

2020 +
2016 +
2013 +
2010 +
2007 +
2004 +
2001 +
1998 +
1995 +
1992 +
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1982 +



SHAPING A POSITIVE FUTURE

2020 +
2016 +
2013 +
2010 +
2007 +
2004 +
2001 +
1998 +
1995 +
1992 +
1987 +
1982 +



The HFA
available at
rates,
provide the
by the

has substantial funding
market-leading interest
to enable our customers
social housing needed
communities they serve.

Michelle Norris
Chairman

Financial Highlights

€2.87bn

We refinanced **€2.87 billion** short-term guaranteed notes with longer term notes, thereby extending the maturity from an average of 2.8 months to 3.2 years.

€13.9m

Our operating surplus for the year was **€13.9 million**.

€4m

The operating surplus was achieved in conjunction with a reduction of our average variable rate from 1.95% to 1.85%, which resulted in a saving of over **€4 million** for our customers.

€105.9m

Our retained reserves increased from €93.2m to **€105.9m**.

1.75%

A variable mortgage rate cut 0.25% at the start of January 2014, which was passed on to our customers. The rate charged by local authorities to borrowers is now approximately 1.75% below average mortgage market rates charged.

€1.4m

Our overall expenditure on administration was **€1.4 million**, similar to 2013 and down from €1.5 million in 2011.

OPERATING SURPLUS



RETAINED RESERVES



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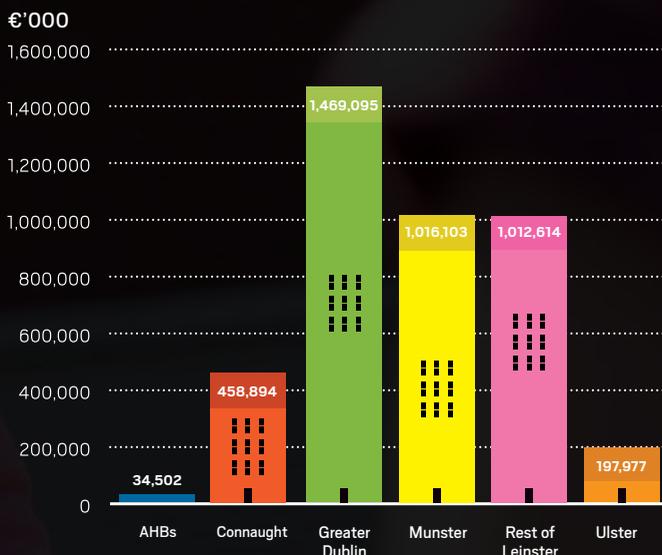
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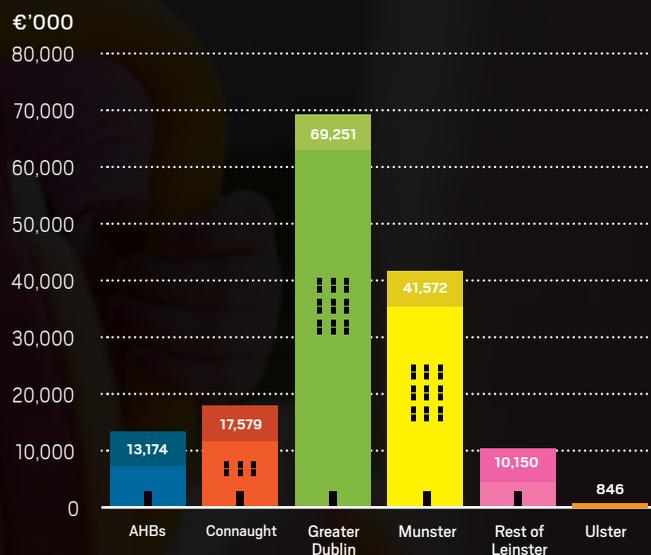
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BALANCE OUTSTANDING DURING THE YEAR BY APPROVED HOUSING BODY AND REGIONALLY BY LOCAL AUTHORITY



LOANS ADVANCED DURING THE YEAR BY APPROVED HOUSING BODY AND REGIONALLY BY LOCAL AUTHORITY



View this report online:
www.hfa.ie/publications

The Housing Finance Agency (HFA) is a non-commercial semi-State company under the aegis of the Minister for the Environment, Community & Local Government of Ireland. It was established by the Housing Finance Agency Act, 1981 and incorporated in 1982.

The HFA's main remit is to lend to local authorities and approved housing bodies for housing and related purposes, and to borrow or raise funds to enable such lending.

The HFA's Board is appointed by the Minister for the Environment, Community & Local Government, with the consent of the Minister for Public Expenditure & Reform. It has twelve members.

The HFA has the equivalent of eleven full-time staff members (FTEs).

The HFA is shaping a positive future through:

- Availability of funding
- Enabling social housing
- Sustaining relationships
- Improving lives

COMMITTED TO A POSITIVE FUTURE

CHAIRMAN'S MESSAGE

- Dr Michelle Norris -



2014 was a significant year in the development of a strong and sustainable social housing sector in Ireland. With the publication of Social Housing Strategy 2020 in late November, the Government gave a clear commitment to provide a flexible, progressive and targeted system of social housing supports over the next six years and set out a firm foundation for a carefully calibrated, multi-annual investment programme to prioritise the provision of social housing in the years to 2020.

The Housing Finance Agency (HFA) has a central role to play in the implementation of the Social Housing Strategy 2020 through our representation in the governance structure and our ongoing commitment to providing the most efficient and best value service possible to our customers. We continue to forge mutually beneficial relationships with new customers to enable them to provide housing to individuals and families who cannot secure accommodation from the market.

I am pleased to confirm that the HFA continued to make significant progress in pursuit of our key objectives as evidenced by:

- an increase in lending activity and in the number of approved housing bodies (AHBs) with Certified Body status;
- the expansion of our product offering to support new build and mortgage to rent facilities; and
- the hosting of a seminar entitled Financing Social Housing in Ireland, which was attended by many key stakeholders in the sector with guest speakers from the UK, Austria, Holland and Ireland.

In addition, I am delighted to confirm that on 18 December the HFA signed a €150 million finance contract with the European Investment Bank which provides the sector with a source of very competitive long-term funding for the development and upgrading of social housing in Ireland. This very exciting initiative is wholly consistent with the objectives set out in the Government's Strategy document, and will, I believe, add momentum to the successful implementation of the strategy.

Governance and Transparency

Good governance is essential to the sustainable growth of our business. The HFA Board is committed to the highest standards of corporate governance, and transparency and accountability are at the heart of this commitment. The HFA complies with the *Code of Practice for the Governance of State Bodies* ('The Code') issued by the Department of Finance. The Code provides a framework for the application of best practice in corporate governance by both commercial and non-commercial State bodies. Under the Code, the HFA furnishes bi-annual reports to the Departments of the Environment, Community & Local Government (DoECLG), and Public Expenditure & Reform (DPER).

The Board of the HFA comprises individuals who have considerable experience in a wide range of fields. The Board makes all major strategic decisions and retains full and effective control while allowing management sufficient flexibility to run the business efficiently and effectively within a centralised reporting framework. Each non-executive

director brings independent judgement to bear on all matters dealt with by the Board, including those relating to strategy, performance, resources and standards of conduct.

I am pleased to report that our Annual Report for 2013 was shortlisted for the Leinster Society of Chartered Accountants' Published Accounts Awards. This represents a clear, independent and external recognition of our commitment to the transparency and strength of our financial reporting. In addition, since 2002 the HFA has operated within the scope of the Freedom of Information Act 1997, and full details of access to the records and information on the HFA can be found on our website, www.hfa.ie.

Conclusion

The HFA remains one of the few non-commercial State agencies that operates without Exchequer support, and it continues to function in a cost-effective manner with a small team of dedicated professionals. I would like to acknowledge the strong performance of the HFA in 2014 and take this opportunity to thank Barry O'Leary, Chief Executive Officer, and his team for their outstanding contribution throughout the year. The Board recognises the ongoing dedication and commitment of our staff. I can confirm that the HFA does not pay bonuses, overtime or premium pay.

Also vital to the HFA's work is the assistance and co-operation of its stakeholders, including the National Treasury Management Agency (NTMA), the Central Bank of Ireland, its auditors, lawyers, IT contractors, financiers and all those who provide essential services, and we thank them for their support. Special thanks are due to the Minister for the Environment, Community & Local Government, the Minister for Public Expenditure & Reform, the Minister for Finance and their staff. The HFA remains focused on our customers – the local authorities and the AHBs – and their courtesy and efficiency is much appreciated. Finally, I would like to thank my colleagues on the Board for their ongoing commitment to the HFA and for the great support they have given me throughout the year.



Dr Michelle Norris
Chairman of the Board

30 April 2015

Chief Executive's Review



2014 was a good year for the Housing Finance Agency (HFA), with considerable achievements on both borrowing and lending fronts, which combined to deliver a very positive outcome.

I am pleased to report a strong economic performance this year, with reported surpluses of €13.9 million (2013: €19.8 million), bringing our retained reserves to €106 million (2013: €93 million), and helping to ensure that the long-term risks in the HFA's loan portfolio remain covered. These results were achieved while delivering an average interest rate of 1.85% (2013: 1.95%) to our customers, which is very competitive when compared with alternative sources available in the market.

The Board closely monitors and manages risk and earnings, and from time to time adjusts its interest margins to ensure that returns are sufficient to generate the required level of reserves. The significant financial risks and exposures to the HFA in respect of its assets, liabilities and financial instruments are summarised in Note 18 to the Financial Statements, together with the risk management objectives and policies employed.

Lending Services

As expected, the HFA's overall loan book saw a slight decline in 2014 of €144 million, as normal-course annuity repayments and redemptions of €297 million outweighed gross loan advances of €153 million. This brought our lending portfolio to a closing balance of €4.2 billion, which still remains a substantial loan book on-lent to local authorities and approved housing bodies (AHBs).

The HFA plays an important role in the provision of finance for social housing purposes. In 2014 the HFA issued €28.4 million (2013: €27.0m) to local authorities for the provision of mortgages, and €20 million (2013: €22.92m) to local authorities and AHBs for the provision of social housing. Since 2010, the HFA has advanced €162 million for local authority mortgages and €193 million for social housing.

The HFA continues to liaise with the Department of the Environment, Community & Local Government (DoECLG) and local authorities to ensure that the range of options set out in the Central Bank's Code of *Conduct on Mortgage Arrears* (including a local authority variant of the Mortgage Arrears Resolution Process) is available to distressed borrowers from local authorities. The HFA also continues to arrange appropriate loan structures for local authorities, as required, in order to better match their financial circumstances. Notwithstanding the financial constraints under which local authorities are operating, following the renegotiation of certain loans, they are fully compliant with their repayment obligations to the HFA.

The HFA has developed a number of new lending initiatives in response to customer feedback. Fixed-rate loan finance is now available to local authorities for five and ten years at competitive interest rates, and the HFA has recently arranged a facility with the European Investment Bank which will make up to €300 million available for social housing, at rates not available elsewhere on the market, fixed for 25 years. The HFA is liaising with its customers regarding this facility, and a number of substantial housing projects have been earmarked for development.

In February 2014, the Board of the HFA authorised the Credit Committee to provide finance to AHBs for new-build/construction and mortgage-to-rent schemes. Since then, the Credit Committee has approved €3.1 million for new build/construction and €9.1 million for mortgage-to-rent schemes. It is anticipated that the level of lending for both of these initiatives will further increase in 2015, in conjunction with the Government's Social Housing Strategy, in which the HFA will play a key role.

Interest rates

The HFA continues to offer excellent value to its customers – the local authorities and AHBs – and, indirectly, to their borrowers and tenants. The HFA does not lend directly to individuals or households. In relation to local authorities, the HFA is, in effect, a centralised borrower on their behalf, using its scale to obtain the most competitive rates for mortgage- and non-mortgage-related loans.

Mortgage related interest rates

The standard HFA variable mortgage rate to local authorities is 1.45% (2013: 1.83%). The local authorities charge individual local authorities' borrowers 2.75% (2013: 2.75%), which is more than 1.50% below the average of standard variable rates in the retail banking market, and continues to be the lowest standard variable rate available in Ireland.

Non-mortgage related interest rates

Where local authorities borrow for non-mortgage purposes, the interest rate over 2014 remained at 2.00% (2013: 2.00%).

Interest rates to approved housing bodies

Lending to AHBs – typically independent not-for-profit voluntary bodies – carries with it a higher level of risk than applies to local authorities and this, coupled with higher up-front setup costs, necessitates the application of a higher lending margin. Despite this, the HFA managed to maintain AHB average variable lending rates at 3.23% over the year (2013: 3.21%), which compares very favourably with other offerings in the market.

The recently-arranged facility with the European Investment Bank mentioned above will enable the HFA to make a new 25-year fixed-rate facility available to AHBs at rates around 3.5%.

Funding

The vast majority of the HFA's loans have a variable rate structure, and the funding acquired to provide these loans is similarly structured. The HFA raises the majority of its funding via the National Treasury Management Agency (NTMA) through the HFA's Guaranteed Notes (GN) programme. In 2014 the programme was amended to permit deal maturities up to 10 years, to increase the size of the programme from €4.5bn to €5bn, and to facilitate floating rate issuance.

With the cooperation of the NTMA, the HFA extended the average maturity profile of its funding from 2.8 months to 3.2 years. This provides a more stable funding base that more closely reflects the long-term weighted-average life of the asset base (c.15 years) and significantly reduces the HFA's short-term liquidity risk. This funding has been benchmarked against Euribor[®], and the increased tenor was negotiated with the NTMA at no increased cost to the HFA.

This revised approach to funding management is consistent with the actions being taken across financial markets as banks and regulators act on the lessons learned from the crisis, particularly with respect to liquidity and funding risk. A weighted-average maturity profile of three to five years for the HFA, relative to the asset profile, represents a prudent approach to funding. This allows us to continue providing very competitive lending rates to our customers, with corresponding benefits for their customers and tenants.

A total of €3.80 billion was drawn by the HFA under the GN programme at 31 December 2014, of which €3.15 billion was funded by NTMA GNs, the balance being investment of short-term surplus funds by local authorities and the Environment Fund.

As the majority of the HFA's funding needs continue to be provided through its GN programme, the €6 billion currently available through our eurocommercial paper (ECP) programme is more than is necessary. We plan to reduce this to €1 billion in 2015.

Outlook

The successful implementation of the Government's Social Housing Strategy is likely to require significant increases in the levels of activity in the HFA in the months and years ahead.

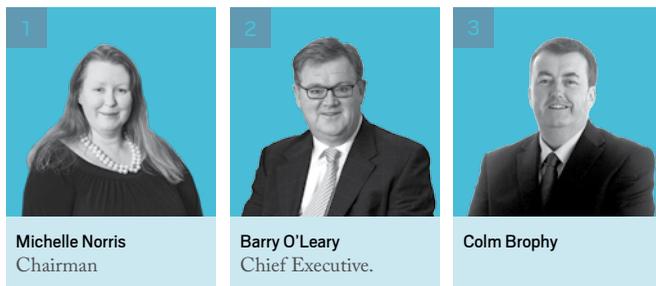
We welcome the challenge this presents and believe we are well placed to provide the required funding and customer service that will be demanded.



Barry O'Leary
Chief Executive Officer

2 April 2015

Board of Directors



1. Michelle Norris | Chairman

Appointment to the Board: February 2012 as Chairman and non-executive Board Member (ex-officio).

Committee membership: Finance, Credit and Remuneration Committees. Also a member of the HFA/Local Authority Liaison Committee.

Career experience: Head of School in UCDS' School of Applied Social Science. Teaching and research interests focus on housing policy and urban regeneration. During her career she has led or participated in 20 research projects on these issues and has produced over 100 publications on the results. In 2011 she was appointed by an Taoiseach as an independent member of the National Economic & Social Council.

2. Barry O'Leary | Chief Executive Officer

Appointment to the Board: August 2013 as Board Member (ex-officio) and September 2012 as Chief Executive.

Committee membership: Finance and Credit Committees. Also a member of the HFA/Local Authority Liaison Committee.

Career experience: An accountant by profession, Barry has experience of insolvencies and worked with the Comptroller and Auditor General. Since 1988 Barry has worked with the Housing Finance Agency, holding the roles of Financial Controller/Company Secretary and Head of Treasury.

3. Colm Brophy

Appointment to the Board: March 2012 as a non-executive Board Member.

Committee membership: Audit, Board Performance Review and Credit Committees.

Career experience: Councillor on South Dublin County Council since 2008. Colm is also a Board member of South Dublin County Enterprise Board and South Dublin Tourism. Colm is the Founder and General Manager of T.E. Corporate Promotions – a specialist provider of event management services.

4. Jackie Maguire

Appointment to the Board: Initially in March 2002, and re-appointed in March 2012 as a non-executive Board Member (ex-officio).

Committee membership: Audit and Remuneration Committees.

Career experience: County Manager of Meath County Council since 2013; commencing her Local Government career with Meath County Council in 1981, being promoted to Head of Finance in 2000, Director of Services in 2003; and County Manager for Leitrim from 2006 to 2013. Jackie has a Diploma in Financial Management and a Masters in Project Finance/Venture Management.

5. James Miley

Appointment to the Board: April 2012 as a non-executive Board Member.

Committee membership: Audit and Board Performance Review Committees.

Career experience: Qualified Chartered Director and Business Consultant, and has worked in a broad range of sectors including broadcasting, development aid, politics and business. James co-founded and led the online property website, www.myhome.ie which has given him a thorough understanding and first-hand knowledge of the Irish property market. In addition to his professional interest, he was Chairman of Concern Worldwide from 2007 to 2010.

6. Michelle Murphy

Appointment to the Board: April 2012 as a non-executive Board Member.

Committee membership: Audit Committee.

Career experience: Regional Manager for the Collins McNicholas Recruitment & HR Services Group, covering the Western region. Michelle has a M.Sc. in Strategic Human Resource Management, and is a Fellow of the Chartered Institute of Personnel & Development.

7. Padraic Cafferty

Appointment to the Board:

March 2012 as a non-executive Board Member.

Committee membership: Audit and Credit Committees.

Career experience: Managing Director of Datascan, Executive Chairperson at Northwood Technology Ltd, and Proprietor at Westpoint Business Centre and Sigmund Business Centre, Glasnevin, Dublin. Padraic is currently a Fellow of the Security Institute of Ireland and Past President of the Irish Security Industry Association.

8. John Hogan

Appointment to the Board: February 2012 as a non-executive Board Member (ex-officio).

Committee membership: Finance and Board Performance Review Committees.

Career experience: Assistant Secretary in the Banking Policy Division of the Department of Finance. John has previously worked in the Departments of Education, Environment, and Foreign Affairs.

9. Gerry Leahy

Appointment to the Board: April 2012 as a non-executive Board Member.

Committee membership: Audit and Board Performance Review Committees. Also a member of the HFA/Local Authority Liaison Committee.

Career experience: Established estate agent since 1980, with expertise in the field of new housing sales and developments. Gerry was a Director of Horse Sport Ireland and Eventing Ireland, and published the Strategic Plan on High Performance and Olympic Qualification in Equestrian Sport.

10. Michael Murray

Appointment to the Board: March 2012 as a non-executive Board Member.

Committee membership: Finance and Credit Committees.

Career experience: An honors graduate in economics from Trinity College, Dublin, from 1977 to 2002 he served in several senior roles in banking in both London and Dublin. In 2004, Michael joined the European Commission, where he remained until 2010, and had responsibility for advising the Internal Market Commissioner on banking and securities markets regulation. Michael currently works in a consultancy role on a range of financial services issues.

11. Philip Nugent

Appointment to the Board: Initially in April 2008 and re-appointed in February 2012 as a non-executive Board Member (ex-officio).

Committee membership: Finance and Remuneration Committees. Also a member of the HFA/Local Authority Liaison Committee.

Career experience: Principal Officer in the Department of the Environment, Community & Local Government, with responsibility for Waste Policy and Resource Efficiency.

12. Mary Lee Rhodes

Appointment to the Board: March 2012 as a non-executive Board Member (ex-officio).

Committee membership: Finance Committee. Also a member of the HFA/Local Authority Liaison Committee.

Career experience: Assistant Professor of Public Management at Trinity College, Dublin, her research being focused on complex public service systems and the dynamics of performance. She is also a member of the Interim Regulatory Committee which is tasked with rolling out the voluntary regulation code for the AHB sector and preparing for statutory regulation. She is also involved in research and management in the non-profit sector and has experience in managing banking operations and technology with JP Morgan, and as an economic analyst with the US Department of Agriculture.



Jonathan Taylor | Vice President European Investment Bank

The European Investment Bank (EIB) is the long-term lending institution of the European Union owned by its Member States. It makes long-term finance available for sound investment in order to contribute towards EU policy goals.

Availability of funding

In February 2015 the Minister for the Environment, Community & Local Government, Alan Kelly, and the Minister of State with Special Responsibility for Housing, Paudie Coffey, formally announced a €300m housing investment programme with the HFA and the EIB. The funding enables the HFA to offer customers 25-year fixed rate funding at very competitive interest rates.

European Investment Bank Vice President, Jonathan Taylor, said 'This new engagement will improve social housing across Ireland. It represents the first ever EIB lending for the Housing Sector in the country. We are pleased to work closely with financial professionals at the HFA, in a scheme that will benefit local residents by providing better homes and reduced energy costs, and create work for local construction firms. Investment in housing is essential for family life and sustainable communities, and we look forward to further support for the Sector in Ireland in the years to come.'

€300m available

For lending to support investment by approved housing bodies and local authorities across the country, to upgrade social housing and improve energy efficiency. Interest in the product offering is very high and the HFA expects the fund to be significantly oversubscribed.

Positive News

Social Housing Finance Seminar

The HFA hosted a seminar at the end of February 2014, entitled *Financing Social Housing in Ireland*, which was attended by 150 people from within the Housing Sector. The event was addressed by, among others, three international guest speakers. Topics included:

- bonds - issues and pricing in funding social housing;
- financial capacity challenges faced by the Sector;
- the development of financial expertise among social housing providers; and
- regulation and its evolution and impact on access to funding.

There was very positive feedback from the event and a second seminar is being considered for later in 2015.

