



NTMA Results and Business Review 2012

- NTMA to step up market re-engagement in 2013, plans to raise €10bn from markets
- January €2.5bn bond sale achieves 25% of 2013 funding target, removes funding cliff
- NPRF announces investment commitment of up to €500m to new Irish SME funds
- NewERA leading and managing Bord Gáis transaction on behalf of the Government
- State Claims Agency achieved saving of €43.5m in management of clinical claims
- NDFA's third bundle of schools reached financial close; construction underway

EMBARGO 11:00 AM Wednesday 9 January 2013. The National Treasury Management Agency (NTMA) today reported results for 2012 and provided a review of activities across the range of its business functions.

Speaking today, NTMA Chief Executive John Corrigan said that Ireland had made considerable progress in its phased return to the markets over the past year and, with the success of yesterday's €2.5 billion syndicated bond sale, had eliminated the "funding cliff" presented by a €11.9 billion bond repayment due in mid January 2014. The NTMA intends to step up its re-engagement with the market during 2013 so that Ireland is positioned to successfully exit the EU/IMF programme. Its working plan is to raise €10 billion, subject to market conditions, of which one quarter has been achieved with yesterday's bond sale. Mr Corrigan also said the NTMA would continue its regular auctions of short-term Bills, which recommenced in July 2012, with the first 2013 auction scheduled for Thursday 17 January.

"Achieving a quarter of our funding plan for 2013 with yesterday's bond sale is a very encouraging start to the year," said Mr Corrigan. "The progressive reduction of the January 2014 "funding cliff" has been viewed positively by the investment community and, allied to the fact that it demonstrates that we can raise funds in the market, has been a contributory factor to the fall in Irish bond yields."

"Ireland's consistent delivery on its EU/IMF programme commitments has been central to the fall in bond yields. Nonetheless, Ireland's continuing access to the international bond markets

also remains critically dependent on external factors, particularly developments at a wider eurozone level.”

Mr Corrigan said that managing Ireland’s return to the international bond markets is a priority for the NTMA but the Agency remains engaged on a number of other fronts: providing a mechanism for commercial investment in Ireland via the National Pensions Reserve Fund; drawing on the National Development Finance Agency’s PPP expertise to assist with the delivery of the Government’s infrastructure stimulus package; leading and managing the Bord Gáis Éireann transaction on behalf of the Government (NewERA); and dealing with third-party costs arising from certain Tribunals of Enquiry (State Claims Agency).

Funding and Debt Management

The NTMA continued its intensive investor relations programme in 2012 to help generate renewed interest among institutional investors in Irish Government bonds and to sustain existing investments. It conducted non-deal road shows in Ireland, the US, UK, Europe and Asia in the Spring and Autumn of 2012 in addition to visiting investors in the UK and mainland Europe in June.

2012 witnessed a significant decline in Irish Government bond yields (which move inversely to prices) with the yield on Ireland’s benchmark 2020 bond ending the year at 4.43 per cent compared with 8.26 per cent at end 2011. The decline in yields on shorter maturities was even more pronounced, restoring a more normal upward slope to the Irish yield curve compared to the inversion that characterised much of 2011. Positive external developments assisted the Irish bond market during 2012, particularly the EU leaders’ statement of 29 June on the necessity to break the link between sovereign and banking debt and their reference to improving the “sustainability of the well-performing Irish adjustment programme.” The ECB’s announcement in September of a commitment to buy sovereign bonds in the secondary market with a focus on maturities of one to three years (Open Market Transactions, or OMT) led to a sharp rally at the short end of eurozone yield curves.

During 2012, the NTMA’s engagements with the debt markets included bond switches (€4.5bn); the issuing of conventional bonds (€4.2bn); the issuing of a completely new debt instrument, Irish Amortising Bonds, tailored to meet the needs of the domestic pensions

industry (€1.0bn); and a return to the short-term debt markets through regular Treasury Bill auctions (€1.0bn net).

Funds drawn down under the EU/IMF programme amounted to €56 billion at 31 December 2012. Loans from EU sources amounted to €37 billion and IMF loans amounted to €19 billion. The estimated all-in euro equivalent cost of loans received under the EU/IMF programme was 3.36 per cent at end December.

