National Asset Management Agency

2012

ANNUAL REPORT AND FINANCIAL STATEMENTS

National Asset Management Agency

REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2012

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Key Objectives set by the Board

1. Over the projected, ten-year life of NAMA, redeem, at minimum, the Senior Bonds issued as consideration for loans in addition to recovery of carrying costs and working and development capital expenditure advanced to debtors (this is in line with Section 10 (2) of the Act).

2. Consistent with the first objective, generate transactions which will aim to contribute to a renewal of sustainable activity in the property market in Ireland.

3. Meet its commercial objective (as at 1 above) over the shortest possible time span, having regard to market conditions and to optimising the realised value of its assets. Meet all of its future commitments out of its own resources.

4. Consistent with the first objective, aim to contribute to the social and economic development of the State[1].

5. Manage assets intensively and invest in them so as to optimise their income-producing potential and disposal value.

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1 Section 2 (b) (viii) of the Act.

Gníomhaireacht Náisiúnta um Bhainistíocht Sócmhainní
National Asset Management Agency

30 April 2013

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

Dear Minister,

We have the honour to submit to you the Report and Accounts of the National Asset Management Agency for the year ended 31 December 2012.

Yours sincerely,

Frank Daly
Chairman

Brendan McDonagh
Chief Executive

Board Members

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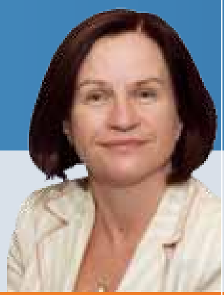

1. Mr. Frank Daly

Chairman *(appointed 22 December 2009 for a 5-year term)*

- Chairman of Northern Ireland Advisory Committee

Frank Daly was appointed as a Public Interest Director of Anglo Irish Bank in December 2008. He resigned from this post on 22nd December 2009 when appointed Chairman of NAMA by the Minister for Finance ('the Minister').

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.

2. 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.

3. Mr. Oliver Ellingham

Board member *(appointed 10 April 2013 for a 5-year term)*

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

4. Ms. Éilish 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

Éilish Finan is a Chartered Director and holds independent non-executive directorships in a number of Boards within the financial services and property sectors. In her earlier career, Ms. Finan was Chief Financial Officer and Director with AIG Global Investments specialising in investment management, fund management, trustee and custodial services and asset management. Prior to this, Ms. Finan worked with KPMG as a chartered accountant. She is a Board member of JP Morgan Bank Ireland. She is a Fellow of Chartered Accountants Ireland and an Electronic Engineer.

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5. Mr. Brendan McDonagh

Chief Executive Officer

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

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

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

6. Mr. Brian McEnery

Board member *(appointed 22 December 2009 for a 4-year term)*

- Chairperson of the Audit Committee
- Member of the Credit Committee
- Member of the Northern Ireland Advisory Committee

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

7. Mr. John Mulcahy

Head of Asset Management, NAMA

(Appointed 7 March 2012 for a 5-year term)

- Board member
- Member of the Credit Committee
- Member of the Risk Management Committee
- Member of the Planning Advisory Committee

John Mulcahy is a chartered surveyor and has worked in all aspects of the property industry for over 40 years, most recently concentrating on property investment and asset management.

8. Mr. 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

Steven A. Seelig is a Principal and CEO of Financial Stability Associates, a consulting firm specialising in the spectrum of financial stability issues. Prior to establishing Financial Stability Associates, Mr. 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.

Mr. Seelig spent the bulk of his professional career at the Federal Deposit Insurance Corporation ('FDIC'), holding a broad range of positions, including CFO and Director of Divisional Liquidation. 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.

9. Mr. Willie Soffe

Board member *(appointed 22 December 2009 for a 4-year term)*

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

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

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

From inception to end-2012, NAMA had approved €1.7 billion in new advances, including over €700m for projects in Ireland

€10.6 billion

in debtor receipts was generated up to end-2012, including €4.5 billion in 2012

CHAIRMAN'S STATEMENT

For NAMA, one of the main purposes of this Annual Report is to explain what we are trying to achieve and how we are progressing. Given our scale, we cannot be oblivious to our impact on the Irish property market and on the economy in general. It is important that we be as clear and as open as is possible so that taxpayers can assess the task facing us and judge how well or otherwise we are managing it. Our first two Annual Reports in 2010 and 2011 were heavily focused on the valuation and transfer of over €74 billion in loans to about 800 debtor connections (comprising over 5,000 debtors) and on our initial engagement with those debtors. The current 2012 Annual Report shows how our focus has adjusted as we have evolved to a more mature developmental phase of our work, guided by the overarching objective of extracting as much value as possible from our acquired loans and adding real value for the taxpayer.

The Chief Executive, in his statement, sets out progress on a number of fronts, including the continuing profitability of NAMA and the significant achievement of the €10.6 billion in debtor receipts generated up to the end of 2012. This strong cash performance leaves us well placed to meet our first major debt repayment milestone, the redemption of €7.5 billion in Senior Bonds by the end of 2013. It also leaves us confident that we will repay all of our Senior Bonds by 2020. This is important from the perspective of international investors who see NAMA as part of the broadly positive Irish story that has emerged over recent years, one of resilience and, increasingly, of reinvigoration.

COMMERCIAL ACTIVITY

There are certainly more reasons to be positive now than might have been the case a year ago. For the Irish commercial market, recent activity suggests that a cautious optimism is warranted. With property prices down by more than 60% from their peak, prices have fallen to a level which makes the case for investment compelling. And, indeed, investors have taken note. Investment in the Irish commercial market in 2012 is estimated to have been of the order of €550m which, though hardly spectacular, is well up on the €200m of estimated investment activity in 2011. That momentum has been maintained into 2013 with commercial investment in the first quarter estimated to have been €336m. This has been driven by foreign investors attracted by the high yields available in the Irish market at a time when yields on many other asset classes, including bonds and cash, have fallen to very low levels. We have seen this investor interest at first hand: a loan portfolio secured by Irish assets that we recently brought to the market attracted interest from over 70 international property funds.

More generally, our approach to property assets in Ireland held by our debtors and receivers has been to encourage a phased and orderly realisation. It would have made no sense to have saturated the market over recent years with additional unwanted supply, particularly when credit was not available to many of those who were interested in buying and who would have been considered creditworthy in a properly functioning market. That said, our contribution to market activity has still been substantial: up to end-2012, our debtors and receivers had sold over 1,400 individual properties in Ireland and they currently have €1.5 billion worth of residential and commercial property on the market.

Part of our role also is to facilitate transactions that might not otherwise take place. I have referred to this previously as 'commercial matchmaking'. A good example of this is the €100m investment by the Kerry Group at Millennium Park in Naas, Co. Kildare which is expected to secure over 1,000 food technology jobs for Ireland.

FUNDING COMMERCIALLY VIABLE PROJECTS

An important element of our strategy is to fund the development and completion of commercially viable projects to increase their long-term recoverable value. From inception to end-2012, we had approved €1.7 billion in new advances, including over €700m for projects in Ireland. Examples include €20m to support the expansion of the Scotch Hall retail and leisure complex in Drogheda, €13m for the second phase of the Charlestown Shopping Centre in North Dublin and €24m for the completion of two residential apartment blocks in south Dublin.

Reflecting our asset management focus, we announced in May 2012 our intention to invest at least €2 billion in development capital in Ireland over the period to end-2016. Our primary objective for such investment is to generate a better return for the taxpayer when these projects are completed and the buildings involved can be sold or leased. There has to be a strong commercial rationale. The view has been put forward that we should use our cash resources, not to repay debt, but to fund construction activity without devoting too much attention to project evaluation. We do not accept this. Our view is that we should not spend what is essentially taxpayers' money on projects unless they can be shown to be commercially viable. At this stage, I would have thought that there are already enough monuments to ill-advised investment scattered throughout Ireland without NAMA adding to the collection.

So our approach to lending is prudent and is always backed up by good analysis. We are working with agencies such as the IDA and with local authorities to identify the type and location of new development for which there is likely to be demand. Our plans include delivery of quality, large-scale commercial office space needed to meet current and prospective demand from companies in the international technology, life sciences, banking, financial and other service sectors. We need to address this demand now if we are to avoid a shortage of prime office space in Dublin and other major cities over the medium-term. For this reason, we are already heavily involved at the planning stage in a number of sizeable projects: that involves securing viable planning permission, determining the most appropriate funding and delivery models and engaging with prospective purchasers and tenants.

As an example, we hold security over a considerable number of properties and lands on both sides of the Liffey and are currently assessing the commercial feasibility of a number of projects, including those in the undeveloped part of North Wall Quay on the north Docklands. The commercial feasibility of these projects is inextricably linked to the resolution of planning and infrastructural issues, issues which are largely beyond our control and which could affect the timing of our investment. In this regard, the recent designation of part of the Docklands as a Strategic Development Zone ('SDZ') by the Minister for the Environment, Community and Local Government is very welcome. While the SDZ is important, it is only one element and the provision of key infrastructural facilities such as water and effluent is essential so that this area can be developed to its full potential.

We are also involved at the planning stage in a number of residential developments, particularly in the Dublin area where potential supply shortages may emerge over the medium-term unless appropriate action is taken now. Nationally, there is a serious housing mismatch between areas with excess supply and areas where demand is most acute. Notwithstanding an overall pattern of excess supply, it makes commercial sense for us to fund the development of housing in areas where people themselves are choosing to live and work, such as parts of Dublin and other urban areas.

WIDER CONTRIBUTION

Economic and financial results are very important, not least in these difficult times, but our remit is somewhat broader than that. We are particularly keen to contribute in the delivery of social housing. This we view as an area where there are benefits for all parties, from those who are provided with housing, to the local authorities whose waiting lists are reduced, and to NAMA and the taxpayer. While the pace at which social housing is delivered is not controlled by NAMA, we have worked hard to remove any obstacles which have emerged in a process which is complex and which involves quite a few stakeholders. For our part, we have made every effort to streamline the delivery process, not least through setting up a special purpose vehicle to take ownership of properties for which demand has been confirmed.

Another area in which we have been able to make a positive contribution has been in agreeing rent abatements to support struggling businesses and help to safeguard jobs and economic activity in general. To end-April, we had granted 222 applications for rent abatement with an aggregate annual value of €14m, an approval rate of 96%. Only ten of the eligible applications received to that date have been refused.

IBRC

In February 2013, the Government decided to appoint Special Liquidators to IBRC with a mandate to value and offer for sale the loans in the IBRC portfolio. We were directed by the Minister to acquire any loans left unsold after the Special Liquidators have completed their valuation and sales process. We were also directed to put a credit facility of €1 billion in place to the Special Liquidators to meet their ongoing funding requirements and we have done so. As part of the IBRC transaction, we issued Senior Bonds to a value of just under €13 billion to the Central Bank to acquire its floating charge over IBRC assets.

NAMA will not have much visibility on the portfolio to be acquired until the valuation and sales process has been completed. We know that a substantial proportion of the IBRC portfolio comprises commercial property loans and, to the extent that we acquire those loans, I expect that they will be complementary to our existing expertise and to the skillsets of our staff. Beyond that, however, it makes little sense to speculate on how we might manage the acquired portfolio until we have had an opportunity to assess it in some detail after its acquisition, which will probably be later in the year.

As with the current NAMA portfolio acquired under the NAMA Act, a major objective will be to manage the new portfolio in a cost-effective and efficient manner on behalf of the taxpayer. The acquisition price will have been determined by the Special Liquidators. After acquisition, NAMA will, under IFRS accounting rules, conduct an independent impairment review of the loans including an up-to-date assessment of loan cashflows and asset disposal values. I would expect that only then will we be in a position to prepare a comprehensive strategy for managing the new portfolio and indeed only then will we be able to come to an informed view of the value that we might be able to generate from it.

In the meantime, we are getting ready. We have established a special purpose vehicle (National Asset Resolution Ltd.) to acquire and manage the residual IBRC loans that the Special Liquidators do not sell to third parties. We have appointed Capita Asset Services as our primary and special loan servicer on the NAMA loans previously managed on our behalf by IBRC. Capita will be the primary servicer on loans with nominal balances of €41 billion and, for €5.1 billion of this, will provide special servicing in the management of over 300 debtors under a framework of delegated authority from us.

We also published in March a Request for Proposals ('RFP') seeking two service providers to take over primary and special loan servicing on two distinct IBRC loan portfolios that we may acquire later in the year. The new portfolios are, respectively, commercial property loans (including residential investment and development loans and business banking loans) and personal loans (principally residential mortgage loans). We envisage that we will operate in close conjunction with the service providers for these portfolios, including providing them with credit, legal, treasury, finance and accounting services.

So while one of the few certainties right now about the IBRC portfolio is that it will add greatly to our balance sheet and responsibilities, we are well advanced in terms of preparing to take it on.

CONCLUSION

The backdrop to this year's Annual Report is more positive than at any other time over the past three years. The Irish property market is showing encouraging signs of recovery, the Exchequer finances are improving, Ireland is back in the sovereign debt markets and is beginning to attract the level of domestic and inward investment that is needed to create jobs and to build a sustained economic recovery. As we look back on what has been a very successful year for NAMA, it is appropriate that I acknowledge the very hard work of the Board, the staff, the Executive team and the CEO in NAMA in bringing this about. The results speak volumes for the dedication and commitment of all.

We will continue to make our contribution to economic recovery and we will manage our new mandate from Government on IBRC with the same vigour and commitment that has yielded the very positive results on our original portfolio that we have been able to outline in this Report.

NAMA redeemed €3.5 billion in Senior Bonds in 2012, bringing its cumulative redemption to end-2012 to €4.75 billion

Profit in 2012, after impairment, tax and dividends, was

€228m

CHIEF EXECUTIVE'S STATEMENT

In 2012, NAMA entered a new phase. It was the year which marked our evolution from an organisation necessarily focused on setting up its business to one which was addressing that business intensively and comprehensively with the objective of getting the best possible return from it. Having acquired some €74 billion in loans over the course of 2010 and 2011 and having issued debt of close to €32 billion to acquire the loans, it was now necessary for us in 2012 to make progress in terms of repaying that debt. Just over €30 billion of our original debt was in the form of Senior Bonds guaranteed by the Minister and one of the key tasks facing us over time is to remove this contingent liability of the Irish taxpayer. We are confident that we will do so and our confidence is buoyed by the significant progress that we made in 2012 in terms of cashflow generation and debt repayment.

As we see it, the key measure of our capacity to repay our debt is the progress we make in terms of generating cash from our loans. In 2012, NAMA generated €4.5 billion in cash, including €2.8 billion from the proceeds of asset and loan sales by our debtors and receivers. The total cash generated in the three years since our establishment is €10.6 billion. This has enabled us to remain on course to meet our debt reduction targets: by end-2012, we had redeemed €4.75 billion of NAMA Senior Bonds and we are confident that we will meet our end-2013 target of repaying €7.5 billion.

PROPERTY AND LOAN SALES

64% of our cash receipts to date have been generated by property sales by our debtors and receivers and by our loan sales. Almost 80% of those sales to date relate to Britain, reflecting, in particular, the strength and liquidity of the London market and the quality of our assets there. We continue to have a strong exposure to the British market as it accounts for most of the €10 billion of our remaining property collateral which is located outside of Ireland.

We are also selling loan portfolios where this offers the best return. In 2012, we appointed two loan sales advisory panels to assist us in this process and, in the first quarter of 2013, a portfolio of over €800m in loans secured on Irish property was placed on the market through a broker appointed from these panels.

MAXIMISING INCOME

A particular focus for us in Ireland is on maximising non-disposal receipts generated by the assets securing our loans. This has involved, for instance, a major drive to secure tenants for properties which were previously vacant, including thousands of apartments which were empty when we acquired the associated loans. Our portfolio now includes 10,000 apartments which are currently rented, generating an aggregate annual rent of approximately €100m. We are also working hard to increase occupancy and rental income in the context of commercial buildings within our portfolio, including offices and retail properties. The cumulative result of this drive is that we generate about €100m per month in non-disposal receipts across the portfolio, despite the sale in 2012 and earlier years of strong income-producing assets. These receipts are in addition to receipts from asset sales and loan repayments by debtors and receivers. Over the three years to end-2012, we generated about €300m per month on average in cash from disposal and non-disposal receipts.

PROFITABILITY

For the second year in succession, notwithstanding the fact that the Irish property market which secures over half of our loans, suffered further price declines in 2012, I am pleased to be in a position to report a profit. Our operating profit before impairment in 2012 was €826m and, after taking an impairment charge of €518m, we produced a profit before tax of €308m. A tax charge and dividend payments reduced this to a net profit of €228m. Our administration costs fell by 7% to €119m in 2012, mainly reflecting the fact that we are no longer incurring some of the business start-up and due diligence costs which we had to incur in 2011.

Our cumulative impairment charge to date has been €3.3 billion. This largely reflects the fact that our loans were initially valued by reference to property values as at November 2009 and our impairment reviews since then have had to factor in lower expectations for the proceeds from disposal of the Irish assets securing our loans. Thankfully, as the Chairman discusses in his Statement, there was increasing evidence in 2012 to suggest that the Irish market is in the process of stabilising. Notwithstanding our continued prudent approach to impairment, I would expect that in 2013 we will sustain the profitability evident in 2011 and 2012.

WORKING WITH OUR DEBTORS

Achieving the cashflow figures outlined above would have been much more difficult if it were not for the fact that we were able to work constructively with many of our debtors. We are not in the business of gratuitously taking debtors out of business. Our starting point always is to ask whether we can work with them. In assessing that, our key considerations are their commercial viability and competence; in other words, to what extent are they willing and capable of meeting realistic asset management, disposal and debt management milestones? There also has to be a strong element of trust and goodwill: sworn statements of debtor assets and liabilities must be accurate and complete and appropriate cash controls must be in place to ensure that asset income is appropriately funnelled towards debt repayment.

We have reached an accommodation with the majority of our debtors on the basis of undertakings given by them, and, more importantly, of tangible actions taken by them, to work with us to maximise the amounts that can be recovered for the benefit of taxpayers. This includes maximising the security supporting our loans. We now expect to obtain fresh security worth about €750m through a combination of charges on previously unencumbered assets and the reversal of earlier asset transfers by debtors.

At a time when many ordinary borrowers are stretched to the limit in meeting debt repayments, it is only reasonable that the very large debtors who fall within our ambit should be required to apply every asset and every source of income within their control towards repaying their debt. Some of them struggle with this concept and appear to believe themselves worthy of an exalted standard of living which should be financed by others. This cosseted mentality is out of touch with the harsh reality faced by the majority of Irish taxpayers and citizens. Faced with this attitude, we have no alternative but to initiate enforcement after we have exhausted all other feasible options. To date, we have initiated asset recovery proceedings in Ireland, the UK, the US and Canada. We have also referred cases to the Garda Bureau of Fraud Investigation arising from suspected failure by debtors to fully disclose their assets and liabilities.

In addition, we were involved in some high-profile litigation in 2012, including the successful defence of a challenge by Treasury Holdings to the Agency's decision to appoint receivers to certain of its assets and the challenge in the English High Court to the Agency's decision to sell loans associated with the Maybourne Hotel Group, in which the Court ruled in our favour. In all such cases, NAMA's sole concern is to protect and enhance the position of the Irish taxpayer.

PROPERTY MARKET INITIATIVES

The Chairman has referred to the resurgence of international investor interest in Ireland and to the fact that we have an open door to any investors with an interest in acquiring an exposure to the recovery of the Irish property market. This is on the basis that they are willing to deal at realistic, rather than 'fire sale', transaction prices.

We have introduced a number of initiatives which are designed to augment the recovery of the Irish property market and, in particular, to address liquidity constraints. Under our vendor finance initiative which was announced in 2012, we plan to lend up to €2 billion, mainly in Ireland, to purchasers of commercial properties securing our loans. This represents a significant potential injection of liquidity into the Irish market.

In 2012 also, we launched a mortgage initiative designed to facilitate those who wish to buy a home but are concerned about possible future falls in house prices. The 80/20 Deferred Payment Initiative ('DPI') has been well received by prospective buyers. By the end of 2012, sales had been agreed in respect of over 100 of the 295 houses available. The aggregate value of these sales was in excess of €18m by end-2012 and had reached €28m by March 2013. Based on this positive experience, it is our intention to extend the initiative on a phased basis during 2013.

We also welcome the Government's decision to enact legislation to provide for the establishment of real estate investment trusts ('REITS') in Ireland. As an internationally recognised vehicle for investing in real estate, REITs have the potential to increase liquidity in the Irish market, particularly by attracting sources of foreign investment that might not be interested in direct investment in Irish property. Over the longer-run, REITs can also help to professionalise the domestic property sector which traditionally has been too fragmented.

It may take some time for the Irish market to adapt to REITs and to understand how best to optimise their potential but their introduction is a very positive step forward.

The absence of independent, reliable and trusted data on the property market, particularly on likely future trends, is a barrier to efficiency and sustainability in the sector. For this reason, we have agreed to take a lead role in sponsoring new research by the Economic and Social Research Institute ('ESRI'), which will provide the market with unbiased information on the key factors likely to influence the location and cost of housing over a medium-term horizon. These studies will be valuable also to policy makers in areas such as planning and housing who need to be able to prepare well-informed projections as part of their decision-making processes.

CHALLENGES AHEAD

2012 was a challenging year for NAMA staff as we delved deeper into the portfolio and as we reorganised the organisation to reorient ourselves towards asset recovery and asset management. During 2012, 10% of our staff departed as opportunities continue to present themselves elsewhere, not least because of the skills and experience acquired while working for NAMA. While a certain amount of turnover is healthy for any organisation, we also have to be careful that we retain the skillsets required to perform the important work of eliminating the contingent liability of the State by maximising the return on the NAMA portfolio. NAMA is unusual in that all of its staff are employed by the NTMA and assigned to NAMA. The recent announcement of the inclusion of NTMA itself within the remit of public sector remuneration adjustments is certainly a concern in terms of our ability to retain and allocate the correct skillsets to manage the portfolio.

Against this background, I need hardly point out that the absorption and management of the IBRC portfolio will be a major challenge for NAMA. It is my intention that we meet that challenge in a way that does not compromise our capacity to achieve the ambitious debt repayment targets that we have set ourselves on the original loan portfolio that we acquired in 2010 and 2011. For that reason, we will ensure that there is segregation in the management and reporting of the two portfolios. Either portfolio in its own right would be formidable; taken together, the task facing us is very challenging.

CONCLUSION

Finally, I would like to express my appreciation for the dedication, effort and hard work of the Chairman, the Board, the Board Committees, the Executive team and, especially, to the staff assigned to NAMA and also to those within the wider NTMA who contributed to NAMA's success.

Our performance on a number of fronts since inception reinforces my confidence that NAMA will deliver on the challenging mandate which was set for us by the Oireachtas in 2009 and on the no less challenging mandate that the Oireachtas has now asked us to assume in 2013.

NAMA CHRONOLOGY: APRIL 2009 - APRIL 2013

Apr 2009	Minister for Finance announces a Government decision to establish NAMA on a statutory basis. The Minister sets NAMA the core objective of 'maximising over time the income and capital value of the assets entrusted to it'.
May 2009	Mr. Brendan McDonagh appointed Interim Managing Director of NAMA on 5 May.
Jul 2009	Draft of proposed NAMA legislation is published.
Sep 2009	The National Asset Management Agency Bill 2009 ('NAMA Bill 2009') is published and introduced in the Oireachtas.
Oct 2009	NAMA Draft Business Plan published. Second Stage of NAMA Bill 2009 completed in Dáil Éireann. Eurostat announces its preliminary decision that the operations of NAMA should be recorded outside the general government sector in the Irish national accounts.
Nov 2009	President signs the NAMA Bill 2009 into law.
Dec 2009	NAMA formally established on 21 December 2009. The Minister announces the composition of the NAMA Board and appoints Mr. Frank Daly as Chairperson and Mr. Brendan McDonagh as CEO.
Jan 2010	Four committees of the Board established (Audit, Credit, Finance and Operating and Risk Management) in addition to two advisory committees (Northern Ireland and Planning).
Feb 2010	NAMA scheme receives formal approval from EU Commission at the end of February.
Mar 2010	First loan transfers from the Participating Institutions ('PIs') at the end of March. Minister makes a Section 46 loan advance of €299m to NAMA.
May 2010	Transfer of Tranche 1 loans (nominal value of €15.3 billion) completed. The Minister for Finance makes a Section 14 Direction concerning the issuance of government-guaranteed debt by NAMA.
Jul 2010	NAMA publishes its Business Plan and its Annual Statement for 2010. NAMA staff numbers reach 54.
Aug 2010	Transfer of Tranche 2 loans (nominal value of €11.9 billion) completed. EU Commission gives formal approval to the transfer of the first tranche of loans.
Sep 2010	NAMA establishes a €2.5 billion Euro-Commercial Paper Programme. Cumulative asset sale approvals: €1 billion.
Oct 2010	Loan of €250m (under Section 46) repaid to the Minister for Finance. The Minister issues a Section 14 Direction to NAMA to expedite the acquisition of remaining loans from the participating institutions.
Nov 2010	Comptroller and Auditor General ('C&AG') publishes a Special Report on NAMA Acquisition of Bank Assets.
Dec 2010	A bulk transfer of loans with a nominal value of €44 billion is completed. Total acquisition to date of €71.2 billion. Cumulative asset sales completed: €400m. NAMA staff numbers reach 104.
Feb 2011	The balance (€49m) of the Section 46 loan from the Minister for Finance is repaid.
Mar 2011	€250m of NAMA Senior Bonds redeemed. Cumulative asset sale approvals: €2.5 billion. Additional loans totalling €1.1 billion acquired.

May 2011	€500m of NAMA Senior Bonds redeemed. The Minister issues a Section 14 Direction amending the terms and conditions of the Senior Notes issued by NAMA.
Jul 2011	Publication of 2010 Annual Report. NAMA staff numbers reach 145.
Aug 2011	List of enforced properties published for the first time.
Sep 2011	€500m of NAMA Senior Bonds redeemed (Cumulative redemption: €1.25 billion).
Oct 2011	Completion of loan acquisitions with a final tranche of €1.7 billion, bringing total volume of acquired loans to €74 billion.
Dec 2011	Cumulative asset sale approvals: €7 billion. Cumulative asset sale completions: €4 billion. NAMA staff numbers reach 202.
Feb 2012	NAMA announces a reorganisation of functions and a number of senior executive appointments.
Mar 2012	Two Section 14 Directions issued to NAMA by the Minister: 1. Direction to NAMA to adopt all reasonable measures to facilitate the operation of the Ministerial Advisory Group. 2. Direction to NAMA to facilitate the short-term financing of IBRC to an amount of €3.06 billion. Minister announces the appointment of Mr. John Mulcahy (Head of Asset Management) as a member of the Board.
May 2012	Launch of 80:20 Deferred Payment Initiative for residential housing. Announcement of NAMA plans to provide funding of €2 billion by 2016 for capital development projects involving property securing its loans.
June 2012	€2 billion of NAMA Senior Bonds redeemed (Cumulative redemption: €3.25 billion).
July 2012	Publication of 2011 Annual Report. NAMA reports a profit, after tax and dividends, of €241m for 2011. Cumulative asset sale approvals: €10 billion. Cumulative asset sale completions: €5.3 billion.
Dec 2012	€1.5 billion of NAMA Senior Bonds redeemed (Cumulative redemption: €4.75 billion) NAMA staff numbers reach 224. NAMA total receipts reach €10.6 billion since inception (disposal and non-disposal receipts). Non-disposal and other income reaches a cumulative €3.8 billion. Cumulative asset sale completions: €6.8 billion. Cumulative asset sale approvals: €11.7 billion.
Feb 2013	As part of the IBRC liquidation process, NAMA establishes an SPV (National Asset Resolution Ltd.) for the purpose of acquiring the Central Bank's floating charge over certain IBRC assets. The Minister announces that NAMA will acquire from mid-2013 any loans in the IBRC portfolio which remain unsold after a valuation and sales process conducted by the Special Liquidators.
Mar 2013	Announcement of the appointment of Capita Asset Services ('Capita' or 'Master Servicer') as primary and special loan servicer over NAMA loans (€41 billion in par debt) previously managed by IBRC. Tender launched for primary and special servicer(s) for the loans that may be acquired from IBRC from mid-2013. NAMA issued €12.928 billion in Senior Bonds to the Central Bank as consideration for acquiring the Bank's floating charge over certain IBRC assets.
April 2013	Minister announces the appointment of Mr. Oliver Ellingham as a member of the Board with effect from 10 April 2013.

PROGRESS IN 2012

NAMA continues to be profitable

- NAMA made an operating profit, before tax and impairment charges, of €826m in 2012. After recognising an additional impairment charge of €518m and a deferred tax charge of €76m, NAMA reports a profit after impairment, tax and dividends of €228m.
- The 2012 impairment charge of €518m brings the cumulative impairment provision from inception to end-2012 to €3.26 billion (12.4% coverage).

€10.6 billion in cash flows

- NAMA ended 2012 with cash balances and liquid assets of €3.6 billion.
- From inception to end-2012, NAMA had generated over €10.6 billion in debtor receipts, including €4.5 billion during 2012, from asset disposals and non-disposal receipts.

€6.8 billion in asset sales completed

- From inception to end-2012, NAMA had approved asset sales with a total value of €11.7 billion, including approvals of €4 billion during 2012.
- Asset sales completed, as at end-2012, stood at €6.8 billion (in respect of 3,900 individual properties), including €2.8 billion completed in 2012.

Non-disposal income

- NAMA generated non-disposal receipts of €1.45 billion in 2012, mainly rental income on debtors' assets.

Meeting debt reduction milestones

- In 2012, NAMA redeemed a further €3.5 billion of NAMA Senior Bonds (thereby taking Senior Bond redemptions to a cumulative €4.75 billion by end-2012) and is on target to meet its redemption targets, including the redemption of €7.5 billion of Senior Bonds by end-2013.

€1.7 billion in new advances approved

- NAMA advances funding which will enhance the long-term recoverable value of its debtors' assets. From inception to end-2012, credit advances of €1.7 billion had been approved, including advances of €741m in 2012.
- €1 billion in new advances have been drawn down, including €308m in 2012.
- In May 2012, NAMA announced its intention to advance up to €2 billion in development capital over the period to end-2016 to preserve and enhance the value of its Irish assets.

Over 20,000 credit decisions

- From inception to end-2012, NAMA made a total of 20,035 credit decisions, 13,749 of which were made in 2012.
- The average turnaround time for credit decisions in 2012 was 5 days.

Intensive engagement with debtors

- By end-June 2012, all debtor business plans had been assessed, providing the business platform for the implementation of asset disposal and management strategies for 775 debtor connections.
- For a majority of debtors, NAMA is working consensually with debtors to achieve the best result for the taxpayer through the workout of loans and underlying properties.
- Where the consensual approach is not viable, NAMA exercises such enforcement options as are open to it. As at end-2012, 271 separate insolvency appointments (relating to 207 debtor connections) had been made.

€750m in additional security

- As at end-2012, NAMA had secured over €600m in additional security for its debtors' loans by taking charges over previously unencumbered assets and by reversing asset transfers. It expects, after all negotiations have concluded, that about €750m in additional security will be available for debt repayment.

Supporting recovery in the Irish property market

- During 2012, NAMA introduced a number of new initiatives to help support sustainable recovery in the Irish property market. These included a vendor finance initiative, through which the Agency is prepared to inject up to €2 billion in liquidity into the Irish commercial property market over the 2012-2016 period. Taken in conjunction with NAMA's proposed capital funding plans, this represents a potential injection of €4 billion into the Irish economy over the period.

- In 2012, NAMA introduced a mortgage product, the DPI, to provide a level of protection for house buyers against possible falls in house values. By end-2012, sales had been agreed on over 100 of the 295 houses initially made available under the initiative. By end-March 2013, 146 of the houses included in the DPI had been sold (sales proceeds of €28m).

Contributing to wider public policy objectives

- NAMA is contributing to the achievement of wider public policy objectives in areas such as the provision of social housing, the remediation of problems posed by unfinished housing estates and the negotiation of rent abatements with businesses in order to support jobs.
- NAMA is working closely with public bodies such as the IDA and local authorities to advance public policy objectives such as the facilitation of job creation initiatives.

LEGAL FRAMEWORK

NAMA is established as a statutory body corporate and its powers and functions derive from the National Asset Management Agency Act, 2009 ('the Act'). 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 NAMA's 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 11 of the Act was amended by Section 15 of the **Irish Bank Resolution Act 2013 ('IBRC Act 2013')** to include "such other functions as are conferred on it by or under the *Irish Bank Resolution Act 2013*".

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 binding directions to NAMA. All guidelines and directions must be published by the Minister as soon as practicable following issue. Up to the end of March 2013, five directions had been issued by the Minister to NAMA under Section 14 of the Act and another four directions had been issued under the IBRC Act 2013 (all are published on www.nama.ie).

The first assessment of NAMA's progress in achieving its overall objectives is to be carried out by the Minister and separately by the C&AG[2] as soon as may be after 31 December 2012, in accordance with Section 226 and Section 227 of the Act.

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 SPVs and their interrelationships are outlined on page 19 and illustrated in Note 1 to the Financial Statements.

2 *To date, the C&AG has produced two special reports on NAMA, the first in November 2010 and the second in May 2012.*

STRUCTURE OF NAMA COMPANIES

National Asset Management Agency Investment Ltd. (NAMAIL)

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., are owned in equal proportion by three private companies (1936 Investments Ltd., New Ireland Assurance Company plc. and Percy Nominees Ltd., a nominee of Prescient 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 Resolution Ltd. (NARL)

On 11 February 2013, NAMA established National Asset Resolution Ltd. in response to a Direction issued by the Minister, under the Irish Bank Resolution Corporation Act 2013, directing NAMA to acquire a loan facility deed and floating charge over certain IBRC assets which were used as collateral by IBRC as part of its funding arrangements with the Central Bank. NARL is a 100% subsidiary of NAMAIL.

National Asset Management Ltd. (NAML)

This is the entity which issues senior and subordinated debt to the PIs in exchange for acquired loans.

NAML has five subsidiaries:

National Asset Management Group Services Ltd. (NAMGSL)

This acts as the holding company for three subsidiaries, NALML, NAPML and NAMSL.

National Asset Loan Management Ltd. (NALML)

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. (NAPML)

This entity takes direct ownership of property if and when acquired.

National Asset Residential Property Services Ltd. (NARPSL)

National Asset Residential Property Services Ltd. is a wholly owned subsidiary of NAPML and was established in July 2012 to acquire residential properties and to lease these properties to approved housing bodies for social housing purposes.

National Asset Management Services Ltd. (NAMSL)

This is a non-trading entity which is currently inactive.

BUSINESS REVIEW

ACQUIRED LOAN ASSETS AND UNDERLYING PROPERTY ASSETS

NAMA was established in December 2009 following the enactment of the Act in November of that year. Five institutions (and their subsidiaries) were designated as participating institutions by the Minister in February 2010: Allied Irish Banks p.l.c. ('AIB'), Bank of Ireland, Anglo Irish Bank, Irish Nationwide Building Society ('INBS') and EBS Building Society ('EBS')[3].

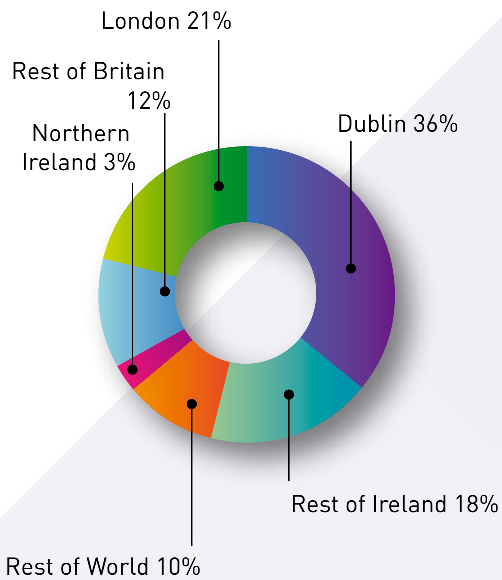
At end-February 2010, the EU Commission gave its formal approval to the NAMA scheme and shortly afterwards, the Minister published valuation regulations which gave effect to the valuation methodology which had been approved by the Commission. The first tranche of loans was acquired by NAMA in March 2010 and transfers continued on a phased basis throughout 2010 so that, by the end of the year, 96% of the total initial portfolio of €74.2 billion had been acquired (loan transfers were completed in 2011). A new phase of loan acquisition is likely to take place during the second half of 2013 when NAMA is expected to acquire loans unsold after completion by the Special Liquidators of a valuation and sales process of the IBRC portfolio.

