NATIONAL TREASURY MANAGEMENT AGENCY

IRELAND

REPORT & ACCOUNTS

FOR THE YEAR ENDED

31 DECEMBER 1995

28 June, 1996.

Mr. Ruairi Quinn, 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, 1995.

Yours sincerely,

Michael J. Somers
Chief Executive

LEGAL FRAMEWORK

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

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

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

NATIONAL TREASURY MANAGEMENT AGENCY

CHIEF EXECUTIVE

Michael J. Somers

DIRECTORS

John C. Corrigan	Irish Pound Debt
Anne Counihan	Legal & Corporate Affairs
Jim Farrell	Operations
Adrian J. Kearns	Foreign Currency Debt
Paul Sullivan	Strategy & Risk Management

ADVISORY COMMITTEE

Joe Moran (Chairman)	Chief Executive, Electricity Supply Board
Gerold W. Brandt	Member of the Managing Board, Bayerische Landesbank, Munich
Paul Carty	Managing Partner, Deloitte & Touche
John F. Daly	Chairman, ICL Computers (Ireland) Limited
Lewis L. Glucksman	Vice Chairman, Smith Barney Inc., USA
Patrick H. Mullarkey	Secretary, Department of Finance
Donald C. Roth	Director, AIG Asian Infrastructure Management Limited, USA

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SUMMARY OF ACTIVITY

1995 was the fifth year of the Agency's operations; it is an appropriate time to reflect on the background to its formation and the expectations of Government at that time.

While the Agency's business is borrowing money for the Exchequer and managing the National Debt, the core skill that must be brought to bear on this activity is the management of risk. All borrowings, regardless of currency or duration, carry risk; choices have to be made based on limited information and only hindsight will tell whether other decisions might have led to better results. Risk exists in many guises in the Agency's activities; in addition to ensuring that the multitude of operational risks are being rigorously managed, the trade off between liquidity, interest and exchange rate risk on the one hand, and cost on the other, is where the Agency is seen to add value.

With the passage of time the memory of original expectations of what the Agency might achieve may have dimmed. The Minister for Finance, in his speech to the Dáil when legislation to establish the Agency was being debated in 1990, stated that:

> "I have already said that our interest payments come to over £2 billion annually. Even 1% shaved off that figure would yield £20 million per year. If savings of that magnitude and upwards are feasible, and it has been demonstrated that they are, then we must commit the necessary resources and the management structures to ensure that these savings are delivered".

To date the Agency has each year saved multiples of that original IR£20 million. The interest cost of the National Debt was lower in 1995 than when the Minister spoke in 1990. While that cost was equal to 8.6 per cent of GNP in 1990, it had fallen to 5.7% of GNP by 1995.

There has been increasing interest from abroad in the Agency's activities and because of this and having regard to the wide international circulation of this Report, the 1990 speech of the Minister for Finance, which set out the rationale for establishing the Agency, is reproduced on page 39.

PERFORMANCE OF THE AGENCY

During 1995 the Agency funded an Exchequer Borrowing Requirement (EBR) of IR£627 million and refinanced domestic and foreign medium and long term borrowings amounting in aggregate to IR£2,528 million. The total cash throughput, including the refinancing of short term debt, amounted to approximately IR£103 billion.

The key features of the Agency's results were as follows:

- Exchequer Debt Service Costs at IR£199 million below the 1995 Budget estimate;
- Interest Costs, excluding a IR£129 million interest reserve for National Savings, at their lowest level since 1989;
- Net Repayment of IR£672 million (equivalent) of foreign currency debt;
- Net Present Value savings of IR£103 million against a benchmark portfolio.

The National Debt / GNP ratio fell from 93.5% at end 1994 to 89.4% at end 1995; the General Government Debt/GDP ratio also fell from 87.8% at end 1994 to 81.5% at end 1995.

The interest cost of the National Debt in 1995, after taking account of changes in balances and excluding the National Savings reserve, was IR£1,963 million.

Figures for 1995 and earlier years were:

	IR£ million
1995	1,963*
1994	2,029*
1993	2,076
1992	2,106
1991	2,132
1990	2,109

* after deduction of National Savings interest reserve charge of IR£129 million (1994 : IR£60 million) which was created for the first time in 1994 having regard to the amount of accrued interest on the National Savings Schemes.

These reduced interest costs have been achieved notwithstanding the increase in the National Debt over this period.

DEBT SERVICE

Actual expenditure on debt service in 1995 was IR£2,341 million. As well as interest payments and the National Savings interest reserve charge, this figure included IR£224 million in sinking fund provisions. This is essentially a "circular" movement of cash; a capital amount is charged as a debt service cost on the current budget and is then taken back in the budgetary arithmetic as a capital receipt and used to reduce the EBR.

In the Government's 1995 Budget, the Agency was given the cash target of reducing debt service costs by IR£100 million. The actual outturn outperformed the target by IR£199 million. Of this amount, IR£119 million was carried forward in balances which are available for reducing debt service costs in 1996, IR£75 million above the Budget estimate was paid into the National Savings interest reserve (bringing the total reserve to IR£189 million) and IR£5 million went towards reducing the 1995 EBR.

The principal reasons for this budgetary outperformance were active management of interest and exchange rate risk as well as falling interest rates in both domestic and foreign bond markets. The decline in domestic interest rates reflected both global trends and the improvements to the liquidity and structure of the Irish bond market made by the Agency. Other factors contributing to this result were the early repayment and more efficient refinancing of older more expensive foreign and domestic debt and lower than expected encashment of National Savings products.

BENCHMARK

In addition to the Budget debt service target, the net present value performance of the Agency is measured independently. This measurement is carried out against a Benchmark portfolio (the Benchmark) taking account of the net present value of all future liabilities undertaken by the Agency and their associated risks; in effect it calculates the impact of the Agency’s actions not only in the year under review but also their projected impact over the full life of the debt.

During the year under review, the Agency achieved savings of IR£103 million relative to the Benchmark. These savings were achieved in both the domestic and foreign portfolios. In the domestic portfolio, the Agency funded extensively in Exchequer Notes rather than in bonds in the early part of the year. As interest rates fell over the course of the year this Exchequer Note funding was replaced by funding in the bond market, thereby giving net present value savings. In the foreign portfolio, the savings arose from a combination of attractive funding levels and active management of the currency and interest rate exposure of the portfolio.

A significant development during 1995 was the decision to review the arrangements in place for the provision of performance and risk measurement services which, since the establishment of the Agency, J.P. Morgan had been contracted to provide. The decision to review these arrangements reflected the substantial developments that have taken place in recent years in the areas of risk and performance measurement. These developments are, in large part, the result of the increased focus on market risk by the international banking and financial communities, reflecting a broadly based recognition of the need for timely and reliable reporting and management of market risk and the prudential management of capital.

Against this background, during the latter part of 1995 the Agency invited a number of financial institutions to submit proposals for the provision of such services. Following a formal tender process, including a series of presentations to the Agency's Advisory Committee, Union Bank of Switzerland (UBS), the AAA rated international bank, was appointed for 1996.

OPERATING COSTS

The operating costs of the Agency in 1995 totalled IR£5.9 million. Of this, IR£1.7 million was paid to the Exchequer in the form of PAYE, Social Welfare contributions and VAT, leaving a net cost of IR£4.2 million. This is equivalent to less than one and a half basis points (hundredths of one percent) of the National Debt.

FINANCIAL OPERATIONS

The Agency raises funds for:

- Funding the Exchequer Borrowing Requirement (EBR); and
- Refinancing Maturing and Prepayable Debt.

The principal activities under these headings were as follows:

FUNDING

The Agency raised net new funds of IR£1,308 million comprising:

- National Savings Schemes IR£440 million
- Irish Pound Bonds and Notes IR£868 million

These funds together with a reduction in Central Bank and other balances of IR£134 million were applied towards:

- Funding the Exchequer Borrowing Requirement of IR£627 million;
- Repaying IR£672 million in foreign currency borrowing;
- Repaying IR£143 million to TSB Bank.

MATURING AND PREPAYABLE MEDIUM AND LONG TERM DEBT

The Agency repaid and refinanced:

- IR£1,366 million in maturing foreign currency debt;
- IR£1,062 million in maturing Irish Pound Bonds;
- IR£100 million in prepayable foreign currency debt.

SHORT TERM DEBT

Short term borrowings and repayments totalled:

- IR£32 billion which was mainly used for cash management purposes.

CASH FLOWS

Gross cash flows through the Agency, including all short term debt management activities, increased by almost 16% on 1994 levels and totalled IR£102.9 billion, consisting of gross borrowings of IR£29.5 billion, gross payments of IR£29.0 billion, flows on foreign exchange and derivative transactions of IR£42.0 billion and interest and associated payments of IR£2.4 billion. These cash flows were in Irish Pounds and in a wide range of foreign currencies.

OTHER ACTIVITIES

SECURITISATION OF LOCAL AUTHORITY MORTGAGE LOANS

The Agency successfully completed its first securitisation transaction in 1995 following a Government decision to raise funds in this manner for the purpose of meeting part of the cost of social welfare equality payments. The financing took the form of an IR£140 million securitisation of mortgage payments due from householders to local authorities. The transaction, being the first of its kind in the public sector, was complex and involved securitising mortgage payments due to sixteen local authorities. Special legislation was required and this was provided for in the Securitisation (Proceeds of Certain Mortgages) Act, 1995. The funding of the transaction was accomplished through the issuance of ten year bonds by a special purpose company, Ulysses Securitisation p.l.c., which was formed by the Agency. The bonds are quoted on the Irish and London Stock Exchanges. The yield on the bonds (7.7%) was 23 basis points over the equivalent Irish Government bond. This keen price reflected the strong credit structure of the financing, which resulted in a AAA rating being obtained from Moody's and Standard and Poor’s.

CONSULTANCY

Since its establishment in 1990, the Agency has attracted considerable interest from a variety of countries around the world. These countries have been anxious to learn about the Agency’s background and operations in debt issuance and management, a recognition that over the past five years, a considerable amount of expertise has been built up within the Agency.

With the encouragement and support of the Minister for Finance, the Agency has been successful in translating this interest into consultancy assignments for other sovereign borrowers. To date three such assignments have been undertaken and another has recently been secured. Work on this latter assignment is in progress.

