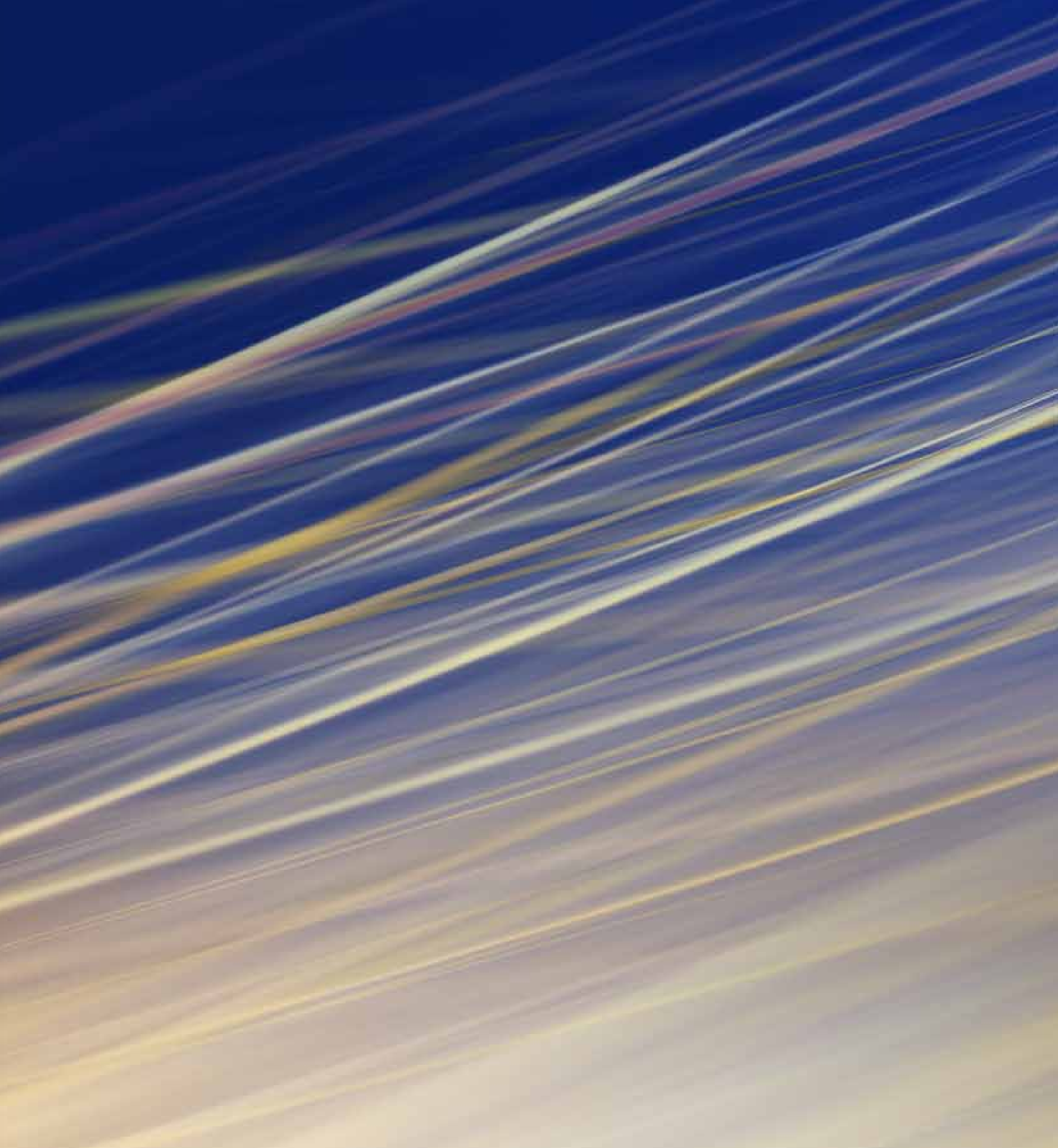

National Asset Management Agency

Annual Report and Financial Statements 2010

Gníomhaireacht Náisiúnta um Bhainistíocht Sócmhainní
National Asset Management Agency

30 June 2011

Mr. Michael Noonan TD

Minister for Finance

Government Buildings

Upper Merrion Street

Dublin 2

Dear Minister,

We have the honour to submit to you the Report and Financial Statements of the National Asset Management Agency for the year ended 31 December 2010.

Yours sincerely,

Frank Daly
Chairman

Brendan McDonagh
Chief Executive

NAMA Mission Statement

To manage acquired loans, efficiently, effectively and expeditiously and in the best interests of the State. To attain the best achievable financial return subject to acceptable financial risk. To conduct its activities in a way which assists the property market to operate efficiently and in a way which achieves longer term sustainability while taking account of wider societal objectives.

National Asset Management Agency

Annual Report & Financial Statements

For the year ended 31 December 2010

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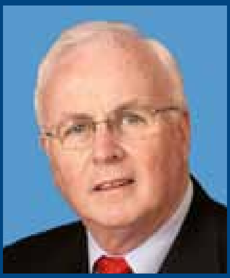
Board Members



Mr. Frank Daly

Chairman (appointed 22 December 2009 for a 5-year term)
Frank Daly was appointed as a Public Interest Director of Anglo Irish Bank in December 2008. He resigned from this post on 22nd December 2009 when appointed Chairman of NAMA by the Minister for Finance. Mr Daly retired as Chairman of the Revenue Commissioners in March 2008 having been Chairman since 2002 and a Commissioner since 1996. He had joined Revenue in 1963. In March 2008, Mr Daly was appointed Chairman of the Commission on Taxation which was set up to review the structure and efficiency of the Irish taxation system; the Commission issued its Report in September 2009.

Mr. Michael Connolly

Board member (appointed 22 December 2009 for a 5-year term)
Chairperson of the Credit Committee
Member of the Planning Advisory Committee
In the two years immediately prior to his appointment as a director of NAMA, Michael Connolly was a consultant to a number of banks in relation to their troubled loan portfolios. Up to 2000, he had spent 32 years working with Bank of Ireland where he was a member of the senior general management team of the Bank for over 10 years and had acquired wide-ranging credit and business banking responsibilities, both domestic and international. In-depth successful experience as senior executive in charge of the management of distressed property portfolio in New Hampshire, USA during the 1991-93 period. Graduate of TCD (BBS). Fellow of the Institute of Bankers. Member of Financial Services Ombudsman Council.

Mr. John C. Corrigan

Board member (ex-officio)
Member of the Risk Management Committee
John Corrigan was appointed Chief Executive of the National Treasury Management Agency (NTMA) in December 2009. He joined the NTMA in 1991 shortly after its establishment and was initially responsible for managing the domestic component of Ireland's National Debt. In 2001, Mr. Corrigan was involved in the establishment of the National Pensions Reserve Fund (NPRF) and was the Fund's Investment Director until his appointment as NTMA Chief Executive. Before joining the NTMA, Mr. Corrigan was Chief Investment Officer of AIB Investment Managers, having previously worked in the Department of Finance.

Ms. Eilish Finan

Board member (appointed 22 December 2009 for a 4-year term)
Chairperson of the Finance and Operating Committee
Member of the Audit Committee
Member of the Northern Ireland Advisory Committee
Eilish Finan is an Independent Director and Consultant and specialises in the financial services and property sectors. In her earlier career, Ms. Finan worked with KPMG as a chartered accountant. She was Chief Financial Officer and Director of AIG Investments specialising in investment management, fund management, trustee and custodial services, property investment and asset management. Ms. Finan is a Fellow of Chartered Accountants Ireland and a Board member of the Corporate Governance Association of Ireland.

Mr. Brendan McDonagh

Chief Executive
Board member (ex-officio)
Member of the Finance and Operating Committee
Member of the Risk Management Committee
Member of the Credit Committee
Member of the Planning Advisory Committee
Brendan McDonagh was appointed Chief Executive Officer of NAMA by the Minister for Finance in December 2009. Prior to that, he was the Director of Finance, Technology & Risk at the NTMA from 2002 until 2009 and held the post of NTMA Financial Controller from 1998 to 2002. Mr. McDonagh joined the NTMA in 1994 from the ESB, Ireland's largest power utility, where he worked in a number of areas including accounting, internal audit and treasury.

Mr. Brian McEnery

Board member (appointed 22 December 2009 for a 4-year term)
Chairperson of the Audit Committee
Member of the Northern Ireland Advisory Committee
Brian McEnery (FCCA) specializes in corporate rescue and insolvency and is a partner in a leading firm of accountants and business advisors and practices in Limerick and Dublin. He is a Fellow of the Association of Chartered Certified Accountants (ACCA) and a council member of ACCA. In 2010 he was the President of ACCA Ireland. He is a director of the Consultative Committee of Accounting Bodies (CCAB) and serves on its insolvency committee in Ireland.

Dr. Steven A. Seelig

Board member (appointed 26 May 2010 for a 3-year term)
Chairperson of the Risk Management Committee
Member of the Audit Committee
Dr. Steven A. Seelig is a Principal and CEO of Financial Stability Associates, a consulting firm specializing in the spectrum of financial stability issues. Prior to establishing Financial Stability Associates, Dr. Seelig served as Advisor in the Monetary and Capital Markets Department of the International Monetary Fund (IMF) where he had primary responsibility for the financial sector restructuring and resolution activities of the department. Dr. Seelig spent the bulk of his professional career at the Federal Deposit Insurance Corporation (FDIC), holding a broad range of positions, including Chief Financial Officer. Mr. Seelig also worked as an Economist at the Federal Reserve Bank of New York and as an Associate Professor of Economics at Fordham University.

Mr. William Soffe

Board member (appointed 22 December 2009 for a 4-year term)
Chairperson of the Planning Advisory Committee
Member of the Finance and Operating Committee
Member of the Northern Ireland Advisory Committee
William 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. Peter Stewart

Board member (appointed 22 December 2009 for a 3-year term)
Chairperson of the Northern Ireland Advisory Committee
Member of the Audit Committee
Member of the Credit Committee
Peter Stewart is a Fellow of Chartered Accountants Ireland and is vastly experienced in many aspects of financial management. He has worked as a public auditor, internal auditor, chief financial officer and financial consultant. Mr. Stewart held senior management positions in international trading businesses in Ireland, UK, Europe and South America before establishing his own financial consultancy business. His business interests have included property fund management, a corporate services company, a partnership in O'Donovan Stewart, Chartered Accountants and a partnership in Tansey Webster Stewart, Economic Consultants. Mr. Stewart has broad Director experience including public, private and overseas companies, engaged in financial and other services, manufacturing, property and not-for-profit.

Chairman's Statement

Introduction

The background to NAMA has been well chronicled: a property price bubble fuelled by excessive and indiscriminate lending led to a banking crisis which escalated rapidly and had to be addressed urgently by Government in the latter part of 2008 and early 2009. Part of the Government's policy response to the crisis was the establishment of an asset management agency to acquire bank property loans. The Government decision to set up NAMA was announced by the then Minister for Finance, the late Mr. Brian Lenihan TD, in the Supplementary Budget of April 2009. Following the enactment of legislation in November of that year, NAMA was formally established and the NAMA Board was appointed in late December 2009.

This Report chronicles the first year's work of the Agency – a year of considerable challenge, activity and achievement.

A challenging genesis

In introducing this, our first Annual Report, it is important to acknowledge that the establishment of NAMA has been hugely challenging. The Agency came into being just eighteen months ago against a background of a rapidly evolving crisis needing an urgent response and in an atmosphere of vigorous political and public debate about the policies for responding to that crisis and the specifics of the measures being proposed.

Few of those measures taken by the Government generated as much political and public debate and scrutiny as the establishment of NAMA. I do not believe that any other State Agency has come into being with a potential client base – those in banking and property development - whose enthusiasm for it was so lukewarm. And it is certain that few other State Agency or private sector operations have been given a task as mammoth as that given to NAMA. The very first element of our operational remit required us to transfer over €70 billion in loan assets from five financial institutions involving 850 debtors with more than 11,000 individual loans collateralised by 16,000 individual properties. This had to be done in a tight timeframe within a complex legal structure designed to protect this huge investment of taxpayers' money. The fact that the Agency had to simultaneously build its own infrastructure and operate under the most intense media, legal and political spotlight certainly added to the challenges faced.

To manage this exacting commercial remit, NAMA was created in line with the template established twenty years ago by the NTMA – a hybrid of private and public sector expertise working towards the achievement of a commercial return for the taxpayer and operating within an ethos of public accountability.

Measures of success

As I write this statement in June 2011, NAMA has a Balance Sheet in excess of €30 billion. This is comparable with the largest of multinationals and well ahead of most Irish commercial businesses. In at least one respect though, we differ from other commercial businesses. Most organisations start small and expand to grow large over time; NAMA on the other hand, starts with a huge portfolio and aspires to contract sharply. A key measure of success is to shrink our balance sheet, having recouped at a minimum all of the expenditure incurred by NAMA on loans, working capital advances and costs. This is clearly in keeping with the purpose of obtaining the best achievable return for the State as laid down in the NAMA Act.

Another measure of success for NAMA is the contribution we have made, and will continue to make, to fixing our banking system. It is generally acknowledged that there is some way to go on this yet but, through the State's collective efforts, we are getting there. For a period, it perhaps had been reasonable to anticipate that NAMA on its own could have fixed the banking system, if the problem had been confined to the loan categories designated for NAMA. However, the sheer scale of the banks' problems, which went far beyond the land and development and associated loans within NAMA's mandate and which only emerged after NAMA's work had begun, meant that initial expectation was not realisable. NAMA, however, has been, and remains, a key part of the effort to fix our banks. At its most practical level, we have taken almost all of the land and development and associated loans off the books of the banks and paid them €30.5 billion in redeemable securities so that they can access liquidity and get back to normal banking business.

Yet another measure of NAMA's success must be the extent to which we successfully engage with public and social policy objectives. Within the bounds of our commercial objective outlined above, we may also be in a position to contribute positively to various public and social policy objectives. With that in mind, we have engaged extensively with various Ministers, Departments of State, State agencies, Local Authorities and Civic Bodies to explore ways in which we can help to advance these objectives. In particular, we have been endeavouring to identify whatever scope there may be for NAMA to dovetail its activities with State policy as regards housing.

Paying the right amount for loans

There has been considerable commentary about whether the consideration we paid for acquired loans - €30.5 billion - should have been higher or lower or whether it should have been paid earlier. It should not be forgotten that NAMA had to be devised, legislated for and built from scratch and it had to be done quickly. On a superficial level, it might have been easier for all of us – NAMA, bankers, regulators and debtors– if the acquired portfolio could have been valued and transferred quickly. However, there was too much at stake for all parties – not least the taxpayer who is paying for it all – to have taken any shortcuts.

Given the truly enormous figures involved, our loan pricing had to be comprehensively and rigorously determined. Banks, not unreasonably, given the capital implications involved, wanted to maximise the consideration they achieved from the sale of their loans. NAMA, on the other hand, was concerned to ensure that we did not commit taxpayer funds beyond what we could reasonably expect to recover on the loans. Indeed, this was also the clear message coming through from much of the public discussion which took place during the latter half of 2009 when there was a misplaced concern about the possible overpayment for bank assets by NAMA.

It was, of course, not just the public who were keeping an eye on this. The EU Commission, in its capacity as overseer of State Aid rules, also had a vigilant interest in the outcome. Only by subjecting the transferring portfolios to a loan-by-loan valuation could all parties be assured that that this major transaction was conducted on a fair and reasonable basis.

We now know, as we approach the end of an extensive due diligence and valuation process, that the consideration paid by NAMA for the loans was of the order of 42% of nominal loan balances i.e. an average discount of 58%. The contention that this result was unduly harsh on the financial institutions involved is not one borne out by the facts. Given the concentration of an enormous amount of lending to a relatively small number of debtors and the steep decline in property prices since 2007, the damage had already been done to the financial institutions' balance sheets long before NAMA was even conceived.

The argument has been made that, had NAMA paid more for the property loans, the direct capital injection from taxpayers could have been reduced. This suggests that, in effect, NAMA's role would have been to act as a conduit for a disguised subsidy to bank shareholders and subordinated debt providers. This was never an option under EU State Aid rules but, even if it had been, I have little doubt that the financial markets would have seen through it and would have drawn their own conclusions about the true state of bank balance sheets. With the Irish property market down on average by 50%-60% from its peak (depending on the asset class involved), the repayment prospects associated with property loan portfolios are not difficult to work out. The reality is that the financial institutions would have had to be recapitalised to the same levels in any event.

Engaging with debtors

Our focus in NAMA in 2010 was very much on building the organisation and on acquiring the loans from the participating institutions. Since the final quarter of 2010, most of our attention has shifted to engaging with debtors with the aim of maximising repayment of their liabilities so that we meet the debt repayment targets outlined in our July 2010 Business Plan. So far, we have made good progress towards that end and we are working well with the majority of debtors as we analyse their business plans and work with them on day-to-day business transactions.

Debt repayment is one of the key headline figures that will show the progress of NAMA towards its goals. It is encouraging to note as I write this statement that we have reduced our debt by over €1 billion. We have redeemed €750m in NAMA Bonds and repaid €299m of advances received from the Minister for Finance. While achieving this significant level of debt reduction in a little over a year, we have also been able to approve working and development capital advances of over €800m. In addition, we currently have retained cash balances of close to €1 billion which will allow for further capital advances as necessary in the coming months.

Impairment

In line with financial reporting rules under International Accounting Standards, NAMA was required to conduct an impairment review of its acquired loan portfolio as it stood at 31st December 2010. NAMA had considerable engagement with the external auditor – the Comptroller & Auditor General - on the appropriate level of impairment for 2010. The Board had included an estimated figure of €1 billion in its unaudited Section 55 quarterly report for Q4 2010. This was revised upwards to €1.485 billion in the audited Financial Statements for 2010. The change in the level of impairment was driven by a number of factors, including the application of a higher than anticipated Effective Interest Rate (discount rate) to the bulk transfer element of the portfolio (not yet subject to due diligence as at end-2010) and also a more stringent interpretation of IFRS accounting rules which precluded NAMA from offsetting expected gains against expected losses in its collective impairment assessment. Another factor was the emergence of additional evidence of impairment in the case of some individually-significant debtors.

We explain in detail elsewhere in this Report and in the accounts the methodology and calculations that lie behind the impairment charge of €1.485 billion for which we are making provision in our accounts. It is worth emphasising a few points in relation to that accounting provision.

In the context of estimating, at end 2010, potential loan losses on a loan portfolio that is expected to be realised over a long period of time (possibly up to ten years in some instances), there is no historical loan loss experience available to NAMA which can be used as a guide. There are many inherent uncertainties involved in the assessment of impairment and the process requires the exercise of subjective judgement as to future realisation values and the amount and timing of future cashflows. The fact that an impairment provision is taken by NAMA at end 2010 does not necessarily mean that such losses will ever materialise.

It is also important to note that, under the same accounting rules, potential gains on increases in the value of property for the overseas element of NAMA's portfolio cannot be taken into account as an offset until they are actually realised. Expected losses must be recognised immediately. Accordingly, while the 2010 impairment figure is large at €1.485 billion, we believe that it is prudent in that it reflects the continued deterioration in property values, primarily in Ireland, during 2010. It goes without saying that we will be working assiduously to minimise any real losses as the portfolio is realised and to maximise the return on our portfolio.

Openness about our activities

Given its scale and prominence, it is not enough of course that NAMA should be doing a good job; we must be seen to be doing a good job. A major challenge that we face is the extent to which we can be open and transparent about our activities.

From the beginning, the Board has adopted a policy of being as transparent as we can and we have not stinted in being accessible to public representatives, the media, interest groups and representative organisations. We are using this first Annual Report to provide as much information as we can to all our stakeholders. We do however face difficulties in providing the level of detail that people – quite understandably – would like to have. These difficulties include the reality of legal constraints in the NAMA and Data Protection Acts and banking confidentiality. These difficulties also include the fact that we are essentially a commercial organisation operating in the open market and, not unreasonably, we are reluctant to disclose information which could be of advantage to our competitors. Detail which is to the advantage of our competitors is ultimately to the disadvantage of taxpayers.

A further dimension to openness is, of course, accountability, and in that regard NAMA faces intensive parliamentary scrutiny by virtue of its reporting requirements under Sections 53, 54 and 55 of the Act and by virtue of the fact that that I, as its Chairman, and Brendan McDonagh, as its CEO, can be invited to testify before Oireachtas committees, including the Public Accounts Committee, at any stage. Our accounts are audited by the Comptroller and Auditor General who has full access to all our records.

Conclusion

Expectations for NAMA have always been high. Some believed that NAMA could have delivered a total solution, that we could somehow have fixed the banks on our own, that we could have repaired the property market and that we could have prevented at least some of the economic downturn. For a period it may have been reasonable to hope for some of these outcomes but the reality is different. As evidenced by the recent PCAR2 exercise performed by the Central Bank, the problems were much larger than those covered by NAMA's remit and indeed the true scale of the banks' problems only emerged after NAMA got to work. NAMA is a key part – but only a part – of the solution to the banking, property and economic problems that have beset our country. Each one of us in NAMA fully understands the part we have to play. We accept that it is a huge responsibility but it is one that we undertake assiduously and objectively on behalf of all Ireland's citizens.

Ireland is now drawing once again on the renowned creativity, energy and resilience of her citizens to begin the long process of rebuilding our economy. These qualities are now surfacing in all sectors of society in the aftermath of the economic trauma we have endured over recent years and I have no doubt that they are leading us to recovery and collective success.

Thank you

In NAMA, I have been impressed and encouraged by these same qualities in my colleagues on the Board, the external members of the NAMA Committees, in CEO Brendan McDonagh, in his Executive Team, in the NAMA staff and in those staff within the NTMA who provide services to our fledgling organisation. Indeed there are many people in the banks and the service providers now working with NAMA who display the same qualities and commitment to sorting out our problems.

Few organisations can have come into existence in such difficult and inhospitable circumstances, both domestically and internationally. NAMA inadvertently became entangled in the very justifiable public anger that erupted in the aftermath of the banking and property crisis and our every move has, quite understandably, been subjected to attention, scrutiny, and, perhaps sometimes, misinterpretation.

With the Agency now having largely completed the loan transfers and making real progress in terms of asset sales and debt repayment, I am confident that we will continue to play our part as one of the engines of renewal for the Irish economy. We thank the ordinary Irish people for their patience with us and assure them that all our energies are directed towards protecting their interests.

Frank Daly
Chairman

30 June 2011

Chief Executive's Statement

Background

NAMA is a hugely complex undertaking and its scale and the size of its acquired portfolio is unparalleled. As this is NAMA's first Annual Report, it may be useful to recount the journey that has taken us to this point and the key milestones in our progress to date.

Shortly after the announcement of the decision to set up the Agency, I was appointed by the then Minister for Finance, the late Brian Lenihan, as interim Managing Director of NAMA. The Minister asked that I make all necessary operational arrangements to establish the Agency. There followed a period of intensive preparatory work over the summer and autumn of 2009. A small team from the NTMA together with representatives of the Attorney General's Office and the Department of Finance worked on drafting what was to become one of the most complex pieces of legislation ever placed before the Oireachtas. The legislation, which was enacted in November 2009, had to anticipate and deal with all the obstacles that could conceivably have prevented NAMA from functioning effectively.

In parallel with the drafting and enactment of legislation, there was also a process of engagement with Eurostat (the statistical office of the European Union) and with the EU Commission. It was important that any asset relief proposals adopted by Ireland would be treated on the same basis as those of other Member State schemes. Discussions involving Eurostat, the Central Statistics Office, the Department of Finance and NTMA concluded with acceptance by Eurostat that in accordance with their rules, the activities of a special purpose vehicle – to be established and controlled by NAMA but with a majority of the shares held by private investors - would not be taken into account for the purpose of computing Irish Government debt and deficits.

It was also imperative that the EU Commission, by reference to its powers to approve asset relief schemes under State Aid rules, should find the NAMA proposals to be compatible with those rules. This entailed a long process of consultation, involving the Department of Finance and my NTMA colleagues, with the Commission during the latter half of 2009 and the early part of 2010 during which the proposed valuation methodology and its implications were scrutinised in detail by the Commission. This culminated in Commission approval of the NAMA scheme at end February 2010.

Valuation

One of the primary concerns of the Commission was that the assets being transferred would be subjected to a stringent valuation to ensure that the acquisition price paid to the participating institutions did not breach State Aid rules. The Commission's role encompassed not only approval of the overall valuation methodology but also approval of loan valuations on a tranche-by-tranche basis (during 2010, the Commission issued formal State Aid approval of the Tranche 1 and Tranche 2 transfers). To provide the necessary assurance to all parties that valuations were soundly based, a valuation infrastructure was established to support a detailed loan-by-loan valuation: this included a panel of property valuers, a panel of legal firms, a panel of loan valuers and the appointment of an Audit Co-ordinator to ensure the accuracy and consistency of valuations.

Given that the key determinant of individual loan valuations is the value of underlying collateral, which is primarily property, it means that property assets must be subjected to thorough valuation by professional valuers who have a duty of care not only to the banks but also to NAMA. The cornerstone of the valuation methodology is the assumption that, where loans are non-performing, NAMA's ultimate recourse is to realise the value of the collateral securing the loans. Supporting this is a legal due diligence process which is aimed at reviewing the enforceability of security and identifying any deficiencies in title of the assets prior to their acquisition from the participating institutions by NAMA.

There has been some comment on NAMA's engagement of professional expertise to carry out property valuation and legal due diligence. I would respond by pointing out that we have no room for manoeuvre on this: taxpayers' money is at risk and furthermore we have to ensure that we are acting in compliance with State Aid rules. The valuation of properties and, by extension, loans has to be robust enough to withstand litigation. I have little doubt that we would already have been faced with legal challenges if our valuations and due diligence were not supported by professional expertise. I am also convinced that the interests of the taxpayer are best served by ensuring that loans are valued on a realistic basis. The crisis that we are seeking to address was caused in no small part by the previous folly of an overly optimistic view of the outlook for property prices in Ireland; it would hardly have made sense to compound that error by incorporating excessive buoyancy into the pricing of assets acquired by NAMA. When NAMA was being established, there was a misplaced concern that we would overpay for the loans; now the suggestion from some quarters appears to be that we have underpaid. The reality is that neither contention is correct; we have paid exactly in accordance with the valuation methodology approved under State Aid rules and the financial institutions would have required the same level of recapitalisation to cover their losses in any event.

2010

2010 was a year of transition for NAMA, with plans and intentions evolving into action. During the course of the year, we recruited over 100 staff with expertise in the areas of finance, property, accounting, banking, law and credit. We acquired a portfolio of over €71 billion nominal in loans from the five participating institutions for a consideration of just over €30 billion. By the end of 2010, some €33 billion nominal of the acquired €71 billion had been subjected to full due diligence and individual loan-by-loan valuation by the end of the year.

In response to a request from the Minister for Finance in late September 2010, we arranged for an accelerated transfer, in the last quarter of 2010, of the residual €38 billion using a bulk transfer mechanism with estimated loan valuations. Much of the delay in completing the due diligence has been due to a delay on the part of participating institutions in submitting loan and property information to us. The information systems of the institutions are generally well below the standard that might be expected for such large loan portfolios; as a result, the effort required to retrieve information from multiple sources, including numerous IT systems, paper files and the corporate memory of bank staff, has been time-consuming. This difficulty was compounded by the fact that, over the years, legal work and loan documentation had failed to keep pace with the outflow of lending by banks and due diligence work on title and security that ought to have been carried out years ago is only now, belatedly, being completed some four years later.

2010 also saw us begin our engagement with the 850 debtors and the 11,500 loans (secured by 16,000 properties) we have acquired. This included a more intensive engagement on the business plans of the largest thirty debtors whose loans account for almost one half of the acquired portfolio. A major milestone was the adoption by the NAMA Board of a number of key strategic policy decisions in June 2010 – these have set the parameters of our engagement with debtors, including discussions about asset disposal schedules and debt repayment targets, the securing of unencumbered assets and the reversal of asset transfers to relatives. These are detailed in the NAMA Business Plan which is available on our website www.nama.ie.

NAMA has split its acquired portfolio into two: the largest 180 debtors with individual exposures in excess of €75m (aggregating in total to €62 billion) and the next 670 debtors (debt amounting to €10 billion) which are managed by the participating institutions under delegated authority from NAMA. The engagement with the largest 180 debtors is being carried out directly by NAMA staff. The day-to-day administration of all loans will continue to be carried out by the participating institutions. To guide them as to the range and quality of service expected of them in their management of NAMA loans, each institution was issued with a detailed Direction under Section 131 of the Act.

