

# Contents

<b>Directors and other information</b>	<b>2</b>
<b>Chairman's Report</b>	<b>5</b>
<b>Directors' Report</b>	<b>11</b>
<b>Statement of Directors' responsibilities</b>	<b>19</b>
<b>Auditors' Report</b>	<b>20</b>
<b>Statement of accounting policies</b>	<b>22</b>
<b>Income and expenditure account</b>	<b>25</b>
<b>Balance sheet</b>	<b>26</b>
<b>Cash flow statement</b>	<b>27</b>
<b>Reconciliation of net cash flow to movement in net debt</b>	<b>27</b>
<b>Notes forming part of the financial statements</b>	<b>29</b>
<b>Appendix 1: Statistics on the loan book</b>	<b>51</b>
<b>Appendix 2: Graphs on the loan book and financial trends</b>	<b>54</b>
<b>Appendix 3: Staff structure</b>	<b>57</b>

# Directors and other information



Chairman  
**Edward Coffey**



Managing Director  
**James Hehir**



**Larry Butler**



**Fr Patrick Cogan**



**Thomas Corcoran**



**Michael Hayes**



**Maureen Lynott**



**Brenda Mc Veigh**



**Jackie Maguire**



**Teresa White**

## **Board of Directors**

Edward Coffey (Chairman) (1,2)

James Hehir (Managing) (1)

Larry Butler

Fr. Patrick Cogan (2, 3)

Thomas Corcoran (1, 2)

Michael Hayes (3)

Maureen Lynott (2,3)

Brenda McVeigh (1)

Jackie Maguire (3)

Teresa White (3)

## **Principal Board Committees**

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

## **Secretary and Registered Office**

Barry O'Leary F.C.C.A.

Eden House

15/17 Eden Quay

Dublin 1



Head of Treasury  
**Ian d'Alton**



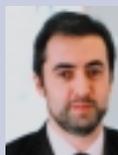
Treasury Executive  
**Annette Aungier**



Financial Controller/  
Co. Secretary  
**Barry O'Leary**



Accountant  
**Tom Conroy**



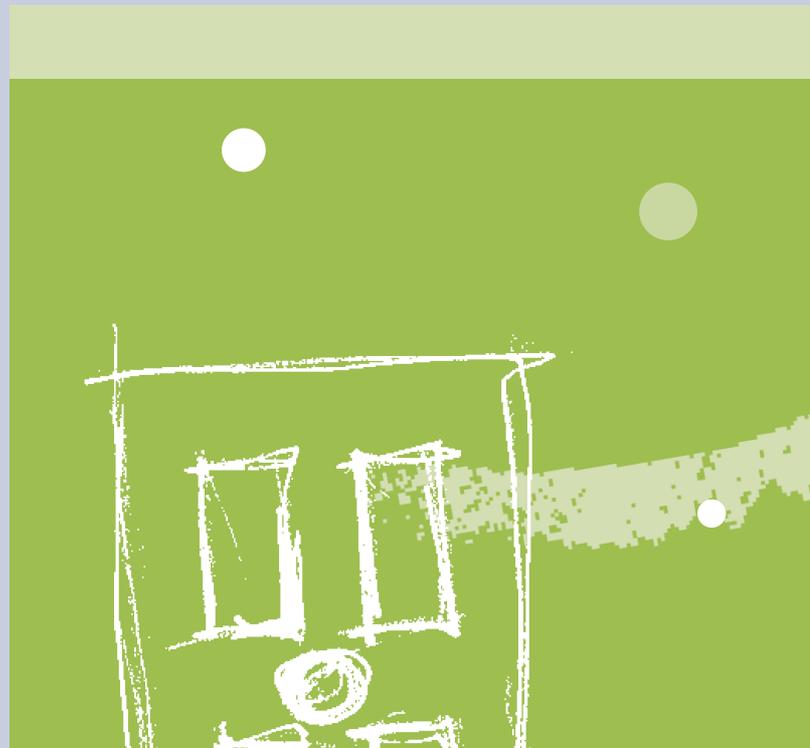
Asst. Accountant/  
Internal Audit  
**Damian Flynn**

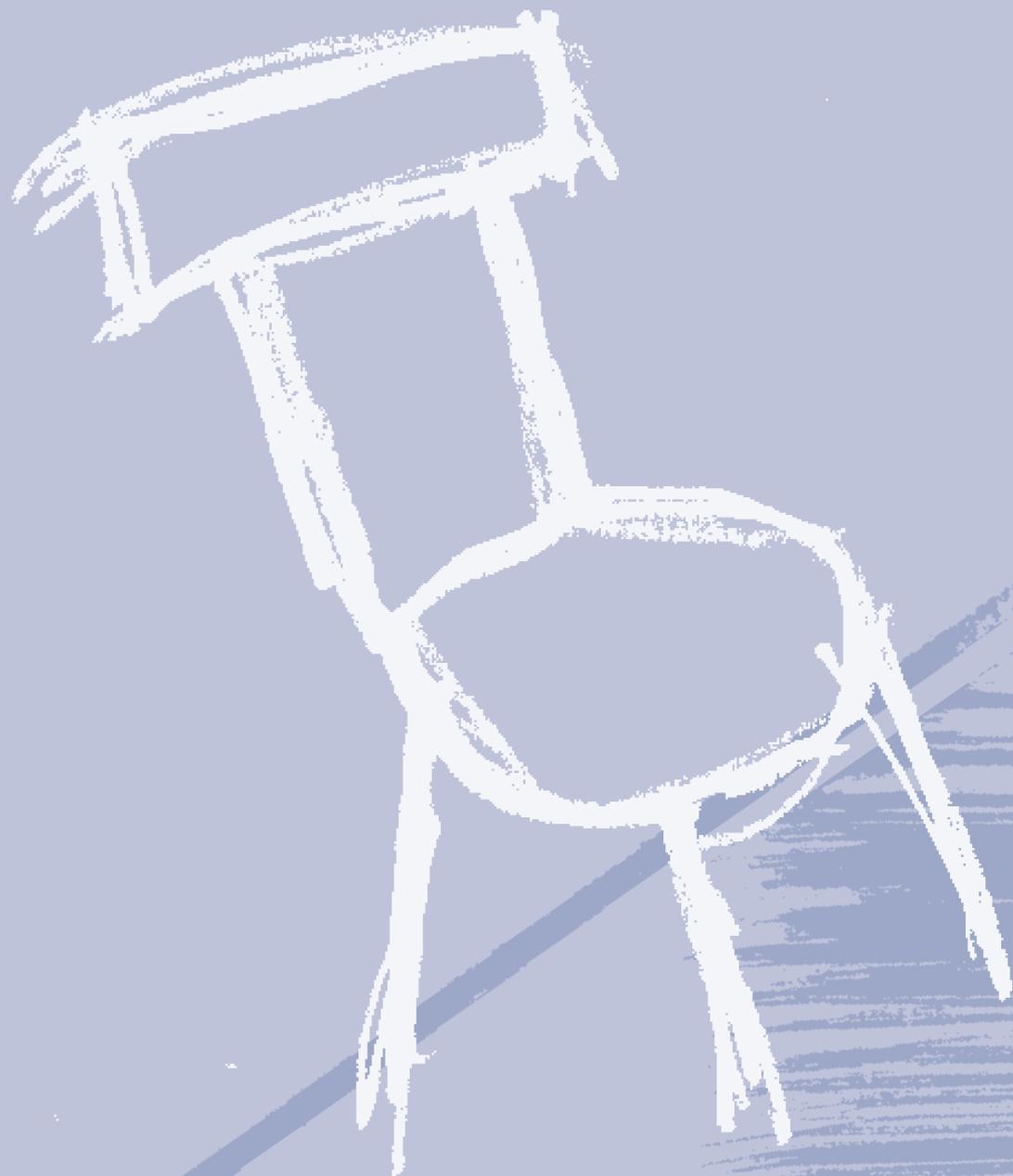
### **Auditors**

KPMG  
Chartered Accountants  
5 George's Dock  
IFSC  
Dublin 1

### **Solicitors**

McCann FitzGerald Solicitors  
2 Harbourmaster Place  
International Financial  
Services Centre  
Dublin 1





# Chairman's Report



## Introduction

The Agency enters its 21st year with significant developments in its business having taken place in 2001 and the prospects of further challenges and opportunities ahead. In the past year the Agency has seen

- The enactment of the Housing (Miscellaneous Provisions) Act 2002, which has substantially broadened the Agency's lending powers and increased its borrowing limit;
- Record lending of €562.7m to local authorities in 2001.
- The building-up of record reserves of €30.4m, held to ensure that the Agency can cover its risks
- The appointment of the fifth Board of Directors by the Minister.

## Housing Act 2002 – new lending powers and increased borrowing limit

I welcome the substantial extension of the Agency's powers to lend to local authorities set out in the Housing (Miscellaneous Provisions) Act 2002. This represents a further widening of the Agency's remit, following on the increased powers to lend for all functions under the Housing Acts that were given in 1992. Under the 2002 Act, the Agency is empowered to fund local authorities' capital works in the areas of sanitary services, waste management and the environment.

In addition the Act permits the Agency to lend directly to voluntary housing bodies to fund their housing operations. These schemes are currently funded by the Agency through the local authorities. Consequently, this provision will not result in any net increase in lending.

