NATIONAL TREASURY MANAGEMENT AGENCY

REPORT & ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003

LEGAL FRAMEWORK

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

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

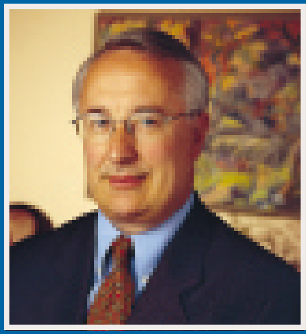
Additional functions were given to the NTMA under the following statutes:

- Securitisation (Proceeds of Certain Mortgages) Act 1995;
- National Pensions Reserve Fund Act 2000;
- National Treasury Management Agency (Amendment) Act 2000;
- Asset Covered Securities Act 2001;
- Dormant Accounts Act 2001;
- National Development Finance Agency Act 2002;
- Housing (Miscellaneous Provisions) Act 2002;
- Planning and Development (Amendment) Act 2002;
- Unclaimed Life Assurance Policies Act 2003; and
- Finance Acts.

Michael J. Somers
Chief Executive

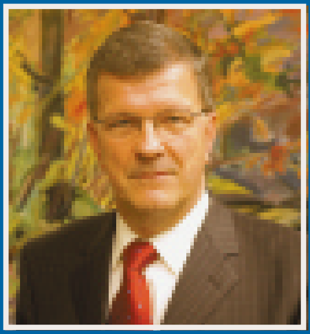
John C. Corrigan

Anne Counihan



Adrian J. Kearns

Brendan McDonagh



Oliver Whelan

NATIONAL TREASURY MANAGEMENT AGENCY

REPORT & ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003

National Treasury Management Agency

25 June 2004

Mr. Charlie McCreevy, 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 2003.

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

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OVERVIEW

The portfolio of assets and liabilities under management by the NTMA exceeds €50 billion which gave rise to a cash throughput of over €400 billion in 2003, some four times Ireland's GNP.

The NTMA was originally established in December 1990 to arrange the borrowings of the Exchequer and to manage the National Debt in the most effective way possible. In the early 1990s the debt was one of the highest in Europe, at more than 100 per cent of GNP, while annual interest payments were absorbing some 8 per cent of GNP. Since then the debt burden has declined enormously; this is not because the Debt has fallen in absolute terms – it hasn't – but it has been held more or less stable while the economy has grown rapidly. The interest burden is down sharply, not only in relative but also in absolute terms - it is now only 55 per cent of what it was in 1991. The sharp fall in domestic and international interest rates has been a major benefit and the interest bill now absorbs less than $1\frac{1}{2}$ per cent of GNP each year.

The National Debt, at some €38 billion, has many constituents, from retail products such as prize bonds to wholesale products such as internationally traded long-term bonds. Much of the debt must be regularly refinanced and adequate funds maintained for all eventualities, while all surplus cash must be placed on interest-earning deposit each evening. A regular market must be maintained in Government bonds, most of which are held by investors outside the State, to ensure that interest costs are held in line with best eurozone rates. Constant liaison with primary dealers, investment institutions and credit rating agencies assist this process. Each evening funds must be borrowed and placed in the Central Bank, or taken from the Central Bank to be deposited in the market, in order to maintain liquidity levels required by the European Central Bank. Additionally, in 2003, funding of €1.6 billion was arranged for the Housing Finance Agency.

Successive Governments have seen fit to add to the responsibilities of the NTMA; the Oireachtas has enacted five significant pieces of legislation covering the activities of the NTMA while further functions have been added in other legislation.

The management of the National Pensions Reserve Fund was assigned to the NTMA from 1 April 2001. While all investment decisions are made by an independent Commission, the implementation of these decisions falls to the NTMA. Following decisions by the Commission on the investment strategy of the fund, the NTMA evaluated and selected international Fund Managers – now totalling 18 – and allocated to them defined portions of the fund to invest. The NTMA monitors the performance of these managers on a daily basis, ensuring their compliance with their respective mandates, and meets each of them periodically to review performance. In addition, the NTMA directly manages the passive bond portfolio of the Fund, performs all foreign exchange operations, manages cash and carries out all financial transactions. The Fund now holds shares in over 1,200 companies and is at present considering new asset classes, including property, mid-cap companies, corporate bonds, private equity and public-private partnerships.

Since December 2001 the NTMA has acted as the State Claims Agency, managing claims, principally against Government Ministers and the Attorney General, for personal injuries and damage to property. More recently, it has been given similar responsibilities for hospital doctors and health care enterprises. To deal with this, the NTMA has recruited experienced claims managers, as well as staff with qualifications in law, engineering and medicine. A nationwide web-based reporting system for claims and incidents has been installed. The volume of claims being handled at any one time is of the order of 2,000. An important associated function is the provision of advice on reducing negligence risks within the public service, including the health service, with a view to claims being minimised in the future.

On 1 January 2003 the National Development Finance Agency was established. This Agency is charged with advising on the optimal means of financing public investment projects, including public-private partnerships. It can also provide loans or guarantees to a total of €5 billion and set up special purpose companies. To date it has been involved in providing financial advice on major projects, ranging from motorways and railways to broadband, from prisons to housing developments and water treatment plants. Every project costing over €20 million has to be referred to it by State authorities. Capital expenditure over the next 5 years is projected to exceed €30 billion.

On the fund management side, the NTMA is managing the Social Insurance Fund, with assets of over €1 billion. In 2003 the NTMA became responsible for managing the Dormant Accounts Fund, covering unclaimed amounts from banks accounts, and more recently this has been extended to cover unclaimed insurance policies. Other legislation gave the NTMA certain functions relating to asset covered securities issued by financial institutions in Ireland.

The NTMA is the only financial institution under the direct control of the Government which is outside the civil service, operates with a commercial remit and has the capability to recruit professional personnel from the private sector at market rates. As such it has the capacity and flexibility to deal with a wide range of financial issues on behalf of the State. The additional functions devolved on the NTMA have enabled greater utilisation to be made of its strong financial control, risk and transactions processing capabilities, its integrated I.T. systems and its internal audit functions. In addition it has the advantage of having available to it the expertise of four boards – the NTMA Advisory Committee, the National Pensions Reserve Fund Commission, the State Claims Agency Policy Advisory Committee and the National Development Finance Agency Board as well as two Audit Committees. Relatively flat and flexible organisational arrangements allied to performance driven remuneration packages have enabled the NTMA to operate with a tight staff complement – still under 100 - notwithstanding the expanded range of responsibilities.

As the first debt office established in recent times, the NTMA continues to be approached on a regular basis by countries around the world seeking to emulate Ireland's success in improving its financial position. The new responsibilities have attracted further attention internationally, particularly in the pensions fund area, which is becoming a major concern in countries with ageing populations.

The detailed report which follows attempts to set out in language as user-friendly as possible the activities of the NTMA during 2003 and up to June 2004. Much of the information is geared to potential investors in Irish Government paper and to organisations assessing the creditworthiness of the State.

Separate Annual Reports are published by the National Pensions Reserve Fund Commission and by the Board of the National Development Finance Agency.

Chief Executive

Michael J. Somers

Directors

John C. Corrigan
National Pensions Reserve Fund

Anne Counihan
Legal & Corporate Affairs and National Development Finance Agency

Adrian J. Kearns
State Claims Agency

Brendan McDonagh
Finance, Technology & Risk

Oliver Whelan
Funding & Debt Management

Advisory Committee

John F. Daly (Chairman)
Chairman, IIMC Limited

Gerold W. Brandt
Member of the Supervisory Board of Adidas-Salomon AG, Munich

Paul Carty
Financial Consultant

Tom Considine
Secretary General, Department of Finance

Lewis L. Glucksman
Private Investor

Joe Moran
Former Chief Executive, Electricity Supply Board

Donald C. Roth
Managing Partner, Emerging Markets Partnership, Washington D.C.

Advisory Committee

The Advisory Committee met formally on five occasions in 2003. Other meetings with members of the Committee took place on a regular basis. An Audit Committee comprising members of the Advisory Committee was established in January 2003.

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

(Back row from left to right) Donald C. Roth, Gerold W. Brandt, Tom Considine, Paul Carty,
(Front row from left to right) Joe Moran, John F. Daly, Lewis L. Glucksman

Staff

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

SUMMARY OF ACTIVITY

The key features of 2003 were:

NATIONAL DEBT

- Ireland continued to have the second lowest Debt/GDP ratio of the 15 EU Member States.
- The General Government Debt (GG Debt)/GDP ratio increased by 0.5 of a percentage point to 32.8 per cent at end 2003, while the traditional National Debt/GNP ratio fell by 0.8 of a percentage point to 34.4 per cent over the same period.
- Total debt service expenditure in 2003 at €2,277 million was €203 million below budget.
- Interest payments on the Debt in 2003 at €1,765 million absorbed 4.8 per cent of the total tax revenue – in 1991 it was 26.6 per cent.
- €29 million of added value was achieved against an externally audited benchmark.
- €6.6 billion was raised during 2003, at yields of 3.24 per cent to 4.45 per cent, through nine bond auctions, which were conducted using an electronic auction system.
- A new benchmark bond, the 3.25% Treasury Bond 2009, was launched in February 2003 with a €1 billion auction, the largest ever held by the NTMA.
- Ireland continues to market and distribute its bonds through the auction system via its Primary Dealers thereby avoiding the necessity of paying syndication fees.
- Over 75 per cent of Irish Government bonds are now held by non-residents compared to 22 per cent at end 1998. Almost all of the new debt issued in 2003 was taken up by non-residents.
- Yields on Irish Government bonds are now virtually the same as German and French yields.
- Bond yields at end 2003 and in June 2004 were:

	End 2003	June 2004
3.25% Treasury Bond 2009	3.65%	3.66%
5% Treasury Bond 2013	4.27%	4.27%
4.6% Treasury Bond 2016	4.48%	4.51%
4.5% Treasury Bond 2020	Issued January 2004	4.74%

- Turnover in Irish Government bonds on the Irish Stock Exchange in 2003 was €74 billion.
- NTMA continued to be active in the Repo market (which amounted to €263 billion in 2003).
- 77 per cent of the National Debt carries a fixed rate of interest, locking in debt at historically low levels of interest.
- All of the National Debt is now denominated in euro.
- Government savings schemes which account for 14 per cent of the National Debt raised €280 million in 2003.

CASH VOLUMES

- Gross cash flows across all business activities were €441 billion.

CREDIT RATING

- Moody's, Standard & Poor's, Fitch, and Rating and Investment Information Inc. all re-affirmed Ireland's top AAA long-term credit ratings as well as the equivalent top short-term ratings.

NATIONAL PENSIONS RESERVE FUND

- The Fund achieved an investment return of 12.8 per cent in 2003.
- The market value of the Fund at 31 December 2003 was €9,561 million compared with €7,426 million at 31 December 2002.
- The Fund committed €1,911 million to global equity markets through 2003. The averaging in entry approach has resulted in the Fund outperforming its benchmark by 9.6 per cent since inception.
- In total, the Fund had shareholdings in 1,286 companies across 23 markets at end 2003.
- At end 2003 the Fund's holdings were:

	% of Fund
Equities	71.5
Bonds	14.0
Cash and equivalent	14.5

- The NTMA has been mandated by the Commission to manage a passive bond portfolio of €1 billion, cash of €1.2 billion and a currency overlay programme of €2 billion.
- The Fund's assets were equivalent to 8.8 per cent of GNP.
- The NTMA is responsible for managing a total of 18 international investment managers, a global custodian and other international investment advisors.

STATE CLAIMS AGENCY

- The SCA is currently managing in excess of 2,000 personal injury claims, including 600 claims for alleged clinical negligence.
- The number of claims, other than clinical claims, received in recent months has shown a decline.
- The Clinical Indemnity Scheme was delegated to the SCA in February 2003.
- The SCA began logging clinical incidents in July 2002. To date, approximately 40,000 incidents have been recorded. Most of these do not give rise to personal injury and are unlikely to lead to claims. However, they help to identify possible trends for risk management purposes.
- The introduction of an internet-based incident reporting system will enable data on clinical incidents in hospitals and other healthcare enterprises to be standardised, recorded and analysed in a central national database.
- The Supreme Court held in February 2003 that plaintiffs could not recover damages for alleged psychiatric injury arising from an irrational fear of contracting a disease where the risk of suffering the disease is remote ("worried well" claims).
- The SCA is currently seeking to recover costs from about 500 plaintiffs who brought asbestos-related "worried well" claims.
- Risk management measures initiated by the SCA during 2003 included seminars for community schools, alerting them to personal injury risks in school. Risk management initiatives have been undertaken also in respect of other parts of the SCA's portfolio with a view to minimising future claims.
- In excess of 800 claims have been fully resolved to date at a cost of €9 million - compensation of €6.5 million and other costs of €2.5 million. A further 100 claims have been settled subject to agreement on costs.

CENTRAL TREASURY SERVICES

- The NTMA continues to provide a competitive alternative to the banking industry for Local Authorities, Health Boards and Vocational Education Committees for both borrowing and lending.

NATIONAL DEVELOPMENT FINANCE AGENCY

- The NDFA was established on 1 January 2003 to provide financial advice to State authorities and to assist in providing cost effective finance for priority infrastructure projects.
- The NDFA can advance repayable loans, equity and provide guarantees up to a combined total of €5 billion and form special purpose companies.
- During 2003, the NDFA completed its advice on six projects with a combined value of over €700 million and organised loan facilities of €250 million for such projects.
- The NDFA is currently providing financial advice in connection with a further twenty projects having a capital value in excess of €5 billion.

SOCIAL INSURANCE FUND

- The NTMA invests the Fund's surplus of €1.3 billion in accordance with guidelines issued by the Minister for Finance.

DORMANT ACCOUNTS FUND

- The NTMA commenced the management of the Dormant Accounts Fund in 2003; the Fund stood at €175 million at year end.
- In April 2004 an additional €33 million from dormant bank accounts was transferred to the Fund.
- An amount of €23 million representing the net encashment value of certain life policies of untraced policyholders was also transferred to the Fund in April 2004.

ASSET COVERED SECURITIES

- Certain functions devolve on the NTMA under the Asset Covered Securities Act 2001 in respect of which it receives an annual fee related to the volume of business activity.
- During 2003 €12.5 billion of asset covered securities were issued in Ireland under the Act.

EUROPEAN CENTRAL BANK LIQUIDITY MANAGEMENT

- The NTMA manages domestic liquidity in relation to Government balances on behalf of the European Central Bank.
- This market activity involved raising funds and placing deposits in short term money markets to the value of €169 billion in 2003.

HOUSING FINANCE AGENCY FUNDING

- To leverage Ireland's premium credit quality, NTMA undertook funding activities on behalf of the HFA in February 2003. Borrowings, which averaged €1.6 billion in 2003, resulted in interest savings of some €1.3 million for the HFA.

CONSULTANCY & INTERNATIONAL RELATIONSHIPS

- Other countries continue to consult the NTMA with respect to its asset and liability management activities. The NTMA recently hosted the EU Accession Countries Debt Management Group as part of the Irish EU Presidency.

HUMAN RESOURCES

- Staff currently employed by the NTMA stands at 86.

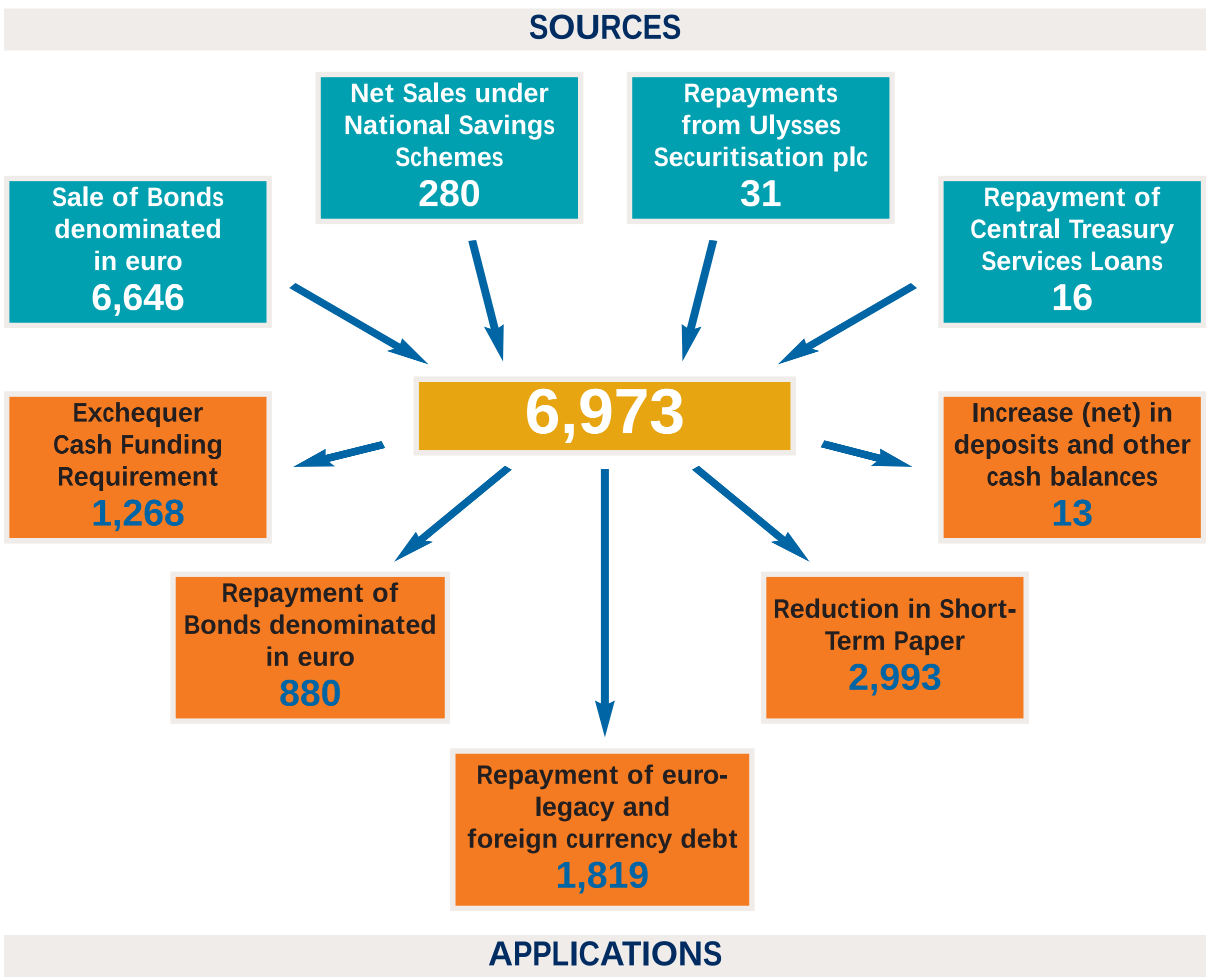
FUNDING & DEBT MANAGEMENT

Most of the funding and debt management activity arises from the ongoing repayment and refinancing of the National Debt which is close to €38 billion and the resultant management of liquidity in the international capital markets. This gave rise to cashflows in excess of €400 billion in 2003, which is four times greater than Ireland's GNP. The NTMA deals with in excess of one hundred banks and financial institutions in performing its functions.

In 2003, the Exchequer had a cash funding requirement of €1,268 million, comprising a budget deficit of €979 million and draw-downs from (i) the Capital Services Redemption Account of €250 million and (ii) the Small Savings Reserve Account of €39 million. These two Accounts were temporarily invested in Government Short Term Paper and therefore needed to be refinanced in order to meet the cash funding requirement.

During the course of 2003 the Exchequer's funding requirement net of liquidity management operations were:

SOURCES AND APPLICATIONS OF FUNDS - € MILLION



Gross cash flows across all capital market activities were €441 billion.

GROSS CASHFLOWS NTMA 2003	€ billion
National Pensions Reserve Fund	33
Social Insurance Fund	25
Capital Services Redemption Account	3
Exchequer Account	303
Foreign Currency Accounts	45
Dormant Bank Accounts	1
Housing Finance Agency	28
Agricultural Commodity Intervention Paper	3
Total	**441**

THE NATIONAL DEBT

The National Debt as traditionally measured, which is net of cash balances, was €37.6 billion at end 2003 compared with €36.4 billion at the end of 2002. The increase in the Debt of €1.25 billion, primarily due to the Exchequer deficit of €979 million, is explained below.

CHANGE IN NATIONAL DEBT IN 2003	€ million	€ million
National Debt (end 2002)		36,361
Plus		
• Exchequer Deficit	979	
• Reduction in balance on Capital Services Redemption Account	250	
• Net discount on Tranches and Cancellations [1]	27	1,256
Less		
• Positive Exchange Rate Impact		-7
Change in National Debt		1,249
National Debt (end 2003)		37,610

CURRENCY AND DURATION OF THE DEBT

The NTMA eliminated foreign exchange risk by hedging out of all non-euro liabilities in 2003. As a result, 100 per cent of the National Debt at the end of 2003 was denominated in euro compared with 98 per cent at end 2002.

Following long term bond issuance of €6.6 billion which, inter alia, refinanced €3 billion in short term paper, the duration of the debt increased from 4.47 to 4.85 years during 2003.

1 *Premiums/Discounts arise when bonds are issued/cancelled at other than their par value due to a difference between the coupon on the debt and market yields.*

GENERAL GOVERNMENT DEBT

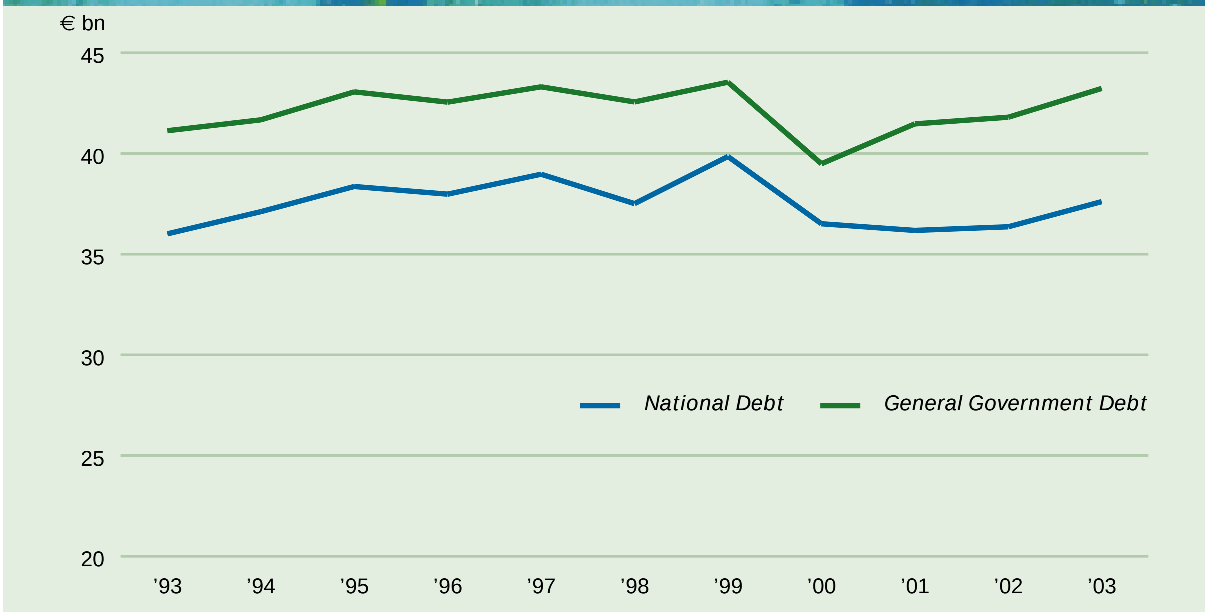
General Government Debt (GGD) is the definition of debt used for comparative purposes within the European Union. The National Debt is the principal component of GGD. This is a gross measure of debt and does not include any offset for Exchequer cash balances. In addition, GGD includes Local Government debt, certain extra-budgetary funds and the accrued interest not provided for on the National Savings Schemes.

GGD is estimated at €43.2 billion at end 2003 compared to €41.8 billion at end of 2002. While the National Debt increased by €1.25 billion, the increase in Local Authority debt is the main residual factor accounting for the overall increase of €1.4 billion in GGD.