Benefits to the Agency from this activity will come in the form of enhanced staff development as well as additional revenues.

ADVISORY COMMITTEE

The Agency's Advisory Committee met on four occasions in 1995. There were no changes in the composition of the Committee during the year.

STAFF

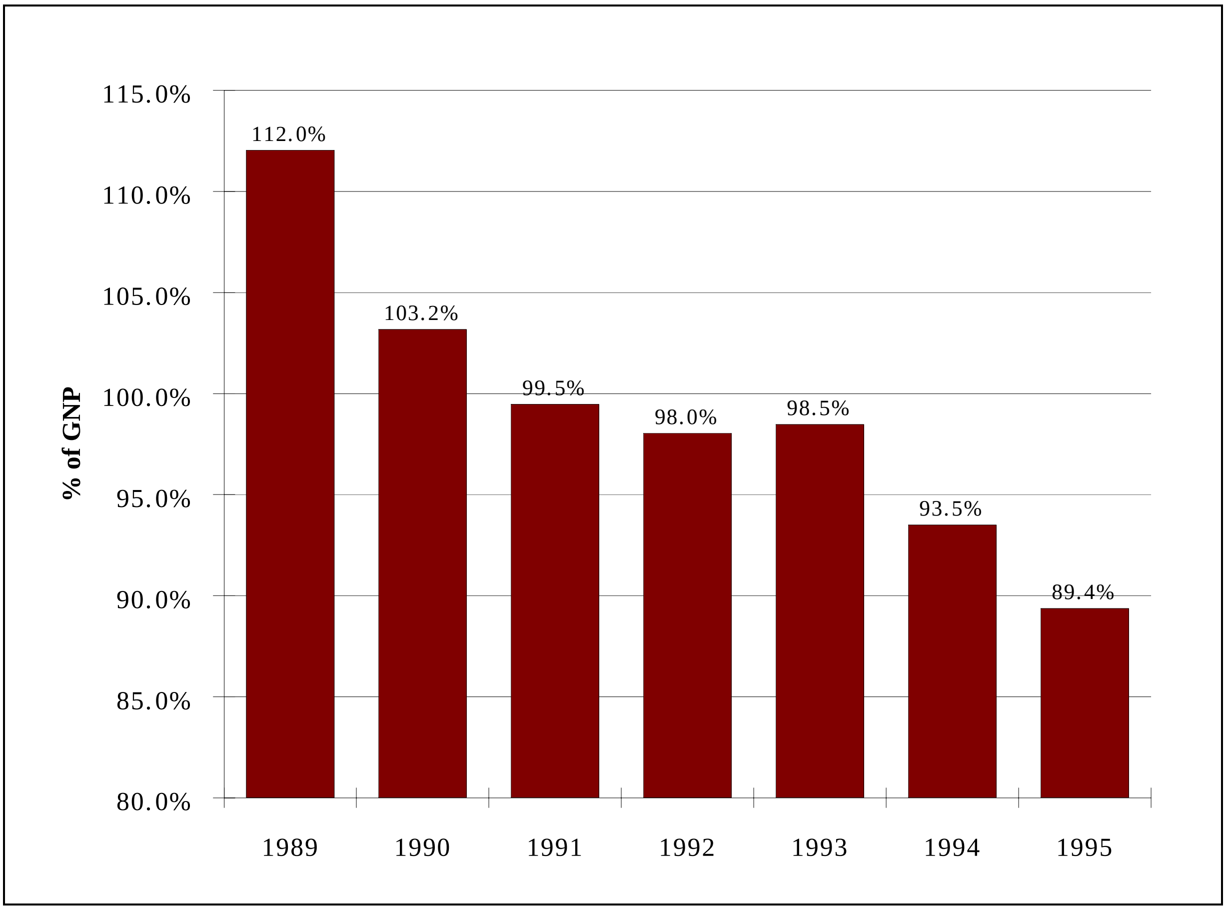
The Chief Executive and Directors thank all the staff members for their contribution to the Agency's performance in 1995 and recognise that the skills and commitment of the staff are the critical factor in the Agency's success.

THE NATIONAL DEBT

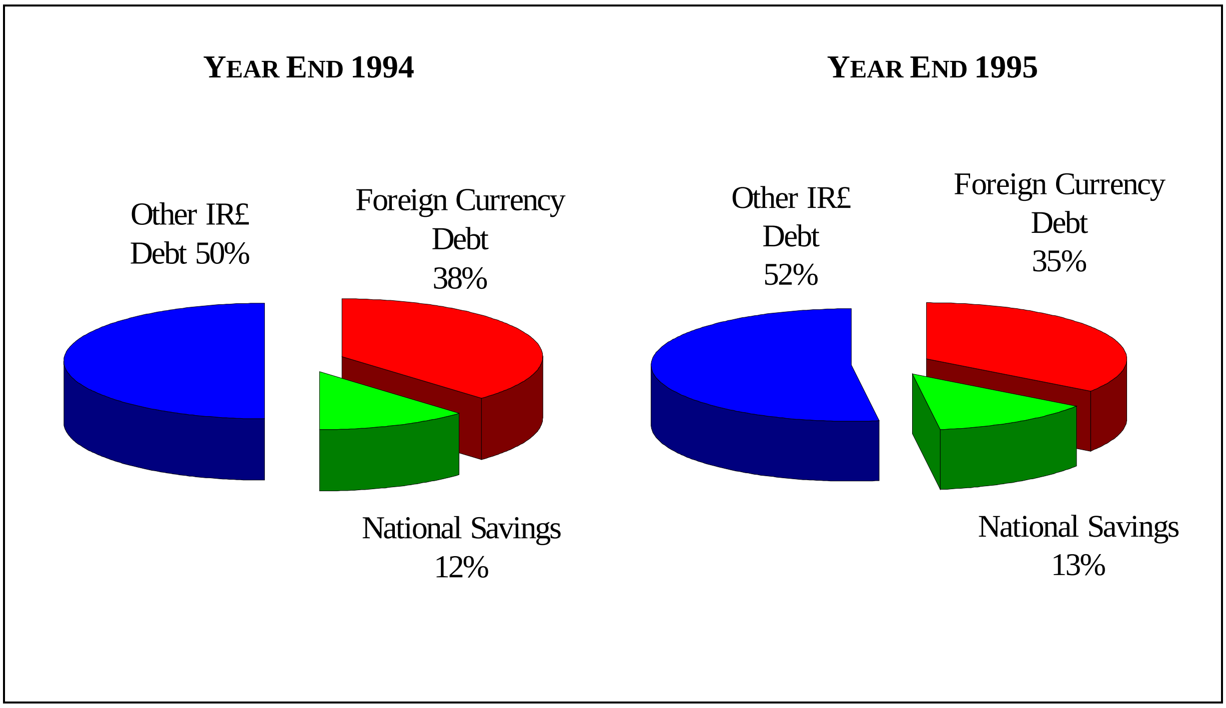
The National Debt is traditionally defined as gross borrowings by the Government less liquid assets. It grew from IR£29,227 million at end 1994 to IR£30,209 million at end 1995, an increase of 3.4%. The increase in the debt was due mainly to an Exchequer Borrowing Requirement of IR£627 million, the issue of bonds at a net discount of IR£153 million and adverse net foreign exchange movements of IR£267 million. By end June 1996, these foreign exchange movements had been more than offset by favourable exchange rate movements in recent months, of the order of IR£325 million. The National Debt as a percentage of Gross National Product decreased to 89.4% at end 1995 compared with 93.5% a year earlier.

Expressed according to the standard European Union convention of General Government Debt to Gross Domestic Product, the ratios were 87.8% and 81.5% for 1994 and 1995 respectively. This continues the downward trend that has been taking place over the last several years:

IRELAND : DEBT/GNP RATIO 1989 - 1995



Composition of the National Debt



Of the Irish Pound portion of the Debt, IR£4,352 million was held by non-residents at end 1995.

Debt Service Costs

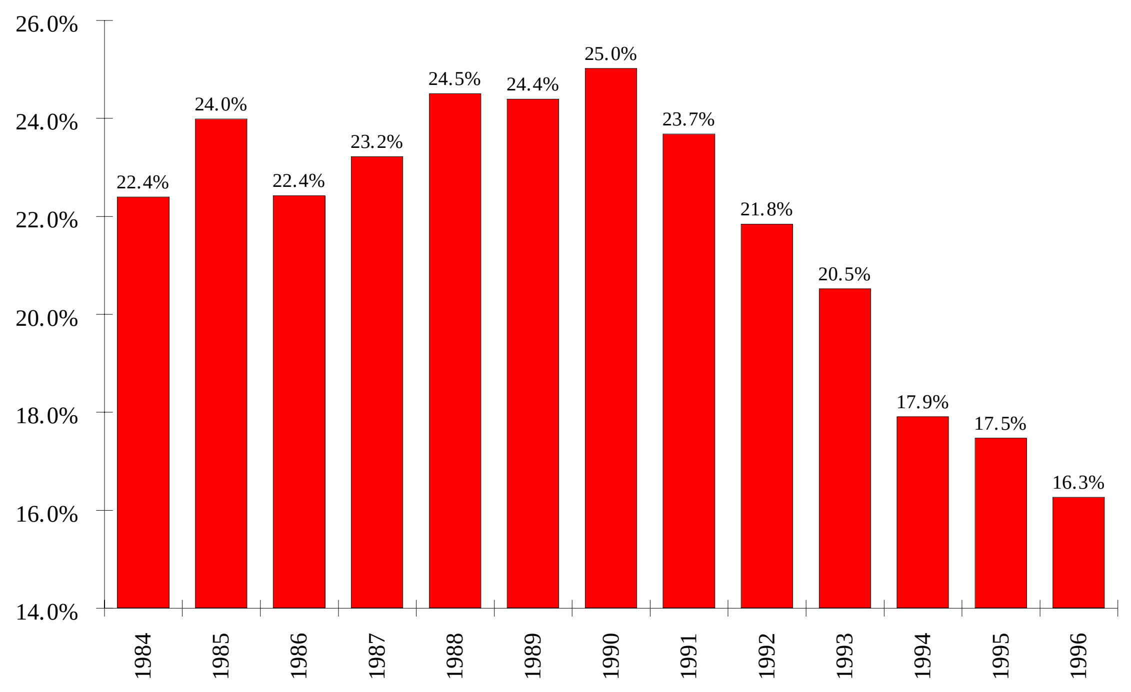
The cost of servicing the National Debt in 1995 came to IR£2,341 million including the National Savings interest reserve of IR£129 million. This was a decrease of IR£41 million on the previous year when the reserve is excluded. Of the total debt service cost, IR£1,963 million was in respect of interest, a decrease of IR£66 million on the 1994 figure. These costs are affected not only by interest on borrowings to fund the current year's Exchequer Borrowing Requirement but also by the cost of new borrowings undertaken to repay maturing debt and by changes in interest and exchange rates applicable to existing debt.

