

FINANCE ACCOUNTS

Audited Financial Statements of the Exchequer

For the Financial Year 1st January 2016 to 31st December 2016

Presented to both Houses of the Oireachtas pursuant to Section 4 of the Comptroller and Auditor General (Amendment) Act, 1993.

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FOILSEACHÁIN RIALTAIS,
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Statement of Accounting Policies and Principles

1. The Finance Accounts, which are prepared under Section 4 of the Comptroller and Auditor General (Amendment) Act, 1993, contain detailed analysis and classification of the payments into and out of the Central Fund as well as details of the National Debt. They also contain certain other statements and footnoted information. The Finance Accounts have a statutorily specified purpose in relation to providing an annual statement of the transactions, recorded on a cash basis, of the Central Fund. The Finance Accounts do not purport to be a comprehensive financial statement for the State, its assets and liabilities.
2. The maintenance of the Central Fund derives from the Constitutional requirement that "All revenues of the State from whatever source arising shall, subject to such exception as may be provided by law, form one fund, and shall be appropriated for the purposes and in the manner and subject to the charges and liabilities determined and imposed by law".
3. The Central Fund Account is prepared on a receipts and payments basis and its euro banking transactions are effected through the Exchequer Account maintained at the Central Bank of Ireland and foreign currency clearing accounts managed by the National Treasury Management Agency. Prior year data is provided for comparison purposes.
4. The information contained in the notes is not specified by legislation, but is provided in order to give further details regarding certain transactions on the Central Fund, or other matters. Explanatory notes are not provided where the data relates to the prior year only. The reader should consult the Finance Accounts for the prior year. Loans provided by and repaid to the Central Fund are recorded on a cash basis in Statement 1.7. Share capital acquired in companies is recorded at historical cost, or historical valuation in the case of non-cash capitalisation, as at the date of acquisition. Investments in International Bodies are recorded at historical cost. Shareholdings denominated in U.S. Dollars are stated in Euro at the exchange rates prevailing at the relevant dates, except in the case of the Asian Development Bank and the International Common Fund for Commodities where any repayment of the shares purchased in U.S. Dollars would be made in Euro at the exchange rates prevailing at the time the shares were purchased. Statement 1.11 only records the amounts the Government has guaranteed under specific legislation.
5. The Statements relating to the National Debt and its servicing and cash flow provided by the National Treasury Management Agency (NTMA) are presented in Part Two of these accounts. The accounts of the National Debt form part of the NTMA's annual accounts for which the Chief Executive of the NTMA is the Accounting Officer.
6. Section 4 of the Comptroller and Auditor General (Amendment) Act, 1993, provides for the transmission of the Finance Accounts to the Comptroller and Auditor General not later than 30 June in the year following that to which they relate. The Act provides that following audit, the Comptroller and Auditor General submits the Finance Accounts and a report thereon to the Minister for Finance not later than 31 August in that year. The Accounts are laid before Dáil Éireann not later than 30 September.

7. These Accounts comprise the Central Fund Account, Statements 1.1 to 1.11 and the Financial Accounts of the National Debt including the Accounting Policies.
8. The reporting period is the year ended 31 December 2016.



Derek Moran
Secretary General
Department of Finance
27 June 2017

Statement on Internal Financial Control

Responsibility for System of Internal Financial Control

As Accounting Officer, I am responsible for maintaining a sound system of internal control in respect of those Central Fund transactions which are within the purview of the Department of Finance and for those parts of the process where the Department has ownership. This responsibility is exercised in the context of the resources available to me and my other obligations as Secretary General.

The system of control can provide only reasonable, and not absolute, assurance that transactions are authorised and properly recorded and that material errors are either prevented or would be detected in a timely manner. The system of internal control is based on the identification of risks; an evaluation of the likelihood of those risks being realised; the impact should they be realised and the effective management of them. Maintaining the system of internal financial controls is a continuous process and the system and its effectiveness are kept under ongoing review.

The control system in relation to the Central Fund has the following aspects:

- There is clear separation of duties in respect of transactions. Payments are only made on foot of instructions from the appropriate business sections in the Department of Finance or, where relevant, from the Department of Public Expenditure and Reform. There is also separation of duties within the accounting system used for recording the transactions. This is enforced by appropriate user permissions in the system. All new general ledger accounts are confirmed with the relevant business sections in the Department of Finance and Department of Public Expenditure and Reform.
- Up to date procedure manuals and job instructions are readily accessible to all operational staff.
- Accounting entries are generated from approved data entry templates. Payment instructions are computer generated and are derived from underlying transaction records.
- In the event of a failure of IT systems, arrangements have been established with the Central Bank to allow for the transmission of transactions for manual input by the Bank. Disaster Recovery arrangements are in place and a business continuity facility is also available.
- In accordance with Section 2 of the Comptroller and Auditor General Act, 1993, payments from the Central Fund are made in line with credits granted by the Comptroller and Auditor General. These credits are reconciled daily with the Central Bank of Ireland. The credits are input to the accounting system and the monetary and time limits are strictly adhered to.
- Monthly accounts of the Central Fund, in the form of the Exchequer Statement, are produced, reviewed and provided to me. Where appropriate, outturns are compared to profiles established at the start of the year.
- The Department's Audit Committee can advise me in regard to the discharge of my responsibilities for the internal financial control system for the Central Fund.

Internal Audit

The Department has access to the internal audit service of the Department of Public Expenditure and Reform under a shared service arrangement. I can confirm that the internal audit service has appropriately trained personnel and operates in accordance with a written charter. Its work is informed by analysis of the risks to which the Department is exposed and its annual internal audit plans are based on this analysis and approved by me. These plans aim to cover the key controls on a rolling basis over a reasonable period. The internal audit function is reviewed periodically by me and by the Audit Committee. I have put procedures in place to ensure that the reports of the internal audit function are followed up.



Derek Moran
Secretary General
Department of Finance

27 June 2017



Comptroller and Auditor General

Report for presentation to the Houses of the Oireachtas

Finance Accounts

I have audited the Finance Accounts for the year ended 31 December 2016. The accounts, which have been prepared under the accounting policies set out therein, comprise the Central Fund account, the financial statements of Exchequer receipts and issues and guaranteed liabilities and the financial statements of the national debt. The financial reporting framework that has been applied in their preparation is the format specified by the Minister for Finance in accordance with Section 4 of the Comptroller and Auditor General (Amendment) Act 1993.

Responsibilities of the Department of Finance

The Department of Finance is responsible for the preparation of the account in the specified format and for ensuring the regularity of transactions.

Responsibilities of the Comptroller and Auditor General

My responsibility is to audit the account and report on them in accordance with Section 4 of the Comptroller and Auditor General (Amendment) Act 1993.

My audit is carried out in accordance with the International Standards on Auditing (UK and Ireland) and in compliance with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of audit of the account

An audit involves obtaining evidence about the amounts and disclosures in the account, sufficient to give reasonable assurance that the account is free from material misstatement, whether caused by fraud or error. This includes an assessment of

- whether the accounting policies are appropriate and have been consistently applied and adequately disclosed
- the reasonableness of significant accounting estimates made in the preparation of the account, and
- the overall presentation of the account.

I also seek to obtain evidence about the regularity of financial transactions in the course of audit.

Opinion on the account

In my opinion, the account properly reflects

- the payments into and out of the Central Fund and the deficit for the year ended 31 December 2016, and
- the capital investment of the Central Fund at 31 December 2016 and the national debt outstanding at that date.

In my opinion, the accounting records of the Department were sufficient to permit the account to be readily and properly audited. The account is in agreement with the accounting records.

Matters on which I report by exception

I report by exception if I have not received all the information and explanations I required for my audit, or if I find

- any material instance where public money has not been applied for the purposes intended or where the transactions did not conform to the authorities governing them, or
- the statement of internal financial control does not reflect the Department's compliance with the requirements for such statements set out in Public Financial Procedures, or
- there are other material matters relating to the manner in which public business has been conducted.

I have nothing to report in regard to those matters upon which reporting is by exception.



Seamus McCarthy
Comptroller and Auditor General
28 June 2017

CENTRAL FUND ACCOUNT

Account of Receipts and Payments for year ended 31 December 2016

	Statement No.	Page	€000	2015 €000	€000	2016 €000
Current Receipts:						
Tax Revenue	1.1	14		45,601,494		47,864,486
Non-Tax Revenue	1.2	15		3,516,490		3,103,103
				49,117,984		50,967,589
Less Current Payments:						
Issues for Voted Expenditure - Current	1.3	19	39,345,278		40,066,460	
Non-Voted Issues						
Service of National Debt	2.1	36	7,107,328		6,844,914	
Transfer to/(from) Capital Services Redemption Account	2.4	40	38		10	
Payments charged to Central Fund in respect of Salaries, Allowances, Pensions etc.	1.4	22	39,752		38,633	
Payments to European Union	1.5	23	1,952,080		2,022,828	
Other non-voted Issues	1.6	24	680,647	49,125,123	675,033	49,647,878
Surplus/(Deficit) on Current Account				(7,139)		1,319,711
Capital Receipts:						
Gaeltacht Loans Repaid			-		9	
Loans Repaid	1.7	26	5,401,539		2,143,790	
Receipts from European Union	1.9	31	66,219		68,661	
Other Receipts	1.2	15	4,055,983	9,523,741	1,877,092	4,089,552

CENTRAL FUND ACCOUNT

Account of Receipts and Payments for year ended 31 December 2016 (Continued)

	Statement No.	Page	€000	2015 €000	€000	2016 €000
Less Capital Payments:						
Issues for Voted Expenditure - Capital						
Non-Voted (payments charged directly under particular legislation)						
Loans Issued	1.7	26	5,206,675		2,320,500	
Share Capital acquired in Irish Companies	1.8 (A)	27	54,000		-	
Investment in International Bodies	1.8 (B)	30	18,736		3,612	
Other Payments	1.10	32	783,265	9,580,387	184,033	6,427,595
Deficit on Capital Account				<u>(56,646)</u>		<u>(2,338,043)</u>
Exchequer (Deficit)				<u>(63,785)</u>		<u>(1,018,332)</u>
Source and Application of Funds						
Net Debt/ Repayment and Other Balances	2.3	39	1,141,389		1,417,056	
Increase in Exchequer Balances and Commercial Deposits	2.2	37	(1,205,174)		(2,435,388)	
Net Total				<u>(63,785)</u>		<u>(1,018,332)</u>

PART ONE
FINANCIAL STATEMENTS OF CENTRAL FUND RECEIPTS AND ISSUES AND
GUARANTEED LIABILITIES
FOR THE YEAR ENDED 31 DECEMBER 2016