TREND IN THE NATIONAL DEBT AND GENERAL GOVERNMENT DEBT

The trend in the National Debt and the GGD over the last ten years is shown in the graph below:

Trend in Debt over the last 10 years

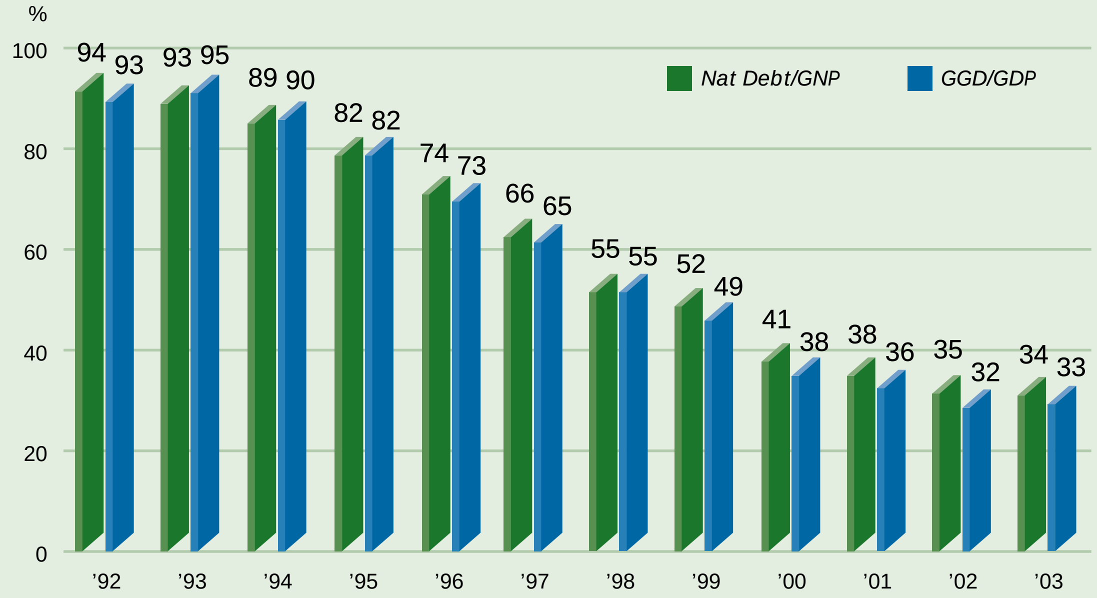


SOURCE: EUROSTAT AND NTMA.

DEBT RATIOS

In 2003 nominal GNP grew by 5.6 per cent and GDP by 2 per cent. The General Government Debt/GDP ratio increased by 0.5 of a percentage point during the year to 32.8 per cent at end 2003. Conversely, the National Debt expressed as a percentage of GNP decreased by 0.8 of a percentage point to 34.4 per cent in the same period.

Trend in National Debt & General Government Debt Ratios



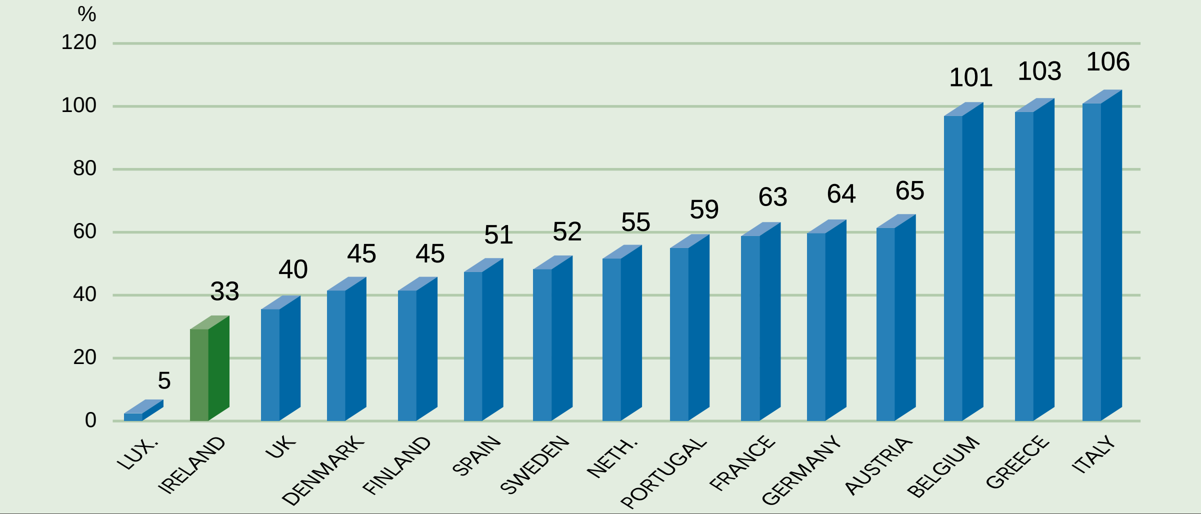
SOURCE: EUROSTAT, DEPARTMENT OF FINANCE & NTMA.

The Government's three-year Budget Plan announced in December 2003 points towards stability in the GGD/GDP ratio over the 2004 to 2006 period – at some 33 per cent.

Ireland's underlying position is in fact much better - when account is taken of the €9.56 billion in the National Pensions Reserve Fund at end 2003, the GGD ratio falls to 25.5 per cent.

INTERNATIONAL COMPARISONS

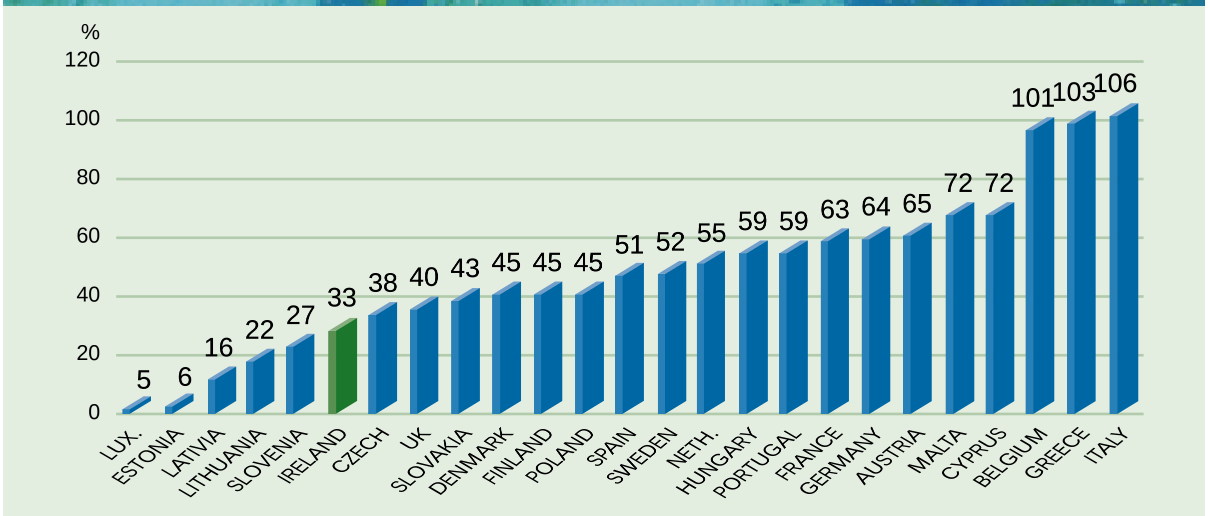
GGD/GDP Ratios for EU-15 Member States 2003



SOURCE: EUROSTAT, 2003 ESTIMATE FOR IRELAND - DEPARTMENT OF FINANCE.

Extending the comparison of Ireland's relative position to include the ten new EU members states moves Ireland's ranking from a position of 2nd out of 15 to 6th out of 25 countries.

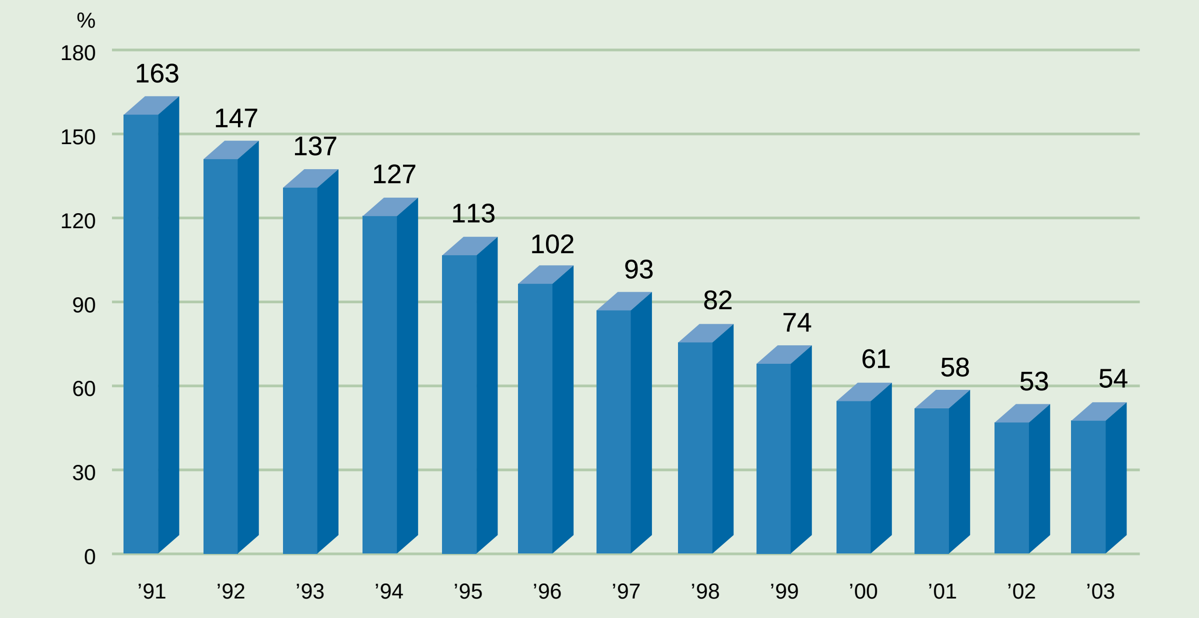
GGD/GDP Ratios for EU Member States and 10 Accession States 2003



SOURCE: EUROSTAT, 2003 ESTIMATE FOR IRELAND - DEPARTMENT OF FINANCE.

At end 2003, Ireland's comparative indebtedness remained the second lowest among the fifteen EU Member States at almost half the EU average. This compares with a position well above the average in the first half of the 1990s.

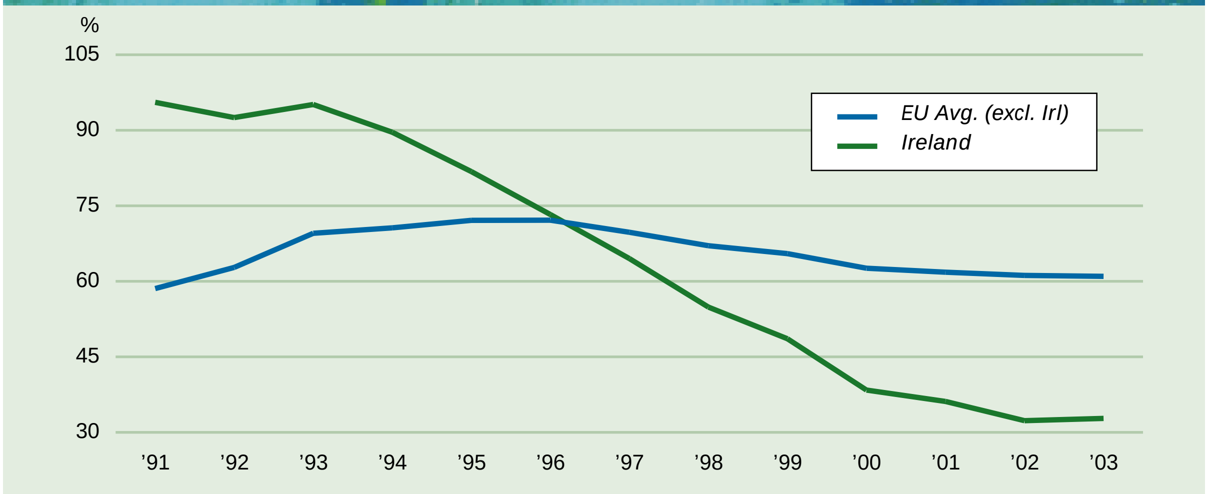
Ireland's GGD/GDP Ratio relative to the EU-15 Average (excl Irl)



SOURCE: EUROSTAT, 2003 ESTIMATE FOR IRELAND - DEPARTMENT OF FINANCE.

This favourable position reflects Ireland's economic performance rather than a material change in the EU average itself, as can be seen from the graph below:

Ireland and EU 15 Average Debt/GDP Ratio



SOURCE: EUROSTAT, 2003 ESTIMATE FOR IRELAND - DEPARTMENT OF FINANCE.

DEBT SERVICE COSTS

The outturn at €2,277 million was lower than the budget estimate by €203 million, mainly due to a number of technical factors, including favourable interest rate movements, a better than expected Exchequer Balance position, as well as certain debt management initiatives. The total debt service budget for 2003 was €2,480 million (€2,230 million from the Exchequer and €250 million from the Capital Services Redemption Account (CSRA)).

ANALYSIS OF EXCHEQUER DEBT SERVICE OUTTURN RELATIVE TO BUDGET (€ million)

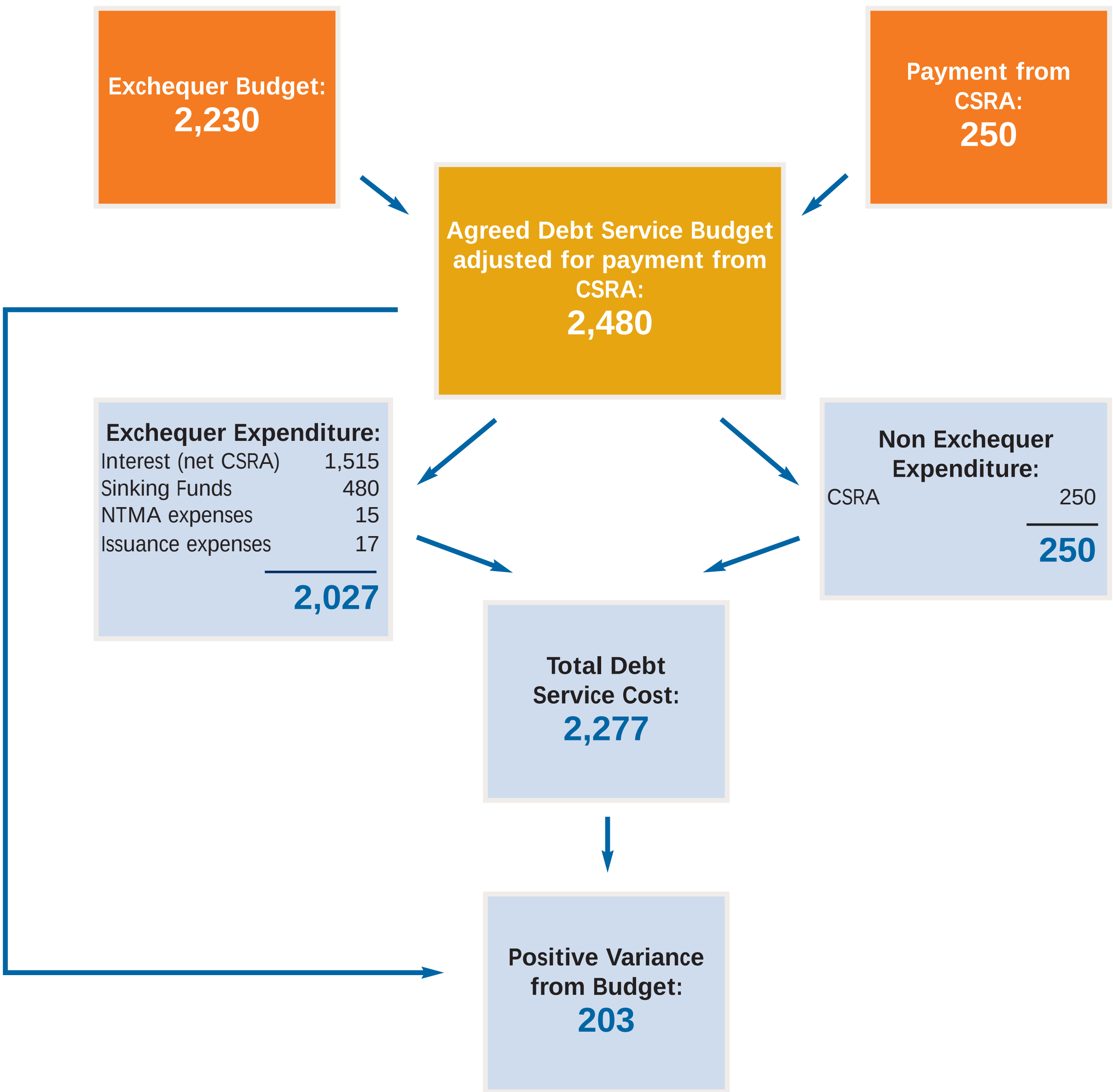
	OUTTURN	BUDGET
Exchequer Debt Service Expenditure	2,027	2,230
Plus: Payment from CSRA	250	250
Underlying Debt Service Expenditure	2,277	2,480
Favourable Variance from Budget	**203**	

Debt service costs of €2,277 million include interest payments of €1,765 million, sinking fund payments of €480 million, fees of €17 million and administration expenses of €15 million. The interest payments of €1,765 million include the above mentioned payment of €250 million from the CSRA.

Included in the debt service expenditure was some €441 million for interest on the Government savings schemes. This €441 million is €75 million higher than the amount provided in the Budget; the extra €75 million charge on the Exchequer arises from the decision to maintain the balance in the Small Savings Reserve Fund at close to 50 per cent of the estimated accrued interest.

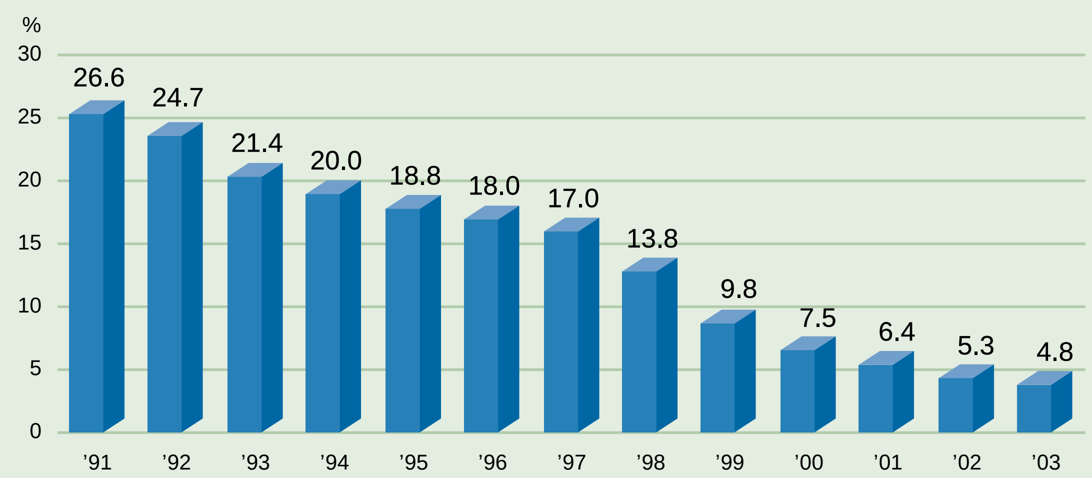
A diagram showing the breakdown of debt service costs is set out below:

ANALYSIS OF DEBT SERVICE OUTTURN RELATIVE TO BUDGET - € MILLION



The amount of tax revenue going towards interest payments totalled 4.8 per cent compared to 26.6 per cent in 1991. This is a reduction of 80 per cent in the intervening years.

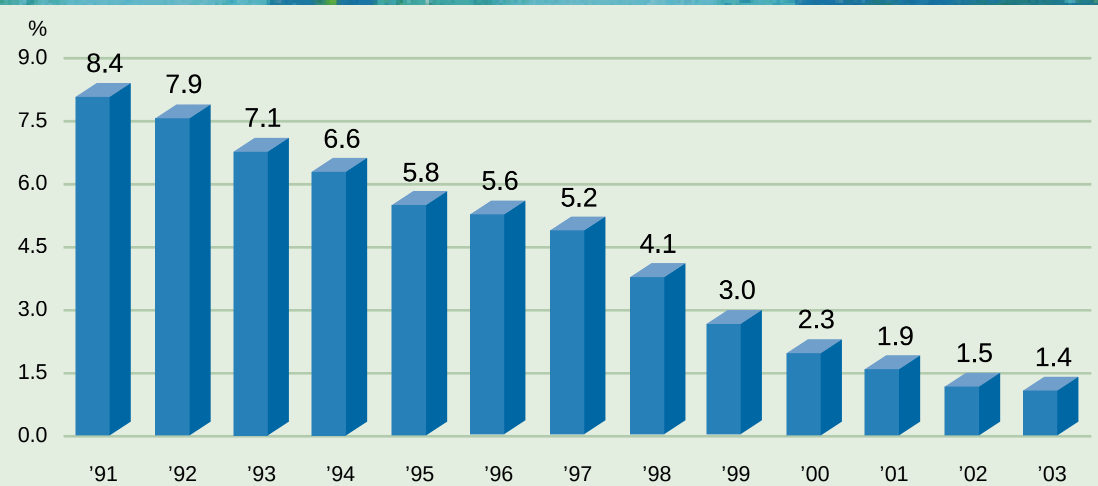
Interest as % of Tax Revenue



NOTE: THE INTEREST SERIES HAS BEEN ADJUSTED TO REFLECT THE COST OF ACCRUED INTEREST ON THE NATIONAL SAVINGS SCHEMES.

Interest costs have fallen from 8.4 per cent of GNP in 1991 to 1.4 per cent at the end of 2003.

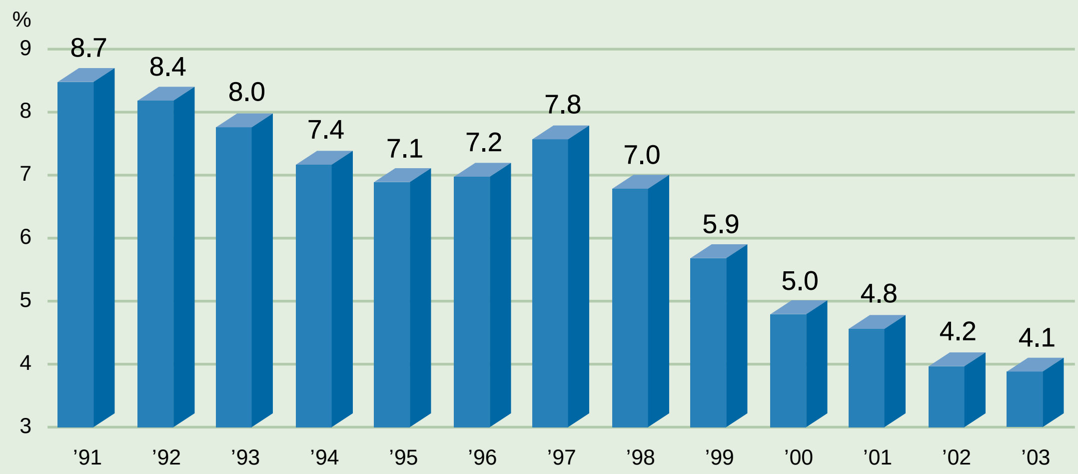
Interest as % GNP



NOTE: THE INTEREST SERIES HAS BEEN ADJUSTED TO REFLECT THE COST OF ACCRUED INTEREST ON THE NATIONAL SAVINGS SCHEMES.

The average interest cost of servicing the National Debt has fallen substantially from 8.7 per cent in 1991 to 4.1 per cent in 2003. The reduction in the average interest rate primarily reflects the downward trend in global rates in recent years, Ireland's improved credit ratings, and debt management initiatives by the NTMA, as well as Ireland's participation in the eurozone.

Trend in the Average Interest Cost of Servicing the National Debt 1991-2003



NOTE 1: THE INTEREST SERIES HAS BEEN ADJUSTED TO REFLECT THE COST OF ACCRUED INTEREST ON THE NATIONAL SAVINGS SCHEMES.

NOTE 2: THE NATIONAL DEBT SERIES HAS BEEN ADJUSTED TO REFLECT THE FULL IMPACT OF THE ACCRUED INTEREST ON THE NATIONAL SAVINGS SCHEMES.

