

NATIONAL TREASURY MANAGEMENT AGENCY

IRELAND

REPORT & ACCOUNTS

FOR THE YEAR ENDED

31 DECEMBER 2000

LEGAL FRAMEWORK

The National Treasury Management Agency Act, 1990 provided for the establishment of the National Treasury Management Agency "to borrow moneys for the Exchequer and to manage the National Debt on behalf of and subject to the control and general superintendence of the Minister for Finance and to perform certain related functions and to provide for connected matters".

The 1990 Act enabled the Government to delegate the borrowing and debt management functions of the Minister for Finance to the NTMA, such functions to be performed subject to such directions or guidelines as he might give. Obligations or liabilities undertaken by the NTMA in the performance of its functions have the same force and effect as if undertaken by the Minister. The NTMA came into existence on 3 December 1990.

The Chief Executive, who is appointed by the Minister for Finance, is directly responsible to him and is the Accounting Officer for the purposes of the Dáil Public Accounts Committee. The NTMA has an Advisory Committee to assist and advise on such matters as are referred to it by the NTMA.

Additional functions have been given to the NTMA since 1990, most recently under the National Pensions Reserve Fund Act, 2000 and the National Treasury Management Agency (Amendment) Act, 2000. The Dormant Accounts Bill, 2001, currently being debated by the Oireachtas, also proposes additional responsibilities for the NTMA.

29 June, 2001

Mr. Charlie McCreevy, 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 Accounts of the National Treasury Management Agency for the year ended 31 December 2000.

Yours sincerely,

Michael J. Somers
Chief Executive

TABLE OF CONTENTS

TABLE OF CONTENTS.....	4
INTRODUCTION.....	5
SUMMARY OF ACTIVITY.....	10
FINANCIAL OPERATIONS.....	11
THE NATIONAL DEBT.....	14
DEBT SERVICE COSTS.....	20
DEBT MANAGEMENT ACTIVITY.....	24
NATIONAL SAVINGS SCHEMES.....	41
CREDIT RATINGS.....	48
STRATEGY AND RISK MANAGEMENT	49
OPERATIONS	52
LEGAL AND CORPORATE AFFAIRS	54
ULYSSES SECURITISATION P.L.C.	55
NEW BUSINESS ACTIVITIES	56
NATIONAL PENSIONS RESERVE FUND	56
STATE CLAIMS AGENCY	57
SOCIAL INSURANCE FUND.....	60
CENTRAL TREASURY SERVICE.....	60
DORMANT ACCOUNTS	61

INTRODUCTION

TEN YEARS ON

In a rapidly changing world it is perhaps appropriate that the picture on the cover of this, the NTMA's tenth annual report, should be called 'Changing Course', as preparations for the substantial increase that is taking place in the range of NTMA's responsibilities and activities have been one of the dominant features of the past year.

Like most financial institutions worldwide, the year began with the expected, but nonetheless welcome, relief that the extensive preparations that had been put in place to deal with the much dreaded Y2K phenomenon had been effective, and that the world as we knew it before the year 2000 was still with us when we opened for business on 4 January 2000 – the very large number of payments managed by the NTMA came and went in an orderly and timely manner, no settlement failures were experienced and the heating, lighting and telephone still worked!

The growing buoyancy of Exchequer revenues throughout the year reduced debt issuance below prior year levels and, in the latter part of the year, the NTMA announced that the bond auctions scheduled for October and November would be cancelled. As a result, the Agency's activities in the debt markets last year were focused in particular on maximising liquidity in Irish Government bonds and minimising yield spreads relative to the major issuers.

Meanwhile, the Government was advancing plans to give substantial new responsibilities to the NTMA. During the year the Agency was actively involved in the drafting of two important pieces of legislation which were passed by the Oireachtas in December – the National Pensions Reserve Fund Act, 2000 and the National Treasury Management Agency (Amendment) Act, 2000. Under these two Acts, the NTMA has responsibility for several new functions in addition to the debt management responsibilities which it continues to have under the original 1990 National Treasury Management Agency Act. These new functions include:

- National Pensions Reserve Fund (NPRF): Management, under the direction of the NPRF Commission, of this long term fund, currently having assets in excess of €7 billion.

- State Claims Agency: Establishment and management of an agency to manage certain liability claims against the State.

- Social Insurance Fund: Management of a longer term investment strategy for the growing surplus in the Fund, currently amounting to almost €1 billion.

- Central Treasury Service: Provision of deposit and lending services to a wide range public bodies including Local Authorities, Health Boards and Vocational Educational Committees.

Since the latter part of 1999, the NTMA has dedicated increasing time and resources to preparing for these new activities, a common characteristic of which is their large financial scale; it is very rare, for example, that a ‘start up’ investment fund would have initial assets of over €7 billion. As a result, the NTMA has placed a lot of emphasis on thorough and detailed planning while at the same time proceeding towards implementation of these new functions as quickly as prudence allows; specific areas of preparation include: business strategy and planning, recruitment of specialist staff, systems development, accounting, custody arrangements and financial management.

These new activities have, in a number of cases, already commenced: in the case of the NPRF (and its precursor, the Temporary Holding Fund for Superannuation Liabilities), the NTMA has been managing the investment of the Fund’s assets in the money markets since mid 1999,

pending implementation later this year of the agreed long term asset allocation strategy; the Central Treasury Service came into operation in May 2001 and a number of deposit and loan transactions are already on the books. The implementation and management of the investment strategy for the Social Insurance Fund is expected to start within the next month following completion of securities clearing and custody arrangements, while preparations for the State Claims Agency are well advanced with the initial management of cases expected to commence in the third quarter of this year.

As this is written some ten years on, it all seems a long way from the darker days of December 1990 when the Agency was formally established – a time before budgetary surpluses had been ‘invented’, when the Debt/GNP ratio stood at almost 100 per cent and certainly a time when the idea of an investment reserve fund to provide for the future would very quickly have been dismissed as fanciful in the extreme!

Looking forward, there will be a ‘change of course’ in the direction of the NTMA. Change, however, is not new to the Agency. Over the past ten years, the NTMA has engaged directly and positively with the many changes that have occurred in the business and market environment; the introduction of a primary dealership system, the concentration on a smaller number of liquid benchmark stocks and the adoption of bond conventions in line with the larger markets represent some of the significant changes to the Irish Government bond market introduced by the Agency in recent years in response to the more open and competitive international environment.

While the new areas of responsibility will undoubtedly present challenges at various times in the future, they represent important and innovative steps in the overall management of the State’s finances.

Meanwhile the Debt, while greatly reduced in relative terms, will still amount to some €34 billion at year end 2001, and annual interest payments cost the Exchequer some €2 billion; clearly, therefore, the Debt continues to require dedicated and professional management.

It is, therefore, with a combination of experience, commitment and optimism that the NTMA takes on its new responsibilities and faces the challenges and opportunities of the coming years.

NATIONAL TREASURY MANAGEMENT AGENCY

CHIEF EXECUTIVE

Michael J. Somers

DIRECTORS

John C. Corrigan National Pensions Reserve Fund

Anne Counihan Legal & Corporate Affairs

Jim Farrell Funding, Debt Management and Information Technology

Adrian J. Kearns State Claims Agency

Paul Sullivan Risk and Financial Management

ADVISORY COMMITTEE

Joe Moran (Chairman) Director, Celtic Utility

Gerold W. Brandt Member of the Managing Board, Bayerische Landesbank, Munich

Paul Carty Partner, Deloitte & Touche, Dublin

John F. Daly Chairman, High Skills Pool Limited

Lewis L. Glucksman Private Investor

John Hurley Secretary General, Department of Finance – from March 2000

Patrick H. Mullarkey Secretary General, Department of Finance – to March 2000

Donald C. Roth Managing Partner, Emerging Markets Partnership, Washington D.C.

ADVISORY COMMITTEE

The Advisory Committee met on five occasions in 2000. In March 2000, Paddy Mullarkey resigned from the Committee and John Hurley was appointed a member.

The NTMA would like to thank the Committee for their advice and assistance during the year and for their commitment of time and effort, both on the NTMA's business and, in the case of the overseas members, on travelling to Committee meetings.

In particular, the NTMA would like to thank Paddy Mullarkey for his contribution to the NTMA during his term of office on the Committee.

STAFF

Given the range, scale and complexity of the NTMA's activities, the professionalism and commitment of staff is critical to its success. The Agency's completion of ten successful years of managing the National Debt is in no small part attributable to the commitment of all its staff over that period. In the past year, the substantial preparations required for the NTMA's new activities – the establishment and management of the Central Treasury Service, the National Pensions Reserve Fund and the State Claims Agency and the management of the investment of the Social Insurance Fund – have all required particular effort on the part of staff. The Chief Executive and Directors would like to acknowledge this effort and express their appreciation to all staff members.

SUMMARY OF ACTIVITY

The key features of 2000 were:

- A fall in the nominal value of the National Debt by €3.3 billion.
- Exchequer debt service costs €271 million below the Budget estimate (after adjustment for exceptional items).
- A fall of 11 percentage points in the Debt/GDP ratio, to 39 per cent at end 2000 – the second lowest Debt/GDP ratio among the 15 EU Member States.
- Savings of €29.5 million against an externally audited benchmark.
- Management of some €6.5 billion in the State's Temporary Holding Fund for Superannuation Liabilities, now the National Pensions Reserve Fund following enactment of the National Pensions Reserve Fund Act, 2000.
- Preparations for the establishment of the State Claims Agency to manage certain personal injury compensation and property damage claims against the State and for the provision of a Central Treasury Service to a number of public sector bodies.

FINANCIAL OPERATIONS

The year 2000 represented the third year in a row in which the public finances were in surplus. The Exchequer surplus has grown from €48 million in 1998 to €1,512 million in 1999 and to €3,177 million in 2000; adjusted for certain non-cash items, the underlying cash surplus was €3,050 million.

As was the case in 1999, the NTMA's funding during the year 2000 was based on refinancing maturing and prepayable debt. The NTMA was also active in other debt management activities, both to support the liquidity of the domestic bond market and to manage the currency composition and interest rate profile of the portfolio in line with policy targets.

While the underlying budget surplus in 2000 was €3,050 million, the overall cash surplus was €3,311 million as payments into the Small Savings Reserve Fund and the Capital Services Redemption Account did not require to be funded. This surplus allowed the NTMA to make significant net repayments of debt – amounting to some €3,616 million over the year – after reducing cash balances by €305 million.

During the course of 2000, the NTMA's sources of funds were:

	<u>€million</u>
Bonds denominated in euro	969
Notes, & Commercial Paper (net)	92
Other domestic borrowing	4
Reduction (net) in deposits and other cash balances	305
	<hr/> <u>1,370</u> <hr/>

These funds, together with the Exchequer cash surplus of €3,311 million, resulted in total resources of €4,681 million which were used to repay debt as outlined below:

	<u>€million</u>
Bonds denominated in euro	2,952
Central Bank Loans ¹	40
National Savings Schemes (net)	237
Euro-legacy debt ²	1,212
Foreign currency debt ³	240
	<hr/>
	<u><u>4,681</u></u>

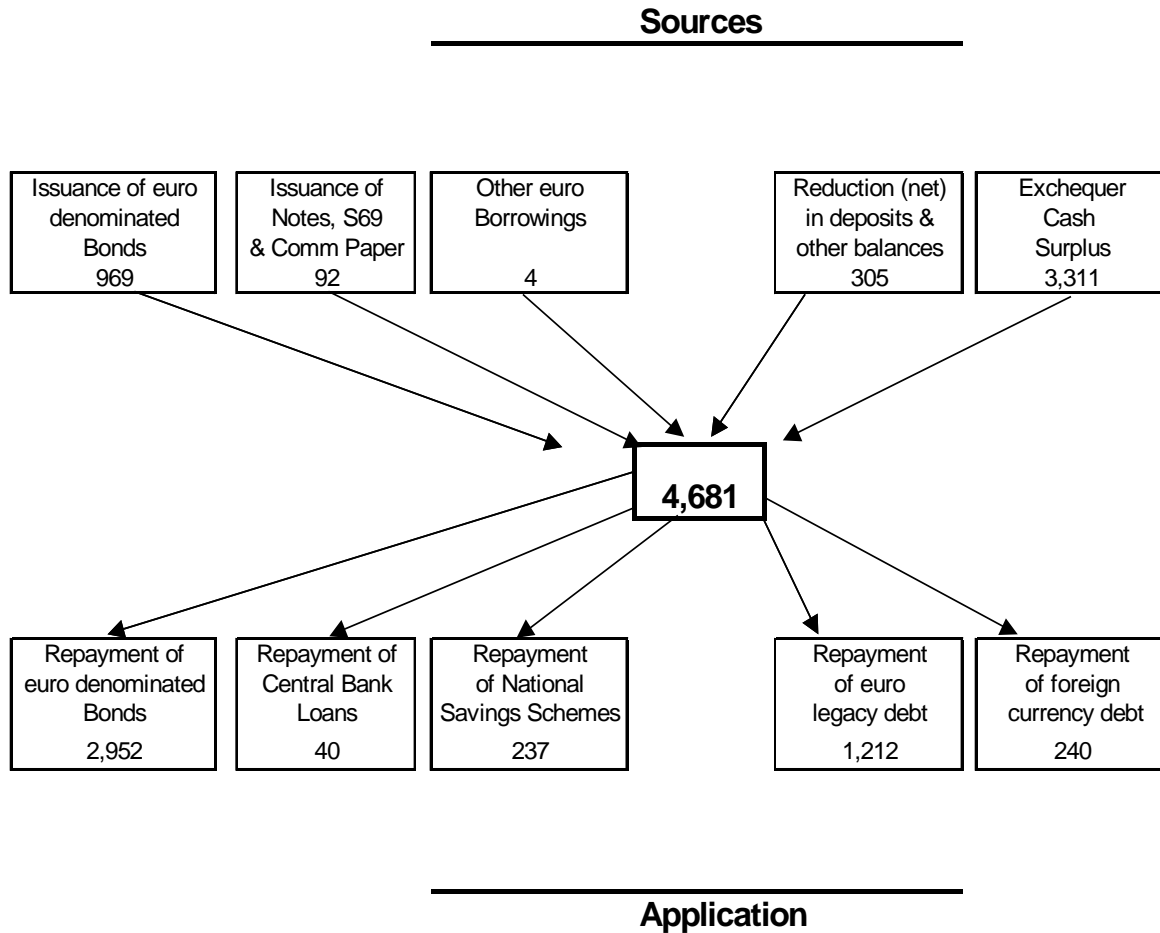
¹ These loans had originally been made to the Exchequer, under the terms of Section 3 (4) of the Bretton Woods Agreements Act, 1957, in relation to Ireland's membership of the IMF and the World Bank.