NAMA paid consideration of €31.8 billion - representing a discount of 57% - in the form of senior and subordinated bonds (€30.2 billion and €1.6 billion respectively) for its original portfolio. The discounts which were applied to nominal loan balances to derive an acquisition price were largely determined by the market value of property (as at 30 November 2009) securing the loans. In terms of loan balances, the largest transfer was from Anglo Irish Bank (€34.1 billion), followed by AIB (€20.4 billion), Bank of Ireland (€9.9 billion), INBS (€8.7 billion) and EBS (€0.9 billion).

GEOGRAPHICAL BREAKDOWN

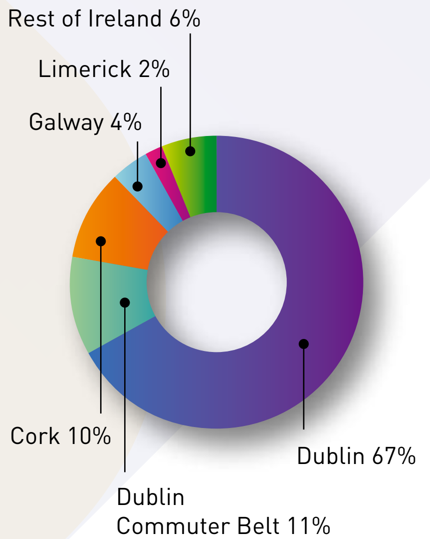
In terms of geographical location, the breakdown of property securing NAMA loans as at 31 December 2012 is set out in **Figure A**. 54% of property assets are located in Ireland, 33% are located in Britain and 3% in Northern Ireland. The rest are located outside of these jurisdictions, principally in Germany, USA, Portugal and France.

FIGURE A: Portfolio concentration by location



78% of Irish property securing NAMA loans is located in Dublin or in the Dublin commuter belt. A further 16% is located in counties Cork, Limerick and Galway. **Figure B** provides a regional breakdown within Ireland.

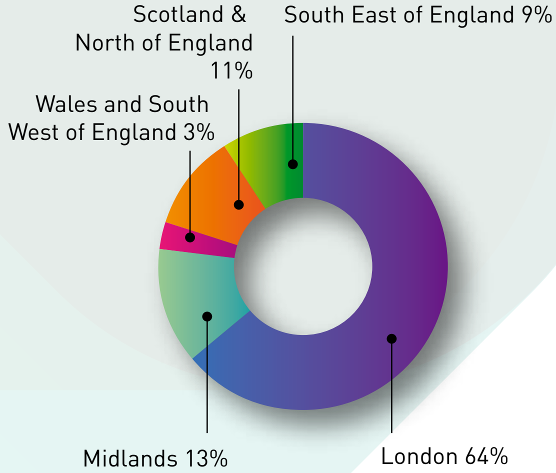
FIGURE B: Regional breakdown of Irish property



3 *The business of INBS transferred to Anglo Irish Bank on 1 July 2011 and the merged entity traded as IBRC. A Special Liquidator was appointed to IBRC in February 2013. EBS was acquired by AIB on 1 July 2011 and now operates as a subsidiary of AIB.*

One-third of the property securing NAMA loans is located in Britain. **Figure C**, which provides a regional breakdown of British property, demonstrates the heavy concentration of property in the London area (64%) and in the South-East (9%).

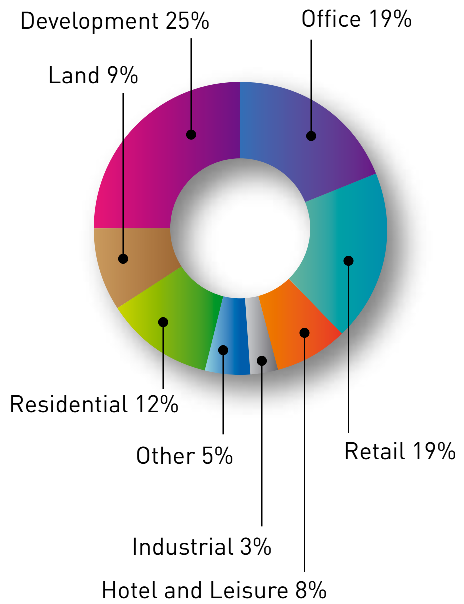
FIGURE C: Regional breakdown of property located in Britain



SECTORAL BREAKDOWN

66% of property assets securing loans can be classified as investment assets and 34% are land and development assets. A more detailed breakdown of property by asset class is provided in **Figure D**.

FIGURE D: Portfolio concentration by sector



DEBTOR STRATEGIES

ACQUIRED LOANS

NAMA acquired more than 12,000 loans in a range of currencies which had been advanced to over 5,000 debtors (managed as 775 debtor connections by NAMA). The acquired loans were secured by more than 10,000 groups of properties across a range of asset classes and markets (these have now been further disaggregated into 56,000 saleable property units).

NAMA-MANAGED

The largest 189 debtor connections (generally those with par debt in excess of €75m) accounted for €61 billion of the par debt originally acquired by NAMA. Key credit decision-making and relationship management are carried out by NAMA while loan administration is carried out by the PIs.

PI-MANAGED

The other 586 debtor connections accounted for €13 billion of original par debt. Relationship management and loan administration are carried out by the PIs under delegated authority from NAMA. NAMA has a presence in each of the NAMA units within the institutions to oversee the management of the connections.

BUSINESS PLAN PROCESS

As part of NAMA's initial engagement with debtors, each debtor connection was required to undertake a comprehensive business plan process designed to assess its commercial viability and its willingness to co-operate with NAMA. The process required that debtors set out their debt repayment strategies, including their proposals for key property assets under their control. NAMA's insight into each debtor's position was informed also by the extensive legal and property due diligence which was provided as part of the valuation and loan transfer processes. Arising from this information, NAMA had a very comprehensive perspective on each debtor and was well placed to come to a realistic view as to a debtor's prospects of achieving ultimate commercial viability.

The engagement with debtors involved the assessment of 789 debtor business plans which was completed by end-June 2012 (a small number of connections prepared separate plans for different entities within the connection). Based on these assessments, strategies were adopted by NAMA towards each of the 775 debtor connections. Typically, debtor strategies tended to fall into three broad categories: (1) support, (2) disposal or (3) enforcement. **Table 1** summarises the extent to which each strategy has been adopted to date.

TABLE 1: Debtor strategies (as at end-2012)

Strategy	% of NAMA debt
Support	58%
Disposal	18%
Enforcement	24%
Total	100%

A **disposal strategy** is pursued where NAMA does not foresee a long-term engagement with the debtor concerned and, instead, focuses on working with the debtor in the implementation of a disposal strategy over a short-term horizon.

Set out below are more detailed accounts of what is entailed with the **support** strategy. Pages 26-27 deal with the **enforcement** strategy.

SUPPORT

Support can take a number of forms, the most common of which is in the form of a **letter of support** which requires that a debtor implement a number of milestones in relation to debt reduction. The letter of support must be accepted by the debtor. Support may, in certain limited situations, take the form of a full or partial restructure of loans or may be provided without any changes to the underlying facilities. A **full restructure** involves the creation of a new loan agreement and associated security documentation. A **partial restructure** requires the operation of a Connection Management Agreement ('CMA') in conjunction with existing loan and security documentation. The CMA sets out the terms and conditions of business plan implementation and must be accepted by the debtor.

With NAMA support, debtors manage an agreed asset management and disposal strategy which will typically include some or all of the features outlined in the side panel on page 24.

FEATURES OF DEBTOR SUPPORT

Asset sales

Schedules of agreed asset sales with the timing of particular sales dependent on the type of property involved (for example, residential investment, commercial investment, land), the jurisdiction and location of the property and the scheduled expiry of any associated leases.

Reversal of asset transfers

Reversal of any transfers, which may have taken place over recent years, of assets to related parties (for example, spouses and other family members), including property, cash, shares and other gifts.

Unencumbered assets

NAMA's policy is to charge unencumbered assets as additional security, taking account of the transaction cost and any legal issues involved. Where another lender has security on a debtor's assets and in order to capture future upside potential, NAMA takes second charges over surplus equity where appropriate.

Rental income

Rental income from investment assets controlled by the debtor must be brought within NAMA's control.

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 NAMA debt.

Funding

In certain cases, NAMA provides funding which enables viable projects to be sustained and brought to completion with the view to increasing the long-term recoverable value of the assets.
See pages 29-31.

OVERHEADS

NAMA seeks to ensure that income generated by assets securing its loans is applied towards repaying a debtor's indebtedness to the Agency. In certain circumstances, debtors are allowed to retain a portion of asset income to pay overheads, including staff costs, where this is necessary to preserve and enhance the value of underlying property security. Overhead costs fall into two broad categories:

1. Costs associated with the repair and maintenance of properties, insurance premia, local authority rates and professional fees. These are essential costs which would be incurred regardless of whether the assets were being managed by debtors or receivers.
2. Overhead costs also include an allowance for the debtor's approved salary and the salaries of staff employed by the debtor to manage the assets. The alternative in these cases is to appoint receivers whose costs tend to be higher than debtor and associated staff salary costs.

In agreeing to allowances for overheads, among the issues considered by NAMA 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 are likely to add value if retained and (c) whether the management team needs to be strengthened or enhanced.

INCOME VISIBILITY

It became clear to NAMA, after its acquisition of loans, that there was significant and widespread leakage of funds - most notably rental income - which should properly have been applied by debtors towards debt repayment. NAMA set out to address this leakage as a major and urgent priority. Even prior to agreement of debtor strategies, NAMA required that debtors mandate rental income to secured bank accounts.

NAMA's approach involves oversight of the collection and lodgement of rental income. In cases where rents are substantial, it is a requirement that agents with a duty of care to NAMA be appointed by debtors to collect rents and to discharge associated property expenses. Rents are lodged to bank accounts over which NAMA has imposed security arrangements which preclude the release of funds.

In certain circumstances, particularly where NAMA has chosen to work with the debtor's management team, an annual budget for overhead costs and asset management expenditure is agreed and spending is then monitored on a periodic basis relative to budget. The approval and payment of legitimate asset management expenses from rental income and the ultimate application of residual rental income to service the outstanding debt is tightly controlled. This greater visibility and control of debtor cash flows has meant that rental income has become a significant and recurring source of revenue for NAMA with non-disposal cash inflows of the order of about €100m per month, notwithstanding cumulative asset disposals of €6.8 billion by end-2012.

FINANCIAL MONITORING

As part of its ongoing engagement with debtors, NAMA requires accurate and timely financial and management reporting from debtors, particularly in respect of the achievement of agreed milestones, debt repayment targets and current financial metrics such as rental receipts. Debtors are also required to provide future cash flow forecasts and other specific information requirements identified by NAMA case managers. In some instances, NAMA requires the appointment of independent monitors, including financial monitors, property management service providers and project managers, whose remit is to report to NAMA on the completeness and accuracy of information presented by debtors in relation to both historical and future financial and property management activity and agreed milestones.

ADDITIONAL SECURITY

To ensure that debtors repay their debt to the fullest extent possible, NAMA requires that they provide security over unencumbered assets not previously pledged as loan security and that they arrange for the reversal of recent asset transfers to relatives and others, where applicable. From inception to end-2012, NAMA had obtained charges over additional security with an aggregate value of approximately €642m and is in the process of taking security over additional assets identified in the course of its engagement with debtors. NAMA expects, after all negotiations with debtors have completed, that it will have obtained in excess of €750m as part of this process.

Additional security has been identified in a number of ways. NAMA's Asset Search team, for instance, is responsible for managing the implementation of asset

NAMA CREDIT FRAMEWORK

NAMA's Credit Policy Framework sets out delegated authority levels for credit decisions, monitoring and reporting. Among the decision types covered by the Framework are approvals of Debtor Strategy Reviews, new lending, enforcement action, loan impairment, sales of assets and loans and asset management decisions. The level of approval required for each of these credit decisions is determined by reference to the size of the debtor's outstanding debt and the size of the proposed transaction. Credit decisions are approved by one or more of the following entities within a cascading level of approved delegated authority:

Board

Credit Committee

Chief Executive and Head of Asset Recovery

Head of Asset Recovery / Deputy Head of Asset Recovery

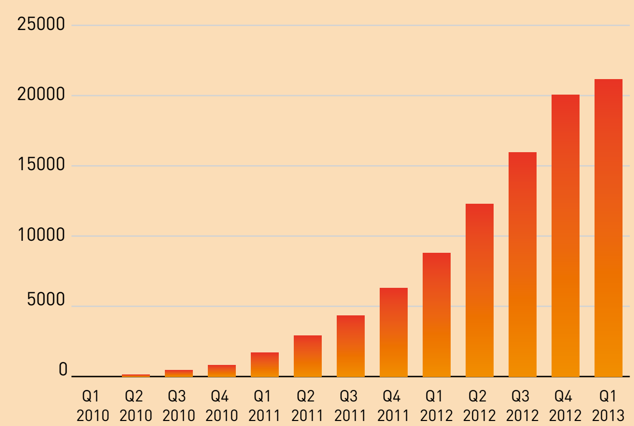
Senior Divisional Manager/Asset Recovery Manager

All credit decisions for loans managed by the PIs are approved by the PI's Credit Committee or by the requisite delegated authority within the institution (Head of Credit, Deputy Head of Credit or Senior Credit Manager).

Oversight of the compliance with Delegated Authority Policy is performed by the Quality Assurance team in NAMA.

From inception to end-2012, a total of 20,035 **credit decisions** were made, 13,749 of them in 2012.

FIGURE E: Credit decisions, cumulative since inception



The average turnaround time for credit decisions in 2012 was 5 days.

searches designed to verify debtors' asset statements. In addition, NAMA case managers have identified debtor assets that may be available as additional security, including excess collateral identified through the valuation and business review processes and assets that fall within the scope of personal guarantees. Reversed asset transfers include transfers of cash, property assets, company shares and loans to family members.

Assets over which NAMA has obtained security under this programme include an Antiguan hotel (subsequently sold for about €19m), a New York office (sold for about €15m), a new office development in South Co. Dublin (sold for about €12m) and development land in the south east of England (sold for about €10m). In the case of another debtor, charges have been obtained over pensions, shares, art and antiques with an aggregate value of about €17m.

As part of the business plan process, a sworn statement of affairs was requested from personal debtors and guarantors, including details of any unencumbered assets which might be available to support repayment capacity and of any transfers of assets in recent years by debtors to relatives and associates. In completing that statement of affairs, debtors were reminded that the provision of false or inaccurate information to NAMA is a criminal offence, under Section 7 of the Act.

NAMA has referred two formal complaints to the Garda Bureau of Fraud Investigation arising from a possible failure by debtors to fully disclose their assets and liabilities in their statements of affairs to the Agency. NAMA has also initiated cases in the Irish and English High Courts and in the US and Canadian courts for the reversal of asset transfers, including residential property, shares and other assets.

DEBTOR CREDIT RATING

For NAMA-managed connections, NAMA operates a credit grading matrix across two dimensions – debtor performance and expectations of debt recovery.

Debtor performance incorporates NAMA's assessment of the extent to which set milestones have been met and the extent to which asset cash inflows are under NAMA control. It also incorporates progress on charging unencumbered assets (where applicable), on the reversal of asset transfers to connected parties (where applicable) and on cross collateralisation. Ratings are A (Satisfactory), B (Watch) and C (Enforced).

Expectations of debt recovery include an assessment of current expectations of cash flows and their timing, by reference to the carrying value of each debtor's liabilities. Ratings are 1 (High), 2 (Medium) and 3 (Lower).

The following table presents the credit grading for all NAMA-managed debtor connections:

TABLE 2: Credit grading of NAMA-managed connections

Debtor performance	A	B	C
Expectation of debt recovery			
1	12%	16%	7%
2	6%	12%	4%
3	6%	16%	21%

ENFORCEMENT

An enforcement strategy is pursued by NAMA in circumstances where the debtor's business plan is not considered acceptable, the debtor is in default and is not cooperating or where some other event has occurred that could potentially threaten NAMA's position as a creditor.

By end-December 2012, it had been necessary to make 271 insolvency appointments relating to 207 debtor connections (**Table 3**).

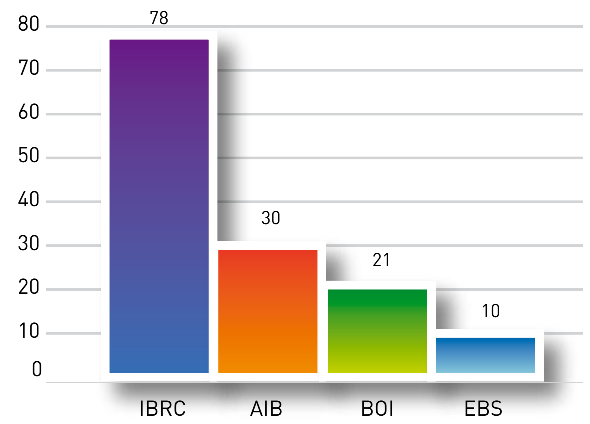
TABLE 3: Enforcements as of end-December 2012

Insolvency appointments	NAMA-managed	PI-managed	Total
Corporate	105	111	216
Fixed Charge	27	28	55
Total	**132**	**139**	**271**
Number of debtor connections	**84**	**123**	**207**

The enforcement process may apply to part of a debtor connection but not necessarily to all of it. Excluding extensions to existing enforcements, there were 61 new appointments made in 2012, 38 of them relating to NAMA-managed connections and 23 to PI-managed connections. By the end of 2012, insolvency practitioners had been discharged in 11 cases as a result of the conclusion of the insolvency process.

Figure F provides a breakdown of PI insolvency appointments by institution as at end-2012:

FIGURE F: PI-managed insolvency appointments by institution



NAMA has introduced measures designed to reduce the level of insolvency fees from those that have applied historically. These measures include utilisation of a mini-tender process for particular appointments, the promotion of the concept of the 'fixed charge receiver' and seeking competitive fixed fee proposals for insolvency assignments.

LOCATION OF BANKRUPTCY PROCEEDINGS

In its position as a secured creditor, NAMA is generally neutral on the locus of bankruptcy proceedings and its experience to date has been that location has not tended to prejudice its recoveries. The Agency has had a positive engagement with the bankruptcy trustees of debtors who have been adjudged bankrupt in the UK. The bankruptcy regime in the UK is well-established and trustees in bankruptcy possess extensive powers to compel the production of legal and banking information on a cross-border basis. These powers have been used in the case of NAMA debtors to uncover significant undeclared assets.

The comparatively shorter duration of bankruptcy in the UK has not been a consideration for NAMA as the bankrupt's unsecured assets remain in the control of the bankruptcy trustee after the discharge from bankruptcy and any failure to make full disclosure can result in the period of bankruptcy being extended beyond the initial one-year period until there is full disclosure.

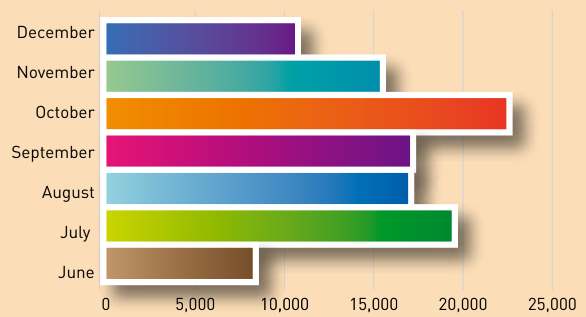
For a debtor to avail of bankruptcy in any given jurisdiction, he/she must first of all establish that jurisdiction as their Centre of Main Interest ('COMI'). The establishment of COMI is a matter for the relevant authorities in the jurisdiction in which bankruptcy is sought. As at end-December 2012, a total of 48 NAMA debtors had been declared bankrupt: 11 in Ireland and 37 in the UK.

NAMA ENFORCED PROPERTIES WEBSITE LISTING

On its website [www.nama.ie], NAMA publishes a listing of properties that are subject to enforcement action. The enforced property details are updated on a monthly basis. At end-December 2012, there were close to 1,600 properties or groups of properties listed on the site. In the majority of cases, the properties are available for sale or are under management and generating income. Since inception, sales by insolvency practitioners have accounted for approximately €1.6 billion of total disposals. Total sales by insolvency practitioners in the 12 months to end-2012 amounted to approximately €557m. In some instances, insolvency practitioners are working through outstanding title defects, ownership, planning and compliance issues with a view to making the properties available for sale as soon as these issues have been satisfactorily resolved.

Based on user feedback, the majority of users of NAMA's enforced properties website are interested in properties that are available within their own geographical areas for rent or purchase. NAMA has, in response to feedback from these users, significantly enhanced the functionality of the enforced properties website to enable interested parties to interrogate the listing of properties in a much more informative way. In particular, the enhanced functionality includes the facility to search for properties by property type and county/area and includes links, where applicable, to sales brochures.

FIGURE G: User traffic, enforced properties website, June to December 2012



NAMA MARKET ACTIVITY

ASSET SALES

In order to meet debt repayment targets, NAMA debtors and receivers have agreed, as part of their arrangements with NAMA, to a phased and orderly disposal of the property assets securing their loans. Up to the end of 2012, NAMA had approved asset sales with an aggregate value of €11.7 billion, including €4 billion of approved sales in 2012. Over the same period, completed asset sales stood at €6.8 billion, including €2.8 billion of sales in 2012. There are sales valued at about €2 billion in the pipeline. Where approved sales do not, for a variety of reasons, proceed to completion, the property is returned to the market and may subsequently be sold to a new buyer on different terms and conditions.

Property sales by debtors and receivers to date have been heavily influenced by liquidity conditions in various markets and by the attractiveness of various asset classes to investors. Close to 80% of sales to date have involved assets in Britain, particularly in London, where prices have increased since the associated loans were acquired by NAMA. Generally speaking, the most attractive assets to investors have been offices, hotels and residential units in Britain. Asset sectors which have been viewed as moderately attractive by investors include development and retail assets in Britain and certain segments of the Irish market including large office units in Dublin.

FIGURE H: Disposals by location, inception to end-2012

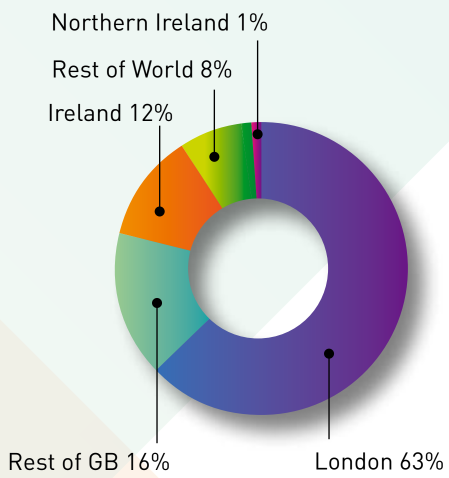
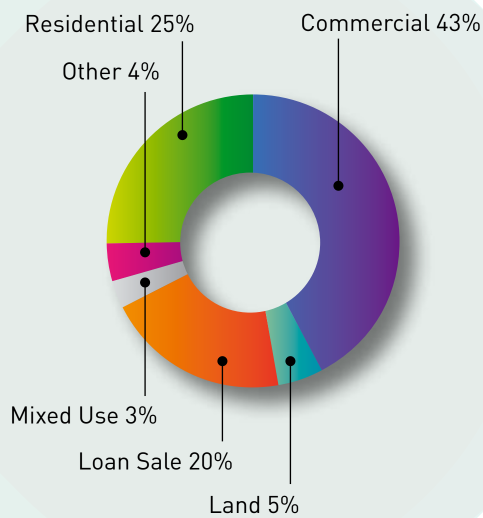


FIGURE I: Asset sales to end-2012 by asset type



In Ireland, there are currently properties valued at approximately €780m on the market through appointed insolvency practitioners and a further €750m of property for sale through NAMA debtors. Over much of the period since NAMA's establishment, the Irish market has been relatively stagnant due to a number of factors, notably the overhang of excess supply, the absence of bank funding, deleveraging by foreign and domestic banks and the uncertainty regarding rent review arrangements (ultimately resolved by the 2012 Budget) which inhibited foreign investment. In consequence, NAMA's approach to assets located in Ireland has involved active management and, where appropriate, additional capital funding with the objective of generating cash flow in the near term and of optimising disposal proceeds over a medium-term horizon.

NAMA approved €20m in development funding for Phase 2 at Scotch Hall Shopping Centre in Drogheda, Co. Louth

LOAN SALES

To date, NAMA has completed sales of loans with nominal balances of €2.5 billion. These sales have included a mixture of individual loans and debtor connection portfolios in the US, the UK and Ireland. The loan sale market in the UK and Ireland is continuing to develop and NAMA engages extensively with investors interested in portfolio and individual loan sales. NAMA's policy in relation to loan sales, as with the sale of properties by its debtors and receivers, is that, other than in exceptional circumstances, loans should be openly marketed. For this purpose, two panels of loan sale advisors have been appointed – one for loan sales in the US and one for loan sales in Ireland/Britain/Europe. To date, loan sales have been mainly triggered by third-party approaches. After receiving such approaches, NAMA's practice is to appoint loan sale brokers to market the loans and to deal with offers from the original bidder and from other interested parties.

NAMA FUNDING

A key element in NAMA's strategic planning is recognition of the need for investment to preserve and enhance the value of assets securing its loans. Reflecting this, it announced in May 2012 that it would provide funding of €2 billion in Ireland over the period from 2012 to 2016 to enable construction projects currently in progress to be completed and to develop new projects to meet prospective supply shortages in certain market segments. Decisions in relation to project funding are determined by NAMA's view of the projects most likely to generate a strong commercial return to the taxpayer. Against the background of an Irish market which has excess supply, NAMA will not engage in speculative development and, therefore, proven demand from potential purchasers or tenants is a key criterion in assessing potential capital funding.

During 2012, NAMA approved €741m in new advances of working and development capital. This brought the cumulative approval of advances to over €1.7 billion since inception, with €710m or 42% relating to property assets in Ireland.

Examples of some significant capital projects currently approved for funding by NAMA are outlined below:

Scotch Hall, Drogheda, Co. Louth

Subject to fulfilment of certain conditions, NAMA has approved €20m in development funding for Phase 2 at Scotch Hall Shopping Centre in Drogheda, to comprise additional retail units and leisure facilities including an eight-screen cinema. The investment will not only create a significant retail and leisure destination within the North East region but it will protect existing employment and create new employment opportunities during the construction phase and on completion. Completion of the project is expected in late 2014.

NAMA is providing €10.6m in development funding for the completion of Block B2A in Beacon South Quarter in Sandyford, Dublin 18.

NAMA is providing €14m in development funding for the completion of Block G in The Grange development in Stillorgan, Co. Dublin.

Beacon South Quarter (Block B2A), Dublin 18

NAMA is providing €10.6m in development funding for the completion of Block B2A in Beacon South Quarter which has been in a partially completed form for some time. The completed block will comprise 85 apartments, 16,000 sq. ft. of commercial space and dedicated community space. The project is due for completion in March 2014.

The Grange, Stillorgan, Co. Dublin

NAMA is providing €14m in development funding for the completion of Block G in The Grange development in Stillorgan, Co. Dublin, a mixed residential and commercial development. The funding will see the completion of a partially constructed block of 120 apartments, bringing the total completed residential units in the development to 451. Block G will be developed on a phased basis with full completion expected in Q3 2014.

Millmount, Dundonald, Belfast

NAMA is providing funding of €10.5m (£8.6m) through an agreement between the court-appointed administrator and a Northern Ireland-headquartered construction company for a new 95-unit housing development in Millmount, Dundonald, close to Belfast. An estimated 100 jobs will be generated during the construction phase of the project, which is expected to last approximately 18 months. When completed, the first phase will consist of 95 mainly three-bedroom and four-bedroom houses. The development is designed to deliver quality homes for people looking to live and work in Belfast. The site has outline planning for 510 residential properties which may be delivered in subsequent phases subject to market conditions and the success of the initial phase.

Oranmore Town Centre, Co. Galway

NAMA approved and released €17.4m for the completion of a commercial development in Oranmore, Co. Galway which was pre-let to a multinational retailer. The scheme consisted of 5,500m^2 of retail space and 4,000m^2 of office and medical centre space. Additional capital projects are being considered for the adjacent sites which will provide renewed focus for the town centre.

OTHER FUNDING INITIATIVES

NAMA is providing funding for a wide range of other projects throughout the country. In Galway, for instance, projects supported include an extension to the G Hotel, various works at Wellpark Retail and Leisure Park, and refurbishment of residential units at Edward Square. In Cork, NAMA-supported projects include a new 68,000 sq. ft. retail outlet in Ballincollig and the fit-out of 50,000 sq. ft. of office space for Apple at Half Moon Street. The Agency is also funding new residential developments in a number of the main urban centres in line with identified demand.

An aerial view of the Dublin Docklands area where NAMA holds security over a significant number of buildings and sites.

In addition to funding delivered through NAMA's **Asset Recovery** division, which includes the projects outlined above, NAMA's **Asset Management** division is focusing on the development of a number of large-scale projects in markets where NAMA has material exposure and where demand for completed or new buildings justifies a project-focused effort. This involves activities ranging from securing planning permission for development or redevelopment through to the financing and delivery of significant development projects.

In that context, NAMA has focused on a number of key markets including the Dublin Central Business District office market, where a shortage of larger office space is emerging, and the London and Dublin residential markets. NAMA is devoting particular attention to the Dublin Docklands area, where the Agency holds security over a significant number of buildings and sites. The area is expected to require significant new development over the medium-term, particularly of commercial office space, to accommodate the continued expansion of the International Financial Services Centre ('IFSC') and the creation of new business and technology hubs linked to existing companies such as Google and Facebook.

PLANNING

The planning system is an important focus for NAMA. Delivery of a number of projects within NAMA's portfolio, and by extension NAMA funding, is contingent on securing viable planning permissions. For this reason, NAMA, either directly or through debtors and receivers, engages with the planning system in respect of a range of issues including development plan processes, viable planning options and infrastructure capacity constraints and opportunities. For example, in the residential sector, NAMA is engaging with planning authorities, particularly in Dublin, to discuss commercially viable solutions to prospective supply constraints. Local planning policy, particularly in terms of the planning objectives set out in city/county/local development plans, is a major consideration in these discussions and density requirements and development contribution levies are important factors in terms of determining whether proposed developments can proceed.

NAMA SOCIAL AND ECONOMIC CONTRIBUTION

NAMA's overriding commercial objective is to generate the best achievable financial return for the taxpayer. However, within the context of this commercial remit and consistent with Section 2 of the Act, an additional major objective is to contribute to employment and economic recovery and to the achievement of broader social and economic policy objectives. The Agency has sought to meet these objectives through a diverse range of activities, including the introduction of targeted property market initiatives and by facilitating public bodies in purchasing or leasing properties that are suitable for their purposes. In addition, NAMA is contributing in other ways, such as working to address the problems posed by unfinished housing estates or agreeing rent abatements with businesses to support jobs.

Examples of NAMA's on-going work in these areas are set out below.

GENERATING ACTIVITY IN THE PROPERTY MARKET

NAMA contributes in a tangible way to sustainable recovery in the property market in Ireland through overseeing the phased and orderly release of property for sale by its debtors and receivers. All such assets are ultimately intended for sale but the actual volume of sales depends on the level of demand, the availability of credit and the absorption capacity of the market.

Facilitator of transactions

NAMA has acted to facilitate significant property transactions that might not otherwise have taken place by offering structured engagement between debtors and receivers and potential new investors. NAMA has, in this way, played a pivotal role in a number of notable property transactions and initiatives including:

- Funding the completion of a partially built office block in Dublin subsequently acquired by Google.
- The recent purchase of an unfinished building which is to become the Central Bank's new headquarters.
- The acquisition by Scottish and South Energy ('SSE') of its new corporate headquarters at Leopardstown in south Co. Dublin.
- An investment of €100m by the Kerry Group at Millennium Park in Naas.

NAMA is working actively with the IDA to identify suitable properties to meet the requirements of foreign direct investment. Among examples are:

- A major office letting in Dublin for a multinational company which is expected to employ some 1,000 staff.
- The complex site assembly for a major new IT facility in west Dublin.
- A site for a major research centre in Leinster.
- A major multinational letting in the Grand Canal Square office development which has reinforced perceptions of the Grand Canal Dock area as a global hub for IT and social media activity.

Vendor Finance

In May 2012, NAMA announced plans to advance, over the years 2012 to 2016, at least €2 billion in vendor finance to purchasers of commercial property securing its loans, mainly in Ireland. This initiative has the potential, based on funding levels of up to 75%, to generate new investor equity in the Irish market of between €800 and €900m, with the majority of new equity expected in 2013 and 2014. Vendor finance will be provided to new investors for periods of up to seven years but typically for three to five years, with the expectation that it will be refinanced by the banking sector when more normal market conditions return.

The first vendor finance transaction, involving the sale of an office building, One Warrington Place, in Dublin was completed in April 2012. NAMA has since concluded further vendor finance sales including the sale of Edward Square in Galway in May 2013. Further vendor finance transactions which are substantially agreed relate to, for example, the sale of a fully-let prime office building in the IFSC. A number of other vendor finance transactions are at an advanced stage.

NAMA's experience is that in circumstances where vendor finance is offered even if not taken up by the ultimate purchaser, the availability of financing on competitive terms has widened the potential investor base.

NAMA's first vendor finance transaction – used to finance the purchase of No. 1 Warrington Place in Dublin (pictured above) – was completed in 2012.

A house in Castlerock, Co. Limerick, which is one of the properties available through NAMA's DPI.

80/20 Deferred Payment Initiative

NAMA launched its DPI in May 2012. The initiative aims to provide home buyers with a level of protection against a fall in residential property prices over the initial five years of a mortgage. The initiative was launched in conjunction with Bank of Ireland, EBS and Permanent TSB and covers close to 400 residential properties under the control of NAMA debtors or receivers. Under the initiative, the home buyer pays 80% of the property's value upfront, with the remaining amount (up to 20% of the property's value) to be paid in five years by the mortgage provider (on behalf of the home buyer) directly to NAMA depending on the value of the property at that time.

The residential properties included in the initiative have been released on a phased basis, with the most recent launch occurring in March 2013. The properties, predominantly three and four bedroom semi-detached houses, vary in price range from €95,000 to €410,000 and are located in 13 counties across Ireland. Up to end-March 2013, sales had been achieved on 146 properties with a total sales value of €28m. Of the total sales, approximately 60% are availing of a Deferred Payment Initiative mortgage, with the balance, in line with trends in the wider residential market, mainly comprising cash purchasers.

DPI – SCHEDULE OF PARTICIPATING DEVELOPMENTS
Carlow
Castleoaks, Dublin Road, Carlow
Clare
Churchfields, Clonlara, Co. Clare
Cork
Tír Cluain, Midleton, Co. Cork
Ardfield, Grange, Douglas, Co. Cork
Bridgefield, Curraheen Road, Bishopstown, Co. Cork
Castle Heights, Carrigaline, Cork
Cúl Árd, Carrigtwohill, Co. Cork
Rowen Hill, Mount Oval, Rochestown, Cork
Brightwater, Crosshaven, Co. Cork
Old Quarter, Ballincollig, Co. Cork
Drakes Point, Crosshaven, Co. Cork
Cooline, Cobh, Co. Cork
Highfield Park, Ballincollig, Co. Cork
Woodborough, Tower, Co. Cork
Belfield Abbey, Boreenmanna Road, Cork
Dublin
Silken Park, Citywest, Dublin 24
Browns Barn Wood, Kingswood, Dublin 22
Carrickmines Manor, Glenamuck Road, Dublin 18
Goldenridge, Rush, Co. Dublin
Devlin Banks, Naul Village, Co. Dublin
Galway
Pairc na Rí, Athenry, Co. Galway
Kerry
Oakfield, Park Road, Killarney, Co. Kerry
Kildare
Cluain Bhearú, Athy, Co. Kildare
Kilkenny
The Weir, Castlecomer Road, Kilkenny
Limerick
Castlerock, Castleconnell, Limerick
Meath
Silverstream, Stamullen, Co. Meath
Loughmore Square, Killeen Castle, Dunshaughlin, Co. Meath
Sligo
Ardfinn, Strandhill Road, Co. Sligo
Wexford
Elderwood, Castlebridge, Co. Wexford
Wicklow
Aughrim Hall, Aughrim, Co. Wicklow

A CGI impression of the proposed design for the Opera Centre site in Limerick which was sold to Limerick City Council. The Board is committed to giving first option (at NAMA's minimum reserve price) to State bodies on the purchase of property which may be suitable for their purposes.