Outlook

The first six months of 2011 has seen a significant increase in the number of debtors with whom we are in detailed discussion. By the end of the year, we expect to have completed our review of the business plans of the largest 180 debtors and we expect also that the participating institutions, acting under our supervision, will have reviewed a substantial number of the business plans of the other 670 debtors. It should be noted that having a debtor's business plan reviewed by NAMA or a by a participating institution does not prevent day-to-day business activity and decisions from being made: currently about 400 decisions are being determined each month by NAMA and the participating institutions with respect to debtor requests, including applications for additional working or development capital, lease approvals and sales approvals.

We expect that most debtors will come to an accommodation with NAMA whereby they will commit to asset disposal and debt repayment programmes. Already this year, we have seen significant progress in terms of debtors selling assets in order to generate funds to repay part of their debt. A number of debtors will also have experienced NAMA's willingness to lend additional money in cases where such funding enables the completion of viable projects. NAMA's funding of the completion of the Montevetro Building during 2010 and its subsequent involvement in its sale to Google illustrates the scope for judicious intervention by NAMA, to the ultimate advantage of the taxpayer, even in the current subdued market conditions.

Against a background of much public debate and discussion, NAMA's journey to this point has been far from tranquil but there is now an increasing sense that much has been achieved in a relatively short period of time. I recognise, of course, that much remains to be done. I expect that we will have completed the recruitment of staff by the last quarter of 2011, bringing the current complement of 140 up to 200. The engagement with debtors will gather momentum during the second half of the year. There are a significant number of asset sales in the pipeline and, if they proceed, they will facilitate further debt pay down by debtors and by NAMA. It is no secret that we are encouraging debtors to look closely at sales' opportunities wherever possible but always at realistic market prices. At the behest of the Minister for Finance, we are also exploring the scope for introducing initiatives which will generate a resurgence of activity in the Irish property market.

We want to help debtors to survive but only if they are realistic and willing to make the appropriate adjustments to their lifestyles and commitments. On behalf of the taxpayer, we aim to be tough but fair in our dealings with debtors. This may seem to be an obvious statement for someone in my position to make but for many of our debtors, the notion of a vigorous engagement with their lenders is still something of a novelty. For much of the past decade, the traditional banker-debtor relationship became inverted with the result that debtors, notwithstanding substantial existing debt, found themselves being further solicited by their existing lenders and by other banks. That era is over. Most debtors are now adjusting to the new environment and we welcome that. Those debtors who are unwilling to make that adjustment will find that NAMA will not hesitate to enforce against them. However, that is always our last option and we do not take such decisions lightly. Taxpayers, who are paying a heavy price for the indulgence and ineptitude of the past decade, have every reason to expect that NAMA will act robustly to protect their interests.

Costs are a significant issue and it is my responsibility as CEO to ensure that they are managed and kept to the absolute minimum and that value for money is achieved. However, given a portfolio of NAMA's complexity and size, with €30.5 billion at stake for the taxpayer, it is important that it is managed properly and that the Board is appropriately and professionally advised so it can make well-informed decisions that are in the best interests of the State. Our costs for 2010 (excluding due diligence costs which are paid by the participating institutions), at €46m, were 0.15% of the consideration we paid for the loans. This reflects the gradual build-up of a new organisation. As NAMA achieves steady state, we expect that about half of our annual costs in future years will constitute payment for the estimated 500 staff employed by the financial institutions to administer the NAMA portfolio.

It is my intention that NAMA will be a creative and dynamic force in the property market, particularly in Ireland. We are aware, of course, that other financial institutions are trying to deleverage their loan books in the same market and at the same time. We face a steep incline in the coming years but I am confident that we are now well placed to surmount the challenges ahead.

Finally, I want to express my appreciation to the Chairman, to my Board colleagues, to Committee members and to the staff of NAMA and the NTMA for the tremendous effort and commitment they have given during 2010 and which has continued in the first six months of 2011. It has been a difficult and challenging journey to set up a large complex organisation from scratch but I am glad to say that NAMA has established itself as a credible, business-like organisation which is well on its way towards making a difference for the Irish economy.

Brendan McDonagh
Chief Executive

30 June 2011

Progress in 2010

Milestones

- EU Commission approval was given to NAMA at end February 2010.
- Commencing at end March 2010, by end-2010 NAMA had acquired €71.2bn in nominal loan balances (consisting of 11,500 loans of 850 debtors) for a consideration of €30.2bn, a discount of 58%.
- The European Commission issued its approval for the Tranche 1 and Tranche 2 valuations.
- Strategic policy decisions of the Board were agreed in June 2010 and the NAMA Business Plan, which incorporates these decisions, was agreed by the Board and published in July 2010. The Business Plan projected, under its central scenario, that the Agency would return a profit to the taxpayer of €1.0 billion in Net Present Value (NPV) terms over its lifetime (expected to be about ten years).
- 30 Debtor Business Plans (€31bn nominal, representing 44% of the portfolio that had been acquired by end-2010) were reviewed by the Credit Committee and the Board, as appropriate.
- 934 individual credit applications were processed and decisions made in the nine months after loans were first acquired (Q2-Q4 of 2010).
- Asset sales of €1.9bn were approved in 2010.
- New funding of €406m was approved for working and development capital.
- 23 enforcement actions were initiated and/or approved by end-2010.
- NAMA ended 2010 with cash balances of €836m having repaid €250m of a loan provided by the Minister for Finance as working capital earlier in the year.
- NAMA made an operating profit, before impairment charges, of €305m for the period to 31 December 2010. After impairment charges of €1,485m, NAMA recorded an overall loss of €1,180m.

Operational

- Beginning the year with a staff of seven, NAMA had recruited 104 staff by year-end. This had increased to 140 by end-May 2011.
- 27 meetings of the Board were held in 2010. Six committees of the Board were established and met on 99 occasions during the year.
- The NAMA Special Purpose Vehicle (SPV) structure was put in place and private investment of €51m was secured.
- An infrastructure for property valuation, legal due diligence review and loan valuation, including audit, was created in order to support the acquisition process.
- NAMA facilitated the restructuring of the banking system by meeting the Minister's end-year deadline for an accelerated transfer of loans from the PIs. €38bn in loans were acquired on a bulk transfer basis i.e. with due diligence and full loan valuation carried out retrospectively.
- The loans of 850 debtors were acquired. NAMA engaged actively with debtors whose loans were acquired as part of the first three tranches, including an extensive review of the major debtors. A template and methodology was developed for processing the business plans of debtors.
- Foreign currency exposure in excess of €10 bn was successfully hedged into Euro in difficult market conditions. A portfolio of debtor derivatives (€14bn nominal) associated with loans was acquired and hedged, where necessary.
- A €250m prudential liquidity buffer was put in place.
- A €2.5bn ECP Programme was established and listed on the Irish Stock Exchange.
- Vendors for a Portfolio Management System (PMS) and a Document Management System were selected after thorough public procurement processes.
- **Capita Asset Services** was appointed as Master Servicer to provide consolidated financial reporting based on data from the five participating institutions.
- A direction under Section 131 of the Act, detailing NAMA's debtor and loan management requirements, was drafted and issued to PIs. This was followed by detailed engagement with the PIs on the governance, operational and credit arrangements required for the management of NAMA loans.
- NAMA is subject to national and EU public procurements processes and it undertook several tendering competitions during 2010 where it received close to 1,000 submissions which had to be evaluated.

Legal Framework

NAMA is established as a statutory body corporate and its powers and functions derive from the National Asset Management Agency Act 2009. Among the Act's principal objectives is to address a serious threat to the economy and to the systemic stability of credit institutions in the State generally by providing for the establishment of NAMA. Under Section 10 of the Act, NAMA's purposes are to contribute to the achievement of the purposes of the Act by:

(a) acquiring bank assets from PIs;

(b) dealing expeditiously with the acquired assets; and

(c) protecting and enhancing the value of assets acquired by it in the interests of the State.

In doing so, it is required, in so far as possible, to obtain the best achievable financial return for the State having regard to the cost to the Exchequer of acquiring and dealing with bank assets, its cost of capital and other costs, and any other factor which NAMA considers relevant to the achievement of its purposes.

Section 11 of the Act lists its functions which include the following:

1. acquire eligible bank assets from PIs,
2. hold, manage and realise assets,
3. perform such other functions, related to the management or realisation of the acquired assets, as are directed by the Minister and
4. take all steps necessary or expedient to protect, enhance or realise the value of acquired assets including the disposal of loans for the best achievable price, securitising or refinancing portfolios of loans and holding, realising and disposing of security.

Section 12 of the Act outlines the powers which have been granted to NAMA to enable it to achieve its purposes and to perform its functions.

The Minister may issue written guidelines and directions, which are binding, to NAMA. All guidelines and directions must be published as soon as practicable following issue.

The first assessment of NAMA's progress in achieving its overall objectives is to be carried out by the Minister at the end of 2012. The Minister may call for progress reports at any time before or after that assessment.

NAMA Structure

In a decision issued in July 2009, Eurostat (the statistical office of the European Union) ruled that special purpose vehicles (SPVs) which were majority owned by private companies would be regarded as being outside of the government sector if they met a number of conditions. Among the conditions were that the SPVs were of temporary duration and were established for the sole purpose of addressing the financial crisis. In order to ensure that debt issued by NAMA to purchase bank assets would not be treated as part of the General Government Debt, NAMA established a number of SPVs, the principal of which was National Asset Management Ltd., the Master SPV.

The SPVs and their interrelationships are outlined in the side panel and illustrated in Note 1 to the Financial Statements.

STRUCTURE OF NAMA COMPANIES

National Asset Management Agency Investment Ltd.
This is the investment holding company for the Master SPV and was established to facilitate the participation of private investors. 51% of the shares in National Asset Management Agency Investment Ltd., the investment holding company, are owned in equal proportion by three private companies (Irish Life Assurance plc, New Ireland Assurance Co. plc and Percy Nominees Ltd., a nominee of AIB Investment Managers) and the remaining 49% are owned by NAMA. Under the shareholders' agreement between NAMA and the private investors, NAMA exercises a veto over decisions taken by the company.

National Asset Management Ltd. (Master SPV)
This is the entity which issues senior and subordinated debt to the participating institutions (PIs) in exchange for acquired loans.

The Master SPV has four subsidiaries:

National Asset Management Group Services Ltd.

This acts as the holding company for three other subsidiaries.

National Asset Loan Management Ltd.
This entity is responsible for the acquisition, holding and management of bank assets from the PIs. Any profit it earns is paid to the Master SPV.

National Asset Property Management Ltd.
This entity acquires property from National Asset Loan Management Ltd. after enforcement action has been taken against debtors.

National Asset Management Services Ltd.
This is responsible for tax administration, for operating bank accounts for NAMA and for processing invoices.

Business Review

1. Background

The establishment of NAMA was one of a number of initiatives taken by the Government to address the serious crisis in Irish banking which had become increasingly evident over the course of 2008. The decision was announced by the Minister for Finance in his Budget Statement of April 2009. Draft legislation was published in September 2009 and the *National Asset Management Agency Act, 2009* was passed into law in November 2009. NAMA was formally established on 21 December 2009 and its Board was appointed on the following day. Its commercial objective is to recover for the taxpayer what it pays for acquired loans in addition to whatever it invests to enhance property assets underlying those loans.

Five institutions (and their subsidiaries) applied to join the NAMA scheme and were designated by the Minister as participating institutions in February 2010. They are Allied Irish Bank, Bank of Ireland, Anglo Irish Bank, Irish Nationwide Building Society and EBS Building Society.

The laws of the European Union prohibit the provision of any state aid which could have the effect of giving favourable treatment to certain entities and thereby distorting competition throughout the Union. Among the exemptions to the prohibition is aid designed to remedy a serious disturbance in the economy of a Member State; however, any aid contemplated under this exemption must first be given advance approval by the European Commission.

In February 2009, the Commission issued guidance about the design and implementation of asset relief schemes. This guidance informed discussions which took place with the Commission throughout much of 2009 and in the early part of 2010 about the design of the NAMA scheme and the level of state aid permissible under State Aid rules. The Commission evaluated the scheme and its implications in great detail and suggested changes to proposals in order to calibrate the level of state aid which it considered to be permissible. On 26 February 2010, the Commission gave its formal approval to the NAMA scheme, following which, in early March 2010, the Minister for Finance published revised valuation regulations which gave effect to the valuation methodology which had been approved by the Commission. The first tranche of loans was acquired by NAMA later in the same month.

2. Loan Acquisition

Summary of loan acquisitions

The first loan transfers occurred on the 29th March 2010. The first tranche transfer (€15.3 billion nominal) was completed in May 2010 and the second tranche (€11.9 billion) in August. These were both carried out on the basis of full legal due diligence and loan valuations.

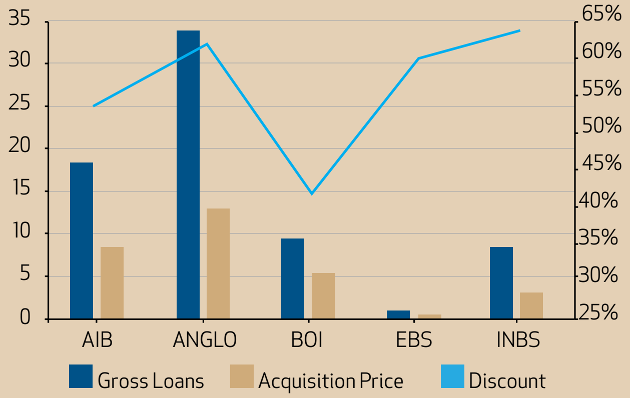
At the request of the Minister for Finance, the transfer of the third and later loan tranches was accelerated as part of a bulk transfer in the last quarter of the year. By end-June 2011, full due diligence will have been completed on the third and fourth tranches which comprise nominal loan balances of €19.2 billion (and a consideration of €8.42 billion). This brought the total volume of loans which had been subjected to full due diligence (Tranches 1 to 4) and individual loan valuation to €46.4 billion (with a paid consideration of €21.4 billion, a discount of 54%). The current market value of the property in Tranches 1 to 4 was €21.5 billion. The due diligence process for the rest of the acquired portfolio continues and, depending on the timing of submission by the PIs of full legal and property due diligence, NAMA would expect to complete all valuations by the final quarter of the year.

By the end of 2010, a total of €71.2 billion in loans (including bulk transfers) had been transferred to NAMA by the five PIs and €30.2 billion has been paid as consideration to the institutions, an overall discount of 58%. **Table 1** below summarises the position by institution:

TABLE 1: Loan acquisitions from participating institutions as at end-2010

	AIB	ANGLO	BOI	EBS	INBS	TOTAL
Loan balances transferred	18.5	34.0	9.4	0.8	8.5	**71.2**
Consideration paid	8.5	13.0	5.4	0.3	3.0	**30.2**
Discount	54%	62%	42%	60%	64%	**58%**

Chart A: NAMA Balance Sheet – 31st December 2010



Additional loan transfers of €1.1 billion during the first quarter of 2011 increased the overall acquisition to €72.3 billion and the consideration to €30.5 billion. An additional €3.5 billion may be transferred in 2011 depending on the outcome of litigation and ongoing engagement with debtors.

Table 2 below provides a breakdown of the largest debtor connections by size of nominal debt exposure. It should be noted that many of the debtors are also indebted to financial institutions which are not part of the NAMA scheme.

TABLE 2: Distribution of debtors with nominal debt in excess of €100m by size of nominal debt*

Nominal Debt	Number of debtors	Average nominal debt per debtor €m	Total nominal debt in this category €m
In excess of €2,000m	3	2,784	8,352
Between €1,000m and €2,000m	9	1,564	14,077
Between €500m and €999m	17	666	11,322
Between €250m and €499m	28	358	10,023
Between €100m and €249m	78	160	12,483
TOTAL	**135**	**417**	**56,257**

*Includes only debtors whose loans have been acquired in full or in part

Valuation of assets

Bank assets (loans and derivative transactions) were acquired at an acquisition value which was determined in line with Part 5 of the NAMA Act and the Valuation Regulations which were made by the Minister and published on 5th March 2010 (copy available on www.nama.ie) The reference valuation date for the valuation of all property assets was 30 November 2009.

The acquisition value of each bank asset is the long-term economic value of the loan (LEVL). Various factors are taken into account in the calculation of the LEVL, including the current market value of the security (typically real estate but also including non real estate assets, such as shares), the LEV of property and the market value of the bank asset. See side panels on page 18 for further information.

The Valuation Regulations require that NAMA applies an uplift adjustment factor ranging from 0% to 25% to the current market value of property to reflect its long-term economic value (LEV). This is defined in the Act as the value that (a) a property can reasonably be expected to attain in a stable financial system when the crisis conditions prevailing at the passing of the Act are ameliorated and (b) in which a future price or yield of the property is consistent with reasonable expectations having regard to its long-term historical average.

The weighted average Property LEV (LEVP) uplift factors that were applied in Tranches 1 to 4 are outlined in **Table 3** below:

TABLE 3: Weighted Average Uplift (Tranches 1 to 4)

Tranche	Weighted average LEVP uplift %
Tranche 1	11.0
Tranche 2	9.8
Tranche 3	7.9
Tranche 4	7.3
T1-T4 weighted average uplift	9.3

PROPERTY VALUATION

The loan portfolios acquired by NAMA from the PIs are valued on a loan-by-loan basis. A key element in the valuation of each loan is the **current market value** (CMV) of the property or other collateral securing the loan. The CMV is, in the first place, provided by a professional valuer commissioned by the PI but also owing a duty of care to NAMA. Each valuation is referred by NAMA to its own property valuation panel which reviews it and provides an opinion as to whether it considers it to be correct. If the NAMA panellist disagrees with the valuation, it is referred to an independent property valuer for adjudication. This third-party property valuation is accepted by NAMA and used as part of the loan valuation.

In 2010, 4,500 property valuations were submitted by the PIs and reviewed by the NAMA panel: NAMA accepted 83% of them and 17% were submitted to second opinion. This resulted in a reduction of €1.7 billion in the market value of property securing acquired loans and a corresponding reduction in the acquisition price paid to PIs.

LOAN VALUATION

Following completion of the property and legal due diligence processes, a loan-by-loan valuation is carried out by one of five loan valuation firms employed by NAMA. The loan valuation process is independently audited by KPMG, which acts as Audit Co-ordinator. The Audit Co-ordinator provides audit certification to the EU Commission that the valuations are in line with the methodology approved by the Commission. The Commission confirmed its approval of the Tranche 1 loan transfer in August 2010 and the Tranche 2 transfer in November 2010.

LEGAL DUE DILIGENCE

The valuation of loans acquired from PIs was based on an extensive due diligence process carried out by NAMA, which included detailed legal due diligence in respect of both the security held by the PIs for the loans and the assets securing them. Legal due diligence material submitted by PIs was reviewed by NAMA's external legal panel: the reviews were required to highlight any issues which would give rise to legal difficulties for NAMA in managing the loans or in engaging in enforcement actions in respect of them. Particular attention is paid to the enforceability of security, any deficiencies in title to property and the implications of such deficiencies. Following this review, NAMA determines whether it is necessary to apply a discount to reflect any prospective realisation loss which may arise from defects in security or title.

NAMA is not required to acquire all eligible bank assets and may take into account factors such as any pending litigation, whether the security is adequate or has been perfected or whether the credit facility documentation is defective. To date, deficiencies in loan security identified in the due diligence process have been reflected in reductions of close to €300m on the acquisition price of the loans concerned.

TRANSFER MECHANISM

Loans which have been valued are included on an acquisition schedule and the service of this schedule acts as the mechanism by which the assets are legally transferred to NAMA. In the case of foreign bank assets, where an Irish statutory transfer would not be effective, the PI must take all steps necessary to ensure that there is a binding and enforceable transfer to NAMA, as a matter of applicable foreign law, of the foreign bank asset. Once NAMA has served acquisition schedules in respect of all bank assets that it proposes to acquire from a PI, it will serve a completion notice on that PI.

In the loan valuation model approved by the EU Commission, the discounting of future cashflows offsets the impact of any LEVP uplift. This is illustrated in Table 4 below.

Discounts

The discounts applied to nominal loan balances to derive an acquisition price are determined for the most part by the current market value of property securing the loans and, to a lesser extent, by further discounts made to reflect legal difficulties such as the extent to which security can be enforced or deficiencies in title. **Table 4** below summarises aggregate data for loans transferred as part of the first four tranches for which the overall discount was 54%.

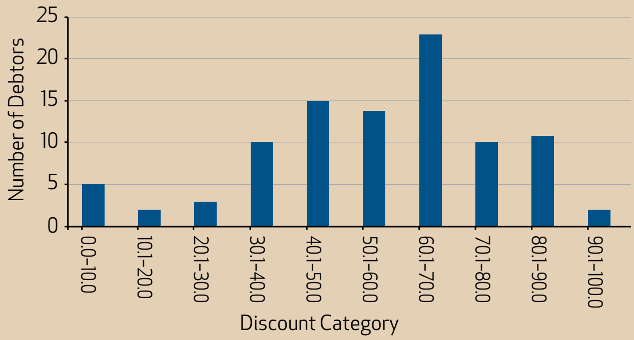
TABLE 4: Tranches 1 to 4 Aggregate Data

	€Billion
A. Aggregate loan balances	46.41
B. Current market value of property securing the loans (CMVP)	21.51
C. Long-term economic value of property (incorporating 9.3% uplift)	23.51
D. Current market value of loans	17.25
E. Long-term economic value of loans (LEVL – acquisition price)	21.39
F. Loan uplift (D minus E)	4.14
G. Discount (A minus E)	25.02
H. Percentage discount (G/A)	54%
I. CMVP/LEVL (B/E)	100.6%

It may be noted that one of the effects of the valuation approach approved by the EU Commission is that the consideration paid (LEVL) for the loans by NAMA is very close (a difference of €120m) to the current market value of the property (CMVP). It may also be noted that the Commission treats the difference between the current market value of loans (item D above) and their long-term economic value (item E) as the State Aid element of the NAMA scheme. For the first four tranches, this uplift was valued at €4.14 billion.

Discounts vary significantly across institutions (see **Table 1**) and debtors. Chart B presents a distribution of the percentage discounts which applied to the 95 debtors whose loans were acquired as part of the first three tranches.

Chart B: Number of debtors in each discount category – Tranches 1 to 3



For close to two thirds of debtors, discounts were in excess of 50%. This is largely a reflection of the significant decline in the current market value of the underlying property securing their loans.

Sectoral breakdown

The property that secured loans acquired as part of the first four tranches breaks down as follows in terms of asset class:

TABLE 5: Asset classification Tranches 1 to 4

Asset Class – T1 to T4	Current Market Value of Property* € Billion	%
Land (including development property which is less than 30% complete)	5.2	24
Residential property for resale	2.6	12
Investment property	10.3	48
Hotels	2.5	12
Development property (more than 30% complete)	0.9	4
TOTAL	**21.5**	**100**

*Reference date for property valuation – 30 November 2009

The early loan tranches included a higher proportion of investment and residential property and hotels than later tranches – 72% across Tranches 1 to 4. It is expected that, following completion of due diligence on the total portfolio acquired, the overall portfolio of property securing NAMA loans will comprise approximately 60% investment property/ residential property/hotels and 40% land and development.

Geographical breakdown

In terms of geographical location, the breakdown of property securing loans acquired as part of the first four tranches is as follows:

TABLE 6: Jurisdiction of property securing loans acquired in Tranches 1 to 4

Jurisdiction	Current Market Value of Property* € Billion	%
Ireland	11.5	54
United Kingdom	8.2	38
Rest of Europe	1.5	7
US/Canada	0.3	1
TOTAL	**21.5**	**100**

*Reference date for property valuation – 30 November 2009

After completion of the full due diligence on the remaining €26 billion of loans, it is not expected that the jurisdictional breakdown will vary significantly from these figures.

Expert Reviewer

Where the parties fail to agree on the eligibility of a bank asset, NAMA refers the dispute to the Expert Reviewer (a Senior Counsel appointed by the Minister for Finance). The Expert Reviewer assesses the eligibility of the asset by reference to the Act and the Eligible Asset Regulations which were made by the Minister and published on December 2009 (available on www.nama.ie). The Expert Reviewer advises the Minister whether he is of the opinion that the asset concerned is or is not an eligible bank asset and the Minister, having considered the advice, either confirms that the asset may be acquired by NAMA or direct NAMA not to acquire it.

To date, the PIs have objected to the acquisition of loans with a nominal value of €1,414m. €515m were withdrawn by the PI or by NAMA during the process as additional information came to light which clarified eligibility. Of the residual loans totalling €899m, the Expert Reviewer deemed €831m (92%) of the loans to be eligible and €68m (8%) to be ineligible.

Valuation disputes

Under sections 119-127 of the Act, a PI may dispute the **total portfolio acquisition value** of all its acquired bank assets if it believes that the **aggregate market value** of the acquired portfolio exceeds the total portfolio acquisition value. The Minister will appoint a valuation panel with relevant expertise or specialist knowledge to review PI valuation disputes. The function of the valuation panel is to review the aggregate market value of an acquired portfolio and to advise the Minister whether it considers the value to be correct.

The Minister then considers the valuation panel's advice and he may either (i) confirm the aggregate market value as advised by the valuation panel or, (ii) if the panel's determination of the aggregate market value is greater than the total portfolio acquisition value and he considers that the advice is wrong, remit the matter back to the valuation panel, setting out his reasons for doing so. Where the Minister determines that the aggregate market value of the acquired portfolio is greater than the total portfolio acquisition value, he will direct NAMA to compensate the PI to the amount of the appropriate difference by providing further consideration or by the return of bank assets or combination of both.

Registration of acquired loans

Following the acquisition of loans from the PIs, NAMA commenced a detailed engagement with the Property Registration Authority to register its ownership of the acquired loans in cases where the security for such loans comprises registered land.

While the Act provides that NAMA has all rights of registration and the powers of a mortgagee in relation to any acquired charge, both NAMA and the Property Registration Authority considered that the transparency of the registration system would be best served by the registration of NAMA's security interests and a project is underway to register all land registry charges acquired by NAMA. NAMA is submitting details of the registered charges that it has acquired to the Property Registration Authority for registration on a tranche by tranche basis. As at June 2011, all of the Tranche 1, Tranche 2 and Tranche 3 charges had been lodged for registration.

The ownership of each NAMA charge will be registered in a subsidiary register and will be fully searchable on the Property Registration Authority website (www.landdirect.ie). This will show details of the lands charged and the registered owner and will map the boundaries of the charged property.

3. Debtor Engagement

NAMA manages the largest 180 debtors (€62 billion) directly. This means that the debtor engages directly with NAMA on credit issues but loan administration continues to be carried out by the PI. NAMA has delegated the day-to-day relationship management of another 670 debtors (€10 billion, which may ultimately rise to €13 billion), within tight and specific delegated authority limits, to the PIs.

Credit decisions are ultimately controlled by NAMA using a cascading system of credit limits and delegated authority. The highest level of decision-making is the NAMA Board. Depending on the quantum and degree of impairment involved, decisions are successively delegated to the Credit Committee (which meets, at minimum, on a weekly basis), to NAMA senior management and to the NAMA Units in the PIs.

Section 71 of the Act applies to loans which are eligible but not yet acquired by NAMA. Under this provision, PIs are required to obtain advance NAMA approval for any credit action. Section 131 applies after loan acquisition by NAMA: each of the PIs was issued with a detailed direction setting out their loan servicing obligations.

After NAMA acquires a loan, the debtor continues to owe the full balance of the original loan including any accrued interest or arrears and any amounts which were due on associated derivatives as at the date of acquisition. NAMA's primary objective in its engagement with debtors is to achieve significant debt reduction within a three/four year period followed by other debt repayment milestones and culminating in full repayment no later than 2019.

While the Debtor Business Plan process is important, it does not impede credit activity on the portfolio: NAMA and the participating institutions currently process up to 400 decisions each month on various matters ranging from lease approval to asset disposal.

