

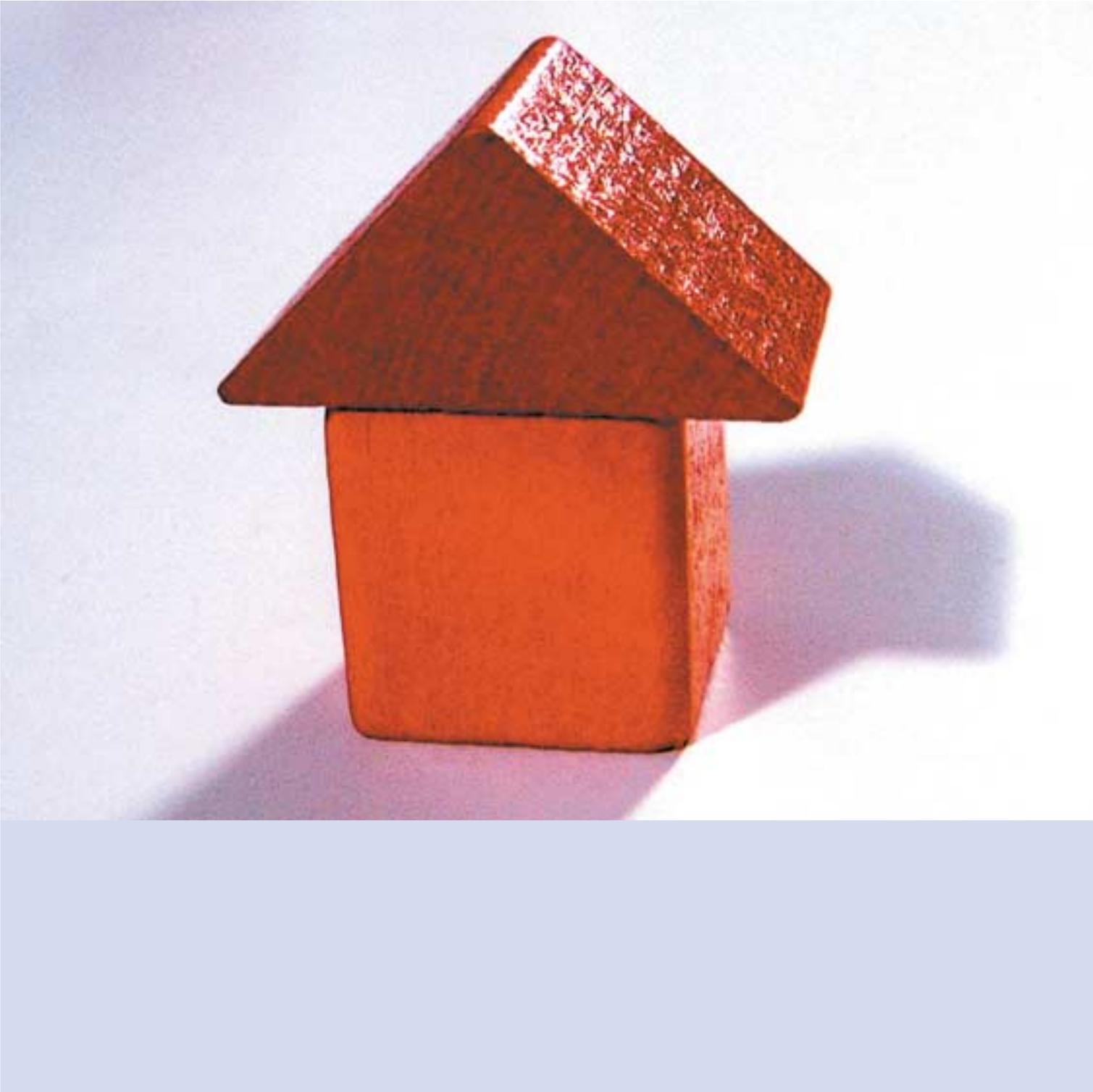
Housing Finance Agency **ANNUAL REPORT** 2003





HOUSING FINANCE AGENCY plc
AN GHNÍOMHAIREACHT AIRGEADAIS TITHIOCHTA CPT

Housing Finance Agency **Annual Report 2003**





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Directors and other information

Board of Directors



Edward Coffey (1,3,4)



James Hehir (Managing) (1,5)



Lorcan Allen (2,4)



Fr. Patrick Cogan (2,3,4)



Maria Graham (1,3,4)



Michael Hayes (2,4)



Maureen Lynott (2,3,4)



Jackie Maguire (2,4)



Mary Malcolm (2,4)



Thomas Reilly (1,4)



Teresa White (2,4)

1. Member of Finance Committee 2. Member of Audit Committee 3. Member of Remuneration Committee
4. Non Executive Director 5. Executive Director

Management



Ian d'Alton
Head of Treasury



Barry O'Leary
Financial Controller/Company Secretary



Tom Conroy
Accountant



Annette Aungier
Treasury Executive



Damian Flynn
Assistant Accountant/Internal Auditor

Secretary and registered office

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

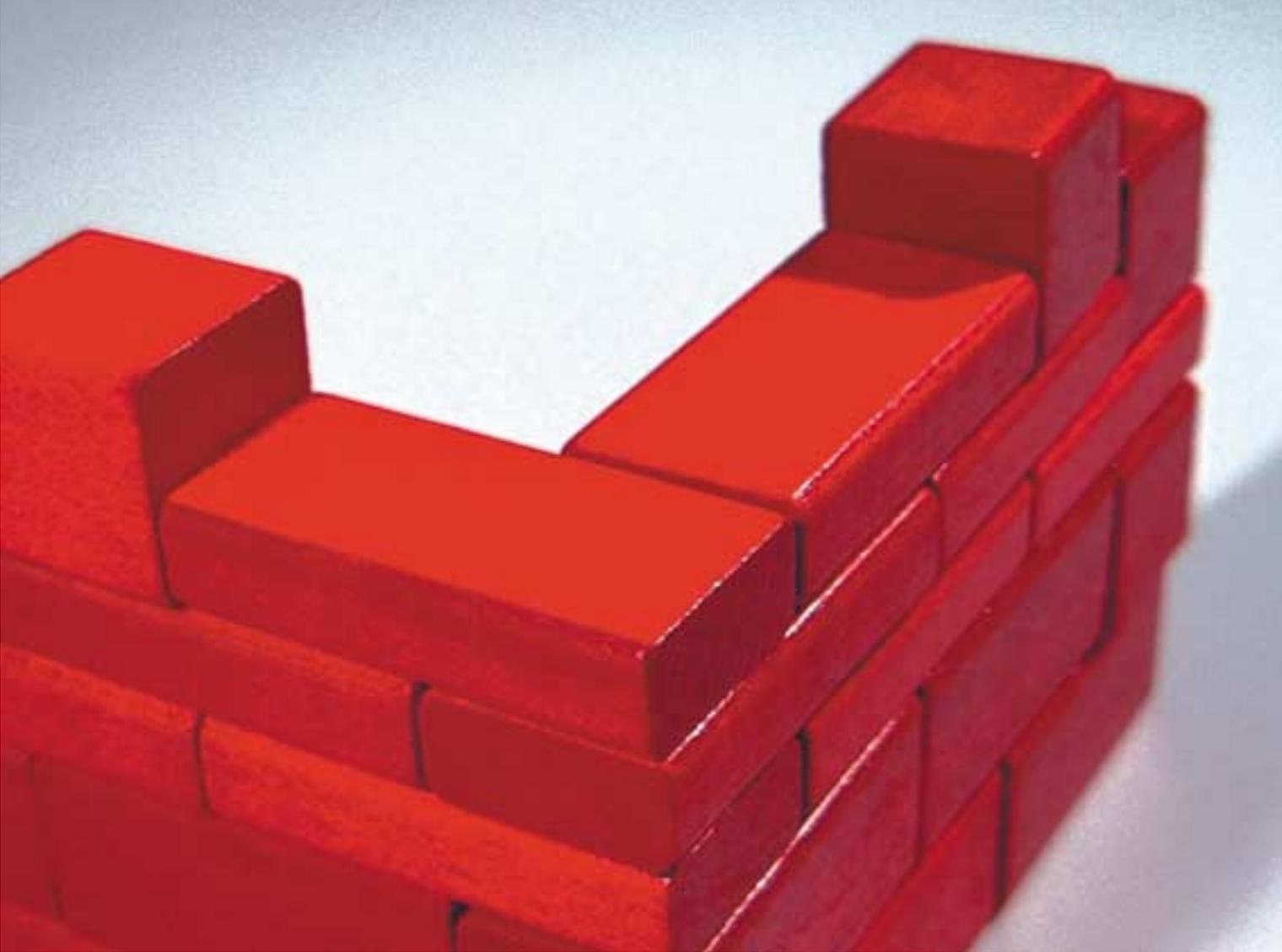
Auditors

KPMG
Chartered Accountants
1 Harbourmaster Place
IFSC
Dublin 1

Solicitors

McCann FitzGerald
Solicitors
2 Harbourmaster Place
Custom House Dock
Dublin 1

A & L Goodbody
IFSC
North Wall Quay
Dublin 1



Chairman's Report



Introduction

In this, the 22nd Annual Report of the Housing Finance Agency and my second year as Chairman, I report another excellent year in meeting our remit of providing loan finance to local authorities to fund their various housing schemes at the finest rates. I know the local authorities will be particularly pleased with the interest rates on our variable rate loans which were the lowest recorded in the history of the Agency. Worth mentioning in particular was the drop in the local authority mortgage rate to 2.95% in the second half of 2003, an unprecedented level. Cost-effective borrowing by the Agency means that the local authority mortgage rate is now about 0.50% below general standard mortgage rates in the market. The rate on lending to local authorities for other schemes was also at a record low level averaging only 2.06% in the second half of the year. In particular, I know that our customers, the local authorities, will be

pleased to learn that 92% of the 696 loan applications received during the year were paid within 7 days of receipt.

