National Asset Management Agency

Annual Report and Financial Statements 2011

Evolution of NAMA

April 2009 – June 2012

Evolution of NAMA April 2009 – June 2012

	2009	2010				2011				2012	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Policy	**April** Plan to establish NAMA announced **September** Publication of NAMA Bill 2009 **November** Enactment of the NAMA Act 2009	**February** EU Commission approval of NAMA		**August** EU Commission approval of transfer of first tranche of loans	**November** C&AG special report on NAMA acquisition of bank assets					**February** C&AG special report on NAMA management of loans	
Governance	**May** Brendan McDonagh appointed Interim MD **December** Board announced and 1st Board Meeting		**June** Business Plan published		**December** 25th Board meeting			**September** Review of NAMA by Michael Geoghegan	**October** 50th Board meeting	**February** Executive reorganisation announced	
Staffing		**January** 7 Staff		**July** 54 Staff	**December** 100 Staff	**March** 125 Staff	**June** 145 Staff	**September** 180 Staff	**December** 193 Staff	**March** 214 Staff	
Loan Acquisition			**May** Acquisition €15.3bn completed	**August** Acquisition €12bn completed	**December** Bulk acquisition €44bn completed	**March** Acquisition €1.1bn completed			**October** Residual acquisition €1.7bn completed		
Credit Decisions				**August** 250	**October** 500	**March** 1,500	**April** 2,000	**September** 4,000	**December** 6,000	**March** 8,500	**May** 10,990
Asset Sales Approvals			**June** €500m	**September** €1bn		**March** €2.5bn		**September** €5bn	**December** €7.5bn		**May** €9.2bn
Business Plans Assessed							**May** 50	**August** 150	**September** 250	**December** 500	**June** 791 (100%)

Gníomhaireacht Náisiúnta um Bhainistíocht Sócmhainní
National Asset Management Agency

29 June 2012

Mr. Michael Noonan T.D.

Minister for Finance

Government Buildings

Upper Merrion Street

Dublin 2.

Dear Minister,

We have the honour to submit to you the Report and Accounts of the National Asset Management Agency for the year ended 31 December 2011.

Yours sincerely,

Frank Daly
Chairman

Brendan McDonagh
Chief Executive

Key Objectives set by the Board

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

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

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

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

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

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

National Asset Management Agency

REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2011

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Board Members

Mr. Frank Daly

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

- Chairman of Northern Ireland Advisory Committee

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

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

In March 2008, Mr. Daly was appointed Chairman of the Commission on Taxation which was set up to review the structure and efficiency of the Irish taxation system; the Commission issued its Report in September 2009.

Mr. John C. Corrigan

Board member (ex-officio)

- Member of the Risk Management Committee

John Corrigan was appointed Chief Executive of the National Treasury Management Agency (NTMA) in December 2009. He joined the NTMA in 1991 shortly after its establishment and was initially responsible for managing the domestic component of Ireland's National Debt. In 2001, Mr. Corrigan was involved in the establishment of the National Pensions Reserve Fund (NPRF) and was the Fund's Investment Director until his appointment as NTMA Chief Executive.

Before joining the NTMA, Mr. Corrigan was Chief Investment Officer of AIB Investment Managers, having previously worked in the Department of Finance.

Ms Eilish Finan

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

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

Eilish Finan is an Independent Director and Consultant and specialises in the financial services and property sectors. In her earlier career, Ms Finan worked with KPMG as a chartered accountant. She was Chief Financial Officer and Director of AIG Investments specialising in investment management, fund management, trustee and custodial services, property investment and asset management. Ms Finan is a Fellow of Chartered Accountants Ireland and a Board member of the Corporate Governance Association of Ireland.

Mr. Brendan McDonagh

Chief Executive and 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. Brian McEnery

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

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

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

Mr. John Mulcahy

Head of Asset Management and Board Member

(Appointed to the Board on 7 March 2012 for a 5-year term)

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

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

Dr. Steven A. Seelig

Board member (appointed 26 May 2010 for a 3-year term)

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

Dr. Steven A. Seelig is a Principal and CEO of Financial Stability Associates, a consulting firm specialising in the spectrum of financial stability issues. Prior to establishing Financial Stability Associates, Dr. Seelig served as Advisor in the Monetary and Capital Markets Department of the International Monetary Fund (IMF) where he had primary responsibility for the financial sector restructuring and resolution activities of the department. Dr. Seelig spent the bulk of his professional career at the Federal Deposit Insurance Corporation (FDIC), holding a broad range of positions, including Chief Financial Officer and Director of Divisional Liquidation. Dr. Seelig also worked as an Economist at the Federal Reserve Bank of New York and as an Associate Professor of Economics at Fordham University.

Mr. Willie Soffe

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

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

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

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

Mr. Peter Stewart and Mr. Michael Connolly resigned from the Board on 10 October 2011 and 25 November 2011 respectively.

Chairman's Statement

INTRODUCTION

NAMA is now into its third year and we have successfully negotiated the challenge of creating the organisation from scratch and acquiring a huge portfolio of loans. That was a challenging and exciting phase of our operation but the phase ahead promises to be even more so. This next phase of our evolution, in which we concentrate firmly on asset management, is one that is focused on extracting, for the taxpayer, the best possible return from the loans and the underlying property assets securing them. This new phase requires us to be innovative, dynamic and responsive to market demand and opportunity. We signalled our intent in this respect when we announced recently that we plan to invest up to €2 billion in development funding in Ireland up to 2016. In addition we announced our intention to make €2 billion in vendor finance available to help unlock international and domestic investor interest in our portfolio and to support recovery in Ireland's commercial property market. We have also launched a new initiative in the residential property market and plan further product innovations over the course of 2012.

The Chief Executive, in his Statement, charts NAMA's enormous progress to date, from valuing and acquiring over 11,000 individual loans with a face value of €74 billion to assessing close to 800 debtor business plans through to making the decisions that underpin our funding of over €1 billion in working and development capital to date. Side by side with these achievements, we have built a sophisticated and robust organisational infrastructure and assembled a team of dedicated property, finance, banking and legal professionals to enable us to the meet the challenge set for us. The restructuring of the Agency over recent months following a review in late 2011 attests to NAMA's organisational agility and responsiveness but more importantly positions us to maximise the opportunities ahead in our asset management phase.

ECONOMIC CONTRIBUTION, INVESTMENT AND JOBS

Our legislative remit is to maximise the return on our acquired bank assets. Put simply this means getting the best financial return we can – but that perhaps is too narrow a view especially from a taxpayer perspective. Because over our lifetime we also aim to make a tangible contribution to economic activity and employment in Ireland – indeed evidence of this is already there in the first two years of our operations.

The potential impact of NAMA's intention to invest €2 billion in commercial and residential projects in Ireland is not to be underestimated – Government and other research studies indicate that the investment could sustain up to 25,000 direct and indirect construction jobs and a further 10,000 'induced' jobs in the wider economy. These jobs will be in addition to the substantial number of jobs, in excess of 10,000, that we support right now in small trading businesses that are linked to our loans. Widely dispersed, these businesses are important drivers of investment and economic activity within their local economies and support further employment across other business sectors. The preservation of these jobs is extremely important to NAMA – indeed if we create more along the way then so much the better.

NAMA also recognises that supply shortages are likely to emerge in key parts of the economy over the medium-term in the absence of planning and investment now. The Agency's newly created Asset Management Division is tasked with identifying future projects where they are needed, and, where possible, working with debtors, receivers and joint venture partners to deliver these. For instance, we can play a vital role in addressing potential shortages in the key Dublin office market, where demand for larger modern office spaces is unlikely to be met from existing supply – Ireland's ability to respond to demand in this area will directly impact the flow of Foreign Direct Investment which is of essential importance for our longer-term, sustainable economic development. The planning for this must commence in earnest right now.

In determining which projects to support, the key consideration for NAMA is whether the expected return on investment is greater than that available from selling the site in its current state. We will, however, be judicious in our investment – there is no point in developing projects for which there is no foreseeable demand.

NAMA is also working in strategic partnership with Government and the State Sector at all levels, as a consequence of which significant development proposals are being progressed in relation to social housing and the provision of healthcare services. We have, for example, identified over 3,100 residential properties as being available and potentially suitable for social housing. To date, over 2,000 of the units have been assessed and demand has been confirmed for over 1,000 houses and apartments. The process of making these available to Local Authorities and Housing Bodies is now underway. This is a substantial undertaking involving NAMA, the Department for the Environment, Community and Local Government, the Housing Agency, Local Authorities, approved housing bodies, the property owners, financial institutions, receivers and other relevant parties.

It is in everybody's interest to see a normalising of conditions in the Irish commercial and residential property markets. We fully appreciate our responsibility in that regard and we are determined to contribute positively to more sustainable transactional activity. The initiatives I have referred to above, and not least the provision of a total of €4 billion in investment capital and vendor finance, are tangible examples of that contribution.

ACCOUNTING FOR OUR ACTIVITIES

In this, our second Annual Report, we have endeavoured to make even more extensive information available regarding our operations. Reflecting the fact that NAMA is managing a significant financial exposure on behalf of Irish taxpayers, the Agency is, as the Minister for Finance recently noted, "subject to a high level of public accountability compared to other commercial semi-state bodies". In addition to the public accountability provisions contained within the NAMA Act, every aspect of the Agency's operations is subject to the ongoing scrutiny of the Comptroller and Auditor General, whose team has unrestricted access to every transaction, every document and every individual in NAMA. I welcome this scrutiny; it is an essential part of offering assurances to Irish taxpayers that NAMA is doing its job properly.

As well as this formal Oireachtas scrutiny, I also welcome the continuing interest of the general public and the media in NAMA's operations and results. That is as it should be and to that end we have put considerable effort in the past year into less formal engagement with public representatives, the media and representative groups. In this Annual Report, we have given as much information as we can without breaching confidence on individual debtor cases and other market-sensitive commercial information which the NAMA Act expressly prohibits. Breaching this confidence would undermine the willingness of third parties to engage with us, discourage potential buyers of assets under our control, reduce the expediency of NAMA sales and reduce the realised proceeds from those sales. In a highly mobile and globalised property market, Irish taxpayers would be placed at a significant competitive disadvantage.

STRATEGIC PLAN

Over the last quarter of 2011 and the first quarter of 2012, the Board engaged in an extensive review of the strategy which it had articulated in its July 2010 Business Plan. Such a review had become imperative because of the need to incorporate into NAMA strategy and planning the impact of the continued decline in Irish property prices since July 2010. It was also necessary to incorporate the impact of the revised outlook for the Irish economy since the July 2010 Business Plan was adopted. The first key debt repayment milestone in that July 2010 Plan – NAMA debt of €7.5 billion to be repaid by end-2013, a target which has been adopted by the Troika - is not impacted by our review and I am confident that it will be attained. Indeed we have already repaid €3.25 billion.

The context in which the July 2010 Business Plan was adopted was relatively benign by reference to subsequent economic developments in Ireland and elsewhere. There was no widespread expectation at the time that Ireland would be required to enter the Troika programme (as happened subsequently in November 2010). In terms of the Irish banking sector, the balance sheets and liquidity of the major banks operating in Ireland appeared to be in better condition than ultimately proved to be the case. The NTMA was still engaged in borrowing on the sovereign debt market and the medium-term economic outlook was for relatively strong growth. The eighteen-month period after the Business Plan was published saw a significant deterioration in the condition of the Irish banking sector and in the economy in general. This deterioration also affected the Irish commercial and residential property markets which have experienced further substantial declines over the past two years – although there are tentative but nevertheless encouraging signs that the position may be stabilising.

In its strategic review, the Board focused its attention on the strategies necessary to meet the challenging debt repayment targets for the period after 2013. These strategies fall into two broad categories and may be summarised as follows:

1. In terms of market activity, NAMA will focus on generating activity in both commercial and residential markets. This will include a phased and orderly programme of disposals of both assets and loans, with specific disposal strategies for the Irish, UK and other portfolios. It will also include initiatives such as the provision of commercial vendor finance, the deferred payment initiative for residential property, the establishment of at least one Qualifying Investor Fund (QIF) by end-2012 and supporting consideration of REITs in Ireland.

2. NAMA will intensify its asset management activity with a view to identifying and developing assets with debtors, receivers and joint venture partners so as to create and add value and thereby enhance cash flow after 2013.

Both strategies are already well advanced.

CONCLUSION

This Annual Report catalogues just one of the two and a half years of solid work by NAMA in achieving its targets.

Based on that performance, I can say with confidence that we are firmly on course to meet both our long-term and medium-term objectives.

I can also say with confidence that I and my Board colleagues are fully aware of the potential wider impact of our actions and the contribution we can make to the achievement of wider public policy goals, including economic and employment growth and that we are driven by that awareness.

However, there is one overriding message I would wish to give in this Report – my absolute belief that the objective of everybody in NAMA is to get the best possible outcome for the taxpayer. That objective permeates every decision we make. I appreciate that at times some of our decisions will not find favour with everybody or perhaps be misinterpreted. That is understandable – but let me reiterate – every single decision we take is with a view to the benefit of the taxpayer and to nobody else.

I would like to thank my Board colleagues and external Committee members for their support and unstinting contribution to the Agency. As with any organisation, of course, nothing would be achieved without the dedication, skills and commitment of its staff. I, and my Board colleagues, believe that NAMA is fortunate to have a Chief Executive and team with those traits in abundance. They do truly exceptional work to ensure that NAMA not only meets the specific statutory mandate set for it but also makes a very positive contribution to the economic renaissance of Ireland over the coming years.

Frank Daly
Chairman

29 June 2012

Chief Executive's Statement

2011 was a year of great progress for NAMA. We completed the acquisition of loans from the participating institutions, thereby bringing our total loan portfolio to €74 billion and bringing to €31.8 billion, the total consideration paid for the acquired loans. The €74 billion was allocated among 772 debtor connections and, of these, we engage directly on a day-to-day basis with 189 of the largest debtors, generally those with debt exceeding €75m each. Cumulatively, their debt aggregates to €61 billion; the residual debt of €13 billion is held by close to 600 debtors who engage on a day-to-day basis with the participating institutions who act as agents on behalf of NAMA.

During the course of 2011, over 500 debtor business plans were assessed and, as I write this, the assessment of all 800 or so debtor connection business plans has been completed. The results of that intensive engagement with debtors can be seen in the form of cash inflows to NAMA. These include the proceeds of asset disposals and interest and other income which are used by debtors to reduce their indebtedness. From inception to end-May 2012, we approved asset sales of €9.2 billion, including sales of €5.6 billion during 2011. Sales completed, as at end-May 2012, stood at €5 billion. Asset disposals and a rigorous approach to ensuring that rental income is fully captured meant that we ended 2011 with cash balances of €3.8 billion, having generated cash receipts of €5.1 billion from debtors during 2011. Cash receipts from inception had reached over €8 billion by end-June 2012.

These cash inflows enabled us to start the process of redeeming our senior debt and, by the end of 2011, we had redeemed €1.25 billion in NAMA Senior Notes in addition to repaying €299m in loans from the Minister. Our strong cash position enabled us to redeem another €2 billion of our Senior Notes in June 2012 bringing the total redeemed to date to €3.25 billion and we are well on the way towards meeting our initial target of redeeming €7.5 billion in Senior Notes by the end of 2013 given our strong cash balances.

There have been a number of other important indicators of progress. The credit decision-making framework is now fully functioning and operating very efficiently: from inception to end-May 2012, some 11,000 credit decisions have been made and I am particularly pleased to report that the average turnaround time for credit decisions is now down to 5.2 days. Credit decisions taken include the approval of credit advances in excess of €1.3 billion to preserve and enhance the value of the assets securing our loans.

RESULTS FOR 2011

I am pleased to report that, for the financial year 2011, NAMA is in a position to report both an operating profit and a profit after tax. We made an operating profit, before impairment charges, of €1.28 billion for the year and the overall result was a net profit after tax of €247m after providing for an impairment charge of €1.27 billion.

The cumulative impairment provision for 2010 and 2011 is €2.75 billion equivalent to a 9.6% coverage rate. For the 2011 financial year, we carried out an exhaustive and rigorous review of the projected cashflows arising from loans held by the NAMA-managed debtors and the results were further subjected to independent scrutiny by external advisers. For debtors whose loans are managed by the participating institutions, we carried out a collective loss assessment which reflected the impairment evidence that emerged from the individually significant cash flows. The cash flow exercise took into account the operating cash flows arising from the underlying collateral (from rentals and other sources). Based on this very detailed work, I am confident that we have more than adequately provided for impairment. This is particularly so given the conservative approach we adopted in terms of income recognition: the Board decided that debtor cash flows with a net discounted unrealised surplus of €1.82 billion should not be recognised in the income statement.

PROPERTY PORTFOLIO

We now have a much better sense of the property portfolio securing our loans. Of our total loan portfolio of €74 billion, we were directed by Ministerial Order to acquire €44 billion of it in a bulk transfer in the last quarter of 2010 and, at the time of transfer, we had little information on the underlying collateral from the participating institutions. Now that due diligence has been completed, we are in a much better position to assess the quality of the underlying property portfolio. In overall terms, 71% of the portfolio comprises completed property – offices, retail, residential, industrial, hotels and so on. 20% is undeveloped land and 9% comprises developments which are at various stages of completion. By jurisdiction, 54% of properties are located in Ireland and 34% in Britain with the rest in Northern Ireland (4%), Europe and the US.

Of the Irish property, over 90% is located in or close to counties with large urban centres of population (Dublin and neighbouring commuter belt counties as well as Cork, Limerick and Galway) and the long-term prospects for much of this property are positive, particularly if the medium-term outlook for the Irish economy fulfils current expectations of growth rates in the 2.5% to 3% range. For instance, there is an emerging shortage of large office accommodation in Dublin suitable for multinationals setting up or expanding operations in Ireland and we maintain close contact with the IDA with the aim of ensuring that we can anticipate and ultimately meet such requirements.

Current constraints on credit availability are likely to ease over the coming years but, while these constraints remain, we are prepared and expect to make much use of vendor finance to generate commercial property transactions. Our best estimate at present is that up to €2 billion in vendor finance advances could be involved. An important point to make about vendor finance is that it will help to reduce the credit risk profile of the loan portfolio: lower quality credit risk is replaced by debtors with a much stronger capacity to repay. The first vendor finance transaction – used to finance the purchase of No. 1 Warrington Place in Dublin – was completed recently and there are currently a number of other transactions under consideration.

We are also increasingly shifting our attention towards attracting international investor capital through the creation of monetisation vehicles such as QIF. The setup of the QIF is being sponsored by NAMA but it will operate independently of NAMA with its own Board – the objective being that it will be an investor-friendly and tax-transparent vehicle with access to capital so that it can bid for, and purchase, Irish property assets in the market. The QIF will need its own infrastructure and a tender for the provision of investment management services and custodian/fund administration services is being evaluated with a final decision expected shortly. The QIF is subject to receiving regulatory approval. If this is forthcoming, the intention is to launch at least one QIF sub-fund before the end of the year.

Joint Venture (JV) partnerships will be important to us in terms of our asset management options over the coming years. JV partners will provide capital and construction expertise. As providers of international capital are unlikely to have property building platforms in Ireland and as many Irish-based construction firms have scaled down their operations, there will be limited scope for sourcing capital and construction expertise in the one entity. However, the construction sector has substantial resources which are either unemployed or under-employed and it will be a case of ensuring that we identify JV partners who can co-ordinate and manage the various available resources to best effect.

As regards the residential market, the current outlook is more positive than might have been the case a year ago. I am reluctant to suggest that we have reached a turning point as far as residential prices are concerned but there are at least tentative signs that prices may be stabilising in the Dublin market. We are aware from the volume of queries that we receive that there is pent-up demand for the purchase of residential property, particularly starter semi-detached homes, but, understandably, buyers are wary of committing to purchases until they are satisfied that the market is at or close to the bottom. Our 80/20 Deferred Payment Initiative, which was launched in May 2012 and is currently running on a pilot basis, is designed to address these concerns. In less than two months, some €9 million of sales have been achieved and I consider this to be encouraging in current circumstances.

The 2011 Census indicated that the population of Ireland was significantly higher – by close to half a million - than had been expected. It also suggested that there has been a significant increase in the proportion of households renting property and it is likely that many of these will look to buy when they are convinced that prices have stabilised. Given that the vacancy rate for houses in Dublin is now estimated to have fallen below 5% and given the low rate of house completions seen over recent years (less than 10,000 completions in 2011 with the majority being rural one-off houses), one of the assumptions underlying our strategic planning is that there will be pressure on certain types of housing stock in Dublin in the second half of the decade, particularly larger family houses in areas with good infrastructure (water, drainage, schools and transport links, in particular). We will look to anticipate forthcoming supply shortages in certain sectors or areas and will direct our funding accordingly.

STAFF

From my perspective as Chief Executive, one of the key challenges in establishing NAMA was to ensure that we put in place the expertise to do the job set for us by the legislature. NAMA has now largely completed its recruitment of the staff - just over 200 - with the requisite skills and experience in property, banking, finance, law and related disciplines that will enable us to carry out our statutory functions on behalf of the taxpayer. There has been some public discussion of the issue of salaries paid to staff in NAMA and in the NTMA in general. I would make the following points. NAMA staff are on fixed purpose contracts; they do not have jobs for life. At most, their jobs are expected to last for no more than ten years. Their undoubted skill sets and experience mean that they have alternative career options. If NAMA cannot make a reasonable attempt to match the remuneration that they will obtain elsewhere, they will leave and our capacity to manage the portfolio will be diminished and this will be at the expense of achieving the best possible return for the taxpayer. In that context, it makes financial sense for NAMA, given its €32 billion exposure to property loans, to try and avoid the risk of losing the people best capable of managing the portfolio. NAMA needs to have the expertise directed towards dealing with one of the biggest challenges facing us as a country.

On a final note, I wish to express my appreciation to the Chairman, to my Board colleagues, to Committee members and to the staff of NAMA and the NTMA for the excellent effort and commitment given in 2011. This effort and commitment has enabled NAMA to make huge strides in a relatively short period of time and we very much look forward to making an effective and innovative contribution to national recovery. Our long-term success is very much tied up with the performance of the Irish economy, not least because a vibrant domestic economy means increased demand for the property assets which secure our loans. To the extent that we can play our part in generating activity in the property market and in the economy generally, we will do so. I have little doubt that the road ahead is anything but straight or smooth but we will not stint in terms of the energy, dedication and integrity that we will bring to the task.

Brendan McDonagh
Chief Executive

29 June 2012

NAMA Chronology: April 2009 - June 2012

Apr 2009	In the Supplementary Budget on 7 April, the Minister for Finance announces a Government decision to introduce measures to address the issue of asset quality in the Irish banking system, including the establishment of a National Asset Management Agency on a statutory basis under the aegis of the NTMA. The Minister sets NAMA the core objective of 'maximising over time the income and capital value of the assets entrusted to it'.
May 2009	Mr. Brendan McDonagh appointed Interim Managing Director of NAMA on 5 May.
Jul 2009	Draft of proposed legislation for NAMA is published on 30 July.
Sep 2009	The National Asset Management Agency Bill 2009 is published and introduced into the Oireachtas on 16 September.
Oct 2009	NAMA Draft Business Plan published. Second Stage of NAMA Bill 2009 completed in Dáil Éireann. Eurostat announces its preliminary decision that the operations of NAMA should be recorded outside the general government sector in the Irish national accounts.
Nov 2009	President signs the NAMA Bill 2009 into law.
Dec 2009	NAMA formally established on 21 December 2009. The Minister for Finance announces the composition of the NAMA Board and appoints Mr. Frank Daly as Chairperson and Mr. Brendan McDonagh as CEO.
Jan 2010	Four committees of the Board established (Audit, Credit, Finance and Operating and Risk Management) in addition to two advisory committees (Northern Ireland and Planning).
Feb 2010	NAMA scheme receives formal approval from EU Commission at the end of February.
Mar 2010	First loan transfers from the Participating Institutions (PIs) at the end of March. Minister for Finance makes a Section 46 loan advance of €299m to NAMA.
May 2010	Transfer of Tranche 1 loans (nominal value of €15.3 billion) completed. The Minister for Finance makes a Section 14 Direction concerning the issuance of government-guaranteed debt by NAMA.
Jul 2010	NAMA publishes its Business Plan and its Annual Statement for 2010. NAMA staff numbers reach 54.
Aug 2010	Transfer of Tranche 2 loans (nominal value of €11.9 billion) completed. EU Commission gives formal approval to the transfer of the first tranche of loans.
Sep 2010	NAMA establishes a €2.5 billion Euro-Commercial Paper Programme. Cumulative asset sale approvals reach €1 billion.
Oct 2010	Loan of €250m repaid to the Minister for Finance. The Minister for Finance issues a Section 14 Direction to NAMA to expedite the acquisition of remaining loans from the participating institutions. Comptroller and Auditor General ("C&AG") publishes a Special Report on NAMA Acquisition of Bank Assets.

Nov 2010	NAMA publishes its 2011 Annual Statement.
Dec 2010	A bulk transfer of loans with a nominal value of €44 billion is completed. Total acquisition to date of €71.2 billion. Asset sales completed during the year reach €400m. NAMA staff numbers reach 104.
Feb 2011	Loan of €49m repaid to the Minister for Finance.
Mar 2011	€250m of Senior Bonds redeemed. Cumulative asset sale approvals reach €2.5 billion. Additional loans totalling €1.1 billion acquired.
Apr 2011	NAMA announces that it is exploring ways to provide finance for commercial and residential property as part of measures to support market recovery.
May 2011	€500m of Senior Bonds redeemed. The Minister for Finance issues a Section 14 Direction amending the terms and conditions of the Senior Notes issued by NAMA.
Jul 2011	Publication of 2010 Annual Report. NAMA staff numbers reach 145.
Aug 2011	List of enforced properties published for the first time.
Sep 2011	€500m of Senior Bonds redeemed, bringing total debt repayment to €1.55 billion.
Oct 2011	Completion of loan acquisitions with a final tranche of €1.7 billion, bringing total volume of acquired loans to €74 billion.
Dec 2011	Cumulative asset sale approvals reach €7 billion. Cumulative asset sale completions reach €4 billion. NAMA staff numbers reach 202. The Board publishes a review of the agency undertaken by the former Group Chief Executive of HSBC Holdings Plc, Mr. Michael Geoghegan.
Jan 2012	NAMA publishes its 2012 Annual Statement.
Feb 2012	NAMA announces a reorganisation of functions and a number of senior executive appointments.
Mar 2012	Two Section 14 Directions issued to NAMA by the Minister for Finance: 1. Direction to NAMA to adopt all reasonable measures to facilitate the operation of the NAMA Advisory Group. 2. Direction to NAMA to facilitate the short-term financing of IBRC to an amount of €3.06 billion.
June 2012	€2 billion of NAMA Senior Bonds redeemed.

Progress in 2011

Financial

- NAMA ended 2011 with cash balances and liquid assets of €3.8 billion having repaid €1.3 billion in debt during the year. By end-June 2012, NAMA had repaid debt of €3.55 billion (**Table 1** below):

TABLE 1: Schedule of debt repaid by NAMA

	Amount repaid €m	Date repaid/ redeemed
Loan repaid to Minister for Finance	250	October 2010
Loan repaid to Minister for Finance	49	February 2011
Senior Bonds redeemed	250	March 2011
Senior Bonds redeemed	500	May 2011
Senior Bonds redeemed	500	September 2011
Senior Bonds redeemed	2,000	June 2012
TOTAL	**3,549**	

- NAMA remains on track to repay €7.5 billion of its Senior Bonds by the end of 2013.
- NAMA made an operating profit, before impairment charges, of €1.28 billion for the year to 31 December 2011. The overall result was a net profit after tax of €247m after providing for an impairment charge of €1.27 billion. The cumulative impairment provision for 2010 and 2011 is €2.75 billion.
- From inception to the end of 2011, NAMA had generated cash receipts of €6.1 billion from debtors (which was applied towards interest and loan repayment). Cash receipts had increased to €8 billion by end-June 2012.

Loan Acquisition

- After acquiring €71.2 billion of loans in 2010, NAMA completed its acquisition of loans by acquiring another €2.8 billion in March and October 2011. This brought its total acquisition to €74 billion. The consideration paid to the five participating institutions was €31.8 billion.

Asset Sales

- From inception to end-May 2012, NAMA had approved asset sales of €9.2 billion, including sales of €5.6 billion during 2011.
- Asset sales completed, as at end-May 2012, stood at €5 billion.

Credit advances

- From inception to end-May 2012, credit advances of over €1.3 billion had been approved. €843m of this had been drawn down.
- Of €1.3 billion approved, €586m related to expenditure on assets based in Ireland.

Credit decisions made

- From inception to end-May 2012, a total of 10,996 credit decisions had been made: 90% of credit proposals were approved and 10% were declined.
- The average turnaround time for credit decisions in 2011 was 6.1 days.

Debtor business plans

- 595 debtor business plans were assessed during 2011. By end-May 2012, the assessment of 789 plans had been completed; this represented almost all of the total number of plans to be reviewed.

Enforcement

- As at end-May 2012, 235 separate receivership appointments (relating to 181 debtor connections) had been made.

Additional security

- By end-May 2012, NAMA had secured over €500m in unpledged security from its debtors having been granted charges over assets with an aggregate value of €354m and having reversed asset transfers of €160m.

Unfinished Estates

- NAMA has an exposure to 29 (12%) of the 243 estates categorised by local authorities as the most problematic from a public safety perspective (Category 4 estates) and undertook to fund, through its debtors and receivers, the cost of urgent remedial work (estimated at €3m).

Social Housing

- In December 2011, NAMA identified over 2,000 properties which are available for social housing; an additional 1,139 were identified in June 2012. The local authorities concerned will now establish whether the properties identified are suitable for their purposes and, where appropriate, NAMA will facilitate contact and negotiation between its debtor/receiver and the relevant authority.

Staff

- By the end of 2011, NAMA had recruited 202 staff with specialist skills and experience in property, banking, finance, law and related disciplines. This had increased to 214 by end-May 2012.

Employment

- Through advances of new money and overhead allowances, NAMA directly supports 10,000 jobs spread across a range of business sectors and locations. Without NAMA support, this employment, the wider impact of which includes significant additional indirect and induced employment, increased taxation and reduced social welfare expenditure, would not be possible.

Legal Framework

NAMA is established as a statutory body corporate and its powers and functions derive from the National Asset Management Agency Act 2009 ("the Act"). Among the Act's principal objectives is to address a serious threat to the economy and to the systemic stability of credit institutions in the State generally by providing for the establishment of NAMA.

Under Section 10 of the Act, NAMA's purposes are to contribute to the achievement of the purposes of the Act by:

(a) acquiring bank assets from participating institutions (PIs);

(b) dealing expeditiously with the acquired assets; and

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

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

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

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

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

The Minister may issue written guidelines and directions, which are binding, to NAMA. All guidelines and directions must be published as soon as practicable following issue. Up to the end of May 2012, five directions have been issued by the Minister to NAMA under Section 14 of the Act (published on www.nama.ie).

