



An Ghníomhaireacht Airgeadais Tithíochta cpt  
Housing Finance Agency plc

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## **Annual Report 2000**

Housing Finance Agency plc  
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# An Ghníomhaireacht Airgeadais Tithíochta cpt Housing Finance Agency plc

## Annual Report 2000

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## The Board



Chairman  
Dr. Finola Kennedy



Managing Director  
James Hehir



Fr. Patrick Cogan



Thomas Corcoran



Daniel Huxley

The Board (continued)



Patricia Robinson



Ciarán Murphy



Finbarr Kennelly



Thomas Cullen



Patrick d'Arcy



Maureen Lynott

## Management



Dr. Ian d'Alton



Barry O'Leary



Tom Conroy



Annette Aungier

## Directors and other information

### Board of directors

Dr. Finola Kennedy (Chairman) (1,3)	1) = member of Finance Committee
James Hehir (Managing) (1)	2) = member of Audit Committee
Fr. Patrick Cogan (2,3)	3) = member of Remuneration Committee
Thomas Corcoran (1,3)	
Thomas Cullen (1,2)	
Patrick d'Arcy (2,3)	
Daniel Hurley (2,3)	
Finbarr Kennelly (1)	
Maureen Lynott (2)	
Ciarán Murphy (1)	
Patricia Robinson (2)	

### Principal board committees

1. Finance Committee
2. Audit Committee
3. Remuneration Committee

### Secretary and registered office

Barry O'Leary, F.C.C.A.  
Eden House  
15/17 Eden Quay  
Dublin 1

### Auditors

KPMG  
Chartered Accountants  
5 George's Dock  
IFSC  
Dublin 1

### Solicitors

McCann FitzGerald  
Solicitors  
2 Harbourmaster Place  
Custom House Dock  
Dublin 1

## Chairman's Report

### Highlights of the Board's term of office

The term of office of the current Board of the Housing Finance Agency plc comes to an end on 31 December 2001. This, therefore, is my last annual report as Chairman. I have greatly enjoyed my term as Chairman, due, in no small part, to the tremendous support which I received from my fellow Board members.

I would like to avail myself of the opportunity of expressing my sincere thanks to Pat Cogan, Tom Corcoran, Paddy d'Arcy, Nuala Fennell who retired during the year, Dan Hurley, Finbarr Kennelly, Maureen Lynott, Ciarán Murphy and Patricia Robinson. Patricia has made a special contribution to the design of our annual reports. It was very pleasing for the Agency that a recent annual report was highly commended in the Chartered Accountants Published Accounts Awards, sponsored by AXA. In particular I would like to thank the Managing Director, Jim Hehir, for his outstanding commitment and dedication to the work of the Agency. As the baton is passed to a new Board, we can say that we have given the Agency our best effort.



The Agency operates with a clear remit – to advance, without Exchequer subvention, loans to local authorities for housing and related purposes at the finest interest rates. Its primary role is to provide local authorities with the borrowings necessary to fund the government's social housing programmes. Local authorities have the benefit of finely-priced loan finance, on demand, for any amount, large or small, in a variety of interest rate structures and repayment types, and for maturities up to 30 years. Application, approval, billing and documentation systems are streamlined, straightforward and standardised.

At 31 December 2000 the Agency's loan book approached one billion pounds. Growth in Agency lending was in line with government policy and the overall growth of credit in the economy. It is my belief that a period of consolidation is in order with a slowing of credit growth. Irish economic history gives clear witness to the cyclical nature of housing activity; one of the challenges to be faced in the coming years will be the maintenance of stable growth.

Two initiatives taken by the Board which have strengthened the fibre of the Agency and rendered it more effective in carrying out its work were the formulation of the Agency's first Corporate Plan and the commissioning of a Staff Structure Review. The Corporate Plan was largely the work of the Managing Director and his team and involved formalising pre-existing material as well as the introduction of new material.

The Staff Structure Review was undertaken by the Institute of Public Administration. It was the first such general review during the near twenty-year life of the Agency. It consisted of an examination of the level, range of duties and salaries of all posts, excluding those of the Managing Director and Head of Treasury, together with reporting arrangements. Following Board and Ministerial approval, the recommendations of the Review were given effect to in July 2000.

## Chairman's Report *(continued)*

The main developments which occurred during the term of office of the Board - and which are reflected in activities during the past year – were:

- The implementation of interest rate policy of lending at cost plus an administration charge sufficient to ensure the break even position required under the Housing Finance Agency Act, 1981.
- A substantial increase in reserves to cover risk.
- A near-doubling of the Agency's loan book over the past five years.

In the course of 2000 a fundamental issue regarding the modus operandi of the Agency – that of the State guarantee – was raised. I deal with this in the course of my Report. Apart from a degree of uncertainty which the matter has introduced, it has increased the workload of our already very busy Treasury Department. We appreciate the support and co-operation of the National Treasury Management Agency (NTMA) in helping to ensure the smooth continuation of our business during this difficult period.

The Board held eight full meetings during the year. The Finance, Audit and Remuneration Committees met on three, two and one occasions respectively, while the Liaison Committee of Board members and local authority Managers met on three occasions. Six Board meetings were held in Dublin and one each in Trim and Wicklow. In Trim we visited the Castle which had recently been refurbished. The refurbishment is a credit to all involved and will, without doubt, prove to be a great attraction to visitors, from both Ireland and overseas. A bonus for us on our visit was that the Minister for the Environment and Local Government Mr Noel Dempsey TD was able to join us in the evening following our Board meeting and views were exchanged on the progress of the Agency.

We had an excellent visit to Wicklow, the home county of Board member, Tommy Cullen.

Following our Board meeting in Trim, the Meath County Manager, Joe Horan, invited me for a further visit to the County. Together with Jim Hehir and Tom Corcoran, I spent a fruitful day learning about the new management structures and impressive information technology in Meath.

Another first for the Agency is the visit planned by the Board to Belfast in September 2001 in order to meet members of the Northern Ireland Housing Executive, who in turn will visit us in Dublin. Housing is an issue common to all communities and I sought these visits so that we might forge new relationships as well gain knowledge and insights from each other's experience.

### **Lending at the finest interest rates**

The Agency's policy is to provide local authorities with sufficient margin to allow them to cover their operations as lenders, while ensuring that our own margins supply adequate reserves to cover risk. The Agency – in essence a borrower on behalf of the local authorities – carried out a fundamental review of its margins and reserves policy in early 2000. This was approved by the Ministers for Finance and Environment and Local Government in May. The object of the review was to ensure that local authorities benefited from the finest possible interest rates, with an administration/risk charge sufficient to ensure the Agency's adherence to the break even provision of the Housing Finance Agency Act, 1981 This was achieved in the year under review, with the average rate charged to local authorities about EURIBOR flat.

## Chairman's Report *(continued)*

The Agency is a public sector body; but the disciplines inherent in its plc structure are invaluable in ensuring that its activity is informed by commercial considerations. Gross margins in the market may have stabilised after a sharp decline through 1999, but the Board will continue to be mindful that downward pressures remain as a result of greater competition and possible future structural changes in the way mortgages are funded.

### **Risk Management**

Under this Board, risk assessment and management assumed central importance. Risks inherent in the Agency's business relate principally to fixed rate loans, inflation and margin fluctuations. These are measured and analysed annually by the Board, and appropriate reserves are set against them. I am pleased to say that at end-2000 our reserves – at IR£23m – were at their highest level ever, and deemed appropriate for risk cover. Further details of the Agency's risk management policy are set out in the Directors' Report.

### **Loan Activity**

The Agency had a record year in 2000, advancing a total of IR£268m in loans to local authorities. This represented an increase of 52% on our then record lending of IR£176m in 1999. These loans were used by local authorities to fund their social housing programmes such as the shared ownership and rental subsidy schemes and the purchase of land for the provision of housing for rent and sale over the next 7 years. In the past 5 years the Agency's loan book has almost doubled, growing from IR£489m to IR£957m at 31 December 2000. It will double again within the next 4 years on the basis of the projections for social housing in the National Development Plan.

### **The State Guarantee**

Almost since its foundation, the State has either supplied funding directly to local authorities for social housing purposes or, since 1982, provided a debt guarantee to the Agency. In June 2000, following consideration of a letter from the EU's Competition Commissioner to all Member States of the Union, the question arose as to whether the guarantee needed formal Commission approval under the State Aid régime. The Department of Finance, with the Agency's assistance, submitted a formal notification to the Commission in March 2001. A decision is awaited. Pending this, the Agency has largely relied on short-term funding supplied by the NTMA through the Agency's Guaranteed Notes programme.

### **Treasury Operations and Funding**

The Agency funds its operations through a combination of bond issues, commercial paper facilities (committed and uncommitted), bank overdrafts and retained surpluses. The Agency continues to seek out long-term committed funding in the most cost-effective, efficient way, and in structures that supply local authorities with their requirements.

## Chairman's report *(continued)*

In circumstances where longer-term committed funding has not been available, the Agency increased the limit on its Guaranteed Note investment programme to €500 million during the year. A consequence is that the level of short-term funding in the Agency's portfolio is now significantly higher than in 1999. This will be reduced as and when longer-term borrowing comes on stream again. The Agency, which offers a rate commensurate with its credit status, is appreciative of those local authorities which invest their cash surpluses with us, especially in the current situation.

