National Treasury Management Agency

Annual Report and Accounts for the year ended
31 December 2008

National Treasury Management Agency

30 June 2009

Mr. Brian Lenihan T.D.
Minister for Finance
Government Buildings
Upper Merrion Street
Dublin 2

Dear Minister,

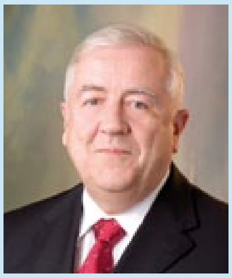
I have the honour to submit to you the Report and Accounts of the National Treasury Management Agency for the year ended 31 December 2008.

Yours sincerely,

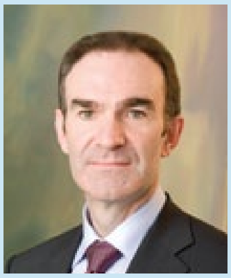
Michael J. Somers
Chief Executive

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

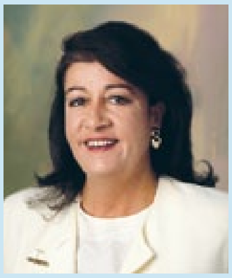


Michael J. Somers
Chief Executive



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

Brendan McDonagh
National Asset Management Agency
(Interim Managing Director)
Finance, Technology and Risk

Brian Murphy
National Development Finance Agency

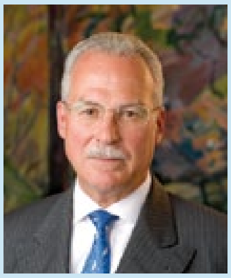
Oliver Whelan
Funding and Debt Management

Adrian J.Kearns

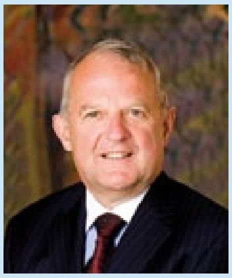
Adrian J. Kearns retired as a director of the NTMA at the end of 2008. His contribution since the inception of the NTMA is greatly appreciated.

Advisory Committee

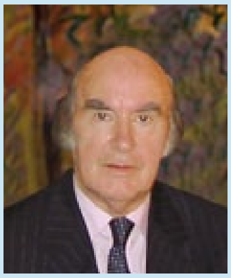
David Byrne
Chairman



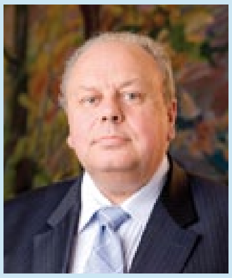
Gerold W. Brandt



Hugh Cooney

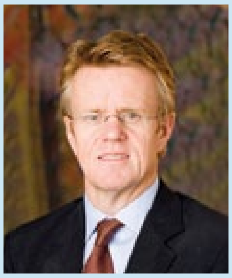


John F. Daly

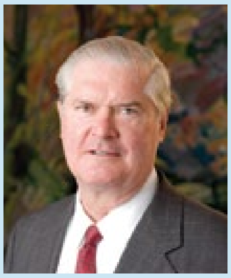


David Doyle

Tytti Noras



Shane O'Neill



Donald C. Roth

The Advisory Committee met formally on four occasions in 2008. Other meetings with members of the Committee took place on a regular basis. The NTMA Audit Committee also met four times in 2008. John Daly was a member of the Advisory Committee until 31 December 2008 and previously served as Chairman. The NTMA would like to thank him for his services and greatly appreciates his contribution. We thank all the Committee members for their advice and assistance during the year and for their commitment of time and effort.

NTMA

REPORT & ACCOUNTS

For the year ended 31 December 2008

Contents

Legal Framework

The National Treasury Management Agency Act 1990 provided for the establishment of the National Treasury Management Agency (NTMA) “to borrow moneys for the Exchequer and to manage the National Debt on behalf of and subject to the control and general superintendence of the Minister for Finance and to perform certain related functions”. Obligations or liabilities undertaken by the NTMA in the performance of its functions have the same force and effect as if undertaken by the Minister.

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

Additional functions were given to the NTMA under various Finance Acts and 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
- Dormant Accounts (Amendment) Act 2005
- Carbon Fund Act 2007
- Asset Covered Securities (Amendment) Act 2007
- Health Act 2007
- National Development Finance Agency (Amendment) Act 2007
- Investment of the National Pensions Reserve Fund and Miscellaneous Provisions Act 2009.

Overview

The NTMA was established at the end of 1990 to borrow for the Exchequer and manage the National Debt. Its original objectives were to ensure adequate liquidity for the Exchequer and to minimise the interest burden over the medium term, subject to an acceptable level of risk. Since then, the remit has expanded greatly as the Oireachtas and the Government have delegated substantial additional functions to the NTMA – these include the State Claims Agency; the management of the National Pensions Reserve Fund; and the National Development Finance Agency. Recently the Government announced that it intends to establish a National Asset Management Agency under the aegis of the NTMA.

The NTMA operates as a financial institution with a commercial remit outside the civil service structure. Its organisational arrangements enable it to run with a tight staff complement, currently about 168 across all business units and support functions. As such, it has the capacity to deal with a wide range of financial issues on behalf of the State and the flexibility to respond to current trends and market conditions.

As a result of the deterioration in the public finances and the global recession, the debt dynamics have changed considerably. Throughout most of the period since the NTMA was set up, the General Government Debt/GDP ratio fell steadily – from 94.5 per cent in 1990 to 25 per cent in 2007. However in 2008 it increased to 43.2 per cent, although more than half of this increase was as a result of the build-up of Exchequer cash balances. The borrowing requirements published in the Supplementary Budget 2009 imply that the debt will rise significantly over the next few years, peaking at 79 per cent in 2012. It should be noted that the forecast euro area average for 2010 – the latest year for which the European Commission has published a forecast – is 83.8 per cent, and Ireland is forecast to remain below this average. Additionally, the EU measure of debt is on a gross basis and does not allow the offset against the debt of the assets of the NPRF or the substantial cash balances that the NTMA has built up. These assets currently represent more than 20 per cent of GDP, giving a net debt ratio of just 23 per cent.

In terms of the burden that the cost of servicing the debt places on the Exchequer, interest payments were almost 27 per cent of tax revenue when the NTMA was established in 1990. This had fallen to less than 4 per cent by last year. This ratio is also forecast to increase significantly over the next few years and, while it will reach around 18 per cent in 2013, this is no greater than the levels experienced in the mid-1990s.

Throughout the decade from 1998 onwards, the Exchequer was either in surplus or broadly balanced. However there was a relatively small deficit in 2007 and, in 2008, the Exchequer recorded its largest borrowing requirement ever – €12.7 billion. The Supplementary Budget forecasts borrowing requirements of around €20 billion each year for 2009 and 2010, €17.8 billion in 2011, €13.4 billion in 2012, and €9.4 billion in 2013.

In funding these deficits, the NTMA must now compete not only with other euro area sovereign borrowers as they fund their deficits and recapitalise their banks, but also with banks as they rebuild their balance sheets with the backing of government guarantees. Total sovereign borrowing by euro area governments this year is expected to be more than €1,300 billion, up one-third on 2008.

In 2008 the NTMA issued two new benchmark bonds which raised a total of €11 billion. In addition we used the short-term debt markets to build up Exchequer cash balances to €21.4 billion towards the end of 2008. This has assisted in the timing of longer term borrowing in 2009, ensuring that the NTMA can raise funds as opportunities arise without having to enter the market at particularly turbulent times.

The first half of 2009 has seen a continuation of the volatility that has characterised the global capital markets since August 2007. Nevertheless we have been successful in raising funds through a variety of initiatives:

- Three new benchmark bonds have been issued by syndication – one in early January, and one each in February and June. They raised a combined total of €16 billion.
- Auctions of existing series of bonds raised a further €4.7 billion.
- In addition we launched a new Treasury Bill programme in March which has raised €11.4 billion to end-June.
- The NTMA has also put in place arrangements for a US Commercial Paper programme which will be launched in July in order to further diversify sources of funding.

The success of these deals reflects the continued confidence of investors in Irish Government debt. However the spread in the cost of funding that Ireland must pay over the German benchmark rate began to increase towards the end of 2008 and rose sharply in January 2009 as a result of a number of global and domestic factors. These included the prospect of continued contraction in Ireland and the major economies; the sudden and steep deterioration in the public finances; and uncertainty about the cost to the Exchequer of restructuring the Irish banking sector. While spreads have fallen from the peak levels seen in the middle of March, they remain volatile.

Funding the deficit and refinancing the existing stock of debt call for the maintenance of an active and liquid market in Irish Government bonds. Ireland is a relatively small issuer, with about 1.5 per cent of the euro government bond market, and most Irish Government bonds – around 82 per cent – are now held by investors outside the State. The NTMA actively markets Ireland's bonds and has undertaken a number of roadshows already in 2009 to highlight the positive features of the Irish economy to international investors.

The projections for borrowing and debt levels given above do not take account of any increased issuance in connection with the proposed National Asset Management Agency (NAMA). The purchase of property-related assets by NAMA, at a discount yet to be determined, is expected to be paid for by the issue of Irish government securities directly to the banks. This will result in a significant increase in the debt and the gross debt ratio may rise substantially, depending on the level of the discounts applied to the purchased loans and the fiscal deficits. The net debt will be much less affected since the increase in the gross debt will be substantially offset by the value of the assets acquired by NAMA.

The income streams from the assets acquired by NAMA will mitigate the cost to the Exchequer of servicing the additional debt and the proceeds from their eventual sale will accrue to NAMA and the Exchequer. The establishment of NAMA will require legislation; however the Government has announced the appointment of Brendan McDonagh, NTMA Director of Finance, Technology and Risk, as interim Managing Director of NAMA to proceed with the implementation process pending legislation.

The NTMA manages the National Pensions Reserve Fund (NPRF). It was appointed as manager in April 2001 for a period of ten years. The Fund is controlled by the NPRF Commission; the functions of the NTMA 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.

In 2008 the Fund experienced its most challenging year yet; the investment return was -30.4 per cent, reducing annualised return since inception to 0.5 per cent from 6.1 per cent at end 2007. The Fund's market value at end 2008 was €16.1 billion.

In 2009, under the direction of the Minister for Finance, the Fund invested a total of €7 billion to recapitalise Allied Irish Banks and Bank of Ireland. These transactions were funded by €4 billion from the Fund's existing resources and by €3 billion from a frontloading of the Exchequer contributions to the Fund for 2009 and 2010.

Since December 2001 the NTMA has acted as the State Claims Agency (SCA), managing claims for personal injuries and damage to property against Government Ministers, the Attorney General, health enterprises and other State authorities. At end-June 2009, it had approximately 4,140 claims under management, with potential liabilities of €658 million. It also has a risk management role, advising State authorities on how to minimise their claims exposures.

Employer liability claims have declined by 78 per cent since the inception of the SCA; public liability claims have declined by 38 per cent. The resulting direct cost savings are estimated at €70 million. However a significant challenge arises in dealing with the increasing number and value of clinical claims.

The National Development Finance Agency (NDFA) advises State authorities on the optimal means of financing public investment projects, including projects procured via Public Private Partnerships (PPPs). The *National Development Finance Agency (Amendment) Act 2007* expanded the role of the NDFA, giving it full responsibility for the procurement and delivery of all PPP projects outside the transport and local authority areas. To date, 129 projects have been referred to the NDFA and it has completed its advice on 41 of these. Currently the NDFA is the designated procurement authority for ten PPP projects.

The NTMA operates under detailed guidelines and directions issued under statute by the Minister for Finance. While its main reporting relationship is to the Minister, it operates in conjunction with four boards – the NTMA Advisory Committee, the National Pensions Reserve Fund Commission, the State Claims Agency Policy Committee and the National Development Finance Agency Board – as well as two audit committees. The NTMA has an in-house internal audit and control function, as well as a compliance officer. All our activities are audited by the Comptroller and Auditor General.

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

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

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

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

Summary of Activity

OVERALL

- The combined total of asset and liability portfolios managed by the NTMA at end 2008 amounted to more than €70 billion.
- The value of the NTMA's transactions in 2008 was €653 billion.

NATIONAL DEBT

- The NTMA issued two new benchmark bonds in 2008:

Date	Bond	Sold €m	Yield	Transaction Type
8 April	4.4% Treasury Bond 2019	7,000	4.514%	Syndication - new bond
4 November	4% Treasury Bond 2011	4,000	4.028%	Syndication - new bond

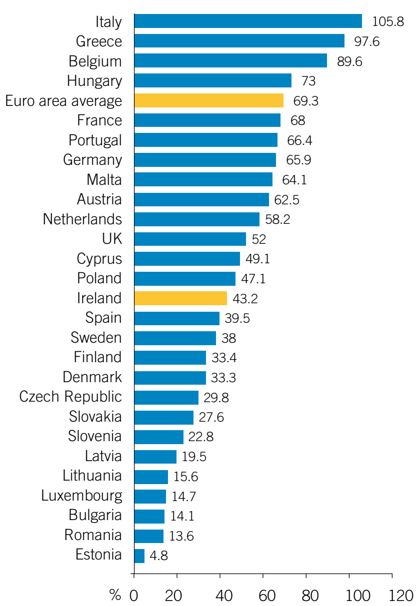
Both deals were strongly oversubscribed, reflecting continued investor confidence in Irish Government debt.

- During 2008 there were net inflows of €1.25 billion into the Retail Savings Schemes, which is double the highest annual level of inflows in any previous year since the establishment of the NTMA in 1990.
- The NTMA also used the short-term debt markets to build up Exchequer cash balances towards the end of 2008. This has assisted in the timing of borrowing in 2009, ensuring that the NTMA can raise funds as opportunities arise without having to enter the market at particularly turbulent times.
- The Exchequer Borrowing Requirement (EBR) for 2008 was €12.7 billion. As a result, the National Debt increased from €37.6 billion at end 2007 to €50.4 billion at end 2008. The National Debt/GNP ratio increased from 23.3 per cent at end 2007 to 32.2 per cent at end 2008.
- The General Government Debt/GDP ratio stood at 43.2 per cent at end 2008, up from 25 per cent at end 2007. This was well below the euro area average of 69.3 per cent. The General Government Debt measure does not allow the €21.4 billion in Exchequer cash balances (more than 10 per cent of GDP) to be offset against the gross position.
- Deducting the value of the National Pensions Reserve Fund and other funds managed by the NTMA from the gross debt would give a Debt/GDP ratio of around 33 per cent at end 2008. Subtracting Exchequer cash balances reduces the ratio further to 23 per cent.
- In April 2009 the European Commission published forecasts for gross Debt/GDP ratios to 2010 on a "no policy change basis". Ireland is forecast to remain below the European average.

	2008	2009	2010
Belgium	89.6	95.7	100.9
France	68.0	79.7	86.0
Germany	65.9	73.4	78.7
Greece	97.6	103.4	108.0
Ireland	**43.2**	**59.0**	**73.0**
Italy	105.8	113.0	116.1
Netherlands	58.2	57.0	63.1
Portugal	66.4	75.4	81.5
Spain	39.5	50.8	62.3
UK	52.0	68.4	81.7
Euro Area	**69.3**	**77.7**	**83.8**

*Source: European Commission, Ireland ratios updated per Supplementary Budget 2009. The Ireland ratios per the European Commission are: 2008 43.2%; 2009 61.2%; 2010 79.7%.

Gross Debt/GDP Ratios for EU Member States 2008



Sources: Eurostat, European Commission, 2008 estimate for Ireland - Department of Finance

- Forecast debt ratios for 2009–2013 are set out below, along with adjustments for the net cash position:

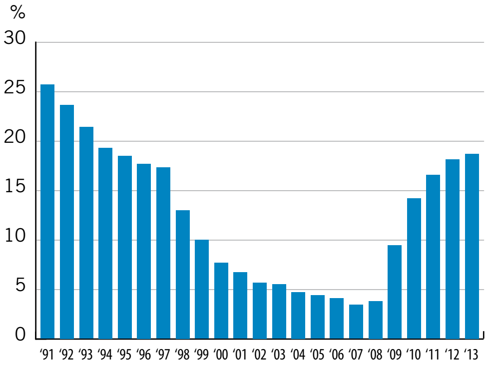
Year	2009	2010	2011	2012	2013
Gross Debt/GDP*	59%	73%	78%	79%	77%
Cash balance/GDP	12%	12%	10%	7%	4%
Net ratio	47%	61%	69%	72%	73%

*Source: Department of Finance, Supplementary Budget 2009

These estimates do not include any adjustment in respect of debt issued in connection with the proposed National Asset Management Agency.

- Total debt service costs in 2008 were €391 million below budget. In 2007 debt service savings of €358 million were achieved.

Interest as a percentage of Tax Revenue



Source: NTMA

- Interest payments on the debt were 3.8 per cent of tax revenue in 2008; the equivalent figure was 26.7 per cent when the NTMA was established in 1990. In 2009 the forecast is for 9.4 per cent of tax revenue, reflecting higher interest costs on a larger debt and lower tax revenues. While the interest burden will increase substantially over the period 2009–13, it will be no greater than the levels experienced in the mid-1990s.

- Supplementary Budget 2009 forecasts a 2009 EBR of just over €20 billion (including contributions to the National Pensions Reserve Fund of €3 billion). In addition a €5 billion bond fell due for repayment in April 2009, giving a total of €25 billion to be raised. The 2009 net funding requirement will be met by a combination of new syndicated benchmark bond issues and auctions of existing bonds.

- The purchase of property assets by the proposed National Asset Management Agency is expected to be paid for by the issue of Irish government securities directly to the banks.

- Despite the difficult and highly competitive conditions in global capital markets, the NTMA raised more than €20 billion in medium-term and long-term funding during the first half of 2009.

Date	Bond	Sold €m	Yield	Transaction Type
8 January	4% Treasury Bond 2014	6,000	4.069%	Syndication - new bond
25 February	3.9% Treasury Bond 2012	4,000	4.010%	Syndication - new bond
24 March	4% Treasury Bond 2011	390	3.459%	Auction - existing bond
	4½% Treasury Bond 2020	910	5.808%	Auction - existing bond
21 April	4% Treasury Bond 2014	300	4.200%	Auction - existing bond
	4½% Treasury Bond 2018	758	5.082%	Auction - existing bond
19 May	4% Treasury Bond 2014	310	3.898%	Auction - existing bond
	4.4% Treasury Bond 2019	700	5.189%	Auction - existing bond
16 June	3.9% Treasury Bond 2012	650	3.056%	Auction - existing bond
	4.6% Treasury Bond 2016	650	4.755%	Auction - existing bond
23 June	5.9% Treasury Bond 2019	6,000	5.932%	Syndication - new bond

- The NTMA launched a new Treasury Bill programme in March 2009. At end-June there was more than €11 billion outstanding under the programme, with maturities ranging from one month to one year. The NTMA has also put in place arrangements for a new US Commercial Paper programme which will be launched in July.
- Around 83 per cent of the National Debt carries fixed rates of interest. The balance mainly relates to the retail savings schemes and commercial paper programmes. 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, protecting the Exchequer against the effects of rising interest rates.
- Exchange rate risk in economic terms has been eliminated from the National Debt, as all of the debt is now denominated in, or swapped into, euro.
- International investors hold 82 per cent of Irish Government bonds. This compares with 22 per cent at end 1998, before the introduction of the euro.
- Ireland's debt is highly rated by the credit rating agencies:

Rating Agency	Long-Term	Short-Term	Outlook
Moody's	Aa1	P-1	Negative
Standard & Poor's	AA	A-1+	Negative
Fitch Ratings	AA+	F-1	Negative
Ratings & Investment Information	AA+	a-1+	Negative

OTHER NTMA FINANCIAL ACTIVITIES

- The Government has announced plans for a Credit Institutions Financial Support Scheme to ensure that participating institutions have access to stable long-term funding from the capital markets so that they can discharge their central role of lending to the economy of the State. Under the scheme, participating institutions may apply to the Minister for Finance for certain securities to be guaranteed by the Minister. The NTMA will operate the scheme on behalf of the Minister.
- The NTMA manages the balance in the Exchequer Account at the Central Bank of Ireland. The 2008 turnover on cash management operations was €310 billion, while the average daily transaction size was €766 million. The NTMA built up end-year Exchequer balances to €21.4 billion, ensuring ample liquidity for early 2009.
- The NTMA operates the Central Treasury Service (CTS), providing non-commercial State bodies with a competitive alternative to the banking sector for both borrowing and lending. An average of €44 million in loans to local authorities was outstanding during 2008; CTS customers had an average of €208 million placed on deposit with the NTMA.
- The NTMA manages the assets of the Social Insurance Fund (€2.9 billion at end 2008), the Dormant Accounts Fund (€151 million) and the Education Finance Board Fund (€6.9 million).
- During 2008 the NTMA managed a passive bond portfolio for the National Pensions Reserve Fund (€1.6 billion at end-year) and the Fund's cash balances (€1.7 billion at end-year). The foreign exchange transactions required by the NPRF for its investments in non-euro assets and for the Fund's long-term hedging strategy were also executed by the NTMA. Turnover on fx activities amounted to €43.2 billion in 2008.
- The NTMA borrows on behalf of the Housing Finance Agency. These borrowings averaged €3.9 billion in 2008. Turnover was €60 billion.

