

HOUSING FINANCE AGENCY 08

Annual Report

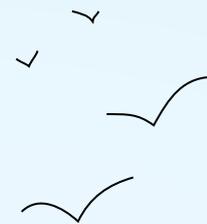




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DIRECTORS

AND OTHER INFORMATION



IAN d'ALTON (CEO)



JULIA CARMICHAEL



CLODAGH HENEHAN



JACKIE MAGUIRE



PHILIP NUGENT



FR. PATRICK COGAN



PATRICK DOYLE



MICHAEL HAYES



ÁINE STAPLETON



ANTHONY VESEV



EDDIE WADE

SECRETARY AND REGISTERED OFFICE

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AUDITORS

KPMG

Chartered Accountants
1 Harbourmaster Place
IFSC
Dublin 1

SOLICITORS

McCann FitzGerald

Solicitors
Riverside One
Sir John Rogerson's Quay
Dublin 2

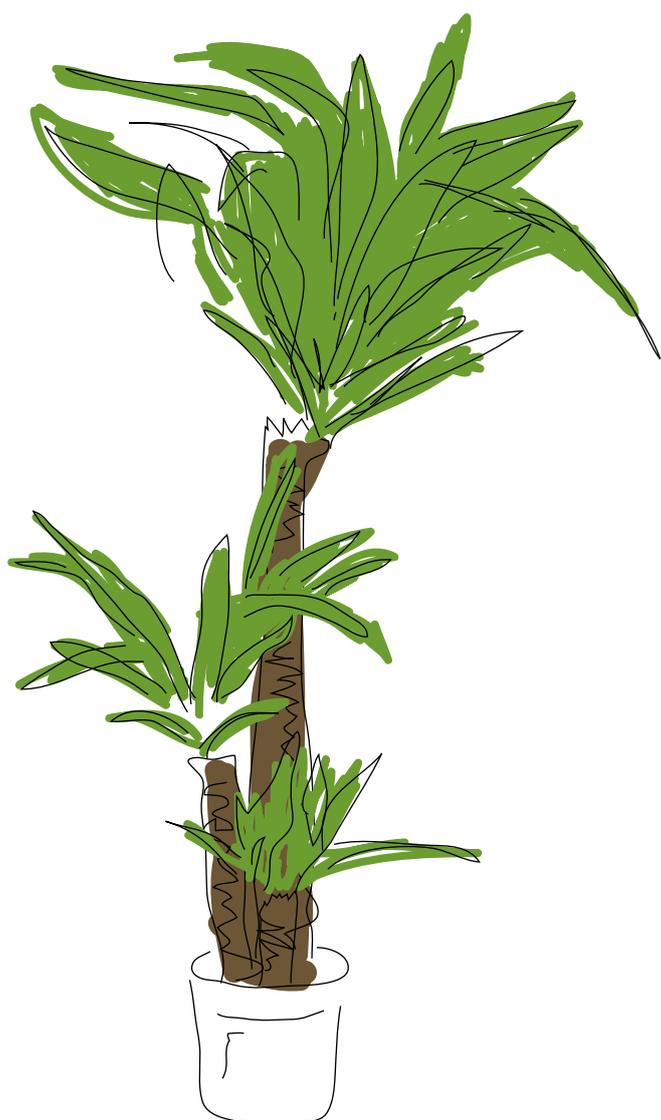


Ted Coffey, 1933 - 2009

It is with much regret and sadness that I record the untimely death of our Chairman, Edward Coffey, on 29 March 2009. Ted was appointed Chairman of the Agency on 15 April 2002, and reappointed in 2007. His fellow Board Members held him in high esteem. He conducted our meetings with great efficiency and good humour; his style was to find consensus and his aim to reach agreement, and this he achieved. Under his stewardship, the Agency expanded its business considerably both in kind and degree. Ted's speeches at Board and local authority functions were witty, short and always to the point. On a personal note, I much appreciated the benefit of his wisdom and experience when I was appointed Chief Executive Officer in January 2007. On behalf of the Board and Staff I express our most heartfelt sympathies to his wife Betty and their family, and give thanks for a life well lived.

Ian d'Alton

chapter one | chief executive officer's report



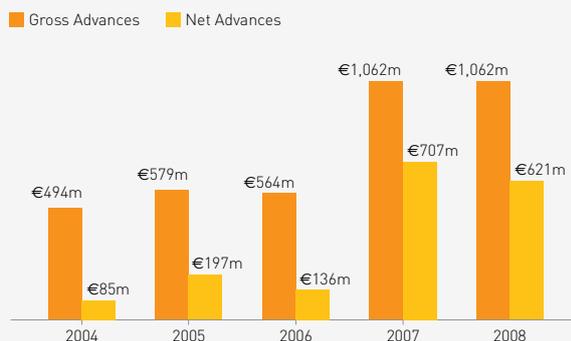
INTRODUCTION AND OVERVIEW

The year 2008 was one of extraordinary challenge and change. The financial turmoil which started in early 2007 finally spread to the real economy in 2008. The Agency had a busy year, advancing a gross €1.06 billion in loans to local authorities, practically the same amount as in 2007. Net advances were a little less than that of the previous year, at €0.62 billion. The total loan book now amounts to €4.44 billion. While the Agency reported a loss of €2.02 million for the year, this was substantially less than in 2007, and was due to a sharp decline in the Consumer Price Index in December 2008 which adversely affected its index-linked portfolio. Nevertheless, the Agency is in good financial shape, with outgoing reserves of €21.2 million.

PROSPECTS FOR 2009

The worldwide economic crisis, which got well under way in 2008, is set to be the dominant factor in business life in 2009 and beyond. The housing market in Ireland is still in the doldrums, with some further price declines likely over 2009. All is not gloom, however: affordability has sharply improved,

LOAN ADVANCES BY GROSS/ NET LENDING 2004 -2008



as a result of the 3.00% decreases so far in interest rates, and softening house prices in all areas of the country. While constrained credit conditions in the mortgage market and caution from households in the face of job insecurity are dampening demand, those who are able to access the market are in a strong position. There is some evidence that private sector lenders are beginning to make funds available again to first-time buyers.

Last autumn, the Government introduced a new scheme – Home Choice - facilitating creditworthy borrowers who, because of constrained credit conditions, were unable to access adequate finance for house purchase. The scheme is designed as a temporary intervention and its continuation will depend on the degree to which conditions in the market generally return to normal. Notwithstanding the introduction of this new instrument, overall, we expect Agency lending in 2009 to be down on the high levels seen in 2007 and 2008.

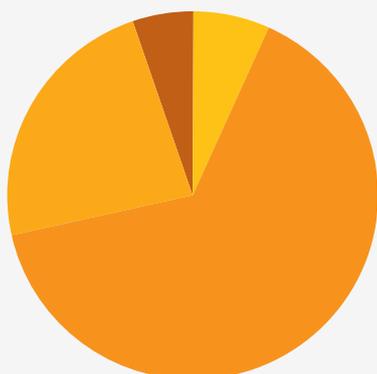
PROFITABILITY, RESERVES AND RISK MANAGEMENT

The Agency's loss in 2008 was €2.02 million. However, with €21.2 million in reserves, specifically husbanded to provide for risks in its book, the Agency is in a sound financial position. As set out in past Annual Reports, I emphasise the Agency's awareness of these risks, and that we have in place measures to deal with them. For the past thirteen years or so, the Agency has had a policy of building up its reserves for this purpose. The Board monitors the Agency's risk management and earnings position carefully on a periodic basis, and will make margin adjustments as necessary. A number of the specific risks we face are detailed below.

On the inflation side, risks relate to older shared ownership and income-related indexed loans. While some of this risk can be quantified ahead, some relates to movements in inflation during the year. 2008 saw a substantial decline in inflation towards the end of the year. As this sets our return on loans, it resulted in an inflation loss of some

LOAN ADVANCES BY LOAN TYPE IN 2008

- Shared Ownership
- Affordable Housing Mortgage/Bridging
- Capital Loan and Subsidy
- Other



1 and 3 month EURIBOR's showing volatility in the variable rate market 2008

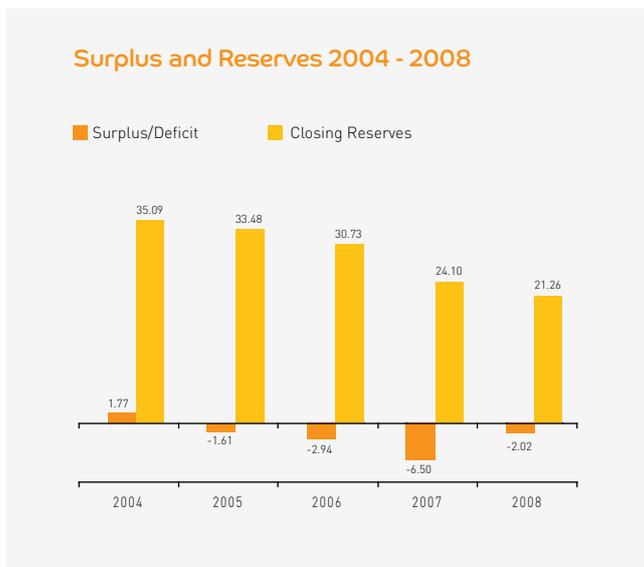
- 1 mth EURIBOR®
- 3mth EURIBOR®



€2.66 million, pushing the Agency into an overall loss for the year. Over time, however, these movements should broadly balance, and it should be noted that the Agency made inflation gains of €3.71 million in the three years to 2007.

The Agency made and funded some fixed rate loans in the pre-euro environment. These loans made losses of €2.44 million in 2008, and will continue to do so until 2018, when the underlying fixed rate funding will mature.

During the year, the Agency identified a potential risk relating to the balances on older income-related loans that could arise as these loans mature. These loans to borrowers totalled €15.9 million at end-2008. A collective provision of €0.54 million in 2008 has been taken to deal with this, and additional provisions are likely in future years. Certain initiatives have been taken by the Agency to mitigate potential losses in this area.

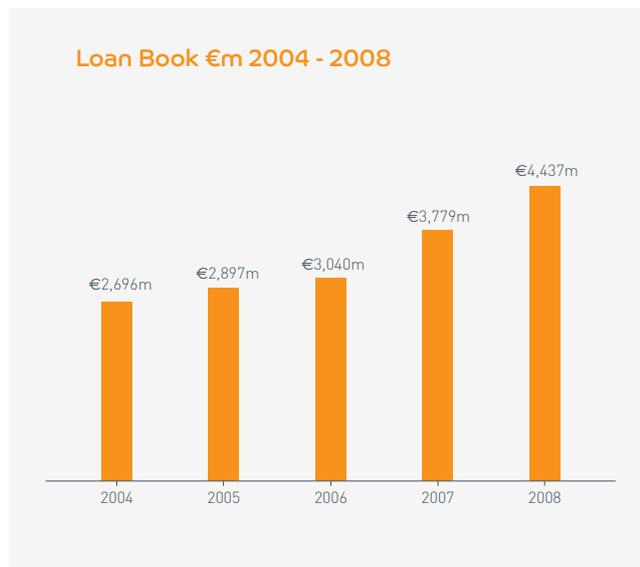


I am pleased to say that the Agency has fully funded its pension requirements to end 2008. In common with other entities, the Agency's pension fund lost considerable value in 2007/2008. Following a triennial review, an additional injection was made into the fund, and contributions were increased. For prudential reasons, a portion of the assets was also switched into fixed rate investments.

LENDING SERVICES

The Agency's mission is to source and supply cost-efficient loan finance for local authorities. The Agency currently lends to 44 local authorities under a variety of schemes and structures. In 2008, gross loan advances amounted to €1,062 million. Advances net of repayments and redemptions were €621 million, and at year-end the loan book reached a total of €4.44 billion. Advances in 2008 were principally for affordable housing (€504 million); for voluntary housing bodies under the Capital Loan and Subsidy scheme (€240 million); and for Shared Ownership (€75 million). Other programmes funded included rented social housing, land acquisition, and other housing-related projects.

In 2007, the Agency facilitated access by local authorities to finely-priced European Investment Bank loans for water, waste and environmental projects. In 2008, the Agency sourced similar funding from the Council of Europe Development Bank, lending €21.5 million in medium-term loans to local authorities. As circumstances permit it is hoped that this successful pilot project can be expanded.



