



National Treasury Management Agency

Press Release

Preliminary Results for the Year 2007

www.ntma.ie

The information within is based on bond prices quoted on the Irish Stock Exchange on 27 December 2007 and, in the case of foreign exchange, on rates notified by the Central Bank as of close of business on 27 December 2007. Data in respect of the National Pensions Reserve Fund are, in the case of direct quoted investments, based on valuations as of close of business on 26 December and, in the case of property, private equity, emerging markets, currency and other indirect investment vehicles, based on the most recently available valuations. All figures in this statement are preliminary. Unless indicated otherwise, all figures are in euro. Debt ratios are based on Department of Finance Budget 2008 estimates for EBR and CSO figures for GDP and GNP.

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1. HIGHLIGHTS 2007

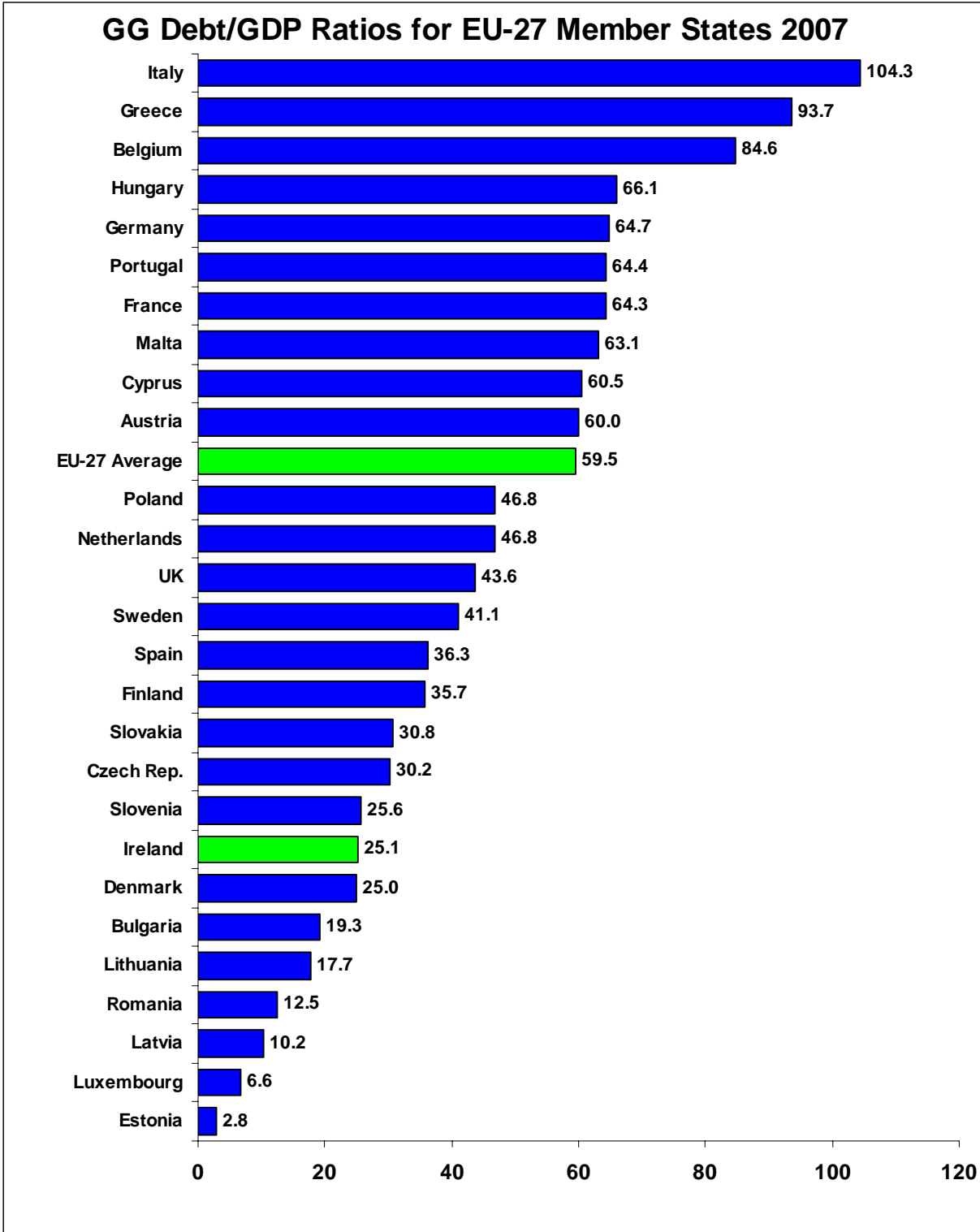
Overall

- The combined total of asset and liability portfolios managed by the NTMA rose to over €63 billion.
- The value of the NTMA's transactions in 2007 amounted to almost €540 billion.

National Debt

- In October the NTMA issued a new €6 billion bond - the 4½% Treasury Bond 2018. This was the largest deal ever executed by the NTMA and the largest by any government in Europe this year. Despite the difficulties in the global capital markets due to the credit crisis, the launch of the new bond was extremely successful and the issue was oversubscribed almost three times.
- Total debt service costs in 2007 were €358 million below budget.
- The Exchequer's interest payments on the Debt were €1.618 billion, compared with €1.859 billion in 2006. This represents 3.4 per cent of tax revenue, around one seventh of the equivalent figure of 23.6 per cent when the NTMA was established in 1990. This reduction in the interest burden has freed up substantial resources which the Government can use for other purposes.
- The National Debt increased by €1.6 billion and now stands at €37.6 billion. However the National Debt/GNP ratio fell from 24.1 per cent at end 2006 to 23.6 per cent at end 2007.
- The National Debt, less the National Pensions Reserve Fund and other funds managed by the NTMA, is now equivalent to just over three months' tax revenue (down from four months at end 2006). When the NTMA was established, it took over three months' tax revenue just to pay the interest on the debt.
- The General Government Debt/GDP ratio ended the year at 25.1 per cent, unchanged from end 2006. It continues to be one of the lowest in the EU.
- Deducting the value of the National Pensions Reserve Fund and other funds managed by the NTMA would give an even lower Debt/GDP ratio of around 12 per cent at end 2007 (12.7 per cent at end 2006).
- International investors hold 89 per cent of Irish Government bonds, up sharply from 22 per cent at end 1998, just before the introduction of the euro.
- Bond yields were: 27 December 2007

3¼% Treasury Bond 2009	4.10%
5% Treasury Bond 2013	4.29%
4.6% Treasury Bond 2016	4.40%
4½% Treasury Bond 2018	4.50%
4½% Treasury Bond 2020	4.56%



- At end 2007, 83 per cent of the National Debt carried fixed rates of interest. The balance mainly related to the retail savings schemes. The high level of fixed interest debt is a result of the policy of locking in long-term borrowing at historically low levels of interest, protecting the Exchequer against the effects of rising interest rates.
- Exchange rate risk has been eliminated from the National Debt, as all of the debt is now denominated in, or swapped into, euro.