STATEMENT 1.1

Current: Tax Revenue

	2015	2016
	€000	€000
Income Tax	18,359,244	19,168,970
Value Added Tax	11,944,046	12,420,480
Excise Duty	5,291,816	5,711,486
Corporation Tax	6,871,559	7,351,108
Stamps	1,268,375	1,193,830
Customs	327,477	317,867
Capital Acquisitions Tax	399,910	415,205
Capital Gains Tax	669,016	821,961
Local Property Tax	469,192	463,398
Training and Employment Levy	859	181
Total	45,601,494	47,864,486

STATEMENT 1.2

Non-Tax Revenue - Current and Capital

	Current		Capital	
	2015 €000	2016 €000	2015 €000	2016 €000
Central Bank Surplus Income	1,719,145	1,799,871	-	-
National Lottery Surplus ¹	193,369	218,957	-	-
Royalties	1,588	280	-	-
Receipts from National Treasury Management Agency in respect of Section 10 of the National Development Finance Agency (Amendment) Act, 2007	5,562	-	-	-
Receipts from National Treasury Management Agency in respect of the Carbon Fund Act, 2007 ²	-	-	-	423
Income from Credit Institutions ³	75,849	47,234	-	-
Interest received on loans	4,843	2,627	-	-
Share Dividends	551,450	268,802	-	-
Receipts collected by Government Departments and Offices ⁴				
Agriculture, Food and the Marine	68	205	-	-
Arts, Heritage, Regional, Rural and Gaeltacht Affairs	21	-	-	-
Office of the Minister for Communications, Climate Action and Environment	22,264	148,757	-	-
Defence	-	1,894	-	-
Education and Skills	1,761	965	1	-
Housing, Planning, Community and Local Government	49,541	11,804	1,313	-

¹ Allocation of expenditure, which is part-funded by the National Lottery, is shown in the Estimates for Public Services.

² Payments from the Exchequer Account in relation to the Carbon Fund Act, 2007 are receipted back to the Exchequer Account via the National Treasury Agency as Manager of the Carbon Fund in the subsequent year following the reimbursement from the Voted Expenditure of the Government Department with responsibility for the Carbon Fund.

³ Following a Government decision on 26 February 2013, the Minister for Finance announced the ending of the ELG Scheme for new liabilities from midnight 28 March 2013. The liabilities continue to be automatically covered by the ELG Scheme in accordance with its terms and conditions until the date of maturity of the liability (subject to a maximum of 5 years from 28 March 2013). As the liabilities continue to mature, the resulting fees paid to the Central Fund will continue to reduce and this is built into budgetary forecasting.

⁴ These are receipts that must be credited directly to the Exchequer and cannot be retained by Departments for their own use.

STATEMENT 1.2

Non-Tax Revenue - Current and Capital - Continued

	Current		Capital	
	2015 €000	2016 €000	2015 €000	2016 €000
Receipts collected by Government Departments and Offices ⁵				
Finance Group	55	55	-	-
Health Service Executive	101,584	-	-	-
Health	-	8,389	-	2,663
Jobs, Enterprise and Innovation	4,236	530	2,591	2
Justice and Equality	13,925	12,801	-	-
National Gallery of Ireland	-	5	-	-
Property Registration Authority	58,108	57,917	-	-
Office of the Director of Public Prosecutions	246	23	-	-
Office of Public Works	-	1,715	858	2,626
Office of the Revenue Commissioners	1,731	1,667	-	-
Public Expenditure and Reform	30	37	-	-
Social Protection	22	25	-	-
Transport, Tourism and Sport	738	642	3,586	618
Other Receipts				
Monies received under various Acts	2,719	1,460	-	-
Voluntary salary and pension surrenders	455	243	-	-

⁵ These are receipts that must be credited directly to the Exchequer and cannot be retained by Departments for their own use.

STATEMENT 1.2

Non-Tax Revenue - Current and Capital - Continued

	Current		Capital	
	2015 €000	2016 €000	2015 €000	2016 €000
Other Receipts (continued)				
Pension Related Deductions ⁶	14,894	13,472	-	-
NTMA Public Service Pension	223	219	-	-
Receipts from European Investment Bank	489	401	-	-
Nursing Home Support Scheme	12,058	14,136	-	-
Pension Insolvency Scheme Receipts	-	-	19,550	-
Receipts from Local Government Fund ⁷	481,000	317,900	-	-
Interest on Contingent Capital Notes in Banks	191,123	160,438	-	-
Sale of Contingent Capital Notes in PTSB	-	-	410,544	-
Sale of PTSB Shares	-	-	97,246	-
Sale of NPRFC Shareholding in Bank of Ireland	-	-	1,634,210	-
AIB Preference Share Redemption Proceeds	-	-	1,539,549	-
Sale of Contingent Capital Notes in AIB ⁸	-	-	-	1,600,000

⁶ Pension Related Levies received from Central Bank, National Treasury Management Agency, National Asset Management Agency and Houses of the Oireachtas. The figure also includes deductions from certain salaries paid from the Central Fund.

⁷ The Local Government Act, 1998, as amended by the Planning and Development (Housing) and Residential Tenancies Act, 2016 provided for a transfer of up to €420m from the Local Government Fund to the Central Fund upon a request from the Minister for Finance in respect of the year ending 31 December 2016.

⁸ The Contingent Capital Note was issued by AIB in July 2011 with a set five year maturity and 10% annual interest coupon; it was issued in return for cash payment from the Exchequer of €1.6 billion. The Contingent Capital Note was a subordinated Tier 2 Debt instrument with a five year and one day maturity which would have converted immediately and mandatorily in its entirety into ordinary shares in the event that a capital deficiency had occurred. Given that no such event occurred during the period, the Contingent Capital Note was repaid in full. The Note carried a fixed mandatory interest rate of 10% of the issue price per annum, payable annually.

STATEMENT 1.2

Non-Tax Revenue - Current and Capital - Continued

	Current		Capital	
	2015 €000	2016 €000	2015 €000	2016 €000
Other Receipts (continued)				
IBRC Unsecured Creditors Payment ⁹	-	-	-	270,559
Sale of Aer Lingus	-	-	335,273	-
Interest on Capital Contribution to the Credit Institutions Resolution Fund	90	-	-	-
Interest on Convertible Debt Instrument issued by Irish Water	669	-	-	-
Irish Water State Guarantee Fees	5,540	-	-	-
Miscellaneous	1,094	9,632	11,262	201
Total	3,516,490	3,103,103	4,055,983	1,877,092

⁹ In December 2016, the Joint Special Liquidators of IBRC announced a first interim dividend of 25% to all admitted unsecured creditors of IBRC. This payment represents the State's proceeds from the first interim dividend in relation to the Department of Finance claims submitted to the Joint Special Liquidators of IBRC.

STATEMENT 1.3

Issues For Voted Expenditure - Current and Capital ¹

Vote No.	Service	Current		Capital	
		2015 €000	2016 €000	2015 €000	2016 €000
1	President's Establishment	3,113	3,601	-	-
2	Department of the Taoiseach	21,308	23,237	-	-
3	Office of the Attorney General	12,531	13,667	-	-
4	Central Statistics Office	47,796	75,109	-	-
5	Director of Public Prosecutions	37,579	38,717	-	-
6	Office of the Chief State Solicitor	28,871	28,823	-	-
7	Office of the Minister for Finance	23,221	27,042	1,139	2,227
8	Office of the Comptroller and Auditor General	4,455	6,013	-	-
9	Office of the Revenue Commissioners	299,867	303,762	20,350	24,000
10	Office of the Appeals Commissioner	508	963	-	-
11	Office of the Minister for Public Expenditure and Reform	35,529	38,390	1,038	3,257
12	Superannuation and Retired Allowances	383,376	338,121	-	-
13	Office of Public Works	248,819	228,844	117,914	123,714
14	State Laboratory	7,750	7,984	-	-
15	Secret Service	493	690	-	-
16	Valuation Office	7,314	7,897	-	-

¹ The figures shown are the amounts *issued* to fund current and capital expenditure on each Vote. Details of voted and *actual* expenditure are contained in the Appropriation Accounts.

STATEMENT 1.3

Issues For Voted Expenditure - Current and Capital (Continued) ²

Vote No.	Service	Current		Capital	
		2015 €000	2016 €000	2015 €000	2016 €000
17	Public Appointments Service	8,310	9,311	-	-
18	Office of Shared Services	16,688	21,163	5,480	9,830
19	Office of the Ombudsman	7,559	8,043	-	-
20	Garda Síochána	1,315,908	1,356,012	65,849	93,440
21	Prison Service	286,163	289,892	29,330	24,360
22	Courts Service	47,521	28,134	11,100	36,330
23	Property Registration Authority	28,985	27,703	361	200
24	Office of the Minister for Justice and Equality	300,921	323,576	1,590	1,534
25	Irish Human Rights and Equality Commission	3,398	4,886	9	1,544
26	Office of the Minister for Education and Skills	7,557,511	7,633,164	621,502	699,841
27	International Co-operation	477,206	482,121	324	700
28	Office of the Minister for Foreign Affairs and Trade	157,686	151,866	2,969	5,216
29	Office of the Minister for Communications, Climate Action and Environment	78,645	93,797	91,250	110,400
30	Office of the Minister for Agriculture, Food and the Marine	630,289	629,395	187,373	180,267
31	Office of the Minister for Transport, Tourism and Sport	546,888	531,699	760,481	912,983
32	Office of the Minister for Jobs, Enterprise and Innovation	237,675	231,217	538,419	546,933
33	Office of the Minister for Arts, Heritage, Regional, Rural and Gaeltacht Affairs	207,963	240,414	61,488	132,613

² The figures shown are the amounts *issued* to fund current and capital expenditure on each Vote. Details of voted and *actual* expenditure are contained in the Appropriation Accounts.

STATEMENT 1.3

Issues For Voted Expenditure - Current and Capital (Continued) ³

Vote No.	Service	Current		Capital	
		2015 €000	2016 €000	2015 €000	2016 €000
34	Office of the Minister for Housing, Planning, Community and Local Government	768,893	881,767	469,873	466,518
35	Army Pensions	222,071	229,466	-	-
36	Office of the Minister for Defence	542,618	541,052	84,378	86,984
37	Office of the Minister for Social Protection	11,342,109	10,912,853	26,884	13,551
38	Office of the Minister for Health	12,406,798	13,242,223	387,427	417,642
39	Office of Government Procurement	13,119	13,391	800	560
40	Office of the Minister for Children and Youth Affairs	977,824	1,039,380	30,383	24,806
41	Policing Authority	-	1,075	-	-
Total Exchequer Issues - Voted Current & Capital Expenditure		39,345,278	40,066,460	3,517,711	3,919,450

³ The figures shown are the amounts *issued* to fund current and capital expenditure on each Vote. Details of voted and *actual* expenditure are contained in the Appropriation Accounts.