The Beacon development in Dublin where 58 units were sold to Clúid Housing in 2012 for use as social housing.

PROPERTIES FOR PUBLIC USE

In its Business Plan published in July 2010, the NAMA Board undertook to 'engage proactively with Government Departments, local authorities, State Agencies and other appropriate bodies in relation to their possible need for land/properties'. The Board also committed to giving first option (at NAMA's minimum reserve price) to State bodies on the purchase of property which may be suitable for their purposes.

In line with this commitment, NAMA has accommodated the release of lands and property for schools, health care facilities, community and recreational amenities and other uses. Examples include:

- The identification of more than 70 sites as potentially suitable for new schools.
- The sale of sites to University College Dublin and University College Cork.
- The sale of the Opera Centre site in Limerick to Limerick City Council.
- The release of lands in Baldoyle, north Co. Dublin to Fingal County Council for parkland.
- Co-funding, with Fingal County Council, of an N2-N3 link road through lands in west Dublin to facilitate identified development requirements.

NAMA is also engaging with the Department of Health and the Health Service Executive in relation to possible sites and buildings for primary health care centres and other step-down and community health care facilities and it has participated in the process designed to identify a suitable location for the planned National Children's Hospital.

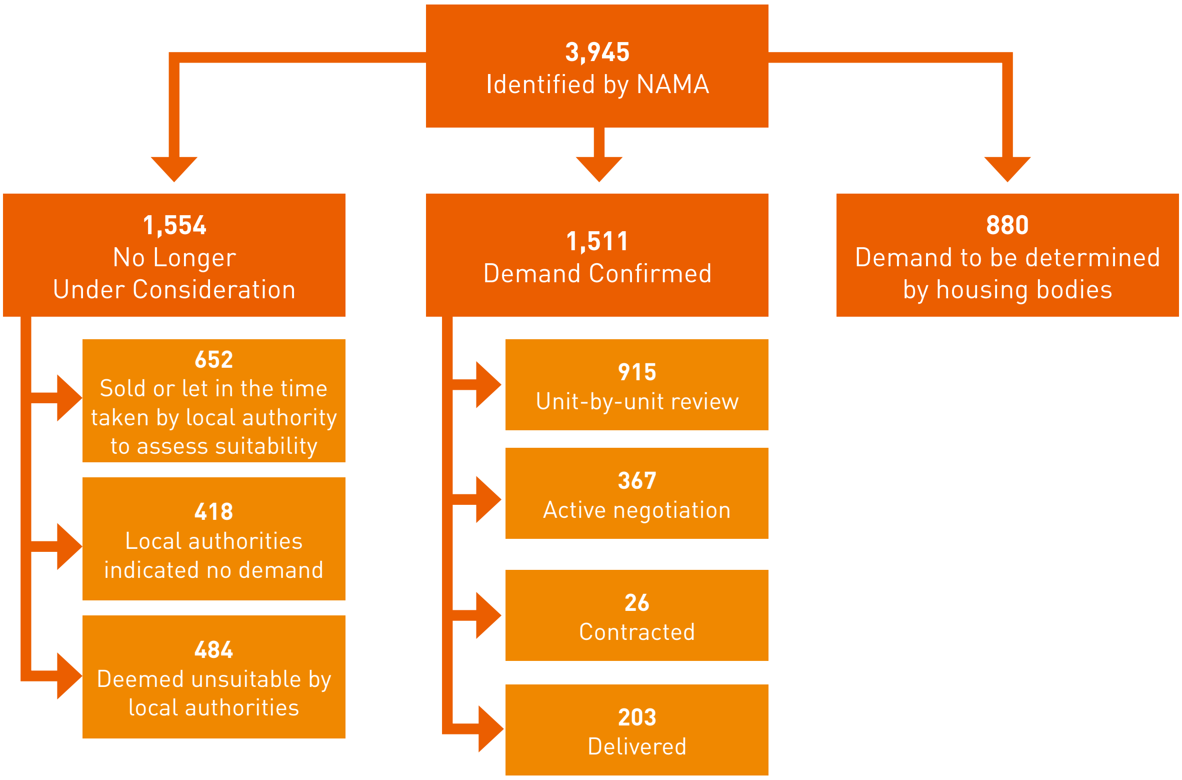
SOCIAL HOUSING

NAMA is working closely with the Minister for the Environment, Community and Local Government and the Minister of State for Housing and Planning in relation to the delivery of social housing and all parties are committed to the maximum possible delivery of residential units under this important initiative. To date, NAMA has identified almost 4,000 residential properties as potentially suitable for social housing. Of these, demand has been confirmed by local authorities for over 1,500 properties (**Figure J**).

Once demand for a property has been confirmed by a local authority, NAMA facilitates contact and negotiation between its debtor or receiver and the local authority or Approved Housing Body ('AHB') to acquire the property. Contractual arrangements can take the form of a lease or purchase. In general, purchases are completed by AHBs and the properties acquired are then made available to local authorities under a payment and availability agreement. NAMA's experience is that once demand has been confirmed for properties and contracts signed there is no impediment to the early delivery of the properties by NAMA debtors and receivers.

To help further streamline delivery, NAMA has also established a special purpose vehicle, **National Asset Residential Property Services Ltd.**, to take ownership of properties where there is an established demand. In 2012, 229 new social housing properties across seven counties (Cork, Dublin, Galway, Louth, Kildare, Kerry, and Westmeath) were delivered (203) or contracted (26) for social housing through NAMA's direct engagement with the Department of Environment, Community and Local Government and the various AHBs.

FIGURE J: Position (as at end-December 2012) in relation to houses identified by NAMA for social housing



SOCIAL HOUSING – PROPERTIES DELIVERED TO APPROVED HOUSING BODIES (AS AT END-DECEMBER 2012)

Delivered		**203**
Cork	*Cork County Council*	53
Dublin	*Clúid Housing Association*	58
Dublin	*Circle Voluntary Housing Association*	7
Dublin	*Túath Housing*	20
Galway	*Clúid Housing Association*	13
Galway	*Túath Housing*	13
Galway	*Galway County Council*	4
Louth	*Túath Housing*	15
Louth	*Drogheda Borough Council*	12
Kildare	*Túath Housing*	4
Westmeath	*Túath Housing*	4
Contracted		**26**
Galway	*Galway County Council*	3
Kerry	*Clúid Housing Association*	15
Kildare	*Kildare County Council*	8
Terms agreed		**4**
In active negotiation		**363**
Preliminary appraisal		**244**

By end-March 2013, an additional 110 properties had been sold or leased – 60 of the transactions had been closed and 50 were contracted for delivery later in 2013.

The Department of the Environment, Community and Local Government Survey on Unfinished Housing Developments.

UNFINISHED HOUSING ESTATES

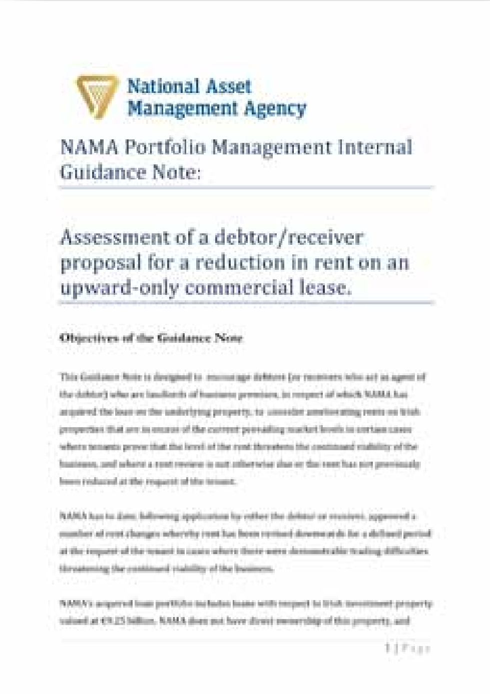
The Department of the Environment, Community and Local Government, in conjunction with local authorities around the country, prepared a survey in 2012 of unfinished housing developments. Based on this survey, NAMA has identified that it holds security over 327 or 18% of the 1,836 unfinished estates in the country. NAMA is funding, through its debtors and receivers, the cost of remedial work on these estates. Such work tends to range from relatively straightforward remediation to complex health and safety issues, with the former being predominant in NAMA's case. The estimated expenditure to date under NAMA's programme is €4m.

Where NAMA holds security over unfinished housing developments, it requires its debtors and receivers to prepare a Site Resolution Plan ('SRP') with input from stakeholders including residents, the bond holder, the local authority and NAMA. The purpose of the SRP is to provide an assessment of the commercial development options, with associated cost benefit analysis, including funding proposals. This may not necessarily be the full completion of the development but a pragmatic and effective solution that addresses the issues facing all stakeholders including residents. The first step in all cases is to ensure that initial health and safety works are completed, followed by a plan to resolve remaining unfinished elements of the estate, sometimes on a phased basis. The overarching objective is to explore every feasible option for resolving the unfinished development in question. The SRP process also provides a mechanism to maximise the value of property by securing commercial planning and development outcomes that reflect the current economic environment.

Site resolution can involve a variety of works, including completing roads and infrastructure and completing houses and apartments for sale or rental. In the case of NAMA debtors and receivers, funding for these works is advanced by NAMA and from bond securities (whereby local authorities call on bonds to be released by the bondholder).

NAMA is currently working through its list of unfinished developments. NAMA's progress in this area can be seen, for instance, in the inclusion of previously unfinished residential developments in the Agency's DPI and the sale or lease of completed properties for social housing. NAMA's strategy has also included the public sale of a number of unfinished developments. Notwithstanding this, progress on individual developments can be sometimes slow, particularly where debtors are uncooperative or where legal or title issues are an obstacle. In working to overcome such barriers, NAMA is committed to maximising its recovery from unfinished housing developments and ensuring the availability of the housing stock for beneficial use as soon as possible.

Where buildings are unsafe or otherwise not viable, demolition may be considered as an option. Whilst a decision to demolish any building or development is not taken lightly, it may be considered as a means of reaching resolution on properties where the development is unviable for economic, structural and safety reasons. Decisions are made, on a case by case basis, as part of the SRP agreed with each local authority.


National Asset Management Agency

NAMA Portfolio Management Internal Guidance Note:

Assessment of a debtor/receiver proposal for a reduction in rent on an upward-only commercial lease.

Objectives of the Guidance Note

NAMA Guidance Note on Upward-Only Commercial Leases available from www.nama.ie

In 2012, NAMA sanctioned the demolition of a block of 12 apartments as part of the agreed SRP for a residential development in Co. Longford. The local authority had sought the demolition of the apartment block on health and safety grounds. NAMA's analysis also showed that the level of investment required to make the block habitable and saleable could not be justified on commercial grounds. The apartment block was poorly constructed, located on a flood plain in the middle of an industrial estate and had become subject to vandalism and anti-social behaviour. The cost of demolition and remediation works was of the order of €150,000.

RENT ABATEMENTS

To end-April, NAMA had received 284 eligible applications for rent abatements from retailers through its debtors and receivers; of these only ten applications have been refused. The aggregate annual value of abatements agreed to date is about €14m, that is, the rent due to NAMA that it has agreed to forego in order to help businesses to survive.

The objective of agreeing rent abatements in the first instance is to support the short-term viability of small and medium businesses around the country which are intrinsically viable but which are experiencing difficulties arising from current economic conditions. In cases where there is genuine hardship which can be ameliorated by rent abatement, NAMA achieves two significant benefits. Firstly, it helps to preserve the value of the collateral supporting NAMA loans by ensuring that tenants remain in business and continue thereby to generate rental income. Secondly, it safeguards jobs and economic activity in general. Any short-term loss of rental income arising from rent abatement is likely to be more than offset by these long-term benefits. The terms of NAMA's **Guidance Note on Upwards Only Commercial Leases** are not designed to confer benefits on businesses that are trading profitably or are part of trading groups that are in a position to honour their current contractual arrangements on rent.

ESRI STUDY

A difficulty associated with the Irish residential market is the lack of independent professional research and data which would facilitate policy-making and commercial activity. In particular, there is an absence of reliable and unbiased information about the key factors that will influence the availability and cost of housing over medium- and long-term horizons. For this reason, NAMA has agreed to take a leading role in promoting and funding a two-year research programme on housing to be undertaken by the ESRI. The objective is to produce practical market insights that will facilitate informed decision-making by all market participants, including potential purchasers, investors and the construction industry.

The research programme will be overseen by a Steering Committee, on which NAMA will be represented, which will agree priorities and review outputs. Editorial control and responsibility for the research and for final output will rest with the ESRI.

FINANCIAL REVIEW

SUMMARY 2012 FINANCIAL HIGHLIGHTS

	2012 € billion	2011 € billion	From inception € billion
Cash generation			
Total cash generated	4.51	5.09	10.60
Disposal receipts	2.80	3.63	6.83
Non disposal income	1.45	1.34	3.18
Bond repayments			
Senior bonds redeemed	3.50	1.25	4.75
Profitability			
Operating profit before impairment	0.83	1.28	
Impairment charge	(0.52)	(1.27)	
Profit for the year	0.23	0.24	
Loan portfolio			
Loans and receivables (gross)	26.04	28.36	
Impairment provision	3.26	2.75	
Loans and receivables (net of impairment)	22.78	25.61	

CASH GENERATION

Cash generation is a critical measure of the progress being made by NAMA in meeting its stated objectives. During 2012, NAMA generated €4.5 billion in cash, bringing total cash generated from inception to end-2012 to €10.6 billion.

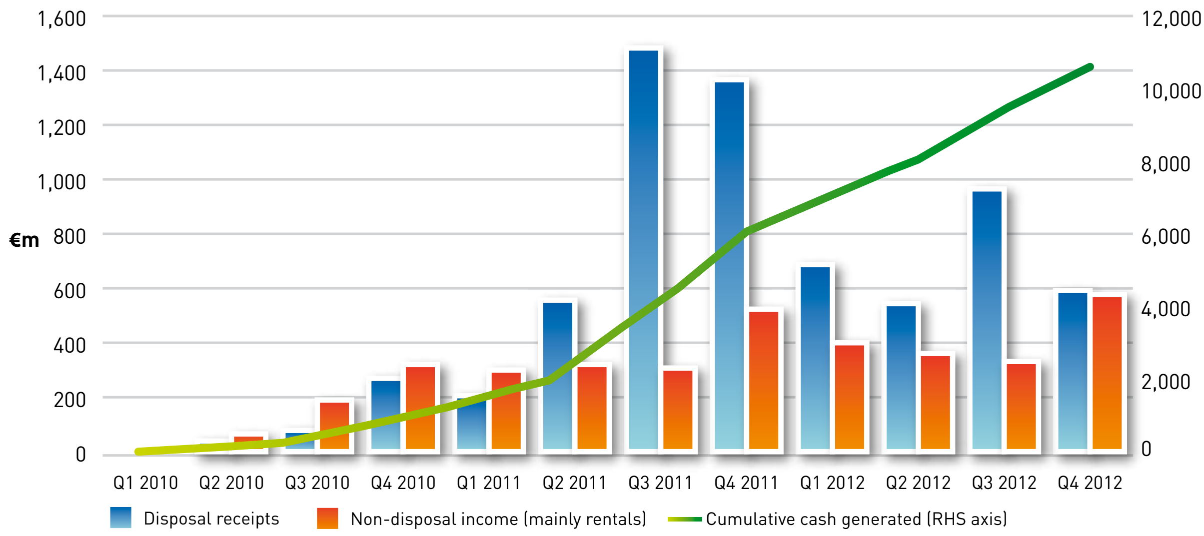
Cash is generated principally through disposal receipts and non-disposal income. Disposal receipts comprise the proceeds of both property collateral and loan sales. Non-disposal income represents income generated by debtor assets, principally rental income.

Table 4 and **Figure K** present NAMA's summary cashflow since inception.

TABLE 4: Summary of cashflow since inception

	2010 €m	2011 €m	2012 €m	From inception €m
Opening cash, cash equivalents and liquid assets balance	**-**	**837**	**3,847**	**-**
Inflows				
Disposal receipts	404	3,628	2,798	6,830
Non disposal income	390	1,340	1,453	3,183
Other	219	117	254	590
	1,013	**5,085**	**4,505**	**10,603**
Outflows				
Bond redemption	-	(1,250)	(3,500)	(4,750)
Foreign exchange and debt servicing costs (net)	13	(329)	(745)	(1,061)
Capital drawdowns	(240)	(304)	(308)	(852)
Operating costs	(49)	(143)	(155)	(347)
	(276)	**(2,026)**	**(4,708)**	**(7,010)**
Initial funding				
Issue of share capital to external investors	51	-	-	51
Net advance / (repayment) to the exchequer	49	(49)	-	-
	100	**(49)**	**-**	**51**
Closing cash, cash equivalents and liquid assets balance	**837**	**3,847**	**3,644**	**3,644**

FIGURE K: NAMA Cash generation from inception



NAMA's success in generating €10.6 billion in 33 months can be attributed to notable achievements in the following core business areas:

- Early action taken by NAMA to devise and implement workout strategies across its entire debtor portfolio - NAMA acted quickly to fix the significant debtor business problems that it had inherited and to put in place a robust platform to manage debtors and receivers.
- The capture of non-disposal income, averaging in excess of €100m per month, much of which would not otherwise have been applied to debt repayment.
- Intensive ongoing management of debtors and receivers to ensure adherence to milestones set by NAMA, including property disposal milestones.
- Intensive management of assets so as to derive incremental value from assets prior to disposal.

DISPOSAL RECEIPTS

One of NAMA's primary activities is the origination and management of property and loan disposal transactions. Disposal receipts during 2012 totalled €2.8 billion (2011: €3.6 billion), comprising property collateral disposals of €2.3 billion (2011: €2.7 billion) and loan sale transactions of €0.5 billion (2011: €0.9 billion), bringing total disposal receipts to €6.8 billion since inception.

During 2012, there were over 1,400 property disposal transactions (2011: 1,275) and 13 loan sale transactions (2011: 4). From inception to date, there have been 3,134 property disposal transactions and 17 loan sales (par value of €2.5 billion).

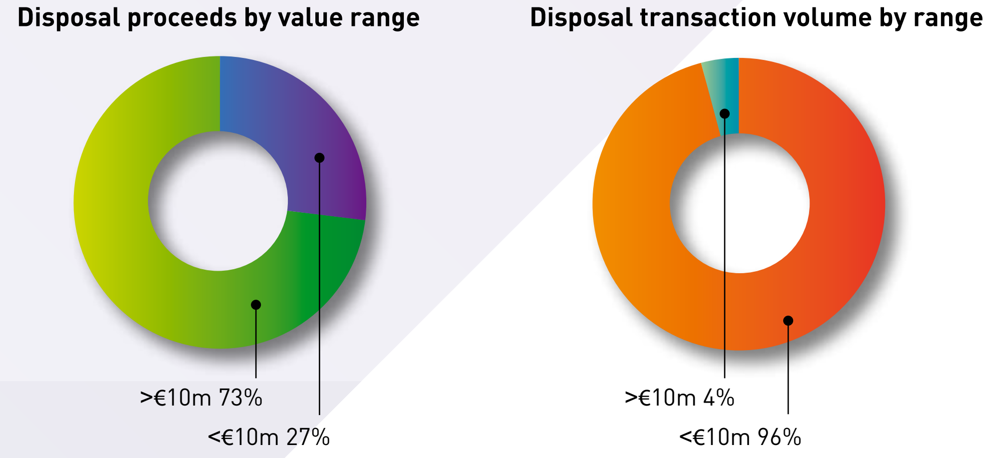
(a) Disposal transactions by value

Table 5 and **Figure L** provide a breakdown of the number of transactions by value.

TABLE 5: Analysis of disposal transactions by value

	<€10m	>€10m	2012 total	<€10m	>€10m	Inception total
Total disposals (€m)	797	2,001	2,798	1,817	5,013	6,830
No. of transactions	1,360	57	1,417	3,034	117	3,151
Average disposal value (€000)	586	35,097	1,975	599	42,850	2,168

FIGURE L: Analysis of disposal transactions by value and volume



(b) Disposal transactions by location

Figure M provides a breakdown of asset disposals by location. As highlighted, a significant proportion of disposal receipts have been generated by property disposal and loan sale transactions in the UK market, particularly in London. Disposal receipts relating to British assets amounted to €5.4 billion by end-2012 (79% of overall disposal receipts).

FIGURE M: Analysis of disposals by location

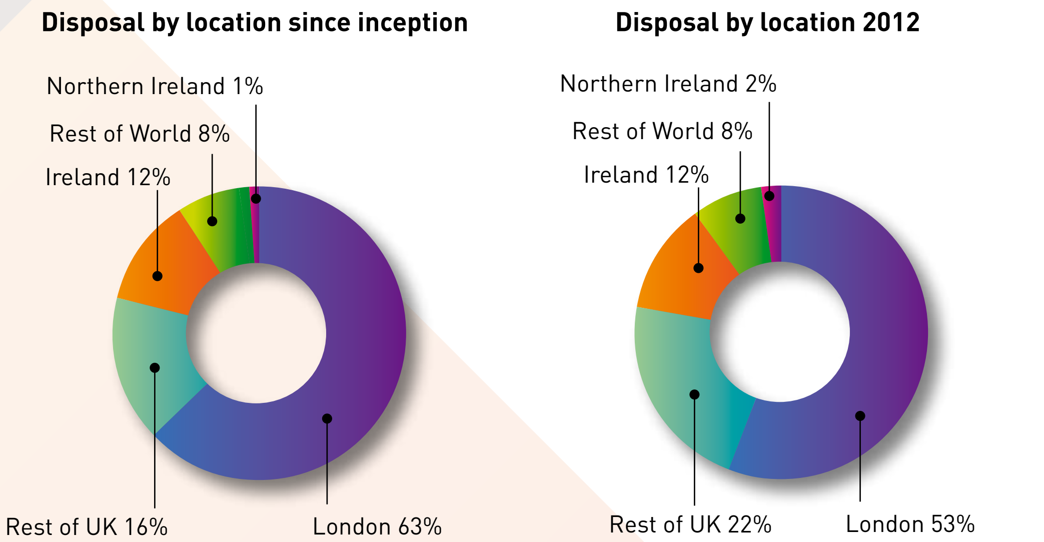
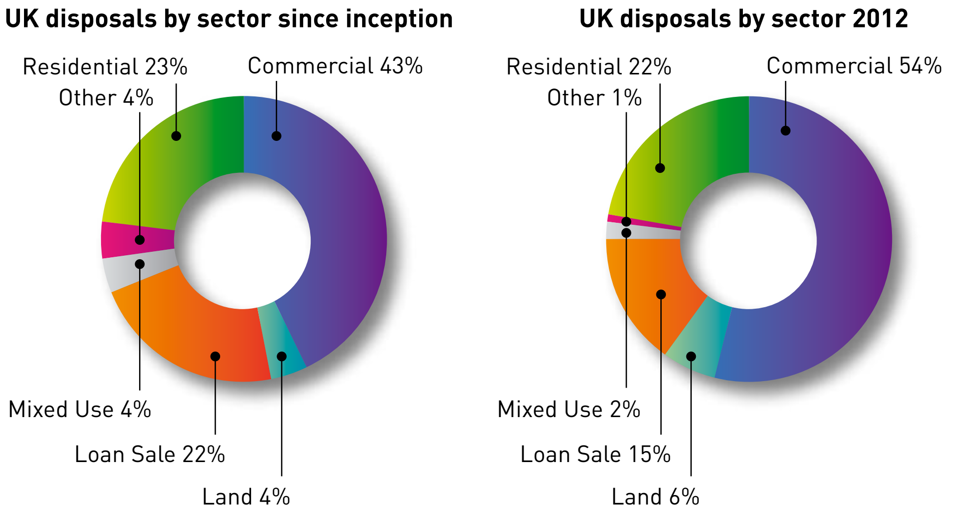


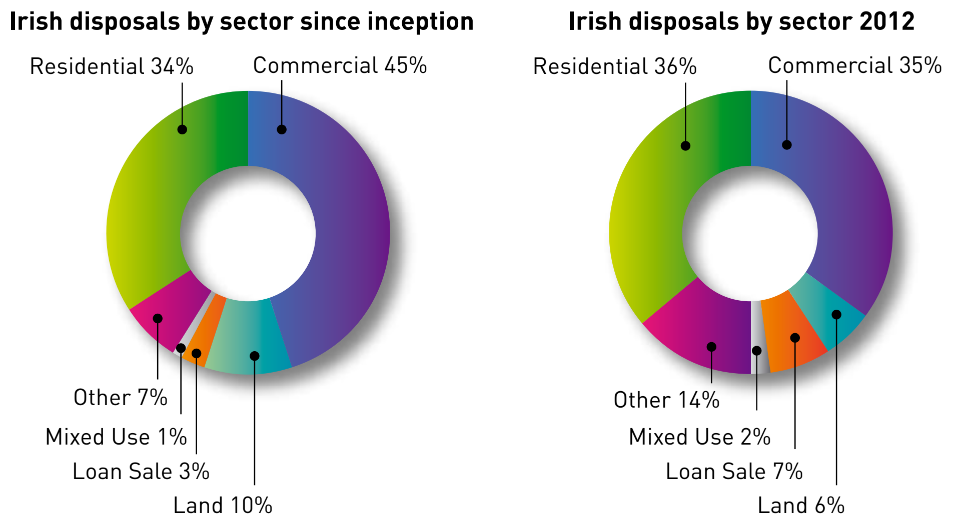
Figure N shows an analysis of UK disposals since inception and for 2012.
65% of UK disposal receipts to date relate to commercial property and loan sale transactions.

FIGURE N: Analysis of UK disposals



As highlighted in **Figure O**, 45% of Irish asset disposals to date relate to commercial property sales and 34% to residential property sales.

FIGURE O: Analysis of Irish disposals



NON-DISPOSAL INCOME

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

Cash generated during 2012 included recurring non-disposal income of €1.45 billion (2011: €1.34 billion). Performance in this respect remains strong notwithstanding the disposal of some €7.2 billion of assets by end-March 2013.

PROFITABILITY

NAMA recorded an operating profit before impairment of €826m in 2012 (2011: €1,278m). An incremental impairment charge of €518m (2011: €1,267m) was recorded in 2012 mainly reflecting the fact that the property environment in Ireland remained challenging during the year. NAMA has now recorded a cumulative impairment provision of €3.3 billion.

The overall result was a profit of €228m for 2012 (2011: €241m).

TABLE 6: Summary income statement

Income statement	**2012 €m**	**2011 €m**
Interest and fee income	1,387	1,283
Interest expense	(493)	(512)
Net interest income	**894**	**771**
Net profit on loans and property disposals	188	549
Foreign exchange (loss)/gain	(99)	62
Derivatives (loss)/gain	(38)	24
Administration expenses	(119)	(128)
Operating profit before impairment	**826**	**1,278**
Impairment charge	(518)	(1,267)
Profit for the year before tax	**308**	**11**
Tax (charge)/credit	(76)	235
Dividends	(4)	(5)
Profit for the year after tax and dividends	**228**	**241**

As illustrated in **Figure P** which highlights NAMA's profit/(loss) from inception, NAMA has reported its second successive year of profit.

Figure Q outlines the impairment charge recorded by NAMA since inception and illustrates that, while NAMA has recorded an incremental impairment charge of €518m in 2012, the level of impairment has reduced significantly when compared to previous years.

FIGURE P: NAMA Profit/Loss 2010 - 2012

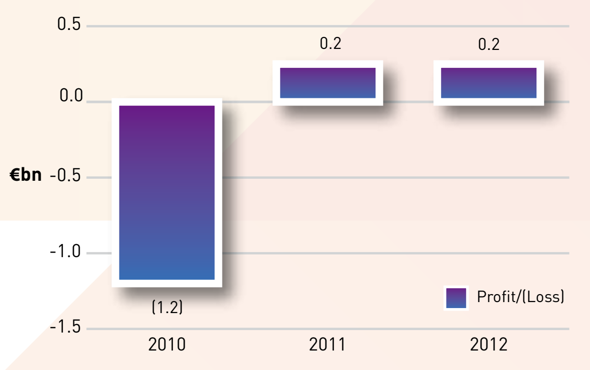
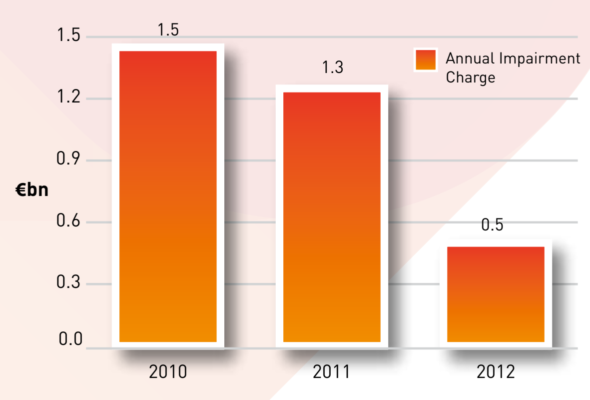


FIGURE Q: NAMA impairment 2010 - 2012



Net interest income

The increase in net interest income from €771m in 2011 to €894m in 2012 was primarily attributable to higher interest earned on loans and receivables and to lower debt servicing costs due to falling interest rates. The Euribor interest coupon on NAMA's Senior Bonds fell by 120 basis points from 1.747% at the start of 2012 to 0.544% at the end of the year.

Interest and fee income of €1,387m includes income on loans and receivables of €1,222m, which was recognised in accordance with the Effective Interest Rate (EIR) method as prescribed by accounting standards. 100% of the interest income recognised in the year in accordance with the EIR method was realised in cash.

Net profit on loans and property disposals

Net profit on loans and property disposals of €188m in 2012, comprises profits and losses on disposal of loans and property assets of €16m and surplus income of €172m. Of the €172m, €108m relates to surplus loan repayments to NAMA, representing cash receipts in excess of the carrying value of the related loans.

Foreign exchange loss

The €99m foreign exchange loss recorded in 2012 reflects market movements in respect of foreign currency derivatives during the year. On a cumulative basis since 2010, NAMA has recorded a loss of €15m. This cumulative net cost is akin to an 'insurance' cost of protecting NAMA from the impact of foreign exchange rate fluctuations. NAMA does not enter speculative derivative positions.

Administration expenses

Administration expenses have reduced from €128m in 2011 to €119m in 2012. The level of costs in 2012 represents 2.6% of cash generated during the period which compares favourably with comparable international institutions. A breakdown of administration expenses for the period is provided in **Table 7**.

TABLE 7: Summary administration expenses

	2012 €'m	2011 €'m
Primary and master servicer fees	60	60
NTMA as service provider	37	28
Due diligence costs (net of recovered amounts)	4	10
Portfolio management fees	7	16
Legal fees	5	9
Finance and technology costs	3	2
Other costs	3	3
Total operating costs	**119**	**128**

The largest single expense was €56.4m, payable to the PIs as primary servicers. This equated to 8 basis points of the nominal loan balances administered by them in 2012.

NAMA has no employees. All staff assigned to NAMA are employed by the NTMA and the costs are recharged to NAMA by the NTMA as a service provider. NAMA salary costs comprised €27m of the total 2012 recharge from the NTMA.

Impairment

Following completion of its year-2012 impairment review, NAMA has recorded a cumulative impairment provision of €3.3 billion against its loans and receivables portfolio; this entails that an additional impairment charge of €0.51 billion be applied to the 2012 income statement.

Table 8 summarises the results of the year-end impairment review and provision.

TABLE 8: Summary analysis of the impairment provision

	Carrying Value[1] at 31/12/2012	2012 Impairment provision	2011 Impairment provision	Movement	Impairment coverage
Impaired Portfolio	14,329	2,751	2,059	692	19.2%
Unimpaired Portfolio	7,922	-	94	(94)	N/A
Individually Assessed Portfolio	**22,251**	**2,751**	**2,153**	**598**	**12.4%**
Collectively Assessed Portfolio	4,111	512	598	(86)	12.5%
Overall Portfolio	**26,362**	**3,263**	**2,751**	**512**	**12.4%**

Note 1: The carrying value includes the carrying value of debtor loans and derivatives

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

The incremental impairment provision of €598m in respect of the individually assessed portfolio is analysed in **Table 9**.

TABLE 9: Analysis of the movement in the specific impairment provision in 2012

	€m
Increase in specific provision	1,017
Release of specific provision	(419)
Total	**598**

The release of the specific impairment provision of €0.4 billion in 2012 primarily relates to a reduction in the initial carrying value of loans for certain debtor connections following the completion of due diligence on those loans during the year and the finalisation of consideration paid to PIs.

The year-end impairment review was based on:

- A detailed assessment of expected future cash flows for all debtor connections which are considered individually significant. These comprised 187 debtor connections with loans and related derivatives with a carrying value of €22.3 billion (2011 €23.5 billion), representing all of the NAMA-managed debtor connections apart from a small number where circumstances did not allow the preparation of cash flow estimates.
- The expected future cash flows represent NAMA's best estimate of expected future cash flows for each individually significant debtor. They include estimated cash flows arising from the disposal of property collateral and non-disposal income (such as rental income).
- A collective loss assessment was performed on the remaining loan book, taking into account the loss levels evident in the individually assessed portfolio. The remaining loan book, representing a carrying value of €4.1 billion, relates to debtors principally managed by PIs which have not been individually assessed and which are grouped into a single portfolio for collective assessment.

The additional impairment charge for 2012 reflects on-going challenging conditions in the Irish property market where property values in 2012 continued to fall across most sectors and the level of market activity remained relatively low. While recognising that Irish property prices have declined on average by the order of 25%-30% since November 2009, it would be overly simplistic and inaccurate to presume that this rate of decline applies evenly across NAMA's portfolio.

As is evident from **Figures A, B and C** (pages 21-22), much of the residual portfolio is well located within Ireland and the UK. It is also notable that a number of property assets (including many Irish assets) have outperformed the relevant property indices since acquisition due to their unique individual characteristics and to positive asset management initiatives (for example, elimination of vacancies, commencement of development activity, etc).

Tax

The tax charge in the period of €76m reflects primarily the partial release of deferred tax assets recognised on unutilised tax losses in 2011. The balance of €133m is expected to be released in 2013 and 2014.

BALANCE SHEET

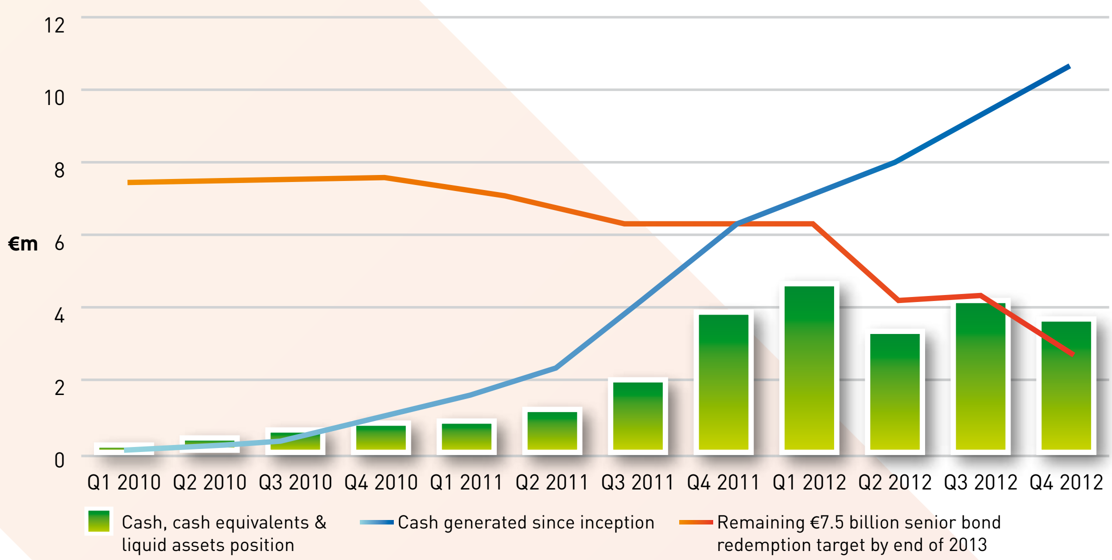
TABLE 10: Summary NAMA Balance Sheet

	2012 €m	2011 €m
Assets		
Cash and cash equivalents and liquid assets	3,644	3,847
Loans and receivables	22,776	25,607
Derivative financial instruments	351	449
Deferred tax	337	306
Other assets	120	460
Total assets	**27,228**	**30,669**
Liabilities and reserves		
Senior debt securities	25,440	29,106
Derivative financial instruments	1,169	729
Other liabilities	207	312
Total liabilities	**26,816**	**30,147**
Equity and reserves		
Shareholders Equity	934	714
Other Reserves	(522)	(192)
Total equity and reserves	412	522
Total equity and liabilities	**27,228**	**30,669**

DEBT REDUCTION

As highlighted in **Figure R**, NAMA is on target to achieve its Senior Bond redemption target of €7.5 billion by the end of 2013. €3.5 billion of Senior Bonds were redeemed in 2012, bringing the cumulative redemption to €4.75 billion which is 63% of the end-2013 target.