- During 2007 interest rates on the Government retail savings schemes were increased in line with general market trends and, by end year, there had been a net capital inflow of €107 million into the schemes.
- The interest rate increase facilitated the introduction of a new prize structure for Prize Bonds, with a new top prize of €1 million (up from €150,000). The first €1 million prize was won by a bondholder in Dublin on 21 December last.
- There was also a repayment of €330 million to holders of maturing Special Savings Incentive Accounts (SSIAs) in An Post.
- The credit rating agencies continue to regard Irish Government debt as among the safest in the world. Moody's, Standard & Poor's, Fitch and Rating & Investment Information Inc. all rank Ireland's debt in the top AAA category with a stable outlook.

Other NTMA Financial Activities

- The NTMA manages the balance in the Exchequer Account at the Central Bank of Ireland. The 2007 turnover on cash management operations was €190 billion, while the average daily transaction size was €465 million. The NTMA targeted end year Exchequer balances of around €4 billion, building up ample liquidity for the New Year.
- The NTMA borrows on behalf of the Housing Finance Agency. These borrowings averaged €2.58 billion in 2007. Turnover was €44 billion.
- The NTMA operates the Central Treasury Service to provide health, education and local government authorities with a competitive alternative to the banking industry for both borrowing and lending. An average of €33 million in loans and €84 million in deposits was outstanding during 2007.
- The NTMA manages the assets of the Social Insurance Fund on behalf of the Department of Social and Family Affairs. Total assets under management by the NTMA were €3.3 billion at end 2007, up from €2.7 billion at end 2006.
- The NTMA manages the assets of the Dormant Accounts Fund, which came to €205 million at end December 2007 (€211.3 million at end 2006).
- The NTMA manages a passive bond portfolio for the National Pensions Reserve Fund. This bond portfolio has made gains of €405 million since inception and stood at €2.3 billion at end 2007. The Fund's cash balances, currently about €800 million, are also managed by the NTMA.
- The foreign exchange transactions required by the NPRF for its investments in non-euro assets and for the execution of the Fund's long-term hedging strategy are executed by the NTMA. Turnover on these activities in 2007 amounted to over €43 billion.
- The NTMA manages the assets of the Education Finance Board Fund. The balance in the Fund at 31 December 2007 was €8.6 million.

- The NTMA acts as agent for the State with responsibility for the purchase of carbon credits required to meet Ireland's obligations under the Kyoto Protocol. NTMA invested €3.7 million in 2007 on foot of agreements entered into by the Minister for the Environment, Heritage and Local Government with the World Bank.

National Pensions Reserve Fund

- The NPRF was established in April 2001 with the objective of meeting as much as possible of the costs of social welfare and public service pensions from 2025 onward.
- The Fund grew by €2.4 billion to €21.3 billion at 26 December 2007 from €18.9 billion at end 2006. Investment returns added €797 million (4.1 per cent), while the Exchequer contributed €1.6 billion.
- The Fund's 4.1 per cent investment return in 2007 was due to the growth of its equity portfolio, particularly in Europe, notwithstanding extreme volatility during the second half of the year arising from the sub-prime crisis and the resulting credit crunch. The Fund's annualised return now stands at 6.2 per cent since its inception.
- The Fund's value at end 2007 is equivalent to 13.3 per cent of GNP.
- The Fund currently holds shares in over 2,500 quoted companies worldwide and holds some 190 debt securities. It also has investments in 25 property investment vehicles, 26 private equity investment vehicles and 11 specialised investment products (including currency and emerging markets funds and commodity certificates).
- In July 2007 the Fund appointed Hermes Equity Ownership Services to engage with companies on its behalf on environmental, social and governance issues and to execute proxy votes with respect to its worldwide equity portfolio.

NPRF Asset Allocation-26 December 2007		
	€m	%
Large Cap Equity	14,218	66.7
Small Cap Equity	771	3.6
Emerging Markets Equity	435	2.1
Total Quoted Equity	15,424	72.4
Private Equity	416	2.0
Property	669	3.1
Commodities	288	1.3
Total Alternative Assets	1,373	6.4
Fixed Income	3,568	16.7
Currency Funds	166	0.8
Cash	782	3.7
Total Financial Assets	4,516	21.2
Total	21,313	100

National Development Finance Agency

- The NTMA discharges the functions of the National Development Finance Agency, providing financial advice to State authorities undertaking major infrastructure projects. The NDFA was established on 1 January 2003.
- A total of 117 projects have been referred to the NDFA. To date it has completed its advice in relation to 38 projects with a combined capital value of €6 billion, 21 of which were PPPs.
- The NDFA completed its advice in relation to ten projects in 2007:
 - Criminal Courts Complex
 - National Conference Centre
 - Lansdowne Road
 - O'Devaney Gardens
 - Spencer Dock Social and Affordable Housing
 - Wexford County Council Loan
 - M3 Clonee – Kells
 - N6 Oranmore - Ballinasloe
 - N7/N8 Portlaoise - Cullahill
 - M50 Extension
- These projects have a combined capital value of €2.6 billion.
- The NDFA is currently engaged in the procurement of the first bundle of schools (in a programme of 27 schools) and has commenced pre-procurement work on the National Concert Hall, the Abbey Theatre, the second bundle of schools, the third level PPP programme and the bundle of new courthouses.
- The NDFA continues to provide financial advice on a number of high profile projects. Examples include Dublin City Council's housing regeneration programme, Thornton Hall Prison, the UCD Gateway, transport projects such as the Metro North and Metro West, and the Motorway Service Areas.

