

# CONTENTS.

## ANNUAL REPORT 2006

<b>DIRECTORS AND OTHER INFORMATION</b>	02
01 Chairman's Report	05
02 Directors' Report	09
03 Statement of Directors' Responsibilities	17
04 Independent Auditor's Report	19
05 Statement of Accounting Policies	23
06 Income and Expenditure Account	27
07 Statement of Total Recognised Gains and Losses	29
08 Balance Sheet	31
09 Cash Flow Statement and Reconciliation of Net Cash Flow to movement in Net Debt	33
10 Notes forming part of the Financial Statements	35
11 Appendices	57
<b>APPENDICES</b>	
Appendix 1: Statistics on the Loan Book	57
Appendix 2: Graphs on the Loan Book and Financial Trends	60
Appendix 3: Staff Structure	63

# DIRECTORS

## AND OTHER INFORMATION

### BOARD OF DIRECTORS



Edward Coffey (1, 3, 4)



Ian d'Alton (1, 5)



Fr Patrick Cogan (2, 3, 4)



Maria Graham (1, 3, 4)



Clodagh Henehan (1, 4)



Jackie Maguire (2, 4)



Áine Stapleton (1, 4)



Michael Hayes (2, 4)



Anthony Vesey (2, 4)

#### PRINCIPAL BOARD COMMITTEES

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

#### EXECUTIVE/NON-EXECUTIVE DIRECTORS

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  
Telephone: 00 353 1 872 5722  
Fax: 00 353 1 872 5878  
Website: [www.hfa.ie](http://www.hfa.ie)

#### AUDITORS

KPMG  
Chartered Accountants  
1 Harbourmaster Place  
IFSC  
Dublin 1

#### SOLICITORS

McCann FitzGerald  
Solicitors  
Riverside One  
Sir John Rogerson's Quay  
Dublin 2

A & L Goodbody  
IFSC  
North Wall Quay  
Dublin 1

CHAIRMAN'S REPORT

# 01.

## CHAIRMAN'S REPORT



### HIGHLIGHTS OF A YEAR OF CHALLENGE AND CHANGE

- Net loan advances were €120 million, and outstanding loans now amount to over €3 billion.
- In a highly competitive market, Agency-funded loans continued to offer excellent value to borrowers.
- Good progress was made in developing pilot projects for direct loans to voluntary housing bodies and unguaranteed loans to local authorities for water, waste and environmental projects.
- The Agency's risk management process was re-engineered in house and received a positive assessment from consultants.
- A new Board and Chief Executive Officer were appointed.

### LOANS TO LOCAL AUTHORITIES AND VOLUNTARY HOUSING BODIES

The Agency supplies housing finance to local authorities in a wide range of types and structures. Gross loan advances in 2006 amounted to €563.7 million. When redemptions and annuity payments are taken into account, net advances were €120 million, and the Agency's loan book reached a total of over €3 billion. A gross €103 million was advanced for affordable housing mortgages, while loans for voluntary housing bodies under the Capital Loan and Subsidy scheme totalled €83.5 million. Other

programmes funded included bridging and land acquisition loans, and loans for housing-related projects. A pilot project for direct lending to voluntary housing bodies is in train. Also, the Agency is completing an innovative project with the European Investment Bank to act as a conduit between local authorities and the EIB for water, waste and environmental project loans that would otherwise be too small to qualify for EIB preferential interest rates.

### GOVERNMENT HOUSING POLICY

The *National Development Plan 2007-2013* was published in January 2007, followed by a comprehensive housing policy statement - *Delivering Homes, Sustaining Communities* - in mid-February. Some €4.5 billion gross over the life of the Plan will be available to fund mortgage finance for households on lower incomes who avail of affordable housing, and social housing provided by the voluntary and co-operative housing sector. This should translate into total net new lending of about €2 billion over the period of the Plan.

### INTEREST RATES AND COMPETITION

Interest rates were on a steep upward path in 2006. The European Central Bank increased its base rate five times during the year, with the benchmark one-month EURIBOR increasing from 2.375% at the beginning of the year to 3.625% at its end. Some further increases seem likely in 2007 before the top of the current cycle is reached. While local authority-provided mortgages do not directly compete with the private sector

market, it is Agency policy to keep rates at the finest level possible consistent with providing for risks in the Agency's portfolio. Increasingly, private sector mortgages track the ECB base rate. On this basis, Agency-generated mortgages are priced to households at a rate of ECB base rate plus 1%, which represents good value for first-time borrowers on lower incomes. Local authorities also benefit from a very cost-effective interest rate on their non-mortgage housing-related borrowings from the Agency. During 2006, the Agency introduced some new pricing structures for loans in this area, responding to the needs of our customers.

#### PROFITABILITY, RESERVES AND RISK MANAGEMENT

For the past eleven years or so, the Agency has had a policy of building up its reserves and setting its margins so that it will be in a position to meet the costs of substantial risks inherent in its portfolio. These risks relate to older shared ownership and high fixed rate loans advanced and funded in a pre-euro environment, and they will impact on the Agency through to 2018. I continue to emphasise - as has been done in past Annual Reports - that the Agency is aware of the significance of the risks, and has put measures in place to deal with them. As projected and planned for, these risks are now crystallising. In 2006, the Agency, as it expected to do, made a loss of €5.61 million before inflation gains are taken into account. Losses will increase in 2007, before dropping back in 2008 when part of the risk drops out of the portfolio. Reserves at end-2006 amounted to €30.73 million, and these will be utilised to absorb the planned losses as they arise through to 2018. In addition, the Board monitors the Agency's risk management and earnings position on a periodic basis, and will make margin adjustments as necessary.

During 2006, the Agency re-engineered its risk management model. An outside firm of consultants was appointed to assess the model and the assumptions underlying it, and I am pleased to say that it was found to be both conservative in the assumptions used and robust in its construction.

#### FUNDING AND TREASURY MANAGEMENT

Net new funding during the year was raised through the Agency's €2.5 billion eurocommercial paper programme, which is operated on our behalf by the National Treasury

Management Agency - effectively, efficiently and in close consultation with ourselves. The programme attracts the highest short-term ratings from Moody's and Standard & Poor's rating agencies. Other funding which the Agency uses includes note issuance facilities and overdrafts, which are flexible and which permit speedy issuance, usually on a same-day basis. This latter is important in a business which has a cash and cash-equivalent turnover of some €35 billion per annum. The Agency will continue to seek out flexible and cheap funding whenever it is opportune to do so.

#### CUSTOMER SERVICE

The Agency operates a policy of providing Quality Customer Service (QCS). The Agency here reports on the criteria that are used to monitor performance in this area.

*For loan advances to local authorities*, the Agency has as its target that 95% of loans are made within seven days of receipt of the application. The Agency managed to issue 92% 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.

The Agency's Policies and Procedures Manual identifies *staff training and development* as a priority. Our target of spending the equivalent of 4% of payroll costs on training is close to being realised, with 3.6% the outturn for 2006. We expect that further progress can be made in this area in 2007.

*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 2006.

### FREEDOM OF INFORMATION

The Agency came within the scope of the Freedom of Information Act, 1997, in 2002. Details of access to the Agency's records and information on the Agency can be found at the Agency's website, [www.hfa.ie](http://www.hfa.ie). The Freedom of Information Officer is Mr Barry O'Leary and the Agency's internal reviewer is Dr Ian d'Alton. No requests for information were received in 2006.

### ADMINISTRATION AND TECHNOLOGY

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 2006. That action plan has been superseded by *Towards 2016*, a new ten year social framework plan. The Agency will continue to comply with its bi-annual reporting provisions under this arrangement in 2007.

The Agency continues to operate with a staff complement of twelve persons. It has managed the substantial increase in its business over the past few years, and the projected increase in the future, by utilising appropriate technology. The Agency's policy is to ensure that our customers are in a position to use our web-based loan application and billing systems to best effect. We update and improve our systems where appropriate. During 2006, a new treasury dealing and confirmations system was commissioned, replacing an earlier in house-developed platform.

### ACKNOWLEDGEMENTS

The Agency could not function effectively without the co-operation and assistance of all its stakeholders. I thank especially the Ministers for the Environment, Heritage & Local Government, and Finance who, together with the staff of their Departments, have given us excellent support and encouragement. Our appreciation also goes to the NTMA, the Central Bank, the credit rating agencies, our auditors, lawyers and bankers, all of whom provide vital services to the Agency. The Agency's customers are the local authorities and the voluntary housing bodies, and we are grateful for their continued business. We aim to continue the provision of fast, flexible and cost-effective financing for them.

On behalf of the members of the Board, I would like to offer my thanks to the Agency's staff for all the courtesies they have extended to us during 2006.

A new Board was appointed in early 2007. I welcome back Fr Pat Cogan, Ms Maria Graham, Mr Michael Hayes, Ms Jackie Maguire and Ms Áine Stapleton, and those new members – Dr Ian d'Alton (the Agency's new Chief Executive Officer), Ms Clodagh Henehan and Councillor Anthony Vesey who now join us. I trust that their time on the Board will be rewarding and productive.