² Euro legacy debt comprises debt contracted and denominated in the individual currencies of other EMU participant countries, now replaced by the euro.

³ Debt issued in non-euro currencies but hedged into euro. Non euro amounts are shown in euro equivalents.

The diagram below shows the main sources and application of funds:

Sources and Application of Funds - €Million



Gross cash flows decreased by €6 billion to €295 billion. These flows consisted of gross borrowings of €61 billion, gross repayments of €65 billion, flows on foreign exchange and derivatives transactions of €79 billion, REPO transactions of €1.4 billion, Temporary Holding Fund transactions of €86 billion and interest and associated payments of €2.6 billion.

THE NATIONAL DEBT

The nominal value of the Debt as traditionally measured (the National Debt), which is calculated net of cash balances, was €36.5 billion at end 2000; this is some €3.3 billion below the end 1999 level of €39.8 billion. The decrease in the Debt principally reflects the Exchequer budget surplus of some €3.2 billion; the impact of the surplus and other factors contributing to the fall in the Debt are shown below.

CHANGE IN NOMINAL VALUE OF NATIONAL DEBT IN 2000

	€million equivalent
Value of National Debt (end 1999) (nominal)	<u>39,849</u>
Less: i) Exchequer Surplus	3,177
ii) Exchange Rate Impact	81
iii) Impact of change in CSRA current balance	224
Plus:	
Impact of net discounts on Tranching and Cancellations ⁴	144
Decrease in nominal value of National Debt	3,338
Value of National Debt (end 2000) (nominal)	<u>36,511</u>

⁴ Premiums/Discounts arise when bonds are issued at other than their par value due to a difference between the coupon on the debt and market yields.

CURRENCY AND INTEREST RATE COMPOSITION OF THE DEBT

In the second half of 1998 and early 1999, as part of the transition to the euro, the NTMA took the strategic decision to hedge into euro all non-euro related debt other than sterling. Given the significant appreciation of the main non-euro currencies, particularly the US dollar, against the euro, maintaining borrowings in these non-euro currencies would have added some €700 million to the Debt at year end had they not been hedged into euro; using current foreign exchange rates the impact would now be in excess of €900 million.

As a result of this hedging activity, some 94 per cent of the National Debt at year end was in euro with the balance of 6 per cent in sterling.

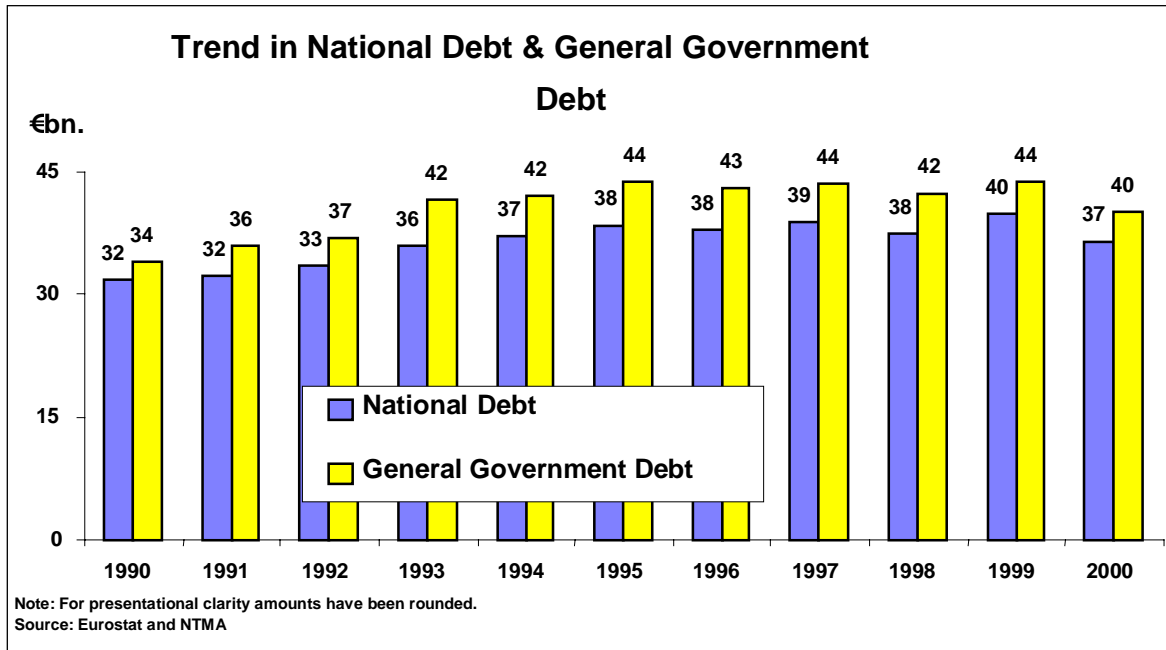
During 2000 the duration of the Debt was maintained at close to 3.9 years.

THE GENERAL GOVERNMENT DEBT

The General Government Debt (GGD) is the definition of debt used for comparative purposes within the European Union. The National Debt, as traditionally measured, is the principal component of the GGD. However, GGD is a gross measure of debt and, therefore, does not include any offset for Exchequer cash balances; in addition, GGD represents a wider definition of Government, including Local Government debt and certain other liabilities of Government. Under the ESA 95 basis for reporting, measurement of GGD includes the estimated interest overhang on the National Savings Schemes, amounting to some €2,378 million at end 2000. This overhang represents interest accrued over several years but not paid on these schemes; investors will receive this interest on encashment or part encashment of their respective investments. The adjustment from National Debt to GGD due to this item stabilised at end 1998 as the Minister has since then provided for full accrual on these schemes.

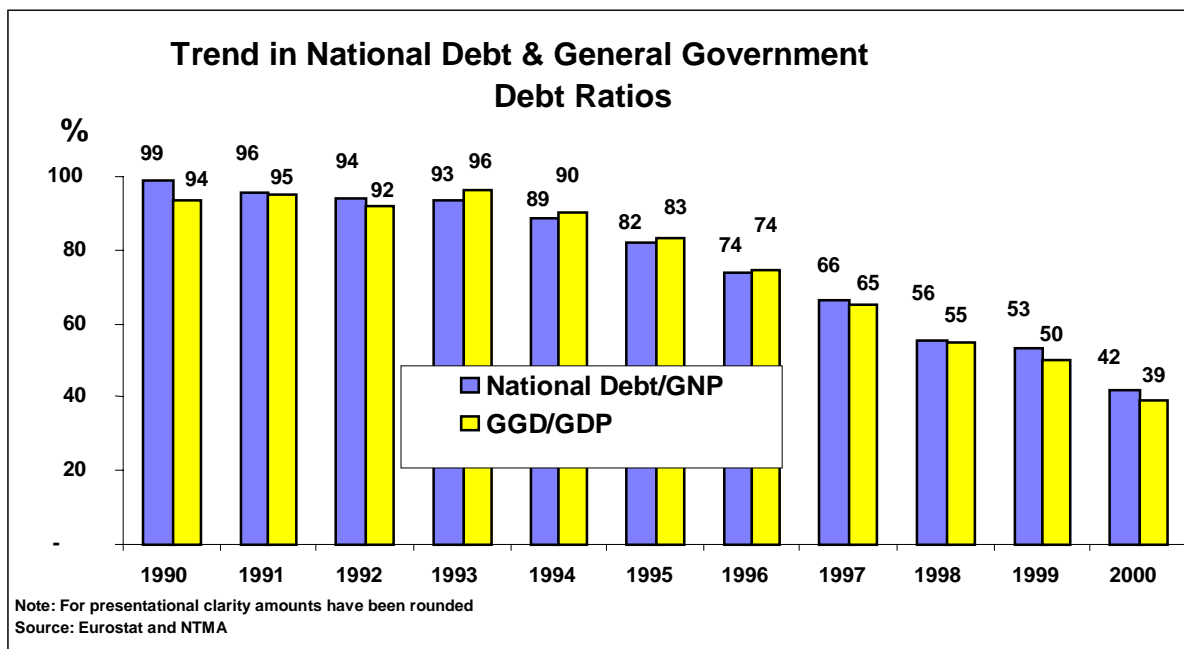
The GGD was some €40.0 billion at end 2000. This compares with a figure of €43.9 billion at end 1999, a decrease of some €3.9 billion. As in the case of the National Debt outlined above, the decline in the GGD was mainly due to the Exchequer budget surplus. However, GGD fell by some €0.6 billion more than the National Debt, primarily due to the increase (€500

million) in the surplus in the Social Insurance Fund invested in Exchequer Notes which is netted off in the GGD measure of indebtedness.



DEBT RATIOS

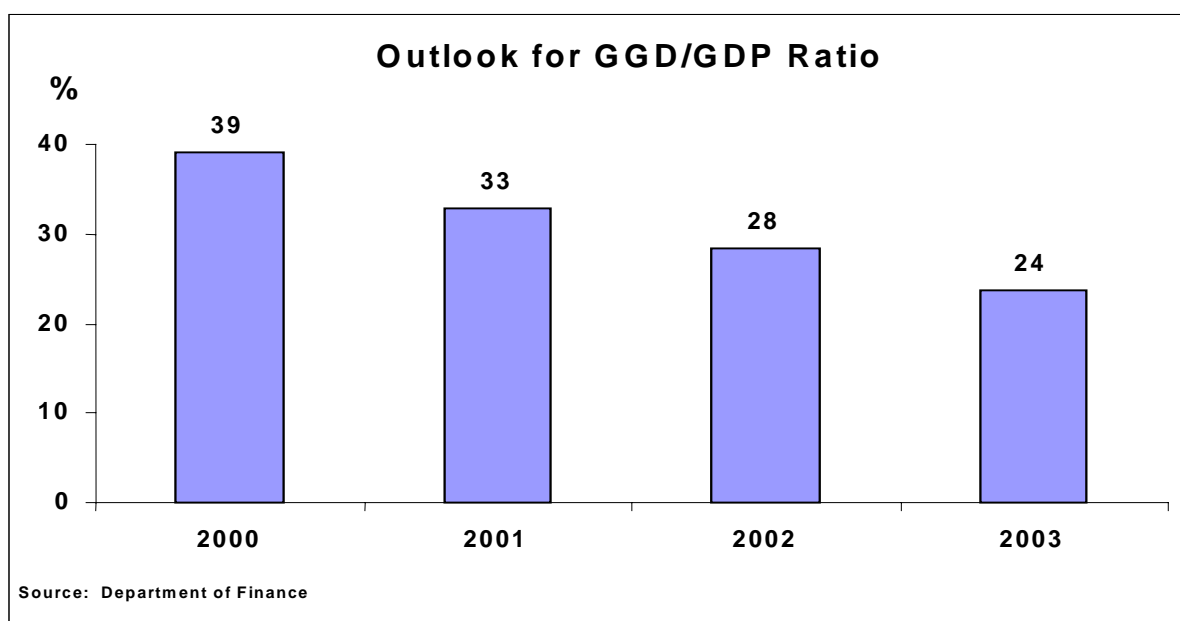
While the absolute level of Debt has remained within a relatively narrow range over the past several years, the ratios of Debt to GDP and GNP have declined sharply because of the strong growth of the economy.



The GGD/GDP ratio fell by eleven percentage points during the year – from 50 per cent at the end of 1999 to an estimated 39 per cent at end 2000, reflecting both the Exchequer surplus and the strong growth in GDP in 2000. Similarly, the National Debt expressed as a percentage of GNP decreased by 11 percentage points to 42 per cent at end 2000 from almost 53 per cent a year earlier.

If the €6.4 billion invested at year end in the National Pensions Reserve Fund were to be included as an offset to the National Debt, as is the case with Exchequer cash balances, this would have reduced the National Debt/GNP ratio at end 2000 by an additional 8 percentage points, from 42 per cent to 34 per cent. Similarly, netting out the Fund from the General Government Debt would have reduced the GGD/GDP ratio by an additional 6 percentage points, from 39 per cent to 33 per cent.

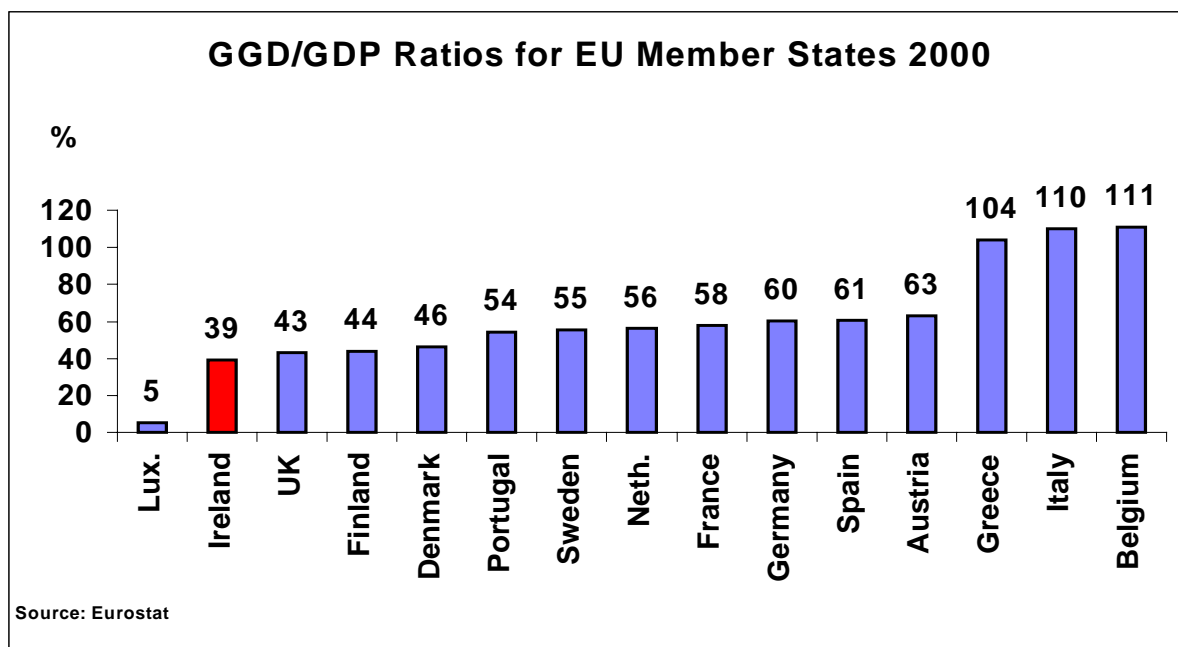
The outlook over the next few years, as outlined in the Government's Budget last December, points to a further decline in the GGD/GDP ratio – from 39 per cent at the end of 2000 to some 24 per cent by end 2003, as shown below:



