



NTMA Publishes Annual Report 2010

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Thursday, 21 July 2011: The National Treasury Management Agency (NTMA) today published its Annual Report 2010 and provided an update on activities across the range of its business functions: funding and debt management, banking system functions, the State Claims Agency, the National Development Finance Agency, the National Pensions Reserve Fund and the National Asset Management Agency¹.

Commenting on the current state of the bond markets, NTMA Chief Executive John Corrigan said: “international investors acknowledge the strong progress Ireland is making in tackling its domestic problems but the stresses in the eurozone overshadow everything else. Resolution of these wider eurozone issues is fundamental to Ireland being able to regain access to the markets.”

Reflecting on 2010, John Corrigan described the year as “exceptionally challenging” because of the escalating debt crisis and the increasing demands placed on the NTMA by the economic and banking collapse. The NTMA played a key role in supporting the Government’s response to the financial crisis through the establishment of NAMA and a specialist Banking Unit.

“Establishment of NAMA from a standing start in December 2009 to become fully operational with over 100 staff and a €30 billion balance sheet by end 2010 was an enormous logistical challenge – one which required a tremendous effort from staff assigned to NAMA and also from our corporate support services staff,” John Corrigan said.

In March 2010 the NTMA established a specialist Banking Unit and a small number of skilled professionals were recruited from the private sector to create a team capable of dealing with the very significant banking sector challenges facing the State. The recapitalisation of the banking

¹ The National Asset Management Agency will be publishing its Annual Report separately.

sector including significant burden sharing from subordinated bondholders has now been substantially achieved.

John Corrigan commented that the year had demonstrated the value of the NTMA model in being able to respond with speed and flexibility to the crisis management needs of the State.

Funding and Debt Management

As part of its ongoing investor relations programme the NTMA conducted a comprehensive round of meetings and presentations in May and June 2011 across financial centres in Europe, North America and the Far East. The recent downgrade of Ireland's credit rating means that certain existing investors in Irish debt – which have credit rating constraints on the bonds in which they can invest – will no longer be able to purchase Irish bonds. A key challenge for the NTMA, therefore, is to further develop the prospective investor base.

John Corrigan said: “the key criteria investors will consider before deciding to invest in Ireland are continuing progress in meeting the fiscal targets agreed with the troika, completion of bank recapitalisation, progress on bank deleveraging, further sale of NAMA assets, and action at EU level on the wider eurozone crisis.”

The publication of the results of the bank stress tests on 31 March last finally drew a line under the Exchequer exposure to the banking system and will ensure that the banks are adequately capitalised to meet even the most stressed scenarios. While Ireland is also meeting its targets under the EU/IMF programme, the wider concerns among investors about eurozone stability has meant that the progress being made by Ireland is not currently being reflected in the price of Irish Government bonds.

The NTMA frontloaded its annual borrowing programme in early 2010 to take advantage of positive investor sentiment towards Ireland and achieved its full-year borrowing target of €20 billion at an average interest rate of 4.7 per cent before market conditions deteriorated. Achievement of this borrowing enabled the Exchequer to maintain €16 billion in cash balances at the end of the year.

To date Ireland has borrowed €23 billion under the EU/IMF programme at an average interest rate of 5.6 per cent (following hedging operations by the NTMA to guard against currency and

interest rate risk) and an average maturity of 6.8 years. Ireland has sufficient funding under the EU/IMF programme until the end of 2013.

The NTMA has maintained limited access to the short-term debt markets through its commercial paper programme and currently has some €500 million outstanding – mainly in one month maturities.

The General Government Debt is projected to increase by €25 billion in 2011 to €173 billion or 111 per cent of GDP. The debt/GDP ratio is projected to peak at 118 per cent in 2013 (when the debt is projected to reach a nominal value of some €200 billion) and to start to decline thereafter. In accordance with Eurostat rules these are gross figures and do not take account of the value of offsetting assets such as those of the National Pensions Reserve Fund.

