Coimisiún an Chúlchiste Náisiunta Pinsean
National Pensions Reserve Fund Commission

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Annual Report & Financial Statements

2014

Coimisiún an Chúlchiste Náisiunta Pinsean
National Pensions Reserve Fund Commission

30 June 2015

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

Dear Minister,

I have the honour to submit to you the Report and Financial Statements of the National Pensions Reserve Fund Commission for the year ended 31 December 2014.

Yours sincerely,

Conor O'Kelly
Commissioner

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2014 saw the transition of the National Pensions Reserve Fund ("NPRF" or the "Fund") from a globally diversified fund to the Ireland Strategic Investment Fund ("ISIF"), a new fund with a mandate **to invest on a commercial basis in a manner designed to support economic activity and employment in Ireland.**

The *National Treasury Management Agency (Amendment) Act, 2014* ("NTMA Act") was enacted in July 2014. A commencement order signed by the Minister for Finance gave effect to the termination of the NPRF investment mandate and the constitution of the ISIF on 22 December 2014.

DISCRETIONARY PORTFOLIO

The value of the Discretionary Portfolio was €7.1 billion on 21 December 2014, an increase of €319 million (4.6 per cent) as compared with 31 December 2013. This return was influenced by the Fund's 'Capital Preservation Strategy' which had the effect of limiting its exposure to equity market performance. The Discretionary Portfolio outperformed the average yield on five year Irish Government Debt, its most appropriate performance benchmark, by 3.6 per cent during 2014. The NPRF delivered an annualised return of 4.0 per cent since its inception in 2001.

DIRECTED PORTFOLIO

The Directed Portfolio was valued at €15.0 billion on 21 December 2014, an increase of €1.9 billion (15.0 per cent) as compared with 31 December 2013. This return was driven by the change in values of the Fund's holdings in Allied Irish Banks ("AIB") and Bank of Ireland.

WINDING UP OF THE COMMISSION

Following the commencement of the relevant provisions of the NTMA Act, the NPRF's investment mandate ended on 22 December 2014 and the NPRF Commission ("Commission") thereafter consists of a single Commissioner, being the Chief Executive of the National Treasury Management Agency ("NTMA"). The Commission is statutorily required to do everything reasonably practicable to give effect to the transfer of any assets governed by foreign law from the NPRF to the ISIF.

I would like to thank all former members of the Commission for their hard work, commitment and diligence over the almost 15 year lifespan of the NPRF – their contribution and expertise has been invaluable in steering the NPRF through a number of periods of significant market volatility and crisis, to the point where the assets of the NPRF have become the basis for the ISIF and its Ireland-focused investment mandate.

Conor O' Kelly
Commissioner
30 June 2015

Executive Summary

On 22 December 2014 a commencement order signed by the Minister for Finance established the ISIF as the successor to the NPRF, with a mandate to invest on a commercial basis in a manner designed to support economic activity and employment in Ireland. This date effectively marked the end of the NPRF's investment activity.

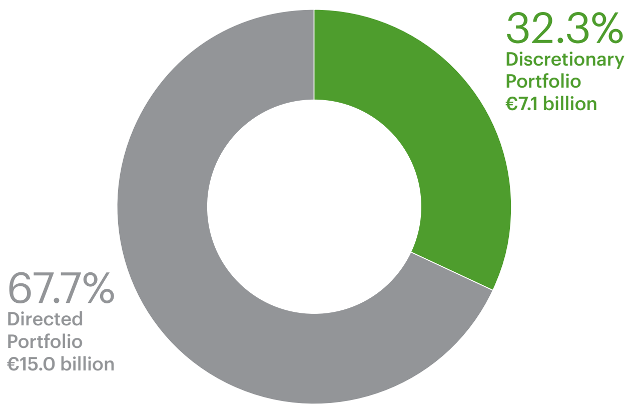
On 22 December 2014 all NPRF assets governed by Irish law automatically transferred by operation of law from the NPRF Commission to the NTMA (becoming assets of the ISIF) and the NPRF's investment mandate ended. After this date the NPRF Commission consists of a single commissioner (the Chief Executive of the NTMA) who is required by the NTMA Act to do everything reasonably practicable to give effect to the transfer to the ISIF of any remaining assets governed by foreign law. The transfer of these non-Irish assets, in particular illiquid assets and withholding tax recoverables, is more complex as it requires the cooperation of foreign counterparties. This transfer is currently underway and is expected to be substantially complete by mid-2015, although certain withholding tax recoverables may take longer.

The NTMA Act also provided for changes to the governance structure of the NTMA, with oversight and management of the ISIF passing to a new overarching NTMA board structure (the "Agency") and its Investment Committee. The NTMA's role is to control and manage the ISIF assets.

The value of the NPRF at the point of transfer to the ISIF on 22 December 2014 was €22.1 billion.

- The Discretionary Portfolio, the investment of which had previously been the responsibility of the NPRF Commission, was valued at €7.1 billion
- The Directed Portfolio, the investments made in AIB and Bank of Ireland for public policy reasons at the direction of the Minister for Finance and certain cash proceeds from partial sale of such investments, was valued at €15.0 billion

Chart 1:
Breakdown of Fund on 21 December 2014



Following the commencement of the relevant provisions of the NTMA Act on 22 December 2014 all remaining assets and liabilities of the NPRF have been de-recognised by the NPRF Commission for accounting purposes and have been recognised and presented within the ISIF Financial Statements in line with accounting standards.

The total return of the NPRF from 1 January 2014 until 21 December 2014 was 11.4 per cent. This comprised:

- Discretionary Portfolio: 4.6 per cent
- Directed Portfolio: 15.0 per cent

From the NPRF's inception in April 2001 until the ending of its investment mandate on 22 December 2014 the Discretionary Portfolio delivered an annualised return of 4.0 per cent.

Chart 2:
Discretionary Portfolio Performance since Inception

Note 1: *Period from 1 January 2014 to 22 December 2014*

Legislative Developments

The NPRF was established in 2001 under the *National Pensions Reserve Fund Act, 2000* to supplement the existing "pay as you go" public pension system and was controlled and managed by the National Pensions Reserve Fund Commission, acting through the NTMA as manager of the Fund.

The NPRF had a long term investment horizon given its statutory objective to meet as much as possible of the costs of social welfare and public service pensions from 2025 until at least 2055. The Exchequer contributed an amount equal to 1% of GNP annually into the NPRF. The investment mandate required the Fund to secure the optimal total financial return provided the level of risk was acceptable to the Commission. The Commission implemented its investment strategy through a globally diversified portfolio that included quoted equities, bonds, property, private equity, commodities and absolute return funds.

FINANCIAL CRISIS

In 2009 the Minister for Finance decided to utilise part of the assets of the NPRF to assist in dealing with the financial crisis facing Ireland and the *Investment of the National Pensions Reserve Fund and Miscellaneous Provisions Act, 2009* ("2009 Act") was enacted.

In 2009 and 2010 the Minister for Finance, pursuant to the 2009 Act, directed the NPRF to invest a total of €10.7 billion in AIB and Bank of Ireland. In late November 2010, the Government announced that the NPRF would further provide up to €10 billion of the State's €17.5 billion contribution to the €85 billion EU/IMF Programme of Financial Support for Ireland.

The *Credit Institutions Stabilisation Act, 2010* was enacted in December 2010 and significantly amended the legislation governing the NPRF. The Minister for Finance subsequently suspended the Exchequer contribution to the NPRF until the end of 2013.

Following the first Ministerial Direction to invest in AIB and Bank of Ireland and given that the Commission's statutory investment policy did not apply to the directed banking investments, the Commission decided to separate the NPRF into two parts for management purposes – the Discretionary Portfolio (the investment of which remained the Commission's responsibility) and the Directed Portfolio (where the investments were made at the direction of the Minister for Finance).

The NPRF has invested a total of €20.7 billion in AIB and Bank of Ireland at the direction of the Minister for Finance – the original €10.7 billion and a further €10 billion in 2011. The Commission continued to manage the remainder of the assets, the Discretionary Portfolio, in line with its statutory investment policy.

The total NPRF was valued at €22.1 billion upon the ending of its mandate on 22 December 2014, comprising the Discretionary Portfolio of €7.1 billion and Directed Portfolio of €15.0 billion.

IRELAND STRATEGIC INVESTMENT FUND

In September 2011 the Government announced its intention to establish a Strategic Investment Fund initiative to channel resources from the NPRF, following appropriate changes to governing legislation, towards investment in sectors of strategic significance to the future of the Irish economy.

These legislative changes were made in the NTMA Act, which formally established the ISIF with a mandate to invest on a commercial basis in a manner designed to support economic activity and employment in Ireland. On 22 December 2014 all assets governed by Irish law transferred automatically from the Commission to the NTMA (becoming assets of the ISIF) and the NPRF's investment mandate ended. The NTMA Act, which was enacted on 28 July 2014, reduced the members of the Commission to a single commissioner, being the Chief Executive of the NTMA. The ISIF will also include the NPRF's Directed Portfolio, which will remain under the direction of the Minster for Finance.

The dual objective mandate of the ISIF – investment return and economic impact – represents a new approach to investing and will require all investments to generate investment returns and have an economic impact in Ireland.

Investment Strategy

Prior to the commencement of legislation to set up the ISIF, the Commission sought to align the fulfilment of its statutory responsibility with the Government's stated intention to increase investment in Ireland.

CAPITAL PRESERVATION STRATEGY

To support this aim a significant capital preservation element was incorporated into the NPRF's investment strategy. This capital preservation strategy lowered the volatility of the NPRF to ensure that the amounts available for investment in Ireland would not, when required, be unduly depleted by major market movements. This was achieved by reducing the equity risk in the portfolio via a combination of equity sales, equity put options and changes to the structure of the Fund's equity exposures.

Furthermore, the liquidity profile of the NPRF was managed to ensure that investments could be realised, as required, to fund Irish investments and to provide the governance of the ISIF with flexibility in implementing an appropriate investment strategy. The liquidity management process included substantial sales of the Fund's global private equity investments.

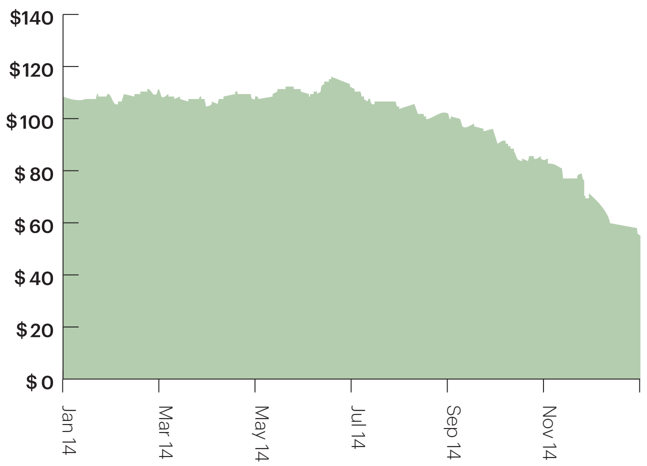
IRISH COMMITMENTS LIMIT

Prior to the establishment of the ISIF, in considering investment in Ireland, the Commission believed that there were attractive investment opportunities driven by the scarcity of capital. In that context, having initially considered the matter in September 2011 and cognisant of its statutory responsibilities to maximise long-term return subject to risks being acceptable to it, the Commission formed a view during 2012 that up to 20 per cent of the Fund could be committed to commercial investments in Ireland to avail of these opportunities. By 21 December 2014, a total of €1.4 billion had been committed to Irish investments, representing 20 per cent of the Discretionary Portfolio.

Markets Review

2014 saw a marked divergence in developed world monetary policy, with the US beginning to tighten as Europe prepared to loosen. Overall, developed market equities performed well with the multi-year bull market in the US continuing and European markets producing positive, if unspectacular, returns over the year. However, the year saw a steep fall in the price of oil (Chart 3).

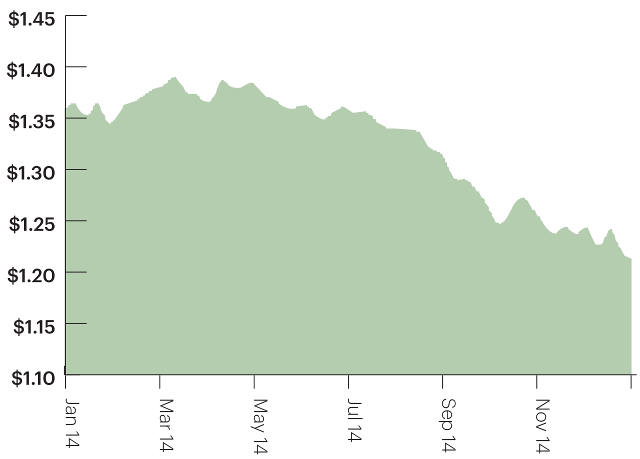
Chart 3:
Brent Oil $/barrel



Source: Bloomberg

The differing monetary policies followed by the Eurozone and US led to strong dollar appreciation and Euro depreciation (Chart 4) in the second half of the year (from a peak of $1.38 to $1.22 by year end), with annual return on global equities of 20.1 per cent in Euro as compared with 5.5 per cent in dollars. Nonetheless, global growth was driven by the US which had its strongest year of recovery yet in 2014, with most other regions disappointing.