STATEMENT 1.4

Current: Payments charged to Central Fund in respect of Salaries, Allowances, Pensions, etc.¹

	2015	2016
	€000	€000
Annuities, Pensions, etc. of former Constitutional, Ministerial and Judicial Office-holders ²	14,095	13,118
Salaries and Allowances ³	825	819
Judicial Salaries ⁴	24,832	24,696
Total	39,752	38,633

¹ The breakdown of Central Fund charges in respect of salaries, allowances and pensions is available on the Department of Finance website.

² Payments under this heading were as follows: - (a) pensions to former Presidents of Ireland; (b) pensions, retirement lump sums and death gratuities relating to judicial services. (Deductions from lump sum payments to Judges relating to Spouses' and Children's contributions were payable to the Superannuation and Retired Allowances Vote (Vote 12)); (c) pensions to former Ministers, Ministers of State, Attorneys General, Ceann Comhairlí, Leas-Cheann Comhairlí, Cathaoirígh of the Seanad, Leaschathaoirígh of the Seanad and Comptrollers and Auditors General; (d) pensions to surviving spouses and children of former Presidents, members of the judiciary and office holders listed at (c) above; (e) severance payments to former office holders. Severance payments are payable to Ministers, Ministers of State and Attorneys General when they cease to hold office: the initial allowance is 75% of the former office holder's salary, declining to zero over a period of at most 2 years; (f) Retirement lump sums and death gratuities relating to Ministers and other office holders listed at (c) above.

³ Salaries and Allowances relate to the personal remuneration and annual allowance of the President of Ireland and the remuneration of the Comptroller and Auditor General.

⁴ Judicial Salaries relate to the remuneration of Judges of the Supreme Court, Court of Appeal, High Court, Circuit Courts and District Courts.

STATEMENT 1.5

Payments to the European Union: Current and Capital

	Current	
	2015	2016
	€000	€000
To European Union Budget		
Customs Duties ¹	280,950	279,507
VAT related payments ²	222,516	252,109
GNI (Gross National Income) related payments ²	1,448,614	1,320,647
Own Resources Decision payment for 2014 and 2015 ³	-	170,565
Total	1,952,080	2,022,828

¹ Payments to the European Union Budget take into account agreements which Ireland has made under the Single European Authorisation System. This system allows a company to pay its customs duty in Member State A in respect of goods imported into Member State B. In 2016, the net effect of the agreements was to increase Ireland's European Budget customs duties payments by approximately €130.7 million (€139 million in 2015). The figure shown for 2016 includes a return of €5,604,985.77 to Ireland. This adjustment relates to Ireland's non-participation in some policies in the area of freedom, security and justice.

² The VAT and GNI related payments are made on the basis of forecast estimates. Adjustments are made in subsequent years, as the estimates are revised, leading to a mixture of additional payments and/or refunds relating to several years. In addition to adjustments made in respect of previous years' contributions, a number of adjustments may be made to Member States' payments in the course of the budget year following the adoption of any Supplementary Amending Budgets. Contained within the GNI related figure are payments towards the UK Rebate.

³ Ireland adopted the Council Decision on the system of own resources of the European Union (2014/335) in June 2016. The Own Resources Decision (ORD) gives legal effect to the changes associated with the financing of the EU budget as part of a Multiannual Financial Framework (MFF) 2014-2020. The overall impact of the decision is to alter the share of Member State contributions to the EU budget. The ORD entered into force in late 2016 and Ireland received a call for funds from the Commission on the 19th December 2016 for €344,439,084.96. This figure includes retrospective elements related to the years 2014 and 2015. The payment of €344m is included in other payments (Customs/VAT – related/GNI-related).

STATEMENT 1.6

Current: Other Non-Voted Expenditure

	2015	2016
	€000	€000
Houses of the Oireachtas Commission Amendment Act, 2015	105,820	113,553
Payments to parliamentary leaders of qualifying parties under the Ministerial and Parliamentary Offices Act, 1938, as amended, including most recently by the Oireachtas (Ministerial and Parliamentary Offices) (Amendment) Act, 2014. ¹	6,831	7,215
Payments to qualified parties under Section 17 of Electoral Act, 1997	5,456	5,755
Payments to qualifying Independent members under the Ministerial and Parliamentary Offices Act, 1938, as amended, including most recently by the Oireachtas (Ministerial and Parliamentary Offices) (Amendment) Act, 2014.	814	869
Returning Officers' Expenses under the Electoral/Referendum Acts (1992 - 2015)	12,564	14,962
Election Expenses of candidates under the Electoral Act, 1997	166	2,667
Election Postal Charges	2,274	14,145
Payments to International Development Association ²	20,610	23,490
Payments to PSE Kinsale Energy Ltd ³	-	2,275
Asian Development Fund ⁴	2,520	3,320
Payments under National Development Finance Agency Act, 2002	4,000	-
Council of Europe Development Bank	11	11
Payments in respect of prevesting day pensions for Eircom and An Post	78	34

¹ Details of annual allowances to parliamentary leaders of qualifying parties are available on the Department of Finance website.

² Payments were made under the International Development Association Act, 1960 towards the replenishment of the resources of the Association, which is the concessionary lending body of the World Bank Group.

³ Remittance to PSE Kinsale Energy Ltd. of a proportion of tax and royalties paid to the State. Partial remittance is provided for under Article X of the 1959 Agreement between Marathon Petroleum and the State covering the exploration and development of Kinsale gas field and the Finance Act 1992. PSE Kinsale Energy Ltd. is a subsidiary of PETRONAS who acquired Marathon Petroleum Ireland Ltd. in 2009.

⁴ Ireland is contributing a total of €20m over a nine year period to the current replenishment of the Asian Development Fund (ADF XI). The contribution is being made in instalments amounting to €5m annually in each of four years in which the replenishment is operative from 2013 to 2016, consisting of cash payments and a promissory note for the balance of the €5m in each year. In 2016, a cash payment of €3.32m was paid and a promissory note issued for €1.68m. The promissory notes will be encashed on an agreed phased basis over the years 2017 to 2021.

STATEMENT 1.6

Current: Other Non-Voted Expenditure – Continued

	2015	2016
	€000	€000
Pension Insolvency Payments Scheme (PIPS) ⁵	5,880	5,663
Payments to Local Authorities to repay HFA Loan (Interest Payments)	4,670	-
Payments under Credit Institutions (Financial Support) Act, 2008 ⁶	4,546	4,179
Transfer of monies equivalent to Local Property Tax collected to Local Government Fund ⁷	461,092	463,175
Irish Fiscal Advisory Council ⁸	648	613
Payments to Department of Social Protection under section 48 (b) of the Pensions Act, 1990 ⁹	42,667	13,107
Total	680,647	675,033

⁵ Ongoing payments to pensioners accepted into the Pension Insolvency Payments Scheme (PIPS) under Section 22 of the Social Welfare and Pensions Act, 2009. Associated capital receipts are recorded in Statement 1.2.

⁶ In December 2009 the Government introduced a new guarantee scheme to follow the Credit Institutions (Financial Support) Scheme 2008 to provide for the guarantee of bank liabilities beyond 29 September 2010 – the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009. The Minister for Finance appointed the NTMA as the ELG Scheme Operator. As a result of the appointment of a Special Liquidator to IBRC on 7 February 2013, derivative counterparties terminated their outstanding derivative transactions with Irish Bank Resolution Corporation. In cases where any negative derivative valuations were not already covered by collateral at the date of termination, counterparties are entitled to submit a claim for any shortfall under the Deed of Guarantee. In March 2013 the Minister delegated to the NTMA the functions of verifying claims for payment in respect of the Deed of Guarantee made by the Minister for Finance on 29 November 2010 and for paying out amounts due and payable under the deed of Guarantee.

⁷ In 2014 and subsequent years, Local Property Tax receipts are collected by the Revenue Commissioners and deposited into the Central Fund (Exchequer). The Minister for Finance will then pay into the Local Government Fund an amount equivalent to the local property tax paid into the Central Fund during that year, in accordance with section 157 of the Finance (Local Property Tax) Act, 2012. The amount owing to the Local Government Fund at end 2016 was €16.094 million which was transferred from the Exchequer to the Local Government Fund in January 2017.

⁸ The Irish Fiscal Advisory Council is an independent statutory body established under the Fiscal Responsibility Act, 2012. The role of the Council is to independently assess, and comment publicly on, whether the Government is meeting its own stated budgetary targets and objectives. The Fiscal Responsibility Act, 2012 provides for an expenditure ceiling of €800,000 for the Fiscal Council in 2012. This sum is to be adjusted by the annual percentage change in the Harmonised Index of Consumer Prices published by the Central Statistics Office for each subsequent year.

⁹ Government Decisions of 9/12/14 and 24/3/15 accepted recommendations of payments of a cash lump sum by way of compensation to each deferred member of the Waterford Crystal Factory and staff schemes. This figure also includes ongoing pension payments paid in 2016.

STATEMENT 1.7

Capital: Loan Transactions

Body/Fund	Outstanding at 31 December 2015 €000	Loans Issued 2016 €000	Loans Repaid 2016 €000	Outstanding at 31 December 2016 €000
Department of Agriculture, Food and the Marine				
FEOGA Guarantee	599,000	770,000	599,000	770,000
Department of Finance				
EU Stability Support to Greece ¹	347,439	-	-	347,439
Insurance Compensation Fund ²	812,300	-	106,606	705,694
Advances to PMG Supply Account under section 3 of Appropriation Act, 2016 ³	67,675	180,500	67,675	180,500
Advances to Irish Water ^{4,5}	96,000	-	-	-
Office of Public Works				
Local Loans Fund	1,124	-	509	615
Department of Social Protection				
Social Insurance Fund ⁶	-	1,370,000	1,370,000	-
Department of Transport, Tourism and Sport				
Coras Iompair Éireann ⁷	12,511	-	-	12,511
Total	1,936,049	2,320,500	2,143,790	2,016,759

¹ €347.4 million is the full amount of the loan outstanding, and on which interest is payable. The amount stated in the accounts for 2010-2015 was €345.7 million. The net amount paid out of the Exchequer in 2010 was €345.7 million - a 50 basis point service fee which was applied to the full loan amount when the loan was made was deducted upfront on disbursement. This restatement in respect of this item does not result in any loss to the Exchequer. (Note: Ireland receives interest payments from Greece for this loan. These are accounted for in Statement 1.2 under interest received from loans).

