

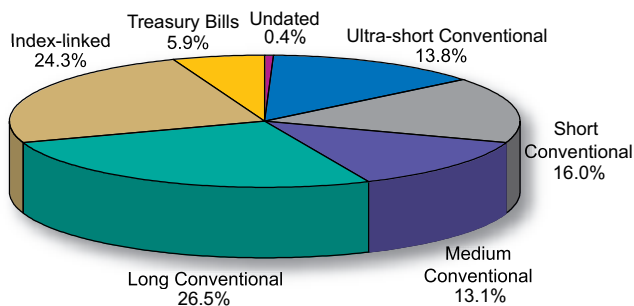


Quarterly REVIEW

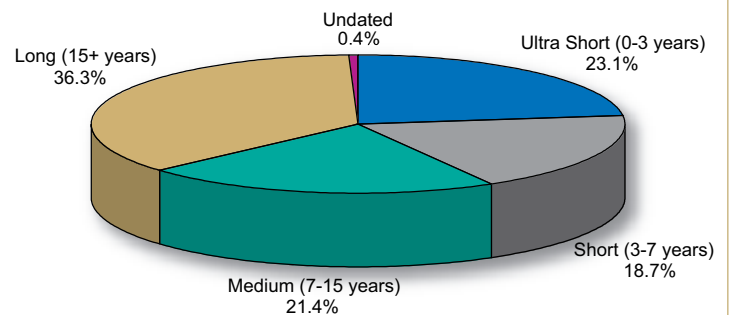
Details of the debt portfolio at 31 December 2008

Gilt portfolio summary statistics	30 September 2008	31 December 2008
Nominal value of the gilt portfolio (including inflation uplift)	£536.12 bn	£636.55bn
<ul style="list-style-type: none"> Conventional gilts (inc undated gilts) Index-linked gilts 	£379.14 bn £156.98 bn	£472.26bn £164.29bn
Market value of the gilt portfolio	£576.41 bn	£719.32bn
<ul style="list-style-type: none"> Conventional gilts (inc undated gilts) Index-linked gilts 	£397.30 bn £179.11 bn	£537.02bn £182.30bn
Weighted average market yields:		
<ul style="list-style-type: none"> Conventional gilts (inc undated gilts) Index-linked gilts 	4.36% 1.17%	2.91% 1.47%
Portfolio average maturity:	14.54 years	14.46 years
<ul style="list-style-type: none"> Conventional gilts (exc undated gilts) Index-linked gilts 	14.30 years 15.05 years	14.14 years 15.39 years
Average modified duration:		
<ul style="list-style-type: none"> Conventional gilts (inc undated gilts) Index-linked gilts 	8.68 years 12.62 years	8.82 years 13.61 years

Composition of debt portfolio (uplifted nominal value)*



Debt portfolio maturity split*

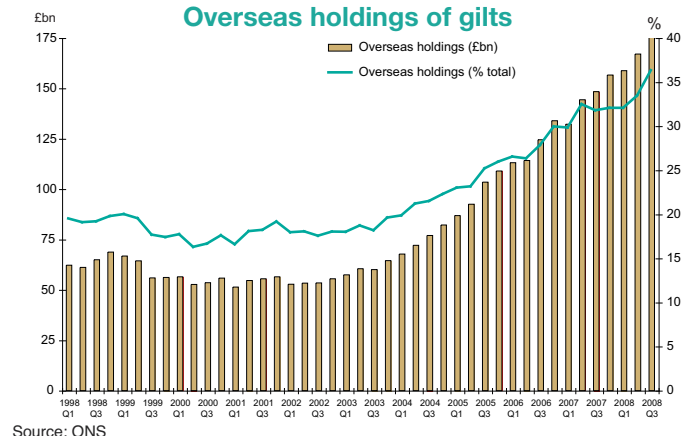


Distribution of gilt holdings at September 2008

(£millions)	at end	Q2 2008	Q3 2008
Insurance Companies and Pension Funds		229,859	233,468
Overseas		167,042	192,740
Other Financial Institutions and Other		105,408	101,151
Building Societies		4,068	5,005
Local Authorities and Public Corporations		1,028	1,003
Banks**		-6,938	-1,812
TOTAL		500,467	531,555

Source: ONS. These figures can be revised retrospectively.

Overseas holdings of gilts



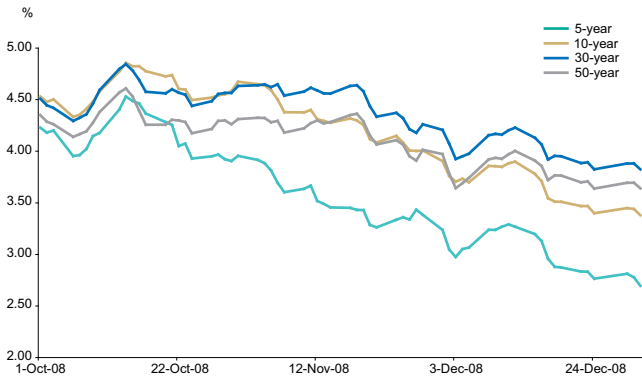
Source: ONS

* Figures in the pie charts may not sum due to rounding.

