

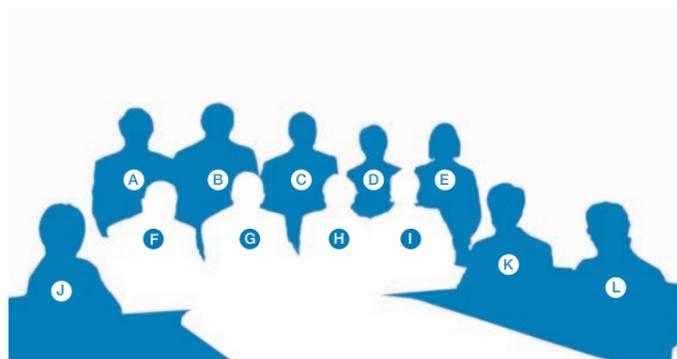
ANNUAL REPORT 2006

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DIRECTORS

AND OTHER INFORMATION



Board of Directors

- H - Edward Coffey (Chairman) (1, 3, 4)
- G - James Hehir (Managing Director) (1, 5)
- B - Lorcan Allen (2, 4)
- C - Fr. Patrick Cogan (2, 3, 4)
- E - Maria Graham (1, 3, 4)
- A - Michael Hayes (2, 4)
- L - Maureen Lynott (2, 3, 4)
- K - Jackie Maguire (2, 4)
- J - Mary Malcolm (2, 4)
- F - Thomas Reilly (1, 4)
- D - Áine Stapleton (1,4)
- I - Teresa White (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
IFSC
Dublin 1

A & L Goodbody
IFSC
North Wall Quay
Dublin 1



CHAIRMAN'S REPORT

The 24th Annual Report of the Agency



Introduction

This - the 24th Annual Report of the Agency - is also my fifth and final report as Chairman of the current Board of Directors, the term of which ends in December 2006. It brings to a conclusion five very successful years in the life of the Agency. In reviewing the past year, I would like to set it in the context of the overall achievements of the Board during its five year term of office and I would like to refer to the challenges facing the Agency over the remainder of this decade.

Loans to local authorities and voluntary housing bodies

I am pleased to report another year in which the Agency successfully fulfilled its remit as a supplier of loan finance to local authorities. Net loan advances amounted to €197 million, a substantial increase on the performance in 2004. In the five year period to December 2005, gross loan advances amounted to €3.2 billion of which €578.8 million was issued in the year 2005. As would be expected in a loan book that is 23 years in existence, loan redemptions and

annuity repayments have also grown steadily over the past few years. They amounted to almost €1.3 billion in this period. Overall, the loan book grew by 138% to €2.9 billion in the period 2000 to 2005.

The enactment of Section 17 of the Housing (Miscellaneous Provisions) Act 2002 was a major development in the life of this Board. The Act gave the Agency power to lend directly to the voluntary and co-operative housing sector. It also permitted the Agency to make loans to local authorities for any capital purposes authorised under the Housing Acts, 1966 to 2002, Local Government (Sanitary Services) Acts, 1898 to 1995, Waste Management Acts, 1996 and 2001 and Water Supplies Act, 1942. Under the EU's state aids regime, it is necessary for the Agency to obtain the Commission's clearance for the use of the government guarantee on its lending. This was successfully done in relation to lending directly to the voluntary housing sector, but not so to date in regard to water, waste and environmental projects. The Agency is now proceeding to

issue its first loan direct to a voluntary housing body, while it is pursuing the possibility of offering unguaranteed loans to local authorities to finance the provision of water, drainage and waste facilities.

During 2005, I am pleased to say that the Agency was also granted approval by the EU Commission to use the state guarantee to raise funds for social infrastructure, such as community facilities, etc. provided by local authorities and local authority offices. There has been considerable demand from local authorities for this funding and we are delighted to be now in a position to meet their requirements.

Interest rates

This Board has enjoyed a prolonged period of the lowest and most stable interest rates for many generations. Now, in the Spring of 2006, it appears that interest rates are on the way up again. Whatever the absolute level of rates, the Agency aims to give borrowers – households and local authorities – the lowest rates that it can, consistent with

covering its administrative costs and providing for risks in its portfolio. At present, households benefit from a mortgage rate which is about 0.4% below an average of standard market rates. The Agency lends funds to local authorities for other housing purposes at very competitive rates and with flexible maturity and repayment conditions.

Unique features in this year's accounts

Two new accounting standards (FRS 25 and FRS 26) were introduced this year which materially impact on the Agency. The application of these standards involves a different accounting approach in a number of areas, including interest recognition on fixed interest rate loans, using an Effective Interest Rate (EIR) basis; employing fair value accounting particularly in the area of derivatives; and significantly increased disclosure requirements in respect of financial instruments. In addition to these new accounting standards, new provisions in respect of FRS 17 relating to retirement benefits have been reflected in the 2005 financial statements.

Disclosures and requirements of these standards are fully reflected in the Directors' Report and notes to the financial statements.

Profitability/reserves and risk management

It is now about 10 years since the Agency commenced building up its reserves to meet the potential interest rate risk in its books, through to 2018, arising from the steep decline in interest rates associated with joining EMU at that time. The risks chiefly

relate to prepayments of high fixed rate and index linked loans which are funded by long dated bonds. Every year in my annual statement I have emphasised the significance of this risk and I have outlined the measures that have been in place for many years to deal with it. Current reserves, set aside for this purpose, amount to €33.9 million. As I predicted in my report for 2004, these risks are now beginning to crystallise, and in 2005 we have had to draw on €1.6m of the reserves. The losses will increase in 2006 and 2007, dropping back in 2008 as an index-linked bond is redeemed early in that year. It is worth repeating that the utilisation of the reserves to meet these costs is a carefully planned event, and will continue for many years to come. Each year, the risks are reassessed in the light of current and expected conditions, and the Board makes the necessary adjustments to accommodate any changes which are considered necessary. For instance, this included a small increase of 0.05% in the margin on our mortgage rates in January 2005. If the increase in net new lending in 2005 can be sustained for future years, I am confident that sufficient additional reserves can be generated without further increases in interest rate margins.

Financing the Agency's activities

New net loans and maturing debt during 2005 were funded by issues under the Agency's eurocommercial paper programme and by new borrowings. The former – with its guarantee from the Minister for Finance of Ireland - carries the highest short-term ratings from Moody's and Standard & Poor's.

The National Treasury Management Agency carries out note issuance as our agent. The arrangement – in place since March 2003 – works well. Its principal benefit 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. The Agency has an excellent working relationship with the NTMA and we are grateful for the efforts put into managing the note issuance. Net savings attributable to these arrangements were similar to those in 2004. In early February 2006, the programme was admitted for listing by the Irish Stock Exchange, which will improve the programme's attraction to certain overseas funds.

The Agency is always interested in lengthening the average maturity of its debt, and during 2005 an opportunity arose to do this. Following a tender, a new five-year variable rate loan of €250 million was completed. This committed loan carries a margin substantially below its EURIBOR reference rate, and represents extremely good value.

To ensure that the Agency can respond quickly and cost-efficiently to the requests of our customers, the local authorities, the Agency has a portfolio of other borrowings, such as note issuance facilities and overdrafts. These allow the Agency to raise and repay money flexibly and cost-effectively on a same-day basis. With a cash and cash-equivalent turnover of more than €35 billion in 2005 the Agency, with a treasury staff of

just two persons, is dependent upon the efficient cooperation of our counterparties. The Agency thanks our banks and other financial institutions, registrars and paying agents for the effective services provided during the year.

Quality Customer Service

The Agency operates a policy of providing Quality Customer Service (QCS). My report for 2004 detailed excellent progress in the first two years 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 2005.

In the area of *loan advances to local authorities*, the Agency increased its target to 95% of loans being made within 7 days of receipt of the application. The Agency managed to issue 91.4% of its loans within this targeted time frame.

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 3.4% the outturn for 2005 (3.0% in 2004). We anticipate further progress can be made in this area in 2006.

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 (other than those arising from staff absences) to less than 10. I am pleased to report that we achieved our target, with no such exception reports in 2005 (4 in 2004).

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 2005 and a further two are planned in 2006, completing the work scheduled under the original plan. The plan has been extended to cover projects planned beyond 2006.

Freedom of Information

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. The Freedom of Information Officer is Dr. Ian d'Alton and the internal reviewer is Mr. James Hehir. No requests were received in 2005.

Acknowledgements

We have extensive and deep relationships with many entities, financial and otherwise, and I wish to offer my thanks to them for

their work and co-operation with us during the currency of the outgoing Board. Our thanks go in particular to the Ministers for the Environment, Heritage and Local Government, and Finance who, together with their dedicated staff, have supported the Agency during the last five years. We express our appreciation to the NTMA and to our solicitors, auditors and service suppliers for their assistance during the period. To our customers – the local authorities, great and small, and the voluntary and co-operative housing bodies – we are grateful for their business, and we will endeavour to continue supplying the level of service which they rightly expect. On behalf of the Board, I thank Jim Hehir and the Agency staff for their work during this Board's term. Finally, I may say that my time as Chairman has been made immeasurably easier by the dedication and good humour of my fellow Board members – it has been a great pleasure to work with them.



Edward Coffey
Chairman
27 April 2006



DIRECTORS' REPORT

Housing Finance Agency plc

The Directors present their annual report and audited financial statements for the year ended 31 December 2005.

