National Treasury Management Agency

REPORT & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 1998

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National Treasury Management Agency Ireland

REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED

31 DECEMBER 1998

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National Treasury Managment Agency

30 June, 1999

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 1998.

Yours sincerely,

Michael J. Somers
Chief Executive

Treasury Building, Grand Canal Street, Dublin 2, Ireland. Telephone: 01-6762266 Fax: 01-6766661 Telex: 91997 NTMA EI

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The paintings reproduced in this Report are the work of John Nolan, an Irish artist.

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THE MOVE TO EUROLAND

The change to the euro at end-1998 was probably the most significant financial event ever for Ireland. The challenge for the Agency was how to maximise the benefits arising from it and to deal with the problems which it presented.

In the past Ireland could never obtain all its requirements on the Irish pound markets. It had to go to the international capital markets and borrow in the currencies of other nations. This left Ireland open to exchange rate risk, the likelihood that other currencies would appreciate or depreciate – unfortunately over the years usually the former – against the Irish pound. With the introduction of the euro, the potential to eliminate this risk became available. While Ireland still has a large debt originally contracted in foreign currency, the Agency during the course of 1998 swapped it all, except for the sterling element, into euro-zone currencies; thus 94% of the debt is now free from exchange rate fluctuations, fluctuations that have cost us dearly in the past.

No small country can maintain an independent currency without having an interest rate structure higher – and it could be argued appreciably higher – than is warranted by its economic circumstances. Because of its vulnerability to external speculation, a small country would also have to maintain its interest rate structure at a higher level than countries in a similar economic situation but larger in size. This drawback afflicted Ireland for years past; the link to currencies such as the Deutschemark under the EMS arrangements did not protect the Irish pound when speculative pressures built up, as Ireland saw to its cost in 1992/1993. Now, with the euro, Ireland has the potential to enjoy the lower interest rates which the larger countries in Europe have benefited from while competing with us; on the interest rate front, we now have a virtual level playing field.

The challenge for the Agency during 1998 was to prepare ourselves to maximise the benefit for Ireland from these changes.

The National Debt – some IR£30 billion – is not a static thing. It is a quantum in constant motion – the lenders are constantly changing and even where they remain in place, their preferences (in terms of whether they want fixed or floating interest rate debt or whether they want to lend for 2 days or 20 years) change. Loans and bonds have to be constantly repaid and refinanced, hence the rationale for having a market or a stock exchange. After rising steeply in the 1980s, the Debt rose at a much more moderate pace in the 1990s and in two years – 1996, and more significantly, in 1998 – there was an actual reduction in the amount outstanding. Nevertheless, it remains at a higher level than when the Agency was established in December 1990.

The Agency has gradually lost its "captive" lenders. First, the removal of exchange controls meant that investors were no longer largely confined to the Irish pound market; they could take their chances elsewhere and many did. However, prudential requirements - mainly fear that they could lose heavily with foreign currency exposures while having liabilities in Irish pounds – kept many of them as semi-captives in the Irish pound bond market. With the introduction of the euro, this constraint also disappeared.

Abstract Poppies

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THE MOVE TO EUROLAND

The objective with the coming of the euro has been primarily to get Irish bond yields as close as possible to German Government bond yields – Germany being the benchmark for Euroland. The challenge for Ireland was how to do so, given that its share of the euro market is only about 1% and, as a result, it would not be seen as a natural investment market by many large international fund managers. To counteract this drawback, it is essential to have a market in Irish bonds that is as liquid as possible – investors do not want to buy bonds that they cannot easily sell at short notice. The steps which the Agency has taken in recent times to make the Irish bond market as liquid as possible include:

- A restructuring of the primary dealer arrangements – there is now a German and a French primary dealer as well as four Irish dealers.
- Technical changes in day count, settlement arrangements and other factors to bring the Irish market into alignment with the German market, as well as the elimination of ex-dividend periods and the introduction of same-day settlement between the Central Bank of Ireland Securities Settlement Office (CBISSO) and Euroclear.
- The continuing provision of backstop facilities and secondary market trading facilities so that the market can always be liquid and support facilities in the event of investors seeking to off load their bonds.
- The continuing provision of sale and repurchase (REPO) facilities so that dealers short of bonds can borrow them from the Agency or that dealers short of cash can obtain funds from the Agency on the security of bonds.
- The bond exchange programme, under which the Agency arranged to take back bonds issued in the past with high coupons and standing well above par and to replace them with bonds carrying lower coupons and with prices at around par; these new stocks are much more liquid and tradeable then the earlier stocks.
- The repurchase and cancellation of foreign currency bonds and the elimination of associated cross currency swaps.
- The development of deposit arrangements to enable the Agency to get the best possible return on the liquid cash holdings which it maintains.
- An increase in marketing activity and presentations to potential investors.

These arrangements have meant that, rather than being a passive issuer of bonds through banking syndicates, the Agency is at all times actively involved in a hands-on manner in the operations of the euro market with the absolute minimum use of intermediaries. This has the double advantage of keeping expenditure on fees to a very low level as well as ensuring that the focused attention of the Agency can be used to keep bond yields at the lowest possible level.

Going forward, the Agency intends to continue its hands-on approach to the market to ensure that the gains made to date and the benefits accruing from active participation are maintained. The challenge is to continue to take advantage of what has been achieved to date and to add further value at every opportunity in the future.

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SUMMARY OF ACTIVITY

Preparations for the euro made 1998 a very active year in terms of transaction volumes as well as technical and business issues. Gross cash flows, including short term transactions, amounted to some IR£221 billion, up 24%. These flows reflect principally the refinancing of maturing debt, debt prepayments, REPO activity in the domestic bond market and foreign exchange and derivative transactions associated with repositioning the portfolio in preparation for the single currency environment.

The key features of 1998 were:

- Exchequer debt service costs IR£222 million below the Budget estimate after adjustment for exceptional items.
- a decline of over IR£1 billion in the National Debt, due to a large Exchequer surplus and a favourable foreign exchange translation impact of some IR£162 million.
- savings of IR£56 million against an externally audited benchmark.
- a 9 percentage points fall in the Debt / GDP ratio – from 61% at end 1997 to 52% at end 1998 - giving Ireland the fourth lowest Debt /GDP ratio amongst the 15 EU member states;
- a major restructuring of the foreign debt portfolio in preparation for EMU; at year end, some 94% of the Debt was effectively denominated in euro;
- upgrades in Ireland's long term debt to AAA by two international Rating Agencies; and
- a decline in Irish pound bond yields by some 1.5 percentage points.

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Flagons & Fruit

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FINANCIAL OPERATIONS

As the Exchequer finances were in surplus in 1998, the Agency's funding activity during the year was directed principally towards refinancing maturing and prepayable Irish pound and foreign currency debt. In addition to this refinancing of debt, the Agency was also active in other debt management activities, both to support the liquidity of the domestic bond market and to position the currency and interest rate profile of the portfolio for the introduction of EMU on 1 January 1999.

The budget surplus in 1998 was IR£747 million; as payments into the National Savings interest reserve do not require to be funded, the overall cash surplus was IR£816 million. This allowed the Agency to make significant net repayments of debt over the year.

During the course of 1998, the Agency's sources of funds were:

	IR£ Million
Irish Pound Bonds	647
Irish Pound Exchequer Notes	141
National Savings Schemes	185
Structured Irish Pound borrowing	19
Decrease (net) in Deposits and other Balances	431
	1,423

These funds, together with the Exchequer cash surplus of IR£816 million, were used to repay:

	IR£ Million
Irish Pound Bonds	1,417
Section 69 Notes (IR£)	60
TSB Bank	15
Maturing foreign currency debt	436
Foreign currency debt prepayments	311
	2,239

Note*: Unless otherwise stated, all foreign currency amounts are expressed in Irish Pound equivalents. As the Report covers the year ended 31 December 1998, amounts are not expressed in euro equivalents. The conversion rate for euro equivalents is €1 = IR£0.787564.

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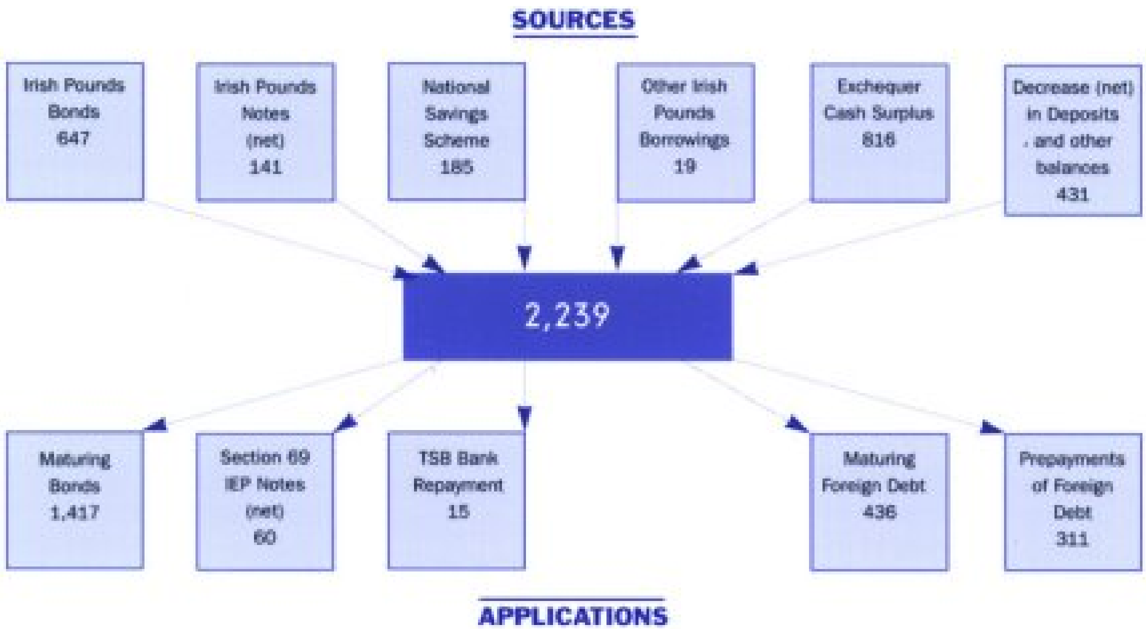
FINANCIAL OPERATIONS

The diagram below shows the main sources and applications of funds (IR£ million):



Gross cash flows, including all short term debt management activities, increased by IR£43 billion in 1998 to IR£221 billion. These consisted of gross borrowings of IR£32 billion, gross payments of IR£33 billion, flows on foreign exchange and derivatives transactions of IR£93 billion, REPO transactions of IR£59 billion and interest and associated payments of IR£2.4 billion.

These cash flows were in Irish Pounds and in a wide range of foreign currencies.

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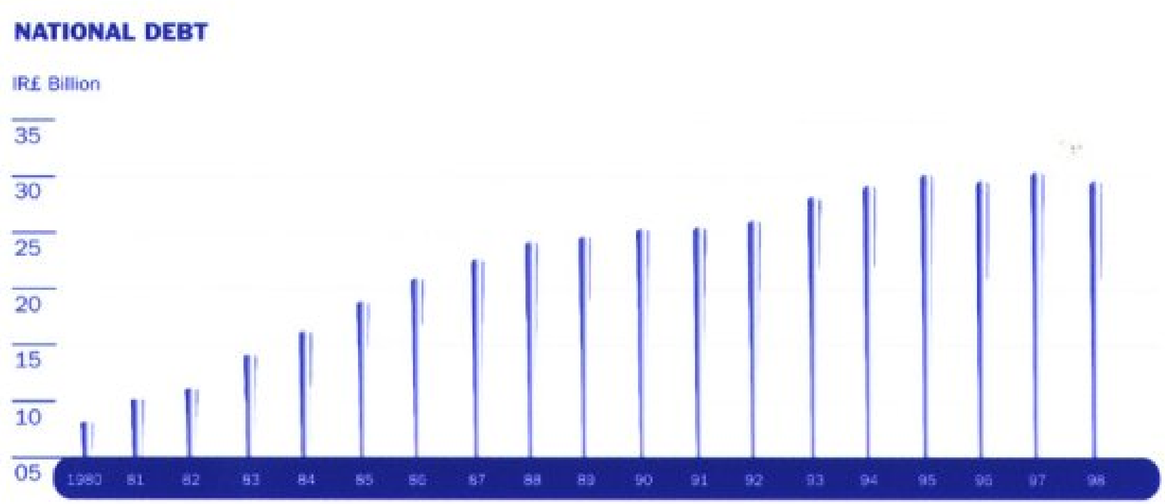
THE NATIONAL DEBT

The National Debt declined last year by over IR£1.1 billion. With the exception of an exchange-rate related reduction of IR£297 million in 1996, this was the first decline in the absolute level of the debt in 30 years.

This decline reflects the exceptional performance of the Irish economy and the related strength of Government finances as well as the favourable effect of foreign exchange movements on the Irish pound value of foreign currency debt. However the debt at year end remained almost IR£5 billion above what it was at the beginning of the 1990s.



RECONCILIATION OF MOVEMENT IN THE NATIONAL DEBT IN 1998

			IR£ million
National Debt at Start of Year			30,689
Less:	Exchequer Surplus	747	
	Net premiums on tranches and cancellations	89	
	Exchange rate translation gain	162	
	Increase in CSRA balance	150	
National Debt at end of Year			29,541
Reduction in National Debt			1,148

Note: In accordance with international conventions, all bond and loan amounts are included at their nominal or redemption value – usually 100 – although the market value may differ substantially from this.

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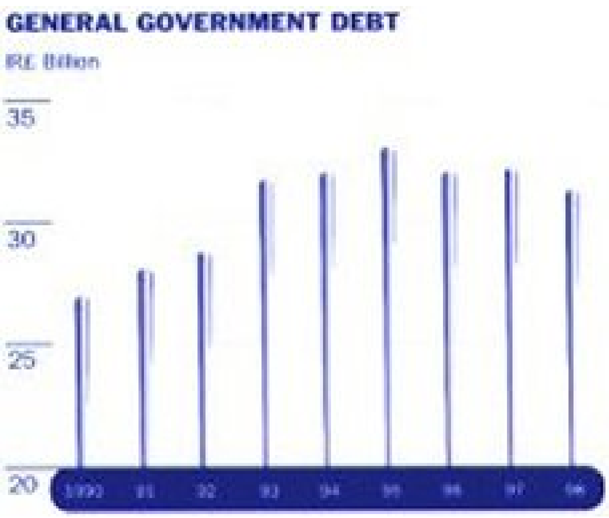
THE NATIONAL DEBT

The General Government Debt (GGD) is the definition of debt generally used within the European Union. The National Debt, as traditionally measured, is the principal component of the GGD. GGD is a gross measure of debt and does not include any offset for Exchequer deposits; in addition, it represents a wider definition of Government, including Local Government debt and certain other liabilities of Government.

The GGD was some IR£31.3 billion at end 1998. This compares with a figure of IR£32.3 billion at end 1997, a decrease of some IR£0.9 billion.

The National Debt as traditionally measured (i.e. Central Government debt net of cash balances) was IR£29.5 billion at end 1998, a decline of over IR£1.1 billion from the end 1997 level of IR£30.7 billion.