Published Awards Shortlisting

In November 2014, the HFA's Annual Report for 2013 was shortlisted for the Leinster Society of Chartered Accountants' Published Accounts Awards. The Awards, sponsored by the Irish Stock Exchange, recognise companies for excellence in financial reporting in Ireland, and the shortlist included a total of 27 public and private companies, including not-for-profit organisations and charities.

Funding

In Quarter 4 2014, the HFA's GN programme limit was increased from €4.5 to €5.0 billion and the maximum maturity of any note was extended to ten years from the date of issue and the facility period eliminated. These changes enable the HFA to facilitate issuance with a maximum maturity of ten years, to extend the maturity profile of its funding and to significantly reduce liquidity risk.

Under the terms of the new GN programme, on 18 December 2014 the HFA refinanced €2.9 billion of its short-term fixed-rate guaranteed notes which were held by the National Treasury Management Agency (NTMA). These notes were replaced with longer term floating-rate guaranteed notes, also held by the NTMA. The floating-rate notes have maturities tranching at six-month intervals from July 2015 to January 2021. The GNs are guaranteed by the Minister for Finance of Ireland.

It is the HFA's intention to continue to monitor the possibility of raising medium-term funds from sources other than the NTMA, such as supranational institutions, banks and other market participants, possibly through new financing structures and special-purpose vehicles. To this end the HFA has begun engaging with market participants to explore opportunities and assess market interest in such structures.

Variable funding accounts for 95% of the HFA's funding requirement and it is expected to remain broadly at this level in future years.

EIB Facility

A new investment programme was agreed in December 2014, jointly backed by the Housing Finance Agency and the European Investment Bank. It is intended that this will enable an additional 2,000 social housing units to be developed over the next three years.

The €150m funding from the European Investment Bank will be matched by the HFA to make €300m available for lending to support investment by approved housing bodies across the country to upgrade social housing and improve energy efficiency.

The new programme, the first ever support for housing in Ireland by the European Investment Bank, was officially announced during a visit to Killarney Court in North Dublin by the Minister for the Environment, Community & Local Government, Alan Kelly; Vice President of the European Investment Bank, Jonathan Taylor; and CEO of the Housing Finance Agency, Barry O'Leary.

Strategy

In support of the implementation of the Government's *Social Housing Strategy 2020*, the HFA is represented on both the Project Board and the Workstream 1 Finance group.

The objectives of the Project Board are to:

- agree targets for each local authority and AHB for delivery of housing;
- oversee the delivery of the actions and targets in the Strategy and take appropriate action when required to ensure timelines are met;
- track, monitor and manage risks associated with actions in the Strategy; and
- review the Social Housing Strategy in 2017.

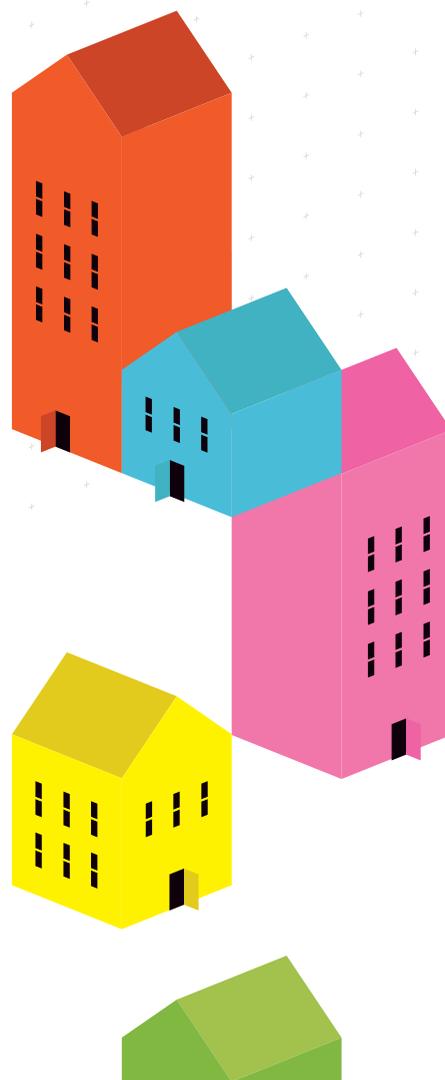
The objectives of the Workstream 1 Finance group are to:

- progress off-balance sheet funding mechanisms;
- use the NAMA Special Purpose Vehicle (SPV) to maximise the provision of social housing on NAMA-assisted projects;
- commence work on a public-private partnership to provide 1,500 new social housing units by end of 2017; and
- commence work on a financial vehicle, to be known as the Strategic Housing Fund, to raise funding for the social housing sector and which will be operational by Q2 2016.

The HFA's Board is drawing up a "Statement of Strategy", in conjunction with Government's social housing strategy, and plans to finalise this later in 2015.

Our objectives in the next five years include:

- introducing new funding models and sources to meet Government requirements and to better match the asset profile of the HFA;
- engaging with the Department of the Environment, Community & Local Government and local authorities to work towards the implementation of Social Housing Strategy 2020; and
- facilitating and encouraging further participation by approved housing bodies in the provision of social housing.

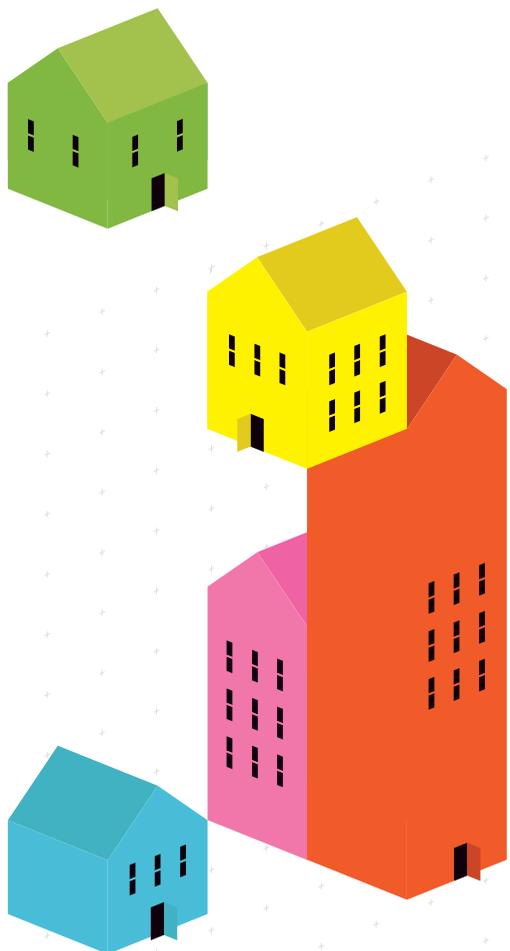


Housing Projects

The HFA is uniquely positioned, as a self-financed State body and plc, to provide the funding required for social housing development, at market-leading rates.

We are open for business and 2014 saw the introduction of new product offerings to finance Mortgage-to-Rent and New-Build schemes, as well as the availability of 25-year fixed rate finance, all at rates incomparable on the market. These were initiated to address growing demand from our customers – the Local Authorities and Approved Housing Bodies.

The HFA advanced €153 million in loan finance in 2014 and following is an outline of some of the housing projects financed in the year.



Goirt na Mara

Louth County Council had 35 units under the Incremental Purchase Scheme at Goirt na Mara, Seafield Road, Blackrock, Dundalk, Co. Louth. These new build units were sold to applicants that were either on the social housing waiting list or an existing tenant of the local authority/voluntary housing body at the appropriate discount price applicable depending on each applicants circumstances. The units are a mix of 2 & 3 bed units. Price varied slightly depending on floor footage & house type (e.g.) mid terrace, end terrace, semi detached, detached etc.



Howth/Baldoyle

In September 2014, Clúid Housing Association completed the first ever social housing refurbishment project using private finance. Previously, loan finance had only been used to fund the purchase of completed dwellings.

The five properties – three in Howth and two in Baldoyle – had been derelict for some time and were in a deplorable condition when they were transferred to Clúid. They were in need of major structural works, they had no toilets or heating, and they were infested with rodents.

The properties were scattered within terraced estates, in between privately owned houses. The adjoining property owners had to contend with many problems, including severe anti-social behaviour and a devaluation of their own property.



Fingal County Council supported Clúid in applying for CALF (Capital Advance Leasing Facility) from the Department of the Environment, Community and Local Government. Clúid then used this loan to leverage the finance from the HFA. This was the first time the HFA provided a loan to a housing association for construction.

The houses were refurbished to a very high specification, with greatly improved BER, and met all the requirements of the conservation officer. The five properties provided great homes for their tenants; anti-social behaviour is no longer an issue; and life has improved for neighbours on these estates.



Bridgemeanows



Bridgemeanows is an estate of 152 residential units developed between 2006 and 2008 in Enniscorthy, Co. Wexford. At the time of the property crash about one third of the estate remained incomplete.

In December 2013, Clúid agreed to purchase twenty-eight of the remaining forty-two unsold units from the developer at a cost of €2 million. The majority of the units required significant finishing and remedial works. The purchase was funded by a combination of loan finance from the HFA and CALF.

Clúid worked in conjunction with Wexford County Council to agree a Site Resolution Plan, which involved the completion of communal roads, public open space and site services. Once completed this will have a positive effect on the whole estate, improving the quality of life of other residents and increasing property values.

The purchase of the first 8 units was completed in December 2014, with the remaining 20 due to be complete in April 2015.



Coneyboro

The collaborative efforts of Athy Town Council, Kildare County Council and Clúid led to the completion of a previously unfinished estate in Athy, increasing the value of the entire 400 dwelling estate.

The brand new two and three bed properties in Coneyboro were provided to 35 households. The new residents had been waiting seven years, on average, on the housing waiting list.

Clúid agreed to purchase the thirty-five unfinished properties at a cost of €2.63 million using a government deposit to leverage the remaining private finance from the HFA. This enabled NAMA to invest in the Developer who was then able to complete outstanding works, including the road and green areas.

Everyone benefitted, the new tenants who had been waiting seven years on the social housing waiting list, the Developer, the local authority, NAMA and the 400 other residents in the estate.



Macroom



Six family houses were provided by Túath Housing Association in Macroom, Co Cork, following completion of an unfinished estate with huge input and assistance from both NAMA and Cork County Council to ensure that the scheme was properly completed to enable the developments to be taken in charge by the Local Authority, satisfying existing residents along with new tenants moving in.

The scheme was financed by way of private finance via the Housing Finance Agency on a fixed rate basis and State provided CALF monies. The acquisition was Túath's third draw down of loan finance from the HFA.

Bishop's Court

Bishop's Court, Troys Gate, Kilkenny is a 4 story development of 12 apartments located on the ground, first, second, third floors, with one retail unit on the ground floor. Parking is provided at basement level. The apartments are all own door and are accessed from the street and serviced by a lift. The development is located at Troys Gate, Kilkenny, close to the centre of the city of Kilkenny and all the amenities it provides.

With the support of the HFA, and Kilkenny County Council \Department of the Environment, Community and Local Government, Oaklee Housing Trust purchased 6 of the 12 units to provide accommodation from applicants from Kilkenny County Council's housing waiting list.

The location benefits from all the amenities associated with a vibrant city with shops, schools, churches, cinema and theatres located within walking distance. The area comprises of mainly privately owned terraced housing, with a number of B&B's, hotels, a Public House and St Luke's General Hospital located nearby. Bishop's Court provides an ideal mix of social housing in a sustainable community environment.



Continuing to forge mutually beneficial relationships with new customers to enable them to provide housing to individuals and families who cannot secure accommodation from the market.

Enabling Social Housing

The HFA continues to work with approved housing bodies (AHBs) and the voluntary housing sector by providing finance for new housing projects in support of their work with the homeless and other communities that they serve.

9

Nine AHBs and voluntary housing bodies have certified body status with the HFA; the number is growing all the time.

€27 million

Approved lending to AHBs and voluntary housing bodies during 2014.

315 units

HFA finance enabled the acquisition of 315 housing units in 2014.



David Brown | Development Manager–Oaklee Housing Trust

We have been working closely with the HFA for over 4 years now and they have always responded to our queries in a professional and friendly manner. The quick turnaround of our loan applications has allowed us to be more proactive in bidding and acquiring dwellings for social housing. Our effectiveness in the market has been enhanced by the HFA's flexibility, demonstrated by their development of competitive new loan products in the face of continuously changing social and housing policy environments. We look forward to applying for new build/refurbishment loans and drawing down funds under the new HFA/EIB facility. This new facility will significantly enhance our output due to the low fixed rate pricing and allow us to make a significant contribution towards the development targets set in the Social Housing Strategy 2020.

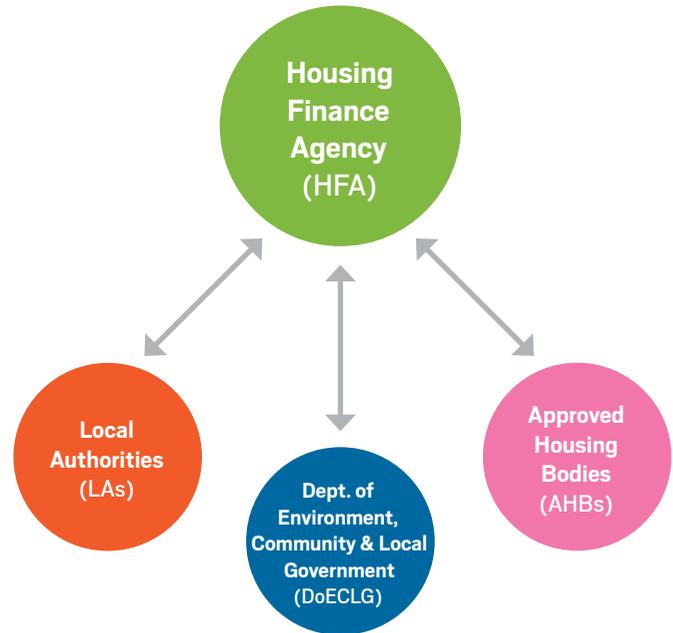
Quality Customer Service

Relationships

The delivery of excellent Quality Customer Service ('QCS') is of prime importance to the HFA. The HFA has critical relationships with stakeholders in three categories: local authorities, approved housing bodies and the Department of the Environment, Community & Local Government.

Relationship building and networking are key components of QCS, and the HFA makes a point of maintaining close contact with its customers through discussions with and presentations to local authority officials' representative associations (county and city managers, heads of finance), and through one-to-one meetings with local authority staff.

In addition, the HFA remains focused on supporting and developing its relationships with the AHBs. Numerous meetings were held throughout the year to help the AHBs to prepare their applications for Certified Body status and for individual loan financing. The HFA continues to develop new products to address the financial needs of the AHB Sector.



The HFA's objective is to deepen and broaden the existing liaison measures with its customer groups. In pursuit of this objective, a number of recent and ongoing initiatives have been taken, as listed below:

| INITIATIVE | DESCRIPTION |
|---|---|
| Participation in Heads of Finance meetings | The HFA's relationship with local authorities involves it attending Heads of Finance meetings, where regular presentations are made on a wide range of related issues involving both the HFA and the Local Authorities. Participation at these meetings also provides the HFA with a forum to obtain the views of local authorities on the various issues that arise from time to time. This work will continue and expand in future. |
| Representation on the Board | Our principal customers, the Local Authorities, are represented on the Board by a Chief Executive and an elected representative. |
| Electronic information | All information is issued by email to finance and housing officials. Board and Committee meeting papers are also issued electronically. |
| Programmes of regional workshops | Regional workshops are held from time to time in conjunction with local authorities, to train local authority staff in use of the HFA's online loan system. A series of regional workshops is planned for late 2015/early 2016 on the introduction of the HFA's redeveloped Loan and Treasury Management System. |

| INITIATIVE | DESCRIPTION |
|-------------------------------------|--|
| Seminars | The HFA held a seminar in February 2014 entitled <i>Financing Social Housing in Ireland</i> , which was attended by many key stakeholders. Guest speakers from the UK, Austria, Holland and Ireland presented different models and structures for financing social housing. The Seminar received very positive feedback from those who attended and the outputs will be used in the ongoing development of new financing structures for social housing in Ireland. Following the success of this Seminar and at the request of interested parties/customers, a second seminar is being considered for Autumn 2015. |
| Customer Charter | The HFA has published a Customer Charter which is available on its website. |
| Central Government reporting | The HFA has developed a module on its website that enables local authorities to obtain current period actual and 3-year loan projections of principal and interest repayments for Central Government reporting purposes. |
| Code of Conduct for staff | The HFA's <i>Personnel Code of Conduct</i> provides guidance for staff in dealing with our customers. It covers written correspondence, personal calls to our offices and phone calls. The <i>Personnel Code of Conduct</i> provides that correspondence must be responded to within a week, either by acknowledgement or full reply. If a delay in replying is unavoidable, an interim reply is recommended. |

The HFA continues to focus on issues impacting on customer service and has established measures to continually monitor QCS in the following areas:

1. Payout of funds for loan advances to local authorities

2. Dealing with correspondence from external sources

3. Staff training and development

4. Compliance with HFA Policies and Procedures

More detail on how these measures are assessed is provided below.

1. Payout of funds for loan advances to local authorities

The HFA has as its target that 95% of loans are advanced within seven days of receipt of an application approved by the Department of Environment, Community & Local Government. The HFA met this target in 2014 with a 99% level of compliance.

2. Dealing with correspondence from external sources

The HFA continues to meet its target of replying to all correspondence received from external sources within one working week.

3. Staff training and development

is important for the ongoing efficiency of the HFA. The target is to spend the equivalent of 4% of payroll costs on training, and this was met with a 4.0% outturn for 2014 (2013: 3.6%).

4. Compliance with HFA Policies and Procedures

Compliance is reported upon twice a year and reviewed by the Audit Committee. Our target in this area is to limit the number of breaches of policies and procedures (other than those arising from staff absences) to less than 10.

This target was surpassed again in 2014, with no exception reports (2013: also none).

Service Level Agreement with DoECLG

The *Code of Practice for the Governance of State Bodies* provides that any State body involved in service provision should have a Service Level Agreement (SLA) in place with its parent Department.

The coherence of public policy in relation to housing and the coordination of the associated financing initiatives are ensured by having them all under the control of the Minister for the Environment, Community & Local Government (DoECLG). The HFA's position under the aegis of the DoECLG ensures that its services are efficient and fully supportive of Government policy.

In January 2014 the HFA initiated the process of drafting a Service Level Agreement with the DoECLG and, with Board approval, entered into a Service Level Agreement with the DoECLG in February. All of the objectives specified in the Agreement for 2014 were met.



Jimmy Dalton | Head of Finance, Westmeath County Council

Over the years, Westmeath County Council and the HFA have worked together to build a solid relationship. The HFA has always worked to accommodate our specific needs and we greatly appreciate the value they provide through their loan products and innovative loans and treasury management system, currently being redeveloped.

Sustaining Relationships

The HFA has built a strong relationship with local authorities over the last 30 years. It has provided finance to local authorities to enable them to lend at very competitive rates to individual borrowers. The Local Authorities have come to rely on the HFA's expertise and knowledge in this area. The HFA maintains close contact with local authorities via individual meetings/ discussions and presentations to local authority officials' representative associations (e.g. County and City Management Association (CCMA) and Heads of Finance).

Information Technology

Reliance on Information Technology

With a staff of only 11 FTEs (full-time equivalent) managing a loan book of €4.2 billion and approximately 7,000 live loans, the HFA relies heavily on the use of information technology to facilitate more efficient use of its resources and effective delivery of its services.

The HFA aims to maximise the number of online services it provides, thereby providing better customer service, improving data accessibility and reducing costs for service users. The HFA provides access to data via its online portal. This enables customers and other stakeholders to carry out tasks more efficiently. Clients can access services instantaneously, from a variety of locations and at any time of day via the HFA website.

Loan Application and Billing System (LABS)

The HFA has an existing loan application, billing and treasury system (LABS) which is an essential tool in its business. This facilitates an online workflow that involves HFA staff and external users – primarily local authorities and the Department of the Environment, Community & Local Government – and provides comprehensive reporting and enquiry options for HFA personnel. The LABS application provides the HFA with the functionality necessary for processing loan applications and billing.

Redevelopment of LABS

While the HFA was satisfied with the functionality of its current LABS system, the fact that it was written some 13 years ago suggested that it was prudent to have the system upgraded/redeveloped using a modern and, as far as possible, future-proofed technology.

The HFA issued a request for tenders at the start of 2014 for upgrading and enhancing the system and its associated website, for the ongoing support and maintenance of the new system and for the provision of ad hoc enhancement services. The required new system will enable the HFA to benefit from a modern technology platform in areas such as security, user interface, and information access and retrieval.

Capita IB Solutions was the successful tenderer. With over 35 years' experience in the IT industry, Capita has developed loans systems, as well as bespoke refuse, rent and rates systems, for both Cork and Wexford County Councils. Capita has also developed systems for a number of housing bodies in England and is the largest provider of software solutions for UK County Councils (holding about 14% of the market).

The redevelopment process has been subdivided into a number of phases, with 'go-live' implementation planned for June 2015. The proposed new system will also interface seamlessly with the HFA's current financial management information system, which uses IRIS Exchequer Enterprise.

The new system will be delivered as a Java™-based application and will be optimised to take account of current technologies. Users will enjoy a modern web-based universal interface. The new system when introduced should see a very significant improvement in processing time.

The system uses a cross-browser (MS Explorer, Mozilla Firefox, Google Chrome, and Apple Safari) common web-based user interface to all elements of the solution for internal back-office administrators and external stakeholders in DoECLG, local authorities and approved housing bodies. This should provide a consistent and universal user experience and provide secure remote access to the system.

The benefits of the new system are summarised below:

| SYSTEM AREA | BENEFITS OF REDEVELOPED SYSTEM |
|---|---|
| User access and login maintenance | All user data will be encrypted and login to the system will be via a Hypertext Transfer Protocol Secure (HTTPS) connection. |
| Second-level security | Second-level security without the need for additional software. |
| Loan application and other workflows | Replacing the current 'In Tray' system with a standard loan application workflow which uses the status of the application to drive it through the various stages. |
| Loan processing | Some areas in the loan processing calculation will be rewritten to take advantage of in-built functionality in the current version of the Java language. |
| Treasury management system and investments | Improvements here will benefit maturing deals and the confirmation process. |
| Reporting and analysis tools | The significant change here is that by deploying RAS all reports will be immediately available via the web. |

Energy Conservation

The HFA operates from 46 St Stephen's Green, Dublin 2, where it leases space on one floor. Our main use of energy is for lighting, heating/air-conditioning, and the powering of computers.