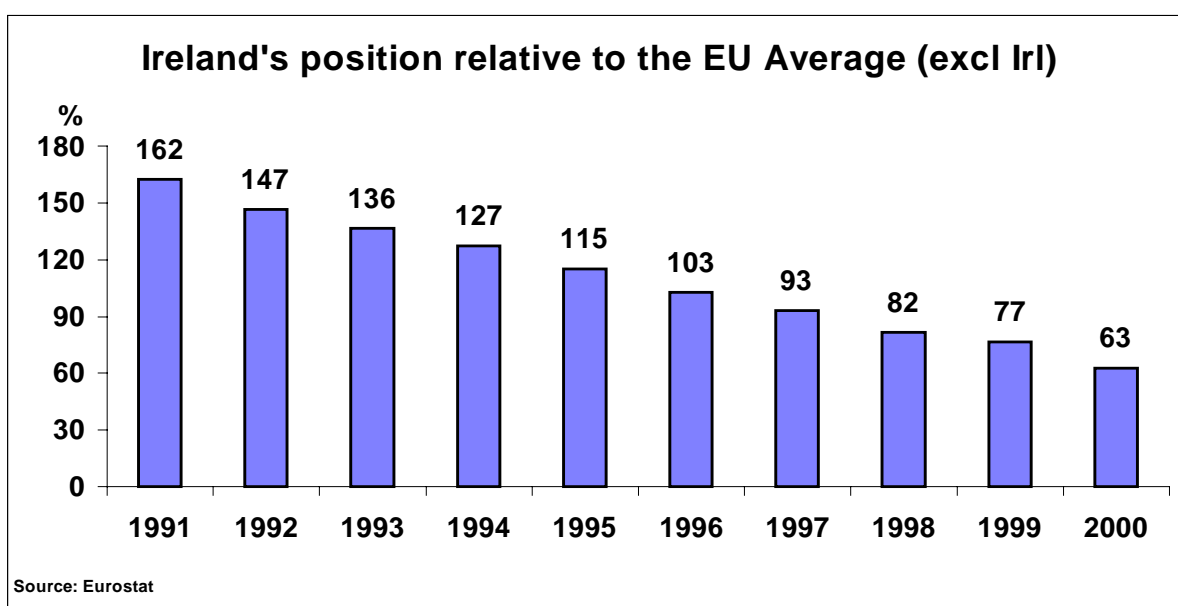
INTERNATIONAL COMPARISONS

International comparisons of indebtedness are normally based on the ratio of General Government Debt to Gross Domestic Product – GGD/GDP.

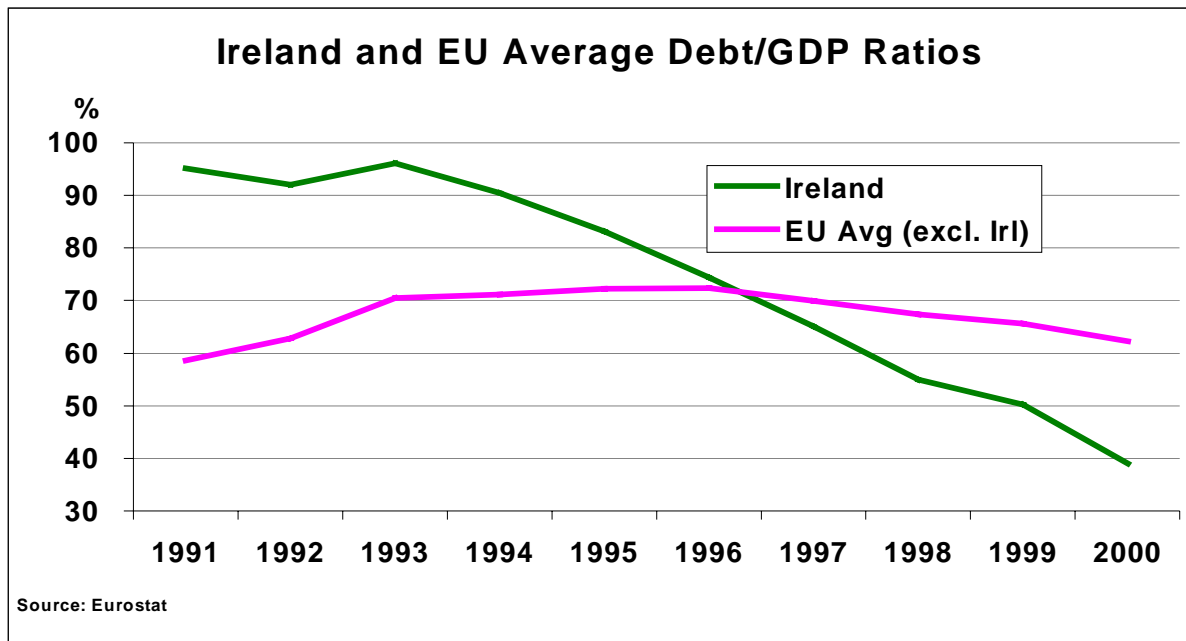
By end 2000, Ireland's comparative indebtedness was the second lowest among the fifteen EU Member States, representing a continuation of the improvement in Ireland's relative position in recent years; as recently as the end of 1996, Ireland was eleventh out of the fifteen Member States.



As a result of this improvement, Ireland's comparative indebtedness had fallen below two thirds of the EU average by the end of last year; this compares with a position well above the average in the first half of the decade.



The primary factor driving this improvement over the past seven years has been the favourable trend of Ireland's performance rather than a material change in the EU average itself, as can be seen from the graph below:



DEBT SERVICE COSTS

Reported 2000 Exchequer debt service expenditure was €2,799 million, some €47 million below the budget of €2,846 million. Included in this debt service outturn was an unbudgeted payment of €224 million into the Capital Services Redemption Account (CSRA) in December at the direction of the Minister for Finance.

Allowing for this item, the adjusted Exchequer debt service expenditure was €2,575 million. The overall result, therefore, as shown in the table below, was a favourable debt service variance of some €271 million relative to the Budget estimate, due mainly to the buoyancy in the Government's finances.

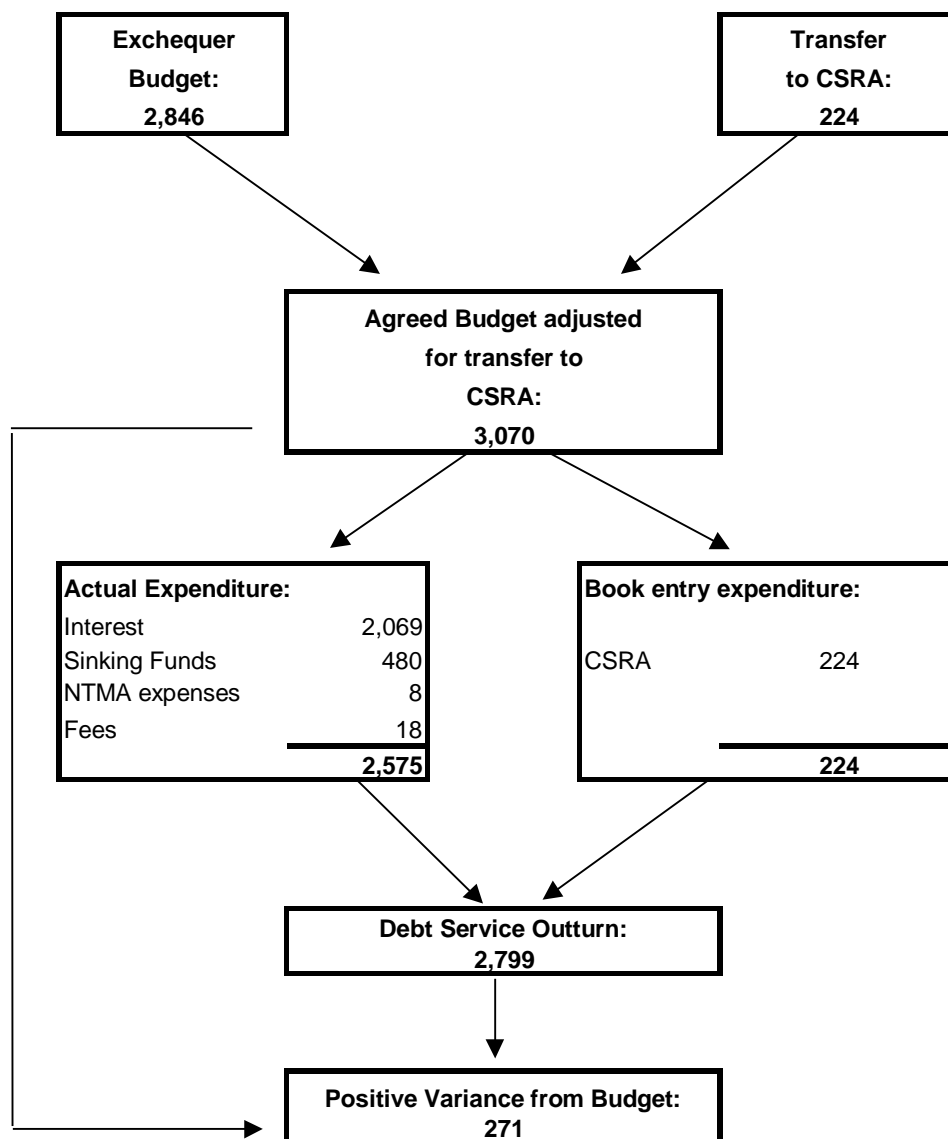
Of this €271 million, some €47 million went towards increasing the 2000 Exchequer surplus and €224 million has been carried forward in the balance in the CSRA. As a result, the balance in the CSRA was some €806 million at end 2000; in his Budget last December the Minister decided to use some €508 million and €92 million of this CSRA balance in 2001 and 2002 respectively.

ANALYSIS OF EXCHEQUER DEBT SERVICE OUTTURN RELATIVE TO BUDGET		
	(€million)	
	<u>OUTTURN</u>	<u>BUDGET</u>
Exchequer Debt Service Expenditure	2,799	2,846
Less: Payment to CSRA	<u>224</u>	
Adjusted Exchequer Debt Service Expenditure	<u>2,575</u>	<u>2,846</u>
Adjusted Favourable Variance from Budget	271	

Debt service costs of €2,799 million include interest payments of €2,293 million, sinking fund payments of €480 million, fees of €18 million and administration expenses of €8 million. The interest payments of €2,293 million include the above mentioned transfer of €224 million to the CSRA, giving an underlying Exchequer interest cost of €2,069 million.

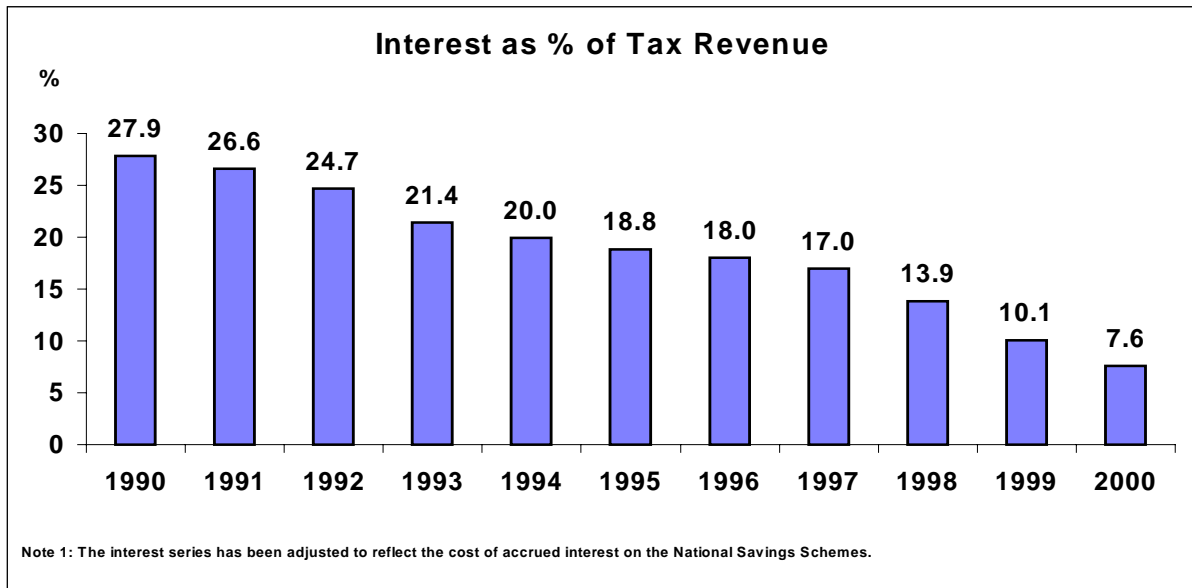
A diagram showing the breakdown of debt service costs is set out below:

Analysis of Debt Service Outturn relative to Budget - €Million.