INTEREST RATES

The Agency continues to offer excellent value to its customers. It is of note that the standard Agency-generated mortgage rate is over 0.70% below the average of ordinary variable rates in the market. Despite a difficult funding environment, all of the interest rate cuts made by the European Central Bank in 2008 have been passed on to households, with no distinction made between existing and new mortgage borrowers. Home Choice loan rates are set somewhat higher, reflecting government policy in this area. During 2008, the Agency supported the re-tendering of the local authority mortgage protection scheme which I am pleased to say resulted in a cost reduction and enhanced cover for borrowers.

Where local authorities borrow for non-mortgage purposes, the interest rate over 2008 represents some 0.50% below the average of six-month EURIBOR®. We aim to keep rates at the finest level possible consistent with providing for risks in the Agency's portfolio, and to deliver cost-effective loan structures to match local authorities' requirements.

FUNDING AND TREASURY MANAGEMENT

In the current environment, debt markets are febrile and difficult to assess. The Agency's business is principally in variable rate loans, and these are mainly funded by Government-guaranteed commercial paper programmes. The Agency utilises its eurocommercial paper programme (operated by the National Treasury Management Agency, and carrying the highest short term ratings) and its guaranteed notes programme to deliver funds at a sub-EURIBOR® level. Other funding - note issuance facilities and overdrafts

- provide flexibility and 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 €40 billion per annum. The Agency continues to explore flexible and cheap funding opportunities, and especially in longer maturities. During 2008 the Agency held a competitive tender for its banking services provider, resulting in cost savings and an enhanced service.

The Agency also provides an investment facility for local authorities, and I am pleased to say that this was in considerable demand in 2008, as alternatives came under increased credit scrutiny. In 2008, we dealt with 55 local authorities in this area of our business. As well as providing a cost-effective and flexible service to our customers, the facility is an important source of diversified funding for the Agency.

QUALITY CUSTOMER SERVICE

The Agency has a policy of providing Quality Customer Service (QCS), and I am happy to say that our performance in this area is very close to, or exceeds, our targets.

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 97% of its loans within this targeted time frame.

Dealing with correspondence from external sources in a timely fashion is an important 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 2008. The outturn for 2009 is likely to be lower, however, due to some budgetary constraints.

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 2008.

We maintain close contact with our customers through presentations to local authority officials' representative associations, one-to-one discussions and involvement in the Agency/local authority liaison committee, comprised of Agency Directors and County and City Managers.

PLANNING, STAFF AND TECHNOLOGY

The programme of action put in place under Towards 2016 – the ten-year action plan – is proceeding as planned. Two reports were made to the Department of the Environment,

Heritage and Local Government during 2008. The Agency will continue to comply with its bi-annual reporting provisions under this arrangement in 2009. The Agency's rolling five-year Corporate Plan is updated annually and approved by the Board at its meeting in March. It is published on our website.

The Agency's staff consists of the equivalent of twelve whole-time persons. I welcome the appointments of Tom Conroy as Company Secretary & Financial Controller, Aishling Franzoni as Accountant and Caitriona Keating as Administrator (job-share), during 2008. It is worth pointing out that while the number of transactions carried out by the Agency has increased many-fold in recent years, staff numbers have remained the same as in 2002. That such an increased level of business can be accommodated within the same resources is a tribute to the qualities of flexibility and dedication of our staff, and also to the Agency's policy of utilising technology to the maximum extent; in March 2009, for instance, we moved to using electronic confirmations in our lending business.

ADMINISTRATION

The Agency pays its own way by taking a small margin from its lending. While the Agency is a self-financing body not in receipt of a budget allocation from the Exchequer, nonetheless the Board and the Agency are keen to support the Government position in relation to expenditure control insofar as is possible within the Agency's business model. A significant proportion of our expenditure is non-discretionary; but where there is some discretion, the Agency aims to keep its operating costs as low as possible, while delivering the service required to its customers, the local authorities. As a percentage of the end-year loan book, the Agency's administrative costs have dropped from 0.06% to 0.05% in the period from 2002 to 2008. The Agency does not pay bonuses, overtime or premium pay.

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. 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 2008.

ENERGY CONSERVATION

In accordance with current public policy on energy conservation, the Agency has adopted relevant conservation measures, some of which were implemented during 2008, which included:

- recycling of paper & cardboard, electronic equipment and mobile phones;
- purchasing of energy-rated servers and personal computers;
- 55% of staff availing of the Travepass scheme;

- 8% of staff cycling to and from work;

It is intended, to build on these achievements with a view to introducing further energy saving measures during 2009.

ACKNOWLEDGEMENTS

With its small core staff, the Agency could not operate efficiently without the assistance and co-operation of all its stakeholders. Our thanks for their support go especially to the Ministers for the Environment, Heritage & Local Government, and Finance, and their staff. We welcomed Mr Philip Nugent from the former Department as a new Director in 2008. We are appreciative of the work done by the NTMA, the Central Bank, the credit rating agencies, our auditors, lawyers, IT contractors and bankers, all of whom provide vital services to the Agency. We are ever mindful of the needs of our customers, the local authorities, and it is our aim to continue raising fast, flexible and cost-effective financing for them.

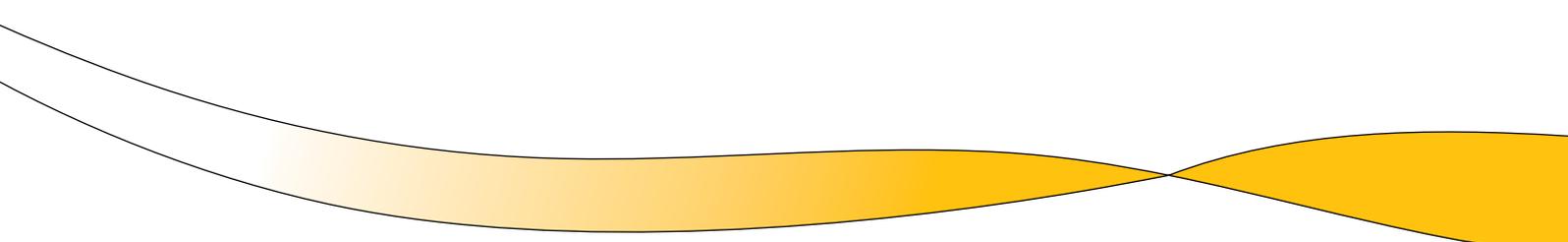
The Board held seven meetings during the year. We have a productive and consensual approach to Agency business, and I offer thanks to my fellow-Board members for their contribution to its work.

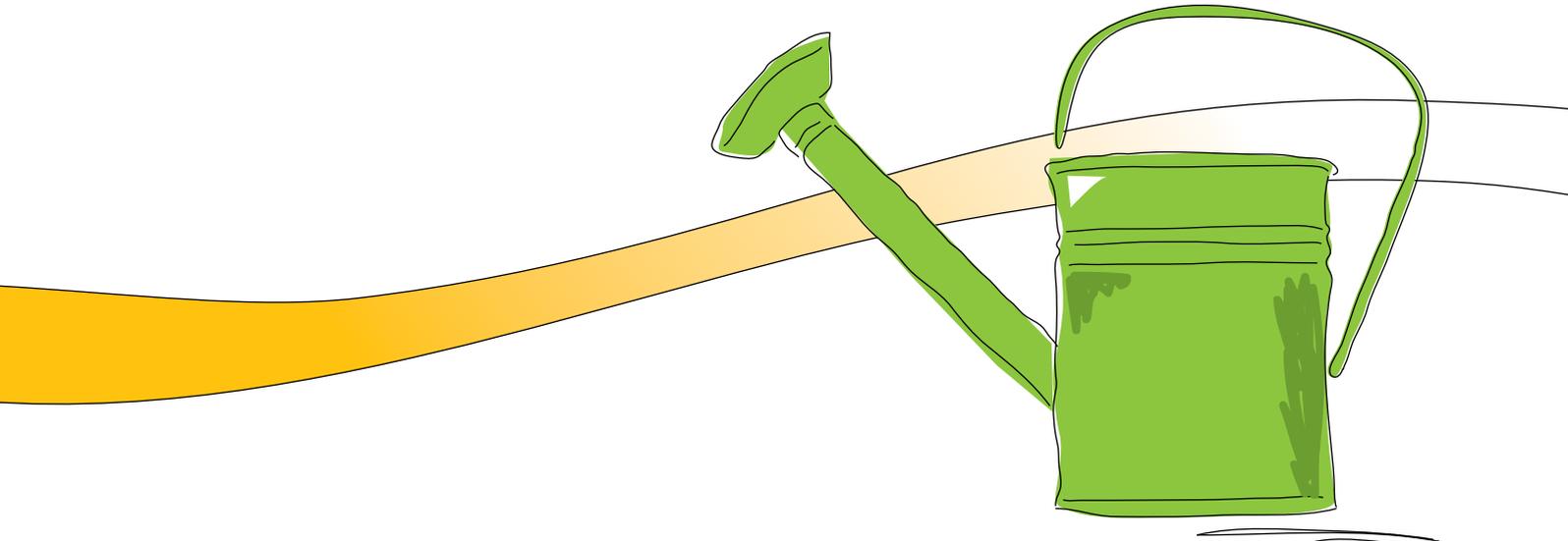


Ian d'Alton

Chief Executive Officer

30 April 2009





chapter two | directors' report

The Directors present their annual report and audited financial statements for the year ended 31 December 2008.

1 BACKGROUND

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	(2,843)
Surplus at beginning of year	24,098
<hr/>	
Surplus at end of year	21,255

The results are satisfactory and represent losses arising principally from intra-year inflation differentials which fluctuate from year to year; and from index-linked and fixed rate funding mismatches (which are taken account of in the Agency's reserves policy over the period 2009-2018).

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 together with the risk management



objectives and policies employed by the Agency with respect to managing those risks in note 15 to the financial statements. Details of any financial instruments used in mitigating these risks are detailed in notes 15 and 16 to these accounts. On pages 6 to 10, the Chief Executive Officer'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 2008 such loans represented outstanding balances of €23.8 million. The Agency is liable for any credit losses that may arise on these mortgages.

(b) Loans to local authorities (approved post 27 May 1986)

With effect from May 1986 the Agency has issued loans to local authorities to finance income related, convertible and annuity loans and improvement grants. The extension of the Agency's powers under the Housing (Miscellaneous Provisions) Act, 1992 to fund local authorities for any of their functions under the Housing Acts has resulted in the Agency issuing loans to local authorities to fund the shared ownership and voluntary housing schemes.

A significant portion of these funds is retained for purposes such as land acquisition. The remainder is lent to individual borrowers and voluntary bodies. The local authorities are responsible for any losses that may arise on them.

At 31 December 2008 such loans represented outstanding balances of €4.41 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 ("2006 Combined Code") derived by the Committee on Corporate Governance from the Committee's Final Report and from the Turnbull Report. The company complies with the Code of Practice for the Governance of State Bodies as published by the Department of Finance.

Principles of good corporate governance

The Directors are accountable to the Agency's shareholder for good corporate governance and the following statement describes how the relevant Principles of Good Governance set out in the 2003 Combined Code and the Code of Practice for the Governance of State Bodies are applied in the Agency.

Board of Directors

The Board met seven times this year and is responsible for the proper management of the Agency. Philip Nugent was appointed to the Board on 7 April 2008.

The roles of the Chairman and Chief Executive Officer are separate. At 31 December 2008 the Board of Directors comprised eleven non-executive Directors and one executive Director. The Directors are appointed by the Minister for the Environment, Heritage and Local Government for a period not to exceed five years. All of the non-executive Directors are independent of management.

The Board 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. It 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.