Banking System Functions

The implementation of the EU/IMF programme has been a fundamental driver of the work of the NTMA Banking Unit. The Banking Unit has been closely engaged in the development of the deleveraging and restructuring plans for the covered institutions. It has also managed the State's capital injections into the institutions, the sale of the deposit books of Anglo Irish Bank and INBS and the mergers of Anglo Irish Bank with INBS and AIB with EBS.

Since its establishment in March 2010, the Banking Unit has engaged with the banks to drive an agenda of burden sharing with subordinated bondholders and asset disposals. In total, these capital generating measures have delivered €12.1 billion which would otherwise have had to be provided by the taxpayer. This includes €4.4 billion in burden sharing since 31 March 2011 following the Central Bank's PCAR/PLAR review - a sum expected to rise to some €5 billion.

The NTMA banking team is being seconded to the Department of Finance as part of the new stand-alone unit to provide State oversight of the banking system.

State Claims Agency (SCA)

The Government significantly expanded the SCA's remit in February 2011 with the delegation of the management of claims against 13 new authorities and several additional classes of claims (including personal injury related to bullying/harassment and members of the Defence Forces serving abroad). The total number of authorities under the SCA's remit is now 54.

At end June 2011 the SCA had 4,472 claims under management. The total estimated liability against all active claims was €924 million, of which €812 million related to clinical claims and €112 million to employer liability, public liability & property damage claims.

During the first six months of 2011 the SCA resolved 765 claims and received 1,006 new claims. It has spent a total of €63 million on the resolution and ongoing management of claims in the six months to end June.

National Pensions Reserve Fund (NPRF)

The NPRF Discretionary Portfolio (the Fund excluding the public policy investments in Bank of Ireland and Allied Irish Banks made at the direction of the Minister for Finance) earned a return of 11.7 per cent in 2010 compared with a return of 11.4 per cent to the average Irish managed pension fund. Its return on a per annum basis (annualised return) since inception in 2001 to end 2010 was 3.5 per cent compared with an annualised return to the average Irish managed pension fund of 1.6 per cent over the same period.

On foot of directions from the Minister for Finance and in anticipation of the Fund's contribution that will be required under the EU/IMF programme, €10 billion in cash was realised by liquidating assets of the Discretionary Portfolio in two tranches in February and April 2011.

The directed investments (the public policy investments in Bank of Ireland and Allied Irish Banks made at the direction of the Minister for Finance) return during 2010 was -25.7 per cent. The negative performance of the directed investments was due to movements in ordinary share prices of both banks and revaluation of the Fund's preference shares at year end. The preference share investments were valued at fair market value at 31 December 2010 as follows:

- AIB 58.5 per cent of cost,
- Bank of Ireland 79.4 per cent of cost.

National Development Finance Agency (NDFA)

In 2010 the NDFA completed its first procurement project– four post primary schools providing accommodation for 2,700 students in Laois and Offaly were delivered within budget and occupied on time for the start of the new 2010/11 school year. Six further schools which will provide accommodation for approximately 4,700 students in Cork, Limerick, Kildare, Wicklow and Meath are due to be occupied variously between September and November 2011.

Overall, the NDFA is either acting as the procurement authority or as financial advisor on more than 50 infrastructure projects. Projects underway where the NDFA is the procuring authority include a third bundle of eight schools and third level facilities involving 15 buildings across nine campus locations.

In its financial advisory role the NDFA is supporting the National Roads Authority (NRA) in the procurement of two PPP roads projects. The preferred tenderer for the N11 (Arklow-Rathnew, incorporating Newlands Cross) scheme was appointed by the NRA in June 2011. The preferred tenderer for the N17/N18 (Gort-Tuam) scheme is expected to be appointed during the second half of 2011. The NDFA is also advising the NRA on a second tranche of motorway service areas which was launched in May 2011.

The NDFA continues to provide financial advice on a number of significant infrastructure projects in the transport, justice, waste and water sectors. The NDFA acts as financial advisor to the Health Service Executive on a number of high profile health projects including the National Paediatric Hospital, Sligo General Hospital and Galway University Hospital.