- The NTMA acts as agent for the State with responsibility for the purchase of carbon credits required to meet Ireland's obligations under the Kyoto Protocol. In 2008 the NTMA purchased 3.455 million carbon units which were delivered into the NTMA's Irish Registry account at the Environmental Protection Agency. The NTMA also contracted for 900,000 units to be delivered in 2009.

NATIONAL PENSIONS RESERVE FUND

- The NPRF was established in April 2001 with the objective of meeting as much as possible of the costs of social welfare and public service pensions from 2025 onward. The NTMA was appointed as manager of the Fund for ten years until 2011.
- In 2008 the Fund experienced its most challenging year yet; the investment return was -30.4 per cent, reducing annualised return since inception to 0.5 per cent from 6.1 per cent at end 2007. The Fund's market value at end 2008 was €16.1 billion.
- The Fund's performance reflects the exceptionally difficult market conditions that marked 2008 as the credit crunch escalated into the most serious financial and economic crisis since the 1930s. While the Fund's negative return in 2008 is mainly attributable to the performance of its equity investments – major international stock market indices were down in the region of 40 per cent for the year – all asset classes other than cash and government bonds were severely affected by the crisis.
- In 2009, under the direction of the Minister for Finance, the Fund invested a total of €7 billion to recapitalise Allied Irish Banks and Bank of Ireland. These transactions were funded by €4 billion from the Fund's existing resources and by €3 billion from a frontloading of the Exchequer contributions to the Fund for 2009 and 2010.

NATIONAL DEVELOPMENT FINANCE AGENCY

- The NDFA was established on 1 January 2003 to provide financial advice to State authorities undertaking major infrastructure projects. The NDFA also has full responsibility for the procurement and delivery of certain Public Private Partnership (PPP) projects.
- To date 129 projects have been referred to the NDFA for financial advice. The NDFA is currently working on over 50 active projects. The NDFA is the designated procurement authority for ten of the 129 projects referred to above.
- The DART Underground urban rail project was the most significant infrastructure project referred to the NDFA for financial advice in 2008. Córas Iompair Éireann (CIE) is the procurement body for this project. During 2008 the NDFA also provided financial advice on Metro North, Motorway Service Areas, Thornton Hall Prison and a number of projects in the waste and water sectors.
- The first bundle of schools referred to the NDFA for procurement reached financial close in March 2009. Construction works have commenced, and all four schools are due to be completed by September 2010.
- The NDFA is currently engaged in the procurement and pre-procurement of a wide variety of PPP projects including the following, all of which made significant progress during 2008:
    - Schools Bundles 2 and 3;
    - Third Level Education PPP Programme;
    - National Concert Hall;
    - Bundle of Courthouses; and
    - National Plan for Radiation Oncology.

STATE CLAIMS AGENCY

- Acting as the State Claims Agency (SCA), the NTMA manages personal injury, property damage and clinical claims brought against certain State authorities, including Government Ministers and health enterprises.

- At end-June 2009 the SCA had approximately 4,140 claims under management. The total outstanding contingent liability against all active claims was approximately €658 million, broken down as follows:

Clinical Claims	€566 million (86%)
Employer Liability, Public Liability & Property Damage (EL/PL/PD)	€92 million (14%)

- Claims activity in 2008:

Claim Category	New Claims Received	Claims Resolved
Clinical Claims	466	545
EL/PL/PD Claims	1,288	1,178
Total	**1,754**	**1,723**

- There has been a significant decline in EL and PL claim volumes associated with incidents that have occurred since the SCA was established. Since 2002, the number of EL claims has fallen by 78 per cent and the number of PL claims has fallen by 38 per cent.

- The Clinical Indemnity Scheme Risk Management Programme for 2008 included:
    - the development of a suite of training programmes in system analysis;
    - provision of system analysis training to medical and nursing undergraduates, postgraduates, health enterprises, professional bodies and consultant surgeons;
    - provision of advice following the analysis of closed claims;
    - programme of visits to target maternity units;
    - participation with other stakeholders in national healthcare initiatives.

- The EL/PL Risk Management Programme for 2008 included:
    - continuing certification of the health and safety management system in the Defence Forces;
    - implementation of a health and safety management system in pilot sites in the Irish Prison Service;
    - risk reviews in An Garda Síochána, the Office of the Revenue Commissioners, the Office of the Houses of the Oireachtas and the Department of Agriculture, Food and Fisheries;
    - the accreditation of the risk management unit services to the ISO 9001 Quality Management System standard.

ASSET COVERED SECURITIES

- Certain functions devolve on the NTMA under the *Asset Covered Securities Act 2001*. It receives an annual fee related to the volume of bonds issued by the designated institutions.

- During 2008, €18.8 billion of asset covered securities were issued in Ireland under the Act, bringing the total amount outstanding to €71.5 billion.

CONSULTANCY & INTERNATIONAL RELATIONSHIPS

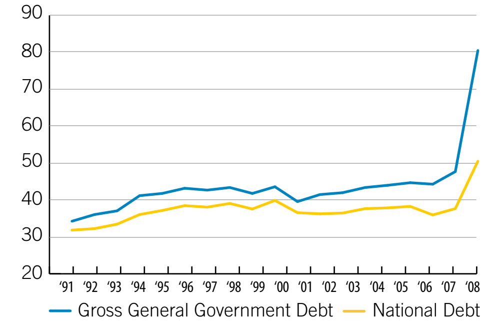
- Other countries continue to consult the NTMA about its asset and liability management activities.

- In May 2008 the NTMA chaired the International Retail Debt Management Symposium hosted by the World Bank.

HUMAN RESOURCES

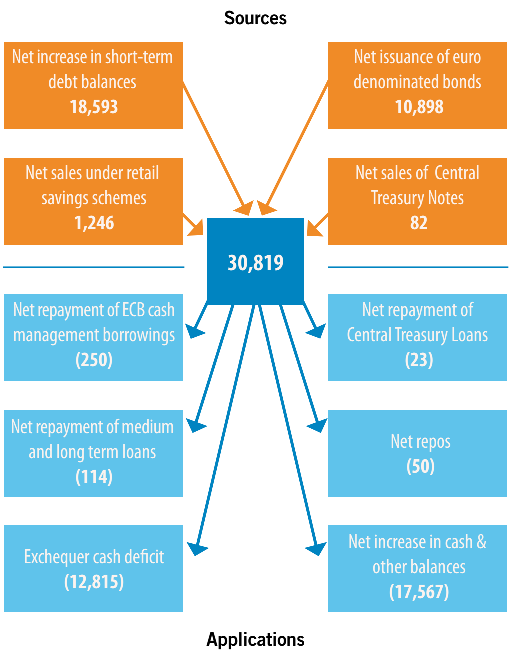
- Staff numbers in the National Treasury Management Agency grew from 151 to 170 during 2008. Recruitment occurred mainly in the State Claims Agency and in the National Development Finance Agency. In June 2009 the number of staff employed by the NTMA was 168.

Debt Outstanding
€ billion

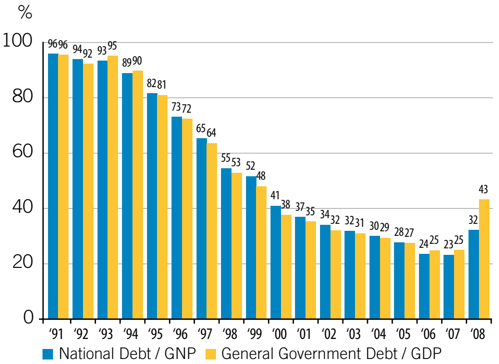


Source: Eurostat, Department of Finance & NTMA

Funding and Liquidity Management (€m)



National Debt & General Government Debt Ratios
%



Source: Eurostat, Department of Finance & NTMA

Funding & Debt Management

THE NATIONAL DEBT

The National Debt, as traditionally measured in Ireland, is the nominal value of central government debt outstanding minus Exchequer cash balances. It increased by €12.8 billion in 2008 and stood at €50.4 billion at the end of the year. The 2008 Exchequer deficit accounts for virtually all of the increase.

The Exchequer deficit was €12.7 billion. When the Small Savings Reserve Fund drawdown (€101 million) and the carry-over of capital allocations (€126 million) are taken into account, the cash deficit was €12.8 billion.

A diagram showing the Exchequer's 2008 funding requirements and liquidity management operations (carried out for the European Central Bank) is set out to the left.

GROSS CASHFLOWS IN 2008

Account	€ billion
Exchequer Account	467
National Pensions Reserve Fund	74
Housing Finance Agency	61
Foreign Currency Accounts	42
Post Office Savings Bank Fund	5
Social Insurance Fund	3
Capital Services Redemption Account	1
Total	**653**

CHANGE IN NOMINAL VALUE OF NATIONAL DEBT IN 2008

			€ million	€ million
National Debt (end 2007)				**37,560**
Plus	(i)	Exchequer Deficit	12,714	
	(ii)	Non-cash movements*	124	
Change in nominal value of National Debt				12,838
National Debt (end 2008)				**50,398**

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

GENERAL GOVERNMENT DEBT

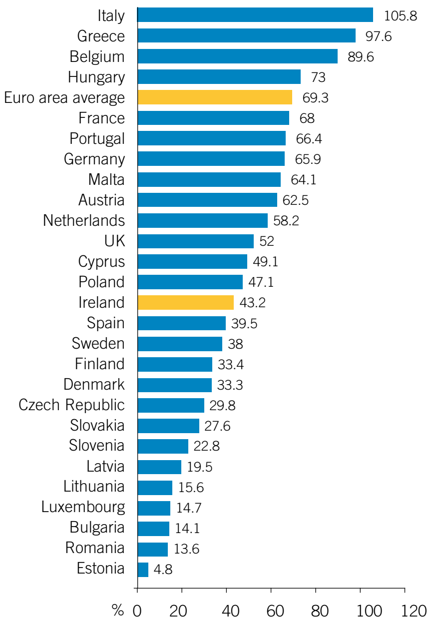
General Government Debt (GGD) is the definition used for comparative purposes within the European Union. The National Debt is its principal component. Unlike the National Debt, the GGD does not allow any offset for Exchequer cash balances. In addition, GGD includes local government debt, certain extra-budgetary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

GGD is estimated at €80.3 billion at end 2008, an increase of €32.7 billion on end 2007. The Exchequer deficit and, in particular, the build-up of large Exchequer cash balances contributed to this increase.

DEBT RATIOS

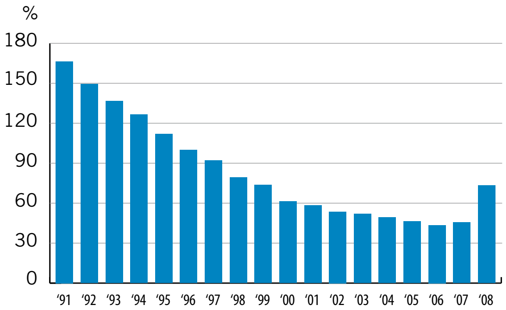
The National Debt/GNP ratio stood at 32.2 per cent, up from 23.3 per cent at end 2007. The gross General Government Debt/GDP ratio increased by 18.2 percentage points from 25 per cent at end 2007 to 43.2 per cent at end 2008 – the Exchequer deficit accounted for 6.8 percentage points of this increase; the build-up of Exchequer cash balances for 9.5 percentage points.

Gross Debt/GDP Ratios for EU Member States 2008



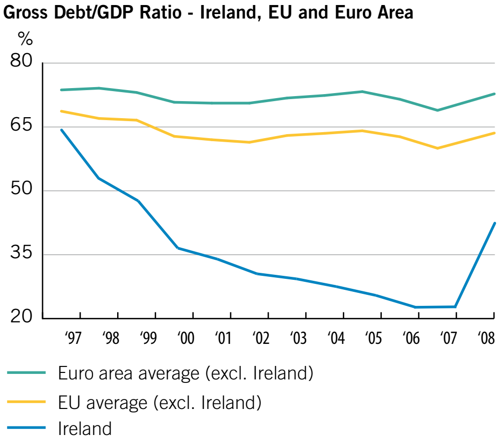
Sources: Eurostat, European Commission, 2008 estimate for Ireland - Department of Finance

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



Sources: Eurostat, European Commission, 2008 estimate for Ireland - Department of Finance

Gross Debt/GDP Ratio - Ireland, EU and Euro Area

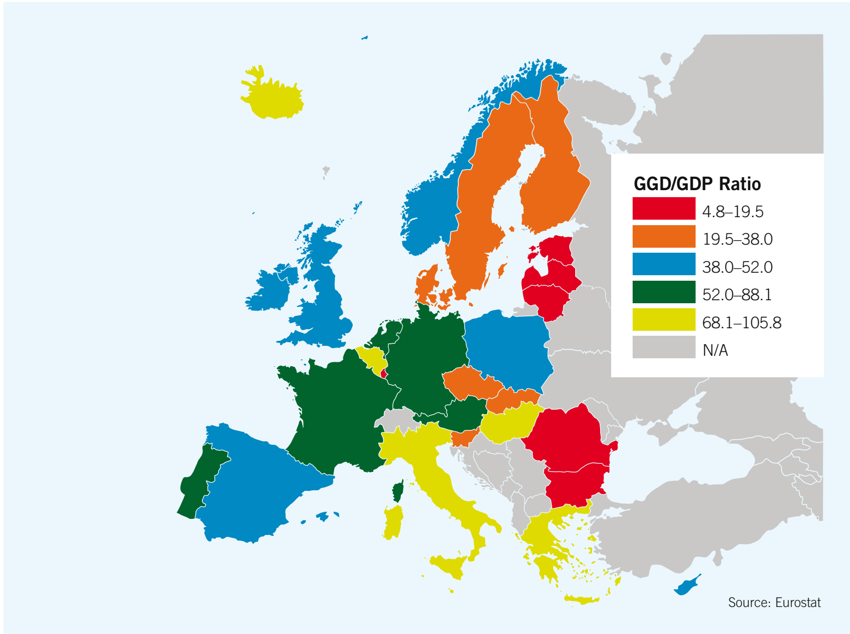


Sources: Eurostat, European Commission, 2008 estimate for Ireland - Department of Finance

Ireland's underlying position is stronger – when account is taken of the €16.1 billion in the National Pensions Reserve Fund and the €21.4 billion held in Exchequer cash balances at end 2008, the General Government Debt ratio falls to 23 per cent.

The Government's supplementary five-year Budget Plan announced in April 2009 forecasts an increase in the General Government Debt/GDP ratio over the 2009–2013 period – from 59 per cent at end 2009 to 77 per cent at end 2013, peaking at 79 per cent in 2012.

INTERNATIONAL COMPARISONS



Despite the significant increase in the debt during the year, Ireland's strong position coming into this crisis meant that, at end 2008, the county's comparative indebtedness was well below the euro area average.

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

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

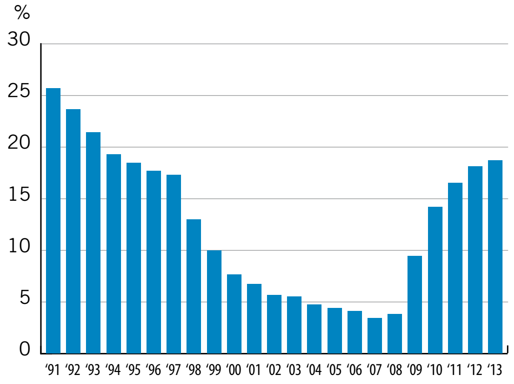
DEBT SERVICE COSTS

The Exchequer paid €1.544 billion in interest on the National Debt in 2008, compared with €1.618 billion in 2007. The other items charged to debt service costs were sinking funds of €488 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 €67 million.

A further €101 million in interest was paid from the Small Savings Reserve Fund (SSRF). The Exchequer has been building up the SSRF since 1994 to pay some of the accrued interest on the retail savings schemes as it falls due in large amounts (see page 24).

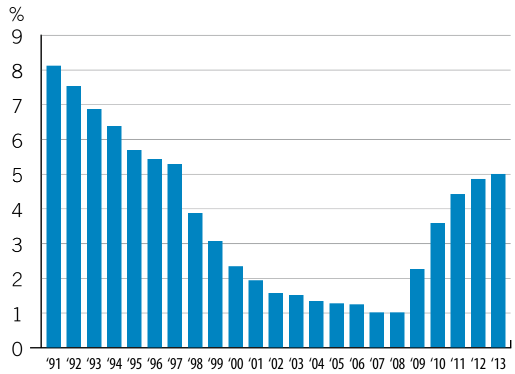
Debt service savings against the Budget were €391 million. The savings were due to timing issues related to interest payments on bonds and commercial paper issued in 2008; lower interest rates on short-term debt; interest received on the large Exchequer cash balances; and certain NTMA debt management initiatives.

Interest as a percentage of Tax Revenue



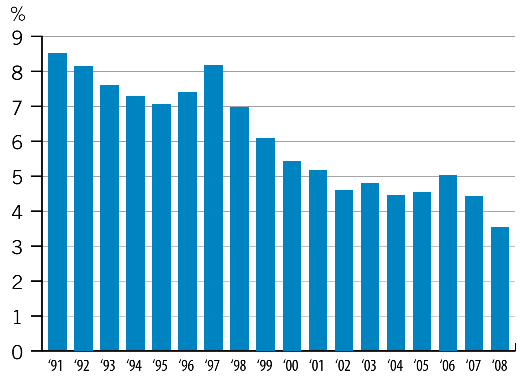
Source: NTMA

Interest as a percentage of GNP



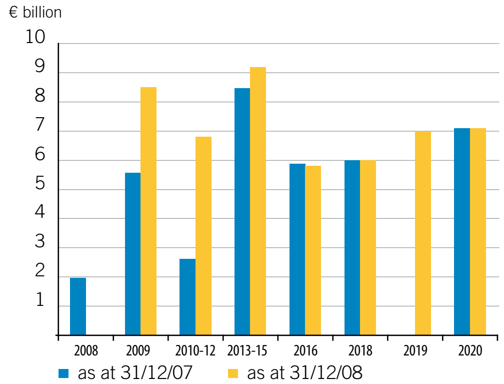
Source: NTMA

Average Interest Cost of Servicing the National Debt 1991–2008



Source: NTMA

Maturity Profile of the National Debt



Source: NTMA

Interest Burden

For illustrative purposes, the burden that the cost of servicing the debt places on the Exchequer can be expressed in terms of tax revenue or GNP. Both measures have fallen sharply since the NTMA was established. Only 3.8 per cent of tax revenue collected in 2008 was needed to pay interest on the National Debt, compared to 25.7 per cent in 1991. Interest costs fell from 8.1 per cent of GNP in 1991 to 1 per cent in 2008. While the interest burden will increase substantially over the period 2009–13, the levels reached will be no greater than those experienced in the mid-1990s.

The average interest cost of servicing the National Debt has fallen substantially from 8.5 per cent in 1991 to 3.5 per cent in 2008. This is primarily due to the downward trend in global interest rates, NTMA debt management initiatives and Ireland's participation in the euro area.

DEBT COMPOSITION

	€ million (nominal)	
	31 December 2008	31 December 2007
Bonds denominated in euro	41,864	30,945
Other Medium- and Long-Term Debt	482	616
Retail Savings Schemes	7,494	6,241
Net Short-Term Debt	558	(242)
Total	**50,398**	**37,560**

CURRENCY AND DURATION OF THE DEBT

At end 2008, all of the National Debt was denominated in, or swapped into, euro.

The weighted average duration of the National Debt decreased from 5.67 to 5.39 years, mainly as a result of the increase in short-term debt balances.

FUNDING ACTIVITY

Bond Syndications in 2008

Despite difficult market conditions in 2008, the NTMA launched two new benchmark bonds:

4.4% Treasury Bond 2019

In April the NTMA launched the 4.4% Treasury Bond 2019. Demand for the bond was strong, and an unprecedented €7 billion was issued. This was the largest bond issue by any borrower in Europe since 2004. It was issued at a yield of 4.514 per cent.

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

4% Treasury Bond 2011

In November the NTMA raised €4 billion with a second benchmark bond – the 4% Treasury Bond 2011. The bond was designed to take advantage of investor demand in Europe for relatively short-dated investments of the highest quality. The bond was issued at a yield of 4.028 per cent. This was the first sovereign bond issued in Europe after the collapse of Lehman Brothers investment bank in mid-September.

Bond Syndications in 2009

There has been continued volatility in 2009. Nevertheless the NTMA successfully launched three new benchmark bonds in the first half of the year in highly competitive markets:

4% Treasury Bond 2014

The NTMA went to the market early in January and raised €6 billion with the issue of a new bond – the 4% Treasury Bond 2014. Strong demand of €7.3 billion from more than 140 investors across Europe enabled the NTMA to issue double the €3 billion originally intended. The bond was issued at a yield of 4.069 per cent.

Bank treasuries (59 per cent), insurance companies and pension funds (15 per cent), fund managers (14 per cent) and central banks and official institutions (9 per cent) accounted for most of the orders. In terms of geographical distribution, Ireland took 35 per cent of allocations and the UK took 14 per cent. There was strong demand also from France (13 per cent), Germany (10 per cent) and Benelux (8 per cent).