Loan advances

Overall, gross loan advances made in the year declined to €505.6 million from €761 million in 2002, bringing to an end the extraordinary growth of recent years. This growth was driven by the success of the various social housing schemes, the acquisition of land by local authorities as they built up their land reserves and in 2002 by the widespread building of houses under the affordable housing scheme funded by bridging finance from the Agency. Loan advances for mortgages under the affordable housing scheme amounted to €118.0 million while €114.9 million in bridging finance to build these houses was either repaid or redrawn to finance mortgages under the scheme. Loans for the shared ownership scheme fell substantially to €63.9 million as house purchasers appeared to have switched to the affordable housing scheme. However, lending under the combined shared ownership and affordable housing schemes at €200 million was down 12% on 2002.

A loan book of the order of €2.6 billion built up over a 22 year period will inevitably have a significant level of turnover in the form of redemptions and capital repayments, as well as new advances. Capital repayments and redemptions amounted to €201 million in 2003 of which over 58% consisted of bridging finance being repaid as affordable housing schemes were built and sold. The overall loan book increased by €270 million to give a grand total of €2.6 billion at 31 December 2003.

Funding and Treasury management

New funding in 2003 principally came from short-term notes issued under the Agency's €2 billion eurocommercial paper programme facility, which was originally signed in late 2002. With a state guarantee, the programme carries the highest short-term ratings from

Moody's and Standard & Poor's, and notes achieve prices that reflect this high status. €1.6 billion was outstanding at the end of the year. From 26 February 2003, issues under this uncommitted programme were made by the National Treasury Management Agency acting as our agent. We are pleased to say that this arrangement has worked smoothly. Its principal benefits lie in enabling the NTMA to co-ordinate Agency and state note issuances, and the use of the powers set out in the relevant legislation which enables the NTMA to act as counterparty for hedged foreign currency note issues. The net savings to the Agency as a result of the arrangements with the NTMA are estimated in the region of 0.02% - 0.04%. An increase in the size of the programme, to €2.5 billion, was approved by the Board in February 2004. This, when completed, should provide for the Agency's funding requirements over the next year or so.

Other funding during 2003 was raised by way of the Agency's committed note issuance facilities. The longer-term nature of these facilities better match the average maturity of the Agency's lending, and they are also extremely flexible, allowing us to raise and repay money on a same-day basis. The Agency has a significant throughput of several billion euro each year, and I wish to pay tribute to our principal banks and counterparties for the efficient and competent management of business with the Agency in 2003.

Risk management is one of the Agency's principal concerns. The Agency has in place a reserves policy, periodically reviewed by the Board, which seeks to identify and quantify the major financial risks in our business. These chiefly relate to prepayments of fixed rate and index linked loans, and mismatches of inflation rates used to calculate returns on advances and our index linked bonds. At the end of 2003 the reserves of €33.1 million were deemed appropriate for the levels of risk in the Agency's business.

Interest rates

The Agency's 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. We thus aim to operate on a break-even basis. This year we achieved the desired result. In a total loan book of some €2.6 billion, we ended the year with a trading surplus of €5,195 as against a target of no more than €100,000.

Freedom of Information

The Agency was brought within the scope of the Freedom of Information Act on 22 November 2002. Details of access to records and information on the Agency can be found on our website, www.hfa.ie. The Freedom of Information Officer is Dr Ian d'Alton and the internal reviewer is Mr James Hehir. One request for personal information under the Act was processed in 2003.

Quality customer service

The Agency operates a policy of providing Quality Customer Service. My report for 2002 detailed excellent progress in the first year of performance measurement in various areas of the Agency's operations. I am happy to be in a position to report that further progress was achieved in 2003. 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 92% of its loans within the targeted time frame; this represents a considerable improvement on last years 84%. *Dealing with correspondence from external sources in a timely fashion* is a clear measure of how well an organisation serves its customers. The Agency continues to meet its target of replying to all correspondence received from external sources within one working week. *Staff training and development* is identified in the Agency's Policies and Procedures Manual as a priority. Our target of spending the equivalent of 4% of payroll costs on training is close to being realised, with 2.4% the outturn for 2003 (2.2% in 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 Policies and Procedures breaches arising from staff absences to 40, and all other breaches to less than 5. I am pleased to report that we achieved our target, with 26 exception reports due to staff absences (30 in 2002) and 8 other exception reports (1 in 2002). Four of the eight exceptions related to a technical breach of a Policies and Procedures Manual provision which has subsequently been changed by the Board.

Sustaining Progress Action Plan

The Agency completed its Action Plan, under the *Sustaining Progress* programme, in July 2003. The Action Plan covered a range of issues including efficient use of resources, customer service, better regulation, e-Government, modernisation and flexibility, atypical work arrangements, industrial relations and partnership.

The Agency made its first report on the Plan in October 2003 and this was approved by the Department of the Environment, Heritage and Local Government.

Considerable effort has been devoted to progressing the targets identified in the Plan and two additional progress reports will issue to the Department in the course of 2004. I am confident that the Agency will benefit greatly from the implementation of the Plan.

Board changes

There have been two Board changes since my last Report. Ms Brenda McVeigh resigned on 13 November 2003 to take up duties outside the Department of Finance. I congratulate her on her appointment as Secretary to the Commission to Inquire into Child Abuse and wish her every success in her new post. I would like to take this opportunity to thank Brenda for her contribution to the Board and her assistance in the

design of the last two Annual Reports. I welcome Ms. Áine Stapleton as a new Board member.

Staff thanks

I should like to express my thanks to all those – including the Agency's staff, its solicitors, auditors, bankers and counterparties, the staff of the NTMA and the Department of Finance – who have helped to deliver another successful year. I especially thank the officials in the Department of the Environment, Heritage and Local Government, our sponsoring Department, for their assistance. Finally, we much appreciate the relationships that we have built up with our customers, the local authorities. It is our intention to continue to serve them to the best of our ability.



Edward Coffey

Chairman
30 April 2004



Directors' Report

The Directors present their annual report and audited financial statements for the year ended 31 December 2003.

1. Background

The Housing Finance Agency plc is a company limited by shares promoted by the Minister for the Environment, Heritage 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, Heritage and Local Government with the consent of the Minister for Finance.

2. Results and dividends	€'000
Retained deficit for the year	(1,379)
Surplus at beginning of year	34,482
Surplus at end of year	33,103

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 €403 million was advanced to local authorities under this scheme and was used to finance 15,571 mortgages. At 31 December 2003 such loans

represented outstanding balances of €47.4 million (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 2003 such loans represented outstanding balances of €2.6 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 ("Combined Code") derived by the Committee on Corporate Governance from the Committee's Final Report and from the Turnbull Report. The Agency also complies with the Code of Practice for the Governance of State Bodies as published by the Department of Finance.

The Directors are assessing the impact of the revised Combined Code on Corporate Governance issued in July 2003. Listed companies are required to comply with the revised Combined Code in accounting periods beginning on or after 1 November 2003. The Directors will report on the steps they have taken to ensure compliance with the revised Combined Code in the 2004 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 and the Code of Practice for the Governance of State Bodies are applied in the Agency.

Board of Directors

The roles of the Chairman and Chief Executive are separate. At 23 March 2004 the Board of Directors comprises ten non-executive Directors and one executive Director. The Directors are appointed by the Minister for the Environment, Heritage and Local Government for a period not to exceed five years. All of the non-executive Directors are independent of management.

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, 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: James Hehir, Edward Coffey, Maria Graham and Thomas Reilly.)

This 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, Heritage 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 met five times this year and operates under formal terms of reference. Under the new Code of Practice for Governance of State Bodies 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, Heritage 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, Heritage and Local Government and/or the Minister for Finance, in respect of which ongoing communication with the Ministers, through their departments, is maintained.

Internal 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, and inflation movements. 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 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 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 control for the financial year and to the date of approval of the 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 and the Code of Practice for the Governance of State Bodies during the year ended 31 December 2003, except for the following matters, where the Agency as a state body is not in a position to comply fully with the requirements of the Combined Code and the Code of Practice for Governance of State Bodies

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, Heritage and Local Government and hold office for such term as the Minister specifies when making the appointment but not for a period exceeding five years.

Directors' remuneration

The Minister for the Environment, Heritage 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.

Internal audit

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

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.

Mr Thomas Corcoran resigned from the Board of Directors with effect from 21 January 2003.

Ms Maria Graham was appointed as a non executive Director to the Board with effect from 5 February 2003.

Ms Brenda McVeigh resigned from the Board of Directors with effect from 13 November 2003.

Ms Áine Stapleton was appointed as a non-executive Director to the Board with effect from 24 March 2004.

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 related to inflation, interest rates, liquidity, currencies and credit. The Agency 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 principal objective of using derivative financial instruments is to match or eliminate risk from potential movements in foreign exchange and interest rates in the Agency's assets and liabilities.