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
Total recognised loss for the year	(1,016)
Surplus at beginning of year	34,878
Surplus at end of year	33,862

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.

A review of the significant financial risks and exposures to the Agency in respect of its assets, liabilities and financial instruments, is set out in sections 8 and 9 of this report and note 16 to these accounts. These also detail the risk management objectives and policies

employed by the Agency with respect to managing those risks. Details of any financial instruments used in mitigating these risks are detailed in notes 16, 17 and 18 to these accounts. On pages 4 to 6, the Chairman's report addresses the significant business risks to which the Agency is exposed.

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 2005 such loans represented outstanding balances of €33.2 million. 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 2005 such loans represented outstanding balances of €2.9 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 ("2003 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 2003 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 2006 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, with the consent of the Minister for Finance, 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 2005. 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 7 to the financial statements in accordance with the requirements of the Companies Acts, 1963 to 2005.

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, with the consent of the Minister for Finance, 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

In accordance with the 2003 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.

The Agency has chosen to voluntarily comply with the provisions of the 2003 Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003, 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 2003 Combined Code and the Code of Practice for the Governance of State Bodies during the year ended 31 December 2005, 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 2003 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, with the consent of the Minister for Finance and hold office for such term as the Minister specifies when making the

appointment but not for a period exceeding five years.

Directors' remuneration

The Minister for the Environment, Heritage and Local Government, with the consent of the Minister for Finance, 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 7 to the financial statements, in line with the Companies Acts requirements.

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 continuing to review the requirements of the 2003 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 will be in a position to report their compliance with these requirements in their Annual Report for the year ended 31 December 2006.

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.

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 rates in the Agency's assets and liabilities.

The current 'Specification and Requirements' (valid to 31 December 2006), 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 €0.97 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 2005. 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 2005) are subject to annual review by the Agency's bankers. The average cost of the Agency's debt in 2005 was an annualised 2.9% compared with 3.6% in the last financial year.

On 16 November 2005, the Agency entered into a five-year variable rate facility of €250 million. This facility was fully drawn at the year-end.

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 2005, shows no late payments were made during 2005 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, 2005 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, or as appropriate, 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.

The Board is assessing the impact of the requirements of the Companies (Auditing and Accounting) Act, 2003. The Company Law Review Group has reviewed the requirements for companies with regard to Directors' Compliance Statements and the Agency is currently assessing the impact.

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 2006.

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
23 March 2006



James Hehir
Managing Director
23 March 2006



STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the financial statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with Generally Accepted Accounting Practice in Ireland, comprising applicable law and the accounting standards issued by the Accounting Standards Board and promulgated by the Institute of Chartered Accountants in Ireland.

The Agency's financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss for that period.

In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- 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 that disclose with reasonable accuracy at any time the financial position of the Agency and enable them to ensure that its financial statements comply with the Companies Acts 1963 to 2005. They are also responsible 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.

The Directors are also responsible for preparing a Directors' Report that complies with the requirements of the Companies Acts.

On behalf of the Board,

Edward Coffey
Chairman
23 March 2006

James Hehir
Managing Director
23 March 2006



AUDITOR'S REPORT

Independent Auditor's Report to the Members of Housing Finance Agency plc

We have audited the financial statements of Housing Finance Agency plc for the year ended 31 December 2005 which comprise the income and expenditure account, balance sheet, statement of total recognised gains and losses, cash flow statement and related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of Directors and independent auditors

The Directors' responsibilities for preparing

the Directors' Report and the financial statements in accordance with applicable law and the accounting standards issued by the Accounting Standards Board and promulgated by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland), are set out in the Statement of Directors' Responsibilities on page 16.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Acts 1963 to 2005. We also report to you whether, in our opinion, proper books of account have been kept by the company; whether at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the

company; and whether the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit, and whether the financial statements are in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding Directors' remuneration and Directors' transactions is not disclosed and, where practicable, include such information in our report.

We review, at the request of the Directors, whether the voluntary statement on pages 8 to 14 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 and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report and Chairman's Report. 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 International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the Agency's affairs as at 31 December 2005 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2005.

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

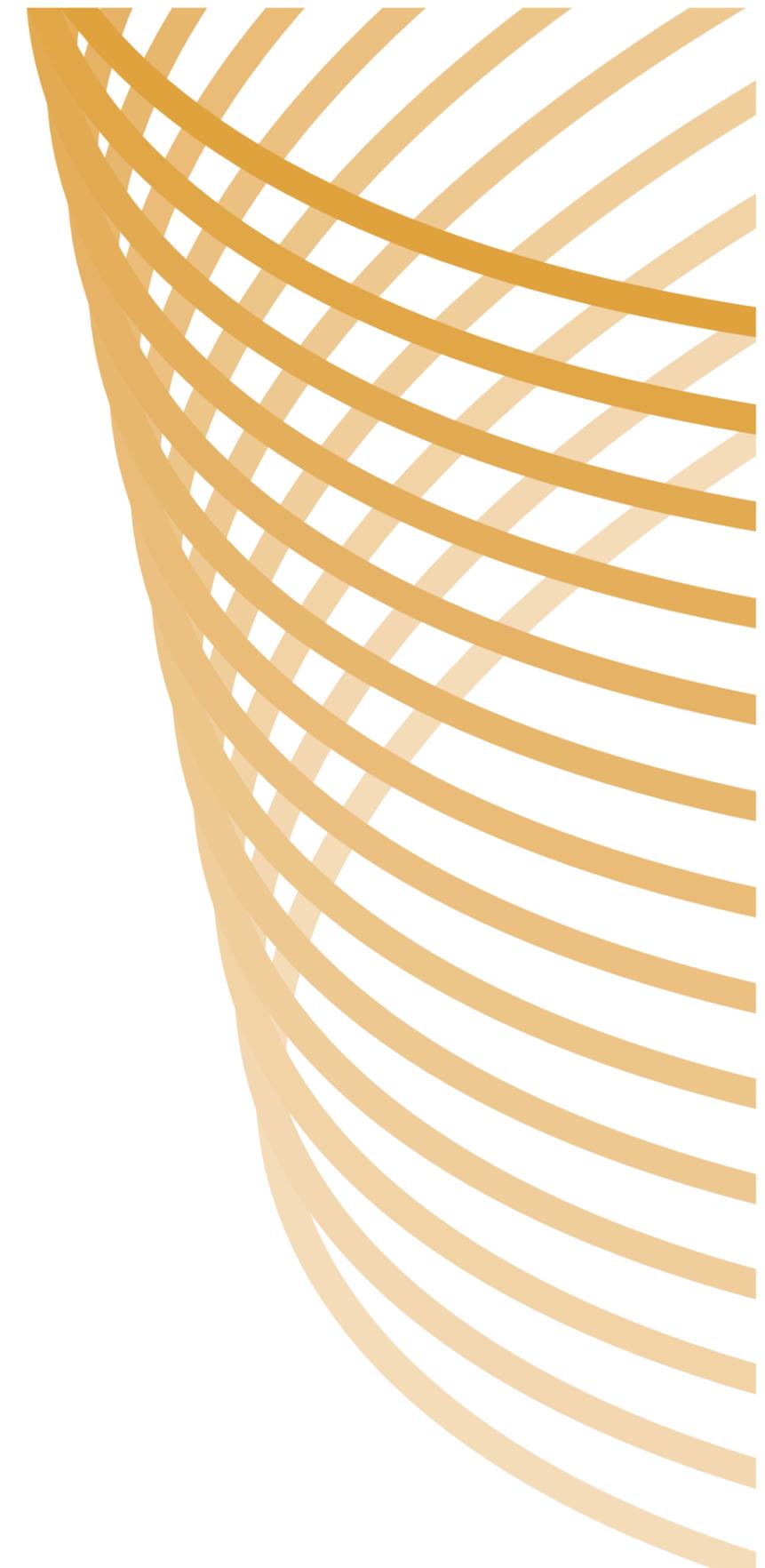
In our opinion the information given in the Directors' Report is consistent with the financial statements.

The net assets of the Agency, as stated in the balance sheet 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 2005 a financial situation

which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.

KPMG

Chartered Accountants
Registered Auditor
23 March 2006



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 excepted as noted below. In these financial statements the following new standards have been adopted for the first time:

- FRS 21 - 'Events after the balance sheet date,'
- FRS 23 - 'The effects of changes in foreign exchange rates,'
- FRS 25 - 'Financial instruments: presentation and disclosure,'
- FRS 26 - 'Financial instruments: measurement'
- FRS 28 - 'Corresponding amounts,'

The recognition and measurement requirements of FRS 17 'Retirement benefits,' has also been adopted; previously only the transitional disclosures of that standard had been followed.

The accounting policies under these new

standards are set out below together with an indication of the effects of their adoption. FRS 21 and FRS 28 had no material effect.

Basis of preparation

The financial statements have been prepared under the historic cost convention except that recognised financial assets and financial liabilities that are hedged are stated at fair value in respect of the risk that is hedged.

