

Housing Finance Agency

Annual Report **2010**





HOUSING FINANCE AGENCY plc

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Board of Directors



John Bolger Chairman



Ian d'Alton CEO



Julia Carmichael



Fr. Patrick Cogan



Patrick Doyle



Michael Hayes



Clodagh Henehan



Jackie Maguire



Philip Nugent



Áine Stapleton



Eddie Wade

Other Information

Secretary and Registered Office

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Auditors

KPMG

Chartered Accountants

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IFSC,

Dublin 1.

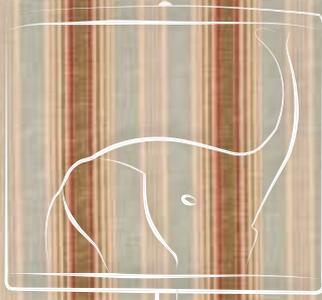
Solicitors

McCann FitzGerald Solicitors

Riverside One

Sir John Rogerson's Quay,

Dublin 2.



Chapter 1

Chairman's Report



Introduction

This is my second report as Chairman of the Agency. The year under review has been dominated by the State's and the banking sector's fiscal problems. These have continued to affect the housing market. Completions are estimated at about 14,600 in 2010, down from 26,000 in 2009, itself a low number. Average prices for houses have continued to decline, albeit at a slower pace than in 2009, and budgetary austerity has severely limited the range and extent of supports available to the social housing sector. The Irish economy is likely to show only small growth this year, while net emigration will continue.

Results

In 2010 the Agency posted a surplus of €23.7 million, while at the same time delivering very low and competitive interest rates to our customers, the local authorities and households. We ended 2010 in sound financial shape, with outgoing reserves of €55.7 million. These reserves are necessary to cover the long-term and lifetime risks that arise in its business, and the policy of building them up has been in place for many years. The Board closely monitors the Agency's risk management and earnings, and the Agency makes adjustments in its margins to ensure that returns are sufficient to compensate for the risks that have been identified.

Low activity in the mortgage market and the social housing sector is reflected in the Agency's book decreasing by €143 million over the year. The loan book stood at €4.45 billion at 31 December 2010 compared with €4.58 billion at end-2009. While representing a small decline of just over 3% of Agency lending, it nevertheless marks a reversal of the substantial growth seen in recent years. We expect that decline in our traditional business to continue in 2011.

Loan Advances by Gross/Net Lending 2006–2010

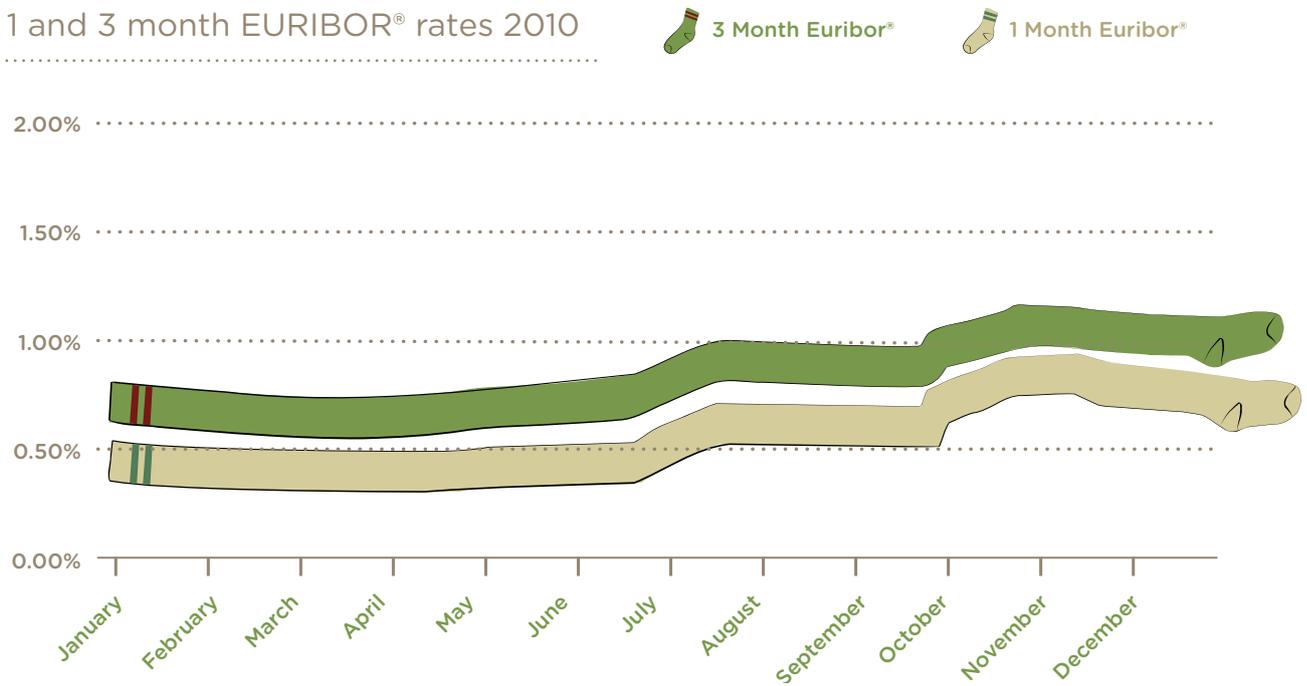


Surplus and Reserves 2006–2010



Chairman's Report continued

1 and 3 month EURIBOR® rates 2010



Lending During 2010

The Agency's mission is to source and supply cost-efficient loan finance for local authorities and Approved Housing Bodies in the voluntary sector. The Agency currently lends to 42 local authorities under a variety of schemes and structures. In 2010, gross loan advances amounted to €396 million. Repayments and redemptions totalled €539 million. In housing, gross advances in 2010 were principally for voluntary housing bodies under the Capital Loan and Subsidy scheme (€92 million), home ownership supports for low and middle income households (€24 million) and House Purchase loans (€10 million). €150 million was advanced to local authorities for housing-related purposes under section 11 of the Housing (Miscellaneous Provisions) Act, 2009 and, in infrastructure, €18 million was advanced for Water/Waste/Environmental projects.

Interest Rates

The Agency continued to offer excellent value to its customers. Households benefited from an Agency-generated house purchase annuity mortgage rate that was about 1% *below* the average standard variable rates in the market. For non-mortgage housing and housing-related purposes, the interest rate over 2010 to local authorities averaged 1.4%. The Agency's policy is to keep its interest rates at the lowest possible level consistent with providing for risks in the Agency's portfolio, and to deliver cost-effective loan structures to match our customers' requirements. In line with general market expectations and the Agency's cost of funds, we are likely to see an increase in rates over 2011.

Chairman's Report continued

Loan Advances by Loan Type in 2010



Loan Book €m 2006 to 2010



Funding

The Agency's requirement for variable rate funding has traditionally been satisfied through use of its €6 billion ECP programme, which is State-guaranteed. Consequent upon the sovereign's borrowing difficulties, market conditions were not favourable for issuing under the programme from the last quarter of 2010. As a result, the Agency relies on funding using its Guaranteed Notes (GN) programme, with a capacity of €4.5 billion – more than sufficient to cover our variable funding needs at present. An amount of €3.83 billion was drawn under the GN programme at year end. As notes issued under this programme have been relatively short in tenure, it has allowed the Agency deliver very competitive

interest rates to its customers, while having reasonable certainty of a continuing supply of funding. Following on the EU/IMF financial assistance programme facility for Ireland, the Agency is now accessing floating rate funding from that programme, through the NTMA and via the GN programme.

The Agency also provides local authorities with an investment facility for their surplus cash, offering competitive interest rates. In 2010, we dealt with 29 local authorities in this area of our business. As well as providing a cost-effective and flexible service to our customers, the facility is another source of funding for the Agency.

Chairman's Report continued

New Business

Towards the end of the year, the Agency opened for the business of direct lending to Approved Housing Bodies in the voluntary and co-operative housing sectors. At 31 December 2010 no lending had yet been finalised. One of the models available under the initiative will enable voluntary and co-operative housing bodies to acquire units which will then be made available for use as social housing by the State, through local authorities. It is envisaged that the housing bodies will eventually obtain capital funds from the private sector. In the interim, the Agency [which is empowered under section 17 of the Housing (Miscellaneous Provisions) Act 2002 to lend directly to such bodies] is processing applications for lending, and it is expected that the first such loans will be made shortly. The Agency has established a Credit Committee consisting of Board members and senior management, and advised by outside consultants, to assess and decide upon applications for funding.

Corporate Planning and Reporting

Under the *Code of Practice for the Governance of State Bodies* the Agency furnishes semi-annual reports to the Departments of the Environment, Heritage & Local Government, and Finance. These reports have been made on time in 2010, and the arrangement will continue in 2011. The Agency's rolling five-year *Corporate Plan*, published on our website, is updated annually following approval by the Minister for the Environment, Heritage & Local Government, and the Board.

Risk Management

In conformity with the revised *Code of Practice for the Governance of State Bodies*, a Risk Management Policy (overseen by the Audit Committee) was agreed by the Board in 2009, and a formal risk management committee, consisting of senior management, has been set up. Risk is a standing item on all Board meeting agendas. The Agency has commissioned an outside review of the Policy Framework to ensure that it captures all appropriate risks.

The Agency faces risks that require the maintenance of adequate reserves and, where appropriate, specific provisions. *Inflation risk* principally relates to the cost of a long-term mismatch between older shared ownership and income-related indexed loans with the legacy bonds that fund them. These loans incurred a loss of €0.4 million in 2010 and this mismatch will continue to 2015 (when the bonds fall due for repayment). In addition, intra-year differences in inflation can produce gains or losses. In 2010, these differences produced a gain of €3.2 million, as deflation was replaced by inflation during the year. Over the medium to long term, however, intra-year movements should broadly balance.

The Agency has substantial risk in parts of its portfolio – principally in the index-linked and fixed rate books – as a result of structural changes in the level of interest rates since Economic and Monetary Union in 1998.

The Agency has long term fixed interest rate and index linked debt financed by two bonds which will expire in 2015 and 2018. This debt was raised to finance specific housing schemes in the 1980s. It represented exceptional value at the time and into the early 1990s. However, the structural fall in interest rates since the mid 1990s precipitated a substantial increase in loan redemptions. Together with the government granting a right to prepay fixed rate loans without penalty in 1989 (after the bonds were issued) the result for the Agency has been the development of a considerable mismatch in the loan book.

The fixed rate mismatch will continue until 2018, when a bond issue matures. In the years 1986–89, the Agency made fixed rate mortgage-related advances, funded by an Irish pound fixed rate bond issuance. The relative inflexibility of issuing conditions in the pre-euro environment resulted in a mismatch arising over time between the amount of loans outstanding and bonds in issue. This cost the Agency €4.9 million in 2010.

During 2010, the credit risk relating to *balances on older Pre May 1986* income-related loans did not necessitate a further collective provision; the total provision for this element of risk has remained at €1.04 million since 2009. While no call on that provision has yet been made, additional provisions are likely in future years.