FIGURE R: Cash generation versus bond redemption target



LOAN PORTFOLIO

NAMA acquired loans with an original par debt value of €74 billion from the PIs for a consideration of €31.8 billion. The NAMA carrying value of the loans at end-2012 is €22.8 billion (net of the cumulative €3.3 billion impairment provision).

Table 11 provides a summary of the movement in the loan portfolio during the period.

TABLE 11: Summary of movement in loans and receivables

	NAMA Debt 2012 €m	Par Debt 2012 €m	NAMA Debt 2011 €m	Par Debt 2011 €m
Loans and receivables - opening balance	**25,607**	**72,463**	**27,951**	**71,111**
Cash receipts (note 1)	(4,176)	(4,176)	(4,867)	(4,867)
Interest income	1,222	2,430	1,145	2,801
Loan acquisitions / valuation adjustments	(118)	63	1,644	2,856
Advances	308	308	304	304
Profit on loans and property disposals	188	-	549	-
Loan sale movement	(5)	(947)	-	(98)
Debt Comprise/Write-off	-	(55)	-	(118)
Foreign exchange and other movements	262	726	148	474
Loans and receivables pre-impairment	**23,288**	**70,812**	**26,874**	**72,463**
Impairment provision - incremental charge	(512)	-	(1,267)	-
Loans and receivables - closing balance	**22,776**	**70,812**	**25,607**	**72,463**

Note 1 - the loan movements table includes the cash movements on loans and receivables only. It does not include cash received on performing borrower derivatives during 2012.

As highlighted below in **Table 12**, the underlying performance of the loan portfolio, on a weighted average cash flow basis, of fully performing and part performing loans, is 33% at 31 December 2012.

TABLE 12: Performance of loan portfolio

	Non disposal receipts €m	Par Debt at 31/12/12 €m	Cashflow weighted average performance
Full performing loans	762	12,412	
Partially and non-performing loans (including enforced loans)	691	58,400	
Total	**1,453**	**70,812**	**33%**

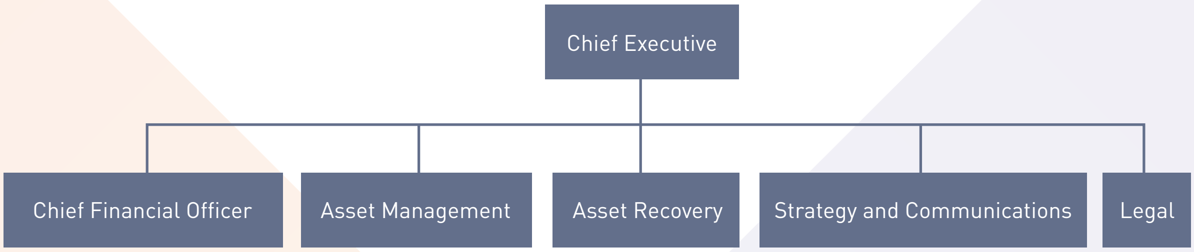
When NAMA acquired its loans, the majority of the loans were non-performing by reference to the original loan facility terms. NAMA measures its performance by reference to the extent to which it captures non-disposal income and not by reference to the extent to which its debtors are in compliance with the legacy facility agreements which predate NAMA.

NAMA ORGANISATION AND SERVICE PROVIDERS

ORGANISATIONAL STRUCTURE

During 2012, NAMA marked its evolution from its establishment and loan acquisition phase to a new phase during which it focused on developing and implementing strategies aimed at extracting maximum recovery from its assets over medium- and long-term horizons. In late 2011, the Board approved a revised organisation structure designed to respond effectively and dynamically to the challenges ahead. The reorganisation, which was implemented in April 2012, involved the restructuring of the Agency into five divisions:

FIGURE S: NAMA structure



STAFF RESOURCES

The number of NTMA staff assigned to NAMA was 224 at the end of 2012. By the time recruitment has been completed for management of the original NAMA portfolio (that acquired under the Act), staff numbers are expected to be as follows:

TABLE 13: NAMA staffing by division

Division	Projected[4]
CEO / Senior Executives	6
Asset Management	16
Asset Recovery	153
Chief Financial Officer	57
Legal	32
Strategy and Communications	10
TOTAL	**274**

35 members of staff have resigned since the inception of NAMA, including 25 resignations during 2012.

Acquisition of loans from the IBRC portfolio later in 2013 will give rise to additional staffing requirements within NAMA but it is not yet possible to be more specific until there is greater clarity about the volume of loans to be acquired from the Special Liquidators.

4 *Prior to integration of the IBRC portfolio of loans to be acquired from the Special Liquidators*

ASSET RECOVERY

The **Asset Recovery** division, which comprises 153 staff, has three primary functions: strategy delivery, management of debtors/receivers and maximising cashflow while minimising loss.

Asset Recovery is the principal interface with debtors/receivers and is responsible for over 99% of the debtor connections, both directly managed by NAMA and indirectly managed through the PIs. This responsibility requires intensive daily management with an innovative and solutions-based approach employing a range of work-out methods including the following:

- Setting and actively monitoring clear strategies, targets and milestones;
- Minimising debtor and receiver costs;
- Securing and maximising income;
- Optimising sales values through proactive asset management;
- Providing additional capital expenditure where additional value can be obtained or value protected;
- Employing vendor finance and loan sales where appropriate;
- Reviewing, on a regular basis, asset sale versus asset hold options, using discounted cash flow analysis.

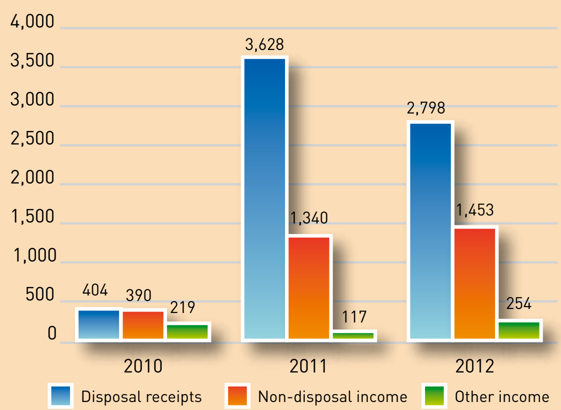
The Division is structured as follows:

FIGURE T: Structure of Asset Recovery Division

DEBTOR CASH FLOWS

The Asset Recovery division is primarily responsible for direct engagement with debtors and for optimising the cashflows generated by debtor assets so as to enable key debt repayment targets to be met. **Figure U** below presents annual aggregate cashflows arising from disposal proceeds and other (mainly rental) income from 2010 to end-2012:

FIGURE U: Receipts from debtors - 2010-2012



NAMA-MANAGED PORTFOLIO

The NAMA-managed portfolio includes 189 debtor connections with original par debt of €61 billion. All but three[5] of these debtor connections are managed by nine multidisciplinary Asset Recovery teams of nine/ten staff per team which engage directly with debtors in relation to business plans, credit applications and monitoring of targets and performance. By June 2012, the review of the business plans of some 775 debtor connections had been completed (400 directly reviewed in NAMA and 375 reviewed jointly with the PIs). Invariably, the business plan process gave rise to difficult and intensive negotiations on contentious issues (for example, Principal Dwelling House ('PDH'), early asset sales, reduction of overheads, asset reversals and securing charges over otherwise unencumbered assets).

PI-MANAGED PORTFOLIO

The PI-managed portfolio includes 586 debtor connections with €13 billion of original par debt. **Table 14** below provides a breakdown of the PI-managed debt by reference to the three PIs which were managing the portfolio at the end of 2012.

TABLE 14: PI-managed debt

	AIB	BOI	IBRC	Total
Debtor Connections	222	59	305	586
Par Debt (€ billion)	5.3	2.0	5.1	12.4
NAMA Debt (€ billion)	1.7	1.1	1.3	4.1

5 *Three substantial UK-based debtor connections are managed by the Asset Management team.*

On 7 February 2013, the Minister appointed Special Liquidators to IBRC. On 19 March 2013, NAMA announced its decision to move the management of the IBRC-managed portfolio on a phased basis to **Capita**. NAMA and Capita have begun the process of recruiting staff, largely from within the IBRC NAMA Unit, to carry out primary and special servicing on the portfolio previously managed by IBRC.

NAMA's enforcement activity (pages 26-27) is overseen by a team of specialist insolvency practitioners (based in the Asset Recovery division) in conjunction with the Legal division.

Both the NAMA-managed and PI-managed portfolios are supported by Asset Recovery Operations which includes Asset Search, Policy and Portfolio Operations teams.

To date, 58 debtor connections have been subjected to asset searches which have yielded additional assets valued at €7m.

ASSET MANAGEMENT

The **Asset Management** Division has a specific real estate and capital focus to identify and develop property assets with debtors, receivers and joint venture partners. The division aims to create and add value with the objective of enhancing cash flow, particularly over a medium-term horizon. In addressing this objective, it is focusing on a number of key development projects in Ireland and Britain which are considered to be commercially viable based on current or prospective demand and pricing. These projects, which are estimated to have a Gross Development Value in excess of €4 billion when completed, will be managed by the division through various stages of appraisal, planning, design and development.

After each phase in the development process, the Asset Management Division will subject developments to robust 'sell-hold' interrogation tests, with the intention of achieving the best return over the medium-term. This could involve the sale of the asset after a Local Area Plan ('LAP') has been finalised or after planning permission has been achieved or at any later point in the development cycle. The scope for Joint Ventures will also be assessed as a means of progressing projects.

Much of the division's activities in Ireland during 2012 was concentrated on planning issues. This involved extensive engagement with stakeholders in various projects, including owners/receivers and planning authorities. The division has engaged positively with various planning authorities on their LAP and SDZ processes and has also been active in obtaining new or amended planning permissions for specific sites.

Optimising the planning status of sites is a key prerequisite towards ensuring that NAMA can respond with agility to emerging demand for commercial and residential assets.

To date, much of the division's focus in terms of ongoing development projects has been on the UK, specifically the London residential market, where it is managing the active development of over 5,000 units. In Ireland, a number of projects have been identified which are intended to address prospective demand for office accommodation in central Dublin and for family housing accommodation also in parts of Dublin. For instance, as regards sites in the Dublin Docklands area over which it has security, NAMA has taken the lead in framing commercially viable proposals and in engaging from an early stage with the planning authorities and with potential investors and tenants. It is devoting considerable energy and resources towards determining the most appropriate solutions in terms of optimum development scale, mix, and timing of developments.

In addition to its asset management brief, the division also manages three significant debtor connections with aggregate par debt of €4 billion, principally secured by property located in Britain. In addition, it has taken a lead role in driving two NAMA initiatives, those relating to the provision of social housing (pages 34-35 of this Report) and the Deferred Payment Initiative (pages 33 of this Report).

ASSET MANAGEMENT - PROJECT SELECTION CONSIDERATIONS

NAMA will advance funds to enable the development of projects which it considers to be commercially viable, taking account of considerations of supply, demand and achievable sales prices. In the case of development proposals, some of the considerations which inform its project selection include the following:

Market demand

Through its engagement with the IDA and the four Dublin local authorities, NAMA has identified an emerging demand for new office accommodation within the Dublin Central Business District where leading global enterprises in the technology, business, financial and life sciences sectors are located and which is expected to remain the focus for continued strong FDI inflows over the medium-term. NAMA is also considering prospective demand for new commercial development across the country's major urban centres. In terms of residential development, NAMA recognises that there is a balance to be struck between current market demand for three-/four-bedroomed family houses in urban locations and the broad thrust of planning policy which seeks to encourage more sustainable development through the avoidance of excessive suburbanisation and the promotion of higher densities in appropriate locations. As a general principle, priority is given to sites in, or close to, established residential locations with existing supply constraints.

Planning context

The existing or achievable planning status of sites is an important consideration in project selection and therefore engagement with planning authorities on a project-by-project basis is crucial. NAMA also engages on a more strategic basis with the Department of the Environment, Community and Local Government, with the National Transport Authority and with planning authorities to discuss wider issues. The Agency is actively engaged, for instance, with all stakeholders including the Department of the Environment, Community and Local Government and Dublin City Council on the Draft SDZ Scheme for parts of the Docklands, which will replace existing Dublin Docklands Development Authority ('DDDA') Planning Schemes before the end of 2013. The SDZ is critically important in terms of the Agency's plans to support the development of new commercial office space in the city. In relation to residential housing, NAMA is engaged on policy matters such as residential density, infrastructure provision and potential future landbank requirements which need to be resolved at national, as well as at planning authority, level to underpin the delivery of residential development for which demand has been identified.

Availability of infrastructure/ utilities

The extent to which there is connectivity to existing services infrastructure, for example, drainage, water and electricity services, without disproportionate upfront capital expenditure, or delay, is an important consideration.

Access and amenities

Access to public transport services and road networks is an increasingly important consideration. Good transportation connectivity is a major consideration in terms of site selection. The existence of an established community and workforce and the availability of local amenities are central to the selection of commercial and residential projects. Local schools, convenience shopping and other social services are all important determinants of location choice.

STRATEGY AND COMMUNICATIONS

The **Strategy and Communications** Division is responsible for strategic analysis of the portfolio and for developing strategies for NAMA on how best to attain its objective of obtaining the best achievable return. Its functions include regular formal review of NAMA strategy and the design and implementation of new products. The division also has responsibility for managing NAMA's communications activity, including the co-ordination of NAMA's engagement with the media, State agencies and with other key NAMA stakeholders.

Strategic Planning

The **Strategic Planning** team makes recommendations to Executive and Board as to the most appropriate strategies for NAMA to pursue in the context of its statutory objectives. The team prepares and analyses detailed portfolio data and analyses developments and trends in the market with a view to formulating appropriate recommendations. It monitors and reports performance on a number of key elements of NAMA Strategy.

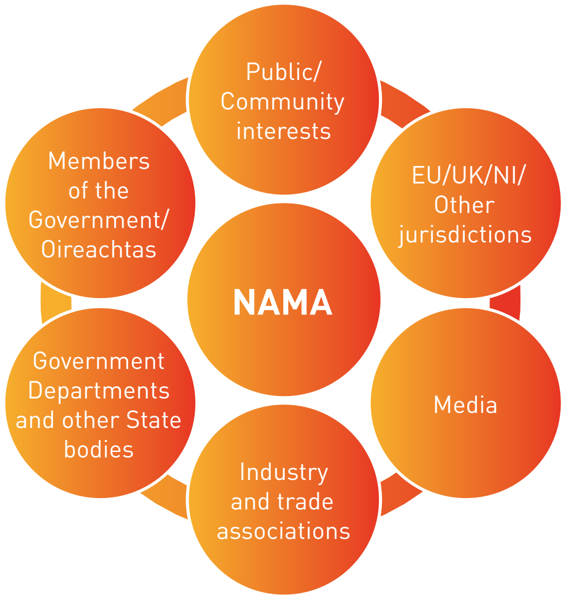
It also has a role in new product development, including the design of the DPI and assessing the suitability of products such as Qualified Investor Fund ('QIF') and REITs. It is currently engaged with the ESRI in a research programme which will produce research reports on topics related to future supply and demand for residential housing in Ireland.

Communications

The NAMA **Communications** function is concerned with how best to communicate with stakeholders who have a legitimate interest in NAMA's activities to ensure that they are well informed about those activities and have a strong appreciation of the rationale behind initiatives undertaken by NAMA.

NAMA's principal engagement is with debtors and potential purchasers of assets controlled by its debtors and receivers and this engagement is conducted by the Asset Recovery and Asset Management teams. As the activities of NAMA debtors and receivers have an impact on the wider economy and society, there is a diverse range of other stakeholders (**Figure V**) with an interest in those activities and that creates a corresponding obligation on NAMA to ensure that its perspective is communicated to those stakeholders.

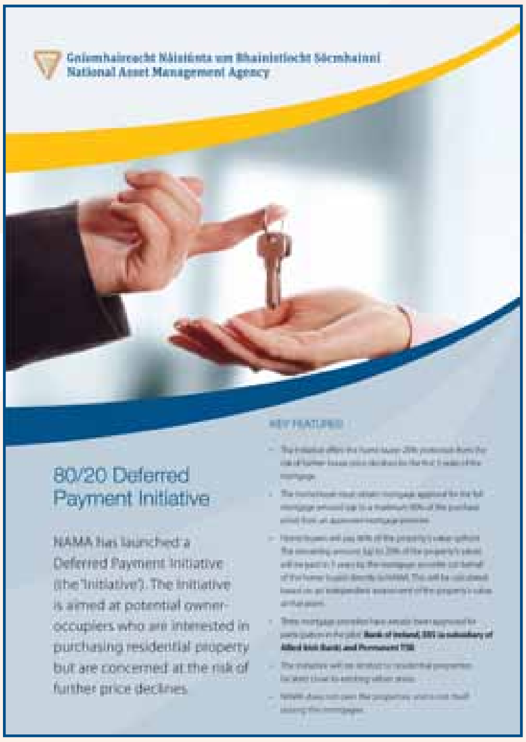
FIGURE V: Key NAMA stakeholders



Public representatives

Given NAMA's scale and its potential impact on the Irish economy and society, public representatives, acting on behalf of their constituents, have a legitimate interest in NAMA's activities and NAMA, in turn, is keen to ensure that representatives are well informed about those activities, subject to commercial and banking law constraints. NAMA engages with public representatives through a number of channels including appearances by the Chairman, the Chief Executive and senior executives at Oireachtas committees. It also provides a dedicated email channel which enables Oireachtas members to raise particular issues of concern to their constituents, for example, unfinished estates, health and safety issues associated with derelict properties and other matters. A similar email channel is available to members of the Northern Ireland Assembly. NAMA also deals with issues of public concern through replies to Parliamentary Questions ('PQs') submitted to the Minister for Finance on NAMA matters (there were over 350 such PQs in 2012).

More generally, NAMA seeks to provide as much information to the public as is possible given constraints imposed by commercial imperatives and banking confidentiality law. This is partly done through normal channels such as press statements, speeches, responses to press queries, website updates and information leaflets on particular topics (example below).



NAMA also deals with a monthly average of about 150 email queries (through info@nama.ie) and an average of about 140 phone queries per month from members of the public.

LEGAL

The **Legal** Division provides independent advice to the Board, the CEO and to NAMA business divisions on a range of legal issues that affect NAMA and its operations. It comprises a core team of over 30 legal professionals and support staff with expertise in commercial property, banking, insolvency and litigation. The Legal division played a key role in managing the extensive legal due diligence process required as part of the loan acquisition and valuation process.

The Division's role involves delivering legal solutions and managing legal risk in areas such as asset recovery, asset management, insolvency, operations, delivery of legal services by the participating institutions and on cross-functional Agency projects (for example, the DPI). The Division is directly involved in debt restructuring, lending operations, asset management strategies, enforcement and post-enforcement strategies and operations. To date, this has included providing strategic legal advice and identifying and managing legal risk on debt restructuring of more than €10 billion, asset and loan sales of €7 billion and enforcements of €3 billion.

NAMA-managed portfolio

The Legal Division provides legal advice and transactional services to Asset Recovery and Asset Management teams in respect of the NAMA-managed portfolio of 189 debtor connections. Following review of debtor business plans, Legal advises Asset Recovery and Asset Management on the implementation of NAMA's preferred strategy for the connection including all new project funding, supervision of asset sales, restructuring of loans and security, reversal of asset transfers and the taking of security over unencumbered assets.

PI-managed portfolio

The Legal Division provides advice and policy guidance to Asset Recovery in respect of the PI-managed portfolio which includes 586 debtor connections and provides direction and guidance to the legal teams in the PIs on legal issues arising on that portfolio. The Legal Division is also involved in documenting service standards and resolving service issues with the participating institutions.

NAMA Board and Group

The Division advises the Board and NAMA Group on legal issues, corporate governance and compliance obligations. Legal manages the governance structures of the NAMA SPVs and advises on NAMA's funding programmes.

Litigation

The Division manages all litigation initiated or defended by NAMA, both in connection with its portfolio of loans and otherwise. During 2012, NAMA successfully dealt with a number of judicial review challenges. The value of judgements obtained in the Irish courts since inception is in excess of €1.1 billion.

Operations

The Legal Division advised on and implemented the legal structure for the DPI and has advised on the transactions necessary to deliver social housing units through outright purchase and also through the long term leasing model.

CHIEF FINANCIAL OFFICER

The Chief Financial Officer's areas of responsibility include **Finance, Operations, Systems, Tax, Treasury** and **Audit and Risk**.

Finance

The **Finance** team has responsibility for managing the organisation's financial and management reporting requirements. It comprises the following areas of responsibility:

Financial Reporting

- Preparation of Section 55 Quarterly Accounts and Annual Financial Statements.
- Liaison with external auditors regarding the year-end audit process.
- Monitoring and control of the organisation's operating costs.
- Management of the annual cost budget process and preparation of periodic updates.
- Advising on appropriate accounting, compliance and business administration considerations as part of new NAMA business initiatives (for example, the social housing initiative).

Financial Planning and Analysis

- Reporting of organisational key performance indicators ('KPIs') to Board, Board Committees and the Senior Executive Team.
- Preparation of management accounts and other key management information.
- Preparation of external presentations for key NAMA investors and stakeholders.
- Preparation of annual budgets and other forecasts.
- Management of the bi-annual impairment process.

Data Management

- Preparation of Section 55 (the Act) Quarterly Report.
- Liaison with the PIs, Master Servicer and internal stakeholders regarding the delivery of loan data.
- Performance of key reconciliations of the loan data provided by the PIs/Master Servicer.
- Overseeing the recording of debtor transactions in both PI and NAMA systems.
- Maintenance and development of the NAMA Loans Warehouse ('NLW') system.

Operations

The **Operations** team has responsibility for:

- Oversight of the performance of the PIs as loan administration service providers to NAMA and of the NAMA Master Servicer.

  During 2012, following the end of the debtor business plan review process, the full transition to direct NAMA management of larger debtors was achieved through the establishment of clear operational and case management protocols and re-engineering of processes with the PIs.
- Oversight of various operational projects within NAMA. Key 2012 achievements included, *inter alia*, the establishment of a formal structure to mandate debtor rental income which is well advanced in terms of implementation and the implementation of the NAMA operational integration plan underpinning the 2011 merger of EBS and AIB.

Systems

The **Systems** team has responsibility for the design and specification, development and management of NAMA's IT systems.

A number of key systems milestones were achieved in 2012:

- The Portfolio Management System ('PMS'), which is NAMA's core property database and management tool, was fully implemented and rolled out in 2012.
- The Document Management System ('DMS') was also fully implemented in 2012. DMS acts as a repository for all documents.
- Significant enhancements were made to the NLW system, which acts as a central repository for all NAMA loan data and, in turn, feeds into other core NAMA systems.
- The Geographical Information System ('GIS'), which provides a geospatial visual of a specific property or properties, has been implemented and rolled out.

- The Argus software was implemented to support asset management decision-making and management of development projects.

Tax

Tax has responsibility for:

- Managing the organisation's tax compliance obligations.
- Designing, implementing and overseeing structures and protocols, both within NAMA and the PIs, to ensure that debtor/receiver taxation issues are appropriately considered as part of property and loan transactions.
- Advising on appropriate tax planning and structural considerations as part of new NAMA business initiatives (for example, Joint Ventures).

Treasury

Treasury has responsibility for the management of NAMA's balance sheet risks and its liquidity requirements. Its main activities include:

- Management of NAMA's day-to-day funding and liquidity requirements.
- Balance Sheet asset and liability management ('ALM'), including management of currency and interest rate risks.
- Monitoring and forecasting NAMA's medium and long-term liquidity
- Management of NAMA's Debt Securities Issuance.

Audit and Risk

Audit and Risk has responsibility for:

- The design and implementation of the NAMA Risk Management Framework.
- Providing independent assessment of, and challenge to, the adequacy of the control environment and critical organisation processes (for example, impairment).
- Supporting the NAMA CFO to ensure that NAMA operates within Board-approved risk limits and tolerances.
- Coordination of the internal and external audit activities across NAMA, PIs and Master Servicer.
- Monitoring and reporting to the Audit Committee and Board on progress in addressing actions highlighted in audit findings.
- Oversight of NAMA's Quality Assurance function.

SERVICE PROVIDERS TO NAMA

NTMA

Under Section 41 of the Act, the NTMA provides NAMA with business and support services, including HR, IT, Market Risk analysis and the execution and processing of hedging transactions. NAMA reimburses to NTMA the cost of these services which was €37m (including staff costs) in 2012.

By the end of 2012, NAMA had, through the NTMA, recruited over 200 staff with extensive experience and expertise in the areas of lending, property, accountancy, law, banking and credit. For any potential employee to be assigned to NAMA, the NTMA must ensure that the person meets the character standards set out in Section 42 of the Act, has no material conflict of interest and provides to the NTMA a statement of interests, assets and liabilities.

PARTICIPATING INSTITUTIONS – SERVICING OF NAMA LOANS

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

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 operate on the basis of a segregation of staff, systems, data and infrastructure from other parts of the institution.

Under Section 131 of the Act, NAMA issued a Direction to each of the PIs setting out their detailed obligations in relation to the services they provide to NAMA. The Direction covers such issues as governance structure and procedures, credit management procedures, customer relationship procedures, procedures for monitoring performance and procedures for reporting to, and working with, NAMA and the Master Servicer.

Monthly Steering Committee meetings are held between NAMA and each PI to oversee service delivery and performance. NAMA has assigned three teams of five staff to each of the PIs: the teams are based in the various PI NAMA units and have oversight of the management of NAMA debtors. In addition, the PIs are monitored by reference to performance indicators and they are required to meet or exceed pre-determined Service Levels (failure to do so will lead to payment of Service Charges, in effect, fines).

PI fees for services to NAMA are calculated based on 10 basis points of loan nominal or actual costs incurred, whichever is the lesser. The aggregate fee payable to the five PIs in respect of 2012 was €56.4m, an average of 8 basis points; this was payment for the work of about 550 staff employed by them to carry out loan administration and to manage NAMA's engagement with 586 debtor connections whose loans are not directly managed by NAMA.

Master Servicer

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 €3.5m was paid to Capita in respect of 2012.

PROCUREMENT

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

NAMA as a contracting authority is subject to EU Directive 2004/18/EC as implemented in Ireland by the European Communities (Award of Public Authorities' Contracts) Regulations 2006 (the 'Regulations'), in respect of the procurement of goods, works and services above certain value thresholds set by the EU. The principles underpinning the Regulations are equal treatment, non-discrimination, mutual recognition, proportionality and transparency. Where the Regulations do not apply – either because the value of the procurement is below the EU thresholds or falls outside of the Regulations – NAMA adopts a competitive process designed to obtain the best value for money that can be achieved.

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

GOVERNANCE

BOARDS AND COMMITTEES OF THE BOARD

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

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

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

Four members of the Board were appointed by the Minister on 22 December 2009. They are Frank Daly (Chairman), Éilish Finan, Brian McEnery, and Willie Soffe. Steven Seelig was subsequently appointed by the Minister on 26 May 2010. The two *ex-officio* members of the Board are John Corrigan (Chief Executive of the NTMA) and Brendan McDonagh (Chief Executive Officer, NAMA).

During 2012, the Minister filled one of two vacancies on the Board through the appointment of John Mulcahy (NAMA's Head of Asset Management) on 7 March 2012. The Minister announced the appointment of Oliver Ellingham to the Board with effect from 10 April 2013.

The terms of office of Board members are between three and five years and no appointed member is eligible to serve more than two consecutive terms. The Minister determines the level of remuneration of appointed members and their entitlement to reimbursement for expenses. Neither the *ex-officio* members nor Mr. Mulcahy, as an Executive Board member, receive any additional remuneration for their membership of the Board of NAMA.

During 2012 the Board met on 28 occasions while the six Committees of the Board met on 83 occasions. The attendance details for Board and Committee meetings are outlined in **Table 15**.

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

- Audit Committee (chaired by Brian McEnery)
- Credit Committee (chaired by Willie Soffe)
- Risk Management Committee (chaired by Steven Seelig)
- Finance and Operating Committee (chaired by Éilish Finan)
- Planning Advisory Committee (chaired by Willie Soffe)
- Northern Ireland Advisory Committee (chaired by Frank Daly)

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

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

TABLE 15: Attendance at Board and Board committee meetings in 2012

	Board	Audit	Credit	Finance and Operating	Risk Management	Planning Advisory	Northern Ireland
Board members:							
Frank Daly	28						4
John Corrigan	21				6		
Éilish Finan	28	14		12			3
John Mulcahy*	23		33	3	6	4	
Brendan McDonagh	28		36	11	8	5	
Brian McEnery	26	14	26				2
Steven Seelig	22	12			7		
Willie Soffe	28		40	12		5	4
External members:							
Jim Kelly		13					
Michael Wall						5	
Alice Charles						5	
Brian Rowntree							4
Frank Cushnahan							4

*John Mulcahy was appointed to the Board on 7th March 2012 and resigned from the Finance and Operating Committee in May 2012

REPORTS FROM CHAIRPERSONS OF NAMA COMMITTEES

AUDIT COMMITTEE

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

The Audit Committee is comprised of the following members:

- Brian McEnery (Chairperson, Board member)
- Éilish Finan (Board member)
- Steven Seelig (Board member)
- Jim Kelly (External member)

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

The Board has determined that Brian McEnery and Éilish Finan are the Committee's financial experts and that Steven Seelig is the Committee's risk expert.

The Committee met on fourteen occasions in 2012.

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

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

The principal activities of the Committee in 2012 were as follows:

1. Financial reporting

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

2. External audit

The C&AG is the designated external auditor under the Act. No non-audit services were provided by him during 2012. The Committee reviewed the external audit plan in advance of the audit and met with the external auditor to review the findings from his audit of the financial statements.

3. Internal audit

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

4. Internal controls

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

5. Monitoring of service providers

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

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

Brian McEnery
Chairperson

CREDIT COMMITTEE

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

The Credit Committee is comprised of the following members:

- Willie Soffe (Chairman, Board member)
- Brian McEnery (Board member)
- Brendan McDonagh (Chief Executive, NAMA and Board member)
- John Mulcahy (Head of Asset Management and Board member)
- Aideen O'Reilly (Head of Legal)
- Ronnie Hanna (Head of Asset Recovery)
- Michael Moriarty (Deputy Head of Asset Recovery)
- Dónal Rooney (Chief Financial Officer)

Graham Emmett resigned from NAMA during 2012 and was replaced by Michael Moriarty as a Committee member. Dónal Rooney was appointed a member as of 1 January 2013.

The Committee, which met on 40 occasions in 2012, normally meets on a weekly basis but meets more or less frequently as required. By its very nature, the Credit Committee has a critical role in advising the Board on the establishment of NAMA credit policy and in ensuring that decision making on debtor management is consistent with overall Board policy.

Commensurate with the credit policy approved by the Board, and subject to agreed portfolio limits, the Credit Committee is the decision-making authority responsible for the approval or rejection of credit applications, which are below the level required for Board approval, but exceed the credit approval authority delegated to the NAMA Chief Executive by the Board. The Committee must operate in a considered and timely manner so as to support efficient credit-related decision making with respect to the acquired debts of close to 800 debtor connections.

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

The Committee's principal responsibilities include:

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

The principal activities of the Committee in 2012 were as follows:

1. Ensuring that systems in place for processing credit applications to the Committee and the Board were effective, efficient and appropriate.
2. Review of NAMA approved debtor strategies and progress made to date; and for more recently acquired connection facilities, review of debtor Business Plans. The Committee also conducts a bi-annual review of NAMA's top debtor's strategies (top debtors can be defined as those representing 50% of total NAMA debt).
3. Assessing, recommending and approving over 300 individual credit requests ranging from asset management decisions to complex matters related to debtor strategy actions such as continued funding of development assets. 91 papers were reviewed by the Committee for recommendation to the NAMA Board. Additionally, the Committee oversaw over 650 individual decisions made within the CEO's level of delegated authority.
4. Making decisions in relation to debtor agreements and enforcements.
5. Developing and enhancing both credit policies and sectoral policies; and assimilation of associated management information.

6. Review of Asset Management strategy and regular reviews of progress on their selected projects.

It is expected that 2013 will be another challenging year for the Credit Committee as NAMA continues to operate in a difficult economic environment particularly in Ireland and an uncertain outlook in the UK. NAMA's assets are predominantly located in these two jurisdictions. Liquidity and availability of bank funding continues to be in short supply and the credit decisions posed to the Credit Committee, by their nature, are challenging. As NAMA is required to take a commercial but prudent view while maintaining the highest standards of objectivity and integrity, all proposals are rigorously assessed and the various options fully considered. The Committee recognises that its decisions may have a significant impact on the assets and the debtors concerned, but it is determined to support projects which add value with a view to stimulating activity and employment and to maximising the return for the Irish taxpayer.

Willie Soffe
Chairperson

RISK MANAGEMENT COMMITTEE

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

The Risk Management Committee is comprised of the following members:

- Steven Seelig (Chairman, Board member)
- Brendan McDonagh (Chief Executive, NAMA and Board member)
- John Corrigan (Chief Executive, NTMA and Board member)
- Aideen O'Reilly (Head of Legal)
- Dave McEvoy (Head of Treasury)
- David Johnson (Head of Audit and Risk)
- Dónal Rooney (Chief Financial Officer)
- John Mulcahy (Head of Asset Management and Board member)
- Ronnie Hanna (Head of Asset Recovery)
- Seán Ó Faoláin (Head of Strategy and Communications)

The Committee met on eight occasions in 2012. Dónal Rooney[6] and David Johnson were appointed to the Committee on 10th May 2012.

The Committee's principal responsibilities include:

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

Risk categories identified in the NAMA Enterprise Risk Policy include the following risks: reputational and political, operational, credit, balance sheet (including interest rates, exchange rates and other factors which combine to influence the price of assets and liabilities on the balance sheet), liquidity, financial crime and regulatory, strategic, information technology, legal, taxation, human resources, security, and macro-economic and property risk. The NAMA Risk Management Committee oversees NAMA's risk tolerance, risk assessment and management processes to ensure that all aspects of the risk management framework comply with the approved risk limits for each risk category as established by the Board of NAMA.

The principal activities of the Committee in 2012 were as follows:

1. The NAMA Risk Management Committee oversaw the risk management implications arising from changes to the organisational structure of NAMA, which resulted in the consolidation of existing frontline and control functions and the creation of new functions with new and expanded objectives and associated risks.

   In addition, the Committee undertook a detailed examination of the nature of the NAMA risk profile and challenges to the management of risks at or above the tolerance set out by the Board. As a result of its assessments, the Committee made a number of recommendations to the Board requiring changes in policy, measurement, risk limits or risk management strategy to reduce risk to a level within the Board's tolerance. The Committee was supported in this effort by NAMA Audit and Risk, which ensures that material and emerging risks and risk events are reported to, and considered by, the Committee.

6 Dónal Rooney replaced the NTMA FTR Director, Brendan Murphy, as a member.

2. Understanding of the composition of the final NAMA balance sheet (and by extension the nature of the risk profile) was further enhanced in 2012 by the completion of the acquisition due diligence process and on-going improvements in the quality of management information. The Committee continued its regular review of the components of the balance sheet risk, the methods by which they are measured and reported, and alternative risk mitigation strategies. The Committee recommended to the Board, for instance, the adoption of revised hedging strategies to reduce interest rate, foreign exchange and rollover risk; the redemption of NAMA bonds to mitigate liquidity risk associated with maintaining a sufficient cash buffer for on-going operations against a backdrop of significant macro-economic uncertainty in Europe; and changes in the NAMA risk profile as a result of new processes, initiatives or as a response to external events which impact on NAMA and the achievement of its objectives.