Chart 4:
USD/EUR Exchange Rate



Source: Bloomberg

EUROPE

Due to the Eurozone's weak recovery during 2014, pressure continued to mount for the ECB to launch full-blown Quantitative Easing ("QE") as markets considered that its other asset-purchasing programs had failed to provide adequate stimulus. As the year ended markets saw the announcement of the program as inevitable, and bond yields plummeted to record lows across the currency zone. The continued weakness of the Euro against the dollar and the fall in oil prices were expected to provide a boost heading into 2015, although continued weakness in inflation led to some fears of prolonged deflation.

2014 was an exceptional year for Ireland's recovery as it became the fastest growing country in the Euro area. By almost every measure the economy improved, with employment falling to 10.6 per cent and real GDP growing by 4.8 per cent. Yields on 10 year Irish Government bonds fell from 3.5 per cent to 1.2 per cent, while the Irish stock market rose by 15.1 per cent.

Eurozone economic data was mixed. Unemployment fell very slowly and is still high, with much spare capacity. Inflation fell, heading towards deflationary territory at the end of the year. Growth was 0.9 per cent for the year in the Eurozone and the MSCI EMU equity index returned 2.1 per cent.

UNITED STATES

The US had its strongest year since the financial crisis with growth of 2.4 per cent. Since markets were more confident in the underlying strength of the economy, the ending of the QE program did not cause a 'taper tantrum' as in 2013 and speculation turned to considering when rates would start to rise. 2014 was the best year for job creation for 15 years with the still-falling unemployment rate at 5.6 per cent, although wage increases have been weak.

US treasury bonds yields were down 0.47 per cent on the year, to 2.17 per cent, although with much volatility between highs of 3.04 per cent and lows of 1.87 per cent. This was driven by lower global growth and worries of low inflation, as well as continued speculation about the timing of future interest rate increases.

The dollar sharply strengthened against most currencies during the year and the S&P 500 equity index returned 11.4 per cent.

JAPAN

The Japanese government's expansionary fiscal and monetary policy program continued, although with mixed results as the economy once again fell into recession in 2014. However, the Bank of Japan announced an unexpected increase in the size of its already significant QE program, causing markets to rally (Nikkei +17.0 per cent) and the yen to fall sharply against the dollar.

EMERGING MARKETS

2014 was a mixed year for Emerging Markets, with Chinese growth continuing to decelerate, Russia hit by sanctions and Brazil in outright recession. While growth was still high in many regions, especially compared to developed markets, a large proportion of growth is tied to commodity prices which had a volatile year even apart from oil and the strengthening dollar which hurts countries that denominate their debt in that currency. Bright spots included reforms by new Indian and Indonesian governments. The MSCI Emerging Markets Index fell 2.19% in 2014.

Performance

Performance is reported on three levels: (i) the Discretionary Portfolio - the investment of which was the responsibility of the Commission prior to 22 December 2014; (ii) the Directed Portfolio - the investments made in AIB and Bank of Ireland for public policy reasons at the direction of the Minister for Finance; and (iii) the total value of the Fund.

On 21 December 2014, the Discretionary Portfolio was valued at €15.0 billion, and the Directed Portfolio was valued at €7.1 billion. The total value of the Fund stood at €22.1 billion.

DISCRETIONARY PORTFOLIO

The Discretionary Portfolio generated a return of 4.6 per cent during the year to 21 December 2014. Its value increased by €319 million over this period.

The continued impact of the Capital Preservation Strategy had the effect of reducing volatility while maintaining limited participation in equity market performance. Chart 5 shows the steady increase in value of the Discretionary Portfolio throughout the year.

Chart 5:
Discretionary Portfolio Value During 2014

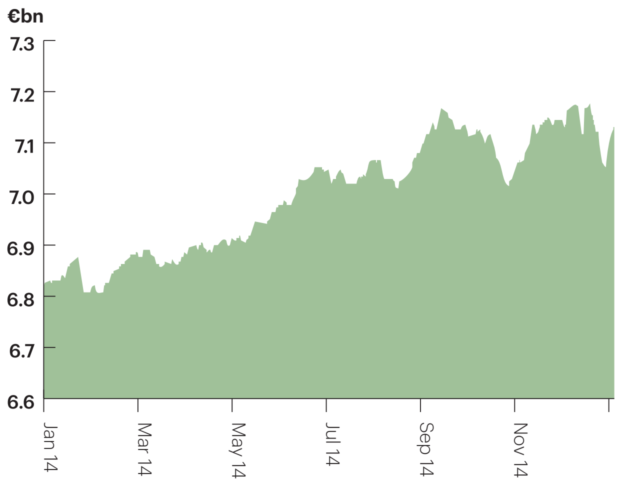


Table 1:
Contributors to Discretionary Portfolio Return
(1 January – 21 December 2014)
Figures may not add due to rounding.

Asset Class	Asset Class Return	Contribution to Discretionary Portfolio Return[1]
Equities[2]	15.5%	2.7%
Infrastructure	25.0%	1.2%
Fixed income	9.8%	1.6%
Absolute return funds	10.4%	0.4%
Property	12.3%	0.5%
Private equity	30.8%	0.6%
Commodities & forestry	-20.0%	-0.9%
Currency hedge		-1.4%
Cash & cash equivalents	0.0%	0.0%
Total		**4.6%**

Notes
1. *Calculated by multiplying and compounding the daily % weight within the Discretionary Portfolio and the return of each asset class*
2. *Includes equity index put options*

During 2014 equities were the biggest contributor to Fund performance and the Fund's currency hedge was the biggest detractor.

- The Fund's equity portfolios contributed 2.7 per cent to return. The Fund held put options throughout the year to protect against a broad fall in equity markets.
- Infrastructure had a very strong year in 2014 and contributed 1.2 per cent to Fund performance. The Fund's infrastructure holdings consisted of a passively managed global listed infrastructure portfolio as well as exposure to Irish infrastructure.
- Fixed income had a strong year as nominal bonds yields continued to fall. The contribution from the Fund's fixed income portfolios was 1.6 per cent. The Fund maintained

a zero position in nominal and inflation linked Government bonds, but held two Eurozone corporate bond portfolios, as well as some Irish bonds and loans.

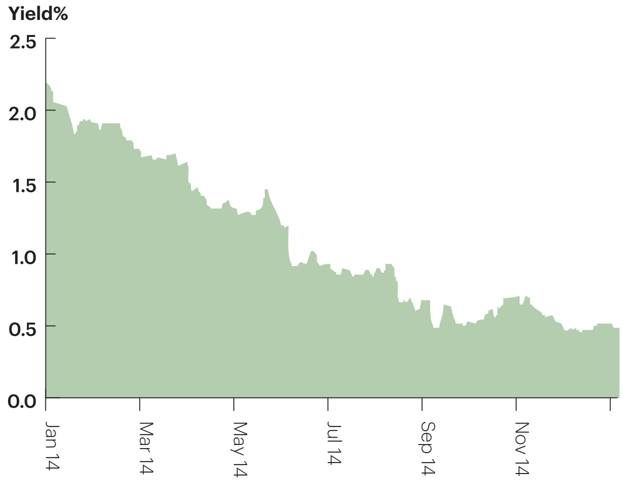
- The Fund is invested in three absolute return funds, which seek to earn a positive return irrespective of market direction. These investments performed well and contributed 0.4 per cent to Fund return over the period.
- The Fund's property allocation decreased throughout the year as global real estate investments were realised and added 0.5 per cent to performance.
- Private equity generated the highest absolute return of 30.8 per cent and contributed 0.6 per cent to performance.
- Commodities returned -12 per cent in Q4 due to the large selloff in oil and together with the Fund's forestry exposure detracted 0.9 per cent from performance.
- The Fund's overall policy (with some exceptions) is to hedge 50 per cent of non-Euro investments, although the hedge percentage was varied and reduced for part of the year in anticipation of a Euro decline. The currency hedge detracted 1.4 per cent from Fund performance as the Euro depreciated against the dollar, which had its strongest year since 2005.
- The Fund's cash investments yielded negative interest rates and cash yield enhancement strategies were employed including ultra-short duration bond funds and sovereign treasury bills. Overall cash assets, which increased over the course of the year, yielded 0.0 per cent return.

BENCHMARK

The 'Long Term Strategic Benchmark' against which the Fund was traditionally measured became less relevant as a benchmark of performance after the implementation of the Capital Preservation Strategy in 2011. Since that point the Fund's secondary benchmark, the average rolling yield on five year Government debt, has been deemed a more suitable measure.

The Discretionary Portfolio performance of 4.6 per cent for 2014 compares with the average yield on five year Irish Government debt in 2014 of 1.0 per cent, outperforming this benchmark by 3.6 per cent.

Chart 6:
Yield of 5 Year Irish Government Debt



SINCE INCEPTION

Since the inception of the NPRF in 2001 the Discretionary Portfolio has delivered an annualised return of 4.0%.

From when the Capital Preservation Strategy was implemented in June 2011 until 21 December 2014, the Discretionary Portfolio delivered an annualised return of 6.1%. The average cost of Government Debt over this period was 3.7%. The Consumer Price Index over the period from 30 June 2011 to 31 December 2014 was 0.7% per annum.

DIRECTED PORTFOLIO

On 21 December 2014 the Directed Portfolio was valued at €15.0 billion. This represented an increase of 15.0 per cent over the period from 31 December 2013.

TOTAL FUND

The total Fund, comprising the Discretionary and Directed Portfolios, recorded a total return of 11.4 per cent over the period from 1 January 2014 until 21 December 2014.

Discretionary Portfolio – Global Assets

CAPITAL PRESERVATION

In light of the legislative changes and in anticipation of the launch of the ISIF, the Capital Preservation Strategy implemented since June 2011 resulted in a significant change in the NPRF's asset allocation. The Capital Preservation Strategy was implemented in order to achieve an appropriate balance between (i) continuing to maximise return subject to appropriate levels of risk in line with the Fund's statutory investment mandate, and (ii) recognising that the Fund's stakeholders wished to refocus the Fund on Ireland.

A combination of equity options and the sale of some of the Fund's equity positions was used to implement the Capital Preservation Strategy. The strategy was monitored on a constant basis to ensure it was implemented as efficiently as possible and changes were made to the strategy during 2014 to reflect this. On 21 December 2014 the Fund's equity weighting had been reduced to 25 per cent. The Fund also held put options valued at €30 million which provided general protection against €1.5 billion of equity exposures.

LIQUIDITY

The liquidity profile of the NPRF was managed to ensure that investments can be realised as required to fund Irish investments under the ISIF mandate, and to provide the ISIF with flexibility in implementing an appropriate investment strategy. This liquidity management process included substantial realisations of the NPRF's global private equity and property investments during 2013 and 2014, and the holding of a significant proportion of assets which are realisable at low transaction costs and within a short time frame.

The Commission has not entered into any investments which would have the effect of reducing the Fund's liquidity since 2011 (other than investments focused on Ireland).

At 21 December 2014 the Discretionary Portfolio held an estimated €5.0 billion (2013: €4.7 billion) of assets which are realisable at low transaction costs and within a short time frame. This represented 71 per cent of the Discretionary Portfolio at 21 December 2014.

ASSET ALLOCATION

Table 2:
Discretionary Portfolio breakdown as at 21 December 2014
Figures may not add due to rounding.

Asset Class	€m	Fund Weight (%)
Large Cap	1,248	17.5
Small Cap	248	3.5
Emerging Markets	258	3.6
Total Quoted Equity	**1,754**	**24.5**
Options	**30**	**0.4**
Eurozone inflation linked bonds	147	2.1
Eurozone corporate bonds	1,373	19.2
Cash & Cash Equivalents	2,423	33.9
Total Financial Assets	**3,942**	**55.2**
Private Equity	231	3.2
Property	242	3.4
Commodities	313	4.4
Infrastructure	362	5.1
Absolute Return Funds	272	3.8
Total Alternative Assets	**1,420**	**19.9**
Total Discretionary Portfolio	**7,146**	**100.0**

€7.146 billion therefore represents both the final valuation of the Discretionary Portfolio at the termination of the NPRF's investment mandate and the opening valuation of the ISIF's Discretionary Portfolio.

Discretionary Portfolio – Irish Assets

IRISH COMMITMENTS LIMIT

Prior to the establishment of the ISIF, in considering investment in Ireland, the Commission believed that there were attractive investment opportunities driven by the scarcity of capital. One of the core investment beliefs of the Commission was to seek to invest when prices represented good value, and in recent years Ireland offered significant possibility in this regard. In that context, having initially considered the matter in September 2011 and cognisant of its statutory responsibilities to maximise long-term return subject to risks acceptable to it, the Commission formed a view during 2012 that up to 20 per cent of the Fund could be committed to commercial investments in Ireland to avail of these opportunities.

By 21 December 2014 a total of €1.4 billion had been committed to Irish investments under this allocation. With this figure being close to the 20 per cent limit on Irish exposure determined by the Commission, it was agreed that any Irish assets which would not align with the Strategic Investment Fund initiative could be sold if necessary to keep below the 20 per cent limit.

In addition to the total commitments of €1.4 billion made by the NPRF, a further €2.2 billion was sourced for these funds and projects from third party co-investors. Therefore the total project/fund size of these investments was 2.5x the NPRF investment.

COMMITMENTS TO IRELAND

Table 3:
NPRF Irish Commitments as at 21 December 2014
Figures may not add due to rounding.