Chairman's Report continued

The bulk of the Agency's lending – consisting mostly of 30-year annuities – is funded by its Guaranteed Notes facility, guaranteed by the Minister for Finance of Ireland. Notes under this facility have tenors ranging from 1 day to 3 months, with the bulk of Notes being in the latter maturity. The Department of Finance has requested the NTMA to continue to provide floating rate funding to the Agency through the GN programme. The Board consider that adequate resources are in place to cover any liquidity risk that may arise over the next 12 months. Further details are set out in pages 50–53 of this report.

I am pleased to say that the Agency's *pension fund* is fully funded as at year end-2010, in compliance with the Funding Standard of the Irish Pensions Board.

Quality Customer Service

Quality Customer Service is important to the Agency, and we use the following criteria to measure and monitor it:

In regard to timely disbursement of *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 met this target in 2010.

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.

Staff training and development is important for the ongoing efficiency of the Agency. Our target of spending the equivalent of 4% of payroll costs on training was not met due to necessary administrative expenditure reductions, resulting in a 2.6% outturn for 2010 (2009: 3.2%).

Compliance with the Agency's Policies and Procedures Manual measures our adherence to appropriate and structured corporate governance. Compliance is reported upon twice a year and reviewed by the Audit Committee. Our 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 2010.

We maintain close contact with our customers through discussions with and presentations to local authority officials' representative associations (county and city managers, heads of finance and town clerks); one-to-one meetings with local authority staff; and involvement in the Agency/local authority liaison committee, comprised of Agency Directors and county and city managers.

Corporate Governance

The Agency aims to achieve the highest standards of corporate governance. The Agency conforms to the *Code of Practice for the Governance of State Bodies* issued by the Department of Finance. The *Code* sets out a framework to be adopted by State bodies towards the achievement of best practice for corporate governance in both commercial and non-commercial State bodies. It reflects a range of changes since the original code (adopted and followed by the Agency) was published in October 2001, both in legislative and administrative guidelines that have implications for the governance framework of State bodies.

I am pleased to report that the Agency was again a finalist in the 2010 Chartered Accountants Published Accounts Awards.

Freedom of Information

The Agency has fallen within the scope of the Freedom of Information Act, 1997 since 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 2010.

Energy Conservation

In accordance with current public policy on energy conservation, the Agency has adopted relevant conservation measures.

Chairman's Report continued

I report as follows:

- the Agency moved to new offices in 2010 with a BER rating of B1, its previous premises being rated D2;
- the Agency recycles paper & cardboard, electronic equipment and mobile phones;
- it purchases and operates energy-rated servers, personal computers and printers;
- the Travelpass scheme is availed of by 64% of staff; and
- 18% of staff cycle to and from work.

It is intended to build on these achievements with a view to introducing further energy saving measures during 2011.

Administration and Staff

The Agency pays its own way by taking a small margin from its lending. While the Agency – as recognised in the *Report of the Special Group on Public Service Numbers and Expenditure Programmes* (the McCarthy Report) – is a self-financing body not in receipt of a budget allocation from the Exchequer, nonetheless the Board aims to keep its administration costs under careful control. Where the Agency has some discretion on expenditure, we keep operating costs as low as possible, while delivering the service level required of us. As a percentage of the end-year loan book, the Agency's administrative costs have dropped from 0.06% to 0.03% in the period from 2002 to 2010, and we made an administrative cost saving of 4.4% in 2010 over actual outturn in 2009. The Agency does not pay bonuses, overtime or premium pay.

The Agency adopted the terms of the Croke Park Agreement in 2010 with further agreed improvements and efficiencies in working practices to be undertaken during 2011.

The Agency's staff consists of the equivalent of eleven whole-time persons. Ms Natalie Doyle and Ms Murette Reid are welcomed to the Agency. The Agency appreciates the qualities of flexibility and dedication that our staff exhibit, particularly in these difficult times, and we endeavour, where possible, to operate family-friendly and work-life balance structures.

Chairman's Report continued

Acknowledgements

The Agency, with its small core staff, could not operate effectively without the assistance and co-operation of its stakeholders, including the NTMA, the Central Bank, the credit rating agencies, our auditors, lawyers, IT contractors and bankers and all those who provide essential services to the Agency. We offer thanks for their support especially to the Ministers for the Environment, Heritage & Local Government, and Finance, and their staff. Our focus is on the needs of our customers, and we are appreciative of their courtesy and efficiency in their dealings with the Agency.

The Board held seven meetings during the year, and I thank Board members for their contribution to its efficient and effective work.

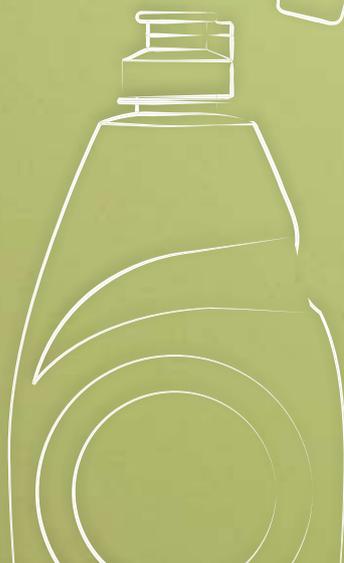


John Bolger
Chairman

28 April 2011



Chapter 2
Directors' Report



The Directors present their annual report and audited financial statements for the Year Ended 31 December 2010.

1. Background

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

2. Results and Dividends

	2010	2009
	€'000	€'000
Recognised surplus for the year	23,737	10,657
Shareholders funds at beginning of year	31,930	21,273
Shareholders funds at end of year	55,667	31,930

The results are satisfactory and represent profits generated by a margin policy approved by the Directors which is designed to ensure that the Agency has reserves sufficient to meet the estimated costs arising from index linked, fixed rate funding mismatches and other risks.

The Directors do not recommend the payment of a dividend (2009: nil).

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. The Chairman's report addresses the significant business risks to which the Agency is exposed.

3. Review of the Development of the Business

(a) Loans to Local Authorities (approved Pre 27 May 1986)

The Agency was established to issue index linked loans to local authorities for lending by them on an agency basis to individuals. A total of €403 million was advanced to local authorities under this scheme and was used to finance 15,571 mortgages. At 31 December 2010 such loans represented outstanding balances of €20.8 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 by the local authority for purposes such as land acquisition. The remainder is lent by the local authorities to individual borrowers and approved housing bodies. The local authorities are responsible for any losses that may arise on them. The Agency lends to local authorities. In the context of (a) local authorities being statutory

Directors' Report continued

bodies under the Local Government Act, 2001 and other enactments, and (b) their revenues or funds 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), and (c) all loans advanced to local authorities are approved by the Minister for the Environment, Heritage & Local Government the Board is of the opinion that no credit risk arises on loans advanced to local authorities on or after 27 May 1986.

At 31 December 2010 such loans represented outstanding balances of €4.43 billion (2009: €4.56 billion).

In the prior year an amount of €263.84 million of loans due to mature in 2010 and 2011 were renegotiated. There were no further renegotiations in the current year, however we note that amounts of €78.14 million of the previously renegotiated loans were repaid in full during the year. The amount of renegotiated loans outstanding at 31 December 2010 is €185.63 million (2009: €263.84 million).

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 ("2008 Combined Code") derived by the Committee on Corporate Governance from the Committee's Final Report and from the Turnbull Report. The *Code of Practice for the Governance of State Bodies* as published by the Department of Finance was issued in June 2009 and the Agency complies with this code.

The Directors note that a review of the Code was undertaken by the FRC in 2009 following which a revised Code entitled the UK Corporate Governance Code ("the UK Code") was published in June 2010. The Board welcomes the additional provisions of the new codes which come into effect for the Company's accounting period ending 31 December 2011.

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

Scheduled Board meetings for the year ended 31 December 2010:

Members	Occupation	Meetings Held	Attended
John Bolger	Chairman	7	7
Ian d'Alton	Chief Executive Officer	7	7
Julia Carmichael	Councillor	7	4
Fr. Patrick Cogan	CEO of Respond!	7	6
Patrick Doyle	Consultant	7	6
Michael Hayes	Civil engineer	7	6
Clodagh Henehan	Local authority official	7	7
Jackie Maguire	Local authority official	7	5
Philip Nugent	Civil servant	7	6
Áine Stapleton	Civil servant	7	6
Eddie Wade	Councillor	7	6

Directors' Report continued

The Board met seven times in 2010 and is responsible for the proper management of the Agency.

The roles of the Chairman and Chief Executive are separate. At 31 December 2010 the Board of Directors comprised ten non-executive Directors and one executive Director. The Directors are appointed by the Minister for the Environment, Heritage & 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. The Board has reserved to itself for decision a formal schedule of matters pertaining to the Agency and its future direction, such as major acquisitions and disposals, board membership, appointment and removal of the Company Secretary, expenditure budgets and risk management policies. Each non-executive Director brings an independent judgement to bear on all matters dealt with by the Board including those relating to strategy, performance, resources and standards of conduct.

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

The auditors have stated their continuing independence as auditors to the Agency for the year ended 31 December 2010. 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 that the objectivity and independence of the auditors is safeguarded.

The Board has 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 2010:

Members	Meetings Held	Attended
Julia Carmichael	4	2
Fr. Patrick Cogan	4	4
Patrick Doyle	4	3
Michael Hayes	4	3
Jackie Maguire	4	3
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 the Governance of State Bodies*, the committee may review any matters relating to the financial affairs of the Agency. The Audit Committee provides a link between the Board and the external auditors, is independent of the Agency's management. It reviews the annual financial statements, internal audit reports, compliance with accounting standards and is responsible for making recommendations in respect of the appointment and fees of the external auditors, review rates, the approval of the internal audit plan, against which performance of the plan is measured and to oversee the Agency's Risk Management Framework and report to the Board thereon. The external auditors meet with the Committee to review the results of the annual audit of the Agency's financial statements. The role of Chairman of the Audit Committee is rotational between members of the Audit Committee.

Finance Committee

Scheduled Finance Committee meetings for the year ended 31 December 2010:

Members	Meetings Held	Attended
John Bolger (Chairman)	1	-
Ian d'Alton (CEO)	1	1
Julia Carmichael	1	-
Clodagh Henehan	1	1
Philip Nugent	1	1
Áine Stapleton	1	1

Directors' Report continued

The Committee met once during the year and is empowered on behalf of the Agency to borrow and raise money and to implement, utilise and operate any approved facilities. The Committee operates under formal terms of reference approved by the Directors.

Remuneration Committee

The Committee did not meet during the year.

Members

John Bolger (Chairman)
Fr. Patrick Cogan
Philip Nugent

The Remuneration Committee terms of reference entitle it to make 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 & Local Government. 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 2009.

Board Performance Review Committee

Scheduled Board Performance Review Committee meeting for the year ended 31 December 2010:

Members	Meetings Held	Attended
Fr. Patrick Cogan	1	1
Michael Hayes	1	1
Clodagh Henehan	1	-
Áine Stapleton	1	1

The Board Performance Review Committee met once 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 the Chairman annually on its findings. The chair of the Board Performance Review Committee is rotational between its members.

Credit Committee

Scheduled Credit Committee meeting for the year ended 31 December 2010:

Members	Meetings Held	Attended
John Bolger (Chairman)	1	1
Ian d'Alton (CEO)	1	1
Julia Carmichael	1	-
Clodagh Henehan	1	1
Jackie Maguire	1	-

The Credit Committee met once during the year. The Committee was established in 2009, to maintain credit risk within Board limits and to report on the creditworthiness of Approved Housing Bodies (AHBs) who wish to apply for loan approval. In addition, the Committee ensures that all loans advanced are within the Agency's approved Credit policy and that all the relevant documentation is in order before proceeding to advance monies to AHBs. The Committee operates under formal terms of reference approved by the Board of Directors.