Scheduled Board meetings for the year ended 31 December 2008:

Members	Occupation	Available to attend	Attended
Edward Coffey (Chairman)	Retired	7	5
Ian d'Alton (CEO)	Chief Executive Officer	7	7
Julia Carmichael	Councillor	7	3
Fr. Patrick Cogan	CEO of Respond	7	7
Patrick Doyle	Consultant	7	5
Maria Graham	Civil servant	2	2
Michael Hayes	Civil engineer	7	7
Clodagh Henehan	Local authority official	7	6
Jackie Maguire	Local authority official	7	3
Philip Nugent	Civil servant	5	4
Áine Stapleton	Civil servant	7	6
Anthony Vesey	Councillor	7	6
Eddie Wade	Councillor	7	6

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 2008. 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:

Audit Committee

Scheduled Audit Committee meetings for the year ended 31 December 2008:

Members	Available to attend	Attended
Fr. Patrick Cogan	4	4
Patrick Doyle	4	2
Michael Hayes	4	4
Jackie Maguire	4	2
Anthony Vesey	4	4
Eddie Wade	4	3

The Audit 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, review of 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.

Finance Committee

Scheduled Finance Committee meetings for the year ended 31 December 2008:

Members	Available to attend	Attended
Edward Coffey (Chairman)	2	1
Ian d'Alton (CEO)	2	2
Julia Carmichael	2	1
Clodagh Henehan	2	2
Áine Stapleton	2	2
Philip Nugent	2	2

The Committee met twice during the year.

The Finance Committee is empowered on behalf of the Agency to borrow and raise money, to implement, utilise and operate any approved facilities and to approve changes in interest rates. The Committee operates under formal terms of reference approved by the Directors.

Remuneration Committee

Members

Edward Coffey (Chairman)
Fr. Patrick Cogan
Philip Nugent

The Committee did not meet during the year.

The Remuneration 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.

Board Performance Review Committee

Scheduled Board Performance Review Committee meetings for the year ended 31 December 2008:

Members	Available to attend	Attended
Fr. Patrick Cogan	2	2
Michael Hayes	2	2
Áine Stapleton	2	2

The Board Performance Review Committee met twice during the year.

The Committee was established in 2008, for the formal evaluation of the Board's performance and that of its Committees and individual Directors. This Committee reports to the Board and Chairman annually on its findings.

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 2006 Combined Code (the Turnbull guidance) - the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Agency. This process has been in place for the year under review and up to the date of approval of the annual report and accounts, is regularly reviewed by the Board and accords with the guidance.

The Board has reviewed the effectiveness of the system of internal control; in particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks are managed. This has been reinforced by the adoption of a Code of Ethics, approved by the Board, which provides practical guidance for all staff. There are also supporting Agency policies and employee procedures for the reporting and resolution of suspected fraudulent activities.

The Agency is a financial business and the key risks associated with the business are therefore essentially financial and treasury-related. The Agency has developed a risk management process which includes quarterly reviews of its loans and advances portfolio, and an annual review of treasury related risk which allows it to manage these risks. This process is designed to ensure as far as possible that its assets

and liabilities are match funded in loan type and duration.

Residual risk is associated principally with fixed rate and index linked borrowings, and inflation movements. This is dealt with by a reserves and margin policy. The Agency carries out a comprehensive annual review of risks, which is approved by the Board and forms part of the Agency's interest rate and reserves policy for subsequent years. The Board is informed on a quarterly basis of developments and corrective action, if required, is taken.

The Agency lends to local authorities. The repayment risk is assessed as being negligible as the legal relationship is with local authorities and is not dependent on changes in house prices or other economic variations.

The 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 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 Officer 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 Agency has chosen to voluntarily comply with the 2006 Combined Code on Corporate Governance issued by the Financial Reporting Council 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 2006 Combined Code and the Code of Practice for the Governance of State Bodies during the year ended 31 December 2008, 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. The practice having been that Directors are appointed for a period of no longer than 5 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. Recommendations in relation to the Chief Executive Officer's remuneration are proposed by the Remuneration Committee for consideration of the Board; however the Remuneration Committee did not meet in the current year.

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 to carry out its duties in an objective and sufficiently independent manner.

5 GOING CONCERN

The Agency's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive Officer's report on pages 6 to 10. In addition, note 15 to the financial statements details the Agency's financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit, liquidity, market and interest rate risks.

Notwithstanding the deficit incurred in 2008, as a result of a sharp decline in inflation, the Directors believe that the Agency is well placed to manage its business risks successfully despite the current uncertain economic outlook.

Section 17 of the Housing (Miscellaneous Provisions) Act 2002 and section 19 of the Planning and Development (Amendment) Act 2002 gives the Agency the power to request the National Treasury Management Agency [NTMA] to undertake borrowing and debt management on the Agency's behalf. While the NTMA raises the funds, the Agency will continue to decide general policy within which that funding, together with the appropriate debt instruments, takes place. The Agency acts in close consultation with, and on the advice of, the NTMA in regard to its ECP operations

After making enquiries, the Directors have a reasonable expectation that the Agency has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts

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 in relation to the Agency's business.

8 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.

9 ELECTORAL ACT, 1997

The Agency made no political donations during the year.

10 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"). A review of all payments made during the year ended 31 December 2008 shows no late payments were made during 2008 under the above Act.

11 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 by the Directors.

12 ACCOUNTING RECORDS

The Directors believe that they have complied with the requirements of section 202 of the Companies Act, 1990 with regard to books of account by employing accounting personnel with appropriate expertise and by providing adequate resources to the financial function. The books of account of the Agency are maintained at its registered office.

13 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,

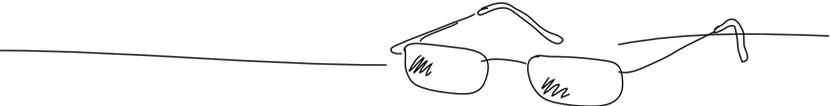
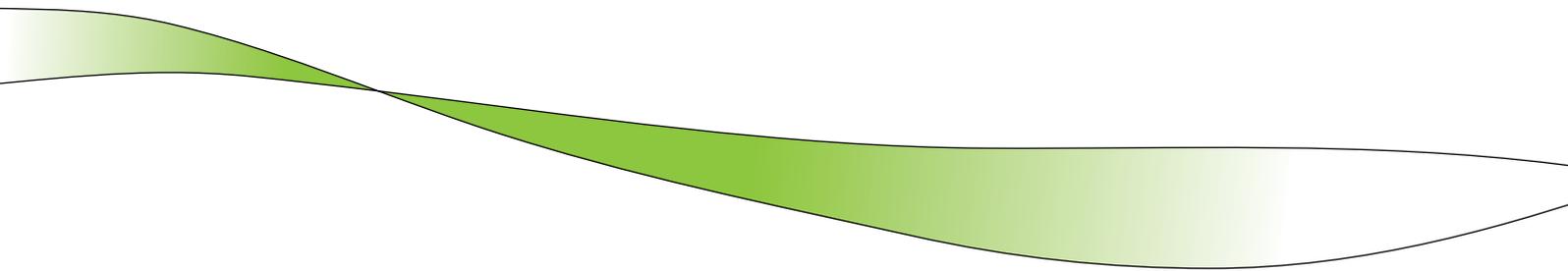


Ian d'Alton
Chief Executive Officer
26 March 2009



Áine Stapleton
Director
26 March 2009

chapter three | 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,

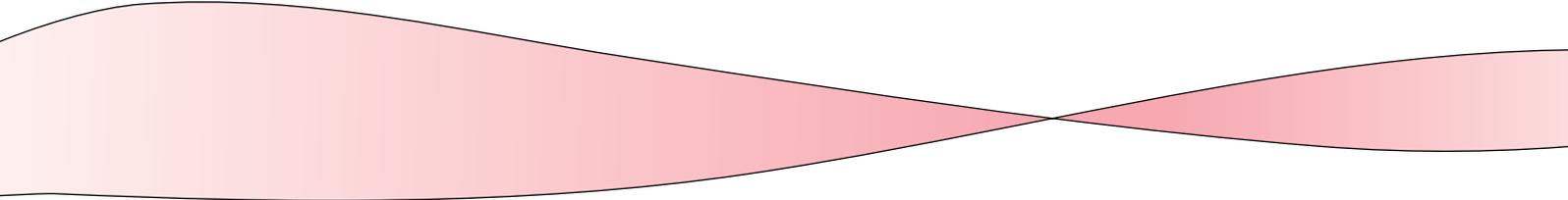


Ian d'Alton
Chief Executive Officer
26 March 2009



Áine Stapleton
Director
26 March 2009

chapter four | independent auditor's report



We have audited the financial statements of the Housing Finance Agency plc for the year ended 31 December 2008 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 19.

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 12 to 17 reflects the Agency's compliance with the nine provisions of the 2006 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 Chief Executive Officer'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.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and

disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the Agency's affairs as at 31 December 2008 and of its loss on operations for the year then ended; and
- 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 Chief Executive Officer's report and the Director's report is consistent with the financial statements.

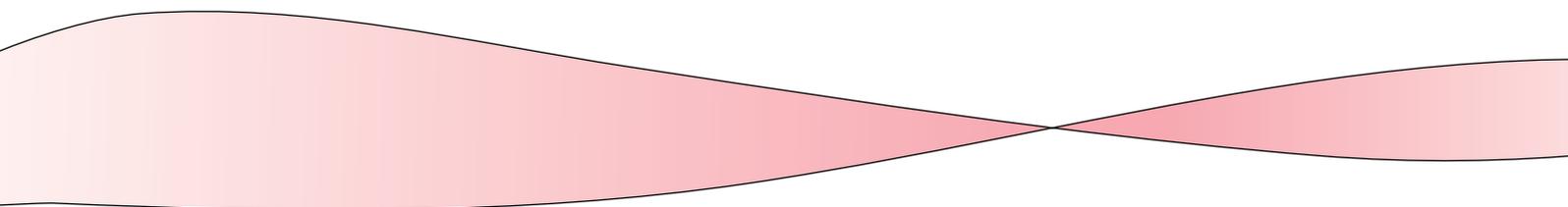
The net assets of the Agency, as stated in the balance sheet are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2008 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the Agency.

KPMG

Chartered Accountants

Registered Auditor

26 March 2009





chapter five | 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, all derivative instruments are measured at fair value.

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.

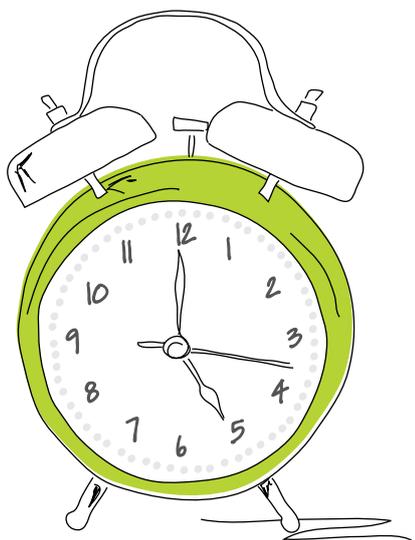
FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in euro, which is the Agency's functional currency. Except as indicated, financial information presented in euro 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, usually 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.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consists of short term investments which are primarily promissory notes or commercial paper with maturities of three months or less and are readily convertible to a known amount of cash and subject to an insignificant risk of change in value. 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 therefore not requiring separate accounting as an embedded derivative. As such the 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.

LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in

an active market and that the Agency does not intend to sell immediately or in the near term.

Loans and receivables 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 assesses 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 loan 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.

After a loan or group of loans is impaired interest is calculated at the original effective interest rate on the written down balance. A previously recognised impairment is reversed when events or circumstances arising after the date of impairment provide objective evidence that the loan or group of loans is no longer impaired.

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

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.

Derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently classified as financial assets or financial liabilities 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 cashflow hedge reserve to the extent that the hedging relationship is considered effective.

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 will be recognised in the income and expenditure account and at the time that the foreign currency exchange difference on the hedged item is recognised in the income and expenditure account.

If the hedged cash flows are no longer expected to occur or the hedge is no longer effective or its hedging derivative is early settled or is terminated then the amount deferred in reserves will be recognised in the income and expenditure account immediately.

