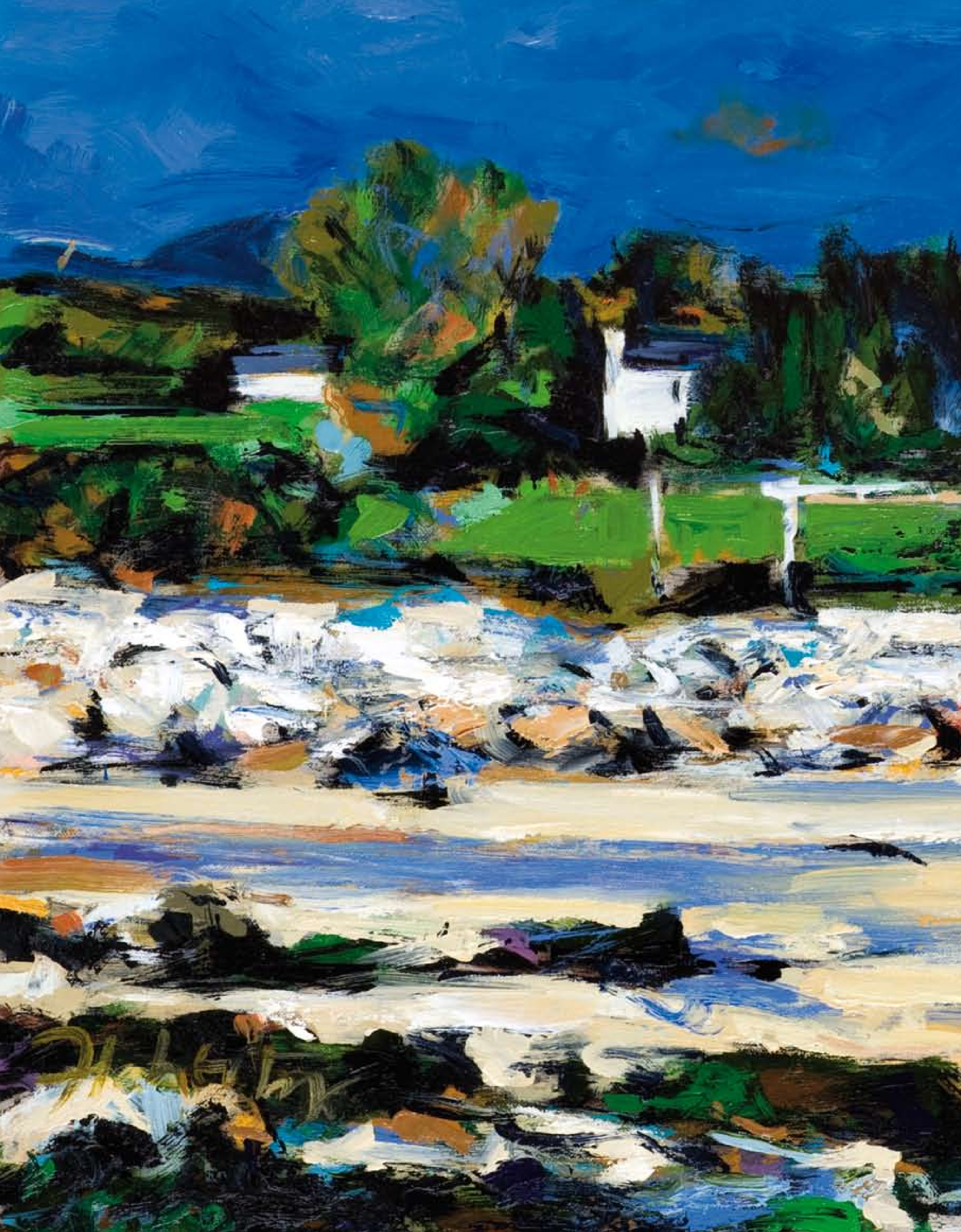
National Treasury Management Agency

REPORT AND ACCOUNTS FOR THE YEAR ENDED

31 DECEMBER 2007



National Treasury Management Agency

30 June 2008

Mr. Brian Lenihan 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 2007.

Yours sincerely,

Michael J. Somers
Chief Executive

Treasury Building, Grand Canal Street, Dublin 2, Ireland. Telephone: (353 1) 664 0800 Fax: (353 1) 664 0890 e-mail: info@ntma.ie Swift: NTMAIE2D

Chief Executive & Directors

MICHAEL J. SOMERS
Chief Executive

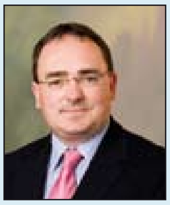
CIARÁN BREEN
State Claims Agency

JOHN C. CORRIGAN
National Pensions Reserve Fund

ANNE COUNIHAN
Legal and Corporate Affairs
(on special leave as Ireland's representative on the board of the European Bank for Reconstruction and Development)

EILEEN FITZPATRICK
Alternative Assets, National Pensions Reserve Fund

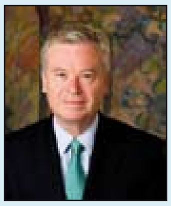
ADRIAN J. KEARNS
National Development Finance Agency and Human Resources



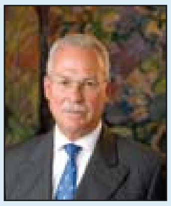
BRENDAN MCDONAGH
Finance, Technology and Risk

OLIVER WHELAN
Funding and Debt Management

Advisory Committee

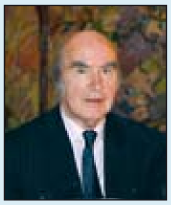


DAVID BYRNE
Chairman

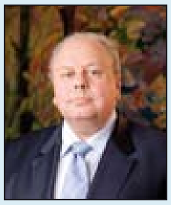


GEROLD W. BRANDT

HUGH COONEY

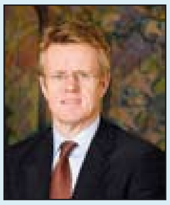


JOHN F. DALY

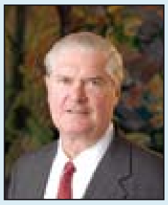


DAVID DOYLE

TYTTI NORAS



SHANE O'NEILL



DONALD C. ROTH

The Advisory Committee met formally on four occasions in 2007. Other meetings with members of the Committee took place on a regular basis. The NTMA Audit Committee also met four times in 2007.

John Daly was Chairman of the Advisory Committee until 31 December 2007. The NTMA would like to thank him for his services and greatly appreciates his contribution as Chairman. We thank all the Committee members for their advice and assistance during the year and for their commitment of time and effort.

We welcome David Byrne who was appointed Chairman of the Committee on 1 January 2008, Shane O'Neill who joined the Committee in May 2007 and Hugh Cooney who joined in January 2008.

Contents

Legal Framework

The National Treasury Management Agency Act 1990 provided for the establishment of the National Treasury Management Agency (NTMA) "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". 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 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 were given to the NTMA under the following statutes:

- Securitisation (Proceeds of Certain Mortgages) Act 1995
- National Pensions Reserve Fund Act 2000
- National Treasury Management Agency (Amendment) Act 2000
- Asset Covered Securities Act 2001
- Dormant Accounts Act 2001
- National Development Finance Agency Act 2002
- Housing (Miscellaneous Provisions) Act 2002
- Planning and Development (Amendment) Act 2002
- Unclaimed Life Assurance Policies Act 2003
- Commission to Inquire into Child Abuse (Amendment) Act 2005
- Dormant Accounts (Amendment) Act 2005
- Carbon Fund Act 2007
- Health Act 2007
- National Development Finance Agency (Amendment) Act 2007
- various Finance Acts.

Overview

The NTMA was established at the end of 1990 to borrow for the Exchequer and manage the National Debt. Its original objectives were to ensure adequate liquidity for the Exchequer at all times and to minimise the interest burden over the medium term, subject to an acceptable level of risk. At that time, Ireland's debt ratio was one of the highest in Europe — at more than 100 per cent of GNP. Now, at 23.3 per cent, it is one of the lowest. In 1990, 70 per cent of the amount raised in income tax was needed to service the annual cost of the National Debt; by 2007 it took just 12 per cent. The National Debt was €37.6 billion at end 2007.

In accordance with legislation, the NTMA operates as a financial institution outside the civil service and has a commercial remit, enabling it to recruit professional personnel at market rates. As such, it has the capacity to deal with a wide range of financial issues on behalf of the State. To utilise the expertise it has built up over the years, the Government has assigned substantial additional functions to the NTMA – these include the State Claims Agency; the management of the National Pensions Reserve Fund; and the National Development Finance Agency. We also provide a range of treasury services to the Housing Finance Agency, the Health Service Executive, local authorities and vocational education committees, and we manage investments on behalf of the Dormant Accounts Fund, the Education Finance Fund and the Social Insurance Fund. The combined portfolio of assets and liabilities under management now comes to over €63 billion and the value of transactions last year was €538 billion, about 3¼ times Ireland's GNP.

Relatively flat and flexible organisational arrangements have enabled the NTMA to operate with a tight staff complement, currently 163 spread across all the businesses and support functions. We are a multi-faceted, diverse organisation with staff from the professions of banking, corporate finance, pensions management, risk management, actuarial science, accounting, engineering, medicine and law. We aim to recruit and retain the best people and to utilise a unique mix of skills which combines professional and technical expertise with knowledge of both public and private sectors.

As regards the National Debt, the NTMA had to fund the repayment of a €6 billion bond in October 2007, along with an Exchequer borrowing requirement of €1.6 billion. Notwithstanding the difficulties in the global capital markets due to the credit crisis, the NTMA successfully launched a new €6 billion benchmark bond, in one of Europe's biggest deals last year. Substantial amounts were also raised under the NTMA's short-term debt programmes to finance the Exchequer deficit and to ensure sufficient liquidity for the Exchequer in the first quarter of 2008. Although the money markets were still highly stressed, in April this year — and after lengthy discussions with financial institutions — the NTMA launched another 10-year benchmark bond, taking advantage of a unique funding opportunity in volatile markets. Demand for the 2019 bond was strong and this time an unprecedented €7 billion was issued.

Funding the budget deficit and refinancing maturing debt call for the maintenance of an active and liquid market in Irish Government bonds. Relatively, we are a small issuer, with less than 1 per cent of the euro government bond market. Ongoing contact with primary dealers, investment institutions and credit rating agencies assists this process; most Irish Government bonds — over 90 per cent — are now held by investors outside the State. One of the benefits of the National Pensions Reserve Fund is that it contributes to the positive assessment of Ireland's creditworthiness by credit rating agencies and international investors. Ireland's General Government Debt/GDP ratio stands at 24.8 per cent, but when the NPRF is taken into account (the Maastricht criteria do not allow assets to be netted off), this ratio drops to 13.7 per cent.

The NTMA currently manages the National Pensions Reserve Fund on behalf of the NPRF Commission. The Fund is intended to meet some of the pension liabilities of the State from 2025 onwards. Based on current projections the Fund should accumulate to €140 billion at that time and should last until 2070. It stood at €21.2 billion at end 2007. The NTMA directly manages the Fund's passive bond portfolio of €1.7 billion, its cash position of €1 billion and its foreign currency hedging operations of €5 billion. Other investments are outsourced to specialised international fund managers.

Since December 2001 the NTMA has acted as the State Claims Agency, managing claims for personal injuries and damage to property against Government Ministers, the Attorney General, health enterprises and other State authorities. It is currently dealing with approximately 4,500 claims, with potential liabilities of €565 million. It also has a risk management role, advising the various State authorities and health enterprises on how to minimise their claims exposures. While there has been a drop of about 65 per cent in the number of employer liability and public liability claims associated with incidents that have occurred since the inception of the SCA, the most significant challenge arises in dealing with the increasing number and value of clinical claims.

Finally the National Development Finance Agency which came into existence in early 2003 advises State authorities on the optimal means of financing public investment projects, including projects procured via Public Private Partnerships (PPPs). All public capital projects over €30 million must be referred to the NDFA for advice. So far 121 projects have been referred, and the NDFA has completed its advice on 38 of these. The *National Development Finance Agency (Amendment) Act 2007* expanded the role of the NDFA, giving it responsibility for the actual procurement of certain PPP projects.

The NTMA operates under detailed guidelines and directions issued under statute by the Minister for Finance. While its main reporting relationship is to the Minister, it operates in conjunction with four boards — the NTMA Advisory Committee, the National Pensions Reserve Fund Commission, the State Claims Agency Policy Committee and the National Development Finance Agency Board — as well as two audit committees. John Daly's term as Chairman of the NTMA Advisory Committee ended on 31 December 2007. The NTMA would like to thank him for his services and greatly appreciates his significant contribution as Chairman of the Committee since 2002.

There are now 39 Acts of the Oireachtas and Statutory Instruments covering the activities of the NTMA. Five major statutes have been passed, the most recent being the *National Development Finance Agency (Amendment) Act 2007*. The NTMA has an in-house internal audit and control function, as well as a compliance officer. All our activities are audited by the Comptroller and Auditor General.

To safeguard the assets that it manages on behalf of the State, the NTMA has in place a comprehensive system for managing its credit risk with other financial institutions. Counterparties are constantly monitored for any events that might affect their creditworthiness and all counterparty limits are subject to an ongoing detailed review process. The NTMA also continually reviews its own processes and procedures in the light of lessons learned from the credit crisis or any other market events.

As the first debt office established in recent times, the NTMA continues to be approached regularly by other countries seeking to emulate Ireland's success in improving its financial position. The NTMA's more recent responsibilities have attracted further attention internationally.

Much of the information in this report is designed to facilitate potential investors in Irish Government debt and organisations assessing the creditworthiness of the State. Our website *www.ntma.ie* gives additional information, as does the *Ireland Information Memorandum* which is published each March and is also available on the website. The most up-to-date annual reporting by the NTMA takes place each year on New Year's Eve in a comprehensive end of year press statement – again available on our website.

Separate annual reports are published by the National Pensions Reserve Fund Commission, the National Development Finance Agency and the Carbon Fund.

Summary of Activity

Overall

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

National Debt

- In October 2007, the NTMA issued a new €6 billion bond - the 4½% Treasury Bond 2018. This was the largest deal by any government in Europe in 2007 and, at the time, it was the largest ever executed by the NTMA. Despite the difficulties in the global capital markets due to the credit crisis, the launch of the bond was a success and the issue was oversubscribed almost three times.
- In April 2008, the NTMA launched another benchmark bond - the 4.4% Treasury Bond 2019 - taking advantage of a unique funding opportunity in volatile market conditions. Again demand for the bond was strong, and an unprecedented €7 billion was issued.
- Total debt service costs in 2007 were €358 million below budget.
- The Exchequer's interest payments on the debt were €1.618 billion, compared with €1.859 billion in 2006. This represents 3.4 per cent of tax revenue - when the NTMA was established in 1990, interest payments were 26.7 per cent of tax revenue. This reduction in the interest burden has freed up substantial resources which the Government can use for other purposes.
- In line with the Exchequer deficit, the National Debt increased by €1.6 billion and stood at €37.6 billion at end 2007. However the National Debt/GNP ratio fell from 23.6 per cent at end 2006 to 23.3 per cent at end 2007.
- The National Debt, less the National Pensions Reserve Fund and other funds managed by the NTMA, is now equivalent to just over three months' tax revenue (down from four months at end 2006). When the NTMA was established, it took over three months' tax revenue just to pay the interest on the debt.
- Ireland's General Government Debt/GDP ratio ended the year at 24.8 per cent. It continues to be one of the lowest in the EU.
- Deducting the value of the National Pensions Reserve Fund and other funds managed by the NTMA would give an even lower Debt/GDP ratio of around 11.8 per cent at end 2007 (12.4 per cent at end 2006).
- International investors held 93 per cent of Irish Government bonds, up sharply from 22 per cent at end 1998, just before the introduction of the euro.
- Bond yields were:

Bond yields were:	At 31 December 2007	At 30 June 2008
3¼% Treasury Bond 2009	4.13%	4.66%
5% Treasury Bond 2013	4.27%	4.91%
4.6% Treasury Bond 2016	4.35%	4.88%
4½% Treasury Bond 2018	4.49%	4.99%
4.4% Treasury Bond 2019	–	5.07%
4½% Treasury Bond 2020	4.55%	5.08%

- At end 2007, 83 per cent of the National Debt carried fixed rates of interest. The balance related mainly to the retail savings schemes. The high level of fixed interest debt is a result of the NTMA's policy of locking in long-term borrowing at historically low interest rates, protecting the Exchequer against potential future increases.
- Exchange rate risk has been eliminated from the National Debt, as all of the debt is now denominated in, or swapped into, euro.
- During 2007 interest rates on the Government retail savings schemes were increased in line with general market trends and by year end there had been a net capital inflow of €107 million into the schemes.
- The interest rate increases facilitated the introduction of a new prize structure for Prize Bonds, with a new top prize of €1 million (up from €150,000). The first €1 million prize was won by a bondholder in Dublin in December 2007. The monthly jackpot prize in September, October and November was increased from €150,000 to €500,000.
- There was a repayment of €330 million to holders of maturing Special Savings Incentive Accounts (SSIAs) in An Post.
- The credit rating agencies continue to regard Irish Government debt as among the safest in the world. Moody's, Standard & Poor's, Fitch and Rating & Investment Information Inc. all rank Ireland's debt in the top AAA category with a stable outlook.

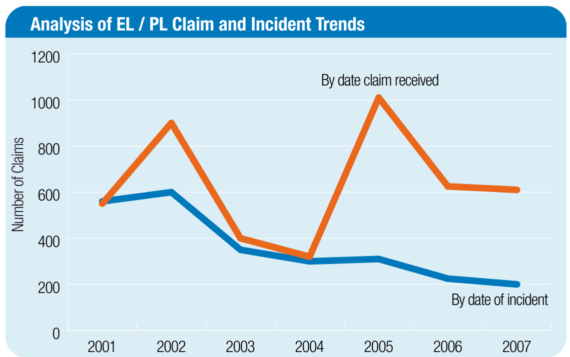
Other NTMA Financial Activities

- The NTMA manages the balance in the Exchequer Account at the Central Bank of Ireland. The 2007 turnover on cash management operations was €190 billion. The average daily transaction size was €465 million. The NTMA built up end year Exchequer cash balances to around €4 billion, ensuring ample liquidity for early 2008.
- The NTMA borrows on behalf of the Housing Finance Agency. During 2007 the average level of borrowings was €2.58 billion. Turnover was €44 billion.
- The NTMA operates the Central Treasury Service to provide health, education and local government authorities with a competitive alternative to the banking industry for both borrowing and lending. An average of €33 million in loans and €84 million in deposits was outstanding during 2007.

- The NTMA manages the assets of the Social Insurance Fund on behalf of the Department of Social and Family Affairs. Total assets under management were €3.3 billion at end 2007, up from €2.7 billion at end 2006.
- The NTMA manages the assets of the Dormant Accounts Fund, which came to €205 million at end December 2007 (€211.3 million at end 2006).
- The NTMA manages a passive bond portfolio for the National Pensions Reserve Fund. This bond portfolio has made gains of €405 million since inception and stood at €2.3 billion at end 2007. The NPRF's cash balances, €720 million on average in 2007, are also managed by the NTMA.
- The foreign exchange transactions required by the NPRF for its investments in non-euro assets and for the Fund's long-term hedging strategy are executed by the NTMA. Turnover on these activities in 2007 was over €43 billion.
- The NTMA manages the assets of the Education Finance Board Fund. The balance in the Fund at end 2007 was €8.6 million.
- The NTMA acts as agent for the State with responsibility for the purchase of carbon credits required to meet Ireland's obligations under the Kyoto Protocol. NTMA invested €3.7 million in 2007 on foot of agreements entered into by the Minister for the Environment, Heritage and Local Government with the World Bank.

State Claims Agency

- Acting as the State Claims Agency (SCA), the NTMA manages personal injury, property damage and clinical claims brought against certain State authorities, including Government Ministers and health enterprises.
- The SCA currently handles approximately 4,500 claims. The total outstanding reserve against all claims amounts to approximately €565 million, comprising:
  - » Clinical Claims €449 million (79.5%)
  - » Employer Liability/Public Liability/Property Damage (EL/PL/PD) €116 million (20.5%)
- Trends:
  - » Since 2002 the number of EL claims has fallen by 84 per cent and the number of PL claims has fallen by 28 per cent.
  - » However, the total number of active claims under SCA management has increased due to the delegation of additional categories of claims. The additional categories include claims related to hearing loss, trespass to the person and child sexual abuse.
- In total the SCA received 1,493 new claims and resolved 1,258 claims in 2007.
- As a result of a Supreme Court decision in November 2007 in an organ retention case, the SCA intends to close approximately 200 such cases against hospitals and State defendants.
- A comprehensive programme of EL/PL risk management initiatives was undertaken in 2007. This included:
  - » certification audits of the health and safety management system in the Defence Forces;
  - » risk reviews in An Garda Síochána and the Department of Agriculture and Food;
  - » the launch of the Irish Prison Service health and safety management system;
  - » the establishment of a Risk Management Network for State authorities;
  - » training courses and seminars for schools and Government departments.
- Key developments arising from the Clinical Indemnity Scheme Risk Management Service Plan for 2007 included:
  - » the establishment of a Paediatric Forum, an Obstetrics Forum and a Healthcare-Associated Infections Forum;
  - » the hosting of the annual meeting of the International Medication Safety Network;
  - » provision of advice following analysis of closed claims;
  - » training for risk managers in report generation and root-cause analysis.



Source: NTMA

National Development Finance Agency

- The NTMA discharges the functions of the National Development Finance Agency, providing financial advice to State authorities undertaking major infrastructure projects. The NDFA was established on 1 January 2003.
- A total of 121 projects has been referred to the NDFA. To date it has completed its advice on 38 projects with a combined capital value of €6 billion, 21 of which were PPPs.

- The NDFA completed its advice on ten projects in 2007:
  - » Criminal Courts Complex
  - » National Conference Centre
  - » Lansdowne Road
  - » O'Devaney Gardens
  - » Spencer Dock Social and Affordable Housing
  - » Wexford County Council Loan
  - » M3 Clonee – Kells
  - » N6 Galway – Ballinasloe
  - » N7/N8 Portlaoise – Cullahill
  - » M50 Extension

  These projects have a combined capital value of €2.6 billion.
- The NDFA is currently engaged in the procurement of a number of schools and has commenced pre-procurement work on the National Concert Hall, the Abbey Theatre, and other education projects and courthouses.
- The NDFA continues to provide financial advice on projects including Thornton Hall Prison, Motorway Service Areas on the M1 and the M4, and Metro North and Metro West. In addition, the NDFA continues to work closely with Dublin City Council and other local authorities on social and affordable housing regeneration schemes, as well as projects in the waste and water sectors.