3. Operational risks are inherent to the operation of NAMA and the Risk Management Committee's work included the on-going review of the Functional Risk Registers, which were regularly updated during 2012. As part of the reorganisation of the NAMA functions, the accompanying Risk Registers were revised to identify new and emerging risks, remove duplication and ensure the realignment of risk ownership and responsibilities, principally between the new Asset Recovery, Asset Management and CFO functions. The committee also challenged Management to consider risks not already reflected on the register. The implementation of a new Risk Portal system for managing the risk registers was rolled out across the organisation.

The Risk Management Committee also continued to review on a regular basis the Risk Registers of the Master Service Provider and the PIs to gain oversight of the impact and likelihood of risk events external to NAMA that could influence the achievement of NAMA's objectives. The Committee continued support a robust control environment by requiring signoff where a control is scheduled to be tested in a quarter. Risks rated as high or significant emerging risks were examined by the Committee in more detail to provide assurance that Management's response was appropriate. Control action plans were reviewed for each risk identified to ensure that the residual risks were within the approved NAMA risk tolerance. The risk working group which provides a mechanism to ensure that the principles of risk management are deployed throughout NAMA continues to provide a forum to highlight new and emerging risks and to promote awareness of risk management practices and policies across NAMA. Risk awareness training was provided to all NAMA employees.

Steven Seelig
Chairperson

FINANCE AND OPERATING COMMITTEE

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

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

- Éilish Finan (Chairperson, Board member)
- Willie Soffe (Board member)
- Brendan McDonagh (Chief Executive, NAMA and Board member)
- Dave McEvoy (Head of Treasury)
- Dónal Rooney (Chief Financial Officer)
- Michael Moriarty (Deputy Head of Asset Recovery)
- Seán Ó Faoláin (Head of Strategy and Communications)

The Committee met on twelve occasions in 2012. Dónal Rooney and Michael Moriarty were appointed to the Committee in May 2012.[7]

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

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

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

During 2012, NAMA made significant progress in terms of developing its underlying Finance and Operations (both Core Operations and Systems) infrastructure.

Specific activities and progress areas are as follows:

1. Finance

- Significant developments have been made to the management information provided to the NAMA Executive, Finance and Operating Committee and Board. This continues to be a key area of focus.
- The process for the preparation of debtor cash flows for the year-end impairment review was significantly enhanced to facilitate more timely year-end reporting and enhanced management information for the Executive, Board Committees and Board. Furthermore, a semi-annual impairment process was introduced in 2012.
- An enhanced budgeting and forecasting process was introduced as part of the 2013 budget preparation cycle.
- As part of an on-going integration plan, the NAMA Finance Team assumed full management of its general ledger and related processes from Capita during 2012.
- NAMA continued to develop and enhance its reporting processes and the underlying financial data provided by the Participating Institutions.

2. Operations

Core Operations

- Following the end of the debtor business plan review process, the full transition to direct NAMA management of larger debtors was achieved through the establishment of clear operational and case management protocols and re-engineering of processes with the PIs.
- A governance framework for all NAMA policies and procedures including standardised templates, a register of obligations and a register of policies and procedures with ownership and review schedule was put in place in 2012.

7 Dónal Rooney replaced the NTMA FTR Director, Brendan Murphy, and Michael Moriarty replaced John Mulcahy.

- A formal structure to mandate debtor rental income was established in 2012 and is well advanced in terms of implementation in conjunction with the clearing banks.
- The NAMA operational integration plan underpinning the 2011 merger of EBS and AIB was implemented in 2012.
- A detailed asset register of all NAMA individual property units in the PMS was completed in 2012.

Systems

- The PMS, which is NAMA's core property database and management tool for its Asset Recovery and Asset Management staff, was fully implemented and rolled out in 2012.
- The DMS was also fully implemented in 2012. DMS acts as a repository for all documents. Key functionality has been delivered to manage document versions, simplify sharing and provide seamless email integration.
- Significant enhancements were made, over the course of 2012, to the NLW system, which acts as a central repository for all NAMA loan data and, in turn, feeds into other core NAMA systems. Further enhancement of the NLW is planned for 2013, in particular to facilitate the strategic enhancement of the organisation's management information platform.
- The GIS, which provides a geospatial visual of a specific property or properties, has been implemented and rolled out.
- The Argus software was implemented to support asset management decision making and management of development projects.

Éilish Finan
Chairperson

NORTHERN IRELAND ADVISORY COMMITTEE

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

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

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

The principal responsibility of the Northern Ireland Advisory Committee is to advise the NAMA Board in relation to strategy for Northern Ireland assets. The Committee met on four occasions during 2012 and also undertook a series of related engagements and stakeholder interactions. Across all its activity the Committee recognised the need to explain how Northern Ireland assets are managed – in particular to assuage any lingering concerns regarding the possible 'firesale' of assets - while also recognising the particular set of challenges facing the Northern Ireland economy.

In 2012 Committee meetings were held in Belfast and Dublin, with the Belfast meetings (and additional Belfast engagements) providing an opportunity to hear from, and discuss feedback in person with, key stakeholders. The input of External Committee Members, Frank Cushnahan and Brian Rowntree continued to provide unique local knowledge and expertise to guide NAMA's work in Northern Ireland. Reflecting the value of their contribution, both Mr. Cushnahan and Mr. Rowntree were re-appointed to the Committee by the Board following the expiry of their initial terms of office in April 2012 for a further two years.

By mid-2012 all of the loans in the NAMA portfolio, including those pertaining to the Northern Ireland portfolio, had been assessed through the Debtor Business Plan process, bringing clarity and certainty to the management of all underlying assets. Through a combination of on-going disposals, loan repayments and decisions ultimately not to acquire certain loans for commercial reasons the eventual size of the Northern Ireland portfolio was somewhat smaller than envisaged (€1.3 billion out of NAMA's total acquisition value of €31.8 billion). The Northern Ireland portfolio, by acquisition value comprises office (18%), retail (17%), residential (10%), development (5%), and hotel and leisure (3%) assets, with the balance made up of land (25%) and other investment (22%) assets. Most of NAMA's undeveloped land portfolio in Northern Ireland is situated in the east of the region. Seventy per cent of the Northern Ireland portfolio is completed property and income producing. By the end of 2012 disposals in Northern Ireland were of the order of €100m while NAMA had provided working and development capital to NI debtors of the order of €120m. In a small number of cases NAMA has had to enforce in Northern Ireland.

2012 saw a further increase in stakeholder engagement by the Committee and included participation in events organised by the Northern Ireland Chamber of Commerce, the Ulster Society of Chartered Accountants, the Northern Ireland Assembly and Business Trust, and CBI Northern Ireland. Representatives of the Northern Ireland Office and Bank of England were also engaged and NAMA contributed to a number of Northern Ireland media programmes and interviews.

At the apex of the engagement activity is a positive working relationship with the Northern Ireland Executive and Assembly. The Chairman of the NAMA Board and members of the Northern Ireland Advisory Committee met with Ministers including the Minister for Finance and Personnel and elected representatives on an on-going basis, and provided specific briefings to Northern Ireland political parties.

Recognising the wider contribution NAMA can make to working for solutions in Northern Ireland, the Committee is also leveraging partnership across the public and social sectors, such as with Invest NI, the Northern Ireland Housing Executive and the Northern Ireland Federation of Housing Associations. A further example of this is the collaboration with the University of Ulster on a valuable research initiative to support a better understanding of the supply and demand dynamics of land across the region, including housing affordability and barriers to market entry. The Committee continues to review all opportunities to bring creative and innovative solutions in respect of NAMA's portfolio in Northern Ireland.

NAMA's mandate is to recover the maximum amount from all loans irrespective of where the underlying loans happen to be located. Towards this objective, NAMA adopts a commercial approach in each of the jurisdictions in which it operates, while recognising the distinctive market characteristics of these areas. It is particularly cognisant of the challenges specific to Northern Ireland and benefits greatly from the work of the Committee and extensive stakeholder engagement, local insights and expertise.

NAMA carries out its work with reference to a set of guiding principles, including taking a longer-term approach and avoiding fire sales, and the record to date in Northern Ireland continues to demonstrate this approach.

Frank Daly
Chairman

PLANNING ADVISORY COMMITTEE

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

The Committee may make recommendations to the Board concerning NAMA's objective with respect to approved strategies, guidelines and statutory plans, including proposed SDZs and local area plans ('LAPS') and their impact on NAMA assets.

The Planning Advisory Committee is comprised of the following members:

- Willie Soffe (Chairman, Board Member)
- Brendan McDonagh (Chief Executive, NAMA and Board member)
- John Mulcahy (Head of Asset Management and Board member)
- Michael Wall (External Member)
- Alice Charles (External Member)

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 five occasions during 2012.

The principal activities of the Committee in 2012 were as follows:

1. Assessing, from a planning perspective, the strategies and the management of the Agency's portfolio.
2. Engaging in discussions with Government Departments, Local Authorities and other Statutory Bodies so as to determine how best to align NAMA's role with other public policy objectives.
3. Advising and guiding NAMA's participation in a number of specialist projects including the formulation and development of contribution guidelines, and a National Transport Authority study relating to the planning and development of large scale residential developments in Dublin.
4. Participating in the development and roll-out of a National Planning Information System and guiding the development and integration of a bespoke NAMA version of the tool which will assist in the management of debtor and property strategies.

Communication has been on-going with State Bodies with a view to aligning the needs of these bodies with NAMA linked properties. The Committee advised on the identification of those assets that might satisfy their requirements. Of special importance and focus over the course of 2012 has been NAMA's work with the Housing and Sustainable Communities Agency, Local Authorities and Voluntary Housing Agencies in identifying and making available for social housing, residential properties forming security to NAMA's loans. Part of this process has included the establishment of an SPV to expedite the process and make units more readily available for this purpose.

During the year, the Agency participated in various specialist projects which, not only related to National policy formulation, but also were of specific interest to NAMA in achieving its objectives. Of note was NAMA's input into an NTA study to review Planning and Development of Large Scale Residential Development in Dublin. The study has been completed and its report is awaited. The Agency has also been engaging with Local Authorities in the Dublin area with the aim of assisting in the review of development contributions schemes in the local authority areas across the Dublin region, in the light of the changed economic climate. Committee advice has been provided as part of this process.

NAMA continues to participate in the National Coordination Committee tasked with ensuring a solution to problematic unfinished estates. The Committee oversees this participation and disseminates advice in relation to the estates which form security to the Agency loans. Much progress has been made in resolving the immediate health and safety issues in these estates, and work continues in determining how to secure the long-term viability, where sustainable, of these developments.

NAMA has continued to work closely with the Department of Environment, Community and Local Government in the on-going evolution of the National Planning Information system. In addition the Agency is providing assistance in the development of a bespoke tool which will incorporate NAMA specific data that can be layered over the National Planning Information System. This product has been launched within the Agency resulting in the provision of an improved knowledge base to assist decision making. The Committee is monitoring the product's evolution and will provide advice on future developments to be incorporated in the tool.

In carrying out its functions, the Committee works closely with NAMA's Planning and Development Advisor and other officials of the Agency with roles related to planning. The Committee's work is greatly assisted by their knowledge and support.

Willie Soffe,
Chairman

DISCLOSURE AND ACCOUNTABILITY

DISCLOSURE REQUIREMENTS ON BOARD MEMBERS

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

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

Section 31 of the Act imposes an obligation on each member of the Board 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 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 and on an annual basis thereafter, must provide the CEO of NAMA and the Chief Executive of the NTMA, with a statement of his or her interests, assets and liabilities.
- 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.
- Refresher compliance training is mandatory for all NAMA officers.

PERSONAL ACCOUNT TRANSACTION POLICY

During the year, NAMA identified a compliance breach in respect of a transaction involving one of its former officers. Upon identification of this matter, NAMA requested its Internal Auditors to undertake an independent investigation into the matter and NAMA published the findings of the Internal Auditor's investigation which included a number of recommendations that have been implemented by NAMA. Separately, NAMA became aware of a data confidentiality breach and took civil law proceedings to ascertain the extent of the breach and mitigate its effects. NAMA reported the matter to An Garda Síochána.

Following an investigation into the transaction, the Board introduced a revised Personal Account Transaction Policy for all NAMA officers. The revised policy prohibits the purchase by a NAMA officer of any property in which NAMA has an interest. The sole exception to this policy arises in the case of a residential property which is to be used as a principal private residence; such purchase must be pre-approved and open marketing of the property must be clearly demonstrated. In addition, Board policy requires that the purchase of any property from a debtor or receiver must demonstrate that neither the purchaser nor any person with a beneficial interest in the transaction is a NAMA Officer.

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). Five directions have been issued by the Minister under Section 14 and another four directions have been issued under the IBRC Act. 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 C&AG 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 exposed to a wide variety of risks which have the potential to affect the financial and operational performance of the Agency. The Risk Management Framework is designed to identify, evaluate and mitigate risks by reference to the following categories in the NAMA Enterprise Risk Management Policy:

1. Macro-Economic and Property Risk

Risk that the economic environment and property market in Ireland would fail to recover or that the market in other locations would deteriorate from present levels.

2. Bank finance

Risk that banking sector recovery may be slower than expected, resulting in unavailability of credit to potential purchasers of NAMA assets.

3. Operational

Losses resulting from inadequate, or failed, internal and external processes and controls, people and systems.

4. Credit Risk

Risk of loss through exposure to counterparty and debtor default.

5. Balance Sheet Risks

Financial loss as a result of market risks, that is, a change in the price of assets and liabilities as a result of movements in market factors such as interest rates, exchange rates, property values and other financial elements which combine to influence the price of the assets and liabilities within the Balance Sheet.

6. Liquidity Risk

Losses arising from inadequate cash available to fund day-to-day operations.

7. Competition

Risks arising from deleveraging and enforcement activities by the participating institutions and by non-NAMA banks.

8. Financial Crime and Regulatory Risk

Risk that NAMA's ability to discharge its activities in an efficient manner is restricted by laws and regulations, including those in foreign jurisdictions, or failure by NAMA to adhere to such laws and regulations.

9. Strategic

Financial or non-financial loss arising from inappropriate or adverse strategic decisions, or the inability to successfully implement selected strategies and related plans in accordance with NAMA governance protocols.

10. Information Technology

Risks relating to IT objectives and strategy leading to ineffective delivery of systems and services in support of business operations.

11. Legal

Financial loss as a result of:

- an action/inaction by an external party,
- legal unenforceability of contracts and security,
- adverse legal judgements,
- fines,
- claims by debtors owing to disclosure of confidential information

12. Tax

Financial loss as a result of:

- noncompliance with tax regulations, or
- failure to consider taxation issues as part of property/loans transactions.

13. Human Resources

Failure to attract, motivate and retain staff with requisite experience and expertise.

14. Security Risk

Threats to the confidentiality, availability and integrity of data.

The uncertainties surrounding the risks associated with the composition of the NAMA balance sheet and operational model continued to reduce as the business plan process and the due diligence effort concluded. Improvements in data quality and the provision of information through various new systems including a PMS enhanced the assessment, measurement and reporting of risk.

The risk assessment and risk management processes were expanded following the internal NAMA reorganisation which resulted in the consolidation of existing frontline and control functions and the creation of new functions with new and expanded objectives and associated risks.

The Risk Management Committee also continued to review on a regular basis the Risk Registers of the Master Servicer and the PIs to gain oversight of the impact and likelihood of risk events external to NAMA which could influence the achievement of NAMA's objectives. The Risk Management Committee continued to require a robust control environment by requiring signoff where a control is scheduled to be tested in a quarter.

Risks identified by management are prioritised according to probability and impact and the risk status and management's response and control action plans are reviewed by the Risk Management Committee and the Board on a regular basis. Management is challenged to consider risks not already reflected on the Register. NAMA's response strategies to each risk are designed to ensure that NAMA operates within that defined risk tolerance by avoiding the risk, transferring the risk through insurance or similar mechanism, reducing the likelihood and/or impact of the risk or accepting that risk. The Risk Management Committee recommended to the Board the adoption of new policies or changes to existing policies, the adoption of hedging strategies to manage certain balance sheet risks and recommendations for the deleveraging of the balance sheet through bond redemptions in response to changing internal and external influences and circumstances.

NAMA has robust risk processes to manage risk related to its business to reduce the potential for significant unexpected losses, and to minimise the impact of losses experienced in the normal course of business. Risk awareness training was provided to all NAMA employees.

CONSOLIDATED FINANCIAL STATEMENTS

BOARD REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2012

CONTENTS

BOARD AND OTHER INFORMATION

Board

Frank Daly *(Chairman)*
Brendan McDonagh *(Chief Executive Officer)*
John C. Corrigan
Oliver Ellingham *(appointed 10 April 2013)*
Éilish Finan
Brian McEnery
John Mulcahy *(appointed 7 March 2012)*
Steven A. Seelig (US)
Willie Soffe

Registered Office

Treasury Building
Grand Canal Street
Dublin 2

Principal Bankers

Central Bank of Ireland
Dame Street
Dublin 2

Citibank
I.F.S.C.
Dublin 1

Auditor

Comptroller & Auditor General
Dublin Castle
Dublin 2

BOARD REPORT

The Board of the National Asset Management Agency ('the Agency' or 'NAMA') presents its report and audited NAMA consolidated and Agency financial statements for the year ended 31 December 2012.

The financial statements are set out on pages 76 to 169.

Statement of Agency's Responsibilities for Financial Statements

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

In preparing those statements, the Agency:

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

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

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

Financial risk management

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

Board Members' interests

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

Auditor

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

On behalf of the Board

30 April 2013

Brendan McDonagh
Director

Frank Daly
Chairman

STATEMENT ON INTERNAL FINANCIAL CONTROL

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

The results presented are for the year ended 31 December 2012, with comparative results for the year ended 31 December 2011.

Responsibility for System of Internal Financial Control

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

Financial Control Environment

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

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

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

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

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

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

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

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

NAMA has adopted the National Treasury Management Agency's ('NTMA') Anti-Fraud policy. Under this policy the Audit Committee is to be advised of all reports of fraud or suspected fraud. NAMA has also adopted an NTMA-wide Good Faith Reporting Policy.

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

Codes of Practice have been agreed with the Minister for Finance in accordance with section 35 of the Act, including *inter alia* a Code setting out standards expected of the officers of NAMA.

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

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

During the year, NAMA identified a compliance breach in respect of a transaction involving one of its former officers. Upon identification of this matter, NAMA requested its Internal Auditors to undertake an independent investigation into the matter and NAMA published the findings of the Internal Auditors investigation, which included a number of recommendations that have been implemented by NAMA. Separately, NAMA became aware of a data confidentiality breach and took civil law proceedings to ascertain the extent of the breach and mitigate its effects. NAMA reported the matter to An Garda Síochána.

Risk Assessment

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

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

Both Capita and each of the Participating Institutions have submitted individual Risk Registers, in line with standard templates agreed with NAMA. These Risk Registers have been reviewed by the NAMA Audit and Risk function and the Risk Management Committee.

Key Internal Financial Control Processes

NAMA has developed policies and procedures in respect of the key aspects of the administration and management of its business. These policies and procedures have continued to be defined and enhanced as NAMA has developed.

NAMA has established a financial reporting framework to support its monthly, quarterly and annual financial reporting and for the preparation of consolidated and Agency financial statements which incorporates the processes and controls described in this statement.

While significant progress has been made in this area, NAMA continues to implement further improvements to its management information systems in order to facilitate further enhanced reporting to the Board, Finance and Operating Committee and Senior Executive Team on its performance.

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

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

NAMA exercises control over major system implementations and follows a structured project approach for projects undertaken. During 2012, NAMA achieved significant milestones in the ongoing implementation of its core systems, including the Portfolio Management System and Document Management System which have been designed to provide information for the management of NAMA's debtors and for the recording and management of NAMA documents.

Information and Communication

The Finance and Operating Committee monitors the financial and operational management of NAMA and its management reporting and budgeting, including the preparation of annual budgets. An assessment of actual to budget is reported quarterly to the Finance and Operating Committee. The Financial and Operating Committee monitors the development and implementation of NAMA's information systems including the Portfolio Management System and the Document Management System.

NAMA presents monthly, quarterly and annual financial and performance information to the Finance and Operating Committee and Board and presents quarterly and annual financial and performance information to the Minister.

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

Monitoring

NAMA appointed Deloitte as Internal Auditors 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 for 2012 was approved by the Audit Committee. In accordance with this plan, the Internal Auditor has carried out a number of audits of controls in operation in NAMA, Capita and the Participating Institutions. The Internal Auditor reports its findings directly to the Audit Committee. These reports highlight deficiencies or weaknesses, if any, in the systems of internal control and recommend corrective measures to be taken where deemed necessary. The Audit Committee receives updates, on a regular basis, on the status of the issues raised by the Internal and External Auditors and follows-up with NAMA management to ensure appropriate and timely action is being taken in respect of issues raised.

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

In addition, the activities of the Participating Institutions and Capita are subject to audit by NAMA's internal and external auditors.

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

Annual Review of Controls

We confirm that the Board has reviewed the effectiveness of NAMA's system of internal financial control for the year ended 31 December 2012. A detailed review was performed by the Audit Committee, which reported its findings to the Board. The review of the effectiveness of the system of internal financial control included:

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

Frank Daly
Chairman

30 April 2013

Brian McEnery
Chairman, Audit Committee

Comptroller and Auditor General

Report for presentation to the Houses of the Oireachtas

National Asset Management Agency

I have audited the Group and Agency financial statements of the National Asset Management Agency for the year ended 31 December 2012 under the National Asset Management Agency Act 2009. The financial statements, which have been prepared under the accounting policies set out therein, comprise the consolidated income statement, the consolidated statement of comprehensive income, the Agency income statement, the consolidated and 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 the Group's and Agency's circumstances, and have been consistently applied and adequately disclosed
- the reasonableness of significant accounting estimates made in the preparation of the financial statements, and
- the overall presentation of the financial statements.

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

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

Opinion on the Financial Statements

In my opinion, the financial statements, which have been properly prepared in accordance with the IFRSs as adopted by the European Union and with the provisions of the National Asset Management Agency Act 2009, give a true and fair view of the state of the Group's and the Agency's affairs at 31 December 2012 and of the Group's profit for the year then ended.

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

Going Concern

Without qualifying my opinion, 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.

Matters on which I report by exception

I report by exception if

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

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

Seamus McCarthy

Seamus McCarthy

Comptroller and Auditor General

2 May 2013

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Note	Year ended 31 December 2012 €'000	Year ended 31 December 2011 €'000
Interest and fee income	5	1,386,823	1,283,248
Interest expense	6	(492,502)	(512,449)
Net interest income		**894,321**	**770,799**
(Losses) / gains on derivative financial instruments	7	(37,939)	24,312
Net profit on disposal of loans, property assets and surplus income	8	188,227	549,578
Total operating income		**1,044,609**	**1,344,689**
Administration expenses	9	(119,117)	(128,379)
Foreign exchange (losses) / gains	10	(99,432)	61,773
Total operating expenses		**(218,549)**	**(66,606)**
Operating profit before impairment		**826,060**	**1,278,083**
Impairment charges on loans and receivables	11	(517,841)	(1,266,743)
Operating profit after impairment		**308,219**	**11,340**
Tax (charge) / credit	12	(76,266)	235,208
Profit for the year before dividend		**231,953**	**246,548**
Dividend paid	14	(3,457)	(5,093)
Profit for the year		**228,496**	**241,455**
Profit attributable to:			
Owners of the Group		**228,496**	**241,455**
Non-controlling interests		**-**	**-**

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

On behalf of the Board

30 April 2013

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Note	Year ended 31 December 2012 €'000	Year ended 31 December 2011 €'000
Profit for the year		**228,496**	**241,455**
Movement in cash flow hedge reserve before tax	34	(439,821)	(338,689)
Movement in available for sale reserve before tax	34	2,297	110
Income tax relating to components of other comprehensive income	13, 26	107,451	68,884
Other comprehensive loss for the year net of tax		**(330,073)**	**(269,695)**
Total comprehensive loss for the year		**(101,577)**	**(28,240)**
Total comprehensive loss attributable to:			
Owners of the Group		**(101,577)**	**(28,240)**
Non-controlling interests		**-**	**-**

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

On behalf of the Board

30 April 2013

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

AGENCY INCOME STATEMENT
For the year ended 31 December 2012

	Note	Year ended 31 December 2012 €'000	Year ended 31 December 2011 €'000
Interest income	5	2	16
Costs reimbursable from the NAML Group	9	38,067	27,765
Total income		**38,069**	**27,781**
Interest expense	6	(600)	(813)
Administration expenses	9	(38,561)	(28,382)
Total expenses		**(39,161)**	**(29,195)**
Loss for the year		**(1,092)**	**(1,414)**
Loss attributable to:			
Owners of the Group		**(1,092)**	**(1,414)**

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

On behalf of the Board

30 April 2013

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2012

	Note	Year ended 31 December 2012 €'000	Year ended 31 December 2011 €'000
Assets			
Cash and cash equivalents	15	2,235,822	3,346,986
Cash placed as collateral with the NTMA	15	1,150,000	-
Financial assets available for sale	16	257,932	499,747
Amounts due from Participating Institutions	17	78,953	409,143
Derivative financial instruments	18	350,706	448,539
Loans and receivables (net of impairment)	19	22,776,262	25,607,389
Other assets	27	33,490	43,438
Inventories	20	6,758	6,850
Property, plant and equipment	25	831	906
Deferred tax	26	337,288	305,654
Total assets		**27,228,042**	**30,668,652**
Liabilities			
Amounts due to Participating Institutions	17	36,423	60,224
Derivative financial instruments	18	1,168,688	728,725
Other liabilities	29	169,557	250,232
Senior debt securities in issue	28	25,440,000	29,106,000
Tax payable	30	1,627	2,147
Total liabilities		**26,816,295**	**30,147,328**
Equity and reserves			
Other equity	33	1,593,000	1,601,000
Retained losses	35	(659,039)	(887,535)
Other reserves	34	(522,214)	(192,141)
Total equity and reserves		**411,747**	**521,324**
Total equity and liabilities		**27,228,042**	**30,668,652**

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

On behalf of the Board

30 April 2013

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

AGENCY STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Note	31 December 2012 €'000	31 December 2011 €'000
Assets			
Cash and cash equivalents	15	1,268	1,623
Other assets	27	9,306	3,381
Property, plant and equipment	25	831	906
Investment in subsidiaries	36	49,000	49,000
Total assets		**60,405**	**54,910**
Liabilities			
Interest bearing loans and borrowings	32	53,320	52,720
Other liabilities	29	10,027	4,040
Total liabilities		**63,347**	**56,760**
Equity			
Retained losses	35	(2,942)	(1,850)
Total equity		**(2,942)**	**(1,850)**
Total equity and liabilities		**60,405**	**54,910**

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

On behalf of the Board

30 April 2013

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 31 December 2012

31 December 2012	Note	Other equity €'000	Retained earnings €'000	Other reserves €'000	Non-controlling interest €'000	Total equity €'000
At the beginning of the year		**1,601,000**	**(887,535)**	**(192,141)**	**-**	**521,324**
Profit for the year	35	-	228,496	-	-	**228,496**
Other comprehensive income:						
Movement in cash flow hedge reserve	34	-	-	(439,821)	-	**(439,821)**
Movement in available for sale reserve	34	-	-	2,297	-	**2,297**
Income tax relating to components of other comprehensive income	13	-	-	107,451	-	**107,451**
Total comprehensive income		**1,601,000**	**(659,039)**	**(522,214)**	**-**	**419,747**
Issue of share capital		-	-	-	-	**-**
Issue of other equity	33	1,000	-	-	-	**1,000**
Cancellation of other equity	33	(9,000)	-	-	-	**(9,000)**
Balance at 31 December 2012 attributable to owners of the parent		**1,593,000**	**(659,039)**	**(522,214)**	**-**	**411,747**

31 December 2011	Note	Other equity €'000	Retained earnings €'000	Other reserves €'000	Non-controlling interest €'000	Total equity €'000
At the beginning of the year		**1,507,000**	**(1,128,990)**	**77,554**	**-**	**455,564**
Profit for the year	35	-	241,455	-	-	**241,455**
Other comprehensive income:						
Movement in cash flow hedge reserve	34	-	-	(338,689)	-	**(338,689)**
Movement in available for sale reserve	34	-	-	110	-	**110**
Income tax relating to components of other comprehensive income	13	-	-	68,884	-	**68,884**
Total comprehensive income		**1,507,000**	**(887,535)**	**(192,141)**	**-**	**427,324**
Issue of share capital		-	-	-	-	**-**
Issue of other equity	33	110,000	-	-	-	**110,000**
Cancellation of other equity	33	(16,000)	-	-	-	**(16,000)**
Balance at 31 December 2011 attributable to owners of the parent		**1,601,000**	**(887,535)**	**(192,141)**	**-**	**521,324**

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

On behalf of the Board

30 April 2013

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

AGENCY STATEMENT OF CHANGES IN EQUITY
As at 31 December 2012

	Note	31 December 2012 €'000	31 December 2011 €'000
Balance at the beginning of the year		(1,850)	(436)
Loss for the year	35	(1,092)	(1,414)
Total comprehensive loss		**(2,942)**	**(1,850)**
Balance at 31 December attributable to the Agency		**(2,942)**	**(1,850)**

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

On behalf of the Board

30 April 2013

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Note	Year ended 31 December 2012 €'000	Year ended 31 December 2011 €'000
Cash flow from operating activities			
Loans and receivables			
Value date to transfer date cash received[1]			
Receipts from loans acquired		202,587	97,612
Receipts from derivatives and fees acquired		2,394	719
Receipts from borrowers since acquisition[2]			
Receipts from loans acquired		4,187,780	4,866,619
Receipts from derivatives acquired		82,965	103,481
Funds advanced to borrowers	19	(308,409)	(303,981)
AIB Tranche 9 partial settlement	15	511	7,574
Fee income on loans with borrowers	5	29,650	8,503
Net cash provided by loans and receivables		**4,197,478**	**4,780,527**
Derivatives			
Cash inflow on foreign currency derivatives	10	17,551,528	23,878,756
Cash outflow on foreign currency derivatives	10	(17,806,902)	(23,767,663)
Net cash outflow on derivatives where hedge accounting is applied		(51,741)	(82,245)
Net cash outflow on other derivatives		(55,439)	(34,504)
Net cash used in derivative activities		**(362,554)**	**(5,656)**
Other operating cashflows			
Payments to suppliers of services		(145,887)	(99,458)
Payments for due diligence costs		(8,742)	(43,259)
Interest paid on senior debt securities in issue		(443,557)	(322,687)
Interest received on cash and cash equivalents		26,438	14,830
Dividend paid by NAMAIL	14	(3,457)	(5,093)
Payments of corporation tax by NAMAIL		(565)	(1,441)
Amounts pledged as collateral with NTMA	15	(1,150,000)	-
Interest paid on advance from Central Fund		-	(474)
Fee income received on IBRC short term facility	5	14,628	-
Net cash used in other operating activities		**(1,711,142)**	**(457,582)**
Net cash provided by operating activities		**2,123,782**	**4,317,289**

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 the loan transfer date. The net cash received represents disposal, non disposal and borrower 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 completion of due dilgence of assets transferred.*

2 *Includes non-disposal cash receipts of €1.45 billion (2011: €1.34 billion), proceeds from the disposal of collateral secured against loans and receivables of €2.3 billion (2011: €2.7 billion) and proceeds from the sale of loans of €0.5 billion (2011: €0.9 billion).*

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2012

	Note	Year ended 31 December 2012 €'000	Year ended 31 December 2011 €'000
Cash flow from investing activities			
Purchase of available for sale assets		(563,414)	(816,367)
Sale of available for sale assets		827,001	311,546
Net cash provided by / (used in) investing activities		**263,587**	**(504,821)**
Cash flow from financing activities			
Redemption of senior debt securities	28	(3,500,000)	(1,250,000)
Repayment of loan to the Central Fund	32	-	(49,000)
Net cash used in financing activities		**(3,500,000)**	**(1,299,000)**
Cash and cash equivalents held at the beginning of the year	15	3,346,986	836,739
Net cash provided by operating activities		2,123,782	4,317,289
Net cash provided by / (used in) investing activities		263,587	(504,821)
Net cash used in financing activities		(3,500,000)	(1,299,000)
Effects of exchange-rate changes on cash and cash equivalents		1,467	(3,221)
Total cash and cash equivalents held at the end of the year	15	**2,235,822**	**3,346,986**
Financial assets and cash collateral			
Financial assets available for sale	16	257,932	499,747
Cash collateral placed with the NTMA	15	1,150,000	-
Total		**3,643,754**	**3,846,733**

AGENCY STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Note	Year ended 31 December 2012 €'000	Year ended 31 December 2011 €'000
Cash flow from operating activities			
Bank interest received		6	12
Loan interest paid		-	(474)
Board fees paid		(475)	(652)
Rent paid		(750)	(358)
Net reimbursement from NALML for expenses		864	-
Net cash used in operating activities		**(355)**	**(1,472)**
Cash flow from financing activities			
Receipt of loan from NALML		-	52,000
Repayment of loan to the Central Fund		-	(49,000)
Net cash provided by financing activities		**-**	**3,000**
Cash held at the beginning of the year	15	1,623	95
Net cash used in operating activities		(355)	(1,472)
Net cash provided by financing activities		-	3,000
Cash held at the end of the year	15	**1,268**	**1,623**

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

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

On 1 July 2011 AIB merged with EBS. On 1 July 2011 the business of INBS transferred to Anglo and on 14 October 2011 the latter's name was changed to Irish Bank Resolution Corporation ('IBRC').

1.1 National Asset Management Agency Group

For the purposes of these accounts, the 'NAMA Group' comprises; the parent entity NAMA, National Asset Management Agency Investment Limited (NAMAIL), National Asset Management Limited (NAML), National Asset Management Group Services Limited (NAMGSL), National Asset Loan Management Limited (NALML), National Asset Property Management Limited (NAPML), National Asset Residential Property Services Limited (NARPSL) and National Asset Management Services Limited (NAMSL).

The Group and the relationship between NAMA Group entities is summarised in Chart 1. National Asset Resolution Limited (NARL) was incorporated on 11 February 2013 after the reporting date and is therefore not included in the results of the Group at 31 December 2012. The first set of financial statements for NARL will be prepared as of 31 December 2013 and will be fully consolidated into the results of the NAMA Group at 31 December 2013.

National Asset Management Agency Investment Limited (NAMAIL)

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

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

National Asset Resolution Limited (NARL)

On 11 February 2013, NAMA established a new NAMA Group Entity, National Asset Resolution Limited (NARL). The entity was formed in response to a Direction issued by the Minister for Finance under the Irish Bank Resolution Corporation Act 2013 to NAMA to acquire a loan facility deed and floating charge over certain IBRC assets. Consideration was in the form of the issuance of Government Guaranteed debt securities and cash. The debt securities were issued by NAML and transferred to NARL via a profit participating loan facility. NARL is a 100% subsidiary of NAMAIL. (Further information is provided in Note 39, Events after the reporting date).

National Asset Management Limited (NAML)

NAML was incorporated on 27 January 2010. NAML is responsible for issuing the Government guaranteed debt instruments and the subordinated debt, which 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. Both the Government guaranteed debt instruments and the subordinated debt instruments, issued before the reporting date, were transferred to NAMGSL and by NAMGSL to NALML. The latter used these debt instruments as consideration for the loan assets acquired from the Participating Institutions.

1. GENERAL INFORMATION (CONTINUED)

1.1 National Asset Management Agency Group (continued)

NAML has five subsidiaries:

1) National Asset Management Group Services Limited (NAMGSL)

NAMGSL acts as the holding company for its three subsidiaries, NALML, NAPML and NAMSL.

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

2) National Asset Loan Management Limited (NALML)

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

3) National Asset Property Management Limited (NAPML)

NAPML was incorporated on 27 January 2010. The purpose of NAPML is to take direct ownership of property assets if and when required. In 2011 certain land and development sites were acquired by NALML as consideration for the settlement of a guarantee held by NALML. At the reporting date ownership of the majority of property interests had transferred from NALML to NAPML, all remaining properties are expected to transfer in 2013. In addition, minor non-real estate assets were also acquired by NALML and transferred to NAPML during the year.

4) National Asset Residential Property Services Limited (NARPSL)

On 16 July 2012 NAMA established a new subsidiary National Asset Residential Property Services Limited (NARPSL). The Company is a wholly owned subsidiary of NAPML, and is established to acquire residential properties and to lease and ultimately sell these properties to approved housing bodies for social housing purposes.