On the operational front, the Agency successfully completed the in-house construction of an integrated dealing and back office system for its treasury operations. A Partnership Committee consisting of representatives of the Agency and local authority Finance Officers was constituted during the year. It is a valuable forum for detailed discussion of matters of mutual interest.

The Agency's annual operations now involve liquidity and cashflow movements amounting to several billion pounds. The Agency's cash position with its bankers on any given day reflects this reality and explains the difference in our cash position in December 1999 and 2000.

### **The introduction of the Euro**

A major development during this Board's term was the introduction of the euro on 1 January 1999. The Agency is completing the final changes necessary before 1 January 2002.

The euro's arrival has delivered an era of generally lower interest rates and lower margins, as new entrants are attracted into the Irish mortgage market. Indirectly, the euro environment has encouraged proposals to introduce a domestically-regulated German-style mortgage bond; this is likely to put further downward pressure on margins. On the funding side, there is the reality of a huge capital market waiting to be tapped. Because of higher set-up and ongoing costs for larger facilities, however, overall debt costs may not decrease as markedly as some had hoped.

### **Relationships with Local Authorities**

The Agency sets great store by its unique working relationships with its customers – the local authorities. We aim to be attentive to their needs and concerns and to supply services to them in an efficient and timely manner. This vital area has been developed in the term of the current Board, for example, through the establishment of the Liaison Committee comprising local authority Managers and Board Directors which meets quarterly to review developments relating to both the Agency and local authorities. In addition the Board holds two meetings annually outside Dublin to meet Managers on a regional basis. The Agency supplies financial information and Agency notices at regular intervals to local authorities. Management and staff of the Agency meet local authority staff individually and in the various committees and forums that have developed over the years to ensure the efficient functioning of the administration of the loans and related matters.

## Chairman's report *(continued)*

### Acknowledgements

The Housing Finance Agency plc, despite its billion pound book, is sufficiently small in size for me to know those who work in the Agency. The Agency is blessed with an exceptional management team and a capable and dedicated staff. I can safely say that the management team at the HFA - Jim Hehir, Ian d'Alton and Barry O'Leary - know their job inside out. I have learned a great deal from them.

During the past year, the Accountant, Angela Maher, who had been with the Agency for nine years, and who made a big contribution to the Agency, as well as Eimear Fallon, the Treasury Assistant, who also contributed significantly to the Agency in a relatively short time, moved on to other locations. We wish them well. Angela was replaced by Tom Conroy, formerly the Assistant Accountant, while Annette Aungier joined as Treasury Executive. We welcome Damian Flynn, Bernadette Noctor, Sonia Darwish and Karen Long to the staff.

Modwena McDonald and Ursula Ellis, who job share, continued to prove that two halves are greater than one. Their work, which on the whole is carried on out of the limelight, is invaluable to the Agency. Eleanor Parnell, the longest serving member of the Agency, continued, despite a heavy workload, to personify graciousness and helpfulness. Nothing was ever too much to do or too small to neglect.

The Agency could not function without the support of many persons outside the Agency. I would like to express my thanks to our shareholder, the Minister for Finance, and to the Minister for the Environment and Local Government, under whose aegis we operate. I greatly value the input to the work of the Board from Ciarán Murphy of the Department of Finance and Tom Corcoran from the Department of the Environment and Local Government. Despite the demands of his role as Assistant Secretary, Tom is most generous with his time. His experience and judgement have proved of great benefit to the Agency.

Jimmy Farrelly, Secretary of the Department of the Environment and Local Government and John Cullen, Assistant Secretary, have been very supportive of our endeavours and I would like to express my thanks to them. I said in an earlier Report that the local authorities represent 'our world'; this continues to be the case. It has been both interesting and rewarding to have had the opportunity to visit several different counties and to meet several Managers and other officials during the past number of years.

It remains to thank our Auditors, KPMG, in particular Chris Cullen, Joanne Durnin and Anna-Marie Horgan. The work of auditors in general has come under increased scrutiny in recent years and we have found KPMG to be meticulous. Our solicitors, McCann FitzGerald, have continued to provide excellent service. Our bankers, together with the Central Bank, have been most helpful. I have already referred to NTMA which has been very positive towards us. To all the individuals in these institutions who helped us, I offer my sincere thanks.



Finola Kennedy

Chairman

14 June 2001

## Directors' report

The Directors present their annual report and audited financial statements for the year ended 31 December 2000.

### 1 Background

The Housing Finance Agency plc is a company limited by shares promoted by the Minister for the Environment and Local Government under the terms of the Housing Finance Agency Act, 1981 and incorporated on 8 February 1982. The principal objects of the company are:

- (a) to advance funds to local authorities to be used by them for any purpose authorised by the Housing Acts; and
- (b) to borrow or raise funds for these purposes.

All of the issued share capital of the Agency is beneficially owned by the Minister for Finance. Directors are appointed by the Minister for the Environment and Local Government with the consent of the Minister for Finance.

### 2 Results and dividends

	IR£
Retained surplus for the year	559,953
Surplus at beginning of year	22,463,619
Surplus at end of year	23,023,572

The results are satisfactory and illustrate the Agency's commitment to lend to the local authorities at the finest margins possible.

The directors do not recommend the payment of a dividend.

### 3 Review of the development of the business

#### (a) Loans to local authorities (approved pre 27 May 1986)

The Agency was established to issue index linked loans to local authorities for lending by them on an agency basis to individuals. A total of IR£317 million was advanced to local authorities under this scheme and was used to finance 15,571 mortgages. At 31 December 2000 such loans represented outstanding balances of IR£55.9 million and financed 3,197 mortgages. The Agency is liable for any losses that may arise on these mortgages.

### 3 Review of the development of the business (continued)

#### (b) Loans to local authorities (approved post 27 May 1986)

With effect from May 1986 the Agency has issued loans to local authorities to finance income related, convertible and annuity loans and improvement grants. The extension of the Agency'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 Agency issuing loans to local authorities to fund the shared ownership and voluntary housing schemes.

A significant portion of these funds are retained for purposes such as land acquisition. The remainder is lent to individual borrowers and voluntary bodies. The local authorities are responsible for any losses that may arise on them.

At 31 December 2000 such loans represented outstanding balances of IR£901.7m.

## Directors' Report (continued)

### 4 Corporate governance

The Directors are committed to maintaining the highest standards of corporate governance and support the Principles of Good Governance and Code of Best Practice ("the Combined Code") derived by the Committee on Corporate Governance from the Committee's Final Report and from the Cadbury and Greenbury Reports. The Agency also complies with applicable Government guidelines for state companies.

#### **Principles of good corporate governance**

The Directors are accountable to the Agency's shareholders for good corporate governance and the following statement describes how the relevant Principles of Good Governance set out in the Combined Code are applied in the Agency.

#### **Board of Directors**

The roles of the Chairman and Chief Executive are separate. At 4 May 2001 the Board of Directors comprises ten non-executive Directors and one executive Director. The Directors are appointed by the Minister for the Environment and Local Government for a period not to exceed 5 years.

The Board meets regularly and is responsible for the proper management of the Agency.

It 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 certain items for its review including the approval of the annual financial statements, budgets, significant contracts, major investments and significant capital expenditure. Each non-executive Director brings an 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 Agency's professional advisors are available for consultation by the Directors as required. Individual Directors may take independent professional advice, if necessary, at the Agency's expense.

The Board has activated an effective committee structure to assist in the discharge of its responsibilities including:

#### **Finance Committee**

Members: Dr. Finola Kennedy, James Hehir, Thomas Corcoran, Thomas Cullen, Finbarr Kennelly and Ciarán Murphy.

The committee is empowered on behalf of the Agency 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.

#### **Remuneration Committee**

Members: Dr. Finola Kennedy, Fr. Patrick Cogan, Thomas Corcoran, Patrick d'Arcy and Daniel Hurley.

This committee approves remuneration and bonus arrangements for the senior management group, including the Managing Director, and operates under formal terms of reference. Details of Directors' fees and emoluments are set out in note 6 to the financial statements in accordance with the requirements of the Companies Acts, 1963 to 1999.

## Directors' Report (continued) 4 Corporate governance (continued)

**Audit Committee**

Members: Fr. Patrick Cogan, Thomas Cullen, Patrick d'Arcy, Daniel Hurley, Maureen Lynott, and Patricia Robinson.

This committee meets at least twice a year and operates under formal terms of reference. The committee may review any matters relating to the financial affairs of the Agency. It reviews the annual financial statements, internal audit reports, compliance with accounting standards and the appointment and fees of the external auditors. The external auditors meet with the committee to review the results of the annual audit of the Agency's financial statements.

**Directors' remuneration**

The Minister for the Environment and Local Government determines the level of remuneration for the Board of Directors. Remuneration of non-executive Directors is not linked to performance.

**Relations with shareholders**

The Directors and management maintain an ongoing dialogue with the Agency's shareholder on strategic issues. Certain specified matters require the approval of the Minister for the Environment and Local Government and/or the Minister for Finance, in respect of which ongoing communication with the Minister, through their departments, is maintained.