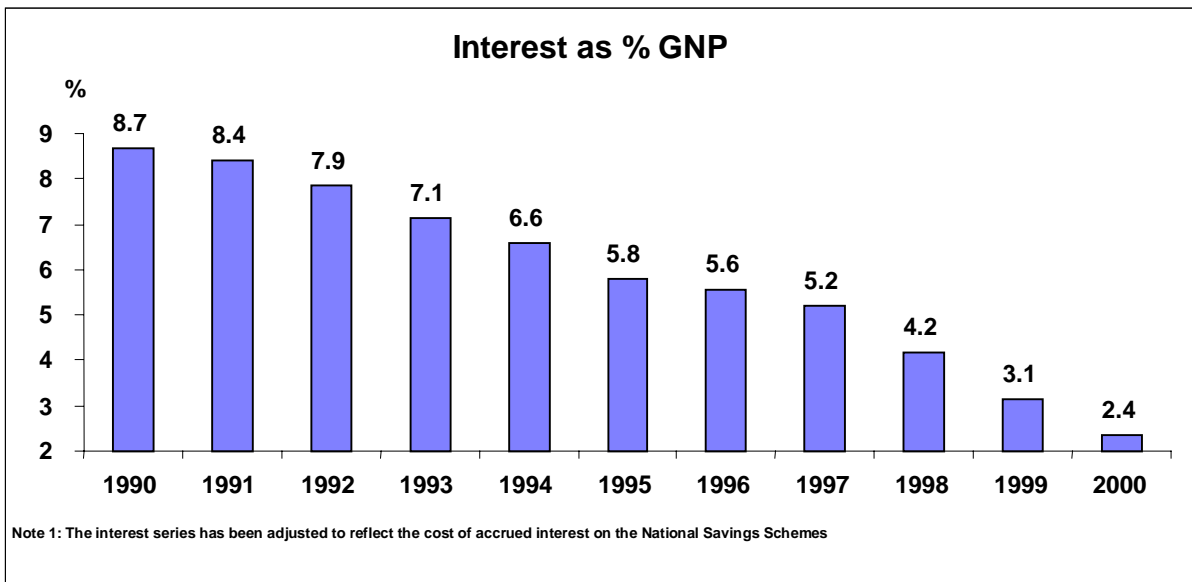


The burden of debt service costs on the economy and the taxpayer continued to fall in 2000. The ratio of interest payments to tax revenues declined by 2.5 percentage points, continuing the downward trend of the past several years. As a result, interest on the Debt now absorbs

some 7.6 per cent of tax revenue compared to almost 28 per cent at the beginning of the decade, resulting in the freeing up of substantial financial resources for other purposes.



Similarly, the interest burden expressed relative to GNP declined further in 2000, falling to just below 2.5 per cent.



The projected growth of the economy in the current year points to a continuation of these favourable trends, notwithstanding some recent weakening in domestic tax receipts arising from the restrictions introduced to combat Foot and Mouth Disease and the impact of a less favourable international economic environment.

INTEREST ACCRUING ON NATIONAL SAVINGS SCHEMES

Provision for an estimate of full accrual of interest on the National Savings Schemes was first introduced in the 1999 Budget. In the 2000 Budget, the Minister for Finance continued to provide for full accrual of interest – amounting to some €440 million. The multi annual budgets covering 2001 to 2003 also include similar provisions.

In 2000, cash interest payments of €403 million were made on the National Savings Schemes and €37 million was paid into the Small Savings Reserve Fund in line with the Budget provision outlined above.

The Small Savings Reserve Fund was established in 1994 to address the growing interest overhang on Savings Certificates, Savings Bonds and Instalment Savings; this overhang has arisen because, prior to 1999, interest was charged to the Budget only when it was paid out in cash – ie. when investments in these schemes were repaid – rather than each year as interest accrued. At end 2000, the reserve was €1,120 million, over 47 per cent of the estimated interest overhang of €2,378 million.

DEBT MANAGEMENT ACTIVITY

The Exchequer debt at end 2000 comprised the following principal components:

- Medium term debt denominated in euro
- Medium term debt denominated in euro legacy currencies
- Medium term third currency debt (e.g. US dollars, Japanese yen, Swiss franc and sterling) which, with the exception of sterling, has been hedged into euro
- Short term debt denominated in euro and in third currencies hedged into euro
- Retail debt (National Savings Schemes) denominated in Irish pounds.

DEBT OUTSTANDING

The composition of the Debt as at end 1999 and end 2000 is shown below:

	€million (nominal)	
	31 December 1999	31 December 2000
Bonds denominated in euro (quoted on Irish Stock Exchange)	23,629	21,784
of which:		
Domestic Holders	16,670	11,448
Non-resident Holders	<u>6,959</u>	<u>10,336</u>
Other Medium Term Debt		
Euro and foreign currency debt hedged in into euro	6,250	4940
Foreign currency debt	<u>2,518</u>	<u>8,768</u> <u>2,106</u> 7,046
National Savings Schemes	4,900	4,624
Other Short Term Debt net of cash deposits	2,552	3,057
Total:	<u>39,849</u>	<u>36,511</u>

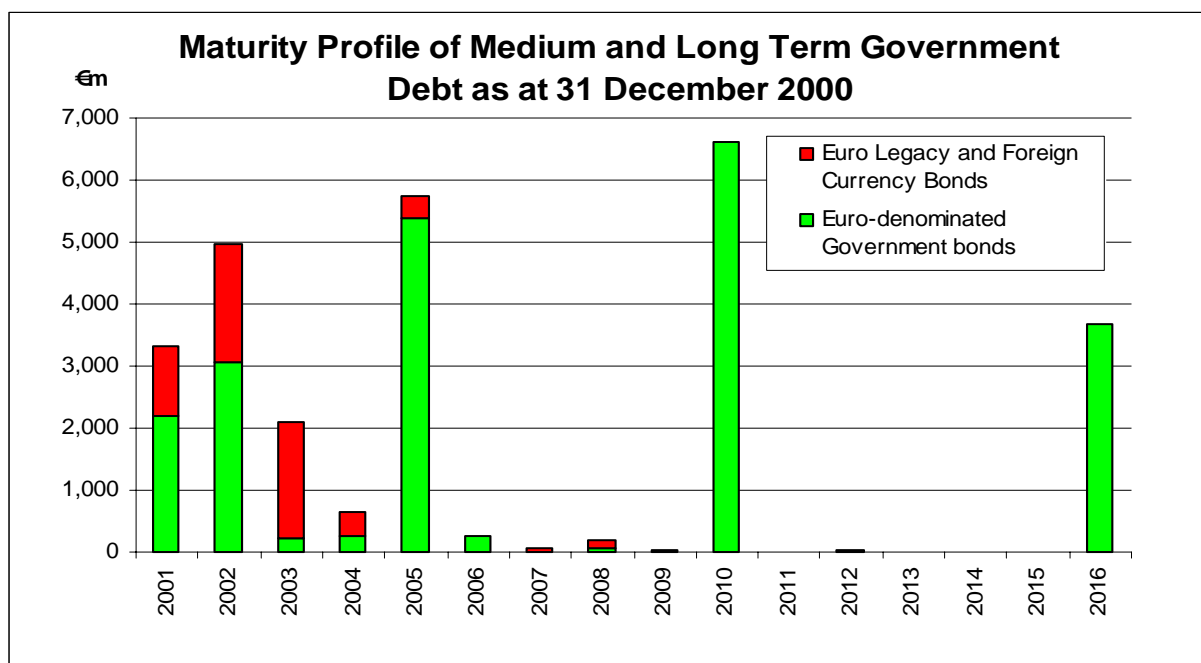
The Debt fell by €3.3 billion reflecting primarily the substantial budget surplus recorded by the Exchequer. The nominal value of euro denominated bonds outstanding decreased by some €1.8 billion and other total medium term debt declined by some €1.7 billion (equivalent), the latter being the result both of debt maturities and of the early redemption of debt where opportunities arose to buy back outstanding debt at competitive prices, while all new bond issuance was in euro.

MATURITY PROFILE

Euro denominated bonds outstanding at end 2000 had maturities ranging out to the year 2016 while most of the medium and long term foreign currency and euro legacy currency debt will mature in the years 2001 to 2003, reflecting the fact that all recent issuance has been in euro denominated bonds.

The short term debt portfolio is made up of Exchequer Notes, Section 69 Notes and Commercial Paper all of which have a maximum maturity of twelve months.

The maturity profile of outstanding medium and long term debt as at year end is shown below:



FUNDING ACTIVITY

All medium and long term debt issuance by the NTMA in 2000 was in euro denominated bonds. Details of funding activity, including short term debt issuance, are shown below:

	€million
	(cash amounts)
Sale of euro denominated bonds ⁵	969
Sale (net) of Short Term Paper	92
Other euro borrowings (net)	<u>4</u>
Sub-total:	1,065
Less:	
Maturities of euro denominated bonds	2,952
Maturities and early redemption of euro legacy debt	1,212

⁵ Excludes net purchases of Irish Government bonds by the NTMA's secondary trading desk.

Maturities and early redemption of non-euro debt ^{6 7}	240
Repayment of Central Bank Borrowings	40
Repayment (net) of National Savings Schemes	<u>237</u>
Sub-total:	<u>4,681</u>
Net funding/(repayment)	<u>(3,616)</u>

The net repayment of €3,616 million was balanced by an Exchequer cash surplus of €3,311 million and a net reduction in liquid cash balances of €305 million.

CURRENT LIQUID ISSUES

The NTMA has designated the following four bonds as those for which Primary Dealers are obliged to make continuous two-way prices during market hours :

Bond	Maturity	Outstanding €million (End May 2001)
2.75% Treasury Bond 2002	18 October 2002	3,031
3.50% Treasury Bond 2005	18 October 2005	5,422
4.00% Treasury Bond 2010	18 April 2010	6,634
4.60% Treasury Bond 2016	18 April 2016	3,666

These four benchmark bonds account for more than 95 per cent of the amount outstanding in euro denominated bonds with more than one year to maturity and 76 per cent of all debt with a remaining maturity greater than one year (excluding the National Savings Schemes). The success of the Securities Exchange Programme in 1999, under which some 91 per cent of older bonds covered by the programme were exchanged for the new benchmark bonds, has resulted in very small amounts remaining outstanding in non-benchmark euro denominated bonds.

⁶ Non euro amounts shown in euro equivalents.

⁷ Excludes foreign currency short term paper which was issued for cash management purposes and fully hedged into euro.

PRIMARY DEALER SYSTEM

The Irish Government bond market is based on a Primary Dealer system which was introduced at end 1995. There are six Primary Dealers (listed below) recognised by the NTMA; these Dealers make continuous two-way prices in designated bonds in minimum specified amounts and within maximum specified spreads. There are also a number of stockbrokers who match client orders, but about 95 per cent of turnover reported by the Irish Stock Exchange is accounted for by the Primary Dealers.

PRIMARY DEALERS

ABN AMRO, Dublin and London

AIB Capital Markets, Dublin

Credit Agricole Indosuez, Paris

Davy Stockbrokers, Dublin

Deutsche Bank, Frankfurt

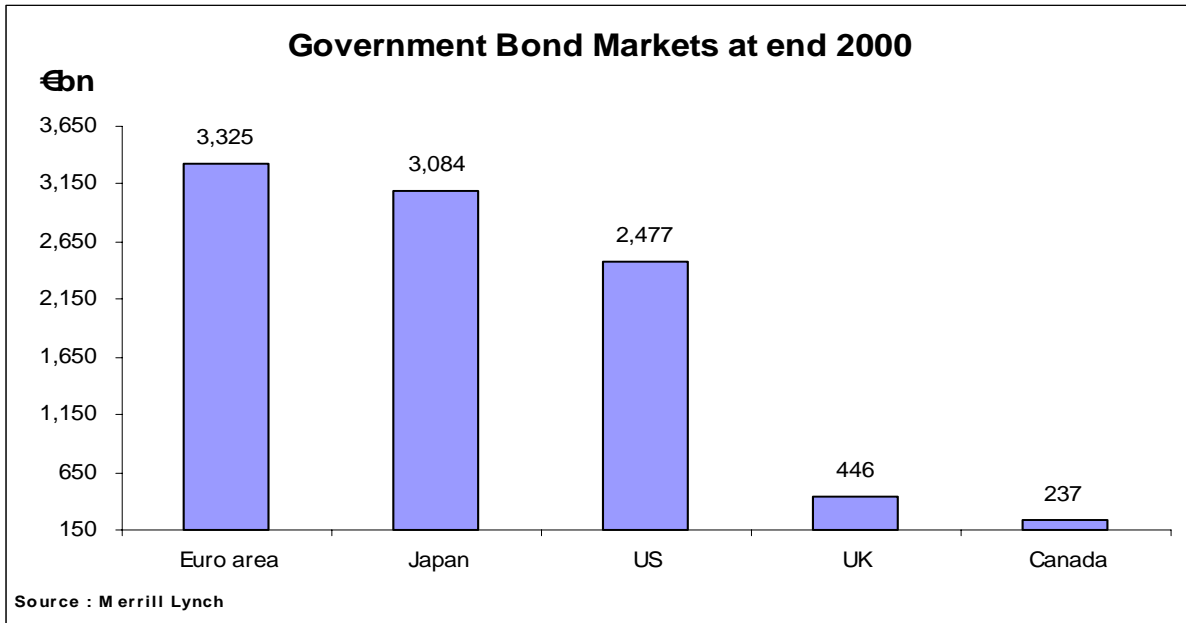
NCB Stockbrokers, Dublin

Primary Dealers are members of the Irish Stock Exchange and Irish Government bonds are listed on the Exchange.