Reflecting the projections for housing-related lending under the National Development Plan and the Agency's extended remit, the 2002 Act also increases the Agency's borrowing limit to €6,000 million. This increase of over €4,000 million should be adequate to meet the Agency's requirements for the next five years or so.

## Record lending to local authorities in 2001

The Agency made record advances of €562.7m in the year to 31 December 2001, representing an increase of 66% on the then-record lending of the previous year. The increased lending was used mainly to fund the shared ownership, affordable housing and rental subsidy schemes together with land acquisition for housing by local authorities.

The Agency's loan book had reached a record €1,726m at 31 December 2001.

## Review of funding operations

During 2001, a review of the Agency's funding operations was undertaken by the Departments of the Environment and Local Government, and Finance. With total debt likely to be in the region of €5,000m by 2007 this would represent about 14% of the current size of the National Debt. In that context, the government decided that borrowing of this magnitude needed close co-ordination with that of the Exchequer's. To ensure efficient and cost-effective debt raising and facilities management, a provision in the 2002 Act permits the Agency to appoint the National Treasury Management Agency as its borrowing and debt management agent under terms agreed between the Agency and the NTMA. The Board has recently invited the NTMA to assist it in raising the considerable volume of funds needed over the remainder of 2002 and progress in that regard is well advanced.

## Approval of the State guarantee by the EU Commission

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. Following consideration of a letter from the EU's Competition Commissioner to all Member States of the Union, the Department of Finance, with the Agency's assistance, sought formal approval of the guarantee under the state aid regime in March 2001. The EU Commission approved the guarantee in respect of social housing in July 2001.

The Agency will now seek EU Commission approval to the guarantee in respect of the extended powers contained in the Housing (Miscellaneous Provisions) Act 2002.

## Profitability/reserves – securing the future

The Agency recorded an overall surplus of €1.17m this year, bringing its reserves to a record high of €30.4m

The trading surplus was €1.65m. In common with previous years, movements in the rate of inflation throughout the year caused a variation between our index linked cost base and our income. This mismatch cost the Agency €1.04m compared to a gain of €0.35m in 2000.

However, offsetting this loss was additional income of €0.56m brought to account as a result of completing a reconciliation process on pre May 1986 loans.

The Agency has sufficient reserves on hand to cover any risk inherent in our loan portfolio. We are satisfied that we have a very secure foundation for the future.

## Managing treasury risks

The risks inherent in the Agency's business principally relate to fixed rate loans, inflation mismatches and margin fluctuations. These are measured and analysed annually by the Board, and appropriate reserves are set against them. Current reserves are deemed appropriate for the levels of risk in the business.

In the light of recent revelations in the banking and derivatives sector, the Agency continues to keep its risks in these areas under close review. Further details of the Agency's risk management policy are set out in the Directors' Report.

## Liquidity

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 positions in December 2000 and 2001.

### Interest rate policy

The Agency's role is essentially that of centralised borrower for the local authorities. Our policy is to borrow at the finest rates, passing these on to the local authorities with a small margin to cover our administration costs and risks, thus fulfilling the terms of section 4 of the 1988 Housing Finance Agency (Amendment) Act. The Agency's policy is to provide local authorities with sufficient margin to cover their operations as lenders, while ensuring that our own margins supply adequate reserves to cover risk. Recently the Board has approved a revision to the system of setting rates on loans to local authorities. This should ensure that the rates on these loans will be more closely aligned with the Agency's cost of funds. The cost of funds and return from local authorities will be reviewed quarterly by the Audit Committee to ensure that the policy is effective and prudent.

### Quality Customer Services

The Agency is committed to the principle of providing Quality Customer Service. This year saw us build on our excellent relationship with our customers and we have formulated a Quality Customer Service Plan. This plan is currently in the process of being finalised and will come before the Board of Directors shortly for approval.

The plan is a product of some useful discussions which have taken place between the Agency and our customers the local authorities, the Department of Environment and Local Government, the Department of Finance and our own staff. It represents evidence of our long established commitment to our customers.

The Agency has set a number of performance measurement targets on processing of loan advances, dealing with correspondence, staff training, compliance with our policies and procedures manual and adherence to our policy of lending to local authorities at the finest rates possible. We are currently putting a monitoring system in place and intend reporting on our performance in next year's Annual Report.

## Freedom of Information Act

The Agency comes within the scope of the Freedom of Information Act in November 2002. Dr Ian d'Alton, Head of Treasury, has been appointed Freedom of Information Officer by the Board. Preparation of the necessary documentation and staff training are in hand to ensure that the Agency is in a position to comply with its obligations under the Act.

## The Agency's website

The Agency's website ([www.hfa.ie](http://www.hfa.ie)) underwent a thorough revamp during the year. The principal development was the installation on the webtop of the LABS on-line loan application and billing system. It provides a paperless, real-time system by which all stages of a loan's processing by the various parties can be carried out on-line and progress monitored. This is under pilot testing at present, and it is hoped to have the system fully live by June 2002. The website now also includes the Agency's current Corporate Plan 2002-2006 and the most recent Annual Report. Other sections of the website contain information for our customers.

## Board changes

The term of office of Dr Finola Kennedy (Chairman), Tommy Cullen, Paddy d'Arcy, Dan Hurley, Finbarr Kennelly, Ciarán Murphy and Patricia Robinson expired on 31 December 2001. I thank all of them for their valuable contribution to the success of the Agency, collectively and individually. A special word of appreciation is due to my predecessor Dr Finola Kennedy who, as a Board member for 10 years and latterly as Chairman for 5, gave unstintingly of her time, energy and considerable talents in the Agency's service.

I welcome the new Directors who join me on the Board – Larry Butler, Michael Hayes, Jackie Maguire, Brenda McVeigh and Teresa White. I look forward to a productive Board and good working relationships.

## Acknowledgements

I thank our sponsoring Minister, the Minister for the Environment and Local Government, and our shareholder, the Minister for Finance, and the officials of their Departments for the assistance and courtesies offered to the Agency during the year. We greatly value the relationship with our customers, the local authorities and have many valuable contacts – formal and informal – with local authority officials, including Managers, Heads of Finance and Directors of Housing. I express my appreciation of the essential work of our legal advisors, our auditors, our bankers and counterparties.

The staff of the Agency, 11 in number, continues to provide an efficient and effective service for our customers. Loreto Corish is welcomed back to the Agency. Due to the record lending and the introduction of the new loan application and billing system, the staff has had an extremely heavy workload in the past year and its efforts are much appreciated. With an equally busy year in prospect, I am sure that they will continue to rise to the occasion.



**Edward Coffey**  
**Chairman**  
7 June 2002





# Directors' Report

The Directors present their annual report and audited financial statements for the year ended 31 December 2001.

## 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

	2001	2000
	€	€
Retained surplus for the year	<b>1,170,950</b>	710,994
Surplus at beginning of year	<b>29,233,906</b>	28,522,912
Transfer to Ordinary Share Capital (See Note 16)	<b>(908)</b>	-
<b>Surplus at end of year</b>	<b>30,403,948</b>	29,233,906

The results are satisfactory and illustrate the Agency's commitment to lend to 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 €403 million was advanced to local authorities under this scheme and was used to finance 15,571 mortgages. At 31 December 2001 such loans represented outstanding balances of €63.9 million. The Agency is liable for any losses that may arise on these mortgages.

### (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 is 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 2001 such loans represented outstanding balances of €1.66 billion.

## 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 company continues to comply with the provisions of the Government Guidelines for State Bodies (1992) and expects to report compliance with the Code of Practice for the Governance of State Bodies (adopted by the Board on 4 April 2002) in next year’s Annual Report.

### 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. On 30 April 2002 the Board of Directors comprised nine 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:* James Hehir, Tom Corcoran and Brenda McVeigh were appointed to the Finance Committee on 4 April 2002, and Edward Coffey was appointed on 30 April 2002. 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:* Edward Coffey, Fr Patrick Cogan, Tom Corcoran and Maureen Lynott were appointed to this Committee on 30 April 2002. This Committee approves remuneration for 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 2001.

### **Audit Committee**

*Members:* Fr Patrick Cogan, Maureen Lynott, Jackie Maguire and Teresa White were appointed to the Audit Committee on 4 April 2002. Michael Hayes was appointed on 30 April 2002. This Committee met twice in 2001 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 shareholders 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 Ministers, 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 lends to local authorities. The repayment risk is assessed as being negligible as the legal relationship is with local authorities and is not dependent 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.

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) monthly 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 2001, except for the following matters:

### *Senior independent non-executive Director*

No designation has been made of 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 with the consent of the Minister for Finance and hold office for such term as the Minister specifies when making the appointment but not for a period exceeding 5 years.

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.

## 5. 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.

## 6. Directors

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

The term of office of Fr Pat Cogan ofm, Mr Tom Corcoran, Mr Tommy Cullen, Mr Patrick d'Arcy, Mr James Hehir, Mr Daniel Hurley, Dr Finola Kennedy, Mr Finbarr Kennelly, Ms Maureen Lynott, Mr Giaran Murphy, and Ms Patricia Robinson ceased on 31 December 2001.