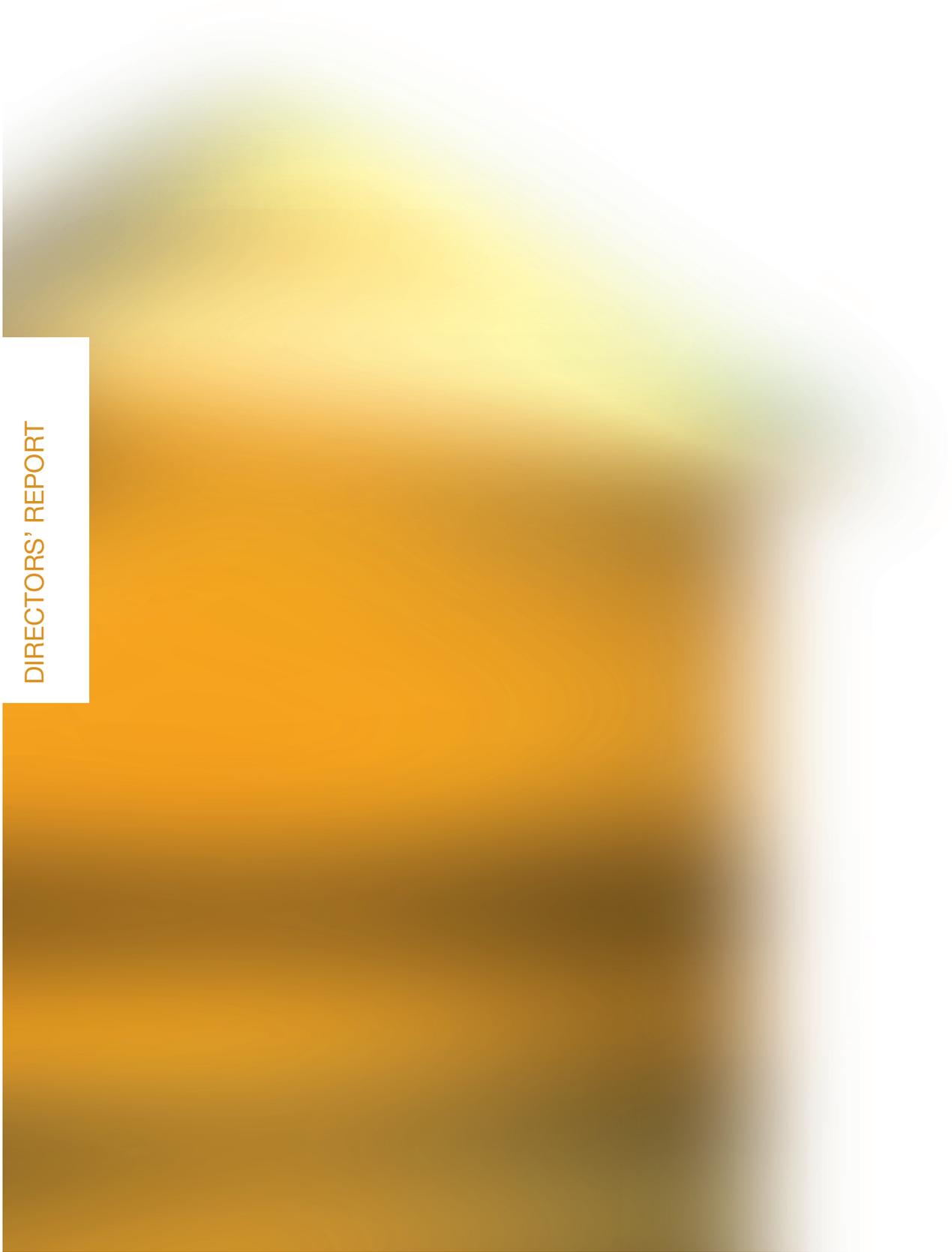
Finally, I pay a warm and special tribute to Jim Hehir, who retired on 12 January 2007. Jim was Managing Director of the Agency for over 22 years. During that time he oversaw a ten-fold increase in its book, a host of new functions, and a technological revolution - all with unflappable calm, good humour, careful judgment and great wisdom. We wish him well in his new life.



Edward Coffey

Chairman

26 April 2007



DIRECTORS' REPORT

# 02.

## DIRECTORS' REPORT

The Directors present their annual report and audited financial statements for the year ended 31 December 2006.

### 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	(3,137)
Surplus at beginning of year	33,862
<b>Surplus at end of year</b>	<b>30,725</b>

The results are satisfactory and represent losses arising from the index-linked and fixed rate funding mismatches, offset in part by

inflationary profits. These results are part of the planned event of allowing our reserves absorb the losses arising from the index linked mismatch and our fixed rate loan portfolio, over the 2007 to 2018 period.

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 15 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 15 and 16 to these accounts. On pages 5 to 7, 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 2006 such loans represented outstanding balances of €28.1 million. The Agency is liable for any credit losses that may arise on these mortgages.

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 2006 such loans represented outstanding balances of €3.01 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 Agency complies with the Code of Practice for the Governance of State Bodies as published by the Department of Finance.

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 27 March 2007 the Board of Directors comprises eight non-executive Directors and one executive Director. The non-executive Directors are appointed by the Minister for the Environment, Heritage and Local Government for a period not to exceed five years. All of the non-executive Directors are independent of management.

The Board meets regularly and is responsible for the proper management of the Agency. It takes the major strategic decisions and retains full and effective control while allowing operating management sufficient flexibility to run the business efficiently and effectively within a centralised reporting framework.

The Board has reserved certain items for its review including the approval of the annual financial statements, significant contracts, major investments and significant capital expenditure. Each non-executive Director brings an independent judgement to bear on all matters dealt with by the Board including those relating to strategy, performance, resources and standards of conduct.

All Board members have access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Agency's professional advisors are available for consultation with the Directors as required. Individual Directors may take independent professional advice, if necessary, at the Agency's expense.

The auditors have stated their continuing independence as auditors to the Agency for the year ended 31 December 2006. 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, Ian d'Alton, Maria Graham, Clodagh Henahan 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 and Maria Graham.

This committee makes recommendations in relation to the remuneration of the Chief Executive Officer for consideration by the Board, subject to the approval of the Minister for the Environment, Heritage and Local Government and operates under formal terms of reference. Details of Directors' fees and emoluments are set out in note 6 to the financial statements in accordance with the requirements of the Companies Acts, 1963 to 2006.

### *Audit Committee*

**Members:** Fr Patrick Cogan, Michael Hayes, Jackie Maguire and Anthony Vesey.

This committee met four times this year and operates under formal terms of reference. Under the Code of Practice for Governance of State Bodies, the committee may review any matters relating to the financial affairs of the Agency. It reviews the annual financial statements, internal audit reports, compliance with accounting standards and the appointment and fees of the external auditors. It also has a role in the setting of interest rates and the approval of the internal audit plan, against which performance of the plan is measured. The external auditors meet with the committee to review the results of the annual audit of the Agency's financial statements.

### *Directors' remuneration*

The Minister for the Environment, Heritage and Local Government determines the level of remuneration for the Board of Directors. Remuneration of non-executive Directors is not linked to performance.

### *Relations with shareholders*

The Directors and Management maintain an ongoing dialogue with the Agency's shareholder on strategic issues. Certain specified matters require the approval of the Minister for the Environment, Heritage and Local Government and/or the Minister for Finance, in respect of which ongoing communication with the Ministers, through their Departments, is maintained.

### *Internal control*

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 Chief Executive Officer also reports to the Board on behalf of the Management on significant changes in the business and external environment, which affect risks. The Board is provided with quarterly information. Where areas for improvements in the

system are identified, the Board considers the recommendations made by the Management and the Audit Committee.

The Directors have responsibility for maintaining a system of internal control which provides reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations. In this context, the Directors have regard to what, in their judgement, is appropriate to the Agency's business, to the materiality of the financial risks inherent in the business and to the relative costs and benefits of implementing specific controls.

The Agency's business involves the acceptance and management of a range of risks and the nature of these risks means that events may occur which give rise to unanticipated losses. The Agency's system of internal control is designed to provide reasonable, but not absolute, assurance against the risk of material errors, fraud or losses occurring. It is possible that internal controls can be circumvented or overridden. Further, because of changes in conditions, the effectiveness of an internal control system may vary over time.

The Directors have established an organisational structure with defined responsibility for internal control for each element of the Agency's business and this, together with the associated responsibility for reviewing periodically the effectiveness of such internal control, is formally acknowledged by the chief executive once a year.

The key elements of the system of internal control are as follows:

- (a) a clearly defined organisation structure with appropriate segregation of duties and limits of authority;
- (b) internal financial controls documented in a Policies and Procedures Manual which has been approved by the Board;
- (c) clearly defined limits and procedures for financial expenditure including procurement and capital expenditure;
- (d) annual budgets and long term plans for the Agency identifying key risks and opportunities;
- (e) monthly management accounts prepared and presented to the Board;

- (f) an internal auditor reviews key financial systems and controls;
- (g) an audit committee deals with significant control issues raised by internal or external audit.

The Directors have reviewed the effectiveness of the system of internal control for the financial year and to the date of approval of the statements and have considered the major business risks and the control environment.

#### COMPLIANCE STATEMENT

The 2003 Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 replaced the Combined Code issued by the Hampel Committee in 1998, and has a number of new principles and provisions. The Agency has chosen to voluntarily comply with these provisions as part of its policy of striving to follow best practice in matters of corporate governance.

The Directors are pleased to report that the Agency has complied with the 2003 Combined Code and the Code of Practice for the Governance of State Bodies during the year ended 31 December 2006, except for the following matters.

#### *Senior independent non-executive Director*

Consideration has been given to the matter of designating a recognised senior Board member other than the Chairman to whom concerns can be conveyed and, in view of the manner of appointment of Directors, the shareholding structure and existing Board procedures it has been concluded that it is not appropriate in the circumstances.

#### *Nominations Committee and procedures for election and re-election*

Non Executive Directors are appointed by the Minister for the Environment, Heritage and Local Government and hold office for such term as the Minister specifies when making the appointment but not for a period exceeding five years.

#### *Directors' remuneration*

The Minister for the Environment, Heritage and Local Government determines the level of remuneration for non-executive Directors. The remuneration of the Chief Executive Officer is set in line with current guidelines for pay in the Public Service. Remuneration of non-executive Directors is not linked to performance and is

disclosed collectively for all non-executive Directors as fees in note 6 to the financial statements.

#### *Internal audit*

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

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

The Board is currently reviewing the new requirements of the 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 new requirements in their Annual Report for the year ended 31 December 2007.

### **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 Agency.

### **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 2007), 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 Chief Executive Officer or Financial Controller (in the case of those involving the National Treasury Management Agency as agent/counterparty, noted by either of the Chief Executive Officer 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 €0.49 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 28 % of the Agency's available borrowing facilities at 31 December 2006. 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 2006) are subject to annual review by the Agency's bankers. The Agency's €2 billion eurocommercial paper programme was increased in size to €2.5 billion on 20 December 2004. The average cost of the Agency's debt in 2006 was an annualised 3.8% compared with 2.9% 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 Regulations, management reviewed the Agency's existing payment procedures as documented in the Policies and Procedures Manual and formed the view that they were adequate to provide reasonable but not absolute assurance against material non-compliance with the Act. A review of all payments made during the year ended 31 December 2006,

shows no late payments were made during 2006 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 required, by the Directors.

