



Results and Business Review 2010

Friday 7 January 2011. The National Treasury Management Agency (NTMA) today reported results for 2010 and provided a review of activities across the range of its business functions.

Speaking today, NTMA Chief Executive John Corrigan said that 2010 had undoubtedly been a very challenging year. While the full funding programme for 2010 was achieved, investor concerns about the banking sector, the fiscal situation and the wider issue of eurozone stability resulted in the Government seeking assistance through a three-year EU-IMF funding programme at the end of November.

Mr Corrigan said that the terms of the programme included loans of varying maturities up to twelve years with an average maturity of seven and a half years: “This was a key objective of the NTMA as it was important from a debt management perspective to avoid a situation whereby Ireland would be faced with a “funding wall” upon the conclusion of the programme.”

In addition, he noted that the EU-IMF programme does not preclude the NTMA from seeking to fund in the markets itself and said that the Agency will resume borrowing as soon as market conditions permit.

Funding and Debt Management

The NTMA raised €20 billion in long-term funding in 2010. This money was used to fund the Exchequer deficit of €18.7 billion and to refinance €1.2 billion of maturing debt.

The NTMA front-loaded a significant portion of its long-term borrowing programme in order to maximise the advantage to the Exchequer in terms of the cost of and appetite for Irish government debt which existed at the start of the year. In January, the Agency raised €5.0 billion through a syndicated bond issue. This was followed by monthly auctions for approximately €1.5 billion each month from February to September. As a result, the Agency

had achieved its borrowing target for 2010 before funding conditions deteriorated markedly during the final quarter of the year.

The weighted average cost of long-term funding raised in the bond market in 2010 was 4.7 per cent (2009: 4.6 per cent). Some 97 per cent of the National Debt now carries fixed rates of interest, affording the Exchequer considerable protection against the effects of rising interest rates. The average maturity of the National Debt was 5.9 years at end 2010. Total Exchequer debt service costs in 2010 of €4.8 billion were €320 million below budget.

At 31 December 2010 Ireland's National Debt stood at €93.4 billion. General Government Debt¹ was €148.6 billion, or 94.2 per cent of GDP.

National Pensions Reserve Fund²

At 31 December 2010 the total value of the National Pensions Reserve Fund ("NPRF") stood at €24.4 billion.

This total value comprised €14.9 billion in the Discretionary Portfolio (the Fund excluding the investments in Bank of Ireland and Allied Irish Banks (AIB) held on the direction of the Minister for Finance) and €9.5 billion in the Directed Portfolio.

The NPRF's Discretionary Portfolio earned a return of 11.1 per cent in 2010. Since the Fund's inception in April 2001, the Discretionary Portfolio has delivered an annualised return of 3.4 per cent per annum compared with 1.6 per cent per annum for the average Irish managed pension fund and the Irish inflation rate over the same period of 2.6 per cent per annum.

The positive performance of the Discretionary Portfolio in 2010 was largely due to strong equity performance with emerging markets performing particularly well, while the strength of overseas currencies against the euro also contributed.

¹ General Government Debt, which is the standard measure used within the EU for comparative purposes, is a gross measure and does not allow for the offsetting of Exchequer cash balances. As well as the National Debt it includes the Promissory Notes issued to Anglo Irish Bank, Irish Nationwide Building Society and Educational Building Society, Local Government debt and debt of non-commercial State bodies. Debt figures and ratios are based on Department of Finance estimates in Budget 2011.

² Information in respect of the NPRF is, in the case of direct quoted investments, based on valuation as of close of business on 31 December 2010 and, in the case of indirect investment vehicles, based on the most recently available valuations. All performance and valuation figures, including Directed Portfolio investments, are preliminary and subject to revision.

The Directed Portfolio of €9.5 billion comprised preference share investments of €5.3 billion carried at cost (AIB €3.5 billion, Bank of Ireland €1.8 billion) and ordinary shares of €4.1 billion³ that are valued at market price (AIB €3.4 billion, Bank of Ireland €0.7 billion). The return on the Directed Portfolio in 2010 was -7.9 per cent.

In December 2010 the NPRF, at the direction of the Minister for Finance, invested €3.7 billion in cash in AIB (in consideration of the issuance of 675 million ordinary shares and 10.5 billion convertible non-voting shares (“CNV shares”), the cancellation of warrants held by the NPRF and the payment by AIB to the NPRF of certain fees). The CNV shares were issued in order to facilitate the ongoing disposal of AIB’s Polish interests. The NPRF intends to increase its holding in AIB’s ordinary shares by converting all of the CNV shares into ordinary shares either following completion of the Polish disposal or at the latest by September 2011. The NPRF currently holds 49.9 per cent of the ordinary share capital of AIB and approximately 92.8 per cent of the total issued share capital of AIB.

The total Fund recorded a return of 4.5 per cent in 2010.

The NPRF will provide up to €10 billion of the State’s €17.5 billion contribution to the €85 billion EU-IMF programme. After an NPRF contribution of €10 billion, the value of the assets remaining in its Discretionary Portfolio would be approximately €4.9 billion, which would include capacity for the proposed investments in Irish infrastructure assets and water metering services as set out in The National Recovery Plan 2011-2014. The Credit Institutions (Stabilisation) Act 2010 also provides for Ministerial directions for the Fund to invest in Irish Government securities or for payments to the Exchequer to fund capital expenditure in the financial years 2011, 2012 and 2013. The implications of these developments for the Fund’s operations and investment strategy are being considered by the NPRF Commission.