3.9% Treasury Bond 2012

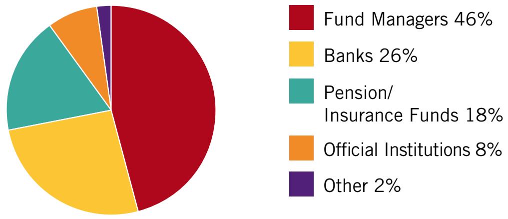
In February a second syndicated issue – the 3.9% Treasury Bond 2012 – raised €4 billion at a yield of 4.01 per cent. Total bids from investors amounted to €5.2 billion but the NTMA, in view of its comfortable cash position, satisfied only €4 billion of the demand in order to avail of the lowest yields on offer. The bond attracted strong demand from domestic investors who subscribed 55 per cent of the total, as well as investors from other euro area countries (20 per cent), the UK (13 per cent) and the Middle East (9 per cent). As would be expected with a relatively short maturity bond, banks accounted for 72 per cent of the amount invested. Pension funds contributed 11 per cent, fund managers 10 per cent and central banks 7 per cent.

5.9% Treasury Bond 2019

In June the NTMA substantially completed its 2009 funding requirement with the launch of the 5.9% Treasury Bond 2019. The bond raised €6 billion at a yield of 5.932 per cent. Total demand was for €9 billion from more than 180 participants. The issue was well diversified with 78 per cent allocated outside Ireland – most notably, 24 per cent to the UK and 15 per cent to France. Banks accounted for 57 per cent, and fund managers for 26 per cent.

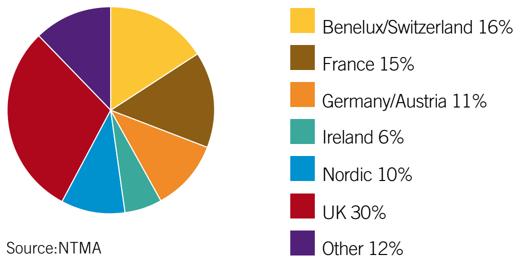
Distribution of Syndicated Bond Issues

4.4% Treasury Bond 2019 – by investor type



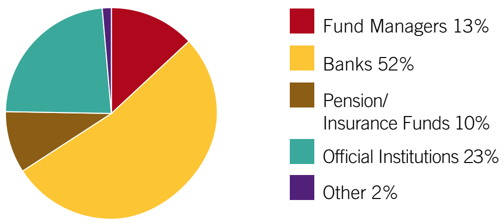
Source:NTMA

4.4% Treasury Bond 2019 – by geographical location



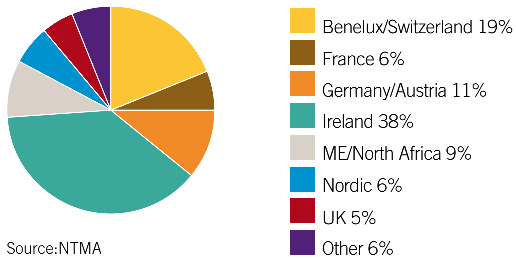
Source:NTMA

4% Treasury Bond 2011 – by investor type



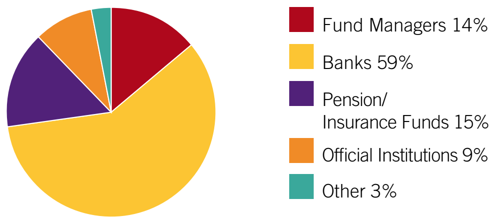
Source:NTMA

4% Treasury Bond 2011 – by geographical location



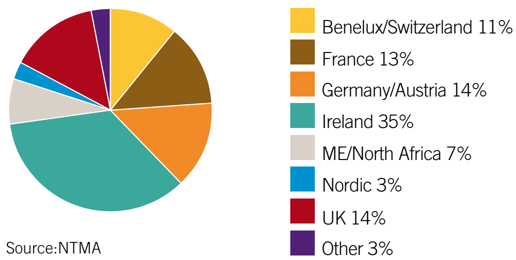
Source:NTMA

4% Treasury Bond 2014 – by investor type



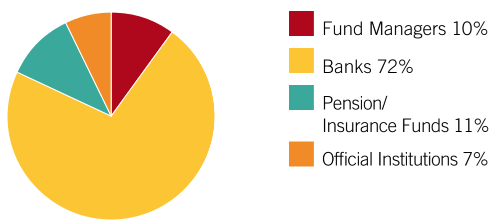
Source:NTMA

4% Treasury Bond 2014 – by geographical location



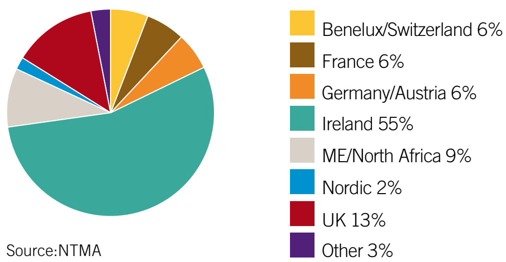
Source:NTMA

3.9% Treasury Bond 2012 – by investor type



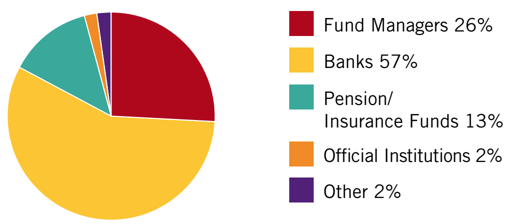
Source:NTMA

3.9% Treasury Bond 2012 – by geographical location



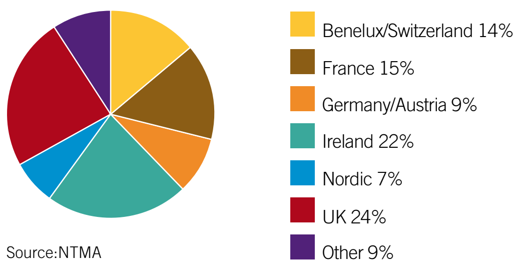
Source:NTMA

5.9% Treasury Bond 2019 – by investor type



Source:NTMA

5.9% Treasury Bond 2019 – by geographical location



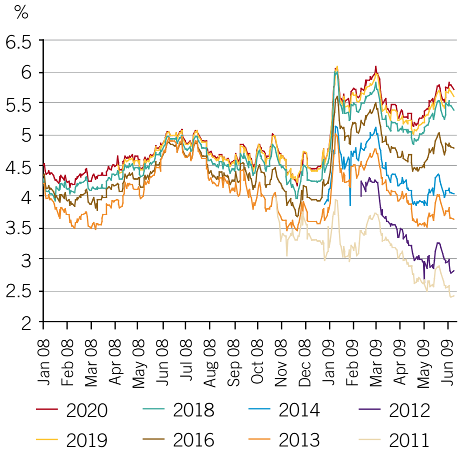
Source:NTMA

Bond Auctions

There were no auctions in 2008. There were four auctions in the first half of 2009.

Date	Bond	Sold €m	Yield	Cover
24 March	4% Treasury Bond 2011	390	3.459%	3.8
	4½% Treasury Bond 2020	910	5.808%	2.7
21 April	4% Treasury Bond 2014	300	4.200%	1.6
	4½% Treasury Bond 2018	758	5.082%	1.1
19 May	4% Treasury Bond 2014	310	3.898%	4.8
	4.4% Treasury Bond 2019	700	5.189%	1.8
16 June	3.9% Treasury Bond 2012	650	3.056%	2.2
	4.6% Treasury Bond 2016	650	4.755%	2.5

Irish Benchmark Yields 1/1/08–30/6/09



Source: Bloomberg

GOVERNMENT BOND YIELDS

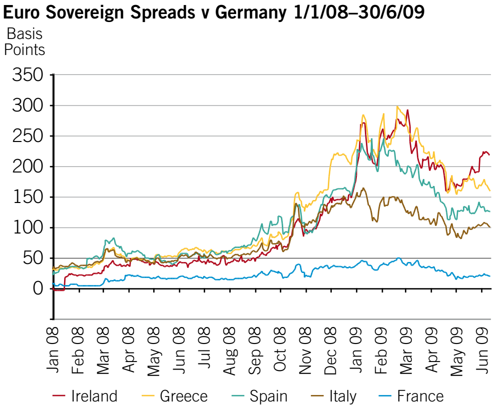
In 2008 there was unprecedented volatility in capital markets, one result of which was an increase in the spread in the cost of funding that all European countries must pay over the benchmark German rate. Simultaneously however the bond yields of the major sovereigns declined sharply due to reductions in official rates, perceptions about inflation and general risk aversion. Accordingly, yields on Irish bonds were lower in absolute terms at end 2008 than they were at end 2007.

Bond	31/12/07	31/12/08	31/03/09	30/06/09
4% Treasury Bond 2011	-	3.29%	3.39%	2.32%
3.9% Treasury Bond 2012	-	-	3.69%	2.79%
5% Treasury Bond 2013	4.27%	3.58%	4.31%	3.59%
4% Treasury Bond 2014	-	-	4.53%	4.02%
4.6% Treasury Bond 2016	4.35%	3.94%	5.00%	4.80%
4½% Treasury Bond 2018	4.49%	4.24%	5.27%	5.41%
4.4% Treasury Bond 2019	-	4.43%	5.45%	5.61%
5.9% Treasury Bond 2019	-	-	-	5.70%
4½% Treasury Bond 2020	4.55%	4.48%	5.58%	5.74%

Source: Irish Stock Exchange

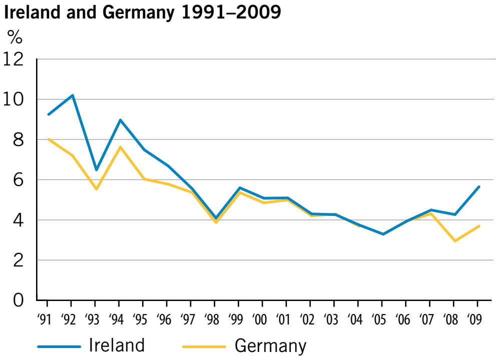
The difficult conditions have persisted in 2009. Ireland's yields rose sharply in January as a result of a number of factors, including the deterioration in the public finances, uncertainties about the cost to the Exchequer of restructuring the Irish banking sector and speculative activities in the credit default swaps market. While spreads have fallen from the peak levels seen in the middle of March, they remain volatile.

Euro Sovereign Spreads v Germany 1/1/08–30/6/09



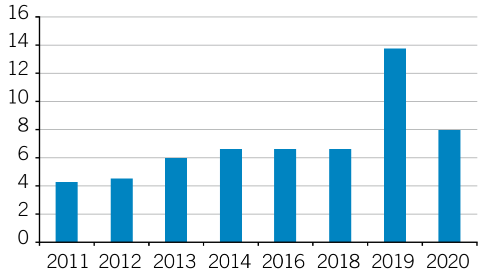
Source: Bloomberg

Historical 10 Year Benchmark Yields:
Ireland and Germany 1991–2009



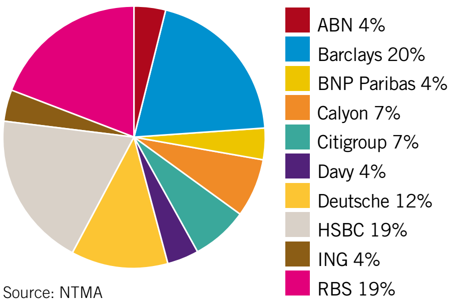
Source: Bloomberg

Benchmark Bonds Outstanding 30 June 2009
€ billion



Source: NTMA

Primary Dealers: Percentage Market Share 2008



Source: NTMA

THE IRISH GOVERNMENT BOND MARKET

Benchmark Government Bonds

Ireland now has nine major benchmark bonds with maturities extending across the yield curve to 2020. The amount outstanding in each exceeds €4 billion. The benchmark bonds account for more than 98 per cent of the total bonds outstanding.

Bond	Outstanding 30 June 2009 (€m)	ISIN Code	Annual Payment Date
4% Treasury Bond 2011	4,390	IE00B3FCJN73	11 November
3.9% Treasury Bond 2012	4,650	IE00B5S94L21	5 March
5% Treasury Bond 2013	6,028	IE0031256328	18 April
4% Treasury Bond 2014	6,610	IE00B3KWYS29	15 January
4.6% Treasury Bond 2016	6,499	IE0006857530	18 April
4½% Treasury Bond 2018	6,758	IE00B28HXX02	18 October
4.4% Treasury Bond 2019	7,700	IE00B2QTFG59	18 June
5.9% Treasury Bond 2019	6,000	IE00B6089D15	18 October
4½% Treasury Bond 2020	7,984	IE0034074488	18 April

Primary Dealer System

The Irish Government bond market has ten Primary Dealers recognised by the NTMA who make continuous two-way prices in designated bonds in specified minimum amounts and within specified maximum spreads. A number of stockbrokers also match client orders. The Primary Dealers account for more than 95 per cent of turnover in the Irish Government bond market. Two of the Primary Dealers joined the system over the past 12 months: BNP Paribas in August 2008 and J.P. Morgan in June 2009. At present, major international banks account for nine of the ten Primary Dealers.

The Primary Dealers are:

- Barclays Capital
- BNP Paribas
- Calyon
- Citigroup
- Davy
- Deutsche Bank
- HSBC
- ING Bank
- J.P. Morgan
- Royal Bank of Scotland

The Primary Dealers are members of the Irish Stock Exchange, on which Irish Government bonds are listed. 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.

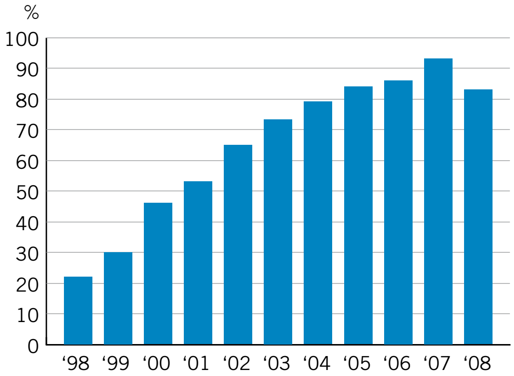
Until December 2008 Ireland's Primary Dealers had to fulfil their quoting obligation on one single platform but this has now changed. In December 2008 it was agreed that each Primary Dealer may choose to fulfil their obligations on any one of three platforms – Brokertec, BGC Partners (formerly eSpeed) or MTS.

Bond Auctions

Bond auctions, when required, normally take place on the third Tuesday of the month. The recognised Primary Dealers have exclusive access to these auctions. At 10.00 a.m. on the Tuesday 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.

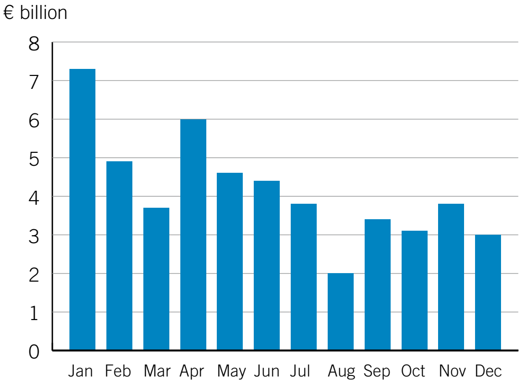
Auctions are conducted via the Bloomberg Auction System and are multiple price auctions. Auction results should normally be available within minutes of the 10.00 a.m. cut-off time for bids. A non-competitive auction follows directly after the close of each competitive auction. Up to 15 per cent of the amount sold in each competitive auction will be available to the Primary Dealers in proportion to each Primary Dealer's uptake of the competitive auction. A further total amount of 15 per cent will be available equally to the three Primary Dealers adjudged by the NTMA to have been the most successful in fulfilling their quoting obligations for the designated benchmark bonds.

Non-resident holdings of Irish Government bonds 1998–2008



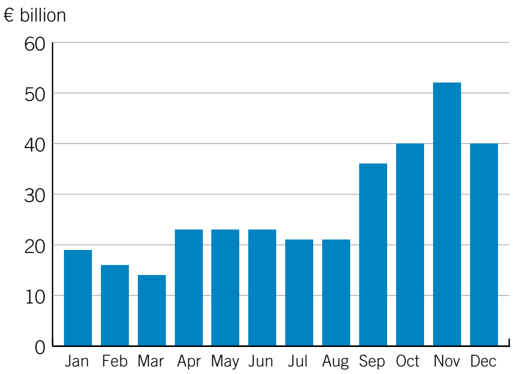
Source: Central Bank of Ireland Quarterly Bulletin

Turnover of Irish Government Bonds on the Irish Stock Exchange 2008



Source: Irish Stock Exchange

Turnover of Irish Government Bond Repos on the Irish Stock Exchange in 2008



Source: Irish Stock Exchange

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.

Diversified Holdings of Irish Government Bonds

The investor base for Irish Government bonds has diversified since the introduction of the euro. Holdings by international investors have increased from 22 per cent of the total in 1998 to an estimated 82 per cent in 2008. The total amount of bonds in issue increased by 106 per cent over the same period.

Turnover and Liquidity

Turnover in Irish Government bonds on the Irish Stock Exchange in 2008 was €50 billion.

Repos

Repos are an important component of liquidity in the bond market and generate more than six times the turnover of the cash market. They provide a collateralised mechanism for investors to enhance their returns by lending their bond holdings on a short-term basis. Repo turnover reported by the Irish Stock Exchange was €328 billion in 2008.

The NTMA was active in the repo market during the year, providing repo and reverse repo facilities to the Primary Dealers. Overall the NTMA's repo activity amounted to €6.7 billion. This activity contributed to the smooth and efficient operation of the market for all participants and was a useful source of market intelligence for the NTMA.

Bond Buybacks

Over the years the NTMA has bought back off-the-run illiquid Irish Government bonds whenever opportunities arose in the markets. These opportunities are now limited due to previous years' buyback activity. Nevertheless some €3 million was bought back in 2008.

Clearing and Settlement of Irish Government Bonds in Euroclear

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

Bond Indices

Irish Government bonds are included in the following bond indices:

Bloomberg/EFFAS – Euro Bloc Government Bond Index
Citigroup European Government Bond Index
EuroMX – Eurozone Government Bond Index
Irish Stock Exchange – ISEQ Bond Index
Merrill Lynch – EMU Direct Government Index
Merrill Lynch – Pan-European Government Index

SECONDARY TRADING DESK

The NTMA maintains a secondary trading function to trade its bonds with other market participants. 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.

The secondary trading desk has also been mandated to manage assets of €4.65 billion, namely the passive bond portfolio of the National Pensions Reserve Fund (more than €1.6 billion at end 2008), the accumulated surplus of the Social Insurance Fund (€2.9 billion at end 2008) and the assets of the Dormant Accounts Fund (€151 million at end 2008).

MEDIUM TERM NOTE PROGRAMME

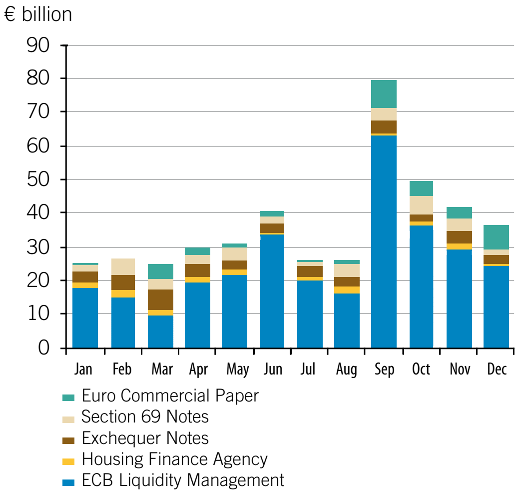
The NTMA has in place a US$15 billion Euro Medium Term Note Programme which is renewed each year. This multi–currency programme facilitates issuance in a variety of structures.

The dealers appointed by Ireland under the programme are:

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

Merrill Lynch International is the arranger.

Short Term Debt Activity 2008



Source: NTMA

SHORT TERM DEBT AND CASH MANAGEMENT

During 2008 there was considerable activity on the NTMA's short-term debt programmes. Borrowings were increased to more than €20 billion by the end of the year in order to build up cash balances in the Exchequer. This has provided flexibility for the NTMA in timing its funding operations in 2009.

The NTMA operates the following short-term debt programmes:

- Treasury Bill Programme;
- Ireland US$50 billion Euro Commercial Paper Programme;
- Ireland US Commercial Paper Programme;
- Housing Finance Agency (HFA) €4.4 billion Euro Commercial Paper Programme;
- Exchequer Notes Programme;
- Section 69 Multi-Currency Notes Programme;
- Central Treasury Service for non-commercial State bodies;
- Cash management as part of the ECB's liquidity management for the euro area;
- Agricultural Commodity Intervention Bills Programme.

New Treasury Bill Programme

Ireland launched a new Treasury Bill programme in March 2009. Treasury Bills are short-term Irish Government debt issued to the market primarily through an auction system. They are zero coupon instruments issued at a discount and normally have maturities at issue of between one and twelve months. Treasury Bills are issued under Irish law, and are eligible collateral for eurosystem credit operations.