Largest 180 debtors

NAMA's direct engagement with the largest 180 debtors begins shortly after loan acquisition. Initial meetings are held during which a debtor is introduced to the NAMA portfolio management team dealing with his debt and preliminary discussions take place in relation to his projects and plans. The debtor business plan engagement proceeds in the following stages:

1. NAMA requires each debtor to submit a business plan setting out how he intends to repay the amounts due. Debtor plans – based on a template provided by NAMA - must include the following information:
    - Information about all outstanding loan facilities, including facilities advanced to them by non-NAMA banks.
    - The proportion of debt which is guaranteed and that which is non-recourse.
    - The assets securing the loans and their capacity to generate income.
    - Any unencumbered assets under the debtor's control.
    - Assets transferred to relatives or others within the previous five years.
    - Proposed debt repayment and asset management strategies, including asset sales, completion and sale of developments, repayment of capital and interest from income and refinancing of existing liabilities.
2. The debtor's business plan is normally reviewed by an independent business reviewer (IBR) who conducts an in-depth assessment of the plan. NAMA has appointed a panel of 38 firms from which IBRs may be appointed, if required. The IBR reviews the reasonableness of assumptions used by the debtor, conducts a detailed analysis of cashflow projections and presents an independent critique of the plan.
3. The plan and the associated IBR review are then considered by the NAMA Board, Credit Committee, CEO or senior management, based on a cascading system of delegated authorities approved by the Board. Other factors taken into account include the degree of the debtor's co-operation with NAMA and the quality of his corporate governance arrangements. The outcome of the Board/Credit Committee/delegated authority review can be (i) acceptance, (ii) acceptance subject to changes and the imposition of certain conditions or (iii) rejection.
4. If his plan is accepted by the Board, Credit Committee or delegated authority (as appropriate), a debtor is given a short deadline to indicate his agreement to NAMA's terms. A debtor's agreement to the approved business case is then recorded through a signed Memorandum of Understanding (MOU). The terms of the MOU are detailed in a term sheet and given contractual status through facility agreements and management connection agreements.
5. Implementation milestones are agreed and debtor adherence to agreed targets is monitored and reviewed on a regular basis.

PI-managed debtors
NAMA has delegated the day-to-day relationship management of another 670 debtors (currently €10 billion), within tight and specific delegated authority limits, to the PIs. NAMA has put in place a process to oversee the PIs in their performance of credit and operational functions on behalf of NAMA.

It should be noted that, during the debtor business plan process, NAMA engages with debtors on a 'business as usual' basis i.e. credit applications made by the debtor are assessed on their commercial merits.

Debtor Business Plans
There are two versions of the NAMA Business Plan. The first, which applies to the major debtors with complex corporate structures and whose loans transferred as part of the first three tranches, requires provision of detailed and comprehensive information by the debtor to NAMA.

The second, Business Plan Version 2, a streamlined version of the original business plan, applies to the majority of debtors. This is to be submitted either to NAMA directly (if the debtor is one of those whose loans is directly managed by NAMA) or otherwise to a participating institution. In the case of the latter, debtors will submit their plans to the PIs and, based on the plans, the institutions will draft a strategy for submission to NAMA. Both versions of the NAMA Business Plan are available on www.nama.ie

Outcome of Debtor Business Plan review
The business plan process will lead ultimately either to approval of the debtor's business plan or to enforcement. The latter will apply in the case of debtors who are unable to prove that they have the capacity to meet their debt obligations (even if restructured) or where they have failed to co-operate with the process. Enforcement is not the preferred option of NAMA as its stated objective is to try and achieve a consensual workout with the debtor. Unfortunately, it will be necessary in some cases for NAMA to take enforcement action against debtors and to realise the value of the underlying assets (usually property) securing their loans. Enforcement will be carried out with the assistance of panels of legal and insolvency practitioners and asset receivers which were established in 2010 following public procurement tendering processes.

Some debtors will be in a position to continue to service their scheduled debt repayments in line with their existing contractual obligations and will require no particular assistance from NAMA.

For most debtors, however, the business plan review will culminate in an agreement with NAMA which revolves around a commitment to meet an agreed debt repayment schedule and which is likely to include most, if not all, of the features outlined below:

Debt repayment targets
Targets typically involve a 25% debt reduction target by 2013 with a schedule of additional repayments at various stages over a period of up to eight years.

Debt restructuring
This usually entails a restructuring into three loans. **Loan A** is comprised of interest bearing debt, **Loan B** non-interest bearing debt (but with a back-end fee of up to 25% payable to NAMA) and **Loan C** includes new loans advanced for working capital and capital expenditure. Typically, interest on Loan A is charged at a rate of 2.5% above six-month Euribor; for Loan C, the rate may be up to 4% above Euribor. Incentivisation mechanisms may sometimes be included; for instance, profit above a target NAMA repayment level could be shared 90% to NAMA and 10% to the debtor. The following example illustrates how debt restructuring is expected to operate:

TABLE 7: Debt re-structuring example

	€m
Par debt outstanding	1,000
Current market value of underlying property	480
Long-term economic value (LEV) of debt (incorporating a discounted uplift)	490
Loan A (LEV plus additional repayment target)	540
Working capital advanced by NAMA (**Loan C**)	20
Total interest-bearing debt	560
Loan B (non-interest bearing)	440

In the example, the incentivisation mechanism could be triggered after the debtor repays the target interest-bearing debt of €560m. If, for example, the debtor fully engages and fully co-operates with NAMA and an amount of €570m is realised, the €10m in additional proceeds realised will be distributed with €9m (90%) going to NAMA and €1m (10%) to the debtor. The €1m will only be paid to the debtor at the end of the process which is likely to be well into the future.

Personal guarantees
NAMA's policy is to pursue all personal guarantees to the greatest extent feasible.

Asset sales
The debt reduction targets will usually require a programme of significant asset sales by the debtor. The timing of any particular sale will depend on the type of property involved (residential investment, commercial investment, land, etc), the jurisdiction and location of the property and the scheduled expiry of any associated leases. The prior analysis will have established whether, for instance, the net present value (NPV) of a later disposal exceeds the NPV of an early disposal, taking account of rental income, property management costs and net sales proceeds. In the case of the disposal of a land bank, concentration risk must be assessed and strategy reviewed by reference to other land banks in the same location.

Reversal of asset transfers
NAMA insists, as part of a consensual agreement with a debtor, that the transfer of any assets to third parties (spouses, other family members, etc.) over recent years be reversed. This can include property, cash, shares and other gifts. Debtors are required to produce sworn Net Worth statements and, where appropriate, NAMA commissions asset searches in order to verify information provided by debtors. In its engagement with the larger debtors, NAMA has had significant success to date in securing debtor agreement to a reversal of asset transfers.

Perfection of security
A debtor must commit to improve or perfect security where necessary.

Private Dwelling Houses (PDH)
The arrangement with a debtor may require him to dispose of an unencumbered PDH which is beyond his means. NAMA has a policy of taking a charge over unencumbered PDHs wherever it is legally feasible to do so. Part of the sales proceeds may be used to purchase a PDH more appropriate to the debtor's current resources.

Rental income
It is NAMA's policy that rental income from investment assets controlled by the debtor be mandated to NAMA.

Unencumbered assets
NAMA's policy is to acquire unencumbered assets as additional security, taking account of the cost of pursuance and the legal risks involved. In order to capture future upside potential, NAMA takes second charges over surplus equity where appropriate.

Non-property assets
Where there is surplus cash available, it is netted against a debtor's loan obligations. Where appropriate, a debtor is required to sell shares, works of art and other non-property assets and apply such disposal proceeds against his NAMA debt.

Overheads
NAMA will stipulate management and staffing arrangements and other cost overheads. Among the issues considered are (a) the appropriate level of overhead given the complexity or otherwise of the debtor's business, (b) which, if any, members of the current management team is likely to add value if retained and (c) whether the management team needs to be strengthened or enhanced.

Funding
In certain cases, NAMA provides funding which enables viable projects to be brought to completion.

Trading entities
Where trading entities are involved (hotels, for instance), NAMA reviews whether current management and/or Board of Directors is considered to be capable of optimising cash flow from the business.

Credit activity
During 2010, the business plans of thirty Tranche 1 and Tranche 2 major debtors, amounting to €31 billion in nominal balances, were reviewed. In conjunction with this, close to 1,000 significant credit applications were assessed and sanctioned or rejected between March and December 2010; these included applications for new money, new lease approvals and applications to dispose of assets. NAMA also approved the disposal of €1.9 billion of property by end-2010.

By end-May 2011, NAMA had approved the sale of an estimated €3.6 billion in property assets held by debtors; proceeds from completed sales were used to pay down debts either to the Agency itself or to non-NAMA banks which had co-lent on developments.

NAMA has the power under the Act to borrow up to €5 billion for the purpose of advancing new money which will enable unfinished developments to be completed or which will otherwise enhance the value of assets. Between 1st March 2010 and end-May 2011, NAMA approved €812m in new money advances.

As at end-May 2011, NAMA has approved the appointment of receivers in 66 cases.

As at 31 December 2010, NAMA had not yet taken possession of any property assets. Where a receiver is appointed, it is the receiver, not NAMA, who takes over the management of the debtor's loans and associated property and he has a legal obligation to maximise the proceeds of an asset disposal to apply against the borrower's indebtedness.

Key Strategic/Policy Approaches Adopted By The Board

A. Dealing with debtors

1. **Debtors**
   NAMA may work with certain debtors where it takes the view that this is the optimal commercial strategy in the circumstances. However, this will only occur where debtors are co-operative, make full disclosure and are realistic in terms of asset funding and of the lifestyle implications for them of NAMA support. They must also accept close monitoring by NAMA of their activities.

2. **Debt reduction**
   NAMA will pursue all debts and debtors to the greatest extent feasible. The Board has set the following targets for debt reduction over its expected life: 25% debt reduction by 2013, 40% by 2015, 80% by 2017, 95% by 2018 and 100% by 2019.

3. **Advances of new money**
   New money is a limited and expensive resource. There will be occasions where it is necessary to advance new money to a debtor, on a risk adjusted basis (ROCE), so as to improve NAMA's overall financial position. NAMA has set interest margins ranging from 2.5% to 4% above the prevailing market interest rate. The return required by NAMA will increase commensurate with the risk associated with an asset.

4. **Enforcing personal guarantees**
   NAMA will pursue all personal guarantees to the greatest extent feasible.

5. **Shortfall in interest servicing**
   Debtors will be required to pay to NAMA 100% of their available cash flows when they are unable to fully meet their current interest/repayment obligations to NAMA.

6. **Unencumbered assets**
   NAMA's policy will be to try to acquire unencumbered assets as additional security, taking account of the cost of pursuance and the legal risks involved.

7. **Transfer of unencumbered assets by debtors**
   NAMA will pursue recovery of assets transferred to third parties.

8. **Control of asset(s)**
   Where management/debtor is not adding value and in default, NAMA will, where appropriate, seek to take control of the asset(s).

9. **Retail sector – "turnover-based" rents**
   NAMA may offer and approve "turnover-based" rents as part of its asset management programme.

10. **Streamlining of loans and documentation**
    NAMA will restructure and simplify existing loan structures and utilise NAMA's own legal documentation to standardise and consolidate loans.

11. **Guarantor's/ Principal's Certification of Personal Assets**
    NAMA Credit Policy requires debtors and principals/ guarantors to provide a certified schedule of all assets and liabilities.

B. Dealing with loan and property assets

1. **Asset Disposals**
   NAMA will reflect market conditions in its decision as to whether to sell individual properties with the goal of disposing of assets in a phased and orderly manner. However, NAMA will not engage in any speculative hoarding of assets. Strategy will be shaped by a neutral view as to future market movements on a portfolio basis.

2. **Sale of loans**
   NAMA will consider, on a case-by-case basis, the sale or assignment of loans or loan portfolios to third parties if it makes commercial sense to do so.

3. **Undeveloped land and partially-completed developments**
NAMA will seek to reduce its exposure to undeveloped land and partially-completed developments as soon as is feasible and, where appropriate, via public auction.

4. **Unfinished estates**
The matter of unfinished estates is a complex one with no readily available solutions. While NAMA has to strive to achieve and set an overall strategy, solutions may need to be individually tailored to the environment and could include sale, rent or completion. In some cases, the only available option may be restoration to agricultural use. NAMA participated in a Working Group set up by Government to examine the extent of unfinished estates in Ireland. The Group's report was published by the Minister for Housing in June 2011. That report identified 2,800 unfinished estates and it categorised them by reference to the extent to which they required remediation. The report identified about 225 Category 4 estates which are deemed to require immediate remedial attention. NAMA debtors have loans with an exposure to 28 of those Category 4 estates. NAMA has committed to undertaking an analysis of the 28 estates with a view to developing site resolution plans which will address the most pressing issues that require remediation.

5. **Funding to complete developments**
In certain situations, NAMA will acquire property which it will make commercial sense to complete and in such cases NAMA will proactively seek joint venture partners.

6. **Hotels**
Where a number of NAMA-funded hotels are competing in a location where there is only potential for a single facility, NAMA will make its decision based on the optimal commercial outcome.

7. **Northern Ireland / UK / USA / Europe**
NAMA will not adopt a specific policy to deal with any specific geographical area. Any asset/debtor activity and management has to be in accordance with attaining the best achievable returns.

C. Dealing with interested third parties

1. **Engagement with Planning Authorities**
NAMA will engage with Planning Authorities having regard to proper planning and sustainable development principles and to NAMA's commercial remit.

2. **Engagement with Government entities and with local communities regarding their land needs**
NAMA will engage proactively with Government Departments, local authorities, State agencies and other appropriate bodies in relation to their possible need for land/properties. Such land will be offered at NAMA's minimum reserve price (independently appraised) to such bodies for four weeks, subject to a definite decision, contract and closing period of up to 90 days, prior to open market offering.

3. **Non-Participating Institutions**
NAMA will engage proactively with non-participating institutions, in accordance with the approved code of practice, in order to optimise returns on common assets and debtors. NAMA also expects non-participating institutions to operate in a reciprocal way taking account of NAMA's objectives.

Financial Review

NAMA made an operating profit, before impairment charge, of €305m for the period to 31 December 2010. After impairment charges of €1,485m, NAMA recorded an overall loss of €1,180m.

The overall operating performance for the period is set out below:

TABLE 8: Key elements of income and expense

	€m
Interest income	525
Interest expense	(179)
Net interest income	**346**
Losses on derivatives	(17)
Administration expenses	(46)
Foreign exchange gains	22
Operating profit prior to impairment	**305**
Impairment charges on loans and receivables	(1,485)
Loss after impairment	**(1,180)**

Interest Income

Total interest income for 2010 was €525m, broken down as follows:

TABLE 9: Interest income

	€m
Interest received on loans and receivables	448
Interest received on acquired derivatives	75
Bank interest	2
TOTAL	**525**

The income NAMA earned from acquired loans and receivables makes up the largest component of Interest Income (€448m). Loan interest income is calculated using an interest rate derived under the effective interest rate (EIR) method. Under this method the expected loan cash flows over the expected life of a loan are assessed. The EIR rate is the rate that exactly discounts (a) estimated future cash payments or receipts over the expected life of the loan to (b) the carrying value of the loan. Further detail is set out in Accounting Policy 2.10 of the Financial Statements. NAMA recognises income on a debtor portfolio basis which reflects the fact that loans are grouped by reference to a debtor connection rather than assessed on a loan-by-loan basis.

As part of asset acquisition, NAMA also acquired approximately €14 billion (nominal) of derivatives (principally interest rate swaps) which were associated with acquired loans (acquired derivatives had reduced to €10.1 billion by December 2010). Of these approximately €3bn (nominal) were performing derivatives. During the period, interest income of €75m was earned on these derivatives.

Interest Expense

Total interest expense for 2010 was €179m, broken down as follows:

TABLE 10: Interest expense

	€m
Interest on NAMA senior debt securities in issue	99
Interest on hedging derivatives put in place by NAMA	44
Interest on other derivatives	35
Interest on other debt	1
TOTAL	**179**

Total interest expense for the period was €179m. This includes €99m interest paid and accrued on NAMA bonds in 2010 and interest expense of €79m arising on derivatives. NAMA pays interest on its debt securities at Euribor and coupons are paid semi-annually in September and March.

As part of its risk management strategy, NAMA has fixed the interest cost on €13.3bn of its debt securities by entering into €13.3bn of floating to fixed interest rate swaps. The interest cost on these derivatives in the period is €44m.

NAMA entered into €2.5bn (nominal) of interest rate swaps to hedge the exposure to interest rate risk arising from derivatives it acquired from PIs. Interest expense on these derivatives was €35m for the period.

Administration Expenses

NAMA incurred administration expenses during 2010 which totalled €46.2m. **Table 11** below provides details of these expenses.

TABLE 11: Administration expenses

	€m
Operating costs reimbursable to the NTMA	15.0
Master and primary servicer fees	14.8
Financial adviser and consultancy fees	5.0
Portfolio management fees	5.1
Internal audit fees	0.7
Legal fees	3.3
Tax fees	0.5
Board and committee fees	0.6
External auditor's remuneration	0.5
Other	0.7
TOTAL	**46.2**

A detailed analysis of these expenses is set out in Note 8 to the Financial Statements.

Due diligence costs

NAMA incurs due diligence costs as part of the process of acquiring loans and related derivatives from PIs. These costs include legal, valuation and property due diligence fees together with the fees of the audit co-ordinator. During the period, NAMA incurred due diligence costs of €29.6m. However, NAMA factored these costs into the acquisition price of the assets so that they were recovered from the PIs in the form of a reduced payment for the assets.

At 2010 year end, NAMA carried a provision for €30.3m in respect of due diligence costs for the €38 billion of loans for which due diligence had not yet been completed.

Derivatives and foreign currency movements

NAMA acquired foreign currency loans (primarily sterling loans) which it paid for in Euro-denominated floating rate bonds. Arising from this, NAMA entered into approximately €10bn of foreign currency derivatives to hedge the currency risk associated with the acquired foreign currency loans. At the end of 2010, the net mark-to-market valuation on these derivatives (net of movements on the foreign currency loans and receivables) was a positive €22m and this was reflected in the income statement as a currency gain (Note 9 to the Financial Statements).

In addition to the foreign currency loans, NAMA also acquired €14bn in debtor derivatives (the majority of which were non-performing) associated with those loans. It entered into €2.5bn of interest rate derivatives to hedge the interest rate risk arising from the performing portion of these derivatives acquired from the PIs. The income statement records a mark-to-market valuation loss on these acquired derivatives and related hedges of €17m although this excludes the net interest gain on these derivatives of €40m which is included as part of the interest income and expense.

During the period, NAMA also entered into €13.3bn of floating to fixed interest rate swaps to hedge a portion of the interest rate exposure on over €28bn of floating rate bonds issued as part consideration for acquired loans. A gain of €77m, arising from these interest rate derivatives, was recorded as part of other reserves within equity. The gain was not recorded in the income statement as these hedges meet 'hedge accounting' requirements which means that any fair value gains and losses arising on them are taken directly to reserves and do not impact on the income statement. This is in line with accounting standards.

Impairment charges on loans and receivables

In accordance with International Financial Reporting Standards (IFRS), NAMA must review its loan portfolio for impairment at each reporting date. A loan is considered to be impaired if its carrying value (the amount recorded by NAMA in its records) is more than its recoverable value.

Under accounting rules, NAMA is required to assess whether objective evidence of impairment exists individually for debtors that are individually significant, and individually or collectively for debtors that are not individually significant.

NAMA has recorded an impairment provision against its loans and receivables portfolio of €1.485 billion for the period to 31 December 2010.

This comprises an impairment provision of €719m against the loans of individually-assessed debtors and a collective impairment provision of €766m against debtors whose loans have been subject to a collective impairment review. **Table 12** summarises the impairment provision recorded as at 31 December 2010.

TABLE 12: Impairment provision

	NAMA Debt €bn	Provision €bn	Impairment %
Individually-assessed debtors	13.3	0.719	5.41%
Collectively-assessed debtors	16.1	0.766	4.76%
TOTAL	**29.4**	**1.485**	**5.05%**

For 2010, individually-assessed debtors comprised debtors acquired in Tranches 1 and 2, representing loans and related derivatives with a carrying value of €13.3 billion or 44% of total loan balances. Debtors in subsequent tranches, representing loans and related derivatives with a carrying value of €16.1 billion, had not been individually assessed at the year-end. Such debtors are included in the collective assessment at the period end for the purpose of impairment.

The valuation methodology approved by the EU Commission incorporated certain standardised assumptions about the timing of asset disposals and about the treatment of certain asset classes. As part of the detailed engagement with the Tranche 1 and Tranche 2 debtors, many of these standardised assumptions had to be revised to reflect the outcome of NAMA's review of debtor business plans e.g. actual disposal schedules, updated valuations of certain assets, updated tenancy and rent roll prospects for investment assets.

The impairment assessment for individually-significant debtors is based on cash flow projections prepared by NAMA for each of them during the course of the debtor business plan engagement process. As part of this process, NAMA had regard to the cash flow projections set out in the debtor's business plan and reviewed through the Independent Business Review process. The cash flow projections were updated for the performance of the debtor since the debtor business plan was reviewed and other known developments which could impact future cash flows for the debtor.

As NAMA carries its loans at cost, it is required to make an impairment provision for loans where it is projected to recover less than the carrying value. For a number of individually-assessed debtors, NAMA has projected that it will realise more than the carrying value of the loans; however, it is precluded from recognising such potential gains unless and until they are realised.

In the small number of cases where a debtor business plan has not been completed, NAMA has projected cash flows for the debtor on the basis of the most likely performance of the underlying loans and related collateral.

For the purpose of considering a collective impairment assessment for debtors, NAMA had no specific historical data available to it to assess the likely default rate and any subsequent loss which might be incurred in respect of these debtors. NAMA also had very limited knowledge of these debtors as no business plan review had been completed and due diligence was incomplete at end 2010. As a result, the development of a collective assessment has been difficult and inherently very subjective.

In light of the limited information available to NAMA, the collective assessment was conducted by using the impairment experience of the individually-significant debtors. The average impairment rate for the individually-significant debtors was applied to the collectively assessed debtors, with some adjustments being made for specific outlier impairments which are deemed not to be relevant to collectively-assessed debtors.

The assessment of impairments on NAMA's portfolio of loans is inherently subjective. The projection of cash flows for individual debtors involves the exercise of considerable judgement and estimation by NAMA, involving assumptions and judgements regarding local economic conditions, the trading performance of the debtor and the future realisation values of the underlying property collateral.

Cashflow Statement

NAMA generated net cashflow of €740m from its operations during 2010. The major items affecting cash flow were cash generated from loans and moneys advanced to borrowers.

- The loans acquired by NAMA generated in excess of €1 billion to the end of 2010 in loan repayments and derivative payments.
- NAMA advanced €240m to borrowers in the period and made payments to service providers of €50m.
- Cashflows in respect of derivatives entered by NAMA in the period generated €47m.
- Payments in respect of interest on NAMA Senior debt and advances from the Central Fund totalled €31m.

During the period the Minister advanced €299m as a loan to NAMA from the Central Fund, comprising €49m to fund its investment in National Asset Management Investment Limited and €250m to fund set-up costs and provide working capital for the NAMA Group. The €250m loan, together with accrued interest, was repaid in full on 27th October 2010. The remaining €49m was repaid at the end of February 2011.

NAMA ended 2010 with €837m in cash reserves.

Loans and receivables

By end-2010, NAMA had acquired €71.2 billion in eligible assets for a consideration of €30.2 billion. The consideration included €30 billion in respect of loans and receivables and €0.2 billion in respect of acquired derivatives.

The carrying value of loans and receivables as at 31 December 2010 was €27.9bn.

The movement in loan balances reflects the level of new advances given by NAMA, cash payments received from debtors, due diligence costs, valuation adjustments and impairment.

Table 13 below summarises the movement in the loan balances since acquisition.

TABLE 13: Movement in loan balances

	2010 €m
Loans acquired – opening balance	29,971
Adjustment to loan acquisition values	
Value to transfer date adjustments	(386)
Adjustment to loan values following completion of due diligence	(115)
Sections 88, 93 and 98 adjustments	24
Due diligence costs	60
Movements on loans since acquisition date	
New loans advanced	240
Cash repayments	(371)
Proceeds from the sale of collateral as security against loans and receivables	(363)
Loan interest income	448
Foreign exchange movement	(72)
Impairment of loans and receivables	(1,485)
Closing balance at the reporting date	**27,951**

The acquisition values of loans are adjusted for value to transfer date adjustments, adjustments resulting from completion of due diligence on bulk transfer loans and other adjustments which arise under Sections 88, 93 and 98 of the Act. Value to transfer date adjustments represent movements on loans between the loan valuation dates and the dates of acquisition by NAMA and they are settled following loan acquisition.

In addition, NAMA adjusts the carrying value for due diligence costs associated with the acquired loans.

Debt Securities issued by NAMA

As consideration for loans acquired, NAMA has issued senior and subordinated debt to the PIs. The senior debt, which is guaranteed by the Minister for Finance, accounts for 95% of the value of loans acquired. The debt securities pay a floating rate of interest on a semi-annual basis, with the coupon based on six month Euribor.

The subordinated debt, which is perpetual and non-cumulative in nature, accounts for 5% of the value of loans acquired. It carries an interest rate linked to the yield on 10-year Irish Government Bonds (at the time the first subordinated bonds were issued) and includes an interest margin of 0.75%. As a result, the interest rate has been set at 5.26%. The payment of interest and principal on the subordinated debt is dependent on NAMA's financial performance. The NAMA Board decided that the coupon payable on the subordinated debt in March 2011 should not be paid.

Table 14 provides a breakdown of the senior and subordinated debt issued to the PIs in 2010 (further detail is set out in Note 23 and Note 27 to the Financial Statements):

TABLE 14: Securities issued to PIs

PI	Senior debt €m	Subordinated debt €m	Total €m
AIB	8,036	423	8,459
BOI	5,134	270	5,404
Anglo	12,275	645	12,920
EBS	314	17	331
INBS	2,891	152	3,043
TOTAL	**28,650**	**1,507**	**30,157**

Since the end of 2010, NAMA has utilised its strong cash flow to redeem €750m in Senior debt.

Going Concern

As noted in more detail in Note 2.1 of the Financial Statements, the Financial Statements have been prepared on a going concern basis and the Board is satisfied that NAMA and its group entities will continue as a going concern for the foreseeable future.

Most of NAMA's funding is in the form of short-term Government Guaranteed Floating Rate Notes (Notes). Subsequent to the period end, the Minister for Finance issued a direction to NAMA under Section 14 of the National Asset Management Agency Act, 2009. The direction stipulated that the terms and conditions of the Notes issued on 1 March 2011, and any notes issued thereafter, should be amended to remove the issuer's option to settle maturing Notes by the issue of new Notes on similar terms unless prior consent is received from the note holder. The direction also removed the issuer's option to extend the maturity of the Notes. Consequently, a requirement to redeem some or all of the Notes for cash could leave NAMA in a position where it would have to call on the Government to fund such a cash redemption.

The Notes are held by financial institutions and can be used by them as collateral to access monetary authority liquidity support schemes. However, the current note holders are subject to direction from the Minister for Finance and the Notes are guaranteed by the Government. Given these circumstances, the Board believes that its assumption that, on the maturity of the Notes, NAMA will be able to settle its liability with new Notes, issued on similar terms, is a reasonable one.

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

Asset and liability management

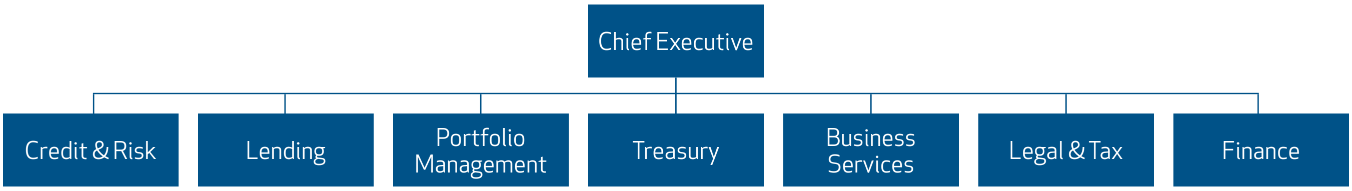
The management of NAMA's assets and liabilities is achieved through the implementation of strategies which have been approved by the Board. Day-to-day management is carried out by the NAMA Treasury team with transactions executed on NAMA's behalf by the NTMA.

As a result of acquiring loans and derivatives, NAMA is exposed to currency and interest rate risks. A major source of foreign currency risk arises at the point of loan acquisition when Euro denominated securities are issued as consideration for loan assets in Sterling or other currencies, thereby creating an asset/liability currency mismatch for NAMA. NAMA also faces ongoing currency risks after loan acquisition as 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.

NAMA manages its day-to-day liquidity and funding requirements so as to ensure that it meets all obligations as they fall due. These include new lending advanced to debtors, interest on liabilities, day-to-day operating costs, fees and expenses. The Risk Management Committee and the Board have adopted a prudential liquidity policy which incorporates ongoing liquidity stress-testing and the maintenance of a minimum liquidity buffer or cash reserve of €250m. This buffer is kept under review in line with the overall asset and liability management strategy.