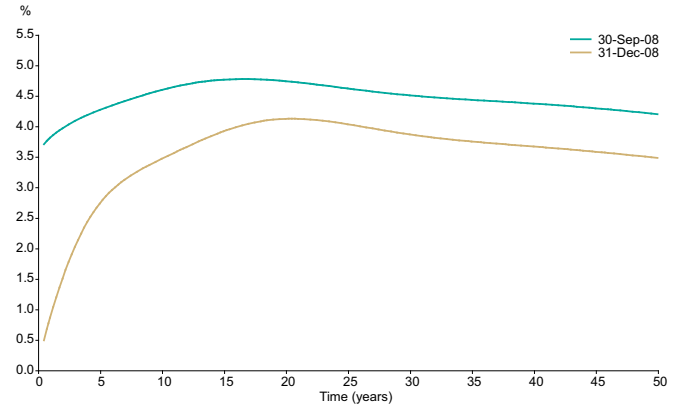
** Repo position.

Conventional gilts

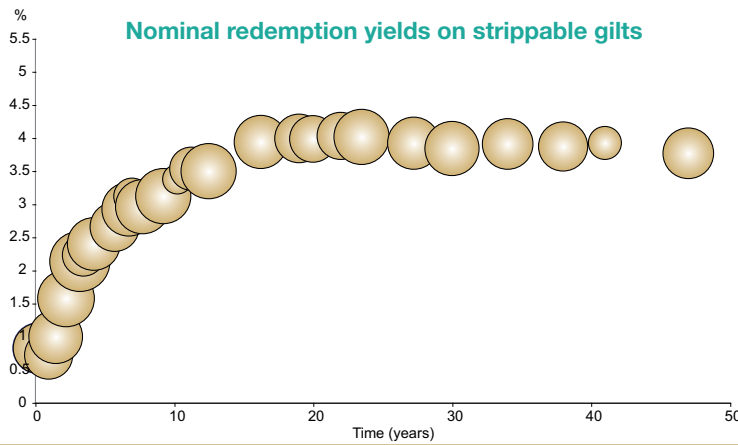
UK 5-year, 10-year, 30-year and 50-year gilt par yields



UK zero-coupon yield curves

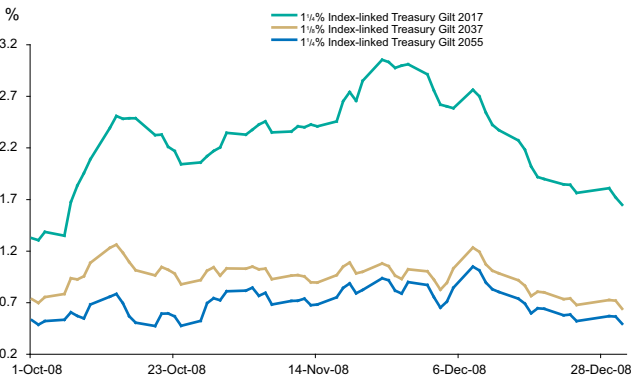


Nominal redemption yields on strippable gilts

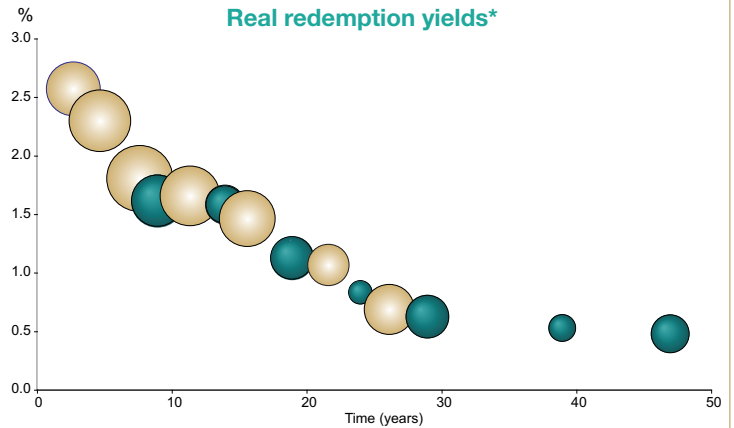


Index-linked gilts

Real yield on 10-year, 30-year and 50-year index-linked gilts

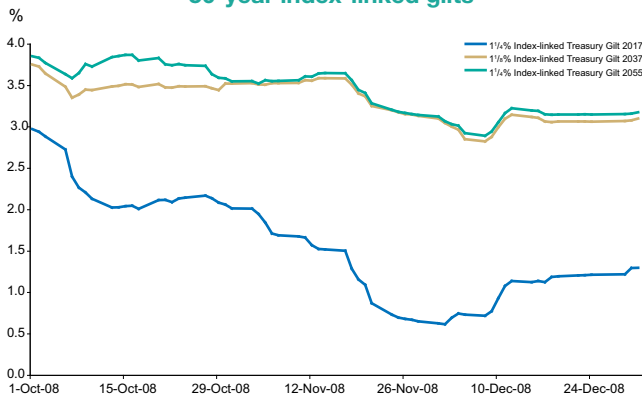


Real redemption yields*



* The bubble size for each bond denotes its uplifted nominal amount. Green denotes 3-month IL gilts.