In 2014, the HFA consumed 27.7 MWh of energy, consisting solely of electricity. This represents an average consumption of 2.5 MWh of electricity per employee, which compares favourably with the average of 4.44 MWh of electricity per employee in the services sector (as calculated by the Sustainable Energy Authority of Ireland). Our leased premises were redeveloped during 2009/2010, with energy-efficient lighting installed at that stage.

- The HFA's offices have a BER rating of B1.
- The HFA recycles paper and cardboard, electronic equipment, printer toners and mobile phones.
- The HFA purchases and operates energy-rated servers, personal computers and printers.
- 90% of HFA staff use public transport for commuting, while 10% of staff cycle to and from work, encouraged by the availability of appropriate facilities in the HFA.
- HFA employees are encouraged to be energy conscious, and we endeavour to ensure that our office is operated in the most energy-efficient manner possible.

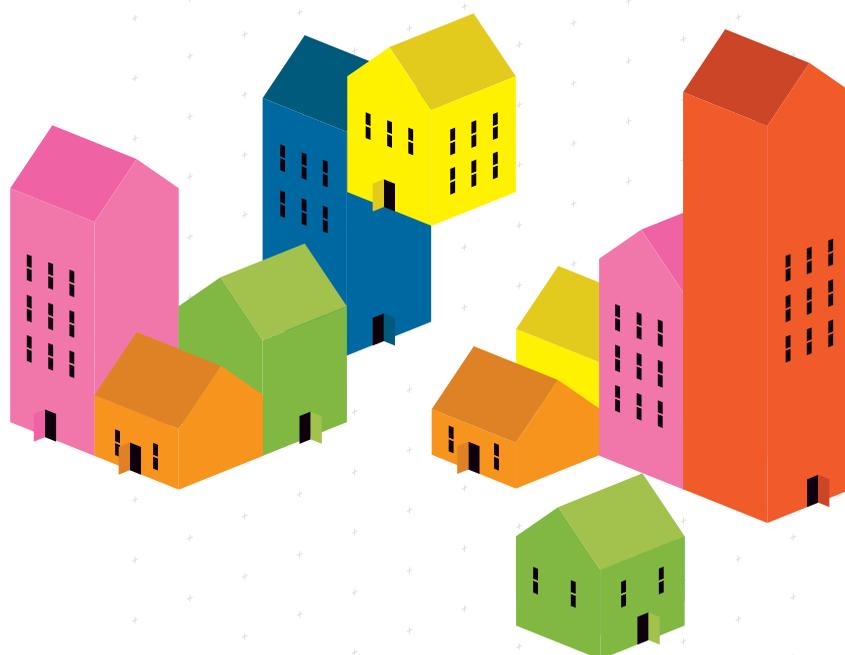
Actions Undertaken in 2014

In 2014, the HFA undertook a range of initiatives to improve our energy performance, including:

- The purchase of two new energy-saving printers.
- Signing up to the Sustainable Energy Authority of Ireland (SEAI) programme for effective energy management: and
- Implementation of various 'turn-off' initiatives (computers and lights).

Actions Planned for 2015

Energy conservation is very important to the HFA. We will continue to deliver efficiency savings in all aspects of our business in 2015 and will explore the possibility of working with SEAI to ascertain what further progress can be made.







Improving Lives

Rochdale, Honey Park, is part of a higher density mixed development located at the junction of Glenageary Road Upper and Kill Avenue, Dún Laoghaire, Co. Dublin. The development has planning approval to provide some 856 houses & apartments, along with crèche facilities, a supermarket, shops, a café and a neighbourhood centre, on the 78-acre site of the former Dún Laoghaire Golf Club. Works have already commenced on the neighbourhood centre and extensive parklands to ensure that residents enjoy a peaceful and beautiful setting within a town location.

Túath Housing Association acquired 35 apartments financed by the HFA and 26 units with State funding under the Capital Assistance Scheme (CAS). The properties purchased are located within the first phase of the scheme, convenient to a multitude of local amenities and with access to local transport links. This purchase is the result of collaborative work by Dún Laoghaire Rathdown County Council, in partnership with Túath, the Department of the Environment Community & Local Government and the HFA. The apartments are a mix of 1, 2 & 3 bed and this mixed tenure scheme is proving very successful due to the location, the high specification which includes a communal heating system thus ensuring lower energy bills, and the facilities available to all residents living within the development.

Report of the Directors

The Directors present their report and the audited Financial Statements for the year ended 31 December 2014.

Results and dividends

| | 2014 €'000 | 2013 €'000 |
|---|----------------|---------------|
| Total recognised gain for the year | 12,735 | 20,351 |
| Shareholders' funds at beginning of year | 93,235 | 72,884 |
| Shareholders' funds at end of year | 105,970 | 93,235 |

This is a good performance with profits generated by a margin policy, approved by the Directors, which is designed to ensure that the HFA has reserves sufficient to meet the estimated costs arising from index linked, fixed rate funding mismatches and other risks.

The Directors do not propose the payment of a dividend for 2014 (2013: nil).

A review of the significant financial risks and exposures to the HFA in respect of its assets, liabilities and financial instruments is set out together with the risk management objectives and policies employed with respect to managing those risks in Note 18 to the Financial Statements. The Director's Report also addresses the significant business risks to which the HFA is exposed and the Chief Executive's review highlights key performance indicators.

Review of the development of the business

Loans to local authorities (approved pre 27 May 1986)

The HFA was established to issue index-linked loans to local authorities for lending by them on an agency basis to individuals. A total of €403 million was advanced to local authorities under this scheme and was used to finance 15,571 mortgages. At 31 December 2014 such loans represented outstanding balances of €10.97 million. The HFA is liable for any credit losses that may arise on these loans.

Loans to local authorities (approved post 27 May 1986)

With effect from May 1986, the HFA has issued loans to local authorities to finance income related, convertible and annuity loans and improvement grants. The extension of the HFA's powers under the Housing (Miscellaneous Provisions) Act, 1992 to fund local authorities for any of their functions under

the Housing Acts has resulted in the HFA issuing loans to local authorities to fund the Shared Ownership and Voluntary Housing Schemes.

A significant portion of these funds is retained by the local authorities for purposes such as land acquisition. The remainder is lent by the local authorities to individual borrowers and AHBs. The local authorities are responsible for any losses that may arise on these loans. In the context of

- (i) local authorities being statutory bodies under the Local Government Act, 2001 and other enactments;
- (ii) their revenues or funds being security for the due payment to the HFA of all amounts due by local authorities (as set out in the agreement between each local authority and the HFA);
- (iii) all loans advanced to local authorities are approved by the Minister for the Environment, Community & Local Government;
- (iv) the Board's understanding that central Government supports local authorities in meeting their obligations to the HFA; and,
- (v) the HFA has not experienced any loan losses on its loans advanced to local authorities after 1986,

the Board is of the opinion that, in substance, no credit risk arises, other than sovereign risk, on loans advanced to local authorities on or after 27 May 1986 and no loan loss provisions are recorded in respect of these loans.

In 2014, gross loan advances amounted to €153 million (2013: €138m) repayments and redemptions totalled €297 million (2013: €258m), resulting in net redemptions of €144 million (2013: €120m) for the year. Such loans represented outstanding balances of €4.18 billion (2013: €4.33 billion).

The HFA endeavours to work with the Local Authorities to develop appropriate loan structures for them in order to better match their financial circumstances. In this regard the HFA may provide extended loan terms, interest deferred periods or offer other renegotiations as appropriate. During 2014, the HFA renegotiated €238.95 million (2013: €108.03 million) of non-housing related loans and had no housing related loans renegotiated during the year (2013: €28.60 million). These renegotiations have taken place in the context of €4.18 billion of loans advanced to local authorities as at 31 December 2014 and thus represents renegotiation activity of circa 4.8% in 2014 (2013: 3.80%).

Renegotiated non-housing related and housing related loans did not result in impairment or derecognition of the original loan assets as it did not represent a significant modification of terms. The HFA ceases to consider these loans as renegotiated once one year of up to date scheduled repayments has elapsed post renegotiation. In this regard, the HFA considers €202.39 million of loans (2013: €164.52 million) to be renegotiated in 2014 with €1.18 million (2013: €1.60 million) of interest income recognised on these assets.

As at year ended 31 December 2014, €117.53 million (2013: €59.55 million) of land acquisition loans were converted upon maturity to annuity loans repayable over a period of up to 30 years. There were no land acquisition loans considered renegotiated at 31 December 2014 as we have received one full year of up to date scheduled repayments. Interest accrued on loans converted upon maturity at 31 December 2014 amounts to €1.18 million (2013: €0.62 million)

Loans to approved housing bodies

Under Section 17 of the Housing (Miscellaneous Provisions) Act 2002, the HFA is empowered to lend directly to AHBs, which includes voluntary housing bodies and co-operative housing societies. Under the Social Housing Leasing Initiative, the DoECLG, through local authorities, leases suitable housing units from AHBs which are rented to social housing tenants nominated by local authorities. Properties are either bought or built by AHBs and financed by loan finance raised by the AHB (from the HFA or the Private Sector). Income received by the AHBs from a Payment and Availability Agreement (PAA) with a local authority for a period of up to 30 years, will fund the repayment of the HFA's loan.

AHBs wishing to borrow from the HFA have to submit to a general financial assessment in order to be assessed for Certified Body status. Only when that status has been confirmed and a master loan agreement signed can they apply for loan advances which are subsequently assessed independently. As at 31 December 2014, twenty-seven applications (2013: twenty) for Certified Body status have been received from AHBs. Nine approved housing bodies (2013: six) have been successful and fourteen were unsuccessful with four of these still pursuing the path to a successful application. The approved AHBs are:

1. Circle Voluntary Housing Association
2. Clúid Housing Association,
3. Clanmil Ireland Housing Association
4. Focus Housing Association
5. NABCO (National Association of Building Co-operatives)
6. Oaklee Housing Trust Limited
7. Tinteán-Carlow Voluntary Housing Association
8. The Iveagh Trust
9. Túath Housing Association

The HFA's Credit Committee, as at 31 December 2014, has approved 44 loan applications (2013: 26) totalling €62.72 million (2013: €37.64 million), €36.13 million of which has been advanced (2013: €22.82 million).

In the last year the number of AHBs with Certified Body status has doubled. The HFA now deals with a variety of AHBs which specialise in helping homeless persons, elderly persons and a small sized AHB. It is anticipated that 2015 will herald continued growth in the level of lending in this area. The HFA continues to have frequent interaction with the AHBs to develop and fine tune the suite of products which it offers.

Fold Housing Association was approved as a Certified Body by the HFA's Credit Committee in January 2015.

Going concern

The Financial Statements have been prepared on the going concern basis. In making its assessment of the HFA's ability to continue as a going concern, the Board of Directors has taken into consideration the significant risks and uncertainties that currently impact the HFA. The HFA's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Review on pages 8 and 9, in the Risk Management section below and in the 'Access to Funding and Going Concern' section within the Basis of Preparation section of the Statement of accounting policies. In addition Note 18 to the Financial Statements details the HFA's financial risk, management objectives, details of its financial instruments and hedging activities, and its exposures to credit, liquidity and market risks. The assessment of going concern is presented on page 40.

Report of the Directors (continued)

Risk management

The Board is responsible for the HFA's system of risk management and internal control, which is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board has delegated responsibility for the ongoing monitoring of the effectiveness of this system to the Audit Committee. Details in relation to the Audit Committee's work in this regard are set out in the Audit Committee Report on pages 39 to 45.

The Chief Executive Officer also reports to the Board, on behalf of Management, on significant changes in the business and external environment, which affect risks. Risk is a standing item on the agenda at each meeting of the Board. Where areas for improvements in the system are identified, the Board considers the recommendations made by Management and the Audit Committee.

Directors

The Directors have considered the principal risks and uncertainties which impact the HFA. In this regard the Directors have concluded that the HFA has potential exposure to credit risk, liquidity risk and market risks owing to its use of financial instruments for certain types of loans. The HFA's objectives, policies and procedures for measuring and managing these risks are set out above and in Note 18 to the Financial Statements.

The Directors and Secretary have no interests in the shares or debentures of the HFA.

Contracts

There has not been any contract or arrangement with the HFA during the year in which a Director of the HFA was interested in relation to the HFA's business.

Post balance sheet events

No events have taken place since the year end that would result in an adjustment to the Financial Statements or inclusion of a note thereto.

Electoral Act, 1997

The HFA made no political donations during the year.

European Communities (Late Payment in Commercial Transactions) Regulations 2012

The HFA is required to comply with the requirements of the European Community (Late Payment in Commercial Transactions) Regulations, 2012, giving effect to Directive No. 2011/7/EC of the European Parliament and of the Council of 23 February 2011 and its predecessor, the European Community (Late Payment in Commercial Transactions) Regulations, 2002. A review of all payments made during the year ended 31 December 2013 shows no late payments were made during 2014 under the above Act.

Accounting records

The Directors believe that they have complied with the requirements of Section 202 of the Companies Act, 1990 with regard to books of account by employing accounting personnel with appropriate expertise and by providing adequate resources to the financial function. The books of account of the HFA are maintained at its registered office.

Corporate Governance

As required by the 2012 UK Corporate Governance Code, which the HFA has adopted voluntarily, the Directors have prepared a Corporate Governance Statement, which is set out on pages 34 to 38 and which, for the purpose of Statutory Instrument 450/2009 European Community (Directive 2006/46) Regulations 2009, forms part of the Report of the Directors.

Auditors

In accordance with Section 160(2) of the Companies Act, 1963 to 2013, the Auditors, KPMG, Chartered Accountants, will continue in office. A resolution authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting.

Principal risks and uncertainties

The Directors have considered the principal risks and uncertainties which impact the HFA. In this regard, the Directors have concluded that the HFA's principal risk exposures are in respect of credit risk, liquidity risk and market risk owing to its use of financial instruments. The HFA's objectives, policies and procedures for measuring and managing these risks are set out in Note 18 to the Financial Statements.

Dividend

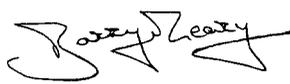
No dividend is due to be declared for 2014.

On behalf of the Board,



Michelle Norris
Chairman of the Board

2 April 2015



Barry O'Leary
Chief Executive Officer

2 April 2015



Corporate Governance Statement

The Directors are committed to maintaining the highest standards of corporate governance and support the 2012 UK Corporate Governance Code (available at www.frc.org.uk), formerly known as the Combined Code, which the HFA voluntarily complies with. *The Code of Practice for the Governance of State Bodies*, as published by the Department of Finance, was issued in June 2009 and the HFA also complies with this Code.

The Directors note that an updated version of the UK Corporate Governance Code was issued 2014, and is effective for accounting periods beginning on or in October 2014. The Directors understand that the 'comply or explain' concept continues to apply in the updated Code. The Board recently reviewed its obligations under the new legislation which include further requirements on the Board and Audit Committees regarding consistency and appropriateness of disclosure, as well as a separate section for the Audit Committee in the annual report. As required by the 2012 UK Corporate Governance Code, which the HFA has adopted voluntarily, the Directors have prepared a 'Corporate Governance Statement,' which is set out in this section and which, for the purpose of Statutory Instrument 450/2009 European Community (Directive 2006/46) Regulations 2009, forms part of the Directors' Report. The HFA has complied with the 2012 UK Corporate Governance Code except for matters discussed in the Corporate Governance Compliance Statement.

Application of the Principles and Provisions of the UK Corporate Governance Code

The following information explains how the HFA applies the principles and provisions of the *2012 UK Corporate Governance Code* issued by the Financial Reporting Council (FRC), *The Irish Corporate Governance Annex* issued by the Irish Stock Exchange (ISE), and the *Code of Practice for the Governance of State Bodies*, published by the Department of Finance.

Board of Directors

The Board takes the major strategic decisions and retains full and effective control while allowing operating management sufficient flexibility to run the business efficiently and effectively within a centralised reporting framework. The Board has reserved to itself for decision a formal schedule of matters pertaining to the HFA and its future direction such as major acquisitions and disposals, appointment and removal of the Company Secretary, expenditure budgets and risk management policies. Each non-executive Director brings independent judgement to bear on all matters dealt with by the Board including those relating to strategy, performance, resources and standards of conduct. All Board members have access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The HFA's professional advisors are available for consultation with Board members as required. Individual Directors may take independent professional advice, if necessary, at the HFA's expense.

At 31 December 2014 the Board of Directors comprised eleven non-Executive Directors and one Executive Director. The Directors are appointed by the Minister for the Environment, Community & Local Government in consultation with the Minister for Public Expenditure & Reform for a period not to exceed five years, unless the Minister sees fit to reappoint a Director for a second term. The roles of the Chairman of the Board and Chief Executive Officer (CEO) are separate. The CEO is employed full time and does not have any other significant commitments. All Directors, except for the CEO, are independent non-Executive Directors. The Board met seven times in 2014 and is responsible for the proper management of the HFA.

Attendance at meetings during the year ended 31 December 2014, and length of service at 31 December 2014:

| Members | Meetings held in 2014 | Directors attendance | Length of service on Board |
|---|----------------------------------|---------------------------------|---------------------------------------|
| Michelle Norris (Non-executive Chairman) | 7 | 6 | 2.83 years |
| Barry O'Leary (Chief Executive Officer) | 7 | 7 | 1.33 years |
| Colm Brophy (Non-executive Director) | 7 | 5 | 2.75 years |
| Padraic Cafferty (Non-executive Director) | 7 | 5 | 2.75 years |
| John Hogan (Non-executive Director) | 7 | 7 | 2.83 years |
| Gerry Leahy (Non-executive Director) | 7 | 4 | 2.67 years |
| Jackie Maguire (Non-executive Director) | 7 | 6 | 12.75 years* |
| James Miley (Non-executive Director) | 7 | 4 | 2.67 years |
| Michelle Murphy (Non-executive Director) | 7 | 6 | 2.67 years |
| Michael Murray (Non-executive Director) | 7 | 7 | 2.75 years |
| Philip Nugent (Non-executive Director) | 7 | 6 | 6.67 years |
| Mary Lee Rhodes (Non-executive Director) | 7 | 5 | 2.75 years |

* Please see the Corporate Governance Compliance Statement on page 34.

The Board of the HFA comprises individuals who bring a wide range and depth of experience to the activities of the HFA being drawn from experts from areas such as housing policy, housing valuation, the Department of Environment, Community and Local Government and the Department of Finance, which should enable the HFA to address major future challenges.

Directors' Remuneration

The Minister for the Environment, Community & Local Government determines the level of remuneration for the Board of Directors. Remuneration of non-Executive Directors is not linked to performance. The table below provides details of all fees paid to Directors during the year.

| Members | Fees 2014 € | Fees 2013 € |
|------------------|------------------------|------------------------|
| Michelle Norris | -* | -* |
| Colm Brophy | 7,695 | 7,695 |
| Padraic Cafferty | 7,695 | 7,695 |
| John Hogan | - | - |
| Gerry Leahy | 7,695 | 7,695 |
| Jackie Maguire | - | - |
| James Miley | 7,695 | 7,695 |
| Michelle Murphy | 7,695 | 7,695 |
| Michael Murray | 7,695 | 7,695 |
| Philip Nugent | - | - |
| Mary Lee Rhodes | - | - |
| Total | 46,170 | 46,170 |

* During 2014, a sum of €2,591 (2013: €5,182) was paid to University College Dublin as compensation for loss of hours worked by Michelle Norris for time spent in her duties as Chairman of the HFA in 2014.

Corporate Governance Statement (continued)

The remuneration of the Executive Director/Chief Executive Officer is detailed in Note 7 to the Financial Statements. Total expenses reimbursed to Directors during 2014 for travel and subsistence were €9,137 (2013: € 3,101).

Diversity

The Board believes that diversity is important for effectiveness and has been following the debate regarding gender, age, culture, educational background and professional experience. While the Board does not think specific quotas on such criteria as gender are appropriate and believes that the opportunities should be made on merit, it does believe that a diverse mix of skills, experience, and knowledge background is important, of which gender is a significant element.

As at 31 December 2014 there were four female members on the Board out of twelve members. Looking beyond the Board, the HFA also recognises the importance of diversity including gender diversity and the benefits this could bring to the organisation.

The CEO and employees are also subject to a Code of Conduct and must comply with all statutory requirements, namely Equal Status Act (2000), Equality Act (2004), Disability Act (2005) Part 5 and Civil Law (Miscellaneous Provisions) Act (2008) to ensure that the work environment is free of discrimination based on membership of the Traveller Community, race or ethnic origin, religion or belief, age, disability, sexual orientation or gender in relation to employment and occupational or vocational training.

Board Committees

The Board has an effective committee structure to assist in the discharge of its responsibilities. Please see the terms of reference for each Board Committee available on the HFA website, www.hfa.ie.

Audit Committee

Please see Audit Committee Report on pages 39 to 45.

Board Performance Review Committee

The Board Performance Review Committee met once during the year. The Committee was established in 2008 for the formal evaluation of the Boards performance and that of its Committees and individual Directors. This Committee reports to the Board and the Chairman annually on its findings. The Chair of the Board Performance Review Committee is rotational between its members.

The Committee reviews the Board's performance and that of its Committees and also appraises each member of the Board of Directors to ensure that they are adequately fulfilling their role and objectives. It also undertakes an annual review of each Director's independence including his/her actual, potential or perceived conflicts of interests and commitments in terms of time. For further information please refer to the Corporate Governance Compliance Statement on page 34.

Scheduled Board Performance Review Committee meetings for the year ended 31 December 2014:

| Members | Meetings held in 2014 | Directors' attendance |
|------------------|-----------------------|-----------------------|
| Padraic Cafferty | 1 | 1 |
| John Hogan | 1 | 1 |
| Michelle Murphy | 1 | - |
| James Miley | 1 | 1 |

Finance Committee

The following Directors are members of the Finance Committee: Michelle Norris (Chairman), Barry O'Leary (CEO), John Hogan, Michael Murray, Philip Nugent and Mary Lee Rhodes.

The Committee is empowered on behalf of the HFA to borrow and raise money and to implement, utilise and operate any approved facilities. The Committee operates under formal terms of reference approved by the Directors. No circumstances arose during 2014 which necessitated the convening of a meeting of the Finance Committee.