### 14 - COMPANIES (AUDITING AND ACCOUNTING) ACT, 2003

The Directors note the passing into law, in December 2003, of the Companies (Auditing and Accounting) Act, 2003. The Act requires that the Directors make two statements in the Report of the Directors. These are:

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

The Board is assessing the impact of the requirements of the Companies (Auditing and Accounting) Act, 2003. The Company Law Review Group is currently reviewing the requirements for companies with regard to Directors' Compliance Statements and the Agency will assess the implications when these requirements are issued.

### 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 of IFRS on its financial performance and financial position as well as any necessary system changes commenced 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

27 March 2007



Ian d'Alton  
Chief Executive Officer

27 March 2007

STATEMENT OF DIRECTORS'  
RESPONSIBILITIES

# 03.

## 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 year.

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 Agency 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 2006. 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.

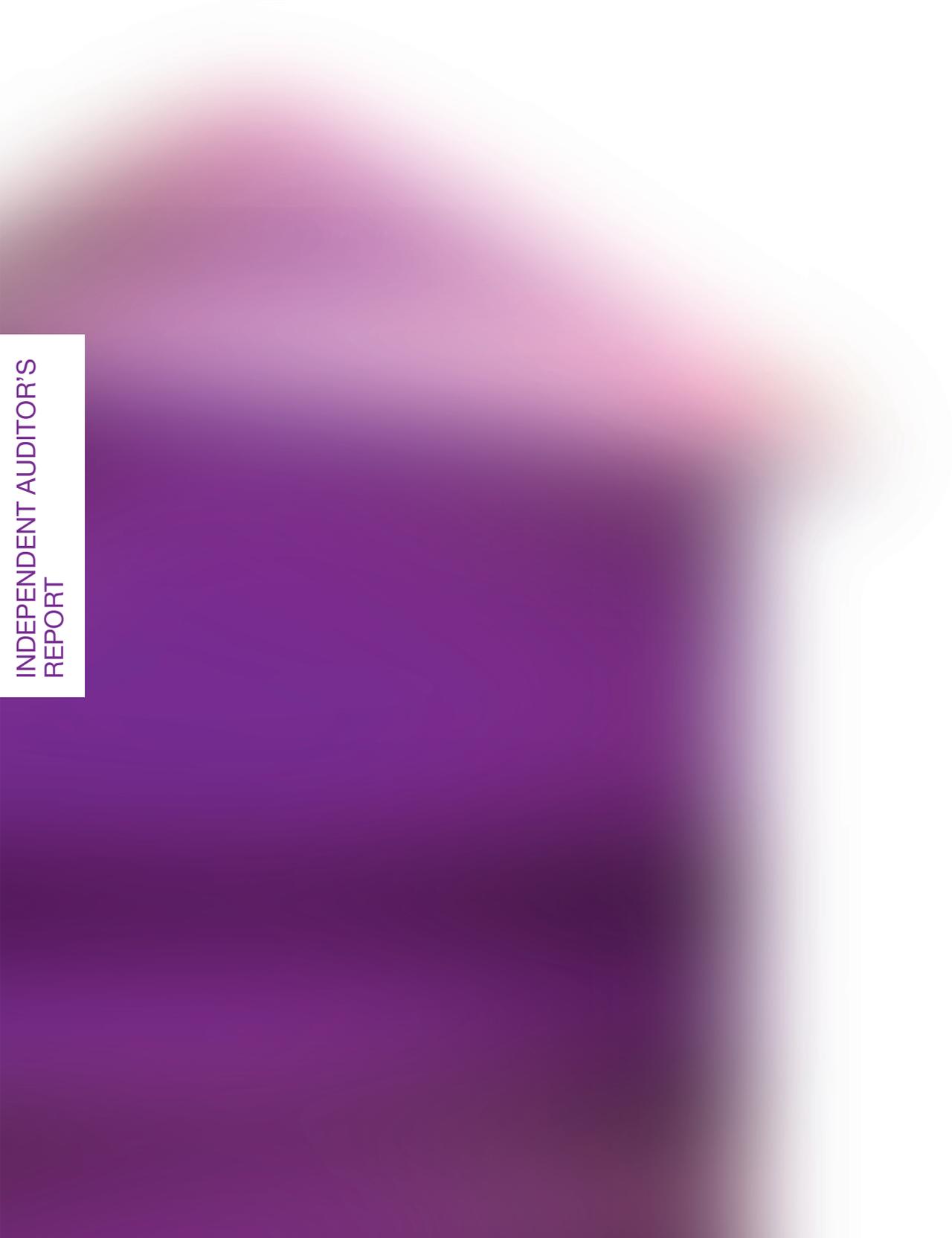
On behalf of the Board,



**Edward Coffey**  
Chairman  
27 March 2007



**Ian d'Alton**  
Chief Executive Officer  
27 March 2007



INDEPENDENT AUDITOR'S  
REPORT

# 04.

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

We have audited the financial statements of Housing Finance Agency plc for the year ended 31 December 2006 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 17.

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 2006. We also report to you whether, in our opinion: proper books of account have been kept by the Agency; whether at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Agency; 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 9 to 15 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. Our responsibilities do not extend to any other information.

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 Agency's circumstances, consistently applied and adequately disclosed.

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

#### Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the Agency's affairs as at 31 December 2006 and of its result of operations for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2006.

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 Agency. The Agency's financial statements are in agreement with the books of account.

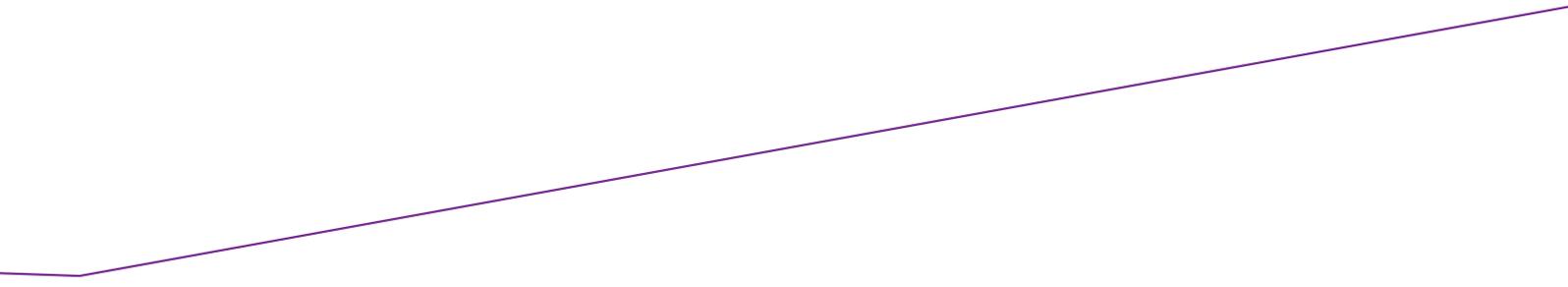
In our opinion the information given in the Directors' report is consistent with the financial statements.

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 2006 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the Agency.



---

Chartered Accountants  
Registered Auditor  
27 March 2007





STATEMENT OF  
ACCOUNTING POLICIES

# 05.

## STATEMENT OF ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Agency's financial statements.

### BASIS OF PREPARATION

The financial statements 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.

### FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in euro, which is the Agency's functional currency. Except as indicated, financial information presented has been rounded to the nearest thousand.

### 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 March 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 counter party 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 statement 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.

#### 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 and expenditure account.

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

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

#### 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.



INCOME AND  
EXPENDITURE ACCOUNT

# 06.

## INCOME AND EXPENDITURE ACCOUNT

	Note	Year ended 31 December 2006	Year ended 31 December 2005
		€'000	€'000
Income - continuing activities	3	107,899	81,845
Direct expenditure	4	<u>(113,014)</u>	<u>(83,472)</u>
Deficit of income over direct expenditure		(5,115)	(1,627)
Indirect expenditure	5	<u>(1,926)</u>	<u>(1,820)</u>
Operating deficit for the financial year - continuing activities		(7,041)	(3,447)
Finance income (net)	7	<u>4,098</u>	<u>1,838</u>
Deficit for the financial year		<u><u>(2,943)</u></u>	<u><u>(1,609)</u></u>

There is no significant difference between the results as disclosed in the income and expenditure account and the results on an unmodified historical cost basis in the current year or the preceding year.

On behalf of the Board,



Edward Coffey  
Chairman  
27 March 2007



Ian d'Alton  
Chief Executive Officer  
27 March 2007

STATEMENT OF TOTAL RECOGNISED  
GAINS AND LOSSES

# 07.

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	<b>Year ended 31 December 2006 €'000</b>	Year ended 31 December 2005 €'000
Deficit for the financial year	<b>(2,943)</b>	(1,609)
Actuarial gains and losses	<b>( 194)</b>	(211)
Cash flow hedging		
Amount recognised in equity	<b>13,094</b>	(41,554)
Transferred to the income and expenditure account	<b>(13,094)</b>	41,554
Total recognised gains and losses for year	<b>(3,137)</b>	(1,820)

BALANCE SHEET

# 08.

## BALANCE SHEET

	Note	31 December 2006 €'000	31 December 2005 €'000
<b>Assets employed</b>			
Tangible fixed assets	9	36	41
<b>Current assets</b>			
Debtors (advances due after more than one year: €2,663,812 [2005: €2,574,427])	8	3,116,845	2,964,162
Derivative financial instruments	16	-	41,784
Cash at bank and in hand	10	7	1
		<b>3,116,852</b>	<b>3,005,947</b>
Creditors (amounts falling due within one year)	11	(2,142,142)	(1,952,815)
Derivative financial instruments	16	(13,094)	(230)
<b>Net current assets</b>		<b>961,616</b>	<b>1,052,902</b>
<b>Total assets less current liabilities</b>		<b>961,652</b>	<b>1,052,943</b>
Creditors (amounts falling due after more than one year)	12	(409,274)	(516,556)
Debt securities in issue			
Index linked bonds	13	(430,454)	(411,827)
8.75% Housing Finance Agency stock 2018	14	(91,194)	(90,834)
<b>Net Assets before pension surplus</b>		<b>30,730</b>	<b>33,726</b>
Pension surplus	23	34	175
<b>Net Assets</b>		<b>30,764</b>	<b>33,901</b>
<b>Capital and reserves</b>			
Called up share capital	18	39	39
Retained surplus	20	30,725	33,862
<b>Shareholders' funds</b>	21	<b>30,764</b>	<b>33,901</b>