State Claims Agency

- Acting as the State Claims Agency (SCA), the NTMA manages personal injury, property damage and clinical negligence claims brought against certain State authorities and health enterprises.
- The SCA currently manages approximately 3,970 claims, of which around 1,500 (38 per cent) relate to clinical negligence claims against health enterprises.
- The total reserve outstanding at present against all active claims amounts to €438 million and is broken down as follows:

○ Clinical Negligence	€323 million (74%)
○ Employer Liability/Public Liability /Property Damage (EL/PL/PD)	€115 million (26%)

- Claims activity in 2007
 - The SCA received 1,020 new EL/PL/PD claims
 - 979 EL/PL/PD claims were resolved
 - The SCA received 473 new clinical negligence claims
 - 279 clinical negligence claims were resolved.

- Trends
 - Since 2002 the number of claims in the EL category has fallen by 91 per cent and the number of PL claims has fallen by 46 per cent
 - Between 2006 and 2007, the number of EL claims declined by 57 per cent and the number of PL claims by 20 per cent
 - The overall number of active claims under SCA management has increased due to the delegation of additional categories of claims, e.g. claims relating to hearing loss and trespass to the person (including child sexual abuse)
 - There have been no significant trend changes in clinical negligence claims in 2007.

New Activities

- Since June 2007, the NTMA has managed the foreign currency requirements (about €100 million per annum) of the Department of Foreign Affairs.

- The Health Act 2007 includes a provision whereby the NTMA may, at the request of the Health Service Executive, manage moneys in patients' private property accounts on terms agreed with the HSE.

- The remit of the Central Treasury Service was extended in 2007 to include all non-commercial State bodies.

Asset Covered Securities

- Certain functions devolve on the NTMA under the Asset Covered Securities Act 2001 in respect of which it receives an annual fee related to the volume of business activity.

- During 2007, €12.2 billion of asset covered securities were issued in Ireland under the Act, bringing the total amount in issue to €72.2 billion.

Consultancy & International Relationships

- Other countries continue to consult the NTMA with respect to its asset and liability management activities.

Human Resources

- The number of staff currently employed by the NTMA is 151.

28 DECEMBER 2007

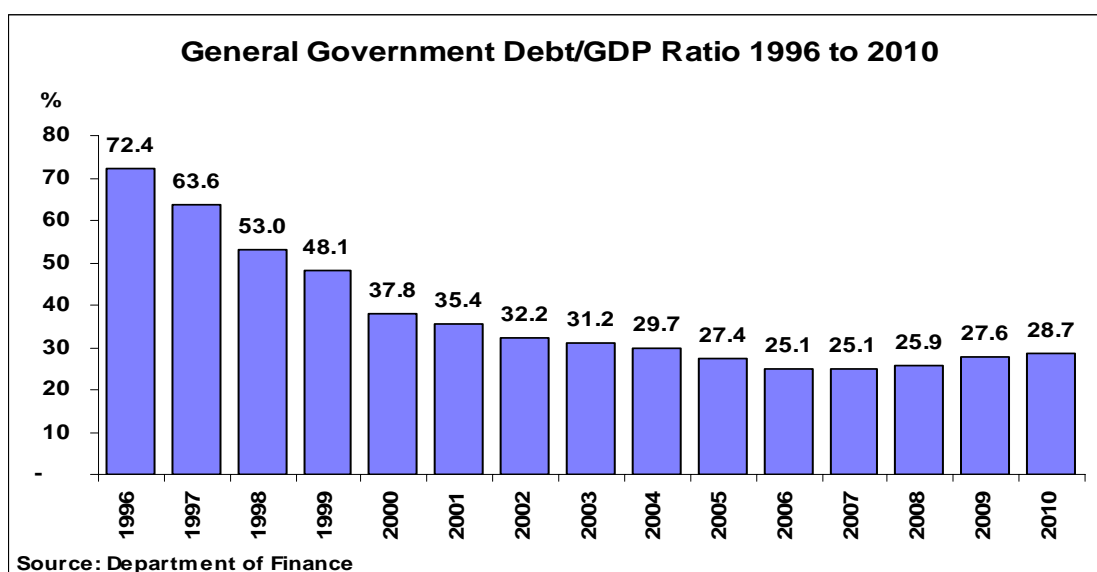
2. GENERAL GOVERNMENT DEBT/NATIONAL DEBT

The National Debt, as traditionally measured in Ireland, is the nominal value of the Exchequer's debt calculated net of Exchequer cash balances and is estimated to be €37.6 billion* at end 2007; an increase of €1.647 billion from €35.9 billion at end 2006. The projected Exchequer Deficit of €1.623* billion accounts for virtually all of the increase in the Debt. See Appendix I.

However the National Debt/GNP ratio fell from 24.1 per cent at end 2006 to 23.6 per cent at end 2007. The decrease in the ratio is due to the increase in nominal GNP.

General Government Debt (GGD) is the definition used for comparative purposes within the European Union. The National Debt is its principal component. Unlike the National Debt, the GGD does not allow any offset for Exchequer cash balances. In addition, GGD includes local government debt, certain extra-budgetary funds and the accrued interest not provided for in respect of the retail savings schemes.