The financial statements comply with generally accepted accounting practice in Ireland, which includes compliance with Irish law and Financial Reporting Standards ("FRS") of the Accounting Standards Board as promulgated by the Institute of Chartered Accountants in Ireland. The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except as explained below:

The Agency has adopted FRS 17 'Retirement Benefits' in these financial statements. The income and expenditure

account, statement of total recognised gains and losses and the balance sheet of the Agency have been amended to reflect the adoption of FRS 17 as this is a change in accounting policy. The prior period figures have been restated to reflect the removal of the pension costs and prepayment under SSAP 24 and to include the cost, liability and asset position under FRS 17. There is no impact on the cash flow due to the adoption of FRS 17.

The Agency has availed of the exemption under paragraph 108D of FRS 26 not to restate comparatives for FRS 23, FRS 25 and FRS 26 and as a result, certain accounting policies will only apply from 1 January 2005 and not to the 2004 comparatives.

Accounting policies for these items used in the preparation of the 2004 comparatives are as set out in the 2004 Accounting Policies at the end of this section. The related 2005 policy has been annotated with an asterisk in the heading to indicate the change in policy.

Where there is no asterisk, the 2005 policy has been applied consistently to both periods presented in the financial statements. The cumulative prior year adjustments relating to differences arising on applying these 3 standards are determined and recognised at 1 January 2005. An explanation of how these adjustments has affected the reported financial position, financial performance and cash flows of the Agency is provided in note 25.

Financial liabilities*

Issued financial instruments or their components are classified as liabilities where the substance of the contractual arrangement results in the Agency having a present obligation to either deliver cash or another financial asset to the holder, to exchange financial instruments on terms that are potentially unfavourable or to satisfy the obligation otherwise than by the exchange of a fixed amount of cash or another financial asset for a fixed number of equity shares.

Financial liabilities are initially recognised at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Financial liabilities are subsequently measured at amortised cost, with any difference between the proceeds net of transaction costs and the redemption value being recognised in the income and expenditure account using the effective interest method.

Financial liabilities primarily include index-linked bonds, Housing Finance Agency

Stock and eurocommercial paper.

Short term investments*

Short term investments consist primarily of promissory notes or commercial paper and are initially measured at fair value of the consideration paid and are subsequently held at amortised cost. Income from such investments is recognised on an effective interest basis over the period to maturity.

Effective interest rate*

Interest receivable and payable on financial instruments classified as loans and advances, or financial liabilities at amortised cost, is recognised on an effective interest rate basis. This calculation takes into account interest received or paid, fees and commissions paid or received that are integral to the yield as well as incremental transaction costs. At inception of the index linked bond, the inflationary element of the return was deemed to be closely related and, as such, projected inflation return is also included in the effective interest rate calculation and reassessed every half year. The effective interest rate is the rate that discounts the expected future cash flows, over the expected life of the financial instrument or, where appropriate a shorter period, to the net carrying amount of the financial asset or financial liability at initial recognition.

In addition, from 2000 to April 2006, the Agency entered into a compensation scheme such that an element of compensation was paid to local authorities who incurred losses due to mismatches in their 10% fixed rate

loan books. This has been taken into account in the calculation of the effective interest rate on these loans to local authorities.

Loans and receivables*

Loans and advances are initially measured at fair value of the consideration received and are subsequently held at amortised cost less provision for impairment. Income on loans and receivables is recognised on an effective interest basis.

Impairment of loans and receivables*

The Agency will assess impairment individually for financial assets that are significant and individually or collectively for assets that are not significant. Individual impairment is identified at a counterparty - specific level following objective evidence that a financial asset is impaired. This may be after an interest or principal payment is missed or when a banking covenant is breached. The present value of estimated cash flow recoverable is determined after taking into account any security held.

The amount of any impairment is calculated by comparing the present value of the cash flows discounted at the loan's original effective interest rate with the balance sheet carrying value. If impaired, the carrying value is adjusted and the difference is charged to the income and expenditure account.

The written down value of the impaired loan is compounded back to the net realisable balance over time using the original effective interest rate. This is reported through interest

receivable within the income and expenditure account, and represents the unwinding of the discount. A write-off is made when all or part of a claim is deemed uncollectible or forgiven. Write-offs are charged against previously established provisions for impairment or directly to the income and expenditure account.

In circumstances where an asset has been individually assessed for impairment and no objective evidence of impairment exists, then it may be subject to a collective assessment. Collective impairment is identified for groups of assets that share similar risk characteristics. Collective impairment is assessed using a methodology based on existing risk conditions or existing events that have a strong correlation with a tendency to default.

Derivatives and hedging*

Derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently classified as financial assets or liabilities held for trading unless designated as hedging instruments. Where the fair value of a derivative is positive, it is carried as a derivative asset and where negative as a derivative liability. The gain or loss on re-measurement to fair value at the balance sheet date is taken to the income statement.

Hedge accounting allows one financial instrument, generally a derivative such as a forward rate agreement to be designated as a hedge of another financial instrument such as a loan or a debt security. At inception of the hedging relationship formal documentation must be drawn up specifying the hedging strategy, the

component transactions and the methodology that will be used to measure effectiveness.

Monitoring of hedge effectiveness is undertaken on an ongoing basis. Hedge accounting continues to be applied if the change in fair value of the hedge and the hedged item are correlated within a range of 80% to 125% either for the period since effectiveness was last tested or cumulatively since inception.

The Agency uses cashflow hedging to hedge the risk of changes in cashflows attributable to changes in foreign currency exchange rates of the underlying financial instrument (i.e. debt security), which matches the cashflows of hedged items against the corresponding cashflow of the hedging derivative. The effective part of any gain or loss on the derivative is recognised directly in equity and the hedged item is accounted for in accordance with the policy for that financial instrument. Any ineffective part of any gain or loss is recognised immediately in the income and expenditure account. The amount deferred in reserves will remain in equity until the designated cashflows occur and at the time that the foreign currency exchange difference on the hedged item is recognised in the income and expenditure account. If the cashflows are not expected to occur, the amount deferred in reserves will be recognised in the income and expenditure account.

In circumstances where the hedge relationship subsequently proves ineffective, is early settled or is terminated then the associated

gains and losses are re-classified to the income and expenditure account in the same period or periods during which the asset or liability assumed affects the income and expenditure account.

A derivative may be embedded in another financial instrument, known as a host contract. Where the economic characteristics and risks of an embedded derivative are not closely related to those of the host contract, the embedded derivative is separated from the host and held on the balance sheet at fair value. Movements in fair value are posted to the income and expenditure account, whilst the host contract is accounted for according to the policy for that class of financial instrument.

Foreign currencies*

Transactions denominated in currencies other than euro are recorded at the rate ruling at the date of those transactions. The resulting monetary assets and liabilities are translated at the rate ruling at the balance sheet date and the exchange differences are dealt with in the income and expenditure account.

Operating lease

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

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 3yrs

Non-computer equipment

- straight line over 5yrs

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

Pensions

The Agency's net surplus in respect of its defined benefit plan represents the present value of the future benefits owed to employees in return for their service in the current and prior periods, after the deduction of the fair value of any plan assets. The discount rate used is the market yield on high quality corporate bonds at the balance sheet date that have maturity dates approximating to the terms of the Agency's obligation. The calculation is performed by a qualified actuary using the projected unit cost method. Actuarial gains and losses are taken directly to reserves in the period in which they are incurred.

The charge to the income and expenditure account includes current service cost, past service cost, the interest cost of the scheme liabilities and the expected return on scheme assets.

Euro

The financial statements are expressed in euro.

2004 accounting policies**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 on an effective interest basis 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 an effective interest basis from the date of issue to the date of maturity of the stock.

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.

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.

Income and expense recognition

Interest income and expense is recognised on an accruals basis. However, as noted above, expenses incurred in selling up of transactions are deferred and are charged to

2004 accounting policies (continued)**Income and expense recognition (continued)**

income and expenditure account over the lives of the transactions.

Other financing costs

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

Derivative financial instruments

The principal objective of using derivative financial instruments is to match or eliminate risk from potential movements in 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.

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 EXPENDITURE ACCOUNT

	Note	Year ended 31 December 2005 €'000	Year ended 31 December 2004 €'000 <i>Restated</i>
Income - continuing activities	4	81,845	79,370
Direct expenditure	5	(83,472)	(77,781)
(Deficit)/surplus of income over direct expenditure		(1,627)	1,589
Indirect expenditure	6	(1,820)	(1,926)
Operating deficit for the financial year - continuing activities		(3,447)	(337)
Finance income	8	1,838	2,228
(Deficit)/Surplus for financial year		(1,609)	1,891

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.

The prior period figures have been restated for the adoption of FRS 17 (see note 2). However, the comparatives have not been restated to reflect the application of FRS 23, FRS 25 and FRS 26 which apply with effect from 1 January 2005.

On behalf of the Board,


Edward Coffey
Chairman
23 March 2006


James Hehir
Managing Director
23 March 2006

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Year ended 31 December 2005 €'000	Year ended 31 December 2004 €'000 <i>Restated</i>
Operating (deficit)/surplus for the financial year	(1,609)	1,891
Actuarial losses	(211)	(77)
Cash flow hedging	-	-
Amount recognised in equity	(41,554)	-
Transferred to the income and expenditure account	41,554	-
Total recognised losses and gains for year	(1,820)	1,814
Prior year adjustments – FRS 17 (note 2)	216	-
Transition adjustment at 1 January 2005 arising on adoption of FRS 23, FRS 25 and FRS 26 (Note 25)	588	-
Total gains and losses since last annual report	(1,016)	-

The prior period figures have been restated for the adoption of FRS 17 (see note 2). However, the comparatives have not been restated to reflect the application of FRS 23, FRS 25 and FRS 26 which apply with effect from 1 January 2005.