Asset Class	Total NPRF Commitment (€m)	3rd Party Committed Capital in Ireland (€m)	Total Project Size in Ireland (€m)	Multiple of Total Project Size in Ireland to Total NPRF Commitment
SME Equity Fund - Carlyle Cardinal	125	167	292	2.3x
SME Credit Fund - BlueBay	200	250	450	2.3x
WestSummit "China Ireland" Funds	73[1]	36	73	1.0x
Polaris VII	40[1]	35	40	1.0x
Innovation Fund Ireland	114	125	239	2.1x
Local Venture Capital Funds	116	460	576	5.0x
Silicon Valley Bank	39[1]	78	78	2.0x
Irish Water	300	-	300	1.0x
Irish Infrastructure Fund	250	67	317	1.3x
Forestry	30	187	217	7.2x
PPP N11	18	165	165	9.1x
Dublin Waste to Energy (Covanta)	44	456	500	11.4x
WLR Cardinal CRE Mezz	75	195	270	3.6x
Committed to Date	**1,424**	**2,222**	**3,518**	**2.5x**

Note 1: *A number of investments have been made into global investment vehicles where NPRF capital is deployed outside of Ireland, but where provisions have been put in place to deploy certain amounts of capital within Ireland as part of the overall relationship.*

DEVELOPMENTS DURING 2014

The Fund made a number of investments within the 20 per cent limit to Ireland during 2014.

Investment Commitments in Ireland

WLR Cardinal CRE Mezzanine Fund

A €75 million commitment to a commercial real estate mezzanine finance fund to accelerate normalisation of the real estate finance market and completion of development projects.

Venture Capital Funds

Four new commitments to venture capital funds were made during 2014.

Dublin Waste-to-Energy Project

A €44 million commitment to the Covanta sponsored Dublin Waste-to-Energy project. NPRF/ISIF is part of a syndicate of 6 senior lenders to this important waste management infrastructure project.

Irish Water

An increase of €50 million (to €300 million) to a two-year Government-guaranteed bridging facility to Irish Water that matures in September 2015 to fund start-up costs.

Better Capital

It was agreed not to extend the investment period of the Better Capital Turnaround Fund following its expiry in December 2014. In the context of improving market conditions, financial institutions and business owners experienced a much reduced need for restructuring capital investment into distressed businesses as compared with initial expectations.

State Street Update

Following issues of overcharging in transition management mandates in 2010 and 2011, State Street paid further compensation in the amount of €852,000 to the NTMA in the spirit of goodwill and with intent to compensate the NPRF for any costs incurred in resolving the matter. This payment is over and above the reimbursement in respect of the overcharging that has already been received from State Street. These payments constitute a full and final settlement of this matter.

Future Pipeline

In the run-up to the establishment of the ISIF, considerable progress was made by the Commission in developing a pipeline of investment opportunities. It is expected that the ISIF may be able to progress many of these opportunities in due course.

Directed Portfolio

Since 2009 a total of €20.7 billion of the Fund's assets have been invested in AIB and Bank of Ireland at the direction of the Minister for Finance for public policy reasons, via a combination of ordinary and preference shares and a capital contribution (AIB only). All investments and disposals in the Directed Portfolio are under direction from the Minister for Finance. The Commission's responsibilities are to implement directions from the Minister and to value the securities for the purposes of the NPRF's financial statements.

Table 4:
NPRF Banking Investments Summary

	Original investment €bn	Cash received to date €bn	21 Dec 2014 value €bn	Total (income & value) €bn
Preference shares	1.8	3.2	--	3.2
Ordinary shares	2.9	1.0	1.4	2.4
Bank of Ireland	**4.7**	**4.2**	**1.4**	**5.6**
Preference shares	3.5	0.0	4.5	4.5
Ordinary shares	8.7	--	7.2	7.2
Capital contribution	3.8	--	--	--
AIB	**16.0**	**0.0**	**11.7**	**11.7**
Total Bank Investments	**20.7**	**4.2**	**13.1**	**17.3**
Cash			1.9	
Total Directed Portfolio			**15.0**	

VALUATION

The Fund's ordinary shareholding in Bank of Ireland was valued at its market price of €0.315 (31.5 cents) per share on 19 December 2014 – the last trading day before transition to the ISIF (2013: €0.252 per share).

As the Fund's ordinary shareholding of 99.8 per cent in AIB leaves a free float of only 0.2 per cent, and given that its preference share investment in AIB is unlisted, the NTMA, as the Commission had in previous years, engaged an external corporate finance firm to provide an independent fair market valuation for the purposes of valuing these investments in line with generally accepted accounting principles. A full valuation was carried out as at 31 December 2014 and an indicative valuation was provided as at 21 December 2014. The difference in valuation between the two dates is immaterial. Following this exercise the AIB ordinary shares have been valued at €0.0137 (1.37 cents) per share (2013: €0.01252 per share) and the AIB preference shares have been valued at €1.30 (2013: €1.00 per share) per share. The increase in the AIB valuation reflects the improved economic and market outlook and the increase in the valuation of comparable companies. The valuation methodologies used are consistent with the methodologies employed in 2013.

PERFORMANCE

The Directed Portfolio's return over the year to 21 December 2014 was 15.0 per cent.

SIGNIFICANT EVENTS

During 2014 the Minister for Finance withdrew €10 million from the Directed Portfolio to fund Government's equity investment in the newly established Strategic Banking Corporation of Ireland (SBCI) and directed that a loan facility of €240 million be provided to the SBCI from the Directed Portfolio. This loan facility was not yet drawn down at the end of 2014.

In March 2015 the Minister for Finance directed the withdrawal of €1.6 billion from the Directed Portfolio for remittance to the Exchequer. This amount represented the totality of the cash holdings in the Directed Portfolio, except for the as yet undrawn €240 million to the SBCI.

Responsible Investment

The Commission recognised that the way in which companies manage environmental, social and governance ("ESG") factors can affect their long-term performance and it took steps to integrate these factors into its ownership and investment decision making practices. It adopted a formal Responsible Investment Policy and is a founding signatory to the UN sponsored Principles for Responsible Investment ("PRI").

PRINCIPLES FOR RESPONSIBLE INVESTMENT

The PRI provide a best-practice framework for investors to integrate consideration of ESG factors into investment decision making and ownership practices. Since its inception in April 2006, the PRI signatory base has increased substantially to over 1,260 organisations representing $45 trillion in assets under management. As a PRI signatory, the NPRF has committed to its six principles, which serve as a guide for activities and reporting related to responsible investing.

SIGNATORY COMMITMENTS

1. Incorporate ESG issues into investment analysis and decision-making processes.
2. Be active owners and incorporate ESG issues into ownership policies and practices.
3. Seek appropriate disclosure on ESG issues by the entities in which they invest.
4. Promote acceptance and implementation of the PRI within the investment industry.
5. Work together to enhance the effectiveness of the PRI within the investment industry.
6. Report on activities related to and progress towards implementing the PRI.

Further details on the PRI are available at www.unpri.org

PROXY VOTING & ENGAGEMENT SERVICE

Hermes Equity Ownership Services ("Hermes") executed proxy votes on the Fund's behalf and engaged with companies on ESG issues across its global equity portfolio. The Hermes approach is based on the premise that a company run in the long-term interest of shareholders needs to effectively manage its relationships with employees, suppliers and customers, behave ethically and have regard for the environment and society as a whole.

VOTING

In 2014 Hermes voted at 2,926 meetings around the world on behalf of NPRF, analysing 31,083 resolutions. At 1,336 of those meetings Hermes opposed one or more resolutions and abstained at 4 meetings. Hermes voted with management by exception (where it was satisfied the company's management would act subsequently to address concerns) at 12 meetings and supported management on all resolutions at the remaining 1,574 meetings.

Hermes generally supported the recommendations of a company's board unless it had a good reason not to do so – however the Commission reserved the right to override Hermes' voting recommendations. In respect of any Discretionary Portfolio shareholdings in AIB and Bank of Ireland, the Commission voted its shareholdings in line with the vote directed by the Minister for Finance.

ENGAGEMENT

Engagement is the concept of shareholders raising concerns directly with company management and boards in a constructive manner in order to address issues and to effect change. In the majority of cases, engagement is a more appropriate strategy than the option of excluding stocks from portfolios as a first step, which generally eliminates any possibility of influencing these companies.

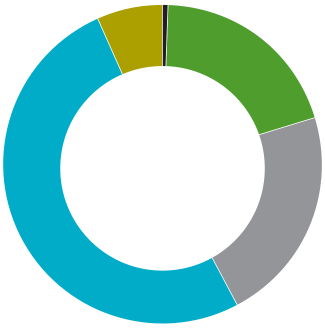
Engagement activities include:

- Meeting with a company's executive and non-executive directors;
- Participating in initiatives with other investors;
- Submitting shareholder resolutions at general meetings.

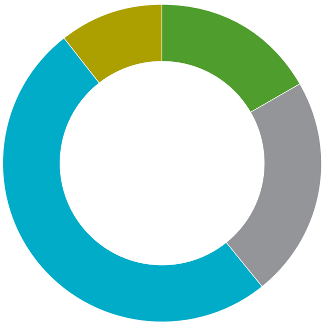
During 2014 Hermes engaged with 137 companies on a range of 373 issues across areas including environmental, social, and governance. Hermes also engaged over the last year on additional issues including business strategy and risk. A breakdown of the type of engagement within each of these areas is illustrated below.

Chart 7:
Global Engagement Activity

Ongoing Company Engagement by Region



Engagement Objectives by Theme



Some engagements involve one or two meetings over a period of months while others are more complex and entail multiple meetings with different board members over several years.

CARBON DISCLOSURE PROJECT (CDP)

The NPRF has been a signatory to the Carbon Disclosure Project, now known as CDP, since 2007. CDP is an investor led initiative, on behalf of 767 investors with assets of US$92 trillion, requesting disclosure by over 4,500 companies in relation to carbon emissions. More than 4,500 companies from more than 80 countries use CDP to manage and share important environmental information. The NPRF also supports additional CDP led initiatives such as the CDP Water Disclosure Project (an investor led programme aimed at encouraging meaningful and systematic reporting on issues including water usage and conservation) and the Forestry Footprint Disclosure Project (an information request sent to companies on behalf of investors who wish to understand the exposure to deforestation within their portfolios).

The NTMA is a Steering Committee member of the CDP Ireland Network which represents the global CDP organisation in Ireland and acts to support and encourage companies to disclose and reduce their climate change impacts.

CLUSTER MUNITIONS

The *Cluster Munitions and Anti-Personnel Mines Act, 2008* obliged the NPRF to avoid investment in manufacturers of cluster munitions or anti-personnel mines. Companies excluded from the Fund on this basis are shown below.

Table 5:
Excluded Securities

Company	Country
Aryt Industries Ltd	Israel
Doosan Corporation	South Korea
Hanwha Corporation	South Korea
Poongsan Holdings Corporation & Poongsan Corporation	South Korea
Samsung Techwin Co. Ltd	South Korea
Aerostar	Romania
Singapore Technologies Engineering	Singapore
Alliant Techsystems	United States
General Dynamics	United States
Lockheed Martin (US)	United States
L-3 Communications	United States
Northrop Grumman	United States
Raytheon	United States
Textron	United States

Risk, Oversight & Controls

Until the termination of its investment mandate on 22 December 2014 the NPRF was exposed to a wide range of risks. One of the principal tasks of the Commission and the NTMA was to manage those risks. The NTMA had primary responsibility for managing the risks of the Fund on a daily basis and the Commission's Audit Committee was actively involved in the risk management process.

AUDIT COMMITTEE

- The Audit Committee considered the NTMA's annual risk review and assessed each risk as to likelihood and impact, focusing particularly on those with a high combined assessment.
- In addition, the Audit Committee reviewed the results of the audit reviews carried out by the NPRF's internal auditor (PricewaterhouseCoopers), NTMA Internal Audit and the NPRF's statutory external auditor (the Comptroller and Auditor General).
- Designated senior personnel within the NTMA were required to provide updates on a regular basis to the Audit Committee setting out details of any breaches of controls and any other control issues which may have arisen.

MARKET RISK

Market risk was the primary source of risk to the NPRF. It arose from the possibility that the assets of the Fund may have fallen in value due to reductions in asset prices.

- Market risk included fluctuations in equity, fixed income, commodity and property prices and foreign exchange rates.
- It was necessary to take market risk in order to generate returns in excess of the risk free cash yield.
- The Commission was principally focused on managing market risk at overall Discretionary Portfolio level.
- The NPRF's long-term strategic asset allocation was predicated on the NPRF being a long-term investor able to absorb volatility in asset values. However, in the run up to the changes in the Fund's legislation, the investment horizon of the Fund was reduced. With this in mind, the Commission implemented a Capital Preservation Strategy to protect against capital losses and volatility. The effect of the Capital Preservation Strategy was to curb the Fund's market risk in 2014 at a level well below long-term norms.

CREDIT RISK

Credit risk is the risk that the Fund could incur a loss if a counterparty failed to discharge its obligations to the Fund. Credit risk was mitigated by setting appropriate exposure limits based on financial ratings and regulatory environments, by monitoring the size of credit exposures against these limits and by contractual agreements which regulate how assets were managed if a counterparty defaulted.

LIQUIDITY RISK

Liquidity risk is the risk that the Fund could have encountered difficulties raising cash to meet its obligations when they fell due. The NTMA regularly monitored the liquidity of the Fund's investment portfolio to ensure it held appropriate levels of liquid assets.

