National Treasury Management Agency

# REPORT AND ACCOUNTS FOR THE YEAR ENDED

# 31 DECEMBER 2006


JAZZ
J NOLAN

**National Treasury Management Agency**

28 June 2007

Mr. Brian Cowen T.D.
Tánaiste and Minister for Finance
Government Buildings
Upper Merrion Street
Dublin 2

Dear Tánaiste,

I have the honour to submit to you the Report and Accounts of the National Treasury Management Agency for the year ended 31 December 2006.

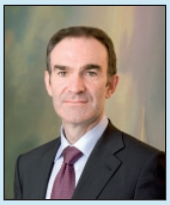
Yours sincerely,

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



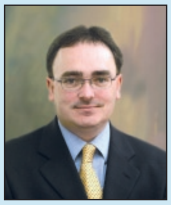
**CIARÁN BREEN**
State Claims Agency

**JOHN C. CORRIGAN**
National Pensions Reserve Fund

**ANNE COUNIHAN**
Legal & 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

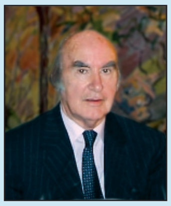


**BRENDAN MCDONAGH**
Finance, Technology & Risk

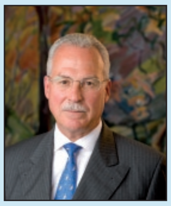
**OLIVER WHELAN**
Funding & Debt Management

**STAFF**
The Chief Executive and Directors appreciate the dedication and hard work of the staff during the year.

## Advisory Committee



**JOHN F. DALY**
Chairman, IIMC Limited



**GEROLD W. BRANDT**
Financial Consultant

**DAVID DOYLE**
Secretary General,
Department of Finance

**LEWIS L. GLUCKSMAN**
Private Investor

**TYTTI NORAS**
Legal Counsellor,
Ministry of Finance, Finland

**DONALD C. ROTH**
Managing Partner,
Emerging Markets Partnership,
Washington D.C.

The Advisory Committee met formally on four occasions in 2006. Other meetings with members of the Committee took place on a regular basis. The NTMA Audit Committee also met on four occasions in 2006.

We very much regret the passing of Lew Glucksman in July 2006. We greatly appreciate his service as a member of the Advisory Committee.

The NTMA thanks the Committee members for their advice and assistance during the year and for their commitment of time and effort.

The NTMA would like to welcome Shane O'Neill, Chief Strategy Officer, Liberty Global, who joined the Committee on 1 May 2007.

The paintings reproduced in this report are the work of **John Nolan,** an Irish artist

Front cover: *Spring Meadow*

This page: *Still Life with Violin*

# 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 and to provide for connected matters". 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
- National Treasury Management Agency (Delegation of Claims Management Functions) Order 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. It now has three substantial additional functions—the State Claims Agency; the management of the National Pensions Reserve Fund; and the National Development Finance Agency. In financial terms it manages a combined asset and liability portfolio of €60 billion and had a cash flow last year of €576 billion.

Minimising the interest burden on the Exchequer over the medium term; ensuring that adequate liquidity is available to the Exchequer at all times; dampening year-on-year volatility in costs; and locking in low interest rates where opportune—these are the main objectives of the NTMA's funding and debt management activities.

In 2006 the Exchequer recorded a surplus of €2.3 billion – a deficit of almost €3 billion had been forecast. Interest rates were also more favourable than expected and all this helped to generate savings on the interest bill.

When the NTMA was established in December 1990, Ireland's debt was one of the highest in Europe—at more than 100 per cent of GNP. It is now, proportionally, one of the lowest. Because of the strong Exchequer performance in 2006, the absolute value of the debt fell for the first time since 2001. Furthermore, the interest burden it imposes on the State has fallen sharply because of rapid economic growth and the decline in interest rates. Debt interest in 1991, the first full year of the NTMA's operation, absorbed nearly 26 per cent of tax revenue; by 2006 this had fallen to 4.1 per cent.

Notwithstanding the reduction in the National Debt in 2006—to just under €36 billion—the stock of debt must be regularly refinanced as bonds and other debt instruments, principally retail debt products, fall due for repayment. Adequate funds have to be in place for all eventualities, while all surplus cash must be placed on interest-earning deposit each evening. This calls for the maintenance of an active and liquid market in Government bonds, most of which are now held by investors outside the State, to ensure that money can be raised as required and at best eurozone interest rates. Ongoing contact with primary dealers, investment institutions and credit rating agencies assists this process. A significant daily function involves either borrowing funds to place with the Central Bank of Ireland, or taking funds from the Central Bank and depositing them in the market, in order to maintain liquidity levels required by the European Central Bank.

Apart from its original functions, subsequent legislation has added to the responsibilities of the NTMA:

The management of the National Pensions Reserve Fund was assigned to the NTMA from April 2001 for a period of ten years. While the Fund is controlled by the National Pensions Reserve Fund Commission, the functions of the NTMA as Fund Manager include provision of policy advice to the Commission and implementation of the Fund's investment strategy, as well as selection and performance review of the Fund's investment managers and specific investment vehicles. The NTMA directly manages the Fund's passive bond portfolio, its uninvested cash and its strategic foreign currency hedging operations.

Since December 2001, the NTMA has acted as the State Claims Agency (SCA), managing claims, principally against Government Ministers and the Attorney General, for personal injuries and damage to property. It was subsequently given similar responsibilities for claims against clinical staffs and health care enterprises. In September 2005, further classes of claims were delegated to the SCA, mainly those relating to child sexual abuse as well as claims alleging hearing loss. The number of claims managed at present is approximately 3,900. As regards the classes of claims originally delegated to the SCA in 2001, their volumes have moderated significantly. The SCA continues to develop its function of advising on how to minimise claims in the future. It has conducted systematic risk reviews of key State authorities and formulated joint health and safety initiatives. The SCA has also strengthened its risk advisory team in the health sector.

The National Development Finance Agency (NDFA), established on 1 January 2003, advises on the optimal means of financing public investment projects, including projects procured via Public Private Partnerships (PPPs). In July 2005, the Government announced the expansion of the NDFA to include a "Centre of Expertise" with responsibility for the actual procurement of certain PPP projects. The National Development Finance Agency (Amendment) Act 2007, which puts the procurement role of the NDFA on a statutory basis, was enacted on 10 April 2007.

The *National Development Plan 2007-2013* provides for a €76 billion investment in public capital expenditure. All projects over €20 million require advice from the NDFA. So far, the NDFA has completed its advice on 35 projects, out of a total of 107 referred to it. Within that, the NDFA is engaged in the procurement of seven important infrastructure projects on behalf of State authorities.

The NTMA manages some €3.1 billion of the assets of the Social Insurance Fund. In 2003, it became responsible for managing the Dormant Accounts Fund, covering unclaimed amounts from bank accounts and, more recently, unclaimed assurance policies. Other legislation has given the NTMA certain functions relating to asset covered securities issued by financial institutions in Ireland.

The NTMA, as a financial institution outside the civil service, operates with a commercial remit, enabling it to recruit professional personnel from the private sector at market rates. As such, it has the capacity and flexibility to deal with a wide range of financial issues on behalf of the State. The additional functions devolved on the NTMA have enabled greater utilisation to be made of its strong financial control, risk management and transaction processing capabilities, its integrated I.T. systems and its internal audit functions. While its main reporting relationship is to the Minister for Finance, 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. Relatively flat and flexible organisational arrangements allied to performance-driven remuneration packages have enabled the NTMA to operate with a tight staff complement—currently about 135—notwithstanding the greatly expanded range of responsibilities.

As the first debt office established in recent times, the NTMA continues to be approached on a regular basis 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 paper and organisations assessing the creditworthiness of the State. Our website—www.ntma.ie—gives additional information, as does the *Ireland Information Memorandum*, published each March and 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 and by the National Development Finance Agency.

# Summary of Activity in 2006

## Overall

- With a 2006 budget surplus of €2.3 billion—rather than the earlier estimated deficit of €3 billion—and strong gains on the National Pensions Reserve Fund, the State was better off by some €7 billion more than might have been expected at the beginning of the year; this brings the aggregate gain over the last two years to €12 billion.
- The combined total of asset and liability portfolios managed by the NTMA rose to almost €60 billion.
- Gross cashflows through the NTMA in 2006, at almost €580 billion, were equivalent to around four times Ireland's GNP.

## National Debt

- The National Debt decreased by €2.3 billion and stood at €35.9 billion at end 2006.
- The National Debt, less the National Pensions Reserve Fund and other funds managed by the NTMA, is now equivalent to less than four months' tax revenue (down from six and a half months at end 2005). When the NTMA was established in 1990, it took over three months' tax revenue just to pay the interest on the debt.
- The General Government Debt/GDP ratio dropped again – to 24.9 per cent at end 2006 (from 27.4 per cent at end 2005) and 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 12.7 per cent at end 2006 (16.3 per cent at end 2005).
- Interest payments on the Debt were €1,859 million. This represents 4.1 per cent of tax revenue, less than a sixth of the equivalent figure of 25.7 per cent 15 years ago. The reduction in the interest burden has freed up substantial resources which the Government can use for other purposes. Total debt service costs in 2006 were €271 million below budget.
- Foreign investors hold 86 per cent of Irish Government bonds, up sharply from 22 per cent at end 1998, just before the introduction of the euro.
- Ireland's benchmark bonds trade at virtually the same cost as those of Germany and France, who are viewed as the benchmark borrowers in Europe. As a result of the strength of the public finances, no new bond issues or auctions of existing bonds were necessary during 2006.
- Bond yields were:

| Bond yields were: | At 31 December 2006 | At 26 June 2007 |
|---|---|---|
| 3¼% Treasury Bond 2009 | 3.90% | 4.44% |
| 5% Treasury Bond 2013 | 3.92% | 4.53% |
| 4.6% Treasury Bond 2016 | 3.95% | 4.58% |
| 4½% Treasury Bond 2020 | 4.03% | 4.65% |

- At end 2006, 88 per cent of the National Debt carried fixed rates of interest. The balance related to retail savings schemes. The high level of fixed interest debt is a result of the policy of locking in long-term borrowing at historically low levels of interest, thus protecting the Exchequer against the effects of rising interest rates.
- Exchange rate risk has been eliminated from the National Debt, as all of the debt is now denominated in, or swapped into, euro.
- Government retail savings schemes raised net additional funds of €219 million in 2006. But when account is taken of payments of accrued interest, the total amount outstanding fell. Repayment of €142 million was made to holders of maturing Special Savings Incentive Accounts with An Post.
- The credit rating agencies continue to regard Irish Government debt as among the best in the world. Moody's, Standard & Poor's, Fitch and Rating & Investment Information Inc. all reaffirmed Ireland's top AAA long-term credit rating towards the end of 2006.

## Other NTMA Financial Activities

- The NTMA has borrowed on behalf of the Housing Finance Agency since February 2003. These borrowings averaged €1.57 billion in 2006. Turnover in 2006 was €31.2 billion.
- The Central Treasury Service continues to provide health, education and local government authorities with a competitive alternative to the banking industry for both borrowing and lending. An average of €50 million in loans and €55 million in deposits was outstanding during 2006.
- The NTMA manages the assets of the Social Insurance Fund on behalf of the Department of Social and Family Affairs. The total assets under management by the NTMA were €2.7 billion at end 2006, up by €600 million from end 2005.
- The NTMA manages the assets of the Dormant Accounts Fund, which came to €211.3 million at end December 2006 (€204.4 million at end 2005). The Fund now stands at an estimated €260 million.
- The NTMA manages a passive bond mandate for the National Pensions Reserve Fund. This bond portfolio has made gains of €500 million since inception and stood at €1.8 billion at end 2006. The Fund's cash balances, currently €340 million, are also managed by the NTMA.

- The foreign exchange transactions required by the NPRF for its investments in non-euro assets and for the execution of the Fund's long-term strategic hedging strategy (but not those for the Fund's active foreign currency exposure management) are executed by the NTMA. Turnover on these activities in 2006 amounted to over €32 billion.
- The NTMA manages the balance in the Exchequer Account at the Central Bank in support of the European Central Bank's (ECB) overall liquidity management operations. The 2006 turnover in ECB liquidity management operations was €229 billion, while the average daily transaction size was €620 million. The Exchequer account had €3.6 billion on deposit with the Central Bank at end 2006.

## State Claims Agency

- The State Claims Agency (SCA) currently manages 3,900 claims, of which 1,430 relate to clinical negligence claims against hospitals and health enterprises. The total outstanding reserve against all claims amounts to approximately €314 million, comprising:
  - » Employer Liability, Public Liability and Property Damage €116 million (37%)
  - » Clinical Claims €198 million (63%)
- To end June 2007, the SCA has resolved 3,100 of the total number of claims received since inception in 2001—at a cost of approximately €42 million. Of these, 2,800 are EL/PL/PD claims and 300 are clinical claims.
- 27 per cent of all closed EL/PL/PD claims have been resolved at no cost to the State. 43 per cent of all closed clinical claims have been resolved at no cost to the State.
- 2006 was the first full year in which the SCA managed the additional classes of claims delegated in September 2005, particularly claims relating to child sexual abuse and the residual hearing loss claims from members of the Defence Forces.
- 71 per cent of all employer liability, public liability and property damage claims involve the Prison Service, An Garda Síochána and the Defence Forces.
- The level of clinical negligence claims remains unchanged – claims disposed of and new claims received being approximately equal in number.
- A comprehensive programme of risk initiatives across all State authorities was undertaken in 2006. In particular this included:
  - » an audit of the health and safety management system in the Defence Forces;
  - » the implementation of the recommendations of an SCA report on the management of risk in the Irish Prison Service;
  - » the establishment of Risk Management Liaison Groups with An Garda Síochána, the Department of Agriculture and Food and the Office of Public Works; and
  - » a series of training courses and seminars for schools and Government Departments.
- Key developments arising from the CIS Risk Management Service Plan for 2006 included quality assurance initiatives to support the STARSweb system, the establishment of successful obstetric and paediatric forums and significant collaborative projects with the Health Service Executive and Health Information and Quality Authority.

## National Development Finance Agency

- The NDFA was established on 1 January 2003 to provide financial advice to State authorities undertaking major infrastructure projects, whether by means of Public Private Partnership (PPP) or traditional procurement.
- To date, 107 projects have been referred to the NDFA, which has completed its advice on 35 projects. Of these, 20 are PPPs which involve significant financing from the private sector.
- In 2006 the NDFA completed its advice in relation to six projects:

| Contract | Total Cost €m | Contract Awarded | Target Completion | PPP/ Non-PPP |
|---|---|---|---|---|
| N25 Waterford Bypass | 360 | April 2006 | 2010 | PPP |
| Limerick Tunnel | 330 | August 2006 | 2010 | PPP |
| Greystones Harbour | 210 | Pending Planning | 2012 | PPP |
| Jamestown Road Regeneration | 45 | February 2007 | 2010 | PPP |
| Midlands Prison Loan Refinancing | 37 | December 2006 | Complete | Non-PPP |
| Horse Racing Ireland Capital Funding | 15 | December 2006 | Complete | Non-PPP |

- The NDFA continues to provide financial advice on a number of high profile projects. Examples include Thornton Hall Prison and transport projects such as the Metro North PPP Project, LUAS extensions and roads. To date in 2007, the NDFA has completed its advice in relation to the Criminal Courts Complex, the National Conference Centre, Lansdowne Road Stadium and a number of social and affordable housing projects and roads schemes.
- In July 2005 the Government expanded the NDFA's remit, providing for a "Centre of Expertise" to undertake the actual procurement of projects, initially on behalf of the Department of Health and Children, the Department of Justice, Equality and Law Reform

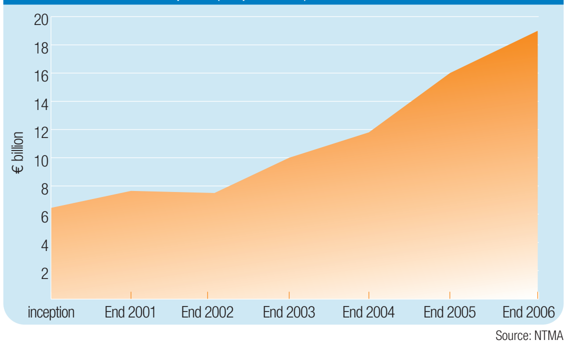
and the Department of Education and Science. The NDFA is currently procuring the first and second bundles of a programme of 27 schools for the Department of Education and Science.

- The remit of the NDFA has recently been further extended to include a wider range of Government Departments: the NDFA has commenced pre-procurement work on behalf of the Department of Arts, Sport and Tourism for the National Concert Hall and the Abbey Theatre.
- The legislation giving statutory effect to the procurement role of the NDFA, the National Development Finance Agency (Amendment) Act 2007, was enacted in April 2007.

## National Pensions Reserve Fund

- The Fund grew by €3.5 billion to €18.9 billion at 31 December 2006 from €15.4 billion at end 2005. Investment returns added €2 billion, while the Exchequer contributed €1.5 billion.
- The Fund earned an investment return of 12.4 per cent in 2006, recording its fourth straight year of strong growth and bringing its annualised return since inception in April 2001 to 6.5 per cent.
- The Fund's value at end 2006 was equivalent to 12.6 per cent of GNP.
- At end 2006 the Fund held shares in approximately 2,250 quoted companies worldwide. It held 161 debt securities and had investments in 22 property investment vehicles and 18 private equity investment vehicles.
- In April 2006 the Fund joined a group of the world's largest institutional investment funds in signing the UN Principles for Responsible Investment. The aim of the Principles is to integrate the consideration of environmental, social and governance (ESG) issues into investment decision-making and ownership practices and thereby improve long-term returns.