The following Directors were appointed on 20 December 2001 with effect from 1 January 2002; Mr Larry Butler, Fr Pat Cogan ofm, Mr Tom Corcoran, Mr Michael D. Hayes, Mr James Hehir and Ms Maureen Lynott. Ms Brenda McVeigh, Ms Jackie Maguire and Ms Teresa White were appointed on 7 March 2002. Mr Edward Coffey was appointed on 15 April 2002.

## 7. 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.

## 8. 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 (€190 million), forwards (€38 million), forward rate agreements (€63 million), interest rate options (€63 million) and caps (€190 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 2001.

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.

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 (prime 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 55 % of the Agency's available borrowing facilities at 31 December 2001. 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 (€33 million available at 31 December 2001) are subject to annual review by the Agency's bankers. In the year 1 January to 31 December 2001 the Agency increased the limit on its Guaranteed Notes programme to €900 million. The average cost of the Agency's debt was an annualised 5.5 % compared with 5.8 % in the last financial year.

## 9. 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.

## 10. Electoral Act, 1997

The Agency made no political donations during the year.

## 11. 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 2001, one payment was late under the terms of the Act. This payment was for €158,717 and resulted in the payment of interest of €1,587. 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.

## 12. 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.

## 13. 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 company are maintained at its registered office.

## 14. Auditors

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

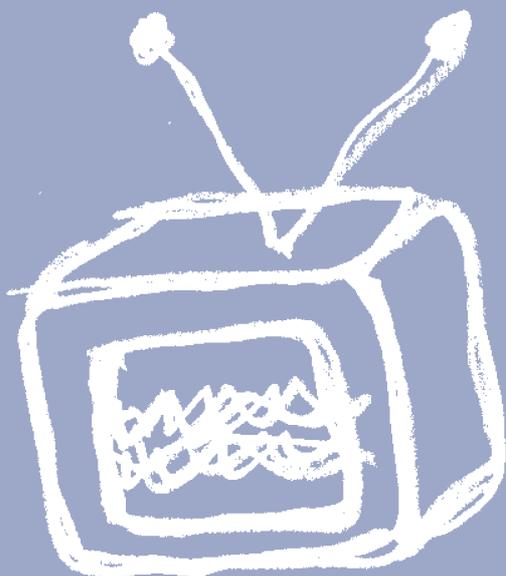
On behalf of the Board



**Edward Coffey**  
Chairman  
30 April 2002



**James Hehir**  
Managing Director  
30 April 2002



# 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 2001 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



**Edward Coffey**  
**Chairman**  
30 April 2002

**James Hehir**  
**Managing Director**  
30 April 2002

# Independent Auditors' Report to the Members of Housing Finance Agency plc

We have audited the financial statements on pages 22 to 49.

## 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 19, 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 11 to 17 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.

## 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 2001 and of its surplus for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2001 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.

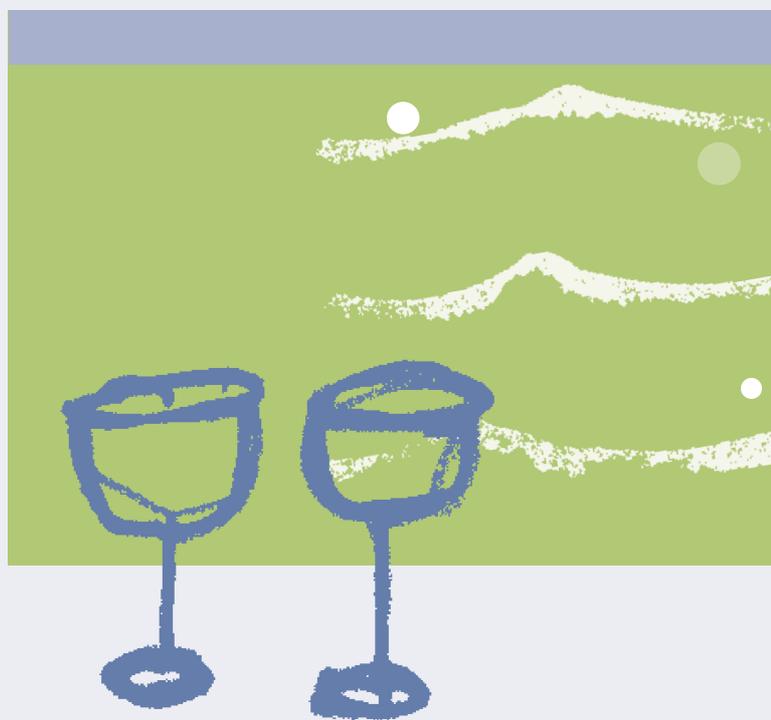
In our opinion, the information given in the Directors' Report on pages 11 to 17 is consistent with the financial statements.

The net assets of the company, as stated in the balance sheet on page 26, 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 2001 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**

Registered Auditors

30 April 2002



# 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.

## Euro

The financial statements are expressed in euro.

## 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 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.

## Operating lease

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

### 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:

<b>Fixtures and fittings</b>	<b>20% Reducing balance</b>
------------------------------	-----------------------------

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

### Short term investments

Short term investments consist primarily of promissory notes and commercial paper, 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.



# Income and expenditure account

## Income and expenditure account for the year ended 31 December 2001

	Note	2001 €	2000 €
Income – continuing activities	3	84,937,920	64,938,785
Direct expenditure	4	(81,729,219)	(62,669,888)
Surplus of income over direct expenditure		<u>3,208,701</u>	<u>2,268,897</u>
Indirect expenditure	5		
Release of bad debt provision		-	203,158
Other expenditure		(1,985,010)	(1,761,061)
Operating surplus for the financial year			
– continuing activities		1,223,691	710,994
Loss on disposal of fixed assets			
– continuing activities		(52,741)	-
Operating surplus after exceptional items			
– continuing activities		1,170,950	710,994
Surplus at beginning of year		29,233,906	28,522,912
Transfer to ordinary share capital account	16	(908)	-
<b>Surplus at end of year</b>		<b>30,403,948</b>	<b>29,233,906</b>

The company has no recognised gains or losses than those dealt with in the income and expenditure account for the financial year.  
On behalf of the Board



**Edward Coffey**  
Chairman  
30 April 2002



**James Hehir**  
Managing Director  
30 April 2002

# Balance sheet

## Balance sheet at 31 December 2001

	Note	2001 €	2000 €
<b>Assets employed</b>			
Tangible fixed assets	8	186,814	149,312
Balance due on advances after more than one year	7	1,686,156,293	1,157,530,447
<b>Current assets</b>			
Debtors	9	85,058,828	103,479,726
Cash at bank and in hand	10	12,000,437	2,539,874
		<b>97,059,265</b>	106,019,600
Creditors (amounts falling due within one year)	11	(771,716,582)	(327,015,942)
<b>Net current liabilities</b>			
		<b>(674,657,317)</b>	(220,996,342)
		<b>1,011,685,790</b>	936,683,417
<b>Financed by</b>			
Creditors (amounts falling due after more than one year)	12	538,246,659	484,779,757
Index linked bonds	13	353,602,988	333,602,308
8.75% Housing Finance Agency stock 2018	14	89,393,195	89,029,354
Capital and reserves			
Called up share capital	16	39,000	38,092
Retained surplus		30,403,948	29,233,906
Shareholders' funds-equity	18	30,442,948	29,271,998
		<b>1,011,685,790</b>	936,683,417

On behalf of the Board



**Edward Coffey**  
Chairman  
30 April 2002

**James Hehir**  
Managing Director  
30 April 2002

# Cash flow statement

## Cash flow statement for the year ended 31 December 2001

	<i>Note</i>	2001 €	2000 €
Cash outflow from operating activities	17(a)	<b>(436,737,764)</b>	(223,149,937)
Returns on investments and servicing of finance	17(b)	<b>(61,799,381)</b>	(41,048,557)
Capital expenditure	17(b)	<b>(136,947)</b>	(13,951)
Cash outflow before financing activities		<b>(498,674,092)</b>	(264,212,445)
Financing activities – net cash inflow from financing	17(b)	<b>502,609,385</b>	256,654,735
<b>Increase/(decrease) in cash in the year</b>		<b>3,935,293</b>	<b>(7,557,710)</b>

## Reconciliation of net cash flow to movement in net debt for the year ended 31 December 2001

		2001 €	2000 €
Increase/(decrease) in cash in the year		<b>3,935,293</b>	(7,557,710)
Cash inflow from change in debt financing		<b>(502,609,385)</b>	(256,654,735)
Non-cash movements	17(c)	<b>(20,338,831)</b>	(17,885,346)
Movement in net debt in the year		<b>(519,012,923)</b>	(282,097,791)
Net debt at beginning of year	17(c)	<b>(1,222,790,302)</b>	(940,692,511)
<b>Net debt at end of year</b>	17(c)	<b>(1,741,803,225)</b>	<b>(1,222,790,302)</b>



# 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

	2001	2000
	€	€
Interest on advances to local authorities approved:		
Post 27 May 1986	77,851,634	56,589,894
Pre 27 May 1986	6,480,783	8,262,228
Additional Pre May 1986 interest as a result of improved information from Local Authorities	562,308	–
Investment income	43,195	86,663
	<b>84,937,920</b>	<b>64,938,785</b>