OPERATIONAL RISK

Operational risk is the risk that inadequate or failed internal processes and controls, people, systems or external events may have given rise to losses. The Commission's aim was to minimise operational risk. To this end, the NTMA installed information technology systems and developed detailed control procedures in line with industry best practice.

GLOBAL CUSTODIAN – BNY MELLON

The NPRF's global custodian, BNY Mellon, provided custody and accounting functions to the NTMA. BNY Mellon was responsible for transaction settlement (the delivery of cash or securities in respect of purchases/sales of the NPRF's assets) and the holding of the NPRF's directly owned public markets assets. An essential part of BNY Mellon's service was the maintenance of accurate records and the issuance of reports to the NTMA and certificates to auditors confirming the details of assets in custody. The custodian's functions also included the collection of income and dividends on assets, tax reclaims due to the NPRF and the provision of a comprehensive range of financial accounting reports.

The NPRF's property and private equity investments and its investments in pooled funds were not held by the global custodian - these were mainly structured as limited partnerships in which the Commission was a limited partner.

REGULATORY RISK

Regulatory risk is the risk that the NPRF failed to adhere to laws and regulations. The NTMA's compliance function had developed a programme to (i) advise commissioners and staff members on relevant laws and regulations, (ii) maintain on-going compliance, and (iii) assist with the development of appropriate management procedures. The NTMA's legal function and the Fund's external taxation advisors advised on proposed transactions to ensure compliance with relevant legislation and regulation.

Governance

The NPRF is controlled by the NPRF Commission – prior to 22 December 2014 the Commission consisted of seven members, and since the commencement of the relevant provisions of the NTMA Act on 22 December 2014 it consists of one Commissioner.

The Commission established an Audit Committee to assist it in carrying out its functions. A Property Advisory Committee and a Private Equity Advisory Committee were also established, but in light of the Fund's amended investment strategy these two committees were dissolved with effect from 31 March 2014.

The term of office of a Commissioner, other than the Chief Executive of the Manager who serves on the commission in an ex-officio capacity, was five years. The members of the NPRF Commission during 2014 were:

Mr. Paul Carty – Chairman
(Reappointed from 31 July 2010)
Financial Consultant and former managing partner of Deloitte & Touche Ireland.
Term ended on 21 December 2014

Dr. Brian Hillery
(Reappointed from 1 July 2009)
Chairman, Providence Resources plc and Former Director of the Central Bank and Financial Services Authority of Ireland.
Second term ended on 30 June 2014

Mr. Maurice A. Keane
(Reappointed from 5 February 2012)
Company Director and Former Group Chief Executive of Bank of Ireland.
Term ended on 21 December 2014

Mr. Knut N. Kjaer
(Appointed from 2 April 2010)
Chairman of FSN Capital and Founder of Trient Asset Management. Former President RiskMetrics Group and Former Chief Executive of Norges Bank Investment Management.
Term ended on 21 December 2014

Prof. Frances Ruane
(Reappointed from 1 July 2014)
Director of the Economic and Social Research Institute ("ESRI").
Term ended on 21 December 2014

Mr. John C. Corrigan
(Ex-officio member, appointed 4 December 2009)
Chief Executive, National Treasury Management Agency.

The Commission met 5 times during 2014.

Table 6:
NPRF Commission attendance 2014

Commission Member	Meetings Attended
Paul Carty	5/5
John Corrigan	5/5
Brian Hillery	3/3[1]
Maurice Keane	5/5
Knut Kjaer	5/5
Frances Ruane	4/5

Note 1: *Term ended on 30 June 2014*

AUDIT COMMITTEE

The Audit Committee reviewed the financial reporting process, the NTMA's systems of internal control and risk management, the audit process and the NTMA's process for monitoring the compliance of the NPRF's custodian, investment managers and other key service providers with their contractual obligations to the Commission and the NTMA as Manager.

The Committee comprised three members:

Mr. Maurice A. Keane (Chairman)
Dr. Brian Hillery
Prof. Frances Ruane

The Committee met on an on-going basis with the senior managers within the NTMA responsible for the NPRF and met four times during 2014.

REMUNERATION AND EXPENSES

Remuneration of Commission members is set by the Minister for Finance and all members have agreed to a voluntary reduction as requested by the Minister. The level of remuneration, after the voluntary reduction, during 2014 was:

Chairperson:	€51,424 per annum
Other Members:	€34,283 per annum

During 2014 Mr. Knut N. Kjaer received €1,214 in travel expenses. No further expenses were paid to Commissioners in 2014.

The Chief Executive of the NTMA does not receive any remuneration in respect of his membership of the Commission. Prof. Frances Ruane is employed by the Economic and Social Research Institute and as such did not receive any fees in respect of her role as Commissioner - these fees were paid directly to the ESRI.

DISCLOSURES OF INTEREST

During the course of 2014, there were no disclosures of interest made pursuant to Section 12 of the NPRF Act.

SINGLE COMMISSIONER

Following commencement of the relevant provisions of the NTMA Act on 22 December 2014, the NPRF Commission consists of a single Commissioner (the Chief Executive of the NTMA) who is statutorily required to do everything reasonably practicable to give effect to the transfer of any remaining assets governed by foreign law from the NPRF to the ISIF.

Mr. John C. Corrigan held the position of Commissioner from 22 December 2014 until his retirement as Chief Executive of the NTMA on 4 January 2015. Mr. Conor O'Kelly currently holds the position of Commissioner, as Chief Executive of the NTMA.

Fees & Expenses

The fees and expenses incurred by the Commission in the operation of the Fund as set out in the NPRF's financial statements for 2014 were €7.8 million (2013: €12.8 million). In addition, the costs incurred by the NTMA in 2014 in its role as Manager, which are borne by the Exchequer, amounted to €6.2 million (2013: €3.9 million) for the period from 1 January 2014 to 21 December 2014.

The NPRF participates each year in a survey run by a Canadian firm CEM Benchmarking Inc. ("CEM"), which measures the total operating costs of pension funds relative to their peers, including costs incurred within pooled investment vehicles. The survey compares the NPRF's cost performance in respect of the Discretionary Portfolio against a cost benchmark comprising a customised peer group of similar international funds that CEM has identified as the most appropriate comparison for the NPRF. The survey takes account of differences in asset allocation within the peer group.

The most recent survey results, which were in respect of 2013, found that total Fund costs including the costs incurred by the NTMA as Manager and management fees charged within third party investment vehicles were 0.78 per cent of average Fund assets (2012: 0.78 per cent of average Fund assets). This is in line with the NPRF's benchmark cost. The benchmark cost is an estimate of what the NPRF's cost would have been given its actual asset mix and the median costs that the peers pay for similar services.

Financial Statements

Commission Members & Other Information

COMMISSION MEMBERS

Mr. Paul Carty - Chairperson (Term ended 21 December 2014)
Mr. John C. Corrigan (ex-officio) (Term ended 4 January 2015)
Dr. Brian Hillery (Term ended 30 June 2014)
Mr. Maurice A. Keane (Term ended 21 December 2014)
Mr. Knut N. Kjaer (Term ended 21 December 2014)
Prof. Frances Ruane (Term ended 21 December 2014)
Mr. Conor O'Kelly (Term commenced 5 January 2015)

BANKERS

Central Bank of Ireland
Dame Street
Dublin 2

Allied Irish Banks p.l.c.
1 - 4 Lower Baggot Street
Dublin 2

GLOBAL CUSTODIAN

The Bank of New York Mellon ("BNYM")
One Canada Square
London E14 5AL

AUDITOR

Comptroller and Auditor General
Dublin Castle
Dublin 2

MANAGER

National Treasury Management Agency
Treasury Building
Grand Canal Street
Dublin 2

Investment Report

Following the commencement of the relevant sections of the *National Treasury Management Agency (Amendment) Act 2014* ("NTMA Act") on 22 December 2014 all remaining assets and liabilities of the National Pensions Reserve Fund ("the Fund") have been derecognised by the NPRF Commission and are presented within the Ireland Strategic Investment Fund ("ISIF") financial statements for the period ended 31 December 2014 in line with accounting standards. Prior to the derecognition of the assets, the Commission determined the investment strategy for the Fund, with the exception of the Directed Investments.

The investment assets of the Fund were invested at 31 December 2014 as follows:

	2014 €m	2013 €m	% of Total Investment Assets
Equities			
Quoted Developed Markets Equities	--	1,439	7.5%
Quoted Emerging Markets Equities	--	321	1.7%
Equity Options	--	70	0.3%
Global Equity Fund	--	117	0.6%
Global Low Volatility Equity Funds	--	614	3.2%
Total Equities	**--**	**2,561**	**13.3%**
Bonds			
Quoted Corporate Bonds	--	476	2.4%
Unquoted Corporate Bonds	--	185	1.0%
Other Bonds	--	40	0.2%
Other Debt	--	162	0.8%
Total Bonds	**--**	**863**	**4.4%**
Property Investments	--	**347**	**1.8%**
Private Equity Investments	--	**126**	**0.7%**
Commodity Investments	--	**299**	**1.6%**
Infrastructure Investments	--	**86**	**0.4%**
Forestry Investments	--	**37**	**0.2%**
Currency and Other Investment Funds	--	**246**	**1.3%**
Deposits, Cash and other Investments			
Deposits and Cash	--	792	4.1%
Cash Enhancement Investments	--	849	4.4%
Unrealised Gain / (Loss) on Futures Contracts	--	(18)	(0.1%)
Unrealised Gain / (Loss) on Foreign Exchange Contracts	--	34	0.2%
Total Deposits, Cash and Other Investments	**--**	**1,657**	**8.6%**
Total Discretionary Investment Assets	**--**	**6,222**	**32.3%**
Directed Investments	--	11,169	57.9%
Cash	--	1,885	9.8%
Total Directed Investments	**--**	**13,054**	**67.7%**
Total Investment Assets	**--**	**19,276**	**100.0%**

Conor O'Kelly, Commissioner
National Pensions Reserve Fund Commission

15 June 2015

Statement of Commission's Responsiblities

The Commission is required by the *National Pensions Reserve Fund Act, 2000* to prepare annual accounts of the Fund.

In preparing those statements the Commission:

- 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;
- discloses and explains any material departure from applicable accounting standards.

The Commission is responsible for keeping in such form as may be approved by the Minister for Finance all proper and usual accounts of all monies received or expended by it and for maintaining accounting records which disclose with reasonable accuracy at any time the financial position of the National Pensions Reserve Fund and the administrative costs of the Commission.

The Commission is also responsible for safeguarding assets under its control and hence for taking reasonable steps in order to prevent and detect fraud and other irregularities.

Pursuant to section 38(1) of the *National Treasury Management Agency (Amendment) Act 2014* ("NTMA Act"), the Ireland Strategic Investment Fund (ISIF) was established on 22 December 2014. The assets and liabilities of the National Pensions Reserve Fund (NPRF) became assets and liabilities of the ISIF on the commencement of Section 38(2) of the NTMA Act, with the exception of certain foreign assets and foreign liabilities.

All assets governed by Irish law transferred automatically from the NPRF Commission to the NTMA (becoming assets of the ISIF on 22 December 2014). From this date the NPRF Commission consists of a single commissioner (the Chief Executive, NTMA) who is required by the NTMA Act to do everything that is reasonably practicable to give effect to the transfer of any remaining assets governed by foreign law.

For the purposes of these financial statements, all remaining assets and liabilities of the NPRF at 31 December 2014 have been de-recognised. These assets and liabilities are being recognised and presented in the ISIF financial statements.

Conor O'Kelly, Commissioner
National Pensions Reserve Fund Commission

15 June 2015

Statement on Internal Financial Control

RESPONSIBILITY FOR THE SYSTEM OF INTERNAL FINANCIAL CONTROL

I acknowledge the responsibility for ensuring that an effective system of internal financial control is maintained and operated in relation to the operations of the Fund and the process of transferring the Fund's assets to the ISIF during the 'interim period' (referred to in the *National Treasury Management Agency (Amendment) Act 2014*) which commenced on 22 December 2014.

The Agency is the manager of the Fund and acts as the agent of the Commission in the performance of its functions. The Agency implements the system of internal financial control on the Commission's behalf.

The system can only provide reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected in a timely manner.

KEY CONTROL PROCEDURES

I have taken steps to ensure an appropriate control environment by:

- clearly defining management responsibilities;
- establishing formal procedures for reporting significant control failures and ensuring appropriate corrective action;
- establishing an Audit Committee to advise on discharging responsibilities for the internal financial control system.

The Agency has established processes to identify and evaluate business risks by:

- identifying the nature, extent and financial implication of risks facing the organisation;
- assessing the likelihood of identified risks occurring;
- assessing the organisation's ability to manage and mitigate the risks that do occur;
- assessing the costs of operating particular controls relative to the benefit obtained.

The system of internal financial control is based on a framework of regular management information, administrative procedures including segregation of duties, and a system of delegation and accountability. In particular it includes:

- a comprehensive budgeting system for the administration costs of the Fund with an annual budget which is determined by the Commission;
- regular reviews of periodic and annual financial reports which indicate financial performance against forecasts;
- setting targets to measure financial and other performance;
- clearly defined capital investment control guidelines;
- formal project management disciplines;
- adoption of an Anti-Fraud policy and the Reporting of 'Relevant Wrongdoing' and Protected Disclosures Policy (formerly the Good Faith Reporting Policy).