NPRF Value from inception (2 April 2001) to 31 December 2006




Source: NTMA

## New Activities

- The Carbon Fund Act 2007 provides for the establishment of the Carbon Fund and designates the NTMA as agent for the State with responsibility for the purchase of carbon credits required to meet Ireland's obligations under the Kyoto Protocol.
- The NTMA is to manage the foreign currency requirements (about €100 million per annum) of the Department of Foreign Affairs. This will be carried out on a non-statutory basis pending the enactment of legislation.
- The Education Finance Board was established in February 2006 under section 23 of the Commission to Inquire into Child Abuse (Amendment) Act 2005. The Fund which the Board has at its disposal is managed by the NTMA pending its disbursement by the Board. The balance in the Fund at 31 December 2006 was €10 million.
- In July 2006 the Department of Finance requested the NTMA to undertake a review of the treasury management and banking arrangements of the Health Service Executive. The review commenced in September and a report was presented to the Department of Finance in December 2006.
- The Health Act 2007, which provides for the establishment of the Health Information and Quality Authority, includes a provision whereby the NTMA may, at the request of the Health Service Executive, manage moneys in patients' private property accounts on terms agreed with the HSE.

## Asset Covered Securities

- Certain functions devolve on the NTMA under the Asset Covered Securities Act 2001 in respect of which it receives an annual fee related to the volume of business activity.
- During 2006, €15.4 billion of asset covered securities were issued in Ireland under the Act, bringing the total amount in issue to €60 billion.

## Consultancy & International Relationships

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

## Human Resources

- Staff numbers in the National Treasury Management Agency grew during 2006 from 125 to 130. Recruitment occurred mainly in the State Claims Agency and in the National Development Finance Agency. In June 2007, the number of staff employed by the NTMA was 135.

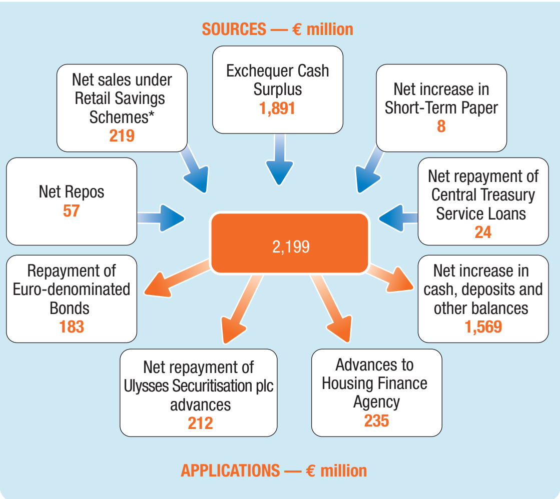
# Funding & Debt Management

## The National Debt

The National Debt, being the net amount that the Exchequer owes, fell by €2.3 billion in 2006 to end the year at €35.9 billion. This figure fluctuates daily, depending on cash movements into and out of the Exchequer. In 2006 there were cashflows of almost €580 billion, equivalent to around four times Ireland's GNP. The NTMA deals with over one hundred banks and financial institutions in managing these cash movements.

The 2006 Exchequer budget surplus was €2,264 million. Deducting from this a sum of €243 million to meet a drawdown from the Small Savings Reserve Fund (SSRF) and €130 million for capital allocations carried over from 2006, the cash surplus was €1,891 million.

A diagram showing the Exchequer's 2006 funding requirements net of liquidity management operations (carried out for the European Central Bank) is set out below:




* Principal only - after payment of €504 million interest, the net amount outstanding on retail debt fell by €285 million in 2006.

## Gross Cashflows In 2006

| Account | € billion |
|---|---|
| Exchequer Account | 367 |
| National Pensions Reserve Fund | 94 |
| Social Insurance Fund | 61 |
| Housing Finance Agency | 31 |
| Post Office Savings Bank Fund | 12 |
| Foreign Currency Accounts | 7 |
| Capital Services Redemption Account | 1 |
| Agricultural Commodity Intervention Paper | 2 |
| Dormant Accounts Fund | 1 |
| **Total** | **576** |

## Change in Nominal Value of National Debt in 2006

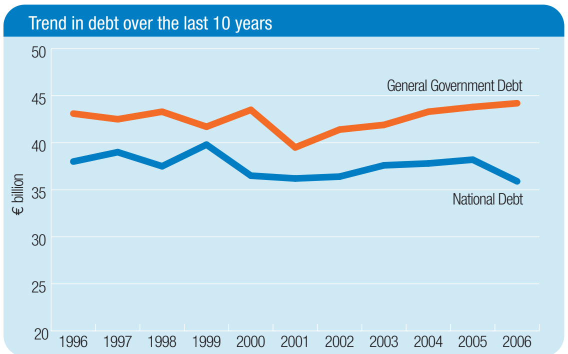
| | € million | € million |
|---|---|---|
| National Debt (end 2005) | | **38,182** |
| Minus | | |
| (i) Exchequer Surplus | (2,264) | |
| (ii) Non-cash movements* | (1) | |
| Change in nominal value of National Debt | | **(2,265)** |
| **National Debt (end 2006)** | | **35,917** |

* Impact of exchange rate movements and net discounts on tranches and cancellations of Government bonds. Premiums/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 bonds 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 €43.8 billion at end 2006, a decrease of €0.4 billion on end 2005. The National Debt fell by €2,264 million and an increase in local authority debt accounted for most of the balance.




Sources: Eurostat, NTMA

## Currency and Duration of the Debt

At end 2006, all of the National Debt was denominated in, or swapped into, euro.

Because of the strong Exchequer position and the absence of any significant debt redemptions, there was no long-term bond issuance in 2006. This, and the passage of time, resulted in the duration of the National Debt decreasing from 5.83 to 5.29 years.

*Left: The Sugar Loaf*

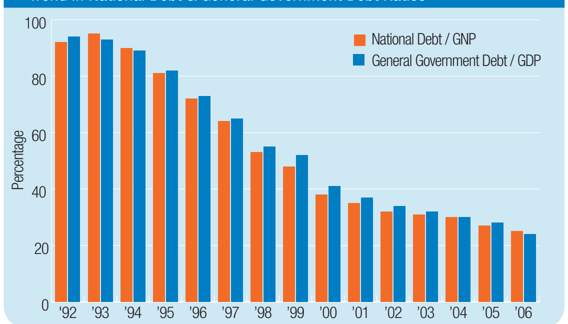
## Debt Ratios

The General Government Debt/GDP ratio decreased by 2.5 percentage points during the year to 24.9 per cent at end 2006. The National Debt/GNP ratio decreased by 4.2 percentage points to 23.9 per cent in the same period.

Ireland's underlying position is much better—when account is taken of the €18.9 billion in the National Pensions Reserve Fund at end 2006, the General Government Debt ratio falls to 14.1 per cent.

The Government's three-year Budget Plan announced in December 2006 points towards stability in the General Government Debt/GDP ratio over the 2007 to 2009 period – at an average of 22 per cent.

Trend in National Debt & General Government Debt Ratios

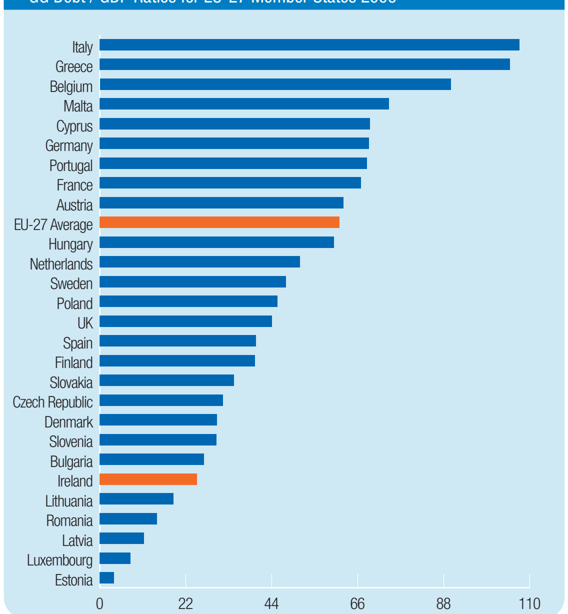



Sources: Eurostat, Department of Finance and NTMA

## International Comparisons

At end 2006, Ireland's comparative indebtedness remained one of the lowest among the EU Member States at less than half of the EU average.

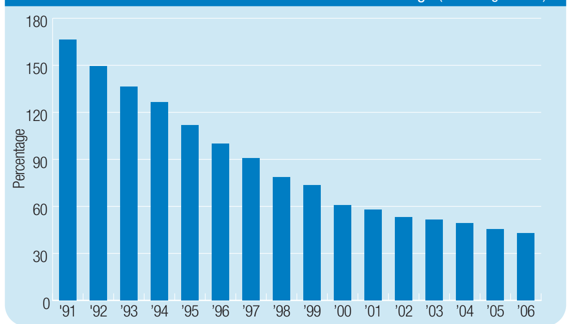
GG Debt / GDP Ratios for EU-27 Member States 2006




Sources: Eurostat, EU Commission, Department of Finance (2006 estimate for Ireland)

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

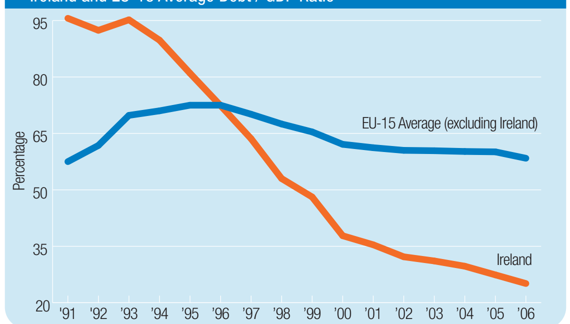
Ireland's GG Debt/GDP Ratio Relative to the EU-15 Average (excluding Ireland)




Sources: Eurostat,EU Commission, Department of Finance (2006 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 (2006 estimate for Ireland)

## Debt Service Costs

In 2006 the Exchequer paid €1,859 million in interest on the National Debt. A further €243 million 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 11).

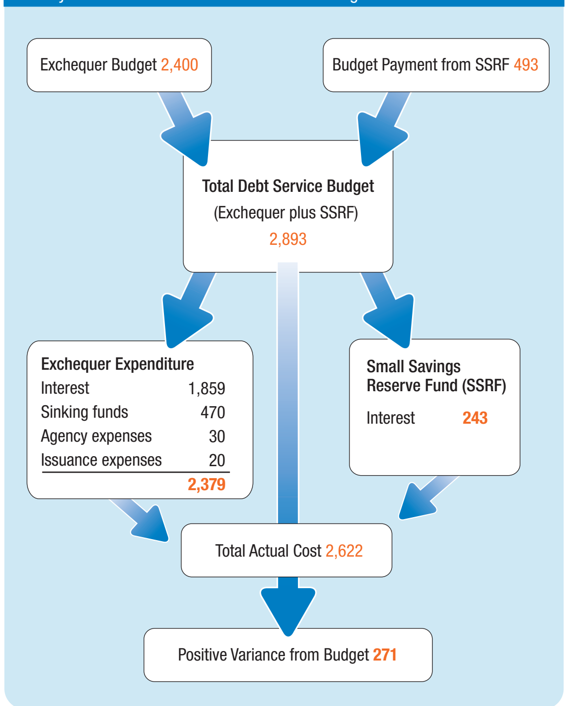
Total debt service savings were €271 million – the savings arose as a result of lower borrowings than anticipated and favourable interest rates, as well as certain NTMA debt management initiatives. The Minister for Finance approved the use of €250 million of these savings to reduce the 2006 drawdown from the Small Savings Reserve Fund.

Other items charged to Debt Service Costs included Sinking Funds of €470 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 €49 million.

The relevant figures are illustrated below.

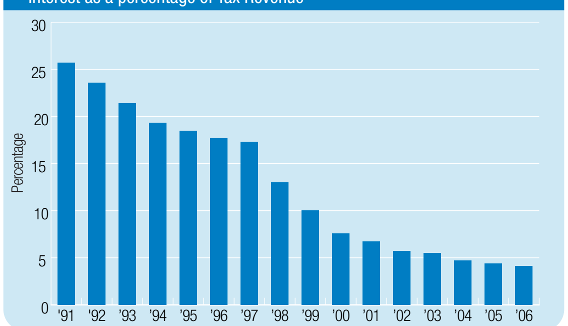
| Analysis of Debt Service Outturn Relative to Budget | (€ million) |
|---|---|
| Budgeted Exchequer debt service expenditure | 2,400 |
| Actual Exchequer debt service expenditure | 2,379 |
| Total favourable variance from Exchequer Budget | 21 |
| Debt service savings used to reduce Small Savings Reserve Fund drawdown | 250 |
| **Total Debt Service Savings** | **271** |

Analysis of debt service outturn relative to Budget — €million




Only 4.1 per cent of tax revenue is now needed to pay interest on the National Debt, compared to 25.7 per cent in 1991.

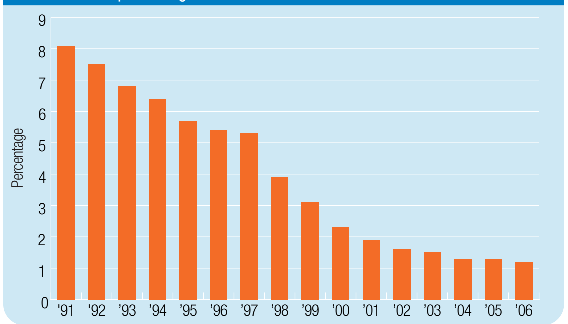
Interest as a percentage of Tax Revenue




Source: NTMA

Interest costs have fallen from 8.1 per cent of GNP in 1991 to 1.2 per cent in 2006.

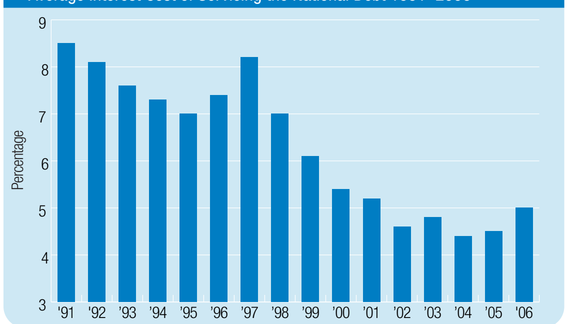
Interest as a percentage of GNP




Source: NTMA

The average interest cost of servicing the National Debt has fallen substantially from 8.5 per cent in 1991 to five per cent in 2006, due to the downward trend in global interest rates, Ireland's improved credit ratings, NTMA debt management initiatives and Ireland's participation in the eurozone.

Average Interest Cost of Servicing the National Debt 1991–2006




Source: NTMA

## 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 2006, the Reserve stood at €582 million, or just over 56 per cent of the accrued interest of €1,038 million.

## Debt Composition

| | € million (nominal) | |
|---|---|---|
| | 31 December 2006 | 31 December 2005 |
| Bonds denominated in euro | 31,189 | 31,311 |
| Other Medium and Long Term Debt | 628 | 626 |
| Retail Savings Schemes | 6,453 | 6,227 |
| Net Short Term Debt | (2,353) | 18 |
| **Total** | **35,917** | **38,182** |

## Funding Activity

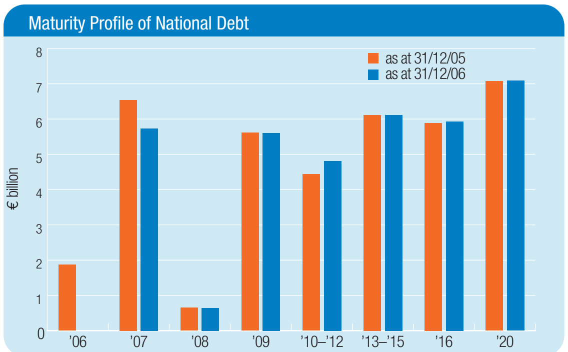
Irish Government bonds continued to trade in the markets in 2006 at virtually the same, or sometimes lower, levels than the euro area benchmark bonds issued by Germany and France. Due to the strong performance of the public finances during the year, the NTMA decided not to hold any bond auctions in 2006.

The NTMA was active in the short term paper markets during the year. Turnover in these markets during the year amounted to €87 billion, including €31 billion on behalf of the Housing Finance Agency. The NTMA also undertook daily cash management activity on behalf of the European Central Bank which totalled €229 billion during the year.

## Maturity Profile

Ireland's euro-denominated bonds have maturities extending to 2020. The four benchmark bonds, along with the former benchmark bond maturing in October 2007, account for 96 per cent of the total bonds outstanding.

Short-term debt is made up of Exchequer Notes, Central Treasury Notes, Section 69 Notes and Commercial Paper, all of which are issued with a maximum maturity of twelve months. The NTMA also raises short-term funds on behalf of the Housing Finance Agency under its commercial paper programme.



Maturity Profile of National Debt

Source: NTMA

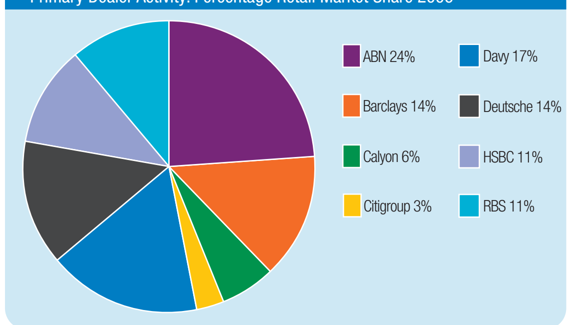
## Primary Dealer System

The Irish Government bond market has nine Primary Dealers recognised by the NTMA who make continuous two-way prices in designated bonds in specified minimum amounts and within specified maximum spreads. There are also a number of stockbrokers who 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. At present, major international banks account for eight of the nine primary dealers.

The Primary Dealers are:

- ABN AMRO, Amsterdam
- Barclays Capital, London
- Calyon, London
- Citigroup, London
- Davy Stockbrokers, Dublin
- Deutsche Bank, Frankfurt
- HSBC, Paris
- ING Bank, Amsterdam
- Royal Bank of Scotland, London

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. The NTMA also actively buys back "off-the-run" Irish Government bonds from its Primary Dealers at competitive market prices.