The NTMA's own market funding combined with drawdowns under the EU/IMF programme during 2012 were applied to fund an Exchequer deficit of €14.9 billion and to refinance €5.6 billion of maturing debt. The NTMA maintained Exchequer cash and deposits of €19.3 billion at year end. Exchequer debt service costs in 2012 were €6.5 billion.

The General Government Debt (GGD)¹, the standard measure used for comparative purposes across the European Union, was estimated by the Department of Finance at 118 per cent of GDP at end 2012. The GGD/GDP ratio is projected to peak at 121 per cent in 2013 and to start to decline thereafter.

National Pensions Reserve Fund²

During 2012 significant progress was made in refocusing the NPRF's investment towards commercial investment in Ireland. The NPRF has today announced investment commitments to three new long-term funds that will provide €850 million of equity, credit and restructuring / recovery investment for Irish small and medium-sized businesses (SMEs) and mid-sized corporates. The NPRF played a significant role in the development of the funds and will be a cornerstone investor in each alongside additional investment from third-party investors. The three funds will involve a total commitment by the NPRF of up to €500 million (see separate statement issued by the NPRF today for details).

¹ General Government Debt is a gross measure and does not allow for the offsetting of Exchequer cash balances. As well as the National Debt it includes the promissory notes issued to certain financial institutions, local government debt and debt of non-commercial State bodies. GGD ratios are as published by the Department of Finance in Budget 2013.

² Information in respect of the NPRF is, in the case of direct quoted investments, based on valuation as of close of business on 31 December 2012 and, in the case of indirect investment vehicles, based on the most recently available valuations. Directed Investments have been valued on a preliminary basis as follows: ordinary shares in Bank of Ireland at market price and preference shares in Bank of Ireland and ordinary and preference shares in Allied Irish Banks based on the advice of Goodbody Corporate Finance. Final valuations of all NPRF investments will be published in the NPRF Annual Report for 2012.

Other Ireland-focused initiatives during 2012 include the provision of a standby facility to enable the Schools Bundle 3 PPP project (eight primary and post-primary schools) to proceed with European Investment Bank (EIB) financing and the NPRF's collaboration with Silicon Valley Bank which will make US\$100 million of new lending commitments available to fast-growing Irish technology, life science, cleantech, private equity and venture capital businesses.

The NPRF's Discretionary Portfolio (the Fund *excluding* the public policy investments in Bank of Ireland and Allied Irish Banks made at the direction of the Minister for Finance) earned a preliminary return of +7.3 per cent in 2012. In light of the Government's stated intention to refocus the NPRF's investment towards Ireland, since mid-2011 the Fund has been more focused on capital preservation – via the purchase of options and a reduced exposure to equities – while maintaining its capacity to participate in gains if markets perform well. Since the Fund's inception in April 2001, the Discretionary Portfolio has delivered an annualised return of +3.7 per cent per annum.

The total return in 2012 on the Directed Portfolio (comprising ordinary and preference shares in both Bank of Ireland and Allied Irish Banks) was +10.4 per cent. The Fund's ownership of Bank of Ireland is 15.1 per cent and of Allied Irish Banks is 99.8 per cent.

At 31 December 2012 the total value of the National Pensions Reserve Fund was €14.7 billion, comprising the Discretionary Portfolio of €6.1 billion and the Directed Portfolio currently held at €8.6 billion.

NewERA

During 2012 NewERA focused primarily on the following:

- **State Asset Disposals** – NewERA is representing the Government's financial interests as Shareholder in the asset disposal programme and is leading and managing the Bord Gáis Éireann transaction on behalf of the Government. NewERA is also working closely with the ESB on its disposal of some of ESB's non-strategic power generation capacity. Work is also ongoing in relation to a possible concession for Coillte harvesting rights. In 2012, NewERA produced a range of detailed valuation reports in relation to these assets to assist Government in the decision making process.

- **Corporate Governance** – NewERA has provided financial advice and analysis to relevant Government Departments on a range of issues in respect of the commercial semi-State sector entities under its remit including financial performance, corporate strategy, capital and investment plans and funding proposals, helping to bring an increased focus to the financial metrics of these entities which generate some €6 billion of revenues annually. In particular, NewERA provided advice on a number of large energy projects, including Bord na Móna’s recently launched 80MW Mount Lucas wind farm project, and in respect of both ESB and Bord Gáis Éireann’s successful fund raisings in the capital markets during 2012.
- **Government Plans for Investment** - NewERA has engaged extensively with the relevant Government Departments and Bord Gáis Éireann in relation to the establishment of Irish Water and is also actively engaged with the relevant Government Departments, regulatory authorities and State entities in relation to the National Broadband Plan, National Energy Retrofit Programme and the export of renewable energy.