**Internal financial control**

Following the publication of the following guidance for directors on internal control-“Internal Control: Guidance for Directors on the Combined Code (the Turnbull guidance)”- the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Agency. This process has been in place for the year under review and up to the date of approval of the annual report and accounts, is regularly reviewed by the Board and accords with the guidance.

The Board has reviewed the effectiveness of the system of internal control, in particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks are managed. This has been reinforced by the adoption of a Code of Ethics, approved by the Board, which provides practical guidance for all staff. There are also supporting Agency policies and employee procedures for the reporting and resolution of suspected fraudulent activities.

The Agency is a financial business and the key risks associated with the business are therefore essentially financial and treasury-related. The Agency has developed a process through match funding, quarterly reviews of its loans and advances portfolio, and an annual review of treasury related risk which allows it to manage these risks. This process is designed to ensure as far as possible that its assets and liabilities are match funded in loan type and duration. Residual risk is associated principally with fixed rate borrowings, inflation movements and possible margin fluctuations. This is dealt with by a reserves and margin policy.

The Agency carries out a comprehensive annual review of risks, which is approved by the Board and forms part of the Agency'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 Agency also lends to local authorities. The repayment risk is assessed as being negligible as the legal relationship is with local authorities and is not dependant on changes in house prices or other economic variations.

The Managing Director also reports to the Board on behalf of the management on significant changes in the business and external environment, which affect risks. The Board are provided with quarterly information. Where areas for improvements in the system are identified, the Board considers the recommendations made by the management and the audit committee.

## Directors' Report (continued)

### 4 Corporate governance (continued))

#### *Internal financial control (continued)*

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 Directors have regard to what, in their judgement, is appropriate to the Agency's business, to the materiality of the financial risks inherent in the business and to the relative costs and benefits of implementing specific controls.

The Agency's business involves the acceptance and management of a range of risks and the nature of these risks means that events may occur which give rise to unanticipated losses. The Agency'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, because of changes in conditions, the effectiveness of an internal control system may vary over time.

The Directors have established an organisational structure with defined responsibility for internal control for each element of the Agency's business and this, together with the associated responsibility for reviewing periodically the effectiveness of such internal control, is formally acknowledged by the chief executive once a year.

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

- (a) a clearly defined organisation structure with appropriate segregation of duties and limits of authority;
- (b) internal financial controls are documented in a Policies and Procedures Manual which has been approved by the Board;
- (c) clearly defined limits and procedures for financial expenditure including procurement and capital expenditure;
- (d) annual budgets and long term plans for the Agency identifying key risks and opportunities;
- (e) quarterly management accounts are prepared and presented to the Board;
- (f) an internal auditor reviews key financial systems and controls;
- (g) an audit committee which deals with significant control issues raised by internal or external audit.

The Directors have reviewed the effectiveness of the system of internal financial control for the financial year and to the date of approval of the financial statements and have considered the major business risks and the control environment.

#### **Compliance statement**

The Directors are pleased to report that the Agency has complied with the Combined Code during the year ended 31 December 2000, except for the following matters:

##### 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 it has been concluded that it is not appropriate in the circumstances.

##### Nominations Committee and procedures for election and re-election

The directors are appointed by the Minister for the Environment and Local Government and hold office for such term as the Minister specifies when making the appointment but not for a period exceeding 5 years.

## Directors' Report (continued)

### 4 *Corporate governance (continued)*

#### **Directors' remuneration**

The Minister for the Environment and Local Government determines the level of remuneration for non-executive Directors. The remuneration of the Managing Director 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 collectively for all non-executive Directors as fees in note 6 to the financial statements.

The Agency also complies with the Government Guidelines for State Bodies.

#### **Going Concern**

After making enquiries, the Directors have a reasonable expectation that the Agency has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

### **5 Directors**

The directors and secretary have no interests in the shares or debentures of the company.

Ms Nuala Fennell resigned from the Board of Directors on 31 July 2000.

### **6 Contracts**

There has not been any contract or arrangement with the Agency during the year in which a director of the Agency was materially interested and which was significant in relation to the Agency's business.

### **7 Use of financial instruments, including derivatives**

The main risks arising from the Agency's financial operations are inflation related risk, interest rate risk, liquidity risk and credit risk. Although the Agency is a low user of derivatives, it has policies and procedures in place to cover the use of derivative treasury instruments. These support compliance with 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 current Specification, which followed a policy approved by the Board, allows for contracts covering interest rate swaps (IR£150 million), forwards (IR£30 million), forward rate agreements (IR£50 million), interest rate options (IR£50 million) and caps (IR£150 million). The Specification sets out details of the types of counterparties and Board responsibilities in relation to the management of derivatives. Transactions can only be carried out with the approval of the Agency's Managing Director and Financial Controller, and are subject to regular periodic internal audit checks during their lifetime. There were no derivative transactions outstanding as at 31 December 2000.

Inflation related risk arises from a mismatch of index linked borrowings and advances which is inherent in the contracts governing each side of the Agency's book. The Agency, in the absence of readily available hedging instruments, manages this risk by a reserves policy, which is approved by the Board.

## Directors' Report (continued)

### 4 *Use of financial instruments, including derivatives (continued)*

Interest rate risk exposure is managed by minimising mismatches between its borrowings and its advances within its individual programmes – index linked, fixed rate and variable rate. The following uncertainties are taken into account in determining the policy: (a) where borrowers can redeem without penalty; (b) where specialised markets (e.g. index linked) may not always be receptive to issues and redemptions; and (c) where the Agency is subject to changes in government policy. The Agency's general approach in relation to managing its interest rate risk exposure is to set aside reserves to protect the Agency against perceived residual risks after matching, by reference to various scenarios and assumptions. The Board assesses the situation regularly and determines the level of reserves required annually.

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 discount rates.

The Agency'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, usually up to six months. The Board has in place a policy of regular assessment of maturing debt and its refinancing and/or repayment.

The Agency's credit risk consists principally of its exposure to institutions (primarily rated banks), 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.

### **Treasury operations and funding**

The Agency finances its operations by a combination of bond issues, commercial paper (uncommitted, and with committed backing facilities), bank overdrafts and retained profits. Bond issues and committed facilities amounted to 66% of the Agency's available borrowing facilities at 31 December 2000. The Agency's committed facilities and bond issues are used to finance its lending to local authorities under the terms of the Housing Acts. Uncommitted facilities are largely utilised for bridging and liquidity purposes.

The Agency's funding operations require it to raise new debt and refinance maturing loans. The Agency's overdraft facilities (IR£13m available at 31 December 2000) are subject to annual review by the Agency's bankers. In the period 1 January to 31 December 2000 the Agency increased the limit on its Guaranteed Notes programme to £500 million, and set up an £50 million medium term note investment facility for local authorities. The average cost of the Agency's debt was an annualised 5.8% compared with 4.5% in the last financial year.

## **8 Post balance sheet events**

No significant events have taken place since the year end that would result in adjustment to the financial statements or inclusion of a note thereto.

## **9 Electoral Act, 1997**

The Agency made no political donations during the year.

## Directors' Report (continued)

### 10 Prompt Payment of Accounts Act, 1997

The Agency's policy is to comply with the requirements of the Prompt Payment of Accounts Act, 1997. The Agency's standard terms of credit taken, unless otherwise specified in contractual arrangements, are 30 days from the receipt of invoice.

Management reviewed the Agency's existing payment procedures as documented in the Policies and Procedures Manual and formed the view that they were adequate to provide reasonable but not absolute assurance against material non-compliance with the Act. Following a review by management of all payments made during the year ended 31 December 2000, no payment was late under the terms of the Act.

We have been advised by our auditors that they are not in a position to review and report on the above statement as the profession is awaiting guidance from The Institute of Chartered Accountants in Ireland on the form of report to be issued by auditors.

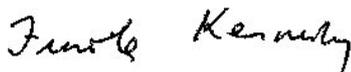
### 11 Health and safety of employees

The well being of the Agency's employees is safeguarded through the strict adherence to health and safety standards. The Safety, Health and Welfare at Work Act, 1989 imposes certain requirements on employers and the Agency has taken the necessary action to ensure compliance with the Act, including the adoption of a safety statement.

### 12 Auditors

In accordance with Section 160(2) of the Companies Act, 1963, the auditors, KPMG, Chartered Accountants, will continue in office.

On behalf of the board



Finola Kennedy  
Chairman



James Hehir  
Managing Director

4 May 2001

## Statement of directors' responsibilities

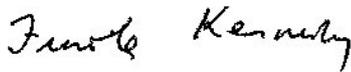
The directors are responsible, under the Companies Acts, for the preparation of financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the company and which enable them to ensure that the

financial statements comply with the Companies Acts, 1963 to 1999 and all Regulations to be construed as one with those Acts. They have general responsibility 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.

On behalf of the board



Finola Kennedy  
Chairman



James Hehir  
Managing Director

4 May 2001

## **Auditors' report to the members of Housing Finance Agency plc**

We have audited the financial statements on pages 22 to 39.