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 (€ 400 million), foreign exchange forwards (€ 2 billion), forward rate agreements (€ 80 million), interest rate caps (€ 300 million). The 'Specification and Requirements' 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 or 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. The Agency under its eurocommercial paper ("ECP") programme issues ECP in currencies other than euros. In order to hedge against this currency risk, the Agency enters into foreign currency forwards. The Agency had foreign currency forwards with a notional value of € 1.3 billion outstanding at the year end and hedged the Agency's entire foreign exchange risk. These were all foreign exchange forward transactions carried out with the National Treasury Management Agency in association with the Agency's € 2 billion ECP programme.

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 (chiefly the National Treasury Management Agency and 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 27 % of the Agency's available borrowing facilities at 31 December 2003. The Agency's committed facilities, bond issues and €2 billion ECP programme (signed on 22 October 2002, with issues in various currencies made by the National Treasury Management Agency from 26 February 2003) 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 (€51 million available at 31 December 2003) are subject to annual review by the Agency's bankers. No new facilities were completed in the period 1 January to 31 December 2003. The average cost of the Agency's debt in 2003 was an annualised 3.6 % compared with 4.5 % 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

The Agency is required to comply with the requirements of the European Communities (Late Payment in Commercial Transactions) Regulations, 2002 and its predecessor, the Prompt Payment of Accounts Act, 1997 (collectively the "Regulations"). The Agency's standard terms of credit taken, unless otherwise specified in contractual arrangements, are 30 days from the receipt of invoice.

Procedures have been implemented which provide reasonable assurance against material non-compliance with the Regulations.

On inception of the Regulations, 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. A review of all payments made during the year ended 31 December 2003, shows one payment totalling €1,823 giving rise to an interest penalty of €11, under the above Act.

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, which is reviewed annually by the Directors.

14. Companies (Auditing and Accounting) Act, 2003

The Directors note the passing into law, in December 2003, of the Companies (Auditing and Accounting) Act, 2003. The Act, the provisions of which have not yet become effective, requires that the Directors make two statements in the Report of the Directors. These are:

- A policy statement setting out how the Agency seeks to ensure that it complies with laws and regulations relevant to the company. This statement should be reviewed at least every 3 years; and
- An annual statement on compliance with relevant laws and regulations, which is subject to review by the company's auditors.

15. Transition to International Financial Reporting Standards (IFRS)

The Agency may, subject to legislation, be required to adopt IFRS for the financial year commencing 1 January 2005 in

line with European Union requirements. Several important IFRS are not yet finalised and, as a consequence, it is difficult to assess the full impact of the changes upon the Agency's financial performance and financial position as well as any necessary system changes which may be required. The IFRS to be applied by Irish and UK reporting entities beginning on or after 1 January 2005 will be finalised during 2004. The Agency continues to monitor these developments.

16. 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 Agency are maintained at its registered office.

17. Auditors

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

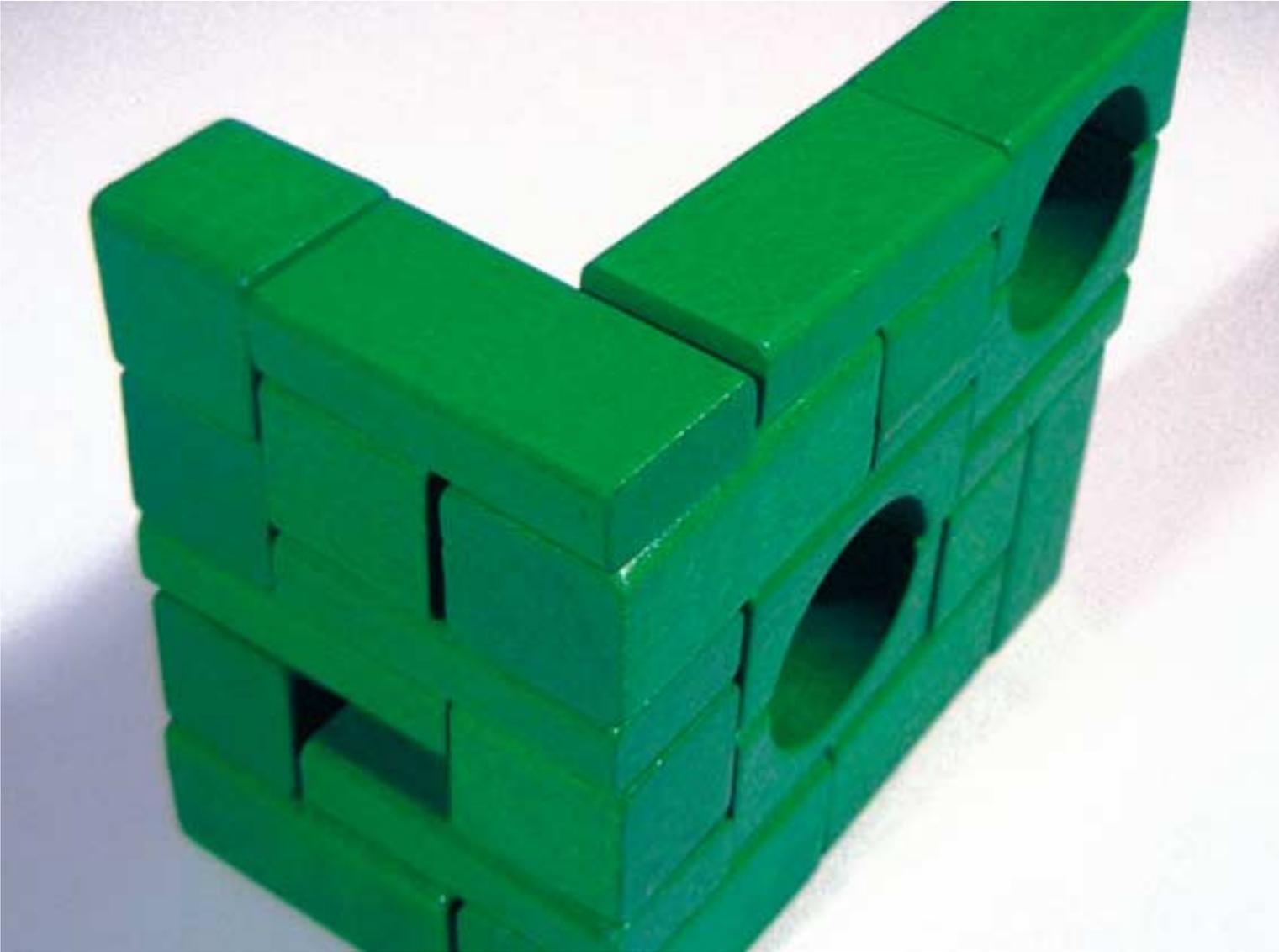
On behalf of the Board,



Edward Coffey
Chairman
14 April 2004



James Hehir
Managing Director
14 April 2004



Statement of Directors' Responsibilities

Company law in Ireland requires the Directors to prepare financial statements for each financial year in accordance with applicable Irish law and accounting standards which give a true and fair view of the state of affairs of the Agency and of the profit or loss of the Agency 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 Agency 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 Agency 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 Agency and to prevent and detect fraud and other irregularities.

On behalf of the Board,



Edward Coffey
Chairman
14 April 2004



James Hehir
Managing Director
14 April 2004

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

We have audited the financial statements on pages 22 to 42.

This report is made solely to the Agency's members, 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, for our audit work, for this report, or for the opinions we have formed.

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 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 is not disclosed.

We review, at the request of the Directors, whether the voluntary statement on pages 11 to 17 reflects the Agency's compliance with the seven provisions of the Combined Code that the Irish Stock Exchange specifies for review by auditors. 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 mis-statements 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 mis-statement, 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 2003 and of its loss 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 11 to 17 is consistent with the financial statements.

The net assets of the Agency, 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 2003 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.

The image shows the handwritten signature 'KPMG' in black ink on a white rectangular background. A horizontal line extends from the right side of the signature box.

Chartered Accountants
Registered Auditors
14 April 2004

Statement of accounting policies

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.

Foreign currencies

Transactions denominated in currencies other than euro are recorded at the rate ruling at the date of those transactions or at a contracted rate. The resulting monetary assets and liabilities are translated at the rate ruling at the balance sheet date or at a contracted rate and the exchange differences are dealt with in the Income and Expenditure Account.

Income and expense regulation

Interest income and expense is regulated on an accruals basis. However, as noted above, expense incurred in selling up of transactions are deferred and are charged to Income and Expenditure Account over the lives of the transactions.

Derivative financial instruments

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

These derivatives are recognised in the financial statements in accordance with the accounting treatment of the underlying transactions being hedged.

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:

Fixtures and fittings

Computer equipment	straight line over 3 years
Non-computer equipment	straight line over 5 years

Estimates of expected useful life are reviewed periodically. Where necessary, provision is also made for any impairments of tangible fixed assets.