DECLINE IN NATIONAL DEBT BURDEN

The annual interest cost of the National Debt declined further in 1995, continuing the downward trend that has prevailed over the past five years. The burden of the National Debt to the taxpayer continues to fall in terms of the absolute level of resources required to service the Debt.

In relative terms, this decline in the debt service cost is particularly evident. Expressed as a percentage of total Government current expenditure, the interest bill has fallen significantly in recent years as can been seen in the chart below:

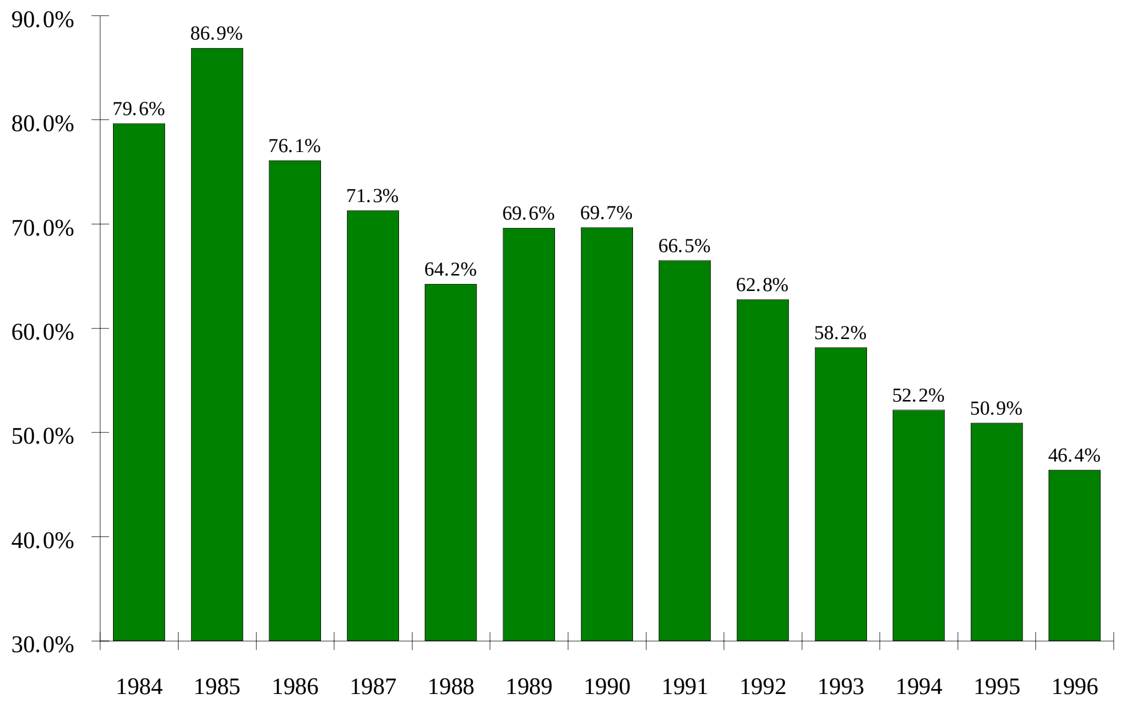
INTEREST BILL AS % OF TOTAL GOVERNMENT CURRENT EXPENDITURE



Note: The 1996 figure is based on the Budget estimate.
The 1995 figure excludes the extra non-budgeted IR£75 million payment to the National Savings interest reserve.

Comparing the interest bill with the level of income tax revenue illustrates the declining call on public resources by the National Debt in recent years. As with the percentage of Government current expenditure accounted for by interest payments on the Debt, the level of such payments relative to income tax revenue is also projected to show a further substantial decline during the current year.

INTEREST BILL AS % OF TOTAL INCOME TAX REVENUE



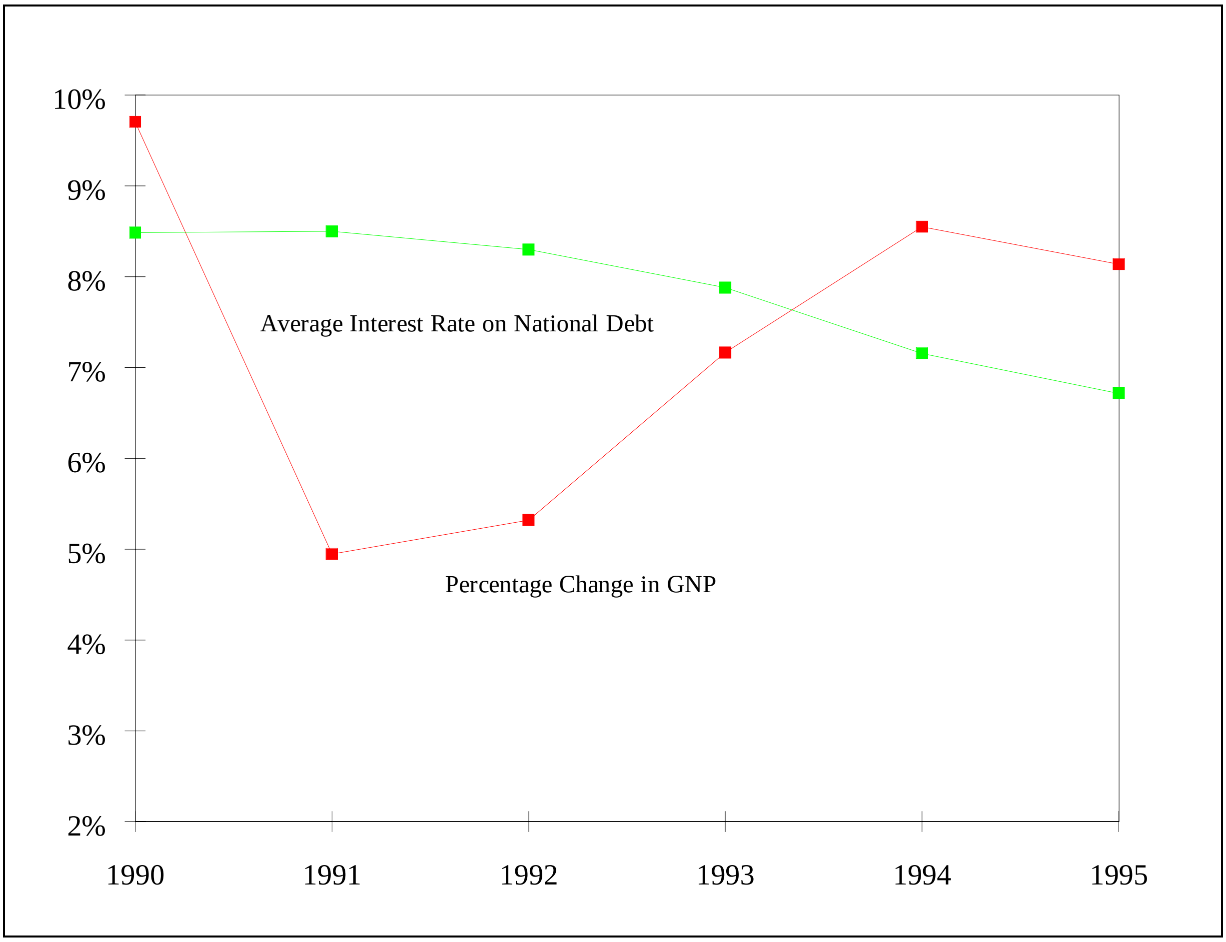
Note: The 1996 figure is based on the budget estimate.
The 1995 figure excludes the extra non-budgeted IR£75 million payment to the National Savings interest reserve.

This improving trend in the absolute and relative debt service burden reflects the decline in the average interest rate on the Debt as well as the continued achievement of high economic growth and primary budget surpluses.

The pace of nominal economic growth has continued to exceed the average interest rate on the Debt, with the favourable gap in 1994 and 1995 as can be seen in the following graph. In 1995, the growth rate was 8.1% (1994 : 8.6%) while the average interest rate on the Debt fell to 6.7% from 7.2% in 1994. Meanwhile, the primary budget balance remained substantially in surplus at 4.5% of GNP.

This favourable combination of factors continues in place in 1996 and, as a result, further improvements in the trend of the Debt and its interest cost are expected in the current year.

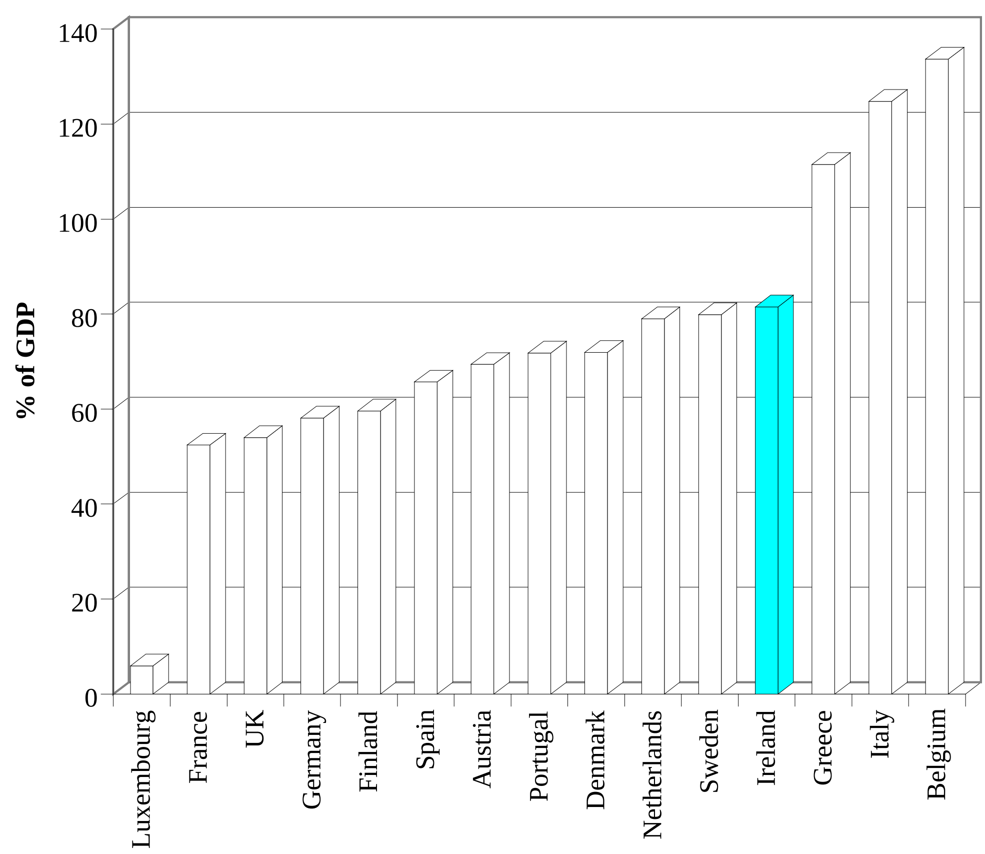
TREND IN GNP AND AVERAGE INTEREST RATE



INTERNATIONAL COMPARISONS

Ireland's Debt/GDP position at end 1995 as measured by the EU convention is shown below in comparison with the position of other EU countries.