# Notes (continued)

## 4 Direct expenditure

	2001	2000
	€	€
<b>Index – linked bonds</b>		
Bond interest	10,439,093	9,880,662
Premium on redemption of bonds (Note 13)	19,677,583	17,224,099
Amortisation of discount on issue of bonds	300,429	300,430
Amortisation of bond issue expenses	11,850	11,856
	<b>30,428,955</b>	<b>27,417,047</b>

## Stock and loan costs

Amortisation of discount and issue expenses on Housing Finance Agency Stock	363,841	363,841
Interest payable on bank borrowings, guaranteed notes and stock	50,925,605	34,878,183
Amortisation of discount on pre May 1986 loans	10,818	10,817
	<b>51,300,264</b>	<b>35,252,841</b>
	<b>81,729,219</b>	<b>62,669,888</b>

## 5 Indirect expenditure

	2001	2000
	€	€
Decrease in provision for bad and doubtful debts	-	(203,158)

## Other expenditure

Bad debts written off	-	4,053
Administrative expenditure (Note 6)	1,210,555	912,208
Mortgage protection insurance	394,001	503,611
Commission to local authorities	380,454	341,189
	<b>1,985,010</b>	<b>1,761,061</b>

# Notes (continued)

## 6 Administrative expenditure

Administrative expenditure has been arrived at after charging:

	2001	2000
	€	€
<b>Directors' emoluments</b>		
Fees – Chairman	10,158	3,809
– Other Directors	44,441	19,258
Other emoluments	83,869	69,457
Pension contributions	17,936	15,153
	<b>156,404</b>	<b>107,677</b>
<b>Employee costs</b>		
Salaries	456,282	303,782
Social welfare costs	23,023	14,634
Pension costs (Note 20)	197,192	35,983
	<b>676,497</b>	<b>354,399</b>
<b>Auditors' remuneration</b> (excluding value added tax of €5,387 in year to 31 December 2001 and €3,555 in year to 31 December 2000)	<b>26,937</b>	<b>17,776</b>
Depreciation (note 8)	46,704	37,328
Loss on disposal of fixed assets (note 8)	(52,741)	–
<b>Rental payments under operating lease</b>	<b>49,520</b>	<b>49,520</b>

The average number of employees during the year including the executive Director was 11 (31 December 2000: 11).

# Notes (continued)

## 7 Balance due on advances

### (a) To local authorities:

#### (i) Loans approved post 27 May 1986

	2001 €	2000 €
Balance at beginning of year	1,144,917,265	842,724,134
Loans advanced	562,680,045	339,114,114
Less: loans repaid	(81,814,533)	(58,608,606)
Interest charged	77,851,634	56,589,894
Interest received	(41,136,984)	(34,902,271)
<b>Balance at end of year</b>	<b>1,662,497,427</b>	<b>1,144,917,265</b>

#### (ii) Loans approved pre 27 May 1986

Balance at beginning of year	69,893,083	85,581,946
Less: Repayments	(5,133,243)	(13,176,099)
Decrease in bad debt provision	-	203,158
	<b>64,759,840</b>	<b>72,609,005</b>
Interest charged	7,043,091	8,262,228
Interest received	(7,947,651)	(10,978,150)
	<b>63,855,280</b>	<b>69,893,083</b>
<b>Balance at end of year</b>	<b>1,726,352,707</b>	<b>1,214,810,348</b>

The loans approved pre 27 May 1986 balance at 31 December 2001 is net of bad debt provisions of €1,066,580 (2000: €1,066,580).

Disclosed as:

Amounts falling due within one year (note 9)	40,196,414	57,279,901
Amounts falling due after more than one year	1,686,156,293	1,157,530,447
	<b>1,726,352,707</b>	<b>1,214,810,348</b>

# Notes (continued)

## 8 Tangible fixed assets

### Fixtures and Fittings

€

#### Cost

At beginning of year	328,048
Additions	136,947
Disposals	(119,037)

---

<b>At end of year</b>	<b>345,958</b>
-----------------------	----------------

---

#### Depreciation

At beginning of year	178,736
Charged for year	46,704
Disposals	(66,296)

---

<b>At end of year</b>	<b>159,144</b>
-----------------------	----------------

---

#### Net book value

31 December 2001	<u>186,814</u>
31 December 2000	<u>149,312</u>

## Notes (continued)

<b>9 Debtors (amounts falling due within one year)</b>	<b>2001</b>	<b>2000</b>
	€	€
Balances due on advances (note 7)	40,196,414	57,279,901
Other debtors and prepayments	115,926	214,590
Interest receivable	72,969	65,833
Due from local authorities	44,673,519	45,919,402
	<b>85,058,828</b>	<b>103,479,726</b>

<b>10 Cash at bank and at hand</b>	<b>2001</b>	<b>2000</b>
	€	€
Cash at bank and in hand	437	398
Amounts held on short term investments	12,000,000	2,539,476
	<b>12,000,437</b>	<b>2,539,874</b>

## Notes (continued)

<b>11 Creditors (amounts falling due within one year)</b>	<b>2001</b>	<b>2000</b>
	€	€
Note issuance facilities and guaranteed notes	759,451,029	310,308,546
Interest due on stock and bonds	6,580,882	6,415,543
Accruals	4,815,978	5,487,907
Bank overdraft	868,693	4,803,946
	<b>771,716,582</b>	<b>327,015,942</b>

### Tax creditors (included in accruals)

<b>PAYE</b>	<b>147</b>	<b>10,275</b>
-------------	------------	---------------

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

<b>12 Creditors</b>	<b>2001</b>	<b>2000</b>
<b>(amounts falling due after more than one year)</b>	€	€
<b>Bank loans and notes payable</b>		
Repayable other than by instalments:		
Between two and five years	151,124,135	124,862,820
After more than five years	387,122,524	359,916,937
	<b>538,246,659</b>	<b>484,779,757</b>

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

# Notes (continued)

<b>13 Index linked bonds</b>	<b>2001</b>	<b>2000</b>
	€	€
<b>Housing Finance Agency Bond Issues</b>		
2% Index Linked Bonds 2008	107,927,610	107,927,610
4% Index Linked Bonds 2015	95,230,229	95,230,229
Nominal value of bonds in issue	203,157,839	203,157,839
Unamortised expenses and discount on issue	(836,239)	(1,159,336)
	<b>202,321,600</b>	201,998,503
<b>Provision for premium on redemption of bonds</b>	<b>151,281,388</b>	131,603,805
	<b>353,602,988</b>	333,602,308

## Provision for premium on redemption of bonds

	Total	Deferred	Provided
	€	€	€
At beginning of year	149,918,329	(18,314,524)	131,603,805
Arising during the year	18,880,307	797,276	19,677,583
<b>At end of year</b>	<b>168,798,636</b>	<b>(17,517,248)</b>	151,281,388

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)

<b>14 8.75% Housing Finance Agency Stock 2018</b>	<b>2001</b>	<b>2000</b>
	€	€
<b>At par</b>		
At beginning of year	95,230,229	95,230,229
Less: Unamortised discount on issue	(5,837,034)	(6,200,875)
<b>At end of year</b>	<b>89,393,195</b>	<b>89,029,354</b>

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

# Notes (continued)

## 15 Profile of financial assets and liabilities

Narrative disclosures concerning the company's treasury policy and management are set out in note 8 to the Directors' Report.

The total value of financial assets is analysed further below:

	<b>2001</b>	<b>2000</b>
	€	€
Fixed rate	<b>121,398,001</b>	123,901,616
Floating rate (including index linked)	<b>1,661,628,225</b>	1,139,367,611
Zero interest rate	<b>437</b>	397
	<b>1,783,026,663</b>	1,263,269,624

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

	<b>2001</b>	<b>2000</b>
	€	€
<b>Amount determined by floating rate benchmarks:</b>		
EURIBOR	<b>1,282,331,535</b>	798,365,951
Index linked	<b>379,296,690</b>	341,001,660
	<b>1,661,628,225</b>	1,139,367,611

# Notes (continued)

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

### Interest rate risk profile of financial assets

	2001	2000
Weighted average fixed interest rate	<u>8.24%</u>	<u>8.92%</u>

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

	2001	2000
Weighted average period for which fixed interest assets are fixed	<u>15.4 years</u>	<u>16.4 years</u>

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.