Short term investments

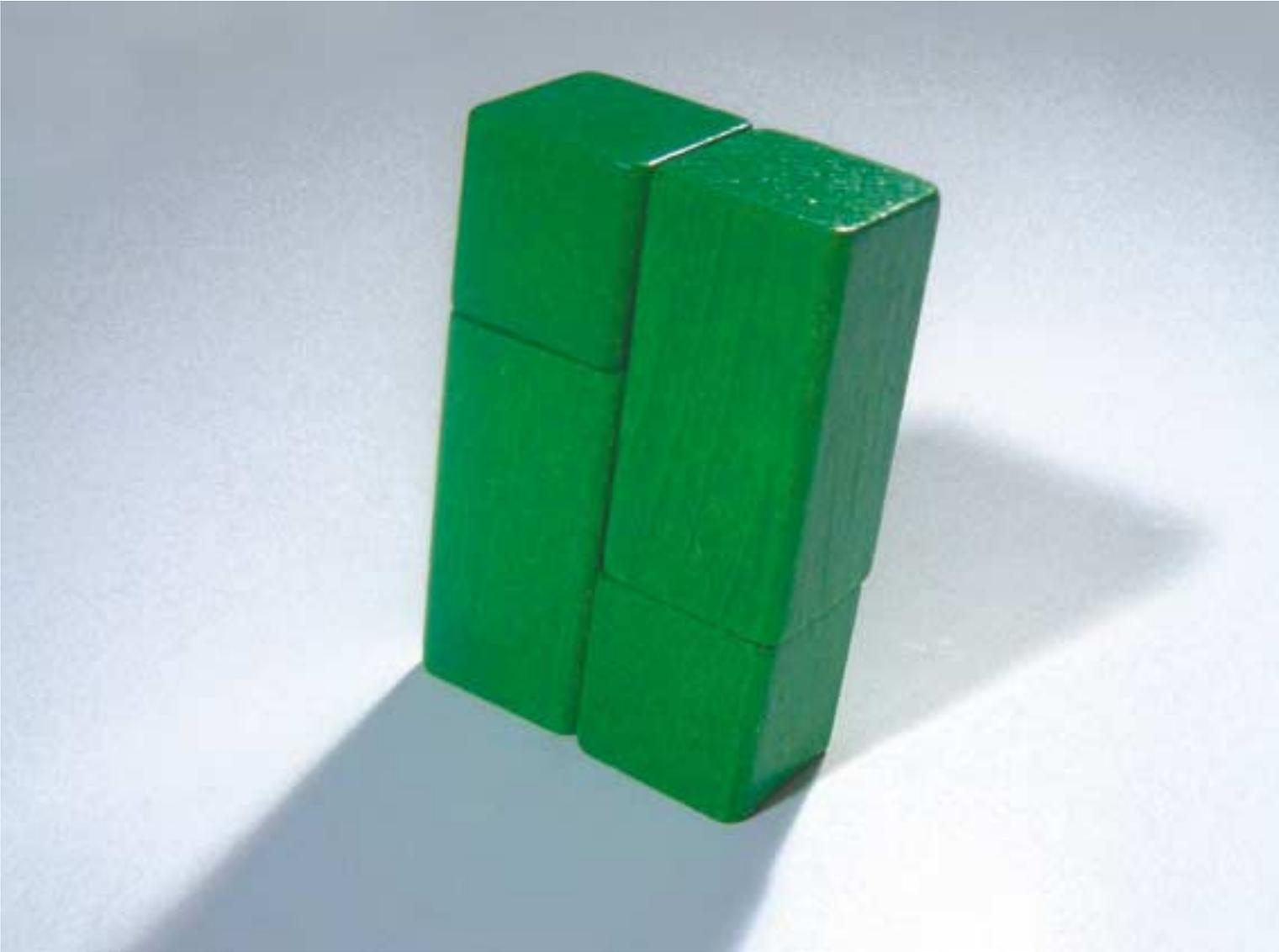
Short term investments consist primarily of promissory notes, commercial paper or bank deposits, and are stated at the lower of cost and net realisable value. Income from such investments is recognised on a straight line basis over the period to maturity and is accrued as interest receivable until maturity.

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.



Financial Statements and Accounts

Income and Expenditure Account

	Note	Year ended 31 December 2003 €'000	Year ended 31 December 2002 €'000
Income - continuing activities	3	90,354	98,099
Direct expenditure	4	(89,382)	(92,003)
Surplus of income over direct expenditure		972	6,096
Indirect expenditure	5	(2,351)	(2,018)
Operating (deficit)/surplus for the financial year - continuing activities		(1,379)	4,078
Surplus at beginning of year		34,482	30,404
Surplus at end of year		33,103	34,482

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.

There is no significant difference between the results as disclosed in the Income and Expenditure Account and the results on an unmodified historical cost basis in the current year or the preceding year.

On behalf of the Board,



Edward Coffey
Chairman
14 April 2004



James Hehir
Managing Director
14 April 2004

Balance Sheet

	Note	31 December 2003 €'000	31 December 2002 €'000
Assets employed			
Tangible fixed assets	8	128	226
Current assets			
Debtors (advances due after more than one year: €2,374,663 [2002: €2,117,379])	7	2,663,134	2,393,229
Cash at bank and in hand	9	10,001	-
		2,673,135	2,393,229
Creditors (amounts falling due within one year)	10	(1,825,642)	(1,513,929)
Net current assets		847,493	879,300
Total assets less current liabilities		847,621	879,526
Creditors (amounts falling due after more than one year)	11	(335,081)	(383,266)
Index linked bonds	12	(389,286)	(371,988)
8.75% Housing Finance Agency stock 2018	13	(90,112)	(89,751)
Net Assets		33,142	34,521
Capital and reserves			
Called up share capital	15	39	39
Retained surplus		33,103	34,482
Shareholders' funds-equity	17	33,142	34,521



Edward Coffey
Chairman
14 April 2004



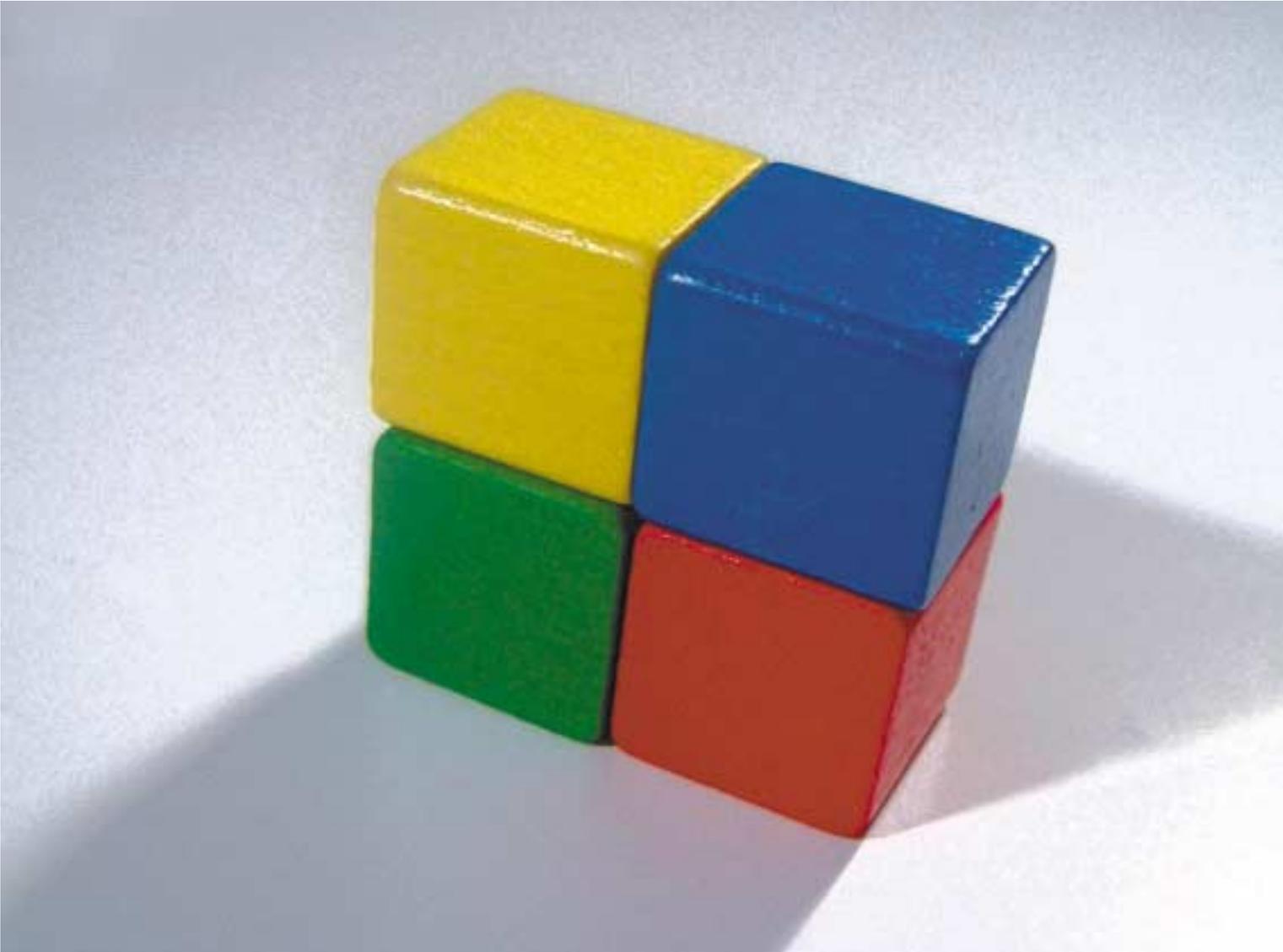
James Hehir
Managing Director
14 April 2004

Cash Flow Statement

	Note	Year ended 31 December 2003 €'000	Year ended 31 December 2002 €'000
Cash outflow from operating activities	16(a)	(194,149)	(514,030)
Returns on investments and servicing of finance	16(b)	(65,848)	(67,578)
Capital expenditure	16(b)	(42)	(95)
Cash outflow before financing activities		(260,039)	(581,703)
Financing activities - net cash inflow from financing	16(b)	260,087	582,361
Increase in cash in the year		48	658