Primary Dealer Activity: Percentage Retail Market Share 2006

Source: NTMA

## Bond Auctions

Bond auctions, when required, normally take place on the third Thursday of the month. Access to these auctions is restricted to the nine recognised Primary Dealers. 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.

As there was a budget surplus of €2.264 billion and no significant debt redemptions, no bond auctions were required in 2006.

## Electronic Trading—EuroMTS and MTS Ireland

There are eighteen market participants for Irish Government benchmark bonds on EuroMTS:

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

*(Participants denoted in bold are primary dealers)*

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

All euro area sovereign issuers except Luxembourg have their bonds listed on the EuroMTS system. The listing of Irish Government bonds on MTS has greatly enhanced turnover, price transparency and liquidity. The bid-to-offer spread on the bonds has also narrowed, making them more attractive to investors due to the reduced trading cost.

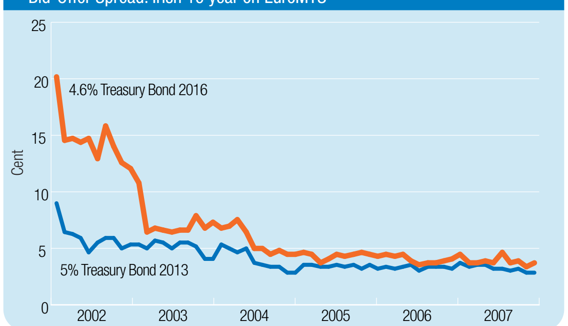
## Bond Spreads

The maximum spreads within which the market makers must quote bid and offer prices for specified minimum amounts are:

| Bond | Maximum Bid-Offer Spread € | Minimum Dealing Size € million |
|---|---|---|
| 3.25% Treasury Bond 2009 | 4 cent | 10 |
| 5.00% Treasury Bond 2013 | 5 cent | 10 |
| 4.60% Treasury Bond 2016 | 7 cent | 10 |
| 4.50% Treasury Bond 2020 | 10 cent | 5 |

Liquidity is deep and this is illustrated by the tightening of the bid-to-offer spread of Ireland's 2013 and 2016 bonds on the EuroMTS system, which is shown in the graph below.

Bid-Offer Spread: Irish 10 year on EuroMTS




Source: EuroMTS

## Convergence of Irish Government Bond Yields in the Euro Area

Irish Government bond yields have converged to the core euro area markets and in 2006 they continued to trade at virtually the same or sometimes at lower levels than the benchmark bonds issued by Germany and France. The graph below shows the convergence of the Irish 2013 bond yield with the equivalent German yield from January 2003 to May 2007.

Yield differential between Irish and German Bonds Maturing in 2013


Source: Bloomberg

The keen foreign demand for Irish Government bonds continues to be underpinned by the strength of the public finances, as exemplified by the long record of surpluses on the General Government Balance and the declining debt to GDP ratio, which is now at 24.9 per cent – among the lowest in the EU. The overall position is even better when account is taken of the €18.9 billion in the National Pensions Reserve Fund. All the major rating agencies continue to be very positive in their assessment of Ireland's credit rating, as reflected in their confirmation, with stable outlook, of Ireland's top short-term and long-term credit ratings.

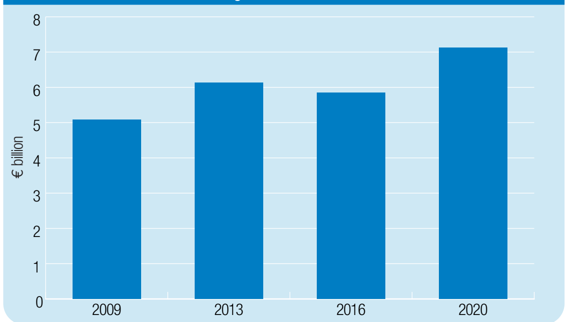
## Bonds and Other Long Term Debt

### Benchmark Government Bonds

Ireland has four major benchmark bonds with maturities across the yield curve to 2020. The amount outstanding in each of these bonds exceeds €5 billion, ensuring that liquidity is continuous and deep. Details are set out below and the outstanding amounts are also shown in the following graph.

| Bond Coupon | Amounts Outstanding 27 June 2007 (€m) | ISIN Code | Annual Payment Date |
|---|---|---|---|
| 3.25% Treasury Bond 2009 | 5,078 | IE0032584868 | 18 April |
| 5.00% Treasury Bond 2013 | 6,126 | IE0031256328 | 18 April |
| 4.60% Treasury Bond 2016 | 5,849 | IE0006857530 | 18 April |
| 4.50% Treasury Bond 2020 | 7,123 | IE0034074488 | 18 April |

Benchmark Bonds Outstanding 27 June 2007

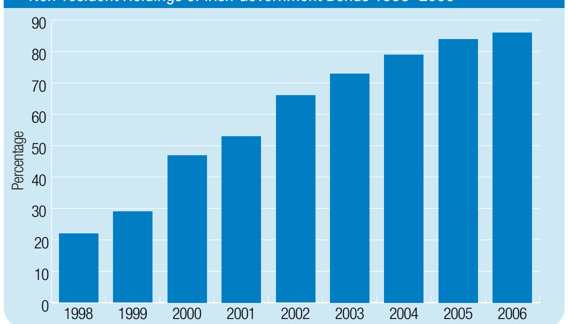



Source: NTMA

## Diversified holdings of Irish Government Bonds

International investment in Irish Government bonds has increased substantially since the introduction of the euro. Non-resident holdings have increased from 22 per cent at end 1998 to 86 per cent in 2006, despite an increase of more than 50 per cent in the total amount of bonds outstanding over the same period. Almost all of the bonds issued since the introduction of the euro have been taken up by international investors.

Non-resident Holdings of Irish Government Bonds 1998–2006




Source: NTMA

## Turnover and Liquidity

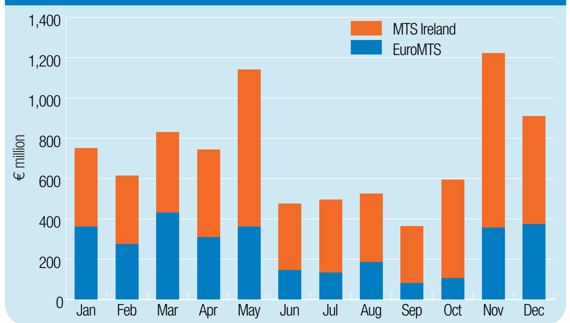
Turnover in Irish Government bonds on the Irish Stock Exchange in 2006 was €37.5 billion.

Turnover of Irish Government Bonds on Irish Stock Exchange 2006


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 2006 was €8.7 billion.

Turnover of Irish Government Bonds on MTS 2006




Source: EuroMTS

## Repos

Repos are an important component of liquidity in the bond market and represent more than five times the turnover in 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 €219 billion in 2006.

Monthly Repo Turnover of Irish Government Bonds 2006


Source: Irish Stock Exchange

The NTMA played an active role in the repo market during the year, by providing repo and reverse repo facilities to the Primary Dealers. Overall the NTMA's repo activity amounted to €24 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 been active in buying back old off-the-run illiquid Irish Government bonds whenever opportunities have arisen in the markets. The opportunities for such buybacks are now very limited as the volume of these bonds has been greatly reduced by previous years' buyback activity. Nevertheless, some €56 million was bought back in this way in 2006.

### 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 (i.e. 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 activity 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 €4.6 billion.

The secondary trading desk has also been mandated to manage assets of €4.7 billion, namely the passive bond portfolio of the National Pensions Reserve Fund (over €1.8 billion at end 2006), the accumulated surplus of the Social Insurance Fund (€2.7 billion at end 2006) and the assets of the Dormant Accounts Fund (€211 million at end 2006).

## Medium Term Note Programme

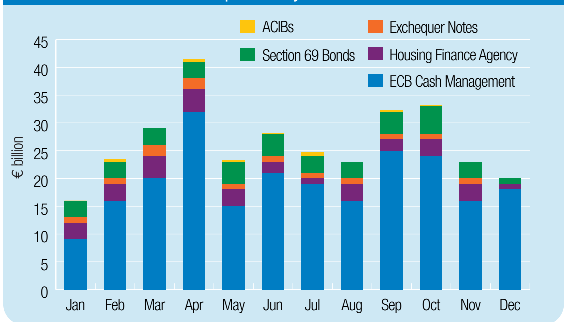
The NTMA has in place a US$5 billion Euro Medium Term Note Programme. This is a multi-currency programme which facilitates issuance in a variety of structures.

## Short Term Debt and Cash Management

The NTMA operates the following short-term programmes:

- Ireland US$8 billion Euro Commercial Paper Programme
- Housing Finance Agency €2.5 billion Euro Commercial Paper Programme
- Exchequer Notes
- Section 69 Multi-currency Notes
- Agricultural Commodity Intervention Bills (ACIBs)
- Central Treasury Service for non-commercial State bodies
- Cash management as part of the ECB's liquidity management for the euro area

Breakdown of Short Term Paper Activity 2006




Source: NTMA

### Ireland Commercial Paper Programme

Ireland's US$ 8 billion Multi-currency Euro Commercial Paper (ECP) Programme is listed on the Irish Stock Exchange to enable it to be used for repo facilities with the European Central Bank. This AAA-rated programme provides funds at attractive rates, significantly below Euribor. The dealers under the Programme are:

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

The issuing agent is JPMorgan Chase Bank N.A., London and the paying agents are JPMorgan Chase Bank N.A., London and JPMorgan Bank (Ireland) plc. Reverse inquiries are accepted. Typically, trades are in amounts ranging from US$50 million to US$100 million. All non-euro borrowings are immediately swapped into euro using foreign exchange contracts.

### Housing Finance Agency Commercial Paper Programme

Under legislation governing the Housing Finance Agency (HFA), the NTMA carries out the HFA's borrowing functions under its €2.5 billion Multi-currency Euro Commercial Paper Programme. The HFA's borrowings are for on-lending to local authorities for the provision of social housing and related projects. HFA borrowings are guaranteed by the Minister for Finance. The Programme has the top short-term credit ratings from Moody's and Standard & Poor's. The dealers on the programme are the same as those for the Ireland US $8 billion programme. Borrowings under this programme are typically for periods of one to six months, in line with the HFA's requirements. All non-euro borrowings are immediately swapped into euro using foreign exchange contracts. Borrowings under the programme averaged €1.57 billion during the year. Total turnover in 2006 was €31.2 billion.

### Exchequer Notes

Exchequer Notes are flexible short-term funding and liquidity management instruments issued directly by the NTMA to a broad range of investors, including corporates, banks and other institutional clients. Exchequer Notes are denominated in euro, with a minimum €250,000 investment. Maturities range from one day to one year depending on investor requirements. They are listed on the Irish Stock Exchange. Borrowings are typically for periods of one week to three months. Activity amounted to €15 billion in 2006.

### Agricultural Commodity Intervention Bills (ACIBs)

ACIBs are short-term debt instruments, issued by the NTMA, which are designed to meet the short-term cash needs of the Department of Agriculture and Food. These arise from intervention payments which are refunded to the Department by the European Commission. Borrowings under this programme are typically for periods of one to six months and activity amounted to €1.9 billion in 2006.

### Section 69 Multicurrency Notes

Notes issued under Section 69 of the Finance Act 1985 were introduced for the purpose of encouraging suitably qualified foreign-owned companies located in Ireland to invest their surplus funds here. Qualifying companies may invest directly with the NTMA or through certain banks in any major currency. The period of investment may be up to one year. The minimum investment is €100,000 or equivalent. Activity under this programme amounted to €38.4 billion in 2006.

### European Central Bank Liquidity Management

The European Central Bank (ECB) operates a liquidity management system which depends in part on the accurate forecasting of the level of government balances in the national central banks throughout the euro area. In the case of Ireland, the forecast level of balances for each day is reported to the ECB by the Central Bank and Financial Services Authority of Ireland six business days ahead. The balances are determined by Government spending, tax collected by the Revenue Commissioners and the NTMA's debt management operations. At the end of each business day, the NTMA calculates the effect on liquidity to ensure that government balances are maintained at the level forecast to the ECB by the Central Bank and Financial Services Authority of Ireland. The NTMA raises funds or places deposits in the international money markets in order to maintain the balances at the level of the forecast given to the ECB. These operations during 2006 amounted to €229.4 billion, with an average transaction size of €620 million.

### Deposit Placements

The NTMA has in place a comprehensive system for monitoring its credit risk with other financial institutions. This involves the evaluation of the financial strength of over 100 banks and other bodies to determine the amount of funds which the NTMA is prepared to place with each, both on a short-term and long-term basis. Counterparty credit limits are constantly reassessed and the NTMA's exposure is monitored daily. This allows the NTMA to place deposits in the international markets, with sufficient liquidity to meet Exchequer cash requirements as they arise, while ensuring that funds are properly safeguarded. Typically, the amount of funds on deposit with banks other than the Central Bank of Ireland ranges from €2 billion to €3 billion each day.

### Transactions on behalf of the National Pensions Reserve Fund Commission

The Commissioners of the National Pension Reserve Fund (NPRF) have mandated the NTMA to manage a passive bond portfolio which was valued at €1.8 billion at end 2006. 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 €32 billion in 2006. The NTMA is also mandated to manage the uninvested cash balances of the NPRF. The average NPRF cash balance in 2006 was €1 billion.

# Retail Savings

In 2006 balances on the retail savings schemes, including accrued interest, fell by €285 million. This takes account of some €142 million repaid from Special Savings Incentive Accounts (SSIAs) operated on behalf of the NTMA by An Post. SSIAs began to mature in May 2006.

In the period since 1996, the Government retail savings schemes have represented on average about 14 per cent of the National Debt. At end 2006, the total outstanding in these schemes including accrued interest was €7.49 billion, a decrease of 3.7 per cent on the equivalent 2005 figure. There is a total of €582 million set aside in the Small Savings Reserve Fund against the accrued interest of €1,038 million on the schemes.

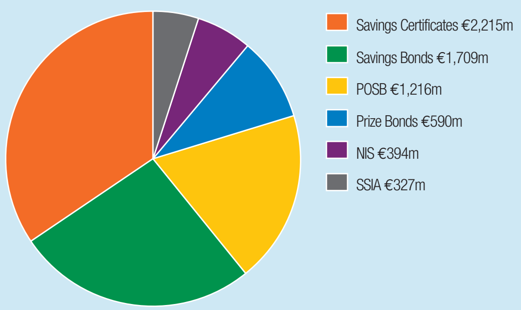
The schemes attract funds largely from domestic private investors and, with the exception of Prize Bonds, they are operated by An Post on behalf of the NTMA. Prize Bonds are operated by the Prize Bond Company Limited, a joint venture between An Post and FEXCO, a financial services company based in Killorglin, County Kerry.

In October 2006 the upper limits on the amount that may be invested in Savings Certificates and Savings Bonds were increased by 50 per cent. The new limits are €120,000 for individual holdings of each product and €240,000 for joint holdings.

| Savings Schemes | Outstanding at 31 December 2006 | Money raised/(repaid) in 2006 (net) |
|---|---|---|
| | € million | € million |
| Savings Certificates | 2,215 | 7 |
| Savings Bonds | 1,709 | 124 |
| National Instalment Savings | 394 | 9 |
| Prize Bonds | 590 | 29 |
| Savings Stamps | 2 | 0 |
| **Post Office Savings Bank (POSB)** | | |
| Special Savings Incentive Accounts | 327 | (37) |
| Other POSB Accounts | 1,216 | 87 |
| **Total Principal Outstanding** | **6,453**[1] | **219** |
| Adjustment for POSB interest accrued and not paid | - | 7 |
| Accrued interest on other Savings Schemes | 1,038 | (511) |
| **Total** | **7,491** | **(285)** |

1 This figure is included in the National Debt

Amounts Outstanding in the Retail Savings Schemes 31 December 2006




Source: NTMA

### Administration Costs

The administration fees paid to An Post and the Prize Bond Company in 2006 in respect of the Government retail savings schemes were:

| Savings Schemes | €million |
|---|---|
| Savings Certificates | 4.2 |
| Savings Bonds | 3.2 |
| Instalment Savings | 2.6 |
| Prize Bonds[1] | 7.4 |
| Savings Stamps | 1.0 |
| Post Office Savings Bank[2] | 25.0 |
| **Total:** | **43.4** |

1 These fees were paid to The Prize Bond Company. The other fees are paid directly to An Post.
2 Fees relating to the Post Office Savings Bank (POSB) are paid from the POSB Fund.

Negotiations with An Post on an appropriate long-term fees structure for operating these schemes are now nearing completion. It is expected that the new fees structure will apply in 2007. As an interim measure pending agreement on the new fees structure, the fee for operating the Post Office Savings Bank in 2006 was reduced by 10 per cent on the 2005 level.

### Rates of Return

The current rates of return, which are exempt from Irish income tax, are:

- Savings Certificates: 16 per cent over a 5½ year period, equivalent to 2.74 per cent a year if held to maturity. Minimum investment is €50, with a maximum of €120,000 for an individual and €240,000 for a joint holding.
- Savings Bonds: 8 per cent over 3 years, equivalent to 2.6 per cent a year if held to maturity. Minimum investment is €100, with a maximum of €120,000 for an individual and €240,000 for a joint holding.
- National Instalment Savings: 15 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 2.57 per cent. Minimum monthly investment is €25; maximum is €500.

### Post Office Savings Bank

The Post Office Savings Bank (POSB) deposit base at end 2006 was €1,543 million, an increase of almost 4 per cent on the end 2005 figure. This includes €327 million in SSIAs operated on behalf of the NTMA by An Post. These accounts began to mature in May 2006 and some €142 million was repaid by the end of 2006. A further €345 million will be repaid from the SSIAs in 2007.

SSIAs were introduced by the Government in 2001 for a limited period – new accounts could be opened only in the twelve months ended 30 April 2002 – as an incentive to boost personal savings. Savers were allowed to hold only one account, and they had to commit to save over a five-year period. They earned, in addition to normal interest rates, a Government bonus of 25 per cent of the amount saved. All financial institutions in Ireland were able to offer these accounts and the market share of the POSB was just under 3 per cent.