Under Section 50 of the Act, NAMA may borrow such sums of money as are required for the performance of its functions under the Act. A short-term Euro Commercial Paper (ECP) programme was established in 2010 and preliminary work was carried out in preparation for the establishment of a Euro Medium-Term Note (MTN) Programme. However, given the net positive cash flow from NAMA activities and the difficult conditions in the sovereign bond market, no issuance took place in 2010 and none is planned for 2011.

NAMA Organisational Structure



The number of NTMA staff assigned to NAMA increased from seven at the beginning of 2010 to 104 at the end of the year.

Current projected staff numbers, by NAMA division, are as follows:

TABLE 15: NAMA staffing by division

Division	Projected
CEO / Senior Executives	8
Portfolio Management	85
Credit and Risk	47
Lending	9
Treasury	5
Legal and Tax	23
Business Services	14
NAMA Finance	8
TOTAL	**199**

The NAMA Finance unit reports to the NTMA's Director of Finance, Technology and Risk.

It is expected that NAMA will have completed its recruitment by the third quarter of 2011.

The functions of the various divisions in NAMA are as follows:

Portfolio Management

The primary role of the **Portfolio Management** division is the management of the 180 major debtor connections which are handled directly by NAMA. By the time NAMA's recruitment has been completed, **Portfolio Management** will have eighty five staff, comprising multidisciplinary teams of four/five persons with a mix of expertise in areas such as property, finance and accounting.

Much of **Portfolio Management's** focus in 2010 was on its engagement with the largest debtors whose loans were acquired as part of Tranches 1 and 2. By the end of last year, the business plans of thirty of the largest debtors had been substantially assessed and proposals for managing the debtors and their assets had been submitted to the Credit Committee and/or Board (as appropriate). In a number of these cases, agreed strategies were approved and were at various stages of implementation.

The major objective for 2011 is to complete the business plan process for all 180 NAMA-managed debtors, to approve restructuring arrangements and asset management plans for those considered viable and to initiate enforcement proceedings otherwise.

Portfolio Management also has a role in the decision-making process for PI-managed debtors where asset management and financial decisions lie outside of the authority which has been delegated to the PIs.

Finally, **Portfolio Management** plays a key role in developing overall strategies for key sectors within its acquired portfolio. These will guide policy towards the management of individual debtor assets.

Credit and Risk

An independent and objective **Credit and Risk** function is critical to the development by NAMA of debtor strategy and asset management solutions. Effective challenge is a crucial aspect of its role and, in this context; it carries out critical appraisals of credit, asset and debt management proposals. Its key roles are as follows:

- In conjunction with other NAMA divisions, develop strategies for the management of debtors and of assets.
- In conjunction with **Portfolio Management**, manage the day-to-day interaction with debtors, including the processing of credit applications.
- Develop and implement a risk management framework within NAMA.

- Implement Credit Quality Assurance and Credit Frameworks within NAMA and the PIs.
- Deploy a specialist insolvency/asset search team.

By the time recruitment has been completed, the Credit and Risk team will comprise forty seven staff, principally specialists in distressed credit and risk management.

Lending

The main role of the **Lending** team within NAMA is to provide specialist advice on issues related to debt and equity. This includes:

- Advice on the restructuring of debtor loans following approval of a business strategy for the debtor, including advice on the commercial terms for revised loan and security documentation.
- Preparation of Memoranda of Understanding (MOU) and Restructuring Term Sheets to formalise agreements made with debtors.
- Evaluation of appropriate risk/reward structures for new debt and equity investments under consideration by NAMA.
- Development of monetisation strategies for NAMA assets.
- Dialogue with international equity capital with a view to facilitating debt restructuring, joint ventures or the monetisation of parts of the NAMA portfolio.
- Dialogue with syndicate banks in the context of syndicated loan assets acquired by NAMA.
- Assessment of loan and asset sale proposals and associated negotiation with potential purchasers.

The **Lending** team of nine comes from a variety of backgrounds, including real estate private equity capital, investment banks, major UK property companies and corporate finance.

Treasury

Treasury's primary role is the management of NAMA's Balance Sheet risks and of its liquidity requirements. This includes:

- The management of NAMA's day-to-day funding and liquidity requirements
- Monitoring and forecasting medium- and long-term liquidity needs
- The establishment of funding programmes for NAMA
- The establishment of credit ratings on NAMA debt securities
- Management of debtor derivative exposures
- Balance Sheet ALM (asset and liability management), including management of currency and interest rate risks.

The team currently comprises five staff and it works closely with the NTMA dealing and market risk teams in the execution and monitoring of transactions.

Legal and Tax

Legal and Tax is an independent adviser to the Board, CEO and to NAMA business divisions on a range of legal issues that affect NAMA and its operations. Its key roles include the following:

- Management of the extensive legal due diligence process required as part of the valuation of loans acquired by NAMA.
- A pivotal role in the acquisition of eligible bank assets from the PIs, in drafting the terms of the acquisitions and in NAMA's post-acquisition mandate of protecting and enhancing the value of the acquired assets.
- Preparation of comprehensive Directions issued to PIs under Section 131 of the Act which stipulate their servicing obligations in relation to NAMA assets.
- Advice on legal aspects of the debtor business plan process.
- Management of NAMA's governance and company law and tax compliance requirements.
- Drafting of the terms of the Government-guaranteed Senior Note and Subordinated Bond programmes.
- Advice in relation to the formulation of enforcement and post-enforcement strategies where it becomes necessary for NAMA to protect its interests by enforcing its security.

The **Legal and Tax** team, which is expected to comprise twenty three staff when recruitment has been completed, has a core team of legal professionals and support staff with expertise in commercial property, banking and insolvency.

NAMA Business Services

Business Services has responsibility for ensuring that NAMA has in place systems which will deliver, accurately and comprehensively, all the data that it requires to conduct its business professionally. Business Services has responsibility for the management and implementation of all NAMA-related IT projects.

Two major projects are currently under implementation: a Portfolio Management System (PMS) and a Document Management System (DMS). The PMS is designed to facilitate the management of loans and derivative transactions and information on property and other forms of collateral. The DMS will facilitate the management, storage and retrieval of the large volume of data necessarily processed by NAMA as part of its activities.

Business Services also oversees the performance of the PIs as service providers to NAMA. This includes developing and monitoring KPIs (key performance indicators) for loan administration and portfolio reporting services and, in cases where PIs fail to meet pre-determined Service Levels, to apply Service Credits (fee reductions). **Business Services** also oversees the performance of the Master Servicer to ensure efficient and cost-effective service delivery, including cash flow management.

Business Services has primary responsibility for NAMA's statutory reporting to the Minister and the Oireachtas (Sections 53 and 55 of the Act), for strategic analysis of the portfolio and for co-ordinating responses to media and public queries.

The **Business Services** team is expected to comprise fourteen staff when recruitment has been completed.

NAMA Finance Unit

The NAMA Financial Controller, who will eventually head a team of eight, reports to the NTMA Finance Director and to the CEO of NAMA and has primary responsibility for developing and implementing robust financial and management reporting. The Finance team interacts with all the other NAMA business areas and, in particular, with Business Services to ensure that appropriate systems and procedures are in place.

Service Providers to NAMA

A detailed breakdown of the costs incurred by NAMA is set out in Note 8 to the Financial Statements. Costs in 2010 amounted to €76 million but this included one-off due diligence and loan valuation costs associated with acquisition of the loan portfolio. The 2010 costs are equivalent to 0.25% of the consideration paid for the portfolio and reflect the fact that NAMA was a start-up operation. In 2011, costs are expected to be equivalent to 0.5% of the €30 billion acquisition price paid. About half of the 2011 costs - €72 million - will be paid to the participating institutions by NAMA to cover salary and overhead costs of about 500 staff employed by the institutions to administer loans.

NTMA

Under Section 41 of the NAMA Act, the NTMA provides NAMA with business and support services, including HR, IT, Market Risk Analysis and the execution and processing of hedging transactions. NAMA reimburses to NTMA the cost of these services which was €15m (including staff costs) in 2010. This is broken down as follows:

TABLE 16: Costs reimbursed to NTMA

	€m
Salary costs and expenses	10.6
Rent	1.4
Office services and IT operating costs	2.1
Advisory services	0.9
TOTAL	**15.0**

By end-May 2011, NAMA had, through the NTMA, recruited 140 staff with extensive experience and expertise in the areas of lending, property, accountancy, law, banking and credit. It plans to recruit an additional 60 staff by the third quarter of 2011. For any potential employee to be assigned to NAMA, the NTMA must ensure that the person meets the character standards set out in Section 42 of the Act, has no material conflict of interest and provides to NTMA a statement of interests, assets and liabilities.

Participating Institutions – servicing of NAMA loans

PIs are required to apply best industry practice in their management of NAMA loans. They have established dedicated units to manage NAMA loans and they are required to ensure that these units, when fully in place, operate on the basis of a segregation of staff, systems, data and infrastructure from other parts of the institution.

The following is a summary of the detailed obligations placed on PIs in a Direction issued under Section 131 of the Act:

- PIs are required to specify governance structure and procedures, including credit decision activities, administration processes and cost recovery arrangements, credit management procedures, customer relationship procedures, procedures for monitoring performance against Service Levels, procedures for reporting to and working with NAMA and the Master Servicer.
- Staff employed by PIs in their NAMA Units must be vetted and have appropriate qualifications, training and experience.
- Members of the NAMA Unit must not have been involved in the relationship management and administration of the same loans prior to their acquisition by NAMA.
- When key personnel are being replaced, NAMA must be provided with an opportunity to interview the candidate and to provide written consent.
- PIs have an obligation to provide timely and accurate management and service reports to NAMA.
- NAMA Data must be kept separate. PIs must put in place procedures to safeguard confidential information.
- Monthly Steering Committee meetings are held between NAMA and each PI to oversee service delivery and performance. Key performance indicators (KPIs) have been developed to monitor performance.
- PIs are required to meet or exceed pre-determined Service Levels (failure to do so will lead to payment of Service Charges, in effect, fines).

The aggregate fee payable to the five PIs in respect of 2010, based on the fee of 6 basis points (bps) then applicable, was €13m. With effect from 1st January 2011, a cost recovery fee of up to 10 basis points on outstanding nominal loan balances has been authorised by the EU Commission as payment for services conducted by the PIs for NAMA. This is expected to amount to approximately €72m in 2011.

Capita Asset Services

Capita Asset Services acts as Master Servicer. Its function is to collate loan data from the five PIs and to provide NAMA with consolidated financial and management information on its portfolio. A fee of €2m was paid to Capita in respect of 2010; its fee in 2011 is expected to be of the order of €3.5m.

Other Services

As NAMA is a public body, the procedures and thresholds used to procure services are based on the Public Procurement Guidelines issued by the Department of Finance and on the various EU Directives dealing with public procurement. The purpose of these procedures is to allow a competitive process to be undertaken which enables contracting bodies to obtain quality products, supplies or services at the lowest, or most economically advantageous, cost. The basic principles underlying both national and EU regimes are equality of treatment, transparency, proportionality and the observance of fair procedures.

As a public body, NAMA procures its services using the relevant public procurement provisions. A key criterion in the selection of service providers is the extent to which they can provide value-for-money for the taxpayer.

During the loan valuation and acquisition phase, there has been necessary expenditure on securing legal due diligence and valuation services. The cost of this - €30m in 2010 - has been recouped from the PIs in the form of reduced consideration paid for acquired assets. The benefits arising from this have been significant as the due diligence process has identified deficiencies in loan security and this has meant that savings of close to €300m have been achieved on what NAMA would otherwise have paid for the loans concerned.

NAMA has also established a number of panels to provide specialist services required for its ongoing engagement with debtors. One of these is a panel of independent business reviewers which conduct analysis and make recommendations on debtor business plans. Panels of insolvency practitioners and asset receivers have also been appointed to facilitate the realisation of assets in cases where enforcement is required. For all these panels, it is NAMA's practice to hold mini-tenders to ensure that the lowest possible price is obtained for each individual assignment.

NAMA has also selected system providers for a Portfolio Management System and a Document Management System through public procurement. The respective providers are **Ergo Services Ltd.** and **Bearing Point Ireland Ltd.**

A list of all tenders run by NAMA and the results of the tenders are available on its website www.nama.ie.

Governance

Board and Committees of the Board

The Board's principal responsibilities are set out in Section 18 of the NAMA Act:

(i) To ensure that NAMA's functions are performed effectively and efficiently;

(ii) To set strategic objectives and targets for NAMA;

(iii) To ensure that appropriate systems and procedures are in place to achieve the strategic targets and objectives; and

(iv) To take all reasonable steps available to it to achieve those targets and objectives.

Eight members of the NAMA Board were appointed by the Minister for Finance on 22nd December 2009. They are Frank Daly (Chairman), Michael Connolly, John Corrigan (Chief Executive of the NTMA, *ex-officio*), Eilish Finan, Brendan McDonagh (Chief Executive of NAMA, *ex-officio)*, Brian McEnery, William Soffe and Peter Stewart. The ninth member of the Board, Dr Steven Seelig, was appointed by the Minister on 26th May, 2010.

No appointed member of the Board is eligible to serve more than two consecutive terms of office. The Minister determines the level of remuneration of appointed members and their entitlement to reimbursement for expenses.

The Board met on 27 occasions between late December 2009 and the end of 2010. The attendance details for Board and Committee meetings are outlined in **Table 17** below.

The Board has established four statutory committees (under Section 32 of the Act) and two advisory committees (under Section 33):

- Audit Committee (chaired by Brian McEnery)
- Credit Committee (chaired by Michael Connolly)
- Finance and Operating Committee (chaired by Eilish Finan)
- Risk Management Committee (chaired by Steven Seelig)
- Planning Advisory Committee (chaired by William Soffe)
- Northern Ireland Advisory Committee (chaired by Peter Stewart)

The Board has also adopted the Code of Practice for the Governance of State Bodies adapted to NAMA's particular governance structure and the statutory requirements of the NAMA Act. Where necessary, it is putting arrangements in place to ensure compliance with the Code.

TABLE 17: Attendance at Board and Board Committee meetings

	Board	Audit	Credit	Finance & Operating	Risk Management	Planning	Northern Ireland
Board members							
Frank Daly	27						
Michael Connolly	27		54			7	
John Corrigan	18				5		
Eilish Finan	26	14		15			4
Brendan McDonagh	27		48	13[1]	4	7	
Brian McEnery	23	14					1
Steven Seelig	21	9			5		
William Soffe	27			14		7	
Peter Stewart	24	14	52				4
External members							
Michael Wall						7	
Gavin Daly[2]						2	
Alice Charles[3]						1	
Brian Rowntree							4
Frank Cushnahan							4

[1] Brendan McDonagh did not attend two meetings of the Finance and Operating Committee as they were joint meetings with the Audit Committee.

[2] Gavin Daly resigned in mid-2010.

[3] Alice Charles joined in late 2010 to replace Gavin Daly.

Reports from Chairpersons of NAMA Committees

Audit Committee

The purpose of the Audit Committee is to assist the Board in its oversight of the following areas:

- the financial reporting process
- the effectiveness of NAMA's internal control system
- the independence and integrity of the external and internal audit processes
- the processes in place for ensuring compliance by loan service providers with their contractual obligations to NAMA
- the processes designed to ensure compliance with relevant legal, regulatory and taxation requirements for NAMA

The Audit Committee oversees and, through its Chairman, is part of an appropriate whistle-blowing and good faith reporting structure. The Chairman reports formally to the Board on the key aspects of the Committee's proceedings after each meeting.

The principal activities of the Committee in 2010 were as follows:

1. **Financial and Management Reporting**
   The Committee reviewed significant accounting and reporting issues, the appropriateness of proposed accounting policies and principles and their impact on draft Financial Statements. The Committee reviewed the draft Annual Financial Statements before submitting them to the Board for approval. The review included the Committee's assessment of key accounting issues which required the application of judgement, including the fair value of assets on acquisition and debtor impairment.

2. **Internal Controls**
   The Committee evaluated the system of internal controls in operation in NAMA, including the procedures adopted by the NTMA in its performance of compliance and control functions for NAMA.

3. **External Audit**
   The Committee discussed the proposed audit scope with the external auditor, the Comptroller and Auditor General. The Committee monitored the extent to which any significant issues were emerging during the course of his work and the level of co-ordination between external and internal auditors.

The Audit Committee is comprised of the following:

- Brian McEnery (Chairman, Board member)
- Eilish Finan (Board member)
- Peter Stewart (Board member)
- Stephen Seelig (Board member)
- Jim Kelly (External member appointed 12 January 2011)

Mr. Jim Kelly is a former senior officer 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 Committee met on fourteen occasions in 2010.

4. **Internal Audit**
   The Committee determined the terms of reference for the work of the internal auditor and, following appraisal of a shortlist of tenderers, recommended an appointment to the Board. The Committee examined the internal auditor's proposed annual plan, audit scope, resources and general approach and suggested changes, where appropriate. The Committee evaluated the findings of the internal auditor on various processes within NAMA and the operations of NAMA's service providers. It monitors the implementation of its recommendations.

5. **Monitoring of Loan Service Providers**
   The Committee assessed the draft Operating Models prepared by PIs in response to the obligations imposed on them as loan service providers under Section 131 of the NAMA Act. In addition, the Committee appraised the processes in place for monitoring the compliance of the loan service providers with their obligations. The Committee also examined the systems and controls which had been put in place by the Master Servicer and received regular updates on its performance.

Brian McEnery
Chairman

Credit Committee

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

Commensurate with the credit policy approved by the Board, and subject to agreed portfolio limits, the Credit Committee is the decision-making authority responsible for the approval or rejection of credit applications which are below the level required for Board approval, but exceed the credit approval authority delegated to the NAMA CEO by the Board. The Committee must operate in a considered and timely manner so as to support efficient credit-related decision-making with respect to the acquired debts of 850 debtors.

A **credit application** is broadly defined to mean any event that materially changes the underlying risk profile of an exposure or debtor. It includes the following:

- Business Plans;
- an application for increased borrowings ;
- the restructuring or compromise of a loan obligation;
- approving sales of properties;
- application for vendor finance or financing for joint venture projects;
- acceptance of a revised debtor business plan;
- extensions of loan terms;
- decisions with respect to personal guarantees;
- new or continued interest roll up;
- approval of enforcement action, including receivership, repossession and other such actions; and
- levels of provisioning for impairment purposes.

The Committee's principal responsibilities include:

1. Assessment of credit applications which fall outside the delegated authority of the Chief Executive. These can be approved / declined / amended as appropriate. Where the level of risk exceeds the authority of the Committee, a credit application is referred, with a Credit Committee recommendation, to the Board for its consideration.
2. Development and assessment of proposed Credit and Sectoral Policies for Board consideration / approval.
3. Determination of key performance indicators, overall general policies and strategies upon which the performance of the overall portfolio can be assessed periodically and the reporting of its findings to the Board.

The Credit Committee is comprised of the following:

- Michael Connolly (Chairman, Board member)
- Brendan McDonagh (Chief Executive)
- Peter Stewart (Board member)
- Ronnie Hanna (Head of Credit & Risk)
- John Mulcahy (Head of Portfolio Management)
- Aideen O'Reilly (Head of Legal & Tax)
- Graham Emmett (Head of Lending)

The Committee met on fifty four occasions in 2010.

The Committee normally meets on a weekly basis but can meet more regularly if required. By its very nature, the Credit Committee performs an extremely important function in terms of how NAMA sets credit policy and ultimately in terms of ensuring that decision making on debtor management is consistent with overall Board policy.

The principal activities of the Committee in 2010 were as follows:

1. Oversight of the establishment of the NAMA Credit function from start-up to being fully operational, including staffing, procedures, delegation of authority, debtor monitoring and the design of documentation.
2. Ensuring that effective systems were in place for processing credit applications to the Committee and the Board.
3. Review of 30 major Debtor Business Plans which was equivalent to 38% by value of the NAMA acquired portfolio.
4. Assessing, recommending and approving in excess of 300 individual credit applications ranging from the basic asset management decisions to complex matters related to debtor business plan actions such as continued funding of development assets.
5. Decisions on Business Plan agreements and enforcements.
6. Developing credit policies and associated credit management information.

It is anticipated that 2011 will also be a demanding and challenging year for the Credit Committee as NAMA continues to operate in a difficult economic environment in Ireland and the UK where over 90 per cent of the assets are located. Liquidity and availability of bank funding is scarce and the credit decisions made by the Credit Committee by their nature are becoming increasingly difficult, as NAMA is required to take a commercial but prudent view while maintaining scrupulous objectivity. All proposals are carefully assessed with the pros and cons of each action fully considered. The Committee recognises that its decisions may have a significant impact on the assets and the debtors concerned but this is unavoidable if NAMA is to fulfil its core objectives of protecting or otherwise enhancing the value of those assets in the interests of the State.

Michael Connolly
Chairman

Risk Management Committee

The overarching purpose of the Risk Management Committee is to embed and oversee the implementation of the Board-approved risk policy. The Risk Management Committee is responsible for the ongoing review and oversight of the risk profile of NAMA within the context of approved risk policy.

The Risk Management Committee reviews and oversees the Executive Team's plans for the identification, management, reporting and mitigation of the material risks faced by NAMA on an enterprise-wide basis. The Risk Management Committee oversees the implementation and review of an Enterprise Risk Management Framework and satisfies itself that appropriate actions are taken in the event that any significant concerns are identified. The Risk Management Committee ensures that NAMA's risk management governance and organisational model provide appropriate levels of independence and challenge.

The Risk Management Committee is comprised of the following:

- Steven Seelig (Chairman, Board member)
- John Corrigan (Chief Executive, NTMA and Board member)
- Brendan McDonagh (Chief Executive, NAMA and Board member)
- Brendan Murphy (Director, NTMA Finance, Technology and Risk)
- Ronnie Hanna (Head of Credit & Risk)
- John Mulcahy (Head of Portfolio Management)
- Aideen O'Reilly (Head of Legal & Tax)
- Graham Emmett (Head of Lending)
- Seán Ó Faoláin (Head of Business Services)
- Frank O'Connor (Head of Treasury)

The Committee met on five occasions in 2010.

The Principal activities of the Committee in 2010 were as follows:

1. The Risk Management Committee reviewed and oversaw the Executive's plans for the identification, management, reporting and mitigation of the material risks faced by NAMA on an enterprise-wide basis. As a result, the Committee reviewed, approved and recommended (as appropriate) to the Board, the strategies, policies, models, systems and limits in place to measure, report and mitigate material risks. In order to fulfill its responsibilities, the Committee is supported by the Head of Credit & Risk who ensures that the material and emerging risks and risk events are reported to and considered by the Committee.
2. The Risk Management Committee recommended policies across a spectrum of risk types for the approval by the Board in 2010. These policies are statements of a course of action to be adopted and pursued by NAMA to manage and treat each risk type. The policies outline who is accountable for each risk type and set out the requisite authority to manage risk. For all risks, acceptable limits of operation are established by the Board and delegated to the Risk Management Committee which then decides how those limits should be further delegated to the Executive. The Risk Management Committee has established reporting mechanisms to monitor and review key risks and mitigation strategies and ensures that those risks operate within the Board-approved limits. The Committee has focused on NAMA's derivative exposure to ensure a more holistic assessment of financial risk.
3. A priority for the Risk Management Committee in 2010 was to ensure that a comprehensive risk register was prepared. The register identifies risks which may prevent NAMA from achieving its objectives and assesses the impact and likelihood of various risk events across the organisation. Control action plans were reviewed for each risk identified to ensure that the residual risks were within the approved NAMA risk tolerance. To assist with the preparation and ongoing maintenance of the risk register, the Committee recommended the establishment of a working group with representatives from all NAMA functions. The working group provides a forum to highlight new and emerging risks and promotes awareness of risk management practices and policies across NAMA.

Steven Seelig
Chairman

Finance and Operating Committee

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

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

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

The Finance and Operating Committee is comprised of the following:

- Eilish Finan (Chairperson, Board member)
- William Soffe (Board member)
- Brendan McDonagh (Chief Executive, NAMA and Board member)
- Brendan Murphy (NTMA Director of Finance, Technology and Risk)
- Seán Ó Faoláin (Head of Business Services)
- John Mulcahy (Head of Portfolio Management)
- Frank O'Connor (Head of Treasury)

The Committee met on fifteen occasions in 2010.

The Principal activities of the Committee in 2010 were as follows:

1. **Financial and management reporting**

   During 2010, the Committee scrutinised, and presented for Board approval, NAMA's Quarterly Accounts and Report for each of the first, second and third quarters of 2010 (Section 55 of the Act) and the NAMA Annual Statements for 2010 and 2011 (Section 53 of the Act).

   Throughout the year, the Committee considered various technical accounting issues associated with adoption of IFRS accounting policies, including key issues such as impairment, hedge accounting, loan valuation and the assessment of fair value.

   The Committee reviewed, on a regular basis, plans for the acquisition of a PMS (Portfolio Management System) designed to meet NAMA's long-term management reporting requirements, the acquisition of a DMS (Document Management System) and also reviewed interim MIS arrangements.

2. **The preparation of annual budgets and other forecasts**

   The Committee monitored the 2010 NAMA Budget and reviewed and presented for Board approval the 2011 draft Budget. The Committee scrutinised and presented for Board approval the NAMA Business Plan (published in July 2010) and the assumptions incorporated its NPV scenarios.
   The Committee examined various aspects of loan valuation methodology, including the LEV uplift, discount rates applied to LEV, CMV property valuations and the process of ascertaining appropriate acquisition pricing for loans.

3. **Oversight of service providers**

   The Committee evaluated, on a regular basis, the performance of Capita Asset Services as Master Servicer to NAMA. The Committee appraised the operating models of the five PIs with a view to assessing their compliance with the Direction on the servicing of NAMA assets issued to the institutions under Section 131 of the Act.

4. **The management of procurement**

   The Committee, in conjunction with the members of the Audit Committee, assessed a shortlist of candidates for appointment as internal auditor to NAMA and made a recommendation to the Board. The Committee also reviewed Executive recommendations in relation to the appointment of system providers for portfolio management and document management systems and, in the case of the latter, participated in a presentation review of shortlisted candidates.

5. **General**

   The Committee scrutinised draft statutory Codes of Practice (under section 35 of the Act) which were submitted to the Board and approved by the Minister in July 2010.

   The Committee reviewed future resource demands on NAMA as put forward by the Executive Team and made recommendations in relation to additional resources deemed necessary to enable NAMA to carry out its statutory functions. The Committee also considered NAMA cashflow projections and liquidity and hedging policy issues.

Eilish Finan
Chairperson

Northern Ireland Advisory Committee

The NAMA Act provides for the establishment of advisory committees and, on the proposal of the Minister for Finance, NAMA set up of a Northern Ireland Advisory Committee. Its purpose is to advise the Board in relation to strategy for Northern Ireland assets.

The Committee had two priorities in 2010:

1. To develop an understanding of the particular circumstances prevailing in Northern Ireland.
2. To communicate with key participants so as to allay concerns about the potential impact of NAMA in the context of Northern Ireland.

As part of its brief, the Committee engaged extensively with various interested parties in Northern Ireland. It met with the Northern Ireland Minister for Finance and Personnel and with representatives of the Northern Ireland Housing Executive, the International Centre for Local and Regional Development in Armagh and its partners, the University of Ulster and NUI Maynooth. The Chairman of the Committee spoke at the Northern Ireland Chamber of Commerce and at the Annual Northern Ireland Economic conference.

A key message that was communicated was that, in achieving its asset realisation targets, NAMA will take a neutral view as to future market movements and it will not favour any particular geographical market. Its principal objective in asset realisation will be to achieve the best possible commercial outcome. Therefore the key driver determining sales strategy will be market liquidity and NAMA recognises that this will be a significant issue in Northern Ireland. The Committee has also been keen to emphasise NAMA's role in terms of the provision of liquidity to viable projects and in terms of contributing to the stabilisation of the market.

The NAMA Board is cognisant of the current and projected financial constraints faced by the Northern Ireland Government and its community and will have to consider the likely impact of possible property disposals by the Northern Ireland Executive. The Northern Ireland Advisory Committee, supported by two locally experienced practitioners who have a detailed knowledge of the Northern Ireland marketplace, is an important source of advice to the NAMA Board. The fact that NAMA will be in a position to adopt a longer term view of the Northern Ireland residential and commercial markets will assist in securing a commercially constructive outcome for all associated interests in the Northern Ireland economy.

For 2011, NAMA will assess available data relating to Northern Ireland assets that serve as security for loans which it has acquired and will then determine strategies, to include creative financing options, designed to assist NAMA in achieving its debt reduction targets whilst ensuring that a fragile market is not further impaired.

