

# ANNUAL REPORT

HOUSING FINANCE AGENCY PLC

## 2004



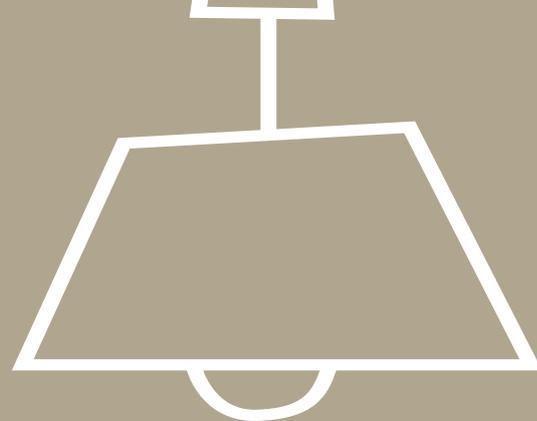
HOUSING FINANCE AGENCY plc  
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# HOUSING FINANCE AGENCY PLC

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# DIRECTORS AND OTHER INFORMATION



Edward Coffey (1,3,4)



James Hehir  
(Managing) (1,5)



Teresa White (2,4)



Maria Graham (1,3,4)



Fr. Patrick Cogan (2,3,4)



Michael Hayes (2,4)



Maureen Lynott (2,3,4)



Jackie Maguire (2,4)



Mary Malcolm (2,4)



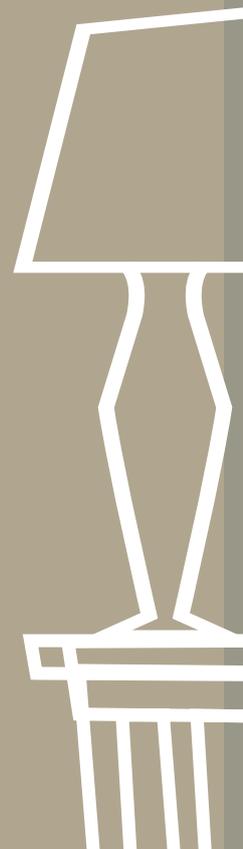
Thomas Reilly (1,4)



Áine Stapleton (1,4)



Lorcan Allen (2,4)



**PRINCIPAL BOARD  
COMMITTEES**

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

**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



Ian d'Alton  
Head of Treasury



Barry O'Leary  
Financial Controller/  
Company Secretary



Tom Conroy  
Accountant

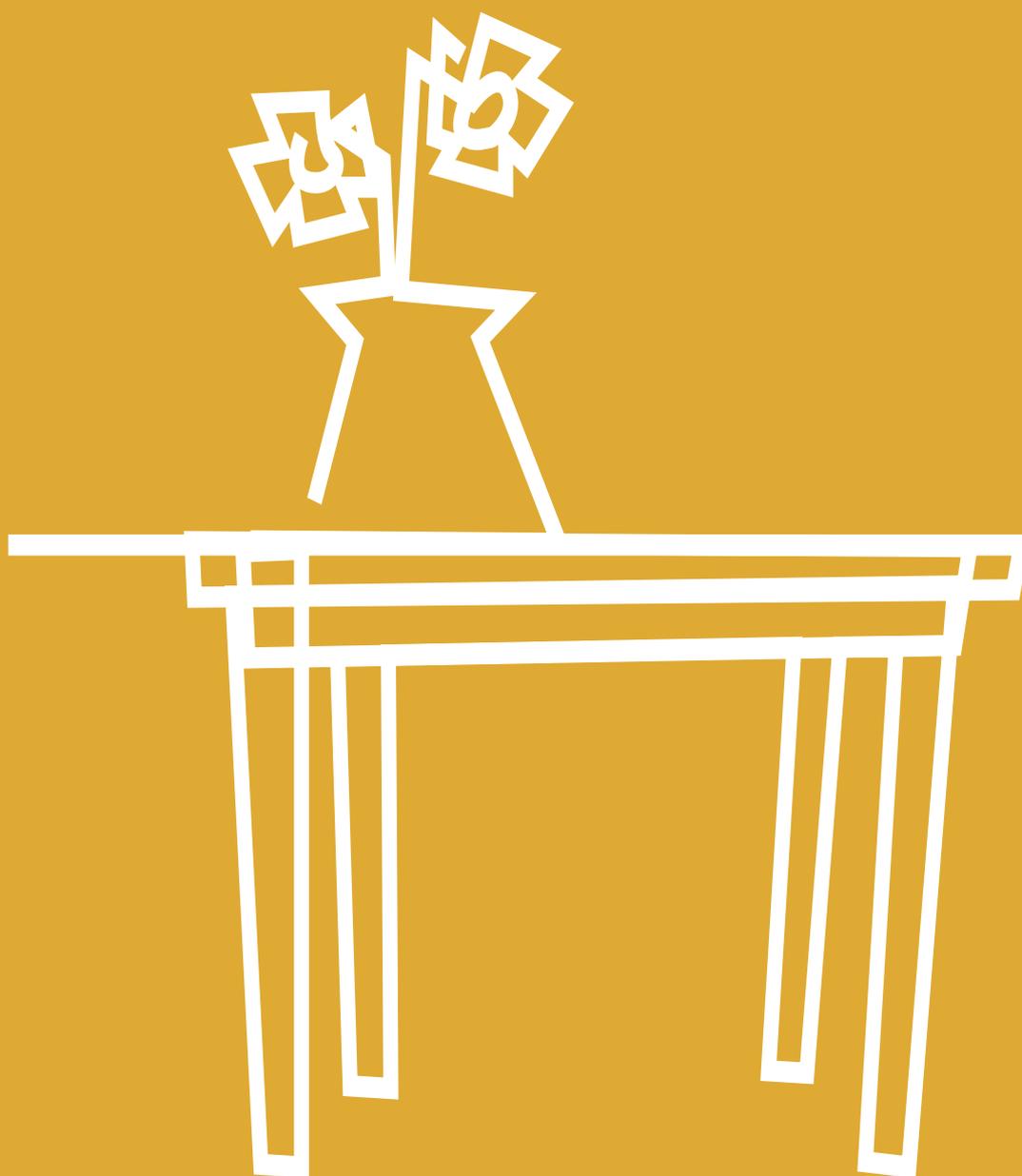


Annette Aungier  
Treasury Executive



Damian Flynn  
Assistant Accountant/  
Internal Auditor

HOUSING FINANCE AGENCY  
**CHAIRMAN'S REPORT**





Edward Coffey  
Chairman

The Agency's remit is to provide loan finance to local authorities to meet their housing loan requirements at the finest rates. I am very pleased to report that we provided a first class service to local authorities in this regard in the year under review.

The Agency advanced a total of €494.2m in loans to local authorities in 2004, with in excess of 92% paid within 7 days of receipt of the application. While the figure for loan advances is down 2% on the previous year it brings to €1,761.8m the total sum advanced to local authorities in the 3 year period of my Chairmanship of the Agency. This represents an increase of 57% on the previous 3 years.

A total of 71% of the loans advanced in 2004 was issued by local authorities to house purchasers under the Affordable, Shared Ownership and Annuity mortgage schemes. The Shared Ownership scheme was the most popular, accounting for 59% of this loan finance. The voluntary housing sector continues to turn in a solid performance, with loan finance under the Capital Loan and Subsidy scheme amounting to €96.0m. Funding for land acquisition has fallen dramatically over the past four years - from a peak of €131.4m in 2001 to €15.9m in 2004.

Borrowers have benefited during the year from low and stable rates. Variable mortgage rates for borrowers - last changed in July 2003 - are at 2.95%, about 0.5% below an average of standard market rates. The Agency lends funds to local authorities for other housing purposes and, in line with recent years, maintained its rates at very competitive levels, together with flexible maturity and repayment conditions.

