National Asset
Management Agency

Annual Report & Financial Statements 2017

Generating a Surplus

NAMA has a mandate to obtain the best achievable financial return for the State. Having met its primary objective by redeeming all of its senior debt, NAMA is now focussed on maximising the surplus it can deliver for taxpayers. NAMA currently projects a surplus of up to €3.5 billion, subject to current market conditions prevailing.

Residential Delivery

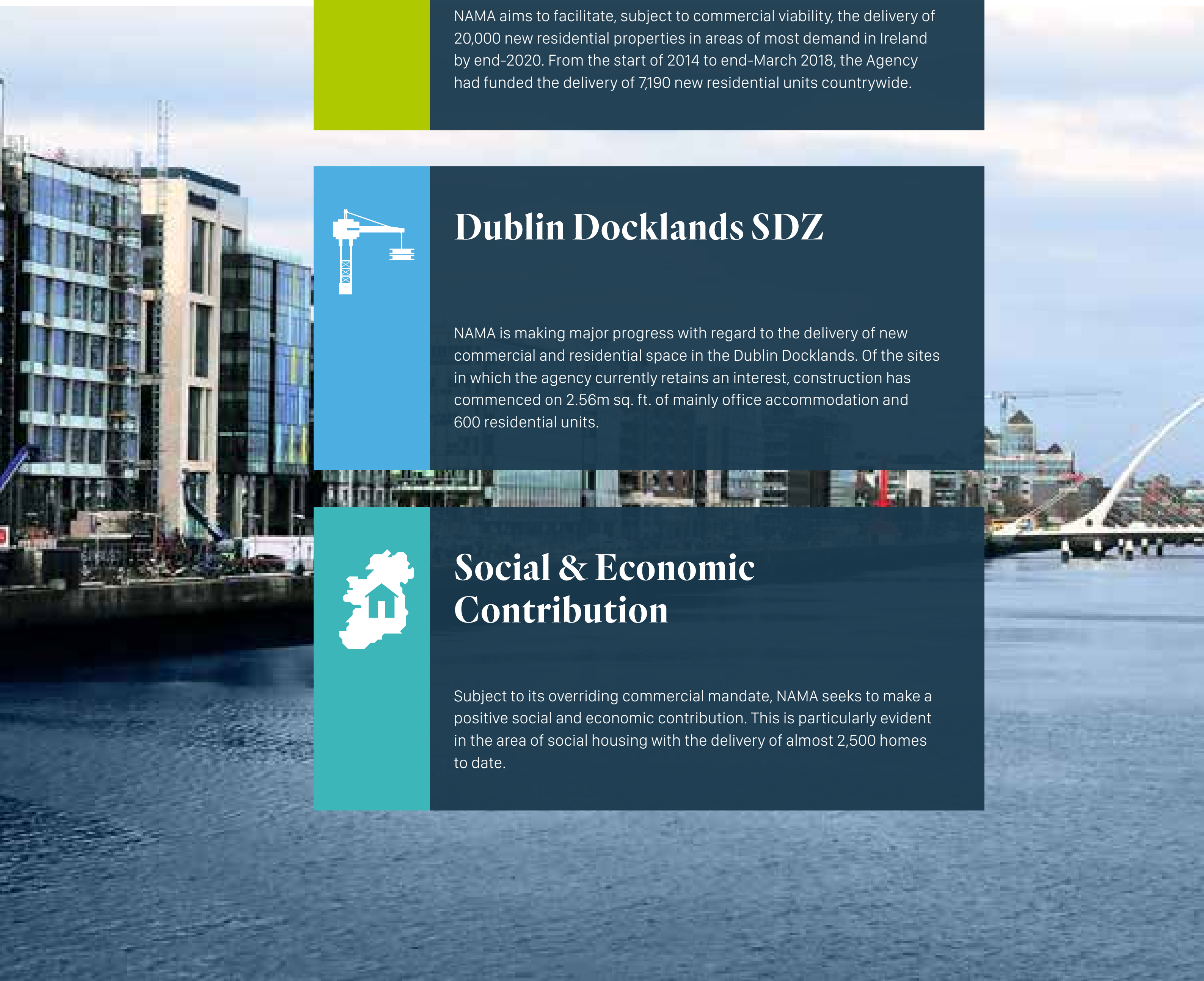
NAMA aims to facilitate, subject to commercial viability, the delivery of 20,000 new residential properties in areas of most demand in Ireland by end-2020. From the start of 2014 to end-March 2018, the Agency had funded the delivery of 7,190 new residential units countrywide.

Dublin Docklands SDZ

NAMA is making major progress with regard to the delivery of new commercial and residential space in the Dublin Docklands. Of the sites in which the agency currently retains an interest, construction has commenced on 2.56m sq. ft. of mainly office accommodation and 600 residential units.

Social & Economic Contribution

Subject to its overriding commercial mandate, NAMA seeks to make a positive social and economic contribution. This is particularly evident in the area of social housing with the delivery of almost 2,500 homes to date.



"Repaying our debt and generating a surplus represents a major economic and social contribution on the part of NAMA"

FRANK DALY
Chairman

Gníomhaireacht Náisiúnta um Bhainistíocht Sócmhainní
National Asset Management Agency

18 May 2018

Mr. Paschal Donohoe T.D.
Minister for Finance
Government Buildings
Upper Merrion Street
Dublin 2.

Dear Minister,

We have the honour to submit to you the Report and Accounts of the National Asset Management Agency for the year ended 31 December 2017.

Yours sincerely,

Frank Daly
Chairman

Brendan McDonagh
Chief Executive Officer

Contents

Key Strategic Objectives set by the NAMA Board

STRATEGIC OBJECTIVE 1

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

SURPLUS OF UP TO

€3.5 billion

NAMA met its original primary objective in October 2017 – three years ahead of schedule – when it repaid the final portion of the €30.2 billion in Government-guaranteed senior debt. NAMA estimates that it will deliver a terminal surplus of up to €3.5 billion.

STRATEGIC OBJECTIVE 2

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

NEW LENDING OF

€3.8 billion

Since inception, NAMA has advanced a total of €3.8 billion to its debtors and receivers to enable them to manage and enhance secured assets and, in some cases, to continue trading, hence protecting employment. All of this funding has been secured from within NAMA's own resources without any reliance on Exchequer funding.

STRATEGIC OBJECTIVE 3

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

75% under construction

By end-March 2018, construction had commenced on sites representing 75% of NAMA's current interests in the Dublin Docklands SDZ area. Planning had been lodged or granted for the other 25%.

STRATEGIC OBJECTIVE 4

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

7,190 units delivered

Between 2014 and end-March 2018, a total of 7,190 new residential units were completed on sites funded by NAMA. A further 2,000 units had been completed on sites sold by NAMA.

STRATEGIC OBJECTIVE 5

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

SOCIAL HOUSING:

8,000 people housed

By end-March 2018, 91% of the social housing units for which demand was confirmed by local authorities, had been delivered by NAMA, housing approximately 8,000 people.

Key Financial Indicators 2017

2017 was another profitable year for NAMA. Its continued strong performance means that the NAMA Board expects, subject to prevailing market conditions, to return a terminal surplus to the State – **currently estimated at up to €3.5 billion** – upon completion of its work.

2017 PROFIT

€481m

2017 SENIOR BOND REDEMPTIONS

€2.59bn

SENIOR BOND REDEMPTIONS SINCE INCEPTION

€30.2bn

100% of Senior Debt Redeemed

2017 CASH GENERATION

€2.56bn

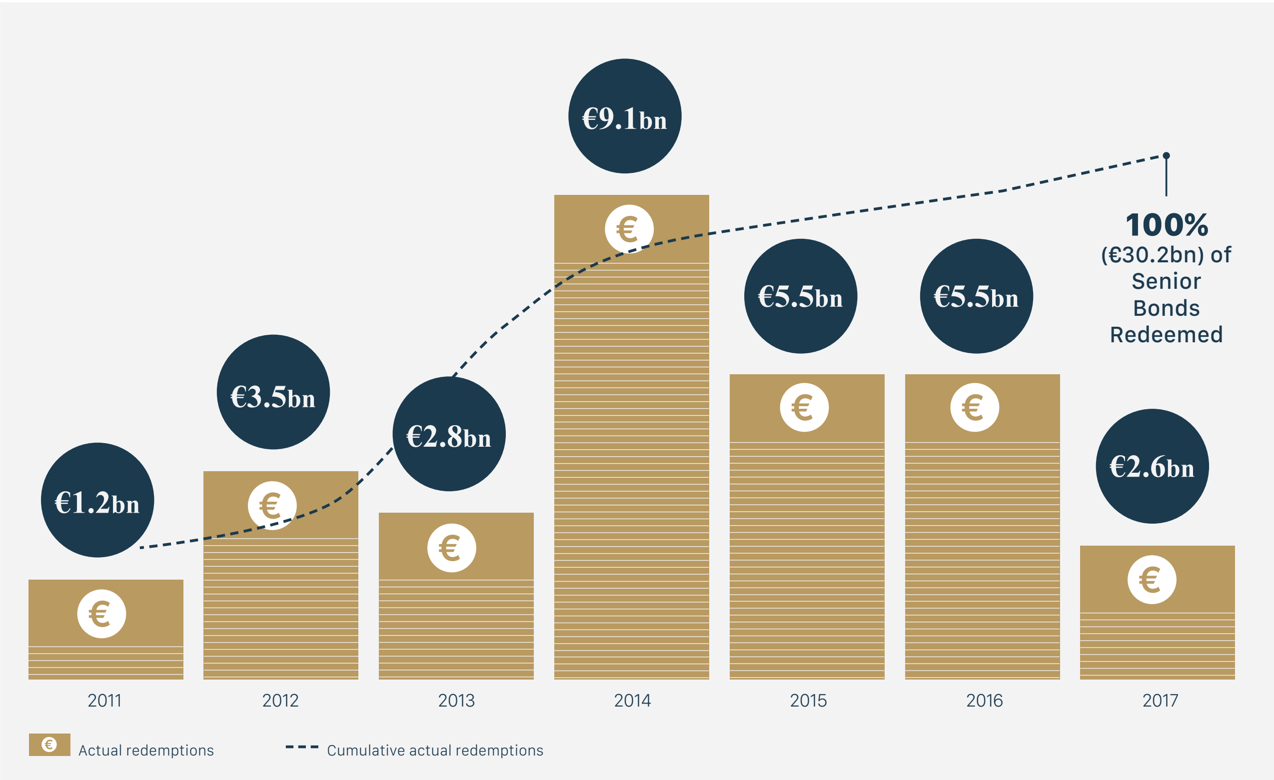
2017 DISPOSAL RECEIPTS

€2.43bn

Key Business Highlights

SENIOR DEBT REDEMPTION

2017 was the year in which NAMA achieved its primary objective and eliminated a significant contingent liability of the Irish State. €30.2 billion in Government-guaranteed senior bonds, which were issued in 2010 and 2011 to acquire loans, has now been fully repaid. The final redemption was made three years ahead of schedule in October 2017.



RESIDENTIAL DELIVERY
STATUS AS AT END-MARCH 2018

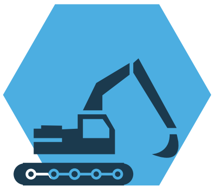
Since 2014, NAMA has funded the construction of 7,190 new residential units in Ireland on residential development land securing its loan portfolio.

An additional 3,637 units are under construction or have funding approved for construction on sites controlled by NAMA debtors and receivers.

Planning permission has been granted for an additional 7,245 units.

Planning applications have been lodged or will be lodged within 12 months for an additional 8,000+ units.

DUBLIN DOCKLANDS SDZ
STATUS AS AT END-MARCH 2018

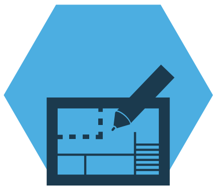


Construction Commenced
2.56m sq. ft.

Construction has commenced on sites that will deliver 2.56m sq. ft. of commercial space (mainly Grade A offices) and some 600 apartments.

Completion Pending
1m sq. ft.

Of the sites currently under construction, 1m sq. ft. of office space and 190 apartments are set for completion in 2018.



Planning Permission
400,000 sq. ft.

Planning permission is in place for a further 400,000 sq. ft. of commercial space and some 780 apartments. Planning has been lodged for the remaining 464,000 sq. ft. of commercial space in which NAMA has an interest.

SOCIAL HOUSING
STATUS AS AT END-MARCH 2018

2,474

2,474 social housing units have been delivered, providing homes for approximately 8,000 people.

6,984

NAMA has offered 6,984 residential properties for social housing purposes. Demand has been confirmed by local authorities for 2,717 of these properties.

€350m+

NAMA has invested or committed over €140m to remediate and complete properties for housing and invested over €210m to purchase houses and apartments through its special vehicle for acquiring social housing units, NARPS.

ECONOMIC CONTRIBUTION

Facilitating Transactions

An important part of NAMA's work is to facilitate transactions in the Irish property market that might not otherwise take place, including the identification of suitable properties for educational, community, and health purposes.

State Agencies

NAMA continues to work closely with IDA Ireland, Enterprise Ireland and other State agencies in identifying suitable properties for companies looking to establish or expand existing business operations in Ireland.

Rent Abatements

NAMA has approved rent abatements with an aggregate value of €25m which have enabled Irish businesses to continue trading and protected employment.

Chairman's Statement

We remain resolute in our commitment to delivering the largest possible surplus to the Exchequer.

2017 was a very important year for NAMA. In October, we achieved our primary objective by redeeming the last of our senior debt. The €30.2 billion in senior debt that we issued to the five participating institutions in 2010 and 2011 was a major contingent burden for Irish taxpayers for many years afterwards. Property prices in Ireland continued to fall right up to 2013 and much of the collateral securing our loans lost value accordingly. At one stage in 2012, taking into account the fall in prices and the €5.6 billion State aid overpayment that we made to the participating institutions, it was estimated that the market value of our loan portfolio was some €10 billion less than we paid for it.

In that context, it was difficult to be optimistic about our prospects of redeeming all of our senior debt and certainly not within the ten-year horizon that the European Commission envisaged when they approved the NAMA scheme in February 2010. Up to 2014, any talk of generating a surplus would have been considered scarcely credible.

I believe that the strategy that we adopted was the right one. We resisted pressure in our early years to approve a large-scale sale of Irish assets. As the market recovered from 2013 onwards, we oversaw a process of phased Irish asset sales, a process which even now in 2018 is still ongoing. In a rising market, assets sold during an early phase of the cycle will gain in value as the upturn continues. On that basis, we are criticised from time to time by those who hold that we sold some assets too early. With all due respect to that view, I would point out that the €17 billion of Irish real estate assets sold by NAMA debtors and receivers to date (or securing loans sold by NAMA) could not have been sold in one year, or even over three years. Given the scale of our exposure to the Irish property market relative to the size of that market and given our limited control over many of the risks associated with it, it was sensible and prudent to adopt a phased multi-annual sales approach.

Our objective now is to meet our remaining subordinated debt and equity obligations: we aim to repay our €1.6 billion of subordinated debt by its first call date of March 2020 and thereafter the €51m that was invested by private investors in NAMA. Only after these commitments have been met will it be possible to begin the process of transferring the NAMA surplus to the Exchequer. As regards the subordinated debt, we invited noteholders in April 2018 to tender terms at which they were prepared to sell some or all of their holdings to us. Having assessed the offers received, we decided to repurchase €243m of the subordinated debt. We are pleased with the outcome of that process and, subject to price, we will be receptive to any other opportunities that may arise to redeem additional amounts of subordinated debt in advance of the March 2020 first call date.

Our aim is to generate the largest surplus that can feasibly be achieved by the time we complete our work: our current projection suggests a surplus of up to €3.5 billion. That assumes that market conditions in Ireland remain relatively benign over the next three years, thereby enabling assets to be realised at current market values. Any major disruption or setback to the Irish economy or property market during that period could reduce the terminal surplus, as indeed would failure to retain staff with the expertise and the experience necessary to extract full value from our residual portfolio.

Repaying our debt and generating a surplus represents a major economic and social contribution on the part of NAMA. We continue to make a notable economic and social contribution in other respects also, not least in driving the development of the Dublin Docklands SDZ and in the funding of housing. Since 2014, NAMA has funded the completion of 7,190 houses and apartments and there are another 3,600 units under construction, or approved for funding. In addition, we have funded the planning process for another 9,400 units and would hope that many of these will move into the construction phase during the next year. Our debtors and receivers also have a pipeline of sites capable of delivering another 17,800 units over the

FRANK DALY
Chairman

coming decade and we are working hard to ensure that they can be developed as soon as possible, although in some cases that depends on overcoming infrastructural and other constraints.

As regards residential delivery, we have been much encouraged by the comprehensive and unequivocal decision of the EU Commission, published in January 2018, regarding a complaint that was submitted to it alleging that NAMA's funding programme was in breach of State Aid rules. Following an extensive review over a period of two years, the Commission concluded that NAMA did not breach EU State aid rules. The Commission's decision removes any element of uncertainty regarding our capacity to fund the residential development that Ireland so badly needs.

Notwithstanding the best efforts of NAMA and of other funders of residential development, there is still a substantial gap between the demand for housing and the supply that is coming on stream, particularly in the main cities. It is well recognised that a major obstacle to closing that gap has been the fact that apartment development has not, in general, been commercially viable for much of the past decade. Recent changes to apartment design standards will be positive in their impact on the commercial viability of building apartment blocks and NAMA, along with other market participants, will now be re-assessing the viability of apartment development projects which have struggled to achieve viability up to now.

The decision by the Government to establish Home Building Finance Ireland (HBFI) is another positive move towards addressing the shortfall in supply. The ESRI has estimated that €6 billion was required in 2016 for investment to meet housing demand and that €9 billion will be required by 2020 to meet estimated demand at that stage. By comparison, lending for residential development across all lenders in 2017 was estimated to have been of the order of €1.5 billion. NAMA will provide assistance to HBFI during its establishment phase and it is envisaged that it will provide business services to it on an ongoing basis. HBFI will, however, be an independent legal entity with its own Board and full-time staff. The current expectation is that HBFI will have a timeframe of three to five years and it is hoped, by the end of that period, that State intervention in funding residential development will no longer be necessary.

As regards social housing, our total expenditure to date has been in excess of €350m, including costs incurred by NARPS in purchasing residential units for onward leasing to housing bodies in addition to capital expenditure on the completion of housing units and of unfinished estates. Our work and expenditure on social housing has had the positive outcome of meeting the accommodation needs of some 8,000 people, not including those people who have been housed through NAMA's funding of Part V transactions.

This Annual Report sets out in some detail the progress which has been made by NAMA in terms of meeting its key objectives: the redemption of the senior debt, the development of the Dublin Docklands and the funding of housing delivery, both private and social. That substantial progress reflects the work and commitment of my colleagues on the Board, and that of the Chief Executive, the Executive team and the staff of NAMA who are to be commended on what they have achieved during an eight-year period which was often very challenging.

There is much still to be done before NAMA completes its work but we remain resolute in our commitment to delivering the largest possible surplus to the Exchequer and delivering also on our Dublin Docklands and residential delivery objectives.

FRANK DALY
Chairman

Chief Executive Officer's Statement

Significant progress was made in 2017 on all of NAMA's major objectives.

Significant progress was made in 2017 on all of NAMA's major objectives. There was particular satisfaction that we reached the primary milestone of redeeming all of our senior debt some three years ahead of schedule. That was made possible by eight years of intensive effort on the part of the NAMA Board and staff, NAMA-appointed receivers and consensual debtors who worked together to eliminate a major and unwanted €30 billion contingent liability for taxpayers. The prospect of that contingent liability ever being called upon was something that all involved in NAMA could never contemplate.

By end-2017, almost €41 billion in cash had been generated from our acquired loan portfolio and the assets securing it. That enabled us not only to redeem the senior debt but to advance gross funding of some €3.8 billion to our debtors and receivers in order to maintain businesses, protect and create jobs and develop residential and commercial projects. By end-March 2018, we had provided or approved funding for the construction of over 10,800 houses and apartments (including units completed and under construction). We had funded the planning process for another 9,400 units and intend to fund planning for an additional 6,000 units in 2018. We had also enabled the provision of close to 2,500 units for social housing, both through direct sales to local authorities and approved housing bodies and through leasing by NARPS.

A number of notable sales, including the Gibson Hotel in the Dublin Docklands and Carton House in Co. Kildare, contributed to the €2.56 billion of cash generated in 2017. The fact that this was less than the amounts generated in recent years reflects the advanced stage of the deleveraging process that we have now reached: the portfolio has reduced significantly and is increasingly comprised of loans secured by a large volume of low-value assets. Realising the full value of these assets will, of necessity, be a relatively slow and painstaking process. In some cases, litigation will have to proceed to its conclusion and other legal complications will have to be resolved before the full value of the assets can be realised – this was always something that we anticipated and it is not unusual in terms of the experience of other asset management entities internationally.

The reduced size of the portfolio also had an impact on profitability: the €481m profit achieved in 2017 was substantially less than profits recorded in 2015 and 2016; the portfolio was, however, much larger in those years. Interest and fee income fell by about a third in 2017 and the impairment write-back at €13m was much less than the €282m write-back recorded in 2016. This reflects the sensible and prudent impairment policy that has been pursued by NAMA since inception. The net profit on the disposal of loans and assets and surplus income fell from €1,110m to €335m although it should be noted that the 2016 figure included the impact of a number of exceptional large-scale disposals which were completed in that year.

As is clear from the graph reproduced on page 51 of this report, the profile of property assets securing the loan portfolio at the end of 2017 was heavily weighted towards the Dublin area. Many of these assets are residential development sites which have the capacity to make a major contribution to housing supply in the future and which are being steered through the planning process with that in mind. Against the background of the continued decline in UK asset values, we are pleased that we are left with only a relatively limited exposure to the UK market: we expect our residual UK exposure – €460m at end-2017 – to be almost entirely eliminated by the end of 2018.

Also included in our residual portfolio are loans secured by property in the Dublin Docklands SDZ. Since the NAMA Board approved its business plan for the Dublin Docklands SDZ in September 2014, major progress has been made in the development of office and residential accommodation in this area. Ultimately, it is envisaged that 4.2m sq. ft. of commercial space and some 2,200 residential units will be

BRENDAN McDONAGH
Chief Executive Officer

generated from the 15 sites originally under the control of NAMA or of NAMA-appointed receivers. By March 2018, delivery strategies had been approved for 95% of these sites. Excluding projects sold or completed, construction had commenced on 75% of the office accommodation and planning permission had been lodged or granted for the other 25%.

From the beginning, NAMA indicated its willingness to fund the development of the Dublin Docklands SDZ if alternative sources of funding were not available. However, because the development of the area has acquired strong momentum over recent years, private investment has been attracted to Docklands' projects and, as a result, it has not been necessary to put taxpayers' money at risk. When we launched our initiative in the Docklands, we announced that our objective was to "contribute, not only in terms of project funding, if required, but also in bringing coherence, direction and drive to the process". I believe that we have done exactly that.

It is also timely to record the progress that has been made in terms of dealing with unfinished estates. When we initially acquired our loan portfolio, we had an exposure to 335 unfinished housing estates. There was much talk at the time of a demolition of many of these estates. Ultimately, only a few NAMA-secured estates were demolished and only then in cases where there were serious health and safety risks. For many of the others, it was a question of a patient and meticulous effort on the part of NAMA to arrange and fund remediation and completion works on the estates and to identify purchasers, including local authorities and housing bodies. By end-March 2018, NAMA's exposure had fallen to just six unfinished estates and we expect to have most, if not all, of these resolved by end-2018.

The years ahead bring a different set of challenges to be addressed. The size of the projected surplus that we will be in a position to transfer to the Exchequer will depend in part on how well the residual portfolio of smaller assets is managed. We are very determined to extract as much value as possible from the portfolio, notwithstanding the difficulties and complications to which I have referred above. A major challenge will be to optimise the value of the residual loan portfolio of €3.2 billion in the context of a phased wind-down of NAMA and the probability that many of our staff will be assessing their career options during the later stages of that wind-down.

I wish to thank the Board, members of Board committees, the Executive team, the staff assigned to NAMA and to all those within the wider NTMA who have contributed to the progress that is detailed in this report. There is much work still to be done but we can be proud of what has been achieved to date and we now look forward over the coming years to completing our work in a manner that achieves the best possible outcome for Irish taxpayers.

BRENDAN McDONAGH
Chief Executive Officer

Business Overview

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

Deleveraging Activity

This involves the workout of many of the residual loans held by NAMA. It seeks to maximise the value of these assets through effective workout strategies with debtors and receivers and through capital investment in assets where it will enhance value for the taxpayer.

The deleveraging loan portfolio contains a significant number of low value assets which will require intensive management in order to maximise their value.

Residential Delivery

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

In addition to funding construction, NAMA aims, through its asset management activity, to maximise the number of sites that are ready for development.

Dublin Docklands SDZ

NAMA has committed to facilitating the timely and coherent delivery of key Grade A office, retail and residential space within the Dublin Docklands Strategic Development Zone (SDZ) where a number of assets secure NAMA loans.

By end-2017, assets representing 90% of NAMA's original interests in the Docklands SDZ had proceeded to the construction stage, or had received planning permission or had been completed or sold with the benefit of planning permission.

MARKET TRENDS 2017

Market demand for Irish assets remains relatively strong, supported by investor familiarity with the Irish market and by expectations that the economy will continue to perform strongly over a medium-term horizon. In 2017, investment in Irish commercial real estate (CRE) is estimated to have been €2.5 billion, down from €4.5 billion in 2016. This was in line with market expectations which had forecast a return to more 'normal' activity patterns as deleveraging activity wound down.

The top ten investment transactions in 2017 accounted for 41% of total capital deployed, with notable transactions including The Square Town Centre, Tallaght (reported €240m), Cherrywood Business Park (reported €145m) Honeypark, Dún Laoghaire (reported €132m) and 13-18 City Quay (reported €126m).

As regards the Dublin office sector, 2017 was a record year for take-up, with gross take-up of an estimated 331,445 square metres, nearly double the 10-year average of 185,800 square metres. Prime headline rents in Dublin City Centre reached a level of €700 per square metre in Q4 2017.

Residential prices increased nationally by 12.3% in 2017. The pace of residential development activity increased substantially in 2017. However, output remained well below market requirements.

Budget 2018 introduced a number of additional measures designed to stimulate an increase in residential development over the coming year, including an increase in the vacant site levy from 3% to 7% and the proposed establishment of Home Building Finance Ireland (HBFI). During the year, the Government also introduced new fast-track planning for developments with 100 or more residential units (or in excess of 200 beds for student accommodation).

Nationally, residential rents continued to rise in 2017, with rents in the Dublin area reaching a level which was 14% higher than previous peak levels recorded in 2007. Measures announced by the Government in late 2017 were designed to improve the commercial viability of apartment developments and are expected to attract increasing investment towards apartment development in Ireland.

DELEVE

"Given the scale of our exposure to the Irish property market ... it was sensible and prudent to adopt a phased multi-annual sales approach."

FRANK DALY

RAGING

GIBSON HOTEL, DUBLIN

Deleveraging Activity

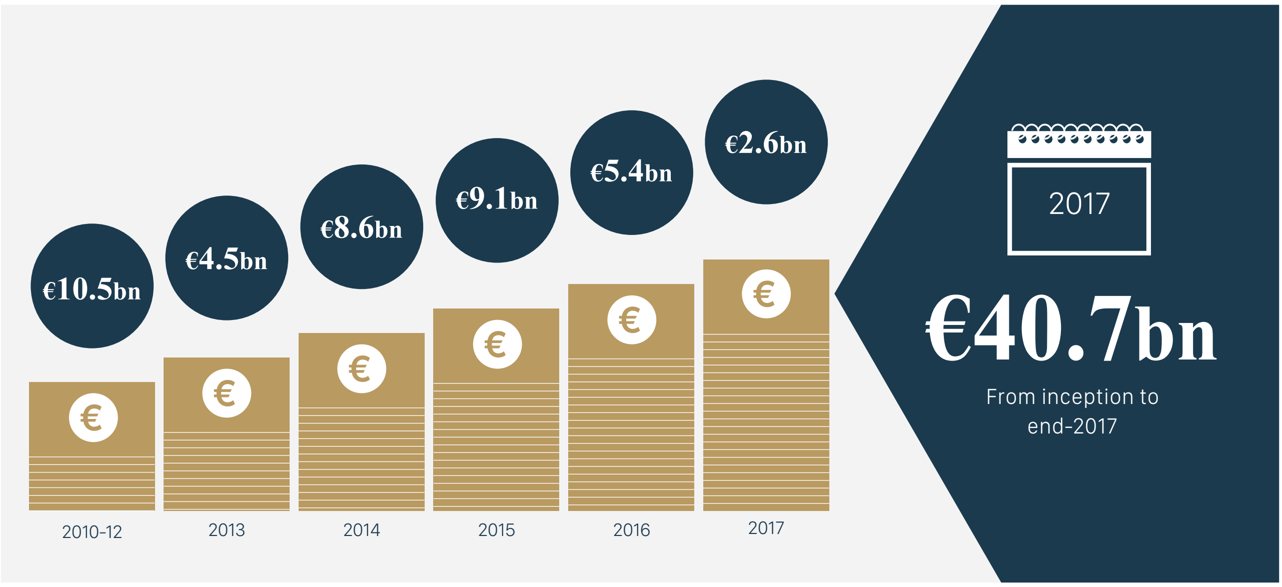
As at March 2018, there were 223 debtors remaining under management, of which 141 were in support or forbearance strategies and 82 were subject to enforcement.

DISPOSALS AND CASH GENERATION

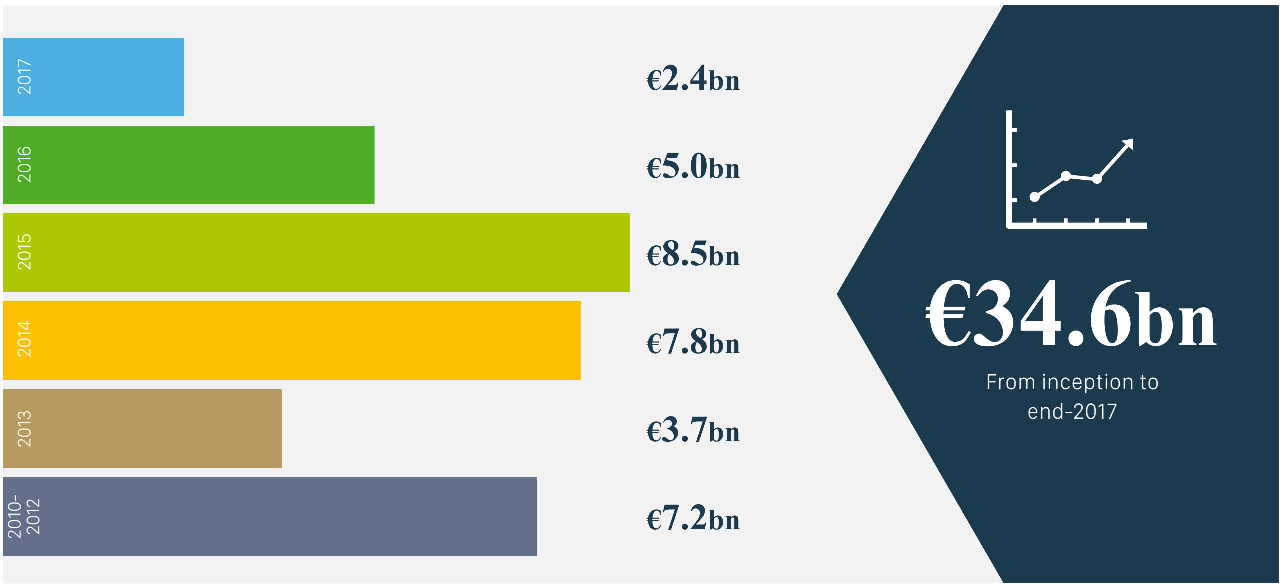
Cash generation is a critical measure of the progress being made by NAMA in meeting its stated objectives. By end-2017, NAMA had generated a cumulative €40.7 billion in cash, principally through asset and loan sales. Due to this strong cash generation performance, NAMA was in a position to redeem all of its senior debt by October 2017. During 2017, NAMA generated €2.56 billion in cash with €2.4 billion realised from the sale of loans, property and other assets.

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

Cumulative Cash Generation



NAMA Asset Disposals



ASSET AND LOAN SALES BY LOCATION

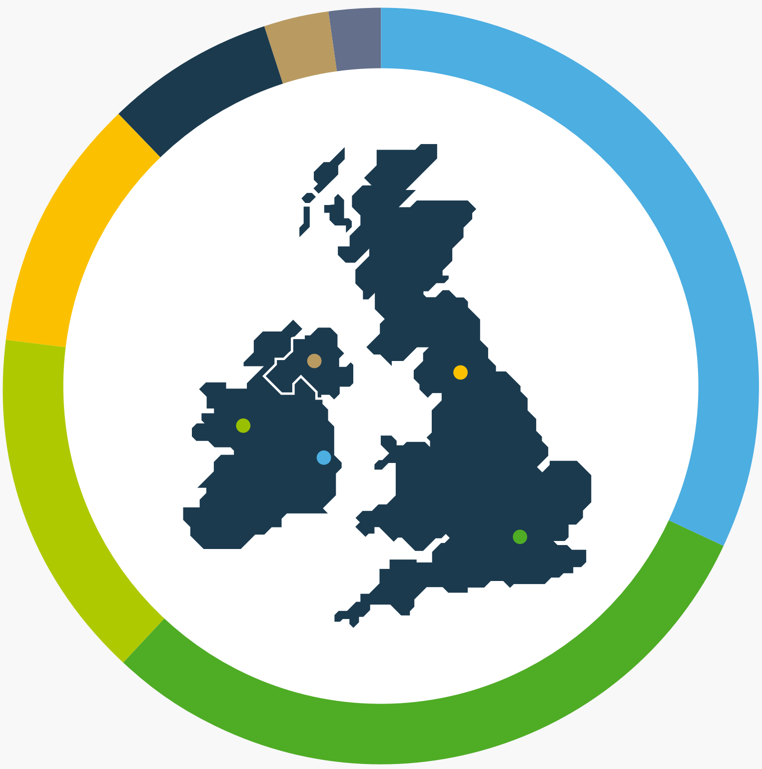
NAMA's approach in each of its main markets has been to release assets for sale in a phased and orderly manner that is consistent with the level of demand, the availability of credit and the absorption capacity of each market.

In the period between 2010 and 2012, assets located in Britain accounted for almost 80% of all NAMA disposals whereas assets located in Ireland, by contrast, accounted for just 12% of disposals during that period. The Irish market was characterised by severe price falls and illiquidity during that time and it would have made no sense for NAMA to authorise a major programme of disposals. Instead, the focus was on asset management to enhance the future disposal value of Irish assets, most notably, by working with debtors and receivers to complete unfinished projects, to fund viable commercial and residential development and to enhance planning permissions and remove other obstacles to development.

Since mid-2013, improved Irish market conditions have enabled NAMA debtors and receivers to sell a much greater volume of assets at attractive pricing. That, in turn, enabled NAMA to accelerate its senior debt repayments and thereby progressively reduce and eliminate in 2017 its senior debt which was a contingent liability of Irish taxpayers. The cumulative value of loans and assets sold as at end-2017 was €34.6 billion.

The table below presents an analysis of disposals by location from 2010 to end-2017.