Remuneration Committee

The following Directors are members of the Remuneration Committee: Michelle Norris (Chairman), Jackie Maguire and Philip Nugent.

The Remuneration Committee's Terms of Reference entitle it to make recommendations in relation to the remuneration of the Chief Executive Officer for consideration by the Board, subject to the approval of the Minister for the Environment, Community & Local Government. Details of emoluments are set out in Note 7 to the Financial Statements in accordance with the requirements of the Companies Acts, 1963 to 2013. No circumstances arose during 2014 which necessitated the convening of a meeting of the Remuneration Committee. For further information please refer to the Corporate Governance Compliance Statement.

Credit Committee

The HFA's Credit Committee is comprised of Board members and Management. The Committee was established in 2009, to maintain credit risk within Board policy, to review the creditworthiness of AHBs and approve credit risk limits and to ensure that all the relevant documentation is in order before proceeding to advance such monies to AHBs. The Committee operates under formal terms of reference approved by the Board.

Scheduled Credit Committee meetings for the year ended 31 December 2014:

| Members | Meetings held in 2014 | Members attendance |
|-------------------|-----------------------|--------------------|
| Michelle Norris | 9 | 7 |
| Barry O'Leary | 9 | 8 |
| Colm Brophy | 9 | 5 |
| Padraic Cafferty* | 6 | 4 |
| Tom Conroy | 9 | 9 |
| Seán Cremen | 9 | 9 |
| Michael Murray | 9 | 7 |
| Mary Lee Rhodes* | 3 | 2 |

** Mary Lee Rhodes resigned from the Committee on 30 April on the appointment of Padraic Cafferty*

Induction and Professional Development

There is an induction process for new Directors. Its content varies between Executive and non-Executive Directors. In respect of the latter, the induction is designed to familiarise non-Executive Directors with the HFA and its operations and comprises the provision of relevant briefing material, including details of the HFA's strategic and operational plans, and a programme of meetings with the Chief Executive Officer and Management.

Relations with stakeholders

The Directors and Management maintain an on-going dialogue with the HFA's stakeholders on strategic issues. Certain specified matters require the approval of the Minister for the Environment, Community & Local Government and/or the Minister for Public Expenditure & Reform in respect of which on-going communication with the Ministers, through their Departments, is maintained.

Accountability and Audit

Accounts and Directors' Responsibilities

The Directors are of the view that the Annual Report for the year ended 31 December 2014 is consistent with the 2012 UK Corporate Governance Code principles requiring the presentation of 'a fair, balanced and understandable assessment of the Company's position and prospects'. The Directors have reviewed the 2014 Annual Report and believe that it presents a fair, balanced and understandable assessment of the HFA's position and prospects.

Corporate Governance Compliance Statement

The Directors are pleased to report that the HFA has chosen to voluntarily comply with the 2012 UK Corporate Governance Code, issued by the Financial Reporting Council, The Irish Corporate Governance Annex, issued by the Irish Stock Exchange and The Code of Practice for the Governance of State Bodies, published by the Department of Finance, during the year ended 31 December 2014 except for the following matters:

Current Board size and structure

Non-Executive Directors are appointed by the Minister for the Environment, Community & Local Government for a period not to exceed five years. The Minister, after consultation with the Minister for Public Expenditure & Reform, may appoint a Chief Executive Officer and as a result provisions B.2.1 of the Code are not applicable to the HFA. This appointment process also addresses the HFA's requirement for determination of how a Director is regarded as independent/non independent. There are no planned or anticipated changes to the Board's size or structure. The Government has brought in new arrangements for making appointments to State boards and bodies. In appointing the current Board of the HFA, the DoECLG asked persons interested to apply on their website for vacancies on the boards of bodies under their aegis. Ministers are not necessarily confined to those who make expressions of interest but will ensure all appointees have the relevant qualifications.

Corporate Governance Statement (continued)

The Government also decided that those who are being proposed for appointment as chairpersons of State boards are required to make themselves available to the appropriate Oireachtas committee to discuss the approach they will take as chairperson and their views about the future contribution of the body or board in question. Following that discussion, decisions are taken by the Minister or the Government, as appropriate, to confirm the nominee as chairperson. Michelle Norris appeared before the Oireachtas Committee for the Environment, Transport, Culture and the Gaeltacht in 2012 for this purpose.

Senior Independent non-Executive Director

Consideration has been given to the matter of designating a recognised senior Board member other than the Chairman to whom concerns can be conveyed and in view of the manner of appointment of Directors, the shareholding structure and existing Board procedures, in accordance with provision A.4.1 of the Code. It has been concluded that it is not appropriate in the circumstances to nominate a non-Executive Board member as a Senior Independent non-Executive Director.

Independence of non-Executive Director

Jackie Maguire was reappointed to the Board in 2012 having been originally appointed in 2002. The length of her service on the Board exceeds nine years and the UK Corporate Governance Code, under provision B.1.1, provides that an explanation be made to stakeholders concerning her continued independence. The Board considers that the integrity and independence of Ms Maguire is beyond doubt. She is financially independent of the HFA and has other significant commercial commitments. Ms Maguire has extensive experience of the unique environment in which the HFA operates. Her experience and long term perspective on the HFA's business has been most valuable to the Board. It is the Board's view that the independence of Ms Maguire has not been compromised by the virtue of her period in office exceeding nine years.

Procedures for election and re-election

Non-Executive Directors are appointed by the Minister for the Environment, Community & Local Government and hold office for such term as the Minister specifies when making the appointment but not for a period exceeding five years, unless the Minister sees fit to reappoint a Director for a second term, and, as a result, provision B.2.1 of the Code is not applicable to the HFA Directors' appointment. There is no policy for board renewal.

Director's Remuneration

There is no internally developed remuneration policy, as the Minister for the Environment, Community & Local Government determines the level of remuneration for non-Executive Directors. The remuneration of the Chief Executive Officer is set in line with current guidelines for pay in the public service. Remuneration of non-executive Directors is not linked to performance and is disclosed above individually for all non-Executive Directors as fees in Note 7 to the Financial Statements. Recommendations in relation to the Chief Executive Officer's remuneration are proposed by the Remuneration Committee for consideration of the Board. However the Remuneration Committee did not meet in the current year.

External Review of the evaluation of Board Performance

Provision B.6.2 of The UK Corporate Governance Code requires that the Board of FTSE 350 companies should be evaluated by an external facilitator at least every three years. The HFA does not consider this provision of the Code relevant to its present structure.

Internal audit

Due to the size and nature of the HFA the Internal Audit function is not free from operating responsibility. However the Directors are satisfied that a sufficient level of independence is afforded to the internal audit function to allow it to carry out its duties in an objective and sufficiently independent manner.

Defined benefit scheme disclosure for Directors

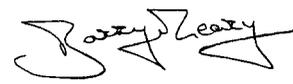
The Directors have complied with the disclosure guidelines set out in the Code of Practice for State Bodies, rather than following the UK Corporate Governance Code, in this respect, as they are considered to be more appropriate to the HFA.

On behalf of the Board,



Michelle Norris
Chairman of the Board

2 April 2015



Barry O'Leary
Chief Executive Officer

2 April 2015

Audit Committee Report

The purpose of the Audit Committee, as per its terms of reference, is to assist the Board in its general oversight of the HFA's financial reporting, internal controls and audit functions. The responsibilities of the Audit Committee are discharged through its meetings and receipt of reports from Management, the Risk Management Committee (consisting of the Chief Executive Officer, Head of Treasury and Company Secretary/Head of Finance), external consultants, and the external and internal auditors. The terms of reference for the Audit Committee were updated in February 2014 to take into account the revisions to the 2012 UK Corporate Governance Code. The Audit Committee has an agenda, as per its Terms of Reference, for the year that includes:

- monitoring the financial reporting process, integrity of the Financial Statements and any formal announcements relating to the HFA's financial performance;
- reviewing significant financial reporting judgements;
- reviewing any proposed changes to corporate governance practices and endorse the same for adoption by the Board;
- monitoring the statutory audit of the annual Financial Statements;
- reviewing the External Auditor's performance, objectivity, qualification and independence;
- making recommendations to the Board in relation to the appointment of the External Auditor, the approval of the Auditors' remuneration and terms of engagement;
- dealing with significant control issues raised by internal or External Audit;
- monitoring the effectiveness of the HFA's risk management and internal control arrangements; and,
- reviewing the cost of funds and interest rates charged accordingly.

In line with Provision C.3.4 of the 2012 UK Corporate Governance Code, the Board has extended the Committee's remit such that the Committee must now formally advise the Board on whether the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the performance of the HFA, along with its business model and strategy.

Risk is overseen by the Risk Management Committee, consisting of the CEO, Head of Treasury and the Company

Secretary/Head of Finance, which report to the Audit committee and the Board on a regular basis. An annual review of the Risk Management and Framework Policy was performed by the Board at its 2 April 2015 meeting.

Scheduled Audit Committee meetings for the year ended 31 December 2014:

| Members | Meetings held in 2014 | Directors attendance |
|------------------|-----------------------|----------------------|
| Colm Brophy | 4 | 2 |
| Padraic Cafferty | 4 | 3 |
| Gerry Leahy | 4 | 3 |
| Jackie Maguire | 4 | 4 |
| James Miley | 4 | 2 |
| Michelle Murphy | 3* | 3 |
| Michael Murray | 1* | 1 |

* *Michael Murray resigned from the Committee on 30 April, on the appointment of Michelle Murphy.*

The Chief Executive Officer, Head of Treasury, Company Secretary and representatives of the External Auditors attend upon invitation.

Monitoring the Integrity of the Financial Statements including Significant Judgements

Financial Reporting

The Audit Committee receives and considers regular reports on financial performance from Management during the course of the year, as well as directing the work of and receiving reports from the Internal Auditor and discussing the audit strategy and focus of the External Auditor. Taking into account the information from these activities and views from the meetings of the Board of Directors, the Audit Committee determined the key risks of financial reporting related to the availability of funding and going concern and provisions for doubtful debts arising on post-1986 loans in the context of current market conditions.

These issues were discussed with Management during the year, with the Auditor at the time the Committee reviewed and agreed the External Auditor's audit plan and also at the conclusion of the external audit of the Financial Statements.

Audit Committee Report (continued)

Management represented to the Audit Committee that the HFA's audited Financial Statements were prepared in accordance with generally accepted accounting principles in Ireland (Irish GAAP). This review included a discussion with Management of the quality, not merely the acceptability, of the HFA's accounting principles, the reasonableness of significant estimates and judgements and the clarity of disclosure in HFA's Financial Statements, including the disclosures related to critical accounting estimates.

Availability of funding and going concern

These Financial Statements have been prepared on a going concern basis. In quarter 4 2014 the limit of the HFA's GN programme was increased from €4.5 to €5.0 billion. It was agreed to extend the maximum maturity of any note to ten years from the date of issue and eliminate the facility period. This change provides the HFA with the capacity to facilitate issuance with a maximum maturity of ten years and to extend the maturity profile of its funding and significantly reduce liquidity risk.

Under the terms of the new GN Programme, on 18 December 2014, the HFA refinanced €2.9 billion of its short term fixed rate guaranteed notes which were held by the National Treasury Management Agency. These notes were replaced with long term floating rate NTMA guaranteed notes. The floating rate notes have maturities tranching at six monthly intervals from July 2015 to January 2021. The GNs are guaranteed by the Minister for Finance of Ireland.

The Audit Committee is satisfied with the disclosures of the appropriateness of the going concern assumption and access to funding that are made in these Financial Statements.

Misstatements

Management confirmed to the Audit Committee that it was not aware of any material misstatements or immaterial misstatements made intentionally to achieve a particular presentation.

Interaction with Management

The Audit Committee, as part of the approval of the Financial Statements, obtains and reviews a paper prepared by Management which sets out the significant risks impacting the HFA, Management's detailed assessment of these risks and how they are mitigated. The Audit Committee challenges the assumptions and judgements contained in these management reports prior to submitting the Financial

Statements to the Board for approval. See pages 43 to 44 for further information relating to the Audit Committee's ongoing responsibilities in respect of HFA's internal controls.

Recommendation of approval of Financial Statements

As a result of these reviews and discussions with management and internal audit and the reports to the Audit Committee of the External Auditor, the Audit Committee has reported to the Board that they consider the Financial Statements, taken as a whole, to be fair, balanced and understandable and provides the information necessary for stakeholders to assess the company's performance, business model and strategy. The Audit Committee also recommended the inclusion of the audited Financial Statements in the HFA's Annual Report for the year ended 31 December 2014.

External Audit

Audit Firm Tendering

The Committee acknowledges the provisions contained in the 2012 UK Corporate Governance Code in respect of audit tendering. As per the 2012 UK Corporate Governance Code, FTSE 350 companies are now required to put their external audit contract out to tender at least every 10 years. The Committee has considered the audit tendering provisions outlined in the 2012 UK Corporate Governance Code. Given the size of the HFA it is not obliged to tender. However the Committee will continue to review this position annually. The HFA concluded a formal audit tender process in the year to 31 December 2012. During this process the Committee recommended the appointment of KPMG as independent External Auditor for a tenure of 3 years. Subject to the continued satisfactory performance of KPMG, it is the current intention to tender for the external audit during the financial year ended 31 December 2015.

Ensuring the independence of our external auditor

The Audit Committee believe the independence of our External Auditor is crucial to the effectiveness of our corporate governance and should not be compromised. The issue of auditor independence is taken very seriously and is reviewed annually. KPMG has provided the Audit Committee with written disclosures regarding its communications with the Audit Committee concerning independence, and the Audit Committee has discussed with KPMG and

management that firm's independence. There were no issues to note.

In 2014, apart from audit work, the HFA also awarded non-audit work to its independent auditor for company secretarial services. The Audit Committee via its terms of reference reviewed non-audit work performed by the external auditor and confirms that there is no adverse effect on actual or perceived independence or objectivity of the audit work itself. The Board of the HFA monitors the provision of non-audit services by the external auditor and the Audit committee through the ongoing review of administration expenses. Given that there was only one service provided during 2014. In relation to company secretarial services (which was slightly over one tenth of the overall audit fee), it was not perceived to be in conflict with auditor independence, as KPMG have the necessary skill, competence and integrity to carry out this work and are considered to be the most appropriate to undertake such work in the best interests of the HFA.

Fees for audit and non-audit services to the HFA's independent auditor, KPMG, for the financial years ended 31 December 2014 and 2013:

| Year ended | 31 December | 31 December |
|-------------------------------------|-------------|-------------|
| | 2014 | 2013 |
| | €'000 | €'000 |
| Audit of Financial Statements | 35 | 29 |
| Tax advisory services | - | 4 |
| Other services | 4 | - |
| Total Auditor's remuneration | 39 | 33 |

Liaising with external auditors

The Audit Committee provides a link between the Board and the External Auditor and is independent of the HFA's management. KPMG, the HFA's statutory auditor, is responsible for performing an independent audit of the HFA's Financial Statements in accordance with Standards of Auditing in the UK and Ireland. The Audit Committee has ultimate authority and responsibility for selecting, compensating, evaluating, and, when appropriate, replacing the HFA's independent audit firm. In accordance with Section

160(2) of the Companies Act 1963-2013, the Auditor, KPMG, Chartered Accountants, will continue in office.

The Audit Committee pre-approves all services to be provided by external auditors. Pre-approval includes audit services, audit-related services, tax services, and other services.

The Audit Committee also has the authority to engage its own outside advisors, including experts in particular areas of accounting, as it determines appropriate, apart from counsel or advisors hired by Management.

Assessment of external audit process

The performance of the External Auditor is reviewed annually by the Committee at the end of the annual audit cycle. The Review encompasses taking into account feedback from Management and staff of the HFA involved in the audit process together with a review of the level of service provided by KPMG to the HFA. Based on its consideration of the feedback, together with its own on-going assessment, for example through the quality of the external auditors' reports to, and the audit partner's interaction with the Committee, the Audit Committee is satisfied that KPMG continues to provide an effective audit service.

Risk Management

As prescribed by the revised *Code of Practice for the Governance of State Bodies*, a risk management policy framework, overseen by the Audit Committee, was adopted by the Board and a formal Risk Management Committee, consisting of Senior Management, has been operational since 2009. The Chief Executive Officer, Head of Treasury and Company Secretary collegially manage the risk of the HFA, in place of a Chief Risk Officer, as permitted under the Code of Practice. The Risk Management Framework and Policy are regularly reviewed by the Committee. The monitoring of risk remains an ever present item at Board meetings. The most recent wholesale revision of our Risk Management Framework and Policy was concluded in December 2011 following an independent review of the policy framework to ensure that it captured all appropriate risks. The Risk Management Framework and Policy was fully implemented in 2012.

The HFA is a financial business and the key risks associated with the business are therefore essentially financial (i.e. credit, market and liquidity risks) and also treasury-related risk. These risks are outlined in more detail in Note 18. The HFA has developed a risk management process which includes constant

Audit Committee Report (continued)

reviews of its loans and advances portfolio and an on-going review of treasury related risk which allows it to manage these risks. The Board of the HFA adopted a Credit Policy regarding lending to AHBs at its June 2013 meeting, which was recently updated, at its September 2014 Board meeting.

Residual risk is associated principally with fixed rate and index linked borrowings and inflation movements. This is dealt with by a reserves and margin policy as detailed in the HFA's Policies and Procedures Manual and also within the Risk Register of the Risk Management Framework and Policy. The HFA carries out a comprehensive annual review of risks which is approved by the Board and forms part of the HFA's interest rate and reserves policy for subsequent years. The Board is informed on a quarterly basis of developments and corrective action, if required, is taken.

The Audit Committee assesses material risks namely:

- funding, liquidity and going concern risks;
- credit risk associated with post 1986 local authority lending;
- credit risk associated with AHB lending;
- credit risk associated with pre 1986 local authority lending; and,
- defined benefit pension scheme.

Pre 27 May 1986 Loans

With regard to the HFA's lending to local authorities, the HFA is liable for any credit losses that may arise on pre May 1986 mortgages which are secured by the underlying mortgage property and mortgage protection insurance. Of the €12.9 million of pre May 1986 loans outstanding at 31 December 2014 (2013: €19.4 million), only €10.6 million (2013: €11.5 million) of these are still due to the local authorities from the underlying borrowers and there is a total impairment provision of €1.96 million. The gap of €2.3 million (2013: €7.9 million) has arisen as the local authorities are not required to remit in full to the HFA monies received in relation to redemptions and repayments as allowed under the terms of the loan facility. The Board is of the opinion that, similar to post 1986 loans, in substance, no credit risk arises, other than sovereign risk, for this €2.3 million balance (2013: €7.9 million).

The local authorities hold collateral against the remaining €10.6 million of loans advanced pre 27 May 1986, in the form of mortgage interests over property. Only in the event of that collateral not being sufficient to discharge the debt is the HFA liable for any impairment losses which may arise. Individual borrowers are required to hold Mortgage Protection Insurance ('MPI') on their property. MPI covers the borrower in the event of death or disability on the loan amount outstanding, excluding arrears.

Post 27 May 1986 Loans

It is assessed that, in substance, there is no repayment risk of loans advanced to local authorities on or after 27 May 1986, other than sovereign risk, as the legal relationship is with local authorities and is not dependant on changes in house prices or other economic variations. In the context of:

- (a) local authorities being statutory bodies under the Local Government Act, 2001 and other enactments;
- (b) their revenues or funds being security for the due payment to the HFA of all amounts due by local authorities (as set out in the agreement between each local authority and the HFA);
- (c) all loans advanced to local authorities are approved by the Minister for the Environment, Community & Local Government;
- (d) the Board's understanding that central Government supports local authorities in meeting their obligations to the HFA; and,
- (e) the HFA has not experienced any loan losses on its loans advanced to local authorities after 1986

the Board is of the opinion that, in substance, no credit risk arises, other than sovereign risk, on loans advanced to local authorities on or after 27 May 1986 and no loan loss provisions are recorded in respect of these loans.

At 31 December 2014, following the renegotiation of the terms of certain loans, all local authorities were up to date with their scheduled repayments on this portfolio (see note 18(a)).

Provisions for doubtful debts arising on loans issued post-1986

The HFA has not experienced any losses on its loans advanced to local authorities after 1986. The Audit Committee is satisfied with the use of this assumption in preparation of these Financial Statements and with the disclosure of these circumstances.

Approved housing bodies loans

The HFA commenced lending to AHBs in 2012, which marks a fundamental shift away from the HFA's existing operations and risk profile. Up to now the HFA's exposure has been to local authorities. Lending to other entities carries a greater level of risk and this requires a different level of assessment and due diligence. To mitigate this risk the services of an independent financial assessment firm have been engaged and a Credit Committee was established to assess all applications and monitor borrowers on an ongoing basis. AHBs wishing to borrow from the HFA have to submit to a general financial assessment in order to receive Certified Body status. Only when that status has been confirmed can they apply for loan advances, which are subsequently assessed in a similar fashion.

The purpose of providing Mortgage to Rent (MTR) financing to AHBs is to alleviate the short term financing pressure as outlined above for projects which will eventually receive Payment & Availability Agreement (PAA) and will be eligible for normal project financing. The finance will only be made available for properties already acquired by the AHB and for which Capital Advance Leasing Facility (CALF), if applicable, and PAA financing is approved in principle. It is intended that the loans will be short term in nature and secured by a first charge over the properties.

The purpose of providing New-Build financing to AHBs is to alleviate the short term financing pressure for AHBs of building suitable accommodation, which will eventually receive a PAA and will be eligible for normal project financing. Each loan facility will be offered on a specific project basis, for schemes (i.e. the properties to be built on the chosen site) for which CALF and PAA financing are approved, in principle, by the Local Authority. It is intended that the loans will be short term in nature and secured by a first charge over the site, which will encompass any development on that site.

Treasury

The HFA's access to and cost of borrowing is influenced by, among other things, its credit ratings as assessed by international rating agencies. In May 2014 Moody's Investors Service upgraded the short-term debt rating of Housing Finance Agency plc.'s (HFA) euro 6 billion commercial paper programmes to P-2. This rating action reflects Moody's upgrade on 17 January 2014 of the Republic of Ireland, the guarantor of the ECP programme, to Baa3/P-3 with a positive outlook. A restructuring of the HFA's debt was concluded with the NTMA at the end of 2014 with €2,872 million of short term notes being replaced with longer term floating rate guaranteed notes, also held by the National Treasury Management Agency.