Directors' Remuneration

The Minister for the Environment, Heritage & Local Government determines the level of remuneration for the Board of Directors. Remuneration of non-executive Directors is not linked to performance. The table below provides details of all fees paid to Directors during the year.

Directors' Report continued

Members	Fees 2010	Fees 2009
John Bolger*	10,199	-
Julia Carmichael	7,695	8,400
Edward Coffey (deceased)	-	3,500
Fr Pat Cogan	7,695	8,400
Ian d'Alton	-	-
Patrick Doyle	7,695	8,400
Michael Hayes	7,695	8,400
Clodagh Henehan	-	-
Jackie Maguire	-	-
Philip Nugent	-	-
Áine Stapleton	-	-
Anthony Vesey†	-	7,321
Eddie Wade	7,695	8,400
Total	48,674	52,821

* Mr Bolger was appointed to the Board on 24 February 2010.

† Mr. Vesey ceased to be a Board member on 13 November 2009.

The remuneration of the executive Director/Chief Executive Officer is detailed in note 6 to the financial statements.

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 & Local Government and/or the Minister for Finance, in respect of which ongoing communication with the Ministers, through their departments, is maintained.

Internal Control

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. In line with section 8 of the *Code of Practice for the Governance of State Bodies*, at its meeting on 4 December 2009, the Board of the Agency approved the adoption of a Risk Management Framework and to the appointment of a committee of the CEO, Head of Treasury and

Company Secretary as the body designated to manage and be responsible for risk within the Agency. Risk is overseen by the Audit Committee of the Board and is a standing item at each Board meeting.

In accordance with the 2008 Combined Code, 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 (i.e. credit, market and liquidity risks) and also treasury-related risk. These risks are outlined in more detail in Note 15. 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

Directors' Report continued

dependant on changes in house prices or other economic variations. In the context of (a) local authorities being statutory bodies under the Local Government Act, 2001 and other enactments, and (b) their revenues or funds 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), and (c) all loans advanced to local authorities are approved by the Minister for the Environment, Heritage & Local Government the Board is of the opinion that no credit risk arises on loans advanced to local authorities on or after 27 May 1986. 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.

The Agency's access to and cost of borrowing is influenced by, among other things, its credit ratings. Ratings downgrades create the risk that external investors may seek to reduce credit exposures to the debt-guaranteeing entity - Ireland - and thus to the Agency. Ireland, and consequently the Agency, suffered ratings downgrades during 2010 which has limited the Agency's access to capital markets in terms of both quantum of and duration of ECP funding. Alternative funding arrangements from the NTMA have been utilised under the Guaranteed Note programme and the Programme limit increased appropriately.

The Chief Executive Officer also reports to the Board on behalf of the Management on significant changes in the business and external environment, which affect risks. The Board is provided with quarterly information. Where areas for improvements in the system are identified, the Board considers the recommendations made by the Management and the Audit Committee.

The Directors have responsibility for maintaining a system of internal control which provides reasonable

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

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, management of the Agency endeavours to amend internal control systems in line with changes in the underlying business in a timely manner.

During 2010 the Agency increased its Guaranteed Notes programme to €4,500 million (from €3,750 million) to allow the Agency fund maturing eurocommercial paper (ECP) notes in circumstances where the ECP market is not as welcoming as heretofore. The Agency's statutory borrowing limit was also increased, from €6 billion to €10 billion during 2010. These increases should largely cover projected future activity.

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;

Directors' Report continued

- (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; and
- (h) the preparation and issue of financial reports, including the Annual Report, is managed by the Finance department with oversight from the Audit Committee. The financial reporting process is controlled using documented accounting policies. The process is supported by Senior Management and professional advisors, such as an actuary, who have responsibility and accountability to provide information in keeping with agreed policies, including the completion and reconciliations of financial information to processing systems. Its quality is underpinned by arrangements for segregation of duties to facilitate independent checks on the integrity of the financial reports. The financial information for each year is subject to review by Senior Management. The Annual Report is also reviewed by the Audit Committee in advance of being presented to the Board for their approval.

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

Compliance Statement

The Agency has chosen to comply, so far as is possible given Agency's particular circumstances, with the UK Corporate Governance Code 2010 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 UK Corporate Governance Code 2008 and the *Code of Practice for the Governance of State Bodies*, (as revised and updated in 2009), during the year ended 31 December 2010, 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 & Local Government and hold office for such term as the Minister specifies when making the appointment but not for a period exceeding five years and as a result, these provisions of the Code are not applicable to the Agency.

Directors' Remuneration

The Minister for the Environment, Heritage & 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 above individually 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.

Defined Benefit Scheme Disclosure for Directors

The Directors have complied with the disclosure guidelines set out in the Code of Practice for State Bodies, rather than following the Combined Code, as they are considered to be appropriate to the Agency.

Directors' Report continued

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 Chairman's Report on pages 4 to 11, and in the Access to funding and going concern section within the Statement of accounting policies. 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 and market risks.

The financial statements have been prepared on the going concern basis. In making its assessment of the Agency's ability to continue as a going concern, the Board of Directors has taken into consideration the significant risks and uncertainties that currently impact the Agency, in particular with regard to the difficulties in relation to access to funding.

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. Under the terms of a formal agreement between the NTMA and the Agency, the Agency decides the general policy within which funding carried out by the NTMA 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 eurocommercial paper [ECP] and Guaranteed Notes [GN] programmes. The NTMA had purchased €3.8 billion in GNs at 31 December 2010 (2009: €212k). Funding received through the ECP programme accounted for only €301 million of total Agency funding (2009: €4,084 million).

The downgrading of the sovereign and, consequently, the Agency credit ratings and the withdrawal of Ireland from the funding markets have significantly affected the Agency's access to funding through its market-oriented ECP programme during the year. Following

the IMF/EU financial assistance programme, the Department of Finance has considered the HFA's liquidity and funding position for the next 12 months and has requested that the NTMA continue to provide GN funding to the HFA. It has been agreed that floating rate funding through the financial assistance programme will be made available in tranches, each with a 3-month maturity. The GNs are guaranteed by the Minister for Finance of Ireland. The Directors' assessment of the appropriateness of preparing the financial statements on the going concern basis has involved reviewing the Agency's business and funding plans taking into account:

- the Agency's ability to access liquidity and funding via the EU/IMF financial assistance programme through the GN programme;
- the implementation of joint EU/IMF programme for Ireland; and
- the period over which the Irish economy is expected to recover from the current crisis.

The Directors are satisfied that, notwithstanding the material economic, political and market uncertainties, in the light of the Department of Finance's request to the NTMA, the Agency will have access to sufficient funding for the next 12 months; and that it continues to be appropriate to prepare the financial statements on a going concern basis, the Agency will continue in business for the foreseeable future.

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.

Directors' Report continued

8. Post Balance Sheet Events

No 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 Community (Late Payment in Commercial Transactions) Regulations

The Agency is required to comply with the requirements of the European Community (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 2010, shows no late payments were made during 2010 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 auditor, KPMG, Chartered Accountants, will continue in office.

On behalf of the Board,



John Bolger
Chairman

31 March 2011



Ian d'Alton
Chief Executive Officer

31 March 2011

Chapter 3

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 2010. 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,



John Bolger
Chairman

31 March 2011

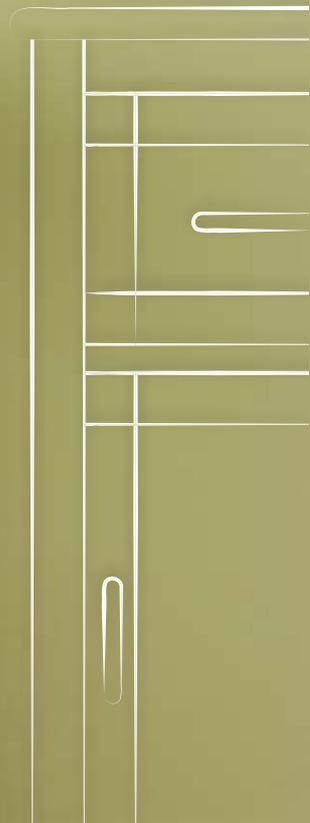
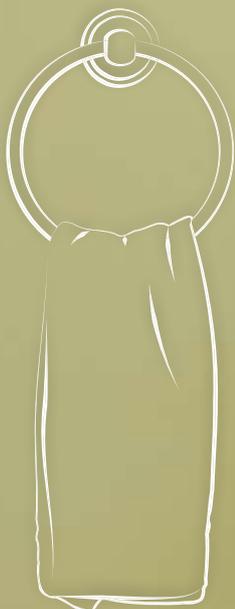


Ian d'Alton
Chief Executive Officer

31 March 2011

Chapter 4

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



We have audited the financial statements of Housing Finance Agency plc for the Year Ended 31 December 2010 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 Auditor

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 23.

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 2009. 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 whether the statement regarding the system of internal financial control required by the 2009 *Code of Practice for the Governance of State Bodies* made in the Corporate Governance Statement on pages 11-16 reflects the Agency's compliance with the relevant provisions of the Code and we report if it does not. We also review, at the request of the Board, whether the Corporate Governance Statement on pages 11 to 15 reflects the Agency's compliance with the nine provisions of the Financial Reporting Council's 2008 Combined Code on Corporate Governance specified for review by auditors, and we report if it does not. We are not required to consider whether the Board's statements on internal control

Independent Auditor's Report to the Members of the HFA continued

cover all risks and controls, or form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' report and Chairman's report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 2010 and of its surplus for the financial year then ended; and
- The financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2009.

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

In our opinion the information given in the Directors' report and the Chairman'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 2010 a financial situation which under section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the Agency.

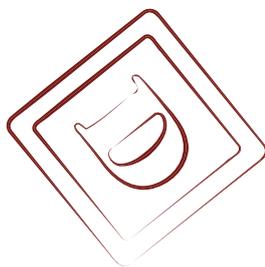
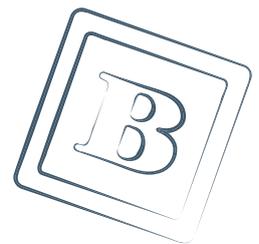
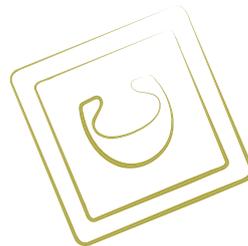
Chartered Accountants,



KPMG
Registered Auditor

31 March 2011

1 Harbourmaster Place
IFSC
Dublin 1.





Chapter 5

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.

The financial statements have been prepared on the going concern basis. In making its assessment of the Agency's ability to continue as a going concern, the Board of Directors has taken into consideration the significant risks and uncertainties that currently impact the Agency, in particular with regard to the difficulties in relation to access to funding.

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. Under the terms of a formal agreement between the NTMA and the Agency, the Agency decides the general policy within which funding carried out by the NTMA 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 eurocommercial paper [ECP] and Guaranteed Notes [GN] programmes. The NTMA had purchased €3.8 billion in GNs at

31 December 2010 (2009: €212k). Funding received through the ECP programme accounted for only €301 million of total Agency funding (2009: €4,084 million).