The Agency has an Audit Committee which operates in accordance with the principles in the Code of Practice for the Governance of State Bodies[1]. The Agency's internal audit function is overseen by this Audit Committee. The work of the internal audit function is informed by an analysis of the risks to which the Agency is exposed in relation to the Fund, and annual internal audit plans are based on this analysis. The internal audit plans are agreed with the Chief Executive and management of the Agency and approved by the Agency's Audit Committee. On a regular basis, the internal audit function provides the Commission, management of the Agency and the Agency's Audit Committee with reports of internal

(1) The Commission Audit Committee was dissolved on 21 December 2014, and the relevant functions were subsequently transferred to the NTMA Audit Committee.

Statement on Internal Financial Control (continued)

audit activity. These reports outline any findings and recommendations in relation to internal controls that have been reviewed. Progress against recommendations is monitored and reported to the Audit Committee.

The Agency has a Code of Practice on Confidentiality and Professional Conduct which sets out the agreed standards of principles and practice in relation to confidentiality, conflicts of interest, insider dealing, market manipulation and personal account transactions.

The Agency has put in place an appropriate framework to ensure that it complies with the Data Protection Acts. As part of this framework, the Agency has implemented systems and controls to restrict the access to confidential data. Under the framework, where the Agency becomes aware of breaches or alleged breaches of confidential data, these are fully investigated and where necessary reported to the appropriate authorities.

The Agency's monitoring and review of the effectiveness of the system of internal financial control is informed by the management within the Agency who have responsibility for the development and maintenance of the financial control framework, the findings from the work of the internal audit function and comments made by the Comptroller and Auditor General in his management letter or other reports.

ANNUAL REVIEW OF CONTROLS

I confirm that, in respect of the year ended 31 December 2014, the Commission, having taken advice from the Agency's Audit Committee, conducted a review of the effectiveness of the system of internal financial control.

Martin Murphy.

Conor O'Kelly, Commissioner
National Pensions Reserve Fund Commission

Martin Murphy, Chairperson, Audit Committee
National Treasury Management Agency

15 June 2015

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

National Pensions Reserve Fund

I have audited the financial statements of the National Pensions Reserve Fund for the year ended 31 December 2014 under the National Pensions Reserve Fund Act 2000. The financial statements, which have been prepared under the accounting policies set out therein, comprise the accounting policies, the fund account, the net assets statement, the administration account, the cash flow statement and the related notes. The financial statements have been prepared in the form prescribed under section 26 of the Act.

Responsibilities of the Commission

The National Pensions Reserve Fund Commission is responsible for the preparation of the financial statements, for ensuring that they give a true and fair view of the results of the Fund's operations for the year and of its balances at year end, and for ensuring the regularity of transactions.

Responsibilities of the Comptroller and Auditor General

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

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

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

Scope of audit of the financial statements

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

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

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

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

Opinion on the financial statements

In my opinion, the financial statements, which have been properly prepared in accordance with the National Pensions Reserve Fund Act 2000 in the form approved by the Minister for Finance, give a true and fair view of the results of the Fund's operations for the year ended 31 December 2014 and of its balances at that date.

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

Matters on which I report by exception

I report by exception if

- I have not received all the information and explanations I required for my audit, or
- my audit noted any material instance where public money has not been applied for the purposes intended or where the transactions did not conform to the authorities governing them, or
- the information in the Commission's annual report is not consistent with the related financial statements, or
- the statement on internal financial control does not reflect the Commission'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 on which reporting is by exception.

Seamus McCarthy.

Seamus McCarthy
Comptroller and Auditor General

16 June 2015

Accounting Policies

The Fund was established under the *National Pensions Reserve Fund Act, 2000*. The significant accounting policies adopted in respect of the Fund are as follows:

(a) Basis of Preparation

The financial statements have been prepared in accordance with the *National Pensions Reserve Fund Act, 2000* in a format approved by the Minister for Finance.

As of the 22 December 2014 on the commencement of Part 6 of the *National Treasury Management Agency (Amendment) Act 2014* ("NTMA Act"), the assets and liabilities of the Fund became the assets and liabilities of the ISIF (subject to the provisions of Schedule 4 of the NTMA Act in the case of certain foreign assets and foreign liabilities). The legal transfer of foreign assets is complicated and some foreign assets remained in the Fund as at 31 December 2014. The assets held by the Fund as at 31 December 2014 have been derecognised by the NPRF Commission and are recognised and presented within the ISIF financial statements for the period ending 31 December 2014 in line with accounting Standards.

The financial statements summarise the transactions and net assets of the Fund. At the reporting date, the net assets of the Fund are nil.

Notwithstanding the Fund's significant holdings in the equity of AIB and Bank of Ireland, the Commission does not have the ability to exercise control, dominant influence or significant influence, over the Directed Investments. Therefore, the Commission does not consolidate the results and financial position of AIB and Bank of Ireland into the financial statements of the Fund. These holdings transferred to the ISIF on 22 December 2014.

(b) Reporting Period

The reporting period is the year ended 31 December 2014.

(c) Reporting Currency

The reporting currency is the euro which is denoted by the symbol €. Monetary amounts are stated in €m unless otherwise indicated. Where used, '€000' or 'k' denotes thousand, 'm' denotes million and 'bn' denotes billion.

(d) Investments

The Fund held two types of investments until their transfer to the ISIF.

(i) Discretionary Investments
Investments made in accordance with the *National Pensions Reserve Fund Act, 2000*, whereby investments are controlled and managed by the Commission with the discretionary authority to determine and implement an investment strategy for the purpose of meeting the objectives of providing a fund of money to meet future costs of social welfare and public service pensions.

(ii) Directed Investments
The Commission held the Directed Investments subject to directions given by the Minister for Finance pursuant to section 19B of the *National Pensions Reserve Fund Act, 2000* (as amended). The holding and management of the Directed Investments, the exercise by the Commission of voting and other rights attaching to the Directed Investments and the disposal by the Commission of the Directed Investments must be conducted in accordance with these directions.

Any interest or other income received in respect of deposits and / or securities held in the Directed Portfolio were transferred to the Discretionary Portfolio and were held or invested by the Commission in line with section 19 of the *National Pensions Reserve Fund Act 2000* (as amended) and Ministerial Directions.

Accounting Policies (continued)

(e) Valuation of Discretionary Investments

Investments were recorded on a trade date basis and were stated at fair value. Fair value is determined as follows for quoted, unquoted, loans and receivables and derivative investments:

(i) Quoted Investments
Fair value is the closing market value on the primary exchange or market where the investment is quoted.

(ii) Unquoted Investments
Fair value is estimated by the Manager of the Fund and approved by the Commission. The principal unquoted valuations are as follows:

Investments in Property, Private Equity, Forestry and Infrastructure Funds
The estimated fair value for unquoted investments in property, private equity, forestry and infrastructure funds for which there is not an active market is based on the latest audited valuation placed on the fund or partnership by the external manager of that fund or partnership. Where an audited valuation is not available, in circumstances such as where the fund or partnership's year end does not coincide with that of the Fund, the latest available unaudited valuation is used.

The valuations of these investments are determined by external managers using accepted industry valuation methods and guidelines published by relevant industry bodies. Such valuation methodologies used by external managers may include considerations such as earnings multiples of comparable publicly traded companies, discounted cash flows, third party transactions, or events which suggest material impairment or improvement in the fair value of the investment. In the first year of ownership cost is usually considered to be an appropriate estimate of the fair value for property and private equity investments unless there is an indication of a permanent impairment in value.

A range of possible values can exist for these investments and estimated fair values may differ from the values that would have been used had there been an active market value for such investments.

The Commission relies on the external managers' valuations as being a representative estimate of the fair value of an investment. The Commission has, via the Manager, established procedures to periodically review the fund or partnership's valuation of property and private equity investments. Based on its judgement, and relevant information available to it, the Commission may in certain circumstances determine that an adjustment to the external manager's valuation is appropriate in recording an investment's fair value.

Unquoted Bonds
Unquoted bonds were valued at their fair value as estimated by the Manager using bond valuation models based on observable market data.

Currency Funds and other Unquoted Investments
Currency funds and other unquoted investments were valued at the most recent Net Asset Value as published by the funds' administrators.

(iii) 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 and receivables were measured at amortised cost using the effective interest rate method less any impairment.

(iv) Derivatives
Futures
Futures contracts used by the Fund's investment managers were valued at their closing market value on the exchange on which they are traded and were recognised as investment assets.

Accounting Policies (continued)

(e) Valuation of Discretionary Investments (continued)

Foreign Exchange Contracts
The market value of Foreign Exchange Contracts is the unrealised gain / loss on the contract at the Net Assets Statement date.

Equity Options
Where pricing availability existed, closing market prices were used to represent fair value. Where closing market prices were unavailable, a Bloomberg model was used to value the equity options.

(f) Valuation of Directed Investments

Directed Investments were valued as follows:

Ordinary Shares
The ordinary shares held as part of the Directed Investment portfolio were valued at fair value. Fair value is the closing market value on the primary exchange or market where the investment is quoted.

Where closing market prices were deemed not to be a reliable estimation of fair value, ordinary shares were valued using appropriate valuation methodologies. Valuation methodologies used include discounted cash flow analysis, total equity analysis, comparable company analysis and precedent transaction analysis.

Preference Shares
The preference shares held as part of the Directed Investment portfolio were valued at fair value. Fair value is determined using valuation methodologies which may include discounted cash flow analysis, an annuity valuation based on comparable company yields, comparable company analysis or precedent transaction analysis.

(g) Gains and Losses on Investments

Realised and unrealised capital gains and losses on investments are dealt with in the Fund Account in the year in which they arise (Change in Value of Investments).

(h) Long Term Receivables

Long term receivables were shown at their fair value. The fair value of these receivables was estimated by discounting the contractual future cash flows at the market rate that was available to the Fund for similar financial instruments.

(i) Cash Collateral arising from Derivative Transactions

Cash received / posted as collateral arising from derivative transactions was recorded as an asset / liability on the Net Assets Statement and was valued at its fair value. The obligation to repay collateral was recorded as a liability and the entitlement to receive the collateral was recorded as an asset in the Net Assets Statement.

(j) Investment Income

Income from investments is recognised at fair value on an accruals basis. Dividends are credited to income on the dates on which the relevant securities are listed as “ex-dividend”. Income is shown gross of any non-recoverable withholding taxes which are disclosed separately in the Fund Account as part of the taxation charge.

(k) Expenses

Expenses were accounted for in the year in which they fall due.

Accounting Policies (continued)

(l) Foreign Currencies

All transactions in foreign currencies were translated into euro at the rate of exchange prevailing at the dates of such transactions. Assets and liabilities in foreign currencies were translated into euro at the rate of exchange ruling at the year end date. Exchange differences arising on the revaluation of investments and settlement of investments are dealt with in the change in market value of investments. Exchange differences arising on income items are accounted for as part of investment income.

(m) Securities Lending

The Fund undertook securities lending arrangements whereby securities were loaned to external counterparties for a set period of time. The Fund received collateral of greater value than the securities loaned for the duration of the loan period and received interest where the collateral assets are reinvested. Under the terms of the securities lending agreements, the Fund retained substantially all the risks and rewards of ownership of the loaned securities and also retained the rights to any cashflows relating to the securities. Therefore the loaned securities were not derecognised from the Fund's Net Assets and collateral assets held were not recognised in the Fund's Net Assets Statement.

(n) Deferred Tax

Provision for deferred tax was made in respect of any additional foreign taxes that were expected to be payable on the realisation of unrealised gains on property and private equity investments. Deferred tax was calculated based on the average tax rates that were expected to apply when the gains were expected to be realised.

Fund Account

	Note	Year Ended 31 December 2014 €m	Year Ended 31 December 2013 €m
Discretionary Portfolio			
- Discretionary Investment Income	1	87	146
- Change in Value of Investments	6(e)	254	270
- Taxation	2	(1)	(4)
Discretionary Investment Return		**340**	**412**
Directed Investments Portfolio			
- Directed Investment Income	3	31	373
- Change in Value of Investments	9(b)	1,923	4,420
Directed Investment Return		**1,954**	**4,793**
Total Investment Return after Tax		**2,294**	**5,205**
Transfer to the Administration Account	5	(8)	(13)
Total Investment Return after Tax and Expenses		**2,286**	**5,192**
(Withdrawals) / Contributions			
- Withdrawal by the Exchequer	4(a)	(10)	--
- Assets Transferred to the Fund	4(b)	0	1
- Assets Transferred to ISIF	4(c)	(22,153)	--
Total (Withdrawals) / Contributions		**(22,163)**	**1**
(Decrease) / Increase in Fund during the Year		(19,877)	5,193
Net Assets of Fund at Start of Year		19,877	14,684
Net Assets of Fund at Year End		**--**	**19,877**

The accounting policies and notes 1 to 16 form part of these financial statements.

Conor O'Kelly, Commissioner
National Pensions Reserve Fund Commission

15 June 2015

Net Assets Statement

	Note	Year Ended 31 December 2014 €m	Year Ended 31 December 2013 €m
Discretionary Portfolio			
Discretionary Investments	6	--	6,222
Non Current Assets	7(a)	--	330
Current Assets	7(b)	--	305
Current Liabilities	8(a)	--	(34)
Net Assets - Discretionary Portfolio		**--**	**6,823**
Directed Investments Portfolio			
Directed Investments	9 (a)	--	13,054
Net Assets - Directed Investments Portfolio		**--**	**13,054**
Net Assets of the Fund at Year End		**--**	**19,877**

The accounting policies and notes 1 to 16 form part of these financial statements.