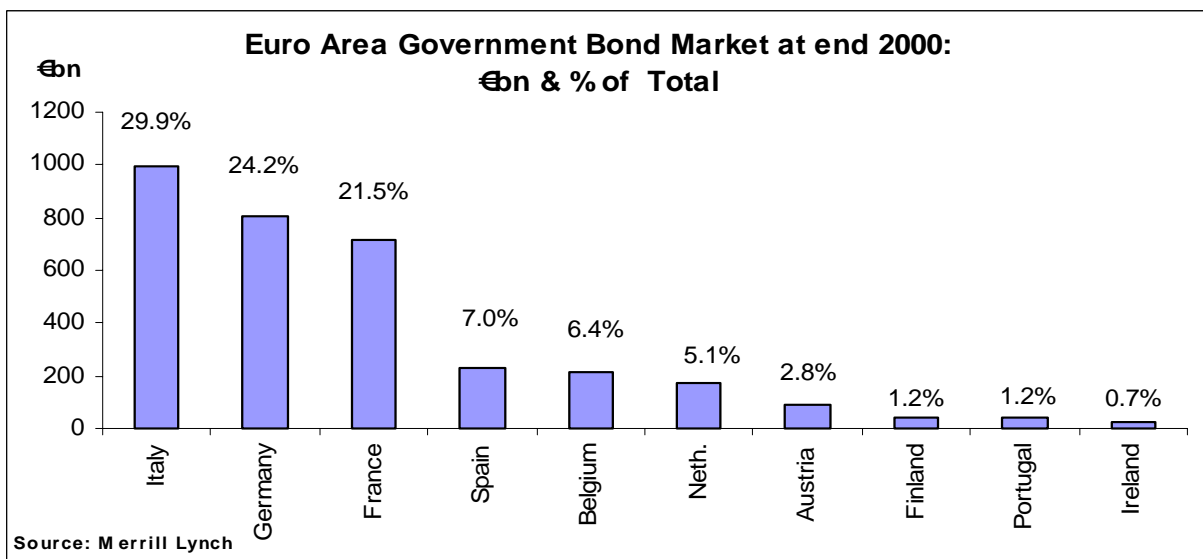
BOND MARKET DEVELOPMENTS

Market Structure

The introduction of the euro on 1 January 1999 was followed by a very significant degree of integration of the sovereign debt markets in the euro-area. From the outset, the euro-area Member States agreed that all new issuance would be in euro and that outstanding stocks of their domestic currency debt would be re-denominated in euro. This has created a euro area government debt market which is larger than either the US Treasuries market or the Japanese Government bond market. The size of the major government bond markets at end 2000 is illustrated below:

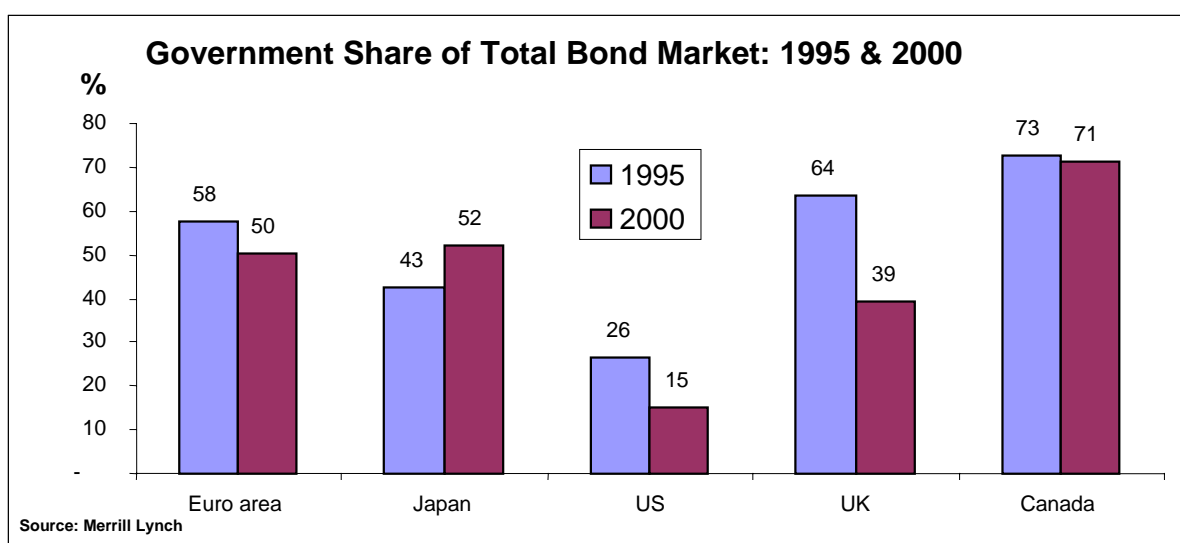


Following the introduction of the single currency, there was a considerable harmonisation of market conventions for euro-area sovereign debt. The twelve national issuers of euro sovereign debt have published indicative issuance calendars and exchange information on issuance techniques. Most euro-area Member States use a system of competitive auctions based on a primary dealing system for the issuance of their debt, although a number of countries have used bank syndications in addition to auctions. Many countries have also used bond exchange and/or debt buyback programmes to enhance liquidity by introducing a smaller number of larger liquid benchmark bonds. The trend towards the concentration of liquidity into a smaller number of benchmarks is likely to continue as budgetary consolidation in the euro-area reduces the supply of sovereign debt. The three major markets of Italy, Germany and France account for over 75 per cent of the total euro area government market.



Governments' Declining Share of Bond Markets

As a result of the general trend towards fiscal tightening in many countries and the expansion of the corporate bond market, the Government sector share of the total bond market has declined in most major markets. Japan is the major exception, where a number of expansionary fiscal packages designed to stimulate the economy has dramatically increased the level of government borrowing and its share of the total bond market. The graph below illustrates the change in the government share of the total bond market over the past five years in the major markets.

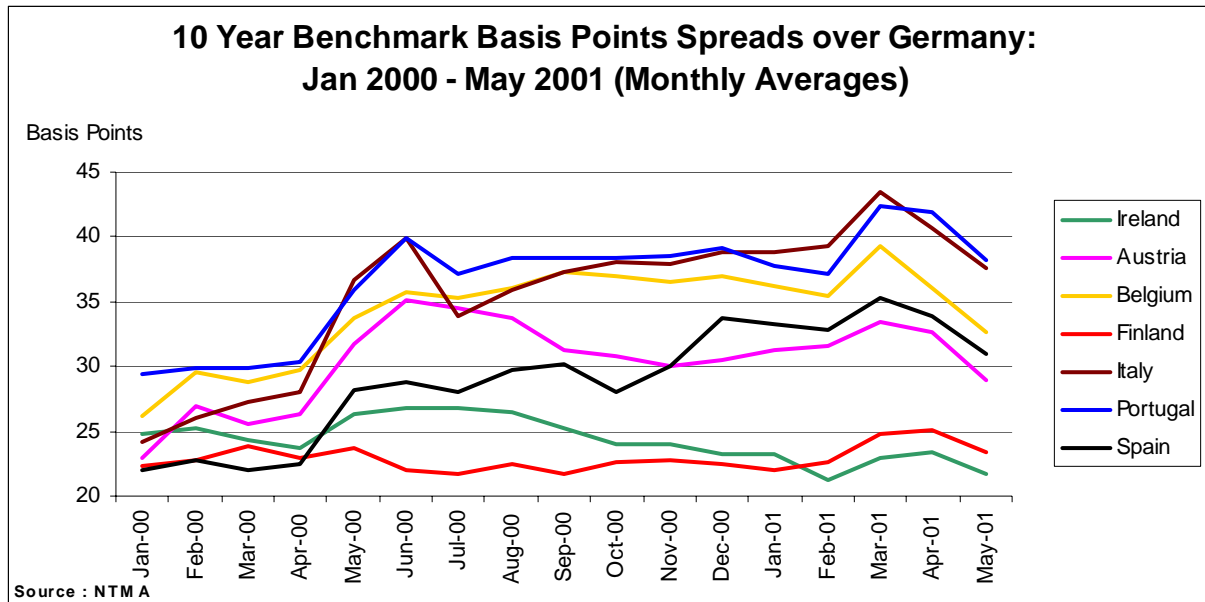


YIELD SPREADS ON EURO AREA GOVERNMENT BONDS

The development of yield spreads between sovereign issuers in the euro-area Government bond market has attracted considerable attention over the past year. The German Government bund has established itself as the euro-area benchmark for ten year bonds while France claims this advantage at some other points on the yield curve. The French and Netherlands ten year benchmarks have traded at the tightest spreads to the German benchmark, at an average of about 14 basis points each.

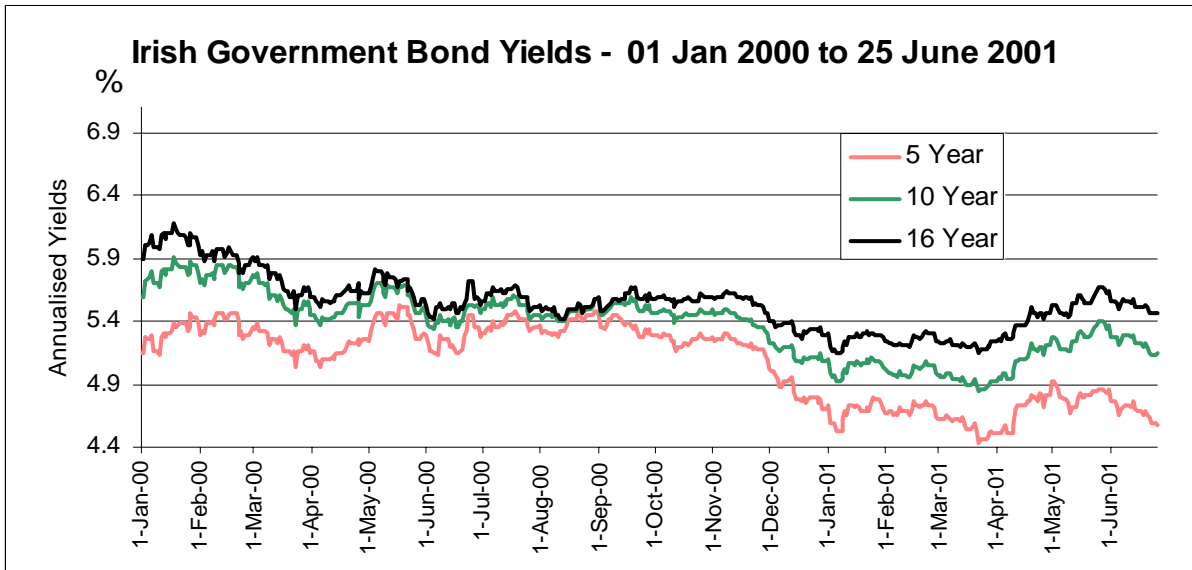
Over the course of the year 2000, Irish Government bond yields moved in tandem with the yields on other euro-area government bonds at a relatively stable spread of about 25 basis points over German Government bunds at the ten year point on the yield curve; this pattern has broadly continued over the first half of 2001, but with some narrowing of the spread to about 23 basis points.

The graph below illustrates the monthly average 10 year benchmark yield spreads over the German bund in the case of the smaller sovereign issuers (excluding the Netherlands) in the euro-area in the year 2000 and during the first five months of 2001.



Spreads are mainly driven by credit risk, liquidity risk and the liquidity of associated derivatives markets, some of these factors being interdependent and their impact varying over time. Despite some tendency for general market yield spreads over the bund to increase, the comparative narrowness of spreads and their relative stability over the course of what is still an early period in the life of the euro-area government bond market is notable. As can be seen from the graph above, Irish Government bonds have been among the better performers in terms of the spread against the bund over the past year and a half.

The yields on Irish Government 5, 10 and 16 year bonds since the beginning of 2000 are shown in the graph below. At the beginning of 2000 the yield on the ten year benchmark Irish Government bond was 5.71 per cent; during the year it traded in a range of 83 basis points, from a high of 5.90 per cent in January to a low of 5.07 per cent in December, closing the year at 5.08 per cent. Over the first half of 2001, the Irish ten year yield traded in a range of 43 basis points from a low of 4.84 per cent in March to a high of 5.27 per cent at end April.



IRISH GOVERNMENT BOND ISSUANCE

The NTMA’s fixed interest borrowing in 2000 was in three of the four benchmark bonds – those maturing in 2005, 2010 and 2016 – all having annual coupons and sold by auction through the six Primary Dealers. Auctions were held in each of the months from February through September. The auctions which had been scheduled for October and November 2000 were cancelled following the publication of the Exchequer returns for the first nine months of the year and the upward revision of the projected full year Exchequer surplus. On 13 December 2000 the NTMA further announced that the limited amount of funding likely to be required in 2001 would be met through short term borrowings rather than bond issuance.

The results of the auctions held in 2000 were as follows:

COMPETITIVE AUCTIONS 2000

Month	Bond	Price	Yield %	Nominal €million	Proceeds €million	Cover ⁸
February	4.6% Treasury Bond 2016	86.33	5.938	125	108	3.39
March	4% Treasury Bond 2010	88.14	5.569	152	134	4.50
April	4% Treasury Bond 2010	88.78	5.490	150	133	5.23
May	3.5% Treasury Bond 2005	90.80	5.510	200	182	2.94
June	4% Treasury Bond 2010	89.37	5.429	149	133	1.70
July	3.5% Treasury Bond 2005	91.29	5.454	150	137	3.30
August	3.5% Treasury Bond 2005	91.57	5.415	151	138	2.61
September	3.5% Treasury Bond 2005	92.10	5.321	100	92	3.50
	Total			1,177	1,057	3.38⁹

After each competitive auction there was a non-competitive auction under which the NTMA was prepared to accept bids from the Primary Dealers at the average dealt price in the auction for up to 20 per cent of the nominal amount competitively auctioned.

In 2000 funding of €1,057 million was raised by competitive auction and a further €04 million was raised through the non-competitive auction process.

NON RESIDENT HOLDINGS

Non resident holdings of Irish Government bonds have increased significantly since the introduction of the euro. At end 1998, non resident holdings amounted to €4.4 billion, or 21.8 per cent of the total bonds outstanding; by end 1999, these figures had increased to €7 billion and 29.5 per cent respectively. Non-resident participation in the market continued to grow in 2000 and by the end of the year non-resident ownership totalled €10.3 billion, equivalent to some 47.4 per cent of outstanding bonds.

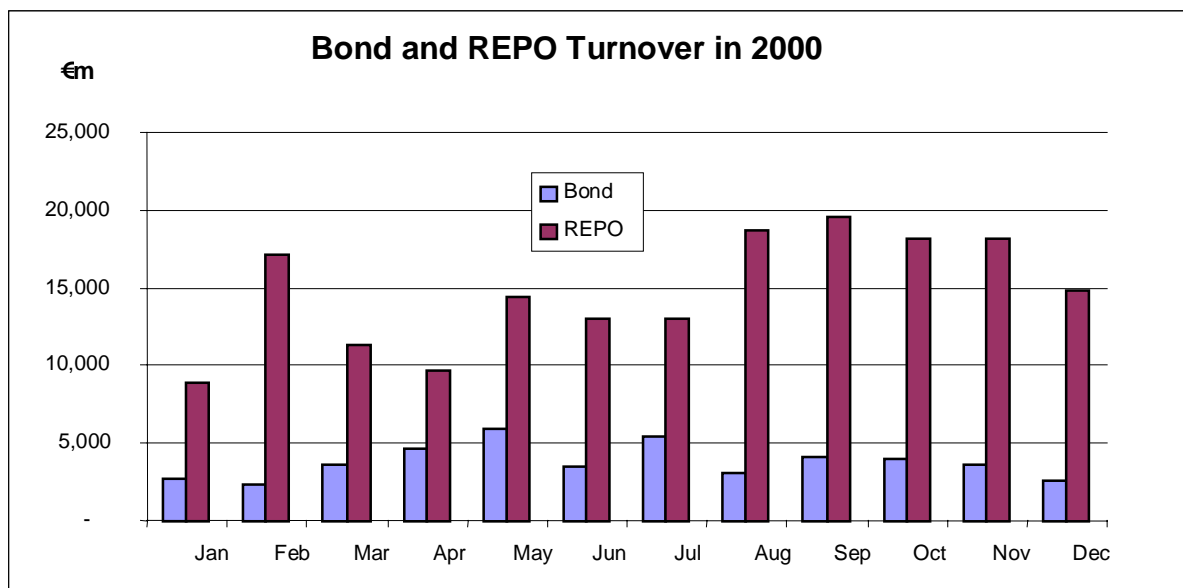
⁸ Cover refers to the ratio of total bids to the announced auction size.