BALANCE SHEET

	Note	Year ended 31 December 2005 €'000	Year ended 31 December 2004 €'000 <i>Restated</i>
Assets employed			
Tangible fixed assets	10	41	67
Current assets			
Debtors (advances due after more than one year: €2,574,427 [2004: €2,419,263])	9	2,964,162	2,756,832
Derivative financial instruments	17	41,784	-
Cash at bank and in hand	11	1	1
		3,005,947	2,756,833
Creditors (amounts falling due within one year)	12	(1,952,815)	(1,942,967)
Derivative financial instruments	17	(230)	-
		1,052,902	813,866
Net current assets			
		1,052,902	813,866
Total assets less current liabilities			
		1,052,943	813,933
Creditors (amounts falling due after more than one year)	13	(516,556)	(289,136)
Debt securities in issue			
Index linked bonds	14	(411,827)	(399,489)
8.75% Housing Finance Agency stock 2018	15	(90,834)	(90,473)
		33,726	34,835
Net Assets before pension surplus			
		33,726	34,835
Pension surplus	24	175	298
		33,901	35,133
Net Assets			
		33,901	35,133
Capital and reserves			
Called up share capital	19	39	39
Retained surplus		33,862	35,094
		33,901	35,133
Shareholders' funds			
		33,901	35,133

The prior period figures have been restated for the adoption of FRS 17 (see note 2). However, the comparatives have not been restated to reflect the application of FRS 23, FRS 25 and FRS 26 which apply with effect from 1 January 2005.

On behalf of the Board,



Edward Coffey
Chairman
23 March 2006



James Hehir
Managing Director
23 March 2006

CASH FLOW STATEMENT

	Note	Year ended 31 December 2005 €'000	Year ended 31 December 2004 €'000 <i>Restated</i>
Cash outflow from operating activities	20(a)	(126,687)	(6,548)
Returns on investments and servicing of finance	20 (b)	(71,630)	(69,379)
Capital expenditure	20(b)	(14)	(40)
Cash outflow before financing activities		(198,454)	(75,967)
Financing activities - net cash inflow from financing	20(b)	199,759	74,232
		1,428	(1,735)
Increase/(Decrease) in cash in the year			

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	Note	Year ended 31 December 2005 €'000	Year ended 31 December 2004 €'000
Increase/(Decrease) in cash in the year		1,428	(1,735)
Cash outflow from change in debt financing		(199,759)	(74,232)
Non-cash movements	20(c)	(54,235)	(10,564)
		(252,689)	(86,531)
Movement in net debt in the year			
		(252,689)	(86,531)
Net debt at beginning of year	20(c)	(2,706,312)	(2,619,781)
Net debt at end of year	20(c)	(2,959,001)	(2,706,312)

The prior period figures have been restated for the adoption of FRS 17 (see note 2). However, the comparatives have not been restated to reflect the application of FRS 23, FRS 25 and FRS 26 which apply with effect from 1 January 2005.

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 apart from dealings with other Government bodies. The Agency deals in the normal course of business with other Government bodies, in particular a significant portion of the Agency's financing is arranged with the National Treasury Management Agency and income from continuing activities derives from loans to local authorities.

2 | Prior year adjustment

The Agency has adopted Financial Reporting Standard 17 'Retirement Benefits' ("FRS 17") in the preparation of its accounts for the year ended 31 December 2005. FRS 17 applies to all types of benefits that an employer provides after employees have completed their service, including pensions and other retirement benefits.

FRS 17 requires that scheme assets are valued at fair value and scheme liabilities are measured using the projected unit method. Net scheme assets and liabilities, reduced by deferred tax amounts, are required to be shown on the face of the balance sheet as a pension surplus or deficit as appropriate. Previously a surplus or deficit was not recognised on the Agency's balance sheet.

Under FRS 17 the income and expenditure account charged consists of two elements - the current service costs recorded in administration expenses; and the net of expected return on pension assets and the interest costs of pension liabilities recorded in other finance income. Previously the charge to the income and expenditure account was determined by funding rates recommended by qualified actuaries.

Actuarial gains and losses are recognised through the statement of total recognised gains and losses. Previously these gains and losses were spread in the income and expenditure account as a component of pension expense over the employees' remaining service lives.

2 | Prior year adjustment (continued)

The change in the accounting policy arising from the adoption of FRS 17 has resulted in a prior period adjustment and comparative figures have been restated accordingly. The impact of the prior period adjustment is set out below. The main impact of the change in accounting policy was to record on the balance sheet the full amount of the surplus in the defined benefit pension scheme measured in accordance with FRS 17.

	As reported under SSAP 24 €'000	Prior year adjustment €'000	As restated under FRS 17 €'000
Income and expenditure account			
Income – continuing activities	79,370	-	79,370
Direct expenditure	(77,781)	-	(77,781)
Surplus of income over direct expenditure	1,589	-	1,589
Indirect expenditure	(1,998)	72	(1,926)
Operating surplus for the financial year	(409)	72	(337)
Finance income	2,184	44	2,228
Surplus for the financial year	1,775	116	1,891

Statement of total recognised gains and losses

Operating surplus for the financial year	1,775	116	1,891
Actuarial gain / (loss)	-	(77)	(77)
Total recognised gains and losses	1,775	39	1,814

Balance Sheet

Tangible fixed assets	67	-	67
Debtors	2,756,914	(82)	2,756,832
Cash at bank and in hand	1	-	1
Creditors due within one year	(1,942,967)	-	(1,942,967)
Total assets less current liabilities	814,015	(82)	813,933
Creditors due after more than one year	(289,136)	-	(289,136)
Index linked bonds	(399,489)	-	(399,489)
8.75% HFA stock 2018	(90,473)	-	(90,473)
Net assets before pension surplus	34,917	(82)	34,835
Pension surplus	-	298	298
Net assets	34,917	216	35,133
Called up share capital	39	-	39
Retained surplus	34,878	216	35,094
Shareholders' funds-equity	34,917	216	35,133

3 | Taxation status of the Agency

Under Section 218 of the Taxes Consolidation Act 1997, income earned by Housing Finance Agency plc 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.

4 | Income - continuing activities*

	31 December 2005 €'000	31 December 2004 €'000
Interest on advances to local authorities which were approved:		
Post 27 May 1986	79,476	76,724
Pre 27 May 1986	2,369	2,646
	81,845	79,370

5 | Direct expenditure***Index - linked bonds**

	31 December 2005 €'000
Bond interest	12,244
Premium on redemption of bonds (Note 14)	12,012
	24,256

Stock and loan costs

Interest payable on bank borrowings, commercial paper, guaranteed notes and stock	59,264
Foreign exchange gains/(losses) from borrowings	41,506
Amounts recycled from cashflow hedge reserve	(41,554)
	59,216
	83,472

* The comparative figures for 2004 have been prepared based on applicable accounting standards at 31 December 2004 and do not incorporate the application of FRS 23, FRS 25 and FRS 26.

5 | Direct expenditure* (continued)

	31 December 2004
	€'000
Index - linked bonds	
Bond interest	11,645
Premium on redemption of bonds (Note 14)	9,877
Amortisation of discount on issue of bonds	300
Amortisation of bond issue expenses	12
Amortisation of discount on pre May 1986 loans	11
	<hr/> 21,845 <hr/>
Stock and loan costs	
Amortisation of discount and issue expenses on Housing Finance Agency Stock	364
Interest payable on bank borrowings, guaranteed notes and stock	54,819
Amortisation of premium/(discount) on outstanding foreign exchange transactions	723
Amortisation of eurocommercial paper issue expenses	30
	<hr/> 55,936 <hr/>
	<hr/> 77,781 <hr/>

6 | Indirect expenditure*

	31 December 2005	31 December 2004
	€'000	€'000
Other expenditure		
Administrative expenditure (Note 7)	1,610	1,574
10% fixed rate compensation	-	104
Administration fees to local authorities	210	248
	<hr/> 1,820 <hr/>	<hr/> 1,926 <hr/>

7 | Administrative expenditure

Administrative expenditure has been arrived at after charging:

	31 December 2005	31 December 2004
	€'000	€'000
Directors' emoluments		
Fees - Chairman	10	10
Other Directors	38	38
Other emoluments	100	94
Pension contributions	22	21
	<hr/> 170 <hr/>	<hr/> 163 <hr/>
Employee costs		
Salaries	621	603
Social welfare costs	37	35
Service costs - pension (Note 24)	102	69
	<hr/> 760 <hr/>	<hr/> 707 <hr/>
Total included in income and expenditure account	760	707
Actuarial losses on defined benefit scheme	211	77
	<hr/> 971 <hr/>	<hr/> 784 <hr/>
Total	971	784

The average number of employees, including executive Directors, during the year was 12 (2004: 12).

Auditor's remuneration (excluding value added tax)	21	21
Depreciation	41	101
Rental payments under operating lease	75	62
	<hr/> 137 <hr/>	<hr/> 184 <hr/>

* The comparative figures for 2004 have been prepared based on applicable accounting standards at 31 December 2004 and do not incorporate the application of FRS 23, FRS 25 and FRS 26.