### **Respective responsibilities of directors and auditors in relation to the annual report**

The directors are responsible for preparing the annual report. As described on page 12, this includes responsibility for preparing the financial statements in accordance with applicable Irish law and accounting standards. Our responsibilities, as independent auditors, are established in Ireland by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Acts. As also required by the Acts, we state whether we have obtained all the information and explanations we require for our audit, whether the financial statements agree with the books of account and report to you our opinion as to whether:

- the company has kept proper books of account;
- the Directors' Report is consistent with the financial statements;
- at the balance sheet date a financial situation existed that may require the company to hold an extraordinary general meeting, on the grounds that the net assets of the company, as shown in the financial statements, are less than half of the amount of its called up share capital.

We also report to you if, in our opinion, information specified by law regarding directors' remuneration and transactions with the company are not disclosed.

We review, at the request of the directors, whether the voluntary statement on pages 3 to 8 reflects the company's compliance with the seven provisions of the Combined Code that the Irish Stock Exchange specifies for review by auditors and we report if it does not. We are not required to consider whether the board's statements on internal controls cover all risks and controls or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance statement and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

## Auditors' report to the members of Housing Finance Agency plc (continued)

### **Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion, the financial statements give a true and fair view of the state of affairs of the company at 31 December 2000 and of its surplus for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 1999 and all Regulations to be construed as one with those Acts.

We have obtained all the information and explanations we considered necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the company. The financial statements are in agreement with the books of account.

In our opinion, the information given in the directors' report on pages 2 to 11 is consistent with the financial statements.

The net assets of the company, as stated in the balance sheet on page 18, 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 2000 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 company.

Chartered Accountants

22 May 2001

Registered Auditors



## Statement of accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

### **Basis of preparation**

The financial statements are prepared in accordance with generally accepted accounting principles under the historical cost convention and comply with financial reporting standards of the Accounting Standards Board, as promulgated by The Institute of Chartered Accountants in Ireland.

### **Index linked bonds**

Index linked bonds used to fund the Agency's loan portfolio are stated at their nominal value less the unamortised discount or premium on bonds in issue at the year end. Direct costs of bonds comprising premium on redemption, discount or premium on issue bond issue and refinancing costs and bond interest costs are amortised from the date of issue to the date of maturity of the bonds.

Total direct bond costs are accounted for on a true yield basis. This basis amortises these costs to achieve a constant real rate of return on funds lent to borrowers. Direct bond costs also include the inflation effect arising as a result of the fact that the rates of indexing income and expenditure are based upon different periods.

### **Premium on redemption of index linked bonds**

Premium on redemption of index linked bonds represents the premium accrued to date by reference to the percentage increase in the Consumer Price Index in accordance with the terms of issue, less amounts deferred at the year end, which will be charged to the Income and Expenditure Account over the remaining life of the bonds.

### **Housing Finance Agency Stock**

The Housing Finance Agency Stock is stated at nominal value less the unamortised discount on issue at year end. Discount on issue is amortised on a straight line basis from the date of issue to the date of maturity of the stock.

### **Other financing costs**

Discounts on the refinancing of pre May 1986 loans, bonds and stock issue expenses are charged to the Income and Expenditure Account in equal annual instalments over the life of the loans, and the period of the bond/stock.

### **Derivative financial instruments**

The principal objective of using derivative financial instruments is to match or eliminate risk from potential movements in interest rates in the Agency's assets and liabilities.

### **Operating lease**

Costs from operating leases are included in indirect expenditure on an accruals basis over the period of the lease.

## Statement of accounting policies (continued)

### **Provision for doubtful debts**

Specific provision is made for identified doubtful debts in the pre 27 May 1986 loan portfolio. In addition, a general provision is made to cover latent bad debt risks inherent in the remaining balance of mortgage loans advanced to individuals but not yet specifically identified. No provision is made for doubtful debts in the post 27 May 1986 portfolio as the local authorities have assumed the credit risk associated with those advances. Specific and general provisions are charged to the Income and Expenditure Account and mortgage loans advanced are stated after deduction of such provisions.

In evaluating the adequacy of the provisions, management takes into account such factors as arrears of payments, composition of the portfolio, residual value of the underlying security and costs of realisation of such security and other risks that may affect borrowers' abilities to repay.

### **Tangible fixed assets and depreciation**

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

- Fixtures and fittings 20% Reducing balance

Where necessary, provision is also made for any impairments of tangible fixed assets.

### **Short term investments**

Short term investments consist primarily of promissory notes, commercial paper or bank deposits, and are stated at the lower of cost and net realisable value. Income from such investments is recognised on a straight line basis over the period to maturity and is accrued as interest receivable until maturity.

### **Pensions**

The company operates a defined benefit pension scheme which commenced on 1 July 1986. The regular cost of providing benefits is charged to the income and expenditure account over the service lives of the members of the scheme on the basis of a constant percentage of pensionable pay. Variations from regular costs arising from periodic actuarial valuations of the scheme are allocated to the income and expenditure account over the expected remaining service lives of the members.

### **Euro**

The financial statements, presented in Irish pounds as of and for the year ended 31 December 2000 are also expressed in Euro, solely for information purposes, at the rate of Euro 1 = IR£0.787564, the irrevocably fixed conversion rate set on 1 January 2000.

## Income and expenditure account

for the year ended 31 December 2000

	<i>Note</i>	Year ended 31 December 2000 €	<b>Year ended 31 December 2000 IR£</b>	6 months ended 31 December 1999 IR£
<b>Income - continuing activities</b>	3	64,938,785	<b>51,143,449</b>	20,657,806
Direct expenditure	4	(62,669,888)	<b>(49,356,548)</b>	(15,133,743)
<b>Surplus of income over direct expenditure</b>		2,268,897	<b>1,786,901</b>	5,524,063
Indirect expenditure	5			
Release of bad debt provision		203,158	<b>160,000</b>	-
Other expenditure		(1,761,061)	<b>(1,386,948)</b>	(854,106)
<b>Operating surplus for the financial year/period - continuing activities</b>		710,994	<b>559,953</b>	4,669,957
<b>Surplus at beginning of year/period</b>		28,522,912	<b>22,463,619</b>	17,793,662
<b>Surplus at end of year/period</b>		29,233,906	<b>23,023,572</b>	22,463,619

The company has no recognised gains or losses other than the surplus for the financial year or the previous financial period other than those dealt with in the income and expenditure account for the financial year.

On behalf of the board



Finola Kennedy  
Chairman



James Hehir  
Managing Director

4 May 2001

## Balance sheet

at 31 December 2000

	Note	31 December 2000 €	31 December 2000 IR£	31 December 1999 IR£
<b>Assets employed</b>				
Tangible fixed assets	8	149,312	117,593	136,004
Balance due on advances after more than one year	7	1,157,530,447	911,629,309	704,688,806
<b>Current assets</b>				
Debtors	9	103,479,726	81,496,907	52,287,881
Cash at bank and in hand	10	2,539,874	2,000,313	14,885,400
		<u>106,019,600</u>	<u>83,497,220</u>	<u>67,173,281</u>
Creditors (amounts falling due within one year)	11	(327,015,942)	(257,545,983)	(102,868,231)
<b>Net current liabilities</b>				
		<u>(220,996,342)</u>	<u>(174,048,763)</u>	<u>(35,694,950)</u>
		<u>936,683,417</u>	<u>737,698,139</u>	<u>669,129,860</u>
<b>Financed by</b>				
Creditors (amounts falling due after more than one year)	12	484,779,757	381,795,085	327,892,852
Index linked bonds	13	333,602,308	262,733,168	248,911,242
8.75% Housing Finance Agency stock 2018	14	89,029,354	70,116,314	69,832,147
<b>Capital and reserves</b>				
Called up share capital	16	38,092	30,000	30,000
Retained surplus		29,233,906	23,023,572	22,463,619
<b>Shareholders' funds-equity</b>	18	<u>29,271,998</u>	<u>23,053,572</u>	<u>22,493,619</u>
		<u>936,683,417</u>	<u>737,698,139</u>	<u>669,129,860</u>

On behalf of the board



Finola Kennedy  
Chairman  
4 May 2001



James Hehir  
Managing Director

## Cash flow statement

for the year ended 31 December 2000

		<i>Year ended 31 December 2000</i>	<b>Year ended 31 December 2000</b>	Period ended 31 December 1999
	<i>Note</i>	<i>€</i>	<b>IR£</b>	<i>IR£</i>
<b>Cash outflow from operating activities</b>	<i>17(a)</i>	<i>(223,149,937)</i>	<b>(175,744,857)</b>	(91,224,544)
<b>Returns on investments and servicing of finance</b>	<i>17(b)</i>	<i>(41,048,557)</i>	<b>(32,328,366)</b>	(11,359,381)
<b>Capital expenditure</b>	<i>17(b)</i>	<i>(13,951)</i>	<b>(10,987)</b>	(33,987)
Cash outflow before financing activities		<i>(264,212,445)</i>	<b>(208,084,210)</b>	(102,617,912)
<b>Financing activities - net cash inflow from financing</b>	<i>17(b)</i>	<i>256,654,735</i>	<b>202,132,030</b>	105,052,050
<b>Increase/(decrease) in cash in the year/period</b>		<i>(7,557,710)</i>	<b>(5,952,180)</b>	2,434,138

