



Housing Finance Agency plc **Annual Report 2002**





HOUSING FINANCE AGENCY PLC
AN GHNÍOMHAIREACTH AIRGEADAIS TITHÍOCHTA CPT

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Board of Directors

Edward Coffey
Chairman (1,3)

James Hehir
Managing Director (1)

Lorcan Allen (2)

Fr. Patrick Cogan (2,3)

Maria Graham (1,3)

Michael Hayes (2)

Maureen Lynott (2,3)

Jackie Maguire (2)

Mary Malcolm (2)

Brenda McVeigh (1)

Thomas Reilly (1)

Teresa White (2)

Principal Board committees: 1. Finance, 2. Audit, 3. Remuneration.

Management

Ian d'Alton
Head of Treasury

Annette Aungier
Treasury Executive

Barry O'Leary
Financial Controller/
Company Secretary

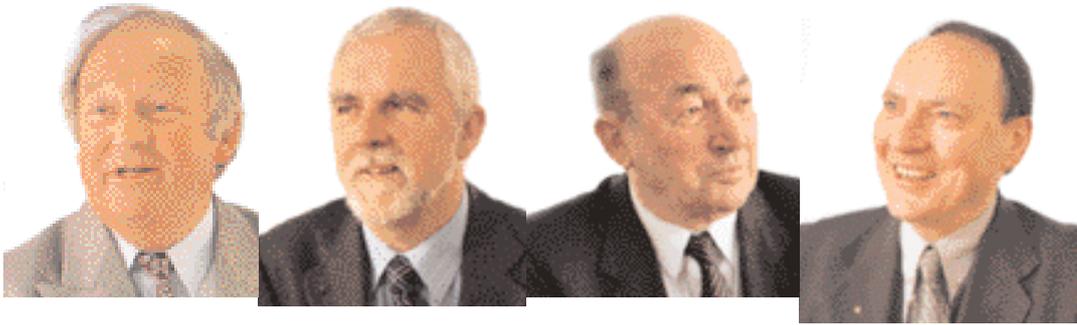
Tom Conroy
Accountant

Damian Flynn
Assistant
Accountant/
Internal Audit

Secretary and Registered office:
Barry O'Leary, FCCA, Eden House,
15/17 Eden Quay, Dublin 1.

Solicitors:
McCann FitzGerald, 2 Harbourmaster
Place, Custom House Dock, Dublin 1.

Auditors:
KPMG, Chartered Accountants,
5 George's Dock, IFSC, Dublin 1.



I am delighted to report that 2002 was a most successful year, in which the Agency advanced a total of €725m in loans to local authorities at finest rates. This represented an increase of 28.7% on loan advances in the previous year. It brought the Agency's loan book to €2.34bn, representing a three-fold increase over the past five years. The main areas to which these funds were applied include the Shared Ownership Mortgages Scheme (€188m), land acquisition by local authorities (€104m) and the Rental Subsidy Scheme operated by the voluntary housing bodies (€91.9m). In addition local authorities received €176.4m in short term loans to fund the construction of houses under the Affordable Mortgage Scheme. On completion these houses will be refinanced with 25-year mortgages.

The record levels of loan advances by the Agency throughout the past couple of years reflect the scale of the government's programme in the provision of social and affordable housing through the local housing authorities and in the acquisition of sites to secure the programme over the next five years or so. The Agency's loan book is likely to double to €4.7bn over the next four years.

Under the terms of the Housing (Miscellaneous Provisions) Act 2002 the Agency's powers to lend funds to local authorities have been widened to include capital works in the area of sanitary services and waste management and to voluntary bodies to fund their housing operations directly. The remit of the Agency has been extended on a number of occasions over its 21-year history, reflecting its standing with government and local authorities in its competency in discharging its responsibilities. The Agency's consultation with the EU Commission to obtain approval to the extended lending powers, utilising the government guarantee, is at an advanced stage.

The substantial increase in the Agency's business over the past few years – and prospective increases in the future – encouraged the Agency to complete its first major international debt facility in October 2002. This €2bn eurocommercial paper programme facility, with Citibank as arranger, and four other large international financial institutions as dealers, allows the Agency

to raise funds at sub-EURIBOR levels and in large amounts appropriate to our operations. So far the programme, which has the highest short-term ratings, has delivered on expectations. In February 2003, under the terms of the Planning and Development (Amendment) Act 2002, the Agency appointed the National Treasury Management Agency to act as its agent in selling Notes under the programme, and to arrange hedged foreign currency note issuances where this will deliver value. This is expected to ensure a close co-ordination between the programmes of the Agency and the State, with the aim of achieving the finest prices for our customers.

In the run-up to the programme's initiation, the Agency made extensive use of short-term facilities provided by AIB Bank, Bank of Ireland and the NTMA and I should like to express my appreciation to those institutions for their flexibility and efficiency in that regard.

As in any business, there are risks to be identified and provided for. In the Agency's case, these principally relate to prepayments of fixed rate and index linked loans; inflation mismatches; and margin fluctuations. It is a particular concern of the Board to keep these risks under regular and detailed review and to decide on the level of appropriate reserves to set against them. I am pleased to say that at year-end-2002 our reserves – at €34.5m – were at their highest ever, and deemed appropriate for the levels of risk in the Agency's business.

The Agency operates a policy of providing Quality Customer Service. My report for 2001 detailed our ambition to implement a number of performance measurement targets in various areas of the Agency's operations. The monitoring of performance began on 1 July 2002. In the area of *loan advances to local authorities*, the Agency set a target that 90% would be made within 7 days of receipt of an application. The Agency managed to issue 84% of its loans within the targeted time frame, and is working towards achieving the full target over 2003. *Dealing with correspondence from external sources in a timely fashion* is a clear measure of how well an organisation serves its customers.



The Agency's target – replying to all correspondence received from external sources within one working week – has been met. *Staff training and development* is identified in the Agency's *Policies and Procedures Manual* as a priority. Our target of spending the equivalent of 3% of payroll costs on training is close to being realised, with 2.2% the outturn for 2002.