INTEREST ACCRUING ON NATIONAL SAVINGS SCHEMES

Because interest is only paid out on encashment of Savings Certificates, Savings Bonds and National Instalment Savings, a considerable liability has built up over the years in respect of accrued interest. The Small Savings Reserve Fund was established in 1994 to address this issue. Since 1999 the Minister for Finance has provided in each Budget for the full accrual of interest. At end 2003, the Reserve stood at €1,069 million, or just over 53 per cent of the accrued interest of €2,008 million.

DEBT COMPOSITION

The composition of the National Debt as at end 2003, together with comparative figures for 2002, is shown below:

	€ million (nominal)			
	31 December 2003		31 December 2002	
Bonds denominated in euro				
(listed on the Irish Stock Exchange) of which:				
Domestic Investors	7,530		7,655	
Non-resident Investors	20,600	28,130	14,668	22,323
Other Medium Term Debt		931		2,804
National Savings Schemes		5,455		5,173
Short Term Debt		3,094		6,061
Total:		**37,610**		**36,361**

FUNDING ACTIVITY

Total bond funding of some €6.6 billion was undertaken by the NTMA in 2003 through a series of nine auctions. Some €2.7 billion of this was used to refinance maturing long term debt and to buy back other debt while the balance of €3.9 billion was used to fund the Exchequer deficit and to refinance €3 billion of short term debt. The refinancing of short term debt in the bond market was a continuation of the policy which commenced in 2002 and continued into 2004 of locking in long term funding at historically low yields.

MATURITY PROFILE

At end 2003 euro denominated bonds outstanding had maturities ranging out to 2016 – this maturity was extended to 2020 with the issue of a new benchmark bond in January 2004. The four benchmark bonds accounted for almost 90 per cent of the total bonds outstanding at end 2003. By end 2005 the NTMA will have refinanced in the markets through new borrowings about seventy-five per cent of the €931 million other medium term debt (i.e. former foreign currency debt) which will have matured by that time.

The short term debt portfolio is made up of Exchequer Notes, Central Treasury Notes, Section 69 Notes and Commercial Paper, all of which have a maximum maturity of twelve months. The NTMA also raises short term funds on behalf of the Housing Finance Agency under the HFA's commercial paper programme.

The maturity profile of outstanding debt, including the new 4.5% Treasury Bond 2020 issued in January 2004 and the Housing Finance Agency's commercial paper programme, as at end 2003 and in June 2004, is shown below:

Maturity Profile of Debt

SOURCE: NTMA

The borrowing programme to be undertaken to refinance this debt will have to take account of Ireland's need to have benchmark issues at the five and ten year points on the yield curve as well as the borrowing requirement specified in the December 2003 budget. The NTMA will consider offering to the investors in its benchmark bonds nearing maturity the opportunity to switch into a new five or ten year benchmark bond. Such benchmark bonds are essential to maintaining Ireland's ability to borrow funds at interest rates similar to Germany and France.

Primary Dealer System

The Irish Government bond market has seven Primary Dealers recognised by the NTMA who make continuous two-way prices in designated bonds in minimum specified amounts and within maximum specified spreads. There are also a number of stockbrokers who match client orders. The Primary Dealers account for 95 per cent of turnover in the Irish Government bond market.

The Primary Dealers* are:

ABN AMRO, London
AIB Capital Markets, Dublin
Barclays Capital, London
Calyon, Paris
Citigroup, London
Davy Stockbrokers, Dublin
Deutsche Bank, Frankfurt

* NCB Stockbrokers ceased to be a Primary Dealer as of 31 October 2003. Barclays Capital became a Primary Dealer in February 2003. With effect from 3 May 2004 Crédit Agricole Indosuez became known as Calyon following the merger of Crédit Agricole and Crédit Lyonnais.

The Primary Dealers are members of the Irish Stock Exchange, on which Irish Government bonds are listed. They are also members of EuroMTS and MTS Ireland. They have exclusive access to the NTMA's bond auctions and they may avail of repo and reverse repo facilities which the NTMA provides in Irish Government bonds. The NTMA also actively buys back "off-the-run" Irish Government bonds from its Primary Dealers at competitive market prices.

Electronic Trading – EuroMTS and MTS Ireland

The five Irish benchmark bonds are listed on the EuroMTS and MTS Ireland electronic trading platforms. There are eleven market makers for Irish Government bonds on EuroMTS, namely the seven Primary Dealers listed above together with the following four institutions:

Capitalia Banking Group, Rome
Dresdner Bank, Frankfurt
Fortis Bank, Brussels
UBS, London

All euro-area sovereign issuers except Luxembourg have their bonds listed on the EuroMTS system. The listing of Irish Government bonds on MTS has greatly enhanced turnover, price transparency and liquidity. The bid to offer spread on the bonds has also narrowed, making them more attractive to investors due to the reduced trading cost. During 2003 an average of about €500 million of Irish Government bonds was traded on the MTS system each week.

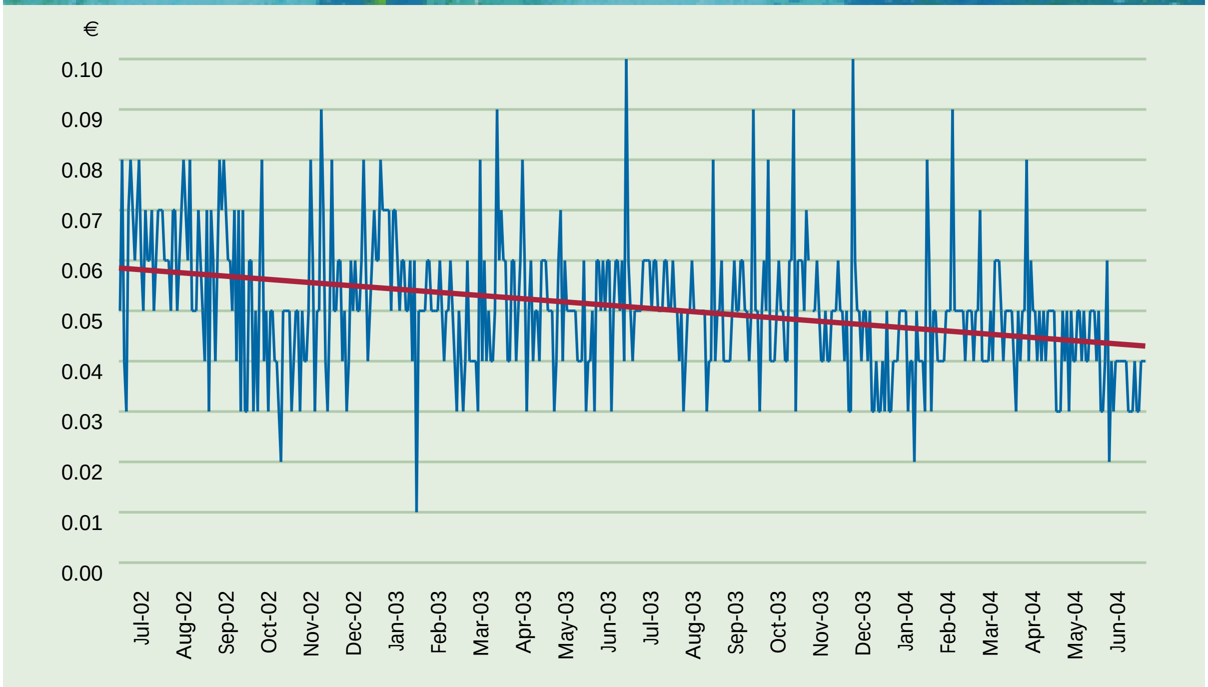
Bond Spreads

The maximum spreads within which the market makers must quote bid and offer prices for specified minimum amounts were substantially reduced on MTS in May 2004 and are as follows:

Bond	Maximum Bid-Offer Spread € cent	Minimum Dealing Size € million
4.25% Treasury Bond 2007	3	10
3.25% Treasury Bond 2009	4	10
5.00% Treasury Bond 2013	5	10
4.60% Treasury Bond 2016	7	10
4.50% Treasury Bond 2020	10	5

The graph below shows the bid to offer spread for the Irish ten-year bond on MTS since June 2002 when Ireland joined the system. The spread has narrowed since that time to just 4 cent as can be seen in the trend line. This is comfortably inside the maximum spread within which the market-makers must operate.

Bid to Offer Spread on 5% Treasury Bond 2013



SOURCE: EUROMTS

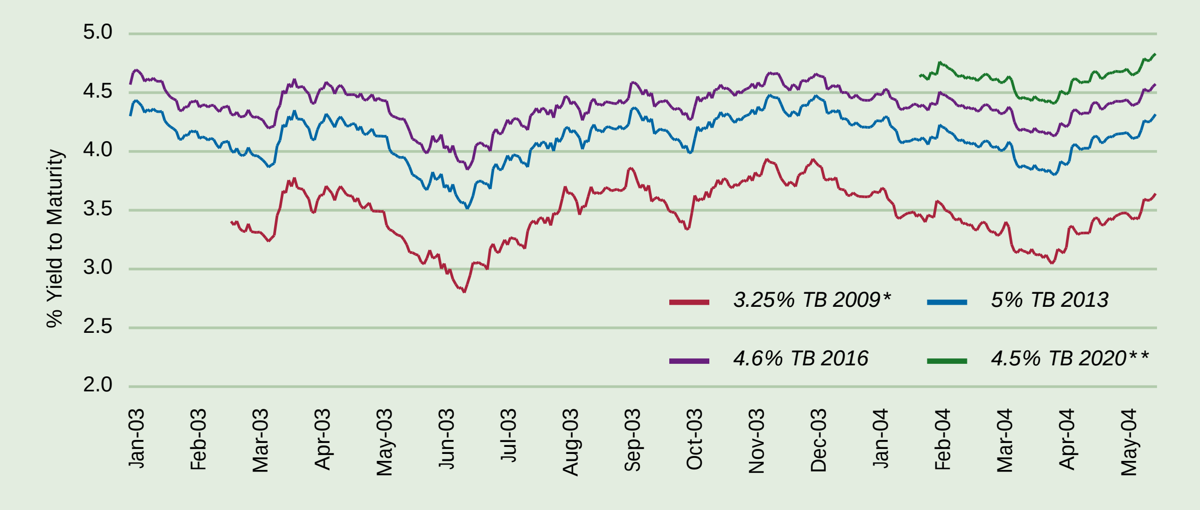
Bond Auction Procedures

Irish bond auctions, which are normally held on the third Thursday of the month except for January and December, are conducted using the electronic Bloomberg Auction System. The cut-off time for bids is 9.15a.m.. Auctions are confined to the Primary Dealers and the results are published on Bloomberg (page NTMA, menu item 2) and Reuters (page NTMB) within five minutes of the cut-off time for bids. A non-competitive auction for an additional 20 per cent of the amount sold in the competitive auction is open for two business days.

Irish Government Bond Yields

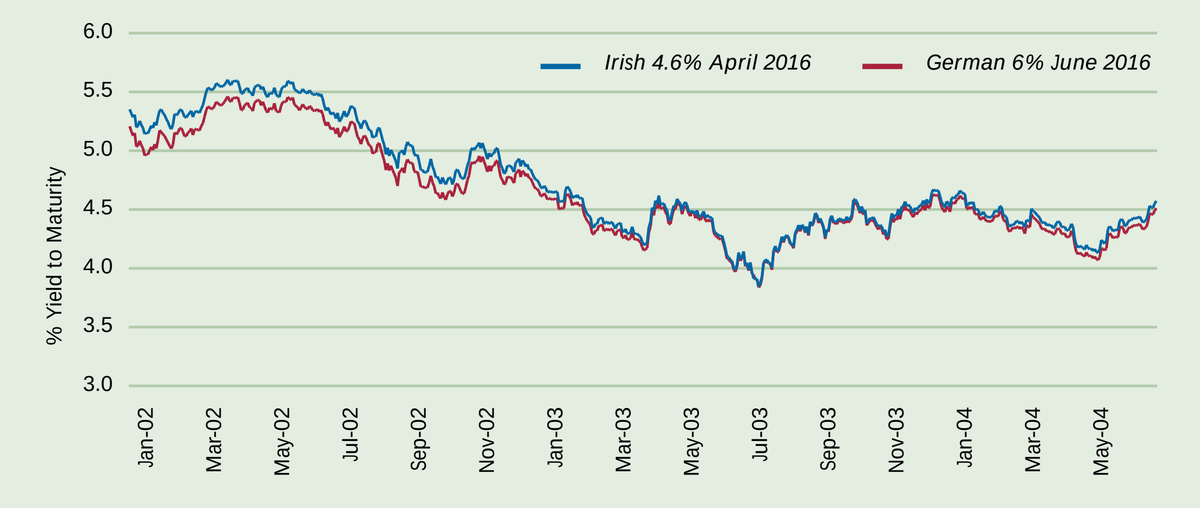
Irish bond yields have converged to the core euro markets and they now trade at rates very close to those for similar German and French bonds; the spreads, or yield differences, amount to a small number of basis points (hundredths of one per cent). The continued positive outlook for the Irish economy and public finances as well as the AAA credit ratings from all the major rating agencies and the low debt/GDP ratio, together with the MTS listing, have ensured that investors find Irish Government bonds very attractive relative to the core European markets. Each one basis point narrowing of the yield spread over Germany represents a net present value saving for the Exchequer of approximately €4 million on the new bonds issued in 2003.

Irish Benchmark Government Bond Yields January 2003 to May 2004



SOURCE: BLOOMBERG. * 3.25% TREASURY BOND 2009 LAUNCHED 20 FEBRUARY 2003. ** 4.5% TREASURY BOND 2020 LAUNCHED 20 JANUARY 2004.

Irish and German Yields for bonds maturing in 2016: January 2002 to May 2004



SOURCE: BLOOMBERG

Liquid Benchmark Yield Curve

Ireland has five major benchmark bonds with maturities across the yield curve from three to sixteen years. The average outstanding amount in these bonds is €5.8 billion ensuring that they continue to have adequate liquidity. The Primary Dealers are obliged to make continuous two-way prices in these benchmark bonds which constitute over 90 per cent of the bonds in issue:

Bond	Outstanding June 2004 € billion	ISIN Code	Annual Coupon Payment Date
4.25% Treasury Bond 2007	6.1	IE00031256211	18 October
3.25% Treasury Bond 2009	5.0	IE00032584868	18 April
5.00% Treasury Bond 2013	6.1	IE00031256328	18 April
4.60% Treasury Bond 2016	5.8	IE0006857530	18 April
4.50% Treasury Bond 2020	5.6	IE0034074488	18 April

Irish Government Bond Issuance in 2003

Total bond funding of €6.6 billion was undertaken during 2003. A series of nine auctions were held in February and in each month from April to November inclusive. The March auction was postponed because of extreme volatility in the market. A new benchmark bond, the 3.25% Treasury Bond 2009, was launched with an auction of €1 billion in February. This was the single largest auction ever conducted by the NTMA. Total issuance in this bond during the year represented 60 per cent of total bond funding in 2003. Issuance of the 2013 and 2016 bonds continued the NTMA's policy of long term borrowing at current historically low yields.

Overall the bids received in the auctions were 2.6 times the amount on offer. The average cost of the funds raised in the auctions was just one to three basis points over the cost of equivalent German Government bonds.

Auctions 2003

Auction Date	Bond	Amount Sold in Competitive Auction: €m	Weighted Average Price and Yield		Bid to Cover Ratio	Amount Sold in Non-Competitive Auction: €m
20 February	3.25% Treasury Bond 2009	1,000	99.315	3.374%	2.3	200
17 April	4.6% Treasury Bond 2016	650	101.422	4.453%	2.4	0
15 May	3.25% Treasury Bond 2009	650	100.027	3.244%	2.0	130
19 June	4.6% Treasury Bond 2016	600	105.327	4.057%	2.2	0
17 July	3.25% Treasury Bond 2009	600	99.318	3.381%	3.0	0
21 August	5% Treasury Bond 2013	600	106.110	4.213%	3.7	120
18 September	3.25% Treasury Bond 2009	600	98.457	3.558%	2.7	120
16 October	3.25% Treasury Bond 2009	700	97.554	3.748%	2.6	0
20 November	5% Treasury Bond 2013	600	105.261	4.304%	2.6	0

IRISH GOVERNMENT BOND ISSUANCE IN 2004

With a view to encouraging investment in a new long term bond, investors in the 5% Treasury Bond 2013 were offered the opportunity of switching some of their holdings into a new 16 year bond, the 4.5% Treasury Bond 2020. While €4.8 billion of the 2013 bond was offered back by the market in the NTMA's first ever reverse auction which was held in January 2004, only €2 billion offered at the keenest prices was accepted by the NTMA for switching into the new 2020 bond.

Taking advantage of strong market demand the NTMA has continued to issue the new bond in 2004 through a series of five auctions held in each month from February to June inclusive. This is a continuation of its policy of issuing long term bonds while yields remain at historically low levels. These auctions have brought the issue size of the new bond up to a level where it trades on EuroMTS thereby increasing liquidity and reducing spreads.

Details of auctions up to June 2004 are listed in the following table:

Auction Date	Bond	Amount Sold in Competitive Auction: €m	Weighted Average Price and Yield		Bid to Cover Ratio	Amount Sold in Non-Competitive Auction: €m
19 February	4.5% Treasury Bond 2020	700	98.322	4.651%	3.0	0
18 March	4.5% Treasury Bond 2020	500	100.695	4.439%	3.4	100
15 April	4.5% Treasury Bond 2020	600	98.239	4.659%	3.3	120
19 May	4.5% Treasury Bond 2020	750	96.776	4.793%	2.9	0
17 June	4.5% Treasury Bond 2020	500	97.014	4.772%	4.2	100

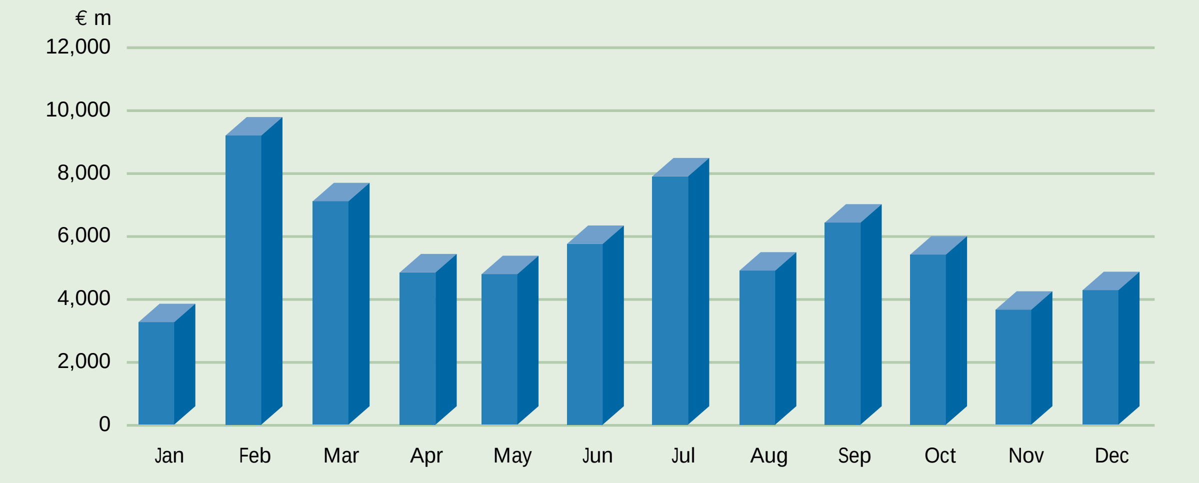
Diversified holdings of Irish Government bonds

Irish Government bonds have moved steadily into the hands of international investors since the introduction of the euro in January 1999. Non-resident holdings have increased to 75 per cent compared to 22 per cent in 1998. This emphasises the importance of the NTMA's strategy of marketing to investors, maintaining relationships with a wide range of financial institutions and promoting an active market in Irish Government bonds. This approach has enabled the NTMA to save about €10 million in respect of syndication fees it would otherwise have had to pay on the bond issuance of €6.6 billion in 2003.

Turnover and Liquidity

Turnover in Irish Government bonds on the Irish Stock Exchange in 2003 was €74 billion, a 21 per cent increase on the 2002 figure. The increase in turnover in 2003 reflects the continued focus on bond funding and the regular monthly auctions as well as the maintenance by the NTMA of large liquid benchmark bonds. Turnover was also enhanced through the continued listing of Irish Government bonds on the EuroMTS and MTS Ireland electronic trading platforms.

Stock Exchange turnover of Irish Government Bonds 2003

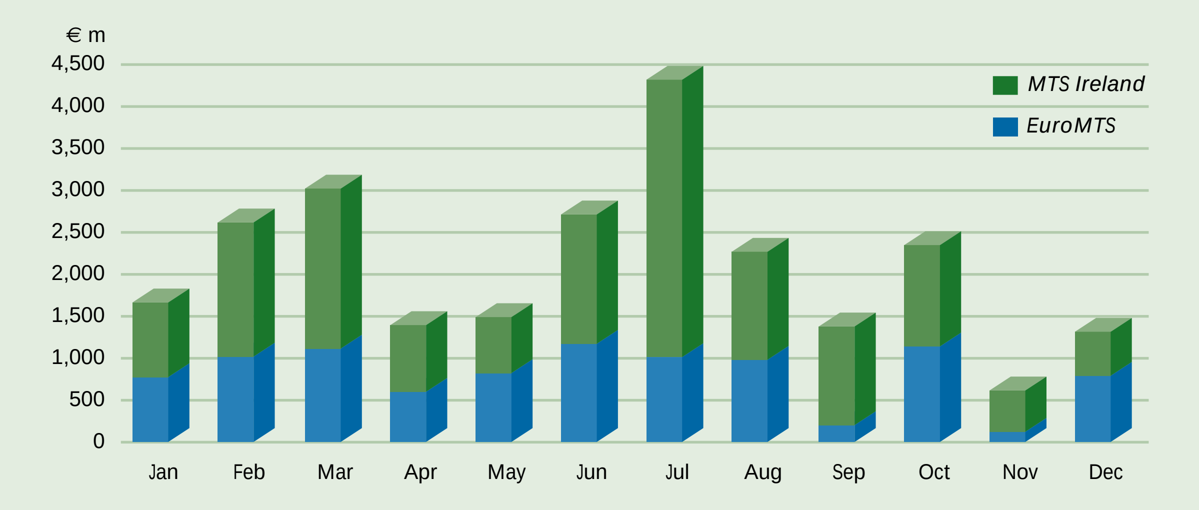


SOURCE: IRISH STOCK EXCHANGE

Reported turnover figures are understated to the extent that intermediaries who are not members of the Irish Stock Exchange, notably non-residents, deal with counterparties who likewise are not members.

The combined turnover of Irish Government bonds on both MTS systems in 2003 was €27.1 billion.

Turnover of Irish Government Bonds on MTS in 2003



SOURCE: EUROMTS LIMITED

REPOS

A bond repo and reverse repo facility is provided by the NTMA to the Primary Dealers. This allows them to borrow bonds or cash to cover short positions on a secured basis. The facility is used to ensure the smooth and efficient operation of the bond market and it is a useful source of market intelligence for the NTMA.

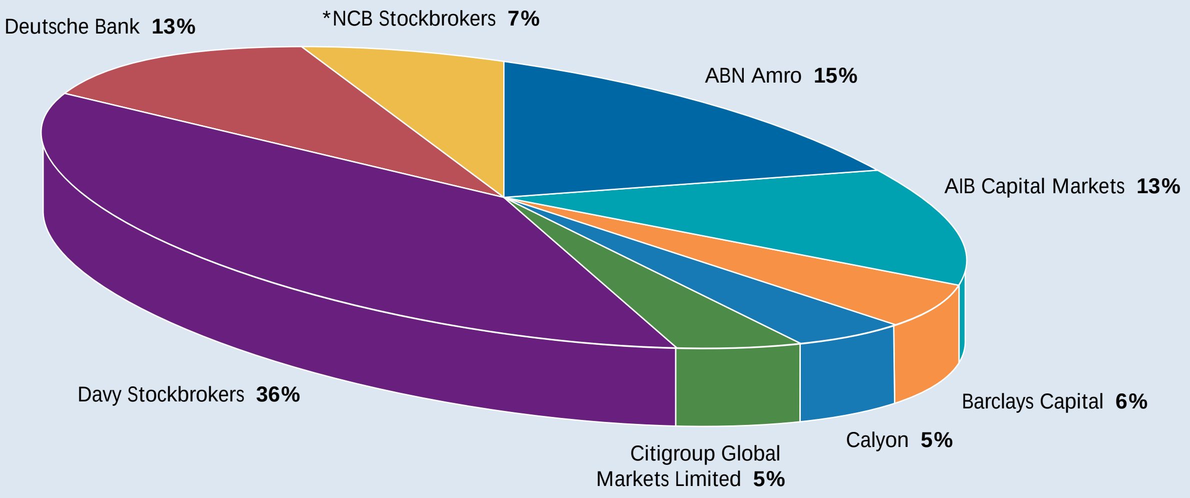
Repos are an important component of liquidity in the bond market and represent three and a half times the turnover in the cash market. They provide a collateralised mechanism for investors to enhance their returns by lending their bond holdings on a short term basis. Repo turnover reported by the Irish Stock Exchange was €263 billion in 2003, a 12 per cent increase on 2002.