Break-even inflation rates on 10-year, 30-year and 50-year index-linked gilts



Projected redemption values of index-linked gilts based on average inflation of 2 1/2% and 3% per annum.

£ (per £100 nominal)	at 2.50%	at 3.00%
2 1/2% Index-linked Treasury Stock 2011	305.03	308.14
2 1/2% Index-linked Treasury Stock 2013	267.84	273.21
2 1/2% Index-linked Treasury Stock 2016	314.57	325.47
1 1/4% Index-linked Treasury Gilt 2017	138.60	144.67
2 1/2% Index-linked Treasury Stock 2020	339.50	357.73
1 7/8% Index-linked Treasury Gilt 2022	147.72	157.99
2 1/2% Index-linked Treasury Stock 2024	320.30	344.56
1 1/4% Index-linked Treasury Gilt 2027	177.13	194.11
4 1/8% Index-linked Treasury Stock 2030	268.53	297.43
1 1/4% Index-linked Treasury Stock 2032	179.14	201.16
2% Index-linked Treasury Stock 2035	233.54	264.40
1 1/8% Index-linked Treasury Gilt 2037	217.62	250.38
0% Index-linked Treasury Gilt 2047	271.20	327.60
1 1/4% Index-linked Treasury Gilt 2055	357.24	448.68

Data extracted from www.dmo.gov.uk report D9C on: 2/01/09

Gilt market flows (£mn)

	Gross gilt issuance (cash)	Redemptions	Coupons*	Net financing from gilts after redemptions and coupons
Oct-07	4,471	0	-221	4,250
Nov-07	7,525	0	-444	7,081
Dec-07	3,591	-10,860	-4,426	-11,695
Jan-08	4,321	0	-963	3,268
Feb-08	5,540	0	-753	4,787
Mar-08	5,692	-14,063	-3,857	-12,228
Apr-08	8,027	0	-225	7,802
May-08	3,549	0	-522	3,027
Jun-08	7,522	0	-4,639	2,883
Jul-08	10,596	0	-1,007	9,589
Aug-08	3,371	0	-780	2,591
Sep-08	8,797	-692	-3,930	4,175
Oct-08	20,985	-379	-234	20,332
Nov-08	19,165	0	-584	18,581
Dec-08	11,093	0	-4,841	6,252
Jan-09	N/A	0	1,060	16,879
Feb-09	N/A	0	839	-
Mar-09	N/A	17,229	5,216	-

