NATIONAL TREASURY MANAGEMENT AGENCY

REPORT & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002

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MICHAEL J. SOMERS
Chief Executive

JOHN C. CORRIGAN

ANNE COUNIHAN

JIM FARRELL

ADRIAN J.KEARNS

BRENDAN McDONAGH

OLIVER WHELAN

LEGAL FRAMEWORK

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

The 1990 Act enabled the Government to delegate the borrowing and debt management functions of the Minister for Finance to the NTMA, such functions to be performed subject to such directions or guidelines as he might give. 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 NTMA came into existence on 3 December 1990.

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

Substantial additional functions were given to the NTMA in the National Pensions Reserve Fund Act 2000 and the National Treasury Management Agency (Amendment) Act 2000.

The Asset Covered Securities Act 2001, the Dormant Accounts Act 2001 and the Unclaimed Life Assurance Policies Act 2003 also conferred additional responsibilities on the NTMA.

Legislation was also enacted during 2002 and 2003 to confer on the NTMA the power to borrow on behalf of the Housing Finance Agency.

The National Development Finance Agency Act 2002, established the National Development Finance Agency which performs its functions through the NTMA. The new Agency was formally established on 1 January 2003.

National Treasury Management Agency

30 June 2003

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 2002.

Yours sincerely,

Michael J. Somers
Chief Executive

Treasury Building, Grand Canal Street, Dublin 2, Telephone (353 1) 664 0800 Fax: (353 1) 664 0890 e-mail: info@ntma.ie Swift: NTMAIE2D

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INTRODUCTION

This year's Annual Report gives a picture of the diverse range of activities carried out by the National Treasury Management Agency (NTMA). Its fundamental role remains that of borrowing for the Government and managing the National Debt but its remit has been expanded greatly and now includes management of the National Pensions Reserve Fund, other Government funds such as the Social Insurance Fund and the Dormant Accounts Fund as well as borrowing on behalf of the Housing Finance Agency. In addition, the provision of financial advice, and possibly funding and providing guarantees for all major public investment projects, is to be carried out by the newly established National Development Finance Agency operating through the NTMA. The NTMA also provides a Central Treasury Service for the taking of deposits and lending to local government bodies and liquidity management for the Central Bank and Financial Services Authority of Ireland. Personal injuries claims brought against Government Departments and other State Authorities, and most recently, the State's Clinical Indemnity Scheme are now managed by the NTMA as the State Claims Agency.

The NTMA has successfully integrated these rapidly growing new areas of business to achieve economies and operational efficiencies. The success of the NTMA in this regard is in no small way due to its commercial freedom to attract specialist staff to its ranks – lawyers, accountants, actuaries, financial analysts, fund managers, claims managers, bond dealers, IT professionals and risk managers. This degree of expertise is vitally necessary if the NTMA is to be in a position to discharge its many and complex functions in a professional, efficient and secure manner with the primary objective of achieving value for money for the State.

CHIEF EXECUTIVE

Michael J. Somers

DIRECTORS

John C. Corrigan	**National Pensions Reserve Fund**
Anne Counihan	**Legal & Corporate Affairs**
Jim Farrell	**Chief Executive, 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, High Skills Pool 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 (from March 2002)
Lewis L. Glucksman	Private Investor
John Hurley	Secretary General, Department of Finance (to March 2002)
Joe Moran	Former Chief Executive, Electricity Supply Board
Donald C. Roth	Managing Partner, Emerging Markets Partnership, Washington D.C.

STAFF

The Chief Executive and Directors wish to thank the staff of the NTMA for their dedication and hard work during the year.

Notes: In March 2002 John F. Daly took over the chairmanship from Joe Moran who remains a member of the Committee. John Hurley resigned from the Committee upon his appointment as Governor of the Central Bank in March 2002.

SUMMARY OF ACTIVITY

The key features of 2002 were:

FUNDING AND DEBT MANAGEMENT

- Ireland continued to have the second lowest Debt/GDP ratio of the 15 EU Member States.

- The General Government Debt (GG Debt)/GDP ratio fell by 3.8 percentage points from 36.8 per cent at end 2001 to an estimated 33.0 per cent at end 2002, primarily as a result of relatively strong economic growth, while the traditional National Debt/GNP ratio fell from 37.4 per cent to an estimated 34.7 per cent over the same period.

- Total debt service expenditure in 2002 at €2,169 million was some €315 million below budget.

- Interest payments on the Debt at €1,660 million were the lowest since the early 1980s; as a percentage of tax revenue they continued to fall and stood at 5.7 per cent in 2002, as compared with 24.7 per cent 10 years before.

- Savings of €28 million were achieved against an externally audited benchmark.

- The sterling component of the National Debt was reduced in 2002 from 6 per cent to 2 per cent.

- A Bond Exchange Programme totalling €8.1 billion was successfully completed in January 2002.

- Irish Government bond yield differentials over Germany narrowed sharply, in some cases to as little as one basis point (one hundredth of one per cent).

- €6.6 billion of bonds were sold in a series of ten auctions over the course of the year.

- In excess of 60 per cent of the National Debt is held by non residents.

- Irish Government Bonds were listed on the EuroMTS electronic trading platform from June 2002.

- Citigroup Global Markets Limited, London (formerly Schroder Salomon Smith Barney) was recognised as a Primary Dealer in Irish Government Bonds in September 2002, bringing the number of Primary Dealers to seven. Barclays Capital was also recognised as a Primary Dealer in February 2003.

CASH VOLUMES

- Gross cash flows across all business activities increased by €14 billion to €314 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 rating.

NATIONAL PENSIONS RESERVE FUND

- As agent of the National Pensions Reserve Fund Commission the NTMA is Manager of the Fund. The Commission has statutory responsibility for the control, management and investment of the Fund. It is required to carry out its functions through the NTMA for a period of 10 years from April 2001.

- The phased process of investing the Fund in capital markets commenced in 2002. At year-end the value of the Fund was €7.43 billion of which some 26 per cent was held in cash, 57 per cent in equities and 17 per cent in bonds.

STATE CLAIMS AGENCY

- The State Claims Agency currently manages about 1,850 claims and some 260 claims have either been settled or have been the subject of court awards. It is also monitoring over 500 adverse incidents reported by State authorities.

- About one quarter of the claims on the State Claims Agency's books relate to alleged exposure to asbestos. Following a recent Supreme Court judgment it is expected that the number of asbestos related claims will sharply diminish.

- The Government decided in July 2002 that the State Claims Agency should take over the management of clinical negligence claims and the associated risks under the Clinical Indemnity Scheme. Over 4,000 incidents reported by health-care institutions are under examination by the Agency.

CENTRAL TREASURY SERVICES

- Loan facilities of €152 million were in place for local authorities. The deposit base continued to grow throughout 2002.

NATIONAL DEVELOPMENT FINANCE AGENCY

- The National Development Finance Agency Act 2002 was passed by the Oireachtas in December 2002. The National Development Finance Agency, established by the Minister for Finance on 1 January 2003, currently has in excess of sixty projects notified to it.

DORMANT ACCOUNTS FUND

- In accordance with the Dormant Accounts Act 2001 a total of €196 million was transferred by the financial institutions to the Dormant Accounts Fund managed by the NTMA. Under the Unclaimed Life Assurance Policies Act 2003 the net encashment value of certain life policies of untraced policy holders will be transferred to the Fund from 2004 onwards.

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.

EUROPEAN CENTRAL BANK LIQUIDITY MANAGEMENT

- Cash management activity with respect to Government balances amounted on average to €500 million daily.

HOUSING FINANCE AGENCY FUNDING

- In 2002 the NTMA was empowered by legislation to carry out borrowing and debt management activities on behalf of the Housing Finance Agency.

NÍTRIGIN ÉIREANN TEORANTA

- Pursuant to the Nítrigin Éireann Teoranta Act 2001, the NTMA paid off the final €10 million of Nítrigin Éireann Teoranta debt of some €250 million on 29 November 2002.

CONSULTANCY & INTERNATIONAL RELATIONSHIPS

- A number of Sovereign borrowers – mainly from EU applicant countries – have consulted the NTMA with respect to its debt management expertise. NTMA recently hosted the EU Small Countries Debt Management Group.

PERSONNEL

- The number of staff currently employed by the NTMA stands at eighty-four which is an increase of almost 40 per cent since end 2001. Most additional staff are deployed in the new businesses undertaken over the course of the last 18 months.

ADVISORY COMMITTEE

The Advisory Committee met formally on five occasions in 2002. Other meetings with members of the Committee took place on a regular basis.

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

FUNDING AND DEBT MANAGEMENT

The Exchequer had a surplus of €93 million in 2002. The Exchequer was financed in part by a reduction of €500 million in the balances in the Capital Services Redemption Account. This Account – in effect a depreciation account for Exchequer voted Capital expenditure – does not hold substantial cash (it holds short-term government paper) and had to be refinanced for this purpose. This gave rise to a cash need of €410 million, comprising the above two items together with a reduction of €3 million in the Small Savings Reserve Fund.

During the course of 2002 the NTMA's sources of funds with respect to its funding and debt management activities were as follows:

SOURCES	€ MILLION
Sale of Bonds denominated in euro	6,486
Repayment of loan facility by Housing Finance Agency	628
Net Sales under National Savings Schemes	39
	7,153

These funds were used as follows:

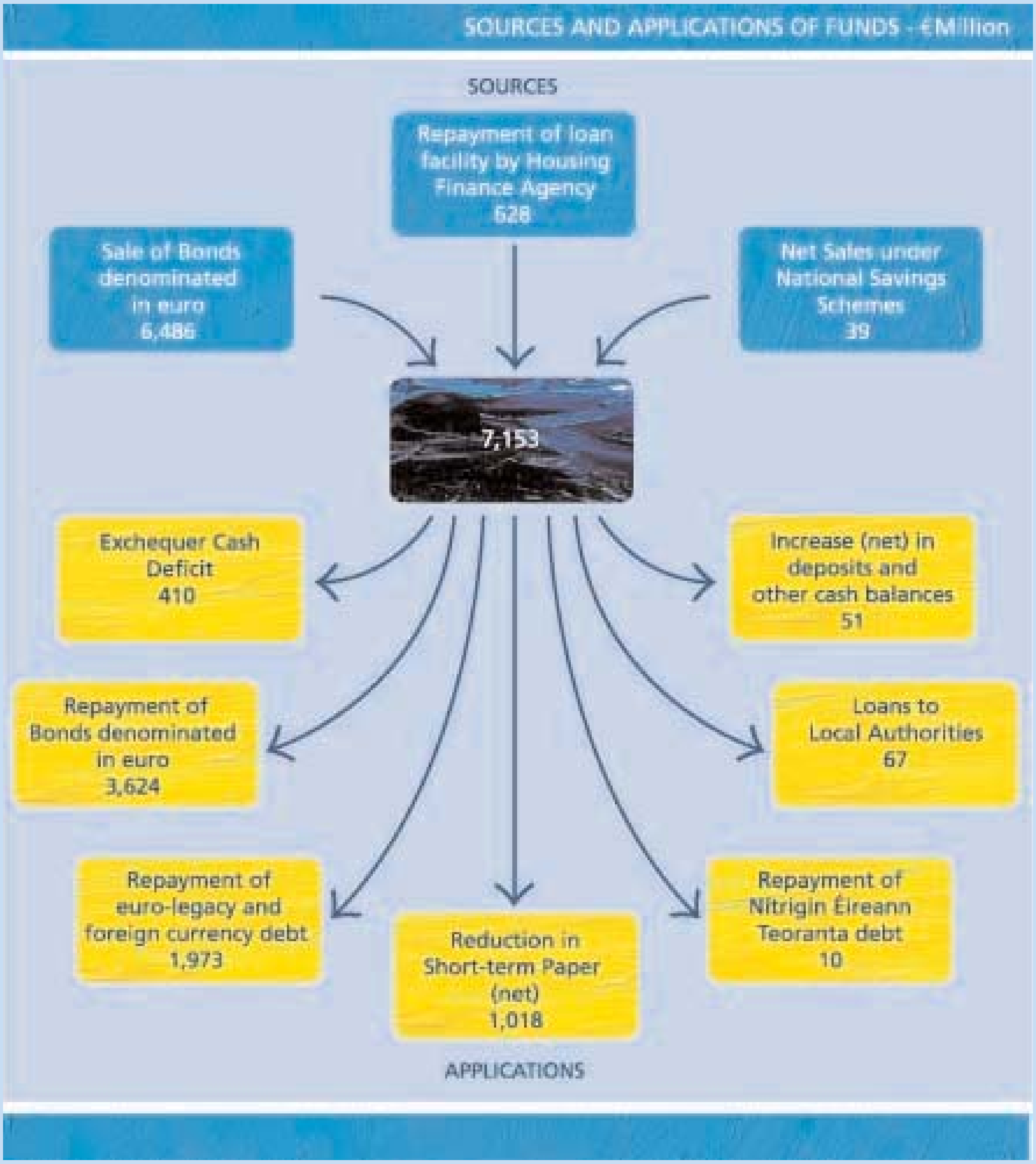
APPLICATIONS	€ MILLION	€ MILLION
Exchequer cash deficit[1]		410
Debt Repayments		
Bonds denominated in euro	3,624	
Euro-legacy & foreign currency debt[2]	1,973	
Short-term Paper (net)	1,018	
Nítrigin Éireann Teoranta debt	10	6,625
Loans to Local Authorities		67
Increase (net) in deposits and other cash balances		51
		7,153

1 *Exchequer cash deficit arises from the reported Exchequer surplus (€93 million) less a reduction of €503 million in other balances.*

2 *Euro legacy debt comprises debt contracted and denominated in the individual currencies of other EMU participant countries, now replaced by the euro.*

Gross cash flows across all business activities increased by €14 billion to €314 billion. These flows consisted of gross payments of €160 billion and gross receipts of €154 billion.

The diagram below shows the main sources and applications of funds:



THE NATIONAL DEBT

The nominal value of the National Debt as traditionally measured, which is calculated net of cash balances, was €36.4 billion at end 2002 as compared with €36.2 billion at the end of 2001. The relatively small increase in the Debt reflects a number of factors, in particular the planned reduction in the balance in the Capital Services Redemption Account by €500 million. This reduction was partly offset by the Exchequer budget surplus of €93 million, by a positive exchange rate impact of €72 million and by the net premium of €167 million on tranches and cancellations of bonds. The factors contributing to the overall change in the Debt are shown below.

CHANGE IN THE NATIONAL DEBT IN 2002	€ MILLION	€ MILLION
National Debt (end 2001)		36,183
Plus		
• Repayment of Nítrigin Éireann Teoranta debt	10	
• Reduction in balance on Capital Services Redemption Account	500	510
Less		
• Exchequer Surplus	93	
• Positive Exchange Rate Impact	72	
• Net premium on Tranches and Cancellations[1]	167	332
Change in National Debt		178
National Debt (end 2002)		36,361

CURRENCY AND DURATION OF THE DEBT

The NTMA continued its policy of substantially eliminating foreign exchange risk by hedging most non-euro liabilities. As a result, some 98 per cent of the National Debt at the end of 2002 was denominated in euro with the balance of 2 per cent in sterling. Since then, taking advantage of the fall in the value of sterling, that balance has been eliminated.

The duration of the debt increased from 3.4 to 4.5 years during 2002. New bond issuance of €6.5 billion replaced maturing medium and long-term debt and facilitated a reduction of over €1 billion in the balances of short term paper outstanding.