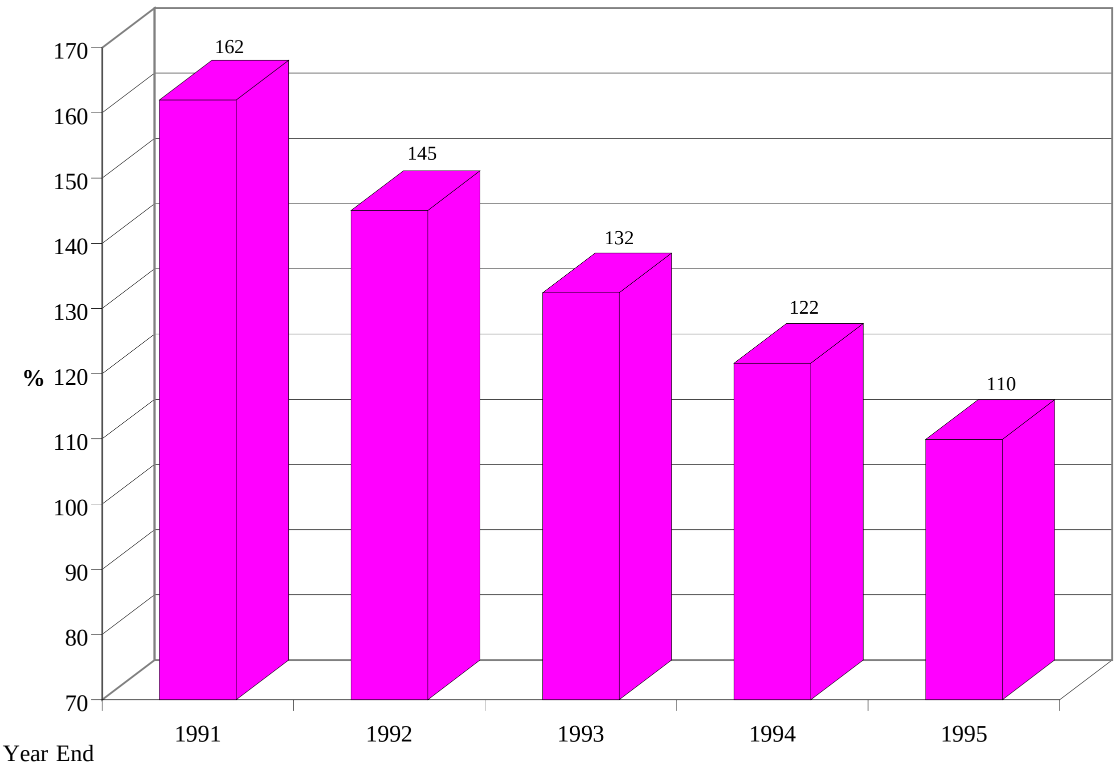
GENERAL GOVERNMENT DEBT TO GDP - RATIOS OF EU MEMBER STATES 1995



Source: European Commission

While Ireland's indebtedness remains relatively high, the Debt/GDP ratio has fallen substantially in recent years and its position relative to the EU average has continued to improve. It is expected that this improving trend will be maintained in the current year.

IRELAND'S DEBT POSITION RELATIVE TO EU AVERAGE



At Year End
Source: European Commission

CREDIT RATINGS

Ireland has long term foreign currency bond ratings of AA2 from Moody’s, AA from Standard & Poor’s and AA+ from both the Japan Bond Research Institute and IBCA.

In addition, Ireland continues to have the top AAA credit rating from both Moody's and Standard & Poor's for Irish Pound bonds and the top A1+ and P1 ratings for short-term foreign debt.

The Agency maintains close communications with all four Rating Agencies to ensure they are kept fully informed on all major developments in the Irish economy and on economic and debt management policy.

RISK

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 its business. Interest and exchange rate risk as well as liquidity risk, counterparty credit risk and operational risk are the principal categories of risk to which the Agency is exposed.

In all of these categories the Agency has put in place control procedures to monitor and manage the risks involved.

Derivatives, deposits and foreign exchange transactions represent the product categories which give rise to counterparty risk exposures. 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 regularly 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. Prior to dealing in any new product, a description must be prepared and approved by management; this identifies the product's inherent risks and documents appropriate processing, reporting and control procedures.

IRISH POUND DEBT

Irish Pound debt, excluding the National Savings Schemes, accounted for 52% of the National Debt as at 31 December 1995.

The amounts outstanding were:

	IR£ Million (nominal)			
	31 December 1995		31 December 1994	
Irish Pound Bonds				
Domestic Holders	10,936		10,760	
Non-Resident Holders	4,352	15,288*	3,679	14,439
Exchequer Notes		877		633
Exchequer Bills		15		29
Notes issued under Section 69 of Finance Act 1985		97		122
		16,277		15,223

* Excludes dual currency bonds amounting to IR£109 million (1994 IR£104 million)

Bonds have maturities ranging up to 20 years while Bills and Notes have a maximum maturity of twelve months.

1995 ACTIVITY

Net funding by the Agency on the domestic market during 1995 is shown below:

			IR£ Million (Cash Amounts)
Sales of:	Bonds		4,077
	Exchequer Notes/Exchequer Bills (Net)		213
			4,290
Less:	Repayment of Bonds maturing in 1995	1,062	
	Repurchase of Bonds	2,335	
	Net Repayment of IR£ Section 69 Notes	25	3,422
			868

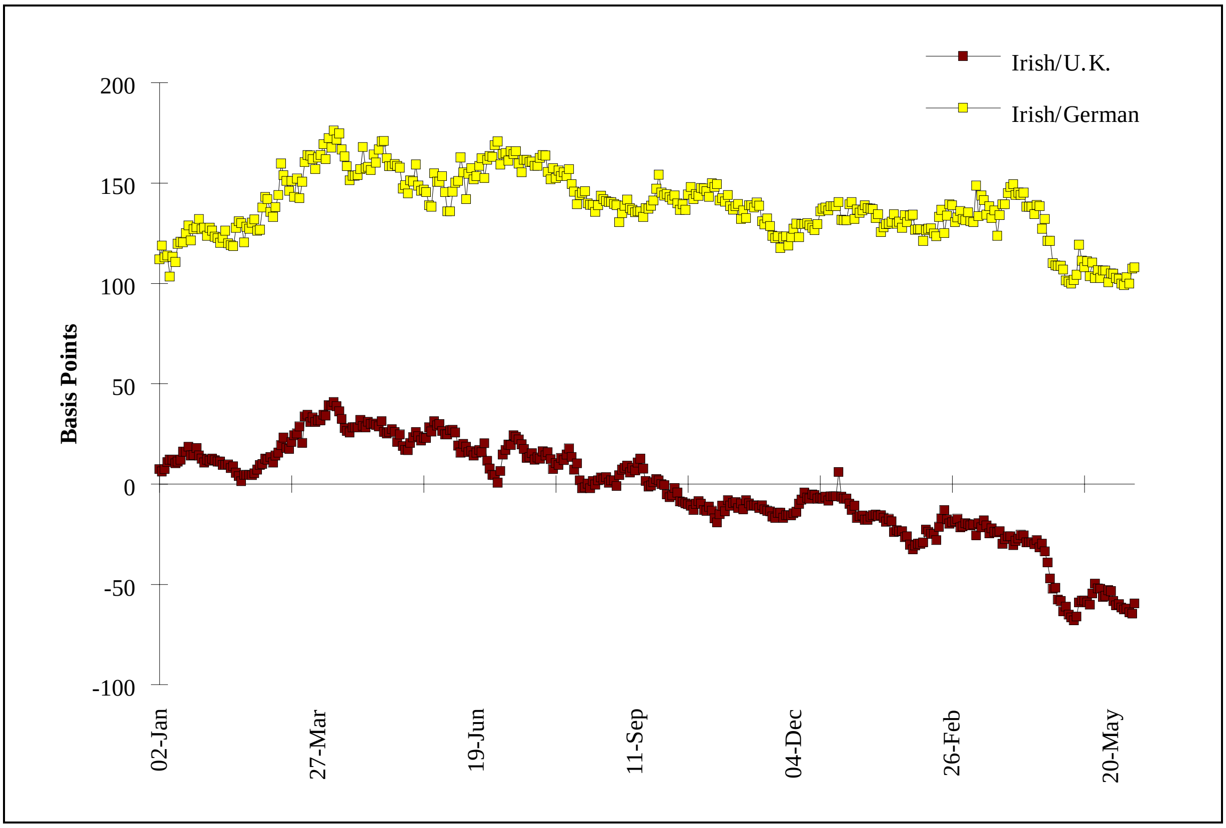
BOND YIELDS (ANNUAL) %

Maturity	End 1994	Low	High	End 1995
5 Year	8.95	6.61	9.20	6.71
10 Year	8.96	7.43	9.22	7.50
20 Year	8.62	7.51	8.86	7.62