Peter Stewart
Chairman

The Northern Ireland Advisory Committee is comprised of the following:

- Peter Stewart (Chairman, Board member)
- Brian McEnery (Board member)
- Eilish Finan (Board member)
- William Soffe (Board member)
- Ronnie Hanna (Head of Credit and Risk)
- Frank Cushnahan (External member)
- Brian Rowntree (External member)

Mr. Cushnahan currently holds a number of non-executive appointments within both the public and private sectors. His previous positions include Chairman of Belfast Harbour Commissioners, Chairman of the Northern Ireland Department of Finance and Personnel Delivery Unit, Chairman of the Audit Committee of the First and Deputy First Minister and non-executive Board member of the Office of the First and Deputy First Minister.

Mr. Rowntree was appointed Chairman of the Northern Ireland Housing Executive in May 2004. He has held a number of previous public appointments at Chair and non-executive Director level in Criminal Justice, Health and Further Education and has chaired and participated in a wide variety of forums in Northern Ireland and on a cross-border basis. Mr Rowntree has also recently joined the Northern Ireland Policing Board.

The first meeting of the Committee was held in May 2010 and it held three further meetings in 2010.

Planning Advisory Committee

The purpose of the Committee is to advise the Board on planning, land and related matters that may have an impact on the valuation and realisation of NAMA assets and thereby affect the achievement of NAMA's purpose and functions.

The Committee had two priorities in 2010:

1. To consult widely with other interested parties so as to develop an understanding of their perspective on a number of key issues and, thereby, in turn, inform the NAMA Board's policies and strategies.
2. To enter into discussions with Government bodies and with other parties so as to determine how best to align NAMA's role with other public policy objectives.

On its establishment, the Committee sought and received written submissions from selected prescribed organisations listed in the **Planning and Development Regulations, 2006.** These submissions spanned a wide range of views covering proper planning and sustainable development generally, as well as the specific issues such as housing policy, public transport, key infrastructure, amenity and community facilities, provision of sites for public purposes, economic and social development objectives, planning legislation and processes and long-term public interest. As advised by the Committee, the Board has had regard to these submissions in the development of NAMA's strategies and policies.

During 2010, the Committee had discussions with a number of Government Departments and with other organisations in relation to planning and development matters of mutual interest. These bodies included the Department of Environment, Heritage and Local Government (DoEHLG), the Department of Education and Skills (DoES), An Bord Pleanála (ABP), the Health Service Executive (HSE), the Housing and Sustainable Communities Agency (HSCA) and the County & City Managers' Association (CCMA). The following are some of the issues which have been covered in these discussions and which have been the subject of the Committee's advice to the Board:

Recognising the pressing need for a national planning information system, the DoEHLG (with the support of other interested organisations, including NAMA) plans to establish, by the end of 2011, an internet browser-based GIS planning information system, incorporating national planning spatial data including zoning, unfinished housing developments, housing land availability and developing areas. The Committee has worked closely with the Department in terms of NAMA's contribution to the system.

Discussions have taken place with DoEHLG, ABP and the CCMA on issues which have an impact on NAMA's work including the extent of overzoning, housing densities, unfinished housing developments (both houses and apartments), infrastructural development, special problems associated with hotels and golf courses, development contributions, bonds and the new planning legislation.

The Committee guided NAMA's participation on the **Expert Advisory Group on Unfinished Housing Developments** which was established to advise the Ministers of State for Housing and Planning on actions to ensure the effective management of these developments. The Committee has had meetings with both the DoES and the HSE regarding sites and properties which may be suitable for schools and health care facilities. A number of locations have been identified for further consideration by both bodies. There are also ongoing discussions with the HSCA about their interest in land and properties (mainly in urban areas) for social and affordable housing and rent and leasing schemes.

William Soffe
Chairman

The Planning Advisory Committee is comprised of the following:

- William Soffe (Chairman, Board Member)
- Brendan McDonagh (Chief Executive, NAMA and Board member)
- Michael Connolly (Board Member)
- John Mulcahy (Head of Portfolio Management)
- Michael Wall (External Member, appointed April 2010)
- Gavin Daly (External Member, appointed April 2010, resigned June 2010)
- Alice Charles (External Member, appointed November 2010)

Mr. Wall is an architect and barrister and a former Board member of An Bord Pleanála. **Ms. Charles** has considerable planning experience and is a member of the Royal Town Planning Institute and the Irish Planning Institute.

The Committee met on seven occasions in 2010.

Disclosure and Accountability

Disclosure requirements on Board members

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

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

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

Staff assigned to NAMA

Staff assigned to NAMA are subject to a Code of Practice and Professional Conduct which imposes obligations on them in respect of the following:

- Legal and ethical obligations of confidentiality, including Section 202 of the NAMA Act and the Official Secrets Act 1963.
- They are also required to comply with the provisions of the Data Protection Acts 1988 and 2003, including provisions regarding the processing and handling of personal data.
- They are subject to specific legislative provisions in relation to conflicts of interest. Each employee, prior to assignment to NAMA, must provide the CEO of NAMA and the Chief Executive of the NTMA, with a statement of his interests, assets and liabilities. In addition, holders of 'designated positions' under the Ethics Acts must file an annual statement of interests.
- NAMA staff are not permitted to accept any hospitality from any person, firm or other legal entity with which NAMA has dealings.
- NTMA has also established rules and codes of practice in relation to market abuse, including insider dealing. NAMA Board members and staff are subject to these as they are to NTMA rules and codes which apply to personal account transactions.
- It is an offence to lobby a Board or staff member of NAMA or of a NAMA service provider in connection with any decision relating to lending, the initiation of legal proceedings, the engagement of a service provider or adviser, the purchase or sale of property or any tender. A person who is subject to such communication is under an obligation to notify the Gardai and failure to notify is an offence.
- All NAMA officers are subject to a Code of Practice approved by the Minister for Finance under Section 35 of the Act.

NAMA Accountability

The Board of NAMA must carry out its functions independently but is closely guided by its obligations under the Act and is subject to a high level of public accountability.

1. Under the Act, the Minister has a number of powers which he can exercise in relation to NAMA, including the power to issue guidelines (Section 13) and directions (Section 14). Three directions have been issued by the Minister under Section 14 – copies are available on www.nama.ie/legislation .
2. NAMA submits quarterly reports to the Minister on its activities, as set out in Section 55 of the Act. This includes information about its loans, its financing arrangements and its income and expenditure. Each quarterly report is laid before both Houses of the Oireachtas.
3. NAMA submits annual accounts, in a form directed by the Minister, under Section 54 of the Act. The accounts must include a list of all debt securities issued, a list of all advances made from the Central Fund or by NAMA and its group entities and a list of asset portfolios with book value. NAMA's accounts are audited by the Comptroller and Auditor General and the audited accounts are laid before both Houses of the Oireachtas.
4. In addition to its annual accounts, NAMA is also required to submit to the Minister, under Section 53, an Annual Statement setting out its proposed objectives for each year, the scope of activities to be undertaken, its strategies and policies and its proposed use of resources. Each annual statement is laid before both Houses of the Oireachtas.
5. The Chief Executive Officer and the Chairman, whenever required by the Committee of Public Accounts, attend and give evidence. The CEO and the Chairman also appear before other committees of the Oireachtas whenever required to do so.
6. The Minister may require NAMA to report to him at any time on any matter including performance of its functions or information or statistics relating to performance.
7. NAMA has prepared codes of practice to govern certain matters including, amongst others, the conduct of its officers, servicing standards for acquired bank assets, risk management, disposal of bank assets and the manner in which NAMA is to take account of the commercial interests of non-participating banks. The codes of practice have been approved by the Minister and are published on www.nama.ie/CodesOfPractice .
8. As soon as may be after 31 December 2012, the Minister and the C&AG will separately assess the extent to which NAMA has made progress toward achieving its overall objectives and the Minister will decide whether the continuation of NAMA is necessary. Thereafter, the Minister will review progress every five years and the C&AG every three years.

Risk Management

Principal risks and uncertainties

NAMA is subject to specific risks that are fundamental to its business and, without appropriate risk management strategy, could have a significant impact on its financial and operational performance. The principal risks include the following:

- general economic risk;
- credit risk;
- operational risk arising within NAMA and from third party suppliers;
- political, legal and regulatory risk, arising within Ireland, the EU and other jurisdictions where property is located; and
- market risk.

The risk management priority for 2010 was to establish a Framework to identify and assess the primary sources of risk, to understand the risks to which the Agency was exposed and deal with them in an informed and proactive manner. For those risks to be managed in an efficient and effective manner, a robust control framework and monitoring environment was deployed on the principle of 'three lines of defence':

1. Officers in each of the functions assume primary ownership of risk and ensure that processes and controls are developed, documented and operated within a risk tolerance set by the Board.
2. Independent challenge and oversight by a dedicated Risk Management team within NAMA to ensure implementation of, and compliance with, policy with any concerns to be escalated to the Board's Risk Management Committee. Among the functions of this Committee is to embed and oversee the implementation of the Board-approved risk policies and tolerances. The Risk Management Committee is responsible for the ongoing review and oversight of the risk profile of NAMA within the context of approved risk tolerance.
3. A third line of defence is provided by the various audit functions (Comptroller & Auditor General, the Internal Auditor and the NTMA Control function). These provide independent assurance on the design, adequacy and effectiveness of the NAMA Control environment.

A Risk Register was prepared spanning all functions of NAMA. It identifies risks which may prevent NAMA from achieving its objectives and assesses the impact and likelihood of various risk events across the organisation. Control action plans were developed for each risk to ensure that the residual risk is within the approved NAMA risk tolerance and that mitigating controls were developed and implemented. In addition to internal risk, a major risk focus was on key outsourced services such as the primary servicers and the Master Servicer.

NAMA uses the NTMA's functional expertise to monitor and manage market and balance sheets risks arising from interest rate and exchange rate movements.

Consolidated Financial Statements

For the period from 21 December 2009 (date of establishment)
to 31 December 2010

Board and Other Information

Board
Frank Daly (Chairman) (appointed 22 December 2009)
Michael Connolly (appointed 22 December 2009)
John C. Corrigan (appointed 22 December 2009)
Eilish Finan (appointed 22 December 2009)
Brendan McDonagh (Chief Executive Officer) (appointed 22 December 2009)
Brian McEnery (appointed 22 December 2009)
Steven A. Seelig (appointed 26 May 2010)
William Soffe (appointed 22 December 2009)
Peter Stewart (appointed 22 December 2009)

Registered Office
Treasury Building
Grand Canal Street
Dublin 2

Bankers
Central Bank of Ireland
Dame Street
Dublin 2

Citibank
I.F.S.C.
Dublin 1

Auditor
Comptroller & Auditor General
Dublin Castle
Dublin 2

Board Report

The Board of the National Asset Management Agency ('NAMA' or the 'Agency') presents its report and audited Consolidated and Agency financial statements for the period from 21 December 2009 (date of establishment) to 31 December 2010.

The financial statements are set out on pages 56 to 111.

Statement of Agency's Responsibilities for the financial statements

The Agency is required by the National Asset Management Agency Act, 2009 to prepare financial statements in respect of its operations for each financial year.

In preparing those statements, the Agency:

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

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

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

Financial risk management

The group is exposed to credit risk, market risk (in the form of interest rate risk and foreign exchange risk) and liquidity risk in the normal course of business. Further details on how the Group manages these risks, are given in notes 17 to 19 of the financial statements.

Board Members' interests

The Members of the Board have no beneficial interest in any NAMA group entity and have complied with Section 30 of the NAMA Act 2009, 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 National Asset Management Agency Act 2009.

On behalf of the board

Brendan McDonagh	**Frank Daly**
Chief Executive Officer	Chairman

30 June 2011

Statement on Internal Financial Control

Responsibility for the System of Internal Financial Control

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

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

b) To set the strategic objectives and targets of 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 the Agency 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 person who is accountable for the purposes of the Comptroller and Auditor General (Amendment) Act, 1993.

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

Financial Control Environment

As 2010 was the Agency's first year of operations, it faced significant challenges in establishing a completely new business, while establishing the necessary systems, processes and procedures required to ensure robust internal financial control, while at the same time acquiring a loan book of close to €71billion. The Agency depends to a significant degree on the controls operated by a number of third parties including the National Treasury Management Agency (NTMA), the Participating Institutions (Allied Irish Banks, Bank of Ireland, Anglo Irish Bank Corporation, Irish Nationwide Building Society and EBS Building Society) and Capita Asset Services (Capita).

The NTMA provides the Agency with shared services including financial control, transaction processing, financial risk management, financial and management reporting, ICT and human resources. The NTMA has a well developed system of internal control and these shared services are provided to the Agency within this existing control framework. NAMA's requirements have resulted in the need for additional processes in certain areas, some of which are still in the process of being delivered.

Capita was appointed by the Agency as Master Servicer in December 2009. In accordance with its contract, Capita provides the Agency with financial information on the Agency's acquired loans, based on data provided to it by the five Participating Institutions. In addition Capita provides the Agency with treasury and financial accounting services.

The Participating Institutions are required by directions issued under section 131 of the Act to continue to provide operational and administration services to the Agency, in respect of the acquired loans. Such operational and administration services include loan maintenance, transaction banking, facility and loan processing, custodial and collateral management, reporting to Capita and other relevant banking services.

The Agency has established processes to monitor the performance of the Participating Institutions and Capita, including service reports, regular service reviews and the establishment of operational steering committees. In addition the activities of the Participating Institutions and Capita are subject to audit by the Agency's internal and external auditors.

The Agency established processes to acquire loans from Participating Institutions in accordance with the Act and associated regulations. As part of the acquisition process the Agency engaged independent legal advisers, as well as loan and property valuers to carry out legal due diligence and valuations. In addition, an audit co-ordinator was appointed to review loan valuations and to confirm that the loans were valued in accordance with the Act and related regulations.

During the year the Management Board established four statutory committees to oversee the operations of the Agency and its executive; an Audit Committee, a Risk Management Committee, a Credit Committee and a Finance & Operating Committee. Each of these committees met many times during the year and their roles in the control system are described in the context of the key internal financial control processes below.

Key Internal Financial Control Processes

The following is a description of the key processes which have been put in place by the Agency to provide effective internal financial control:

- During the year a Senior Executive Team was recruited and put in place. Management responsibility, authority and accountability has been defined and agreed with the Board.

- The Audit Committee operates in accordance with the principles outlined in the Code of Practice for the Governance of State Bodies. Its responsibilities include the overseeing of the financial reporting process, reviewing the system of internal control and reviewing the internal and external audit processes.
- The Credit Committee is responsible for making credit decisions within its delegated authority. These include the advancement of new money, the setting and approval of repayment terms, property management decisions and decisions to take enforcement action where necessary. The Committee is also responsible for determining key performance indicators, and policies and strategies, upon which the performance of the overall portfolio can be assessed.
- The Risk Management Committee is responsible for overseeing the implementation of the Board approved risk policies and tolerance. The Risk Management Committee ensures that risk is managed effectively and efficiently to achieve an overall commercial outcome in accordance with the Act. The Risk Management Committee has established reporting mechanisms to monitor and review key risks and mitigation strategies, and ensures that those risks operate within Board approved limits. An initial, top down, high level Risk Register was approved by the Risk Management Committee in May 2010. Subsequently a more comprehensive, and detailed bottom up, Risk Register was prepared by a working group of representatives across all NAMA functions in December 2010. The Risk Register was reviewed by the Risk Management Committee and has been presented to the NAMA Board. The Risk Register 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. While significant progress has been made in managing risks, work continues to ensure that all significant risks are managed so as to have comprehensive mitigations in place.
- The Finance & Operating Committee monitors the financial and operational management of the Agency and its management reporting and budgeting, including the preparation of annual budgets. The Committee also drives and oversees the development of a comprehensive management reporting regime.
- The Agency, during the year, developed policies and procedures in relation to the key risks it faces. Policies and procedures will continue to be developed during 2011.
- The Agency has sought and received assurances from NTMA (as service provider), Capita (as Master Servicer) and the Participating Institutions that they have reviewed their systems of internal financial control.
- The Agency has established a financial reporting framework, and has presented quarterly financial and performance information to the Board and the Minister for Finance in respect of its performance.
- The Board of NAMA has adopted the Code of Practice for the Governance of State Bodies as adapted to take account of NAMA's particular governance framework and the statutory requirements of the Act and has established a Governance framework.
- Codes of practice were agreed in July 2010 with the Minister for Finance in accordance with section 35 of the Act, setting out standards expected of the officers of the Agency.
- The Agency has established procurement procedures. Under these procedures services are procured in accordance with EU and national procurement requirements.
- NAMA appointed Deloitte as Internal Auditor in August 2010. The Internal Auditor has established an internal audit function, which operates in accordance with the Code of Practice for the Governance of State Bodies. An internal audit plan was approved by the Audit Committee. The Internal Auditor has carried out a number of audits of controls operated by the Agency and the Participating Institutions. The Internal Auditor has reported its findings to the Audit Committee and their recommendations are in the course of being implemented.
- The Agency has established procedures with Capita and the Participating Institutions to report incidents, including control failures. The Agency plans to develop a more comprehensive system of incident reporting during 2011.
- Procedures for the Board's monitoring of the effectiveness of internal control include regular reporting to the Board by the Audit Committee, Risk Management Committee, Credit Committee and Finance & Operating Committee.

Annual Review of Controls

We confirm that the Board has reviewed the effectiveness of the Agency's system of internal financial control for the period ended 31 December 2010.

Frank Daly
Chairman
Board

Brian McEnery
Chairman
Audit Committee

30 June 2011

Comptroller and Auditor General
Report for presentation to the Houses of the Oireachtas

National Asset Management Agency

I have audited the Group and Agency financial statements of the National Asset Management Agency for the period ended 31 December 2010 under the National Asset Management Agency Act 2009. The financial statements, which have been prepared under the accounting policies set out therein, comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and the Agency Statements of Financial Position, the Consolidated and the Agency Statements of Changes in Equity, the Consolidated and Agency Statements of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is the International Financial Reporting Standards (IFRSs) as adopted by the European Union and the provisions of the National Asset Management Agency Act 2009.

Responsibilities of the Board

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

Responsibilities of the Comptroller and Auditor General

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

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

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

Scope of Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements, sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of

- whether the accounting policies are appropriate to National Asset Management Agency's circumstances, and have been consistently applied and adequately disclosed
- the reasonableness of significant accounting estimates made in the preparation of the financial statements, and
- the overall presentation of the financial statements.

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

In addition, I read all the financial and non-financial information in the Agency's Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on the Financial Statements

In my opinion, the financial statements, which have been properly prepared in accordance with IFRSs as adopted by the European Union and the provisions of the National Asset Management Agency Act 2009, give a true and fair view of the state of the Group's and the Agency's affairs at 31 December 2010 and of the Group's loss for the period then ended.

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

Emphasis of Matter

I draw attention to

- Note 2.1 to the financial statements which describes the position in regard to the main funding source for the Agency and sets out the basis upon which the Board is satisfied that it is appropriate to prepare the financial statements on a going concern basis, and
- Note 3.3 to the financial statements, which describes the uncertainties about the amount of future cash flows from borrowers and their timing and that, consequently, the impairment losses can be subject to variation.

My opinion is not qualified in respect of these matters.

Matters on which I report by exception

I report by exception if

- I have not received all the information and explanations I required for my audit, or
- my audit noted any material instance where moneys have not been applied for the purposes intended or where the transactions did not conform to the authorities governing them, or
- the information given in the Agency's Annual Report for the period for which the financial statements are prepared is not consistent with the financial statements, or
- the Statement on Internal Financial Control does not reflect the Agency's compliance with the Code of Practice for the Governance of State Bodies, or
- I find there are other material matters relating to the manner in which public business has been conducted.

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

John Buckley
Comptroller and Auditor General

30 June 2011

Consolidated income statement

For the period from 21 December 2009 (date of establishment) to 31 December 2010

	Note	€'000
Interest and similar income	5	525,033
Interest and similar expenses	6	(179,007)
Net interest income		**346,026**
Gains and (losses) on derivative financial instruments	7	(17,004)
Total operating income		**329,022**
Administration expenses	8	(46,193)
Foreign exchange gains / (losses)	9	22,079
Total operating expenses		**(24,114)**
Operating profit before impairment		**304,908**
Impairment charges on loans and receivables	10	(1,484,523)
Operating loss before income tax		**(1,179,615)**
Tax (expense) / credit	11	(375)
Loss for the period		**(1,179,990)**

On behalf of the board

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

30 June 2011

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

Consolidated statement of comprehensive income

For the period from 21 December 2009 (date of establishment) to 31 December 2010

	Note	€'000
Loss for the period		**(1,179,990)**
Movement in cash flow hedge reserve, before tax	28	77,554
Income tax relating to components of other comprehensive income	12	-
Other comprehensive income for the period net of tax		77,554
Total comprehensive loss for the period		**(1,102,436)**
Loss attributable to:		
Owners of the Group		**(1,128,990)**
Non-controlling interests		**(51,000)**
Total comprehensive loss attributable to:		
Owners of the Group		**(1,051,436)**
Non-controlling interests		**(51,000)**

On behalf of the board

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

30 June 2011

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

Consolidated statement of financial position

As at 31 December 2010

	Note	€'000
Assets		
Cash and cash equivalents	13	836,739
Amounts due from Participating Institutions	14	349,923
Derivative financial instruments	15	499,155
Loans and receivables	16	27,950,833
Other assets	22	17,960
Total assets		**29,654,610**
Liabilities		
Amounts due to Participating Institutions	14	142,793
Derivative financial instruments	15	173,717
Senior debt securities in issue	23	28,650,000
Other liabilities	24	183,156
Interest bearing loans and borrowings	26	49,380
Total liabilities		**29,199,046**
Shareholder's Equity		
Other equity	27	1,507,000
Retained losses		(1,128,990)
Other reserves	28	77,554
Non-controlling interests in subsidiaries	29	-
Total equity		**455,564**
Total equity and liabilities		**29,654,610**

On behalf of the board

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

30 June 2011

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

Agency statement of financial position

As at 31 December 2010

	Note	€'000
Assets		
Cash and cash equivalents	13	95
Receivable from group entities	22	3,823
Investment in subsidiaries	30	49,000
Total assets		**52,918**
Liabilities		
Interest bearing loans and borrowings	26	49,380
Other liabilities	24	3,974
Total liabilities		**53,354**
Shareholder's Equity		
Retained losses		(436)
Total equity		**(436)**
Total equity and liabilities		**52,918**

On behalf of the board

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

30 June 2011

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

Consolidated statement of changes in equity

As at 31 December 2010

	Note	Other equity €'000	Retained earnings €'000	Other reserves €'000	Non-Controlling Interest €'000	Total Equity €'000
At the beginning of the period		**-**	**-**	**-**	**-**	**-**
Loss for the period		-	(1,128,990)	-	(51,000)	(1,179,990)
Other comprehensive income:						
Movement in cash flow hedge reserve	28	-	-	77,554	-	77,554
Income tax relating to components of other comprehensive income	12	-	-	-	-	-
Total comprehensive loss		**-**	**(1,128,990)**	**77,554**	**(51,000)**	**(1,102,436)**
Issue of share capital		-	-	-	5,100	5,100
Issue of share premium					45,900	45,900
Issue of other equity	27	1,507,000	-	-	-	1,507,000
Balance at 31 December 2010 attributable to owners of the parent		**1,507,000**	**(1,128,990)**	**77,554**	**-**	**455,564**

On behalf of the board

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

30 June 2011

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

Agency statement of changes in equity

As at 31 December 2010

	Total Equity €'000
At the beginning of the period	–
Loss for the period	(436)
Total comprehensive loss	**(436)**
Balance at 31 December 2010 attributable to the Agency	**(436)**

On behalf of the board

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

30 June 2011

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

Consolidated statement of cash flows

For the period ended 31 December 2010

Cash flow from operating activities	**€'000**
Value date to transfer date cash received[1]	
- Receipts from loans acquired	196,415
- Receipts from derivatives and fees acquired	22,530
Receipts from borrowers since acquisition	
- Receipts from loans acquired[2]	734,431
- Receipts from derivatives acquired	60,351
Funds advanced to borrowers since acquisition	(240,320)
Other derivative cash flows	46,867
Payments to suppliers of services	(49,914)
Interest expense on debt securities in issue	(30,127)
Bank interest received	1,128
Interest paid on advances from the Central Fund	(1,066)
Net cash provided by operating activities	**740,295**
Net cash used in investing activities	**-**
Cash flow from financing activities	
Proceeds from issuance of share capital to private investors	51,000
Loans received from the Central Fund[3]	299,000
Repayment of loan to the Central Fund	(250,000)
Net cash provided by financing activities	**100,000**
Cash and cash equivalents at the beginning of the period	-
Net cash provided by operating activities	740,295
Net cash used by investing activities	-
Net cash provided by financing activities	100,000
Effects of exchange-rate changes on cash and cash equivalents	(3,556)
Cash and cash equivalents at the end of the period	**836,739**

[1] Value date to transfer date cash received represents the net cash received on loans acquired by the Group from Participating Institutions in respect of the period between the loan valuation date and loan transfer date. The net cash received represents principal, interest and derivative cash received less approved qualifying advances and a funding cost in respect of the acquired loans. This amount is settled net with Participating Institutions following the completion of due diligence of assets transferred.

[2] Includes loan cash receipts of €371m and proceeds from the sale of collateral secured against loans and receivables of €363m.

[3] Amounts advanced include €49m from the Exchequer to acquire 49% of the share capital in NAMAIL. The Central Fund is the amount standing to the credit of the Exchequer Account at the Central Bank of Ireland.

Agency statement of cash flows

For the period ended 31 December 2010

	€'000
Cashflow from operating activities	
Loan interest received	1,601
Loan interest paid	(1,066)
Board fees	(440)
Net cash provided by operating activities	**95**
Net cash used in investing activities	
Agency investment in NAMAIL	**(49,000)**
Cash flow from financing activities	
Proceeds from issuance of share capital	-
Loans advanced from the Central Fund	299,000
Repayment of loan to the Central Fund	(250,000)
Net cash used in investing activities	**49,000**
Cash and cash equivalents at the beginning of the period	-
Net cash provided by operating activities	95
Net cash used by investing activities	(49,000)
Net cash provided by financing activities	49,000
Cash and cash equivalents at the end of the period	**95**

Notes to the Consolidated Financial Statements

For the period from 21 December 2009 (date of establishment) to 31 December 2010

Notes to the Consolidated Financial Statements

1 General information

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

1.1 National Asset Management Agency Group

For the purposes of these accounts, the 'NAMA Group' comprises; the parent entity, National Asset Management Agency, National Asset Management Agency Investment Limited, National Asset Management Limited, National Asset Management Group Services Limited, National Asset Loan Management Limited, National Asset Property Management Limited and National Asset Management Services Limited. The Group and its relationship to other NAMA entities is summarised in Chart 1 on page 67.

National Asset Management Agency Investment Limited (NAMAIL)

NAMAIL is the Company through which private investors have invested in the Group. NAMA holds 49% of the shares of the Company. The remaining 51% of the shares of the Company are held by private investors.

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

National Asset Management Limited ('NAML')

NAML is responsible for issuing the Government guaranteed debt instruments, and the subordinated debt, which are used as consideration in acquiring loan assets from the Participating Institutions. The Government guaranteed debt securities issued by NAML are listed on the Irish Stock Exchange ('ISE'). Both the Government guaranteed debt instruments and the subordinated debt instruments are transferred to National Asset Management Group Services Limited and by it to National Asset Loan Management Limited. The latter uses these debt instruments as consideration for the loan assets acquired from the Participating Institutions.

NAML has four subsidiaries

1. *National Asset Management Group Services Limited (NAMGS Ltd)*

   NAMGS Ltd acts as the holding company for its three subsidiaries, National Asset Loan Management Limited, National Asset Property Management Limited and National Asset Management Services Limited.