² The purpose of the Insurance Compensation Fund is to provide a certain minimum level of protection for insurance policy holders should an insurance company go into liquidation. The Fund also facilitates the placing of insurance companies in administration by allowing administrators to apply to the High Court for funding in order to enable them to meet their financial obligations as they arise. The Central Bank has responsibility under Section 6 of the 1964 Insurance Act to carry out an annual assessment of the needs of the Fund and where it is of the opinion that the state of the Fund is such that financial support should be provided for it, it is allowed determine an appropriate contribution to be paid to the Fund by each insurer or insurer authorised in another Member State in relation to insured risks in the State. However, because it is not pre-funded, there is provision in Section 5 of the 1964 Insurance Act, which allows the Minister for Finance to provide the necessary monies in the form of a repayable loan where there are insufficient funds available to enable payments out of the Fund to be made expeditiously.

³ In order to ensure a sufficient balance in the Paymaster General Supply Account, Section 3 of the Appropriation Act 2016 provides for advances from the Central Fund in December 2016 to the PMG Supply Account in order to facilitate electronic funds transfers in respect of certain payments due on 3 January 2017, and certain payments, under the Social Welfare Acts, made on an agency basis by An Post payable between 3 January 2017 and 6 January 2017. The advance of €180.5m was repaid to the Central Fund in January 2017.

⁴ In December 2015 the Minister for Finance issued a working capital loan facility of €96m to Irish Water. On 15 December 2016, the loan was converted into an unconditional, irrevocable and non-refundable capital contribution. As this was a non-cash transaction there is a decrease in the total amount of loans outstanding at the end of 2016 by €96m.

⁵ The 2015 Finance Accounts incorrectly included a receipt of €54m for a loan repayment by Irish Water and an in issue of €54m (in Statement 1.8A) for shares acquired in Irish Water. In fact, the loan was converted to share capital in 2015 without a receipt to, or issue from, the Central Fund. This error had no net impact on the Fund's financial position.

⁶ Under Section 9 (as amended) of the Social Welfare Consolidation Act, 2005, the Minister for Finance may advance moneys from the Central Fund to the Social Insurance Fund for cashflow support.

⁷ Amounts of £6,000,000 (€7.6m) and £3,853,000 (€4.9m) total €12.5m were provided by the Exchequer as non-repayable non-interest bearing advances for transfer to Oslanna Iompair Eireann in order to assist that company to discharge its liabilities.

STATEMENT 1.8(A)

Capital: Share Capital acquired in Companies

Department/Body	Shareholding at 31 December 2015 €000	Shares acquired 2016 €000	Shares disposed 2016 €000	Shareholding at 31 December 2016 €000
Agriculture, Food and the Marine				
Coillte Teoranta	795,060	-	-	795,060
Irish National Stud Company Ltd	13,769	-	-	13,769
Fastnet Mussels Ltd	19	-	-	19
Kush Seafarms Ltd	19	-	-	19
Communications, Climate Action and Environment				
An Post ¹	68,239	-	-	68,239
Bord na Móna plc ²	78,664	-	-	78,664
EirGrid ³	38	-	-	38
Irish National Petroleum Corporation	0.003	-	-	0.003
National Oil Reserves Agency	0.001	-	-	0.001
Housing, Planning, Community and Local Government				
Housing Finance Agency plc.	39	-	-	39
National Building Agency Ltd ⁴	0.2	-	-	0.2
Irish Water	54,000	-	-	54,000

¹ Taken from the Financial Statements for the year ended 31 December 2015. The State has a 20% shareholding in An Post National Lottery Company, a subsidiary of An Post.

² Taken from Financial Statements for year ended March 2016. The shareholding at Bord na Mona stood at 95% on 30 March 2016.

³ Taken from Financial Statements for year ended 30 September, 2015.

⁴ Taken from Financial Statements for year ended 31 December 2015.

STATEMENT 1.8(A)

Capital: Share Capital acquired in Companies – Continued

Department/Body	Shareholding at 31 December 2015 €000	Shares acquired 2016 €000	Shares disposed 2016 €000	Shareholding at 31 December 2016 €000
Finance				
Irish Bank Resolution Corporation Ltd (formerly Anglo Irish Bank – in liquidation) ⁵	4,123,000	-	-	4,123,000
Permanent TSB Group ⁶	2,161,498	-	-	2,161,498
Strategic Banking Corporation of Ireland (SBCI) ⁷	10,000	-	-	10,000
Transport, Tourism and Sport				
Dublin Airport Authority plc.	186,337	-	-	186,337
Shannon Group ⁸	38	-	-	38
Irish Aviation Authority	22,675	-	-	22,675
Drogheda Port	8,237	-	-	8,237
Dublin Port Company	14,464	-	-	14,464
Dun Laoghaire Harbour Company	14,540	-	-	14,540
Galway Harbour Company	8,927	-	-	8,927

⁵ S.I. 36/2013 of 7 February 2013, pursuant to Section 4 of the Irish Bank Resolution Corporation Act, 2013, provided for the winding up of Irish Bank Resolution Corporation Limited (IBRC). This reflects the share capital of the IBRC in their 2012 interim report for the six months to the 30 June 2012 (the last report which the IBRC published prior to its liquidation in February 2013). Section 262 of the Companies Act 1963 (requiring accounts to be prepared and filed) was dis-applied by the IBRC Act so while there is no requirement to file accounts for the IBRC (in Special Liquidation), the Special Liquidators will provide a copy of their most recent Progress Update Report dated the 5 May 2017 to the Company Registration Office. Contained in the report is a summary of the cash inflows and outflows in the liquidation for the 12 months to February 2017.

⁶ As part of the recapitalisation of Irish Life and Permanent, the Minister for Finance invested €2.3 billion in the bank in July 2011 in return for 36,249,014,972 Ordinary Shares (issue price of €0.06345 per share). A share reorganisation took place in 2015 during which shares were consolidated at a ratio of 100 to 1. Post this consolidation, the Minister held 362,490,150 shares at a consolidated price per share of €6.345. In April 2015 the Minister sold 21,828,552 shares with a value of €138.502 million based on the consolidation price per share. The proceeds of sale were €97.2 million net of stamp duty. At 31 December 2016, the Minister held 340,661,598 shares a value of €2.16 billion based on the consolidated price. The market value of the State's holding in the Permanent TSB Group at 31 December 2016 was €0.94 billion.

⁷ The initial shareholding of the Strategic Banking Corporation of Ireland of 10 million shares, at a face value of one euro each, was paid for by a transfer under order of the Minister from the then NPRF (now ISIF) directed portfolio. Accordingly, no Central Fund contribution was involved.

⁸ Following the establishment of Shannon Group, in accordance with the State Airports (Shannon Group) Act, 2014, the shareholding of €38,100 in Shannon Airport transferred to Shannon Group with effect from 5 September 2014 (S.I. No.395 of 2014 refers). On the same date the shareholding of €183.522m in Shannon Commercial Enterprises (formerly Shannon Development - under the remit of the Department of Jobs, Enterprise and Innovation) also transferred to Shannon Group (S.I. No.396 of 2014 refers). Accordingly, the shareholdings for Shannon Airport Authority and Shannon Commercial Enterprises have been amalgamated and shown under Shannon Group plc. Under the Companies Act 2014 Shannon Airport Authority and Shannon Commercial Enterprises have re-registered as Designated Activity Companies (DACs).

STATEMENT 1.8(A)

Capital: Share Capital acquired in Companies – Continued

Department/Body	Shareholding at 31 December 2015 €000	Shares acquired 2016 €000	Shares disposed 2016 €000	Shareholding at 31 December 2016 €000
Transport, Tourism and Sport (continued)				
New Ross Port Company	4,672	-	-	4,672
Port of Cork Company	22,518	-	-	22,518
Port of Waterford Company	18,676	-	-	18,676
Shannon Foynes Port Company	22,187	-	-	22,187
Wicklow Port Company	1,964	-	-	1,964
Total	7,629,580	-	-	7,629,580

STATEMENT 1.8 (B)

Capital: Investments in International Bodies under International Agreements

	Shareholding at 31 December 2015 ¹	Cost of Shares Acquired in 2016	Disposal of Shares in 2016	Shareholding at 31 December 2016 ¹
	€000	€000	€000	€000
Payments under Bretton Woods Agreement Acts, 1957 – 1999 ¹	45,331	2,642	-	49,507
Payments under International Finance Corporation Act, 1958 ²	1,185	-	-	1,224
European Bank for Reconstruction and Development ²	18,780	-	-	18,780
European Investment Bank ²	122,663	-	-	122,663
International Common Fund for Commodities ²	529	-	-	529
Multilateral Investment Guarantee Agency ²	860	-	-	888
European Financial Stability Facility ^{2, 3}	453	-	-	453
European Stability Mechanism ^{2, 4}	1,273,760	-	-	1,273,760
Council of Europe Development Bank ²	15,261	-	-	15,261
Development Banks Act, 2005 - Asian Development Bank ⁵	10,853	970	-	11,823
Total	1,489,675	3,612	-	1,494,888

¹ All shareholding amounts represent the actual shareholdings at the relevant dates. Shareholdings denominated in US dollars are stated in Euro at the exchange rates prevailing at the relevant dates except in the case of the Asian Development Bank and the International Common Fund for Commodities where any repayment of the shares purchased in US Dollars would be made in Euro at the exchange rates prevailing at the time the shares were purchased.

² There were no new shares acquired in these institutions in 2016. Any changes in value of shareholdings relate to exchange rate fluctuations.

³ The European Financial Stability Facility (EFSF) was set up as an entity incorporated in Luxembourg to issue loans to Member States which require assistance. Section 3 of the European Financial Stability Act, 2010 provides for the payment from the Central Fund of sums not exceeding €7.5 billion in aggregate for the purpose of enabling the State to fulfill its obligations under the EFSF Agreement between Eurozone Member States, including contributions to the capital and other costs of the EFSF and any other expenses incurred in relation to the Agreement. In November 2010, Ireland became a borrower from the EFSF as part of the EU-IMF Programme and under the terms of the Agreement stepped out of the Facility.

⁴ The European Stability Mechanism (ESM) had an authorised capital stock of €704.8 billion at end-2016 (following the accession of the Republic of Lithuania to the ESM). Ireland's share of this authorised capital amounts to €11.15 billion in total, and this does not change following accessions. This sum is based on an agreed contribution key, which is based on the ECB capital contribution key. For Ireland the key at end-2016 was 1.5814% of the authorised capital. The total for the ESM's paid-in capital at end-2016 was €80.2 billion, of which Ireland's share (based on the contribution key) was €1,273,760,000. This contribution was paid in five instalments, each of €254.752 million between October 2012 and April 2014. The European Stability Mechanism Act 2012, Section 3, provides for these payments.