The downgrading of the sovereign and, consequently, the Agency credit ratings and the withdrawal of Ireland from the funding markets have significantly affected the Agency's access to funding through its market-oriented ECP programme during the year. Following the IMF/EU financial assistance programme, the Department of Finance has considered the HFA's liquidity and funding position for the next 12 months and has requested that the NTMA continue to provide GN funding to the HFA. It has been agreed that floating rate funding through the financial assistance programme will be made available in tranches, each with a 3-month maturity. The GNs are guaranteed by the Minister for Finance of Ireland. The Directors' assessment of the appropriateness of preparing the financial statements on the going concern basis has involved reviewing the Agency's business and funding plans taking into account:

- the Agency's ability to access liquidity and funding via the EU/IMF financial assistance programme through the GN programme;
- the implementation of joint EU/IMF programme for Ireland; and
- the period over which the Irish economy is expected to recover from the current crisis;

The Directors are satisfied that, notwithstanding the material economic, political and market uncertainties, in the light of the Department of Finance's request to the NTMA, the Agency will have access to sufficient funding for the next 12 months; and that it continues to be appropriate to prepare the financial statements on a going concern basis, the Agency will continue in business for the foreseeable future.

Statement of Accounting Policies continued

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.

Use of Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The estimates that have a significant effect on the financial statements and those with a risk of material adjustment in the next year are in the areas of impairment losses that may arise on pre-May 1986 mortgages, employee benefits and determination of fair value of derivative financial instruments.

Impairment Loss on Loans and Advances

The Agency lends to local authorities. In the context of (a) local authorities being statutory bodies under the Local Government Act, 2001 and other enactments, and (b) their revenues or funds 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 credit risk arises on loans advanced to local authorities on or after 27 May 1986.

Employee Benefits

The Agency operates a defined benefit pension scheme covering all permanent employees; the actuarial value of the assets and liabilities of the scheme are calculated. This involves modelling their future growth and requires Management, with the advice of an external actuary, to make assumptions as to price inflation, salary and pension increases, return on investments and employee mortality. There are acceptable ranges in which these estimates validly fall. The impact on the results for the period

and financial position could be materially different if alternative assumptions were used. Further details are disclosed in Note 23.

Determination of Fair Value Instruments – Derivatives

The financial instruments on the balance sheet are carried at fair value. The best evidence of fair value is an observable market price in an active market. Management uses active market prices for valuing derivatives.

The absence of quoted prices increases reliance on estimation techniques which requires use of judgement. The judgement includes determining the cash flows, identifying a risk free discount rate and applying a credit spread. All valuation techniques applied are based on observable market data and are subject to review and approval.

Financial Assets and Liabilities

Recognition

The Agency initially recognises loans and advances, deposits, debt securities issued and index-linked bonds on the date that they are originated.

Derecognition

The Agency derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Agency is recognised as a separate asset or liability.

The Agency derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Agency may enter into transactions whereby it transfers assets recognised on its balance sheet, but retains both all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet.

Statement of Accounting Policies continued

Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Agency has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis when the Agency has the intent and ability to set off the amounts.

Amortised Cost Measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair Value Measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. Quoted market value is based on bid prices, where available. For all other financial instruments fair value is determined by using valuation techniques. For securities where market quotes are not available, the Agency uses estimation techniques to determine fair value. Estimation techniques used include discounted cash flows, internal models that utilise observable market data or comparisons with other securities that are substantially the same.

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 rate basis.

Identification and Measurement of Impairment

At each balance sheet date the Agency assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Agency considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet reported. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics. Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances.

Interest on the impaired asset continues to be recognised through the unwinding of the discount rate.

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

Statement of Accounting Policies continued

documentation is 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 dates the contracts are 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 remain in equity until the designated cashflows occur and will be recognised in the income and expenditure account and at that time 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 is recognised in the income and expenditure account immediately.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash at bank and on hand and 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 rate interest basis over the period to maturity.

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 as follows:

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 its value in use. Impairment losses are recognised in the income and expenditure account.

Interest Receivable and Payable

Interest receivable and payable on financial instruments classified as loans and advances, and 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

Statement of Accounting Policies continued

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.

Foreign Currencies

Transactions denominated in currencies other than euro are recorded at the rates ruling at the date of those transactions. Monetary assets and liabilities in foreign currencies are translated at the rates 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.

Finance Income

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues using the effective interest rate method.

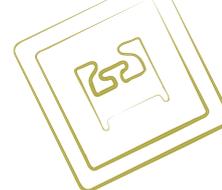
Pensions

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 the statement of recognised gains and losses in the period in which they are incurred.

The impact on 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.

Corresponding Amounts

Fees incurred in the year ended 31 December 2009 in relation to ECP fees of €252k have been reclassified from Administration Expenditure to Direct Expenditure.



Chapter 6

Income and Expenditure Account

	<i>Note</i>	Year Ended 31 December 2010	Year Ended 31 December 2009
		€'000	€'000
Income continuing activities	3	78,417	99,417
Direct expenditure	4	(53,704)	(90,017)
Surplus of income over direct expenditure		24,713	9,400
Indirect expenditure	5	(1,614)	(1,694)
Operating surplus for the financial year - continuing activities		23,099	7,706
Finance income (net)	7	233	3,182
Surplus for the financial year	20	23,332	10,888

On behalf of the Board,

John Bolger
Chairman
31 March 2011

Ian d'Alton
Chief Executive Officer
31 March 2011



Chapter 7

Statement of Total Recognised Gains and Losses

	<i>Note</i>	Year Ended 31 December 2010	Year Ended 31 December 2009
		€'000	€'000
Surplus for the financial year		23,332	10,888
Actuarial gains	23	109	63
Net change in cash flow hedge reserve		296	(294)
Total recognised gains and losses for the financial year		23,737	10,657



Chapter 8

Balance Sheet

	Note	31 December 2010	31 December 2009
		€'000	€'000
Assets employed			
Tangible fixed assets	9	51	47
Current assets			
Debtors (advances due after more than one year: €3,606,203 [2009: €3,599,813])	8	4,542,122	4,672,511
Derivative financial instruments	16	8,469	41,882
Cash and cash equivalents	10	17,195	259,309
		4,567,786	4,973,702
Current liabilities			
Creditors (amounts falling due within one year)	11	(4,141,754)	(4,554,747)
Derivative financial instruments	16	(1,385)	(6,415)
Net current assets		424,647	412,540
Total assets less current liabilities		424,698	412,587
Creditors (amounts falling due after more than one year)	12	(88,108)	(97,555)
Debt securities in issue index-linked bonds	13	(189,022)	(191,304)
8.75% Housing Finance Agency stock 2018	14	(92,638)	(92,277)
Net asset before pension surplus		54,930	31,451
Pension surplus	23	737	479
Net assets		55,667	31,930
Capital and reserves			
Called up share capital	19	39	39
Retained surplus	20	55,647	32,206
Cashflow hedge reserve	17	(19)	(315)
Shareholder's funds	21	55,667	31,930

On behalf of the Board,



John Bolger
Chairman
31 March 2011



Ian d'Alton
Chief Executive Officer
31 March 2011

Chapter 9

Cash Flow Statement

	<i>Note</i>	Year Ended 31 December 2010	Year Ended 31 December 2009
		€'000	€'000
Cash inflow/(outflow) from operating activities	<i>18(a)</i>	179,635	(131,420)
Returns on investments and servicing of finance	<i>18(b)</i>	-	-
Capital expenditure	<i>18(b)</i>	(35)	(8)
<i>Financing Activities</i>			
Decrease in bank loans and notes payable	<i>18(b)</i>	(421,714)	(17,166)
Decrease in cash during the year		(242,114)	(148,594)



Chapter 10

Reconciliation of Net Cash Flow to Movement in Net Debt

	Note	Year Ended 31 December 2010	Year Ended 31 December 2009
		€'000	€'000
Decrease in cash during the year		(242,114)	(148,594)
Cash outflow from decrease in debt financing	18(b)	421,714	17,166
Non-cash movements	18(c)	1,921	6,629
Movement in net debt during the year		181,521	(124,799)
Net debt at beginning of year	18(c)	(4,667,729)	(4,542,930)
Net debt at end of year	18(c)	(4,486,208)	(4,667,729)

Chapter 11

Notes Forming Part of the Financial Statements

1. Status of the Agency and Related Party Transactions

Housing Finance Agency plc is a company limited by shares promoted by the Minister for the Environment, Heritage & 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.

In the normal course of business the Agency is funded by the National Treasury Management Agency ('NTMA'), which is also a Government body and is as such considered to be a related party. Details of amounts outstanding under the Guaranteed Note programme, which is provided by the NTMA, at 31 December 2010 can be found in Note 15(b). The interest expense relating to these facilities totalled €12.6 million for the financial year (2009: €5.7 million).

In the normal course of business the Agency lends funds to Local Authorities and the National Building Agency, which are also Government bodies and are as such considered to be related parties. Interest earned on these advances is detailed in Note 3 to the financial statements, and amounts outstanding at 31 December 2010 comprise 'Balances due on advances', 'Balances due from Local Authorities and Balances due from the National Building Agency' as disclosed in Note 8.

Transactions with Key Management Personnel

Key management personnel include those personnel that have authority or responsibility for controlling the activities of the Agency, and includes the Board of Directors and certain levels of executive management. In addition to their salaries, the Agency also contributes to a post-employment defined benefit plan on behalf of key management personnel. Total key management personnel compensation comprised:

	Year Ended 31 December 2010	Year Ended 31 December 2009
	€'000	€'000
Salaries*	300	306
Directors' fees	49	53
Pension contributions	126	129

* Salaries includes Executive Director/Chief Executive Officer's remuneration which is detailed in Note 6, in addition to other salaried key management personnel.

Notes Forming Part of the Financial Statements continued

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 2010	Year Ended 31 December 2009
	€'000	€'000
Interest on advances to local authorities which were approved:		
Post 27 May 1986	77,064	100,228
Pre 27 May 1986	1,259	(974)
Interest on advances to National Building Agency	94	163
	78,417	99,417

Total interest income on financial assets not carried at fair value through the income and expenditure account amounted to €78.6 million which includes €0.2 million of investment income, (see note 7), for the year ended 31 December 2010 (2009: €102.6 million which includes investment income of €3.2 million).

4. Direct Expenditure

	Year Ended 31 December 2010	Year Ended 31 December 2009
	€'000	€'000
Index - linked bonds - effective interest		
Bond interest	7,495	7,754
Premium on redemption of bonds (Note 13)	(2,131)	(6,854)
	5,364	900
Stock and loan costs		
Interest payable on bank borrowings, commercial paper, guaranteed notes and stock	47,964	88,864
ECP fees	251	252
Foreign exchange (gain)/loss from borrowings	125	(499)
	48,340	88,617
Incurred but not reported losses		
Pre May 1986 loans*	-	500
	53,704	90,017

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

Notes Forming Part of the Financial Statements continued

5. Indirect Expenditure

	Year Ended 31 December 2010	Year Ended 31 December 2009
	€'000	€'000
Other expenditure		
Administration expenditure (Note 6)	1,505	1,575
Administration fees to local authorities	109	119
	<u>1,614</u>	<u>1,694</u>

6. Administration Expenditure

Administration expenditure has been arrived at after charging:

	Year Ended 31 December 2010	Year Ended 31 December 2009
	€'000	€'000
Audit of financial statements	33	33
Other assurance services	-	-
Tax advisory services	-	-
Other non-audit services	14	5
Depreciation (Note 9)	31	42
Rental payments under operating lease	150	75
Directors' emoluments		
Fees - Chairman	10	3
Fees - other Directors	39	50
Executive Director/Chief Executive Officer's remuneration	124	129
Pension contributions	57	59
	<u>230</u>	<u>241</u>
Employee costs (excluding Directors)		
Salaries	538	596
Social welfare costs	43	46
Service costs-pension-present	79	58
Service costs-pension-past	-	84
	<u>660</u>	<u>784</u>
Total included in income and expenditure account	<u>660</u>	<u>784</u>
Actuarial gains on defined benefit scheme included in the statement of recognised gains and losses	109	63

The average number of employees, including the executive Director, during the year was 11 (2009: 12).