Disposals by location from 2010 to end-2017

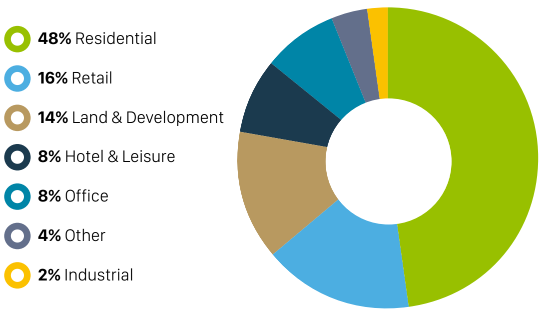


32%	DUBLIN
30%	LONDON
15%	REST OF REPUBLIC OF IRELAND
11%	REST OF BRITAIN
7%	REST OF WORLD
3%	NORTHERN IRELAND
2%	NON REAL ESTATE

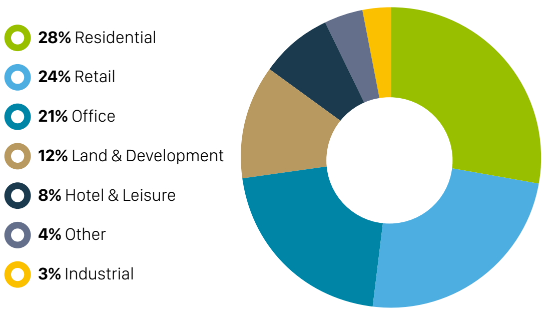
ASSET AND LOAN SALES BY SECTOR

A breakdown of disposals by sector for 2017 across all geographic locations and the breakdown of Irish disposals by sector for the period 2010 to end-2017 are shown below. The most active sectors in 2017 were Residential (48%) and Retail (16%).

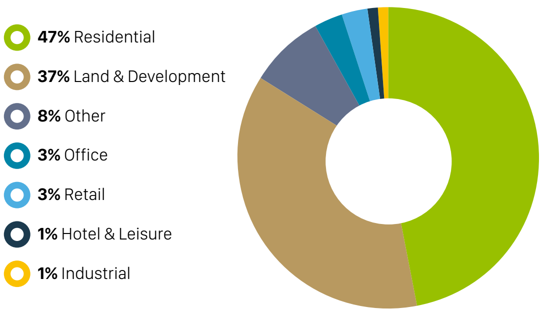
Disposal by Sector 2017



Ireland: Disposals by Sector since inception



Capital expenditure by Sector since inception



ASSET AND LOAN SALES BY TRANSACTION TYPE

In 2017, asset sales accounted for 77% of disposals and loan sales accounted for another 14% with the residual 9% accounted for by loan redemptions.

In previous years, NAMA has taken advantage of increased investor interest in Irish commercial assets by creating portfolios of loans and property assets for sale. This disposal activity was phased in order to ensure a regular flow which could help sustain the positive momentum in the Irish market. In line with the reduced scale of NAMA's loan portfolio, there was less focus in 2017 on loan sales and more on the sale of individual property assets.

The majority of residential property transactions have been and continue to be the sale, on the open market, of individual units to individual buyers. Residential units sold by NAMA debtors and receivers as part of larger group or portfolio sales were typically already tenanted and vacant possession was not sought prior to the sale.

FUNDING BY SECTOR

In addition to funding new residential and commercial projects, NAMA also provides capital expenditure to enhance the value of existing assets and thereby make them more attractive to purchasers. Since its inception, NAMA has advanced substantial development funding for Irish projects and expects to approve substantial additional funding for residential projects, on a commercial basis, over the period to 2020. The table below shows the breakdown of capital expenditure by sector since inception. A total of €2.8 billion has been advanced to date in capital expenditure for new and existing projects. 47% of this related to the residential sector across NAMA's entire portfolio.

Major NAMA-Secured Asset Sales in 2017

THE SQUARE, TALLAGHT, DUBLIN 24
Contracted December 2017

A controlling stake in a large shopping centre (557,000 sq. ft.) located in Dublin 24. The purchaser was an international investment management firm.

GIBSON HOTEL, NORTH WALL QUAY, DUBLIN 1
Completed December 2017

Located in the Dublin Docklands, this four-star hotel comprises 252 bedrooms in addition to meeting and conference facilities. The Gibson Hotel sale was the most significant single Irish hotel transaction in 2017.

FORMER EDF SITE, ST. JOHNS WOOD, LONDON NW8
Completed December 2017

A development site located in Central London, near Lord's Cricket Ground. The purchaser was an international developer.

CARTON HOUSE, MAYNOOTH, CO. KILDARE
Completed December 2017

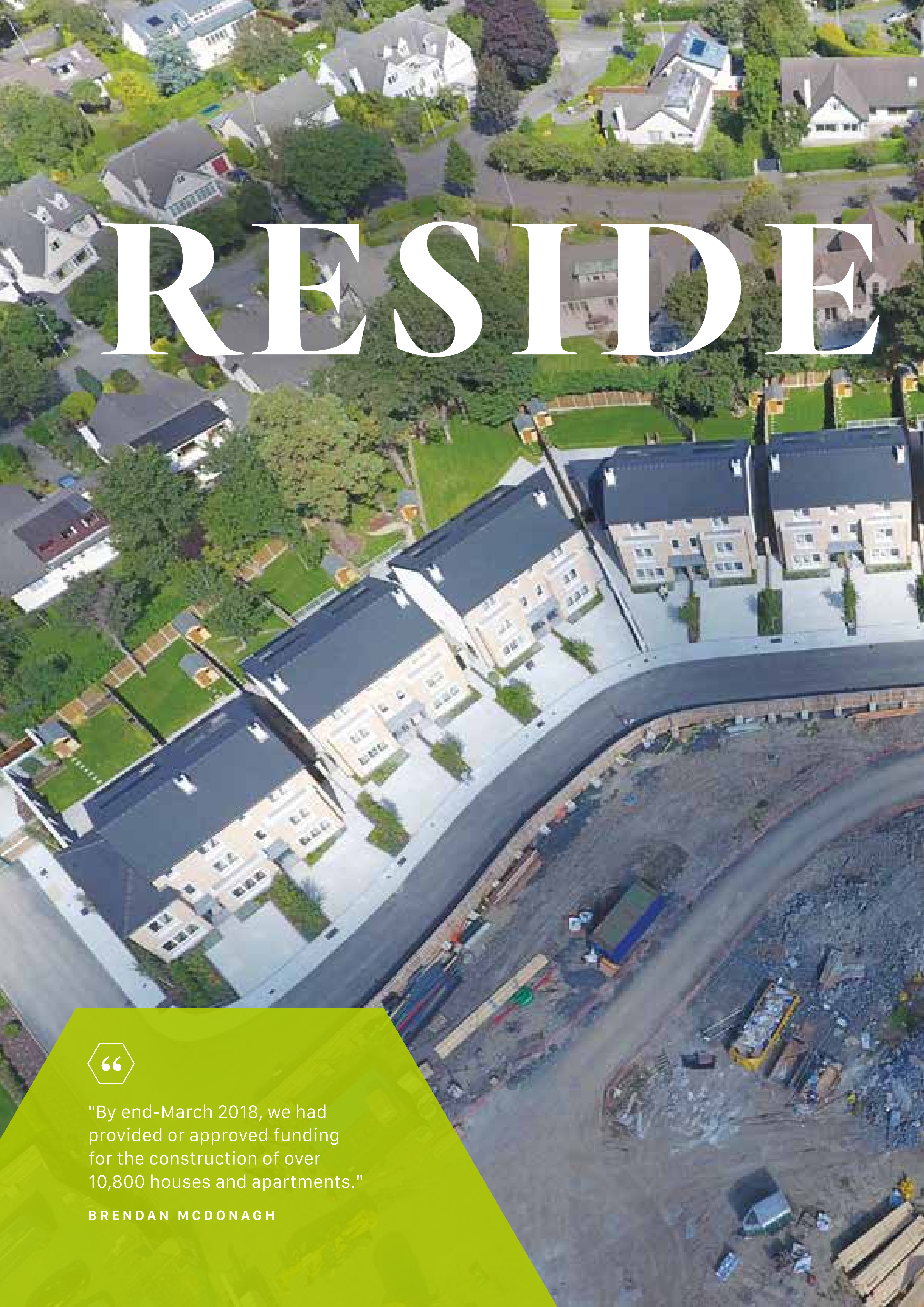
One of Ireland's most important estates now converted to an exceptional resort property of 147 rooms and 18 suites with two Championship golf courses and all ancillary amenities. The purchaser was an American-based investor who was making a first purchase in the Irish market.

BLOCK 10A, NORTH WALL QUAY, DUBLIN 1
Completed September 2017

Block 10A is located within the North Docklands, adjacent to the 3 Arena. At the time of the sale, the site had full planning permission for an office development comprising 380,000 sq. ft. over two office blocks. The site was acquired by Targeted Investment Opportunities (TIO) and NAJVA, a subsidiary of NAMA.

THE PARK, CARRICKMINES, CO. DUBLIN
Completed June 2017

An office development located in Carrickmines. The purchaser was an investment fund headed up by an Irish finance house.



RESIDE

"By end-March 2018, we had provided or approved funding for the construction of over 10,800 houses and apartments."

BRENDAN MCDONAGH

NTIAL

ARDILEA CRESCENT, CLONSKEAGH

Residential Delivery

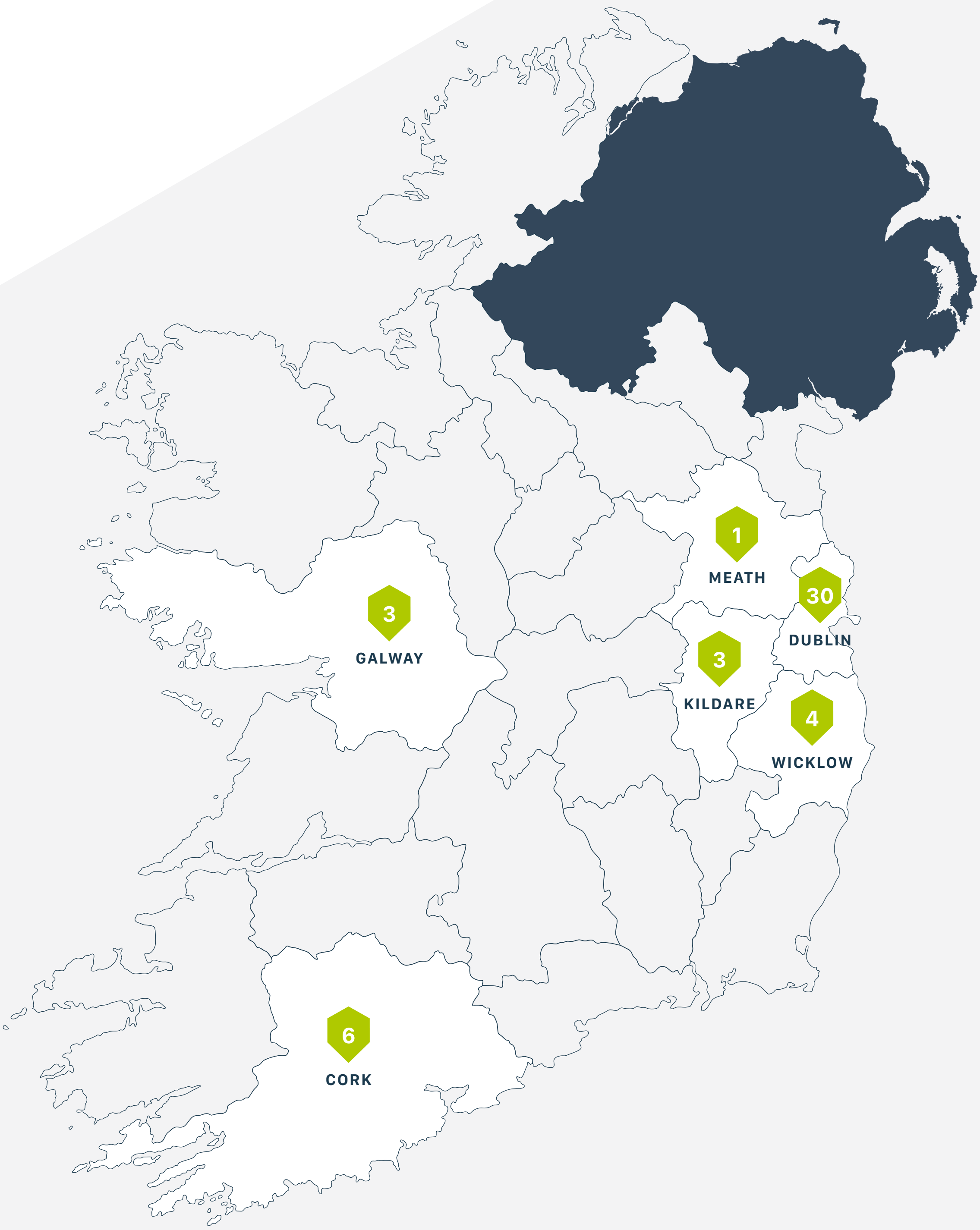
Section 10 of the NAMA Act requires NAMA to obtain the best achievable financial return for the State, deal expeditiously with the assets acquired by it and protect or otherwise enhance the value of those assets. In line with this, NAMA is working with debtors and receivers to identify, where commercially feasible, opportunities to bring forward new residential development.

In this respect, NAMA aims to facilitate the construction of up to 20,000 new residential units in Ireland by 2020, subject to commercial viability.

NAMA's loans are secured by an estimated remaining 1,729 hectares of residential development land in Ireland which is under the control of its debtors and receivers.

The graphic below sets out the location by county of 47 NAMA-secured sites on which, as of March 2018, construction funded by NAMA was underway. The majority of the NAMA-secured sites are located in the Greater Dublin Area or in other urban centres.

LOCATIONS OF SITES CURRENTLY UNDER CONSTRUCTION:



NAMA'S FUNDING OF RESIDENTIAL DELIVERY TO END-MARCH 2018

Units	Total Ireland
Completed (across 104 developments) since start 2014	7,190
Under construction/Funding approved for construction (across 52 sites)	3,637
Planning permission granted	7,245
Planning applications lodged	2,177
Planning applications to be lodged within 12 months	6,299

An additional 2,000 residential units have been built to date on sites sold by NAMA debtors and receivers, many of which benefitted from NAMA funding in relation to planning.

26,000+ units

Major progress has been made with a view to maximising residential delivery on sites controlled by NAMA debtors and receivers: some 26,000+ units are potentially deliverable from sites that are completed or under construction or where planning has been granted, lodged or about to be lodged. The figures in the table above exclude sites that have been sold, contracted for sale, or are on the market for sale.

17,000+ units

Sites with a delivery capacity of another 17,000+ units are at the pre-planning or feasibility stages - these sites are either not commercially viable at current sales prices and/or have specific infrastructural requirements such as roads, water or sewerage that will need to be addressed by local authorities and other State bodies before a planning application can be lodged.

BREAKDOWN OF RESIDENTIAL UNITS DELIVERED BY LOCAL AUTHORITY AREA SINCE 2014

	Total Completed to end-March 2018
Dublin City Council	784
Dun Laoghaire-Rathdown County Council	1,721
Fingal County Council	1,236
South Dublin County Council	1,417
Sub-Total Dublin	**5,158**
Meath County Council	121
Kildare County Council	458
Wicklow County Council	283
Total Greater Dublin Area (GDA) ex-Dublin	**862**
Cork	698
Galway	192
Rest of Ireland	280
Outside of GDA	**1,170**
TOTAL NATIONAL	**7,190**

Examples of residential projects completed

A **Ardilea Crescent houses and apartments**
Clonskeagh, Dublin 14

B **Belarmine Woods**
Stepaside, Co. Dublin

C **Belltree**
Clongriffin, Dublin 13

D **Eustace Court Apartments**
Dun Laoghaire, Co. Dublin

E **Kinsale Manor**
Kinsale, Co. Cork

F **Millers Glen**
Swords, Co. Dublin

G **Woodbank**
Shankill, Co. Dublin

Examples of residential projects under construction

A

Brighton Road

Foxrock, Dublin 18

B

Rathborne Park

Ashtown, Dublin 15

55,000
units
6,061 delivered/
under construction

RESIDENTIAL SITES SOLD

NAMA has always sought to ensure that there is an adequate supply of development land available to the market. Since 2011, NAMA debtors and receivers have sold sites with the potential to deliver over 55,000 residential units. It is estimated that almost 2,000 units have been delivered to date on these sites and that an additional 4,062 units are under construction. The total of 6,061 units delivered or under construction on these sites represents 11% of the delivery capacity of these sites.

POTENTIAL DELIVERY CAPACITY (NUMBER OF RESIDENTIAL UNITS) OF SITES IN WHICH NAMA OR ITS DEBTORS/RECEIVERS HAVE SOLD THEIR INTERESTS FROM 2011 TO DATE

	2011	2012	2013	2014	2015	2016	2017	2018	Total
Potential delivery capacity (number of residential units) on sites	1,022	2,677	2,351	6,827	20,125	8,373	9,819	4,386	**55,580**
Number of units completed or commencing construction				39	1,125	1,525	3,287	85	**6,061**

It may be noted that development of some, but by no means all, of the sites may be currently inhibited by one or more constraints relating to commercial viability, infrastructure or suitable planning permission.

NAMA'S APPROACH TO SELLING LOANS SECURED ON RESIDENTIAL PROPERTY AND DEVELOPMENT SITES

NAMA does not encourage debtors or receivers to seek vacant possession of residential properties in advance of loan sales. This is to minimise disruption to people living in these properties. These loans are usually acquired by investors seeking long-term rental streams rather than short-term sales and tenants of such properties continue to have the benefit of existing lease terms and of the statutory protections in place in the residential rental market.

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

Arising from this, loans secured by land with the potential to deliver additional residential supply have been removed from loan sales.

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

DOCKL

"Major progress has been made in the development of office and residential accommodation in this area."

BRENDAN MCDONAGH


ANDS

Dublin Docklands SDZ

The North Lotts and Grand Canal Docks area of the Dublin Docklands was designated as a Strategic Development Zone (SDZ) in December 2012 and the Docklands SDZ planning scheme was approved by An Bord Pleanála in May 2014. The SDZ plan divided the Docklands into 20 development blocks. NAMA originally held an interest in 15 of the 20 blocks and developed detailed strategies for each of the 15 blocks. NAMA's interest related to 16.74 hectares (41.25 acres) – 75% of the 22 hectares of developable land in the Dublin Docklands SDZ area. The sites are located within the South and North Docks areas and the current SDZ plan provides for two new pedestrian bridges linking both areas.

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

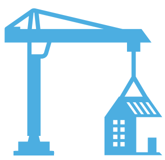
It is estimated that in excess of 4m sq. ft. of commercial space and approximately 2,200 apartments will be delivered when all 15 sites in which NAMA originally held an interest are fully developed. The extent of NAMA's involvement varies from site to site.

PROGRESS TO DATE

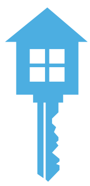
Status as at end-March 2018:

Planning has been secured for 3.6m sq. ft. of commercial space and 2,000 apartments in the SDZ area.

NAMA retains a current interest in 12 sites capable of delivering 3.5m sq. ft. of commercial space and 1,500 apartments.

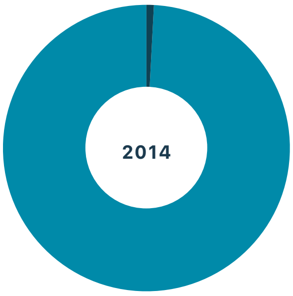


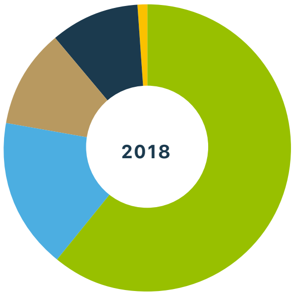
Construction has commenced to deliver 2.56m sq. ft. of office accommodation which is due for delivery in 2018, 2019 and 2020.



When complete, it is estimated that the Docklands project will accommodate in excess of 20,000 office workers and homes for over 5,000 people, regenerating and transforming this important part of Dublin.

Status of Docklands Commercial Space





	END-2014	MAR-2018
Construction commenced		61%
Projects sold/sale agreed		17%
Planning lodged		11%
Planning granted	1%	10%
Projects completed		1%
Pre-planning	99%	0%

Infrastructure Works

New Road*

The Dublin Docklands SDZ Planning Scheme required the provision of a new road connecting Sheriff Street Upper and North Wall Quay, adjacent to the Point Village Hub. Planning permission for this road was granted in November 2015 and construction commenced in June 2016 utilising NAMA funding. Following completion, Dublin City Council took charge of the new road and it was opened to traffic in January 2018.

As of May 2018, the new road had not yet been formally named

NAMA Dublin Docklands SDZ Active Projects

Due for delivery in 2018

5 Hanover Quay

South Docks Fund

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

Dublin Landings

Oxley Holdings Limited

Oxley Holdings Limited acquired a long leasehold interest from NAMA in 2014 with the right to develop, manage and realise the value of the site. NAMA retains the freehold interest and receives a secure income stream in addition to a percentage of any future sales proceeds. The project comprises 719,000 sq. ft. of office and retail space and 290 residential units. Construction is at an advanced stage on two of the office blocks. The National Treasury Management Agency has signed an Agreement for Lease for the entire of No.1 Dublin Landings, a waterfront building which is scheduled for completion in 2018. Construction works are also nearing completion for No.2 Dublin Landings which has been pre-let to WeWork. Construction has commenced on the three other office buildings and on both residential blocks.

13-18 City Quay

City Development Fund

NAMA holds a minority shareholding in this fund, with Oaktree Capital Management as the majority shareholder. The fund is structured as an ICAV and is authorised by the Central Bank of Ireland. The fund acquired this site in 2013. During 2016, a pre-let of the eight-storey office block of 117,000 sq. ft. was secured to Grant Thornton under a 25 year lease and has been sold in a forward-funding structure to Irish Life Investment Managers. The development is due to be completed in 2018.

Capital Dock

KW Irish Real Estate Fund VIII

NAMA holds a minority shareholding in this fund, with Kennedy Wilson being the majority shareholder. It is structured as an ICAV and is authorised by the Central Bank of Ireland. Planning permission was granted in October 2015 for 409,000 sq. ft. of commercial development and 190 apartments. One building has been sold to JP Morgan and two buildings have been let to the Indeed Group. Construction is well advanced on the buildings and the entire scheme is due for completion in 2018.

Due for delivery in 2019

Bolands Quay

A NAMA-appointed receiver controls this mixed-use development. Planning permission was granted for 330,500 sq. ft. of commercial development, 46 residential units and ancillary space. Demolition works, conservation works and enabling works were subsequently carried out and, in March 2017, following a detailed tender process, the receiver appointed BAM Ireland Ltd as the main contractor to carry out the construction. Construction is underway and the project is due for completion in phases up to Q4 2019.

Block 10a

TIO North Docks D.A.C.

NAMA holds a minority interest in TIO North Docks D.A.C. with Oaktree Capital Management as majority shareholder. Planning permission was granted in December 2017 for 270,000 sq. ft. of office space and a 241 bedroom hotel. Construction commenced on the office element in January 2018 with Bennett Construction appointed as development contractor and this is due for completion in Q3 2019.

76 Sir John Rogerson's Quay

South Docks Fund

NAMA holds a minority shareholding in this fund, with Oaktree Capital Management as majority shareholder. The fund is structured as an ICAV and is authorised by the Central Bank of Ireland. Planning permission was granted in 2015 for 137,000 sq. ft. of office space and 72 apartments. Bennett Construction was appointed as the main contractor and construction commenced in early 2018. The commercial element is due for completion in 2019 with the residential element due in 2020.

Due for delivery in 2020

Exo Building

NAMA-appointed receivers obtained planning permission in March 2016 for what will be Ireland's tallest office block, a 73 metre building comprising 215,000 sq. ft. at the Point Village. The 17 storey building will have the capacity for approximately 2,000 office workers. Following a tender process, Bennett Construction was appointed as building contractor in December 2017 and construction commenced in January 2018. The building has been sold in a forward funding structure to CIO (Tristan Capital Partners/SW3). The target completion date for the Exo Building is early 2020.

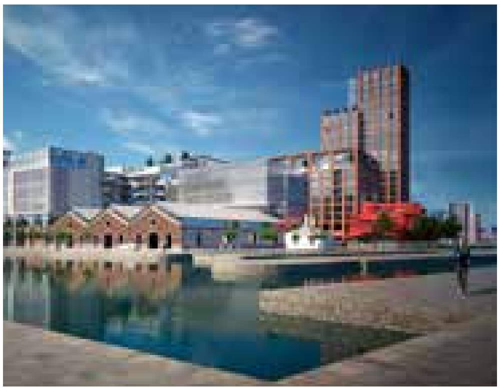
Active Planning Applications

Block 3

The NAMA-appointed receiver obtained planning permission for 360 apartments in November 2017 and planning permission for 400,000 sq. ft. of commercial space was granted in May 2018. The site is shovel-ready and construction is expected to commence in 2019.

Block 9

The NAMA-appointed receiver obtained planning permission for 420 apartments and 386,000 sq. ft. of commercial space in December 2017. The site is shovel-ready and construction is expected to commence in 2019.



10-12 Hanover Quay

KW Irish Real Estate Fund XIII

NAMA holds a minority shareholding in this fund with Kennedy Wilson being the majority shareholder. It is structured as an ICAV and is authorised by the Central Bank of Ireland. A planning application has been submitted for 87,000 sq. ft. of office space.

POOLBEG WEST SDZ

On 2 October 2017, Dublin City Council approved the Poolbeg West Planning Scheme.

Located to the east of Dublin's South Docks, the Poolbeg West SDZ has the potential to provide up to **3,500 residential units** and **860,000 sq. ft. of commercial development** as well as **school sites and community space**.

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

A NAMA-appointed receiver is working with Dublin City Council and the Department of Housing, Planning and Local Government to advance the Poolbeg West SDZ.

Final adoption of the Poolbeg planning scheme is expected to occur by the end of Q3 2018.

SOCIAL &

"We continue to make a notable economic and social contribution."

FRANK DALY

ECONOMIC

AISLING, ENNIS

Social and Economic Contribution

In the context of its overriding commercial mandate, NAMA seeks to manage its portfolio in Ireland in a manner that complements the objectives of other public bodies including Government departments, State agencies and local authorities. This has been particularly evident in the area of social housing and in the resolution of unfinished housing estates.

SOCIAL HOUSING

The delivery of social housing, from the initial identification of suitable properties to final delivery to families, takes a number of steps to complete.

Identifying Properties

NAMA has worked closely with the Department of Housing, Planning and Local Government (DHPLG) and the Housing Agency in seeking to match the residential stock held by its debtors and receivers with the requirements of local authorities. In this regard, NAMA identified 6,984 residential properties in its secured portfolio as being potentially suitable for social housing.

Confirming Demand

The responsibility for determining the suitability of properties for social housing use rests with the local authorities and the Housing Agency. To date, demand has been confirmed for 2,717 units. An important consideration is the requirement to provide for an appropriate mix of housing tenures and to avoid undue housing segregation within individual developments and within wider residential areas.

Facilitating Delivery

Once demand for a property has been confirmed by a local authority, NAMA facilitates delivery by way of direct sale by its debtor or receiver to local authorities or Approved Housing Bodies, or by way of purchase and lease back through NARPS (National Asset Residential Property Services D.A.C.). NAMA's social housing programme has comprised over 180 individual projects nationally and has involved significant co-operation between various stakeholders, as well as the investment of substantial funding by NAMA.

Ensuring Houses are Ready for Occupation

In total, NAMA's expenditure on social housing (through drawn and committed payments) has been in excess of €350m to date. This includes costs incurred by NARPS in purchasing residential units and capital expenditure incurred by NAMA on completion of housing units and estates so as to ensure compliance with building and planning regulations.

Delivering Homes

As at end-March 2018, 2,474 units had been delivered by NAMA for social housing use. This is 91% of all the properties for which demand was confirmed and which remained available. Using conservative household figures, it is estimated that the NAMA social housing programme has accommodated at least 8,000 people.

It is expected that NAMA's final social housing contribution, through this programme of delivery, will exceed 2,500 units assuming delivery of projects still in negotiation. This excludes Part V transactions and other properties across the NAMA portfolio which were occupied on RAS (Rental Accommodation Scheme) tenancies.

Activity in 2017

The focus during 2017 was to ensure that all projects under contract at end-2016, requiring remediation and completion works, were delivered. In this regard, 426 properties were completed and handed over to Approved Housing Bodies, ready for immediate occupancy, during 2017.

Delivering Sites

In addition to the units delivered through this programme, contracts have exchanged and terms agreed with local authorities and/or Approved Housing Bodies for the sale of a number of residential sites with full planning permission.

NARPS — NATIONAL ASSET RESIDENTIAL PROPERTY SERVICES

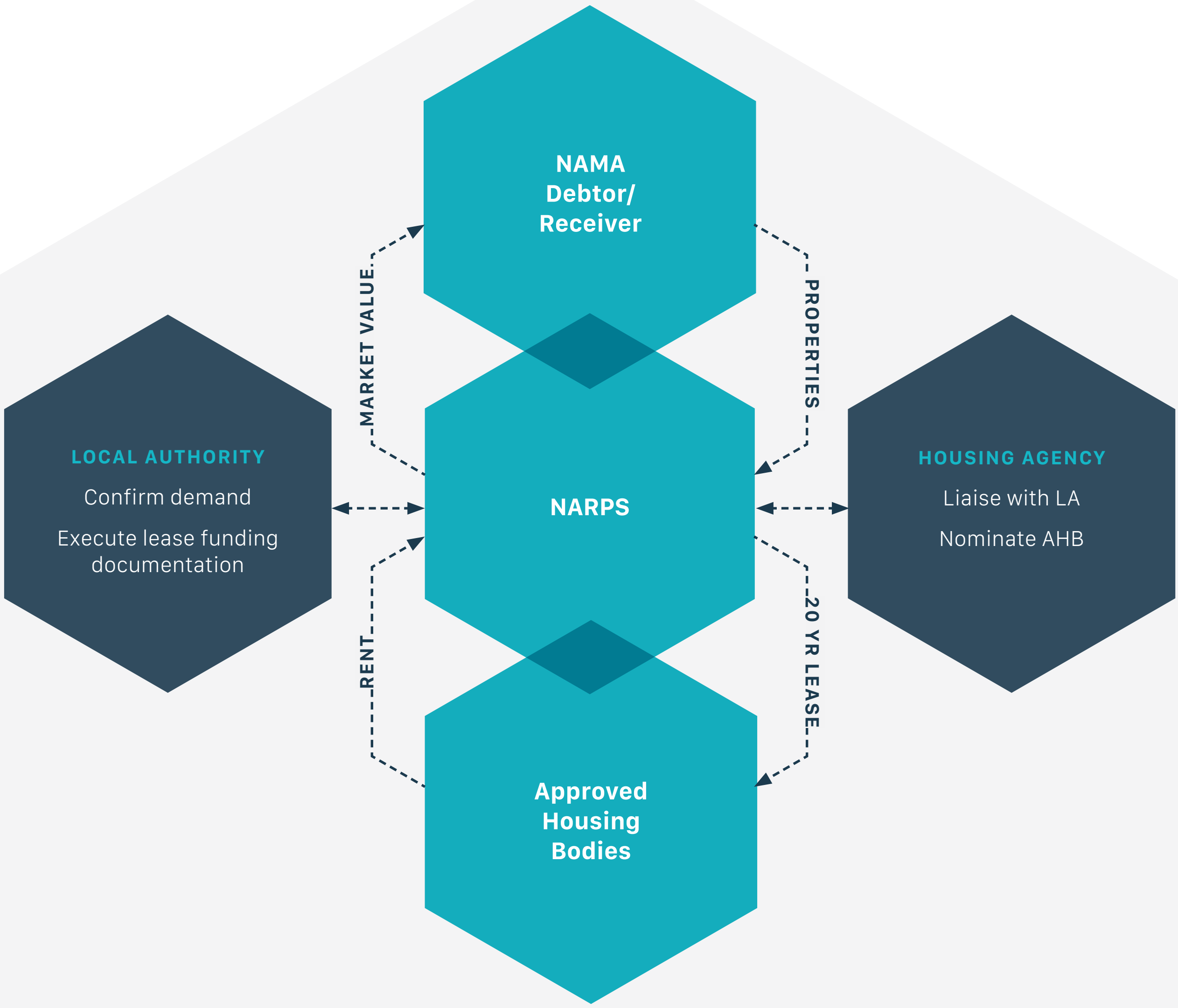
The NARPS leasing model has been a significant source of residential unit delivery for the social housing sector in recent years.

NARPS was established by NAMA in 2012 as a means of expediting the provision of much needed social housing. NARPS operates by purchasing properties from NAMA's debtors and receivers, at full market value, and making them immediately available to local authorities (LAs) or Approved Housing Bodies (AHBs) by way of a standardised long term lease.

To end-2017, NARPS had purchased 1,372 units, all of which have been leased to the social housing sector. Many of the properties acquired by NARPS were incomplete vacant units in unfinished housing estates. The NARPS purchases have often had the effect of triggering a wider programme of completion and remediation for these estates, as detailed surveys have often revealed substantial areas of non-compliance with both building and fire safety regulations. In that regard, over €140m has been provided in funding by NAMA to complete properties, to remedy previous building defects and ensure compliance with Site Resolution Plans and/or Multi-Unit Development legislation. This is in addition to the investment by NAMA/NARPS of over €210m in purchasing the properties from its debtors and receivers.

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

HOW THE NARPS MODEL OPERATES



The delivery of social housing requires investment, collaboration and time

Aisling, Ennis, Co. Clare

23 families housed | €6.25m invested by NAMA

This project involved the purchase by NARPS of 23 incomplete properties in the final phase of an otherwise occupied, but unfinished housing development. The programme of completion included the appointment of a receiver, the agreement of a Site Resolution Plan with Clare County Council, the demolition of incomplete apartment blocks, the internal reconfiguration of the units to facilitate compliance with planning and building regulations, and extensive remediation and completion works.

The completed properties were purchased by NARPS in November 2017 and leased to Co-Operative Housing Ireland.

In total, NAMA invested €6.25m in this project, including remediation, capital expenditure and purchase by NARPS.

Timeline

2014	Properties identified as being available by NAMA
2014	Local Authority confirmed demand (through the Housing Agency)
Oct 2015	NARPS made an offer to the Receiver to purchase 23 houses based on independently determined market valuation
Jul 2016	Co-operative Housing Ireland nominated by Housing Agency as AHB to lease the properties
Jul 2016	Contract for sale between NARPS and Receiver exchanged
Aug 2016	Contractor appointed and commenced work on site
Nov 2017	23 homes delivered

“Credit must be given to both NAMA and Clare County Council for persevering in bringing those units back”

MR. KIERON BRENNAN
Chief Executive, Co-Operative Housing Ireland

The Boroughs, Douglas, Co. Cork

48 families housed during 2017, with a further 17 families to be housed in 2018 | €20.8m invested by NAMA

This unfinished development contained 65 incomplete properties, including three standalone apartment blocks, in an otherwise partially occupied housing estate of 93 houses and apartments.

In November 2015, NARPS contracted to purchase the 65 remaining properties for onward lease to Túath Housing. The programme of completion involved significant remediation, including elements of redesign, due to defective works. This included the removal and replacement of all roofs, external insulation and external steel staircases so as to ensure compliance with building regulations. NAMA funded €9.2m for remediation and completion of this development. Due to the extent of remediation works to be considered by the design team, it was not possible to appoint a contractor until late 2016.

The first two phases comprising 48 units were completed in Q4 2017 and were leased to Túath Housing. The final phase of 17 units is contracted for sale to NARPS and due to be fully completed in 2018.