## Reconciliation of net cash flow to movement in net debt

for the year ended 31 December 2000

		<i>Year ended 31 December 2000</i>	<b>Year ended 31 December 2000</b>	Year ended 31 December 1999
		<i>Euro</i>	<b>IR£</b>	<i>IR£</i>
<b>Increase/(decrease) in cash in the year/period</b>		<i>(7,557,710)</i>	<b>(5,952,180)</b>	2,434,138
Cash inflow from change in debt financing		<i>(256,654,735)</i>	<b>(202,132,030)</b>	(105,052,050)
Non-cash movements	<i>17(c)</i>	<i>(17,885,346)</i>	<b>(14,085,855)</b>	(2,846,787)
<b>Movement in net debt in the year/period</b>		<i>(282,097,791)</i>	<b>(222,170,065)</b>	(105,464,699)
Net debt at beginning of year/period	<i>17(c)</i>	<i>(940,692,511)</i>	<b>(740,855,557)</b>	(635,390,858)
<b>Net debt at end of year/period</b>	<i>17(c)</i>	<i>(1,222,790,302)</i>	<b>(963,025,622)</b>	(740,855,557)

## Notes

forming part of the financial statements

### 1 Status of the company and related party transactions

The Housing Finance Agency plc is a company limited by shares promoted by the Minister for the Environment and 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 Agency was formed as a private limited company on 8 February 1982 and on 13 January 1983 became a public limited company.

There were no related party transactions during the year within the meaning of Financial Reporting Standard No. 8 Related Party Disclosures. In common with many other Government bodies, the Agency deals in the normal course of business with other Government bodies.

### 2 Taxation status of the Agency

Under Section 218 of the Taxes Consolidation Act 1997, income arising to the Housing Finance Agency plc., since incorporation, 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 Agency is entitled to pay dividends gross of Dividend Withholding Tax.

### 3 Income - continuing activities

	Year ended 31 December 2000 IR£	6 months ended 31 December 1999 IR£
Interest on advances to local authorities approved:		
Post 27 May 1986	44,568,163	17,338,716
Pre 27 May 1986	6,507,033	3,281,085
Investment income	68,253	38,005
	<hr/> 51,143,449	<hr/> 20,657,806
	<hr/>	<hr/>

Notes (continued)

**4 Direct expenditure**

	Year ended 31 December 2000 IR£	6 months ended 31 December 1999 IR£
<b>Index - linked bonds</b>		
Bond interest	7,781,654	3,786,001
Premium on redemption of bonds (Note 13)	13,565,080	2,586,491
Amortisation of discount on issue of bonds	236,608	118,213
Amortisation of bond issue expenses	9,337	4,668
	<b>21,592,679</b>	<b>6,495,373</b>
<b>Stock and loan costs</b>		
Amortisation of discount and issue expenses on Housing Finance Agency Stock	286,548	143,274
Interest payable on bank borrowings, guaranteed notes and stock	27,468,801	8,490,836
Amortisation of discount on pre May 1986 loans	8,520	4,260
	<b>27,763,869</b>	<b>8,638,370</b>
	<b>49,356,548</b>	<b>15,133,743</b>

**5 Indirect expenditure**

	Year ended 31 December 2000 IR£	6 months ended 31 December 1999 IR£
Decrease in provision for bad and doubtful debts	(160,000)	-
<b>Other expenditure</b>		
Bad debts written off	3,192	1,111
Administrative expenditure (Note 6)	718,422	356,948
Mortgage protection insurance	396,626	234,332
Commission to local authorities	268,708	261,715
	<b>1,386,948</b>	<b>854,106</b>

Notes (continued)

**6 Administrative expenditure**

Administrative expenditure has been arrived at after charging:

	<b>Year ended 31 December 2000</b>	<b>6 months ended 31 December 1999</b>
	IR£	IR£
<b>Directors' emoluments</b>		
Fees - Chairman	<b>3,000</b>	1,500
- Other directors	<b>15,167</b>	8,000
Other emoluments	<b>54,702</b>	30,024
Pension contributions	<b>11,934</b>	5,606
	<b>84,803</b>	45,130
<b>Employee costs</b>		
Salaries	<b>239,248</b>	119,784
Social welfare costs	<b>11,525</b>	5,678
Pension costs (Note 20)	<b>28,339</b>	28,828
	<b>279,112</b>	154,290
Auditors' remuneration (excluding value added tax 31 December 2000: IR£2,800 31 December 1999: IR£1,722)	<b>14,000</b>	8,200
Depreciation	<b>29,398</b>	15,386
Rental payments under operating lease	<b>39,000</b>	19,500

The average number of employees including executive directors, during the year was 11 (31 December 1999: 11).

Notes (continued)

**7 Balance due on advances**

	Year ended 31 December 2000 IR£	6 months ended 31 December 1999 IR£
<b>(a) To local authorities:</b>		
<b>(i) Loans approved post 27 May 1986</b>		
Balance at beginning of year/period	663,699,190	560,731,645
Loans advanced	267,074,068	123,198,457
Less: loans repaid	(46,158,028)	(15,962,728)
Interest charged	44,568,163	17,340,905
Interest received	(27,487,772)	(21,609,089)
<b>Balance at end of year/period</b>	<b>901,695,621</b>	<b>663,699,190</b>
<b>(ii) Loans approved pre 27 May 1986</b>		
Balance at beginning of year/period	67,401,260	75,180,669
Less: Repayments	(10,377,021)	(6,350,115)
Decrease in bad debt provision	160,000	-
	<b>57,184,239</b>	<b>68,930,554</b>
Interest charged	6,507,033	3,281,072
Interest received	(8,645,996)	(4,710,366)
	<b>55,045,276</b>	<b>67,401,260</b>
<b>Balance at end of year/period</b>	<b>956,740,897</b>	<b>731,100,450</b>
<b>Disclosed as:</b>		
Amounts falling due within one year (note 9)	45,111,588	26,411,644
Amounts falling due after more than one year	911,629,309	704,688,806
	<b>956,740,897</b>	<b>731,100,450</b>

Notes (continued)

**8 Tangible fixed assets**

	Fixtures and Fittings IR£
<b>Cost</b>	
At beginning of year	247,372
Additions	10,987
<b>At end of period</b>	<b>258,359</b>
<b>Depreciation</b>	
At beginning of year	111,368
Charged for year	29,398
<b>At end of period</b>	<b>140,766</b>
<b>Net book value 31 December 2000</b>	<b>117,593</b>
31 December 1999	136,004

**9 Debtors (amounts falling due within one year)**

	31 December 2000 IR£	31 December 1999 IR£
Balances due on advances (note 7)	<b>45,111,588</b>	26,411,644
Other debtors and prepayments	<b>169,003</b>	274,297
Interest receivable	<b>51,848</b>	20,394
Due from local authorities	<b>36,164,468</b>	25,581,546
	<b>81,496,907</b>	52,287,881

## Notes (continued)

**10 Cash at bank and short term deposits**

	31 December 2000 IR£	31 December 1999 IR£
Cash at bank and in hand	313	2,385,400
Amounts held on short term deposits	2,000,000	12,500,000
	<b>2,000,313</b>	<b>16,885,713</b>

**11 Creditors (amounts falling due within one year)**

	31 December 2000 IR£	31 December 1999 IR£
Note issuance facilities and guaranteed notes	244,387,840	96,158,042
Interest due on stock and bonds	5,052,651	4,913,433
Accruals	4,322,077	1,580,434
Bank overdraft	3,783,415	216,322
	<b>257,545,983</b>	<b>102,868,231</b>

Tax creditors (included in accruals)  
PAYE

8,092

5

The note issuance facilities, guaranteed notes and bank overdraft are fully guaranteed by the Minister for Finance.

**12 Creditors (amounts falling due after more than one year)**

	31 December 2000 IR£	31 December 1999 IR£
Bank loans and notes payable		
Repayable other than by instalments:		
Between two and five years	98,337,462	98,752,403
After more than five years	283,457,623	229,140,449
	<b>381,795,085</b>	<b>327,892,852</b>

The loans and notes payable are fully guaranteed by the Minister for Finance.

Notes (continued)

**13 Index linked bonds**

	31 December 2000 IR£	31 December 1999 IR£
Housing Finance Agency Bond Issues		
2% Index Linked Bonds 2008	<b>84,999,900</b>	84,999,900
4% Index Linked Bonds 2015	<b>74,999,900</b>	74,999,900
<hr/>		
Nominal value of bonds in issue	<b>159,999,800</b>	159,999,800
Unamortised expenses and discount on issue	<b>(913,051)</b>	(1,169,897)
<hr/>		
	159,086,749	158,829,903
Provision for premium on redemption of bonds	<b>103,646,419</b>	90,081,339
<hr/>		
	262,733,168	248,911,242
<hr/>		

**Provision for premium on redemption of bonds**

	Total IR£	Deferred IR£	Provided IR£
At beginning of year	104,989,681	(14,908,342)	90,081,339
Arising during the year	13,080,598	484,482	13,565,080
<hr/>			
At end of year	118,070,279	(14,423,860)	103,646,419
<hr/>			

The premium payable on redemption is provided by reference to the percentage increase in the Consumer Price Index from the base date of each bond issue to the index applicable to the sixth month prior to the relevant coupon date.