Notes Forming Part of the Financial Statements continued

7. Finance Income (net)

	Year Ended 31 December 2010	Year Ended 31 December 2009
	€'000	€'000
Investment income on short-term deposits	178	3,210
Interest received on cash balances	41	-
Expected return on pension assets	108	90
Interest cost on pension liabilities	(94)	(118)
Net finance income	233	3,182

8. Debtors

	31 December 2010	31 December 2009
	€'000	€'000
Balance due on advances		
Due from Local Authorities	4,445,639	4,575,245
Due from National Building Agency	3,298	7,372
Total balances due on advances	4,448,937	4,582,617
Due from Local Authorities*	94,088	90,676
Other debtors and prepayments	142	263
	4,543,167	4,673,556
Less: Incurred but not reported losses	(1,045)	(1,045)
	4,542,122	4,672,511

* Represents amounts currently due from local authorities and the National Building Agency which have been billed at 31 December 2010

Notes Forming Part of the Financial Statements continued

Balance due on advances is analysed as follows:

	31 December 2010	31 December 2009
	€'000	€'000
(i) Loans approved post 27 May 1986		
Balance at beginning of year	4,560,954	4,413,792
Loans advanced	395,652	680,730
Less: loans repaid	(542,725)	(547,190)
Interest charged	75,900	100,391
Interest received	(61,658)	(86,769)
Balance at end of year	4,428,123	4,560,954
(ii) Loans approved pre 27 May 1986		
Balance at beginning of year	21,662	23,846
Less: loans repaid	(848)	(2,184)
Interest charged/(incurred)	1,259	(974)
Interest (received)/paid	(1,259)	974
Balance at end of year	20,814	21,662
Balance at end of year	4,448,937	4,582,616
Collective Provision		
Balance at beginning of year	1,045	545
Provision in year	-	500
Balance at end of year	1,045	1,045

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 €3.3 million (2009: €7.4 million) advanced to the National Building Agency.

There was no lending to Approved Housing Bodies ('AHBs') at 31 December 2010. 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 €1.045 million has been recognised in respect of these accounts, refer to note 15 for further details.

The Agency lends to local authorities. In the context of (a) local authorities being statutory bodies under the Local Government Act, 2001 and other enactments, and (b) their revenues or funds 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), and (c) all loans advanced to local authorities are approved by the Minister for the Environment, Heritage & Local Government the Board is of the opinion that no credit risk arises on loans advanced to local authorities on or after 27 May 1986. Please refer to Note 15 for further details.

Notes Forming Part of the Financial Statements continued

9. Tangible Fixed Assets – Computer and Other Equipment

	31 December 2010
	€'000
<i>Cost</i>	
At beginning of year	492
Additions	41
Disposals	(352)
At end of year	181
<i>Depreciation</i>	
At beginning of year	445
Charged for year	31
Disposals	(346)
At end of year	130
<i>Net book value</i>	
31 December 2010	51
31 December 2009	47

Tangible fixed assets totalling €352,331 were disposed of during the year, of which assets totalling €339,886 with a nil written down value were written off during 2010. They are no longer used in the business.

10. Cash and Cash Equivalents

	31 December 2010	31 December 2009
	€'000	€'000
Cash at bank and in hand	17,195	20,705
Amounts held on short term deposits	-	238,604
	17,195	259,309

Short term deposits consist primarily of bank deposits. There were no deposits outstanding at 31 December 2010 (2009: €238.6 million).

Notes Forming Part of the Financial Statements continued

11. Creditors (Amounts Falling Due Within One Year)

	31 December 2010	31 December 2009
	€'000	€'000
Commercial paper	300,237	4,083,663
Note issuance facilities	1,265	-
Guaranteed Notes	3,832,133	212,239
Bank loans	-	250,000
Interest payable on commercial paper, note issuance facilities and Guaranteed Notes	2,608	3,404
Interest due on stock and bonds	5,056	5,053
Accruals	455	388
	4,141,754	4,554,747
Tax creditors (included in accruals)		
PAYE	31	27
VAT	8	12

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 2010	31 December 2009
	€'000	€'000
Bank loans and notes issuance facilities		
Between one and two years	2,495	86
Between two and five years	-	4,210
After more than five years	85,613	93,259
	88,108	97,555

The loans and notes payable are fully guaranteed by the Minister for Finance, excepting two €25 million facilities with supranational banks, for the purpose of unguaranteed lending for water, waste and environmental projects.

Notes Forming Part of the Financial Statements continued

13. Debt Securities in Issue – Index Linked Bonds

	31 December 2010	31 December 2009
	€'000	€'000
4% Index Linked Bonds 2015	95,230	95,230
Nominal value of bonds in issue	95,230	95,230
Net unamortised expenses and premium/discount on issue	722	873
	95,952	96,103
Provision for premium on redemption of bonds	93,070	95,201
	189,022	191,304

Maturities of the debt securities in issue are tabled in Note 15.

Provision for Premium on Redemption of Index Linked Bonds

	Total	Deferred	Provided
	€'000	€'000	€'000
<i>31 December 2010</i>			
At beginning of year	99,203	(4,003)	95,201
Arising during the year	(2,942)	811	(2,131)
At end of year	96,261	(3,192)	93,070
<i>31 December 2009</i>			
At beginning of year	106,917	(4,860)	102,057
Arising during the year	(7,714)	857	(6,856)
At end of year	99,203	(4,003)	95,201

The premium payable on redemption is provided by reference to the percentage increase in the Consumer Price Index from the base date of the bond issue to the index applicable sixth months prior to the relevant coupon date. The bond is fully guaranteed by the Minister for Finance.

Notes Forming Part of the Financial Statements continued

14. Debt Securities in Issue – 8.75% Housing Finance Agency Stock 2018

	31 December 2010	31 December 2009
	€'000	€'000
At par value	95,230	95,230
Less: Unamortised discount on issue	(2,592)	(2,953)
	92,638	92,277

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

Maturities of the debt securities in issue are tabled in Note 15.

15. Financial Risk Management

Introduction and Overview

The Agency has potential exposure to 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 2011), which follows a policy approved by the Board, allows for contracts covering interest rate swaps (€400 million), foreign exchange forwards (€6.0 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, the National Treasury Management Agency has been granted authority to act on behalf of the Agency, any transaction undertaken, while not requiring formal approval must be 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 forward rate agreements.

Notes Forming Part of the Financial Statements
15. Financial risk management continued

The Agency had foreign currency forwards with a notional value of €0.22 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 ECP. Further details in respect of currency risk are included in note (c) below.

(a) Credit Risk

	31 December 2010	31 December 2009
<i>Financial assets</i>	€'000	€'000
Balance due on advances to LA's	4,445,639	4,575,251
National Building Agency	3,298	7,366
Less collective provision	(1,045)	(1,045)
	4,447,892	4,581,572
Cash at bank and in hand	17,195	20,705
Amounts held on short term deposits	-	238,603
Due from Local Authorities	94,088	90,676
Derivative financial instruments	8,469	41,882
	4,567,644	4,973,438

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.

The Agency is currently permitted to advance money to:

- Local authorities and the voluntary housing sector to be used by them for any purpose authorised under the Housing Acts 1966 to 2009. Currently the Agency can lend directly to AHBs but no loans have been drawn down by AHBs as at 31 December 2010;
- 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.

Notes Forming Part of the Financial Statements
15. Financial risk management continued

Balance Due on Advances

	31 December 2010	31 December 2009
	€'000	€'000
<i>Advances due from Local Authorities</i>		
Mortgage Housing related loans	1,511,521	1,625,208
Capital Subsidy and Rental	1,195,166	1,144,881
Bridging Finance	533,372	652,720
Land Acquisition	562,528	646,307
Other Non Mortgage Housing Related Loans	364,935	323,200
Water, Waste and Environment Projects	278,117	182,929
	4,445,639	4,575,245
National Building Agency Loans	3,298	7,372
Approved Housing Bodies	-	-
Overall total balances due on advances	4,448,937	4,582,617

The Agency primarily has two categories of loans to local authorities namely 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. In the context of (a) local authorities being statutory bodies under the Local Government Act, 2001 and other enactments; (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); and (c) all loans advanced to local authorities are approved by the Minister for the Environment, Heritage & Local Government the Board is of the opinion that no credit risk arises on loans advanced to local authorities on or after 27 May

1986. The local authorities hold 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 for any impairment losses which may arise. 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 probable 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 2010 (2009: €nil).

Notes Forming Part of the Financial Statements
15. Financial risk management continued

	31 December 2010	31 December 2009
<i>Analysis of loans to local authorities</i>	€'000	€'000
Pre 1986 loans	20,814	21,662
Post 1986 loans	4,428,123	4,560,954
	4,448,937	4,582,616
<i>Collective provisions</i>		
Pre 1986 loans	1,045	1,045
Post 1986 loans	-	-
	1,045	1,045

Renegotiated Loans

Loans with renegotiated terms are loans that have been restructured due to budgetary circumstances and where the Agency has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

In 2009 an amount of €263.84 million of loans to local authorities due to mature in 2010 and 2011, were renegotiated. There were no further renegotiations in the current year; however we note that amounts of €78.14 million of the previously renegotiated loans were repaid in full during the year. The outstanding loan balance renegotiated is €185.63 million (2009: €263.84 million).

Loans advanced to local authorities on or after 27 May 1986 represent no credit risk to the Agency. Local authorities are bodies constituted under statute. All loans advanced to local authorities are approved by the Minister for the Environment, Heritage & Local Government. It is the Board's belief that, in this context, credit risk does not arise.

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 there to.
- reviewing compliance with internal policies and procedures.
- monitoring of Loans Policy disclosure.
- approving any loans advanced to AHBs under the terms of section 17 of the Housing (Miscellaneous Provisions) Act 2002 and to ensure that all loans advanced are in accordance with the Agency's Credit Policy.
- considering and approving the creditworthiness of each AHB prior to a Master Loan Agreement being executed by the Agency.
- ensuring that it has obtained all relevant documentation pertaining to the credit application.
- maintaining credit risk within Board approved limits.

Notes Forming Part of the Financial Statements
15. Financial risk management continued

Concentrations

All loans and advances are to local authorities and the National Building Agency (all of which are approved by the Minister for the Environment, Heritage & Local Government).