⁵ In June 2011, Ireland subscribed to the Fifth General Capital Increase of the Asian Development Bank (ADB) which will cost approximately €8.3m and will be paid over a ten-year period. The subscription is being made in five equal annual instalments each of which consists of a cash payment and a promissory note. The promissory notes will be encashed sequentially on an annual basis in the period 2016-2020 following the final cash payment in 2015. The first promissory note encashment payment of €969,712 was made in 2016.

STATEMENT 1.9

Capital: Receipts from the European Union

	2015	2016
	€000	€000
European Regional Development Fund	60,744	68,548
Cohesion Fund	4,231	-
Trans European Network	1,211	80
Turkish Aid Protocol ¹	33	33
Total	66,219	68,661

¹ Ireland's share of repayments of EU loans under the Association Agreement with that country.

STATEMENT 1.10

Capital: Other Non-Voted Expenditure ^{1,2}

	2015		2016	
	€000	€000	€000	€000
Promissory Notes				
AIB/EBS	25,000	25,000	-	-
Payments under other Acts				
Payments to Local Authorities to repay HFA Loans (Capital Payments)	422,565		-	
Capital Contribution to Irish Water under the Water Services (No. 2) Act 2013 ³	-		184,000	
Insurance Acts, 1953-1988	5		1	
Carbon Fund Act, 2007	422		-	
Convention of Lomé Act, 1976	-		32	
Transfer of Funds to Ireland Strategic Investment Fund under National Treasury Management Agency (Amendment) Act 2014	335,273		-	
		758,265		184,033
Total		783,265		184,033

¹

Year	Market Value of NPRF/ISIF	Discretionary Portfolio	Directed Portfolio
2015	€21.9 bn	€7.9 bn	€14.0 bn
2016	€21.0 bn	€8.1 bn	€12.9 bn

The Ireland Strategic Investment Fund (ISIF) was established on 22 December 2014 with a statutory mandate to invest on a commercial basis in a manner designed to support economic activity and employment in the State. The assets of the National Pensions Reserve Fund (NPRF) became assets of the ISIF on the ISIF's establishment (except for assets governed by foreign law which remain NPRF assets until their transfer). The National Treasury Management Agency (NTMA) has advised that the Discretionary Portfolio (the Fund excluding the public policy investments in Allied Irish Banks and Bank of Ireland) was valued at €8.1 billion as at 31 December 2016. The Directed Portfolio (public policy investments in Allied Irish Banks and Bank of Ireland made at the direction of the Minister for Finance) was valued at €12.9 billion at 31 December 2016. The Total Fund size at 31 December 2016 was €21 billion.

² An actuarial valuation was carried out in 2014, using data as at 31 December 2012, by the Department of Public Expenditure and Reform to update the accrued liability in respect of Public Service occupational pensions. Further information can be found at <http://www.per.gov.ie/public-service-pensions-accrued-liability/>.

³ Pursuant to Section 37 of the Water Services (No. 2) Act, 2013 and the relevant Government Decision, a direct capital contribution of €184 million was made from the Central Fund to Irish Water in February 2016.

STATEMENT 1.11

Guaranteed Liabilities

At 31 December 2016, the Government had guaranteed, under specific legislation, the due payment of obligations in respect of liabilities of which the principal or capital value outstanding was €8.21 billion. The individual amounts represent capital raised and commitments entered into in accordance with the relevant statutes.

Relevant Department and Nature of Liability	Amounts Outstanding at 31 December 2015 €000	Changes in Guaranteed Liabilities in 2016 €000	Amounts Outstanding at 31 December 2016 €000
Finance			
ACP-EEC Convention of Lomé (contracts of Guarantee between State and European Investment Bank) Act, 1976 ¹	5,202	1,014	6,216
Credit Institutions (Financial Support) Act, 2008 Eligible Liabilities Guarantee ²	3,209,000	(1,832,000)	1,377,000
National Asset Management Agency ³	8,090,000	(5,500,000)	2,590,000
Strategic Banking Corporation of Ireland ⁴	350,149	284,851	635,000
Jobs, Enterprise and Innovation			
Credit Guarantee Act, 2012 ⁵	1,485	1,288	2,773

¹ This represents Ireland's share of the EU guarantee of loans from the European Investment Bank to African, Caribbean and Pacific (ACP) countries under the conventions of Lomé and Cotonou. These conventions are financial and political frameworks for cooperation between the EU and the ACP countries.

² The total liability under the Bank Guarantee Scheme at the 31 December was € 1.38 billion. Under Section 6 of the Credit Institutions (Financial Support) Act, 2008, all financial support arising under the Scheme is, as far as possible, recouped from the credit institutions to which support is provided. The Act does, however, provide (Section 4) that expenditure not met under Section 6 will be met from the Central Fund. Under the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (S.I. 490 of 2009), a credit institution that avails of the guarantee is liable to pay a charge for the guarantee which is credited to the Central Fund (see Statement 1.2). Following a Government decision on 26 February 2013, the Minister announced the ending of the ELG Scheme for new liabilities from 28 March 2013. However, eligible liabilities covered under the Scheme which were incurred up to that time continue to be covered up to their maturity date which could be up to 5 years from the date the liability was incurred. This means that covered liabilities will wind down over the period 28 March 2013 to 27 March 2018 at the latest.

³ The Ministerial guarantee covers Senior Floating Rate Notes denominated in Euro, which were issued and used by NAMA as consideration (95%) for the loan portfolios acquired from each of the Participating Institutions. At December 2016 €27.6 billion of senior debt had been redeemed, representing 91% of the €30.2 billion of senior debt originally issued in 2010 and 2011 to acquire bank loans.

⁴ The Strategic Banking Corporation of Ireland (SBCI) is a company limited by shares and wholly owned by the Minister for Finance. Section 18 of the SBCI Act 2014 gives the Minister for Finance the authority to guarantee any moneys borrowed by the SBCI up to a maximum of €4 billion. This is measured as an aggregate of all guarantees outstanding at any given time (accrued interest does not count towards this maximum amount).

⁵ The Credit Guarantee Acts allow the Minister for Jobs, Enterprise and Innovation to provide partial Guarantees to banks in respect of lending to employment-creating firms. This figure represents the maximum possible exposure, as at December 2016, on claims against guarantees which have been provided in respect of lending. The guarantee comes into effect when the loan is drawn down by the firm, and there can be a time lag between approval and drawdown. Therefore the figure provided covers the total guarantees approved and not the drawn down amount. The Strategic Banking Corporation of Ireland manages the Credit Guarantee Scheme.

STATEMENT 1.11

Guaranteed Liabilities - Continued

Relevant Department and Nature of Liability	Amounts Outstanding at 31 December 2015 €000	Changes in Guaranteed Liabilities in 2016 €000	Amounts Outstanding at 31 December 2016 €000
Housing, Planning, Community and Local Government			
Housing Finance Agency plc. ⁶	3,602,700	(1,800)	3,600,900
Total	15,258,536	(7,046,647)	8,211,889

⁶ Housing Finance Agency guaranteed debt held by the NTMA is included in the Financial Statements of the National Debt. HFA's outstanding debt securities in issue as at 31/12/16, for Guaranteed Notes with the NTMA, was €2.032 billion— see Page 49.

PART TWO
FINANCIAL STATEMENTS OF THE NATIONAL DEBT OF IRELAND
FOR THE YEAR ENDED 31 DECEMBER 2016

STATEMENT 2.1 - NATIONAL DEBT OF IRELAND

Service of Debt Statement	Year Ended 31 December		
	Notes	2016 €m	2015 €m
Interest Paid	3	6,798	7,016
Interest Received and Other Income	4	(57)	(37)
Fees and Operating Expenses	6	104	128
Total Debt Service Cost		6,845	7,107

STATEMENT 2.2 - NATIONAL DEBT OF IRELAND

National Debt Statement		Year Ended 31 December	
	Notes	2016 €m	2015 €m
Medium / Long Term Debt			
Irish Government Bonds	7	121,645	125,086
EU/IMF Programme Funding	8	50,298	49,747
Other Medium/ Long Term Loans	9	1,698	1,168
		173,641	176,001
Short Term Debt			
Short Term Paper	10	3,375	2,347
Borrowings from Ministerial Funds	11	2,519	1,579
		5,894	3,926
State Savings Schemes			
State Savings Products	12	17,194	16,692
		196,729	196,619
Gross National Debt			
Cash and Other Financial assets	13	(11,119)	(13,554)
National Debt	14	185,610	183,065

STATEMENT 2.3 - NATIONAL DEBT OF IRELAND

National Debt Cash Flow Statement		Year ended 31 December	
	Notes	2016 €m	2015 €m
Movement in Exchequer Balances:			
Balance at 1 January	13	7,964	4,089
Decrease in Cash and Other Financial Assets	13	2,856	5,080
Net Repayment of Debt (see below)		(1,417)	(1,141)
Exchequer Deficit		9,403	8,028
		(1,018)	(64)
Balance at 31 December	13	8,385	7,964

STATEMENT 2.3 - NATIONAL DEBT OF IRELAND

National Debt Cash Flow Statement - Continued		Year ended 31 December	
Net Borrowing / (Repayment) of Debt	Notes	2016 Net ¹ €m	2015 Net ¹ €m
Medium/Long Term Debt			
Irish Government Bonds		(4,992)	8,058
EU/IMF Programme Funding		557	(9,068)
Other Medium/Long Term Loans	9	530	241
Short Term Debt			
Short Term Paper		1,046	(1,736)
Borrowings from Ministerial Funds	11	940	1,056
State Savings Schemes			
State Savings Products	12	502	308
Net Repayment of Debt		(1,417)	(1,141)

¹ The amounts represent the net borrowing or repayment of debt in the period, including rollover of debt and related hedging transactions.

STATEMENT 2.4 - NATIONAL DEBT OF IRELAND

Statement of Movement in National Debt	Year ended 31 December		
	Notes	2016 €m	2015 €m
National Debt at 1 January	14	183,065	182,309
Increase in National Debt (nominal)		2,545	756
National Debt at 31 December	14	185,610	183,065
Increase in National Debt (nominal) represented by:			
Exchequer Deficit		1,018	64
Effect of Foreign Exchange Rate Movements		(24)	(7)
Net Premium on Medium/Long Term Loans		-	10
Net Premium on Bond Issuances and Cancellations		1,551	689
		2,545	756

NATIONAL DEBT OF IRELAND

Notes To The Financial Statements

1. Background

Under the National Treasury Management Agency Act, 1990, The National Treasury Management Agency (“the Agency”) performs borrowing and National Debt Management functions on behalf of the Minister for Finance.

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 financial statements of the National Debt also include disclosure notes in relation to the National Loans Advance Interest Account, the National Loans (Winding Up) Account, the National Treasury Management Agency (Unclaimed Dividends) Account, the Deposit Monies Investment Account and the Account of Stock Accepted in Payment of Inheritance Tax and Death Duties. As these are operational accounts set up for specific purposes, their cash balances are not included with the Exchequer account balance reported under Cash and Other Financial Assets in the National Debt Statement.