While the absolute level of GGD and the National Debt have remained within a relatively narrow range over recent years, the GGD/GDP ratio has declined sharply because of the very strong real growth of the economy. In 1998 the GGD/GDP ratio fell by 9 percentage points to 52 per cent - from 61 per cent at end 1997. The National Debt as a percentage of Gross National Product decreased to 60 per cent at end 1998 compared with 70 per cent a year earlier.

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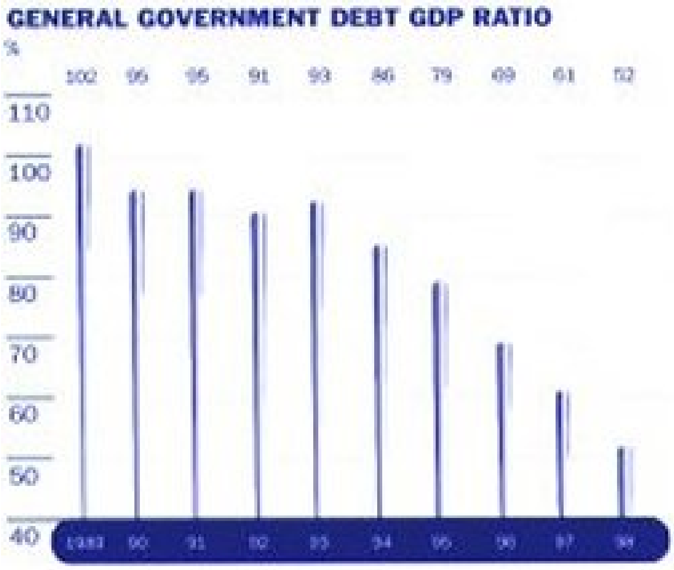

The favourable outlook for the economy and the strength of the Government's finances during 1999 point towards a further decline in the GGD/GDP ratio during the current year, although the decline this year will be significantly less due to the once off impact of the bond exchange programme on the nominal value of the Debt.

INTERNATIONAL COMPARISONS

International comparisons of indebtedness use the ratio of General Government Debt to Gross Domestic Product – GGD/GDP.

By the end of last year, Ireland's comparative indebtedness was the fourth lowest among the fifteen EU Member States. This represents a significant improvement in Ireland's relative position in recent years; as recently as the end of 1996, Ireland was tenth out of the fifteen Member States.

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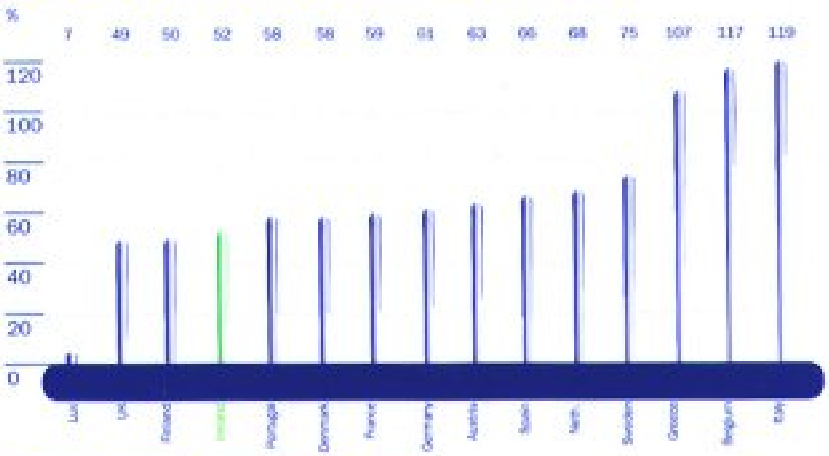
THE NATIONAL DEBT

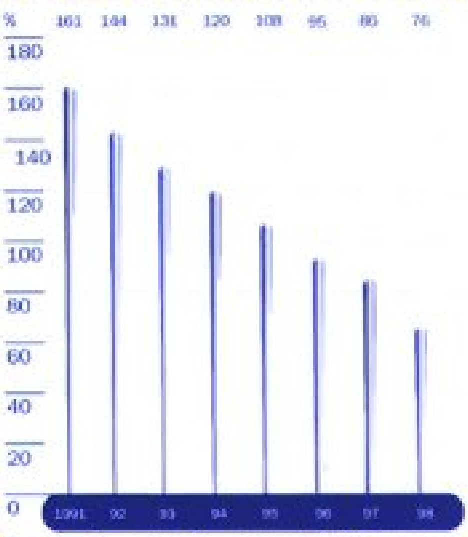
DEBT GDP RATIO FOR EUROPEAN MEMBER STATES 1998



Source: Eurostat, Department of Finance.

As a result of this improvement, Ireland's comparative indebtedness had fallen to some 76% of the EU average by the end of last year; it was well above the average in the first half of the decade.

IRELAND'S POSITION RELATIVE TO EU AVERAGE

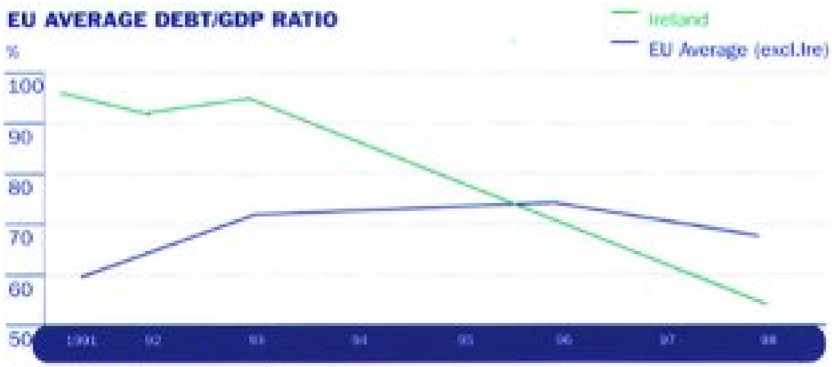


Source: Eurostat, Department of Finance.

*Excl. Ireland

NATIONAL DEBT

The primary factor driving this improvement over the past five years has been the favourable trend of Ireland's performance, rather than a change in the EU average itself, as can be seen from the graph below.



Source: Eurostat, Department of Finance.

COMPOSITION OF NATIONAL DEBT

During the year the Agency repaid foreign currency debt of some IR£747 million, thereby continuing the policy over the past number of years of reducing foreign currency debt as much as possible; net repayments of IR£1,041 million equivalent, IR£672 million equivalent and IR£1,009 million equivalent were made in 1995, 1996 and 1997 respectively.

As a result, foreign currency debt (including debt in EMU currencies other than Irish pounds) as a proportion of the overall debt declined in each of the last number of years.

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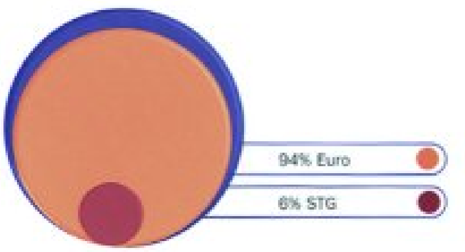
THE NATIONAL DEBT

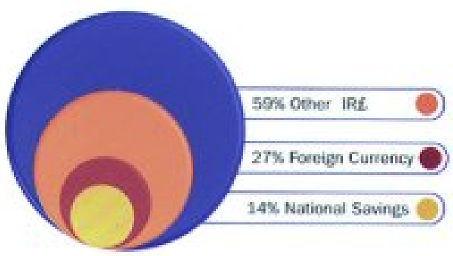
During 1998 the Agency hedged into EMU constituent currencies its foreign currency exposure to all non euro currencies other than Sterling (i.e. CHF, USD and Yen) so that by end-year 94% of the National Debt was effectively denominated in euro with the balance of 6% in Sterling.

COMPOSITION OF THE NATIONAL DEBT ON 1 JANUARY 1999

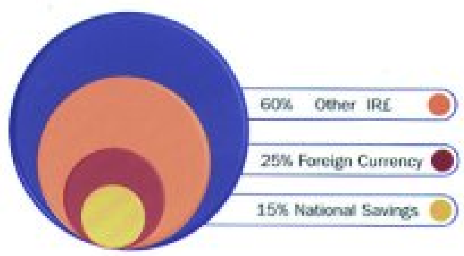


This compares with the position at the end of 1997 when the proportion of debt denominated in non-EMU member foreign currencies other than Sterling was 10%.

END YEAR 1997



END YEAR 1998



With the net repayment of foreign currency debt, there was an increase in the proportion of the debt denominated in Irish pounds. Within this amount there was an increase in the proportion represented by National Savings, reflecting a modest increase in net inflows on these products in 1998.

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DEBT SERVICE COSTS

The Exchequer debt service cost in 1998 (adjusted for exceptional items) was IR£222 million lower than provided in the Budget.

Actual 1998 Exchequer debt service expenditure was IR£2,560 million. Allowing for an exceptional payment of IR£150 million to the Capital Services Redemption Account (which is available for use in later years) and the non-use of a planned IR£7 million from the reserve in the Post Office Savings Bank (POSB) Fund, the adjusted outturn was IR£222 million less than budget as outlined below:

(IR£ million)	**Outturn**	**Budget**
Exchequer Debt Service Expenditure	2,560	2,625
Less: Payment to CSRA	150	-
Adjusted Exchequer Debt Service Expenditure	2,410	2,625
Favourable Variance from Budget	215	
Variance to Budgeted POSB Fund Reserve usage	7	
Adjusted Favourable Variance from Budget	**222**	

Of this IR£222 million, IR£65 million went towards increasing the 1998 Exchequer surplus, with the balance available to the Minister to cover budgetary costs in future years.

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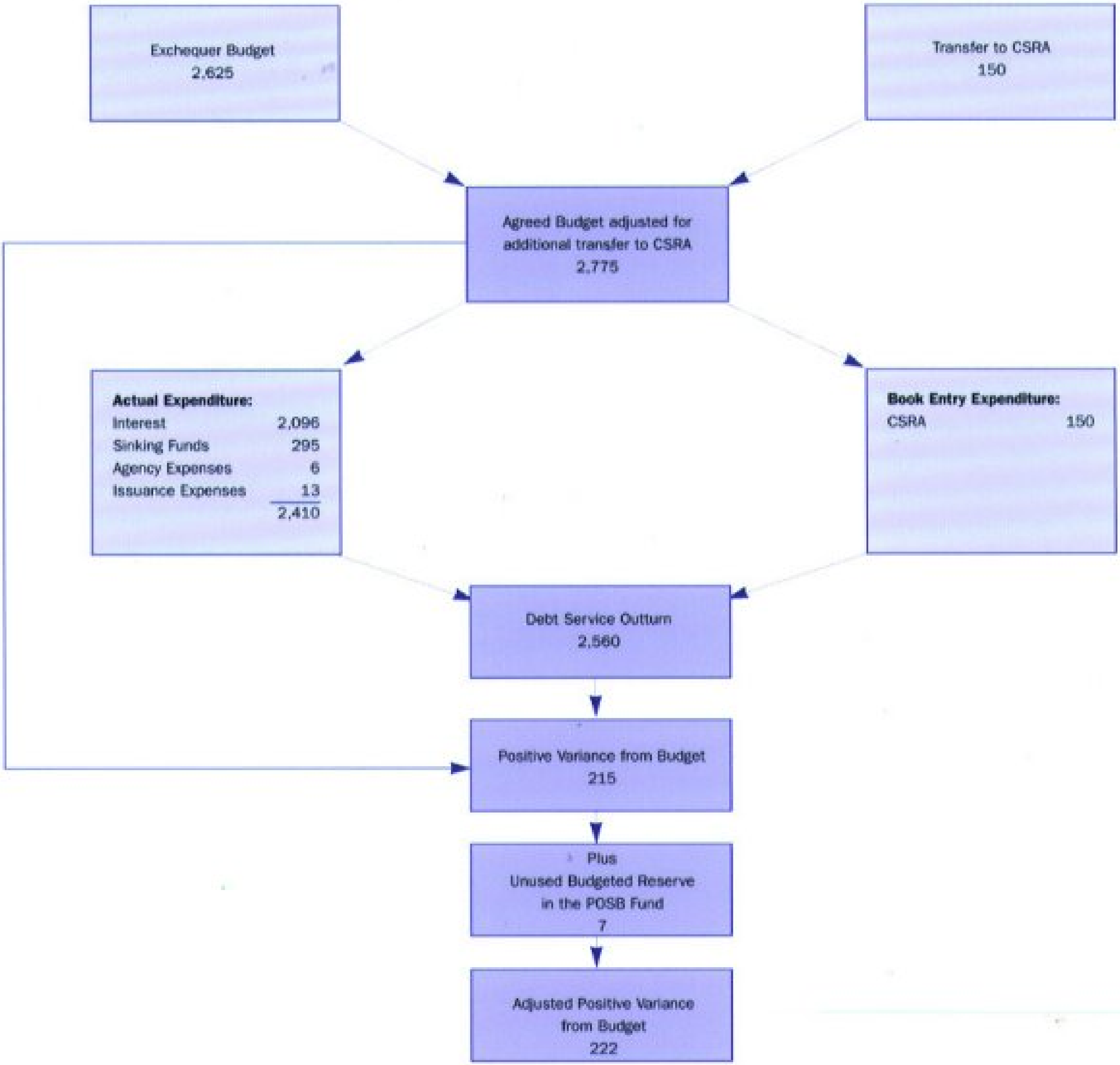
DEBT SERVICE COSTS

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

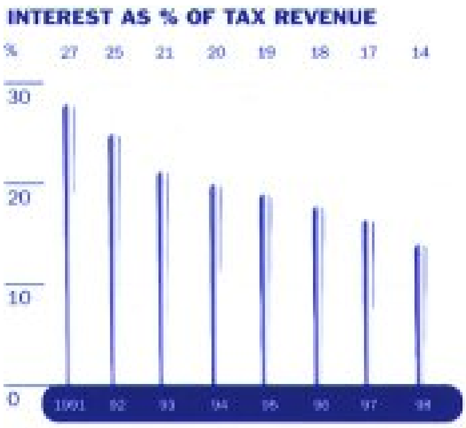
Analysis of Debt Service Outturn Relative to Budget - IR Million



DEBT SERVICE COSTS

Debt service costs of IR£2,560 million included interest payments of IR£2,096 million, sinking fund payments of IR£295 million (essentially a circular movement of cash), fees and expenses of IR£19 million and the previously mentioned transfer of IR£150 million to the CSRA. The interest payments of IR£2,096 million included an interest payment of IR£69 million into the National Savings interest reserve in addition to cash interest payments of IR£122 million on those schemes.