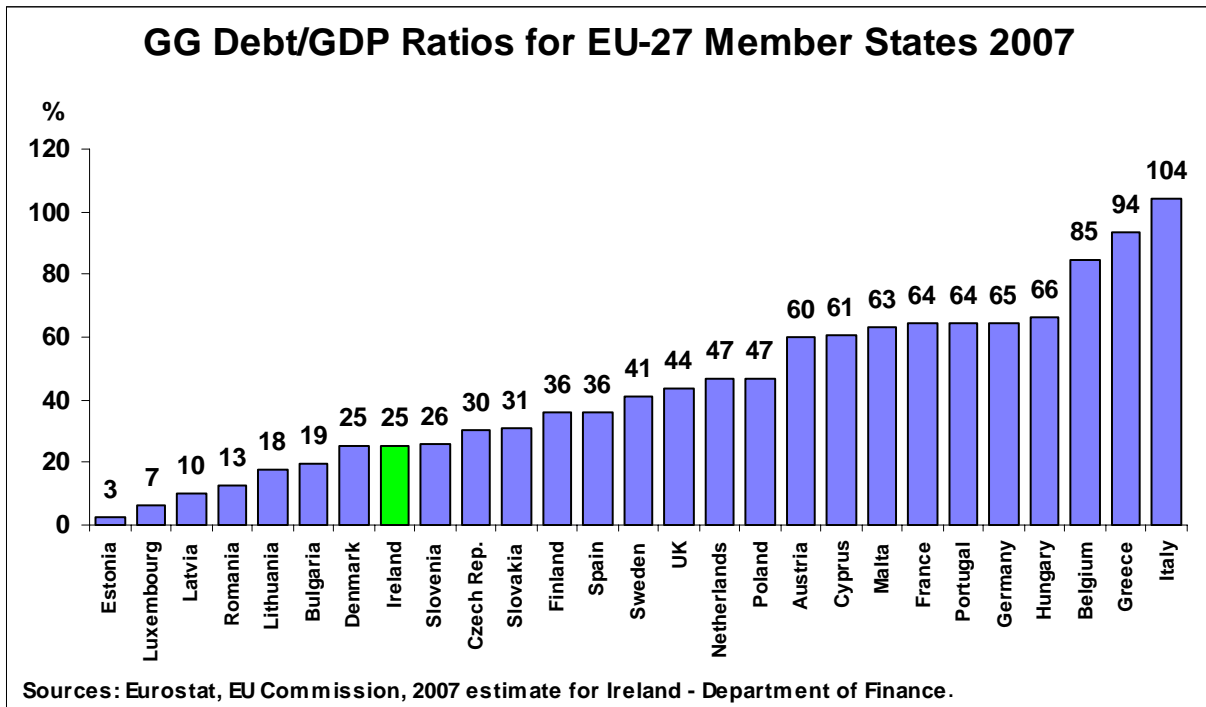
The GGD is estimated at €47.2 billion* at end 2007, an increase of €3.3 billion on 2006. The Exchequer deficit and the growth in Exchequer cash balances at year end contributed equally to this increase. The GGD/GDP ratio stands at 25.1 per cent at the end of 2007, unchanged from end 2006.



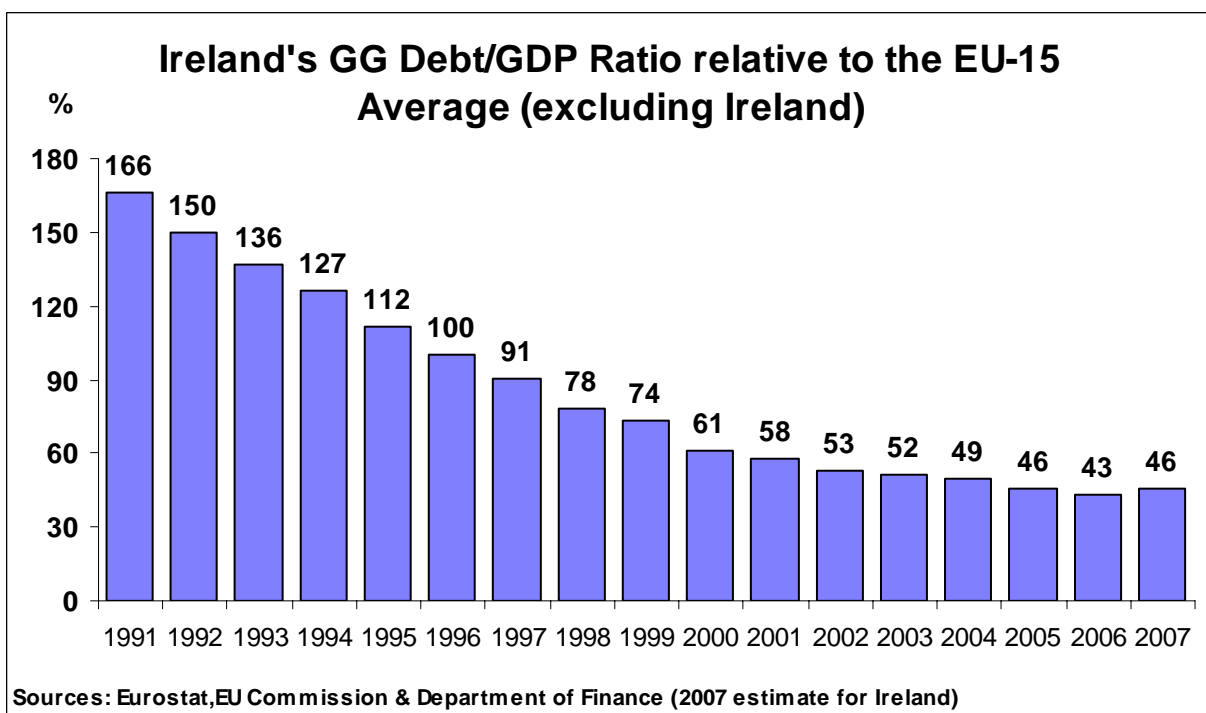
The budgetary outlook projects a small rise in the GGD/GDP ratio over the period 2008 to 2010, with an expected average around 27 per cent.

* Source: Department of Finance

Ireland has one of the lowest levels of indebtedness relative to GDP among the 27 EU Member States; a comparison of Ireland's GGD/GDP ratio with these countries is set out below.



At end 2007, Ireland's GGD/GDP ratio stood at 46 per cent of the EU-15 average (excluding Ireland), contrasting sharply with a ratio of 166 per cent in 1991. The full time-series is not available for the 12 EU accession states which have joined since 2004.