2. Basis of Preparation

The financial statements have been prepared for the year ended 31 December 2016, on a cash basis under the historical cost convention except where otherwise stated.

The National Debt Statement is a statement of the total amount of principal borrowed by Ireland not repaid at the end of the year, less cash and other financial assets available for redemption of those liabilities at the same date. The Minister for Finance under various statutes also guarantees borrowings by the State and other agencies. These guarantees are not included in these financial statements.

The presentation currency is Euro denoted by the symbol €, which is also the Agency’s functional currency. All amounts in the financial statements have been rounded to the nearest million or thousand unless otherwise indicated.

(i) 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.

(ii) Liability Valuation

Debt balances are recorded in the National Debt Statement at their redeemable par value. Where medium or long term debt is issued or cancelled at a premium or discount to its redeemable par value any such premium or discount is accounted for through the Statement of Movement in National Debt.

NATIONAL DEBT OF IRELAND

Notes To The Financial Statements – Continued

(iii) 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 that are linked with specific borrowing transactions are recognised in accordance with the underlying transactions. The net fund flows arising on hedging activities that are 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 or converted into other swap instruments the net fund flows affect debt service in accordance with the terms of the revised instrument.

(iv) Foreign Currencies

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

3. Interest Paid

Interest Paid on Medium / Long Term Debt	2016	2015
	€000	€000
Irish Government Bonds	4,874,417	4,807,531
EU/IMF Programme Funding	1,144,834	1,316,356
Derivatives hedging Medium/Long Term Debt	345,087	354,188
Private Placements	34,693	34,693
European Investment Bank	11,130	8,059
Council of Europe Development Bank	793	674
Other Medium/Long Term Debt	3	(12)
	<u>6,410,957</u>	<u>6,521,489</u>
Interest Paid on Short Term Debt		
Euro Commercial Paper	16,916	10,668
Exchequer Notes ¹	(7,469)	288
Irish Treasury Bills ¹	(1,135)	10
Central Treasury Notes	-	617
Bank Borrowing	(71)	-
	<u>8,241</u>	<u>11,583</u>

¹ During 2016 the Agency issued Exchequer Notes and Irish Treasury Bills at negative yields reflecting prevailing negative short-term interest rates in the market. As a result, there was a net interest receipt in 2016, compared to an interest payment in 2015.

NATIONAL DEBT OF IRELAND

Notes To The Financial Statements – Continued

Interest Paid on State Savings Schemes	2016	2015
	€000	€000
Savings Certificates	193,844	211,802
Savings Bonds	104,367	197,329
National Solidarity Bonds	39,678	30,259
Prizes in respect of Prize Bonds	26,617	28,893
Instalment Savings	14,370	14,518
	<u>378,876</u>	<u>482,801</u>
Total Interest Paid	<u>6,798,074</u>	<u>7,015,873</u>

Interest payments on State Savings Schemes include transfers to the Dormant Accounts Fund in respect of accumulated capitalised interest on certain accounts deemed dormant by An Post under the Dormant Accounts Act, 2001. The net interest amounts transferred were as follows:

	2016	2015
	€000	€000
Savings Certificates	643	3,897
Savings Bonds	107	832
Instalment Savings	736	765
	<u>1,486</u>	<u>5,494</u>

4. Interest Received and Other Income

	2016	2015
	€000	€000
Interest on Cash and Deposits	(13,597)	30,378
Interest on Financial Assets and Other Income	70,877	6,267
	<u>57,280</u>	<u>36,645</u>

Interest on Financial Assets and Other Income in 2016 includes the accumulated investment return of €70 million received from the EFSF (see note 8 for further detail).

NATIONAL DEBT OF IRELAND

Notes To The Financial Statements – Continued

5. Capital Services Redemption Account

The balance in the CSRA is maintained by the Agency at a level which is subject to guidelines issued by the Minister for Finance under section 4(4) of the National Treasury Management Agency Act, 1990. Under ministerial guidelines dated 24 September 2014, the balance in the CSRA from year end 2015 and thereafter each year end was to be less than €1 million. To adhere to these guidelines, the Agency transfers excess funds from the CSRA to the Exchequer Account before year end.

(i) Movement in the Account for the Period

	2016	2015
	€000	€000
Balance at 1 January	489	451
Receipts		
Derivative Transactions	8,125,347	15,205,071
Interest on Cash and Other Financial Assets	23,233	46,405
	<u>8,148,580</u>	<u>15,251,476</u>
Payments		
Derivative Transactions	(8,125,347)	(15,205,071)
Interest on National Debt	(5,205)	(10,912)
Expenses on National Debt	(4,018)	(1,455)
Transfer to Exchequer Account	(14,000)	(34,000)
	<u>(8,148,570)</u>	<u>(15,251,438)</u>
Balance at 31 December	<u>499</u>	<u>489</u>
Movement in the Year	<u>10</u>	<u>38</u>

NATIONAL DEBT OF IRELAND

Notes To The Financial Statements – Continued

5. Capital Services Redemption Account (continued)

(ii) Derivative Transactions (continued)

The Minister for Finance may enter into transactions of a normal banking nature in accordance with section 54(7) of the Finance Act, 1970.

Transactions of a normal banking nature include activities such as forward exchange deals, swaps and interest on deposits which are related to debt servicing costs. Receipts from such transactions, other than those in a currency for which a foreign currency clearing account has been established under section 139 of the Finance Act, 1993, must be received into the CSRA. Such amounts may be used to make payments and repayments in respect of normal banking transactions or towards defraying interest and expenses on the public debt.

In addition, transactions of a normal banking nature include derivative transactions entered into by the Agency with the National Asset Management Agency (“NAMA”) (in accordance with sections 52 and 235 of the National Asset Management Agency Act, 2009 and Statutory Instrument No. 203/2010) and the Irish Bank Resolution Corporation Limited (in Special Liquidation) (“IBRC”) (in accordance with section 17(4) of the Irish Bank Resolution Corporation Act, 2013 and Statutory Instrument No. 57/2013). Such transactions entered into with NAMA and IBRC are offset by matching transactions with market counterparties. As a result there is no net effect on the account.

Receipts and payments in respect of derivative transactions undertaken in respect of IBRC and NAMA in the period are outlined below:

	Receipts	Payments	Net 2016	Net 2015
	€000	€000	€000	€000
NAMA Related Derivatives	5,656,573	(5,656,573)	-	-
IBRC Related Derivatives	2,468,774	(2,468,774)	-	-
	8,125,347	(8,125,347)	-	-

6. Fees and Expenses

	2016	2015
	€000	€000
EU/IMF Programme Funding	22,844	30,761
Government Bonds and Other Expenses	6,087	16,974
Savings Certificates	8,777	8,772
National Solidarity Bonds	5,861	4,919
Prize Bonds	11,543	10,726
Savings Bonds	5,980	8,782
Instalment Savings	723	706
Fee Receipts	(2)	(2)
	61,813	81,638
Agency Operating Expenses *	42,307	46,459
Total Fees & Expenses	104,120	128,097

NATIONAL DEBT OF IRELAND

Notes To The Financial Statements – Continued

6. Fees and expenses (continued)

*Agency operating Expenses

Expenses incurred by the Agency in the performance of its functions are charged on and paid out of the Exchequer Account or the growing produce thereof. Further details can be found in the financial statements of the NTMA Administration Account (Central Fund note).

7. Irish Government Bonds

	2016	2015
	€m	€m
Fixed Rate Bonds	101,418	101,500
Floating Rate Bonds	19,534	22,534
Amortising Bonds	693	1,052
	<u>121,645</u>	<u>125,086</u>

Floating Rate Bonds – Settlement of IBRC Promissory Notes:

Following the liquidation of Irish Bank Resolution Corporation (“IBRC”) on 7 February 2013, and the agreement between the Irish Government and the Central Bank of Ireland (“CBI”) to replace the promissory notes provided to State-owned IBRC with long-term Government Bonds, the promissory notes were cancelled and replaced with eight new Floating Rate Treasury Bonds. A total amount of €25.03 billion was issued on 8 February 2013 to the CBI with maturities ranging from 25 to 40 years.

During 2016, the Agency bought and cancelled €3 billion (2015 €2 billion) of the Floating Rate Bonds. The bonds were purchased from the CBI, reducing the total nominal outstanding of the Floating Rate Bonds to €19.53 billion (2015 €22.53 billion). The CBI intends to sell these securities in accordance with the following schedule at a minimum: 2017-2018 €0.5 billion per annum, 2019-2023 (€1 billion per annum), and 2024 on (€2 billion per annum) until all bonds are sold.

On both the 16 February 2017, and 3 May 2017, the Agency bought and cancelled €500 million of Floating Rate Treasury Bonds.

NATIONAL DEBT OF IRELAND

Notes To The Financial Statements – Continued

8. EU/IMF Programme Funding

Ireland's EU/IMF programme provided for €67.5 billion in external support from the International Monetary Fund ("IMF"), the European Financial Stabilisation Mechanism ("EFSM") and the European Financial Stability Facility ("EFSF") and other bilateral loans. The final programme disbursement of €0.80 billion from the EFSM took place in March 2014.

Following the agreement of EU member states and bilateral lenders in December 2014, the Agency completed early repayments between December 2014 and March 2015, totalling just over €18 billion (including payments of over €9 billion in 2015). These repayments were made with the agreement of the IMF and no penalties or charges were incurred. As a result all scheduled IMF principal repayment obligations that were originally planned to fall due from July 2015 to January 2021 were discharged.

The liabilities outstanding under the EU/IMF Programme at end 2016, taking into account the effect of currency hedging transactions, are as follows:

Lender	2016	Weighted Average Term	2015	Weighted Average Term
	€ Million	Years	€ Million	Years
International Monetary Fund	4,354	5.0 Years	4,348	6.0 Years
European Financial Stability Facility	18,411	16.1 Years	17,881	17.1 Years
European Financial Stabilisation Mechanism	22,500	10.1 Years	22,500	11.1 Years
United Kingdom Treasury	4,033	3.2 Years	4,018	4.2 Years
Kingdom of Denmark	400	3.6 Years	400	4.6 Years
Kingdom of Sweden	600	3.6 Years	600	4.6 Years
Total	50,298		49,747	

The maturity extensions to loans from the EFSF agreed in June 2013 are reflected above. While maturity extensions to loans from the EFSM were also agreed in 2013, the revised maturity dates will be determined as they approach their original maturity dates. During 2015 one EFSM loan reached its original maturity date and that maturity date was extended. Accordingly the maturity of the EFSM loans disclosed reflects only the maturity extensions agreed to date. It is not however expected that Ireland will have to refinance any of its EFSM loans before 2027.