FOREIGN CURRENCIES

Transactions denominated in currencies other than euro are recorded at the rate ruling at the date of those transactions. Monetary assets and liabilities in foreign currencies are translated at the rate ruling at the balance sheet date. 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 using the straight line method.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are stated at cost less accumulated depreciation and any impairment. The charge for depreciation is calculated to write off the original cost less residual value of each fixed asset over its expected useful life:

Computer equipment - straight line over 3 years
Other equipment - straight line over 5 years

Estimates of expected useful life are reviewed periodically. Where necessary, provision is also made for any impairment of tangible fixed assets. The carrying amount of the tangible fixed assets is reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists then the asset is tested for impairment by comparing the carrying amount to the recoverable amount, which is the higher of the amount that can be obtained from selling the asset or using the asset. Impairment losses are recognised in the income and expenditure account.

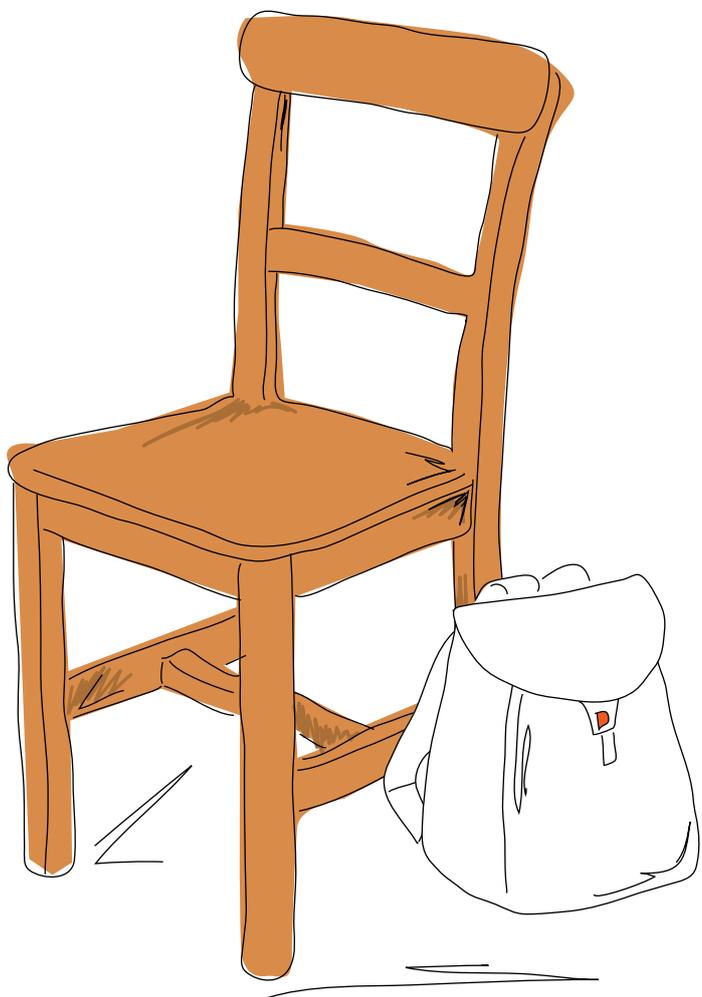
PENSIONS

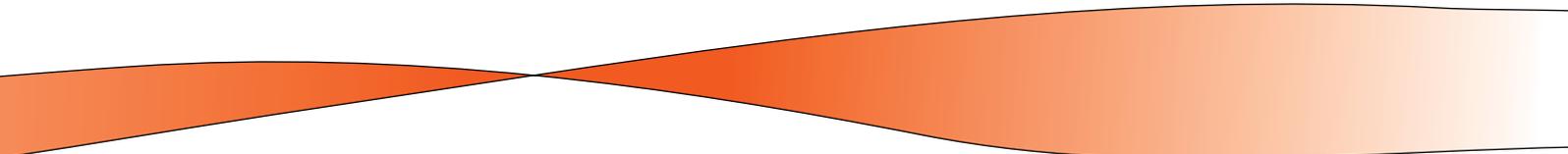
The Agency's net deficit or surplus in respect of its defined benefit plan represents the shortfall or surplus respectively for the fair value of the plan assets over the present value of the future benefits owed to employees in return for their service in the current and prior periods. The discount 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 obligations. The calculation is performed by a qualified independent 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 plan liabilities and the expected return on plan assets.



chapter six | income and expenditure account





	Note	Year ended 31 December 2008 €'000	Year ended 31 December 2007 €'000
Income - continuing activities	3	190,119	153,298
Direct expenditure	4	(209,448)	(170,644)
Deficit of income over direct expenditure		(19,329)	(17,346)
Indirect expenditure	5	(2,082)	(1,812)
Operating deficit for the financial year - continuing activities		(21,411)	(19,158)
Finance income (net)	7	19,388	12,657
Deficit for the financial year		(2,023)	(6,501)

On behalf of the Board,

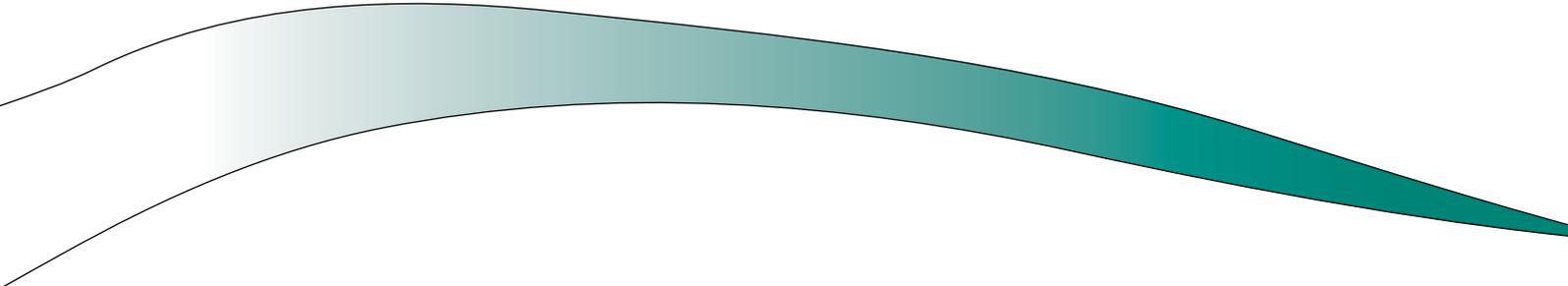


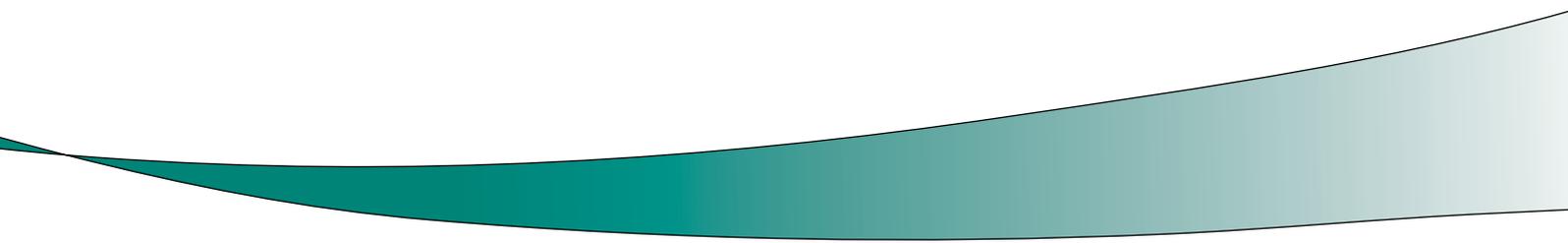
Ian d'Alton
Chief Executive Officer
26 March 2009



Áine Stapleton
Director
26 March 2009

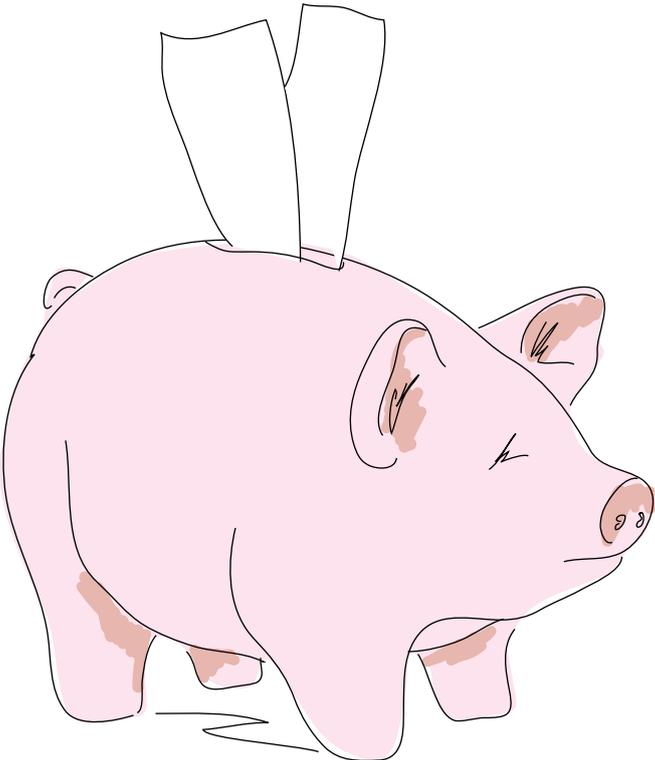
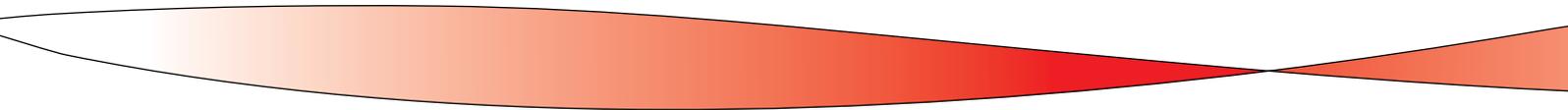
chapter seven | statement of total recognised gains & losses





	Note	Year ended 31 December 2008 €'000	Year ended 31 December 2007 €'000
Deficit for the financial year		(2,023)	(6,501)
Actuarial losses	23	(820)	(126)
Total recognised gains and losses for the financial year		(2,843)	(6,627)

chapter eight | balance sheet



	Note	31 December 2008 €'000	31 December 2007 €'000
Assets employed			
Tangible fixed assets	9	81	59
Current assets			
Debtors (advances due after more than one year: €3,426,229 [2007: €3,091,206])	8	4,552,506	3,877,724
Derivative financial instruments	16	113,332	6,925
Cash and cash equivalents	10	408,984	521,474
		5,074,822	4,406,123
Current liabilities			
Creditors (amounts falling due within one year)	11	(4,397,280)	(3,432,676)
Derivative financial instruments	16	(66,758)	(51,732)
Net current assets		610,784	921,715
Total assets less current liabilities			
Creditors (amounts falling due after more than one year)	12	(299,304)	(351,358)
Debt securities in issue			
Index linked bonds	13	(198,295)	(454,659)
8.75% Housing Finance Agency stock 2018	14	(91,916)	(91,556)
Net Assets before pension deficit		21,350	24,201
Pension deficit	23	(77)	(64)
Net Assets		21,273	24,137
Capital and reserves			
Called up share capital	19	39	39
Retained surplus	20	21,255	24,098
Cashflow hedge reserve	17	(21)	-
Shareholder's funds	21	21,273	24,137