National Pensions Reserve Fund

- The NPRF was established in April 2001 with the objective of meeting as much as possible of the costs of social welfare and public service pensions from 2025 onward. The NTMA was appointed as manager of the Fund for ten years until 2011.
- The Fund grew by €2.253 billion to €21.153 billion at end 2007 (€18.9 billion at end 2006). Investment returns added €637 million, or 3.3 per cent, while the Exchequer contributed €1.616 billion.
- The Fund's 3.3 per cent investment return was due to the growth of its equity portfolio, notwithstanding extreme volatility during the second half of the year arising from the subprime crisis and the resulting credit crunch. The Fund's annualised return now stands at 6 per cent since inception.
- The Fund's value at end 2007 was equivalent to 13.1 per cent of GNP.
- At end 2007 the Fund held shares in over 2,500 quoted companies worldwide. It also held some 190 debt securities and had investments in 25 property investment vehicles, 26 private equity investment vehicles and 11 specialised investment products (including currency and emerging markets funds and commodity certificates).

NPRF Asset Allocation – 31 December 2007

	€million	%
Large Cap Equity	14,080	66.6
Small Cap Equity	749	3.5
Emerging Markets Equity	430	2.0
Total Quoted Equity	**15,259**	**72.1**
Private Equity	403	1.9
Property	647	3.1
Commodities	286	1.3
Total Alternative Assets	**1,336**	**6.3**
Fixed Income	3,567	16.9
Currency Funds	165	0.8
Cash	826	3.9
Total Financial Assets	**4,558**	**21.6**
Total	**21,153**	**100**

New Activities

- Since June 2007, the NTMA has managed the foreign currency requirements - about €100 million per annum - of the Department of Foreign Affairs.
- The *Health Act 2007* provided that the NTMA may, at the request of the Health Service Executive, manage moneys in patients' private property accounts on terms agreed with the HSE.
- The remit of the Central Treasury Service was extended in 2007 to include all non-commercial State bodies.

Asset Covered Securities

- Certain functions devolve on the NTMA under the *Asset Covered Securities Act 2001*. It receives an annual fee related to the volume of bonds issued by the designated institutions.
- During 2007, €12.2 billion of asset covered securities were issued in Ireland under the Act, bringing the total amount in issue to €72.2 billion.

Consultancy & International Relationships

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

Human Resources

- Staff numbers in the National Treasury Management Agency grew from 130 to 151 during 2007. Recruitment occurred mainly in the State Claims Agency and in the National Development Finance Agency. In June 2008, the number of staff employed by the NTMA was 163.

Funding and Debt Management

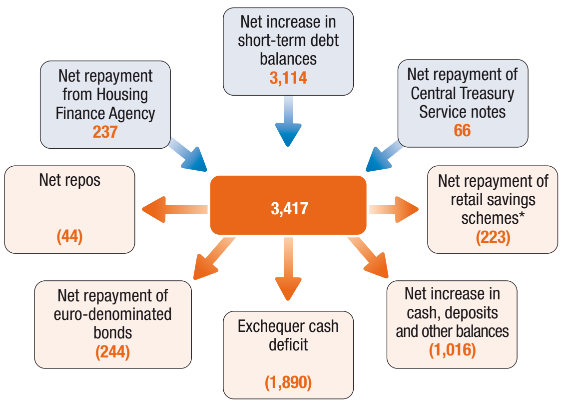
The National Debt

The National Debt, as traditionally measured in Ireland, is the nominal value of central government debt minus Exchequer cash balances. It increased by €1.642 billion in 2007 and stood at €37.560 billion at the end of the year. The 2007 Exchequer deficit accounts for virtually all of the increase.

The Exchequer deficit was €1.619 billion. When the Small Savings Reserve Fund drawdown (€238 million) and the carry-over of capital allocations (€33 million) are taken into account, the cash deficit was €1.890 billion.

A diagram showing the Exchequer's 2007 funding requirements and liquidity management operations (carried out for the European Central Bank) is set out below:

SOURCES — € million



APPLICATIONS — € million

* After repayment of €330 million to holders of maturing Special Savings Incentive Accounts (SSIAs) with An Post.

Gross Cashflows In 2007

Account	**€ billion**
Exchequer Account	341
National Pensions Reserve Fund	74
Housing Finance Agency	44
Social Insurance Fund	32
Foreign Currency Accounts	31
Post Office Savings Bank Fund	12
Capital Services Redemption Account	1
Other Accounts	3
Total	**538**

Change in Nominal Value of National Debt in 2007

	€ million	**€ million**
National Debt (end 2006)		**35,917**
Plus		
(i) Exchequer Deficit	1,619	
(ii) Non-cash movements*	23	
Change in nominal value of National Debt		**1,642**
National Debt (end 2007)		**37,560**

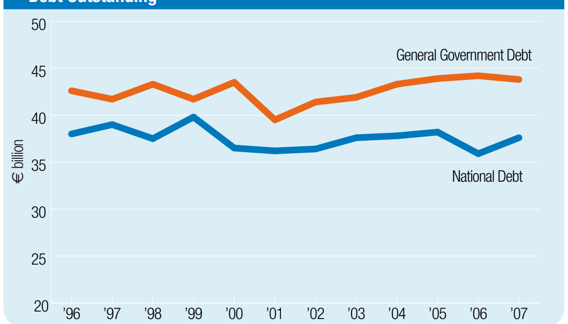
* Impact of exchange rate movements and net discounts on tranches and cancellations of government bonds. Premiums and discounts arise when bonds are issued or cancelled at a price other than their par value due to a difference between the coupon on the debt and market yields.

General Government Debt

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

GGD is estimated at €47.2 billion at end 2007, an increase of €3.4 billion on end 2006. The Exchequer deficit and the build-up of Exchequer cash balances contributed equally to this increase.

Debt Outstanding



Sources: Eurostat, Department of Finance & NTMA

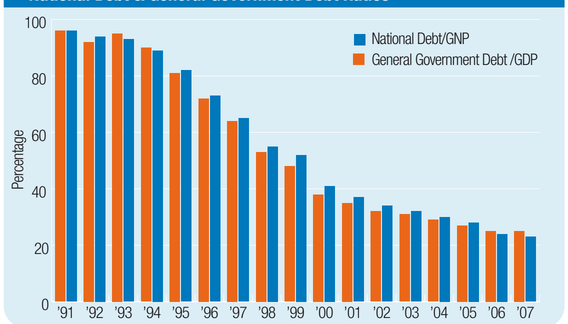
Debt Ratios

The National Debt/GNP ratio fell from 23.6 per cent at end 2006 to 23.3 per cent at end 2007. The General Government Debt/GDP ratio stood at 24.8 per cent, up from 24.7 per cent at end 2006.

Ireland's underlying position is even stronger – when account is taken of the €21.2 billion in the National Pensions Reserve Fund at end 2007, the General Government Debt ratio falls to 13.7 per cent.

The Government's three-year Budget Plan announced in December 2007 forecasts a small increase in the General Government Debt/GDP ratio over the 2008-2010 period — from 25.9 per cent at end 2008 to 28.7 per cent at end 2010.

National Debt & General Government Debt Ratios

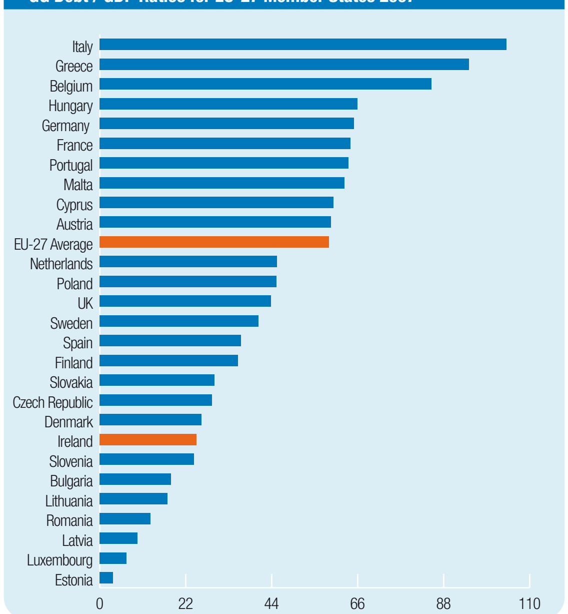


Sources: Eurostat, Department of Finance and NTMA

International Comparisons

At end 2007, Ireland's comparative indebtedness was one of the lowest of the EU Member States and less than half the EU average.

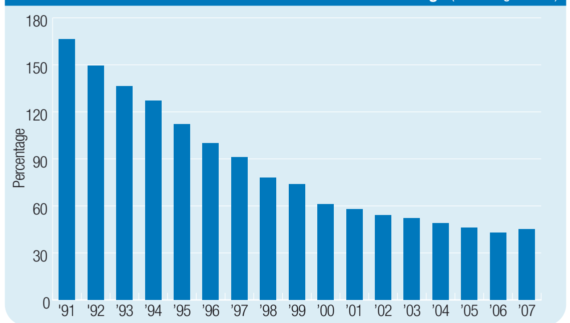
GG Debt / GDP Ratios for EU-27 Member States 2007



Source: Eurostat

This compares with a position well above the average in the first half of the 1990s.

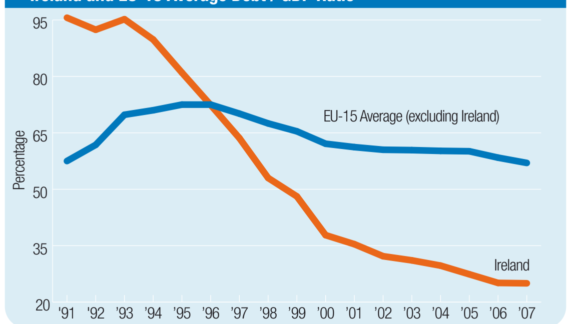
Ireland's GG Debt/GDP Ratio Relative to the EU-15 Average (excluding Ireland)



Sources: Eurostat, EU Commission, and Department of Finance (2007 estimate for Ireland)

This favourable trend reflects Ireland's performance rather than any material change in the EU average itself, as can be seen from the graph below.

Ireland and EU-15 Average Debt / GDP Ratio



Sources: Eurostat,EU Commission, Department of Finance (2007 estimate for Ireland)

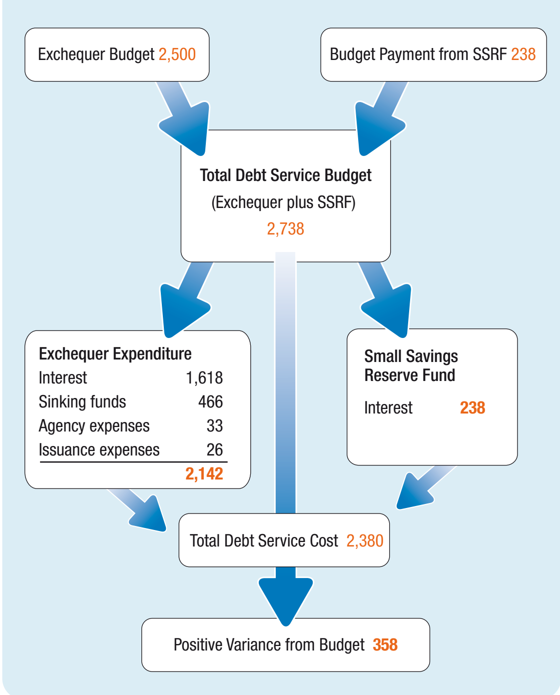
Debt Service Costs

The Exchequer paid €1.618 billion in interest on the National Debt in 2007, compared with €1.859 billion in 2006. The other items charged to debt service costs were sinking funds of €466 million – this is in effect a technical charge on the current budget which is also reflected as a receipt in the capital budget – and fees and administration expenses of €59 million.

A further €238 million in interest was paid from the Small Savings Reserve Fund (SSRF). The Exchequer has been building up the SSRF since 1994 to pay some of the accrued interest on the retail savings schemes as it falls due in large amounts (see page 17).

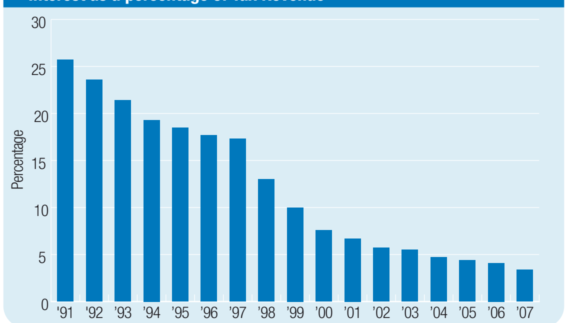
Debt service savings against the Budget were €358 million. The savings are due to timing issues related to the first interest payment on the new €6 billion bond which was issued in October 2007, the strong opening Exchequer position and certain NTMA debt management initiatives.

Analysis of debt service outturn relative to Budget — €million



Only 3.4 per cent of tax revenue is now needed to pay the interest on the National Debt, compared to 25.7 per cent in 1991.

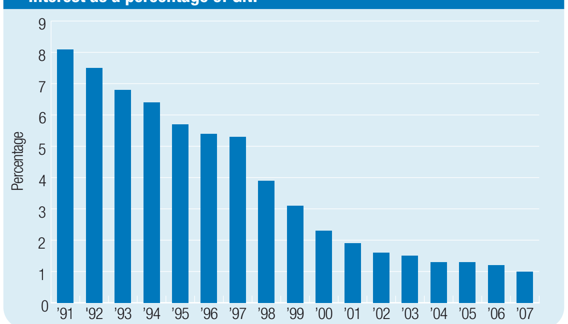
Interest as a percentage of Tax Revenue



Source: NTMA

Interest costs have fallen from 8.1 per cent of GNP in 1991 to 1 per cent in 2007.

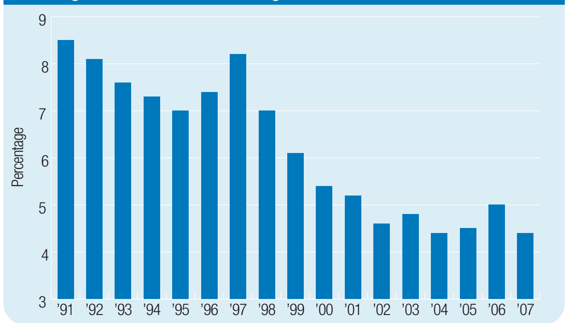
Interest as a percentage of GNP



Source: NTMA

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

Average Interest Cost of Servicing the National Debt 1991–2007



Source: NTMA

Debt Composition

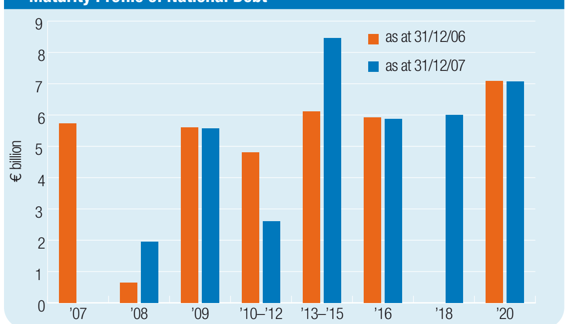
	€ million (nominal)	
	31 Dec 2007	31 Dec 2006
Irish Government Bonds	30,945	31,189
Other Medium and Long Term Debt	616	628
Retail Savings Schemes	6,241	6,453
Net Short Term Debt	(242)	(2,353)
Total	**37,560**	**35,917**

Currency and Duration of the Debt

At end 2007, all of the National Debt was denominated in, or swapped into, euro.

The duration of the National Debt increased from 5.29 to 5.67 years, mainly as a result of the issue of the new bond.

Maturity Profile of National Debt



Source: NTMA

Funding Activity

2007 — Launch of the 4.5% Treasury Bond 2018

In October the NTMA launched, via syndication, a new 11-year bond to refinance a bond that was due to mature on 18 October 2007. The NTMA initially targeted an issue between €3 billion and €5 billion, but there was such strong demand from investors that it was able to increase this to €6 billion. This was the largest bond issue by any government in Europe in 2007 and, at the time, it was the largest ever made by Ireland. The bond was issued at a yield of 4.58 per cent, 15 basis points over the yield on the German 10-year benchmark bond.

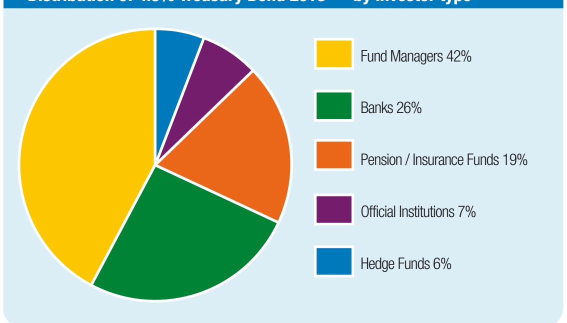
Demand came from a wide range of investors led by fund managers (42 per cent), banks (26 per cent) and pension/insurance firms (19 per cent), and was geographically dispersed with Germany/Austria accounting for 22 per cent, the UK 20 per cent and France 16 per cent. Irish investors took up 11 per cent of the total.

2008 – Launch of the 4.4% Treasury Bond 2019

In April 2008, and after lengthy discussions with financial institutions, the NTMA launched another benchmark bond – the 4.4% Treasury Bond 2019 – taking advantage of a unique funding opportunity in difficult market conditions. Again demand for the bond was strong, and an unprecedented €7 billion was issued. This was the largest bond issue by any borrower in Europe since 2004. The bond was issued at a yield of 4.51 per cent.

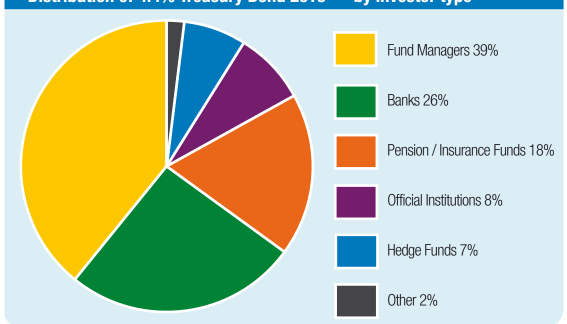
Over 180 investors participated in a book that was almost twice oversubscribed, making it one of the biggest and most diversified in 2008. The bonds were distributed across Europe, and also saw significant demand from outside Europe – in particular from Asia and North America. Asset managers took up 38 per cent of the issue, followed by banks with 27 per cent, and pension funds and insurance companies with 18 per cent. Central banks and supranational institutions were also represented, with approximately 8 per cent. The broad distribution highlights the international appeal of Ireland's bonds, with over 94 per cent allocated outside Ireland.

Distribution of 4.5% Treasury Bond 2018 — by investor type



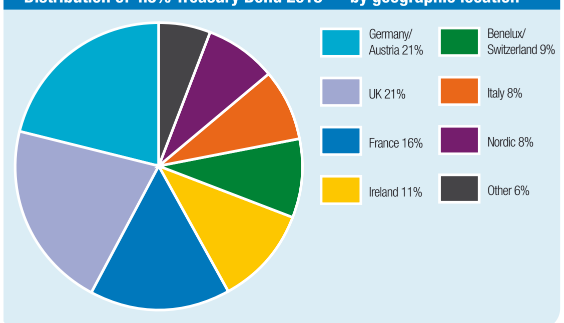
Source: NTMA

Distribution of 4.4% Treasury Bond 2019 — by investor type



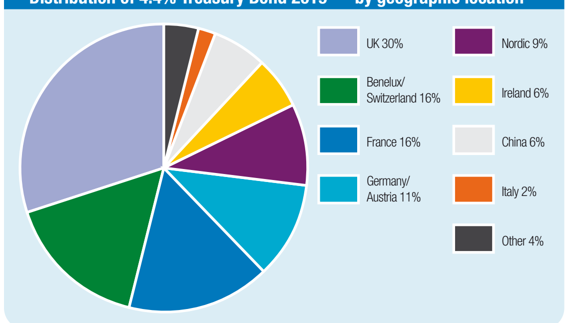
Source: NTMA

Distribution of 4.5% Treasury Bond 2018 — by geographic location



Source: NTMA

Distribution of 4.4% Treasury Bond 2019 — by geographic location



Source: NTMA

Bonds and Other Long Term Debt

Benchmark Government Bonds

Ireland now has five major benchmark bonds with maturities extending across the yield curve to 2020. The amount outstanding in each exceeds €5 billion. The benchmark bonds, along with the former benchmark bond due to mature in April 2009, account for almost 98 per cent of the total bonds outstanding.

Benchmark Bonds

Bond	Outstanding 30 June 2008 (€m)	ISIN Code	Annual Payment Date
5% Treasury Bond 2013	6,028	IE0031256328	18 April
4.6% Treasury Bond 2016	5,849	IE0006857530	18 April
4.5% Treasury Bond 2018	6,000	IE00B28HXX02	18 October
4.4% Treasury Bond 2019	7,000	IE00B2QTFG59	18 June
4.5% Treasury Bond 2020	7,073	IE0034074488	18 April

Benchmark Bonds Outstanding 30 June 2008

Source: NTMA

Primary Dealer System

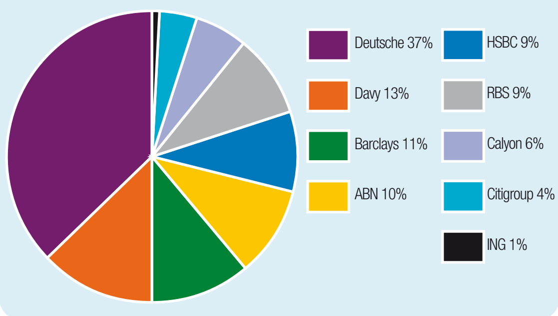
The Irish Government bond market has eight Primary Dealers recognised by the NTMA who make continuous two-way prices in designated bonds in specified minimum amounts and within specified maximum spreads. A number of stockbrokers also match client orders. The Primary Dealers account for 95 per cent of turnover in the Irish Government bond market. ING Bank became a Primary Dealer in April 2007. ABN AMRO ceased to be a Primary Dealer in March 2008. At present, major international banks account for seven of the eight Primary Dealers.

The Primary Dealers are:

- Barclays Capital
- Calyon
- Citigroup
- Davy Stockbrokers
- Deutsche Bank
- HSBC
- ING Bank
- Royal Bank of Scotland

The Primary Dealers are members of the Irish Stock Exchange, on which Irish Government bonds are listed. They are also members of EuroMTS and MTS Ireland. They have exclusive access to the NTMA's bond auctions and may avail of repo and reverse repo facilities which the NTMA provides in Irish Government bonds.

Primary Dealer Activity: Percentage Retail Market Share 2007



Source: NTMA

Bond Auctions

Because of the syndication issues in October 2007 and April 2008, no bond auctions were required in 2007 or up to end-June 2008.

Bond auctions, when required, normally take place on the third Thursday of the month. The eight recognised Primary Dealers have exclusive access to these auctions. At 10.00 a.m. on the Thursday one week beforehand, the NTMA announces details of the bond to be auctioned and the auction size through Bloomberg, Reuters and its website *www.ntma.ie*.

Auctions are conducted via the Bloomberg Auction System and are multiple price auctions. Auction results are usually available within two minutes of the 9.15 a.m. cut–off time for bids. A non–competitive auction for up to 20 per cent of the amount sold in the competitive auction follows directly after the close of each competitive auction. Primary Dealers have the option to take up their non–competitive entitlement until 10.00 a.m. on the second business day following the competitive auction.