On behalf of the Board,



Edward Coffey, Chairman  
27 March 2007



Ian d'Alton, Chief Executive Officer  
27 March 2007

CASH FLOW STATEMENT AND  
RECONCILIATION OF NET  
CASH FLOW TO MOVEMENT  
IN NET DEBT

# 09.

## CASH FLOW STATEMENT

	Note	31 December 2006 €'000	31 December 2005 €'000
<b>Cash outflow from operating activities</b>	19 (a)	<b>26,625</b>	(126,687)
Returns on investments and servicing of finance	19 (b)	<b>(90,689)</b>	(71,630)
Capital expenditure	19 (b)	<b>(22)</b>	(14)
Increase in bank loans and notes payable	19 (b)	<b>64,562</b>	199,759
<b>Increase in cash during the year</b>		<b>476</b>	1,428

## RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	Note	31 December 2006 €'000	31 December 2005 €'000
<b>Increase in cash during the year</b>		<b>476</b>	1,428
Cash inflow from change in debt financing	19 (b)	<b>(64,562)</b>	(199,882)
Non-cash movements	19 (c)	<b>(32,082)</b>	(54,235)
<b>Movement in net debt during the year</b>		<b>(96,168)</b>	(252,689)
Net debt at beginning of year	19 (c)	<b>(2,959,000)</b>	(2,706,312)
<b>Net debt at end of year</b>	19 (c)	<b>(3,055,168)</b>	(2,959,001)

NOTES FORMING PART OF  
THE FINANCIAL STATEMENTS

# 10.

## 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: 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.

### 3: INCOME - CONTINUING ACTIVITIES

Interest on advances to local authorities which were approved:

	<b>31 December 2006 €'000</b>	31 December 2005 €'000
Post 27 May 1986	<b>105,111</b>	79,476
Pre 27 May 1986	<b>2,788</b>	2,369
	<b>107,899</b>	81,845

**4: DIRECT EXPENDITURE**

	<b>31 December 2006 €'000</b>	31 December 2005 €'000
<i>Index - linked bonds</i>		
Bond interest	<b>12,632</b>	12,244
Premium on redemption of bonds (Note 13)	<b>18,301</b>	12,012
	<b>30,933</b>	24,256
<i>Stock and loan costs</i>		
Interest payable on bank borrowings, commercial paper, guaranteed notes and stock	<b>82,001</b>	59,264
Foreign exchange gains/(losses) from borrowings	<b>(13,094)</b>	41,506
Amounts recycled from cashflow hedge reserve	<b>13,174</b>	(41,554)
	<b>82,081</b>	59,216
	<b>113,014</b>	83,472

**5: INDIRECT EXPENDITURE**

	<b>31 December 2006 €'000</b>	31 December 2005 €'000
<i>Other expenditure</i>		
Administrative expenditure (Note 6)	<b>1,754</b>	1,610
Administration fees to local authorities	<b>172</b>	210
	<b>1,926</b>	1,820

## 6: ADMINISTRATIVE EXPENDITURE

Administrative expenditure has been arrived at after charging:

	<b>31 December 2006 €'000</b>	31 December 2005 €'000
<b>Directors' emoluments</b>		
Fees - Chairman	14	10
Fees - other Directors	54	38
Other emoluments	110	100
Pension contributions	22	22
	<u>200</u>	<u>170</u>
<b>Employee costs</b>		
Salaries	662	621
Social welfare costs	38	37
Service costs-pension	98	102
	<u>798</u>	<u>760</u>
Total included in income and expenditure account		
	<u>194</u>	<u>211</u>
Actuarial losses on defined benefit scheme included in the statement of recognised gains and losses		

The average number of employees, including executive Directors, during the year was 12 (2005:12).

	<b>31 December 2006 €'000</b>	31 December 2005 €'000
Auditor's remuneration (excluding value added tax)	57	74
Depreciation	27	41
Rental payments under operating lease	75	75
	<u>159</u>	<u>190</u>

## 7: FINANCE INCOME (NET)

	<b>31 December 2006 €'000</b>	31 December 2005 €'000
<b>Included in finance income</b>		
Expected return on pension assets	109	140
Interest cost on pension liabilities	(69)	(92)
Investment income	<u>4,058</u>	<u>1,790</u>
<b>Net finance return</b>	<u><u>4,098</u></u>	<u><u>1,838</u></u>

## 8: DEBTORS

	<b>31 December 2006 €'000</b>	31 December 2005 €'000
Balance due on advances	3,040,443	2,896,876
Other debtors and prepayments	228	209
Due from local authorities	<u>76,174</u>	<u>67,077</u>
	<u><u>3,116,845</u></u>	<u><u>2,964,162</u></u>

Balance due on advances is analysed as follows:

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

Balance at beginning of year	2,862,631	2,655,647
Loans advanced	563,738	578,875
Less: loans repaid	(436,399)	(381,837)
Interest charged	105,111	79,703
Interest received	<u>(82,781)</u>	<u>(69,757)</u>
<b>Balance at end of year</b>	<u><u>3,012,300</u></u>	<u><u>2,862,631</u></u>

	<b>31 December 2006 €'000</b>	31 December 2005 €'000
<b>(ii) Loans approved pre 27 May 1986</b>		
Balance at beginning of year	<b>34,245</b>	41,559
Less: loans repaid	<b>(6,102)</b>	(7,314)
	<hr/>	<hr/>
Interest charged	<b>28,143</b>	34,245
Interest received	<b>2,788</b>	2,369
	<b>(2,788)</b>	(2,369)
	<hr/>	<hr/>
	<b>28,143</b>	34,245
	<hr/>	<hr/>
<b>Balance at end of year</b>	<b>3,040,443</b>	2,896,876
	<hr/> <hr/>	<hr/> <hr/>

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-May 1986 mortgages which are secured by the underlying mortgage property; however, no impairment has been recognised in these accounts. Loans advanced to local authorities on or after 27 May 1986 are deemed to represent no credit risk to the Agency.

## 9: TANGIBLE FIXED ASSETS

	<b>Total €'000</b>
Cost	
At beginning of year	<b>514</b>
Additions	<b>22</b>
Disposals	<b>-</b>
	<hr/>
<b>At end of year</b>	<b>536</b>
	<hr/>
<i>Depreciation</i>	
At beginning of year	<b>473</b>
Charged for year	<b>27</b>
Disposals	<b>-</b>
	<hr/>
<b>At end of year</b>	<b>500</b>
	<hr/>
<i>Net book value</i>	
<b>31 December 2006</b>	<b>36</b>
	<hr/> <hr/>
31 December 2005	41
	<hr/> <hr/>

10: CASH AT BANK AND IN HAND

	<b>31 December 2006 €'000</b>	31 December 2005 €'000
Cash at bank and in hand	<u>7</u>	<u>1</u>
	<u><u>7</u></u>	<u><u>1</u></u>

11: CREDITORS (AMOUNTS FALLING DUE WITHIN ONE YEAR)

	<b>31 December 2006 €'000</b>	31 December 2005 €'000
Commercial paper, note issuance facilities and guaranteed notes	<b>2,124,253</b>	1,939,315
Interest due on stock and bonds	<b>7,185</b>	7,024
Accruals	<b>10,704</b>	6,006
Bank overdraft	<u>-</u>	<u>470</u>
	<u><u>2,142,142</u></u>	<u><u>1,952,815</u></u>
<b>Tax creditors (included in accruals)</b>		
PAYE	<u><u>34</u></u>	<u><u>25</u></u>

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

12: CREDITORS (AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR)

	<b>31 December 2006 €'000</b>	31 December 2005 €'000
Bank loans and notes payable or repayable other than by instalments:		
Between one and two years	<b>7,835</b>	146,459
Between two and five years	<b>309,274</b>	278,939
After more than five years	<u><b>92,165</b></u>	<u>91,158</u>
	<u><u>409,274</u></u>	<u><u>516,556</u></u>

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

## 13: DEBT SECURITIES IN ISSUE - INDEX LINKED BONDS

	<b>31 December 2006 €'000</b>	31 December 2005 €'000	
<i>Housing Finance Agency bond issues</i>			
2% Index Linked Bonds 2008	<b>107,928</b>	107,928	
4% Index Linked Bonds 2015	<b>95,230</b>	95,230	
Nominal value of bonds in issue	<b>203,158</b>	203,158	
Net unamortised expenses and premium/discount on issue	<b>796</b>	470	
Provision for premium on redemption of bonds	<b>203,954</b> <b>226,500</b>	203,628 208,199	
	<b>430,454</b>	411,827	
<i>Provision for premium on redemption of bonds</i>			
<i>31 December 2006</i>	<b>Total €'000</b>	<b>Deferred €'000</b>	<b>Provided €'000</b>
At beginning of year	<b>218,746</b>	<b>(10,547)</b>	<b>208,199</b>
Arising during the year	<b>15,938</b>	<b>2,363</b>	<b>18,301</b>
<i>At end of year</i>	<b>234,684</b>	<b>(8,184)</b>	<b>226,500</b>
31 December 2005			
At beginning of year	208,913	(12,726)	196,187
Arising during the year	9,833	2,179	12,012
<i>At end of year</i>	218,746	(10,547)	208,199

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.

#### 14: 8.75% HOUSING FINANCE AGENCY STOCK 2018

	<b>31 December 2006 €'000</b>	31 December 2005 €'000
At par at beginning of year	<b>95,230</b>	95,230
Less: Unamortised discount on issue	<b>(4,036)</b>	(4,396)
<b>At end of year</b>	<b><u>91,194</u></b>	<u>90,834</u>

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

#### 15: PROFILE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

	<b>31 December 2006 €'000</b>	31 December 2005 €'000
Fixed rate	<b>100,412</b>	109,501
Floating rate (including index linked)	<b>3,016,205</b>	2,854,452
	<b><u>3,116,617</u></b>	<u>2,963,953</u>
Derivatives (fixed rate)	-	41,784
	<b><u>3,116,617</u></b>	<u>3,005,737</u>

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.