Monthly Repo Turnover in Irish Government Bonds 2003

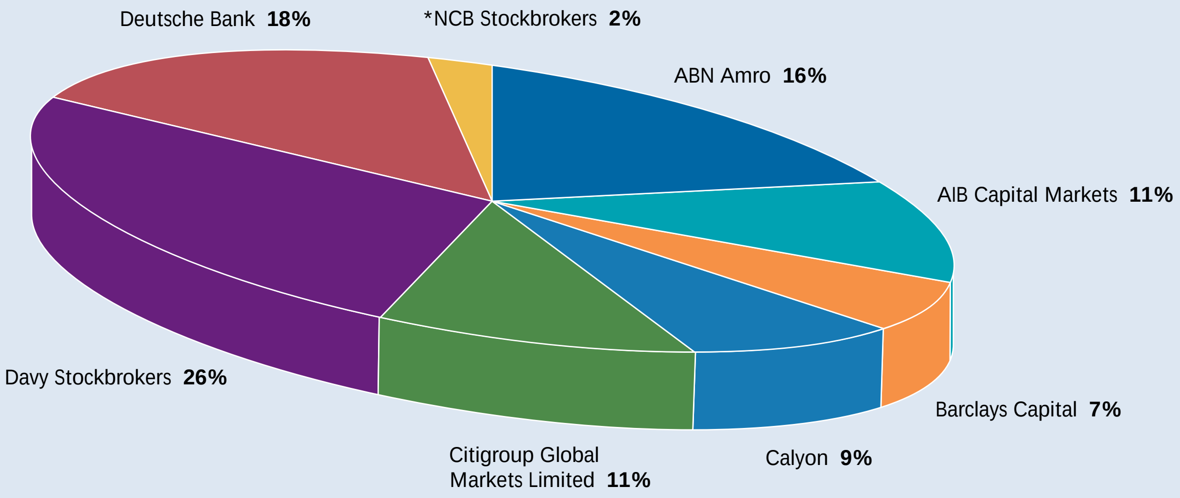
SOURCE: IRISH STOCK EXCHANGE

PRIMARY DEALERS' ACTIVITIES

Primary Dealers' retail bond market shares were as follows during 2003:



Primary Dealers' bond auction uptake was as follows during 2003:



Source: NTMA

** Note: NCB Stockbrokers, Dublin ceased to be a Primary Dealer as of 31 October 2003.*

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 and Financial Services Authority of Ireland maintains the register of holders of the bonds, the majority of which are in the name of Euroclear Bank. Bond dealings settle on a T+3 basis (i.e. three business days after the trade date).

Bond Indices

Irish Government bonds are included in the following international bond indices:

Bloomberg / EFFAS – Euro Bloc Government Bond Index
Citigroup Global Markets Limited - World Government Bond Index
EuroMTS Euro Area Index
Lehman Brothers - Global Treasury Index
Merrill Lynch – Pan-European Government Bond Index

Secondary Trading Desk

The NTMA maintains a secondary trading function to trade in its bonds with other market participants. This is separated from the primary bond desk activity by means of "Chinese Walls". The role of the secondary trading desk is to provide liquidity to the market and to act as an added source of market intelligence for the NTMA. A portfolio of €84 million Irish Government bonds was actively traded during the year to give a turnover figure of €3.5 billion. This accounted for 4.7 per cent of the turnover in these bonds on the Irish Stock Exchange during 2003.

The secondary trading desk has also been mandated to manage assets of €2.5 billion, namely the passive bond portfolio on the National Pensions Reserve Fund (€1 billion at end 2003), the accumulated surplus of the Social Insurance Fund (€1.3 billion at end 2003) and the assets of the Dormant Accounts Fund (€175 million at end 2003).

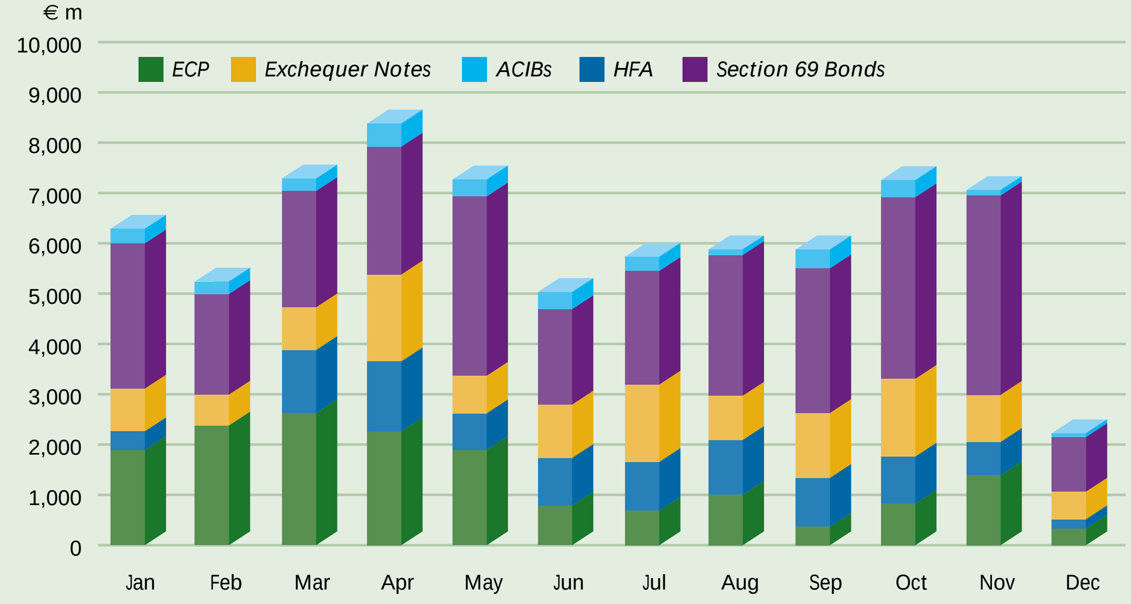
Medium Term Note Programmes

The NTMA has in place a US$5 billion Euro Medium Term Note Programme and a US$500 million US Medium Term Note Programme. These are multi-currency programmes which facilitate issuance in a variety of structures. However, due to the strong position of the public finances and successful funding through the Primary Dealer system, it has not been necessary to utilise these programmes in 2003.

SHORT TERM DEBT AND CASH MANAGEMENT

The NTMA operates short term debt and cash management programmes. The short term debt programmes comprise a US$8 billion multi-currency Euro Commercial Paper (ECP) programme for the Exchequer and a €2 billion ECP programme for the Housing Finance Agency as well as the Exchequer Notes, ACIBs and Section 69 programmes. The cash management activity is carried out as part of the ECB's daily management of the liquidity in the euro area. The total turnover on all these activities in 2003 was €246 billion.

Breakdown of Short-Term Paper Activity 2003



SOURCE: NTMA

Ireland Commercial Paper Programme

The ECP programme provides funds at attractive rates, significantly below EURIBOR, and is used as bridging finance in the replacement of longer term debt and for other liquidity management purposes. Borrowings are typically for periods of one to six months in any of the major currencies. To avoid any foreign currency exposure, all non-euro borrowings are immediately swapped into euro using foreign exchange contracts. Activity under the programme amounted to €19.6 billion in 2003.

Housing Finance Agency Commercial Paper Programme

Under legislation covering the Housing Finance Agency (HFA), the NTMA carries out the HFA's borrowing functions under its €2 billion multi-currency Euro Commercial Paper Programme. The HFA's borrowings are for onlending to local authorities for the provision of social housing and are guaranteed by the Minister for Finance. They have the top short term credit ratings from Moody's and Standard & Poor's. Borrowings under this programme are typically for periods of one to six months, in line with the HFA's requirements and amounted to €9.6 billion in 2003. All non-euro borrowings are immediately swapped into euro.

The management of the HFA funding along with the borrowings for the Exchequer has enabled the NTMA to borrow for the HFA at rates close to the cost of borrowing for the Exchequer, with consequent savings for the HFA. These savings are estimated at €1.3 million in 2003, compared with the cost of funds available to the HFA prior to the establishment of the commercial paper programme.

The NTMA is well placed to source funds for the HFA from the wider international market as it has long established relationships with the global investor community and has helped to develop their understanding of Ireland's borrowing needs and the general economic situation. The NTMA has ensured that the worldwide investor base is familiar with the HFA name and its activity in respect of social housing.

Exchequer Notes

Exchequer Notes are flexible short term funding and liquidity management instruments issued directly by the NTMA to a broad range of investors, including corporate investors, banks and other institutional clients. Exchequer Notes are denominated in euro and are available in maturities of one day to one year, depending on investor requirements, with a minimum €250,000 investment. They are also listed on the Irish Stock Exchange and are issued on a discount basis in line with the commercial paper market. Prices are shown on Reuters and Bloomberg, page NTMA. Borrowings are typically for periods of one week to three months and activity amounted to €12.4 billion in 2003.

Agricultural Commodity Intervention Bills (ACIBs)

Agricultural Commodity Intervention Bills are short term debt instruments, managed by the NTMA, which are designed to meet the short term cash needs of the Department of Agriculture and Food. These arise from ongoing intervention payments made to farmers and others which are refunded to the Department by the European Commission at regular intervals. Borrowings under this programme are typically for periods of one to six months and activity amounted to €3.2 billion in the year.

Section 69 Multicurrency Notes

Notes issued under Section 69 of the Finance Act 1985 were introduced for the purpose of encouraging foreign owned companies located in Ireland to invest their surplus funds here. Eligible companies may invest directly with the NTMA in any major currency. They may choose the period of investment (maximum of one year) and the amount of investment (minimum investment amount of €100,000 or equivalent).

Investors also have the choice of dealing through all the major banks in Ireland. The interest paid on the investment is not subject to any tax in Ireland. The activity under this programme amounted to €31.8 billion in 2003.

European Central Bank Liquidity Management

The European Central Bank (ECB) operates a liquidity management system which depends in part on the accurate forecasting of the level of government balances in the national central banks throughout the euro area. In the case of Ireland, the forecast level of balances for each day is reported to the ECB by the Central Bank and Financial Services Authority of Ireland six business days ahead. The balances are determined by Government spending, tax collected by the Revenue Commissioners and the NTMA's debt management operations. At the end of each business day these transactions are tabulated by the NTMA and the effect on liquidity is calculated in order to ensure that government balances are maintained at the level of the forecast given to the ECB by the Central Bank and Financial Services Authority of Ireland. The NTMA raises funds or places deposits in the international money markets in order to maintain the balances at the level of the forecast given to the ECB. These operations during 2003 amounted to €169 billion with an average transaction size of €425 million.

Deposit Placements

The NTMA has in place a comprehensive system for monitoring its credit risk with other financial institutions. This has involved an assessment of the financial strength of over 100 banks and other bodies to determine the amount of funds which the NTMA is prepared to place with each both on a short and a long term basis. These counterparty credit limits are constantly reassessed and the NTMA's exposure is monitored on a daily basis. The need for this arises because the NTMA must always have liquidity placed in the international markets to meet its cash requirements as they arise while ensuring that the funds are properly safeguarded. Typically the amount of funds on deposit ranges from €1 billion to €2 billion each day.

Transactions on behalf of the National Pensions Reserve Fund Commission

The NTMA manages a passive bond portfolio of euro sovereign bonds, valued at €1 billion at end 2003, which is benchmarked against the Merrill Lynch 5 year plus Index. The NTMA is also responsible for executing foreign exchange transactions to hedge 50 per cent of the non-euro element of the National Pensions Reserve Fund. This €2 billion hedge is rolled over on a quarterly basis. The management of this by the NTMA involves executing foreign exchange transactions in line with the Commission's Statement of Investment, Objectives and Restrictions (SIOR). The SIOR requires transactions to be traded if the value of the hedge deviates outside plus or minus 1.5 per cent of the 50 per cent target. The volume of FX transactions undertaken for the NPRF in 2003 was €13.5 billion. Additionally, the NTMA is responsible for managing the Fund's cash, currently €1.2 billion, pending investment by the Commission.

NATIONAL SAVINGS

At end 2003, the National Savings Schemes accounted for 14 per cent of the National Debt. The amount outstanding was €7,463 million including accrued interest. Receipts in 2003 were €280 million, which consisted of €163 million in Savings Bonds, €149 million in the Post Office Savings Bank (€85 million in Special Savings Incentive Accounts) and €79 million in Prize Bonds. There was an outflow of €111 million in Savings Certificates and National Instalment Savings.

The Schemes, 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.

Details of the total amount outstanding at end 2003 and of the net amounts raised or repaid in 2003 in each of the National Savings Schemes are as follows:

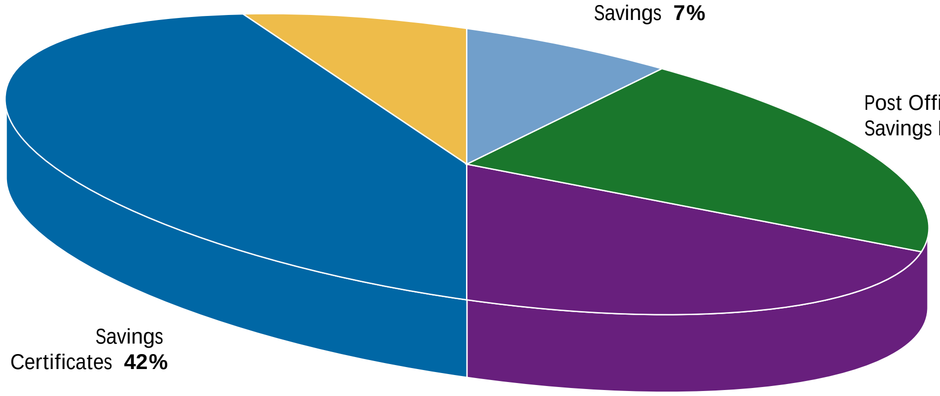
Savings Schemes	Total outstanding at end 2003 € million	Money raised/repaid in 2003 (net) € million
Savings Certificates	2,262	-89
Savings Bonds	1,207	163
National Instalment Savings	405	-22
Prize Bonds	454	79
Savings Stamps	2	0
Post Office Savings Bank (POSB)	1,125	149
Total Principal Outstanding	5,455[1]	280
Accrued Interest	2,008	-200
TOTAL	**7,463**	**80**

The figures above take account of the net transfer of funds from the Schemes to the Dormant Accounts Fund during 2003, amounting to €25 million in respect of the Post Office Savings Bank and almost €7 million in aggregate in respect of Savings Certificates, Savings Bonds and National Instalment Savings.

1 *This figure is included in the National Debt.*

Against the accrued interest of €2,008 million on the Savings Schemes, there is a total of €1,069 million in the Small Savings Reserve Fund. This represents 53 per cent of the total accrued interest outstanding.

Composition of National Savings Schemes at end 2003



SOURCE: NTMA

ADMINISTRATION COSTS

The total administration fees paid to An Post and The Prize Bond Company in respect of the National Savings Schemes in 2003 was €41.5 million as detailed below:

Savings Schemes	€m
Savings Certificates	3.9
Savings Bonds	2.1
Instalment Savings	2.6
Prize Bonds[1]	6.4
Savings Stamps	1.0
Post Office Savings Bank[2]	25.5
Total:	**41.5**

1 *These fees were paid to The Prize Bond Company. The other fees listed are paid directly to An Post.*

2 *Fees relating to the Post Office Savings Bank (POSB) are paid from the POSB Fund.*

INVESTMENT RETURNS

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

Savings Certificates: 16 per cent over a $5\frac{1}{2}$ year period, equivalent to an average annual return of 2.74 per cent if held to maturity. Minimum investment is €50 with a maximum of €80,000 for an individual and €160,000 for a joint holding.

Savings Bonds: 8 per cent over 3 years, equivalent to an average annual return of 2.6 per cent if held to maturity. Minimum investment is €100 with a maximum of €80,000 for an individual and €160,000 for a joint holding.

Instalment Savings: 15 per cent over 5 years, equivalent to an average annual return of 2.57 per cent. Minimum monthly investment is €25 with a maximum monthly investment limit of €500.

POST OFFICE SAVINGS BANK

The POSB deposit base grew by €152 million to €1,125 million by end 2003. Over half of this growth came from the Special Savings Incentive Accounts (SSIAs), with a total amount outstanding at end 2003 of €165 million.

There are two SSIA products, one fixed rate and one variable rate. The fixed rate product accounts for over three quarters of all SSIA investments. Both products offered an initial interest rate of 4 per cent per annum. The variable interest rate was cut twice during 2003, in line with interest rate cuts in all major financial institutions, as follows:

	Rate per annum
• With effect from 1 March 2003	2.75%
• With effect from 21 July 2003	2.00%

The variable interest rate account carries a guarantee that it will not fall more than 1 percentage point below the European Central Bank main refinancing rate.

The other POSB accounts have tiered interest rates, as follows:

	To 20 July 2003	From 21 July 2003
Demand Account	Rate per annum	Rate per annum
• Under €6,000	0.25%	0.10%
• €6,000 and over	0.50%	0.25%
Demand Account Plus	Rate per annum	Rate per annum
• Under €30,000	2.0%	1.0%
• €30,000 - €49,999	2.0%	1.5%
• €50,000 and over	2.5%	1.5%

PRIZE BONDS

Net sales of Prize Bonds in 2003 amounted to €79 million, an increase of over 80 per cent on 2002. This reflects the prevailing low interest rate environment which has enhanced the appeal of Prize Bonds. The total amount outstanding at end 2003 was €454 million. During the year, over 105,000 tax-free prizes worth €10.8 million were awarded. The rate of interest used in 2003 to determine the prize fund was 2.75 per cent. This was reduced to 2.4 per cent from 1 January 2004.

Prize Bonds can be purchased on line at The Prize Bond Company's internet site www.prizebonds.ie.

CREDIT RATINGS

Ireland's top long term and short term credit ratings from the four major credit rating agencies were reaffirmed during the year.

LONG TERM CREDIT RATINGS

Moody's:	Aaa
Standard & Poor's:	AAA
Fitch Ratings:	AAA
Rating & Investment Information Inc.:	AAA

SHORT TERM CREDIT RATINGS

Moody's:	P-1
Standard & Poor's:	A-1+
Fitch Ratings:	F1+
Rating & Investment Information Inc.:	a-1+

The credit rating agencies remain very positive in their assessment of Ireland's credit standing. They point to the diversified and flexible economy which has attracted sizeable foreign direct investment flows over recent years and has achieved the highest growth rate in the EU since 1995. They also emphasise Ireland's success since 1999 in reducing its debt burden by 16 percentage points to 33 per cent of GDP in 2003. This was the largest debt reduction achieved by any euro area country over the period, giving Ireland the second lowest debt burden in the EU. The establishment of the National Pensions Reserve Fund is also regarded as a very significant positive factor for Ireland's credit rating. As a result of its establishment and the country's favourable demographic profile, the fiscal impact of the ageing of the population will be felt much later and less severely in Ireland than in other European countries.

ULYSSES SECURITISATION P.L.C.

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

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

Ulysses returned a net profit of €19.5 million in 2003 (2002: €17.3 million). The accumulated reserves of the company now stand at close to €90 million and are retained for the beneficial ownership of the Exchequer. Surplus cash in the company is on-lent to the Exchequer under an Investment Agreement until required to repay the bonds in 2006.

NATIONAL PENSIONS RESERVE FUND

The National Pensions Reserve Fund was established in April 2001 under the National Pensions Reserve Fund Act 2000. 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. At the end of 2003 the Fund stood at €9,561 million and had shareholdings in 1,286 companies across 23 markets.

The Fund represents a move away from complete reliance on a ‘pay as you go’ to a part pre-funded public pension system. It involves the statutory setting aside and investing of one per cent of GNP annually to meet part of the cost of future pensions. No money can be withdrawn from the Fund before 2025. Thereafter drawdowns will continue until at least 2055 in accordance with rules to be made by the Minister for Finance. These will take account of the projected increase in the number of people over 65 in the population and help to avoid undue variation from year to year in the cost of pensions to the Exchequer. In this way, the Fund will smooth the Exchequer burden arising from Ireland’s additional pension commitments over at least the thirty year period after 2025.

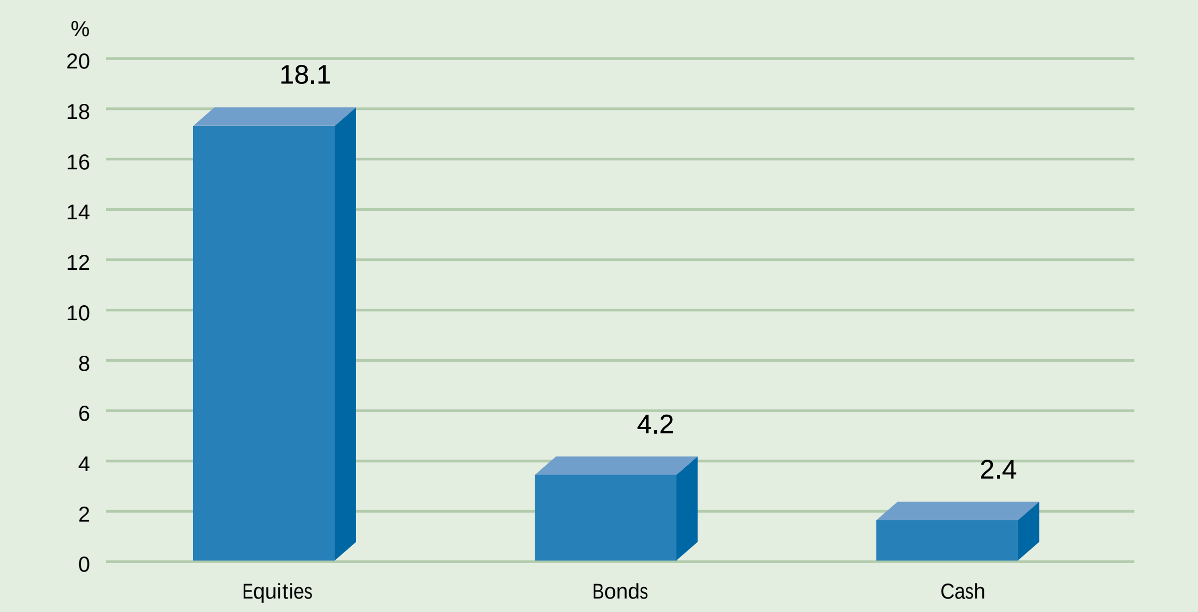
The Fund is controlled by the National Pensions Reserve Fund Commission, a body corporate consisting of seven members appointed by the Minister for Finance and including, ex officio, the Chief Executive of the NTMA. The Commission is independent of Government in the exercise of its functions. Under the legislation, the NTMA is the Manager of the Fund and the Commission is required to perform its functions through the Manager.

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

PERFORMANCE AND ASSET ALLOCATION

The Fund earned a return of 12.8 per cent in 2003. Equities were the key performance driver as markets rallied strongly after the bear market of 2000 to 2002.