8 | Finance income*

	31 December 2005	31 December 2004
	€'000	€'000
Included in finance income		
Expected return on pension assets	140	128
Interest cost on pension liabilities	(92)	(84)
Investment income	1,790	2,184
Net finance return	1,838	2,228

9 | Debtors*

	31 December 2005	31 December 2004
	€'000	€'000
Balance due on advances	2,896,876	2,696,139
Other debtors and prepayments	209	331
Due from local authorities	67,077	60,362
	2,964,162	2,756,832

Balance due on advances is analysed as follows:

(i) Loans approved post 27 May 1986

Balance at beginning of year	2,655,647	2,558,368
Loans advanced	578,875	494,183
Less: loans repaid	(381,837)	(413,037)
Interest charged	79,703	76,724
Interest received	(69,757)	(60,591)
Balance at end of year	2,862,631	2,655,647

* The comparative figures for 2004 have been prepared based on applicable accounting standards at 31 December 2004 and do not incorporate the application of FRS 23, FRS 25 and FRS 26.

9 | Debtors* (continued)

	31 December 2005	31 December 2004
	€'000	€'000
(ii) Loans approved pre 27 May 1986		
Balance at beginning of year	41,559	47,459
Less: loans repaid	(7,314)	(6,967)
	34,245	40,492
Interest charged	2,369	2,645
Interest received	(2,369)	(2,645)
	34,245	40,492
Balance at end of year	2,896,876	2,696,139

Loans to local authorities have been segregated into those approved pre and post 27 May 1986 (detailed in (i) and (ii) above), as a different credit risk is applied to each. The Agency is liable for any credit losses that may arise on pre 27 May 1986 mortgages which are secured by the underlying mortgage property; however, no impairment has been recognised in these accounts. The credit risk to the Agency on loans advanced to local authorities on or after 27 May 1986, is assessed as negligible.

10 | Tangible fixed assets

	Total
	€'000
Cost	
At beginning of year	500
Additions	14
Disposals	-
At end of year	514
Depreciation	
At beginning of year	433
Charged for year	40
Disposals	-
At end of year	473
Net book value	
31 December 2005	41
31 December 2004	67

* The comparative figures for 2004 have been prepared based on applicable accounting standards at 31 December 2004 and do not incorporate the application of FRS 23, FRS 25 and FRS 26.

11 | Cash at bank

	31 December 2005	31 December 2004
	€'000	€'000
Cash at bank and in hand	1	1
Amounts held on short term deposits	-	-
	<u>1</u>	<u>1</u>

12 | Creditors (amounts falling due within one year)*

	31 December 2005	31 December 2004
	€'000	€'000
Commercial paper, note issuance facilities and guaranteed notes	1,939,315	1,925,440
Interest due on stock and bonds	7,024	6,935
Accruals	6,006	8,694
Bank overdraft	470	1,898
	<u>1,952,815</u>	<u>1,942,967</u>
Tax creditors (included in accruals):		
PAYE	25	23

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

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

	31 December 2005	31 December 2004
	€'000	€'000
Bank loans and notes payable or repayable other than by installments:		
Between one and two years	146,459	17,966
Between two and five years	278,939	210,636
After more than five years	91,158	60,534
	<u>516,556</u>	<u>289,136</u>

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

* The comparative figures for 2004 have been prepared based on applicable accounting standards at 31 December 2004 and do not incorporate the application of FRS 23, FRS 25 and FRS 26.

14 | Index linked bonds*

	31 December 2005	31 December 2004
	€'000	€'000
<i>Housing Finance Agency bond issues</i>		
2% Index Linked Bonds 2008	107,928	107,928
4% Index Linked Bonds 2015	95,230	95,230
	<u>203,158</u>	<u>203,158</u>
Nominal value of bonds in issue	203,158	203,158
Net unamortised expenses and premium/discount on issue	470	144
	<u>203,628</u>	<u>203,302</u>
Provision for premium on redemption of bonds	208,199	196,187
	<u>411,827</u>	<u>399,489</u>

**Provision for premium on redemption of bonds
31 December 2005**

	Total €'000	Deferred €'000	Provided €'000
At beginning of year	208,913	(12,726)	196,187
Arising during the year	9,833	2,179	12,012
At end of year	218,746	(10,547)	208,199
<i>31 December 2004</i>			
At beginning of year	201,106	(14,796)	186,310
Arising during the year	7,807	2,070	9,877
At end of year	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.

* The comparative figures for 2004 have been prepared based on applicable accounting standards at 31 December 2004 and do not incorporate the application of FRS 23, FRS 25 and FRS 26.

15 | 8.75% Housing Finance Agency Stock 2018*

	31 December 2005 €'000	31 December 2004 €'000
At par at beginning of year	95,230	95,230
Less: Unamortised discount on issue	(4,396)	(4,757)
At end of year	90,834	90,473

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

16 | Profile of financial assets and financial liabilities*

Narrative disclosures concerning the company's treasury policy and management are set out in notes 8 & 9 to the Directors' Report.

The financial assets (excluding other debtors and prepayments) are all denominated in euro and are analysed further below:

	31 December 2005 €'000	31 December 2004 €'000
Fixed rate	109,501	119,459
Floating rate (including index linked)	2,854,451	2,637,042
	2,963,953	2,756,501
Derivatives (fixed rate)	Note 9 41,784	
	3,005,737	2,756,501

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.

* The comparative figures for 2004 have been prepared based on applicable accounting standards at 31 December 2004 and do not incorporate the application of FRS 23, FRS 25 and FRS 26.

16 | Profile of financial assets and liabilities* (continued)**Currency profile of derivative assets as at**

	31 December 2005 €'000
US Dollar	41,784

Amount determined by floating rate benchmarks:

	31 December 2005 €'000	31 December 2004 €'000
EURIBOR	2,595,085	2,315,073
Index linked	259,366	321,970
	2,854,451	2,637,043

Interest rate risk profile of financial assets as at:

	31 December 2005	31 December 2004
Weighted average fixed interest rate	8.38%	8.37%
Weighted average floating interest rate	2.70%	2.76%
Weighted average period for which fixed interest assets are fixed	12 years	12 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. Floating rate loans consist of loans to local authorities of terms between one and thirty years.

* The comparative figures for 2004 have been prepared based on applicable accounting standards at 31 December 2004 and do not incorporate the application of FRS 23, FRS 25 and FRS 26.

16 | Profile of financial assets and liabilities* (continued)**Maturity and interest rate repricing of financial assets**

	31 December 2005	31 December 2005
	Maturity	Repricing
	€'000	€'000
Amounts falling due in one month or less	67,078	2,599,543
Amounts falling due between one and three months	92,264	-
Amounts falling due between three and twelve months	230,186	259,452
Amounts falling due between one and two years	110,095	20
Amounts falling due between two and three years	105,985	-
Amounts falling due between three and four years	87,906	1,388
Amounts falling due between four and five years	37,186	-
Amounts falling due after more than five years	2,233,253	103,550
	2,963,953	2,963,953

Maturity of financial assets

	31 December 2004
	€'000
Amounts falling due within one year	337,240
Amounts falling due between one and two years	44,729
Amounts falling due between two and five years	264,156
Amounts falling due after more than five years	2,110,376
	2,756,501

Financial liabilities are analysed below:

	31 December 2005	31 December 2004
	€'000	€'000
Fixed rate	95,476	97,621
Floating rate**	2,815,119	2,607,969
	2,910,595	2,705,590
Derivative (fixed rate)	230	-
	2,910,825	2,705,590

* The comparative figures for 2004 have been prepared based on applicable accounting standards at 31 December 2004 and do not incorporate the application of FRS 23, FRS 25 and FRS 26.

** In accordance with market convention, the floating rate liabilities include the Agency's eurocommercial paper debt which is repayable in less than 3 months.

16 | Profile of financial assets and liabilities* (continued)**Currency profile of financial liabilities as at**

	31 December 2005
	€'000
Euro	1,935,263
US Dollar	965,463
GB Pound	10,099
	2,910,825

Interest rate risk profile of financial liabilities as at

	31 December 2005	31 December 2004
Weighted average fixed interest rate	8.97%	8.87%
Weighted average floating interest rate	2.25%	2.13%
Weighted average period for which fixed interest liabilities are fixed	12 years	12 years

	31 December 2005	31 December 2004
	€'000	€'000
<i>Amount determined by floating rate benchmarks:</i>		
EURIBOR	2,402,778	2,206,582
Prime	516	1,898
Index linked	411,826	399,489
	2,815,120	2,607,969

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

* The comparative figures for 2004 have been prepared based on applicable accounting standards at 31 December 2004 and do not incorporate the application of FRS 23, FRS 25 and FRS 26.

16 | Profile of financial assets and liabilities* (continued)

The Agency uses the following derivative instruments for hedging purposes:

Foreign currency forward contracts are agreements to buy or sell a certain amount of one currency at a price of another currency at a future date where the exchange price is stipulated in advance in the forward contract.

The Agency issues zero coupon commercial paper debt in currencies other than the functional currency. The Agency hedges the foreign currency exposure in respect of the repayment of this debt by entering into foreign currency forward contracts to exchange a fixed amount of euro for a fixed amount of the foreign currency. The notional amounts of the foreign currency forwards provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Agency's exposure to credit or price risks. As at 31 December 2005, after taking into account the effects of foreign currency forward contracts, the Agency had no material currency exposures.