Figures may not sum due to rounding

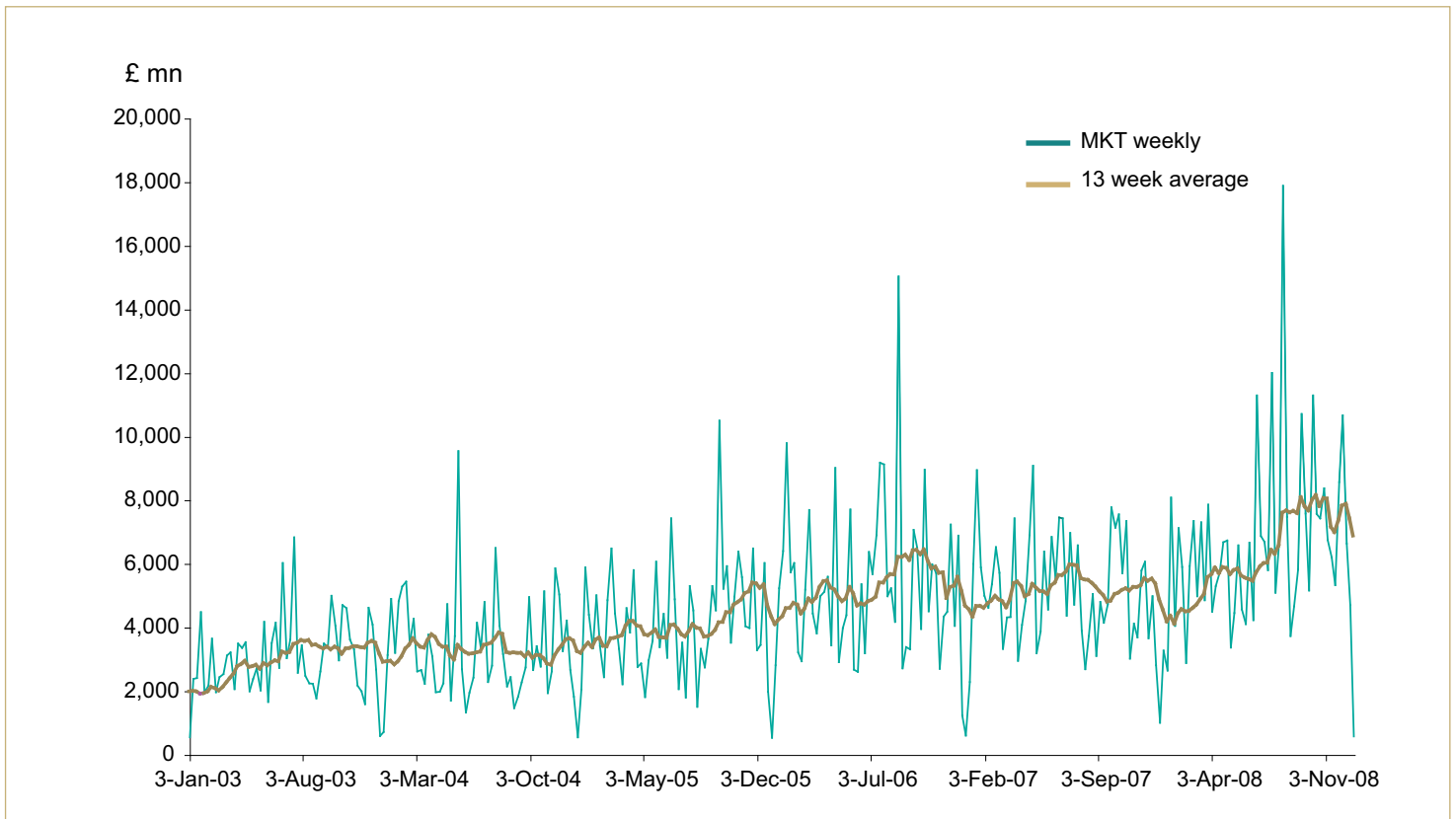
*Coupon flow numbers are for the stock of debt outstanding at end-quarter

2007-08 and 2008-09 financing requirements

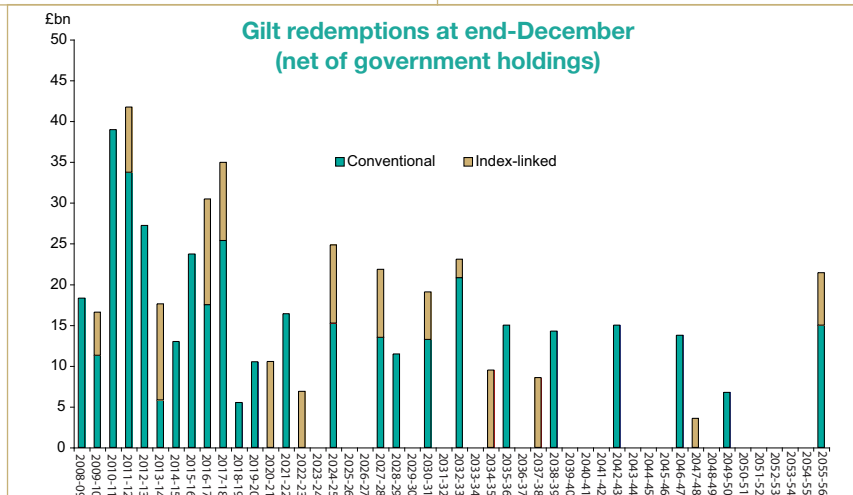
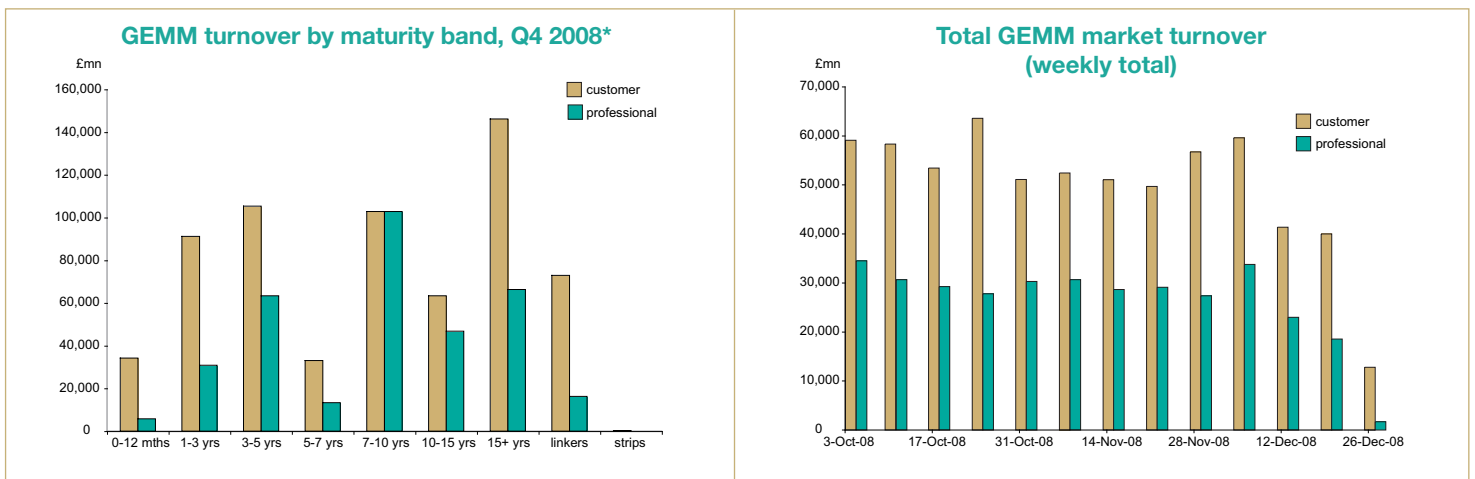
(£ bn)	2007-08 (outturn)	2008-09 (Budget 2008)	2008-09 (April 2008)	2008-09 (PBR 2008)
CGNCR forecast	32.6	59.3	59.3	152.9
Redemptions	29.2	17.3	17.3	18.3
Financing for the Official Reserves	0.0	2.0	2.0	0.0
Debt buy-backs	0.1	0.0	0.0	0.0
Planned short-term financing adjustment	-4.1	4.2	-2.5	-2.5
Gross financing requirement	57.8	82.8	76.1	168.7
Less				
National Savings & Investments' contribution	5.8	4.0	4.0	11.0
Net financing requirement	52.0	78.8	72.1	157.7
Gilt sales planned during the year	58.5	80.0	80.0	146.4
Change in planned Treasury bill stock	2.0	5.8	-0.9	14.5
Change in Ways and Means	-6.0	-7.0	-7.0	-3.2
DMO net cash position at end of financial year	3.0	0.5	0.5	0.5