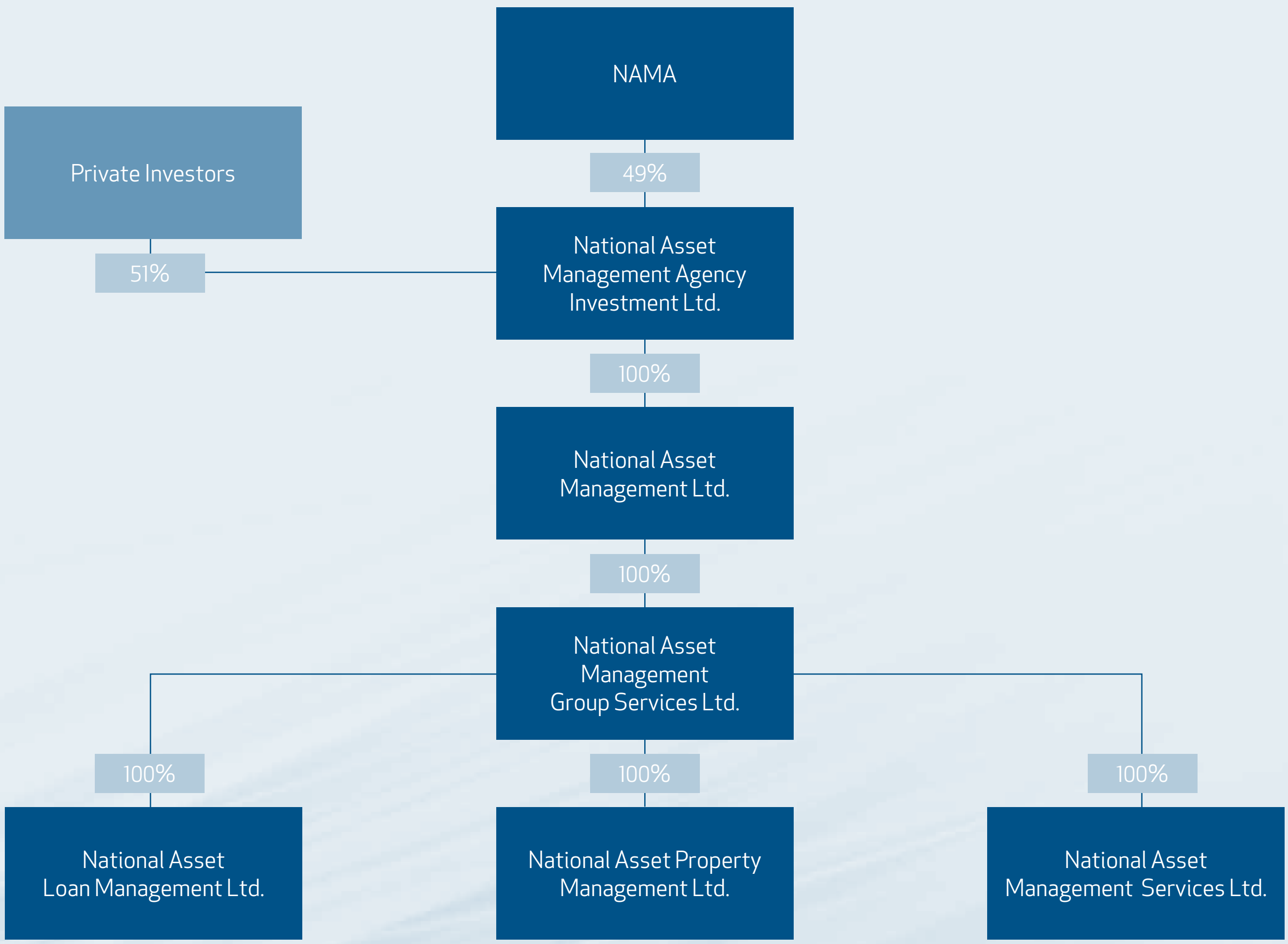
   NAMGS Ltd acquires the debt instruments issued by NAML under a profit participating loan (PPL) agreement, and in turn, makes these debt instruments available to National Asset Loan Management Limited on similar terms.

   NAMGS Ltd is wholly owned by NAML.

2. *National Asset Loan Management Limited (NALM Ltd)*
   The purpose of NALM Ltd is to acquire, hold, and manage the loan assets acquired from the Participating Institutions.
3. *National Asset Property Management Limited (NAPM Ltd)*
   The purpose of NAPM Ltd is to take direct ownership of real property assets if and when required. No property is held by the Group at present.
4. *National Asset Management Services Limited (NAMS Ltd)*
   NAMS Ltd is responsible for tax administration and for operating the bank accounts of the Group. It also acts as the central invoice processor.

The address of the registered office of each company is Treasury Building, Grand Canal Street, Dublin 2. Each Company is incorporated and domiciled in the Republic of Ireland.

Chart 1 "NAMA Group"



2 Significant accounting policies

2.1 Basis of preparation

Going concern

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

The Agency was established under statute with a specific statutory mandate. In its consideration of whether accounting on a going concern basis is appropriate, the Board has had regard to the purposes of the National Asset Management Agency Act, 2009 as set out therein. These are, inter alia, to address a serious threat to the economy and the stability of credit institutions in the State generally and the need for the maintenance and stabilisation of the financial system in the State. The Board believes it is reasonable to assume that, given the purpose of the legislation, the State will take appropriate steps to ensure that the Agency is put in a position to discharge its mandate.

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.

Most of the Agency's funding is in the form of short term Government Guaranteed Floating Rate Notes ('Notes').

As set out in Note 23, the Notes are issued on each acquisition date and all Notes issued prior to 1 March 2011 matured on 1 March 2011. The Notes issued in 2010 permitted the issuer to settle all, or some only, of the Notes at maturity by issuing a new Note on the same terms as the existing Note (other than as to maturity which may be up to 364 days from the date of issue notwithstanding that the existing Note may have had a shorter maturity).

The Notes also provided for an extendible maturity of up to 364 days, at the option of the issuer, which extension could be exercised in respect of all, or some only, of the Notes.

All the Notes that matured on 1 March 2011 were settled by issuing new Notes with a maturity of 1 March 2012, which could be extended for up to 364 days at the option of the issuer.

Subsequent to the period-end, the Minister for Finance issued a direction to NAMA under Section 14 of the National Asset Management Agency Act, 2009 that the terms and conditions of the Notes issued on 1 March 2011, and of any Notes issued thereafter, should be amended to remove the issuer's option to settle maturing Notes by the issue of new Notes on similar terms unless prior consent is received from the note holder, and to remove the issuer's option to extend the maturity of the Notes. Consequently, a requirement to redeem some or all of the Notes for cash could leave the Agency in a position where it would have to call on the Government to fund such a cash redemption.

The Notes are held by financial institutions and can be used by them as collateral to access monetary authority liquidity support schemes. However, the current noteholders are subject to direction from the Minister for Finance and the Notes are guaranteed by the Government. Given these circumstances, the Board believes that its assumption that, on the maturity of the Notes, NAMA will be able to settle its liability with new Notes, issued on similar terms, is a reasonable one.

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

2.2 Basis of compliance

The Group's consolidated financial statements for the period ended 31 December 2010 have been prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union, the International Financial Reporting Interpretations Committee (IFRIC) interpretations and in accordance with the National Asset Management Agency Act, 2009. These financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the reporting date.

2.3 Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for loans and receivables and financial liabilities which are held at amortised cost, and derivative financial instruments which have been measured at fair value.

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

The consolidated statement of cash flows shows the changes in cash and cash equivalents arising during the period from operating activities, investing activities and financing activities.

The cash flows from operating activities are determined using the direct method, whereby major classes of gross cash receipts and gross payments are disclosed.

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

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

The following standards and interpretations, have been issued and are mandatory for the Group's accounting periods beginning on or after 1 January 2011 and are expected to be relevant to the Group.

IFRS 7 Financial Instruments: Disclosures (Revision). Amendments resulting from May 2010 Annual Improvements to IFRSs will be applicable on or after 1 January 2011. These amendments will have an impact on disclosure of financial assets and liabilities and no impact on measurement. The Group has not adopted the revised IFRS 7.

IFRS 9 Financial Instruments - Classification and Measurement. This standard will be applicable on or after 1 January 2013. This standard is still being developed by the IASB. The first phase of classification and measurement is complete and will have an impact on the measurement of financial assets and liabilities of the Group, specifically on debt securities in issue which, depending on certain criteria may be measured at fair value as opposed to the current measurement of amortised cost. Phases 2 and 3 of the project are expected to be completed by the end of 2011. These phases deal with impairment methodology and hedge accounting and are expected to impact the Group in these areas. However the exact impact cannot yet be determined. The Group has not early adopted IFRS 9.

IAS 1 Presentation of Financial Statements (Amendment). Amendments resulting from May 2010 Annual Improvements to IFRSs will be applicable on or after 1 January 2011. These amendments will have an impact on disclosure of financial assets and liabilities and no impact on measurement. The Group has adopted the revised IAS 1 for the purposes of reporting at 31 December 2010.

IAS 24 Related Party Disclosures (Amendment). The amendment provides for a revised definition of related parties and is applicable on or after 1 January 2011. This amendment will have an impact on the disclosure of related parties and no impact on the measurement of assets and liabilities. The amendment simplifies the definition of a related party and provides partial exemption from the disclosure requirements for government related entities. The Group has adopted the revised IAS 24 and has applied this for the purposes of reporting at 31 December 2010. Information about related parties is disclosed in Note 31.

2.5 Basis of Consolidation

The consolidated financial statements of the Group comprise the financial statements of the parent entity (NAMA) and all its subsidiaries. The financial statements of the subsidiaries used to prepare the consolidated financial statements were prepared for the period from 27 January 2010 (their date of incorporation) to 31 December 2010.

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

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

Intergroup 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.

The Group has a 49% investment in NAMAIL, NAMAIL has 100% holding in all subsidiaries (See Note 30).

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 the entity operates ('the functional currency').

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

(b) Transactions and balances

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

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

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

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

2 Significant accounting policies (Continued)

2.7 Financial assets

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

(a) Financial assets at fair value through profit or loss and;
(b) Loans and receivables.

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

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

This category of assets comprises derivatives other than derivatives that are designated and are effective as hedging instruments. These assets are recognised initially at fair value and transaction costs are taken directly to the consolidated income statement. Interest income and expense arising on these assets are included in interest income and interest expense. Fair value gains and losses on these financial assets are included in gains and losses on derivative financial instruments in the consolidated income statement or as part of foreign exchange gains and losses where they relate to currency derivatives.

(b) Loans and receivables

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

The Group has classified the loan assets it acquired from Participating Institutions as loans and receivables.

Loans and receivables are initially recognised at fair value. Loan assets acquired by the Group from Participating Institutions, as provided for in the NAMA Act 2009, are treated as having a fair value at initial recognition equal to the acquisition price paid for the asset, taking into account any cash flow movements in the loan balance between the valuation date and transfer date.

Loans and receivables are subsequently measured at amortised cost less impairment using the effective interest rate method.

Loans and receivables are classified as follows:

- *Land and development loans*
- *Investment property loans*

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

Investment property loans are loans secured on any property purchased with the primary intention of retaining it and enjoying the total return, i.e. income and/or capital appreciation, over the life of the interest acquired. This would include loans secured on completed residential property developments that are classified as investment property loans.

2.8 Financial liabilities

The Group carries all financial liabilities at amortised cost, with the exception of derivative financial instruments, which are measured at fair value. Further information on derivative liabilities is included in Note 2.14.

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 Interest income and interest expense

Interest income and expense for all interest-bearing financial instruments is recognised in interest income and interest expense in the income statement using the effective interest rate ('EIR') method.

The EIR method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the EIR, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses beyond any already recognised in the acquisition price of loans. The calculation includes transaction costs and all fees paid or received between parties to the contract that are an integral part of the EIR.

Where loan cash flows cannot be reliably estimated on initial recognition, interest income is recognised on a contractual interest receipts basis until the cash flows can be estimated, at which time interest income will be recognised using the EIR method.

Once a financial asset (or a group of similar financial assets) has been written down as a result of an impairment loss, interest income is recognised using the original rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

2.11 Impairment of financial assets

The Group assesses, at the end of each reporting period, whether there is objective evidence that a financial asset or group of financial assets, measured at amortised cost, is impaired.

(a) Loans and receivables carried at amortised cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. The individually significant assessment is completed in respect of the total portfolio of borrowings of each individually significant debtor and connected party, rather than on an individual loan basis.

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

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

Individually Significant

For the purpose of the individually significant assessment, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate (EIR) (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the impairment loss is recognised in the consolidated income statement.

Collective Assessment

Loans where a review of the debtor business plan has not been completed are considered collectively for the purposes of performing an impairment assessment. This assessment is based on the experience of the detailed impairment assessment carried out in respect of loans where the debtor business plan has been reviewed.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's ability to repay amounts due), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

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

2.12 Impairment of non-financial assets

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

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

2 Significant accounting policies (Continued)

2.13 Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

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.

2.14 Derivative financial instruments and hedge accounting

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

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

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

Derivatives at fair value through profit or loss

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

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

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

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

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

Fair value gains or losses on these 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.

Derivatives designated in hedge relationships

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

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

Cash flow hedge

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

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

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

2.15 Taxation

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

(a) Current income tax

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

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

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

The Group does not offset current income tax assets and liabilities

(b) Deferred income tax

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

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

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

2.16 Provisions for liabilities and charges and contingent assets and liabilities

Provisions

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

Contingent liabilities

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

Contingent assets

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

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

2.17 Amounts due to and from Participating Institutions

Amounts due to and from Participating Institutions are classified as follows:

(a) Due diligence valuation adjustments
(b) Value to transfer adjustments
(c) Section 88, Section 93, Section 98 adjustments

(a) Due diligence valuation adjustments

Any adjustments arising on completion of due diligence on assets transferred are initially recognised in the statement of financial position as an adjustment to the carrying value of assets acquired and as amounts due to or from Participating Institutions. Settlement of due diligence adjustments is in the form of cash or through the issuance or redemption of government guaranteed debt securities.

(b) Value to transfer adjustments

Value to transfer adjustments relate to net movements that occurred on borrower exposures between the loan assets valuation date and the date the loans were transferred to the Group. Any amount due to or from a Participating Institution is settled in cash or through the issuance or redemption of government guaranteed debt securities.

(c) Section 88, Section 93 and Section 98 adjustments

Adjustments under Section 88 of the NAMA Act relate to obvious errors or omissions in an acquisition schedule.

Adjustments under Section 93 of the NAMA Act arise where the Group has overpaid for an asset. If a Participating Institution receives from the Group an amount in exchange for loan assets acquired that is more than is due to the Participating Institution under the Act, or receives any other amount from the Group to which it is not entitled, the Participating Institution is obliged to repay the Group any amount of overpayment plus accrued interest as determined by the Group.

Adjustments under Section 98 of the NAMA Act relate to obvious errors in relation to the valuation of assets acquired from Participating Institutions.

Any adjustments under Sections 88, 93 or 98, that are unsettled at the reporting date, are recognised as amounts due to or from Participating Institutions until the amounts are settled.

2 Significant accounting policies (Continued)

2.18 Financial guarantee contracts acquired

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

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

2.19 Debt and equity instruments

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

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

Debt securities in issue are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method. The initial value of the senior debt issued equates to 95% of the acquisition cost of the loans transferred from each Participating Institution. The initial value of subordinated bonds equates to 5% of the acquisition cost of loans transferred.

2.20 Other Equity

This comprises the subordinated bonds that meet the definition of an equity instrument. Coupon payments on these instruments are reflected directly in equity when they are declared.

2.21 Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the NAMA Board and the NAMA Chief Executive Officer as its chief operating decision-maker.

2.22 Non-controlling interests in subsidiaries

Non-controlling interests in subsidiaries comprises ordinary share capital in subsidiaries not attributable directly or indirectly to the parent entity. In respect of the Group this represents the investment by private investors in the ordinary share capital of NAMAIL.

Under the terms of the shareholders' agreement between NAMA and the private investors, NAMA can exercise a veto over decisions taken by NAMAIL.

Under the shareholder's agreement, the maximum return which will be paid to the private investors by way of dividend is restricted to the 10 year Irish Government Bond Yield applying at the date of the declaration of the dividend. In addition the maximum investment return to the private investors is capped under the Articles of Association of NAMAIL.

NAMA's ability to veto decisions taken by NAMAIL restricts the ability of the private investors to control the financial and operating policies of the Group, and as a result NAMA has effective control over NAMAIL and the subsidiaries in the Group, as well as substantially all the economic benefits and risks of the Group. While the private investors are subject to the risk that NAMAIL may incur losses and the full value of their investment may not be recovered, they are not required to contribute any further capital to NAMAIL.

Profits which may arise in any period are allocated to the non-controlling interest in accordance with the maximum investment return which may be paid to the private 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.

3. Critical accounting estimates and judgements

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

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

3.1 Fair value of loans and receivables at acquisition

IAS 39 requires all financial assets, including loans and receivables, to be recognised initially at fair market value and states that the best evidence of fair value is the transaction or acquisition price. NAMA believes that at the time of acquisition, there was no active market for the type of assets which it acquired, and is satisfied that the transaction price is an appropriate measure of fair value.

As described in the accounting policy 2.7 Financial Assets, loans acquired by NAMA are initially recognised at their acquisition price as adjusted for specified movements in the loan balance between the loan valuation date and acquisition date. The acquisition price for loans acquired by NAMA was determined using a Long Term Economic Valuation (LTEV) methodology as set out in the NAMA Act and related regulations.

This methodology used a collateral based valuation model which involved projections of property related cash flows and assumptions about the realisation of the property collateral. The valuation basis for all property collateral is the value of the underlying property at 30 November 2009, but the Act allows for an uplift for the long-term economic value of the property collateral, to reflect the value that the asset could be reasonably expected to obtain in a stable financial system when the crisis conditions prevailing at the passing of the Act have eased. The key inputs to the model are the independent property valuation and assessment of cash flows, discounted to determine the asset's present value.

3.2 'Bulk transfer' loans and receivables

The accounting policy for loans and receivables is described in Note 2.7.

Loans and receivables with a par value of €33 billion and an acquisition cost of €14 billion transferred to the Group post 30 September 2010 but before the reporting date, under the expedited process provided for in Statutory Instrument (S.I.) 504 of 2010 and S.I. 505 of 2010 (referred to as 'bulk transfer' assets). These assets were acquired without full due diligence at the time of acquisition.

In accordance with the regulations contained in S.I. 504 of 2010, NAMA made an initial valuation of the long term economic value of these assets and the long term economic value of the associated property collateral assets. In so doing, it had regard to

- the type or classification of the loans concerned and, in particular, the type and location of the underlying collateral,
- its experience in relation to valuations already carried out with respect to loans already acquired from the particular institution or from other institutions, and
- the level of discounts from book value represented by the acquisition value of eligible bank assets previously acquired from that institution.

The discounts applied to the par value of the loans were determined by reference to a matrix of discounts derived from NAMA's loan valuation experience with all five Participating Institutions over Tranches 1 and 2 (which had involved full due diligence) in a number of jurisdictions (Ireland, UK and US) and in relation to the following property types:

- Incomplete (<30%) development
- Incomplete (>30%) development
- Investment property (multi-let)
- Investment property (single-let)
- Residential multi-unit property
- Residential one-off property
- Undeveloped land
- Hotels

A 100% loan discount was applied in cases where the Participating Institution had indicated that loans were not properly secured.

3. Critical accounting estimates and judgements (Continued)

The Group is currently in the process of performing a detailed due diligence review of all loans transferred, which is expected to be completed in the latter part of 2011. Management is of the opinion that the amount paid for bulk transfer loan assets is a reasonable estimate of acquisition value and does not anticipate a materially different valuation on completion of the due diligence process. Further information about the nature and carrying amounts of these loans transferred is included in Note 14, Amounts due to/from Participating Institutions and Note 16 Loans and receivables. No impact on profit or loss arises from the completion of due diligence.

3.3 Impairment of loans and receivables and related derivatives acquired

The Group's policy is to review its portfolio of loans and receivables for impairment at least annually. In determining whether an impairment loss should be recorded in the consolidated income statement at the reporting date, the Group makes judgements as to whether any observable data exists indicating evidence of impairment which would be likely to result in a measurable decrease in the timings and amounts of the estimated future cash flows. The Group's policy on impairment is set out in accounting policy 2.11.

Assets are either individually assessed or grouped together and collectively assessed for impairment

The individually assessed debtors comprise principally the debtors acquired in tranches 1 and 2, representing loans and related derivatives with a carrying value of €13.3 billion. Debtors in subsequent tranches, representing loans and related derivatives with a carrying value of €16.4 billion, have not been individually assessed at the year-end. This is because due diligence in respect of these debtors was incomplete and the debtor engagement process had not commenced. Such debtors are included in the collective assessment for the purpose of impairment.

Individually assessed debtors

The impairment assessment is based on cash flow projections prepared by management for each of the individually assessed debtors.

Cash flow projections were prepared by management during the course of the debtor business plan engagement process. As part of this process management had regard to the cash flow projections set out in the debtor's business plan and reviewed through the Independent Business Review process.

The cash flow projections were updated by management for the performance of the debtor since the debtor business plan was reviewed, and other known developments which could impact future cash flows.

In the small number of cases where a debtor business plan has not been completed, management has projected cash flows for the debtor on the basis of the most likely performance of the underlying loans and related collateral.

The projection of cash flows involves the exercise of considerable judgement and estimation by management, involving assumptions in respect of local economic conditions, the trading performance of the debtor and the value of the underlying property collateral. As a result the actual cash flows, and their timing, may differ significantly from the projected cash flows prepared by management for the purposes of determining the amount of impairment provision for individually significant debtors.

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

Collectively assessed debtors

Debtors that are not individually assessed are considered collectively for the purposes of performing an impairment assessment ('collective assessment'). This collective assessment is calculated by taking the impairment experience of the individually significant debtors. The average impairment rate, for the individually significant debtors, is applied to the collectively assessed loans, adjusting for specific outlier impairments, which are very unlikely to be relevant to those collectively assessed debtors.

The amount of any impairment provision recognised is estimated by management in the light of the level of impairment experienced in the individually assessed portion of the loan portfolio. In doing so, its key assumption is that the level of impairment in both parts of the portfolio will be similar. If the performance of the individually assessed assets differs from expectation or if the performance of the collectively assessed debtors differs significantly from the individually assessed debtors, this would have an impact on the level of the collective impairment provision.

3.4 Income recognition on loans and receivables

The accounting policy for the recognition of interest income for loans and receivables is set out in accounting policy 2.10. The loan portfolio acquired by the Group was acquired at a significant discount to the Par value of the loans, reflecting loan losses already incurred on the loans pre acquisition by NAMA. The effective interest rate of this portfolio has been taken to be the discount rate that equates the present value of the cash flows assumed in the loan acquisition valuation model.

The Group has mapped out estimated cash flows over the expected life of its loans and these estimates are updated as further information becomes available about the circumstances of each debtor. In making these estimates the Group has applied assumptions regarding the timing and amount of cash flows. Any changes to these assumptions would have had an impact on interest income on loans and receivables carried at amortised cost as disclosed in note 5.

4 Segmental analysis

Segmental reporting by the Group is in accordance with IFRS 8, 'Operating segments'.

Operating segments are reported in accordance with the internal reporting provided to the NAMA Board and NAMA Chief Executive Officer (the chief operating decision-maker).

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

The information provided about the segment is based on the quarterly financial report, which is reviewed by the Chief Executive Officer and NAMA Board.

Segmental results of operations

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

Geographical analysis

Group

	Ireland €'000	UK including Northern Ireland €'000	Rest of World €'000	Loan impairment €'000	2010 Total €'000
Gross external revenue	307,220	186,341	31,472	-	**525,033**
External assets					
Loans and receivables before impairment	17,955,567	9,419,314	2,060,475	-	**29,435,356**
Impairment of loans and receivables	-	-	-	(1,484,523)	**(1,484,523)**
Other external assets	1,324,024	355,965	23,353	-	**1,703,342**
Total assets	**19,279,591**	**9,775,279**	**2,083,828**	**(1,484,523)**	**29,654,175**
External liabilities	29,034,306	154,720	9,493	-	29,198,519
Total liabilities	**29,034,306**	**154,720**	**9,493**	**-**	**29,198,519**

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

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

The majority of external liabilities includes Senior Debt Securities in issue, which are issued in Euro on the Irish Stock Exchange and are therefore reported as part of Ireland geographic segment.

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

5 Interest and similar income

Group	2010 €'000
Interest on loans and receivables	447,860
Interest on cash and balances with banks	1,850
Interest on derivative financial instruments	75,323
Total interest income	**525,033**

Agency	2010 €'000
Interest on loans	1,601
Total interest income	**1,601**

All interest income recognised is earned. Interest income on loans and receivables is recognised in accordance with accounting policy 2.10. Further information is disclosed in the critical accounting estimates, note 3.4.

Interest income on derivative financial instruments relates to interest received on derivatives acquired from Participating Institutions.

6 Interest and similar expenses

Group	2010 €'000
Interest on debt securities in issue	98,833
Interest on interest bearing loans and borrowings	1,445
Interest on derivatives where hedge accounting is applied	43,492
Interest on other derivative financial instruments	35,237
Total interest expense	**179,007**

Agency	2010 €'000
Interest payable on advances from the Central Fund	1,445
Total interest expense	**1,445**

7 Gains and (losses) on derivative financial instruments

Group	2010 €'000
Fair value gain on derivatives acquired	30,479
Fair value (loss) on other derivatives	(47,483)
Total fair value gains and (losses) on derivatives	**(17,004)**

Fair value gain on derivatives acquired comprises fair value gains on derivatives acquired from Participating Institutions that were associated with the loans acquired. Fair value losses on other derivatives comprise a loss on interest rate swaps entered into by the Group during the period.

Some of these derivatives entered by NAMA were subsequently formally designated into hedge relationships. The loss of €47.4m includes a fair value loss in respect of these derivatives of €30.4m measured at the date of their designation into a hedge relationship.

The Agency had no derivatives and therefore no fair value gains and losses on derivatives.

8 Administration expenses

Group	Note	2010 €'000
Costs reimbursable to NTMA	8.1	14,965
Master and primary servicer fees	8.2	14,813
Financial adviser and consultancy fees	8.3	5,014
Portfolio management fees	8.4	5,087
Internal audit fees	8.5	703
Legal fees	8.6	3,311
Tax fees	8.6	463
NAMA Board and Committee Fees	8.7	589
External auditors remuneration		530
Other administrative expenses		718
Total administration expenses		**46,193**
Due diligence costs incurred on loan acquisitions	8.8	29,605
Total expenses		**75,798**

Agency	Note	2010 €'000
Costs reimbursable to NTMA	8.1	14,965
NAMA Board and Committee Fees	8.7	589
Other costs		187
Total administration expenses		**15,741**

8 Administration expenses (Continued)

8.1 Costs reimbursable to NTMA

Under Section 42 (4) of the NAMA Act 2009, NAMA is required to reimburse the NTMA for the costs incurred by the NTMA in consequence of its assigning staff and providing services to NAMA. The costs incurred by the NTMA are charged to NAMA, (the Agency) and the Agency is reimbursed by the Group.

The following table sets out the costs reimbursed to NTMA,:

Costs reimbursable to NTMA	**2010** **€'000**
Staff costs	10,329
Rent	1,386
Office services	1,467
Insurance, telecoms, postage and stationery	200
IT operating costs	473
Travel and business expenses	276
Consultancy paid by NTMA on behalf of NAMA	457
• Legal and tax advice on establishment of the Group	240
• Loan valuation methodology and model set-up costs	137
• IT and other costs	
Total	**14,965**

Staff costs

The Group has no employees. All personnel are employed by the NTMA and the salary cost of staff who are engaged full time in the NAMA business are recharged to the Group by the NTMA. The number of employees of the NTMA, directly engaged in the Group ('NAMA Officers') at the reporting date was 104 and the total salary cost including pension costs was €9.2m. In addition the NTMA provide shared services to NAMA including IT, HR and Finance. The cost of NTMA employees (non NAMA Officers) providing these shared services to NAMA during 2010 was €1.1m. NTMA employees engaged in NAMA business (NAMA Officers) are members of the NTMA Defined Benefit Pension Scheme and the NTMA contributes to the scheme on behalf of these employees. The cost of these pension contributions are recharged to NAMA.

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

Brendan McDonagh (Chief Executive Officer)	**2010** **€**
Salary	430,000
Taxable Benefits (Car & Health Insurance)	23,036
Performance related bonus	-
	453,036

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 after consultation with the NTMA Advisory Committee. In giving advice on remuneration the NTMA Advisory Committee is informed by the views of the NTMA Remuneration Committee. The Chairman of the National Asset Management Agency is a member of the NTMA Remuneration Committee for the purpose of discussion of issues in relation to staff assigned to NAMA.

The remuneration of the Chief Executive Officer consists of basic salary, taxable benefits and a performance related payment of up to 60 per cent of annual salary. The Chief Executive Officer was awarded a performance payment for 2010, but in view of the economic challenges facing the country waived this payment.