Reconciliation of Net Cash Flow to Movement in Net Debt

	Note	Year ended 31 December 2003 €'000	Year ended 31 December 2002 €'000
Increase in cash in the year		48	658
Cash inflow from change in debt financing		(260,087)	(582,361)
Non-cash movements	16(c)	(17,660)	(18,743)
Movement in net debt in the year		(277,699)	(600,446)
Net debt at beginning of year	16(c)	(2,342,009)	(1,741,563)
Net debt at end of year	16(c)	(2,619,708)	(2,342,009)



Notes forming part of the financial statements

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, Heritage 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 December 2003	31 December 2002
	€'000	€'000
Interest on advances to local authorities which were approved:		
Post 27 May 1986	84,378	91,822
Pre 27 May 1986	3,581	5,806
Investment income	2,395	471
	90,354	98,099

4. Direct expenditure

	31 December 2003	31 December 2002
	€'000	€'000
Index - linked bonds		
Bond interest	11,375	10,904
Premium on redemption of bonds (Note 12)	16,973	18,056
Amortisation of discount on issue of bonds	300	300
Amortisation of bond issue expenses	12	18
Amortisation of discount on pre May 1986 loans	11	11
	28,671	29,289

	31 December 2003	31 December 2002
	€'000	€'000
Stock and loan costs		
Amortisation of discount and issue expenses on Housing Finance Agency Stock	364	358
Interest payable on bank borrowings, guaranteed notes and stock	60,322	62,336
Amortisation of eurocommercial paper issue expenses	25	20
	60,711	62,714
	89,382	92,003

5. Indirect expenditure

	31 December 2003	31 December 2002
	€'000	€'000
Other expenditure		
Administrative expenditure (Note 6)	1,606	1,337
Mortgage protection insurance	530	352
Administration fees to local authorities	215	329
	2,351	2,018

6. Administrative expenditure

Administrative expenditure has been arrived at after charging:

	31 December 2003	31 December 2002
	€'000	€'000
Directors' emoluments		
Fees - Chairman	8	7
Other Directors	40	33
Other emoluments	91	89
Pension contributions	20	22
	159	151

	31 December 2003	31 December 2002
	€'000	€'000
Employee costs		
Salaries	560	523
Social welfare costs	25	35
Pension costs (Note 19)	94	161
	679	719
Auditors' remuneration (excluding value added tax)	20	20
Depreciation	140	56
Rental payments under operating lease	50	50

The average number of employees including executive Directors, during the year was 12 (2002: 12).

7. Debtors

	31 December 2003	31 December 2002
	€'000	€'000
Balance due on advances	2,605,827	2,336,239
Other debtors and prepayments	626	208
Due from local authorities	56,681	56,782
	2,663,134	2,393,229
<i>Balance due on advances is analysed as follows:</i>		
(i) Loans approved post 27 May 1986		
Balance at beginning of year	2,281,372	1,662,497
Loans advanced	447,003	724,985
Less: loans repaid	(188,625)	(130,797)
Interest charged	84,378	91,822
Interest received	(65,760)	(67,135)
Balance at end of year	2,558,368	2,281,372

	31 December 2003	31 December 2002
	€'000	€'000
(ii) Loans approved pre 27 May 1986		
Balance at beginning of year	54,867	63,855
Less: loans repaid	(7,408)	(9,093)
	47,459	54,762
Interest charged	3,580	5,805
Interest received	(3,580)	(5,700)
	47,459	54,867
Balance at end of year	2,605,827	2,336,239

8. Tangible fixed assets

	Fixtures & Fittings Total €'000
Cost	
At beginning of year	442
Additions	42
At end of year	484
Depreciation	
At beginning of year	216
Charged for year	140
At end of year	356
Net book value	128
31 December 2003	
31 December 2002	226

The Agency in line with its accounting policy reviewed the appropriateness of the depreciation policy adopted in respect of the Agency's fixed assets. As a result of this review the Directors amended the depreciation basis from depreciating certain assets over 5 years to a nil residual value, to depreciating them over 3 years to a nil residual value. The effect of this change was an additional charge of €45,000 to the Income and Expenditure Account.

9. Cash at bank

	31 December 2003	31 December 2002
	€'000	€'000
Cash at bank and in hand	1	-
Amounts held on short term deposits	10,000	-
	10,001	-

10. Creditors (amounts falling due within one year)

	31 December 2003	31 December 2002
	€'000	€'000
Commercial paper, note issuance facilities and guaranteed notes	1,805,473	1,496,868
Interest due on stock and bonds	6,832	6,717
Accruals	13,174	10,133
Bank overdraft	163	211
	1,825,642	1,513,929
Tax creditors (included in accruals) PAYE	23	23

The commercial paper, 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 December 2003	31 December 2002
	€'000	€'000
Bank loans and notes payable		
Repayable other than by instalments:		
Between two and five years	149,002	295,748
After more than five years	186,079	87,518
	335,081	383,266

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

12. Index linked bonds

	31 December 2003	31 December 2002
	€'000	€'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	(182)	(507)
	202,976	202,651
Provision for premium on redemption of bonds	186,310	169,337
	389,286	371,988

Provision for premium on redemption of bonds

	Total €'000	Deferred €'000	Provided €'000
At beginning of year	185,594	(16,257)	169,337
Arising during the year	15,512	1,461	16,973
At end of year	201,106	(14,796)	186,310

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. The bonds are guaranteed by the Minister for Finance.

13. 8.75% Housing Finance Agency Stock 2018

	31 December 2003	31 December 2002
	€'000	€'000
At par at beginning of year	95,230	95,230
Less: Unamortised discount on issue	(5,118)	(5,479)
At end of year	90,112	89,751

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

14. Profile of financial assets and financial liabilities

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

The financial assets are all denominated in euros and are analysed further below:

	31 December 2003	31 December 2002
	€'000	€'000
Fixed rate	135,308	136,330
Floating rate (including index linked)	2,527,200	2,256,691
	2,662,508	2,393,021

The Agency made new fixed and floating rate advances during the financial year. The Agency's inflation (by reference to the Irish Consumer Price Index) index linked advances are classified as floating rate assets.

Amount determined by floating rate benchmarks:

	31 December 2003	31 December 2002
	€'000	€'000
EURIBOR	2,111,595	1,884,703
Index linked	415,605	371,988
	2,527,200	2,256,691

Interest rate risk profile of financial assets as at:

	31 December 2003	31 December 2002
	€'000	€'000
Weighted average fixed interest rate	7.90%	8.02%
Weighted average period for which fixed interest assets are fixed	13 years	14 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.

Maturity of financial assets

	31 December 2003	31 December 2002
	€'000	€'000
Amounts falling due within one year	288,676	275,643
Amounts falling due between one and two years	102,379	15,981
Amounts falling due between two and five years	228,107	200,087
Amounts falling due after more than five years	2,043,346	1,901,310
	2,662,508	2,393,021

Financial liabilities are analysed below:

	31 December 2003	31 December 2002
	€'000	€'000
Fixed rate	108,924	111,100
Floating rate	2,510,857	2,230,909
	2,619,781	2,342,009

Interest rate risk profile of financial liabilities

Weighted average fixed interest rate	8.44%	8.38%
Weighted average period for which fixed interest liabilities are fixed	12 years	13 years

Amount determined by floating rate benchmarks:

	31 December 2003	31 December 2002
	€'000	€'000
EURIBOR	2,121,408	1,858,710
Prime	163	211
Index linked	389,286	371,988
	2,510,857	2,230,909

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

As at 31 December 2003, after taking into account the effects of foreign currency forward contracts, the Agency had no material currency exposures.

Liquidity measures as at

	31 December 2003 Financial liabilities €'000	Undrawn committed facilities €'000	31 December 2002 Financial liabilities €'000	Undrawn committed facilities €'000
Maturing within 12 months or on demand	1,805,302	712	1,497,263	-
Maturing greater than 1 year and less than 2 years	-	25,395	101,946	-
Maturing greater than 2 years and less than 5 years	149,002	73,202	193,802	153,797
Maturing greater than 5 years	665,477	213,921	548,998	112,482
Total	2,619,781	313,230	2,342,009	266,279

Fair value

	<i>Carrying value</i>		<i>Fair value</i>	
	31 December 2003 €'000	31 December 2002 €'000	31 December 2003 €'000	31 December 2002 €'000
Financial assets				
Fixed rate	135,308	136,330	223,153	222,812
Floating rate	2,111,595	1,814,947	2,111,595	1,814,947
Index linked	415,605	441,744	737,236	808,348
	2,662,508	2,393,021	3,071,984	2,846,107
Financial liabilities				
Fixed rate	108,924	111,100	181,033	175,655
Floating rate	2,121,571	1,858,921	2,046,452	1,859,180
Index linked	389,286	371,988	529,469	506,008
	2,619,781	2,342,009	2,756,954	2,540,843

Derivatives held to manage risk

Forward currency contracts	333	-	217	-
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The unrealised gain/(loss) arising on forward contracts will be recognised in full in the financial statements during the year ended 31 December 2004.

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 €3.1bn. This is based on EURIBOR at the year end rate (2002: 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. €2.8bn has been estimated as the fair value of the Agency's liabilities. This is again based on EURIBOR at the year end rate (2002: 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.

15. Share capital - equity

There are 30,000 ordinary shares of €1.30 authorised, allotted, called up and fully paid at 31 December 2003.