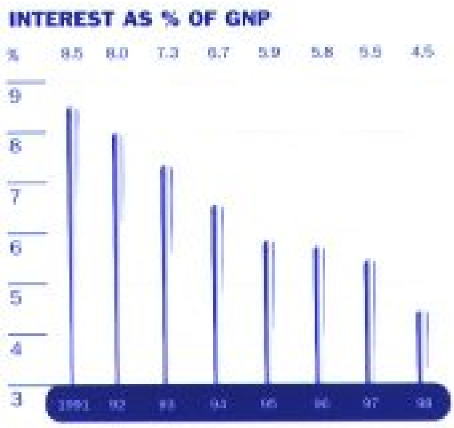
The burden of debt service on the economy and the taxpayer continued to fall in 1998. The ratio of interest payments to tax revenues declined by 3 percentage points to 14%, continuing the downward trend that has been in place over the past several years. As a result, National Debt interest now absorbs approximately half the proportion of tax revenue that it did in the early part of the decade, freeing up these resources for other uses.



Note: The interest series has been adjusted to reflect the accrual interest cost of the National Savings Schemes over the period.

DEBT SERVICE COSTS

Similarly, the interest burden expressed relative to GNP declined by 1 percentage point to 4.5% at end 1998.



Note: The interest series has been adjusted to reflect the accrual interest cost of the National Savings Schemes over the period.

The continuation of favourable interest rate conditions following the introduction of the euro, together with projected strong growth of the economy and related tax buoyancy this year, point to the continuation of these favourable trends.

INTEREST ACCRUING ON NATIONAL SAVINGS SCHEMES

In 1998, IR£122 million in interest was paid on the National Savings schemes and IR£69 million was paid into the National Savings interest reserve in line with the provisions of the Budget. The full interest accrual was some IR£324 million.

The National Savings interest reserve was established in 1994 to address the growing interest overhang on Savings Certificates, Savings Bonds and Instalment Savings which arises because interest is charged to the Budget only when these schemes are repaid, rather than in each year. At end 1998, the reserve was IR£692 million, some 39 per cent of the estimated interest overhang of IR£1,768 million.

In the 1999 debt service budget, the Minister for Finance included provision for the full accrual of interest costs on these schemes – estimated at IR£355 million this year. The multi annual budgets covering 2000 and 2001 also include similar provisions.

The principal reasons for the favourable outturn relative to the budget on debt service payments were the exceptional buoyancy of Government revenues, favourable exchange rate movements and lower interest rates; active management of interest rate and foreign exchange exposures by the Agency contributed significantly to this positive result.

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IRISH POUND DEBT

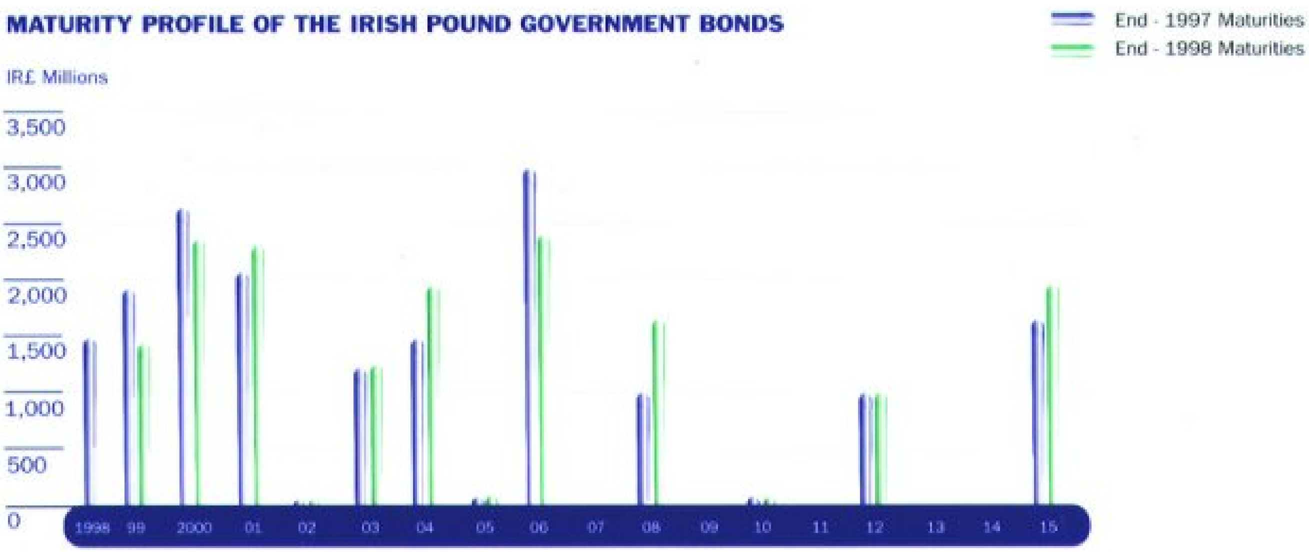
Irish pound debt, excluding the National Savings Schemes, accounted for 59% of the National Debt as at 31 December 1998.

The amounts outstanding were:

	IR£ Million (nominal)			
	31 December 1998		31 December 1997	
Irish Pound Bonds				
Domestic Holders	12,534		12,775	
Non-resident Holders	3,504	16,038 *	4,137	16,912 *
Exchequer Notes		1,203		1,062
Notes issued under Section 69 of Finance Act 1985		162		222
		17,403		18,196

*Excludes dual currency bonds amounting to IR£101 million (1997 IR£98 million)

Bonds outstanding at end-year had maturities ranging up to the year 2015, while Exchequer Notes had a maximum maturity of twelve months.



1998 ACTIVITY

Funding by the Agency in the Irish Pound market during 1998 is shown below:

			IR£ Million (Cash Amounts)
Sales of:	Bonds		1,899
	Exchequer Notes		141
	IR£ Section 69 Notes(net)		(60)
			1,980
Less:	Redemption of Bonds maturing in 1998	1,417	
	Repurchase of Bonds	1,258	2,675
Net Funding			(695)

OVERALL DEBT MANAGEMENT POLICY

The main strategy adopted in 1998 was to position the portfolio to benefit from an anticipated fall in bond yields as money market rates in particular were expected to fall significantly before the introduction of the euro. The Agency sold mostly 10 year bonds in 1998 as this was the area of strong market demand. However, in anticipation of a fall in interest rates and bond yields, these liabilities were swapped into floating rate debt. Consequently, as Irish money market rates and bond yields converged to lower European levels towards the end of the year, the portfolio benefited substantially from the significant mark to market gains arising from the interest rate swaps put in place over the course of the year.

BOND ISSUANCE

The Agency's fixed interest borrowing was in designated benchmark bonds – maturing in 2001, 2008, and 2015 - all of which have annual coupons and were sold by auction through the six Primary Dealers as follows:

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COMPETITIVE AUCTIONS 1998

Date	Bond	Price	Yield %	Nominal IR£ million	Proceeds IR£ million	Cover
19/02	6% Treasury Bond 2008	106.17	5.22	101	107	1.82
19/03	8.25% Treasury Bond 2015	132.06	5.37	101	133	2.07
16/04	8.25% Treasury Bond 2015	132.48	5.33	100	132	2.99
21/05	6% Treasury Bond 2008	106.38	5.18	151	161	2.57
18/06	6% Treasury Bond 2008	106.80	5.12	150	160	2.47
16/07	6% Treasury Bond 2008	107.78	5.00	125	135	1.88
20/08	6% Treasury Bond 2008	109.88	4.75	125	137	1.15
17/09	6% Treasury Bond 2008	113.07	4.35	75	85	3.10
15/10	6.5 % Treasury Bond 2001	107.63	3.77	100	108	1.55
19/11	6.5 % Treasury Bond 2001	107.81	3.63	70	75	5.50
	Total			**1,098**	**1,233**	

After each competitive auction there was a non competitive auction under which the Agency was prepared to accept bids from the Primary Dealers at the average dealt price in the auction for up to 20 per cent of the nominal amount sold in the competitive auction. Funding in 1998 was IR£1,233 million raised by competitive auction and a further IR£98 million through the non-competitive auction process.

IRISH POUND BOND YIELDS

		Bond Yields (annual) %		
Maturity	**End-1997**	**1998 Low**	**1998 High**	**23 June 1999**
2001*	5.01	3.21	5.03	3.26
2002	-	-	-	3.52
2005	-	-	-	4.11
2008*	5.59	3.97	5.59	4.44
2010	-	-	-	4.68
2015*	5.79	4.43	5.80	4.91
2016	-	-	-	5.10

* These bonds were replaced as benchmark bonds in May 1999 by the four other bonds in the table, ie the 2002, 2005, 2010 and 2016.

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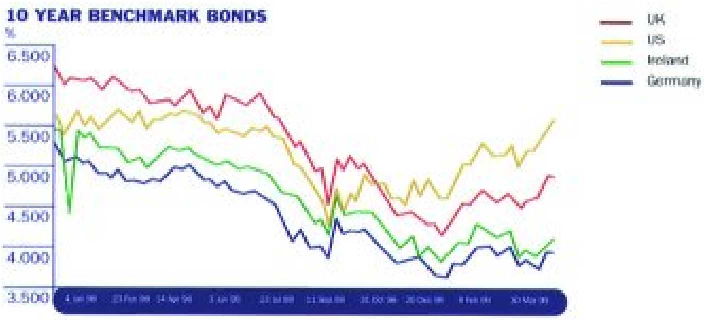
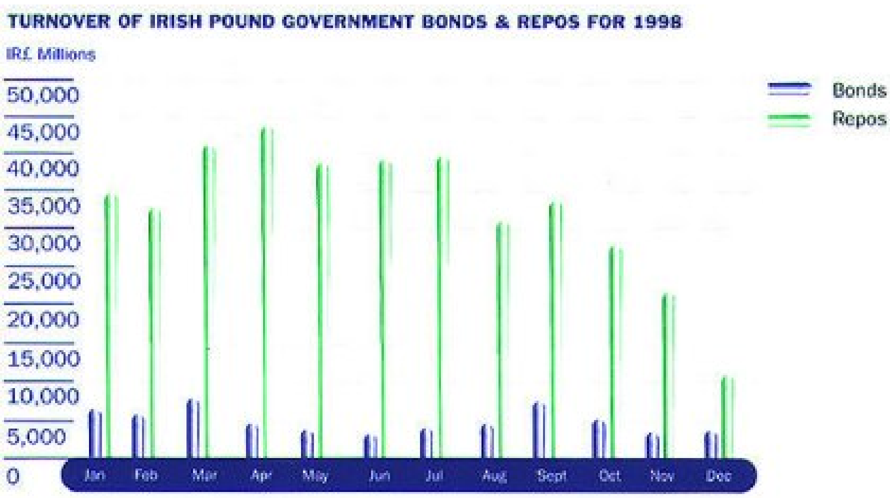
IRISH POUND DEBT

The effect of convergence on bond yields can be gauged from the change in spreads between Irish and German Government bonds.

Bond	2 January 1998 basis points	31 December 1998 basis points	23 June 1999 basis points
2001	45	3	-1
2008	27	15	5
2015	30	21	7



Turnover in bonds in 1998, as reported by the Irish Stock Exchange, was IR£62 billion; this compares with IR£111 billion in 1997. This fall off in turnover was also experienced by the other smaller European bond markets reflecting the concentration of trading activity in the German bund market which acquired benchmark status in the key 10 year area. The importance of the ten year bund has been further reinforced by the success of the bund futures contract on the Eurex, the German – Swiss derivatives exchange. Only German bunds are deliverable under this contract.



Source: Irish Stock Exchange

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The Agency, through its primary and secondary market transactions, accounted for 15 per cent of total turnover in bonds and 15 per cent of activity in the REPO market.

Market turnover in the bonds for which Primary Dealers quote continuous prices:

	IR£ million (nominal)
6.25% Treasury Bond 1999	6,214
8% Treasury Bond 2000	8,049
6.5% Treasury Bond 2001	9,408
9.25% Capital Stock 2003	4,959
6.25% Treasury Bond 2004	5,162
8% Treasury Bond 2006	9,311
6% Treasury Bond 2008	12,929
8.75% Capital Stock 2012	2,068
8.25% Treasury Bond 2015	3,892
Total	**61,992**

Source: The Irish Stock Exchange

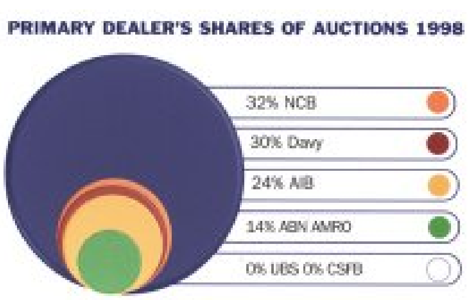
Turnover in the above bonds represented 99 per cent of total Irish bond market turnover.

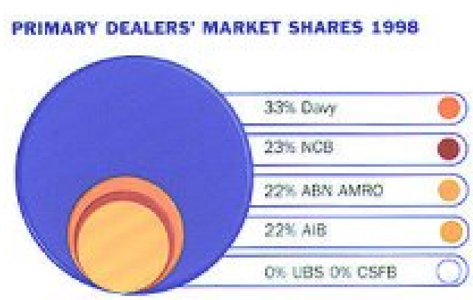
Over the course of the year the dealing spreads of 5 cents for shorts (out to 5 years) and 10 cents for mediums (6 to 10 years) were typical and the normal deal size in both maturity ranges was around IR£10 million.

Activity between Primary Dealers via the Inter Dealer Broker (IDB) - which enables Primary Dealers transact with each other on an anonymous basis – continued to contribute to the liquidity of the market.

PRIMARY DEALERS' ACTIVITIES

The market shares of Primary Dealers for both auctions and market turnover are shown below.





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BOND SWITCHING

The Agency provides a bond switching facility to Primary Dealers on request as part of its market management activities and from time to time offers switching facilities generally to the market to enhance the liquidity of a particular bond. Such switches are mainly used following the launch of a new bond to build up its issue size.

Switching activity by the Agency in bonds for which Primary Dealers quote continuous prices was:

	IR£ millions (nominal)	
	Purchases	**Sales**
6.25 % Treasury Bond 1999	125	92
8% Treasury Bond 2000	408	307
6.5% Treasury Bond 2001	188	206
9.25% Capital Stock 2003	351	392
6.25% Treasury Bond 2004	280	673
8% Treasury Bond 2006	670	107
6% Treasury Bond 2008	322	345
8.75% Capital Stock 2012	86	140
8.25% Treasury Bond 2015	100	153
Total:	**2,530**	**2,415**

Price Making Obligations of Primary Dealers

Bond Maturity	**Minimum Size (euro) Millions**	**Maximum Spread (euro) Cents**
over 18 months to maturity and under six years to maturity	4	15
6 years to 11 years	3	25
over 11 years to maturity	2	35

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PRIMARY DEALER SYSTEM

The market making system, which was launched in December 1995 for a three year period, was reviewed in the second half of 1998. Following this review, the Agency published in November a Statement entitled "Revised Arrangements for Issuance Procedures and Related Debt Management, including the Primary Dealer System". Consultations were held with prospective Primary Dealers on the revised arrangements to apply from the start of 1999. Credit Agricole Indosuez and Deutsche Bank were recognised as Primary Dealers in place of CS First Boston Limited and UBS Limited.

The Primary Dealers are:

- ABN AMRO Stockbrokers (Ireland) Limited
- AIB Capital Markets plc
- Credit Agricole Indosuez
- Davy Stockbrokers
- Deutsche Bank
- NCB Stockbrokers Limited

The main obligation of the Primary Dealers is to make continuous two way prices in specified bonds within maximum spreads and to contribute towards the gross funding of the Agency.