Electronic Trading
EuroMTS and MTS Ireland

There are 17 participants in the market for Irish Government benchmark bonds on EuroMTS:

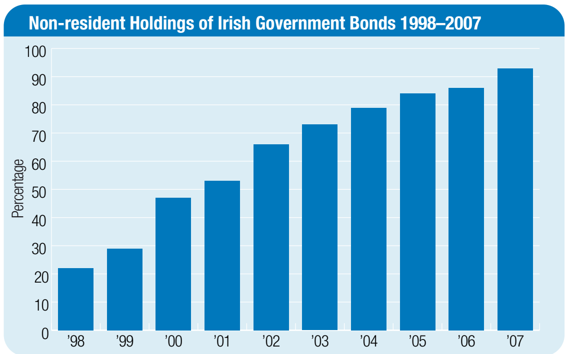
Market Makers	Market Takers
Bank of America Securities	Banco Santander Central Hispano
Barclays Capital*	BHF-BANK
Bayerische-Hypovereinsbank	Commerzbank
Calyon*	Landesbank Baden Wuerttemberg
Citigroup*	Morgan Stanley
Davy Stockbrokers*	Westdeutsche Landesbank
Deutsche Bank*	
HSBC*	
ING Bank*	
Royal Bank of Scotland*	
UBS Limited	

**Primary Dealers*

The five benchmark Irish Government bonds are also listed on the domestic system, MTS Ireland, in a parallel quotation.

Diversified Holdings of Irish Government Bonds

The investor base for Irish Government bonds has diversified since the introduction of the euro. Holdings by international investors have increased from 22 per cent of the total in 1998 to an estimated 93 per cent in 2007. The total amount of bonds in issue increased by 52 per cent over the same period.

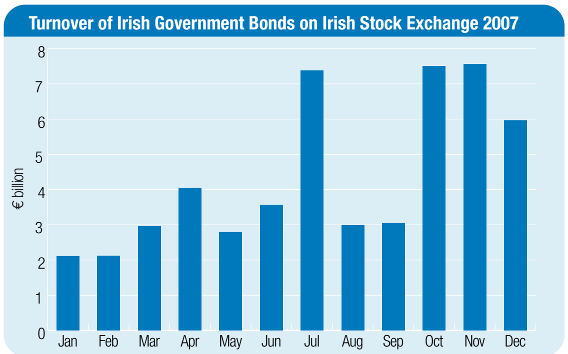


Non-resident Holdings of Irish Government Bonds 1998–2007

Source: Central Bank of Ireland Quarterly Bulletin

Turnover and Liquidity

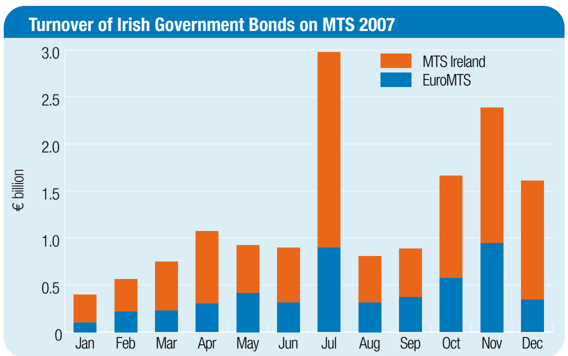
Turnover in Irish Government bonds on the Irish Stock Exchange in 2007 was €52 billion.



Turnover of Irish Government Bonds on Irish Stock Exchange 2007

Source: Irish Stock Exchange

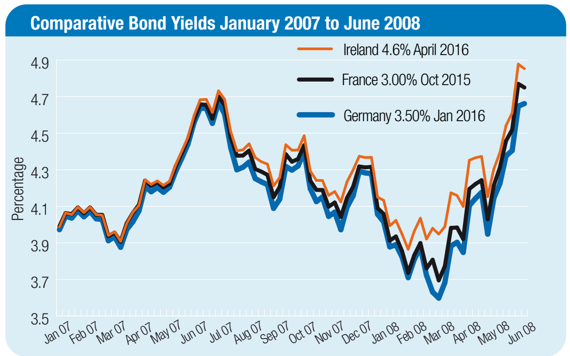
Turnover is greatly enhanced by trading activity in the bonds on EuroMTS and MTS Ireland. The combined turnover of Irish Government bonds on both systems in 2007 was €15 billion.



Turnover of Irish Government Bonds on MTS 2007

Source: MTS

Government Bond Yields in the Euro Area

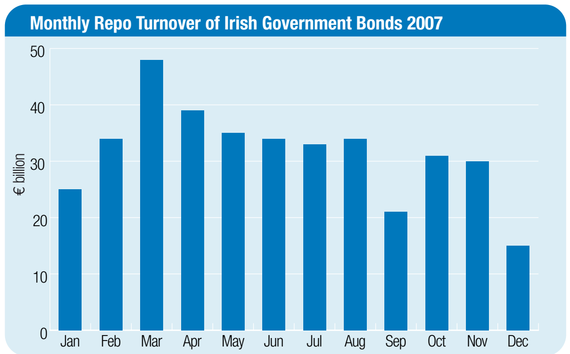


Comparative Bond Yields January 2007 to June 2008

Source: Bloomberg

Repos

Repos are an important component of liquidity in the bond market and generate more than five times the turnover of the cash market. They provide a collateralised mechanism for investors to enhance their returns by lending their bond holdings on a short-term basis. Repo turnover reported by the Irish Stock Exchange was €377 billion in 2007.



Monthly Repo Turnover of Irish Government Bonds 2007

Source: Irish Stock Exchange

The NTMA was active in the repo market during the year, providing repo and reverse repo facilities to the Primary Dealers. Overall the NTMA's repo activity amounted to €14 billion. This activity contributed to the smooth and efficient operation of the market for all participants and was a useful source of market intelligence for the NTMA.

Bond Buybacks

Over the years the NTMA has bought back off-the-run illiquid Irish Government bonds whenever opportunities arose in the markets. These opportunities are now limited due to previous years' buyback activity. Nevertheless some €162 million was bought back in 2007.

Clearing and Settlement of Irish Government Bonds in Euroclear

The clearing and settlement function for Irish Government bonds is carried out by Euroclear Bank, Brussels. The Central Bank of Ireland maintains the register of holders of the bonds, the majority of which are in the name of Euroclear Bank. Bond dealings normally settle on a t+3 basis (that is, three business days after the trade date).

Bond Indices

Irish Government bonds are included in the following bond indices:

- Bloomberg/EFFAS – Euro Bloc Government Bond Index
- Citigroup World Government Bond Index
- EuroMTS Euro Area Index
- Irish Stock Exchange – ISEQ Bond Index
- Lehman Brothers – Global Treasury Index
- Merrill Lynch – Pan-European Government Bond Index

Secondary Trading Desk

The NTMA maintains a secondary trading function to trade its bonds with other market participants. This is separated from the primary bond desk by "Chinese Walls". The role of the secondary trading desk is to provide liquidity to the market and to act as an additional source of market intelligence for the NTMA. A portfolio of €98 million Irish Government bonds was actively traded during the year to give a turnover figure of €3.7 billion.

The secondary trading desk has also been mandated to manage assets of €5.705 billion, namely the passive bond portfolio of the National Pensions Reserve Fund (over €2.3 billion at end 2007), the accumulated surplus of the Social Insurance Fund (€3.2 billion at end 2007) and the assets of the Dormant Accounts Fund (€205 million at end 2007).

Medium Term Note Programme

The NTMA has in place a US$15 billion Euro Medium Term Note Programme which is renewed each year. This multi–currency programme facilitates issuance in a variety of structures.

The dealers appointed by Ireland under the programme are:

- Credit Suisse Securities (Europe) Limited;
- J.P. Morgan Securities Ltd;
- Merrill Lynch International;
- Morgan Stanley & Co. International plc;
- UBS Limited.

Merrill Lynch International is the arranger.

Short Term Debt and Cash Management

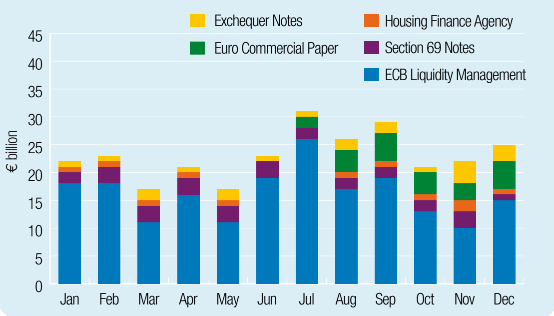
During 2007 there was considerable activity on the NTMA's short-term debt programmes. Borrowings were increased to about €10 billion by October to fund Government expenditure and in particular to meet the repayment of the €6 billion bond which matured on 18 October 2007.

Once the 2007 bond had been refinanced by the new 2018 bond, short-term debt was reduced. Short-term debt outstanding at the end of the year was around €3 billion.

The NTMA operates the following short-term debt programmes:

- Ireland US$15 billion Euro Commercial Paper Programme;
- Housing Finance Agency €4.4 billion Euro Commercial Paper Programme;
- Exchequer Notes;
- Section 69 Multi-Currency Notes;
- Agricultural Commodity Intervention Bills (ACIBs);
- Central Treasury Notes for non-commercial State bodies;
- Cash management borrowings as part of the ECB's liquidity management for the euro area.

Short Term Paper Activity 2007



Source: NTMA

Ireland Commercial Paper Programme

The Ireland US$15 billion Multi–Currency Euro Commercial Paper Programme is listed on the Irish Stock Exchange. The programme is designed to raise short-term funds from the international money markets at attractive rates, usually significantly below Euribor, as bridging finance in the replacement of longer term debt and for other liquidity management purposes. Typical deal size is up to US$100 million. Tenors of up to one year are available, subject to funding requirements. Reverse inquiries are accepted. The programme was very active during 2007 with a turnover of €23.4 billion.

The dealers appointed by the NTMA under the programme are:

- Bank of America Securities
- Barclays Bank
- Citibank International
- Credit Suisse Securities (Europe)
- Deutsche Bank
- Goldman Sachs International
- ING Bank
- Lehman Brothers International (Europe)
- Royal Bank of Scotland
- UBS

Bank of New York Mellon is the issuing agent and paying agent.

Housing Finance Agency Commercial Paper Programme
The NTMA borrows on behalf of the HFA under its €4.4 billion Multi-Currency Commercial Paper Programme. The HFA's borrowings are on-lent to local authorities for social housing and ancillary projects. HFA borrowings are guaranteed by the Minister for Finance, and the programme has the top short-term credit ratings from Moody's and Standard & Poor's. The dealers on the HFA programme are the same as those for the Ireland US$15 billion Euro Commercial Paper Programme. All non-euro borrowings are immediately swapped into euro using foreign exchange contracts. Turnover in 2007 was €12.1 billion.

Exchequer Notes
Exchequer Notes are flexible short–term funding and liquidity management instruments issued by the NTMA to a broad range of investors, including corporate investors, banks and other institutional clients. Turnover in 2007 was €22 billion.

Agricultural Commodity Intervention Bills
Agricultural Commodity Intervention Bills (ACIBs) are issued by the NTMA on behalf of the Minister for Agriculture and Food. They fulfil a short-term funding requirement by bridging the gap between the making of agricultural intervention payments by the Minister for Agriculture and Food and the recoupment of the moneys from the EU. Turnover in 2007 was €400 million.

Section 69 Multi-Currency Notes
Section 69 of the Finance Act 1985 was introduced to encourage foreign–owned companies located in Ireland to invest their surplus funds here, rather than repatriating them. Eligible companies may invest directly with the NTMA in any major currency. They can also invest through all the major banks in Ireland. Turnover in 2007 was €27.7 billion.

European Central Bank Liquidity Management
The NTMA engages in daily short-term cash management operations to regulate the level of Government cash balances at the Central Bank of Ireland. This is undertaken as part of the overall management of liquidity in the euro area by the European Central Bank. Turnover in 2007 was €190 billion. The average daily transaction size was €465 million.

Transactions on behalf of the National Pensions Reserve Fund Commission
The Commissioners of the National Pensions Reserve Fund (NPRF) have mandated the NTMA to manage a passive bond portfolio which was valued at €2.3 billion at end 2007. In addition, the NTMA executes FX transactions to hedge the foreign exchange exposure on certain of the NPRF's non-euro investments. The FX transactions amounted to €43 billion in 2007. The NTMA is also mandated to manage the uninvested cash balances of the NPRF. The average NPRF cash balance in 2007 was €720 million.

Retail Savings

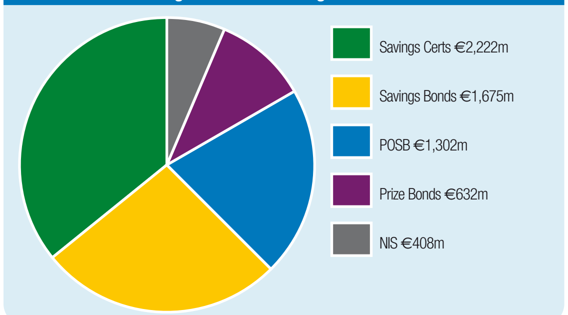
During 2007 interest rates on the Government retail saving schemes were increased in line with general trends. The market responded positively, and by year end there had been a net capital inflow of €107 million into the schemes. In addition, there was a repayment of €330 million to holders of maturing Special Savings Incentive Accounts (SSIAs) in An Post. At end 2007 the total amount outstanding was €6.24 billion, equivalent to 16.6 per cent of the National Debt.

A further €780 million was outstanding in accrued interest. To provide for this, there is €344 million set aside in the Small Savings Reserve Fund.

The schemes attract funds largely from domestic private investors and, with the exception of Prize Bonds, are operated by An Post on behalf of the NTMA. Prize Bonds are operated by the Prize Bond Company Limited, a joint venture between An Post and FEXCO, a financial services company. Interest on these schemes is exempt from Irish income tax.

In June 2007, the NTMA hosted the International Retail Debt Management Conference (IRDMC) in Dublin. Representatives of ten countries participated in the conference. The IRDMC is a forum for sovereign debt managers to discuss technological, marketing and other issues of common interest relating to retail savings programmes.

Amounts Outstanding in the Retail Savings Schemes 31 December 2007



Source: NTMA

Savings Schemes

	Outstanding at 31 December 2007 € million	Money raised/(repaid) in 2007 (net) € million
Savings Certificates	2,222	7
Savings Bonds	1,675	(34)
National Instalment Savings	408	14
Prize Bonds	632	42
Savings Stamps	2	–
Post Office Savings Bank (POSB)		
Deposit accounts	1,302	86
Adjustment for POSB interest accrued and not paid	–	(8)
Total Principal	**6,241**[1]	**107**
Repayment of Special Savings Incentive Accounts	–	(330)
Accrued interest on other Savings Schemes	780	(258)
Net Totals	**7,021**	**(481)**

1 This figure is included in the National Debt.

Administration Costs

The administration fees paid to An Post and the Prize Bond Company in 2007 in respect of the Government retail savings schemes were:

Savings Schemes	€million
Savings Certificates	5.1
Savings Bonds	4.7
Instalment Savings	1.7
Prize Bonds[1]	7.4
Savings Stamps	1.0
Post Office Savings Bank[2]	28.9
Special Savings Incentive Accounts[3]	5.7
Total	**54.5**

1 These fees were paid to The Prize Bond Company. The other fees were paid directly to An Post.
2 Fees relating to the Post Office Savings Bank, including those relating to the Special Savings Incentive Accounts, are paid from the Post Office Savings Bank Fund.
3 These fees, though paid in 2007, relate to the period 2001-2007.

A new fee structure for schemes other than Prize Bonds was negotiated with An Post and implemented in 2007. The fee for Prize Bonds arises under a separate contract with the Prize Bond Company which has effect up to end October 2009.

Post Office Savings Bank

The Post Office Savings Bank (POSB) deposit base at end 2007 was €1.302 billion. This takes account of the repayment of €330 million to holders of maturing Special Savings Incentive Accounts (SSIAs) in An Post.

The two POSB accounts now on offer are the book-based Demand Account and a 30-day notice account known as Deposit Account Plus. Interest rates on these accounts were increased with effect from 1 August 2007 as follows:

- Demand Account: 1 per cent per annum (up from 0.1 per cent for amounts under €6,000 and 0.25 per cent for amounts of €6,000 and over)
- Deposit Account Plus: 3 per cent per annum (up from 1 per cent for amounts under €30,000 and 1.5 per cent for amounts of €30,000 and over)

Rates of Return on other Government Retail Schemes

These were also increased with effect from 1 August 2007:

- Savings Certificates: 21 per cent over a 5½ year period, equivalent to 3.53 per cent per annum if held to maturity. The previous rate was 16 per cent. The minimum investment in Savings Certificates is €50, with a maximum of €120,000 for an individual and €240,000 for a joint holding.
- Savings Bonds: 10 per cent over 3 years, equivalent to 3.23 per cent per annum if held to maturity. The previous rate was 8 per cent. The minimum investment in Savings Bonds is €100, with a maximum of €120,000 for an individual and €240,000 for a joint holding.
- National Instalment Savings (NIS): 20 per cent over 5 years on the amount saved by monthly instalments in the preceding twelve month period, equivalent to an average annual return of 3.37 per cent. The previous rate was 15 per cent. The minimum monthly investment in NIS is €25 and the maximum is €500.

Prize Bonds

The fiftieth anniversary of the Prize Bonds scheme was marked in 2007. Net sales were €40 million, up from €29 million in 2006. The total amount outstanding at end 2007 was €632 million.

In September the interest rate used to determine the prize fund for the Prize Bonds scheme was increased from 2.4 per cent per annum to 3 per cent. This facilitated the introduction of a new prize structure, with a new top monthly jackpot prize of €1 million (up from €150,000). The first €1 million prize was won by a bondholder in Dublin in December. The monthly jackpot prize in September, October and November 2007 was increased from €150,000 to €500,000.

Over 148,000 tax-free prizes, worth €15 million, were paid out in 2007. A draw for prizes is held every week, and details of the prizes awarded during the year are set out below:

Prize Bonds in 2007

Value	Number of prizes
€1 million Jackpot Prize	1
€500,000 Jackpot Prize	3
€150,000 Jackpot Prize	8
€20,000 Star Prize	40
€1,000	260
€250	520
€75	147,399
Total Number of Prizes in 2007	**148,231**
Total Value of Prizes in 2007	**€15,944,925**

In 2007 on-line sales through the Prize Bond Company's website *www.prizebonds.ie* were €19 million, an increase of 73 per cent over the previous year. Investors can also use the website to view the weekly draw, track their bond holdings and check unclaimed prizes. The Prize Bond Company writes to each winner at the address registered on the winning bond, but in some cases it is not possible to make contact. There are over 11,000 prize bonds with unclaimed prizes, with an aggregate value just over €1.3 million. Some of these go back to the early days of the scheme in the 1950s. A booklet listing the bond numbers with unclaimed prizes at end March 2008 is available in Post Offices.

Interest Accruing on Retail Savings Schemes

Because interest is only paid out on encashment of Savings Certificates, Savings Bonds and National Instalment Savings, a considerable liability has built up over the years in respect of accrued interest. The Small Savings Reserve Fund was established in 1994 to address this issue. Since 1999 the Minister for Finance has provided in each Budget for the full accrual of interest. At end 2007 the Reserve stood at €344 million, or just over 44 per cent of the accrued interest of €780 million.

Dormant Accounts

Under the *Dormant Accounts Act 2001* and the *Unclaimed Life Assurance Policies Act 2003*, balances on dormant accounts with banks, building societies and An Post and the net encashment value of certain life assurance policies are remitted to the State annually to be disbursed for charitable purposes or for purposes of community benefit. The period for determining dormancy is normally 15 years since the last customer-initiated transaction. In the case of life assurance policies with a specified term, it is five years after the end of that term. The legislation guarantees the right of account and policy holders to reclaim their moneys at any time from the financial institutions.

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

Pending disbursement, moneys in the Fund are managed by the NTMA. The NTMA had €205 million under management at end December 2007, compared with €211.3 million at end 2006. Some €66.3 million was transferred to the Fund in 2007, while €34.1 million of previously dormant funds was reclaimed. Disbursements from the Fund amounted to €45.5 million in 2007.

Social Insurance Fund

The income of the Social Insurance Fund derives mainly from Pay-Related Social Insurance (PRSI) contributions by employees, employers and self-employed persons. Payments from the Fund are made in respect of items such as State Pensions, Illness Benefit and Jobseekers Benefit. Since July 2001 the NTMA has managed the accumulated surplus of the Fund, with performance measured against a benchmark agreed with the Minister for Finance.

During 2007 the Department of Social and Family Affairs transferred an additional €700 million of the Fund to the NTMA, bringing the total at the end of the year to €3.2 billion. A further €200 million has been transferred to date in 2008.

The return achieved on the management of these moneys in 2007, taking account of investment guidelines issued by the Minister for Finance, was 3.82 per cent.

Emissions Trading

The parties to the Kyoto Protocol, which came into force in February 2005, agreed to reduce annual emissions of greenhouse gases over the period 2008-2012. As part of the burden-sharing agreement between EU Member States, Ireland is committed to limiting growth in emissions in this period to 13 per cent above the level in 1990.

The Government's strategy for achieving Ireland's Kyoto target is set out in the *National Climate Change Strategy 2007–2012* which was published in April 2007. It is estimated that Ireland's average annual greenhouse gas emissions during the 2008-2012 period would be 79.2 million tonnes of carbon dioxide equivalent if no measures were adopted to reduce them. Measures already taken, combined with a number of planned measures, will reduce average annual emissions by 12.8 million tonnes, or 78 per cent of the amount required for Ireland to achieve its Kyoto limit.

Additionally, the Government will use the Flexible Mechanisms to acquire credits for 3.6 million tonnes of greenhouse gas emissions in respect of each year in the period 2008-2012. The Flexible Mechanisms are an integral part of the Kyoto Protocol – the underlying principle is that the environmental benefit of a tonne of emissions reductions is the same irrespective of where on the planet it is achieved. Flexible Mechanisms generate credits by investment in clean technologies in developing countries and certain Eastern European countries.

The *Carbon Fund Act 2007* designated the NTMA as the Government's purchasing agent for the acquisition of carbon credits for the purpose of compliance with the State's Kyoto obligations. All purchases will be made in accordance with the objectives outlined by the Government in the *National Climate Change Strategy 2007-2012*:

- that they contribute to the objective of the United Nations Framework Convention on Climate Change, that is, stabilisation of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous interference with the climate system;
- that risk is minimised, particularly in relation to the timely delivery of credits;
- that they represent good value for money.

In the *National Development Plan 2007-2013*, the Government provided €270 million for the purchase of carbon credits. This is in addition to an initial provision of €20 million made in 2006, prior to the enactment of the *Carbon Fund Act 2007*.

The NTMA is required to submit an annual report and accounts of the fund to the Minister for the Environment, Heritage and Local Government. These are published separately.

Credit Ratings

Ireland has the top long-term and short-term credit ratings from the four major credit rating agencies. In 2007 each of the agencies reaffirmed these ratings with a stable outlook.

