees	*13.8*	717	751
External audit remuneration	*13.9*	904	634
Total NALM administration expenses		**73,853**	**65,552**

44.1 Administration fees and expenses incurred by NAMA and each NAMA Group entity (continued)

NAPM Expense type	Note	2018 €'000	2017 €'000
Costs reimbursable to NTMA	*13.1*	249	304
Portfolio management fees		77	51
Legal fees		(24)	280
Finance, communication and technology costs		39	6
Total NAPM administration expenses		**341**	**641**

NASLLC Expense type	2018 €'000	2017 €'000
Portfolio management fees	147	-
Legal fees	11	54
Finance, communication and technology costs	15	6
Total NASLLC administration expenses	**173**	**60**

NAJV A Expense type	2018 €'000	2017 €'000
Portfolio management fees	47	-
Legal fees	55	270
Finance, communication and technology costs	2	59
Total NAJV A administration expenses	**104**	**329**

NARPS Expense type	2018 €'000	2017 €'000
Portfolio management fees	123	178
Legal fees	24	101
Finance, communication and technology costs	3	4
Total NARPS administration expenses	**150**	**283**

NANQ Expense type	2018 €'000	2017 €'000
Portfolio management fees	65	19
Legal fees	315	142
Management fee	-	12
Finance, communication and technology costs	4	-
Total NANQ administration expenses	**384**	**173**

RLHC Resort Lazer SGPS, S.A. (RLHC) Expense type	2018 €'000	2017 €'000
Professional services	721	242
Total RLHC administration expenses[5]	**721**	**242**

RLHC Resort Lazer II SGPS, S.A. (RLHC II) Expense type	2018 €'000	2017 €'000
Professional services	87	107
Total RLHC II administration expenses[5]	**87**	**107**

5 *These amounts are estimated based on 31 December 2017 audited accounts, pending final 2018 year-end audited accounts being provided. The 2017 comparatives were based on 31 December 2016 audited accounts. As set out in Note 42.4, these investments are not consolidated into the NAMA Group financial statements.*

Notes to the Financial Statements (continued)

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

44.2 Debt securities issued for the purposes of the Act

Group	2018 €'000	2017 €'000
Subordinated debt issued by NAM	1,064,000	1,593,000
Total	**1,064,000**	**1,593,000**

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

44.3.1 Government guaranteed senior debt securities

All government guaranteed senior debt securities were fully redeemed in 2017.

Financial Institution	Outstanding at 1 Jan 17 € '000	Redeemed € '000	Outstanding at 31 Dec 17 € '000
AIB	1,805,000	(1,805,000)	-
BOI	454,000	(454,000)	-
Permanent TSB (formerly IL&P)	248,000	(248,000)	-
Central Bank of Ireland	83,000	(83,000)	-
Total	**2,590,000**	**(2,590,000)**	**-**

44.3.2 Subordinated debt securities held

Financial Institution	Outstanding at 31 Dec 2017 € '000	Redeemed € '000	Outstanding at 31 Dec 18 € '000
AIB	417,000	-	417,000
BOI	281,000	(211,000)	70,000
Other Noteholders	875,000	(318,000)	557,000
EBS	20,000	-	20,000
Total	**1,593,000**	**(529,000)**	**1,064,000**

44.4 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.

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

Participating Institution	Amount advanced 2018 €'000	Amount advanced 2017 €'000
AIB	460,026	452,182
Link Asset Services	33,091	120,031
Total	**493,117**	**572,213**

44.6 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.

NWPMC was a NAMA Group entity in 2017. During 2018, it ceased to be a NAMA Group entity, and it is therefore not included in the 2018 consolidated financial statements for NAMA Group.

NAMA	2018 €'000	2017 €'000
Investment in NAMAI	49,000	49,000
Cash and cash equivalents	132	59
Interest receivable on loan to NAM	3,536,554	3,535,296
Intergroup receivable	12,507	4,239
Other receivables	609	609
Property, plant and equipment	-	1,008
Total	**3,598,802**	**3,590,211**

NAMAI	2018 €'000	2017 €'000
Intergroup loan to NAM	99,900	99,900
Interest on intergroup loan	4,210	5,359
Cash and cash equivalents	251	251
Total	**104,361**	**105,510**

NAM	2018 €'000	2017 €'000
Profit participating loan with NAMGS	997,678	1,593,000
Interest on profit participating loan	3,469,635	3,477,879
Intergroup assets	-	278,068
Tax prepayments	2,000	-
Total	**4,469,313**	**5,348,947**

NAMGS	2018 €'000	2017 €'000
Intercompany loan with NALM	1,005,271	1,605,177
Profit participating loan with NAJV A	8,624	4,040
Interest receivable on loans	3,453,425	3,429,859
Intergroup receivable	22	267,098
Total	**4,467,342**	**5,306,174**

Notes to the Financial Statements (continued)

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

44.6 Asset portfolios held by NAMA and each NAMA Group entity (continued)

NALM	2018 €'000	2017 €'000
Cash and cash equivalents	2,569,748	712,823
Cash placed as collateral with the NTMA	25,000	25,000
Receivable from Participating Institutions	-	20,151
Government bonds/Available for sale financial assets	470,746	495,097
Derivative financial instruments	7,726	18,437
Debtor loans/Loans and receivables	1,891,630	3,165,776
Intergroup assets	478,129	690,104
Accrued interest receivable	780	830
Investments in equity instruments	18,573	36,068
Inventories – trading properties	1,266	1,300
Other assets	18,276	294,215
Total	**5,481,874**	**5,459,801**