REDENOMINATION OF DEBT INTO EURO

The Agency, together with the Central Bank, made detailed preparations for the introduction of the euro on 1 January 1999. All outstanding Government Bonds and Exchequer Notes, which were issued in Irish Pounds, were redenominated in euro. A comprehensive document setting out details of the redenomination process was published in June 1998 for the information of market participants.

SECURITIES EXCHANGE PROGRAMME

With a view to enhancing the attractiveness of the Irish Government bond market in the highly competitive euro environment, the Agency commenced preparations in 1998 for a major Securities Exchange Programme. These preparations continued in early 1999 and the Programme was launched in May.

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The rationale underlying the Securities Exchange Programme (SEP) was that, in order to be competitive in the new euro environment, Irish Government bonds must have

- large issue size
- coupons close to prevailing yields, and
- the same technical characteristics as other euro markets.

Market participants strongly supported this objective of "modernising" Irish Government bonds. In the Agency's view, there was a real risk that, if nothing was done to update the market, it would become peripheral and trade in low volumes at spreads inappropriate to the credit rating.

Prior to the Exchange Programme, the major problems in the Irish Government bond market were the small size of outstanding bond issues - the eight bonds in which Primary Dealers were obliged to make prices ranged in size from euro 1,300 million (IR£1,024 million equivalent) to euro 3,000 million (IR£2,363 million equivalent) - and the extent to which bonds were trading over their nominal value. The Exchange Programme sought to address the problem of small issue size by consolidating about 80 per cent of the market into four new bonds each with outstanding amounts of euro 3-5 billion (IR£2.4–3.9 billion equivalent) and with coupons closer to prevailing yields. The yield – normally taken as the yield to redemption – on a bond takes account not only of the interest payable but also the capital gain or loss to the repayment date of the bond. As a result of the steep fall in bond yields in recent years, the old bonds, with coupons ranging from 6.25 per cent to 9.25 per cent, could be replaced with new bonds with coupons from 2.75 per cent to 4.6 per cent. The new lower coupon bonds are more attractive to prospective new investors, many of whom were reluctant to buy the old bonds because they traded substantially above par. In launching the four new bonds under the Exchange Programme, the Agency made certain changes in their technical specification to bring them into line with the benchmark bonds in the other euro sovereign debt markets. These changes are as follows:

- no ex-dividend period
- annual coupon based on actual / actual interest payment calculation
- standard settlement period of T+3 (i.e. three business days after the trade date)

The Agency also reached an agreement with Euroclear which enabled same day turnaround for the settlement of trades in Irish government bonds between the Central Bank's Securities Settlement Office (CBISSO) and Euroclear. This arrangement, based on the Agency providing certain bridging facilities, removed the extra day which these trades previously took to settle.

Tax changes designed to facilitate the participation of the Irish insurance companies in the Exchange Programme were provided for in the Budget and incorporated in the 1999 Finance Act.

IRISH POUND DEBT

The Exchange Programme was launched in May 1999 with most of the major transactions taking place over three stages in that month. A summary of the outcome of the Programme as at 30 June, 1999 is set out below.

Due to larger nominal amounts of new low interest bonds having to be issued in exchange for the old high coupon bonds, the nominal amount of bonds outstanding rose by some IR£2,700 million. There was no change in the market value of the two blocks of bonds.

The following amounts were bought back in the initial three stages of the Exchange Programme:

Bonds Bought Back	**€million**	**IR£ million equivalent**	**% of Original Issue**
6.5% Treasury Bond 2001	897	706	30%
9.25% Capital Stock 2003	1,272	1,002	81%
6.25% Treasury Bond 2004	1,908	1,479	82%
8% Treasury Bond 2006	2,676	2,108	94%
6% Treasury Bond 2008	1,912	1,506	93%
8.75% Treasury Bond 2012	1,238	975	96%
8.25% Treasury Bond 2015	2,369	1,866	98%
	12,272	9,641	

In the case of the 6.5% Treasury Bond 2001, the buyback was limited by the Agency, for market management purposes, to 30 per cent of the outstandings. Excluding the 2001 issue, the average percentage of old issues retired was 91%.

The amounts outstanding in the new benchmark bonds at 30 June 1999 were as follows:

New Bonds Issued	**€ million**	**IR£ million equivalent**
2.75% Treasury Bond 2002	2,884	2,271
3.5% Treasury Bond 2005	4,501	3,545
4% Treasury Bond 2010	5,574	4,390
4.6% Treasury Bond 2016	3,480	2,741
	16,439	12,947

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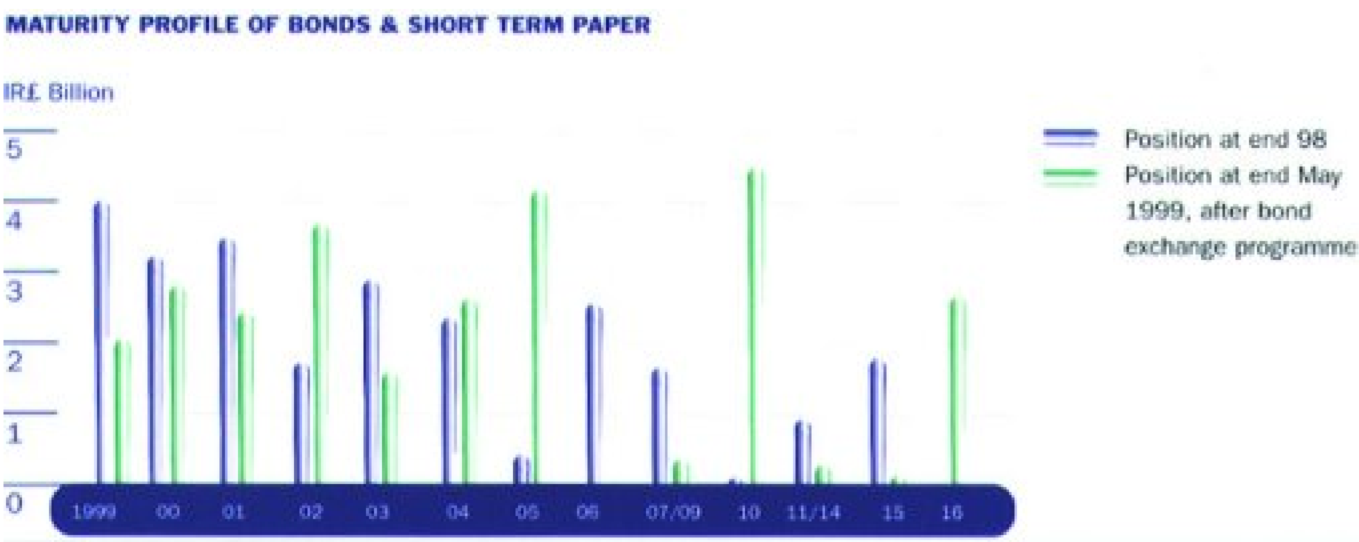
IRISH POUND DEBT

The maturity structure of the Bond and Notes portfolios is shown below at end 1998 and following completion of the securities exchange programme, at end May 1999; the data for this latter date show the significant lengthening of the maturity structure arising from the exchange programme.



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

- Bloomberg / EFFAS – Government Bond Index
- JP Morgan – Irish Government Bond Index
- Lehman Brothers – Global Bond Index
- Merrill Lynch – Global Government Bond Index II
- Salomon Smith Barney – World Government Bond Index

COMMERCIAL PAPER AND "SECTION 69" NOTES

Ireland has a EURO 2 billion CP Programme (in Frankfurt), a US$1 billion multi-currency ECP Programme (in London) and a US$1 billion CP Programme (in New York). These programmes offer immediate access to a large pool of low cost funds. The proceeds are available for liquidity management and for refinancing other more expensive forms of borrowing.

"Section 69 Notes" are tax-exempt securities, which are issued in a range of currencies to eligible foreign-owned companies located in Ireland. They are sold directly by the Agency and also through designated banks in Ireland. Essentially, they offer these companies a flexible short-term investment instrument while producing cost-effective funding for the Exchequer.

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EXCHEQUER PAPER AND AGRICULTURAL COMMODITY INTERVENTION BILLS

During 1998 the Agency continued to sell Exchequer Notes to a broad range of investors, including corporates, banks and other institutional clients. The available maturities ranged from one week to one year with a minimum IR£100,000 investment (now EURO 100,000). The Agency introduced Agricultural Commodity Intervention Bills (ACIBs) to investors in early 1998. ACIBs carry similar terms to Exchequer Notes but are issued by the Agency on behalf of the Minister for Agriculture and Food. This product was well received by investors with a full take-up on available ACIBs. Outstanding ACIBs were IR£91 million at end 1998.

Outstanding Exchequer Notes at end 1998 amounted to IR£1,210 million (nominal), an increase of IR£123 million from the end 1997 level. The Agency continues to make two-way prices in Exchequer Notes. These prices are shown on Reuters and Bloomberg, page NTMA.

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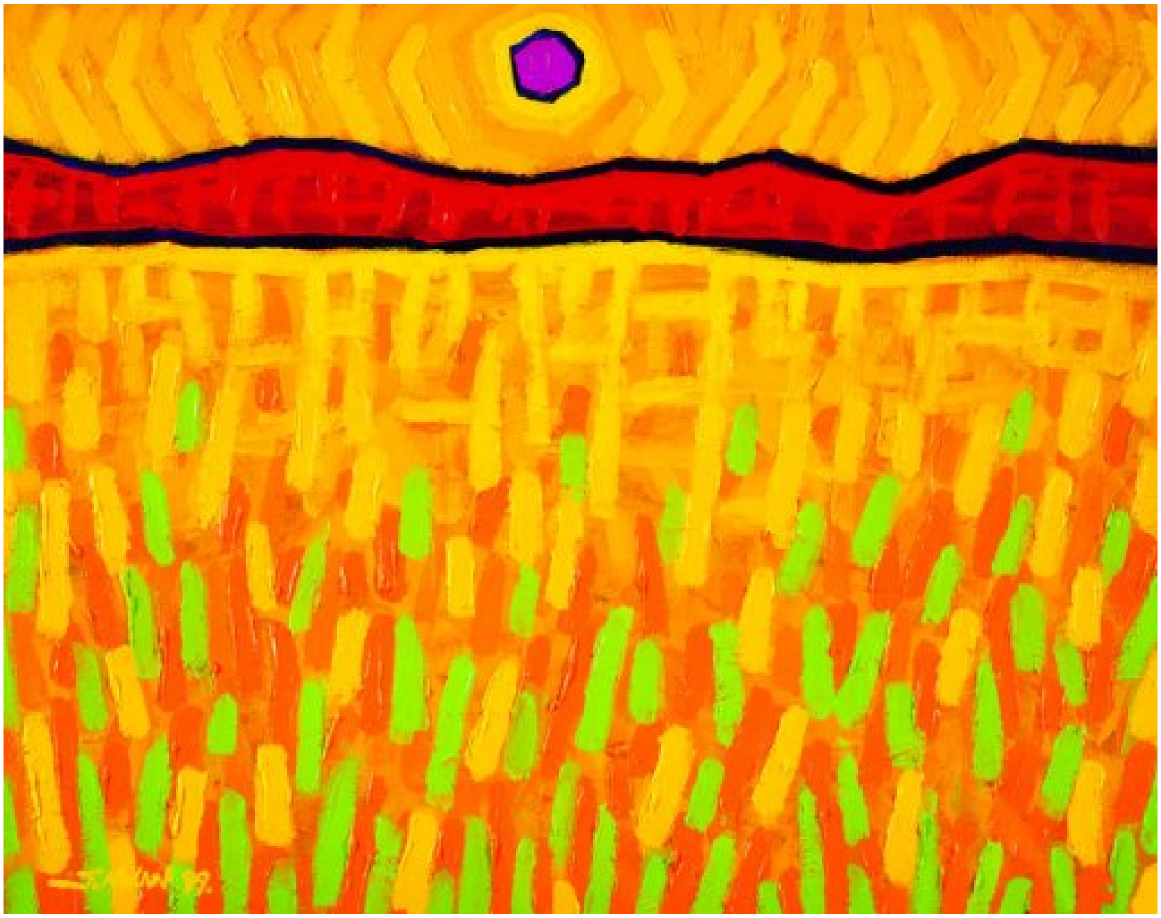

Magenta Sun

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FOREIGN CURRENCY DEBT

STRATEGY LIABILITY ADJUSTMENTS

During 1998, the Agency decided that, with the imminent introduction of the euro and the benign outlook for the Exchequer finances, the large euro bond and money markets would adequately meet Ireland's funding needs for the foreseeable future and therefore it was no longer necessary to retain exposure to non-EMU currencies. This decision led to substantial adjustments to the debt portfolio which, at the end of 1997, had included foreign currency debt to the value of IR£8.3 billion equivalent.

The portfolio adjustments, which were conducted during the last quarter of 1998 and the first quarter of 1999, resulted in the elimination of net foreign exchange exposure to the US Dollar, Swiss Franc and the Japanese Yen, which in aggregate had accounted for some 10% of the total debt at the end of 1997. The net result of this activity was a portfolio with 94% of the debt in euro and 6% in Sterling.

OTHER LIABILITY MANAGEMENT ACTIONS

A major objective of the Agency is to take advantage of market movements to generate savings on debt service costs and on the net present value of the debt. During 1998, foreign exchange contracts were used to take advantage of shifts in market sentiment in order to generate savings from tactical modifications to the composition of the foreign debt portfolio. In particular, the year witnessed significant fluctuations in the Sterling/Deutschemark exchange rate and these created opportunities for profitable portfolio adjustments.

In addition, interest rate swaps and futures allowed the Agency to take advantage of the strong rally in the main international bond markets during the year.

FUNDING OPPORTUNITIES

Swaps were also used to generate cheaper floating rate funding than could have been achieved through more direct bond issuance. In particular, the widening of swap spreads over government bond yields in the latter part of the year afforded opportunities to convert new fixed rate funding from the European Investment Bank (EIB) into attractive sub-LIBOR liabilities through swap transactions. Three fixed rate loans, totalling some IR£61 million, were swapped into floating rate debt at spreads ranging from 13 to 20 basis points below LIBOR.

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FOREIGN CURRENCY DEBT

The scope for borrowing in currencies other than Irish pounds in 1998 was extremely constrained, given the Exchequer surplus and the decision to channel the limited funding requirement into the Irish government bond market. Nevertheless, the Agency did avail of two attractive opportunities to borrow in foreign currencies and to swap the proceeds at highly competitive rates into Irish Pounds :

- A Japanese Yen 5,000m 10 year loan which was swapped into Irish Pounds at levels of DIBOR minus 35 basis points (for the first two years) and DIBOR minus 20 basis points for the period thereafter.

- A Greek Drachma 10,000m 3 year issue which was swapped into Irish Pounds at a level of DIBOR minus 50 basis points.