Maturity, liquidity measures and interest rate repricing of financial liabilities as at

	31 December 2005		
	Maturity €'000	Repricing €'000	Undrawn committed facilities €'000
Maturing in one month or less	690,923	967,171	-
Maturing between one and three months	615,108	845,392	-
Maturing between three and twelve months	585,349	590,730	41,445
Maturing greater than 1 year and less than 2 years	143,740	1,925	134,023
Maturing greater than 2 years and less than 3 years	238,876	238,876	-
Maturing greater than 3 years and less than 4 years	28,939	1,991	-
Maturing greater than 4 years and less than 5 years	250,000	727	71,061
Maturing greater than 5 years	357,660	263,783	6,124
Total	2,910,595	2,910,595	252,653

Liquidity measures as at

	31 December 2004	
	Financial €'000	Undrawn committed facilities €'000
Maturing within 12 months or on demand	1,926,492	25,395
Maturing greater than 1 year and less than 2 years	17,966	26,474
Maturing greater than 2 years and less than 5 years	210,636	167,128
Maturing greater than 5 years	550,496	39,466
Total	2,705,590	258,463

* The comparative figures for 2004 have been prepared based on applicable accounting standards at 31 December 2004 and do not incorporate the application of FRS 23, FRS 25 and FRS 26.

16 | Profile of financial assets and liabilities* (continued)**Fair value**

	31 December 2005 Carrying value €'000	31 December 2005 Fair value €'000
Financial assets		
Fixed rate	109,443	174,307
Floating rate	2,553,532	2,595,086
Derivative assets	41,554	41,554
Index linked	258,299	420,968
No interest	1	1
	2,962,829	3,231,916
Financial liabilities		
Fixed rate	109,443	175,875
Floating rate	2,403,292	2,439,455
Index linked	258,300	536,060
Derivative liabilities	230	230
	2,771,265	3,151,620

* The comparative figures for 2004 have been prepared based on applicable accounting standards at 31 December 2004 and do not incorporate the application of FRS 23, FRS 25 and FRS 26.

16 | Profile of financial assets and liabilities* (continued)

	31 December 2004 Carrying value €'000	31 December 2004 Fair value €'000
<i>Financial assets</i>		
Fixed rate	119,459	197,168
Floating rate	2,315,073	2,315,073
Index linked	321,970	550,670
No interest	-	-
	<u>2,756,502</u>	<u>3,062,911</u>
<i>Financial liabilities</i>		
Fixed rate	108,439	174,568
Floating rate	2,208,480	2,153,612
Index linked	399,489	535,679
	<u>2,716,408</u>	<u>2,863,859</u>
<i>Derivatives held to manage risk</i>		
Forward currency contracts	-	(54,868)

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 (2004: EURIBOR) on a 365 day basis.

Similarly, the Agency's liabilities are valued by reference to one month EURIBOR (2.401% [360-day basis]) at the balance sheet date, with the cost of funding index linked stock compared to the cost of funding a conventional variable rate stock. €3.2bn has been estimated as the fair value of the Agency's liabilities. This is again based on EURIBOR at the year end rate (2004: 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.

The fair value of derivatives is received from an independent, third party provider and is based on applicable market price information. This fair value is calculated based on ECB closing foreign currency rates at 30 December 2005.

* The comparative figures for 2004 have been prepared based on applicable accounting standards at 31 December 2004 and do not incorporate the application of FRS 23, FRS 25 and FRS 26.

**17 | Derivative financial instruments
At 31 December 2005**

	Contract/notional amount €'000	Fair value assets €'000	Fair value liabilities €'000
<i>Derivatives designated as cash flow hedges</i>			
Forward rate agreements	987,710	41,784	(230)
Total recognised derivative assets/(liabilities)	987,710	41,784	(230)

The cash-flows and related income and expenditure movements in relation to the derivatives above are all expected to occur within one year.

18 | Hedging reserve / cash flow hedges

	€'000
Balance at 1 January 2005	
Gross amount of gains/(losses)	41,554
Gains/(losses) from changes in fair value	-
Transferred to income and expenditure account	(41,554)
Balance at 31 December 2005	-

19 | Share capital - equity

There were 30,000 ordinary shares of €1.30 authorised, allotted, called up and fully paid at 31 December 2005 and 31 December 2004.

20 | Cash flow statement

	31 December 2005	31 December 2004
	€'000	€'000
(a) Reconciliation of operating surplus to cash outflow from operating activities		
(Deficit) for the financial year	(3,447)	(337)
Direct expenditure (Note 5)	83,472	77,781
Pension surplus	102	(61)
Depreciation (Note 10)	40	101
Movements in working capital:		
(Increase) in amounts due from local authorities (Note 9)	(6,715)	(3,681)
(Increase) in advances (Note 9)	(200,737)	(90,312)
Decrease/(Increase) in other debtors and prepayments	320	(12)
Increase/(decrease) in accrued expenses	82	(27)
Decrease in liquid resources	196	10,000
Cash (outflow) from operating activities	(126,687)	(6,548)
(b) Gross cash flows		
Returns on investments and servicing of finance		
Interest received	1,984	2,398
Interest paid	(73,614)	(71,777)
Net cash outflow from returns on investments and servicing of finance	(71,630)	(69,379)
Capital expenditure		
Payments to acquire tangible fixed assets	(14)	(40)
Net cash outflow from capital expenditure and disposals	(14)	(40)
Financing		
Increase in bank loans and notes payable	199,759	74,232
Net cash inflow from financing	199,759	74,232

20(c) Analysis of changes in net debt

	At 31 December 2005	Cash flows	Non-cash movements	At 31 December 2004
	€'000	€'000	€'000	€'000
Cash in hand, at bank	1	-	-	1
Overdraft	(470)	1,428	-	(1,898)
	(469)	1,428	-	(1,897)
Bank loans and notes repayable within one year	(1,939,315)	27,661	(41,536)	(1,925,440)
Bank loans and notes repayable after one year	(516,556)	(227,420)	-	(289,136)
Index linked bonds	(203,627)	-	(325)	(203,302)
Provision for premium on redemption of bonds	(208,200)	-	(12,013)	(196,187)
8.75% Housing Finance Agency Stock 2018	(90,834)	-	(361)	(90,473)
	(2,959,001)	(198,331)	(54,235)	(2,706,435)

21 | Reconciliation of operating surplus/deficit

	31 December 2005	31 December 2004
	€'000	€'000
Opening balance as previously reported	34,878	33,103
Prior year adjustment – FRS 17 (note 2)	216	177
As restated	35,094	33,280
(Deficit)/surplus for the financial year	(1,609)	1,891
Actuarial gains and losses	(211)	(77)
Transition adjustment at 1 January 2005 arising on adoption of FRS 23, 25 & 26 (note 25)	588	-
Surplus at end of year	33,862	35,094

22 | Reconciliation of shareholders' funds

	31 December 2005	31 December 2004
	€'000	€'000
Opening shareholders' funds	34,917	33,142
Prior year adjustment - FRS 17 (note 2)	216	177
As restated	35,133	33,319
Recognised gains and losses for year	(1,232)	1,814
Closing shareholders' funds	33,901	35,133

23 | 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	<u>75</u>

24 | Pensions

The company operates a defined benefit pension scheme covering all permanent employees.

The latest full actuarial valuation was carried out at 31 December 2004 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 2005 the market value of the fund's assets was €2.97m (2004: €2.35m) 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.

For the purposes of FRS 17 'Retirement Benefits' the latest valuations have been updated to 31 December 2005 by a Qualified Independent Actuary using the projected unit method. The principal actuarial assumptions used were as follows:

	2005	2004	2003
	%	%	%
Rate of increase in salaries	4.00	3.00	3.00
Rate of increase in pensions payments	2.25	2.00	2.00
Discount rate	4.25	4.50	5.00
Inflation assumption	2.25	2.00	2.00

24 | Pensions (continued)

Based on these assumptions, the following table sets out the market value of the assets of the defined benefit scheme together with details of the expected long term rates of return used to generate the amount shown in the income and expenditure account. It also shows the most recent valuation of the scheme liabilities updated for movements in the financial assumptions:

The assets in the scheme and the expected rate of return were:	Long-term rate of return expected at 31 December 2005		Long-term rate of return expected at 31 December 2004		Long term rate of return expected at 31 December 2003	
	%	Value at 31 December 2005 €'000	%	Value at 31 December 2004 €'000	%	Value at 31 December 2003 €'000
Equities	6.50	1,386	5.50	877	6.00	827
Bonds	3.60	273	3.75	306	4.25	200
Property	5.50	90	5.50	123	5.00	79
Cash	2.25	56	2.00	90	2.00	56
Other [†]		1,169		954		794
Total market value of pension scheme assets		2,974		2,350		1,956
Present value of pension scheme liabilities		(2,799)		(2,052)		(1,686)
Total net retirement surplus in scheme		175		298		270
Total net pension asset		175		298		270

The actuarial gains and losses of the scheme may be analysed as follows:	31 December 2005 €'000	31 December 2004 €'000	31 December 2003 €'000
Included in statement of total recognised gains and losses:			
Difference between expected and actual return on assets	361	(229)	103
Experience gains and losses on scheme liabilities	(211)	22	31
Effect of changes in actuarial assumptions	(361)	130	-
Net in statement of total recognised gains/(losses)	(211)	(77)	134

[†] 3 members have a pension entitlement in respect of their service in the Civil Service. The Civil Service has undertaken to pay the retirement benefits to the Agency who will in turn reimburse the Agency's Pension Scheme. The pension benefit is based on service and salary at date of leaving the Civil Service. This salary is increased to allow for increases in the member's Civil Service grade between date of leaving the Civil Service and retirement age.