Credit Ratings

Rating Agency	Long-Term Credit Rating	Short-Term Credit Rating
Moody's	Aaa	P-1
Standard & Poor's	AAA	A-1+
Fitch Ratings	AAA	F1+
Rating & Investment Information Inc.	AAA	a-1+

The rating agencies continue to take a positive view of Ireland's credit, pointing to strong public finances and a diversified and flexible economy that has attracted sustained foreign direct investment over recent years and achieved the highest growth rate in the EU since 1995. They recognise that Ireland has one of the lowest debt burdens in the EU, with a debt-to-GDP ratio of 24.8 per cent at end 2007. They also recognise that Ireland has a high degree of fiscal flexibility – with high levels of both revenue and expenditure flexibility – meaning that Government policies can respond swiftly and effectively to adverse economic trends. Other factors in the positive assessment by the rating agencies are Ireland's business-friendly regulatory environment, low taxation levels and highly educated workforce.

The National Pensions Reserve Fund is also a significant factor in determining Ireland's strong credit rating. The availability of the Fund's resources, and the country's favourable demographic profile, mean that the fiscal impact of the ageing of the population will be felt much later and less severely in Ireland than in other European countries.

Central Treasury Services

The NTMA's Central Treasury Service (CTS) takes deposits from, and makes advances to, designated non–commercial State bodies, as well as to local government authorities, the Health Service Executive and vocational education committees. The objective is to provide these bodies with a competitive alternative to the banking sector for their treasury business and thus to make savings for the Exchequer.

During 2007 lending to the designated bodies was €33.4 million on average. There were 770 deposits placed with the CTS in 2007, with an average balance of €84 million.

Education Finance Board Fund

The Education Finance Board was appointed by the Minister for Education and Science to administer an education grants scheme for former residents of industrial schools, reformatory schools and certain other institutions, and their families. The Board was formally established in February 2006 under the *Commission to Inquire into Child Abuse (Amendment) Act 2005*.

The NTMA manages the Fund which the Board has at its disposal. The balance in the Fund at end 2007 was €8.6 million.

Asset Covered Securities

The *Asset Covered Securities Act 2001* allows designated Irish-based financial institutions, both international and domestic, to issue bonds on the international capital markets which are structured in such a way as to provide a high level of security for investors. Asset covered securities (or "covered bonds") are secured against pooled assets – in the Irish context, residential mortgages or public sector loans – which are ring-fenced from the institutions' other creditors.

The Act also provides that, in the event of a default by an issuer of securities under the Act, the NTMA must, in the following order:

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

In return the NTMA receives an annual commitment fee of one tenth of one basis point of the nominal amount of asset covered bonds issued. During 2007, €12.2 billion was issued, bringing the total issued under the legislation to €72.2 billion.

Ulysses Securitisation p.l.c.

ULYSSES SECURITISATION PLC

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

Mortgage payments totalling some €240 million were securitised in 1995 and 1996 through the issuance of bonds.

The accumulated assets of the company now stand at close to €156 million and are retained for the beneficial ownership of the Exchequer. Surplus cash in the company is on-lent to the Exchequer under an Investment Agreement. The bonds were repaid in August 2006.

National Pensions Reserve Fund

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

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

The Commission is required to submit an annual report and accounts of the Fund to the Minister for Finance. These are published separately.

Performance

The Fund earned an investment return of 3.3 per cent, or €637 million, in 2007. Its market value at the end of the year was €21.153 billion (13.1 per cent of GNP), compared with €18.9 billion at end 2006. Its annualised return since inception is 6 per cent.

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

Asset Allocation

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

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

The Fund slowed the pace of investment in its property and private equity programmes in 2007, initially due to its view that there was little room for improvement in credit conditions, and later due to the effects of the credit crunch.

At end 2007, it had commitments of €1.051 billion to property investments and €941 million to private equity investments. Cash committed will be drawn down by the Fund's property and private equity investment vehicles as suitable investment opportunities arise.

The Fund currently holds shares in over 2,500 quoted companies worldwide and holds some 190 debt securities. It also has investments in 25 property investment vehicles, 26 private equity investment vehicles and 11 specialised investment products (including currency and emerging markets funds and commodity certificates).

NPRF Asset Allocation

	31 December 2007		End 2009 Target
	€m	%	%
Large Cap Equity	14,080	66.6	56
Small Cap Equity	749	3.5	5
Emerging Markets Equity	430	2.0	5
Total Quoted Equity	**15,259**	**72.1**	**66**
Private Equity	403	1.9	10*
Property	647	3.1	8
Commodities	286	1.3	2
Total Alternative Assets	**1,336**	**6.3**	**20**
Fixed Income	3,567	16.9	13
Currency Funds	165	0.8	1
Cash	826	3.9	0
Total Financial Assets	**4,558**	**21.6**	**14**
Total	**21,153**	**100**	**100**

*including a 2% allocation to infrastructure.

Principal NTMA Activities

The principal activities of the NTMA in its capacity as Fund Manager are:

- provision of policy advice to the Commission;
- implementation of the Fund's investment strategy;
- selection and performance review of investment managers and specific investment vehicles;
- development and operation of Fund controls to ensure that the Fund is managed within the parameters set down by the Commission and that the operational risks to the Fund are minimised;
- preparation of the Fund's financial statements and monitoring of the Fund's global custodian;
- portfolio management. In most cases, the Commission has outsourced the day-to-day management of the Fund to international investment management firms. Certain investment mandates are managed by the NTMA directly. These are the passive bond mandate, the management of the Fund's cash and its strategic currency hedging programme.

National Development Finance Agency

The National Development Finance Agency (NDFA) was established on 1 January 2003 to provide financial advice to State authorities undertaking major infrastructure projects. It discharges its functions through the NTMA. The Chief Executive of the NTMA is, *ex-officio*, the Chairperson of the NDFA. A director of the NTMA is Chief Executive of the NDFA.

The NDFA is required to submit an annual report and accounts of its activities to the Minister for Finance. These are published separately.

Its functions under the *National Development Finance Agency Act 2002* are:

- to advise State authorities on the optimal means of financing public investment projects;
- to advance moneys, including repayable loans and equity, to provide guarantees and to enter into other financial arrangements in respect of projects approved by State authorities;
- to provide advice to State authorities on all aspects of financing, risk and insurance of public investment projects to be undertaken by means of Public Private Partnership (PPP) or within the public sector;
- to establish special purpose companies for the purpose of financing projects.

The *National Development Finance Agency Act 2002* specified that State authorities which undertake major infrastructure projects are obliged to seek the NDFA's advice. However, the final decision remains with the State authority. Under current Ministerial Guidelines, State authorities must refer all capital investment projects costing in excess of €30 million to the NDFA. The relevant State authorities include Government departments, local authorities, the National Roads Authority and the Railway Procurement Agency.

In 2007 there were two significant developments for the NDFA:

- The Government published the *National Development Plan 2007–2013* setting out public investment projects to the value of €76 billion. The Plan allocates over €13 billion to PPP projects. Budget 2008 provides for capital expenditure to be maintained at an average of 6 per cent of GNP for the next five years.
- The *National Development Finance Agency (Amendment) Act 2007* was enacted. It widened the remit of the NDFA, mandating it to undertake the procurement and delivery of projects in all sectors apart from transport and local government. As procurement agent, the NDFA has already made progress on some €2 billion worth of projects within the education, justice, health and cultural sectors.

The NDFA may also borrow, either directly or through special purpose companies, up to a total of €5 billion. The Minister for Finance may advance moneys – up to €250 million – to the NDFA or a special purpose company established by it. The NDFA can use these advances to make an equity investment in, or a repayable loan to, a special purpose company. To date, it has not been necessary to exercise any of these functions.

The NDFA is currently assisting the Department of Education and Science in providing 23 new post-primary schools and four new primary schools through PPP, and is at present procuring the first and second bundles of schools. It has recently commenced the procurement of the National Concert Hall. In 2007 the NDFA commenced pre-procurement work on the Abbey Theatre, the third level education PPP programme and new courthouses (in a number of locations nationwide). These projects will be handed over to the NDFA in the next 12 months for procurement.

A total of 121 projects has been referred to the NDFA. To date it has completed its advice in relation to 38 projects with a combined capital value of €6 billion, 21 of which were PPPs.

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

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

These projects have a combined capital value of €2.6 billion.

The NDFA continues to provide financial advice on projects including Thornton Hall Prison, Metro North and Metro West, and Motorway Service Areas on the M1 and the M4. In addition, the NDFA continues to work closely with Dublin City Council and other local authorities on a number of social and affordable housing regeneration schemes, as well as projects in the waste and water sectors.

State Claims Agency

The NTMA is designated as the State Claims Agency (SCA) when performing the claims management and risk management functions delegated to it by the Government under the *National Treasury Management Agency (Amendment) Act 2000*. The SCA was established in December 2001. Its principal objectives are:

- to provide a professional and cost-effective service for the management of personal injury and property damage claims against the State;
- to provide a risk management advisory service with the aim of minimising future litigation.

The SCA's remit covers claims against certain State authorities, including the State itself, Government Ministers, the Attorney General, health enterprises, the Commissioner of the Garda Síochána, prison governors, community and comprehensive schools and various other bodies.

Current Position

The SCA currently handles approximately 4,500 claims. The total outstanding reserve at present against all active claims is approximately €565 million and is broken down as follows:

- Clinical Negligence €449 million (79.5%)
- Employer Liability, Public Liability & Property Damage (EL/PL/PD) €116 million (20.5%)

In total the SCA received 1,493 new claims and resolved 1,258 claims in 2007.

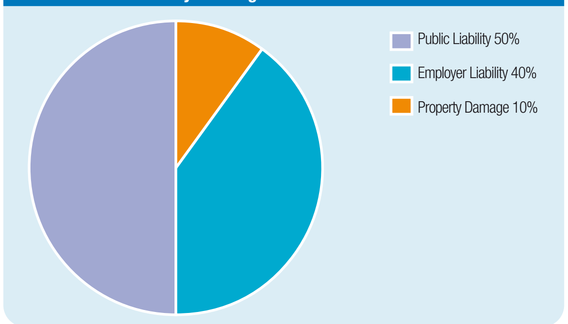
Cases of Precedent Value

As part of the SCA's claims management strategy, cases that involve issues of policy or public interest, or that are of precedent value, are identified at an early stage and robustly defended. The SCA successfully defended a number of such cases in 2007.

Employer Liability, Public Liability and Property Damage Claims

At the beginning of 2007, the SCA had 2,431 EL/PL/PD claims under management. It received 1,020 new claims in 2007 and resolved 979 claims. The total paid out in respect of fully resolved claims amounts to €39 million since inception.

EL / PL / PD Claims by Coverage

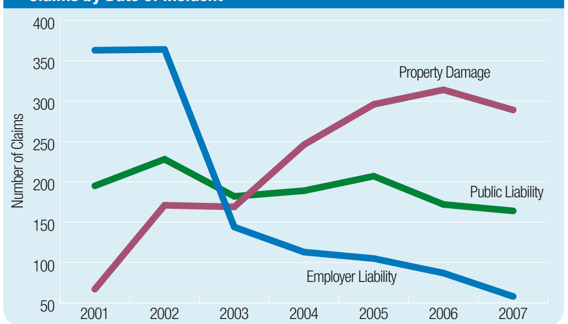


Source: NTMA

Trends

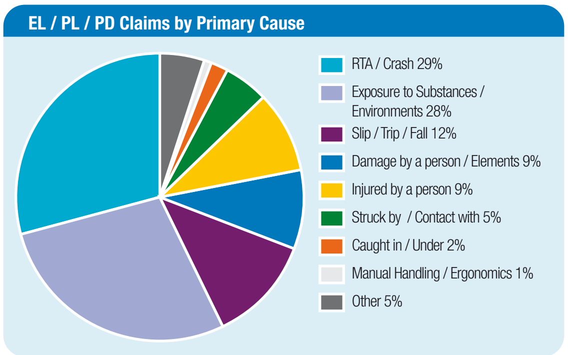
There continues to be a significant decline in EL and PL claims volumes associated with incidents that have occurred since the inception of the SCA. Since 2002 the number of EL claims has fallen by 84 per cent and the number of PL claims has fallen by 28 per cent. These declines may be slightly overstated as further claims may yet arise from incidents that occurred in 2007. This analysis also excludes categories of claims such as trespass to the person (including child sexual abuse claims) and hearing loss claims, as the majority of these are historical in nature. When these categories of claims are included, the overall number of active claims under SCA management has increased.

Claims by Date of Incident

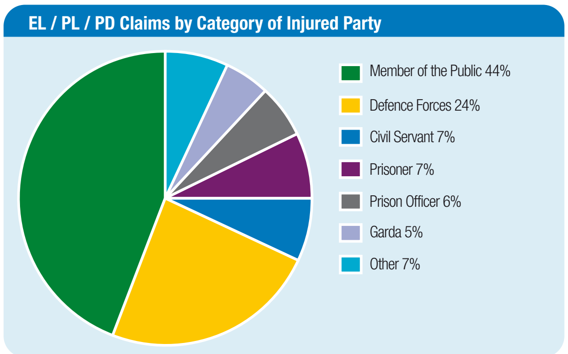


Source: NTMA

The primary causes of EL/PL/PD claims are road traffic accidents (29 per cent); alleged exposure to hazardous substances (28 per cent); slips, trips and falls (12 per cent); and injured by a person (9 per cent).



Source: NTMA



Source: NTMA

Child Sexual Abuse Claims

These claims relate to child abuse mainly in day-schools, that is, national schools funded by the Department of Education and Science but either managed by patrons/managers or by Boards of Management (since 1975). A minority of claims relate to abuse in residential institutions.

The SCA has received 471 physical and sexual abuse claims from the Department of Education and Science, the Department of Health and Children and the Department of Justice, Equality and Law Reform. Of these claims, 314 are currently active and 157 have been resolved.

Asbestos Claims

The Supreme Court judgement in 2003, *Fletcher v Commissioners for Public Works,* held that Irish law precludes the recovery by plaintiffs of damages for psychiatric injury arising from an irrational fear of contracting a disease where the risk of acquiring such a disease is remote ("worried well" cases).

Following a further judgement of the Supreme Court in January 2005, the SCA has been actively pursuing the recovery of the State's costs. To date the SCA has secured court orders in a number of cases seeking payment of its costs and has been successful in recovering such costs.

There exists however a possible second phase of asbestos-related litigation. The judgement in the *Fletcher* case left open the issue of whether the implantation of asbestos fibres in the lung, or, in particular, a resultant inflammation of the lung (pleural plaques), constituted a physical injury. None of the plaintiffs in *Fletcher*, or the related appeals, had developed pleural plaques.

Solicitors, who represented some of the asbestos "worried well" plaintiffs, pressed ahead with claims alleging that their clients (i) were exposed to asbestos and (ii) developed pleural plaques. However, in light of a number of decisions by the English courts to the effect that pleural plaques are not compensable, the SCA has written to the solicitors, requesting their clients to withdraw their cases. If they agree, the SCA will not seek to recover costs.

Organ Retention Claims

These claims result from the practice of hospitals in the 1970s, 1980s and 1990s, in post-mortem cases, of removing and retaining organs and tissues of infants without the consent of parents. Aggrieved parents have issued proceedings against hospitals and named pathologists seeking damages for nervous shock. The SCA is currently handling 175 such claims.

A Supreme Court judgement in November 2007 held that the families of children from whom organs and tissues had been wrongly retained were not entitled to damages. On the basis of this decision, the SCA has moved to close these cases but has indicated that it will not pursue its costs in defending them, given their particular sensitivity.

Employer Liability, Public Liability & Property Damage Risk Management

The SCA has a statutory brief to advise and assist State authorities in managing risks which could give rise to personal injury or property damage litigation. Authorities are obliged by law to report to the SCA any incidents which may give rise to claims and, since its establishment, it has received 6,678 adverse incident notifications. Early reporting of incidents is critical to successful claims and risk management. It enables an early and detailed investigation of the more serious incidents in order to determine the question of liability in advance of any litigation. Data on adverse incidents also enables the SCA to identify any patterns of sub-standard practice which might highlight weaknesses in existing health and safety or litigation risk management procedures.

The SCA also conducts formal risk reviews of each State authority, as appropriate, in conjunction with that authority. These reviews systematically identify any shortcomings in health and safety standards in the activities of the authority or in the premises it occupies and, in conjunction with data on claims and adverse incidents, they enable the SCA to recommend initiatives to address them.

The following are among the risk review initiatives undertaken during 2007:

- Liaison with State Authorities

  The SCA has forged strong relationships with all State authorities to promote risk management. The Defence Forces, the Irish Prison Service, An Garda Síochána, the Office of Public Works and the Department of Agriculture and Food have the highest levels of risk associated with them by reference to the number of staff employed and the nature of the activities in which they are engaged. The SCA has established Risk Management Liaison Groups with all these authorities. These groups meet quarterly and allow for the exchange of information and an update on the progress on any ongoing initiatives.

  Bi-annual reports on claims and incidents received are sent to all State authorities. The SCA also provides training and seminars for the relevant authorities.

- Implementation of Health and Safety Risk Management System

  The SCA has recommended that all State authorities should implement health and safety risk management systems based on international standards.

  The Defence Forces requested the SCA to facilitate and audit the introduction of a health and safety risk management system. In 2007, for the second year running, the Defence Forces successfully achieved compliance with the system standard.

  The Director General of the Irish Prison Service and the Director SCA formally launched the Irish Prison Service health and safety risk management system in October 2007.

  The SCA completed a review of the existing systems for managing health and safety risk in An Garda Síochána and the Department of Agriculture, Fisheries and Food.

Risk Management Survey

A survey was conducted to identify which elements of health and safety risk management systems are being employed within State authorities. The results of the survey were presented in the SCA report *A Survey of Health and Safety Risk Management in State Authorities*. In addition to this report, each participating authority received an individualised summary of its survey results, allowing it to benchmark its performance against that of other State authorities.

Risk Management Network

A Risk Management Network was established for State authorities. The objective of the network is to contribute to the continuous improvement of the management of health and safety risk in State authorities.

Clinical Claims

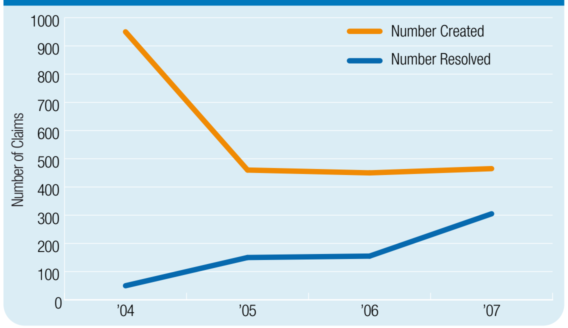
Clinical claims are managed under a number of schemes operated by the SCA:

- The Clinical Indemnity Scheme (CIS) was established in July 2002 to rationalise the existing medical indemnity arrangements by transferring to the State, via health boards (now the HSE), hospitals and other health agencies, responsibility for managing clinical claims and associated risks. Under the scheme, the State assumes full responsibility for the indemnification and management of all clinical claims against enterprises and practitioners covered by the scheme.
- The *National Treasury Management Agency (Delegation of Functions) (Amendment) Order, 2007* regularised the handling of claims related to the provision of obstetric services at Mount Carmel Hospital in Dublin and Bon Secours Hospital in Cork under the Special Obstetrics Indemnity Scheme. In addition, the Order delegated to the SCA the management of historical claims against consultant obstetricians which were previously managed by the Medical Protection Society.
- Employer liability and public liability claims of health enterprises are covered under insurance policies written by commercial insurers.

Claims under Management

At the beginning of 2007, the SCA had 1,307 clinical claims under management. It received 473 new claims in 2007 and 279 claims were resolved. The total paid out in respect of fully resolved claims amounts to €21.5 million since inception.

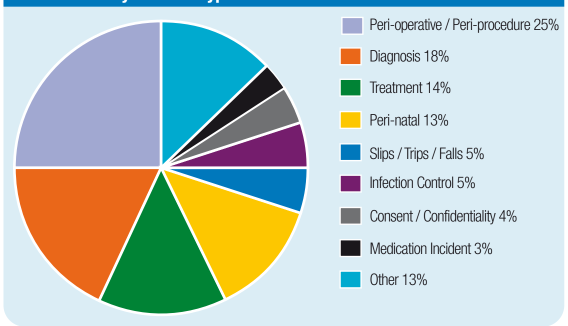
Overall Clinical Claim Trends



Source: NTMA

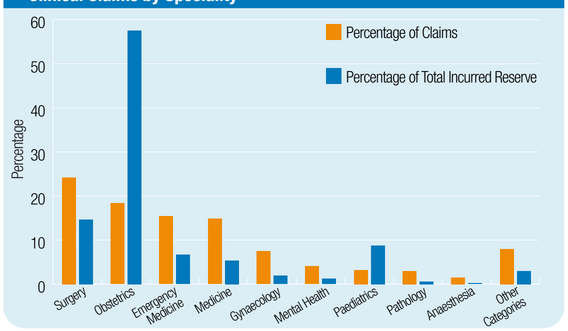
The trend in clinical claims volumes in 2007 was flat. The number of claims resolved annually is increasing as the claims mature. However, the overall number under management is also increasing because of the long lead-time between receipt and resolution of these claims, given their complex nature.

CIS Claims by Incident Type



Source: NTMA

Clinical Claims by Speciality



Source: NTMA

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

Clinical Risk Management

The SCA has a statutory brief to provide advice and assistance to all health enterprises under the various schemes. It works with risk management and other relevant clinical and administrative personnel to support patient safety and to help minimise clinical claims.

Clinical Incident Reporting System – STARSweb

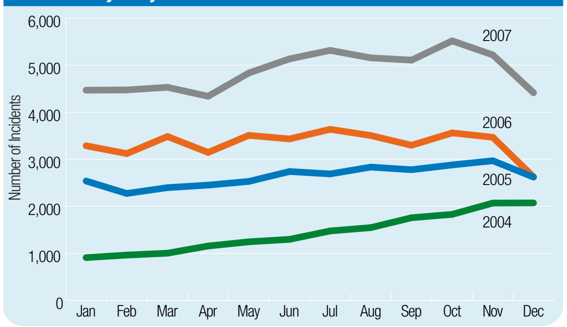
Enterprises have a statutory obligation to report adverse clinical incidents and "near-misses" to the SCA. To facilitate this, the SCA has implemented STARSweb - a web-based IT system. The majority of acute sector enterprises are now "live" on the STARSweb system. While all data input by enterprises is confidential to those enterprises, the SCA maintains a national database to identify and analyse adverse trends and clusters.

The SCA supports enterprises in notifying incidents by:

- training risk management personnel in report generation using STARSweb data;
- providing enterprise-tailored feedback reports, including benchmarking reports.

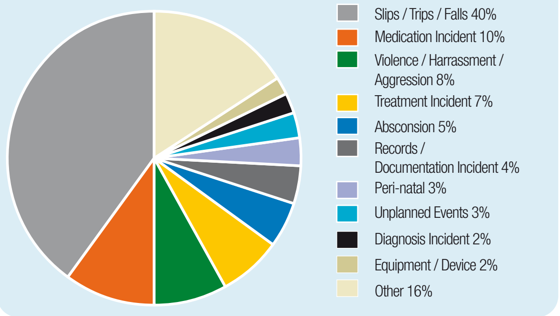
When serious adverse events or trends are identified by the SCA's Clinical Risk Advisers, they respond by undertaking detailed analysis, by providing advice and making recommendations, or by commissioning external reviews, as appropriate. Approximately 167,500 adverse clinical incidents and "near misses" had been notified on the system to date.