The change in the liability outstanding to the EFSF between end-2015 and end-2016 reflects the payment of the €530 million pre-paid margin deducted from the initial drawdown in 2011. In July 2016 a total payment of €555 million was received from the EFSF representing the €530 million pre-paid margin, €70 million accumulated investment return less €45 million due to the Member State Guarantors. The investment return of €70 million is reflected in Interest Received and Other Income and the €45 million as part of Interest Paid in the Debt Service Statement.

NATIONAL DEBT OF IRELAND

Notes To The Financial Statements – Continued

9. Other Medium / Long Term debt

	2016	2015
	€m	€m
European Investment Bank	950	520
Private Placements	602	602
Medium/Long Term Notes	100	-
Council of Europe Development Bank	41	41
Other Medium/Long Term Loans	5	5
	<u>1,698</u>	<u>1,168</u>

10. Short Term Paper

The Agency issues short-term paper of maturities of up to one year to raise short-term funds. The proceeds are used to fund the Exchequer deficit and as bridging finance in the replacement of longer term debt, and for other liquidity management purposes. Borrowings may be in a range of currencies, but all non-euro borrowings are immediately swapped into euro using foreign exchange contracts.

	2016	2015
	€m	€m
Exchequer Notes	1,858	1,197
Central Treasury Notes	167	131
European Commercial Paper Programme	342	1,019
Irish Treasury Bills	1,008	-
	<u>3,375</u>	<u>2,347</u>

11. Borrowings from Ministerial Funds

These funds are short term borrowings of the Exchequer drawn down as a “ways and means” of funding Exchequer requirements from a number of funds under the control of the Minister for Finance.

	2016	2015
	€m	€m
Post Office Savings Bank Fund	1,732	1,114
Deposit Monies Investment Account (note 19)	787	465
	<u>2,519</u>	<u>1,579</u>

NATIONAL DEBT OF IRELAND

Notes To The Financial Statements – Continued

12. State Savings Schemes	2016	2015
	€m	€m
Savings Certificates	5,908	5,915
Savings Bonds	3,747	4,366
National Solidarity Bonds	4,149	3,445
Prize Bonds	2,892	2,481
Instalment Savings	496	483
Savings Stamps	2	2
	<u>17,194</u>	<u>16,692</u>

Amounts shown in respect of Savings Certificates, Instalment Savings, Savings Bonds, Solidarity Bonds and Prize Bonds are net of €5.7 million (2015: €0.3 million) cash balances held by An Post, Permanent TSB and the Prize Bond Company. An Post and the Prize Bond Company act as registrars for the respective schemes.

As these financial statements are prepared on a cash basis, the liabilities do not include the sum of €451 million (2015: €504 million), being the estimate of the amount of accrued interest at 31 December 2016 in respect of Savings Bonds, Savings Certificates, National Solidarity Bonds and Instalment Savings.

13. Cash and Other Financial Assets	2016	2015
	€000	€000
Cash Balances		
Exchequer Account	8,384,687	7,963,751
Capital Services Redemption Account (note 5 (i))	499	489
Cash Deposits		
Deposits with Commercial Banks	199,190	853,184
Collateralised Deposits	-	925,000
Collateral Funding (note 15 (ii))	417,170	202,930
Other Financial Assets		
Treasury Bills	-	1,184,323
SBCI Medium Term Guaranteed Notes	85,000	-
Housing Finance Agency Guaranteed Notes	2,032,075	2,424,316
	<u>11,118,621</u>	<u>13,553,993</u>

NATIONAL DEBT OF IRELAND

Notes To The Financial Statements – Continued

13. Cash and Other Financial Assets (continued)

Cash Deposits and Financial Assets

The Agency places short-term investments in Deposits, Collateralised Deposits and Treasury Bills for maturities of up to one year for the purpose of liquidity management.

Cash is placed as collateral with these counterparties arising from the requirements under Credit Support Annexes, in respect of certain derivative transactions. These balances, and access to the related cash collateral, change on a daily basis and are dependent on the market value of these derivatives (See Note 15).

The Housing Finance Agency and SBCI Medium Term Guaranteed Notes may not be readily realisable dependent on market conditions.

Foreign Currency Clearing accounts

The Agency maintains a number of foreign currency clearing accounts for the purpose of managing transactions in these currencies. The balance held in these accounts at 31 December 2016 was nil (2015: Nil). The Agency held no other foreign currency cash balances, with the exception of one deposit of US \$0.2 million (2015: US\$0.2 million) held at the Central Bank of Ireland as a requirement of the EU/IMF Funding Programme.

The movement in the Foreign Currency accounts are further outlined below:

	Receipts €000	Payments €000	Net 2016 €000	Net 2015 €000
Balance at 1 January 2016			NIL	NIL
Debt Service				
MLT Loans Interest	164,769	(164,016)	753	(110,133)
Short Term Debt Interest	-	(16,955)	(16,955)	(10,614)
Other Movements	14,145,652	(13,851,184)	294,468	1,973,210
Fees and Expenses	-	(7,424)	(7,424)	(8,283)
Expenses of the Agency	-	(5)	(5)	(1,496)
Borrowing Activity				
EU/IMF Programme	1,034,343	(815,638)	218,705	(683,754)
Short Term Debt	5,441,079	(5,930,621)	(489,542)	(1,158,930)
Balance at 31 December 2016	20,785,843	(20,785,843)	NIL	NIL

NATIONAL DEBT OF IRELAND

Notes To The Financial Statements – Continued

14. Risk Management

(i) Risk Management Framework

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 National Debt activities are liquidity, market, counterparty credit and operational risk. The Agency has a range of policies and procedures to measure and control the risks involved.

The Agency has approved the NTMA Risk Management Framework to ensure that the Agency manages its risk profile within its agreed risk appetite; that material risks are adequately identified and monitored; and that suitable and effective risk management arrangements are in place, alongside clearly defined and delineated roles and responsibilities. A related suite of risk management policies establishes and maintains limits consistent with the Agency's risk appetite and commensurate with its strategic goals.

The Agency's Risk Management Framework is predicated on the three-lines-of-defence model and its organisational structure and risk governance structure are aligned in order to establish clear ownership and accountabilities for risk management. As the first line of defence, the Agency's Business Units and Corporate Functions are primarily responsible for managing risks on a day-to-day basis, taking into account the NTMA's risk tolerance and appetite, and in line with its policies, procedures, controls and limits. The second line, which includes the Agency's Risk Management, Compliance and other control functions, is independent of first line management and operations, and its role is to challenge decisions that affect the organisation's exposure to risk and to provide comprehensive and understandable information on risks. The Agency Internal Audit Function, which is part of the third line of defence, provides independent, reasonable, risk based assurance to key stakeholders on the robustness of the NTMA's risk management system, governance and the design and operating effectiveness of the internal control environment.

A number of NTMA Committees and Risk sub-committees support the Agency in discharging its responsibilities in relation to risk management.

Agency Risk Committee (ARC)

The ARC assists the Agency in the oversight of the risk management framework, including setting risk appetite, monitoring adherence to risk governance and ensuring risks are identified, assessed, managed and reported. In addition it oversees the risk management function. It sets standards for the accurate and timely reporting of critical risks and reviews reports on any breaches of risk limits and the adequacy of any proposed action.

Agency Audit Committee

The Audit Committee assists the Agency in the oversight of the quality and integrity of the Agency's financial statements and reviews and monitors the effectiveness of the systems of internal control, the internal audit process and the compliance function, and reviews and considers the outputs from the statutory auditor.

The ARC and Agency Audit Committee merged on 1 February 2017.

Enterprise Risk Management Committee (ERMC)

The ERMC is a management committee which oversees the implementation of the NTMA's overall risk appetite and senior management's establishment of appropriate systems (including policies, procedures and risk limits) to ensure enterprise risks are effectively identified, measured, monitored, controlled and reported, and ensuring that any portfolio concentrations are identified and managed appropriately.

Counterparty Credit Risk Committee (CCRC)

The CCRC oversees and advises the ERMC on counterparty credit risk exposures. It provides dashboard reporting of relevant counterparty credit risk exposures and details to the ERMC. It formulates implements and monitors compliance with the NTMA Counterparty Credit Risk Management Policy and ensures that appropriate actions are taken in respect of any breaches.

NATIONAL DEBT OF IRELAND

Notes To The Financial Statements – Continued

(i) Risk Management Framework (continued)

Market and Liquidity Risk Committee (MLRC)

The MLRC oversees and advises the ERM on market and liquidity risk exposures. It provides dashboard reporting of relevant market risk and liquidity risk exposures and details to the ERM. It formulates implements and monitors compliance with the NTMA Market and Liquidity Risk Management Policies and ensures that appropriate actions are taken in respect of any breaches.

Operational Risk and Control Committee (ORCC)

The ORCC reviews and recommends to the ERM for approval the operational risk management framework and associated operational risk policies. The ORCC monitors, reviews and challenges the NTMA's operational risks and reports on operational risk management to the ERM.

Products and Processes Committee (PPC)

The PPC reviews, challenges and recommends to the ERM for approval proposals and risk assessments in respect of new products and processes, or material changes to existing products and processes.

A key objective of the Agency is to ensure that the Exchequer has sufficient cash to meet all obligations as they fall due. Ensuring that the Exchequer has sufficient liquidity is one of the Agency's most critical tasks. Liquidity risks related to 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 liquidity risk primarily by maintaining appropriate cash buffers, by limiting the amount of liabilities maturing in any particular period of time and by matching the timing and volume of market funding with the projected requirements. This is reinforced by the Agency's activities in maintaining a well informed and diversified international investor base, with a presence in all major capital markets and a broad range of debt instruments which can be issued.

Market risk is the risk of loss or increased costs resulting from changes in the value of assets and liabilities (including off-balance sheet assets and liabilities) due to fluctuations in risk factors such as interest rates, foreign exchange rates or other market prices. The Agency must have regard both to the short term and long term implications of its transactions given its task of managing not only the immediate fiscal debt service costs but also the present value of all future payments of principal and interest. The exposure to interest rate and currency risk is controlled by managing the interest rate and currency composition of the portfolio in accordance with the Agency's risk appetite. Specific limits are in place to control market risk; exposures against these limits are reported regularly to senior management. As conditions in financial markets change, the appropriate interest rate and currency profile of the portfolio is reassessed in line with periodic limit reviews. The Agency seeks to achieve the best trade-off between cost and risk over time and has in place a hedging programme to manage interest rate and exchange rate risks and to protect the Exchequer from potential volatility in future years. More information on the use of derivatives is set out in Derivatives (note 15).