The first assessment of NAMA's progress in achieving its overall objectives is to be carried out by the Minister and separately by the C&AG[2] as soon as may be after 31 December 2012, in accordance with sections 226 and 227 of the Act. The Minister may call for progress reports at any time before or after that assessment.

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

NAMA STRUCTURE

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

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

STRUCTURE OF NAMA COMPANIES

National Asset Management Agency Investment Ltd.

This is the investment holding company for the Master SPV and was established to facilitate the participation of private investors. 51% of the shares in National Asset Management Agency Investment Ltd., the investment holding company, are owned in equal proportion by three private companies (Trustees of the Irish Life Staff Benefits Scheme[3], New Ireland Assurance Co. plc. and Percy Nominees Ltd., a nominee of AIB Investment Managers) and the remaining 49% are owned by NAMA. Under the shareholders' agreement between NAMA and the private investors, NAMA exercises a veto over decisions taken by the company.

National Asset Management Ltd. (Master SPV)

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

The Master SPV has four subsidiaries:

National Asset Management Group Services Ltd.

This acts as the holding company for three other subsidiaries.

National Asset Loan Management Ltd.

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

National Asset Property Management Ltd.

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

National Asset Management Services Ltd.

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

3 *Shares transferred from Irish Life Assurance plc. in June 2012.*

BUSINESS REVIEW

Loan acquisition of €74 billion completed in 2011.

€5.6 billion in asset sales approved during the year.

€5.1 billion in cash received from debtors in 2011.

Acquired Loan Assets

NAMA was established in December 2009 following the enactment of the National Asset Management Agency Act, 2009 in November of that year. Five institutions (and their subsidiaries) were designated as participating institutions by the Minister for Finance in February 2010: Allied Irish Bank, Bank of Ireland, Anglo Irish Bank, Irish Nationwide Building Society and EBS Building Society[4].

LOAN ACQUISITION

The first loan transfers occurred in late March 2010. **Table 2** below summarises the major phases of the loan acquisition process:

TABLE 2: Phases of loan acquisition

	€bn	Date of transfer
Tranche 1	15.3	March – May 2010
Tranche 2	11.9	June – August 2010
Bulk transfer*	44.0	October – December 2010
Transfers in 2011	2.8	March and October 2011
TOTAL	**74.0**	

**At the request of the Minister for Finance, the transfer of the third and later loan tranches was accelerated as part of a bulk transfer in the last quarter of 2010.*

96% of the portfolio (€71.2 billion) was acquired within a nine-month period between March and December 2010.

Transfers in 2011 took place in two phases: a transfer of €1.1 billion in March (loans which were deemed eligible by AIB in late 2010) and a transfer of €1.7 billion in October. After the Supreme Court judgements in the **Dellway** case, NAMA instituted a process of consultation in June 2011 with debtors whose loans had not, at that stage, yet been acquired. Debtors were invited to make written representations to NAMA in respect of the possible acquisition of their loans and, in particular, as to any adverse effect such acquisition was likely to have on their interests. Debtors were also provided with an opportunity to make representations as to the eligibility of the loans by reference to the criteria for eligibility set out in the Act and in the Regulations.

Following a review of submissions received from debtors, the NAMA Board exercised its discretion, under Section 84 of the Act, to acquire loans totalling €1.7 billion and this acquisition was completed in October 2011. In the case of another €400m, the Board exercised its discretion not to acquire the loans concerned. Loans totalling €260m were deemed to be ineligible following a review of additional information received in debtor representations.

ACQUISITIONS BY INSTITUTION

Table 3 below summarises the transfers by institution:

TABLE 3: Loan acquisitions by institution (€ billion)

	AIB	ANGLO	BOI	EBS	INBS	TOTAL
Loan balances transferred	20.4	34.1	9.9	0.9	8.7	**74.0**
Consideration paid	9.0	13.4	5.6	0.4	3.4	**31.8**
Discount	56%	61%	43%	57%	61%	**57%**

Table 4 below provides a breakdown of debtor connections[5] by size of nominal debt acquired by NAMA (many of the debtors are also indebted to non-NAMA financial institutions).

TABLE 4: Distribution of NAMA debtor connections by size of nominal debt

Nominal Debt	Number of debtor connections	Average nominal debt per connection €m	Total nominal debt in this category €m
In excess of €2,000m	3	2,758	8,275
Between €1,000m and €2,000m	9	1,549	13,945
Between €500m and €999.9m	17	674	11,454
Between €250m and €499.9m	34	347	11,796
Between €100m and €249.9m	82	152	12,496
Between €50m and €99.9m	99	68	6,752
Between €20m and €49.9m	226	32	7,180
Less than €20m	302	7	2,117
TOTAL	**772**	**96**	**74,015**

4 *The business of Irish Nationwide Building Society transferred to Anglo Irish Bank on 1 July 2011 and the merged entity now trades as Irish Bank Resolution Corporation Ltd. (IBRC). EBS Building Society was acquired by Allied Irish Banks plc. on 1 July 2011 and now operates as a subsidiary of AIB.*

5 *Debtor connections may consist of one debtor or a number of closely-connected debtors whose aggregate debt is considered by NAMA to be best managed as one cohesive connection rather than managed through separate debtor entities.*

The largest 189 debtor connections account for €61 billion of par debt; these debtors engage directly with NAMA. Engagement with the other 583 debtor connections is carried out by the participating institutions under NAMA supervision; these connections account for €13 billion of par debt.

DISCOUNTS

The discounts applied to nominal loan balances to derive an acquisition price are determined for the most part by the current market value of property securing the loans and, to a lesser extent, by further discounts which incorporate the impact of issues identified during legal review. **Table 5** below summarises aggregate data for acquired loans.

TABLE 5: Aggregate Loan Valuation Data

	€bn
A. Aggregate loan balances	74.2
B. Current market value of property securing the loans (CMVP)	32.4
C. Long-term economic value of property (incorporating 8.3% uplift)	35.1
D. Current market value of loans	26.2
E. Long-term economic value of loans (LEVL – acquisition price)	31.8
F. Loan uplift (E minus D)	5.6
G. Discount (A minus E)	42.4
H. Percentage discount (G/A)	**57%**
I. CMVP/LEVL (B/E)	102%

The Commission treats the difference between the current market value of loans (item D above) and their long-term economic value (item E) as the State Aid element of the NAMA scheme: this uplift was valued at €5.6 billion.

STATE AID

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

In February 2009, the Commission issued guidance about the design and implementation of asset relief schemes and, following an extensive process of discussion and evaluation during 2009 and the early part of 2010, it gave its formal approval to the NAMA scheme in February 2010. Shortly afterwards, the Minister for Finance published revised valuation regulations which gave effect to the valuation methodology which had been approved by the Commission and the first tranche of loans was acquired by NAMA in March 2010.

The Commission also audited the loan valuations on a tranche-by-tranche basis in 2010 and confirmed its approval of the Tranche 1 loan transfer in August 2010 and the Tranche 2 transfer in November 2010. This audit was conducted with the purpose of ensuring that the valuations conformed to the methodology approved by the Commission in February 2010. With due diligence now complete on all tranches, it is expected that the Commission's audit of the remaining tranches will be completed during the second half of 2012.

VALUATION OF ACQUIRED LOAN ASSETS

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

The acquisition value of each loan is its long-term economic value. Various factors are taken into account in the calculation of the long-term economic value of loans, including the current market value of the security (typically property but also including other assets, such as shares), the long-term economic value of property and the market value of the loan. In the case of a property asset, the Valuation Regulations (SI No. 88 of 2010) require that NAMA applies an uplift adjustment factor ranging from 0% to 25% to its current market value to reflect its long-term economic value. The weighted average uplift factor that was applied to property assets was 8.3%.

PROPERTY VALUATION

Acquired loans were valued individually. A key element in the valuation of each loan was the **current market value** (CMV) of the property or other collateral securing the loan. For each property, a valuation initially provided by a professional valuer commissioned by the PI was referred by NAMA to its own property valuation panel. If the NAMA panellist disagreed with the valuation, it was referred to an independent property valuer for adjudication and this third-party property valuation was accepted by NAMA.

During the valuation process, 10,635 property valuations were submitted by the PIs and reviewed by the NAMA panel: NAMA accepted 88% of them and 12% were submitted to second opinion. This resulted in a reduction of €2.24 billion in the market value of property securing acquired loans and a corresponding reduction in the acquisition price paid to PIs. Fees paid to firms on NAMA's property valuation panel totalled €12.6m to end-March 2012.

LEGAL DUE DILIGENCE

The valuation of loans acquired from PIs was based on an extensive due diligence process carried out by NAMA on the security held for the loans and the assets securing them. Legal due diligence reports submitted by PIs were reviewed by NAMA's external legal panel with a view to highlighting any issues which would give rise to legal difficulties for NAMA in managing the loans or in engaging in enforcement actions in respect of them. Arising from these reviews, questions were raised about the enforceability of security in certain cases and as a result, it was necessary to impose appropriate legal discounts. To account for these and to account also for financial obligations identified during the course of legal review, downward adjustments aggregating to €477m were made to the acquisition value of the loans. Fees paid for legal due diligence work totalled €14.7m to end-March 2012.

LOAN VALUATION

Following completion of the property and legal due diligence processes, a loan-by-loan valuation was carried out by one of five loan valuation firms employed by NAMA. The loan valuation process was independently audited by KPMG, which acted as Audit Co-ordinator and which provided certification to the EU Commission that the valuations were in line with the methodology approved by the Commission. Fees paid to the loan valuation firms and to the Audit Co-ordinator aggregated €48.1m to end-March 2012.

NAMA incurred total due diligence costs of €74m, of which €64m was recovered from participating institutions through a reduction in the loan acquisition values.

Property Portfolio Securing NAMA Loans

GEOGRAPHICAL BREAKDOWN

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

TABLE 6: Jurisdiction of property securing acquired loans

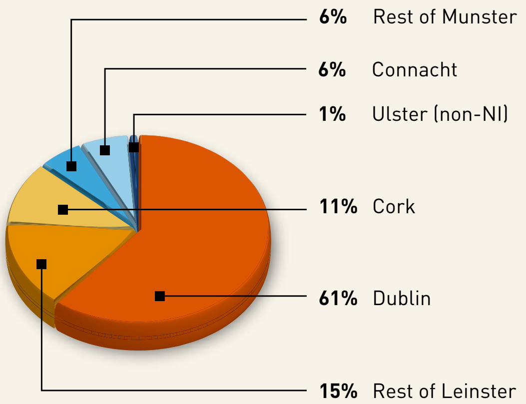
Jurisdiction	Market value of property* €bn	%
Ireland	17.5	54
Britain	10.9	34
Northern Ireland	1.3	4
Other	2.7	8
TOTAL	**32.4**	**100**

**Reference date for property valuation – 30 November 2009*

IRELAND

54% of property securing NAMA loans is located in Ireland. **Figure A** below provides a breakdown by major region:

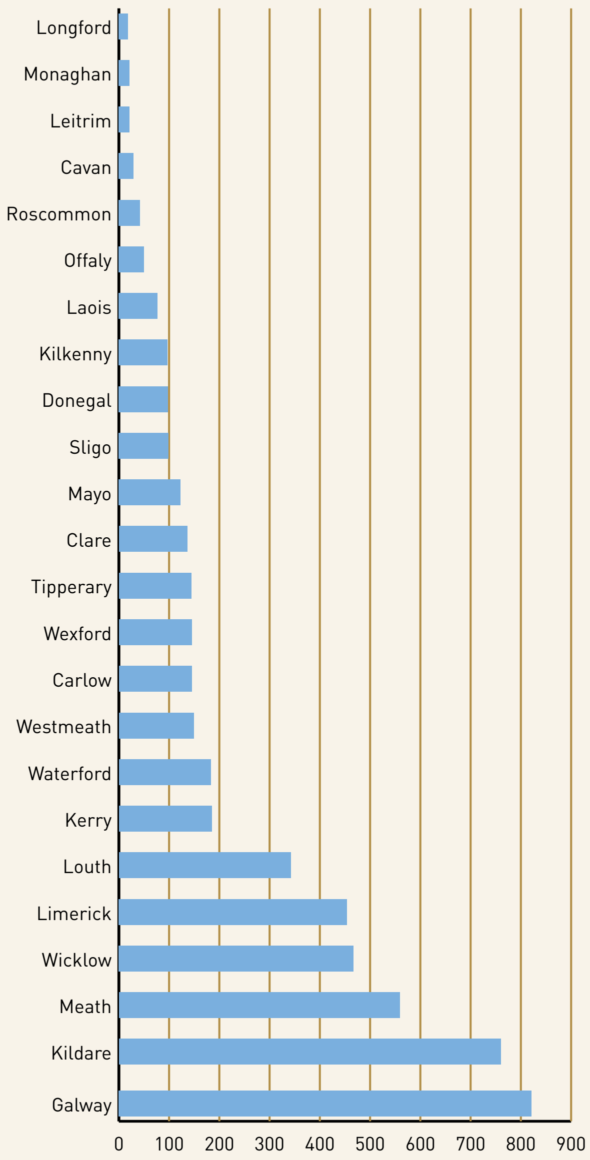
FIGURE A: Regional breakdown of Irish property



Property located in Dublin and Cork was valued at close to €11 billion and €2 billion respectively.

Figure B below provides a further breakdown, by county, of property outside of Dublin and Cork. It shows a significant concentration of property in counties which are contiguous to Dublin.

FIGURE B: Property in Ireland outside of Dublin and Cork (€m)*

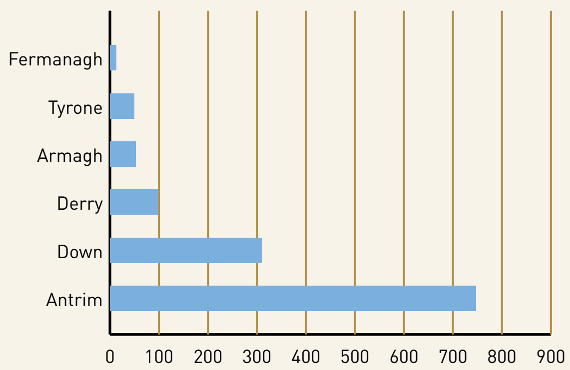


**Values as at November 2009*

PROPERTY PORTFOLIO BASED IN NORTHERN IRELAND

Figure C below provides a breakdown, by county, of property located in Northern Ireland. It shows a significant concentration of property in Co. Antrim. 46% of Northern Ireland property securing NAMA loans is located in Belfast.

FIGURE C: Property in Northern Ireland securing NAMA loans (€m)*

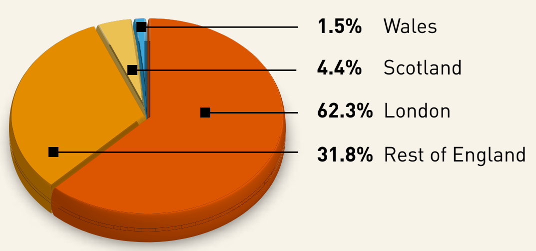


Values as at November 2009.

PROPERTY PORTFOLIO BASED IN BRITAIN

Over a third of the property securing NAMA loans is located in Britain. **Figure D** below, which provides a regional breakdown of British property, demonstrates the heavy concentration of property in the London area.

FIGURE D: Regional breakdown of property located in Britain



SECTORAL BREAKDOWN

Broadly speaking, 71% of property assets securing loans can be classified as investment assets and 29% are L&D (land and development) assets. A more detailed breakdown of property by asset class is provided in **Table 7** below:

TABLE 7: Asset classification of property securing NAMA loans

Asset Class	Market Value of Property* €bn	%
Office	5.0	15
Retail	4.6	14
Other investment property	4.8	15
A. Total investment	**14.4**	**44**
Hotels	3.4	10
Residential	5.4	17
B. Total completed	**23.1**	**71**
Land	6.0	19
Development	3.3	10
Total L&D	**9.3**	**29**
Grand Total	**32.4**	**100%**

**Reference date for property valuation – November 2009*

Figures E, F and **G** provide a breakdown, respectively, of Irish-based assets, British-based assets and Northern Ireland-based assets, by asset type

FIGURE E: Irish-based assets by asset type

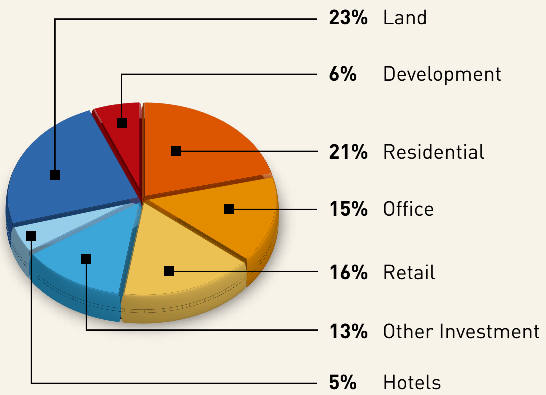


FIGURE F: British-based assets by asset type

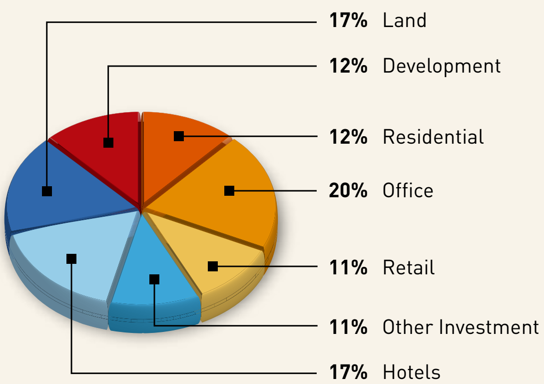
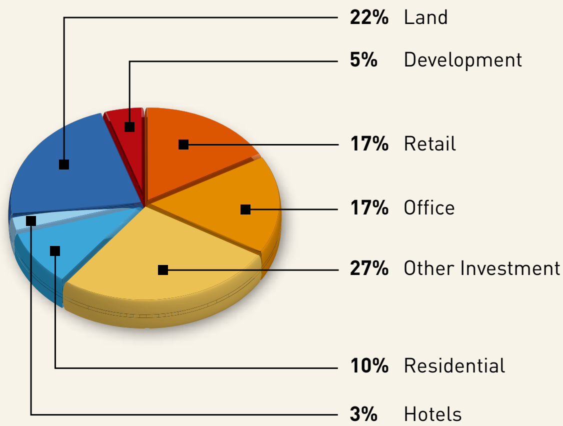


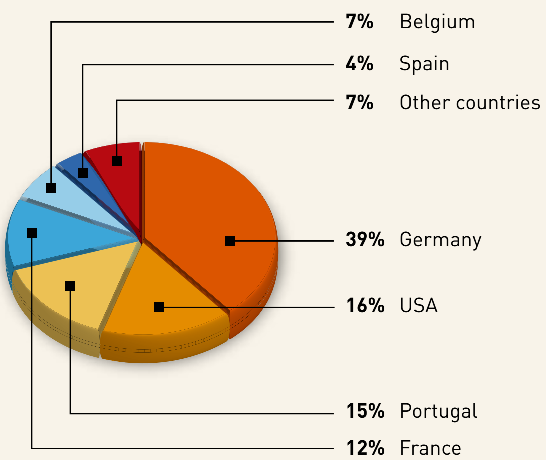
FIGURE G: Northern Ireland-based assets by asset type



ASSETS OUTSIDE OF IRELAND AND BRITAIN

The main jurisdictions of NAMA debtor assets outside of Ireland and Britain are Germany, USA, Portugal and France.

FIGURE H: Property assets outside of Ireland and UK



Debtor Engagement

A. DEBTOR BUSINESS PLAN ASSESSMENT

NAMA manages the engagement with 189 debtor connections directly (€61 billion in par debt); it has delegated the day-to-day relationship management of another 583 debtor connections (€13 billion in PAR debt), within tight and specific delegated authority limits, to the PIs. NAMA has put in place a process to oversee the PIs in their performance of credit and operational functions on its behalf.

Debtor business plans may be completed at debtor connection, debtor or loan level depending on the individual characteristics of each case. The overall position at the end of 2011 was that 595 of 791 Business Plans had been assessed; this covered debt with a par value of €68.9 billion, equating to approximately 93% of par debt acquired. **Table 8** below provides a summary of the position at end-2011 and an update of progress up to end-June 2012:

TABLE 8: Assessment of debtor business plans – progress to date

	Position as at end-December 2011	Position as at end-May 2012
Total number of plans assessed	595	789
Total number of plans	791	791
% assessed	75.2%	99.7%

Strategies adopted towards debtors tend to fall into three broad categories: support, disposal or enforcement.

1. Support

Support may take the form of a full or partial restructure of loans or may be provided without any changes to the underlying facilities (letter of support).

A full restructure involves the creation of a new loan and of associated security documentation. A partial restructure requires the creation of a *Connection Management Agreement (CMA)* that operates in conjunction with existing loan and security documentation. The CMA sets out the terms and conditions of business plan implementation and must be accepted by the debtor.

Support is granted where it is not necessary to restructure the debt. A support strategy is typically followed in cases where a debtor's business plan is not acceptable but the debtor has been asked to implement, as part of a letter of support (LOS), a number of milestones in relation to debt reduction. The LOS must be accepted by the debtor.

2. Disposal

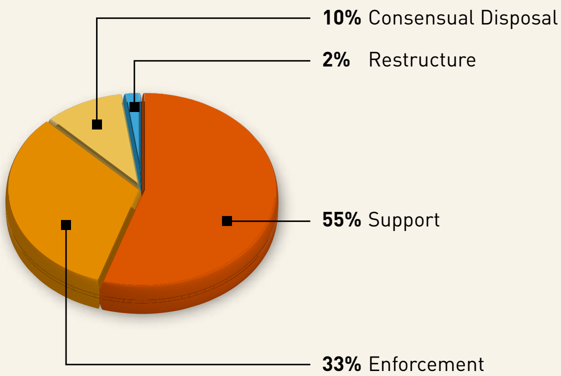
A disposal strategy is followed in cases where a debtor's business plan is not acceptable but the debtor agrees to pursue a programme of early disposals.

3. Enforcement

Enforcement is pursued, as a last resort, where the debtor's business plan is unacceptable or the debtor is not co-operative, potentially threatening NAMA's creditor rights.

Figure J below provides a breakdown, by business plan, of the numbers falling into each of the categories outlined above (as at end-May 2012):

FIGURE J: Business Plan strategies, all debtors, end-May 2012



In summary, consensual strategies are being pursued with 67% of debtors

DEBTOR SUPPORT

In cases where NAMA agrees to support a debtor, arrangements typically include some or all of the following features:

Asset sales

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

Reversal of asset transfers

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

Unencumbered assets

NAMA's policy is to acquire unencumbered assets as additional security, taking account of the cost of pursuance and the legal risks involved. In order to capture future upside potential, NAMA takes second charges where appropriate on assets over which other lenders have first-ranking security.

Rental income

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

Non-property assets

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

Overheads

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

Funding

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

B. DEBTOR CREDIT GRADING

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

Debtor performance incorporates the following:

- The extent to which set milestones have been met
- The extent to which asset cash inflows are under NAMA control
- Progress on charging unencumbered assets (where applicable)
- Progress on the reversal of asset transfers to connected parties (where applicable)
- Progress on cross collateralisation.

Ratings are A (Co-operating), B (Watch) and C (Enforced).

Expectations of debt recovery include an assessment of current expectations of cashflow, including their timing and value, by reference to the carrying value of each debtor's liabilities.

Ratings are 1 (High), 2 (Medium) and 3 (Low).

An initial grading has been carried out on NAMA-managed debtor connections, with the following results (by number of debtors):

TABLE 9: Credit Grading of NAMA-managed connections

Debtor performance → / Expectations of debt recovery ↓	A	B	C
1	12%	19%	5%
2	6%	10%	4%
3	10%	14%	20%

It is intended that a similar matrix will be extended to include PI-managed debtors during 2012.

C. NAMA CREDIT FRAMEWORK

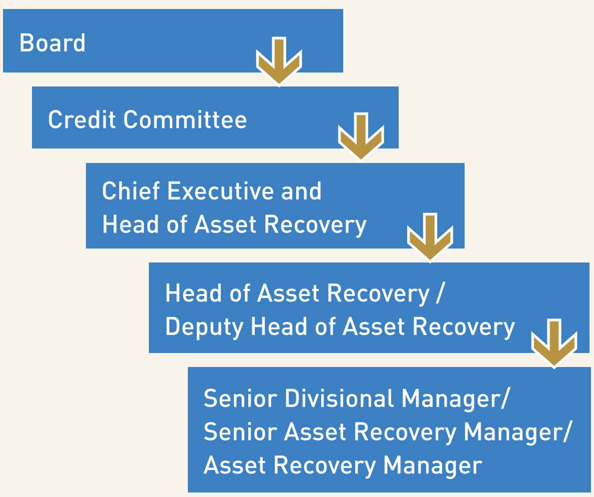
NAMA has developed a Credit Policy Framework which sets out delegated authority levels for credit decisions, monitoring and reporting.

Among the decision types covered by the Framework are the following:

- Approval of Debtor Strategy Reviews in addition to periodic assessment of debtor implementation of plans.
- Approval of new lending.
- Enforcement action.
- Loan impairment.
- Sales of assets and loans.
- Property and asset management decisions.

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

FIGURE K: Delegated authority for credit decisions



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

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

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

D. CREDIT PROPOSALS

Figure L below graphs the volume of credit decisions made by NAMA since March 2010. In 2011, the Agency made 5,451 individual credit decisions. Up to the end of May 2012, it had made close to 11,000 credit decisions.

FIGURE L: Number of credit decisions, cumulative, Q1 2010 to end-May 2012

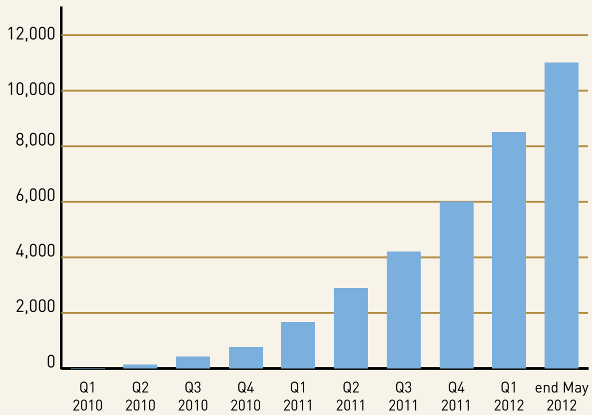
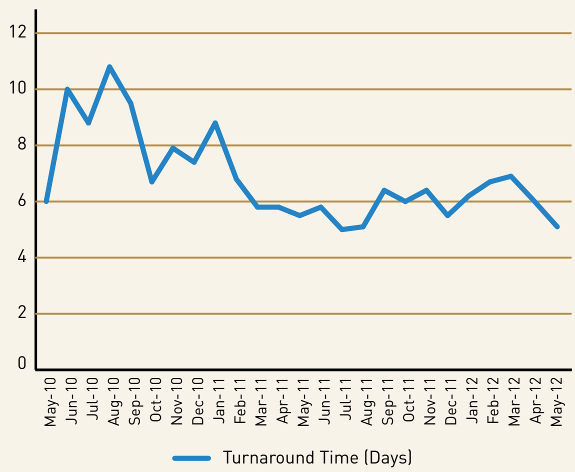


Figure M charts turnaround times, measured in days, of credit decisions. NAMA has adopted a turnaround target of seven days since the beginning of 2011, and has consistently matched or exceeded this target.

FIGURE M: Turnaround time (days) of credit decisions



E. ASSET DISPOSALS

NAMA asset disposals include the sale of loans or the sale by its debtors or receivers of underlying collateral (usually property). As part of the business plan process, schedules of asset sales are agreed with debtors and receivers and the proceeds from these sales are used to reduce debtor liabilities and ultimately NAMA's indebtedness.

Sales approved

In 2011, NAMA approved asset disposals in excess of €5.6 billion. By the end of May 2012, approved asset sales since inception stood at €9.2 billion.

Sales completed

For a variety of reasons, asset sales approved by NAMA do not always proceed to completion. Where approved sales do not proceed, it is usually as a result of decisions made by the prospective purchaser, including a reappraisal of market conditions or a re-assessment of other property suitable for the same purpose. Where a specific sale does not proceed, the same property may subsequently be sold to a new buyer on different terms and conditions. Asset sales completed to end-May 2012 were valued at €5 billion.

As at the end of December 2011, 81% of the proceeds of completed asset sales related to sales of property located in Britain.

Disposal of Assets by NAMA Debtors and Receivers

NAMA requires that sales conducted by its debtors and receivers should conform to guidelines which have been set by the NAMA Board. A key principle of these guidelines is that the conduct of disposals should be on a competitive basis and in accordance with prevailing market practices for the asset class and jurisdiction to which the sale relates. The principal methods of sale are private treaty (after appropriate marketing), sale negotiated directly with a purchaser, sale by public auction, sale by public tender and sale by sealed bids. Other disposal mechanisms tailored to the specific characteristics of the underlying real estate may also be considered. Sale instruction and contracts with agents and brokers require prior approval by NAMA or the participating institutions.

The guidelines also require that sales agents prepare a final report and recommendation addressed to the debtor and copied to NAMA. Included in these reports should be:

- a summary of the marketing campaign which, normally, should not be less than one month;
- a list of all parties who expressed interest in the real estate or were contacted during the marketing campaign;
- a recommendation to accept the terms of the purchaser's offer as the best price reasonably obtainable for the asset at the date of the recommendation;
- confirmation that the agent has reviewed purchaser's confirmation relating to connected party sales; and
- a statement disclosing any commercial relationship between the agent, debtor, purchaser or purchaser's ultimate beneficial owners in the past five years and how any actual or perceived conflict of interest was managed during the sales process.

In certain limited circumstances, NAMA and the participating institutions may agree an alternative form of disposal with the debtor or insolvency practitioner which may involve, for instance, more limited marketing or reporting requirements. However, decisions on alternative forms of disposal are subject to review by the Board of NAMA and are adopted only with the aim of maximising the realised proceeds of asset sales.

Loan Sales

Asset sales proceeds include proceeds of €932m from the sale of loan portfolios. NAMA realised close to the full amount of the nominal debt owed by the debtors in these cases. NAMA has launched an active loan sales process, having recently established two sales advisory panels, one for Europe and one for the US. Loan sales will enable NAMA to monetise its loan portfolio and thereby reduce its balance sheet. It will initiate an active marketing strategy for loans which will include, with the consent of debtors, marketing of the property assets securing the loans.

ASSET SALE – CASE STUDY

NAMA agrees asset disposal schedules with debtors as part of overall debt reduction strategies. The timing of sales is determined by reference to a number of factors, including the asset class and location. In many instances, NAMA first seeks to increase a property's letting occupancy so as to enhance its attractiveness as an investment property and the value that can be realised from its ultimate sale. Both the effectiveness of this approach and the challenges of completing sales in current market conditions are illustrated by the following example which is based on the sale of a prime Dublin office building by a NAMA debtor in 2012.