Auctions generally take place on the second and fourth Thursday of each month. Auction announcements are made on Bloomberg page NTMA1 and www.ntma.ie. Market participants are the Primary Dealers in Irish Government Bonds and other appointed Irish Treasury Bill counterparties.

The NTMA has built up the outstanding amount of Treasury Bills quickly during 2009 in order to establish a deep and liquid market. €11.4 billion was outstanding at end-June 2009.

Ireland Euro Commercial Paper Programme

The Ireland US$50 billion Multi–Currency Euro Commercial Paper Programme is listed on the Irish Stock Exchange. The programme has the top short-term credit ratings from Moody's and Standard & Poor's. It is designed to raise short-term funds from the international money markets at attractive rates – usually significantly below Euribor – as bridging finance in the replacement of longer term debt and for other liquidity management purposes. Tenors of up to one year are available, subject to funding requirements. Reverse inquiries are accepted. The programme was very active during 2008 with a turnover of €310 billion.

The dealers appointed by the NTMA under the programme are:

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

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

Ireland US Commercial Paper Programme

In order to further diversify its sources of short-term borrowing, the NTMA has put in place arrangements for a new US Commercial Paper programme which will be launched in July.

The dealers appointed by the NTMA under the programme are:

- Bank of America Securities
- Barclays Bank
- Citibank International
- Goldman Sachs International
- J.P. Morgan

Bank of America is the issuing agent and paying agent.

Housing Finance Agency (HFA) Commercial Paper Programme

The NTMA borrows on behalf of the HFA under its €4.4 billion Multi-Currency Commercial Paper programme. The HFA's borrowings are on-lent to local authorities for social housing and ancillary projects. HFA borrowings are guaranteed by the Minister for Finance, and the programme has the top short-term credit ratings from Moody's and Standard & Poor's. The dealers on the HFA programme are the same as those for the Ireland US$50 billion Euro Commercial Paper Programme. All non-euro borrowings are immediately swapped into euro using foreign exchange contracts. Turnover in 2008 was €16.1 billion.

Exchequer Notes

Exchequer Notes are flexible short-term funding and liquidity management instruments issued by the NTMA to a broad range of investors, including corporate investors, banks and other institutional clients. Turnover in 2008 was €33.8 billion.

Section 69 Multi-Currency Notes

This programme was introduced under Section 69 of the Finance Act 1985 to encourage foreign-owned companies located in Ireland to invest their surplus funds in Ireland, rather than repatriating them. Eligible companies may invest in any major currency – either directly with the NTMA or through all the major banks in Ireland. Turnover in 2008 was €38.2 billion.

Central Treasury Services

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

During 2008 lending to the designated bodies was €43.9 million on average. There were 1,117 deposits placed with the CTS in 2008, with an average balance of €209 million.

European Central Bank Liquidity Management

The NTMA engages in daily short-term cash management operations to regulate the level of Government cash balances at the Central Bank of Ireland. This is undertaken as part of the overall management of liquidity in the euro area by the European Central Bank. Turnover in 2008 was €310 billion.

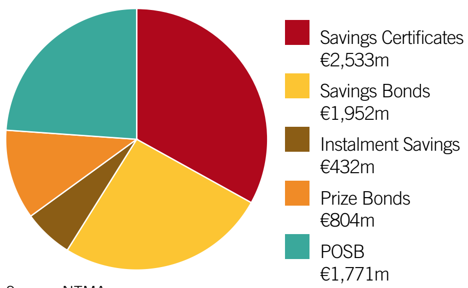
Agricultural Commodity Intervention Bills
Agricultural Commodity Intervention Bills (ACIBs) are issued by the NTMA on behalf of the Minister for Agriculture and Food. They fulfil a short-term funding requirement by bridging the gap between the making of agricultural intervention payments by the Minister for Agriculture and Food and the recoupment of the moneys from the EU. Turnover in 2008 was €140 million.

Transactions on behalf of the National Pensions Reserve Fund Commission
The Commissioners of the National Pensions Reserve Fund (NPRF) have mandated the NTMA to manage a passive bond portfolio which was valued at €1.6 billion at end 2008. In addition, the NTMA executes FX transactions to hedge the foreign exchange exposure on certain of the NPRF's non-euro investments. The FX transactions amounted to €43 billion in 2008. Settlement of hedge transactions was moved to a central counterparty in 2008 to ensure continuous linked settlement and eliminate settlement risk.

The NTMA is also mandated to manage the uninvested cash balances of the NPRF. The average NPRF cash balance in 2008 was €1.7 billion. In the first half of 2009, these cash balances have been reduced, and the Fund's government bond investments have been liquidated, to finance the €7 billion purchase of preference shares in Bank of Ireland and AIB. This purchase was directed by the Minister for Finance under the *Investment of the National Pensions Reserve Fund and Miscellaneous Provisions Act 2009.*

Retail Savings

Amounts Outstanding in the Retail Savings Schemes 31 December 2008 (€7.5 billion)



Source: NTMA

During 2008 there were net inflows of €1.25 billion into Retail Savings Schemes, which is double the highest annual level of inflows in any previous year since the establishment of the NTMA in 1990. Some €660 million was received during the month of September, before the Government's bank guarantee scheme was announced. By the end of 2008, the inflows returned to more usual levels. At end 2008 the total amount outstanding was €7.5 billion, equivalent to 15 per cent of the National Debt.

A further €653 million was outstanding in accrued interest. To provide for this, there is €243 million set aside in the Small Savings Reserve Fund.

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

Savings Schemes	Outstanding at 31 December 2008 € million	Money raised/(repaid) in 2008 (net) € million
Savings Certificates	2,533	310
Savings Bonds	1,952	277
Instalment Savings	432	23
Prize Bonds	804	172
Savings Stamps	2	-
Post Office Savings Bank (POSB)		
Deposit accounts	1,771	464
Total Principal	**7,494[1]**	**1,246**
Accrued interest on other Savings Schemes	653	(101)
Net Totals	**8,147**	**1,145**

1 This figure is included in the National Debt.

ADMINISTRATION COSTS

The administration fees paid to An Post and the Prize Bond Company in 2008 in respect of the Government retail savings schemes were:

Savings Schemes	€m
Savings Certificates	5.8
Savings Bonds	5.1
Instalment Savings	1.8
Prize Bonds[1]	8.6
Savings Stamps	0.5
Post Office Savings Bank[2]	30.3
Total	**52.1**

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

The fee for Prize Bonds arises under a separate contract with the Prize Bond Company which has effect up to end October 2009. In June 2009, following the submission and evaluation of tenders for the operation of the Prize Bonds scheme, the NTMA awarded a new contract to the Prize Bond Company. The new contract will be for a period of ten years from 1 November 2009. The NTMA has terminated fee payments in respect of Savings Stamps since September 2008.

POST OFFICE SAVINGS BANK

The Post Office Savings Bank (POSB) deposit base at end 2008 was €1.771 billion.

The two POSB accounts now on offer are the book-based Demand Account and a 30-day notice account known as Deposit Account Plus. Interest rates on these accounts are as follows:

- Demand Account: 1 per cent per annum
- Deposit Account Plus: 3 per cent per annum

Interest on these accounts is subject to Deposit Interest Retention Tax (DIRT), currently 25 per cent.

RATES OF RETURN ON OTHER GOVERNMENT RETAIL SCHEMES

The rates of return are as follows:

- Savings Certificates: 21 per cent over a 5½ year period, equivalent to 3.53 per cent per annum if held to maturity. The minimum investment in Savings Certificates is €50, with a maximum of €120,000 for an individual and €240,000 for a joint holding.
- Savings Bonds: 10 per cent over 3 years, equivalent to 3.23 per cent per annum if held to maturity. The minimum investment in Savings Bonds is €100, with a maximum of €120,000 for an individual and €240,000 for a joint holding.
- Instalment Savings: 20 per cent over 5 years on the amount saved by monthly instalments in the preceding twelve month period, equivalent to an average annual return of 3.37 per cent. The minimum monthly investment in Instalment Savings is €25 and the maximum is €1,000.

Interest on these schemes is exempt from Irish tax.

INTEREST ACCRUING ON RETAIL SAVINGS SCHEMES

Because interest is only paid out on encashment of Savings Certificates, Savings Bonds and 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 2008 the Reserve stood at €243 million, or just over 37 per cent of the accrued interest of €653 million.

Prize Bonds

Net sales of Prize Bonds in 2008 were €172 million, up from €40 million in 2007. The total amount outstanding at end 2008 was €804 million.

A draw for prizes is held every week. From June 2009, a Jackpot Prize of €1 million will be won in the Prize Bond draw held on the last Friday of every month. In the weeks when there is no €1 million prize, the top prize will be €20,000.

Over 148,000 tax-free prizes, worth a total of €20 million, were paid out in 2008. The details are set out below:

Value	Number of prizes	Value of prizes
€1 million Jackpot Prize	4	4,000,000
€500,000 Jackpot Prize	8	4,000,000
€20,000 Star Prize	40	800,000
€1,000	260	260,000
€250	520	130,000
€75	147,597	11,069,775
Total	**148,429**	**€20,259,775**

In 2008 on-line sales through the Prize Bond Company's website www.prizebonds.ie were €19 million. Investors can also use the website to view the weekly draw, track their bond holdings and check unclaimed prizes. The Prize Bond Company writes to each winner at the address registered on the winning bond, but in some cases it is not possible to make contact. There are over 12,000 prize bonds with unclaimed prizes, with an aggregate value just over €1.4 million. Some of these go back to the early days of the scheme in the 1950s. A booklet listing the bond numbers with unclaimed prizes at end December 2008 is available in Post Offices.

Social Insurance Fund

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

During 2008 the NTMA transferred a net €500 million from the Fund back to Department of Social and Family Affairs, bringing the total under management at the end of the year to €2.9 billion. A further €1 billion has been transferred back to the Department in the first half of 2009.

The return achieved on the management of these moneys in 2008, taking account of investment guidelines issued by the Minister for Finance, was 5.39 per cent.

Dormant Accounts

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

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

Pending disbursement, moneys in the Fund are managed by the NTMA. The NTMA had €151 million under management at end December 2008, compared with €205 million at end 2007. Some €33 million was transferred to the Fund in 2008, while €19 million of previously dormant funds was reclaimed. Disbursements from the Fund amounted to €73 million in 2008.

Ulysses Securitisation p.l.c

Ulysses Securitisation p.l.c. was established in 1995 for the purpose of securitising local authority mortgage payments. It is managed by the NTMA under a Corporate Services Agreement. Mortgage payments totalling some €240 million were securitised in 1995 and 1996 through the issuance of bonds.

The accumulated assets of the company are retained for the beneficial ownership of the Exchequer and stood at close to €159 million at end 2008. Surplus cash in the company is on-lent to the Exchequer under an Investment Agreement. The bonds were repaid in August 2006.

Emissions Trading

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

The Government's strategy for achieving Ireland's Kyoto target was set out in the *National Climate Change Strategy 2007–2012* which was published in April 2007. It estimated that Ireland's average annual greenhouse gas emissions during the 2008–2012 period would be 79.2 million tonnes of carbon dioxide equivalent if no measures were adopted to reduce them. It estimated that measures already taken, combined with a number of planned measures, would reduce average annual emissions by 13.8 million tonnes, or 78 per cent of the amount required for Ireland to achieve its Kyoto limit. It decided additionally that the Government would use the Flexible Mechanisms available under the Kyoto arrangements to purchase credits for 3.6 million tonnes of greenhouse gas emissions in respect of each year in the period 2008–2012.

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

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

In 2008 the NTMA purchased 3.455 million carbon credits which were delivered into the NTMA's Irish Registry account at the Environmental Protection Agency. The NTMA also contracted for 900,000 units to be delivered in 2009. In February 2009 a further 900,000 credits were puchased.

The requirement to purchase carbon credits has now been revised downwards to reflect the effect of the economic downturn on greenhouse gas emissions in Ireland. The Environmental Protection Agency was asked to apply a sensitivity analysis which might better reflect the changed economic situation. This analysis, based on the ESRI's Economic Shock scenario, was published in March 2009 and indicated that to comply with Ireland's Kyoto obligations it would be necessary to purchase carbon credits for greenhouse gas emissions in the range of 1.3 million to 1.8 million tonnes per annum for each of the five years 2008–2012, compared to 3.6 million tonnes per annum anticipated in the *National Climate Change Strategy*.[1] In the light of these revised estimates, it has been decided to cease purchases of carbon credits for the time being.

1. See *Ireland's Greenhouse Gas Emission Projections 2008–2012* published by the EPA on 13 March 2009

Asset Covered Securities

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

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

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

In return the NTMA receives an annual commitment fee of one tenth of one basis point of the nominal amount of asset covered bonds issued. During 2008, €18.8 billion was issued, bringing the total outstanding under the legislation to €71.5 billion.

The *Asset Covered Securities (Amendment) Act 2007* effected some necessary technical changes to the 2001 Act. It also included measures aimed at developing the Irish covered bonds statutory and legal framework in the light of changes made in other jurisdictions and in EU legislation, and it introduced a new kind of designated credit institution – a designated commercial mortgage credit institution – whose activities would be focused on commercial mortgage lending.

Credit Ratings

Ireland's debt is highly rated by the major credit rating agencies.

Rating Agency	Long-Term	Short-Term	Outlook
Moody's	Aa1	P-1	Negative
Standard & Poor's	AA	A-1+	Negative
Fitch Ratings	AA+	F-1	Negative
Ratings & Investment Information	AA+	a-1+	Negative

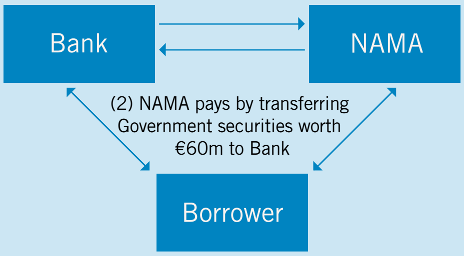
Ireland's credit ratings have been downgraded over the past six months in response to the deterioration in the public finances and the problems in the Irish banking sector. The rating agencies acknowledge Ireland's strong financial position coming into the current crisis and note that the fiscal measures taken in Supplementary Budget 2009 show considerable resolve and will contain slippage. However, uncertainty regarding the fiscal cost to the Exchequer of restructuring the Irish banking system is reflected in the lower ratings.

The National Pensions Reserve Fund continues to be a significant factor in supporting Ireland's 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. Other positive factors are Ireland's business-friendly regulatory environment, continuing low taxation levels and highly educated workforce.

NAMA Business Model

Example – sale of loans to NAMA in exchange for Government securities

(1) Bank sells loan to NAMA with a nominal value €100m



(3) Borrower now owes €100m to NAMA (despite NAMA only having paid €60m to the bank for the loan)

Bank

- The bank reduces its holding of risk weighted assets (RWA) which have a high weighting for capital ratio purposes.
- The bank removes from its balance sheet loans that generally cannot be used for collateral purposes to access liquidity with central banks or market counterparties.
- The bank receives government securities which can be used as collateral with central banks and market counterparties, and which are zero-weighted RWA.
- The banks may continue to administer the loans on behalf of NAMA, but control will pass to NAMA.

NAMA

- NAMA controls the relationship with the borrower.
- NAMA pays an interest coupon on Government securities (floating interest rate).
- NAMA receives income on the acquired loan portfolios (floating interest rate plus a profit margin).

National Asset Management Agency

The Government is committed to ensuring the continued viability of systemic financial institutions in Ireland. To this end, it has taken a number of steps which will contribute to the long-term sustainability of the banking sector and underpin its ability to contribute to the growth of the economy. There are four aspects to the support which the Government has provided: the bank guarantee; public ownership; bank recapitalisation; and the establishment of a new National Asset Management Agency (NAMA).

NAMA will operate as an independent commercial entity under the aegis of the NTMA. The objective of this initiative is to enable the supply of credit to the real economy to resume; this will be done by transferring certain impaired assets from the financial institutions to NAMA in order to clean up the banks' balance sheets. NAMA will buy property-related loans from the covered banks at an appropriate discount and will pay for them by the issue of Irish government securities directly to the banks. There will be a significant impact on the gross debt ratios, however the net debt will be much less affected as the increase in the gross debt will be substantially offset by the value of the assets acquired by NAMA.

The income from the assets and the proceeds from their eventual sale will accrue to NAMA. These income streams will mitigate the cost to the Exchequer of servicing the additional debt. If on wind-up NAMA has made a profit, this profit will also accrue to the State. If however NAMA makes a loss, the Government will, at a future date, apply a levy to the banks to recoup the shortfall.

The establishment of NAMA will require legislation; in the meantime the Government has appointed Brendan McDonagh, NTMA Director of Finance, Technology and Risk, as interim Managing Director of NAMA to proceed with the implementation process pending legislation. A Steering Group comprising the NTMA, the Department of Finance and the Office of the Attorney General has been established to consider a range of issues which will need to be addressed as part of the draft bill. It is expected that the bill will be published in July subject to Government approval.

The immediate priority of the Steering Group is to ensure that its proposals – in relation to valuation methodology and eligibility criteria for institutions and asset classes – are consistent with EU rules on state aid. In its *Guidance on the Treatment of Impaired Assets* published in February, the European Commission suggested that assets should be valued on the basis of their current market value where possible. In the absence of a meaningful market value, the Commission has indicated that it would consider a transfer value reflecting the underlying longer-term economic value of the assets to be an acceptable alternative.

Much work has been completed in terms of operational plans for NAMA, including its organisation structure, the business model, identifying staff requirements and a detailed implementation plan. Following a number of tender competitions, NAMA has already appointed advisors to assist in this process. The contracts awarded so far cover banking and financial advice, tax advisory services and legal services.

Additional information regarding the National Asset Management Agency is available on www.nama.ie.

National Development Finance Agency

National Development Finance Agency

The National Development Finance Agency (NDFA) was established on 1 January 2003 to provide financial advice to State authorities undertaking major infrastructure projects. Its mandate was subsequently extended to give it full responsibility for the procurement and delivery of certain Public Private Partnership (PPP) projects. It discharges its functions through the NTMA. The Chief Executive of the NTMA is, *ex-officio*, the Chairperson of the NDFA. A director of the NTMA is Chief Executive of the NDFA.

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

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

To date a total of 129 projects have been referred to the NDFA for financial advice. The NDFA is currently working on more than 50 projects.

THE PUBLIC SECTOR BENCHMARK AND THE VALUE FOR MONEY TEST

Achieving value for money is the main objective in the procurement of each public investment project and is central to the role of the NDFA. The preparation of the Public Sector Benchmark (PSB) is the key step in the appraisal of a PPP project. The PSB serves as a direct comparator for the PPP bids and, at evaluation stage, forms the basis for the value for money assessment of the highest ranking bid. While the PSB is compiled by the NDFA, it is agreed by – and remains the responsibility of – the relevant State authority.

In 2008 the NDFA issued Value for Money opinions in respect of the following projects:

- National Cancer Control Programme – Phase 1;
- National Broadband Scheme.

PROCUREMENT AND DELIVERY

The NDFA is currently the designated procurement authority for ten projects, of which three have been formally handed over to the NDFA for procurement – two schools projects and the redevelopment of the National Concert Hall. Limited information can be provided on these projects for reasons of commercial sensitivity. The NDFA provides financial advice on these projects as well as managing their procurement and delivery.

Schools Programme

This is a PPP programme, valued at €320 million. It consists of a number of PPP bundles which in total comprise 27 schools.

Bundle 1

This project reached financial close in March 2009. The schools will provide 2,700 pupil places. Construction works have commenced and all four schools are due to be completed by September 2010.

Bundle 2

This project consists of six schools which will provide accommodation for approximately 4,700 students. In May 2008 the Department of Education and Science handed over the project to the NDFA for procurement. Tenders are due in July 2009, with the announcement of the appointment of the Preferred Tenderer expected in autumn 2009. Financial close and contract award are planned for the first half of 2010, subject to the outcome of the planning process.

Bundle 3

This project comprises seven schools in Donegal, Leitrim, Galway, Wexford, Waterford and Westmeath. It is expected that this bundle will be referred to the NDFA for procurement before the end of 2009. The current indicative timeframe from the Department of Education and Science is for these schools to become operational in late 2012.

Third Level Programme

This is a PPP programme valued at €270 million. Up to 17 individual development projects across nine separate campus locations are to be bundled into three separate PPP contracts.

Bundle 1

Pre-procurement work on this project is substantially complete. Outline planning permission has been received for each of the four sites involved. The NDFA expects the project to be handed over for procurement by end-summer 2009.

Bundle 2

Pre-procurement work commenced in September 2008. The project is expected to be handed over to the NDFA for procurement in autumn 2009.

Bundle 3

Pre-procurement work on this project is anticipated to start in late 2009.

Arts

National Concert Hall

In May 2008 the Department of Arts, Sport and Tourism handed over this project to the NDFA for procurement. Final tenders are due in autumn 2009 with an announcement on the appointment of the Preferred Tenderer anticipated in late autumn. Financial close and contract award are planned for early 2010, subject to the outcome of the planning process.