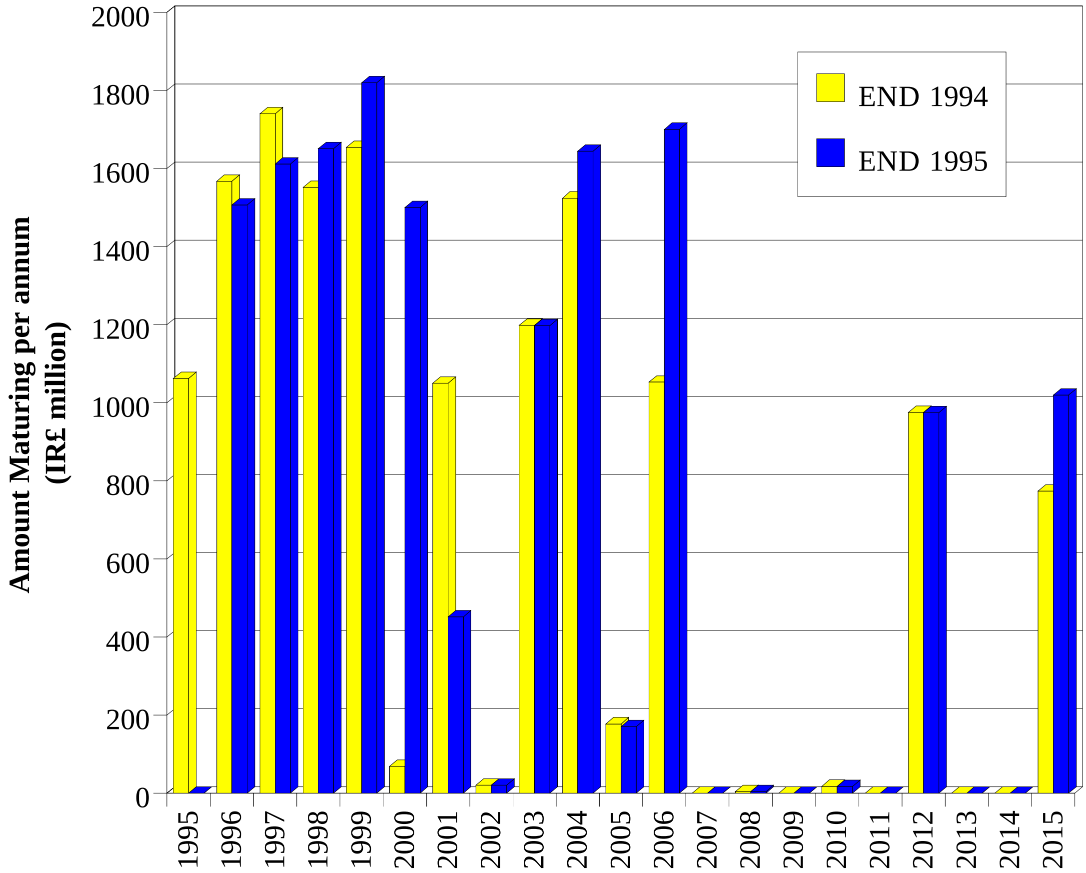
The bond market in Ireland ended 1994 on a weak tone, with the Agency buying back IR£100 million of bonds in the last few days of the year. Yields at this time were broadly in line with those obtaining in the UK market and 134 basis points above the 10 year German bond yield.

In early 1995 the bond market continued weak but rallied thereafter; non-residents became active buyers. By year end Irish Government bonds were trading well under UK yields all along the curve but were 148 basis points above German 10-year bonds.

IRISH 10 YEAR BENCHMARK BOND YIELD DIFFERENTIALS - JANUARY 1995 - JUNE 1996

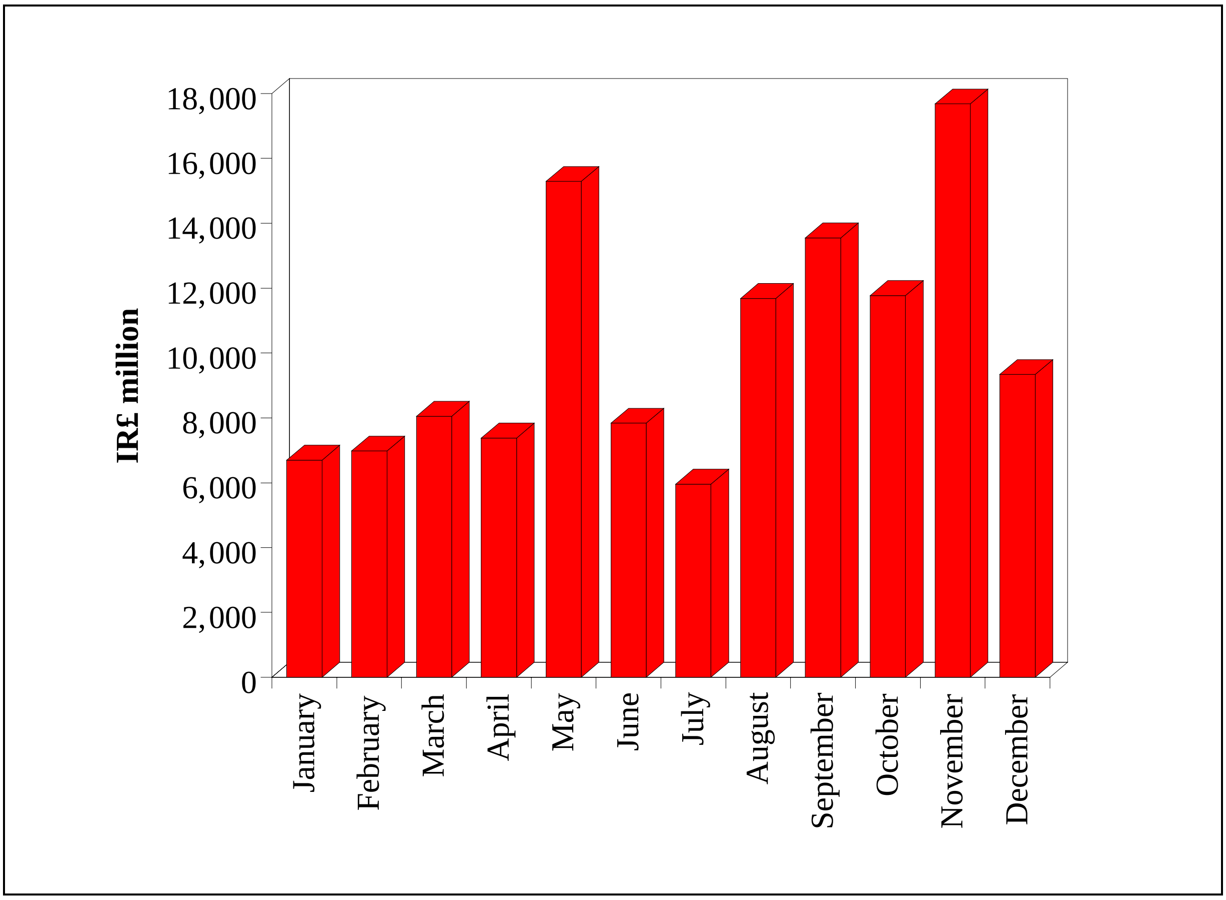


BOND MATURITY PROFILE


Amount Maturing per annum
(IR£ million)
0
200
400
600
800
1000
1200
1400
1600
1800
2000
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
END 1994
END 1995

Reported Stock Exchange turnover in the primary and secondary market in 1995 at IR£122 billion represented an increase of 45% on the 1994 outturn of IR£84 billion. Part of this increase appears to have been accounted for by repo trading. After the introduction of the new Primary Dealer system in December 1995 the Stock Exchange excluded repos from turnover. The Agency, through its primary and secondary market activities, accounted for IR£6.6 billion of reported turnover.

BOND MARKET TURNOVER IN 1995



BENCHMARK BONDS

The Agency maintains benchmark bonds in or close to the five, ten and twenty year maturities with new benchmark bonds being introduced periodically. During the course of 1995 two new benchmark bonds - 5 year and 10 year - were launched. The 5 year bond was in turn replaced by a new 5 year benchmark in April 1996.

Non-Resident Holdings

Irish Pound bonds held by non-residents increased from 25% of total outstandings at end 1994 to 28% at end 1995.

Market-Making in Government Bonds

Background

In December 1995 the Agency introduced a formal Primary Dealer system to replace the agency broker system for dealings in Government Bonds. The purpose was to bring the bond market structure in Ireland more into line with competitor countries and to improve liquidity, thereby reducing funding costs.

Following extensive consultations with market participants, the following six firms became Primary Dealers:

ABN AMRO Hoare Govett - Riada Stockbrokers
CS First Boston Limited
Davy Stockbrokers
Goodbody Stockbrokers
NCB Group
UBS Limited

Each Primary Dealer dedicates between IR£5 million and IR£8 million capital to market-making in Irish Government bonds on an on-going basis and is expected to contribute to the Agency's gross funding programme broadly in line with its share of retail market turnover.

Primary Dealers quote firm bid and offer prices in a specified list of bonds within agreed size and spread parameters. As a result, investors can be confident of obtaining buy and sell prices on a continuous basis. The current list of such bonds is set out below:

	Maturity	**Outstanding 31/12/1995 IR£ million [c]**	**Outstanding 20/06/1996 IR£ million [c]**
9¾% Capital Stock [a]	1 June 1998	953	945
6¼% Treasury Bond	1 April 1999	1,789	1,943
8% Treasury Bond	18 October 2000	1,119	1,600
6½% Treasury Bond [b]	18 October 2001	-	620
9¼% Capital Stock [a]	11 July 2003	1,164	1,202
6¼% Treasury Bond	18 October 2004	1,643	1,678
8% Treasury Bond [b]	18 August 2006	1,475	1,937
8¾% Capital Stock [a]	30 September 2012	975	975
8¼% Treasury Bond [b]	18 August 2015	1,018	1,232

[a] Semi-Annual coupon.

[b] Benchmark bonds in issue on 20 June, 1996.

[c] Outstanding figures exclude REPOs.