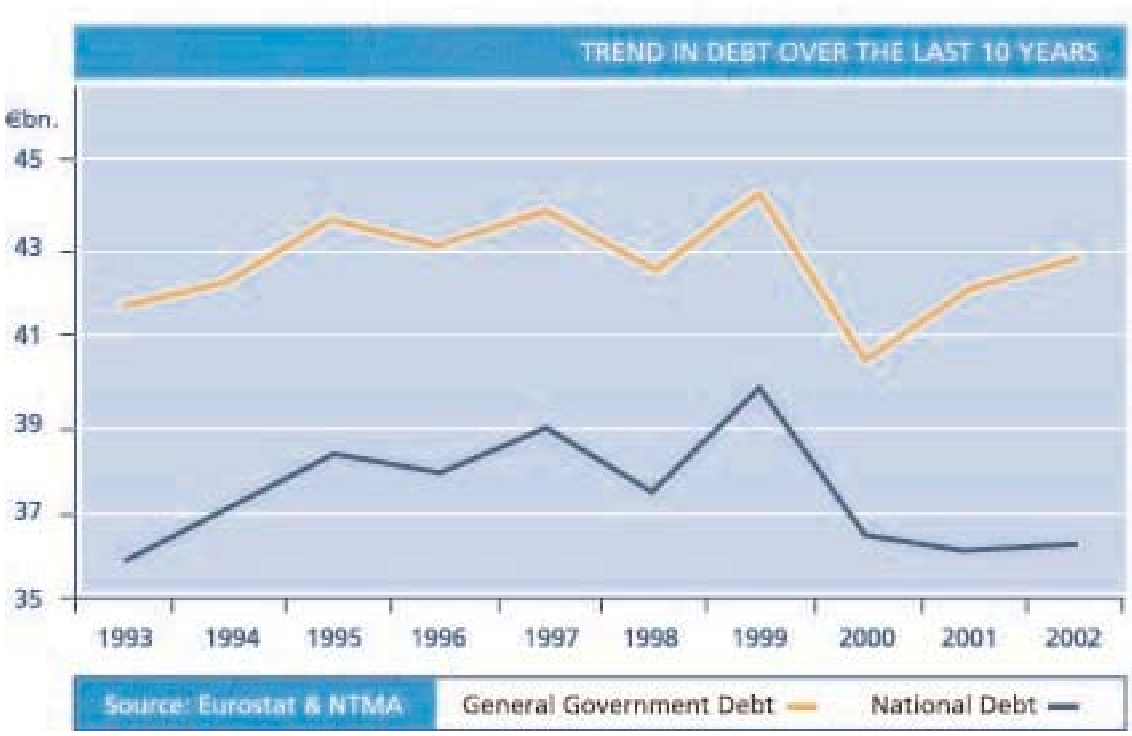
[1] *Premiums/Discounts arise when bonds are issued/cancelled at other than their par value due to a difference between the coupon on the debt and market yields.*

GENERAL GOVERNMENT DEBT

General Government Debt (GGD) is the definition of debt used for comparative purposes within the European Union. The National Debt, as traditionally measured, is the principal component of GGD. However, GGD is a gross measure of debt and, therefore, does not include any offset for Exchequer cash balances. In addition, GGD represents a wider definition of Government, including Local Government, certain extra-budgetary funds and the estimated gross interest overhang on the National Savings Schemes. This overhang amounts to some €2,208 million at end 2002, against which there is a provision of €1,108 million in the Small Savings Reserve Fund. GGD does not include intra-Government debt; it calculates the consolidated gross debt owed by the Government sector as a whole. GGD was some €42.7 billion at end 2002. This compares with a figure of €42.1 billion at end 2001, an increase of some €0.6 billion. While the National Debt increased by some €0.2 billion, the increase in Local Authority debt is the main residual factor accounting for the overall increase in GGD.

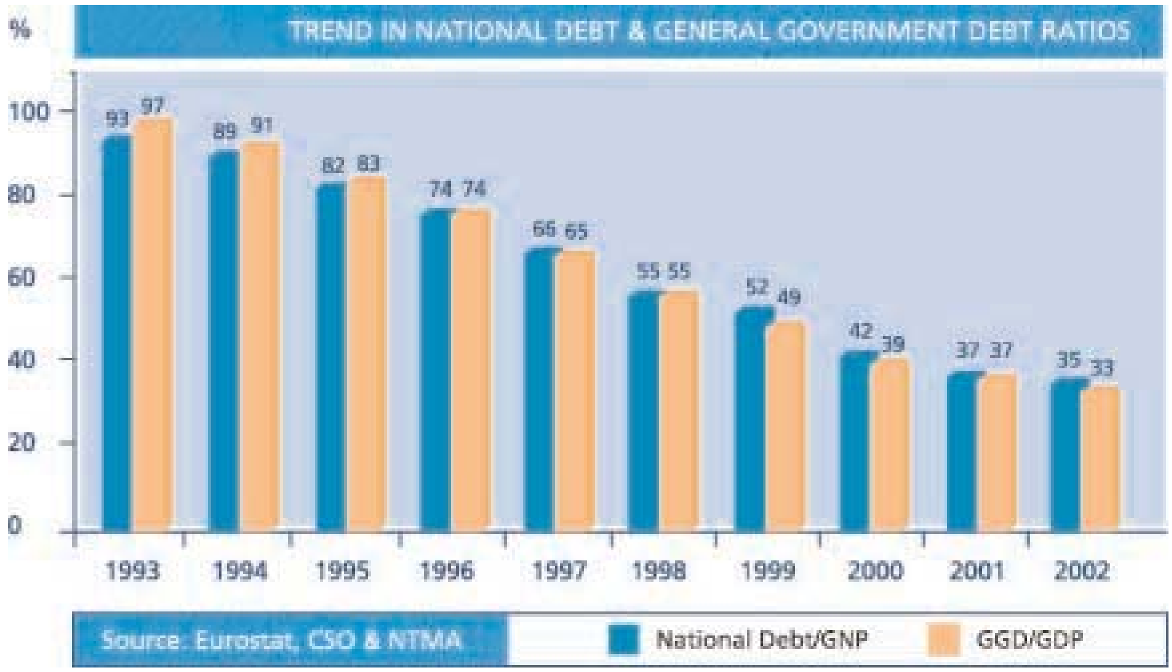
TREND IN THE NATIONAL DEBT AND GENERAL GOVERNMENT DEBT

As a result of the foregoing factors, there have been divergent trends since 2000 in the National Debt and General Government Debt as shown in the graph below:



DEBT RATIOS

The General Government Debt/GDP ratio fell by some 3.8 percentage points during the year – from 36.8 per cent at end 2001 to an estimated 33 per cent at end 2002, mainly reflecting the relatively strong growth in nominal GDP in 2002. Similarly, the National Debt expressed as a percentage of GNP also decreased by some 2.7 percentage points to an estimated 34.7 per cent at end 2002 from some 37.4 per cent a year earlier.

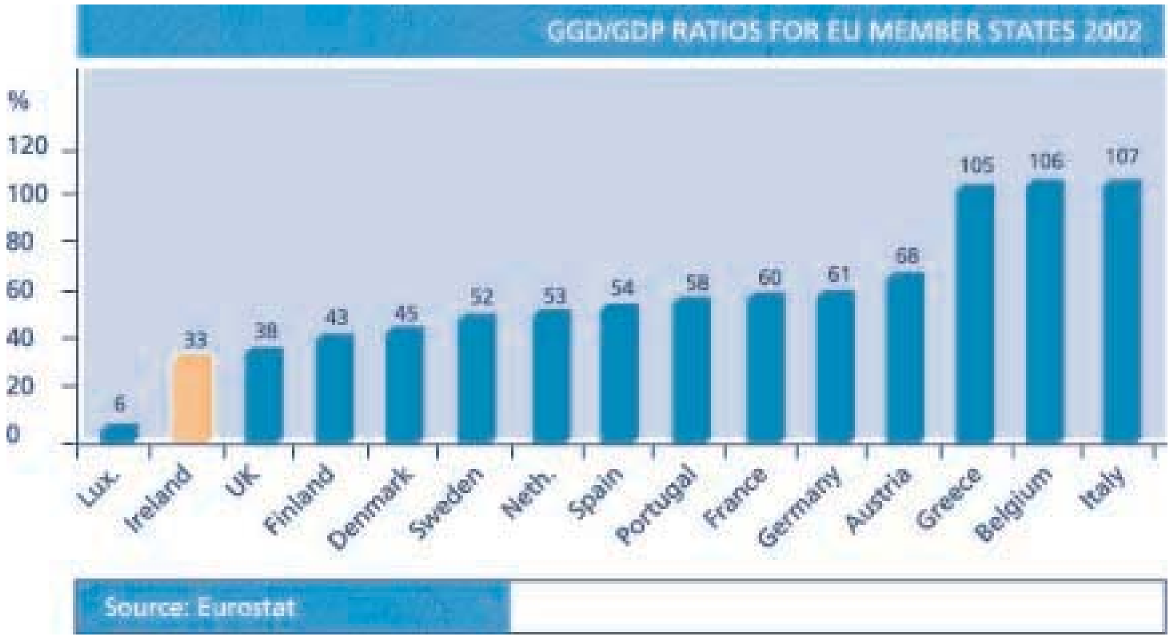


If the €7.43 billion value at year end of the National Pensions Reserve Fund were to be offset against the National Debt, as is the case with Exchequer cash balances, it would have reduced the National Debt/GNP ratio at end 2002 by an additional 7.1 percentage points, from 34.7 per cent to 27.6 per cent. Similarly, netting out the Fund from the General Government Debt would have reduced the GGD/GDP ratio by an additional 5.8 percentage points, from 33 per cent to 27.2 per cent.

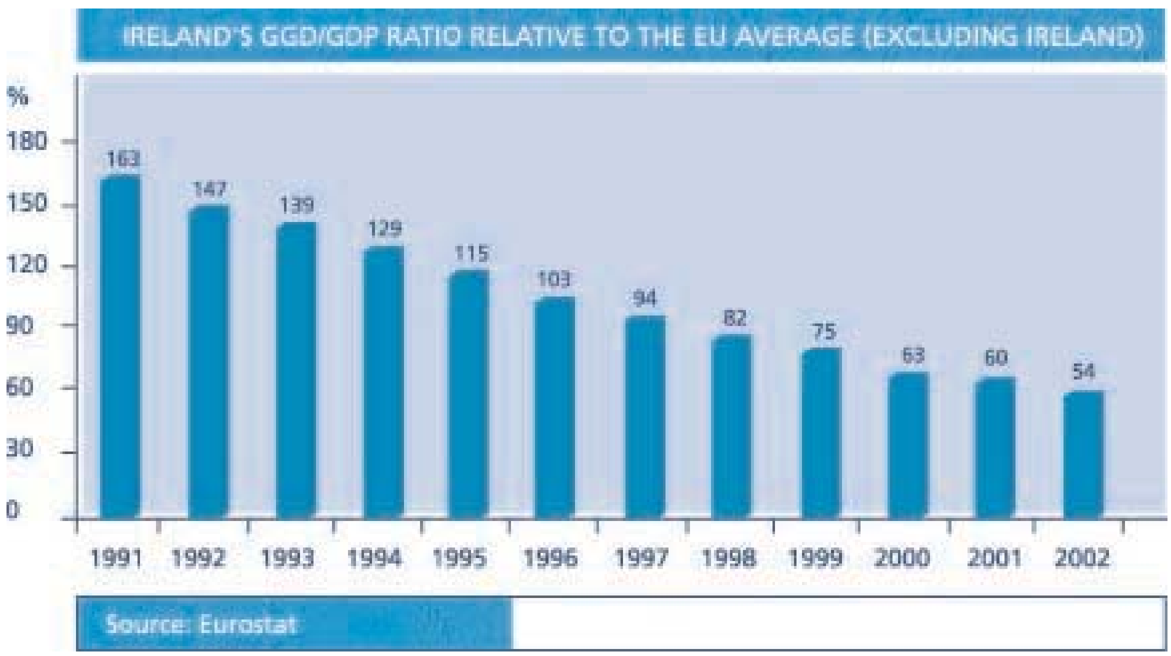
The Government's three-year Budget Plan announced in December 2002 points to a broad stability in the GGD/GDP ratio for 2003 – at some 34 per cent and marginally increasing to around 35 per cent by 2005.

INTERNATIONAL COMPARISONS

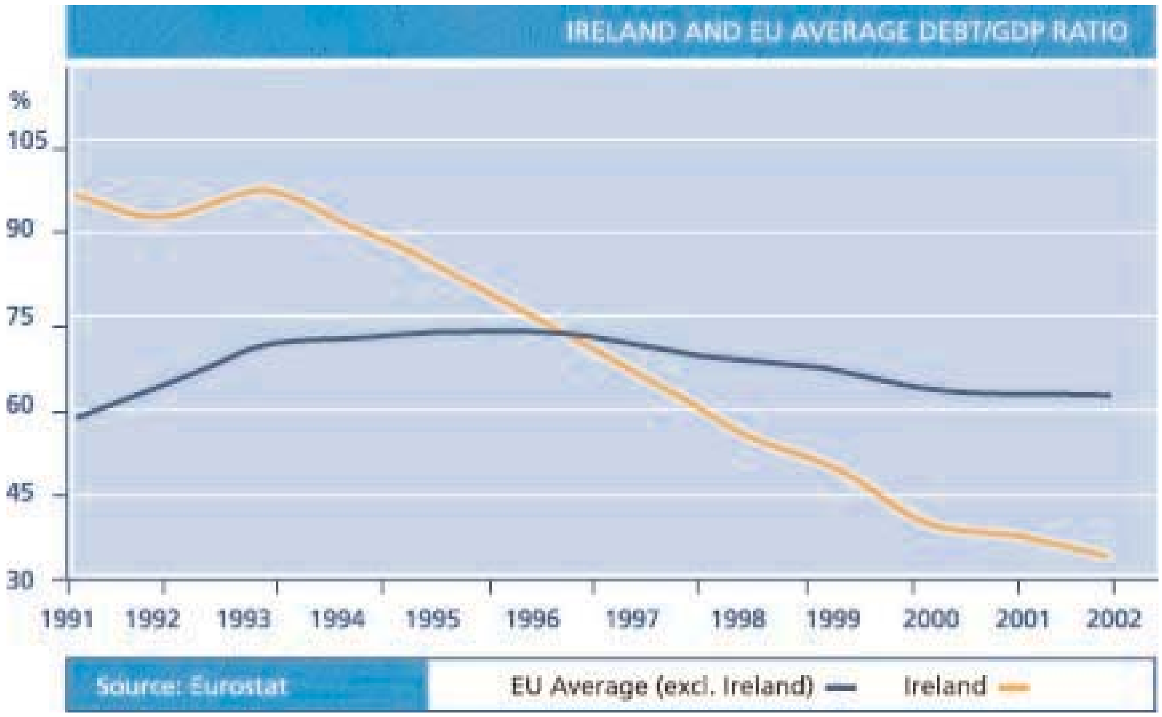
International comparisons of indebtedness are normally based on the ratio of General Government Debt to Gross Domestic Product – GGD/GDP.



At end 2002, 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.



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:



DEBT SERVICE COSTS

The total debt service budget for 2002 was €2,484 million (€1,984 million from the Exchequer and €500 million from the Capital Services Redemption Account (CSRA)). The outturn at €2,169 million was €315 million lower than budget, mainly due to a number of technical factors including favourable interest and exchange rate movements, as well as debt management initiatives. The NTMA built up a large portfolio of short term debt in the course of 2001 to benefit from declining short term yields. Advantage was taken of the historically low level of bond yields in 2002 to refinance in the long end of the bond market a portion of the short term debt. This process continued into 2003.

Of the expenditure of €2,169 million, €1,669 million came directly from the Exchequer, €315 million below the original budget of €1,984 million. CSRA debt service expenditure of €500 million was in line with the Budget Statement of the Minister for Finance.