8.2 Master and Primary Servicer fees

Master and Primary Servicer fees comprise fees paid to the Master Servicer, Capita Asset Management Limited ('Capita') and fees paid to each Participating Institution, the Primary Servicers for the servicing of eligible bank assets. Capita provides book keeping and data management services to the Group. The Participating Institutions administer the loans and receivables that were originated within each Participating Institution. The amounts payable to each Participating Institution are set out in Note 31, Related Parties. The fees paid and accrued to the Participating Institutions were €12.8m, which equates to 6 basis points of the nominal loan balances administered. Capita fees were €2.0m in 2010.

8.3 Financial adviser and consultancy fees

Financial adviser and consultancy fees include fees paid for accounting, financial, and business process advice over the period from incorporation to the reporting date. The Group seconded staff from external consultancy and financial advisers to assist in the initial set-up of business units (until the NAMA Officers were recruited by the NTMA) and the development and implementation of processes and policies.

8.4 Portfolio management fees

Portfolio management fees relate to fees incurred for the review of debtor business plans.

8.5 Internal audit fees

The Group have engaged the services of an external audit firm (Deloitte) to perform the role of internal audit for the Group. Fees incurred to date relate to the audit of business processes by the internal auditors and the reporting on the results of internal audits performed.

8.6 Legal and Tax fees

Legal and tax fees comprise fees paid to professional service firms with respect to legal and tax advice and the secondment of the staff for legal due diligence.

8.7 NAMA Board and Committee Fees

Board Fees	2010 €
Frank Daly (Chairman)	159,116
Michael Connolly	146,374
Eilish Finan	58,408
Brian McEnery	58,408
Steven Seelig	35,753
William Soffe	57,641
Peter Stewart	57,641
	573,341

Committee Fees	2010 €
Planning Advisory Committee	
Alice Charles	1,000
Gavin Daly	2,000
Michael Wall	5,000
Northern Ireland Advisory Committee[1]	
Frank Cushnahan	4,000
Brian Rowntree	4,000
	16,000
Total Board and Committee Fees	**589,341**

John Corrigan (NTMA Chief Executive) and Brendan McDonagh (NAMA Chief Executive Officer) receive no remuneration as ex-officio members of the Board.

Expenses

During 2010, a total of €36,246 in expenses was reimbursed or paid in respect of the NAMA Board and Committee Members.

	Travel Expenses €	Accommodation & Subsistence €	Other €	Total €
Frank Daly (Chairman)	44	-	287	331
Steven Seelig[2]	34,288	1,627	-	35,915
	34,332	**1,627**	**287**	**36,246**

[1] Paid in 2011, in respect of 2010

[2] Mr. Seelig lives in the USA. Expenses relate to travel and accomodation expenses on a cost recovery basis to attend meetings in Dublin.

8 Administration expenses (Continued)

8.8 Due diligence costs

Due diligence costs are costs that the Group has incurred upon acquiring the portfolio of loans from the Participating Institutions. The Loan valuation model used by the Group to acquire the loans makes an allowance for due diligence costs as a reduction from the acquisition value of the loans. Due diligence costs incurred by the Group are considered to be transaction costs and are included in the acquisition cost of the loans and receivables. In addition, a provision of €30.3 million (Note 24) has been made in respect of due diligence costs for those loans for which due diligence had not been completed at the end of 2010. The table below shows the actual due diligence costs incurred at the reporting date.

Due diligence costs are analysed as follows;

	2010 €'000
Legal due diligence	7,062
Loan valuation costs	9,295
Property due diligence	4,419
Audit	8,829
Total	**29,605**

8.9 Lease

During 2010, the Agency entered into a lease for its current office premises for a period of ten years at an annual rent of €810,845. Payments in connection with this lease commenced in 2011 following a rent free period.

9 Foreign exchange gains / (losses)

Group	2010 €'000
Foreign exchange (losses) on loans and receivables	(72,107)
Foreign exchange gains on derivative financial instruments	89,693
Other foreign exchange gains	4,493
	22,079

Foreign exchange losses on loans and receivables arise on the revaluation of foreign currency denominated loans and receivables from the acquisition date to the reporting date. Foreign currency translation amounts are recognised in accordance with accounting policy 2.6.

Following the transfer of assets from Participating Institutions, the Group entered into currency transactions to reduce its exposure to exchange rate fluctuations arising on foreign currency denominated loans and receivables acquired. Gains on foreign exchange derivatives are recognised as the fair value movement on currency derivatives since the inception of the derivative. Currency derivatives are explained in more detail in Note 15.

Other foreign exchange gains relate to the translation of foreign denominated cash balances at the reporting date.

10 Impairment charges on loans and receivables

Group	2010 €'000
Balance at the beginning of the period	-
Increase in impairment in the period	1,484,523
Amounts written off during the period as uncollectible	-
Balance at the end of the period	**1,484,523**
Analysed as:	
Specific impairment	718,577
Collective impairment	765,946

Further information on the impairment of loans and receivables is included in Note 3.3, Critical accounting estimates and judgements and Note 18, Credit Risk

11 Tax (expense) / credit

Group	2010 €'000
Current tax	
Irish corporation tax	(375)
Foreign tax	-
Total	(375)
Deferred tax	
Origination and reversal of temporary differences	(19,389)
Tax losses available for offset	19,389
Taxation credit / (charge)	-

The tax charge arises on the profits earned by NAMAIL. A total amount of €0.34m was paid to the Revenue Commissioners in the period which relates to 12.5% of the profits arising in NAMAIL. No other tax charges arose in other NAMA Group entities and the Agency is exempt from Irish income tax, corporation tax and capital gains tax.

The corporation tax rate applicable to the majority of the Group's income is 25%. The corporation tax rate applicable to the majority of the income of subsidiaries is either 12.5% or 25%. The effective corporation tax rate for 2010 was 0%.

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.

12 Income tax relating to components of other comprehensive income

Group	2010 €'000
Movement in cash flow hedge reserve before tax	77,554
Deferred tax (expense)/benefit	(19,389)
Tax losses available for offset	19,389
Cash flow hedge reserve net of tax	**77,554**

The movement in the cash flow hedge reserve represents a temporary difference between the tax base of the derivatives where hedge accounting has been applied and their fair value in the financial statements. The Group has tax losses available to offset any tax obligation that arises.

13 Cash and cash equivalents

Group	2010 €'000
Balances with the Central Bank of Ireland	709,950
Balances with other banks	66,377
Term deposits	60,412
Total cash and cash equivalents	**836,739**

Agency	2010 €'000
Balances with the Central Bank of Ireland	95
Total cash and cash equivalents	**95**

Balances with other banks comprise balances held with Citibank and AIB. These accounts are operated as current accounts by Participating Institutions. The legal owner of these accounts is NAMS Ltd and the beneficial owner is NALM Ltd.

14 Amounts due to/from Participating Institutions

Group	Note	2010 €'000
Amounts due from Participating Institutions:		
Due diligence valuation adjustment	14.1	113,482
Value to transfer settlement	14.2	209,788
Adjustments under Section 88 of the NAMA Act	14.3	6,302
Adjustments under Section 93 of the NAMA Act	14.3	20,351
Total		**349,923**
Amounts due to Participating Institutions:		
Due diligence valuation adjustment	14.1	(72,265)
Value to transfer settlement	14.2	(19,601)
Adjustments under Section 98 of the NAMA Act	14.3	(50,927)
Total		**(142,793)**
Net Current amount due from Participating Institutions		**207,130**
Net Non-Current amount due from Participating Institutions		-

14.1 Due diligence valuation adjustment

A due diligence valuation adjustment is an adjustment to the original acquisition value of an asset, following the completion of due diligence.

As described in Note 3.2, €14bn of 'bulk transfer' loans and receivables were transferred to the Group without the completion of the full due diligence process. Consideration, in the form of senior and subordinated debt was paid to Participating Institutions for bulk loan transfers. At the reporting date, due diligence was completed on €2.4bn of these assets.

Due diligence has not yet been fully completed at the reporting date on the remaining balance of €11.6bn.

14.2 Value to transfer settlement

Value to transfer settlement amount comprises net movements that occurred on the loans acquired by NAMA in the period between the loan valuation date and acquisition date. The loan valuation date is set by NAMA for each tranche of loan assets acquired. The movement includes principal, interest and derivative cash received, less approved qualifying advances and a funding cost in respect of the acquired loans. Any amount due to or from a Participating Institution is settled in cash or through the issuance or redemption of government guaranteed senior debt securities.

Also included in the value to transfer settlement adjustment, in amounts due from Participating Institutions, is an amount of €17.3m in respect of assets acquired by the Group, that were deemed to be ineligible for transfer to the Group. These assets will be returned to Participating Institutions.

14.3 Adjustments under Sections 88, 93 and 98 of the NAMA Act

The NAMA Act provides under Section 88, Section 93 and Section 98 for the adjustment of the acquisition value of a loan subsequent to its acquisition where there has been an error in the acquisition process or value attributed to a loan. Adjustments under these sections are recognised in accordance with accounting policy 2.17.

Settlement of Section 88, 93 or 98 claims will be in the form of cash or a reduction / increase in further issuances of government guaranteed debt securities equal to the amount overpaid / underpaid to the Participating Institutions.

15 Derivative financial instruments and hedging activities

As part of the process of acquisition of loans from Participating Institutions, the Group acquired a number of derivatives that were related to underlying loans.

In addition the Group enters 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 17 and 18.

The notional amounts of certain types of financial instrument do not necessarily represent the amounts of future cash flows involved or the current fair value of the instruments and, therefore, are not a good indication of the Group's exposure to credit or market risks. Derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair value of derivative financial assets and liabilities, can fluctuate significantly over time.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (e.g. cross-currency interest rate swaps). The Group's credit risk represents the potential cost of replacing the swap contracts if a counterparty fails to fulfil its obligations under the contract. This risk is monitored on an ongoing basis with reference to the current fair value.

Interest rate and foreign currency options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. The Group is exposed to credit risk on options acquired from Participating Institutions only, and only to the extent that they have a carrying amount.

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

Fair value of derivative financial instruments Group As at 31 December 2010	Notional amount €'000	Fair values Assets €'000	(Liabilities) €'000
(a) Derivatives at fair value through profit or loss			
Derivative financial instruments acquired	10,126,785	283,888	(47,987)
Other derivative financial instruments	2,460,310	97	(16,830)
Foreign currency derivatives	10,284,776	162,896	(103,761)
Total	**22,871,871**	**446,881**	**(168,578)**
(b) Derivative financial instruments designated in hedge relationships			
Interest rate swaps	13,300,000	52,274	(5,139)
Total derivative assets / (liabilities)	**36,171,871**	**499,155**	**(173,717)**

(a) Derivative financial instruments at fair value through profit or loss

Derivative financial instruments acquired relates to the fair value of derivatives acquired from Participating Institutions that were associated with loans acquired. The fair value of these derivatives at acquisition was €206m and the fair value movement on these derivatives in the period was a gain of €30m. (See note 7)

Other derivative financial instruments relates to the fair value of derivatives entered into by the Group to hedge derivative financial instruments acquired. These derivatives have not been designated into hedge relationships.

Following the transfer of assets from Participating Institutions and given that NAMA pays for these loans with Euro denominated bonds, NAMA entered into foreign currency derivatives to reduce its exposure to exchange rate fluctuation arising on foreign denominated loans and receivables acquired.

(b) Derivative financial instruments designated in hedge relationships

The Group entered into interest rate swap contracts to hedge its exposure to cash flow variability arising from interest rate risk in its portfolio of debt securities. These swaps were formally designated into hedge relationships during the period, when the fair value of these derivatives was (negative) €30.4m. This amount has been recognised as a fair value loss on derivative financial instruments in the income statement (Note 7). The subsequent gain since designation on cash flow hedges of €77.5m is recognised in the cash flow hedge reserve in other comprehensive income.

The Agency held no derivatives at the reporting date.

The periods in which the hedged cash flows are a) expected to occur and b) expected to accrue in the profit and loss are shown in the table below.

Group **As at 31 December 2010**	**0–6 months** **€'000**	**6 months–1 year** **€'000**	**1–5 years** **€'000**	**More than 5 years** **€'000**	**Total** **€'000**
a) Expected to occur	75,411	84,147	713,669	120,065	**993,292**
b) Expected to accrue	81,235	91,327	670,560	99,896	**943,018**

The table represents a) the periods in which the actual cash flows are expected to occur and b) the period in which the hedged cash flows are expected to impact the income statement in the following periods, excluding any hedge accounting adjustments that may be applied.

The cash flows in a) differ from b) by the amount of interest already accrued and not yet paid in 2010.

There is no cash flow hedging applied in the Agency.

16 Loans and receivables

Group	2010 €'000
Loans and receivables	29,435,356
Less: provision for impairment charges on loans and receivables (note 10)	(1,484,523)
Total loans and receivables	**27,950,833**

The above table reflects the carrying value of the loans acquired from the Participating Institutions, taking into account the amount the Group acquired the loans for (which was at a discount to the contractual amounts owed under the loan agreements), and loan movements since acquisition, less any additional impairment deemed to have occurred subsequent to acquisition.

Loans and receivables classification between current and non-current has not been provided as due diligence has not been fully completed on all loans acquired.

The following table summarises the movement in the loan balances since acquisition.

Reconciliation of movement in loans and receivables	2010 €'000
Loans acquired – opening balance	29,971,189
Additional loan adjustments following the completion of due diligence in the period	(115,088)
Total value of loans acquired in the period	**29,856,101**
Movements during 2010	
Value to transfer date loan cash settlements	(196,415)
Unsettled value to transfer adjustments	(190,187)
Due diligence costs	59,941
New loans advanced	240,320
Principal cash repayments	(371,098)
Proceeds from the sale of collateral as security against loans and receivables	(363,333)
Loan interest income	447,860
S.88, S.93 and S.98 adjustments	24,274
Foreign exchange movement	(72,107)
Impairment of loans and receivables	(1,484,523)
Closing balance at the reporting date	**27,950,833**

17 Risk management

The Group is subject to a variety of risks and uncertainties in the normal course of its business activities. The principal business risks and uncertainties include general macro-economic conditions. The precise impact or probability of these risks cannot be predicted with certainty and many of them lie outside the Group's control. The Board has ultimate responsibility for the governance of all risk taking activity and has established a framework to manage risk throughout the Group.

In addition to general risks mentioned above, specific risks arise from the use of financial instruments. The principal risk categories identified and managed by the Group in its day-to-day business are credit risk, liquidity and funding risk, market risk and operational risk.

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.

NAMA Treasury

The NAMA Treasury function has primary responsibility for managing market risk, liquidity and funding risk. Credit risk is dealt with in detail in Note 18.

NAMA Credit and Risk

The NAMA Credit and Risk function is responsible for:

- Supporting the Board in setting the Group's risk appetite and policies;
- Independent and objective challenge of the business units' management of risk and exposures in line with agreed risk appetites;
- Developing and communicating risk management policies and procedures; and
- Analysing, monitoring and reporting risk management information to present a consolidated view of the Group's risk exposures to the senior management team, the Risk Management Committee and the Board.

NTMA Risk Unit

The NTMA Risk Unit provides market and credit 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.

17 Risk management (Continued)

17.1 Market risk

Market risk is the risk of a potential loss in the income or net worth of the Group arising from changes in interest rates, exchange rates or other market prices.

Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements, and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and foreign exchange rates. The Group is exposed to market risk on its loans and receivables, securities and derivative positions. While the Group has in place a comprehensive set of risk management procedures to mitigate and control the impact of movements in interest rates, foreign exchange rates and other market risks to which it is exposed, it is difficult to predict accurately changes in economic or market conditions or to anticipate the precise effects that such changes could have on the Group.

The Group's debt securities are denominated in euro, while a significant proportion of the Group's acquired assets are denominated in sterling and US dollars. As a consequence, the Group has made extensive 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.

17.2 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 (i.e. interest rate and foreign exchange risk) is centralised within the Group's Treasury unit. NAMA's Credit 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. 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 duration and interest rate sensitivity within the approved limit structure. The Group Treasury Policy is 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 monthly reporting to the Risk Management Committee with detailed analysis of all significant risk positions and compliance with risk limits. In addition to market risk position limits, stress testing is used to gauge the impact on the Group's position of a range of extreme market scenarios. Scenario based stress tests and long run historic simulations (going back to the 1990s) on current positions are used to assess and manage market risk.

The Risk Management Committee reviews, approves and makes recommendations concerning the market risk profile and limits across the Group. In addition, a Market Risk Management Group, comprising senior managers from the NAMA Credit and Risk unit, NAMA Treasury and the NTMA Risk Unit, meets regularly to review the market risk position and ensure compliance with the decisions of the Board and the Risk Management Committee. The weekly report produced by NTMA Risk Unit includes detailed analysis of all significant risk positions and compliance with risk limits.

17.3 Market risk measurement

17.3.1 Interest Rate Risk

The Group acquired fixed and variable rate loans from the Participating Institutions, as well as derivatives that were used to convert (for debtors) variable rate loans to fixed rate loans. In addition, the Group has issued floating rate securities and has entered into derivative transactions to manage mismatches in its asset and liability profile. The Group employs risk sensitivities, risk factor stress testing and scenario analysis to monitor and manage the 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 factor are held constant.

The following tables summarise the Group's and the Company's time-bucketed (defined by the earlier of contractual re-pricing or maturity date) exposure to interest rate re-set risk. Its sets out, by time bucket, the assets and liabilities which face interest rate re-setting.

Financial instruments are shown at nominal amounts. These tables take account of hedging instruments which have the effect of significantly reducing interest rate sensitivity.

Interest Rate Risk Group As at 31 December 2010	0-6 months €'000	Non- interest bearing €'000	Total €'000
Financial Assets			
Cash and cash equivalents	836,739	-	836,739
Loans and receivables	27,950,833	-	27,950,833
Amounts due from Participating Institutions	-	349,923	349,923
Other assets	-	17,960	17,960
Total financial assets exposed to interest rate re-set	**28,787,572**	**367,883**	**29,155,455**
Liabilities			
Amounts due to Participating Institutions	-	142,793	142,793
Senior debt securities in issue	28,650,000	-	28,650,000
Derivative financial instruments	(13,300,000)	-	(13,300,000)
Other liabilities	-	183,156	183,156
Total financial liabilities exposed to interest rate re-set	**15,350,000**	**325,949**	**15,675,949**

Interest Rate Risk Agency As at 31 December 2010	0-6 months €'000	Non- interest bearing €'000	Total €'000
Inter-group financial assets	-	3,823	3,823
Total financial assets exposed to interest rate re-set	**-**	**3,823**	**3,823**
Liabilities			
Interest bearing loans and borrowings	49,380	-	49,380
Other liabilities	-	3,974	3,974
Total financial liabilities exposed to interest rate re-set	**49,380**	**3,974**	**53,354**

Interest rate risk sensitivity

The following table represents the interest rate sensitivity arising from a 50 basis point 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 2010. The figures take account of the effect of hedging instruments, loans and receivables and securities issued.

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

	+50bp €'000	-50bp €'000
EUR	177,417	(181,751)
GBP	(460)	1,555
USD	679	(675)

The interest rate sensitivities are not symmetric due to a number of factors including the shape of the yield curve and the maturity profile of the portfolio.

17 Risk management (Continued)

17.3.2 Foreign exchange risk

As part of the acquisition of loans and derivatives from the Participating Institutions, the Group acquired a number of loans and receivables denominated in foreign currency, principally in GBP. As a result, the Group is exposed to the effects of fluctuations in foreign currency exchange rates, on its financial position and cash flows. The Group monitors on a regular basis the level of exposure by currency and has entered into hedges to mitigate these risks.

The following table summarises the Group's exposure to foreign currency risk at 31 December 2010. 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 **As at 31 December 2010**	**US$** **€'000**	**£** **€'000**	**Other** **€'000**	**Total** **€'000**
Assets				
Cash and cash equivalents	549	108,775	935	**110,259**
Loans and receivables	464,383	9,471,290	110,260	**10,045,933**
Derivative financial instruments	(419,516)	(9,759,280)	(105,980)	**(10,284,776)**
Total assets exposed to currency risk	**45,416**	**(179,215)**	**5,215**	**(128,584)**
Liabilities				
Amounts due to Participating Institutions	-	(15,577)	-	**(15,577)**
Total liabilities exposed to currency risk	**-**	**(15,577)**	**-**	**(15,577)**
Net assets/(liabilities) exposed to currency risk	**45,416**	**(194,792)**	**5,215**	**(144,161)**

All the Agency's assets and liabilities are stated in euro. Therefore the Agency has no exposure to foreign currency risk.

Exposure to foreign exchange risk - Sensitivity analysis

A 10% strengthening of the euro against the following currencies at 31 December 2010 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	**2010** **€'000**
GBP	21,820
USD	(3,929)
Other	(435)

18 Credit risk

Credit risk is the risk of incurring financial loss, taking account of collateral pledged as security that would arise from the failure of a debtor or market counterparty of the Group to fulfill its contractual obligations to the Group. NAMA's main credit risk arises from the performance of its debtors, and related assets held as security.

The Group's Debtor-related exposures arise in the first place from the acquisition of a substantial portfolio of property related loans, mostly in the commercial and residential property sector in Ireland and the UK, and to a lesser extent in the USA and the rest of the world. Credit risk also arises in relation to the Group's lending activities, which are undertaken in order to preserve or enhance value with the aim of achieving the maximum financial return for the State subject to acceptable risk. Financial instruments, such as undrawn loan commitments and guarantees, also create credit risk.

Credit risk is the most important risk for the Group's business. The Group therefore carefully manages its exposure to credit risk. The credit risk arising from the original acquisition of the loan portfolio was mitigated by the completion of an intensive property and legal due diligence process. This was designed to ensure that loans were properly valued in accordance with the statutory scheme that provided for their acquisition by the Group. Ongoing credit risk management is performed under the Group's Credit and Risk Policy Framework.

Credit and Risk Policy Framework

The overall objective of the Group's Credit and Risk Policy Framework is to safeguard the Group by protecting and enhancing the value of loans acquired.

Ultimate responsibility for the management of credit risk in the Group rests with the Group Board. Credit risk management and control is centralised in the Credit and Risk management team. Credit risk is reported to the NAMA Board and Credit Committee on a regular basis.

The Group is responsible for managing loans, which are acquired under the provisions of the NAMA Act. Loans acquired from Participating Institutions are grouped together and managed by debtor connection.

Debtors fall into two categories:

NAMA managed debtors: In this category key credit decisions, and relationship management, is undertaken by the Group. Loan administration is carried out by Participating Institutions.

Participating Institution managed debtors: In this category debtor management and loan administration is carried out by the Participating Institution. Credit decisions are taken by Participating Institutions under a Delegated Authority Framework and subject to credit policies and procedures mandated by the Group, together with ongoing oversight by the Group Quality Assurance Unit.

The Group is required to make various credit decisions, which may involve new lending, the restructuring of loans and receivables or the taking of enforcement action. Specifically, a credit decision can arise out of any event that could materially change the underlying risk profile of an exposure or debtor, including:

- An application for credit by a debtor
- A proposal by a debtor which may involve pragmatic/commercial compromises or incentives in order to maximise NAMA's overall position
- An application for finance
- A proposed debtor business plan
- A proposed extension of terms for any or all of a debtor's exposures
- An application for new or continued interest roll up
- A proposal to initiate insolvency action

Credit risk is measured, assessed and controlled for all transactions or credit events that arise from the Group's acquisition and from the on-going management of loans.

18.1 Credit risk measurement

The Group applies the following measures of exposure:

Loan Portfolio - Credit exposure measurement

- Par 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 €71.2 billion.
- NAMA debt - the acquisition amount paid by the Group (plus any new money lent by the Group and interest charge added, less cash payments received). The total consideration paid for loans and related derivatives acquired was €30.2 billion.

In accordance with Section 10 of the Act, NAMA is required to obtain the best achievable financial return for the State having regard to Par debt, acquisition cost, any costs as a result of dealing with the assets, its cost of capital and other costs. These are the fundamental measures upon which credit and case strategy decisions will be made. They are also the basis for

18 Credit risk (Continued)

determining the appropriate Delegated Authority level for credit decisions made by the Group or Participating Institutions. NAMA monitors these two measures 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 five Participating Institutions.

At any time, the credit risk exposure is limited to the positive fair value of instruments of the Group (i.e. assets with a positive mark-to-market value).This mark-to-market is usually only a small fraction of the contract value (or notional value of the outstanding instruments).

18.2 Credit risk assessment

Credit risk assessment focuses on the debtor repayment capacity and all credit enhancements available, including security. Loans and advances to debtors are collateralised principally by charges over real estate assets, other assets, liens on cash deposits and are supplemented in many cases by personal guarantees.

The Group relies initially on the valuations placed on existing security and recourse attached to loans acquired as part of the acquisition process. However the Group seeks to ensure that an appropriate, up-to-date, valuation of any additional forms of security or recourse are included in any debtor's new credit proposal. Existing security may also be revalued as part of that process.

A key consideration in advancing new money is whether or not the debtor's credit proposal is value enhancing. In advancing new money or undertaking any new credit decision, the Group will seek to obtain additional security or recourse from the debtor where it is necessary to protect its interests.

In determining additional or alternative forms of security or recourse, the Group may commission personal asset assessments of a debtor to identify any security or recourse that may be available to protect the Group's interests.

18.3 Credit risk control

Credit risk policy, as determined by the Group, applies to both NAMA managed, and Participating Institution managed loans. The Group has defined a Credit and Risk Policy Framework for the Group and for Participating Institutions. This sets out authority levels for permitted credit decisions and credit limits, as well as credit risk monitoring and reporting to be carried out by the Group and Participating Institutions.

The Credit and Risk Policy Framework sets out the permitted decision making and credit limits in relation to:

- The approval of debtor Business Plans and Annual Reviews
- The approval of new lending
- Loan restructuring or renegotiation where no new money is lent
- Enforcement action being taken by the Group
- Loan impairment
- Sales of assets /loans
- Property and asset management

The level of approval required for each of these credit decisions is determined by reference to the size of the debtor's outstanding balance. Credit decisions are approved by one or more of the following entities within a cascading level of approved delegated authority:

- Senior Credit Manager, Senior Portfolio Manager or Senior Lending Manager
- Head of Credit & Risk, Head of Portfolio Management or Head of Lending
- CEO and Head of Credit & Risk
- Credit Committee
- Group Board

All delegated authority decisions below Credit Committee are undertaken on a dual sign-off basis.

All credit decisions for Participating Institution managed loans, within Group approved limits, are required to be approved by the Participating Institution Credit Committee and/or Head of Credit in the NAMA Unit of the Participating Institution.

Oversight of the compliance with the Delegated Authority Policy is performed by the Quality Assurance Team, which is a part of the Credit & Risk function.

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

(a) Cash Management

Management of cash within a debtor connection is a key control with the aim of ensuring that overheads, working capital or development capital expenditure payments are appropriate and verified so that potential cash leakage is eliminated.

(b) Collateral

Loans and advances to debtors are collateralised principally by charges over real estate assets, other assets, liens on cash deposits, and are supplemented in many cases by personal 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 and receivables are:

- Mortgages over various land and properties
- Floating charges over business assets such as premises, inventory and accounts receivable
- Charges over financial instruments such as debt securities and equities
- Charges over bank deposits

(c) Derivatives

The security for derivatives acquired is from the collateral acquired with the loan, and is reflected in the loan acquisition price paid. The Group also transacted derivatives with the National Treasury Management Agency (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 exposure management.

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

18.4 Maximum exposure to credit risk – before collateral held or other credit enhancements

The table below sets out the maximum exposure to credit risk for financial assets with credit risk (net of impairment) at 31 December 2010, 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.

Maximum exposure Group	**2010 €'000**
Cash and cash equivalents	836,739
Amounts due from Participating Institutions	349,923
Derivative financial instruments	499,155
Loans and receivables	
Land and development	11,459,842
Investment property	16,490,991
Other assets	17,960
Total assets	**29,654,610**
Loan commitments (note 19.4)	417,457
Total maximum exposure	**30,072,067**

Maximum exposure Agency	**2010 €'000**
Inter-group balances	3,823
Total maximum exposure	**3,823**

18 Credit risk (Continued)

18.5 Information regarding the credit quality of loans and receivables

(a) Loans and receivables neither past due nor impaired

The disclosure required by paragraph 36(c) of IFRS 7 regarding the credit quality of loans and receivables that are neither past due nor impaired is not being provided. This is because, at this point, any such information could only be based on original contractual terms and on grading systems which vary across the Participating Institutions.

The Group is in the process of renegotiating and restructuring loans with debtors as it receives business plans from debtors. Once restructured, the revised facilities will be monitored against the Group's credit policy.