Abbey Theatre

The Office of Public Works is currently arranging an international design competition. Following completion of the competition and the standard pre-procurement work, the project will be handed over to the NDFA for procurement.

National Plan for Radiation Oncology

The National Plan for Radiation Oncology (NPRO) involves the procurement of a network of facilities for the delivery of radiation oncology services in a number of centres in Ireland as part of the National Cancer Strategy. The NPRO comprises two phases. Phase 1 refers to facilities that are to be procured by traditional means; Phase 2 refers to facilities that are to be procured by PPP by the NDFA.

Phase 1

The Health Service Executive (HSE) has awarded the Phase 1 contract. Planning permission has been granted for the two hospital sites concerned at St. James's Hospital and Beaumont Hospital, and site development has commenced.

Phase 2

This project is currently being scoped by the HSE under the National Cancer Control Programme (NCCP). The NDFA is working closely with the NCCP in the development of the PPP project, and is providing the necessary statutory financial advice to both PPP and non-PPP elements of the project. The Public Sector Benchmark is due to be completed before the end of September 2009. The project is on schedule to deliver the full network by 2014.

Justice, Equality & Law Reform – Bundle of Courthouses

The Courts Service is planning for the redevelopment of courts in Cork, Letterkenny and Limerick by way of PPP. These will be procured by the NDFA. The project is currently in the detailed appraisal stage and the NDFA expects it be handed over for procurement within twelve months.

FINANCIAL ADVICE

Transport – Rail

DART Underground (Heuston Station to Docklands)

CIE/Iarnród Éireann referred this project to the NDFA in July 2008 for financial and risk advice. The NDFA is currently assisting CIE in devising a commercial structure and is also preparing the methodology for the evaluation and quantification of project risks.

Metro North (Dublin City Centre to North Dublin)

The NDFA assisted the Railway Procurement Agency in reviewing the Public Sector Benchmark which has been presented to and approved by the RPA Board. Tender documents were issued to the four short-listed consortia in May 2008 and submissions were received in February 2009. Signing of the contract is planned for mid-2010.

Transport – Roads

Motorway Service Areas

Stage 1 submissions were received in October 2008. Final tenders were received in mid-2009 with contract close scheduled for later in 2009.

Justice, Equality and Law Reform

Mountjoy Prison Replacement / Thornton Hall Prison

Planning Permission was granted for the scheme in July 2008 by the *Prison Development Act 2008*. The Irish Prison Service announced in May 2009 that it had broken off negotiations with the preferred bidder. Following this development, the Government announced in June 2009 that Phase One of the project, comprising essential basic work required for the development, would commence in the short term. The procurement of the main prison complex will take place while the construction of Phase One is underway.

Health Service Executive

National Integrated Medical Imaging System

The overall objective of this project is to deliver a filmless, paperless system for radiology and cardiology imaging on a nationwide basis. This project was referred to NDFA for financial advice in May 2008. Tenders were received in May 2009 and are currently being evaluated.

Decentralisation Phase 1 (Carlow, Mullingar and Portlaoise)

This project is being procured by the Commissioners of Public Works, with NDFA acting as financial adviser. The Preferred Tenderer is currently negotiating with potential funders and financial close is expected to be achieved later in 2009.

National Pensions Reserve Fund

National Pensions Reserve Fund

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

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

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

PERFORMANCE

The Fund recorded an investment return of –30.4 per cent in 2008, reducing its annualised return since inception from 6.1 per cent at end 2007 to 0.5 per cent at end 2008. The Fund's market value at end 2008 was €16.1 billion.

The Fund's performance reflects the exceptionally difficult market conditions that marked 2008. Conditions deteriorated dramatically from September onwards as, following the collapse of Lehman Brothers, the global credit crunch escalated into the most serious financial and economic crisis since the 1930s. While the Fund's negative return in 2008 is mainly attributable to the performance of its equity investments – major international stock market indices were down in the region of 40 per cent for the year – all asset classes other than cash and government bonds were severely affected by the crisis.

ASSET ALLOCATION AND DIRECTED INVESTMENTS

The Fund's asset allocation strategy is primarily focused on building up a diversified portfolio of equities and other real assets on the basis that, over the long holding period before significant disbursements are made from the Fund, such assets will outperform financial assets such as bonds and cash. While returns to bonds are much less volatile over short time periods, over the longer-term they are likely to be eroded by inflation.

The NTMA is implementing the Fund's investment strategy within the framework of an end-2009 target asset allocation. As well as investments in diversified quoted equities and bonds, the strategy includes a significant allocation to alternative assets: property, private equity and commodities. The property and private equity allocations represent "soft" targets to be achieved on a phased basis as suitable investment opportunities arise and are subject to prevailing market conditions.

NPRF Asset Allocation – 31 December 2008	€m	%
Large Cap Equity	8,916	55.2
Small Cap Equity	530	3.3
Emerging Markets Equity	209	1.3
Private Equity*	501	3.1
Property	513	3.2
Commodities	82	0.5
Bonds	3,521	21.8
Currency & Asset Allocation Funds	202	1.3
Cash	1,668	10.3
Total	**16,142**	**100**

*including a 2% allocation to infrastructure

The Fund has taken a cautious approach to investing Exchequer contributions since the onset of the crisis in 2007 and increased its cash balances throughout 2008 (the Government contributes the equivalent of 1 per cent of GNP to the Fund each year). It has also allowed the bond allocation to increase as equity markets fell. As a result, the Fund was 13.3 percentage points underweight its benchmark quoted equity holding at end 2008.

In March 2009 the Minister for Finance directed the NPRF Commission to invest €3.5 billion in preference shares issued by Bank of Ireland; in May 2009 he directed the Commission to invest €3.5 billion in preference shares issued by Allied Irish Banks. These directions were made under the *Investment of the National Pensions Reserve Fund and Miscellaneous Provisions Act 2009*. The investments followed intensive discussions between the Government and Bank of Ireland and Allied Irish Banks with a view to securing the position of the two banks.

As a result of these discussions, the Government decided on a comprehensive recapitalisation package to reinforce the stability of the Irish financial system, increase confidence in the banking system, and facilitate the banks involved in lending to the economy. Prior to investment, the NPRF Commission had extensive due diligence carried out on both institutions at the request of the Minister for Finance.

The preference share investments form part of the National Pensions Reserve Fund and any income or capital gains from these assets will accrue to the Fund. The directed investments do not involve any change in the date of first drawdown from the Fund – 2025.

The transactions were funded by €4 billion from the Fund's existing resources and by €3 billion from a frontloading of the Exchequer contributions to the Fund for 2009 and 2010. The €4 billion from the Fund's resources was financed mainly from the Fund's cash and the proceeds of the liquidation of its government bond investments, with a small portion coming from equity sales.

Principal NTMA Activities

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

- provision of policy advice to the NPRF Commission;
- implementation of the Fund's investment strategy;
- selection and performance review of investment managers and specific investment vehicles;
- oversight of the Fund's directed investments in bank preference shares and monitoring the financial condition of the institutions concerned;
- development and operation of Fund controls to ensure that the Fund is managed within the parameters set down by the Commission and that the operational risks to the Fund are minimised;
- preparation of the Fund's financial statements and monitoring of the Fund's global custodian.

State Claims Agency

State Claims Agency

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

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

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

CURRENT POSITION

At end-June 2009 the SCA had approximately 4,140 claims under management. The total outstanding contingent liability against all active claims was approximately €658 million, broken down as follows:

- Clinical Claims €566 million (86%)
- Employer Liability, Public Liability & Property Damage Claims (EL/PL/PD) €92 million (14%)

In total the SCA received 1,754 new claims and resolved 1,723 claims in 2008.

CASES OF PRECEDENT VALUE

As part of the SCA's claims management strategy, cases that involve issues of policy or public interest, or that are of precedent value, are identified at an early stage and robustly defended. The SCA successfully defended a number of such cases in 2008 in the areas of child abuse, policing and prisons litigation.

CLINICAL CLAIMS

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

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

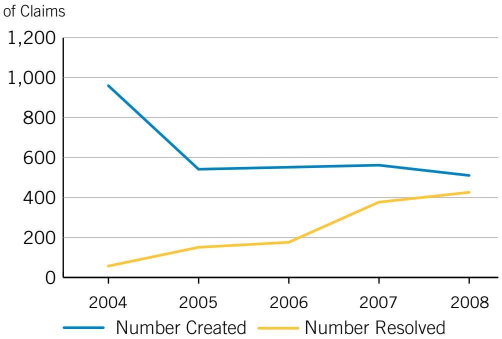
Claims under Management

At end 2008 the SCA had 1,675 clinical claims under management. The total paid out in respect of fully resolved claims amounted to €47 million since inception.

Trends

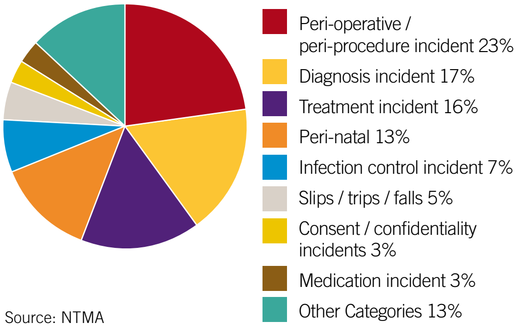
The number of claims resolved annually is increasing as the claims mature. However, the total number under management is also increasing because of the long lead-time between receipt and resolution of these claims, given their complex nature.

Clinical Claim Trends



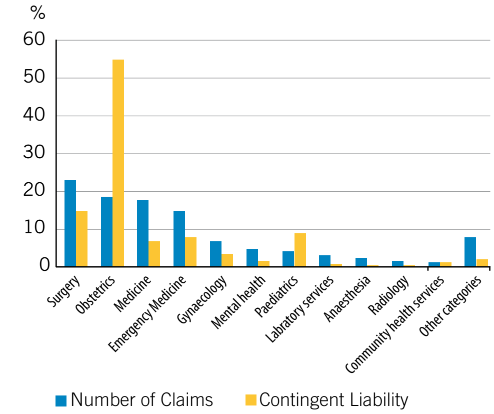
Source: NTMA

Clinical Claims by Incident Type



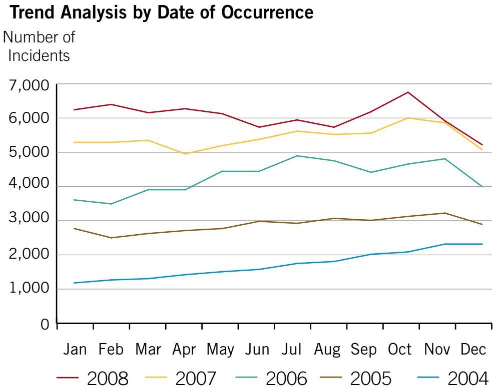
Source: NTMA

Clinical Claims by Speciality



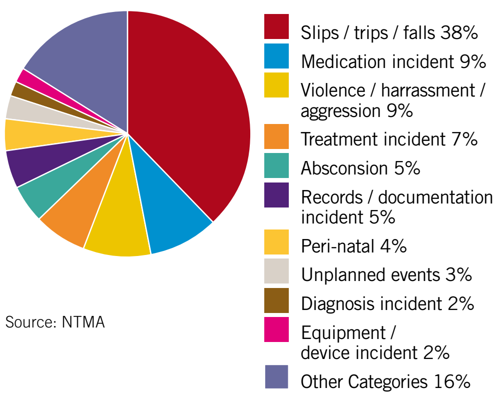
Source: NTMA

Trend Analysis by Date of Occurrence



Source: NTMA

Clinical Incidents Reported via StarsWeb



Source: NTMA

Clinical Claims Activity

Healthcare Associated Infection Claims

The SCA is currently managing 109 active healthcare-associated infection claims. The anticipated increase in healthcare-associated infection claims has not occurred and the numbers of such claims have fallen considerably in 2008 – only 34 such claims were registered by the SCA during the year.

Obstetric-Related Claims

Obstetric-related claims, though accounting for only 19 per cent of the CIS claims volume, represent 55 per cent of the total outstanding contingent liability. This is due to the high settlement and court values associated with cerebral palsy and other serious birth-related claims.

Coroners' Inquests and Hospitals

The number of coroners' inquests handled by the SCA has increased dramatically over the last three years. The rise is due particularly to a significant rise in those inquests where a healthcare-associated infection illness is listed as a secondary cause of death.

Clinical Risk Management

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

Clinical Incident Reporting System – STARSweb

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

The SCA supports enterprises in notifying incidents by:

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

When serious adverse events or trends are identified by the SCA's Clinical Risk Advisers, they respond by undertaking detailed analysis; providing advice and making recommendations; or by commissioning external reviews, as appropriate. Approximately 249,000 adverse clinical incidents and "near misses" had been notified on the system to date.

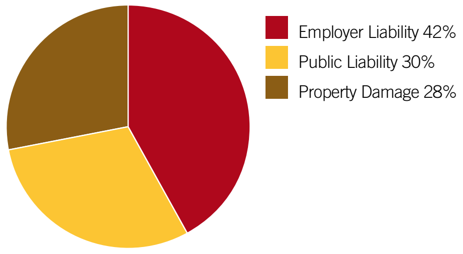
Education in Clinical Risk Management

The Clinical Risk team at the SCA has developed a suite of training programmes in systems analysis. These programmes consist of a generic and a customised component. The target audience is multidisciplinary and includes healthcare professionals and senior managers. The training has been accredited by An Bord Altranais, the Royal College of Physicians of Ireland, the Royal College of Surgeons in Ireland and the Irish College of Psychiatrists

Customised systems analysis training is provided to the following specific groups:

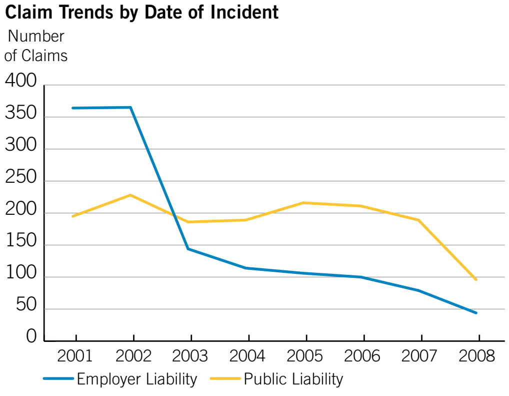
- medical and nursing undergraduates;
- medical and nursing postgraduates;
- health enterprises;
- professional and representative bodies;
- consultant surgeons and specialist registrars in higher surgical training.

EL/PL/PD Claims by Classification



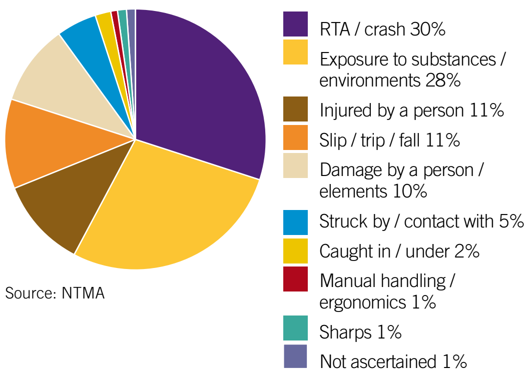
Source: NTMA

Claim Trends by Date of Incident



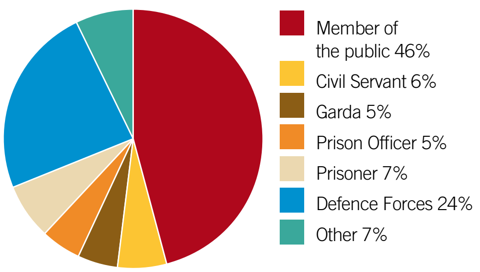
Source:NTMA

EL/PL/PD Claims by Primary Cause



Source: NTMA

EL/PL/PD Claims by Category of Injured Party



Source: NTMA

Closed Claims Analysis

The aim of reviewing closed claims documentation is to reduce those contributory factors which give rise to adverse events and which result in litigation. The results of the reviews are shared with all health enterprises indemnified by the Clinical Indemnity Scheme in order to support patient safety.

Obstetrics

SCA Clinical Risk Advisers visit targeted maternity units. In addition, there is direct collaboration with the Health Service Executive (HSE) and the Institute of Obstetricians regarding the organisation and delivery of training courses; input into the Confidential Enquiry into Maternal and Child Health; and bi-annual Obstetric Forum meetings of all maternity hospitals and maternity units hosted by SCA.

Mental Health

The SCA continues to work closely with the Mental Health Commission regarding the provision of support to healthcare professionals working within the mental health sector. This includes ongoing collaboration with the Mental Health Commission to support clinical risk assessment and management, and the imminent launch of a guidance document on risk management in mental health.

Collaboration with other Stakeholders

Examples of the healthcare initiatives in which the SCA participates include:

- Commission on Patient Safety and Quality Assurance Implementation Steering Group;
- HSE Healthcare Associated Infections Group;
- Health Information and Quality Authority/HSE/SCA STARSweb System Report Implementation Group;
- Medical Education and Training Review – HSE-commissioned review of training needs for healthcare professionals;
- 'Safe Surgery Saves Lives' project – Royal College of Surgeons in Ireland project to implement World Health Organisation checklist.

EMPLOYER LIABILITY, PUBLIC LIABILITY & PROPERTY DAMAGE CLAIMS

At the end of 2008, the SCA had 2,622 EL/PL/PD claims under management. The total paid out in respect of fully resolved claims amounted to €50 million since inception.

Trends

There has been a significant decline in EL and PL claim volumes associated with incidents that have occurred since the inception of the SCA. Since 2002, the number of EL claims has fallen by 78 per cent and the number of PL claims has fallen by 38 per cent. These declines may be slightly overstated however as claims may yet arise from incidents that occurred in 2008.

This analysis excludes categories of claims such as trespass to the person (including sexual abuse claims) and hearing loss claims, as the majority of these are historical in nature. When the hearing loss claims transferred by the Department of Defence to the SCA in 2008 are included, the overall number of active claims under SCA management has increased.

The primary causes of EL/PL/PD claims are road traffic accidents (30 per cent); alleged exposure to hazardous substances/environments (which typically include exposure to asbestos, noise and other occupational substances or environments) (28 per cent); slips, trips and falls (11 per cent); and injured by a person (11 per cent).

EL/PL/PD Claims Activity

Sexual Abuse Claims

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

The SCA has received 491 physical and sexual abuse claims from the Department of Education and Science, the Department of Health and Children and the Department of Justice, Equality and Law Reform. Of these claims, 229 are currently active and 262 have been resolved.

The Government and, in particular, the Attorney General were concerned to ensure that the State should be actively defended against charges of negligence by victims of child sexual abuse especially in national schools. Victims' solicitors took civil legal proceedings against not just the alleged abusers, but against the church authorities (as school managers) and the State. In the past, the church authorities managed to vacate the proceedings, leaving the State, which had less culpability, to bear the full cost of the damages awarded. The State was not successful in recouping costs from the church authorities.

The SCA's approach to day-school abuse claims has been to seek to extricate the State from the various plaintiffs' proceedings, except in a tiny minority of cases where there has been an acknowledged failure on the part of the State.

In the case of *Louise O'Keefe v Leo Hickey, The Minister for Education and Science, Ireland and the Attorney General*, deValera J. dismissed the plaintiff's case, accepting the State's argument that the Minister for Education and Science had an obligation not to *provide education*, but to *provide for education*. The Supreme Court dismissed the plaintiff's appeal in December 2008, holding that the State could not be held liable for the actions of the abuser teacher because there was no employer/employee relationship, de facto or otherwise, between them.

In May 2009 the Supreme Court unanimously held that the State should not be awarded its costs of the Supreme Court appeal in the above matter. In giving the judgement of the court, the Chief Justice stated that there were exceptional reasons why the State should forego its costs. The exceptional reasons outlined were as follows:

- the complex relationship between the State and church authorities in relation to the provision of education;
- the fact that the State would take a "sympathetic view" if executing any order for costs awarded by the court;
- the fact that the case was an important test case for other similar cases.

The Supreme Court also overturned the order for costs, which had been granted to the State at the earlier High Court hearing.

Asbestos Claims

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

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

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 this case, or the related appeals, had developed pleural plaques.

Solicitors, who represented some of the asbestos "worried well" plaintiffs, pressed ahead with claims alleging that their clients (i) were exposed to asbestos and (ii) developed pleural plaques.

In light of a number of decisions by the English High Court to the effect that pleural plaques are not compensable, the SCA wrote to the solicitors, requesting their clients to withdraw their cases. All of these claims with the exception of one have now been withdrawn.

Organ Retention Claims

These claims result from the practice of hospitals in the 1970s, 1980s and 1990s, in post-mortem cases, of removing and retaining organs and tissues of infants without the consent of their parents. Parents issued proceedings against hospitals and named pathologists seeking damages for nervous shock.

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

Of the original 177 claims against hospitals and State defendants, approximately 151 plaintiffs have discontinued their claims to date.

Hearing Loss Claims

The handling of Defence Forces hearing loss claims was transferred to the SCA with effect from September 2005. This was a residual claims portfolio associated with historical hearing loss claims against the Minister for Defence. A total of 1,172 active and dormant claims have been transferred from the Department of Defence to the SCA since 2005 and, of these, 772 have been resolved to date.