Notes (continued)

**14 8.75% Housing Finance Agency Stock 2018**

	31 December 2000 IR£	31 December 1999 IR£
<b>At par</b>		
At beginning of year/period	<b>74,999,900</b>	74,999,900
Less: Unamortised discount on issue	<b>(4,883,586)</b>	(5,167,753)
<hr/>		
At end of year/period	70,116,314	69,832,147
<hr/>		

The par value due on redemption and interest on this stock are guaranteed by the Minister for Finance.

**15 Profile of financial assets and liabilities**

Narrative disclosures concerning the company's treasury policy and management are set out in note 7 to the Directors' Report.

The total value of financial assets is analysed further below:

	31 December 2000 IR£	31 December 1999 IR£
Fixed rate	<b>97,580,452</b>	103,391,115
Floating rate (including index linked)	<b>897,324,913</b>	640,209,335
Zero interest rate	<b>313</b>	2,385,400
<hr/>		
	<b>944,905,678</b>	745,985,850
<hr/>		

The Agency made new fixed and floating rate advances during the financial year. The early redemption of fixed interest rate loans exceeded fixed rate advances made in the period. The Agency's inflation index linked advances are classified as floating rate assets.

Interest rate risk profile of financial assets as at:

	31 December 2000	31 December 1999
Weighted average fixed interest rate	<b>8.92%</b>	8.95%
<hr/>		

The weighted average fixed rate is declining as fixed rate redemptions are replaced by new advances at lower fixed rates.

## Notes (continued)

## 15 Profile of financial assets and liabilities (continued)

	<b>31 December 2000</b>	31 December 1999
Weighted average period for which fixed interest assets are fixed	<b>16 years</b>	17 years

A large proportion of the Agency's fixed rate loans consist of 30 year loans issued in 1986. New advances are fixed for much shorter periods.

	<b>31 December 2000</b>	31 December 1999
<b>Maturity of financial assets</b>	<b>IR£</b>	<b>IR£</b>
Amounts falling due within one year	<b>83,276,369</b>	66,878,590
Amounts falling due between one and two years	<b>47,111,588</b>	28,411,644
Amounts falling due between two and five years	<b>154,334,763</b>	98,234,932
Amounts falling due after more than five years	<b>710,182,958</b>	578,042,230
	<b>994,905,678</b>	771,567,396

Financial liabilities are analysed further below:	<b>31 December 2000</b>	31 December 1999
	<b>IR£</b>	<b>IR£</b>
Fixed rate	<b>88,729,479</b>	87,410,436
Floating rate	<b>879,138,989</b>	660,513,602
	<b>967,868,468</b>	747,924,038

Interest rate risk profile of financial liabilities as at	<b>31 December 2000</b>	31 December 1999
Weighted average fixed interest rate	<b>8.49%</b>	8.98%

Weighted average period for which fixed interest liabilities are fixed	<b>14 years</b>	16 years
	<b>31 December 2000</b>	31 December 1999
	<b>IR£</b>	<b>IR£</b>
Amount determined by floating rate benchmarks:		
DIBOR/EURIBOR	<b>610,050,921</b>	408,953,766
Prime	<b>3,783,410</b>	216,322
Index linked	<b>265,304,658</b>	249,141,594
	<b>879,138,989</b>	658,311,682

## Notes (continued)

## 15 Profile of financial assets and liabilities (continued)

Liquidity measures as at	31 December 2000		31 December 1999	
	Financial liabilities IR£	Undrawn committed facilities IR£	Financial liabilities IR£	Undrawn committed facilities IR£
Maturing within 12 months or on demand	252,203,663	-	101,267,559	
Maturing greater than 1 year and less than 2-	-	-	-	
Maturing greater than 2 years and less than 5	160,837,160	37,838,288	49,919,048	-
Maturing greater than 5 years	553,827,645	32,879,427	596,737,431	124,619,948
Total	<u>967,868,468</u>	<u>70,717,715</u>	<u>747,924,038</u>	<u>124,619,948</u>

*Fair value**Financial assets*

	Carrying value		Fair value	
	31 December 2000 IR£	31 December 1999 IR£	31 December 2000 IR£	31 December 1999 IR£
Fixed rate	97,580,452	103,391,15	160,825,731	220,530,486
Floating rate	628,764,282	44,319,549	628,764,282	414,319,549
Index linked	268,560,631	225,889,786	431,524,858	446,221,068
Zero interest	313	2,385,400	313	2,385,400
	<u>994,905,678</u>	<u>745,985,850</u>	<u>1,221,114,871</u>	<u>1,061,071,103</u>
<i>Financial liabilities</i>				
Fixed rate	88,729,479	84,929,275	148,635,743	237,537,916
Floating rate	613,834,331	409,170,088	613,834,331	409,170,088
Index linked	265,304,658	249,141,594	438,519,070	404,066,750
	<u>967,868,468</u>	<u>743,240,957</u>	<u>1,200,989,144</u>	<u>1,050,774,754</u>

The Agency has considered how best it can calculate the fair value of index linked assets and liabilities.

The fair value of the Agency's assets is arrived at by assessing the return on IR£100 (nominal) of an index linked loan, compared to the return on a conventional variable loan based on one EURIBOR, at the balance sheet date.

The fair value of the Agency's assets has been calculated as IR£1,194m. This is based on EURIBOR at 30 December 2000 (1999: EURIBOR plus 1%) on a 365 day basis.

Similarly, the Agency's liabilities are valued by reference to one month EURIBOR at the balance sheet date, with the cost of funding index linked stock compared to the cost of funding a conventional variable rate stock.

Notes (continued)

15 *Profile of financial assets and liabilities (continued)*

IR£1,192m has been estimated as the fair value of the Agency's liabilities. This is again based on EURIBOR on 30 December 2000.

In selecting this methodology, the Agency decided against using the quoted market price of the index linked bonds as they are held by few stockholders and are rarely traded. It was felt 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.

**Derivative transactions**

The Agency had no derivative transaction outstanding on 31 December 2000. A forward interest rate agreement, where the interest rate is set at a point in time on a series of transactions taking place in the future was entered into December 1997 and matured June 2000 (value IR£0.91 million). The purpose of the derivative transaction was to fix the interest rate for three years on ten year annuity advances to one local authority.

**16 Share capital - equity**

There are 30,000 ordinary shares of IR£1 authorised, allotted, called up and fully paid at 31 December 2000 and 31 December 1999.

**17 Cash flow statement**

	Year ended 31 December 2000 IR£	Period ended 31 December 1999 IR£
<b>(a) Reconciliation of operating surplus to cash outflow from operating activities</b>		
<b>Surplus for the financial year</b>	559,953	4,669,957
Direct expenditure (Note 4)	<b>49,356,548</b>	15,133,743
Pension amortisation	<b>8,668</b>	4,334
Depreciation (Note 9)	<b>29,398</b>	15,386
Investment income (Note 3)	<b>(126,496)</b>	(58,928)
<b>Movements in working capital:</b>		
(Increase)/decrease in amounts due from local authorities (Note 10)	<b>(10,582,922)</b>	(3,214,527)
Increase in advances (Note 7)	<b>(225,640,447)</b>	(95,568,331)
Decrease in other debtors and prepayments	<b>96,626</b>	-
Decrease in accrued expenses	<b>53,815</b>	(77,249)
Increase in liquid resources	<b>10,500,000</b>	(12,500,000)
<b>Cash outflow from operating activities</b>	<b>(175,744,857)</b>	<b>(91,224,544)</b>

## Notes (continued)

## 17. Cash Flow Statement (Continued)

<b>(b) Gross cash flows</b>	Year ended <b>31 December 2000</b> IR£	Period ended 31 December 1999 IR£		
<b>Returns on investments and servicing of finance</b>				
Interest received	95,042	38,534		
Interest paid	(32,423,408)	(11,397,915)		
Net cash outflow from returns on investments and servicing of finance	<b>(32,328,366)</b>	(11,359,381)		
<b>Capital expenditure</b>				
Payments to acquire tangible fixed assets	(10,987)	(29,125)		
Disposal of tangible fixed assets	-	(4,862)		
Net cash outflow from capital expenditure and disposals	<b>(10,987)</b>	(33,987)		
<b>Financing</b>				
Repayment of bank loans and notes payable	(21,955,178)	-		
Increase in bank loans and notes payable	224,087,208	105,052,050		
Net cash inflow from financing	<b>202,132,030</b>	105,052,050		
<b>(c) Analysis of changes in net debt</b>				
	At 31 December 1999 IR£	Cash flows IR£	Non-cash movements IR£	At 31 December 2000 IR£
Cash in hand, at bank	2,385,400	(2,385,087)	-	313
Overdraft	(216,322)	(3,567,093)	-	(3,783,415)
	2,169,078	(5,952,180)	-	(3,783,102)
Bank loans and notes repayable within one year	(96,158,042)	(148,229,797)	-	(244,387,839)
Bank loans and notes repayable after one year	(327,892,852)	(53,902,233)	-	(381,795,085)
Index linked bonds	(159,060,255)	-	(236,608)	(159,296,863)
Provision for premium on redemption of bonds	(90,081,339)	-	(13,565,080)	(103,646,419)
8.75% Housing Finance Agency Stock 2018	(69,832,147)	-	(284,167)	(70,116,314)
	(740,855,557)	(208,084,210)	(14,085,855)	(963,025,622)

## Notes (continued)

**18 Reconciliation of shareholders' funds**

	31 December 2000	31 December 1999
	IR£	IR£
Surplus for the financial year/period	<b>559,953</b>	4,669,957
Opening shareholders' funds	<b>22,493,619</b>	17,823,662
<hr/>		
Closing shareholders' funds	<b>23,053,572</b>	22,493,619

**19 Commitments**

Operating lease commitments

The Agency has commitments under an operating lease to make payments totalling IR£39,000 in the next year as follows:

	Buildings
	IR£
Lease expiring:	
After four years	<b>39,000</b>

**20 Pensions**

The company operates a defined benefit pension scheme covering all permanent employees. The pension cost for the financial period amounted to IR£28,339 (31 December 1999: IR£28,828). The scheme is funded on a current funding level basis. The contributions payable to the scheme are made in accordance with the advice of an actuary.