Review of internal controls

The Directors have responsibility for maintaining a system of internal control which provides reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations. In this context the Audit Committee has regard to what, in its judgement, is appropriate to the HFA's business, to the materiality of the financial and operational risks inherent in the business and to the relative costs and benefits of implementing specific controls. The HFA has a policy outlined in its Policies and Procedures Manual whereby employees can raise concerns, in confidence, about possible irregularities in financial reporting or other matters.

The Board, at its September 2012 meeting, agreed that the task of reviewing risks, in detail, would in future be reserved as a standing agenda item for meetings of the Audit Committee. The Audit Committee subsequently reports and makes recommendations to the Board on its findings, with the Board tasked with overseeing risk and considering recommendations from the Committee.

At most of the meetings of the Audit Committee a review is undertaken of one area of risk as detailed in Section A4 of the HFA's Risk Register, contained within its Risk Management Framework and Policy.

Audit Committee Report (continued)

The HFA's system of internal control is designed to provide reasonable, but not absolute, assurance against the risk of material errors, fraud or losses occurring. It is possible that internal controls can be circumvented or overridden. Further, due to changes in conditions, the effectiveness of an internal control system may vary over time and the management of the HFA endeavours to amend internal control systems in line with changes in the underlying business in a timely manner.

The Internal Auditor identifies and evaluates the HFA's internal control systems as a basis for reporting upon its adequacy and effectiveness. An approved plan is agreed with the Audit Committee and the Internal Auditor plans, performs and evaluates their work based around this schedule. If significant weaknesses are found with internal controls within any sample tested then the internal auditor reverts to carrying out substantive tests on the areas where the controls were found to be ineffective/defective. The Audit committee reviews the reports carried out by the internal auditor on a twice yearly basis and the Internal Auditor also holds a yearly private meeting with the committee, without management present, where any issues can be raised by either the internal auditor or the committee.

The Directors have established an organisational structure with defined responsibility for internal control for each element of the HFA's business and this, together with the associated responsibility for reviewing periodically the effectiveness of such internal control, is formally reported upon by the Chief Executive Officer once a year and is subject to testing by Internal Audit throughout the year with reports issued to the Audit committee twice a year.

The key elements of the system of internal control are as follows:

- (a) a clearly defined organisational structure with appropriate segregation of duties and limits of authority;
- (b) internal financial controls documented in a Policies and Procedures Manual which is reviewed semi-annually and any subsequent changes approved by the Board;
- (c) clearly defined limits and procedures for financial expenditure including procurement and capital expenditure;
- (d) annual budgets (and means of comparing actual results with budgets during the year) and long term plans for the HFA identifying key risks and opportunities;
- (e) monthly management accounts prepared and presented to the Board;
- (f) an internal auditor reviewing key financial systems and controls;
- (g) an Audit Committee dealing with any significant control issues raised by internal or External Audit; and,
- (h) the preparation and issue of financial reports, including the Annual Report, managed by the Finance Section with oversight from the Audit Committee. The financial reporting process is controlled using documented accounting policies. Whilst the Directors have the responsibility for the preparation of the Financial Statements, the Directors are supported by Senior Management and professional advisors, such as an actuary, who have responsibility and accountability to provide information in keeping with agreed policies, including the completion and reconciliations of financial information to processing systems. Its quality is underpinned by arrangements for segregation of duties to facilitate independent checks on the integrity of the financial reports. The financial information for each year is subject to review by Senior Management prior to being submitted to the Audit Committee. The Annual Report is also reviewed by the Audit Committee in advance of being presented to the Board for its approval.

The Audit Committee has reviewed and discussed with Management its assessment and report on the effectiveness of the HFA's internal control over financial reporting and information technology as of 31 December 2014.

Discussions with the Auditor

The Audit Committee has received and discussed a report from the External Auditor on the findings from the external audit engagement, including those relating to the risks noted above. The External Auditor reported to the Audit Committee the misstatements that they had found in the course of their work and no material amounts remain unadjusted.

Committee Effectiveness

The effectiveness of the Committee is reviewed on an annual basis by both the Board and the Committee itself. Following such reviews, the Committee is satisfied to advise that it is considered to have discharged its duties, as per its terms of reference, in an effective and efficient manner.

Conclusion

After reviewing the presentations and reports from Management and Internal Audit and taking into account views expressed by the External Auditor, the Audit Committee is satisfied that the Financial Statements appropriately address the critical judgements and key estimates, both in respect to the amounts reported and the disclosures. The Audit Committee is also satisfied that it has sufficiently scrutinised and challenged the significant assumptions used for determining the value of assets and liabilities.



Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Financial Statements in accordance with Generally Accepted Accounting Practice in Ireland (Irish GAAP) comprising applicable law and the accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland together with the Companies Acts 1963 to 2013. Under company law the Directors must approve the Financial Statements when they are satisfied that they give a true and fair view of the state of affairs of the HFA and of its profit and loss for that period.

In preparing the Financial Statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the HFA will continue in business.

The Directors are also required under company law to include a Directors' report containing a fair review of the business and a description of the principal risks and uncertainties. Under Company law the Directors are required to prepare a report to deal, so far as is material for the appreciation of the state of the company's affairs, with any change during the financial year in the nature of the business of the company. The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the HFA and enable them to ensure that its Financial Statements comply with the Companies Acts 1963 to 2013. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the website (www.hfa.ie). The Directors are also responsible for preparing a Directors' report that complies with the requirements of the Companies Acts, 1963 to 2013.

Directors' Statement

Each of the Directors, whose names and functions are listed on pages 10, 11 and 30, confirms that, to the best of each person's knowledge and belief:

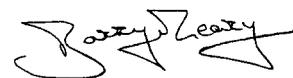
- the HFA's Financial Statements, prepared in accordance with Irish GAAP, give a true and fair view of the assets, liabilities and financial position of the HFA at 31 December 2014 and of the profit of the HFA for the year then ended; and,
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the HFA's performance, business model and strategy.

On behalf of the Board,



Michelle Norris
Chairman of the Board

2 April 2015



Barry O'Leary
Chief Executive Officer

2 April 2015

Report of the Independent Auditor to the Members of Housing Finance Agency plc.

Opinion and conclusions arising from our audit:

1. Our opinion on the Financial Statements is unmodified

We have audited the Financial Statements (Financial Statements) of the Housing Finance Agency plc (HFA) for the year ended 31 December 2014 as set out on pages 50 to 86 which comprise the Income and Expenditure Account, Statement of total recognised gains and losses, Balance Sheet, Cash Flow Statement, Statement of accounting policies, and the related notes. Our audit was conducted in accordance with International Standards on Auditing (ISAs) (UK and Ireland).

In our opinion:

- the Financial Statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the HFA's affairs as at 31 December 2014 and of its surplus for the year then ended;
- the Financial Statements have been properly prepared in accordance with the Companies Acts 1963 to 2013.

2. Our assessment of risks of material misstatement

The risks of material misstatement detailed in this section of this report are those risks that we have deemed, in our professional judgement, to have had the greatest effect on: the overall audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team. Our audit procedures relating to these risks were designed in the context of our audit of the Financial Statements as a whole. Our opinion on the Financial Statements is not modified with respect to any of these risks, and we do not express an opinion on these individual risks.

In arriving at our audit opinion above on the Financial Statements, the risks of material misstatement that had the greatest effect on our audit were as follows:

Credit risk on loans advanced to local authorities after May 1986

Refer to Page 42 Governance – Corporate Governance Statement and Page 56 of Note 1 – Summary of Significant Accounting Policies.

The risk

There is a risk that credit risk, other than Irish sovereign risk, arises on loans advanced to the local authorities on or after May 1986 and that loan loss provisions should be recorded in respect of these loans. It is the Board's opinion that, in substance, no credit risk, other than Irish sovereign risk, arises on loans advanced to local authorities after May 1986.

Our response

In this area, our procedures included, amongst others, consideration of the status of the local authorities and support received from central Government, inspecting the master loan agreements, loan repayment history and payment status at 31 December 2014, meetings with the HFA's Audit Committee and members of Management to understand and challenge their views. We have also assessed whether the disclosures contained in the Financial Statements adequately reflect the Board's assessment of credit risk in respect of post 1986 loans.

Access to Funding and Going concern

Refer to Page 40 Governance – Corporate Governance Statement and Page 55 of Note 1 – Summary of Significant Accounting Policies.

The risk

The majority of HFA's assets as at 31 December 2014 are loans provided to Local Authorities and approved housing bodies, these assets are long term in nature and have an average maturity of 24.5 years (2013: 23.7 years). The majority of the HFA's funding as at 31 December 2014 is provided by the NTMA amounting to €3.1 billion with an average maturity of 3.4 years (2013: €3.7 billion and an average maturity of 2.8 months). There is a risk that the HFA will not have access to sufficient funding to refinance its liabilities as they fall due, however it is the Board's view that the HFA will have access to sufficient funding for at least a period of 12 months from signing the Financial Statements.

Our response

In this area, our procedures included, amongst others, meeting with HFA's Audit Committee and Treasury Management to understand the HFA's funding requirements and plans. We also inspected board papers detailing the Agency's liquidity position setting out the restructuring of the HFA debt which was agreed with the NTMA. We obtained details from

Report of the Independent Auditor (continued)

management on the refinancing activity carried out since the year end on any balances that matured prior to the date of this report. We have also assessed whether the disclosures included in the Financial Statements appropriately reflect the HFA's funding and going concerns risks.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the Financial Statements as a whole was set at €22 million. This has been calculated with reference to a benchmark of total assets, which we consider to be one of the principal benchmarks within the Financial Statements relevant to members of the HFA in assessing financial performance.

We report to the Audit Committee all corrected and uncorrected misstatements we identified through our audit in excess of €500,000; in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

4. We have nothing to report in respect of matters on which we are required to report by exception

ISAs (UK and Ireland) require that we report to you if, based on the knowledge we acquired during our audit, we have identified information in the Annual Report that contains a material inconsistency with either that knowledge or the Financial Statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified any inconsistencies between the knowledge we acquired during our audit and the Directors' Statement that they consider the Annual Report is fair, balanced and understandable and provides information necessary for shareholders to assess the entity's performance, business model and strategy; or
- the *Governance and Oversight – Corporate Governance Statement* does not appropriately disclose those matters that we communicated to the Audit Committee.

The terms of our engagement require us to review:

- the Directors' Statement, set out on page 30, in relation to going concern;

- the part of the Corporate Governance Statement on pages 34-38 relating to the company's compliance with the ten provisions of the UK Corporate Governance Code; and
- certain elements of disclosures in the report to shareholders by the Board of Directors' Remuneration committee.

In addition, the Companies Acts require us to report to you if, in our opinion, the disclosures of Directors' Remuneration and transactions specified by law are not made.

5. Our conclusions on other matters on which we are required to report by the Companies Acts 1963 to 2013 are set out below

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.

The HFA Balance Sheet is in agreement with the books of account and, in our opinion, proper books of account have been kept by the HFA.

In our opinion the information given in the Directors' Report is consistent with the Financial Statements and the description in the *Governance and Oversight – Corporate Governance Statement* of the main features of the internal control and risk management systems in relation to the process for preparing the Financial Statements is consistent with the Financial Statements.

The net assets of HFA, as stated in the Balance Sheet are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2014 a financial situation which under Section 40(1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the HFA.

Basis of our report, responsibilities and restrictions on use

As explained more fully in the Statement of Directors' Responsibilities set out on page 46, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK and Ireland).

Those Standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

An audit undertaken in accordance with ISAs (UK and Ireland) involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the HFA's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Financial Statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

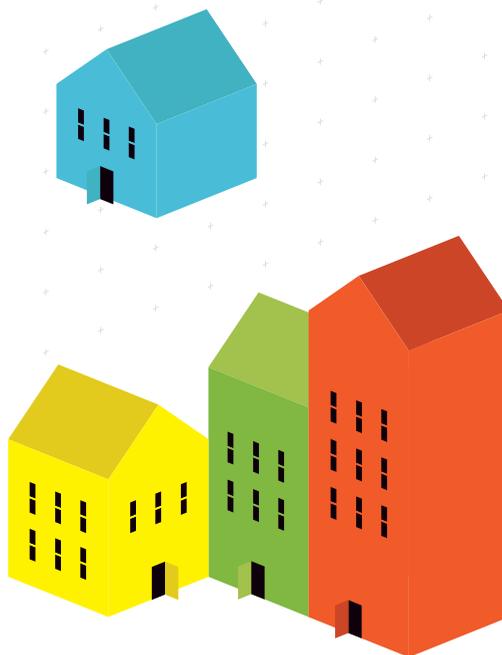
Whilst an audit conducted in accordance with ISAs (UK and Ireland) is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather the Auditor plans the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the Financial Statements as a whole. This testing requires us to conduct significant audit work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the engagement partner responsible for the audit, to subjective areas of the accounting and reporting.

Our report is made solely to the HFA's members, as a body, in accordance with Section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the HFA's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the HFA and the HFA's members as a body, for our audit work, for this report, or for the opinions we have formed.



Killian Croke
for and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
1 Harbourmaster Place
IFSC
Dublin 1
Ireland

2 April 2015



Income and expenditure account

| | Note | 31 December 2014 €'000 | 31 December 2013 €'000 |
|--|------|---------------------------|---------------------------|
| Interest income | 4 | 81,857 | 90,419 |
| Interest expense | 5 | (67,274) | (69,964) |
| Net interest income | | 14,583 | 20,455 |
| Administration expenditure | 7 | (1,207) | (1,194) |
| Operating lease | 7 | (153) | (153) |
| Gain on settlement/curtailment | 7 | 574 | - |
| Depreciation on tangible assets | 10 | (27) | (23) |
| Gain on ordinary activities before finance income/expense | | 13,770 | 19,085 |
| Finance income | 8 | 217 | 811 |
| Finance expense | 8 | (116) | (136) |
| Gain on ordinary activities after finance income | | 13,871 | 19,760 |

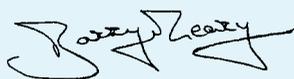
The accompanying notes on pages 55-86 form an integral part of the Financial Statements.

On behalf of the Board,



Michelle Norris
Chairman of the Board

2 April 2015



Barry O'Leary
Chief Executive Officer

2 April 2015

Statement of total recognised gains and losses

| | | 31 December 2014 | 31 December 2013 |
|---|------|------------------|------------------|
| | Note | €'000 | €'000 |
| Gain on ordinary activities after finance income | | 13,871 | 19,760 |
| Actuarial (loss)/gain | 17 | (1,136) | 591 |
| Total recognised gains for the financial year | | 12,735 | 20,351 |

Balance sheet

| | | 31 December 2014 | 31 December 2013 |
|---|------|------------------|------------------|
| Assets | Note | €'000 | €'000 |
| Cash and cash equivalents | 9 | 17,677 | 74,352 |
| Tangible assets | 10 | 105 | 51 |
| Loans and advances to local authorities and approved housing bodies | 11 | 4,297,883 | 4,442,074 |
| Other debtors and receivables | | - | 32 |
| Total assets | | 4,315,665 | 4,516,509 |
| Liabilities | | | |
| Debt securities in issue | 12 | 4,098,304 | 4,303,907 |
| Bank loans | 16 | 110,394 | 118,673 |
| Pension scheme deficit | 17 | 583 | 86 |
| Other payables | | 414 | 608 |
| Total liabilities | | 4,209,695 | 4,423,274 |
| Equity | | | |
| Called up share capital | 22 | 39 | 39 |
| Retained surplus | 23 | 105,931 | 93,196 |
| Total equity | | 105,970 | 93,235 |
| Total liabilities and equity | | 4,315,665 | 4,516,509 |

The accompanying notes on pages 55-86 form an integral part of the Financial Statements.

On behalf of the Board,



Michelle Norris
Chairman of the Board

2 April 2015



Barry O'Leary
Chief Executive Officer

2 April 2015

Cash flow statement

| | Note | 31 December 2014 €'000 | 31 December 2013 €'000 |
|--|-----------|---------------------------|---------------------------|
| Net cash inflow from operating and trading activities | 19 | 158,775 | 133,472 |
| Returns on investments and servicing of finance | | - | - |
| Capital expenditure | 20 | (81) | (33) |
| Cash inflow before management of liquid resources and financing | | 158,694 | 133,439 |
| Cash outflow from management of liquid resources and financing | 21 | (215,369) | (79,968) |
| (Decrease)/increase in cash during the year | | (56,675) | 53,471 |
| Cash and cash equivalents at 1 January | | 74,352 | 20,881 |
| Cash and cash equivalents at 31 December | | 17,677 | 74,352 |

Reconciliation of net cash flow to movement in net debt

| | | 31 December 2014 | 31 December 2013 |
|--|------|--------------------|------------------|
| | Note | €'000 | €'000 |
| (Decrease)/increase in cash during the year | | (56,675) | 53,471 |
| Non-cash movements | 21 | (1,487) | (2,351) |
| Cash used to settle financing obligations | 21 | 215,369 | 79,967 |
| Movement in net debt in the year | | 157,207 | 131,087 |
| Net debt at beginning of year | | (4,348,229) | (4,479,316) |
| Net debt at end of year | | (4,191,022) | (4,348,229) |

Notes to the Financial Statements

1. Summary of Significant Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the HFA's Financial Statements.

Basis of preparation

The Financial Statements have been prepared under the historic cost convention except where recognised financial assets and financial liabilities that are hedged are stated at fair value in respect of the risk that is hedged and all derivative instruments and assets held in respect of defined benefit schemes are measured at fair value.

The Financial Statements comply with generally accepted accounting practice in Ireland, which includes compliance with Irish law and Financial Reporting Standards ('FRS') of the Financial Reporting Council as promulgated by the Institute of Chartered Accountants in Ireland. The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements.

Due to the nature of the HFA's business and the type of transactions it is engaged in, the Directors have adapted the profit and loss account to suit the circumstances of the business in accordance with Section 4(13) of the Companies (Amendment) Act, 1986. The Directors have chosen to present their Financial Statements in a format which is used by similar financial institutions.

Access to Funding and Going Concern

The Financial Statements have been prepared on the going concern basis. In making its assessment of the HFA's ability to continue as a going concern the Board of Directors has taken into consideration the significant risks and uncertainties that currently impact the HFA, in particular with regard to the difficulties in relation to access to funding.

Section 17 of the Housing (Miscellaneous Provisions) Act 2002 and Section 19 of the Planning and Development (Amendment) Act 2002 gives the HFA the power to request the NTMA to undertake borrowing and debt management on the HFA's behalf. Under the terms of a formal agreement between the NTMA and the HFA, the HFA decides the general policy within which funding carried out by the NTMA together with the appropriate debt instruments, takes place. The HFA acts in close consultation with, and on the advice of, the NTMA in regard to its ECP and GN programmes. The NTMA had purchased €3.14bn in GNs at 31 December 2014 (2013: €3.70bn).

At 31 December 2014 none of the HFA's funding was provided under the ECP programme (2013: €zero million). There was no ECP funding drawn down during 2014 (2013: €143 million).

In quarter 4 2014, the limit of the HFA's GN programme was increased from €4.5 to €5.0 billion. The GN programme's existing 5-year facility period was due to expire at the end of August 2015 and this restricted the maturity of any note to the lower of 364 days or that date. It was agreed to extend the maximum maturity of any note to ten years from the date of issue and eliminate the facility period. This change provides the HFA with the capacity to facilitate issuance with a maximum maturity of ten years and to extend the maturity profile of its funding and significantly reduce liquidity risk.

Under the terms of the new GN Programme, on December 18 2014, the HFA refinanced €2,872 million of its short term fixed rate guaranteed notes which were held by the National Treasury Management Agency. These notes were replaced with longer term floating rate guaranteed notes, also held by the National Treasury Management Agency. The floating rate notes have maturities tranching at six monthly intervals from July 2015 to January 2021. The interest rates are refixed on a quarterly basis, at a margin over the three month Euribor® rate. The GNs are guaranteed by the Minister for Finance of Ireland.

Notes to the Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Historically the HFA raised the majority of its funding through the ECP programme and in quarter 4 2013 the HFA re-listed its ECP programme on the Irish Stock Exchange to facilitate a potential return to external markets. The Directors are satisfied that there is a sufficient range of funding options available, to allow the HFA continue to provide ongoing financing to its customers and to continue its operations into the foreseeable future. The Directors are also assured in the light of the recent refinancing of short term notes with longer term floating rate notes with the NTMA that the HFA will have access to sufficient funding for at least 12 months from the date of approval of these Financial Statements; that it continues to be appropriate to prepare the Financial Statements on a going concern basis and that the HFA will continue in business for the foreseeable future.

Functional and presentation currency

These Financial Statements are presented in euro, which is the HFA's functional currency. Financial information presented in euro has been rounded to the nearest thousand, except where indicated.

Use of estimates and judgements

The preparation of Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The judgements that have a significant effect on the Financial Statements and those with a risk of material adjustment in the next year are in the areas of impairment losses that may arise on loans and advances issued before 1986 and on loans to approved housing bodies.

Impairment loss on loans and advances

The HFA primarily lends to local authorities and to AHBs. These borrowers have a different credit risk profile. The most significant judgement on which the Financial Statements have been prepared relates to the Directors view of the credit risk of loans issued post 1986. A more detailed explanation regarding this can be found in Note 18(a).

The HFA lends to local authorities. In the context of (a) local authorities being statutory bodies under the Local Government Act, 2001 and other enactments, (b) their revenues or funds being security for the due payment to the HFA of all amounts due by local authorities (as set out in the agreement between each local authority and the HFA), (c) all loans advanced to local authorities are approved by the Minister for the Environment, Community & Local Government, (d) the Board's understanding that central Government supports local authorities in meeting their obligations to the HFA and (e) the HFA has not experienced any loan losses on its loans advanced to local authorities after 1986, the Board is of the opinion that, in substance, no credit risk arises, other than sovereign risk, on loans advanced to local authorities on or after 27 May 1986 and no loan loss provisions are recorded in respect of these loans.

Other areas of estimates which have a less significant impact on the HFA's financial reporting include impairment losses that may arise on loans issued before 1986, loans to AHBs and employee benefits.

The HFA is liable for any credit losses that may arise on the €10.6 million (2013: €11.5 million) still due to the local authorities from the underlying borrowers on pre-May 1986 mortgages which are secured by the underlying mortgage property. A collective provision of €1.96 million has been recognised in respect of these accounts. Refer to Note 18 (a) for further details.