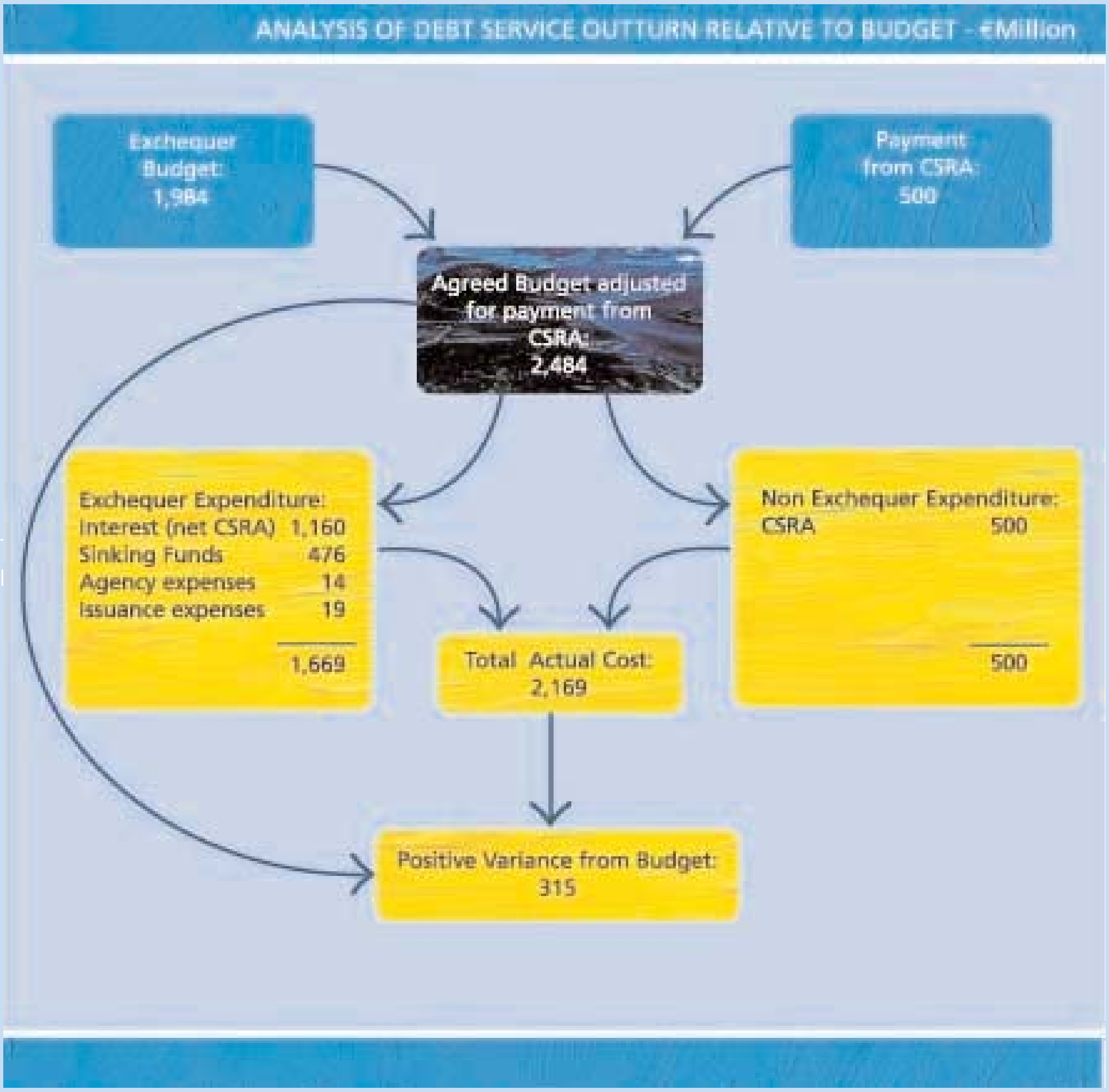
ANALYSIS OF EXCHEQUER DEBT SERVICE OUTTURN RELATIVE TO BUDGET (€MILLION)

	BUDGET	OUTTURN
Exchequer Debt Service Expenditure	1,984	1,669
Plus: Payment from CSRA	500	500
Underlying Debt Service Expenditure	2,484	2,169
Favourable Variance from Budget		315

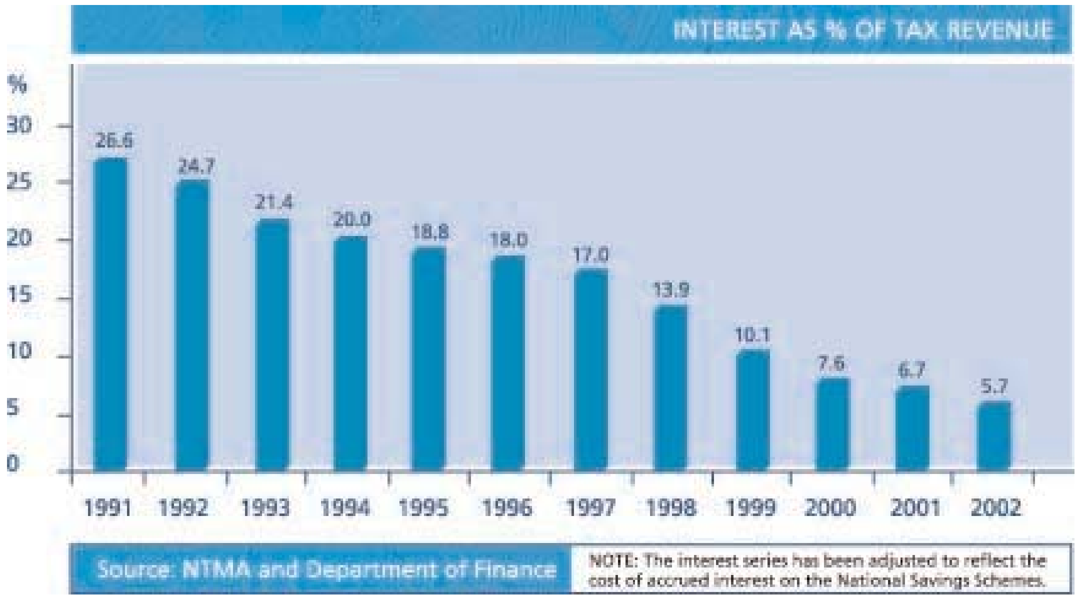
Debt service costs of €2,169 million include interest payments of €1,660 million, sinking fund payments of €476 million, fees of €19 million and administration expenses of €14 million. The interest payments of €1,660 million include the above mentioned payment of €500 million from the CSRA.

The favourable variance of €315 million on debt service costs was reflected in the overall Exchequer outturn (Surplus of €93 million) at end 2002.

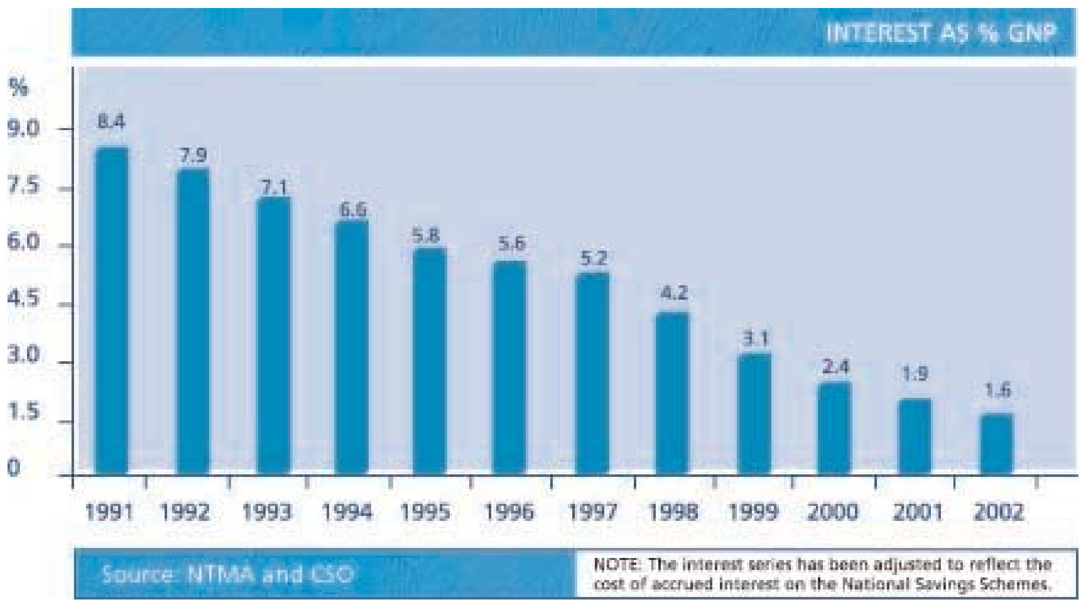
A diagram showing the breakdown of debt service costs is set out below:



The interest burden of the National Debt continued to fall in 2002. As represented by the ratio of interest payments to tax revenue, the interest burden declined by an estimated 1 percentage point to 5.7 per cent. This continues the downward trend of the past several years, bringing the debt service burden to less than a quarter of its level in 1992 as can be seen on the next page:



The interest burden expressed relative to GNP declined further in 2002, falling to 1.6 per cent.



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 overhang built up over the years in respect of unpaid interest. The Small Savings Reserve Fund was established in 1994 to address this growing interest overhang. Since 1999 the Minister for Finance has provided in each Budget for the full accrual of interest. At end 2002, the Reserve stood at €1,108 million, or 50 per cent of the estimated interest overhang of €2,208 million.

DEBT MANAGEMENT

The composition of the National Debt as at end 2002, together with comparative figures for 2001, is shown below:

	€MILLION (NOMINAL)			
	31 DECEMBER 2001		31 DECEMBER 2002	
Bonds denominated in euro (listed on the Irish Stock Exchange) of which:		19,632		22,323
Domestic Investors	9,142		7,655	
Non-resident Investors	10,490		14,668	
Other Medium Term Debt				
Euro and foreign currency debt hedged into euro	3,784		2,144	
Foreign currency debt	1,059	4,843	660	2,804
National Savings Schemes		5,140		5,173
Short Term Debt				
Euro and foreign currency debt hedged into euro, net of cash deposits	5,555		5,987	
Foreign currency debt, net of cash deposits	1,013	6,568	74	6,061
TOTAL		36,183		36,361

MATURITY PROFILE

At end 2002 euro denominated bonds outstanding had maturities ranging out to 2016 while most of the medium and long term foreign currency and euro legacy currency debt will mature in 2003. The greater part of the euro denominated bonds outstanding matures in 2007 and 2013, reflecting the effect of the bond switching programme of January 2002 when the majority of the investors in the 2005 and 2010 benchmark bonds availed of the opportunity of switching their holdings into two new benchmark bonds, the 4.25% Treasury Bond 2007 and the 5% Treasury Bond 2013 respectively. In addition the long term funding in 2002 was carried out by means of auctions of further amounts of the 2007 and 2013 bonds together with one auction of the 4.6% Treasury Bond 2016.

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 maturity profile of outstanding medium and long term debt as at year-end is shown below:

FUNDING ACTIVITY

Bond funding activity in 2002 was by way of the sale in ten monthly auctions of a total of €6.6 billion (nominal) of medium and long term euro denominated bonds. Some €1,018 million of maturing short term paper was refinanced in the bond market to lock in a favourable cost for more long term funds at a time when, by historical standards, bond yields were declining to very low levels. In addition, some €5.5 billion of short term debt was refinanced in the short term paper markets. A facility of some €628 million which had been advanced to the Housing Finance Agency was also repaid in 2002.

IRISH GOVERNMENT BOND MARKET

Current Liquid Bond Issues

The NTMA's Primary Dealers are obliged to make continuous two-way prices in the following benchmark bonds which constitute 86 per cent of the fixed rate bonds in issue with more than one year to maturity:

BOND	MATURITY DATE	OUTSTANDING €M[1]
4.25% Treasury Bond 2007	18 October 2007	6,084
3.25% Treasury Bond 2009	18 April 2009	3,006
5.00% Treasury Bond 2013	18 April 2013	6,879
4.60% Treasury Bond 2016	18 April 2016	5,785

Bond Switching Programme

In January 2002 the NTMA conducted its first major bond switch since the 1999 Securities Exchange Programme. Investors were offered the opportunity of switching their holdings of two old benchmark bonds, the 3.50% Treasury Bond 2005 and the 4% Treasury Bond 2010, into two new benchmarks, the 4.25% Treasury Bond 2007 and the 5% Treasury Bond 2013. The old benchmark bonds, which had been the designated 5 year and 10 year benchmarks since they were issued in 1999, had, with the passage of time, become 3 year and 8 year bonds. The bond exchange programme enabled the NTMA to have two new benchmarks which were attractive to investors and which could be auctioned over the course of the year to cover its funding requirements. In addition, these bond issues were increased in size by auctions to over €5 billion each to make them eligible by mid 2002 for trading on EuroMTS, the major European platform for the electronic trading of Government benchmark bonds.

In January 2002 the bond switch was successfully conducted via the Primary Dealers. Some 56 per cent of the 2005 bond and 77 per cent of the 2010 bond were exchanged into the new 2007 and 2013 bonds respectively on the day of the switch. After the conclusion of the switch programme the NTMA bought back some additional amounts of the 2005 bond so that the total amount retired exceeded 60 per cent. Consequently, both the 3.5% Treasury Bond 2005 and the 4% Treasury Bond 2010 then ceased to be benchmark bonds. In June 2002 the two new benchmark bonds, the 4.25% Treasury Bond 2007 and the 5% Treasury Bond 2013, were listed on EuroMTS.

[1] *As at 30 June 2003*

Primary Dealer System

The Irish Government bond market is based on a Primary Dealer system. There are eight 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. However, about 95 per cent of turnover in the Irish Government bond market is accounted for by the Primary Dealers. The Primary Dealer system, which was introduced at the end of 1995, has brought improved depth and liquidity to the market while the bond repo market has grown in tandem, adding to the liquidity in the bond market.

The Primary Dealers are:

ABN AMRO, London
AIB Capital Markets, Dublin
Barclays Capital, London
Citigroup Global Markets Limited, London
Credit Agricole Indosuez, Paris
Davy Stockbrokers, Dublin
Deutsche Bank, Frankfurt
NCB Stockbrokers, Dublin

Citigroup Global Markets Limited and Barclays Capital were recognised as Primary Dealers in September 2002 and February 2003 respectively.

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

Electronic Trading – EuroMTS and MTS Ireland

With the switch to electronic trading in June 2002 the benchmark bonds, 4.25% Treasury Bond 2007 and 5% Treasury Bond 2013, were listed on the EuroMTS platform. The 4.6% Treasury Bond 2016 was also listed on EuroMTS in April 2003 when it exceeded the €5 billion threshold for inclusion in the system. There are twelve market makers for Irish Government bonds on EuroMTS, namely the eight Primary Dealers listed above together with the following four institutions:

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

The 3.25% Treasury Bond 2009 is currently listed on the domestic system, MTS Ireland, together with the three benchmark bonds which are also listed on EuroMTS.

All Euro area sovereign issuers (except Luxembourg) have their bonds listed on the EuroMTS system. The listing of the Irish Government bonds on MTS has greatly enhanced turnover, price transparency and liquidity. The bid offer spread on the bonds has also narrowed, making them more attractive to investors due to the reduced cost of trading them. On average, about €300 million of Irish Government bonds are traded on the system each week.

Irish Government Bond Yields

Irish Government bond yields declined over the course of 2002 in line with the trend in all major markets. The yield on the benchmark 5% Treasury Bond 2013 reached its highest level of 5.5 per cent on 25 March 2002, subsequently falling 120 basis points to 4.3 per cent at end year. The trend of declining bond yields has continued into 2003, both internationally and in Ireland, where the yield on the 5% Treasury Bond 2013 fell to 3.84 per cent on 30 June 2003. This represents a drop of 166 basis points over 15 months.

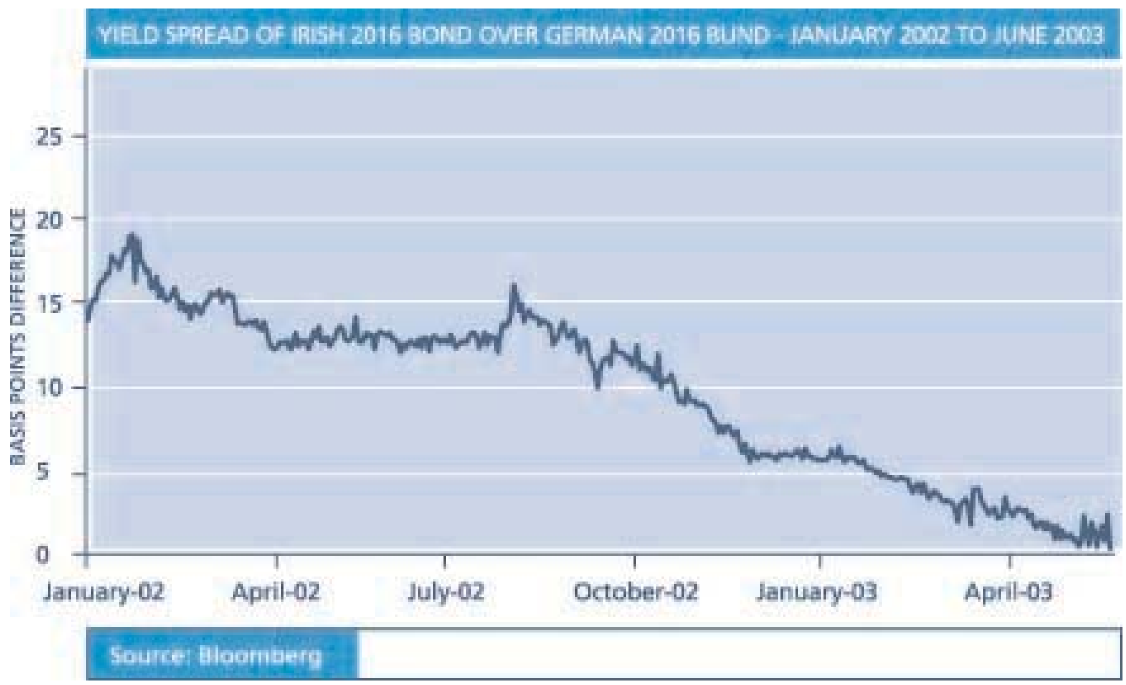
A notable feature of the final quarter in Europe was a significant tightening of yield spreads in the smaller peripheral government bond markets of the eurozone versus the "core" markets of Germany and France. In Ireland's case the 10 year yield spread over Germany ended the year at +10 basis points, having averaged +22 basis points for the year, and having been as wide as +30 basis points. The positive outlook for Ireland's public finances as well as the triple A credit ratings and the low debt/GDP ratio, together with the MTS listing, have ensured that investors find Irish Government bonds increasingly attractive versus the core European markets.