### Maturity of financial assets

	2001	2000
	€	€
Amounts falling due within one year	96,870,370	105,739,177
Amounts falling due between one and two years	38,233,188	59,819,377
Amounts falling due between two and five years	195,350,209	195,964,725
Amounts falling due after more than five years	1,452,572,896	901,746,344
	<hr/> <u>1,783,026,663</u>	<hr/> <u>1,263,269,623</u>

### Financial liabilities are analysed further below:

	2001	2000
	€	€
Fixed rate	110,392,354	112,663,198
Floating rate	1,631,170,209	1,116,276,251
	<hr/> <u>1,741,562,563</u>	<hr/> <u>1,228,939,449</u>

# Notes (continued)

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

### Interest rate risk profile of financial liabilities

	2001	2000
Weighted average fixed interest rate	8.42%	8.49%
Weighted average period for which fixed interest liabilities are fixed	13.6 years	14.5 years

	2001	2000
	€	€
<b>Amount determined by floating rate benchmarks:</b>		
EURIBOR	1,276,695,506	774,604,884
Prime	868,693	4,803,940
Index linked	353,602,988	336,867,427

1,631,167,187

1,116,276,251

### Liquidity measures as at

	2001		2000	
	Financial liabilities	Undrawn committed facilities	Financial liabilities	Undrawn committed facilities
	€	€	€	€
Maturing within 12 months or on demand	760,319,722	–	321,502,332	–
Maturing greater than 1 year and less than 2	63,486,903	–	–	–
Maturing greater than 2 years and less than 5	216,104,804	17,217,695	204,221,067	48,044,715
Maturing greater than 5 years	701,651,134	19,108,954	703,216,050	41,748,260
<b>Total</b>	<b>1,741,562,563</b>	<b>36,326,649</b>	<b>1,228,939,449</b>	<b>89,792,975</b>

# Notes (continued)

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

### Fair value

#### Financial assets

	Carrying value		Fair value	
	2001	2000	2001	2000
	€	€	€	€
Fixed rate	<b>121,398,001</b>	123,901,616	<b>296,207,327</b>	204,206,555
Floating rate	<b>1,282,331,535</b>	798,365,951	<b>1,282,331,535</b>	798,365,951
Index linked	<b>379,296,690</b>	341,001,660	<b>918,745,675</b>	547,923,544
Zero interest	<b>437</b>	397	<b>437</b>	397
	<b>1,783,026,663</b>	1,263,269,624	<b>2,497,284,974</b>	1,550,496,447

#### Financial liabilities

Fixed rate	<b>110,395,396</b>	112,663,198	<b>275,326,896</b>	188,728,463
Floating rate	<b>1,277,564,199</b>	779,408,824	<b>1,277,564,199</b>	779,408,824
Index linked	<b>353,602,988</b>	336,867,427	<b>901,331,605</b>	556,804,361
	<b>1,741,562,563</b>	1,228,939,449	<b>2,454,222,700</b>	1,524,941,648

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 €100 (nominal) of an index linked loan, compared to the return on a conventional variable loan based on one month EURIBOR, at the balance sheet date.

The fair value of the Agency's assets has been calculated as €2.497 billion. This is based on one month EURIBOR at 30 December 2001 (2000: EURIBOR ) 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)

€2.454 billion has been estimated as the fair value of the Agency's liabilities. This is again based on one month EURIBOR on 30 December 2001.

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 2001.

## 16 Share capital – equity

There are 30,000 ordinary shares of €1.30 authorised, allotted, called up and fully paid at 31 December 2001 (30,000 shares of IR£1 at 31 December 2000). The share capital was renominalised and redenominated at an EGM on 7 December 2001 and a transfer of €908 made from revenue reserves to the ordinary share capital account to cover the increase in capital.

# Notes (continued)

<b>17 Cash flow statement</b>	<b>2001</b>	<b>2000</b>
	€	€
<b>(a) Reconciliation of operating surplus to cash outflow from operating activities</b>		
Surplus for the financial year	1,170,950	710,994
Direct expenditure (Note 4)	81,729,216	62,669,888
Pension amortisation	11,006	11,006
Depreciation (Note 8)	46,704	37,328
Investment income	(103,000)	(160,617)
Loss on disposal of fixed assets (Note 8)	52,741	-
<b>Movements in working capital:</b>		
(Increase)/decrease in amounts due from local authorities (Note 9)	1,245,884	(13,437,539)
Increase in advances (Note 7)	(511,356,037)	(286,504,268)
(Increase)/decrease in other debtors and prepayments	(98,664)	122,690
Decrease in accrued expenses	23,960	68,331
(Decrease)/increase in liquid resources	(9,460,524)	13,332,250
<b>Cash outflow from operating activities</b>	<b>(436,737,764)</b>	<b>(223,149,937)</b>

# Notes (continued)

## 17 Cash flow statement (continued)

	2001	2000
	€	€
<b>(b) Gross cash flows</b>		
Returns on investments and servicing of finance		
Interest received	95,859	120,678
Interest paid	(61,895,240)	(41,169,236)
<b>Net cash outflow from returns on investments and servicing of finance</b>	<b>(61,799,381)</b>	<b>(41,048,558)</b>
<b>Capital expenditure</b>		
Payments to acquire tangible fixed assets	(136,947)	(13,951)
<b>Net cash outflow from capital expenditure and disposals</b>	<b>(136,947)</b>	<b>(13,951)</b>
<b>Financing</b>		
Repayment of bank loans and notes payable	-	(27,877,326)
Increase in bank loans and notes payable	502,609,385	284,532,061
<b>Net cash inflow from financing</b>	<b>502,609,385</b>	<b>256,654,735</b>

# Notes (continued)

## 17 Cash flow statement (continued)

### c) Analysis of changes in net debt

	At 31 December 2000 €	Cash flows €	Non-cash movements €	At 31 December 2001 €
Cash in hand, at bank	397	40		437
Overdraft	(4,803,946)	3,935,253		(868,693)
	<b>(4,803,549)</b>	<b>3,935,293</b>		<b>(868,256)</b>
Bank loans and notes repayable within one year	(310,308,545)	(449,142,483)		(759,451,028)
Bank loans and notes repayable after one year	(484,779,757)	(53,466,901)		(538,246,658)
Index linked bonds	(202,265,293)		(300,428)	(202,565,721)
Provision for premium on redemption of bonds	(131,603,805)		(19,677,584)	(151,281,389)
8.75% Housing Finance Agency Stock 2018	(89,029,354)		(360,819)	(89,390,173)
	<b>(1,222,790,303)</b>	<b>(498,674,093)</b>	<b>(20,338,831)</b>	<b>(1,741,803,225)</b>

# Notes (continued)

## 18 Reconciliation of shareholders' funds

	<b>2001</b>	<b>2000</b>
	€	€
Surplus for the financial year	<b>1,170,950</b>	710,994
Opening shareholders' funds	<b>29,271,998</b>	28,561,004
<b>Closing shareholders' funds</b>	<b>30,442,948</b>	29,271,998

## 19 Commitments

### Operating lease commitments

The Agency has commitments under an operating lease to make payments totalling €49,520 in the next year as follows:

	Buildings
	€
Lease expiring: After three years	49,520

# Notes (continued)

## 20 Pensions

The company operates a defined benefit pension scheme covering all permanent employees. The pension cost for the financial year amounted to €197,192 (31 December 2000: €35,983). 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 (23.7% of pensionable pay).

The latest full actuarial valuation was carried out at 1 July 1998 using the Aggregate Method.

At 1 July 1998 the market value of the fund's assets was €401,237 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.

The Agency has continued to account for pensions in accordance with SSAP 24 and the disclosures given are those required by that standard. FRS 17 *Retirement benefits* will not be mandatory for the Agency until year ended 31 December 2003. Prior to this, phased transitional disclosures are required by the standard which are set out as follows:

For the purposes of FRS 17 *Retirement Benefits* the latest valuations have been updated to 31 December 2001 by a Qualified Independent Actuary using the projected unit method. The principal actuarial assumptions used were as follows:

Rate of increase in salaries	4%
Rate of increase in pensions payments	3%
Discount rate	6%
Inflation assumption	3%

# Notes (continued)

## 20 Pensions (continued)

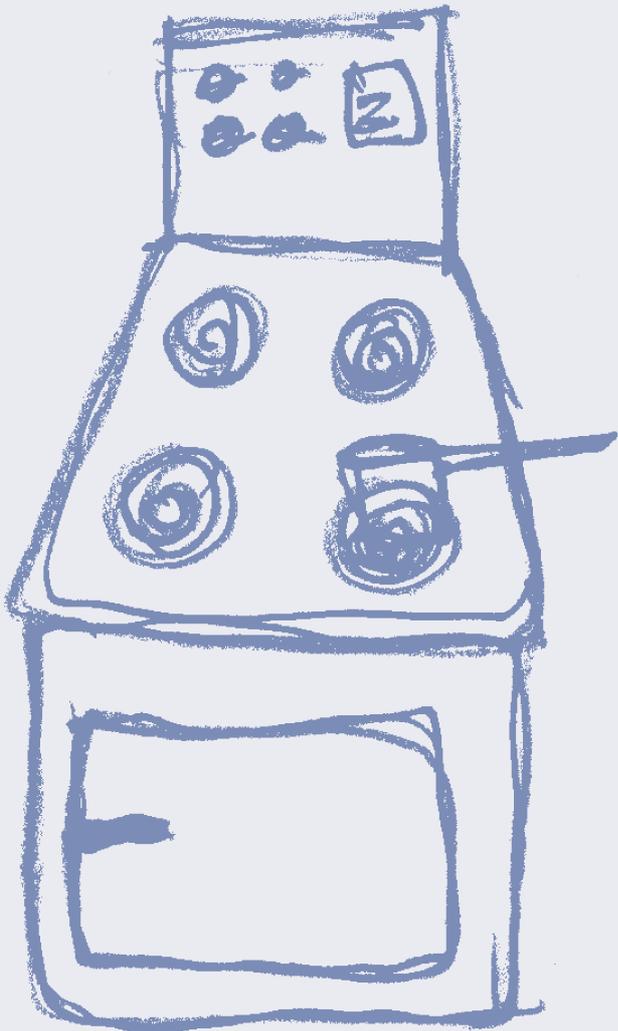
The market value of the assets in the pension scheme and expected rate of return were:

	Long term rate of return expected at 31 December 2001 %	Value at 31 December 2001 €
Equities	7.0%	649,000
Bonds	5.2%	200,000
Property	6.0%	76,000
Cash	2.0%	29,000
Other	-	547,000
	<hr/>	<hr/>
Total fair value of pension scheme assets		1,501,000
Present value of pension scheme liabilities		(1,260,000)
<b>Net surplus in pension scheme</b>		<b>241,000</b>
<hr/>		
<b>Net Assets</b>		
Net Assets before pension scheme asset		1,783,402,372
Pension scheme asset		241,000
<b>Net assets after pension scheme asset</b>		<b>1,783,643,372</b>
<hr/>		
<b>Reserves</b>		
Retained surplus before pension scheme asset		30,403,948
Pension scheme asset		241,000
<b>Retained surplus after pension scheme asset</b>		<b>30,644,948</b>
<hr/>		

# Notes (continued)

## 21 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 30 April 2002.



# Appendix 1

## Statistics on the loan book

### (A) By loan type

Loans advanced to finance	1997 €000	1998 €000	1999 €000	2000 €000	2001 €000
Fixed Rate	3,394	13,095	11,250	6,295	9,775
Variable Rate	61,970	46,349	161,801	281,390	475,293
Index Linked	23,868	8,776	52,763	52,190	77,612
<b>Total</b>	<b>89,232</b>	<b>68,220</b>	<b>225,814</b>	<b>339,875</b>	<b>562,680</b>

### (B) By rate type and duration of loan

Duration of loan	Fixed Rate €000	Variable Rate €000	Index Linked		Total €000
			Pre May 1986 €000	Post May 1986 €000	
0 to 5 years	2,559	236,670	34,523	28	273,780
6 to 10 years	11,603	78,681	29,332	3,278	122,894
11 to 15 years	23,809	62,953	0	0	86,762
16 to 20 years	73,418	181,824	0	67,574	322,816
21 to 25 years	4,929	390,840	0	218,290	614,059
26 to 30 years	5,080	274,690	0	26,271	306,041
<b>Total</b>	<b>121,398</b>	<b>1,225,658</b>	<b>63,855</b>	<b>315,441</b>	<b>1,726,352</b>

# Appendix 1 (continued)

## Statistics on the loan book

### (C) By Local Authorities – approved post 27 May 1986

Local Authority	12 months to 31 December 2001	Balance Outstanding 31 December 2001
	€	€
Athlone Town Council	-	208,503
Bray Town Council	-	2,762,985
Carlow Co. Cl.	5,988,085	27,298,918
Carlow Town Council	2,222,042	2,325,656
Castleblaney Town Council	-	119,069
Cavan Co. Cl.	3,517,576	5,378,116
Clare Co. Cl.	12,443,433	34,383,606
Clonmel Borough Council	1,904,607	2,691,186
Clones Town Council	228,553	229,352
Cobh Town Council	-	681,685
Cork City Council	23,163,600	61,735,205
Cork Co. Cl.	38,388,784	96,259,551
Donegal Co. Cl.	10,772,198	47,198,769
Drogheda Borough Council	5,078,952	9,819,221
Dublin City Council	133,449,472	379,796,150
Dundalk Town Council	2,943,980	5,951,456
Dunlaoghaire/Rathdown Co. Cl.	18,829,355	52,226,679
Dungarvan Town Council	-	4,012,287
Ennis Town Council	1,650,660	3,506,014
Enniscorthy Town Council	761,843	773,894
Fingal Co. Cl.	26,918,447	95,979,071
Galway City Council	18,532,547	41,567,960
Galway Co. Cl.	9,326,522	32,274,091
Kerry Co. Cl.	10,378,787	27,260,310
Kildare Co. Cl.	10,569,960	42,006,099
Kilkenny Borough Council	-	1,063,439
Kilkenny Co. Cl.	6,267,681	50,460,601
Kilrush Town Council	1,269,738	1,274,566
Laois Co. Cl.	14,749,886	23,905,117
Leitrim Co. Cl.	2,065,498	7,135,149
Letterkenny Town Council	-	298,860
Limerick City Council	5,429,754	24,273,476
Limerick Co. Cl.	7,310,713	29,253,962
Longford Co. Cl.	7,091,487	19,349,877
Longford Town Council	-	2,352,652
Louth Co. Cl.	-	1,954,271

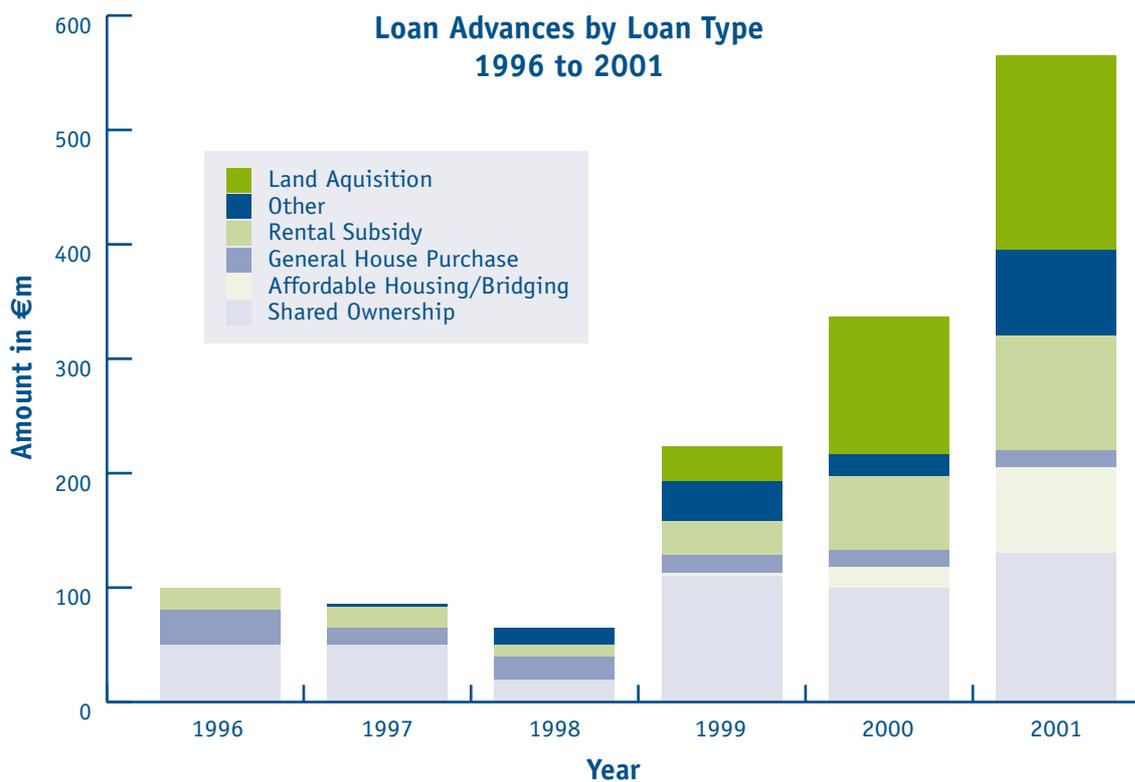
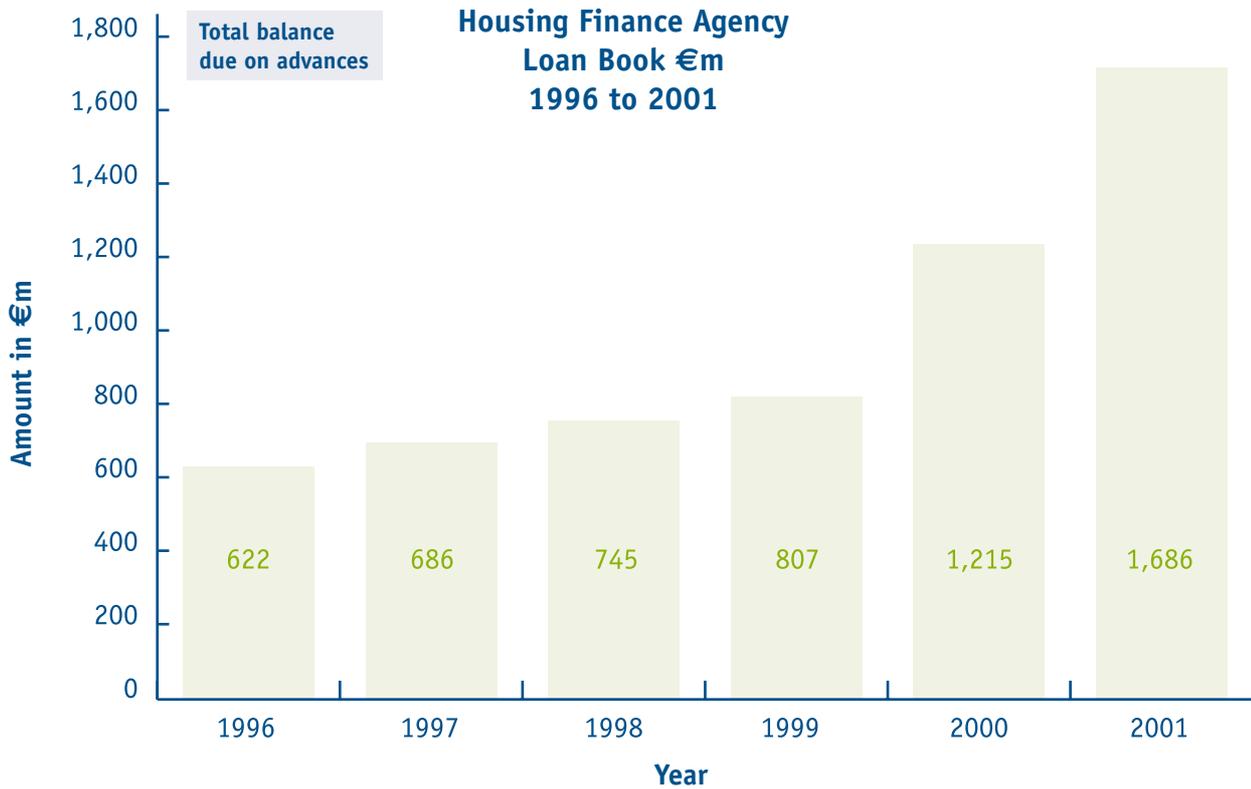
# Appendix 1 (continued)

