



Housing Finance Agency



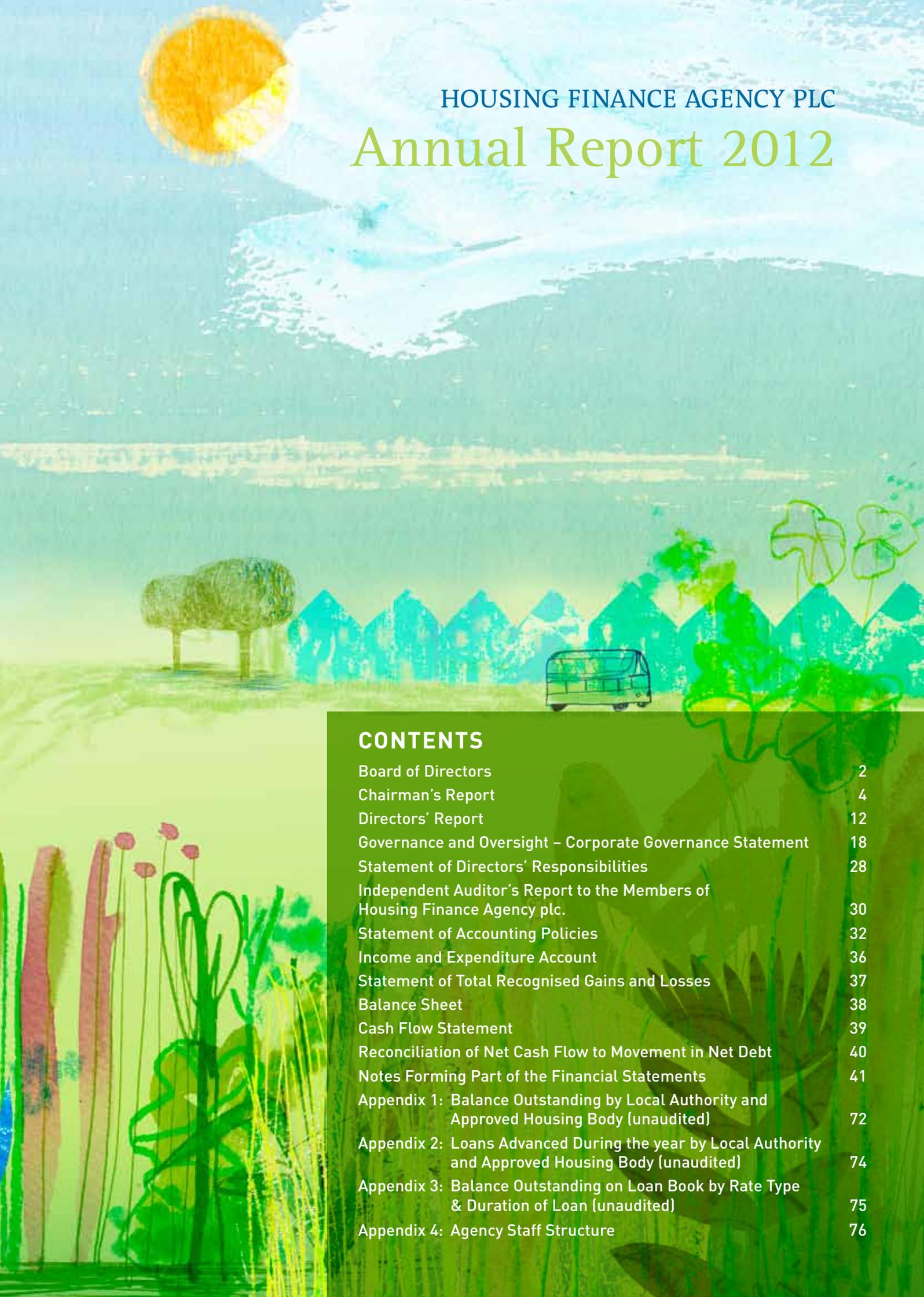
HOUSING FINANCE AGENCY PLC  
Annual Report 2012

# About us

Housing Finance Agency plc is a company under the aegis of the Minister for the Environment, Community and Local Government of Ireland. It was established by the Housing Finance Agency Act, 1981 and incorporated in 1982. Its shares are owned by the Minister for Public Expenditure and Reform of Ireland.