State Claims Agency

The State Claims Agency (SCA) achieved significant savings in the management of clinical claims in 2012. An independent actuarial assessment projected that €127.5 million would be required to meet the cost of the Clinical Indemnity Scheme for the year. The actual cost in respect of the scheme, including successful recoveries from third parties, was €84 million – a saving of €43.5 million.

The further delegation of the management of EL/PL/PD³ claims portfolios of various State bodies, primarily the HSE, has yielded significant savings. These bodies no longer have to pay insurance premiums and the cost of claims is met directly by the State. Since 2010, this has yielded a cashflow saving of €63.7 million. Based on the current outstanding estimated liability associated with these claims, a long-term saving of €26 million is expected.

The total number of claims under the SCA’s active management at end 2012 rose by 9 per cent from a year earlier to 5,762.

³ Employer Liability means the liability of an employer to its employees for its negligent acts or omissions, and those of its employees. Public Liability means the liability of an owner/occupier of premises for its negligent acts or omissions affecting members of the public. Property Damage Liability means the liability of an owner/occupier for its negligent acts or omissions leading to damage to a third party’s property.

The estimated liability against all active claims at end December 2012 was €1.1 billion, broken down as follows:

Clinical Claims	€970 million (86%)
EL/PL/PD Claims	€157 million (14%)

In August 2012 the SCA announced a new procurement structure requiring barristers to engage in a competitive tendering process under which their fees will be capped at up to 25 per cent below current levels. The new arrangements also aim to foster young talent at the Bar and create greater competition by enabling barristers who have been in practice for less than five years to supply their services to the Agency. In excess of 900 tenders are currently being evaluated by the SCA, which expects to announce the composition of the barrister panels being created under the new structure towards the end of the first quarter of 2013.

The Government has decided to establish a State Legal Costs Unit within the SCA to deal with third party costs arising from certain Tribunals of Enquiry. Recruitment is underway and it is expected that the unit will be operational in February 2013.

National Development Finance Agency (NDFA)

The NDFA is actively preparing to procure PPPs in the education, health, and justice sectors under the €2.25 billion stimulus package announced by the Government in July 2012 and has commenced an intensive market engagement with a view to attracting interest from investors and contractors in Ireland and overseas.

In November 2012 the NDFA concluded negotiations and awarded the contract for the Schools Bundle 3 PPP project which will provide accommodation for approximately 5,700 students. Construction is underway and all eight schools will be available for occupancy in 2014.

The NDFA was instrumental in securing the €100 million loan from the EIB for the traditional schools capital programme which was drawn down by the Exchequer in August 2012. It is also managing the procurement and delivery of 18 school building projects for the Department of Education and Skills as part of this programme. In late November, a further

€100 million loan contract was signed between the EIB and the NTMA in respect of water/waste water projects.

In 2012, the NDFA was also assigned responsibility for contract management of existing and future PPPs in the education sector.

The NDFA is also the financial advisor to the National Roads Authority on the N11/Newlands Cross PPP project which is expected to reach financial close in early 2013.

National Asset Management Agency

The NTMA provides the National Asset Management Agency (NAMA) with staff and business and support services including HR, IT, market risk, and the execution and processing of treasury and hedging transactions. NAMA reimburses the NTMA the costs of staff assigned to NAMA and the costs of business and support services. Of the 500 staff employed by the NTMA at end 2012, 224 were assigned to NAMA.

NAMA has used its strong cash flow to redeem €4.75 billion of senior bonds to date, €3.5 billion of which were redeemed in 2012. When taken together with repayment in 2010 and 2011 of €299 million in advances made to NAMA by the Minister for Finance, NAMA has reduced its indebtedness by over €5 billion in the three years since its establishment and NAMA remains on target to repay €7.5 billion of senior bonds by the end of 2013 (see separate end-year press statement issued by NAMA on 3 January 2013).