The sales process extended over a number of months and was predated by a significant effort to identify prospective quality tenants with the view to enhancing the property's attraction as a long-term investment to prospective investors. After the lease was agreed, NAMA's Credit Committee approved a disposal price target and the timing for the sale, together with a vendor finance package to be made available to qualifying potential purchasers.

The debtor's agent marketed the property through established national and international marketing channels. Arising from this, over fifty property inspections took place with interested parties, including institutional investors, from Ireland, Britain, mainland Europe and the US.

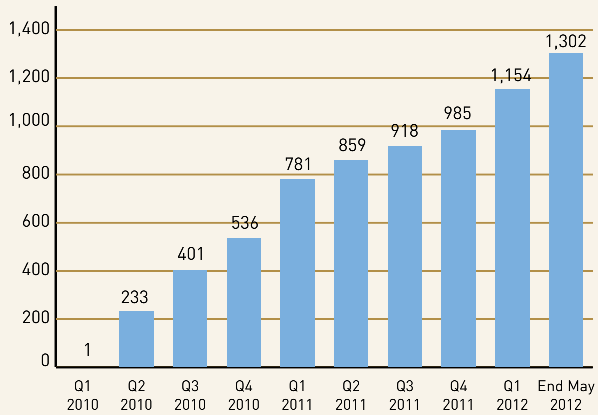
Detailed discussions were held with several viable prospective purchasers, including cash buyers and those who indicated an interest in availing of NAMA vendor financing and who met the Agency's criteria for so doing.

After extensive negotiation, the debtor's agent initially reached agreement with a purchaser on financial terms that met with NAMA's expectations. However, during the subsequent due diligence process, this party sought to reduce its offer, quoting financial and macroeconomic concerns in relation to Ireland. NAMA rejected the reduced offer and reverted to other interested parties. Negotiations were concluded subsequently with a second purchaser at the price originally agreed with the earlier leading bidder. The availability of vendor finance was crucial to facilitating the transaction. The net proceeds from the sale were applied in full towards reducing the debtor's debt.

F. ADVANCES OF WORKING AND DEVELOPMENT CAPITAL

During 2011, NAMA approved €449m in new advances of working and development capital. This brought cumulative approval of advances close to €1 billion (**Figure N** below).

FIGURE N: New credit approvals, cumulative, Q1 2010 to end-May 2012, €m



Up to end-May 2012, NAMA had approved €1,302m of new advances, €586m of which relates to property assets in Ireland. This represents a significant injection of capital into the construction sector against a background of otherwise restricted credit availability. Of total credit approved to date, €843m had been drawn down by end-May 2012.

Working and development capital includes funds advanced for current and capital expenditure:

- **Current expenditure** relates to ongoing running costs, including, for instance, salaries, insurance premia, local authority rates and asset management costs.
- **Capital expenditure** is advanced for the commencement, completion and fit-out of property assets underlying NAMA's loan portfolios.

The breakdown as between capital and current expenditure is about two-thirds/one-thirds respectively.

Proposals for new development funding are subject to full cost-benefit analysis. A key consideration for NAMA is whether the expected return in developing a project is greater than what would be achieved by selling the site in its current state. Further important considerations include the willingness and capacity of the debtor to work co-operatively and effectively with NAMA over a medium-term horizon to maximise debt repayment and the level of security available to cover the Agency's increased exposure.

INVESTMENT BY NAMA

A major focus for NAMA is the period beyond 2013 and, in particular, the need to invest in assets so that they are available to meet future demand. A key element in NAMA's strategic planning is recognition of the need to respond not just to current supply and demand conditions, but also to prospective supply and demand over its projected lifespan up to 2020. NAMA's strategic planning is focused not only on the disposal of property but also on investment in assets so as to make them more attractive to purchasers over a medium-term horizon and thereby enhance their ultimate disposal value.

NAMA has established an Asset Management team with long-standing property expertise whose purpose is to identify and develop assets in conjunction with debtors, receivers and joint venture partners so as to create and add value. The team's activities will range from initial appraisal of significant development projects where there is proven or anticipated market demand right through to financing and overseeing the delivery of those projects.

NAMA plans to invest, given the right opportunities, at least €2 billion in Ireland in development capital in order to preserve, enhance and complete commercial and residential projects in Ireland over the period to 2016. This includes the completion of properties which are currently under development and the development of land in anticipation of future supply shortages and demand. Some €586m has already been approved in new working capital and development capital advances for projects which are located in Ireland.

These projects include:

- Over €75m committed to a number of residential developments in South Dublin which meet current and prospective demand for housing in that area. In the case of a housing development built in Dun Laoghaire, NAMA has committed over €50m to the project, including the first phase of the development comprising 143 apartments which was completed last year and a new phase which involves the construction of 60 houses and site works, a commercial centre and extensive recreational amenities.
- Another €30m to a number of other residential developments throughout Ireland.
- NAMA has also funded a number of retail developments, including the next phase of Charlestown Shopping Centre in Dublin which has been pre-let to tenants and to which €13m had been committed by end-May 2012. This is expected to result in the creation of 250 full-time and 50 part-time jobs.
- Funding totalling €47m has been committed to three other shopping centres, located in Co. Laois, North Co. Dublin and Co. Waterford.
- Other funding commitments include €11m to a mixed commercial and residential development in South Dublin, €7m towards the completion of a cinema in central Dublin, €3m for a hotel renovation in Co. Cork and €3m for a hospital in Dublin.

In addition, a further €600m has been approved for NAMA debtors in respect of projects located outside Ireland and this will ultimately enhance the return to the Irish taxpayer.

NAMA will not advance funds to develop property for which there is no foreseeable demand. Therefore, in assessing projects, the extent to which there may be interest on the part of potential purchasers or tenants is an important factor. Any approved funding is drawn down only on a phased basis in line with the achievement of pre-agreed sales or rental targets. NAMA's approach also involves independent rigorous assessment of construction cost budgets, the appointment of monitoring surveyors to oversee the construction phase and regular reporting through the Agency's Asset Recovery team to ensure delivery on time and on budget.

Debtor overheads

In certain circumstances, NAMA allows debtors to retain certain overhead costs from rental and other income produced by their assets where this is necessary for the company's operations. To date, 86% of approved retained income relates to current expenditure or 'overheads', including staff costs and other necessary business costs. Overhead allowances are agreed only after a thorough and rigorous evaluation of the debtor's business plan by NAMA. Each cost element is reduced to the minimum. Overhead allowances sanctioned by NAMA typically represent a very significant reduction on the level which prevailed prior to NAMA acquisition of the loans: typically, reductions of 50% to 75% in overhead costs have been achieved.

G. ADDITIONAL SECURITY

Where applicable, NAMA seeks to identify assets of debtors which may be available as additional security. The principal sources of those assets are likely to be:

- Excess collateral identified in the course of the valuation process
- Other assets that fall within the scope of personal guarantees
- Assets identified in the course of the business review process
- Assets identified in the course of searches

To end-December 2011, NAMA had secured €384m in unpledged security from its debtors. In the period to end-May 2012, the Agency secured an additional €130m in unpledged assets, bringing the total secured to €514m.

Of this total, the Agency has been granted charges over previously unencumbered assets with an aggregate value of €354m. In the case of one debtor, the Agency has secured €17m in unencumbered assets in the form of pensions, shares, art and antiques. In addition, NAMA has agreed with certain debtors that the transfer of assets to connected parties be reversed: this has involved 31 debtors with assets worth €160m, including cash, property assets in Ireland and abroad, company shares and loans to family members.

NAMA continues to pursue a number of other debtors in order to obtain unpledged security and some of these attempts have necessitated litigation.

H. ENFORCEMENT

By end-May 2012, 235 separate receiver appointments (relating to 181 debtor connections) had been made. In the case of some connections, there have been multiple receiver appointments; in some other cases, only part of the debtor connection is subject to enforcement. The majority of appointments made to date have been corporate, as opposed to fixed charge, receivers (the distinction is outlined in a separate side panel).

TABLE 10: Enforcements as of end-May 2012

Receivership Appointments	NAMA-managed	PI-managed	Total
Corporate	89	99	**188**
Fixed Charge	22	25	**47**
Total	**111**	**124**	**235**
Number of debtor connections	73	108	181

An experienced Insolvency Team has been assembled within NAMA to act in an advisory capacity and to support the management, control and monitoring of cases under enforcement.

On its website (www.nama.ie), NAMA publishes a listing of properties that have been subject to enforcement action by the Agency. This is updated on a monthly basis. As at end-May 2012, there were close to 1,300 properties or groups of properties listed on the site. In the majority of cases, the properties are currently for sale or are under management and generating income. In some instances, receivers are working through outstanding title defect, ownership, planning and compliance issues and the intention is that the properties concerned would be offered for sale as soon as these issues have been satisfactorily resolved.

RECEIVERSHIPS

A **fixed charge receiver** is one who is appointed under a mortgage or debenture which created a fixed charge over certain assets of a company (usually fixed property assets).

A receiver appointed under a mortgage or debenture which created a fixed and floating charge over the assets of a company may be referred to as a **corporate receiver**.

The key difference between the two is that the corporate receiver has a statutory authority to deal with preferential creditors in a company where there is a floating charge over the assets.

Fixed Charge Receiver

The powers and duties of a fixed charge receiver are determined by the secured charge mortgage or debenture under which he is appointed. A fixed charge mortgage or debenture gives the secured creditor a fixed charge only over the specific assets which are specified in the charge document and any receiver appointed under this charge can deal only with these specific assets. The receiver's powers are detailed in the mortgage/debenture document and are generally limited to taking control of the asset, securing rental income from it, selling it and distributing the proceeds of sale to the secured creditor. The receiver may also have to deal with certain liabilities which attach to the specified asset only, for example, rates/service charges.

The receiver appointed under a fixed charge cannot extend his role further as he would thereby be acting outside the powers contained in the fixed charge mortgage or debenture. Further, the receiver has no entitlement to get access to the books and records of the company other than those records specifically relating to the assets over which he has been appointed. Other assets (and related liabilities) of the company remain to be managed by the company.

Corporate Receiver

If the mortgage/debenture creates a fixed and floating charge over the assets of the company, the powers and duties of the corporate receiver are determined by the secured charge mortgage or debenture. Assets subject to a fixed charge are dealt with as outlined above. Although there is no statutory definition of a floating charge, it is usually regarded as a charge over the working capital assets of a company. The receiver has the power under the debenture to realise these assets but also has statutory authority under the Companies Acts to deal with any preferential creditors arising, including employee statutory termination claims (Section 285, Companies Act, 1963 and the Redundancy Acts).

NAMA Social and Economic Contribution

NAMA's purposes, as outlined in Section 2 of the Act, include its contribution to the social and economic development of the State. NAMA activity has an impact on the economy in general and on the property market. It also seeks to fulfil its social and economic contribution through specific initiatives which are outlined below.

1. OVERALL ECONOMIC CONTRIBUTION

NAMA's initial contribution was to inject, during 2010, over €30 billion in liquidity into the banking system through its issuance of bonds to the participating institutions; these bonds, in turn, could be exchanged for cash with the ECB.

NAMA is now working towards protecting the interests of taxpayers by seeking to obtain the best achievable return for the State on its acquired bank assets. At a minimum, this means, over its projected ten-year life, redeeming the Senior Bonds issued as consideration for acquired loans in addition to recovering the carrying costs and working and development capital expenditure advanced to debtors (in line with Section 10 (2) of the Act). It is working towards meeting its commercial objective over the shortest possible time span while meeting all of its future commitments out of its own resources.

2. PROPERTY MARKET

NAMA considers that one of its primary objectives is to contribute to a renewal of sustainable activity in the property market in Ireland. It has agreed schedules of asset sales with its debtors and receivers and this will ensure that loans or property assets located in Ireland and elsewhere are offered for sale to the market in **a phased and orderly manner** in line with the market's absorption capacity. The actual volume of sales in any particular year will depend principally on supply/ demand conditions, the availability of credit and the impact on the market of deleveraging being carried out by various banks.

In addition to asset sales, NAMA is in the process of implementing a number of initiatives which are aimed at increasing transactional activity in the Irish property market in particular. These include the provision of vendor finance, the introduction of a deferred payment initiative for certain residential property and the launch of Qualifying Investor Funds (QIFs).

3. VENDOR FINANCE

There is significant investor interest in NAMA's portfolio but lack of finance is a major constraint, both in Ireland and internationally. Many traditional lenders to the commercial property sector are either reducing substantially their exposure to the sector or are withdrawing entirely from it. Even where bank finance is available, funding costs tend to be prohibitively high.

NAMA is willing to fund transactions for amounts up to 75% LTV (loan-to-value). Vendor finance offers NAMA a number of advantages: it provides an opportunity to significantly de-risk the loan portfolio, as well as bringing more buyers into the market and adding price competition. Potential vendor finance transactions are evaluated on a case-by-case basis. Applied judiciously, vendor finance can play a positive role in attracting international investment into Ireland's commercial property market and supporting employment. The first NAMA vendor finance transaction, involving the sale of an office building at No. 1 Warrington Place in Dublin, was completed in April 2012.

4. DEFERRED PAYMENT INITIATIVE (DPI)

NAMA, in conjunction with three banks, has launched, on a pilot basis, a Deferred Payment Initiative (DPI) for certain residential assets under the control of its debtors. The initiative aims to improve liquidity in the housing market by reducing the risk of negative equity to purchasers of residential property and thereby encouraging latent demand among those who are keen to purchase but who are concerned that prices have not yet reached bottom. The initiative was launched in May 2012 and the pilot phase includes 115 houses located in counties Dublin, Cork and Meath.

5. QUALIFYING INVESTOR FUNDS

Before the end of 2012, NAMA aims to launch at least one qualifying investor fund (QIF). Funds, based on regional or sectoral portfolios, are a way to attract institutional investors such as pension funds and sovereign wealth funds to buy properties on a phased basis. The QIF will operate as a standalone entity with its own independent directors.

ILLUSTRATION OF THE DPI STRUCTURE

- A buyer pays 80% of the purchase price up-front, funded by his own equity (minimum of 10%) and the first tranche of a mortgage (up to 70%). For example, if the purchase price of the house in 2012 is €200,000, the buyer provides €20,000 upfront and borrows €140,000 from the bank. Payment of the residual €40,000 is deferred.
- If, after five years, the value of the house has fallen by 20% or more relative to its original purchase price of €200,000, the mortgage payable from 2017 onwards will be by reference to a price of €140,000 (i.e. €40,000 of the original purchase price will no longer be payable).
- If, by 2017, the value of the house has decreased by less than 20%, the amount payable will be reduced on a pro-rata basis e.g. if the price has fallen to €180,000, the mortgage adjusts to €160,000 (with buyer's equity of €20,000 excluded).
- If the value of the property is equivalent to or greater than the original purchase price, the 20% deferred amount is drawn down by the buyer and is paid directly to NAMA.
- The current market value of the property in 2017 will be determined by an independent valuer, selected by the buyer from a panel of independent valuers appointed by NAMA.
- **Table 11** below illustrates this.

TABLE 11: Deferred Payment Initiative - illustration

	Value Unchanged	Decrease in Value by 20%	Decrease in Value by 10%	Increase in Value by 5%
Year 0				
Property Purchase Price	200,000	200,000	200,000	200,000
Financed By:				
70% Mortgage (Tranche A)	140,000	140,000	140,000	140,000
10% Purchaser Deposit	20,000	20,000	20,000	20,000
20% Deferred Payment	40,000	40,000	40,000	40,000
Year 5				
Property Valuation	200,000	160,000	180,000	210,000
Change in Value	0	(40,000)	(10,000)	10,000
Financed By:				
Existing 70% Mortgage	140,000	140,000	140,000	140,000
Existing Purchaser Deposit	20,000	20,000	20,000	20,000
Deferred Mortgage (Tranche B)	40,000	0	10,000	40,000
	200,000	**160,000**	**180,000**	**200,000**

6. SPECIFIC INITIATIVES

Within the context of its commercial remit, NAMA is at all times open to proposals which can contribute to the achievement of broader social and economic objectives. A number of examples are outlined below.

Provision of social housing

In December 2011, NAMA identified over 2,000 properties as being available for social housing. The list of properties was reviewed by local authorities and housing agencies and, based on this review, the authorities and agencies confirmed their interest in 1,033 of the properties. In June 2012, NAMA identified a further 1,139 units as potentially suitable for social housing provision and these will also be reviewed by the relevant authorities to assess their suitability. This brings to almost 3,200 the total number of residential units offered by NAMA to the State for provision of social housing.

NAMA also concluded the sale of 58 housing units in Sandyford, Co. Dublin to the Clúid Housing Association in 2011. This project marked the first time that loan finance was advanced by the Housing Finance Agency to an approved housing body and the first time that stock controlled by NAMA was used for the delivery of permanent new social housing. A key feature of the project was the collaborative approach between NAMA, Clúid and the Housing Finance Agency. Other examples of a similar approach include the sale of 15 apartments in Drogheda to the Tuath Housing Association.

Properties for public use

The NAMA Board has committed to giving first option to public bodies on the purchase of property which may be suitable for their purposes and, in line with that commitment, has accommodated the release of lands and property for schools, health care facilities, community and recreational amenity, and other uses.

Examples of NAMA's contribution in this area include the following:

- *The sale of the Opera Centre in Limerick to Limerick City Council.*
- *The release of lands in Baldoyle, Co. Dublin to Fingal County Council for parkland.*
- *The sale of a 13-acre site in Hansfield, west Dublin to the Department of Education and Skills.*
- *The sale of a 3-acre site in Galway to the Department of Education and Skills for the construction of a school.*
- *The sale of sites to University College Dublin and University College Cork.*
- *The lease of a property in Tallaght to the Health Service Executive (HSE) for use as a Primary Healthcare Facility.*
- *The sale of lands to the HSE to accommodate the Ambulance Support Service for the North East.*
- *The co-funding, with Fingal County Council, of an N2-N3 link road through lands in west Dublin which secure NAMA loans.*

NAMA is engaged in ongoing and constructive dialogue with a number of public authorities, including the Department of Environment, Community and Local Government, the Department of Education and Skills, the Department of Health and Children and the Department of Arts, Heritage and the Gaeltacht as well as the Health Service Executive (HSE) and certain universities, with the view to identifying possible solutions for their property requirements. NAMA also facilitates dialogue between debtors and third parties so as to enable the latter to acquire suitable property for social, sporting or other public purposes. NAMA's intervention, in co-operation with Dublin City Council, in making suitable properties available for residents evacuated from Priory Hall (which is not security for a NAMA loan), is another example of the Agency acting to fulfil a public purpose.

Rent Abatements

In December 2011, NAMA issued a Guidance Note on **Upward Only Commercial Leases**. The Guidance Note is intended to deal with situations where tenants of NAMA debtors can demonstrate that the rents payable under their current leases are in excess of current market levels and, as a result, that the viability of their business is threatened. In such circumstances, tenants may seek NAMA's approval for rent reductions. The Guidance Note is not intended to provide benefits to tenants whose businesses are trading profitably and who are in a position to honour their current contractual arrangements on rent.

Prior to issuing the Guidance Note, NAMA received and approved a substantial number of applications of rent abatements using analogous criteria to those in the Guidance Note.

As at end-May 2012, NAMA had received 194 eligible applications for rent abatement: 145 had been approved, four were refused and the remaining 45 applications were under review.

Unfinished Estates

Following publication of the **Report of the Advisory Group on Unfinished Housing Developments** in June 2011, the Minister for State with special responsibility for Housing and Planning established a National Co-ordination Committee to oversee action on unfinished estates. NAMA has two representatives on the Committee which initially focused its attention on the 243 estates categorised by local authorities as the most problematic from a public safety perspective (Category 4 estates). 29 (or 12%) of these estates are controlled by NAMA debtors or receivers. NAMA has funded, through its debtors and receivers, the cost of urgent remedial work (estimated at €3m) and, by June 2012, significant progress had been made in this regard.

Attention is now focusing on 1,500 Category 3 estates which are considered to be the next most problematic from a public safety perspective. 150 (or 10%) of these estates are linked to NAMA debtors. As at June 2012, work is at an advanced stage in terms of identifying remedial action necessary for each site and in terms of agreeing plans and timetables for optimum site resolution.

FINANCIAL REVIEW

Pre-impairment operating profit of €1.28 billion in 2011.

Net profit after tax of €247m.

SUMMARY 2011 FINANCIAL HIGHLIGHTS

- Pre-impairment operating profit of €1.28 billion for 2011
- Impairment charge taken in 2011 of €1.27 billion (cumulative to date €2.75 billion)
- 2011 net profit after tax of €247m
- €0.5 billion of realised gains recognised on debtor activity and loan sales
- Direct operating costs equivalent to 1.8% of loan cash receipts or 0.3% of average loan balances
- €6.1 billion of cash collected from inception to end-2011 from debtors
- €1.25 billion of NAMA senior debt securities repaid
- €299m loan from Central Fund (Minister for Finance advance) repaid in full
- Closing 2011 cash and liquid funds of €3.8 billion
- Year-end balance sheet reserves of €521m

OPERATING PERFORMANCE

NAMA made an operating profit before impairment of €1,278m in 2011 (2010: €305m), its second full year of operation. A further impairment charge of €1,267m (2010: €1,485m) was also provided against loans and receivables, reflecting a continued challenging property environment in Ireland.

The overall result was a net profit of €247m for 2011, after the impairment losses of €1,267m (2010: €1,180m net loss). Table 12 provides a breakdown:

TABLE 12: Summary income statement

	H1 2011[6] €m	H2 2011 €m	2011 €m	2010 €m
Interest and fee income	583	700	1,283	525
Interest expense	(241)	(271)	(512)	(179)
Net interest income	**342**	**429**	**771**	**346**
Gains on loans and receivables	-	549	549	-
Foreign exchange gains / (losses)	(45)	107	62	22
Gains / (losses) on derivatives	(24)	48	24	(17)
Administration expenses	(57)	(71)	(128)	(46)
Operating profit before impairment charges	**216**	**1,062**	**1,278**	**305**
Impairment charges			(1,267)	(1,485)
Profit / (loss) before tax			**11**	**(1,180)**
Tax Credit			236	-
Profit / (loss) after tax			**247**	**(1,180)**

2011 saw a notable increase in portfolio activity, including loan sales, debt repayments and property collateral disposals. Receipts from debtors were €5.1 billion, with €4.3 billion of net cash generated overall from operating activities.

6 *The H1 2011 result represents the unaudited position for the 6 months ended 30 June 2011, based on NAMA's Quarter 2 2011 accounts, published on 16 November 2011.*

€1.55 billion of NAMA debt (senior debt securities and Central Fund advances) had been repaid by the end of 2011, leaving closing 2011 cash balances and other liquid resources (short-term Government bond investments) of €3.8 billion.

INTEREST AND FEE INCOME

In 2011, NAMA reported total interest and fee income of €1,283m (2010: €525m), split as follows:

TABLE 13: Interest and fee income

	H1 2011 €m	H2 2011 €m	2011 €m	2010 €m
Interest recognised on loans	531	614	1,145	448
Interest received on derivatives	46	54	100	75
Interest on cash and liquid assets	6	22	28	2
Overdraft income	-	1	1	-
Fee income	-	9	9	-
Total interest and fee income	**583**	**700**	**1,283**	**525**

The increase in loan interest income in 2011 included the full year effect of the loan transfers, which started on a phased basis in March 2010.

Interest is recognised on loans in accordance with the Effective Interest Rate (EIR) Method (EIR is illustrated in a separate side panel). Interest income on impaired loans is only recognised on the unimpaired amount of the loan balance using the original EIR.

Net cash interest of €100m was also received on acquired debtor derivatives in 2011 (2010: €75m). These are mainly interest rate swaps. The net effect of these swap and other hedging transactions is discussed separately.

Interest of €28m (2010: €2m) was earned on cash and other liquid assets during 2011. This reflected the higher cash holdings generated from loan and collateral disposals.

Of the total interest income of €1,145m recognised in 2011, €1,032m was realised in cash. The balance of €113m in loan interest income was provided against separately as part of the total 2011 impairment charge of €1.27 billion.

Interest accruing under the original terms of the acquired loans (based on Par value of €74 billion) in 2011 was €2,801m (2010: €1,114m). This Par value interest continues to be charged to (and be owed by) the debtors under their contractual loan agreements, unless and until the loans have been settled to the satisfaction of NAMA or if there has been an agreed restructuring. Any such excess interest on the original Par Debt (compared to the €1,145m loan interest income recognised on the NAMA Debt above) is not recognised as income in NAMA's financial statements.

TABLE 14: Interest expense

	H1 2011 €m	H2 2011 €m	2011 €m	2010 €m
Interest paid on NAMA debt securities	185	238	423	99
Interest paid on derivatives with hedge accounting applied	40	18	58	44
Interest paid on other derivatives	16	15	31	35
Interest paid on other debt	-	-	-	1
Total interest expense	**241**	**271**	**512**	**179**

The total interest expense for 2011 was €512m (2010: €179m). As part of its risk management strategy, in the context of lower longer term interest rates being available through the derivative market, NAMA has fixed its interest cost on €20.3 billion (2010: €13.3 billion) of its NAMA senior debt securities by entering into floating to fixed interest rate swaps (some of which are forward-starting). These hedges fix a portion of the variable interest cost on the NAMA debt securities. The interest cost on these derivatives in 2011 was €58m (2010: €44m), in addition to the cash interest paid on the NAMA debt securities of €423m (2010: €99m). Cash coupon payments on these senior debt securities are paid semi-annually on 1 March and 1 September each year. The increase in the 2011 interest charge reflected the full financial year effect of senior debt securities issued in late 2010 and through 2011.

Interest expense on NAMA hedging of acquired debtor derivatives in 2011 was €31m (2010: €35m).

TABLE 15: Gains on loans and receivables

	H1 2011 €m	H2 2011 €m	2011 €m	2010 €m
Gains on disposal of loan assets	-	77	77	-
Net surplus income on loan repayments (in excess of loan balances)	-	472	472	-
Total gains on loans and receivables	**-**	**549**	**549**	**-**

NAMA generated debtor receipts of €5.1 billion from loans and underlying collateral in 2011. €3.6 billion of this was received in the second half of 2011. A large element of the disposals related to the UK and US markets, where overall transactional activity has tended to be stronger.

NAMA only recognises gains where the overall debtor connection is expected to be in surplus (compared to the NAMA acquired carrying value) or the NAMA debt has been cleared in full.

DERIVATIVES AND FOREIGN CURRENCY MOVEMENTS

NAMA has acquired foreign currency loans (mainly sterling-denominated) for which it paid euro-denominated floating rate bonds. As part of its risk management, NAMA has €8.6 billion (2010: €10.3 billion) of foreign currency derivatives to hedge the currency risk on these loans. The net effect for 2011 was a gain of €62m (2010: €22m gain), which was recognised in the 2011 income statement.

The net gain on debtor and hedging derivatives for 2011 was €93m (2010: €23m, total since inception: €116m gain.

TABLE 16: Net gain on derivatives

	H1 2011 €m	H2 2011 €m	2011 €m	2010 €m
Acquired debtor derivatives	(39)	129	90	48
NAMA debtor hedges	15	(97)	(82)	(65)
Hedge ineffectiveness adjustment	-	16	16	-
Fair value gains and losses on derivatives	**(24)**	**48**	**24**	**(17)**
Recognised in net interest income			69	40
Net gain on derivatives			**93**	**23**

NAMA acquired €14 billion of debtor derivatives associated with the loans acquired. These were mainly interest rate swaps (a majority of which were non-performing). €2.5 billion of these acquired derivatives are performing and NAMA has since entered into derivative contracts with a 2011 year-end nominal value of €2.5 billion (2010: €2.5 billion) to hedge the associated interest rate risk on those performing acquired derivatives. NAMA only recognises income on derivatives which are performing and meeting contractual interest payments. The net mark-to-market gain on these acquired derivatives and related hedges was €24m in 2011 (2010: €17m loss). A net interest gain of €69m (2010: €40m) was separately recognised in net interest income above.

NAMA has also entered into €20.3 billion (2010: €13.3 billion) of floating to fixed interest rate swaps (some forward-starting) to hedge a portion of the interest rate exposure on €29.1 billion of floating rate debt securities issued as part consideration for the loans acquired. These interest rate swaps are designated as cash flow hedges. The mark-to-market movement on these hedges in 2011 was €323m negative (2010: €77m gain), which is included in other equity reserves.

In 2010, some of the swaps that were formally designated as hedge relationships resulted in a pre-designation fair value loss of €30m being recognised on other derivatives. This loss is amortised to the cash flow hedge reserve over the remaining life of the derivatives. A resultant gain of €16m was recognised in 2011 (partly offsetting the €30m loss in 2010).

Operating costs

2011 operating costs were €128m. This represented a €13m saving to the budget presented in the NAMA Business Plan (July 2010). Total operating costs in 2011 equated to 0.4% of the average 2011 loan book balances (based on NAMA carrying value) and 2.5% of loan cash realisations during 2011. Direct operating costs of €92m equated to 1.8% of loan cash realisations or 0.3% of the average 2011 loan book balances.

TABLE 17: Operating costs

	H1 2011 €m	H2 2011 €m	2011 €m	NAMA Business Plan €m
Primary and Master Servicer fees	34	26	60	59
NTMA as Service Provider	12	15	27	25
Other costs	3	2	5	5
Direct operating costs	**49**	**43**	**92**	**89**
Portfolio management and credit fees	4	12	16	27
Due diligence costs on loan acquisitions[7]	-	10	10	-
Legal fees	4	6	10	25
Due diligence and other advisory costs	**8**	**28**	**36**	**52**
Total operating costs	**57**	**71**	**128**	**141**

The largest single cost was fees of €57m payable to the PIs as Primary Servicers for administering the loan books. This equated to 0.08% of the nominal loan balances administered by them in 2011 (2010: 0.06%).

NAMA has no employees. All staff are employed by the NTMA and the costs are recharged to NAMA by the NTMA as a Service Provider. Staff-related costs comprised €24m (including any related pension costs) of the total 2011 recharge from the NTMA. No performance remuneration was paid to NAMA-assigned staff for 2011.

The Chief Executive of NAMA was awarded a performance-related payment for 2011 but, in view of the economic challenges facing the State, has waived this payment for 2011, as he did for 2010. The Chief Executive has also gifted an additional 15% of his salary for 2012 to the Minister for Finance.

Due diligence and portfolio management costs incurred for 2011 are largely one-off costs relating to the acquisition process of loans and the completion of business plans on all debtor connections. This acquisition process is now completed.

BENCHMARKING OF NAMA COSTS

Excluding one-off due diligence costs, NAMA's direct operating costs in 2011 were 0.3% of nominal loan balances. In terms of assessing whether this level of costs represents good value for the taxpayer, there are few relevant entities engaged in similar work with which NAMA could be compared.