FACILITIES FOR PRIMARY DEALERS

The Agency makes available to the Primary Dealers the following facilities:

1. **Agency Funding:**
   Primary Dealers have exclusive access to the Agency's funding carried out under the tap mechanism. About 90% of fixed rate bond funding is executed by taps with the residue in auctions which are currently confined to the long bond. While all market participants are entitled to bid at auctions, there is a facility for Primary Dealers to access stock sold at auctions after the close of the auction up to an agreed limit at the average auction price.

2. **Switching Facilities:**
   To assist Primary Dealers in managing their positions, the Agency may offer stock switching facilities in response to direct requests from Primary Dealers.

3. REPO Facilities:

To assist development of the repo market the Agency, in November, 1995, made repo facilities available to the Primary Dealers. Since then the wider repo market has developed significantly and this in turn has resulted in improved liquidity in the market.

4. Agency's Bid Prices:

The Agency makes available to Primary Dealers firm bid prices in each of the bonds in which they have price-making functions.

INTER DEALER BROKER (IDB)

A feature of the new market structure has been the setting up of an IDB to enable Primary Dealers transact with each other on an anonymous basis. Activity between Primary Dealers via the IDB has been considerable and has contributed to the liquidity of the market.

EXCHEQUER NOTES AND BILLS

During 1995 the Agency continued to sell Exchequer Notes to a broad range of investors. Outstandings at year end, including Bills, amounted to IR£892 million (nominal) providing net short term cash funding of IR£213 million in 1995.

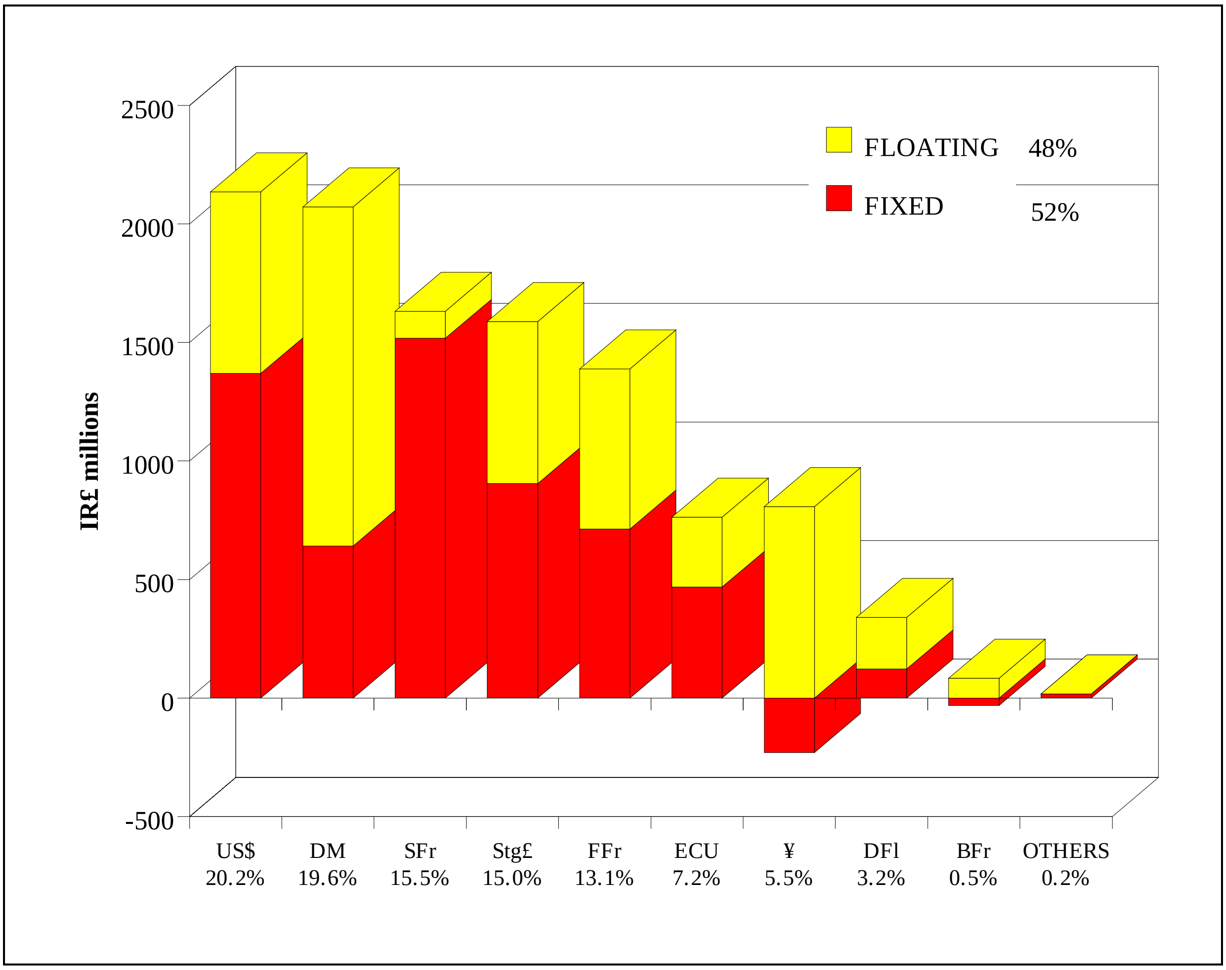
The Agency is prepared to repurchase Exchequer Notes prior to maturity. The prices at which the Agency is prepared to sell and repurchase these Notes are quoted on Reuters, page NTMA.

FOREIGN CURRENCY DEBT

Against a background of a strong balance of payments surplus, the Agency, during 1995, made net repayments of foreign currency debt amounting to IR£672 million (equivalent).

Outstanding net foreign currency debt at end 1994 was IR£10,978 million (equivalent) and fell to IR£10,563 million (equivalent) at 31 December 1995. This was due mainly to a combination of net foreign currency repayments of IR£672 million (equivalent) partly offset by adverse foreign exchange movements of IR£267 million (equivalent). By end June 1996 these foreign exchange movements had reversed and when added to net foreign debt repayments of IR£576 million, reduced the net foreign currency debt to approximately IR£9,670 million (equivalent). As of end June 1996, the exchange rate risk has been removed on approximately IR£1.3 billion of the National Debt since the beginning of 1995. The following chart shows the currency composition and interest rate mix of the debt.

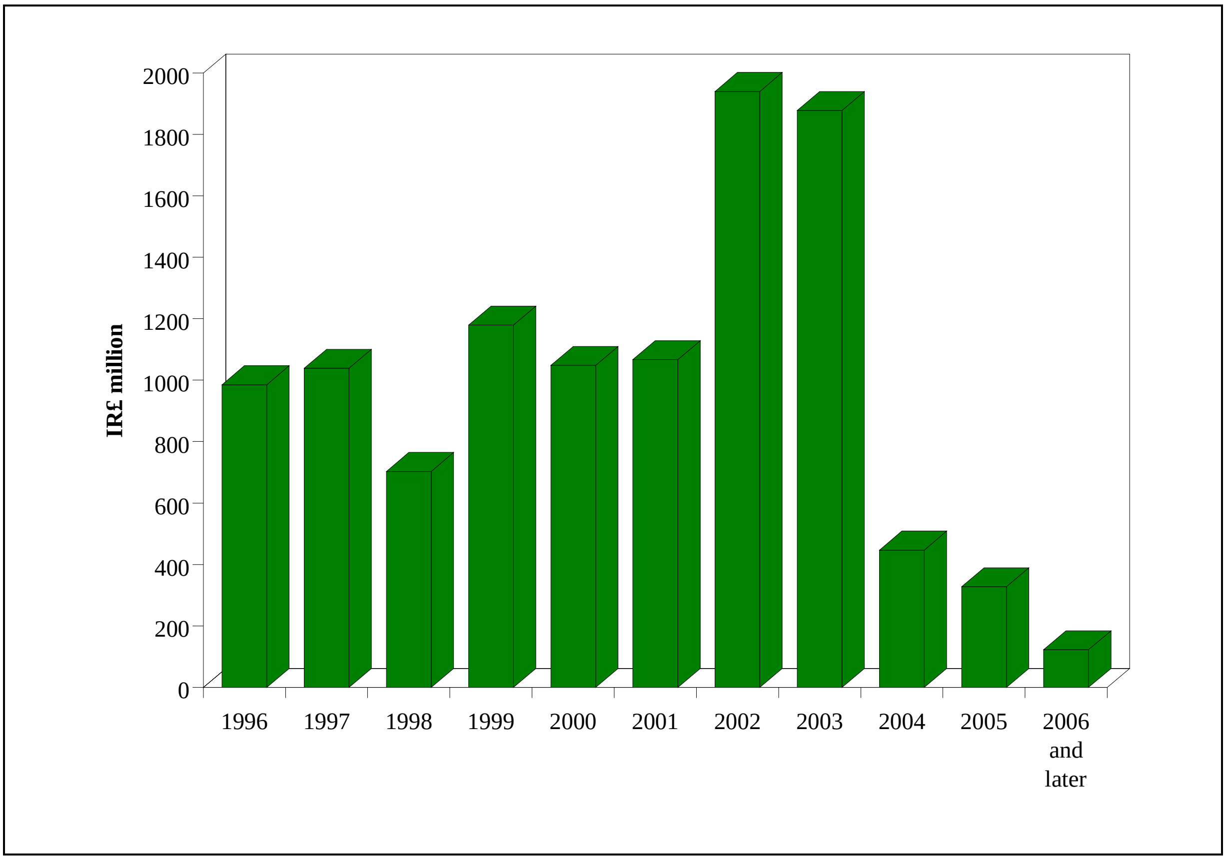
FOREIGN DEBT CURRENCY COMPOSITION 31 DECEMBER 1995



FOREIGN CURRENCY DEBT PORTFOLIO

The exchange rate risk of the portfolio is actively managed within a framework of a well-diversified mix of the major international currencies which takes account of the wider ERM fluctuation bands as well as important economic linkages. Interest rate risk along the yield curves of the various currencies is also actively managed.

MEDIUM TO LONG TERM FOREIGN CURRENCY DEBT MATURITY PROFILE*
31 DECEMBER 1995



* Excludes IR£178 million in Short Term Paper maturing in 1996.

IR£352 million in available foreign currency deposits at end 1995 are not taken into account in the above.