Compliance with our Policies and Procedures Manual is an important measure of the Agency's adherence to appropriate and structured corporate governance. Compliance is reported upon twice a year and reviewed by the Audit Committee. With a small number of staff, our Quality Customer Service target in this area was to limit the number of Policy and Procedures breaches arising from staff absences to 40, and all other breaches to less than five. I am pleased to report that we achieved our target, with 30 exception reports due to staff absences and just one other exception report. Finally, our remit under the terms of Section 4 of the 1988 Housing Finance Agency (Amendment) Act and as approved by the Board is *to provide local authorities with the finest loan rates that we can*. The Agency thus aims to operate on a break-even basis. This year we achieved the desired result. In a total loan book of some €2.34bn, we ended the year with a trading surplus of €97,000 as against a target of no more than €250,000.

The Agency was brought within the scope of the Freedom of Information Act on 22 November 2002. Details of access to the Agency's records and information on the Agency can be found on the Agency's website. The Freedom of Information Officer is Dr Ian d'Alton and the internal reviewer is Mr James Hehir. In 2002, one request for personal information under the Act was processed.

There has been a number of Board changes since my last Report. On becoming a candidate in the 2002 Seanad Eireann election Larry Butler left the Board on 5 June 2002. Thomas Corcoran resigned on 21 January 2003 on taking up new duties in the Department of the Environment and Local Government. His seven years on the Board were invaluable and much appreciated. I would like to take this opportunity to express my

warmest regards and those of my colleagues to both of them for their contribution to the Board's deliberations. I welcome Lorcan Allen, Maria Graham, Mary Malcolm and Thomas Reilly as new Board members.

The Agency was 21 years old in February 2003. I should like to express my thanks to all who have contributed to such a successful and interesting 21 years, including the Agency's staff (past and present), its solicitors, auditors, bankers and counterparties and the Department of Finance. A special word of appreciation goes to the officials in the Department of the Environment and Local Government, under whose umbrella the Agency operates; and, of course, to our customers, the local authorities. We look forward to serving them all in the future.

Edward Coffey, Chairman. 30 April 2003.



The Directors present their annual report and audited financial statements for the year ended 31 December 2002.

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

	€'000
Retained surplus for the year	4,078
Surplus at beginning of year	30,404
Surplus at end of year	34,482

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 €403m was advanced to local authorities under this scheme and was used to finance 15,571 mortgages. At 31 December 2002 such loans represented outstanding balances of €54.9m (net of bad debt provision). The Agency is liable for any credit 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 2002 such loans represented outstanding balances of €2.28bn.

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 ("Combined Code") derived by the Committee on Corporate Governance from the Committee's Final Report and from the Turnbull Report. The company complies with the Code of Practice for the Governance of State Bodies.

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 11 April 2003 the Board of Directors comprises eleven 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 with 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: Edward Coffey, Maria Graham, James Hehir, Brenda McVeigh and Thomas Reilly.

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, Maria Graham and Maureen Lynott.

This committee makes recommendations in relation to the remuneration of the Managing Director for consideration by the Board, subject to the approval of the Minister for the Environment and Local Government 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.

Audit Committee

Members: Lorcan Allen, Fr. Patrick Cogan, Michael Hayes, Maureen Lynott, Jackie Maguire, Mary Malcolm and Teresa White.

This committee normally meets four times a year (it met just three times in 2002 due to the late appointment of Directors) and operates under formal terms of reference. Under new Corporate Governance Code 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. It also has a role in the setting of interest rates and the approval of the internal audit plan, against which performance of the plan is measured. 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 risk management process which includes 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 and index linked 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 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 is 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 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 prepared and presented to the Board;
- (f) an internal auditor reviews key financial systems and controls;
- (g) an audit committee 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 2002, 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' 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 Code of Practice for the Governance of State Bodies, except for the requirement for the audit committee to meet at least four times a year, whereas during 2002 it met only three times.

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 following Directors were appointed on 20 December 2001 with effect from 1 January 2002; Mr Larry Butler, Fr. Pat Cogan ofm, Mr Thomas 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. Mr Lorcan Allen, Ms Mary Malcolm and Mr Thomas Reilly were appointed on 5 June 2002. Ms Maria Graham was appointed on 5 February 2003.

Mr Larry Butler resigned from the Board of Directors on 5 June 2002 and Mr Thomas Corcoran resigned from the Board of Directors on 21 January 2003.

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. There were no derivative transactions outstanding as at 31 December 2002.

The current 'Specification and Requirements' (valid to 31 December 2005), which followed a policy approved by the Board, allows for contracts covering interest rate swaps (€400m), foreign exchange forwards (€2bn), forward rate agreements (€80m), interest rate caps (€300m). The 'Specification and Requirements' set 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 (in the case of those involving the National Treasury Management Agency as agent/counterparty, noted by either of the Managing Director or Financial Controller) and are subject to regular periodic internal audit checks during their lifetime.

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. The Agency's policy is to ensure that adequate capital is set aside to meet known potential risks in the period to which such exposures relate.

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. The Agency is also exposed to a credit risk – assessed as low – in relation to loans advanced to local authorities.

9. Funding policy

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 32% of the Agency's available borrowing facilities at 31 December 2002. The Agency's committed facilities, bond issues and €2bn eurocommercial paper programme (signed on 22 October 2002, with issues now made by the National Treasury Management Agency) are used to finance its lending to local authorities under the terms of the Housing Acts. Other 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 (€151m available at 31 December 2002) are subject to annual review by the Agency's bankers. In the period 1 January to 31 December 2002 the Agency completed the following facilities: a 5/10 year €200m note issuance facility; two short-term loans totalling €100m (repaid and cancelled during the year); and the €2bn euro commercial paper programme. The average cost of the Agency's debt in 2002 was an annualised 4.5% compared with 5.5% in the last financial year.

10. 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.

11. Electoral Act, 1997

The Agency made no political donations during the year.

12. Prompt Payment of Accounts Act, 1997

The Agency is required 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.

On inception of the Act, 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 2002; it was established that one payment was late under the terms of the Act. This payment for €917.18 was four days late and was the subject of an oral query. However a written query was not forwarded to the supplier in error. The issue was resolved when a credit note was issued. No interest payment was made.

The Directors have been advised by the Agency's 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.

13. 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.

14. 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.