In total, NAMA invested €20.8m in this project, including remediation, capital expenditure and purchase by NARPS.

Timeline

Jan 2015	Properties identified as being available and potentially suitable
Feb 2015	Local Authority confirmed demand (through the Housing Agency)
May 2015	NARPS submitted an offer to the Receiver to purchase 65 houses based on an independently determined market valuation
Jun 2015	Project Manager/QS appointed to establish scope of works to remediate and complete the units
Nov 2015	Túath Housing nominated by Housing Agency as Approved Housing Body to lease the units
Nov 2015	Contract for sale signed between NARPS and Receiver
Nov 2015	Significant opening up and investigation works carried out on site
Oct 2016	Contractor commenced works on site
Oct 2017	Phase 1 completed and leased to Túath Housing (27 units)
Nov 2017	Phase 2 completed and leased to Túath Housing (21 units)

Abbot Court, Cualanor, Dun Laoghaire, Co. Dublin

124 families housed | New build financed by NAMA

NARPS completed the purchase of 124 units, across three separate phases, at Abbot Court, Cualanor, Dun Laoghaire. The apartments were delivered ahead of schedule and on acquisition by NARPS, were immediately leased to Túath Housing.

This represented a new build funded by NAMA, and in this case, NARPS stepped in as purchaser in place of the local authority to facilitate the Part V delivery on site.

The development received 'Highly Commended' recognition in February 2018 at the Chartered Institute of Housing Awards in Belfast.

Timeline

Q3 2015	Initial Engagement between NARPS, NAMA Debtor and the Local Authority
Dec 2015	Terms Agreed with Local Authority on the Part V Agreement
Jan 2016	NARPS made an offer to purchase 124 units, on behalf of the Local Authority, in line with the Part V agreement
Jul 2016	Contract for sale exchanged between NARPS and NAMA Debtor
Aug 2016	Túath Housing nominated by Housing Agency as Approved Housing Body to lease the properties
Q3 2016	Works commenced on site
Feb 2017	Phase 1 completed and leased to Túath Housing (52 units)
Mar 2017	Phase 2 completed and leased to Túath Housing (40 units)
Apr 2017	Phase 3 completed and leased to Túath Housing (32 units)

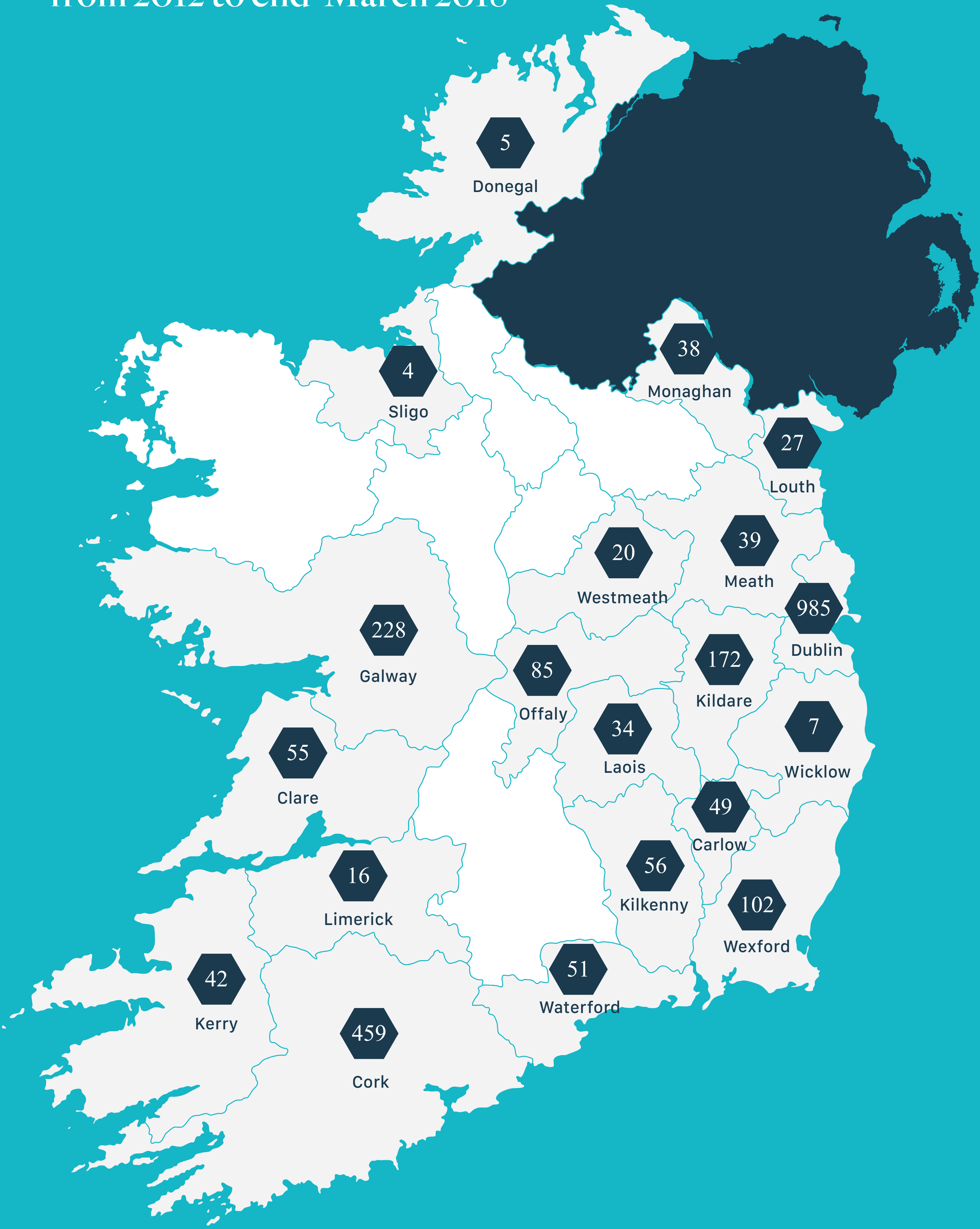
"The job we do is very much a collaborative effort and would not be possible without all stakeholders working together"

MR. MARTIN LOUGHRAN
Túath Housing

NEW BUILD

Social Housing Delivery

2,474 properties delivered for social housing from 2012 to end-March 2018



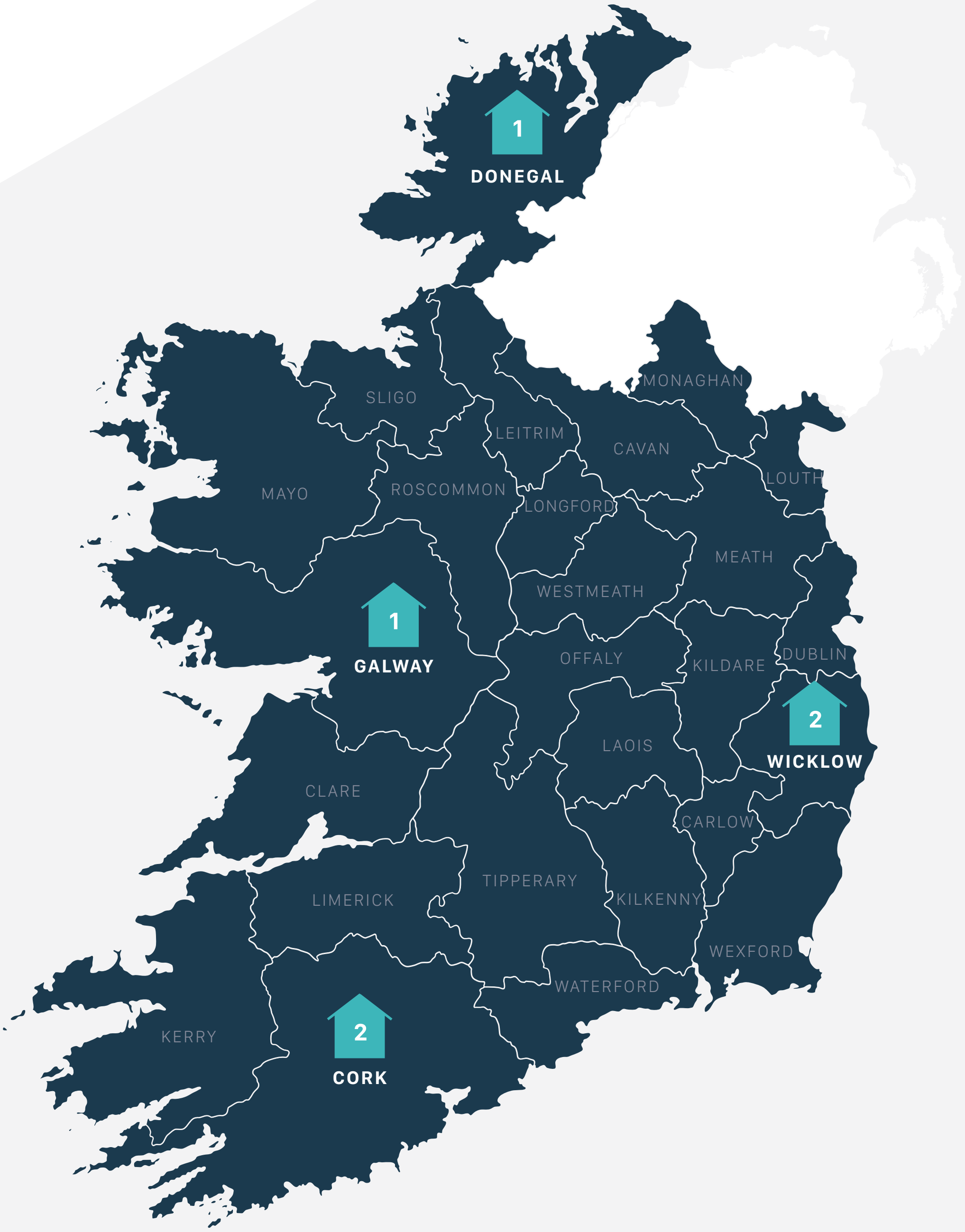
RESOLUTION OF UNFINISHED HOUSING ESTATES

Since 2011, NAMA has advanced funding for site resolution works on unfinished housing estates in which it has an interest as a secured lender. In 2010, NAMA had exposure to **335 unfinished housing estates**. By end-2017, that figure had reduced to eight and by end-March 2018, NAMA's exposure had reduced further to just **six unfinished housing estates**. Strategies are in place for the remaining estates and it is expected that they will be resolved by end-2018. This represents major progress in resolving the issue of unfinished housing estates and it has been facilitated through funding advanced to debtors and receivers to enable them to undertake remedial and completion works to unfinished estates which, in many cases, involved estates in their entirety.

6 remaining from 335 in 2010

NAMA had exposure to **335** unfinished housing estates

By March 2018, NAMA's exposure had reduced to just **6 across 4 counties**



WIDER ECONOMIC CONTRIBUTION

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

Facilitating Commercial Transactions – Key Examples in 2017

Comhairle Cathrach Bhaile Átha Cliath Dublin City Council

The construction and transfer to **Dublin City Council** of a new road in the Dublin Docklands SDZ.

COMHAIRLE CONTAE MHAIGH EO MAYO COUNTY COUNCIL

Sale of loans relating to Westport House Estate to **Mayo County Council**.

Sale of lands in Maynooth to **Kildare County Council** for housing development.

Joint marketing of Longford Town Centre with **Longford County Council** which owned the adjoining site.

Comhairle Cathrach & Contae Phort Láirge Waterford City & County Council

Terms agreed with **Waterford City & County Council** for the sale of a key city centre site for urban regeneration.

Facilitating the Provision of Schools

There has been ongoing engagement with the Department of Education and Skills in respect of potential school sites in areas of high demand. NAMA identified certain sites and facilitated negotiations between its debtors/receivers and the Department in respect of the sale of these sites in 2017:

- Site at Mooretown, Swords, Co. Dublin (14 acres) – sold to the Department of Education and Skills to allow for the development of a new post-primary school.
- A number of additional transactions have been progressed during the year and are contracted for sale, including sites in: Douglas, Co Cork; Carrigtwohill, Co Cork; and Citywest, Dublin 24.

80:20 Deferred Payment Initiative

NAMA launched the 80:20 Deferred Payment Initiative in 2012 as a short-term measure to generate more activity in the Irish housing market. The initiative, which provided price protection in the event of sustained price falls, was operational for two years and was offered on 412 properties across 33 developments nationally.

Payments, which were deferred for five years under this initiative, are due for repayment to NAMA in 2018 and 2019.

NAMA — A POSITIVE IMPACT ON THE IRISH ECONOMY

Reducing Ireland's Debt Costs

Through the progress it made on the repayment of its €30.2 billion in senior debt, NAMA helped stabilise and reduce the funding cost of Ireland's debt. This was a material factor in decisions by credit rating agencies to upgrade Irish credit ratings.

Reducing the State's Burden

NAMA is wholly self-financing and therefore not reliant on the Exchequer for its funding requirements. Where feasible and commercially sensible, NAMA has sought to attract private capital (through JVs and other partnership arrangements) in order to reduce credit risk to Irish taxpayers.

Creating and Maintaining Employment

NAMA judiciously advances capital to preserve and enhance the value of secured assets. To date, NAMA has advanced funding of €3.8 billion to its debtors and receivers. This has protected jobs and created substantial employment in construction. Industry studies suggest that every €1 billion invested in construction creates 12,000 to 16,000 direct and indirect jobs.

Supporting Market Growth

NAMA releases assets for sale in a manner aimed at sustaining the strong performance of the Irish property market. NAMA also seeks to ensure an adequate supply of residential development land is available to the market and aims to maximise the number of residential sites that are ready for development.

Safeguarding Homes

Over €100m has been invested by NAMA to remediate residential properties in its secured portfolio, including substantial fire safety works.

Driving Regeneration

NAMA brings coherence, direction and drive to developments that it facilitates and funds, most notably through its work in the Dublin Docklands SDZ and in a wide range of residential developments. NAMA also funds infrastructure works, as necessary, to facilitate commercial and residential development.

Paying Tax

NAMA paid a total of €227m in tax on profits in 2016 and 2017.

Financial Review

Financial Highlights 2017	2017 €m	2016 €m	From Inception to end-2017 €m
Cash Generation			
Total cash generated	**2,560**	**5,399**	**40,698**
Disposal receipts	2,434	5,025	34,629
Non-disposal income	126*	374	5,508
Senior Bond Repayments			
Senior bonds redeemed	**2,590**	**5,500**	**30,190**
Profitability			
Operating profit before impairment	531	1,386	
Impairment credit	13	282	
Profit for the year before income tax	544	1,667	
Tax charge	(63)	(164)	
Profit for the year after income tax	**481**	**1,503**	
Financial Position at end-2017			
Cash and cash equivalents and liquid assets	1,254	2,165	
Total loans and receivables (net of impairment)	3,194	3,935	

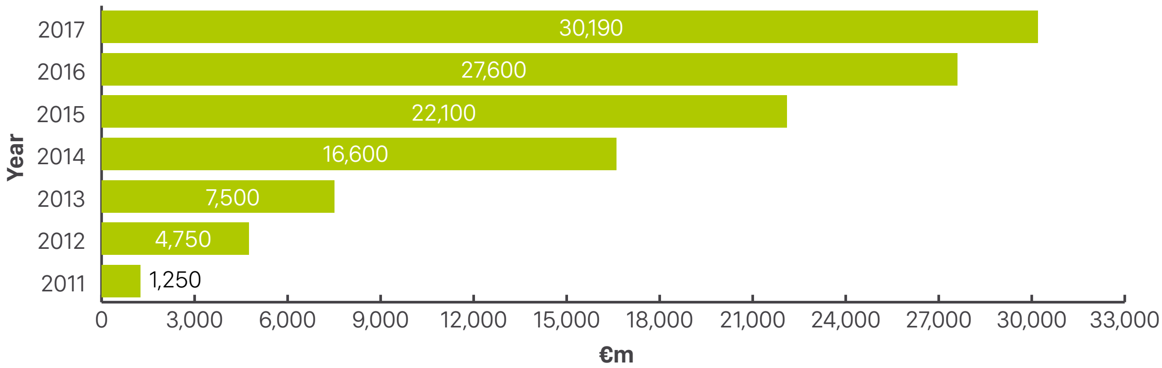
**Includes non-disposal income from loans of €110m and distributions from equity investments of €16m.*

SENIOR BOND REDEMPTIONS

NAMA redeemed €2.59 billion of senior bonds in 2017. This completed the redemption of the €30.2 billion of government-guaranteed senior debt originally issued by NAMA in 2010 and 2011 to acquire bank loans.

The senior bonds represented a contingent liability to the Irish State as they were guaranteed by the Government. Redeeming the senior bonds resulted in this contingent liability being extinguished thereby fully removing what was once a significant factor in determining the cost of Ireland's debt funding.

CUMULATIVE ACTUAL SENIOR BOND REDEMPTION



SUBORDINATED BONDS

NAMA invited noteholders in April 2018 to tender terms at which they were prepared to sell back some or all of their holdings. By end-April 2018, NAMA had repurchased €243m (nominal) of subordinated debt.

PROFITABILITY

Income statement NAMA Group	2017 €m	2016 €m
Interest income	250	371
Interest and similar expense	(4)	(83)
Net interest income	**246**	**288**
Fee income	3	27
Other income/(expenses)	21	35
Net profit on disposal and refinancing of loans and property assets; and surplus income	335	1,110
Foreign exchange (losses)/gains	(6)	9
Losses on derivative financial instruments	(1)	(3)
Administration expenses	(67)	(80)
Operating profit before impairment	**531**	**1,386**
Impairment credit on loans and receivables	13	282
Profit for the year before tax	**544**	**1,667**
Tax charge	(63)	(164)
Profit for the year	**481**	**1,503**

NET INTEREST INCOME

	2017 €m	2016 €m
Interest and fee income	253	398
Interest expense	(4)	(83)
Net interest income	**249**	**315**
Cash generated from non-disposal income	**126**	**374**
Average loans and receivables (net of impairment)	**3,565**	**5,875**
Net interest margin (including fee income)	**7.0%**	**5.3%**

The decrease in net interest income from €315m in 2016 to €249m in 2017 is primarily attributable to the lower loans and receivables balances in 2017 which reflected progress on NAMA's ongoing asset deleveraging programme. Cash generated from non-disposal income also reduced due to the extent of deleveraging.

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

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

	2017 €m	2016 €m	From Inception
Surplus income on loan repayments in excess of debt	270	729	3,485
Net profit on disposal of loans and property assets	65	381	1,099
Total profit	**335**	**1,110**	**4,584**

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

Net profit on disposal of loans, property assets; and surplus income of €335m in 2017 (2016: €1,110m), comprises profit on disposal of loans and property assets of €65m (2016: €381m) and surplus income of €270m (2016: €729m). The surplus income is comprised of €125m (2016: €402m) related to actual repayments made by debtors in excess of NAMA's carrying value of the relevant loans, while €145m (2016: €327m) relates to expected repayments in excess of the carrying value of the loans.

Following the results of its 2017 impairment exercise, there was a remaining unrecognised surplus of €348m (2016: €469m) carried by NAMA at 31 December 2017 that was generated under the Amortised Cost accounting approach. The basis of accounting for debtor loans will change from Amortised Cost to Fair Value under IFRS 9 and further detail in this regard is set out below.

KEY ACCOUNTING POLICY UPDATES

One of the key developments in accounting policy has been the adoption of IFRS 9 which addresses areas such as impairment, classification, measurement and hedge accounting. IFRS 9 is effective from 1 January 2018.

Based on assessments undertaken to date, the initial estimated quantitative impact on adoption of IFRS 9 is an increase in retained earnings as at 1 January 2018 in the order of €150m before tax. Substantially, all of this relates to the change in measurement basis of loans and receivables from amortised cost to fair value and, as a result, with effect from 1 January 2018, NAMA does not carry any unrecognised surplus (31 December 2017: €348m).

This estimate is based on a number of assumptions, judgements and other assessments that remain subject to change until the Group finalises its financial statements for the year ending 31 December 2018. NAMA will continue to refine and validate the fair value models, related processes, controls and quantitative impact during 2018.

SUMMARY OF NAMA'S OVERALL PROFIT/(LOSS) RECOGNISED ON THE DISPOSAL OF UNDERLYING COLLATERAL AND LOANS

	2017			2016			Inception to end-2017		
€m	Disposals of underlying collateral	Disposals of loans	Total	Disposals of underlying collateral	Disposals of loans	Total	Disposals of underlying collateral	Disposals of loans	Total
Proceeds*	1,777	783	**2,560**	4,243	1,156	**5,399**	30,313	10,385	**40,698**
Profit/(loss) recognised in Income Statement	270	64	**334**	729	378	**1,107**	3,485	1,098	**4,583**
Crystallisation of existing impairment provision	(127)	(15)	**(142)**	-	(633)	**(633)**	(180)	(2,215)	**(2,395)**
Total	**143**	**49**	**192**	**729**	**(255)**	**474**	**3,305**	**(1,117)**	**2,188**

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

From inception to end-2017, NAMA has recognised profits of €2.2 billion from the disposal of loans and collateral held as security against loans acquired.

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

DISPOSAL AND NON-DISPOSAL RECEIPTS

Disposal and non-disposal receipts during 2017 totalled €2.6 billion (2016: €5.4 billion), comprising property collateral disposals of €1.6 billion (2016: €3.5 billion) and loan sale transactions of €0.8 billion (2016: €1.2 billion). Non-disposal receipts of €0.1 billion were generated in the year (2016: €0.4 billion).

A further reduction in disposal receipts is expected in 2018 in line with the reducing size of NAMA's balance sheet and the maturation of NAMA's deleveraging process.

ADMINISTRATION EXPENSES

Administration expenses amounted to €67m for 2017 (2016: €80m). For 2017, the level of costs represents 2.6% of cash received which is in line with industry norms.

IMPAIRMENT

Following completion of its 2017 impairment review, NAMA has recognised an impairment credit of €13m (2016: €282m) and a cumulative impairment provision of €1.4 billion against its loans and receivables portfolio at year end.

	Carrying value at 31/12/2017 €m	2017 Impairment provision €m	2016 Impairment provision €m	Movement €m	Impairment coverage %
Impaired portfolio	3,220	1,406	1,561	(155)	
Unimpaired portfolio	1,340	-	-		
Total	**4,560**	**1,406**	**1,561**	**(155)**	**31%**

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

The 2017 year-end impairment review was based on:

- A detailed individual assessment of expected future cash flows for all debtor connections with loans and related derivatives with a carrying value (gross of impairment) of €4.6 billion (2016: €5.5 billion).
- The assessments represent NAMA's best estimate of expected future cash flows for each debtor connection. They include estimated cash flows arising from the disposal of property collateral, loan sales and non-disposal income (such as rental income).

The total movement in the impairment provision in 2017 was a reduction of €155m from €1,561m to €1,406m. Of this, €13m was recognised in the income statement as a credit for 2017 and €142m was recognised against loans and receivables.

LOAN PORTFOLIO

NAMA acquired loans from the Participating Institutions for a consideration of €31.8 billion. NAMA's carrying value of loans at end-2017 was €3.2 billion (net of the cumulative €1.4 billion impairment provision) (2016: €3.9 billion, net of the cumulative €1.6 billion impairment provision).

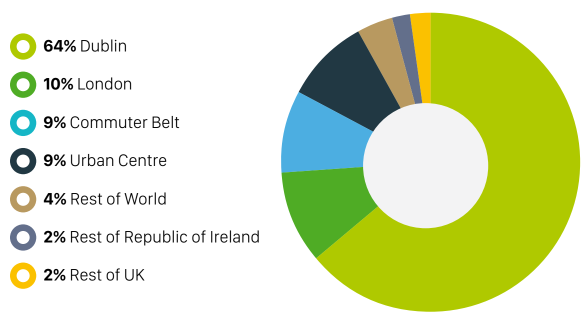
A summary of the movement in loans and receivables is provided below:

Financial Review	NAMA Debt 2017 €m	NAMA Debt 2016 €m	PAR Debt 2017 €m	PAR Debt 2016 €m
Loans and receivables – opening balance	3,935	7,817	28,381	41,069
Cash received from loans and receivables	(1,770)	(5,290)	(1,770)	(5,290)
Deferred consideration on the sale of loans	(242)	(751)	-	-
Consideration for trading properties	98	(106)	-	-
Interest income	248	368	633	908
Loan acquisitions/valuation adjustments	18	-	91	-
Working capital advances	571	648	571	648
Shareholder loans advanced	23	-	-	-
Profit on loan sales and surplus income	334	1,123	-	-
Par loan sale movement Note[1]	-	-	(141)	(7,637)
Debt compromise/write off	-	-	(1,746)	(594)
Foreign exchange and other movements	(34)	(156)	(189)	(723)
Impairment crystallisations	(142)	(633)	-	-
Loans and receivables before impairment	**3,039**	**3,020**	**25,830**	**28,381**
Impairment provision – incremental credit	155	915	-	-
Loans and receivables – closing balance	**3,194**	**3,935**	**25,830**	**28,381**

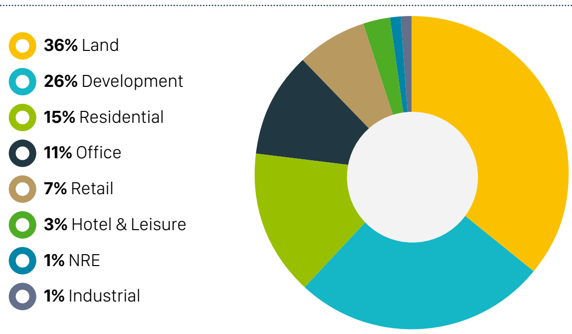
1. *Par loan sale movement principally relates to the par value of loans sold net of disposal cash received. There is no equivalent NAMA debt value. The movement in the NAMA debt balance as a result of loan sales is reflected in cash receipts and profit or loss on loan sales.*

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

Remaining Portfolio by Location – 31 December 2017



Remaining Portfolio by Sector – 31 December 2017



RATE OF RETURN BENCHMARK

In 2014, the NAMA Board approved an Entity Return on Investment ('EROI') target benchmark of 20%. The projected return as at end-2017 was 35%.

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

NAMA Organisation

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

STAFF RESOURCES

The number of NTMA staff assigned to NAMA was 264 at end-2017. This includes 8 employees leaving during the first half of 2018 as part of the 2017 Voluntary Redundancy Programme.

Organisational Structure

CFO

- Finance
- Operations
- Tax
- Audit & Risk
- Systems
- Corporate Change

STRATEGY AND COMMUNICATIONS

- Strategy
- Portfolio & Market Analysis
- Communications
- Public Affairs
- Oireachtas

RESIDENTIAL DELIVERY

- Case Management
- Structured Delivery
- Key Projects
- Development Management
- Credit & Risk/MI

LEGAL

- Deleveraging and Litigation
- Residential Delivery
- Asset Management & Investments
- Legal Projects and Services (including Paralegal & Co Sec)
- Procurement
- Data Protection
- Freedom of Information

ASSET RECOVERY

- Case Management – Deleveraging
- Insolvency Services
- Loan & Portfolio Sales
- Business & Operational Management

ASSET MANAGEMENT

- Dublin Docklands SDZ
- Strategic Development Projects
- Planning
- Social Housing/NARPS

* *NAMA Board approved the merger of the Asset Management and Asset Recovery divisions in March 2018.*

Governance

Board Members

Mr. Frank Daly | Chairman

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

- **Member of the Remuneration Committee**

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

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

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

Mr. Brendan McDonagh | Chief Executive Officer

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

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

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

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

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

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

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

Mr. Oliver Ellingham | Board member

(appointed 10 April 2013 for a 5-year term and re-appointed for a 5-year term on 10 April 2018)

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

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

Ms. Mari Hurley | Board member

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

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

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

Mr. Brian McEnery | Board member

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

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

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

Mr. Willie Soffe | Board member

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

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

Willie Soffe has over 45 years' service in Local Government in the Dublin area, during which time he has held the positions of Assistant City Manager, Dublin Corporation (now Dublin City Council) and County Manager, Fingal County Council. Since retiring in 2004, Mr. Soffe has carried out a number of public service assignments including Chairman of the Dublin Transport Office, a member of the Commission on Taxation and a member of the Steering Group on the Review of Area-Based Tax Incentive Renewal Schemes.

KEY TO COMMITTEE MEMBERSHIP

Audit Committee	Credit Committee	Finance and Operating Committee	Risk Management Committee	Planning Advisory Committee	Remuneration Committee

Board and Committees of the Board

Pursuant to Section 19 of the National Asset Management Agency Act 2009 (the "Act"), the Board comprises a Chairperson and up to eight members. The Chairperson and six members are appointed by the Minister for Finance while the Chief Executive Officer of NAMA and Chief Executive of the NTMA are ex-officio members of the Board. The Board's principal functions are set out in Section 18 of the Act:

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

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

As of March 2018, the Board comprised seven members. Three members were originally appointed by the Minister on 22 December 2009: Frank Daly (Chairperson) (5 years), Brian McEnery (4 years), and Willie Soffe (4 years) and subsequently re-appointed for five year terms (Frank Daly was re-appointed as Chairperson from 22 December 2014 and Brian McEnery and Willie Soffe were re-appointed from 22 December 2013). Oliver Ellingham and Mari Hurley were appointed by the Minster on 10 April 2013 and 8 April 2014 respectively (Oliver Ellingham was re-appointed from 10 April 2018). The two ex-officio members of the Board are Conor O'Kelly, Chief Executive of NTMA and Brendan McDonagh, Chief Executive Officer of NAMA.

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

During 2017, the Board met on 16 occasions while the six committees of the Board met on 56 occasions. Details of Board and Committee member attendance at meetings are outlined on Page 57.

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

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

SCHEDULE OF RESERVED MATTERS

Under Section 18 of the Act, the Board is responsible for ensuring the functions of NAMA are performed effectively and efficiently. The Board may delegate performance of its functions to an officer of NAMA. The Board has approved a Schedule of Reserved and Delegated Matters as part of a comprehensive formal delegation of Board functions and powers to the Chief Executive Officer. This was most recently approved by Board in October 2017 and the Chief Executive Officer who may sub-delegate to a member of the Senior Executive Team under his overall control and supervision. The Board has also approved delegations of functions in a Delegated Authority Credit Policy and Balance Sheet Policy.

BOARD DELEGATED AUTHORITY POLICY

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

BOARD AND COMMITTEE EVALUATION

The Board and each Committee undertake a self-assessment evaluation annually in relation to the effectiveness and efficiency of its decision making. In accordance with Section 4.6 of the Code of Practice for the Governance of State Bodies 2016, the Board undertakes an external evaluation approximately every three years. The most recent external evaluation, conducted by the Institute of Public Administration, was undertaken in 2016. In 2017 an internal evaluation was undertaken.

BOARD RESPONSIBILITY FOR PREPARATION OF ANNUAL REPORT AND FINANCIAL STATEMENTS

The Board is responsible for preparing the 2017 Annual Report and Financial Statements and following detailed review, and having regard to the recommendations of the Audit Committee*, the Board considers that the Financial Statements represent a true and fair view of NAMA's financial performance and financial position at year-end 2017.

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

Attendance at Board and Board Committee Meetings in 2017

	Board	Audit	Credit	Finance & Operating	Risk Management	Planning Advisory	Remuneration
Frank Daly	16						2
Brendan McDonagh	16		21	5	6	5	
Conor O'Kelly	13				3	2	2
Oliver Ellingham	15	13			6		
Mari Hurley	16		18	6		6	2
Brian McEnery	12	13			3		2
Willie Soffe	16		23	6		6	
External members:							
Jim Kelly		13					
Michael Wall						6	
Alice Charles						5	

Reports from Chairpersons of NAMA Committees

Audit Committee

BRIAN MCENERY
Chairperson

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

The Audit Committee is comprised of the following members:

- Brian McEnery (Chairperson, Board member)
- Oliver Ellingham (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.

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

The Board has determined that Brian McEnery is the Committee's financial expert and that Oliver Ellingham is the Committee's risk expert. The Committee met on 13 occasions in 2017.

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

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

The principal activities of the Committee in 2017 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 areas of judgement as well as compliance with legal (including any requirements under the Act) and regulatory requirements. During 2017, the Committee focused time on overseeing NAMA's preparedness for and assessment of the impact of the implementation of International Financial Reporting Standard 9 (IFRS 9). The Committee worked to ensure that NAMA would be ready to implement the new accounting standard in 2018. The Committee will continue to receive updates on IFRS 9 and its implications on financial reporting requirements during 2018.

2. External audit

The Comptroller and Auditor General ('C&AG') is the designated external auditor under the Act. No non-audit services were provided by the C&AG during 2017. Mazars were appointed as NAMA's Statutory Auditor following a tender process in 2017. The Committee reviewed the external audit plans and met with both the external and statutory auditors to review the findings from their audits of the financial statements.

3. Internal audit

Throughout the year, the Committee received regular reports from the Internal Auditor. These included summaries of the key findings of each audit in the period and updates on the planned work programme. 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 seeks to ensure coordination between the work of the internal, external and statutory auditors.

4. Internal controls

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

Committee Interactions

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

Brian McEnery
Chairperson

Credit Committee

WILLIE SOFFE
Chairperson

Pursuant to Section 32 of the Act, notwithstanding that the Board retains ultimate responsibility for the credit risk of NAMA, the Board established a Credit Committee operating under its delegated authority and to Board approved terms of reference.

The Credit Committee is comprised of the following members:

- Willie Soffe (Chairperson, Board member)
- Mari Hurley (Board member)
- Brendan McDonagh (Chief Executive, NAMA and Board member)
- Alan Stewart (Chief Legal Officer)
- Connor Owens (Head of Asset Recovery)
- Noelle Condon (Chief Financial Officer)
- Mary Birmingham (Head of Asset Management)
- John Collison (Head of Residential Delivery)

The following members resigned from the Committee in 2017, consequent on their departure from the Agency:

- Aideen O'Reilly (former Head of Legal) resigned July 2017
- Michael Moriarty (former Head of Asset Recovery) resigned June 2017
- John Coleman (former Chief Financial Officer) resigned July 2017

The Committee convened on 23 occasions in 2017, typically meeting on a fortnightly basis or otherwise as required.

Responsibilities of the Credit Committee

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

The Credit Committee is responsible for the approval or rejection of credit applications within its Delegated Authority (DA) level (below Board level DA but exceeding the credit approval authority delegated to the NAMA Chief Executive and Head of Asset Recovery/Head of Asset Management/Head of Residential Delivery by the Board). The Committee is required to operate in a considered and timely manner in order to support efficient credit-related decision making with respect to the acquired debts of its debtor connections.

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

The principal activities of the Committee in 2017 were as follows:

1. Ensuring that systems in place for processing credit applications presented to the Committee and the Board were effective, efficient and appropriate.
2. Review of NAMA approved debtor strategies and progress made to date. The Committee also conducts a bi-annual review of NAMA's top debtor strategies (top debtors are defined as debtors whose combined debt represents 50% of total NAMA debt).
3. Assessing, recommending and approving 42 individual credit requests ranging from asset management decisions to complex matters related to debtor strategy actions such as continued funding of development assets or final resolution of connections. 10 papers were reviewed by the Committee for recommendation to the Board. Additionally, the Committee oversaw 532 individual credit decisions made within the CEO and Head of Asset Recovery/Asset Management/Residential Delivery's level of delegated authority.
4. Developing and enhancing both credit policies and sectoral policies; and assimilation of associated management information.
5. Regular review of progress on business plans of social and economic importance; in particular, those relating to Residential Delivery and the Docklands SDZ.