The other POSB accounts are the book-based demand account and a 30-day notice account known as Deposit Account Plus. The current interest rates on these accounts are as follows:

| **Demand Account** | **Rate per Annum** |
|---|---|
| Under €6,000 | 0.10% |
| €6,000 and over | 0.25% |
| **Demand Account Plus** | **Rate per annum** |
| Under €30,000 | 1.0% |
| €30,000 and over | 1.5% |

PRIZE BONDS
STATE GUARANTEED

Net sales of Prize Bonds amounted to €29 million, down from €54 million the previous year. The total amount outstanding at end 2006 was €590 million. There was a notable increase in on-line sales during 2006, up by 90 per cent on 2005 to €11.6.

Almost 145,800 tax-free prizes, worth €13.9 million, were paid out in 2006. Draws for prizes are held each week and details of the prizes awarded during the year are set out below:

| **Value** | **Number of prizes** |
|---|---|
| €150,000 Jackpot Prizes | 12 |
| €20,000 Star Prizes | 40 |
| €1,000 | 260 |
| €250 | 520 |
| €75 | 144,961 |
| **Total Number of Prizes in 2006** | **145,793** |
| **Total Value of Prizes in 2006** | **€13,862,075** |

A Jackpot Prize is awarded in the first weekly draw of each month. In every other week a Star Prize of €20,000 is awarded. The rate of interest used in 2006 to determine the prize fund was 2.4 per cent.

In addition to facilitating on-line sales, the Prize Bond Company's website www.prizebonds.ie allows investors to view the weekly draw, to track their bond holdings and to check unclaimed prizes. The Prize Bond Company writes to each winner at the address registered on the winning bond, but in some instances it is not possible to make contact. There are about 9,600 Prize Bonds with unclaimed prizes, the aggregate value of which is just over €1.2 million. Some of these go back to the early days of the scheme in the 1950s. A booklet listing the unclaimed prizes at end December 2006 was published by the Prize Bond Company early in 2007.

## 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. In the case of the EU-15, a reduction of eight per cent on the 1990 level is to be achieved. As part of the burden-sharing agreement between EU Member States, Ireland is committed to limiting growth in emissions to 13 per cent above its 1990 level in this period.

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 79.8 million tonnes of carbon dioxide equivalent if no measures were adopted to reduce them. Measures already taken, combined with additional planned measures, will reduce average annual emissions by 13.6 million tonnes, or 79 per cent of the amount required for Ireland to achieve its Kyoto limit of 63 million tonnes. Included in these measures is the EU Emissions Trading System. Over 100 Irish installations in the power generation and large industry sectors participate in this system. These installations will achieve average annual reductions of three million tonnes for the period 2008-2012 or, to the extent that such reductions are not achieved, will purchase carbon credits for any excess emissions.

In addition to these measures, the Government will acquire credits for 3.6 million tonnes of greenhouse gas emissions in respect of each year in the period 2008-2012. The acquisition of such credits in return for clean technology investments in developing countries and certain Eastern European countries is an integral part of the Kyoto Protocol and is provided for under the Protocol's provisions for Flexible Mechanisms. The environmental benefit of a tonne of emissions reductions is the same irrespective of where on the planet it is achieved.

The Carbon Fund Act 2007 designated the National Treasury Management Agency 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 ultimate objective of the United Nations Framework Convention on Climate Change, i.e. stabilisation of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system;
- that risk is minimised, particularly in relation to the timely delivery of credits; and
- 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 in 2006. Towards the end of 2006, the Government committed €40 million for investment in projects for carbon emissions reductions managed by the EBRD/EIB and the World Bank.

## 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 on 15 February 2006 under section 23 of the Commission to Inquire into Child Abuse (Amendment) Act 2005.

The Fund which the Board has at its disposal is managed by the NTMA. The NTMA will make payments from the Fund to the Board each year to cover its expenditure. The balance in the Fund at 31 December 2006 was €10 million.

## 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. The NTMA commenced management of the accumulated surplus of the Fund in July 2001, with performance being measured against a benchmark agreed with the Minister for Finance.

During 2006 the Department of Social and Family Affairs transferred €600 million of the Fund to the NTMA for management, bringing the total at the end of the year to €2.7 billion. A further €400 million has been transferred to date in 2007.

The return achieved on the management of these moneys in 2006, taking account of investment guidelines issued by the Minister for Finance, was 2.72 per cent.

## Central Treasury Services

A Central Treasury Service (CTS) is offered by the NTMA to certain public sector bodies – local authorities, vocational education committees and the Health Service Executive. The objective of the service is to provide these bodies with a competitive alternative to the banking industry for their treasury business and thereby to achieve savings for the Exchequer. It achieves this by providing a pooled lending and deposit-taking facility. This is in line with the best practice of private sector companies with diverse subsidiaries.

During 2006 lending to designated CTS bodies averaged approximately €50 million. There were 781 deposits placed with the CTS during the year, and the average daily amount on deposit was €55 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 to be disbursed for charitable purposes or purposes of societal or community benefit. The amounts due to be remitted are transferred to the Dormant Accounts Fund not later than 30 April each year. The period for determining dormancy is normally 15 years since the last customer-initiated transaction. However, in the case of life assurance policies with a specified term, it is five years after the end of that term.

Pending disbursement, moneys in the Dormant Accounts Fund are managed by the NTMA. The NTMA had €211.3 million under management in the Fund at end December 2006, compared with €204.4 million at end 2005. Some €80.1 million was transferred to the Fund in 2006, while €44.7 million of previously dormant funds was reclaimed. Disbursements from the Fund amounted to €33.3 million in 2006. The Fund now stands at an estimated €260 million.

Decisions on disbursements are made by the Government. The role of the Dormant Accounts Board, established on 4 January 2006 under the Dormant Accounts (Amendment) Act 2005, is to advise on priority areas for funding and to monitor the impact of this funding. During 2006, the Board published a new Disbursement Plan in accordance with its statutory obligations.

The legislation on dormant accounts guarantees the right of account and policy holders to reclaim their funds in the event that their dormant accounts or life assurance policies are reactivated. Claims must be made from the relevant financial institutions and the amounts are then recouped to the financial institutions from the Dormant Accounts Fund.

The NTMA is obliged to determine the amount to be paid into the reserve account of the Fund to meet such claims and also to meet expenses. With the approval of the Minister for Community, Rural and Gaeltacht Affairs and the consent of the Minister for Finance, this reserve has been set at 15 per cent of the total moneys received by the Fund in respect of dormant accounts and life assurance policies and not yet reclaimed. The balance of the Fund is available for disbursement.

## Credit Ratings

Ireland has the top long-term and short-term credit ratings from all of the four major credit rating agencies. In 2006 each of the agencies reaffirmed these ratings with a stable outlook.

| 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 24.9 per cent at end 2006. 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.

## Asset Covered Securities

Covered Bonds (or Assets Covered Securities) involve pooling assets, which in the Irish context are either residential mortgages or public sector loans, and issuing bonds against these pools of assets. The bonds are structured and legislatively underpinned in such a way as to provide a high level of security for investors while making a competitive means of funding available for financial institutions. While the issuers of covered bonds are European banks, those who invest in the bonds (e.g. pension funds and banks) are located worldwide. Thus, Irish covered assets securities are a global capital markets product.

The Asset Covered Securities Act 2001 allowed Irish-based banks, both international and domestic, to raise funds on very competitive terms.

The Act provided that, in the event of any issuer of securities under the Act defaulting, 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 2006, €15.4 billion was issued, bringing the total issued under the legislation to €60 billion.

ULYSSES
SECURITISATION PLC

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

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 €162 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.

Right: *Lobster and Pears 2*


J NOLAN

# National Pensions Reserve Fund

The National Pensions Reserve Fund 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 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 consisting of seven members 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 from April 2001 under the National Pensions Reserve Fund Act 2000.

The Commission is required to submit to the Minister for Finance an Annual Report and Accounts of the Fund. These are published separately.

### Performance

The Fund grew by €3.5 billion from €15.4 billion at end 2005 to €18.9 billion at end 2006.

The Fund earned an investment return of €2.035 billion, or 12.4 per cent, in 2006. As in the preceding three years, the Fund's 2006 performance was driven by its heavy equity weighting.

### Asset Allocation

In February 2005 the Fund announced a significant diversification of its strategic asset allocation, primarily through an allocation to alternative asset classes – property, private equity and commodities – to be achieved on a phased basis by end 2009.

During 2006 the Commission reviewed the main assumptions underpinning this asset allocation to assess if anything had materially changed in the meantime which would cause it to adjust the allocation. While it was satisfied that the overall thrust of the allocation remained valid, it agreed a number of adjustments in order to further increase prospective return while maintaining the Fund's risk profile within acceptable limits.

**NPRF Target Strategic Asset Allocation (end 2009)**

| | Allocation 2004 Review % | Adjusted Allocation 2006 Review % |
|---|---|---|
| Large Cap Equity | 63 | 56 |
| Small Cap Equity | 4 | 5 |
| Emerging Markets Equity | 2 | 5 |
| **Total Quoted Equity** | **69** | **66** |
| Private Equity | 8 | 10* |
| Property | 8 | 8 |
| Commodities | 2 | 2 |
| **Total Alternative Assets** | **18** | **20** |
| Bonds | 13 | 13 |
| Currency Funds | - | 1 |
| **Total Financial Assets** | **13** | **14** |
| **Total** | **100** | **100** |

*including a 2% allocation to infrastructure.

The Fund has continued to diversify its portfolio in accordance with its target asset allocation. By end 2006, it had committed €909 million to property investment vehicles and €705 million to private equity investment vehicles. Moneys committed to these funds will be drawn down as suitable investment opportunities arise. The Fund's eight per cent target allocation to both property and private equity will involve investments of some €2 billion by end 2009 in each of these asset classes.

| NPRF Asset Allocation – 31 December 2006 | | |
|---|---|---|
| | **€million** | **%** |
| Large Cap Equity | 13,315 | 70.5 |
| Small Cap Equity | 777 | 4.1 |
| Emerging Markets Equity | 365 | 1.9 |
| **Total Quoted Equity** | **14,457** | **76.5** |
| Private Equity | 122 | 0.6 |
| Property | 559 | 3.0 |
| Commodities | 239 | 1.3 |
| **Total Alternative Assets** | **920** | **4.9** |
| Government Bonds | 2,433 | 12.9 |
| Corporate Bonds | 84 | 0.4 |
| Currency Funds | 122 | 0.6 |
| Cash | 884 | 4.7 |
| **Total Financial Assets** | **3,523** | **18.6** |
| **Total** | **18,900** | **100.0** |

### Principles for Responsible Investment

In 2006 the Commission joined a group of the world's largest institutional investment funds in signing the UN Principles for Responsible Investment. The Principles are based on the premise that environmental, social and governance (ESG) factors can materially affect investment performance, but that large institutional investors such as the Fund have lacked a framework for the systematic integration of ESG issues into investment decision-making and ownership practices.

As an asset owner, the Commission's initial focus in its implementation of the Principles is on the development and implementation of a comprehensive proxy voting policy and the development of an engagement capacity with investee companies on ESG issues.

### 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 the operational risks to the Fund are minimised;
- preparation of the Fund's financial statements and monitoring of the Fund's global custodian; and
- 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 internally. 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) is required to submit an Annual Report and Accounts of its activities to the Minister for Finance. These are published separately.

The NDFA was established on 1 January 2003. It discharges its functions through the NTMA. The Chief Executive of the NTMA is, *ex-officio*, the Chairperson of the NDFA and a director of the NTMA is Chief Executive of the NDFA.

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

- to advise State authorities on the optimal means of financing public investment projects in order to achieve value for money;
- 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; and
- to establish special purpose companies for the purpose of financing projects.

The *National Development Finance Agency Act 2002* specified that State authorities that 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 €20 million to the NDFA.

In July 2005, the Government widened the remit of the NDFA, providing for a "Centre of Expertise" to undertake the procurement and delivery of projects – initially in the priority areas of health, education and justice. 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 those schools. The NDFA's procurement remit was recently further extended to include all sectors apart from transport and local government. In early 2007, the NDFA commenced pre-procurement work on behalf of the Department of Arts, Sport and Tourism for the National Concert Hall and the Abbey Theatre.

The legislation providing for the procurement role of the NDFA, the *National Development Finance Agency (Amendment) Act 2007*, was enacted in April 2007.

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 for the purpose of making an equity investment in, or a repayable loan to, a special purpose company. To date, it has not been necessary to use any of these functions.

Since its inception, 107 projects have been referred to the NDFA. It has completed its advice to date in relation to 35 projects, 20 of which were PPPs which involved significant financing from the private sector.

The NDFA completed its advice in relation to six projects in 2006:

| Contract | Total Cost €m | Contract Awarded | Target Completion | PPP/ Non-PPP |
|---|---|---|---|---|
| N25 Waterford Bypass | 360 | April 2006 | 2010 | PPP |
| Limerick Tunnel | 330 | August 2006 | 2010 | PPP |
| Greystones Harbour | 210 | Pending Planning | 2012 | PPP |
| Jamestown Road Regeneration | 45 | February 2007 | 2010 | PPP |
| Midlands Prison Loan Refinancing | 37 | December 2006 | Complete | Non-PPP |
| Horse Racing Ireland Capital Funding | 15 | December 2006 | Complete | Non-PPP |

The NDFA continues to provide financial advice on a number of high profile projects. Examples include Thornton Hall Prison and transport projects such as the Metro North Project, the LUAS extensions and roads. To date in 2007, the NDFA has completed its advice in relation to the Criminal Courts Complex, the National Conference Centre, Lansdowne Road Stadium and a number of social and affordable housing projects and roads schemes.

# 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.

## Claims under management

The SCA's remit covers claims against certain State authorities, including the State itself, Ministers, the Attorney General, the Commissioner of the Garda Síochána, prison governors, community and comprehensive schools and various other bodies. The SCA deals with a wide diversity of claims from the very serious, including fatalities, to those arising from minor incidents. In February 2003, the management of clinical claims was additionally delegated to the SCA. In July 2005, the *National Treasury Management Agency (Delegation of Claims Management Functions) Order 2005* brought claims related to child sexual abuse and hearing loss claims from members of the Defence Forces under the management of the SCA.

## Current Position

### Claims

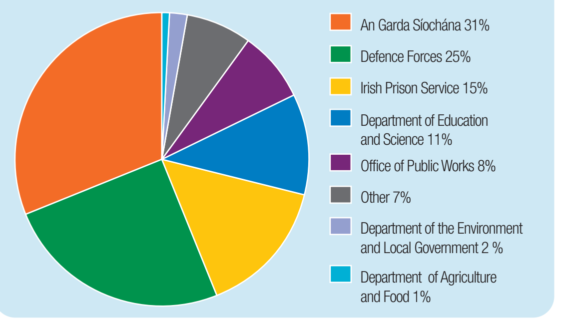
The SCA currently manages approximately 3,900 claims, of which approximately 1,430 relate to alleged medical malpractice. The total outstanding reserve at present against all active claims amounts to €314 million as follows:

- Employer Liability /Public Liability/Property Damage (EL/PL/PD) €116m (37%)
- Clinical Indemnity Scheme €198m (63%)

### EL/PL/PD Claims

There has been no significant change in the distribution of claims volume between State authorities from 2005 to 2006.

Claim Count by State Authority

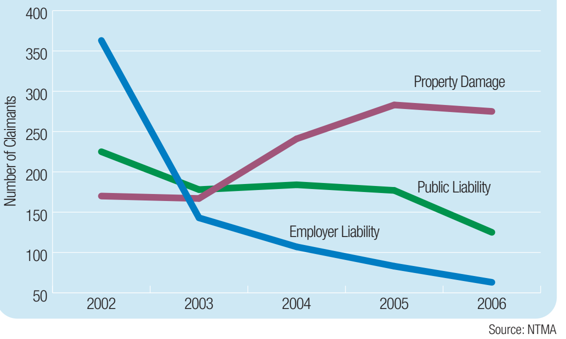



Source: NTMA

### Trends

There continues to be a significant decline in EL and PL claims volumes. Since 2002, the number of claims in the EL category has fallen by 83 per cent and the number of PL claims by 44 per cent. The number of EL claims declined by 24 per cent between 2005 and 2006 and the number of PL claims by 29 percent. However, these declines may be slightly overstated as some further claims may yet arise from incidents that occurred in 2006. Property damage claims volumes, which are generally speaking of a much lower value, are no longer increasing in number and are showing a level trend. This analysis excludes child sexual abuse claims and hearing loss claims which were delegated to the SCA too recently to be included and many of which are claims that are historical in nature.

Claim Trends by Date of Incident




Source: NTMA

Claims against the Defence Forces and the Irish Prison Service show the most marked reduction. The strongly downward trend in EL and PL claims against the State mirrors – but in a more pronounced way – that of a general decline in claims experienced across the insurance industry. The reduction appears to be due to a combination of factors:

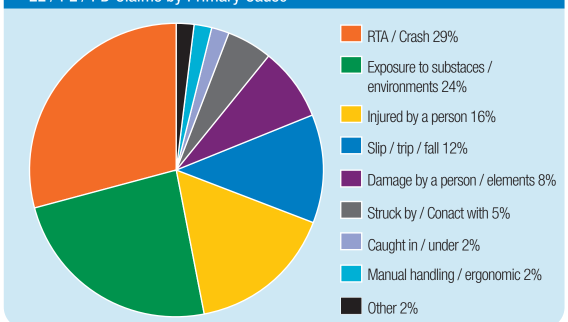
- the introduction of significant risk management initiatives in State authorities assisted by the SCA;
- a professional claims management service working with the State authorities;
- the effect of a number of precedent High Court cases—in particular, the successful challenge by the State in the Supreme Court, ultimately with costs to the State, of the asbestos "worried well" actions.