16. Cash flow statement

	31 December 2003 €'000	31 December 2002 €'000
(a) Reconciliation of operating surplus to cash outflow from operating activities		
(Deficit)/surplus for the financial year	(1,379)	4,078
Direct expenditure (Note 4)	89,382	92,003
Pension amortisation	11	11
Depreciation (Note 8)	140	56
Investment income (Note 3)	(2,395)	(471)
Movements in working capital:		
Decrease/(increase) in amounts due from local authorities (Note 7)	101	(12,108)
Increase in advances (Note 7)	(269,920)	(609,887)
(Increase) in other debtors and prepayments	(11)	(11)
(Decrease)/increase in accrued expenses	(78)	298
(Increase)/decrease in liquid resources	(10,000)	12,000
Cash outflow from operating activities	194,149	514,030

	31 December 2003 €'000	31 December 2002 €'000
(b) Gross cash flows		
Returns on investments and servicing of finance		
Interest received	2,310	452
Interest paid	(68,158)	(68,030)
Net cash outflow from returns on investments and servicing of finance	(65,848)	(67,578)
Capital expenditure		
Payments to acquire tangible fixed assets	(42)	(95)
Disposal of tangible fixed assets	-	-
Net cash outflow from capital expenditure and disposals	(42)	(95)
Financing		
Repayment of bank loans and notes payable	-	-
Increase in bank loans and notes payable	260,087	582,361
Net cash inflow from financing	260,087	582,361

	31 December 2003 €'000	Cash Flow €'000	Non-cash Movements €'000	31 December 2002 €'000
(c) Analysis of changes in net debt				
Cash in hand, at bank	-	-	-	-
Overdraft	(163)	48	-	(211)
	(163)	48	-	(211)
Bank loans and notes repayable within one year	(1,805,140)	(308,272)	-	(1,496,868)
Bank loans and notes repayable after one year	(335,081)	48,185	-	(383,191)
Index linked bonds	(202,976)	-	(325)	(202,651)
Provision for premium on redemption of bonds	(186,310)	-	(16,973)	(169,337)
8.75% Housing Finance Agency Stock 2018	(90,112)	-	(361)	(89,751)
	(2,619,782)	(260,039)	(17,659)	(2,342,009)

17. Reconciliation of shareholders' funds

	31 December 2003 €'000	31 December 2002 €'000
(Deficit)/surplus for the financial year	(1,379)	4,078
Opening shareholders' funds	34,482	30,443
Closing shareholders' funds	33,103	34,521

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 one year	50

19. Pensions

The Agency operates a defined benefit pension scheme covering all permanent employees. The pension cost for the financial year amounted to €93,583 (2002: €161,271). 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. 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 2003 by a Qualified Independent Actuary using the projected unit method. The principal actuarial assumptions used were as follows:

	2003	2002	2001
	%	%	%
Rate of increase in salaries	3.0	3.0	4.0
Rate of increase in pensions payments	2.0	2.0	3.0
Discount rate	5.0	5.0	6.0
Inflation assumption	2.0	2.0	3.0

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

	Long-term rate of return expected at 31 December 2003	Value at 31 December 2003	Long-term rate of return expected at 31 December 2002	Value at 31 December 2002	Long term rate of return expected at 31 December 2001	Value at 31 December 2001
	%	€'000's	%	€'000's	%	€'000's
Equities	6.00	827	6.50	517	7.00	649
Bonds	4.25	200	4.75	202	5.20	200
Property	5.00	79	5.50	63	6.00	76
Cash	2.00	56	2.00	39	2.00	29
Other		794	-	857	-	547
Total market value of pension		1,956		1,678		1,501
Present value of scheme liabilities		(1,686)		(1,579)		(1,260)
Net surplus in the scheme		270		99		241
Related deferred tax asset		-		-		-
Net pension asset		270		99		241
<i>Analysed as:</i>						
Pension scheme assets		1,956		1,678		1,501
Pension scheme liabilities		(1,686)		(1,579)		(1,260)
		270		99		241

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

	31 December 2003	31 December 2002
	€'000	€'000
Included in payroll costs:		
Current service costs	53	51
Death in service costs	-	-
Net operating profit charge	53	51

	31 December 2003 €'000	31 December 2002 €'000
Included in finance costs		
Expected return on assets	97	111
Interest cost	(79)	(76)
Net finance return	18	35
Included in statement of total recognised gains and losses:		
Difference between expected and actual return on assets	103	(93)
Experience gains and losses on scheme liabilities	31	(167)
Effect of changes in actuarial assumptions	0	(27)
Net in statement of total recognised losses	134	(287)
History of actuarial gains and losses		
Difference between expected and actual return on assets	103	(93)
Expressed as a percentage of scheme assets	5.3%	(6.1%)
Experience losses on scheme liabilities	31	(167)
Expressed as a percentage of scheme liabilities	1.8%	10.6%
Total actuarial losses	134	(287)
Expressed as a percentage of scheme liabilities	7.9%	18.2%
Net assets		
Net assets before pension scheme asset	848,451	879,526
Pension scheme asset	1,956	1,678
Pension scheme liability	(1,686)	(1,579)
Net assets after pension scheme asset	848,721	879,625
Reserves		
Profit and loss account before pension scheme asset	33,103	34,482
Pension reserve	270	99
Income and Expenditure Account after pension scheme asset	33,373	34,581

20. Approval of financial statements

The audited financial statements, which are in the form approved by the Minister for the Environment, Heritage and Local Government with the consent of the Minister of Finance, were approved by the Directors on 23 March 2004.

Appendix 1

Statistics on the loan book

(A) By loan type

Loans advanced to finance	1999 €'000	2000 €'000	2001 €'000	2002 €'000	2003 €'000
Fixed Rate	11,250	6,295	9,775	14,049	7,787
Variable Rate	161,801	281,390	475,293	620,660	439,216
Index Linked	52,763	52,190	77,612	90,276	-
Total	225,814	339,875	562,680	724,985	447,003

(B) By rate type and duration of loan

Duration of loan	Fixed Rate	Variable Rate	Index Linked		Total
	€'000	€'000	Post May 1986 €'000	Pre May 1986 €'000	€'000
0 to 5 years	2,712	559,483	21,365	19,896	603,457
6 to 10 years	26,580	160,549	-	28,631	215,760
11 to 15 years	65,037	86,153	19,168	-	170,358
16 to 20 years	7,368	259,950	67,717	-	335,035
21 to 25 years	23,870	606,052	250,378	-	879,470
26 to 30 years	1,811	339,937	-	-	401,747
Total	127,377	2,072,122	358,629	48,528	2,605,827

(C) By Local Authorities and National Building Agency

Local Authority	12 months to 31 December 2003	Balance outstanding 31 December 2003	Local Authority	12 months to 31 December 2003	Balance outstanding 31 December 2003
	€'000	€'000		€'000	€'000
Athlone Town Council	1,000	2,461	Mayo Co. Cl.	12,786	54,716
Bray Town Council	-	3,655	Meath Co. Cl.	14,460	40,743
Carlow Co. Cl.	776	32,429	Monaghan Co. Cl.	2,700	17,387
Carlow Town Council	-	2,453	Naas Town Council	2,303	16,071
Carrick on Suir Town Council	-	331	New Ross Town Council	750	1,941
Castleblaney Town Council	-	109	North Tipperary Co. Cl.	2,160	15,674
Cavan Co. Cl.	4,636	10,645	Offaly Co. Cl.	8,449	33,772
Clare Co. Cl.	534	43,602	Roscommon Co. Cl.	1,901	11,866
Clonakilty Town Council	-	911	Sligo Borough Council	459	40,581
Clonmel Borough Council	800	5,252	Sligo Co. Cl.	4,471	51,920
Clones Town Council	-	219	South Dublin Co. Cl.	3,852	130,270
Cobh Town Council	-	513	South Tipperary Co. Cl.	3,162	41,582
Cork City Council	24,799	91,684	Tullamore Town Council	-	1,305
Cork Co. Cl.	35,607	160,176	Thurles Town Council	-	1,881
Donegal Co. Cl.	10,376	67,906	Tralee Town Council	-	4,823
Drogheda Borough Council	6,269	18,987	Tipperary Town Council	-	851
Dublin City Council	110,443	659,885	Waterford City Council	5,834	60,326
Dundalk Town Council	5,005	25,112	Waterford Co. Cl.	5,743	22,686
Dunlaoghaire/Rathdown Co. Cl.	4,757	73,277	Westmeath Co. Cl.	11,553	40,133
Dungarvan Town Council	1,700	8,842	Wexford Borough Council.	3,057	6,235
Ennis Town Council	-	3,698	Wexford Co. Cl.	15,180	64,097
Enniscorthy Town Council	350	1,435	Wicklow Co. Cl.	1,700	36,430
Fingal Co. Cl.	40,266	231,862	Wicklow Town Council	-	3,637
Galway City Council	23,778	68,748			
Galway Co. Cl.	13,307	57,549	Sub Total	447,003	2,602,393
Kerry Co. Cl.	852	25,836			
Kildare Co. Cl.	16,882	74,706	National Building Agency	-	3,434
Kilkenny Borough Council	-	989			
Kilkenny Co. Cl.	6,269	63,273	Total	447,003	2,605,827
Kilrush Town Council	-	676			
Laois Co. Cl.	18,301	48,572			
Leitrim Co. Cl.	574	8,905			
Letterkenny Town Council	-	213			
Limerick City Council	6,867	32,247			
Limerick Co. Cl.	458	32,071			
Longford Co. Cl.	9,699	33,812			
Longford Town Council	-	2,063			
Louth Co. Cl.	2,176	5,138			
Macroom Town Council	-	84			
Mallow Town Council	-	3,140			