2018 is expected to be another active year for the Credit Committee as it continues to ensure the Board's policy is adhered to in funding development on commercially viable residential sites and the Docklands SDZ while ensuring deleveraging continues in a timely manner. At this point in its deleveraging programme, there is expected to be a much higher volume of relatively low value credit decisions required to meet cash generation targets.

The Credit Committee assesses all proposals rigorously, with the various commercial options being fully considered. The Committee recognises that its decisions may have a significant impact on the assets and the debtors concerned, and it is determined to support projects which add value but, at all times, with a view to maximising the return for the Irish taxpayer.

Willie Soffe
Chairperson

Finance and Operating Committee

MARI HURLEY
Chairperson

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

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

- Mari Hurley (Chairperson, Board member)
- Willie Soffe (Board member)
- Brendan McDonagh (Chief Executive, NAMA and ex-officio Board member)
- Noelle Condon (Chief Financial Officer)
- John Collison (Head of Residential Delivery)
- Seán Ó Faoláin (Head of Strategy and Communications)

The following member resigned from the Committee in 2017, consequent on his departure from the Agency:

- John Coleman (former Chief Financial Officer) resigned July 2017

The Committee met on six occasions in 2017.

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 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.

Following on from changes in the Companies Act 2014, NAMA was required to appoint a Statutory Auditor for the NAMA Group entities. The Committee was updated throughout the year on all stages of the appointment of the Statutory Auditor including the initial assessment of the requirements under the Companies Act 2014, the implications of a dual audit on timelines and workload, the tender process, and finally on the Statutory Audit for NAMA Group entities. IFRS 9 was also a regular topic at Committee meetings throughout the year in order to ensure that NAMA would be ready to apply the new accounting standard.

The Committee was also updated on key operational projects including the Central Credit Register (CCR) and the General Data Protection Regulation (GDPR) projects. The Committee also conducted a number of internal reviews including a review of the business model for the NAMA Systems function.

In 2018, the Committee will continue to receive updates on the key operational projects and on IFRS 9 and its implications for NAMA's financial reporting requirements.

Mari Hurley
Chairperson

Risk Management Committee

OLIVER ELLINGHAM
Chairperson

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

The Risk Management Committee is comprised of the following members:

- Oliver Ellingham (Chairperson, Board member)
- Brendan McDonagh (Chief Executive Officer, NAMA and ex-officio Board member)
- Conor O'Kelly (Chief Executive, NTMA and ex-officio Board member)
- Brian McEnery (Board member)
- Noelle Condon (Chief Financial Officer)
- Mary Birmingham (Head of Asset Management)

The following member resigned from the Committee in 2017, consequent on his departure from the Agency:

- John Coleman (former Chief Financial Officer) resigned July 2017

The Committee met on six occasions in 2017.

The Committee's principal responsibilities include:

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

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

The principal activities of the Committee in 2017 were as follows:

1. The Committee continuously reviewed NAMA's five principal risks which form the basis for the Principal Risks and Uncertainties disclosure in the Annual Report. A principal risk is defined as a risk, or combination of risks, that could seriously impact NAMA's ability to achieve its objectives, including its solvency or liquidity, performance or reputation.

   The identification and assessment of principal risks is an on-going process which responds to changes in strategy, business objectives and the external environment. The Committee was briefed on particular principal risks or specific elements of such risks by a subject matter expert, where appropriate, to ensure all aspects of the principal risks were considered.
2. Integration of risk related data sources such as incident reporting, key risk indicators and audit findings and the overarching Risk Appetite statements provide a clearer relationship between the organisation's appetite (or lack thereof) for certain risks in the achievement of its strategic objectives. This analysis complements and reinforces the existing well-established framework of tolerances and limits around key risks which have been delegated by the Board to various levels of NAMA management.
3. The composition of the NAMA balance sheet (and associated risks) was monitored throughout 2017. The Committee regularly reviewed the various components of balance sheet risk, the methods by which those risks are measured and reported and considered alternative strategies to mitigate those risks. The Committee made recommendations to the Board where changes in policy, measurement, risk limits or risk management strategy were required to reduce risk to an acceptable level, having regard to the expanded balance sheet and changes in the underlying NAMA loan portfolio, interest rate and foreign exchange markets.
4. The Committee regularly reviewed Divisional Risk Registers, which were continually updated during 2017, and which include operational risks inherent to the business of NAMA. The Committee continued to regularly review the risk registers of the Service Providers to gain oversight of the impact and likelihood of risks managed by these entities that could influence the achievement of NAMA's objectives. The Committee requires a quarterly control attestation and ongoing risk awareness training for NAMA employees. The Committee was supported in this effort by Audit and Risk (CFO) which ensured that the material and emerging risks were reported and considered by the Committee.

Expectations for 2018

The focus on the principal risks will remain a priority for the Committee in 2018, ensuring that these risks remain under constant review and that the Board is advised of any updates or changes in those risks in a timely and thorough manner.

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

Oliver Ellingham
Chairperson

Planning Advisory Committee

WILLIE SOFFE
Chairperson

The purpose of the Planning Advisory Committee is to advise the Board on planning, land and related legislative matters that may have an impact on the valuation and realisation of NAMA assets and thereby affect the achievement of NAMA's purpose and functions as set out in sections 10 and 11 of the Act. The Committee may make recommendations to the Board concerning NAMA's objectives with respect to approved strategies, guidelines and statutory plans, including SDZs and Local Area Plans and their impact on NAMA assets.

The Planning Advisory Committee is comprised of the following members:

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

Mr Michael Wall is an architect, planner and barrister and a former Board member of An Bord Pleanála. Ms Alice Charles has considerable planning experience and is a member of the Royal Town Planning Institute and the Irish Planning Institute. The Committee met on six occasions during 2017.

During 2017, the Committee continued to focus on NAMA assets located within key development areas, including the Dublin Docklands SDZ, Poolbeg West SDZ and the key viable residential development sites including in the Clonburris SDZ. The Committee advised on NAMA's external engagement strategy, primarily with planning authorities, the Department of Housing, Planning and Local Government (including engagement in relation to the distribution of the Local Infrastructure Housing Activation Fund), and infrastructure providers such as Irish Water and the National Transport Authority. The Committee also provided advice to NAMA on legislative/guidance changes including Strategic Housing Delivery legislation whereby strategic residential applications are lodged directly to An Bord Pleanála; the National Planning Framework (NPF) and ongoing updates to the 2015 Design Standards for New Apartments issued in December 2017.

The Committee continues to advise and guide NAMA's participation in a number of policy initiatives including, its liaison with the Housing Agency, Local Authorities and Approved Housing Bodies to provide residential units for social housing purposes.

The Committee provides oversight of the development of the long-term leasing model of residential properties via National Asset Residential Property Services D.A.C. ('NARPS'), a NAMA SPV established to expedite the delivery of social housing. Since the inception of NAMA, 2,474 units have been delivered for social housing, either through direct sales by NAMA debtors or Receivers or long-term leasing through NARPS, exceeding the targets set by Government.

Significant progress has been made in relation to resolving unfinished housing estates. NAMA continues to fund site resolution plans being undertaken by debtors/receivers, with emphasis on health and safety compliance. As NAMA has deleveraged, its exposure in this area has been reduced substantially and, as of March 2018, only six estates out of an initial total of 335, remained to be fully resolved, although all six sites have resolution plans in place.

The Committee also provides guidance in relation to facilitating the delivery of the targeted 20,000 residential units by end-2020 (assuming commercial viability) and monitored the significant progress which was made in 2017 in terms of units delivered and under construction and in terms of planning applications made and permissions received. The intention is to ensure that the value of NAMA-charged assets is enhanced in order to maximise recovery for taxpayers while also contributing to the supply of new homes.

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

Willie Soffe
Chairperson

Remuneration Committee

MARI HURLEY
Chairperson

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

The Remuneration Committee is comprised of the following members:

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

The Committee met on two occasions in 2017.

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

The principal responsibilities of the Remuneration Committee include:

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

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

The Remuneration Committee reviewed and approved HR and remuneration matters during 2017 and oversaw the appointments of the new Head of Asset Recovery and Head of Legal in February 2017 and the new Chief Financial Officer in July 2017.

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

Mari Hurley
Chairperson

Code of Practice for the Governance of State Bodies 2016

GOVERNANCE

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

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

The provisions of the Code do not override existing statutory requirements and obligations imposed by, inter alia, the Companies Acts, ethics legislation, Standards in Public Office legislation, employment legislation or equality legislation or the statutory provisions of the NAMA Act 2009. The NAMA Act sets out a detailed and extensive statutory framework which provides a number of governance measures equivalent to the provisions of the Code, including, inter alia, the preparation of strategic plans, the framework for Department of Finance oversight, periodic reviews of NAMA, reporting and accounting obligations, arrangements relating to Board membership and appointment of the Chief Executive Officer and the system for providing staff to NAMA.

STATEMENT OF COMPLIANCE

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

- NAMA submits a Section 53 Annual Statement to the Minister under the NAMA Act, setting out its strategic plans.
- The Code requires the submission to the Minister of a confidential annual report conforming to specific reporting requirements in the Business & Reporting Requirements section of the Code. This is achieved through a slightly amended comprehensive report, as well as reference to points in the annual report.
- Following a public procurement process, NAMA's internal auditors undertake a periodic review of the effectiveness of the risk management framework, in lieu of the periodic external review.
- With regard to Audit and Risk Committee members, while NAMA will endeavour to comply with the Code, the provisions of the Act take precedence over the Code.
- NAMA's statutory oversight and reporting framework under the Act takes precedence over the corresponding provisions of the Code.
- In relation to Procurement, see the Statement on Internal Control on page 70 for details.
- Section 12 of the Act gives NAMA the power to acquire or dispose of property, taking precedence over the corresponding provisions of the Code on acquisition of land, buildings or other material assets.
- The Public Spending Code is not directly applicable to NAMA. In order to apply the best practice financial and economic appraisal principles contained in the Public Spending Code, NAMA utilises a range of market standard appraisal methods and techniques.
- NAMA has adopted policies with regard to business travel which comply with the economy and efficiency principles of the Code. NAMA does not provide subsistence claims to its officers but operates a vouched expense process for the re-imbursement of travel expenses and Department of Public Expenditure and Reform circulars and office notices regarding subsistence are therefore not applied. Revenue approved civil service mileage rates (reflecting Circular 07/2017) are applied.
- With respect to the diversification and establishment of subsidiaries and acquisitions by State Bodies, NAMA is governed by Sections 11 and 12 of the Act, which take precedence over corresponding provisions of the Code.
- NAMA does not operate its own pension scheme; therefore the relevant Code provisions thereon do not apply.
- NAMA applies its own internal Board-approved policies for tax compliance.
- Certain arrangements relating to Board membership and appointment of the Chief Executive Officer, and the system for providing staff to NAMA, have been implemented subject to the NAMA Act, the NTMA Act, and via Executive Committees.
- NAMA does not provide services to the general public; hence no customer charter is required.

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

Disclosure and Accountability

DISCLOSURE REQUIREMENTS

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

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

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

The members of the Board, members of committees established under Sections 32 and 33 of the Act and Directors of the NAMA group entities are 'designated directors' pursuant to the Ethics in Public Office Act 1995 as amended by the Standards in Public Office Act 2001 ('Ethics Acts') and are required to comply with Section 17 of the Ethics Acts in respect of the disclosure of interests.

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

STAFF ASSIGNED TO NAMA

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

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

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

NAMA ACCOUNTABILITY

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

1. NAMA submits quarterly reports to the Minister for Finance on its activities, as set out in Section 55 of the Act. This includes information about its loans, its financing arrangements and its income and expenditure. Each quarterly report is laid before both Houses of the Oireachtas.
2. NAMA submits annual accounts, in a form directed by the Minister for Finance, under Section 54 of the Act. The accounts must include a list of all debt securities issued, a list of all advances made from the Central Fund or by NAMA and its group entities and a list of asset portfolios with their book valuation. NAMA's accounts are audited by the C&AG and the audited accounts are laid before both Houses of the Oireachtas.
3. In addition to its annual accounts, NAMA is also required to submit to the Minister for Finance, under Section 53 of the Act, an Annual Statement setting out its proposed objectives for each year, the scope of activities to be undertaken, its strategies and policies and its proposed use of resources. Each annual statement is laid before both Houses of the Oireachtas.
4. The Chief Executive Officer and the Chairman, whenever required by the Committee of Public Accounts, attend and give evidence. The Chief Executive Officer and the Chairman also appear before other committees of the Oireachtas whenever required to do so.
5. The Minister for Finance may require NAMA to report to him at any time on any matter including performance of its functions or information or statistics relating to performance.
6. NAMA has prepared codes of practice in accordance with Section 35 of the Act to govern certain matters including the conduct of its officers, servicing standards for acquired bank assets, risk management, disposal of bank assets and the manner in which NAMA is to take account of the commercial interests of non-participating banks. The codes of practice have been approved by the Minister for Finance and are published on www.nama.ie/CodesOfPractice.
7. In accordance with Section 226 and 227 of the Act, after 31 December 2012, the Minister and the C&AG were required separately to assess the extent to which NAMA had made progress toward achieving its overall objectives. Thereafter, the Minister will review progress every five years and the C&AG every three years. The C&AG's first Section 226 Progress Report on NAMA was published in May 2014 and the Minister's Section 227 Review was published in July 2014. The C&AG is currently preparing its second Section 226 Report.

Risk Management

PRINCIPAL RISKS AND UNCERTAINTIES

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

1. Macro-economic and property risk

Risk that a domestic or international financial or macroeconomic shock causes an inability to meet NAMA's debt and equity obligations and the Minister of Finance's expectation of a NAMA surplus. If the recovery in the Irish economy and property market is not sustained or other markets in which NAMA has an exposure, principally the UK, deteriorate, cash flows realised by NAMA assets could be lower than projected.

2. Human capital risk

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

3. Dublin Docklands SDZ risks

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

4. Residential Development risks

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

5. Reputation risk

If there is negative public, political or industry opinion it may adversely impact NAMA's core business activities and financial prospects and undermine the Agency's ability to achieve its objectives.

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

NAMA has robust risk processes in place to manage risks related to its business so as to reduce the potential for, and the impact of, unexpected losses. Risks identified by management are prioritised according to probability and impact. Risks' status and management's assessment including control action plans are reviewed by the Risk Management Committee and the Board on a regular basis. Management is challenged to identify risks which have not already been considered. NAMA's response strategies to each risk are designed to ensure that NAMA operates within a defined risk tolerance by avoiding the risk, transferring the risk where possible, reducing the likelihood and/or impact of the risk or accepting the risk subject to ongoing review. The Risk Management Committee makes recommendations to the Board where changes in policy, measurement, risk limits or risk management strategy are required to reduce risk to an acceptable level regarding the expanded balance sheet, changes in the underlying NAMA loan portfolio, interest rate and foreign exchange markets, for example.

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

Consolidated Financial Statements

Board and Other Information

Board

Frank Daly (Chairman)

Brendan McDonagh[1] (Chief Executive Officer)

Conor O'Kelly[1]

Oliver Ellingham

Mari Hurley

Brian McEnery

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

Allied Irish Banks, p.l.c.

Baggot Street Lower

Dublin 2

Auditor

Comptroller and Auditor General

3A Mayor Street Upper

Dublin 1

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

Board Report

The Board of the National Asset Management Agency ('NAMA' or 'the Agency') presents its report and audited NAMA consolidated and Agency financial statements for the financial year ended 31 December 2017.

The financial statements are set out on pages 78 to 164.

Statement of Board's Responsibilities for Financial Statements

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

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

In preparing the financial statements, the Board:

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

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

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

Risk management

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

- Domestic or international macroeconomic or financial shock
- Material loss of human capital
- A failure to deliver Dublin Docklands ('Strategic Development Zone', or 'SDZ') plans
- A failure to deliver Residential Delivery plans
- Reputational damage.

The principal risks remain under constant review by NAMA's Risk Management Committee and any changes are reported to the NAMA Board contemporaneously. In May 2017, the Board approved a Risk Appetite Statement for each of the Principal Risks which defines the propensity for NAMA Group to take certain risks in order to achieve its strategic objectives.

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

Board Members' interests

The Members of the Board have no beneficial interest (2016: nil) in NAMA or any NAMA group entity and have complied with Section 30 of the Act in relation to the disclosure of interests.

Auditor

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

On behalf of the Board

25 April 2018

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

Statement on Internal Control

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

The results presented are for the financial year ended 31 December 2017, with comparative results for the financial year ended 31 December 2016.

Responsibility for the System of Internal Control

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

Control Environment

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

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

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

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

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

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

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

The Board adopted the 2009 Code of Practice for the Governance of State Bodies ("2009 Code") as adapted to its particular governance structure and the statutory requirements of the Act. A revision to the 2009 Code (the "Code") was launched by the Minister for Public Expenditure and Reform in August 2016 with an effective date of 1 September 2016. The Board has implemented the Code from its effective date subject to a limited number of explanations (as provided for in the 'comply or explain' approach to adopting the Code) which, in each case, achieve the objectives of the Code through alternative statutory or governance measures. Where necessary, as part of its implementation of the Code, NAMA has put in place arrangements to ensure its compliance with the Code, and it reviews its policies and procedures on a periodic basis to ensure ongoing compliance with the Code as well as with best practice in corporate governance.

The Audit Committee operates in accordance with the principles outlined in the Code. Its responsibilities include the overseeing of the financial reporting process, reviewing the system of internal control, reviewing the internal and external audit processes and adoption of the Anti-Fraud Policy.

NAMA's Anti-Fraud Policy is reviewed annually by the Board and Audit Committee and was most recently approved by the Board in December 2017. Under this policy, the Audit Committee is to be advised of all reports of fraud or suspected fraud. NAMA has also a Reporting of "Relevant Wrongdoing" and Protected Disclosures Policy which is reviewed annually by the Board and was last approved by the Board in June 2017. This policy also promotes principles of good corporate governance by providing a procedure for reporting and addressing concerns about possible relevant wrongdoing within the meaning of the Protected Disclosures Act 2014. The policy applies to all NAMA "workers" and makes provision for disclosure of relevant information either internally through a line manager or the NTMA's Head of Compliance or externally by means of a "Nominated Person". The NTMA Head of Compliance and the Nominated Person are then required to report to the Chairperson of the Audit Committee. The Audit Committee is responsible for the ownership of the Reporting of 'Relevant Wrongdoing' and Protected Disclosure Policy insofar as it relates to the functions of NAMA, oversight of its implementation with regard to these functions and oversight of investigations to include liaison with the NTMA Head of Compliance to ensure any reports received are properly evaluated and investigated.

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

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

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

During the year, Capita Asset Services was acquired by Link Group and it is now trading as Asset Services.

NAMA depends to a significant degree on the controls operated by a number of third parties including the NTMA and the Primary and Master Servicers. In this regard, the following should be noted:

- the NTMA has a well-developed system of internal control and any shared services provided to NAMA are provided within this existing control framework;
- NAMA has established procedures with the Primary Servicers and the Master Servicer for the reporting of incidents, including control failures and escalation procedures;
- NAMA has sought and received assurances from the NTMA, Asset Services, Bank of Ireland and Allied Irish Banks p.l.c. that they have reviewed their systems of internal control in relation to their service provision to NAMA.

Risk Assessment

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

A risk register is maintained by each NAMA division, which identifies and categorises risks which may prevent NAMA from achieving its objectives and assesses the impact and likelihood of various risk events across the organisation and its operating environment. On the basis of risks identified, actions are agreed to manage and mitigate these risks. Divisional risk registers are reviewed on a quarterly basis by Divisional Heads and sign off attestations are submitted to the NAMA Audit and Risk function. These risk registers are reviewed by the NAMA Audit and Risk function and the Risk Management Committee.

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

The Risk Management Committee identified five Principal Risks which have the potential to have a significant impact on the achievement of NAMA's overall Strategic Objectives. These principal risks are:

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

The principal risks remain under constant review by the Risk Management Committee and any changes are reported to the NAMA Board contemporaneously. In May 2017, the NAMA Board approved a Risk Appetite Statement for each of the Principal Risks which defines the propensity for NAMA to take certain risks in order to achieve its strategic objectives.

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

Key Internal Control Processes

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

NAMA has established a financial reporting framework to support its monthly, quarterly and annual financial reporting objectives and for the preparation of consolidated and Agency financial statements which incorporates the processes and controls described in this statement. NAMA operates a fully automated consolidation process to mitigate the risks of error in the consolidated Financial Statements.

Statement on Internal Control (continued)

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

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

Audit Committee, by fulfilling its responsibilities in relation to the financial reporting process and the review of the system of internal control, also contributes to the Internal Control process.

Procurement

NAMA has an established Procurement Policy and Procurement Guidance & Procedures Document which is reviewed and presented to the Board annually for approval. The procurement requirements of NAMA are carried out in accordance with the aforementioned documents.

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

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

NAMA is subject to EU Directive 2014/24/EU as implemented in Ireland by the European Union (Award of Public Authority Contracts) Regulations 2016 (the 'Regulations'), in respect of the procurement of goods, works and services above certain value thresholds set by the EU. Where the Regulations do not apply – either because the value of the procurement is below the EU thresholds or falls outside of the Regulations – NAMA adopts a process that is designed to achieve the best value for money. Save where the Regulations apply, derogations to NAMA's Procurement Policy and procedures are approved by the CEO or the NAMA Board depending on the value of the contract.

The use of derogations under NAMA's Procurement Policy and Guidance & Procedures Document does not amount to non-compliant procurement. For contracts that are over the EU threshold, EU legislation applies, and the 2016 EU Procurement Regulations permit derogations from a competitive EU tender process in very restricted circumstances. NAMA did not approve any derogations from a competitive EU tender process during the reporting period.

During 2017, the CEO approved derogations to a value of €4.5m (2016: €3.5m). This comprises derogations from existing frameworks in place of €3.0m (2016: €2.3m), whereby a service provider was directly appointed from an existing framework panel established by tender, without a mini-tender process being run. The remaining derogations totalling €1.5m (2016: €1.2m) are direct appointments to service providers and are permitted exceptions under the NAMA Procurement Policy and Guidance & Procedures Document. The rationale for any derogation is considered and approved by the CEO and reported to the Finance and Operating Committee. Derogations over a certain value are also brought to the attention of the Board. A breakdown of framework and Procurement Policy and Guidance & Procedures Document derogations is provided in the tables below[2].

2 *NAMA includes all derogations regardless of value and therefore includes all derogations below €25k. This is to ensure transparency should there be any extensions to a particular contract so cumulative amounts are reported and to ensure NAMA has oversight on any given contract derogation regardless of value.*

The amounts attributed to derogations are on estimates at the time the derogation is sought and contract awarded. Some contracts may have a term that extends over financial year end and will generally only be reported the year the contract was awarded save if an extension to the original derogation is sought where NAMA's policy is to seek a further derogation and the cumulative value recorded. For transparency NAMA reports the cumulative amount of any one contract regardless if the contract had previously been reported under the initial estimated value.

Table 1.1 — Derogations granted from existing framework panels

Reason for derogation	Number of contracts 2017	Estimated value of contracts awarded €'000 2017	Number of contracts 2016	Estimated value of contracts awarded €'000 2016
Service provider had prior existing knowledge of the debtor/asset	23	2,710	29	2,027
Urgent nature of work required did not allow sufficient time to run a mini-tender process	6	329	10	252
Total	**29**	**3,039**	**39**	**2,279**

Table 1.2 — Derogations granted from existing framework panels by Division

Division	Reason for derogation	Number of contracts 2017	Estimated value of contracts awarded €'000 2017	Number of contracts 2016	Estimated value of contracts awarded €'000 2016
Legal[3]	Service provider had prior existing knowledge of the debtor/asset	23	2,710	27	1,873
	Urgent nature of work required did not allow sufficient time to run a mini-tender process	6	329	10	252
IT	Service provider had prior existing knowledge of the debtor/asset	-	-	2	154
Total		**29**	**3,039**	**39**	**2,279**

Table 2.1 — Derogations granted from NAMA Procurement Policy

Reason for derogation	Number of contracts 2017	Estimated value of contracts awarded €'000 2017	Number of contracts 2016	Estimated value of contracts awarded €'000 2016
Service provider had prior existing knowledge of the debtor/asset	17	831	14	700
Urgent nature of work required	11	352	7	421
Sensitive or confidential nature of work prohibited a competitive tender process	3	360	4	128
Total	**31**	**1,543**	**25**	**1,249**

3 *It should be noted that the establishment of the legal panels was a competitive process which allowed for direct appointments. Legal services are excluded from the procurement rules in most circumstances which allows for this flexibility. Firms tendered on the basis of inter alia hourly rates which they may not charge in excess of for any given assignment. NAMA subjects legal panels to a second round of tendering to ensure greater value for money once a specific scope of work has been identified and which usually incorporates the request of a fixed fee. Therefore legal panel appointments which may not have to be categorised as derogations are also included in this report.*

Statement on Internal Control (continued)

Table 2.2 — Derogations granted from NAMA Procurement Policy by Division

Division	Reason for derogation	Number of contracts 2017	Estimated value of contracts awarded €'000 2017	Number of contracts 2016	Estimated value of contracts awarded €'000 2016
Legal	Service provider had prior existing knowledge of the debtor/asset	7	254	3	75
	Urgent nature of work required	6	186	1	25
	Sensitive or confidential nature of work prohibited a competitive tender process	-	-	1	13
IT	Service provider had prior existing knowledge of the debtor/asset	1	10	4	297
	Urgent nature of work required	-	-	2	209
	Sensitive or confidential nature of work prohibited a competitive tender process	2	260	2	15
Asset Recovery	Service provider had prior existing knowledge of the debtor/asset	5	351	4	144
	Urgent nature of work required	2	108	1	32
Asset Management	Service provider had prior existing knowledge of the debtor/asset	2	78	1	15
	Urgent nature of work required	1	15	1	10
	Sensitive or confidential nature of work prohibited a competitive tender process	-	-	1	100
Corporate	Use of a large venue to locate staff for an event	1	15	1	15
	Urgent nature of work required	1	28	-	-
	Sensitive or confidential nature of work prohibited a competitive tender process	1	100	-	-
Residential Delivery	Service provider had prior existing knowledge of the debtor/asset	2	138	2	169
	Urgent nature of work required	-	-	1	130
Total		**31**	**1,543**	**25**	**1,249**

IT Systems and Infrastructure

NAMA follows a structured approach for business system projects undertaken, which is governed by detailed procedure documents. During 2017 the core systems, which are the NAMA Loans Warehouse, the Portfolio Management System, the Document Management System and the Management Information System, underwent programmes of enhancements rather than significant change. NAMA has in place controls in respect of IT access for new hires, changes in access rights due to staff changes or following an employee's notification of resignation. A quarterly review of access to systems and data is carried out by Senior Management and reported to NAMA Business Systems Support Team.

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

Financial and management reporting

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

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

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

Internal Audit

PwC act as Internal Auditor for NAMA. NAMA's Internal Auditor has established an internal audit function, which operates in accordance with the Code. An internal audit plan for 2017 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, Asset Services, and Allied Irish Banks p.l.c. The Internal Auditor reports its findings directly to the Audit Committee. These reports highlight deficiencies or weaknesses, if any, in the systems of internal control and recommend corrective measures to be taken where deemed necessary. The Audit Committee receives updates, on a regular basis, on the status of the issues raised by the internal and external auditors and follows-up with NAMA management to ensure appropriate and timely action is being taken in respect of issues raised.

Monitoring of the performance of Service Providers

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

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

Public Reporting

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

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

Annual Review of Controls

We confirm that the Board has reviewed the effectiveness of NAMA's system of internal control for the financial year ended 31 December 2017. A detailed review of the effectiveness of the system of internal control was performed by the Audit Committee and Risk Management Committee, which reported their findings to the Board in March 2018. This review of the effectiveness of the system of internal control included:

- review and consideration of changes since the last review in the significant risks facing NAMA and its ability to respond to changes in business and the external environment;
- review and consideration of regular reporting to the Board by the Audit Committee and Risk Management Committee on the system of internal control;
- review and consideration of the effectiveness of NAMA's public reporting process;
- review and consideration of the work programme of the internal auditor and consideration of its reports and findings;
- review of internal financial control issues identified by the Office of the Comptroller and Auditor General and by the statutory auditors of NAMA Group's subsidiaries, in their work as external auditors;
- review of regular reporting from the internal auditor on the status of the internal control environment and the status of issues raised previously from their own reports and matters raised by the Office of the Comptroller and Auditor General. There is also follow-up by the Audit Committee with NAMA management to ensure appropriate and timely action is being taken in respect of issues raised;
- review of letters of assurance received from the NTMA, Asset Services, Bank of Ireland and Allied Irish Banks p.l.c. in respect of the operation of their systems of internal control during the financial year;
- review of control assurance statements completed by NAMA's Senior Executive Team and Senior Management in respect of the effectiveness of the system of internal control during the financial year.

Frank Daly
Chairman

Brian McEnery
Chairman, Audit Committee

25 April 2018

Ard Reachtaire Cuntas agus Ciste
Comptroller and Auditor General

Report for presentation to the Houses of the Oireachtas
National Asset Management Agency

Opinion on financial statements

I have audited the Group and Agency financial statements of the National Asset Management Agency for the year ending 31 December 2017 as required under the provisions of section 57 of the National Asset Management Agency Act 2009. The financial statements comprise

- the consolidated income statement
- the consolidated statement of comprehensive income
- the Agency income statement
- the consolidated and Agency statements of financial position
- the consolidated and Agency statements of changes in equity
- the consolidated and Agency statements of cash flows and
- the related notes, including a summary of significant accounting policies.

In my opinion, the financial statements give a true and fair view of the assets, liabilities and financial position of the National Asset Management Agency at 31 December 2017 and of its income and expenditure for 2017 in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and the provisions of the National Asset Management Agency Act 2009.

Basis of opinion

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

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

Report on information other than the financial statements, and on other matters

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

I have nothing to report in that regard.

Seamus Mc Carthy.

Seamus McCarthy

Comptroller and Auditor General

30 April 2018

Responsibilities of Board members

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

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

Responsibilities of the Comptroller and Auditor General

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

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

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

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

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

Information other than the financial statements

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

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

Reporting on other matters

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

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

I also report by exception if, in my opinion,

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

Consolidated Income Statement

For the financial year ended 31 December 2017

	Note	Financial year ended 31 December 2017 Group €'000	Financial year ended 31 December 2016 Group €'000
Interest income	*4*	250,348	371,328
Interest and similar expense	*5*	(3,772)	(82,578)
Net interest income		**246,576**	**288,750**
Fee income	*6*	3,044	26,799
Other income/(expenses)	*7*	21,698	35,181
Losses on derivative financial instruments	*8*	(1,483)	(4,066)
Net profit on disposal and refinancing of loans and property assets; and surplus income	*9*	335,035	1,109,817
Net operating income		**604,870**	**1,456,481**
Administration expenses	*10*	(67,472)	(80,044)
Foreign exchange (losses)/gains	*11*	(6,293)	9,293
Total operating expenses		(73,765)	(70,751)
Operating profit before impairment		**531,105**	**1,385,730**
Impairment credit on loans and receivables	*12*	12,625	281,578
Operating profit after impairment		**543,730**	**1,667,308**
Tax charge	*13*	(62,916)	(164,603)
Profit for the financial year		**480,814**	**1,502,705**
Profit attributable to:			
Owners of the Group		**480,814**	**1,502,705**
Non-controlling interests	*36*	**-**	**-**

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

All results are from continued operations.

On behalf of the Board

25 April 2018

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

Consolidated Statement of Comprehensive Income

For the financial year ended 31 December 2017

	Note	Financial year ended 31 December 2017 Group €'000	Financial year ended 31 December 2016 Group €'000
Profit for the financial year		**480,814**	**1,502,705**
Items that are or may be reclassified subsequently to profit or loss:			
Net movement in cash flow hedge reserve before tax	*35*	-	72,401
Net movement in available for sale reserve before tax	*14,35*	(8,739)	13,516
Income tax relating to components of other comprehensive income	*14,27*	(1,014)	(17,699)
Other comprehensive (expenses)/income for the financial year net of tax		**(9,753)**	**68,218**
Total comprehensive income for the financial year		**471,061**	**1,570,923**
Total comprehensive income attributable to:			
Owners of the Group		**471,061**	**1,570,923**
Non-controlling interests	*36*	**-**	**-**

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

All results are from continued operations.

On behalf of the Board

25 April 2018

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

Agency Income Statement

For the financial year ended 31 December 2017

	Note	Financial year ended 31 December 2017 Agency €'000	Financial year ended 31 December 2016 Agency €'000
Interest income	4	216,629	1,495,779
Other income/(expenses)	7	41,101	49,719
Total income		**257,730**	**1,545,498**
Interest and similar expense	5	(3)	(2)
Administration expenses	10	(41,404)	(50,096)
Total expenses		**(41,407)**	**(50,098)**
Profit for the financial year		**216,323**	**1,495,400**
Profit attributable to:			
Owners of the Group		**216,323**	**1,495,400**

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

All results are from continued operations.