In addition, the effects of the amendments to the civil liability code, the introduction of the Personal Injuries Assessment Board and the insurance industry's publicity campaigns against fraudulent or exaggerated claims all contributed to the reduction in claims volumes.

Despite the downward trend in the typical classes of EL/PL/PD claims, the overall volume is not significantly reduced and the overall reserve level has increased. This is due to the addition of the child sexual abuse and hearing loss claims which are not included in the analysis set out above.

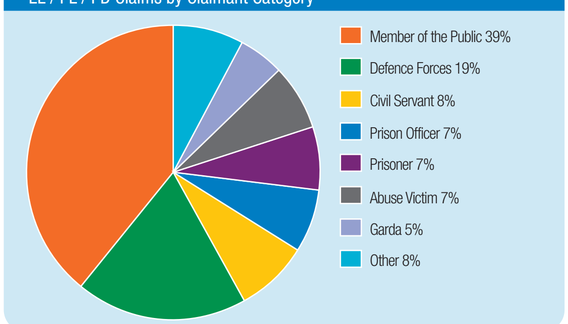
The primary causes of EL/PL claims are alleged exposure to hazardous substances (24 per cent), Road Traffic Accidents (29 per cent), injured by a person (16 per cent) and slips, trips and falls (12 per cent).

EL / PL / PD Claims by Primary Cause




Source: NTMA

EL / PL / PD Claims by Claimant Category




Source: NTMA

The SCA is also monitoring approximately 5,000 adverse EL/PL incidents, some of which may develop into claims at a later stage.

### Child Sexual Abuse

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

420 sexual abuse claims have been received to date from the Department of Education and Science, the Department of Health and Children and the Chief State Solicitor's Office.

Five sexual abuse cases against the Minister for Education and Science and other State defendants were dismissed by various judges of the High Court. The judges held that the relationship between the Minister and teachers was insufficient to create a servant/agent or employer/employee relationship whereby the Minister could be vicariously liable for the acts or omissions of the offending teachers. Further, in some of the cases, the Court held that had the plaintiffs chosen to sue the Patron and/or Manager of the respective schools in respect of the injuries which they suffered at the hands of the abuser teachers, such claims may have been successful.

All five cases have been appealed to the Supreme Court.

### Hearing Loss Claims

In total, 566 hearing loss claims have been transferred to the SCA from the Chief State Solicitor's Office and the Department of Defence. These are the residual "army deafness" mass action cases which had not been settled. Since September 2005, the SCA has received an additional 47 hearing loss claims. Of these 613 claims, 337 (55 per cent) have been resolved. The resolved cases were settled at an average cost of €6,400.

### 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). It is estimated that the State was obliged to spend on average €5,000 per case, or about €2.5 million in total, on legal and medical costs in the defence of these claims. Following a further judgement of the Supreme Court on 31 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 is 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, are now pressing ahead with claims alleging that their clients (i) were exposed to asbestos and (ii) developed pleural plaques.

The SCA, in response, has prepared a detailed legal strategy (including medical examination) to meet the new threat posed by 'pleural plaques' litigation.

**EL/PL/PD Claims Resolved**

Since its establishment in December 2001, over 2,800 claims (53 per cent of all claims received to date) have been resolved by the SCA at a cost of approximately €32 million, the majority through out-of-court settlement. 27 per cent of all closed claims have been resolved at no cost to the State.

## 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 approximately 5,000 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 point to weaknesses in existing health and safety 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. In conjunction with data on claims and adverse incidents, risk reviews enable the SCA to identify risk management deficiencies and to recommend initiatives to address them.

The following are among the risk review initiatives undertaken during 2006:

***Liaison with State Authorities***

Since its inception, the SCA has forged strong relationships with all State authorities to communicate, report, advise, monitor and 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 an exchange of information and an update on the progress on any initiatives underway.

Quarterly reports on claims and incidents received are also sent to all State authorities.

The SCA also provides training and seminars for the relevant authorities. A series of eight seminars was provided to the Boards of Management, principals and teachers of community and comprehensive schools and to teachers' organisations following the launch by the SCA and the Department of Education and Science of a joint report on the *Management of Occupational Health and Safety in the Technologies in Post-Primary Schools*.

The SCA also held a seminar on health and safety issues for those State authorities whose business activity is mainly office-based and which, therefore, carry a lower level of risk. Attendees were given an update on new legislation enacted in 2006. Topics such as noise, stress, driving, e-working and home working were covered. The seminar was well attended and received.

***Occupational Health and Safety Management Systems – Defence Forces***

The Defence Forces requested the SCA to facilitate and audit the introduction of an occupational health and safety management system based on international standards.

The SCA, in conjunction with the Defence Forces, developed and agreed occupational health and safety objectives and key performance indicators for all functional levels. Audits were then completed for an appropriate sample of functional levels and selected military units. The Defence Forces successfully achieved compliance with the Occupational Health and Safety Management System Standard in all areas audited.

***Occupational Health and Safety Management System – Irish Prison Service***

An occupational health and safety management system based on international standards is being implemented in pilot sites in the Irish Prison Service (IPS).

Policy and management procedures for all elements of the system together with a project implementation plan were developed by the SCA in conjunction with the IPS. Training programmes for key staff have been developed along with health and safety objectives. Key performance indicators have been agreed for all areas of the IPS for 2007. Implementation will be completed by mid-2007 and the system will be audited for compliance before the end of 2007.

## Clinical Indemnity Scheme

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 negligence claims and associated risks. Under the scheme, which is managed by the SCA, the State assumes full responsibility for the indemnification and management of all clinical negligence claims against enterprises and practitioners covered by the scheme. The remit of the CIS is to:

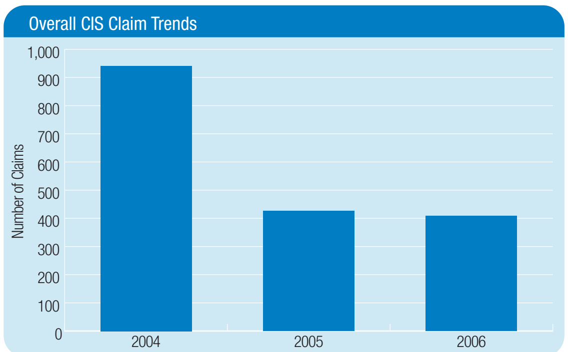
- provide clinical indemnity on the basis of "enterprise liability", (i.e. the enterprise assumes liability for all its employees' alleged clinical negligence);
- manage claims made against the enterprises in a timely and cost-effective manner;
- assist the enterprises to reduce the numbers of clinical claims through risk management initiatives;
- support safe patient care; and
- guide and assist clinical risk management in all the enterprises.

With effect from February 2004, the scope of the CIS was extended to cover the public practice of hospital consultants and their private practice in public hospitals.

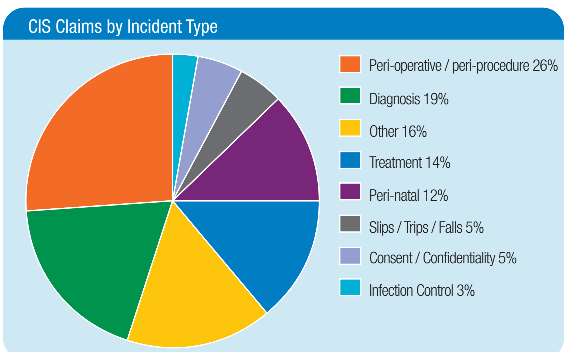
Employer liability and public liability claims of health enterprises are covered under insurance policies written by commercial insurers.

### Clinical Claims

The SCA is currently managing 1,430 claims alleging clinical negligence. There has been a flat trend in clinical claims volumes in 2006. However, the number being managed is still increasing because of the long lead-time between reception and disposal of these claims, given their complex nature.

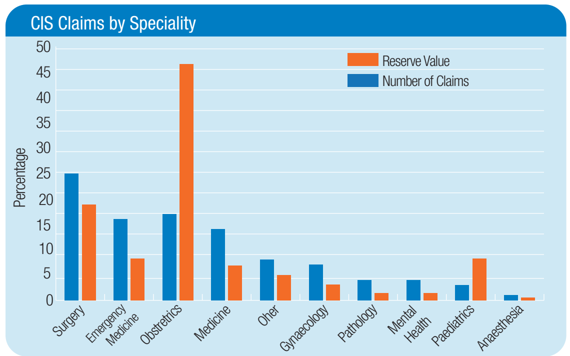



Source: NTMA




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.




Source: NTMA

### Clinical Claims Resolved

Since the scheme was established, over 300 claims (18 per cent of all claims received to date) have been resolved by the SCA at a cost of approximately €10 million, the majority through out-of-court settlement. 43 per cent of all closed claims have been resolved at no cost to the State.

### Clinical Risk Management

The SCA has a statutory brief, as part of the Clinical Indemnity Scheme, to guide and support clinical risk management in all the participating enterprises and hospitals.

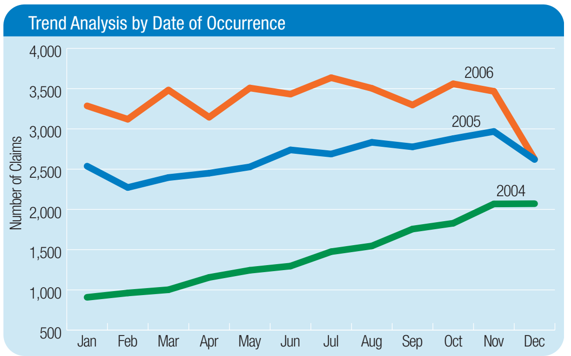
The SCA's Clinical Risk Advisory Service provides advice and assistance to all clinical facilities covered by the CIS and works with risk management and other relevant clinical and administrative personnel at enterprise/hospital level, to support patient safety and to help minimise clinical claims. This includes encouraging the early notification of incidents and "near-misses" and identifying any local and national adverse trends in clinical practice.

### Clinical Incident Reporting System – STARSweb

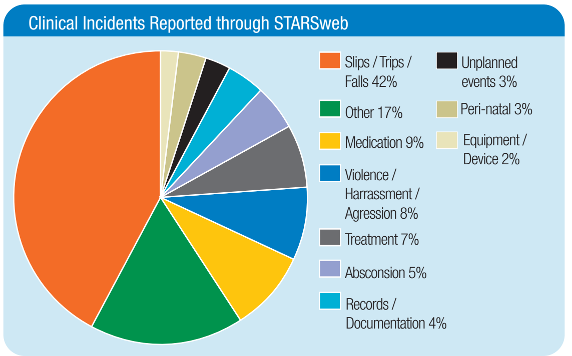
STARSweb is the web-based IT system implemented by the SCA to enable all enterprises covered by the scheme to report adverse clinical incidents and "near-misses" to the SCA. While all data inputted by enterprises is confidential to those enterprises, the SCA maintains a national database to identify and analyse adverse trends and clusters.

By the end of December 2006, approximately 89,000 adverse clinical incidents and "near misses" had been notified on the system.

The table below illustrates the number of incidents reported in that period.




Source: NTMA




Source: NTMA

It is remarkable that, although new enterprises have been logging incidents over the period, the breakdown of clinical incidents by incident-type is constant, with "Slips/Trips/Falls" accounting for over 40 per cent. This is at variance with the overall claims profile, where this category of incident accounts for only five per cent of total claims. However, this picture mirrors precisely international experience of other large databases.

### Quality Initiatives to support STARSweb System

The system is subject to ongoing revision and review. During 2006, a Users' Forum was established to facilitate communication between the SCA and end-users, and the system was upgraded accordingly. In addition, the SCA carried out a project to assess the quality of data entry and user satisfaction with STARSweb. The *STARS Data Quality Assurance Tool* project represents a partnership approach between HSE, HIQA and the SCA. Phase 1 of the project commenced in 2006. It consists of both qualitative and quantitative elements and is designed to identify current barriers to accurate data entry on to the STARSweb system. This research will inform the development of a quality assurance tool in 2007.

### Obstetrics Forum

The specialty of obstetrics accounts for 18 per cent of the number of claims and almost 50 per cent of the reserved cost of claims. Trend analysis of incidents notified to the STARSweb system allied to "closed claims" analysis will identify those enterprises to be targeted for special attention from the SCA during 2007.

The SCA will continue to host the Obstetrics Forum in order to promote best practice and to provide for sharing of knowledge between all maternity units within the scope of the CIS.

### Paediatrics Forum

Although the specialty of paediatrics accounts for only five per cent of the total number of claims, adverse publicity following the death of a child can result in significant reputational damage to an enterprise and its healthcare professionals, and may also lead to loss of public confidence in the enterprise. The CIS continues to provide clinical risk management support and guidance to paediatric hospitals and units throughout the country.

Representatives from all paediatric units covered by the scheme will be invited to twice-yearly meetings, hosted by the SCA.

### Collaboration with HSE

The HSE is still evolving its risk management structures. In order to ensure a standardised approach to clinical risk management, the SCA participates fully in the Quality and Risk Collaborative Forum, which was established by the HSE and involves all key stakeholders. Projects currently underway include the development of a standardised approach to obtaining consent; training in the handling of complaints and the development of an IT complaints module; and the identification of risk areas in the non-acute sector, i.e. Primary Community and Continuing Care.

### Policy Committee

The *National Treasury Management Agency (Amendment) Act 2000* provides for the establishment of a Policy Committee to advise the SCA on policy and procedures relating to the performance of its claims management and risk management functions. The Committee met four times during 2006 and its composition was:

- Noel Whelan (Chairman) – Vice President External, University of Limerick
- John F Dunne – Managing Director, J F Dunne Insurances
- Michael Grace – Associate Director, AIB Investment Managers
- Ann Marie Hayes –Financial Accountant
- Margaret Lane – Human Resources and Personnel Manager, Bord Gáis
- Frank Martin – former Judge of the Circuit Court (up to April 2006)
- Ann Nolan – Principal Officer, Department of Finance

# Finance, Technology & Risk

Finance, Technology and Risk comprises the following units:

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

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 and the management of State funds such as the Social Insurance Fund, Dormant Accounts Fund and borrowings of the Housing Finance Agency. The combined value of assets and liabilities under management exceeds €60 billion. Cashflows of €576 billion were processed in 2006.

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. In reality the remit is much wider, as an important part of the role is to develop and foster a strong control environment, provide timely management information to the businesses and help the organisation to grow and develop. The NTMA has been evolving rapidly in recent years with new businesses being added to its remit.

Financial Control continues to work with ABN AMRO Mellon, the Global Custodian for the National Pensions Reserve Fund (NPRF), to ensure 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, taxation optimisation and compliance obligations.

During 2006, the NTMA identified the business requirement for a specialist administration and accounting system to assist in the accounting, valuation and management of NPRF property and private equity investments. JP Morgan Private Equity Fund Services were appointed as the provider of this system and related accounting services in March 2007, following the completion of a competitive tender. The system will be implemented by the end of June 2007.

## Information Technology

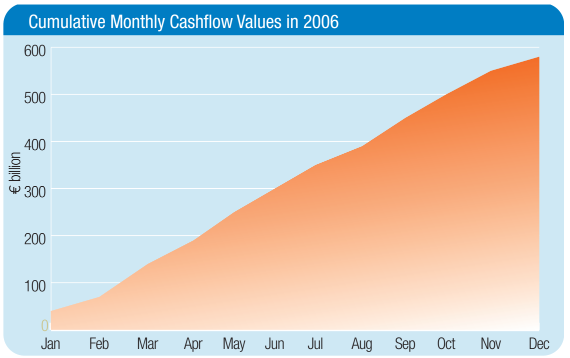
The Information Technology unit is responsible for developing, installing and maintaining the NTMA's systems and technical infrastructure.

New functionality, incorporating a significant upgrade to full three-tier architecture, was implemented for the main NTMA-developed integrated treasury management system (SPRINT) and the National Pensions Reserve Fund system. The SWIFT payments system platform was enhanced and significant improvements were delivered in business continuity functionality for SWIFT and other critical NTMA systems. The main security systems were further enhanced to improve security, data throughput and critical systems fail-over functionality. 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.

## Transaction Processing

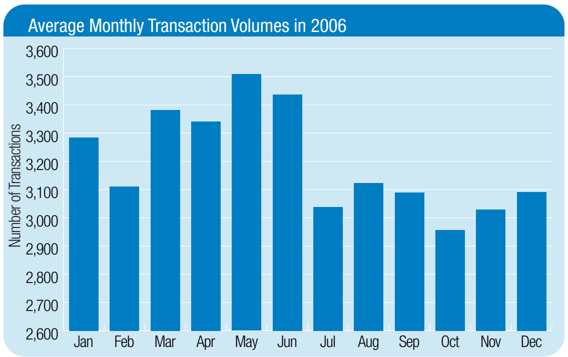
This area is responsible for the confirmation, management and settlement of cash flows for all the NTMA's business activities.

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 2006 has led to further growth in the volume of transactions to 38,000 with an average monthly cashflow of over €48 billion.



Source: NTMA

## Risk Management

The NTMA's primary objectives are to ensure 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 are associated with 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. These 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 annual 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 Unit 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 plus 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 2006, the measurement of performance against the Benchmark and the results achieved were audited by PricewaterhouseCoopers. These results indicate that €18.2 million value added was achieved by the NTMA in 2006.

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, 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. Internal audit is a support tool to NTMA management in accomplishing the businesses objectives while adding value and constantly seeking to improve operations and procedures.

The NTMA has received satisfactory reports in respect of its business from both its external and internal auditors in respect of 2006.

During 2006, 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 & International Relationships

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

In 2006, the NTMA provided advice and assistance to:

- Bulgarian Finance Ministry
- Turkish Treasury
- Ontario State Treasury
- Russian Federation Ministry of Finance and Ministry of Economic Development and Trade.