The closest analogue for comparison is the cost of using third-party special servicing firms. Prior to the establishment of NAMA, the NTMA sought quotations for the provision of special servicing, which, in terms of resourcing, is akin to the intensive approach towards the management of debtors and assets which has been adopted by NAMA. The quotations received were in the range corresponding to 0.5% to 1.8% of average 2011 nominal loan balances. These quotations excluded any costs that NAMA would have incurred in overseeing the activities of the special servicer and also excluded legal and valuation costs which are material in the context of a distressed debt portfolio. In addition, the quotations were offered on the basis that there would also be additional incentivisation fees ranging from 0.25% to 2% of the loan or asset proceeds. Such incentivisation fees are the norm in the area of special servicing.

Taking into account both the special servicing element and the incentive element proposed by special servicing entities, it is estimated that NAMA's costs are substantially less than the least expensive quotation offered for services which would require a similarly intensive engagement with debtors and assets.

7 *This is the excess cost incurred above the present value of the amount recovered from the Participating Institutions.*

IMPAIRMENT ON DEBTOR LOANS

At the end of 2011, NAMA has recorded a cumulative impairment provision against its loans and receivables portfolio of €2.75 billion. This compared to €1.48 billion for 2010, resulting in an additional impairment charge to the 2011 income statement of €1.267 billion.

The impairment exercise is, as with similar financial businesses, the main area of judgement in NAMA's financial statements. NAMA has acquired a portfolio of loans where the vast majority were already impaired as at the November 2009 valuation date. These gave rise to losses for the original lenders, which crystallised in the discounts applied as part of the EU-approved valuation and due diligence exercises.

MEASUREMENT OF IMPAIRMENT

Under IAS 39, the EIR is calculated on the initial recognition of the loan by NAMA. It is the rate which exactly discounts the original estimated future net cash inflows, over the expected life of the loan, to the actual acquisition price paid for the loan acquired.

In practice, the actual cash flows on individual loans will rarely match the estimated future cash flows under the original LTEV (long-term economic value) methodology. Changes will happen for a variety of reasons, including:

- Variations (up or down) in the cash interest actually received from performing debtors or income generating collateral.
- The amount of principal actually recovered on the loans (compared to the original expectation used to value the loan).
- The timing of the recovery of this loan principal (or any related property collateral), reflecting the time value of money implicit in the discounting of future cash flows.

Any income recognised using the EIR method accrues against the carrying value of the loan by NAMA. To the extent this is not offset by cash received from the debtor as part of its normal contractual interest obligations (on the Par value of the loan), it must be considered as part of the (at least annual) impairment exercise to see if the loan balance remains recoverable.

Impairment is separately measured as the difference between the loan's period end carrying amount (loan balance as at 31 December) and the present value of expected future cash flows. These future cash flows are discounted using the original EIR. Using the EIR to measure interest income and to discount expected future cash flows when assessing impairment ensures that:

- Interest income under the EIR method only takes account of credit losses incurred up to the loan acquisition date (which were reflected in the fair value of the loans acquired).
- Any subsequent deterioration in the credit quality of an individual debtor's loans is separately measured and reported in the income statement, as part of any annual impairment assessment.
- The discounted cash flows make allowance for future EIR interest by using the EIR as the discount rate, to ensure any future EIR accruing remains appropriate and recoverable.
- Any interest income recognised but not received in cash is subject to the annual impairment test.

APPROACH TAKEN TO CALCULATING THE IMPAIRMENT PROVISION

The 2011 impairment assessment was based on a combination of:

1. A detailed cash flow forecasting exercise for all debtor connections which were considered **individually significant**. In practice (save for two debtor connections where NAMA business plans had not yet been approved at end May 2012 and which were included in the collectively assessed pool referred to below) this equated to the "NAMA-managed" loans. The carrying value (before impairment) of these loans totalled €23.5 billion (82% of the total book, based on NAMA carrying value). This included the asset carrying value of any acquired debtor derivatives. These cash flows were also subject to independent scrutiny by external advisers and various levels of internal approval, in line with NAMA's formal delegated authority limits approved by the Board.
2. A **collective loss assessment** was performed on the remaining element of the loan book, taking into account the loss levels evident in the individually significant cash flows.

Losses were assessed at an overall debtor connection level, to allow for any cross guarantees in place across a debtor's underlying collateral held as security by NAMA. No reliance was placed on personal guarantees or unpledged assets by NAMA as part of this exercise.

An important factor in assessing impairment is the operating cash flow which continues to be generated for the benefit of NAMA on the underlying collateral (from rentals and other sources) from the active management of those assets.

No terminal values were assumed in the cash flow exercise.

In the case of debtor cash flows with a net discounted deficit (comparing the discounted cash flows to the NAMA carrying value of the loans, including any accrued interest income under the EIR method), any such deficits have been provided for in full in the financial statements.

The NAMA Board has decided (on a prudent basis) that debtor cash flows with a net discounted surplus of €1.82 billion should not be recognised in the income statement. These estimated but unrealised (and unrecognised) surpluses in part reflect actual transactions and other observable evidence, which point to a return to more normal levels of activity and better sentiment generally.

PROFILE OF THE 2011 IMPAIRMENT PROVISION

The results of the impairment testing splits as follows:

TABLE 18: Individual and collective provisioning

	NAMA debt[8]	Impairment provision	Average expected loss	
	€bn	€bn	2011	2010
Individually significant debtors	23.5	2.153	9.3%	5.4%
Collectively assessed debtors	5.2	0.432	8.3%	4.8%
Based on the debtor cash flow exercise	**28.7**	**2.585**	**9.1%**	**5.1%**
Incremental provision	-	0.166	n/a	n/a
Balance sheet position	**28.7**	**2.751**	**9.6%**	**5.1%**

8 NAMA debt includes loan carrying value of €28.4 billion and associated derivatives of €0.3 billion

As part of its review of the overall impairment provision at year-end, the Board considered the outcome of the specific and collective model-based provisioning. The results of these models are driven largely from recent historic experience and current observable information. The Board concluded that, notwithstanding the unrecognised gains of €1.82 billion from the cash flow exercise, it was appropriate at this stage of NAMA's life to include an incremental provision of €166m to reflect the fact that actual future losses have the potential to lag the current experience. This mainly reflects an inherent uncertainty in the timing of the realisation of cash from Irish land and development collateral, due to the current lack of observable transactions.

RECONCILIATION TO THE Q4 2011 SECTION 55 ACCOUNTS

A reconciliation of the final 2011 impairment charge of €1,267m to the net impairment charge of €810m included in NAMA's Quarter 4 2011 accounts (prepared in accordance with Section 55 of the Act and published on 24 May 2012 - "the S55 accounts"), is as follows:

TABLE 19: Reconciliation of the 2011 impairment charge to the Q4 2011 S55 accounts

	€m
Net impairment charge per the S55 accounts	810
Reclassification of realised gains	243
Incremental provision to reflect potential unobserved credit losses	166
NAMA managed cases now included in the collective assessment	75
Unbadged provision in the S55 accounts now released	(27)
Gross impairment charge per 2011 financial statements	**1,267**

The €810m net impairment charge included in the S55 accounts was net of realised gains of €243m, which have now been reclassified to gains on loans and receivables on the face of the income statement.

An additional provision of €166m (as described above) has also been made, to reflect potential unobserved credit losses, particularly in the timing of the realisation of cash from Irish land and development collateral.

ILLUSTRATION OF THE OPERATION OF EIR

The EIR (Effective Interest Rate) method spreads interest income at a constant rate over the life of the loan, regardless of the timing of cash receipts. In any given year, there is no direct link between interest recognised and the underlying cash received. However, over the life of a loan, the total cash received in excess of the opening loan balance will, after adjusting for any impairment losses, equal the interest income recognised under the EIR method.

The following example illustrates the operation of EIR on an individual NAMA loan. It should be noted that each individual loan has particular characteristics for which this example may not be representative.

The carrying value of the loan is €100m at the start of 2011 and that its EIR is 5%. The expected cashflows are as follows:

Year	Expected cashflows (as at start of 2011)	Discounted Cash Flow*
2011	5.0	4.8
2012	5.0	4.5
2013	5.0	4.3
2014	5.0	4.1
2015	105.0	82.3
NPV		**100.0**

2015 cashflows include the end-2011 expected asset disposal proceeds of €100m plus interest income of €5m.

SCENARIO A: Increase in expected cashflows

At the end of 2011, an impairment review is carried out and, as a result, the expected asset disposal receipts increase from 100 to 110. The cashflow profile thereby changes to the following:

Year	Expected cashflows (as at end of 2011)	Discounted Cash Flow*
2012	5.0	4.8
2013	5.0	4.5
2014	5.0	4.3
2015	115.0	94.6
NPV		**108.2**

NAMA has adopted the approach of not recognising expected 2015 gains on loans such as this unless and until they are realised as cash i.e. cash proceeds exceeding the carrying value of the loan.

* Discounted at EIR rate of 5%

SCENARIO B: Fall in expected cashflows

In an alternative scenario, if the impairment review at the end of 2011 indicates that the expected asset disposal receipts fall from 100 to 95. The cashflow profile thereby changes to the following:

Year	Expected Cashflows (as at end of 2011)	Discounted Cash Flow*
2012	5.0	4.8
2013	5.0	4.5
2014	5.0	4.3
2015	100.0	82.3
NPV		**95.9**

As the NPV of the revised cashflows is less than the loan's carrying value, it is necessary for NAMA to provide for an impairment charge: this is €4.1m in its end-2011 accounts, reflecting the difference between the two figures (€100m minus €95.9m). The revised carrying value is €95.9m.

A similar impairment review is carried out at the end of 2012.

1. If the result of this second impairment review is a further deterioration in the expected cashflow profile, an additional impairment charge is taken.

2. If, however, the end-2012 review suggests an improved cashflow profile (e.g. asset disposal proceeds expected to increase from 95 to 98), this positive expectation is reflected in a reduction to the impairment provision. If, however, the expected gain exceeds the loan's original carrying value, the surplus above the loan's original carrying value is not recognised unless and until it is realised as cash.

Year	Expected cashflows (as at end of 2012)	Discounted Cash Flow*
2013	5.0	4.8
2014	5.0	4.5
2015	103.0	89.0
NPV		**98.3**

In this instance, the NPV of the loan has improved from €95.9m at the end of 2011 to €98.3m at the end of 2012. This means that the previous impairment provision can be reduced by €2.4m, leaving a net impairment provision of €1.7m (€100m minus €98.3m).

Two NAMA-managed connections which did not meet the definition of individually significant debtors, as the underlying debtor business plans were still subject to internal approval at the time of completion of the cash flow exercise, have been included in the collective loss assessment. This has resulted in an additional provision of €75m.

An unbadged provision of €27m had been included in the S55 accounts, pending finalisation of the detailed individual debtor cash flows and other adjustments from the year-end audit process. This has now been released following completion of the debtor cash flow exercise.

EIR SENSITIVITY

The discounted cash flows used to assess impairment use the EIR as the discount rate, to ensure any future EIR accruing remains appropriate and recoverable.

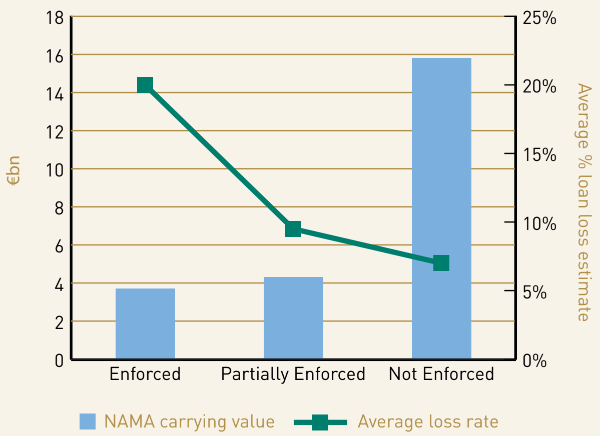
By way of illustrative sensitivity, a 10% reduction in EIR rates across the debtor book would have had the effect of reducing the 2011 EIR interest income by €104m. This would have had no effect on the cash actually realised from debtors. However, it would have also resulted in a reduction of €191m in the 2011 impairment charge (as future cash flows would be discounted at this lower rate), or an overall benefit of €87m to the 2011 net profit if applied to the NAMA loan portfolio.

PROFILE OF THE IMPAIRMENT PROVISION ACROSS THE DEBTOR BOOK

The level of impairment does vary across individual debtors.

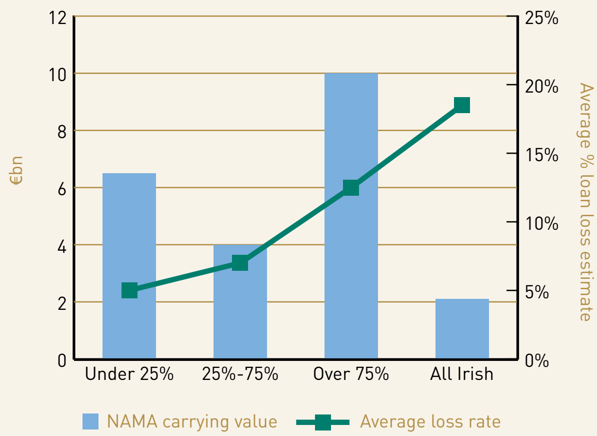
- There is an understandable linkage between the estimated loan losses and the level of co-operation being provided by an individual debtor.

FIGURE O: Impairment by debtor status (Individually Assessed)



- On average, impairments are tending to be higher for debtors with a greater exposure to the Irish property market.

FIGURE P: Impairment by percentage of Irish assets held (Individually Assessed)



A summary of the impairment exercise across the €23.5 billion individually significant debtors tested by the assigned credit grade bandings is as follows:

TABLE 20: NAMA Credit Grading: Individually Significant Debtors

NAMA credit grading	NAMA debt €bn	Provision €bn	Average loss rate %
Satisfactory	7.8	-	n/a
Watch	1.2	-	n/a
Impaired	14.5	2.153	14.9%
Individually significant debtors	**23.5**	**2.153**	**9.3%**

DEBTOR LOAN BOOK

By 31 December 2011, NAMA had acquired loans with an original Par Debt face value of €74 billion from the PIs. NAMA has paid €31.8 billion for these loans. The majority of loan assets relate to property that continues to be managed by debtors, in accordance with the outcome of the review of debtor business plans agreed with NAMA. By 31 December 2011, €60 billion of these loans had been through the full due diligence process. Due diligence has now been completed on the full loan portfolio.

The NAMA carrying value of the loans at end 2011 was €25.6 billion. This is after taking the cumulative €2.75 billion impairment provision. A summary of the movements in the period is as follows:

TABLE 21: Movements in loans and receivables

Loans & receivables	NAMA debt €m	Par Value €m
At 1 January 2011	29,435	71,111
Loan acquisitions (completed in Q4 2011)	1,252	2,856
Loan acquisition adjustments	392	-
Working capital drawdowns	304	304
Cash received from debtors and loan sales	(4,867)	(4,867)
Interest income recognised	1,145	2,801
Gain element taken to income statement	549	-
Foreign exchange movements	246	474
Write-off of debt[9]	-	(216)
Other movements[10]	(98)	-
At 31 December 2011	**28,358**	**72,463**
Impairment provision	(2,751)	
Balance sheet carrying value (loan balances)	**25,607**	

NAMA uses part of loan repayments to fund new advances to work out existing assets. As at 31 December 2011, it had approved new lending of €985m, of which €720m had been drawn down by debtors. By the end of 2011, NAMA had received (since inception) €6.1 billion of cash interest and principal repayments from debtors and through underlying loan sales (€5 billion of this was in 2011 alone).

CASH FLOWS

NAMA ended 2011 in a strong cash position, with cash and other liquid resources of €3.8 billion. This was after repaying €1.25 billion to redeem senior debt securities.

TABLE 22: Summary cash flows

Summary cash flows	H1 2011 €m	H2 2011 €m	2011 €m	Since inception €m
Debtor and related receipts[11]	1,512	3,563	5,075	6,088
Funds advanced to debtors	(165)	(139)	(304)	(544)
Interest paid on debt securities	(128)	(195)	(323)	(353)
Payments to suppliers	(41)	(103)	(144)	(194)
Dividend paid	(5)	-	(5)	(5)
Other net cash flows	(3)	21	18	65
Net cash from operations	**1,170**	**3,147**	**4,317**	**5,057**
Issue of shares to private investors	-	-	-	51
Loan from Central Fund	-	-	-	299
Repayment of loan from Central Fund	(49)	-	(49)	(299)
Redemption of debt securities	(750)	(500)	(1,250)	(1,250)
Net cash from financing activities	**(799)**	**(500)**	**(1,299)**	**(1,199)**
Net cash generated	**371**	**2,647**	**3,018**	**3,858**
Opening cash and liquid assets			837	
Currency and other settlement movements			(8)	
Closing cash and liquid assets at 31 December 2011			**3,847**	

9 These write offs relate to circumstances where all of NAMA's secured interest has been disposed of and there is no additional recourse to the debtor.

10 Other movements reflect deferred consideration, guarantee settlements and other reimbursements due from PIs.

11 Debtor and related receipts of €5,075m include receipts from acquired loans of €4,867m, receipts from acquired derivatives of €103m and other V to T (value to transfer date) cash inflows of €105m.

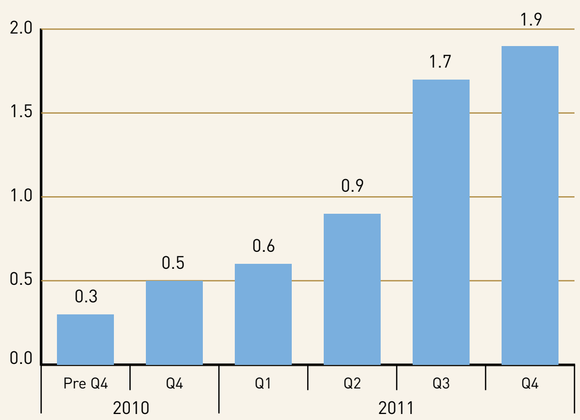
€4.3 billion net cash was generated from operating activities in 2011 (cumulative since inception: €5.0 billion net cash). This included €5.1 billion in loan and debtor receipts (cumulative since inception: €6.1 billion).

Cash is a very real measure of the tangible progress made by NAMA to date in realising its stated financial objectives.

Cash of €304m (cumulative €544m) was advanced to debtors for working capital purposes. This is part of NAMA's strategy to maximise value by developing out appropriate assets.

The phasing of cash flows through 2011 reflected the timings of some large asset and loan disposals. The second half of 2011 saw a significant uplift in debtor cash flow generation activity.

FIGURE Q: Cash generation by quarter from operations (€bn)



NAMA-IBRC short-term facility

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

NAMA Organisational Structure

The first phase in NAMA's evolution was focused on a number of key tasks:

- Recruiting the requisite expertise in finance, property, banking, law and other disciplines to enable it to carry out its statutory functions;
- Acquiring eligible loans from the participating institutions and valuing them in line with the approved EU Commission methodology; and
- Engaging either directly or indirectly with its debtors and determining its strategy (support or enforcement) towards each of them.

NAMA has now moved into a new phase of its evolution in which it must develop and implement strategies aimed at extracting maximum recovery from its assets over medium- and long-term horizons. With that in mind, the Board, in late 2011, approved a revised organisation structure for NAMA which is designed to respond effectively and dynamically to the challenges ahead. The reorganisation, which was implemented in early April 2012, involved the restructuring of the agency into five divisions:

ASSET MANAGEMENT

The role of the **Asset Management** Division is to identify and develop property assets with debtors, receivers and joint venture partners so as to create and add value and enhance asset cashflow, particularly in the period after 2013.

ASSET RECOVERY

The **Asset Recovery** Division, which comprises 133 staff, has three primary functions: strategy delivery, management of debtors and maximising income and minimising loss.

The management of the 189 major debtor connections and their assets (€61 billion nominal) is handled directly by NAMA across nine multidisciplinary teams of nine staff each. The management of the PI portfolio of some 600 debtors (€13 billion nominal) is led by three teams of five staff each which have oversight of the management by three PIs (IBRC, AIB and BOI) of NAMA loans. Both the NAMA-managed and PI-managed portfolios are supported by specialist Insolvency and Corporate Finance teams. Asset Recovery Operations comprises teams dealing with Asset Search, Quality Assurance and Portfolio Operations.

STRATEGY AND COMMUNICATIONS

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

LEGAL

The **Legal** Division provides independent advice to the Board, the CEO and to NAMA business divisions on a range of legal issues that affect NAMA and its operations. It comprises a core team of legal professionals and support staff with expertise in commercial property, banking, insolvency and litigation. The Legal Division played a key role in managing the extensive legal due diligence process required as part of the loan acquisition and valuation process. Its current roles include the provision of advice on legal aspects of the debtor business plan process and advice and transaction execution on debt restructuring, lending operations, asset management strategies, enforcement and post-enforcement operations, management of litigation involving NAMA and management of NAMA's governance, regulatory and company law compliance requirements. The Legal Division is also involved in the policy and management of the delegated authorities operated by the participating institutions on behalf of NAMA.

CHIEF FINANCIAL OFFICER

The Chief Financial Officer's area of responsibility encompasses a number of functions, including Finance, Operations, Systems, Treasury, Audit and Risk and Tax.

Finance has responsibility for financial and management reporting, including the preparation of Annual Financial Statements (Section 54 of the Act) and the quarterly management accounts (Section 55).

Operations has responsibility for oversight of the performance of the PIs as service providers to NAMA and of the performance of the Master Servicer.

Systems has overall responsibility for the specification, development and management of NAMA's IT systems.

Treasury manages NAMA's Balance Sheet risks and its liquidity requirements.

Audit and Risk oversees the development and implementation of a risk management framework within NAMA, in addition to a co-ordinating the audit function.

Tax advises on taxation issues which have an impact on NAMA's business.

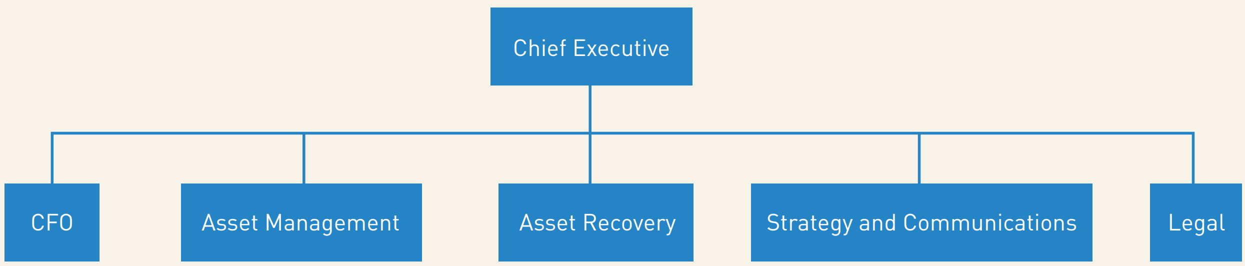
STAFF RESOURCES

The number of NTMA staff assigned to NAMA increased from 104 at the beginning of 2011 to 202 at the end of the year. When recruitment has been completed, staff numbers, by NAMA division, are expected to be as follows:

TABLE 23: NAMA staffing by division

Division	Projected
CEO / Senior Executives	6
Asset Management	9
Asset Recovery	133
Chief Financial Officer	29
Legal	30
Strategy and Communications	9
TOTAL	**216**

Figure R: NAMA Structure



Service Providers to NAMA

NTMA

Under Section 41 of the Act, the NTMA provides NAMA with business and support services, including HR, IT, Market Risk Analysis and the execution and processing of hedging transactions. NAMA reimburses to NTMA the cost of these services which was €28m (including staff costs) in 2011.

By the end of 2011, NAMA had, through the NTMA, recruited over 200 staff with extensive experience and expertise in the areas of lending, property, accountancy, law, banking and credit. For any potential employee to be assigned to NAMA, the NTMA must ensure that the person meets the character standards set out in Section 42 of the Act, has no material conflict of interest and provides to the NTMA a statement of interests, assets and liabilities.

PARTICIPATING INSTITUTIONS - SERVICING OF NAMA LOANS

Five institutions (and their subsidiaries) were designated as participating institutions by the Minister for Finance in February 2010. On 1 July 2011, the business of Irish Nationwide Building Society transferred to Anglo Irish Bank and, on 14 October 2011, the combined entity changed its name to Irish Bank Resolution Corporation Ltd. (IBRC). EBS Building Society was acquired by Allied Irish Banks plc. on 1 July 2011 and now operates as a subsidiary of AIB. The NAMA Units of the former Anglo and INBS are in the process of merging into one unit; a similar process is taking place with the NAMA Units of AIB and EBS. As part of the restructure of the banking sector, €12.2 billion of NAMA debt securities were transferred to AIB and €2.9 billion were transferred to IL&P.

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

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

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

PI fees for services to NAMA are based on 10 basis points or actual costs incurred, whichever is the lesser. The aggregate fee payable to the five PIs in respect of 2011 was €57m, an average of 8 basis points; this was payment for the work of about 550 staff employed by them to carry out loan administration and to manage NAMA's engagement with 583 debtor connections whose loans are not directly managed by NAMA.

Master Servicer

Capita Asset Services acts as Master Servicer. Its function is to collate loan data from the five PIs and to provide NAMA with consolidated financial and management information on its portfolio. A fee of €3.1m was paid to Capita in respect of 2011.

PROCUREMENT

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

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

During 2011, NAMA procured the following services through public tender competitions:

- Multijurisdictional tax advice and tax compliance services
- Accounting advisory services
- Corporate legal services
- Loan sale advisory services
- Insurance brokerage and advisory services
- Credit verification (investigative) services

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

GOVERNANCE

"The objective of everybody in NAMA is to get the best possible outcome for the taxpayer and that permeates every decision we make."

Frank Daly, Chairman

Board and Committees of the Board

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

(i) To ensure that NAMA's functions are performed effectively and efficiently;
(ii) To set strategic objectives and targets for NAMA;
(iii) To ensure that appropriate systems and procedures are in place to achieve the strategic targets and objectives; and
(iv) To take all reasonable steps available to it to achieve those targets and objectives.

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

Mr. Stewart and Mr. Connolly resigned from the Board on 10 October 2011 and 25 November 2011 respectively. Mr. John Mulcahy was appointed to the Board by the Minister on 7 March 2012.

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

During 2011, the Board met on 30 occasions. The six Board committees met, in total, on 102 occasions. The attendance details for Board and Committee meetings are outlined in **Table 24** below:

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

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

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

TABLE 24: Attendance at Board and Board Committee meetings

	Board	Audit	Credit	Finance and Operating	Risk Management	Planning	Northern Ireland
Board members:							
Frank Daly	30						2
Michael Connolly	27		54			5	
John Corrigan	22				7		
Eilish Finan	29	14		13			5
Brendan McDonagh	30		55	13	8	5	
Brian McEnery	29	14	3				3
Steven Seelig	28	12			8		
Willie Soffe	30		8	13		5	3
Peter Stewart	21	11	44				3
External members:							
Jim Kelly		11					
Michael Wall						4	
Alice Charles						4	
Brian Rowntree							5
Frank Cushnahan							5

Reports from Chairpersons of NAMA Committees

AUDIT COMMITTEE

The Audit Committee comprises three independent Board members and one external member.

- Brian McEnery (Chairperson, Board member)
- Eilish Finan (Board member)
- Steven Seelig (Board member)
- Jim Kelly (External member, appointed 12 January 2011)

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

Mr. Peter Stewart resigned as a member of the Board and of the Audit Committee on 10 October 2011.

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

The Committee met on fourteen occasions in 2011.

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

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

The role and responsibilities of the Audit Committee are set out in its written terms of reference. The responsibilities of the Committee are discharged as follows.

1. Financial and management reporting

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

2. External audit

The C&AG is the designated external auditor under the Act. No non-audit services were provided by him during 2011. The Committee reviews the external audit plan in advance of the audit and meets with the external auditor to review the findings from his audit of the financial statements.

3. Internal audit

The Committee receives regular reports from the internal auditors, the Head of Audit and Risk and the Head of Control of the NTMA. These include summaries of the key findings of each audit in the period and the planned work programme. On an ongoing basis, the Committee ensures that these activities are adequately resourced and have appropriate standing within NAMA. The Committee also ensures coordination between the internal and external auditors.

4. Internal controls

The Committee conducts, on behalf of the Board, an annual assessment of the operation of NAMA's system of internal control. The results of this assessment are reviewed by the Committee and are reported to the Board.

5. Monitoring of loan service providers

The Committee receives regular updates on the performance of these service providers, benchmarked against agreed targets.

The Chief Executive, the Head of Audit and Risk, other NAMA Executives and representatives of the internal and external auditors may be invited to attend all or part of any meeting. The Committee also meets separately a number of times each year with the external auditor, the internal auditors, Head of Audit and Risk, Head of Control of the NTMA and Compliance Officer of the NTMA without Executive management being present. Each of these also has direct access, without restriction, to the Chairperson of the Audit Committee.

Brian McEnery
Chairperson

CREDIT COMMITTEE

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

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

The Credit Committee is comprised of the following:

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

Mr. Michael Connolly and Mr. Peter Stewart resigned from the Committee during 2011 and were replaced by Mr. Willie Soffe as Chairman and by Mr. Brian McEnery as Committee member.

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

The Committee's principal responsibilities include:

1. Assessing credit applications which fall outside the delegated authority of the Chief Executive. These can be approved / declined / amended as appropriate. Where the level of risk exceeds the authority of the Committee, a credit application is referred, with a Credit Committee recommendation, to the Board for decision.

2. Developing and assessing proposed Credit and Sectoral Policies for Board consideration / approval.

3. Determining key performance indicators (KPIs) and monitoring them, establishing policies and strategies upon which the performance of the overall portfolio can be assessed and re-defined as appropriate on a periodic basis and reporting its findings to the Board.

The Committee, which met on 57 occasions in 2011, normally meets on a weekly basis but meets more frequently when required. By its very nature, the Committee has a critical role in advising the Board on the establishment of NAMA credit policy and in ensuring that decision-making on debtor management is consistent with overall Board policy.

The principal activities of the committee in 2011 were as follows:

1. Ensuring that systems in place for processing credit applications to the Committee and the Board were effective, efficient and appropriate.

2. Review of 30 major Debtor Business Plans (in addition to 30 plans reviewed in 2010) and a review of all Business Plan decisions made at lower levels of authority.

3. Assessing, recommending and approving in excess of 350 individual credit applications ranging from the basic asset management decisions to complex matters related to debtor business plan actions, such as continued funding of development assets.

4. Making decisions in relation to Business Plan agreements and enforcements.

5. Developing and enhancing credit policies and associated management information.

It is expected that 2012 will be another challenging year for the Credit Committee as NAMA continues to operate in a difficult economic environment in Ireland and an uncertain outlook in the UK. Approximately 92 per cent of NAMA's assets, based on acquisition value, are located in these two jurisdictions. Liquidity and availability of bank funding continues to be in short supply and the credit decisions posed to the Credit Committee, by their nature, are becoming increasingly difficult. As NAMA is required to take a commercial but prudent view while maintaining the highest standards of objectivity and integrity, all proposals are rigorously assessed and the various options fully considered. The Committee recognises that its decisions may have a significant impact on the assets and the debtors concerned but it is determined to support projects which add value with a view to stimulating activity and employment and to maximising the return for the Irish taxpayer.