15. Auditors

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

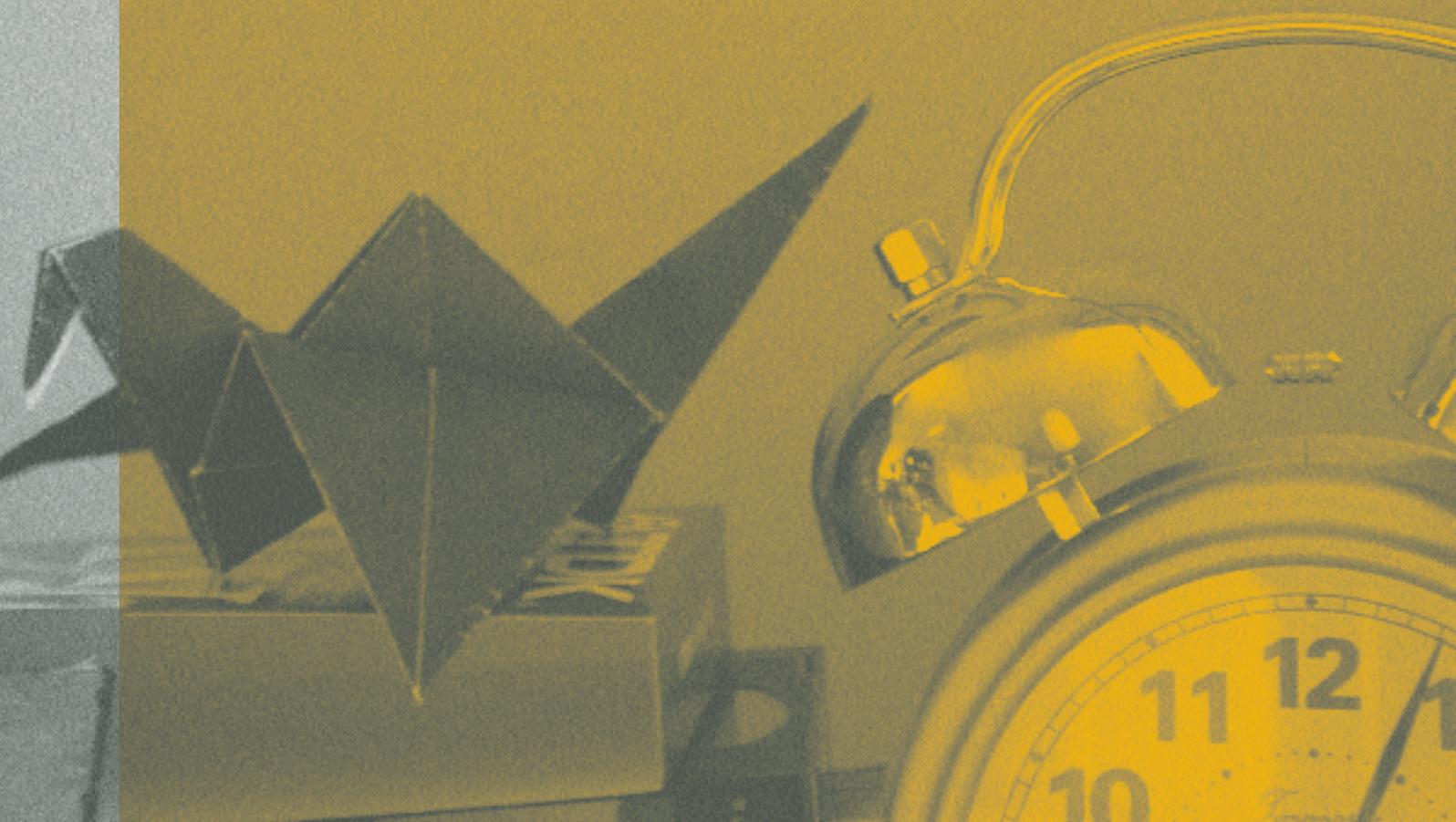
On behalf of the Board,



Edward Coffey, Chairman. 11 April 2003.



James Hehir, Managing Director. 11 April 2003.



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:

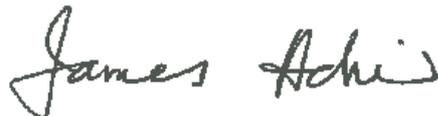
- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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. 11 April 2003.



James Hehir, Managing Director. 11 April 2003.

Independent Auditors' Report to the Members of the Housing Financing Agency plc (An Ghníomhaireacht Airgeadais Tithíochta cpt)

We have audited the financial statements on pages 17 to 33.

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

Respective responsibilities of Directors and Independent Auditors in relation to the annual report

The Directors are responsible for preparing the annual report. As described on page 15, 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 Agency 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 Agency to hold an extraordinary general meeting, on the grounds that the net assets of the Agency, 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 Agency are not disclosed.

We review, at the request of the Directors, whether the voluntary statement on pages 9 to 13 reflects the Agency'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 Agency'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 Agency'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 Agency at 31 December 2002 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 Agency. The financial statements are in agreement with the books of account.

In our opinion, the information given in the Directors' Report on pages 9 to 13 is consistent with the financial statements.

The net assets of the Agency, as stated in the Balance Sheet on page 20, 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 2002 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 Agency.

K.P.M.G.

Chartered Accountants,
Registered Auditors, 11 April 2003

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Agency'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 plus the provided premium on redemption. Direct costs of bonds comprising premium on redemption, discount or premium on issue, and other issue 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, which results in these costs being expensed at a constant real rate of return. Direct bond costs also include the inflation effect arising as a result of changes in the underlying index rates.

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, stock and commercial paper issue expenses are charged to the Income and Expenditure Account in equal annual instalments over the life of the loans and commercial paper programmes 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.

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 are expressed in euro.



**Income and Expenditure
Account** for the year ended
31 December 2002

	Note	31 DEC 02 €'000	31 DEC 01 €'000
Income - continuing activities	3	98,099	84,938
Direct expenditure	4	(92,003)	(81,729)
Surplus of income over direct expenditure		6,096	3,209
Indirect expenditure	5	(2,018)	(1,985)
Operating surplus for the financial year			
- continuing activities		4,078	1,224
Loss on disposal of fixed assets			
- continuing activities		-	(53)
Operating surplus after loss on disposal of fixed assets			
- continuing activities		4,078	1,171
Surplus at beginning of year		30,404	29,234
Transfer to Ordinary Share Capital Account		-	(1)
Surplus at end of year		34,482	30,404

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

On behalf of the Board,



Edward Coffey, Chairman. 11 April 2003.