Conor O'Kelly, Commissioner
National Pensions Reserve Fund Commission

15 June 2015

Administration Account

	Note	Year Ended 31 December 2014 €000	Year Ended 31 December 2013 €000
Transfer from Fund Account	5	7,795	12,776
General Administration Fees and Expenses	5(a)	(7,754)	(12,746)
Directed Investments Fees and Expenses	5(b)	(41)	(30)
		--	--

The accounting policies and notes 1 to 16 form part of these financial statements.

Conor O'Kelly, Commissioner
National Pensions Reserve Fund Commission

15 June 2015

Cashflow Statement

	Year Ended 31 December 2014	Year Ended 31 December 2013
DISCRETIONARY INVESTMENTS CASHFLOW	**€m**	**€m**
Cashflows from Operating Activities		
Purchase of Investments	(5,815)	(4,926)
Proceeds from Sale of Investments	5,079	4,286
Income Received	87	138
Interest and Tax Reclaims Received	4	2
Operating Expenses Paid	(8)	(13)
Net Cash Collateral (Paid) / Received	(60)	15
Net Cash from Operating Activities	**(713)**	**(498)**
Cashflows from Financing Activities		
Transfer from Directed Investments Portfolio	4	340
Transfer of Cash to ISIF	(55)	--
Net Cash from Financing Activities	**(51)**	**340**
Net Decrease in Cash	**(764)**	**(158)**
Cash at Beginning of Year	**792**	**871**
Exchange Gain / (Loss) on Cash	(28)	79
Net Decrease in Cash	(764)	(158)
Cash at End of Year	**--**	**792**

DIRECTED INVESTMENTS CASHFLOW	**€m**	**€m**
Cashflows from Operating Activities		
Net proceeds from Investments	10	1,885
Income Received	4	340
Net Cash from Operating Activities	**14**	**2,225**
Cashflows from Financing Activities		
Transfer to Discretionary Portfolio	(4)	(340)
Withdrawal by the Exchequer	(10)	--
Net Cash from Financing Activities	**(14)**	**(340)**
Net Increase in Cash	--	1,885
Cash at End of Year	**--**	**1,885**

Notes to the Financial Statements

1. DISCRETIONARY INVESTMENT INCOME

	2014 €m	2013 €m
Income from Discretionary Investments		
Equities	36	77
Bonds	44	21
Private Equity	(4)	22
Property	8	13
Deposits	1	1
Other Income	2	12
	87	**146**

2. TAXATION

The income and profits of the Fund are exempt from Irish Corporation Tax in accordance with section 30 of the *National Pensions Reserve Fund Act, 2000*. The Fund may, however, be liable for taxes in overseas jurisdictions where full tax exemptions are not available.

Dividends and interest may be subject to irrecoverable foreign withholding taxes imposed by the country from which the investment income is received. Distributions of income and gains received by the Fund from its property and private equity fund investments may also be subject to foreign withholding taxes. The Fund may also be subject to additional foreign taxes payable on certain property and private equity investments annually, based on their asset values at the reporting date.

Deferred tax may arise in respect of unrealised gains on property or private equity investments where it is expected that additional tax may be payable in respect of these gains on disposal.

The foreign taxes provided for are detailed below:

	2014 €m	2013 €m
Withholding Tax Reclaim	2	1
Foreign Taxes on Income	(3)	(5)
Net Tax Cost	**(1)**	**(4)**

In 2014, the Fund received €2.0m of Withholding Tax Reclaims in relation to tax reclaims submitted for the years 2007 to 2014.

Notes to the Financial Statements (continued)

3. DIRECTED INVESTMENT INCOME

	2014 €m	2013 €m
Income from Directed Investments		
Income Received - Bank of Ireland	--	340
Income Received - Allied Irish Banks	27	33
Income Received - Cash Instruments	4	--
	31	**373**

No income was received in 2014 from Bank of Ireland (BoI) (2013: €340m) as the preference shares in BoI were sold in December 2013.

The holding of preference shares in Allied Irish Banks (AIB) entitles the NPRF to an annual dividend. In May 2014, AIB announced that it would opt to pay the preference share dividend of €280m by issuing 2,177m ordinary shares as consideration. In accordance with the Articles of Association of AIB, the ordinary shares issued are based on the quoted market price over a prescribed period of time. Subsequent to the capital injection provided to AIB in July 2011, the quoted market price has not been a reliable source in determining the enterprise value of AIB, due to relatively low volumes of trade in comparison to the shares in issue. As a consequence and due to the significant volume of AIB ordinary shares held by the Fund, the NPRF Commission using comparative quoted company analysis has attributed a fair value of €27m (2013: €33m) to the preference share dividend received in 2014, in the form of ordinary shares, based on year end independent valuation advice.

The Income received from Cash Instruments is the interest received from Irish Exchequer notes that were invested in 2014.

4. WITHDRAWALS / CONTRIBUTIONS

(a) Exchequer Withdrawals / Contributions

Under section 18(2) of the *National Pensions Reserve Fund Act, 2000* the Minister for Finance was required to make an annual contribution equivalent to 1% of Gross National Product (GNP) to the Fund.

The *National Pensions Reserve Fund Act, 2000* was amended in 2010 by the *Credit Institutions (Stabilisation) Act 2010* to provide that the annual contribution to the Fund shall be less than 1% of GNP, or no sum shall be contributed to the Fund.

During 2009, €3.0bn was contributed to the Fund for the purposes of recapitalising BoI and AIB. Under the Investment of the *National Pensions Reserve Fund and Miscellaneous Provisions Act, 2009* the pension fund assets of sixteen university and non-commercial state bodies totalling €2.1bn were transferred to the Fund in the period 2009 to 2012. As a result of these contributions, the annual contributions to the Fund by the Minister for Finance were pre-funded to early 2012. Under S.I. 584, *National Pensions Reserve Fund Act, 2000* (Suspension of Exchequer Contribution) Order 2012, the Minister directed that no further contribution would be made to the Fund in 2012 and 2013 (See also Note 13). No withdrawals were made from the Fund in 2012 and 2013.

Schedule 4 of the NTMA Act states that section 18(2) of the NPRF Act 2000 “does not apply in relation to the year in which the Fund constitution date falls”. The relevant sections of the NTMA Act came into operation on 22 December 2014, therefore the Minister for Finance made no contribution to the Fund in 2014.

Pursuant to a Ministerial Direction under section 19B(c) of the NPRF Act, the Commission provided funds of €10 million to the Strategic Banking Corporation of Ireland (“SBCI”) for the purpose of funding the Minister for Finance’s subscription for shares in the SBCI in September 2014.

Notes to the Financial Statements (continued)

4. WITHDRAWALS / CONTRIBUTIONS (continued)

(a) Exchequer Withdrawals / Contributions (continued)

Assets Transferred by Ministerial Direction

	2014 €m	2013 €m
Assets transferred	(10)	--

(b) Assets transferred to the Fund

	2014 €m	2013 €m
Assets transferred	--	1

During 2014 a total of €0.1m (2013: €1.4m) in residual cash balances was transferred to the Fund from the universities' accounts.

(c) Assets Transferred to ISIF

Pursuant to section 38(1) of the *National Treasury Management Agency (Amendment Act), 2014* ("NTMA Act"), the ISIF was established on 22 December 2014. The assets and liabilities of the Fund became assets and liabilities of the ISIF on the commencement of section 38(2) of the NTMA Act, with the exception of certain foreign assets and foreign liabilities.

All assets governed by Irish law transferred automatically from the NPRF Commission to the NTMA (becoming assets of the ISIF on 22 December 2014). From this date the NPRF Commission consists of a single commissioner (the Chief Executive, NTMA) who is required by the NTMA Act to do everything that is reasonably practicable to give effect to the legal transfer of any remaining assets governed by foreign law (Note 4(d)).

Notes to the Financial Statements (continued)

4. WITHDRAWALS / CONTRIBUTIONS (continued)

(c) Assets Transferred to ISIF (continued)

The breakdown of the assets transferred from the NPRF to ISIF on 22 December 2014 is below:

	2014 €m
Discretionary Portfolio	
Currency and other Investment Funds	1,772
Cash Enhancement Investments	1,724
Equities	1,248
Bonds	868
Deposits, Cash and other Investments	361
Debt	321
Commodity Investments	288
Property Investments	242
Private Equity Investments	230
Infrastructure Investments	76
Equity Options	30
Forestry Investments	25
Unrealised gain / (loss) on futures contracts	(7)
Unrealised gain / (loss) on foreign currency contracts	(32)
	7,146
Current Assets	396
Current Liabilities	(395)
Other (see note 4(d))	13
Total Discretionary Portfolio	**7,160**
Directed Portfolio	
Directed Investments	13,119
Deposits, Cash and other Investments	1,874
Total Directed Portfolio	**14,993**
Total Fund 21 December 2014	**22,153**

Notes to the Financial Statements (continued)

4. WITHDRAWALS / CONTRIBUTIONS (continued)

(d) Assets derecognised by NPRF

The legal transfer of foreign assets from the NPRF to ISIF is complicated and some foreign assets remained in the Fund as at 31 December 2014. The assets held by the Fund as at 31 December 2014 have been derecognised by the NPRF Commission and are recognised and presented within the ISIF financial statements for the period ending 31 December 2014 in line with accounting standards.

A breakdown of the assets remaining in legal ownership in the Fund as at 31 December 2014 is listed below:

	2014 €m
Discretionary Portfolio	
Equities	1,084
Currency and Other Investment Funds	273
Property Investments	242
Private Equity Investments	169
Deposits, Cash and other Investments	2
	1,770
Current Assets	37
Current Liabilities	(7)
Total Assets derecognised by NPRF	**1,800**

The €1,800m above is included in the €22,153m assets transferred from NPRF to ISIF. The movement in the value of these assets in the period from the 22 December to 31 December 2014 was €13m.

As at 30 April 2015 the market value of assets remaining to be transferred to ISIF was €240m.

Notes to the Financial Statements (continued)

5. EXPENSES

€7.8m (2013: €12.8m) represents the amount required to cover the investment management and administration costs of the Commission.

Under section 26 (1) of the *National Pensions Reserve Fund Act, 2000*, the Commission is required to include a separate account of the administration fees and expenses incurred by it in the operation of the Fund. These are detailed below:

(a) General Administration Fees and Expenses

	2014 €000	2013 €000
Investment Managers' Fees	3,041	7,897
Legal Fees and Tax Advisory Fees	1,707	854
Global Custodian Fees	1,451	975
Systems and Services	1,081	2,599
Commission Fees	175	190
Consultancy Fees	132	110
Internal Audit Fees	132	88
External Audit Fees	32	32
Commission Expenses	3	1
	7,754	**12,746**

(b) Directed Investment Fees and Expenses

	2014 €000	2013 €000
Advisory Fees	41	30
Total Expenses	**7,795**	**12,776**

Notes to the Financial Statements (continued)

5. EXPENSES (continued)

(c) Remuneration and Expenses

Remuneration of Commission members is set by the Minister for Finance. Remuneration in respect of 2014 and 2013 is set out below:

	2014 €	2013 €
Mr. Paul Carty - Chairman	49,934	51,424
Mr. John A. Canning Jr	--	1,714
Dr. Brian Hillery	17,141	34,283
Mr. Maurice A. Keane	33,289	34,283
Mr. Knut N. Kjaer	33,289	34,283
Prof. Frances Ruane*	33,289	34,283
Mr. John C. Corrigan (ex-officio)	--	--
	166,942	**190,270**

** Frances Ruane is employed by the ESRI and did not receive any fees in respect of her role as Commissioner. These fees were paid directly to the ESRI.*

Expenses payable in respect of Commission members are set out below. These expenses were related to travel and accommodation costs incurred by overseas based members and were reimbursed on a vouched basis. The 2014 tax payable by the Fund to the Revenue Commissioners in relation to the reimbursed expenses is €1,121.

Commission Member	Travel €	Accommodation and Subsistence €	Tax €	Total 2014 €	Total 2013 €
Mr. Knut N. Kjaer	781	434	1,121	2,336	1,461

(d) In addition to the above expenses, the costs incurred by the National Treasury Management Agency in its role as Manager amounted to €6.2m (2013: €3.9m). These costs are charged on the Central Fund and are not included in the above.

Notes to the Financial Statements (continued)

6. DISCRETIONARY INVESTMENT ASSETS

All assets and liabilities of the Fund became assets and liabilities of the ISIF on the commencement of the relevant sections of the NTMA Act on 22 December 2014. The assets remaining in the Fund as at 31 December 2014 have been derecognised by the NPRF Commission and are presented within the ISIF financial statements for the period ending the 31 December 2014, in line with accounting standards.