Willie Soffe
Chairperson

RISK MANAGEMENT COMMITTEE

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

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

The Risk Management Committee is comprised of the following:

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

The Committee met on eight occasions in 2011.

The principal activities of the Committee in 2011 were:

1. The NAMA Risk Management Committee oversaw the transition of the organisation from a start-up mode in 2010 to one where, in 2011, uncertainties as to the risks associated with the composition of the NAMA balance sheet and operational model were reduced through improvements in data quality, measurement and reporting of risk. In the initial phases of the organisation, the focus of the Committee had been to ensure the adequacy of management's plans for the identification, assessment, management, reporting and mitigation of risk by establishing a solid risk framework. In 2011, the scope of work of the Committee included a more detailed examination of the nature of the NAMA risk profile and challenge to the management of risks which were deemed to be at or above the tolerance as set out by the Board of NAMA. As a result the Committee made recommendations to the Board where changes in policy, measurement, risk limits or risk management strategy was required to reduce risk to a tolerable level. The Committee was supported in this effort by the NAMA Credit and Risk function which ensured that the material and emerging risks and risk events were reported to, and considered by, the Committee.
2. The composition of the final NAMA balance sheet (and by extension the nature of the risk profile) became clearer in 2011 as the result of the near completion of the loan acquisition and due diligence process and improvements in the quality and consistency of portfolio information provided by the Participating Institutions and consolidated on NAMA's behalf by the Master Servicer. The Committee regularly reviewed the various components of the balance sheet risk and the methods by which those risks are measured and reported. The Committee recommended to the Board the adoption of hedging strategies to reduce interest rate, foreign exchange and rollover risk. The Committee recommend to the Board proposals for the deleveraging of the NAMA portfolio by the redemption of NAMA bonds in the context of the liquidity risk associated with maintaining a sufficient cash buffer for ongoing operations during a period of significant macro-economic uncertainty in Ireland and Europe. The Committee recommended to the Board changes to existing policies and new policies reflecting changes in the NAMA risk profile as a result of new processes, initiatives or as a response to external events which impact on NAMA and the achievement of its objectives.

3. Operational risks are inherent to the operation of NAMA and the Risk Management Committee focused on the regular review of the Functional Risk Registers which were continually updated during 2011. The Risk Management Committee expanded the scope of the Risk Register to include the Master Service Provider and the Participating Institutions to provide visibility of the impact and likelihood of risk events external to NAMA which could influence the achievement of NAMA's objectives. The Committee strengthened the control environment by requiring signoff where a control is scheduled to be tested in a quarter. Risks rated as high or significant emerging risks were examined by the Committee in more detail to provide assurance that management's response to the risk was appropriate given NAMA's risk tolerance. During 2011 the Risk Management Committee reviewed the strategic top risks as identified by the Executive Management and compared those to the bottom-up view of the risk profile maintained by the risk working group. Control action plans were reviewed for each risk identified to ensure that the residual risks were within the approved NAMA risk tolerance. The risk working group continues to provide a forum to highlight new and emerging risks and promotes awareness of risk management practices and policies across NAMA.

Steven Seelig
Chairperson

FINANCE AND OPERATING COMMITTEE

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

It currently consists of the following members:

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

Brendan Murphy (NTMA Director of Finance, Technology and Risk) also served as a member during 2011.

The Board has determined that Eilish Finan is the Committee's financial expert.

The Committee met on thirteen occasions during 2011.

The purpose of the Finance and Operating Committee is to assist the Board in monitoring the financial and operational management of NAMA and its budgetary and management reporting. It also exercises oversight of the procurement process and certain key service providers.

Its responsibilities are outlined in its written terms of reference and include:

- All financial and management reporting (except for NAMA's Annual Report, which is the responsibility of the Audit Committee)
- The development and implementation of key accounting policies
- Quarterly reporting to the Minister for Finance and the Oireachtas
- The preparation of regular management accounts
- The preparation of annual budgets and other forecasts (including NAMA's long-term business plan)
- The review of actual performance to budget, including the realisation of cash flows from the debtor loan portfolio
- Recommending major capital expenditure
- The management of procurement
- Oversight of service providers (other than those whose oversight is reserved specifically to other Board committees)
- Reviewing the demands on NAMA as put forward by the Executive Team and recommending any additional resource requirements necessary in light of these forecast demands

The Chairperson reports formally to the Board, on a quarterly basis, on the key aspects of the Committee's proceedings.

Specific areas of focus by the Committee during 2011 included:

1. The main critical accounting judgements and policies, including provisions for loan impairments.
2. The finalisation of the debtor business plans and the progress achieved in realising cash from underlying loan and asset sales.
3. The ongoing phased development and roll-out of the Portfolio Management System (PMS) and Document Management System (DMS) solutions, designed to meet NAMA's long-term management reporting and document management requirements.
4. The continuing performance of Participating Institutions and Master Servicer to NAMA. During 2011 this included consideration of the implications for NAMA of the respective mergers of IBRC and INBS and of AIB and EBS.

Eilish Finan
Chairperson

NORTHERN IRELAND ADVISORY COMMITTEE

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

The Northern Ireland Advisory Committee is comprised of the following:

- Frank Daly (Chairman, Board Member)
- Brian McEnery (Board member)
- Eilish Finan (Board member)
- Willie Soffe (Board member)
- Ronnie Hanna (Head of Asset Recovery)
- Frank Cushnahan (External member)
- Brian Rowntree (External member)

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

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

The purpose of the Northern Ireland Advisory Committee (NIAC) is to advise the NAMA Board in relation to strategy for Northern Ireland assets. The Committee met on five occasions during 2011 and also undertook a series of related engagements and stakeholder interactions. Across all its activity, the Committee recognised the need to explain how Northern Ireland assets are managed consistently with the rest of the NAMA portfolio while also recognising the particular set of challenges its economy faces.

The majority of Committee meetings were held locally in Belfast to hear and discuss feedback in person from key stakeholders. The input of External Committee Members Frank Cushnahan and Brian Rowntree continued to provide unique local knowledge and expertise to guide NAMA's work in Northern Ireland. Following the resignation of Peter Stewart from the Board of NAMA on 10 October 2011, the NAMA Board appointed its Chairman of the Board, Frank Daly, as Chairman of the NIAC with effect from 13 October 2011. The Committee places on record its appreciation to Mr Stewart who had served as Committee Chairperson since its inception in May 2010.

By the end of 2011, the majority of loans in the Northern Ireland portfolio had been assessed through the Debtor Business Plan process in order to bring clarity and certainty to the management of the underlying assets, including where NAMA had to reluctantly enforce on a small number of cases. For a number of reasons - on-going asset disposals, loan repayments and Board decisions not to acquire certain loans - the eventual size of the Northern Ireland portfolio is smaller than initially envisaged. 2011 was marked by increased engagement by the Committee in Northern Ireland and included participation in events organised by the Northern Ireland Chamber of Commerce, the Northern Ireland Assembly and Business Trust as well as a number of media programmes and interviews. At the apex of the engagement activity is a positive working relationship with the Northern Ireland Executive and Assembly, while members of the Committee met with Ministers and elected representatives on a regular basis.

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

NAMA's mandate is to maximise recovery from all loans irrespective of the jurisdiction of the underlying property. Towards this objective, NAMA adopts a commercial approach in each of the jurisdictions in which it operates while recognising the distinctive differentials applying in each area. It is particularly cognisant of the challenges specific to Northern Ireland and the Northern Ireland Advisory Committee's approach in providing advice to the NAMA Board is informed by extensive engagement, local insights and expertise. NAMA carries out its work in line with a set of guiding principles, including taking a longer-term approach and avoiding fire sales and the record to date in Northern Ireland continues to demonstrate this approach.

Frank Daly, Chairman

PLANNING ADVISORY COMMITTEE

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

The Committee may make recommendations to the Board concerning NAMA's objective with respect to approved strategies, guidelines and statutory plans and their impact on NAMA assets.

The Planning Advisory Committee is comprised of the following:

- Willie Soffe (Chairperson, Board member)
- Brendan McDonagh (Chief Executive, NAMA and Board member)
- Michael Connolly (Board Member, resigned November 2011)
- John Mulcahy (Head of Asset Management and Board member)
- Michael Wall (External Member)
- Alice Charles (External Member)

Mr. Wall is an architect and barrister and a former Board member of An Bord Pleanála.

Ms Charles has considerable planning experience and is a member of the Royal Town Planning Institute and the Irish Planning Institute.

The Committee met on five occasions during 2011.

The main activities of the Committee in 2011 were: -

1. Engaging in discussions with Government Departments and other statutory bodies so as to determine how best to align NAMA's role with other public policy objectives.
2. Progressing the development of the National Planning Information System.
3. Providing inputs from a planning perspective to strategies and to the management of the Agency's portfolio.
4. Advising NAMA's Planning and Development Advisor on the scope and priorities of his work.

The Committee continued to work closely with the Department of Environment, Community and Local Government to progress the National Planning Information System, a project which commenced in 2010. The internet browser-based GIS planning information system incorporates national planning spatial data including zoning, unfinished housing developments, housing land availability and development areas. As part of this task the Committee has guided work to develop a tool to allow for a bespoke set of information to be uploaded to the system to aid decision making within the Agency on planning related matters.

The Committee also continued to guide NAMA's participation on the **Expert Advisory Group on Unfinished Housing Developments** which was established to advise the Minister of State for Housing and Planning on actions to ensure the effective management of these developments. Remedial action on Health and Safety issues in Category 4 unfinished estates is well underway and efforts are being directed to rectify similar issues in Category 3 estates identified for attention.

Communication has been on-going with Government Departments, educational institutions, housing authorities and the Health Service Executive with a view to aligning the needs of these bodies with NAMA-linked properties. The Committee advised on the identification of those assets that might satisfy their requirements. With input from the Committee significant progress has been made towards the provision of social and affordable housing to local authorities and voluntary housing associations. Lists of potentially suitable properties have been identified for their consideration.

The Committee has worked with the Planning and Development Advisor to advise, from a planning perspective, on asset strategies as they are being developed and reviewed. Advice has also been provided by the Committee on other significant planning issues, for example, development contributions, densities and infrastructural requirements. Consultation with planning authorities and other bodies involved in the planning and development system forms part of the Committee's on-going work.

Willie Soffe
Chairperson

Disclosure and Accountability

DISCLOSURE REQUIREMENTS ON BOARD MEMBERS

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

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

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

STAFF ASSIGNED TO NAMA

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

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

NAMA ACCOUNTABILITY

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

1. Under the Act, the Minister has a number of powers which he can exercise in relation to NAMA, including the power to issue guidelines (Section 13) and directions (Section 14). Five directions have been issued by the Minister under Section 14 – copies are available on www.nama.ie/legislation.
2. NAMA submits quarterly reports to the Minister on its activities, as set out in Section 55 of the Act. This includes information about its loans, its financing arrangements and its income and expenditure. Each quarterly report is laid before both Houses of the Oireachtas.
3. NAMA submits annual accounts, in a form directed by the Minister, under Section 54 of the Act. The accounts must include a list of all debt securities issued, a list of all advances made from the Central Fund or by NAMA and its group entities and a list of asset portfolios with book value. NAMA's accounts are audited by the C&AG and the audited accounts are laid before both Houses of the Oireachtas.

4. In addition to its annual accounts, NAMA is also required to submit to the Minister, under Section 53, an Annual Statement setting out its proposed objectives for each year, the scope of activities to be undertaken, its strategies and policies and its proposed use of resources. Each annual statement is laid before both Houses of the Oireachtas.
5. The Chief Executive and the Chairman, whenever required by the Committee of Public Accounts, attend and give evidence. The Chief Executive and the Chairman also appear before other committees of the Oireachtas whenever required to do so.
6. The Minister may require NAMA to report to him at any time on any matter including performance of its functions or information or statistics relating to performance.
7. NAMA has prepared codes of practice to govern certain matters including, amongst others, the conduct of its officers, servicing standards for acquired bank assets, risk management, disposal of bank assets and the manner in which NAMA is to take account of the commercial interests of non-participating banks. The codes of practice have been approved by the Minister and are published on www.nama.ie/CodesOfPractice.
8. As soon as may be after 31 December 2012, the Minister and the C&AG will separately assess the extent to which NAMA has made progress toward achieving its overall objectives and the Minister will decide whether the continuation of NAMA is necessary. Thereafter, the Minister will review progress every five years and the C&AG every three years.

Risk Management

PRINCIPAL RISKS AND UNCERTAINTIES

NAMA is exposed to a wide variety of risks which have the potential to affect the financial and operational performance of the Agency. The Risk Management Framework is designed to identify, evaluate and mitigate risks by reference to the following categories in the NAMA Enterprise Risk Management Policy:-

1. **Macro-Economic and Property Risk**
   Risk that the economic environment and property market in Ireland would fail to recover or that the market in other locations would deteriorate from present levels.

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

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

4. **Credit Risk**
   Risk of loss through exposure to counterparty and debtor default.

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

6. **Liquidity Risk**
   Losses arising from inadequate cash available to fund day-to-day operations.

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

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

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

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

11. **Legal and Taxation**
    Financial loss as a result of:
    - an action/inaction by an external party,
    - legal unenforceability of contracts and security,
    - adverse legal judgements,
    - fines,
    - claims by debtors owing to disclosure of confidential information,
    - noncompliance with tax regulations, or
    - adverse but avoidable tax consequences.

12. **Human Resources**
    Failure to attract, motivate and retain staff with requisite experience and expertise.

13. **Security Risk**
    Threats to the confidentiality, availability and integrity of data.

Over the course of 2011, NAMA made the transition from an organisation in its establishment phase to one which was close to steady state by the end of the year. During that time, uncertainty over the risks associated with the composition of the NAMA balance sheet and operating model were resolved as a result of improved data quality, measurement and reporting of risk. The risk assessment and risk management processes were enhanced in 2011 to provide full coverage of the risk profile across all NAMA functions and activities and also included the risks posed by the activities of the Participating Institutions and Master Service Provider. The control environment was further strengthened by requiring a regular functional review and sign-off of the capability of existing controls.

Risks identified by management are prioritised according to probability and impact, and the risk status and management's response and control action plans are reviewed by the Risk Management Committee and the NAMA Board regularly. NAMA's response strategies to each risk are designed to ensure that NAMA operates within that defined risk tolerance by avoiding the risk, transferring the risk through insurance or similar mechanism, reducing the likelihood and/or impact of the risk or accepting that risk. The Risk Management Committee recommended to the Board the adoption of new policies or changes to existing policies, the adoption of hedging strategies to manage certain balance sheet risks and recommendations for the deleveraging of the balance sheet through bond redemptions in response to changing internal and external influences and circumstances.

NAMA has robust risk processes to manage risk related to its business to reduce the potential for significant unexpected losses, and to minimise the impact of losses experienced in the normal course of business.

CONSOLIDATED FINANCIAL STATEMENTS

Board Report and Consolidated Financial Statements

For the year ended 31 December 2011

CONTENTS

Board and other information

Board

Frank Daly *(Chairman)*

Brendan McDonagh *(Chief Executive Officer)*

Michael Connolly *(resigned 25 November 2011)*

John Corrigan

Eilish Finan

Brian McEnery

John Mulcahy *(appointed 7 March 2012)*

Dr. Steven Seelig (US)

Willie Soffe

Peter Stewart *(resigned 10 October 2011)*

Registered Office

Treasury Building

Grand Canal Street

Dublin 2

Bankers

Central Bank of Ireland

Dame Street

Dublin 2

Citibank

I.F.S.C.

Dublin 1

Auditor

Comptroller & Auditor General

Dublin Castle

Dublin 2

Board Report

The Board of the National Asset Management Agency ('the Agency' or 'NAMA') presents its report and audited NAMA consolidated and Agency financial statements for the year ended 31 December 2011.

The financial statements are set out on pages 70 to 147.

Statement of Agency's Responsibilities for Financial Statements

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

In preparing those statements, the Agency:

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

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

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

Financial risk management

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

Board Members' interests

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

Auditor

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

On behalf of the Board

Brendan McDonagh
Director

Frank Daly
Chairman

27 June 2012

Statement on Internal Financial Control

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

The results presented represent the year ended 31 December 2011. The comparative results are for the period from 21 December 2009 (date of establishment of NAMA) to 31 December 2010.

Responsibility for System of Internal Financial Control

2011 was NAMA's second year of operation. During its first year of operation in 2010 NAMA faced significant challenges in establishing a completely new business, while implementing the necessary systems, processes and procedures required to ensure a robust internal financial control environment. During 2011, NAMA has continued to develop its systems and related business processes and further refined its internal financial control environment.

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

Financial Control Environment

The Act provides that the functions of the Board of NAMA 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 executive; an Audit Committee, a Risk Management Committee, a Credit Committee and a Finance and Operating Committee. The Board has agreed formal terms of reference for its statutory sub-committees which are subject to regular review. The Board has delegated certain credit decisions to the Credit Committee and Senior Executive Team through a Delegated Authority Credit Policy. The Board has also delegated the management of certain aspects of its Balance Sheet and Treasury policies to the Risk Management Committee and Senior Executive Team.

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

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

NAMA adopted the National Treasury Management Agency's (NTMA) Anti Fraud policy during 2011. Under this policy the Audit Committee is to be advised of all reports of fraud or suspected fraud.

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

Codes of practice have been agreed with the Minister for Finance in accordance with Section 35 of the Act, setting out standards expected of the officers of NAMA.

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

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

Risk Assessment

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

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

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

Key Internal Financial Control Processes

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

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

NAMA is in the process of implementing comprehensive management information systems in order to facilitate reporting to the Board and Senior Executive Team on its performance.

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

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

Statement on Internal Financial Control (continued)

NAMA exercises control over major system implementations and follows a structured approach for projects undertaken. The development and implementation commenced during 2011 of both a Portfolio Management System and a Document Management System which have been designed to provide information for the management of NAMA's debtors and to meet its ongoing document management requirements.

NAMA completed the acquisition of eligible loans from the Participating Institutions during 2011. These loans were acquired in accordance with an established acquisition process. As part of this process NAMA engaged independent legal advisers, as well as loan and property valuers to carry out legal due diligence and valuations. In addition, an audit coordinator reviewed the loan valuations and confirmed that the loans were valued in accordance with the Act and related regulations.

Information and Communication

The Finance and Operating Committee monitors the financial and operational management of NAMA and its management reporting and budgeting, including the preparation of annual budgets. The Finance and Operating Committee is also monitoring the development and implementation of NAMA's information systems including the Portfolio Management System and Document Management System.

NAMA presents quarterly financial and performance information to the Board and the Minister for Finance in respect of its performance.

During 2011 NAMA established regular monthly management reporting to the Board on its financial performance.

Monitoring

NAMA appointed Deloitte as Internal Auditors in August 2010. The Internal Auditor has established an internal audit function, which operates in accordance with the Code of Practice for the Governance of State Bodies. An internal audit plan for 2011 was approved by the Audit Committee. In accordance with this plan, the Internal Auditor has carried out a number of audits of controls in operation in NAMA, Capita and the Participating Institutions. The Internal Auditor reports its findings directly to the Audit Committee. These reports highlight deficiencies or weaknesses, if any, in the systems of internal control and recommend corrective measures to be taken where deemed necessary. The Audit Committee receives updates, on a regular basis, on the status of the issues raised by the Internal Auditor.

NAMA has established processes to monitor the performance of both the Participating Institutions and Capita, including monthly service reports, regular service reviews (including quality assurance of credit decisions taken under delegated authority) and the establishment of Steering Committees and Credit Review Forums. Steering committees have been established for each of the Participating Institutions and Capita, and meet on a regular basis to review performance and related operational issues. Credit Review Forums were established during 2011 with each of the Participating Institutions to review Participating Institution Managed Debtor Business Plans and approve appropriate strategies for the management of those debtors. A Quality Assurance Framework has also been implemented by NAMA to review the Participating Institutions' management of Participating Institution Managed Debtors on an ongoing basis in accordance with the authorities delegated to them by NAMA. In addition, the activities of the Participating Institutions and Capita are subject to audit by NAMA's internal and external auditors.

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

Annual Review of Controls

We confirm that the Board has reviewed the effectiveness of NAMA's system of internal financial control for the year ended 31 December 2011. A detailed review was performed by the Audit Committee, which reported its findings to the Board. The review of the effectiveness of the system of internal financial control included:

- Review and consideration of the work programme of the Internal Auditor and consideration of its reports and findings.

- Review of regular reporting from the Internal Auditor on the status of the internal financial control environment, and the status of issues raised previously in their own reports and matters raised by the Comptroller and Auditor General.
- Review of letters of assurance received from the NTMA, Capita and the Participating Institutions in respect of the operation of their systems of internal financial control during the year.
- Review of control assurance statements completed by NAMA's Executive and Senior Management in respect of the effectiveness of the system of internal financial control during the year.
- Review of internal financial control issues identified by the Comptroller and Auditor General in his work as external auditor.

Frank Daly
Chairman

27 June 2012

Brian McEnery
Chairperson, Audit Committee

Comptroller and Auditor General

Report for presentation to the Houses of the Oireachtas

National Asset Management Agency

I have audited the Group and Agency financial statements of the National Asset Management Agency for the year ended 31 December 2011 under the National Asset Management Agency Act 2009. The financial statements, which have been prepared under the accounting policies set out therein, comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and the Agency Statements of Financial Position, the Consolidated and the Agency Statements of Changes in Equity, the Consolidated and Agency Statements of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is the International Financial Reporting Standards (IFRSs) as adopted by the European Union and the provisions of the National Asset Management Agency Act 2009.

Responsibilities of the Board

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

Responsibilities of the Comptroller and Auditor General

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

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

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

Scope of Audit of the Financial Statements

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

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

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

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

Opinion on the Financial Statements

In my opinion, the financial statements, which have been properly prepared in accordance with the IFRSs as adopted by the European Union and with the provisions of the National Asset Management Agency Act 2009, give a true and fair view of the state of the Group's and the Agency's affairs at 31 December 2011 and of the Group's profit for the year then ended.

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

Going Concern

Without qualifying my opinion, I draw attention to Note 2.1 to the financial statements which describes the position in regard to the main funding source for the Agency and sets out the basis upon which the Board is satisfied that it is appropriate to prepare the financial statements on a going concern basis.

Matters on which I report by exception

I report by exception if

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

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

Seamus McCarthy

Seamus McCarthy

Comptroller and Auditor General

29 June 2012

Consolidated income statement

For the year ended 31 December 2011

	Note	Year ended 31 December 2011 €'000	Period ended 31 December 2010 €'000
Interest and fee income	5	1,283,248	525,033
Interest expense	6	(512,449)	(179,007)
Net interest income		**770,799**	**346,026**
Gains / (losses) on derivative financial instruments	7	24,312	(17,004)
Net profit on disposal of loans and surplus income	8	549,578	-
Total operating income		**1,344,689**	**329,022**
Administration expenses	9	(128,379)	(46,193)
Foreign exchange gains	10	61,773	22,079
Total operating expenses		**(66,606)**	**(24,114)**
Operating profit before impairment		**1,278,083**	**304,908**
Impairment charges on loans and receivables	11	(1,266,743)	(1,484,523)
Profit / (loss) before income tax		**11,340**	**(1,179,615)**
Tax credit / (expense)	12	235,208	(375)
Profit / (loss) for the year before dividend		**246,548**	**(1,179,990)**
Dividend paid	14	(5,093)	-
Profit / (loss) for the year		**241,455**	**(1,179,990)**
Profit / (loss) attributable to:			
Owners of the Group		**241,455**	(1,128,990)
Non-controlling interests		**-**	(51,000)

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

On behalf of the Board

27 June 2012

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

Consolidated statement of comprehensive income

For the year ended 31 December 2011

	Note	Year ended 31 December 2011 €'000	Period ended 31 December 2010 €'000
Profit / (loss) for the year		241,455	(1,179,990)
Movement in cash flow hedge reserve before tax	33	(338,689)	77,554
Movement in available for sale reserve before tax	33	110	-
Income tax relating to components of other comprehensive income	13	68,884	-
Other comprehensive (loss) / income for the year net of tax		(269,695)	77,554
Total comprehensive loss for the year		**(28,240)**	**(1,102,436)**

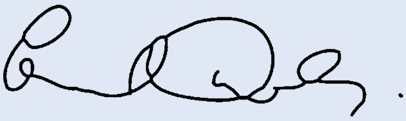
Total comprehensive loss attributable to:		
Owners of the Group	**(28,240)**	(1,051,436)
Non-controlling interests	**-**	(51,000)

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

On behalf of the Board

27 June 2012

Brendan McDonagh
Chief Executive Officer



Frank Daly
Chairman

Consolidated statement of financial position

As at 31 December 2011

	Note	2011 €'000	2010 €'000
Assets			
Cash and cash equivalents	15	3,346,986	836,739
Financial assets available for sale	16	499,747	-
Amounts due from Participating Institutions	17	409,143	349,923
Derivative financial instruments	18	448,539	499,155
Loans and receivables	19	25,607,389	27,950,833
Other assets	27	43,438	17,960
Inventories	20	6,850	-
Property, plant and equipment	25	906	-
Deferred tax asset	26	305,654	-
Total assets		**30,668,652**	**29,654,610**
Liabilities			
Amounts due to Participating Institutions	17	60,224	142,793
Derivative financial instruments	18	728,725	173,717
Senior debt securities in issue	28	29,106,000	28,650,000
Other liabilities	29	252,379	183,156
Interest bearing loans and borrowings	31	-	49,380
Total liabilities		**30,147,328**	**29,199,046**
Equity and reserves			
Other equity	32	1,601,000	1,507,000
Retained losses	34	(887,535)	(1,128,990)
Other reserves	33	(192,141)	77,554
Total equity and reserves		**521,324**	**455,564**
Total equity and liabilities		**30,668,652**	**29,654,610**

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

On behalf of the Board

27 June 2012

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

Agency statement of financial position

As at 31 December 2011

	Note	2011 €'000	2010 €'000
Assets			
Cash and cash equivalents	15	1,623	95
Other assets	27	3,381	3,823
Property, plant and equipment	25	906	-
Investment in subsidiaries	35	49,000	49,000
Total assets		**54,910**	**52,918**
Liabilities			
Interest bearing loans and borrowings	31	52,720	49,380
Other liabilities	29	4,040	3,974
Total liabilities		**56,760**	**53,354**
Equity			
Retained losses	34	(1,850)	(436)
Total equity		**(1,850)**	**(436)**
Total equity and liabilities		**54,910**	**52,918**

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

On behalf of the Board

27 June 2012

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

Consolidated statement of changes in equity

As at 31 December 2011

31 December 2011

	Note	Other equity €'000	Retained earnings €'000	Other reserves €'000	Non-controlling interest €'000	Total equity €'000
At the beginning of the year		**1,507,000**	**(1,128,990)**	**77,554**	**-**	**455,564**
Profit for the year		-	241,455	-	-	**241,455**
Other comprehensive income:						
Movement in cash flow hedge reserve	33	-	-	(338,689)	-	**(338,689)**
Movement in available for sale reserve	33	-	-	110	-	**110**
Income tax relating to components of other comprehensive income	13	-	-	68,884	-	**68,884**
Total comprehensive income		**1,507,000**	**(887,535)**	**(192,141)**	**-**	**427,324**
Issue of share capital		-	-	-	-	**-**
Issue of other equity	32	110,000	-	-	-	**110,000**
Cancellation of other equity	32	(16,000)	-	-	-	**(16,000)**
Balance at 31 December 2011 attributable to owners of the parent		**1,601,000**	**(887,535)**	**(192,141)**	**-**	**521,324**

31 December 2010

	Note	Other equity €'000	Retained earnings €'000	Other reserves €'000	Non-controlling interest €'000	Total equity €'000
At the beginning of the period		**-**	**-**	**-**	**-**	**-**
Loss for the period		-	(1,128,990)	-	(51,000)	(1,179,990)
Other comprehensive income:						
Movement in cash flow hedge reserve	33	-	-	77,554	-	77,554
Income tax relating to components of other comprehensive income	13	-	-	-	-	-
Total comprehensive loss		**-**	**(1,128,990)**	**77,554**	**(51,000)**	**(1,102,436)**
Issue of share capital		-	-	-	5,100	5,100
Issue of share premium		-	-	-	45,900	45,900
Issue of other equity	32	1,507,000	-	-	-	1,507,000
Balance at 31 December 2010 attributable to owners of the parent		**1,507,000**	**(1,128,990)**	**77,554**	**-**	**455,564**

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

On behalf of the Board

27 June 2012

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

Agency statement of changes in equity
As at 31 December 2011

	Note	2011 €'000	2010 €'000
Balance at the beginning of the year		(436)	-
Loss for the year	34	(1,414)	(436)
Total comprehensive loss		**(1,850)**	**(436)**
Balance at 31 December attributable to the Agency		**(1,850)**	**(436)**

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

On behalf of the Board

27 June 2012

Brendan McDonagh
Chief Executive Officer

Frank Daly
Chairman

Consolidated statement of cash flows

For the year ended 31 December 2011

	Note	Year ended 31 December 2011 €'000	Period ended 31 December 2010 €'000
Cash flow from operating activities			
Loans and receivables			
Value date to transfer date cash received[1]			
Receipts from loans acquired	19	97,612	196,415
Receipts from derivatives and fees acquired		719	22,530
Receipts from borrowers since acquisition			
Receipts from loans acquired[2]	19	4,866,619	734,431
Receipts from derivatives acquired		103,481	60,351
Funds advanced to borrowers	19	(303,981)	(240,320)
AIB Tranche 9 partial settlement	19	7,574	-
Fee income on loans with borrowers	5	8,503	-
Net cash provided by loans and receivables		**4,780,527**	**773,407**
Derivatives			
Net cash inflow on foreign currency derivatives	10	111,093	29,188
Net cash outflow on derivatives where hedge accounting is applied		(82,245)	(566)
Net cash outflow on other derivatives		(34,504)	(21,048)
Other derivative cashflows		-	39,293
Net cash (used in) / provided by derivatives		**(5,656)**	**46,867**
Other operating cashflows			
Payments to suppliers of services		(99,458)	(24,263)
Payments for due diligence costs		(43,259)	(25,481)
Interest paid on senior debt securities in issue		(322,687)	(30,127)
Interest received on cash and cash equivalents		14,830	1,128
Dividend paid by NAMAIL	14	(5,093)	-
Payments of corporation tax by NAMAIL		(1,441)	(170)
Interest paid on advance from Central Fund		(474)	(1,066)
Net cash (used in) other operating activities		**(457,582)**	**(79,979)**
Net cash provided by operating activities		**4,317,289**	**740,295**
Cash flow from investing activities			
Purchase of available for sale assets		(816,367)	-
Sale / settlement of available for sale assets		311,546	-
Net cash (used in) investing activities		**(504,821)**	**-**

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

2 *Includes loan cash receipts of €1.236bn (2010: €371m), proceeds from the sale of collateral secured against loans and receivables of €2.698bn (2010: €363m) and proceeds from the sale of loans of €932m (2010: nil).*

Consolidated statement of cash flows

For the year ended 31 December 2011 (continued)

	Note	Year ended 31 December 2011 €'000	Period ended 31 December 2010 €'000
Cash flow from financing activities			
Redemption of senior debt securities	28	(1,250,000)	-
Repayment of loan to the Central Fund	36	(49,000)	(250,000)
Loans received from the Central Fund		-	299,000
Proceeds from issuance of share capital to private investors		-	51,000
Net cash (used in) / provided by financing activities		**(1,299,000)**	**100,000**
Cash and cash equivalents held at the beginning of the year	15	836,739	-
Net cash provided by operating activities		4,317,289	740,295
Net cash (used in) investing activities		(504,821)	-
Net cash (used in) / provided by financing activities		(1,299,000)	100,000
Effects of exchange-rate changes on cash and cash equivalents		(3,221)	(3,556)
Total cash and cash equivalents held at the end of the year	15	**3,346,986**	**836,739**
Liquid assets held			
Financial assets available for sale	16	499,747	-
Total cash, cash equivalents and liquid assets held at the end of the year		**3,846,733**	**836,739**

Agency statement of cash flows

For the year ended 31 December 2011

	Note	Year ended 31 December 2011 €'000	Period ended 31 December 2010 €'000
Cash flow from operating activities			
Loan interest received		-	1,601
Bank interest received		12	-
Loan interest paid		(474)	(1,066)
Board fees paid		(652)	(440)
Rent paid		(358)	-
Net cash (used in) / provided by operating activities		**(1,472)**	**95**
Cash flow from investing activities			
Agency investment in NAMAIL		-	(49,000)
Net cash (used in) investing activities		**-**	**(49,000)**
Cash flow from financing activities			
Receipt of loan from NALML		52,000	-
Loans advanced from the Central Fund		-	299,000
Repayment of loan to the Central Fund		(49,000)	(250,000)
Net cash provided by financing activities		**3,000**	**49,000**
Cash held at the beginning of the year	15	95	-
Net cash (used in) / provided by operating activities		(1,472)	95
Net cash (used in) investing activities		-	(49,000)
Net cash provided by financing activities		3,000	49,000
Cash held at the end of the year	15	**1,623**	**95**

Notes to the Financial Statements

Notes to the Financial Statements

1. GENERAL INFORMATION

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

The Act established NAMA as a separate statutory body, with its own Board and Chief Executive Officer appointed by the Minister for Finance, in December 2009. NAMA Group entities were incorporated on 27 January 2010.