To date in 2007, advice and assistance has been provided to:

- Spanish Social Security Ministry

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

## Legal & 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, the National Development Finance 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 2006, the legal unit provided advice to the National Pensions Reserve Fund on a range of public procurement issues related to the appointment of investment managers and service providers and managed the legal due diligence process for the Fund's property, private equity, currency, emerging markets and commodities 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 approximately 135. NTMA staff members are recruited from a wide variety of disciplines and at the highest levels of expertise and commitment.

Clear and detailed objectives are set for all staff. Performance is fully evaluated throughout each year and is taken into account in the annual remuneration review led by the Chairman of the NTMA Advisory Committee. Training and development programmes ensure that staff remain at the leading edge of their disciplines and that they maintain career growth in line with performance review outcomes. HR promotes and facilitates a strong and open communication policy with all staff. Finally, health, safety and welfare issues are responsively and sensitively addressed in line with best practice. An Employee Assistance Programme was introduced in 2006 to provide additional support to staff.

Ultimately, all of the foregoing make for 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 2006

## 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

26 June 2007

# 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 2006, 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

26 June 2007

# 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 2006 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 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 2006 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 Purcell**
Comptroller and Auditor General

28 June 2007

# 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 2006.

## 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 2006

| | Notes | 2006 Total Cost €'000 | 2005 Total Cost €'000 |
|---|---|---|---|
| Interest paid | | | |
| Medium / Long Term Debt* | 2 | 1,351,331 | 1,392,874 |
| Short Term Debt** | 3 | 118,006 | 98,134 |
| National Savings Schemes | 4, 9 | 480,346 | 279,902 |
| Other Movements | 5 | 21,062 | 23,159 |
| Sinking Fund payments | 6 | 470,286 | 477,615 |
| Fees and Expenses | 7 | 19,289 | 17,700 |
| Expenses of NTMA | | 29,828 | 21,959 |
| Interest received on deposits with Central Bank and other banks | | (111,184) | (73,138) |
| **Total Service Cost €** | **1** | **2,378,964** | **2,238,205** |

** 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

26 June 2007

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

# National Debt Statement

31 December 2006

| | Notes | | 2006 € million | | 2005 € million |
|---|---|---|---|---|---|
| **Medium / Long Term Debt *** | | | | | |
| Irish Government Bonds listed on the Irish Stock Exchange | | | 31,189 | | 31,311 |
| Other Irish Government Public Bond Issues | | | 38 | | 37 |
| Private Placements | | | – | | – |
| European Investment Bank Loans | | | 120 | | 118 |
| Medium Term Notes | | | 443 | | 496 |
| Miscellaneous Debt | | | 26 | | (26) |
| | 8 | | 31,816 | | 31,936 |
| **Short Term Debt **** | | | | | |
| Commercial Paper | | 118 | | 115 | |
| Borrowings from Funds under the control of the Minister for Finance | 15 | 2,661 | | 3,573 | |
| | | | 2,779 | | 3,688 |
| **National Savings Schemes** | | | | | |
| Savings Certificates | | 2,215 | | 2,208 | |
| Savings Bonds | | 1,709 | | 1,585 | |
| National Instalment Savings | | 394 | | 385 | |
| Savings Stamps | | 2 | | 2 | |
| Prize Bonds | | 590 | | 561 | |
| | 9 | | 4,910 | | 4,741 |
| **Gross Debt** | | | 39,505 | | 40,365 |
| Less Liquid Assets | 10 | | (3,588) | | (2,183) |
| **National Debt €** | **12** | | **35,917** | | **38,182** |

** 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

26 June 2007

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

# National Debt Cash Flow Statement

Year ended 31 December 2006

| | 2006 €'000 | 2005 €'000 |
|---|---|---|
| **Movement in Exchequer balances:** | | |
| Opening Balance in Exchequer Account (note 10) | 2,183,127 | 2,062,298 |
| Commercial Deposits | – | – |
| Borrowing Activity (see below) | (860,176) | 620,183 |
| | 1,322,951 | 2,682,481 |
| Exchequer Surplus/(Deficit) | 2,264,291 | (499,354) |
| Closing Balance in Exchequer Account (note 10) | **3,587,242** | **2,183,127** |

| | Receipts €'000 | Payments €'000 | 2006 Net €'000 | 2005 Net €'000 |
|---|---|---|---|---|
| **Borrowing Activity** | | | | |
| Irish Government Bonds listed on the Irish Stock Exchange | 25,326,031 | (25,448,099) | (122,068) | 213,018 |
| Private Placements | – | – | – | (35,835) |
| European Investment Bank Loans | – | – | – | ( 4,260) |
| Medium Term Notes | – | – | – | (307,062) |
| Miscellaneous Debt | – | (713) | (713) | 383,272 |
| Commercial Paper | 120,836,608 | (120,830,381) | 6,227 | ( 204,884) |
| Savings Certificates | 462,011 | (455,148) | 6,863 | 11,486 |
| Savings Bonds | 671,847 | (547,746) | 124,101 | 156,534 |
| National Instalment Savings | 96,161 | (87,164) | 8,997 | (85) |
| Prize Bonds | 134,592 | (106,660) | 27,932 | 55,048 |
| Borrowings from Ministerial Funds | 67,244,701 | (68,156,216) | (911,515) | 352,951 |
| Total Borrowing Activity | 214,771,951 | (215,632,127) | (860,176) | 620,183 |
| Commercial Deposit Activity | 19,875,200 | (19,875,200) | – | – |
| **Total Activity** | **234,647,151** | **(235,507,327)** | **(860,176)** | **620,183** |

| | Receipts €'000 | Payments €'000 | 2006 Net €'000 | 2005 Net €'000 |
|---|---|---|---|---|
| Exchequer Account | 233,061,156 | (233,924,342) | (863,186) | 877,978 |
| Foreign Currency Clearing Accounts (Note 14) | 1,585,995 | (1,582,985) | 3,010 | (257,795) |
| | **234,647,151** | **(235,507,327)** | **(860,176)** | **620,183** |

**Michael J Somers, Chief Executive**
National Treasury Management Agency

26 June 2007

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

# Statement of Movement in National Debt

Year ended 31 December 2006

| | 2006 €'000 | 2005 €'000 |
|---|---|---|
| Opening National Debt | 38,182,333 | 37,846,169 |
| Increase / (Decrease) in National Debt (nominal) | (2,264,766) | 336,164 |
| **Represented by:** | | |
| Exchequer (Surplus)/Deficit | (2,264,291) | 499,354 |
| Effect of Foreign Exchange Rate Movements | 260 | (1,729) |
| Bond Tranching: net reduction/(excess) of proceeds over nominal liability | (40) | (176,049) |
| Bond Cancellations: net reduction/(excess) of cancellation cost over nominal liability | (76) | 13,918 |
| Movement in CSRA current balance (note 10) | (619) | 670 |
| Other nominal movements | – | – |
| | (2,264,766) | 336,164 |
| **Closing National Debt** | **35,917,567** | **38,182,333** |

**Michael J Somers, Chief Executive**
National Treasury Management Agency

26 June 2007

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

# Notes to the Financial Statements

Year ended 31 December 2006

## 1. Total Service Cost

| | Notes | Charged on Foreign Currency Clearing Accounts €'000 | Charged on Central Fund €'000 | Charged on CSRA €'000 | Total Service Cost 2006 €'000 |
|---|---|---|---|---|---|
| Interest paid | | | | | |
| Medium / Long Term Debt | 2 | 12,522 | 220,040 | 1,118,769 | 1,351,331 |
| Short Term Debt | 3 | 6,296 | 97,308 | 14,402 | 118,006 |
| National Savings Schemes | 4 | – | 165,086 | 315,260 | 480,346 |
| Other Movements | 5 | (16,874) | 7,501 | 30,435 | 21,062 |
| Sinking Fund payments | 6 | | – | 470,286 | 470,286 |
| Fees and Expenses | 7 | 269 | 19,020 | – | 19,289 |
| Expenses of NTMA | | 797 | 29,031 | – | 29,828 |
| Interest received on deposits with Central Bank and other banks | | – | – | (111,184) | (111,184) |
| | | 3,010 | 537,986 | 1,837,968 | 2,378,96 |
| Inter Account Movement | | – | 1,838,587 | (1,838,587) | – |
| **Net cash paid** | | **3,010** | **2,376,573** | **(619)** | **2,378,964** |

## 2. Interest on Medium / Long Term Debt

| | Total Cost 2006 €'000 | Total Cost 2005 €'000 |
|---|---|---|
| Irish Government Bonds listed on the Irish Stock Exchange | 1,327,317 | 1,360,773 |
| Other Irish Government Public Bond Issues | 4,695 | 4,677 |
| Private Placements | – | 1,709 |
| European Investment Bank Loans | 8,916 | 9,143 |
| Medium Term Notes | 17,905 | 23,655 |
| Miscellaneous Debt | (7,502) | (7,083) |
| | **1,351,331** | **1,392,874** |

## 3. Interest on Short Term Debt

| | Total Cost 2006 €'000 | Total Cost 2005 €'000 |
|---|---|---|
| Commercial Paper | 49,832 | 38,848 |
| Borrowings from Funds under the control of the Minister for Finance | 68,174 | 59,286 |
| | **118,006** | **98,134** |

## 4. Interest on National Savings Schemes

| | Total Cost 2006 €'000 | Total Cost 2005 €'000 |
|---|---|---|
| Savings Certificates | 603,178 | 341,133 |
| Savings Bonds | 76,766 | 42,073 |
| National Instalments Savings | 29,358 | 29,030 |
| Prizes in respect of Prize Bonds | 13,862 | 12,673 |
| Small Savings Reserve (note 9) | (242,818) | (145,007) |
| | **480,346** | **279,902** |

Payments for Interest on National Savings Schemes in 2006 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 2006 were as follows:

| | €'000 |
|---|---|
| Savings Certificates | 13,952 |
| Savings Bonds | (165) |
| National Instalments Savings | (650) |
| | **13,137** |

These interest transfers include an interest reclaim of €98,000 in respect of 2006 which was not made by An Post until 2007. As the accounts are prepared on a cash basis this amount is not included in the payments for interest on National Savings Schemes for 2006.

## 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 2006 were as follows:

| | 2006 €'000 |
|---|---|
| Capital Services Redemption Account (Note 13) | 470,286 |
| | **470,286** |

## 7. Fees and Expenses

| | Total Cost 2006 €'000 | Total Cost 2005 €'000 |
|---|---|---|
| Expenses of Irish Government Bonds | – | – |
| Expenses of Savings Certificates | 4,187 | 3,749 |
| Expenses of Prize Bonds | 7,356 | 6,992 |
| Expenses of Savings Bonds | 3,219 | 2,534 |
| Expenses of National Instalment Savings | 2,582 | 2,326 |
| Expenses of Savings Stamps | 1,042 | 1,042 |
| Expenses of Loans | 903 | 1,057 |
| | **19,289** | **17,700** |

# 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 2006 €million | As at 31 December 2005 €million |
|---|---|---|
| Debt due for repayment within 1 year | 6,042 | 123 |
| Debt due for repayment between 2 and 5 years | 6,604 | 12,701 |
| Debt due for repayment in more than 5 years | 19,170 | 19,112 |
| | **31,816** | **31,936** |

## 9. National Savings Schemes

Amounts shown in respect of Savings Certificates, National Instalment Savings, Savings Bonds and Prize Bonds are net of €5.0 million (2005: €7.4 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 €1,038 million (2005: €1,549 million), being the estimate of the amount of accrued interest at 31 December 2006 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 for 2006 was 31.02 per cent of the interest accrued at the 31 December 2005 of €1,549m. The Minister decided that a net amount of €243 m would be withdrawn from the fund in 2006.

| | | €million |
|---|---|---|
| Estimated accrued interest at 31 December 2006 | | 1,038 |
| Balance at 1 January 2006 | (825) | |
| Amount applied during 2006 | 243 | |
| Balance at 31 December 2006 (Note 15) | | (582) |
| Estimated accrued interest not provided for at 31 December 2006 | | 456 |

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 2006 €'000 | Movements during 2006 €'000 | Closing balance at 31 December 2006 €'000 |
|---|---|---|---|
| Exchequer Account | 2,183,127 | 1,404,115 | 3,587,242 |
| Capital Services Redemption Account | | | |
| Current Balance (note 13) | 215 | 619 | 834 |
| | **2,183,342** | **1,404,734** | **3,588,076** |

## 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 2006 | | 31 December 2005 | |
|---|---|---|---|---|
| | Nominal €million | Present Value €million | Nominal €million | Present Value €million |
| Interest Rate Swaps | 1,104 | (12) | 1,103 | (28) |
| Currency Swaps & Foreign Exchange Contracts | 672 | (15) | 711 | 44 |
| | 1,776 | (27) | 1,814 | 16 |

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 2006 € millions | As at 31 December 2005 € millions |
|---|---|---|
| Euro* | 35,917 | 38,182 |
| US Dollar | – | – |
| | **35,917** | **38,182** |

* This figure is net of liquid assets as at 31 December 2006 of €3,588m (31 December 2005: €2,183m)

# 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 2006 | | NIL |
| Deposit interest received | | |
| Amounts received under Finance Act 1988 [S67 (8)] | 2,138,517 | |
| Amounts paid under Finance Act 1970 [S54 (7)] | (2,121,643) | 16,874 |
| Foreign Currency Borrowing receipts | 1,585,995 | |
| Foreign Currency Borrowing payments | (1,582,985) | 3,010 |
| Interest paid on Foreign Currency Borrowings (note 1) | | |
| - Medium/ Long Term Debt | ( 12,522) | |
| - Short Term Debt | (6,296) | (18,818) |
| Expenses of Foreign Currency Borrowings (note 1) | | (269) |
| Expenses of NTMA | | (797) |
| Balance at 31 December 2006 | | 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 2006 € million | As at 31 December 2005 € million |
|---|---|---|
| Post Office Savings Bank Fund | 1,160 | 1,335 |
| Small Savings Reserve Fund | 582 | 825 |
| Ulysses Securitisation plc | 127 | 339 |
| Deposit Monies Investment Account | 792 | 1,074 |
| | **2,661** | **3,573** |

# Financial Statements of the National Treasury Management Agency Administration Account

For the year ended 31 December 2006

# 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 36 to 48. Financial information covering the Agency itself is set out on pages 51 to 57.

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.

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

Defined Benefit pension liabilities represent the present value of future pension payments earned and accrued by employees to the date of the financial statements. Deferred pension funding represents the corresponding asset to be recovered in future periods 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 2006

| | Notes | 2006 € | 2005 € |
|---|---|---|---|
| Income | | | |
| Central Fund | 8 | 23,347,142 | 19,392,432 |
| Other income | 9 | 1,024,464 | 637,273 |
| Transfer (to)/from capital account | 5 | 70,845 | (59,782) |
| | | 24,442,451 | 19,969,923 |
| Expenditure | 1 | (24,442,451) | (19,969,923) |
| Net income/(expenditure) | | NIL | NIL |

## Statement of Total Recognised Gains and Losses

Year ended 31 December 2006

| | 2006 € | 2005 € |
|---|---|---|
| Net Income/(Expenditure) | NIL | NIL |
| Actual return less expected return on scheme assets | 1,895,000 | 1,887,000 |
| Experience gains and losses | (221,000) | (1,054,000) |
| Changes in assumptions | 291,000 | (3,174,000) |
| Actuarial gain (loss)/recognised on Pension Liabilities | 1,965,000 | (2,341,000) |
| Movement in Deferred Pension Funding | (1,965,000) | 2,341,000 |
| Total Recognised Gain / (Loss) for the year | NIL | NIL |

**Michael J Somers, Chief Executive**
National Treasury Management Agency

26 June 2007

The notes on pages 53 to 57 form part of these financial statements.

# Balance Sheet

31 December 2006

| | Notes | 2006 € | 2005 € |
|---|---|---|---|
| **Fixed Assets** | | | |
| Fixed assets | 2 | 1,578,676 | 1,649,521 |
| **Financial Assets** | 11 | 25 | 25 |
| **Current Assets** | | | |
| Cash at bank and in hand | | 206,569 | 105,055 |
| Debtors | 3 | 4,333,035 | 3,699,839 |
| **Total Current Assets** | | 4,539,604 | 3,804,894 |
| **Current Liabilities** | | | |
| Creditors | 4 | 4,539,604 | 3,804,894 |
| **Current Assets less Current Liabilities** | | – | – |
| **Total Assets less Current Liabilities before pensions** | | **1,578,701** | **1,649,546** |
| Deferred Pension funding | 7(f) | 2,922,000 | 12,399,000 |
| Pension Liability | 7 (c) | (2,922,000) | (12,399,000) |
| | | – | – |
| **Total Assets less Current Liabilities** | | **1,578,701** | **1,649,546** |
| **Representing:** | | | |
| Capital account | 5 | 1,578,701 | 1,649,546 |
| | | **1,578,701** | **1,649,546** |

**Michael J Somers, Chief Executive**
National Treasury Management Agency

26 June 2007

The notes on pages 53 to 57 form part of these financial statements.

# Notes to the Financial Statements

Year ended 31 December 2006

## 1. Expenditure

| | Year ended 31 December 2006 € | Year ended 31 December 2005 € |
|---|---|---|
| Salaries | 13,798,434 | 11,186,038 |
| Defined Benefit Pension annual cost (FRS 17, Note 7e) | 1,581,000 | 1,344,000 |
| PRSA Pension Costs (note 6) | 340,239 | 222,781 |
| Establishment expenses | 2,048,072 | 1,369,620 |
| Operating expenses | 5,925,512 | 5,137,826 |
| Depreciation | 749,194 | 709,658 |
| Total expenses | 24,442,451 | 19,969,923 |

## 2. Fixed Assets

| | Property € | Furniture, Equipment & Motor Vehicles € | Total € |
|---|---|---|---|
| **Cost**: | | | |
| Opening balance at 1 January 2006 | 1,337,243 | 4,102,028 | 5,439,271 |
| Additions at cost | – | 722,824 | 722,824 |
| Disposals | – | (239,071) | (239,071) |
| Balance at 31 December 2006 | 1,337,243 | 4,585,781 | 5,923,024 |
| **Accumulated depreciation:** | | | |
| Opening balance at 1 January 2006 | 917,105 | 2,872,645 | 3,789,750 |
| Depreciation for the period | 66,862 | 682,332 | 749,194 |
| Disposals | – | (194,596) | (194,596) |
| Balance at 31 December 2006 | 983,967 | 3,360,381 | 4,344,348 |
| Net book value at 31 December 2006 | 353,276 | 1,225,400 | 1,578,676 |
| Net book value at 31 December 2005 | 420,138 | 1,229,383 | 1,649,521 |

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 €1,720,976 per annum.

