National Treasury Management Agency

Results and Business Review 2009

Thursday 7 January 2010: The National Treasury Management Agency (NTMA) today reported results for 2009 and provided a review of activities across the range of its business functions: management of the National Debt, the National Pensions Reserve Fund, the National Asset Management Agency, the National Development Finance Agency and the State Claims Agency.

Speaking today, NTMA Chief Executive John Corrigan said "the challenges which Ireland faced in the international bond markets coming into 2009 were exceptional in terms of the level of our funding requirement, investor sentiment, competition for available funds and market volatility. However, the strong liquidity position that we built up in 2008 enabled us to time our entry into the markets carefully and to take advantage of more positive investor sentiment towards Ireland as the year progressed."

Funding and Debt Management[1]

The NTMA raised €35.4 billion in long-term funding in 2009. This money was used to fund the Exchequer deficit of €24.6 billion and to refinance a maturing €5 billion bond, leaving a carryover of more than €5 billion in long-term funding available to finance the deficit in 2010. The NTMA plans to raise up to €20 billion in the bond markets in 2010. This requirement is significantly less than in 2009 because of a smaller projected Exchequer deficit of €18.7 billion and a lower refinancing requirement of €1.2 billion.

The yield premium, or spread, over Germany which Ireland pays on its bonds narrowed to 1.45 per cent at year-end compared to nearly 3 per cent in March (the spread is currently around 1.5 per cent). As the year progressed, international investors showed greater appetite for Irish debt

[1] Funding and Debt Management information is based on bond prices quoted on the Irish Stock Exchange on 31 December 2009 and, in the case of foreign exchange, on rates notified by the Central Bank as of close of business on 31 December 2009. All figures are preliminary and are subject to revision. Debt ratios are based on Department of Finance estimates for GGB and GDP per Budget 2010.

allowing the NTMA to sell larger amounts of bonds with longer maturities to a greater number of international investors.

The uptake by international investors of the February 2009 issue (a three-year maturity) was 45 per cent while the international uptake of the October issue (a fifteen-year maturity) was 91 per cent. Stable long-term investors such as insurance companies, pension funds and other investment funds accounted for 21 per cent of investors in February. By October that figure had risen to almost 60 per cent.

Total debt service costs in 2009 of €3.2 billion were €686 million below budget. Approximately half of this difference is explained by the interest rates achieved by the NTMA on 2009 borrowing which were lower than those prevailing at the time the April Supplementary Budget was agreed. The balance arises as a result of timing issues related to the cash accounting treatment of the payment of coupons on debt issued in 2009.

As a result of the NTMA's policy of locking in long-term borrowing at historically low levels of interest, some 95 per cent of the National Debt now carries fixed rates of interest, protecting the Exchequer against the effects of rising interest rates.

At 31 December 2009, Ireland's National Debt stood at €75.2 billion.

The General Government Debt/GDP ratio was 64.5 per cent at end 2009, up from 44.1 per cent at end 2008[2]. This is well below the euro area average of 78.2 per cent. General Government Debt is a "gross" measure and does not allow for the offsetting of Exchequer cash balances or the assets of National Pensions Reserve Fund against the gross position. On a net basis, Ireland's debt/GDP ratio was 38 per cent at end 2009.

[2] In accordance with the preliminary decision of Eurostat that the operations of the National Asset Management Agency should be classified outside the general government sector, these estimates do not include any adjustment in respect of debt issued in connection with NAMA.

National Pensions Reserve Fund [3]

The National Pensions Reserve Fund Discretionary Investment Portfolio (the Fund excluding the preference shares in Bank of Ireland and Allied Irish Banks held on the direction of the Minister for Finance) earned a return of 20.9 per cent in 2009. Since the Fund's inception in 2001, the Investment Portfolio has delivered an annualised return of 2.6 per cent per annum. Including the bank preference shares and related warrants, which are held at cost and zero respectively, the Fund recorded a return of 11.6 per cent in 2009. At 31 December 2009 the total Fund's value stood at €22.3 billion.

Commenting on the performance of the Investment Portfolio, Mr Corrigan said the Fund's equity investments were the primary contributor to its strong return in 2009. Equities, having fallen in March 2009 to their lowest levels since the onset of the financial crisis, have since sustained a strong rally through the year-end as increasing evidence of economic stabilisation emerged and corporate profits exceeded analysts' lowered expectations. The strength of this rebound, however, has left markets vulnerable to earnings disappointments and weakness in economic indicators.

During 2009 the Minister for Finance directed the Fund to invest €7 billion in preference shares issued by Bank of Ireland and Allied Irish Banks for the purposes of recapitalising these institutions. The terms of the deal, which was negotiated by the NTMA, include a non-cumulative fixed dividend of 8 per cent on the preference shares and warrants which give an option to purchase up to 25 per cent of the enlarged ordinary share capital of each bank following exercise of the warrants. The dividends payable on the preference shares are not recognised or accrued by the Fund until declaration by the bank concerned. These investments were funded by €4 billion from the Fund's own resources and by €3 billion from a frontloading of the Exchequer contributions to the Fund for 2009 and 2010.