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

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

1.1 National Asset Management Agency Group

For the purposes of these accounts, the 'NAMA Group' comprises; the parent entity NAMA, National Asset Management Agency Investment Limited (NAMAIL), National Asset Management Limited (NAML), National Asset Management Group Services Limited (NAMGSL), National Asset Loan Management Limited (NALML), National Asset Property Management Limited (NAPML) and National Asset Management Services Limited (NAMSL). The Group and its relationship to other NAMA entities is summarised in Chart 1.

National Asset Management Agency Investment Limited

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

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

National Asset Management Limited

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

NAML has four subsidiaries:

1) National Asset Management Group Services Limited

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

NAMGSL acquires the debt instruments issued by NAML under a profit participating loan (PPL) agreement, and in turn, makes these debt instruments available to NALML on similar terms.

NAMGSL is wholly owned by NAML.

2) National Asset Loan Management Limited

The purpose of NALML is to acquire, hold, and manage the loan assets acquired from the Participating Institutions.

3) National Asset Property Management Limited

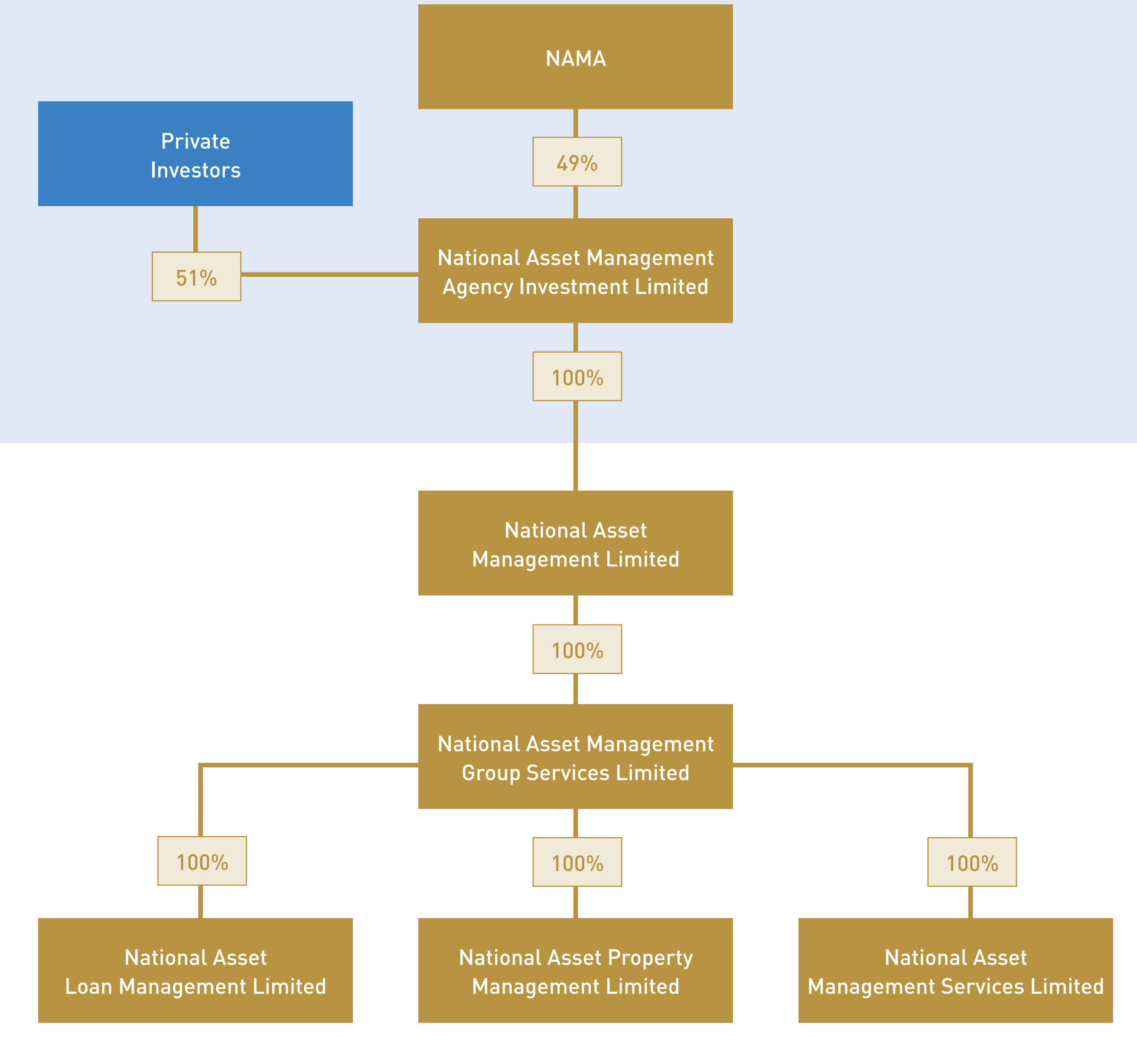
The purpose of NAPML is to take direct ownership of property assets if and when required. During the year, certain land and development sites were acquired as consideration for settlement of a guarantee held by NALML. At the reporting date these properties are held in NALML.

4) National Asset Management Services Limited

NAMSL is a non-trading entity and has no activity at present. During 2011 all bank accounts of NAMSL were transferred to their beneficial owner NALML.

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

Chart 1 "NAMA Group"



Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

Going concern

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

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

The first assessment of NAMA's progress in achieving its overall objectives is to be carried out by the Minister as soon as may be after 31 December 2012. The C&AG shall also assess and present a report to the Minister on his assessment of the extent to which NAMA has made progress in achieving its overall objectives. In accordance with Section 227 of the Act, following this assessment by the Minister, he shall decide whether the continuation of NAMA is necessary having regard to the purposes of the Act.

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

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

As set out in Note 28, the Notes are issued on each acquisition date and all Notes issued prior to 1 March 2011 matured on 1 March 2011. The Notes issued in 2010 permitted the issuer to settle all, or some only, of the Notes at maturity by issuing a new Note on the same terms as the existing Note (other than as to maturity which may be up to 364 days from the date of issue notwithstanding that the existing Note may have had a shorter maturity).

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

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

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

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

2.2 Basis of compliance and measurement

The Group's consolidated financial statements for the year ended 31 December 2011 have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, the International Financial Reporting Interpretations Committee (IFRIC) interpretations and in accordance with the National Asset Management Agency Act, 2009.

These financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the reporting date.

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

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

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

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

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

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

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

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

Standards issued but not effective;

IFRS 7 Financial Instruments: Disclosures (Revision). Amendments resulting from May 2010 Annual Improvements to IFRSs are applicable for accounting periods beginning on or after 1 January 2013. These amendments will have an impact on disclosure of financial assets and liabilities and no impact on measurement. The revised standard has not been endorsed by the EU at the reporting date, and therefore the Group has not adopted the revised IFRS 7.

IFRS 9 Financial Instruments - Classification and Measurement. This standard will be applicable for accounting periods beginning on or after 1 January 2015 subject to EU endorsement. This standard is still being developed by the International Accounting Standards Board (IASB). The first phase of classification and measurement is complete and will have an impact on the measurement of financial assets and liabilities of the Group, specifically on debt securities in issue which, depending on certain criteria may be measured at fair value as opposed to the current measurement of amortised cost. Phases 2 and 3 of the project are expected to be completed by the end of 2012 or early 2013. These phases deal with impairment methodology and hedge accounting and are expected to impact the Group in these areas. However the exact impact cannot yet be determined. The revised standard has not yet been EU endorsed and therefore is not early adopted by the Group.

Standards issued and applied;

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

2.4 Basis of consolidation

The consolidated financial statements of the Group comprise the financial statements of the parent entity, NAMA and all its subsidiaries. The financial statements of the subsidiaries used to prepare the consolidated financial statements were prepared as of the same reporting date as that of the parent.

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

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Basis of consolidation (continued)

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

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

Details of subsidiaries are provided in Note 35.

2.5 Foreign currency translation

(a) Functional and presentation currency

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

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

(b) Transactions and balances

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

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

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

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

2.6 Financial assets

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

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

(b) Loans and receivables and;

(c) Available for sale financial assets

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

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

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

(b) Loans and receivables

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

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

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

Loans and receivables are classified as follows;

- Land and development loans
- Investment property loans

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

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

(c) Available for sale financial assets

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

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

2.7 Financial liabilities

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

2.8 De-recognition of financial assets and financial liabilities

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

2.9 Interest income and interest expense

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

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Interest income and interest expense (continued)

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

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

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.

2.10 Fee income

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

2.11 Profit / loss on disposal of loans and surplus income

NAMA disposed of certain loan assets to third parties during the year. Profits and losses on the disposal of loans are calculated as the difference between the carrying value of the loans and the contractual sales price at the date of sale. The contractual sales price includes any deferred consideration where NAMA has contractual right to receive any deferred cash flow in accordance with IAS 32. Profits and losses on the disposal of loans are recognised in the income statement when the transaction occurs.

Surplus income is calculated as the excess cash recovered on a loan asset over the loan carrying value and is recognised when the revised estimated cash flows for the debtor are greater than the debtor's total loan balances. Surplus income is taken to the income statement at each annual reporting date.

2.12 Impairment of financial assets

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

(a) Loans and receivables carried at amortised cost

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

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

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

- International, national or local economic conditions that correlate with defaults on the assets in the group (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. The carrying amount of the asset is reduced through use of an allowance account. The amount of the impairment loss is recognised in the consolidated income statement.

Collective Assessment

Loans which are not subject to individually significant assessment are grouped collectively for the purposes of performing an impairment assessment. This assessment is based on the experience of the detailed impairment assessment carried out in respect of individually significant loans where the debtor business plan has been reviewed.

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

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

2.13 Impairment of non-financial assets

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

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

2.14 Cash and cash equivalents

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

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

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Derivative financial instruments and hedge accounting

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

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

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

Derivatives at fair value through profit or loss

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

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

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

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

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

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

Derivatives designated in hedge relationships

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

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

Cash flow hedge

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

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

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

2.16 Inventories - Trading Properties

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

2.17 Taxation

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

(a) Current income tax

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

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

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

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

(b) Deferred income tax

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

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

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

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

2.18 Provisions for liabilities and charges and contingent assets and liabilities

Provisions

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

Contingent liabilities

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

Contingent assets

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

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

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Amounts due to and from Participating Institutions

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

a) Due diligence valuation adjustments

b) Value to transfer adjustments

c) Section 88, Section 93, Section 98 adjustments

d) Unsettled overdraft positions

a) Due diligence valuation adjustments

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

b) Value to transfer adjustments

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

c) Section 88, Section 93 and Section 98 adjustments

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

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

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

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

d) Unsettled overdraft positions

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

2.20 Property, plant and equipment

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

2.21 Financial guarantee contracts acquired

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

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

2.22 Debt and equity instruments

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

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

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

2.23 Share capital

(a) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders. Dividends for the period that are declared after the date of the consolidated statement of financial position are dealt with in Note 38, Events after the reporting date.

(b) Coupon on other equity instrument

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

2.24 Segmental reporting

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

2.25 Non-controlling interests in subsidiaries

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

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

Notes to the Financial Statements

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

3.1 Fair value of loans and receivables at acquisition

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

As described in accounting policy 2.6, loans acquired by NAMA are initially recognised at their acquisition price as adjusted for specified movements in the loan balance between the loan valuation date and acquisition date. The acquisition price for loans acquired by NAMA was determined using the LTEV methodology as set out in the Act and related regulations.

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

3.2 Impairment of loans and receivables and related derivatives acquired

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

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

The individually assessed debtors comprise the majority (94%) of debtors managed by NAMA, representing loans and related derivatives with a carrying value of €23.5bn (2010 €13.3bn). The remaining debtors, representing a carrying value of €5.2bn, and which are principally managed by Participating Institutions have not been individually assessed and are grouped together as one portfolio for collective assessment.

Individually assessed debtors

The impairment assessment of individually assessed debtors is based on the latest reviewed cash flows available.

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

A best estimate of expected future cash flows for each connection is prepared by management as of the financial reporting date reflecting the performance of the debtor and other known developments which could impact future cash flows. A process of attestation of the cash flows and reconciliation of the underlying components of the carrying value is then prepared.

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

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

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

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

Sensitivity analysis

The 2011 impairment provision is determined after the following inputs are assessed:

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

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

The table below sets out the impact on the 2011 impairment provision of a change in the amount of cash flows over certain geographies and asset types.

Estimated impact in €m on the 2011 impairment charge of a 1% decrease in the value of expected collateral disposals

	Ireland €m	UK €m
Land and development	24	5
Residential	16	3
Commercial	16	10
Retail	23	4
Hotel and Leisure	6	2

Collectively assessed debtors

Debtors that are not individually assessed are considered collectively for the purposes of performing an impairment assessment ("collective assessment"). This collective assessment is calculated by taking the impairment experience of the individually significant debtors. The average impairment rate, for the individually significant debtors, is applied to the collectively assessed loans.

Notes to the Financial Statements

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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

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

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

3.3 Income recognition on loans and receivables

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

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

4. SEGMENTAL ANALYSIS

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

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

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

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

Segmental results of operations

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

Geographical analysis

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

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

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

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

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

Notes to the Financial Statements

5. INTEREST AND FEE INCOME

Group	2011 €'000	2010 €'000
Interest on loans and receivables	1,145,360	447,860
Interest on acquired derivative financial instruments	100,348	75,323
Interest on cash and cash equivalents	16,870	1,850
Interest on available for sale financial assets	10,939	-
Total interest income	**1,273,517**	**525,033**
Income earned on borrower overdraft accounts	1,228	-
Fee income	8,503	-
Total interest and fee income	**1,283,248**	**525,033**

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

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

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

Agency	2011 €'000	2010 €'000
Interest income on cash	16	-
Loan interest income	-	1,601
Total interest income	**16**	**1,601**

6. INTEREST EXPENSE

Group	2011 €'000	2010 €'000
Interest on senior debt securities in issue	423,279	98,833
Interest on derivatives where hedge accounting is applied	58,280	43,492
Interest on other derivative financial instruments	30,797	35,237
Interest on interest bearing loans and borrowings	93	1,445
Total interest expense	**512,449**	**179,007**

Agency	2011 €'000	2010 €'000
Interest paid on advances from Central Fund	93	1,445
Interest paid on inter-Group loans	720	-
Total interest expense	**813**	**1,445**

7. GAINS / (LOSSES) ON DERIVATIVE FINANCIAL INSTRUMENTS

Group	2011 €'000	2010 €'000
Fair value gains on derivatives acquired from borrowers	90,479	47,716
Fair value loss on other derivatives	(81,689)	(64,720)
Hedge ineffectiveness adjustment	15,908	-
Valuation adjustment on due diligence completion	(386)	-
Total gains / (losses) on derivative financial instruments	**24,312**	**(17,004)**

Gains on derivatives acquired from borrowers comprise fair value gains on derivatives acquired from borrowers that were associated with the loans acquired. Fair value losses on other derivatives comprise a loss on interest rate swaps entered into by the Group during the year. These derivatives hedge NAMA's interest rate risk exposure arising from derivatives acquired from debtors. Hedge accounting has not been applied.

One of these derivatives was transacted with a Participating Institution through the NTMA rather than entered into by the Group. The fair value of this derivative at 31 December 2010 was (€47.9m) and was included in acquired derivatives in 2010. This has been reclassified for 2011 and included in other derivative financial instruments. 2010 balances above have also been restated to include this reclassification. There is no change in the total fair value movement recognised in the income statement as a result of this reclassification.

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

8. NET PROFIT ON DISPOSAL OF LOANS AND SURPLUS INCOME

Group	2011 €'000	2010 €'000
Net profit on disposal of loans	77,443	-
Surplus income on loan repayments (in excess of loan carrying values)	472,135	-
Total net profit on disposal of loans and surplus income	**549,578**	**-**

During the year, the Group sold certain loans and receivables acquired to third parties. Profit or loss on disposal is measured as the difference between proceeds received and the carrying value of those loans and receivables. The Group realised net profits of €77m on the disposal of loans in the year.

For certain assets acquired, the proceeds from the disposal of the underlying collateral in a debtor connection has exceeded the carrying value of those loans and receivables. This surplus is recognised in the income statement as realised profits on loans (surplus income). Of the total amount of €472m recognised, €55m is generated from debtors who have fully repaid all NAMA debt and any surplus cash received is recognised as profit to NAMA debt acquired. A further €417m of surplus cash received is recognised on specific loan assets within a debtor connection where the cash generated since acquisition has exceeded the loan carrying value.

No loans were disposed of by the Agency.

Notes to the Financial Statements

9. ADMINISTRATION EXPENSES

Group	Note	2011 €'000	2010 €'000
Costs reimbursable to NTMA	9.1	27,678	14,965
Primary servicer fees	9.2	56,897	12,786
Due diligence costs (part recovered below)	9.3	44,505	29,605
Portfolio management fees	9.4	15,992	5,087
Legal fees	9.5	9,478	3,311
Master servicer fees	9.6	3,098	2,034
IT costs	9.7	1,115	-
Rent and occupancy costs	9.8	975	376
Internal audit fees	9.9	927	703
NAMA Board and Committee Fees	9.10	618	589
Tax fees	9.5	562	463
External audit remuneration	9.11	450	530
Derivative valuation costs		464	242
Other administrative expenses		113	93
Financial adviser and consultancy fees	9.12	12	5,014
Total administration expenses		**162,884**	**75,798**
Due diligence costs recovered on loan acquisitions	9.3	(34,505)	(29,605)
Total NAMA administration expenses		**128,379**	**46,193**

Administration expenses

Agency	Note	2011 €'000	2010 €'000
Costs reimbursable to NTMA	9.1	27,678	14,965
Board and committee fees	9.10	618	589
Occupancy costs		86	187
Total expenses		**28,382**	**15,741**

9.1 Costs reimbursable to NTMA

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

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

	2011 €'000	2010 €'000
Staff costs	23,947	10,329
Rent	508	1,386
Office services	787	1,467
Insurance, telecoms, postage and stationery	492	200
IT operating costs	1,063	473
Travel and business expenses	223	276
Consultancy paid by NTMA on behalf of NAMA		
– Legal and tax advice	158	457
– Loan valuation methodology and model set-up costs	-	240
– IT and other costs	500	137
Total	**27,678**	**14,965**

Staff costs

The Group has no employees. All personnel are employed by the NTMA and the salary cost of staff who are engaged full time in the NAMA business are recharged to the Group by the NTMA. The number of employees of the NTMA, directly engaged in the Group ('NAMA Officers') at the reporting date was 202 (2010: 104) and the total salary cost including pension costs was €20.9m (2010: €9.2m). In addition the NTMA provide shared services to NAMA including IT, HR and Finance. The cost of NTMA employees (non NAMA Officers) providing these shared services to NAMA during 2011 was €3.1m (2010: €1.1m).

NTMA employees engaged in NAMA business (NAMA Officers) are members of the NTMA Defined Benefit Pension Scheme and the NTMA contributes to the scheme on behalf of these employees. The cost of these pension contributions are recharged to NAMA.

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

Brendan McDonagh (Chief Executive Officer)	2011 €'000	2010 €'000
Salary	430,000	430,000
Taxable benefits	24,483	23,036
Performance related bonus	-	-
	454,483	**453,036**

The Chief Executive Officer's pension entitlements do not extend beyond the standard terms of the model public sector superannuation scheme. The increase in taxable benefit in 2011 relates to inflation increases applied by the health insurance provider in 2011.

Notes to the Financial Statements

9. ADMINISTRATION EXPENSES (CONTINUED)

9.1 Costs reimbursable to NTMA (continued)

The remuneration of the Chief Executive Officer is determined by the NTMA CEO after consultation with the NTMA Advisory Committee. In giving advice on remuneration the NTMA Advisory Committee is informed by the views of the NTMA Remuneration Committee. The Chairman of the NAMA Board is a member of the NTMA Remuneration Committee for the purpose of discussion of issues in relation to staff assigned to NAMA.

The remuneration of the Chief Executive Officer consists of basic salary, taxable benefits and a performance related payment of up to 60 per cent of annual salary. The Chief Executive Officer was awarded a performance payment for 2011, but in view of the economic challenges facing the country waived this payment.

9.2 Primary Servicer fees

Primary Servicer fees comprise fees paid to each Participating Institution, the Primary Servicers, for the servicing of eligible bank assets. The Participating Institutions administer the loans and receivables that were originated within each Participating Institution. The amounts payable to each Participating Institution are set out in Note 36, related party disclosures. The fees paid and accrued to the Participating Institutions were €56.9m (2010: €12.8m), which equates to 8 basis points (2010: 6 basis points) of the Par debt loan balances administered.

9.3 Due diligence costs

Due diligence costs are costs that the Group has incurred upon acquiring the portfolio of loans from the Participating Institutions. The loan valuation model used by the Group to acquire the loans makes an allowance for due diligence costs as a reduction from the acquisition value of the loans. Due diligence costs incurred by the Group are considered to be transaction costs and are included in the acquisition cost of the loans and receivables. A total provision of €64.1m (2011: €4.2m; 2010: €59.9m) was made in respect of due diligence costs for loans acquired. The Group has recovered a total of €64.1m of these costs from the Participating Institutions through a reduction in the acquisition value of the loans, leaving a balance of €10m which has not been recovered from Participating Institutions and is included in administrative expenses in 2011.

Due diligence costs are analysed as follows;

	2011 €'000	2010 €'000
Legal due diligence	7,053	7,062
Loan valuation costs	20,900	9,295
Property due diligence	7,607	4,419
Audit	8,945	8,829
Total	**44,505**	**29,605**

Reconciliation of due diligence provision:

	2011 €'000	2010 €'000
Balance at the beginning of the year	30,336	-
Increase in provision in the year	4,169	59,941
Provision utilised during the year	(44,505)	(29,605)
Expensed in 2011	10,000	-
Balance at the end of the year	**-**	**30,336**

9.4 Portfolio management fees

Portfolio management fees relate to fees incurred for the review of debtor business plans, and the ongoing management and support of debtors.

9.5 Legal and Tax fees

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

9.6 Master Servicer fees

Master Servicer fees comprise fees paid to the Master Servicer, Capita. Capita provides book keeping and data management services to the Group. Capita fees were €3.1m in the year (€2.0m in 2010).

9.7 IT Costs

IT costs relate to costs incurred for the development of IT systems to assist in the operations of the Group.

9.8 Rent and occupancy costs

Rent and occupancy costs comprise costs incurred during the year in relation to the premises occupied by the Group. During 2010, the Agency entered into an operating lease for its current office premises for a period of ten years at an annual rent of €0.8m. Payments in connection with this lease commenced in 2011.

9.9 Internal audit fees

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

Notes to the Financial Statements

9. ADMINISTRATION EXPENSES (CONTINUED)

9.10 NAMA Board and Committee Fees

	2011 €	2010 €
Frank Daly (Chairman)	153,778	159,116
Michael Connolly *(resigned 25 November 2011)*	81,875	146,374
Eilish Finan	60,000	58,408
Brian McEnery	60,000	58,408
Dr. Steven Seelig	60,000	35,753
Willie Soffe	61,210	57,641
Peter Stewart *(resigned 10 October 2011)*	46,613	57,641
Board Fees	**523,476**	**573,341**
Board expenses	60,873	-
Board advisory cost	6,191	-
Total Board Fees	**590,540**	**573,341**
Planning Advisory Committee		
Alice Charles	4,000	1,000
Gavin Daly *(resigned June 2010)*	-	2,000
Michael Wall	4,000	5,000
Audit Committee		
Jim Kelly	9,694	-
Northern Ireland Advisory Committee		
Frank Cushnahan	5,000	4,000
Brian Rowntree	5,000	4,000
Committee Fees	**27,694**	**16,000**
Total Board and Committee Fees	**618,234**	**589,341**

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

During 2011, expenses of €60,873 were incurred by NAMA Board and Committee Members.

	Travel Expenses €	Accommodation & Subsistence €	Other €	Total €
Frank Daly (Chairman)[3]	2,597	560	406	**3,563**
Brian McEnery[3]	9,943	-	-	**9,943**
Dr. Steven Seelig[4]	38,211	9,156	-	**47,367**
	50,751	**9,716**	**406**	**60,873**

3 *Expenses for Frank Daly and Brian McEnery include expenses for 2010 and 2011.*

4 *Dr. Seelig lives in the USA. Expenses relate to travel and accommodation expenses on a cost recovery basis to attend meetings in Dublin.*

9.11 External audit remuneration

	2011 €'000	2010 €'000
Audit of individual accounts	450	530
Other assurance	-	-
Tax advisory	-	-
Other non-audit services	-	-
Total external audit remuneration	**450**	**530**

9.12 Financial adviser and consultancy fees

Financial adviser and consultancy fees include fees paid for accounting, financial, and business process advice. In 2010 the Group seconded staff from external consultancy firms and financial advisers to assist in the initial set-up of business units (until the NAMA Officers were recruited by the NTMA) and the development and implementation of processes and policies. Minimal costs were incurred in this respect by the Group in 2011.

10. FOREIGN EXCHANGE GAINS AND LOSSES

Group	2011 €'000	2010 €'000
Foreign exchange gains/(losses) on loans and receivables	245,533	(72,107)
Unrealised foreign exchange (losses)/gains on derivative financial instruments	(291,633)	60,505
Realised foreign exchange gains on currency derivative financial instruments	111,093	29,188
Other foreign exchange (losses)/gains	(3,220)	4,493
Total foreign exchange gains	**61,773**	**22,079**

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

Following the transfer of assets from Participating Institutions, the Group entered into currency transactions to reduce its exposure to exchange rate fluctuations arising on foreign currency denominated loans and receivables acquired. Unrealised gains and losses on foreign exchange derivatives are recognised as the fair value movement on currency derivatives in the reporting period. Currency derivatives are explained in more detail in Note 18. Realised gains and losses in foreign exchange derivatives relate to the settlement of principal and interest on foreign exchange currency forwards and cross currency swaps.

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

Notes to the Financial Statements

11. IMPAIRMENT CHARGES ON LOANS AND RECEIVABLES

Group	2011 €'000	2010 €'000
Balance at the beginning of the year	1,484,523	-
Increase in impairment in the year	1,266,743	1,484,523
Balance at the end of the year	**2,751,266**	**1,484,523**
Analysed as:		
Specific impairment	2,153,114	718,577
Collective impairment	598,152	765,946
	2,751,266	**1,484,523**

The collective impairment at 31 December 2011 included an incremental provision of €166.1m to reflect the fact that actual losses have the potential to lag the current experience. This mainly reflects an inherent uncertainty in the timing of realisation of cash from Irish land and development collateral due to the current lack of observable transactions.

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

12. TAX CREDIT / (EXPENSE)

Group	2011 €'000	2010 €'000
Current tax		
Irish corporation tax	(1,561)	(375)
Foreign tax	-	-
Deferred tax		
On fair value gains and losses on derivatives	1,135	(19,389)
On unutilised tax losses forward (see Note 26)	235,634	19,389
Taxation credit/(charge)	**235,208**	**(375)**

12. TAX CREDIT / (EXPENSE) (CONTINUED)

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

Reconciliation of tax on profits / (losses) Group	**2011 €'000**	**2010 €'000**
Profit / (loss) before tax	11,340	(1,179,615)
Tax calculated at a tax rate of 25%	2,835	(294,904)
Effect of:		
Non-deductible derivative movements	66,830	-
Tax on interest income	1,561	375
Non-deductible expenses	354	-
Utilised tax losses forward	(71,154)	-
Deferred tax asset recognised on unutilised tax losses	(235,634)	-
Losses not available for use in the year and carried forward	-	294,904
Taxation (credit) / charge	**(235,208)**	**375**

The current tax charge of €1.5m arises on the profits earned by NAMAIL. A total amount of €1.4m was paid to the Revenue Commissioners in the period which relates to 12.5% of the profits arising in NAMAIL. No other tax charges arose in other NAMA Group entities and the Agency is exempt from Irish income tax, corporation tax and capital gains tax.

The corporation tax rate applicable to the majority of the Group's income is 25%. The corporation tax rate applicable to the majority of the income of subsidiaries is either 12.5% or 25%. The effective corporation tax rate for 2011 was 0% (2010: 0%).

The Group and Agency have no tax-related contingent liabilities and contingent assets in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets. No significant effects arise from changes in tax rates or tax laws after the reporting period.