# Notes to the Financial Statements *(continued)*

## 3. Debtors

| | 2006 € | 2005 € |
|---|---|---|
| Central Fund | 1,915,625 | 833,214 |
| Prepayments | 871,200 | 956,311 |
| Other debtors | 1,546,210 | 1,910,314 |
| | 4,333,035 | 3,699,839 |

Other debtors include amounts paid by the NTMA on behalf of and are recoverable from State authorities.

## 4. Creditors

| | 2006 € | 2005 € |
|---|---|---|
| Creditors | 1,039,876 | 967,766 |
| Accruals | 3,499,728 | 2,837,128 |
| | 4,539,604 | 3,804,894 |

## 5. Capital Account

| | | | 2006 € | 2005 € |
|---|---|---|---|---|
| Opening balance | | | 1,649,546 | 1,589,764 |
| Transfer from /(to) Income and Expenditure Account | | | | |
| Asset Funding | | | | |
| - Fixed Assets | | 722,824 | | |
| Amortisation of capital funding | | | | |
| - Amortisation in line with depreciation | (749,194) | | | |
| - Net amount released on asset disposal | (44,475) | (793,669) | (70,845) | 59,782 |
| Closing balance | | | 1,578,701 | 1,649,546 |

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 2006 amounted to €9,092,947 (2005: €4,170,970) to the defined benefit scheme. This amount of €9,092,947 included a contribution of €7.5 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 €340,239 (2005: €222,781) to Personal Retirement Savings Accounts (PRSAs) for a number of employees who are not members of the defined benefit scheme in 2006.

## 7. FRS17 Retirement Benefits

**(a) 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 31/12/2006 | At 31/12/2005 |
|---|---|---|
| Discount rate | 4.60% | 4.25% |
| Inflation rate | 2.25% | 2.25% |
| Salary increases | 4.25% | 4.25% |
| Pension increases | 2.25% / 4.25% | 2.25% / 4.25% |

**(b) Market Value of 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 2006 | | At 31 December 2005 | |
|---|---|---|---|---|
| | Expected Return | Market Value €'000 | Expected Return | Market Value €'000 |
| Equities | 6.90% | 25,533 | 6.60% | 17,664 |
| Bonds | 3.90% | 1,472 | 3.10% | 1,428 |
| Property | 5.90% | 1,258 | 5.60% | 1,049 |
| Other | 4.00% | 7,981 | 2.00% | 3,457 |
| Total market value of assets | | 36,244 | | 23,598 |
| Present value of pension scheme liabilities | | (39,166) | | (35,997) |
| Surplus/(deficit) in pension scheme | | (2,922) | | (12,399) |
| Net pension asset/(liability) | | (2,922) | | (12,399) |

# Notes to the Financial Statements *(continued)*

## 7. FRS17 Retirement Benefits (continued)

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

| | 2006 €'000 | 2005 €'000 |
|---|---|---|
| Surplus/(Deficit) at the beginning of the year | (12,399) | (12,888) |
| Current service cost | (1,376) | (1,020) |
| Contributions | 9,093 | 4,171 |
| Other finance expenses (Note 7(e)) | (205) | (324) |
| Actuarial gain/(loss) | 1,965 | (2,338) |
| Surplus/(Deficit) at end of year | (2,922) | (12,399) |

**(d) History of Actuarial Gains and Losses.**

| | 2006 €'000 | 2005 €'000 |
|---|---|---|
| Difference between actual and expected return on scheme assets | 1,895 | 1,887 |
| Expressed as a % of scheme assets | 5.2% | 8.0% |
| Experience gains or losses on scheme liabilities | (221) | (1,054) |
| Expressed as a % of scheme assets | -0.6% | -2.9% |
| Total actuarial gains and losses | 1,965 | (2,341) |
| Expressed as a % of scheme liabilities | 5.0% | -6.5% |

**(e) Analysis of Pension Charge and Contributions to Scheme**

| | | |
|---|---|---|
| Current service cost | | 1,376,000 |
| Interest on Scheme liabilities | 1,596,000 | |
| Expected return on scheme assets | (1,391,000) | |
| Other finance expenses | | 205,000 |
| Income and Expenditure Charge for the year (Note 1) | | 1,581,000 |
| Excess of Contributions over Pension Charge | | 7,511,947 |
| Total Employer Contributions to Defined Benefit Scheme 2006 | | 9,092,947 |

**(f) Deferred funding asset for pensions**

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. The defined benefit deferred asset for pensions as at 31 December 2006 amounted to €2.9m (2005: €12.4m)

## 8. Central Fund Income

(a) This is an accrual figure whereas the expenses of NTMA which appear on the Service of Debt Statement is cash drawn from the Central Fund. These figures are reconciled as follows:

| | 2006 | 2005 |
|---|---|---|
| | € | € |
| Central Fund Income per Service of Debt Statement | 29,776,678 | 21,926,648 |
| Movement in Central Fund debtors (Note 3) | 1,082,411 | 292,784 |
| Excess of Contributions to Pension scheme over Pension Charge (Note 7(e)) | (7,511,947) | (2,827,000) |
| Income from Central Fund per Income and Expenditure Account | 23,347,142 | 19,392,432 |

The Central Fund income of €29,776,678 excludes €51,333 Board fees of the National Development Finance Agency.

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

| | 2006 | 2005 |
|---|---|---|
| | € | € |
| Debtors | 1,915,625 | 833,214 |
| Deferred Pension Funding | 2,922,000 | 12,399,000 |
| | 4,837,625 | 13,232,214 |

## 9. Other Incone

| | Year ended 31 December 2006 | Year ended 31 December 2005 |
|---|---|---|
| | € | € |
| Asset Covered Income | 620,214 | 449,406 |
| Consultancy and other income | 404,250 | 187,867 |
| | 1,024,464 | 637,273 |

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 €5.8 million (2005: €4.4 million). The costs incurred by the NTMA to fulfil its functions in relation to the National Development Finance Agency amounted to €3.1 million (2005: €2.8 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.

# Financial Statements of the Post Office Savings Bank Fund

For the year ended 31 December 2006

# 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 2006 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 2006 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 Purcell**
Comptroller and Auditor General

28 June 2007

# 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 2006

| | Notes | 2006 € | 2005 € |
|---|---|---|---|
| Investment income | 1 | 40,384,190 | 39,893,670 |
| Interest paid and payable | 2 | 15,459,699 | 13,308,555 |
| Other expenses | 3 | 25,000,000 | 27,823,439 |
| | | 40,459,699 | 41,131,994 |
| | | (75,509) | (1,238,324) |
| Balance at beginning of year | | 9,703,922 | 10,942,246 |
| Balance at end of year | | 9,628,413 | 9,703,922 |

**Michael J Somers, Chief Executive**
National Treasury Management Agency

26 June 2007

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

# Balance Sheet

31 December 2006

| | Notes | 2006 € | 2005 € |
|---|---|---|---|
| **Assets** | | | |
| Advances | 4 | 1,161,931,688 | 1,337,243,352 |
| Investments in Bonds | 5 | 73,659,785 | 86,200,499 |
| Debtors | 7 | 4,406,483 | 3,285,273 |
| Central Treasury Loans | | 35,077,827 | 58,794,484 |
| Commercial Paper | 10 | 252,806,018 | 2,054,355 |
| Cash | | 33,223,034 | 11,817,742 |
| | | 1,561,104,835 | 1,499,395,705 |
| **Liabilities** | | | |
| Post Office Savings Bank Deposits | 8 | 1,542,742,671 | 1,485,843,020 |
| Creditors | 9 | 8,733,751 | 3,848,763 |
| Accumulated Reserves | | 9,628,413 | 9,703,922 |
| | | 1,561,104,835 | 1,499,395,705 |

**Michael J Somers, Chief Executive**
National Treasury Management Agency

26 June 2007

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

# Notes to the Financial Statements

## 1. Investment Income

| | 2006<br>€ | 2005<br>€ |
|---|---|---|
| Interest received and receivable | 43,441,032 | 38,170,278 |
| Profit/(Loss) on sale of investments | (3,056,842) | 1,723,392 |
| | 40,384,190 | 39,893,670 |

## 2. Interest Paid and Payable

| | 2006<br>€ | 2005<br>€ |
|---|---|---|
| Interest paid and credited to | | |
| depositors of Post Office Savings Bank | 15,459,699 | 13,308,555 |
| | 15,459,699 | 13,308,555 |

## 3. Other Expenses

| | 2006<br>€ | 2005<br>€ |
|---|---|---|
| Management expenses | 25,000,000 | 27,823,439 |
| | 25,000,000 | 27,823,439 |

The management expenses are paid to An Post in respect of its administration of the Post Office Savings Bank. The NTMA is in negotiations with An Post on a new fee arrangement and pending the outcome of these negotiations, it decided to reduce the fee to a maximum of €25 million.

## 4. Advances

| | 2006<br>€ | 2005<br>€ |
|---|---|---|
| Advances to Exchequer | 1,160,350,569 | 1,335,165,927 |
| Advances to State Claims Agency | 1,581,119 | 2,077,425 |
| | 1,161,931,688 | 1,337,243,352 |

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

## 5. Investments

| Bonds | 2006 € | 2005 € |
|---|---|---|
| At cost | 73,659,785 | 86,200,499 |
| At market value | 73,659,739 | 84,627,300 |

**Schedule of Investment Holdings:-**

| Nominal € | Stock | Cost € |
|---|---|---|
| 74,530 | 4.25% Treasury Bond 2007 | 75,719 |
| 296,276 | 6% Treasury Bond 2008 | 312,004 |
| 24,590 | 8.25% Capital Stock 2008 | 28,600 |
| 91,013 | 3.25% Treasury Bond 2009 | 91,326 |
| 3,288,485 | 4% Treasury Bond 2010 | 3,325,006 |
| 43,015 | 8.5% Capital Stock 2010 | 55,216 |
| 26,000 | 8.75% Capital Stock 2012 | 33,257 |
| 15,282,647 | 5% Treasury Bond 2013 | 16,432,046 |
| 83,460 | 8.25% Treasury Bond 2015 | 112,387 |
| 29,380,840 | 4.6% Treasury Bond 2016 | 31,265,159 |
| 21,000,000 | 4.5% Treasury Bond 2020 | 21,929,065 |
| 69,590,856 | | 73,659,785 |

## 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

| | 2006 € | 2005 € |
|---|---|---|
| Dividends and interest receivable | 4,406,483 | 3,285,273 |
| Outstanding Bond settlements | – | – |
| Cash balances held by An Post | – | – |
| | 4,406,483 | 3,285,27 |

# Notes to the Financial Statements *(continued)*

## 8. POSB Deposits

| | 2006 € | 2005 € |
|---|---|---|
| Deposits from Post Office Savings Bank | 1,542,742,671 | 1,485,843,020 |
| | 1,542,742,671 | 1,485,843,020 |

The deposits include €326,976,301 (2005: €364,057,968) in respect of Special Savings Incentive Accounts (SSIAs). SSIAs are subject to an exit tax of 23% of the interest earned on the maturity of 5 years and 30 days from the end of the month in which the first payment was paid into the SSIA account by the depositor. SSIA deposits include gross accumulated interest of €12,709,100 (2005: €10,768,151) which will be subject to tax at 23% on the SSIA maturity date on the investment return i.e. interest earned. In the event of early withdrawal by a depositor prior to the designated maturity term (5 years and 30 days) the total amount of principal and interest will be subject to the tax at 23%.

In April 2006 €1,374,895 (2005: €881,610) was transferred from the Post Office Savings Bank Fund to the Dormant Accounts Fund under the Dormant Accounts Act 2001. At 31 December 2006 following account reactivations of €480,722 (2005: €521,562) and interest (net of DIRT) capitalised of €25,643 there was a balance of €27,182,919 (2005: €26,263,102) due to Depositors from the Dormant Accounts Fund. The Deposits from Post Office Saving Bank liability figure of €1,542,742,671 (2005: €1,485,843,020) does not include this Dormant Accounts Fund liability.

## 9. Creditors

| | 2006 € | 2005 € |
|---|---|---|
| Net funds due under Sale and Repurchase Agreements | 3,103,062 | 1,208,528 |
| Outstanding Bond settlements | 5,417,386 | – |
| DIRT due to An Post | 141,669 | 505,664 |
| Cash balances due to An Post | 71,634 | 2,134,571 |
| | 8,733,751 | 3,848,763 |

## 10. Commercial Paper

| | 2006 € | 2005 € |
|---|---|---|
| HFA Commercial Paper | 236,806,018 | 2,054,355 |
| Agricultural Commodity Intervention Bills | 16,000,000 | – |
| | 252,806,018 | 2,054,355 |

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 2006

# 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 2006 and the balance at that date.

**John Purcell**
Comptroller and Auditor General

28 June 2007

# Capital Services Redemption Account

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

| Account of Receipts and Payments | | | Year ended 31 December 2006 € |
|---|---|---|---|
| Balance at 1 January 2006 | | | 215,402 |
| **Receipts** | | | |
| Amounts received from Central Fund under Finance Act 1950, Section 22 as amended: | | | |
| - Interest | 1,368,301,275 | | |
| - Sinking Fund | 470,285,954 | | 1,838,587,229 |
| Amounts received under Finance Act 1988 [S 67 (8)] | | | 459,121,129 |
| Deposit interest received | | | 111,184,365 |
| Other interest received | | | 67,717 |
| | | | 2,409,175,842 |
| **Payments** | | | |
| Amounts applied in the redemption of National Debt: | | | |
| Irish Government Bonds Listed on Irish Stock Exchange | | 27,513,524 | |
| Small Savings | | 9,263,471 | |
| Section 69 Notes | | 433,508,959 | 470,285,954 |
| Amounts applied in meeting interest on National Debt (note 2) | | | 1,448,499,150 |
| Amounts applied in respect of liabilities under Finance Act 1970, [S 54 (7)] | | | 489,556,726 |
| Balance at 31 December 2006 | | | 834,012 |
| | | | 2,409,175,842 |

**Michael J Somers, Chief Executive**
National Treasury Management Agency

26 June 2007

# 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 2006 |
|---|---|
| 3.25% Treasury Bond 2009 | 165,202,305 |
| 4% Treasury Bond 2010 | 40,231,418 |
| 5% Treasury Bond 2013 | 300,926,566 |
| 4.6% Treasury Bond 2016 | 268,618,482 |
| 4.5% Treasury Bond 2020 | 278,062,439 |
| 4.25% Treasury Bond 2007 | 60.000.000 |
| Small Savings Interest | 315,260,065 |
| Cash Management Borowings | 14,401,919 |
| Other Euro Borrowings | 19,461 |
| Swap Driven Issues | 5,776,495 |
| Total | 1,448,499,150 |

* 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 2006

## 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 2006 and the balance at that date.

**John Purcell**
Comptroller and Auditor General

28 June 2007

## National Loans Advance Interest Account

| Account of Receipts and Payments | Year ended 31 December 2006 € |
|---|---|
| Balance at 1 January 2006 | 49,734,671 |
| Accrued interest received on National Loans | |
| - Tranches and Auctions | 10,554,158 |
| Accrued interest paid on National Loans | (51,438,900) |
| Balance at 31 December 2006 | |
| - Cash with Central Bank of Ireland | 8,849,929 |

### 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

26 June 2007

# Financial Statements of the National Loans (Winding Up) Account

For the year ended 31 December 2006

# 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 2006 and the balance at that date.

**John Purcell**
Comptroller and Auditor General

28 June 2007

# National Loans (Winding Up) Account

| Account of Receipts and Payments | Note | Year ended 31 December 2006 € |
|---|---|---|
| Balance at 1 January 2006 | | 5,047,324 |
| Receipts from Exchequer | 1 | 8,025,620 |
| Receipts from Central Bank Suspense Account | | 130,327 |
| Payments to Central Bank Suspense Account | | (154,004) |
| Payments for redemption of National Loans | 2 | (9,233,322) |
| Balance at 31 December 2006 | | |
| - Cash with Central Bank of Ireland | | 3,815,945 |

**Michael J Somers, Chief Executive**
National Treasury Management Agency

26 June 2007

The notes on page 76 form part of these financial statements.