The Agency is pleased to report that while it advanced €494.2m in loans it borrowed only €90.1m in the market. Loan redemptions and annuity repayments received in our loan book of almost €2.7 billion made up the balance. Funding was therefore comfortably accommodated within the Agency's existing financing facilities. Additional borrowing came from short-term notes issued under the Agency's eurocommercial paper programme facility, originally signed in late 2002. The programme - with its guarantee from the Minister for Finance - carries the highest short-term ratings from Moody's and Standard & Poor's. Note issuance has been carried out by the National Treasury Management Agency (NTMA) as our agent since March 2003. The arrangement is working well. The chief benefit of the NTMA involvement is the dovetailing of Agency and Ireland note issuances, and the savings arising from 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. We acknowledge with thanks the work put into managing the note issuance by the NTMA and its officials in 2004. Net savings attributable to these arrangements were similar to those in 2003. The size of the programme was increased to €2.5 billion in 2004, principally to allow the NTMA to take advantage of favorable advance funding opportunities. The increase should also cover the Agency's funding requirements over the next year or so.

With a cash-equivalent turnover of several billion euro each year, and a target of satisfying local authorities' funding requests quickly, the Agency uses a number of other financing options, including note issuance facilities and overdrafts. These allow the Agency to raise and repay money flexibly and cost-effectively on a same-day basis. The Agency is grateful for the excellent quality of services provided by our banking counterparties, registrars and paying agents in 2004.

Each year I highlight the importance of risk management to the Agency's business. The Agency has had, for many years, a policy of providing reserves to meet the financial risks identified in its operations. These risks chiefly relate to prepayments of fixed rate and index linked loans and are expected to materialise in the 2005 to 2018 period. Current reserves amount to €34.9 million and are reviewed annually by the Board to ensure that they continue to be adequate.

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, [www.hfa.ie](http://www.hfa.ie). The Freedom of Information Officer is Dr Ian d'Alton and the internal reviewer is Jim Hehir. No requests were received in 2004; one request was received in early 2005. The Agency is grateful for the technical guidance and support which it receives from its parent Department in this area.

The Agency was granted power in the Housing Act of 2002 to make loans to local authorities for a range of activities under the Sanitary Services and Waste Management Acts and to lend direct to voluntary housing bodies. These powers could not be exercised without a formal decision from the EU Commission on the compatibility of the State guarantee with the State Aid Directives. The Agency obtained Commission approval to lend direct to voluntary housing bodies in 2004 and the State has since lodged an application with the Commission seeking approval to the Agency funding social infrastructure, such as community facilities, undertaken by local authorities. A discussion

document is also being prepared on the subject of lending to local authorities for the provision of water facilities in anticipation of a meeting with the Commission shortly.

The Agency operates a policy of providing Quality Customer Service (QCS). My report for 2003 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 2004. In particular the Agency has managed its affairs in such a fashion that its interest rates to its customers are kept at the lowest level possible while still allowing us deliver a small surplus from trading activity of just €6,069.

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 92.4% of its loans within the targeted time frame, representing a slight improvement on last year's 92%.

*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 3% of payroll costs on training is close to being realised, with 2.95% the outturn for 2004 (2.4% in 2003). We anticipate further progress in this area in 2005.

*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. Our QCS 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 5. I am pleased to report that we achieved our target, with 11 exception reports due to staff absences (26 in 2003) and 4 other exception reports (8 in 2003).

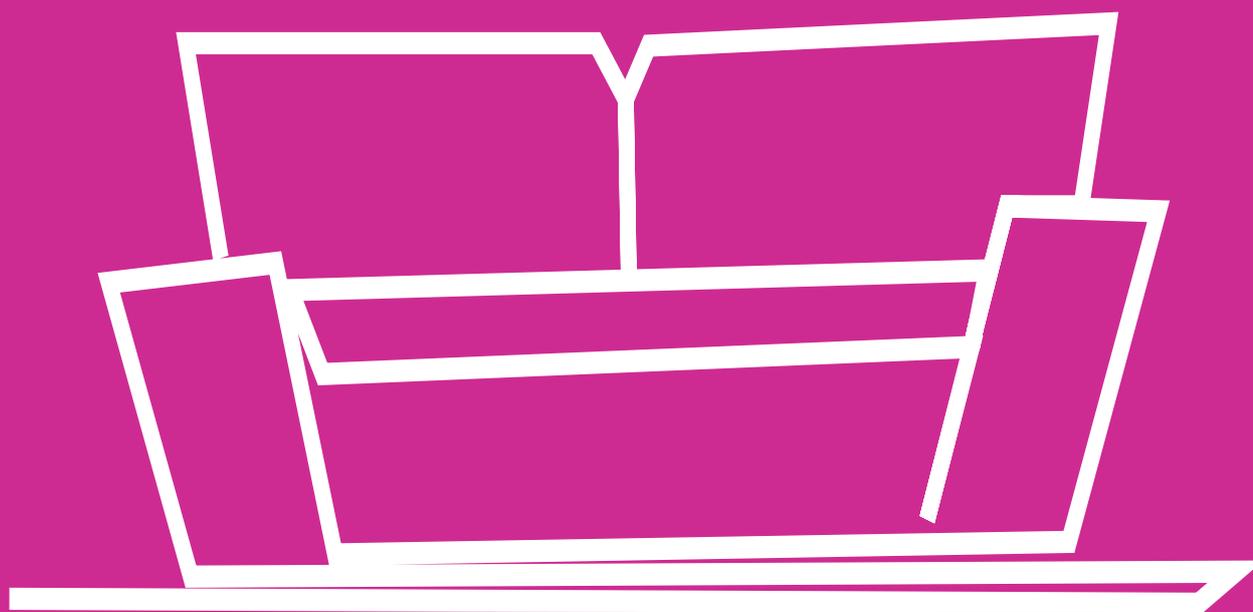
The programme of action put in place under the Sustaining Progress Action Plan adopted in 2003 is proceeding well. Two reports were made to the Department of the Environment, Heritage and Local Government during 2004 and a further two are planned in 2005, completing the work scheduled under the original plan. The plan has been extended to cover projects planned beyond 2005.

The Agency, with a staff of twelve, needs to rely on the co-operation of many other entities to carry out its business efficiently. We work well with our customers and partners, the local authorities, and we thank them for their business during 2004. Our close and excellent relationship with the Department of the Environment, Heritage and Local Government and its officials is essential in ensuring that we carry out our remit effectively. We also express our appreciation to the officials of the Department of Finance and the Central Bank and to our solicitors, auditors and service suppliers for their support during the year. Finally, on behalf of the Board, I wish to thank Jim Hehir and the Agency staff for their contribution to the satisfactory results for 2004.



**Edward Coffey (Chairman)**  
29 April 2005

HOUSING FINANCE AGENCY PLC  
**DIRECTORS' REPORT**



The Directors present their annual report and audited financial statements for the year ended 31 December 2004.

### 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 surplus for the year	1,775
Surplus at beginning of year	33,103
<b>Surplus at end of year</b>	<b>34,878</b>

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 2004 such loans represented outstanding balances of €40.5 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 2004 such loans represented outstanding balances of €2.7 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 company complies with the Code of Practice for the Governance of State Bodies as published by the Department of Finance.

#### *Principles of good corporate governance*

The Directors are accountable to the Agency's shareholder 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 22 March 2005 the Board of Directors comprises eleven 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 auditors have stated their continuing independence as auditors to the Agency for the year ended 31 December 2004. There is a process in place by which the Board reviews, within agreed parameters, any non-audit services undertaken by the auditors, and related fees. This ensures the objectivity and independence of the auditors is safeguarded.

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

#### *Finance Committee*

Members: Edward Coffey, James Hehir, Maria Graham, Thomas Reilly and Áine Stapleton.

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 2003.

#### *Audit Committee*

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

This committee met four times this year and operates under formal terms of reference. Under the 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 shareholder 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 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 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 combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 replaced the Combined Code issued by the Hampel Committee in 1998, and has a number of new principles and provisions. The Agency has chosen to voluntarily comply with these provisions as part of its policy of striving to follow best practice in matters of corporate governance.

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 2004, 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.

#### *Board attendance and annual performance evaluation*

The Board is currently reviewing the new requirements of the Combined Code to report attendance records of its members at Board meetings and to carry out an annual evaluation of its performance and that of its members. The Directors wish to be in a position to report their compliance with these new requirements in their Annual Report for the year ended 31 December 2005.