13. INCOME TAX RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

Group	**2011 €'000**	**2010 €'000**
Movement in cash flow hedge reserve before tax	(338,689)	77,554
Movement in available for sale reserve before tax	110	-
Total movement	(338,579)	77,554
Deferred tax benefit/(expense)	68,884	(19,389)
Tax losses available for offset	-	19,389
Total income tax relating to components of other comprehensive income	**68,884**	**-**

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

Notes to the Financial Statements

14. DIVIDEND PAID

Group	2011 €'000	2010 €'000
Dividend paid	**5,093**	**-**

On 31 March 2011 the Board of NAMAIL declared and approved a dividend payment of €0.09987 per share amounting to €5.093m. The amount of dividend per share was based on the ten year Irish government bond yield as at 31 March 2011. The dividend was paid to the holders of B ordinary shares of NAMAIL only, the private investors, who have an 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).

15. CASH AND CASH EQUIVALENTS

Group	2011 €'000	2010 €'000
Exchequer notes	2,300,000	-
Balances with the Central Bank of Ireland	974,566	709,950
Balances with other banks	54,462	66,377
Term deposits	17,958	60,412
Total cash and cash equivalents	**3,346,986**	**836,739**

Agency	2011 €'000	2010 €'000
Balances with the Central Bank of Ireland	1,623	95
Total cash and cash equivalents	**1,623**	**95**

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

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

16. FINANCIAL ASSETS AVAILABLE FOR SALE

Group	2011 €'000	2010 €'000
Short term treasury bonds	499,747	-
Total available for sale financial assets	**499,747**	**-**

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

17. AMOUNTS DUE TO / FROM PARTICIPATING INSTITUTIONS

Group	Note	2011 €'000	2010 €'000
Amounts due from Participating Institutions:			
Due diligence valuation adjustment	17.1	146,598	113,482
Value to transfer settlement	17.2	141,886	209,788
Unsettled overdraft positions	17.3	120,659	-
Adjustments under Section 88 of the Act	17.4	-	6,302
Adjustments under Section 93 of the Act	17.4	-	20,351
Total		**409,143**	**349,923**
Amounts due to Participating Institutions:			
Due diligence valuation adjustment	17.1	(3,523)	(72,265)
Value to transfer settlement	17.2	(24,398)	(19,601)
Unsettled overdraft positions	17.3	(31,571)	-
Adjustments under Section 98 of the Act	17.4	(730)	(50,927)
Adjustments under Section 88 of the Act	17.4	(2)	-
Total		**(60,224)**	**(142,793)**
Current		**348,919**	**207,130**
Non-current		**-**	**-**

17.1 Due diligence valuation adjustment

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

As at the end of May 2012, due diligence had been completed on all eligible loans acquired by NAMA. As such, the full provision for due diligence adjustment had been settled by the end of May 2012.

Due diligence valuation adjustment	Receivable €'000	Payable €'000
Balance at 31 December 2010	113,482	(72,265)
Settled in the period	(113,482)	69,131
Unsettled due diligence valuation adjustments in 2011	146,598	(389)
Balance as at 31 December 2011	**146,598**	**(3,523)**

Notes to the Financial Statements

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

17.2 Value to transfer settlement

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

Value to transfer settlement	Receivable €'000	Payable €'000
Balance at 31 December 2010	209,788	(19,601)
Settled in the period	(127,810)	16,299
Unsettled value to transfer settlements in 2011	59,908	(21,096)
Balance as at 31 December 2011	**141,886**	**(24,398)**

17.3 Unsettled overdraft positions

NAMA legally acquired overdraft accounts attached to debtor loan accounts in 2010 and 2011. During 2011 an exercise was undertaken to identify the cashflows that occurred in 2010 and 2011 on these overdraft accounts. As at 31 December 2011 the following amounts were receivable from and payable to the Participating Institutions, which relate to cash collected or paid out by the Participating Institutions in relation to NAMA debtors' overdraft accounts.

Unsettled overdraft positions	Receivable €'000	Payable €'000
Balance at 31 December 2010	-	-
Settled in the period	-	-
Unsettled overdraft positions in 2011	120,659	(31,571)
Balance as at 31 December 2011	**120,659**	**(31,571)**

17.4 Adjustments under Sections 88, 93 and 98 of the Act

The Act provides under Section 88, Section 93 and Section 98 for the adjustment of the acquisition value of a loan subsequent to its acquisition where there has been an error in the acquisition process or value attributed to a loan. Adjustments under these Sections are recognised in accordance with accounting policy 2.19.

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

Adjustments under Sections 88, 93 and 98 of the Act	Section 88 €'000	Section 93 €'000	Section 98 €'000
Balance at 31 December 2010	6,302	20,351	(50,927)
Settled in the period	(6,302)	(20,351)	50,927
Unsettled Adjustments under Sections 88, 93 and 98 of the Act	(2)	-	(730)
Balance as at 31 December 2011	**(2)**	**-**	**(730)**

At the reporting date there is an amount of €15.1m held in an escrow account in the Group's name (refer note 19.4). This amount is in respect of the outcome of due diligence procedures on AIB Tranche 9 loans. On completion of due diligence by AIB, part or the entire amount will be either transferred to the Group's bank account or retained by AIB. The balance on this account is assessed on a six monthly basis. An amount of €0.5m was drawn against this balance by NAMA following the first review in May 2012.

18. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

Notes to the Financial Statements

18. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Group 31 December 2010	Notional amount €'000	Fair values Assets €'000	Liabilities €'000	Net €'000
(a) Derivatives at fair value through profit or loss				
Derivative financial instruments acquired from borrowers	9,894,429	283,888	-	**283,888**
Other derivative financial instruments	2,692,666	97	(64,817)	**(64,720)**
Foreign currency derivatives	10,284,776	162,896	(103,761)	**59,135**
(b) Derivative financial instruments designated in hedge relationships				
Interest rate swaps	13,300,000	52,274	(5,139)	**47,135**
Total derivative assets/(liabilities)	**36,171,871**	**499,155**	**(173,717)**	**325,438**

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

Derivative financial instruments acquired from borrowers relate to the fair value of derivatives acquired from borrowers that were associated with loans acquired. The fair value of these derivatives at year end was €374m (2010: €284m) and the fair value movement on these derivatives in the year was a gain of €90m (2010: €48m) (see Note 7).

Other derivative financial instruments relate to the fair value of derivatives entered into by the Group to hedge derivative financial instruments acquired from borrowers. These derivatives have not been designated into hedge relationships. One of these derivatives was transacted with a Participating Institution through the NTMA rather than entered into by the Group (the fair value of this derivative at 31 December 2010 was (€47.9m) and was included in acquired derivatives for 2010). This has been reclassified for 2011 and included in other derivative financial instruments. 2010 balances above have also been restated to include this reclassification.

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

(b) Derivative financial instruments designated in hedge relationships

The Group entered into interest rate swap contracts to hedge its exposure to cash flow variability arising from interest rate risk in its portfolio of debt securities. These swaps were formally designated into hedge relationships during 2010, when the fair value of these derivatives was (negative) €30.4m. This amount was recognised as a fair value loss on other derivative financial instruments in the income statement (Note 7) in 2010. This fair value gain is amortised as hedge ineffectiveness over the remaining life of the derivatives. An amount of €15.9m has been recognised in the income statement and cash flow hedge reserve for 2011. The total loss for the financial year on cash flow hedges of €339m is recognised in the cash flow hedge reserve in other comprehensive income.

The Agency held no derivatives at the reporting date.

18. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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

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

Group 31 December 2010	0-6 months €'000	6 months - 1 year €'000	1-5 years €'000	More than 5 years €'000	2011 Total €'000
a) Expected to occur	75,411	84,147	713,669	120,065	**993,292**
b) Expected to accrue	81,235	91,327	670,560	99,896	**943,018**

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

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

There is no cash flow hedging applied in the Agency.

19. LOANS AND RECEIVABLES

Group	2011 €'000	2010 €'000
Loans and receivables carrying value before impairment	28,358,655	29,435,356
Less: provision for impairment charges on loans and receivables (Note 11)	(2,751,266)	(1,484,523)
Total loans and receivables	**25,607,389**	**27,950,833**

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

Notes to the Financial Statements

19. LOANS AND RECEIVABLES (CONTINUED)

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

Reconciliation of movement in loans and receivables	Note	2011 €'000	2010 €'000
Loans acquired – opening balance		**29,435,356**	29,971,189
New loans acquired	19.1	1,252,225	-
Loan acquisition adjustments			
Additional loan adjustments following the completion of due diligence in the year	19.2	419,350	(115,088)
Unsettled value to transfer adjustments	19.3	(35,510)	(190,187)
AIB Tranche 9 partial settlement	19.4	(7,574)	-
Value to transfer date loan cash settlements	19.5	10,502	(196,415)
Due diligence costs recoverable		4,169	59,941
S.88, S.93 and S.98 adjustments		732	24,274
Total loan acquisition adjustments		**391,669**	**(417,475)**
Loan movements			
Receipts from and payments to borrowers			
Principal cash repayments		(1,236,174)	(371,098)
Proceeds from the sale of collateral as security against loans and receivables		(2,698,464)	(363,333)
Proceeds from the sale of loans		(931,981)	-
Deferred consideration received on sale of loans	19.6	(7,687)	-
Funds advanced to borrowers		303,981	240,320
Loan interest income earned	5	1,145,360	447,860
Overdraft accounts	19.7	(87,861)	-
Total receipts from and payments to borrowers		**(3,512,826)**	**(46,251)**
Other loan movements			
Net profit recognised on sale of loans	8	77,443	-
Surplus income	8	472,135	-
Foreign exchange movement on loans and receivables	10	245,533	(72,107)
Settlement of guarantee		(6,850)	-
Other		3,970	-
Total other loan movements		**792,231**	**(72,107)**
Total loan movements		**(2,720,595)**	**(118,358)**
Loans and receivables pre impairment		**28,358,655**	**29,435,356**
Impairment of loans and receivables		(2,751,266)	(1,484,523)
Net loans and receivables after impairment		**25,607,389**	**27,950,833**

19.1 New loans acquired

Loans that were identified as being eligible assets in 2011 were acquired by NAMA during the year. As consideration for these loans NAMA issued senior and subordinated debt to the Participating Institutions.

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

Any adjustments arising on the completion of due diligence on assets transferred are recognised in the statement of financial position as an adjustment to the carrying value of loans and receivables and through the issuance or redemption of government guaranteed debt securities. At the year end an amount of €146.6m was receivable from AIB in relation to due diligence completed but not settled at 31 December 2011.

19.3 Unsettled value to transfer adjustments

This represents the net of amounts receivable from and payable to Participating Institutions as at 31 December 2011 on value to transfer settlements. Value to transfer settlements comprise net movements that occurred on the loans acquired by NAMA in the period between the loan valuation date and acquisition date. Any amount due to or from a Participating Institution is settled in cash or through the issuance or redemption of government guaranteed senior debt securities. See Note 17.2 for further details.

19.4 AIB Tranche 9 partial settlement

This amount represents an amount received from AIB in lieu of the fact that limited legal due diligence was conducted on AIB Tranche 9 loans in advance of their valuation.

An agreement was reached between NAMA and AIB that, because of the need to expedite loan valuations, legal due diligence would not be completed on Tranche 9 designated loans prior to completion of those loans being valued. Instead, it was agreed that a security review of all Tranche 9 credit facilities would be conducted within a two-year period. A once off upfront payment of €7.6m was made to NAMA, representing the expected adjustment that would have had to have been made to the property valuations, of the underlying security, had the legal due diligence been completed in advance of transfer. An amount of €15.1m has been placed into an escrow account to meet the costs of any security deficiencies identified during the security reviews and which AIB are not in a position to remediate within that two year period. Any such costs shall be released to NAMA from that escrow account and the net effect is that NAMA receives an amount equivalent to that which would equate to a legal haircut had one applied as part of NAMA's standard loan valuation process.

19.5 Value to transfer date loan cash settlements

Value to transfer date loan cash settlements are the net movements that occurred on the loans acquired by NAMA in the period between the loan valuation date and acquisition date.

19.6 Deferred consideration received on sale of loans

This amount represents an amount due to NAMA from the sale of a loan to a third party. Upon the sale of a loan, part of the cash was received on completion, and the balance of €7.7m is due to be received by NAMA in 2012.

19.7 Overdraft accounts

As part of the acquisition of debtor loans, overdraft accounts associated with loans were acquired by NAMA. The Participating Institutions have continued to fund debtor overdraft accounts and collect cash repayments of overdraft accounts on NAMA's behalf. At 31 December 2011, the net of funds due to Participating Institutions of €32m and cash collected due to NAMA of €121m is €89m, of which €87.9m is recognised as a reduction to loans and receivables and the balance is recognised as overdraft fee income (Note 5).

Notes to the Financial Statements

20. INVENTORIES

Group	2011 €'000	2010 €'000
Trading properties	6,850	-

During the year, the Group received certain properties as consideration for the settlement of a loan guarantee acquired by the Group. The properties are recognised in accordance with accounting policy 2.16.

21. RISK MANAGEMENT

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

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

Asset and liability management

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

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

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

Under Section 50 of the Act, NAMA may borrow such sums of money as are required for the performance of its functions under the Act. A short-term Euro Commercial Paper (ECP) programme was established in 2010 and preliminary work was carried out in preparation for the establishment of a Euro Medium-Term Note (MTN) Programme in 2010. However, given the net positive cash flow from NAMA activities and the difficult conditions in the sovereign bond market, no issuance took place in 2011 and none is planned for 2012.

Risk Oversight and Governance

Risk Management Committee

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

Audit Committee

The Audit Committee seeks to ensure compliance with financial reporting requirements. It reports to the Board on the effectiveness of control processes operating throughout the Group.

Credit Committee

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

NAMA Treasury

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

NAMA Asset Recovery

The NAMA Asset Recovery function is responsible for:

- Supporting the Board in setting Asset Recovery's credit risk tolerance and policies;
- Developing and implementing the Asset Recovery Policy and Procedures Framework;
- Developing and implementing credit risk management policies and procedures within the overall framework; and
- Analysing, monitoring and reporting credit & general risk management information within Asset Recovery to present a consolidated view of the Group's risk exposures to the senior management team, the Risk Management Committee and the Board.

NTMA Risk Unit

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

21.1 Market risk

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

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

The Group's debt securities are denominated in euro, while a significant proportion of the Group's acquired assets are denominated in sterling and US dollars. As a consequence, the Group has made extensive use of foreign currency derivatives to manage the currency profile of its assets and liabilities. Similarly, interest rate swaps are used to manage mismatches in the Group's interest rate profile.

Notes to the Financial Statements

21. RISK MANAGEMENT (CONTINUED)

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 (i.e. interest rate and foreign exchange risk) is centralised within the Group's Treasury unit. NAMA's Risk unit provides oversight and is responsible for the monitoring of the limit framework within the context of limits approved by the Risk Management Committee. Market risk support is provided by the NTMA Risk Unit.

Risk mitigation

Risk mitigation involves the matching of asset and liability risk positions to the maximum extent practicable, and the use of derivatives to manage duration and interest rate sensitivity within the approved limit structure. The Group Balance Sheet policies are designed to ensure a rigorous system of control is in place which includes prescribing a specific range of approved products and limits that cover all of the risk sensitivities associated with approved products.

The Group provides monthly reporting to the Risk Management Committee with detailed analysis of all significant risk positions and compliance with risk limits. In addition to market risk position limits, stress testing is used to gauge the impact on the Group's position of a range of extreme market scenarios. Scenario based stress tests and long run historic simulations (going back to the 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 Asset Recovery unit, NAMA Treasury and the NTMA Risk Unit, meets regularly to review the market risk position and ensure compliance with the decisions of the Board and the Risk Management Committee. The weekly report produced by NTMA Risk Unit includes detailed analysis of all significant risk positions and compliance with risk limits.

21.3 Market Risk Measurement

21.3.1 Interest Rate Risk

The Group acquired fixed and variable rate loans from the Participating Institutions, as well as derivatives that were used to convert (for debtors) variable rate loans to fixed rate loans. In addition, the Group has issued floating rate securities and has entered into derivative transactions to manage mismatches in its asset and liability profile. The Group employs risk sensitivities, risk factor stress testing and scenario analysis to monitor and manage the interest rate risk. Risk sensitivities are calculated by measuring an upward parallel shift in the yield curve to assess the impact of interest rate movements.

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

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

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

21. RISK MANAGEMENT (CONTINUED)

Interest Rate Risk Group As at 31 December 2011	0-6 months €'000	Greater than 6 months €'000	Non-interest bearing €'000	Total €'000
Financial Assets				
Cash and cash equivalents	3,346,986	-	-	**3,346,986**
Financial assets available for sale	499,747	-	-	**499,747**
Loans and receivables	25,607,389	-	-	**25,607,389**
Amounts due from Participating Institutions	-	-	409,143	**409,143**
Other assets	-	-	43,438	**43,438**
Total financial assets exposed to interest rate re-set	**29,454,122**	**-**	**452,581**	**29,906,703**
Liabilities				
Amounts due to Participating Institutions	-	-	60,224	**60,224**
Senior debt securities in issue	29,106,000	-	-	**29,106,000**
Derivative financial instruments	(13,600,000)	(6,700,000)	-	**(20,300,000)**
Other liabilities	-	-	252,379	**252,379**
Total financial liabilities exposed to interest rate re-set	**15,506,000**	**(6,700,000)**	**312,603**	**9,118,603**

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

Notes to the Financial Statements

21. RISK MANAGEMENT (CONTINUED)

Interest Rate Risk **Agency** **As at 31 December 2011**	**0-6 months** **€'000**	**Non- interest bearing** **€'000**	**Total** **€'000**
Financial Assets			
Cash and cash equivalents	1,623	-	**1,623**
Other assets	-	3,381	**3,381**
Total financial assets exposed to interest rate re-set	**1,623**	**3,381**	**5,004**
Liabilities			
Interest bearing loans and borrowings	52,720	-	**52,720**
Other liabilities	-	4,040	**4,040**
Total financial liabilities exposed to interest rate re-set	**52,720**	**4,040**	**56,760**

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

Interest rate risk sensitivity

The following table represents the interest rate sensitivity arising from a 50 basis point increase or decrease in interest rates across the curve, subject to a minimum interest rate of 0%. This risk is measured as the net present value (NPV) impact, on the statement of financial position, of that change in interest rates. This analysis shifts all interest rates for each currency and each maturity simultaneously by the same amount.

The interest rates for each currency are set as at 31 December 2011. The figures take account of the effect of hedging instruments, loans and receivables and securities issued.

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

	31 December 2011		**31 December 2010**	
	+50bp **€'000**	**-50bp** **€'000**	**+50bp** **€'000**	**-50bp** **€'000**
EUR	237,609	(244,208)	177,417	(181,751)
GBP	(17,781)	19,624	(460)	1,555
USD	(75)	77	679	(675)

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

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 2011. 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.

2011 **Group**	**US$** **€'000**	**£** **€'000**	**Other** **€'000**	**Total** **€'000**
Assets				
Cash and cash equivalents	8,657	43,094	2,386	**54,137**
Loans and receivables	351,068	8,689,175	115,079	**9,155,322**
Derivative financial instruments	(332,657)	(8,141,789)	(107,422)	**(8,581,868)**
Other assets	-	7,688	-	**7,688**
Amounts due from Participating Institutions	125	24,688	54	**24,867**
Total assets exposed to currency risk	**27,193**	**622,856**	**10,097**	**660,146**
Liabilities				
Amounts due to Participating Institutions	-	(3,097)	-	**(3,097)**
Total liabilities exposed to currency risk	**-**	**(3,097)**	**-**	**(3,097)**
Net assets/(liabilities) exposed to currency risk	**27,193**	**619,759**	**10,097**	**657,049**

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

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

Notes to the Financial Statements

21. RISK MANAGEMENT (CONTINUED)

Exposure to foreign exchange risk - Sensitivity analysis

A 10% strengthening of the euro against the following currencies at 31 December 2011 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	2011 €'000	2010 €'000
GBP	(54,234)	21,820
USD	(3,462)	(3,929)
Other	(1,130)	(435)

22. CREDIT RISK

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

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

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

Asset Recovery Policy and Procedures Framework

The overall objective of the Asset Recovery Policy and Procedures Framework is to safeguard the Group by protecting and enhancing the value of loans acquired.

Ultimate responsibility for the management of credit risk in the Group rests with the Group Board. Credit risk management and control is centralised in the Asset Recovery team. Credit risk is reported to the NAMA Board and Credit Committee on a regular basis and the Framework is subject to formal Annual Review.

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

Debtors fall into two categories:

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

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

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

- An application for credit by a debtor;
- Approval of asset sales;
- A proposal by a debtor which may involve pragmatic/commercial compromises or incentives in order to maximise NAMA's overall position;
- An application for finance;
- A proposed debtor strategy;
- A proposed extension of terms for any or all of a debtor's exposures;
- A proposal to initiate insolvency action;
- An action by a third party concerning a common debtor e.g. non participating institution.

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

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.
- 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.

In accordance with Section 10 of the Act, NAMA is required to obtain the best achievable financial return for the State having regard to Par debt, acquisition cost, any costs as a result of dealing with the assets, its cost of capital and other costs. These are the fundamental measures upon which credit and case strategy decisions will be made. They are also the basis for determining the appropriate Delegated Authority level for credit decisions made by the Group or Participating Institutions. NAMA monitors these two measures in parallel and uses them in support of all credit decisions.

Derivative Portfolio - Credit exposure measurement

In addition to the loans that were acquired by the Group, a number of derivative financial instruments were acquired which were attached to debtors' loans acquired from the five participating institutions.

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

22.2 Credit risk assessment

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

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

Notes to the Financial Statements

22. CREDIT RISK (CONTINUED)

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

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

22.3 Credit risk control

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

The Asset Recovery Policy and Procedures Framework sets out the permitted decision making and credit limits in relation to:

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

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

- Asset Recovery Panel A or Panel B Delegated Authority holders;
- Senior Divisional Manager Asset Recovery;
- Head of Asset Recovery;
- CEO and Head of (or Deputy Head of) Asset Recovery;
- Credit Committee;
- Group Board.

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

Oversight of the compliance with the Delegated Authority Policy is performed by the Quality Assurance Team, which is a part of the Asset Recovery function 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 income is also required.

(b) Collateral

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

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of first fixed charge security for any working or development capital advanced.

The principal collateral types acceptable for credit risk mitigation of loans and receivables are:

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

(c) Derivatives

The security for derivatives acquired is from the collateral acquired with the loan, and is reflected in the loan acquisition price paid. The Group also transacted derivatives with the NTMA to hedge interest rate and foreign currency exposures.

The credit exposure of derivatives acquired, together with potential exposures arising from market movements, is managed as part of the overall debtors exposure management.

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

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

The table below sets out the maximum exposure to credit risk for financial assets with credit risk (net of impairment) at 31 December 2011, taking no account of collateral or other credit enhancements held. Exposures are based on the net carrying amounts as reported in the Group's Statement of Financial Position.

Group	Maximum exposure 2011 €'000	Maximum exposure 2010 €'000
Cash and cash equivalents	3,346,986	836,739
Available for sale financial assets	499,747	-
Amounts due from Participating Institutions	409,143	349,923
Derivative financial instruments	448,539	499,155
Loans and receivables		
Land and development	8,563,916	11,459,842
Investment property	17,043,473	16,490,991
Other assets	43,438	17,960
Total assets	**30,355,242**	**29,654,610**
Loan commitments (note 23.4)	235,932	417,457
Total maximum exposure	**30,591,174**	**30,072,067**

Notes to the Financial Statements

22. CREDIT RISK (CONTINUED)

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

Agency	Maximum exposure 2011 €'000	Maximum exposure 2010 €'000
Cash	1,623	95
Other assets	3,381	3,823
Total maximum exposure	**5,004**	**3,918**

22.5 Information regarding the credit quality of loans and receivables

(a) Loans and receivables neither past due nor impaired

The Group is in the process of implementing a new grading policy which will apply to all debtors. At the reporting date, €23.5bn of the portfolio had been graded representing the NAMA managed portfolio. The remaining Participating Institution managed portfolio will be graded in 2012.

The three credit quality classifications defined below represent an aggregation of more granular internal grades.

The credit quality grading scale of NAMA has two dimensions. The first dimension measures the quality of the underlying assets acquired and the expectation for debt recovery relative to the NAMA debt. The grading scale 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 rates the level of debtor performance by measuring the achievement of financial and non-financial milestones that have been agreed through the debtor engagement process.

- *Satisfactory:* - Strong capacity to meet financial commitments and low likelihood of expected loss.
- *Weak:* - Requires closer monitoring but demonstrates a good capacity to meet financial commitments.
- *Impaired:* - Exposures require varying degrees of special attention and active portfolio management and loss expectation is of concern.

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

	2011 €'000
Satisfactory	7,815,435
Watch	1,229,386
Loans and receivables neither past due nor impaired	**9,044,821**

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

(b) Loans and receivables past due not impaired

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

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

(c) Loans and receivables individually assessed for impairment

Loans and associated derivatives which were determined to be impaired as a result of the individual impairment review had a carrying value of €14.4bn (2010: €6.1bn) (see following table).

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

Loans and receivables individually assessed for impairment

	2011 €'000	2010 €'000
Gross loans and associated derivatives	23,493,876	13,336,010
Individually impaired loans and associated derivatives	(14,449,055)	(6,109,779)
Loans and associated derivatives not individually impaired	**9,044,821**	**7,226,231**

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

(d) Loans and advances renegotiated

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

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

The restructuring of debtors in 2011 involved the restructuring of loans into a reduced number of interest bearing facilities for easier engagement and debtor management. The total carrying value of loans subject to restructure of this nature in 2011 was €820m.

During the year NAMA also restructured the partial debt of two debtors by converting debt into equity. There is no change in the amounts owed to NAMA as a result of the debt/equity restructures.

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

Notes to the Financial Statements

22. CREDIT RISK (CONTINUED)

22.6 Geographical sectors

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

	Ireland excluding Northern Ireland €'000	UK including Northern Ireland €'000	Rest of World €'000	Loan impairment €'000	Total €'000
At 31 December 2011	22,361,331	8,942,961	2,115,626	(2,751,266)	**30,668,652**
At 31 December 2010	19,280,026	9,775,279	2,083,828	(1,484,523)	**29,654,610**

Geographical sector As at 31 December 2011 Group	**Ireland excluding Northern Ireland €'000**	**UK including Northern Ireland €'000**	**Rest of World €'000**	**Loan impairment €'000**	**Total €'000**
Loans and receivables					
– Land and development	6,218,324	2,615,501	650,201	-	**9,484,026**
– Investment property	11,340,494	6,073,674	1,460,461	-	**18,874,629**
Impairment of loans and receivables	-	-	-	(2,751,266)	**(2,751,266)**
Total loans and receivables	**17,558,818**	**8,689,175**	**2,110,662**	**(2,751,266)**	**25,607,389**
Cash and cash equivalents	3,346,986	-	-	-	**3,346,986**
Financial assets available for sale	499,747	-	-	-	**499,747**
Derivative financial instruments	189,789	253,786	4,964	-	**448,539**
Amounts due from Participating Institutions	409,143	-	-	-	**409,143**
Deferred tax asset	305,654	-	-	-	**305,654**
Inventories	6,850	-	-	-	**6,850**
Other assets	43,438	-	-	-	**43,438**
Property, plant and equipment	906	-	-	-	**906**
Total assets	**22,361,331**	**8,942,961**	**2,115,626**	**(2,751,266)**	**30,668,652**

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

The Agency statement of financial position, comprises inter-group assets in respect of the reimbursement of administration expenses from the group, therefore all of the assets exposed to credit risk in the Agency are located in Ireland.

23. LIQUIDITY RISK

Liquidity risk is the risk that the Group is unable to meet all of its financial obligations as and when they fall due. Liquidity risk arises from differences in timing between cash inflows and outflows.

23.1 Liquidity risk management process

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

- Management of NAMA's day-to-day liquidity and funding requirements so as to ensure that it will meet all obligations as they fall due: these include future lending commitments, interest on liabilities, collateral posting, day-to-day operating costs, fees and expenses.
- Asset and Liability management; by monitoring the maturity profile within the Group's statement of financial position to ensure that sufficient cash resources are retained and or funding established where mismatches are likely to occur, thereby minimising the impact of liquidity outflows.

Monitoring and reporting takes the form of cash flow measurement and projections for periods of one week to one year with the planning process covering periods beyond one year. The NTMA Risk Unit independently produces liquidity forecasts that are provided monthly to the Risk Management Committee and Board. All projections include a 'stressed' forecast to cater for prolonged periods of uncertainty. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected repayment date of the financial assets.

The key liquidity risk for the Group is the funding of the Government Guaranteed Floating Rate Notes (Notes) issued as consideration for 95% of the value of acquired assets. The Notes in issue permit the issuer (where the issuer has not received a Holder Physical Delivery Rejection Notice) to physically settle all, or some only, of the Notes at maturity by issuing a new Note on the same terms as the existing Note (other than as to maturity which may be up to 364 days from the date of issue, notwithstanding that the existing Note may have had a shorter maturity).

Notes to the Financial Statements

23. LIQUIDITY RISK (CONTINUED)

23.1 Liquidity risk management process (continued)

In May 2011, the Board of NAMA, on receipt of a direction issued under Section 14 of the Act, from the Minister for Finance, resolved to remove the extendible maturity option from the NAMA Senior Notes (see Note 28).

All of the Notes which matured on 1 March 2012 were physically settled by issuing new Notes with a maturity of 1 March 2013.

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 2011	**0-6 months €'000**	**6-12 months €'000**	**Total €'000**
Liabilities			
Amounts due to Participating Institutions	60,224	-	**60,224**
Senior debt securities in issue	29,275,298	-	**29,275,298**
Other liabilities	53,638	-	**53,638**
Total liabilities	**29,389,160**	**-**	**29,389,160**
Assets held for managing liquidity risk	**3,846,733**	**-**	**3,846,733**

Non-derivative cash flows Group 2010	**0-6 months €'000**	**6-12 months €'000**	**Total €'000**
Liabilities			
Amounts due to Participating Institutions	142,793	-	142,793
Senior debt securities in issue	28,718,706	-	28,718,706
Interest bearing loans and borrowings	49,380	-	49,380
Other liabilities	-	114,450	114,450
Total liabilities	**28,910,879**	**114,450**	**29,025,329**
Assets held for managing liquidity risk	**836,739**	**-**	**836,739**

Non-derivative cash flows Agency 2011	**0-6 months €'000**	**6-12 months €'000**	**Total €'000**
Liabilities			
Interest bearing loans and borrowings	52,720	-	52,720
Other liabilities	4,040	-	4,040
Total liabilities	**56,760**	**-**	**56,760**
Assets held for managing liquidity risk	**-**	**-**	**-**

Non-derivative cash flows Agency 2010	0-6 months €'000	6-12 months €'000	Total €'000
Liabilities			
Interest bearing loans and borrowings	49,380	-	49,380
Other liabilities	3,974	-	3,974
Total liabilities	**53,354**	**-**	**53,354**
Assets held for managing liquidity risk	**-**	**-**	**-**

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash and cash equivalents, term deposits and financial assets available for sale.