The latest actuarial valuation was carried out at 1 July 1998 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 1 July 1998 the market value of the fund's assets was IR£316,000 and the funding level of past service liabilities was 70%. 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.

**21 Euro**

Significant operational changes have been implemented to facilitate the transition to the Euro and further changes will take place in the coming months to ensure the successful integration of the new currency. All related costs have been expensed to the income and expenditure account.

The introduction of a single European currency is having far reaching implications on the mortgage market in Ireland and on the structuring of the Agency's funding. These matters are, and will continue to be, monitored and reported to the Board on an ongoing basis.

**22 Comparative figures**

Certain of the amounts in respect of the period ended 31 December 1999 have been reclassified in a comparative format with the figures for the current year.

**23 Approval of financial statements**

The audited financial statements, which are in the form approved by the Minister for the Environment and Local Government with the consent of the Minister of Finance, were approved by the directors on 4 May 2001.

## Appendix 1

### Loans to local authorities approved pre 27 May 1986

Local Authority	Number of accounts 31 Dec 2000	Balance outstanding 31 Dec 2000- IR£
Athlone U.D.C.	12	209,141
Bray U.D.C.	75	1,821,528
Carlow Co. Cl	25	365,770
Cavan Co.C	16	349,630
Clare Co. Cl	18	245,186
Cork B.C.	198	3,903,949
Cork Co. Cl.	166	2,282,911
Donegal Co. Cl	39	623,907
Drogheda B.C.	16	370,276
Dublin B.C.	618	9,337,009
Dunlaoghaire/Rathdown Co. Cl.	83	1,523,520
Fingal Co. Cl.	420	7,293,247
Kildare Co. Cl.	145	4,202,487
Kilkenny B.C.	3	29,915
Kilkenny Co. Cl.	74	766,890
Laois Co. Cl.	22	331,743
Limerick B.C.	68	1,026,089
Limerick Co. Cl.	100	1,798,393
Mayo Co. Cl.	54	753,082
Meath Co. Cl.	46	830,486
Monaghan Co. Cl.	7	75,219
Offaly Co. Cl.	26	523,002
Roscommon Co. Cl.	32	533,547
Sligo B.C.	29	635,705
Sligo Co. Cl.	9	116,388
South Dublin Co. Cl.	632	11,622,299
Tipp.(SR) Co. Cl.	43	528,000
Waterford B.C.	72	824,977
Waterford Co. Cl.	14	275,997
Westmeath Co. Cl.	95	1,109,309
Wexford B.C.	20	304,115
Wexford Co. Cl.	21	237,632
Wicklow Co. Cl.	56	1,033,927
<b>Total</b>	<b>3,254</b>	<b>55,885,276</b>
Less: Bad Debts Provision		840,000
Balance due on advances (Note 7)		55,045,276

## Appendix 2

### Loans to local authorities approved post 27 May 1986

#### (A) By Local Authority Area

Local Authority	12 months to Dec 2000 IR£	Balance Outstanding 31 Dec 2000 IR£
Carlow Co. Cl.	7,280,000	18,408,711
Cavan Co. Cl.	535,260	1,436,707
Clare Co. Cl.	2,462,320	17,347,250
Cork Co. Cl.	18,518,077	50,283,267
Donegal Co. Cl.	10,575,602	29,303,266
Fingal Co. Cl.	28,560,000	52,645,172
Dunlaoghaire/Rathdown Co. Cl	8,754,187	25,583,203
South Dublin Co. Cl	22,938,953	89,009,929
Galway Co. Cl.	6,586,535	18,302,115
Galway B.C.	11,225,516	17,982,672
Kerry Co. Cl.	3,000,000	13,317,095
Kildare Co. Cl.	1,669,077	24,860,638
Kilkenny Co. Cl.	6,452,925	42,971,862
Kilkenny B.C.	-	856,485
Laois Co. Cl.	1,610,725	7,478,110
Leitrim Co. Cl.	960,000	4,225,225
Limerick Co. Cl.	2,411,520	17,980,636
Longford Co. Cl.	2,218,340	9,675,275
Louth Co. Cl.	-	1,574,129
Drogheda B.C.	-	3,728,876
Dundalk U.D.C.	1,770,400	2,401,248
Mayo Co. Cl.	2,454,276	21,049,278
Meath Co. Cl.	6,283,422	16,417,969
Monaghan Co. Cl.	750,000	5,405,077
Offaly Co. Cl.	1,068,140	8,413,374
Roscommon Co. Cl.	785,834	4,946,952
Sligo Co. Cl.	12,230,409	24,053,295
Sligo B.C.	3,627,234	12,785,960
Tipp.(NR) Co. Cl.	1,986,000	6,511,284
Tipp.(SR) Co. Cl.	2,500,000	12,975,056
Clonmel B.C.	-	630,884

## Appendix 2 - Loans to local authorities approved post 27 May 1986 (Continued)

**(A) By Local Authority Area (Continued)**

<b>Local Authority</b>	<b>12 months to Dec 2000</b>	<b>Balance Outstanding 31 Dec 2000</b>
	<b>IR£</b>	<b>IR£</b>
Waterford Co. Cl.	2,644,193	11,927,152
Westmeath Co. Cl.	356,242	10,524,039
Wexford Co. Cl.	6,256,938	23,962,362
Wexford B.C.	-	1,647,477
Wicklow Co. Cl.	2,400,000	22,351,084
Bray U.D.C.	-	2,588,725
Cork B.C.	6,350,431	30,695,501
Dublin B.C.	60,150,000	198,072,923
Limerick B.C.	9,279,064	14,502,306
Waterford B.C.	2,859,448	10,944,325
Athlone U.D.C.	-	167,637
Carrick on Suir U.D.C.	1,398,000	202,768
Cashel U.D.C.	100,000	165,980
Castleblayney U.D.C.	-	96,795
Cobh U.D.C.	-	535,000
Dungarvan U.D.C.	1,000,000	3,013,451
Ennis U.D.C.	-	1,359,894
Kilrush U.D.C.	-	69,908
Letterkenny U.D.C.	-	264,470
Longford U.D.C.	1,700,000	1,940,216
Monaghan U.D.C.	-	29,879
Thurles U.D.C.	1,300,000	1,336,870
Tipperary U.D.C.	165,000	150,374
Wicklow U.D.C.	2,500,000	2,585,485
<b>Total</b>	<b>267,674,068</b>	<b>901,695,621</b>

Appendix 2 - Loans to local authorities approved post 27 May 1986 (Continued)