James Hehir, Managing Director. 11 April 2003.

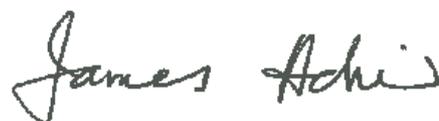
Balance Sheet at
31 December 2002

	Note	31 DEC 02 €'000	31 DEC 01 €'000
Assets employed			
Tangible fixed assets	8	226	187
Current assets			
Debtors (advances due after more than one year: 2,117,378 [2001: 1,686,156])	7	2,393,229	1,771,215
Cash at bank and in hand	9	-	12,000
		2,393,229	1,783,215
Creditors (amounts falling due within one year)	10	(1,513,929)	(771,716)
Net current liabilities		879,300	1,011,499
Total assets less current liabilities		879,526	1,011,686
Financed by			
Creditors (amounts falling due after more than one year)	11	383,266	538,247
Index linked bonds	12	371,988	353,603
8.75% Housing Finance Agency stock 2018	13	89,751	89,393
Capital and reserves			
Called up share capital	15	39	39
Retained surplus		34,482	30,404
Shareholders' funds-equity	17	34,521	30,443
		879,526	1,011,686

On behalf of the Board,



Edward Coffey, Chairman. 11 April 2003.



James Hehir, Managing Director. 11 April 2003.

Cash Flow Statement
for the year ended 31
December 2002

	Note	31 DEC 02 €'000	31 DEC 01 €'000
Cash outflow from operating activities	16(a)	(514,030)	(436,738)
Returns on investments and servicing of finance	16(b)	(67,578)	(61,799)
Capital expenditure	16(b)	(95)	(137)
Cash outflow before financing activities		(581,703)	(498,674)
Financing activities - net cash inflow from financing	16(b)	582,361	502,609
Increase/(decrease) in cash in the year		658	3,935

**Reconciliation of Net Cash
Flow to Movement in Net
Debt** for the year ended 31
December 2002

	Note	31 DEC 02 €'000	31 DEC 01 €'000
Increase/(decrease) in cash in the year		658	3,935
Cash inflow from change in debt financing		(582,361)	(502,609)
Non-cash movements	16(c)	(18,743)	(20,339)
Movement in net debt in the year		(600,446)	(519,013)
Net debt at beginning of year	16(c)	(1,741,563)	(1,222,550)
Net debt at end of year	16(c)	(2,342,009)	(1,741,563)



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1. Status of the Agency 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

	31 DEC 02	31 DEC 01
	€'000	€'000
Interest on advances to local authorities approved:		
Post 27 May 1986	91,822	77,852
Pre 27 May 1986	5,806	6,481
Additional Pre May 1986 income as a result of improved information from local authorities	-	562
Investment income	471	43
	98,099	84,938

4. Direct expenditure

	31 DEC 02	31 DEC 01
	€'000	€'000
Index – linked bonds		
Bond interest	10,904	10,439
Premium on redemption of bonds (Note 12)	18,056	19,678
Amortisation of discount on issue of bonds	300	300
Amortisation of bond issue expenses	18	18
Amortisation of discount on pre May 1986 loans	11	11
	29,289	30,446

	31 DEC 02	31 DEC 01
	€'000	€'000
Stock and loan costs		
Amortisation of discount and issue expenses on Housing Finance Agency Stock	358	358
Interest payable on bank borrowings, guaranteed notes and stock	62,336	50,925
Amortisation of eurocommercial paper issue expenses	20	-
	62,714	51,283
	92,003	81,729

5. Indirect expenditure

	31 DEC 02	31 DEC 01
	€'000	€'000
Other expenditure		
Administrative expenditure (Note 6)	1,337	1,211
Mortgage protection insurance	352	394
Administration fees to local authorities	329	380
	2,018	1,985

6. Administrative expenditure

Administrative expenditure has been arrived at after charging:

	31 DEC 02	31 DEC 01
	€'000	€'000
Directors' emoluments		
Fees – Chairman	7	10
Other Directors	33	44
Other emoluments	89	84
Pension contributions	22	18
	151	156
Employee costs		
Salaries	523	456
Social welfare costs	35	23
Pension costs (Note 19)	161	197
	719	676
Auditors' remuneration (excluding value added tax)	20	27
Depreciation (Note 8)	56	47
Loss on disposal of fixed assets	-	(53)
Rental payments under operating lease	50	50

The average number of employees including executive Directors, during the year was 12 (2001: 11).

7. Debtors

	31 DEC 02 €'000	31 DEC 01 €'000
Balance due on advances	2,336,239	1,726,352
Other debtors and prepayments	208	189
Due from local authorities	56,782	44,674
	2,393,229	1,771,215
<i>Balance due on advances is analysed as follows:</i>		
(i) Loans approved post 27 May 1986		
Balance at beginning of year	1,662,497	1,144,917
Loans advanced	724,985	562,680
Less: loans repaid	(130,797)	(81,815)
Interest charged	91,822	77,852
Interest received	(67,135)	(41,137)
Balance at end of year	2,281,372	1,662,497
(ii) Loans approved pre 27 May 1986		
Balance at beginning of year	63,855	69,893
Less: repayments	(9,093)	(5,133)
	54,762	64,760
Interest charged	5,805	7,043
Interest received	(5,700)	(7,948)
	54,867	63,855
Balance at end of year	2,336,239	1,726,352

8. Tangible fixed assets

	FIXTURES & FITTINGS €'000
Cost	
At beginning of year	346
Additions	96
At end of year	442
Depreciation	
At beginning of year	159
Charged for year	57
At end of year	216
Net book value	
31 December 2002	226
31 December 2001	187

9. Cash at bank

	31 DEC 02 €'000	31 DEC 01 €'000
Cash at bank and in hand	-	-
Amounts held on short term deposits	-	12,000
	-	12,000

10. Creditors (amounts falling due within one year)

	31 DEC 02 €'000	31 DEC 01 €'000
Commercial paper, note issuance facilities and guaranteed notes	1,496,868	759,451
Interest due on stock and bonds	6,717	6,580
Accruals	10,133	4,816
Bank overdraft	211	869
	1,513,929	771,716
Tax creditors (included in accruals) PAYE	23	-