Counterparty credit risk is the risk of financial loss arising from a financial market transaction as a result of a counterparty failing to fulfil its financial obligations under that transaction and with regard to the National Debt mainly arises from derivatives, deposits and foreign exchange transactions. The level of counterparty credit risk is managed in accordance with the Agency's risk appetite 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 economic and political events. In order to mitigate the Exchequer's exposure to market counterparties while at the same time ensuring that Ireland has efficient market access for its hedging activities, the Agency may enter into credit support arrangements with the market participants with which it wishes to trade – this involves the receipt and posting of collateral to offset the market value of exposures. More information on the use of credit support arrangements is set out in Derivatives (note 15).

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.

NATIONAL DEBT OF IRELAND

Notes To The Financial Statements – Continued

14. Risk Management (continued)

(ii) National Debt – Currency Composition

The Agency hedges the foreign currency risk of the National Debt through the use of forward foreign exchange contracts and currency swaps. The currency composition of the National Debt, and related currency hedges, are as follows:

Currency	As at 31 December	
	2016 €m	2015 €m
Debt Instruments		
Euro	178,340	175,446
US Dollar	2,448	2,579
Pound Sterling	4,148	5,420
Australian Dollar	-	132
Japanese Yen	364	348
Chinese Yuan	524	-
	185,824	183,925
Foreign Currency and Swap Contract		
Euro	7,270	7,627
US Dollar	(2,450)	(2,581)
Pound Sterling	(4,148)	(5,424)
Australian Dollar	-	(134)
Japanese Yen	(364)	(348)
Chinese Yuan	(522)	-
	(214)	(860)
National Debt	185,610	183,065

NATIONAL DEBT OF IRELAND

Notes To The Financial Statements – Continued

14. Risk Management (continued)

(iii) National Debt – Maturity Profile

The residual maturity profile at year-end of the Medium/Long Term Debt, taking into account the treasury management transactions entered into by the Agency, is as follows:

2016 €m	Due within	Due within	Due within	Due over	Total
	1 Year	1-5 Years	5-10 Years	10 Years	
Irish Government Bonds	6,306	42,764	37,611	34,964	121,645
EU/IMF & Funding Programme	21	14,528	6,538	29,211	50,298
Other Medium & Long Term Debt	5	4	331	1,358	1,698
Short Term Debt ¹	4,629	1,265	-	-	5,894
State Savings ²	6,654	7,752	2,786	2	17,194
Cash & Other Financial Assets	(9,195)	(1,849)	(75)	-	(11,119)
National Debt	8,420	64,464	47,191	65,535	185,610
2015 €m	Due within	Due within	Due within	Due over	Total
	1 Year	1-5 Years	5-10 Years	10 Years	
Irish Government Bonds	8,155	50,159	30,450	36,322	125,086
EU/IMF & Funding Programme	(652)	7,950	11,238	31,211	49,747
Other Medium & Long Term Debt	5	1	331	831	1,168
Short Term Debt ¹	3,161	765	-	-	3,926
State Savings ²	6,447	7,903	2,341	1	16,692
Cash & Other Financial Assets	(11,286)	(2,016)	(252)	-	(13,554)
National Debt	5,830	64,762	44,108	68,365	183,065

¹ Short Term Debt has been adjusted to reflect the expected longer maturity of a portion of the Ways and Means monies repayable to the POSBF. Prior year figures have been restated similarly.

² State Savings maturities are based on actual maturity information provided by An Post for end 2016. Prior year figures have been restated similarly.

NATIONAL DEBT OF IRELAND

Notes To The Financial Statements – Continued

15. Derivatives

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 and present value, of the instruments related to the National Debt outstanding at year end. The present value of each instrument is determined by using an appropriate rate of interest to discount all its future cashflows to their present value.

	31 December 2016 Present Value	31 December 2015 Present Value
Nominal	Nominal	Nominal
€m	€m	€ million
Interest Rate Swaps	16,119	(805)
Exchange Contracts	7,885	171
	24,004	(634)
		18,620
		8,631
		27,251
		(1,067)
		812
		(255)

The Agency provides treasury services to the National Asset Management Agency ("NAMA") under section 52 and 235 of the National Asset Management Agency Act, 2009. Accordingly it may enter into derivative transactions with NAMA. Any such transactions are offset by matching transactions with market counterparties. As a result there is no net effect on the National Debt accounts. The nominal value of interest rate swaps transacted with NAMA outstanding at end 2016 was €0.02 billion (2015: €4.7 billion); the nominal value of currency swaps and foreign exchange rate contracts transacted with NAMA outstanding at end 2016 was €0.6 billion (2015: €2.0 billion).

The Agency also provides treasury services to IBRC (in liquidation) and accordingly may enter into derivative transactions with IBRC. Any such transactions are offset by matching transactions with market counterparties. As a result there is no net effect on the National Debt accounts. The nominal value of foreign exchange rate contracts transacted with IBRC outstanding at end 2016 was €0.32 billion (2015: €0.3 billion).

In order to mitigate the risks arising from derivative transactions, the Agency enters into credit support arrangements with its market counterparties. Derivative contracts are drawn up in accordance with Master Agreements of the International Swaps and Derivatives Association ("ISDA"). A Credit Support Annex ("CSA") is a legal document which may be attached to an ISDA Master Agreement to regulate credit support (in this case, cash collateral) for derivative transactions and it defines the circumstances under which counterparties are required to post collateral. Under the CSAs, the posting of cash constitutes an outright transfer of ownership. However, the transfer is subject to an obligation to return equivalent collateral in line with changes in market values or under certain circumstances such as a Termination Event or an Event of Default. The provider of collateral is entitled to deposit interest on cash balances posted.

The Agency established a Credit Support Account in the Central Bank of Ireland in 2010 to facilitate these transactions. Derivative contracts are valued daily. When collateral is required from a counterparty it is paid into the Credit Support Account. When the Agency is required to post collateral with a counterparty, it uses the funds in the Credit Support Account to fund the collateral payment. If there are insufficient funds in the Credit Support Account, the account is funded from the Exchequer.

NATIONAL DEBT OF IRELAND

Notes To The Financial Statements – Continued

15. Derivatives (continued)		
(ii) Credit Support Account	2016	2015
	€m	€m
Balance at 1 January	-	-
Cash Collateral received from counterparties	2,249	4,794
Cash Collateral paid to counterparties	(2,463)	(4,485)
	(214)	309
Net Exchequer Funding during the year	214	(309)
	NIL	NIL
Balance at 31 December	NIL	NIL
Note:	2016	2015
	€m	€m
Exchequer Funding at 31 December	417	203
Net Collateral Post to Counterparties at 31 December (note 13)	(417)	(203)

The Agency has entered into a Collateral Posting Agreement with NAMA. At end 2016, NAMA had posted collateral of €0.058 billion (2015: €0.26 billion) to the Agency as part of this agreement.

The Agency has also entered into a Collateral Posting Agreement with IBRC. At end 2016, IBRC had posted collateral of €0.046 billion (2015: €0.036 billion) to the Agency as part of this agreement.

16. National Loans Advance Interest Account

The Agency can cancel or issue amounts of existing Irish Government Bonds. These transactions are effected by means of sales or purchases undertaken by the Post Office Savings Bank Fund ("POSBF"). The POSBF then settles with the Exchequer. The settlement amount for each bond transaction includes the accrued interest at that point in the coupon period. The interest paid is deposited in the National Loans Advance Interest Account until the full interest is due on the coupon date. On the coupon date, the interest is then used to offset the related servicing costs of the Exchequer.

A full interest coupon is payable to the registered owner where a bond is held on an ex-dividend date. The purpose of this account is for the POSBF to compensate the Exchequer for the unearned element of the interest arising on tranching bonds cum-dividend or on cancelling bonds ex-dividend.

NATIONAL DEBT OF IRELAND

Notes To The Financial Statements – Continued

16. National Loans Advance Interest Account (continued)

	2016	2015
Account of Receipts and Payments	€000	€000
Balance at 1 January	24,124	48,810
Accrued Interest Received on National Loans – Tranches and Auctions	35,606	30,369
Accrued Interest Paid on National Loans	(30,641)	(55,055)
Balance at 31 December – Cash with Central Bank of Ireland	<u>29,089</u>	<u>24,124</u>

17. National Loans (Winding Up) Account

When a National Loan, Stock or Government Bond is due for redemption, the full amount outstanding is payable to the holder. Amounts not claimed by the holder at the redemption date are transferred into this account by a payment from the Exchequer. Any future claims which are made in relation to these matured loans are therefore met from this account. This account also includes balances which were held by the Central Bank and the Department of Finance as Paying Agents in respect of uncashed redemption payments, and which were transferred to the Agency.

	2016	2015
Account of Receipts and Payments	€000	€000
Balance at 1 January	3,121	3,075
Receipts from Exchequer	115	707
Receipts from Central Bank Account	63	63
Payments to Central Bank Account	(63)	(69)
Payments for Redemption of National Loans	(65)	(655)
Balance at 31 December - Cash with Central Bank of Ireland	<u>3,171</u>	<u>3,121</u>

NATIONAL DEBT OF IRELAND

Notes To The Financial Statements – Continued

18. National Treasury Management Agency (Unclaimed Dividends) Account

When interest is due on a bond liability, the full amount due is paid by the Agency to the Paying Agent who then issues it to the registered holder. The balance in the unclaimed dividends account represents unclaimed interest on matured loans, which has been returned to the Agency by the Paying Agent and has yet to be claimed by the registered holders. The Paying Agent maintains a cash float, on behalf of the Agency, which it uses to service claims as they arise during the year.

Account of Receipts and Payments	2016	2015
	€000	€000
Balance at 1 January	2,519	2,549
Receipts/(Payments) of Unclaimed Interest	67	(30)
Balance at 31 December - Cash with Central Bank of Ireland	<u>2,586</u>	<u>2,519</u>

19. Deposit Monies Investment Account

This account records the borrowings and repayments of surplus funds held in the Supply Account of the Paymaster General.

Account of Receipts and Payments	2016	2015
	€000	€000
Balance at 1 January	465,119	67,225
Ways and Means Advances Paid to Exchequer	4,994,364	6,226,322
Ways and Means Advances Repaid by the Exchequer	(4,672,671)	(5,828,428)
Balance at 31 December – Ways and Means Advances to the Exchequer (note 11)	<u>786,812</u>	<u>465,119</u>

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

No stock was accepted in payment of inheritance tax and death duties during 2015 (2014: nil).

21. Events after the end of reporting period

Note 7 details 2017 floating rate bond transactions. No other events requiring adjusting or disclosure in the financial statements occurred after the end of the reporting period.

22. Approval of Financial Statements

The financial statements were approved by the Agency on 8 May 2017.