Foreign currency borrowing activities have been undertaken in such a way as to keep annual repayment amounts to manageable levels of re-financing particularly over the short-term. In addition to these maturity considerations, due regard is also paid to cost reduction.

LIABILITY MANAGEMENT

Against a background of falling international interest rates, the Agency took the opportunity to fix the cost of long term Deutschemark and Swiss Franc liabilities at attractive rates. Some of the Japanese Yen debt was switched from fixed to floating interest rates to avail of historically low money market rates of 0.5%. The overall proportion of debt at fixed rates of interest was increased from 48% to 52%.

Within the foreign currency portfolio, a phased programme of risk diversification was begun in 1992. Over the four year period to the end of 1995, the proportion of debt denominated in Sterling and French Francs was increased from less than 2% to 28%. Over the same period, the proportion of debt in Deutschemarks, Dutch Guilders and Swiss Francs fell from 69% to 38%. In managing the currency risk associated with the foreign debt, the Agency seeks to strike a balance between currencies with a historical propensity to weaken and currencies which traditionally carry low servicing costs.

Movements in ten year bond yields in a number of key currencies are summarised in the following graphs:

Source : Datastream

US 10 YEAR BENCHMARK BOND

Yield %

1995 / 1996

GERMANY - 10 YEAR BENCHMARK BOND

Yield %

1995 / 1996

JAPAN - 10 YEAR BENCHMARK BOND

Yield %

1995 / 1996

UK - 10 YEAR BENCHMARK BOND

Yield %

1995 / 1996

1995 BORROWING ACTIVITIES

In the context of a reduced foreign currency funding requirement, the 1995 borrowing programme was characterised by smaller opportunistic type funding rather than the larger more strategic issues which had been undertaken previously. These smaller targeted issues were spread throughout the year as the Agency sought to tap individual markets and arbitrage opportunities.

SWISS FRANC MARKET

The Swiss Franc market, although generally receptive to issuance during the year, provided few significant opportunities for arbitrage into other currencies. Nonetheless the Agency succeeded in negotiating a SFr100 million public bond issue which, when swapped into US Dollars, generated funding at a level of 18 basis points below LIBOR.

Japanese Yen Market

In the first quarter of 1995 the Agency issued a ¥15 billion Eurobond as well as a ¥5 billion loan. Later in the year the Agency issued a ¥10 billion 20 year structured bond which after a swap achieved a level of floating rate US$ LIBOR less 20 basis points.

Sterling Market

The Agency issued one three year Euro Medium Term Note of Stg£20 million at a margin of 16 basis points below interbank levels.

Luxembourg Franc Market

Following on from its good performance in 1994 the Luxembourg Franc market continued to provide good opportunities for borrowers in the early part of 1995. In the first quarter Ireland launched two Luxembourg Franc public bond issues, each issue being for LFr2 billion with a maturity of 3 years. After swapping into Belgian Francs these generated funds at spreads of 19 and 20 basis points below BIBOR.

Backstop Facility

In 1995 the Agency arranged a seven year US$750 million multicurrency revolving credit facility to support the issuance of commercial paper. This facility has an upfront fee of 3.25 basis points and an interest cost of LIBOR plus 4 basis points p.a., if drawn. The pricing was tighter and the maturity longer than achieved by any other sovereign issuer at the time. In addition, in order to save on fees, the Agency decided to arrange and syndicate the issue itself.

EIB Borrowings

Ireland did not draw down any funds from the EIB in 1995 but it put in place three facilities totalling IR£60 million to enable it to borrow at short notice should the need arise.

Commercial Paper and Section 69 Notes

Ireland has a US$1 billion Euro Commercial Paper Programme, a US$1 billion US Commercial Paper Programme and a DM2 billion German Commercial Paper Programme. These programmes offer quick and cost-effective access to foreign currency funds and provide a flexible source of bridging finance, as and when the need arises to replace maturing longer dated issues. No amounts were outstanding on these programmes at end 1995.

Section 69 Notes are tax-exempt securities which are issued in a range of currencies (including Irish Pounds) to eligible foreign-owned companies located in Ireland. They have maturities from two days upwards and are sold directly by the Agency and also through designated banks in Ireland. Average outstanding balances in 1995 were IR£481 million (equivalent) compared with IR£461 million (equivalent) in 1994.

The prices for Section 69 Notes are available on Reuters pages S69A and S69B.

Foreign Currency Borrowing 1995

January	LFr2 billion Public Bond Issue due 1998 (swapped to Bfr at BIBOR less 20 basis points)
February	LFr2 billion Public Bond Issue due 1998 (swapped to Bfr at BIBOR less 19 basis points)
March	4.50% ¥15 billion Euroyen Issue due 2005 4.44% ¥5 billion Loan due 2005
April	Stg£20 million EMTN at LIBOR less 16 basis points due 1998
May	US$750 million Revolving Credit Facility due 2002 (undrawn)
August	4.5% SFr100 million Public Bond Issue due 2000 (swapped to US$ at LIBOR less 18 basis points)
October	¥10 billion Reverse Dual Currency Issue due 2015 (swapped to US$ at LIBOR less 20 basis points)

EIB Facilities

December	IR£60 million Open Rate Contracts (available for drawdown up to June 1997 - undrawn)

NATIONAL SAVINGS SCHEMES

Funds raised under the National Savings Schemes totalled IR£440 million net (excluding TSB Bank repayments). The total amount outstanding in these schemes at 31 December 1995 was IR£3,870 million. This represents growth of 8.6% over the end 1994 total and of almost 50% during the five-years to end 1995.

The schemes are an important and stable source of funding for the Agency. Almost all holdings are by Irish resident personal investors. Their appeal to investors is based on the fact that they are risk-free and free of any investment costs or commissions, allow repayment flexibility and offer competitive rates of return which are in many cases also free of tax.

They are sold by the Post Office (An Post) acting on behalf of the Agency. The schemes are also available through banks and stockbrokers.

The net amounts raised during 1995 and the totals outstanding for each of the savings schemes at 31 December 1995 were:

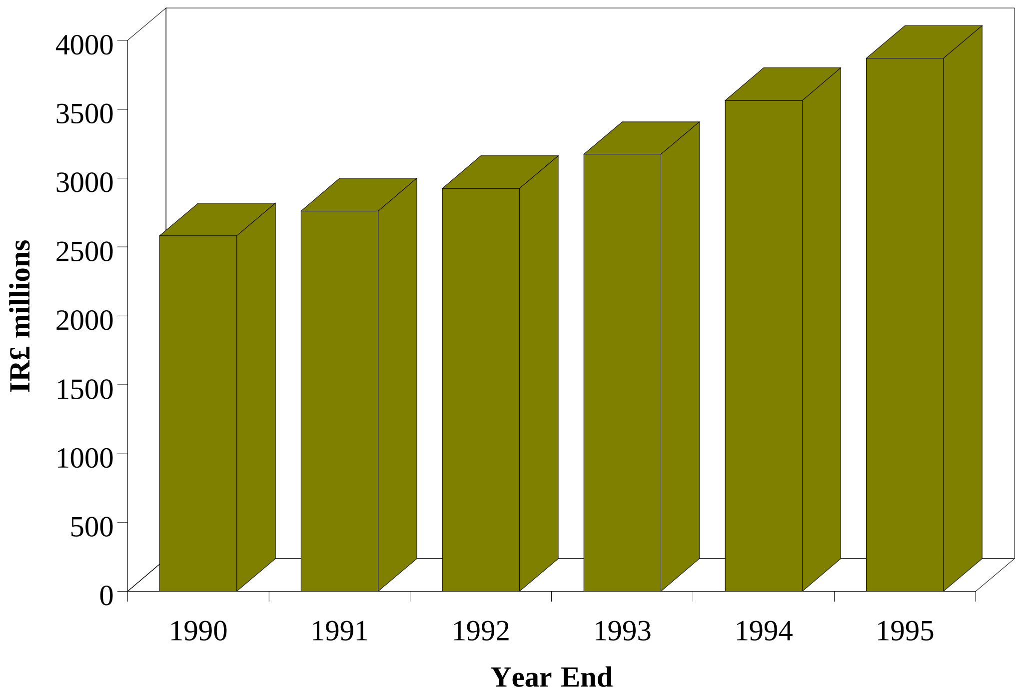
	Total Outstanding	**Cash Raised in 1995**
	IR£ Millions	
Savings Certificates	1,930	100
Savings Bonds	803	297
Instalment Savings	256	34
Prize Bonds	131	14
Post Office Savings Bank (POSB):		
1. Ordinary Deposit Account	405	(10)
2. Deposit Account Plus	61	(13)
TSB Bank, including interest	284	(143)
POSB Fund Investment Income		18
Total	3,870	297

The total amount outstanding represents 12.8% of the National Debt at end 1995, up from 12.2% at end 1994.

In addition to the amounts outstanding, at end 1995 there was accrued interest due to investors of IR£1,150 million in respect of Savings Certificates, Savings Bonds and

Instalment Savings (IR£979 million at end 1994). An interest reserve fund was created in 1994 to provide over time a reasonable level of cover for this accrued interest. A payment of IR£129 million was made to this fund in 1995, bringing the total provision for outstanding accrued interest to IR£189 million at end 1995.

NATIONAL SAVINGS SCHEMES : AMOUNTS OUTSTANDING 1990 - 1995



SAVINGS CERTIFICATES, SAVINGS BONDS & INSTALMENT SAVINGS

IR£431 million was raised through these three products in 1995. This represented a small decrease on the 1994 figure. Many financial institutions now have medium to long term deposit products which compete directly with Savings Certificates and Savings Bonds.

Net inflows from Savings Certificates were IR£100 million, bringing the amount outstanding to IR£1,930 million, equivalent to almost 50% of the total invested in the National Savings

Schemes at end 1995. Savings Bonds provided a net IR£297 million, an increase of over 70% on 1994.

In March 1995, the limits on the amounts which savers may invest in Savings Certificates and Savings Bonds were increased from IR£40,000 to IR£60,000. These maximum holding limits had remained unchanged since 1989 and 1990 respectively. This change was made in response to the very substantial growth in personal savings in Ireland in the intervening period. In addition, the maximum monthly instalment under the Instalment Savings Scheme has been increased from IR£200 to IR£300 with effect from April 1996.

Receipts under the Instalment Savings scheme continued to grow in 1995 with a net inflow of IR£34 million.