### **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.

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 inflation related risk, interest rate risk, liquidity risk, currency risk and credit risk. 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 follows a policy approved by the Board, allows for contracts covering interest rate swaps (€400 million), foreign exchange forwards (€2.5 billion), forward rate agreements (€80 million) and interest rate caps (€300 million). The 'Specification and Requirements' set out details of the types of counterparties and Board responsibilities in relation to the management of derivatives. 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 euro. 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 €0.94 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 €2.5 billion eurocommercial paper 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 (primarily 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 2004. The Agency's committed facilities, bond issues and €2.5 billion eurocommercial paper programme (signed on 22 October 2002, with issues in various currencies now 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 (€51m available at 31 December 2004) are subject to annual review by the Agency's bankers. The Agency's €2 billion eurocommercial paper programme was increased in size to €2.5 billion on 20 December 2004. The average cost of the Agency's debt in 2004 was an annualised 2.9 % compared with 3.6 % 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. European Communities (Late Payment in Commercial Transactions) Regulations

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 Regulation, 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 2004, shows no payments were made during 2004 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 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.

The Board is assessing the impact of the requirements of the Companies (Auditing and Accounting) Act, 2003 and will take appropriate steps to ensure compliance with these requirements.

### 15. Transition to International Financial Reporting Standards (IFRS)

The Agency is required, under current legislation, to adopt IFRS for the financial year commencing 1 January 2007 in line with European Union requirements. The Agency's assessment of the impact IFRS will have on its financial performance and financial position as well as any necessary system changes will commence in 2005.

### 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 company 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.

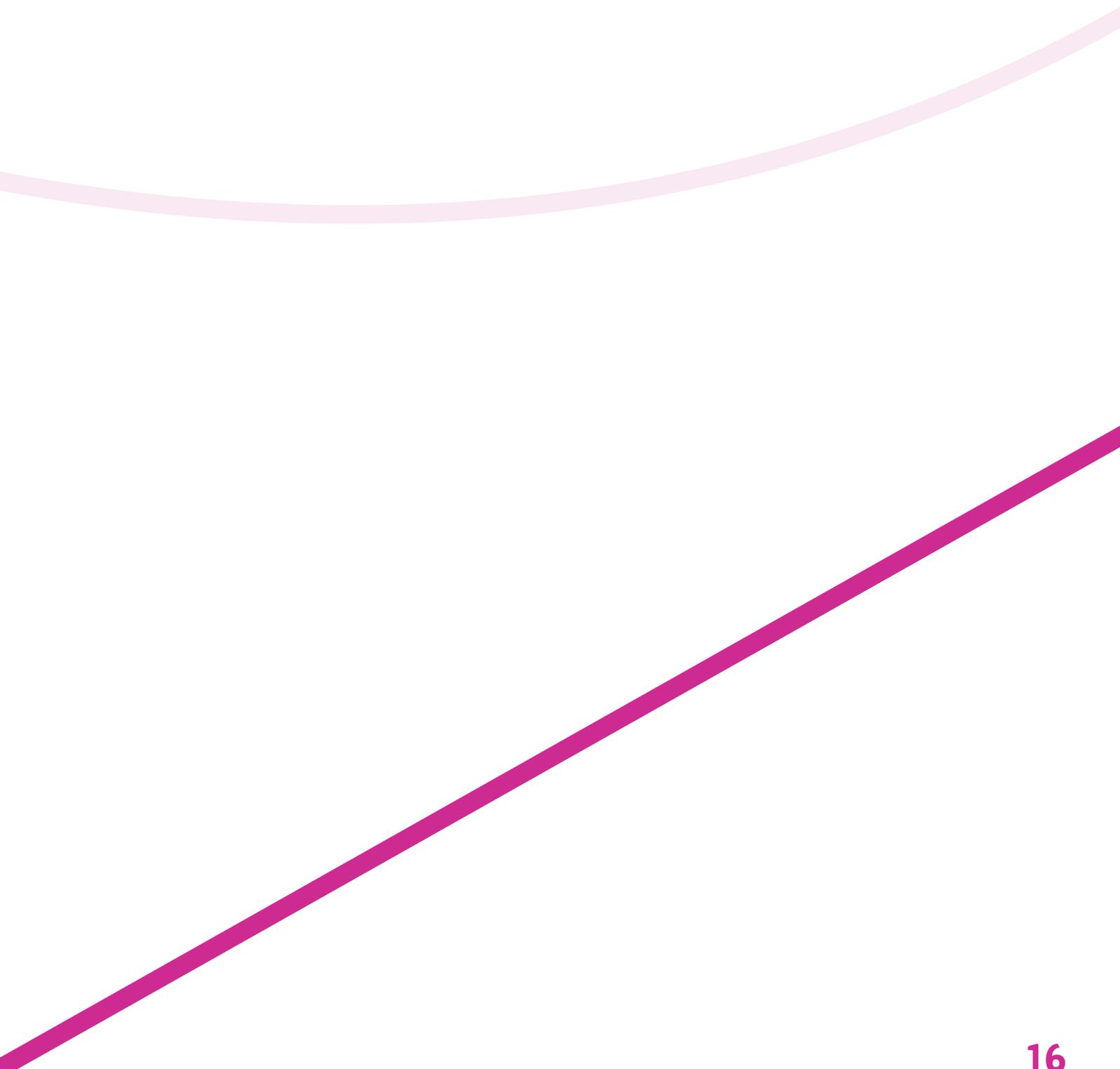
On behalf of the Board,



**Edward Coffey**  
Chairman  
22 March 2005



**James Hehir**  
Managing Director  
22 March 2005





HOUSING FINANCE AGENCY PLC

# 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 company 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 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 Agency and which enable them to ensure that the financial statements comply with the Companies Acts, 1963 to 2003 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,

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Edward Coffey  
*Chairman*  
22 March 2005

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James Hehir  
*Managing Director*  
22 March 2005

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE HOUSING FINANCE AGENCY PLC



We have audited the financial statements on pages 20 to 36.

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 17, 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 company is not disclosed.

We review, at the request of the Directors, whether the voluntary statement on pages 8 to 17 reflects the Agency's compliance with the nine provisions of the 2003 Combined Code on Corporate Governance that are specified for our review by the listing rules of the Irish Stock Exchange 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 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2003 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 8 to 15 is consistent with the financial statements.

The net assets of the Agency, as stated in the Balance Sheet on page 23, 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 2004 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 PMG*

Chartered Accountants

Registered Auditors

22 March 2005

HOUSING FINANCE AGENCY PLC

# 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 profit and loss 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 profit and loss 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 yrs
Non-computer equipment	straight line over 5 yrs

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 or commercial paper and are stated at the lower of cost and net realisable value. Income from such investments is recognised on a straight line basis over the period to maturity and is accrued as interest receivable until maturity.

### Pensions

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

### Euro

The financial statements are expressed in euro.

## Income and Expenditure account

for the year ended 31 December 2004

	Note	Year ended 31 December 2004 €'000	Year ended 31 December 2003 €'000
Income - continuing activities	3	81,554	90,354
Direct expenditure	4	(77,781)	(89,382)
<b>Surplus of income over direct expenditure</b>		<b>3,773</b>	<b>972</b>
Indirect expenditure	5	(1,998)	(2,351)
<b>Operating surplus/(deficit) for the financial year - continuing activities</b>		<b>1,775</b>	<b>(1,379)</b>
Surplus at beginning of year		33,103	34,482
<b>Surplus at end of year</b>		<b>34,878</b>	<b>33,103</b>

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  
22 March 2005



**James Hehir**  
Managing Director  
22 March 2005

## Balance Sheet

at 31 December 2004

	Note	31 December 2004 €000	31 December 2003 €000
<b>Assets employed</b>			
Tangible fixed assets	8	67	128
<b>Current assets</b>			
Debtors (advances due after more than one year: €2,419,263 [2003: €2,374,458])	7	2,756,914	2,663,134
Cash at bank and in hand	9	1	10,001
		<hr/>	<hr/>
		2,756,915	2,673,135
Creditors (amounts falling due within one year)	10	(1,942,967)	(1,825,642)
		<hr/>	<hr/>
<b>Net current assets</b>		813,948	847,493
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		814,015	847,621
		<hr/>	<hr/>
Creditors (amounts falling due after more than one year)	11	(289,136)	(335,081)
Index linked bonds	12	(399,489)	(389,286)
8.75% Housing Finance Agency stock 2018	13	(90,473)	(90,112)
		<hr/>	<hr/>
<b>Net Assets</b>		34,917	33,142
		<hr/> <hr/>	<hr/> <hr/>
<b>Capital and reserves</b>			
Called up share capital	15	39	39
Retained surplus		34,878	33,103
		<hr/>	<hr/>
<b>Shareholders' funds-equity</b>	17	34,917	33,142
		<hr/> <hr/>	<hr/> <hr/>