23.3 Derivative cash flows

(a) Derivatives settled on a net basis

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

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

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

Group 31 December 2011	0-6 months €'000	6 -12 months €'000	1-5 years €'000	Over 5 years €'000	Total €'000
Interest rate derivatives – where hedge accounting does not apply	28,047	16,703	117,714	96,744	**259,208**
Interest rate derivatives – where hedge accounting is applied	95,958	(121,537)	(281,729)	491	**(306,817)**
Total	**124,005**	**(104,834)**	**(164,015)**	**97,235**	**(47,609)**

Group 31 December 2010	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	29,811	21,814	94,018	91,430	**237,073**
Interest rate derivatives – where hedge accounting is applied	55,365	(138,731)	48,314	41,659	**6,607**
Total	**85,176**	**(116,917)**	**142,332**	**133,089**	**243,680**

(b) Derivatives settled on a gross basis

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

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

Notes to the Financial Statements

23. LIQUIDITY RISK (CONTINUED)

23.3 Derivative cash flows (continued)

Group 31 December 2011	0-6 months €'000	6 -12 months €'000	1-5 years €'000	Total €'000
Foreign exchange derivatives:				
– Outflow	(2,647,026)	-	-	**(2,647,026)**
– Inflow	2,526,741	-	-	**2,526,741**
Cross-currency interest rate derivatives:				
– Outflow	(393,182)	(920,238)	(4,841,907)	**(6,155,327)**
– Inflow	387,560	907,200	4,663,260	**5,958,020**
Total outflow	**(125,907)**	**(13,038)**	**(178,647)**	**(317,592)**

Group 31 December 2010	0-6 months €'000	6 -12 months €'000	1-5 years €'000	Total €'000
Foreign exchange derivatives:				
– Outflow	(2,671,156)	(2,424,428)	(891,091)	**(5,986,675)**
– Inflow	2,705,382	2,396,325	884,460	**5,986,167**
Cross-currency interest rate derivatives:				
– Outflow	(24,615)	(30,939)	(4,493,363)	**(4,548,917)**
– Inflow	23,262	30,096	4,505,845	**4,559,203**
Total Inflow/(Outflow)	**32,873**	**(28,946)**	**5,851**	**9,778**

23.4 Loan commitments

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

Group 31 December 2011	No later than 1 year €'000	1-5 years €'000	Over 5 years €'000	Total €'000
Commitments to lend	99,572	100,229	36,131	235,932
Guarantees and letters of credit acquired	11	3,864	-	3,875
Total	**99,583**	**104,093**	**36,131**	**239,807**

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

The Agency has no loan commitments.

24. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

(a) Comparison of carrying value to fair value

The table below summarises the carrying amounts and fair values of financial assets and liabilities presented in the Group and Agency's statement of financial position.

Group	2011 Carrying value €'000	2011 Fair value €'000	2010 Carrying value €'000	2010 Fair value €'000
Financial assets				
Cash and cash equivalents	3,346,986	3,346,986	836,739	836,739
Available for sale financial assets	499,747	499,747	-	-
Amounts due from Participating Institutions	409,143	409,143	349,923	349,923
Derivative financial instruments	448,539	448,539	499,155	499,155
Loans and receivables	25,607,389	25,045,497	27,950,833	27,363,663
Other assets	43,438	43,438	17,960	17,960
Trading property assets	6,850	6,850	-	-
Deferred tax asset	305,654	305,654	-	-
Total assets	**30,667,746**	**30,105,854**	**29,654,610**	**29,067,440**
Financial Liabilities				
Amounts due to Participating Institutions	60,224	60,224	142,793	142,793
Derivative financial instruments	728,725	728,725	173,717	173,717
Senior debt securities in issue	29,106,000	28,972,112	28,650,000	28,572,645
Other liabilities	252,379	252,379	232,536	232,536
Total liabilities	**30,147,328**	**30,013,440**	**29,199,046**	**29,121,691**

Agency	2011 Carrying value €'000	2011 Fair value €'000	2010 Carrying value €'000	2010 Fair value €'000
Financial assets				
Cash and cash equivalents	1,623	1,623	95	95
Other assets	3,381	3,381	3,823	3,823
Total assets	**5,004**	**5,004**	**3,918**	**3,918**
Financial Liabilities				
Interest bearing loans and borrowings	52,720	52,720	49,380	49,380
Other liabilities	4,040	4,040	3,974	3,974
Total liabilities	**56,760**	**56,760**	**53,354**	**53,354**

Notes to the Financial Statements

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

Financial assets not subsequently measured at fair value

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

(i) Cash and balances with banks

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

(ii) Loans and receivables

Loans and receivables are shown net of charges for impairment. The fair value of loans and receivables has been estimated using the expected future cash flows in the portfolio. Expected future cash flows for individually significant debtors were reviewed as part of the impairment cash flow assessment at the reporting date. These cash flows were then discounted at a market rate of interest considered appropriate by management, taking into consideration the time value of money and the risks involved. This estimation is subject to judgement by management in relation to the discount rate used and the timing and amount of future cash flows.

(iii) Debt securities in issue

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

(b) Fair value hierarchy

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

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

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

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

Fair value hierarchy for assets and liabilities measured at fair value

Group **As at 31 December 2011**	**Level 1** **€'000**	**Level 2** **€'000**	**Level 3** **€'000**	**Total** **€'000**
Assets				
Derivative financial instruments	-	391,207	-	391,207
Foreign currency derivatives	-	57,332	-	57,332
Available for sale financial assets	-	499,747	-	499,747
Total assets	**-**	**948,286**	**-**	**948,286**
Liabilities				
Derivative financial instruments	-	(438,895)	-	(438,895)
Foreign currency derivatives	-	(289,830)	-	(289,830)
Total liabilities	**-**	**(728,725)**	**-**	**(728,725)**

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

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

Notes to the Financial Statements

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

Categories of financial assets and financial liabilities

Financial Assets	Loans and receivables €'000	Financial assets at fair value through profit or loss – held for trading €'000	Available for sale financial assets €'000
Cash and cash equivalents	3,346,986	-	-
Financial assets available for sale	-	-	499,747
Amounts due from Participating Institutions	409,143	-	-
Derivative financial instruments	-	448,539	-
Loans and receivables	25,607,389	-	-
Other assets	43,438	-	-

Financial Liabilities	Financial liabilities measured at amortised cost €'000	Financial liabilities at fair value through profit or loss – held for trading €'000
Amounts due to Participating Institutions	-	60,224
Derivative financial instruments	-	728,725
Senior debt securities in issue	29,106,000	-

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

25. PROPERTY, PLANT AND EQUIPMENT

Group and Agency	2011 €'000	2010 €'000
Lease fit out costs	1,006	-
Depreciation charge	(100)	-
Closing net book value	**906**	**-**

The asset relates to lease fit out costs incurred to date. The asset is depreciated on a straight line basis at a rate of 10% per annum in accordance with accounting policy 2.20. A full year's depreciation is charged in the year the lease fit out costs are incurred and capitalised.

26. DEFERRED TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The following table represents deferred tax assets and liabilities.

Deferred income tax assets and liabilities are attributable to the following items:

Group	2011 €'000	2010 €'000
Deferred tax liabilities		
Arising on fair value gains on derivatives	(112,162)	(19,389)
Deferred tax assets		
Arising on fair value losses on derivatives	182,182	-
Losses carried forward	235,634	19,389
Net deferred tax assets	**305,654**	**-**
Recognised in the income statement	236,770	-
Recognised in other comprehensive income	68,884	-
	305,654	**-**

The Agency has no deferred tax assets or liabilities.

Deferred income tax assets are recognised in respect of tax losses carried forward only to the extent that realisation of the related tax benefit is probable. A deferred income tax asset of €306m in respect of unutilised tax losses has been recognised in these financial statements. Based on the current year results, NAMA believes that future taxable profits will be available to offset any deferred tax asset recognised. (2010: unrecognised deferred tax asset €295m).

27. OTHER ASSETS

Group	2011 €'000	2010 €'000
Accrued swap interest receivable	12,649	16,500
Interest receivable on available for sale assets	16,122	-
Interest receivable on cash and cash equivalents	2,759	718
VAT receivable	3,723	401
Deferred consideration	7,687	-
Other assets	498	341
Total	**43,438**	**17,960**
Current	**43,438**	**17,960**
Non-Current	**-**	**-**

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

Notes to the Financial Statements

27. OTHER ASSETS (CONTINUED)

Agency	**2011 €'000**	**2010 €'000**
Costs reimbursable from NALM	3,014	3,823
Central Bank interest receivable	4	-
Other receivables	363	-
Total	**3,381**	**3,823**
Current	**3,381**	**3,823**
Non-Current	**-**	**-**

28. SENIOR DEBT SECURITIES IN ISSUE

Group	**2011 €'000**	**2010 €'000**
In issue at the start of the year	28,650,000	-
Issued in the year	2,044,000	28,650,000
Redeemed during the year	(1,250,000)	-
Cancelled in the year	(338,000)	-
In issue at the end of the year	**29,106,000**	**28,650,000**
Current	**29,106,000**	**28,650,000**
Non-current	**-**	**-**

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

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

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

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

In May 2011, the Minister for Finance issued a direction to NAMA under Section 14 of the Act that the terms and conditions of the Notes issued on 1 March 2011, and of any Notes issued thereafter, should be amended to remove the extendible maturity option from the Notes issued under Section 48 of the Act to provide 95% of the total acquisition value of eligible bank assets acquired from participating institutions.

28. SENIOR DEBT SECURITIES IN ISSUE (CONTINUED)

The Notes in issue permit the issuer (where the issuer has not received a Holder Physical Delivery Rejection Notice) to physically settle all, or some only, of the Notes at maturity which may be up to 364 days from the date of issue, notwithstanding that the existing Note may have had a shorter maturity.

All of the Notes which matured on 1 March 2012 were physically settled by issuing new Notes with a maturity of 1 March 2013.

29. OTHER LIABILITIES

Group	2011 €'000	2010 €'000
Accrued interest on debt securities in issue	169,298	68,706
Accrued swap interest payable on derivatives where hedge accounting is applied	18,961	42,926
Accrued swap interest payable on other derivatives	10,482	14,189
Provision for due diligence costs	-	30,336
Accrued expenses	43,864	21,596
Accrued due diligence costs	7,041	4,212
Professional services withholding tax and other taxes	1,992	664
Other liabilities	586	492
Current income tax liability	155	35
Total other liabilities	**252,379**	**183,156**

Agency	2011 €'000	2010 €'000
Amounts due to NTMA and Group entities	3,454	3,823
Other liabilities	586	151
Total other liabilities	**4,040**	**3,974**

As at year end, NAMA is party to a number of on-going legal cases, as part of its ordinary course of business. Included in accrued expenses is €2.5m provided for one specific case. Cases are monitored on an on-going basis.

30. COMMITMENTS AND CONTINGENT LIABILITIES

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

Group	2011 Contractual amount €'000	2010 Contractual amount €'000
Contingent Liabilities		
Guarantees and letters of credit	**3,875**	**5,283**

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

Notes to the Financial Statements

30. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

As at year end, NAMA is party to a number of on-going legal cases, as part of its ordinary course of business. The possible outflows of economic resources cannot be reliably estimated, however the Group does not believe that any such litigation will have a material effect on its income statement or statement of financial position.

The Group holds an operating lease in respect of the third floor of its registered office, Treasury Building. The length of the lease until the first break clause is 4 years.

Operating lease payments recognised as an expense for the year were €0.8m (2010:€0.3m).

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

Group 31 December 2011	Less than 1 year €'000	1 -5 years €'000	More than 5 years €'000	2011 Total €'000
Operating leases	981	2,757	-	3,738

Group 31 December 2010	Less than 1 year €'000	1 -5 years €'000	More than 5 years €'000	2010 Total €'000
Operating leases	981	3.738	-	4,719

31. INTEREST BEARING LOANS AND BORROWINGS

Group	2011 €'000	2010 €'000
Advances to NAMA from the Central Fund and related interest	-	49,380
	-	**49,380**

Agency	2011 €'000	2010 €'000
Advances to NAMA from the Central Fund and related interest	-	49,380
Loan due to NALM and related interest	52,720	-
	52,720	**49,380**

On 25 February 2011, NAMA repaid a loan of €49m and accrued interest to the Central Fund. On the same day, NALM, a Group entity, issued an interest bearing loan of €52m to NAMA, the Agency.

32. OTHER EQUITY

Group	2011 €'000	2010 €'000
In issue at the beginning of the year	1,507,000	-
Issued in the year	110,000	1,507,000
Cancelled in the year	(16,000)	-
In issue at the end of the year	**1,601,000**	**1,507,000**

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

32. OTHER EQUITY (CONTINUED)

The interest rate on the instruments is the 10 year Irish Government rate at the date of first issuance, plus 75 basis points. This rate has been set at a fixed return of 5.264%. Interest is payable annually, however the coupon is declared at the option of the issuer. Coupons not declared in any year will not accumulate. No coupon was declared at the reporting date.

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

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

33. OTHER RESERVES

Other reserves are analysed as follows:

	2011 Group €'000	2010 Group €'000
Cash flow hedge reserve		
At the beginning of the year	77,554	-
Net changes in clean fair value	(338,689)	77,554
Hedge interest settled during year	82,245	566
Movement in interest accrual	(23,965)	42,926
Transferred to income statement	(58,280)	(43,492)
Net movement in cashflow hedge reserve before tax	(338,689)	77,554
Deferred tax recognised in other comprehensive income	68,912	-
At 31 December	**(192,223)**	**77,554**
Available for sale reserve		
At the beginning of the year	-	-
Net changes in fair value	110	-
Transferred to income statement	-	-
Net movement in available for sale reserve before tax	110	-
Deferred tax recognised in other comprehensive income	(28)	-
At 31 December	**82**	**-**
Total other reserves	**(192,141)**	**77,554**

The net movement in the cash flow hedge reserve for 2011 was (€338.7m) before tax which was the fair value movement in derivatives where hedge accounting is applied of (€322.8m) plus an adjustment relating to hedge ineffectiveness of (€15.9m). The net movement in the available for sale reserve for the year was €0.1m which reflects the fair value movement in available for sale investments held at the reporting date.

Notes to the Financial Statements

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

Group	2011 €'000	2010 €'000
Retained profits / (losses)		
At the beginning of the year	(1,128,990)	-
Profit / (loss) for the year	241,455	(1,179,990)
Loss allocated to non-controlling interest	-	51,000
At 31 December	**(887,535)**	**(1,128,990)**

Agency	2011 €'000	2010 €'000
Retained profits / (losses)		
At the beginning of the year	(436)	-
Loss for the year	(1,414)	(436)
At 31 December	**(1,850)**	**(436)**

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

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

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

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

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

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

35. SHARES AND INVESTMENTS IN GROUP UNDERTAKINGS

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

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

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

35.1 Investment in subsidiaries

Agency	2011 €'000	2010 €'000
49,000,000 shares in National Asset Management Agency Investment Limited	**49,000**	**49,000**

In 2010 the Agency made an investment of €49m in National Asset Management Agency Investment Limited.

36. 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 35 and Note 1 to the financial statements.

NTMA

The NTMA provides staff, finance, technology, risk and human resources support services to NAMA. The costs incurred by the NTMA are charged to NAMA (the Agency) and the Agency is reimbursed by the Group. Details of the costs charged to the Group are given in Note 9. The NTMA is the counterparty for NAMA's derivative positions in its management of foreign exchange and interest rate exposure. At the reporting date, NAMA held €501m nominal of the Irish 3.90% Government bonds maturing on 5 March 2012. Exchequer notes of €2.3bn issued by the NTMA are treated as cash and cash equivalents (see Note 15).

NTMA Defined Benefit Pension Scheme

All staff are employed by the NTMA and the NTMA contributes to the NTMA Defined Benefit Pension Scheme on behalf of these employees. The pension scheme is controlled and managed by independent trustees as appointed by the NTMA. As part of the consideration for the provision of staff, the Group has made a payment of €1.8m (2010: €0.8m), representing the refund of the NTMA's contribution to the pension scheme in respect of these NAMA Officers.

Notes to the Financial Statements

36. RELATED PARTY DISCLOSURES (CONTINUED)

Minister for Finance

Sections 13 and 14 of the Act grants certain powers to the Minister for Finance in relation to NAMA. Section 13 provides that the Minister may issue guidelines to NAMA for the purposes of the Act and, in particular, in relation to the purpose of contributing to the social and economic development of the State. NAMA is required to have regard to any such guidelines in performing its functions. Section 14 provides that the Minister may issue directions to NAMA concerning the achievement of the purposes of the Act and, in particular, in relation to the purpose of contributing to the social and economic development of the State. NAMA is obliged to comply with any such direction.

The effect of these statutory provisions is that the Minister for Finance has the ability to exercise significant influence over NAMA. NAMA owns 49% of NAMAIL and its subsidiaries. The remaining 51% is owned by private investors.

Participating Institutions

During 2010, a number of legislative measures were enacted that gave the Minister for Finance rights and powers over certain financial institutions in respect of various matters of ownership, board composition, acquisition or sale of subsidiaries, business activity, restructuring and banking activity. The Participating Institutions have also agreed to consult with the Minister prior to taking any material action which may have a public interest dimension.

Participating Institutions are credit institutions that have been designated by the Minister, under Section 67 of the Act, as a Participating Institution. The Participating Institutions that have transferred loan assets to NAMA as at the reporting date are AIB p.l.c (incorporating EBS), Bank of Ireland and IBRC.

The Group issued senior and subordinated notes and transferred them to the Participating Institutions in return for loan assets. Transactions with Participating Institutions are disclosed in the financial statements primarily under Note 19, Loans and Receivables, Note 17, Amounts due to and from Participating Institutions and the related Income Statement notes.

The Group has an operating account with AIB p.l.c. that had a balance of €0.1m (2010: €0.4m) at the reporting date. The average closing daily balance throughout the year was €0.4m (2010: €0.1m)

During the year the Group placed deposits with AIB p.l.c. (incorporating EBS) and Bank of Ireland. The average amount deposited with each bank was €81.3m and €96.8m respectively. At the reporting date there was a €17.9m deposit with AIB p.l.c. for six days.

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

Participating Institutions	2011 €'000	2010 €'000
AIB, p.l.c.	15,586	2,792
Bank of Ireland	8,952	1,932
IBRC	32,359	8,062

IBRC incorporates Anglo Irish Bank Corporation Limited and Irish Nationwide Building Society (INBS). AIB, p.l.c. includes EBS.

Irish Life and Permanent PLC (IL&P)

The Credit Institutions (Stabilisation) Act 2010 was passed in to Irish law on 21 December 2010. The Act provides the legislative basis for the reorganisation and restructuring of the Irish Banking system agreed in the joint EU/IMF/EC programme of support for Ireland. The Act applies to banks who have received financial support from the State, Building Societies and Credit Unions. The Act provides broad powers to the Minister for Finance.

IL&P by way of the Government Guarantee has received such support and the State acquired a 99.2% stake in IL&P on 27 July 2011. IL&P is a covered institution for the purposes of the Credit Institutions (Financial Support) Scheme 2008. IL&P is also a covered institution under the Government's Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009. Given the Minister for Finance is a related party of the Group and given that the Minister now has significant powers over the governance and operation of IL&P, IL&P is deemed to be a related party of the Group.

As part of the reorganisation and restructuring of the Irish banking system, NAMA senior debt securities in issue and held by IBRC were transferred to IL&P.

Key management personnel

Fees paid to Board members are disclosed in Note 9. The Group has no employees.

Transactions with Group entities

The following are the amounts owed to and from related parties at the reporting date. All transactions with related parties are carried out on an arm's length basis.

Loan due to NALML

€49m was advanced by the Exchequer to the Agency on 29 March 2010 to fund its investment in NAMAIL. The loan of €49m plus accrued interest of €0.474m was repaid to the Exchequer on 25 February 2011. On the same day €52m was advanced from NALML to the Agency. Interest is charged on this loan at the six month EURIBOR rate. Interest on this loan for the year was €0.72m.

Profit participating loan agreements

NAML has entered into a profit participating loan agreement (PPL) with NAMGS, and in turn NAMGS has entered into a further PPL with NALM on similar terms.

The balances outstanding in respect of all PPL agreements between these entities was €30.7m at the reporting date.

NTMA recharge

The NTMA incurs costs for the running of the Group, which it recharges to the Agency. The total of these costs for the period was €27.7m. Further details in respect of these costs are disclosed in Note 9.1.

37. SUPPLEMENTARY INFORMATION IN ACCORDANCE WITH SECTION 54 OF THE ACT

In order to achieve its objectives NAMA has established special purpose vehicles as outlined in Note 1. These entities prepare and present separate financial statements. In accordance with the requirements of Section 54 of the Act the following additional information is provided, in respect of NAMA and each of its Group entities.

37.1 Administration fees and expenses incurred by NAMA and each NAMA Group entity

The administration fees incurred by the Agency are set out in Note 9.

Notes to the Financial Statements

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

37.1 Administration fees and expenses incurred by NAMA and each NAMA Group entity (continued)

The only other NAMA Group entity that incurred fees and expenses in the period was NALM. Its expenses are shown in the table below, including a re-charge of €28m (2010: €15m) in respect of NTMA costs incurred by the Agency. These costs are also included in the consolidated accounts.

National Asset Loan Management Limited	2011 €'000	2010 €'000
Expense type		
Costs reimbursable to NAMA	27,678	14,965
Primary servicer fees	56,897	12,779
Due diligence costs (part recovered below)	44,505	29,605
Portfolio management fees	15,992	5,087
Legal fees	9,478	3,311
Master servicer fees	3,098	2,034
IT costs	1,115	-
Rent and occupancy costs	975	376
Internal audit fees	927	703
Tax fees	562	463
External audit remuneration	450	530
Derivative valuation costs	464	242
Other administrative expenses	113	97
Financial adviser and consultancy fees	12	5,014
Total administration expenses	**162,266**	**75,206**
Due diligence costs recovered on loan acquisitions	(34,505)	(29,605)
Total expenses	**127,761**	**45,601**

Due diligence costs incurred by NALM are considered to be transaction costs and are included in the acquisition cost of the loans and receivables. Additional details in respect of due diligence costs are in Note 9.3.

37.2 Debt securities issued for the purposes of the Act

	€'000
Senior notes issued by NAML	29,106,000
Subordinated debt issued by NAML	1,601,000
Total	**30,707,000**

37.3 Debt securities issued and redeemed in the period to the Participating Institutions

Participating Institution	Outstanding at 1.1.11 €'000	Issued €'000	Redeemed €'000	Cancelled €'000	Transferred to another PI €'000	Outstanding at 31.12.11 €'000
AIB[5]	8,459,000	829,000	(886,000)	(172,000)	12,184,000	20,414,000
BOI	5,404,000	262,000	(221,000)	(86,000)	-	5,359,000
IBRC[5]	15,963,000	1,006,000	(5,000)	(96,000)	(15,075,000)	1,793,000
EBS	331,000	57,000	(13,000)	-	-	375,000
IL&P[5]	-	-	(125,000)	-	2,891,000	2,766,000
Total	**30,157,000**	**2,154,000**	**(1,250,000)**	**(354,000)**	**-**	**30,707,000**

37.4 Advances to NAMA from the Central Fund in the year

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

37.5 Advances made by NAMA to debtors via Participating Institutions in the period

Participating Institution	Amount advanced 2011 €'000	Amount advanced 2010 €'000
AIB	84,833	105,865
IBRC	172,759	104,600
BOI	45,701	29,796
EBS	688	59
Total	**303,981**	**240,320**

37.6 Asset portfolios held by NAMA and each NAMA Group entity

The assets held by NAMA and each NAMA Group entity are set out below. The assets include intergroup assets and liabilities and intergroup profit participating loans between NAMA Group entities.

National Asset Management Agency (NAMA)	2011 €'000	2010 €'000
Investment in NAMAIL	49,000	49,000
Cash	1,623	95
Other receivables	3,381	3,823
Property, plant and equipment	906	-
Total	**54,910**	**52,918**

5 *On 1 July 2011, the High Court approved a Transfer Order under Part 5 of the Credit Institutions Stabilisations Act 2010 (CISA) that the assets and liabilities of INBS be transferred to Anglo Irish bank. The transfer order extinguished INBS. On 14 October 2011 the name was changed to IBRC. As part of the reorganisation and restructuring of the Irish banking system, NAMA senior debt securities in issue and held by IBRC were transferred to IL&P and AIB.*

Notes to the Financial Statements

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

37.6 Asset portfolios held by NAMA and each NAMA Group entity (continued)

National Asset Management Agency Investment Limited	2011 €'000	2010 €'000
Loan to National Asset Management Limited	99,900	99,900
Intercompany loans and receivables - accrued interest	15,490	3,002
Inter-group receivable	100	100
Total	**115,490**	**103,002**

National Asset Management Limited	2011 €'000	2010 €'000
Profit Participating Loan with National Asset Management Group Services Limited	30,707,000	30,157,000
Intergroup Assets	99,900	99,900
Total	**30,806,900**	**30,256,900**

National Asset Management Group Services Limited	2011 €'000	2010 €'000
Profit Participating Loan with National Asset Loan Management Limited	30,707,000	30,157,000
Total	**30,707,000**	**30,157,000**

National Asset Loan Management Limited	2011 €'000	2010 €'000
Cash	3,345,363	836,644
Financial assets available for sale	499,747	-
Receivable from Participating Institutions	409,143	349,923
Financial assets at fair value through profit or loss	448,539	499,155
Loans and receivables	25,607,389	27,950,833
Intergroup assets	413,803	283,022
Accrued interest receivable	31,526	17,218
Inventories	6,850	-
Other assets	11,545	401
Total	**30,773,905**	**29,937,196**

National Asset Management Services Limited	2011 €'000	2010 €'000
Intergroup assets	-	383,022
Total	**-**	**383,022**

37.7 Government support measures, including guarantees, received by NAMA and each NAMA Group entity

Entity	Description	Amount in issue at 31 December 2011 €'000	Amount in issue at 31 December 2010 €'000
National Asset Management Limited	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 €51,300,000,000	29,106,000	28,650,000
		29,106,000	**28,650,000**

38. EVENTS AFTER THE REPORTING DATE

On 30 March 2012 the Board of NAMAIL declared and approved a dividend payment of €0.06778 per share, amounting to €3.457m. This was paid to the owners of B ordinary shares only.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The Board approved the financial statements on 27 June 2012.

Glossary of terms

Collateral A borrower's pledge of specific property to a lender, to be forfeited in the event of default.

Counterparty The party with whom a contract or financial transaction is effected.

Cross Currency Swap An agreement to swap cash flows on loans of the same size and terms but denominated in different currencies. These agreements are used by the Group to fix the Euro cost of transactions denominated in foreign currency.

Current Market Value The estimated amount for which a property would exchange between a willing buyer and seller in an arm's-length transaction.

Debtor A borrower, whose loans were deemed eligible and those loans have transferred to the Group. The borrower is referred to by the Group as a debtor. A debtor connection is a group of loans that are connected to a debtor.

Debtor business plans Business plans produced by each debtor setting out how they intend to pay back debt and the plan for achieving debt repayment. Debtor business plans are independently reviewed and approved between NAMA and the debtor.

Derivative A derivative is a financial instrument that derives its value from an underlying item e.g. interest rates or currency, and can be used to manage risks associated with changes in the value of the underlying item.

Discount Rate The rate used to discount future cash flows to their present values.

Due Diligence A comprehensive appraisal of a business especially to establish the value of its assets and liabilities. There are two types of due diligence carried out by the Group, legal and property due diligence.

Enforcement Proceedings Proceedings to compel compliance with legal contracts.

Euribor The Euro Interbank Offered Rate is the rate at which euro interbank deposits are offered by one prime bank to another within the Eurozone.

Expert Reviewer A suitably qualified person who, in the Minister's opinion, has the expertise necessary to review the eligibility of bank assets when disputed by Participating Institutions.

Floating Rate An interest rate that changes periodically as contractually agreed.

Foreign Exchange Derivative / Cross Currency Swap A financial contract where the buyer and seller agree to swap floating cash flows between two different currencies, during a defined period of time.

FX Swap An FX Swap is a simultaneous purchase and sale of identical amounts of one currency for another with two different value dates (normally spot to forward).

Hedge Entering into an agreement to manage the risks of adverse changes in the price of an asset or liability.

Impaired Loan A loan is impaired when it is unlikely the lender will collect the full value of the loan.

Interest Rate Swap A derivative in which one party exchanges a stream of cash flows for another party's stream of cash flows based on a specified principal amount. Typically this comprises a swap of the cash flows equivalent to variable interest payments for cash flows equivalent to fixed interest payments on the same principal amount.

Inventories Properties acquired by NAMA and held on its statement of financial position.

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

Loan commitments Balance of credit NALM has committed to extend to customers.

Long-Term Economic Value (LTEV) The value as determined by NAMA in accordance with the Act, that an asset can be reasonably expected to attain in a stable financial system when the crisis conditions prevailing at the time of the passing of the Act are ameliorated and, in the case of property, in which a future price or yield of the property is consistent with reasonable expectations having regard to the long-term historical average.

Mark-to-Market Value The price or value of a security, portfolio or account that reflects its current market value rather than its book value.

OTC Over the Counter, refers to derivatives that are not traded on a recognised exchange.

Participating Institution A credit institution that has been designated by the Minister under Section 67 of the Act as a Participating Institution, including any of its subsidiaries that has not been excluded under that section.

Perpetual Bond A bond with no maturity date.

Present Value A value on a given date of a future payment or series of future payments, discounted to reflect the time value of money and other factors such as investment risk.

Primary Servicer A Participating Institution managing debtors on NAMA's behalf within authority limits approved by the NAMA Board.

Profit Participating Loan A loan that provides the lender with a return that depends, at least in part, on the profitability of the borrower.

Qualifying Advance An advance made by a Participating Institution to a borrower (whose loans are eligible assets) following the announcement of NAMA by the Minister for Finance on 7 April 2009. The advance is only qualifying if it was made as part of normal commercial banking arrangements. No discount applied to these advances.

Qualifying Investor Fund (QIF) An investment vehicle to generate transactions and attract investment.

Security Includes *(a)* a Charge, *(b)* a guarantee, indemnity or surety, *(c)* a right of set-off, *(d)* a debenture, *(e)* a bill of exchange, *(f)* a promissory note, *(g)* collateral, *(h)* any other means of securing—(i) the payment of a debt, or (ii) the discharge or performance of an obligation or liability, and *(i)* any other agreement or arrangement having a similar effect.

Short term treasury bonds Irish government treasury bonds acquired for liquidity management.

Special Purpose Vehicle A legal entity created to fulfill a narrow, specific or temporary well defined objective.

Subordinated Debt Debt which is repayable only after other debts have been repaid. NAMA pays 5% of the purchase price of the loans it acquires in the form of subordinated bonds.

Syndicated Loan A syndicated loan is one that is provided by a group of lenders and is structured, arranged, and administered by one or several commercial or investment banks known as arrangers.

Tranche A group of loans of different debtors, which transfer to NAMA at a specific point in time. The transfer of assets from Participating Institutions to the Group occurs in tranches.

Notes

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