This trend towards smaller yield differentials has continued into 2003, with the Irish 10 year yield only 5 basis points over Germany in mid-June. Some of Ireland's bonds, for example the 3.25% Treasury Bond 2009 and the 4.6% Treasury Bond 2016, have traded with a yield just one basis point (one hundredth of one per cent) over the German yield.

Each one basis point narrowing of the yield spread over Germany leads to a net present value saving for the Exchequer of over €4 million on new bond issues.

The following graphs show for the period from the beginning of January 2002 to June 2003:

- Irish Government benchmark bond yields.
- Irish and German Government yield differential for bonds maturing in 2016.



IRISH GOVERNMENT BOND ISSUANCE IN 2002

The NTMA prepared the ground for its successful bond issuance programme in 2002 by implementing in January 2002 the bond switching programme referred to earlier. The two new benchmark issues created in the programme were tapped in ten regular monthly auctions of €600 million from February to November 2002 inclusive, except October, when the benchmark 4.6% Treasury Bond 2016 was auctioned. These auctions were more than twice the size of any auction previously conducted and the average bid-to-cover ratio was 2.18 times. In addition to the total of €6 billion raised by the competitive auctions during the year, €600 million was raised through the non-competitive auction process.

AUCTIONS 2002

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
21 Feb	4.25% Treasury Bond 2007	600	97.356	4.799%	2.4	120
21 Mar	5% Treasury Bond 2013	600	96.229	5.464%	2.1	0
18 Apr	4.25% Treasury Bond 2007	600	96.436	5.009%	1.9	120
16 May	5% Treasury Bond 2013	600	96.219	5.468%	2.3	120
20 Jun	4.25% Treasury Bond 2007	600	97.948	4.694%	1.8	0
18 Jul	5% Treasury Bond 2013	600	98.896	5.133%	1.5	120
15 Aug	4.25% Treasury Bond 2007	600	100.258	4.193%	2.3	0
19 Sep	5% Treasury Bond 2013	600	103.514	4.57%	2.2	0
17 Oct	4.6% Treasury Bond 2016	600	95.481	5.068%	2.8	120
21 Nov	4.25% Treasury Bond 2007	600	101.792	3.84%	2.5	0

BOND ISSUANCE IN 2003

New Benchmark Bond Issued in February 2003

A new benchmark bond, the 3.25% Treasury Bond 2009, was launched by auction of €1 billion on 20 February 2003. This was the single largest auction ever conducted by the NTMA. Bidding was very keen, with total demand equal to 2.3 times the amount on offer. The new benchmark bond now trades on the domestic electronic trading system, MTS Ireland.

Bond Auctions

Bond auctions are scheduled for the third Thursday of each month in 2003, except January and December and are conducted using the electronic Bloomberg Auction System. The cut-off time for bids is 9.30 a.m. Auctions are confined to the eight Primary Dealers. The auction 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 up to 20 per cent of the amount sold in the competitive auction then follows and is open for two business days.

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 Feb	3.25% Treasury Bond 2009	1,000	99.315	3.374%	2.3	200
17 Apr	4.6% Treasury Bond 2016	650	101.422	4.453%	2.4	Nil
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	4.05%	2.2	Nil

Non-Resident Investment

Non-resident investment in Irish Government bonds has increased significantly since the introduction of the euro. At end 1998 non-resident investors held 21.8 per cent of the total bonds outstanding. By end 2002 they accounted for 65.7 per cent of the outstanding bonds. Currently this figure is almost 70 per cent.

Turnover

Turnover in Irish Government bonds on the Irish Stock Exchange in 2002 was €93.5 billion. The bond switching programme of January 2002 accounted for €32.2 billion of turnover. Excluding this, the turnover was €61.3 billion, an increase of 41 per cent on the 2001 turnover amount of €43.6 billion. The increase in turnover in 2002 reflects the return to bond funding and the regular monthly auctions as well as the establishment by the NTMA of large liquid benchmark bonds coupled with the listing of Irish Government bonds on the EuroMTS and the MTS Ireland electronic trading platforms during the year. Turnover in the first quarter of 2003 was €21.3 billion, which is a 31 per cent increase on the corresponding period in 2002, excluding the bond switching programme.

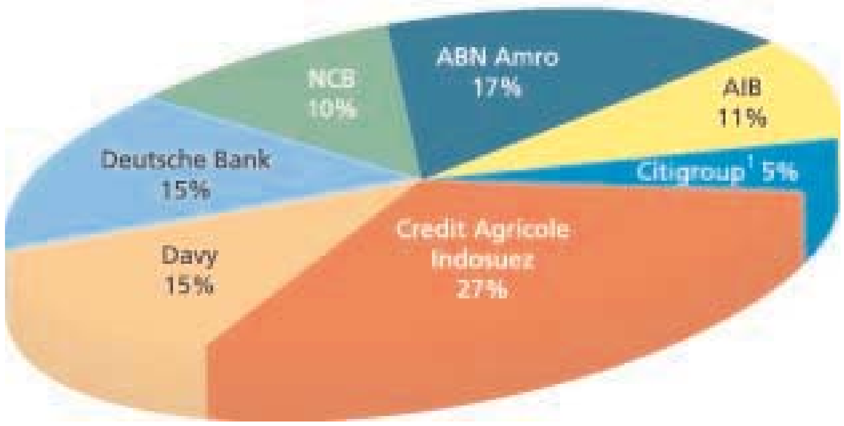
Reported turnover figures are understated to the extent that intermediaries who are not members of the Irish Stock Exchange, notably non-residents, or other non-primary dealer market makers, deal in Irish Government bonds via Euroclear and Clearstream with counterparties who likewise are not members of the Irish Stock Exchange; such deals would not be included as part of the turnover reported by the Irish Stock Exchange.

REPOS

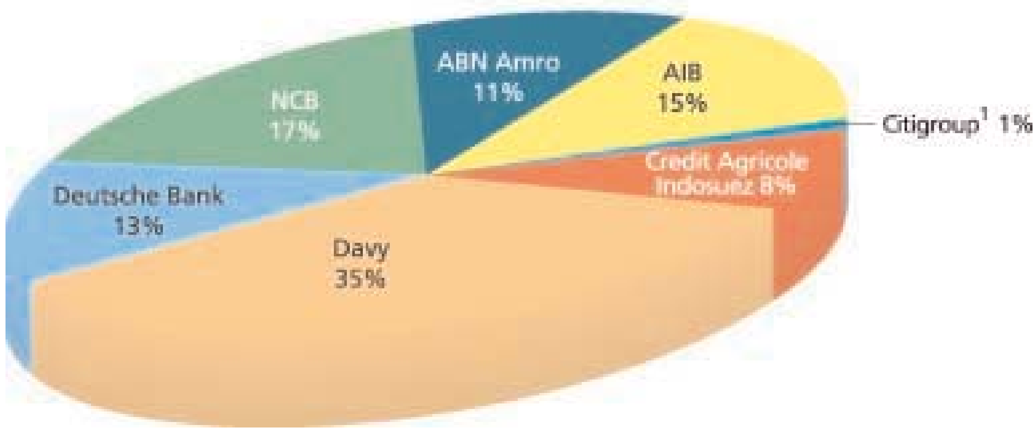
A bond repo and reverse repo facility is provided by the NTMA to the Primary Dealers in Irish Government Bonds. This allows Primary Dealers to borrow bonds or cash to cover short positions on a secured basis. Repo turnover as reported by the Irish Stock Exchange was €211 billion in 2002.

PRIMARY DEALERS ACTIVITIES

PRIMARY DEALERS AUCTION UPTAKE 2002



PRIMARY DEALERS RETAIL MARKET SHARE 2002



[1] *Citigroup Global Markets Limited became a Primary Dealer in September 2002. Accordingly it was eligible to take part in only 3 auctions in which its average participation was 17.6 per cent. Its retail market share for the last 4 months of 2002 was 5.77 per cent.*

Price Making

The price making obligations of the market makers for the Irish Government benchmark bonds on EuroMTS / MTS Ireland are as follows:

BOND	MAXIMUM SPREAD € CENT	MINIMUM SIZE € MILLION
4.25% Treasury Bond 2007	7	10
3.25% Treasury Bond 2009[1]	7	10
5% Treasury Bond 2013	10	10
4.6% Treasury Bond 2016	10	10

Secondary Trader

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 trader is to provide liquidity to the market and to act as a source of market intelligence for the NTMA.

Clearing and Settlement of Irish Government bonds in Euroclear

In December 2000, the NTMA outsourced the clearing and settlement function for Irish Government bonds to Euroclear Bank, Brussels, from the then Central Bank of Ireland. The newly constituted Central Bank and Financial Services Authority of Ireland continues to maintain the register of holders of Irish Government bonds, the majority of which are held in the name of Euroclear Bank. Bond dealings settle (payment in full) on a t+3 basis (i.e. three business days after the trade date) on TARGET operating days.

Bond Indices

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

- Bloomberg/EFFAS - Government Bond Index
- Citigroup Global Markets Limited - World Government Bond Index
- JP Morgan - Irish Government Bond Index
- Lehman Brothers - Global Bond Index
- Merrill Lynch - Global Government Bond Index II

Medium Term Foreign Currency And Euro Legacy Currency Debt

The medium and long term foreign currency debt which was in the portfolio before the adoption of the euro has been swapped into euro. As this former foreign currency debt matures it is refinanced in euro. The NTMA actively buys back and cancels this debt as opportunities arise in the market. By end 2003 virtually all of this former foreign currency debt will have matured.

[1] *Currently quoted on MTS Ireland only.*

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 low level of funding as a result of the healthy state of the public finances and the policy decision to concentrate funding through the Primary Dealer system these programmes have not been used in recent years.

SHORT TERM DEBT

Ireland Commercial Paper Programmes

Ireland has a US$8 billion multicurrency Euro Commercial Paper Programme in London and a US$1 billion US Commercial Paper Programme in New York. These programmes provide funds at attractive levels, significantly below EURIBOR, and are used as bridging finance in the replacement of longer term debt and for other liquidity management purposes.

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 multicurrency Euro Commercial Paper Programme. The HFA's borrowings are for onlending to local authorities for the provision of social housing. They are guaranteed by the Minister for Finance and have the top short term credit ratings from Moody's and Standard & Poor's.

To avoid any foreign currency exposure all non-euro borrowings under these two programmes are immediately swapped into euro. The co-ordination and management of the HFA borrowings in tandem 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.

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 the investor's 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. The NTMA makes continuous two-way prices in Exchequer Notes thereby maintaining an active market. Prices are shown on Reuters and Bloomberg, page NTMA.

Agricultural Commodity Intervention Bills

Agricultural Commodity Intervention Bills are short term instruments, managed by the NTMA, which are designed to fulfil the short term funding requirements of the Department of Agriculture and Food. These requirements arise from ongoing intervention payments made to farmers which are refunded to the Department by the European Commission at regular intervals.

Section 69 Multicurrency Notes

Section 69 of the Finance Act 1985 was introduced for the purpose of encouraging foreign owned companies located in Ireland to invest their surplus funds in Ireland rather than repatriate them to their parent companies. Eligible companies may invest directly with the NTMA in euro or in any of the other major currencies. They may choose the period of investment (up to a maximum of one year) and the amount of investment (subject to a minimum investment amount of €100,000 or its equivalent amount in other currencies). 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.

ECB Liquidity Management

The NTMA engages in a series of cash management operations each day to regulate the level of Government cash balances at the Central Bank and Financial Services Authority of Ireland. This activity is undertaken as part of the overall management of liquidity in the euro zone by the European Central Bank. Daily transactions are on average €500 million.

NATIONAL SAVINGS

In 2002 there was a net inflow to the National Savings Schemes of €39 million in contrast to the outflows in the previous three years. At end 2002, the amount outstanding in these Schemes was €5,173 million, excluding accrued interest, representing 14 per cent of the National Debt. The percentage share of the National Debt has been constant since 1999. This figure rises to 17 per cent of the General Government Debt when accrued interest is taken into account.

The level of receipts in 2002 was partly attributable to a net inflow of €169 million into the Post Office Savings Bank, of which €66 million was received in the Special Savings Incentive Accounts. Investment in Prize Bonds was €43 million – a record high. There was a total net outflow of €173 million from Savings Certificates, Savings Bonds and National Instalment Savings as high coupon issues reached maturity.

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 the Foreign Exchange Company of Ireland (FEXCO).

The composition of the outstanding debt in the National Savings Schemes at end 2002 is shown below:

COMPOSITION OF NATIONAL SAVINGS AT END 2002

Details of the total amount outstanding at end 2002 and of the net amounts raised or repaid in 2002 in each of the savings schemes are as follows:

SAVINGS SCHEMES	TOTAL OUTSTANDING AT END 2002 € MILLION	MONEY RAISED/REPAID IN 2002 (NET) € MILLION
Savings Certificates	2,351	-140
Savings Bonds	1,045	-9
National Instalment Savings	427	-24
Prize Bonds	375	43
Savings Stamps	2	0
Post Office Savings Bank (POSB)	973	169
Total Principal Outstanding	5,173[1]	39
Accrued Interest (estimated)	2,208	-382
TOTAL	7,381	-343

Of the estimated €2,208 million outstanding at end 2002 in accrued interest on Savings Certificates, Savings Bonds and National Instalment Savings (compared to €2,303 million at end 2001) a total provision of €1,108 million has been provided for in successive budgets since 1994. This represents 50 per cent of the total accrued interest outstanding. A sum of €3 million was withdrawn from the Small Savings Reserve Fund in 2002.

ADMINISTRATION COSTS

The total administration fees paid to An Post and the Prize Bond Company in respect of the Schemes in 2002 was €38.7 million as detailed below:

SAVINGS SCHEMES	€ MILLION
Savings Certificates	3.8
Savings Bonds	1.9
Instalment Savings	2.8
Prize Bonds[2]	5.5
Savings Stamps	1.0
Post Office Savings Bank[3]	23.7
TOTAL	38.7

1 This figure is included in the National Debt.
2 These fees were paid to the Prize Bond Company. The other fees listed are paid directly to An Post.
3 Fees relating to the Post Office Savings Bank (POSB) are paid from the POSB Fund.

SAVINGS CERTIFICATES, SAVINGS BONDS AND INSTALMENT SAVINGS

The current rates of return on these Savings Schemes, which are exempt from Irish income tax, are set out below:

- Savings Certificates: 16 per cent over a $5\frac{1}{2}$ year period, equivalent to an average annual rate of 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 rate of 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 after 5 years, equivalent to an average annual rate of interest of 2.57 per cent after allowance is made for the payment of the instalments over 12 months. Minimum monthly investment is €25 with a maximum monthly investment limit of €500.

POST OFFICE SAVINGS BANK

The Post Office Savings Bank (POSB) grew by €160 million to €973 million by end 2002. Nearly two-thirds of the growth came from book-based demand deposit accounts.

There are tiered interest rates on the POSB accounts. The rates which applied throughout 2002 were as follows:

DEMAND ACCOUNT	RATES PER ANNUM
Under €6,000	0.25%
€6,000 and over	0.50%

DEMAND ACCOUNT PLUS	RATES PER ANNUM
Under €50,000	2.0%
€50,000 and over	2.5%

SPECIAL SAVINGS INCENTIVE ACCOUNTS

In 2002, the net inflow into the Special Savings Incentive Accounts (SSIAs) was €66 million (total amount outstanding: €79 million).

Two SSIA products were launched in May 2001, one fixed rate and one floating rate. The fixed rate product accounts for over three quarters of all SSIA investments. Both SSIA products offered an initial interest rate of 4% per annum, which remained throughout 2002. The floating interest rate was cut in March 2003 in line with interest rate cuts in all major financial institutions to 2.75%. The floating interest rate account carries with it a guarantee that it will not fall more than 1 percentage point below the European Central Bank main refinancing rate.

PRIZE BONDS

The rate of interest used in 2002 to determine the prize fund was 2.75 per cent of the fund which stood at €375 million at end 2002. During the year over 85,000 tax-free prizes worth €9.34 million were awarded. Gross sales of €82.9 million showed an 11 per cent increase on the equivalent figure for 2001 and net sales were €43 million. For the first six months in 2003, net sales have already exceeded €40 million – which is a record.

Prize Bonds can be purchased on line at the Prize Bond Company's internet site www.prizebonds.ie. Electronic sales reached €1 million in 2002.

The principal features of Prize Bonds are:

- Capital is always guaranteed
- Price per bond €6.25
- Minimum purchase €25 (for four bonds)
- Minimum prize €75
- Jackpot prize €150,000 each month
- Prizes are exempt from Irish income tax.