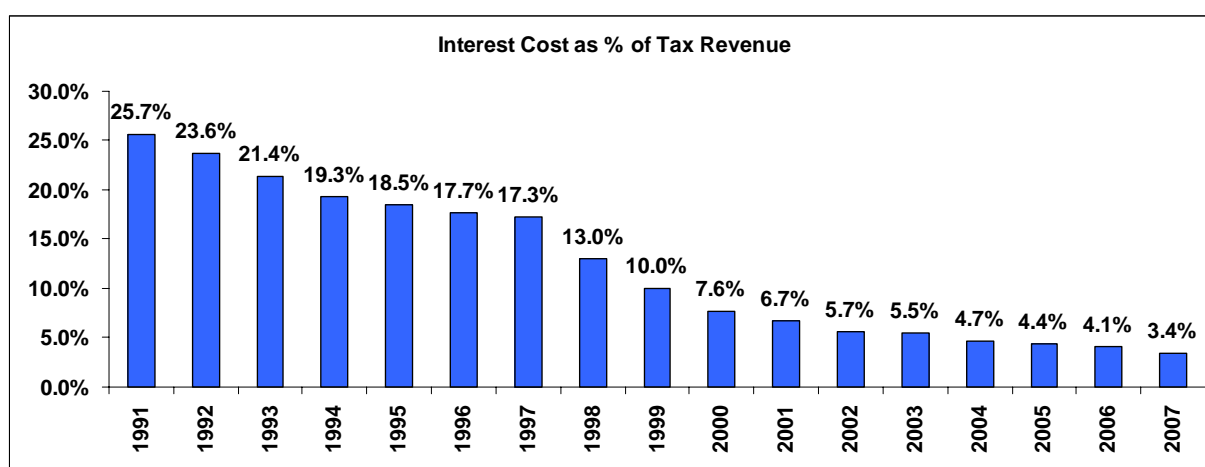
3. DEBT SERVICE COSTS

The Exchequer paid €1.618 billion in interest on the National Debt in 2007, compared with €1.859 billion in 2006. This represents a saving of €358 million against the Budget. The savings are due to timing issues related to the first interest payment on the new €6 billion bond which was issued in October 2007, the strong opening Exchequer position and certain debt management initiatives.

Other items charged to Debt Service Costs included Sinking Funds of €466 million - this is in effect a technical charge on the current budget which is also reflected as a receipt in the capital budget - and fees and administration expenses of €9 million.

Debt Service Burden

Only 3.4 per cent of tax revenue is now needed to pay interest on the National Debt, compared to 25.7 per cent in 1991. Interest costs have fallen from 8.4 per cent of GNP in 1991 to 1 per cent in 2007.



The average interest cost of servicing the National Debt has fallen substantially from 8.5 per cent in 1991 to 4.4 per cent in 2007 due to the downward trend in global interest rates, Ireland's improved credit ratings, NTMA's debt management initiatives and Ireland's participation in the euro area.

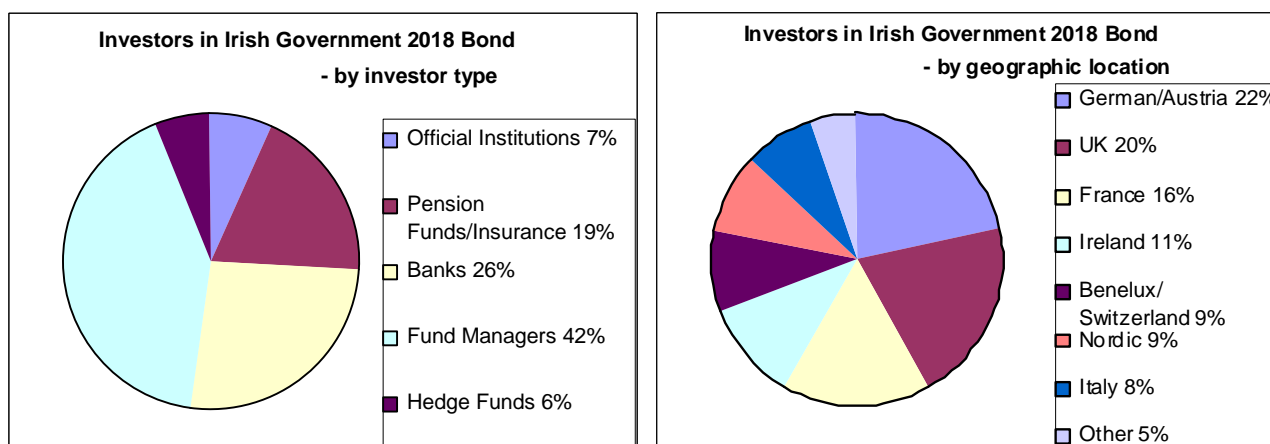
4. FUNDING AND DEBT MANAGEMENT

Bond Market

In early October 2007, the NTMA decided to issue, via syndication, a new 11-year bond to refinance the bond maturing on 18 October 2007. While initially an issue between €3 billion

and €5 billion was envisaged, there was such exceptional demand from a wide range of investors throughout Europe that the NTMA increased the issuance size to €6 billion. This was the largest issue ever made by Ireland and the largest by any Government in Europe in 2007. The bond was issued at a yield of 4.58 per cent, 15 basis points over the yield on the 10-year benchmark German bond.

Demand came from a broad range of investors led by fund managers (42 per cent), banks (26 per cent) and pension/insurance firms (19 per cent).



Geographically there was a broad range of investors, led by Germany/Austria (22 per cent), UK (20 per cent) and France (16 per cent). Irish investors accounted for 11 per cent of the total.

Ireland has five major benchmark bonds with maturities across the yield curve from approximately one year to 12 years. The amount outstanding in each of these bonds exceeds €5 billion, ensuring that liquidity is continuous and deep.

Diversified Holdings of Irish Government Bonds

The investor base for Irish Government bonds has become much more diversified since the introduction of the euro. International investors now hold approximately 89 per cent of our bonds, whereas domestic investors held 88 per cent of the bonds at end 1998, immediately prior to the introduction of the euro.

Ireland's Credit Ratings

All of the four major rating agencies continue to be positive in their assessment of Ireland's credit and all continue to assign the highest possible AAA rating to Ireland's debt, with a stable outlook.

Short Term Paper

Over the course of the year there was considerable activity on the NTMA's short-term paper programmes. Borrowings were increased to about €10 billion by October to fund Government expenditure and in particular to meet the repayment of the €6 billion Government bond which matured on 18 October 2007.

Once the 2007 bond was refinanced by the issue of the new 2018 bond, short-term paper balances were reduced. Short-term paper outstanding at the end of the year is expected to be around €3 billion.

Government Retail Savings Schemes

During 2007 interest rates on the Government retail savings schemes were increased in line with general trends. The market responded positively, and by year end there had been a net capital inflow of €107 million into these schemes.

The interest rate increase facilitated the introduction of a new prize structure for Prize Bonds, with a new top prize of €1 million (up from €150,000). The first €1 million prize was won by a bondholder in Dublin on 21 December last. The €1 million prize draw will take place every year on the last Friday before Christmas, and the new top prize in every month other than December has been increased to €500,000. Net new investment in Prize Bonds during 2007 amounted to €42 million.