Trend Analysis by Date of Occurrence



Source: NTMA

Clinical Incidents Reported via STARSweb



Source: NTMA

Although new enterprises have been logging incidents over the period, the breakdown of clinical incidents by incident type is constant. "Slips/Trips/Falls" account for 40 per cent of all reported incidents. This is at variance with the overall claims profile, where this category of incident accounts for only 5 per cent of total claims. However, this result mirrors precisely international experience of other large clinical incident databases.

Obstetrics Forum, Paediatrics Forum and Healthcare-Associated Infections Forum

Representatives from specialist units covered by the CIS are invited to twice-yearly meetings of each forum. The objective is to showcase best practice initiatives and to create a formal structure to share knowledge and experience. Domestic and international experts have made presentations on patient safety, risk management and quality improvement activities.

Medication Safety

Medication errors account for 10 per cent of incidents reported to SCA via STARSweb. There are currently 78 claims related to medication errors under management, with a reserve of €7.8 million.

The SCA hosted the annual meeting of the International Medication Safety Network in 2007. Eighteen countries were represented by 28 participants at the two-day meeting.

Finance, Technology and Risk

Finance, Technology and Risk comprises the following units:

- Financial Control
- Information Technology
- Risk Management
- Transaction Processing

Shared services are provided to all the NTMA's distinct businesses, namely Funding and Debt Management; the National Pensions Reserve Fund; the State Claims Agency; the National Development Finance Agency; the management of State funds; and borrowings on behalf of the Housing Finance Agency. The combined value of assets and liabilities under management exceeds €63 billion. Cashflows of almost €540 billion were processed in 2007.

The expansion of the NTMA in recent years has placed additional demands on Finance, Technology and Risk. Careful planning has ensured that the development of the new businesses has been fully integrated within the NTMA's comprehensive network of systems and controls. Information technology is critical and systems have been developed to support the businesses as required.

The NTMA seeks to control and manage risk in accordance with the highest professional standards, and continually modifies and enhances its risk management practices to reflect changes in its business, markets, products and evolving best practice.

Financial Control

Financial Control's primary responsibility is to ensure that the accounting records and reports of all the businesses are completed within the statutory deadlines. Other objectives include the ongoing development of a strong control environment and the provision of timely management information

Financial Control continues to work with BNY Mellon, the Global Custodian for the NPRF, to ensure that the activities of Fund are planned and implemented effectively. The increased investment by the NPRF in alternative asset classes, such as property, private equity, emerging markets and commodities, has placed greater demands on the specialist unit within Financial Control that deals with the Fund. These asset classes, particularly property and private equity investment vehicles, are not administered by the Global Custodian, and as a result require additional administration, financial oversight, tax optimisation and compliance obligations.

In 2007, following a competitive tender, JP Morgan Private Equity Fund Services ("JP Morgan") was appointed to provide accounting, valuation and performance reporting services in respect of the NPRF's property and private equity investments. Financial Control worked with JP Morgan to implement the services and define operating standards, controls and reporting. Financial Control continues to work with JP Morgan to enhance accounting and foreign currency reporting functionality, and expects to implement further service enhancements during 2008.

Information Technology

The Information Technology Unit is responsible for developing, installing and maintaining the NTMA's systems and technical infrastructure.

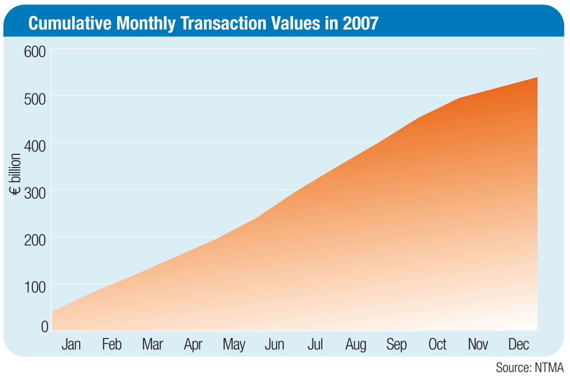
In 2007 the SWIFT payments system was enhanced to include additional message types and significant improvements were delivered in business continuity functionality for SWIFT and other critical NTMA systems. New systems for fixed asset management and risk management were implemented. Further enhancements were completed for foreign exchange processing, bond processing, and market data validation and loading modules. A secure web-based platform for remote entry of clinical incidents was further rolled out throughout the HSE as part of the State Claims Agency's incidents/claims management process.

The main security systems were enhanced to improve intrusion detection and prevention, peripheral device connectivity management, data throughput and critical systems fail-over functionality.

During 2007 IT technical advice was provided to several health agencies including the Drug Treatment Board, Sisters of Charity, National Treatment Purchase Fund, St. Luke's Hospital and the Coombe Hospital.

Transaction Processing

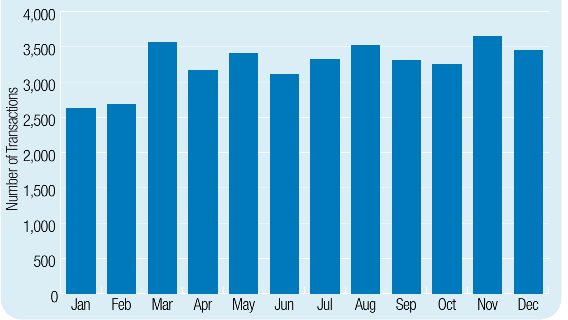
This area is responsible for the confirmation, management and settlement of cash flows for all the NTMA's business activities. During the year, the NTMA continued to enhance the functionality of the integrated treasury management system. The objective of this work was to achieve enhanced straight-through processing rates of close to 100 per cent and thereby reduce operational risk.



Source: NTMA

The continued growth of the NTMA's business during 2007 has led to further growth in the volume of transactions to 39,100 with an average monthly cashflow of €45 billion.

Monthly Transaction Volumes in 2007



Source: NTMA

Risk Management

The NTMA's primary objectives are to ensure adequate liquidity for the Exchequer and to keep debt service costs to a minimum subject to an acceptable level of risk. The risks encountered by the NTMA can be classified as market risk, liquidity risk, counterparty credit risk and operational risk.

In the case of market risk, the NTMA has in place a comprehensive set of risk management procedures to quantify and manage, in a timely manner, the impact of movements in interest rates and foreign exchange rates. The 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.

Liquidity risks, specifically funding liquidity risks, relate to the need to have sufficient cash to meet all liabilities as they arise. These are actively monitored and controlled. Integrated procedures are in place to ensure that the NTMA manages the timing and volume of issuance to guarantee sufficient liquidity.

Counterparty credit exposures, arising from the placing of deposits as well as transactions in derivatives, are monitored daily against approved limits. The NTMA has in place a comprehensive system for managing its credit risk with other financial institutions. Exposures are measured on an aggregate basis across the various NTMA portfolios by the SPRINT system which provides real-time information on limits and their utilisation. Counterparties are constantly monitored for any events that might affect their creditworthiness and all counterparty limits are subject to an ongoing detailed review process.

Operational risk is controlled by rigorous policies and procedures governing payments and by the separation of duties, in line with best practice in the financial sector. Management of operational risk is the responsibility of all business units and is supplemented by the work of the NTMA's Control and Compliance Units and the internal auditor, PricewaterhouseCoopers.

Debt Management Benchmark

The National Debt Benchmark reflects the medium-term debt management objectives of the Exchequer and represents a portfolio with the interest profile, duration and maturity structure which is consistent with guidelines set by the Minister for Finance.

The Benchmark performance measurement system takes account of both the accumulated cash positions and the net present value of all future cash flows. 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. In 2007 the measurement of performance against the Benchmark and the results achieved were audited by PricewaterhouseCoopers. These results indicate that the NTMA outperformed its benchmark by €46 million in 2007.

The NTMA has developed risk management tools, incorporating both sensitivity and Value at Risk analysis. These tools measure the interest rate sensitivity of performance relative to the Benchmark. Risk limits are used to control the NTMA's performance exposure within an acceptable range.

The NTMA has in place systems that allow detailed performance and risk management information to be calculated daily and communicated electronically to its portfolio managers and senior management.

Stress Testing and Back Testing

Value at Risk and sensitivity measures are based on historical data and only purport to estimate probable maximum risk up to a defined confidence level in normal market conditions. Stress tests are used to supplement these measures by estimating the possible impact on the debt service budget and the NTMA's Benchmark performance that may occur under extreme market conditions.

Back testing is also used to verify the predictive power of the Value at Risk model. Under this process, actual performance is compared to the estimates which had been forecast using the Value at Risk model.

Services to the NPRF

The NTMA Risk Unit provides services to the NPRF. These include performance measurement and operation of controls on the NPRF passive bond portfolio and the management of the NPRF currency hedging programme.

Audit

In accordance with statutory requirements, the NTMA continues to be audited by the Comptroller and Auditor General. In line with the best standards of corporate governance, the NTMA has had in place since its establishment an internal audit function. This work is supplemented by an external firm of auditors, currently PricewaterhouseCoopers, which performs internal audit work.

The NTMA internal control system relies on strict organisational independence of the monitoring and control functions, the segregation of duties and the application of the maker/checker principle to all activities. The NTMA has received satisfactory reports in respect of its business from both its external and internal auditors in respect of 2007.

During 2007 the NTMA continued to support the work of both the NTMA Audit Committee and the NPRF Audit Committee. These Audit Committees reviewed the effectiveness of the controls of the NTMA and other service providers through meetings with management, the Office of the Comptroller and Auditor General, and the Internal Auditor.

Consultancy and International Relationships

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

In 2007 the NTMA provided advice and assistance to:

- Chinese Ministry of Labour & Social Security;
- Cypriot Ministry of Finance;
- Seychelles Ministry of Finance;
- Spanish Ministry of Labour and Social Security;
- Swedish Pension Fund AP1;
- UK House of Commons Treasury Select Committee.

The NTMA also hosted the 2007 International Retail Debt Management Conference.

Legal and Corporate Affairs

The in-house legal service provides advice in connection with all of the NTMA's functions. This includes Funding and Debt Management, Central Treasury Services, the State Claims Agency and the National Pensions Reserve Fund.

Legal advice is provided on commercial and contractual matters involving the NTMA including documentation of funding transactions, negotiation of investments and service and supply agreements and drafting procurement documentation.

During 2007 the legal unit negotiated legal documentation for the syndicated issue of the €6 billion 4.5% Treasury Bond 2018 and provided advice to the National Pensions Reserve Fund on a range of issues concerning the Fund's property, private equity, infrastructure and emerging markets investment programmes and its segregated portfolios.

Other matters dealt with include advice on legislative and regulatory requirements and ensuring compliance with professional conduct rules in the areas of governance, confidentiality, conflicts of interest and ethics in public office.

Human Resources

The NTMA manages four substantial, complex and growing businesses with a current staff quota of 163. NTMA staff members are recruited from a wide variety of disciplines and at the highest levels of professional expertise and commitment.

Clear and detailed objectives are in place for all staff with an emphasis on performance feedback, dialogue and development. Training and development programmes are implemented to help staff focus on performance, teamwork and achievement while remaining at the leading edge of their disciplines.

Performance is fully evaluated throughout each year and the evaluation forms part of the annual remuneration review led by the Chairman of the NTMA Advisory Committee.

HR promotes and facilitates a strong and open communication policy with all staff. Health, safety and welfare issues are responsively and sensitively addressed in line with legislation and best practice. An Employee Assistance Programme is in place to offer staff and their families additional support through counselling, advice and information on a wide range of topics.

All the above contribute towards a positive environment that encourages all staff to give of their best in pursuit of their own personal development and the objectives set for the NTMA. The Chief Executive and Directors acknowledge and appreciate the dedication and hard work of the staff during the year.

Financial Statements

Financial statements prepared by the National Treasury Management Agency in accordance with section 12 of the *National Treasury Management Agency Act, 1990*

Financial Statements of the National Debt of Ireland

For the year ended 31 December 2007

Statement of Agency's Responsibilities

The Agency is required by the National Treasury Management Agency Act, 1990 to prepare financial statements in respect of its operations for each financial year.

In preparing those statements, the Agency is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate;
- disclose and explain any material departure from applicable accounting standards.

The Agency is responsible for keeping in such form as may be approved by the Minister all proper and usual accounts of all moneys received or expended by it and for maintaining accounting records which disclose with reasonable accuracy at any time the financial position of the Agency, its funds and the national debt.

The Agency is also responsible for safeguarding assets under its control and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2008

Statement on Internal Financial Control

Responsibility for system of Internal Financial Control

On behalf of the National Treasury Management Agency, I acknowledge the responsibility for ensuring that an effective system of internal financial control is maintained and operated.

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

Key Control Procedures

The National Treasury Management Agency has taken steps to ensure an appropriate control environment by:

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

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

- identifying the nature, extent and financial implication of risks facing the body including the extent and categories which it regards as acceptable;
- assessing the likelihood of identified risks occurring;
- assessing the body's ability to manage and mitigate the risks that do occur;
- assessing the costs of operating particular controls relative to the benefit obtained.

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

- a comprehensive budgeting system with an annual budget which is reviewed and agreed by the Chief Executive with the Minister for Finance;
- regular reviews of periodic and annual financial reports which indicate financial performance against forecasts;
- setting targets to measure financial and other performance;
- clearly defined capital investment control guidelines;
- formal project management disciplines.

The National Treasury Management Agency has an internal audit function, which operates in accordance with the Framework Code of Best Practice set out in the Code of Practice on the Governance of State Bodies. The work of internal audit is informed by analysis of the risk to which the Agency is exposed, and annual internal audit plans are based on this analysis. The analysis of risk and the internal audit plans are endorsed by the Chief Executive and Directors and approved by the NTMA Audit Committee. At least annually, the Internal Auditor provides the management of the National Treasury Management Agency and the NTMA Audit Committee with a report of internal audit activity. The report includes the Internal Auditor's opinion on the adequacy and effectiveness of the system of internal financial control.

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

Annual Review of Controls

I confirm that, in the year ended 31 December 2007, I, as Chief Executive, having taken advice from the NTMA Audit Committee, conducted a review of the effectiveness of the system of internal financial controls.

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2008

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

I have audited the financial statements of the National Treasury Management Agency for the year ended 31 December 2007 under the National Treasury Management Agency Act, 1990.

The financial statements, which have been prepared under the accounting policies set out therein, comprise the Accounting Policies, the Service of Debt Statement, the National Debt Statement, the National Debt Cash Flow Statement, Statement of Movement in National Debt, the related notes and in relation to administration costs, the Accounting Policies, the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes.

Respective Responsibilities of the Agency and the Comptroller and Auditor General

The Agency is responsible for preparing the financial statements in accordance with the National Treasury Management Agency Act, 1990, and for ensuring the regularity of transactions. The Agency prepares the financial statements in accordance with Generally Accepted Accounting Practice in Ireland. The accounting responsibilities of the Agency are set out in the Statement of Agency's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report my opinion as to whether the financial statements properly present, in accordance with Generally Accepted Accounting Practice in Ireland, the results of the Agency's operations for the year and its balances at the year-end. I also report whether in my opinion proper books of account have been kept. In addition, I state whether the financial statements are in agreement with the books of account.

I report any material instance where moneys have not been applied for the purposes intended or where the transactions do not conform to the authorities governing them.

I also report if I have not obtained all the information and explanations necessary for the purposes of my audit.

I review whether the Statement on Internal Financial Control reflects the Agency's compliance with the Code of Practice for the Governance of State Bodies and report any material instance where it does not do so, or if the statement is misleading or inconsistent with other information of which I am aware from my audit of the financial statements. I am not required to consider whether the Statement on Internal Financial Control covers all financial risks and controls, or to form an opinion on the effectiveness of the risk and control procedures.

I read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Audit Opinion

In the exercise of my function as Comptroller and Auditor General, I conducted my audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and by reference to the special considerations which attach to State bodies in relation to their management and operation. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures and regularity of the financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations that I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion, the financial statements properly present, in accordance with Generally Accepted Accounting Practice in Ireland, the results of the Agency's operations for the year ended 31 December 2007 and its balances at that date.

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

John Buckley
Comptroller and Auditor General

30 June 2008

Accounting Policies

Background

The National Treasury Management Agency (NTMA) was established under the National Treasury Management Agency Act, 1990 to perform the borrowing and National Debt management function on behalf of the Minister for Finance and other such functions as the Government may delegate to it.

The financial statements set out on pages 40 to 48 are for the National Debt of Ireland. The form of the statements has been approved by the Minister for Finance under Section 12 of the National Treasury Management Agency Act, 1990.

Basis of Accounting

The measurement base adopted is that of historical cost except where otherwise stated. Transactions are recognised using the cash basis of accounting.

The National Debt Statement is a statement of the total amounts of principal borrowed by Ireland not repaid at the end of the year, less liquid assets available for redemption of those liabilities at the same date. The Minister for Finance under various statutes also guarantees borrowings by State and other agencies. These guarantees are not included in these financial statements.

Reporting Period

The reporting period is for the year ended 31 December 2007.

Reporting Currency

The reporting currency is the EURO, which is denoted by the symbol €.

Receipts and Payments

Receipts and payments relating to the National Debt through the Exchequer Account, Foreign Currency Clearing Accounts and the Capital Services Redemption Account (CSRA) are recorded at the time the money is received or payment made.

Liability Valuation

Debt balances are recorded at redeemable par value.

Derivatives

Swap agreements and other financial instruments are entered into for hedging purposes as part of the process of managing the National Debt. The results of those hedging activities linked with specific borrowing transactions are recognised in accordance with the underlying transactions. The net fund flows arising on hedging activities not linked with specific borrowing transactions are included in debt service costs at the time the funds are received or payment made. Where swaps are terminated and converted into other swap instruments the fund flows impact upon debt service in accordance with the terms of the revised instrument.

Foreign Currencies

Receipts and payments in foreign currencies are translated into Euros at the rates of exchange prevailing at the date of the transaction. Liabilities and assets in foreign currencies are translated into Euros at the rates of exchange ruling at the year end dates.

Service of Debt Statement

Year ended 31 December 2007

	Notes	2007 Total Cost €'000	2006 Total Cost €'000
Interest paid			
Medium / Long Term Debt*	2	1,379,282	1,351,331
Short Term Debt**	3	212,046	118,006
National Savings Schemes	4, 9	210,562	480,346
Other Movements	5	11,769	21,062
Sinking Fund payments	6	465,571	470,286
Fees and Expenses	7	25,793	19,289
Expenses of NTMA		30,899	29,828
Interest received on deposits with Central Bank and other banks		(194,840)	(111,184)
Total Service Cost	**1**	**2,141,082**	**2,378,964**

** Medium / Long Term Debt is Debt with an original maturity of more than one year*

*** Short Term Debt is Debt with an original maturity of not more than one year*

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2008

The notes on pages 44 to 48 form part of these financial statements.

National Debt Statement

31 December 2007

	Notes		2007 € million		2006 € million
Medium / Long Term Debt *					
Irish Government Bonds listed on the Irish Stock Exchange			30,946		31,189
Other Irish Government Public Bond Issues			35		38
Private Placements			-		-
European Investment Bank Loans			112		120
Medium Term Notes			400		443
Miscellaneous Debt			69		26
	8		31,562		31,816
Short Term Debt **					
Commercial Paper		3,286		118	
Borrowings from Funds under the control of the Minister for Finance	15	2,258		2,661	
			5,544		2,779
National Savings Schemes					
Savings Certificates		2,223		2,215	
Savings Bonds		1,675		1,709	
National Instalment Savings		409		394	
Savings Stamps		2		2	
Prize Bonds		632		590	
	9		4,941		4,910
Gross Debt			42,047		39,505
Less Liquid Assets	10		(4,487)		(3,588)
National Debt	**12**		**37,560**		**35,917**

** Medium / Long Term Debt is Debt with an original maturity of more than one year*

*** Short Term Debt is Debt with an original maturity of not more than one year*

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2008

The notes on pages 44 to 48 form part of these financial statements.

National Debt Cash Flow Statement

Year ended 31 December 2007

	2007 €'000	2006 €'000
Movement in Exchequer balances:		
Opening Balance in Exchequer Account (note 10)	3,587,242	2,183,127
Commercial Deposits	(490,000)	-
Borrowing Activity (see below)	2,517,980	(860,176)
	5,615,222	1,322,951
Exchequer Surplus/(Deficit)	(1,619,159)	2,264,291
Closing Balance in Exchequer Account (note 10)	**3,996,063**	**3,587,242**

	Receipts €'000	Payments €'000	2007 Net €'000	2006 Net €'000
Borrowing Activity				
Irish Government Bonds listed on the Irish Stock Exchange	19,822,280	(20,110,939)	(288,659)	(122,068)
Private Placements	-	-	-	-
European Investment Bank Loans	-	-	-	-
Medium Term Notes	-	-	-	-
Miscellaneous Debt	-	(893)	(893)	(713)
Commercial Paper	85,398,071	(82,218,296)	3,179,775	6,227
Savings Certificates	460,378	(452,649)	7,729	6,863
Savings Bonds	573,069	(606,932)	(33,863)	124,101
National Instalment Savings	103,720	(89,580)	14,140	8,997
Prize Bonds	144,836	(102,131)	42,705	27,932
Borrowings from Ministerial Funds	49,320,124	(49,723,078)	(402,954)	(911,515)
Total Borrowing Activity	155,822,478	(153,304,498)	2,517,980	(860,176)
Commercial Deposit Activity	49,782,597	(50,272,597)	(490,000)	-
Total Activity	**205,605,075**	**(203,577,095)**	**2,027,980**	**(860,176)**

	Receipts €'000	Payments €'000	2007 Net €'000	2006 Net €'000
Exchequer Account	197,811,402	(196,205,455)	1,605,947	(863,186)
Foreign Currency Clearing Accounts (Note 14)	7,793,673	(7,371,640)	422,033	3,010
	205,605,075	**(203,577,095)**	**2,027,980**	**(860,176)**

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2008

The notes on pages 44 to 48 form part of these financial statements.

Statement of Movement In National Debt

Year ended 31 December 2007

	2007 €'000	2006 €'000
Opening National Debt	35,917,567	38,182,333
Increase / (Decrease) in National Debt (nominal)	1,641,946	(2,264,766)
Represented by:		
Exchequer (Surplus)/Deficit	1,619,159	(2,264,291)
Effect of Foreign Exchange Rate Movements	(22,394)	260
Bond Tranching: net reduction/(excess) of proceeds over nominal liability	44,987	(40)
Bond Cancellations: net reduction/(excess) of cancellation cost over nominal liability	202	(76)
Movement in CSRA current balance (note 10)	(8)	(619)
Other nominal movements	-	-
	1,641,946	(2,264,766)
Closing National Debt	**37,559,513**	**35,917,567**

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2008

The notes on pages 44 to 48 form part of these financial statements.