(a) Summary of Assets

	2014 €m	2013 €m
Quoted Investments		
Equities	--	2,374
Cash Enhancement Investments	--	699
Corporate Bonds	--	476
Commodity Investments	--	299
Currency and Other Investment Funds	--	73
Total Quoted Investments	**--**	**3,921**
Unquoted Investments		
Property Investments	--	347
Corporate Bonds	--	185
Currency and Other Investment Funds	--	173
Cash Enhancement Investments	--	150
Private Equity Investments	--	126
Unquoted Investments	--	117
Infrastructure Investments	--	70
Forestry Investments	--	37
Other Bonds	--	32
Total Unquoted Investments	**--**	**1,237**
Loans and Receivables		
Other Debt	--	162
Other Bonds	--	8
Infrastructure Investments	--	16
Total Loans and Receivables	**--**	**186**
Derivatives		
Equity Options	--	70
Equity Futures Contracts	--	(18)
Foreign Exchange Contracts		34
Total Derivatives	--	**86**
Cash		
Deposits and Cash	--	792
Total	**--**	**6,222**

Notes to the Financial Statements (continued)

6. DISCRETIONARY INVESTMENT ASSETS (continued)

(b) Analysis by Geographical Classification

	2014 €m	2013 €m
Europe		4,215
North America	--	1,537
Emerging Markets	--	333
Asia Pacific	--	137
	--	**6,222**

(c) The Investment Assets of the Fund at the year end are held as follows:

	2014 €m	2013 €m
Investment Managers		
BlackRock Advisors (UK) Limited	--	866
National Treasury Management Agency	--	721
Deutsche Asset Management International GmbH	--	481
State Street Global Advisors Limited	--	254
Acadian Asset Management Inc.	--	148
Citigroup Global Markets Limited	--	148
Putnam Investments Limited	--	127
Principal Global Investors (Europe) Limited	--	102
Goldman Sachs Asset Management International	--	100
Oechsle International Advisors Llc	--	74
Batterymarch Financial Management, Inc	--	54
Schroder Investment Management (Singapore) Limited	--	39
	--	**3,114**
Other Investments		
Cash Enhancement Investments	--	849
Global Low Volatility Equity Funds	--	614
Unquoted Property Investments	--	347
Commodity Investments	--	299
Unquoted Currency and Other Funds	--	246
Unquoted Corporate Bonds	--	185
Other Debt	--	162
Unquoted Private Equity Investments	--	126
Generation Investment Managers	--	117
Unquoted Irish Infrastructure Fund	--	86
Other Bonds	--	40
Forestry Investments	--	37
	--	**3,108**
Total Investment Assets	**--**	**6,222**

Notes to the Financial Statements (continued)

6. DISCRETIONARY INVESTMENT ASSETS (continued)

(d) Valuation of Investments

The investment assets of the Fund are valued at their fair value as described in the accounting policy on the valuation of investments.

The following table analyses the investment assets between those whose fair value is based on:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques involving only the use of model inputs observable in the market.
- Level 3 - Valuation techniques which do not involve the use of model inputs observable in the market.

	2014 Level 1 €m	2014 Level 2 €m	2014 Level 3 €m	2014 Total €m	2013 Total €m
(i) Listed Equities and Managed Funds					
Listed Equity Securities	--	--	--	--	2,374
Global Equity Fund	--	--	--	--	117
Commodity Investments	--	--	--	--	299
Currency and Other Funds	--	--	--	--	246
Forestry Investments	--	--	--	--	37
(ii) Debt Securities					
Listed Debt Securities	--	--	--	--	476
Unlisted Debt Securities	--	--	--	--	387
(iii) Limited Partnerships / Trusts					
Property	--	--	--	--	347
Private Equity	--	--	--	--	126
Infrastructure	--	--	--	--	86
(iv) Derivatives Financial Assets					
Futures Contracts	--	--	--	--	(18)
Equity Options	--	--	--	--	70
Foreign Exchange Contracts	--	--	--	--	34
Cash and Cash Equivalents	--	--	--	--	1,641
	--	**--**	**--**	**--**	**6,222**

Investment assets included in Level 3 included Property, Private Equity, Forestry, Infrastructure and Unlisted Debt Securities, for which there was no active market. In valuing these investments the Fund relied on valuations received from external managers as outlined in the accounting policy.

Notes to the Financial Statements (continued)

6. DISCRETIONARY INVESTMENT ASSETS (continued)

(d) Valuation of Investments (continued)

The following table shows a reconciliation of all movements in the fair value of investment assets categorised within Level 3 between the beginning and the end of the year:

Investment Assets included in Level 3

	2014 €m	2013 €m
Opening Valuation	588	1,271
Total Net Level 3 Gains and Losses in the Fund Account	73	16
Net transfers out of Level 3	(661)	(699)
Closing Valuation	**--**	**588**

Transfers in or out of Level 3 include total sales of €163m, (2013: €813m) and transfers to ISIF of €588m and total purchases of €102m (2013: €120m) in relation to Property, Private Equity, and Infrastructure Investments.

(e) The Movement in the Value of Discretionary Investments Held by the Fund during the Year was as follows:

	2014 €m	2013 €m
Value of Investments as at Start of Year	6,222	6,056
Realised Gain on Investments	510	205
Unrealised (Loss)/Gain on Investments	(256)	65
Transfer to Fund (Note 4)	--	1
Transfer from Directed Investments Portfolio	4	340
Movement in Pending Settlements	292	(281)
Transfer to Long Term Receivable	330	(306)
Movement in Cash Collateral	(25)	15
Fund Expenses Paid	(8)	(13)
Net Cash Movement	91	140
Assets Transferred to ISIF	(7,160)	--
Total Investments	**--**	**6,222**

Notes to the Financial Statements (continued)

7(a) NON CURRENT ASSETS

	2014 €m	2013 €m
Long Term Receivables	--	330

7(b) CURRENT ASSETS

	2014 €m	2013 €m
Amounts Receivable for Securities Sold	--	283
Accrued Interest on Fixed Income Securities	--	10
Other Income Receivable	--	7
Dividends Receivable	--	2
Tax Reclaims Recoverable	--	3
	--	**305**

8(a) CURRENT LIABILITIES

	2014 €m	2013 €m
Cash Collateral arising from Derivative Transactions (8b)	--	24
Amounts Payable for Securities Purchased	--	3
Fund Manager Fees Payable	--	3
Global Custodian Fees Payable	--	1
VAT Payable and Other Accrued Expenses	--	3
	--	**34**

8(b) CASH COLLATERAL ARISING FROM DERIVATIVE TRANSACTIONS

	2014 €m	2013 €m
Opening Balance	24	9
Cash Collateral paid to Counterparties	(224)	(291)
Cash Collateral received from Counterparties	165	306
Collateral Transferred to ISIF	35	--
Net Cash Collateral held	**--**	**24**

Cash collateral arising from derivative transactions under Credit Support Annexes (CSA), represented cash deposits with / from derivative counterparties. These balances can change on a daily basis and are dependent on the market value of the underlying derivatives.

Notes to the Financial Statements (continued)

9. DIRECTED INVESTMENTS

The Investment of the *National Pensions Reserve Fund and Miscellaneous Provisions Act 2009*, empowered the Minister for Finance to direct the Commission to invest in financial institutions or to underwrite share issues by these institutions. Initial Directed Investments were made in 2009.

Pursuant to section 38(1) of the NTMA Act, the ISIF was established on 22 December 2014. The assets and liabilities of the Fund became assets and liabilities of the ISIF on the commencement of section 38(2) of the NTMA Act, with the exception of certain foreign assets and foreign liabilities. All assets governed by Irish law, including the Directed Investments, automatically transferred by operation of law on this date.

(a) Directed Investments Valuation

	2013 Units Millions	Valuation (€) Per Unit	2014 €m	2013 €m
Bank of Ireland (BoI)				
Ordinary Shares[1]	4,512	0.2520	--	1,137
Allied Irish Banks (AIB)				
Ordinary Shares[2]	520,379	0.01252	--	6,515
Preference Shares[2]	3,500	1.00490	--	3,517
				10,032
Total Directed Investments Assets				**11,169**
Directed Investments Cash			--	**1,885**
Total Directed Investments			--	**13,054**

Pursuant to a direction dated 4 December 2013, the Minister for Finance directed the Fund to invest the cash proceeds from the sale of BoI preference shares in securities guaranteed by the Minister at prevailing market rates. These securities valued at €1,874m were transferred from the Fund to ISIF on 22 December 2014.

(1) The valuation of BoI Ordinary shares for 2013 was based on quoted prices.

(2) As the preference share investments in AIB are unlisted and not traded, and given the Fund's ordinary share holding in AIB (99.8%), the Commission engaged Goodbody Corporate Finance ("Goodbody") to provide an independent fair value of the investments as at 31 December 2013.

Notes to the Financial Statements (continued)

9. DIRECTED INVESTMENTS (continued)

(b) Summary of Directed Investment valuation movement

	2014 €m	2013 €m
Bank of Ireland		
Opening Valuation	1,137	2,198
Dividends Received	--	340
Investment Gain during the Year	284	823
Redemption of Preference shares	--	(1,884)
Transfer to Discretionary Investments	--	(340)
Transferred to ISIF	(1,421)	--
Closing Valuation	**--**	**1,137**
Allied Irish Banks		
Opening Valuation	10,032	6,402
Dividends Received	27	33
Investment Gain during the Year	1,639	3,597
Transferred to ISIF	(11,698)	--
Closing Valuation	**--**	**10,032**

The AIB preference and ordinary shares were valued on the 21 December 2014 by EY using similar valuation methodologies as was used in 2013 resulting in an increase of €1.64bn. The assets were transferred to ISIF on the 22 December 2014.

In determining the valuation of the Directed Investments at 31 December 2013, Goodbody considered a number of valuation methodologies including discounted cash flow analysis, an annuity valuation based on comparable company yields, comparable company analysis or precedent transaction analysis. For the purposes of valuing the AIB Ordinary shares, a comparable company analysis was deemed the most appropriate methodology. For the purposes of valuing the AIB Preference shares, an annuity valuation based on comparable company yields and a comparable company analysis were deemed the most appropriate methodologies.

(c) Directed Investment Summary

Since 2009, a total of €16.0bn of the Fund's assets have been invested in AIB and €4.7bn in BoI, at the direction of the Minister for Finance via a combination of ordinary and preference shares and a capital contribution (AIB).

The preference shares pay an annual non-cumulative fixed dividend of 8% in AIB and paid 10.25% in BoI. If the dividend is not paid in cash, the Fund will receive the dividend in the form of ordinary shares. The preference shares can be repurchased by the banks at €1 per share within the first five years after issue and thereafter at €1.25 per share. The step-up to €1.25 per share became effective from May 2014 and represents €875m of the investment gain during the year. This had no impact on the dividend income.

Since inception, €4.2bn in cash has been received in the form of dividends and other income (€1.3bn), and from the sale of the directed investments (€2.9bn).

Notes to the Financial Statements (continued)

9. DIRECTED INVESTMENTS (continued)

(d) Directed Investment Transactions during 2014

No new directed investments occurred in 2014. The Directed Investments were transferred to the ISIF on the 22 December 2014 on the commencement of the relevant sections of the NTMA Act. The percentage ownership of AIB and BoI at the date of transfer was 99.8% and 13.95% respectively.

In May 2014, AIB paid the preference share dividend due of €280m in the form of ordinary shares. The Fund received 2,177m (2013: 4,144m) ordinary shares in AIB. The estimated fair value of the ordinary shares received is €27m based on year end independent valuation advice.

Income received of €4m from Cash Instruments was transferred from the Directed Portfolio to the Discretionary Portfolio in line with section 19 of *National Pensions Reserve Fund Act 2000* (as amended) and Ministerial Direction.

(e) Ministerial Directions during 2014

Pursuant to a direction dated 15 May 2014, the Minister for Finance directed the NPRF Commission (under section 19B(1) of the NPRF Act) to execute a Letter of Consent to the Capital Reduction of AIB, substantially in the form of the letter attached to the direction. The AIB shares held by the NPRF Commission transferred to the NTMA by operation of law on 22 December 2014.

Pursuant to a direction on 10 September 2014 under section 19B(c) of the NPRF Act, the Commission provided funds of €10 million to the SBCI for the purpose of funding the Minister for Finance's subscription for shares in the SBCI in September 2014. (Note 4a).

Pursuant to a direction dated 30 October 2014, the Minister for Finance directed the NPRF Commission to provide a loan facility of €240 million to the Strategic Banking Corporation of Ireland. To facilitate drawdowns pursuant to such loan facility, the NPRF Commission was also directed to dispose of certain securities and to hold the proceeds of such disposal in short term securities and / or on deposit. This loan facility transferred from the NPRF Commission to the NTMA by operation of law on 22 December 2014.

10. COMMITMENTS

(a) Foreign Currency and Futures Commitments

The notional principal and unrealised gain / (loss) of currency derivative contracts entered into by the Manager and investment managers on behalf of the Fund was:

	2014 Notional Principal €m	2014 Unrealised gain / (loss) €m	2013 Notional Principal €m	2013 Unrealised gain / (loss) €m
NTMA				
Forward Foreign Exchange Contracts	--	--	1,509	34
Investment Managers				
Foreign Exchange Contracts	--	--	253	--
Financial Futures	--	--	(576)	(18)
				16

Notes to the Financial Statements (continued)

10. COMMITMENTS (continued)

(a) Foreign Currency and Futures Commitments (continued)

Foreign Exchange Contracts

The Fund follows a policy of hedging its foreign currency risk, using forward foreign exchange contracts.

The Fund's investment managers were not required to hedge currency exposure. They were permitted to carry out spot and foreign exchange contracts in order to satisfy the settlement of securities transactions, and to manage their portfolios solely in line with the Statement of Investment Objectives and Restrictions agreed with the Fund.