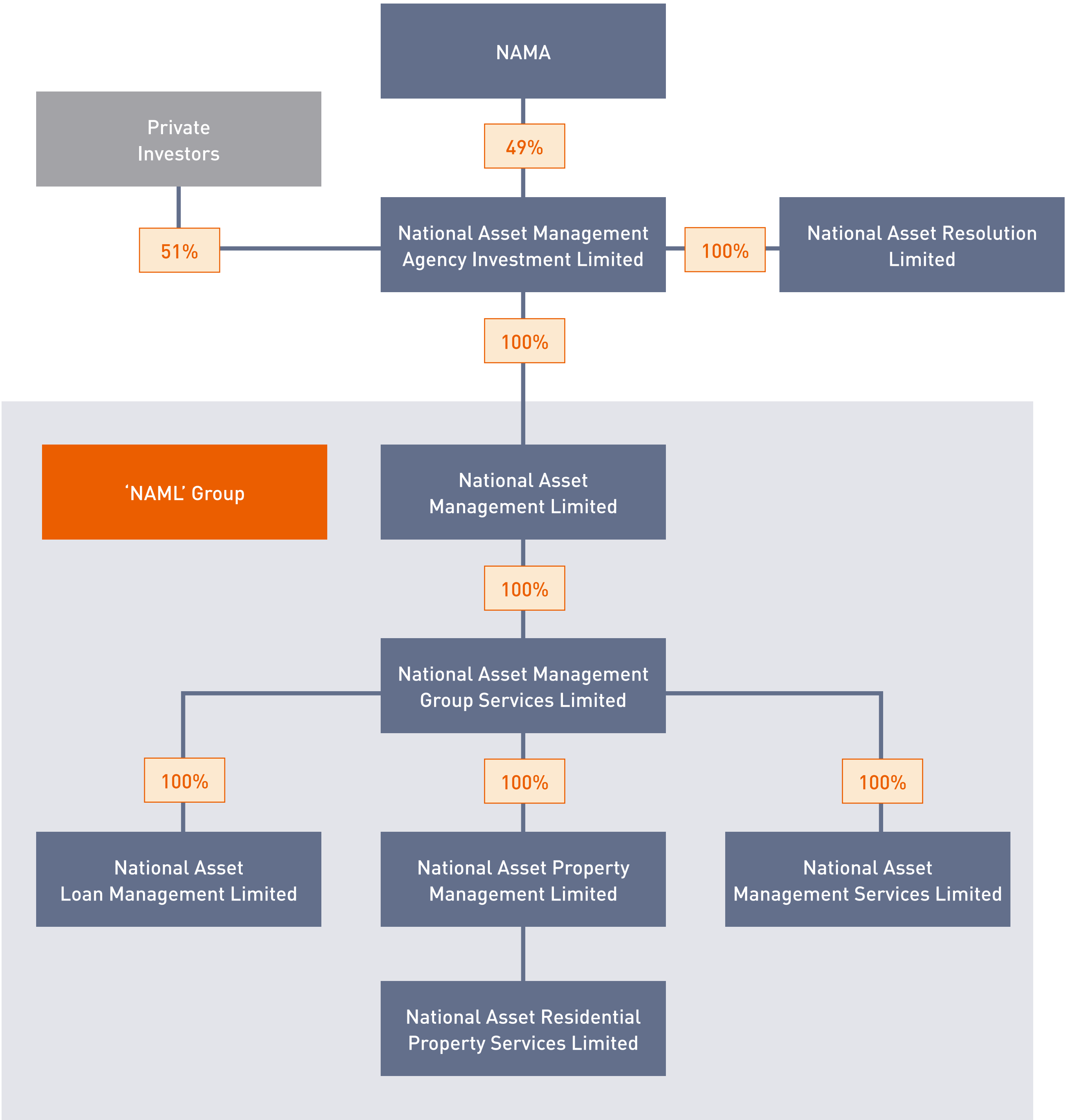
229 residential properties were delivered to the social housing sector by NAMA debtors during 2012. This included the direct sale of 191 properties by NAMA debtors to various approved housing bodies, the direct leasing of 12 properties and exchange of contract on 26 properties. No properties had been acquired by NARPSL at the reporting date.

5) National Asset Management Services Limited (NAMSL)

NAMSL was incorporated on 27 January 2010. NAMSL is a non-trading entity and has no activity at present.

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 Board is 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 Act as set out therein. These are, inter alia, to address a serious threat to the economy and the stability of credit institutions in the State generally and the need for the maintenance and stabilisation of the financial system in the State. The Board believes it is reasonable to assume that, given the purpose of the legislation, the State will take appropriate steps to ensure that the Agency is put in a position to discharge its mandate.

The first statutory assessment of NAMA's progress in achieving its overall objectives is to be carried out by the Minister as soon as may be after 31 December 2012. In accordance with Section 227 of the Act, following the assessment by the Minister, he shall decide whether the continuation of NAMA is necessary having regard to the purposes of the Act.

Under Section 226 of the Act, the Comptroller and Auditor General is required to assess and present a report to the Minister on his assessment of the extent to which NAMA has made progress in achieving its overall objectives

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 28, the Notes are issued on each acquisition date and all Notes issued prior to 1 March 2011 matured on 1 March 2011.

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 NAMA's option.

In May 2011 the Minister for Finance issued a direction to NAMA under Section 14 of the Act 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 cash redemption.

All Notes in issue at the reporting date are currently held by covered 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. All notes in issue that matured on 1 March 2013 were settled by issuing new Notes with a maturity of 1 March 2014.

The Group has available cash, cash equivalents and liquid assets at 31 December 2012 of €3.6 billion and current liabilities of €1.4 billion, therefore the Board is satisfied that it can meet its current liabilities as they fall due for the forseeable future. The Group has repaid all loans and borrowings to the Minister and has no other external borrowings.

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

2.2 Basis of compliance and measurement

The Group's consolidated and Agency financial statements for the year ended 31 December 2012 have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, the International Financial Reporting Interpretations Committee (IFRIC) interpretations, Article 4 of the International Accounting Standards (IAS) Regulation, and the European Communities (Companies: Group Accounts) Regulations, 1992. 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.

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

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

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

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

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

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

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

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

Standards issued but not effective:

IFRS 7 Financial Instruments: Disclosures (Revision). Amendments resulting from May 2010 Annual Improvements to IFRSs are applicable for accounting periods beginning on or after 1 January 2013. These amendments will have an impact on disclosure of financial assets and liabilities and no impact on measurement. This standard has been EU endorsed and will be adopted by the Group from 1 January 2013.

IFRS 9 Financial Instruments: Classification and Measurement. This standard will be applicable for accounting periods beginning on or after 1 January 2015 subject to EU endorsement. This standard is still being developed by the International Accounting Standards Board (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 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 until the final methodology is issued by the IASB. The revised standard has not yet been EU endorsed and therefore is not early adopted by the Group.

IFRS 13 Fair Value Measurement. This standard replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. This standard will have no impact on the current disclosure or measurement of assets and liabilities held at fair value. This standard has been EU endorsed and will be adopted by the Group from 1 January 2013.

IAS 32 Financial Instruments: Presentation. This amendment is to clarify certain aspects of offsetting financial assets and liabilities because of diversity in the application of the requirements of offsetting. This amendment will have an impact on disclosure of financial assets and liabilities and no impact on measurement. This standard has been EU endorsed and will be adopted by the Group from 1 January 2013.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidation standards

IAS 27 Separate Financial Statements. The amended version of IAS 27 now only deals with the requirements for separate financial statements, which have been carried over largely unchanged from IAS 27 *Consolidated and Separate Financial Statements*. Requirements for consolidated financial statements are now contained in IFRS 10 *Consolidated Financial Statements*. IAS 27 requires that when an entity prepares separate financial statements, investments in subsidiaries, associates and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9 *Financial Instruments*. The standard also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements. Investment in subsidiaries by the NAMA Group is measured at cost, therefore there is no impact from this amendment.

IAS 28 Investments in Associates and Joint Ventures. This Standard supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The Standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment. The Group does not currently have any investments in associates or joint ventures.

IFRS 10 Consolidated Financial Statements requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 Consolidated and Separate Financial Statements. The Standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements.

The Standard introduces a single consolidation model for all entities based on control irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'special purpose entities'). Under IFRS 10, control is based on whether an investor has:

- Power over the investee.
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect the amount of the returns.

The Group does not currently have any investments in associates or joint ventures.

IFRS 11 Joint Arrangements replaces IAS 31 Interests in Joint Ventures. This standard requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement. A joint venturer applies the equity method of accounting for its investment in a joint venture in accordance with IAS 28 Investments in Associates and Joint Ventures (2011). Unlike IAS 31, the use of 'proportionate consolidation' to account for joint ventures is not permitted. The Group does not currently have any joint arrangements.

IFRS 12, Disclosures of Interests in Other Entities. This standard requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

The required disclosures can be grouped into the following broad categories –

- Significant judgements and assumptions - such as how control, joint control, significant influence has been determined.
- Interests in subsidiaries - including details of the structure of the group, risks associated with structured entities and changes in control.
- Interests in joint arrangements and associates - the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarised financial information).

- Interests in unconsolidated structured entities - information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities.

This amendment will have an impact on disclosure and no impact on measurement.

Entities which choose to early adopt any of the above five revised standards relating to consolidation, must also adopt the other standards included in the 'suite of five' standards on consolidation, joint arrangements and disclosures: IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures. All of the revised 'suite of five' standards were endorsed by the EU in December 2012 and are applicable to the Group from 1 January 2013.

2.4 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 as of the same reporting date as that of the parent.

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

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

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

Details of subsidiaries are provided in Note 36.

2.5 Foreign currency translation

(a) Functional and presentation currency

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

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

(b) Transactions and balances

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial assets

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

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

(b) Loans and receivables and;

(c) Available for sale financial assets

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

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

This category of assets comprises derivatives other than derivatives that are designated and are effective as hedging instruments. 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 plus transaction costs. Loan assets acquired by the Group from Participating Institutions, as provided for in the Act, are treated as having a fair value at initial recognition equal to the acquisition price paid for the asset, taking into account any cash flow movements in the loan balance between the valuation date and transfer date.

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

Loans and receivables are classified as follows;

- Land and development loans.
- Investment property loans.

Land and development loans 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 earning 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.

(c) Available for sale financial assets

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

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

2.7 Financial liabilities

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

2.8 De-recognition of financial assets and financial liabilities

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

2.9 Interest income and interest expense

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

The EIR method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the EIR of loans and receivables, the Group estimated cash flows using the mandated Long Term Economic Value (LTEV) methodology but did not consider future credit losses beyond any already recognised in the acquisition price of loans. The calculation includes transaction costs and all fees paid or received between parties to the contract that are an integral part of the EIR.

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

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

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

2.10 Fee income

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

2.11 Profit / loss on disposal of loans, property assets and surplus income

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(b) Surplus income

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

(i) to the extent that actual cashflows for a total debtor connection are in excess of the total debtor connection loan carrying values, i.e.to the extent that the debtor has repaid all of its NAMA debt; or

(ii) when the estimated cash flows for the total debtor connection are greater than the total debtor connection loan carrying value. Such surplus income, to the extent that it is realised from specific loan assets within the connection, is taken to the income statement at each annual reporting date only.

2.12 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 connection, rather than on an individual loan basis.

The vast majority of loans and receivables acquired had already incurred credit losses, which were reflected in the valuation of loans and receivables by NAMA.

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 (for example, 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 (for example, an increased number of delayed payments);
- Further significant financial difficulty of the debtor since acquisition;
- Additional breaches of contract, such as a default or delinquency in interest or principal payments;
- It becoming increasingly probable that the debtor will enter bankruptcy or other financial reorganisation.

Individually Significant

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

Collective Assessment

Loans which are not subject to individually significant assessment are grouped 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 individually significant loans.

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

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

2.13 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.

2.14 Cash and cash equivalents

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

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

2.15 Derivative financial instruments and hedge accounting

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Derivative financial instruments and hedge accounting (continued)

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

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

Derivatives designated in hedge relationships

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

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

Cash flow hedge

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

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

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

2.16 Inventories - Trading Properties

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

2.17 Taxation

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

(a) Current income tax

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

Current income tax payable on profits, based on the applicable tax law in 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 and available for sale reserve movements is recognised in other comprehensive income and subsequently in the consolidated income statement together with the deferred gain or loss.

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

2.18 Provisions for liabilities and charges and contingent assets and liabilities

Provisions

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

Contingent liabilities

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

Contingent assets

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

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

2.19 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

d) Unsettled overdraft positions

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 cancellation 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 cancellation of government guaranteed debt securities.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Amounts due to and from Participating Institutions (continued)

c) Section 88, Section 93 and Section 98 adjustments

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

Adjustments under Section 93 of the 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 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.

d) Unsettled overdraft positions

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

2.20 Property, plant and equipment

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

2.21 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.

2.22 Debt and equity instruments

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

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

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

2.23 Share capital

(a) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders. Dividends for the period that are declared after the date of the consolidated statement of financial position are dealt with in Note 39, Events after the reporting date.

(b) Coupon on other equity instrument

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.

2.24 Segmental reporting

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

2.25 Non-controlling interests in subsidiaries

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

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

2.26 Cash placed as collateral with the NTMA

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

The amount of collateral required depends on an assessment of the credit risk by the NTMA.

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

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 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 accounting policy 2.6, 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 the LTEV methodology as set out in the 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 Impairment of loans and receivables and related derivatives acquired

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

Assets are either individually assessed or grouped together and collectively assessed for impairment. The individually assessed debtors representing loans and associated derivatives with a carrying value of €22.3 billion (2011: €23.5 billion), comprise the majority (84%) of loans and receivables managed by NAMA. The remaining loans, representing a carrying value of €4.1 billion (2011: €5.2 billion), and which relate to debtors principally managed by Participating Institutions have not been individually assessed and are grouped together as one portfolio for collective assessment.

Individually assessed debtors

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

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

The projection of cash flows involves the exercise of considerable judgement and estimation by management (taking into account the actual underlying cash flows) involving assumptions in respect of local economic conditions, the 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.

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

Sensitivity analysis

The 2012 impairment provision is determined after the following inputs are assessed:

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

Following the completion of a detailed cash flow assessment of debtors with a combined value of €22.3 billion (2011: €23.5 billion), (includes €0.3m of associated borrower derivatives (2011: €0.3m)), the consolidated results of this cash flow assessment allow NAMA to apply certain sensitivities to its portfolio and assess the impact of these sensitivities on the impairment provision.

The table below sets out the impact on the 2012 impairment provision of a change in the amount of disposal cash flows over certain geographies and asset types.

Estimated impact in €m on the 2012 impairment charge of a 1% decrease in the amount of expected disposal cash flows by asset type and location

	Ireland	**UK (including Northern Ireland)**
	€m	€m
Land and development	28	6
Residential	21	5
Commercial	22	14
Retail	21	11
Hotel and leisure	9	4
Total	**101**	**40**

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.

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.

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

3.3 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 2.9. 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 EIR of this portfolio is set as the discount rate that equates the present value of the cash flows assumed in the loan acquisition valuation model to the acquisition value. This rate is set at valuation date and becomes the original EIR of the loan.

3.3 Income recognition on loans and receivables (continued)

Actual cash flows over the life of a debtor may differ positively or negatively from the expected cash flows assumed in the acquisition valuation model. The Group reviews expected cash flows at least annually as part of its impairment review (see note 3.2). Any changes to assumptions would have an impact on interest income on loans and receivables carried at amortised cost as disclosed in Note 5. Interest income will not be recognised on any impaired portion of an asset, thus reducing interest income where revised estimated cash flows are less than the original expected cash flows in the loan acquisition model.

3.4 Deferred tax

The accounting policy for deferred tax is set out in accounting policy 2.17. 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 net deferred tax asset of €337m is recognised in the financial statements at the year end, comprising a deferred income tax asset of €133m (2011: €236m) in respect of unutilised tax losses and deferred tax on derivatives of €204m (2011: €70m).

Deferred tax assets are recognised to the extent that management believe those assets will be realised in future periods. The realisation of deferred tax assets is dependent on the Group generating future taxable profits to offset deferred tax assets recognised. Having regard to the profit generated by the Group in 2011 and 2012, and the realisation in the current year of a significant portion of the deferred tax assets recognised in 2011, management believes that future taxable profits will be available to offset any deferred tax asset recognised and therefore consider it appropriate to continue to recognise deferred tax assets at the reporting date.

4. SEGMENTAL ANALYSIS

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

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

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

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

Segmental results of operations

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

Geographical analysis

2012 Group	Ireland excluding Northern Ireland €'000	UK including Northern Ireland €'000	Rest of World €'000	Loan impairment €'000	2012 Total €'000
Gross external revenue	834,638	459,726	92,459	-	**1,386,823**
External assets					
Loans and receivables before impairment	16,494,077	7,354,609	2,190,998	-	**26,039,684**
Impairment of loans and receivables	-	-	-	(3,263,422)	**(3,263,422)**
Loans and receivables	**16,494,077**	**7,354,609**	**2,190,998**	**(3,263,422)**	**22,776,262**
Other external assets	4,218,679	226,800	6,301	-	**4,451,780**
Total external assets	**20,712,756**	**7,581,409**	**2,197,299**	**(3,263,422)**	**27,228,042**
External liabilities	26,816,295	-	-	-	**26,816,295**
Total liabilities	**26,816,295**	**-**	**-**	**-**	**26,816,295**

2011 Group	Ireland excluding Northern Ireland €'000	UK including Northern Ireland €'000	Rest of World €'000	Loan impairment €'000	2011 Total €'000
Gross external revenue	789,040	401,999	92,209	-	**1,283,248**
External assets					
Loans and receivables before impairment	17,558,818	8,689,175	2,110,662	-	**28,358,655**
Impairment of loans and receivables	-	-	-	(2,751,266)	**(2,751,266)**
Net loans and receivables	**17,558,818**	**8,689,175**	**2,110,662**	**(2,751,266)**	**25,607,389**
Other external assets	4,802,513	253,786	4,964	-	**5,061,263**
Total external assets	**22,361,331**	**8,942,961**	**2,115,626**	**(2,751,266)**	**30,668,652**
External liabilities	30,147,328	-	-	-	**30,147,328**
Total liabilities	**30,147,328**	**-**	**-**	**-**	**30,147,328**

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's geographic segment.

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

5. INTEREST AND FEE INCOME

Group	2012 €'000	2011 €'000
Interest on loans and receivables (Note 19)	1,221,862	1,145,360
Interest on acquired derivative financial instruments	84,526	100,348
Interest on cash and cash equivalents	23,792	16,870
Interest on available for sale financial assets	12,365	10,939
Total interest income	**1,342,545**	**1,273,517**
Fee income from borrowers	29,650	8,503
Fee income received on IBRC short term facility (a)	14,628	-
Income earned on borrower overdraft accounts	-	1,228
Total interest and fee income	**1,386,823**	**1,283,248**

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

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

100% of the €1.2 billion interest income on loans and receivables recognised in the year to 31 December 2012 was realised in cash during 2012 (2011: 100%).

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

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

Interest on available for sale assets comprises interest earned on short term government bonds held for liquidity purposes.

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

(a) Fee income received on IBRC short term facility

On receipt of a Ministerial direction issued on 29 March 2012, the NAMA Board approved a short-term facility with IBRC. This facility was collateralised by an Irish Government bond. The €3.06 billion facility was drawn on 3 April 2012 with a maximum maturity under the Ministerial direction of 90 days. The facility was provided at a margin of 135 basis points over the European Central Bank refinancing rate, resulting in an all-in rate of 2.35% for the duration of the facility. The short-term facility matured on 20 June 2012 with the Group being repaid in full.

Agency	2012 €'000	2011 €'000
Interest income on cash	2	16
Total interest income	**2**	**16**

6. INTEREST EXPENSE

Group	2012 €'000	2011 €'000
Interest on senior debt securities in issue	320,007	423,279
Interest on derivatives where hedge accounting is applied	116,079	58,280
Interest on other derivative financial instruments	53,772	30,797
Interest on interest bearing loans and borrowings	2,034	93
Interest expense on borrower overdraft accounts	610	-
Total interest expense	**492,502**	**512,449**

Agency	2012 €'000	2011 €'000
Interest paid on advances from Central Fund	-	93
Interest paid on inter-Group loans	600	720
Total interest expense	**600**	**813**

7. (LOSSES) / GAINS ON DERIVATIVE FINANCIAL INSTRUMENTS

Group	2012 €'000	2011 €'000
Fair value (losses) / gains on derivatives acquired from borrowers	(52,525)	90,479
Fair value gains / (losses) on other derivatives	8,538	(81,689)
Hedge ineffectiveness adjustment (Note 34)	7,721	15,908
Valuation adjustment on due diligence completion	(1,673)	(386)
Total (losses) / gains on derivative financial instruments	**(37,939)**	**24,312**

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

(Losses) / gains on derivatives acquired from borrowers comprise fair value movements on derivatives acquired from borrowers that were associated with the loans acquired. Other derivatives hedge NAMA's interest rate risk exposure arising from derivatives acquired from debtors. Hedge accounting has not been applied on these derivatives.

In 2010 a fair value loss of €30.4m in respect of derivatives that are now designated in hedge relationships was included in fair value losses on other derivatives. This loss is amortised to the cash flow hedge reserve as hedge ineffectiveness over the remaining life of the derivatives. At the reporting date cumulative hedge ineffectiveness of €23.6m is recognised in the cashflow hedge reserve, current year hedge ineffectiveness is €7.7m (2011: €15.9m).

There are no derivatives in the Agency.

8. NET PROFIT ON DISPOSAL OF LOANS, PROPERTY ASSETS AND SURPLUS INCOME

Group	2012 €'000	2011 €'000
Surplus income on loan repayments (in excess of loan carrying values) (Note 19)	172,374	472,135
Net profit on disposal of loans (Note 19)	15,139	77,443
Net profit on disposal of property assets	714	-
Total net profit on disposal of loans, property assets and surplus income	**188,227**	**549,578**

During the year, the Group disposed of certain loans and receivables to third parties. Profit or loss on disposal is measured as the difference between proceeds of sale received and the carrying value of those loans and receivables. The Group realised net profits of €15m (2011: €77m) on the disposal of loans in the year. Profit on disposal of loans is not recognised where the overall debtor connection is impaired in accordance with the latest available impairment assessment data.

During the year, the Group sold certain trading property assets to third parties. Profit or loss on disposal is measured as the difference between proceeds of sale received and the carrying value of those property assets. The Group realised net profits of €0.7m (2011: €nil) on the disposal of trading property assets in the year.

For certain assets acquired, the proceeds from the disposal of the underlying collateral in a debtor connection has exceeded the carrying value of those loans and receivables. This surplus is recognised in the income statement as realised profits on loans. Of the total amount recognised €108m (2011: €55m) was generated from debtors who have fully repaid all NAMA debt and any further cash received is recognised as profit. A further €64m (2011: €417m) of surplus income is recognised on specific loan assets within a debtor connection where the cash generated and received by NAMA has exceeded the loan carrying value; and the estimated cash flows for the total debtor connection are greater than the total loan carrying values.

No loans were disposed of by the Agency.

9. ADMINISTRATION EXPENSES

Group	Note	2012 €'000	2011 €'000
Costs reimbursable to NTMA	9.1	36,890	27,678
Primary servicer fees	9.2	56,427	56,897
Due diligence costs	9.3	4,086	44,505
Portfolio management fees	9.4	6,882	15,992
Legal fees	9.5	4,634	9,478
Master servicer fees	9.6	3,547	3,098
Finance and technology costs	9.7	3,022	2,266
Rent and occupancy costs	9.8	1,375	975
Internal audit fees	9.9	1,023	927
Other internal audit services	9.9	288	-
NAMA Board and Committee Fees	9.10	493	618
External audit remuneration	9.11	450	450
Total administration expenses		**119,117**	**162,884**
Due diligence costs recovered on loan acquisitions	9.3	-	(34,505)
Total NAMA administration expenses		**119,117**	**128,379**

Agency	Note	2012 €'000	2011 €'000
Administration expenses			
Costs reimbursable to NTMA	9.1	36,890	27,678
Board and committee fees	9.10	493	618
Occupancy and other costs	9.8	1,178	86
Total administration expenses		**38,561**	**28,382**

Costs reimbursable to the NTMA are recognised as an expense to NAMA. All costs, other than Board fees and Board expenses incurred by NAMA are reimbursed to it by the NAML Group. Total costs of €38.1m (2011: €27.8m) were reimbursed by the NAML Group to NAMA.

Agency	Note	2012 €'000	2011 €'000
Costs reimbursable by the NAML Group			
Costs reimbursable to NTMA	9.1	36,890	27,678
Occupancy costs	9.8	1,177	87
Total costs reimbursable by the NAML Group		**38,067**	**27,765**

9. ADMINISTRATION EXPENSES (CONTINUED)

9.1 Costs reimbursable to NTMA

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

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

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

Staff costs

The Group has no employees. All personnel are employed by the NTMA and the salary cost of staff who are engaged full time in the NAMA business are recharged to the Group by the NTMA. The number of employees of the NTMA, directly engaged in the Group ('NAMA Officers') at the reporting date was 224 (2011: 202) and the total salary cost including pension costs was €27.1m (2011: €20.9m). 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 2012 was €3.1m (2011: €3.1m).

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)	**2012 €**	**2011 €**
Salary	365,500	430,000
Taxable benefits	22,664	24,483
Performance related bonus	-	-
	388,164	**454,483**

The Chief Executive Officer's pension entitlements do not extend beyond the standard terms of the model public sector superannuation scheme. The 2012 salary reflects a 15% voluntary reduction.

The remuneration of the Chief Executive Officer is determined by the NTMA CEO 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 NAMA Board 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 entitled to be awarded a performance payment for 2012, but in view of the economic challenges facing the country, waived his entitlement to this payment.

9.2 Primary Servicer fees

Primary Servicer fees comprise fees paid to each Participating Institution, the Primary Servicers, for the servicing of eligible bank assets. 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 37, related party disclosures. The fees paid and accrued to the Participating Institutions were €56.4m (2011: €56.9m), which equates to an overall fee of 8 basis points (2011: 8 basis points) of the par debt loan balances administered.

9.3 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 deduction 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. Total due diligence cost incurred on acquiring the loan portfolio was €78.2m. In 2010 and 2011 the Group recovered a total of €64.1m of these costs from the Participating Institutions through a deduction in the acquisition value of the loans, leaving a balance of €14.1m which has not been recovered from Participating Institutions and which has been expensed to the income statement in 2011 and 2012.

Due diligence costs are analysed as follows;

	2012 €'000	2011 €'000
Legal due diligence	85	7,053
Loan valuation costs	2,187	20,900
Property due diligence	513	7,607
Audit coordinator	1,301	8,945
Total due diligence costs incurred	**4,086**	**44,505**
Due diligence costs recovered on loan acquisitions	-	(34,505)
Net due diligence costs expensed to the income statement	**4,086**	**10,000**

9.4 Portfolio management fees

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

9.5 Legal fees

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

9.6 Master Servicer fees

Master Servicer fees comprise fees paid to the Master Servicer, Capita. Capita provides loan administration and data management services to the Group. Capita fees were €3.5m in the year (2011: €3.1m).

9.7 Finance and technology costs

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

9.8 Rent and occupancy costs

Rent and occupancy costs comprise costs incurred during the year in relation to the premises occupied by the Group. The Agency has leased its current office premises for a period of ten years at an annual rent of €1.0m. The remaining balance relates to occupancy costs.

9.9 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.

Other internal audit services

During the year the Group's internal auditor, Deloitte, carried out certain internal audit services that were additional to the scope of routine internal audit services.

9. ADMINISTRATION EXPENSES (CONTINUED)

9.10 NAMA Board and Committee Fees

	2012 €	2011 €
Frank Daly (Chairman)	150,000	153,778
Michael Connolly (resigned 25 November 2011)	-	81,875
Éilish Finan	60,000	60,000
Brian McEnery	60,000	60,000
Steven A. Seelig	60,000	60,000
Willie Soffe	75,000	61,210
Peter Stewart (resigned 10 October 2011)	-	46,613
Board Fees	**405,000**	**523,476**
Board expenses	60,247	60,873
Board advisory cost	-	6,191
Total Board Expenses	**465,247**	**590,540**
Planning Advisory Committee		
Alice Charles	5,000	4,000
Michael Wall	5,000	4,000
Audit Committee		
Jim Kelly	10,000	9,694
Northern Ireland Advisory Committee		
Frank Cushnahan	4,000	5,000
Brian Rowntree	4,000	5,000
Committee Fees	**28,000**	**27,694**
Total Board and Committee Fees	**493,247**	**618,234**

John Corrigan (NTMA Chief Executive) and Brendan McDonagh (NAMA Chief Executive Officer) receive no remuneration as ex-officio members of the Board. John Mulcahy was appointed to the Board in March 2012 and receives no remuneration in his capacity as Board member.

During 2012, expenses of €60,247 (2011: €60,873) were incurred by NAMA Board and Committee Members.

2012	Travel Expenses €	Accommodation and Subsistence €	Other €	Total 2012 €	Total 2011
Frank Daly (Chairman)	1,538	620	657	**2,815**	**3,563**
Brian McEnery	4,971	-	-	**4,971**	**9,943**
Steven A. Seelig[3]	43,760	8,701	-	**52,461**	**47,367**
	50,269	**9,321**	**657**	**60,247**	**60,873**

3 *Steven Seelig lives in the USA. Expenses relate to travel and accommodation expenses on a cost recovery basis to attend Board and Committee meetings in Dublin.*

9.11 External audit remuneration

	2012 €'000	2011 €'000
Audit of individual accounts	450	450
Other assurance	-	-
Tax advisory	-	-
Other non-audit services	-	-
Total external audit remuneration	**450**	**450**

10. FOREIGN EXCHANGE GAINS AND LOSSES

Group	2012 €'000	2011 €'000
Foreign exchange translation gains on loans and receivables (Note 19)	216,051	245,533
Unrealised foreign exchange loss on derivative financial instruments	(61,708)	(291,633)
Realised foreign exchange (losses) / gains on currency derivative financial instruments	(255,374)	111,093
Foreign exchange gain / (loss) on cash	1,467	(3,221)
Other foreign exchange gains	132	1
Total foreign exchange (losses) / gains	**(99,432)**	**61,773**

Gains and losses on foreign exchange derivatives arise from market movements that affect the value of the derivatives at the reporting date. On a cumulative basis since 2010, NAMA has recorded a loss of €15m on currency derivatives. This cumulative net cost is akin to an "insurance" cost of protecting NAMA from the impact of foreign exchange rate fluctuations.

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

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

11. IMPAIRMENT CHARGES ON LOANS AND RECEIVABLES

Group	2012 €'000	2011 €'000
Balance at the beginning of the year	2,751,266	1,484,523
Increase in specific provision	1,016,647	1,704,889
Release of specific provision	(419,189)	(270,352)
Release of collective provision	(85,302)	(167,794)
Total movement in provision	**512,156**	**1,266,743**
Balance at the end of the year (Note 19)	**3,263,422**	**2,751,266**
Recognised in income statement	517,841	1,266,743
Recognised against loans and receivables	(5,685)	-
	512,156	**1,266,743**
Analysed as:		
Specific impairment	2,750,572	2,153,114
Collective impairment	512,850	598,152
	3,263,422	**2,751,266**

The release of the specific impairment provision (€0.4 billion in 2012) primarily relates to a reduction in the acquisition value of certain loans following the completion of due diligence during the year.

The impairment provision for each specifically assessed debtor connection is calculated as the difference between the carrying value of each debtor connection's total loans and the present value of expected future cash flows for the connection. Where there was a reduction in the acquisition value of loans following the completion of due diligence, this resulted in a reduction in the impairment provision that was previously recognised for certain debtor connections.

The release of the collective provision is mainly due to a reduction in the loans and receivables that were collectively assessed for impairment in 2012 compared to 2011. During 2012 the management of a number of debtor connections transferred from the Participating Institutions to NAMA and these connections were subject to specific impairment assessment at 31 December 2012. This resulted in a lower number of loans and receivables being collectively assessed for impairment.

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

12. TAX (CHARGE) / CREDIT

Group	2012 €'000	2011 €'000
Current tax		
Irish corporation tax	(450)	(1,561)
Deferred tax		
On fair value gains and losses on derivatives	26,424	1,135
On unutilised tax losses forward (Note 26)	(102,240)	235,634
Total deferred tax recognised in the income statement	(75,816)	236,769
Total taxation (charge) / credit	**(76,266)**	**235,208**

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

Reconciliation of tax on profits

Group	2012 €'000	2011 €'000
Profit before tax	308,219	11,340
Tax calculated at a tax rate of 25%	77,055	2,835
Effect of:		
Non-deductible derivative movements	24,912	66,830
Tax on interest income	450	1,561
Non-deductible expenses	273	354
Utilised tax losses forward	(102,240)	(70,019)
Additional deferred tax liability recognised	(26,424)	(1,135)
Movement in deferred tax recognised on tax losses	102,240	(235,634)
Taxation charge / (credit)	**76,266**	**(235,208)**

The current tax charge of €0.45m (2011: €1.56m) arises on the profits earned by NAMAIL. A total amount of €0.6m (2011: €1.4m) 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 2012 was 0% (2011: 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.

13. INCOME TAX RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

Group	2012 €'000	2011 €'000
Movement in cash flow hedge reserve before tax (Note 34)	(439,821)	(338,689)
Movement in available for sale reserve before tax (Note 34)	2,297	110
Total movement	(437,524)	(338,579)
Deferred tax benefit (Note 26)	107,451	68,884
Total income tax relating to components of other comprehensive income	**107,451**	**68,884**

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

14. DIVIDEND PAID

Group	2012 €'000	2011 €'000
Dividend paid	**3,457**	5,093

On 30 March 2012 the Board of NAMAIL declared and approved a dividend payment of €0.06778 per share, amounting to €3.457m. The amount of the dividend per share was based on the ten year Irish government bond yield as at 31 March 2012. The dividend was paid to the holders of B ordinary shares of NAMAIL only, the private investors, who have a 51% ownership in the Company. No dividend was paid to the A ordinary shareholder, NAMA the Agency, which has a 49% ownership in the Company.

15. CASH AND CASH EQUIVALENTS AND COLLATERAL

Group	2012 €'000	2011 €'000
Exchequer note investments	-	2,300,000
Balances with the Central Bank of Ireland	2,142,922	974,566
Balances with other banks	62,266	54,462
Term deposits	30,634	17,958
Total cash and cash equivalents	**2,235,822**	**3,346,986**
Cash placed as collateral with the NTMA	1,150,000	-
Total cash, cash equivalents and collateral	**3,385,822**	**3,346,986**

Agency	2012 €'000	2011 €'000
Balances with the Central Bank of Ireland	1,268	1,623
Total cash and cash equivalents	**1,268**	**1,623**

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

In accordance with a new agreement entered into between NAMA and the NTMA in 2012, NAMA is now required to post cash collateral with the NTMA under a collateral posting agreement (CPA). The NTMA is the counterparty to all NAMA derivatives (other than those acquired from borrowers). The NTMA require cash to be placed with it as collateral to reduce the exposure it has to NAMA with regard to its derivative positions. At 31 December 2012, NAMA's derivative exposure was €1.2 billion as set out in Note 18.

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

At the reporting date there is an amount of €14.6m held in an escrow account in the Group's name. This amount is in respect of the outcome of due diligence procedures on AIB Tranche 9 loans. On completion of due diligence by AIB part or the entire amount will be either transferred to the Group's bank account or retained by AIB. During the year, an amount of €0.5m was paid to NAMA from this account. The balance on this account is assessed on a six monthly basis. The next review date is 1 May 2013.

16. FINANCIAL ASSETS AVAILABLE FOR SALE

Group	2012 €'000	2011 €'000
Short term treasury bonds	257,932	499,747
Total available for sale financial assets	**257,932**	**499,747**

Available for sale financial assets comprise Irish government treasury bonds acquired for liquidity management. The nominal value of available for sale assets at 31 December 2012 was €255m (2011: €501m).