NPRF Performance by Asset Class in 2003



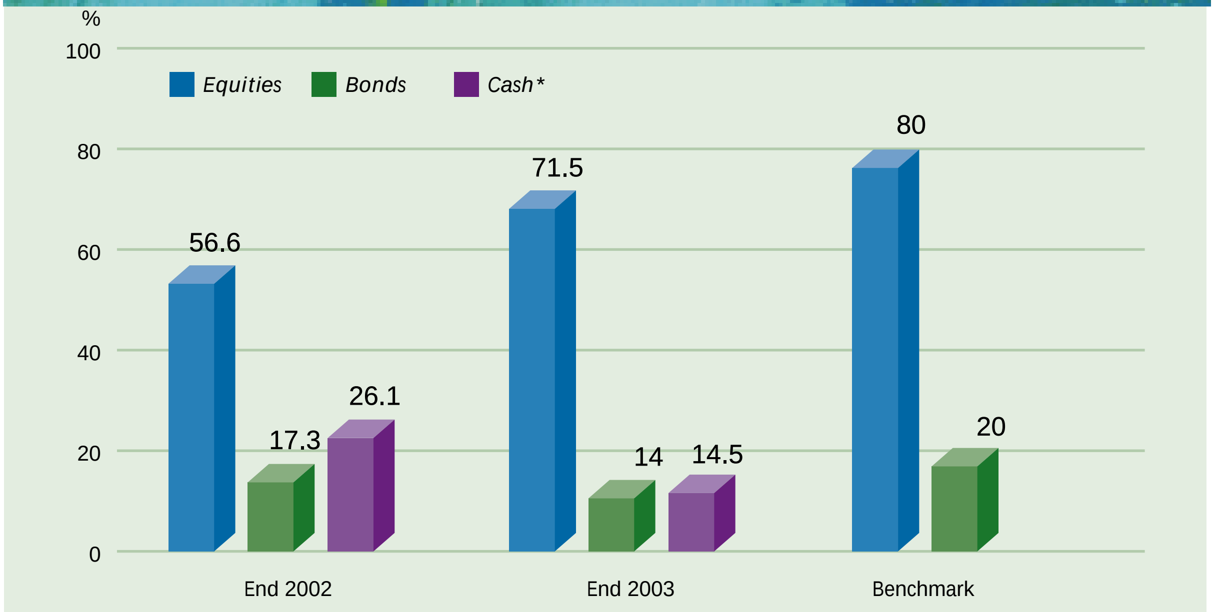
SOURCE: NTMA

The market value of the Fund at 31 December 2003 was €9,561 million, compared with €7,426 million at 31 December 2002. Excluding the 2003 Exchequer contribution of €1,103 million, there was an appreciation of €1,032 million in the value of the Fund during the year. Its assets were equivalent to 8.8 per cent of GNP.

Net Assets of Fund at 1 January 2003	€7,426m.
1% of GNP Contribution	€1,103m.
Net Investment Return	€1,032m.
Net Assets of Fund at 31 December 2003	€9,561m.

In June 2001 the Commission adopted a long-term strategic asset allocation of 80 per cent equities and other real assets and 20 per cent bonds. On the advice of the NTMA, the Commission has taken an averaging in or phased approach to investment in the capital markets which reduces the Fund's market entry risk by spreading it over time. As a result the Fund held considerably less in equities than did its long-term strategic benchmark at end 2002. As markets recovered from their lows of March 2003, the pace of investment accelerated with €1,911 million being committed to global equity markets during 2003. The averaging in strategy has resulted in the Fund outperforming its long-term strategic benchmark by 9.6 per cent from its inception in April 2001 to end December 2003. The comparative asset allocation of the Fund at end 2002, end 2003 and the benchmark is set out below.

NPRF PERCENTAGE HOLDINGS



SOURCE: NTMA * INCLUDES OTHER NET CURRENT ASSETS

PRINCIPAL NTMA ACTIVITIES

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

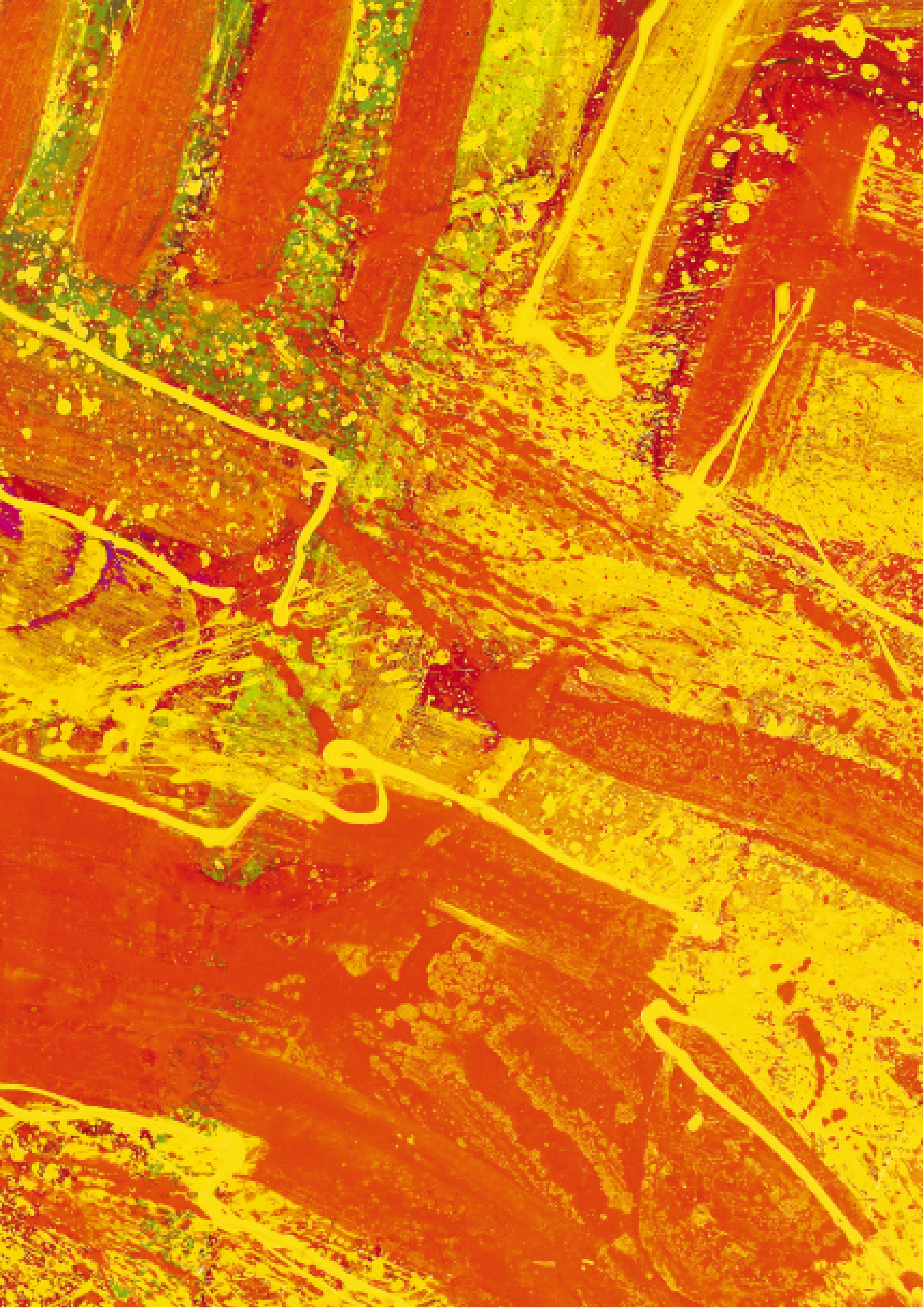
Provision of policy advice to the Commission: This includes the provision of policy advice on strategic issues such as asset allocation and additional asset classes (e.g. small cap equities, corporate bonds, property, public private partnerships and private equity) and the preparation of relevant business entry plans.

Selection and Review of Investment Managers: The NTMA monitors and reviews the Fund's investment managers on the Commission's behalf and runs competitions under EU rules for the selection of new managers. Formal review meetings are held with each manager every six months and, following these meetings, the NTMA reports to the Commission. One manager's contract was terminated by the Commission in 2003.

Market Entry Strategy: The NTMA manages the Commission's averaging in investment strategy, including investment of cash in the markets on behalf of the Commission.

Monitoring of Fund Controls: The NTMA has developed detailed procedures and acquired Information Technology systems to manage the risk to the Fund. These procedures include monitoring the compliance of investment managers with the provisions of their contracts, investment manager performance and effective execution of trades. In addition, the NTMA has a specialist unit which is dedicated to overseeing the activities of the Global Custodian.

Portfolio Management: In most cases the Commission has outsourced the day-to-day management of the Fund to international investment management institutions following a number of EU tender competitions. Certain investment mandates are managed by the NTMA internally. These are the passive bond mandate (€1 billion), the management of the Fund's cash (€1.2 billion) and the centralised currency overlay programme of €2 billion (to hedge 50 per cent of the Fund's foreign currency exposure in line with the Commission's long term investment strategy).



NATIONAL DEVELOPMENT FINANCE AGENCY

The National Development Finance Agency (NDFA) was established and its Board appointed by the Minister for Finance with effect from 1 January 2003.

The plan to establish the NDFA was part of the Programme for Government published in June 2002. The rationale behind its establishment was to ensure that all available sources of funding are utilised to best advantage for infrastructure projects; to have within the State sector a centre of financial expertise; and to provide financial advice to State Authorities undertaking public private partnerships and other major infrastructure projects. The NDFA discharges its functions through the National Treasury Management Agency (NTMA).

Its functions are:

- to advise State Authorities on the optimal means of financing public investment projects in order to achieve value for money;
- to advance moneys including repayable loans and equity, to provide guarantees and to enter into other financial arrangements in respect of projects approved by any State Authority;
- to provide advice to any State Authority on all aspects of financing, refinancing and insurance of public investment projects to be undertaken by means of public private partnership (PPP) or within the public sector; and
- to establish special purpose companies for the purpose of financing projects.

The National Development Finance Agency Act 2002 specified the State Authorities that are required to seek the NDFA's advice. Government departments, local authorities and the major State agencies that undertake infrastructure projects are designated as State Authorities. The complete list of State Authorities is as follows:

STATE AUTHORITIES

- A Minister of the Government.
- A local authority.
- The Commissioners of Public Works in Ireland.
- The National Roads Authority.
- The Railway Procurement Agency.
- Córas Iompair Éireann and subsidiaries.
- A health board established under the Health Act, 1970.
- The Eastern Regional Health Authority.
- A university within the meaning of the Universities Act, 1997 other than Trinity College and the University of Dublin.
- The Dublin Institute of Technology.
- A college within the meaning of section 2 of the Regional Technical Colleges Act, 1992.
- A vocational education committee within the meaning of section 7 of the Vocational Education Act, 1930.
- Courts Service.
- A harbour authority within the meaning of the Harbours Acts, 1946 to 1976.

The NDFA has the power to raise funding itself or through special purpose companies up to a total of €5 billion to finance infrastructure projects. The Minister for Finance may advance moneys, up to an amount of €250 million, to the NDFA or a special purpose company established by it. The NDFA can use these advances for the purpose of making an equity investment in a special purpose company.

The legislation provides that State Authorities are obliged to seek NDFA advice. However, the final decision on the structure and financing of a project remains a matter for the appropriate Minister, or where there is delegated sanction, the appropriate accounting officer or equivalent. Under current Ministerial Guidelines, State Authorities must refer all capital investment projects costing in excess of €20 million to the NDFA for financial advice.

In December 2003, the Minister for Finance included 5-year capital envelopes in the budget specifying the amounts that the State will spend on infrastructure programmes in the period 2004 to 2008 at close to 5 per cent of GNP. Specific targets have been set for projects to be financed through public private partnerships or by the NDFA which will amount to €3.6 billion in total by 2008.

During 2003 the NDFA provided financial advice on six infrastructure projects with a combined value of over €700 million and organised EIB and other lending facilities of approximately €250 million.

Work continues on infrastructure projects that have been referred to the NDFA by various State Authorities. The following are examples of the projects:

National Roads Authority (NRA)

- M50 motorway upgrade
- M1 Dundalk Western Bypass
- Fermoy Bypass

Railway Procurement Agency (RPA)

- Luas
- Integrated Ticketing

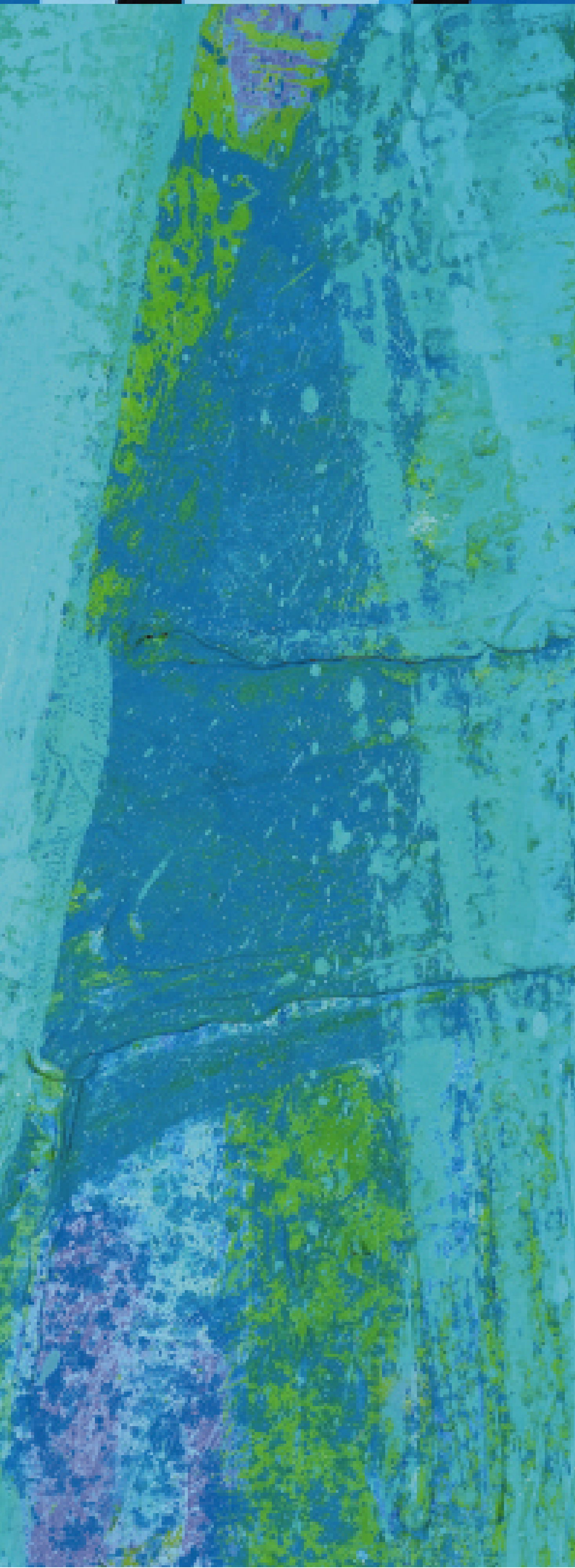
Department of Communications, Marine and Natural Resources

- Metropolitan Area Network (MAN)
- Digital Hub

Office of Public Works

- Decentralisation

The NDFA is required to submit an Annual Report and Accounts of its activities to the Minister for Finance. This is published separately.

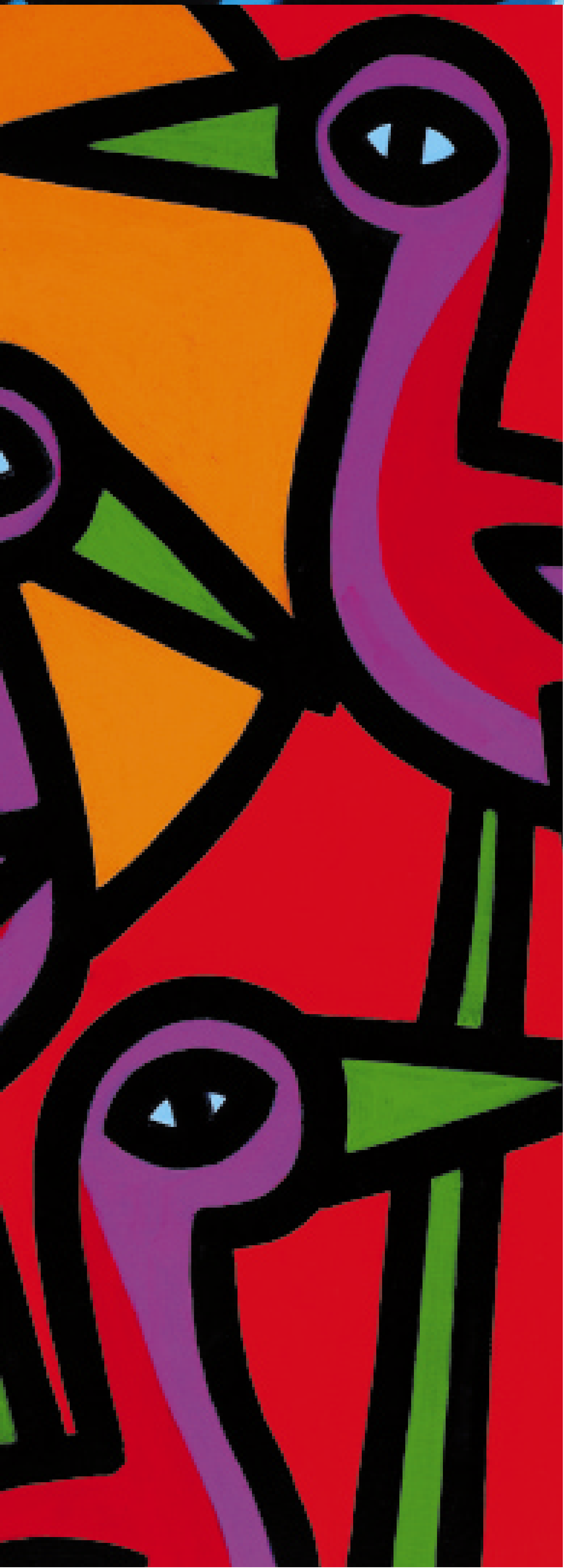


SOCIAL INSURANCE FUND

Social insurance contributions are paid into the Social Insurance Fund, while payments in respect of items including unemployment and disability benefits, retirement pensions and contributory old age pensions are made from it.

The NTMA commenced management of the accumulated surplus in the Fund in July 2001, with the performance being measured against a benchmark agreed with the Minister for Finance. At end 2002 the Fund was valued at €1,095 million. In the course of 2003, €150 million was transferred to the Fund from the Department of Social and Family Affairs bringing total assets under management to €1,275 million at the end of the year.

The investment return achieved by the Fund in 2003, taking account of investment guidelines issued by the Minister for Finance, was 2.43 per cent.



CENTRAL TREASURY SERVICE

A Central Treasury Service (CTS) is offered by the NTMA to certain public sector bodies - local authorities, health boards and vocational education committees. The concept follows best practice in the private sector whereby related companies pool their borrowings and surplus cash in a central treasury unit with a view to achieving cost savings. The NTMA offers these bodies both deposit and loan facilities at competitive rates, with the aim of providing an alternative to their current treasury arrangements and thus achieving savings for the Exchequer.

During 2003 lending under the CTS scheme varied between €98 million and €152 million, and the deposit base was strengthened through increased participation of vocational education committees. There were 307 deposits placed with the CTS during the year - a 23 per cent increase on 2002.

STATE CLAIMS AGENCY

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

1. To provide a professional and cost-effective service for the management of personal injury and property damage claims against the State.

2. To provide a risk management advisory service with the aim of reducing future litigation.

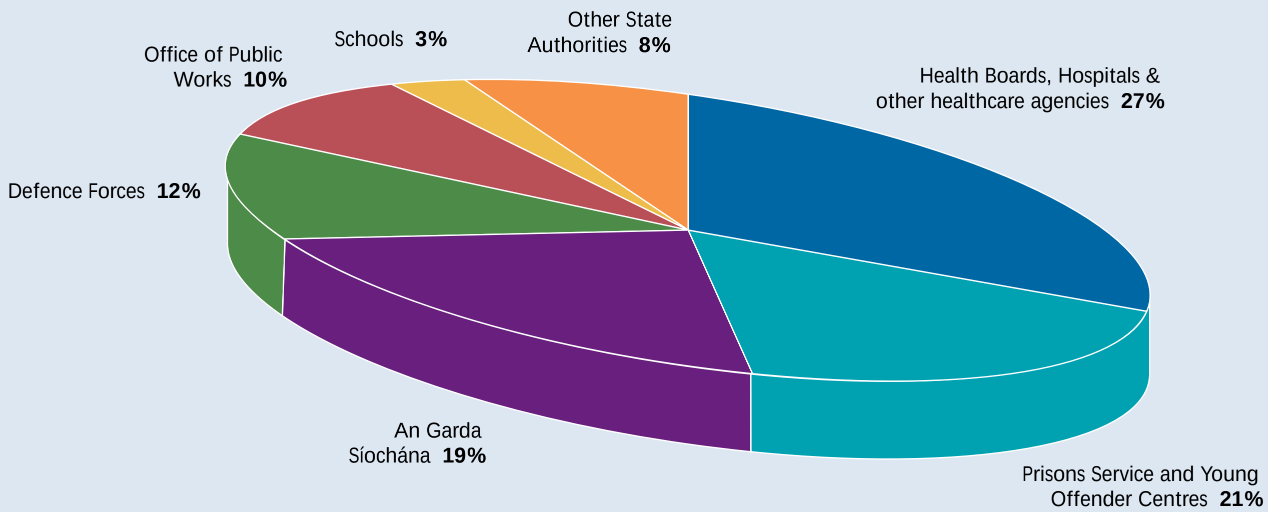
CLAIMS UNDER MANAGEMENT

The State Claims Agency's remit covers claims against certain State Authorities, including the State itself, Ministers, the Attorney General, the Commissioner of the Garda Síochána, prison governors, community and comprehensive schools and various other bodies. The SCA deals with a wide diversity of claims from the very serious, including fatalities, to those arising from minor incidents. In February 2003, the management of clinical claims was formally delegated to the SCA.

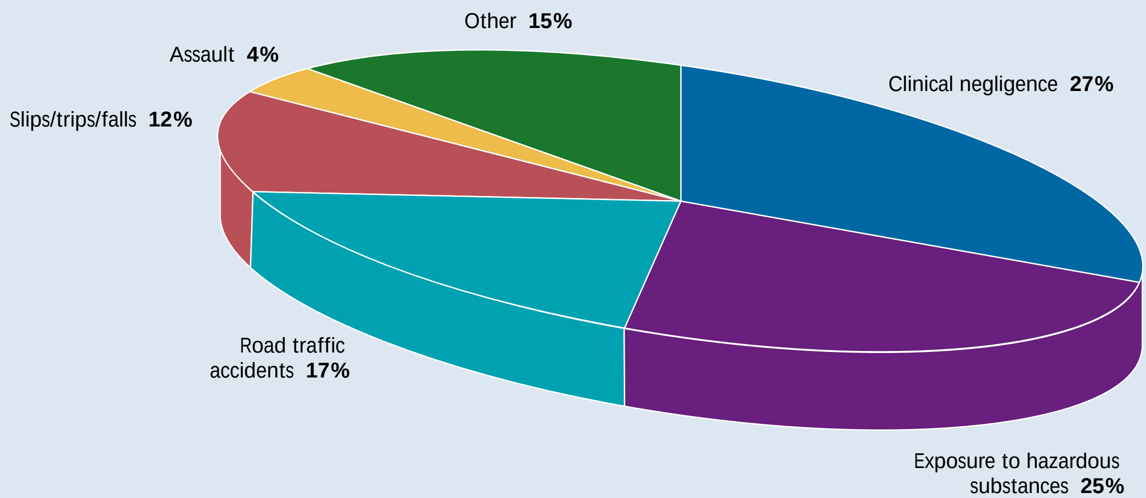
CURRENT POSITION

The SCA manages in excess of 2,000 claims, with a total potential Exchequer cost of approximately €100 million at present. Of these claims, 41 per cent are employer's liability claims, 27 per cent relate to alleged clinical negligence, 25 per cent are public liability claims and the balance relate to minor property damage.