Payments totalling €330 million were made in 2007 to holders of maturing Special Savings Incentive Accounts (SSIAs) in An Post.

Small Savings Reserve Fund

In addition to the interest costs paid by the Exchequer, a further €238 million was paid from the Small Savings Reserve Fund. Because interest is only paid out on encashment of Savings Certificates, Savings Bonds and National Instalment Savings, a considerable liability has built up over the years in respect of accrued interest. The Small Savings Reserve Fund was

established in 1994 to address this issue. Since 1999 the Minister for Finance has provided in each Budget for the full accrual of interest. At end 2007, the reserve stood at €344 million, or just over 44 per cent of the accrued interest of about €780 million.

Central Treasury Service

The Central Treasury Service (CTS) operated by the NTMA, takes deposits from, and makes advances to, health and education authorities and local government. The remit of the Central Treasury Service has recently been extended to include all non-commercial State bodies. During 2007 lending to designated CTS bodies averaged approximately €3.4 million. There were 770 deposits placed with the CTS during the year, and the average daily amount on deposit was €84 million.

Management of the Assets of the Social Insurance Fund

During 2007 the Department of Social and Family Affairs transferred an additional €400 million of the Fund to the NTMA for management, bringing the total at year end to €3.3 billion. Total turnover in 2007 was over €46 billion.

NTMA Borrowing on behalf of the Housing Finance Agency (HFA)

The NTMA borrows on behalf of the HFA under its €3.5 billion Multi Currency Commercial Paper programme. Borrowings were carried out in a number of currencies and the proceeds were immediately swapped into euro. Balances outstanding averaged €2.58 billion during the year. Total turnover in 2007 was €44 billion.

Dormant Accounts Fund

Under the *Dormant Accounts Act 2001* and the *Unclaimed Life Assurance Policies Act 2003*, balances on dormant accounts with banks, building societies and An Post and the net encashment value of certain life assurance policies are remitted to the State annually to be disbursed for charitable purposes or for purposes of community benefit. The legislation guarantees the right of account and policy holders to reclaim their moneys at any time from the relevant financial institutions.

Decisions on disbursements are made by the Government. The Dormant Accounts Board, established under the *Dormant Accounts (Amendment) Act 2005*, advises on priority areas for funding. The Board also has a role in monitoring the impact of this funding.

Pending disbursement, moneys in the Fund are managed by the NTMA. The NTMA had €205 million under management in the Fund at end December 2007, compared with €211.3 million at end 2006. Some €6.3 million was transferred to the Fund in 2007, while €3.9 million of previously dormant funds was reclaimed. Disbursements from the Fund amounted to €45.5 million in 2007.

ECB Liquidity Management

In 2007 the NTMA engaged in short-term cash management transactions to the value of €190 billion in order to regulate the level of Government cash balances at the Central Bank of Ireland. The average size of the daily transactions was €465 million. This activity is undertaken as part of overall management of liquidity by the European Central Bank.

Exchequer Cash Balances

The NTMA has built up ample liquidity for the Exchequer for the New Year and free cash balances at end 2007 are estimated at €4 billion.

5. STATE CLAIMS AGENCY

The NTMA, acting as the State Claims Agency (SCA), manages personal injury, property damage and clinical negligence claims against the State (currently 3,970) and provides risk management advice to State authorities with the aim of minimising future litigation. Claims are categorised either as Employer Liability/Public Liability/Property Damage (EL/PL/PD) or Clinical Negligence.

The total outstanding reserve at present against all active claims amounts to €438 million and is broken down as follows:

- o Clinical Negligence €23 million (74%)
- o Employer Liability/Public Liability/Property Damage €15 million (26%)

EL/PL/PD CLAIMS

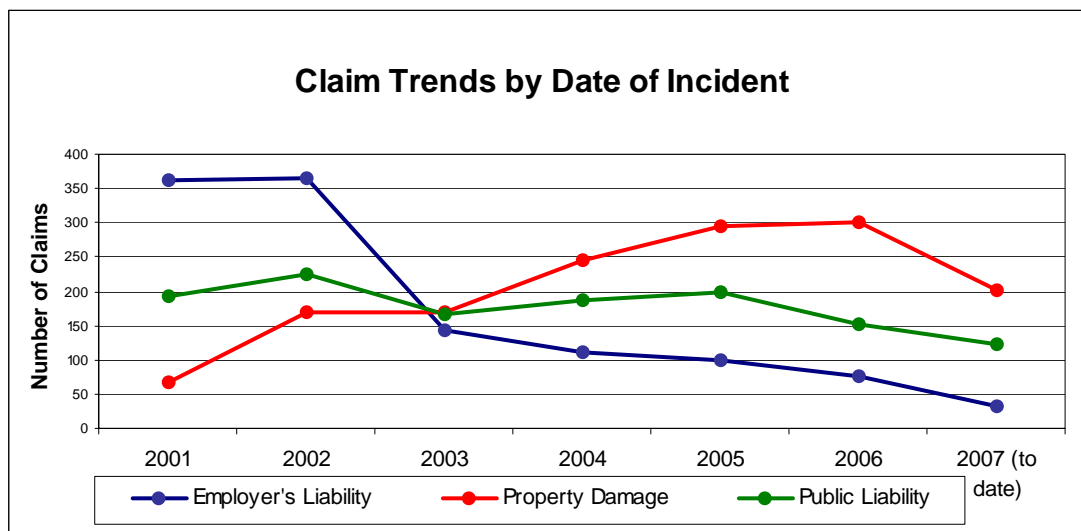
At the beginning of 2007, the SCA had 2,431 EL/PL/PD claims under management. It received 1,020 new claims in 2007 and resolved 979 claims.

The SCA currently manages approximately 2,470 active EL/PL/PD claims broken down by volume as follows:

- Employer Liability 38%
- Public Liability 50%
- Property Damage 12%

Trends

- Since 2002, the number of claims in the EL category has fallen by 91 per cent and the number of PL claims has fallen by 46 per cent.
- Between 2006 and 2007, the number of EL claims declined by 57 per cent and the number of PL claims by 20 per cent.
- The overall number of active claims under SCA management has increased due to the delegation of additional categories of claims, e.g. claims relating to hearing loss and trespass to the person (including child sexual abuse).



Child Sexual Abuse

The SCA has received 450 sexual abuse claims from the Department of Education and Science, the Department of Health and Children and the Department of Justice, Equality and Law Reform. Of these claims, 326 are currently active and 124 have been resolved.