CREDIT RATINGS

Ireland has the top long term and short term credit ratings from the four major credit rating agencies. Each of the agencies has re-affirmed these ratings over the course of the year. The details are as follows:

LONG TERM CREDIT RATINGS

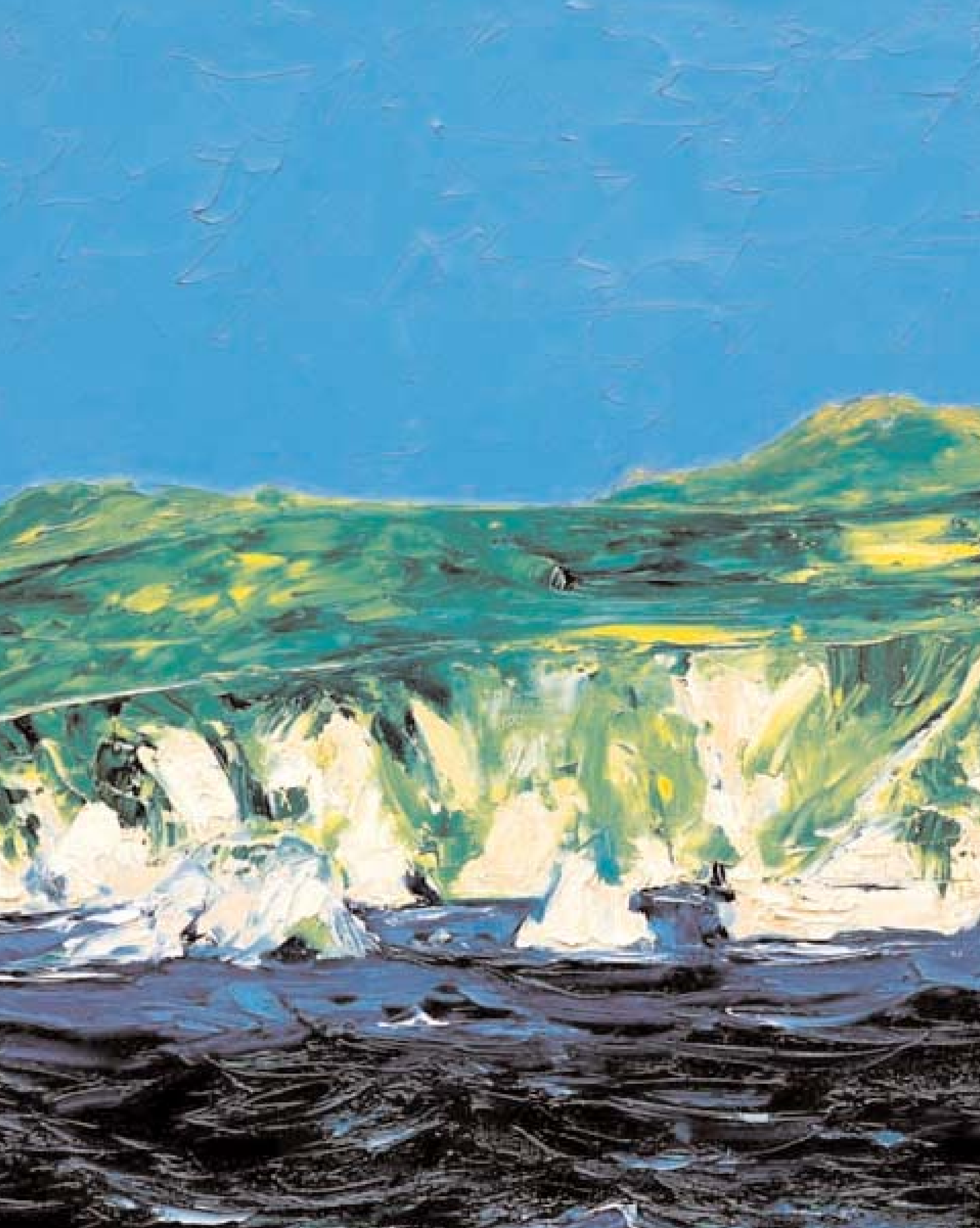
Ireland has the top long term credit ratings from four major rating agencies:

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

SHORT TERM CREDIT RATINGS

Ireland also has the top short term credit ratings from these four major rating agencies:

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



FINANCE, TECHNOLOGY AND RISK

The Finance directorate continued to provide financial control, technology, risk management and transaction processing services to the NTMA's four distinct businesses, namely Funding and Debt Management, National Pensions Reserve Fund, State Claims Agency and the management of State funds such as the Social Insurance Fund. In addition, it supports the provision of Central Treasury Services to Local Authorities, Health Boards and Vocational Educational Committees. In 2003, the new businesses of the National Development Finance Agency and the Dormant Accounts Fund have become operational.

FINANCE

During 2002, Financial Control provided significant support to the development of the operational financial control structures for the National Pensions Reserve Fund and the State Claims Agency. This included IT development and testing, the development of processing procedures, banking and custody arrangements and payment systems. Financial Control was also involved with the initiative to replace the NTMA's Bond Portfolio Management System with a new system, which went live in 2003, with significant benefits as a result.

The development of the NTMA's businesses has placed additional demands on the Finance directorate. Strategic and detailed planning has ensured that the continued development of these new business areas has not disrupted the NTMA's comprehensive network of systems and controls. An effective financial control framework has been developed for these new businesses.

In the area of Financial Control, the NTMA is at the leading edge of best international practice. Maintaining and continuously improving and developing standards is a demanding task, but the benefits are significant in terms of managing operational and counterparty risk. In addition, it ensures that the NTMA is well placed to cater for the changing environment as it relates to all its businesses and to handle new functions efficiently.

TRANSACTION PROCESSING

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

The development of the NTMA's business during 2002 has lead to a significant growth in the volume of transactions, which have increased by 32 per cent to some 30,000 transactions in 2002. The associated transaction cash flows increased from €300 billion to €314 billion in 2002.

TECHNOLOGY

The Information Technology unit is responsible for developing, installing and maintaining the NTMA's information technology systems. Significant development work was undertaken in 2002 to cater for the needs of the new business areas, principally the National Pensions Reserve Fund and the State Claims Agency.

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; internal risk limits are in place to manage and control these exposures.

Liquidity risks are associated with the need to have sufficient cash to meet all liabilities as they arise. These are actively controlled. Liquidity is monitored by continuously updating cash flow forecasts and by managing debt issuance dates and volumes.

Counterparty credit exposures arising from the placing of deposits, as well as transactions in derivatives, are monitored and managed closely within approved limits. These exposures are measured on an aggregate basis across the various 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 optimal duration target, maturity profile and currency mix for the portfolio, consistent with written guidelines set by the Minister for Finance. An annual assessment of the Benchmark is carried out by independent advisers, UBS AG. In addition, revisions to the Benchmark are made from time to time (subject to the Minister's approval) to take account of significant changes in economic and financial circumstances.

The Benchmark performance measurement system takes account not just of current cash flows, but also of the net present value of all future cash flows; in effect, 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. This measurement of performance against the Benchmark was carried out in 2002 by UBS AG, based on data audited by PricewaterhouseCoopers.

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 scope of the internal audit was expanded in 2002 to include the National Pensions Reserve Fund and the State Claims Agency. Satisfactory reports were received in respect of all audits.

The NTMA has also established an Audit Committee, which comprises members of its Advisory Committee. A further new development in this year's Annual Report is the inclusion of a Statement on the System of Internal Financial Control. The NTMA is first within the public sector to include such a Statement.

LEGAL AND CORPORATE AFFAIRS

LEGAL

The NTMA's in-house legal service provides advice in connection with all of its functions including the negotiation of documentation for the NTMA borrowing and derivatives transactions, its Central Treasury Service activities and its new State Claims Agency functions. The legal unit also provides legal services to the National Pensions Reserve Fund Commission and the National Development Finance Agency.

During 2002, legal advice was provided on the proposed structure and powers of the National Development Finance Agency, which was formally established on 1 January 2003.

Legal advice is also provided on all contractual matters including the negotiation of all service agreements and employment contracts and public procurement issues.

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 business 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 and its business units are in a position to comply fully with all current and anticipated regulatory and legislative requirements.

PERSONNEL

The introduction of new businesses, in particular the National Pensions Reserve Fund, the State Claims Agency and the National Development Finance Agency gave rise to the addition of new staff with specialist knowledge appropriate to each of these activities. The number of staff currently employed stands at eighty four, an increase of almost 40 per cent since end 2001.

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.

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 €17.3 million in 2002, (2001: €15.6 million). The audited financial statements of the company for the year ending 31 December 2002 have been lodged with the Companies Office.

DIRECTORS: MICHAEL J.SOMERS (CHAIRMAN), JOHN C. CORRIGAN, ANNE COUNIHAN, JIM FARRELL, SECRETARY: FELIX M. LARKIN

NATIONAL PENSIONS RESERVE FUND

The National Pensions Reserve Fund was established under the National Pensions Reserve Fund Act, 2000 to meet as much as possible of the cost to the Exchequer of social welfare and public service pensions from 2025 to at least 2055. The Act provides that the National Pensions Reserve Fund Commission shall have full discretion to control, manage and invest the assets of the Fund: the Commission is a body corporate consisting of seven commissioners appointed by the Minister for Finance and includes ex officio the Chief Executive of the NTMA. The Act requires the Commission to perform its functions through the Manager of the Fund and to appoint the NTMA to be the Manager for a period of ten years. Thereafter, the Commission may reappoint the NTMA or such other person as it considers to be best qualified to be the Manager for a period of five years. The NTMA was duly appointed to be the Manager on 2 April 2001.

The Commission is required to submit to the Minister for Finance an Annual Report and Accounts of the Fund which is published separately. The following are the main functions delegated by the Commission to the NTMA as Manager:

- cash management, including the setting of banking counterparty limits;
- review of investment managers' performance;
- management of a passive bond portfolio;
- management of the currency hedging strategy;
- monitoring the efficiency of equity, bond and foreign exchange transactions of the Fund by its investment managers;
- measurement of investment performance;
- monitoring of risk for the Fund; and
- rebalancing of the Fund's investment portfolios as required by the strategic benchmark for the Fund.

The Fund's asset management functions devolved on the NTMA, namely cash management, currency hedging strategy and passive bond management, are carried out at arm's length by a specialist unit within the NTMA.

Having held the Fund in cash during 2001, the Commission commenced investment in the capital markets in January 2002. The Commission's market entry strategy – on the recommendation of the NTMA - was that of "averaging-in", or spreading the investment of the Fund's assets over a period of time, in order to reduce the risk associated with investing all of the Fund's assets at once. As a result the Commission ended the year with €1.8 billion in cash.

The substantial fall in equity prices, which was a feature of 2002, caused the Fund to register performance of minus 16.1 per cent for that calendar year compared with a return of minus 21.6 per cent for the Fund's long term strategic benchmark.

THE NATIONAL DEVELOPMENT FINANCE AGENCY

The National Development Finance Agency Act 2002 was passed by the Oireachtas in December 2002 and the National Development Finance Agency (NDFA) was established and its board appointed by the Minister for Finance with effect from 1 January 2003. A Chief Executive and a team of financial analysts have now been appointed. Work is proceeding on a number of infrastructure projects which have been referred by various State Authorities. Under current Ministerial Guidelines all such projects costing in excess of €20 million must be referred to the Agency for financial advice.

The NDFA is required to perform its functions through the NTMA. These are principally:

- to advise State Authorities on the optimal means of financing public investment projects;
- to raise funding for projects in instances where funding from the private sector is not sufficiently attractive;
- to advance moneys for the purpose of financing public investment projects; and
- to establish special purpose companies (where appropriate) for the purpose of financing projects.

The members of the Board of the National Development Finance Agency are:

Michael J. Somers	Chairman ex officio (Chief Executive, NTMA)
Jim Farrell[1]	Chief Executive (Director, NTMA)
Ann Fitzgerald	Secretary General, Irish Association of Investment Managers
Tony Jones	Business Consultant
Peter McManamon	Non Executive Director, ParthusCeva Technologies Inc.

The plan to establish the National Development Finance Agency was included in the Programme for Government. The rationale behind its establishment was to have available to State Authorities undertaking Public Private Partnerships and other infrastructure projects a centre of financial expertise to ensure they obtain the best possible financing packages. An additional objective was to make savings on financial consultancy fees.

The NDFA works closely at all stages with State Authorities undertaking infrastructure projects referred to it. This includes providing advice on the financing component of invitations to tender and assessing such tenders from a financial perspective. If such proposals are not acceptable on costs or other grounds, the NDFA may itself raise the finance for the particular project subject to the necessary consents. The overriding objective in all instances is to obtain value for money for the Exchequer.

[1] *The Chief Executive is appointed by the Board from among its members other than the Chairman.*

SOCIAL INSURANCE FUND

All social insurance contributions are paid into the Social Insurance Fund, while payments in respect of items such as 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 2001 the Fund was valued at €1,191 million. In March 2002, €635 million was transferred from the Fund to the Exchequer. However, €500 million was paid into the Fund from the Department of Social and Family Affairs over the course of the year and the total assets under management at the end of the year were €1,095 million.

The investment return achieved on the Fund for 2002 was 3.42 per cent, outperforming the benchmark return of 3.36 per cent.

CENTRAL TREASURY SERVICE

The Central Treasury Service takes deposits from and makes advances to Local Authorities, Health Boards and Vocational Education Committees. The objective is to provide these bodies with a competitive alternative to the banking industry for their treasury business and to make savings for the Exchequer. Extensive marketing took place to explain the benefits of the service.

In its second year of operation, the Central Treasury Service continued to expand the customer base and increase the amount of advances. At year end 2002 there were 47 organisations participating in the Service. Loan facilities of €152 million were in place of which €118 million had been designated as long term. There were also 250 deposits placed with the Service during the year.

STATE CLAIMS AGENCY

The NTMA is known as the State Claims Agency (SCA) when performing the claims management and risk management functions delegated to it under the National Treasury Management Agency (Amendment) Act 2000. The SCA, which began operations in December 2001, manages personal injury and property damage claims against the State and provides advice and assistance to State Authorities in relation to the prevention of future litigation.

OBJECTIVES

The principal objectives of the State Claims Agency are:

1. To manage claims to ensure that the State's liability and associated legal and other expenses are contained at the lowest achievable level. In practice, this means that the SCA's approach is to settle claims where to do so is appropriate and reasonable. Where liability is disputed by the State, claims are contested vigorously.

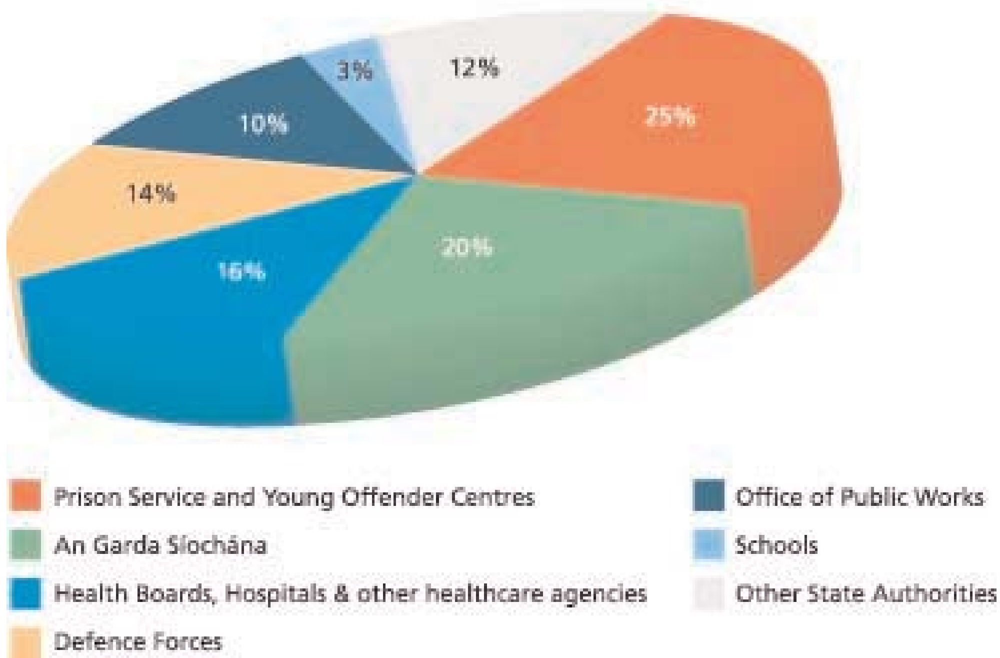
2. To provide risk advisory services to State Authorities with the objective of reducing the frequency and severity of claims.