On behalf of the Board,



**Edward Coffey**  
Chairman  
22 March 2005



**James Hehir**  
Managing Director  
22 March 2005

## Cash Flow Statement

for the year ended 31 December 2004

	Note	31 December 2004 €000	31 December 2003 €000
Cash outflow from operating activities	16(a)	(6,548)	(194,149)
Returns on investments and servicing of finance	16(b)	(69,379)	(65,848)
Capital expenditure	16(b)	(40)	(42)
Cash outflow before financing activities		(75,967)	(260,039)
Financing activities - net cash inflow from financing	16(b)	74,232	260,087
(Decrease)/increase in cash in the year		(1,735)	48

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

for the year ended 31 December 2004

	Note	31 December 2004 €000	31 December 2003 €000
(Decrease)/increase in cash in the year		(1,735)	48
Cash inflow from change in debt financing		(74,232)	(260,087)
Non-cash movements	16(c)	(10,564)	(17,660)
Movement in net debt in the year		(86,531)	(277,699)
Net debt at beginning of year	16(c)	(2,619,781)	(2,342,082)
Net debt at end of year	16(c)	(2,706,312)	(2,619,781)

## 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 2004 €'000	31 December 2003 €'000
Interest on advances to local authorities which were approved:		
Post 27 May 1986	76,724	84,378
Pre 27 May 1986	2,646	3,581
Investment income	2,184	2,395
	81,554	90,354
	81,554	90,354

## 4. Direct expenditure

	31 December 2004 €'000	31 December 2003 €'000
<i>Index - linked bonds</i>		
Bond interest	11,645	11,375
Premium on redemption of bonds (Note 12)	9,877	16,973
Amortisation of discount on issue of bonds	300	300
Amortisation of bond issue expenses	12	12
Amortisation of discount on pre May 1986 loans	11	11
	21,845	28,671
<i>Stock and loan costs</i>		
Amortisation of discount and issue expenses on Housing Finance Agency Stock	364	364
Interest payable on bank borrowings, guaranteed notes and stock	54,819	63,161
Amortisation of premium/(discount) on outstanding foreign exchange transactions	723	(2,839)
Amortisation of eurocommercial paper issue expenses	30	25
	55,936	60,711
	77,781	89,382

## 5. Indirect expenditure

	31 December 2004 €'000	31 December 2003 €'000
<i>Other expenditure</i>		
Administrative expenditure (Note 6)	1,750	1,606
Mortgage protection insurance	-	530
Administration fees to local authorities	248	215
	1,998	2,351
	1,998	2,351

## 6. Administrative expenditure

Administrative expenditure has been arrived at after charging:

	31 December 2004 €'000	31 December 2003 €'000
<b>Directors' emoluments</b>		
Fees - Chairman	10	8
Other Directors	38	40
Other emoluments	94	91
Pension contributions	21	20
	163	159
<b>Employee costs</b>		
Salaries	603	560
Social welfare costs	35	25
Pension costs (Note 19)	128	94
	766	679
Auditors' remuneration (excluding value added tax)	21	20
Depreciation	101	140
Rental payments under operating lease	62	50
	62	50

The average number of employees, including executive Directors, during the year was 12 (2003: 12).

## 7. Debtors

	31 December 2004 €'000	31 December 2003 €'000
Balance due on advances	2,696,139	2,605,827
Other debtors and prepayments	413	626
Due from local authorities	60,362	56,681
	2,756,914	2,663,134
	2,756,914	2,663,134

Balance due on advances is analysed as follows:

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

Balance at beginning of year	2,558,368	2,281,372
Loans advanced	494,183	447,003
Less: loans repaid	(413,037)	(188,625)
Interest charged	76,724	84,378
Interest received	(60,591)	(65,760)
	2,655,647	2,558,368
	2,655,647	2,558,368

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

Balance at beginning of year	47,459	54,867
Less: loans repaid	(6,967)	(7,408)
	40,492	47,459
Interest charged	2,645	3,580
Interest received	(2,645)	(3,580)
	40,492	47,459
	40,492	47,459
<b>Balance at end of year</b>	<b>2,696,139</b>	<b>2,605,827</b>

## 8. Tangible fixed assets

	Total €000
<b>Cost</b>	
At beginning of year	484
Additions	40
Disposals	(24)
<b>At end of year</b>	<u>500</u>
<b>Depreciation</b>	
At beginning of year	356
Charged for year	101
Disposals	(24)
<b>At end of year</b>	<u>433</u>
<b>Net book value</b>	
31 December 2004	<u>67</u>
31 December 2003	<u>128</u>

## 9. Cash at bank

	31 December 2004 €'000	31 December 2003 €'000
Cash at bank and in hand	1	1
Amounts held on short term deposits	-	10,000
	<u>1</u>	<u>10,001</u>

## 10. Creditors (amounts falling due within one year)

	31 December 2004 €'000	31 December 2003 €'000
Commercial paper, note issuance facilities and guaranteed notes	1,925,440	1,805,473
Interest due on stock and bonds	6,935	6,832
Accruals	8,694	13,174
Bank overdraft	1,898	163
	<u>1,942,967</u>	<u>1,825,642</u>
Tax creditors (included in accruals) PAYE	<u>23</u>	<u>23</u>

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 2004 €'000	31 December 2003 €'000
Bank loans and notes payable or repayable other than by instalments:		
Between one and two years	17,966	-
Between two and five years	210,636	149,002
After more than five years	60,534	186,079
	289,136	335,081
	289,136	335,081

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

**12. Index linked bonds**

	31 December 2004 €'000	31 December 2003 €'000
Housing Finance Agency bond issues		
2% Index Linked Bonds 2008	107,928	107,928
4% Index Linked Bonds 2015	95,230	95,230
	203,158	203,158
Nominal value of bonds in issue	203,158	203,158
Net unamortised expenses and discount on issue	144	(182)
	203,302	202,976
Provision for premium on redemption of bonds	196,187	186,310
	399,489	389,286
	399,489	389,286

***Provision for premium on redemption of bonds***

	Total €'000	Deferred €'000	Provided €'000
At beginning of year	201,106	(14,796)	186,310
Arising during the year	7,807	2,070	9,877
	208,913	(12,726)	196,187
	208,913	(12,726)	196,187

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 2004 €'000	31 December 2003 €'000
At par at beginning of year	95,230	95,230
Less: Unamortised discount on issue	(4,757)	(5,118)
	90,473	90,112
	90,473	90,112

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 note 8 & 9 to the Directors' Report.

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

	31 December 2004 €'000	31 December 2003 €'000
Fixed rate	119,459	135,308
Floating rate (including index linked)	2,637,043	2,527,200
No interest	-	-
	2,756,502	2,662,508
	2,756,502	2,662,508

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

*Amount determined by floating rate benchmarks:*

	31 December 2004 €'000	31 December 2003 €'000
EURIBOR	2,315,073	2,111,595
Index linked	321,970	415,605
	2,637,043	2,527,200
	2,637,043	2,527,200

Interest rate risk profile of financial assets as at:

	31 December 2004	31 December 2003
Weighted average fixed interest rate	8.37%	7.90%
Weighted average period for which fixed interest assets are fixed	12 years	13 years
	12 years	13 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 2004 €'000	31 December 2003 €'000
Amounts falling due within one year	337,241	288,676
Amounts falling due between one and two years	44,729	102,379
Amounts falling due between two and five years	264,156	228,107
Amounts falling due after more than five years	2,110,376	2,043,346
	2,756,502	2,662,508
	2,756,502	2,662,508

*Financial liabilities are analysed below:*

	31 December 2004 €'000	31 December 2003 €'000
Fixed rate	97,621	108,924
Floating rate	2,607,969	2,510,857
	2,705,590	2,619,781
	2,705,590	2,619,781

*Interest rate risk profile of financial liabilities as at*

	31 December 2004	31 December 2003
Weighted average fixed interest rate	8.87%	8.44%
Weighted average period for which fixed interest liabilities are fixed	12 years	12 years
	31 December 2004 €'000	31 December 2003 €'000
<i>Amount determined by floating rate benchmarks:</i>		
EURIBOR	2,206,582	2,121,408
Prime	1,898	163
Index linked	399,489	389,286
	2,607,969	2,510,857

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 2004, after taking into account the effects of foreign currency forward contracts, the Agency had no material currency exposures.