The Fund avoided selling equities at market lows in March to fund the purchase of the preference shares and, instead, met the €4 billion required from the Fund's resources mainly

[3] Information in respect of the National Pensions Reserve Fund is, in the case of direct quoted investments, based on valuations as of close of business on 31 December 2009 and, in the case of indirect investment vehicles, based on the most recently available valuations. The figures include €880 million in assets transferred from 10 university and non-commercial State body pension funds on 31 December 2009 under the Financial Measures (Miscellaneous Provisions) Act 2009, which provides for the meeting of future pension liabilities on a pay-as-you-go basis by the relevant bodies. Figures in respect of these assets are based on the most recently available valuations. All figures are preliminary and are subject to revision.

from its cash reserves and sale of its government bond portfolio. As a result, the Investment Portfolio had an elevated level of quoted equity investment of 80 per cent following completion of the recapitalisation in May compared with 57 per cent before the preference share investments were made. The Fund took advantage of the strong equity market rally to reduce its absolute risk and exposure to the equity markets through phased equity sales of €2.7 billion through the remainder of the year. The Investment Portfolio's exposure to the quoted equity markets had been reduced to 63 per cent by year end.

National Asset Management Agency

In the Supplementary Budget last April, the Minister for Finance announced the establishment of a National Asset Management Agency (NAMA), under the aegis of the NTMA, which will acquire certain loan assets (land and development and associated loans) from the banks so that their balance sheets are strengthened. The National Asset Management Agency Act was enacted in November. The NAMA Board was appointed on 22 December and held its first meeting on 23 December.

NAMA will acquire loans with a nominal value of approximately €80 billion on a phased basis beginning with the largest systemic exposures in the first tranche, which is expected to be transferred in February 2010, and continuing until the estimated completion of the transfer process during the third quarter of the year.

NAMA has been involved in detailed discussions with relevant banks and in making preparations for the transfer of loans. Operational systems and services have been put in place and key staff are currently being recruited. NAMA's staff will operate in conjunction with a number of specialist service providers for whose services tendering has largely been completed.

National Development Finance Agency

The National Development Finance Agency (NDFA) has full responsibility for the procurement and delivery of Public Private Partnership (PPP) projects in sectors other than transport and the local authorities. It is also responsible for the provision of advice on the financing of public investment projects with a capital value of more than €30 million.

The NDFA is currently active in the procurement of PPP projects with a total estimated value of some €3 billion. These projects include the building of 18 schools providing 11,840 pupil places. The first four of these schools, providing for 2,700 pupils, are under construction and are due to be completed by September 2010. Other projects include third level facilities involving 16 buildings across nine campus locations, facilities for the delivery of radiation oncology services as part of the National Cancer Care Strategy, redevelopment of the National Concert Hall and redevelopment of a number of court buildings.

The NDFA is also providing financial and risk advice to more than 20 projects with a total estimated capital value exceeding €10 billion.

State Claims Agency (SCA)

Acting as the SCA, the NTMA manages personal injury, property damage and clinical negligence claims brought against certain State authorities, including Government Ministers and health enterprises. It also has a risk management role, advising and assisting State authorities in minimising their claim exposures.

There has been a substantial decline in employer and public liability claim volumes associated with incidents that have occurred since the SCA was established. Since 2002 the number of employer liability claims has fallen by 71 per cent and the number of public liability claims has fallen by 19 per cent. The total number of active employer and public liability claims has fallen by 35 per cent in 2009 compared with 2008. The number of active clinical claims managed by the SCA remains broadly unchanged compared with 2008.

During 2009 the SCA paid out a total of €64 million against all classes of claims. This compares with a total of €53 million in 2008.

The SCA's remit will be substantially expanded in 2010 to include, inter alia, claims in respect of personal injury suffered by members of the Defence Forces and An Garda Síochána while in the service of the State outside of the State, and Health Service Executive employer, public and motor liability claims.

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Appendix I: Bond Issues in 2009

(i) Syndicated deals

Date	Bond	Total Raised (€m)	Equivalent Yield
08 Jan 09	4% Treasury Bond 2014	6,000	4.07%
23 Feb 09	3.9% Treasury Bond 2012	4,000	4.01%
23 Jun 09	5.9% Treasury Bond 2019	6,000	5.93%
06 Oct 09	5.4% Treasury Bond 2025	7,000	5.47%
		23,000	

(ii) Auctions

Date	Bond	Total Raised (€m)	Equivalent Yield
24 Mar 09	4% Treasury Bond 2011	390	3.46%
	4.5% Treasury Bond 2020	910	5.81%
21 Apr 09	4% Treasury Bond 2014	300	4.20%
	4.5% Treasury Bond 2018	758	5.08%
19 May 09	4% Treasury Bond 2014	310	3.90%
	4.4% Treasury Bond 2019	700	5.19%
16 Jun 09	3.9% Treasury Bond 2012	650	3.06%
	4.6% Treasury Bond 2016	650	4.76%
21 Jul 09	3.9% Treasury Bond 2012	390	2.58%
	4% Treasury Bond 2014	910	3.79%
18 Aug 09	4% Treasury Bond 2014	500	3.39%
	4.5% Treasury Bond 2018	748	4.55%
15 Sep 09	4% Treasury Bond 2014	374	3.31%
	4.5% Treasury Bond 2020	887	4.91%
20 Oct 09	3.9% Treasury Bond 2012	505	2.18%
	4.6% Treasury Bond 2016	780	3.87%
17 Nov 09	4% Treasury Bond 2014	200	3.07%
	5.9% Treasury Bond 2019	802	4.74%
		10,764	