Hearing Loss Claims

The SCA has received 621 hearing loss claims from the Chief State Solicitor's Office and the Department of Defence. Of these claims, 224 are currently active and 397 have been resolved.

Asbestos Claims

In 2007, the SCA resolved 172 employer liability claims in respect of alleged exposure to asbestos, without the payment of any compensation.

Employer Liability, Public Liability & Property Damage Risk Management

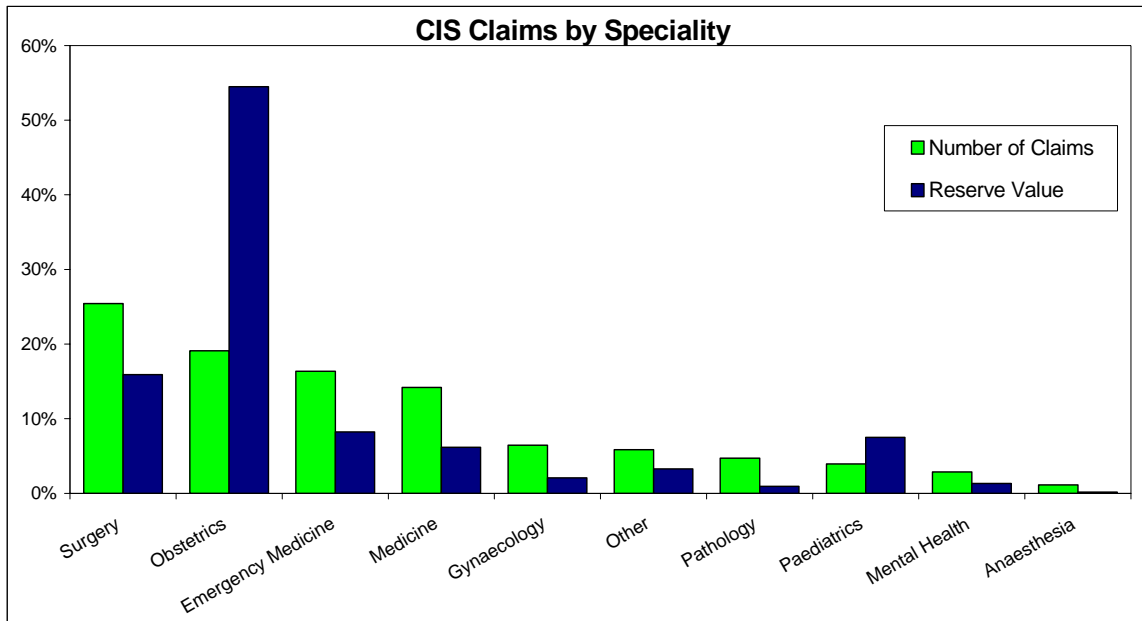
The SCA has a statutory brief to advise and assist State authorities in managing risks that may give rise to personal injury or property damage litigation. Key areas of development in 2007 include the introduction of safety management systems in the Defence Forces and the Irish Prison Service. Detailed risk reviews were also initiated in An Garda Síochána, the Office of Public Works and the Department of Agriculture, Fisheries and Food.

CLINICAL INDEMNITY SCHEME

A new delegation order for the SCA was made in 2007 – the *National Treasury Management Agency (Delegation of Functions) (Amendment) Order, 2007, S.I. No. 628 of 2007*. This order regularises the handling of obstetric-related claims relating to the provision of obstetric services at Mount Carmel Hospital in Dublin and Bon Secours Hospital in Cork. In addition, the Order delegates to the SCA the management of historical claims against consultant obstetricians which were previously handled by the Medical Protection Society.

Clinical Claims

At the beginning of 2007, the SCA had 1,307 clinical negligence claims under management. It received 473 new claims in 2007, and 279 claims were resolved. The SCA currently manages approximately 1,500 active clinical negligence claims.



The high value of the cumulative reserve for obstetric-related claims is explained by the high reserve levels associated with cerebral injury/palsy and other significant injury cases.

Clinical Risk Management

The SCA has a statutory brief, as part of the Clinical Indemnity Scheme, to promote clinical risk management in all participating health enterprises. The SCA's Clinical Risk Advisory Service provides advice and assistance to all health enterprises covered by the CIS and works with risk management and other relevant clinical and administrative personnel to support patient safety and to help minimise clinical claims.

6. NATIONAL DEVELOPMENT FINANCE AGENCY

The National Development Finance Agency (NDFA) was established in 2003 to provide financial advice to State authorities undertaking major infrastructure projects.

During the past year there were two significant developments for the NDFA:

- In January 2007, the Government launched the *National Development Plan 2007–2013* setting out public investment projects to the value of almost €80 billion. The Plan provides for over €13 billion in Public Private Partnership (PPP) projects. The recent 2008 Budget provides for capital expenditure to be maintained at an average of 6 per cent of GNP for the next five years.

- The *National Development Finance Agency (Amendment) Act 2007* was enacted in April 2007 and widened the remit of the NDFA, mandating it to undertake the procurement and delivery of projects in all sectors apart from transport and local government.

The NDFA is currently assisting the Department of Education and Science in providing 23 new post-primary schools and four new primary schools through PPP, and is at present procuring the first bundle of those schools. In 2007, the NDFA commenced pre-procurement work on the National Concert Hall, the Abbey Theatre, the second bundle of schools, the third level PPP programme (comprising the development of 17 major buildings) and the bundle of new courthouses (which will provide new or expanded courts in four locations nationwide). It is anticipated that these projects will be handed over to the NDFA in 2008.

A total of 117 projects have been referred to the NDFA. To date it has completed its advice in relation to 38 projects with a combined capital value of €6 billion, 21 of which were PPPs.

The NDFA completed its advice in relation to ten projects in 2007:

- Criminal Courts Complex
- National Conference Centre
- Lansdowne Road
- O'Devaney Gardens
- Spencer Dock Social and Affordable Housing
- Wexford County Council Loan
- M3 Clonee – Kells
- N6 Oranmore - Ballinasloe
- N7/N8 Portlaoise - Cullahill
- M50 Extension

These projects have a combined capital value of €2.6 billion. The NDFA continues to provide financial advice on a number of high profile projects. Examples include Dublin City Council's housing regeneration programme, Thornton Hall Prison, the UCD Gateway, transport projects such as the Metro North and Metro West, and the Motorway Service Areas.