CLAIMS (BY NUMBER) AGAINST STATE AUTHORITIES:



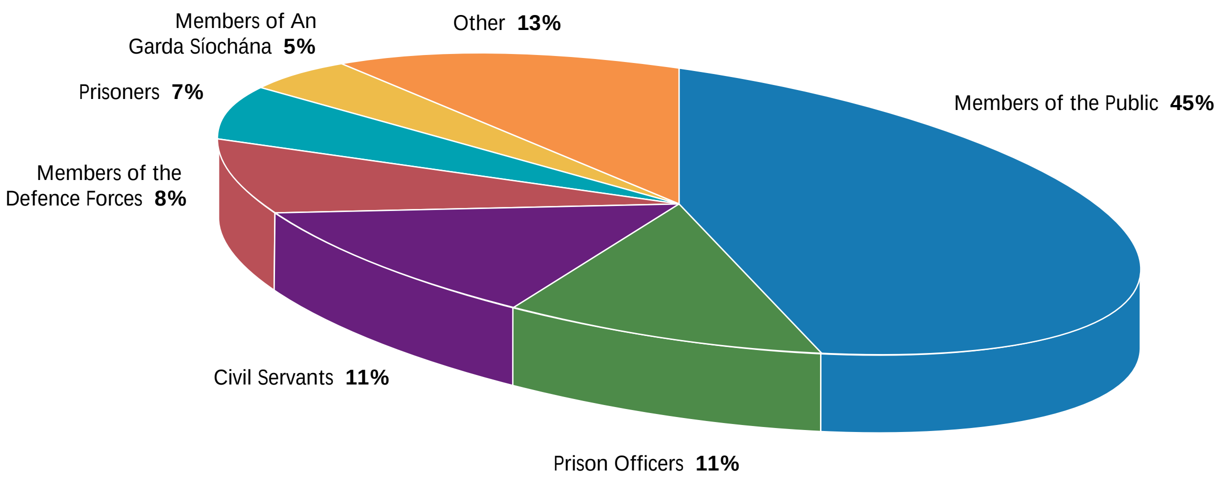
CLAIMS BY CAUSE OF INJURY:



The SCA is managing over 500 'worried well' claims relating to alleged exposure to asbestos. The State appealed the 'worried well' cases to the Supreme Court in October 2002. The State contended that the High Court had been wrong in law to hold that the plaintiffs were entitled to recover damages in respect of a psychiatric illness which was unaccompanied by a physical injury. On 21 February 2003, in a unanimous decision, the State's appeal was upheld by the Supreme Court in the case of Fletcher v. The Commissioners of Public Works in Ireland. The Chief Justice in his judgement stated "the law in this jurisdiction should not be extended by the Courts so as to allow the recovery by plaintiffs of damages for psychiatric injury resulting from an irrational fear of contracting a disease because of their negligent exposure to health risks by their employers, where the risk is characterised by their medical advisers as very remote".

Although the Courts have therefore decided on the substantive issue, the question of the State's costs remains unresolved. In a recent test case brought by the SCA relating to 'worried well' costs, the High Court refused the application for these costs. The SCA has appealed this decision to the Supreme Court.

PRINCIPAL CATEGORIES OF CLAIMANT:



NEW CLAIMS

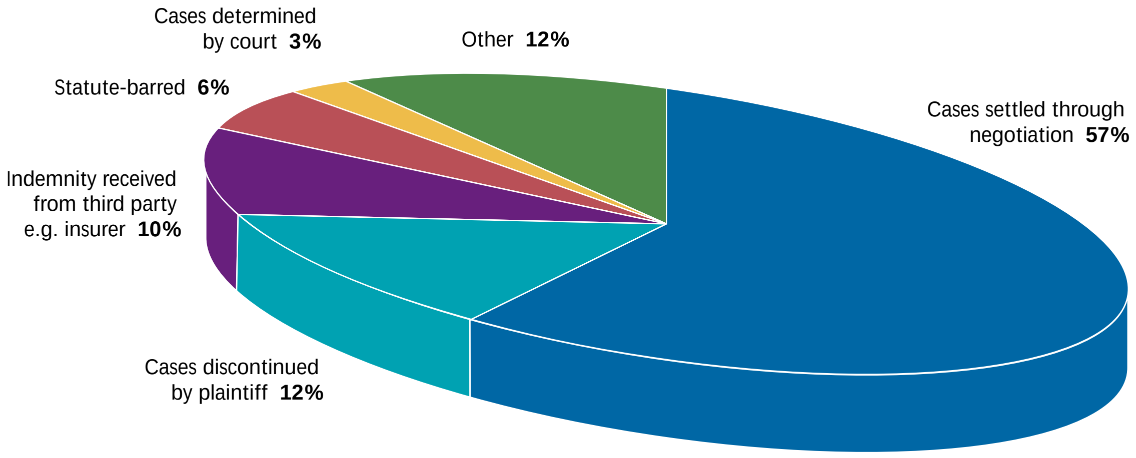
The number of new non-clinical claims received by the SCA in 2003 was almost 40 per cent down on the number received in 2002. This favourable trend has continued into 2004. Insurers have also noted a fall in the number of claims received over recent years, although it is too early to suggest that this trend is likely to prove permanent. In the case of claims against the State, there may also be a number of additional factors involved:

- The Supreme Court judgement in the Fletcher and associated cases in February 2003 had the effect of stemming the number of new 'worried well' asbestos claims being submitted.
- The stated SCA position that it will seek to recover costs from unsuccessful claimants may have impacted on the more speculative type of claim.
- A sharper focus on risk management introduced and developed by the SCA, and a greater awareness of health and safety issues generally among the State Authorities.

Claims resolved

Significant progress was made in disposing of claims in 2003. The number of non-clinical claims resolved during the course of the year exceeded the number of new non-clinical claims received. The position as at late June 2004 is that 809 claims have now been fully resolved at a cost of €9 million - compensation of €6.5 million and other costs of €2.5 million. These costs are recoverable from the various State Authorities. In addition, there are over one hundred cases in the pipeline which have been settled but are awaiting the final determination of costs. The following table gives a breakdown of the resolved claims by outcome:

CLAIMS RESOLVED



RISK MANAGEMENT

The State Claims Agency advises and assists State Authorities on measures to be taken to prevent personal injuries litigation, with particular attention to possible large scale claims. Authorities are obliged by law to report to the SCA any incidents which may potentially give rise to claims and, since its establishment, it has received almost 1,500 adverse non-clinical incident notifications.

Early reporting of incidents is critical to successful claims and risk management. It enables the SCA to conduct an early and detailed investigation of the more serious incidents so that the question of liability can be determined in advance of any litigation. Data on adverse incidents also enables the SCA to identify any patterns or clusters which might point to weaknesses in existing health and safety procedures.

The SCA also conducts risk reviews which seek to identify the risks being run by each authority based on its activities and the premises occupied by it. In conjunction with data on claims and adverse incidents, risk reviews enable the SCA to identify risk management deficiencies and to recommend initiatives to address them.

The following are among the risk review initiatives currently under way:

Asbestos

The SCA has conducted a detailed assessment of the State's Asbestos Abatement Programme and is working closely with the OPW and a number of other authorities to address issues identified in the assessment.

Road Traffic Accidents

The number of road traffic accidents involving State cars is a source of concern. A risk review conducted by the SCA has recommended that the level of driver training be significantly enhanced and that training be customised to reflect the risk involved for various categories of driver.

Toxic moulds

Litigation arising from exposure to toxic moulds has occurred in the US. A small number of toxic mould claims have been submitted to the SCA. In order to establish a scientific basis for the defence of any similar claims that may arise in the future, the SCA commissioned a study to establish the prevalence of such moulds in State buildings. Based on the findings of this study, guidelines will shortly be prepared for State Authorities.

Radon

Radon is a naturally occurring radioactive gas which, if allowed to accumulate in enclosed spaces, give a radiation dose which can eventually lead to lung cancer. There is a statutory duty on all employers – including State Authorities - to assess radon risk and take appropriate remedial measures where necessary. The SCA, in conjunction with the Radiological Protection Institute of Ireland (RPII), is working to increase awareness of this risk among State Authorities and to ensure that they arrange for the measurement of radon levels in premises occupied by them. A successful seminar to that effect was organised by the SCA for the State Authorities in January 2004.

Schools

The SCA, in conjunction with the Department of Education and Science, is conducting a detailed review of safety standards in technical rooms and laboratories in post-primary schools. Based on the review, recommendations will be issued which will be geared towards ensuring that schools operate to a high standard of safety practice.

Advisory Service

The SCA provided an informal advisory service outside its formal remit to a number of State Authorities in 2003 on various claims, risk and insurance issues, including insurance cover for the Special Olympics.

CLINICAL INDEMNITY SCHEME

The Government established the Clinical Indemnity Scheme (CIS) in July 2002. Under the Scheme and the associated concept of enterprise liability, each health-care enterprise (whether it is a hospital or other agency) accepts liability for the actions of staff involved in the provision of clinical services. Where negligence is alleged, the State assumes responsibility for the indemnification and management of such clinical negligence claims. This function was formally delegated to the SCA in February 2003 along with the closely related function of developing a national clinical risk management strategy.

Scope of the Clinical Indemnity Scheme

With effect from February 2004, the scope has been extended to cover the public practice of hospital consultants and their private practice in public hospitals. It does not cover private hospitals with the exception of the obstetric/gynaecological practices in Mount Carmel Hospital, Dublin and the Bons Secours Hospital, Cork.

Employer's liability and public liability claims of health enterprises are already covered under insurance policies with commercial insurers.

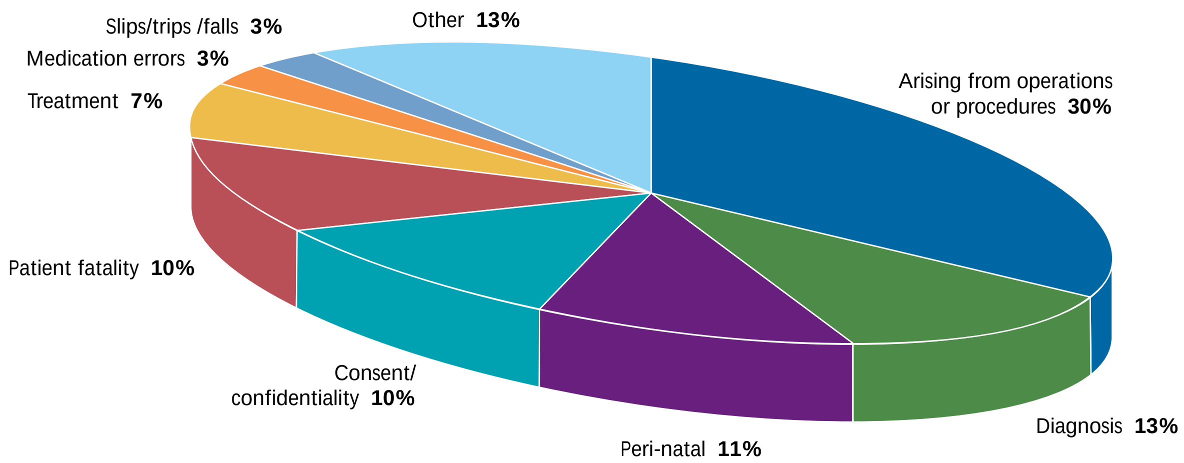
Clinical Indemnity Scheme Staff

The NTMA has appointed a medical doctor as Head of the Clinical Indemnity Scheme who is engaged in a consultative process which will lead to the development of the national clinical risk management strategy. The Head of the CIS will be assisted by a team of clinical risk managers, who are currently being recruited. The team will advise and assist health agencies in relation to any risk issues which may be highlighted by their claims and incident records. In particular, any areas of significant risk including trends or clusters of substandard practice will be investigated. The team will aim to ensure that lessons learned in one agency are disseminated throughout the health service so as to avoid the repetition of errors. There will be an emphasis on fostering a culture of continuous improvement within agencies.

CLINICAL NEGLIGENCE CLAIMS

Since the establishment of the CIS, the State Claims Agency has received over 600 claims alleging clinical negligence. The following table presents a breakdown of clinical claims by cause of injury:

CLINICAL NEGLIGENCE CLAIMS



CIS INCIDENT REPORTING SYSTEM

An IT system is currently being introduced throughout the Irish health service to record and report on adverse incidents, near misses and claims. This data is stored in a central national database in the NTMA. Hospitals, health boards and other health-care enterprises may access it through the internet. Ireland is one of the first countries in Europe to introduce a national clinical incident internet reporting system. The system is also among one of the first to join the Government's Virtual Private Network (VPN) which enables health agencies to access the system on a faster and more secure basis than that provided by the public internet.

As with any web-based system, the question of security is paramount. This is particularly critical given the confidential and sensitive nature of data being stored in the database. The security system, which comprises multiple firewalls and the use of digital certificates together with anti-virus and intrusion detection measures, has been configured to the highest international standards and audited by a leading international accounting and auditing firm.

EXCLUDED CLAIMS

The State Claims Agency's present remit excludes the following classes of claims:

- Compensation under the Garda Síochána (Compensation) Acts.
- Alleged assault by a member of An Garda Síochána or a prison officer.
- Personal injury criminally inflicted on prison officers.
- Hearing loss.
- Claims which gives rise to Constitutional issues.
- Claims arising from infection with Hepatitis C through the administration of blood or blood products.
- Child abuse claims against the State.
- Where torts other than negligence are pleaded.

These classes of claim have been excluded either because alternative compensation arrangements are in place or because they give rise to issues of legal policy which require the ongoing involvement of the Attorney General.

POLICY COMMITTEE

The National Treasury Management Agency (Amendment) Act 2000 provides for the establishment of a Policy Committee to advise the SCA on policy and procedures relating to the performance of its claims management and risk management functions. The Committee, which met four times during 2003, is as follows:

Noel Whelan (Chairman) – Vice President External, University of Limerick.

John F Dunne – Managing Director, J F Dunne Insurances.

Michael Grace – Associate Director, AIB Investment Managers.

Ann Marie Hayes – Financial Accountant.

Margaret Lane – Claims and Insurance Manager, Bord Gáis.

Frank Martin – former Judge of the Circuit Court.

Ann Nolan – Principal Officer, Department of Finance.

DORMANT ACCOUNTS

The Dormant Accounts Act 2001 provided that balances on dormant accounts in certain financial institutions be remitted to the State and used for charitable purposes or purposes of societal or community benefit. The period for determining dormancy is 15 years since the last customer-initiated transaction. Notwithstanding that accounts may be declared dormant, the Act guarantees the right of account holders to reclaim their moneys at any time from the financial institutions.

The dormant balances are transferred not later than 30 April each year. The first such transfer took place in April 2003 when a total of €196 million was transferred to the Dormant Accounts Fund from financial institutions. Some €24 million was reclaimed during 2003 in respect of reactivated dormant accounts. Taking account both of interest earned by the Fund and interest paid on reclaims, the balance in the Fund at end 2003 was €175 million. In April 2004 an additional €33 million from dormant bank accounts was transferred to the Fund.

Under the Unclaimed Life Assurance Policies Act 2003, an amount of €23 million representing the net encashment value of certain life assurance policies was transferred to the Fund in April 2004.

The NTMA is obliged to determine the amount to be paid into the Reserve Account of the Fund to meet repayments and expenses. This reserve has been set at 15 per cent of the total amount of the Fund with the approval of the Minister for Community, Rural and Gaeltacht Affairs, with the consent of the Minister for Finance.

Disbursements from the Dormant Accounts Fund will be made on the direction of the Dormant Accounts Fund Disbursements Board. No disbursements were made in 2003. Pending disbursement, moneys in the Fund will be invested by the NTMA, in accordance with the Fund's investment plan.

ASSET COVERED SECURITIES

The Asset Covered Securities Act 2001 provides that, in the event of default by an issuer of securities under the Act, the NTMA must in the following order:

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

The Act further provides that the NTMA should have priority with respect to expenses incurred in the performance of its functions and will derive an annual commitment fee in return for accepting its functions under this Act. The Irish Financial Services Regulatory Authority has approved an annual commitment fee of one tenth of one basis point of the nominal amount of asset covered bonds issued. During 2003, €12.5 billion of asset covered securities were issued in Ireland under the Act. This market is expected to develop substantially in 2004 and beyond.

CONSULTANCY & INTERNATIONAL RELATIONSHIPS

A number of sovereign borrowers – mainly from EU applicant countries – have consulted the NTMA with respect to debt management issues. The NTMA recently hosted the EU Accession Countries Debt Management Group as part of the activities of the Irish EU Presidency.

Other countries and international organisations including France, China, Bahrain and the European Central Bank have consulted the NTMA with respect to its asset management expertise.

FINANCE, TECHNOLOGY AND RISK

The Finance directorate includes:

(i) Financial Control

(ii) Transaction Processing

(iii) Information Technology

(iv) Risk Management

This directorate provides shared services to all the NTMA's distinct businesses, namely Funding and Debt Management, National Pensions Reserve Fund, State Claims Agency, National Development Finance Agency, and the management of State funds such as the Social Insurance Fund, Dormant Accounts Fund and borrowings of the Housing Finance Agency. These businesses have a combined portfolio of assets and liabilities in excess of €50 billion.

The development of the NTMA's businesses in recent years has placed additional demands on the Finance directorate. Strategic and detailed planning has ensured that the continued development of these new business areas has been fully integrated with the NTMA's comprehensive network of systems and controls. In the modern business environment information technology is critical and systems have been developed and delivered 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 reports of all the businesses are completed within the statutory deadlines. In reality the remit is much wider, as an important part of the role is to develop and foster a strong control environment, provide timely management information to the businesses and help the organisation to grow and develop. The NTMA has been evolving rapidly in recent years with new businesses being added to its remit. The process continued in 2003, with Financial Control providing support for the establishment of the Dormant Accounts Fund and with the NTMA assuming responsibility for the raising of funds under the Housing Finance Agency commercial paper programme. With respect to the Dormant Accounts Fund, this involved putting arrangements in place with financial institutions for the remittance of funds to the State from dormant accounts. Since the year-end, arrangements have also been agreed with the insurance industry to facilitate the transfer of €23 million in unclaimed life assurance policies.

Financial Control continues to work with ABN AMRO Mellon, the Global Custodian for the National Pensions Reserve Fund, to ensure activities of Fund are planned and implemented effectively.

TRANSACTION PROCESSING

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

During the year, the NTMA continued to enhance the functionality of the integrated treasury management system. The objective of this work was to achieve enhanced straight-through processing and reduce operational risk.

The continued growth of the NTMA's business during 2003 has led to further growth in the volume of transactions. These have increased by 11 per cent to 33,000 transactions in 2003, with associated transaction cash flows of €441 billion.

INFORMATION TECHNOLOGY

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

Additional systems were developed and implemented in 2003 to cater for the needs of the new business areas, principally the NPRF and the State Claims Agency where a third-party internet-based system was installed to record clinical incidents and claims and provide risk information to hospitals and health care enterprises.

In 2003 the NTMA business recovery plan was further enhanced, including the selection of a new business recovery site.

RISK

In managing the National Debt and certain fixed interest asset portfolios, the NTMA has to deal with market risk, liquidity risk, counterparty credit risk and operational risk. These are risks that cannot be eliminated. The objective, therefore, is to control and manage them in accordance with the highest professional standards.

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

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

Counterparty credit exposures arising from the placing of deposits, as well as transactions in derivatives, are monitored daily within approved limits. These exposures are measured on an aggregate basis across the various NTMA portfolios.

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.

Debt Management Benchmark

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

The Benchmark performance measurement system takes account of both the accumulated cash positions plus the net present value of all future cash flows. It calculates the impact of the NTMA's actions not only in the year under review, but also their projected impact over the full life of the debt. Measurement of performance against the Benchmark was carried out in 2003 by UBS AG, based on data audited by PricewaterhouseCoopers. €29 million value added was achieved in 2003.

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.

Audit

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

The NTMA has received satisfactory reports in respect of its business from both its external and internal auditors in respect of 2003.

During 2003 two audit committees were formed, 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.

LEGAL

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

Legal advice is also provided on contractual matters including the negotiation of service and supply agreements and employment contracts.

Specifically, the legal unit provided advice to the National Development Finance Agency on a range of issues including financing opinions, finance documents and public procurement law and procedure.

Other matters dealt with include advice on legislative and regulatory requirements and ensuring compliance with professional conduct rules in the areas of confidentiality, conflicts of interest and other procedures associated with best practice and ethics.

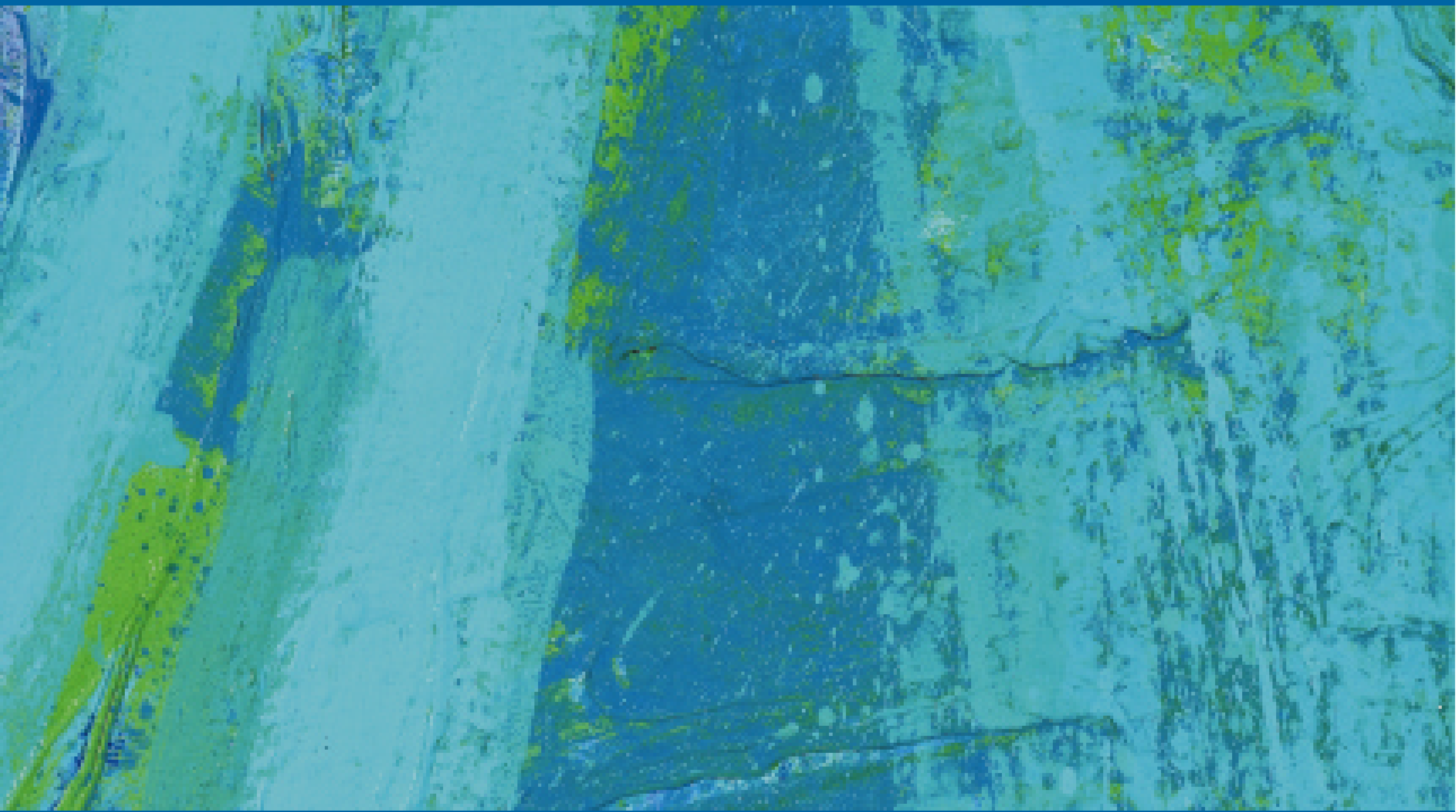
The legal service works closely with the Head of Control and Compliance to ensure that all internal procedures meet best practice and to ensure that the NTMA is in a position to comply fully with all current and anticipated regulatory and legislative requirements.

HUMAN RESOURCES

The development of the NTMA's businesses, in particular the National Pensions Reserve Fund, the State Claims Agency and the National Development Finance Agency has given rise to the addition of new staff with specialist knowledge appropriate to each of these activities. The number of staff currently employed stands at 86.

Employee health, safety and welfare issues are matters of paramount importance. It is the NTMA's policy to protect the health and welfare of its staff by maintaining a safe and healthy working environment in line with its Safety Statement.