On behalf of the Board,

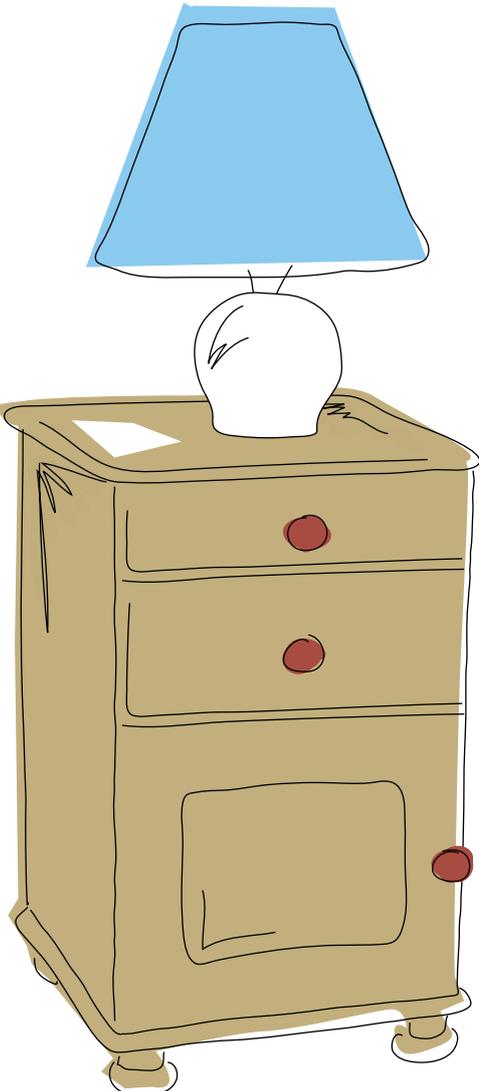
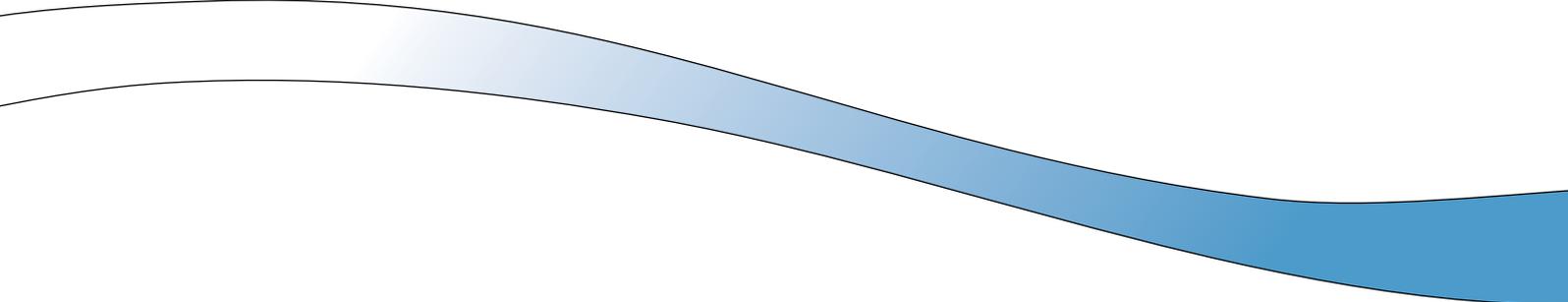


Ian d'Alton
Chief Executive Officer
26 March 2009



Áine Stapleton
Director
26 March 2009

chapter nine | cash flow statement and reconciliation



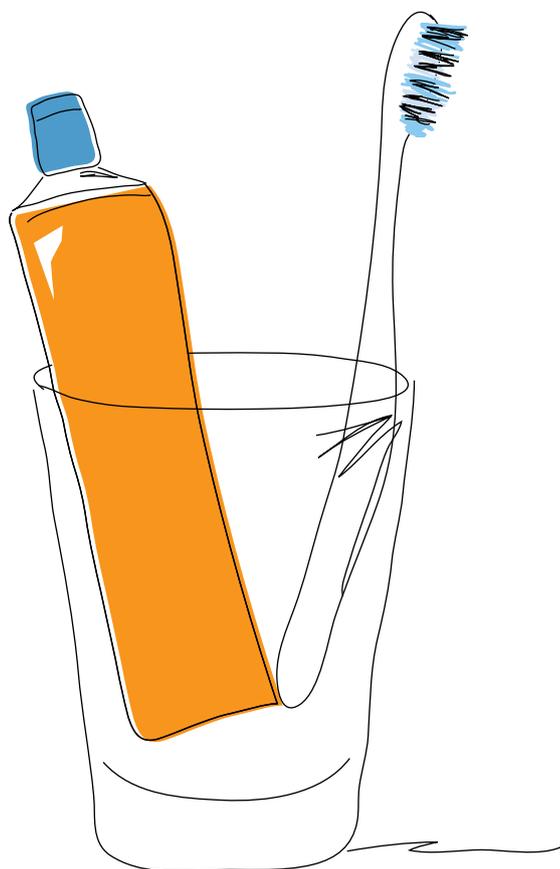
CASH FLOW STATEMENT

	Note	Year ended 31 December 2008 €'000	Year ended 31 December 2007 €'000
Cash outflow from operating activities	18(a)	(559,653)	(576,649)
Returns on investments and servicing of finance	18(b)	(448,694)	(134,093)
Capital expenditure	18(b)	(57)	(55)
Increase in bank loans and notes payable	18(b)	902,490	1,224,605
(Decrease)/increase in cash during the year		(105,914)	513,808

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	Note	Year ended 31 December 2008 €'000	Year ended 31 December 2007 €'000
(Decrease)/increase in cash during the year		(105,914)	513,808
Cash inflow from change in debt financing	18(b)	(902,490)	(1,224,605)
Non-cash movements	18(c)	256,006	(24,567)
Movement in net debt during the year		(752,398)	(735,364)
Net debt at beginning of year	18(c)	(3,790,532)	(3,055,168)
Net debt at end of year	18(c)	(4,542,930)	(3,790,532)

chapter ten | 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

	Year ended 31 December 2008 €'000	Year ended 31 December 2007 €'000
Interest on advances to local authorities which were approved:		
Post 27 May 1986	188,435	150,918
Pre 27 May 1986	1,684	2,380
	190,119	153,298

Total interest income on financial assets not carried at fair value through the income and expenditure account amounted to €209.5m which includes €19.4m of investment income for the year ended 31 December 2008 (2007 : €165.9m which includes investment income of €12.6m).

4 DIRECT EXPENDITURE

	Year ended 31 December 2008 €'000	Year ended 31 December 2007 €'000
Index - linked bonds		
Bond interest	8,265	13,210
Premium on redemption of bonds (Note 13)	10,650	23,882
	18,915	37,092
Stock and loan costs		
Interest payable on bank borrowings, commercial paper, guaranteed notes and stock	189,637	133,499
Foreign exchange loss from borrowings	351	53
	189,988	133,552

4 DIRECT EXPENDITURE (CONTINUED)

	Year ended 31 December 2008 €'000	Year ended 31 December 2007 €'000
Collective provision		
Pre May 1986 loans*	545	-
	209,448	170,644

*Refer to note 15 for further detail on credit risk.

5 INDIRECT EXPENDITURE

	Year ended 31 December 2008 €'000	Year ended 31 December 2007 €'000
Other expenditure		
Administrative expenditure (Note 6)	1,952	1,666
Administration fees to local authorities	130	146
	2,082	1,812

6 ADMINISTRATIVE EXPENDITURE

Administrative expenditure has been arrived at after charging:

	Year ended 31 December 2008 €'000	Year ended 31 December 2007 €'000
Directors' emoluments		
Fees - Chairman	14	14
Fees - other Directors	54	42
Chief Executive Officer's remuneration	128	122
Pension contributions	35	27
	231	205
Employee costs		
Salaries	548	482
Social welfare costs	44	39
Service costs-pension	65	92
Total included in income and expenditure account	657	613
Actuarial losses on defined benefit scheme included in the statement of recognised gains and losses	(820)	(126)

6 ADMINISTRATIVE EXPENDITURE (CONTINUED)

The average number of employees, including executive Directors, during the year was 12 (2007: 12).

	Year ended 31 December 2008 €'000	Year ended 31 December 2007 €'000
Auditor's remuneration	57	56
Depreciation (Note 9)	35	32
Rental payments under operating lease	75	75

7 FINANCE INCOME (NET)

	Year ended 31 December 2008 €'000	Year ended 31 December 2007 €'000
Included in finance income		
Expected return on pension assets	110	108
Interest cost on pension liabilities	(99)	(76)
Investment income	19,377	12,625
Net finance income	19,388	12,657

8 DEBTORS

	31 December 2008 €'000	31 December 2007 €'000
Balance due on advances	4,437,638	3,778,710
Other debtors and prepayments	1,214	1,070
Due from local authorities	114,199	97,944
	4,553,051	3,877,724
Less : collective provision	(545)	-
	4,552,506	3,877,724

Balance due on advances is analysed as follows:

(i) Loans approved post 27 May 1986

Balance at beginning of year	3,752,811	3,012,300
Loans advanced	1,061,998	1,061,776
Less: loans repaid	(438,896)	(353,017)
Interest charged	188,435	150,918
Interest received	(150,556)	(119,166)
Balance at end of year	4,413,792	3,752,811

8 DEBTORS (CONTINUED)

	31 December 2008 €'000	31 December 2007 €'000
Balance due on advances is analysed as follows:		
(ii) Loans approved pre 27 May 1986		
Balance at beginning of year	25,899	28,143
Less: loans repaid	(2,053)	(2,244)
Interest charged	1,684	2,380
Interest received	(1,684)	(2,380)
Balance at end of year	23,846	25,899
Balance at end of year	4,437,638	3,778,710

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. Included in the post 27 May 1986 are loans of €7.2m (2007: €6.9m) advanced to the National Building Agency.

The Agency is liable for any credit losses that may arise on pre-May 1986 mortgages which are secured by the underlying mortgage property; a collective provision of €0.54m has been recognised in these accounts, refer to note 15 for further details. In the context of (a) local authorities being statutory bodies under the Local Government Act, 2001 and other enactments, and (b) the revenues or funds of local authorities being security for the due payment to the Agency of all amounts due by local authorities (as set out in the agreement between each local authority and the Agency), the Board is of the opinion that no significant credit risk arises on foot of loans advanced to local authorities on or after 27 May 1986.

9 TANGIBLE FIXED ASSETS

	Total €'000
Cost	
At beginning of year	479
Additions	57
At end of year	536
Depreciation	
At beginning of year	420
Charged for year	35
At end of year	455
Net book value	
31 December 2008	81
31 December 2007	59

10 CASH AND CASH EQUIVALENTS

	31 December 2008 €'000	31 December 2007 €'000
Cash at bank and in hand	1	-
Amounts held on short term deposits	408,983	521,474
	408,984	521,474

Short term deposits consist primarily of promissory notes or commercial paper held with the National Treasury Management Agency. Deposits outstanding at 31 December 2008 of €408.9m (2007 : €521.5m) had a weighted average variable interest rate of 2.78% (2007: 4.80%) (365-day) and less than one month to maturity.

11 CREDITORS (AMOUNTS FALLING DUE WITHIN ONE YEAR)

	31 December 2008 €'000	31 December 2007 €'000
Commercial paper, note issuance facilities and guaranteed notes	4,361,318	3,406,774
Interest payable on commercial paper, note issuance facilities and guaranteed notes	29,338	10,651
Interest due on stock and bonds	5,177	7,382
Accruals	365	210
Bank overdraft	1,082	7,659
	4,397,280	3,432,676
Tax creditors (included in accruals)		
PAYE	28	29

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)

	31 December 2008 €'000	31 December 2007 €'000
Bank loans and notes payable or repayable other than by instalments:		
Between one and two years	251,607	55,027
Between two and five years	27,927	273,024
After more than five years	19,770	23,307
	299,304	351,358

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

13 DEBT SECURITIES IN ISSUE - INDEX LINKED BONDS

	31 December 2008 €'000	31 December 2007 €'000
Housing Finance Agency bond issues		
2% Index Linked Bonds 2008	-	107,928
4% Index Linked Bonds 2015	95,230	95,230
Nominal value of bonds in issue	95,230	203,158
Net unamortised expenses and premium/discount on issue	1,008	1,119
Provision for premium on redemption of bonds	102,057	250,382
	198,295	454,659

Provision for premium on redemption of bonds

	Total €'000	Deferred €'000	Provided €'000
31 December 2008			
At beginning of year	255,908	(5,525)	250,383
Redemption of 2% 2008 bond	(158,976)	-	(158,976)
Arising during the year	9,985	665	10,650
At end of year	106,917	(4,860)	102,057
31 December 2007			
At beginning of year	234,684	(8,184)	226,500
Arising during the year	21,224	2,659	23,882
At end of year	255,908	(5,525)	250,382

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 six months prior to the relevant coupon date. The bonds are guaranteed by the Minister for Finance.

14 8.75% HOUSING FINANCE AGENCY STOCK 2018

	31 December 2008 €'000	31 December 2007 €'000
At par value	95,230	95,230
Less: Unamortised discount on issue	(3,314)	(3,674)
	91,916	91,556

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

15 FINANCIAL RISK MANAGEMENT

Introduction and overview

The Agency has potential exposure in the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks (including interest rate, inflation and currency).