Banking System Functions

In March 2010 the Government delegated a number of banking system functions of the Minister for Finance to the NTMA, including:

- leading discussions with the covered credit institutions to determine their likely capital requirements;

³ Figures do not add due to rounding.

- negotiating the terms and conditions on which any capital support provided by the State will be invested, and;
- managing any Ministerial shareholdings in these institutions.

Mr Corrigan noted that resolution of the banking sector issues was vital to addressing the funding challenges facing the State in the debt markets. As agreed under the EU-IMF programme, this will involve further recapitalisation of the Irish banks and implementation of measures aimed to deliver a steady deleveraging of the banking system. Building on restructuring carried out to date, further reorganisation and downsizing of the sector will be undertaken including specific plans for Anglo Irish Bank and Irish Nationwide Building Society. The NTMA Banking Unit has played a key role in the recapitalisation transactions for all of the covered institutions that have received State capital support and represents the Minister's stakeholder interest in each of these institutions.

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, including Government Ministers and health enterprises. It also has a risk management role, advising and assisting State authorities in minimising their claim exposures.

During 2010 the SCA received 1,623 new claims and resolved 1,690 existing claims. The SCA paid out €93.2 million against all classes of claims in 2010. This compares with a total of €63.7 million in 2009. The increase is mainly due to a maturing clinical claims (civil actions against a hospital and/or clinical person) portfolio.

By the end of 2010 the SCA had 4,114 claims under management. The total estimated liability against all active claims was approximately €1 billion, of which €900 million related to clinical claims and €100 million related to employer liability, public liability and property damage claims.

The management of the Health Service Executive's employer's liability, public liability and third party property damage claims and associated risks was delegated to the SCA with effect from 1 January 2010. The Agency is awaiting a new Delegation Order in early 2011 which will delegate to it additional classes of claims, including bullying/harassment claims, from State authorities.

The SCA has made considerable progress to date in relation to its risk management programmes covering various hospitals/health enterprises and State authorities. Recently, the Irish Prison Service, with the assistance of the Agency, was certified to the 18001 standard⁴ at its Midland and Portlaoise Prisons. These prisons are the first in Europe to achieve this accreditation.

National Development Finance Agency

The National Development Finance Agency (NDFA) has full responsibility for the procurement and delivery of Public Private Partnerships (PPP) projects in sectors other than transport and the local authorities. The NDFA's procurement function involves all aspects of PPP projects from contract negotiation to delivery of the completed facilities, including the monitoring of their construction. The NDFA is also responsible for the provision of financial and risk advice in relation to all non-PPP capital expenditure projects with a capital value of more than €30 million.

Significant developments in 2010 include:

- the NDFA's first procurement project reached completion – four primary schools providing accommodation for 2,700 students in Laois and Offaly were occupied in September. Construction on a second bundle of 6 schools providing accommodation for 4,700 students in Cork, Limerick, Kildare, Wicklow and Meath commenced during 2010. The competition for the third bundle of schools is progressing with tenders due to be received on 1 July from 3 shortlisted candidates. This bundle will provide accommodation for 5,700 students across 8 schools.
- The Third Level Institutions Bundle 1 procurement project tender process is at an advanced stage with preferred tenderer selection targeted for early 2011. This includes developments at Limerick Institute of Technology, University of Limerick, Cork Institute of Technology and Dun Laoghaire Institute of Art, Design & Technology. A contract notice was dispatched to the Official Journal of the European Union in respect of a second bundle on 1 October 2010.

⁴ The 18001 standard is an international occupational health and safety management system as certified by leading international standards bodies and specialist consultancies.

- The NDFA, in its capacity as financial adviser, is supporting the National Roads Authority in the procurement of two PPP roads projects. The first road project – N17/N18 (Gort-Tuam) – is now expected to commence construction in early 2011. Tenders for the second roads project – the N11 (Arklow-Rathnew, incorporating Newlands Cross) – are under evaluation and the contract is expected to be awarded during the first half of 2011.
- The Aviva Stadium and the National Convention Centre, two projects on which the NDFA has provided financial advice, completed construction and commenced operations in 2010.

National Asset Management Agency

2010 was the first full year of operation for the National Asset Management Agency (NAMA) to which the NTMA provides staff and support services. The recruitment of employees with the necessary skills and also capable of meeting the significant prequalifying criteria set out in the NAMA Act posed a significant logistical challenge. Coming from a start-up position, over 100 staff were recruited for NAMA by year end and it is expected that this may need to increase to 150 over the course of 2011.

During 2010, NAMA completed the acquisition of about 11,000 loans from 850 debtors with a nominal value of some €71.2 billion. In exchange, the five participating institutions have received government-guaranteed securities to a value of €30.2 billion, equivalent to a discount of approximately 58 per cent. NAMA also concluded its review of business plans from the top 30 developers which account for approximately €27 billion (nominal value) of the loans which have been acquired.

Under the EU-IMF Programme, AIB and Bank of Ireland debtor exposures of less than €20 million in land and development loans are due to transfer to NAMA in the early part of 2011. The terms of this transfer will be governed by legislation currently being drafted and it is estimated that nominal loan balances of up to €16 billion may be involved.

In 2010, NAMA approved the sale of close to €2 billion in property assets held by NAMA borrowers in order to pay down debts either to the Agency itself or to the relevant banks.

Some of the funds realised are also being used to pay down debt owed by borrowers to non-NAMA banks where they had co-lent on relevant developments.