FINANCIAL STATEMENTS



FINANCIAL STATEMENTS PREPARED BY THE NATIONAL TREASURY MANAGEMENT AGENCY IN ACCORDANCE WITH SECTION 12 OF THE NATIONAL TREASURY MANAGEMENT AGENCY ACT, 1990

National Debt of Ireland

National Treasury Management Agency - Administration Account

Post Office Savings Bank Fund

Capital Services Redemption Account

National Loans Advance Interest Account

National Loans (Winding Up) Account

National Treasury Management Agency (Unclaimed Dividends) Account

Deposit Monies Investment Account

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

Small Savings Reserve Fund

State Claims Agency

Dormant Accounts Fund

NATIONAL DEBT OF IRELAND

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

CONTENTS PAGES

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

9 June 2004

STATEMENT ON THE SYSTEM OF 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;

STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL (CONTINUED)

- 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 Directors and approved by the Chief Executive. At least annually, the Internal Auditor provides the management of the National Treasury Management Agency and the NTMA Audit Committee with a report of internal audit activity. The report includes the Internal Auditor's opinion on the adequacy and effectiveness of the system of internal financial control.

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

Annual Review of Controls

I confirm that, in the year ended 31 December 2003, 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

9 June 2004

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL
FOR PRESENTATION TO THE HOUSES OF THE OIREACHTAS

I have audited the financial statements on pages 93 to 117 under Section 12 of the National Treasury Management Agency Act, 1990.

Respective Responsibilities of the Agency and the Comptroller and Auditor General

The accounting responsibilities of the Agency are set out on page 89. It is my responsibility, based on my audit, to form an independent opinion on the financial statements presented to me and to report on them.

I review whether the statement on internal financial control on page 90 and 91 reflects the Agency's compliance with applicable guidance on corporate governance 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.

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 auditing standards 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 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 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, proper books of account have been kept by the Agency and the financial statements, which are in agreement with them, properly present the results of the Agency's operations for the year ended 31 December 2003 and its balances at that date.

John Purcell
Comptroller and Auditor General

15 June 2004

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 95 to 106 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 2003.

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.

ACCOUNTING POLICIES (CONTINUED)

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 2003

	Notes	2003 Total Cost €'000	2002 Total Cost €'000
Interest paid			
Medium / Long Term Debt*	2	1,143,698	1,183,025
Short Term Debt**	3	192,626	150,188
National Savings Schemes	4, 9	441,439	381,659
Other Movements	5	37,119	15,350
Sinking Fund payments	6	479,774	475,944
Fees and Expenses	7	17,775	19,435
Expenses of NTMA		14,947	13,568
Interest received on deposits with Central Bank and other banks		(50,640)	(70,376)
Total Service Cost €	***1***	**2,276,738**	**2,168,793**

* *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

9 June 2004

The notes on pages 99 to 106 form part of these financial statements.

NATIONAL DEBT STATEMENT
31 DECEMBER 2003

	Notes	2003	2003 € million	2002	2002 € million
Medium / Long Term Debt *					
Irish Government Bonds listed on The Irish Stock Exchange			28,130		22,323
Other Irish Government Public Bond Issues			191		1,112
Private Placements			59		705
European Investment Bank Loans			178		274
Medium Term Notes			501		743
Miscellaneous Debt			158		131
	8		29,217		25,288
Short Term Debt **					
Commercial Paper		2,801		5,753	
Borrowings from Funds under the control of the Minister for Finance	*16*	2,987		2,900	
			5,788		8,653
National Savings Schemes					
Savings Certificates		2,262		2,351	
Savings Bonds		1,207		1,045	
National Instalment Savings		405		427	
Savings Stamps		2		2	
Prize Bonds		454		375	
	9		4,330		4,200
			39,335		38,141
Less Liquid Assets	*10*		(1,725)		(1,780)
National Debt €	***12***		**37,610**		**36,361**

** 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

9 June 2004

The notes on pages 99 to 106 form part of these financial statements.

NATIONAL DEBT CASH FLOW STATEMENT
YEAR ENDED 31 DECEMBER 2003

	2003 €'000	2002 €'000
Movement in Exchequer balances:		
Opening Balance in Exchequer Account (note 10)	1,529,536	1,615,943
Commercial Deposits	0	0
Borrowing Activity (see below)	1,173,692	(179,712)
	2,703,228	1,436,231
Exchequer Surplus/(Deficit)	(979,020)	93,305
Closing Balance in Exchequer Account (note 10)	1,724,208	1,529,536

	Receipts €'000	Payments €'000	2003 Net €'000	2002 Net €'000
Borrowing Activity				
Irish Government Bonds listed on The Irish Stock Exchange	26,978,866	(21,198,433)	5,780,433	2,858,451
Other Irish Government Public Bond Issues	-	(625,400)	(625,400)	(773,356)
Private Placements	-	(563,560)	(563,560)	(920,107)
European Investment Bank Loans	-	(77,719)	(77,719)	(168,705)
Medium Term Notes	-	(192,848)	(192,848)	(95,191)
Miscellaneous Debt	701,345	(1,073,155)	(371,810)	(15,692)
Commercial Paper	71,501,885	(74,495,264)	(2,993,379)	(1,027,736)
Savings Certificates	317,951	(407,079)	(89,128)	(139,560)
Savings Bonds	460,221	(297,078)	163,143	(8,791)
National Instalment Savings	64,070	(86,197)	(22,127)	(24,152)
Prize Bonds	132,735	(53,340)	79,395	43,402
Borrowings from Ministerial Funds	55,842,082	(55,755,390)	86,692	91,725
Total Borrowing Activity	155,999,155	(154,825,463)	1,173,692	(179,712)
Commercial Deposit Activity	44,129,488	(44,129,488)	-	-

Total Activity	Receipts €'000	Payments €'000	2003 Net €'000	2002 Net €'000
Exchequer Account	190,495,213	(187,963,450)	2,531,763	2,143,514
Foreign Currency Clearing Accounts (Note 14)	9,633,430	(10,991,501)	(1,358,071)	(2,323,226)
	200,128,643	(198,954,951)	1,173,692	(179,712)

Michael J Somers, Chief Executive
National Treasury Management Agency

9 June 2004

The notes on pages 99 to 106 form part of these financial statements.

STATEMENT OF MOVEMENT IN NATIONAL DEBT
YEAR ENDED 31 DECEMBER 2003

	2003 €'000	2002 €'000
Opening National Debt	36,360,533	36,182,763
Increase / (Decrease) in National Debt (nominal)	1,249,649	177,770
Represented by:		
Exchequer (Surplus)/Deficit (note 15)	979,020	(93,305)
Effect of Foreign Exchange Rate Movements	(6,859)	(71,937)
Bond Tranching: net reduction (excess) of proceeds over nominal liability	(66,942)	238,131
Bond Cancellations: net reduction (excess) of cancellation cost over nominal liability	94,558	(405,000)
Movement in CSRA current balance (note 10)	249,916	499,881
Nitrigin Eireann Teoranta Borrowings (note 15)	-	10,000
Other nominal movements	(44)	-
	1,249,649	177,770
Closing National Debt €	**37,610,182**	**36,360,533**

Michael J Somers, Chief Executive
National Treasury Management Agency

9 June 2004

The notes on pages 99 to 106 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Total Service Cost

	Notes	Charged on Foreign Currency Clearing Accounts €'000	Charged on Central Fund €'000	Charged on CSRA €'000	Total Service Cost 2003 €'000
Interest paid					
Medium / Long Term Debt	2	40,836	119,881	982,981	1,143,698
Short Term Debt	3	44,231	99,571	48,824	192,626
National Savings Schemes	4	-	49,638	391,801	441,439
Other Movements	5	(1,444,550)	1,219,591	262,078	37,119
Sinking Fund payments	6			479,774	479,774
Fees and Expenses	7	449	17,257	69	17,775
Expenses of NTMA		964	13,983	-	14,947
Interest received on deposits with Central Bank and other banks		(1)	-	(50,639)	(50,640)
		(1,358,071)	1,519,921	2,114,888	2,276,738
Inter Account Movement		-	1,864,972	(1,864,972)	-
Net cash paid		(1,358,071)	3,384,893	249,916	2,276,738

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Interest on Medium / Long Term Debt

	Total Cost 2003 €'000	Total Cost 2002 €'000
Irish Government Bonds listed on The Irish Stock Exchange	979,457	842,207
Other Irish Government Public Bond Issues	58,176	114,047
Private Placements	43,497	104,671
European Investment Bank Loans	17,546	23,687
Medium Term Notes	33,187	40,432
Miscellaneous Debt	11,835	57,981
	1,143,698	1,183,025

3. Interest on Short Term Debt

	Total Cost 2003 €'000	Total Cost 2002 €'000
Commercial Paper	144,772	132,625
Borrowings from Funds under the control of the Minister for Finance	47,854	17,563
	192,626	150,188

4. Interest on National Savings Schemes

	Total Cost 2003 €'000	Total Cost 2002 €'000
Savings Certificates	359,126	250,687
Savings Bonds	57,568	60,013
National Instalments Savings	52,879	64,319
Prizes in respect of Prize Bonds	10,827	9,342
Small Savings Reserve (note 9)	(38,961)	(2,702)
	441,439	381,659

Payments for Interest on National Savings Schemes in 2003 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 amounts transferred are as follows:

	€'000
Savings Certificates	33,727
Savings Bonds	2,071
National Instalments Savings	4,113
	39,911

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. Other Movements

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

6. Sinking Fund Payments

Under Finance Act 1950 specified amounts were provided for the redemption of debt. The sums provided and applied in 2003 were as follows:

	2003 €'000
Capital Services Redemption Account (Note 13)	479,774
	479,774

7. Fees and Expenses

	Total Cost 2003 €'000	Total Cost 2002 €'000
Expenses of Irish Government Bonds	-	1,611
Expenses of Savings Certificates	3,916	3,791
Expenses of Prize Bonds	6,426	5,533
Expenses of Savings Bonds	2,077	1,855
Expenses of National Instalment Savings	2,581	2,749
Expenses of Savings Stamps	1,042	1,042
Expenses of Foreign Loans	1,733	2,854
	17,775	19,435

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 2003 €millions	As at 31 December 2002 €millions
Debt due for repayment within 1 year	723	2,126
Debt due for repayment between 2 and 5 years	8,318	3,112
Debt due for repayment in more than 5 years	20,176	20,050
	29,217	25,288

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. National Savings Schemes

Amounts shown in respect of Savings Certificates, National Instalment Savings, Savings Bonds and Prize Bonds are net of €4.8 million (2002: € 5.7 million) being cash balances held by An Post, 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 € 2,008 million (2002: € 2,208 million), being the estimate of the amount of accrued interest at 31 December 2003 in respect of Savings Bonds, Savings Certificates and National Instalment Savings.

Section 160 of the Finance Act 1994 provided for the establishment of a fund to be known as the Small Savings Reserve Fund. It provided for € 76 million to be paid into the fund in 1994 and in each year thereafter for such sums, if any, as the Minister for Finance may decide. Where in any calendar year interest payment on encashments of small savings exceed 11 per cent of total interest accrued on such savings at the end of the immediately preceding calendar year, the resources of the fund may be applied towards meeting so much of those interest payments which, as a percentage of the said total interest accrued, exceed 11 per cent. The actual interest cost for 2003 was 19.98 per cent of the interest accrued at the 31 December 2002 of €2,208m. The Minister decided that a net amount of €39m would be withdrawn from the fund in 2003.

		€ millions
Estimated accrued interest at 31 December 2003		2,008
Small Savings Reserve Fund		
Balance at 1 January 2003	(1,108)	
Amount applied during 2003	39	
Balance at 31 December 2003 (Note 16)		(1,069)
Estimated accrued interest not provided for at 31 December 2003		939

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

10. Liquid Assets

	Opening balance At 1 January 2003 €'000	Movements during 2003 €'000	Closing balance at 31 December 2003 €'000
Exchequer Account	1,529,536	194,672	1,724,208
Capital Services Redemption Account Current Balance (Note 13)	250,687	(249,916)	771
	1,780,223	(55,244)	1,724,979

11. Derivatives

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

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

Market risk is the risk of a rise in debt service costs and in the total market value of the debt due to changes in market interest or exchange rates. The Agency has to have regard to both medium and short term objectives given its task of controlling not only near term fiscal debt service costs but also the present value of all future payments of principal and interest. Fixed interest rate borrowings are subject to a market valuation risk in the event of a decline in interest rates. While carrying less market valuation risk than fixed rate debt, floating rate borrowings carry a higher risk to the near term fiscal cost of servicing the debt. The balance between fixed and floating rate liabilities has to be managed for both the domestic 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Derivatives (Continued)

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 2003		31 December 2002	
	Nominal € million	Present Value € million	Nominal € million	Present Value € million
Interest Rate Swaps	2,019	(36)	2,389	(31)
Currency Swaps & Foreign Exchange Contracts	3,832	(85)	6,868	(59)
	5,851	(121)	9,257	(90)

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

12. National Debt

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

	As at 31 December 2003 € millions	As at 31 December 2002 € millions
Euro *	37,624	35,627
Sterling	(2)	758
US Dollar	1	(17)
Swiss Franc	-	(4)
Japanese Yen	(3)	(2)
Hong Kong Dollar	-	(1)
Norwegian Krona	(10)	(1)
	37,610	36,361

* *This figure is net of liquid assets as at 31 December 2003 € 1,725m (31 December 2002 €1,780m)*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. Capital Services Redemption Account

This account is used to record;

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

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

14. Foreign Currency Clearing Accounts

		€'000
Balance at 1 January 2003		NIL
Deposit interest received		1
Amounts received under Finance Act 1988 [S67 (8)]	12,797,708	
Amounts paid under Finance Act 1970 [S54 (7)]	(11,353,158)	1,444,550
Foreign Currency Borrowing receipts	9,633,430	
Foreign Currency Borrowing payments	(10,991,501)	(1,358,071)
Interest paid on Foreign Currency Borrowings (note 1)		
- Medium/ Long Term Debt	(40,836)	
- Short Term Debt	(44,231)	(85,067)
Expenses of Foreign Currency Borrowings (note 1)		(449)
Expenses of NTMA		(964)
Balance at 31 December 2003		NIL

15. Nitrigin Eireann Teoranta Borrowings

In implementation of the provisions of Nitrigin Eireann Teoranta Act, 2001 the Minister for Finance took over the debt in 2002. The Minister for Finance delegated to the Agency the function of discharging the borrowings.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 2003 € millions	As at 31 December 2002 € millions
Post Office Savings Bank Fund	945	782
Small Savings Reserve Fund	1,069	1,108
Ulysses Securitisation plc	273	242
Deposit Monies Investment Account	700	768
	2,987	2,900

NATIONAL TREASURY MANAGEMENT AGENCY - ADMINISTRATION ACCOUNT

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

NTMA - ADMINISTRATION ACCOUNT

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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 89 to 106. Financial information covering the Agency itself is set out on pages 110 to 117.

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.

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 2003

	Notes	2003 €	2002 €
Income			
Central Fund	*9*	14,945,897	13,653,762
Other income		322,431	89,260
Transfer (to)\from capital account	*5*	(117,177)	(64,123)
		15,151,151	13,678,899
Expenditure	*1*	15,151,151	(13,678,899)
Net income/(expenditure)		NIL	NIL

Michael J Somers, Chief Executive
National Treasury Management Agency

9 June 2004

The notes on pages 112 to 117 form part of these financial statements.

BALANCE SHEET
31 DECEMBER 2003

	Notes	2003 €	2002 €
Fixed Assets			
Fixed assets	2	1,322,614	1,191,443
Financial Assets	8	11,006	25,000
Current Assets			
Cash at bank and in hand		121,765	47,957
Debtors	3	2,592,111	3,242,998
Total Current Assets		2,713,876	3,290,955
Current Liabilities			
Creditors	4	2,713,876	3,290,955
Current Assets less Current Liabilities		-	-
Total Assets less Current Liabilities		1,333,620	1,216,443
Representing:			
Capital account	5	1,333,620	1,216,443
		1,333,620	1,216,443

Michael J Somers, Chief Executive
National Treasury Management Agency

9 June 2004

The notes on pages 112 to 117 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Expenditure

	Year Ended 31 December 2003 €	Year Ended 31 December 2002 €
Salaries and superannuation	9,700,837	8,740,576
Establishment expenses	1,046,786	1,032,215
Operating expenses	3,944,463	3,468,213
Depreciation	451,208	430,038
Amortisation	7,857	7,857
Total expenses	15,151,151	13,678,899

2. Fixed Assets

	Property €	Furniture, Equipment & Motor Vehicles €	Total €
Cost:			
Opening balance at 1 January 2003	1,216,038	3,108,204	4,324,242
Additions at cost	-	583,351	583,351
Disposals	-	(402,639)	(402,639)
Balance at 31 December 2003	1,216,038	3,288,916	4,504,954
Accumulated depreciation:			
Opening balance at 1 January 2003	723,527	2,409,272	3,132,799
Depreciation for the period	60,802	390,406	451,208
Disposals	-	(401,667)	(401,667)
Balance at 31 December 2003	784,329	2,398,011	3,182,340
Net book value at 31 December 2003	431,709	890,905	1,322,614
Net book value at 31 December 2002	492,511	698,932	1,191,443

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

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

The property is leased under a long-term lease, which is subject to rent reviews. The current annual rent is €861,866 per annum.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Debtors

	2003 €	2002 €
Central Fund	1,008,488	979,360
Prepayments	702,154	531,095
Other debtors	881,469	1,732,543
	2,592,111	3,242,998

4. Creditors

	2003 €	2002 €
Creditors	607,921	442,474
Accruals	2,105,955	2,848,481
	2,713,876	3,290,955

5. Capital Account

			2003 €	2002 €
Opening balance			1,216,443	1,152,320
Transfer from /(to) Income and Expenditure Account				
Asset Funding				
- Fixed Assets	583,351			
- Financial Assets repayment (note 8)	(6,137)	577,214		
Amortisation of capital funding				
- Amortisation in line with depreciation	(451,208)			
- Net amount released on asset disposal	(972)			
- Amortisation of Financial Assets	(7,857)	(460,037)	117,177	64,123
Closing balance			1,333,620	1,216,443

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Superannuation

Superannuation entitlements of staff are conferred under a defined benefits superannuation scheme set up under Section 8 of the National Treasury Management Agency Act, 1990. Those of the Chief Executive are provided under his contract of service. Contributions, including those of staff who have opted for dependant benefit arrangements, are transferred to an externally managed fund. The Agency contribution is determined on the advice of an independent actuary and is, at present, set at a level of 25% of payroll. Contributions by the Agency for the year ended 31 December 2003 amounted to € 1,253,582 (2002: € 1,357,994) to the defined benefit scheme.

Liabilities arising under the 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, as and when benefits fall due for payment in the normal course, in respect of former civil servants employed by the Agency. No provision has been made for funding the payment of such entitlements.

The Agency also contributed € 45,598 to Personal Retirement Savings Accounts (PRSA's) for a number of employees who are not members of the defined benefit scheme in 2003.

7. FRS17 Retirement Benefits

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

The financial assumptions used to calculate the retirement liabilities under FRS17 as at 31 December 2003 and 31 December 2002 were as follows:

	31 Dec 2003	31 Dec 2002
Valuation method	Projected Unit	Projected Unit
Discount rate	5.25%	5.50%
Inflation rate	2.25%	2.25%
Salary increases	4.25%	4.50%
Pension increases	2.25%/4.25%	3.50%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. FRS17 Retirement Benefits (Continued)

The market value of the assets and liabilities in the pension scheme for 2002/2003 and the expected rate of return of the scheme liabilities at 31 December 2002 and 31 December 2003 were:

	Expected Return 31-12-2003	Expected Return 31-12-2002	Value at 31-12-2003 €000s	Value at 31-12-2002 €000s
Equities	7.75%	7.75%	9,591	7,225
Bonds	4.75%	4.75%	1,684	1,341
Property	5.75%	6.25%	892	884
Other	3.00%	4.25%	311	711
Total market value of assets			12,478	10,161
Present value of accrued scheme liabilities			(24,330)	(14,956)
Surplus / (Deficit)*			(11,852)	(4,795)
Related deferred tax credit			(0)	(0)
Net pension liability			(11,852)	(4,795)

The financial assumptions used to calculate the components of the defined benefit cost for the year ended 31 December 2003 were as follows:

Valuation method	Projected Unit
Discount rate	5.50%
Inflation rate	2.25%
Salary increases	4.50%
Pension increases	2.25%/3.50%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. FRS17 Retirement Benefits (continued)

Analysis of the amount that would be charged to operating profit is as follows:

	€'000s
Current Service Cost	(879)
Past Service Cost	-

Analysis of the amount that would be credited to other finance income is as follows:

	€'000s
Interest on scheme liabilities	(845)
Expected return on scheme assets	751
Net return	(94)

Statement of Total Recognised Gains and (Losses) is as follows:

	€'000s
Actual return less expected return on scheme assets	363
Experience gains and losses	(4,327)
Changes in assumptions	(3,374)
Actuarial loss that would be recognised in STRGL	(7,338)

Analysis of the movement in surplus (deficit) during the year is as follows:

	€'000s
* Surplus (Deficit) at beginning of year	(4,795)
Current service cost	(879)
Contributions	1,254
Past service costs	-
Other finance income	(94)
Actuarial gain (loss)	(7,338)
Surplus (Deficit) at end of year	(11,852)

* *The opening deficit at the start of 2003 was revised from €4.08m to €4.795m to reflect a change by the actuary in the valuation of the investment portfolio for 2002 in their calculations.*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. 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 pay € 63,487, which was apportioned as follows:

- 20 ordinary IR£1 (€1.27) shares purchased at par
- €24,178.82 as a loan repayable over the period commencing on 30 September 1999 and ending on 30 September 2003. The final amount of €3,125 was repaid by IRIS Ltd on 29 January 2004.
- €39,282.70 as a non-repayable, irrevocable and unconditional capital contribution to the company. This will be amortised over 5 years.

The position at 31 December 2003 was:

	€
Opening balance	25,000
Amortisation	(7,857)
Loan repayment received	(6,137)
Closing balance	11,006

9. Central Fund Income

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

	2003 €	2002 €
Central Fund Income per Service of Debt Statement	14,916,769	13,567,513
Movement in Central Fund Debtors (note 3)	29,128	86,249
Income from Central Fund per Income and Expenditure Account	14,945,897	13,653,762

The Central Fund income of €14,916,769 excludes €30,000 Board fees of the National Development Finance Agency.

10. Expenses of NTMA as Manager

The costs incurred by the NTMA as Manager to the National Pensions Reserve Fund amounted to €3.16m (2002: €2.49m.) The costs incurred by the NTMA to fulfil its functions to the National Development Finance Agency amounted to € 1.53 m. (2002: nil). These costs are included in the Income and Expenditure account.

POST OFFICE SAVINGS BANK FUND

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

CONTENTS PAGES

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL FOR PRESENTATION TO THE HOUSES OF THE OIREACHTAS

I have examined in accordance with auditing standards the financial statements set out on pages 122 to 127 which are in the form approved by the Minister for Finance.

I have obtained all the information and explanations that I required for the purpose of my audit.

In my opinion proper books of account have been kept by the National Treasury Management Agency in respect of the Fund and the financial statements, which are in agreement with them, give a true and fair view of the state of affairs of the Fund at 31 December 2003 and of its transactions for the year then ended.

John Purcell
Comptroller and Auditor General

15 June 2004

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
FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 €	2002 €
Investment income	*1*	35,483,429	27,732,293
Interest paid and payable	*2*	7,699,408	5,536,975
Other expenses	*3*	25,529,387	23,719,026
		33,228,795	29,256,001
		2,254,634	(1,523,708)
Balance at beginning of year		7,470,780	8,994,488
Balance at end of year		9,725,414	7,470,780

Michael J Somers, Chief Executive
National Treasury Management Agency

9 June 2004

The notes on pages 125 to 127 form part of these financial statements.

BALANCE SHEET
AS AT 31 DECEMBER 2003

	Notes	2003 €	2002 €
Assets			
Advances	4	945,511,899	782,843,488
Investments in Bonds	5	81,328,444	76,989,630
Debtors	7	4,896,993	4,383,421
Central Treasury Loans		98,071,599	113,831,730
Cash		5,838,486	4,899,903
		1,135,647,421	982,948,172
Liabilities			
Post Office Savings Bank Deposits	8	1,125,231,773	973,229,677
Creditors		690,234	2,247,715
Accumulated Reserves		9,725,414	7,470,780
		1,135,647,421	982,948,172

Michael J Somers, Chief Executive
National Treasury Management Agency

9 June 2004

The notes on pages 125 to 127 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Investment Income

	2003 €	2002 €
Interest received and receivable	34,788,288	26,950,140
Profit/(Loss) on sale of investments	695,141	782,153
	35,483,429	27,732,293

2. Interest Paid and Payable

	2003 €	2002 €
Interest paid and credited to depositors of Post Office Savings Bank	7,699,408	5,536,975
	7,699,408	5,536,975

3. Other Expenses

	2003 €	2002 €
Management expenses	25,529,387	23,719,026
	25,529,387	23,719,026

The management expenses are paid to An Post in respect of its administration of the Post Office Savings Bank.