Figures may not sum due to rounding

Index-linked gilt market turnover 2003-2008

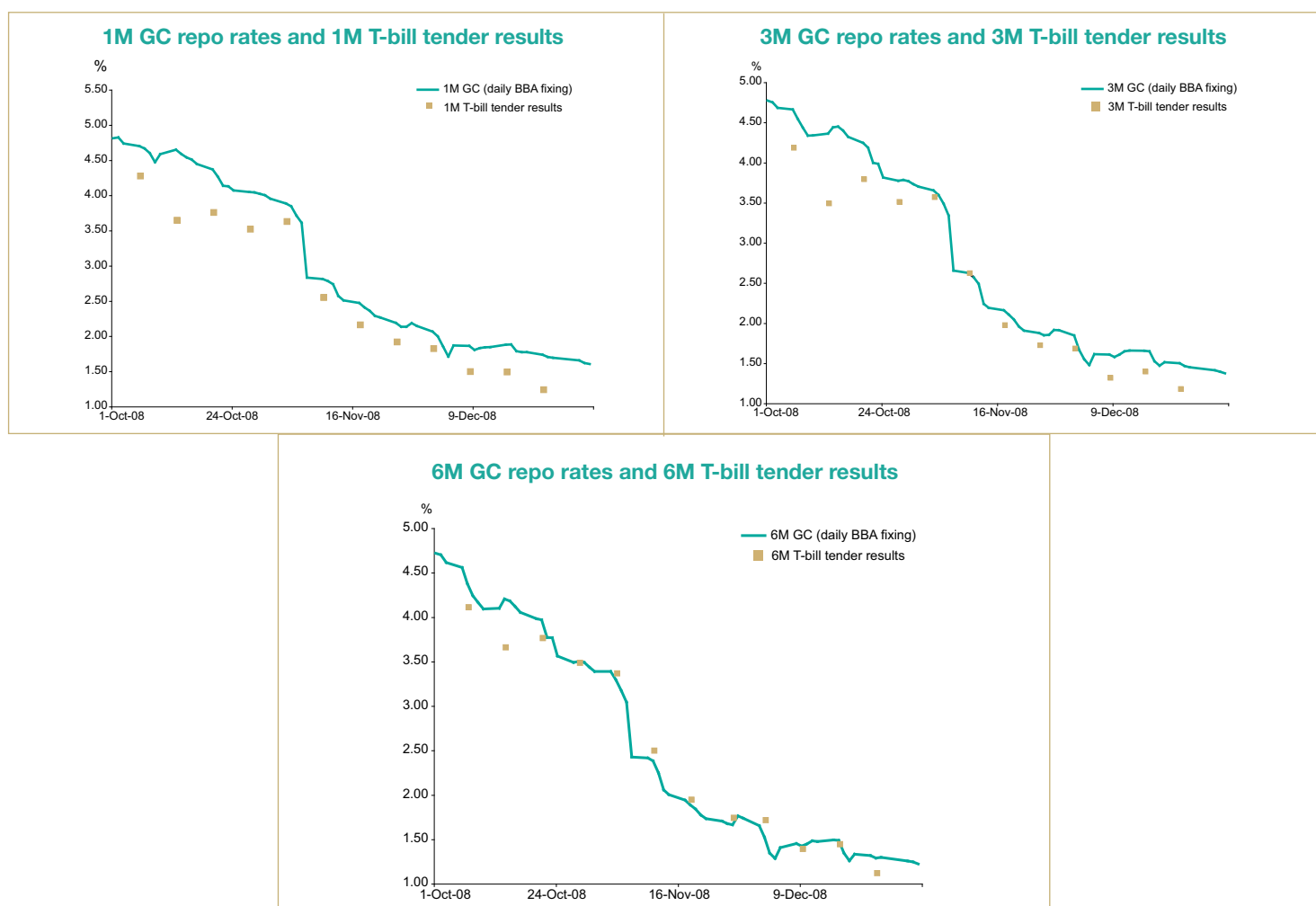


Index-linked gilts



*Professional Turnover is defined as turnover with counterparties who are Broker Dealers (BDLs), other Gilt-edged Market Makers (GEMMs), DMO or Bank of England. Customers are all others (including businesses with related entities).

Money market operations



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DMO Website: Useful Website Links

What's New

http://www.dmo.gov.uk/ceLogon.aspx?page=Press_New&rptcode=D8D

Events calendar

http://www.dmo.gov.uk/ceLogon.aspx?page=Events_Calendar&rptCode=D5J

Gilt market

Gilt prices page

www.dmo.gov.uk/index.aspx?page=Gilts/Daily_Prices

Gilts in issue

http://www.dmo.gov.uk/index.aspx?page=Gilts/Gilts_In_Issue

Summary of results from all DMO gilt operations

http://www.dmo.gov.uk/ceLogon.aspx?page=Summary_of_results&rptCode=D2.1prof7

Cash sales versus the remit (updated after each auction)

http://www.dmo.gov.uk/ceLogon.aspx?page=Current_Remmit&rptCode=D4E

Gilt issuance history

http://www.dmo.gov.uk/index.aspx?page=Gilts/Gilts_In_Issue

Overseas holdings data

http://www.dmo.gov.uk/ceLogon.aspx?page=Gilts/Overseas_Holdings&rptCode=D5N

Index-linked gilts

Published cash flows

http://www.dmo.gov.uk/ceLogon.aspx?page=Nominal_IL&rptCode=D5I

Daily index ratios

<http://www.dmo.gov.uk/ceLogon.aspx?page=D10C&rptcode=D10C>

Money Markets

Treasury bill prices

http://www.dmo.gov.uk/ceLogon.aspx?page=tbills/Daily_Prices_Yields&rptCode=D3A

Summary of T-bill tender results

www.dmo.gov.uk/index.aspx?page=tbills/tbill_tenders

Treasury bill issuance history

http://www.dmo.gov.uk/ceLogon.aspx?page=tbills/Portfolio_Composition&rptcode=D2.2G

Credit Guarantee Scheme (CGS)

<http://www.dmo.gov.uk/index.aspx?page=CGS/CGSIntro>

Key Documents

Historical copies of the Quarterly Review

www.dmo.gov.uk/index.aspx?page=publications/Quarterly_Reviews

Historical copies of the Annual Review

http://www.dmo.gov.uk/index.aspx?page=publications/Annual_Reviews

Operational Notice – Gilt market

www.dmo.gov.uk/documentview.aspx?docname=publications/operationalrules/opnot180507.pdf&page=operational_rules/Document

Operational Notice – Cash market

www.dmo.gov.uk/documentview.aspx?docname=publications/moneymarkets/cmopnot110903.pdf&page=money_markets/publication

Guidebook – GEMMs

www.dmo.gov.uk/documentview.aspx?docname=publications/operationalrules/guidebook180507.pdf&page=operational_rules/Document

Debt & Reserves Management Report 2008-09

www.dmo.gov.uk/documentview.aspx?docname=remit/drmr0809.pdf&page=Remit/full_details

Gilt prospectuses

<http://www.dmo.gov.uk/ceLogon.aspx?page=Prospectuses&rptcode=D8E>

The Official Gilt Strip Facility: A paper by the Bank of England

www.dmo.gov.uk/documentview.aspx?docname=publications/operationalrules/stripfalic.pdf&page=operational_rules/Document

PRE-BUDGET REPORT 2008: REVISION TO THE DMO'S FINANCING REMIT

As a result of the revised forecast of the public finances published today in PBR 2008, planned gilt sales are being increased by £36.4 billion to £146.4 billion (compared to the plans announced on 14 October in connection with the financing of bank recapitalisation). 10 gilt auctions and four mini-tenders are being added, taking the programme of gilt operations for the financial year to 58 auctions and 8 mini-tenders. The calendar of operations for Q4 2008-09 is shown at Annex A.