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

11. Creditors (amounts falling due after more than one year)

	31 DEC 02 €'000	31 DEC 01 €'000
Bank loans and notes payable		
Repayable other than by instalments:		
Between two and five years	295,748	151,123
After more than five years	87,518	387,124
	383,266	538,247

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

12. Index linked bonds

	31 DEC 02 €'000	31 DEC 01 €'000
Housing Finance Agency Bond Issues		
2% Index Linked Bonds 2008	107,928	107,928
4% Index Linked Bonds 2015	95,230	95,230
Nominal value of bonds in issue	203,158	203,158
Unamortised expenses and discount on issue	(507)	(836)
	202,651	202,322
Provision for premium on redemption of bonds	169,337	151,281
	371,988	353,603

Provision for premium on redemption of bonds

	TOTAL €'000	DEFERRED €'000	PROVIDED €'000
At beginning of year	168,799	(17,518)	151,281
Arising during the year	16,795	1,261	18,056
At end of year	185,594	(16,257)	169,337

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.

13. 8.75% Housing Finance Agency Stock 2018

	31 DEC 02 €'000	31 DEC 01 €'000
At par		
At beginning of year	95,230	95,230
Less: Unamortised discount on issue	(5,479)	(5,837)
At end of year	89,751	89,393

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

14. 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 DEC 02 €'000	31 DEC 01 €'000
Fixed rate	136,330	121,398
Floating rate (including index linked)	2,256,691	1,661,628
Zero interest rate	-	-
	2,393,021	1,783,026

The Agency made new fixed and floating rate advances during the financial year. The Agency's inflation index linked advances are classified as floating rate assets.

Amount determined by floating rate benchmarks:

	31 DEC 02 €'000	31 DEC 01 €'000
EURIBOR	1,884,703	1,282,331
Index linked	371,988	379,297
	2,256,691	1,661,628

Interest rate risk profile of financial assets as at:

	31 DEC 02 €'000	31 DEC 01 €'000
Weighted average fixed interest rate	8.02%	8.24%
Weighted average period for which fixed interest assets are fixed	14 years	15 years

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

	31 DEC 02 €'000	31 DEC 01 €'000
Amounts falling due within one year	275,643	96,870
Amounts falling due between one and two years	15,981	38,233
Amounts falling due between two and five years	200,087	195,350
Amounts falling due after more than five years	1,901,310	1,452,573
	2,393,021	1,783,026

Maturity of financial assets**Financial liabilities are analysed below:**

Fixed rate	111,100	110,392
Floating rate	2,230,909	1,631,170
	2,230,009	1,741,562

Interest rate risk profile of financial liabilities:

Weighted average fixed interest rate	8.38%	8.42%
Weighted average period for which fixed interest liabilities are fixed	13 years	14 years

Amount determined by floating rate benchmarks:

EURIBOR	1,858,710	1,276,695
Prime	211	869
Index linked	371,988	353,606
	2,230,909	1,631,170

	31 DEC 02	UNDRAWN	31 DEC 01	UNDRAWN
	FINANCIAL	COMMITTED	FINANCIAL	COMMITTED
	LIABILITIES	FACILITIES	LIABILITIES	FACILITIES
	€'000	€'000	€'000	€'000
Liquidity measures as at				
Maturing within 12 months or on demand	1,497,263	-	760,320	-
Maturing greater than 1 year and less than 2 years	101,946	-	63,487	-
Maturing greater than 2 years and less than 5 years	193,802	153,797	216,105	17,218
Maturing greater than 5 years	548,998	112,482	701,651	19,109
Total	2,342,009	266,279	1,741,563	36,327
	CARRYING VALUE		FAIR VALUE	
	31 DEC 02	31 DEC 01	31 DEC 02	31 DEC 01
	€'000	€'000	€'000	€'000
Fair value				
Financial assets				
Fixed rate	136,330	121,398	222,812	181,327
Floating rate	1,814,947	1,282,332	1,814,947	1,282,332
Index linked	441,744	379,297	808,348	502,073
	2,393,021	1,783,027	2,846,107	1,965,732
Financial liabilities				
Fixed rate	111,100	110,392	175,655	174,141
Floating rate	1,858,921	1,277,564	1,859,180	1,277,564
Index linked	371,988	353,606	506,008	662,607
	2,342,009	1,741,562	2,540,843	2,114,312

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 discounted return over the life of the index linked loans at the balance sheet date, compared to the discounted return on conventional variable loans of equal maturity based on one month EURIBOR at the balance sheet date. The fair value of the Agency's assets has been calculated as €2.8bn. This is based on EURIBOR at 31 December 2002 (2001: 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. €2.5bn has been estimated as the fair value of the Agency's liabilities. This is again based on EURIBOR on 31 December 2002 (2001: EURIBOR).

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 transactions outstanding on 31 December 2002.

15. Share capital – equity

There are 30,000 ordinary shares of €1.30 authorised, allotted, called up and fully paid at 31 December 2002.

16. Cash flow statement

	31 DEC 02 €'000	31 DEC 01 €'000
16(a) Reconciliation of operating surplus to cash outflow from operating activities		
Surplus for the financial year	4,078	1,171
Direct expenditure (Note 4)	92,003	81,729
Pension amortisation	11	11
Depreciation (Note 8)	56	47
Investment income (Note 3)	(471)	(103)
Loss on disposal of fixed assets	-	53
Movements in working capital:		
(Increase)/decrease in amounts due from local authorities (Note 7)	(12,108)	1,246
Increase in advances (Note 7)	(609,887)	(511,356)
Decrease in other debtors and prepayments	(11)	(99)
Decrease in accrued expenses	299	24
Decrease/(increase) in liquid resources	12,000	(9,461)
Cash outflow from operating activities	(514,030)	(436,738)
16(b) Gross cash flows		
Returns on investments and servicing of finance		
Interest received	452	96
Interest paid	(68,030)	(61,895)
Net cash outflow from returns on investments and servicing of finance	(67,578)	(61,799)
Capital expenditure		
Payments to acquire tangible fixed assets	(95)	(137)
Net cash outflow from capital expenditure and disposals	(95)	(137)
Financing		
Repayment of bank loans and notes payable	-	-
Increase in bank loans and notes payable	582,361	502,609
Net cash inflow from financing	582,361	502,609