Direct lending to AHBs commenced in 2012 with the total balances as at 31 December 2014 of €34.50 million (2013: €22.81m). No loans losses were incurred on loans to AHBs and therefore no loan loss allowances were made.

1. Summary of Significant Accounting Policies (continued)

Employee benefits

The HFA operates a defined benefit pension scheme covering all employees. The market value of the assets and actuarial value of the liabilities of the scheme are evaluated annually. This involves management, with the advice of an external actuary, to making assumptions regarding the future as to price inflation, salary and pension increases, return on investments and employee mortality. There are acceptable ranges in which these estimates validly fall. The impact on the results for the period and financial position could be materially different if alternative assumptions were used. Further details are disclosed in Note 17 to the Financial Statements.

Financial assets and liabilities

Recognition

The HFA initially recognises, at fair value, loans and advances, deposits, debt securities issued and index-linked bonds on the date that they are originated.

Derecognition

The HFA derecognises a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the HFA is recognised as a separate asset or liability.

The HFA derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The HFA may enter into transactions whereby it transfers assets recognised on its balance sheet, but retains both all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet only when the HFA has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis when the HFA has the intent and ability to set off the amounts.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. Quoted market value for assets is based on bid prices, where available. For all other financial instruments fair value is determined by using valuation techniques. For securities where market quotes are not available, the HFA uses estimation techniques to determine fair value. Estimation techniques used include discounted cash flows, internal models that utilise observable market data or comparisons with other securities that are substantially the same.

Notes to the Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the HFA does not intend to sell immediately or in the near term.

Loans and receivables are initially measured at fair value of the consideration paid and are subsequently held at amortised cost less provision for impairment. Income on loans and receivables is recognised on an effective interest rate basis.

Identification and measurement of impairment

At each balance sheet date the HFA assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

The HFA considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet reported. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics. Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in income and expenditure account and reflected in an allowance account against loans and advances.

A request for renegotiation acts as a trigger for an impairment test under FRS 26 as it may confirm that a loss event has occurred. All loans that are assessed for renegotiation are tested for impairment under FRS 26 and where a loan is deemed to be impaired, an appropriate provision is raised to cover the difference between the loan's carrying value and the present value of estimated future cash flows discounted at the loan's original effective interest rate. Where the terms on a renegotiated loan which has been subject to an impairment provision differ substantially from the original loan terms either in a quantitative or qualitative analysis, the original loan is derecognised and a new loan is recognised at fair value. Any difference between the carrying amount of the loan and the fair value of the new renegotiated loan terms is recognised in the income statement.

Interest on the impaired asset continues to be recognised and a write-off is made when all or part of a loan is deemed uncollectible or forgiven. Write-offs are charged against previously established provisions for impairment or directly to the income and expenditure account.

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and on hand and short term investments which are primarily promissory notes or commercial paper with maturities of three months or less at date of acquisition and are readily convertible to a known amount of cash and subject to an insignificant risk of change in value. Income from such investments is recognised on an effective interest rate basis over the period to maturity.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and any impairment. The charge for depreciation is calculated to write off the original cost less residual value of each fixed asset over its expected useful life as follows:

| | |
|--------------------|----------------------------|
| Computer equipment | Straight line over 3 years |
| Other equipment | Straight line over 5 years |

1. Summary of Significant Accounting Policies (continued)

Estimates of expected useful life are reviewed periodically. Where necessary a provision is also made for any impairment of tangible fixed assets. The carrying amount of the tangible fixed assets is reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists then the asset is tested for impairment by comparing the carrying amount to the recoverable amount, which is the higher of the amount that can be obtained from selling the asset less costs or its value in use. Impairment losses are recognised in the income and expenditure account.

Interest receivable and payable

Interest receivable and payable on financial instruments classified as loans and advances and financial liabilities at amortised cost, is recognised on an effective interest rate basis. This calculation takes into account interest and commissions, paid or received, that are integral to the yield as well as incremental transaction costs. At inception of the index linked bond the inflationary element of the return was deemed to be closely related and therefore not requiring separate accounting as an embedded derivative. As such the projected inflation return is also included in the effective interest rate calculation and reassessed every half year. The effective interest rate is the rate that discounts the expected future cash flows over the expected life of the financial instrument or, where appropriate a shorter period, to the net carrying amount of the financial asset or financial liability at initial recognition.

Foreign currencies

Transactions denominated in currencies other than euro are recorded at the rates ruling at the date of those transactions. Monetary assets and liabilities in foreign currencies are translated at the rates ruling at the balance sheet date. The exchange differences are dealt with in the income and expenditure account.

Segment reporting

The HFA has only one type of operation carried out in one country. Management reviews the operations of HFA as a whole and do not distinguish operating segments. As a result, operations are reported in these Financial Statements as a single segment.

Operating lease

Operating lease costs are disclosed separately in the Income and Expenditure Account on an accruals basis over the period of the lease using the straight line method. Operating lease incentives are recognised on the balance sheet and released on a straight line basis over the period to the first review to market rate contained within the lease.

Finance income

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues using the effective interest rate method.

Employee benefits

The HFA's net deficit or surplus in respect of its defined benefit plan represents the shortfall or surplus respectively for the fair value of the plan assets over the present value of the future benefits owed to employees in return for their service in the current and prior periods. The discount rate used is the market yield on high quality corporate bonds at the balance sheet date that have maturity dates approximating to the terms of the HFA's obligations. The calculation is performed by a qualified independent actuary using the projected unit cost method. Actuarial gains and losses are taken directly to the statement of recognised gains and losses in the period in which they are incurred.

The impact on the Income and Expenditure Account includes current service cost, past service cost, the interest cost of the plan liabilities and the expected return on plan assets.

Accounting Standards Update

The HFA is currently considering the impact of the change in Irish GAAP, including its accounting and risk management systems, hedging strategies and employee benefits.

Notes to the Financial Statements (continued)

2. Status of the HFA and related party transactions

Housing Finance Agency plc. is a company limited by shares promoted by the Minister for the Environment, Community & Local Government under the terms of the Housing Finance Agency Act, 1981. The issued share capital is beneficially owned by the Minister for Finance. The HFA was formed as a private limited company on 8 February 1982 and on 13 January 1983 became a public limited company.

In the normal course of business the HFA is funded by the NTMA, which is also a Government body and is as such considered to be a related party. Details of amounts outstanding under the Guaranteed Note programme, which is provided by the NTMA, at 31 December 2014, can be found in Note 13. The interest expense was €46.87m for 2014 (2013: €50.08) relating to these facilities for the NTMA and for local authorities totalled €0.60m for the financial year (2013: €2.51m).

In the normal course of business the HFA loans funds to local authorities, which are Government bodies and are as such considered to be related parties. Interest earned on these advances is detailed in Note 4 to the Financial Statements. The management/administration of the HFA's pension scheme (see Note 17) is performed by Irish Life Corporate Business, effective from 1 January 2012.

In the normal course of business, the HFA deposits funds from short term surpluses that arise with Allied Irish Bank plc., (who are currently owned by the state), or the NTMA, on either of the HFA's treasury related or expense accounts. Interest earned on these deposits during 2014 was €0.05 million (2013: €0.68 million) and amounts on deposit as at 31 December 2014 were €17.68 million (2013: €0.35 million).

Transactions with key management personnel

Key management personnel include those personnel that have authority or responsibility for controlling the activities of the HFA, and would include the Board of Directors and the Chief Executive Officer, Head of Treasury and Head of Finance. In addition to their salaries, the HFA also contributes to a post-employment defined benefit plan on behalf of key management personnel. Total key management personnel compensation comprised:

| | 31 December 2014 | 31 December 2013 |
|-----------------------|------------------|------------------|
| | €'000 | €'000 |
| Salaries * | 270 | 183 |
| Directors' fees | 46 | 46 |
| Pension contributions | 42 | 42 |
| | 358 | 271 |

* Salaries include Executive Director/Chief Executive Officer's remuneration which is detailed in Note 7, in addition to other salaried key senior management personnel. One key management employee is in the Single Public Service Pension Scheme.

3. Taxation status of the HFA

Under Section 218 of the Taxes Consolidation Act 1997, income earned by HFA from the business of making loans and advances under Section 5 of the Housing Finance Agency Act, 1981, is exempt from Corporation Tax. Income chargeable under Case III, Schedule D is also exempt from Corporation Tax.

Under Section 172(A) of the Taxes Consolidation Act 1999, the HFA is entitled to pay dividends gross of Dividend Withholding Tax.

4. Interest income – continuing activities

| | 31 December 2014 | 31 December 2013 |
|---|------------------|------------------|
| | €'000 | €'000 |
| Interest on advances to local authorities: | | |
| Post 27 May 1986 | 81,007 | 89,484 |
| Pre 27 May 1986 | 188 | 662 |
| Interest on advances to approved housing bodies | 662 | 273 |
| | 81,857 | 90,419 |

Total interest income on financial assets not carried at fair value through the Income and expenditure account amounted to gross interest of €82.75 million which includes €0.08 million of Finance income (see Note 8) for the year ended 31 December 2014 (2013: €91.58 million which included Finance income of €0.67 million).

5. Interest expense – continuing activities

| | 31 December 2014 | 31 December 2013 |
|---|------------------|------------------|
| | €'000 | €'000 |
| <i>Index linked bonds effective interest</i> | | |
| Bond interest | 7,887 | 7,875 |
| Premium on redemption of bonds (Note 14) | 1,279 | 2,141 |
| <i>Stock and loan costs</i> | | |
| Interest payable on bank borrowings, commercial paper, guaranteed notes and stock | 57,849 | 59,661 |
| <i>Fees and commission expense</i> | | |
| Eurocommercial Paper (ECP) fees | 259 | 287 |
| Total interest expense | 67,274 | 69,964 |

6. Non interest expenditure

| | 31 December 2014 | 31 December 2013 |
|---|------------------|------------------|
| | €'000 | €'000 |
| <i>Administration expenditure</i> | | |
| Operating lease (Note 7) | 153 | 153 |
| General expenditure, Directors emoluments and Employee costs (Note 7) | 1,207 | 1,194 |
| Depreciation (Note 10) | 27 | 23 |
| Total administration expenditure | 1,387 | 1,370 |

Notes to the Financial Statements (continued)

7. Administration expenditure

Operating lease commitments

The HFA has commitments under an operating lease (office premises) to make annual payments as follows:

| Lease expiring: | Buildings €'000 |
|-------------------------------------|---------------------------|
| Not later than one year | - |
| After one year less than five years | 153 |
| After five years | - |

Administration expenditure

Administration expenditure has been arrived at after charging:

| Year ended | 31 December 2014 €'000 | 31 December 2013 €'000 |
|---|---------------------------|---------------------------|
| Auditor's remuneration | | |
| Audit of Financial Statements | 35 | 29 |
| Tax advisory services | | 4 |
| Other services | 4 | - |
| Total Auditor's remuneration | 39 | 33 |
| General Expenses | 278 | 334 |
| Directors' emoluments | | |
| Fees – Chairman | -* | - |
| Fees – other Directors | 46 | 46 |
| Executive Director/Chief Executive Officer's remuneration | 106 | 106 |
| Pension contributions | 42 | 42 |
| Total Director emoluments | 194 | 194 |
| Employee costs (excluding Directors) | | |
| Salaries | 547 | 432 |
| Social welfare costs | 54 | 41 |
| Service costs-pension-present | 95 | 125 |
| Service costs-pension-past | - | - |
| Total employee costs | 696 | 598 |
| Total administration expenses | 1,207 | 1,159 |

7. Administration expenditure (continued)

| Year ended | 31 December 2014 | 31 December 2013 |
|---------------------------------------|------------------|------------------|
| | €'000 | €'000 |
| Gain on settlement/curtailment | 574** | - |

*A sum of €2,591 (2013: €5,181) was paid to University College Dublin as compensation for loss of hours worked by Michelle Norris for time spent in her duties as Chairman of the HFA for 2014. The average number of employees, including the Executive Director, during the year was eleven (2013: eleven).

Total salaries for key management were €270k. The balance of €383k was for administration staff.

PAYE/PRSI and VAT at the year end was €14,550 (2013:€13,469)

**Following the clarification in respect of past service costs of two retired employees the HFA recognised a settlement/curtailment gain of €574,000 in the current year.

8. Finance income

| Year ended | 31 December 2014 | 31 December 2013 |
|--|------------------|------------------|
| | €'000 | €'000 |
| Investment income on short-term deposits | 36 | 14 |
| Interest received on cash balances | 46 | 681 |
| Expected return on pension assets | 135 | 116 |
| Net finance income | 217 | 811 |

Finance expense

| Year ended | 31 December 2014 | 31 December 2013 |
|--------------------------------------|------------------|------------------|
| | €'000 | €'000 |
| Interest cost on pension liabilities | 116 | 136 |
| Total finance expense | 116 | 136 |

9. Cash and cash equivalents

| Year ended | 31 December 2014 | 31 December 2013 |
|---|------------------|------------------|
| | €'000 | €'000 |
| Cash at bank and in hand | 17,677 | 352 |
| Amounts held on short term deposits with the NTMA | - | 74,000 |
| | 17,677 | 74,352 |

Notes to the Financial Statements (continued)

10. Tangible fixed assets – Computer and other equipment

| Year ended | 31 December 2014 |
|---------------------------------|------------------|
| | €'000 |
| Cost or valuation | |
| At 1 January 2014 | 219 |
| Additions | 81 |
| At end of year | 300 |
| Accumulated Depreciation | |
| At beginning of year | 168 |
| Charged for year | 27 |
| At end of year | 195 |
| <i>Net book value</i> | |
| 31 December 2014 | 105 |
| 31 December 2013 | 51 |

11. Loans and advances to local authorities and approved housing bodies

| Year ended | 31 December 2014 | 31 December 2013 |
|--|------------------|------------------|
| | €'000 | €'000 |
| Loans advanced to local authorities | 4,154,695 | 4,305,935 |
| Loans advanced to approved housing bodies | 34,503 | 22,818 |
| Total balances due on advances | 4,189,198 | 4,328,753 |
| Less: Collective provision | (1,961) | (1,711) |
| | 4,187,237 | 4,327,042 |
| Due from local authorities | 110,646 | 115,032 |
| Total loans and advances to local authorities and approved housing bodies | 4,297,883 | 4,442,074 |

The HFA is liable for any credit losses that may arise on the €10.6 million (2013: €11.5 million) still due to the local authorities from the underlying borrowers on pre-May 1986 mortgages which are secured by the underlying mortgage property. A provision of €1.96 million has been recognised in respect of these loans. Refer to Note 18 (a) for further details. This provision is based on the HFA's best estimate of the present value of estimated future cash flows compared to the carrying value of the loans as at 31 December 2014 and subject to changes in the underlying assumptions and may increase or decrease in future years.

11. Loans and advances to local authorities and approved housing bodies (continued)

In the context of (a) local authorities being statutory bodies under the Local Government Act, 2001 and other enactments, (b) their revenues or funds being security for the due payment to the HFA of all amounts due by local authorities (as set out in the agreement between each local authority and the HFA), (c) all loans advanced to local authorities are approved by the Minister for the Environment, Community & Local Government, (d) the Board's understanding that central Government supports local authorities in meeting their obligations to the HFA and (e) The HFA has not experienced any loan losses on its loans advanced to local authorities after 1986. The Board is of the opinion that, in substance, no credit risk arises, other than sovereign risk, on loans advanced to local authorities on or after 27 May 1986 and no loan loss provisions are recorded in respect of these loans. Please refer to Note 18 (a) for further details.

Direct lending to approved housing bodies commenced in 2012 and loan losses are recognised on these loans to the extent that losses are incurred. No such losses arose in 2014 and no provision is considered necessary in respect of these advances as at 31 December, 2014.

12. Debt securities in Issue

| Year ended | 31 December 2014 €'000 | 31 December 2013 €'000 |
|---|---------------------------|---------------------------|
| Commercial paper and Guaranteed notes (Note 13) | 3,797,570 | 4,004,668 |
| Index Linked Bonds (Note 14) | 203,503 | 202,369 |
| 8.75% Housing Finance Agency Stock (Note 15) | 97,231 | 96,870 |
| Total Debt Securities Issued | 4,098,304 | 4,303,907 |

13. Debt securities in issue - Commercial Papers and Guaranteed Notes

| Year ended | 31 December 2014 €'000 | 31 December 2013 €'000 |
|---|---------------------------|---------------------------|
| Guaranteed Notes | | |
| National Treasury Management Agency | 3,144,515 | 3,703,756 |
| Local authorities | 643,029 | 287,378 |
| Environment Fund | 7,417 | 7,244 |
| GN re MARP Committee | 1,132 | - |
| Total Commercial Paper and Guaranteed Notes advanced | 3,796,093 | 3,998,378 |
| Interest Payable on Commercial Papers and Guaranteed Notes | 1,477 | 6,290 |
| Total Commercial Papers and Guaranteed Notes | 3,797,570 | 4,004,668 |

The Commercial Papers and Guaranteed Notes are fully guaranteed by the Minister for Finance.

Notes to the Financial Statements (continued)

14. Debt securities in issue – Index linked bonds

| | 31 December 2014 €'000 | 31 December 2013 €'000 |
|--|---------------------------|---------------------------|
| HFA bond issue 4% Index Linked Bonds 2015 | | |
| Nominal value of bonds | 95,230 | 95,230 |
| Net unamortised expenses and premium/discount on issue | 114 | 267 |
| Provision for premium on redemption of bonds | 106,160 | 104,881 |
| Total bonds in Issue | 201,504 | 200,378 |
| | | |
| Interest payable on Index Linked Bonds | 1,999 | 1,991 |
| Total Index Linked Bonds | 203,503 | 202,369 |

Maturities of the debt securities in issue are tabled in Note 18 (c).

Provision for premium on redemption of Index linked bonds

| | Charge €'000 | Deferred €'000 | Provided €'000 |
|-------------------------|-----------------|-------------------|-------------------|
| 31 December 2014 | | | |
| At beginning of year | 105,650 | (769) | 104,881 |
| Arising during the year | 328 | 951 | 1,279 |
| At end of year | 105,978 | 182 | 106,160 |
| | | | |
| 31 December 2013 | | | |
| At beginning of year | 104,356 | (1,616) | 102,740 |
| Arising during the year | 1,294 | 847 | 2,141 |
| At end of year | 105,650 | (769) | 104,881 |

The premium payable on redemption is provided by reference to the percentage increase in the Consumer Price Index from the base date of the bond issue to the index applicable sixth months prior to the relevant coupon date. The bond is fully guaranteed by the Minister for Finance.

15. Debt Securities in issue - 8.75% Housing Finance Agency Stock

| | 31 December 2014 | 31 December 2013 |
|---|------------------|------------------|
| | €'000 | €'000 |
| 8.75% Housing Finance Agency Stock at par value | 95,230 | 95,230 |
| Less: unamortised discount on issue | (1,149) | (1,510) |
| | 94,081 | 93,720 |
| Coupon interest payable | 3,150 | 3,150 |
| Total | 97,231 | 96,870 |

The par value due on redemption and interest on this stock are fully guaranteed by the Minister for Finance. Maturities of the debt securities in issue are tabled in Note 18 (c).

16. Bank loans

| Year ended | 31 December 2014 | 31 December 2013 |
|----------------------------|------------------|------------------|
| | €'000 | €'000 |
| Bank loans | | |
| Between one and two years | 719 | - |
| Between two and five years | 3,958 | 6,273 |
| After more than five years | 105,717 | 112,400 |
| Total | 110,394 | 118,673 |

The bank loans payable are fully guaranteed by the Minister for Finance, excepting two €25 million facilities with the European Investment Bank and the Council of Europe Development Bank, for the purpose of unguaranteed lending for water, waste and environmental projects. The maturity of the amounts falling due after more than one year is further split out in Note 18(c).

17. Pension (deficit)/surplus

The HFA operates a defined benefit pension scheme covering all permanent employees. This pension scheme is internally funded.

The latest full actuarial valuation was carried out at 30th September 2014 using the Aggregate Method. The principal assumption underlying the actuarial valuation was that the long term rate of return on investments would exceed salary inflation by 2% per annum.

At 31 December 2014 the market value of the fund's assets was €3.19 million (2013: €2.70 million). The contributions to the fund have been increased in line with the actuary's recommendations. The Actuarial Report is available for inspection by members of the scheme.

Notes to the Financial Statements (continued)

17. Pension (deficit)/surplus (continued)

For the purposes of FRS 17 Retirement Benefits the latest valuations have been updated to 31 December 2014 by a qualified independent actuary using the projected unit cost method. The principal actuarial assumptions used were as follows:

| | 31 December 2014 | 31 December 2013 | 31 December 2012 |
|---------------------------------------|------------------|------------------|------------------|
| | % | % | % |
| Rate of increase in salaries | 3.00 | 3.50 | 3.50 |
| Rate of increase in pensions payments | 2.00 | 2.00 | 2.00 |
| Discount rate | 2.00 | 4.00 | 3.25 |
| Inflation assumption | 1.50 | 2.00 | 2.00 |
| Life expectancies | | | |
| Post retirement – male age 65 | 24.1 years | 24.1 years | 24.1 years |
| Post retirement – female age 65 | 27.8 years | 27.8 years | 27.8 years |

The Surpluses/(deficits) of the scheme may be analysed as follows:

| | 31 Dec 2014 | 31 Dec 2013 | 31 Dec 2012 | 31 Dec 2011 | 31 Dec 2010 |
|----------------------------|-------------|-------------|-------------|-------------|-------------|
| | €'000 | €'000 | €'000 | €'000 | €'000 |
| Pension Assets | 3,192 | 2,699 | 3,381 | 2,773 | 2,631 |
| Pension Liabilities | (3,775) | (2,785) | (4,060) | (2,124) | (1,894) |
| Surplus/(Deficit) | (583) | (86) | (679) | 649 | 737 |

Based on these assumptions, the following table sets out the market value of the assets of the defined benefit scheme together with the most recent valuation of the scheme liabilities updated for movements in the financial assumptions:

| | Value at 31 Dec 2014 | Value at 31 Dec 2013 | Value at 31 Dec 2012 |
|---|-------------------------|-------------------------|-------------------------|
| | €'000 | €'000 | €'000 |
| Equities | 2,660 | 2,264 | 2,691 |
| Bonds | 532 | 385 | 644 |
| Property | - | 50 | 46 |
| Cash and other assets | - | - | 0 |
| Total market value of pension scheme assets | 3,192 | 2,699 | 3,381 |
| Present value of pension scheme liabilities | (3,775) | (2,785) | (4,060) |
| Total net pension (deficit)/ surplus recognised in the balance sheet | (583) | (86) | (679) |

The expected return has been calculated as the weighted average of the expected long term returns on each of the main asset classes held by the scheme - the weights adopted are the proportions held by the scheme in each of the main asset classes. The impact of the pension is reflected in the expected return. For equities the expected return has been taken as 4.5% p.a., for property 2.5%, for bonds 1.5%. For cash, the expected return is 0.2%. The expected return on assets for 2015 is calculated for illustrative purposes only, under revised Irish GAAP the expected return on assets will be set equal to the discount rate.