The Agency's credit risk also consists of its exposure to institutions (primarily the National Treasury Management Agency), with which it holds short term investments. An investment and counterparty exposure policy is periodically approved by the Board. Investments arise at present only in the context of day-to-day liquidity management. At the year end the Agency had nil invested (2009: €236.6 million) in Exchequer Notes with the National Treasury Management Agency.

Allied Irish Bank are currently the counterparty for cash held at 31 December in the amount of €17,192,000 (2009: €20,702,000). At 31 December 2010, the Standard and Poors rating for Allied Irish Bank was CCC.

(b) Liquidity Risk

Liquidity risk is the risk that the Agency will encounter difficulty in meeting obligations from its financial liabilities. The bulk of the Agency's lending - consisting mostly of 30-year annuities - is funded by its Guaranteed Notes facility, guaranteed by the Minister for Finance of Ireland. Notes under this facility have tenors ranging from 1 day to 3 months, with the bulk of Notes being in the latter maturity. In the context of the assurances received from the Department of Finance and the NTMA concerning the continuity and quantum of floating-rate funding, the Board considers that adequate resources are in place to cover any liquidity risk that may arise over the next 12 months.

Notes Forming Part of the Financial Statements
15. Financial risk management continued

The following table presents the maturity analysis of financial liabilities on an undiscounted basis by remaining contract maturity at the year end date:

	Carrying Amount	Gross Nominal Inflow (outflow)	Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	More Than 5 Years
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
<i>31 Dec 2010</i>							
Non-derivative liabilities							
ECP programme	300,237	(293,013)	(118,489)	(81,755)	(92,769)	-	-
Guaranteed Notes facility	3,832,133	(3,832,133)	(3,830,248)	(1,255)	(630)	-	-
Fixed rate medium term note	3,760	(3,927)	(296)	-	(1,296)	(2,335)	-
20-year variable loan	85,612	(97,741)	-	(193)	(6,782)	(27,052)	(63,714)
5-year term loan	-	-	-	-	-	-	-
Index linked bonds	189,021	(32,890)	-	-	(3,865)	(12,580)	(16,445)
Fixed Rate Stock 8.75%	92,638	(154,611)	-	(8,333)	-	(41,665)	(104,613)
	4,503,401	(4,414,315)	(3,949,033)	(91,536)	(105,342)	(83,632)	(184,772)
Derivative liabilities							
Trading: outflow	(216,390)	(217,447)	(119,011)	(82,074)	(16,361)	-	-
Trading: inflow	216,390	217,447	119,011	82,074	16,361	-	-
	-	-	-	-	-	-	-
<i>31 Dec 2009</i>							
Non-derivative liabilities							
ECP programme	4,083,662	(4,044,596)	(992,639)	(1,746,215)	(1,305,742)	-	-
Guaranteed Notes facility	212,238	(212,268)	(206,464)	(5,303)	(501)	-	-
Fixed rate medium term note	4,297	(4,607)	(384)	-	(296)	(3,927)	-
Note Issuance Facilities	-	-	-	-	-	-	-
20-year variable loan	93,259	(108,624)	-	(164)	(7,938)	(29,777)	(70,745)
5-year term loan	250,000	(250,193)	(100,020)	(150,173)	-	-	-
Index linked bonds	191,304	(115)	-	-	(21)	(85)	(9)
Fixed Rate Stock 8.75%	92,277	(162,944)	-	(8,333)	-	(33,332)	(121,279)
	4,927,037	(4,783,347)	(1,299,507)	(1,910,188)	(1,314,498)	(67,121)	(192,033)
Derivative liabilities							
Trading: outflow	(2,140,026)	(2,150,272)	(405,084)	(508,080)	(1,237,108)	-	-
Trading: inflow	2,140,026	2,150,272	405,084	508,080	1,237,108	-	-
	-	-	-	-	-	-	-

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 April meeting each year. This takes into account the Agency's internal resource calculations, on estimates of loan advances, 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 Board has in place a policy of regular assessment of maturing debt and its refinancing and/or repayment. 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 6% of the Agency's available borrowing facilities at 31 December 2010. The Agency's committed facilities, bond issues and €6 billion ECP programme (signed on 22 October 2002, with issues in various currencies made by the National Treasury Management Agency from 26 February 2003) are used to finance its lending to local authorities under the terms of the Housing Acts. Other uncommitted facilities are largely utilised for bridging and liquidity purposes.

The Agency's funding operations require it to raise new debt and refinance maturing loans. The Agency's overdraft facilities (€51 million available at 31 December 2010) are subject to annual review by the Agency's bankers. The Agency's €4.4 billion ECP programme was increased in March 2010 from €4.4 billion to €6.0 billion. The average cost of the Agency's debt in 2010 was an annualised 0.92% compared with 1.8% in 2009. The Agency also increased its Guaranteed Notes programme from €3,750 million to €4,500 million during the year.

The Agency's access to and cost of borrowing is influenced by, among other things, its credit ratings. Ratings downgrades create the risk that external investors may seek to reduce credit exposures to the debt-guaranteeing entity – Ireland – and thus to the Agency. Ireland, and consequently the Agency, suffered ratings downgrades during 2010 which has limited the Agency's access to capital markets in terms of both quantum of and duration of ECP funding. Alternative funding arrangements from the NTMA have been utilised under the Guaranteed Note programme and the Programme limit increased appropriately. The NTMA had purchased €3.8 billion in Guaranteed Notes at 31 December 2010 (2009: €212k). Funding received through the ECP programme accounted for only €300 million of total Agency funding (2009: €4,084 million).

In November 2005, the Agency entered into a five-year variable rate facility of €250 million. The facility matured in November 2010, and was refinanced using debt raised through the National Treasury Management Agency.

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. Because of this, these loans are fully matched in loan term and interest rate, and present no liquidity risk.

The bulk of the Agency's lending – consisting mostly of 30-year annuities – is funded by its Guaranteed Notes facility.

The downgrading of the sovereign and, consequently, the Agency credit ratings and the withdrawal of Ireland from the funding markets have significantly affected the Agency's access to funding through its market-oriented ECP programme during the year. Following the IMF/EU financial assistance programme, the Department of Finance has considered the Agency's liquidity and funding position for the next 12 months and has requested that the NTMA continue to provide GN funding to the Agency. It has been agreed that floating rate funding through the financial assistance programme will be made available in tranches, each with a 3-month maturity. The GNs are guaranteed by the Minister for Finance of Ireland.

Notes Forming Part of the Financial Statements
15. Financial risk management continued

(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 below:

	31 December 2010	31 December 2009
	€'000	€'000
Fixed rate	138,264	147,204
Floating Rate:		
EURIBOR®	4,265,532	4,624,845
Index linked	156,424	160,552
	4,560,220	4,932,601
Derivatives	8,469	41,882
	4,568,689	4,974,483

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 2010	31 December 2009
Weighted average fixed interest rate	5.48%	5.53%
Weighted average floating interest rate	1.51%	2.23%
Weighted average period for which fixed interest assets are fixed	19.8 years	19.5 years

A large proportion of the Agency's fixed rate loans consists of 30-year loans issued in 1986. Post 27 May 1986 new advances are fixed for much shorter periods, averaging from five to ten year loan periods. Floating rate loans consist of loans to local authorities of terms between one and fifty years.

Notes Forming Part of the Financial Statements
15. Financial risk management continued

The financial liabilities are analysed below:

	31 December 2010	31 December 2009
	€'000	€'000
Fixed rate	96,398	96,573
Floating Rate:		
EURIBOR®	4,217,983	4,639,160
Prime	-	-
Index linked	189,022	191,304
	4,503,403	4,927,037
Derivatives	1,385	6,415
	4,504,788	4,933,452

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 2010	31 December 2009
Weighted average fixed interest rate	8.78%	8.78%
Weighted average floating interest rate	1.48%	0.79%
Weighted average period for which fixed interest liabilities are fixed	6.9 years	7.9 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 and three 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 on:

- 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's business is subject to changes in government policy.

The Agency's general approach in relation to managing its interest rate risk exposure is to generate margins to increase profitability and also by taking action to set interest rates to protect the Agency against perceived residual risks, by reference to various scenarios and assumptions. The Board assesses the situation regularly and determines the level of reserves required annually.

Notes Forming Part of the Financial Statements
15. Financial risk management continued

The following table presents the maturity and repricing of financial assets at the year end date:

	Maturity 31 December 2010	Repricing 31 December 2010
	€'000	€'000
Maturity and interest rate repricing of financial assets		
Amounts falling due in one month or less	626,265	4,229,844
Amounts falling due between one and three months	-	159,626
Amounts falling due between three and twelve months	327,752	-
Amounts falling due between one and two years	79,399	-
Amounts falling due between two and three years	65,751	-
Amounts falling due between three and four years	96,593	1,234
Amounts falling due between four and five years	88,140	5,517
Amounts falling due after more than five years	3,276,320	163,999
	4,560,220	4,560,220
	Maturity 31 December 2009	Repricing 31 December 2009
	€'000	€'000
Maturity and interest rate repricing of financial assets		
Amounts falling due in one month or less	841,101	4,583,190
Amounts falling due between one and three months	-	165,167
Amounts falling due between three and twelve months	491,687	-
Amounts falling due between one and two years	43,289	16
Amounts falling due between two and three years	85,905	-
Amounts falling due between three and four years	66,888	1,404
Amounts falling due between four and five years	96,289	8,191
Amounts falling due after more than five years	3,307,441	174,632
	4,932,600	4,932,600

Notes Forming Part of the Financial Statements
15. Financial risk management continued

	Maturity	Repricing	Undrawn Committed Facilities
	€'000	€'000	€'000
Maturity, liquidity measures and interest rate repricing of financial liabilities as at 31 December 2010			
Maturing in one month or less	3,951,659	3,951,659	-
Maturing between one and three months	85,025	132,525	-
Maturing between three and twelve months	95,687	135,064	-
Maturing greater than 1 year and less than 2 years	3,760	2,495	96,239
Maturing greater than 2 years and less than 3 years	-	-	-
Maturing greater than 2 years and less than 3 years	-	-	-
Maturing greater than 4 years and less than 5 years	189,022	189,022	-
Maturing greater than 5 years	178,250	92,638	64,388
	4,503,403	4,503,403	160,627

	Maturity	Repricing	Undrawn Committed Facilities
	€'000	€'000	€'000
Maturity, liquidity measures and interest rate repricing of financial liabilities as at 31 December 2009			
Maturing in one month or less	1,208,663	1,310,184	-
Maturing between one and three months	1,768,382	1,968,469	-
Maturing between three and twelve months	1,568,853	1,362,112	-
Maturing greater than 1 year and less than 2 years	-	-	-
Maturing greater than 2 years and less than 3 years	6,299	2,691	96,960
Maturing greater than 3 years and less than 4 years	-	-	-
Maturing greater than 4 years and less than 5 years	-	-	-
Maturing greater than 5 years	374,840	283,581	53,482
	4,927,037	4,927,037	150,442

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 gains/(losses) for the financial year as follows:

	100 bp Parallel Increase	100 bp Parallel Decrease	50 bp Parallel Increase	50 bp Parallel Decrease
	€'000 Gain	€'000 (Loss)	€'000 Gain	€'000 (Loss)
At 31 December 2010	17,692	(17,692)	8,846	(8,846)
At 31 December 2009	3,948	(3,948)	1,974	(1,974)

Notes Forming Part of the Financial Statements
15. Financial risk management continued

These 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 2010 and 2009,

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

Exposure to Other Market Risks – Non-Trading Portfolios

Equity price risk is subject to regular monitoring by Agency Market Risk, but is not currently significant in relation to the overall results and financial position of the Agency.