24 | Pensions (continued)

<i>History of actuarial gains and losses</i>	31 December 2005	31 December 2004	31 December 2003	31 December 2002
	€'000	€'000	€'000	€'000
Difference between expected and actual return on assets	361	229	103	(93)
Expressed as a percentage of scheme assets	12.1%	9.7%	(5.3%)	(6.1%)
Experience gains and losses on scheme liabilities	(211)	(22)	31	(167)
Expressed as a percentage of scheme assets	(7.1%)	1.0%	1.6%	10.6%
Total actuarial gains and losses	(211)	(77)	134	(287)
Expressed as a percentage of scheme liabilities	(7.5%)	(3.8%)	7.9%	18.2%

25 | Explanation of transition to FRS 23, FRS 25 and FRS 26

As stated in the "basis of preparation" within the Accounting Policies, these are the Agency's first financial statements prepared in accordance with FRS 23, FRS 25 and FRS 26.

The effective date of these standards is 1 January 2005 and comparative accounts are not restated. Consequently, the amounts shown for 31 December 2004 were amended on 1 January 2005 for the new requirements of FRS 23, FRS 25 and FRS26, and the following tables explain the adjustments made:

The balance sheet below explains the restatement of the Agency balance sheet at 31 December 2004 after the impact of changes in accounting policy for FRS 17, FRS 21 and FRS 28 have been reflected.

	As at	Adjustments to equity			As at
	31 Dec 2004	EIR ¹	Impairment ²	Hedging ³	31 Dec 2004
	GAAP				
	€'000	€'000	€'000	€'000	€'000
	Restated				
Assets employed					
Tangible fixed assets	67	-	-	-	67
Current assets					
Debtors	2,756,832	(675)	1,067	-	2,757,224
Derivative financial assets	-	-	-	-	-
Cash at bank and in hand	1	-	-	-	1
	2,756,833	(675)	1,067	-	2,757,225
Creditors (amounts falling due within one year)	(1,942,967)	-	-	55,064	(1,887,903)
Derivative financial liabilities	-	-	-	(54,868)	(54,868)
Net current assets	813,866	(675)	1,067	196	814,454

25 | Explanation of transition to FRS 23, FRS 25 and FRS 26 (continued)

	As at	Adjustments to equity			As at
	31 Dec 2004	EIR ¹	Impairment ²	Hedging ³	31 Dec 2004
	GAAP				
	€'000	€'000	€'000	€'000	€'000
	Restated				
Total assets less current liabilities	813,933	(675)	1,067	196	814,521
Creditors (amounts falling due after more than one year)	(289,136)	-	-	-	(289,136)
Index linked bonds	(399,489)	-	-	-	(399,489)
8.75% HFA stock	(90,473)	-	-	-	(90,473)
Net Assets before pension	34,835	(675)	1,067	196	35,425
Pension surplus	298	-	-	-	298
Net assets	35,133	(675)	1,067	196	35,721
Capital and reserves					
Called up share capital	39	-	-	-	39
Retained surplus	35,094	(675)	1,067	196	35,682
Shareholders' funds-equity	35,133	(675)	1,067	196	35,721

¹ Revenue is recognised on an effective interest basis. The effective interest rate is the rate that discounts the expected future cash flows, over the expected life of the financial instrument or, where appropriate a shorter period, to the net carrying amount of the financial asset or financial liability at initial recognition. The EIR adjustment reflects the effects of compensation repaid to local authorities on 10% fixed rate loans.

² Under previous GAAP, a bad debt provision was held in respect of pre 27 May 1986 loans. The opening adjustment to reserves in respect of impairment reflects the impact of moving to a narrower interpretation of an incurred loss model. Following this adjustment, a general provision for impairment is no longer held.

³ Hedging of the Agency's exposures to foreign exchange rate risk is undertaken in the normal course of business by using derivatives. This activity is carried out within a risk management framework of limits, practices and procedures set and overseen by the Board of Directors. The adjustment above reflects the inclusion of derivatives on-balance sheet, with an adjustment to revenue reserves in equity in respect of the ineffective portion of gain on the hedging instrument.

26 | 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 for Finance, were approved by the Directors on 23 March 2006.

APPENDIX 1

Statistics on the Loan Book

A | By loan type

Loans advanced to finance	2001 €'000	2002 €'000	2003 €'000	2004 €'000	2005 €'000
Fixed Rate	9,775	14,049	7,787	2,375	160
Variable Rate	475,293	620,660	439,216	491,808	578,715
Index Linked	77,612	90,276	-	-	-
Total	562,680	724,985	447,003	494,183	578,875

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	1,407	646,182	16,030	14,047	677,666
6 to 10 years	17,601	100,058	-	20,215	137,874
11 to 15 years	62,376	133,955	30,294	-	226,625
16 to 20 years	3,001	314,359	44,066	-	361,426
21 to 25 years	16,738	839,068	128,642	-	984,448
26 to 30 years	1,396	507,441	-	-	508,837
Total	102,519	2,541,063	219,032	34,262	2,896,876

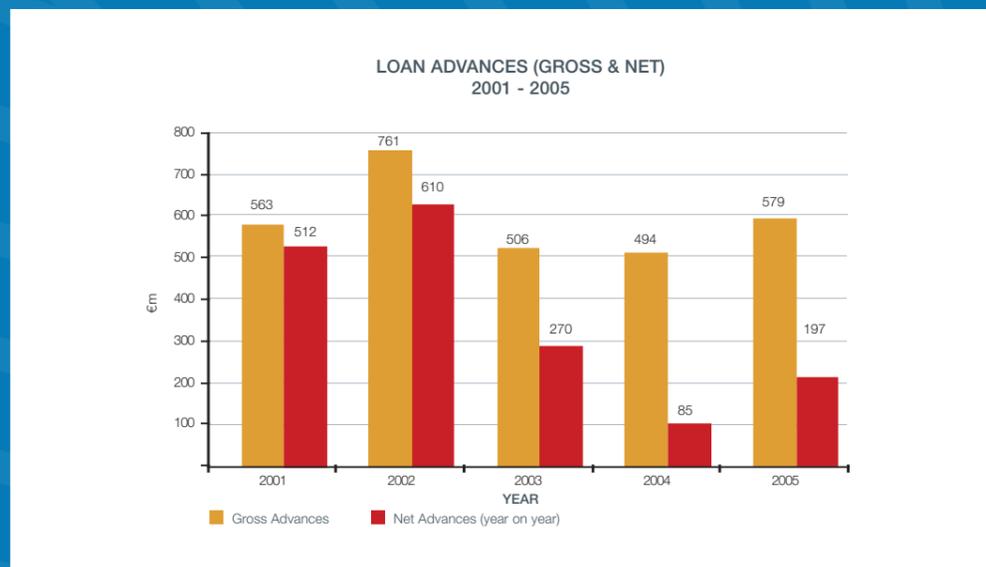
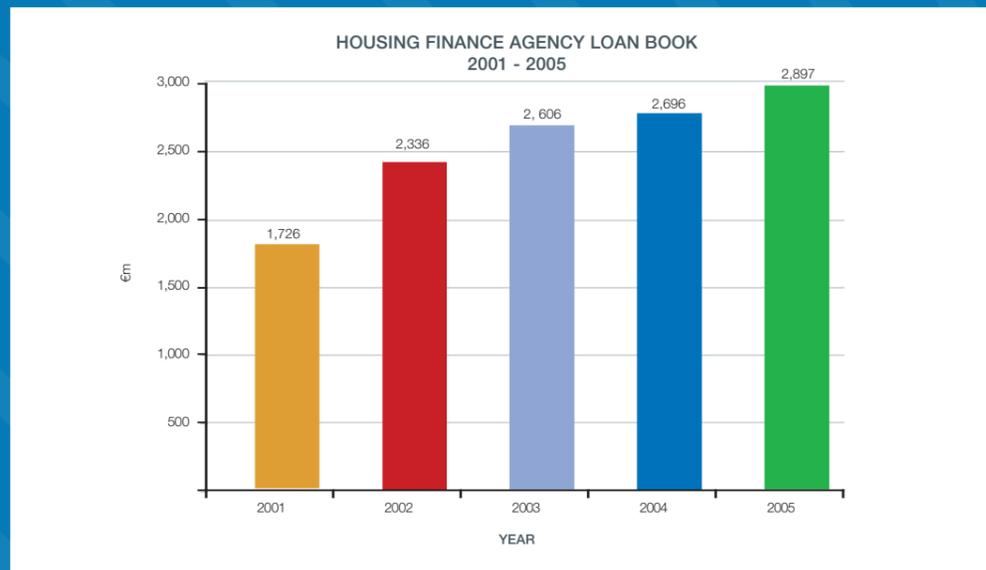
C | By Local Authority and National Building Agency