⁹ Weighted average cover for all auctions.

TURNOVER

Turnover in Irish Government bonds in 2000 (excluding REPOs), as reported by the Irish Stock Exchange, was €45.2 billion. However, this figure includes turnover of €8.2 billion by the Inter Dealer Broker (IDB) for the period from 10 April 2000 onwards, giving a net turnover of €37 billion. This compares with €48 billion in 1999, excluding turnover of €62.9 billion arising from the 1999 Securities Exchange Programme. The 2000 figure represents a decline of some 30 per cent on the 1999 figure, excluding the IDB turnover in both years. Turnover in the first quarter of 2001 was €13.2 billion (of which the IDB accounted for €3.2 billion), or 4 per cent above the corresponding quarter of the preceding year, excluding IDB turnover in both periods.

Reported turnover figures are understated to the extent that investors who are not members of the Irish Stock Exchange, notably non-residents, dealt in Irish Government bonds via Euroclear and Clearstream with counterparties who likewise are not members of the Irish Stock Exchange; such deals would not be included as part of the turnover reported by the Irish Stock Exchange. Total REPO turnover reported to the Irish Stock Exchange in 2000 amounted to €177.2 billion, an increase of 13.2 per cent over the 1999 figure of €156.5 billion.



Market turnover in the bonds for which Primary Dealers quote continuous prices:

	€million
6.5% Treasury Bond 2001 ¹⁰	2,337
2.75% Treasury Bond 2002	5,566
3.5% Treasury Bond 2005	9,551
4% Treasury Bond 2010	20,880
4.6% Treasury Bond 2016	<u>5,583</u>
Total	<u>43,917</u>

Source: The Irish Stock Exchange

The above bonds represented 97.3 per cent of total Irish Government bond market turnover in 2000.

Dealing spreads of 5 cents for short maturity stocks (out to 5 years) and 7 cents for medium maturity stocks (6 to 10 years) were typical and the normal deal size in both maturity ranges was around €10 million.

Activity between Primary Dealers via the Inter Dealer Broker (IDB) - which enables Primary Dealers to transact with each other on an anonymous basis – continued to contribute to the liquidity of the market.

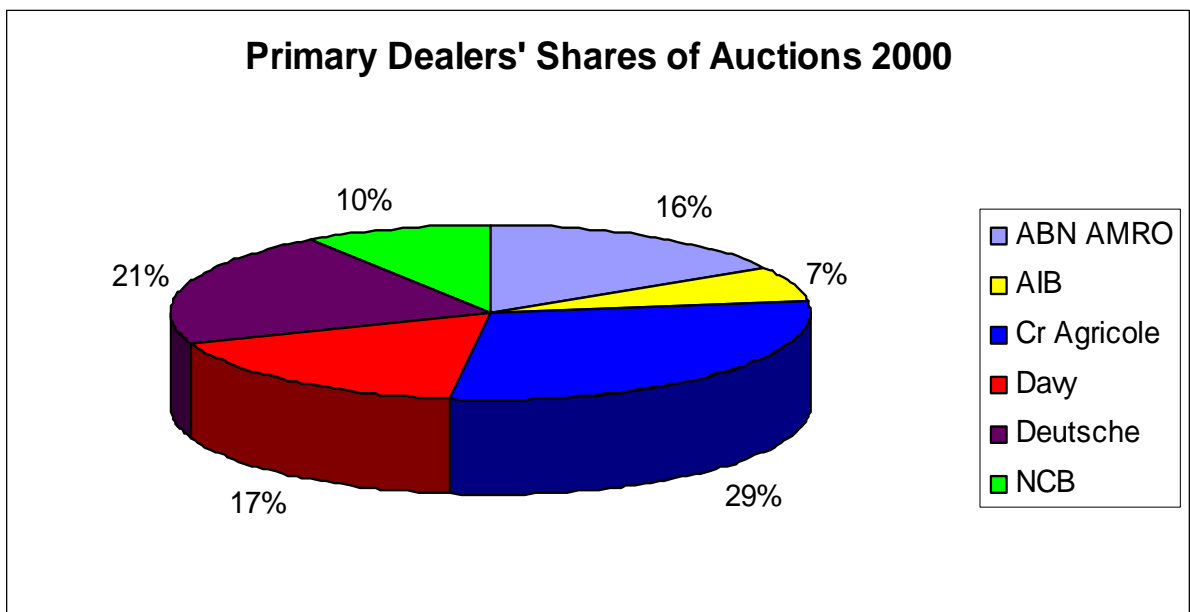
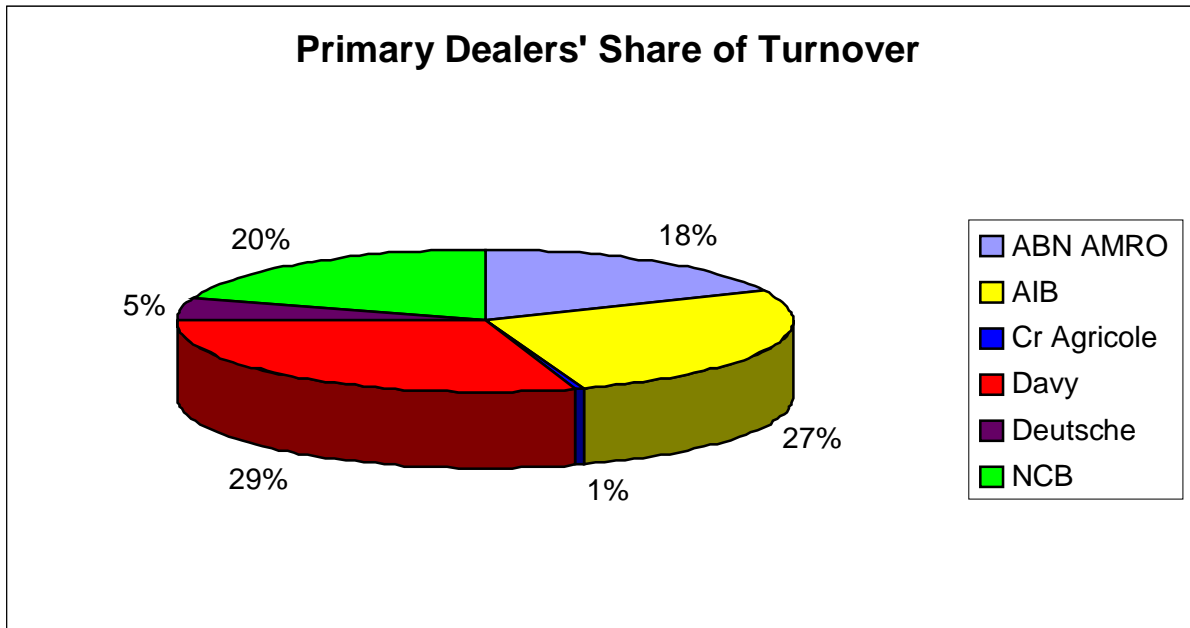
SECONDARY TRADER

The NTMA maintains a secondary trading function to trade in its bonds with other market participants. This is separated from primary bond desk activity by means of “Chinese Walls”. The role of the secondary trader is to provide liquidity to the market and to act as a source of market intelligence for the NTMA.

¹⁰ The obligation of the Primary Dealers to quote two way prices for this bond ceased in April 2000 when its remaining life became less than 18 months.

PRIMARY DEALERS' ACTIVITIES

The market shares of Primary Dealers for both auctions and turnover are shown below.



PRICE MAKING OBLIGATIONS OF PRIMARY DEALERS

Bond Maturity	Minimum Size €millions	Maximum Spread €cents
Over 18 months and under 6 years to maturity	4	15
6 years to 11 years to maturity	3	25
Over 11 years to maturity	2	35

CLEARING AND SETTLEMENT OF IRISH GOVERNMENT BONDS

The clearing and settlement function for Irish Government bonds was transferred to Euroclear from the Central Bank of Ireland on 4 December 2000. The Central Bank of Ireland Securities Settlements Office, CBISSO, ceased operations at close of business on 1 December 2000 and the transfer to Euroclear took place without any disruption of service. This new arrangement allows financial institutions to safekeep Irish Government bonds and also to settle domestic and cross-border transactions in a single location. It increases significantly the liquidity of Irish Government bonds in the international capital markets by facilitating access for a broader range of investors. It also fully satisfies the standards for real time delivery versus payment in relation to accounts at a central bank which the European Central Bank has set as a requirement for settlement systems to be eligible for use in its monetary policy operations from 1 January 2002.

The decision to outsource settlement activity to Euroclear followed a strategic review of CBISSO by a study group comprising the NTMA, the Central Bank of Ireland and local market representatives. Ireland is the first European country to transfer the settlement of Government bonds from its Central Bank to an international securities depository. The transfer to Euroclear means that the settlement of Irish Government bonds matches the highest

international standards and it represents a further important step in ensuring that Irish Government bonds are in the mainstream of the new pan-European euro-denominated government bond market.

The Central Bank of Ireland will, however, continue to act as Registrar for Irish Government bonds. Following the transfer of the settlement function to Euroclear, the total of all holdings of Euroclear participants in each bond is recorded in an omnibus account on the Central Bank's register. Transactions between Euroclear participants are effected within the Euroclear system without affecting the Bank's register while transactions between the local market and Euroclear participants are notified between the Bank and Euroclear.

The Euroclear System is the world's largest clearing and settlement system for internationally traded securities, providing cross-border securities services to market participants located in more than eighty countries. It is expected that considerable consolidation of the current fragmented settlement infrastructure in Europe will occur over the coming years as investors demand reductions in the cost of trading.

NON-EURO DENOMINATED DEBT

Non-euro denominated medium term debt (excluding the Irish pound denominated National Savings Schemes) amounted to €7,046 million (equivalent) at end 2000, of which some €2,111 million (equivalent) was in sterling and €5 million in working balances in other currencies. The balance of €4,940 million (equivalent) included euro legacy debt as well as debt in non-euro currencies (other than sterling) which has been fully hedged into euro.

Euro legacy debt comprises outstanding debt contracted prior to 1999 and originally denominated in the individual currencies of countries which are now members of EMU. While not formally redenominated, this debt is effectively euro debt.

Outstanding debt in non-euro currencies such as the US dollar, Swiss franc and Japanese yen, but excluding liabilities in sterling, has been fully hedged into euro constituent currencies.

BOND INDICES

Irish Government bonds are included in the following international bond indices:

- Bloomberg / EFFAS – Government Bond Index
- JP Morgan – Irish Government Bond Index
- Lehman Brothers – Global Bond Index
- Merrill Lynch – Global Government Bond Index II
- Salomon Smith Barney – World Government Bond Index

SHORT TERM PAPER

The NTMA has a number of short term paper programmes which are used to borrow funds at attractive rates for cash management purposes. Details of these programmes are set out below:

Commercial Paper

The NTMA has a €2 billion Commercial Paper Programme, a US\$5 billion multi-currency Euro Commercial Paper Programme and a US Domestic US\$1 billion Commercial Paper Programme. These programmes offer immediate access to a large pool of low cost funds. The proceeds of any drawdowns, which are hedged into euros, are available for liquidity management and for refinancing other more expensive forms of borrowing.

“Section 69” Notes

Section 69 Notes are tax-exempt securities, which are issued in a range of currencies to eligible foreign-owned companies located in Ireland. They are sold directly by the NTMA and also through designated banks in Ireland. These notes are flexible short-term instruments producing cost-effective funding for the Exchequer.

Exchequer Notes

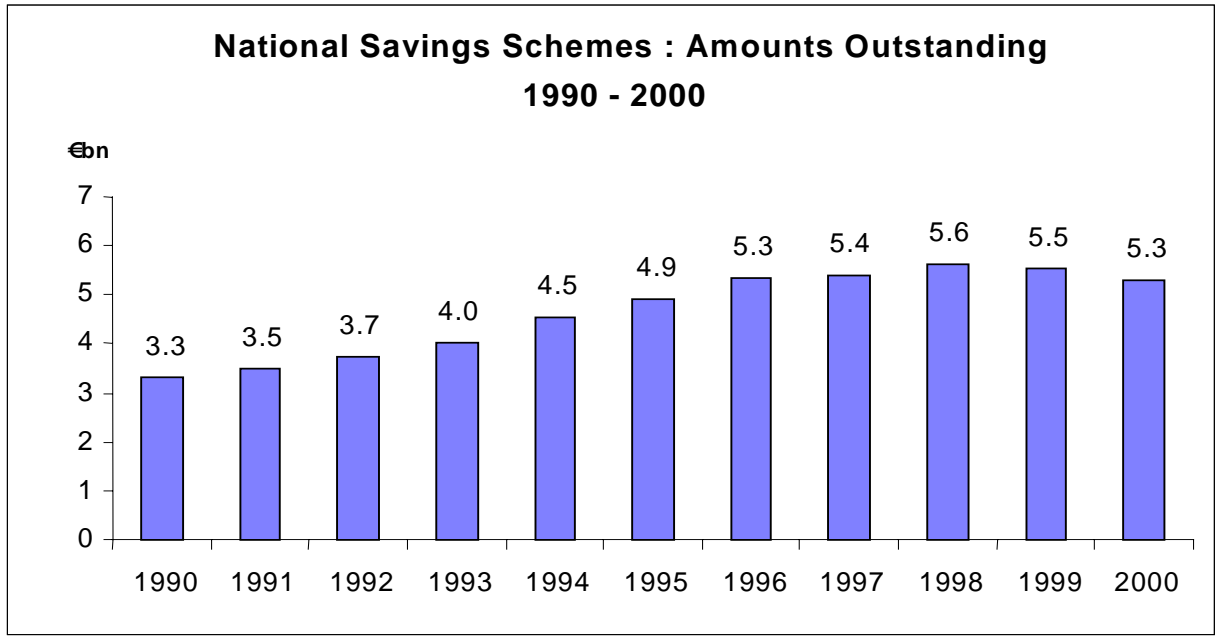
The NTMA sells Exchequer Notes in euro to a range of investors, including companies, banks and other institutions. Available maturities range from one day to one year with a minimum €100,000 (or equivalent) investment. The NTMA makes two-way prices in Exchequer Notes; these prices are shown on Reuters and Bloomberg, page “NTMA”.