*Currency profile of derivative assets as at*

	<b>31 December 2006 €'000</b>	31 December 2005 €'000
US Dollar	-	41,784

*Amount determined by floating rate benchmarks:*

	<b>31 December 2006 €'000</b>	31 December 2005 €'000
EURIBOR	<b>2,804,941</b>	2,595,085
Index linked	<b>211,264</b>	259,366
	<b><u>3,016,205</u></b>	<b><u>2,854,451</u></b>

*Interest rate risk profile of financial assets as at:*

	<b>31 December 2006</b>	31 December 2005
Weighted average fixed interest rate	<b>8.32%</b>	8.38%
Weighted average floating interest rate	<b>4.07%</b>	2.70%
Weighted average period for which fixed interest assets are fixed	<b>10.4 years</b>	11.7 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.

*Maturity and interest rate repricing of financial assets*

	<b>Maturity 31 December 2006 €'000</b>	<b>Repricing 31 December 2006 €'000</b>
Amounts falling due in one month or less	76,174	2,806,934
Amounts falling due between one and three months	137,943	214,153
Amounts falling due between three and twelve months	238,688	10
Amounts falling due between one and two years	129,241	1,050
Amounts falling due between two and three years	91,530	-
Amounts falling due between three and four years	60,054	-
Amounts falling due between four and five years	31,692	2,065
Amounts falling due after more than five years	2,351,295	92,405
	<u><u>3,116,617</u></u>	<u><u>3,116,617</u></u>

*Maturity and interest rate repricing of financial assets*

	Maturity 31 December 2005 €'000	Repricing 31 December 2005 €'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
	<u><u>2,963,953</u></u>	<u><u>2,963,953</u></u>

*Financial liabilities are analysed below:*

	<b>31 December 2006 €'000</b>	31 December 2005 €'000
Fixed rate	<b>100,846</b>	95,476
Floating rate	<b>2,967,473</b>	2,815,119
	<b>3,068,319</b>	2,910,595
Derivative (fixed rate)	<b>13,094</b>	230
	<b>3,081,413</b>	2,910,825
Euro	<b>2,578,830</b>	1,935,263
US Dollar	<b>498,966</b>	965,463
Japanese Yen	<b>3,617</b>	-
GB Pound	<b>-</b>	10,099
	<b>3,081,413</b>	2,910,825

These are analysed as follows:

Floating rate liabilities include the Agency's eurocommercial paper debt. This debt consists of short-term, fixed rate debt priced off a variable index (EURIBOR). The Directors believe the debt is appropriately classified as floating rate.

*Interest rate risk profile of financial liabilities as at*

	<b>31 December 2006</b>	31 December 2005
Weighted average fixed interest rate	<b>8.22%</b>	8.97%
Weighted average floating interest rate	<b>3.52%</b>	2.25%
Weighted average period for which fixed interest liabilities are fixed	<b>10.4 years</b>	11.7 years

	<b>31 December 2006 €'000</b>	31 December 2005 €'000
EURIBOR	<b>2,536,971</b>	2,402,778
Prime	<b>49</b>	516
Index linked	<b>430,454</b>	411,827
	<b>2,967,474</b>	2,815,121

*Amount determined by floating rate benchmarks:*

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

**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 2006 and 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 2006***

	<b>Undrawn committed €'000</b>	<b>Maturity €'000</b>	<b>Repricing facilities €'000</b>
Maturing in one month or less	902,454	1,196,548	492
Maturing between one and three months	689,610	908,008	74,435
Maturing between three and twelve months	545,332	434,281	20,430
Maturing greater than 1 year and less than 2 years	249,372	249,372	-
Maturing greater than 2 years and less than 3 years	59,276	1,788	40,724
Maturing greater than 3 years and less than 4 years	250,000	575	-
Maturing greater than 4 years and less than 5 years	-	2,239	-
Maturing greater than 5 years	372,275	275,508	-
<b>Total</b>	<b>3,068,319</b>	<b>3,068,319</b>	<b>136,081</b>

*Maturity, liquidity measures and interest rate repricing of financial liabilities as at 31 December 2005*

	Undrawn committed €'000	Maturity €'000	Repricing 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	<u>2,910,595</u>	<u>2,910,595</u>	<u>252,653</u>

*Fair value*

	31 December 2006 Carrying value €'000	31 December 2006 Fair value €'000
Financial assets		
Fixed rate	100,412	361,275
Floating rate	2,537,020	2,537,020
Derivative assets	-	-
Index linked	211,264	420,810
No interest	-	-
	<u>2,848,696</u>	<u>3,319,105</u>
Financial liabilities		
Fixed rate	100,846	225,168
Floating rate	2,537,020	2,534,178
Index linked	430,453	514,243
Derivative liabilities	13,094	13,094
	<u>3,081,413</u>	<u>3,286,683</u>

	31 December 2005 Carrying value €'000	31 December 2005 Fair value €'000
<b>Financial assets</b>		
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
	<u>2,962,829</u>	<u>3,231,916</u>
<b>Financial liabilities</b>		
Fixed rate	109,443	175,875
Floating rate	2,403,292	2,439,455
Index linked	258,300	536,060
Derivative liabilities	230	230
	<u>2,771,265</u>	<u>3,151,620</u>

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 (2005: EURIBOR) on a 365 day basis.

Similarly, the Agency's liabilities are valued by reference to one month EURIBOR (3.633% [360-day basis]) at 29 December 2006, with the cost of funding index linked stock compared to the cost of funding a conventional variable rate stock. €3.3bn has been estimated as the fair value of the Agency's liabilities. This is again based on EURIBOR at the year end rate (2005: 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 29 December 2006.

## 16: DERIVATIVE FINANCIAL INSTRUMENTS

## At 31 December 2006

	Contract/notional amount €'000	Fair value assets €'000	Fair value liabilities €'000
<i>Derivatives designated as cash flow hedges</i>			
Forward rate agreements	496,738	-	(13,094)
<b>Total recognised derivative assets/(liabilities)</b>	<b>496,738</b>	<b>-</b>	<b>(13,094)</b>

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

## 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)
<b>Total recognised derivative assets/(liabilities)</b>	<b>987,710</b>	<b>41,784</b>	<b>(230)</b>

## 17: HEDGING RESERVE / CASH FLOW HEDGES

	2006 €'000	2005 €'000
Balance at 1 January	-	-
Gross amount of gains/(losses)	(13,094)	41,554
Gains/(losses) from changes in fair value	-	-
Transferred to income and expenditure account	13,094	(41,554)
<b>Balance at 31 December</b>	<b>-</b>	<b>-</b>

## 18: SHARE CAPITAL

There are 30,000 ordinary shares of €1.30 authorised, allotted, called up and fully paid amounting to €39,000 at 31 December 2006 and 2005.

## 19: CASH FLOW STATEMENT

	<b>31 December</b>	31 December
	<b>2006</b>	2005
	<b>€'000</b>	€'000
<b>(a) Reconciliation of operating deficit to cash inflow/(outflow) from operating activities</b>		
Operating deficit for the financial year	<b>(7,041)</b>	(3,447)
Direct expenditure (Note 4)	<b>113,014</b>	83,472
Pension surplus	<b>98</b>	102
Depreciation (Note 9)	<b>27</b>	40
<b>Movements in working capital:</b>		
Increase in amounts due from local authorities (Note 8)	<b>(9,097)</b>	(6,715)
Increase in advances (Note 8)	<b>(143,567)</b>	(200,737)
Increase/decrease in other debtors and prepayments	<b>(150)</b>	320
Increase in creditors	<b>18,383</b>	82
Decrease in derivatives	<b>54,958</b>	196
<b>Cash inflow/(outflow) from operating activities</b>	<b><u>26,625</u></b>	<b><u>(126,687)</u></b>
<b>(b) Gross cash flows</b>		
	<b>31 December</b>	31 December
	<b>2006</b>	2005
	<b>€'000</b>	€'000
<b>Returns on investments and servicing of finance</b>		
Interest received	<b>4,049</b>	1,984
Interest paid	<b>(94,738)</b>	(73,614)
<b>Net cash outflow from returns on investments and servicing of finance</b>	<b><u>(90,689)</u></b>	<b><u>(71,630)</u></b>

	<b>31 December 2006 €'000</b>	31 December 2005 €'000
<b>Capital expenditure</b>		
Payments to acquire tangible fixed assets	(22)	(14)
Net cash outflow from capital expenditure and disposals	(22)	(14)
Increase in bank loans and notes payable	64,562	199,759
Net cash inflow from change in debt financing	64,562	199,759

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

	<b>At 31 December 2006 €'000</b>	<b>Cash flows €'000</b>	<b>Non-cash movements €'000</b>	At 31 December 2005 €'000
Cash in hand, at bank	7	6	-	1
Overdraft	-	470	-	(470)
	7	476	-	(469)
Bank loans and notes repayable within one year	(2,124,253)	(171,844)	(13,094)	(1,939,315)
Bank loans and notes repayable after one year	(409,274)	107,282	-	(516,556)
Index linked bonds	(203,954)	-	(327)	(203,627)
Provision for premium on redemption of bonds 8.75% Housing Finance Agency Stock 2018	(226,500)	-	(18,301)	(208,199)
	(91,194)	-	(360)	(90,834)
	(3,055,168)	(64,086)	(32,082)	(2,959,000)

## 20: RECONCILIATION OF OPERATING SURPLUS/DEFICIT

	<b>31 December 2006 €'000</b>	31 December 2005 €'000
Surplus at beginning of year	<b>33,862</b>	35,094
Deficit for the financial year	<b>(2,943)</b>	(1,609)
Actuarial gains and losses	<b>(194)</b>	(211)
Transition adjustment at 1 January 2005 arising on adoption of FRS 23, 25 & 26	-	588
<b>Surplus at end of year</b>	<b><u>30,725</u></b>	<u>33,862</u>