The Agency's Board is appointed by the Minister for the Environment, Community and Local Government with the consent of the Minister for Public Expenditure and Reform. It has 12 members and is representative of such bodies as local authority members and officials, the voluntary housing sector and senior public servants.





# HOUSING FINANCE AGENCY PLC

# Annual Report 2012

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# Board of Directors



**Michelle Norris  
(Chairman)**

Senior lecturer in Social Policy in UCD, teaching and research interests focus on housing policy and urban regeneration. During her career she has led or participated in 20 research projects on these issues and has produced over 100 publications on the results. In 2011 she was appointed by an Taoiseach as an independent member of the National Economic and Social Council.



**Colm Brophy**

Councillor on South Dublin County Council since 2008. He is also a Board member of South Dublin County Enterprise Board and South Dublin Tourism. Colm is the Founder and General Manager of T. E. Corporate Promotions – a specialist provider of event management services.



**Padraic Cafferty**

Managing director of Datascan, Executive Chairman at Northwood Technology Ltd, and proprietor at Westpoint Business Centre and Sigmund Business Centre, Glasnevin, Dublin. Padraic is currently a Fellow of the Security Institute of Ireland and Past President of the Irish Security Industry Association.



**James Miley**

Qualified Chartered Director and Business Consultant, and has worked in a broad range of sectors including broadcasting, development aid, politics and business. He co-founded and led the online property website, myhome.ie, which has given him a thorough understanding and first-hand knowledge of the Irish property market. In addition to his professional interests, he was Chairman of Concern Worldwide from 2007 to 2010 and is still a Director there.



**Michelle Murphy**

Regional Manager for the Collins McNicholas Recruitment & HR Services Group, covering the Western region. She has an M.Sc in Strategic Human Resource Management, and is a Fellow of the Chartered Institute of Personnel & Development.



**Michael Murray**

Honours graduate in economics from Trinity College, Dublin and, from 1977 to 2002, he served in several senior roles in banking in both London and Dublin. In 2004, he joined the European Commission, where he remained until 2010, and had responsibility for advising the Internal Market Commissioner on banking and securities markets regulation. Michael currently works in a consultancy role on a range of financial services issues.



### John Hogan

Assistant Secretary in the Banking Division of the Department of Finance. John has previously worked in the Departments of Education, Environment and Foreign Affairs.



### Gerry Leahy

Established estate agent since 1980, being recognised as an expert in the field of new housing sales and developments. Gerry was a Director of both Horse Sport Ireland and Eventing Ireland, and published the Strategic Plan on High Performance and Olympic Qualification in Equestrian Sport.



### Jackie Maguire

County Manager of Leitrim County Council since June 2006; commencing her Local Government career with Meath County Council in 1981, and being promoted to Head of Finance in 2000 and Director of Services in 2003. She has a Diploma in Financial Management and a Masters in Project Finance/ Venture Management.



### Philip Nugent

Principal Officer in the Department of the Environment, Community and Local Government, with responsibility for Planning and Housing Policy & Finance.



### Mary Lee Rhodes

Assistant Professor of Public Management at Trinity College, Dublin, her research being focused on complex public service systems and the dynamics of performance. She is also involved in research and management in the non-profit sector and has experience in managing banking operations and technology with JP Morgan, and as an economic analyst with the US Department of Agriculture.

## Other Information

### Secretary

Tom Conroy, ACMA, CGMA

### Registered Office

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**E** cosec@hfa.ie

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### Auditors

KPMG

Chartered Accountants,  
Statutory Audit Firm,  
1 Harbourmaster Place,  
IFSC,  
Dublin 1.