## Statistics on the loan book

Macroon Town Council	126,974	119,529
Mayo Co. Cl.	10,255,478	36,274,064
Meath Co. Cl.	10,282,730	28,402,158
Monaghan Co. Cl.	1,229,932	7,783,059
Naas Town Council	9,269,088	9,429,473
National Building Agency	3,174,345	3,247,232
New Ross Town Council	1,904,290	2,187,554
Offaly Co. Cl.	6,035,616	16,597,700
Roscommon Co. Cl.	1,352,665	7,474,982
Sligo Borough Council	13,016,187	29,241,472
Sligo Co. Cl.	10,640,243	37,931,463
South Dublin Co. Cl	43,948,234	149,003,988
Thurles Town Council	-	1,783,306
Tralee Town Council	6,348,690	4,572,691
North Tipperary County Council	-	7,855,611
South Tipperary County Council	12,176,788	28,755,130
Tipperary Town Council	799,935	975,404
Waterford City Council	29,006,839	42,604,101
Waterford Co. Cl.	586,156	15,684,343
Westmeath Co. Cl.	2,793,530	15,988,034
Wexford Borough Council.	468,752	2,552,372
Wexford Co. Cl.	12,651,122	40,040,619
Wicklow Co. Cl.	5,358,295	32,776,452
Wicklow Town Council	-	3,448,886
<b>Total</b>	<b>562,680,045</b>	<b>1,662,497,427</b>

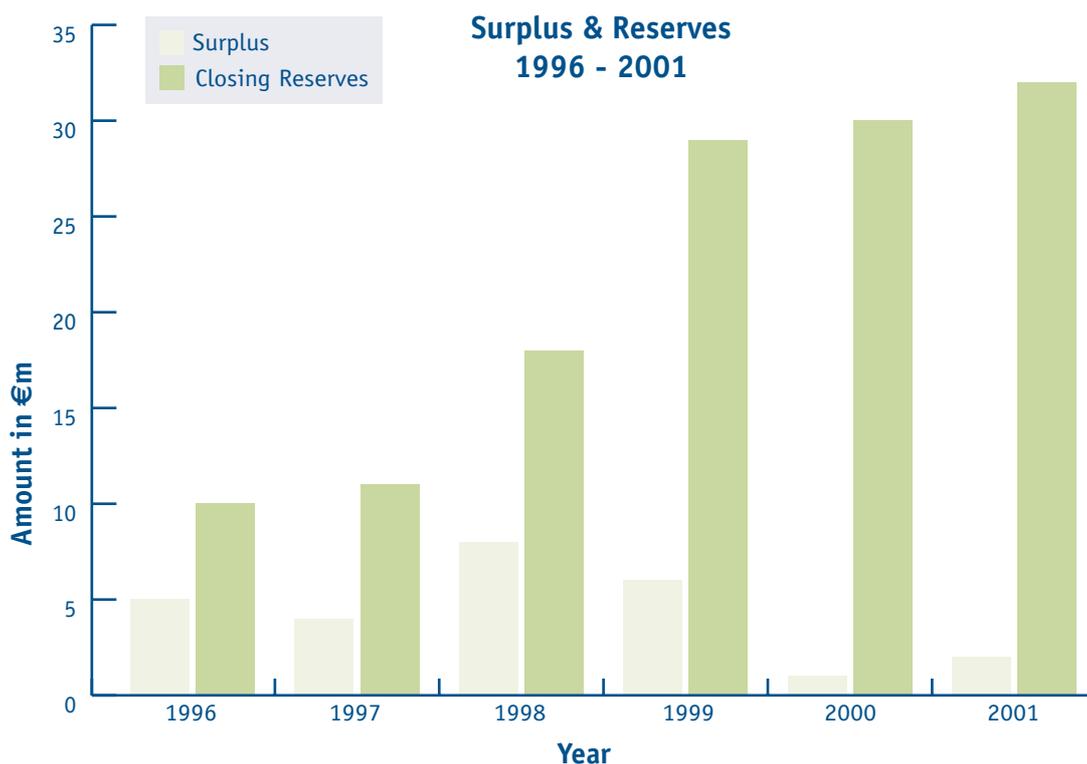
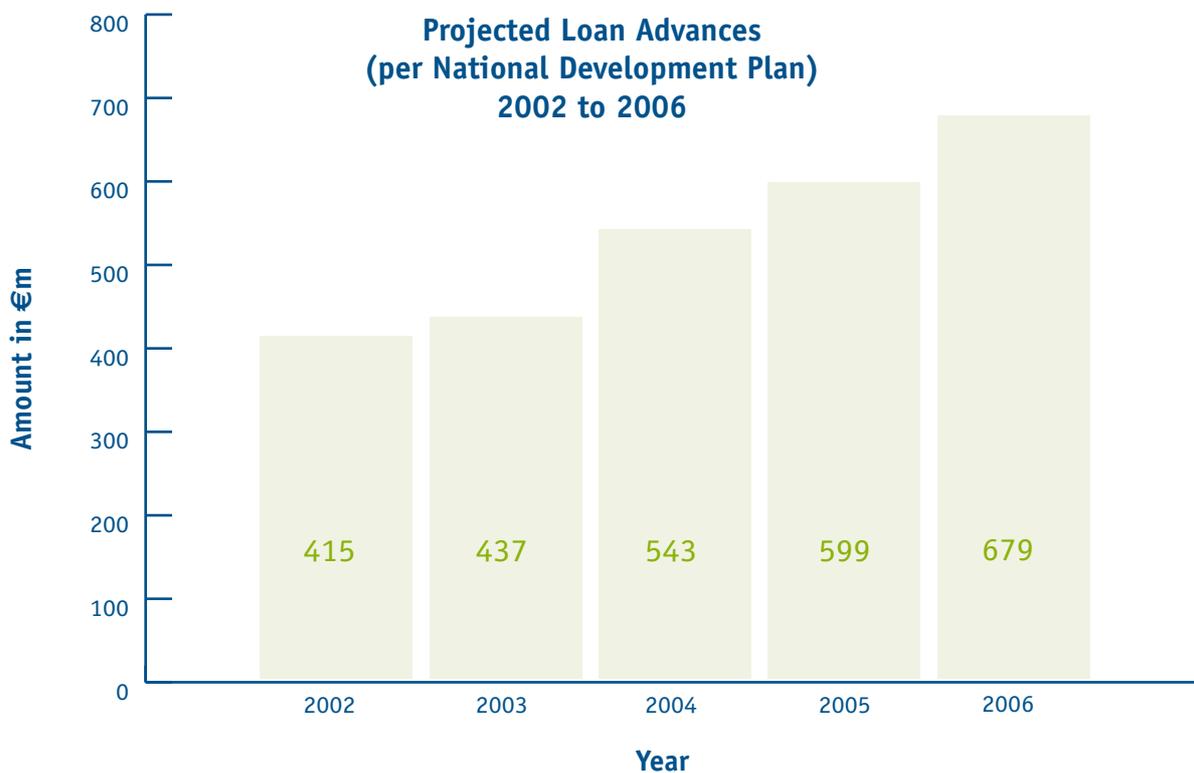
# Appendix 2