## 21: RECONCILIATION OF SHAREHOLDERS' FUNDS

	<b>31 December 2006 €'000</b>	31 December 2005 €'000
Opening shareholders' funds	<b>33,901</b>	35,133
Recognised gains and losses for year	<b>(3,137)</b>	(1,232)
<b>Closing shareholders' funds</b>	<b><u>30,764</u></b>	<u>33,901</u>

## 22: COMMITMENTS

Operating lease commitments

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

	<b>Buildings €'000</b>
<b>Lease expiring:</b>	
After one year	<b><u>75</u></b>

### 23: PENSION SURPLUS

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 2006 the market value of the fund's assets was €2.13m (2005: €2.97m) 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 2006 by a Qualified Independent Actuary using the projected unit method. The principal actuarial assumptions used were as follows:

	<b>2006</b>	2005	2004
	%	%	%
Rate of increase in salaries	<b>4.00</b>	4.00	3.00
Rate of increase in pensions payments	<b>2.25</b>	2.25	2.00
Discount rate	<b>4.60</b>	4.25	4.50
Inflation assumption	<b>2.25</b>	2.25	2.00

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:	<b>Long-term rate of return expected at 31 December 2006</b> %	<b>Value at 31 December 2006</b> €'000	Long-term rate of return expected at 31 December 2005	Value at 31 December 2005	Long-term rate of return expected at 31 December 2004	Value at December 2004
			%	€'000	%	€'000
Equities	<b>7.00</b>	<b>1,688</b>	6.50	1,386	5.50	877
Bonds	<b>4.35</b>	<b>228</b>	3.60	273	3.75	306
Property	<b>7.00</b>	<b>107</b>	5.50	90	5.50	123
Cash	<b>2.25</b>	<b>111</b>	2.25	56	2.00	90
Other	-	-	-	1,169	-	954
<b>Total market value of pension scheme assets</b>		<b>2,134</b>		2,974		2,350
<b>Present value of pension scheme liabilities</b>		<b>(2,100)</b>		(2,799)		(2,052)
<b>Total net retirement surplus in scheme</b>		<b>34</b>		175		298
<b>Total net pension asset</b>		<b>34</b>		175		298

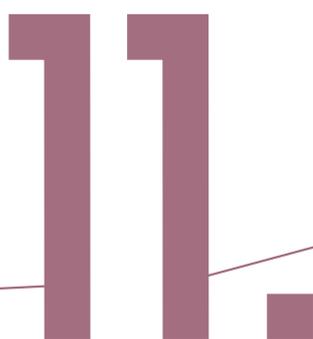
The actuarial gains and losses of the scheme may be analysed as follows:

	<b>31 Dec 2006 €'000</b>	31 Dec 2005 €'000	31 Dec 2004 €'000	31 Dec 2003 €'000	31 Dec 2002 €'000
<b>Included in statement of total recognised gains and losses:</b>					
Difference between expected and actual return on assets	<b>95</b>	361	(229)	103	(93)
Experience gains and losses on scheme liabilities	<b>(100)</b>	(211)	22	31	(167)
Effect of changes in actuarial assumptions	<b>(189)</b>	(361)	130	-	(27)
<b>Net in statement of total recognised gains/(losses)</b>	<b>(194)</b>	(211)	(77)	134	(287)
<b>History of actuarial gains and losses:</b>					
	<b>31 Dec 2006 €'000</b>	31 Dec 2005 €'000	31 Dec 2004 €'000	31 Dec 2003 €'000	31 Dec 2002 €'000
Difference between expected and actual return on assets	<b>95</b>	361	(229)	103	(93)
Expressed as a percentage of scheme assets	<b>4.5%</b>	12.1%	(9.7%)	5.3%	(6.1%)
Experience gains and losses on scheme liabilities	<b>(100)</b>	(211)	(22)	31	(167)
Expressed as a percentage of scheme liabilities	<b>(4.8%)</b>	(7.5%)	(1.0%)	1.6%	(10.6%)
Total actuarial gains and losses	<b>(194)</b>	(211)	(77)	134	(287)
Expressed as a percentage of scheme liabilities	<b>(9.3%)</b>	(7.5%)	(3.8%)	7.9%	(18.2%)
	<b>€'000</b>				
Surplus at beginning of the year	<b>175</b>				
Current service cost	<b>(99)</b>				
Past service cost	-				
Costs contribution paid	<b>112</b>				
Other finance income	<b>40</b>				
Actuarial loss	<b>(194)</b>				
Surplus at end of the year	<b>34</b>				

## 24: APPROVAL OF FINANCIAL STATEMENTS

The audited financial statements, which are in the form approved by the Minister for the Environment, Heritage and Local Government with the consent of the Minister of Finance, were approved by the Directors on 27 March 2007.

APPENDICES



## APPENDIX 1: STATISTICS ON THE LOAN BOOK

### (A) BY LOAN TYPE

Loans advanced to finance	2002 €'000	2003 €'000	2004 €'000	2005 €'000	2006 €'000
Fixed Rate	14,049	7,787	2,375	160	20,169
Variable Rate	620,660	439,216	491,808	578,715	543,569
Index Linked	90,276	-	-	-	-
<b>Total</b>	<b>724,985</b>	<b>447,003</b>	<b>494,183</b>	<b>578,875</b>	<b>563,738</b>

### (B) BY RATE TYPE AND DURATION OF LOAN

Duration of Loan	Fixed Rate €'000	Variable Rate €'000	Index Linked		Total €'000
			Post May 1986 €'000	Pre May 1986 €'000	
0 to 5 years	2,075	671,612	15,462	11,510	700,658
6 to 10 years	12,289	140,959	-	16,562	169,810
11 to 15 years	45,555	172,853	31,228	-	249,637
16 to 20 years	9,937	302,882	88,439	-	401,258
21 to 25 years	20,328	908,248	42,774	-	971,350
26 to 30 years	4,296	540,967	-	-	545,263
31 to 40 years	-	2,466	-	-	2,466
<b>Total</b>	<b>94,480</b>	<b>2,739,987</b>	<b>177,904</b>	<b>28,072</b>	<b>3,040,443</b>

## (C) BY LOCAL AUTHORITY AND NATIONAL BUILDING AGENCY

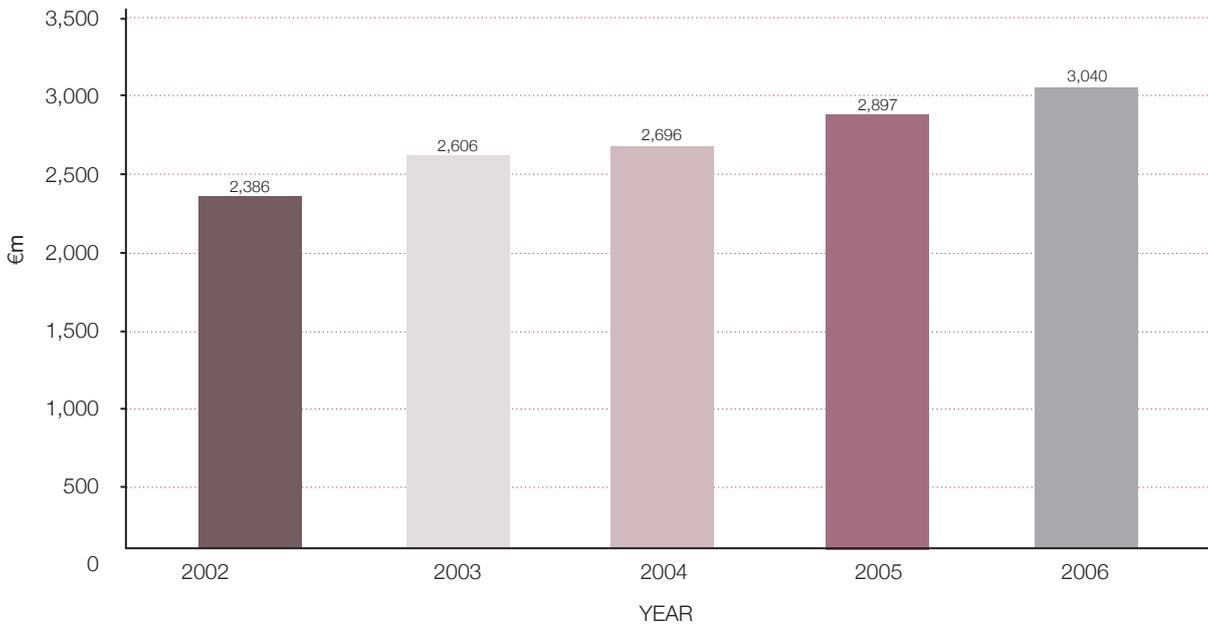
Local Authority	Advances in the 12 months to 31 December 2006 €'000	Balance outstanding at 31 December 2006 €'000
Athlone Town Council	300	1,753
Bray Town Council	-	1,577
Carlow County Council	8,209	37,994
Carrick on Suir Town Council	-	358
Castleblaney Town Council	-	93
Cavan County Council	7,441	15,639
Clare County Council	11,908	40,508
Clonakilty Town Council	-	810
Clones Town Council	-	203
Clonmel Borough Council	-	4,064
Cork City Council	12,066	84,126
Cork County Council	82,020	243,091
Donegal County Council	5,293	83,439
Drogheda Borough Council	5,670	28,383
Dublin City Council	111,432	665,239
Dundalk Town Council	3,826	33,745
Dunlaoghaire/Rathdown County Council	5,417	80,149
Dungarvan Town Council	-	1,841
Ennis Town Council	-	2,188
Enniscorthy Town Council	-	879
Fermoy Town Council	-	299
Fingal County Council	69,561	303,122
Galway City Council	33,689	112,597
Galway County Council	12,051	71,986
Kerry County Council	8,810	35,876
Kildare County Council	16,387	109,116
Kilkenny Borough Council	-	862
Kilkenny County Council	2,713	46,568
Laois County Council	35,270	85,746
Leitrim County Council	-	8,516
Letterkenny Town Council	-	74
Limerick City Council	-	25,145
Limerick County Council	4,490	32,237