DEBT PREPAYMENTS

During 1998, the Agency sought further opportunities to prepay foreign currency debt. Savings were generated by prepayment, through the exercise of call options, of some IR£311 million equivalent of loans in Swiss Francs, Dutch Guilders and ECU.

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NATIONAL SAVINGS SCHEMES

In 1998, the National Savings Schemes raised net additional funds of IR£198 million (excluding repayments to TSB Bank). This is IR£13 million more than the sum raised in 1997 through these schemes. The amounts outstanding on the schemes at end 1998 totalled IR£4,447 million, representing an increase of 4.5 per cent over the equivalent end 1997 figure.

Despite much reduced interest rates and also strong competition within the savings market generally, the National Savings Schemes remain an important and stable element in the National Debt. They offer private investors a unique mix of attractive characteristics:

- Government risk
- no investment costs or commissions
- repayment flexibility
- competitive rates of return

These features account for the continuing success of the schemes as a source of funding for the Agency. They are sold by the Post Office (An Post) acting on behalf of the Agency. A number of the products may also be purchased through stockbrokers and other outlets.

Details of the totals outstanding for each of the schemes at end 1998 and the net amounts raised during 1998 are:

	Total Outstanding at end 1998 IR£ million	**Money Raised in 1998 (net) IR£ million**
Savings Certificates	2,292	145
Savings Bonds	1,147	2
Instalment Savings	356	28
Prize Bonds	179	24
Post Office Savings Bank		
1. Ordinary Deposit Account	422	13
2. Deposit Account Plus	51	(10)
TSB Bank, including interest	-	(15)
POSB Fund Investment Income	-	(4)
TOTAL	**4,447**	**183**

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NATIONAL SAVINGS SCHEMES

In addition, an estimated IR£1,768 million was outstanding at end 1998 in accrued but unpaid interest on Savings Certificates, Savings Bonds and Instalment Savings (IR£1,573 million at end 1997). In order to provide over time a reasonable level of cover for this accrued interest, an interest reserve was created in 1994. IR£69 million was paid into this reserve in 1998, bringing the total provision for outstanding accrued interest to IR£692 million, or some 39 per cent of the total accrued interest outstanding. This is approximately the same percentage cover as at end-1997.

The cost of administration of the schemes was IR£23.6 million in 1998. Of this amount, IR£20.8 million was paid to An Post and IR£2.65 million to the Prize Bond Company. The latter operates the Prize Bonds scheme and is owned jointly by An Post and The Foreign Exchange Company of Ireland (FEXCO). IR£120,000 was paid to TSB Bank in respect of Instalment Savings. The details are as follows:

	1998 Cost (IR£ 000)
Post Office Savings Bank	12,874
Savings Certificates	3,408
Savings Bonds	1,884
Instalment Savings	1,712
Prize Bonds	2,864
Savings Stamps	829
TOTAL	23,571

During 1998, a new fees structure was negotiated with An Post for the Post Office Savings Bank, Savings Certificates, Savings Bonds and Instalment Savings. It had effect retrospectively to 1 January 1998 and will apply for three years from that date.

SAVINGS CERTIFICATES, SAVINGS BONDS & INSTALMENT SAVINGS

Savings Certificates, carrying a fixed return for five and a half years, provided net funding of IR£145 million in 1998 compared with IR£86 million in 1997. Savings Bonds have a tenor of three years and raised net additional funds of IR£2 million in 1998 (1997 figure : IR£65 million).

In anticipation of the introduction of the euro, interest rates on Savings Certificate and Savings Bonds were reduced twice during 1998, in line with market trends generally for similar products.

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Interest on Instalment Savings was also reduced on 23 December 1998 to 15 per cent after five years, equivalent to an average annual rate of interest of 2.57 per cent after allowance is made for payment of the instalments over twelve months. Whereas Savings Certificates and Savings Bonds are designed for lump sum investments up to certain limits, Instalment Savings enable investors to save over time by means of fixed monthly instalments. Net inflows into Instalment Savings in 1998 were IR£28 million, as compared to IR£32 million in 1997.

PRIZE BONDS

Prize Bonds raised some IR£24 million net in 1998, up from £8.8 million in 1997 probably due to the low interest rate environment generally. Low rates have enhanced the appeal of alternative savings products such as Prize Bonds. The total invested in Prize Bonds was IR£179 million at end 1998, up from IR£155 million at end 1997. The rate of interest used to determine the prize fund was 3.5 per cent throughout 1998 but was reduced to 3.0 per cent from 1 January 1999.

The scheme has been operated by The Prize Bond Company Limited since May 1989 under a contract which expired on 30 April 1999 but has been extended to 31 October 1999. The Agency has recently sought tenders for the service of operating the Prize Bonds scheme from 1 November 1999 and the new contract to be awarded at the end of this tender process will be for a period of ten years from that date.

POST OFFICE SAVINGS BANK

When accrued interest is taken into account, the deposit base of the Post Office Savings Bank (POSB) increased by IR£8 million in 1998 – from IR£465 million at end 1997 to IR£473 million at end 1998. The book-based demand deposit account of the Post Office Savings Bank (POSB) grew by IR£15 million in 1998 to IR£422 million. There was, however, a net outflow of IR£7 million from Deposit Account Plus, the Special Savings Account of the POSB which carries the lower rate of Deposit Interest Retention Tax.

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NATIONAL SAVINGS SCHEMES

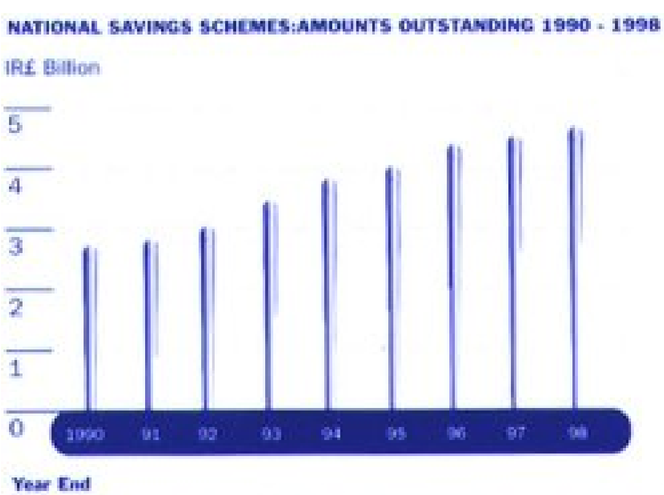
There are tiered interest rates on both POSB accounts. The rates which applied throughout 1998 and the reduced rates which were introduced with effect from 10 April 1999 are set out below:

DEMAND ACCOUNT	**1998 rates**	**Rates from 10 April 1999**
under IR£5,000	0.50% p.a.	0.25% p.a.
IR£5,000 and over	1.00% p.a.	0.50% p.a.

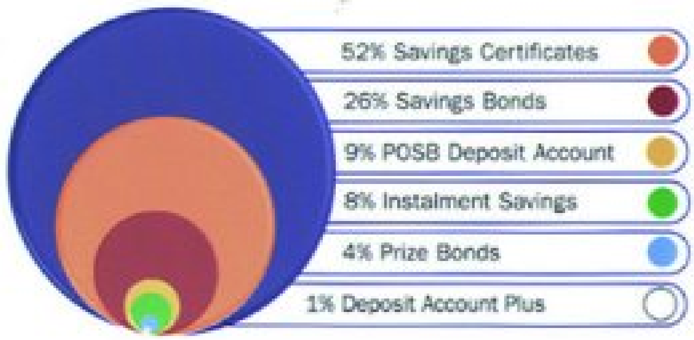
DEMAND ACCOUNT PLUS	**1998 rates**	**Rates from 10 April 1999**
under IR£5,000	3.50% p.a.	2.0% p.a.
IR£5,000 - IR£24,999	4.50% p.a.	2.0% p.a.
IR£25,000 - IR£39,999	4.75% p.a.	2.0% p.a.
IR£40,000 - IR£50,000	5.00% p.a.	2.5% p.a.

TSB BANK

The final tranche of the TSB Bank's deposit with the Agency, amounting to IR£15 million, was repaid in January 1998. This completes the arrangements agreed in October 1992 for the gradual and orderly withdrawal of the TSB Bank deposit from the Agency following changes in the legislation governing the operation of TSB Bank which allowed it to diversify the allocation of its resources into other classes of assets. The total amount withdrawn since October 1992 was IR£564 million (excluding interest).



COMPOSITION OF NATIONAL SAVING SCHEMES AT END 1998



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ULYSSES SECURITISATION P.L.C.

Ulysses Securitisation p.l.c. is a special purpose company established in 1995 for the purpose of securitising local authority mortgage payments. The Company is managed by the Agency under a Corporate Services Agreement.

To date, a portfolio of mortgage payments have been securitised through the issuance of bonds totalling IR£190 million (IR£140 million in 1995 and IR£50 million in 1996). These bonds have been redenominated into euro with effect from 1 January 1999. Ulysses continued to operate successfully in 1998. Its annual accounts have been lodged with the Companies Office.

THE ADVISORY COMMITTEE

From left to right
John F. Daly Chairman, ICL Computers (Ireland) Limited
Patrick H. Mullarkey, Secretary General, Department of Finance
Gerold W. Brandt, Member of the Managing Board, Bayerische Landesbank, Munich
Joe Moran, (Chairman) Chairman, Forum for the Construction Industry
Lewis L. Glucksman, Senior Advisor, Salomon Smith Barney, New York
Paul Carty, Managing Partner, Deloitte & Touche, Dublin
Donald C. Roth, Managing Partner, Emerging Markets Partnership, Washington D.C.

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Still Life with Lemons

CREDIT RATINGS

SHORT-TERM CREDIT RATINGS

Ireland has the top A1+, P1, F1+ and D-1+ ratings from Standard & Poor's, Moody's Investors' Service, Fitch IBCA and Duff & Phelps respectively.

LONG-TERM CREDIT RATINGS

During the course of 1998, Ireland's foreign currency debt rating was upgraded by Standard & Poor's, Moody's and Fitch IBCA.

- In May, Moody's brought the domestic and foreign ratings into line by upgrading the foreign currency rating from AA1 to AAA.
- Also in May, Standard & Poor's announced that in the context of the introduction of the euro Ireland's ratings for domestic and foreign currency debt would converge at AA+; previously foreign currency debt was rated at AA and domestic debt at AAA.
- In December, in advance of the introduction of the euro, Fitch IBCA also integrated the domestic and foreign ratings at AAA, which involved an upgrade of the foreign rating from AA+. Fitch IBCA cited the fiscally responsible policies pursued by successive Irish governments since the late 1980s, which have resulted in growing fiscal surpluses, falling debt and even sharper falls in debt to GDP ratios.
- In October, Duff & Phelps Credit Rating Co. reaffirmed its AAA rating for Ireland's debt.

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STRATEGY AND RISK MANAGEMENT

RISK

By their nature, the Agency's business activities are exposed to risk. The rapidly changing business environment, particularly in the context of EMU, creates business risk which has to be managed proactively. Changing from a predominantly locally based Irish pound market to a large, integrated, homogenous and transparent euro denominated market for government bonds creates both opportunities and challenges.

In addition to this general business risk, particular areas of risk to which the Agency is exposed include market risk, liquidity risk, counterparty credit risk and operational risk.

The Agency has in place a range of risk management tools in order to quantify and manage, in a timely manner, the various types of risk to which the level and interest cost of the debt are exposed as a result of the volatility and uncertainty of financial markets. These tools include systems to quantify the sensitivity of budgeted debt service costs, both in the current year and in future years, to movements in exchange rates and interest rates; in addition, internal risk limits are used to manage these exposures.

Refinancing or liquidity risk is also an area of prime importance. While access to financial markets is primarily dependent on the ongoing credit standing of the Irish economy, it is also subject to variations in the conditions and liquidity of the capital markets themselves; political and economic developments in other countries or regions can have a significant impact on conditions in financial markets that have become increasingly interlinked.

In order to contain this exposure, the Agency limits the concentration of debt maturities in the near term and spreads maturities over a number of years. The introduction of the euro and a single currency government bond market is a positive development from the point of view of liquidity risk; with a share of approximately 1% of the large 'domestic currency' euro government bond market, Ireland will now have greater access to funding without exchange risk, resulting in increased flexibility in the management of maturities.

The Agency manages short term liquidity by regularly updating forecasted cash inflows and outflows and managing issuance dates and volumes to ensure that the Exchequer has, at all times during the year, adequate cash resources to meet its needs.

Credit exposures arising from deposits and derivative transactions are monitored regularly and are managed within approved limits; over the past year the software for calculating credit exposures has been upgraded.

Operational risk is controlled by rigorous policies and procedures governing payments and the separation of duties, in line with best practice in the financial sector generally.

BENCHMARK

The Agency's primary objectives are, first, to protect liquidity in order to ensure that the Exchequer's current and future funding needs can be financed prudently and cost effectively and, secondly, to meet the Government's annual budget for debt service costs. In addition to these targets, the Agency's performance is also measured by reference to an independent and externally approved and audited benchmark portfolio (the Benchmark).

The Benchmark reflects the medium term strategic debt management objectives of the Exchequer and represents an appropriate target interest rate and currency profile for the portfolio. Revisions to the Benchmark are made from time to time (subject to appropriate external approvals) to take account of significant changes in structural economic relationships but not in response to short term market movements.

A review of the Benchmark was undertaken in the first half of 1998, in conjunction with Warburg Dillon Read*, the Advisory Committee and the Department of Finance, to take account of the decisions of the European Council on the initial membership of the single currency and the determination of exchange rates for entry. Following this review, the Minister for Finance approved revisions to the Benchmark which were implemented during the second half of the year.

Among the principal changes arising from this review was the hedging into euro constituent currencies of exposures in currencies such as the Dollar, Yen and Swiss Franc; at the end of 1997 these exposures accounted for some 10% of the debt.

In 1998, the Agency achieved savings of IR£56 million relative to the Benchmark. Savings were achieved in both the domestic and foreign portfolios. The domestic debt portfolio was positioned to benefit from a steepening of the yield curve in the expectation that short term rates in particular would fall significantly as European Monetary Union approached. This decline in short term rates did take place in the latter part of the year, and produced significant gains relative to the Benchmark.

The gains on the foreign portfolio were partly due to competitive pricing on swap terminations and assignments during the year. Another contributory factor was the utilisation of certain favourable prepayment options on loans. In addition, savings were generated from short-term tactical currency adjustments to the portfolio and from competitive Section 69 funding.

The Benchmark performance measurement system takes account of the net present value of all future liabilities; in effect it calculates the impact of the Agency's actions not only in the year under review but also their projected impact over the full life of the debt. This measurement of performance against the Benchmark was carried out in 1998 by the Quantitative Finance Group of Warburg Dillon Read, based on data audited by PricewaterhouseCoopers.

*Warburg Dillon Read (WDR), formerly Union Bank of Switzerland (UBS).

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STRATEGY AND RISK MANAGEMENT

The Agency has developed risk management tools that measure the sensitivity of performance relative to the Benchmark to possible future movements in interest rates and exchange rates. These models incorporate both sensitivity and Value at Risk (VAR) measures, enabling risk to be analysed both from the perspective of particular interest rate or exchange rate scenarios and from an overall market volatility perspective. Risk control limits are used to contain, within an acceptable range, the Agency's performance exposure.