CLAIMS UNDER MANAGEMENT

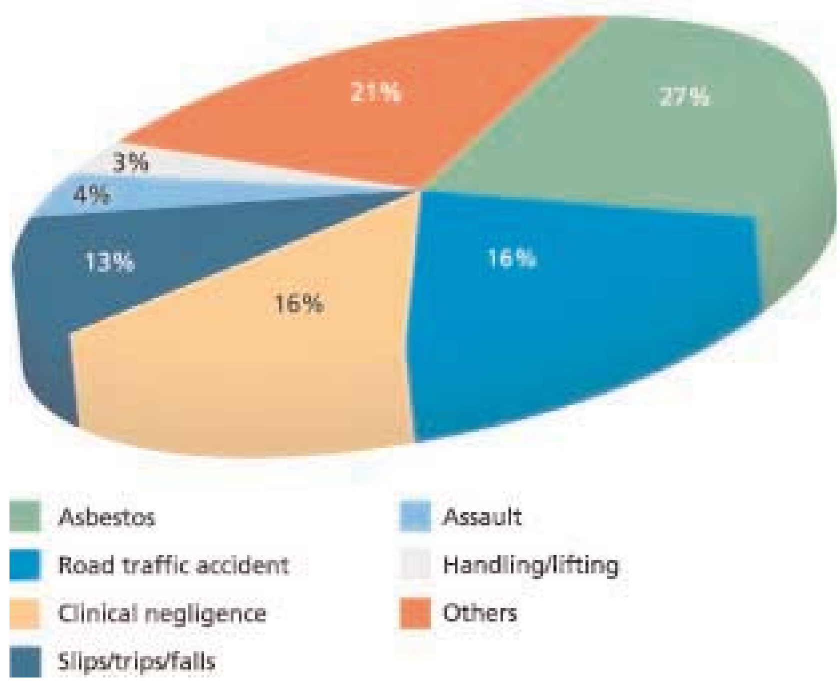
The State Claims Agency's remit covers claims against certain State Authorities, including the State itself, Ministers, the Attorney General, the Commissioner of the Garda Síochána, prison governors, community and comprehensive schools and various other bodies. It does not manage claims against Local Authorities or Semi-State bodies. Some 700 claims were transferred from State Authorities to the SCA on its establishment and it has received an additional 1,400 claims since.

The SCA is currently managing about 1,850 claims. Some 260 claims have either been settled or have been the subject of court awards. In addition, the SCA is monitoring over 500 adverse incidents which have been reported to it by State Authorities.

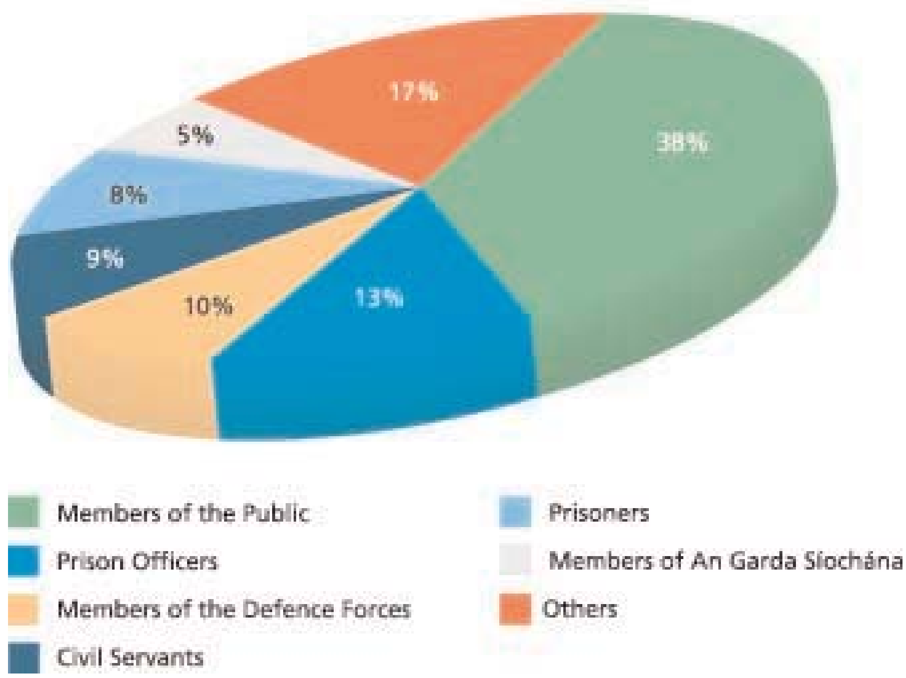
CLAIMS (BY NUMBER) AGAINST STATE AUTHORITIES



CLAIMS BY CAUSE OF INJURY



PRINCIPAL CATEGORIES OF CLAIMANT



Given the range of its remit, the SCA deals with a wide diversity of claims from the very serious, including fatalities, to those arising from minor incidents.
The following illustrates the diversity of the claims portfolio:

- Asbestos exposure.
- Clinical negligence.
- Assaults and injuries in prisons.
- Post traumatic stress disorder cases.
- Road traffic and other accidents involving the Gardaí and other State employees.
- Needlestick injuries.
- Gardaí accidentally injured in the pursuit of suspects.
- Injuries to school pupils.
- Assaults on staff in Government offices.
- Injuries incurred by cyclists and pedestrians in public parks and heritage sites.
- Injuries sustained in laboratories and other places of work.
- Injuries sustained on Army training exercises.

EXCLUDED CLAIMS

The State Claims Agency's 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 have already been put in place by the Government or because they give rise to issues of legal policy which require the ongoing close involvement of the Attorney General.

RISK MANAGEMENT

The State Claims Agency advises and assists State Authorities on measures to be taken to prevent the occurrence, or to reduce the incidence, of acts or omissions that may give rise to claims. This risk management process includes:

- Identifying litigation risks with particular attention to high risk activities and possible large scale claims.

- Assessing the adequacy of measures already in place to counter such risks including the extent to which each authority fulfils its common law and statutory duties.

- Providing risk advice and assistance, including training, to ensure that State Authorities are fully aware of the measures necessary to address any risks highlighted by their claims records and by any risk evaluations or audits.

RISK IDENTIFICATION

State Authorities are obliged by law to report to the SCA any incidents which may potentially give rise to claims. Early reporting of incidents is critical to successful claims and risk management. First, it enables the SCA to investigate the more serious incidents quickly and thoroughly so that the question of liability can be clarified in advance of any subsequent litigation. Secondly, data on adverse incidents enables the SCA to identify any patterns or clusters which might point to deficiencies in existing health and safety procedures.

In addition to analysing data on claims and incidents, the SCA conducts risk reviews of the various authorities. These reviews seek to identify the risks being run by an authority based on its activities and the premises occupied by it. As part of this process, the SCA has visited numerous sites including prisons, Army barracks, Garda stations, harbours, laboratories, schools and the headquarters of the Air Corps and the Naval Service.

ASBESTOS CLAIMS

About one quarter of the claims on the SCA's books relate to alleged exposure to asbestos. Certain State employees had been exposed to asbestos as part of their work during the 1970s and 1980s. They became aware that there was a consequent risk of developing lung disease, including mesothelioma, a painful and potentially lethal condition. In various High Court proceedings heard in 2001 and 2002, evidence was given by psychiatrists that the plaintiffs, as a result of being informed of that risk, however remote, had developed a psychiatric disorder. The High Court found, in each case, that the State was liable to pay damages in respect of the psychiatric condition in question (known as "worried well syndrome") and the awards ranged from €62,000 to €76,000.

The State appealed the cases to the Supreme Court in October 2002. Its legal team contended that the High Court was wrong in law to hold that the plaintiffs were entitled to recover damages in respect of a psychiatric illness which was unaccompanied by any 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 judgment 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".

As a result of the Supreme Court decision, it is expected that the number of asbestos related claims will sharply diminish and that potentially significant numbers of additional "worried well" claims will not now emerge. The decision is an important one not just for the State, but for many other employers faced with similar existing and potential claims.

REPORT TO MINISTER FOR FINANCE

The Government requested the Minister for Finance to ask the State Claims Agency to review the arrangements for dealing with compensation claims against the State and to report to him on its findings. The report was submitted at end April 2003.

CLINICAL INDEMNITY SCHEME

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 Scheme was established primarily because of difficulties in the provision of insurance cover, particularly to obstetricians/gynaecologists and to hospitals with obstetric units. This was largely due to the escalation in the size of Court awards and associated costs, particularly in cases of birth-related cerebral dysfunction. In addition, diverse insurance and indemnity arrangements meant that each defendant of a claim - hospital, health board, consultant, hospital doctor or nurse - was represented by a separate legal team. This led to a fragmented and unnecessarily adversarial approach to the resolution of claims and added significantly to costs.

Scope of the Clinical Indemnity Scheme

Claims alleging medical malpractice or clinical negligence and the associated risk management issues are covered by the Scheme.

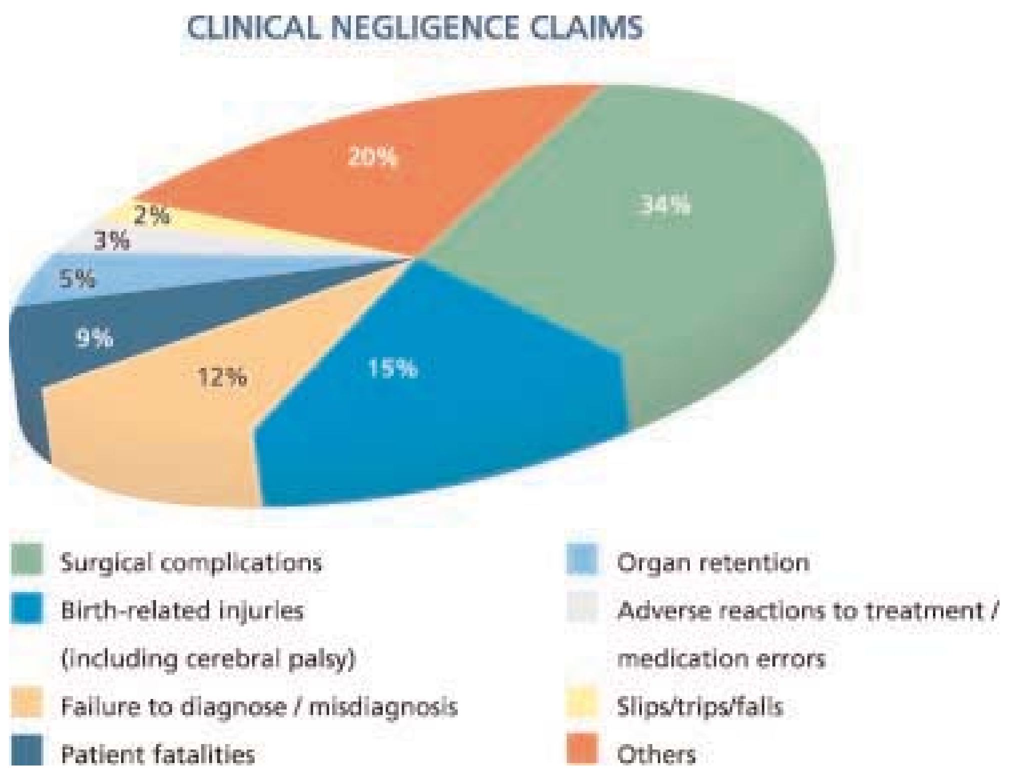
It covers the following institutions and staff:

- Health boards, hospitals and other agencies providing clinical services;
- Non-consultant hospital doctors, nurses and other clinical staff employed by health agencies whether permanent, locum or temporary;
- Clinical support staff in pathology and radiology services;
- The clinical activities of public health doctors, nurses and other community-based clinical staff;
- Dentists in public health practice;
- Certain other ancillary healthcare providers.

The Scheme does not cover hospital consultants who, at the time of writing this Report, have not joined the Scheme, nor does it cover private hospitals with the exception of the obstetric/gynaecological practices in Mount Carmel Hospital, Dublin and the Bons Secours Hospital, Cork. Furthermore it does not include Employer's Liability or Public Liability claims against health agencies. These are already covered under policies of insurance with commercial insurers.

Clinical negligence claims

Since the establishment of the Scheme in July 2002, the State Claims Agency has received over 250 claims alleging clinical negligence. The following table presents a breakdown of such claims by alleged cause of injury:



To date over 4,000 healthcare related incidents have been reported by healthcare institutions and these are being examined by the State Claims Agency.

Main features of the Clinical Indemnity Scheme

- The State Claims Agency has assembled a specialist team of clinical claims practitioners skilled in the defence of clinical negligence litigation.

- It is building a national database of adverse clinical incidents, "near misses" and complaints. These will be reported electronically by means of a web-based IT system which will link hospitals and other healthcare institutions to the core database. Based on this data, the State Claims Agency will be in a position to identify and analyse any developing trends and patterns.

- It has responsibility for developing and implementing a National Clinical Risk Management Strategy. The State Claims Agency advises and assists in the development of effective risk management policies and will oversee the development of policies, procedures and guidelines to promote good clinical practice.

POLICY COMMITTEE

The National Treasury Management Agency (Amendment) Act 2000 provides for the establishment of a Policy Committee to advise the Agency on policy and procedures relating to the performance of its claims management and risk management functions. The composition of the Committee, which was appointed by the Minister in April 2002 and met three times during 2002, is as follows:

- Noel Whelan (Chairman) – Dean of the Business Faculty and Vice President, University of Limerick.

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

- Michael Grace – Associate Director, AIB Investment Managers.

- Ann Marie Hayes – Lead International Accountant, Apple Computers.

- 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 balances in question will be transferred not later than 30 April each year. The first such transfer took place in 2003. A total of €196 million was transferred to the Dormant Accounts Fund from financial institutions. To date €10.3 million has been reclaimed in respect of reactivated dormant accounts.

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.

The balances on dormant accounts, including accrued interest, are remitted to the Dormant Accounts Fund which is managed by the NTMA. Moneys from the Intestate Estates Fund Deposit Account may, on the direction of the Minister for Finance, also be paid into the Fund. In addition, under the Unclaimed Life Assurance Policies Act 2003, the net encashment value of certain life assurance policies will be transferred to the Fund from 2004 onwards where the holders of the policies in question cannot be traced.

The NTMA is obliged to determine the amount to be paid into the Reserve Account of the Fund. This 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, established under the Act and consisting of nine members who were appointed by the Minister for Social, Community and Family Affairs on 5 June 2002. Pending disbursement, moneys in the Fund will be invested by the NTMA in a range of eligible financial assets.

The Asset Covered Securities Act 2001

The Asset Covered Securities Act 2001 provides that, in the event of any issuer of securities defaulting, 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.

CONSULTANCY & INTERNATIONAL RELATIONS

The National Treasury Management Agency (Amendment) Act 2000 empowered the NTMA to provide consultancy services. A number of Sovereign borrowers – mainly from EU applicant countries – have consulted the NTMA with respect to its debt management expertise. NTMA also maintains close relationships with Sovereign borrowers and international organisations and recently hosted a Conference of the EU Small Countries Debt Management Group. The NTMA also provides advice and assistance to the Courts Service in respect of arrangements to manage funds under the control of the Courts.

The NTMA continues to chair a consultation group on greenhouse gas emissions trading which is providing advice on Ireland's position with respect to the UN Framework Convention on Climate Change and the Kyoto Protocol.

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

FINANCIAL STATEMENTS OF THE NATIONAL DEBT OF IRELAND FOR THE YEAR ENDED 31 DECEMBER 2002

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

27 June 2003

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 in January 2003 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 ON 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 National Treasury Management Agency 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 2002, the Agency had conducted a review of the effectiveness of the system of internal financial controls.

Michael J. Somers, Chief Executive
National Treasury Management Agency

27 June 2003

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

I have audited the financial statements on pages 81 to 105 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 in the Statement of Agency's Responsibilities on page 77. It is my responsibility, based on my audit, to form an independant opinion on the financial statements presented to me by the Agency and to report on them.

I review whether the statement on pages 78 and 79 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 judgements 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 2002 and its balances at that date.

John Purcell
Comptroller and Auditor General

30 June 2003

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 83 to 94 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 2002.

Reporting Currency

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

Receipts and Payments

Receipts and payments relating to the National Debt through the Exchequer Account, Foreign Currency Clearing Accounts and the Capital Services Redemption Account (CSRA) are recorded at the time the money is received or payment made.

Liability Valuation

Debt balances are recorded at redeemable par value.

Derivatives

Swap agreements and other financial instruments are entered into for hedging purposes as part of the process of managing the National Debt. The results of those hedging activities linked with specific borrowing transactions are recognised in accordance with the underlying transactions. The net fund flows arising on hedging activities not linked with specific borrowing transactions are included in debt service costs at the time the funds are received or payment made. Where swaps are terminated and converted into other swap instruments the fund flows impact upon debt service in accordance with the terms of the revised instrument.