NANQ	2018 €'000	2017 €'000
Cash and cash equivalents	35,880	2,406
Debtor loans/Loans and receivables	5,903	8,937
Inventories – trading properties	15,423	21,750
Intergroup assets	24,627	-
Other assets	3	3
Total	**81,836**	**33,096**

NAPM	2018 €'000	2017 €'000
Cash and cash equivalents	81,364	3,398
Investments in subsidiaries	-	534
Inventories – trading properties	100	49,382
Intergroup receivable	98	100
Other assets	-	9,983
Total	**81,562**	**63,397**

NARPS	2018 €'000	2017 €'000
Cash and cash equivalents	2,167	11,255
Inventories – trading properties	211,644	203,486
Other assets	989	473
Total	**214,800**	**215,214**

44.6 Asset portfolios held by NAMA and each NAMA Group entity (continued)

NAJV A	2018 €'000	2017 €'000
Cash and cash equivalents	349	3,278
Investments in equity instruments	35,967	29,641
Debtor loans/Loans and receivables	27,929	18,792
Total	**64,245**	**51,711**

NASLLC	2018 €'000	2017 €'000
Inventories – trading properties	**1,314**	**1,739**

NALHL (in Voluntary Liquidation)	2018 €'000	2017 €'000
Investment in subsidiaries[6]	**4,137**	**39,363**

RLHC Resort Lazer SGPS, S.A. (RLHC)	2018 €'000	2017 €'000
Investment in subsidiaries[6]	**3,705**	**35,398**

RLHC Resort Lazer II SGPS, S.A. (RLHC II)	2018 €'000	2017 €'000
Investment in subsidiaries[6]	**432**	**3,965**

44.7 Government support measures, including guarantees, received by NAMA and each NAMA Group entity

Entity	Description	Amount in issue at 31 December 2018 €'000	Amount in issue at 31 December 2017 €'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.	-	-
		-	**-**

Refer to Note 34 for further detail.

6 *These amounts are estimated based on 31 December 2017 audited accounts, pending final 2018 year-end audited accounts being provided. The 2017 comparatives were based on 31 December 2016 audited accounts. As set out in Note 42.4, these investments are not consolidated into the NAMA Group financial statements.*

Notes to the Financial Statements (continued)

45. CAPITAL MANAGEMENT

The Group manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. The Group's objectives when managing capital in its statement of financial position are:

- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To maintain a strong capital base to support the development of its business;
- To distribute any surplus to the Exchequer from time to time.

The Group's capital base comprises Share Capital (Note 42) and Other Equity (Note 39). The Group is not subject to any externally imposed capital requirements.

46. EVENTS AFTER THE REPORTING DATE

a) Dividend

On 14 March 2019, the Board of NAMAI declared and approved a dividend payment based on the ten year Irish government bond yield as at 31 March 2019. The dividend was paid to the holders of B ordinary shares of NAMAI only. The dividend payment was €0.00534 per share amounting to €0.27m.

b) Coupon on Subordinated Debt

On 1 March 2019, NAMA made a coupon payment of €56.01m on the servicing of interest on the subordinated debt. For more information on subordinated debt, see Note 39, Other equity.

c) New NAMA Group entities

On 5 April 2019, two new NAMA Group entities were incorporated. The new entities are Pembroke Beach D.A.C. and Pembroke West Homes D.A.C. Both entities are 100% subsidiaries of NAMGS.

There were no other events after the reporting date that require disclosure in the financial statements.

47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board and authorised for issue on 24 April 2019.

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.

Deferred payment initiative The residential mortgages 80:20 Deferred payment initiative was launched in 2012 to facilitate first-time buyers and other owner-occupiers who wish to purchase a home and encourage activity in the housing market. The initiative offered limited price protection to buyers for a period of five years. NAMA does not own the properties or issue the mortgages. Three of the Irish banks participated in the scheme.

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.

Glossary of Terms (continued)

OTC Over the Counter refers to derivatives that are not traded on a recognised exchange.

Participating Institution A Credit Institution that has been designated by the Minister under Section 67 of the Act as a Participating Institution, including any of its subsidiaries that has not been excluded under that section.

Present Value A value on a given date of a future payment or series of future payments, discounted to reflect the time value of money and other factors such as investment risk.

Primary Servicer A Participating Institution managing debtors on NAMA's behalf within authority limits approved by the NAMA Board.

Profit Participating Loan A loan that provides the lender with a return that depends, at least in part, on the profitability of the borrower.

QIAIF - Qualifying Investor Alternative Investment Fund This is a regulated, specialist investment fund targeted at professional and institutional investors, who must meet minimum subscription and eligibility requirements.

Qualifying Advance An advance made by a Participating Institution to a borrower (whose loans are eligible assets) following the announcement of NAMA by the Minister for Finance on 7 April 2009. The advance is only qualifying if it was made as part of normal commercial banking arrangements. No discount applied to these advances.

Security Includes (a) a Charge, (b) a guarantee, indemnity or surety, (c) a right of set-off, (d) a debenture, (e) a bill of exchange, (f) a promissory note, (g) collateral, (h) any other means of securing—(i) the payment of a debt, or (ii) the discharge or performance of an obligation or liability, and (i) any other agreement or arrangement having a similar effect.

Short term treasury bonds Irish government treasury bonds acquired for liquidity management.

Special Purpose Vehicle A legal entity created to fulfil 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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