17. Pension (deficit)/surplus (continued)

Changes in the present value of the defined benefit obligation are as follows:

| | 31 December 2014 | 31 December 2013 |
|---|------------------|------------------|
| | €'000 | €'000 |
| Present Value of defined benefit obligations at 1 January | (2,785) | (4,060) |
| Current and past service cost | (95) | (125) |
| Interest cost | (116) | (136) |
| Contributions by employees | (24) | (25) |
| Gain on Settlement/Curtailment | 574 | - |
| Actuarial (losses) and gains | (1,342) | 187 |
| Benefits paid | 13 | 1,374 |
| Present Value of defined benefit obligations at 31 December | (3,775) | (2,785) |

Changes in the fair value of plan assets are as follows:

| | 31 December 2014 | 31 December 2013 |
|--|------------------|------------------|
| Fair value of plan assets at 1 January | 2,699 | 3,381 |
| Expected return on plan assets | 135 | 116 |
| Contributions by employer | 141 | 147 |
| Contributions by employees | 24 | 25 |
| Actuarial gains | 206 | 404 |
| Benefits paid | (13) | (1,374) |
| Fair value of plan assets at 31 December | 3,192 | 2,699 |

History of actuarial gains and losses:

| | 31 Dec 2014 | 31 Dec 2013 | 31 Dec 2012 | 31 Dec 2011 | 31 Dec 2010 |
|---|----------------|---------------|----------------|--------------|--------------|
| | €'000 | €'000 | €'000 | €'000 | €'000 |
| Difference between expected and actual return on assets | 206 | 404 | 344 | (190) | 75 |
| Expressed as a percentage of scheme assets | 6.45% | 14.97% | 10.17% | 6.86% | 2.85% |
| Actuarial (losses) and gains on scheme liabilities | (1,342) | 187 | (1,725) | 38 | 34 |
| Expressed as a percentage of scheme liabilities | 35.55% | 6.71% | 42.49% | 1.4% | 1.8% |
| Total actuarial gains and (losses) | (1,136) | 591 | (1,381) | (152) | 109 |
| Expressed as a percentage of scheme liabilities | 30.09% | 21.22% | 34.01% | 7.16% | 5.76% |

Notes to the Financial Statements (continued)

17. Pension (deficit)/surplus (continued)

Cumulative actuarial gains and losses recognised in the Statement of Total Recognised Gains and Losses:

| | 31 December 2014 | 31 December 2013 |
|----------------------------------|------------------|------------------|
| Cumulative amount at 1 January | (1,909) | (2,500) |
| Recognised during the period | (1,136) | 591 |
| Cumulative amount at 31 December | (3,045) | (1,909) |

The amounts related to the defined benefit scheme that were recognised in the Income and Expenditure Account are presented in Note 8.

Expected Employer contributions:

| | 2015 | 2014 |
|---------------------------------|-------|-------|
| | €'000 | €'000 |
| Expected Employer contributions | 130 | 130 |

18. Financial risk management

Introduction and overview

The HFA has potential exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks (including interest rate, inflation and currency). This note presents information about the HFA's exposure to each of the above risks and the HFA's objectives, policies and procedures for measuring and managing risk.

(a) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the HFA's Risk Management Framework. The HFA's risk management policies are established to identify and analyse the risks faced by the HFA, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and products and services offered. The HFA's Policies and Procedures manual includes policies on the use of derivative financial instruments. These support and ensure that HFA meet its requirements under the Specification and Requirements of the Minister for Finance issued under the terms of the Financial Transactions of Certain Companies and Other Bodies Act, 1992 and take into account best practice on the use of derivative treasury instruments. The principal objective of using derivative financial instruments is to match or eliminate risk from potential movements in foreign exchange rates in the HFA's assets and liabilities.

The current 'Specification and Requirements' (valid to 31 December 2017), which follows a policy approved by the Board, allows for contracts covering interest rate swaps (€400 million), foreign exchange forwards (€6.0 billion), forward rate agreements (€80 million) and interest rate caps (€300 million). The 'Specification and Requirements' set out details of the types of counterparties and Board responsibilities in relation to the management of derivatives.

18. Financial risk management (continued)

Transactions can only be carried out with the approval of the HFA's Chief Executive Officer, Head of Treasury or Head of Finance (in the case of those involving the NTMA as agent/counterparty, the NTMA has been granted authority to act on behalf of the HFA. Any transaction undertaken, while not requiring formal approval must be noted by either of the Chief Executive Officer, Head of Treasury or Head of Finance) and are subject to regular periodic internal audit checks during their lifetime.

The HFA, under its ECP programme, can issue ECP in currencies other than euro. In order to hedge against this currency risk, the HFA enters into foreign currency forward rate agreements. The HFA had no ECP deals (2013: zero) outstanding at the year end. Further details in respect of currency risk are included in note (c) below.

While the below tables set out the purpose for which lending has been provided to local authorities, the HFA considers it primarily has two categories of loans to local authorities namely those approved pre and post 27 May 1986 and a separate category for loans to AHBs.. These three categories have a different credit risk profile.

Credit risk

Credit risk is the risk of financial loss to the HFA if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the HFA's loans and advances to its customers, Irish local authorities and approved housing bodies. The HFA's maximum exposure to credit risk is set out in the table below.

| | 31 December 2014 | 31 December 2013 |
|---|-------------------------|------------------|
| Financial assets | €'000 | €'000 |
| Loans advanced to local authorities | 4,154,695 | 4,305,935 |
| Loans advanced to approved housing bodies | 34,503 | 22,818 |
| Total loans advanced | 4,189,198 | 4,328,753 |
| Less collective provision-local authorities | (1,961) | (1,711) |
| | 4,187,237 | 4,327,042 |
| Due from local authorities | 110,646 | 115,032 |
| Cash at bank and in hand | 17,677 | 74,352 |
| Due from other debtors and receivables | - | 32 |
| | 4,315,560 | 4,516,458 |

The HFA is currently permitted to advance money to:

- local authorities and the voluntary housing sector to be used by them for any purpose authorised under the Housing Acts 1966 to 2009.
- local authorities for capital projects authorised under Section 17 of the Housing (Miscellaneous Provisions) Act, 2002.

Notes to the Financial Statements (continued)

18. Financial risk management (continued)

Balances due from local authorities and AHBs are categorised as follows:

| Balance due on advances | 31 December 2014 | 31 December 2013 |
|--|-------------------------|------------------|
| | €'000 | €'000 |
| Mortgage Housing related loans* | 1,208,468 | 1,293,405 |
| Capital Subsidy and Rental | 1,100,767 | 1,139,420 |
| Bridging Finance | 470,275 | 495,269 |
| Land Acquisition | 484,618 | 507,011 |
| Water, Waste and Environment Projects | 368,469 | 355,810 |
| Other Non-Mortgage Housing Related Loans | 522,098 | 515,020 |
| Advances due from local authorities | 4,154,695 | 4,305,935 |
| Advances due from approved housing bodies | 34,503 | 22,818 |
| Overall total balances due on advances | 4,189,198 | 4,328,753 |

*Loans issued pre 1986 of €12.93m are included in the Mortgage Housing related loans (2013: €19.4m)

Policies and Procedures for managing credit risk

Collateral

The HFA is liable for any credit losses that may arise on pre May 1986 mortgages which are secured by the underlying mortgage property and mortgage protection insurance. The local authorities hold collateral in the form of mortgage interests over the property and individual borrowers hold mortgage protection insurance. Only in the event of collateral not being sufficient to discharge the debt is the HFA liable for any impairment losses which may arise.

On post May 1986 loans the HFA has security, following the discharging of priority charges and payments, over the local authority's revenues or funds for the payment to the HFA of all amounts due. With regard to loans to AHBs the HFA is permitted under Section 17 of the Housing Miscellaneous Provision Act 2002 to lend to AHBs.

Under the Social Housing Leasing Initiative of the DoECLG, through local authorities, leases suitable housing units from AHBs which are rented to social housing tenants nominated by local authorities. Properties are either bought or built by AHBs and financed by loan finance raised by the AHB (from the HFA or the private sector). Income received by the AHBs from a lease, taken out by the DoECLG for a period of up to 30 years, will fund the repayment of the HFA's loan.

The HFA has a credit policy regarding lending to AHBs which was approved by the Board in June 2013 and recently updated in September 2014. The Credit Committee maintains credit risk within Board limits and reports on the creditworthiness of AHBs.

18. Financial risk management (continued)

Impaired and Past due loans

Fair value is not assessed except where a loan is individually assessed past due or impaired. The definition of past due and impaired is as follows:

Impaired loans are loans for which the HFA determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan. Loans where contractual interest or principal payments are past due are defined as past due. The HFA had no loans and advances which are past due at 31 December 2014 (2013: nil).

Details of loans that were subject to renegotiation in the year are in the Renegotiated Loans section of this note.

| | 31 December 2014 | 31 December 2013 |
|---|-------------------------|------------------|
| | €'000 | €'000 |
| Analysis of loans to local authorities | | |
| Pre 1986 loans | 12,929 | 19,400 |
| Post 1986 loans | 4,141,766 | 4,286,535 |
| Loans to approved housing bodies | 34,503 | 22,818 |
| | 4,189,198 | 4,328,753 |
| Collective Provision | | |
| Pre 1986 loans | 1,961 | 1,711 |
| Post 1986 loans | - | - |
| | 1,961 | 1,711 |

In substance, no material credit risk other than sovereign risk, arises on loans advanced to local authorities on or after 27 May 1986 and no loan loss provisions are recorded in respect of these loans. Local authorities are bodies constituted under statute. All loans advanced to local authorities are approved by the Minister for the Environment, Community and Local Government. It is the Board's belief that, in this context, credit risk does not arise.

Loan losses are recognised on direct lending to approved housing bodies to the extent that losses are incurred. No such losses arose in 2014.

The Board of Directors is responsible for the oversight of the HFA's credit risk including:

- formulating credit policies in conjunction with Management, covering collateral requirements, documentary and legal procedures within the confines of statutory requirements;
- establishing the authorisation structure and approval for new counterparties (non-local authorities) and lending concentrations thereto;
- reviewing compliance with internal policies and procedures;
- monitoring of loans policy disclosure;
- approve any loans advanced to AHBs under the terms of Section 17 of the Housing (Miscellaneous Provisions) Act 2002 and to ensure that all loans advanced are in accordance with the HFA's Credit Policy;
- consider and approve the creditworthiness of each AHB prior to a Master Loan Agreement being executed by the HFA;
- ensure that it has obtained all relevant documentation pertaining to the credit application; and
- maintain credit risk within Board approved limits.

Notes to the Financial Statements (continued)

18. Financial risk management (continued)

Mortgage Arrears Resolution Process (MARP)

In August 2012, the DoECLG provided assistance to local authorities in dealing with their borrowers' mortgage arrears, by issuing guidelines detailing the proposed Mortgage Arrears Resolution Process (MARP). These reflect the Central Bank's Code of Conduct on Mortgage Arrears and have the intention of standardising an approach to the rising arrears among in the Local Authorities Sector. The MARP process consists of a five steps process mentioned in the DoECLG's guidelines.

In order to offset future losses and to allay impending financial constraints on local authority revenue streams, the DoECLG established a MARP premium to begin to accumulate funds. MARP has been operational for local authorities since 1 October 2012 through the application of a premium to all variable mortgage related local authority loan accounts. A MARP premium of 0.80% (from 1 January 2014) is collected on the MARP Adjudicating Panel's behalf by the HFA half-yearly and retained in separate interest bearing account with the intention of being drawn down, as necessary, when given the proper authorisation. The MARP fund purchases a Guaranteed Note for the amounts collected on their behalf.

The City and County Managers Association have established an Adjudicating Panel to operate the MARP fund and to assess applications for assistance from local authorities under the Scheme. This Panel consists of a County Manager, Heads of Finance and an Executive Manager of the Housing Management Services. Applications for assistance from the MARP Premium Fund will be made on an on-going basis by local authorities. Decisions to approve/partially approve applications will be notified to the HFA, who will then arrange for payment of the approved amount from the MARP Fund to the applicant local authority, according to instructions received from the Panel.

It should be emphasised that the HFA's only involvement in the MARP Fund is to collect the MARP premium, on the local authorities' behalf, and to pay these funds as requested by the Adjudicating Panel, as per the instructions mentioned above.

MARP Fund Reconciliation

| | € '000 |
|-------------------------------|--------------|
| Receipts to MARP Fund | 10,254 |
| Disbursements from MARP fund | (9,133) |
| Interest Earned | 11 |
| Balance at 31 Dec 2014 | 1,132 |

Discontinuance of the Land Aggregation Scheme

The DoECLG Land Aggregation Scheme ('LAGS') first became operational in 2010 with the objective of gradually, over a period of about 10 years, reducing the outstanding loan balance for land on local authority books.

New arrangements were advised to local authorities in June 2012 in which the terms of the scheme were altered such that interest only land loans that have matured or are due to mature in 2012 and after, must either be repaid or converted into a standard annuity with a term of up to 25 years with the Department recouping the full cost of the capital and interest annuity payments.

In the context of the continuing pressure on Exchequer resources, a further review of the operation of LAGS by the Department, in consultation with the Department of Public Expenditure and Reform was completed in 2013. The review concluded that the land aggregation scheme be discontinued. Funding will continue to be made available, by the DoECLG, for the recouping of annuity loan payments to local authorities in respect of land already approved into the Scheme. Local authorities with loans not already accepted into the scheme were encouraged to contact the HFA to make alternative arrangements as necessary. (See renegotiated loans below).

18. Financial risk management (continued)

The HFA will continue to engage with the DoECLG and the local government sector in relation to the management of the local authority loan book generally. The HFA have offered renegotiated loans terms for such loans, with Local Authorities, up to five years interest-only, with loans to revert thereafter to normal course annuities. This will enable the affected Local Authorities find alternative uses for the lands.

Renegotiated Loans

Loans with renegotiated terms are loans that have been restructured due to budgetary circumstances and where the HFA has made concessions that it would not otherwise consider.

The HFA endeavours to work with the local authorities to develop appropriate loan structures for them in order to better match their financial circumstances. In this regard, the HFA may extend loan terms, offer deferred interest periods or offer other renegotiations as appropriate.

During 2014 the HFA renegotiated €238.95 million (2013: €108.03 million) of non-housing related loans and €0 million (2013: €28.60) of housing related loans. These renegotiations have taken place in the context of €4.2 billion of loans advanced to local authorities as at 31 December 2014 and thus represents renegotiation activity of circa 4.8% in 2014 (2013: 3.8%).

Renegotiated non-housing related and housing related loans were given interest only loans that did not result in impairment or derecognition of the original loan assets as it did not represent a significant modification of terms. The HFA ceases to consider these loans as renegotiated once one year of up to date scheduled repayments has elapsed post renegotiation. In this regard, the HFA considers €202.4 million of loans (2013: €164.52 million) to be renegotiated as at 31 December 2014 with €1.60 million (2013: €1.60 million) of interest income recognised on these assets.

| 31 December 2014 | Number of loans | Carrying value €'000 |
|--|------------------------|-----------------------------|
| Opening renegotiated loans | 190 | 164,516 |
| Renegotiated during the year | 106 | 238,950 |
| Repaid during the year | - | - |
| Less loans no longer considered renegotiated | (193) | (201,069) |
| Closing renegotiated loans | 103 | 202,397 |

| 31 December 2013 | Number of loans | Carrying value €'000 |
|--|-----------------|----------------------|
| Opening renegotiated loans | 39 | 33,375 |
| Renegotiated during the year | 162 | 136,639 |
| Repaid during the year | - | (109) |
| Less loans no longer considered renegotiated | (11) | (5,389) |
| Closing renegotiated loans | 190 | 164,516 |

As at year ended 31 December 2014 €117.53 million (2013: €59.55 million) of land acquisition loans were converted upon maturity to annuity loans repayable over a period of up to 30 years. Interest accrued on loans converted upon maturity at 31 December 2014 amounts to €1.18 million (2013: €0.62 million)

Notes to the Financial Statements (continued)

18. Financial risk management (continued)

Concentrations

All loans and advances are to local authorities and AHBs all of which are approved by the Minister for the Environment, Community & Local Government.

The HFA's credit risk also consists of its exposure to institutions (primarily the NTMA), with which it holds short term investments. An investment and counterparty exposure policy is periodically approved by the Board. Investments arise at present only in the context of day-to-day liquidity management. At 31 December 2014 the HFA had no investments (2013: €74 million) in Exchequer Notes with the NTMA.

Allied Irish Bank plc. is currently the main counterparty for cash, with €17.677 million held at 31 December 2014 (2013: €0.352 million). At 31 December 2014, the Standard & Poor's rating for Allied Irish Bank plc. was BB (2013: BB).

(b) Liquidity risk

Liquidity risk is the risk that the HFA will encounter difficulty in meeting its obligations from its financial liabilities. The HFA refinanced €2,872 million of its short term fixed rate guaranteed notes which were held by the National Treasury Management Agency. These notes were replaced with longer term floating rate guaranteed notes, also held by the National Treasury Management Agency. The floating rate notes have maturities tranching at six monthly intervals from July 2015 to January 2021. The interest rates are refixed on a quarterly basis, at a margin over the three month Euribor® rate. The GNs are guaranteed by the Minister for Finance of Ireland. In contrast, loans and receivables have an average original loan term of 24 years (2013: 24 years). This represents a significant mismatch in the maturity profile, however given the assurances received from the NTMA concerning the continuity and quantum of floating-rate funding, the Board considers that sufficient resources are available to cover any liquidity risk that may arise over the next 12 months. The HFA also holds GNs with local authorities and a small amount with the Environment Fund (see Note 13).

In managing liquidity risk, HFA management hold regular meetings with the NTMA, the Banks, AHBs and other market participants to assess future loan demand and funding requirements; agree access to funding sources; explore alternative funding sources and structures; negotiate terms and conditions and obtain the necessary funding commitments. In this regard the NTMA has confirmed that the HFA's funding requirements for 2015 have been included as part of the overall planning process for State funding.

The following table presents the maturity analysis of financial liabilities on an undiscounted basis by remaining contract maturity at the year-end date:

| | Carrying amount | Gross nominal inflow (outflow) | Less than 1 month | 1–3 Months | 3 Months to 1 year | 1–5 years | More than 5 years |
|-----------------------------------|--------------------|--------------------------------|-------------------|------------------|--------------------|--------------------|-------------------|
| 31 Dec 2014 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 |
| Non-derivative liabilities | | | | | | | |
| Guaranteed Notes facility | (3,796,094) | (3,800,844) | (621,611) | (131,561) | (271,825) | (2,018,798) | (757,049) |
| 20-year variable loan | (110,394) | (116,558) | - | (64) | (6,346) | (35,074) | (75,074) |
| Index linked bonds | (201,506) | (206,121) | - | - | (206,121) | - | - |
| Fixed Rate Stock 8.75% | (94,081) | (129,610) | - | (4,166) | (4,166) | (121,278) | - |
| | (4,202,075) | (4,253,133) | (621,611) | (135,791) | (488,458) | (2,175,150) | (832,123) |

18. Financial risk management (continued)

| | Carrying amount | Gross nominal inflow (outflow) | Less than 1 month | 1–3 Months | 3 Months to 1 year | 1–5 years | More than 5 years |
|-----------------------------------|-----------------|--------------------------------|-------------------|-------------|--------------------|-----------|-------------------|
| 31 Dec 2013 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 |
| Non-derivative liabilities | | | | | | | |
| Guaranteed Notes facility | (3,998,378) | (4,009,667) | (2,321,601) | (1,688,066) | - | - | - |
| 20-year variable loan | (118,673) | (127,234) | - | (86) | (9,113) | (34,904) | (83,131) |
| Index linked bonds | (200,378) | (218,750) | - | - | (7,942) | (210,808) | - |
| Fixed Rate Stock 8.75% | (93,720) | (129,610) | - | (4,166) | (4,166) | (121,278) | - |
| | (4,411,149) | (4,485,261) | (2,321,601) | (1,692,318) | (21,221) | (366,990) | (83,131) |

Management of liquidity risk

The HFA's policy in relation to liquidity risk is to ensure, by periodic reviews of cashflow requirements, that it can meet its funding obligations for an appropriate period ahead.

The Board approves a rolling update of a five-year Corporate Plan in the first half of each year. This takes into account the HFA's internal resource calculations, on estimates of loan advances, loans maturing during the year and funding options.

Regular review of the HFA's financial position is presented, along with monthly management accounts, to the Board.

The Board regularly reviews the current debt programme, which includes a match-funding, borrowings and advances report on a quarterly basis by loan type and maturity detailing capital, interest rate structure, currency composition, borrowing costs, maturity profile.

The HFA finances its operations by a combination of bond, Euro Commercial Paper and Guaranteed Notes issuance, bank overdrafts and retained profits. Section 17 of the Housing (Miscellaneous Provisions) Act 2002 and section 19 of the Planning and Development (Amendment) Act 2002 gives the HFA the power to request the NTMA to undertake borrowing and debt management on the HFA's behalf. The HFA acts in close consultation with, and on the advice of, the NTMA in regard to its ECP and GN programmes. The NTMA had purchased €3.14bn in GNs at 31 December 2014 (2013: €3.70bn).

At 31 December 2014 none of the HFA's funding was provided under the ECP programme (2013: zero). There was no ECP funding drawn down during the year. However given the assurances received from the NTMA concerning the continuity and quantum of floating-rate funding, the Board considers that sufficient resources are available to cover any liquidity risk that may arise over the next 12 months. The HFA also holds GNs with local authorities and a small amount with the Environment Fund (see Note 13).