The Agency issues ECP notes in currencies other than euro. However, The Agency hedges this currency exposure by entering into forward contracts to negate any currency risk. As at the reporting date net currency exposures representing more than 10 percent of the Agency's equity are as follows:

Foreign Currency Transactions

	2010	2009
	Euro (In millions)	Euro (In millions)
US \$	216	1,197
Pounds Sterling	-	824
Japanese Yen	-	28
Swiss Francs	-	94
Canadian Dollars	-	7
Total	216	2,150

Notes Forming Part of the Financial Statements
15. Financial risk management continued

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 setting margins above its cost, 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.

The fair value of the index linked assets are lower than the carrying value due to the fact that the income rate on the indexed linked loans is charged at an applicable fixed rate margin plus inflation. This also impacts on the discount rate used to calculate the fair value, which is a combination of the average income rate charged for the year less the EURIBOR® rate at the year end.

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 below:

	100 bp Parallel Increase	100 bp Parallel Decrease	50 bp Parallel Increase	50 bp Parallel Decrease
	€'000 Gain	€'000 (Loss)	€'000 Gain	€'000 (Loss)
At 31 December 2010	(186)	186	(93)	93
At 31 December 2009	(176)	176	(88)	88

Fair Value

The following tables outline the fair values of the financial assets and liabilities as at 31 December 2010 and 31 December 2009:

	Carrying Value	Fair Value
	€'000	€'000
<i>31 Dec 2010</i>		
Financial assets		
Fixed rate	138,264	180,692
Floating rate	4,265,532	4,265,532
Index linked	156,424	211,517
Derivative assets	8,469	8,469
	<u>4,568,689</u>	<u>4,666,210</u>
Financial liabilities		
Fixed rate	96,398	135,175
Floating rate	4,217,983	4,217,983
Index linked	189,022	204,613
Derivative liabilities	1,385	1,385
	<u>4,504,788</u>	<u>4,559,156</u>

The carrying amount of all of the assets and liabilities not carried at fair value is considered to be a reasonable approximation of fair value.

	Carrying Value	Fair Value
	€'000	€'000
<i>31 Dec 2009</i>		
Financial assets		
Fixed rate	147,204	200,093
Floating rate	4,624,845	4,624,845
Index linked	160,552	105,391
Derivative assets	41,882	41,882
	<u>4,974,483</u>	<u>4,972,211</u>
Financial liabilities		
Fixed rate	96,574	146,117
Floating rate	4,639,160	4,639,160
Index linked	191,304	191,416
Derivative liabilities	6,415	6,415
	<u>4,933,453</u>	<u>4,983,108</u>

Notes Forming Part of the Financial Statements
15. Financial risk management 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 €4.6 billion (2009:€5.0 billion). This is based on EURIBOR[®] at the year end rate (2009: EURIBOR[®]) on a 365 day basis.

Similarly, the Agency's liabilities are valued by reference to one month EURIBOR[®] (0.453% [360-day basis]) at 31 December 2010, with the cost of funding index linked stock compared to the cost of funding a conventional variable rate stock. €4.6 billion (2009: €5.0 billion) has been estimated as the fair value of the Agency's liabilities. This is again based on EURIBOR[®] at the year end rate (2009: 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 2010.

The table below analyses financial instruments measured at fair value at the 31 December 2010 by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Quoted Market Prices (Level 1)	Valuation Techniques Using Observable Market Data (Level 2)	Valuation Techniques Using Non-Observable Market Data (Level 3)	Total
	€'000	€'000	€'000	€'000
<i>Fair Value Hierarchy</i>				
Financial assets held at fair value				
Derivative financial instruments	-	8,469	-	8,469
Financial liabilities held at fair value				
Derivative financial instruments	-	1,385	-	1,385

During the year, there were no transfers between levels and no level one or three financial instruments. The financial instruments valued using observable market data (Level 2) relates to derivative financial instruments.

Notes Forming Part of the Financial Statements continued

16. Derivative Financial Instruments

	Contract/ Notional Amount	Fair Value Assets	Fair Value Liabilities
	€'000	€'000	€'000
<i>At 31 Dec 2010</i>			
Derivatives designated as cash flow hedges			
Forward exchange rate agreements	217,447	8,469	(1,385)
Total recognised derivative assets/(liabilities)	217,447	8,469	(1,385)
<i>At 31 Dec 2009</i>			
Derivatives designated as cash flow hedges			
Forward exchange rate agreements	2,150,272	41,882	(6,415)
Total recognised derivative assets/(liabilities)	2,150,272	41,882	(6,415)

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

	2010	2009
	€'000	€'000
Balance at beginning of year	(315)	(21)
Losses on hedging instruments	(143)	(190)
Transferred to income and expenditure account	439	(104)
Balance at end of year	(19)	(315)

18. Cash Flow Statement

	Year Ended 31 December 2010	Year Ended 31 December 2009
	€'000	€'000
(a) Reconciliation of operating surplus to cash outflow from operating activities		
Operating surplus for the financial year	23,099	7,706
Direct expenditure (Note 4)	53,704	90,017
Finance Fees	(252)	(252)
Depreciation (Note 9)	31	42
Amortisation of legal fees	(115)	(61)
Actuarial gain	109	63

Notes Forming Part of the Financial Statements
18. Cash Flow Statement continued

	Year Ended 31 December 2010	Year Ended 31 December 2009
Hedge effectiveness reserve	171	(294)
Interest received	496	3,905
Interest paid	(59,213)	(119,328)
Movements in working capital:		
Decrease/(increase) in amounts due from local authorities (Note 8)	133,679	(144,478)
(Increase)/decrease in other debtors and prepayments	(3,553)	23,750
Increase/(decrease) in creditors	3,352	(3,041)
Increase in pension surplus	(258)	(556)
Decrease in derivatives	28,385	11,107
Cash inflow/(outflow) from operating activities	179,635	(131,420)
(b) Gross cash flows		
Returns on investments and servicing of finance		
Capital expenditure		
Payments to acquire tangible fixed assets	(41)	(8)
Gain on disposal of tangible fixed assets	6	-
Net cash outflow from capital expenditure and disposals	(35)	(8)
Debt financing		
Decrease in bank loans and notes payable	(421,714)	(17,166)
Net cash inflow from change in debt	(421,714)	(17,166)

	At 31 December 2010	Cash Flows	Non-Cash Movements	At 31 December 2009
	€'000	€'000	€'000	€'000
(c) Analysis of changes in net debt				
Cash and cash equivalents	17,195	(242,114)	-	259,309
	17,195	(242,114)	-	259,309
Bank loans and notes repayable within one year	(4,133,635)	412,267	-	(4,545,902)
Bank loans and notes repayable after one year	(88,108)	9,447	-	(97,555)
Index linked bonds	(95,952)	-	151	(96,103)
Provision for premium on redemption of bonds	(93,070)	-	2,131	(95,201)
8.75% Housing Finance Agency Stock 2018	(92,638)	-	(361)	(92,277)
	(4,486,208)	179,600	1,921	(4,667,729)

Notes Forming Part of the Financial Statements continued

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 2010 and 2009.

20. Reconciliation of Retained Surplus

	31 December 2010	31 December 2009
	€'000	€'000
Retained surplus at beginning of year	32,206	21,255
Surplus for the financial year	23,332	10,888
Actuarial gains	109	63
Retained surplus at end of year	55,647	32,206

21. Reconciliation of Shareholder's Funds

	31 December 2010	31 December 2009
	€'000	€'000
Opening shareholder's funds	31,930	21,273
Recognised surplus for year	23,737	10,657
Closing shareholder's funds	55,667	31,930

22. Commitments

Operating Lease Commitments

The Agency has commitments under an operating lease (office premises) to make annual payments as follows:

Lease Expiring:	Buildings
	€'000
Not later than one year	-
After one year less than five years	-
After five years	150

23. Pension Surplus/(Deficit)

The Agency 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 2010 the market value of the fund's assets was €2.63 million (2009: €2.82 million). 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.

Notes Forming Part of the Financial Statements continued

For the purposes of FRS 17 Retirement Benefits the latest valuations have been updated to 31 December 2010 by a qualified independent actuary using the projected unit cost method. The principal actuarial assumptions used were as follows:

	2010	2009	2008
	%	%	%
Rate of increase in salaries	3.75	3.75	3.75
Rate of increase in pensions payments	2.00	2.00	2.00
Discount rate	5.10	5.10	5.60
Inflation assumption	2.00	2.00	2.00
Mortality Rate	2010	2009	2008
Post retirement - male age 62.5	23.5 years	23.5 years	23.9 years
Post retirement - female age 62.5	25.3 years	25.3 years	27.8 years

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:

	Long-Term Rate of Return Expected At 31 December 2010	Value At 31 December 2010	Long-Term Rate of Return Expected At 31 December 2009	Value At 31 December 2009	Long-Term Rate of Return Expected At 31 December 2008	Value At 31 December 2008
	%	€'000	%	€'000	%	€'000
Equities	7.00	1,279	7.00	915	7.00	547
Bonds	4.00	1,189	4.00	1,775	4.00	1,301
Property	6.50	71	6.50	65	6.50	72
Cash and other assets	2.00	92	2.00	68	2.00	28
Total market value of pension scheme assets		2,631		2,823		1,948
Present value of pension scheme liabilities		(1,894)		(2,344)		(2,025)
Total net retirement surplus/(deficit) in scheme		737		479		(77)
Total net pension surplus/(deficit) recognised in the balance sheet		737		479		(77)

The expected return has been calculated as the weighted average of the expected long term returns on each of the main asset classes held by the scheme- the weights adopted are the proportions held by the scheme in each of the main asset classes. For equities the expected return has been taken as price inflation plus 5.0% p.a., for property inflation plus 4.5%, for bonds 4% and 2% for other assets. For cash, the expected return is equal to price inflation.

Notes Forming Part of the Financial Statements continued

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

	31 Dec 2010	31 Dec 2009	31 Dec 2008	31 Dec 2007	31 Dec 2006
	€'000	€'000	€'000	€'000	€'000
Included in statement of total recognised gains and losses:					
Difference between expected and actual return on assets	75	152	(661)	(188)	95
Experience gains and losses on scheme liabilities	34	54	(129)	(184)	(100)
Effect of changes in actuarial assumptions	-	(143)	(30)	246	(189)
Net amount in statement of total recognised gains and losses	109	63	(820)	(126)	(194)

This expense is recognised in the administration expense line of the income and expenditure account.