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 8,642 adverse incident notifications. Early reporting of incidents is critical to successful claims and risk management. It enables an early and detailed investigation of the more serious incidents in order to determine the question of liability in advance of any litigation. Data on adverse incidents also enables the SCA to identify any patterns of sub-standard practice which might highlight weaknesses in existing health and safety or litigation risk management procedures.

The SCA has forged strong relationships with all State authorities to promote good risk management practices. 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.

Health and Safety Risk Management Systems

The SCA has encouraged State authorities to implement comprehensive internationally benchmarked health and safety management systems. Examples achieved to date include:

- *Defence Forces* – in 2008, for the third year running, the Defence Forces achieved compliance with the system standard. System audit is now being extended to the Reserve Defence Forces.
- *Irish Prison Service* – a new health and safety risk management system was launched in October 2007. The system has now been successfully implemented in headquarters, in critical directorates (building services, procurement and training) and in two prisons. It will be extended throughout the prison service by the end of 2009.
- *An Garda Síochána, the Office of the Revenue Commissioners, the Office of the Houses of the Oireachtas and the Department of Agriculture, Food and Fisheries* – existing health and safety risk management systems were reviewed and reported on in 2008. All authorities have agreed with the report findings and are to implement the recommendations.

- *Office of Public Works* – in April 2008 the SCA commenced a review of existing health and safety risk management systems. A report with the findings has been issued to the OPW.

Liaison with State Authorities

In addition to the work with the authorities listed above, a Risk Management Network was established for the remaining lower risk State authorities. The objective of the Network is to contribute to the continuous improvement of the management of health and safety risk in State authorities. It provides a forum through which people, in roles associated with health and safety and litigation risk management, can share their knowledge and experience.

ISO 9001 Quality Management System

In December 2008 the SCA's EL/PL Risk Management Unit was accredited to ISO9001 Quality Management Standard in respect of its service delivery.

Bi-annual Reports

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

Finance, Technology & Risk

Finance, Technology and Risk comprises the following units:

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

Shared services are provided to all the NTMA's distinct businesses, namely Funding and Debt Management; the National Pensions Reserve Fund; the State Claims Agency; the National Development Finance Agency; the management of State funds; and borrowings on behalf of the Housing Finance Agency. The combined value of assets and liabilities under management exceeds €70 billion. Cashflows of €653 billion were processed in 2008.

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

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

FINANCIAL CONTROL

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

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

A specialist external supplier provides accounting, valuation and performance reporting services in respect of the NPRF's property and private equity investments. Financial Control continues to enhance services and operating standards, and expects to implement further service enhancements during 2009.

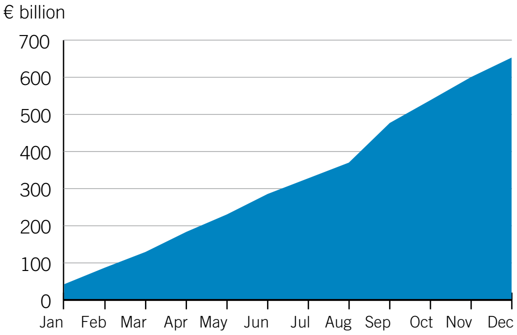
INFORMATION TECHNOLOGY

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

In 2008 the SWIFT payments system was enhanced, with significant modifications completed to a number of message types and to satisfy SWIFT Target 2 requirements. Additional improvements were delivered in business continuity functionality and resilient communications for business critical NTMA systems. New systems were developed, and modifications were made to existing systems, to enhance Carbon Trading, Central Treasury Loans and Asset Covered Securities management, within the context of the NTMA's integrated treasury management environment. Further enhancements were completed for foreign exchange processing, bond processing, and market data validation and loading modules. A secure web-based platform for remote entry of clinical incidents was further extended throughout the HSE as part of the State Claims Agency's incidents/claims management process.

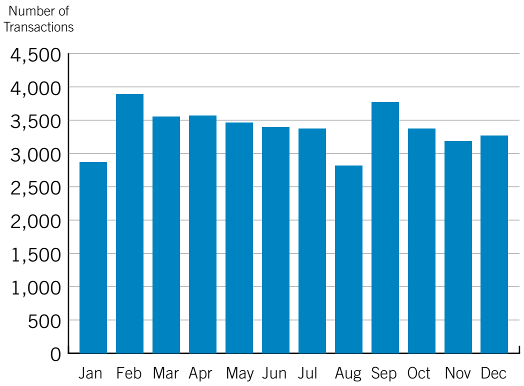
The main security systems were enhanced to improve data security and throughput with critical systems fail-over functionality. During 2008 IT technical advice was provided to several health agencies and the Private Residential Tenancies Board.

Cumulative Monthly Cashflows in 2008



Source: NTMA

Monthly Transaction Volumes in 2008



Source: NTMA

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 is to achieve enhanced straight-through processing rates of close to 100 per cent and thereby reduce operational risk.

The continued growth of the NTMA's business during 2008 has led to further growth in the volume of transactions to 40,500 with an average monthly cashflow of €54 billion, or more than €600 billion annually.

RISK MANAGEMENT

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

In the case of market risk, the NTMA has in place a comprehensive set of risk management procedures to quantify and manage, in a timely manner, the impact of movements in interest rates and foreign exchange rates. The risk management tools include systems to quantify the sensitivity of budgeted debt service costs, both in the current year and in future years, to movements in market rates.

Liquidity risks, specifically funding liquidity risks, relate to the need to have sufficient cash to meet all liabilities as they arise. These are actively monitored and controlled. Integrated procedures are in place to ensure that the NTMA manages the timing and volume of issuance to guarantee sufficient liquidity. During 2008 the Risk Unit implemented new liquidity risk profiling models in response to the emerging Exchequer deficit and the volatility in the markets.

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

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

Debt Management Benchmark

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

The Benchmark performance measurement system takes account of both the accumulated cash positions and the net present value of all future cash flows. It calculates the impact of the NTMA's actions not only in the year under review, but also their projected impact over the full life of the debt. In 2008 the measurement of performance against the Benchmark and the results achieved were audited by PricewaterhouseCoopers. These results indicate that the NTMA outperformed its benchmark by €166 million in 2008.

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. In 2008 these included 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 is audited by the Comptroller and Auditor General. In line with the best standards of corporate governance, the NTMA has had in place since its establishment an internal audit function. This work is supplemented by an external firm of auditors, currently PricewaterhouseCoopers, which performs internal audit work.

The NTMA internal control system relies on strict organisational independence of the monitoring and control functions, the segregation of duties and the application of the maker/checker principle to all activities. The NTMA has received satisfactory reports in respect of its business from both its external and internal auditors in respect of 2008.

During 2008 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 2008 the NTMA provided advice and assistance to:

- the Ministry of Finance, India;
- the Ministry of Finance, Japan;
- the Microfinance Foundation, Korea;
- the Accountant General's Office, Singapore;
- the Ministry of Finance, Turkey.

In addition, the NTMA chaired the International Retail Debt Management Symposium hosted by the World Bank in May 2008.

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 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 2008 the legal unit negotiated legal documentation for the syndicated bond issues and provided advice to the National Pensions Reserve Fund on a range of issues concerning the Fund's property, private equity, infrastructure and emerging markets investment programmes and its segregated portfolios.

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

Human Resources

The NTMA manages four substantial, complex and growing businesses with a current staff quota of 168. NTMA staff members are recruited from a wide variety of disciplines and at the highest levels of professional expertise and commitment.

Clear and detailed objectives are in place for all staff with an emphasis on performance feedback, dialogue and development. Training and development programmes are implemented to help staff focus on performance, teamwork and achievement while remaining at the leading edge of their disciplines. Performance is fully evaluated throughout each year and the evaluation forms part of the annual remuneration review led by the Chairman of the NTMA Advisory Committee. HR promotes and facilitates a strong and open communication policy with all staff. Health, safety and welfare issues are responsively and sensitively addressed in line with legislation and best practice. An Employee Assistance Programme is in place to offer staff and their families additional support through counselling, advice and information on a wide range of topics.

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

Financial Statements

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 2008

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 2009

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.

Statement on Internal Financial Control (continued)

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 2008, 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 2009

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 2008 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.

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

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 2008 and its balances at that date.

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

John Buckley
Comptroller and Auditor General

30 June 2009

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 54 to 64 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 2008.

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 2008

	Notes	2008 Total Cost €000	2007 Total Cost €000
Interest paid			
Medium / Long Term Debt*	2	1,444,843	1,379,282
Short Term Debt**	3	254,937	212,046
National Savings Schemes	4, 10	210,658	210,562
Other Movements	5	2,441	11,769
Sinking Fund payments	6	487,977	465,571
Fees and Expenses	7	32,570	25,793
Expenses of NTMA		34,552	30,899
Interest received on deposits with Central Bank and other banks		(368,432)	(194,840)
Total Service Cost	**1**	**2,099,546**	**2,141,082**

* 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 2009

The notes on pages 58 to 64 form part of these financial statements.

National Debt Statement

31 December 2008

	Notes		2008 € million		2007 € million
Medium / Long Term Debt*					
Irish Government Bonds listed on the Irish Stock Exchange			41,863		30,946
Other Irish Government Public Bond Issues			-		35
European Investment Bank Loans			29		112
Medium Term Notes			439		400
Miscellaneous Debt			15		69
	8		42,346		31,562
Short Term Debt**					
Commercial Paper	9	21,783		3,286	
Borrowings from Funds under the control of the Minister for Finance	16	2,605		2,258	
			24,388		5,544
National Savings Schemes					
Savings Certificates		2,533		2,223	
Savings Bonds		1,952		1,675	
Instalment Savings		432		409	
Savings Stamps		2		2	
Prize Bonds		804		632	
	10		5,723		4,941
			72,457		42,047
Less Liquid Assets	11		(22,059)		(4,487)
National Debt	**13**		**50,398**		**37,560**

* 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 2009

The notes on pages 58 to 64 form part of these financial statements.

National Debt Cash Flow Statement

Year ended 31 December 2008

	2008 €000	2007 €000
Movement in Exchequer balances:		
Opening Balance in Exchequer Account (note 11)	3,996,063	3,587,242
Deposit Activity (note 17)	(300,000)	(490,000)
Borrowing Activity (see below)	30,287,429	2,517,980
	33,983,492	5,615,222
Exchequer Surplus/(Deficit)	(12,714,478)	(1,619,159)
Closing Balance in Exchequer Account (note 11)	**21,269,014**	**3,996,063**

	Receipts* €000	Payments* €000	2008 Net €000	2007 Net €000
Borrowing Activity				
Irish Government Bonds listed on the Irish Stock Exchange	14,251,598	(3,405,744)	10,845,854	(288,659)
Other Irish Government Public Bond Issues	-	(35,242)	(35,242)	-
European Investment Bank Loans	-	(74,575)	(74,575)	-
Miscellaneous Debt	7,229	(11,121)	(3,892)	(893)
Commercial Paper	171,283,883	(152,858,535)	18,425,348	3,179,775
Savings Certificates	770,622	(460,001)	310,621	7,729
Savings Bonds	813,242	(535,957)	277,285	(33,863)
Instalment Savings	114,159	(90,623)	23,536	14,140
Prize Bonds	276,434	(104,600)	171,834	42,705
Borrowings from Ministerial Funds	26,937,289	(26,590,629)	346,660	(402,954)
Total Borrowing Activity	214,454,456	(184,167,027)	30,287,429	2,517,980
Deposit Activity (note 17)	52,308,000	(52,608,000)	(300,000)	(490,000)
Total Activity	**266,762,456**	**(236,775,027)**	**29,987,429**	**2,027,980**

	Receipts* €000	Payments* €000	2008 Net €000	2007 Net €000
Exchequer Account	253,287,869	(229,533,401)	23,754,468	1,605,947
Foreign Currency Clearing Accounts (note 15)	13,474,587	(7,241,626)	6,232,961	422,033
	266,762,456	**(236,775,027)**	**29,987,429**	**2,027,980**

* Receipts and payments represent the gross value of borrowing activity, including rollover of debt.

Michael J Somers, Chief Executive
National Treasury Management Agency

26 June 2009

The notes on pages 58 to 64 form part of these financial statements.

Statement of Movement in National Debt

Year ended 31 December 2008

	2008	2007
	€000	**€000**
Opening National Debt	37,559,513	35,917,567
Increase in National Debt (nominal)	12,838,675	1,641,946
Closing National Debt	**50,398,188**	**37,559,513**
Increase in National Debt (nominal) represented by:		
Exchequer (Surplus)/Deficit	12,714,478	1,619,159
Effect of foreign exchange rate movements	51,767	(22,394)
Bond tranching: net reduction/(excess) of proceeds over nominal liability	71,814	44,987
Bond cancellations: net reduction/(excess) of cancellation cost over nominal liability	217	202
Movement in CSRA current balance (note 11)	408	(8)
Other nominal movements	(9)	-
	12,838,675	**1,641,946**

Michael J Somers, Chief Executive
National Treasury Management Agency

26 June 2009

The notes on pages 58 to 64 form part of these financial statements.

Notes to the Financial Statements

1. Total Service Cost

	Notes	Charged on Foreign Currency Clearing Accounts €000	Charged on Central Fund €000	Charged on CSRA Cost €000	Total Service 2008 €000
Interest paid					
Medium / Long Term Debt	2	14,062	120,446	1,310,335	1,444,843
Short Term Debt	3	41,302	200,035	13,600	254,937
National Savings Schemes	4,10	-	64,673	145,985	210,658
Other Movements	5	6,176,725	(6,518,028)	343,744	2,441
Sinking Fund payments	6	-	-	487,977	487,977
Fees and Expenses	7	275	32,295	-	32,570
Expenses of NTMA		597	33,955	-	34,552
Interest received on deposits with Central Bank and other banks		-	-	(368,432)	(368,432)
		6,232,961	(6,066,624)	1,933,209	2,099,546
Inter Account Movement		-	1,932,801	(1,932,801)	-
Net cash paid		**6,232,961**	**(4,133,823)**	**408**	**2,099,546**

2. Interest on Medium / Long Term Debt

	Total Cost 2008 €000	Total Cost 2007 €000
Irish Government Bonds listed on the Irish Stock Exchange	1,410,587	1,349,691
Other Irish Government Public Bond Issues	4,219	4,706
Private Placements	-	-
European Investment Bank Loans	8,020	8,922
Medium Term Notes	15,471	16,635
Miscellaneous Debt	6,546	(672)
	1,444,843	**1,379,282**

Notes to the Financial Statements (continued)

3. Interest on Short Term Debt

	Total Cost 2008 €000	Total Cost 2007 €000
Commercial Paper	215,224	170,881
Borrowings from Funds under the control of the Minister for Finance	39,713	41,165
	254,937	**212,046**

4. Interest on National Savings Schemes

	Total Cost 2008	Total Cost 2007
	€000	€000
Savings Certificates	214,765	305,164
Savings Bonds	55,007	97,864
Instalment Savings	21,795	29,509
Prizes in respect of Prize Bonds	20,260	15,944
Small Savings Reserve (note 10)	(101,169)	(237,919)
	210,658	**210,562**

Payments for Interest on National Savings Schemes in 2008 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 2008 were as follows:

	2008 €000
Savings Certificates	(6,652)
Savings Bonds	63
Instalment Savings	(51)
	(6,640)

5. Other Movements

The NTMA, as part of its remit, engages in a range of debt management transactions including derivatives (see note 12). 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 2008 were as follows:

	2008 €000
Capital Services Redemption Account (Note 14)	**487,977**

Notes to the Financial Statements (continued)

7. Fees and Expenses

	Total Cost 2008 €000	Total Cost 2007 €000
Expenses of Irish Government Bonds	-	-
Expenses of Savings Certificates	5,837	5,092
Expenses of Prize Bonds	8,598	7,357
Expenses of Savings Bonds	5,147	4,715
Expenses of Instalment Savings	1,821	1,677
Expenses of Savings Stamps	528	1,042
Expenses of Loans	10,639	5,910
	32,570	**25,793**

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 2008 € million	As at 31 December 2007 € million
Debt due for repayment within 1 year	5,101	141
Debt due for repayment between 2 and 5 years	11,242	6,330
Debt due for repayment in more than 5 years	26,003	25,091
	42,346	**31,562**

9. Commercial Paper

The NTMA issues short-term commercial paper of maturities up to 1 year to raise short-term funds from the international money markets. The proceeds are used to fund the Exchequer deficit and as bridging finance in the replacement of longer term debt and for other liquidity management purposes. Borrowings may be in a range of currencies, but all non-euro borrowings are immediately swapped back into euro using foreign exchange contracts. The NTMA used the issuance of short-term commercial paper to build up Exchequer cash balances at the end of 2008.

Notes to the Financial Statements (continued)

10 National Savings Schemes

In 2008 the gross interest payment on the savings schemes was €311 million, however when the drawdown from the Small Savings Reserve Fund of €101 million was credited against the Central Fund, the net interest cost was €210 million.

Amounts shown in respect of Savings Certificates, Instalment Savings, Savings Bonds and Prize Bonds are net of €14.7 million (2007: €10.3 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 €653 million (2007: €780 million), being the estimate of the amount of accrued interest at 31 December 2008 in respect of Savings Bonds, Savings Certificates and Instalment Savings.

Section 160 of the Finance Act 1994 provided for the establishment of a fund to be known as the Small Savings Reserve Fund. It provided for €76 million to be paid into the fund in 1994 and in each year thereafter for such sums, if any, as the Minister for Finance may decide. Where in any calendar year interest payment on encashments of small savings exceed 11 per cent of total interest accrued on such savings at the end of the immediately preceding calendar year, the resources of the fund may be applied towards meeting so much of those interest payments which, as a percentage of the said total interest accrued, exceed 11 per cent. The actual interest cost to the Exchequer for 2008 was 27.01% per cent of the interest accrued at the 31 December 2007 of €780 million.

		€ million
Estimated accrued interest at 31 December 2008		653
Balance of Small Savings Reserve Fund at 1 January 2008	(344)	
Amount applied during 2008 (Note 4)	101	
Balance of Small Savings Reserve Fund at 31 December 2008 (Note 16)		(243)
Estimated accrued interest not provided for at 31 December 2008		**410**

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.

11. Liquid Assets

	Opening balance At 1 January 2008 €000	**Movements during 2008 €000**	**Closing balance at 31 December 2008 €000**
Exchequer Account	3,996,063	17,272,951	21,269,014
Capital Services Redemption Account			
Current Balance (note 14)	842	(408)	434
Bank Deposits	490,000	300,000	790,000
	4,486,905	**17,572,543**	**22,059,448**

Notes to the Financial Statements (continued)

12. 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 2008		31 December 2007	
	Nominal	**Present Value**	**Nominal**	**Present Value**
	€ million	**€ million**	**€ million**	**€ million**
Interest Rate Swaps	280	(10)	354	(5)
Currency Swaps & Foreign Exchange Contracts	7,395	(64)	1,068	(62)
	7,675	(74)	1,422	(67)

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.

Notes to the Financial Statements (continued)

13. National Debt

The Agency hedges the foreign currency risk of the National Debt through the use of forward foreign exchange contracts and currency swaps. The currency composition of the National Debt, taking into account these transactions is as follows: -

	As at 31 December 2008 € million	As at 31 December 2007 € million
Debt instruments		
Euro*	43,129	36,564
US $	5,148	702
Pounds Sterling	768	264
Japanese Yen	313	75
Swiss Franc	875	-
Swedish Krona	44	-
	50,277	37,605
Foreign currency & Swap Contracts		
Euro	7,394	1,000
US $	(5,243)	(706)
Pounds Sterling	(777)	(263)
Japanese Yen	(316)	(76)
Swiss Franc	(892)	(0)
Swedish Krona	(45)	(0)
	121	(45)
National Debt	**50,398**	**37,560**

* This figure is net of liquid assets as at 31 December 2008 of €22,059 million (31 December 2007: €4,487 million)

14. 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.

Notes to the Financial Statements (continued)

15. Foreign Currency Clearing Accounts

		€000
Balance at 1 January 2008		NIL
Deposit interest paid		
Amounts received under Finance Act 1988 [S67 (8)]	7,653,479	
Amounts paid under Finance Act 1970 [S54 (7)]	(13,830,204)	(6,176,725)
Foreign Currency Borrowing receipts	13,474,587	
Foreign Currency Borrowing payments	(7,241,626)	6,232,961
Interest paid on Foreign Currency Borrowings (note 1)		
- Medium/ Long Term Debt	(14,062)	
- Short Term Debt	(41,302)	(55,364)
Expenses of Foreign Currency Borrowings (note 1)		(275)
Expenses of NTMA		(597)
Balance at 31 December 2008		**NIL**

16. 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 2008 € million	As at 31 December 2007 € million
Post Office Savings Bank Fund	1,545	1,157
Small Savings Reserve Fund	243	344
Ulysses Securitisation plc	127	127
Deposit Monies Investment Account	690	630
	2,605	**2,258**

17. Deposit Activity

The NTMA places short-term deposits for maturities of up to 1 year for the purpose of liquidity management.

Financial Statements of the National Treasury Management Agency - Administration Account

For the year ended 31 December 2008

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 54 to 64. Financial information covering the Agency itself is set out on pages 66 to 76.