Notes to the Financial Statements

1. Total Service Cost

	Notes	Charged on Foreign Currency Clearing Accounts €'000	Charged on Central Fund €'000	Charged on CSRA €'000	Total Service Cost 2007 €'000
Interest paid					
Medium / Long Term Debt	2	12,536	255,122	1,111,624	1,379,282
Short Term Debt	3	68,728	135,694	7,624	212,046
National Savings Schemes	4,9	-	(36,212)	246,774	210,562
Other Movements	5	339,953	(517,224)	189,040	11,769
Sinking Fund payments	6	-	-	465,571	465,571
Fees and Expenses	7	271	25,522	-	25,793
Expenses of NTMA		545	30,354	-	30,899
Interest received on deposits with Central Bank and other banks		-	-	(194,840)	(194,840)
		422,033	(106,744)	1,825,793	2,141,082
Inter Account Movement		-	1,825,801	(1,825,801)	-
Net cash paid		**422,033**	**1,719,057**	**(8)**	**2,141,082**

Interest payments on the National Savings Schemes are initially charged to the Central Fund and the CSRA resulting in a gross interest charge of €448.5 million. However, when the drawdown of €237.9 million from the Small Savings Reserve Fund is applied against the Central Fund, the net payment in 2007 was €210.5 million.

2. Interest on Medium / Long Term Debt

	Total Cost 2007 €'000	Total Cost 2006 €'000
Irish Government Bonds listed on the Irish Stock Exchange	1,349,691	1,327,317
Other Irish Government Public Bond Issues	4,706	4,695
Private Placements	-	-
European Investment Bank Loans	8,922	8,916
Medium Term Notes	16,635	17,905
Miscellaneous Debt	(672)	(7,502)
	1,379,282	**1,351,331**

3. Interest on Short Term Debt

	Total Cost 2007 €'000	Total Cost 2006 €'000
Commercial Paper	170,881	49,832
Borrowings from Funds under the control of the Minister for Finance	41,165	68,174
	212,046	**118,006**

4. Interest on National Savings Schemes

	Total Cost 2007 €'000	Total Cost 2006 €'000
Savings Certificates	305,164	603,178
Savings Bonds	97,864	76,766
National Instalments Savings	29,509	29,358
Prizes in respect of Prize Bonds	15,944	13,862
Small Savings Reserve (note 9)	(237,919)	(242,818)
	210,562	**480,346**

Payments for Interest on National Savings Schemes in 2007 include transfers to the Dormant Accounts Fund in respect of accumulated capitalised interest on certain accounts deemed dormant by An Post under the Dormant Accounts Act 2001. The net interest amounts due to be transferred in 2007 were as follows:

	€'000
Savings Certificates	10,074
Savings Bonds	156
National Instalments Savings	(381)
	9,849

These interest transfers include an interest reclaim of €245,424 in respect of 2007 which was not made by An Post until 2008. As the accounts are prepared on a cash basis this amount is not included in the payments for interest on National Savings Schemes for 2007.

5. Other Movements

The NTMA, as part of its remit, engages in a range of debt management transactions including derivatives. (See note 11) This figure reflects the net cashflows associated with these activities.

6. Sinking Fund Payments

Under the Finance Act 1950, specified amounts were provided for the redemption of debt. The sums provided and applied in 2007 were as follows:

	2007 €'000
Capital Services Redemption Account (Note 13)	465,571
	465,571

7. Fees and Expenses

	Total Cost 2007 €'000	Total Cost 2006 €'000
Expenses of Irish Government Bonds	-	-
Expenses of Savings Certificates	5,092	4,187
Expenses of Prize Bonds	7,357	7,356
Expenses of Savings Bonds	4,715	3,219
Expenses of National Instalment Savings	1,677	2,582
Expenses of Savings Stamps	1,042	1,042
Expenses of Loans	5,910	903
	25,793	**19,289**

Notes to the Financial Statements (continued)

8. Medium / Long Term Debt

The maturity profile of the Medium / Long Term Debt, taking into account the treasury management transactions entered into by the Agency, is as follows: -

	As at 31 December 2007 €million	As at 31 December 2006 €million
Debt due for repayment within 1 year	141	6,042
Debt due for repayment between 2 and 5 years	6,330	6,604
Debt due for repayment in more than 5 years	25,091	19,170
	31,562	**31,816**

9. National Savings Schemes

In 2007 the gross interest payment on the savings schemes was €448m, however when the drawdown from the Small Savings Reserve Fund of €238 million was credited against the Central Fund, the net interest cost was €210m.

Amounts shown in respect of Savings Certificates, National Instalment Savings, Savings Bonds and Prize Bonds are net of €10.3 million (2006: €5.0 million) being cash balances held by An Post, Permanent TSB Bank and the Prize Bond Company. An Post and the Prize Bond Company acts as the registrar for the respective schemes.

As these financial statements are prepared on a cash basis, the liabilities do not include the sum of €780 million (2006: €1,038 million), being the estimate of the amount of accrued interest at 31 December 2007 in respect of Savings Bonds, Savings Certificates and National Instalment Savings.

Section 160 of the Finance Act 1994 provided for the establishment of a fund to be known as the Small Savings Reserve Fund. It provided for €76 million to be paid into the fund in 1994 and in each year thereafter for such sums, if any, as the Minister for Finance may decide. Where in any calendar year interest payment on encashments of small savings exceed 11 per cent of total interest accrued on such savings at the end of the immediately preceding calendar year, the resources of the fund may be applied towards meeting so much of those interest payments which, as a percentage of the said total interest accrued, exceed 11 per cent. The actual interest cost to the Exchequer for 2007 was 20.28 per cent of the interest accrued at the 31 December 2006 of €1,038 million.

		€million
Estimated accrued interest at 31 December 2007		780
Balance at 1 January 2007	(582)	
Amount applied during 2007 (Note 4)	238	
Balance at 31 December 2007 (Note 15)		(344)
Estimated accrued interest not provided for at 31 December 2007		436

The balance in the Fund is transferred to the Exchequer as part of the borrowings from funds under the control of the Minister for Finance.

10. Liquid Assets

	Opening balance At 1 January 2007 €'000	Movements during 2007 €'000	Closing balance at 31 December 2007 €'000
Exchequer Account	3,587,242	408,821	3,996,063
Capital Services Redemption Account			
Current Balance (note 13)	834	8	842
Commercial Bank Deposits	-	490,000	490,000
	3,588,076	**898,828**	**4,486,905**

11. Derivatives

The Agency's responsibility for both the issuance of new debt and the repayment of maturing debt, together with the management of the interest rate and currency profile of the total debt portfolio, makes the management of risk a central and critical element of the Agency's business. The principal categories of risk arising from the Agency's activities are liquidity risk, market risk, counterparty credit risk and operational risk. In all of these areas the Agency has comprehensive policies and procedures to measure and control the risk involved.

A major requirement of the Agency is to ensure that future funding needs can readily be met at all times. Ultimately the protection of liquidity is the Agency's most critical task. Risks to the liquidity of the National Debt can arise either from domestic events or, given the high level of linkage between markets, from events outside Ireland. The Agency manages this risk primarily by controlling the amount of liabilities maturing in any particular period of time. This is reinforced by the Agency's activities in continuing to develop a well informed and diversified international investor base, through maintaining its presence in all major capital markets and by extending the range of debt instruments which it issues.

Market risk is the risk of a rise in debt service costs and in the total market value of the debt due to changes in market interest or exchange rates. The Agency has to have regard to both medium and short term objectives given its task of controlling not only near term fiscal debt service costs but also the present value of all future payments of principal and interest. Fixed interest rate borrowings are subject to a market valuation risk in the event of a decline in interest rates. While carrying less market valuation risk than fixed rate debt, floating rate borrowings carry a higher risk to the near term fiscal cost of servicing the debt. The balance between fixed and floating rate liabilities has to be managed for both the euro and foreign currency portfolios. The exposure to interest rate and currency risk is controlled through limiting the currency and interest rate concentration of the portfolio. Specific quantitative limits are in place to control market risk; exposures against these limits are reported regularly both to portfolio managers and to senior management. The Agency seeks to achieve the best trade-off between cost and risk over time. As conditions in financial markets change the appropriate interest rate and currency profile of the portfolio is reassessed.

Counterparty credit risk exposures arise from derivatives, deposits and foreign exchange transactions. The level of credit risk is minimised by dealing only with counterparties of high credit standing. Procedures provide for the approval of risk limits for all counterparties and exposures are reported daily to management. A review of all limits is undertaken periodically to take account of changes in the credit standing of counterparties or in economic and political events.

Comprehensive controls have been established to ensure that operational risks are managed in a prudent manner. These controls include the segregation of duties between dealing, processing, payments and reporting.

As part of its risk management strategy the Agency uses a combination of derivatives including interest rate swaps, currency swaps and foreign exchange contracts. The following table shows the nominal value of the instruments used and their present value.

	31 December 2007		31 December 2006	
	Nominal €million	Present Value €million	Nominal €million	Present Value €million
Interest Rate Swaps	354	(5)	1,104	(12)
Currency Swaps & Foreign Exchange Contracts	1,068	(62)	672	(15)
	1,422	(67)	1,776	(27)

The present value of an instrument is determined by using an appropriate rate of interest to discount all its future cashflows to their present value.

12. National Debt

The currency composition of the National Debt, taking into account the treasury management transactions entered into by the Agency, is as follows: -

	As at 31 December 2007 €million	As at 31 December 2006 €million
Euro*	37,564	35,917
US Dollar	(4)	-
	37,560	**35,917**

* This figure is net of liquid assets as at 31 December 2007 of €4,487 million (31 December 2006: €3,588 million)

Notes to the Financial Statements (continued)

13. Capital Services Redemption Account

This account is used to record:

(a) payments of interest and principal out of an annual annuity designed to amortise borrowing for voted capital under section 22 (7) of the Finance Act, 1950;

(b) certain receipts and payments arising out of debt servicing and debt management transactions authorised by section 67(8) of the Finance Act, 1988 and section 54(7) of the Finance Act, 1970.

14. Foreign Currency Clearing Accounts

		€'000
Balance at 1 January 2007		NIL
Amounts received under Finance Act 1988 [S67 (8)]	7,967,599	
Amounts paid under Finance Act 1970 [S54 (7)]	(8,307,552)	(339,953)
Foreign Currency Borrowing receipts	7,793,673	
Foreign Currency Borrowing payments	(7,371,640)	422,033
Interest paid on Foreign Currency Borrowings (note 1)		
- Medium/ Long Term Debt	(12,536)	
- Short Term Debt	(68,728)	(81,264)
Expenses of Foreign Currency Borrowings (note 1)		(271)
Expenses of NTMA		(545)
Balance at 31 December 2007		NIL

15. Borrowings from Funds under the control of the Minister for Finance

These funds are short term borrowings of the Exchequer drawn down as a "ways and means" of funding Exchequer requirements from a number of funds under the control of the Minister for Finance.

	As at 31 December 2007 €million	As at 31 December 2006 €million
Post Office Savings Bank Fund	1,157	1,160
Small Savings Reserve Fund	344	582
Ulysses Securitisation plc	127	127
Deposit Monies Investment Account	630	792
	2,258	**2,661**

Financial Statements of the National Treasury Management Agency Administration Account

For the year ended 31 December 2007

Accounting Policies

Background

The National Treasury Management Agency was established under the National Treasury Management Agency Act, 1990 to perform the borrowing and National Debt management function on behalf of the Minister for Finance and other such functions as the Government may delegate to it.

Information relating to the National Debt of Ireland is contained on pages 40 to 48. Financial information covering the Agency itself is set out on pages 50 to 58.

Under Section 11 of the National Treasury Management Agency Act, 1990 " the expenses incurred by the Agency in the performance of its functions shall be charged on and paid out of the Central Fund (Exchequer) or the growing produce thereof".

Reporting Currency

The reporting currency is the EURO, which is denoted by the symbol €.

Basis of Accounting

The financial statements have been prepared on an accruals basis under the historical cost convention. The form of the financial statements has been approved by the Minister for Finance under Section 12 of the National Treasury Management Agency Act, 1990.

Fixed Assets and Depreciation

Fixed assets are stated at cost less accumulated depreciation. Fixed assets are depreciated by annual instalments over their estimated useful lives.

Leasing

Rentals under the operating lease are charged to the income and expenditure account on an accruals basis.

Pensions

The Agency operates a Defined Benefit pension scheme for certain employees and makes contributions to Personal Retirement Savings Accounts (PRSA) for other employees. Contributions are funded out of the Agency's Administration budget.

The Defined Benefit Scheme pension costs are accounted for under FRS 17. Pension scheme assets are measured at fair value. Pension scheme liabilities are measured on an actuarial basis using the projected unit method. An excess of scheme liabilities over scheme assets is presented on the Balance Sheet as a liability. Deferred pension funding represents the corresponding asset to be recovered in future periods from the Central Fund.

The Defined Benefit pension charge in the Income and Expenditure Account comprises the current service cost and past service cost plus the difference between the expected return on scheme assets and the interest cost on the scheme liabilities. An amount corresponding to the pension charge is recognised as income recoverable from the Central Fund in future periods.

Actuarial gains and losses arising from changes in actuarial assumptions and from experience surpluses and deficits are recognised in the Statement of Total Recognised Gains and Losses for the year in which they occur and a corresponding adjustment is recognised in the amount recoverable from the Central Fund.

The cost of contributions by the Agency to PRSAs is recognised as a charge in the Administration Account in the financial year to which the employee service relates.

Software

Computer software costs are charged to the income and expenditure account in the period in which they are incurred.

Capital Account

The capital account represents receipts from the Central Fund, which have been allocated for the purchase of fixed assets. The receipts are amortised in line with depreciation on the related fixed assets.

Income and Expenditure Account

Year ended 31 December 2007

	Notes	2007 €	2006 €
Income			
Amount receivable from Central Fund	8	31,309,880	30,859,089
Other income	9	1,081,779	1,024,464
Transfer (to)/from capital account	5	(46,724)	70,845
		32,344,935	31,954,398
Expenditure			
Expenditure	1	(26,488,193)	(24,442,451)
Net Deferred Pension Funding	7(i)	(2,922,053)	(7,511,947)
		(29,410,246)	(31,954,398)
Net Income/(Expenditure) for year before transfer to reserves		2,934,689	Nil
Transfer to Defined Benefit Pension Reserve	7(i)	(2,934,689)	Nil
Net Income/(Expenditure) for year		Nil	Nil

Statement of Total Recognised Gains and Losses

Year ended 31 December 2007

	Notes	2007 €	2006 €
Net Income transferred to Defined Benefit Pension Reserve	7(i)	2,934,689	Nil
Actuarial gain/(loss) recognised on Pension Asset/Liability	7(c)	(492,000)	1,965,000
Movement in Deferred Pension Funding		Nil	(1,965,000)
Total Recognised Gain / (Loss) for the year		2,442,689	Nil

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2008

The notes on pages 53 to 58 form part of these financial statements.

Balance Sheet

31 December 2007

	Notes	2007 €	2006 €
Fixed Assets			
Fixed assets	2	1,625,400	1,578,676
Financial Assets	11	25	25
Current Assets			
Cash at bank and in hand		122,345	206,569
Debtors	3	3,704,016	4,333,035
Total Current Assets		3,826,361	4,539,604
Current Liabilities			
Creditors	4	3,826,361	4,539,604
Current Assets less Current Liabilities		-	-
Total Assets less Current Liabilities before pensions		1,625,425	1,578,701
Deferred Pension Funding	7(g)	-	2,922,053
Pension Asset / (Liability)	7(c)	2,442,689	(2,922,053)
		2,442,689	-
Total Assets less Current Liabilities		**4,068,114**	**1,578,701**
Representing:			
Capital account	5	1,625,425	1,578,701
Defined Benefit Pension Reserve	7(h)	2,442,689	-
		4,068,114	**1,578,701**

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2008

The notes on pages 53 to 58 form part of these financial statements.

Notes to the Financial Statements

1. Expenditure

	Year Ended 31 December 2007 €	Year Ended 31 December 2006 €
Salaries	16,352,802	13,798,434
Defined Benefit Pension annual cost (FRS 17, Note 7(f))	915,000	1,581,000
PRSA Pension Costs (note 6)	475,411	340,239
Establishment expenses	1,697,878	2,048,072
Operating expenses	6,351,608	5,925,512
Depreciation (note 2)	695,494	749,194
Total expenses	26,488,193	24,442,451

2. Fixed Assets

	Property €	Furniture, Equipment & Motor Vehicles €	Total €
Cost:			
Opening balance at 1 January 2007	1,337,243	4,585,781	5,923,024
Additions at cost	63,795	688,423	752,218
Disposals	-	(748,200)	(748,200)
Balance at 31 December 2007	1,401,038	4,526,004	5,927,042
Accumulated depreciation:			
Opening balance at 1 January 2007	983,967	3,360,381	4,344,348
Depreciation for the period	70,052	625,442	695,494
Disposals	-	(738,200)	(738,200)
Balance at 31 December 2007	1,054,019	3,247,623	4,301,642
Net book value at 31 December 2007	347,019	1,278,381	1,625,400
Net book value at 31 December 2006	353,276	1,225,400	1,578,676

The estimated useful lives of fixed assets by reference to which depreciation is calculated is as follows:

Property	20 years
Equipment & Motor Vehicles	2 to 5 years
Furniture	10 years

The property is leased under a long-term lease, which is subject to rent reviews. The current annual rent is €1,927,390 per annum.

Notes to the Financial Statements (continued)

3. Debtors

	2007 €	2006 €
Central Fund	2,327,072	1,915,625
Prepayments	1,113,311	871,200
Other debtors	263,633	1,546,210
	3,704,016	4,333,035

4. Creditors

	2007 €	2006 €
Creditors	208,462	1,039,876
Accruals	3,617,899	3,499,728
	3,826,361	4,539,604

5. Capital Account

			2007 €	2006 €
Opening balance			1,578,701	1,649,546
Transfer from /(to) Income and Expenditure Account				
Asset Funding				
- Fixed Assets		752,218		
Amortisation of capital funding				
- Amortisation in line with depreciation	(695,494)			
- Net amount released on asset disposal	(10,000)	(705,494)	46,724	(70,845)
Closing balance			1,625,425	1,578,701

The capital account balance includes Financial Assets of €25. Please see Note 11 for further details.

6. Superannuation

Superannuation entitlements of staff are conferred under a defined benefit superannuation scheme set up under Section 8 of the National Treasury Management Agency Act, 1990. Those of the Chief Executive are provided under his contract of service. Contributions, including those of staff who have opted for dependant benefit arrangements, are transferred to an externally managed fund. The Agency contribution is determined on the advice of an independent actuary and is, at present, set at a level of 25% of payroll. Contributions by the Agency for the year ended 31 December 2007 amounted to €6,771,742 (2006: €9,092,947) to the defined benefit scheme. This amount of €6,771,742 included an additional contribution of €5 million approved by the Minister for Finance.

Liabilities arising under the defined benefit scheme are provided for under the above arrangements, except for entitlements arising in respect of the service of certain members of NTMA staff recruited from other areas of the public sector. On 7 April 1997 the Minister for Finance designated the National Treasury Management Agency as an approved organisation for the purposes of the Public Sector (Transfer of Service) Scheme. This designation provides for, inter alia, contributions to be made out of the Exchequer, as and when benefits fall due for payment in the normal course, in respect of prior service of former civil servants employed by the Agency. No provision has been made for funding the payment of such entitlements.

The Agency also contributed €475,411 (2006: €340,239) to Personal Retirement Savings Accounts (PRSAs) for a number of employees who are not members of the defined benefit scheme in 2007.

7. Retirement Benefits

(a) Defined Benefit Pension Scheme

The valuation of the defined benefit scheme used for the purposes of FRS17 disclosures has been based on data provided by the Scheme Administrator. It has been updated by an independent actuary to take account of the requirements of FRS17 in order to assess the liabilities at the balance sheet date. Scheme assets are stated at their market value at the balance sheet date.

The financial assumptions used to calculate the retirement liabilities under FRS 17 were as follows:

	At 31/12/2007	At 31/12/2006
Discount rate	5.50%	4.60%
Inflation rate	2.25%	2.25%
Salary increases	4.50%	4.25%
Pension increases	2.25% / 4.50%	2.25% / 4.25%

(b) Market Value Of Defined Benefit Pension Scheme

The market value of the assets in the pension scheme, the expected rate of return and the scheme's liabilities were:

	At 31 December 2007		At 31 December 2006	
	Expected Return	Market Value €'000	Expected Return	Market Value €'000
Equities	7.30%	26,881	6.90%	25,533
Bonds	4.30%	7,780	3.90%	1,472
Property	6.30%	1,556	5.90%	1,258
Other	4.00%	6,883	4.00%	7,981
Total market value of assets		43,100		36,244
Present value of pension scheme liabilities		(40,657)		(39,166)
Surplus/(deficit) in pension scheme		2,443		(2,922)
Net pension asset/(liability)		2,443		(2,922)

Notes to the Financial Statements (continued)

7. Retirement Benefits (continued)

(c) Movement in Surplus/(Deficit) for the year.

	2007 €'000	2006 €'000
Surplus/(Deficit) at the beginning of the year	(2,922)	(12,399)
Current service cost	(1,315)	(1,376)
Contributions		
- Funding towards meeting deficit	3,837	9,093
- Funding transferred to Pension Reserve	2,935	-
Other finance expenses (Note 7(f))	400	(205)
Actuarial gain/(loss)	(492)	1,965
Surplus/(Deficit) at end of year	2,443	(2,922)

(d) Reconciliation of the fair value of scheme assets during the year

	2007 €'000	2006 €'000
Fair value of Scheme Assets at beginning of year	36,244	23,598
Expected return	2,265	1,391
Employer contributions	6,772	9,093
Member contributions	232	568
Actuarial gains	(2,126)	1,895
Benefits paid and expenses	(287)	(301)
Fair value of Scheme Assets at end of year	43,100	36,244

(e) History of Actuarial Gains and Losses.

	2007 €'000	2006 €'000	2005 €'000	2004 €'000
Difference between actual and expected return on scheme assets	(2,126)	1,895	1,887	252
Expressed as a % of scheme assets	-4.9%	5.2%	8.0%	1.5%
Experience gains or losses on scheme liabilities	(610)	(221)	(1,054)	(842)
Expressed as a % of scheme assets	-1.6%	-0.6%	-2.9%	-2.9%
Total actuarial gains and losses	(492)	1,965	(2,341)	(3,133)
Expressed as a % of scheme liabilities	-1.2%	5.0%	-6.5%	-10.6%
Present value of pension scheme liabilities	40,657	39,166	35,997	29,486
Scheme Assets	43,100	36,244	23,598	16,598
Surplus or (deficit) within Scheme	2,443	(2,922)	(12,399)	(12,888)

7. Retirement Benefits (continued)

(f) Analysis of Pension Charge and Contributions to Scheme

Current service cost		1,315,000
Interest on Scheme liabilities	1,865,000	
Expected return on scheme assets	(2,265,000)	
Other finance expenses		(400,000)
Income and Expenditure Charge for the year (Note 1)		915,000

(g) Deferred Pension Funding

The NTMA recognises an asset corresponding to the defined benefit scheme deficit on the basis of a number of past events. These events include the statutory basis for the establishment of the superannuation schemes, and the policy and practice currently in place in relation to funding public service pensions. The NTMA has no evidence that this funding policy will not continue to meet such sums in accordance with current practice.