	AT 31 DEC 01 €'000	CASH FLOW €'000	NON-CASH MOVEMENTS €'000	AT 31 DEC 02 €'000
16(c) Analysis of changes in net debt				
Cash in hand, at bank	-	-	-	-
Overdraft	(869)	658	-	(211)
	(869)	658	-	(211)
Bank loans and notes repayable within one year	(759,451)	(737,417)	-	(1,496,868)
Bank loans and notes repayable after one year	(538,247)	155,056	-	(383,191)
Index linked bonds	(202,322)	-	(329)	(202,651)
Provision for premium on redemption of bonds	(151,281)	-	(18,056)	(169,337)
8.75% Housing Finance Agency Stock 2018	(89,393)	-	(358)	(89,751)
	(1,741,563)	(581,703)	(18,743)	(2,342,009)

17. Reconciliation of shareholders' funds

	31 DEC 02 €'000	31 DEC 01 €'000
Surplus for the financial year	4,078	1,171
Opening shareholders' funds	30,443	29,272
Closing shareholders' funds	34,521	30,443

18. Commitments

Operating lease commitments

The Agency has commitments under an operating lease to make payments totalling €50,000 in the next year as follows:

	BUILDINGS €'000
Lease expiring: After two years	50

19. Pensions

The company operates a defined benefit pension scheme covering all permanent employees. The pension cost for the financial year amounted to €161,271 (2001: €197,192). 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 31 December 2001 using the Aggregate Method.

The principal assumption underlying the actuarial valuation was that the long term rate of return on investments would exceed salary inflation by 2% per annum.

At 31 December 2001 the market value of the fund's assets was €1.5m and the funding level of past service liabilities was 102%. 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. Full implementation of FRS 17 Retirement Benefits has been deferred indefinitely. However, 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 2002 by a Qualified Independent Actuary using the projected unit method. The principal actuarial assumptions used were as follows:

	2002	2001
Rate of increase in salaries	3.0%	4.0%
Rate of increase in pensions payments	2.0%	3.0%
Discount rate	5.0%	6.0%
Inflation assumption	2.0%	3.0%

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

	LONG-TERM RATE OF RETURN EXPECTED AT 31 DEC 02 %	VALUE AT 31 DEC 02 €'000's	LONG-TERM RATE OF RETURN EXPECTED AT 31 DEC 01 %	VALUE AT 31 DEC 01 €'000's
Equities	6.50%	517	7.00%	649
Bonds	4.75%	202	5.20%	200
Property	5.50%	63	6.00%	76
Cash	2.00%	39	2.00%	29
Other	-	857	-	547
Total market value of pension		1,678		1,501
Present value of scheme liabilities		(1,579)		(1,260)
Net surplus in the scheme		99		241
Related deferred tax asset		-		-
Net pension asset		99		241
<i>Analysed as:</i>				
Pension scheme assets		1,678		1,501
Pension scheme liabilities		(1,579)		(1,260)
		99		241

Had FRS 17 been reflected in the primary financial statements, the following are the amounts that would have been included in the Profit and Loss Account and the Statement of Total Recognised Gains and Losses:

	31 DEC 02	
	€'000	
Included in payroll costs:		
Current service costs	51	
Death in service costs	-	
Net operating profit charge	51	
Included in finance costs		
Expected return on assets	111	
Interest cost	(76)	
Net finance return	35	
Included in statement of total recognised gains and losses:		
Difference between expected and actual return on assets	(93)	
Experience gains and losses on scheme liabilities	(167)	
Effect of changes in actuarial assumptions	(27)	
Net in statement of total recognised losses	(287)	
History of actuarial gains and losses		
Difference between expected and actual return on assets	(93)	
Expressed as a percentage of scheme assets	(6.1%)	
Experience losses on scheme liabilities	(167)	
Expressed as a percentage of scheme liabilities	10.6%	
Total actuarial losses	(287)	
Expressed as a percentage of scheme liabilities	18.2%	
	31 DEC 02	31 DEC 01
	€'000	€'000
Net assets		
Net assets before pension scheme asset	879,526	1,011,686
Pension scheme asset	1,678	1,501
Pension scheme liability	(1,579)	(1,260)
Net assets after pension scheme asset	879,625	1,011,927
Reserves		
Profit and loss account before pension scheme asset	34,482	30,404
Pension reserve	99	241
Profit and loss account after pension scheme asset	34,581	30,645

20. 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 11 April 2003.



Appendix 1

Statistics on the Loan Book

(a) By loan type

Loans advanced to finance	1998 €'000	1999 €'000	2000 €'000	2001 €'000	2002 €'000
Fixed Rate	13,095	11,250	6,295	9,775	14,049
Variable Rate	46,349	161,801	281,390	475,293	620,660
Index Linked	8,776	52,763	52,190	77,612	90,276
Total	68,220	225,814	339,875	562,680	724,985

(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	1,761	
6 to 10 years	24,677	239,299	32,958	0	296,934
11 to 15 years	60,608	79,659	0	8,204	148,471
16 to 20 years	21,616	248,687	0	71,366	341,669
21 to 25 years	16,849	479,315	0	271,207	767,371
26 to 30 years	2,652	300,258	0	0	302,910
Total	128,163	1,778,967	55,848	373,261	2,336,239