On behalf of the Board

25 April 2018

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

Consolidated Statement of Financial Position

As at 31 December 2017

	Note	31 December 2017 Group €'000	31 December 2016 Group €'000
Assets			
Cash and cash equivalents	*15*	733,470	1,587,789
Cash placed as collateral with the NTMA	*15*	25,000	58,000
Available for sale financial assets	*16*	495,097	519,378
Amounts due from Participating Institutions	*17*	20,151	20,481
Derivative financial instruments	*18*	18,437	25,999
Loans and receivables (net of impairment)	*19*	3,193,505	3,935,151
Other assets	*28*	282,339	802,271
Inventories – trading properties	*20*	277,357	330,218
Property, plant and equipment	*25*	1,008	1,344
Investments in equity instruments	*26*	65,709	55,500
Total assets		**5,112,073**	**7,336,131**
Liabilities			
Amounts due to Participating Institutions	*17*	10,686	10,763
Derivative financial instruments	*18*	4,375	4,365
Other liabilities	*30*	14,201	27,839
Senior debt securities in issue	*29*	-	2,590,000
Tax payable	*31*	363	534
Deferred tax	*27*	3,453	10,293
Total liabilities		**33,078**	**2,643,794**
Equity and reserves			
Other equity	*34*	1,593,000	1,593,000
Retained earnings	*36*	3,430,830	3,034,419
Other reserves	*35*	4,165	13,918
Equity and reserves attributable to:			
– Owners of the Group		**5,027,995**	**4,641,337**
– Non-controlling interests	*36,37*	51,000	51,000
Total equity and reserves		**5,078,995**	**4,692,337**
Total equity, reserves and liabilities		**5,112,073**	**7,336,131**

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

On behalf of the Board

25 April 2018

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

Agency Statement of Financial Position

As at 31 December 2017

	Note	31 December 2017 Agency €'000	31 December 2016 Agency €'000
Assets			
Cash and cash equivalents	*15*	59	112
Other assets	*28*	3,540,144	3,324,368
Property, plant and equipment	*25*	1,008	1,344
Investment in subsidiaries	*37*	49,000	49,000
Total assets		**3,590,211**	**3,374,824**
Liabilities			
Interest bearing loans and borrowings	*33*	53,568	53,699
Other liabilities	*30*	6,644	7,449
Total liabilities		**60,212**	**61,148**
Equity			
Retained earnings	*36*	3,529,999	3,313,676
Total equity		**3,529,999**	**3,313,676**
Total equity and liabilities		**3,590,211**	**3,374,824**

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

On behalf of the Board

25 April 2018

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

Consolidated Statement of Changes in Equity

For the financial year ended 31 December 2017

As at 31 December 2017	*Note*	Other equity Group €'000	Retained earnings Group €'000	Other reserves Group €'000	Non-controlling interests Group €'000	Total equity Group €'000
Balance as at 1 January 2017		**1,593,000**	**3,034,419**	**13,918**	**51,000**	**4,692,337**
Profit for the financial year	*36*	-	480,814	-	-	**480,814**
Other comprehensive income:						
Movement in cash flow hedge reserve	*35*	-	-	-	-	**-**
Movement in available for sale reserve	*35*	-	-	(8,739)	-	**(8,739)**
Income tax relating to components of other comprehensive income	*14*	-	-	(1,014)	-	**(1,014)**
Total comprehensive income		**-**	**480,814**	**(9,753)**	**-**	**471,061**
Dividend paid on B ordinary shares	*36*	-	(547)	-	-	**(547)**
Coupon paid on subordinated bonds	36	-	(83,856)	-	-	**(83,856)**
Balance as at 31 December 2017		**1,593,000**	**3,430,830**	**4,165**	**51,000**	**5,078,995**

As at 31 December 2016	*Note*	Other equity Group €'000	Retained earnings Group €'000	Other reserves Group €'000	Non-controlling interests Group €'000	Total equity Group €'000
Balance as at 1 January 2016		**1,593,000**	**1,615,937**	**(54,300)**	**51,000**	**3,205,637**
Profit for the financial year	*36*	-	1,502,705	-	-	**1,502,705**
Other comprehensive income:						
Movement in cash flow hedge reserve	*35*	-	-	72,401	-	**72,401**
Movement in available for sale reserve	*35*	-	-	13,516	-	**13,516**
Income tax relating to components of other comprehensive income	*14*	-	-	(17,699)	-	**(17,699)**
Total comprehensive income		**-**	**1,502,705**	**68,218**	**-**	**1,570,923**
Dividend paid on B ordinary shares	*36*	-	(367)	-	-	**(367)**
Coupon paid on subordinated bonds	*36*	-	(83,856)	-	-	**(83,856)**
Balance as at 31 December 2016		**1,593,000**	**3,034,419**	**13,918**	**51,000**	**4,692,337**

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

On behalf of the Board

25 April 2018

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

Agency Statement of Changes in Equity

For the financial year ended 31 December 2017

	Note	31 December 2017 Agency €'000	31 December 2016 Agency €'000
Balance as at 1 January		**3,313,676**	**1,818,276**
Profit for the financial year	*36*	216,323	1,495,400
Total comprehensive income		**216,323**	**1,495,400**
Balance as at 31 December attributable to the Agency		**3,529,999**	**3,313,676**

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

On behalf of the Board

25 April 2018

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

Consolidated Statement of Cash Flows

For the financial year ended 31 December 2017

	Note	Financial year ended 31 December 2017 Group €'000	Financial year ended 31 December 2016 Group €'000
Cash flow from operating activities			
Loans and receivables			
Receipts from loans[4]		2,536,429	5,357,333
Receipts from derivatives acquired		2,458	5,350
Funds advanced to borrowers	*19*	(594,331)	(648,401)
New loans acquired	*19*	(18,000)	-
Movement in funds in the course of collection	*19*	316	500
Fee income from loans and receivables		3,044	12,522
Net cash provided by loans and receivables		**1,929,916**	**4,727,304**
Derivatives			
Cash inflow on foreign currency derivatives	*11*	3,287,104	4,651,446
Cash outflow on foreign currency derivatives	*11*	(3,265,603)	(4,565,340)
Net cash outflow on other derivatives		(488)	(107,802)
Net cash provided by/(used in) derivative activities		**21,013**	**(21,696)**
Other operating cashflows			
Payments to suppliers of services		(84,868)	(103,866)
Preliminary tax paid		(68,500)	(168,360)
Interest paid on cash and cash equivalents		(3,026)	(7,955)
Dividend paid by NAMAI D.A.C. on B ordinary shares[5]	*36*	(547)	(367)
Coupon paid by NAM D.A.C. on subordinated debt[6] issued	*36*	(83,856)	(83,856)
Net inflows from amounts placed as collateral with NTMA	*15*	33,000	198,000
Funds paid to acquire trading properties		(54,202)	(101,019)
Rental income received		12,333	6,489
Net cash used in other operating activities		**(249,666)**	**(260,934)**
Net cash provided by operating activities		**1,701,263**	**4,444,674**

4 Includes non-disposal cash receipts of €0.1bn (2016: €0.3bn), proceeds from the disposal of collateral secured against loans and receivables of €1.6bn (2016: €3.8bn) and proceeds from the sale of loans of €0.02bn (2016: €1.2bn).
5 National Asset Management Agency Investment D.A.C. ('NAMAI D.A.C.' or 'NAMAI')
6 National Asset Management D.A.C. ('NAM D.A.C.' or 'NAM')

Consolidated Statement of Cash Flows (continued)

For the financial year ended 31 December 2017

	Note	Financial year ended 31 December 2017 Group €'000	Financial year ended 31 December 2016 Group €'000
Cash flow from investing activities			
Purchase of available for sale financial assets – principal		-	(520,985)
Purchase of available for sale financial assets – interest		-	(11,512)
Interest received on available for sale financial assets		21,970	19,945
Acquisition of investments in equity instruments		(3,201)	(1,936)
Distributions received from equity instruments	7	16,380	24,791
Net cash provided by/(used in) investing activities		**35,149**	**(489,697)**
Cash flow from financing activities			
Redemption of senior debt securities	29	(2,590,000)	(5,500,000)
Interest paid on senior debt securities in issue		-	(1,595)
Net cash used in financing activities		**(2,590,000)**	**(5,501,595)**
Cash and cash equivalents held at the beginning of the financial year	15	1,587,789	3,145,604
Net cash provided by operating activities		1,701,263	4,444,674
Net cash provided by/(used in) investing activities		35,149	(489,697)
Net cash used in financing activities		(2,590,000)	(5,501,595)
Effects of exchange-rate changes on cash and cash equivalents	11	(731)	(11,197)
Total cash and cash equivalents held at the end of the financial year	15	**733,470**	**1,587,789**
Financial assets and cash collateral			
Cash collateral placed with the NTMA	15	25,000	58,000
Available for sale financial assets	16	495,097	519,378
Total		**1,253,567**	**2,165,167**

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

Agency Statement of Cash Flows

For the financial year ended 31 December 2017

	Note	Financial year ended 31 December 2017 Agency €'000	Financial year ended 31 December 2016 Agency €'000
Cash flow from operating activities			
Bank interest paid		(3)	(2)
Board fees paid		(438)	(439)
Rent paid		(2,803)	(2,181)
Net reimbursement from National Asset Loan Management D.A.C.		3,191	2,466
Net cash used in operating activities		**(53)**	**(156)**
Cash held at the beginning of the financial year	*15*	112	268
Net cash used in operating activities		(53)	(156)
Cash held at the end of the financial year	*15*	**59**	**112**

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

Notes to the Financial Statements

Note reference

Notes to the Financial Statements

1. GENERAL INFORMATION

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

The Act established NAMA as a separate statutory body, with its own Board and Chief Executive Officer appointed by the Minister for Finance, in December 2009. The NAMA Board and all committees established by the NAMA Board are also responsible for the oversight and governance of all NAMA Group entities.

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

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

At the reporting date, the management of all loans acquired from Participating Institutions is being performed by NAMA and AIB. Asset Services (formerly 'Capita') provide loan administration services only.

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

1.1 National Asset Management Agency Group

For the purposes of these financial statements, the 'NAMA Group' comprises: the parent entity NAMA, National Asset Management Agency Investment D.A.C. (NAMAI), National Asset Management D.A.C. (NAM), National Asset Management Group Services D.A.C. (NAMGS), National Asset Loan Management D.A.C. (NALM), National Asset North Quays D.A.C. (NANQ), North Wall Plaza Management Company D.A.C. (NWPMC), National Asset Management Services D.A.C. (NAMS), National Asset JV A D.A.C. (NAJV A), National Asset Property Management D.A.C. (NAPM), National Asset Residential Property Services D.A.C. (NARPS), National Asset Sarasota LLC (NASLLC), National Asset Leisure Holdings Limited (in Voluntary Liquidation) (NALHL), RLHC Resort Lazer SGPS, SA (RLHC) and RLHC Resort Lazer II SGPS, SA (RLHC II).

On 18 December 2014, NALHL (in Voluntary Liquidation) was placed into liquidation by its members. As the liquidator has assumed the rights of the shareholder and now controls NALHL (in Voluntary Liquidation) and its subsidiaries, RLHC and RLHC II, NALHL (in Voluntary Liquidation) is not consolidated into the results of the NAMA Group at the reporting date. For further information see Note 37.4.

The relationship between the NAMA Group entities is summarised in Chart 1 (page 92).

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

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

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

National Asset Management D.A.C. (NAM)

NAM was incorporated on 27 January 2010. NAM is responsible for issuing the government guaranteed debt instruments and the subordinated debt, which were used as consideration in acquiring loan assets. The Government guaranteed debt securities issued by NAM were listed on the Irish Stock Exchange until their redemption in full in 2017.

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

1. GENERAL INFORMATION (CONTINUED)

1.1 National Asset Management Agency Group (continued)

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

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

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

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

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

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

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

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

4) North Wall Plaza Management Company D.A.C. (NWPMC)

NWPMC was incorporated on 20 February 2013. NWPMC is a management company responsible for the management of the public areas of the lands at 72-80 North Wall Quay, Dublin 1.

NANQ acquired the freehold interest in 2015 in undeveloped lands at North Wall Quay. As a result of the acquisition of the lands, NANQ acquired a 26.5% shareholding in NWPMC. Under the current contract structure, upon practical completion of the commercial buildings being developed on the land, the ownership of the management company will transfer to the owners of the developed buildings.

The remaining 73.5% is owned by the Central Bank of Ireland who occupies a substantially complete commercial building on the lands.

At end-2016, NWPMC was not designated as a NAMA Group entity in accordance with Section 4 of the Act. It was considered that, due to the veto held by NANQ over the composition of the NWPMC board and over any resolutions therein, NWPMC falls within the definition of 'subsidiary' within the meaning of the Companies Act 2014, and therefore falls within the definition of "NAMA Group Entity" in the NAMA Act 2009. Subsequently, on 14 June 2017, NWPMC was designated as a NAMA Group entity, the existing independent Directors and secretary resigned, and NAMA Directors and secretary were appointed.

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

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

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

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

7) National Asset Property Management D.A.C. (NAPM)

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

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

8) National Asset Residential Property Services D.A.C. (NARPS)

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

A total of 2,472 (2016: 2,378) residential properties were delivered to the social housing sector by NAMA debtors from inception to the reporting date, of which 2,335 (2016: 1,909) were completed and contracts on a further 137 (2016: 469) properties (for both direct sale and through NARPS) were exchanged by the reporting date. Completed units delivered since inception include the direct sale of 932 (2016: 778) properties by NAMA debtors and receivers to various approved housing bodies, the direct leasing of 117 (2016: 117) properties by NAMA debtors and receivers and the acquisition by NARPS of 1,286 (2016: 1,014) properties for lease to approved housing bodies.

9) National Asset Sarasota LLC (NASLLC)

On 1 August 2013, NAMA established a US subsidiary, National Asset Sarasota Limited Liability Company (NASLLC). NASLLC is a wholly owned subsidiary of NAPM, and was established to acquire property assets located in the US following insolvency processes. Since its acquisition, NASLLC has acquired two assets located in the US and subsequently sold one. It is the intention of NASLLC to dispose of the second asset.

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

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

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

11) and 12) RLHC Resort Lazer SGPS, S.A. (RLHC), RLHC Resort Lazer II SGPS, S.A. (RLHC II)

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

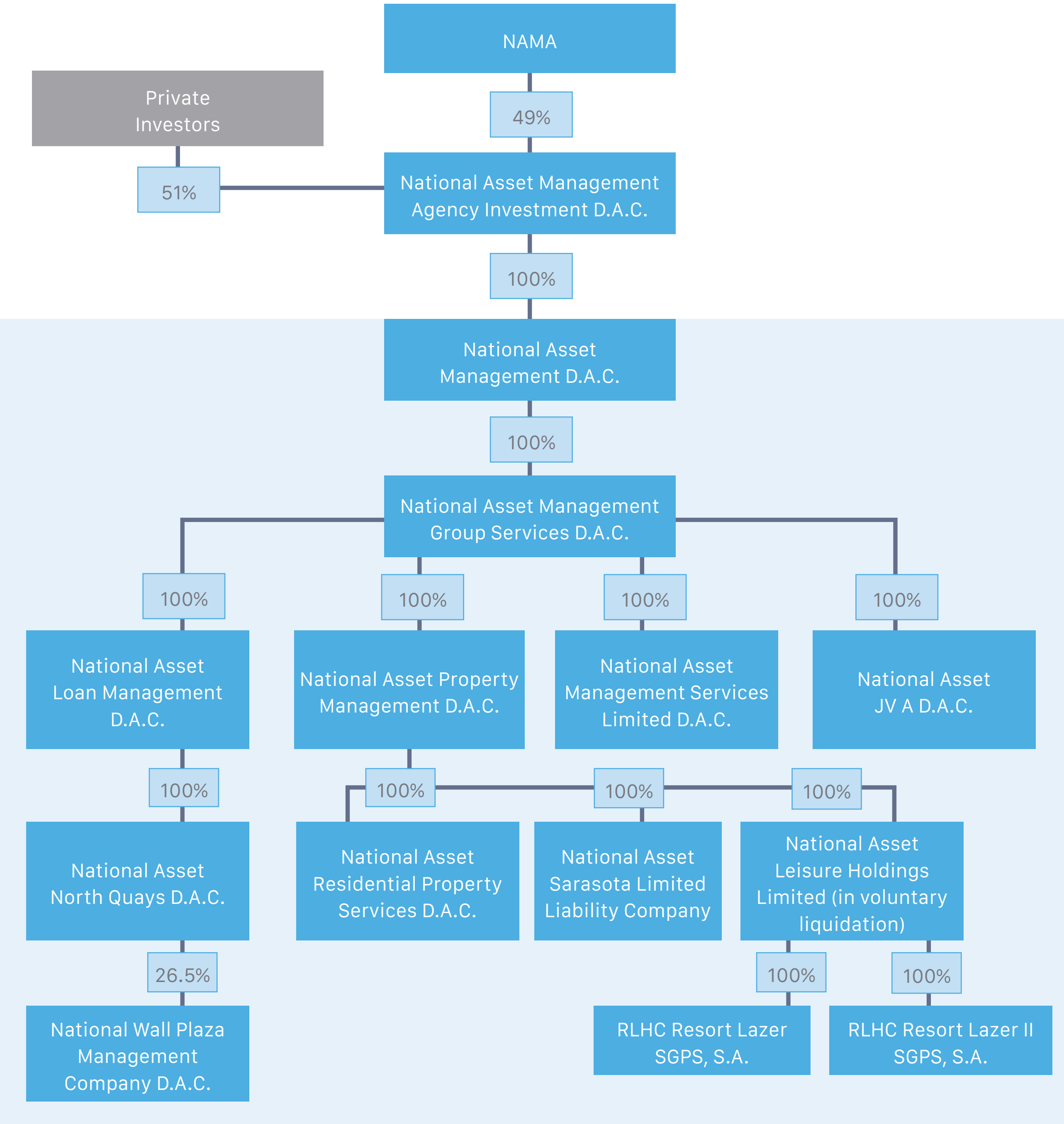
With the exception of RLHC and RLHC II, the address of the registered office of each company at the reporting date is Treasury Building, Grand Canal Street, Dublin 2. Each company is incorporated and domiciled in the Republic of Ireland, except for NASLLC, which is incorporated and domiciled in the US and RLHC and RLHC II which are incorporated and domiciled in Portugal. The address of the registered office of RLHC and RLHC II is Rua Garrett, Nº. 64, 1200-204 Lisbon, Portugal.

Notes to the Financial Statements (continued)

1. GENERAL INFORMATION (CONTINUED)

1.1 National Asset Management Agency Group (continued)

Chart 1 "NAMA Group"



2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

Going concern

The financial statements for the financial year ended 31 December 2017 have been prepared on a going concern basis as the Board are satisfied, having considered the principal risks and uncertainties impacting the Group and Agency, that it has the ability to continue in business for the period of assessment. The period of assessment used by the Board is twelve months from the date of approval of these annual financial statements.

At the reporting date, the value of the Government Guaranteed Floating Rate Notes ("Notes") issued relating to the original loan acquisitions from Participating Institutions was €nil (2016: €2,590m).

At the reporting date, NAMA had equity and reserves of €5,079m (2016: €4,692m). The Group has available cash, cash equivalents and liquid assets at 31 December 2017 of €1,254m (2016: €2,165m) and other liabilities (other than senior debt) of €33m (2016: €54m), and therefore the Board is satisfied that it can meet its current liabilities as they fall due for the foreseeable future. The Group has repaid all of the senior debt, loans and borrowings to the Minister, and has no other external borrowings.

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

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

2.2 Basis of compliance and measurement

The Group's consolidated and Agency financial statements for the financial year ended 31 December 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and the NAMA Act 2009.

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

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

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

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

Certain prior year balances have been reclassified to conform to the presentation in the 2017 financial statements, with no impact on the income statement for prior periods presented, and no material impact on the statement of financial position.

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

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

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

Standards issued but not effective:

IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments*: *Recognition and Measurement*, with an effective date of 1 January 2018.

In addition to setting out recognition and derecognition criteria for financial assets and liabilities, IFRS 9 also includes a revised classification and measurement model, forward-looking expected credit loss ("ECL") impairment assessment as well as providing the possibility of modifying the approach to hedge accounting.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Financial assets

Classification and measurement

Under IFRS 9, two criteria are used to determine how financial assets should be classified and measured, namely the "business model" within which the financial assets are held and the "contractual cash flow characteristics" of the financial assets.

The standard identifies three categories of classification and measurement of financial assets, i.e. amortised cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit and loss ("FVTPL").

A financial asset must be measured at amortised cost if it meets the following two criteria:

- the objective of the business model is to hold the financial asset to collect the contractual cash flows, and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI").

Similarly under IFRS 9, a financial asset is to be measured at FVTOCI if it meets the following two criteria:

- the financial asset is held within an IFRS 9 business model where the objective is achieved by both collecting contractual cash flows and selling financial assets, and
- the contractual terms give rise on specific dates to cash flows that are SPPI.

Equity instruments are measured at FVTPL, unless the entity avails of the option to elect to present fair value changes in 'other comprehensive income'. If an equity investment is not held for trading, the entity can make an irrevocable election at initial recognition to measure it at FVTOCI.

Even if a financial asset meets the criteria for measurement at amortised cost or FVTOCI, IFRS 9 grants an option to recognise it at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Under the standard, in most cases where assets are not measured at FVTPL, interest is calculated by applying the Effective Interest Rate ("EIR") to the gross carrying amount. The exception to this is where the financial asset was not originally credit-impaired but has become credit-impaired, in which case the interest is calculated by applying the EIR to the gross carrying amount net of the impairment provision.

Impairment

Impairment under IFRS 9 is forward-looking and is based on expected rather than incurred losses. This represents a significant change from the approach under IAS 39. IFRS 9 requires more timely recognition of expected credit losses ("ECL") using a three-stage approach:

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

The assessment of whether the credit risk has increased significantly is performed for each reporting period. The assessment of credit risk should incorporate all available relevant information, including past, current and future events, as well as the time value of money.

Financial liabilities

IFRS 9 retains most of the existing requirements from IAS 39 on the classification of financial liabilities. Overall financial liabilities are still measured at amortised cost with some exceptions permitted. In accordance with the standard for certain financial liabilities measured at fair value through profit or loss, any gains or losses attributable to changes in the entity's own credit risk are presented in other comprehensive income, with other changes presented in profit or loss.

Impact of IFRS 9 on NAMA Group

IFRS 9 is being implemented in the Group with effect from 1 January 2018. As permitted under IFRS 9, the Group is availing of the exemption not to restate prior periods and is thus recognising any difference arising between IAS 39 carrying amounts and IFRS 9 carrying amounts at 1 January 2018 in opening retained earnings on that date.

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

An internal project team was put in place to implement IFRS 9, supported by external technical expertise. Regular updates are provided to the Board Committees outlining the progress of the IFRS 9 project.

The changes to accounting for the loan portfolio arising from IFRS 9 has resulted in amendments to systems and processes and will require significant classification, measurement, presentation and disclosure changes for the year ended 31 December 2018.

Classification and measurement

A business model assessment test was undertaken for each financial instrument as at the effective date. The outcomes of these tests were in line with management's expectations.

The primary change as a result of the introduction of the standard relates to the measurement basis for loans and receivables. Loans and receivables will be disaggregated into 'debtor loans at FVTPL' and 'vendor finance loans.' Two bases of measurement will apply. Vendor finance loans will be measured at FVTOCI and will be subject to an expected loss assessment at the end of each reporting period. Other debtor loans will be measured at FVTPL.

The Group assessed its various accounting options under the standard and concluded that for debtor loans other than Vendor Finance, the discount rate adjustment technique is the appropriate method for estimating their Fair Value. This method uses data that is either directly observable in the market or is implied from other available sources.

The assumptions involved in this valuation technique include the likelihood and expected timing of future cash flows of the asset. In certain instances, an assessment as to the likelihood and expected timing of future cash flows requires the exercise of management judgement.

As required under IFRS, a range of discount rates, deemed to be representative of the rates market participants would utilise, will be used in the measurement of Fair Value of debtor loans.

Cash and cash equivalents and amounts due from Participating Institutions will continue to be measured at amortised cost and available for sale financial assets will be continue to be measured at FVTOCI.

The Group does not anticipate any change in the measurement of financial liabilities.

The Group is electing to continue to apply the hedge accounting requirements of IAS 39, as permitted under IFRS 9.

Impairment

As IFRS 9 moves from an incurred loss model for impairment to an expected loss model this will result in changes in impairment measurement and will increase the number of assets where an assessment of impairment is required.

The implementation of IFRS 9 will also impact associated IFRS 7 disclosures.

Quantitative impact

Based on assessments undertaken to date, the initial estimated quantitative impact on implementation of IFRS 9 is a positive increase in retained earnings as at 1 January 2018 in the order of €150m before tax. Substantially all of this relates to the change in measurement basis of certain debtor loans included within loans and receivables from amortised cost to fair value.

This estimate is based on a number of assumptions, judgements and other assessments that remain subject to change until the Agency finalises its financial statements for the year ending 31 December 2018. NAMA will continue to refine and validate the fair value models and related processes and controls during 2018.

IFRS 16 *Leases*

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

The Group holds operating leases. As at 31 December 2017, the Group has non-cancellable operating lease commitments of €5.6m (refer to Note 32). The Group is currently assessing the nature and extent of the impact of the standard. A preliminary assessment indicates that these leases will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all of these leases unless they qualify for low value or short-term leases on the application of IFRS 16. The new requirement to recognise a right-of-use asset and a related lease liability is not expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements and its potential impact is currently being assessed. It is not practicable to provide a reasonable estimate of the financial effect until the review is complete. This standard will have an impact on the current disclosures requirements of the Group only when IFRS 16 is adopted. The standard will not be early adopted by the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 *Revenue from Contracts with Customers* replaces IAS 18 Revenue and IAS 11 *Construction Contracts*, as well as IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31, and is effective for financial periods beginning on or after 1 January 2018. It specifies how and when revenue will be recognised as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers.

The Group is currently assessing the nature and extent of the impact of the standard which is not expected to be significant to the financial statements of the Group.

New standards in issue and adopted

Amendments to several standards and interpretations, resulting from improvements to IFRSs, apply for the first time in 2017. However, they did not have any impact on the accounting policies, financial position or performance of the Group.

2.4 Basis of consolidation

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

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

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

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

Details of subsidiaries are provided in Note 37.

2.5 Foreign currency translation

(a) Functional and presentation currency

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

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

(b) Transactions and balances

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

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

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

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

2.6 Financial assets

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

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

(b) Loans and receivables; and

(c) Available for sale financial assets

2.6 Financial assets (continued)

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

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

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

Derivatives

Financial assets and liabilities at fair value through profit or loss comprise derivative financial instruments. These instruments are recognised initially at fair value on the date on which a derivative contract is entered into and transaction costs are taken directly to the consolidated income statement. They are subsequently re-measured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

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

Equity instruments

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

Equity instruments are initially measured at fair value. The equity instruments are designated at fair value through profit or loss on the basis that the assets are part of a group of assets, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy. They will continue to be measured at fair value unless the fair value cannot be reliably measured, in which case the equity instrument is measured at cost. The fair value of equity instruments is measured based on the net asset value of the underlying entity at the reporting date. Changes in fair value are recognised in the income statement as part of other income/(expenses). Distributions from equity instruments are recognised in the income statement as part of other income/(expenses). Equity instruments are separately disclosed in the statement of financial position.

(b) Loans and receivables

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

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

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

(c) Available for sale financial assets

Available for sale financial assets comprise Irish Government Bonds acquired for liquidity purposes. Available for sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or exchange rates.

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

2.7 Financial liabilities

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

The Group does not offset financial assets and financial liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 De-recognition of financial assets and financial liabilities

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

2.9 Interest income and interest expense

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

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

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

Interest income on loans and receivables acquired and originated is recognised using the EIR method at the reporting date.

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

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

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 on receipt of cash in profit or loss as fee income.

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

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

Profits and losses on the disposal and refinancing of loans/property assets are calculated as the difference between the carrying value of the loans/property assets and the contractual sales price at the date of sale, less related loan sale costs. The contractual sales price includes any deferred consideration where NAMA has the contractual right to receive any deferred cash flow in accordance with IAS 32 Financial Instruments: Presentation. Profits and losses on the disposal and refinancing of loans/property assets are recognised in the income statement when the transaction occurs. In a small number of instances, when an individual loan account is sold, the profit/loss on disposal is only recognised when the entire connection/loan pack related to that account is sold.

(b) Surplus income

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

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

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

2.12 Impairment of financial assets

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

Loans and receivables carried at amortised cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. The individually significant assessment is completed in respect of the total portfolio of borrowings of each individually significant debtor connection, rather than on an individual loan basis (i.e. the unit of account is the overall total debtor connection).

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

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

Individually significant

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

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

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

NAMA may dispose of loans within a debtor connection or a portfolio of loans across multiple connections.

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

The assessment of the carrying value of the loans sold takes into account impairment previously recognised against these loans. The disposal of loans gives rise to a release or crystallisation of any impairment previously recognised relating directly to the loans sold.

If impairment has previously been recognised on the loans

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

2.13 Impairment of non-financial assets

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Cash and cash equivalents

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

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

2.15 Derivative financial instruments and hedge accounting

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

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

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

Borrower derivatives

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

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

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

NAMA derivatives

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

Derivatives at fair value through profit or loss

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

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

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

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

Fair value gains or losses on derivatives 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).

Derivatives designated in hedge relationships (continued)

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

Cash flow hedge

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

Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item affects profit or loss. They are recorded in the revenue or expense lines in which the associated related hedged item is reported.

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

Derivatives previously subject to cash flow hedge accounting matured in September 2016. There was no hedge accounting applied by the Group at 31 December 2017.

2.16 Inventories – trading properties

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

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

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

Profits and losses on the disposal of trading properties are recognised in the income statement when the transaction occurs. Trading properties are recognised in compliance with IAS 2.

2.17 Taxation

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

(a) Current income tax

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

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

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

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

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

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

(b) Deferred income tax

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Taxation (continued)

(b) Deferred income tax (continued)

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

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

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

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

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

2.18 Provisions for liabilities and charges and contingent assets and liabilities

Provisions

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

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

Unsettled overdraft positions

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

2.20 Financial guarantee contracts acquired

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

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

2.21 Debt and equity instruments

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

Prior to their redemption, 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.

Prior to their redemption, debt securities in issue are initially measured at fair value less transaction costs and are subsequently measured at amortised cost using the EIR method.

2.22 Share capital

(a) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the year in which they are approved by the Group's shareholders. Dividends for the period that are declared after the date of the consolidated statement of financial position are dealt with in Note 41, Events after the reporting date.

(b) Coupon on other equity

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

2.23 Cash placed as collateral with the NTMA

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

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

2.24 Property, plant and equipment

The Agency incurred costs for the fit-out of leased office space. Costs incurred are capitalised in the statement of financial position as property, plant and equipment in accordance with IAS 16 Property, Plant and Equipment. Following a review in 2016, the recognised asset is depreciated over the remaining life of the asset, in compliance with IAS 16, and the asset will be fully depreciated by end-2020.

2.25 Operating leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or whether the arrangement conveys a right to use the asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. The leased asset is recognised in the statement of financial position of the lessor.

Properties acquired by NARPS for the purposes of social housing are recognised as inventories in accordance with IAS 2.

Rental income arising from operating leases on inventory property is accounted for on a straight line basis over the lease term. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

2.26 Non-controlling interests in subsidiaries

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Determination of fair value

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

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

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

Valuation techniques

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

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

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

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

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

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

2.28 Administration expenses

Administration expenses are recognised on an accruals basis.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

3.1 Impairment of loans and receivables and related derivatives acquired

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

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

The impairment credit for 2017 is €13m (2016: €282m). The total cumulative impairment provision is €1,406m (2016: €1,561m), representing a coverage of 31% of the total loans and receivables balance at 31 December 2017 (2016: 28%).

Individually assessed debtors

Loans and receivables and associated derivatives individually assessed for impairment at the reporting date were €4.6bn (2016: €5.5bn).

During 2016, a number of existing connections were split into new connections to facilitate the management of these connections within the Residential Delivery portfolio. This resulted in an increased number of debtor connection cash flows being individually assessed for impairment. During 2017, one connection was split into a number of new connections.

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

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

The projection of cash flows involves the exercise of considerable judgement and estimation by management involving assumptions in respect of local economic conditions, the performance of the debtor, the value of the underlying property collateral and the latest agreed strategy for that debtor. The actual cash flows, and their timing, may differ from the projected cash flows for the purposes of determining the amount of impairment provision for individually significant debtors. Cash flow projections are generally based on the most recently agreed strategy for each debtor. Cash flow estimates may change if there is a change in a strategy, for example, from an asset disposal strategy to a loan sale strategy or in the case of the residential delivery portfolio, from site disposal to approved residential development.

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

The assumptions used for projecting both the amount and timing of future cash flows for individual debtors are reviewed regularly by management and cash flow projections are updated. In certain cases, management may apply a timing overlay to the aggregated individual cashflows to reflect management's overall expectation in respect of cash flows and a more accurate assessment of impairment.

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 2017 impairment provision was determined after the following key inputs were assessed:

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

A detailed cash flow assessment of debtors with a combined outstanding loan value of €4.6bn (2016: €5.5bn) was completed. The consolidated results of this cash flow assessment allows NAMA to apply certain sensitivities to the key assumptions used to determine the impairment provision on its portfolio and assess the impact of these changes on the impairment provision.

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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

Sensitivity analysis (continued)

NAMA performs its sensitivity analysis at a property asset level. Property is categorised by geographical location and sectoral distribution, as outlined in the table below. In performing the sensitivity analysis, the projected disposal value for each individual property by asset location and sector is reduced by 1%. The debtor connection cashflows are then updated with the revised projected disposal values and a revised impairment provision is calculated for each debtor connection. The overall revised provision is then compared to the actual impairment provision to demonstrate the impact of a 1% reduction in projected disposal values.

The table below sets out the impact (in €m) on the 2017 impairment provision, with comparatives, of a 1% change in the amount of projected disposal cash flows over certain geographies and asset types.

	2017			2016		
	Ireland (excluding Northern Ireland) €m	ROW (including UK) €m	Total €m	Ireland (excluding Northern Ireland) €m	ROW (including UK) €m	Total €m
Land and development	16	-	**16**	12	-	**12**
Residential	6	-	**6**	5	-	**5**
Retail	3	-	**3**	2	-	**2**
Commercial	1	-	**1**	2	-	**2**
Hotel and leisure	-	-	**-**	-	1	**1**
Total effect of 1% change	**26**	**-**	**26**	**21**	**1**	**22**

The net present value (NPV) of cash flows is also affected by the timing of their realisation arising from the sale of assets. Therefore sensitivity analysis was also undertaken on the timing of the realisation of projected cash flows to assess the potential maximum impact on the impairment charge. This exercise, which was conducted without taking account of whether the underlying collateral assets relate to impaired connections, indicates that for each €1 billion in projected disposal cash flows which are moved from 2018 to 2019, an additional impairment charge of the order of €22 million (2016: €8m) would arise. This amount was estimated without taking account of potential additional non-disposal income (mainly rental income) that would be generated from an asset if its disposal was delayed by 12 months and without factoring in potential future upside to the cash flows.

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

3.2 Income recognition on loans and receivables

EIR income recognition

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

Actual cash flows over the life of a debtor may differ positively or negatively from the expected cash flows assumed in the acquisition valuation model. The Group reviews expected cash flows semi-annually as part of its impairment review (see Note 3.1). Any changes to assumptions would have an impact on interest income on loans and receivables carried at amortised cost as disclosed in Note 4. Interest income will not be recognised on any impaired portion of an asset, thus reducing interest income where revised estimated cash flows are less than the original expected cash flows in the loan acquisition model.

3.3 Surplus income

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

1) Debtors who have made debt repayments in excess of their NAMA debt. These repayments resulted in the recognition of €125m in 2017 (2016: €402m).
2) Debtors with positive net present values and who have passed stringent stressed conditions. The Group realised €145m (2016: €327m) from these debtors in 2017.

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

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

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

During 2016, the buffers applied in assessing the level of surplus income to recognise were updated to take into account the remaining lifecycle pertaining to NAMA's asset recovery activities. There were no changes to the buffers in 2017.

3.4 Other management judgement and estimates

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

The most significant other judgements and estimates made by the Group in the preparation of the financial statements are:

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

Inventories – trading properties

(a) Judgements made

Inventories – trading properties are accounted for under IAS 2 Inventories, as opposed to IAS 40 Investment Property. Trading properties are recognised as inventories, as they are being held for sale in the ordinary course of business, and not for capital appreciation. They are recognised initially on the statement of financial position at the point at which the purchase contract has been signed with the vendor, in line with accounting policy 2.16. Subsequent to initial recognition, trading properties are stated at the lower of cost and net realisable value.

(b) Estimates used

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

Investments in equity instruments

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

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

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

Notes to the Financial Statements (continued)

4. INTEREST INCOME

Group	Note	2017 €'000	2016 €'000
Interest on loans and receivables	19	248,238	368,108
Interest on acquired derivative financial instruments		2,032	2,892
Interest on cash and cash equivalents		78	328
Total interest income		**250,348**	**371,328**

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

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

Interest on loans and receivables recognised for the financial year was €248m (2016: €368m). The decrease in interest on loans and receivables is primarily attributable to interest being earned on a lower loans and receivables balance during the year.

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

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

Agency	2017 €'000	2016 €'000
Interest on loan to NAM	216,629	1,495,779
Total interest income	**216,629**	**1,495,779**

During 2017, NAMA Group subsidiaries generated profits, which are in the main payable to NAM as interest income under profit participating loan agreements in place. Subsequently, after utilisation of any available losses and the deduction of interest expenses on its senior and subordinated debt securities, NAM generated profits of €217m (2016: €1,496m) which are payable to NAMA the Agency, as interest income.