History of actuarial gains and losses:

	31 Dec 2010	31 Dec 2009	31 Dec 2008	31 Dec 2007	31 Dec 2006
	€'000	€'000	€'000	€'000	€'000
Difference between expected and actual return on assets	75	152	(661)	(188)	95
Expressed as a percentage of scheme assets	2.85%	5.38%	(33.9%)	(11.6%)	4.5%
Experience gains and losses on scheme liabilities	34	54	(129)	(184)	(100)
Expressed as a percentage of scheme liabilities	1.8%	2.30%	(6.37%)	(10.9%)	(4.8%)
Total actuarial gains and losses	109	63	(820)	(126)	(194)
Expressed as a percentage of scheme liabilities	5.76%	2.69%	(40.5%)	(7.5%)	(9.3%)

Cumulative actual gains and losses recognised in other comprehensive income:

	2010	2009
Cumulative amount at 1 January	(1,288)	(1,351)
Recognised during the period	109	63
Cumulative amount at 31 December 2010	(1,179)	(1,288)

Notes Forming Part of the Financial Statements continued

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

	2010	2009
	€'000	€'000
Deficit at 1 January	(2,344)	(2,025)
Current service cost	(79)	(58)
Interest Cost	(94)	(118)
Contributions by employees	(24)	(26)
Actuarial Gain/(losses)	34	(89)
Past service costs	-	(84)
Benefits paid	612	56
Deficit at 31 December	(1,895)	(2,344)

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

Fair value of plan assets at 1 January	2,823	1,948
Expected return on plan assets	108	90
Contributions by employer	213	663
Contributions by employees	24	26
Actuarial losses	75	152
Benefits paid	(612)	(56)
Other adjustments (if any)	-	-
Fair value of plan assets at 31 December	2,631	2,823

Additional Information

	Year Ended 31 December 2011	Year Ended 31 December 2010
	€'000	€'000
Expected Employer contributions	212	203

24. Post Balance Sheet Events

There were no significant events after the year-end which require disclosures or adjustments to the accounts.

25. Approval of Financial Statements

The audited financial statements, which are in the form approved by the Minister for the Environment, Heritage & Local Government with the consent of the Minister of Finance, were approved by the Directors on 31 March 2011.



Appendices 1-4

Appendix 1

Unaudited Balance Outstanding, by Local Authority and National Building Agency

Local Authority	Year Ended 31 December 2010	Year Ended 31 December 2009
	€'000	€'000
Athlone Town Council	2,333	2,489
Athy Town Council	4,160	1,985
Bray Town Council	7,405	7,420
Bundoran Town Council	1,931	1,903
Carlow County Council	39,306	39,125
Carlow Town Council	2,750	-
Carrick-on-Suir Town Council	403	397
Castlebar Town Council	6,001	-
Castleblaney Town Council	68	75
Cavan County Council	20,010	19,024
Clare County Council	55,428	52,216
Clonakilty Town Council	853	2,289
Clones Town Council	179	186
Clonmel Borough Council	5,011	5,201
Cork City Council	145,414	158,418
Cork County Council	416,041	418,514
Donegal County Council	96,938	102,390
Drogheda Borough Council	72,190	76,062
Dublin City Council	936,513	1,023,972
Dundalk Town Council	51,009	54,057
Dungarvan Town Council	2,075	2,045
Dunlaoghaire/Rathdown County Council	146,871	160,897
Ennis Town Council	1,000	999
Fermoy Town Council	337	332
Fingal County Council	400,021	449,245
Galway City Council	112,730	126,670
Galway County Council	90,462	91,581
Kerry County Council	85,387	84,363
Kildare County Council	140,528	139,315
Kilkenny Borough Council	662	719
Kilkenny County Council	51,809	52,195
Laois County Council	138,537	140,755

Appendix One continued

Local Authority	Year Ended 31 December 2010	Year Ended 31 December 2009
	€'000	€'000
Leitrim County Council	14,296	9,873
Letterkenny Town Council	4,000	-
Limerick City Council	16,482	17,838
Limerick County Council	46,145	43,605
Listowel Town Council	816	1,446
Longford County Council	43,095	44,258
Longford Town Council	953	6,891
Louth County Council	28,685	32,196
Mallow Town Council	3,815	3,759
Mayo County Council	78,412	66,142
Meath County Council	88,537	94,782
Monaghan County Council	35,486	35,147
Naas Town Council	11,457	11,820
Navan Town Council	2,500	-
Nenagh Town Council	1,750	749
New Ross Town Council	1,100	-
North Tipperary County Council	52,778	49,267
Offaly County Council	40,565	41,740
Roscommon County Council	7,271	7,584
Skibbereen Town Council	1,391	1,371
Sligo Borough Council	43,166	43,624
Sligo County Council	69,355	58,007
South Dublin County Council	257,263	245,086
South Tipperary County Council	57,458	57,798
Tralee Town Council	13,943	20,424
Tullamore Town Council	4,618	6,931
Waterford City Council	101,958	97,250
Waterford County Council	40,524	37,604
Westmeath County Council	103,595	98,109
Westport Town Council	4,504	3,531
Wexford Borough Council	4,826	5,080
Wexford County Council	153,025	138,310
Wicklow County Council	71,591	72,980
Wicklow Town Council	5,916	7,210
Sub total	4,445,638	4,575,251
National Building Agency	3,299	7,365
Total	4,448,937	4,582,616

Appendix 2

Unaudited Loans Advanced, by Local Authority

Local Authority	Year Ended 31 December 2010	Year Ended 31 December 2009
	€'000	€'000
Athy Town Council	2,173	1,027
Bray Town Council	-	6,100
Bundoran Town Council	-	1,900
Carlow County Council	1,471	1,307
Carlow Town Council	2,750	-
Castlebar Town Council	6,000	-
Cavan County Council	1,807	3,186
Clare County Council	5,751	7,760
Cork City Council	2,701	26,365
Cork County Council	54,038	93,078
Donegal County Council	283	12,854
Drogheda Borough Council	202	1,749
Dublin City Council	115,122	160,594
Dundalk Town Council	64	2,835
Dunlaoghaire/Rathdown County Council	986	7,286
Fingal County Council	19,125	44,790
Galway City Council	3,000	8,390
Galway County Council	9,454	23,882
Kerry County Council	5,908	14,900
Kildare County Council	11,526	14,385
Kilkenny County Council	2,342	11,848
Laois County Council	5,216	16,956
Leitrim County Council	5,063	1,000
Lettekeny Town Council	4,000	-
Limerick City Council	2,450	11,250
Limerick County Council	7,550	850
Longford County Council	547	6,043
Louth County Council	2,353	28,566
Mayo County Council	21,594	263
Meath County Council	-	36,341

Appendix Two continued

Local Authority	Year Ended 31 December 2010	Year Ended 31 December 2009
	€'000	€'000
Monaghan County Council	2,038	5,142
Navan Town Council	2,500	-
Nenagh Town Council	1,000	750
New Ross Town Council	1,100	-
North Tipperary County Council	4,968	14,637
Offaly County Council	541	4,145
Roscommon County Council	-	1,900
Sligo County Council	16,956	7,909
South Dublin County Council	27,685	28,955
South Tipperary County Council	1,418	632
Waterford City Council	7,646	5,800
Waterford County Council	5,127	3,448
Westmeath County Council	11,657	23,900
Westport Town Council	920	-
Wexford County Council	18,502	20,057
Wicklow County Council	118	17,950
Total	395,652	680,730

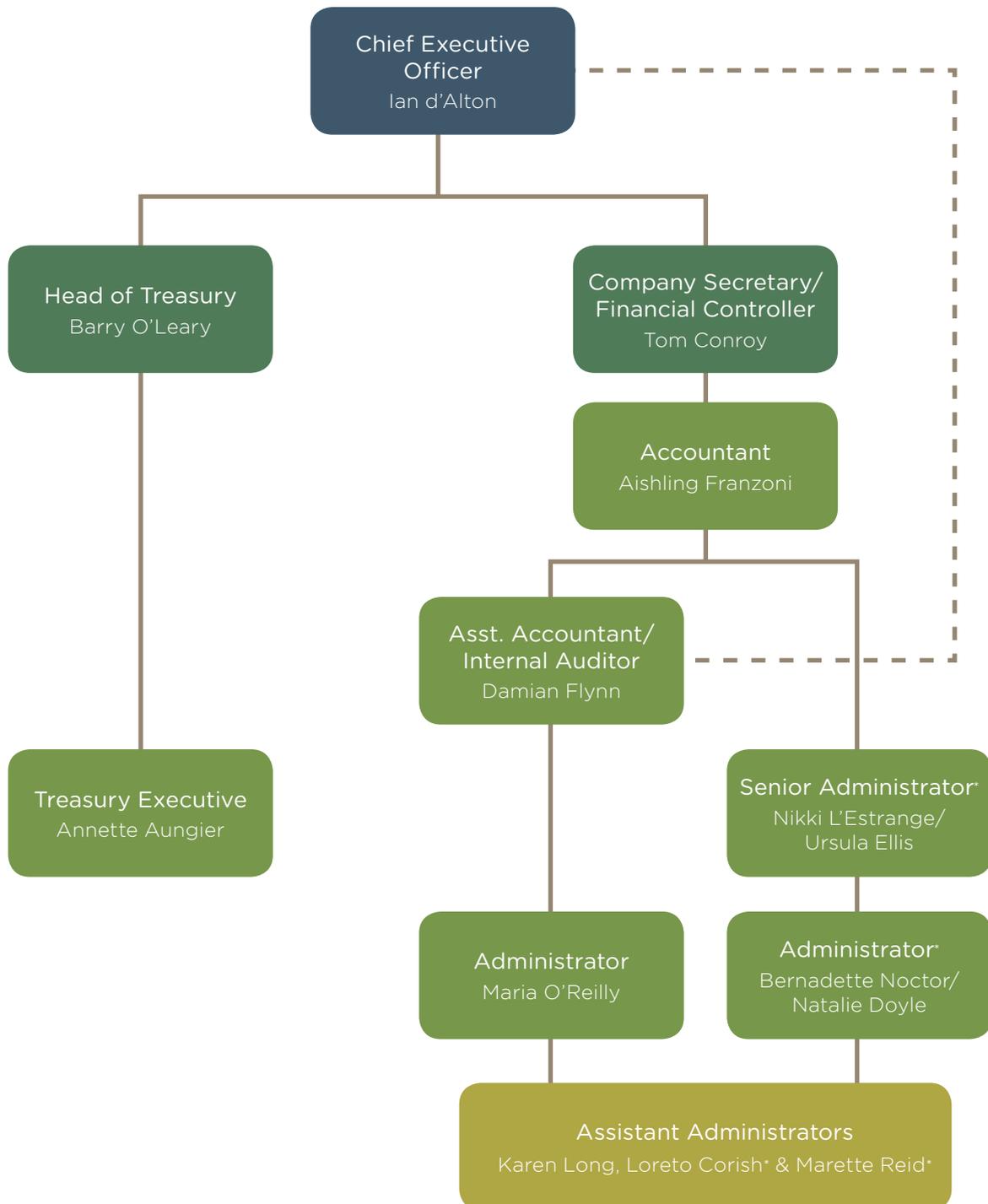
Appendix 3

Unaudited Balance Outstanding on Loan Book, by Rate Type & 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	6,836	1,161,074	4,633	73	1,172,616
6 to 10 years	22,272	144,036	11,750	-	178,058
11 to 15 years	3,320	285,771	45,252	-	334,343
16 to 20 years	18,968	795,975	70,334	-	885,277
21 to 25 years	41,835	840,414	-	-	882,249
26 to 30 years	38,073	832,931	-	-	871,004
31 to 40 years		104,650	-	20,740	125,390
Total	131,304	4,164,851	131,969	20,813	4,448,937

Appendix 4

Agency Staff Structure



* Work-sharing

--- For internal audit purposes only.



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