4. Advances

	2003 €	2002 €
Advances to Exchequer	944,434,474	782,368,488
Advances to State Claims Agency	1,077,425	475,000
	945,511,899	782,843,488

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

	2003 €	2002 €
Bonds		
At cost	81,328,444	76,989,630
At market value	81,492,630	79,064,579

Schedule of Investment Holdings:-

Nominal €	Stock	Cost €
608,057	6.25% Treasury Bond, 2004	632,436
491,362	3.5% Treasury Bond, 2005	499,349
25,000	12.5% Capital Stock, 2005	32,800
168,218	8% Treasury Bond, 2006	192,177
173,641	9% Capital Stock, 2006	201,242
17,017,867	4.25% Treasury Bond, 2007	17,503,326
279,642	6% Treasury Bond, 2008	312,735
24,816	8.25% Capital Stock, 2008	29,788
31,002,659	3.25% Treasury Bond 2009	30,337,510
556,503	4% Treasury Bond, 2010	561,484
43,015	8.5% Capital Stock, 2010	55,574
26,000	8.75% Capital Stock, 2012	34,088
16,206,152	5% Treasury Bond, 2013	17,085,841
83,460	8.25% Treasury Bond, 2015	113,971
13,622,694	4.6% Treasury Bond, 2016	13,736,123
80,329,086		81,328,444

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

	2003 €	2002 €
Dividends and interest receivable	2,461,540	2,513,210
Outstanding Bond settlements	437,136	-
Cash balances held by An Post	1,998,317	1,870,211
	4,896,993	4,383,421

8. POSB Deposits

	2003 €	2002 €
Deposits from Post Office Savings Bank	1,125,231,773	973,229,677
	1,125,231,773	973,229,677

The deposits include €164,622,921 (2002:€79,606,438) in respect of Special Savings Incentive Accounts (SSIA's). SSIA's are subject to an exit tax of 23% of the interest earned on the maturity of 5 years and 30 days from the end of the month in which the first payment was paid into the SSIA account by the depositor. SSIA deposits include gross accumulated interest of € 4,383,480, which will be subject to tax at 23% in due course on the investment return i.e. interest earned. In the event of early withdrawal by a depositor prior to the designated maturity term the total amount of principal and interest will be subject to the tax at 23%.

In April 2003 € 26,249,053 was transferred from the Post Office Savings Bank Fund to the Dormant Accounts Fund under the Dormant Accounts Act 2001. At 31 December 2003 following account reactivations of € 1,194,159 and interest (net of DIRT) capitalised of € 28,566 there was a balance of € 25,083,460 due to Depositors from the Dormant Accounts Fund. The Deposits from Post Office Saving Bank liability figure of € 1,125,231,773 does not include this Dormant Accounts Fund liability.

9. Creditors

	2003 €	2002 €
Net funds due under Sale and Repurchase Agreements	29,138	1,834,412
DIRT due to An Post	620,312	358,055
Management Expenses due to An Post	40,784	55,248
	690,234	2,247,715

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL FOR PRESENTATION TO THE HOUSES OF THE OIREACHTAS

I have examined the account on pages 129 to 131. 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 2003 and the balance at that date.

John Purcell
Comptroller and Auditor General

15 June 2004

ACCOUNT OF RECEIPTS AND PAYMENTS

		Year ended 31 December 2003 €
Balance at 1 January 2003		250,687,450
Receipts		
Amounts received from Central Fund under Finance Act 1950, Section 22 as amended: -		
- Interest	1,385,197,563	
- Sinking Fund	479,774,420	1,864,971,983
Amounts received under Finance Act 1988 [S 67 (8)]		1,196,549,307
Other amounts received under specific borrowing transactions		12,487,870
Deposit interest received		50,639,629
Other interest received		14,021
		3,375,350,260
Payments		
Amounts applied in the redemption of National Debt: -		
Irish Government Bonds Listed on Irish Stock Exchange	136,838,526	
Other Irish Government Public Bond Issues	317,000,000	
Swap Driven Issues	25,000,000	
Section 69 Notes	935,894	479,774,420
Amounts applied in meeting interest on National Debt (note 2)		1,436,177,323
Amounts applied in respect of liabilities under Finance Act 1970, [S 54 (7)]		1,458,627,161
Balance at 31 December 2003		771,356
		3,375,350,260

Michael J Somers, Chief Executive
National Treasury Management Agency

9 June 2004

NOTES TO THE ACCOUNT

1. Background

This account was established under section 22 of the Finance Act, 1950. The reduction of €249,916,094 in 2003 between the opening cash balance on the account of €250,687,450 and the closing cash balance of €771,356 represents the application of monies towards defraying interest and expenses of the National Debt (note 1 of National Debt accounts).

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, Finance Act, 1983, section 67, 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 actual 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.

NOTES TO THE ACCOUNT (CONTINUED)

2. Amounts applied in meeting interest on National Debt:

	Year ended 31 December 2003
8.25% Exchequer Bond, 2003	1,581,660
9.25% Capital Stock, 2003	12,835,488
6.25% Treasury Bond, 2004	13,500,518
3.5% Treasury Bond, 2005	56,661,307
12.5% Capital Stock, 2005	935,928
8% Treasury Bond, 2006	7,302,045
9% Capital Stock, 2006	9,973,678
4.25% Treasury Bond, 2007	239,605,163
8.25% Capital Stock, 2008	104,876
6% Treasury Bond, 2008	1,942,040
3.25% Treasury Bond, 2009	8,841,784
4% Treasury Bond, 2010	46,884,567
8.5% Capital Stock, 2010	1,002,258
8.75% Capital Stock, 2012	3,328,734
5% Treasury Bond, 2013	350,632,496
8.25% Treasury Bond, 2015	843,608
4.6% Treasury Bond, 2016	200,044,541
Commercial Paper Programmes	29,221,096
Small Savings	391,801,316
Cash Mgmt Borrowings	742,901
Other Euro Borrowings	24,528,195
Swap Driven Issues*	33,580,250
EIB Loans	213,610
Expenses	69,264
	1,436,177,323

* *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.*

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL FOR PRESENTATION TO THE HOUSES OF THE OIREACHTAS

I have examined the account on page 133. 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 2003 and the balance at that date.

John Purcell
Comptroller and Auditor General

15 June 2004

ACCOUNT OF RECEIPTS AND PAYMENTS

		Year ended 31 December 2003 €
Balance at 1 January 2003		46,426,890
Accrued interest received on National Loans		
- Tranches and Auctions	86,738,100	
- Cancellations	14	86,738,114
Accrued interest paid on National Loans		(65,063,491)
Balance at 31 December 2003		
- Cash with Central Bank of Ireland		68,101,513

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

9 June 2004

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL
FOR PRESENTATION TO THE HOUSES OF THE OIREACHTAS

I have examined the account on pages 135 and 136. 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 2003 and the balance at that date.

John Purcell
Comptroller and Auditor General

15 June 2004

ACCOUNT OF RECEIPTS AND PAYMENTS

	Note	Year ended 31 December 2003 €
Balance at 1 January 2003		6,044,375
Receipts from Exchequer	*1*	1,915,454
Receipts from Central Bank		288,128
Payments to Central Bank		(196,683)
Payments for redemption of National Loans	*2*	(3,708,519)
Balance at 31 December 2003 - Cash with Central Bank of Ireland		4,342,755

Michael J Somers, Chief Executive
National Treasury Management Agency

9 June 2004

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 2003**

	€		€
4.5% National Loan 1973-78	508	13% Exchequer Stock 1994	988
11% Conversion Stock 1979	226	9.5% Conversion Bond 1995	7,387
9% Conversion Stock 1980-82	1	12% Connversion Stock 1995	7,351
5.25% Nat Dev Ln 79-84	5,636	9% Capital Loan 1996	5,872
6% Exchequer Stock 1980-85	1,291	9.25% Exchequer Loan 91/96	34,753
Variable Rate Finance Stock 1986	1,270	7.75% Capital Stock 1997	16,642
7.5% National Loan 1981-86	129	9.75% National Development Loan 92/97	19,677
14% National Loan 1985-90	499	9.75% Capital Stock 1998	9,178
5.75% National Loan 1982-87	4,063	11% National Loan 1993-98	12,840
9.75% National Loan 1984-89	1,143	6.25% Treasury Bond 1999	36,253
9% Finance Loan 1989	1,270	11.5% Development Loan 97/99	24,620
2.5% Development Stock 1989	5,627	8% Treasury Bond 2000	76,184
10% Capital Stock 1989	1,311	13% Fin Stock 1997/02	20,468
5.75% Exchequer Stock 1984-89	2,413	12.25% Dev Stock 00/03	1,644
11.5% Exchequer Stock 1990	8,949	11.75% Capital Stock 2000	8,304
6.75% National Loan 1986/91	2,286	6.50% Exchequer Stock 00/05	1,882,012
7% National Loan 1987/92	7,149	9.25% Capital Stock 2003	1,245,549
8.5% Capital Bond 1992	3,755	8.25% Treasury Bond 2003	125,447
7.5% Dev Stock 88/93	5,583	9% Government Stock 2001	59,610
8% Capital Stock 1993	1,270	6.5% Treasury Bond 2001	8,348
Variable rate Finance Stock 1993	1	14.75% Development Stock 2002/04	36,279
9.25% National Loan 89/94	14,733		
		Total	3,708,519

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL FOR PRESENTATION TO THE HOUSES OF THE OIREACHTAS

I have examined the account on pages 138 and 139. 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 2003 and the balance at that date.

John Purcell
Comptroller and Auditor General

15 June 2004

ACCOUNT OF RECEIPTS AND PAYMENTS

	Note	Year ended 31 December 2003 €
Balance at 1 January 2003		1,537,684
Receipt of unclaimed dividends		397,182
Payment of unclaimed dividends	2	(63,983)
Balance at 31 December 2003 - Cash with Central Bank of Ireland	1	1,870,883

Michael J Somers, Chief Executive
National Treasury Management Agency

9 June 2004

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	61,721
Foreign Bonds administered by Commerzbank AG	2,262
	63,983

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL FOR PRESENTATION TO THE HOUSES OF THE OIREACHTAS

I have examined the account on page 141. 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 2003 and the balance at that date.

John Purcell
Comptroller and Auditor General

15 June 2004

ACCOUNT OF RECEIPTS AND PAYMENTS

	Year ended 31 December 2003 €
Balance at 1 January 2003	767,599,000
Ways and Means Advances paid to Exchequer	15,534,839,000
Ways and Means Advances repaid by Exchequer	(15,602,669,000)
Balance at 31 December 2003 - Ways and Means Advances to Exchequer	699,769,000

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

9 June 2004

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL FOR PRESENTATION TO THE HOUSES OF THE OIREACHTAS

I have examined the account on pages 143 and 144. 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 2003 and the balance at that date.

John Purcell
Comptroller and Auditor General

15 June 2004

ACCOUNT OF STOCK ACCEPTED IN PAYMENT OF INHERITANCE TAX AND DEATH DUTIES

ACCOUNT OF RECEIPTS AND PAYMENTS

		Year ended 31 December 2003 €
Balance at 1 January 2003		66,144
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 (Note 1)		(66,144)
Balance at 31 December 2003		NIL
Stock Account		
Balance at 1 January 2003		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 2003		NIL

Michael J Somers, Chief Executive
National Treasury Management Agency

9 June 2004

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. During 2003, in accordance with section 22, Finance Act 1954, the Agency repaid €66,144 out of this account back to the Exchequer as there has been no movement on this account for over 2 years.

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.

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL FOR PRESENTATION TO THE HOUSES OF THE OIREACHTAS

I have examined the account on page 146. 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 2003 and the balance at that date.

John Purcell
Comptroller and Auditor General

15 June 2004

ACCOUNT OF RECEIPTS AND PAYMENTS

	Year ended 31 December 2003 €
Balance at 1 January 2003	1,108,528,527
Received (paid) from (to) Exchequer	(38,961,096)
Balance at 31 December 2003	1,069,567,431
Estimated accrued interest at 31 December 2003	2,007,589,455

Section 160 of the Finance Act 1994 provided for the establishment of a fund to be known as the Small Savings Reserve Fund. It provided for €76 million to be paid into the fund in 1994 and in each year thereafter for such sums, if any, as the Minister for Finance may decide. Where in any calendar year interest payment on encashments of small savings exceed 11 per cent of total interest accrued on such savings at the end of the immediately preceding calendar year, the resources of the fund may be applied towards meeting so much of those interest payments which, as a percentage of the said total interest accrued, exceed 11 per cent. The actual interest cost for 2003 was 19.98 per cent of the interest accrued at the 31 December 2002 €2,208m.

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

9 June 2004

STATE CLAIMS AGENCY

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

CONTENTS	PAGES

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL FOR PRESENTATION TO THE HOUSES OF THE OIREACHTAS

I have examined in accordance with auditing standards the financial statements set out on pages 150 to 154 which are in the form approved by the Minister for Finance.

I obtained all the information and explanations which I required for the purpose of my audit.

In my opinion, proper books of account have been kept by the Agency and the financial statements, which are in agreement with them, give a true and fair view of the state of affairs of the Agency at 31 December 2003 and of its transactions for the year then ended.

John Purcell
Comptroller and Auditor General

15 June 2004

ACCOUNTING POLICIES

Background

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

The Act sets out two objectives for the SCA:

- To manage claims so as to ensure that the State's liability and associated legal and other expenses are contained at the lowest achievable level; and

- To provide risk advisory services to State Authorities with the aim of reducing over time the frequency and severity of claims.

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

The significant accounting policies adopted are as follows: -

Reporting Currency

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

Basis of Accounting

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

Expenditure

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

Amounts Receivable from State Authorities

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

Contingent Liabilities of State Authorities

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

CLAIMS STATEMENT ACCOUNT
YEAR ENDED 31 DECEMBER 2003

	Notes	2003 €	2002 €
Received and receivable from State Authorities in respect of claims and expenses	1	7,838,056	1,980,171
Paid and payable in respect of Awards		5,982,915	1,312,182
Lodgements to Court and Tender Payments	2	170,717	153,868
Other expenses	3	1,684,424	514,121
		7,838,056	1,980,171

Michael J. Somers, Chief Executive
National Treasury Management Agency

9 June 2004

The notes on pages 153 to 154 form part of these financial statements.

BALANCE SHEET
31 DECEMBER 2003

	Notes	2003 €	2002 €
Assets			
Debtors	4	1,234,229	559,099
Cash		42,730	27,177
		1,276,959	586,276
Liabilities			
Borrowings from Post Office Savings Bank Fund	5	1,077,425	475,000
Creditors	6	199,534	111,276
		1,276,959	586,276

Michael J. Somers, Chief Executive
National Treasury Management Agency

9 June 2004

The notes on pages 153 to 154 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Income

	2003 €	2002 €
Received from State Authorities	6,603,827	1,421,072
Receivable from State Authorities	1,227,194	557,613
Receivable from Revenue Commissioners in respect of Professional Services Withholding Tax	7,035	1,486
	7,838,056	1,980,171

2. Lodgement to Court/Tender Payment

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

3. Other Expenses

	2003 €	2002 €
State Claims Agency expenses		
- Legal fees	365,583	97,382
- Medical fees	200,796	100,212
- Engineers' fees	107,266	74,895
- Other fees	89,932	37,763
	763,577	310,252
Plaintiff expenses		
- Legal fees	915,196	195,168
- Other expert fees	750	6,000
- Travel expenses	4,402	1,654
	920,348	202,822
Witness expenses	499	1,047
	1,684,424	514,121

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Debtors

	2003 €	2002 €
Receivable from State Authorities	1,227,194	557,613
Professional Services Withholding Tax due from Revenue Commissioners	7,035	1,486
	1,234,229	559,099

5. Borrowings from POSB

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

6. Creditors

	2003 €	2002 €
Payable in respect of awards	108,199	48,245
Payable in respect of expenses	91,335	63,031
	199,534	111,276

7. Administration Expenses

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

DORMANT ACCOUNTS FUND

FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2003

CONTENTS	PAGES

STATEMENT OF AGENCY'S RESPONSIBILITIES

The Agency is required by the Dormant Accounts Act, 2001 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

9 June 2004

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL
FOR PRESENTATION TO THE HOUSES OF THE OIREACHTAS

I have audited the financial statements on pages 159 to 167 under Section 46 of the Dormant Accounts Act, 2001.

Respective Responsibilities of the Agency and the Comptroller and Auditor General

The Agency's accounting responsibilities are set out on page 157. It is my responsibility, based on my audit, to form an independent opinion on the financial statements presented to me and to report on them.

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 auditing standards 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 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 circumstances of the Fund, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations that I considered necessary 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, proper books of account have been kept by the Agency in respect of the Fund and the financial statements, which are in agreement with them, give a true and fair view of the state of affairs of the Dormant Accounts Fund at 31 December 2003 and of its transactions for the period then ended.

John Purcell
Comptroller and Auditor General

15 June 2004

ACCOUNTING POLICIES

Background

The Dormant Accounts Act, 2001 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 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 is responsible, under sections 17 and 18 of the 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 Disbursements Board
- the maintenance of the Reserve Account
- the defraying of the fees, costs and expenses incurred by the Agency and the Disbursements 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 Community, Rural and Gaeltacht Affairs.

ACCOUNTING POLICIES (CONTINUED)

The functions of the Dormant Accounts Fund Disbursements Board, under section 31 of the Act, are:

- to prepare a plan for the disbursement of moneys from the Fund and to direct the Agency to make disbursements
- to report to the Minister for Community, Rural and Gaeltacht Affairs, as directed under section 45 of the Act.

The establishment date of the Dormant Accounts Disbursement Board was 5th June 2002. The legislation provided for the first transfer of moneys to the Fund to be made not later than 30th April 2003. A number of financial institutions started making transfers from the 1st April 2003.

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.

INVESTMENT AND DISBURSEMENTS ACCOUNT
PERIOD 1 APRIL TO 31 DECEMBER 2003

	Notes	€	€
Interest on investments		2,541,676	
Moneys transferred to the Fund in respect of dormant accounts	*1*	196,209,141	
Amount transferred to Reserve Account	2	(43,340,111)	
Disbursements	*3*	Nil	
			155,410,706
Balance at 1 April 2003			Nil
Balance at 31 December 2003			155,410,706

Michael J Somers, Chief Executive
National Treasury Management Agency

9 June 2004

The notes on pages 164 to 167 form part of these financial statements.

RESERVE ACCOUNT
PERIOD 1 APRIL TO 31 DECEMBER 2003

	Notes	€	€
Transfer from Investment and Disbursements Account	2	43,340,111	
Interest on investments		420,543	
Repayment of moneys transferred to the Fund	1	(24,002,874)	
Interest on repayment of moneys transferred to the Fund	1	(184,181)	
Other expenses	4	(152,925)	
Movement for the year			19,420,674
Balance at 1 April 2003			NIL
Balance as at 31 December 2003			19,420,674

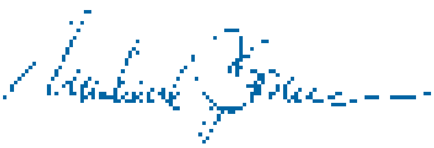
Michael J Somers, Chief Executive
National Treasury Management Agency

9 June 2004

The notes on pages 164 to 167 form part of these financial statements.

BALANCE SHEET
AS AT 31 DECEMBER 2003

	Notes	2003 €
Assets		
Financial Assets		
- Investments at cost	9	152,000,000
Current Assets		
- Cash	5	22,553,098
- Debtors		283,159
Liabilities		
- Creditors		4,877
Net Assets	6	174,831,380
Represented by:		
Investment and Disbursements Accounts		155,410,706
Reserve Account		19,420,674
		174,831,380



Michael J Somers, Chief Executive
National Treasury Management Agency

9 June 2004

The notes on page 164 to 167 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Amounts transferred and reclaimed in respect of Dormant Accounts (€)

Institution	Transferred	Reclaimed	Net Transfer	Interest Paid
ACC Bank plc	3,655,465	417,641	3,237,824	0
Allied Irish Banks plc	31,875,755	1,632,811	30,242,944	1,646
AIB Finance Limited	959,078	101	958,977	0
Anglo Irish Bank Corporation plc	26,939	4,781	22,158	3
Barclays Bank plc	313,473	0	313,473	0
BNP Paribas	9,780	0	9,780	0
Bank of America	154,778	0	154,778	0
Bank of Ireland	26,614,035	746,928	25,867,107	156
Bank of Ireland Treasury & International Banking	1,624,563	463,660	1,160,903	1,979
Bank of Scotland (Ireland)	396,971	52,083	344,888	147
EBS Building Society	4,873,675	0	4,873,675	0
First Active	4,877,632	205,948	4,671,684	51
ICS Building Society	864,795	80,598	784,197	12
Investec Bank (UK) Limited (Irish Branch)	326,937	16,827	310,110	67
Irish Nationwide Building Society	1,870,706	0	1,870,706	0
JP Morgan Ireland plc	48,897	0	48,897	0
National Irish Bank Limited	2,976,954	117,878	2,859,076	365
An Post - National Instalment Schemes	1,266,303	371,565	894,738	18,247
An Post-National Instalment Schemes (Capitalised interest)	5,888,930	1,776,154	4,112,776	0
Permanent TSB	17,397,639	1,152,474	16,245,165	1,478
An Post - Post Office Savings Bank	26,249,053	1,192,822	25,056,231	1,337
An Post - Savings Bonds (Capitalised interest)	3,304,375	1,233,773	2,070,602	0
An Post - Savings Bonds	1,396,280	526,967	869,313	0
An Post - Savings Certs (Capitalised interest)	45,410,037	11,682,625	33,727,412	0
An Post - Savings Certs	6,891,416	1,989,113	4,902,303	157,975
Scotiabank (Ireland) Limited	1,003,127	0	1,003,127	0
Ulster Bank Ireland Limited	5,859,057	337,398	5,521,659	715
WestLB Ireland plc	72,491	727	71,764	3
TOTAL	196,209,141	24,002,874	172,206,267	184,181

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 €88,248 from €172,206,267 to €172,118,019.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Transfers to the Reserve Account

Under Section 17 (4) of the Dormant Accounts Act 2001, the National Treasury Management Agency pays into the Reserve Account, from time to time, an amount determined by the Agency, with the approval of the Minister for Community, Rural and Gaeltacht Affairs given with the consent of the Minister for Finance, for the purposes of making repayments from the Fund and of defraying various fees and expenses of the Agency, the Board and the authorised inspectors. Accordingly, a transfer is made quarterly 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

No disbursements were made by the Dormant Accounts Disbursement Board, under section 41 of the Dormant Accounts Act 2001, during the period.

4. Other Expenses

	2003 €
Expenses of the Disbursement Board	
- Board Fees	68,009
- Board Expenses	3,111
- Other Expenses	81,805
	152,925

There were no payments relating to remuneration, fees or allowances in respect of inspectors under section 17(4)(a)(ii) of the Dormant Accounts Act 2001 during the period.

5. Cash

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Contingent Exchequer asset

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

	€	€
Net Assets		174,831,380
Total dormant funds received by the Fund and not yet reclaimed (see note 1)		(172,206,267)
Difference		2,625,113
Represented by:		
Interest on investments	2,962,219	
Interest on repayments of moneys transferred to the Fund (see note 1)	(184,181)	
Disbursements (see note 3)	0	
Other expenses (see note 4)	(152,925)	
Surplus/(Deficit) for the year		2,625,113
Contingent Exchequer asset at 1 April 2003		0
Contingent Exchequer asset at 31 December 2003		2,625,113

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

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

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:

	Period ended 31 December 2003
	€
General Administration	150,000
Total	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 2.06%.

9. Investment Assets

The Investment Assets are commercial deposits with financial institutions.

10. Revised disbursement arrangements

The Government has reviewed arrangements in relation to Dormant Accounts in the light of the emerging scale of the fund, the need to ensure appropriate capacity to evaluate and process applications, and so as to secure maximum transparency on disbursements. Draft legislation is being prepared to give effect to the proposed arrangements.

NOTES

The paintings reproduced in this report are the work of John Nolan, an Irish Artist.

Design: EGM Design Artist: John Nolan Photography: Norton Associates

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