Foreign Currencies

Receipts and payments in foreign currencies are translated into euros at the rates of exchange prevailing at the date of the transaction. Liabilities and assets in foreign currencies are translated into euros at the rates of exchange ruling at the year end dates.

SERVICE OF DEBT STATEMENT

		Year ended 31 December 2002	
		2002	2001
		Total Cost	Total Cost
	Notes	€'000	€'000
Interest paid			
Medium / Long Term Debt*	2	1,183,025	1,379,629
Short Term Debt**	3	150,188	117,724
National Savings Schemes	4, 9	381,659	403,012
Other Movements	5	15,350	68,934
Sinking Fund payments	6	475,944	478,017
Fees and Expenses	7	19,435	17,280
Expenses of NTMA		13,568	9,018
Interest received on deposits with Central Bank and other banks		(70,376)	(94,215)
Total Service Cost €	1	2,168,793	2,379,399
Total Service Cost IR£		*1,708,063*	*1,873,929*

* *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

27 June 2003

The notes on pages 87 to 94 form part of these financial statements.

NATIONAL DEBT STATEMENT

31 December 2002

	Notes		2002 € million		2001 € million
Medium / Long Term Debt *					
Irish Government Bonds listed on The Irish Stock Exchange			22,323		19,632
Other Irish Government Public Bond Issues			1,112		2,056
Private Placements			705		1,639
European Investment Bank Loans			274		454
Medium Term Notes			743		943
Miscellaneous Debt			131		(312)
	8		25,288		24,412
Short Term Debt **					
Commercial Paper		5,753		7,002	
Borrowings from Funds under the control of the Minister for Finance	16	2,900	8,653	2,808	9,810
National Savings Schemes					
Savings Certificates		2,351		2,491	
Savings Bonds		1,045		1,052	
National Instalment Savings		427		451	
Savings Stamps		2		2	
Prize Bonds		375		332	
	9		4,200		4,328
			38,141		38,550
Less Liquid Assets	10		(1,780)		(2,367)
National Debt €	12		36,361		36,183
National Debt IR£			*28,636*		*28,496*

* *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
27 June 2003

The notes on pages 87 to 94 form part of these financial statements.

NATIONAL DEBT CASH FLOW STATEMENT

Year ended 31 December 2002

	2002 €'000	2001 €'000
Movement in Exchequer balances:		
Opening Balance in Exchequer Account (note 10)	1,615,943	1,433,870
Commercial Deposits	0	250,000
Borrowing Activity (see below)	(179,712)	(720,697)
	1,436,231	963,173
Exchequer Surplus/(Deficit)	93,305	652,770
Closing Balance in Exchequer Account (note 10)	1,529,536	1,615,943

	Receipts €'000	Payments €'000	2002 Net €'000	2001 Net €'000
Borrowing Activity				
Irish Government Bonds listed on The Irish Stock Exchange	22,272,168	(19,413,717)	2,858,451	(2,154,449)
Other Irish Government Public Bond Issues	-	(773,356)	(773,356)	(745,348)
Private Placements	-	(920,107)	(920,107)	(471,157)
European Investment Bank Loans	-	(168,705)	(168,705)	(99,461)
Medium Term Notes	-	(95,191)	(95,191)	(26,241)
Miscellaneous Debt	1,275,910	(1,291,602)	(15,692)	110,470
Commercial Paper	78,863,430	(79,891,166)	(1,027,736)	3,935,951
Savings Certificates	224,054	(363,614)	(139,560)	(214,996)
Savings Bonds	263,050	(271,841)	(8,791)	(110,861)
National Instalment Savings	63,379	(87,531)	(24,152)	(4,498)
Prize Bonds	86,072	(42,670)	43,402	34,348
Borrowings from Ministerial Funds	42,363,312	(42,271,587)	91,725	(974,455)
Total Borrowing Activity	145,411,375	(145,591,087)	(179,712)	(720,697)
Commercial Deposit Activity	43,275,219	(43,275,219)	-	250,000

Total Activity

	Receipts €'000	Payments €'000	2002 Net €'000	2001 Net €'000
Exchequer Account	172,980,493	(170,836,979)	2,143,514	(4,730,997)
Foreign Currency Clearing Accounts (Note 14)	16,080,067	(18,403,293)	(2,323,226)	4,260,300
	189,060,560	(189,240,272)	(179,712)	(470,697)

Michael J Somers, Chief Executive
National Treasury Management Agency
27 June 2003

The notes on pages 87 to 94 form part of these financial statements.

STATEMENT OF MOVEMENT IN NATIONAL DEBT

	Year ended 31 December 2002	
	2002	2001
	€'000	€'000
Opening National Debt	36,182,763	36,511,322
Increase / (Decrease) in National Debt (nominal)	177,770	(328,559)
Represented by:		
Exchequer (Surplus)/Deficit (note 15)	(93,305)	(652,770)
Effect of Foreign Exchange Rate Movements	(71,937)	13,161
Bond Tranching: net reduction (excess) of proceeds over nominal liability	238,131	6,703
Bond Cancellations: net reduction (excess) of cancellation cost over nominal liability	(405,000)	7,927
Movement in CSRA current balance (note 10)	499,881	55,680
Nitrigin Eireann Teoranta Borrowings (note 15)	10,000	240,686
Other nominal movements	-	54
	177,770	(328,559)
Closing National Debt €	36,360,533	36,182,763
Closing National Debt IR£	*28,636,247*	*28,496,242*

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2003

The notes on pages 87 to 94 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Total Service Cost -

		Charged on Foreign Currency Notes Clearing Accounts €'000	Charged on Central Fund €'000	Charged on CSRA €'000	Total Service Cost 2002 €'000
Interest paid					
Medium / Long Term Debt	2	93,007	25,296	1,064,722	1,183,025
Short Term Debt	3	67,374	32,748	50,066	150,188
National Savings Schemes	4	-	13,530	368,129	381,659
Other Movements	5	(2,486,503)	2,046,981	454,872	15,350
Sinking Fund payments	6	-	-	475,944	475,944
Fees and Expenses	7	1,958	17,434	43	19,435
Expenses of NTMA		952	12,616	-	13,568
Interest received on deposits with Central Bank and other banks		(14)	-	(70,362)	(70,376)
		(2,323,226)	2,148,605	2,343,414	2,168,793
Inter Account Movement		-	1,843,533	(1,843,533)	-
Net cash paid		(2,323,226)	3,992,138	499,881	2,168,793

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Interest on Medium / Long Term Debt

	Total Cost 2002 €'000	Total Cost 2001 €'000
Irish Government Bonds listed on The Irish Stock Exchange	842,207	923,033
Other Irish Government Public Bond Issues	114,047	155,719
Private Placements	104,671	144,743
European Investment Bank Loans	23,687	37,232
Medium Term Notes	40,432	46,500
Miscellaneous Debt	57,981	72,402
	1,183,025	1,379,629

3. Interest on Short Term Debt

	Total Cost 2002 €'000	Total Cost 2001 €'000
Commercial Paper	132,625	101,641
Borrowings from Funds under the control of the Minister for Finance	17,563	16,083
	150,188	117,724

4. Interest on National Savings Schemes

	Total Cost 2002 €'000	Total Cost 2001 €'000
Savings Certificates	250,687	231,487
Savings Bonds	60,013	118,050
National Instalments Savings	64,319	54,371
Prizes in respect of Prize Bonds	9,342	8,361
Small Savings Reserve (note 9)	(2,702)	(9,257)
	381,659	403,012

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 2002 were as follows:

	2002
Capital Services Redemption Account (Note 13)	475,944
	475,944

7. Fees and Expenses

	Total Cost 2002 €'000	Total Cost 2001 €'000
Expenses of Irish Government Bonds	1,611	-
Expenses of Savings Certificates	3,791	4,376
Expenses of Prize Bonds	5,533	4,975
Expenses of Savings Bonds	1,855	2,105
Expenses of National Instalment Savings	2,749	2,635
Expenses of Savings Stamps	1,042	1,046
Expenses of Foreign Loans	2,854	2,143
	19,435	17,280

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 2002 €millions	As at 31 December 2001 €millions
Debt due for repayment within 1 year	2,126	4,850
Debt due for repayment between 2 and 5 years	3,112	8,874
Debt due for repayment in more than 5 years	20,050	10,688
	25,288	24,412

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 €5.7 million (2001: €10.6 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 €2,208 million (2001: €2,303 million), being the estimate of the amount of accrued interest at 31 December 2002 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 preceeding 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 2002 was 16.58 per cent of the interest accrued at the 31 December 2001 of €2,303m. The Minister decided that €2.7m would be drawn down in 2002 from the fund to meet the excess over 11 per cent.

		€millions
Estimated accrued interest at 31 December 2002		2,208
Small Savings Reserve Fund		
Balance at 1 January 2002	(1,111)	
Amount applied during 2002	3	
Balance at 31 December 2002 (Note 16)		(1,108)
Estimated accrued interest not provided for at 31 December 2002		1,100

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 2002 €'000	Movements during 2002 €'000	Closing balance at 31 December 2002 €'000
Exchequer Account	1,615,943	(86,407)	1,529,536
Capital Services Redemption Account			
Current Balance (note 13)	750,568	(499,881)	250,687
	2,366,511	(586,288)	1,780,223

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 2002		31 December 2001	
	Nominal €million	Present Value €million	Nominal €million	Present Value €million
Interest Rate Swaps	2,389	(31)	3,324	(11)
Currency Swaps & Foreign Exchange Contracts	6,868	(59)	9,915	421
	9,257	(90)	13,239	410

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 2002 € millions	As at 31 December 2001 € millions
Euro Basket Currencies*	35,627	34,110
Sterling	758	2,106
US Dollar	(17)	(33)
Swiss Franc	(4)	-
Japanese Yen	(2)	-
Hong Kong Dollar	(1)	-
	36,361	36,183

** This figure is net of liquid assets as at 31 December 2002 € 1,780m (31 December 2001 €2,367m)*

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 2002		NIL
Deposit interest received		14
Amounts received under Finance Act 1988 [S67 (8)]	20,978,784	
Amounts paid under Finance Act 1970 [S54 (7)]	(18,492,281)	2,486,503
Foreign Currency Borrowing receipts	16,080,067	
Foreign Currency Borrowing payments	(18,403,293)	(2,323,226)
Interest paid on Foreign Currency Borrowings (note 1)		
- Medium/ Long Term Debt	(93,007)	
- Short Term Debt	(67,374)	(160,381)
Expenses of Foreign Currency Borrowings (note 1)		(1,958)
Expenses of NTMA		(952)
Balance at 31 December 2002		NIL

15. Nítrigen Éireann Teoranta Borrowings

In implementation of the provisions of Nítrigin Éireann Teoranta Act, 2001 the Minister for Finance took over the debt in 2002, which increased the National Debt by €10m (2001 €241m). The Minister for Finance delegated to the Agency the function of discharging the borrowings. The Agency discharged the borrowings during 2001 and 2002.

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 2002	As at 31 December 2001
	€ millions	€ millions
Post Office Savings Bank Fund	782	26
Small Savings Reserve Fund	1,108	1,111
Ulysses Securitisation plc	242	220
Deposit Monies Investment Account	768	1,451
	2,900	2,808

FINANCIAL STATEMENTS OF THE NATIONAL TREASURY MANAGEMENT AGENCY - FOR THE YEAR ENDED 31 DECEMBER 2002

CONTENTS PAGES

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 77 to 94. Financial information covering the Agency itself is set out on pages 98 to 105.

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 2002

	Notes	2002 €	2001 €
Income			
Central Fund	9	13,653,762	9,472,852
Other income		89,260	118,093
Transfer (to)\from capital account	5	(64,123)	144,153
		13,678,899	9,735,098
Expenditure	1	(13,678,899)	(9,735,098)
Net income/(expenditure)		NIL	NIL

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2003

The notes on pages 100 to 105 form part of these financial statements.

BALANCE SHEET

31 December 2002

	Notes	2002 €	2001 €
Fixed Assets			
Fixed assets	2	1,191,443	1,119,461
Financial Assets	8	25,000	32,859
Current Assets			
Cash at bank and in hand		47,957	54,535
Debtors	3	3,242,998	1,313,765
Total Current Assets		3,290,955	1,368,300
Current Liabilities			
Creditors	4	3,290,955	1,368,300
Current Assets less Current Liabilities		-	-
Total Assets less Current Liabilities		1,216,443	1,152,320
Representing:			
Capital account	5	1,216,443	1,152,320
		1,216,443	1,152,320

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2003

The notes on pages 100 to 105 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Expenditure

	Year Ended 31 December 2002 €	Year Ended 31 December 2001 €
Salaries and superannuation	8,740,576	5,773,026
Establishment expenses	1,032,215	731,023
Operating expenses	3,468,213	2,769,334
Depreciation	430,038	453,858
Amortisation	7,857	7,857
Total expenses	13,678,899	9,735,098

2. Fixed Assets

	Property €	Furniture, Equipment & Motor Vehicles €	Total €
Cost:			
Opening balance at 1 January 2002	1,216,038	2,739,191	3,955,229
Additions at cost	-	516,723	516,723
Disposals	-	(147,710)	(147,710)
Balance at 31 December 2002	1,216,038	3,108,204	4,324,242
Accumulated depreciation:			
Opening balance at 1 January 2002	662,725	2,173,043	2,835,768
Depreciation for the period	60,802	369,235	430,037
Disposals	-	(133,006)	(133,006)
Balance at 31 December 2002	723,527	2,409,272	3,132,799
Net book value at 31 December 2002	492,511	698,932	1,191,443
Net book value at 31 December 2001	553,313	566,148	1,119,461

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

	2002 €	2001 €
Central Fund	979,360	893,111
Prepayments	531,095	367,169
Other debtors	1,732,543	53,485
	3,242,998	1,313,765

4. Creditors

	2002 €	2001 €
Creditors	442,474	46,575
Accruals	2,848,481	1,321,725
	3,290,955	1,368,300

5. Capital Account

			2002 €	2001 €
Opening balance			1,152,320	1,296,473
Transfer from /(to) Income and Expenditure Account				
Asset Funding				
- Fixed Assets	516,723			
- Financial Assets repayment (note 8)	NIL	516,723		
Amortisation of capital funding				
- Amortisation in line with depreciation	(430,037)			
- Net amount released on asset disposal	(14,706)			
- Amortisation of Financial Assets	(7,857)	(452,600)	64,123	(144,153)
Closing balance			1,216,443	1,152,320

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 a level of 25% of payroll. Contributions by the Agency for the year ended 31 December 2002 amounted to €1,357,994 (2001: € 803,267).

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.

7. FRS17 Retirement Benefits

The valuation of the defined benefit scheme used for the purposes of FRS17 disclosures has been based on the results of the most recent actuarial valuation of the scheme, which was January 1, 2001. 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 following information is included for information purposes pending full adoption of this standard.

The financial assumptions used to calculate the retirement liabilities under FRS 17 as at 31 December 2002 and 31 December 2001 were as follows:

	31 Dec 2002	31 Dec 2001
Valuation method	Projected Unit	Projected Unit
Discount rate	5.50%	6.0%
Inflation rate	2.25%	2.5%
Salary increases	4.50%	5.0%
Pension increases	3.50%	2.5% or 4.0% as appropriate

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. FRS17 Retirement Benefits (continued)

The market value of the assets and liabilities in the pension scheme for 2001/2002 and the expected rate of return of the scheme liabilities at 31 December 2001 and 31 December 2002 were:

	Expected Return 31-12-2002	Expected Return 31-12-2001	Value at 31-12-2002 €000s	Value at 31-12-2001 €000s
Equities	7.75%	8.5%	7,225	9,728
Bonds	4.75%	5.5%	1,341	1,609
Property	6.25%	7.0%	884	1,072
Other	4.25%	5.0%	1,426	357
Total market value of assets			10,876	12,766
Present value of accrued scheme liabilities			(14,956)	(13,493)
Surplus / (Deficit)			(4,080)	(727)
Related deferred tax credit			(0)	(0)
Net pension liability			(4,080)	(727)

The financial assumptions used to calculate the components of the defined benefit cost for the year ended 31 December 2002 were as follows:

Valuation method	Projected Unit
Discount rate	6.00%
Inflation rate	2.50%
Salary increases	5.00%
Pension increases	4.00%

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	407
Past Service Cost	-

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

	€'000s
Expected return on scheme assets	1,065
Interest on scheme liabilities	(824)
Net return	241

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

	€'000s
Actual return less expected return on scheme assets	(4,385)
Experience gains and losses	(160)
Changes in assumptions	-
Actuarial loss that would be recognised in STRGL	(4,545)

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

	€'000s
Surplus (Deficit) at beginning of year	(727)
Current service cost	(407)
Contributions	1,358
Past service costs	-
Other finance income	241
Actuarial gain (loss)	(4,545)
Surplus (Deficit) at end of year	(4,080)

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
- €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 2002 was:	€
Opening balance	32,859
Amortisation	(7,859)
Loan repayment received	NIL
Closing balance	25,000

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;

	2002 €	2001 €
Central Fund Income per Service of Debt Statement	13,567,513	9,018,029
Movement in Central Fund Debtors (note 3)	86,249	454,823
Income from Central Fund per Income and Expenditure Account	13,653,762	9,472,852

10. Expenses of NTMA as Manager

The costs incurred by the NTMA as Manager to the National Pensions Reserve Fund amounted to €2.49m (2001 €1.94m.) These costs are included in the Income and Expenditure account.