The Agency follows industry best practice in the quantification and distribution of decision support information and has systems in place that allow detailed performance and risk management information to be calculated daily and networked electronically to the Agency's portfolio managers and senior management. This includes real time mark to market valuation using live market-price data feeds.

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LEGAL & CORPORATE AFFAIRS

LEGAL

The legal unit provides the Agency with legal advice and support for its borrowing and hedging activities. In 1998, activity focussed in particular on terminating non-euro swaps, re-negotiating REPO master agreements, increasing the issue size of commercial paper programmes and negotiating derivative master agreements.

A growing body of legislation is increasingly affecting the Agency's operations; as a result, legal advice is provided on a range of legislative issues. In addition, the legal unit provides advice on draft legislation specific to the Agency, such as the Claims Agency Bill and the Central Treasury Services Bill.

PERSONNEL

Although the staff turnover rate of 11% in 1998 was slightly down on that recorded in 1997, it remained high by past standards.

Overall staff levels were reduced from 60 at the beginning of the year to 55 by end December, and continued at that level in mid 1999.

The annual safety audit confirmed that health, safety and welfare standards continued to be maintained at a high level.

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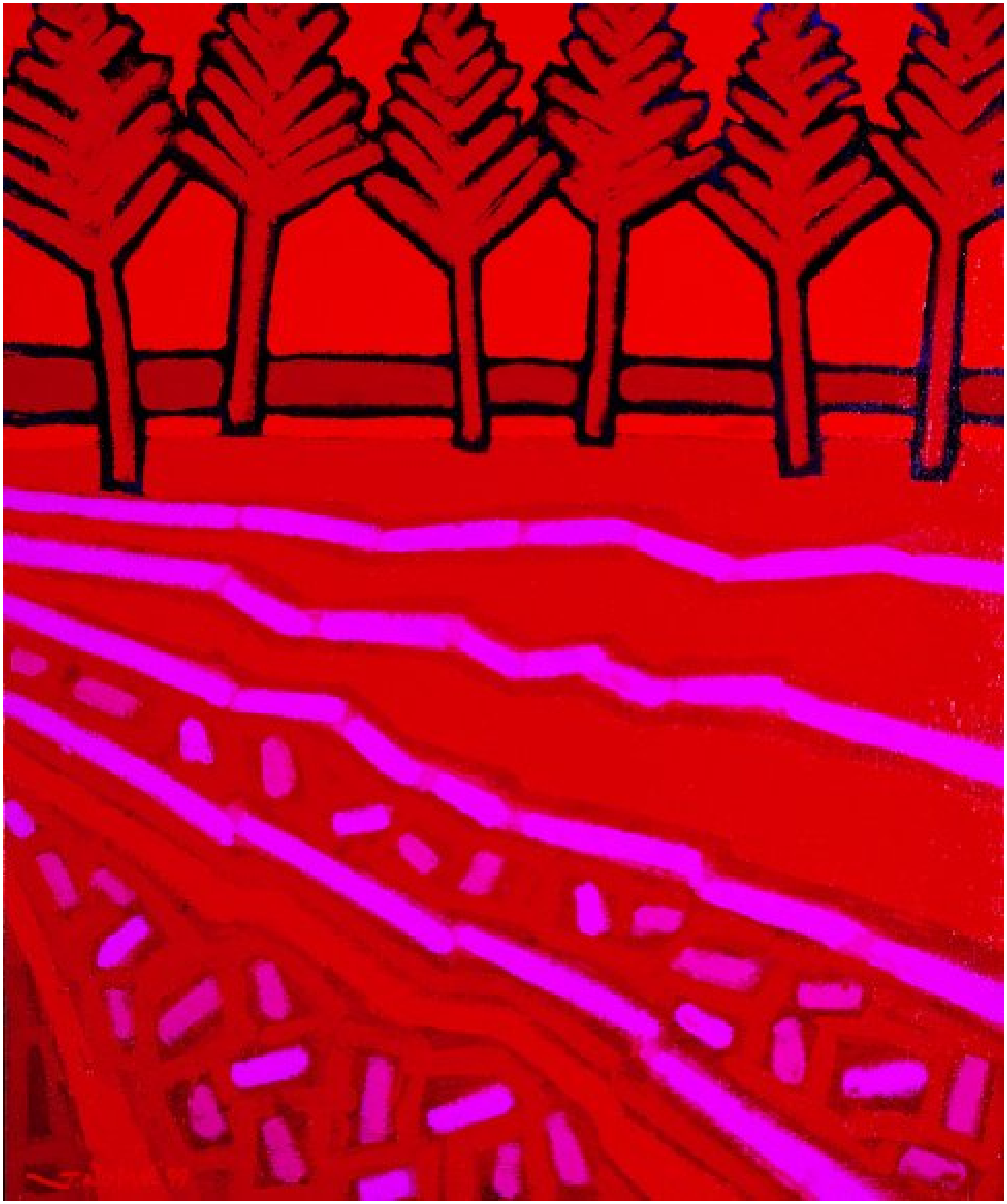

Warm Earth

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OPERATIONS

The Operations Group provides support services to the business units in the form of transaction processing, financial control, information technology and counterparty risk control.

In addition to its on-going responsibilities, the Operations Group undertook a number of projects during 1998 to prepare the Agency for both year 2000 and the changes resulting from EMU. The principal elements of these projects involved systems modifications as well as changes to processing and reporting procedures. All aspects of the EMU project were completed on time, thereby ensuring a smooth transition to the euro on 4 January 1999 when the financial markets reopened. The year 2000 project, which commenced in mid 1997, was recently completed as scheduled.

A further project on hand is the installation of a euro settlements system. The Agency's application for membership of this system – Irish Real Time Interbank Settlements System (IRIS) – has now been accepted. It is expected that preparations will be completed shortly to enable the Agency to join. The benefits of membership include extended settlement time limits, thereby enabling the Agency to operate more effectively in the marketplace and to provide a better service to investors and counterparties. IRIS is linked to Target, the settlements system used throughout the euro zone for settling euro transactions.

The business of the Agency continues to be carried out in an environment of strict adherence to strong risk management controls and principles. Internal audits were conducted by outside firms, while the annual audit was conducted by the Comptroller and Auditor General. In all cases satisfactory reports were received.

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OPERATING COSTS, ADVISORY COMMITTEE, STAFF

OPERATING COSTS

The operating costs of the Agency were IR£6.3 million. Of this, IR£1.4 million was paid to the Exchequer in the form of PAYE, Social Welfare contributions and VAT, leaving a net cost of IR£4.9 million. This is equivalent to some 1.5 basis points (hundredths of one percent) of the National Debt.

ADVISORY COMMITTEE

The Agency's Advisory Committee met on 5 occasions in 1998. There were no changes in the composition of the Committee during the year.

STAFF

Preparations for the euro and for year 2000 created significant demands on the Agency staff in 1998. The Chief Executive and Directors appreciate the commitment and professionalism shown by the staff during the year and, in particular, acknowledge the work that went into ensuring a very smooth and successful transition to the new currency.

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OTHER ACTIVITIES

ADVISORY AND CONSULTANCY SERVICES

During 1998 there was considerable demand for the Agency's consultancy services. Work continued on a number of major projects which commenced in 1997 for two Central European countries. A project for a Western European country was also undertaken and, in addition, there were a number of short term assignments. All projects undertaken are on a fee paying basis. The services provided encompassed liability management, information technology, accounting and risk management. A particular achievement was the licensing of the Agency's information technology systems to one Central European country.

The Agency also provided advice during the year to various Government Departments. Particular areas covered included: Public Private Partnerships, treasury management for certain non commercial public service bodies; evaluation of the termination of lease contracts; input on a national electronic payments system; and chairing a multi-party discussion group on Greenhouse Gas Emissions trading.

The Agency chaired the 1998 annual meeting in Paris of the OECD Working Party on Government debt management and participated in an OECD Workshop on Government Securities and Public Debt Management in Emerging Markets.

CLAIMS AGAINST THE STATE

The number and cost of compensation claims against the State has grown materially in recent years; added focus has been given to the subject by the upsurge in Army deafness claims. These compensation claims represent a contingent charge on the Exchequer and the minimisation of cost requires that they be managed as efficiently as possible with regard to both the size of settlements and the administrative and legal expenses of managing the claims.

The Agency has provided input to the Government's consideration of this issue, having regard to its experience in applying commercial criteria to an area of activity involving high financial expenditure.

CENTRAL TREASURY SERVICE

The Central Treasury Service is an investment and borrowing facility which the Agency proposes to offer to certain public bodies such as local authorities, health boards and VECs. Subject to the enactment of legislation, this facility will enable the various bodies to obtain competitive market rates of interest on surplus cash as well as keenly priced loan facilities, with consequent benefits for themselves and the Exchequer.

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Seven Trees

OTHER INITIATIVES

Public Private Partnership (PPP) is a Government initiative to accelerate the development of certain elements of the infrastructure within the economy. As the title implies, PPP involves the public and private sectors working together on projects such as transportation, roads, sewerage etc. The Agency to date has been involved in providing advice on the financing aspects of such projects and activity in this area is ongoing.

The Agency has also participated in discussions on the possible establishment by the State of a long term investment fund with the objective of providing for the future cost of the State's public sector and social welfare pension liabilities, taking account of longer term demographic trends.

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NATIONAL DEBT OF IRELAND

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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.

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
25 June 1999

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REPORT OF THE COMPTROLLER AND AUDITOR GENERAL

I have audited the financial statements on pages 54 to 75.

Responsibilities of The Agency and of The Comptroller And Auditor General

The accounting responsibilities of the Agency are set out in the Statement of Agency's Responsibilities on page 52. It is my responsibility, under Section 12 of the National Treasury Management Agency Act 1990 to audit the financial statements presented to me by the Agency and to report on them. As the result of my audit I form an independent opinion on the financial statements.

BASIS OF OPINION

In the exercise of my function as Comptroller and Auditor General, I plan and perform my audit in a way which takes account of 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, consistently applied and adequately disclosed.

My audit was conducted in accordance with auditing standards which embrace the standards issued by the Auditing Practices Board and in order to provide sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or other irregularity or error. I obtained all the information and explanations that I required to enable me to fulfil my function as Comptroller and Auditor General and 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 1998 and its balances at that date.

John Purcell

Comptroller and Auditor General

30 June 1999

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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 56 to 67 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. The format changed for the 1998 financial statements as a result of a report by an Expert Group on improving Public Finance Statements. The 1997 figures have been restated accordingly.

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 1998.

Reporting Currency

The reporting currency is the Irish Pound which is denominated by the symbol IR£.

Receipts and Payments

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

Liability Valuation

Debt balances are recorded at redeemable par value.

ACCOUNTING POLICIES (CONTINUED)

Derivatives

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

Foreign Currencies

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

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NATIONAL DEBT OF IRELAND

SERVICE OF DEBT STATEMENT

		Year ended 31 December 1998	
		1998	**1997**
		Total Cost	**Total Cost**
	Notes	**IR£'000**	**IR£'000**
Interest paid			
Medium / Long Term Debt*	2	1,763,289	1,807,558
Short Term Debt**	3	92,293	75,808
National Savings Schemes	4,9	191,074	369,500
Other Movements	5	137,339	299,712
Sinking Fund payments	6	294,836	266,542
Fees and Expenses	7	12,734	12,150
Expenses of NTMA		6,068	5,915
Interest received on deposits with Central Bank and other banks		(87,477)	(82,638)
Total Service Cost	1	2,410,156	2,754,547

* 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
25 June 1999

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NATIONAL DEBT STATEMENT

31 December 1998

	Notes		1998 IR£million		1997 IR£million
Medium / Long Term Debt *					
Irish Government Bonds listed on The Irish Stock Exchange		16,038		16,912	
Other Irish Government Public Bond Issues		3,411		3,622	
Private Placements		2,371		2,402	
European Investment Bank Loans		579		842	
Medium Term Notes		794		776	
Miscellaneous Debt		171		534	
Borrowings from Central Bank		132		132	
	8		23,496		25,220
Short Term Debt **					
Commercial Paper		1,543		1,503	
Borrowings from Funds under the control of the Minister for Finance		1,994		1,164	
			3,537		2,667
National Savings Schemes					
Savings Certificates		2,292		2,147	
Savings Bonds		1,147		1,145	
National Instalment Savings		356		328	
Savings Stamps		1		-	
Prize Bonds		179		155	
	9		3,975		3,775
			31,008		31,662
Less Liquid Assets	10		(1,467)		(973)
National Debt	12		29,541		30,689

* 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
25 June 1999

NATIONAL DEBT CASH FLOW STATEMENT

			Year ended 31 December 1998	
			1998	1997
	Receipts	Payments	Net	Net
	IR£'000	IR£'000	IR£'000	IR£'000
Borrowing Activity				
Irish Government Bonds listed on The Irish Stock Exchange	28,992,406	29,778,177	(785,771)	631,388
Other Irish Government Public Bond Issues	-	189,375	(189,375)	(587,048)
Private Placements	-	111,672	(111,672)	(145,738)
European Investment Bank Loans	60,396	327,159	(266,763)	(84,510)
Medium Term Notes	313	51,665	(51,352)	(168,565)
Miscellaneous Debt	645,812	720,995	(75,183)	15,041
Commercial Paper	26,127,347	26,080,225	47,122	292,106
Savings Certificates	290,103	145,016	145,087	85,680
Savings Bonds	134,575	132,728	1,847	64,767
Savings Stamps	1,284	-	1,284	-
National Instalment Savings	57,792	29,209	28,583	32,651
Prize Bonds	42,376	18,855	23,521	8,806
Borrowings from Ministerial Funds	43,860,346	43,029,844	830,502	270,427
	100,212,750	100,614,920	(402,170)	415,005
Exchequer Surplus/(Deficit)			746,664	(234,626)
			344,494	180,379
Represented by:				
Increase in Exchequer balances (note 10)			344,494	180,379
(Decrease) in balances held abroad			-	-
(Decrease) in CSRA capital balance (note 10)			-	-
Total Increase/(Decrease) in balances			344,494	180,379

Michael J Somers, Chief Executive
National Treasury Management Agency
25 June 1999

The notes on pages 60 to 67 form part of these financial statements.