## Graphs on the loan book and financial trends



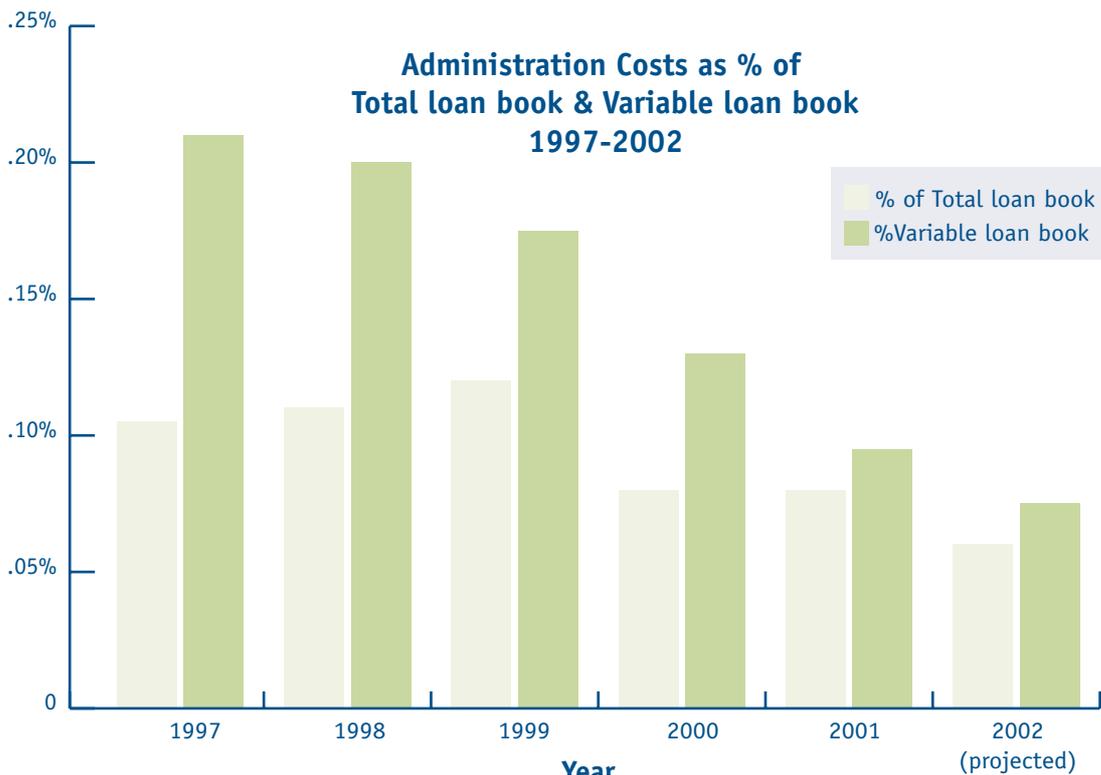
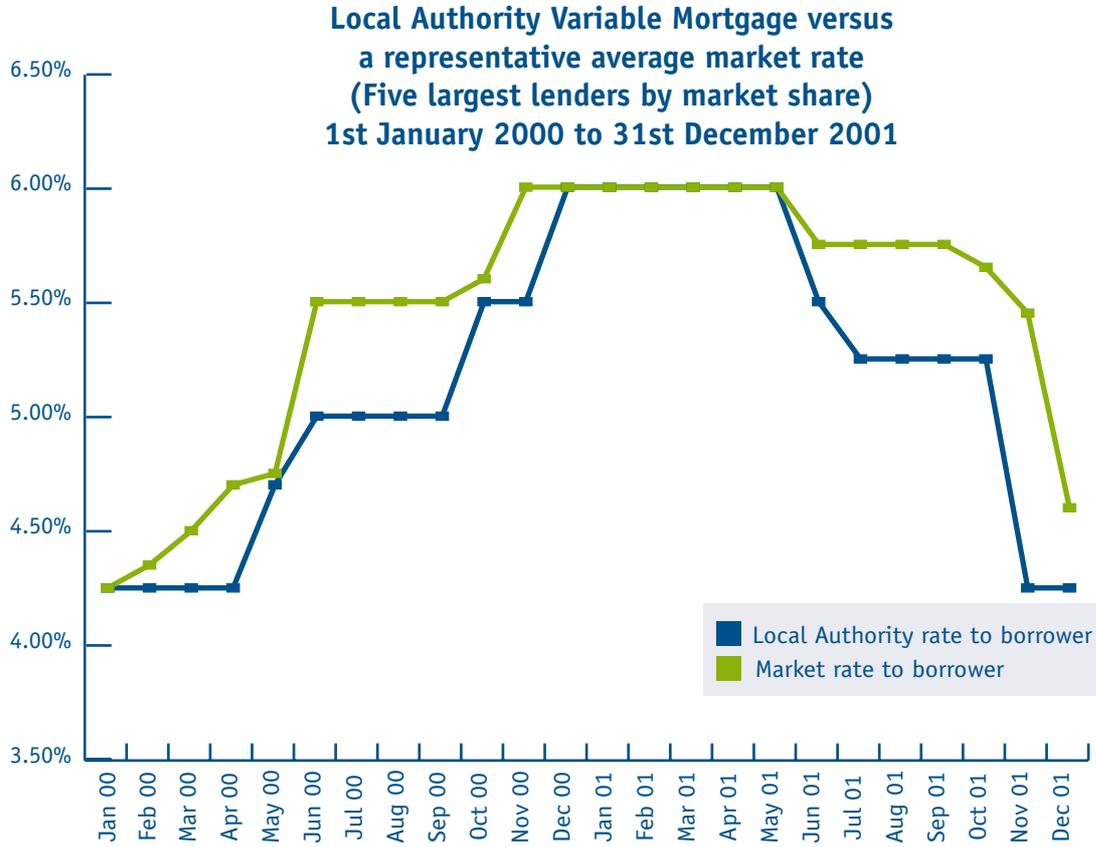
# Appendix 2 (continued)

## Graphs on the loan book and financial trends



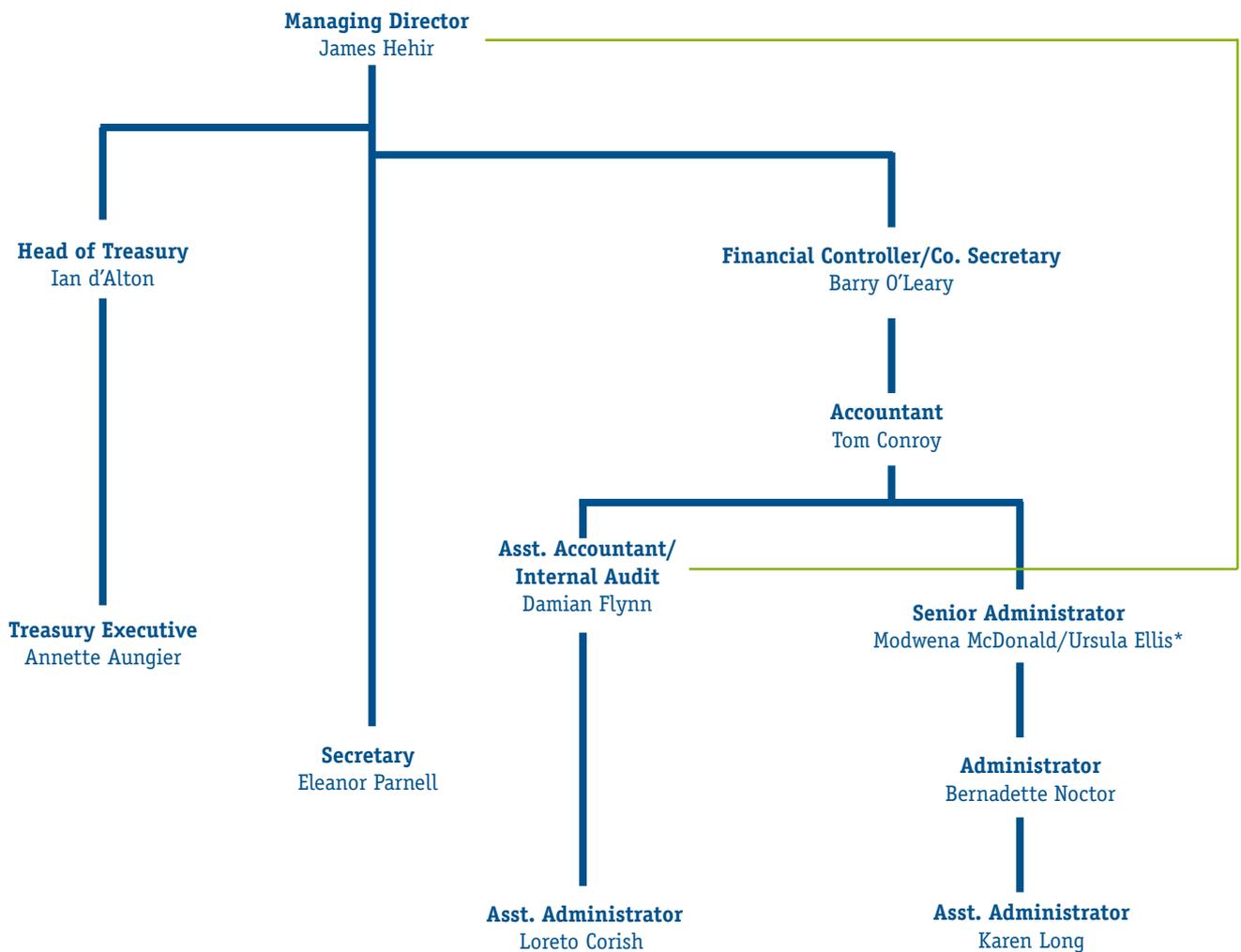
# Appendix 2 (continued)

## Graphs on the loan book and financial trends



# Appendix 3

Staff structure (as at 10 May 2002)



\* 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 December 2001.