5. INTEREST AND SIMILAR EXPENSE

Group	Note	2017 €'000	2016 €'000
Interest on senior debt securities in issue		-	526
Interest on derivatives where hedge accounting is applied	35	-	73,207
Interest on other derivative financial instruments		492	469
Interest on available for sale financial assets		231	31
Negative interest expense on cash and cash equivalents		3,049	8,345
Total interest and similar expense		**3,772**	**82,578**

There was no interest paid to holders of senior debt securities during the financial year as the interest rate, which is based on Euribor, was negative and the coupon rate is floored at 0%.

Interest on derivatives where hedge accounting is applied was €nil during the year as all derivatives that were previously designated into hedge relationships had expired by September 2016.

Interest on available for sale financial assets comprises interest on short term government bonds held for liquidity purposes, recognised using the EIR method. The nominal value of available for sale financial assets at the reporting date was €430m (2016: €430m).

During 2017, the Group incurred interest expense of €3m (2016: €8m) on cash and cash equivalents due to negative interest rates.

5. INTEREST AND SIMILAR EXPENSE (CONTINUED)

Agency	2017 €'000	2016 €'000
Negative interest expense on cash and cash equivalents	3	2

Due to negative interest rates, there is negative interest expense on cash and cash equivalents of €0.003m (2016: €0.002m).

6. FEE INCOME

Group	2017 €'000	2016 €'000
Fee income from overdrafts	-	834
Fee income from loans and receivables	3,044	25,965
Total fee income	**3,044**	**26,799**

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

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

7. OTHER INCOME/(EXPENSES)

Group	2017 €'000	2016 €'000
Distributions from equity instruments (a)	16,380	24,791
Fair value (loss)/gain on equity instruments (b)	(5,237)	3,462
Licence fee income (c)	549	523
Lease rental income (d)	10,489	6,502
Revaluation of trading properties (e)	-	(97)
Other expenses (f)	(483)	-
Total other income/(expenses)	**21,698**	**35,181**

(a) The Group received dividends totalling €16.4m (2016: €24.8m) on its investments during the reporting period.

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

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

(d) Lease rental income is earned from the lease of residential properties to approved housing bodies for social housing purposes and from the lease of certain trading properties. It is accounted for on a straight line basis over the lease term in accordance with accounting policy 2.25. The increase in the year is due to increased leasing activity during the financial year.

(e) In accordance with accounting policy 2.16, trading properties are measured at the lower of cost and net realisable value. At the reporting date, the Group recognised no revaluation gain or loss (2016: loss of €0.1m) on these assets. See Note 20 for further details on property assets.

(f) Other expenses represents a contracted fee paid in the financial year following the reaching of a designated rate of return on an equity investment.

Notes to the Financial Statements (continued)

7. OTHER INCOME/(EXPENSES) (CONTINUED)

Agency	Note	2017 €'000	2016 €'000
Costs reimbursable from the NAM Group	*10*	40,970	49,661
Negative interest income on intergroup loans		131	58
Total other income/(expenses)		**41,101**	**49,719**

The negative interest income of €0.13m (2016: €0.06m) on the intergroup loan is due to negative interest rates on the intercompany loan with NAMA. Refer to Note 33 for further detail.

8. LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS

Group	2017 €'000	2016 €'000
Losses on derivatives acquired from borrowers	(2,112)	(1,088)
Gains/(losses) on other derivatives	629	(961)
Hedge ineffectiveness	-	(2,017)
Total losses on derivative financial instruments	**(1,483)**	**(4,066)**

The gains/(losses) on derivative financial instruments includes the fair value movements on these instruments and any expenses payable. Fair value movements on derivatives are driven by market movements that occurred during the financial year. The fair value of derivatives is impacted by changes in Euribor rates and borrower derivatives performance levels. Further information on derivative financial instruments is provided in Note 18.

NAMA previously applied hedge accounting to a portion of its senior notes in issue prior to their redemption. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. All remaining cash flow hedge relationships were derecognised on 28 January 2016 and the derivatives subsequently matured in September 2016.

There are no derivatives held in the Agency.

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

Group	Note	2017 €'000	2016 €'000
Surplus income on loan repayments (in excess of loan carrying values)	*19*	269,842	729,016
Net profit on disposal and refinancing of loans		63,632	378,163
Net profit on disposal of property assets		1,561	2,638
Total net profit on disposal and refinancing of loans and property assets; and surplus income		**335,035**	**1,109,817**

9.1 Proceeds from loan sales

Group	For the year from 1 Jan 2017 to 31 December 2017			For the year from 1 Jan 2016 to 31 December 2016		
	Disposals of underlying collateral €m	Disposals of loans €m	Total €m	Disposals of underlying collateral €m	Disposals of loans €m	Total €m
Proceeds	1,777	783	**2,560**	4,243	1,156	**5,399**

For certain loan assets acquired, the proceeds from the disposal of the underlying collateral in a debtor connection exceeded the carrying value of those loans and receivables. This surplus is recognised in the income statement as realised profits on loans. Of the total amount of €270m (2016: €729m) recognised in 2017, €125m (2016: €402m) was generated from debtor connections who have fully repaid all NAMA debt and any further cash received is recognised as profit. A further €145m (2016: €327m) of surplus income is recognised on specific loan assets within a debtor connection where the cash generated and received by NAMA at the reporting date has exceeded the loan carrying value; and the estimated discounted cash flows for the total debtor connection are greater than the total loan carrying values. Further information on the recognition of surplus income is included in Note 3, critical accounting estimates and judgements.

During the financial year, the Group disposed of certain loans and receivables to third parties. Profit or loss on disposal and refinancing of loans is measured as the difference between the proceeds received, including any deferred consideration, less related selling expenses and the net carrying value of those loans and receivables. The Group realised a net profit of €64m (2016: €378m) on the disposal and refinancing of loans in the financial year, comprising €62m directly related to the disposal of loans and €2m of deferred payment initiative receipts. Of the net profit of €62m directly related to the disposal of loans, the Group earned gross profit of €63m (see note 19) (2016: €394m), which when combined with disposal costs of €1m (2016: €16m), resulted in the net profit on disposal of loans of €62m. Profit on disposal of loans is not recognised where the overall debtor connection is impaired in accordance with the latest available impairment assessment data.

Profit or loss on disposal of properties is measured as the difference between proceeds of sale received and the carrying value of those property assets. The Group realised a net profit of €1.6m (2016: €2.6m) on the disposal of trading property assets in the financial year.

9.2 Profit on disposal of underlying collateral and loans

The following table summarises NAMA's overall net profit recognised on the transactions relating to the disposal of underlying collateral and loans for the years 2017 and 2016:

Group	For the year from 1 Jan 2017 to 31 December 2017			For the year from 1 Jan 2016 to 31 December 2016		
	Disposals of underlying collateral €m	Disposals of loans €m	Total €m	Disposals of underlying collateral €m	Disposals of loans €m	Total €m
Profit recognised in income statement (Note 9)	270	64	**334**	729	378	**1,107**
Crystallisation of existing impairment provision (Note 19)	(127)	(15)	**(142)**	-	(633)	**(633)**
Total	**143**	**49**	**192**	**729**	**(255)**	**474**

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

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

10. ADMINISTRATION EXPENSES

Group	Note	2017 €'000	2016 €'000
Costs reimbursable to the NTMA	*10.1*	37,980	47,229
Primary servicer fees	*10.2*	9,881	15,215
Master servicer fees	*10.3*	1,600	1,479
Portfolio management fees	*10.4*	2,417	3,205
Legal fees	*10.5*	6,534	3,484
Finance, communication and technology costs	*10.6*	4,602	4,112
Rent and occupancy costs	*10.7*	2,636	2,883
Internal audit fees	*10.8*	751	752
External audit remuneration	*10.9*	634	1,250
Board and Committee fees and expenses	*10.10*	437	435
Total administration expenses		**67,472**	**80,044**

Agency	Note	2017 €'000	2016 €'000
Administration expenses			
Costs reimbursable to the NTMA	*10.1*	37,980	47,229
Rent and occupancy costs	*10.7*	2,990	2,432
Board and Committee fees and expenses	*10.10*	434	435
Total administration expenses		**41,404**	**50,096**

Costs reimbursable to the NTMA are recognised as an expense to NAMA the Agency. All costs, other than Board and Committee fees and Board expenses incurred by NAMA are reimbursed to it by the NAM Group. Total costs of €40.9m (2016: €49.6m) were reimbursed by the NAM Group to NAMA the Agency.

Agency	Note	2017 €'000	2016 €'000
Costs reimbursable by the NAM Group			
Costs reimbursable to the NTMA	*10.1*	37,980	47,229
Rent and occupancy costs	*10.7*	2,990	2,432
Total costs reimbursable by the NAM Group		**40,970**	**49,661**

10.1 Costs reimbursable to the NTMA

Under Section 42 (4) of the Act, NAMA is required to reimburse the NTMA for the costs incurred by the NTMA in consequence of it assigning staff and providing services to NAMA. The costs included above may differ to the amounts disclosed in the NTMA financial statements due to the timing of the preparation of the NAMA financial statements.

Costs comprise staff costs of €30.3m (2016: €37.3m) and overheads and shared service costs of €7.7m (2016: €9.9m).

The NTMA incurs direct costs for NAMA such as salaries, IT, office and business services. NTMA also provides shared services to NAMA including IT, HR and Finance. The allocated salary cost of the NTMA employees (non NAMA Officers) providing these shared services to NAMA during 2017 was €3.4m (2016: €3.4m).

In 2016, costs reimbursable to the NTMA were offset by €0.061m relating to rent due from the State Claims Agency on office space that the Agency leased out to it. No such costs were reimbursed in 2017.

10.1 Costs reimbursable to the NTMA (continued)

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

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

Staff costs

The Group has no employees. All personnel are employed by the NTMA and the remuneration cost of staff who are engaged full time in the NAMA business are recharged to the Group by the NTMA. The total remuneration cost including pension costs for the reporting period was €30.3m (2016: €37.3m). The following remuneration disclosures are required under The Code of Practice for the Governance of State Bodies (2016). Current year figures are presented as follows:

Aggregate Employee Benefits	2017 €m
Basic Pay	23.3
Allowances	0.3
Staff short-term benefits	23.6
Termination benefits	0.8
Pay related social insurance	2.4
Pension contributions	3.5
Total aggregate employee benefits	**30.3**

The NAMA Board is considering the introduction of Performance Related Pay for the period ending 30 June 2018. The NAMA Remuneration Committee will consider and set out proposals and will make a recommendation to the NAMA Board.

The number of employees of the NTMA directly engaged in the Group ('NAMA Officers') at the reporting date was 264 (2016: 302). Two employees left in 2017 as part of the Voluntary Redundancy Scheme ('VRS') and a further eight employees (2016: 41 employees) will be placed on garden leave in 2018 as part of the VRS.

Costs of €0.8m (2016: €3.9m) relating to the VRS have been recognised in 2017, of which €0.4m (2016: €1.7m) is attributable to statutory and other redundancy payments, €0.2m (2016: €0.8m) relates to the "retention scheme"[7], and €0.2m (2016: €1.4m) is for garden leave. Garden leave does not represent an incremental cost for NAMA but instead forms part of the overall NAMA salary cost that would have been incurred regardless of the decision to place the relevant staff on garden leave. Under the VRS nine staff were entitled to garden leave of three months.

Further redundancies will take place on a phased basis each year over the remaining life of NAMA. In addition to those accepted for the VRS, five staff (2016: seven) were placed on garden leave during 2017 with an attributable 2017 cost of approximately €0.1m (2016: €0.2m). The average period of garden leave for the five staff was two months (2016: two months). The decision on whether to place these five staff members on garden leave was made on a case-by-case basis and included consideration, inter alia, of the person's role within NAMA and the person's new employer.

NAMA Officers are members of the NTMA Staff Pension Scheme and the NTMA contributes to the scheme on behalf of these employees. The cost of these pension contributions is recharged to NAMA. The cost of the pension contributions made by the Group is disclosed in Note 38.

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

Notes to the Financial Statements (continued)

10. ADMINISTRATION EXPENSES (CONTINUED)

10.1 Costs reimbursable to the NTMA (continued)

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

Brendan McDonagh (Chief Executive Officer)	2017 €	2016 €
Salary	400,079	390,105
Taxable benefits	22,728	21,188
	422,807	**411,293**

The remuneration of the Chief Executive Officer consists of basic salary, taxable benefits and a discretionary performance related payment of up to 60 per cent of annual salary. Taxable benefits include benefits/allowances earned in the reporting period, and can include health insurance, company car and professional subscriptions. The Chief Executive Officer was entitled to be considered to be awarded performance payments for 2016 and 2017, but in view of the economic challenges facing the country, waived his entitlement to be considered for these payments.

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

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

The remuneration of the Chief Executive Officer is determined by the NTMA CEO after consultation with the NAMA Board, who in giving advice on remuneration, are informed by the views of the NAMA Remuneration Committee, having regard to the obligations of the Board to implement Government policy in relation to such remuneration.

Key management personnel

Key management personnel is defined under the Code of Practice for the Governance of State Bodies 2016 (the 'Code'), as those who report directly to the Chief Executive Officer. The Chief Executive Officer had ten (2016: eight) direct reports during 2017 and the total compensation paid to nine key management personnel in 2017 was €1.7m (2016: €1.4m), comprising salaries totalling €1.5m, termination benefits of €0.16m and benefits of €0.05m. Benefits include benefits/allowances earned in the reporting period, and can include health insurance, car allowances and professional subscriptions.

10.1 Costs reimbursable to the NTMA (continued)

Total employee benefits

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

Pay band	No. of employees 2017	No. of employees 2016
up to €50,000	47	52
€50,001 - €75,000	56	74
€75,001 - €100,000	75	80
€100,001 - €125,000	47	51
€125,001 - €150,000	23	27
€150,001 - €175,000	7	8
€175,001 - €200,000	5	4
€200,001 - €225,000	1	2
€225,001 - €250,000	1	1
€250,001 - €275,000	1	2
€275,001 - €300,000	-	-
€300,001 - €325,000	-	-
€325,001 - €350,000	-	-
€350,001 - €375,000	-	-
€375,001 - €400,000	-	-
€400,001 - €425,000	1	1
Total	**264**	**302**

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

Hospitality expenditure

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

	2017 €	2016 €
Staff Wellbeing	12,456	39,055
Sports and Social Contributions	12,375	13,000
Staff events	12,323	15,178
Flowers	420	840
	37,574	**68,073**

The majority of the staff wellbeing cost comprises the cost of staff health screenings (2017: €8k; 2016: €35k), flu vaccines (2017: €2k; 2016: €2k) and lunchtime classes and lectures. These are organised by the NTMA as employer and NAMA officers are eligible to receive these benefits.

The NTMA has established a Sports and Social Committee for all staff, who can join on a voluntary basis and pay membership fees. NAMA has agreed to contribute to the costs of the activities organised by the Committee where NAMA staff benefit from the activities. NAMA incurred €12k in 2017 (2016: €13k) in relation to sports and social activities organised by the Committee.

An event was held during the year to recognise the important and valued contribution made by NAMA staff, both those staff departing under the 2017 voluntary redundancy scheme and remaining staff, to the successful achievement of NAMA's objectives in the period from the start of 2010 to end-2017, coinciding with the 100% senior debt redemption. An estimated 250 (2016: 300) people attended at a cost of €9,459 (2016: €11,067). Other staff event costs comprise mainly NAMA's share of staff events organised by the NTMA which NAMA officers are invited to attend.

Notes to the Financial Statements (continued)

10. ADMINISTRATION EXPENSES (CONTINUED)

10.1 Costs reimbursable to the NTMA (continued)

Travel costs

The total travel costs incurred during 2017 was €85k (2016: €124k), of which €23k (2016: €60k) related to international travel and €62k (2016: €64k) related to domestic travel.

10.2 Primary Servicer fees

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

The amounts payable to related parties for Primary Servicer fees are set out in Note 38 related party disclosures. Primary servicer fees were €9.9m during the financial year (2016: €15.2m).

10.3 Master servicer fees

Master servicer fees comprise fees paid to the master servicer, Asset Services. Asset Services provides loan administration and data management services to the Group. Master servicer fees were €1.6m in the financial year (2016: €1.5m). The increase in master servicer fees is mainly driven by additional requests in the period.

10.4 Portfolio management fees

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

10.5 Legal fees

Legal fees comprise fees paid to professional service firms with respect to legal advice in the on-going management and support of debtors. The increase in legal fees is driven by increased legal activity. Included in the legal fees of €6.5m are total settlement costs of €557k across two cases which were paid during the year.

10.6 Finance, communication and technology costs

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

10.7 Rent and occupancy costs

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

Rent and occupancy costs also include a depreciation charge on the capitalised lease fit out costs of €336k (2016: €336k).

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

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

Annual rent (excluding VAT) **Agency**	**2017** **€m**	**2016** **€m**
Third floor	1.0	0.8
First floor	0.8	0.8
First floor annexe	0.1	0.1

There was no amount (2016: €46k) receivable by NAMA at end-2017 with respect to the occupation of the first floor annexe by the Strategic Banking Corporation of Ireland (SBCI).

Included in the rent costs is an amount of €1.2m (2016: €nil) reimbursed/reimbursable to NAMA by the NTMA for the occupation for the first floor and first floor annexe.

Further information on leases is included in Note 32, commitments and contingent liabilities.

The remaining balance relates to occupancy costs.

10.8 Internal audit fees

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

10.9 External audit remuneration

Group	2017 €'000	2016 €'000
Audit of NAMA Group and subsidiaries by the C&AG	400	500
Audit of NAMAI Group and subsidiaries by the Statutory Auditor	234	750
Total external audit remuneration	**634**	**1,250**

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

The Comptroller and Auditor General is the auditor of the NAMA Group in accordance with Section 57 of the NAMA Act.

Pursuant to the requirements of the Irish Companies Act 2014, NAMA is required to separately appoint a statutory auditor in respect of companies within the NAMA Group which are deemed to be trading for gain. As the NAMAI Group is 51% privately owned and operates to return dividends to its shareholder it is deemed to be trading for gain. As such, Mazars, Chartered Accountants and Statutory Audit Firm, were appointed as statutory auditors of NAMA Group's subsidiaries in June 2017. NAMA accrued €750k for the estimated cost of the Statutory Audit of the NAMAI Group and its subsidiaries for the 2016 year-end. The agreed audit fee was €400k (excluding VAT). The 2017 cost includes the release of the prior year's over-accrual.

During the year Mazars provided insolvency services whereby they were appointed by NAMA to act on behalf of NAMA debtors with a duty of care to NAMA as prescribed in law. Fees incurred during the year of €1.2m (2016: €1.3m) are ultimately borne by the respective debtors of NAMA and do not represent an operational expense of NAMA, and accordingly are not reflected in the income statement of the Group.

10.10 Board and Committee fees and expenses

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

	2017 €	2016 €
Frank Daly (Chairman)	150,000	150,000
Oliver Ellingham	60,000	60,000
Brian McEnery	60,000	60,000
Mari Hurley	60,000	60,000
Willie Soffe	75,000	75,000
Board fees	**405,000**	**405,000**
Board expenses	9,347	10,189
Total Board fees and expenses	**414,347**	**415,189**
Planning Advisory Committee		
Alice Charles	5,000	5,000
Michael Wall	5,000	5,000
Audit Committee		
Jim Kelly	10,000	10,000
Committee fees	**20,000**	**20,000**
Total Board and Committee fees and expenses	**434,347**	**435,189**

10. ADMINISTRATION EXPENSES (CONTINUED)

10.10 Board and Committee fees and expenses (continued)

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

The above table excludes Board fees of €3k for 2017 paid to independent directors of NWPMC.

2017	Travel Expenses €	Accommodation and Subsistence €	Other €	2017 Total €	2016 Total €
Frank Daly (Chairman)[8]	-	-	1,691	**1,691**	**1,272**
Oliver Ellingham[8]	2,435	1,729	-	**4,164**	**4,305**
Brian McEnery[8]	3,044	448	-	**3,492**	**4,612**
	5,479	**2,177**	**1,691**	**9,347**	**10,189**

10.11 Consultancy fees

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

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

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

11. FOREIGN EXCHANGE (LOSSES)/GAINS

Group	*Note*	2017 €'000	2016 €'000
Foreign exchange translation losses on loans and receivables (a)	*19*	(20,999)	(154,285)
Unrealised foreign exchange (losses)/gains on derivative financial instruments (b)		(5,715)	90,710
Realised foreign exchange gains on currency derivative financial instruments (b)		21,501	86,106
Foreign exchange losses on cash (c)		(731)	(11,197)
Other foreign exchange losses		(349)	(2,041)
Total foreign exchange (losses)/gains		**(6,293)**	**9,293**

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

Gains and losses on foreign currency derivatives arise from market movements that affect the value of the derivatives. On a cumulative basis since 2010, NAMA has recorded a loss on foreign currency derivatives, which is offset by a foreign exchange translation gain on loans and receivables, resulting in a cumulative net loss of €137m (2016: €131m) on foreign exchange. This cumulative cost is akin to an "insurance" cost of protecting NAMA from the impact of foreign exchange rate fluctuations.

8 Included in travel expenses, accommodation and subsistence, and other is an amount of €2,822 which represents NAMA's tax liability on benefit-in-kind in respect of board expenses paid in 2017 (2016: €4,062).

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

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

12. IMPAIRMENT CREDIT ON LOANS AND RECEIVABLES

Group	2017 €'000	2016 €'000
Balance at the beginning of the financial year	**1,560,929**	**2,475,906**
Increase in specific provision	152,489	178,607
Release in specific provision	(307,635)	(1,093,584)
Total movement in provision	**(155,146)**	**(914,977)**
Balance at the end of the financial year	**1,405,783**	**1,560,929**
Recognised in the income statement against impairment	(12,625)	(281,578)
Recognised against loans and receivables (Note 19)	(142,521)	(633,399)
Total movement in provision	**(155,146)**	**(914,977)**

The impairment provision for each specifically assessed debtor connection is calculated as the difference between the carrying value of each debtor connections total loans and the present value of expected future cash flows for the connection. Management may apply judgement to adjust the computed impairment where it more accurately reflects the recoverable value of an asset. Further information on management judgements is set out in Note 3.1.

The movement in the specific provision in 2017 comprises an increase of €152m (2016: €179m) and a release of €308m (2016: €1,094m) for certain debtor connections.

The release in the specific provision is due to an increase in expected and realised cash flows including earlier receipt of cash flows. The €143m (2016: €633m) release in the specific provision recognised against loans and receivables relates to the crystallisation of previously recognised impairment on loans sold during the year and the conclusion of debt compromise arrangements.

Since 1 January 2015, all debtor connections have been individually assessed for impairment. There is therefore no collective portfolio impairment provision.

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

Notes to the Financial Statements (continued)

13. TAX CHARGE

Group	Note	2017 €'000	2016 €'000
Current tax			
Irish corporation tax		(70,770)	(143,139)
Deferred tax			
On fair value gains/(losses) on derivatives, equity instruments and transitional adjustments		7,854	(21,518)
On other temporary differences		-	54
Total deferred tax recognised in income statement	*27*	**7,854**	**(21,464)**
Total tax charge		**(62,916)**	**(164,603)**

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

Reconciliation of tax on profits

Group	2017 €'000	2016 €'000
Profit before tax	543,730	1,667,308
Tax calculated at a tax rate of 25%	135,933	416,827
Effect of:		
Non-taxable derivative movements	(669)	(21,145)
Non taxable income/(deductible expenditure)	(34,078)	(252,463)
Tax losses not utilised/(utilised)	308	(49)
Movement in deferred tax (liability)/asset	(7,854)	21,464
Prior year adjustments	312	-
Credit for withholding tax suffered at source	(676)	-
Transitional adjustments	(49)	-
Income taxed at higher/(lower) rate	(30,311)	(31)
Taxation charge	**62,916**	**164,603**

The current Irish corporation tax charge of €71m (2016: €143m) arises on the profits earned by NAMAI and its subsidiaries. The Agency is exempt from Irish income tax, corporation tax and capital gains tax.

The tax charge for the year is primarily attributable to the Finance Act 2016 and 2017 amendments to Section 110 of the Taxes Consolidation Act 1997. As a result of these amendments, NAM D.A.C.'s entitlement to a tax deduction for PPL interest payable to NAMA is restricted to the extent that it is attributable to its specified property business (within the meaning of Section 110 of the Taxes Consolidated Act 1997).

The profits of the majority of the companies within the Group are subject to tax at the rate of 25% with the exception of NALM (for part of the financial year) and NAMAI, where the applicable tax rate is 12.5%.

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

14. INCOME TAX RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

Group	Note	2017 €'000	2016 €'000
Movement in cash flow hedge reserve before tax	35	-	72,401
Movement in available for sale reserve before tax	35	(8,739)	13,516
Total movement		**(8,739)**	**85,917**
Deferred tax charge (net)	27	(1,014)	(17,699)
Total income tax relating to components of other comprehensive income		**(1,014)**	**(17,699)**

The movement in the cash flow hedge reserve represented a temporary difference between the tax base of the derivatives where hedge accounting was applied and their fair value. As all derivatives designated into hedge relationships expired in September 2016, any related deferred tax asset or liability was recycled to the income statement during 2016. 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.

15. CASH AND CASH EQUIVALENTS AND COLLATERAL

Group	2017 €'000	2016 €'000
Balances with the Central Bank of Ireland	692,004	792,523
Balances with other banks	41,466	53,187
Term deposits	-	70,079
Exchequer note investments	-	672,000
Total cash and cash equivalents	**733,470**	**1,587,789**
Cash placed as collateral with the NTMA	25,000	58,000
Total cash, cash equivalents and collateral	**758,470**	**1,645,789**

Agency	2017 €'000	2016 €'000
Balances with the Central Bank of Ireland	59	112
Total cash and cash equivalents	**59**	**112**

Balances with other banks comprise balances held with Citibank, AIB and BNP. Exchequer notes are short term interest bearing notes, with maturities generally less than 3 months, which are held with the NTMA.

NAMA is required to post cash collateral with the NTMA under a collateral posting agreement (CPA) (as amended) entered into in 2012. The NTMA is the counterparty to all NAMA derivatives (other than those acquired from borrowers). The NTMA require cash to be placed with it as collateral to reduce the exposure it has to NAMA with regard to its derivative positions. At 31 December 2017, NAMA's derivative liability exposure was €4.4m (2016: €4.4m) as set out in Note 18.

During 2015, an amount of €250k was placed on deposit in an account in the Group's name. This amount will be held in the deposit account to cover a potential legal claim in relation to a debtor. On settlement the amount will be remitted to NAMA or retained by a third party. By end-2017, the balance was €251k. This amount has not been reported as part of the Group's cash balance and was still held on deposit at the reporting date as there was no change in the status of the legal claim during 2017 or 2016.

During the financial year, an amount of €10m was placed in an escrow account in NALM's name. This amount will be held in the account until the issue of a licence relating to a property, at which point the amount is expected to be remitted to NALM. This amount has not been reported as part of the Group's cash balance and was still held in the escrow account at the reporting date.

Notes to the Financial Statements (continued)

16. AVAILABLE FOR SALE FINANCIAL ASSETS

Group	2017 €'000	2016 €'000
Short term treasury bonds	495,097	519,378
Total available for sale financial assets	**495,097**	**519,378**

Available for sale financial assets comprise Irish government treasury bonds acquired for liquidity management. The nominal value of available for sale financial assets at 31 December 2017 was €430m (2016: €430m).

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

	Note	2017 €'000	2016 €'000
At beginning of year		519,378	-
Purchase of available for sale financial assets		-	520,985
Amortisation of premium on purchase		(22,201)	(15,123)
Net changes in fair value	*35*	(2,080)	13,516
Total available for sale financial assets at fair value		**495,097**	**519,378**

17. AMOUNTS DUE (TO)/FROM PARTICIPATING INSTITUTIONS

NAMA acquired overdraft accounts attached to debtor loan accounts in 2010 and 2011. At 31 December 2017 the following amounts were receivable from and payable to the Participating Institutions for cash collected or paid out by the Participating Institutions in relation to NAMA debtors' overdraft accounts. Amounts settled may differ to the balances reported at financial year end. All amounts are classified as current.

Unsettled overdraft positions	Receivable €'000	Payable €'000
Balance at 31 December 2016	20,481	(10,763)
Movement in overdraft accounts during the financial year	(330)	77
Balance as at 31 December 2017	**20,151**	**(10,686)**

The balance as at 31 December 2017 relates solely to unsettled overdraft positions currently in place with Bank of Ireland (BOI), following the complete settlement of all amounts receivable from AIB during 2016.

All BOI overdraft accounts have been closed and a number of them were converted to loans. There are seven positions yet to be agreed and these have not been included in the amounts above.

18. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

The Group has established policies to manage the risks that arise in connection with derivatives, including hedging policies, which are explained in Notes 21, 22 and 23.

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

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

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

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

Group 31 December 2016	Notional amount €'000	Fair values Assets €'000	Fair values Liabilities €'000	Net €'000
Derivatives at fair value through profit or loss				
Derivative financial instruments acquired from borrowers	44,723	19,458	-	19,458
Other derivative financial instruments	20,000	-	(3,316)	(3,316)
Foreign currency derivatives	637,707	6,541	(1,049)	5,492
Total derivative assets/(liabilities)	**702,430**	**25,999**	**(4,365)**	**21,634**

Movement recognised in the income statement and other comprehensive income

The table below shows the net fair value position on derivatives at 31 December 2017 and 2016. The movement is recognised in the income statement in unrealised foreign exchange gains/(losses) on derivative financial instruments (Note 11).

Group	*Note*	Fair values 2017 €'000	Fair values 2016 €'000	Movement 2017 €'000
Derivatives at fair value through profit or loss				
Derivative financial instruments acquired from borrowers	*8*	16,972	19,458	(2,486)
Other derivative financial instruments	*8*	(2,687)	(3,316)	629
Foreign currency derivatives	*11*	(223)	5,492	(5,715)
Net derivative fair value movement		**14,062**	**21,634**	**(7,572)**

Derivative financial instruments at fair value through profit or loss

The fair value of derivatives acquired from borrowers (that were associated with loans acquired) at the reporting date was €17m (2016: €19m). The fair value movement recognised in the income statement on these derivatives in the financial year was a net loss of €2m (2016: €1m) (see Note 8).

The fair value movement recognised in the income statement in the financial year on other derivative financial instruments was a net gain of €0.6m (2016: loss of €1m) (see Note 8). This relates to fair value movements on derivatives entered into by the Group to hedge derivative financial instruments acquired from borrowers that were not designated into hedge relationships.

NAMA uses currency derivatives to hedge the foreign exchange exposure which arose on the transfer of foreign currency loans from Participating Institutions with euro denominated NAMA Securities. The foreign currency derivatives are used to reduce its exposure to exchange rate fluctuation arising on foreign denominated loans and receivables acquired.

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

Notes to the Financial Statements (continued)

19. LOANS AND RECEIVABLES (NET OF IMPAIRMENT)

Group	Note	2017 €'000	2016 €'000
Loans and receivables carrying value before impairment		4,599,288	5,496,080
Less: provision for impairment charges on loans and receivables	12	(1,405,783)	(1,560,929)
Total loans and receivables (net of impairment)		**3,193,505**	**3,935,151**

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

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

Reconciliation of movement in loans and receivables

Group	Note	2017 €'000	2016 €'000
Loans acquired – opening balance		**5,496,080**	**10,291,851**
New loans acquired in the year	19.1	**18,000**	-
Proceeds from and payments to borrowers			
Non-disposal income	19.2	(110,402)	(294,917)
Proceeds from the sale of collateral held as security against loans and receivables and other loan repayments	19.3	(1,636,836)	(3,838,934)
Proceeds from the sale of loans	19.4	(22,342)	(1,156,022)
Deferred consideration on loan sales	19.5	(241,835)	(750,707)
Proceeds received by NAJV A	19.6	-	(12,105)
Funds advanced to borrowers		594,331	648,401
Funds in the course of collection	19.7	(316)	(500)
Costs recoverable from borrowers	19.8	3,292	11,463
Other		-	123
Total proceeds from and payments to borrowers		**(1,414,108)**	**(5,393,198)**
Other loan movements			
Loan interest income earned	4	248,238	368,108
Movement in overdraft accounts	17,19.9	-	8,451
Profit on disposal of loans	9	63,084	394,356
Surplus income	9	269,842	729,016
Foreign exchange loss on loans and receivables	11	(20,999)	(154,285)
Impairment crystallised from disposals	9,12,19.10	(142,521)	(633,399)
Movement in consideration for trading properties	19.11	98,664	(106,172)
Conversion of shareholder loan to equity	19.12	(12,243)	(3,139)
Other		(4,749)	(5,509)
Total other loan movements		**499,316**	**597,427**
Total loan movements		**(896,792)**	**(4,795,771)**
Total loans and receivables before impairment		**4,599,288**	**5,496,080**
Impairment of loans and receivables	12	(1,405,783)	(1,560,929)
Net loans and receivables after impairment		**3,193,505**	**3,935,151**

Reconciliation of movement in loans and receivables (continued)

The net movement in the loan balance after impairment in the financial year is a decrease of €0.7bn (2016: €3.9bn). The total cumulative impairment provision in respect of NAMA loans and receivables at 31 December 2017 is €1.4bn (2016: €1.6bn).

Pre-impairment loan movements occurring in the financial year are €0.9bn (2016: €4.8bn), which includes €1.7bn (2016: €5.0bn) of cash receipts from debtors, generated from the sale of loans and properties, non-disposal income of €0.1bn (2016: €0.3bn) and deferred consideration on loan sales of €0.2bn (2016: €0.8bn).

Funds advanced to debtors for working and development capital was €0.6bn (2016: €0.6bn). Loan interest income of €0.2bn (2016: €0.4bn) was earned in the financial year. Further information on certain loan movements are provided below.

19.1 New loans acquired

New loans acquired relates to loans of €18m (2016: €nil) acquired during the period in relation to existing NAMA debtors.

19.2 Non-disposal income

Non-disposal income receipts recorded against NAMA's loans and receivables in 2017 were €0.1bn (2016: €0.3bn). This amount primarily comprises rental income on collateral received during the financial year.

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

Proceeds from the sale of collateral held as security against loans and receivables and other loan repayments of €1.6bn (2016: €3.8bn) represent any receipts relating to the disposal of assets applied as a reduction in the debt held by NAMA.

19.4 Proceeds from the sale of loans

Proceeds from the sale of loans of €0.02bn (2016: €1.2bn) represent any receipts relating to the disposal of loans and receivables by the Group.

19.5 Deferred consideration on loan sales

Deferred consideration has been recognised in Other assets (Note 28). This relates to loan sales which were contracted pre year-end, and the full proceeds of sales were received post year-end.

19.6 Proceeds received by NAJV A

Proceeds received by NAJV A in 2016 related to the repayment of a loan advanced by NAJV A to a limited liability partnership, which invested in a joint venture arrangement with a consortium in 2013.

19.7 Funds in the course of collection

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

19.8 Costs recoverable from borrowers

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

19.9 Overdraft accounts

The movement in 2016 in the overdraft accounts relates to an estimate of €8.5m that had been previously adjusted against loans and receivables, but was reversed in 2016 on settlement of the overdraft positions with AIB. Refer to Note 17 for further detail on overdraft accounts.

19.10 Impairment crystallised from disposals

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

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

19.11 Movement in consideration for trading properties

Movement in consideration for trading properties comprises the movement in carrying values of property assets which were contracted for purchase by NAMA at the reporting date but had not yet completed. The property assets contracted include the purchase by NARPS of a number of social housing units from debtors and the acquisition of properties in the Dublin Docklands Strategic Development Zone. The consideration for these properties is recognised as a reduction in the debtor's outstanding debt to NAMA and an increase in trading properties as set out in Note 20, Inventories – Trading properties. Periodic valuations of these contracted assets can result in increases or decreases to carrying values, which will result in equal and opposite changes being recognised in loans and receivables.