STATEMENT of MOVEMENT in NATIONAL DEBT

	Year ended 31 December 1998	
	1998	**1997**
	IR£'000	**IR£'000**
Opening National Debt	30,688,551	29,911,511
Increase / (Decrease) in National Debt (nominal)	(1,147,877)	777,040
Represented by:		
Exchequer (Surplus)/Deficit	(746,664)	234,626
Effect of Foreign Exchange Rate Movements	(162,241)	611,790
Bond Tranching: net excess of proceeds over nominal liability	(496,313)	(420,039)
Bond Cancellations: net excess of cancellation cost over nominal liability	407,378	350,731
Movement in CSRA current balance (note 10)	(150,001)	(35)
Other nominal movements	(36)	(33)
	(1,147,877)	777,040
Closing National Debt	29,540,674	30,688,551

Michael J Somers, Chief Executive
National Treasury Management Agency
25 June 1999

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NOTES TO THE FINANCIAL STATEMENTS

1. Total Service Cost

	Notes	Charged on Foreign Currency Clearing Account	Charged on Central Fund IR£'000	Charged on CSRA IR£'000	Total Service Cost 1998 IR£'000
Interest paid					
Medium / Long Term Debt	2	521,140	373,852	868,297	1,763,289
Short Term Debt	3	9,234	78,436	4,623	92,293
National Savings Schemes	4	-	191,074	-	191,074
Other Movements	5	(1,269,087)	1,537,975	(131,549)	137,339
Sinking Fund payments	6	-	706	294,130	294,836
Fees and Expenses	7	1,194	11,250	290	12,734
Expenses of NTMA	-	6,068	-	6,068	
Interest received on deposits with Central Bank and other banks		(9,829)	-	(77,648)	(87,477)
		(747,348)	2,199,361	958,143	2,410,156
Inter Account movement		-	1,108,144	(1,108,144)	-
Net cash paid		(747,348)	3,307,505	(150,001)	2,410,156

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Interest on Medium / Long Term Debt	**Total Cost 1998 IR£'000**	**Total Cost 1997 IR£'000**
Irish Government Bonds listed on The Irish Stock Exchange	1,232,838	1,275,696
Other Irish Government Public Bond Issues	216,037	221,234
Private Placements	137,483	129,843
European Investment Bank Loans	84,426	68,045
Medium Term Notes	36,323	48,613
Miscellaneous Debt	54,513	62,424
Borrowings from Central Bank	1,669	1,703
	1,763,289	1,807,558

3. Interest on Short Term Debt	**Total Cost 1998 IR£'000**	**Total Cost 1997 IR£'000**
Commercial Paper	87,664	73,565
Borrowings from Funds under the control of the Minister for Finance	4,629	2,243
	92,293	75,808

4. Interest on National Savings Schemes	**Total Cost 1998 IR£'000**	**Total Cost 1997 IR£'000**
Savings Certificates	70,439	57,041
Savings Bonds	33,627	24,952
National Instalments Savings	12,270	10,348
Prizes in respect of Prize Bonds	5,738	5,159
Small Savings Reserve (note 9)	69,000	272,000
	191,074	369,500

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 and under the prospectus covering the issue of certain loans specified amounts were provided for the redemption of debt. The sums provided and applied in 1998 were as follows

	IR£'000
Central Fund (6.5% Exchequer Stock, 2000 - 05)	706
Capital Services Redemption Account (Note 13)	294,130
	294,836

7. Fees and Expenses	**Total Cost 1998 IR£'000**	**Total Cost 1997 IR£'000**
Expenses of Irish Pound Borrowings	307	301
Expenses of Savings Certificates	3,408	3,096
Expenses of Prize Bonds	2,864	3,057
Expenses of Savings Bonds	1,884	1,219
Expenses of National Instalment Savings	1,712	1,755
Expenses of Savings Stamps	829	868
Expenses of Foreign Loans	1,730	1,854
	12,734	12,150

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 1998 IR£millions	**As at 31 December 1997 IR£millions**
Debt due for repayment within 1 year	2,641	2,025
Debt due for repayment between 2 and 5 years	11,051	11,495
Debt due for repayment in more than 5 years	9,804	11,700
	23,496	25,220

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 IR£ 6.6 million (1997 : IR£ 5.9 million) being cash balances held by An Post, TSB Bank and the Prize Bond Company.

As these financial statements are prepared on a cash basis the liabilities do not include the sum of IR£1,768 million (1997 : IR£ 1,573 million), being the estimate of the amount of accrued interest at 31 December 1998 in respect of Savings Bonds, Savings Certificates, and National Installment 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 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.

		IR£millions
Estimated accrued interest at 31 December 1998		1,768
Small Savings Reserve Fund		
Balance at 1 January 1998	(623)	
Amount provided during 1998	(69)	
Balance at 31 December 1998		(692)
Estimated accrued interest not provided for at 31 December 1998		1,076

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 1998 IR£'000	**Movements during 1998 IR£'000**	**Closing balance at 31 December 1998 IR£'000**
Exchequer Account	971,623	344,494	1,316,117
Capital Services Redemption Account			
Current Balance (note 13)	894	150,001	150,895
	972,517	494,495	1,467,012

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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.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Derivatives (Continued)

Comprehensive controls have been established to ensure that operational risks are managed in a prudent manner. These controls include the segregation of duties between dealing, processing, payments and reporting.

As part of its risk management strategy the Agency uses a combination of derivatives including interest rate swaps, currency swaps and foreign exchange contracts. The following table shows the nominal value of the instruments used and their present value.

	31 December 1998		31 December 1997	
	Nominal IR£million	**Present Value IR£million**	**Nominal IR£million**	**Present Value IR£million**
Interest Rate Swaps	5,984	139	10,892	290
Currency Swaps & Foreign Exchange Contracts	6,815	(46)	6,988	(397)
	12,799	93	17,880	(107)

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.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 1998	As at 31 December 1997
	IR£ millions	IR£ millions
Irish Pounds	22,353	22,582
Sterling	1,763	2,185
US Dollar	-	1,712
Deutschemark	5,251	1,621
Swiss Franc	-	1,132
French Franc	188	904
European Currency Unit	(104)	178
Dutch Guilder	137	165
Japanese Yen	-	139
Belgian Franc	(47)	71
	29,541	30,689

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. Capital Services Redemption Account

The Capital Service Redemption Account (CSRA) was established by Section 22 of the Finance Act, 1950 arising from a Government decision that each year's borrowing for voted capital services should be amortised from current revenues over a period of thirty years. In this way it was intended that capital borrowing would not incur permanent additions to the public debt. Each year's Finance Act provides for the amount required for this purpose to be paid into the CSRA from the Central Fund. This annual payment is comprised of principal and interest. The maximum amount of interest which may be paid in any year is fixed in the Act. A sum not exceeding this amount may then be paid from the CSRA towards interest repayments on the National Debt. The principal is applied towards funding debt redemption although it may also be applied in a number of ways set out in section 22(7) of the Finance Act, 1950.

Since the 1988 Finance Act, interest received by the Exchequer from its deposit accounts and receipts from certain debt management transactions (e. g. swap receipts) are also paid into the CSRA. Payments relating to debt management transactions may also be made through the account. As a result of these transactions, balances can build up in the Account. These balances are used for interest payments with the result that the debt service expenses of the Exchequer are reduced accordingly.

14. Foreign Currency Clearing Accounts

		IR£'000
Balance at 1 January 1998		Nil
Deposit interest received		9,829
Amounts received under Finance Act 1988 [S67 (8)]	41,017,892	
Amounts paid under Finance Act 1970 [S54 (7)]	(39,748,805)	1,269,087
Foreign Currency Borrowing receipts	12,592,322	
Foreign Currency Borrowing payments	(13,339,670)	(747,348)
Interest paid on Foreign Currency Borrowings (note 1)		(530,374)
Expenses of Foreign Currency Borrowings (note 1)		(1,194)
Balance at 31 December 1998		Nil

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FINANCIAL STATEMENTS OF NATIONAL TREASURY MANAGEMENT AGENCY - ADMINISTRATION ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1998 NATIONAL TREASURY MANAGEMENT AGENCY

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NATIONAL TREASURY MANAGEMENT AGENCY

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 52 to 67. Financial information covering the Agency itself is set out on pages 70 to 75.

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".

Basis of Accounting

The financial statements have been prepared 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

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

		Notes	1998	1997
			Year ended 31 December 1998	
			IR£	**IR£**
Income				
	Central Fund		6,079,278	6,002,061
	Other income		54,457	57,346
	Transfer from capital account	5	127,421	101,589
			6,261,156	6,160,996
Expenditure		1	(6,261,156)	(6,160,996)
Net income/(expenditure)			NIL	NIL

Michael J Somers, Chief Executive
National Treasury Management Agency
25 June 1999

The notes on pages 73 to 75 form part of these financial statements.

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BALANCE SHEET — **31 December 1998**

	Notes	1998 IR£	1997 IR£
Fixed Assets			
Fixed assets	2	958,022	1,085,443
Current Assets			
Cash at bank and in hand		5,104	5,304
Debtors	3	532,723	481,853
		537,827	487,157
Current Liabilities			
Creditors	4	537,827	487,157
Current Assets less Current Liabilities		-	-
Total Assets less Current Liabilities		958,022	1,085,443
Representing:			
Capital account	5	958,022	1,085,443
		958,022	1,085,443

Michael J Somers, Chief Executive
National Treasury Management Agency
25 June 1999

The notes on pages 73 to 75 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Expenditure	**Year Ended 31 December 1998**	**Year Ended 31 December 1997**
	IR£	**IR£**
Salaries and other remuneration	3,498,282	3,379,893
Establishment expenses	339,380	301,600
Operating expenses	2,150,897	2,144,520
Depreciation	272,597	334,983
Total expenses	6,261,156	6,160,996

2. Fixed Assets	**Property**	**Furniture, Equipment & Motor Vehicles**	**Total**
	IR£	**IR£**	**IR£**
Cost:			
Opening balance at 1 January 1998	951,708	2,058,930	3,010,638
Additions at cost	-	191,254	191,254
Disposals	-	(419,210)	(419,210)
Balance at 31 December 1998	951,708	1,830,974	2,782,682
Accumulated depreciation:			
Opening balance at 1 January 1998	330,998	1,594,197	1,925,195
Depreciation for the period	47,585	225,012	272,597
Disposals	-	(373,132)	(373,132)
Balance at 31 December 1998	378,583	1,446,077	1,824,660
Net book value Balance at 31 December 1998	573,125	384,897	958,022
Net book value at 31 December 1997	620,710	464,733	1,085,443

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

Property	20 years
Equipment & Motor Vehicles	2 to 5 years

Furniture	10 years

The property is leased under a long-term lease, which is subject to rent reviews. The annual rent is IR£301,600.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Debtors	**1998**	**1997**
	IR£	**IR£**
Central Fund	260,012	248,746
Prepayments	240,543	210,998
Other debtors	32,168	22,109
	532,723	481,853

4.Creditors	**1998**	**1997**
	IR£	**IR£**
Creditors	7,382	40,707
Accruals	530,445	446,450
	537,827	487,157

5. Capital Account	**1998**	**1997**
	IR£	**IR£**
Receipts from Exchequer for capital expenditure	145,176	233,394
Amortisation for the period	(272,597)	(334,983)
Transfer to income and expenditure account	(127,421)	(101,589)
Opening balance at 1 January 1998	1,085,443	1,187,032
Balance at 31 December 1998	958,022	1,085,443

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Superannuation

Superannuation entitlements of staff are conferred under a defined benefits superannuation scheme set up under Section 8 of the National Treasury Management Agency Act, 1990. Those of the Chief Executive are provided under his contract of service. Contributions, including those of staff who have opted for dependant benefit arrangements, are transferred to an externally managed fund. The Agency contribution is determined on the advice of an independent actuary and is, at present, set at a level of 25% of payroll. Contributions by the Agency for the year ended 31 December 1998 amounted to IR£563,440 (1997: IR£ 581,344).

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.

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POST OFFICE SAVINGS BANK FUND

FINANCIAL STATEMENTS FOR THE

YEAR ENDED 31 DECEMBER 1998

POST OFFICE SAVINGS BANK FUND

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POST OFFICE SAVINGS BANK FUND

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL

I have examined in accordance with auditing standards the financial statements set out in pages 78 to 83 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 1998 and of its transactions for the year then ended.

John Purcell

Comptroller and Auditor General

30 June 1999

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. In addition deposits are received from TSB Bank. The Post Office Savings Bank Fund does not form part of the Exchequer. The fund has two main purposes :-

- to invest the moneys made available by investors, and
- to act as an intermediary through which the tranching, cancellation and sale and repurchase (repo) activity of the Agency can be transacted with the market.

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

Historical cost convention

The financial statements are prepared under the historical cost convention.

Investments

Investments are stated at cost.

INCOME AND EXPENDITURE ACCOUNT

		Year ended 31 December 1998	
		1998	**1997**
	Notes	**IR£**	**IR£**
Investment income	1	15,275,497	25,213,238
Interest paid and payable	2	5,084,857	9,159,329
Other expenses	3	12,876,415	12,312,276
		17,961,272	21,471,605
		(2,685,775)	3,741,633
Balance at beginning of year		27,108,019	23,366,386
Balance at end of year		24,422,244	27,108,019

Michael J Somers, Chief Executive
National Treasury Management Agency
25 June 1999

The notes on pages 81 to 83 form part of these financial statements.

BALANCE SHEET

		Notes	1998 IR£	31 December 1998 1997 IR£
Assets				
	Advances	4	288,322,631	64,076,823
	Investments	5	85,122,934	55,502,233
	Debtors	7	3,820,783	39,007,065
	Agricultural Intervention Paper		100,000,000	100,000,000
	Cash at bank		21,171,932	249,113,058
			498,438,280	507,699,179
Liabilities				
	Deposits	8	473,307,202	480,022,576
	Creditors	9	708,834	568,584
	Accumulated Reserves		24,422,244	27,108,019
			498,438,280	507,699,179

Michael J Somers, Chief Executive
National Treasury Management Agency
25 June 1999

The notes on pages 81 to 83 form part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

1. Investment Income	**1998**	**1997**
	IR£	**IR£**
Interest received and receivable	12,896,408	22,447,987
Profit on sale of investments	2,379,089	2,765,251
	15,275,497	25,213,238

2. Interest Paid and Payable	**1998**	**1997**
	IR£	**IR£**
Interest paid and credited to depositors of POSB	5,069,650	5,466,296
Interest paid and payable in respect of deposits from TSB Bank	15,207	3,693,033
	5,084,857	9,159,329

3. Other Expenses	**1998**	**1997**
	IR£	**IR£**
Management expenses	12,874,347	12,309,034
Miscellaneous	2,068	3,242
	12,876,415	12,312,276

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

4. Advances

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

5. Investments	**1998**	**1997**
	IR£	**IR£**
At cost	85,122,934	55,502,233
At market value	85,937,802	56,079,656

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. Investments (Continued)

Schedule of Investment Holdings:-

Nominal	Stock	Cost IR£
257,864	6.25% Treasury Bond, 1999	259,783
242,415	7.5% Capital Stock, 1999	249,056
124,534	11.75% Capital Stock, 2000	140,437
5,328,237	8% Treasury Bond, 2000	5,772,857
5,188,854	6.5% Treasury Bond, 2001	5,600,820
47,714	8% Capital Loan, 2001	50,967
227,425	9% Government Bond, 2001	255,173
50,936	12.25% Development Stock, 2000 - 03	59,747
3,113,494	9.25% Capital Stock, 2003	3,830,130
48,790	8.25% Exchequer Bond, 2003	51,542
4,095,811	6.25% Treasury Bond, 2004	4,572,693
107,401	14.75% Development Stock, 2002 - 04	142,283
191,366	6.5% Exchequer Stock, 2000 - 05	198,198
49,469	12.5% Capital Stock, 2005	64,273
19,824,910	8% Treasury Bond, 2006	24,846,898
317,735	9% Capital Stock, 2006	408,840
4,041,546	6% Treasury Bond 2008	4,635,595
50,039	8.25% Capital Stock, 2008	51,604
56,911	8.5% Capital Stock, 2010	62,211
20,050,000	8.75% Capital Stock, 2012	28,192,058
3,982,246	8.25% Treasury Bond, 2015	5,625,135
52,528	Variable Rate Treasury Bond, 2000	52,634
		85,122,934

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	**1998**	**1997**
	IR£	**IR£**
Dividends and interest receivable	2,061,808	1,954,952
Net funds due under Sale and Repurchase Agreements	-	36,573,531
Other debtors	1,758,975	478,582
	3,820,783	39,007,065

8. Deposits	**1998**	**1997**
	IR£	**IR£**
Deposits from POSB	473,307,202	464,775,723
Deposits from TSB Bank	-	5,246,853
	473,307,202	480,022,576

9. Creditors	**1998**	**1997**
	IR£	**IR£**
Net funds due under Sale and Repurchase Agreements	163,385	Nil
Other creditors	545,449	568,584
	708,834	568,584

CAPITAL SERVICES REDEMPTION ACCOUNT FINANCE ACT,

1950 SECTION 22 (No. 18 of 1950 as amended)

Report of the Comptroller and Auditor General

I have examined the account on pages 85 and 86. I have obtained all the information and explanations that I have required.