The notional value represents the total contracted foreign exchange contracts outstanding at the year end. A negative notional position represents a short position.

Financial Futures

The Fund's investment managers were permitted to execute futures contracts solely in line with the Statement of Investment Objectives and Restrictions agreed with the Fund.

(b) Uncalled Investment Commitments

The Fund entered into commitments in respect of certain types of investments as outlined below. The uncalled capital commitments in respect of these investments transferred with the investments from the Fund to ISIF on 22 December 2014 on the commencement of the relevant sections of the NTMA Act.

	2014 €m	2013 €m
Unquoted Investments		
Infrastructure Investments	--	185
Private Equity Investments	--	176
SME Equity Investments	--	170
SME Credit Investments	--	126
Property Investments	--	55
Total Unquoted Investments	**--**	**712**
Loans and Receivables		
Other Debt	--	90
Public Private Partnership	--	78
SME Credit Investments	--	34
Total Loans and Receivables	**--**	**202**
Total Uncalled Commitments	**--**	**914**

Notes to the Financial Statements (continued)

11. CONTINGENT LIABILITIES

In the opinion of the Commission the Fund has no material contingent liabilities at 31 December 2014 (2013: Nil).

12. SECURITIES LENDING

Through a programme managed by its Global Custodian, some of the securities in the Fund were loaned from time to time.

The Fund received income through the Global Custodian for securities loaned. During 2014 the Fund earned €0.6m through securities lending (2013: €1.9m).

Loans were made to approved counterparties who met minimum credit criteria. The loans were secured by collateral in the form of government bonds; bonds of specified supranational issuers; specified equity index baskets and cash. The value of the collateral maintained by the Global Custodian had to be at least 102% of the market value of securities loaned where the collateral was in the same currency as the loaned securities and 105% where the collateral was not in the same currency as the loaned securities. Where the value of collateral fell below the required limits additional collateral was called by the Global Custodian from the counterparty, restoring collateral requirements the following day.

The market value of securities loaned at 31 December 2014 amounted to €Nil (2013: €162.6m). The Fund held collateral of Nil (2013: 104.8%) of the market value of securities loaned.

13. RELATED PARTIES

(a) Minister for Finance

As set out in note 4, contributions to the Fund were to be made by the Minister for Finance by an annual charge on the Central Fund equivalent to 1% of Gross National Product (GNP) under section 18 of the *National Pensions Reserve Fund Act, 2000*. This Act was amended in 2010 by the *Credit Institutions (Stabilisation) Act 2010* to provide that the annual contribution to the Fund shall be less than 1% of GNP, or no sum shall be contributed to the Fund. S.I. 584, *National Pensions Reserve Fund Act 2000* (Suspension of Exchequer Contribution) Order 2012 provided that no sum would be paid into the Fund in the years 2012 and 2013.

Schedule 4 of the NTMA Act states that section 18(2) of the NPRF Act 2000 “does not apply in relation to the year in which the Fund constitution date falls”. The relevant sections of the NTMA Act came into operation on 22 December 2014, therefore the Minister for Finance made no contribution to the Fund in 2014.

The Commissioners of the Fund were appointed by the Minister for Finance under section 7 of the *National Pensions Reserve Fund Act, 2000*.

(b) National Treasury Management Agency

Under section 21 (2) of the *National Pensions Reserve Fund Act, 2000*, the National Treasury Management Agency was appointed as Manager of the Fund by the Commission from 2 April 2001 for 10 years. Following expiry of this appointment the National Treasury Management Agency was re-appointed as Manager for five years beginning 2 April 2011 in accordance with section 21 (3) of the *National Pensions Reserve Fund Act, 2000*.

Pursuant to section 38(1) of the NTMA Act, the ISIF was established on 22 December 2014. The assets and liabilities of the Fund became assets and liabilities of the ISIF on the commencement of section 38(2) of the NTMA Act, with the exception of certain foreign assets and foreign liabilities.

All assets governed by Irish law transferred automatically from the NPRF Commission to the NTMA (becoming assets of the ISIF on 22 December 2014). From this date the NPRF Commission consists of a single commissioner (the Chief Executive, NTMA) who is required by the NTMA Act to do everything that is reasonably practicable to give effect to the transfer of any remaining assets governed by foreign law.

Notes to the Financial Statements (continued)

14. FINANCIAL RISK MANAGEMENT

In the ordinary course of its activities, the Fund actively managed a variety of financial risks including market risk, credit risk and liquidity risk. The Fund identified, measured and monitored risk through various control mechanisms as detailed in the following sections. The base currency of the Fund is euro. The measured returns and monitored portfolio risks are aggregated in euro.

The Commission was responsible for the risk in the Discretionary Portfolio whereas the risks associated with Directed Investments are the responsibility of the Minister for Finance. This note refers solely to financial risk in the Discretionary Portfolio.

(a) Market Risk - Price, Currency and Interest Rate Risks

Market risk is the risk of potential loss the Fund may incur as a result of adverse changes to the fair value of the Fund's financial instruments due to fluctuations in risk factors such as interest rates, foreign exchange rates and market prices. The primary source of risk to the Fund was the amount of absolute market risk inherent in the Fund's strategic asset or benchmark allocation. Market risk includes fluctuations in equity, bond and other investment prices, currency rates and interest rates. The Commission endeavoured to maximise potential return while keeping volatility within acceptable limits by diversifying the Fund's investments across multiple asset classes.

Against the backdrop of the significant changes made in respect of the Fund since 2009, the liquidity demands facing the Fund and the uncertainty over the Fund's future purpose and mandate, the Commission, in 2011 and continuing throughout 2012, 2013 and 2014, implemented a Capital Preservation Strategy which provided some downside protection against equity market declines while providing some upside participation if markets performed well.

The Manager monitored the Fund's absolute market risk (an ex-ante measure) and the Fund's performance (an ex-post measure) on a daily basis. This was the critical control in overseeing the total risk arising within the Fund. The risk management procedures further described in this note principally reflect more detailed analysis of components of the Fund's market risk.

Market risk comprises three types of risk: price risk, currency risk and interest rate risk.

Notes to the Financial Statements (continued)

14. FINANCIAL RISK MANAGEMENT (continued)

(a) Market Risk - Price, Currency and Interest Rate Risks (continued)

(i) Price Risk

Price risk is the risk that the value of an asset will fluctuate in its local currency due to changes in market price, caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Price Risk Exposure
The maximum asset value exposed to price risk at 31 December 2014 is the value of investment assets as detailed in the following table:

Exposed to Price Risk

	2014 €m	2013 €m
Quoted Investments[1]	--	3,292
Unquoted Investments	--	677
Property	--	347
Forestry	--	37
Private Equity	--	126
Infrastructure	--	86
Cash Enhancement Investments	--	849
Derivative Instruments (Net)	--	16
Total	**--**	**5,430**
Not Exposed to Price Risk		
Cash	--	792
Total Discretionary Fund Investment Assets	--	**6,222**

Price Risk Management
The Manager monitored the price risk inherent in the investment portfolio by ensuring full and timely access to relevant information from the Fund's investment managers. The Commission met regularly and at each meeting reviewed investment performance.

(ii) Currency Risk

Currency risk is the risk that the value of an asset or liability will fluctuate due to changes to currency exchange rates. The base currency of the Fund was euro. However, the Fund had investment assets denominated in currencies other than euro and was therefore impacted by fluctuations in currency exchange rates.

Currency Risk Management
The Fund followed a policy of hedging its foreign currency risk, using forward foreign exchange contracts (See Note 10(a)). In respect of quoted developed equities the Fund used forward foreign exchange contracts to maintain a currency exposure at 50% of the foreign currency exposure of the Fund's underlying holdings. In respect of its property and private equity investments, the Fund hedged 50% of its non-euro private equity investments and 100% of its non-euro property investments. The gain / (loss) on these forward foreign exchange contracts offset the change in the value of the Fund's non-euro investments due to exchange rate movements.

(1) The Fund's exposure to quoted investments was reduced by €539m in 2013 through the usage of futures contracts (not included in the above table). The Fund also held equity index put options with a notional value of €1,461m in 2013.

Notes to the Financial Statements (continued)

14. FINANCIAL RISK MANAGEMENT (continued)

(a) Market Risk - Price, Currency and Interest Rate Risks (continued)

(ii) Currency Risk (continued)

There were no investments held in the Fund as at 31 December 2014 which could be exposed to currency risk.

Currency of Investments Assets: 2013

	Local Currency €m	Base Currency €m	Hedge €m	Net Exposure €m
US Dollar	2,350	1,704	(879)	825
Japanese Yen	2,524	18	(17)	1
British Pound	128	154	(91)	63
Hong Kong Dollar	1,011	95	(16)	79
Australian Dollar	65	42	(20)	22
Canadian Dollar	82	56	(27)	29
Swiss Franc	45	36	(19)	17
Other	Various	258	(21)	237
Total		**2,363**	**(1,090)**	**1,273**

(iii) Interest Rate Risk

Interest rate risk is the risk that future cash flows of a financial instrument, and the value of a financial instrument, will fluctuate due to changes in the market interest rates. The Fund's fixed income investments were susceptible to value changes due to fluctuations in market interest rates.

<u>Interest Rate Exposure</u>
The following table details the value of fixed interest-bearing securities exposed to interest rate risk as at 31 December:

Fixed Interest Bearing Investments

	2014 €m	2013 €m
Maturing within one year	--	852
Maturing between one and five years	--	423
Maturing after five years	--	240
Total Fixed Interest Bearing Investments	**--**	**1,515**

This table reflects the portion of financial assets exposed to changes in interest rate risk. For disclosure purposes fixed-interest bearing assets were included in exposures to both price and interest rate risk.

<u>Interest Rate Risk Management</u>
The Commission had regard to the possible effects of a change in interest rates on the fair value of interest-bearing financial assets when making investment decisions.

Notes to the Financial Statements (continued)

14. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit Risk

Credit risk is the risk that the Fund would incur a financial loss if a counterparty failed to discharge its obligations to the Fund.

Credit Risk Exposure
The main credit risk to which the Fund was exposed arose from the Fund's investments in cash and debt securities. The Fund's assets were valued at fair value which reflected the market assessment of the likelihood and estimated impact of default. Credit risk was therefore primarily managed by reference to market price risk. The Fund was also subject to counterparty credit risk on trading derivative products, cash and cash equivalents.

The maximum exposure to credit risk at 31 December is the carrying value of the financial assets as set out below. There were no financial assets held in the Fund as at 31 December 2014 which were exposed to credit risk.

	2014 €m	2013 €m
Corporate Debt Securities	--	863
Long Term Receivables	--	330
Cash and Cash Equivalents	--	1,641
Accrued Income from Investments	--	20
Derivatives	--	18
Total	**--**	2,872

Credit Risk Management
The objective of managing credit risk was to minimise the impact of counterparty default on the Fund's financial assets. The Fund, through the Manager, aimed to mitigate its counterparty credit risk exposure by monitoring the size of its credit exposure to, and the creditworthiness of, counterparties including setting appropriate exposure limits. Counterparties were selected based on their financial ratings, regulatory environments and specific circumstances.

The following details the risk management policies applied to the financial assets exposed to credit risk:

For interest-bearing securities the credit rating of the issuer was taken into account when credit limits were set to control the exposure to the Fund in the event of default. Investments were made across a variety of industry sectors and issuers to reduce the risk of credit risk concentrations.

Derivative financial instruments generating credit risk arose from the Fund's forward foreign exchange contracts and cross currency swap contracts. The Fund's forward foreign exchange contracts were entered into only with approved counterparties within defined limits. In order to mitigate the credit risks arising from derivative transactions, the Fund in some cases, entered into Credit Support Annexes (CSA) with its market counterparties. CSAs required the posting of collateral by counterparties in specified circumstances.

Forward foreign exchange contracts were settled through Continuous Linked Settlement (CLS) where trades were pre-matched ahead of settlement date limiting the risk of settlement failure. The Fund's Global Custodian, Bank of New York Mellon, held the Fund's securities in segregated accounts, where possible, minimising the risk of value loss of the securities held by the Global Custodian. In the event of its failure, the ability of the Fund to transfer the securities might be temporarily impaired. The Fund's Global Custodian is a member of a major securities exchange and at 31 December 2014 held a Moody's credit rating of A1 (2013: A1). The Global Custodian's credit rating was reviewed regularly by the Manager.

Notes to the Financial Statements (continued)

14. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity Risk

Liquidity risk is the risk that the Fund will encounter difficulties in raising cash to meet its obligations as they fall due. The primary source of this risk for the Fund arose from the value of the Fund's commitments to property and private equity limited partnerships and ongoing operational expenses.

Liquidity Risk Management
The Fund monitored its exposure to liquidity risk by regularly monitoring the liquidity of its investment portfolio and holding appropriate levels of liquid assets.

15. SUBSEQUENT EVENTS

The legal transfer of foreign assets is complicated and some foreign assets remained in the Fund as at 31 December 2014. Once all assets have been transferred to the ISIF the NPRF Commission will be dissolved.

There were no other significant subsequent events impacting the Fund as at 31 December 2014.

As at 30 April 2015 the value of assets remaining in the Fund was €240m.

16. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Commission on 15 June 2015.

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National Pensions Reserve Fund Commission

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