**(c) By Local Authorities and
National Building Agency**

LOCAL AUTHORITY	ADVANCES IN THE 12 MONTHS TO 31 DEC 02 €000	BALANCE OUTSTANDING AT 31 DEC 02 €000	LOCAL AUTHORITY	ADVANCES IN THE 12 MONTHS TO 31 DEC 02 €000	BALANCE OUTSTANDING AT 31 DEC 02 €000
Athlone Town Council	1,000	1,483	Leitrim Co. Cl.	1,999	8,774
Bray Town Council	–	4,265	Letterkenny Town Council	–	257
Carlow Co. Cl.	6,664	33,162	Limerick City Council	1,070	25,739
Carlow Town Council	–	2,399	Limerick Co. Cl.	4,700	34,654
Carrick on Suir Town Council	317	325	Longford Co. Cl.	12,809	31,891
Castleblaney Town Council	–	115	Longford Town Council	–	2,216
Cavan Co. Cl.	3,931	7,630	Louth Co. Cl.	2,511	4,420
Clare Co. Cl.	13,719	45,374	Macroom Town Council	–	103
Clonakilty Town Council	965	991	Mallow Town Council	3,040	3,072
Clonmel Borough Council	3,700	4,517	Mayo Co. Cl.	6,804	43,271
Clones Town Council	–	225	Meath Co. Cl.	7,093	36,064
Cobh Town Council	–	681	Monaghan Co. Cl.	9,943	16,727
Cork City Council	21,235	73,221	Naas Town Council	3,643	13,438
Cork Co. Cl.	41,813	139,846	New Ross Town Council	2,868	4,433
Donegal Co. Cl.	12,896	59,491	North Tipperary County Council	7,000	14,438
Drogheda Borough Council	2,877	13,105	Offaly Co. Cl.	8,762	25,728
Dublin City Council	221,391	585,009	Roscommon Co. Cl.	2,536	10,269
Dundalk Town Council	14,376	20,265	Sligo Borough Council	14,063	40,620
Dunlaoghaire/Rathdown Co. Cl.	13,691	68,113	Sligo Co. Cl.	10,729	48,360
Dungarvan Town Council	2,900	7,047	South Dublin Co. Cl.	17,490	162,534
Ennis Town Council	–	3,617	South Tipperary County Council	9,705	38,911
Enniscorthy Town Council	254	1,053	Thurles Town Council	–	1,840
Fingal Co. Cl.	82,064	188,008	Tralee Town Council	1,653	6,396
Galway City Council	29,297	57,957	Tullamore Town Council	2,908	2,959
Galway Co. Cl.	14,101	45,615	Tipperary Town Council	–	974
Kerry Co. Cl.	6,212	30,200	Waterford City Council	20,712	56,811
Kildare Co. Cl.	17,780	59,410	Waterford Co. Cl.	1,894	17,366
Kilkenny Borough Council	–	1,030	Westmeath Co. Cl.	14,489	31,416
Kilkenny Co. Cl.	15,324	64,250	Wexford Borough Council.	508	3,311
Kilrush Town Council	400	1,674	Wexford Co. Cl.	10,221	49,806
Laois Co. Cl.	9,720	33,184	Wicklow Co. Cl.	9,208	39,268
			Wicklow Town Council	–	3,558
			Sub Total	724,985	2,332,886
			National Building Agency	–	3,353
			Total	724,985	2,336,239

Appendix 2

Graphs on the Loan Book and Financial Trends

Table 1: Loan Book, 1998 – 2002.
(Amount in €m).

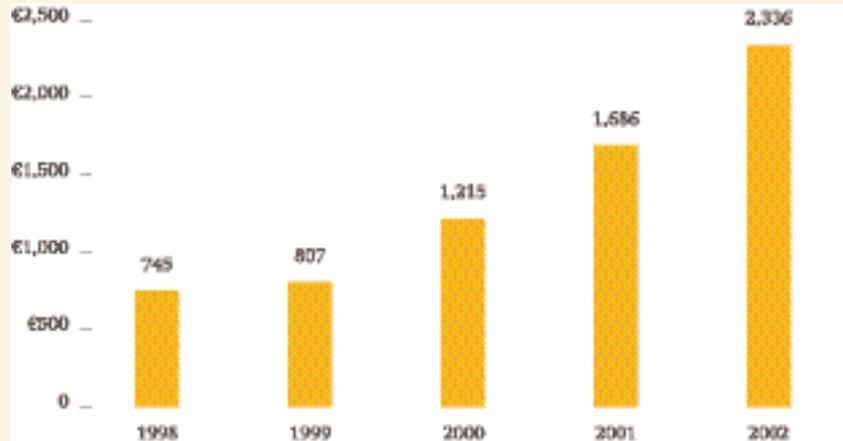


Table 2: Loan Advances by Loan Type, 1998 – 2002. (Amount in €m)

* Shared Ownership, Affordable Housing Mortgage/Bridging,
 o General House Purchase, • Rental Subsidy, o Other, v Land Acquisition.

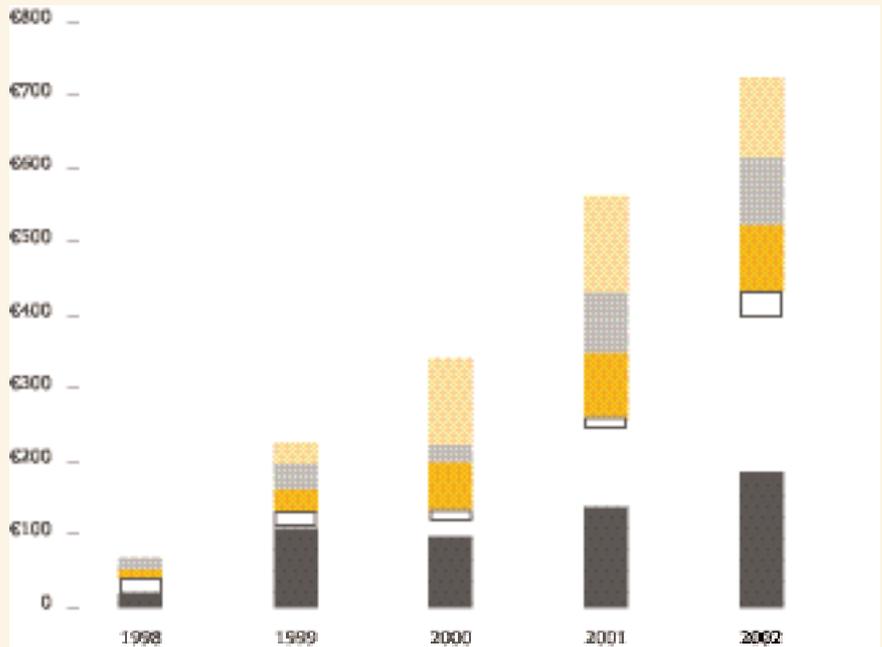
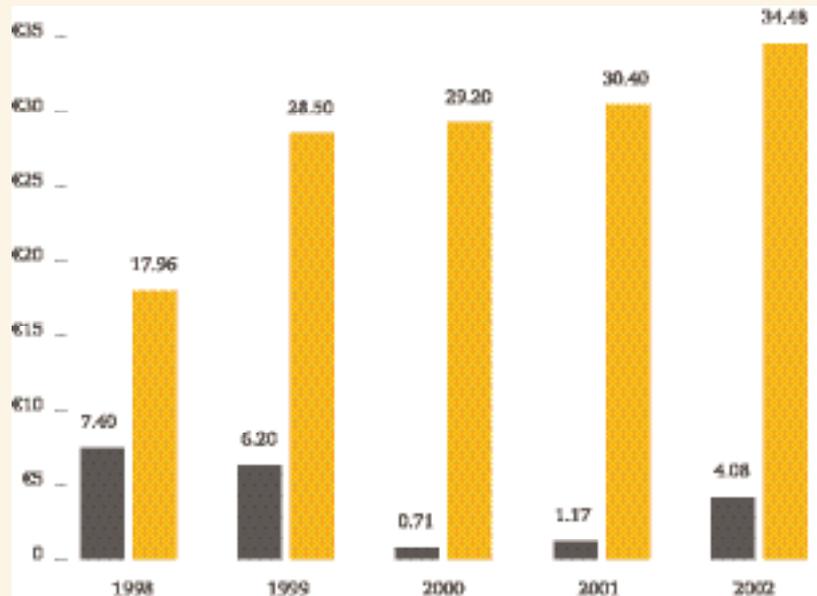