On acquisition of loans and receivables from Participating Institutions, a significant portion of the acquired assets were deemed past due based on the classification systems of the Participating Institutions. However, this past due status will change when the loans and receivables are restructured. The credit quality of the loan and its related performance will be assessed against the restructured loan amount.

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

(b) Loans and receivables past due not impaired

The disclosure required by paragraph 37(a) of IFRS 7 regarding the aged analysis of loans and receivables that are 'past due but not impaired' is not being provided. Current ageing analysis is based on the original contractual terms of loans acquired from Participating Institutions, and is not reflective of loan performance compared to loan acquisition value.

All of the Agency's receivables are due from related entities and are current. None are past due or impaired.

(c) Loans and receivables individually assessed for impairment

Loans and associated derivatives which were determined to be impaired as a result of the individual impairment review had a carrying value of €6.1bn (see table below).

The Group has availed of the exemption under IFRS 7 not to disclose the fair value of collateral held as security against the loans, as it would be impractical to do so.

Loans and receivables individually assessed for impairment	2010 €'000
Gross amount	13,336,010
Individually impaired loans	(6,109,779)
Loans and receivables not individually impaired	**7,226,231**

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

(d) Loans and advances renegotiated

Loans and receivables acquired during the period are stated at acquisition cost less impairment. Certain loans are in the course of being renegotiated and restructured through the debtor engagement process.

Restructuring activities may include extended payment arrangements, modification and/or deferral of payments. Restructuring polices are set out in the NAMA Pricing and Restructuring Policy included in the Credit and Risk Policy Framework. Each loan is restructured based on the most appropriate strategy to achieve repayment of all outstanding debt obligations, taking into account structures, guarantees, tax issues and sales strategies. The details of each proposed restructuring plan including any deviations from policy are reviewed and approved by the Credit Committee and, where relevant, the Board.

No loans had been restructured or renegotiated at the reporting date.

None of the Agency assets exposed to credit risk were renegotiated in the period.

18.6 Geographical sectors

The following table analyses the Group's main credit exposures at their carrying amounts, based on the country of domicile of the counterparty.

Geographical sector As at 31 December 2010	Ireland €'000	UK including Northern Ireland €'000	Rest of World €'000	Loan impairment €'000	Total €'000
Group					
Loans and receivables					
– Land and development	8,241,900	3,237,889	588,707	-	12,068,496
– Investment property	9,713,667	6,181,425	1,471,768	-	17,366,860
– Loan impairment	-	-	-	(1,484,523)	(1,484,523)
	17,955,567	9,419,314	2,060,475	(1,484,523)	27,950,833
Cash and cash equivalents	810,835	11,786	14,118	-	836,739
Derivative financial instruments	145,741	344,179	9,235	-	499,155
Amounts due from Participating Institutions	349,923	-	-	-	349,923
Other assets	17,960	-	-	-	17,960
Total assets	**19,280,026**	**9,775,279**	**2,083,828**	**(1,484,523)**	**29,654,610**

The Agency Statement of Financial Position, comprises one inter-group asset 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.

19 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.

19.1 Liquidity risk management process

The Group's liquidity risk management process, as carried out within the Group and monitored by a separate team in NAMA Treasury includes:

- Management of day-to-day funding including the monitoring of future expected cash flows, e.g. future lending commitments, bond coupons, to ensure that requirements can be met as they fall due.
- 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. These projections are provided monthly to the Risk Management Committee and Board. All projections include a 'stressed' forecast to cater for prolonged periods of uncertainty. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected repayment date of the financial assets.

The key liquidity risk for the Group is the funding of the Government Guaranteed Floating Rate Notes (Notes) issued as consideration for 95% of the value of acquired assets. The Notes in issue permit the issuer to settle all, or some only, of the Notes at maturity by issuing a new Note on the same terms as the existing Note (other than as to maturity which may be up to 364 days from the date of issue, notwithstanding that the existing Note may have had a shorter maturity). The Notes also provide for an extendible maturity of up to 364 days, at the option of the issuer, the extension of which could be exercised in respect of all, or some only, of the Notes.

All of the Notes which matured on 1 March 2011 were settled by issuing new Notes with a maturity of 1 March 2012, which could be extended for up to 364 days at the option of the issuer. However the right to extend the maturity will be removed, following a recent direction from the Minister for Finance (see note 23).

19.2 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	0–6 months €'000	6–12 months €'000	2010 Total €'000
Liabilities			
Amounts due to Participating Institutions	142,793	-	142,793
Senior debt securities in issue	28,650,000	-	28,650,000
Interest bearing loans and borrowings	49,380	-	49,380
Other liabilities	-	183,156	183,156
Total liabilities	**28,842,173**	**183,156**	**29,025,329**
Assets held for managing liquidity risk	**836,739**	**-**	**836,739**

Non-derivative cash flows Agency	0-6 months €'000	2010 Total €'000
Liabilities		
Interest bearing loans and borrowings	49,380	49,380
Other liabilities	3,974	3,974
Total liabilities	**53,354**	**53,354**
Assets held for managing liquidity risk	**-**	**-**

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, Central Bank deposits and term deposits.

19.3 Derivative cash flows

(a) Derivatives settled on a net basis

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

Interest rate derivatives: interest rate swaps, forward rate agreements, OTC interest rate options, other interest rate contracts.

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

Group 31 December 2010	0-6 months €'000	6 -12 months €'000	1-5 years €'000	Over 5 years €'000	2010 Total €'000
Interest rate derivatives – where hedge accounting does not apply	29,811	21,814	94,018	91,430	237,073
Interest rate derivatives – where hedge accounting is applied	55,365	(138,731)	48,314	41,659	6,607
Total	**85,176**	**(116,917)**	**142,332**	**133,089**	**243,680**

(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 derivatives: 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 2010	0-6 months €'000	6 -12 months €'000	1-5 years €'000	Total €'000
Foreign exchange derivatives:				
– Outflow	(2,671,156)	(2,424,428)	(891,091)	(5,986,675)
– Inflow	2,705,382	2,396,325	884,460	5,986,167
Cross-currency interest rate derivatives:				
– Outflow	(24,615)	(30,939)	(4,493,363)	(4,548,917)
– Inflow	23,262	30,096	4,505,845	4,559,203
Total Inflow /(Outflow)	**32,873**	**(28,946)**	**5,851**	**9,778**

19.4 Loan commitments

The dates of the contractual amounts of the Group's financial instruments that commit it to extend credit to customers and other credit facilities, are summarised in the following table. This amount includes commitments already in existence at acquisition of the loans and further commitments given since transfer of loans assets to the Group.

Group 31 December 2010	No later than 1 year €'000	1-5 years €'000	Over 5 years €'000	Total €'000
Commitments to lend	185,840	222,194	9,423	417,457
Guarantees and letters of credit acquired	5,283	-	-	5,283
Total	**191,123**	**222,194**	**9,423**	**422,740**

The Agency had no loan commitments.

20 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 not presented on the Group and Agency's statement of financial position at their fair value.

Group	2010 Carrying value €'000	2010 Fair value €'000
Financial assets		
Cash and cash equivalents	836,739	836,739
Amounts due from Participating Institutions	349,923	349,923
Derivative financial instruments	499,155	499,155
Loans and receivables	27,950,833	27,363,663
Other assets	17,960	17,960
Total assets	**29,654,610**	**29,067,440**
Financial Liabilities		
Amounts due to Participating Institutions	142,793	142,793
Derivative financial instruments	173,717	173,717
Senior debt securities in issue	28,650,000	28,572,645
Other liabilities	183,156	183,156
Interest bearing loans and borrowings	49,380	49,380
Total liabilities	**29,199,046**	**29,121,691**

Agency	2010 Carrying value €'000	2010 Fair value €'000
Financial assets		
Inter-group assets	3,823	3,823
Total assets	**3,823**	**3,823**
Financial Liabilities		
Interest bearing loans and borrowings	49,380	49,380
Other liabilities	3,974	3,974
Total liabilities	**53,354**	**53,354**

Financial assets not subsequently measured at fair value

For financial assets and liabilities which are not subsequently measured at fair value in the statement of financial position, the methods and assumptions used to calculate the fair value of these assets and liabilities are set out below.

(i) Cash and balances with banks

The fair value of floating rate placements and term deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is equal to their carrying value at the period end as deposits are short term and the effect of discounting is minimal.

(ii) Loans and receivables

Loans and receivables are shown net of charges for impairment. The estimated fair value of the loans and receivables is inherently uncertain and the property market both in Ireland and the UK has a relatively low level of observable transactions to determine an appropriate fair value at 31 December 2010. In considering the fair value of the portfolio, risk factors inherent in the portfolio are considered, such as credit risk and interest rate risk. The fair value of loans and receivables has been estimated using the expected future cash flows in the portfolio. Expected future cash flows for individually significant debtors were taken from debtor business plans. Expected future cash flows for the balance were derived from the profile of asset disposals set in the most recent NAMA business plan. These cash flows were then discounted at the market rate of interest considered appropriate by management. This estimation is subject to judgement by management in relation to the discount rate used and the timing and amount of future cash flows.

(iii) Debt securities in issue

The aggregate fair values are calculated based on a valuation model using similar quoted instruments and applying a current yield curve appropriate for the remaining term to maturity.

(b) Fair value hierarchy

IFRS 7 specifies a three level hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. The fair value hierarchy comprises:

- *Level 1* – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on recognised exchanges.
- *Level 2* – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts. The sources of input parameters such as the LIBOR yield curve or counterparty credit risk ratings include Bloomberg or Reuters.
- *Level 3* – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

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

Fair value hierarchy for assets and liabilities measured at fair value

Group **As at 31 December 2010**	**Level 1** **€'000**	**Level 2** **€'000**	**Level 3** **€'000**	**Total** **€'000**
Assets			-	
Derivative financial instruments:	-	336,259	-	336,259
Foreign currency derivatives	-	162,896	-	162,896
Total assets	**-**	**499,155**	**-**	**499,155**
Liabilities				
Derivative financial instruments	-	(69,956)	-	(69,956)
Foreign currency derivatives	-	(103,761)	-	(103,761)
Total liabilities	**-**	**(173,717)**	**-**	**(173,717)**

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

21 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	2010 €'000
Deferred income tax liabilities	
Taxable temporary difference arising on cash flow hedge reserve	(19,389)
Deferred tax assets	
Losses carried forward	19,389
Net deferred tax assets	**-**

The Agency has no deferred tax assets or liabilities.

Deferred income tax assets are recognised in respect of tax losses carried forward only to the extent that realisation of the related tax benefit is probable. A deferred income tax asset of €295 million in respect of the tax losses has not been recognised in these financial statements due to uncertainty in relation to the future profitability of the Group.

22 Other assets

Group	2010 €'000
Accrued swap interest receivable	16,500
Accrued bank interest	722
VAT receivable	401
Other	337
	17,960
Current	17,960
Non-Current	-

Accrued swap interest relates to the interest accrued on derivatives acquired by the Group from Participating Institutions that were linked to loans acquired from Participating Institutions.

Agency	2010 €'000
Costs re-imbursable from National Asset Management Limited	3,823
	3,823
Current	3,823
Non-Current	-

23 Senior debt securities in issue – Group

	Total €'000
In issue at the start of the period	-
Issued in the period	28,650,000
In issue at the end of the period	**28,650,000**
Current	28,650,000
Non-current	-

The above debt securities are all Government Guaranteed Floating Rate Notes (Notes), which were issued and transferred to National Asset Management Group Services Limited (NAMGS Ltd) under a profit participating loan arrangement and by it to National Asset Loan Management Limited (NALM Ltd). The latter company used these securities as consideration (95%) for the loan portfolio acquired from each of the Participating Institutions.

Interest accrues from the issue date of the Notes and is paid semi annually on 1 March and 1 September. The interest rate is 6 month Euribor reset on 1 March and 1 September in each year. To date only euro denominated notes have been issued.

Notes are issued on each asset acquisition date and all Notes issued prior to 1 March 2011 matured on 1 March 2011. The Notes issued in 2010 permitted the issuer to settle all, or some only, of the Notes at maturity by issuing a new Note on the same terms as the existing Note (other than as to maturity which may be up to 364 days from the date of issue notwithstanding that the existing Note may have had a shorter maturity).

The Notes also provided for an extendible maturity of up to 364 days, at the option of the issuer, which could be exercised in respect of all, or some only, of the Notes.

All the Notes that matured on 1 March 2011 were settled by issuing new Notes with a maturity of 1 March 2012, which could be extended for up to 364 days at the option of the issuer.

Subsequent to the period-end, the Minister for Finance issued a direction to NAMA under Section 14 of the National Asset Management Agency Act, 2009 that the terms and conditions of the Notes issued on 1 March 2011, and of any Notes issued thereafter, should be amended to remove the issuer's option to settle maturing Notes by the issue of new Notes on similar terms unless prior consent is received from the note holder, and to remove the issuer's option to extend the maturity of the Notes.

24 Other liabilities

Group	**2010 €'000**
Accrued interest on debt securities in issue	68,706
Accrued swap interest payable	57,115
Provision for due diligence costs	30,336
Accrued expenses	25,808
Professional services withholding tax	664
Other liabilities	527
Total other liabilities	**183,156**

Agency	**2010 €'000**
Amounts due to the NTMA	3,823
Other liabilities	151
Total other liabilities	**3,974**

25 Contingent liabilities

The table below gives the contract amounts of contingent liabilities. The maximum exposure to credit loss under contingent liabilities is the contractual amount of the instrument in the event of non-performance by the other party where all counter claims, collateral or security prove worthless.

Group	2010 Contractual amount €'000
Contingent Liabilities	
Guarantees and letters of credit	**5,283**

As part of the acquisition of loan assets, certain guarantees and letters of credit, previously provided by Participating Institutions, were acquired by the Group. The guarantees were acquired because they were connected to loan assets to be acquired by the Group. It is the general policy of the Group not to acquire guarantees.

26 Interest bearing loans and borrowings - Group and Agency

	2010 €'000
Advances to NAMA from the Central Fund	49,000
Interest payable on advances from the Central Fund	380
	49,380

27 Other equity

Group	2010 €'000
In issue at the beginning of the period	-
Issued in the period	1,507,000
In issue at the end of the period	**1,507,000**

The above are Callable Perpetual Subordinated Fixed Rate Bonds that were issued and transferred to National Asset Management Group Services Limited (NAMGS Ltd) under a profit participating loan arrangement and by it to National Asset Loan Management Limited (NALM Ltd). The latter company used these securities as consideration (5%) for the loan portfolio acquired from each of the Participating Institutions.

The interest rate on the instruments is the 10 year Irish Government 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, however the coupon is declared at the option of the issuer. Coupons not declared in any year will not accumulate. No coupon was declared at the reporting date.

Although the bonds are perpetual in nature, the issuer may "call" (i.e. redeem) the bonds on the first call date (which is 10 years from the date of issuance), and every Interest Payment date thereafter (regardless of whether interest is to be paid or not).

Under IAS 32, 'Financial Instruments: Presentation', it is the substance of the contractual arrangement of a financial instrument, rather than its legal form, that governs its classification. As the subordinated notes contain no contractual obligation to make any payments (either interest or principal) should the Group not wish to make any payments, in accordance with IAS 32 the subordinated debt has been classified as equity in the statement of financial position, with any coupon payments classified as dividend payments.

28 Other Reserves

Other reserves are analysed as follows:

Group	2010 €'000
Cash flow hedge reserve	
At the beginning of the period	-
Net changes in fair value	77,554
Transferred to income statement	-
At 31 December 2010	**77,554**

29 Non-Controlling Interests in subsidiaries

Non-controlling interests in subsidiaries comprises ordinary share capital in subsidiaries not attributable directly or indirectly to the parent entity. In respect of the Group this represents the investment by private investors in the ordinary share capital of NAMAIL.

NAMA has, along with the private investors, invested in NAMAIL. NAMA holds 49% of the issued share capital of NAMAIL and the remaining 51% of the share capital is held by private investors.

Under the terms of the shareholders' agreement between NAMA and the private investors, NAMA can exercise a veto over decisions taken by NAMAIL.

Under the shareholder's agreement, the maximum return which will be paid to the private investors by way of dividend is restricted to the 10 year Irish Government Bond Yield applying at the date of the declaration of the dividend. In addition the maximum investment return to the private investors is capped under the Articles of Association of NAMAIL.

NAMA's ability to veto decisions taken by NAMAIL restricts the ability of the private investors to control the financial and operating policies of the Group, and as a result NAMA has effective control over NAMAIL and the subsidiaries in the Group, as well as substantially all the economic benefits and risks of the Group. While the private investors are subject to the risk that NAMAIL may incur losses and the full value of their investment may not be recovered, they are not required to contribute any further capital to NAMAIL.

By virtue of the control NAMA can exercise over NAMAIL, NAMA has consolidated NAMAIL and its subsidiaries, and for the purposes of recognising the non-controlling interests in the subsidiaries, the loss in the period has been attributed to the non-controlling interest only up to its equity interest of €51 million.

30 Shares and Investments in Group undertakings

30.1 Subsidiaries

The NAMA Group structure is described in Note 1. The subsidiary undertakings and percentage ownership of NAMA in those subsidiaries are as follows:

Subsidiary	Holding	Principal Activity	Country of incorporation
National Asset Management Agency Investment Limited	49%	Holding Company	Ireland
National Asset Management Limited	49%	Debt Issuance	Ireland
National Asset Management Group Services Ltd.	49%	Holding Company	Ireland
National Asset Loan Management Limited	49%	Securitisation and asset management	Ireland
National Asset Property Management Ltd	49%	Real Estate	Ireland
National Asset Management Services Ltd.	49%	Group services management	Ireland

All subsidiaries have their registered offices in Treasury Building, Grand Canal Street, Dublin 2.

30.2 Investment in subsidiaries - Agency

Agency	€'000
49,000,000 shares in National Asset Management Agency Investment Limited	**49,000**

During the period the Agency made an investment of €49m in National Asset Management Agency Investment Limited.

31 Related party disclosures

31.1 Related parties

The related parties of the Group comprise the following:

Subsidiaries

Details of the interests held in the Agency's subsidiaries are given in Note 30 and Note 1 to the financial statements.

NTMA

The NTMA provides staff, finance, technology, risk and human resources support services to NAMA. The costs incurred by the NTMA are charged to NAMA, (the Agency) and the Agency is reimbursed by the Group. Details of the costs charged to the Group are given in Note 8.

NTMA Defined Benefit Pension Scheme

All staff are employed by the NTMA and NTMA contributes to the NTMA Defined Benefit Pension Scheme on behalf of these employees. The pension scheme is controlled and managed by independent trustees as appointed by the NTMA. As part of the consideration for the provision of staff, the Group has made a payment of €0.8m, representing the refund of the NTMA's contribution to the pension scheme in respect of these NAMA Officers.

Minister for Finance

Sections 13 and 14 of the NAMA Act 2009 grants certain powers to the Minister for Finance 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 for Finance has the ability to exercise significant influence over NAMA.

Participating Institutions

During 2010, a number of legislative measures were enacted that gave the Minister for Finance rights and powers over certain financial institutions in respect of various matters of ownership, board composition, acquisition or sale of subsidiaries, business activity, restructuring and banking activity.

The Participating Institutions have also agreed to consult with the Minister prior to taking any material action which may have a public interest dimension.

The Group issued senior and subordinated notes 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 16 Loans and Receivables, Note 14, Amounts due to and from Participating Institutions and the related Income Statement notes. During the period the Group placed deposits with EBS Building Society of €89m, these deposits had matured by the reporting date. The Group has an operating account with Allied Irish Banks p.l.c. that had a balance of €0.387m at the reporting date.

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

Participating Institutions	2010 €'000
Allied Irish Banks p.l.c.	2,691
Bank of Ireland	1,932
Anglo Irish Bank Corporation Limited	7,115
EBS Building Society	101
Irish Nationwide Building Society	947

Key management personnel

Fees paid to Board members are disclosed in Note 8. The Group has no employees.

31 Related party disclosures (Continued)

31.2 Transactions with related parties

All transactions with related parties are carried out on an arm's length basis. The following are the transactions that took place during the period with related parties:

Investments in Group entities

The Agency invested €49m in NAMAIL, receiving 49m A ordinary shares. The remaining €51m was invested in NAMAIL by private investors, each receiving an equal share of 51m B ordinary shares.

Advances from the Central Fund

In accordance with section 46(2) of the Act the Minister for Finance may advance from the Central Fund to NAMA or a NAMA Group entity such sums of money as are necessary for the performance of its functions.

During the period the Minister made the following advances to the Agency from the Central Fund:

1. On 26 March 2010 the Agency borrowed €49m, which was used to fund its €49m investment in NAMAIL. This loan was outstanding at the reporting date but was repaid subsequent to the period-end on 25 February 2011.
2. On 25 May 2010 the Agency borrowed €250m from the Central Fund to fund set up costs and provide working capital for the NAMA Group.

The Agency advanced €249.5m of these funds to NAMAIL and NAMAIL then lent these funds to NALM to fund its operations. The loans and all accrued interest were repaid in full on 27 October 2010.

Intergroup loans

On 1 April 2010 NAMAIL provided a loan of €99.9m to NAML. This loan is outstanding at the reporting date. The accrued interest on this loan at the reporting date is €3.0m.

Profit participating loan agreements

NALM has entered into a profit participating loan agreement (PPL) with NAMGS, and in turn NAMGS has entered into a further PPL with NALM on similar terms.

The balances outstanding in respect of all PPL agreements between these entities was €30.1bn at the reporting date.

NTMA recharge

The NTMA incurs costs for the running of the Group, which it recharges to the Agency. The total of these costs for the period was €15m. Further details in respect of these costs are disclosed in note 8.1.

32 Supplementary Information 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.

32.1 Administration fees and expenses incurred by NAMA and each NAMA Group entity

The administration fees incurred by the Agency are set out in note 8.

The only other NAMA Group entity that incurred fees and expenses in the period was National Asset Loan Management Limited. Its expenses are shown in the table below, including a re-charge of €15m in respect of NTMA costs incurred by the Agency. These costs are also included in the consolidated accounts.

National Asset Loan Management Limited **Expense type**	**2010** **€'000**
Costs reimbursable to NAMA	14,965
Master and primary servicer fees	14,813
Financial adviser and consultancy fees	5,014
Portfolio management fees	5,087
Internal audit fees	703
Legal fees	3,311
Tax fees	463
External auditors remuneration	530
Other administrative expenses	715
Total administration expenses	**45,601**
Due diligence costs incurred on loan acquisitions	29,605
Total expenses	**75,206**

Due diligence costs incurred by National Asset Loan Management Limited are considered to be transaction costs and are included in the acquisition cost of the loans and receivables. Additional details in respect of due diligence costs are in note 8.8.

32.2 Debt securities issued for the purposes of the Act

	2010 **€'000**
Senior notes issued by NAML	28,650,000
Subordinated debt issued by NAML	1,507,000
Total	**30,157,000**

32.3 Debt securities issued and redeemed in the period to the Participating Institutions

Participating Institution	**Issued** **€'000**	**Redeemed** **€'000**	**Outstanding** **€'000**
AIB	8,459,000	-	8,459,000
BOI	5,404,000	-	5,404,000
Anglo	12,920,000	-	12,920,000
INBS	3,043,000	-	3,043,000
EBS	331,000	-	331,000
Total	**30,157,000**	**-**	**30,157,000**

32.4 Advances to NAMA from the Central Fund in the period

Details of advances made to NAMA by the Minister for Finance in accordance with section 46(2) of the Act are provided in note 31.2.

32 Supplementary Information in accordance with Section 54 of the Act (continued)

32.5 Advances made by NAMA to debtors via Participating Institutions in the period

Participating Institution	2010 Amount advanced €'000
AIB	105,865
Anglo	101,198
BOI	29,796
INBS	3,402
EBS	59
Total	**240,320**

32.6 Asset portfolios held by NAMA and each NAMA Group entity

The assets held by NAMA and each NAMA Group entity are set out below. The assets include intergroup assets and liabilities and intergroup profit participating loans between NAMA Group entities.

National Asset Management Agency (NAMA)	2010 €'000
Investment in National Asset Management Agency Investment Limited	49,000
Cash	95
Other receivables	3,823
Total	**52,918**

National Asset Management Agency Investment Limited	2010 €'000
Loan to National Asset Management Limited	99,900
Intercompany loans and receivables - accrued interest	3,002
Total	**102,902**

National Asset Loan Management Limited	2010 €'000
Cash	836,644
Receivable from participating institutions	349,923
Financial assets at fair value through profit or loss	499,155
Loans and receivables	27,950,833
Intergroup assets	283,022
Accrued interest receivable	17,218
Other assets	401
Total	**29,937,196**

National Asset Management Services Limited	2010 €'000
Intergroup assets	383,022
Total	**383,022**

National Asset Management Group Services Limited	2010 €'000
Profit participating loan with National Asset Loan Management Limited	30,157,000
Total	**30,157,000**

National Asset Management Limited	2010 €'000
Profit participating loan with National Asset Management Group Services Limited	30,157,000
Intergroup assets	99,900
Total	**30,256,900**

32.7 Government support measures, including guarantees, received by NAMA and each NAMA Group entity

Entity	Description	2010 Amount Issued €'000
National Asset Management Limited	On the 26th of March 2010, the Minister of 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 €51,300,000,000	
		28,650,000
Total		28,650,000

33 Events after the reporting date

Ministerial Direction

As set out in Note 23, most of the Agency's funding is in the form of short term Government Guaranteed Floating Rate Notes (Notes). The Notes issued in 2010 permitted the issuer to settle all, or some only, of the Notes at maturity by issuing a new Note on the same terms as the existing Note (other than as to maturity which may be up to 364 days from the date of issue notwithstanding that the existing Note may have had a shorter maturity).

The Notes also provided for an extendible maturity of up to 364 days, at the option of the issuer, which could be exercised in respect of all, or some only, of the Notes.

All the Notes that matured on 1 March 2011 were settled by issuing new Notes with a maturity of 1 March 2012, which could be extended for up to 364 days at the option of the issuer.

Subsequent to period-end, the Minister for Finance issued a direction to NAMA under Section 14 of the National Asset Management Agency Act, 2009 that the terms and conditions of the Notes issued on 1 March 2011, and of any Notes issued thereafter, should be amended to remove the issuer's option to settle maturing Notes by the issue of new Notes on similar terms unless prior consent is received from the note holder, and to remove the issuer's option to extend the maturity of the Notes.

The Notes are held by financial institutions and can be used by them as collateral to access monetary authority liquidity support schemes. However, the current noteholders are subject to direction from the Minister for Finance and the Notes are guaranteed by the Government. Given these circumstances, the Board believes that its assumption that, on the maturity of the Notes, NAMA will be able to settle its liability with new Notes, issued on similar terms, is a reasonable one.

Dividend

On 31 March 2011 the Board of NAMAIL declared and approved a dividend payment of €0.09987 per share, amounting to €5.093m. This was paid to the owners of B ordinary shares in NAMAIL only.

34 Approval of the financial statements

The Board approved the financial statements on 24th June 2011.

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 have been deemed eligible and have been 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.

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.

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.

Expert Reviewer A suitably qualified person who, in the Minister's opinion, has the expertise necessary to review the eligibility of bank assets when disputed by Participating Institutions.

Floating Rate An interest rate that changes over time. The change is usually tied to the movement of an outside indicator such as the interest rate set by the ECB.

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.

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.

Long-term economic value The value as determined by NAMA in accordance with the NAMA Act that an asset can reasonably be expected to attain in a stable financial system when the crisis conditions prevailing at the time of the passing of the Act are ameliorated.

Mark-to-Market Value The price or value of a security, portfolio or account that reflects its current market value rather than its book value.

OTC Over the Counter, refers to derivatives that are not traded on a recognised exchange.

Participating Institution A Credit Institution that has been designated by the Minister under Section 67 of the Act 2009 as a Participating Institution, including any of its subsidiaries that have not been excluded under that section.

Perpetual Bond A bond with no maturity date.

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 creditor with a return that depends, at least in part, on the profitability of the debtor.

Qualifying Advance An advance made by a Participating Institution to a borrower (whose loans are eligible assets) following the announcement by the Minister for Finance on 7 April 2009 of the Government decision to establish NAMA. Advances qualify only if made as part of normal commercial banking arrangements. No discount is 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.

Special Purpose Vehicle A legal entity created to fulfill a narrow, specific or temporary well-defined objective.

Subordinated Debt Debt which is repayable only after other debts have been repaid. NAMA pays 5% of the purchase price of the loans it acquires in the form of subordinated bonds.

Syndicated Loan A syndicated loan is one that is provided by a group of lenders and is structured, arranged and administered by one or several commercial or investment banks known as arrangers.

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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