## (C) BY LOCAL AUTHORITY AND NATIONAL BUILDING AGENCY (Continued)

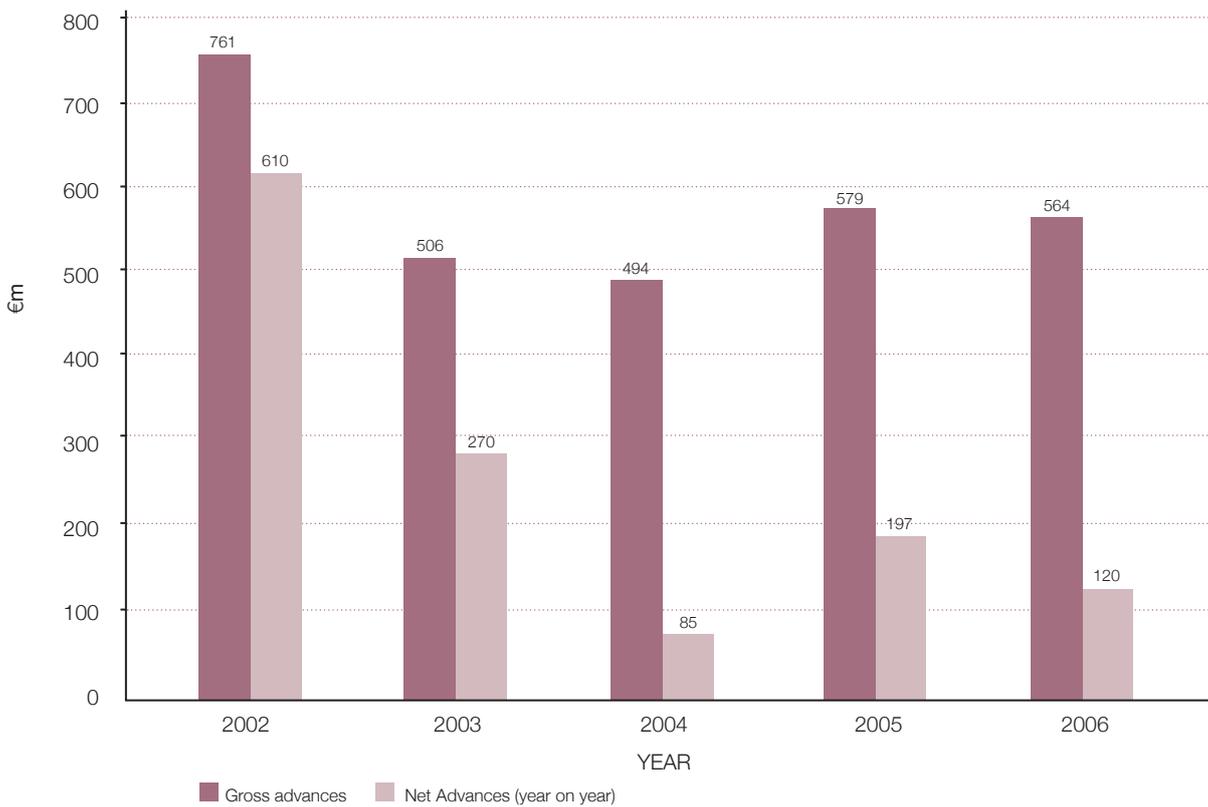
Local Authority	Advances in the 12 months to 31 December 2006 €'000	Balance outstanding at 31 December 2006 €'000
Longford County Council	-	31,696
Longford Town Council	-	2,758
Louth County Council	-	5,406
Macroom Town Council	-	30
Mallow Town Council	-	3,385
Mayo County Council	2,000	54,887
Meath County Council	14,487	52,341
Monaghan County Council	10,341	29,002
Naas Town Council	-	10,721
New Ross Town Council	-	18,499
Offaly County Council	5,589	38,562
Roscommon County Council	1,657	10,663
Sligo Borough Council	-	41,246
Sligo County Council	4,770	51,046
Skibbereen Town Council	1,200	1,234
South Dublin County Council	28,370	176,153
Tralee Town Council	16,834	23,447
Tullamore Town Council	89	5,977
North Tipperary County Council	5,909	-
South Tipperary County Council	12,010	51,602
Tipperary Town Council	-	333
Waterford City Council	8,550	61,942
Waterford County Council	144	31,156
Westmeath County Council	5,776	50,383
Westport Town Council	-	3,180
Wexford Borough Council	-	5,882
Wexford County Council	9,459	70,782
Wicklow County Council	-	39,718
Wicklow Town Council	-	6,492
<b>Sub total</b>	<b>563,738</b>	<b>3,036,746</b>
National Building Agency	-	3,697
<b>Total</b>	<b>563,738</b>	<b>3,040,443</b>

## APPENDIX 2: GRAPHS ON THE LOAN BOOK AND FINANCIAL TRENDS

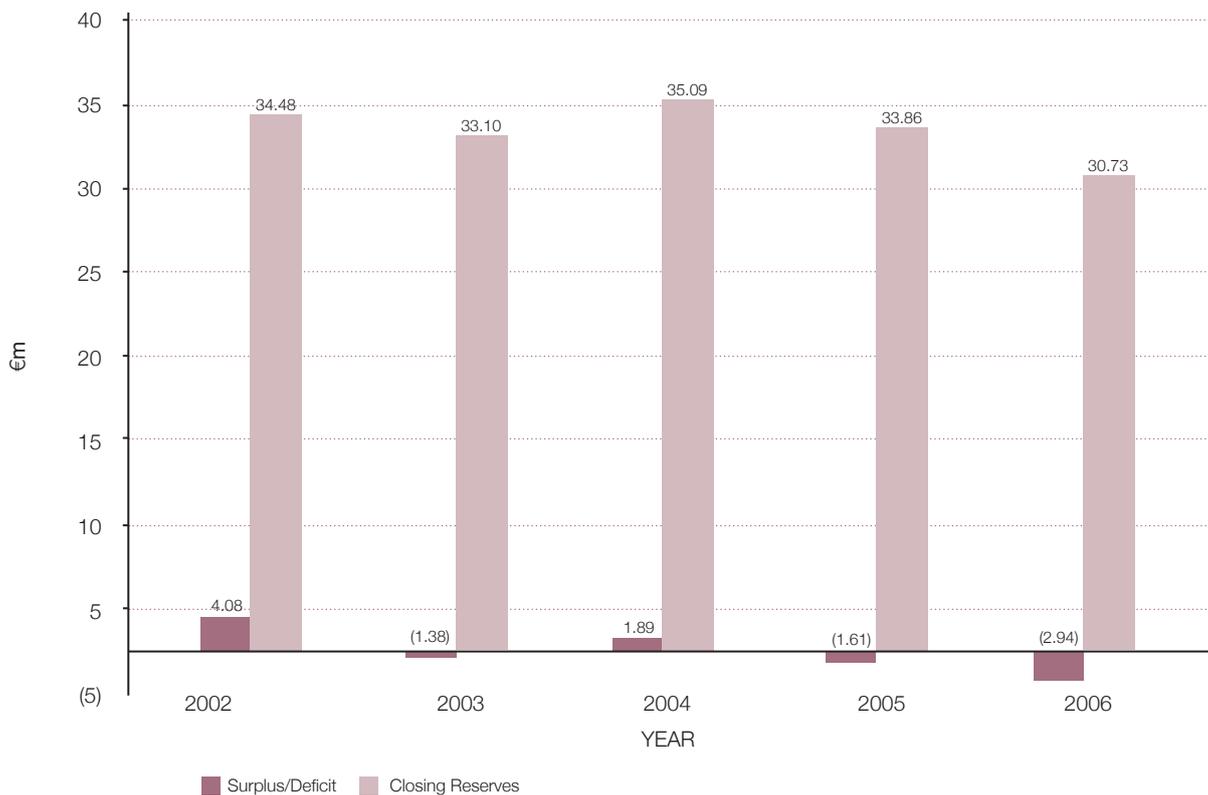
Housing Finance Agency Loan Book €m 2002 - 2006



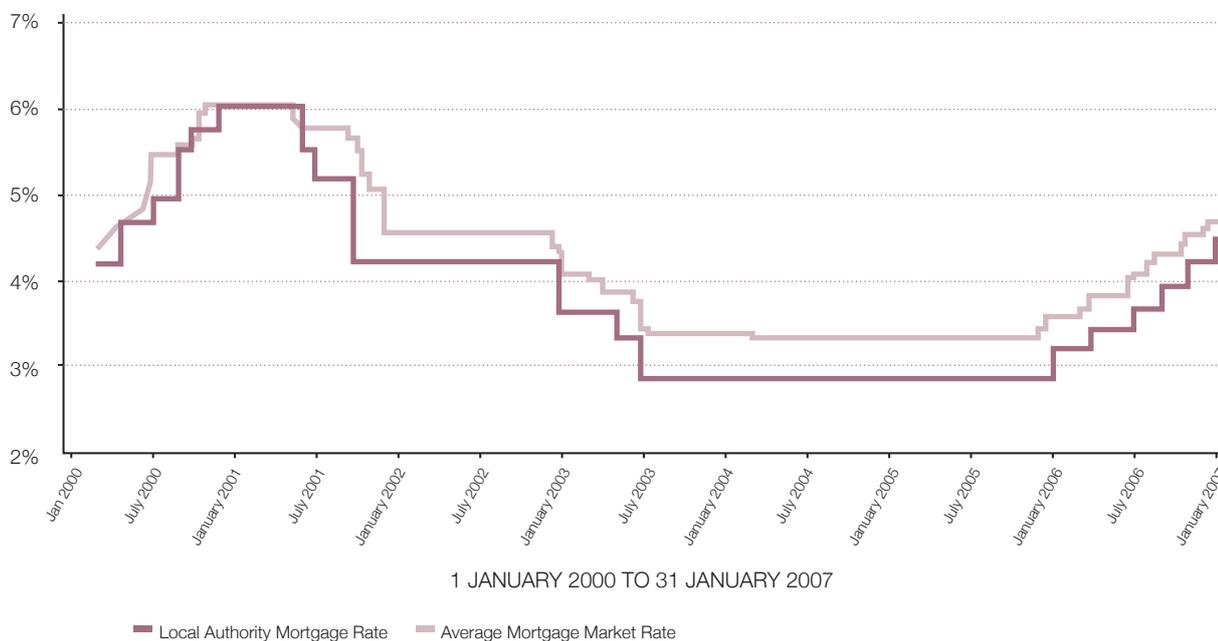
Loan Advances (Gross and Net) 2002 - 2006