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

Reporting Currency

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

Basis of Accounting

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

Fixed Assets and Depreciation

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

Leasing

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

Pensions

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

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

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

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

Accounting policies (continued)

Pensions (continued)

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.

The presentation of information in respect of the Defined Benefit Scheme in note 7 has been amended in 2008 to reflect amendments to FRS 17 and the comparative figures for 2007 have been restated on a consistent basis.

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 2008

	Notes	2008 €	2007 €
Income			
Amount receivable from Central Fund	9	33,397,700	31,309,880
Other income	10	1,163,921	1,081,779
Transfer (to)/from capital account	5	(281,138)	(46,724)
		34,280,483	32,344,935
Expenditure			
Net Deferred Pension Funding	8(a)	(1,189,697)	(2,922,053)
Agency Costs	1	(33,090,786)	(26,488,193)
Net Income/(Expenditure) for year before transfer to reserves		Nil	2,934,689
Transfer (to)/from Defined Benefit Pension Reserve	8(a)	Nil	(2,934,689)
Net Income/(Expenditure) for year		**Nil**	**Nil**

Statement of Total Recognised Gains and Losses

Year ended 31 December 2008

	Notes	2008 €	2007 €
Net Income transferred to Defined Benefit Pension Reserve		_	2,934,689
Actuarial gain/(loss) recognised on Pension Liabilities	7(f)	(9,174,000)	(492,000)
Movement in Deferred Pension Funding	8(b)	6,731,311	Nil
Total Recognised Gain/(Loss) for the year		**(2,442,689)**	**2,442,689**

Michael J Somers, Chief Executive
National Treasury Management Agency

26 June 2009

The notes on pages 70 to 76 form part of these financial statements.

Balance Sheet

31 December 2008

	Notes	2008 €	2007 €
Fixed Assets			
Fixed assets	2	1,906,538	1,625,400
Financial Assets	12	25	25
Current Assets			
Cash at bank and in hand		519,504	122,345
Debtors	3	3,796,676	3,704,016
Total Current Assets		4,316,180	3,826,361
Current Liabilities			
Creditors	4	4,316,180	3,826,361
Current Assets less Current Liabilities		-	-
Total Assets less Current Liabilities before pensions		**1,906,563**	**1,625,425**
Deferred Pension Funding	7(d)	5,541,614	-
Pension Asset / (Liability)	7(d)	(5,541,614)	2,442,689
		-	2,442,689
Total Assets less Current Liabilities		**1,906,563**	**4,068,114**
Representing:			
Capital account	5	1,906,563	1,625,425
Defined Benefit Pension Reserve	7(d)	-	2,442,689
		1,906,563	**4,068,114**

Michael J Somers, Chief Executive
National Treasury Management Agency

26 June 2009

The notes on pages 70 to 76 form part of these financial statements.

Notes to the Financial Statements

1. Agency Costs

	Year Ended 31 December 2008 €	Year Ended 31 December 2007 €
Salaries	19,909,765	16,352,802
Defined Benefit Pension annual cost (FRS 17, Note 7(e))	777,000	915,000
PRSA Pension Costs (note 6)	684,784	475,411
Establishment expenses	2,180,771	1,697,878
Operating expenses	8,897,503	6,351,608
Depreciation (note 2)	640,963	695,494
Total expenses	33,090,786	26,488,193

2. Fixed Assets

	Property €	Furniture, Equipment & Motor Vehicles €	Total €
Cost:			
Opening balance at 1 January 2008	1,401,038	4,526,004	5,927,042
Additions at cost	-	1,089,795	1,089,795
Disposals	(18,955)	(892,476)	(911,431)
Balance at 31 December 2008	1,382,083	4,723,323	6,105,406
Accumulated depreciation:			
Opening balance at 1 January 2008	1,054,019	3,247,623	4,301,642
Depreciation for the period	69,104	571,859	640,963
Disposals	(2,843)	(740,894)	(743,737)
Balance at 31 December 2008	1,120,280	3,078,588	4,198,868
Net book value at 31 December 2008	261,803	1,644,735	1,906,538
Net book value at 31 December 2007	347,019	1,278,381	1,625,400

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

Property	20 years
Equipment & Motor Vehicles	3 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 €1,757,500 per annum.

Notes to the Financial Statements (continued)

3. Debtors

	2008	2007
	€	€
Central Fund	1,173,242	2,327,072
Prepayments	1,616,675	1,113,311
Other debtors	1,006,759	263,633
	3,796,676	3,704,016

4. Creditors

	2008	2007
	€	€
Creditors	522,887	208,462
Accruals	3,793,293	3,617,899
	4,316,180	3,826,361

5. Capital Account

			2008	2007
			€	€
Opening balance			1,625,425	1,578,701
Transfer from /(to) Income and Expenditure Account				
Asset Funding				
- Fixed Assets		1,089,795		
Amortisation of capital funding				
- Amortisation in line with depreciation	(640,963)			
- Net amount released on asset disposal	(167,694)	(808,657)	281,138	46,724
Closing balance			1,906,563	1,625,425

The capital account balance includes Financial Assets of €25. Please see Note 12 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 dependent 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 per cent of payroll. Contributions by the Agency for the year ended 31 December 2008 amounted to € 1,966,697 (2007: € 6,771,742) to the defined benefit scheme.

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 €684,784 (2007: €475,411) to Personal Retirement Savings Accounts (PRSAs) for a number of employees who are not members of the defined benefit scheme in 2008.

Notes to the Financial Statements (continued)

7. Retirement Benefits

(a) Defined Benefit Pension Scheme

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

(b) Change in the present value of defined benefit obligations

	Year-ended 31 December 2008 €000	Year-ended 31 December 2007 €000
Benefit obligations at beginning of year	40,657	39,166
Service cost	1,199	1,315
Interest cost	2,288	1,865
Scheme members' contributions	259	232
Actuarial (gain)/loss	(6,753)	(1,634)
Benefits paid	(884)	(227)
Premiums paid	(68)	(60)
Benefit obligations at end of year	36,698	40,657

(c) Change in the fair value of scheme assets

	Year-ended 31 December 2008 €000	Year-ended 31 December 2007 €000
Fair value of scheme assets at beginning of year	43,100	36,244
Expected return on scheme assets	2,710	2,265
Actuarial gain/(loss)	(15,927)	(2,126)
Employer contributions	1,967	6,772
Member contributions	259	232
Benefits paid from scheme	(884)	(227)
Premiums paid	(68)	(60)
Fair value of scheme assets at end of year	31,157	43,100

Scheme assets

The asset allocations at the year end were as follows:

Equities	71.88%	62.37%
Bonds	23.23%	18.05%
Property	3.51%	3.61%
Other	1.38%	15.97%
	100.00%	100.00%

Notes to the Financial Statements (continued)

7. Retirement Benefits (continued)

(c) Change in the fair value of scheme assets (continued)

To develop the expected long-term rate of return on assets assumption, consideration was given to the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

	Year-ended 31 December 2008 €000	Year-ended 31 December 2007 €000
Actual return on scheme assets	(13,217)	139

(d) Scheme Surplus / (Deficit)

	2008 €000	2007 €000
Fair value of scheme assets	31,157	43,100
Present value of funded obligations	36,698	40,657
(Deficit)/ Surplus at year end	**(5,541)**	**2,443**

Amounts in the balance sheet	**2008 €000**	**2007 €000**
Asset		
Deferred Pension Funding	5,541	-
Liabilities		
Pension Liability / (Asset)	(5,541)	(2,443)
Net Liability/(Asset)	-	(2,443)
Defined Benefit Pension Reserve	-	2,443

Deferred Pension Funding

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

Defined Benefit Pension Reserve

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

Notes to the Financial Statements (continued)

7. Retirement Benefits (continued)

(e) Components of pension expense

The amount recognised in the income expenditure account is as follows:

	Year-ended 31 December 2008 €000	Year-ended 31 December 2007 €000
Current service cost	1,199,000	1,315,000
Interest cost	2,288,000	1,865,000
Expected return on scheme assets	(2,710,000)	(2,265,000)
Income and Expenditure Charge (Note 1)	777,000	915,000

(f) Actuarial gain / (loss)

The actuarial gain / (loss) recognised in the statement of total recognised gains and losses is as follows:

	Year-ended 31 December 2008 €000	Year-ended 31 December 2007 €000
Actuarial gain / (loss) on scheme obligations	6,753,000	1,634,000
Actuarial gain / (loss) on scheme assets	(15,927,000)	(2,126,000)
Statement of Total Recognised Gains and Losses	(9,174,000)	(492,000)
Cumulative amount recognised in Statement of Total Recognised Gains and Losses	(13,175,000)	(4,001,000)

(g) Principal actuarial assumptions

The principal actuarial assumptions used were as follows:

	2008	2007
Weighted average assumptions used to determine benefit obligations:		
Discount rate	5.75%	5.50%
Rate of compensation increase	4.00%	4.50%
Weighted average assumptions used to determine pension expense:		
Discount rate	5.50%	4.60%
Expected long-term return on scheme assets	6.20%	6.10%
Weighted average life expectancy at age 60 for mortality tables used to determine benefit obligations:		
Future Pensioners		
- Male	28.4	28.4
- Female	31.5	31.5
Current Pensioners		
- Male	25.4	25.4
- Female	28.5	28.5

Notes to the Financial Statements (continued)

7. Retirement Benefits (continued)

(h) History of defined benefit obligations, assets and experience gains and losses

	2008 €000	2007 €000	2006 €000	2005 €000	2004 €000
Defined benefit obligation	36,698	40,657	39,166	35,997	29,483
Fair value of scheme assets	31,157	43,100	36,244	23,598	16,598
Deficit/ (Surplus)	**5,541**	**(2,443)**	**2,922**	**12,399**	**12,885**
Difference between expected and actual return on scheme assets:					
Amount	15,927	2,126	(1,895)	(1,887)	(252)
Expressed as a % of scheme assets	51.1%	4.9%	(5.2%)	(8.0%)	(1.5%)
Experience (gains) / losses on scheme liabilities:					
Amount	(2,140)	610	221	1,054	842
Expressed as a % of scheme liabilities	(5.8%)	1.5%	0.6%	2.9%	2.9%

8. Net Deferred Pension Funding

(a) Net Deferred Pension Reserve Funding in respect of the year

	2008 €	2007 €
Funding recoverable in respect of current year pension costs (note 7(e))	777,000	915,000
Income applied to pay contributions to pension fund (note 6)	(1,966,697)	(6,771,742)
	(1,189,697)	(5,856,742)
Transfer to/(from) Defined Benefit Pension Reserve	Nil	2,934,689
Net Deferred Pension Funding	(1,189,697)	(2,922,053)

(b) Movement in the Deferred Pension Funding

	2008 €	2007 €
Amount recoverable in respect of current year actuarial loss	9,174,000	-
Less: Reduction in Defined Benefit Pension Reserve	(2,442,689)	-
	(6,731,311)	-

Notes to the Financial Statements (continued)

9. Central Fund Income

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

	2008 €	2007 €
Opening amount due from Central Fund (note 3)	(2,327,072)	(1,915,625)
Received from Central Fund	34,551,530	30,898,433
Amount due from Central Fund at year end (note 3)	1,173,242	2,327,072
Central Fund Receivable for year	33,397,700	31,309,880

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

	2008 €	2007 €
Debtors (note 3)	1,173,242	2,327,072
Deferred Pension Funding (note 7(d))	5,541,000	Nil
	6,714,242	2,327,072

10. Other Income

	Year-ended 31 December 2008 €000	Year-ended 31 December 2007 €000
Asset Covered Income	730,311	664,094
Consultancy and other income	433,610	417,685
	1,163,921	1,081,779

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

11. Expenses of NTMA for other functions

The costs incurred by the NTMA as Manager to the National Pensions Reserve Fund amounted to €6.6 million (2007: €6.8 million). The costs incurred by the NTMA to fulfil its functions in relation to the National Development Finance Agency and the State Claims Agency amounted to €7.7 million (2007: €4.4 million) and €7.5 million (2007: €7.2 million) respectively. These costs are included in the Income and Expenditure account.

12. 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. In 2008, IRIS Ltd was placed in voluntary liquidation and the Agency received €2,801.69 as a final distribution in relation to its shareholding in January 2009.

Financial Statements of the Post Office Savings Bank Fund

For the year ended 31 December 2008

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 2008 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 2008 and of its income and expenditure for the year then ended.

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

John Buckley
Comptroller and Auditor General

30 June 2009

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 2008

	Notes	2008 €	2007 €
Investment income	1	49,087,881	44,780,243
Interest paid and payable	2	17,950,111	10,755,284
Other expenses	3	30,283,417	34,601,721
		48,233,528	45,357,005
Surplus/(Deficit) for the year		854,353	(576,762)
Balance at beginning of year		9,051,651	9,628,413
Balance at end of year		9,906,004	9,051,651

Michael J Somers, Chief Executive
National Treasury Management Agency

26 June 2009

The notes on pages 82 to 84 form part of these financial statements.

Balance Sheet

31 December 2008

	Notes	2008 €	2007 €
Assets			
Advances	4	1,550,099,052	1,162,770,071
Investments in Bonds	5	155,237,408	99,787,041
Debtors	7	5,775,494	7,742,936
Central Treasury Loans		57,566,966	34,222,893
Commercial Paper	10	7,000,000	7,000,000
Cash		8,633,801	2,648,260
		1,784,312,721	1,314,171,201
Liabilities			
Post Office Savings Bank Deposits	8	1,771,074,279	1,302,296,033
Creditors	9	3,332,438	2,823,517
Accumulated Reserves		9,906,004	9,051,651
		1,784,312,721	1,314,171,201

Michael J Somers, Chief Executive
National Treasury Management Agency

26 June 2009

The notes on pages 82 to 84 form part of these financial statements.

Notes to the Financial Statements

1. Investment Income

	2008	2007
	€	€
Interest received and receivable	53,716,413	48,699,196
Profit/(Loss) on sale of investments	(4,628,532)	(3,918,953)
	49,087,881	44,780,243

2. Interest Paid and Payable

	2008	2007
	€	€
Interest paid and credited to depositors of Post Office Savings Bank	17,950,111	10,755,284
	17,950,111	10,755,284

3. Other Expenses

	2008	2007
	€	€
Management expenses	30,283,417	34,601,721
	30,283,417	34,601,721

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

4. Advances

	2008	2007
	€	€
Advances to Exchequer	1,544,967,932	1,157,188,951
Advances to State Claims Agency	5,131,120	5,581,120
	1,550,099,052	1,162,770,071

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

Notes to the Financial Statements (continued)

5. Investments

	2008 €	2007 €
Bonds		
At cost	155,237,408	99,787,041
At market value	158,400,736	98,675,212

Schedule of Investment Holdings:-

Nominal €	Stock	Cost €
30,142	3.25% Treasury Bond 2009	29,960
3,288,485	4% Treasury Bond 2010	3,292,090
43,015	8.5% Capital Stock 2010	46,858
20,000,000	4% Treasury Bond 2011	20,176,790
26,000	8.75% Capital Stock 2012	31,761
27,649,143	5% Treasury Bond 2013	28,672,955
83,460	8.25% Treasury Bond 2015	107,271
35,336,000	4.5% Treasury Bond 2018	35,254,443
30,547,598	4.6% Treasury Bond 2016	30,908,177
3,000,000	4.4% Treasury Bond 2019	2,931,382
34,447,800	4.5% Treasury Bond 2020	33,785,721
154,451,643		155,237,408

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

	2008 €	2007 €
Dividends and interest receivable	5,775,494	4,726,160
Cash balances held by An Post	-	3,016,776
	5,775,494	7,742,936

Notes to the Financial Statements (continued)

8. POSB Deposits

	2008	2007
	€	€
Deposits from Post Office Savings Bank	1,771,074,279	1,302,296,033
	1,771,074,279	1,302,296,033

In April 2008 €2,061,304 (2007: €1,474,868) was transferred from the Post Office Savings Bank Fund to the Dormant Accounts Fund under the Dormant Accounts Act 2001. At 31 December 2008 following account reactivations of €587,680 (2007: €518,595) and interest (net of DIRT) capitalised of €234,947 there was a balance of € 29,956,707 (2007: €28,248,136) due to Depositors from the Dormant Accounts Fund. The Deposits from Post Office Saving Bank liability figure of €1,771,074,280 (2007: €1,302,296,033) does not include this Dormant Accounts Fund liability.

9. Creditors

	2008	2007
	€	€
Net funds due under Sale and Repurchase Agreements	128,130	1,743,579
Outstanding bond settlements	-	-
DIRT due to An Post	2,253,456	998,718
Management expenses due to An Post	81,796	81,220
Cash balances due to An Post	869,056	-
	3,332,438	2,823,517

10. Commercial Paper

	2008	2007
	€	€
Agricultural Commodity Intervention Bills	7,000,000	7,000,000
	7,000,000	7,000,000

The Post Office Savings Bank Fund purchased 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 2008

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

I have examined the account on pages 87 and 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 2008 and the balance at that date.

John Buckley
Comptroller and Auditor General

30 June 2009

Account of Receipts and Payments

Year ended 31 December 2008

		€
Balance at 1 January 2008		841,475
Receipts		
Amounts received from Central Fund		
under Finance Act 1950, Section 22 as amended:		
- Interest	1,444,824,182	
- Sinking Fund	487,976,966	1,932,801,148
Amounts received under Finance Act 1988 [S 67 (8)]		49,385,573
Deposit interest received		368,431,903
Other interest received		25,572
		2,351,485,671
Payments		
Amounts applied in the redemption of National Debt:		
- Irish Government Bonds Listed on Irish Stock Exchange	24,911,411	
- Exchequer Notes	449,359,547	
- Commercial Paper	13,706,008	487,976,966
Amounts applied in meeting interest on National Debt (note 2)		1,469,944,492
Amounts applied in respect of liabilities under Finance Act 1970 [S 54 (7)]		393,130,741
Balance at 31 December 2008		433,472
		2,351,485,671

Michael J Somers, Chief Executive
National Treasury Management Agency

26 June 2009

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 2008
6% Treasury Bond 2008	1,784,885
8.25% Capital Stock 2008	98,126
3.25 % Treasury Bond 2009	165,047,343
4% Treasury Bond 2010	30,807,930
8.5% Capital Stock 2010	767,076
8.75% Capital Stock 2012	2,755,432
5% Treasury Bond 2013	301,001,600
8.25% Treasury Bond 2015	666,825
4.6% Treasury Bond 2016	266,186,374
4.5% Treasury Bond 2018	196,331,223
4.4% Treasury Bond 2019	15,861,847
4.5% Treasury Bond 2020	317,531,044
Small Savings Interest	145,984,476
Cash Management Borrowings	10,786,418
Commercial Paper Programmes	782,657
Short Term Bank Borrowings	1,647,291
Exchequer Notes	383,945
Swap Driven Issues*	11,520,000
Total	**1,469,944,492**

* 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 2008

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

I have examined the account on page 90. 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 2008 and the balance at that date.

John Buckley
Comptroller and Auditor General

30 June 2009

Account of Receipts and Payments

Year ended 31 December 2008

	€
Balance at 1 January 2008	4,999,726
Accrued interest received on National Loans - Tranches and Auctions	4,172,499
Accrued interest paid on National Loans	(5,001,041)
Balance at 31 December 2008 - Cash with Central Bank of Ireland	4,171,184

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 2009

Financial Statements of the National Loans (Winding Up) Account

For the year ended 31 December 2008

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

I have examined the account on page 93. 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 2008 and the balance at that date.

John Buckley
Comptroller and Auditor General

30 June 2009

Account of Receipts and Payments

Year ended 31 December 2008

	Note	€
Balance at 1 January 2008		3,480,526
Receipts from Exchequer	1	6,026,076
Receipts from Central Bank Suspense Account		99,940
Payments to Central Bank Suspense Account		(171,378)
Payments for redemption of National Loans	2	(5,708,784)
Balance at 31 December 2008		
- Cash with Central Bank of Ireland		3,726,380

Michael J Somers, Chief Executive
National Treasury Management Agency

26 June 2009

Notes to the Account

1. 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 2008

	€
6% Exchequer Stock 1985/90	571
11.5% Exchequer Stock 1990	573
7% National Loan 1987/92	4,421
9.25% National Loan 89/94	127
9.25% Exchequer Loan 91/96	635
11% National Loan 1993-98	635
11.75% Capital Stock 2000	5,786
6.25% Treasury Bond 2004	74,973
6.5% Exchequer Stock 00/05	65,526
8% Treasury Bond 2006	29,295
6% Treasury Stock 2008	5,186,300
8.25% Capital Stock 2008	339,942
Total	**5,708,784**

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

For the year ended 31 December 2008

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

I have examined the account on page 96. 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 2008 and the balance at that date.