*Liquidity measures as at*

	31 December 2004		31 December 2003	
	Financial liabilities €'000	Undrawn committed facilities €'000	Financial liabilities €'000	Undrawn committed facilities €'000
Maturing within 12 months or on demand	1,926,492	25,395	1,805,302	712
Maturing greater than 1 year and less than 2 years	17,966	26,474	-	25,395
Maturing greater than 2 years and less than 5 years	210,636	167,128	149,002	73,202
Maturing greater than 5 years	550,496	39,466	665,477	213,921
<b>Total</b>	<b>2,705,590</b>	<b>258,463</b>	<b>2,619,781</b>	<b>313,230</b>

*Fair value*

	Carrying value		Fair value	
	31 Dec 2004 €'000	31 Dec 2003 €'000	31 Dec 2004 €'000	31 Dec 2003 €'000
<i>Financial assets</i>				
Fixed rate	119,459	135,308	197,168	223,153
Floating rate	2,315,073	2,111,595	2,315,073	2,111,595
Index linked	321,970	415,605	550,670	737,236
No interest	-	-	-	-
	2,756,502	2,662,508	3,062,911	3,071,984
<i>Financial liabilities</i>				
Fixed rate	97,621	108,924	174,568	181,033
Floating rate	2,208,480	2,121,571	2,196,651	2,046,452
Index linked	399,489	389,286	-	529,469
	2,705,590	2,619,781	2,371,219	2,756,954
<i>Derivatives held to manage risk</i>				
Forward currency contracts	122	333	109	144

The unrealised gain/(loss) arising on forward contracts will be recognised in full in the financial statements during the year ended 31 December 2005. The net premium or discount recognised during the year in respect of forward contracts was €0.723m (2003: €2.839m)

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 €3.2bn. This is based on EURIBOR at the year end rate (2003: 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. €2.9bn has been estimated as the fair value of the Agency's liabilities. This is again based on EURIBOR at the year end rate (2003: 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 2004.

### 16. Cash flow statement

	31 December 2004 €'000	31 December 2003 €'000
<b>(a) Reconciliation of operating surplus to cash outflow from operating activities</b>		
Surplus/(deficit) for the financial year	1,775	(1,379)
Direct expenditure (Note 4)	77,781	89,382
Pension amortisation	11	11
Depreciation (Note 8)	101	140
Investment income (Note 3)	(2,184)	(2,395)
<b>Movements in working capital:</b>		
(Increase)/decrease in amounts due from local authorities (Note 7)	(3,681)	101
(Increase) in advances (Note 7)	(90,312)	(269,920)
(Increase) in other debtors and prepayments	(12)	(11)
(Decrease) in accrued expenses	(27)	(78)
Decrease/(increase) in liquid resources	10,000	(10,000)
<b>Cash outflow from operating activities</b>	<b>(6,548)</b>	<b>194,149</b>

(b) Gross cash flows	31 December 2004 €'000	31 December 2003 €'000
<b>Returns on investments and servicing of finance</b>		
Interest received	2,398	2,310
Interest paid	(71,777)	(68,158)
Net cash outflow from returns on investments and servicing of finance	(69,379)	(65,848)
<b>Capital expenditure</b>		
Payments to acquire tangible fixed assets	(40)	(42)
Disposal of tangible fixed assets	-	-
Net cash outflow from capital expenditure and disposals	(40)	(42)
<b>Financing</b>		
Repayment of bank loans and notes payable	-	-
Increase in bank loans and notes payable	74,232	260,087
Net cash inflow from financing	74,232	260,087

**(c) Analysis of changes in net debt**

	At 31 Dec 2004 €'000	Cash flows €'000	Non-cash movements €'000	At 31 Dec 2003 €'000
Cash in hand, at bank	1	-	-	1
Overdraft	(1,898)	(1,735)	-	(163)
	(1,897)	(1,735)	-	(162)
Bank loans and notes repayable within one year	(1,925,317)	(120,177)	-	(1,805,140)
Bank loans and notes repayable after one year	(289,136)	45,944	-	(335,081)
Index linked bonds	(203,302)	-	(326)	(202,976)
Provision for premium on redemption of bonds	(196,187)	-	(9,877)	(186,310)
8.75% Housing Finance Agency Stock 2018	(90,473)	-	(361)	(90,112)
	(2,706,312)	(75,968)	(10,564)	(2,619,781)

**17. Reconciliation of shareholders' funds**

	31 December 2004 €'000	31 December 2003 €'000
Surplus/(deficit) for the financial year	1,775	(1,379)
Opening shareholders' funds	33,142	34,521
Closing shareholders' funds	34,917	33,142

## 18. Commitments

### Operating lease commitments

The Agency has commitments under an operating lease to make payments totalling €75,000 in the next year as follows:

	Buildings €000
Lease expiring: After one year	75

## 19. Pensions

The company operates a defined benefit pension scheme covering all permanent employees. The pension cost for the financial year amounted to €128,287 (2003: €93,583). 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 2004 by a Qualified Independent Actuary using the projected unit method. The principal actuarial assumptions used were as follows:

	2004	2003	2002
Rate of increase in salaries	3.0%	3.0%	3.0%
Rate of increase in pensions payments	2.0%	2.0%	2.0%
Discount rate	4.5%	5.0%	5.0%
Inflation assumption	2.0%	2.0%	2.0%

The assets in the scheme and the expected rate of return were:	Long-term rate of return expected at 31 Dec 2004		Long-term rate of return expected at 31 Dec 2003		Long term rate of return expected at 31 Dec 2002	
	%	Value at 31 Dec 2004 €'000	%	Value at 31 Dec 2003 €'000	%	Value at 31 Dec 2002 €'000
Equities	5.50	877	6.00	827	6.50	517
Bonds	3.75	306	4.25	200	4.75	202
Property	4.50	123	5.00	79	5.50	63
Cash	2.00	90	2.00	56	2.00	39
Other	7.50	954	8.00	794	8.00	857

Total market value of pension	2,350	1,956	1,678
Present value of scheme liabilities	(1,716)	(1,686)	(1,579)
<b>Net surplus in the scheme</b>	<b>634</b>	<b>270</b>	<b>99</b>
Related deferred tax asset	-	-	-
<b>Net pension asset</b>	<b>634</b>	<b>270</b>	<b>99</b>
<i>Analysed as:</i>			
Pension scheme assets	2,350	1,956	1,678
Pension scheme liabilities	(1,716)	(1,686)	(1,579)
	634	270	99

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 December 2004 €'000	31 December 2003 €'000	31 December 2002 €'000
<i>Included in payroll costs:</i>			
Current service costs	69	53	51
Death in service costs	-	-	-
<b>Net operating profit charge</b>	<b>69</b>	<b>53</b>	<b>51</b>
<i>Included in finance costs</i>			
Expected return on assets	128	97	111
Interest cost	(84)	(79)	(76)
<b>Net finance return</b>	<b>44</b>	<b>18</b>	<b>35</b>
<i>Included in statement of total recognised gains and losses:</i>			
Difference between expected and actual return on assets	229	103	(93)
Experience gains and losses on scheme liabilities	160	31	(167)
Effect of changes in actuarial assumptions	(130)	-	(27)
<b>Net in statement of total recognised losses</b>	<b>259</b>	<b>134</b>	<b>(287)</b>
<i>History of actuarial gains and losses</i>			
Difference between expected and actual return on assets	229	103	(93)
Expressed as a percentage of scheme assets	9.7%	(5.3%)	(6.1%)
Experience gains and losses on scheme liabilities	160	31	(167)
Expressed as a percentage of scheme assets	6.8%	1.8%	10.6%
Total actuarial gains	259	134	(287)
Expressed as a percentage of scheme liabilities	15.1%	7.9%	18.2%