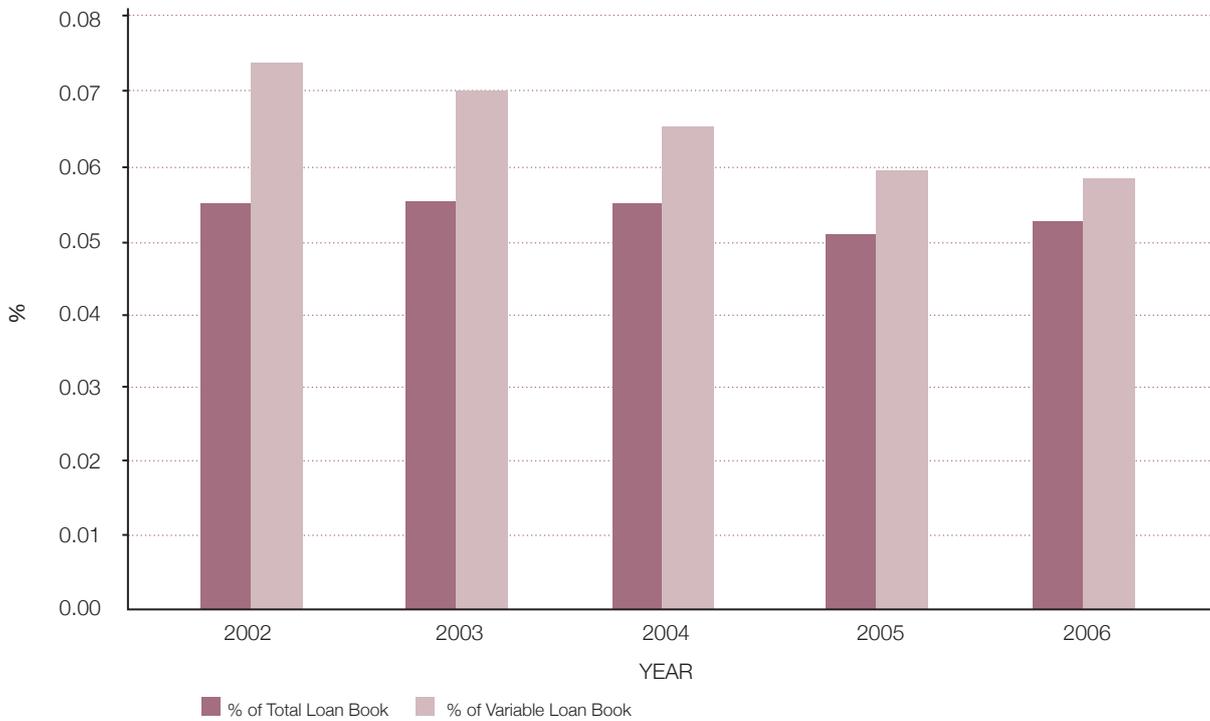
Surplus and Reserves 2002 - 2006



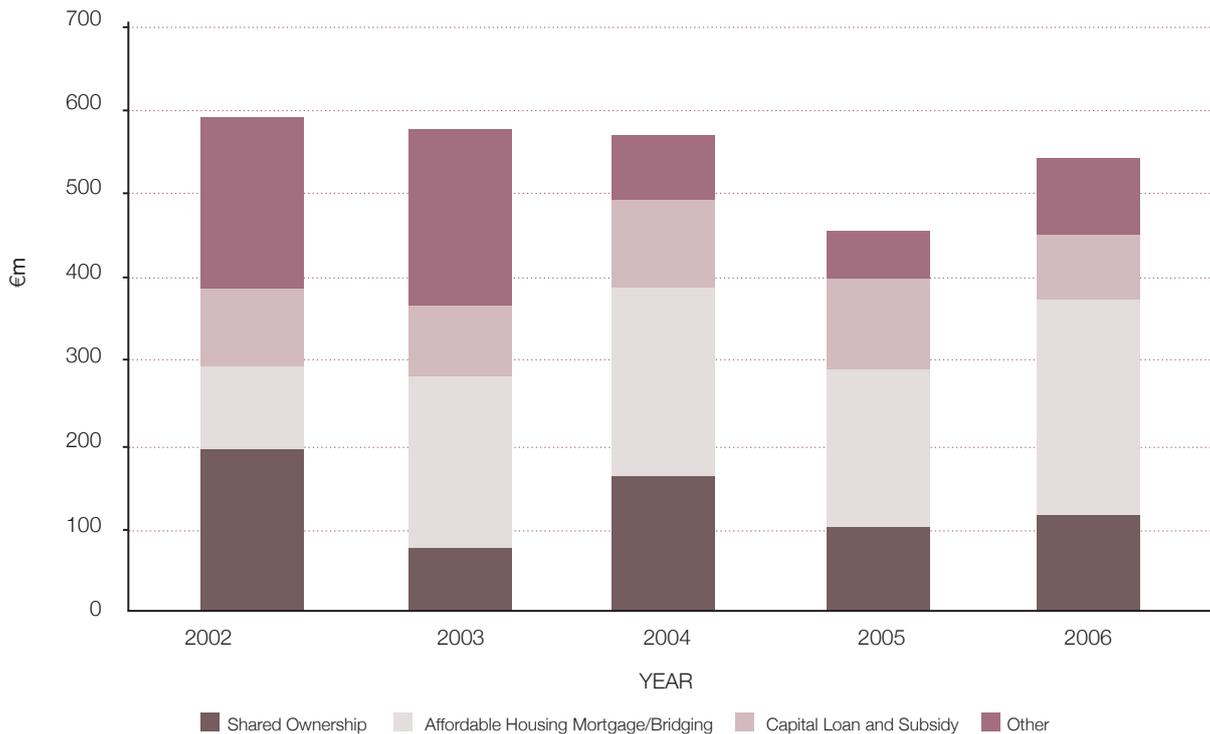
Local Authority Variable mortgage Rate Versus a Representative Average Market Rate  
(Five largest lenders by market share)



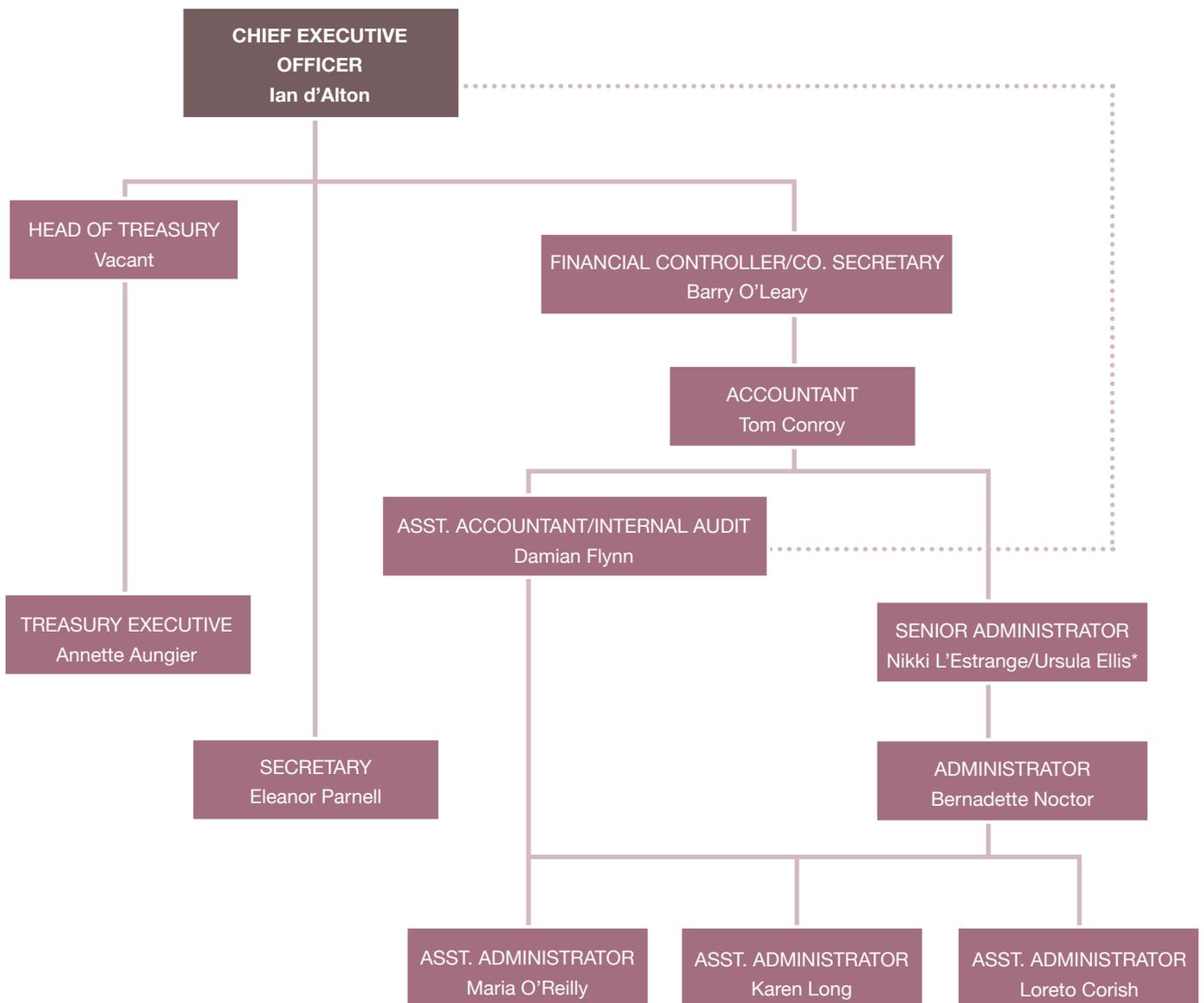
Administration Costs as % of Total Loan Book and Variable Loan Book 2002 - 2006



Loan Advances by Loan Type 2002 - 2006



APPENDIX 3: STAFF STRUCTURE  
(AS AT 27 MARCH 2007)



\* Job Sharing

..... Reporting to CEO for internal audit matters only