John Buckley
Comptroller and Auditor General

30 June 2009

Account of Receipts and Payments

Year ended 31 December 2008

	Note	€
Balance at 1 January 2008		1,736,758
Receipt of unclaimed dividends		63,589
Payment of unclaimed dividends	2	(16,065)
Balance at 31 December 2008		
- Cash with Central Bank of Ireland	1	1,784,282

Michael J Somers, Chief Executive
National Treasury Management Agency

26 June 2009

Notes to the Account

1. 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	16,065
Foreign Bonds administered by Paying Agent	-
	16,065

Financial Statements of the Deposit Monies Investment Account

For the year ended 31 December 2008

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

I have examined the account on page 98. 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 2008 and the balance at that date.

John Buckley
Comptroller and Auditor General

30 June 2009

Account of Receipts and Payments

Year ended 31 December 2008

	€
Balance at 1 January 2008	630,231,000
Ways and Means Advances paid to Exchequer	7,848,022,730
Ways and Means Advances repaid by Exchequer	(7,787,971,730)
Balance at 31 December 2008	
- Ways and Means Advances to Exchequer	690,282,000

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 2009

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

For the year ended 31 December 2008

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

I have examined the account on pages 101 and 102. 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 2008 and the balance at that date.

John Buckley
Comptroller and Auditor General

30 June 2009

Account of Receipts and Payments

Year ended 31 December 2008

		€
Balance at 1 January 2008		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 2008		NIL

Stock Account

Balance at 1 January 2008		NIL
Movement for the year		
Nominal amount of stock transferred to the Minister for Finance	NIL	
Nominal amount of stock redeemed	NIL	
		NIL
Balance at 31 December 2008		NIL

Michael J Somers, Chief Executive
National Treasury Management Agency

26 June 2009

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 2008

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

I have examined the account on page 104. 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 2008 and the balance at that date.

John Buckley
Comptroller and Auditor General

30 June 2009

Account of Receipts and Payments

Year ended 31 December 2008

	€
Balance at 1 January 2008	343,823,265
Received/(paid) from/(to) Exchequer	(101,168,654)
Balance at 31 December 2008	242,654,611
Estimated accrued interest at 31 December 2008	652,778,767

Section 160 of the Finance Act 1994 provided for the establishment of a fund to be known as the Small Savings Reserve Fund. It provided for €76 million to be paid into the fund in 1994 and in each year thereafter for such sums, if any, as the Minister for Finance may decide. Where in any calendar year interest payment on encashments of small savings exceed 11 per cent of total interest accrued on such savings at the end of the immediately preceding calendar year, the resources of the fund may be applied towards meeting so much of those interest payments which, as a percentage of the said total interest accrued, exceed 11 per cent. The actual interest cost to the Exchequer for 2008 was 27.01 per cent of the interest accrued at the 31 December 2007 - €780 million.

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

Michael J Somers, Chief Executive
National Treasury Management Agency

26 June 2009

Financial Statements of the State Claims Agency

For the year ended 31 December 2008

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 2008 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 2008 and of its transactions for the year then ended.

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

John Buckley
Comptroller and Auditor General

30 June 2009

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.

Claims Statement Account

Year ended 31 December 2008

	Notes	2008 €	2007 €
Received and receivable from State authorities			
in respect of claims and expenses	1	53,110,101	27,016,579
Costs recovered on behalf of State authorities		744,398	202,479
		53,854,499	27,219,058
Paid and payable in respect of Awards		33,368,957	17,884,150
Other expenses	2	19,766,416	9,131,584
Reimbursement of costs recovered to State authorities		719,126	203,324
		53,854,499	27,219,058

Michael J. Somers, Chief Executive
National Treasury Management Agency

26 June 2009

The notes on pages 110 to 112 form part of these financial statements.

Balance Sheet

Year ended 31 December 2008

	Notes	2008 €	2007 €
Assets			
Investments	3	12,904,007	-
Debtors	4	5,895,289	6,797,266
Cash		28,993	33,750
		18,828,289	6,831,016
Liabilities			
Special Obstetrics Scheme	5	12,904,007	-
Borrowings from Post Office Savings Bank Fund	6	5,131,120	5,581,120
Creditors	7	793,162	1,249,896
		18,828,289	6,831,016

Michael J. Somers, Chief Executive
National Treasury Management Agency

26 June 2009

The notes on pages 110 to 112 form part of these financial statements.

Notes to the Financial Statements

1. Income

	2008	2007
	€	€
Received from State authorities	45,757,065	20,225,947
Received from the Special Obstetrics Scheme	1,464,155	-
Receivable from State authorities	5,888,881	6,790,632
	53,110,101	27,016,579

2. Other Expenses

	2008	2007
	€	€
State Claims Agency expenses		
- Legal fees	8,118,979	4,887,715
- Medical fees	753,451	502,128
- Engineers' fees	119,486	111,149
- Other fees	382,439	273,551
- NTMA Administration expenses recovered	25,272	2,250
	9,399,627	5,776,793
Plaintiff expenses		
- Legal fees	10,355,454	3,334,238
- Other expert fees	695	-
- Travel expenses	5,019	3,765
	10,361,168	3,338,003
Witness expenses	5,621	16,788
	19,766,416	9,131,584

In addition to the above expenses, the administrative costs incurred by the National Treasury Management Agency in the performance of the State Claims Agency's functions amounted to €7,527,021 (2007: €7,171,776). These costs are included in the administration expenses of the National Treasury Management Agency and are charged on the Central Fund. The NTMA does not seek reimbursement of these costs from the State Authorities.

3. Investments

Investments comprise Exchequer Notes, which are invested on behalf of the Department of Health on behalf of whom the State Claims Agency manages the Special Obstetrics Scheme.

4. Debtors

	2008	2007
	€	€
Receivable from State authorities	5,888,881	6,790,632
Other	6,408	6,634
	5,895,289	6,797,266

Notes to the Financial Statements (continued)

5. Special Obstetrics Scheme

In 2008, the Minister for Health & Children established the Special Obstetrics Indemnity Scheme. Under the Scheme, the Minister agreed to indemnify Bon Secours and Mount Carmel Hospitals in respect of specified obstetric claims. The named, participating hospitals made contributions to a Fund. In addition, under the terms of an arrangement between the Medical Protection Society (MPS) and the Minister for Health & Children, the MPS transferred certain funds to the State to part-fund the cost of designated obstetric claims against named obstetricians covered by the arrangement. The Minister authorised the State Claims Agency to drawdown amounts from time to time from the relevant Fund to reimburse the SCA under Section 16(2) of the National Treasury Management Agency (Amendment) Act, 2000 for any amounts paid by the SCA on behalf of the participating hospitals or on behalf of any person covered by the MPS arrangement in relation to the payment of claims or claim expenses as they arise. Income earned on the Scheme's investments is paid into the Scheme.

The movement on the Special Obstetrics Indemnity Scheme during 2008 was:

	€
Contributions to Fund	13,965,000
Claim settlements and expenses	(1,464,155)
Income earned	403,162
Balance available for settlement of claims	12,904,007

6. 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 SCA 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.

7. Creditors

	2008 €	2007 €
Payable in respect of awards	435,931	799,501
Payable in respect of expenses	166,253	225,891
Professional Services Withholding Tax due to Revenue Commissioners	177,540	188,142
Amounts due to State authorities	13,076	35,858
Other	362	504
	793,162	1,249,896

8. Administration Expenses

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

Notes to the Financial Statements (continued)

9. 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.

At 31 December 2008, the Agency had 4,297 claims under management. The movement in claims under management during the year was:

Claims under management - 1 January 2008	4,266
New claims received	1,754
Claims resolved	(1,723)
Claims under management – 31 December 2008	4,297

Financial Statements of the Dormant Accounts Fund

For the year ended 31 December 2008

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 2009

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 2008 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 2008 and of its transactions for the year then ended.

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

John Buckley
Comptroller and Auditor General

30 June 2009

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 2008.

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 2008

	Notes	2008 €	2007 €
Interest on investments		6,230,608	7,603,997
Moneys transferred to the Fund in respect of dormant accounts and unclaimed assurance policies	1	33,033,686	66,293,795
Amount transferred to Reserve Account	2	(22,339,226)	(39,247,795)
Disbursements	3	(73,050,705)	(45,511,412)
		(56,125,637)	(10,861,415)
Balance at 1 January 2008		161,216,010	172,077,425
Balance at 31 December 2008		105,090,373	161,216,010

Michael J Somers, Chief Executive
National Treasury Management Agency

26 June 2009

The notes on pages 120 to 124 form part of these financial statements.

Reserve Account

Year ended 31 December 2008

	Notes	2008 €	2007 €
Transfer from Investment and Disbursements Account	2	22,339,226	39,247,795
Interest on investments		1,666,496	1,539,709
Repayment of moneys transferred to the Fund	1	(19,500,790)	(34,082,867)
Interest on repayment of moneys transferred to the Fund	1	(335,231)	(356,103)
Other expenses	4	(1,999,780)	(1,881,135)
Movement for the year		2,169,921	4,467,399
Balance at 1 January 2008		43,734,318	39,266,919
Balance at 31 December 2008		45,904,239	43,734,318

Michael J Somers, Chief Executive
National Treasury Management Agency

26 June 2009

The notes on pages 120 to 124 form part of these financial statements.

Balance Sheet

Year ended 31 December 2008

	Notes	2008 €	2007 €
Assets			
Financial Assets			
- Investments at cost		-	-
Current Assets			
- Cash	5	149,725,598	203,024,110
- Debtors		1,390,259	2,262,287
Liabilities			
- Creditors		(121,245)	(336,069)
Net Assets	6	150,994,612	204,950,328
Represented by:			
Investment and Disbursements Account		105,090,373	161,216,010
Reserve Account		45,904,239	43,734,318
		150,994,612	204,950,328

Michael J Somers, Chief Executive
National Treasury Management Agency

26 June 2009

The notes on pages 120 to 124 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 1/1/08 €	Transferred €	Reclaimed €	Closing Balance 31/12/08 €	Interest Paid €
ABN AMRO	356	34,636	-	34,992	-
ACC Bank plc	4,180,856	258,991	268,212	4,171,635	1,176
Allied Irish Bank plc	41,043,253	3,609,415	910,638	43,742,030	6,396
AIB Finance Limited	2,065,766	-	95,052	1,970,714	1,248
Anglo Irish Bank Corporation plc	369,452	59,471	20,831	408,092	41
Barclays Bank plc	321,453	-	40,691	280,762	1,594
BNP Paribas	67,487	-	-	67,487	-
Bank of America	154,778	-	-	154,778	-
Bank of Ireland	39,087,798	4,387,935	1,207,953	42,267,780	6,006
Bank of Ireland Treasury & International Banking	2,250,028	1,593,170	243,339	3,599,859	3,414
Bank of Scotland (Ireland)	513,266	41,929	33,198	521,997	955
Citibank	28,700	-	-	28,700	-
EBS Building Society	8,247,963	1,776,175	683,716	9,340,422	25,205
First Active	5,676,298	911,739	90,004	6,498,033	230
ICS Building Society	1,732,482	938,121	206,299	2,464,304	2,269
Investec Bank (UK) Limited (Irish Branch)	362,281	2,985	532	364,734	15
Irish Nationwide Building Society	3,349,960	1,319,723	460,183	4,209,500	13,585
JP Morgan Ireland plc	48,897	-	-	48,897	-
National Irish Bank Limited	3,413,230	805,915	165,055	4,054,090	1,877
An Post – Instalment Savings	1,047,463	177,342	129,482	1,095,323	45,712
An Post - Instalment Savings (Capitalised interest)	3,988,684	417,502	468,080	3,938,106	-
Permanent TSB	20,578,000	2,041,089	706,345	21,912,744	17,522
An Post - Post Office Savings Bank	28,041,574	2,061,304	583,800	29,519,078	3,881
An Post - Savings Bonds (Capitalised interest)	3,109,093	314,847	252,131	3,171,809	-
An Post - Savings Bonds	1,878,755	307,010	161,955	2,023,810	-
An Post - Savings Certs (Capitalised interest)	56,466,439	1,938,127	8,589,990	49,814,576	-
An Post - Savings Certs	13,669,390	1,023,602	2,518,463	12,174,529	202,803
Scotiabank (Ireland) Limited	1,003,127	-	-	1,003,127	-
Ulster Bank Ireland Limited	8,531,923	1,863,136	171,823	10,223,236	1,302
WestLB Ireland plc	122,119	-	-	122,119	-
TOTAL	251,350,871	25,884,164	18,007,772	259,227,263	335,231

Notes to the Financial Statements (continued)

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

Assurance Companies – Unclaimed Assurance Policies Institution	Opening Balance 1/1/08 €	Transferred €	Reclaimed €	Closing Balance 31/12/08 €	Interest Paid €
Specified Term					
Alba Life	67,705	-	-	67,705	-
Ark Life	6,349	-	-	6,349	-
Caledonian Life	88,961	15,787		104,748	-
Canada Life Assurance	217,477	12,668	-	230,145	-
Canada Life Ireland	269,859	-		269,859	
Eagle Star	102,293	140,480	31,238	211,535	-
Friends First	957,980	16,396	26,876	947,500	-
Hibernian Life	953,634	334,049	64,390	1,223,293	-
Irish Life	2,278,236	799,009	453,326	2,623,919	-
New Ireland	285,507	288,541	121,393	452,655	-
Royal Liver	3,078,955	519,801	4,837	3,593,919	-
Royal & SunAlliance	608,565	33,584	-	642,149	
St. James Place	10,649	-	-	10,649	-
Scottish Legal Life	243,989	24,727	-	268,716	-
Scottish Provident Ireland	-	96,245	-	96,245	-
Standard Life	388,345	12,203	51,618	348,930	-
Sun Life Financial of Canada	73,909	69,131	-	143,040	-
No Specified Term					
Alba Life	15,033	-	-	15,033	-
Caledonian Life	31,113	-	-	31,113	-
Canada Life Assurance	83,765	77,712	775	160,702	-
Canada Life Ireland	2,626,591	670,051	36,018	3,260,624	-
Eagle Star	634,492	494,679	53,096	1,076,075	-
Friends First	1,039,960	71,589	76,079	1,035,470	-
Hibernian	1,531,935	112,009	1,880	1,642,064	-
Irish Life	4,638,255	448,153	136,992	4,949,416	-
New Ireland	8,671,799	1,339,816	-	10,011,615	-
Royal & SunAlliance	93,354	406	-	93,760	-
Royal Liver	6,588,931	716,849	97,476	7,208,304	-
Scottish Legal Life	151,315	252,607	-	403,922	-
Scottish Provident Ireland	280,623	-	39,229	241,394	-
Standard Life	855,117	603,030	297,795	1,160,352	-
Sun Life Financial of Canada	47,473	-	-	47,473	-
TOTAL	36,922,169	7,149,522	1,493,018	42,578,673	-
The Escheated Estate Fund	4,400,000	-	-	4,400,000	-
GRAND TOTAL	292,673,040	33,033,686	19,500,790	306,205,936	335,231

Notes to the Financial Statements (continued)

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

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 €1,155,110 from €306,205,936 to €305,050,826.

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.

	2008	2007
	€	€
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)	10,524,631	11,755,948
On direction of the Minister for Finance		
Department of Community, Rural and Gaeltacht Affairs (for the Rural Social Scheme)	16,000,000	16,000,000
Department of Community, Rural and Gaeltacht Affairs	9,563,454	5,446,907
Department of Education and Science	18,771,252	3,155,143
Health Service Executive	13,397,028	3,659,859
Department of Arts, Sport and Tourism	874,483	1,823,473
Office of the Minister for Children	2,999,978	2,338,500
Department of Communications, Energy and Natural Resources	517,259	900,778
Department of Justice, Equality and Law Reform	129,960	251,924
Irish Prison Service	272,660	178,880
	73,050,705	45,511,412

Notes to the Financial Statements (continued)

4. Other Expenses

	2008	2007
	€	€
Expenses of the Dormant Accounts Board		
- Board Fees	79,498	72,083
- Board Expenses	8,209	4,511
- Fees of service provider (Pobal)	1,800,000	1,610,461
- Consultancy and Advisory fees	80,368	110,537
- Advertising	13,988	49,534
- Other Expenses	17,717	34,009
	1,999,780	1,881,135

5. Cash

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

6. Contingent Exchequer Liability

(a) As a result of cumulative disbursements to date the net assets of the fund are less than the dormant funds transferred and not yet reclaimed. This difference represents a contingent exchequer liability that would have to be met by the Exchequer in the event that all moneys transferred to the Dormant Accounts Fund were 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.

(b) Analysis of Contingent Exchequer Liability

	1 January 2008	Movement during the year	31 December 2008
	€	€	€
Net Assets of Fund	204,950,328	(53,955,716)	150,994,612
Dormant Funds Transferred not reclaimed	(292,673,040)	(13,532,896)	(306,205,936)
Contingent liability	(87,722,712)	(67,488,612)	(155,211,324)

(c) The movement in the Contingent Exchequer Liability is represented by:

	€
Interest on investments	7,897,104
Interest on repayments of moneys transferred to the Fund (see note 1)	(335,231)
Disbursements (see note 3)	(73,050,705)
Other expenses (see note 4)	(1,999,780)
Movement for the year	(67,488,612)
Contingent Exchequer liability at 1/1/2008	(87,722,712)
Contingent Exchequer liability at 31/12/2008	(155,211,324)

Notes to the Financial Statements (continued)

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:

	2008 €	2007 €
General Administration	150,000	150,000
Total	150,000	150,000

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

8. Investment Return

Under section 45 (1)(b) of the Dormant Accounts Act 2001, the Agency is required to report to the Disbursements Board the investment return achieved by the Fund. The annualised return on the Fund for the period covered by the investment plan was 3.95% (2007: 3.93%).

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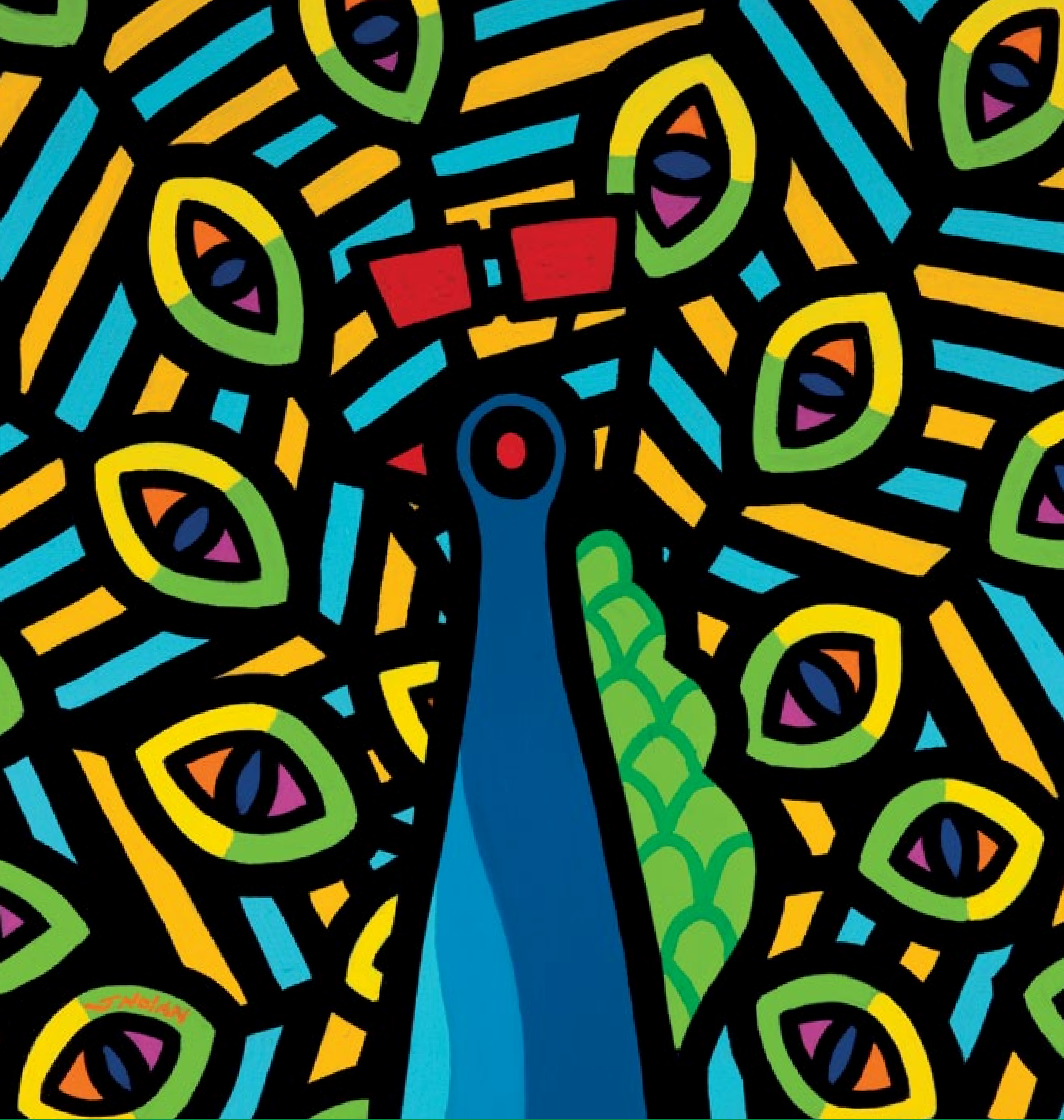

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