In my opinion the account, which is in agreement with the accounting records maintained by the National Treasury Management Agency in respect of this activity, properly reflects transactions for the year ended 31 December 1998 and the balance at that date.

John Purcell
Comptroller and Auditor General

30 June 1999

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CAPITAL SERVICES REDEMPTION ACCOUNT

FINANCE ACT, 1950 Section 22 (No 18 of 1950 as amended)

ACCOUNT OF RECEIPTS AND PAYMENTS

		Year ended 31 December 1998 IR£
Balance at 1 January 1998		894,293
Receipts		
Amounts received from Central Fund under Finance Act 1950, Section 22 as amended:-		
- Interest	814,014,332	
- Sinking Fund	294,129,520	1,108,143,852
Amounts received under Finance Act 1988 [S 67 (8)]		230,594,273
Deposit interest received		77,648,800
		1,417,281,218
Payments		
Amounts applied in the redemption of National Debt:-		
Irish Pound: 9.75% Capital Stock, 1998	220,000,000	
14.5% Finance Loan 1998-2000	24,119,653	
Variable Treasury Bond 1998	39,042,867	
Savings Bonds	10,967,000	294,129,520
Amounts applied in meeting interest on National Debt (note 2)		873,228,034
Amounts applied in respect of liabilities under Finance Act 1970, [S 54 (7)]		99,028,567
Balance at 31 December 1998		150,895,097
		1,417,281,218

Michael J Somers, Chief Executive
National Treasury Management Agency

25 June 1999

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CAPITAL SERVICES REDEMPTION ACCOUNT

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

NOTES TO THE ACCOUNT

1. This account was established under Section 22 of the Finance Act 1950. Annuities are paid into it 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. Each years Finance Act makes an annuity provision which specifies a maximum amount to be used for interest payments. In addition, under the Finance Act 1988 receipts from transactions of a normal banking nature, e.g. forward exchange deals, swaps and interest on deposits, 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 and may be used towards defraying interest and expenses on the public debt and towards the making of payments and repayments in respect of such transactions.

2. Amounts applied in meeting interest on National Debt:-	**Year ended 31 December 1998 IR£**
9.75% Capital Stock, 1998	35,102,747
6.25% Treasury Bond, 1999	95,990,784
7.5% Capital Stock, 1999	1,912,438
11.75% Capital Stock, 2000	4,651,063
14.5% Finance Loan, 1998 - 2000	3,992,375
8% Capital Loan, 2001	1,401,867
9% Government Bond, 2001	10,201,622
8.25% Exchequer Bond, 2003	2,676,751
9.25% Capital Stock, 2003	104,399,997
12.25% Development Stock, 2000 - 03	1,771,638
14.75% Development Stock, 2002 - 04	2,996,281
6.25% Treasury Bond, 2004	89,301,136
6.5% Exchequer Stock, 2000 - 05	4,588,406
12.5% Capital Stock, 2005	825,144
8% Treasury Bond, 2006	190,645,704
9% Capital Stock, 2006	5,858,174
8.25% Capital Stock, 2008	342,703
6% Treasury Bond 2008	47,356,576
8.5% Capital Stock, 2010	678,296
8.75% Capital Stock, 2012	40,278,863
8.25% Treasury Bond 2015	130,087,312
Variable Rate Treasury Bond, 1998	41,194,031
Variable Rate Treasury Bond, 2000	47,688,140
Other Irish Pound Borrowings	4,373,299
Ways and Means	4,623,379
Expenses	289,308
	873,228,034

NATIONAL LOANS ADVANCE INTEREST ACCOUNT

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL

I have examined the account on page 88. I have obtained all the information and explanations that I have required.

In my opinion the account, which is in agreement with the accounting records maintained by the National Treasury Management Agency in respect of this activity, properly reflects transactions for the year ended 31 December 1998 and the balance at that date.

John Purcell
Comptroller and Auditor General
30 June 1999

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NATIONAL LOANS ADVANCE INTEREST ACCOUNT

Account of Receipts and Payments		**Year ended 31 December 1998 IR£**
Balance at 1 January 1998		21,450,042
Accrued interest received on National Loans		
- Tranches and Auctions	110,603,753	
- Cancellations	256,821	110,860,574
Accrued interest paid on National Loans		(115,804,562)
Balance at 31 December 1998		
- Cash with Paymaster General		16,506,054

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
25 June 1999

NATIONAL LOANS

(WINDING UP) ACCOUNT

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL

I have examined the account on pages 90 and 91. 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 1998 and the balance at that date.

John Purcell
Comptroller and Auditor General

30 June 1999

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NATIONAL LOANS (WINDING UP) ACCOUNT

Account of Receipts and Payments	**Note**	**Year ended 31 December 1998 IR£**
Balance at 1 January 1998		4,458,185
Receipts from Exchequer		1,765,171
Payments for redemption of National Loans	2	(2,867,721)
Balance at 31 December 1998		
- Cash with Paymaster General		3,355,635

Michael J Somers, Chief Executive
National Treasury Management Agency
25 June 1999

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NATIONAL LOANS (WINDING UP) ACCOUNT

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. Any further claims are met from this account.

2.

National Loans redeemed during the year ended 31 December 1998	**IR£**
4.5% National Loan 1973-78	200
4.25% National Loan, 1975 - 80	400
5.25% National Development Loan, 1979 - 84	703
6% Exchequer Stock, 1980 - 85	500
7.5% National Loan, 1981 - 86	1,750
8.5% Conversion Stock 1986-88	204
15% Conversion Stock, 1988	500
5.75% Exchequer Stock, 1984 - 89	3,216
9.75% National Loan, 1984 - 89	11,809
9% Finance Loan 1989	12,000
6% Exchequer Loan, 1985 - 90	3,850
11.5% Exchequer Stock, 1990	5,527
14% National Loan, 1985 - 90	48,427
6.75% National Loan, 1986 - 91	4,050
14% Exchequer Loan 1990-92	127,198
7% National Loan, 1987 - 92	7,220
8.75% Capital Loan 1992	1,614
7.5% Development Stock, 1988 - 93	2,300
11.5% Finance Stock 1991/1993	1,206
9.25% National Loan, 1989 - 94	3,405
13% Exchequer Stock 1994	19,000
9.5% Conversion Bond, 1995	16,970
12% Conversion Stock, 1995	19,825
9% Capital Loan, 1996	102,595
9.25% Exchequer Loan, 1991 - 96	16,950
7.75% Capital Stock, 1997	150,321
8.75% Exchequer Bond, 1997	71,119
9.75% National Development Loan, 1992 - 97	20,040
9.75% Capital Stock 1998	1,010,790
11% National Loan, 1993 - 98	26,153
13% Finance Stock, 1997 - 2002	345,441
14.5% Finance Loan 1998/2000	199,947
11.5% Development Loan 1997/1999	631,781
Total	2,867,721

DEPOSIT MONIES INVESTMENT ACCOUNT

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL

I have examined the account below. 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 1998 and the balance at that date.

John Purcell
Comptroller and Auditor General
30 June 1999

ACCOUNT OF RECEIPTS AND PAYMENTS	**Year ended 31 December 1998 IR£**
Balance at 1 January 1998	399,890,000
Ways and Means Advances paid to Exchequer	8,998,056,000
Ways and Means Advances repaid by Exchequer	(8,504,532,000)
Balance at 31 December 1998	
- Ways and Means Advances to Exchequer	893,414,000

NOTE TO THE ACCOUNT

This account is used to transfer funds between the Supply Account of the Paymaster General (PMG) and the Exchequer Deposit Account. Should a surplus arise on the Supply Account of the PMG it is loaned to the Exchequer as "Ways and Means" by this fund. Repayments of "Ways and Means" fund any subsequent deficits until the total drawn in is exhausted.

Michael J Somers, Chief Executive
National Treasury Management Agency
25 June 1999

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ACCOUNT OF THE NATIONAL LOANS SINKING FUND

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL

I have examined the account on page 94. 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 1998 and the balance at that date.

John Purcell
Comptroller and Auditor General
30 June 1999

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ACCOUNT OF RECEIPTS AND PAYMENTS - 6.5% EXCHEQUER STOCK, 2000 - 05

	Year ended 31 December 1998 IR£
Balance at 1 January 1998	0
Sinking Fund payments from Central Fund	705,817
Interest earned on Investments	5,561
Amount applied in cancellation of Stock	(711,378)
Balance at 31 December 1998	NIL

Michael J Somers, Chief Executive
National Treasury Management Agency
25 June 1999

NOTES TO THE ACCOUNT

1. Basis of the Account

The prospectus published at the issue of certain National Loans requires the setting aside of a specified percentage of the nominal value of such loans on interest days in each financial year to provide for sinking funds thereon. Only one such loan was extant at 31 December 1998 (6.5% Exchequer Stock, 2000 - 05).

The sinking fund payments, together with interest earned on the sinking fund outstanding balance lent to the Exchequer, are carried to the sinking fund to provide for cancellation or redemption of the Loan.

2. Investment of Balances

Funds available from time to time are advanced as Ways and Means lending to the Exchequer. Interest is paid on the amount advanced from the sinking fund only when the amount of the loan outstanding exceeds the balance in the sinking fund.

3. Cumulative Sinking Fund Provision

	6.5% Exchequer Stock, 2000 - 05 IR£
Cumulative sinking fund provision (including interest earned thereon)	30,763,717
Cumulative amounts applied in cancellations	(30,763,717)
Sinking Fund balance at 31 December 1998	NIL
6.5% Exchequer Stock, 2000 - 05 outstanding at 31 December 1998	140,501,185

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

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL

I have examined the account on pages 96 and 97. 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 1998 and the balance at that date.

John Purcell
Comptroller and Auditor General
30 June 1999

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

ACCOUNT OF RECEIPTS AND PAYMENTS		**Year ended 31 December 1998 IR£**
Balance at 1 January 1998		302,907
Receipts		
Interest received on stock holdings	1,326	
Proceeds of stock sold for cancellation	42,225	43,551
Payments		
Paid to Revenue Commissioners for value of stock transferred to the Minister for Finance		
- Nominal	(297,828)	
- Interest	(1,953)	(299,781)
Balance at 31 December 1998		46,677
Stock Account		
Balance at 1 January 1998		NIL
Movement for the year		
Nominal amount of stock transferred to the Minister for Finance	40,804	
Nominal amount of stock sold for cancellation	(40,804)	
		NIL
Balance at 31 December 1998		NIL

Michael J Somers, Chief Executive
National Treasury Management Agency
25 June 1999

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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.

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ACCOUNT OF SMALL SAVINGS RESERVE FUND

Report of the Comptroller and Auditor General

I have examined the account below. 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 1998 and the balance at that date.

John Purcell
Comptroller and Auditor General
30 June 1999

ACCOUNT OF RECEIPTS AND PAYMENTS

	Year ended 31 December 1998 IR£
Balance at 1 January 1998	623,000,000
Received from Exchequer	69,000,000
Balance at 31 December 1998	692,000,000

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 balance in the Fund is transferred to the Exchequer as repayable ways and means advances.

Michael J Somers, Chief Executive
National Treasury Management Agency
25 June 1999

STATEMENT OF COMPLIANCE - PROMPT PAYMENT OF ACCOUNTS ACT, 1997

REPORT OF COMPTROLLER AND AUDITOR GENERAL PURSUANT TO SECTION 13 OF THE PROMPT PAYMENT OF ACCOUNTS ACT, 1997

Responsibilities of the Agency and of the Comptroller and Auditor General

The Agency is obliged to comply with the Act and, in particular, is required to ensure that it

- pays its suppliers within the payment periods specified in the Act
- pays penalty interest on late payments and furnishes information on such interest to suppliers as laid down in the Act.
- submits a report on its payment practice as set out in Section 12 of the Act.

Under Section 13 of the Act, it is my responsibility, as Auditor of the National Treasury Management Agency, to report on whether, in all material respects, the Agency has complied with the provisions of the Act.

Basis of Opinion

My examination included a review of the payment systems and procedures in place and checking, on a test basis, evidence relating to the operation of the Act by the Agency during the year.

I obtained all the information and explanations which I considered necessary for the exercise of my function under Section 13 of the Act.

Opinion

Nothing came to my attention which in my opinion indicated that the Agency had not complied in all material respects with the provisions of the Act during the year ended 31 December 1998.

John Purcell
Comptroller and Auditor General
30 June 1999

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STATEMENT OF COMPLIANCE - PROMPT PAYMENT OF ACCOUNTS ACT, 1997

The National Treasury Management Agency (NTMA) undertakes to comply with the Prompt Payment of Accounts Act, 1997. In accordance with the Act and guidelines issued by the Department of Enterprise, Trade and Employment, the following information is provided.

Procedures established to ensure compliance with the Act

The NTMA have procedures in place to ensure that all invoices received are paid within the time limits specified on the invoices or the statutory time limit if no period is specified. While the procedures are designed to ensure compliance with the Act, they can only provide reasonable and not absolute assurance against material non-compliance with the Act. These procedures operated in the financial period under review and in the case of late payments, the relevant suppliers were notified and interest was paid to them.

In accordance with the Prompt Payments of Accounts Act, 1997, the following information is provided for the financial period ending 31 December 1998.

Payment Practices

The NTMA makes payments to suppliers in accordance with the terms stated on invoices or terms specified in individual contracts if appropriate. The standard terms are 30 days.

Late payments in excess of £250

Number of Invoices	Average Period of Delay
6	16.6 days

Overall percentage of late payments of total payments and total interest paid

The overall percentage of late payments to total payments was 0.46%

The total amount of interest paid with respect to late payments was IR£35.25

Michael J Somers, Chief Executive
National Treasury Management Agency
25 June 1999

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