	31 December 2004 €'000	31 December 2003 €'000	31 December 2002 €'000
<b>Net assets</b>			
Net assets before pension scheme asset	813,948	848,451	879,526
Pension scheme asset	2,350	1,956	1,678
Pension scheme liability	(1,716)	(1,686)	(1,529)
Net assets after pension scheme asset	<b>814,582</b>	848,721	879,625
<b>Reserves</b>			
Profit and loss account before pension scheme asset	33,373	33,103	34,482
Pension reserve	634	270	99
Profit and loss account after pension scheme asset	<b>34,007</b>	33,373	34,581

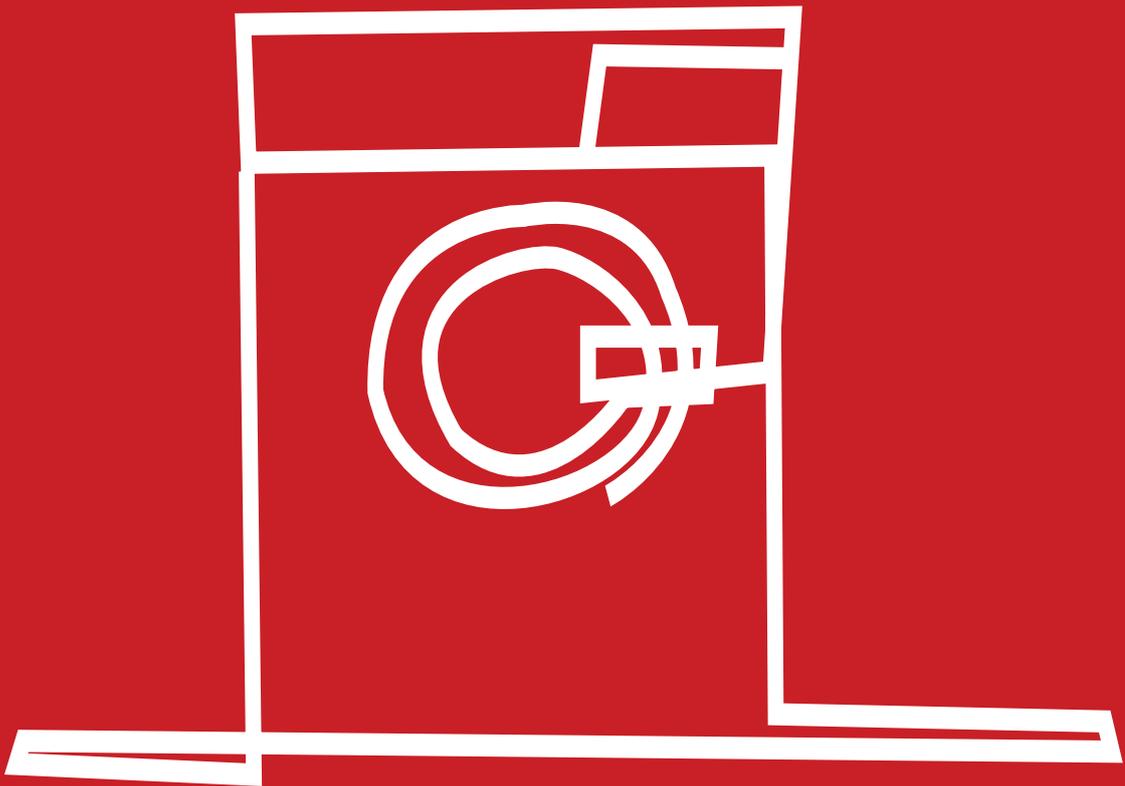
## 20. Approval of financial statements

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 22 March 2005.

HOUSING FINANCE AGENCY PLC

# APPENDIX 1

## STATISTICS ON THE LOAN BOOK



## Appendix 1

### Statistics on the loan book

#### (A) By loan type

Loans advanced to finance	2000 €'000	2001 €'000	2002 €'000	2003 €'000	2004 €'000
Fixed Rate	6,295	9,775	14,049	7,787	2,375
Variable Rate	281,390	475,293	620,660	439,216	491,808
Index Linked	52,190	77,612	90,276	-	-
<b>Total</b>	<b>339,875</b>	<b>562,680</b>	<b>724,985</b>	<b>447,003</b>	<b>494,183</b>

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

Duration of loan	Fixed Rate €'000	Variable Rate €'000	Index Linked		Total €'000
			Post May 1986 €'000	Pre May 1986 €'000	
0 to 5 years	3,668	580,358	19,719	16,196	619,942
6 to 10 years	18,502	91,211	-	23,307	133,020
11 to 15 years	63,714	123,896	26,611	-	214,221
16 to 20 years	4,901	282,389	63,561	-	350,851
21 to 25 years	20,038	735,049	165,034	-	920,120
26 to 30 years	1,423	456,562	-	-	457,985
<b>Total</b>	<b>112,246</b>	<b>2,269,465</b>	<b>274,925</b>	<b>39,503</b>	<b>2,696,139</b>

#### (C) By Local Authority and National Building Agency

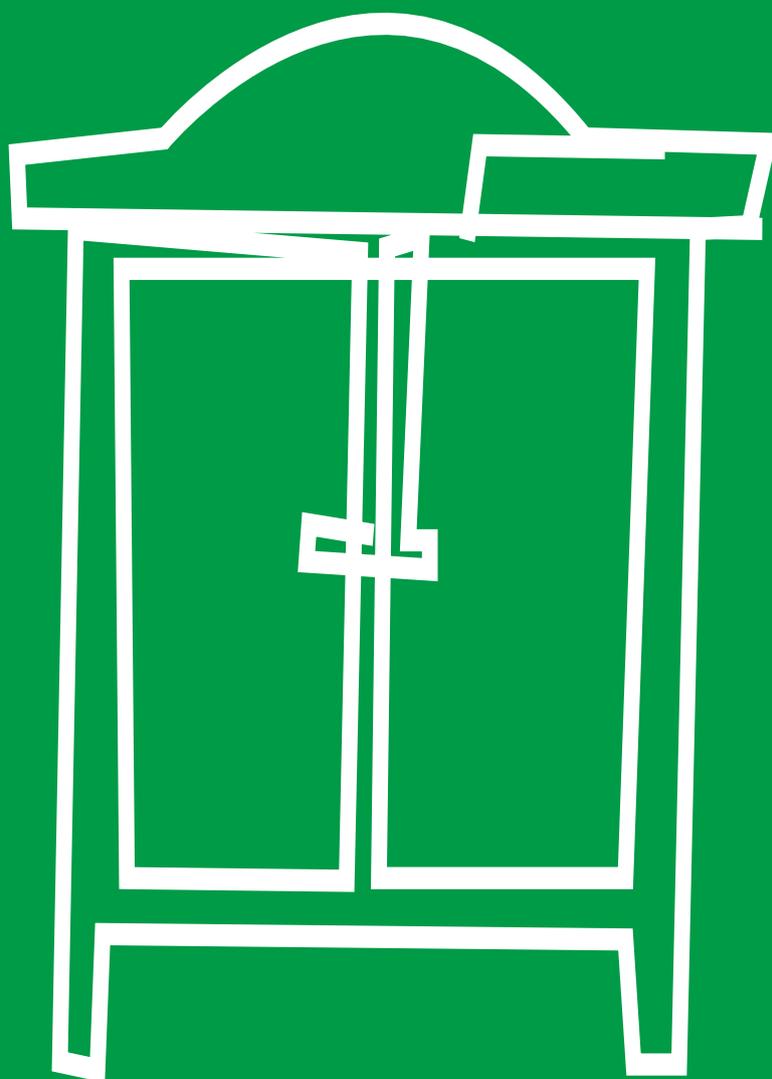
Local Authority	Advances in the 12 months to 31 December 2004 €'000	Balance outstanding at 31 December 2004 €'000
Athlone Town Council	-	2,424
Bray Town Council	-	3,307
Carlow County Council	476	29,908
Carlow Town Council	-	2,505
Carrick on Suir Town Council	-	339
Castleblaney Town Council	-	105
Cavan County Council	922	10,258
Clare County Council	3,963	44,932
Clonakilty Town Council	-	875
Clonmel Borough Council	-	4,270
Clones Town Council	-	213
Cobh Town Council	-	174
Cork City Council	7,159	82,601
Cork County Council	45,416	179,759