The development of the gilt financing remit in-year and the additional gilt sales planned at PBR are being split as follows

£ billions	Original Remit	14-Oct	Increase at PBR	New total	Auctions added at PBR
Short conventional	25.0	46.0	16.8	62.8	4*
Medium conventional	12.8	19.8	13.3	33.1	4
Long conventional	24.2	25.2	5.3	30.5	1*
Index-linked	18.0	19.0	1.0	20.0	1
	80.0	110.0	36.4	146.4	10

**in addition one mini tender of short-dated and three mini-tenders of long-dated conventional gilts will be held.*

Changes to the CGNCR since Budget 2008

The revised forecast for the Central Government Net Cash Requirement (CGNCR) for 2008-09 is £152.9 billion, an increase of £93.6 billion compared to the forecast published at Budget 2008. A number of specific factors account for the bulk of this increase:

- £37.0 billion for the Government's bank recapitalisation programme (as announced on 13 October);
- £21.0 billion to refinance the Bank of England's loans to the Financial Services Compensation Scheme (FSCS) for retail depositors in Bradford & Bingley and UK subsidiaries of Icelandic banks eligible for payments from the FSCS and Icelandic Depositors' and Investors' Guarantee Fund (ICS);
- £5.7 billion to refinance the Bank of England's working capital loan to Bradford and Bingley;
- a £5.4 billion payment for retail depositors in Bradford and Bingley and UK subsidiaries of the Icelandic banks covering that part of a deposits above the compensation limits and;
- a downward revision in the forecast of the amount outstanding on the Government's loan to Northern Rock as at 31 March 2009 from £14.0 billion at Budget 2008 to £12.0 billion.

Other factors, in addition to changes in the CGNCR, which have affected the DMO's net financing requirement for 2008-09 since the last restatement of the financing arithmetic are:

- an increase of £1.0 billion (to £18.3 billion) in gilt redemptions (as a result of the mini-tender of 4% Treasury Stock 2009 held on 20 October); and
- an increase of £7.0 billion (to £11.0 billion) in the forecast net contribution to financing by National Savings and Investments (NS&I).
- A change in the financing assumptions for the official reserves of £2.0 billion.

Together the factors above have led to an increase of £85.6 billion (to £157.7 billion) to the DMO's net financing requirement since the financing arithmetic was last re-stated in April 2008.

Gilt sales

Additional planned gilt sales finance £66.4 billion of the increase in the net financing requirement since the April revision of the financing remit. £30.0 billion additional gilt sales were announced on 13 October, in connection with banking sector re-capitalisation, and a further increase of £36.4 billion is being announced today.

Short term debt

Net short term debt is forecast to contribute the remaining £19.2 billion to meet the increased net financing requirement. This is made up of:

- £15.4 billion from Treasury bill sales, which have moved from planned net sales of -£0.9 billion in April to +£14.5 billion at PBR (planned sales of Treasury bills had previously been increased by £7.0 billion on 14 October). The PBR revision results in a current planning assumption for the end-financial year Treasury bill stock (in market hands) of £32.1 billion; and,
- a temporary increase of £3.8 billion in short-term borrowing from the Ways and Means in order to smooth the impact of the financing of part of the Bank of England's loans to the FSCS. The Government had earlier repaid £7.0 billion of the Ways and Means Advance, and as a result of the change announced today, the net repayment of the Ways and Means in 2008-09 is expected to be £3.2 billion.

Introducing a planning assumption about the end-year Treasury bill stock rather than a target means that in practice the DMO has greater flexibility over the extent to which it uses Treasury bill issuance or other cash management instruments to finance the increases in short-term debt.

Mini-tenders of gilts

Mini tenders were introduced as part of the operations scheduled on 14 October to finance the recapitalisation of the banking sector. Three of the four mini-tenders scheduled for Q3 2008-09 have now been held. HM Treasury has agreed that these operations may be incorporated into the 2008-09 financing remit and the following text will be inserted into the debt management remit, between paragraphs 5.10 and 5.11 :

"The above programme of conventional and index-linked gilt auctions and any others that may be added during the year may be supplemented between auctions by official sales of gilts by the DMO by mini-tender. In its quarterly issuance calendar the DMO will specify the week(s) in which any tenders will take place. Advance notice will be given of the specific details of the tenders".

Size of benchmark gilts

In order both to widen issuance choices and to contribute to managing the frequency and timing of the launch of new gilts, the DMO is prepared both to re-open individual gilts to larger sizes than has been the practice to date. In decisions on the maturity of new gilts the DMO will have explicit regard to the impact on the redemption profile.

¹ Available at www.dmo.gov.uk/documentview.aspx?docname=remit/drmr0809.pdf&page=Remit/full_details

The revised financing arithmetic is shown in the table below.