This note presents information about the Agency's exposure to each of the above risks and the Agency's objectives, policies and procedures for measuring and managing risk.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Agency's risk management framework. The Agency's risk management policies are established to identify and analyse the risks faced by the Agency, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Agency's policies and procedures include policies on 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 2008), which follows a policy approved by the Board, allows for contracts covering interest rate swaps (€400 million), foreign exchange forwards (€4.4 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 €2.31 billion outstanding at the year end which 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 €4.4 billion eurocommercial paper programme. Further details in respect of currency risk is included in note (c) below in this note.

(a) Credit risk

Financial assets

	31 December 2008 €'000	31 December 2007 €'000
Balance due on advances	4,437,638	3,778,710
Cash at bank and in hand	-	-
Amounts held on short term deposits	408,983	521,474
Due from local authorities	114,199	97,944
Derivative financial instruments	113,332	6,925
	5,074,152	4,405,053

Credit risk is the risk of financial loss to the Agency if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Agency's loans and advances to its customers, Irish local authorities.

15 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Agency is currently permitted to advance money to:

- local authorities to be used by them for any purpose authorised under the Housing Acts 1966 to 2002;
- the National Building Agency Limited (as referred to in the National Building Agency Limited Act 1963) for use by it for any lawful purpose in connection with the provision or improvement of housing or services related thereto or in substitution for funds borrowed by it for such purposes and still outstanding; and
- Local authorities for capital projects authorised under section 17 of the Housing (Miscellaneous Provisions) Act, 2002.

The Agency has two categories of loans to local authorities those approved pre and post 27 May 1986. These two categories have a different credit risk profile.

The Agency is liable for any credit losses that may arise on pre May 1986 mortgages which are secured by the underlying mortgage property and mortgage protection insurance. Whilst the local authorities are counterparties to these loans the Agency is exposed to the underlying risk to the individual borrowers. The local authority holds collateral against loans advanced pre 27 May 1986 in the form of mortgage interests over property and only in the event of that collateral not being sufficient to discharge the debt is the Agency liable. Estimates of fair value are not updated except where a loan is individually assessed past due or impaired. The definition of past due and impaired is as follows:

Impaired loans

Impaired loans are loans for which the Agency determines that it is probably that it will be unable to collect all principal and interest due according to the contractual terms of the loan.

Past due loans

Loans where contractual interest or principal payments are past due. The Agency had no loans and advances which are past due at 31 December 2008 (2007: €nil).

Analysis of loans to local authorities

	31 December 2008 €'000	31 December 2007 €'000
Pre 1986 loans	23,846	25,899
Post 1986 loans	4,413,792	3,752,811
	4,437,638	3,778,710
Collective provisions		
Pre 1986 loans	545	-
Post 1986 loans	-	-
	545	-

Loans advanced to local authorities on or after 27 May 1986 represent no credit risk to the Agency. All loans advanced to local authorities are approved by the Minister for the Environment, Heritage and Local Government. It is the Board's belief that, in this context, credit risk does not arise. In the context of (a) local authorities being statutory bodies under the Local Government Act, 2001 and other enactments, and (b) the revenues or funds of local authorities being security for the due payment to the Agency of all amounts due by local authorities (as set out in the agreement between each local authority and the Agency), the Board is of the opinion that no significant credit risk arises on foot of these loans.

15 FINANCIAL RISK MANAGEMENT (CONTINUED)**New credit counterparty**

The Board of Directors is responsible for the oversight of the Agency's credit risk including:

- Formulating credit policies in conjunction with management, covering collateral requirements, documentary and legal procedures within the confines of statutory requirements.
- Establishing the authorisation structure and approval for new counterparties (non local authorities) and lending concentrations thereto.
- Reviewing compliance with internal policies and procedures.

Concentrations

An analysis of loans and advances outstanding at the year end are provided in Appendix 1 to these accounts (all loans and advances are approved by the Minister for the Environment, Heritage and Local Government).

The Agency's credit risk also consists of its exposure to institutions (primarily the National Treasury Management Agency and rated banks), with which it holds short term investments. At 31 December 2008 the Agency had no exposure to rated banks. 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. At the year end the Agency had €408.9m (2007: €521.5m) on short term deposits with the National Treasury Management Agency.

(b) Liquidity risk

Liquidity risk is the risk that the Agency will encounter difficulty in meeting obligations from its financial liabilities.

31 December 2008	Carrying amount €'000	Gross nominal inflow/ (outflow) €'000	Less than 1 month €'000	1-3 months €'000	3 months to 1 year €'000	1-5 years €'000	More than 5 years €'000
Non-derivative liabilities							
ECP programme	3,787,293	(3,889,048)	(446,627)	(1,893,436)	(1,548,985)	-	-
Guaranteed notes facility	470,363	(470,981)	(464,710)	(5,764)	(506)	-	-
Fixed rate medium term note	6,251	(6,792)	(535)	-	(535)	(5,722)	-
Note Issuance Facilities	23,266	(23,283)	(23,283)	-	-	-	-
20-year variable loan	43,050	(55,761)	-	-	(5,275)	(19,838)	(30,648)
5-year term loan	250,000	(251,681)	(100,299)	(151,382)	-	-	-
Index linked bonds	198,294	(368,121)	-	-	(13,305)	(69,913)	(284,903)
Fixed Rate Stock 8.75%	91,916	(171,277)	-	(8,333)	-	(33,332)	(129,612)
	4,870,433	(5,236,944)	(1,035,454)	(2,058,915)	(1,568,606)	(128,805)	(445,163)
Derivative liabilities							
Trading: outflow	(2,309,430)	(2,363,048)	(313,627)	(1,358,436)	(690,985)	-	-
Trading: inflow	2,309,430	2,363,048	313,627	1,358,436	690,985	-	-
	-	-	-	-	-	-	-

15 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

31 December 2007	Carrying amount €'000	Gross nominal inflow/ (outflow) €'000	Less than 1 month €'000	1-3 months €'000	3 months to 1 year €'000	1-5 years €'000	More than 5 years €'000
Non-derivative liabilities							
ECP programme	2,927,540	(2,982,246)	(568,813)	(1,835,028)	(578,405)	-	-
Guaranteed notes facility	501,335	(503,757)	(441,460)	(44,027)	(18,270)	-	-
Fixed rate medium term note	7,057	(7,863)	(535)	-	(535)	(6,792)	-
Note Issuance Facilities	70,992	(71,200)	(71,200)	-	-	-	-
20-year variable loan	23,307	(31,991)	-	-	(2,738)	(10,173)	(19,080)
5-year term loan	250,000	(252,094)	(100,380)	(151,714)	-	-	-
Index linked bonds	454,659	(488,938)	(267,198)	-	(8,761)	(18,381)	(194,599)
Fixed Rate Stock 8.75%	91,556	(179,610)	-	(8,333)	-	(33,332)	(137,945)
	4,326,446	(4,517,699)	(1,449,585)	(2,039,102)	(608,709)	(68,678)	(351,624)
Derivative liabilities							
Trading: outflow	(2,145,488)	(2,184,246)	(430,813)	(1,419,028)	(334,405)	-	-
Trading: inflow	2,145,488	2,184,246	430,813	1,419,028	334,405	-	-
	-	-	-	-	-	-	-

Management of liquidity risk

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.

The Board approves a rolling update of a five-year Corporate Plan at its March meeting each year. This takes into account the Agency's internal resource calculations, the Government's estimate of loan advances as set out in the PCP, loans maturing during the year and funding options.

Regular review of the Agency's financial position is presented, along with monthly management accounts, to the Board.

The Board regularly reviews the current debt programme, which includes a match-funding, borrowings and advances report on a quarterly basis by loan type and maturity detailing capital, interest rate structure, currency composition, borrowing costs, maturity profile.

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 19% of the Agency's available borrowing facilities at 31 December 2008. The Agency's committed facilities, bond issues and €4.4 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 2008) are subject to annual review by the Agency's bankers. The Agency's €3.5 billion eurocommercial paper programme was increased in size to €4.4 billion on 17 July 2007. The average cost of the Agency's debt in 2008 was an annualised 4.4% compared with 3.8% 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. The Board has in place a policy of regular assessment of maturing debt and its refinancing and/or repayment.

The Agency has on-lent a number of fixed rate medium-term loans to local authorities for housing and related purposes and has funded these loans with matched fixed rate 'Medium Term Notes (MTNs)'. Because of this, these loans are fully matched in loan term and interest rate, and present no liquidity risk.

15 FINANCIAL RISK MANAGEMENT (CONTINUED)

The bulk of the Agency's lending – consisting mostly of 30-year annuities – is funded by short-term variable rate commercial paper, which is guaranteed by the Minister for Finance of Ireland. In the context of the State's rating and its membership of the EU and the eurozone, the Board considers that adequate resources are in place to cover any liquidity risk that may arise.

(c) Market risks

Market risk is the risk that changes in market prices, such as interest rate and foreign exchange rates will affect the Agency's income or the value of its holdings of financial instruments. The objective of market risk management is to minimise or eliminate market risk exposures.

Management of market risks

The Agency splits market risks into risks related to changes in variable interest rates, foreign exchange rates and inflation. 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 financial assets are analysed further below:

	31 December 2008 €'000	31 December 2007 €'000
Fixed rate	154,219	142,141
EURIBOR®	4,625,816	4,061,274
Index linked	180,785	194,713
	4,960,820	4,398,128
Derivatives	113,332	6,925
	5,074,152	4,405,053

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.

Interest rate risk profile of financial assets as at:

	31 December 2008	31 December 2007
Weighted average fixed interest rate	5.41%	6.58%
Weighted average floating interest rate	4.49%	4.57%
Weighted average period for which fixed interest assets are fixed	18.5 years	16.9 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 principally of loans to local authorities of terms between one and thirty years.

15 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial liabilities are analysed below:

	31 December 2008 €'000	31 December 2007 €'000
Fixed rate	98,169	98,614
Floating rate:		
EURIBOR®	4,654,369	3,765,514
Prime	1,082	7,659
Index linked	198,296	454,659
	4,951,916	4,326,446
Derivative	66,758	51,732
	5,018,674	4,378,178

These are analysed as follows:

Floating rate liabilities include the Agency's ECP debt. This debt consists of short-term 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

	31 December 2008	31 December 2007
Weighted average fixed interest rate	8.73%	8.73%
Weighted average floating interest rate	4.06%	4.33%
Weighted average period for which fixed interest liabilities are fixed	8.6 years	9.6 years

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 following uncertainties are taken into account in determining the policy:

- where borrowers can redeem without penalty;
- where specialised markets (e.g. index linked) may not always be receptive to issues and redemptions; and
- 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.

The Agency also manages its variable book by setting its non-mortgage variable rate monthly in arrears, allowing planned cash-flows to materialise.