Appendix 2

Graphs on the loan book and financial trends

Table 1: Housing Finance Agency Loan Book 1999 to 2003

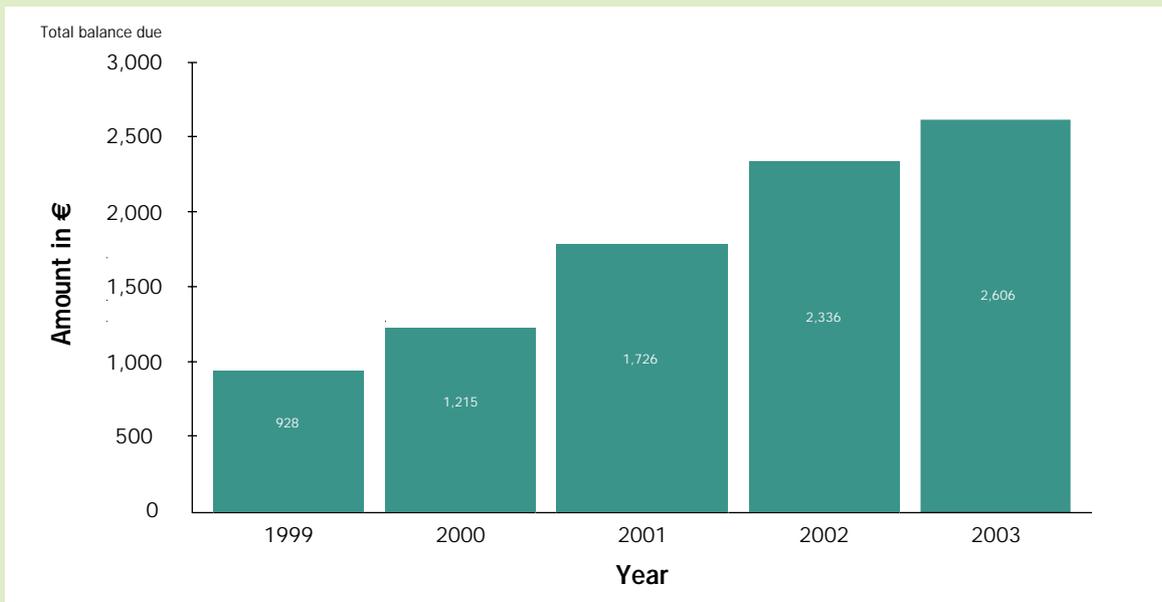


Table 2: Loan Advances (gross & net) 1999-2004

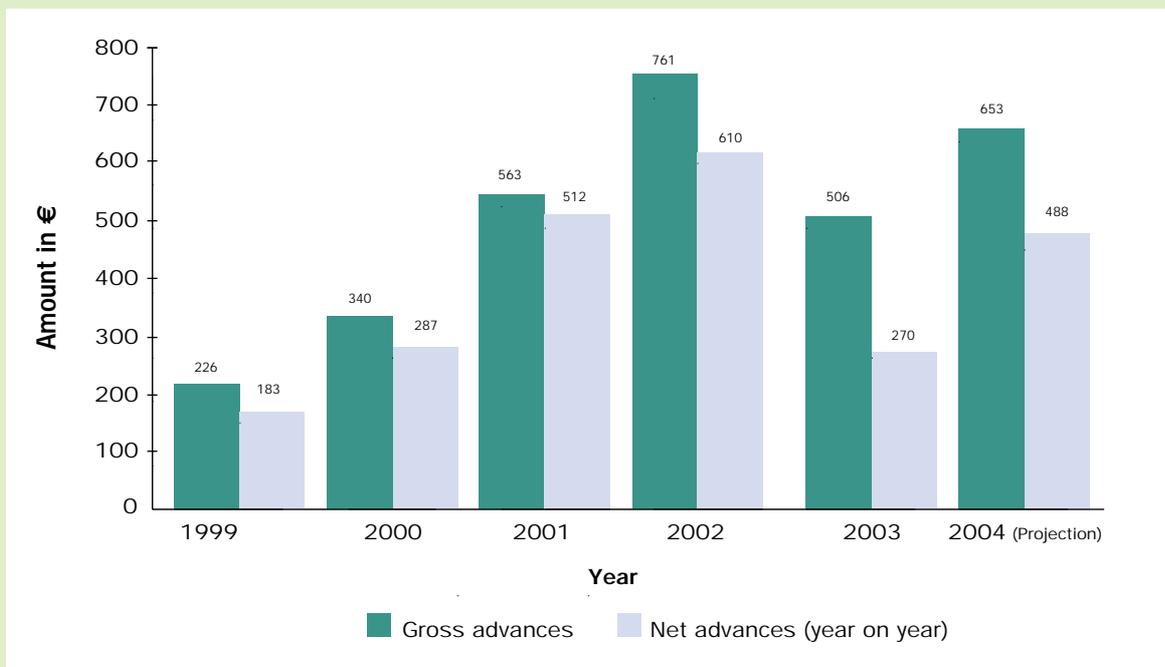


Table 3: Surplus & Reserves 1998 - 2003

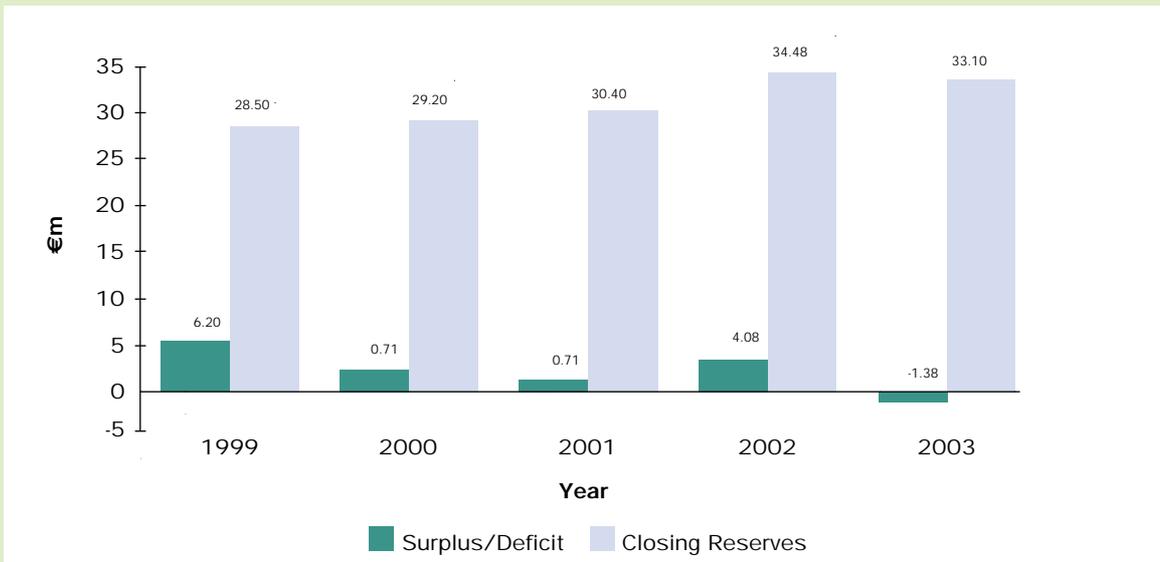


Table 4: Local authority variable mortgage rate versus a representative average market rate (Five largest lenders by market share)

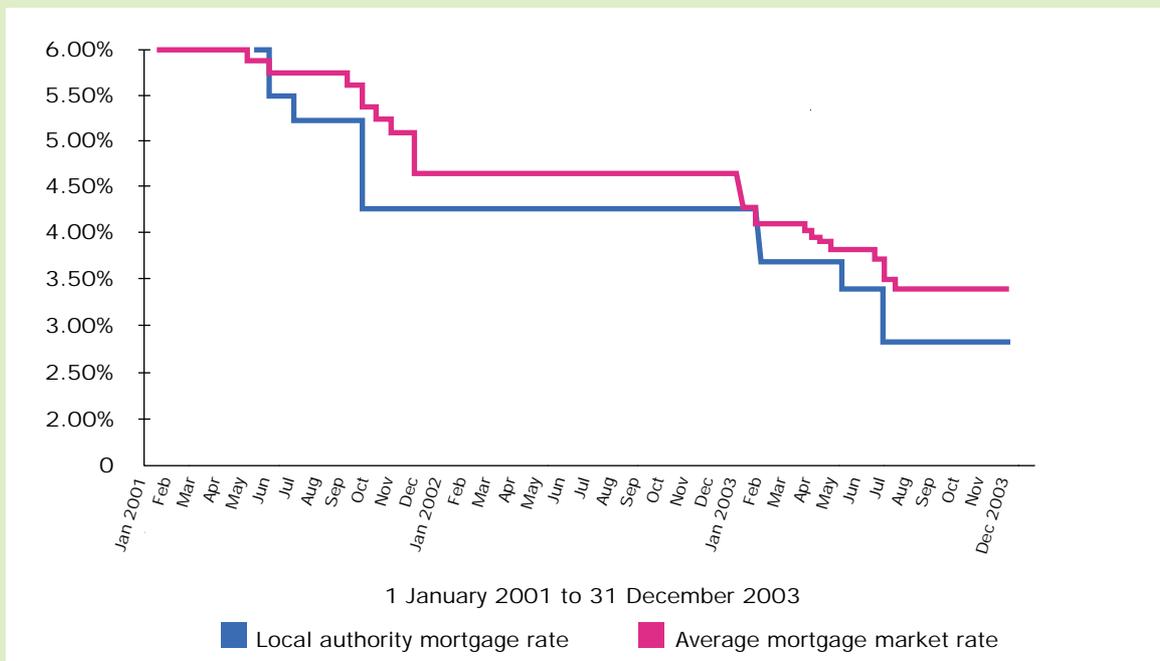


Table 5: Administration costs as % of total loan book & variable loan book 1999-2003