FINANCIAL STATEMENTS OF THE POST OFFICE SAVINGS BANK FUND FOR THE YEAR ENDED 31 DECEMBER 2002

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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 in pages 109 to 114 which are in the form approved by the Minister for Finance.

I have obtained all the information and explanations which I considered necessary 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 2002 and of its transactions for the year then ended.

John Purcell
Comptroller and Auditor General

30 June 2003

ACCOUNTING POLICIES

Background

The Minister for Finance guarantees the repayment and servicing of moneys invested by depositors in the Post Office Savings Bank. An Post remits the net proceeds of such investment to the Agency. The Post Office Savings Bank Fund does not form part of the Exchequer. The fund has the following main purposes :-

- to invest the moneys made available by depositors, and
- to act as an intermediary through which the tranching, cancellation, sale and repurchase (repo) transactions and secondary market trading can be transacted by the Agency, and
- to provide moneys under Central Treasury Services to designated state bodies.

The significant accounting policies adopted by the fund are as follows:-

Reporting Currency

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

Basis of Accounting

The financial statements are prepared on an accruals basis under the historical cost convention.

Investments

Investments are stated at cost.

INCOME AND EXPENDITURE ACCOUNT

Year ended 31 December 2002

	Notes	2002 €	2001 €
Investment income	1	27,732,293	23,621,529
Interest paid and payable	2	5,536,975	3,463,666
Other expenses	3	23,719,026	20,023,220
		29,256,001	23,486,886
		(1,523,708)	134,643
Balance at beginning of year		8,994,488	8,859,845
Balance at end of year		7,470,780	8,994,488

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2003

The notes on pages 112 to 114 form part of these financial statements.

BALANCE SHEET

31 December 2002

	Notes	2002 €	2001 €
Assets			
Advances	4	782,843,488	25,703,265
Investments in Bonds	5	76,989,630	109,083,374
Debtors	7	4,383,421	18,764,427
Central Treasury Loans		113,831,730	26,951,450
Commercial Paper	10	-	627,829,190
Cash		4,899,903	14,375,708
		982,948,172	822,707,414
Liabilities			
POSB Deposits	8	973,229,677	812,195,996
Creditors	9	2,247,715	1,516,930
Accumulated Reserves		7,470,780	8,994,488
		982,948,172	822,707,414

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2003

The notes on pages 112 to 114 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Investment Income

	2002	2001
	€	€
Interest received and receivable	26,950,140	21,654,405
Profit/(Loss) on sale of investments	782,153	1,967,124
	27,732,293	23,621,529

2. Interest Paid and Payable

	2002	2001
	€	€
Interest paid and credited to depositors of POSB	5,536,975	3,463,666
	5,536,975	3,463,666

3. Other Expenses

	2002	2001
	€	€
Management expenses	23,719,026	20,023,220
	23,719,026	20,023,220

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

4. Advances

	2002	2001
	€	€
Advances to Exchequer	782,368,488	25,703,265
Advances to State Claims Agency	475,000	-
	782,843,488	25,703,265

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 Bonds

	2002 €	2001 €
At cost	76,989,630	109,083,374
At market value	79,064,579	110,011,052

Schedule of Investment Holdings:-

Nominal €	Stock	Cost €
42,912	9.25% Capital Stock, 2003	44,771
24,911	8.25% Exchequer Bond, 2003	26,335
243,325	6.25% Treasury Bond, 2004	256,876
245,463	3.5% Treasury Bond, 2005	247,045
25,000	12.5% Capital Stock, 2005	32,800
32,135	8% Treasury Bond, 2006	37,101
75,643	9% Capital Stock, 2006	89,598
27,779,178	4.25% Treasury Bond, 2007	28,339,271
136,446	6% Treasury Bond, 2008	149,905
24,939	8.25% Capital Stock, 2008	29,812
405,478	4% Treasury Bond, 2010	394,632
27,869	8.5% Capital Stock, 2010	34,578
26,000	8.75% Capital Stock, 2012	33,561
26,105,535	5% Treasury Bond, 2013	27,066,343
25,000	8.25% Treasury Bond, 2015	32,102
21,255,137	4.6% Treasury Bond, 2016	20,174,900
76,474,971		76,989,630

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

	2002 €	2001 €
Dividends and interest receivable	2,513,210	4,495,724
Other debtors	1,870,211	14,268,703
	4,383,421	18,764,427

8. POSB Deposits

	2002 €	2001 €
Deposits from Post Office Savings Bank	973,229,677	812,195,996
	973,229,677	812,195,996

The deposits include €79,606,438 (2001 €10,981,392) 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 €1,631,912, which will be subject to exit tax of 23% in due course.

9. Creditors

	2002 €	2001 €
Net funds due under Sale and Repurchase Agreements	1,834,412	1,119,362
Other creditors	413,303	397,568
	2,247,715	1,516,930

10. Commercial Paper

	2002 €	2001 €
HFA Commercial Paper	-	627,829,190
	-	627,829,190

The Post Office Savings Bank Fund purchased short term commercial paper issued by the Housing Finance Agency (HFA) of Ireland as an investment.

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

I have examined the account on pages 116 to 118. 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 2002 and the balance at that date.

John Purcell
Comptroller and Auditor General

30 June 2003

ACCOUNT OF RECEIPTS AND PAYMENTS

		Year ended 31 December 2002 €
Balance at 1 January 2002		750,568,298
Receipts		
Amounts received from Central Fund		
under Finance Act 1950, Section 22 as amended:-		
- Interest	1,367,589,175	
- Sinking Fund	475,943,665	1,843,532,840
Amounts received under Finance Act 1988 [S 67 (8)]		246,356,050
Other amounts received under specific borrowing transactions		12,560,774
Deposit interest received		70,361,969
Other interest received		43,858
		2,923,423,789
Payments		
Amounts applied in the redemption of National Debt:-		
Irish Government Bonds Listed on Irish Stock Exchange	404,511,019	
Other Irish Government Public Bond Issues	43,044,308	
EIB Loans	28,388,338	475,943,665
Amounts applied in meeting interest on National Debt (note 2)		1,495,565,415
Amounts applied in respect of liabilities under Finance Act 1970, [S 54 (7)]		701,227,259
Balance at 31 December 2002		250,687,450
		2,923,423,789

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2003

NOTES TO THE ACCOUNT

1. This account was established under section 22 of the Finance Act 1950

Annuities

Annuities are provided for in each year's Finance Act and are paid into the Capital Services Redemption Account from current revenue charged on the Central Fund. A fixed amount may be used for servicing (interest payments) of the public debt. The balance must be used for principal repayments. However as the 2001 and the 2002 capital programmes were funded from the current budget surplus, no provision was made in the 2001 or the 2002 Finance Acts to make a payment into the Capital Services Redemption Account.

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 2002
	€
2.75% Treasury Bond, 2002	83,349,239
8.25% Exchequer Bond, 2003	1,611,391
9.25% Capital Stock, 2003	14,840,523
14.75% Development Stock, 2002 - 04	1,884,353
6.25% Treasury Bond, 2004	13,867,217
3.5% Treasury Bond, 2005	100,229,363
12.5% Capital Stock, 2005	1,871,853
8% Treasury Bond, 2006	8,154,180
9% Capital Stock, 2006	10,939,690
8.25% Capital Stock, 2008	116,860
6% Treasury Bond, 2008	3,700,777
4% Treasury Bond, 2010	217,805,668
8.5% Capital Stock, 2010	1,235,649
8.75% Capital Stock, 2012	3,341,428
8.25% Treasury Bond, 2015	850,412
4.25% Treasury Bond, 2007	142,295,574
4.6% Treasury Bond, 2016	167,157,091
5% Treasury Bond, 2013	53,746,173
Commercial Paper Programmes	27,830,863
Other Irish Government Public Bond Issues	65,187,462
Small Savings	368,129,000
Cash Management Borrowings	2,404,659
Other Euro Borrowings	25,187,795
Private Placements	74,398,593
Swap Driven Issues	105,386,130
Expenses	43,472
	1,495,565,415

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

I have examined the account on page 120. 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 2002 and the balance at that date.

John Purcell
Comptroller and Auditor General

30 June 2003

ACCOUNT OF RECEIPTS AND PAYMENTS

		Year ended 31 December 2002 €
Balance at 1 January 2002		97,774
Accrued interest received on National Loans		
- Tranches and Auctions	84,305,956	
- Cancellations	1,284	84,307,240
Accrued interest paid on National Loans		(37,978,124)
Balance at 31 December 2002		
- Cash with Central Bank of Ireland		46,426,890

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

27 June 2003

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

I have examined the account on pages 122 and 123. 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 the transactions for the year ended 31 December 2002 and the balance at that date.

John Purcell
Comptroller and Auditor General

30 June 2003

NATIONAL LOANS (WINDING UP) ACCOUNT

ACCOUNT OF RECEIPTS AND PAYMENTS

	Note	Year ended 31 December 2002 €
Balance at 1 January 2002		8,234,118
Amount provided to meet late redemption claims	1	801,604
Payments for redemption of National Loans	2	(2,991,347)
Balance at 31 December 2002 Cash with Central Bank of Ireland		6,044,375

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2003

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 end of the quarter in which redemption occurs 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 2002

	€
5% National Loan 1971-81	1,905
9% Conversation Stock 1980-82	1,397
5.75% National Loan 1982-87	127
9.75% National Loan 1984-89	1,919
5.75% Exchequer Loan 1984-89	584
6% Exchequer Loan 1984-89	889
6% Exchequer Loan 1985-90	254
11.5% Exchequer Loan 1990	2,766
6.75 National Loan 1986/91	12,652
7% National Loan 1987/92	4,000
7.5% Development Stock 88/93	5,147
9.25% National Loan 89/94	127
9.5% Conversation Stock 1995	37,665
12% Conversation Stock 1995	4,444
9% Capital Loan 1996	20,570
9.25% Exchequer Loan 91/96	1,778
7.75% Capital Stock 1997	7,192
9.75% Nat Development Loan 92/97	27,563
9.75% Capital Stock 1998	51,807
11% National Loan 1993-98	14,433
6.25% Treasury Bond 1999	22,130
7.5% Capital Stock 1999	96,505
11.5% Development Loan 97/99	17,577
8% Treasury Bond 2000	270,996
11.75% Capital Stock 2000	15,529
14.5% Finance Loan 98/00	7,201
6.5% Treasury Bond 2001	383,068
8% Cap Stock 2001	235,181
9% Government Bond 2001	228,342
13% Finance Stock 1997/02	12,593
12.25% Development Stock 00/03	15,781
14.75% Development Stock 02/04	745,060
6.5 % Exchequer Stock 00/05	744,165
Total	2,991,347

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

I have examined the account on pages 125 and 126. 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 the transactions for the year ended 31 December 2002 and the balance at that date.

John Purcell
Comptroller and Auditor General

30 June 2003

NATIONAL TREASURY MANAGEMENT AGENCY (UNCLAIMED DIVIDENDS) ACCOUNT

ACCOUNT OF RECEIPTS AND PAYMENTS

	Note	Year ended 31 December 2002 €
Balance at 1 January 2002		1,444,284
Receipt of unclaimed dividends		154,461
Payment of unclaimed dividends	2	(61,061)
Balance at 31 December 2002- Cash with Central Bank of Ireland	1	1,537,684

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2003

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	54,734
Foreign Bonds administered by Commerzbank AG	6,327
	61,061

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

I have examined the account on page 128. 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 2002 and the balance at that date.

John Purcell
Comptroller and Auditor General

30 June 2003

ACCOUNT OF RECEIPTS AND PAYMENTS

	Year ended 31 December 2002 €
Balance at 1 January 2002	1,450,865,000
Ways and Means Advances paid to Exchequer	17,074,810,000
Ways and Means Advances repaid by Exchequer	(17,758,076,000)
Balance at 31 December 2002 - Ways and Means Advances to Exchequer	767,599,000

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

27 June 2003

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

I have examined the account on pages 130 and 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 2002 and the balance at that date.

John Purcell
Comptroller and Auditor General

30 June 2003

ACCOUNT OF RECEIPTS AND PAYMENTS

		Year ended 31 December 2002 €
Balance at 1 January 2002		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	
Balance at 31 December 2002		66,144

Stock Account

Balance at 1 January 2002		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 2002		NIL

Michael J Somers, Chief Executive
National Treasury Management Agency

27 June 2003

NOTES TO THE ACCOUNT

1. Purpose of the Account

This account established under the Finance Act 1954, amended by the Capital Acquisitions Tax Act 1976, is a vehicle for the handling of certain designated Irish Government Bonds which are accepted by the Revenue Commissioners at face value in lieu of death duties. The Irish Government Bonds are received by the Revenue Commissioners and transferred to the Minister for Finance. They are then cancelled and the proceeds (at market value) taken into the account. Any shortfall between this and the liability to the Revenue Commissioners (at face value) is made up by the Exchequer and the Revenue Commissioners are paid in full.

2. Stock Account

The Stock Account records transactions at nominal par value. Any balance on this account consists of bonds held by the Minister for Finance but not yet sold by the Minister to discharge a tax liability to the Revenue Commissioners.

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 2002 and the balance at that date.

John Purcell
Comptroller and Auditor General

30 June 2003

ACCOUNT OF RECEIPTS AND PAYMENTS

	Year ended 31 December 2002 €
Balance at 1 January 2002	1,111,230,218
Received (paid) from (to) Exchequer	(2,701,691)
Balance at 31 December 2002	1,108,528,527
Estimated accrued interest at 31 December 2002	2,208,886,837

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 IR£ 60 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 2002 was 16.58 per cent of the interest accrued at the 31 December 2001 of €2,303m.

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

27 June 2003

FINANCIAL STATEMENTS OF THE STATE CLAIMS AGENCY FOR THE YEAR ENDED 31 DECEMBER 2002

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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 136-140 which are in the form approved by the Minister for Finance.

I have obtained all the information and explanations which I considered necessary for the purpose of my audit.

In my opinion proper books of account have been kept by Agency and the financial statemments, which are in agreement with them, give a true and fair statement of affairs of the Agency at 31 December 2002 and of its transactions for the year then ended.

John Purcell
Comptroller and Auditor General

30 June 2003

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.

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.

Expenditure

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

Amounts Receivable from State Authorities

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

CLAIMS STATEMENT ACCOUNT

	Notes	Year ended 31 December 2002 €
Received and receivable from State Authorities in respect of claims and expenses	1	1,980,171
Paid and payable in respect of Awards		1,312,182
Lodgements to Court	2	153,868
Other expenses	3	514,121
		1,980,171

Michael J. Somers, Chief Executive
National Treasury Management Agency

27 June 2003

The notes on pages 139 to 140 form part of these financial statements.

BALANCE SHEET

31 December 2002

	Notes	2002
		€
Assets		
Debtors	4	559,099
Cash		27,177
		586,276
Liabilities		
Borrowings from Post Office Savings Bank Fund	5	475,000
Creditors	6	111,276
		586,276

Michael J. Somers, Chief Executive
National Treasury Management Agency

27 June 2003

The notes on pages 139 to 140 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Income

	2002
	€
Received from State Authorities	1,422,558
Receivable from State Authorities	557,613
	1,980,171

2. Lodgement to Court

The Agency, as defendant, may make a payment into court in an action for damages. If the plaintiff refuses to accept the amount of the lodgement 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, the defendant is entitled to his costs against the plaintiff from the date of the lodgement.

3. Other Expenses

	2002
	€
State Claims Agency expenses	
- Legal fees	97,382
- Medical fees	100,212
- Engineers' fees	74,895
- Other fees	37,763
	310,252
Plaintiff expenses	
- Legal fees	195,168
- Other expert fees	6,000
- Travel expenses	1,654
	202,822
Witness expenses	1,047
	514,121

4. Debtors

	2002
	€
Receivable from State Authorities	557,613
Professional Services Withholding Tax due from Revenue Commissioners	1,486
	559,099

5. Borrowings from POSB

Under Section 16 of the National Treasury Management (Amendment) Agency Act 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

	2002
	€
Payable in respect of awards	48,245
Payable in respect of expenses	63,031
	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.