For the 2016 comparatives, the classification between loans and receivables and trading properties has been changed, resulting in a reclassification of €16m between consideration for trading properties and Note 20, Inventories – Trading properties. There was no impact on the income statement or on the net assets of NAMA.

19.12 Conversion of shareholder loan to equity

Included in 'Conversion of shareholder loan to equity' are amounts totalling €12.2m (2016: €3.1m) related to the conversion of a shareholder loan to an equity investment in a QIAIF held by the Group.

20. INVENTORIES – TRADING PROPERTIES

Group	2017 €'000	2016 €'000
Trading properties	**277,357**	**330,218**

Trading properties are recognised in accordance with accounting policy 2.16.

The movement in carrying values relate to the following activity by the Group in 2017:

- acquisition of an additional 21 (2016: 709) social housing units as part of the social housing initiative;
- acquisition of properties in the Dublin Docklands in settlement of debt considered to be of strategic importance to the Group in terms of ongoing development strategies;
- disposal of property assets previously acquired in settlement of debt; and
- the derecognition of a contracted asset that was capitalised in 2016, but the sale of which did not proceed. The asset was subsequently disposed of during 2017 to an entity in which NAMA holds an investment via an equity instrument.

As set out in Note 19.11, certain of these assets acquired in the year were contracted but had not yet completed by the reporting date. The consideration for these properties is recognised as a reduction in the debtor's outstanding debt to NAMA and an increase in trading properties held by NAMA. For the 2016 comparatives, the classification between loans and receivables and trading properties has been changed, resulting in a reclassification of €16m between consideration for trading properties (Note 19.11) and Trading properties. There was no impact on the income statement or on the net assets of NAMA.

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

21. RISK MANAGEMENT

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

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

Asset and liability management

The management of NAMA's assets and liabilities is achieved through the implementation of strategies which have been approved by the Board. During 2016, day-to-day treasury management was carried out by the NAMA Treasury team with transactions executed on NAMA's behalf by the NTMA. With effect from 1 January 2017, certain treasury functions are provided to NAMA by the NTMA Funding and Debt Management Unit.

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

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

Risk Oversight and Governance

Risk Management Committee

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

Audit Committee

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

Credit Committee

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

Audit and Risk – Chief Financial Officer (CFO) Division

The Audit and Risk unit is part of the CFO division of NAMA and is responsible for the co-ordination and monitoring of internal and external audit. The unit supports the NAMA CFO to ensure that NAMA operates within the Board approved risk limits and tolerances. Audit and Risk is also responsible for the design and implementation of the NAMA Risk Management Framework. The unit provides an independent assessment and challenge of the adequacy of the control environment, it coordinates the internal and external audit activities across NAMA, the Participating Institutions and the Primary and Master Servicer and it monitors and reports to the Audit Committee and Board the progress in addressing actions highlighted in audit findings. The Quality Assurance team within the Audit & Risk unit was repositioned in 2017 and reviews the portfolio of NAMA assets to assess the level of compliance with policies and procedures and to provide advice where opportunities for enhanced control are identified.

NTMA Risk unit

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

21. RISK MANAGEMENT (CONTINUED)

21.1 Market risk

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

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

The Group's senior debt securities are denominated in euro, while certain of the Group's acquired assets are denominated in GBP. As a consequence, the Group has made use of foreign currency derivatives to manage the currency profile of its assets and liabilities. Similarly, interest rate swaps are used to manage mismatches in the Group's interest rate profile.

21.2 Market risk management

Objective

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

Policies

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

Risk mitigation

Risk mitigation involves the matching of asset and liability risk positions to the maximum extent practicable, and the use of derivatives to manage cash flow timing mismatch and interest rate sensitivity within the approved limit structure. The Group's Balance Sheet policies are designed to ensure a rigorous system of control is in place which includes prescribing a specific range of approved products and limits that cover all of the risk sensitivities associated with approved products.

The Group provides reporting to the Risk Management Committee with detailed analysis of all significant risk positions and compliance with risk limits. In addition to market risk position limits, stress testing is used to gauge the impact on the Group's position of a range of extreme market scenarios. Scenario based stress tests and long run historic simulations (going back to the 1990s) on current positions are used to assess and manage market risk.

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

21.3 Market risk measurement

21.3.1 Interest rate risk

The Group is exposed to interest rate risk on certain financial assets and liabilities. Effective systems have been put in place to mitigate such exposure.

The Group acquired fixed and variable rate loans from the Participating Institutions, as well as derivatives that were used to convert (for debtors) variable rate loans to fixed rate loans. In addition, the Group had issued floating rate senior debt securities and had 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.

21.3.1 Interest rate risk (continued)

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

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

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

Interest rate risk Group 2016	**0-6 months €'000**	**Non-interest bearing €'000**	**Total €'000**
Financial assets			
Cash and cash equivalents	1,587,789	-	**1,587,789**
Cash placed as collateral with the NTMA	58,000	-	**58,000**
Available for sale financial assets	430,000	-	**430,000**
Loans and receivables	3,935,151	-	**3,935,151**
Amounts due from Participating Institutions	-	20,481	**20,481**
Investments in equity instruments	-	55,500	**55,500**
Other assets	-	777,061	**777,061**
Total financial assets exposed to interest rate re-set	**6,010,940**	**853,042**	**6,863,982**
Financial liabilities			
Amounts due to Participating Institutions	-	10,763	**10,763**
Senior debt securities in issue	2,590,000	-	**2,590,000**
Other liabilities	-	27,839	**27,839**
Total financial liabilities exposed to interest rate re-set	**2,590,000**	**38,602**	**2,628,602**

Notes to the Financial Statements (continued)

21. RISK MANAGEMENT (CONTINUED)

21.3 Market risk measurement (continued)

21.3.1 Interest rate risk (continued)

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

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

Interest rate risk 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 2017. 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

	2017		2016	
Group	**+50bp €'000**	**-50bp €'000**	**+50bp €'000**	**-50bp €'000**
EUR	(3,073)	3,053	(1,392)	(1,789)
GBP	(423)	423	(580)	580
USD	(16)	16	(30)	30

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

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

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

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

Exposure to foreign exchange risk – sensitivity analysis

A 10% strengthening of the euro against the following currencies at 31 December 2017 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	**2017 €'000**	**2016 €'000**
GBP	(455)	(1,024)
USD	139	(372)

21.3.3 Other price risk

The Group is exposed to equity price risk arising from equity instruments. The fair value of equity instruments is measured based on the net asset value of the investment entity at the reporting date. Equity price risk is monitored through the review of net asset valuations, which are provided by the fund managers.

Equity price sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 10% higher/lower, profit before taxation for the financial year ended 31 December 2017 would increase/decrease by €6.6m (2016: €5.5m) as a result of the changes in fair value of NAMA's equity instruments, which are classified as fair value through profit or loss, in accordance with accounting policy 2.6.

The Agency is not exposed to other price risk.

22. CREDIT RISK

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

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

The Group's debtor-related exposures arose from the acquisition of a substantial portfolio of loans secured mostly on property in the commercial and residential sector in Ireland and the UK, and to a lesser extent in Europe, the USA and the rest of the world. Credit risk also arises in relation to the Group's lending activities, which are undertaken in order to preserve or enhance value (including funding of residential units) with the aim of achieving the maximum financial return for the State subject to acceptable risk. Undrawn loan commitments, guarantees and other financial assets also create credit risk.

Credit risk is the most significant risk to the Group's business. The Group therefore carefully manages its exposure to credit risk. The credit risk arising from the original acquisition of the loan portfolio was mitigated as far as possible by the completion of an intensive property and legal due diligence process. This was designed to ensure that loans were properly valued in accordance with the statutory scheme that provided for their acquisition by the Group, such valuations being independently verified to the satisfaction of the relevant authorities. The credit risk arising from the Group's ongoing lending and credit risk management activities is mitigated by the Group's Policy and Procedures Framework.

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

NAMA Asset Recovery

The primary function of the Asset Recovery division is to maximise recovery from the acquired loan portfolios, devised through implementing optimal workout strategies and effective management of debtors and insolvency practitioners.

Prior to the formation of the Residential Delivery division in the latter part of 2015, Asset Recovery was the principal interface with debtors/insolvency practitioners responsible for managing the majority of debtors both directly by NAMA and indirectly through the Participating Institutions/Primary Servicer. This responsibility requires intensive daily management, with an innovative and solutions based approach, employing a range of work-out methods including: setting and actively monitoring clear strategies, targets and milestones; minimising debtor, service provider and insolvency practitioner costs; securing and maximising income; optimising sales values through proactive asset management; providing additional capital expenditure where incremental value can be obtained or value protected; employing vendor finance and executing loan sales and portfolio sales, where appropriate; regularly reviewing asset sale versus asset hold options, employing inter alia a discounted cash flow analysis.

NAMA Residential Delivery

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

NAMA Asset Management

The Asset Management division is responsible for the oversight and management of significant development land held by NAMA debtors and insolvency practitioners including extensive areas of the Dublin Docklands SDZ and the former Irish Glass Bottle ("IGB") site in Ringsend which are held as collateral for the loans of various connections in receivership. The division is also responsible for the management of NAMA's minority shareholdings in certain investment vehicles in the Dublin Docklands, which include investments in certain Qualifying Investor Alternative Investment Funds (QIAIF) and Irish Collective Asset-Management Vehicles (ICAVs) (refer to Note 26). The Asset Management division also previously managed significant components of the Group's exposures to London residential development but as at end 2017 this UK activity is largely complete.

Policy and Procedures Framework

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

Ultimate responsibility for the management of credit risk in the Group rests with the Board. Credit risk management and control is implemented by the three relevant divisions as described above. Credit risk is reported to the Board and Credit Committee on a regular basis and the Framework is subject to a formal annual review.

The Group is responsible for managing loans, which have been acquired under the provisions of the NAMA Act. Loans acquired from Participating Institutions are grouped together and managed on a connection basis.

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

- An application for credit, including the funding of residential developments by a debtor/insolvency practitioner;
- Approval of asset sales;
- A proposal by a debtor which may involve pragmatic/commercial compromises or incentives in order to maximise NAMA's overall position;
- A proposed debtor or insolvency practitioner strategy;
- A proposed extension or amendment of terms for any or all of a debtor's exposures;
- A proposal to initiate insolvency or enforcement action;
- An asset management proposal for secured assets, e.g. approving new leases; and
- An action by a third party concerning a common debtor e.g. non participating institution/insolvency practitioner.

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

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

22.1 Credit risk measurement

The Group applies the following measures of exposure:

Loan portfolio – credit exposure measurement

- Par debt exposure – the gross amount owed by the debtor, i.e. the total amounts due in accordance with the original contractual terms of acquired loans. The total Par debt acquired by the Group was €74bn. Total PAR Debt outstanding at the reporting date is €25.8bn (2016: €28.4bn).
- NAMA debt exposure – the acquisition amount paid by the Group (plus any new money lent by the Group and interest charge added, less cash payments received). The total consideration paid for loans and related derivatives acquired was €31.8bn. Total Gross NAMA Debt outstanding at the reporting date is €4.6bn (2016: €5.5bn).

In accordance with Section 10 of the Act, NAMA is required to expeditiously obtain the best achievable financial return for the State having regard to Par debt, acquisition cost, any costs as a result of dealing with the assets, its cost of capital and other costs. These are the fundamental measures upon which credit and case strategy decisions will be made. They are also the basis for determining the appropriate Delegated Authority level for credit decisions made by the Group. NAMA monitors Par and NAMA debt exposure in parallel and uses them in support of all credit decisions.

Derivative portfolio – credit exposure measurement

In addition to the loans that were acquired by the Group, a number of derivative financial instruments were acquired which were attached to debtors' loans acquired from the Participating Institutions.

At any time, the Group's credit risk exposure is limited to the positive fair value of these derivative instruments (i.e. assets with a positive mark-to-market value). This mark-to-market value is usually only a small fraction of the contract value (or notional value of the outstanding instruments). At the reporting date, three of these derivative instruments remained, with an outstanding fair value of €17m (2016: €19m).

22. CREDIT RISK (CONTINUED)

22.1 Credit risk measurement (continued)

Concentration risk

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

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

22.2 Credit risk assessment

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

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

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

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

22.3 Credit risk control

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

The Policy and Procedures Framework sets out the permitted decision making and credit limits, for example relating to:

- The approval of Debtor and Insolvency Practitioner work-out strategies and Strategic Credit Reviews;
- The approval of new lending;
- Loan restructuring or renegotiation where no additional debt is provided;
- Enforcement action being taken by the Group;
- Sales of assets/loans;
- Property and asset management requirements; and
- Debtor and third party costs required to implement approved work-out strategies.

The level of approval required for each of these credit decisions is determined by reference to the total amount of the debtor's outstanding balance and the level of additional funding being sought.

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

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

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

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

(a) Cash Management

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

(b) Collateral

Loans and advances to debtors and insolvency practitioners are collateralised principally by charges over real estate assets, other assets, liens on cash deposits, and are supplemented in many cases by personal and corporate guarantees.

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of first fixed charge security for any working or development capital advanced.

The principal collateral types acceptable for credit risk mitigation of loans and receivables are:

- Mortgages over various land and properties;
- Floating charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities;
- Charges over bank deposits including sales receipts accounts for Debtors who avail of approved residential development funding.

(c) Derivatives

The security for derivatives acquired is from the collateral acquired with the loan, and is reflected in the loan acquisition price paid. The Group also transacts derivatives with the NTMA to hedge interest rate and foreign currency exposures.

The credit exposure of derivatives acquired, together with potential exposures arising from market movements, is managed as part of the overall debtor's exposure management.

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

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

The table below sets out the maximum exposure to credit risk for financial assets with credit risk (net of impairment) at 31 December 2017, taking no account of collateral or other credit enhancements held. Exposures are based on the net carrying amounts as reported in the Group's Statement of financial position.

Group	Note	Maximum exposure 2017 €'000	Maximum exposure 2016 €'000
Cash and cash equivalents		733,470	1,587,789
Cash placed as collateral with the NTMA		25,000	58,000
Available for sale financial assets		495,097	519,378
Amounts due from Participating Institutions		20,151	20,481
Derivative financial instruments		18,437	25,999
Loans and receivables			
Land and development		2,267,831	2,644,853
Investment property		2,331,457	2,851,227
Impairment		(1,405,783)	(1,560,929)
Loans and receivables (net of impairment)		3,193,505	3,935,151
Other assets		259,395	777,061
Investments in equity instruments		65,709	55,500
Total assets		**4,810,764**	**6,979,359**
Loan commitments	*23.4*	493,450	377,972
Total maximum exposure		**5,304,214**	**7,357,331**

Notes to the Financial Statements (continued)

22. CREDIT RISK (CONTINUED)

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

Agency	Maximum exposure 2017 €'000	Maximum exposure 2016 €'000
Cash	59	112
Investments in subsidiaries	49,000	49,000
Other assets	3,540,144	3,324,368
Total maximum exposure	**3,589,203**	**3,373,480**

22.5 Information regarding the credit quality of loans and receivables and other financial instruments

(a) Loans and receivables neither past due nor impaired

The Group has implemented a grading policy to provide a risk profile of NAMA's portfolio which applies to all debtors. NAMA's credit grade scale seeks to assign a measure of the risk to the recovery of a financial asset and is based on two dimensions with nine possible grades expressed as a combination of a number and letter 1A, 3B etc.

- The first dimension (scale 1, 2, 3) measures the quality of the underlying assets acquired and the expectation for debt recovery relative to the NAMA debt. This first dimension ranges from instances where recovery is expected to exceed the NAMA debt to situations where a shortfall on NAMA debt is anticipated and an impairment provision has been marked against the exposure.
- The second dimension (scale A, B, C) rates the level of debtor performance and cooperation by measuring the achievement of financial and non-financial milestones that have been agreed through the debtor engagement process.

The 9 possible grade outcomes can be summarised into the following categories:-

- *Satisfactory:* Capacity to meet financial commitments and low likelihood of expected loss.
- *Watch:* Requires closer monitoring but demonstrates capacity to meet financial commitments.
- *Impaired:* Exposures require varying degrees of close attention and active portfolio management and loss expectation is a concern.

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

	2017 €'000	2016 €'000
Satisfactory	785,329	1,381,484
Watch	623,280	763,460
Loans and receivables neither past due nor impaired	**1,408,609**	**2,144,944**

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

(b) Loans and receivables past due not impaired

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

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

(c) Loans and receivables individually assessed for impairment

Loans and associated derivatives which were determined to be impaired as a result of the individual impairment review had a carrying value of €3.2bn (2016: €3.5bn) at the reporting date and generated interest income of €136m in 2017 (2016: €142m).

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

Loans and receivables individually assessed for impairment

	2017 €'000	2016 €'000
Gross loans and associated derivatives	4,559,675	5,504,753
Individually impaired loans and associated derivatives	(3,219,601)	(3,507,065)
Loans and associated derivatives not individually impaired	**1,340,074**	**1,997,688**

Gross loans and associated derivatives assessed for impairment differ from Gross loans and receivables as per Note 19, as the balance above excludes overdrafts of €33m, cash in transit of €8m and other loans and receivables of €28m.

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

(d) Loans and receivables renegotiated

Restructuring polices are set out in the NAMA Pricing and Restructuring Policy included in the Group's Policy and Procedures Framework. Loans may be restructured based on the most appropriate strategy to achieve repayment of all outstanding debt obligations, taking into account structures, guarantees 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.

None of the loans exposed to credit risk of the Group or the Agency were renegotiated in the period (2016: €nil).

(e) Other financial instruments amounts

The credit quality of the following financial instrument amounts at the reporting date have been graded satisfactory and are not past due or impaired:

- Cash and cash equivalents
- Available for sale financial assets
- Amounts due to/from Participating Instruments
- Investments in equity instruments
- Other assets
- Other liabilities.

Available for sale financial assets are government bonds with an A+ rating, and as such, have been graded as above.

The Group has not disclosed an age analysis of financial assets past due as the information is not available in order to accurately determine the ageing of such instruments.

Notes to the Financial Statements (continued)

22. CREDIT RISK (CONTINUED)

22.6 Geographical reporting

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

Geographical reporting 2017 Group	Ireland excluding Northern Ireland €'000	UK including Northern Ireland €'000	Rest of World €'000	Loan impairment €'000	Total €'000
Loans and receivables					
– Land and development	1,967,531	196,717	103,583	-	**2,267,831**
– Investment property	1,846,617	346,884	137,956	-	**2,331,457**
Impairment of loans and receivables	-	-	-	(1,405,783)	**(1,405,783)**
Total loans and receivables	**3,814,148**	**543,601**	**241,539**	**(1,405,783)**	**3,193,505**
Cash and cash equivalents	733,470	-	-	-	**733,470**
Cash placed as collateral with the NTMA	25,000	-	-	-	**25,000**
Available for sale financial assets	495,097	-	-	-	**495,097**
Derivative financial instruments	18,437	-	-	-	**18,437**
Amounts due from Participating Institutions	20,151	-	-	-	**20,151**
Inventories – trading properties	274,318	-	3,039	-	**277,357**
Other assets	259,395	-	-	-	**259,395**
Investments in equity instruments	51,611	-	14,098	-	**65,709**
Property, plant and equipment	1,008	-	-	-	**1,008**
Total assets	**5,692,635**	**543,601**	**258,676**	**(1,405,783)**	**5,089,129**

Geographical reporting 2016 Group	Ireland excluding Northern Ireland €'000	UK including Northern Ireland €'000	Rest of World €'000	Loan impairment €'000	Total €'000
Loans and receivables					
– Land and development	1,944,740	588,375	111,738	-	**2,644,853**
– Investment property	2,258,904	426,172	166,151	-	**2,851,227**
Impairment of loans and receivables	-	-	-	(1,560,929)	**(1,560,929)**
Total loans and receivables	**4,203,644**	**1,014,547**	**277,889**	**(1,560,929)**	**3,935,151**
Cash and cash equivalents	1,587,789	-	-	-	**1,587,789**
Cash placed as collateral with the NTMA	58,000	-	-	-	**58,000**
Available for sale financial assets	519,378	-	-	-	**519,378**
Derivative financial instruments	25,999	-	-	-	**25,999**
Amounts due from Participating Institutions	20,481	-	-	-	**20,481**
Inventories – trading properties	328,918	-	1,300	-	**330,218**
Other assets	777,061	-	-	-	**777,061**
Investments in equity instruments	45,075	-	10,425	-	**55,500**
Property, plant and equipment	1,344	-	-	-	**1,344**
Total assets	**7,567,689**	**1,014,547**	**289,614**	**(1,560,929)**	**7,310,921**

The Agency statement of financial position, comprises inter-group assets in respect of the reimbursement of administration expenses from the Group, therefore all of the assets exposed to credit risk in the Agency are located in Ireland.

23. LIQUIDITY RISK

Liquidity risk is the risk that the Group is unable to meet all of its financial obligations as and when they fall due. Liquidity risk arises from differences in timing between cash inflows and outflows.

23.1 Liquidity risk management process

The Group's liquidity risk management process as carried out within the Group includes:

- Management of NAMA's day-to-day liquidity and funding requirements so as to ensure that it will meet all obligations as they fall due: these include future lending commitments, interest on liabilities, collateral posting, day-to-day operating costs, fees and expenses.
- Asset and Liability management; by monitoring the maturity profile within the Group's statement of financial position to ensure that sufficient cash resources are retained and/or funding established where mismatches are likely to occur, thereby minimising the impact of liquidity outflows.

Monitoring and reporting takes the form of cash flow measurement and projections for periods of one week to one year with the planning process covering periods beyond one year. The NAMA Finance unit independently produces liquidity forecasts that are provided to the Risk Management Committee and Board. All projections include a 'stressed' forecast to cater for prolonged periods of uncertainty. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected repayment date of the financial assets.

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

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 2017	**0-6 months €'000**	**Total €'000**
Liabilities		
Amounts due to Participating Institutions	10,686	**10,686**
Senior debt securities in issue (including interest)	-	**-**
Other liabilities	14,037	**14,037**
Total liabilities	**24,723**	**24,723**
Assets held for managing liquidity risk	**1,253,567**	**1,253,567**

Non-derivative cash flows Group 31 December 2016	**0-6 months €'000**	**Total €'000**
Liabilities		
Amounts due to Participating Institutions	10,763	10,763
Senior debt securities in issue (including interest)	2,590,000	2,590,000
Other liabilities	27,679	27,679
Total liabilities	**2,628,442**	**2,628,442**
Assets held for managing liquidity risk	**2,165,167**	**2,165,167**

Notes to the Financial Statements (continued)

23. LIQUIDITY RISK (CONTINUED)

23.2 Non-derivative cash flows (continued)

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

Non-derivative cash flows Agency 31 December 2016	0-6 months €'000	Total €'000
Liabilities		
Interest bearing loans and borrowings	53,699	53,699
Other liabilities	7,449	7,449
Total liabilities	**61,148**	**61,148**
Assets held for managing liquidity risk	**112**	**112**

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

23.3 Derivative cash flows

(a) Derivatives settled on a net basis

The Group's derivatives that will be settled on a net basis include interest rate derivatives.

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

Group 31 December 2017	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	978	488	4,184	1,988	**7,638**

Group 31 December 2016	0-6 months €'000	6 -12 months €'000	1-5 years €'000	Over 5 years €'000	Total €'000
Interest rate derivatives – where hedge accounting does not apply	1,040	552	4,918	3,033	**9,543**

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

Group **31 December 2016**	**0-6 months** **€'000**	**Total** **€'000**
Foreign exchange derivatives:		
– Outflow	(637,707)	**(637,707)**
– Inflow	641,657	**641,657**
Total inflow	**3,950**	**3,950**

23.4 Loan commitments

The dates of the contractual amounts of the Group's financial instruments that commit it to extend credit to customers and other credit facilities are summarised in the following table.

Group **Commitments to lend**	**No later than 1 year** **€'000**	**1-5 years** **€'000**	**Over 5 years** **€'000**	**Total** **€'000**
31 December 2017	188,864	295,205	9,381	**493,450**
31 December 2016	172,959	183,340	21,673	**377,972**

The Agency has no loan commitments.

Notes to the Financial Statements (continued)

24. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

(a) Comparison of carrying value to fair value

The table below summarises the carrying amounts and fair values of financial assets and liabilities presented in the Group and Agency's statement of financial position.

Group	2017 Carrying value €'000	2017 Fair value €'000	2016 Carrying value €'000	2016 Fair value €'000
Financial assets				
Cash and cash equivalents	733,470	733,470	1,587,789	1,587,789
Cash placed as collateral with the NTMA	25,000	25,000	58,000	58,000
Available for sale financial assets	495,097	495,097	519,378	519,378
Amounts due from Participating Institutions	20,151	20,151	20,481	20,481
Derivative financial instruments	18,437	18,437	25,999	25,999
Loans and receivables	3,193,505	3,345,456	3,935,151	4,536,190
Other assets	282,339	282,339	802,271	802,271
Investments in equity instruments	65,709	65,709	55,500	55,500
Total assets	**4,833,708**	**4,985,659**	**7,004,569**	**7,605,608**
Financial liabilities				
Amounts due to Participating Institutions	10,686	10,686	10,763	10,763
Derivative financial instruments	4,375	4,375	4,365	4,365
Senior debt securities in issue	-	-	2,590,000	2,591,659
Other liabilities	14,201	14,201	27,839	27,839
Total liabilities	**29,262**	**29,262**	**2,632,967**	**2,634,626**

Agency	2017 Carrying value €'000	2017 Fair value €'000	2016 Carrying value €'000	2016 Fair value €'000
Financial assets				
Cash and cash equivalents	59	59	112	112
Other assets	3,540,144	3,540,144	3,324,368	3,324,368
Investment in subsidiaries	49,000	49,000	49,000	49,000
Total assets	**3,589,203**	**3,589,203**	**3,373,480**	**3,373,480**
Financial liabilities				
Interest bearing loans and borrowings	53,568	53,568	53,699	53,699
Other liabilities	6,644	6,644	7,449	7,449
Total liabilities	**60,212**	**60,212**	**61,148**	**61,148**

Financial assets not subsequently measured at fair value

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

(i) Cash and balances with banks

The fair value of term deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is equal to their carrying value at the financial year-end as deposits are short term and the effect of discounting is minimal.

(ii) Amounts due from Participating Institutions

The estimated fair value of amounts due from Participating Institutions is equal to their carrying value at the financial year end as receivables are current and will be settled in cash.

(iii) Loans and receivables

Loans and receivables are presented 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 cash flows for individually significant debtors were reviewed as part of the impairment cash flow assessment at the reporting date. In determining fair value at end-2017, future cash flows are discounted using an appropriate discount rate. During 2017, there was a change in the discounts rates methodology used in determining fair value as a result of an assessment of the fair value model arising out of ongoing work to prepare for the implementation of IFRS 9. As the data points utilised for the assessment of fair value were not available at the end of 2016, it is not practicable to estimate the impact of revised discount rates on the prior year comparative.

Note 2.3 provides further detail on the Group's adoption of IFRS 9 which will result in changes to discount rates.

(iv) Debt securities in issue

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

(b) Fair value hierarchy

IFRS 13 *Fair Value Measurement* specifies a three level hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect assumptions that are specific to the asset and are not necessarily based on observable market data. The fair value hierarchy comprises:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes available for sale financial assets where quoted market prices are available.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes OTC derivative contracts. The sources of input parameters use the standard LIBOR/EURIBOR yield curve.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments with significant unobservable components. The fair value of equity investments is based on the net asset value of the underlying companies. The net asset value of the underlying companies are primarily derived from the fair value of the underlying investment properties. The fair value is calculated using residual valuation approach and market evidence of comparable transactions. The significant unobservable component used for valuation is net asset value.

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

Notes to the Financial Statements (continued)

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

(b) Fair value hierarchy (continued)

Group 31 December 2016	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Assets				
Derivative financial instruments	-	19,458	-	**19,458**
Foreign currency derivatives	-	6,541	-	**6,541**
Available for sale financial assets	519,378	-	-	**519,378**
Investments in equity instruments	-	-	55,500	**55,500**
Total assets	**519,378**	**25,999**	**55,500**	**600,877**
Liabilities				
Derivative financial instruments	-	3,316	-	**3,316**
Foreign currency derivatives	-	1,049	-	**1,049**
Total liabilities	**-**	**4,365**	**-**	**4,365**

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

There were no transfers between hierarchy levels during 2017. Following a review of the valuation technique used for investments in equity instruments in 2016, it was considered that there were significant unobservable components used for valuation and therefore it was more appropriate to classify Investments in equity instruments as Level 3 (previously Level 2).

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

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

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

Group Investments in equity instruments	*Note*	2017 €'000	2016 €'000
Balance as at 1 January		55,500	48,211
Additional investments		15,446	5,075
Cash distributions		-	(1,248)
Fair value movements	*7*	(5,237)	3,462
Balance as at 31 December		**65,709**	**55,500**

No gain or loss was realised during the financial year (2016: gain of €6.0m) on the disposal of the Group's equity instruments. The gain in 2016 is recorded in the income statement as other income.

Quantitative information about fair value measurements (Level 3)

			Fair value	
Level 3 assets	**Valuation technique**	**Unobservable input**	**31 December 2017 €'000**	**31 December 2016 €'000**
Investments in equity instruments	Market comparability	Net asset value	65,709	55,500

Sensitivity of Level 3 measurements

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

Categories of financial assets and financial liabilities

Financial assets and liabilities are categorised in accordance with IAS 39 as follows:

- Loans and receivables
- Financial assets or liabilities at fair value through profit or loss – held for trading (FVTPL)
- Available for sale financial assets (AFS)
- Financial liabilities measured at amortised cost.

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

Financial liabilities Group 31 December 2017	Financial liabilities measured at amortised cost €'000	FVTPL €'000
Amounts due to Participating Institutions	10,686	-
Derivative financial instruments	-	4,375
Senior debt securities in issue	-	-
Other liabilities	14,201	-

Financial assets Group 31 December 2016	Loans and receivables €'000	FVTPL €'000	AFS €'000
Cash and cash equivalents	1,587,789	-	-
Cash placed as collateral with the NTMA	58,000	-	-
Available for sale financial assets	-	-	519,378
Amounts due from Participating Institutions	20,481	-	-
Derivative financial instruments	-	25,999	-
Loans and receivables	3,935,151	-	-
Investments in equity instruments	-	55,500	-
Other assets	777,061	-	-

Notes to the Financial Statements (continued)

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

(b) Fair value hierarchy (continued)

Categories of financial assets and financial liabilities (continued)

Financial liabilities Group 31 December 2016	Financial liabilities measured at amortised cost €'000	FVTPL €'000
Amounts due to Participating Institutions	10,763	-
Derivative financial instruments	-	4,365
Senior debt securities in issue	2,590,000	-
Other liabilities	27,839	-

Cash and cash equivalents and Other assets in the Agency are classified as Loans and receivables. Interest bearing loans and borrowings and Other liabilities in the Agency are classified as financial liabilities measured at amortised cost.

25. PROPERTY, PLANT AND EQUIPMENT

Group and Agency	2017 €'000	2016 €'000
Cost		
Balance at 1 January	**2,546**	**2,546**
Depreciation		
Accumulated depreciation at 1 January	(1,202)	(866)
Depreciation charge for the year	(336)	(336)
Balance at 31 December	**(1,538)**	**(1,202)**
Net book value at 31 December	**1,008**	**1,344**

Property, plant and equipment includes lease fit out costs incurred to date. Capitalised lease fit out costs are depreciated over the remaining life of the asset in accordance with accounting policy 2.24.

26. INVESTMENTS IN EQUITY INSTRUMENTS

Group	2017 €'000	2016 €'000
Financial assets at fair value through profit or loss	**65,709**	**55,500**

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

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

The Agency held no investments in equity instruments.

27. DEFERRED TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Deferred income tax assets and liabilities are attributable to the following items:

Group	Deferred tax Assets €'000	Liabilities €'000	Deferred tax on other temporary differences €'000	Total €'000
Balance at 1 January 2017	**1,091**	**(11,384)**	**-**	**(10,293)**
Movement in the financial year	876	5,964	-	**6,840**
Balance at 31 December 2017	**1,967**	**(5,420)**	**-**	**(3,453)**
Balance at 1 January 2016	**44,813**	**(15,889)**	**(54)**	**28,870**
Movement in the financial year	(43,722)	4,505	54	**(39,163)**
Balance at 31 December 2016	**1,091**	**(11,384)**	**-**	**(10,293)**

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

Group	*Note*	2017 €'000	2016 €'000
Movement in deferred tax recognised in the income statement	*13*	7,854	(21,464)
Movement in deferred tax recognised in other comprehensive income	*14,35*	(1,014)	(17,699)
Total movement in deferred tax in the financial year		**6,840**	**(39,163)**

The Agency has no deferred tax assets or liabilities.

A net deferred tax liability of €3.5m (2016 €10m) has been recognised in relation to derivatives, equity investments, transitional adjustments and available for sale financial assets. In accordance with accounting standards, deferred tax is recognised where the corresponding entry is accounted for i.e. either in the income statement or in other comprehensive income. With effect from 1 July 2017, any unrealised fair value movements in the derivatives and equity investments held on trading account will no longer be subject to deferred tax as the tax treatment will follow the accounting treatment. Transitional adjustments relating to previous unrealised fair value movements will be brought into the charge to tax over a period of 5 years (or earlier where appropriate) beginning in the current year.

A deferred tax charge of €1m (2016: €18m) has been recognised in other comprehensive income relating to deferred tax on the available for sale financial assets and on the fair value movement on derivatives where hedge accounting was applied.

28. OTHER ASSETS

Group	2017 €'000	2016 €'000
Accrued swap interest receivable	830	882
Interest receivable on available for sale financial assets	-	6,658
Deferred consideration on loan sales	242,894	763,440
Tax prepaid	22,944	25,210
Other assets	15,671	6,081
Total other assets	**282,339**	**802,271**

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

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

Notes to the Financial Statements (continued)

28. OTHER ASSETS (CONTINUED)

The Group has made an overpayment of corporation tax for the year of €7m. The tax prepaid also includes payments of €16m that were made in 2017 and 2016 in respect to S96.3 liabilities.

Agency	2017 €'000	2016 €'000
Costs reimbursable from NALM	4,239	5,156
Interest receivable on profit participating loan to NAM	3,535,296	3,318,667
Other receivables	609	545
Total other assets	**3,540,144**	**3,324,368**

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

29. SENIOR DEBT SECURITIES IN ISSUE

Group	2017 €'000	2016 €'000
In issue at the start of the financial year	2,590,000	8,090,000
Redeemed during the financial year	(2,590,000)	(5,500,000)
In issue at 31 December	**-**	**2,590,000**

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

The outstanding senior debt securities of €2.59bn at 31 December 2016 issued in respect of the original acquisition of loans by NALM were fully repaid during 2017. The debt securities were all government guaranteed floating rate notes, which were issued by NAM and transferred to NAMGS under a profit participating loan facility and by it to NALM. The latter company used these securities as consideration (95%) for the loan portfolio acquired from each of the Participating Institutions.

Interest was paid semi-annually on 1 March and 1 September. There was no interest paid to holders of senior debt securities in 2017 as the interest rate, which is based on Euribor, was negative and the coupon rate is floored at 0%.

The securities issued permitted the issuer (where the issuer had not received a Holder Physical Delivery Option Rejection Notice) to physically settle all, or some only, of the securities at maturity which may have been up to 364 days from the date of issue, notwithstanding that the existing security may have had a shorter maturity.