17. AMOUNTS DUE TO / FROM PARTICIPATING INSTITUTIONS

Group	Note	2012 €'000	2011 €'000
Amounts due from Participating Institutions:			
Due diligence valuation adjustment	17.1	-	146,598
Value to transfer settlement	17.2	-	141,886
Unsettled overdraft positions	17.3	78,953	120,659
Total		**78,953**	**409,143**
Amounts due to Participating Institutions:			
Due diligence valuation adjustment	17.1	-	(3,523)
Value to transfer settlement	17.2	-	(24,398)
Unsettled overdraft positions	17.3	(36,423)	(31,571)
Adjustments under Section 98 of the Act	17.4	-	(730)
Adjustments under Section 88 of the Act	17.4	-	(2)
Total		**(36,423)**	**(60,224)**
Current		**42,530**	**348,919**
Non-current		**-**	**-**

17. AMOUNTS DUE TO / FROM PARTICIPATING INSTITUTIONS (CONTINUED)

17.1 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. During 2012, due diligence was completed on all eligible loans acquired by NAMA.

17.2 Value to transfer date settlement

Value to transfer date 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. All eligible assets were transferred to NAMA in 2012, and all value to transfer date amounts were settled by the reporting date.

17.3 Unsettled overdraft positions

NAMA legally acquired overdraft accounts attached to debtor loan accounts in 2010 and 2011. At 31 December 2012 the following amounts were receivable from and payable to the Participating Institutions for cash collected or paid out by the Participating Institutions in relation to NAMA debtors' overdraft accounts. Amounts due are generally only settled by NAMA and the Participating Institutions upon a terminating event such as account closure. Amounts settled may differ to the balances reported at year end.

Unsettled overdraft positions	**Receivable**	**Payable**
Balance at 31 December 2011	120,659	(31,571)
Movement in overdraft accounts during the year	(41,706)	(4,852)
Balance as at 31 December 2012	**78,953**	**(36,423)**

17.4 Adjustments under Sections 88 and 98 of the Act

The Act provides under Section 88 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 2.19.

Settlement of Section 88 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.

18. DERIVATIVE FINANCIAL INSTRUMENTS

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

In addition the Group enters derivative contracts to hedge its exposure to interest rate and foreign exchange risk.

The Group has established policies to manage the risks that arise in connection with derivatives, including hedging policies, which are explained in Notes 21 and 22.

The notional amounts of certain types of financial instruments do not necessarily represent the amounts of future cash flows involved or the current fair value of the instruments and, therefore, are not a good indication of the Group's exposure to credit or market risks. Derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The 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 (for example, 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 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 financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of 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.

Group		**Fair values**		
31 December 2012	**Notional amount €'000**	**Assets €'000**	**Liabilities €'000**	**Net €'000**
(a) Derivatives at fair value through profit or loss				
Derivative financial instruments acquired from borrowers	4,031,893	321,842	-	**321,842**
Other derivative financial instruments	1,264,005	17,114	(154,985)	**(137,871)**
Foreign currency derivatives	6,247,180	11,750	(305,956)	**(294,206)**
(b) Derivative financial instruments designated in hedge relationships				
Interest rate swaps	18,100,000	-	(707,747)	**(707,747)**
Total derivative assets/(liabilities)	**29,643,078**	**350,706**	**(1,168,688)**	**(817,982)**

Group		**Fair values**		
31 December 2011	**Notional amount €'000**	**Assets €'000**	**Liabilities €'000**	**Net €'000**
(a) Derivatives at fair value through profit or loss				
Derivative financial instruments acquired from borrowers	6,125,867	374,367	-	**374,367**
Other derivative financial instruments	2,446,468	9,382	(155,791)	**(146,409)**
Foreign currency derivatives	8,622,607	57,332	(289,830)	**(232,498)**
(b) Derivative financial instruments designated in hedge relationships				
Interest rate swaps	20,300,000	7,458	(283,104)	**(275,646)**
Total derivative assets / (liabilities)	**37,494,942**	**448,539**	**(728,725)**	**(280,186)**

18. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Movement recognised in the income statement and other comprehensive income

The table below shows the net fair value position on derivatives at 31 December 2011 and 2012. The movement is recognised either in the income statement on derivatives where hedge accounting is not applied, Note 7, in unrealised foreign exchange losses on derivative financial instruments, Note 10, or in other comprehensive income where hedge accounting is applied, Note 34.

Group	Fair values 2012 €'000	Fair values 2011 €'000	Movement €'000
(a) *Derivatives at fair value through profit or loss*			
Derivative financial instruments acquired from borrowers (Note 7)	321,842	374,367	**(52,525)**
Other derivative financial instruments (Note 7)	(137,871)	(146,409)	**8,538**
Foreign currency derivatives (Note 10)	(294,206)	(232,498)	**(61,708)**
(b) Derivative financial instruments designated in hedge relationships			
Interest rate swaps (Note 34)	(707,747)	(275,646)	**(432,101)**
Net derivative fair value movement	**(817,982)**	**(280,186)**	**(537,796)**

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

Derivative financial instruments acquired from borrowers relate to the fair value of derivatives acquired from borrowers that were associated with loans acquired. The fair value of these derivatives at year end was €322m (2011: €374m) and the fair value movement on these derivatives in the year was a loss of €53m (2011: €90m) (see Note 7).

Other derivative financial instruments relate to the fair value of derivatives entered into by the Group to hedge derivative financial instruments acquired from borrowers. 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

At the reporting date, NAMA had entered into €18.1 billion of interest rate swaps to hedge its exposure to interest rate risk arising from Euribor floating rates.

NAMA has issued debt securities of €30 billion with a floating rate coupon based on Euribor. Financial instruments priced at floating rate, are sensitive to interest rate fluctuations in Euribor rates, which in turn impacts on the amount of interest expense payable on debt securities in issue. These swaps allow NAMA to exchange fixed cash flows for floating cash flows, i.e. it pays fixed interest to the swap counterparties and receives floating interest, which in turn NAMA uses to pay floating interest to the holders of its debt securities in issue.

As market interest rates fluctuate up or down, this impacts on the value of the interest rate swaps. For example, if Euribor rates decrease, and the swap is paying fixed cash flows at a rate higher than Euribor, then the value of that derivative declines because it is cheaper to borrow in the open market.

The value of the derivatives will fluctuate over the life of the derivative but these fluctuations are unrealised gains and losses and will ultimately terminate with a nil value. The derivatives are entered into for risk management purposes and under IFRS are allowed to be designated into hedge relationships. Any gains or losses on derivatives in hedge relationships are not immediately recognised through profit or loss as the intention is to reduce volatility in the income statement. Therefore the gains and losses are recognised in other comprehensive income.

These interest rate swaps were formally designated into hedge relationships during 2010, when the fair value of these derivatives was (negative) €30.4m. This amount was recognised as a fair value loss on other derivative financial instruments in the income statement in 2010. This fair value gain is amortised as hedge ineffectiveness over the remaining life of the derivatives. A cumulative amount of €23.6m (2011: €15.9m) has been recognised as income in the income statement and cash flow hedge reserve. The total loss for the financial year on cash flow hedges of (€432m) (2011: €323m) is recognised in the cash flow hedge reserve in other comprehensive income (see Note 34). This is an unrealised movement.

The Agency held no derivatives at the reporting date.

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, excluding any hedge accounting adjustments that may be applied.

Group 31 December 2012	0-6 months €'000	6 months - 1 year €'000	1-5 years €'000	More than 5 years €'000	2012 Total €'000
a) Expected to occur	38,464	22,060	213,982	-	**274,506**
b) Expected to accrue	27,472	20,758	201,298	-	**249,528**

Group 31 December 2011	0-6 months €'000	6 months - 1 year €'000	1-5 years €'000	More than 5 years €'000	2011 Total €'000
a) Expected to occur	120,116	91,755	703,538	43,815	**959,224**
b) Expected to accrue	101,208	85,528	662,648	29,761	**879,145**

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

There is no cash flow hedging applied in the Agency.

19. LOANS AND RECEIVABLES

Group	2012 €'000	2011 €'000
Loans and receivables carrying value before impairment	26,039,684	28,358,655
Less: provision for impairment charges on loans and receivables (Note 11)	(3,263,422)	(2,751,266)
Total loans and receivables	**22,776,262**	**25,607,389**

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.

19. LOANS AND RECEIVABLES (CONTINUED)

The following table summarises the movement in loans and receivables since acquisition.

Reconciliation of movement in loans and receivables	Note	2012 €'000	2011 €'000
Loans acquired – opening balance		**28,358,655**	**29,435,356**
New loans acquired		-	1,252,225
New loans issued		18,511	-
Loan movements			
Loan acquisition adjustments			
Valuation adjustments on completion of due diligence	19.1	(32,058)	419,350
Unsettled value to transfer adjustments		-	(35,510)
AIB Tranche 9 partial settlement	15	(511)	(7,574)
Value to transfer date loan cash settlements	19.2	(85,356)	10,502
Due diligence costs recoverable		-	4,169
S.88 and S.98 adjustments		-	732
Total loan acquisition adjustments		**(117,925)**	**391,669**
Receipts from and payments to borrowers			
Non-disposal income		(1,359,258)	(1,236,174)
Proceeds from the sale of collateral as security against loans and receivables		(2,355,320)	(2,698,464)
Proceeds from the sale of loans		(461,780)	(931,981)
Deferred consideration on sale of loans	19.3	(3,568)	(7,687)
Funds advanced to borrowers		308,409	303,981
Total receipts from and payments to borrowers		**(3,871,517)**	**(4,570,325)**
Other loan movements			
Loan interest income earned	5	1,221,862	1,145,360
Overdraft accounts	19.4	37,975	(87,861)
Profit recognised on sale of loans	8	15,139	77,443
Surplus income	8	172,374	472,135
Foreign exchange movement on loans and receivables	10	216,051	245,533
Settlement of guarantee		-	(6,850)
Other		(11,441)	3,970
Total other loan movements		**1,651,960**	**1,849,730**
Total loan movements		**(2,337,482)**	**(2,328,926)**
Loans and receivables pre impairment		**26,039,684**	**28,358,655**
Impairment of loans and receivables	11	(3,263,422)	(2,751,266)
Net loans and receivables after impairment		**22,776,262**	**25,607,389**

The net post impairment movement in the loan balance in the year is €2.8 billion (2011: €2.3 billion). The total cumulative impairment provision at 31 December 2012 is €3.3 billion (2011: €2.8 billion). Loan acquisition adjustments are €0.12 billion (2011: €0.4 billion) and comprise primarily value to transfer adjustments and due diligence valuation adjustments. These adjustments arise out of the acquisition process of loans and receivables.

Loan movements occurring in the year are €2.3 billion (2011: €2.3 billion), which includes €4.2 billion (2011: €4.9 billion) of cash receipts from debtors, generated from the sale of loans and properties and recurring non-disposal income of €1.4 billion (2011: €1.2 billion).

Funds advanced to debtors for working and development capital was €0.3 billion (2011: €0.3 billion). Loan interest income of €1.2 billion (€1.1 billion) was earned in the year, of which 100% was realised in cash by NAMA. Further information on certain loan movements are provided below.

19.1 Additional loan adjustments following the completion of due diligence in the year

Any adjustments arising on the completion of due diligence on assets transferred are recognised in the statement of financial position as an adjustment to the carrying value of loans and receivables and through the issuance or redemption of NAMA senior and subordinated debt securities. At the year end no amounts remained outstanding to be settled with any Participating Institution.

19.2 Value to transfer date loan cash settlements

Net value-to-transfer date loan cash settlements received in 2012 were €202m, of which €85m was settled against loans and receivables and €117m was settled against amounts due to and from Participating Institutions. This amount represents net movements that occurred on loans acquired by NAMA in the period between the loan valuation date and acquisition date.

19.3 Deferred consideration received on sale of loans

NAMA disposes of certain loan assets to third parties. The contractual sales price includes any deferred consideration where NAMA has contractual right to receive any deferred cash flow in accordance with IAS 32.

19.4 Overdraft accounts

Participating Institutions have continued to fund debtor overdraft accounts and collect cash repayments on these accounts on NAMA's behalf. During the year, the net amount due to NAMA in respect of unsettled overdrafts reduced by €47m (2011: increase of €89m). The movement was due to an increase in the funds due to Participating Institutions of €5m (2011: €32m) and a reduction in the funds due to NAMA of €42m (2011: €121m). This net movement is recognised as a €38m increase in loans and receivables (2011: reduction of €88m), €8m related to the partial settlement of 2011 overdrafts and the balance is recognised in Note 6.

20. INVENTORIES

Group	2012 €'000	2011 €'000
Trading properties	**6,758**	**6,850**

In 2011 the Group received certain properties as consideration for the settlement of a loan guarantee acquired by the Group. The properties are recognised in accordance with accounting policy 2.16. During the year the majority of the properties were transferred at fair value from NALML to NAPML. All remaining properties will be transferred in 2013.

21. RISK MANAGEMENT

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

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

Asset and liability management

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

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

The Risk Management Committee and the Board have adopted a prudential liquidity policy which incorporates ongoing liquidity stress-testing and the maintenance of a minimum liquidity buffer or cash reserve. This buffer is kept under review in line with overall asset and liability management strategy.

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 in 2010. However, given the net positive cash flow from NAMA activities, no issuance took place in 2012.

Risk Oversight and Governance

Risk Management Committee

The Risk Management Committee, a subcommittee of the Board, oversees risk management and compliance throughout the Group. It reviews, on behalf of the Board, the key risks inherent in the business and ensures that an adequate risk management framework is in place to manage the Group's risk profile and its material exposures.

Audit Committee

The Audit Committee seeks to ensure compliance with financial reporting requirements. It reports to the Board on the effectiveness of control processes operating throughout the Group. It reports on the independence and integrity of the external and internal audit processes, the effectiveness of NAMA's internal control system, the processes in place for monitoring the compliance of the loan service providers with their contractual obligations to NAMA and compliance with relevant legal, regulatory and taxation requirements by NAMA.

Credit Committee

The Credit Committee is responsible for making credit decisions within its delegated authority from the Board. These include inter alia the approval of debtor asset management / debt reduction strategies, advancement of new money, approval of asset / loan disposals, the setting and approval of repayment terms, property management decisions and decisions to take enforcement action where necessary. The Credit Committee also makes recommendations to the NAMA Board in relation to specific credit requests where authority rests with the Board. It is also responsible for evaluating Credit and Risk policies for ultimate Board approval and will provide an oversight role in terms of substantial credit decisions made below the delegated authority level of the Credit Committee.

Finally, the Credit Committee reviews management information prepared by the Asset Recovery and Asset Management functions in respect of the NAMA portfolio.

Audit and Risk – Chief Financial Officer (CFO) Division

The Audit and Risk is a unit within the CFO division of NAMA and is responsible for the co-ordination and monitoring of internal and external audit and risk. The unit supports the NAMA CFO to ensure that NAMA operates within the Board approved risk limits and tolerances. Audit and Risk is also responsible for the design and implementation of the NAMA Risk Management Framework. The unit provides an independent assessment and challenge of the adequacy of the control environment, it coordinates the internal and external audit activities across NAMA, Participating Institutions and Master Servicer and monitors and reports to the Audit Committee and Board the progress in addressing actions highlighted in audit findings.

Treasury – CFO Division

The Treasury unit has primary responsibility for managing market risk, liquidity and funding risk. Credit risk is dealt with in detail in Note 22.

NTMA Risk unit

The NTMA Risk unit provides market risk support to the Group. Furthermore the management of the Group's counterparty credit risk on market related transactions (derivatives and cash deposits), in line with the Board's policy, has also been delegated to the NTMA.

21.1 Market risk

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

Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements, and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and foreign exchange rates. The Group is exposed to market risk on its loans and receivables, 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 senior 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.

21.2 Market risk management

Objective

The Group has in place effective systems and methodologies for the identification and measurement of market risks in its statement of financial position. These risks are then managed within strict limits and in the context of a conservative risk appetite that is consistent with the NAMA legislation.

Policies

The management of market risk within the Group is governed by market risk policies approved by the Risk Management Committee and the Board. The Board approves overall market risk tolerance and delegates the lower level limit setting to the Risk Management Committee. The management of the Group's key market risks (such as interest rate and foreign exchange risk) is centralised within the Group's Treasury unit. NAMA's Audit and Risk unit provides oversight and is responsible for the monitoring of the limit framework within the context of limits approved by the Risk Management Committee. Market risk support is provided by the NTMA Risk unit.

21. RISK MANAGEMENT (CONTINUED)

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's Balance Sheet policies are designed to ensure a rigorous system of control is in place which includes prescribing a specific range of approved products and limits that cover all of the risk sensitivities associated with approved products.

The Group provides 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 1990's) on current positions are used to assess and manage market risk.

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

21.3 Market Risk Measurement

21.3.1 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 interest rate risk. Risk sensitivities are calculated by measuring an upward parallel shift in the yield curve to assess the impact of interest rate movements.

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

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

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

Interest Rate Risk Group 2012	0-6 months €'000	Greater than 6 months €'000	Non- interest bearing €'000	Total €'000
Financial Assets				
Cash and cash equivalents	2,235,822	-	-	**2,235,822**
Cash placed as collateral with the NTMA	1,150,000	-	-	**1,150,000**
Financial assets available for sale	257,932	-	-	**257,932**
Loans and receivables	22,776,262	-	-	**22,776,262**
Amounts due from Participating Institutions	-	-	78,953	**78,953**
Other assets	-	-	33,490	**33,490**
Total financial assets exposed to interest rate re-set	**26,420,016**	**-**	**112,443**	**26,532,459**
Liabilities				
Amounts due to Participating Institutions	36,423	-	-	**36,423**
Senior debt securities in issue[4]	25,440,000	-	-	**25,440,000**
Derivative financial instruments	(14,300,000)	(3,800,000)	-	**(18,100,000)**
Other liabilities	-	-	169,557	**169,557**
Tax payable			1,627	**1,627**
Total financial liabilities exposed to interest rate re-set	**11,176,423**	**(3,800,000)**	**171,184**	**7,547, 607**

Interest Rate Risk Group 2011	0-6 months €'000	Greater than 6 months €'000	Non- interest bearing €'000	Total €'000
Financial Assets				
Cash and cash equivalents	3,346,986	-	-	**3,346,986**
Financial assets available for sale	499,747	-	-	**499,747**
Loans and receivables	25,607,389	-	-	**25,607,389**
Amounts due from Participating Institutions	-	-	409,143	**409,143**
Other assets	-	-	43,438	**43,438**
Total financial assets exposed to interest rate re-set	**29,454,122**	**-**	**452,581**	**29,906,703**
Liabilities				
Amounts due to Participating Institutions	-	-	60,224	**60,224**
Senior debt securities in issue	29,106,000	-	-	**29,106,000**
Derivative financial instruments	(13,600,000)	(6,700,000)	-	**(20,300,000)**
Other liabilities	-	-	250,232	**250,232**
Tax payable	-	-	2,147	**2,147**
Total financial liabilities exposed to interest rate re-set	**15,506,000**	**(6,700,000)**	**312,603**	**9,118,603**

4 *Senior debt securities in issue at 31 December 2012 had a maturity date of 1 March 2013. Debt securities are settled by the issue of new debt securities with a duration of 364 days or through settlement in cash. (See Note 28)*

21. RISK MANAGEMENT (CONTINUED)

Interest Rate Risk Agency 2012	**0-6 months €'000**	**Non-interest bearing €'000**	**Total €'000**
Financial Assets			
Cash and cash equivalents	1,268	-	**1,268**
Other assets	-	9,306	**9,306**
Total financial assets exposed to interest rate re-set	1,268	9,306	**10,574**
Liabilities			
Interest bearing loans and borrowings	53,320	-	**53,320**
Other liabilities	-	10,027	**10,027**
Total financial liabilities exposed to interest rate re-set	**53,320**	**10,027**	**63,347**

Interest Rate Risk Agency 2011	**0-6 months €'000**	**Non-interest bearing €'000**	**Total €'000**
Financial Assets			
Cash and cash equivalents	1,623	-	**1,623**
Other assets	-	3,381	**3,381**
Total financial assets exposed to interest rate re-set	**1,623**	**3,381**	**5,004**
Liabilities			
Interest bearing loans and borrowings	52,720	-	**52,720**
Other liabilities	-	4,040	**4,040**
Total financial liabilities exposed to interest rate re-set	**52,720**	**4,040**	**56,760**

Interest rate risk sensitivity

The following table represents the interest rate sensitivity arising from a 50 basis point (bp) increase or decrease in interest rates across the curve, subject to a minimum interest rate of 0%. This risk is measured as the net present value (NPV) impact, on the statement of financial position, of that change in interest rates. This analysis shifts all interest rates for each currency and each maturity simultaneously by the same amount.

The interest rates for each currency are set as at 31 December 2012. 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

	31 December 2012		**31 December 2011**	
	+50bp €'000	**-50bp €'000**	**+50bp €'000**	**-50bp €'000**
EUR	201,242	(205,637)	237,609	(244,208)
GBP	(18,177)	19,625	(17,781)	19,624
USD	(391)	392	(75)	77

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.

21.3.2 Foreign exchange risk

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

The following table summarises the Group's exposure to foreign currency risk at 31 December 2012. 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 2012	US Dollars €'000	Sterling €'000	Other €'000	Total €'000
Assets				
Cash and cash equivalents	12,224	53,246	2,181	**67,651**
Loans and receivables	275,850	6,836,515	123,675	**7,236,040**
Derivative financial instruments	(257,914)	(5,848,164)	(111,578)	**(6,217,656)**
Other assets	-	5,657	-	**5,657**
Amounts due from Participating Institutions	-	5,905	-	**5,905**
Total assets exposed to currency risk	**30,160**	**1,053,159**	**14,278**	**1,097,597**
Liabilities				
Amounts due to Participating Institutions	-	(1,459)	-	**(1,459)**
Total liabilities exposed to currency risk	**-**	**(1,459)**	**-**	**(1,459)**
Net assets exposed to currency risk	**30,160**	**1,051,700**	**14,278**	**1,096,138**

Group 2011	US Dollars €'000	Sterling €'000	Other €'000	Total €'000
Assets				
Cash and cash equivalents	8,657	43,094	2,386	**54,137**
Loans and receivables	351,068	8,689,175	115,079	**9,155,322**
Derivative financial instruments	(332,657)	(8,141,789)	(107,422)	**(8,581,868)**
Other assets	-	7,688	-	**7,688**
Amounts due from Participating Institutions	125	24,688	54	**24,867**
Total assets exposed to currency risk	**27,193**	**622,856**	**10,097**	**660,146**
Liabilities				
Amounts due to Participating Institutions	-	(3,097)	-	**(3,097)**
Total liabilities exposed to currency risk	**-**	**(3,097)**	**-**	**(3,097)**
Net assets exposed to currency risk	**27,193**	**619,759**	**10,097**	**657,049**

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

21. RISK MANAGEMENT (CONTINUED)

Exposure to foreign exchange risk - sensitivity analysis

A 10% strengthening of the euro against the following currencies at 31 December 2012 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	2012 €'000	2011 €'000
GBP	**(94,691)**	(54,234)
USD	**(2,746)**	(3,462)
Other	**(1,298)**	(1,130)

22. CREDIT RISK

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

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

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

NAMA Asset Recovery

The NAMA Asset Recovery function is responsible for:

- Supporting the Board in setting Asset Recovery's credit risk tolerance and policies;
- Developing and implementing the Asset Recovery Policy and Procedures Framework;
- Developing and implementing credit risk management policies and procedures within the overall framework; and
- Analysing, monitoring and reporting credit and general risk management information within Asset Recovery to present a consolidated view of the Group's risk exposures to the senior management team, the Risk Management Committee and the Board.

Asset Recovery Policy and Procedures Framework

The overall objective of the Asset Recovery Policy and Procedures Framework is to safeguard the Group by protecting and enhancing the value of loans acquired.

Ultimate responsibility for the management of credit risk in the Group rests with the NAMA Board. Credit risk management and control is centralised in the Asset Recovery function. Credit risk is reported to the NAMA Board and Credit Committee on a regular basis and the Framework is subject to a formal annual review.

The Group is responsible for managing loans, which are acquired under the provisions of the 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 Institutions. Credit decisions are taken by Participating Institutions under a Delegated Authority and are subject to a Policy and Procedures Framework mandated by the Group, together with ongoing 'on the ground' involvement from the NAMA Participating Institutions Team and oversight by the Group Audit and Risk function.

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

- An application for credit by a debtor;
- Approval of asset sales;
- A proposal by a debtor which may involve pragmatic/commercial compromises or incentives in order to maximise NAMA's overall position;
- An application for finance;
- A proposed debtor strategy;
- A proposed extension of terms for any or all of a debtor's exposures;
- A proposal to initiate insolvency action;
- An action by a third party concerning a common debtor, for example, non participating institution.

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

22.1 Credit risk measurement

The Group applies the following measures of exposure:

Loan Portfolio - Credit exposure measurement

- Par debt exposure - the gross amount owed by the debtor, i.e the total amounts due in accordance with the original contractual terms of acquired loans. The total Par debt acquired by the Group was €74 billion.
- NAMA debt exposure - the acquisition amount paid by the Group (plus any new money lent by the Group and interest charge added, less cash payments received). The total consideration paid for loans and related derivatives acquired was €31.8 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 determining the appropriate Delegated Authority level for credit decisions made by the Group or Participating Institutions. NAMA monitors Par and NAMA debt exposure in parallel and uses them in support of all credit decisions.

Derivative Portfolio - Credit exposure measurement

In addition to the loans that were acquired by the Group, a number of derivative financial instruments were acquired which were attached to debtors' loans acquired from the Participating Institutions.

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

22. CREDIT RISK (CONTINUED)

22.2 Credit risk assessment

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

22.3 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 an Asset Recovery/Asset Management Policies and Procedures 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 Asset Recovery/Asset Management Policy and Procedures Framework sets out the permitted decision making and credit limits, for example:

- The approval of Debtor Business Plans and Strategic Credit Reviews;
- The approval of new lending;
- Loan restructuring or renegotiation where no new money is lent;
- Enforcement action being taken by the Group;
- Sales of assets / loans;
- Property and asset management requirements.

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

- Asset Recovery/Asset Management Panel A or Panel B Delegated Authority Policy holders;
- Senior Divisional Manager Asset Recovery/Asset Management;
- Head of Asset Recovery/Asset Management;
- CEO and Head of or Deputy Head of Asset Recovery;
- Credit Committee;
- Board.

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/Deputy Head/Senior Manager 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, and by the internal audit function.

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

(a) Cash Management

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

(b) Collateral

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 NTMA to hedge interest rate and foreign currency exposures.

The credit exposure of derivatives acquired, together with potential exposures arising from market movements, is managed as part of the overall debtors exposure management.

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

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

The table below sets out the maximum exposure to credit risk for financial assets with credit risk (net of impairment) at 31 December 2012, taking no account of collateral or other credit enhancements held. Exposures are based on the net carrying amounts as reported in the Group's Statement of financial position.

Group	Maximum exposure 2012 €'000	Maximum exposure 2011 €'000
Cash and cash equivalents	2,235,822	3,346,986
Cash placed as collateral with the NTMA	1,150,000	-
Available for sale financial assets	257,932	499,747
Amounts due from Participating Institutions	78,953	409,143
Derivative financial instruments	350,706	448,539
Loans and receivables		
Land and development	6,571,379	9,484,026
Investment property	19,468,305	18,874,629
Impairment	(3,263,422)	(2,751,266)
Loans and receivables (net of impairment)	22,776,262	25,607,389
Other assets	33,490	43,438
Total assets	**26,883,165**	**30,355,242**
Loan commitments (Note 23.4)	495,510	235,932
Total maximum exposure	**27,378,675**	**30,591,174**

22. CREDIT RISK (CONTINUED)

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

Agency	Maximum exposure 2012 €'000	Maximum exposure 2011 €'000
Cash	1,268	1,623
Other assets	9,306	3,381
Total maximum exposure	**10,574**	**5,004**

22.5 Information regarding the credit quality of loans and receivables

(a) Loans and receivables neither past due nor impaired

The Group has implemented a grading policy to provide a risk profile of NAMA's portfolio and which applies to all debtors. NAMA's credit grade scale seeks to assign a measure of the risk to the recovery of a financial asset and is based on two dimensions with nine possible grades expressed as a combination of a number and letter 1A, 3B etc.

- The first dimension (scale 1, 2, 3) measures the quality of the underlying assets acquired and the expectation for debt recovery relative to the NAMA debt. This first dimension ranges from instances where recovery is expected to exceed the NAMA debt to situations where a shortfall on NAMA debt is anticipated and an impairment provision has been marked against the exposure.
- The second dimension (scale A, B, C) rates the level of debtor performance by measuring the achievement of financial and non-financial milestones that have been agreed through the debtor engagement process.

The 9 possible grade outcomes can be summarised into the following categories:-

- Satisfactory: Capacity to meet financial commitments and low likelihood of expected loss.
- Watch: Requires closer monitoring but demonstrates capacity to meet financial commitments.
- Impaired: Exposures require varying degrees of close attention and active portfolio management and loss expectations is a concern.

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

Group	2012 €'000	2011 €'000
Satisfactory	7,135,672	7,815,435
Watch	787,301	1,229,386
Loans and receivables neither past due nor impaired	**7,922,973**	**9,044,821**

The Participating Institution managed portfolio is collectively assessed for impairment and is therefore included in the impaired category.

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 €14.3 billion (2011: €14.4 billion) (see following table).

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

Loans and receivables individually assessed for impairment **Group**	**2012** **€'000**	**2011** **€'000**
Gross loans and associated derivatives	22,251,673	23,493,876
Individually impaired loans and associated derivatives	(14,328,700)	(14,449,055)
Loans and associated derivatives not individually impaired	**7,922,973**	**9,044,821**

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

(d) Loans and advances renegotiated

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 Asset Recovery/Asset Management Policy and Procedures Framework. Each loan is restructured based on the most appropriate strategy to achieve repayment of all outstanding debt obligations, taking into account structures, guarantees, tax issues and sales strategies. The details of each proposed restructuring plan including any deviations from policy are reviewed and approved by the Delegated Authority/Credit Committee and, where relevant, the Board.

The restructuring of debtors in 2012 involved in the majority of cases the restructuring of loans into a reduced number of interest bearing facilities for easier engagement and debtor management. The total carrying value of loans subject to restructure of this nature in 2012 was €2.0 billion (2011: €0.8 billion).

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

22.6 Geographical sectors

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

Geographical sector 31 December 2012 Group	Ireland excluding Northern Ireland €'000	UK including Northern Ireland €'000	Rest of World €'000	Loan impairment €'000	Total €'000
Loans and receivables					
– Land and development	4,160,284	1,919,898	491,197	-	**6,571,379**
– Investment property	12,333,793	5,434,711	1,699,801	-	**19,468,305**
Impairment of loans and receivables	-	-	-	(3,263,422)	**(3,263,422)**
Total loans and receivables	**16,494,077**	**7,354,609**	**2,190,998**	**(3,263,422)**	**22,776,262**
Cash and cash equivalents	2,235,822	-	-	-	**2,235,822**
Cash placed as collateral with the NTMA	1,150,000	-	-	-	**1,150,000**
Financial assets available for sale	257,932	-	-	-	**257,932**
Derivative financial instruments	117,605	226,800	6,301	-	**350,706**
Amounts due from Participating Institutions	78,953	-	-	-	**78,953**
Deferred tax asset	337,288	-	-	-	**337,288**
Inventories	6,758	-	-	-	**6,758**
Other assets	33,490	-	-	-	**33,490**
Property, plant and equipment	831	-	-	-	**831**
Total assets	**20,712,756**	**7,581,409**	**2,197,299**	**(3,263,422)**	**27,228,042**

Geographical sector 31 December 2011 Group	Ireland excluding Northern Ireland €'000	UK including Northern Ireland €'000	Rest of World €'000	Loan impairment €'000	Total €'000
Loans and receivables					
– Land and development	6,218,324	2,615,501	650,201	-	**9,484,026**
– Investment property	11,340,494	6,073,674	1,460,461	-	**18,874,629**
Impairment of loans and receivables	-	-	-	(2,751,266)	**(2,751,266)**
Total loans and receivables	**17,558,818**	**8,689,175**	**2,110,662**	**(2,751,266)**	**25,607,389**
Cash and cash equivalents	3,346,986	-	-	-	**3,346,986**
Financial assets available for sale	499,747	-	-	-	**499,747**
Derivative financial instruments	189,789	253,786	4,964	-	**448,539**
Amounts due from Participating Institutions	409,143	-	-	-	**409,143**
Deferred tax asset	305,654	-	-	-	**305,654**
Inventories	6,850	-	-	-	**6,850**
Other assets	43,438	-	-	-	**43,438**
Property, plant and equipment	906	-	-	-	**906**
Total assets	**22,361,331**	**8,942,961**	**2,115,626**	**(2,751,266)**	**30,668,652**

The Agency statement of financial position, comprises inter-group assets in respect of the reimbursement of administration expenses from the Group, therefore all of the assets exposed to credit risk in the Agency are located in Ireland.

23. LIQUIDITY RISK

Liquidity risk is the risk that the Group is unable to meet all of its financial obligations as and when they fall due. Liquidity risk arises from differences in timing between cash inflows and outflows.

23.1 Liquidity risk management process

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

- Management of NAMA's day-to-day liquidity and funding requirements so as to ensure that it will meet all obligations as they fall due: these include future lending commitments, interest on liabilities, collateral posting, day-to-day operating costs fees and expenses.
- Asset and Liability management; by monitoring the maturity profile within the Group's statement of financial position to ensure that sufficient cash resources are retained and or funding established where mismatches are likely to occur, thereby minimising the impact of liquidity outflows.

Monitoring and reporting takes the form of cash flow measurement and projections for periods of one week to one year with the planning process covering periods beyond one year. The NTMA Risk unit independently produces liquidity forecasts that are provided monthly to the Risk Management Committee and Board. All projections include a 'stressed' forecast to cater for prolonged periods of uncertainty. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected repayment date of the financial assets.

The key liquidity risk for the Group is the funding of the senior debt securities (securities) issued by NAMA as consideration for 95% of the value of acquired assets. The securities in issue permit the issuer (where the issuer has not received a Holder Physical Delivery Rejection Notice) to physically settle all, or some only, of the securities at maturity by issuing a new security on the same terms as the existing security (other than as to maturity which may be up to 364 days from the date of issue, notwithstanding that the existing security may have had a shorter maturity).

In May 2011, the Board, on receipt of a direction, issued under Section 14 of the Act, from the Minister, resolved to remove the extendible maturity option from the NAMA senior debt securities (see Note 28).

All of the securities which matured on 1 March 2012 were physically settled by issuing new securities with a maturity of 1 March 2013 and subsequent to the reporting date, all securities which matured on 1 March 2013 were physically settled by issuing new securities with a maturity of 1 March 2014.

23. LIQUIDITY RISK (CONTINUED)

23.2 Non-derivative cash flows

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

Non-derivative cash flows Group 31 December 2012	0-6 months €'000	6-12 months €'000	Total €'000
Liabilities			
Amounts due to Participating Institutions	36,423	-	**36,423**
Senior debt securities in issue	25,485,747	-	**25,485,747**
Other liabilities	31,696	-	**31,696**
Tax payable	1,627	-	**1,627**
Total liabilities	**25,555,493**	**-**	**25,555,493**
Assets held for managing liquidity risk	**3,643,754**	**-**	**3,643,754**

Non-derivative cash flows Group 31 December 2011	0-6 months €'000	6-12 months €'000	Total €'000
Liabilities			
Amounts due to Participating Institutions	60,224	-	**60,224**
Senior debt securities in issue	29,275,298	-	**29,275,298**
Other liabilities	51,491	-	**51,491**
Tax payable	2,147		**2,147**
Total liabilities	**29,389,160**	**-**	**29,389,160**
Assets held for managing liquidity risk	**3,846,733**	**-**	**3,846,733**

Non-derivative cash flows Agency 31 December 2012	0-6 months €'000	6-12 months €'000	Total €'000
Liabilities			
Interest bearing loans and borrowings	53,320	-	**53,320**
Other liabilities	10,027	-	**10,027**
Total liabilities	**63,347**	**-**	**63,347**

Non-derivative cash flows Agency 31 December 2011	0-6 months €'000	6-12 months €'000	Total €'000
Liabilities			
Interest bearing loans and borrowings	52,720	-	**52,720**
Other liabilities	4,040	-	**4,040**
Total liabilities	**56,760**	**-**	**56,760**

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash and cash equivalents, term deposits and financial assets available for sale.