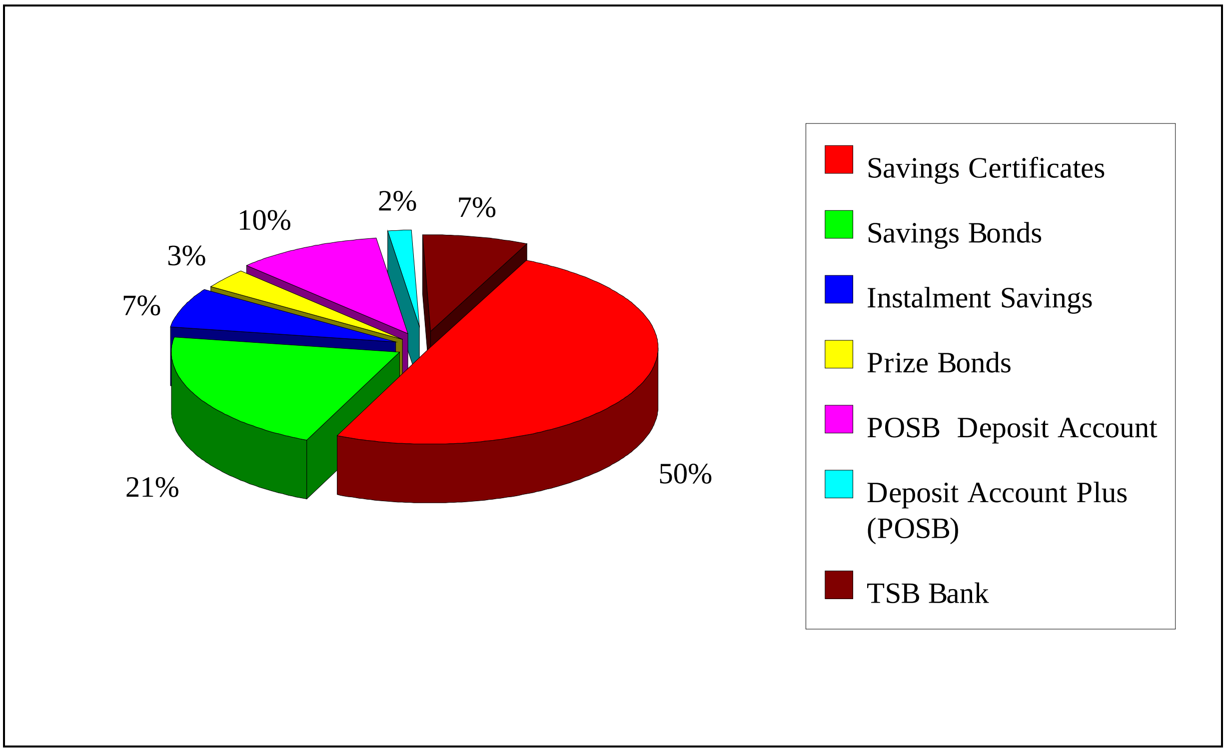
Interest rates on Savings Certificates, Savings Bonds and Instalment Savings were reduced early in 1996 in line with market trends. The new tax free rates of return are:

- **Savings Certificates:** 34.5% after five years and six months, equivalent to an average annual rate of interest of 5.54%.

- **Savings Bonds:** 17% after three years, equivalent to an average annual rate of interest of 5.37%.

- **Instalment Savings:** 35% after five years, equivalent to an average annual rate of interest of 5.61% after allowance is made for the payment of instalments over twelve months.

COMPOSITION OF THE NATIONAL SAVINGS SCHEMES AT 31 DECEMBER 1995



PRIZE BONDS

Net inflows into Prize Bonds amounted to IR£14 million, with gross sales of IR£26.3 million compared to IR£25.5 million in 1994. The total invested in Prize Bonds was IR£131 million at end 1995. The higher inflows in recent years are in large part attributable to the increased marketing of Prize Bonds arranged by the Agency.

The rate of interest used to determine the prize fund was maintained at 3.75% throughout 1995. It was reduced to 3.5% from April 1996 following other reductions in interest rates on the National Savings Schemes.

POST OFFICE SAVINGS BANK

There was a net outflow of IR£23 million from the Post Office Savings Bank (POSB) in 1995. When accrued interest is taken into account, the deposit base was reduced by IR£18 million - to IR£466 million at end 1995.

The POSB was adversely affected by market developments in 1995. Demand deposits generally have been paying very low interest rates and the book-based POSB deposit account followed this trend. Long term investors who might otherwise have placed money on deposit in the POSB tended to seek the higher returns offered by other savings products. Moreover, the low rate of Deposit Interest Retention Tax on Special Savings Accounts was increased from 10% to 15% with effect from 6 April 1995. This had an adverse impact on Deposit Account Plus, the Special Savings Account of the POSB. Its deposit base fell to IR£61 million at end 1995.

The rates on both POSB accounts were significantly restructured early in 1996. Net receipts to end June 1996 have amounted to approximately IR£5.5 million.

TSB BANK

TSB Bank continued to reduce its deposits with the Agency during 1995 in accordance with the agreed arrangements between it and the Agency. The actual amount on deposit at end 1995 was IR£284 million, including accrued interest. The equivalent figure at end 1994 was IR£406 million.

LEGAL & CORPORATE AFFAIRS

LEGAL

The main focus of legal activity has been in the negotiation and documentation of transactions arising from the Agency's borrowing and debt management programmes. The foreign currency borrowing programme involved the negotiation of various bond issues and other funding instruments, the highlight of which was the signing of the US$750 million Revolving Credit Facility. The domestic currency debt management of the Agency was assisted by the arrangement of a series of Global Master Repurchase Agreements with the Primary Dealers in Irish Government Bonds.

The legal division also provided day-to-day advice with respect to existing Agreements and continued to monitor both domestic and foreign legal developments affecting the Agency's business. It is also responsible for ensuring compliance with the professional conduct rules relative to confidentiality, conflicts of interest and other procedures associated with best business practice which all Agency staff are required to observe.

PERSONNEL

Two appointments were made in early 1995 to fill vacancies that arose in the latter part of 1994. This brought the permanent staff numbers up to the end 1993 level of 57. The number of temporary project staff at year end was 7.

A formal valuation of the assets and liabilities of the Agency's Pension Scheme as at 1 January 1995 was undertaken by the Scheme's actuary during the year. In line with the actuary's recommendations, the funding contribution was adjusted for the three year period following the valuation.

There is continuing emphasis on employee health, safety and welfare issues. Monitoring procedures, including an annual safety audit, ensure the maintenance of high standards and full compliance with the Agency's formal safety statement.

OPERATIONS

The volume and monetary value of transactions continued to grow during 1995. Some 32,000 transactions were processed and in monetary terms, gross cashflows amounted to approximately IR£103 billion. In percentage terms the foregoing amounts represented increases of 11% and 16% respectively over 1994 figures.

The transaction processing department was, through the increased use of technology, able to process the increased volume of transactions without recourse to additional staff.

The development of Information Technology systems continued throughout 1995. Such development was geared to meet two primary objectives:

- the provision of enhanced reporting and management information
- the generation of operational efficiencies in both the dealing and processing areas.

A new system to facilitate the implementation of the primary dealer system was installed and an interface between the SWIFT electronic funds transfer system and the core database was also constructed. This development enabled the direct downloading of funds transfer instructions into SWIFT.

The Financial Control department completed a number of systems development projects in addition to improving its own reporting capabilities. In particular, a new software package was installed to provide daily mark to market valuations on the swaps book. Screen based reporting was advanced further with the provision of a range of daily reports to management via P.C. terminals.

An ongoing focus continues on control in the management of risk. The ever increasing volume of transactions and range of products makes this an imperative. Apart from the annual audit conducted by the Comptroller and Auditor General two internal audits were conducted covering various departments within the Agency with satisfactory results.

STRATEGY & RISK MANAGEMENT

The Agency recognises the importance of having relevant, accurate and timely information and analysis to support both the strategic planning and the ongoing management of its liquidity, funding and debt management activities.

In each of these areas the Agency has developed analytical and forecasting tools. In addition, the Agency continued to manage its performance during 1995 using a comprehensive portfolio performance measurement system which tracks the performance of the Agency's debt portfolio against a benchmark portfolio, under the supervision of J.P. Morgan. Given the constantly changing composition of the portfolio, the increased range of financial instruments used to manage the debt, as well as changes in the market and environment in which the Agency operates, these tools and techniques are regularly refined and adapted to ensure that they remain in line with the Agency's evolving requirements.

Some of the key areas of focus over the past year have included the development of:

- Forecasting and analysis of future funding scenarios in order to achieve the most effective management of liquidity and funding costs, over both the short and the medium term.

- Debt service forecasting and analysis which has further increased the ability to analyse the sensitivity of future debt service costs to various potential future interest and exchange rates.

- A risk control framework for the management of the exposure of debt service costs to market volatility in interest and exchange rates.

A major development in 1995 was the review of the arrangements in place for the measurement and management of the Agency's Benchmark related performance and market risk. Following a formal tender process at the end of 1995, Union Bank of Switzerland (UBS) was engaged to provide these services and since then the Agency and UBS have put in place new PC based performance analysis and risk management systems.

MINISTERIAL SPEECH, 1990

ACCOUNTS AND AUDIT

The Agency is responsible for preparing financial accounts in relation to the:

- National Debt of Ireland
- National Treasury Management Agency - Administration Account
- Post Office Savings Bank Fund
- Capital Services Redemption Account
- National Loans Advance Interest Account
- National Loans (Winding-Up) Account
- Deposit Monies Fund Investment Account
- National Loans Sinking Funds Accounts
- Account of Stock Accepted in Payment of Inheritance Tax and Death Duties
- Small Savings Reserve Fund

The accounts which follow are in the form approved by the Minister for Finance under Section 12 of the National Treasury Management Agency Act, 1990 and have been prepared using the cash basis of accounting except for the accounts of the Post Office Savings Bank Fund and the administration account of the National Treasury Management Agency which are prepared using the accrual basis of accounting.

The audit of the accounts has been completed by the Comptroller and Auditor General except for the accounts of the Post Office Savings Bank Fund, the audit of which is currently in process. This has been delayed due to an industrial dispute at An Post.