Notes to the Financial Statements (continued)

18. Financial risk management (continued)

In managing liquidity risk, HFA management hold regular meetings with the NTMA, the Banks, AHBs and other market participants to assess future loan demand and funding requirements; agree access to funding sources; explore alternative funding sources and structures; negotiate terms and conditions and obtain the necessary funding commitments. Previous downgrading of the sovereign and consequently, the HFA credit ratings and the withdrawal of Ireland from the funding markets had significantly affected the HFA's access to funding through its ECP programme. In May 2014 Moody's Investors Service upgraded the short-term debt rating of Housing Finance Agency plc.'s (HFA) euro 6 billion commercial paper programmes to P-2. This rating action reflects Moody's upgrade on 17 January 2014 of the Republic of Ireland, the guarantor of the ECP programme, to Baa3/P-3 with a positive outlook.

The HFA's overdraft facilities (€50 million available at 31 December 2014) are subject to annual review by the HFA's bankers. The HFA has historically issued a number of fixed rate medium-term loans to local authorities for housing and related purposes and has funded these loans with matched fixed rate Medium Term Notes. Because of this, these loans are fully matched in loan term and interest rate, and present no liquidity risk. The HFA predominantly borrows at floating interest rates.

The average variable cost of the HFA's debt in 2014 was an annualised 1.26% compared with 1.25% in 2013, as an increase in Euribor® rates in the first half of 2014 was cancelled out by a decrease in rates in the second half of 2014.

(c) Market risks

Market risk is the risk that changes in market prices, such as interest rate and foreign exchange rates will affect the HFA's income or the value of its holdings of financial instruments. The objective of market risk management is to minimise or eliminate market risk exposures.

Management of market risks

The HFA splits market risks into risks related to changes in variable interest rates, foreign exchange rates and inflation. Interest rate risk exposure is managed by minimising mismatches between its borrowings and its advances within its individual programmes – index linked, fixed rate and floating rate. The following uncertainties are taken into account in determining the policy:

- where borrowers can redeem without penalty;
- where specialised markets (e.g. index linked) may not always be receptive to issues and redemptions; and
- where the HFA's business is subject to changes in Government policy.

The HFA's general approach in relation to managing its interest rate risk exposure is to generate margins to increase profitability and also by taking action to set interest rates to protect the HFA against perceived residual risks, by reference to various scenarios and assumptions. The Board assesses the situation regularly and determines the level of reserves required annually.

The gross financial assets are analysed below:

| | 31 December 2014 | 31 December 2013 |
|-----------------------|------------------|------------------|
| | €'000 | €'000 |
| Fixed rate | 30,236 | 50,392 |
| Floating Rate: | | |
| Euribor® | 4,169,634 | 4,339,706 |
| Index linked | 117,651 | 128,071 |
| | 4,317,521 | 4,518,169 |

18. Financial risk management (continued)

The HFA made new fixed and floating rate advances during the financial year. Fixed rate €0.10 million; Floating rate €152.47 million. (2013: Fixed rate €0.45 million; Floating rate €138.24 million). The HFA's index linked advances are classified as floating rate assets. Interest rate risk profile of financial assets as at:

| | 31 December 2014 | 31 December 2013 |
|--|------------------|------------------|
| Weighted average fixed interest rate | 6.08% | 5.02% |
| Weighted average floating interest rate | 1.85% | 1.95% |
| Weighted average period of fixed interest assets | 11.3 years | 13.5 years |

A large proportion of the HFA's fixed rate loans consist of 30-year loans issued in 1986. Post 27 May 1986 new advances are fixed for much shorter periods, averaging from five to ten year loan periods. Floating rate loans consist of loans to local authorities of terms between one and fifty years. Based on original loan balances advanced, the weighted average original loan term is 24.5 years (2013: 23.7 years).

Floating rate liabilities include the HFA's GNs, European Investment Bank and Council of European Development Bank debt. This debt consists of short-term debt priced off a variable index (Euribor®). Index linked borrowings, which are priced off the Consumer Price Index, are also classified as floating rate liabilities. The Directors believe the debt is appropriately classified as floating rate.

The financial liabilities principal amounts are analysed below:

| | 31 December 2014 | 31 December 2013 |
|-----------------------|------------------|------------------|
| | €'000 | €'000 |
| Fixed rate | 94,081 | 93,720 |
| Floating Rate: | | |
| Euribor® | 3,906,488 | 4,117,051 |
| Index linked | 201,506 | 200,378 |
| | 4,202,075 | 4,411,149 |

Interest rate risk profile of financial liabilities as at year end date:

| | 31 December 2014 | 31 December 2013 |
|--|------------------|------------------|
| Weighted average fixed interest rate | 8.86% | 8.89% |
| Weighted average period for which fixed interest liabilities are fixed (years) | 3.1 years | 4.1 years |
| Weighted average floating interest rate | 1.02% | 1.25% |
| Weighted average period for which variable interest liabilities are fixed (days) | 51 days | 80 days |

The floating rate financial liabilities comprise bank borrowings and Guaranteed Notes bearing interest at rates fixed in advance for periods ranging from three to six months by reference to the six-month and three month Euribor® and index linked liabilities bearing interest rates which are calculated by reference to the Irish Consumer Price Index.

Notes to the Financial Statements (continued)

18. Financial risk management (continued)

The following table presents the contractual maturity and repricing of financial assets at the year-end date:

| | Maturity 31 December 2014 | Repricing 31 December 2014 |
|---|--------------------------------------|-------------------------------|
| | €'000 | €'000 |
| Maturity and interest rate of financial assets | | |
| Amounts falling due in one month or less | 394,395 | 4,187,880 |
| Amounts falling due between one and three months | - | 102,648 |
| Amounts falling due between three and twelve months | 306,056 | 2,122 |
| Amounts falling due between one and two years | 27,232 | 286 |
| Amounts falling due between two and three years | 21,698 | 6,615 |
| Amounts falling due between three and four years | 22,963 | 1,901 |
| Amounts falling due between four and five years | 24,661 | 789 |
| Amounts falling due after more than five years | 3,520,516 | 15,281 |
| | 4,317,521 | 4,317,522 |

| | Maturity 31 December 2013 | Repricing 31 December 2013 |
|---|--------------------------------------|-------------------------------|
| | €'000 | €'000 |
| Maturity and interest rate of financial assets | | |
| Amounts falling due in one month or less | 519,783 | 4,363,948 |
| Amounts falling due between one and three months | 1,744 | 107,789 |
| Amounts falling due between three and twelve months | 306,670 | 3,047 |
| Amounts falling due between one and two years | 73,726 | 29 |
| Amounts falling due between two and three years | 31,909 | 418 |
| Amounts falling due between three and four years | 30,074 | 9,231 |
| Amounts falling due between four and five years | 24,126 | 2,512 |
| Amounts falling due after more than five years | 3,530,137 | 31,195 |
| | 4,518,169 | 4,518,169 |

18. Financial risk management (continued)

The following table presents the maturity and repricing of principal amounts of financial liabilities at the year-end date:

| | Maturity €'000 | Repricing €'000 |
|---|-------------------|--------------------|
| Maturity, liquidity measures and interest rate of financial liabilities as at 31 December 2014 | | |
| Maturing in one month or less | 621,308 | 3,540,677 |
| Maturing between one and three months | 131,485 | 168,985 |
| Maturing between three and twelve months | 472,806 | 398,332 |
| Maturing greater than 1 year and less than 2 years | 504,719 | - |
| Maturing greater than 2 years and less than 3 years | 506,959 | - |
| Maturing greater than 3 years and less than 4 years | 599,081 | 94,081 |
| Maturing greater than 4 years and less than 5 years | 504,000 | - |
| Maturing greater than 5 years | 861,717 | - |
| | 4,202,075 | 4,202,075 |

| | Maturity €'000 | Repricing €'000 |
|---|-------------------|--------------------|
| Maturity, liquidity measures and interest rate of financial liabilities as at 31 December 2013 | | |
| Maturing in one month or less | 2,322,326 | 2,322,326 |
| Maturing between one and three months | 1,676,053 | 1,676,053 |
| Maturing between three and twelve months | - | - |
| Maturing greater than 1 year and less than 2 years | 200,377 | 200,377 |
| Maturing greater than 2 years and less than 3 years | 1,078 | 1,078 |
| Maturing greater than 3 years and less than 4 years | 3,945 | 3,945 |
| Maturing greater than 4 years and less than 5 years | 94,970 | 94,970 |
| Maturing greater than 5 years | 112,400 | 112,400 |
| | 4,411,149 | 4,411,149 |

Undrawn committed facilities

The HFA had undrawn committed facilities at 31 December 2014 of €39.60 million (2013: €31.33 million), these are the amounts yet to be drawn down on approved committed facilities.

Notes to the Financial Statements (continued)

18. Financial risk management (continued)

Sensitivity to interest rate risk

An analysis of the HFA's sensitivity to an increase or decrease in market interest rates (assuming a constant balance sheet position) would impact on gains/(losses) for the financial year as follows:

| | 100 bp parallel increase | 100 bp parallel decrease | 50 bp parallel increase | 50 bp parallel decrease |
|----------------------------|-----------------------------|-----------------------------|----------------------------|----------------------------|
| | €'000 Gain | €'000 (Loss) | €'000 Gain | €'000 (Loss) |
| At 31 December 2014 | 12,215 | (16,061) | 6,107 | (6,870) |
| At 31 December 2013 | 11,780 | (12,023) | 5,890 | (5,932) |

The above figures have been calculated using outstanding balances of variable rate loan advances offsetting outstanding variable rate ECP funding, at the above dates. Increases in interest rates above assume mid-point average for the calendar year. Fixed rate advances and fixed rate funding have no sensitivity to changes in market interest rates and are therefore excluded from this analysis.

Exposure to inflation rate risk

Inflation related risk arises from a mismatch of index linked borrowings and advances which is inherent in the contracts governing each side of the HFA's book. The HFA, in the absence of readily available hedging instruments, manages this risk by matching the borrowing and lending portfolios as far as possible and by setting margins above its cost, which is approved by the Board. The HFA's policy is to ensure that adequate reserves are set aside to meet known potential risks in the period to which such exposures relate.

As at 31 December 2014, the inflation mismatch was €90.34 million (2013: €76.80 million) - this mismatch is the bond values at 31 December 2014 less outstanding indexed linked loan advances at the end of the year. In relation to inflation mismatches and margin fluctuations, the Board determines a reserve figure for the current year, based on historic trends. In other areas (e.g. the potential cost of a mismatch between long-term fixed rate assets (advances to local authorities) and liabilities (bonds)). The Board sets aside reserves based on the net present value of potential losses at current market value.

The fair value of the index linked assets were higher than the carrying value due to the fact that the income rate on the indexed linked loans is charged at an applicable fixed rate margin plus inflation. This also impacts on the discount rate used to calculate the fair value, which is a combination of the average income rate charged for the year less the Euribor® rate at the year end.

An analysis of the HFA's sensitivity to an increase or decrease in the consumer price index inflation rates (assuming a constant balance sheet position) is as follows:

| | 100 bp parallel increase | 100 bp parallel decrease | 50 bp parallel increase | 50 bp parallel decrease |
|----------------------------|-----------------------------|-----------------------------|----------------------------|----------------------------|
| | €'000 (Loss) | €'000 Gain | €'000 (Loss) | €'000 Gain |
| At 31 December 2014 | (441) | 441 | (221) | 221 |
| At 31 December 2013 | (384) | 384 | (192) | 192 |

18. Financial risk management (continued)

Fair value

The following tables outline the fair values of the financial assets and liabilities as at 31 December 2014 and 31 December 2013:

| | Carrying value | Fair value |
|-------------------------------|------------------|------------------|
| | €'000 | €'000 |
| 31 Dec 2014 | | |
| Financial assets | | |
| <i>Loans and receivables:</i> | | |
| Fixed rate | 30,236 | 39,031 |
| Floating rate | 4,169,634 | 4,196,149 |
| Index linked | 117,651 | 134,896 |
| | 4,317,521 | 4,370,076 |
| Financial liabilities | | |
| Fixed rate | 94,081 | 120,436 |
| Floating rate | 3,906,488 | 3,906,488 |
| Index linked | 201,506 | 206,121 |
| | 4,202,075 | 4,233,045 |

The carrying amount of all other financial assets and liabilities not carried at fair value is considered to be a reasonable approximation of fair value. Information for loans is presented below:

| | Carrying value | Fair value |
|-------------------------------|------------------|------------------|
| | €'000 | €'000 |
| 31 Dec 2013 | | |
| Financial assets | | |
| <i>Loans and receivables:</i> | | |
| Fixed rate | 50,392 | 48,169 |
| Floating rate | 4,339,706 | 3,623,319 |
| Index linked | 128,071 | 120,600 |
| | 4,518,169 | 3,792,088 |
| Financial liabilities | | |
| Fixed rate | 93,720 | 110,184 |
| Floating rate | 4,117,051 | 4,117,050 |
| Index linked | 200,378 | 192,739 |
| | 4,411,149 | 4,419,973 |

Notes to the Financial Statements (continued)

18. Financial risk management (continued)

The HFA operates in a relatively niche market serving a need for funding of local authorities and social housing. It is thus difficult to obtain market observable information on which to calculate a fair value of its indexed linked and fixed rate financial assets and liabilities. Estimated fair values of financial fixed rate and indexed linked assets and liabilities have been discounted using relevant Irish Government bond yields as at the Balance Sheet date. This is based on the HFA's exposure to sovereign risk as discussed in the liquidity risk section of this note. As per the prior year, the floating rate liabilities are shown at par value due to the short term nature of their maturities.

The fair value of the HFA's assets has been estimated as €4.37 billion (2013: €3.80 billion) while the fair value of its liabilities has been estimated as €4.23 billion (2013:€4.42 billion). A significantly different amount may arise if alternative assumptions were used in calculating fair value.

In selecting this methodology, the Directors decided against using the quoted market price of the index linked bonds, which are due to mature in 2015 as they are held by few stockholders and are rarely traded. It was considered that the value by reference to variable rates gave a more accurate reflection of the situation and allowed both assets and liabilities to be assessed on a similar basis, given the bond matures in April 2015, its fair value is not likely to be significantly different.

19. Reconciliation of expenditure to net cash inflow from operating and trading activities

| | 31 December 2014 | 31 December 2013 |
|---|------------------|------------------|
| | €'000 | €'000 |
| <i>Cash flows from operating activities</i> | | |
| Profit for the period | 13,871 | 19,760 |
| Amortisation of premium discount on liabilities | 1,487 | 2,350 |
| Depreciation | 27 | 23 |
| Gain on Settlement/Curtailment | (574) | - |
| Pension actuarial costs | (65) | - |
| Impairment charges | 250 | 299 |
| Net cash from operating activities | 14,996 | 22,432 |
| <i>Cash flows from trading activities</i> | | |
| Net decrease in loans and advances to local authorities and approved housing bodies (excl. MPI provision) | 143,941 | 110,712 |
| Net decrease in other debtors and prepayments | 32 | 186 |
| Net (decrease)/increase in other creditors | (194) | 142 |
| Net cash from trading activities | 143,779 | 111,040 |
| Net cash inflow from operating and trading activities | 158,775 | 133,472 |

20. Analysis of cash flows from investing activities

| | 31 December 2014 | 31 December 2013 |
|---|------------------|------------------|
| | €'000 | €'000 |
| <i>Cash flows from investing activities</i> | | |
| Acquisition of computers and equipment | (81) | (33) |
| Proceeds from the sale of computers and equipment | 0 | 0 |
| Net cash from investing activities | (81) | (33) |

21. Movement in cash, liquid resources and financing

| | At 31 December 2013 | Cash flows | Non-cash movements | At 31 December 2014 |
|---|------------------------|----------------|-----------------------|------------------------|
| Analysis of changes in net debt | €'000 | €'000 | €'000 | €'000 |
| Cash and cash equivalents | 74,352 | (56,675) | - | 17,677 |
| Overdraft | - | - | - | - |
| | 74,352 | (56,675) | - | 17,677 |
| Guaranteed Notes | (3,998,378) | 202,285 | - | (3,796,093) |
| Bank loans | (118,673) | 8,279 | - | (110,394) |
| Index linked bonds | (95,497) | - | 153 | (95,344) |
| Provision for premium on redemption of bonds | (104,881) | - | (1,279) | (106,160) |
| 8.75% HFA Stock 2018 | (93,720) | - | (361) | (94,081) |
| Interest payable on facilities | (11,432) | 4,805 | - | (6,627) |
| | (4,422,581) | 215,369 | (1,487) | (4,208,699) |
| Net debt | (4,348,229) | 158,694 | (1,487) | (4,191,022) |

Proceeds from the issue of borrowings during 2014 amounted to €30.29 billion (2013: €32.00 billion) and the repayment of borrowings during 2014 amounted to €30.34 billion. (2013: €32.10 billion)

22. Share capital

There are 30,000 ordinary shares of €1.30 authorised, allotted, called up and fully paid amounting to €39,000 at 31 December 2014 and 2013.

Notes to the Financial Statements (continued)

23. Reconciliation of retained surplus

| | 31 December 2014 | 31 December 2013 |
|--|------------------|------------------|
| | €'000 | €'000 |
| Retained surplus at beginning of year | 93,196 | 72,845 |
| Total recognised gain for the financial year | 12,735 | 20,351 |
| Retained surplus at end of year | 105,931 | 93,196 |

24. Reconciliation of shareholder's funds

| | 31 December 2014 | 31 December 2013 |
|--|------------------|------------------|
| | €'000 | €'000 |
| Opening shareholder's funds | 93,235 | 72,884 |
| Total recognised gain for the financial year | 12,735 | 20,351 |
| Closing shareholder's funds | 105,970 | 93,235 |

25. Loan commitments

With regard to proposed lending by the HFA to AHBs, loan applications of €26.59 million were approved but undrawn at 31 December 2014 (2013: € 14.68 million).

26. Post balance sheet events

There were no significant events after the year-end which require disclosures or adjustments to the accounts.

27. Contingent liability

No dividend is due to be declared for 2014.

28. Approval of Financial Statements

The audited Financial Statements, which are in the form approved by the Minister for the Environment, Community & Local Government, with the consent of the Minister for Public Expenditure & Reform, were approved by the Directors on 2 April 2015.

Corporate Information

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Tom Conroy, ACMA, CGMA

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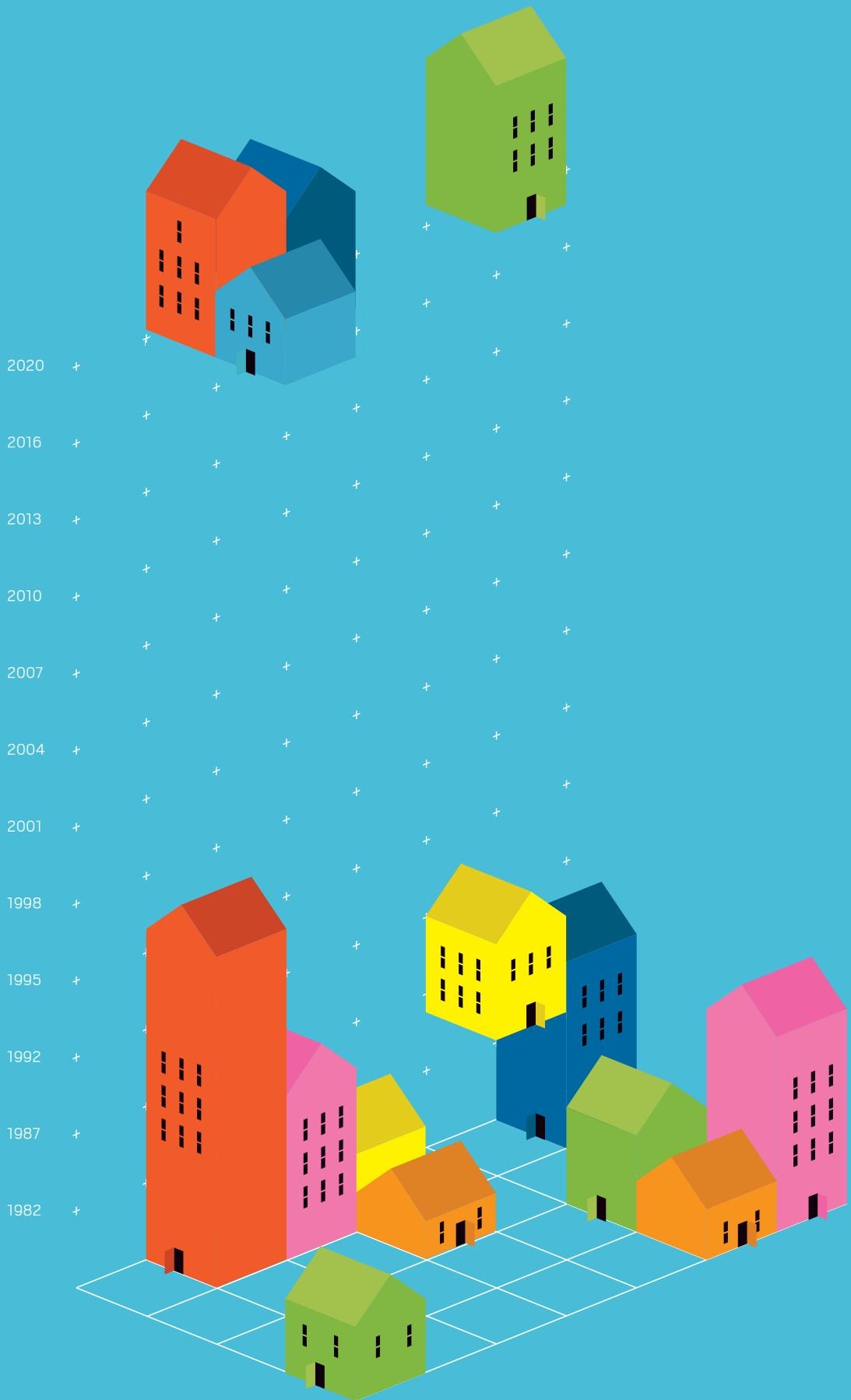
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Housing Finance Agency
An Ghníomhaireacht Airgeadais Tithíochta

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