AGRICULTURAL COMMODITY INTERVENTION BILLS

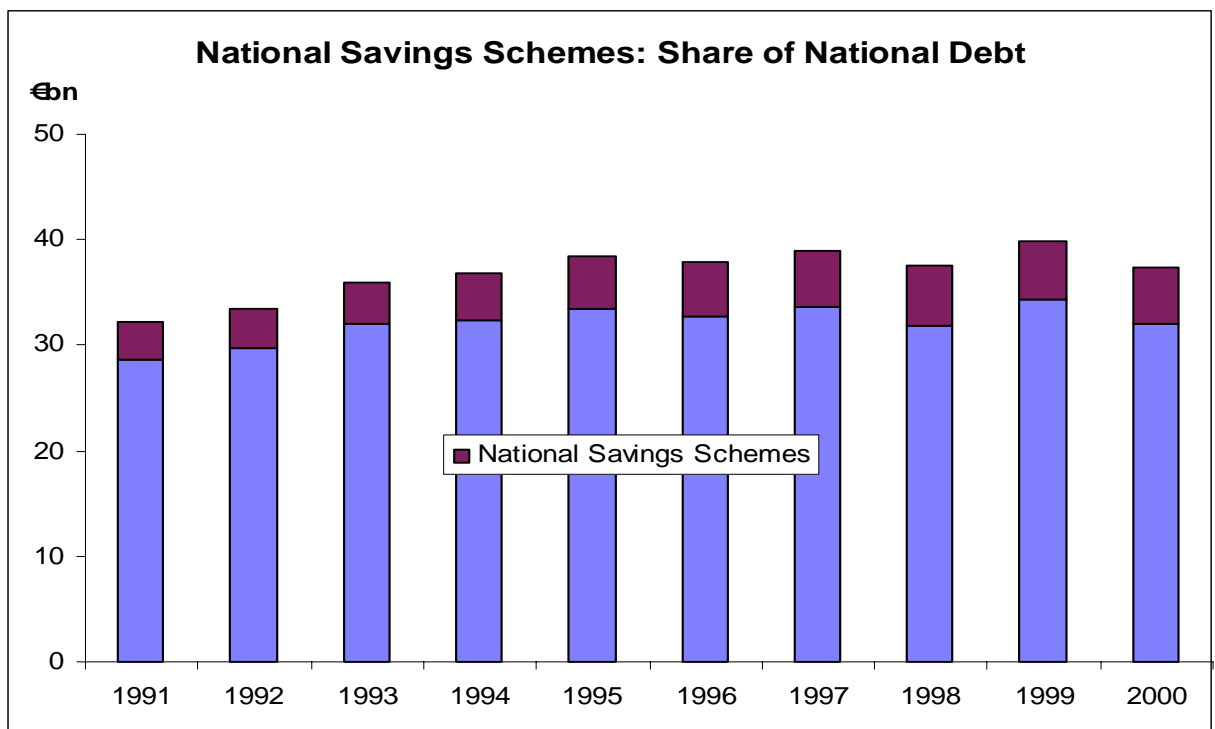
The NTMA sells Agricultural Commodity Intervention Bills (ACIBs) which carry similar terms to Exchequer Notes but are issued on behalf of the Minister for Agriculture, Food and Rural Development.

NATIONAL SAVINGS SCHEMES

In 2000, there was a net outflow from the National Savings Schemes of €237 million. At end year the total amount outstanding on the schemes was €5,308 million, representing a decrease of over 4 per cent on the equivalent 1999 figure.



As at year end, the schemes accounted for some 13 per cent of the total National Debt; this share has been relatively constant since 1996 as can be seen below:

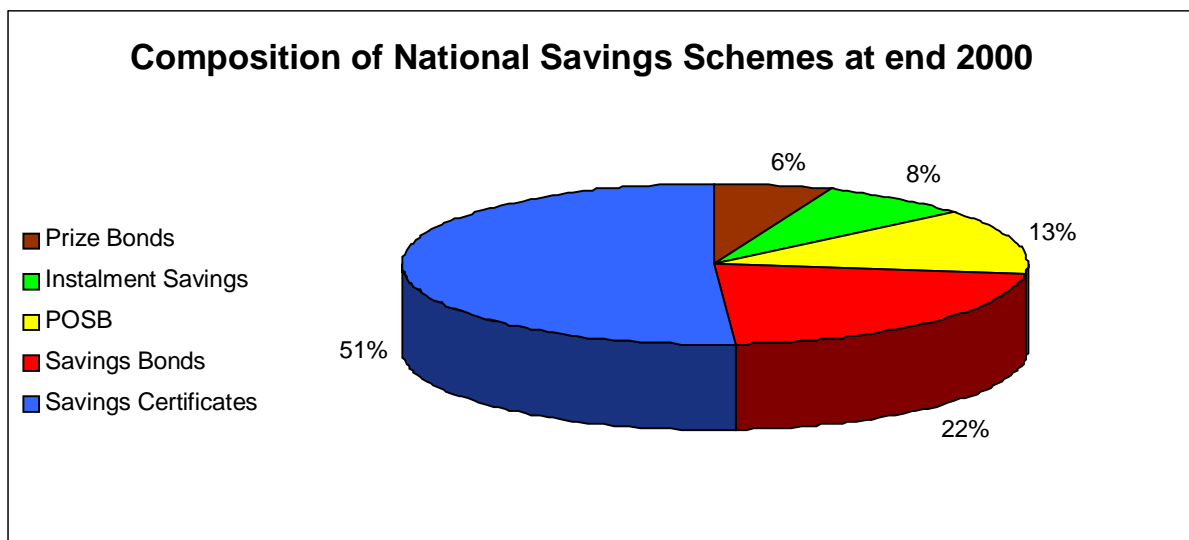


A notable feature of the recent performance of the Savings Schemes is that moneys are being repaid from all schemes except the Post Office Savings Bank (POSB) and Prize Bonds. The POSB had experienced a net outflow of funds in the years before 1997, but since then this trend has been reversed. With the introduction of the Special Savings Incentive Accounts in 2001, the net inflow of funds to the POSB is expected to continue. Similarly, Prize Bonds have benefited in recent years from the lower interest rate environment, enhancing their appeal as an alternative savings product.

The outflow on the other schemes, i.e. Savings Certificates, Savings Bonds and Instalment Savings, reflects both the NTMA's reduced need for funds and the current policy of not automatically rolling over issues of these instruments when they reach their maturity dates. The rates of return on the schemes, while lower relative to the marketplace than in the past, remain competitive given that the schemes offer a unique mix of attractive characteristics, including:

- Government risk;
- no investment costs or commissions; and
- repayment flexibility.

The composition of the outstanding National Savings debt at year end is shown below:



Details of the total amounts outstanding at end 2000 and the net amounts raised or repaid in 2000 in each of the Savings Schemes are as follows:

<u>Savings Schemes</u>	<u>Total outstanding at</u> <u>end 2000</u> <u>€million</u>	<u>Money raised/ repaid</u> <u>in 2000 (net)</u> <u>€million</u>
Savings Certificates	2,706	-173
Savings Bonds	1,163	-124
National Instalment Savings	456	-6
Prize Bonds	297	27
Savings Stamps	2	-
Post Office Savings Bank (POSB)		
1. Ordinary Deposit Account	632	61
2. Deposit Account Plus	52	-12
POSB Fund Investment Income	-	-10
Total	<u>5,308</u>	<u>-237</u>

In addition, an estimated €2,378 million was outstanding at end 2000 in accrued but unpaid interest on Savings Certificates, Savings Bonds and Instalment Savings (compared to €2,391 million at end 1999). In order to provide over time a reasonable level of cover for this accrued interest, an interest reserve fund was created in 1994. A further €37 million was paid into this reserve in 2000, bringing the total provision for outstanding accrued interest to €1,120 million. This represents 47 per cent of the total accrued interest outstanding (as compared to 45 per cent at end 1999).

ADMINISTRATION COSTS

With the exception of Prize Bonds, the National Savings Schemes are operated by An Post on behalf of the NTMA. Prize Bonds are managed by The Prize Bond Company Limited (a joint venture owned equally by An Post and FEXCO, Killorglin, Co. Kerry).

The total cost of administration for the schemes in 2000 was €3.1 million. A breakdown for each of the schemes is set out below:

<u>Savings Schemes</u>	<u>€m</u>
Savings Certificates	4.2
Savings Bonds	2.3
Instalment Savings	2.4
Prize Bonds	4.9
Savings Stamps	1.1
Post Office Savings Bank ¹¹	<u>18.2</u>
Total:	<u>33.1</u>

These fees are determined largely as a percentage of the actual business conducted, but include some once-off expenditure in 2000 on the computerisation of the pre-1985 records of Savings Certificates. The administration costs of €33.1 million in 2000 were slightly below the €33.3 million level of 1999.

SAVINGS CERTIFICATES, SAVINGS BONDS AND INSTALMENT SAVINGS

In 2000, Savings Certificates, Savings Bonds and Instalment Savings experienced a total net outflow of €303 million. To some extent, this was a result of the NTMA's decision to repay old issues of these instruments. In 1999, the NTMA decided to discontinue the practice of automatically rolling over investments as they reached maturity; as an alternative, investors are now given the option of re-investing their money in the then current issues of Savings Certificates, Savings Bonds and Instalment Savings.

Savings Certificates and Savings Bonds are lump sum investments for a specified period of time. The savings period for Savings Certificates is 5 years and 6 months; for Savings Bonds, it is 3 years. Instalment Savings differ in that they involve regular saving of a specified amount on a monthly basis for 1 year, and the total is then invested for a period of 5 years.

The current rates of return on these investment products were last fixed in the latter part of 1998 and are free of Irish income tax; these rates are set out below:

¹¹ Fees relating to the Post Office Savings Bank (POSB) are paid from the POSB Fund.

- **Savings Certificates:** 16 per cent over a 5 year and 6 month period, equivalent to an average annual rate of return of 2.74 per cent if held to the full term. The minimum investment in Savings Certificates is IR£50 with a maximum of IR£60,000 for an individual and IR£120,000 for a joint holding.
- **Savings Bonds:** 8 per cent over a 3 year period, equivalent to an average annual rate of return of 2.6 per cent if held for the full term. The minimum investment in Savings Bonds is IR£100 with a maximum of IR£60,000 for an individual and IR£120,000 for a joint holding.
- **Instalment Savings:** 15 per cent after 5 years, equivalent to an average annual rate of interest of 2.57 per cent after allowance is made for the payment of the instalments over 12 months. The minimum monthly investment in Instalment Savings is IR£20 with a maximum investment limit of IR£300 monthly.

POST OFFICE SAVINGS BANK

The Post Office Savings Bank (POSB) had a net inflow of €49 million in 2000 and the investment base grew to €684 million by end-year. This trend of net inflows has continued in 2001 and is expected to accelerate with the establishment of two Special Savings Incentive Accounts (SSIAs), giving customers the option of a fixed or variable rate of return. These two SSIAs were launched with the same initial interest rate of 4 per cent per annum. SSIAs offer an incentive to savers in the form of a Government commitment to 'top up' the amount saved by 25 per cent, effected by giving a tax credit at the current standard rate of income tax of 20 per cent. To benefit from this Exchequer bonus, an individual must keep his or her savings in the account for the full five year period of the scheme. Early withdrawal will attract an exit tax of 23 per cent on the total amount withdrawn. Interest earned on SSIAs also attracts tax at 23 per cent.

The book-based demand deposit account of the Post Office Savings Bank grew by €61 million in 2000 to €32 million. Deposit Account Plus saw a net outflow of €12 million in 2000. There are tiered interest rates on both these accounts. The rates which applied throughout 2000 are as follows:

Demand Account	Rates
Under IR€5,000	0.25% p.a.
IR€5,000 and over	0.50% p.a.

Demand Account Plus	Rates
Under IR€40,000	2.0% p.a.
IR€40,000-IR€75,000	2.5% p.a.

PRIZE BONDS

The Prize Bonds scheme has been operated by The Prize Bond Company Limited since 1989. Following the award of a further 10-year contract to the company in 1999, it was decided to re-launch the Prize Bonds brand in November with the following changes:

- A new logo as shown below:



- A new prize structure, doubling the number of prizes each week.
- A new minimum purchase of four units, for an amount of IR£20.
- A new website at www.prizebonds.ie.

The rate of interest used to determine the prize fund remained at 2.75 per cent throughout 2000. So as to allow for the increase in the number of prizes from November 2000, the cash value of many of the prizes was lowered.

Prior to the November re-launch, Prize Bonds had raised €21 million, some €15 million lower in than the same period in 1999. However, sales in the final two months of 2000 recovered substantially and net receipts for the full year amounted to €27 million (€13 million in 1999). The total amount invested in Prize Bonds stood at €297 million at end-2000, up from €69 million in 1999.

INTERNATIONAL GOVERNMENT RETAIL SAVINGS CONFERENCE

In May 2001, the NTMA hosted the second annual International Government Retail Savings Conference in Dublin. The Minister for Finance, Mr. Charlie McCreevy T.D., opened the conference. The aim of the conference was to provide a forum for senior executives in the Government retail savings areas in a number of countries to discuss technological, marketing and other issues of common interest and to exchange ideas for future developments.

CREDIT RATINGS

In October 2000, Standard and Poor's announced a change from "stable" to "positive" in the outlook for the AA+ rating for Ireland's long term debt. In April 2001, the Japanese credit rating agency, Rating and Investment Information Inc. (R&I) announced that it had assigned new top grade ratings of AAA to Ireland's euro-denominated and foreign currency long term debt and a-1 to short term debt. R&I had previously rated only individual Irish Government Samurai bonds, where the rating had been AA+.

Moody's and Fitch both reaffirmed the AAA rating for Ireland's long term debt. Likewise, Moody's, Standard & Poor's and Fitch reaffirmed the top short term ratings. The details of the ratings are:

SHORT-TERM

Moody's:	P-1
Standard & Poor's:	A-1+
Fitch:	F1+
Rating & Investment Information Inc.:	a-1

LONG-TERM

Moody's:	AAA
Standard & Poor's:	AA+
Fitch:	AAA
Rating & Investment Information Inc.:	AAA

STRATEGY AND RISK MANAGEMENT

RISK

The management of a range of financial risks – market risk, liquidity risk, counterparty credit risk and operational risk – is an integral part of managing the National Debt. These are risks that cannot be eliminated; the focus, therefore, is to contain and manage these risks in a professional manner.