23.3 Derivative cash flows

(a) Derivatives settled on a net basis

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

Interest rate derivatives:

- interest rate swaps,
- forward rate agreements,
- over the counter (OTC) interest rate options,
- other interest rate contracts.

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

Group 31 December 2012	0-6 months €'000	6-12 months €'000	1-5 years €'000	Over 5 years €'000	Total €'000
Interest rate derivatives – where hedge accounting does not apply	22,415	50,957	64,855	65,480	**203,707**
Interest rate derivatives – where hedge accounting is applied	14,630	(243,986)	(569,396)	-	**(798,752)**
Total	**37,045**	**(193,029)**	**(504,541)**	**65,480**	**(595,045)**

Group 31 December 2011	0-6 months €'000	6-12 months €'000	1-5 years €'000	Over 5 years €'000	Total €'000
Interest rate derivatives – where hedge accounting does not apply	28,047	16,703	117,714	96,744	**259,208**
Interest rate derivatives – where hedge accounting is applied	95,958	(121,537)	(281,729)	491	**(306,817)**
Total	**124,005**	**(104,834)**	**(164,015)**	**97,235**	**(47,609)**

(b) Derivatives settled on a gross basis

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

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

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

Group 31 December 2012	0-6 months €'000	6 -12 months €'000	1-5 years €'000	Total €'000
Foreign exchange derivatives:				
– Outflow	(278,839)	-	-	**(278,839)**
– Inflow	286,418	-	-	**286,418**
Cross-currency interest rate derivatives:				
– Outflow	(1,476,882)	(1,274,185)	(3,376,786)	**(6,127,853)**
– Inflow	1,355,716	1,201,691	3,225,750	**5,783,157**
Total outflow	**(113,587)**	**(72,494)**	**(151,036)**	**(337,117)**

23. LIQUIDITY RISK (CONTINUED)

23.3 Derivative cash flows (continued)

Group 31 December 2011	0-6 months €'000	6 -12 months €'000	1-5 years €'000	Total €'000
Foreign exchange derivatives:				
– Outflow	(2,647,026)	-	-	**(2,647,026)**
– Inflow	2,526,741	-	-	**2,526,741**
Cross-currency interest rate derivatives:				
– Outflow	(393,182)	(920,238)	(4,841,907)	**(6,155,327)**
– Inflow	387,560	907,200	4,663,260	**5,958,020**
Total outflow	**(125,907)**	**(13,038)**	**(178,647)**	**(317,592)**

23.4 Loan commitments

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

Group 31 December 2012	No later than 1 year €'000	1-5 years €'000	Over 5 years €'000	Total €'000
Commitments to lend	45,927	424,375	13,199	**483,501**
Overdrafts	12,009	-	-	**12,009**
Guarantees and letters of credit acquired	3,790	-	-	**3,790**
Total	**61,726**	**424,375**	**13,199**	**499,300**

Group 31 December 2011	No later than 1 year €'000	1-5 years €'000	Over 5 years €'000	Total €'000
Commitments to lend	93,077	100,229	36,131	229,437
Overdrafts	6,495	-	-	6,495
Guarantees and letters of credit acquired	11	3,864	-	3,875
Total	**99,583**	**104,093**	**36,131**	**239,807**

The Agency has no loan commitments.

24. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

(a) Comparison of carrying value to fair value

The table below summarises the carrying amounts and fair values of financial assets and liabilities presented on the Group and Agency's statement of financial position.

Group	2012 Carrying value €'000	2012 Fair value €'000	2011 Carrying value €'000	2011 Fair value €'000
Financial assets				
Cash and cash equivalents	2,235,822	2,235,822	3,346,986	3,346,986
Cash placed as collateral with the NTMA	1,150,000	1,150,000	-	-
Available for sale financial assets	257,932	257,932	499,747	499,747
Amounts due from Participating Institutions	78,953	78,953	409,143	409,143
Derivative financial instruments	350,706	350,706	448,539	448,539
Loans and receivables	22,776,262	21,794,746	25,607,389	25,045,497
Other assets	33,490	33,490	43,438	43,438
Inventories	6,758	6,758	6,850	6,850
Deferred tax asset	337,288	337,288	305,654	305,654
Total assets	**27,227,211**	**26,245,695**	**30,667,746**	**30,105,854**
Financial liabilities				
Amounts due to Participating Institutions	36,423	36,423	60,224	60,224
Derivative financial instruments	1,168,688	1,168,688	728,725	728,725
Senior debt securities in issue	25,440,000	25,389,120	29,106,000	28,972,112
Other liabilities	169,557	169,557	250,232	250,232
Tax payable	1,627	1,627	2,147	2,147
Total liabilities	**26,816,295**	**26,765,415**	**30,147,328**	**30,013,440**

Agency	2012 Carrying value €'000	2012 Fair value €'000	2011 Carrying value €'000	2011 Fair value €'000
Financial assets				
Cash and cash equivalents	1,268	1,268	1,623	1,623
Other assets	9,306	9,306	3,381	3,381
Investment in subsidiaries	49,000	49,000	49,000	49,000
Total assets	**59,574**	**59,574**	**54,004**	**54,004**
Financial liabilities				
Interest bearing loans and borrowings	53,320	53,320	52,720	52,720
Other liabilities	10,027	10,027	4,040	4,040
Total liabilities	**63,347**	**63,347**	**56,760**	**56,760**

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

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 fair value of loans and receivables has been estimated using the expected future cash flows in the portfolio. Expected future cash flows for individually significant debtors were reviewed as part of the impairment cash flow assessment at the reporting date. These cash flows were then discounted at a market rate of interest considered appropriate by management, taking into consideration the time value of money and the risks involved. 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 OTC derivative contracts. The sources of input parameters use the standard LIBOR yield curve.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

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

Fair value hierarchy for assets and liabilities measured at fair value

Group 31 December 2012	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Assets				
Derivative financial instruments	-	338,956	-	**338,956**
Foreign currency derivatives	-	11,750	-	**11,750**
Available for sale financial assets	-	257,932	-	**257,932**
Total assets	**-**	**608,638**	**-**	**608,638**
Liabilities				
Derivative financial instruments	-	862,732	-	**862,732**
Foreign currency derivatives	-	305,956	-	**305,956**
Total liabilities	**-**	**1,168,688**	**-**	**1,168,688**

Group 31 December 2011	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Assets				
Derivative financial instruments	-	391,207	-	**391,207**
Foreign currency derivatives	-	57,332	-	**57,332**
Available for sale financial assets	-	499,747	-	**499,747**
Total assets	**-**	**948,286**	**-**	**948,286**
Liabilities				
Derivative financial instruments	-	438,895	-	**438,895**
Foreign currency derivatives	-	289,830	-	**289,830**
Total liabilities	**-**	**728,725**	**-**	**728,725**

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

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

Categories of financial assets and financial liabilities

Financial assets and liabilities are categorised in accordance with IAS 39 as follows;

- Loans and receivables
- Financial assets or liabilities at fair value through profit or loss – held for trading (FVTPL)
- Available for sale financial assets (AFS)
- Financial liabilities measured at amortised cost.

Financial Assets 2012 Group	Loans and receivables €'000	FVTPL €'000	AFS €'000
Cash and cash equivalents	2,235,822	-	-
Cash placed as collateral with the NTMA	1,150,000	-	-
Financial assets available for sale	-	-	257,932
Amounts due from Participating Institutions	78,953	-	-
Derivative financial instruments	-	350,706	-
Loans and receivables	22,776,262	-	-
Other assets	33,490	-	-

Financial Liabilities 2012 Group	Financial liabilities measured at amortised cost €'000	FVTPL €'000
Amounts due to Participating Institutions	36,423	-
Derivative financial instruments	-	1,168,688
Senior debt securities in issue	25,440,000	-
Other liabilities	169,557	-

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

25. PROPERTY, PLANT AND EQUIPMENT

Group and Agency	2012 €'000	2011 €'000
Cost		
Balance at 1 January	1,006	-
Additions	17	1,006
Balance at 31 December	**1,023**	**1,006**
Depreciation		
Accumulated depreciation at 1 January	(100)	-
Depreciation charge for the year	(92)	(100)
Balance at 31 December	**(192)**	**(100)**
Net book value at 31 December	**831**	**906**

Property, plant and equipment includes lease fit out costs incurred to date. Capitalised lease fit out costs are depreciated on a straight line basis at a rate of 10% per annum in accordance with accounting policy 2.20. A full year's depreciation is charged in the year the lease fit out costs are incurred and capitalised.

26. DEFERRED TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Deferred income tax assets and liabilities are attributable to the following items:

Group	Deferred tax on derivatives Assets €'000	Liabilities €'000	Deferred tax on tax losses €'000	Total €'000
Balance at 1 January 2011	**-**	**-**	**-**	**-**
Movement in the year	182,182	(112,162)	235,633	305,653
Balance at 31 December 2011	**182,182**	**(112,162)**	**235,633**	**305,653**
Balance at 1 January 2012	**182,182**	**(112,162)**	**235,633**	**305,653**
Movement in the year	109,990	23,885	(102,240)	31,635
Balance at 31 December 2012	**292,172**	**(88,277)**	**133,393**	**337,288**

Reconciliation of movement in total deferred tax to tax credit/(charge) in the income statement and other comprehensive income

	2012 €'000	2011 €'000
Movement in deferred tax recognised in the income statement (Note 12)	(75,816)	236,769
Movement in deferred tax recognised in other comprehensive income (Note 34)	107,451	68,884
Total movement in deferred tax in the year	**31,635**	**305,653**

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 €133m (2011: €236m) in respect of unutilised tax losses has been recognised in these financial statements. Based on the current year results, NAMA believes that future taxable profits will be available to offset any deferred tax asset recognised.

Deferred tax on derivatives is recognised on the difference between the tax base of derivatives (nil) and the fair value of derivatives at the reporting date. A net deferred tax asset of €204m (2011: €70m) has been recognised in relation to derivatives. In accordance with accounting standards, deferred tax on the fair value movement on derivatives is recognised where the related fair value is accounted for, i.e. either in the income statement or in other comprehensive income. A deferred tax benefit of €107m (2011: €69m) has been recognised in other comprehensive income relating to deferred tax on the fair value movement on derivatives where hedge accounting is applied (See Note 34).

27. OTHER ASSETS

Group	2012 €'000	2011 €'000
Accrued swap interest receivable	14,211	12,649
Interest receivable on available for sale assets	9,012	16,122
Interest receivable on cash and cash equivalents	160	2,759
VAT receivable	668	3,723
Deferred consideration	9,223	7,687
Other assets	216	498
Total	**33,490**	**43,438**
Current	**33,490**	**43,438**
Non-Current	**-**	**-**

Agency	2012 €'000	2011 €'000
Costs reimbursable from NALML	9,306	3,014
Central Bank of Ireland interest receivable	-	4
Other receivables	-	363
Total	**9,306**	**3,381**
Current	**9,306**	**3,381**
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.

28. SENIOR DEBT SECURITIES IN ISSUE

Group	2012 €'000	2011 €'000
In issue at the start of the year	29,106,000	28,650,000
Issued in the year	11,000	2,044,000
Redeemed during the year	(3,500,000)	(1,250,000)
Cancelled in the year	(177,000)	(338,000)
In issue at 31 December	**25,440,000**	**29,106,000**
Current	**25,440,000**	**29,106,000**
Non-current	**-**	**-**

The above debt securities are all Government Guaranteed Floating Rate Notes, which were issued by NAML and transferred to NAMGSL under a profit participating loan arrangement and by it to NALML. The latter company used these securities as consideration (95%) for the loan portfolio acquired from each of the Participating Institutions.

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.

Senior debt securities are issued on each asset acquisition date and all securities issued prior to 1 March 2012 matured on 1 March 2012. The securities issued permitted the issuer to settle all, or some only, of the securities at maturity by issuing a new security on the same terms as the existing security (other than as to maturity which may be up to 364 days from the date of issue notwithstanding that the existing security may have had a shorter maturity).

All the senior debt securities that matured on 1 March 2012 were settled by issuing new securities with a maturity of 1 March 2013.

In May 2011, the Minister for Finance issued a direction to NAMA under Section 14 of the Act that the terms and conditions of the securities issued on 1 March 2011, and of any securities issued thereafter, should be amended to remove the extendible maturity option from the securities issued under Section 48 of the Act to provide 95% of the total acquisition value of eligible bank assets acquired from participating institutions.

The securities in issue permit the issuer (where the issuer has not received a Holder Physical Delivery Rejection Notice) to physically settle all, or some only, of the securities at maturity which may be up to 364 days from the date of issue, notwithstanding that the existing security may have had a shorter maturity.

All of the securities which matured on 1 March 2013 were physically settled by issuing new securities with a maturity of 1 March 2014.

29. OTHER LIABILITIES

Group	2012 €'000	2011 €'000
Accrued interest on debt securities in issue	45,747	169,298
Accrued swap interest payable on derivatives where hedge accounting is applied	83,298	18,961
Accrued swap interest payable on other derivatives	8,816	10,482
Accrued expenses	31,275	43,864
Accrued due diligence costs	-	7,041
Other liabilities	421	586
Total other liabilities	**169,557**	**250,232**
Current	**169,557**	**250,232**
Non-current	**-**	**-**

Agency	2012 €'000	2011 €'000
Amounts due to NTMA	8,726	2,060
Amounts due to Group entities	880	1,394
Other liabilities	421	586
Total other liabilities	**10,027**	**4,040**
Current	**10,027**	**4,040**
Non-current	**-**	**-**

30. TAX PAYABLE

Group	2012 €'000	2011 €'000
Professional services withholding tax and other taxes payable	1,588	1,992
Current income tax liability	39	155
Total tax payable	**1,627**	**2,147**

31. COMMITMENTS AND CONTINGENT LIABILITIES

The table below gives the contractual 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	2012 Contractual amount €'000	2011 Contractual amount €'000
Contingent Liabilities		
Guarantees and letters of credit	**3,790**	**3,875**

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

As at year end, NAMA is party to a number of on-going legal cases, as part of its ordinary course of business. Cases are monitored on an on-going basis. No legal provisions are recognised by the Group at the reporting date.

The Group holds an operating lease in respect of the third floor of its registered office, Treasury Building. At the reporting date the length of the lease until the first break clause is 3 years.

Operating lease amounts expensed for the year were €1.1m (2011: €0.8m).

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

Group 31 December 2012	**Less than 1 year €'000**	**1-5 years €'000**	**More than 5 years €'000**	**Total €'000**
Operating leases	997	1,806	-	2,803

Group 31 December 2011	**Less than 1 year €'000**	**1-5 years €'000**	**More than 5 years €'000**	**Total €'000**
Operating leases	896	2,518	-	3,414

32. INTEREST BEARING LOANS AND BORROWINGS

Agency	**2012 €'000**	**2011 €'000**
Loan due to NALML and related interest	53,320	52,720
	53,320	**52,720**

On 25 February 2011, NALML, a Group entity, issued an interest bearing loan of €52m to NAMA. The purpose of the loan was to provide funding from the Group to NAMA repay a loan of €49m and accrued interest to the Central Fund. Interest is based on the 6 month Euribor rate. The loan is extended annually on 25 February unless terminated as agreed between the parties. The Group has no external loans or borrowings.

33. OTHER EQUITY

Group	**2012 €'000**	**2011 €'000**
In issue at the beginning of the year	1,601,000	1,507,000
Issued in the year	1,000	110,000
Cancelled in the year	(9,000)	(16,000)
In issue at 31 December	**1,593,000**	**1,601,000**

The above are Callable Perpetual Subordinated Fixed Rate Bonds that were issued by NAML and transferred to NAMGSL under a profit participating loan arrangement and by NAMGSL to NALML. The latter company used these securities as consideration (5%) for the loan portfolio acquired from each of the Participating Institutions.

The interest rate on the instruments is the 10 year Irish Government Bond rate at the date of first issuance, plus 75 basis points. This rate has been set at a fixed return of 5.264%. Interest is paid annually, 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.

33. OTHER EQUITY (CONTINUED)

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

Under IAS 32, '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.

34. OTHER RESERVES

Group	2012 €'000	2011 €'000
Cash flow hedge reserve		
At the beginning of the year	(192,223)	77,554
Changes in clean fair value	(439,821)	(338,689)
Hedge interest settled during year	51,741	82,245
Movement in interest accrual	64,338	(23,965)
Transferred to income statement	(116,079)	(58,280)
Net movement in cashflow hedge reserve before tax	(439,821)	(338,689)
Deferred tax recognised in other comprehensive income	108,025	68,912
At 31 December	**(524,019)**	**(192,223)**
Available for sale reserve		
At the beginning of the year	82	-
Net changes in fair value	2,297	110
Net movement in available for sale reserve before tax	2,297	110
Deferred tax recognised in other comprehensive income	(574)	(28)
At 31 December	**1,805**	**82**
Total other reserves	**(522,214)**	**(192,141)**

The net movement in the cash flow hedge reserve for 2012 was €439.8m (2011: €338.7m) before tax which was the fair value movement in derivatives where hedge accounting is applied of €432.1m (2011: €322.8m) plus an adjustment relating to hedge ineffectiveness of €7.7m (2011: €15.9m). The net movement in the available for sale reserve for the year was €2.3m (2011: €0.1m) which reflects the fair value movement in available for sale investments held at the reporting date.

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

Group	2012 €'000	2011 €'000
Retained losses		
At the beginning of the year	(887,535)	(1,128,990)
Profit for the year	228,496	241,455
Loss allocated to non controlling interest	-	-
At 31 December	**(659,039)**	**(887,535)**

Agency	2012 €'000	2011 €'000
Retained losses		
At the beginning of the year	(1,850)	(436)
Loss for the year	(1,092)	(1,414)
At 31 December	**(2,942)**	**(1,850)**

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 losses have been attributed to the non-controlling interest only up to its equity interest of €51m.

36. SHARES AND INVESTMENTS IN GROUP UNDERTAKINGS

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 and lending	Ireland
National Asset Resolution Limited	49%	Securitisation and asset management	Ireland
National Asset Management Limited	49%	Debt issuance	Ireland
National Asset Management Group Services Limited	49%	Holding company, securitisation and asset management	Ireland
National Asset Loan Management Limited	49%	Securitisation and asset management	Ireland
National Asset Property Management Limited	49%	Real estate	Ireland
National Asset Management Services Limited	49%	Non-trading	Ireland
National Asset Residential Property Services Limited	49%	Provision of residential properties for the purposes of social housing	Ireland

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

36.1 Investment in subsidiaries

Agency	2012 €'000	2011 €'000
49,000,000 shares in NAMAIL	**49,000**	**49,000**

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

37. RELATED PARTY DISCLOSURES

The related parties of the Group comprise the following:

Subsidiaries

Details of the interests held in NAMA's subsidiaries are given in Note 36 and Note 1 to the financial statements.

NTMA

The NTMA provides staff, finance, technology, risk and human resources services to NAMA. The costs incurred by the NTMA are charged to NAMA (the Agency) and the Agency is reimbursed by the Group. Details of the costs charged to the Group are given in Note 9. The NTMA is the counterparty for NAMA's derivative positions in its management of foreign exchange and interest rate exposure. At the reporting date, NAMA held €255m (2011: €501m) nominal of the Irish 5% Government bonds maturing on 18 April 2013. Exchequer notes of €nil (2011: €2.3 billion) issued by the NTMA are treated as cash and cash equivalents (see Note 15).

NTMA Defined Benefit Pension Scheme

All staff are employed by the NTMA and the NTMA contributes to the NTMA Defined Benefit Pension Scheme on behalf of these employees. The pension scheme is controlled and managed by independent trustees as appointed by the NTMA. As part of the consideration for the provision of staff, the Group has made a payment of €2.4m (2011: €1.8m), 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 Act grants certain powers to the Minister in relation to NAMA. Section 13 provides that the Minister may issue guidelines to NAMA for the purposes of the Act and, in particular, in relation to the purpose of contributing to the social and economic development of the State. NAMA is required to have regard to any such guidelines in performing its functions. Section 14 provides that the Minister may issue directions to NAMA concerning the achievement of the purposes of the Act and, in particular, in relation to the purpose of contributing to the social and economic development of the State. NAMA is obliged to comply with any such direction.

The effect of these statutory provisions is that the Minister has the ability to exercise significant influence over NAMA.

Participating Institutions

During 2010, a number of legislative measures were enacted that gave the Minister rights and powers over certain financial institutions in respect of various matters of ownership, board composition, acquisition or sale of subsidiaries, business activity, restructuring and banking activity. The Participating Institutions have also agreed to consult with the Minister prior to taking any material action which may have a public interest dimension.

Participating Institutions are credit institutions that have been designated by the Minister, under Section 67 of the Act, as a Participating Institution. The Participating Institutions that have transferred loan assets to NAMA as at the reporting date are AIB p.l.c (incorporating EBS), Bank of Ireland and IBRC.

The Group issued senior and subordinated securities and transferred them to the Participating Institutions in return for loan assets. Transactions with Participating Institutions are disclosed in the financial statements primarily under Note 19, Loans and Receivables, Note 17, Amounts due to and from Participating Institutions and the related Income Statement notes.

The Group has an operating account with AIB p.l.c. that had a balance of €0.3m (2011: €0.1m) at the reporting date. The average closing daily balance throughout the year was €0.4m (2011: €0.4m)

During the year the Group placed deposits with AIB p.l.c. (incorporating EBS) and Bank of Ireland. The average amount deposited with each bank was €51m (2011: €81.3m) and €47m (2011: €96.8m) respectively. At the reporting date there was a €31m deposit with AIB p.l.c. for five days.

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

Participating Institutions	**2012 €'000**	**2011 €'000**
AIB, p.l.c.	16,810	15,586
Bank of Ireland	6,952	8,952
IBRC	32,665	32,359

Irish Life and Permanent PLC (IL&P)

The Credit Institutions (Stabilisation) Act 2010 was passed into Irish law on 21 December 2010. The Act provides the legislative basis for the reorganisation and restructuring of the Irish banking system agreed in the joint EU/IMF/EC programme of support for Ireland. The Act applies to banks, building societies and credit unions who have received financial support from the State,. The Act provides broad powers to the Minister for Finance.

IL&P by way of the Government Guarantee has received such support and the State acquired a 99.2% stake in IL&P on 27 July 2011. IL&P is a covered institution for the purposes of the Credit Institutions (Financial Support) Scheme 2008. IL&P is also a covered institution under the Government's Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009. Given the Minister is a related party of the Group and given that the Minister now has significant powers over the governance and operation of IL&P, IL&P is deemed to be a related party of the Group.

As part of the reorganisation and restructuring of the Irish banking system, NAMA senior debt securities in issue and held by IBRC were transferred to IL&P.

37. RELATED PARTY DISCLOSURES (CONTINUED)

Key management personnel

Fees paid to Board members are disclosed in Note 9. The Group has no employees.

Transactions with Group entities

The following are the amounts owed to and from related parties at the reporting date. All transactions with related parties are carried out on an arm's length basis.

Loan due to NALML

An interest bearing loan of €52m was advanced from NALML to the Agency. Interest is charged on this loan at the six month EURIBOR rate. Interest on this loan for the year was €0.6m (2011: €0.72m).

Profit participating loan agreements

NAML has entered into a profit participating loan agreement (PPL) with NAMGSL, and in turn NAMGSL has entered into a further PPL with NALML on similar terms.

The balances outstanding in respect of all PPL agreements between these entities was €27,033m (2011: €30,707m) at the reporting date.

NTMA recharge

The NTMA incurs overhead costs for providing staff, finance, technology risk and human resource services to the Group. These overhead costs are charged to NAMA (the Agency) on an actual cost basis. The total of these costs for the period was €36.9m (2011: €27.7m). Further details in respect of these costs are disclosed in Note 9.1.

38. SUPPLEMENTARY INFORMATION PROVIDED IN ACCORDANCE WITH SECTION 54 OF THE ACT

In order to achieve its objectives NAMA has established special purpose vehicles as outlined in Note 1. These entities prepare and present separate financial statements. In accordance with the requirements of Section 54 of the Act the following additional information is provided, in respect of NAMA and each of its Group entities.

38.1 Administration fees and expenses incurred by NAMA and each NAMA Group entity

The administration fees incurred by the Agency are set out in Note 9.

The expenses of NALML, NAPML and NARPSL expenses are shown in the tables below. The expenses of NALML includes a re-charge of €37m (2011: €28m) in respect of NTMA costs incurred by the Agency. These costs are also included in the consolidated accounts.

National Asset Loan Management Limited (NALML) **Expense type**	**Note**	**2012** **€'000**	**2011** **€'000**
Costs reimbursable to NTMA	9.1	36,890	27,678
Primary servicer fees	9.2	56,427	56,897
Due diligence costs	9.3	4,086	44,505
Portfolio management fees	9.4	6,712	15,992
Legal fees	9.5	4,609	9,478
Master servicer fees	9.6	3,547	3,098
Finance and technology costs	9.7	2,985	2,266
Internal audit fees	9.8	1,023	927
Rent and occupancy costs	9.9	1,375	975
External audit remuneration	9.11	450	450
Other internal audit services	9.12	288	-
Total administration expenses		**118,392**	**162,266**
Due diligence costs recovered on loan acquisitions	9.3	-	(34,505)
Total NALML administration expenses		**118,392**	**127,761**

National Asset Property Management Limited (NAPML) **Expense type**	**Note**	**2012** **€'000**	**2011** **€'000**
Legal fees		24	-
Planning advice costs		18	-
Other costs		1	-
Total NAPML administration expenses		**43**	**-**

National Asset Residential Property Services Limited (NARPSL) **Expense type**	**Note**	**2012** **€'000**	**2011** **€'000**
Property valuation costs		127	-
Legal fees		25	-
Tax advice fees		37	-
Total NARPSL administration expenses		**189**	**-**

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

38.2 Debt securities issued for the purposes of the Act

	2012 €'000	2011 €'000
Senior notes issued by NAML	25,440,000	29,106,000
Subordinated debt issued by NAML	1,593,000	1,601,0000
Total	**27,033,000**	**30,707,000**

38.3 Debt securities issued and redeemed in the period to the Financial Institutions

Financial Institution	Outstanding at 1 Jan 12 €'000	Issued €'000	Redeemed €'000	Cancelled €'000	Outstanding at 31 Dec 12 €'000
AIB[5]	20,414,000	-	(2,395,000)	(143,000)	17,876,000
BOI	5,359,000	12,000	(615,000)	-	4,756,000
IBRC[5]	1,793,000	-	(113,000)	(43,000)	1,637,000
EBS	375,000	-	(43,000)	-	332,000
IL&P[5]	2,766,000	-	(334,000)	-	2,432,000
Total	**30,707,000**	**12,000**	**(3,500,000)**	**(186,000)**	**27,033,000**

38.4 Advances to NAMA from the Central Fund in the year

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

38.5 Advances made by NAMA to debtors via Participating Institutions in the period

Participating Institution	Amount advanced 2012 €'000	Amount advanced 2011 €'000
AIB	115,174	84,833
IBRC	163,233	172,759
BOI	29,414	45,701
EBS	588	688
Total	**308,409**	**303,981**

5 *On 1 July 2011, the High Court approved a Transfer Order under Part 5 of the Credit Institutions Stabilisations Act 2010 (CISA) that the assets and liabilities of INBS be transferred to Anglo Irish Bank. The transfer order extinguished INBS. On 14 October 2011 the name was changed to IBRC. As part of the reorganisation and restructuring of the Irish banking system, NAMA senior debt securities in issue and held by IBRC were transferred to IL&P and AIB.*

38.6 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)	2012 €'000	2011 €'000
Investment in NAMAIL	49,000	49,000
Cash	1,268	1,623
Other receivables	9,306	3,381
Property, plant and equipment	831	906
Total	**60,405**	**54,910**

National Asset Management Agency Investment Limited (NAMAIL)	2012 €'000	2011 €'000
Loan to NAML	99,900	99,900
Intercompany loans and receivables - accrued interest	19,093	15,490
Inter-group receivable	100	100
Total	**119,093**	**115,490**

National Asset Management Limited (NAML)	2012 €'000	2011 €'000
Profit participating loan with NAMGSL	27,033,000	30,707,000
Intergroup assets	99,900	99,900
Deferred tax asset	137,981	134,401
Total	**27,270,881**	**30,941,301**

National Asset Management Group Services Limited (NAMGSL)	2012 €'000	2011 €'000
Profit participating loan with NALML	27,033,000	30,707,000
Interest on profit participating loan with NALML	487,082	-
Total	**27,520,082**	**30,707,000**

National Asset Loan Management Limited (NALML)	2012 €'000	2011 €'000
Cash	2,234,554	3,345,363
Cash placed as collateral with the NTMA	1,150,000	-
Financial assets available for sale	257,932	499,747
Receivable from Participating Institutions	78,953	409,143
Financial assets at fair value through profit or loss	350,706	448,539
Loans and receivables	22,776,262	25,607,389
Intergroup assets	559,968	413,805
Accrued interest receivable	23,383	31,526
Inventories	200	6,850
Other assets	9,507	11,545
Deferred tax asset	203,894	175,125
Total	**27,645,359**	**30,949,032**

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

National Asset Property Management Limited (NAPML)	2012 €'000	2011 €'000
Inventories	7,074	-
Other assets	599	-
Total	**7,673**	**-**

38.7 Government support measures, including guarantees, received by NAMA and each NAMA Group entity

Entity	Description	Amount in issue at 31 December 2012 €'000	Amount in issue at 31 December 2011 €'000
National Asset Management Limited	On 26 March 2010, the Minister 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 €51.3 billion.	25,440,000	29,106,000
		25,440,000	**29,106,000**

39. EVENTS AFTER THE REPORTING DATE

a) Dividend

On 27 March 2013 the Board of NAMAIL declared and approved a dividend payment of €0.0424 per share, amounting to €2.162m. This was paid to the owners of B ordinary shares only.

b) Irish Bank Resolution Corporation Act 2013 (IBRC Act)

On 7 February 2013, the Minister issued a series of directions to NAMA under the IBRC Act. The Directions issued to NAMA were;

Direction NAMA/1/13/IBRC Act

This directs NAMA (or a NAMA SPV) to enter a Deed of Assignment and Transfer with the Central Bank to acquire;

a) A loan facility deed between IBRC and the Central Bank

b) A legal charge between IBRC and the Central Bank over the assets of IBRC.

c) The benefit of a guarantee given by the Minister in favour of the Central Bank.

Direction NAMA/2/13/IBRC Act

This directs NAMA (or a NAMA SPV) to make a bid for the assets of IBRC at an independent valuation price established by the Special Liquidators.

Direction NAMA/3/13/IBRC Act

This directs NAMA to enter into a Facility Agreement with the IBRC Special Liquidators and the NTMA for the purposes of providing working capital to the Liquidator and posting cash collateral for derivative purposes.

Direction NAMA/4/13/IBRC Act

This directs NAMA (or a NAMA SPV) that it may pay consideration to the Central Bank in debt instruments and/or cash as NAMA determines.

In response to these Directions, NAMA established a new NAMA group entity, National Asset Resolution Limited (NARL), which was incorporated on 11 February 2013.

On 28 March 2013, NAMA and NARL entered into the Deed of Assignment and Transfer with the Central Bank. Consideration paid was €12.9 billion in the form of the issuance of €12.9 billion of Government Guaranteed debt securities and cash of €343,000. The debt securities were issued by NAML and transferred to NARL via a profit participating loan facility. The debt securities were used by NARL to acquire the Facility Deed from the Central Bank (secured by a floating charge over the assets of IBRC).

In accordance with Section 13 and 14 of the IBRC Act and Direction NAMA/2/13/IBRC Act issued by the Minister, NAMA is directed to bid for the assets of IBRC. This process is expected to occur in the second half of 2013. Further directions may be issued by the Minister as this process continues.

On 11 February 2013, NAMA entered into a loan facility with a maximum drawdown of €1 billion with the Special Liquidators and the NTMA in response to Direction NAMA/3/13/IBRC Act. The facility is to provide the Special Liquidators with working capital and cash collateral to post to derivative counterparties of IBRC. The facility is an interest bearing facility at Euribor plus a margin of 140 basis points and is repayable on demand. At the date of approval of the financial statements €100m had been drawn by the Special Liquidators.

The transactions entered into by the NAMA Group in compliance with the Directions have no impact on the financial statements of NAMA as at 31 December 2012. The first set of financial statements for NARL will be prepared as at 31 December 2013 and will be fully consolidated into the results of the NAMA Group. The full NAMA Group structure is set out in Chart 1 on page 99 of the Financial Statements. The quarterly results of NARL will be submitted to the Minister in accordance with Section 55 of the Act.

40. APPROVAL OF FINANCIAL STATEMENTS

The Board approved the financial statements on 24 April 2013.

GLOSSARY

Collateral A borrower's pledge of specific property to a lender, to be forfeited in the event of default.

Counterparty The party with whom a contract or financial transaction is effected.

Cross Currency Swap An agreement to swap cash flows on loans of the same size and terms but denominated in different currencies. These agreements are used by the Group to fix the Euro cost of transactions denominated in foreign currency.

Current Market Value The estimated amount for which a property would exchange between a willing buyer and seller in an arm's-length transaction.

Debtor A borrower, whose loans were deemed eligible and those loans have transferred to the Group. The borrower is referred to by the Group as a debtor. A debtor connection is a group of loans that are connected to a debtor.

Debtor business plans Business plans produced by each debtor setting out how they intend to pay back debt and the plan for achieving debt repayment. Debtor business plans are independently reviewed and approved between NAMA and the debtor.

Derivative A derivative is a financial instrument that derives its value from an underlying item, for example, 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.

Floating Rate An interest rate that changes periodically as contractually agreed.

Foreign Exchange Derivative / Cross Currency Swap A financial contract where the buyer and seller agree to swap floating cash flows between two different currencies, during a defined period of time.

FX Swap An FX Swap is a simultaneous purchase and sale of identical amounts of one currency for another with two different value dates (normally spot to forward).

Hedge Entering into an agreement to manage the risks of adverse changes in the price of an asset or liability.

Impaired Loan A loan is impaired when it is unlikely the lender will collect the full value of the loan.

Interest Rate Swap A derivative in which one party exchanges a stream of cash flows for another party's stream of cash flows based on a specified principal amount. Typically this comprises a swap of the cash flows equivalent to variable interest payments for cash flows equivalent to fixed interest payments on the same principal amount.

Inventories Properties acquired by NAMA and held on its statement of financial position.

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

Loan commitments Balance of credit NALML has committed to extend to customers.

Long-Term Economic Value (LTEV) The value as determined by NAMA in accordance with the Act, that an asset can be reasonably expected to attain in a stable financial system when the crisis conditions prevailing at the time of the passing of the Act are ameliorated and, in the case of property, in which a future price or yield of the property is consistent with reasonable expectations having regard to the long-term historical average.

Mark-to-Market Value The price or value of a security, portfolio or account that reflects its current market value rather than its book value.

OTC Over the Counter, refers to derivatives that are not traded on a recognised exchange.

Participating Institution A Credit Institution that has been designated by the Minister under Section 67 of the Act as a Participating Institution, including any of its subsidiaries that has not been excluded under that section.

Present Value A value on a given date of a future payment or series of future payments, discounted to reflect the time value of money and other factors such as investment risk.

Primary Servicer A Participating Institution managing debtors on NAMA's behalf within authority limits approved by the NAMA Board.

Profit Participating Loan A loan that provides the lender with a return that depends, at least in part, on the profitability of the borrower.

Qualifying Advance An advance made by a Participating Institution to a borrower (whose loans are eligible assets) following the announcement of NAMA by the Minister for Finance on 7 April 2009. The advance is only qualifying if it was made as part of normal commercial banking arrangements. No discount applied to these advances.

Security Includes *(a)* a Charge, *(b)* a guarantee, indemnity or surety, *(c)* a right of set-off, *(d)* a debenture, *(e)* a bill of exchange, *(f)* a promissory note, *(g)* collateral, *(h)* any other means of securing—(i) the payment of a debt, or (ii) the discharge or performance of an obligation or liability, and (i) any other agreement or arrangement having a similar effect.

Short term treasury bonds Irish government treasury bonds acquired for liquidity management.

Special Purpose Vehicle A legal entity created to fulfill a narrow, specific or temporary well defined objective.

Subordinated Debt Debt which is repayable only after other debts have been repaid. NAMA pays 5% of the purchase price of the loans it acquires in the form of subordinated bonds.

Tranche A group of loans of different debtors, which transfer to NAMA at a specific point in time. The transfer of assets from Participating Institutions to the Group occurs in tranches.

NOTES

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