# 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 2006

| | € |
|---|---|
| 4.5% National Loan 1973/78 | 635 |
| 5.25% National Development Loan 79–84 | 1,270 |
| 6% Exchequer Stock 1980–85 | 1,401 |
| 7.5% National Loan 1981–86 | 219 |
| 9.75% National Loan 1984–89 | 4,023 |
| 6% Exchequer Stock 1985/90 | 508 |
| 6.75% National Loan 1986/91 | 635 |
| 7% National Loan 1987/92 | 4,508 |
| 7.5% Development Stock 88/93 | 1,143 |
| 9.25% National Loan 89/94 | 2,793 |
| 9.5% Conversion Bond 1995 | 1,319 |
| 12% Conversion Stock 1995 | 140 |
| 9.75% National Loan 1991/1996 | 2,540 |
| 9.75% National Development Loan 92/97 | 3,445 |
| 14.5% Finance Stock 1998/00 | 91,147 |
| 6.25% Treasury Bond 1999 | 5,702 |
| 6.5% Exchequer Stock 00/05 | 21,181 |
| 11.75% Capital Stock 2000 | 1,270 |
| 9.25% Capital Stock 2003 | 57,874 |
| 14.75% Development Stock 2002/04 | 5,929 |
| 6.25% Treasury Bond 2004 | 1,191,004 |
| 12.5% Capital Stock 2005 | 189,086 |
| 8% Treasury Bond 2006 | 5,789,103 |
| 9% Capital Stock 2006 | 1,856,447 |
| | 9,233,322 |

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

For the year ended 31 December 2006

## 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 2006 and the balance at that date.

**John Purcell**
Comptroller and Auditor General

28 June 2007

## National Treasury Management Agency (Unclaimed Dividends) Account

| Account of Receipts and Payments | Note | Year ended 31 December 2006 € |
|---|---|---|
| Balance at 1 January 2006 | | 2,086,999 |
| Receipt of unclaimed dividends | | 24,551 |
| Payment of unclaimed dividends | 2 | (383,942) |
| Balance at 31 December 2006 | | |
| - Cash with Central Bank of Ireland | 1 | 1,727,608 |

**Michael J Somers, Chief Executive**
National Treasury Management Agency

26 June 2007

# 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 | 323,202 |
| Foreign Bonds administered by Paying Agent | 60,740 |
| | 383,942 |

# Financial Statements of the Deposit Monies Investment Account

For the year ended 31 December 2006

## 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 2006 and the balance at that date.

**John Purcell**
Comptroller and Auditor General

28 June 2007

## Deposit Monies Investment Account

| Account of Receipts And Payments | Year ended 31 December 2006 € |
|---|---|
| Balance at 1 January 2006 | 1,074,349,000 |
| Ways and Means Advances paid to Exchequer | 14,550,944,000 |
| Ways and Means Advances repaid by Exchequer | (14,833,189,000) |
| Balance at 31 December 2006 | |
| – Ways and Means Advances to Exchequer | 792,104,000 |

### 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

26 June 2007

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

For the year ended 31 December 2006

## 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 2006 and the balance at that date.

**John Purcell**
Comptroller and Auditor General

28 June 2007

# Account of Stock Accepted in Payment of Inheritance Tax and Death Duties

| Account of Receipts And Payments | | Year ended 31 December 2006 € |
|---|---|---|
| Balance at 1 January 2006 | | 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 2006 | | NIL |

| Stock Account | | |
|---|---|---|
| Balance at 1 January 2006 | | NIL |
| Movement for the year | | |
| Nominal amount of stock transferred to the Minister for Finance | NIL | |
| Nominal amount of stock redeemed | NIL | |
| Balance at 31 December 2006 | | NIL |
| | | NIL |

**Michael J Somers, Chief Executive**
National Treasury Management Agency

26 June 2007

# 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 2006

# 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 2006 and the balance at that date.

**John Purcell**
Comptroller and Auditor General

28 June 2007

# Small Savings Reserve Fund

| Account of Receipts And Payments | Year ended 31 December 2006 € |
|---|---|
| Balance at 1 January 2006 | 824,560,884 |
| Received/(paid) from/(to) Exchequer | (242,818,144) |
| **Balance at 31 December 2006** | **581,742,740** |
| Estimated accrued interest at 31 December 2006 | 1,038,472,954 |

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 for 2006 was 31.02 per cent of the interest accrued at the 31 December 2005 of €1,549m.

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

26 June 2007

# Financial Statements of the State Claims Agency

For the year ended 31 December 2006

# 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 2006 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 2006 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 Purcell**
Comptroller and Auditor General

28 June 2007

# 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 2006

| | Notes | 2006 € | 2005 € |
|---|---|---|---|
| Received and receivable from State authorities in respect of claims and expenses | 1 | 22,550,753 | 10,452,767 |
| Costs recovered on behalf of State authorities | | 249,385 | 26,359 |
| | | 22,800,138 | 10,479,126 |
| Paid and payable in respect of Awards | | 12,395,025 | 6,282,235 |
| Lodgements to Court and Tender Payments | 2 | 168,319 | 53,753 |
| Other expenses | 3 | 9,987,809 | 4,143,138 |
| Reimbursement of costs recovered to State authorities | | 248,985 | – |
| | | 22,800,138 | 10,479,126 |

**Michael J Somers, Chief Executive**
National Treasury Management Agency

26 June 2007

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

# Balance Sheet

As at 31 December 2006

| | Notes | 2006 € | 2005 € |
|---|---|---|---|
| **Assets** | | | |
| Debtors | 4 | 1,598,189 | 1,702,044 |
| Cash | | 637,288 | 551,969 |
| | | 2,235,477 | 2,254,013 |
| **Liabilities** | | | |
| Borrowings from Post Office Savings Bank Fund | 5 | 1,581,119 | 2,077,425 |
| Creditors | 6 | 654,358 | 176,588 |
| | | 2,235,477 | 2,254,013 |

**Michael J Somers, Chief Executive**
National Treasury Management Agency

26 June 2007

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

# Notes to the Financial Statements

## 1. Income

| | 2006 € | 2005 € |
|---|---|---|
| Received from State authorities | 20,959,997 | 8,758,493 |
| Receivable from State authorities | 1,590,756 | 1,694,274 |
| | 22,550,753 | 10,452,767 |

## 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

| | 2006 € | 2005 € |
|---|---|---|
| **State Claims Agency expenses** | | |
| – Legal fees | 3,956,812 | 2,263,488 |
| – Medical fees | 403,148 | 245,384 |
| – Engineers' fees | 103,229 | 92,809 |
| – Other fees | 222,568 | 132,582 |
| – NTMA Administration expenses recovered | 400 | 10,523 |
| | 4,686,157 | 2,744,786 |
| **Plaintiff expenses** | | |
| – Legal fees | 5,287,710 | 1,385,367 |
| – Other expert fees | – | 7,972 |
| – Travel expenses | 5,683 | 1,270 |
| | 5,293,393 | 1,394,609 |
| **Witness expenses** | 8,259 | 3,743 |
| | 9,987,809 | 4,143,138 |

## 4. Debtors

| | 2006 € | 2005 € |
|---|---|---|
| Receivable from State authorities | 1,590,756 | 1,694,274 |
| Other | 7,433 | 7,770 |
| | 1,598,189 | 1,702,044 |

## 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

| | 2006 € | 2005 € |
|---|---|---|
| Payable in respect of awards | 358,812 | – |
| Payable in respect of expenses | 117,484 | 4,801 |
| Professional Services Withholding Tax due to | | |
| Revenue Commissioners | 80,063 | 31,002 |
| Amount due to NTMA | 1,164 | 131,167 |
| Amounts due to State authorities | 86,275 | – |
| Other | 10,560 | 9,618 |
| | 654,358 | 176,588 |

## 7. Administration Expenses

The administration expenses of the State Claims Agency are all charged to the National Treasury Management Agency Administration account and are paid out of the Central Fund.

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 Statements of the Dormant Accounts Fund

For the year ended 31 December 2006

## 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

26 June 2007

# 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 2006 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 2006 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 Purcell**
Comptroller and Auditor General

28 June 2007

# 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 2006.

### 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 2006

| | Notes | 2006 € | 2005 € |
|---|---|---|---|
| Interest on investments | | 5,723,671 | 3,863,581 |
| Moneys transferred to the Fund in respect of dormant accounts and unclaimed assurance policies | 1 | 80,149,281 | 40,815,461 |
| Amount transferred to Reserve Account | 2 | (54,612,640) | (36,215,548) |
| Disbursements | 3 | (33,250,000) | (14,400,000) |
| | | (1,989,688) | (5,936,506) |
| Balance at start of period | | 174,067,113 | 180,003,619 |
| Balance at end of period | | 172,077,425 | 174,067,113 |

**Michael J Somers, Chief Executive**
National Treasury Management Agency

26 June 2007

The notes on pages 104 to 108 form part of these financial statements.

# Reserve Account

Year ended 31 December 2006

| | Notes | 2006 € | 2005 € |
|---|---|---|---|
| Transfer from Investment and Disbursements Account | 2 | 54,612,640 | 36,215,548 |
| Interest on investments | | 959,586 | 632,150 |
| Repayment of moneys transferred to the Fund | 1 | (44,736,631) | (22,916,079) |
| Interest on repayment of moneys transferred to the Fund | 1 | (307,351) | (434,431) |
| Other expenses | 4 | (1,603,729) | (1,678,125) |
| Movement for the year | | 8,924,515 | 11,819,063 |
| Balance at start of period | | 30,342,404 | 18,523,341 |
| Balance as at end of period | | 39,266,919 | 30,342,404 |

**Michael J Somers, Chief Executive**
National Treasury Management Agency

26 June 2007

The notes on pages 104 to 108 form part of these financial statements.

# Balance Sheet

As at 31 December 2006

| | Notes | 2006<br>€ | 2005<br>€ |
|---|---|---|---|
| **Assets** | | | |
| **Financial Assets** | | | |
| – Investments at cost | 9 | 169,500,000 | 171,500,000 |
| **Current Assets** | | | |
| – Cash | 5 | 41,141,789 | 32,549,683 |
| – Debtors | | 845,398 | 364,462 |
| **Liabilities** | | | |
| – Creditors | | (142,843) | (4,628) |
| Net Assets | 6 | 211,344,344 | 204,409,517 |
| **Represented by:** | | | |
| Investment and Disbursements Accounts | | 172,077,425 | 174,067,113 |
| Reserve Account | | 39,266,919 | 30,342,404 |
| | | 211,344,344 | 204,409,517 |

**Michael J Somers, Chief Executive**
National Treasury Management Agency

26 June 2007

The notes on page 104 to 108 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 1/1/06 € | Transferred € | Reclaimed € | Closing Balance 31/12/06 € | Interest Paid € |
|---|---|---|---|---|---|
| ABN AMRO | 356 | – | – | 356 | – |
| ACC Bank plc | 3,875,773 | 664,964 | 481,998 | 4,058,739 | 2,026 |
| Allied Irish Bank plc | 36,028,665 | 2,840,898 | 377,317 | 38,492,246 | 302 |
| AIB Finance Limited | 948,919 | 364,692 | 27,489 | 1,286,122 | 140 |
| Anglo Irish Bank Corporation plc | 298,779 | 16,044 | 507 | 314,316 | – |
| Barclays Bank plc | 321,192 | 261 | – | 321,453 | – |
| BNP Paribas | 67,487 | – | – | 67,487 | – |
| Bank of America | 154,778 | – | – | 154,778 | – |
| Bank of Ireland | 32,720,728 | 4,139,343 | 718,886 | 36,141,185 | 349 |
| Bank of Ireland Treasury & International Banking | 1,890,207 | 202,939 | 5,041 | 2,088,105 | – |
| Bank of Scotland (Ireland) | 436,998 | 91,218 | 36,758 | 491,458 | 429 |
| EBS Building Society | 6,051,756 | 7,532,776 | 5,475,586 | 8,108,946 | 24,348 |
| First Active | 4,406,750 | 428,415 | 49,593 | 4,785,572 | 80 |
| ICS Building Society | 1,160,787 | 280,606 | 82,603 | 1,358,790 | 546 |
| InvestecBank (UK) Limited (Irish Branch) | 355,524 | 19,581 | 9,049 | 366,056 | 33 |
| Irish Nationwide Building Society | 2,483,457 | 850,527 | 488,697 | 2,845,287 | 10,077 |
| JP Morgan Ireland plc | 48,897 | – | – | 48,897 | – |
| National Irish Bank Limited | 3,254,270 | 231,910 | 64,044 | 3,422,136 | 165 |
| An Post – National Instalment Schemes | 1,208,497 | 112,417 | 225,582 | 1,095,332 | 72,342 |
| An Post–National Instalment Schemes (Capitalised interest) | 5,019,854 | 270,569 | 920,258 | 4,370,165 | – |
| Permanent TSB | 19,211,883 | 1,937,818 | 543,183 | 20,606,518 | 6,662 |
| An Post – Post Office Savings Bank | 26,187,685 | 1,374,895 | 479,425 | 27,083,155 | 1,297 |
| An Post – Savings Bonds (Capitalised interest) | 3,117,572 | 207,185 | 372,114 | 2,952,643 | – |
| An Post – Savings Bonds | 1,680,434 | 181,242 | 212,034 | 1,649,642 | – |
| An Post – Savings Certs (Capitalised interest) | 32,440,873 | 38,546,764 | 24,594,838 | 46,392,799 | – |
| An Post – Savings Certs | 5,761,750 | 11,770,925 | 7,318,635 | 10,214,040 | 187,707 |
| Scotiabank (Ireland) Limited | 1,003,127 | 0 | 0 | 1,003,127 | – |
| Ulster Bank Ireland Limited | 7,103,000 | 762,847 | 114,313 | 7,751,534 | 848 |
| WestLB Ireland plc | 71,764 | 8,590 | 308 | 80,046 | – |
| **TOTAL** | **197,311,762** | **72,837,426** | **42,598,258** | **227,550,930** | **307,351** |

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

Assurance Companies – Unclaimed Assurance Policies

| Institution | Opening Balance 1/1/06 € | Transferred € | Reclaimed € | Closing Balance 31/12/06 € | Interest Paid € |
|---|---|---|---|---|---|
| **Specified Term** | | | | | |
| Alba Life | 35,113 | – | – | 35,113 | – |
| Ark Life | 6,349 | – | – | 6,349 | – |
| Caledonian Life | 104,474 | – | 15,513 | 88,961 | – |
| Canada Life Assurance | 63,896 | 78,324 | – | 142,220 | – |
| Canada Life Ireland | 12,856 | 178,340 | – | 191,196 | |
| Eagle Star | 37,474 | 23,537 | – | 61,011 | – |
| Friends First | 530,706 | 99,150 | 21,573 | 608,283 | – |
| Hibernian Life | 529,627 | 222,165 | 36,166 | 715,626 | – |
| Irish Life | 1,488,822 | 519,923 | 190,923 | 1,817,822 | |
| New Ireland | – | 365,066 | 121,690 | 243,376 | – |
| Royal Liver | 2,474,556 | 218,600 | 40,371 | 2,652,785 | – |
| Royal & SunAlliance | 600,608 | 180,644 | 172,687 | 608,565 | – |
| St. James Place | – | 10,649 | – | 10,649 | |
| Scottish Legal Life | 147,484 | 75,487 | – | 222,971 | – |
| Standard Life | 358,113 | 37,457 | 7,225 | 388,345 | – |
| Sun Life Financial of Canada | 73,909 | – | – | 73,909 | – |
| **No Specified Term** | | | | | |
| Alba Life | 15,033 | – | – | 15,033 | – |
| Caledonian Life | 18,850 | – | – | 18,850 | – |
| Canada Life Assurance | 9,203 | 74,562 | – | 83,765 | – |
| Canada Life Ireland | 1,025,065 | 1,163,390 | 145,910 | 2,042,545 | |
| Eagle Star | 390,654 | 103,407 | 54,485 | 439,576 | – |
| Friends First | 1,196,507 | 96,508 | 154,561 | 1,138,454 | – |
| Hibernian | 1,084,482 | 226,019 | 47,748 | 1,262,753 | – |
| Irish Life | 4,329,502 | 717,061 | 503,153 | 4,543,410 | – |
| New Ireland | 6,432,162 | 2,152,756 | 309,977 | 8,274,941 | – |
| Royal & SunAlliance | 3,358 | – | – | 3,358 | – |
| Royal Liver | 5,689,840 | 490,343 | 70,409 | 6,109,774 | – |
| Scottish Legal Life | 153,111 | – | 3,142 | 149,969 | – |
| Scottish Provident Ireland | 63,291 | 148,996 | 0 | 212,287 | – |
| Standard Life | 834,256 | 103,911 | 236,354 | 701,813 | – |
| Sun Life Financial of Canada | 28,399 | 25,560 | 6,486 | 47,473 | – |
| **TOTAL** | **27,737,700** | **7,311,855** | **2,138,373** | **32,911,182** | **–** |
| **GRAND TOTAL** | **225,049,462** | **80,149,281** | **44,736,631** | **260,462,112** | **307,351** |

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 €15,702 from €260,462,112 to €260,477,814.

# 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.

| | 2006<br>€ | 2005<br>€ |
|---|---|---|
| **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) | 17,000,000 | 8,000,000 |
| **On direction of the Minister for Finance** | | |
| Department of Community, Rural & Gaeltacht Affairs (for the Rural Social Scheme) | 16,000,000 | 6,400,000 |
| Department of Community, Rural & Gaeltacht Affairs (for approved projects) | 250,000 | – |
| | 33,250,000 | 14,400,000 |

## 4. Other Expenses

| | 2006<br>€ | 2005<br>€ |
|---|---|---|
| Expenses of the Dormant Accounts | | |
| - Board Fees | 75,110 | 43,171 |
| - Board Expenses | 4,836 | 1,777 |
| - Fees of service provider (Pobal) | 1,270,843 | 1,452,458 |
| - Other Expenses | 77,940 | 99,936 |
| Inspectors' Fee | 175,000 | 80,783 |
| | 1,603,729 | 1,678,125 |

Comparative figures for 2005 are in respect of the Dormant Accounts Disbursements Board.

## 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 | | 211,344,344 |
| Total dormant funds received by the Fund and not yet reclaimed (see note 1) | | (260,462,112) |
| Contingent Exchequer liability at 31/12/2006 | | (49,117,768) |
| | | |
| Represented by: | | |
| Interest on investments | 6,683,257 | |
| Interest on repayments of moneys transferred to the Fund (see note 1) | (307,351) | |
| Disbursements (see note 3) | (33,250,000) | |
| Other expenses (see note 4) | (1,603,729) | |
| Surplus/(Deficit) for the year | | (28,477,823) |
| Contingent Exchequer liability at 1/1/2006 | | (20,639,945) |
| Contingent Exchequer liability at 31/12/2006 | | (49,117,768) |

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:

| | 2006 € | 2005 € |
|---|---|---|
| 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.

# Notes to the Financial Statements *(continued)*

## 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 2.88 % (2005: 2.14%).

## 9. Investment Assets

The Investment Assets are commercial deposits with financial institutions.

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This page: *Pink moon*
Inside cover: *Still life with Trumpet*