(h) Defined Benefit Pension Reserve

The Defined Benefit Pension Reserve represents the excess of funding over scheme liabilities at 31 December 2007 as measured for the purposes of FRS17.

(i) Net Deferred Defined Benefit Pension Reserve Funding in respect of the year

	2007 €	2006 €
Funding recoverable in respect of current year pension costs (note 7(c))	915,000	1,581,000
Income applied to pay contributions to pension fund (note 7(c))	(6,771,742)	(9,092,947)
	(5,856,742)	(7,511,947)
Transfer to Defined Benefit Pension Reserve	2,934,689	Nil
Net Deferred Pension Funding	(2,922,053)	(7,511,947)

The amount transferred to the Defined Benefit Pension Reserve represents contributions to the fund over and above the amount needed to meet the Defined Benefit pension charge recognised for the year plus the opening deficit on the fund.

8. Central Fund Income

(a) The Central fund operates on a receipts and payments basis whereas these accounts have been prepared on an accruals basis. The following table sets out the reconciling items:

	2007 €	2006 €
Opening amount due from Central Fund (note 3)	(1,915,625)	(833,214)
Received from Central Fund	30,898,433	29,776,678
Amount due from Central Fund at year end (note 3)	2,327,072	1,915,625
Central Fund Receivable for year	31,309,880	30,859,089

(b) The total amount recognised as (payable to) / recoverable from the Central Fund is:

	2007 €	2006 €
Debtors (note 3)	2,327,072	1,915,625
Deferred Pension Funding (note 7(g))	Nil	2,922,053
	2,327,072	4,837,678

Notes to the Financial Statements (continued)

9. Other Income

	Year Ended 31 December 2007 €	Year Ended 31 December 2006 €
Asset Covered Income	664,094	620,214
Consultancy and other income	417,685	404,250
	1,081,779	1,024,464

Asset Covered Income is income that the NTMA receives in its role under the Asset Covered Securities Act, 2001.

10. Expenses of NTMA as Manager

The costs incurred by the NTMA as Manager to the National Pensions Reserve Fund amounted to €6.8 million (2006: €5.8 million). The costs incurred by the NTMA to fulfil its functions in relation to the National Development Finance Agency amounted to €4.4 million (2006: €3.1 million). These costs are included in the Income and Expenditure account.

11. Financial Assets

The Agency joined TARGET during 1999, which is a real time settlement system administered by IRIS Ltd. The system is used to settle euro transactions through the European System of Central Banks. As a condition of membership, the Agency was required to purchase 20 ordinary IR£1 (€1.27) shares purchased at par.

12. Comparative Information

The presentation of defined benefit pension costs and funding has been changed in 2007 and the comparative figures for 2006 have been restated on a consistent basis.

Financial Statements of the Post Office Savings Bank Fund

For the year ended 31 December 2007

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

I have audited the financial statements of the Post Office Savings Bank Fund for the year ended 31 December 2007 under the National Treasury Management Agency Act, 1990.

The financial statements, which have been prepared under the accounting policies set out therein, comprise the Accounting Policies, the Income and Expenditure Account, the Balance Sheet and the related notes.

Respective Responsibilities of the National Treasury Management Agency and the Comptroller and Auditor General

The Agency is responsible for preparing the financial statements in accordance with the National Treasury Management Agency Act, 1990, and for ensuring the regularity of transactions. The Agency prepares the financial statements in accordance with Generally Accepted Accounting Practice in Ireland. The accounting responsibilities of the Agency are set out in the Statement of Agency's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report my opinion as to whether the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland. I also report whether in my opinion proper books of account have been kept. In addition, I state whether the financial statements are in agreement with the books of account.

I report any material instance where moneys have not been applied for the purposes intended or where the transactions do not conform to the authorities governing them.

I also report if I have not obtained all the information and explanations necessary for the purposes of my audit.

Basis of Audit Opinion

In the exercise of my function as Comptroller and Auditor General, I conducted my audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and by reference to the special considerations which attach to State bodies in relation to their management and operation. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures and regularity of the financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Fund's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations that I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion, the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the Post Office Savings Bank Fund's affairs at 31 December 2007 and of its income and expenditure for the year then ended.

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

John Buckley
Comptroller and Auditor General

30 June 2008

Accounting Policies

Background

The Minister for Finance guarantees the repayment and servicing of moneys invested by depositors in the Post Office Savings Bank. An Post remits the net proceeds of such investment to the Agency. The Post Office Savings Bank Fund does not form part of the Exchequer. The fund has the following main purposes:

- to invest the moneys made available by depositors, and
- to act as an intermediary through which the tranching, cancellation, sale and repurchase (repo) transactions and secondary market trading can be transacted by the Agency, and
- to provide moneys under Central Treasury Services to designated state bodies.

The significant accounting policies adopted by the fund are as follows:-

Reporting Currency

The reporting currency is the EURO, which is denoted by the symbol €.

Basis of Accounting

The financial statements are prepared on an accruals basis under the historical cost convention.

Investments

Investments are stated at cost.

Income and Expenditure Account

Year ended 31 December 2007

	Notes	2007 €	2006 €
Investment income	1	44,780,243	40,384,190
Interest paid and payable	2	10,755,284	15,459,699
Other expenses	3	34,601,721	25,000,000
		45,357,005	40,459,699
		(576,762)	(75,509)
Balance at beginning of year		9,628,413	9,703,922
Balance at end of year		9,051,651	9,628,413

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2008

The notes on pages 64 to 66 form part of these financial statements.

Balance Sheet

31 December 2007

	Notes	2007 €	2006 €
Assets			
Advances	4	1,162,770,071	1,161,931,688
Investments in Bonds	5	99,787,041	73,659,785
Debtors	7	7,742,936	4,406,483
Central Treasury Loans		34,222,893	35,077,827
Commercial Paper	10	7,000,000	252,806,018
Cash		2,648,260	33,223,034
		1,314,171,201	1,561,104,835
Liabilities			
Post Office Savings Bank Deposits	8	1,302,296,033	1,542,742,671
Creditors	9	2,823,517	8,733,751
Accumulated Reserves		9,051,651	9,628,413
		1,314,171,201	1,561,104,835

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2008

The notes on pages 64 to 66 form part of these financial statements.

Notes to the Financial Statements

1. Investment Income

	2007 €	2006 €
Interest received and receivable	48,699,196	43,441,032
Profit/(Loss) on sale of investments	(3,918,953)	(3,056,842)
	44,780,243	40,384,190

2. Interest Paid and Payable

	2007 €	2006 €
Interest paid and credited to depositors of Post Office Savings Bank	10,755,284	15,459,699
	10,755,284	15,459,699

3. Other Expenses

	2007 €	2006 €
Management expenses	34,601,721	25,000,000
	34,601,721	25,000,000

The management expenses are paid to An Post in respect of its administration of the Post Office Savings Bank. Following agreement with An Post on a revised fee agreement, the 2007 management expenses include an amount of €5.7 million in respect of the period of operation since 2001 of the Special Savings Incentive Accounts.

4. Advances

	2007 €	2006 €
Advances to Exchequer	1,157,188,951	1,160,350,569
Advances to State Claims Agency	5,581,120	1,581,119
	1,162,770,071	1,161,931,688

Advances represent Ways and Means funds, which have been loaned to the Exchequer and the State Claims Agency.

5. Investments

Bonds	2007 €	2006 €
At cost	99,787,041	73,659,785
At market value	98,675,212	73,059,739

Schedule of Investment Holdings:-

Nominal €	Stock	Cost €
296,276	6% Treasury Bond 2008	308,999
24,590	8.25% Capital Stock 2008	28,600
2,168,142	3.25% Treasury Bond 2009	2,144,940
3,288,485	4% Treasury Bond 2010	3,291,216
43,015	8.5% Capital Stock 2010	55,216
26,000	8.75% Capital Stock 2012	31,761
29,129,143	5% Treasury Bond 2013	30,451,713
83,460	8.25% Treasury Bond 2015	107,271
26,000,000	4.5% Treasury Bond 2018	26,298,283
19,332,597	4.6% Treasury Bond 2016	19,835,691
17,000,000	4.5% Treasury Bond 2020	17,233,351
97,391,708		99,787,041

6. Sale and Repurchase Agreements

Sale and Repurchase agreements are transacted between the Post Office Savings Bank Fund and primary dealers in the bond market. The related income or interest cost arising from these transactions is reflected in investment income in the Income and Expenditure account.

7. Debtors

	2007 €	2006 €
Dividends and interest receivable	4,726,160	4,406,483
Outstanding Bond settlements	-	-
Cash balances held by An Post	3,016,776	-
	7,742,936	4,406,483

Notes to the Financial Statements (continued)

8. POSB Deposits

	2007	2006
	€	€
Deposits from Post Office Savings Bank	1,302,296,033	1,542,742,671
	1,302,296,033	1,542,742,671

In April 2007 €1,474,868 (2006: €1,374,895) was transferred from the Post Office Savings Bank Fund to the Dormant Accounts Fund under the Dormant Accounts Act 2001. At 31 December 2007 following account reactivations of €518,595 (2006: €480,722) and interest (net of DIRT) capitalised of €108,944 there was a balance of € 28,248,136 (2006: €27,182,919) due to Depositors from the Dormant Accounts Fund. The Deposits from Post Office Saving Bank liability figure of €1,302,296,033 (2006: €1,542,742,671) does not include this Dormant Accounts Fund liability.

9. Creditors

	2007	2006
	€	€
Net funds due under Sale and Repurchase Agreements	1,743,579	3,103,062
Outstanding Bond settlements	-	5,417,386
DIRT due to An Post	998,718	141,669
Management expenses due to An Post	81,220	-
Cash balances due to An Post	-	71,634
	2,823,517	8,733,751

10. Commercial Paper

	2007	2006
	€	€
HFA Commercial Paper	-	236,806,018
Agricultural Commodity Intervention Bills	7,000,000	16,000,000
	7,000,000	252,806,018

The Post Office Savings Bank Fund purchased short term Commercial Paper issued by the Housing Finance Agency (HFA) of Ireland and Agricultural Commodity Intervention Bills issued by the Minister for Agriculture and Food as investments.

Financial Statements of the Capital Services Redemption Account

For the year ended 31 December 2007

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

I have examined the account on pages 69 and 70. I have obtained all the information and explanations that I have required.

In my opinion the account, which is in agreement with the accounting records maintained by the National Treasury Management Agency in respect of this activity, properly reflects transactions for the year ended 31 December 2007 and the balance at that date.

John Buckley
Comptroller and Auditor General

30 June 2008

Capital Services Redemption Account

Finance Act, 1950 Section 22 (No 18 of 1950 as amended)

Accounts of Receipts and Payments		Year ended 31 December 2007 €
Balance at 1 January 2007		834,012
Receipts		
Amounts received from Central Fund under Finance Act 1950, Section 22 as amended:		
- Interest	1,360,230,040	
- Sinking Fund	465,571,111	1,825,801,151
Amounts received under Finance Act 1988 [S 67 (8)]		294,555,058
Deposit interest received		194,840,312
Other interest received		3,897
		2,316,034,430
Payments		
Amounts applied in the redemption of National Debt:		
Irish Government Bonds Listed on Irish Stock Exchange	465,571,111	465,571,111
Amounts applied in meeting interest on National Debt (note 2)		1,366,026,981
Amounts applied in respect of liabilities under Finance Act 1970, [S 54 (7)]		483,594,863
Balance at 31 December 2007		841,475
		2,316,034,430

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2008

Notes to the Account

1. This account was established under Section 22 of the Finance Act 1950.

Annuities

Annuities are provided for in each year's Finance Act and are paid into the Capital Services Redemption Account from current revenue charged on the Central Fund. A fixed amount may be used for servicing (interest payments) of the public debt. The balance must be used for principal repayments.

Cash Management Borrowings

The Minister for Finance may enter into transactions of a normal banking nature in accordance with section 54 of the Finance Act, 1970 (as amended by section 118 of the Finance Act 1983, section 67 of the Finance Act, 1988 and section 15 of the National Treasury Management Agency Act, 1990.)

Such transactions of a normal banking nature include portfolio management activities which are not related to principal borrowings e.g. forward exchange deals, swaps and interest on deposits. Receipts from such transactions, other than those in a currency for which a foreign currency clearing account has not been established under section 139 of the Finance Act 1993, must be received into the Capital Services Redemption Account. Such amounts may be used to make payments and repayments in respect of normal banking transactions or towards defraying interest and expenses on the public debt. The balance in the account is maintained by the Agency at a level subject to guidelines issued by the Minister for Finance under section 4(4) of the National Treasury Management Agency Act, 1990.

2. Amounts applied in meeting interest on National Debt: -

	Year ended 31 December 2007
4.25% Treasury Bond 2007	22,553,575
6% Treasury Bond 2008	1,784,884
8.25% Capital Stock 2008	98,126
3.25% Treasury Bond 2009	164,122,580
4% Treasury Bond 2010	32,450,360
8.5% Capital Stock 2010	767,076
8.75% Capital Stock 2012	2,773,805
5% Treasury Bond 2013	301,751,600
8.25% Treasury Bond 2015	666,825
4.6% Treasury Bond 2016	264,323,374
4.5% Treasury Bond 2020	318,665,433
Small Savings Interest	246,774,404
Cash Management Borrowings	3,317,471
Commercial Paper Programmes	3,498,000
Section 69 Notes	364,519
Exchequer Notes	444,008
Swap Driven Issues	1,670,682
Expenses	259
Total	1,366,026,981

* Swap Driven Issues are loans or bonds issued in a foreign currency and whose cashflows are converted to an alternative currency through the use of structured cross currency swaps

Financial Statements of the National Loans Advance Interest Account

For the year ended 31 December 2007

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

I have examined the account on page 72. I have obtained all the information and explanations that I have required.

In my opinion the account, which is in agreement with the accounting records maintained by the National Treasury Management Agency in respect of this activity, properly reflects transactions for the year ended 31 December 2007 and the balance at that date.

John Buckley
Comptroller and Auditor General

30 June 2008

National Loans Advance Interest Account

Account of Receipts and Payments	Year ended 31 December 2007 €
Balance at 1 January 2007	8,849,929
Accrued interest received on National Loans	
- Tranches and Auctions	4,999,726
Accrued interest paid on National Loans	(8,849,929)
Balance at 31 December 2007	
- Cash with Central Bank of Ireland	4,999,726

Note to the Account

The Agency from time to time issues or cancels amounts of existing Irish Government Bonds. This is effected by means of sales or purchases by the Post Office Savings Bank Fund, which in turn settles with the Exchequer. The accrued interest element of the settlement amount for each bond transaction takes into account the fact that a full dividend is payable to the registered owner in cases where bonds are held on an ex-dividend date. The purpose of this account is for the Post Office Savings Bank Fund to compensate the Exchequer for the unearned element of the dividend arising on tranching bonds cum-dividend or on cancelling bonds ex-dividend. These amounts are then used to offset the related servicing costs of the Exchequer.

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2008

Financial Statements of the National Loans (Winding Up) Account

For the year ended 31 December 2007

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

I have examined the account on pages 75 and 76. I have obtained all the information and explanations that I have required.

In my opinion the account, which is in agreement with the accounting records maintained by the National Treasury Management Agency in respect of this activity, properly reflects transactions for the year ended 31 December 2007 and the balance at that date.

John Buckley
Comptroller and Auditor General

30 June 2008

National Loans (Winding Up) Account

Account of Receipts and Payments	Note	Year ended 31 December 2007 €
Balance at 1 January 2007		3,815,945
Receipts from Exchequer	1	0
Receipts from Central Bank Suspense Account		171,378
Payments to Central Bank Suspense Account		(120,249)
Payments for redemption of National Loans	2	(386,548)
Balance at 31 December 2007		
- Cash with Central Bank of Ireland		3,480,526

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2008

Notes to the Account

1. Purpose of the Account

When a National Loan is due for redemption, the full amount outstanding is payable to loan holders. Any amount not claimed at the redemption date is transferred into this account by a payment from the Exchequer. This account also includes balances, which were held by the Central Bank and the Department of Finance as Paying Agents in respect of uncashed redemption payments, and were transferred to the National Treasury Management Agency. Any further claims are met from this account.

2. National Loans redeemed during the year ended 31 December 2007

7% Exchequer Stock 1975	1,016
4.25% National Loan 1975/80	635
11% Funding Loan 1978	202
4.5% National Loan 1973/78	26
9% Conversion Stock 1980-82	1,651
6% Exchequer Stock 1985/90	16,888
14% National Loan 1985/90	254
6.75% National Loan 1986/91	127
7% National Loan 1987/92	2,666
9.25% National Loan 89/94	1,270
9.25% Exchequer Loan 91/96	2,539
11% National Loan 1993-98	635
11.5% Development Loan 97/99	635
6.5% Exchequer Stock 00/05	42,619
6.25% Treasury Bond 2004	124,638
3.5% Treasury Bond 2005	26,648
8% Treasury Bond 2006	94,097
9% Capital Stock 2006	70,002
	386,548

Financial Statements of the National Treasury Management Agency (Unclaimed Dividends) Account

For the year ended 31 December 2007

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

I have examined the account on pages 78 and 79. I have obtained all the information and explanations that I have required.

In my opinion the account, which is in agreement with the accounting records maintained by the National Treasury Management Agency in respect of this activity, properly reflects transactions for the year ended 31 December 2007 and the balance at that date.

John Buckley
Comptroller and Auditor General

30 June 2008

National Treasury Management Agency (Unclaimed Dividends) Account

Account of Receipts and Payments	Note	Year ended 31 December 2007 €
Balance at 1 January 2007		1,727,608
Receipt of unclaimed dividends		19,225
Payment of unclaimed dividends	2	(10,075)
Balance at 31 December 2007		
- Cash with Central Bank of Ireland	1	1,736,758

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2008

Notes to the Account

1. Purpose of the Account

When a dividend is due on a loan liability, the full amount due is paid by the National Treasury Management Agency to the Paying Agent and then issued to the registered holders. The balance on this account represents dividends on matured loans, which have not been claimed by the registered holders and have been returned to the National Treasury Management Agency by the Paying Agent. The balance is available to cover future claims on these dividends. The Paying Agent maintains a cash float, on behalf of the National Treasury Management Agency, which it uses to service claims as they arise during the year.

2. Unclaimed Dividends paid in year

Irish Government Bonds registered with Central Bank of Ireland	10,075
Foreign Bonds administered by Paying Agent	0
	10,075

Financial Statements of the Deposit Monies Investment Account

For the year ended 31 December 2007

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

I have examined the account on page 82. I have obtained all the information and explanations that I have required.

In my opinion the account, which is in agreement with the accounting records maintained by the National Treasury Management Agency in respect of this activity, properly reflects transactions for the year ended 31 December 2007 and the balance at that date.

John Buckley
Comptroller and Auditor General

30 June 2008

Deposit Monies Investment Account

Account of Receipts and Payments	Year ended 31 December 2007 €
Balance at 1 January 2007	792,104,000
Ways and Means Advances paid to Exchequer	13,842,908,000
Ways and Means Advances repaid by Exchequer	(14,004,781,000)
Balance at 31 December 2007	
- Ways and Means Advances to Exchequer	630,231,000

Note to the Account

This account records the borrowings and repayments of surplus funds held in the Supply Account of the Paymaster General.

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2008

Financial Statements of the Account of Stock Accepted in Payment of Inheritance Tax and Death Duties

For the year ended 31 December 2007

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

I have examined the account on pages 85 and 86. I have obtained all the information and explanations that I have required.

In my opinion the account, which is in agreement with the accounting records maintained by the National Treasury Management Agency in respect of this activity, properly reflects transactions for the year ended 31 December 2007 and the balance at that date.

John Buckley
Comptroller and Auditor General

30 June 2008

Account of Stock Accepted In Payment of Inheritance Tax and Death Duties

Account of Receipts and Payments		Year ended 31 December 2007 €
Balance at 1 January 2007		NIL
Receipts		
Interest received on stock holdings	NIL	
Proceeds of stock redemption	NIL	
Payments		
Paid to Revenue Commissioners for value of stock transferred to the Minister for Finance		
- Nominal	NIL	
- Interest	NIL	
Repayment to Exchequer		NIL
Balance at 31 December 2007		NIL
Stock Account		
Balance at 1 January 2007		NIL
Movement for the year		
Nominal amount of stock transferred to the Minister for Finance	NIL	
Nominal amount of stock redeemed	NIL	
		NIL
Balance at 31 December 2007		NIL

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2008

Notes to the Account

1. Purpose of the Account

This account established under the Finance Act 1954, amended by the Capital Acquisitions Tax Act 1976, is a vehicle for the handling of certain designated Irish Government Bonds which are accepted by the Revenue Commissioners at face value in lieu of death duties. The Irish Government Bonds are received by the Revenue Commissioners and transferred to the Minister for Finance. They are then cancelled and the proceeds (at market value) taken into the account. Any shortfall between this and the liability to the Revenue Commissioners (at face value) is made up by the Exchequer and the Revenue Commissioners are paid in full.

2. Stock Account

The Stock Account records transactions at nominal par value. Any balance on this account consists of bonds held by the Minister for Finance but not yet sold by the Minister to discharge a tax liability to the Revenue Commissioners.

Financial Statements of the Small Savings Reserve Fund

For the year ended 31 December 2007

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

I have examined the account on page 88. I have obtained all the information and explanations that I have required.

In my opinion the account, which is in agreement with the accounting records maintained by the National Treasury Management Agency in respect of this activity, properly reflects transactions for the year ended 31 December 2007 and the balance at that date.

John Buckley
Comptroller and Auditor General

30 June 2008

Small Savings Reserve Fund

Account of Receipts and Payments	Year ended 31 December 2007 €
Balance at 1 January 2007	581,742,740
Received/(paid) from/(to) Exchequer	(237,919,475)
Balance at 31 December 2007	**343,823,265**
Estimated accrued interest at 31 December 2007	779,795,837

Section 160 of the Finance Act 1994 provided for the establishment of a fund to be known as the Small Savings Reserve Fund. It provided for €76 million to be paid into the fund in 1994 and in each year thereafter for such sums, if any, as the Minister for Finance may decide. Where in any calendar year interest payment on encashments of small savings exceed 11 per cent of total interest accrued on such savings at the end of the immediately preceding calendar year, the resources of the fund may be applied towards meeting so much of those interest payments which, as a percentage of the said total interest accrued, exceed 11 per cent. The actual interest cost to the Exchequer for 2007 was 20.28 per cent of the interest accrued at the 31 December 2006 - €1,038 million.

The balance in the Fund is transferred to the Exchequer as repayable ways and means advances. No interest was paid by the Exchequer on such funds advanced.

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2008

Financial Statements of the State Claims Agency

For the year ended 31 December 2007

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

I have audited the financial statements of the State Claims Agency for the year ended 31 December 2007 under the National Treasury Management Agency Act, 1990 as amended by the National Treasury Management Agency (Amendment) Act, 2000.

The financial statements, which have been prepared under the accounting policies set out therein, comprise the Accounting Policies, the Claims Statement Account, the Balance Sheet and the related notes.