Local Authority	Advances in the 12 months	Balance outstanding
	to 31 December 2005	at 31 December 2005
	€'000	€'000
Athlone Town Council	-	2,190
Bray Town Council	-	3,245
Carlow County Council	9,788	32,692
Carlow Town Council	-	2,566
Carrick on Suir Town Council	-	348
Castleblaney Town Council	-	99
Cavan County Council	2,080	10,798
Clare County Council	1,908	40,363
Clonakilty Town Council	-	840
Clonmel Borough Council	-	4,162
Clones Town Council	-	208
Cobh Town Council	-	-
Cork City Council	11,573	79,743
Cork County Council	37,720	190,923
Donegal County Council	9,134	80,775
Drogheda Borough Council	6,000	23,099
Dublin City Council	146,624	724,458
Dundalk Town Council	7,149	30,282
Dunlaoghaire/Rathdown County Council	17,947	76,462
Dungarvan Town Council	-	1,787
Ennis Town Council	-	2,123
Enniscorthy Town Council	-	853
Fermoy Town Council	-	290
Fingal County Council	77,286	288,941
Galway City Council	15,150	79,496
Galway County Council	10,161	64,859
Kerry County Council	1,878	28,995
Kildare County Council	11,362	93,326
Kilkenny Borough Council	-	904
Kilkenny County Council	1,936	50,950
Kilrush Town Council	-	-
Laois County Council	25,873	77,298
Leitrim County Council	900	9,331
Letterkenny Town Council	0	121
Limerick City Council	0	25,969
Limerick County Council	1,419	29,698
Listowel Town Council	470	636

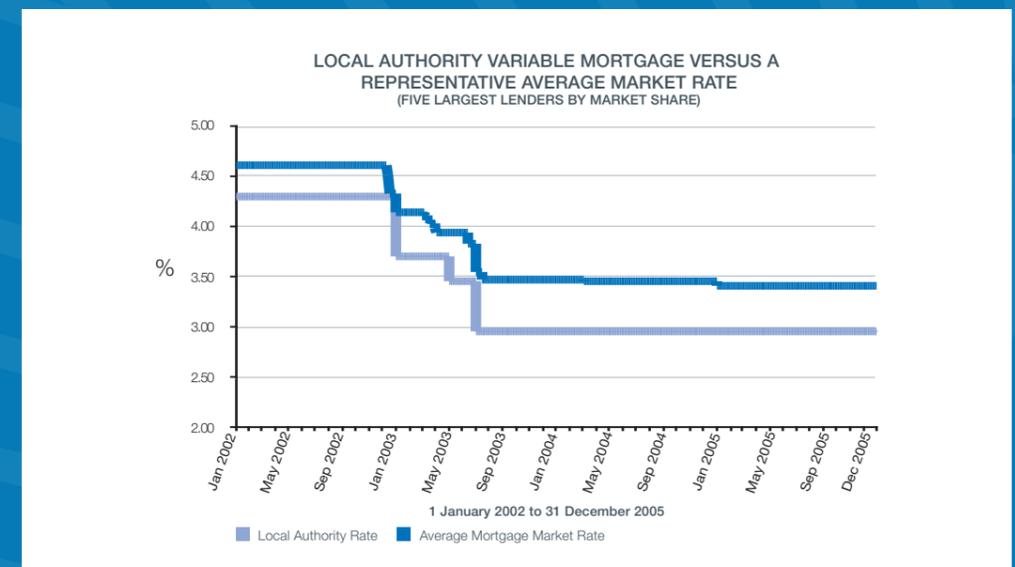
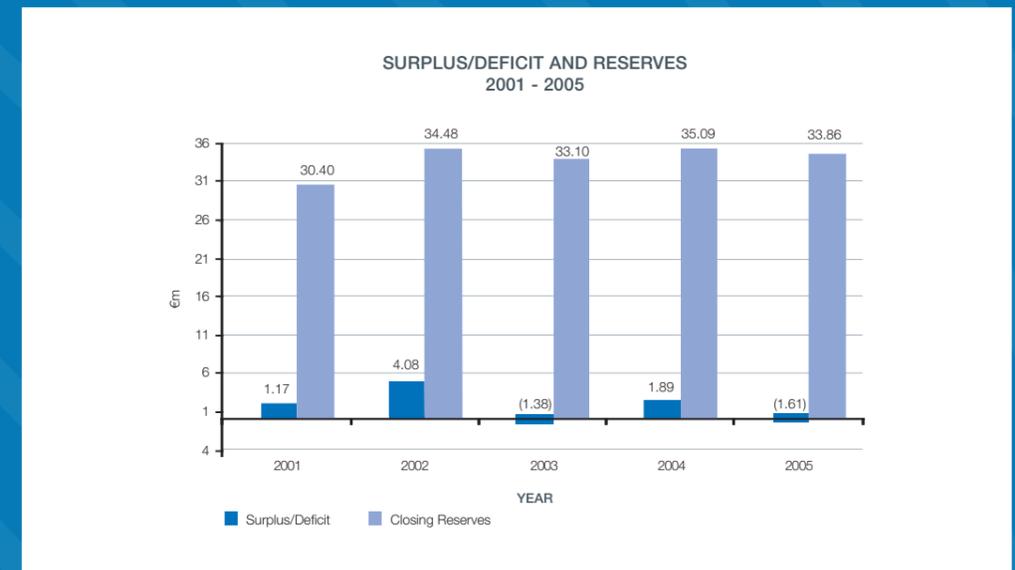
C | By Local Authority and National Building Agency (continued)

Local Authority	Advances in the 12 months	Balance outstanding
	to 31 December 2005	at 31 December 2005
	€'000	€'000
Longford County Council	1,602	33,992
Longford Town Council	750	2,880
Louth County Council	-	5,519
Macroom Town Council	-	48
Mallow Town Council	-	3,285
Mayo County Council	1,200	54,573
Meath County Council	698	38,710
Monaghan County Council	10,698	26,427
Naas Town Council	-	10,407
New Ross Town Council	-	1,302
North Tipperary County Council	2,244	17,296
Offaly County Council	4,974	36,741
Roscommon County Council	-	10,152
Sligo Borough Council	5,000	41,408
Sligo County Council	4,036	50,202
South Dublin County Council	103,680	174,099
South Tipperary County Council	6,407	47,076
Tullamore Town Council	3,925	5,715
Thurles Town Council	-	1,210
Tralee Town Council	1,166	6,226
Tipperary Town Council	-	852
Waterford City Council	4,000	54,806
Waterford County Council	9,854	34,522
Westport Town Council	-	3,087
Westmeath County Council	12,184	50,702
Wexford Borough Council	85	6,057
Wexford County Council	5,115	69,173
Wicklow County Council	2,445	41,686
Wicklow Town Council	2,454	6,302
Sub Total	578,875	2,893,285
National Building Agency	-	3,591
Total	578,875	2,896,876

APPENDIX 2 Graphs on the Loan Book and Financial Trends

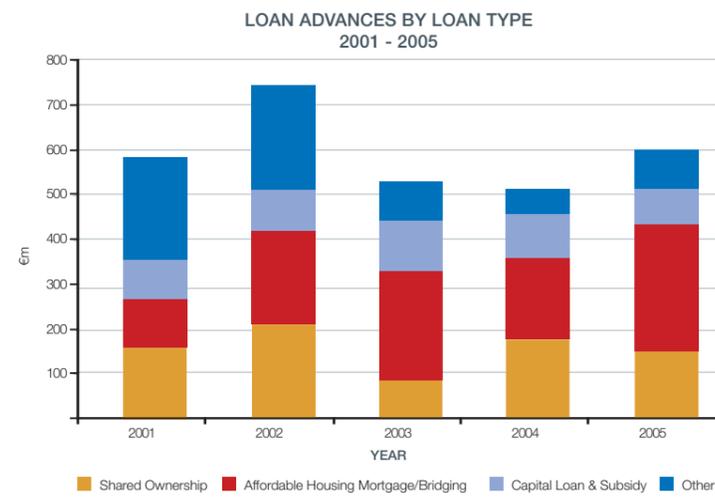
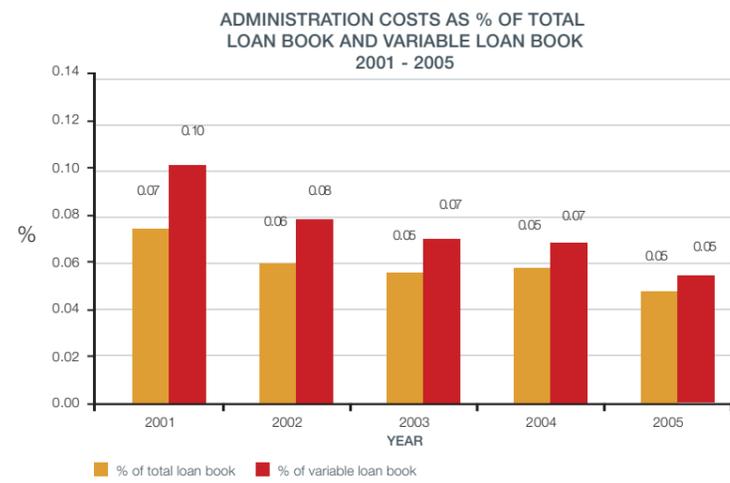


APPENDIX 2 Graphs on the Loan Book and Financial Trends



APPENDIX 2

Graphs on the Loan Book and Financial Trends



APPENDIX 3

Staff Structure (as at 23 March 2006)