7. NATIONAL PENSIONS RESERVE FUND

The National Pensions Reserve Fund was established in April 2001. Its objective is to meet as much as possible of the costs of social welfare and public service pensions from 2025 onwards when these costs are projected to increase dramatically due to the ageing of the population.

The Fund is controlled by the National Pensions Reserve Fund Commission, a body corporate appointed by the Minister for Finance and including, ex officio, the Chief Executive of the NTMA. The Commission performs its functions through the NTMA, which was appointed as Manager of the Fund for ten years until April 2011.

Performance

Excluding the Government contribution of €1.616 billion, the Fund earned an investment return of 4.1 per cent or €797 million in 2007. Its market value at 26 December 2007 was €1.313 billion (13.3 per cent of GNP) compared with €18.900 billion at end 2006. The Fund's annualised return now stands at 6.2 per cent since its inception in April 2001.

The Fund's 2007 performance was due to the growth of its equity portfolio, particularly in Europe, notwithstanding extreme volatility during the second half of the year arising from the sub-prime crisis and the resulting credit crunch. Performance was assisted by the Fund's policy of hedging 50 per cent of its foreign currency exposure. This limited the negative impact of euro strength on non-euro denominated assets.

Asset Allocation and Investment Strategy

The Fund's asset allocation strategy is founded on the premise that real assets, such as equities and property, whose performance is linked to the rate of economic growth, will outperform financial assets, such as bonds, over the long-term. While equities are inherently more volatile than bonds, the Fund's long-term investment horizon enables it to accept this volatility in a trade-off for the expected higher long-term return. This long-term perspective also means the Fund is well placed to benefit from the additional return and diversification benefits available from holding less liquid assets such as property and private equity.

NPRF Asset Allocation			
	26 December 2007		End 2009 Target
	€m	%	%
Large Cap Equity	14,218	66.7	56
Small Cap Equity	771	3.6	5
Emerging Markets Equity	435	2.1	5
Total Quoted Equity	15,424	72.4	66
Private Equity	416	2.0	10*
Property	669	3.1	8
Commodities	288	1.3	2
Total Alternative Assets	1,373	6.4	20
Fixed Income	3,568	16.7	13
Currency Funds	166	0.8	1
Cash	782	3.7	0
Total Financial Assets	4,516	21.2	14
Total	21,313	100	100

*including a 2% allocation to infrastructure.

The Fund's investment strategy is being implemented within the framework of an end 2009 target asset allocation - weightings to large cap quoted equities and bonds are being reduced as allocations to property and private equity increase. The objective of achieving the property and private equity target allocations by end 2009 is subject to the availability of suitable market opportunities and to prevailing market conditions.

The Fund slowed the pace of investment in its property and private equity programmes in 2007, initially due to its view that there was little room for improvement in credit conditions, and, later, due to the effects of the credit crunch. As of 26 December 2007, it had commitments of €1,054 million to property investments (€909 million at end 2006) and €47 million to private equity investments (€705 million at end 2006). Cash committed will be drawn down by the Fund's property and private equity investment vehicles as suitable investment opportunities arise.

Tenders for emerging markets equities managers to facilitate the Fund's increased emerging markets equities allocation are currently being evaluated. The 3.7 per cent cash holding reflects the cautious approach being taken to investing the 2007 Exchequer contribution, in view of the extreme volatility in the markets and the uncertain short-term outlook.

The Fund currently holds shares in over 2,500 quoted companies worldwide and holds some 190 debt securities. It also has investments in 25 property investment vehicles, 26 private

equity investment vehicles and 11 specialised investment products (including currency and emerging markets funds and commodity certificates).

Responsible Investment

The Fund is a signatory to the United Nations Principles for Responsible Investment, the aim of which is to integrate environmental, social and governance factors into investment decision-making and ownership practices. The Principles reflect the fiduciary duty of investors to their stakeholders as their first responsibility and deliberately do not call for screening or avoiding stocks. They promote a policy of engagement with companies whereby shareholders regard themselves as long-term owners of companies and raise concerns directly with company management to effect change. In order to implement the Principles, the Fund appointed Hermes Equity Ownership Services in July 2007 to execute proxy votes and engage with companies on its behalf. Hermes is the executive arm of the BT Pension Scheme, the UK's largest pension fund and has over the past decade developed an expertise in responsible investment.

8. ASSET COVERED SECURITIES ACT 2001

The Asset Covered Securities Act 2001 provides that, in the event of any issuer of securities defaulting, the NTMA must in the following order:

- Secure an alternative service provider to manage relevant asset pools; or
- Secure an alternative obligor for the relevant pools; or
- Manage the pools itself.

The Act further provides that the NTMA should have priority with respect to expenses incurred in the performance of its functions and will derive an annual commitment fee in return for accepting its functions under this Act. The Irish Financial Services Regulatory Authority has approved an annual commitment fee of one tenth of one basis point of the nominal amount of asset covered bonds issued. During 2007, €12.2 billion was issued under the legislation, bringing the total amount in issue to €72.2 billion.

9. OTHER NTMA FUNCTIONS

Under the NTMA Act 1990, the Minister for Finance may seek advice on, inter alia, the borrowing of money by persons whose borrowing is subject to his consent (including the timing and terms and conditions), the sale of assets on behalf of the State (including the employment of financial institutions) and on stock exchanges and other markets for stocks and shares. None of these issues arose in 2007.

National Treasury Management Agency
28 December 2007

APPENDIX I - CHANGE IN NOMINAL VALUE OF NATIONAL DEBT 2007

	€million
Value of National Debt (end 2006) (nominal)	35,917
Plus:	
(i) Exchequer Deficit (Department of Finance forecast)	1,623
(ii) Non-cash movements*	24
<u>Change in nominal value of National Debt</u>	<u>1,647</u>
<u>Value of National Debt (end 2007) (nominal)</u>	<u>37,564</u>

***Note:** Impact of exchange rate movements and net discounts on tranches and cancellations.
Premiums/discounts arise when bonds are issued at a price other than their par value due to a difference between the coupon on the bonds and market yields.

APPENDIX II - EBR GRAPH: EXCHEQUER BALANCE 2006 AND 2007

As at 21/12/2007