Respective Responsibilities of the National Treasury Management Agency and the Comptroller and Auditor General

The Agency is responsible for preparing the financial statements in accordance with the National Treasury Management Agency Act, 1990, and for ensuring the regularity of transactions. The Agency prepares the financial statements in accordance with Generally Accepted Accounting Practice in Ireland. The accounting responsibilities of the Agency are set out in the Statement of Agency's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report my opinion as to whether the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland. I also report whether in my opinion proper books of account have been kept. In addition, I state whether the financial statements are in agreement with the books of account.

I report any material instance where moneys have not been applied for the purposes intended or where the transactions do not conform to the authorities governing them.

I also report if I have not obtained all the information and explanations necessary for the purposes of my audit.

Basis of Audit Opinion

In the exercise of my function as Comptroller and Auditor General, I conducted my audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and by reference to the special considerations which attach to State bodies in relation to their management and operation. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures and regularity of the financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made in the preparation of the financial statements, and of whether the accounting policies are appropriate to the State Claims Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations that I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion, the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the State Claims Agency's affairs at 31 December 2007 and of its transactions for the year then ended.

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

John Buckley
Comptroller and Auditor General

30 June 2008

Accounting Policies

Background

Under the National Treasury Management Agency (Amendment) Act, 2000, the management of personal injury and property damage claims against the State and of the underlying risks was delegated to the NTMA. When performing these functions, the NTMA is known as the State Claims Agency (SCA).

The Act sets out two objectives for the SCA:

- To manage claims so as to ensure that the State's liability and associated legal and other expenses are contained at the lowest achievable level; and
- To provide risk advisory services to State authorities with the aim of reducing over time the frequency and severity of claims.

In February 2003, the management of clinical negligence claims and associated risks under the Clinical Indemnity Scheme was delegated to the State Claims Agency. The Scheme was established in order to rationalise medical indemnity arrangements for health boards, hospitals and other health agencies. Under the Scheme, the State assumes full responsibility for the indemnification and management of clinical negligence claims.

The significant accounting policies adopted are as follows: -

Reporting Currency

The reporting currency is the EURO, which is denoted by the symbol €.

Basis of Accounting

The financial statements are prepared on an accruals basis under the historical cost convention. The functions of the Agency relate to the management of claims on behalf of State authorities who are liable in respect of claims and from whom the Agency recovers the amounts of any awards and associated costs. The financial statements report only on the transactions of the Agency and therefore no amount is included for the value of outstanding claims.

Expenditure

Expenditure on awards and claims settlement expenses are recognised on receipt of a validated approval or the validated settlement of such claims. Lodgements to court are recognised as expenditure on behalf of State authorities at the date of lodgement.

Amounts Receivable from State Authorities

Amounts are treated as receivable from State authorities in line with the recognition of the related expenditure.

Contingent Liabilities of State Authorities

No amount is included in these accounts on the contingent value of outstanding claims of state authorities as the Agency is merely managing the claims on behalf of such authorities.

Claims Statement Account

Year ended 31 December 2007

	Notes	2007 €	2006 €
Received and receivable from State authorities in respect of claims and expenses	1	27,016,579	22,550,753
Costs recovered on behalf of State authorities		202,479	249,385
		27,219,058	22,800,138
Paid and payable in respect of Awards		17,884,150	12,395,025
Lodgements to Court and Tender Payments	2	-	168,319
Other expenses	3	9,131,584	9,987,809
Reimbursement of costs recovered to State authorities		203,324	248,985
		27,219,058	22,800,138

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2008

The notes on pages 94 to 95 form part of these financial statements.

Balance Sheet

As at 31 December 2007

	Notes	2007 €	2006 €
Assets			
Debtors	4	6,797,266	1,598,189
Cash		33,750	637,288
		6,831,016	2,235,477
Liabilities			
Borrowings from Post Office Savings Bank Fund	5	5,581,120	1,581,119
Creditors	6	1,249,896	654,358
		6,831,016	2,235,477

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2008

The notes on pages 94 to 95 form part of these financial statements.

Notes to the Financial Statements

1. Income

	2007 €	2006 €
Received from State authorities	20,225,947	20,959,997
Receivable from State authorities	6,790,632	1,590,756
	27,016,579	22,550,753

2. Lodgement to Court/Tender Payment

The Agency, as defendant, may make a payment into court (a lodgement) or an offer of payment (a tender) in an action for damages. If the plaintiff refuses to accept the amount of the lodgement or tender in settlement of the claim, the case proceeds to trial. If, at trial, the plaintiff succeeds in his claim but is not awarded more than the lodgement or tender, the defendant is entitled to his costs against the plaintiff from the date of the lodgement or tender.

3. Other Expenses

	2007 €	2006 €
State Claims Agency expenses		
- Legal fees	4,887,715	3,956,812
- Medical fees	502,128	403,148
- Engineers' fees	111,149	103,229
- Other fees	273,551	222,568
- NTMA Administration expenses recovered	2,250	400
	5,776,793	4,686,157
Plaintiff expenses		
- Legal fees	3,334,238	5,287,710
- Other expert fees	-	-
- Travel expenses	3,765	5,683
	3,338,003	5,293,393
Witness expenses	16,788	8,259
	9,131,584	9,987,809

4. Debtors

	2007 €	2006 €
Receivable from State authorities	6,790,632	1,590,756
Other	6,634	7,433
	6,797,266	1,598,189

5. Borrowings from POSB

Under Section 16 of the National Treasury Management Agency Act (Amendment) 2000, the Minister for Finance may advance moneys from the Post Office Savings Bank Fund to the Agency for payment of the amount of any costs, charges and expenses in respect of the services of professional and other expert advisers, the amount of any award or settlement to be paid to a claimant in respect of a delegated claim, and the amount of interest (if any) payable thereon.

6. Creditors

	2007 €	2006 €
Payable in respect of awards	799,501	358,812
Payable in respect of expenses	225,891	117,484
Professional Services Withholding Tax due to Revenue Commissioners	188,142	80,063
Amount due to NTMA	-	1,164
Amounts due to State authorities	35,858	86,275
Other	504	10,560
	1,249,896	654,358

7. Administration Expenses

The State Claims Agency may recover administration expenses it has incurred from unsuccessful claimants. When such expenses are recovered, they are transferred to the National Treasury Management Agency Administration account

Financial Statemets of the Dormant Accounts Fund

For the year ended 31 December 2007

Statement of Agency's Responsibilities

The Agency is required by the Dormant Accounts Act 2001 as amended by the Dormant Accounts (Amendment) Act 2005 and the Unclaimed Life Assurance Policies Act 2003 to prepare financial statements in respect of its operations for each financial year.

In preparing those statements, the Agency is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate;
- disclose and explain any material departure from applicable accounting standards.

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

The Agency is also responsible for safeguarding assets under its control and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2008

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

I have audited the financial statements of the Dormant Accounts Fund for the year ended 31 December 2007 under the Dormant Accounts Act, 2001.

The financial statements, which have been prepared under the accounting policies set out therein, comprise the Accounting Policies, the Investment and Disbursement Account, the Reserve Account, the Balance Sheet and the related notes.

Respective Responsibilities of the National Treasury Management Agency and the Comptroller and Auditor General

The Agency is responsible for preparing the financial statements in accordance with the Dormant Accounts Act, 2001, and for ensuring the regularity of transactions. The Agency prepares the financial statements in accordance with Generally Accepted Accounting Practice in Ireland. The accounting responsibilities of the Agency are set out in the Statement of Agency's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report my opinion as to whether the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland. I also report whether in my opinion proper books of account have been kept. In addition, I state whether the financial statements are in agreement with the books of account.

I report any material instance where moneys have not been applied for the purposes intended or where the transactions do not conform to the authorities governing them.

I also report if I have not obtained all the information and explanations necessary for the purposes of my audit.

Basis of Audit Opinion

In the exercise of my function as Comptroller and Auditor General, I conducted my audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and by reference to the special considerations which attach to State bodies in relation to their management and operation. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures and regularity of the financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Fund's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations that I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion, the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the Dormant Accounts Fund's affairs at 31 December 2007 and of its transactions for the year then ended.

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

John Buckley
Comptroller and Auditor General

30 June 2008

Accounting Policies

Background

The Dormant Accounts Act 2001 as amended by the Dormant Accounts (Amendment) Act 2005, provides for a scheme to transfer dormant funds in banks, building societies and An Post to the care of the State, while guaranteeing a right of reclaim to those funds. It further provides for the introduction of a scheme for the disbursement, for charitable purposes, or purposes of societal and community benefit, of funds which are not likely to be reclaimed.

The Unclaimed Life Assurance Policies Act 2003 provided for the transfer of unclaimed life assurance polices to the State, and amended the Dormant Accounts Act 2001 where necessary to extend the legislation to life assurance policies.

The Dormant Accounts Fund consists of a Reserve Account from which reclaims and various expenses are paid and an Investment and Disbursements Account from which investments and disbursements are made.

The National Treasury Management Agency ("the Agency") is responsible, under sections 17 and 18 of the 2001 Act, for establishing, managing and controlling the Dormant Accounts Fund and has all powers (including the power to charge fees, payable from the Fund, in relation to the management and control of the Fund) that are necessary to the performance of its functions. These functions include:

- the making of disbursements in accordance with the directions of the Dormant Accounts Board or Minister for Finance
- the maintenance of the Reserve Account
- the defraying of the fees, costs and expenses incurred by the Agency and the Dormant Accounts Board
- the defraying of the remuneration, fees and expenses of the authorised inspectors
- the repayment of moneys transferred to the Fund
- the preparation of the annual investment plan, having regard to the disbursement plan and any direction from the Minister for Community, Rural and Gaeltacht Affairs
- the investment of any moneys standing to the credit of the Fund that are not, for the time being, required for the purpose of meeting the liabilities of the Fund
- the keeping of proper accounts of all moneys received and expended by the Agency
- the submitting of annual accounts to the Comptroller and Auditor General and the presentation of a copy of accounts so audited to the Minister for Finance and the Minister for Community, Rural and Gaeltacht Affairs.

As provided for in the Dormant Accounts (Amendment) Act 2005, the Minister for Community, Rural and Gaeltacht Affairs established the Dormant Accounts Board on 4 January 2006. It replaces the Dormant Accounts Fund Disbursements Board which was dissolved on the same date. While the Dormant Accounts Board has a mainly monitoring and advisory role, it is also empowered to direct the Agency to make disbursements from the Dormant Accounts Fund resulting from grant applications approved by the former Dormant Accounts Fund Disbursements Board before its dissolution (section 11(3) of the Dormant Accounts (Amendment) Act 2005 refers).

The significant accounting policies adopted are as follows: -

Reporting Currency

The reporting currency is the EURO, which is denoted by the symbol €.

Reporting Period

The reporting period is the year ended 31 December 2007.

Basis of Accounting

The financial statements are prepared on an accruals basis under the historical cost convention.

Investment and Disbursements Account

Year ended 31 December 2007

	Notes	2007 €	2006 €
Interest on investments		7,603,997	5,723,671
Moneys transferred to the Fund in respect of dormant accounts and unclaimed assurance policies	1	66,293,795	80,149,281
Amount transferred to Reserve Account	2	(39,247,795)	(54,612,640)
Disbursements	3	(45,511,412)	(33,250,000)
		(10,861,415)	(1,989,688)
Balance at start of period		172,077,425	174,067,113
Balance at end of period		161,216,010	172,077,425

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2008

The notes on pages 104 to 107 form part of these financial statements.

Reserve Account

Year ended 31 December 2007

	Notes	2007 €	2006 €
Transfer from Investment and Disbursements Account	2	39,247,795	54,612,640
Interest on investments		1,539,709	959,586
Repayment of moneys transferred to the Fund	1	(34,082,867)	(44,736,631)
Interest on repayment of moneys transferred to the Fund	1	(356,103)	(307,351)
Other expenses	4	(1,881,135)	(1,603,729)
Movement for the year		4,467,399	8,924,515
Balance at start of period		39,266,919	30,342,404
Balance as at end of period		43,734,318	39,266,919

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2008

The notes on pages 104 to 107 form part of these financial statements.

Balance Sheet

31 December 2007

	Notes	2007 €	2006 €
Assets			
Financial Assets			
- Investments at cost	9	-	169,500,000
Current Assets			
- Cash	5	203,024,110	41,141,789
- Debtors		2,262,287	845,398
Liabilities			
- Creditors		(336,069)	(142,843)
Net Assets	6	204,950,328	211,344,344
Represented by:			
Investment and Disbursements Accounts		161,216,010	172,077,425
Reserve Account		43,734,318	39,266,919
		204,950,328	211,344,344

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2008

The notes on pages 104 to 107 form part of these financial statements.

Notes to the Financial Statements

1. Amounts transferred and reclaimed in respect of dormant accounts and unclaimed assurance policies

Banks – Dormant Accounts

Institution	Opening Balance 1/1/07 €	Transferred €	Reclaimed €	Closing Balance 31/12/07 €	Interest Paid €
ABN AMRO	356	-	-	356	-
ACC Bank plc	4,058,739	449,763	327,646	4,180,856	-
Allied Irish Bank plc	38,492,246	3,184,737	633,730	41,043,253	1,448
AIB Finance Limited	1,286,122	904,574	124,930	2,065,766	1,165
Anglo Irish Bank Corporation plc	314,316	71,450	16,314	369,452	-
Barclays Bank plc	321,453	-	-	321,453	-
BNP Paribas	67,487	-	-	67,487	-
Bank of America	154,778	-	-	154,778	-
Bank of Ireland	36,141,185	3,762,711	617,792	39,286,104	665
Bank of Ireland Treasury & International Banking	2,088,105	179,292	17,369	2,250,028	55
Bank of Scotland (Ireland)	491,458	24,314	2,506	513,266	72
Citibank	-	28,700	-	28,700	
EBS Building Society	8,108,946	870,755	731,738	8,247,963	14,754
First Active	4,785,572	972,726	82,000	5,676,298	200
ICS Building Society	1,358,790	561,522	386,136	1,534,176	4,288
InvestecBank (UK) Limited (Irish Branch)	366,056	4,243	8,018	362,281	216
Irish Nationwide Building Society	2,845,287	514,673	10,000	3,349,960	77
JP Morgan Ireland plc	48,897	-	-	48,897	-
National Irish Bank Limited	3,422,136	-	8,906	3,413,230	26
An Post – National Instalment Schemes	1,095,332	133,145	181,014	1,047,463	64,320
An Post-National Instalment Schemes (Capitalised interest)	4,370,165	319,548	701,029	3,988,684	-
Permanent TSB	20,606,518	1,393,132	1,421,650	20,578,000	23,844
An Post - Post Office Savings Bank	27,083,155	1,474,868	516,449	28,041,574	2,145
An Post - Savings Bonds (Capitalised interest)	2,952,643	523,709	367,259	3,109,093	-
An Post - Savings Bonds	1,649,642	475,591	246,478	1,878,755	-
An Post - Savings Certs (Capitalised interest)	46,392,799	29,203,145	19,129,505	56,466,439	-
An Post - Savings Certs	10,214,040	9,136,880	5,681,530	13,669,390	240,634
Scotiabank (Ireland) Limited	1,003,127	-	-	1,003,127	-
Ulster Bank Ireland Limited	7,751,534	958,033	177,644	8,531,923	2,194
WestLB Ireland plc	80,046	42,073	-	122,119	-
TOTAL	**227,550,930**	**55,189,584**	**31,389,643**	**251,350,871**	**356,103**

1. Amounts transferred and reclaimed in respect of dormant accounts and unclaimed assurance policies (Continued)

Assurance Companies – Unclaimed Assurance Policies

Institution	Opening Balance 1/1/07	Transferred	Reclaimed	Closing Balance 31/12/07	Interest Paid
	€	€	€	€	€
Specified Term					
Alba Life	35,113	32,592	-	67,705	-
Ark Life	6,349	-	-	6,349	-
Caledonian Life	88,961	-	-	88,961	-
Canada Life Assurance	142,220	75,257	-	217,477	-
Canada Life Ireland	191,196	78,663	-	269,859	
Eagle Star	61,011	70,944	11,284	120,671	-
Friends First	608,283	351,189	1,492	957,980	-
Hibernian Life	715,626	307,160	69,152	953,634	-
Irish Life	1,817,822	508,826	48,412	2,278,236	-
New Ireland	243,376	60,781	18,650	285,507	-
Royal Liver	2,652,785	436,552	10,382	3,078,955	-
Royal & SunAlliance	608,565	-	-	608,565	-
St. James Place	10,649	-	-	10,649	-
Scottish Legal Life	222,971	36,988	15,970	243,989	-
Standard Life	388,345	-	-	388,345	-
Sun Life Financial of Canada	73,909	-	-	73,909	-
No Specified Term					
Alba Life	15,033	-	-	15,033	-
Caledonian Life	18,850	12,263	-	31,113	-
Canada Life Assurance	83,765	-	-	83,765	-
Canada Life Ireland	2,042,545	664,614	80,568	2,626,591	
Eagle Star	439,576	244,654	68,116	616,114	-
Friends First	1,138,454	78,492	176,986	1,039,960	-
Hibernian	1,262,753	414,796	145,614	1,531,935	-
Irish Life	4,543,410	677,040	582,195	4,638,255	-
New Ireland	8,274,941	1,232,214	835,356	8,671,799	-
Royal & SunAlliance	3,358	89,996	-	93,354	-
Royal Liver	6,109,774	605,641	126,484	6,588,931	-
Scottish Legal Life	149,969	1,521	140	151,350	-
Scottish Provident Ireland	212,287	68,336	35	280,588	-
Standard Life	701,813	655,692	502,388	855,117	-
Sun Life Financial of Canada	47,473	-	-	47,473	-
TOTAL	**32,911,182**	**6,704,211**	**2,693,224**	**36,922,169**	**-**
The Escheated Estate Fund	-	4,400,000	-	4,400,000	-
GRAND TOTAL	**260,462,112**	**66,293,795**	**34,082,867**	**292,673,040**	**356,103**

The amounts transferred to the Fund included accounts denominated in currencies other than Euro. The effect of revaluing these accounts at the year end exchange rates would be to reduce the total amount transferred to the Fund and not yet reclaimed by €335,805 from €292,673,040 to €292,337,235.

Notes to the Financial Statements (continued)

2. Transfers to the Reserve Account

Under Section 17 (4) of the Dormant Accounts Act 2001, the National Treasury Management Agency pays into the Reserve Account, from time to time, an amount determined by the Agency, with the approval of the Minister for Community, Rural and Gaeltacht Affairs given with the consent of the Minister for Finance, for the purposes of making repayments from the Fund and of defraying various fees and expenses of the Agency, the Board and the authorised inspectors. Accordingly, a transfer is made at the beginning of each quarter by the Agency to maintain the balance in the Reserve Account at a currently approved 15% of the total dormant funds received by the Dormant Accounts Fund and not yet reclaimed. The balance in the Reserve account may drop below 15% in the intervening period between the quarterly rebalancing dates.

3. Disbursements

The following disbursements were made from the Fund during the period.

	2007 €	2006 €
On direction of the Dormant Accounts Board (s. 41 Dormant Accounts Act 2001)		
Pobal (formerly ADM, service provider and agent of the Dormant Accounts Board)	11,755,948	17,000,000
On direction of the Minister for Finance		
Department of Community, Rural & Gaeltacht Affairs (for the Rural Social Scheme)	16,000,000	16,000,000
Department of Community, Rural & Gaeltacht Affairs	5,446,907	250,000
Department of Education and Science	3,155,143	-
Health Service Executive	3,659,859	-
Department of Arts, Sport and Tourism	1,823,473	-
Office for Minister for Children	2,338,500	-
Department of Communications, Energy and Natural Resources	900,778	-
Department of Justice Equality & Law Reform	251,924	-
Irish Prison Service	178,880	-
	45,511,412	33,250,000

4. Other Expenses

	2007 €	2006 €
Expenses of the Dormant Accounts Board		
- Board Fees	72,083	75,110
- Board Expenses	4,511	4,836
- Fees of service provider (Pobal)	1,610,461	1,270,843
- Consultancy and Advisory fees	110,537	23,958
- Advertising	49,534	18,633
- Other Expenses	34,009	35,349
Inspectors' Fee	-	175,000
	1,881,135	1,603,729

5. Cash

This figure represents the cash balance held at the Central Bank of Ireland.

6. Contingent Exchequer Liability

The net assets figure differs from the total dormant funds received by the Dormant Accounts Fund and not yet reclaimed. The difference is explained as follows:

	€	€
Net Assets		204,950,328
Total dormant funds received by the Fund and not yet reclaimed (see note 1)		(292,673,040)
Contingent Exchequer liability at 31/12/2007		(87,722,712)
Represented by:		
Interest on investments	9,143,706	
Interest on repayments of moneys transferred to the Fund (see note 1)	(356,103)	
Disbursements (see note 3)	(45,511,412)	
Other expenses (see note 4)	(1,881,135)	
Surplus/(Deficit) for the year		(38,604,944)
Contingent Exchequer liability at 1/1/2007		(49,117,768)
Contingent Exchequer liability at 31/12/2007		(87,722,712)

This figure represents the potential residual liability to be met by the Exchequer, in the event that all monies in dormant accounts were to be reclaimed.

Under section 17(7) of the Dormant Accounts Act 2001, whenever the moneys in the Investment and Disbursement Account are insufficient to meet the deficiency in the Reserve Account, a payment can be made out of the Central Fund into the Reserve Account of an amount not exceeding the deficiency. The moneys are repaid to the Central Fund, as soon as practicable, from surplus moneys remaining in the Fund after providing for any liabilities or contingent liabilities of the Fund.

7. Expenses of the National Treasury Management Agency

Under section 45 (1)(c) of the Dormant Accounts Act 2001, the Agency is required to report to the Disbursements Board certain specified information including a separate account of the administration fees and expenses incurred by the Agency in the operation of the Fund. These are detailed below:

	2007	2006
	€	€
General Administration	150,000	150,000
Total	150,000	150,000

This is an estimate, included in the Notes to the accounts only, as the NTMA has decided not to charge this amount to the Disbursements Board.

8. Investment Return

Under section 45 (1)(b) of the Dormant Accounts Act 2001, the Agency is required to report to the Disbursements Board the investment return achieved by the Fund. The annualised return on the Fund for the period covered by the investment plan was 3.93% (2006: 2.88%).

9. Investment Assets

The Investment Assets are commercial deposits with financial institutions.

Notes

The paintings reproduced in this report are the work of Michael Flaherty, an Irish artist.

Front Cover: *The Ghosts Ran out of Stories*
Inside front and back cover: *Unable to Begin, Unable to End*
Opposite Contents page: *The Astronaut must always Walk*
Page 8: *A Dream Hungry for a Home*
Page 20: *The Plight of Angels*
Page 23: *The Glow of Dim Memory*
Page 29: *Giving Shadows a Wide Berth*
Back cover: *Pointing to the Ocean Floor*

DESIGN LOMAN CUSACK DESIGN

National Treasury Management Agency
Treasury Building
Grand Canal Street
Dublin 2
Ireland

Tel +353 1 664 0800
Fax +353 1 664 0890

www.ntma.ie