(B) By loan type

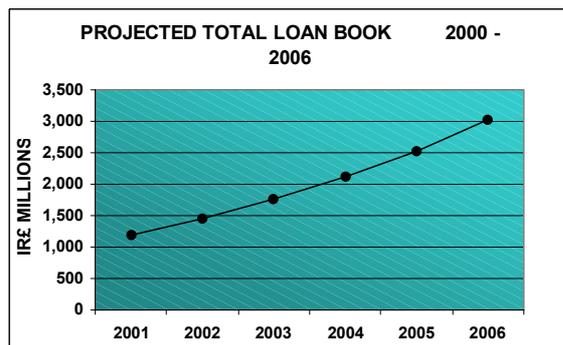
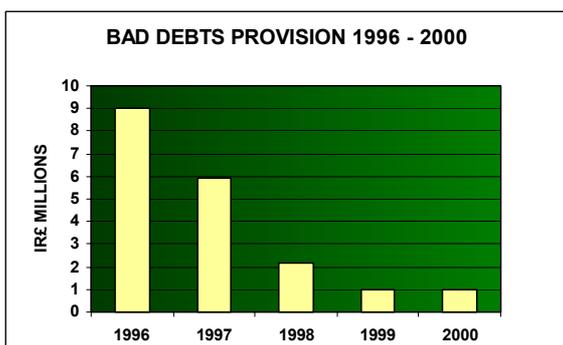
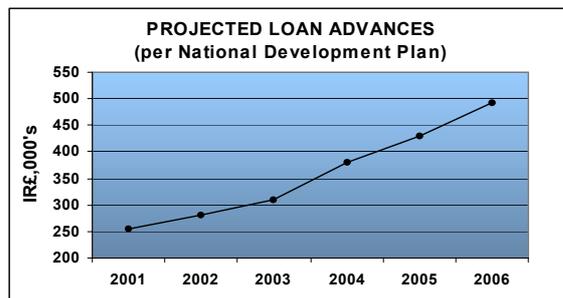
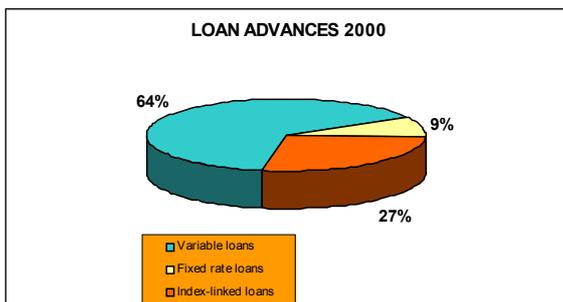
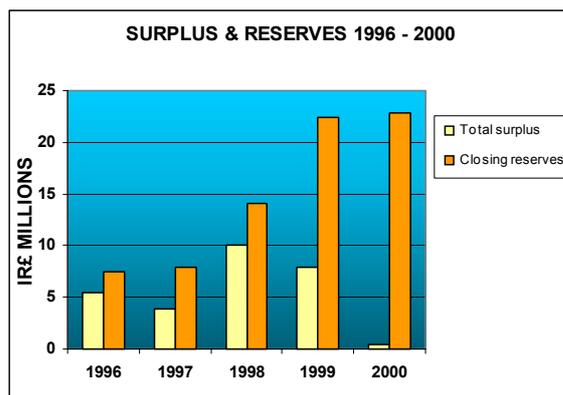
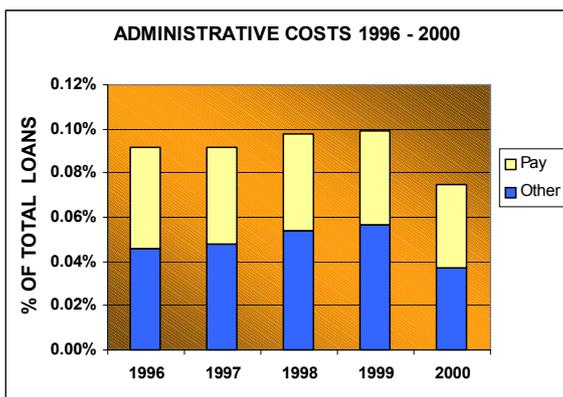
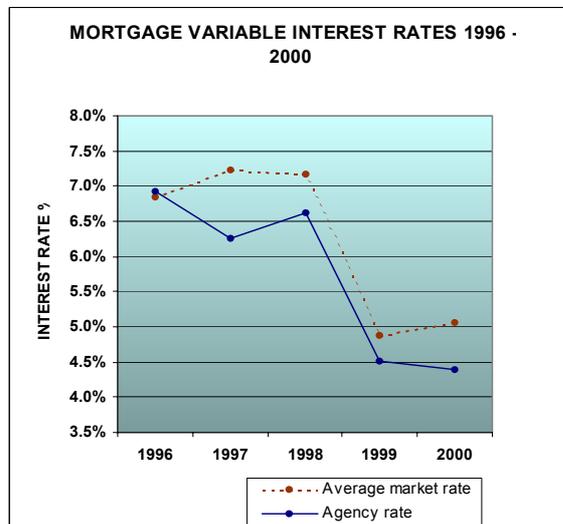
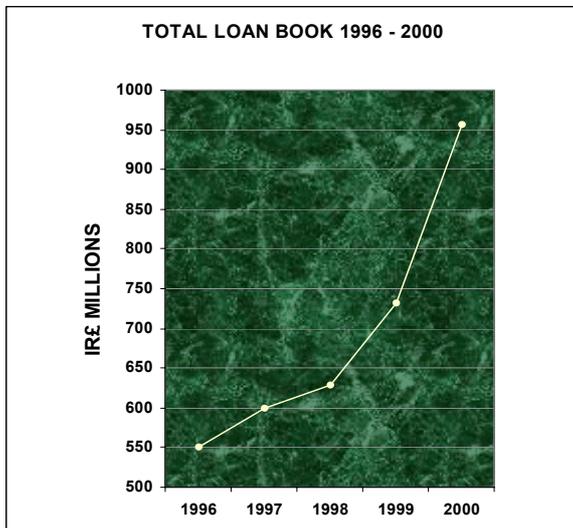
Loans advanced to

finance	1996	1997	1998	1999	2000
	IR£000	IR£000	IR£000	IR£000	IR£000
Fixed Rate	532	2,673	10,3138,860	4,958	
Variable Rate	56,87848,80536,503127,429		221,613		
Index Linked	23,31418,7986,912		41,55441,103		
<b>Total</b>	<b>80,72470,27653,728177,843</b>		<b>267,674</b>		

(C) Capital outstanding at 31 December 2000 by rate type

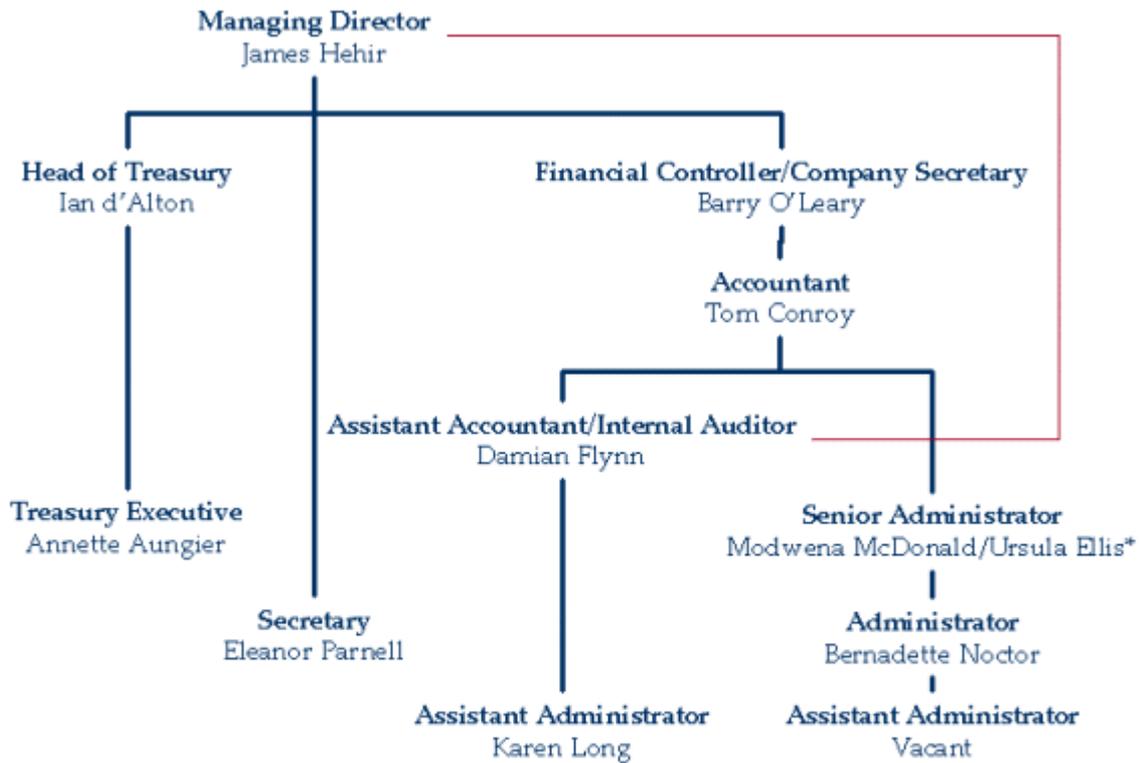
Duration of loan	Fixed Rate	Variable Rate	Index Linked	Total
	(IR£000)	(IR£000)	(IR£000)	(IR£000)
<b>0 to 5 years</b>	2,235	90,693	0	92,928
<b>6 to 10 years</b>	5,976	23,105	0	29,081
<b>11 to 15 years</b>	6,457	42,722	0	49,179
<b>16 to 20 years</b>	8,684	51,790	0	60,474
<b>21 to 25 years</b>	2,080	125,302	181,672	309,054
<b>26 to 30 years</b>	64,633	277,488	18,858	360,979
<b>Total</b>	<b>90,065</b>	<b>611,100</b>	<b>200,530</b>	<b>901,695</b>

### Appendix 3 -Financial trends



## Appendix 4 - Staff structure

(as at 30 April 2001)



\* Job Sharing

— Reporting to MD for internal audit matters only

There was no change in the number of approved posts during the year ended 31<sup>st</sup> December 2000



An Gníomhaireacht Airgeadais Tithíochta cpt  
Housing Finance Agency plc

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## **Annual Report 2000**

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