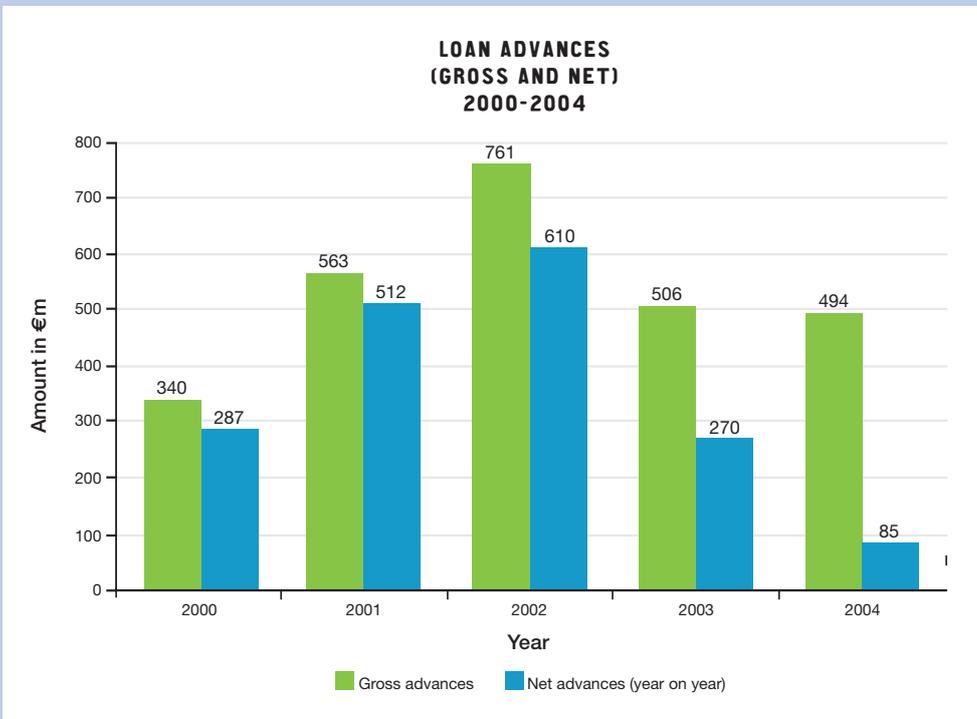
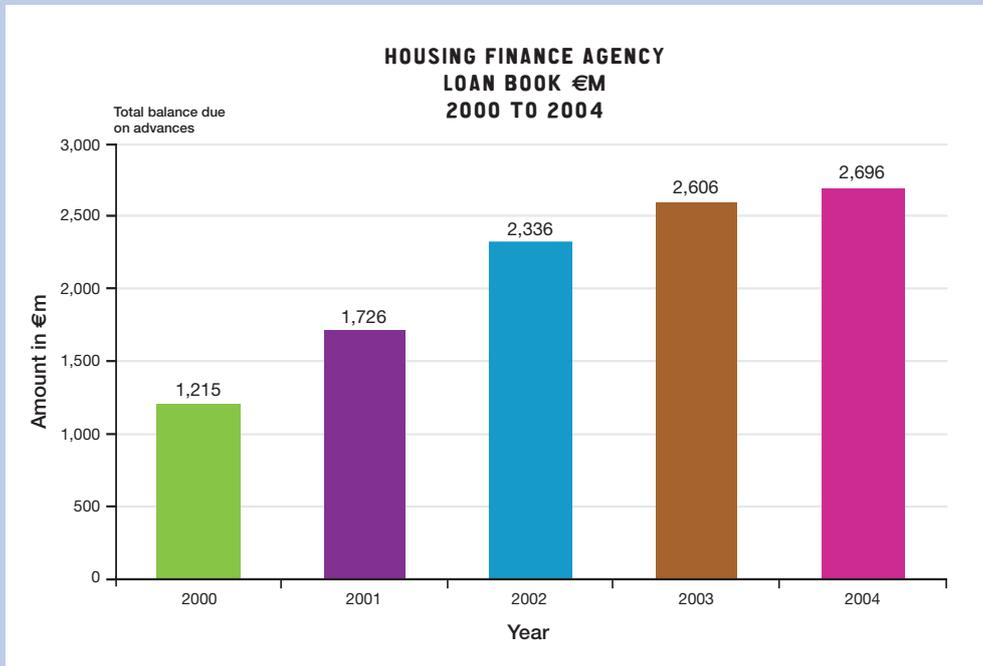
Donegal County Council	8,734	74,225
Drogheda Borough Council	275	17,288
Dublin City Council	174,998	710,833
Dundalk Town Council	4,232	24,668
Dunlaoghaire/Rathdown County Council	7,946	64,642
Dungarvan Town Council	-	6,332
Ennis Town Council	250	2,073
Enniscorthy Town Council	-	1,200
Fermoy Town Council	280	283
Fingal County Council	79,581	251,292
Galway City Council	24,527	71,781
Galway County Council	7,368	63,273
Kerry County Council	4,650	27,783
Kildare County Council	13,957	87,936
Kilkenny Borough Council	-	947
Kilkenny County Council	2,178	56,384
Kilrush Town Council	-	677
Laois County Council	14,756	55,096
Leitrim County Council	900	9,331
Letterkenny Town Council	-	168
Limerick City Council	1,246	26,966
Limerick County Council	4,486	32,178
Listowel Town Council	170	170
Longford County Council	6,421	33,912
Longford Town Council	350	2,259
Louth County Council	607	5,635
Macroom Town Council	-	67
Mallow Town Council	-	3,208
Mayo County Council	2,261	55,201
Meath County Council	4,785	39,995
Monaghan County Council	6,184	20,971
Naas Town Council	-	10,160
New Ross Town Council	-	1,297
North Tipperary County Council	2,355	16,527
Offaly County Council	4,888	36,046
Roscommon County Council	200	11,678
Sligo Borough Council	-	38,578
Sligo County Council	383	51,030
South Dublin County Council	16,021	122,050
South Tipperary County Council	516	41,423
Tullamore Town Council	735	1,696
Thurles Town Council	-	1,921
Tralee Town Council	-	4,927
Tipperary Town Council	-	851
Waterford City Council	4,955	55,188
Waterford County Council	3,394	25,274
Westport Town Council	3,000	3,014
Westmeath County Council	18,255	45,574
Wexford Borough Council	59	6,111
Wexford County Council	2,588	65,344
Wicklow County Council	7,756	41,780
Wicklow Town Council	-	3,716
Sub Total	494,183	2,692,629
National Building Agency	-	3,510
<b>Total</b>	<b>494,183</b>	<b>2,696,139</b>