In the case of market risk, the NTMA has in place a number of risk management procedures in order to quantify and manage, in a timely manner, the risk to which the level of the debt and the cost of debt service are exposed as a result of movements in interest and foreign exchange rates. These risk management tools include systems to quantify the sensitivity of budgeted debt service costs, both in the current year and in future years, to movements in market rates; internal risk limits are used to contain these exposures.

Liquidity risks associated with the need to refinance maturing debt are actively controlled. While access to financial markets is primarily dependent on the credit standing of the Irish economy, fluctuations in general supply and demand conditions in the international capital markets can also have a significant influence on the availability and cost of funds at different times as financial markets have become increasingly interlinked. The introduction of the euro and the emergence of a single euro denominated government bond market help reduce liquidity risk for Ireland since, with a share of approximately 1 per cent of the large euro government bond market, Ireland now has greater access than before to ‘domestic currency’ funding.

The NTMA manages short term liquidity by regularly updating cash flow forecasts and by managing issuance dates and volumes to ensure that the Exchequer always has adequate cash resources to meet its needs.

Credit exposures arising from deposit placings and from derivative transactions are monitored and managed closely within approved limits. These exposures are measured on an aggregate

basis across the various portfolios managed by the NTMA, thereby capturing the net exposure of the Exchequer.

Operational risk is controlled by rigorous policies and procedures governing payments and by the separation of duties, in line with best domestic and international practice in the financial sector.

BENCHMARK AND STRATEGY

The NTMA's primary debt management objectives are, first, to protect liquidity and market access to ensure that the Exchequer's funding needs can be financed prudently and cost effectively and, secondly, to ensure that debt service costs are kept to a minimum subject to containing risk within acceptable limits. In addition to achieving these objectives, the NTMA's performance is measured by reference to an independent and externally approved and audited benchmark portfolio (the Benchmark).

The Benchmark reflects the medium term strategic debt management objectives of the Exchequer and represents an appropriate target duration, currency mix and maturity profile for the portfolio, within the context of written guidelines set by the Minister for Finance. An annual assessment of the Benchmark is carried out by the NTMA's independent advisors, Warburg Dillon Read. In addition, revisions to the Benchmark are made from time to time (subject to appropriate external approvals) to take account of significant changes in structural economic relationships, but not in response to short term market movements.

This Benchmark performance measurement system takes account not just of current cash flows and reported cash costs, but also of the net present value of all liabilities; in effect, it calculates the impact of the NTMA's actions not only in the year under review, but also their projected impact over the full life of the debt. This measurement of performance against the Benchmark was carried out in 2000 by the Quantitative Finance Group of Warburg Dillon Read, based on data audited by PricewaterhouseCoopers.

The NTMA has developed risk management tools – incorporating both sensitivity and Value at Risk (VAR) – that measure and forecast the sensitivity of performance relative to the

Benchmark to possible future movements in interest rates. Risk control limits are used to contain, within an acceptable range, the NTMA's performance exposure.

The NTMA follows best practice in the quantification and distribution of decision support information and has implemented systems that allow detailed performance and risk management information to be calculated daily and networked electronically to the NTMA's portfolio managers and senior management.

OPERATIONS

In 2000 the Operations Group had two principal objectives;

- Support existing business through the provision of processing, financial control, information technology and counterparty risk management services.
- In conjunction with the business managers, prepare for the three new business activities to come on stream in 2001, namely the management of the National Pensions Reserve Fund, the State Claims Agency and the Central Treasury Service.

While the volume of transactions was down some 16 per cent on the previous year, cash flows through the NTMA nevertheless totalled €295 billion.

A number of projects were completed during the year, in particular the following;

- Settlement of Irish Government bonds transferred from the Central Bank to Euroclear.
- Cash management procedures put in place to assist the European Central Bank in managing market liquidity.
- Network operating system upgraded to NT4. Network infrastructure upgraded from Token-Ring to Ethernet.
- Database management systems upgraded and moved to NT4 with significant savings on maintenance costs and improvements in service.
- New web site installed (www.ntma.ie).
- Internet and e-mail facilities provided on the local area network through a combination of secure firewalls and routers.
- Consultancy assignments undertaken both in Ireland and in Central Europe.

The NTMA was audited by the Comptroller and Auditor General. In addition, an internal audit was conducted by PricewaterhouseCoopers. Both audits were totally satisfactory, with no significant recommendations. The Agency was also 100 per cent compliant with the Prompt Payments Act, 1997.

LEGAL AND CORPORATE AFFAIRS

LEGAL

The legal unit provides the Agency with in-house legal advice in connection with all of its functions including the negotiation of documentation for the Agency's borrowing and derivatives transactions, its new Central Treasury Service activities and other functions conferred by the National Pensions Reserve Fund Act and the National Treasury Management Agency (Amendment) Act, both of which were enacted in the year 2000.

As part of its general functions, the legal section advises on legislative and regulatory developments and provides day to day advice on contracts and other legal matters affecting the Agency. It is also responsible for ensuring compliance with professional conduct rules in the areas of confidentiality, conflicts of interest and other procedures associated with best business practice which all Agency staff are required to observe.

PERSONNEL

The impact of the strong growth of the economy on the labour market was felt by the NTMA in 2000 and staff turnover for the year reached a high of 21 per cent. By year-end, however, staff levels had recovered to fifty persons, close to the opening level of fifty two. Since year end, primarily reflecting hiring for the NTMA's new activities, the headcount has increased to fifty six and is expected to rise further over the balance of the current year.

It is the NTMA's policy to protect the health and welfare of its staff by maintaining a safe and healthy working environment. This requirement has been met in line with our Safety Statement.

ULYSSES SECURITISATION P.L.C.

Ulysses Securitisation p.l.c. was established in 1995 for the purpose of securitising local authority mortgage payments and is managed by the NTMA under a Corporate Services Agreement.



To date, a portfolio of mortgage payments has been securitised through the issuance of bonds totalling IR£190 million (IR£140 million in 1995 and IR£50 million in 1996). These bonds were redenominated into euro with effect from 1 January 1999.

Ulysses continued to operate successfully in 2000 and returned a net profit of €13.8 million.

The 2000 audited accounts of Ulysses have been lodged with the Companies Office.

NEW BUSINESS ACTIVITIES

Two Acts passed by the Oireachtas in December 2000, the National Pensions Reserve Fund Act, 2000 and the National Treasury Management Agency (Amendment) Act, 2000, assign significant new responsibilities to the NTMA. Further new fund management responsibilities will arise for the NTMA following enactment of the Dormant Accounts Bill, 2001. Details of these new business activities are outlined below.

NATIONAL PENSIONS RESERVE FUND

The National Pensions Reserve Fund is designed to prefund, in part, the Exchequer cost of social welfare and public service pensions over the long term by setting aside the equivalent of 1 per cent of GNP each year from the annual Budget; there is also provision to enable additional sums – for example, the proceeds from the sale of State assets – to be paid into the Fund from time to time by resolution of Dail Eireann. The Fund was formally established on 2 April 2001 under the National Pensions Reserve Fund Act, 2001. Also on that date, the National Pensions Reserve Fund Commission was appointed by the Minister for Finance: under the Act, the Commission is responsible for the control, management and investment of the assets of the Fund. As required by section 21 of the Act, the Commission appointed the NTMA as Manager of the Fund to act as its agent in the performance of its functions; the NTMA's appointment is for a period of 10 years.

Following its establishment in April 2001, some €6,482 million was paid into the Fund from the Temporary Holding Fund for Superannuation Liabilities. That Fund had been set up in 1999 to receive part of the Telecom Eireann flotation proceeds as well as the GNP related contributions for 1999 and 2000 set aside for pension prefunding purposes, pending the establishment of the National Pensions Reserve Fund. Under delegated authority from the Commission, the moneys in the Fund are being managed by the NTMA on a cash basis pending their long term investment.

The objective of the Fund is to meet as much as possible, within prudent risk parameters to be agreed by the Commission, of the projected escalating cost to the Exchequer of social welfare

and public service pensions from 2025 onwards (money accumulating in the Fund cannot be drawn on until then). The Fund is free to invest in all asset classes (the only exception being Irish Government securities). It is expected that, because of its long-term holding period, the Fund will have a heavy concentration in a well-diversified portfolio of international equities. It is further expected that the management of the Fund's assets will be substantially outsourced to external investment managers. These issues are currently being considered by the Commission with assistance from the NTMA and outside investment consultants. As Manager of the Fund, the NTMA is in the process of skilling up in the key areas of asset allocation, portfolio construction, risk management, external manager selection and performance measurement and evaluation.

STATE CLAIMS AGENCY

The National Treasury Management Agency (Amendment) Act, 2000 provides for the delegation to the NTMA of a number of functions, including the management of certain personal injury and property damage claims against the State. When carrying out its new claims management and associated risk management functions, the NTMA is to be known as the State Claims Agency.

The NTMA expects the Claims Agency to be formally established shortly by means of a delegation order by the Government. Specialist claims, legal and risk management staff are currently being recruited. In addition, it is proposed to establish a panel of law firms to furnish legal advice in relation to some of the more complex cases and to provide legal representation at some court sittings outside Dublin. Panels of barristers and of medical, engineering and other experts will also be set up.

The Agency has acquired, and has customised to its own requirements, claims/risk management software which will facilitate the recording, reporting and analysis of data on incidents and claims. It will assist particularly in the presentation to State authorities of information on the history of their claims and in the development of risk management procedures. This will be supplemented by a document management system which will retain electronic records of key documents to facilitate business with service providers including lawyers as well as medical and engineering consultants.

MANDATE

The Agency's mandate, as set out in the legislation, is to manage claims so as to ensure that the State's liability (including legal and other expenses) is contained at the lowest achievable level. The intention is to apply best commercial practice to the management of claims with the objective of ensuring that they are resolved fairly, expeditiously and cost-effectively. There will be an emphasis on immediate and thorough investigation of adverse incidents with a view to determining the extent, if any, of the State's liability. The Agency will have discretion in determining the State's tactics towards individual claims; in the case of genuine claims where liability is undisputed, early and fair settlement will be sought; otherwise, cases will be contested.

CLAIMS UNDER MANAGEMENT

The Agency will manage personal injury and property damage claims which involve the payment of awards, settlements and associated expenses out of Exchequer funds. As prescribed in the Act, this includes claims against the State itself, Ministers, the Attorney General, the Commissioner of the Garda Síochána, prison governors, community and comprehensive schools and various other bodies listed in the Schedule to the Act. Provision is made for the inclusion of other publicly funded bodies as may be prescribed by the Minister for Finance at a later stage.

In addition to new claims arising after its establishment, the Agency is expected to take over the management of some existing claims outstanding against State authorities. The transfer of such claims, principally those which are at an early stage in the litigation process, has been agreed on a case-by-case basis with the various State authorities.

The Agency will not be responsible for claims against public entities whose liabilities are not met directly from Exchequer funds or which operate their own insurance arrangements. In addition, the legislation specifically excludes claims relating to injuries criminally inflicted on Gardaí and prison officers and claims arising out of alleged assaults by members of the Garda Síochána and prison officers.

RISK MANAGEMENT AND INSURANCE FUNCTIONS

In addition to its claims management function, the legislation requires the Agency to provide a risk advisory service to State authorities with a view to reducing over time the incidence and severity of claims. This service will focus on any risks that may be highlighted by the data on claims received from State authorities or that come to light from any risk evaluations or audits that the Agency may commission. Furthermore, the Act provides that, where it considers it appropriate to do so, the Agency may purchase insurance cover against certain insurable risks.

FEATURES OF LEGISLATION

Some of the other main features of the Act include:

- Provisions which enable the Minister for Finance and the Attorney General to issue directions and guidelines to the Agency in relation to the performance of its claims management functions.
- Provision for the establishment by the Minister of a Policy Committee which will advise the Agency on policy and procedures. The Policy Committee, which will consist of a chairperson and six other members, is required under the legislation to have substantial expertise and experience in the areas of claims management, litigation, insurance, risk management, the public service, and actuarial, accountancy, auditing, trade union and consumer protection matters.
- An obligation on State authorities to report to the Agency, as soon as may be, any adverse incidents which have potential to give rise to claims and to facilitate the Agency's investigation of such incidents.
- Arrangements relating to the payment of settlement amounts, awards or costs due to claimants and to the payment of fees to professional experts. The Agency will make such payments out of advances from the Post Office Savings Bank Fund and will subsequently recoup the amounts involved from State authorities.

SOCIAL INSURANCE FUND

The Social Insurance Fund is the fund into which all social insurance contributions are paid and out of which payments such as unemployment assistance and contributory old age pensions are made.

At present there is a surplus of some €1 billion in the Fund which is invested in short term Exchequer Notes. As this surplus is forecast to increase significantly over the coming years, it has been decided to invest a portion of the Fund in longer maturity assets in the context of a recently agreed investment strategy.

The Minister for Finance has delegated authority to the NTMA to manage the Fund and implementation is currently being finalised.

CENTRAL TREASURY SERVICE

The National Treasury Management Agency (Amendment) Act, 2000, which was passed in December, provided, inter alia, for the NTMA to make available a Central Treasury Service to Local Authorities, Health Boards, Vocational Education Committees and other designated bodies.

This service, providing deposit and loan facilities to the above mentioned bodies, is designed both to give them a competitive alternative to banks and also to make savings for the Exchequer. There are some one hundred and twenty bodies eligible to avail of the service.

Since early this year, the NTMA has been actively marketing the programme and lending and deposit activity commenced in May 2001.

DORMANT ACCOUNTS

The Dormant Accounts Bill, 2001, currently being debated by the Oireachtas, will give effect to the previously announced decision of the Government that balances on dormant accounts in certain financial institutions would be remitted to the State and used for charitable purposes or purposes of societal or community benefit. The balances in question will be transferred not later than 30 April each year, commencing 2003. The period for determining dormancy will be 15 years since the last customer-initiated transaction. Notwithstanding that accounts may be declared dormant, the Bill guarantees the right of the holders of the accounts to reclaim their moneys at any time.

The balances on dormant accounts, including accrued interest, will be remitted to a new fund – the Dormant Accounts Fund – which will be managed by the NTMA. Moneys from the Intestate Estates Fund Deposit Account may, on the direction of the Minister for Finance, also be paid into the Dormant Accounts Fund.

Disbursements from the Fund will be made on the direction of the Dormant Accounts Disbursement Board, to be established under the Bill and consisting of nine members appointed by the Minister for Social, Community and Family Affairs. Pending disbursement, moneys in the Fund will be invested by the NTMA in a range of eligible assets.