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

Changes in liabilities arising from financing activities

Group	Senior debt securities €'000
As at the beginning of the year	2,590,000
Cash flows	
– Redemption of senior debt securities	(2,590,000)
Non-cash changes	-
At the end of the year	**-**

During the year ended 31 December 2017, the non-cash changes in the Agency on liabilities arising from financing activities amounted to €nil.

30. OTHER LIABILITIES

Group	2017 €'000	2016 €'000
Accrued swap interest payable on other derivatives	164	160
Interest payable on cash and cash equivalents	310	290
Accrued expenses	8,381	18,248
VAT payable	4,482	5,192
Amounts payable to acquire trading properties	-	3,000
Other liabilities	864	949
Total other liabilities	**14,201**	**27,839**

Amounts payable to acquire trading properties in 2016 related to an amount outstanding following the acquisition of a property by NAPM. This was paid in 2017.

Agency	2017 €'000	2016 €'000
Amounts due to the NTMA	1,726	5,299
Amounts due to Group entities	4,475	1,625
Other liabilities	443	525
Total other liabilities	**6,644**	**7,449**

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

31. TAX PAYABLE

Group	2017 €'000	2016 €'000
Professional services withholding tax and other taxes payable	363	534
Total tax payable	**363**	**534**

32. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Contingent liabilities

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

A complaint was made to the Commission that included an allegation of the unauthorised granting of State aid through NAMA's operations and activities. The Commission has made its decision on this complaint, finding that the alleged measures (a) are "existing" and do not constitute new nor unlawful aid, with regard to certain of the matters alleged, and (b) do not constitute State aid, with regard to the remaining allegations made by the complainants. It is unclear whether the complainants will seek to take further action following the Commission's decision.

Separate to the above, at the reporting date, NAMA is party to a number of on-going legal cases, as part of its ordinary course of business. The possible outflow of economic resources cannot be reliably estimated and therefore no legal provisions in respect of these cases are recognised by the Group at the reporting date.

(b) Commitments

The Group has no guarantees or letters of credit at the reporting date.

32. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(b) Commitments (continued)

The Group holds operating leases in respect of the third floor and first floor of its registered office, Treasury Building. At the reporting date the remaining lease term on the third floor is 2 years and 10 months. The length of the lease remaining until the first break clause is 0.5 years for the first floor annexe and 3 years for the first floor.

Operating lease amounts recognised in profit or loss for the financial year were €2.7m (2016: €2.1m).

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

Group and Agency	2017 €'000	2016 €'000
Gross (before reimbursement)		
Less than one year	2,357	2,181
Between one and five years	4,123	5,766
Total future minimum operating lease payments	**6,480**	**7,947**
Reimbursement		
Less than one year	890	926
Between one and five years	–	890
Total future minimum operating lease payments	**890**	**1,816**
Net (after reimbursement)		
Less than one year	1,467	1,255
Between one and five years	4,123	4,876
Total future minimum operating lease payments	**5,590**	**6,131**

Following a reduction in occupancy needs of NAMA in 2017, part of the first floor and first floor annexe is occupied by other NTMA agencies. The future minimum operating lease commitments note disclosed above includes estimated reimbursement of €0.9m (2016: €1.8m) that will be received from the NTMA agencies for the space that is occupied by them.

Other operating leases

Future minimum operating lease rental receipts relating to the inventory properties owned by the Group is set out in the following table:

Group	2017 €'000	2016 €'000
Less than one year	11,614	8,694
Between one and five years	46,382	34,726
More than five years	158,813	127,133
Total future minimum operating lease receipts	**216,809**	**170,553**

Operating lease receivables comprise leases held by two subsidiaries, NARPS and NAPM.

Operating leases in NARPS relate to the inventory property owned by the Company with lease terms of 20 years and 9 months. Lessees have an option to purchase the units of property at the open market value of the property, discounted by 10%, for a period of 6 months commencing on the fourteenth year of the lease term.

The operating lease in NAPM relates to an inventory property owned by the Company, which has been leased out to a third party, with a lease term of 5 years which is due to expire in 2021.

The Agency has no future minimum operating lease rental receipts.

33. INTEREST BEARING LOANS AND BORROWINGS

Agency	2017 €'000	2016 €'000
Loan due to NALM and related interest	53,568	53,699

On 25 February 2011, NALM, a Group entity, issued an interest bearing loan of €52m to NAMA. The purpose of the loan was to provide funding from the Group to NAMA to repay a loan of €49m and accrued interest to the Central Fund. Interest is based on the 6 month Euribor rate. The loan term is extended annually on 25 February unless terminated as agreed between the parties. The Group has no external loans or borrowings.

Due to the Euribor rate being negative during the year, negative interest income of €0.13m (2016: €0.058m) was recognised on the loan (Refer to Note 7).

34. OTHER EQUITY

Group	2017 €'000	2016 €'000
In issue at 1 January and 31 December	1,593,000	1,593,000

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

The interest rate on the instruments is the ten year Irish Government Bond rate at the date of first issuance, plus 75 basis points. This rate has been set at a fixed return of 5.264%. Interest is paid annually if deemed appropriate to do so, however the coupon is declared at the option of the issuer. Coupons not declared in any financial year will not accumulate. NAMA has paid an annual coupon of €83.86m on its subordinated debt each year since March 2014. Withholding tax of €0.7m (2016: €0.7m) was paid to the Revenue Commissioners in respect of the coupon payments in 2017.

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

Under IAS 32, it is the substance of the contractual arrangement of a financial instrument, rather than its legal form, that governs its classification. As the subordinated notes contain no contractual obligation to make any payments (either interest or principal) should the Group not wish to make any payments, in accordance with IAS 32 the subordinated debt has been classified as equity in the statement of financial position, with any coupon payments classified as dividend payments (Note 36).

Notes to the Financial Statements (continued)

35. OTHER RESERVES

Group	Note	2017 €'000	2016 €'000
Cash flow hedge reserve			
At 1 January		-	(54,300)
Changes in clean fair value		-	72,401
Hedge interest settled during the financial year		-	107,350
Movement in interest accrual		-	(34,143)
Transferred to the income statement	*5*	-	(73,207)
Net movement in cash flow hedge reserve before tax	*14*	-	72,401
Deferred tax recognised in other comprehensive income	*14,27*	-	(18,101)
At 31 December		**-**	**-**
Available for sale reserve			
At 1 January		13,918	-
Other adjustments		(6,659)	-
Changes in fair value	*16*	(2,080)	13,516
Net movement in available for sale reserve before tax	*14*	(8,739)	13,516
Deferred tax recognised in other comprehensive income	*14,27*	(1,014)	402
At 31 December		**4,165**	**13,918**
Total other reserves		**4,165**	**13,918**

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

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

There was no net movement in the cash flow hedge reserve for 2017 before tax (2016: increase of €72m). The 2016 movement comprised the fair value movement in derivatives where hedge accounting is applied of €74m offset in part by an amount recycled from the cashflow hedge reserve to the income statement of €2m.

Government bonds are classified as available for sale financial assets in accordance with IAS 39. Changes in fair value are recognised in reserves. During 2016, NAMA acquired Irish government treasury bonds with a nominal value of €430m. No additional government treasury bonds were acquired during the financial year.

The net movement in the available for sale reserve for the year was a decrease of €9m (2016: an increase of €14m) which reflects the movement in fair value of available for sale financial assets acquired during 2016.

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

Group	2017 €'000	2016 €'000
Retained earnings		
At 1 January	3,034,419	1,615,937
Profit for the financial year	480,814	1,502,705
Dividend paid on B ordinary shares	(547)	(367)
Coupon paid on subordinated bonds	(83,856)	(83,856)
At 31 December	**3,430,830**	**3,034,419**
Non controlling interests		
Profit for the financial year	-	-

Agency	2017 €'000	2016 €'000
Retained earnings		
At 1 January	3,313,676	1,818,276
Profit for the financial year	216,323	1,495,400
At 31 December	**3,529,999**	**3,313,676**

In March 2017, the Board of NAMAI declared and approved a dividend payment of €0.01072 per share (2016: €0.00719 per share). The amount of the dividend per share was based on the ten year Irish government bond yield as at 31 March 2017, and amounted to €0.55m (2016: €0.37m). The dividend was paid to the holders of B ordinary shares of NAMAI only, the private investors, who have ownership of 51% in the Company. No dividend was paid to the A ordinary shareholders, NAMA the Agency, which has a 49% ownership in the Company.

In February 2017, the Board of NAM resolved that it was appropriate, in the context of NAMA's overall aggregate financial performance and objectives, that the annual coupon on the subordinated bonds of €83.86m (2016: €83.86m) due on 1 March 2017 be paid. The subordinated bonds are classified as equity in the statement of financial position, and related payments thereon are classified as coupon payments and recognised in equity. Refer to Note 34 for further details.

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

NAMA has, along with the private investors, invested in NAMAI. NAMA holds 49% of the issued share capital of NAMAI and the remaining 51% of the share capital is held by private investors. Under the terms of the shareholders' agreement between NAMA and the private investors, NAMA can exercise a veto over decisions taken by NAMAI.

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

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

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

37. SHARES AND INVESTMENTS IN GROUP UNDERTAKINGS

NAMAI has €100m in share capital, of which NAMA has invested €49m, receiving 49 million A ordinary shares, and the remaining €51m was invested in NAMAI by private investors, each receiving an equal share of 51 million B ordinary shares. Under the terms of a shareholders' agreement between NAMA and the private investors, NAMA may exercise a veto over decisions taken by NAMAI. As a result of this veto, the private investors' ability to control the financial and operating policies of the entity is restricted and NAMA has effective control of the company. By virtue of this control NAMA has consolidated NAMAI and its subsidiaries and the 51% external investment in NAMAI is reported as a non-controlling interest in these financial statements.

37.1 Subsidiaries

The NAMA Group structure is set out in Note 1 to the Financial Statements. The subsidiary undertakings and percentage ownership of NAMA in those subsidiaries are as follows:

Group Subsidiary	Percentage ownership	Percentage voting rights	Principal Activity	Country of incorporation
National Asset Management Agency Investment D.A.C.	49%	100%	Holding company and lending	Ireland
National Asset Management D.A.C.	49%	100%	Debt issuance	Ireland
National Asset Management Group Services D.A.C.	49%	100%	Holding company, securitisation and asset management	Ireland
National Asset Loan Management D.A.C.	49%	100%	Securitisation and asset management	Ireland
National Asset North Quay D.A.C.	49%	100%	Acquisition of certain property assets in settlement of debt owed to NAMA	Ireland
North Wall Plaza Management Company D.A.C.	26.5%	100%	Management of the public areas of the lands at 72-80 North Wall Quay, Dublin 1	Ireland
National Asset Property Management D.A.C.	49%	100%	Real estate	Ireland
National Asset Management Services D.A.C.	49%	100%	Holding company for shareholding in a general partnership	Ireland
National Asset JV A D.A.C.	49%	100%	Investment in a partnership as a limited partner	Ireland
National Asset Residential Property Services D.A.C.	49%	100%	Provision of residential properties for the purposes of social housing	Ireland
National Asset Sarasota Limited Liability Company	49%	100%	Acquisition of property assets located in the US in settlement of debt owed to NAMA	US
National Asset Leisure Holdings Limited (in Voluntary Liquidation)	49%	100%	Holding company	Ireland
RLHC Resort Lazer SGPS, S.A.	49%	100%	Facilitate legal restructure	Portugal
RLHC Resort Lazer II SGPS, S.A.	49%	100%	Facilitate legal restructure	Portugal

At the reporting date, all subsidiaries have their registered offices in Treasury Building, Grand Canal Street, Dublin 2, with the exception of RLHC and RLHC II. The registered office of RLHC and RLHC II is Rua Garrett, n.º 64, 1200-204 Lisbon, Portugal.

37.2 Investment in subsidiaries

Agency	2017 €'000	2016 €'000
49,000,000 shares in NAMAI	**49,000**	**49,000**

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

The Agency have considered whether there is evidence of the existence of impairment of its investment in NAMAI under IAS 36 Impairment of Assets. The Agency is satisfied that there are no indicators of impairment.

37.3 Details of non-wholly owned subsidiaries where NAMA has a non-controlling interest

The remaining 51% of the subsidiaries listed in 37.1 is owned by the private investors, by virtue of their 51% ownership in NAMAI.

A dividend was paid to the private investors during the year of €0.55m (2016: €0.37m). The private investors have no further interest in the group activities or cashflows. Accumulated non controlling interest at the end of the reporting period was €51m (2016: €51m).

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

Profits or losses which may arise are allocated to the non-controlling interest in accordance with accounting policy 2.26.

37.4 Details of non-consolidated subsidiaries

National Asset Leisure Holdings Limited (in Voluntary Liquidation)

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

The establishment of these entities was required to facilitate the legal restructure of a number of entities with Portuguese property assets. Following the completion of the legal restructure, NALHL (in Voluntary Liquidation) was placed into liquidation on 18 December 2014. The control of NALHL (in Voluntary Liquidation) is with the liquidator who will realise the assets of the Company. There was no change during 2017 in the status of NALHL (in Voluntary Liquidation).

As the liquidator has assumed the rights of the shareholder and now controls NALHL (in Voluntary Liquidation), NALHL (in Voluntary Liquidation) and its subsidiaries, RLHC and RLHC II, are not consolidated into the results of the NAMA Group.

See Note 39.6 for details of the assets held by these companies.

38. RELATED PARTY DISCLOSURES

The related parties of the Group comprise the following:

Subsidiaries

Details of the interests held in NAMA's subsidiaries are given in Note 37.1 and Note 1 to the financial statements.

NTMA

The NTMA provides staff, finance, communication, technology, risk and human resources services to NAMA. The costs incurred by the NTMA are charged to NAMA (the Agency) on an actual cost basis and the Agency is reimbursed by the Group. The total of these costs for the year was €38.0m (2016: €47.2m), with a closing payable balance to the NTMA of €1.7m at end-2017 (2016: €5.3m). Further details in respect of these costs are disclosed in Note 10. The NTMA is the counterparty for NAMA's derivative positions in its management of foreign exchange and interest rate exposure. NAMA is required to post cash collateral with the NTMA under a Collateral Posting Agreement (CPA) to reduce the NTMA's exposure to NAMA derivatives. NAMA acquires Exchequer note investments that were issued by the NTMA. NAMA held no Exchequer notes (2016: €0.67bn) issued by the NTMA at the reporting date which were treated as cash and cash equivalents (see Note 15).

During the year, NAMA incurred costs of €4k (2016: €nil) for insurance costs, payable to the State Claims Agency. The closing payable balance to the State Claims Agency at end-2017 was €nil (2016: €nil).

NTMA Defined Benefit Pension Scheme

All staff are employed by the NTMA and the NTMA contributes to the NTMA Defined Benefit Pension Scheme on behalf of its employees. The pension scheme is controlled and managed by independent trustees as appointed by the NTMA. As part of the consideration for the provision of staff, the Group has made a payment of €3.5m (2016: €4.0m), representing the refund of the NTMA's contribution to the pension scheme in respect of these NAMA Officers.

38. RELATED PARTY DISCLOSURES (CONTINUED)

Minister for Finance

The Minister established NAMA under the NAMA Act 2009. Sections 13 and 14 of the Act grant certain powers to the Minister in relation to NAMA. Section 13 provides that the Minister may issue guidelines to NAMA for the purposes of the Act and, in particular, in relation to the purpose of contributing to the social and economic development of the State. NAMA is required to have regard to any such guidelines in performing its functions. Section 14 provides that the Minister may issue directions to NAMA concerning the achievement of the purposes of the Act and, in particular, in relation to the purpose of contributing to the social and economic development of the State. NAMA is obliged to comply with any such direction.

The effect of these statutory provisions is that the Minister has the ability to exercise significant influence over NAMA.

Participating Institutions

During 2010, a number of legislative measures were enacted that gave the Minister rights and powers over certain financial institutions in respect of various matters of ownership, board composition, acquisition or sale of subsidiaries, business activity, restructuring and banking activity. The Participating Institutions also agreed to consult with the Minister prior to taking any material action which may have a public interest dimension.

Participating Institutions are credit institutions that were designated by the Minister, under Section 67 of the Act, as a Participating Institution. The Participating Institutions that have transferred loan assets to NAMA as at the reporting date are Allied Irish Banks p.l.c (incorporating EBS), and Bank of Ireland.

The Group issued senior and subordinated securities and transferred them to the Participating Institutions in return for loan assets. Transactions with Participating Institutions are disclosed in the financial statements primarily under Note 19, Loans and Receivables, Note 17, Amounts due to and from Participating Institutions and the related Income Statement notes.

During 2016, the Group sold a loan to Allied Irish Banks p.l.c. for a total of €41m. No loans were sold to Allied Irish Banks p.l.c. during 2017.

The Group has operating accounts with Allied Irish Banks p.l.c that have a balance of €26m (2016: €25m) at the reporting date. The average closing daily balance throughout the year was €22m (2016: €15m).

During the year the Group placed deposits with Allied Irish Banks p.l.c. The average amount deposited with the bank was €23m (2016: €33m).

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

Loan servicing costs	2017 €'000	2016 €'000
Allied Irish Banks p.l.c	2,823	3,278
Bank of Ireland	357	546
	3,180	**3,824**

New Ireland Assurance Co p.l.c.

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

Key management personnel

The Agency is controlled by the NAMA Chief Executive Officer and the Board. The Chief Executive Officer of the NTMA is an ex-officio member of the Board. The Chief Executive Officer and Board have the authority and responsibility for planning, directing and controlling the activities of NAMA and its subsidiaries and therefore are key management personnel of NAMA. Fees paid to Board members are disclosed in Note 10. NAMA made a further payment of €18k (2016: €18k) relating to the pension levy on the Board fees. The Group has no employees.

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

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.

	2017 €'000	2016 €'000
Interest income:		
Agency		
Interest on loan to NAM	216,629	1,495,779
Other expenses:		
Agency		
Costs reimbursable from the NAM Group	40,970	49,661
Other assets:		
Agency		
Costs reimbursable from NALM	4,239	5,156
Interest receivable on profit participating loan to NAM	3,535,296	3,318,667
	3,539,535	3,323,823
Other liabilities:		
Agency		
Amounts due to Group entities	4,475	1,625

Loan due to NALM

An interest bearing loan of €52m was advanced from NALM to the Agency in 2011. Interest is earned on this loan at the six month EURIBOR rate. During the year, Euribor rates were negative. Negative interest earned on this loan for the year was €0.13m (2016: €0.058m). The balance payable at end-2017 was €54m (2016: €54m).

Intergroup loan agreements

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

Profit participating loan agreements	2017 €'000	2016 €'000
NAM to NAMGS (entered in 2010)	1,593,000	4,183,000
NAMGS to NALM (entered in 2010, amended in 2017)	1,605,177	4,179,571
NAMGS to NAJV A (entered in 2013)	4,040	16,879

38. RELATED PARTY DISCLOSURES (CONTINUED)

Intergroup loan agreements (continued)

Intergroup loan agreements	**2017 €'000**	**2016 €'000**
NAMAI to NAM (entered in 2010)	105,259	105,010
NALM to NARPS (entered in 2012)	214,779	209,605
NALM to NAPM (entered in 2012)	66,153	123,468
NALM to NASLLC (entered in 2013)	2,051	2,303
NALM to NANQ (entered in 2015)	32,135	31,745
NALM to NAJVA (entered in 2017)	27,607	-
NAPM to NALHL (in Voluntary Liquidation) (entered in 2014)	100	100

During the financial year, NALM elected out of the section 110 regime. Its profit participating loan agreement with NAMGS was amended by a Supplemental Facility Agreement and an Amending and restating loan facility with NAMGS, as approved by NALM Board.

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

In order to achieve its objectives NAMA has established special purpose vehicles as outlined in Note 1. These entities prepare and present separate financial statements. In accordance with the requirements of Section 54 of the Act the following additional information is provided, in respect of NAMA and each of its Group entities.

39.1 Administration fees and expenses incurred by NAMA and each NAMA Group entity

The administration fees incurred by NAMA are set out in Note 10.

The expenses of each NAMA Group entity that incurs administrative expenses are shown in the tables below.

The expenses of NALM and NAPM (combined) include a recharge of €38.0m (2016: €47.2m) in respect of NTMA costs incurred by the Agency. These costs are also included in the consolidated accounts.

NWPMC was not a NAMA Group entity at end-2016 financial statements. During 2017, it was designated a NAMA Group entity, and it is included in the 2017 consolidated account for NAMA Group. The 2016 comparatives below are shown for information purposes.

NALM **Expense type**	*Note*	**2017 €'000**	**2016 €'000**
Costs reimbursable to the NTMA	*10.1*	37,677	46,966
Primary servicer fees	*10.2*	9,881	15,215
Master servicer fees	*10.3*	1,600	1,479
Portfolio management fees	*10.4*	2,170	2,703
Legal fees	*10.5*	5,686	2,882
Finance, communication and technology costs	*10.6*	4,517	4,013
Rent and occupancy costs	*10.7*	2,636	2,883
Internal audit fees	*10.8*	751	752
External audit remuneration	*10.9*	634	1,250
Total NALM administration expenses		**65,552**	**78,143**

39.1 Administration fees and expenses incurred by NAMA and each NAMA Group entity (continued)

NAPM Expense type	Note	2017 €'000	2016 €'000
Costs reimbursable to NALM	10.1	304	263
Portfolio management fees		51	171
Legal fees		280	122
Finance, communication and technology costs		6	46
Total NAPM administration expenses		**641**	**602**

NASLLC Expense type	2017 €'000	2016 €'000
Legal fees	54	-
Finance, communication and technology costs	6	24
Total NASLLC administration expenses	**60**	**24**

NAJV A Expense type	2017 €'000	2016 €'000
Legal fees	270	-
Finance, communication and technology costs	59	-
Total NASLLC administration expenses	**329**	**-**

NARPS Expense type	2017 €'000	2016 €'000
Portfolio management fees	178	331
Legal fees	101	446
Finance, communication and technology costs	4	-
Total NARPS administration expenses	**283**	**777**

NANQ Expense type	2017 €'000	2016 €'000
Portfolio management fees	19	-
Legal fees	142	40
Management fee	12	20
Taxation fees	-	3
Total NANQ administration expenses	**173**	**63**

NWPMC Expense type	2017 €'000	2016 €'000
Professional fees	9	6
Board fees	3	6
Total NWPMC administration expenses	**12**	**12**

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

39.1 Administration fees and expenses incurred by NAMA and each NAMA Group entity (continued)[9]

RLHC Resort Lazer SGPS, S.A. (RLHC) Expense type	2017 €'000	2016 €'000
Professional services	242	13
Total RLHC administration expenses[9]	**242**	**13**

RLHC Resort Lazer II SGPS, S.A. (RLHC II) Expense type	2017 €'000	2016 €'000
Professional services	107	10
Total RLHC II administration expenses[9]	**107**	**10**

39.2 Debt securities issued for the purposes of the Act

Group	2017 €'000	2016 €'000
Senior notes issued by NAM	-	2,590,000
Subordinated debt issued by NAM	1,593,000	1,593,000
Total	**1,593,000**	**4,183,000**

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

39.3.1 Government guaranteed senior debt securities

Financial Institution	Outstanding at 1 Jan 17 € '000	Redeemed € '000	Outstanding at 31 Dec 17 € '000
AIB	1,805,000	(1,805,000)	-
BOI	454,000	(454,000)	-
Permanent TSB (formerly IL&P)	248,000	(248,000)	-
Central Bank of Ireland	83,000	(83,000)	-
Total	**2,590,000**	**(2,590,000)**	**-**

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

9 *These amounts are estimated based on 31 December 2016 audited accounts, pending final 2017 year-end audited accounts being provided. The 2016 comparatives were based on 31 December 2015 audited accounts. As set out in Note 37.4, these investments are not consolidated into the NAMA Group financial statements.*

39.3.2 Subordinated debt securities held

Financial Institution	Outstanding at 31 Dec 17 € '000	Outstanding at 31 Dec 16 € '000
AIB	417,000	451,000
BOI	281,000	281,000
Other Noteholders	875,000	841,000
EBS	20,000	20,000
Total	**1,593,000**	**1,593,000**

39.4 Advances to NAMA from the Central Fund in the financial year

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

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

Participating Institution	Amount advanced 2017 €'000	Amount advanced 2016 €'000
AIB	452,182	348,775
Asset Services (formerly "Capita")	120,031	288,679
Vendor finance	-	2,645
Total	**572,213**	**640,099**

39.6 Asset portfolios held by NAMA and each NAMA Group entity

The assets held by NAMA and each NAMA Group entity are set out below. The assets include intergroup assets and liabilities and intergroup profit participating loans between NAMA Group entities.

NWPMC was not a NAMA Group entity in 2016, and was not consolidated then. During 2017, it was designated a NAMA Group entity, and it is included in the 2017 consolidated account for NAMA Group. The 2016 comparatives below are shown for information purposes.

NAMA	2017 €'000	2016 €'000
Investment in NAMAI	49,000	49,000
Cash	59	112
Interest receivable on loan to NAM	3,535,296	3,318,667
Intergroup receivable	4,239	5,156
Other receivables	609	545
Property, plant and equipment	1,008	1,344
Total	**3,590,211**	**3,374,824**

NAMAI	2017 €'000	2016 €'000
Intergroup loan to NAM	99,900	99,900
Interest on intergroup loan	5,359	5,110
Cash	251	251
Total	**105,510**	**105,261**

Notes to the Financial Statements (continued)

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

39.6 Asset portfolios held by NAMA and each NAMA Group entity (continued)

NAM	2017 €'000	2016 €'000
Profit participating loan with NAMGS	1,593,000	4,183,000
Interest on profit participating loan	3,477,879	3,177,144
Intergroup assets	278,068	278,068
Tax prepayments	-	15,658
Total	**5,348,947**	**7,653,870**

NAMGS	2017 €'000	2016 €'000
Profit participating loan with NALM	1,605,177	4,179,571
Profit participating loan with NAJV A	4,040	16,879
Interest on profit participating loans	3,429,859	3,178,074
Intergroup receivable	267,098	183,243
Total	**5,306,174**	**7,557,767**

NALM	2017 €'000	2016 €'000
Cash	712,823	1,574,204
Cash placed as collateral with the NTMA	25,000	58,000
Receivable from Participating Institutions	20,151	20,481
Available for sale financial assets	495,097	519,378
Derivative financial instruments	18,437	25,999
Loans and receivables	3,165,776	3,899,930
Intergroup assets	690,104	624,483
Accrued interest receivable	830	882
Investments in equity instruments	36,068	38,246
Inventories – trading properties	1,300	1,300
Other assets	294,215	784,168
Total	**5,459,801**	**7,547,071**

NANQ	2017 €'000	2016 €'000
Cash	2,406	717
Loans and receivables	8,937	9,734
Inventories – trading properties	21,750	21,750
Other assets	3	4
Total	**33,096**	**32,205**

NWPMC	2017 €'000	2016 €'000
Other assets	21	14

39.6 Asset portfolios held by NAMA and each NAMA Group entity (continued)

NAPM	2017 €'000	2016 €'000
Cash	3,398	2,880
Investments in subsidiaries	534	534
Inventories – trading properties	49,382	118,462
Intergroup receivable	100	93
Other assets	9,983	-
Total	**63,397**	**121,968**

NARPS	2017 €'000	2016 €'000
Cash	11,255	4,129
Inventories – trading properties	203,486	205,492
Other assets	473	921
Total	**215,214**	**210,542**

NAJV A	2017 €'000	2016 €'000
Cash	3,278	5,495
Investments in equity instruments	29,641	17,254
Loan receivable	18,792	5,781
Other assets	-	53
Total	**51,711**	**28,583**

NASLLC	2017 €'000	2016 €'000
Loans and receivables	-	3,168
Inventories – trading properties	1,739	-
Total	**1,739**	**3,168**

NALHL (in Voluntary Liquidation)	2017 €'000	2016 €'000
Investment in subsidiaries[10]	**39,363**	**7,686**

RLHC Resort Lazer SGPS, S.A. (RLHC)	2017 €'000	2016 €'000
Investment in subsidiaries[10]	**35,398**	**6,899**

RLHC Resort Lazer II SGPS, S.A. (RLHC II)	2017 €'000	2016 €'000
Investment in subsidiaries[10]	**3,965**	**787**

10 These amounts are estimated based on 31 December 2016 audited accounts, pending final 2017 year-end audited accounts being provided. The 2016 comparatives were based on 31 December 2015 audited accounts. As set out in Note 37.4, these investments are not consolidated into the NAMA Group financial statements.

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

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

Entity	Description	Amount in issue at 31 December 2017 €'000	Amount in issue at 31 December 2016 €'000
National Asset Management	On 26 March 2010, the Minister for Finance guaranteed Senior Notes issued by NAMA as provided for under Section 48 of the NAMA Act 2010. The maximum aggregate principal amount of Senior Notes to be issued at any one time is €51.3bn.	-	2,590,000
		-	**2,590,000**

Refer to Note 29 for further detail.

40. CAPITAL MANAGEMENT

The Group manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. The Group's objectives when managing capital in its statement of financial position are:

- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To maintain a strong capital base to support the development of its business;
- To distribute any surplus to the Exchequer from time to time.

The Group's capital base comprises Share Capital (Note 37) and Other Equity (Note 34). The Group is not subject to any externally imposed capital requirements.

41. EVENTS AFTER THE REPORTING DATE

a) Dividend

On 15 March 2018, the Board of NAMAI declared and approved a dividend payment of €454k. The applicable dividend rate was 0.891% based on the Irish Government Bond 10 year bond yield. This was paid to the owners of B ordinary shares only.

b) Coupon on Subordinated Debt

On 28 February 2018, NAMA made a coupon payment of €83.86m on the servicing of interest on the subordinated debt. For more information on subordinated debt, see Note 34, Other equity.

c) Other

On 3 April 2018, NAM D.A.C. invited holders of the floating rate perpetual Subordinated bonds first callable on 1 March 2020 to tender such bonds for purchase by NAM for cash. It is anticipated that bonds with a nominal value of €243m will be repurchased for a total consideration of €262.7m in April 2018. The cost of this transaction along with any incremental transaction costs will be accounted for in equity in the 2018 Financial Statements.

There were no other events after the reporting date that require disclosure in the financial statements.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The Board approved the financial statements on 25 April 2018.

Glossary of Terms

Collateral A borrower's pledge of specific property to a lender, to be forfeited in the event of default.

Counterparty The party with whom a contract or financial transaction is effected.

Cross Currency Swap An agreement to swap cash flows on loans of the same size and terms but denominated in different currencies. These agreements are used by the Group to fix the Euro cost of transactions denominated in foreign currency.

Current Market Value The estimated amount for which a property would exchange between a willing buyer and seller in an arm's-length transaction.

Debtor A borrower, whose loans were deemed eligible and those loans have transferred to the Group. The borrower is referred to by the Group as a debtor. A debtor connection is a group of loans that are connected to a debtor.

Debtor business plans Business plans produced by each debtor setting out how they intend to pay back debt and the plan for achieving debt repayment. Debtor business plans are independently reviewed and approved between NAMA and the debtor.

Deferred payment initiative The residential mortgages 80:20 Deferred payment initiative was launched in 2012 to facilitate first-time buyers and other owner-occupiers who wish to purchase a home and encourage activity in the housing market. The initiative offered limited price protection to buyers for a period of five years. NAMA does not own the properties or issue the mortgages. Three of the Irish banks participated in the scheme.

Derivative A derivative is a financial instrument that derives its value from an underlying item e.g. interest rates or currency, and can be used to manage risks associated with changes in the value of the underlying item.

Discount Rate The rate used to discount future cash flows to their present values.

Due Diligence A comprehensive appraisal of a business especially to establish the value of its assets and liabilities. There are two types of due diligence carried out by the Group, Legal and Property due diligence.

Enforcement Proceedings Proceedings to compel compliance with legal contracts.

Equity Instrument Any contract that results in a residual interest in the assets of an entity after deducting all of its liabilities.

Euribor The Euro Interbank Offered Rate is the rate at which euro interbank deposits are offered by one prime bank to another within the Eurozone.

Floating Rate An interest rate that changes periodically as contractually agreed.

Foreign Exchange Derivative/Cross Currency Swap A financial contract where the buyer and seller agree to swap floating cash flows between two different currencies, during a defined period of time.

FX Swap An FX Swap is a simultaneous purchase and sale of identical amounts of one currency for another with two different value dates (normally spot to forward).

Garden Leave A period of time, typically the notice period, where an employee leaving NAMA may be relieved from duty as an officer of NAMA until the expiry of their notice period. During any period of garden leave the NTMA continues to pay remuneration until the expiry date of the notice period.

Hedge Entering into an agreement to manage the risks of adverse changes in the price of an asset or liability.

Impaired Loan A loan is impaired when it is unlikely the lender will collect the full value of the loan.

Interest Rate Swap A derivative in which one party exchanges a stream of cash flows for another party's stream of cash flows based on a specified principal amount. Typically this comprises a swap of the cash flows equivalent to variable interest payments for cash flows equivalent to fixed interest payments on the same principal amount.

Inventories Properties acquired by NAMA and held on its statement of financial position.

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

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

Loan commitments Balance of credit NALM has committed to extend to customers.

Long-Term Economic Value (LTEV) The value as determined by NAMA in accordance with the NAMA Act, that an asset can be reasonably expected to attain in a stable financial system when the crisis conditions prevailing at the time of the passing of the Act are ameliorated and, in the case of property, in which a future price or yield of the property is consistent with reasonable expectations having regard to the long-term historical average.

Mark-to-Market Value The price or value of a security, portfolio or account that reflects its current market value rather than its book value.

Glossary of Terms (continued)

OTC Over the Counter refers to derivatives that are not traded on a recognised exchange.

Participating Institution A Credit Institution that has been designated by the Minister under Section 67 of the Act as a Participating Institution, including any of its subsidiaries that has not been excluded under that section.

Present Value A value on a given date of a future payment or series of future payments, discounted to reflect the time value of money and other factors such as investment risk.

Primary Servicer A Participating Institution managing debtors on NAMA's behalf within authority limits approved by the NAMA Board.

Profit Participating Loan A loan that provides the lender with a return that depends, at least in part, on the profitability of the borrower.

QIAIF – Qualifying Investor Alternative Investment Fund This is a regulated, specialist investment fund targeted at professional and institutional investors, who must meet minimum subscription and eligibility requirements.

Qualifying Advance An advance made by a Participating Institution to a borrower (whose loans are eligible assets) following the announcement of NAMA by the Minister for Finance on 7 April 2009. The advance is only qualifying if it was made as part of normal commercial banking arrangements. No discount applied to these advances.

Security Includes *(a)* a Charge, *(b)* a guarantee, indemnity or surety, *(c)* a right of set-off, *(d)* a debenture, *(e)* a bill of exchange, *(f)* a promissory note, *(g)* collateral, *(h)* any other means of securing—(i) the payment of a debt, or (ii) the discharge or performance of an obligation or liability, and *(i)* any other agreement or arrangement having a similar effect.

Short term treasury bonds Irish government treasury bonds acquired for liquidity management.

Special Purpose Vehicle A legal entity created to fulfil a narrow, specific or temporary well defined objective.

Subordinated Debt Debt which is repayable only after other debts have been repaid. NAMA pays 5% of the purchase price of the loans it acquires in the form of subordinated bonds.

Tranche A group of loans of different debtors, which transfer to NAMA at a specific point in time. The transfer of assets from Participating Institutions to the Group occurs in tranches.

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