Table 3: Projected Loan Advances
(per National Development Plan)
2003 – 2006. (Amount in €m)



Table 4: Surplus and Reserves,
1998 – 2002. (Amount in €m)



• Surplus, • Closing Reserves.

Table 5: Local Authority Variable Mortgage Rate Versus a Representative Average Market Rate. (Five largest lenders by market share) 1 January 2000 – 31 December 2002 (percentage).

- Local Authority Mortgage Rate,
- Average Mortgage Market Rate.

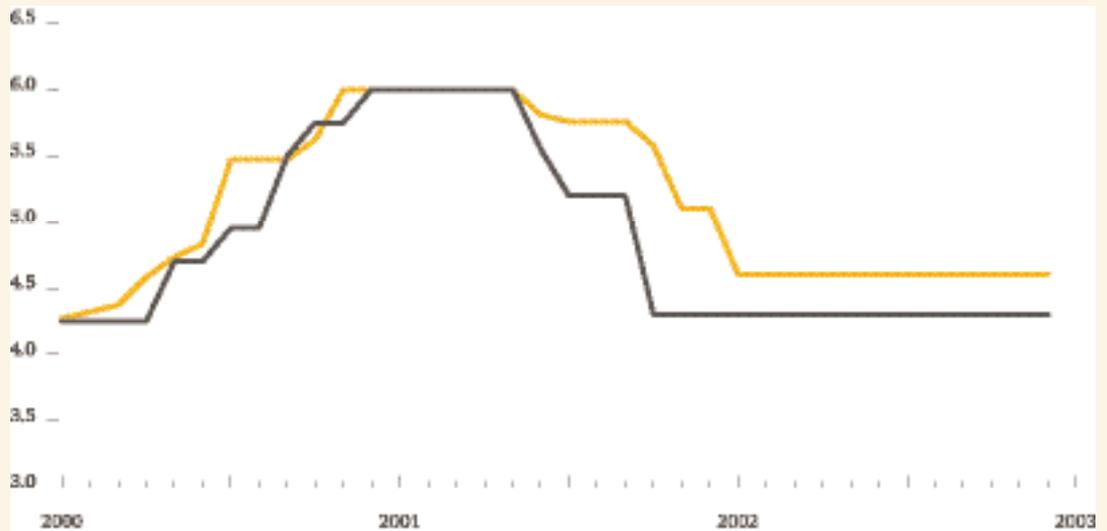
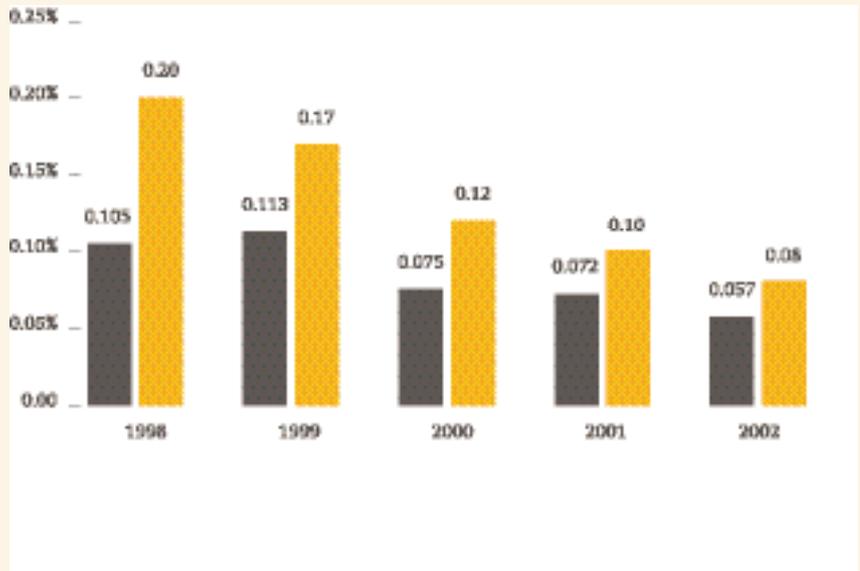


Table 6: Administration Costs as Percentage of Total Loan Book and Variable Loan Book, 1998 – 2002.

- Percentage of Total Loan Book,
- Percentage of Variable Loan Book.



Appendix 3

Staff Structure

as at 11 April 2003



* Reporting to MD for internal audit matters only.

** Job Sharing.



HOUSING FINANCE AGENCY PLC

AN GHNÍOMHAIREACHT AIRGEADAIS TITHÍOCHTA CPT

Housing Finance Agency plc,
Eden House, 15 – 17 Eden Quay,
Dublin 1, Ireland.

Telephone + 353 (0)1 872 5722,
Facsimile + 353 (0)1 872 5878,
email cosec@hfa.ie,
www.hfa.ie



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