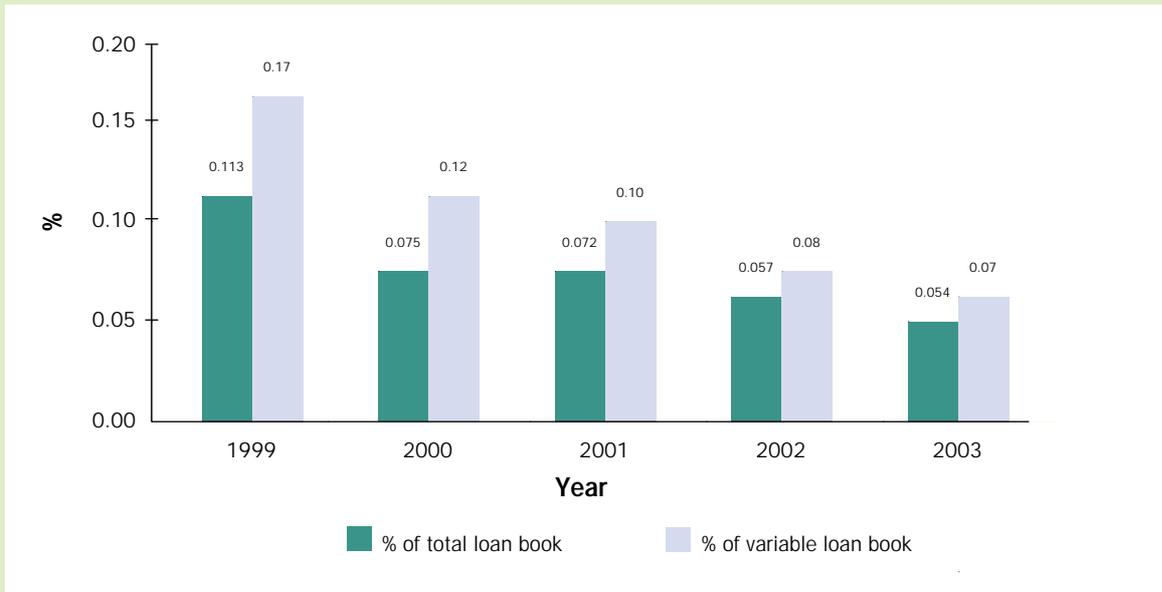
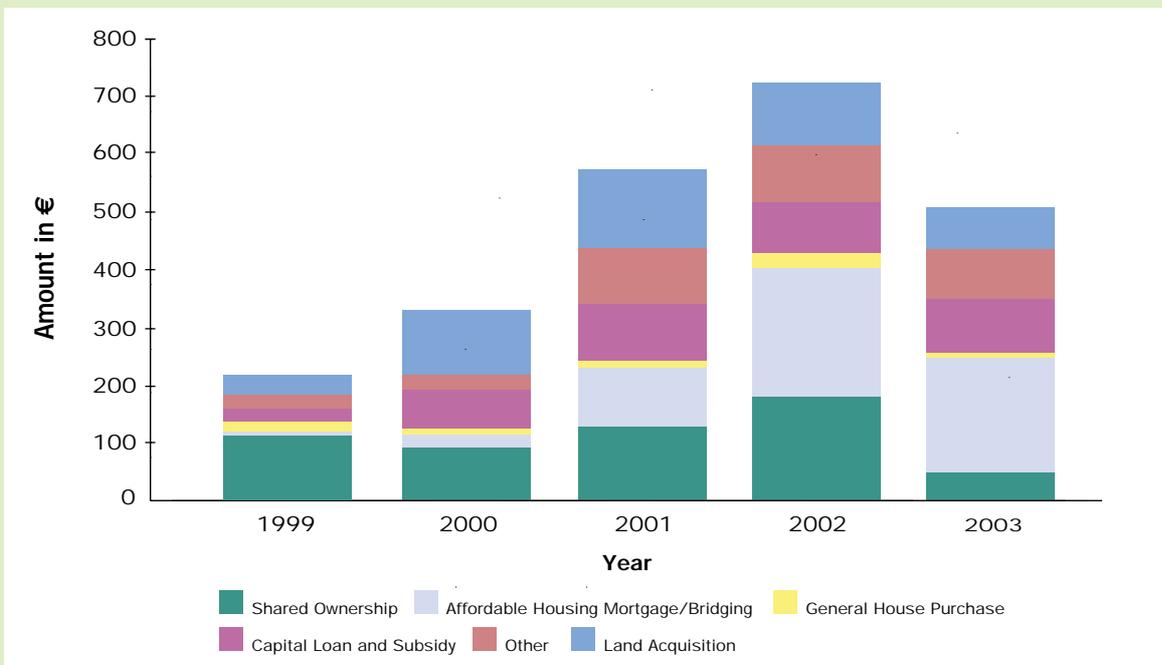
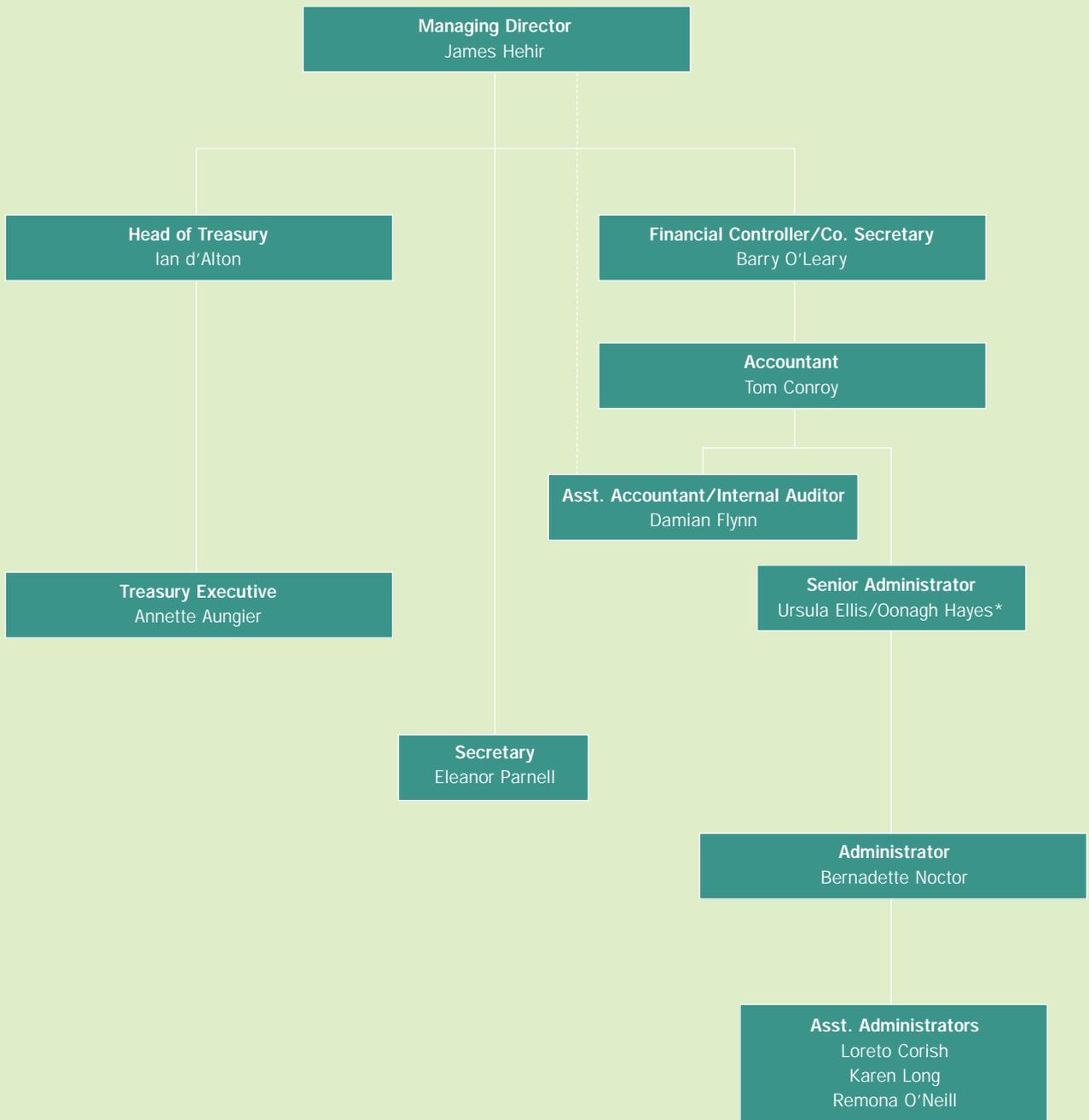


Table 6: Loan advances by loan type 1999 - 2003



Appendix 3

Staff structure (as at 23 March 2004)



* Job sharing

----- Reporting to MD for internal audit matters only



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