15 FINANCIAL RISK MANAGEMENT (CONTINUED)**Maturity and interest rate repricing of financial assets**

	Maturity 31 December 2008 €'000	Repricing 31 December 2008 €'000
Amounts falling due in one month or less	523,182	4,583,885
Amounts falling due between one and three months	-	229,829
Amounts falling due between three and twelve months	1,011,248	-
Amounts falling due between one and two years	92,895	332
Amounts falling due between two and three years	48,157	-
Amounts falling due between three and four years	91,588	1,559
Amounts falling due between four and five years	67,521	5,778
Amounts falling due after more than five years	3,126,230	139,438
	4,960,821	4,960,821

	Maturity 31 December 2007 €'000	Repricing 31 December 2007 €'000
Amounts falling due in one month or less	97,944	4,060,222
Amounts falling due between one and three months	-	202,693
Amounts falling due between three and twelve months	1,211,773	-
Amounts falling due between one and two years	115,326	699
Amounts falling due between two and three years	87,635	-
Amounts falling due between three and four years	28,899	1,818
Amounts falling due between four and five years	97,970	7,290
Amounts falling due after more than five years	2,758,581	125,406
	4,398,128	4,398,128

Maturity, liquidity measures and interest rate repricing of financial liabilities

31 December 2008	Maturity €'000	Repricing €'000	Undrawn committed facilities €'000
Maturing in one month or less	917,071	1,040,337	-
Maturing between one and three months	1,929,839	2,079,839	-
Maturing between three and twelve months	1,582,248	1,603,385	76,734
Maturing greater than 1 year and less than 2 years	250,000	255	-
Maturing greater than 2 years and less than 3 years	-	1,769	-
Maturing greater than 2 years and less than 3 years	10,253	2,878	98,977
Maturing greater than 4 years and less than 5 years	-	-	-
Maturing greater than 5 years	329,263	290,211	1,720
	5,018,674	5,018,674	177,431

15 FINANCIAL RISK MANAGEMENT (CONTINUED)

Maturity, liquidity measures and interest rate repricing of financial liabilities (continued)

31 December 2007	Maturity €'000	Repricing €'000	Undrawn committed facilities €'000
Maturing in one month or less	1,246,738	1,417,731	-
Maturing between one and three months	1,865,078	2,015,077	-
Maturing between three and twelve months	582,885	606,192	-
Maturing greater than 1 year and less than 2 years	53,451	1,575	46,549
Maturing greater than 2 years and less than 3 years	250,000	418	-
Maturing greater than 3 years and less than 4 years	-	2,007	-
Maturing greater than 4 years and less than 5 years	24,598	3,057	75,402
Maturing greater than 5 years	303,696	280,389	1,693
	4,326,446	4,326,446	123,644

Sensitivity to interest rate risk

An analysis of the Agency's sensitivity to an increase or decrease in market interest rates (assuming a constant balance sheet position) would impact on losses for the financial year as follows:

	100 bp parallel increase €'000 Gain	100 bp parallel decrease €'000 (Loss)	50 bp parallel increase €'000 Gain	50 bp parallel decrease €'000 (Loss)
At 31 December 2008	(3,348)	3,348	(1,674)	1,674
At 31 December 2007	3,617	(3,617)	1,808	(1,808)

The above figures have been calculated using outstanding balances of variable rate loan advances offsetting outstanding variable rate ECP funding, at the above dates. Fixed rate advances and fixed rate funding have no sensitivity to changes in market interest rates and are therefore excluded from this analysis.

Exposure to foreign exchange rate risk

Risk related to changes in foreign exchange rates concerns the following transactions:

The Agency issues zero coupon commercial paper debt in currencies other than the functional currency. The National Treasury Management Agency, acting as agent, 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. As at 31 December 2008 and 2007, after taking into account the effects of foreign currency forward contracts, no material currency exposures existed.

Exposure to Inflation rate risk

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 matching the borrowing and lending portfolios as far as possible and by applying a reserves policy, which is approved by the Board. The Agency's policy is to ensure that adequate reserves are set aside to meet known potential risks in the period to which such exposures relate.

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.

15 FINANCIAL RISK MANAGEMENT (CONTINUED)**Exposure to Inflation rate risk (continued)**

An analysis of the Agency's sensitivity to an increase or decrease in the consumer price index inflation rates (assuming a constant balance sheet position) is as follows:

	100 bp parallel increase €'000 Gain	100 bp parallel decrease €'000 (Loss)	50 bp parallel increase €'000 Gain	50 bp parallel decrease €'000 (Loss)
At 31 December 2008	(111)	111	(55)	55
At 31 December 2007	(1,325)	1,325	(662)	662

Fair value

The following tables outline the fair value of the financial assets and liabilities as at 31 December 2008 and 31 December 2007:

31 December 2008	Carrying value €'000	Fair value €'000
Financial assets		
Fixed rate	154,219	184,528
Floating rate	4,625,816	4,625,816
Index linked	180,785	260,573
Derivative assets	113,332	113,332
	5,074,152	5,184,249
Financial Liabilities		
Fixed rate	98,169	135,179
Floating rate	4,655,451	4,655,451
Index linked	198,296	265,987
Derivative liabilities	66,758	66,758
	5,018,674	5,123,375
31 December 2007	Carrying value €'000	Fair value €'000
Financial assets		
Fixed rate	142,141	165,345
Floating rate	4,061,274	4,068,199
Index linked	6,925	6,925
Derivative assets	194,713	288,730
	4,405,053	4,529,199
Financial Liabilities		
Fixed rate	98,614	130,244
Floating rate	3,773,173	3,773,173
Index linked	454,659	486,061
Derivative liabilities	51,732	51,732
	4,378,178	4,441,210

15 FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair value (continued)

The Agency has considered how best it can determine 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 €5.2bn. This is based on EURIBOR® at the year end rate (2007: EURIBOR®) on a 365 day basis.

Similarly, the Agency's liabilities are valued by reference to one month EURIBOR® (2.603% [360-day basis]) at 31 December 2008, with the cost of funding index linked stock compared to the cost of funding a conventional variable rate stock. €5.1bn has been estimated as the fair value of the Agency's liabilities. This is again based on EURIBOR® at the year end rate (2007: 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 31 December 2008.

16 DERIVATIVE FINANCIAL INSTRUMENTS

At 31 December 2008

	Contract/notional amount €'000	Fair value assets €'000	Fair value liabilities €'000
Derivatives designated as cash flow hedges			
Forward exchange rate agreements	2,363,048	113,332	(66,758)
Total recognised derivative assets/(liabilities)	2,363,048	113,332	(66,758)

At 31 December 2007

	Contract/notional amount €'000	Fair value assets €'000	Fair value liabilities €'000
Derivatives designated as cash flow hedges			
Forward exchange rate agreements	2,184,246	6,925	(51,732)
Total recognised derivative assets/(liabilities)	2,184,246	6,925	(51,732)

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

17 HEDGING RESERVE / CASH FLOW HEDGES

	2008 €'000	2007 €'000
Balance at beginning of year	-	-
(Losses)/gains on hedging instruments	(395)	53
Transferred to income and expenditure account	374	(53)
Balance at end of year	(21)	-

18 CASH FLOW STATEMENT

	31 December 2008 €'000	31 December 2007 €'000
(a) Reconciliation of operating deficit to cash inflow/ (outflow) from operating activities		
Operating deficit for the financial year	(21,411)	(19,158)
Direct expenditure (Note 4)	209,447	170,644
Pension service costs (Note 6)	65	92
Depreciation (Note 9)	35	32
Movements in working capital:		
Increase in amounts due from local authorities (Note 8)	(16,256)	(21,770)
Increase in advances (Note 8)	(658,928)	(738,267)
Increase in other debtors and prepayments	2	-
Increase in creditors	18,774	65
(Increase)/decrease in derivatives	(91,381)	31,713
Cash outflow from operating activities	(559,653)	(576,649)
(b) Gross cash flows		
Returns on investments and servicing of finance		
Redemption of bond	(266,906)	-
Interest received	19,245	11,815
Interest paid	(201,033)	(145,908)
Net cash outflow from returns on investments and servicing of finance	(448,694)	(134,093)
Capital expenditure		
Payments to acquire tangible fixed assets	(57)	(55)
Net cash outflow from capital expenditure and disposals	(57)	(55)
Debt Financing		
Increase in bank loans and notes payable	902,490	1,224,605
Net cash inflow from change in debt financing	902,490	1,224,605

18 CASH FLOW STATEMENT (CONTINUED)**(c) Analysis of changes in net debt**

	At 31 December 2008 €'000	Cash flows €'000	Non-cash movements €'000	At 31 December 2007 €'000
Cash in hand, at bank	408,984	(112,490)	-	521,474
Overdraft	(1,082)	6,576	-	(7,659)
	407,902	(105,914)	-	513,815
Bank loans and notes repayable within one year	(4,361,318)	(954,544)	-	(3,406,774)
Bank loans and notes repayable after one year	(299,304)	52,054	-	(351,358)
Index linked bonds	(96,238)	-	108,039	(204,277)
Provision for premium on redemption of bonds	(102,056)	-	148,327	(250,382)
8.75% Housing Finance Agency Stock 2018	(91,916)	-	(360)	(91,556)
	(4,542,930)	(1,008,404)	256,006	(3,790,532)

19 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 2008 and 2007.

20 RECONCILIATION OF RETAINED SURPLUS

	31 December 2008 €'000	31 December 2007 €'000
Retained surplus at beginning of year	24,098	30,725
Deficit for the financial year	(2,023)	(6,501)
Actuarial gains and losses	(820)	(126)
Retained surplus at end of year	21,255	24,098

21 RECONCILIATION OF SHAREHOLDERS' FUNDS

	31 December 2008 €'000	31 December 2007 €'000
Opening shareholders' funds	24,137	30,764
Recognised losses for year	(2,864)	(6,627)
Closing shareholders' funds	21,273	24,137

22 COMMITMENTS**Operating lease commitments**

The Agency has commitments under operating leases to make annual payments as follows:

	Buildings €'000
Not later than one year	105
After one year less than five years	126
After five years	146

The Agency entered into a new 20 year lease agreement on 18 February 2009.

23 PENSION DEFICIT

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

The latest full actuarial valuation was carried out at 31 December 2007 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 2008 the market value of the fund's assets was €1.95m (2007: €1.62m). 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 2008 by a qualified independent actuary using the projected unit cost method. The principal actuarial assumptions used were as follows:

	2008	2007	2006
	%	%	%
Rate of increase in salaries	3.75	4.25	4.00
Rate of increase in pensions payments	2.00	2.50	2.25
Discount rate	5.60	5.60	4.60
Inflation assumption	2.00	2.50	2.25
Mortality rate			
Post retirement - male age 65	23.9 years	21.6 years	-
Post retirement - female age 65	27.8 years	25.3 years	-

23 PENSION DEFICIT (CONTINUED)

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

The assets in the scheme and the expected rate of return were:	Long-term rate of return expected at 31 Dec 2008 %	Value at 31 Dec 2008 €'000	Long-term rate of return expected at 31 Dec 2007 %	Value at 31 Dec 2007 €'000	Long-term rate of return expected at 31 Dec 2006 %	Value at 31 Dec 2006 €'000
Equities	7.00	547	6.50	1,276	7.00	1,688
Bonds	4.00	1,301	4.00	173	4.35	228
Property	6.50	72	6.00	121	7.00	107
Cash	2.00	28	2.50	47	2.25	111
Other	-	-	-	-	-	-
Total market value of pension scheme assets		1,948		1,617		2,134
Present value of pension scheme liabilities		(2,025)		(1,681)		(2,100)
Total net retirement surplus/ (deficit) in scheme		(77)		(64)		34
Total net pension deficit/surplus		(77)		(64)		34

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

	31 Dec 2008 €'000	31 Dec 2007 €'000	31 Dec 2006 €'000	31 Dec 2005 €'000	31 Dec 2004 €'000
Included in statement of total recognised gains and losses:					
Difference between expected and actual return on assets	(661)	(188)	95	361	(229)
Experience gains and losses on scheme liabilities	(129)	(184)	(100)	(211)	22
Effect of changes in actuarial assumptions	(30)	246	(189)	(361)	130
Net in statement of total recognised losses	(820)	(126)	(194)	(211)	(77)

History of actuarial gains and losses

	31 Dec 2008 €'000	31 Dec 2007 €'000	31 Dec 2006 €'000	31 Dec 2005 €'000	31 Dec 2004 €'000
Difference between expected and actual return on assets	(661)	(188)	95	361	(229)
Expressed as a percentage of scheme assets	33.9%	(11.6%)	4.5%	12.1%	(9.7%)
Experience gains and losses on scheme liabilities	(129)	(184)	(100)	(211)	(22)
Expressed as a percentage of scheme liabilities	(6.37%)	(10.9%)	(4.8%)	(7.5%)	(1.0%)
Total actuarial gains and losses	(820)	(126)	(194)	(211)	(77)
Expressed as a percentage of scheme liabilities	(40.5%)	(7.5%)	(9.3%)	(7.5%)	(3.8%)

23 PENSION DEFICIT (CONTINUED)

Changes in the present value of the defined benefit obligation are as follows:

	2008 €'000	2007 €'000
Deficit at 1 January	(1,681)	(2,099)
Current service cost	(65)	(92)
Interest Cost	(99)	(76)
Contributions by employees	(21)	(17)
Actuarial (losses)/gains	(159)	62
Benefits paid	-	541
Deficit at 31 December	(2,025)	(1,681)