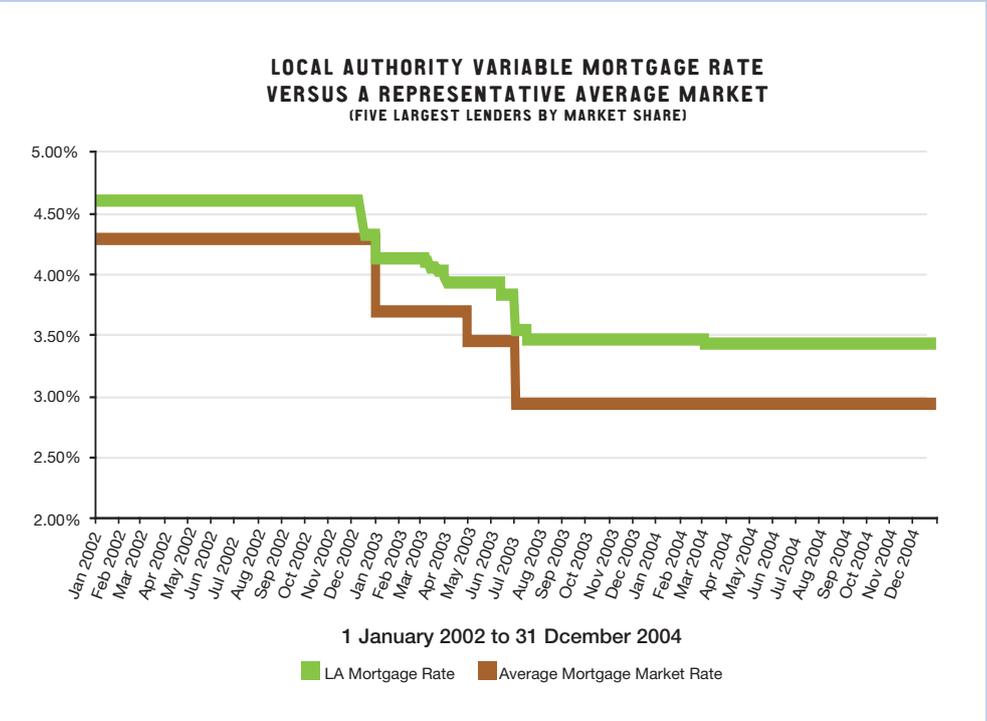
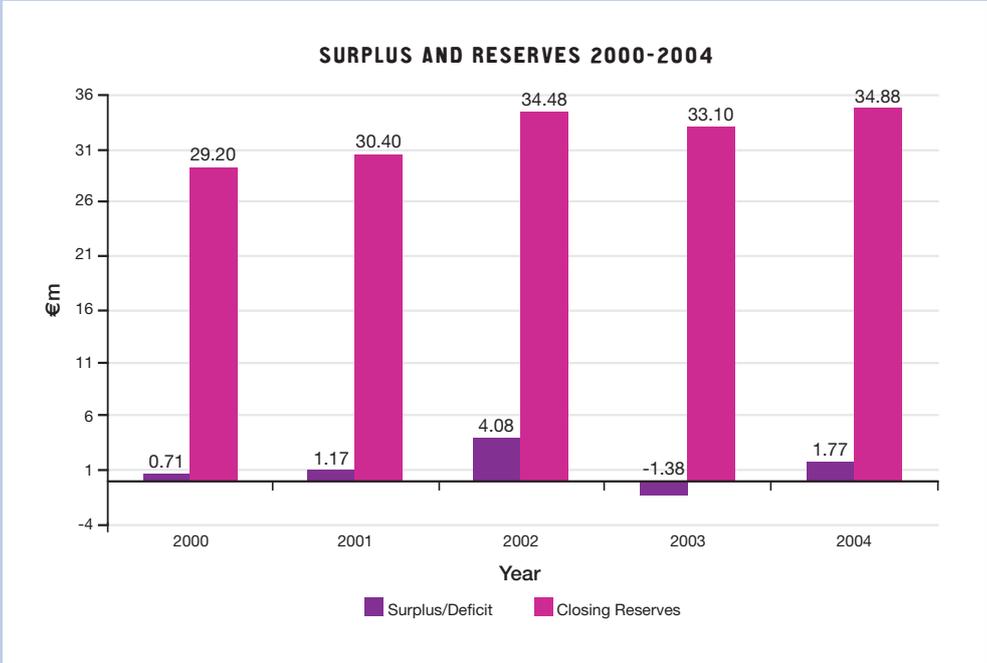
HOUSING FINANCE AGENCY PLC

# APPENDIX 2

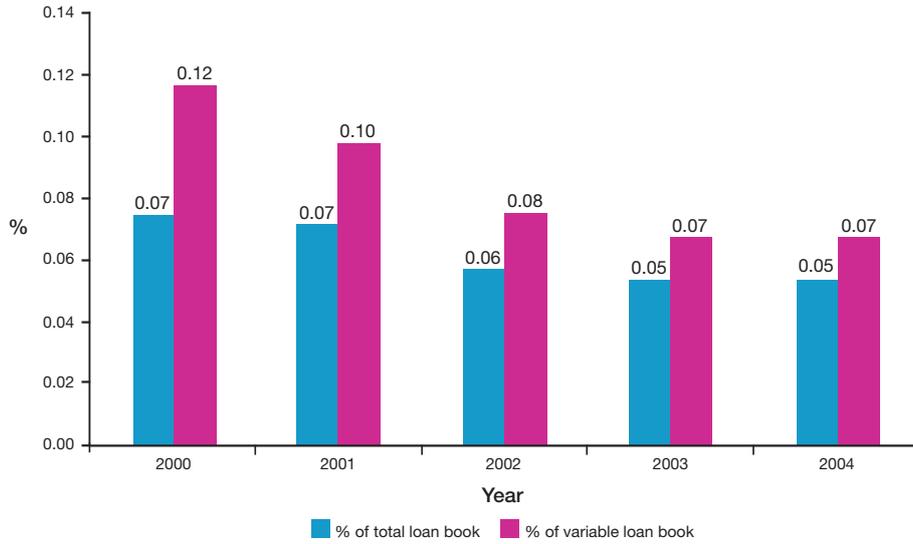
## GRAPHS ON THE LOAN BOOK AND FINANCIAL TRENDS







**ADMINISTRATION COSTS AS % OF TOTAL  
LOAN BOOK AND VARIABLE LOAN BOOK  
2000-2004**



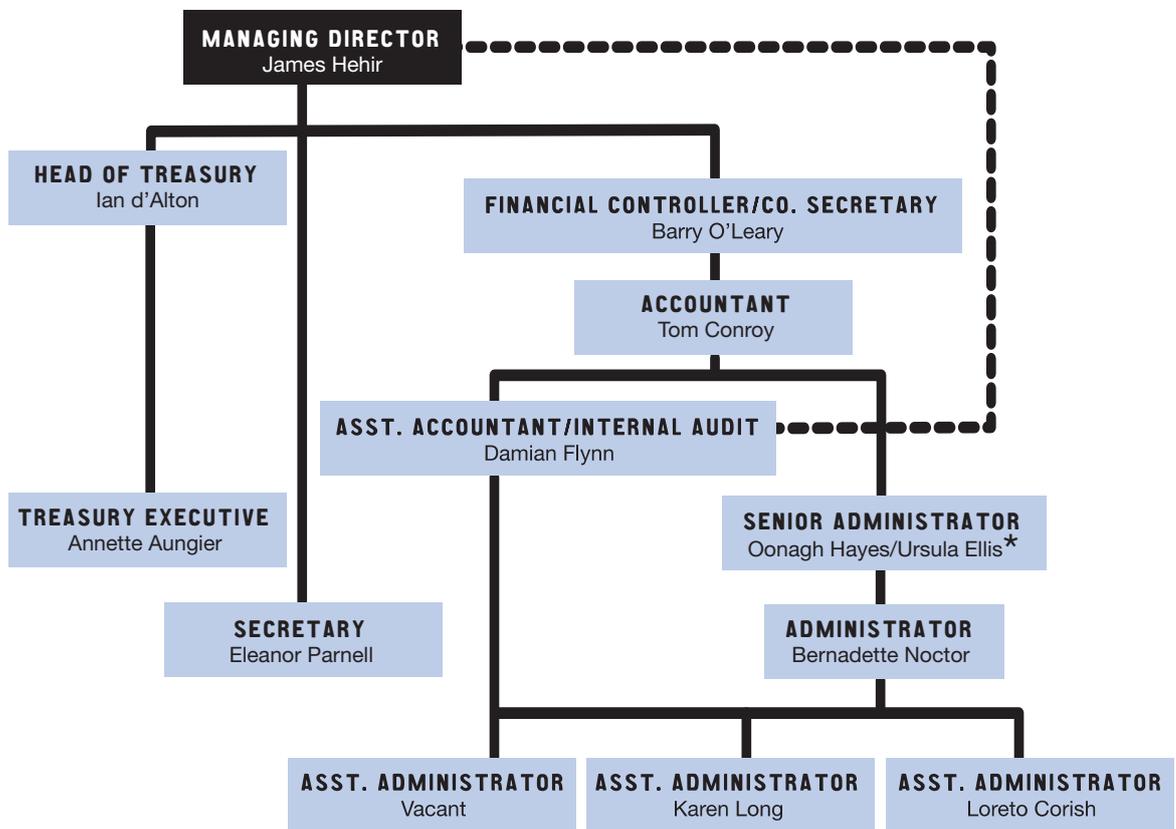
**LOAN ADVANCES  
BY LOAN TYPE  
2000-2004**



HOUSING FINANCE AGENCY PLC

# APPENDIX 3 STAFF STRUCTURE

(AS AT 22 MARCH 2005)



\* Job Sharing  
 ●●●● Reporting to MD for internal audit matters only