2008-09 Financing arithmetic (£bn)	April 2008 revision	PBR
CGNCR	59.3	152.9
Gilt redemptions	17.3	18.3
Financing for reserves	2.0	0.0
Buy-backs	0.0	0.0
Planned short-term financing adjustment ¹	-2.5	-2.5
Financing requirement	76.1	168.7
Less		
NS&I	4.0	11.0
Net financing requirement	72.1	157.7
Financed by		
1. Debt issuance by the DMO		
a) Treasury bills ²	-0.9	14.5
b) Gilt sales	80.0	146.4
of which:		
Short-dated conventionals	25.0	62.8
Medium-dated conventionals	12.8	33.1
Long-dated conventionals	24.2	30.5
Index-linked gilts	18.0	20.0
2. Other planned change in short term debt		
Ways and Means	-7.0	-3.2
3. Change in short term cash position³	0.0	0.0
Total financing	72.1	157.7
Short-term debt levels at end of financial year		
Assumed Treasury bill stock (in market hands)	16.7	32.1
Ways and Means	0.4	4.2
DMO net cash position	0.5	0.5

1. To accommodate changes to the current year's financing requirement resulting from (i) publication of the previous year's outturn CGNCR and/or (ii) carry over of unanticipated changes to the cash position from the previous year.

2. The stock change shown here is a planning assumption. The DMO may finish the financial year with a higher or lower Treasury bill stock than indicated here, depending primarily on the extent to which the DMO uses other short term cash instruments to raise finance.

3. The zero change for the short-term cash position assumes that the DMO's planning assumption for the end-year Treasury bill stock is met. To the extent that the DMO uses alternative short-term cash instruments to raise finance within year, this will be reflected (as a negative number) in this line of the financing arithmetic table. A negative (positive) number here indicates an increase in (reduction of) the financing requirement for the following financial year.

Illustrative gross financing projections

Updated PBR projections of the CGNCR from 2009-10 to 2012-13 (derived from the published figures expressed as a percentage of GDP beyond 2009-10) are shown in the table below. These have been added to the redemption totals for the years in question to produce illustrative gross financing requirements. These are not gilt sales forecasts and make no assumptions about either the forecast contribution to financing by NS&I or short-term debt sales.

Illustrative financing projections (Pre-Budget Report 2008)				
£bn	2009-10	2010-11	2011-12	2012-13
CGNCR projections	126	108	97	80
Gilt redemptions	17	39	38	24
Financing requirement*	143	147	135	104
CGNCR change since Budget 2008	77	67	57	48
<i>*indicative gross financing requirements.</i>				

Gilt sales and the new remit (at 21 November 2008)

Gilt sales v newremit at 21 November 2008 (£ millions)					
	Conventional Gilts			Index-linked	Total
	Short	Medium	Long	gilts	
Gilt sales to date	31,671	17,591	16,543	11,547	77,352
Total planned sales	63,500	33,200	30,300	20,000	147,000
Total auctions planned	16	11	12	19	58
Sales remaining	31,829	15,609	13,757	8,453	69,648
Auctions remaining	8	5	5	8	26
Mini-tenders remaining	1	0	3	1	5

Annex A: Operations calendar: January-March 2009 (Operation added at PBR in bold)

Date	Type	Date	Type
wc 6 Jan	Conventional mini-tender	wc 16 Feb	Conventional mini-tender
7-Jan	Conventional auction	19-Feb	Conventional auction
13-Jan	Conventional auction	24-Feb	Index-linked auction
15-Jan	Index-linked auction	26-Feb	Conventional auction
wc 19 Jan	Conventional mini-tender	3-Mar	Conventional auction
22-Jan	Conventional auction	4-Mar	Conventional auction
27-Jan	Index-linked auction	10-Mar	Conventional auction
29-Jan	Conventional auction	12-Mar	Index-linked auction
3-Feb	Conventional auction	wc 16 Mar	Conventional mini-tender
4-Feb	Conventional auction	19-Mar	Conventional auction
10-Feb	Conventional auction	25-Mar	Conventional auction
12-Feb	Index-linked auction	26-Mar	Index-linked auction

Operation dates in February and March 2009 are subject to confirmation following the Chancellor's decisions on the Budgetary timetable.

**DMO FINANCING REMIT:
IMPACT OF THE FINANCIAL INTERVENTION PACKAGE:
19 JANUARY 2009**

There is no impact on the gilt financing remit as a consequence of today's announcement of additional financing for the UK banking sector. The gilt sales target of £146.4 billion and the Q4 gilt operations calendar remain unchanged and, in particular, the mini-tender for £1.25 billion (nominal) of 4¼% Treasury Gilt 2027 will proceed as planned this morning.

It is intended that the additional financing announced today to support the asset purchase facility will initially be raised by the DMO through a combination of Treasury bill sales and cash management operations. In the longer term the DMO expects this to be financed by Treasury bill sales. The DMO will continue to work very closely with its market counterparties in the weeks ahead to ensure the effective delivery of this programme.