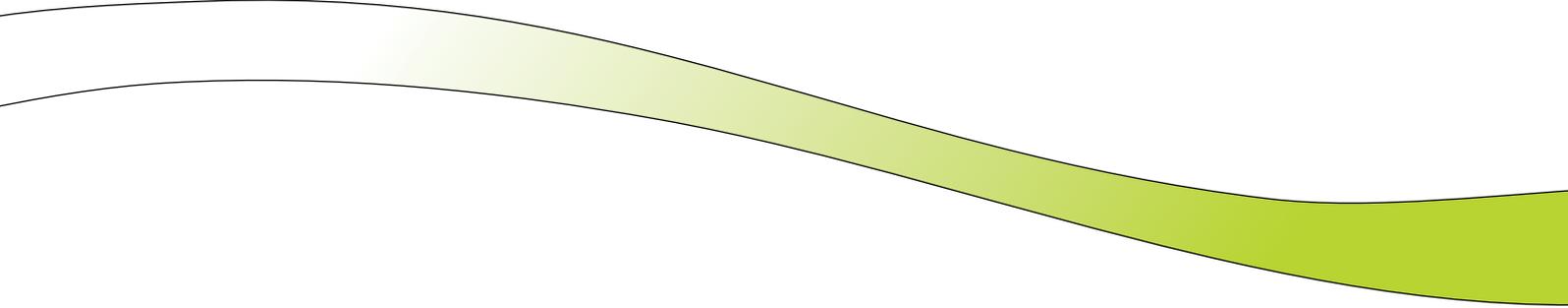
Changes in the fair value of plan assets are as follows:

	2008 €'000	2007 €'000
Fair value of plan assets at 1 January	1,617	2,133
Expected return on plan assets	110	108
Contributions by employer	861	88
Contributions by employees	21	17
Actuarial losses	(661)	(188)
Benefits paid	-	(541)
Other adjustments (if any)	-	-
Fair value of plan assets at 31 December	1,948	1,617

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 26 March 2009.

chapter eleven | appendices



APPENDIX 1 – BALANCE OUTSTANDING - BY LOCAL AUTHORITY AND NATIONAL BUILDING AGENCY

Local Authority	31 December 2008 €'000	31 December 2007 €'000
Athy Town Council	960	-
Athlone Town Council	2,531	1,474
Bray Town Council	1,427	1,506
Carlow County Council	40,202	36,278
Carrick-on-Suir Town Council	389	372
Castleblaney Town Council	82	88
Cavan County Council	17,694	15,638
Clare County Council	48,322	48,168
Clonakilty Town Council	3,442	3,409
Clones Town Council	193	198
Clonmel Borough Council	5,379	5,485
Cork City Council	155,646	111,670
Cork County Council	386,681	326,282
Donegal County Council	102,925	97,823
Drogheda Borough Council	79,290	75,570
Dublin City Council	1,008,340	916,496
Dundalk Town Council	52,076	45,030
Dungarvan Town Council	2,001	1,916
Dunlaoghaire/Rathdown County Council	156,328	94,458
Ennis Town Council	1,000	-
Enniscorthy Town Council	420	915
Fermoy Town Council	325	311
Fingal County Council	463,025	383,248
Galway City Council	143,559	125,942
Galway County Council	72,197	66,140
Kerry County Council	73,282	56,072
Kildare County Council	145,477	119,768
Kilkenny Borough Council	775	820
Kilkenny County Council	56,874	44,112
Killarney Town Council	3,500	-
Laois County Council	137,011	119,448
Leitrim County Council	9,487	9,862
Letterkenny Town Council	-	26
Limerick City Council	27,841	21,696

APPENDIX 1 – BALANCE OUTSTANDING - BY LOCAL AUTHORITY AND NATIONAL BUILDING AGENCY (CONT)

Local Authority	31 December 2008 €'000	31 December 2007 €'000
Limerick County Council	47,751	40,128
Listowel Town Council	1,766	1,100
Longford County Council	44,887	31,925
Longford Town Council	8,543	2,650
Louth County Council	3,870	16,539
Macroom Town Council	-	10
Mallow Town Council	3,679	3,523
Mayo County Council	68,553	55,287
Meath County Council	75,153	72,045
Monaghan County Council	31,938	32,455
Naas Town Council	11,652	11,158
New Ross Town Council	-	-
North Tipperary County Council	39,639	27,353
Offaly County Council	39,036	40,146
Roscommon County Council	5,897	8,677
Skibbereen Town Council	1,341	1,285
Sligo Borough Council	50,570	48,480
Sligo County Council	51,810	52,035
South Dublin County Council	242,528	195,763
South Tipperary County Council	61,246	59,466
Tipperary Town Council	-	-
Tralee Town Council	19,990	19,142
Tullamore Town Council	12,607	4,265
Waterford City Council	97,525	78,684
Waterford County Council	35,666	34,173
Westmeath County Council	80,566	62,669
Westport Town Council	3,456	3,310
Wexford Borough Council	5,350	5,443
Wexford County Council	121,523	82,394
Wicklow County Council	58,150	44,730
Wicklow Town Council	7,056	6,757
Sub total	4,430,429	3,771,813
National Building Agency	7,209	6,897
Total	4,437,638	3,778,710

APPENDIX 2 – LOANS ADVANCED - BY LOCAL AUTHORITY AND NATIONAL BUILDING AGENCY

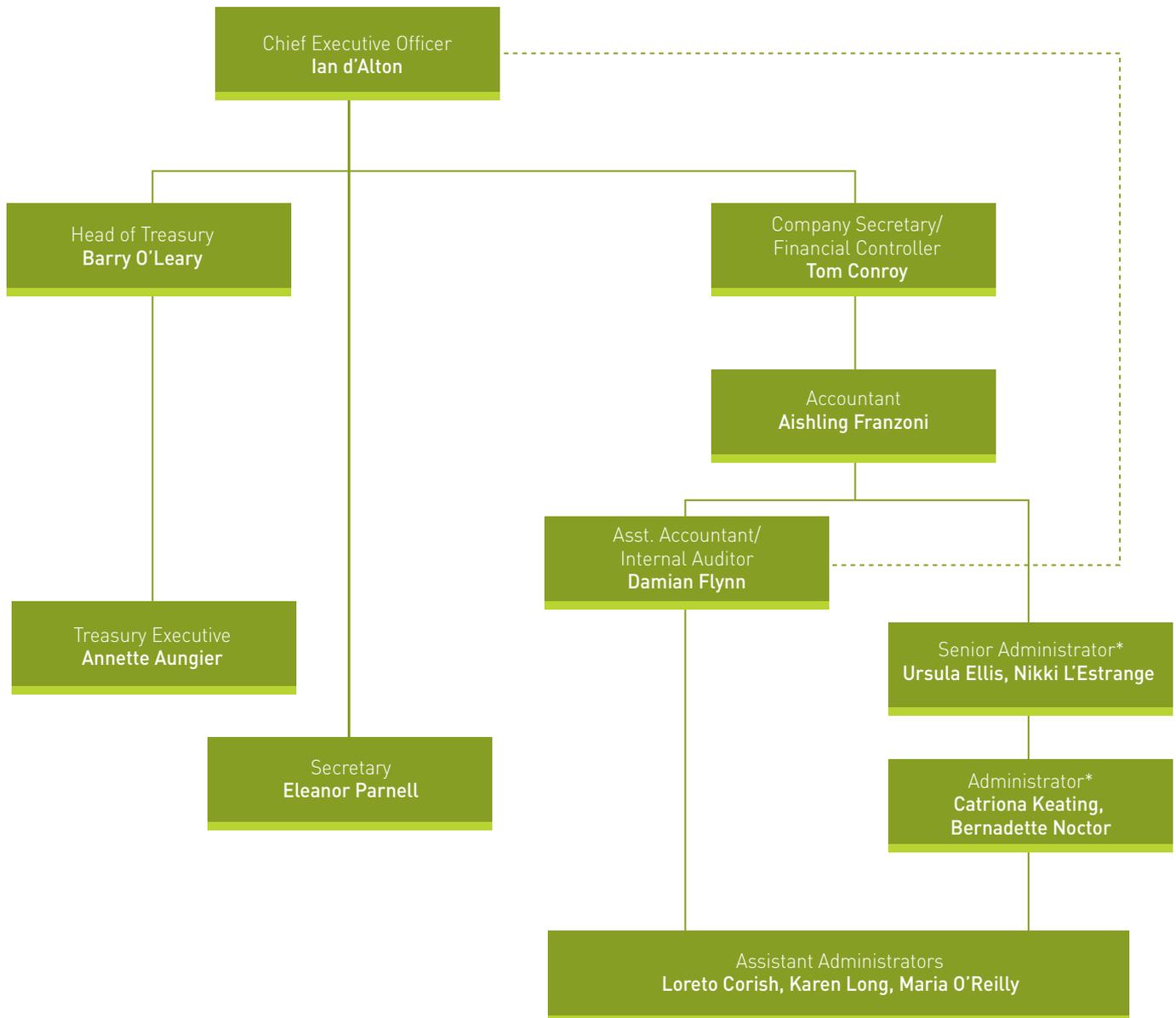
Local Authority	12 Months to 31 December 2008 €'000	12 Months to 31 December 2007 €'000
Athy Town Council	960	-
Athlone Town Council	1,300	-
Carlow County Council	4,409	2,639
Cavan County Council	3,163	1,249
Clare County Council	3,604	8,930
Clonakilty Town Council	-	2,619
Clonmel Borough Council	-	1,500
Cork City Council	50,581	31,881
Cork County Council	137,593	110,360
Donegal County Council	11,871	24,639
Drogheda Borough Council	8,525	46,020
Dublin City Council	222,265	362,196
Dundalk Town Council	8,345	11,484
Dunlaoghaire/Rathdown County Council	61,656	14,646
Ennis Town Council	1,000	-
Fingal County Council	116,813	122,194
Galway City Council	23,387	28,244
Galway County Council	11,604	4,336
Kerry County Council	21,335	20,740
Kildare County Council	26,035	14,070
Kilkenny County Council	15,520	670
Killarney Town Council	3,500	-
Laois County Council	51,081	45,693
Leitrim County Council	127	3,000
Limerick City Council	10,904	3,797
Limerick County Council	12,939	9,137
Listowel Town Council	640	1,095
Longford County Council	14,000	1,300
Longford Town Council	6,000	-
Louth County Council	-	12,500
Macroom Town Council	1,200	-
Mayo County Council	14,956	1,968
Meath County Council	5,516	21,363
Monaghan County Council	1,966	7,885
North Tipperary County Council	15,066	10,939
Offaly County Council	1,949	5,845
Roscommon County Council	696	-
Skibbereen Town Council	-	-
Sligo Borough Council	2,915	7,017
Sligo County Council	2,309	1,956
South Dublin County Council	60,097	39,317
South Tipperary County Council	3,920	9,571
Tralee Town Council	-	-
Tullamore Town Council	12,398	-
Waterford City Council	23,588	25,950
Waterford County Council	2,585	5,813
Westmeath County Council	27,184	16,956
Wexford County Council	41,705	12,461
Wicklow County Council	14,789	6,796
Sub total	1,061,996	1,058,776
National Building Agency	-	3,000
Total	1,061,996	1,061,776

APPENDIX 3 – BALANCE OUTSTANDING ON LOAN BOOK BY RATE TYPE AND DURATION OF LOAN

	Fixed Rate	Variable Rate	Index Linked		Total
	€'000	€'000	Post May 1986 €'000	Pre May 1986 €'000	€'000
0 to 5 years	7,933	1,303,663			1,311,596
6 to 10 years	29,177	236,979	6,226		272,382
11 to 15 years	5,623	224,548	31,218	-	261,389
16 to 20 years	21,324	466,900	105,045	-	593,269
21 to 25 years	41,401	1,033,717	-	-	1,075,118
26 to 30 years	41,649	806,264	-	-	847,913
31 to 40 years	-	42,276	8,889	24,806	75,971
Total	147,107	4,114,347	151,378	24,806	4,437,638

appendix 4 | staff structure

AS AT 30 APRIL 2009



* Work-sharing

— For internal audit purposes only