### Solicitors

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



# Chairman's report

I am delighted to present the 2012 Annual Report which covers the first full year of the current Board's stewardship of the HFA. It is my stated ambition that during my tenure as Chairman, the HFA will continue to work to provide the most efficient and best value service possible to existing customers and forge mutually beneficial relationships with new customers in order to enable them provide housing to individuals and families who cannot secure accommodation from the market. I am pleased to report that in this Annual Report we can demonstrate significant progress on both fronts.

## Key Achievements

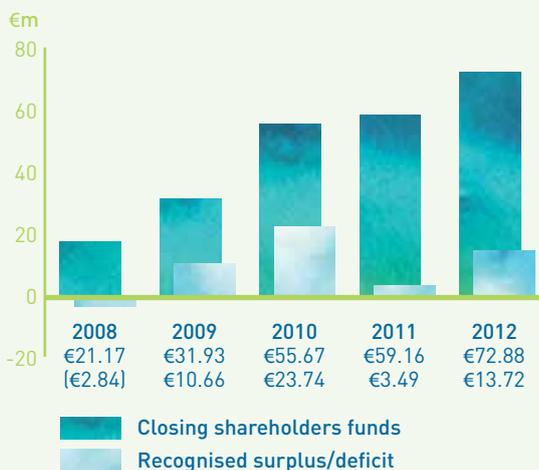
The key role of the HFA is to lend to local authorities and approved housing bodies (AHBs – also known as housing associations) to enable them achieve their functions under the Housing Acts. These functions principally relate to providing housing loans to those who cannot secure accommodation from the market. The Agency endeavours to provide these loans at the lowest rates possible. During 2012 the HFA had considerable success in achieving its mandate and, among its achievements, the following are particularly notable.

- The HFA recorded net lending of €70 million in the year which increased the loan book to €4.44 billion.
- Reserves now stand at €73 million, and exist to cover the long-term and lifetime risks that arise in the Agency's loan portfolio, and it continues to be the HFA's policy to ensure that such risks are fully covered. The Board closely monitors risk management and earnings, and adjustments in its margins are made from time to time to ensure that returns are sufficient to generate the required level of reserves.



- The HFA has earned a surplus of €15 million this year, while at the same time delivering very low and competitive interest rates to our customers.
- Our results in 2012 are such that the HFA is in a position to pay a dividend, to the Minister for Public Expenditure and Reform. A payment of €20m is evidence of the HFA's ability to simultaneously deliver exceptional value to its customers and shareholders, while maintaining reserves at a level sufficient to protect itself from the risks inherent in our business.

## Surplus and Reserves 2008-2012



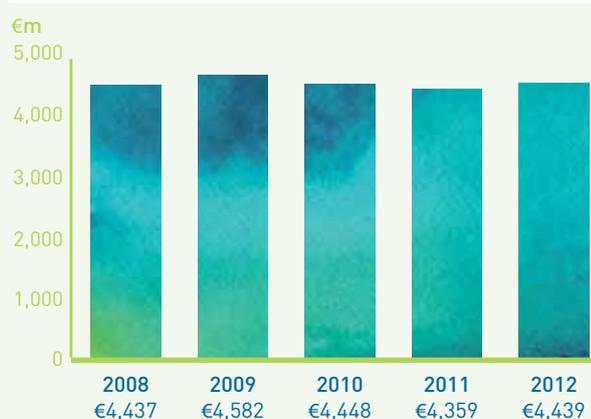
## Lending

The HFA's mission is to source and supply cost-efficient loan finance for local authorities and AHBs. The HFA currently lends to 42 local authorities under a variety of schemes and structures. In 2012, gross loan advances amounted to €327 million, repayments and redemptions totalled €257 million, resulting in net advances of €70 million for the year.

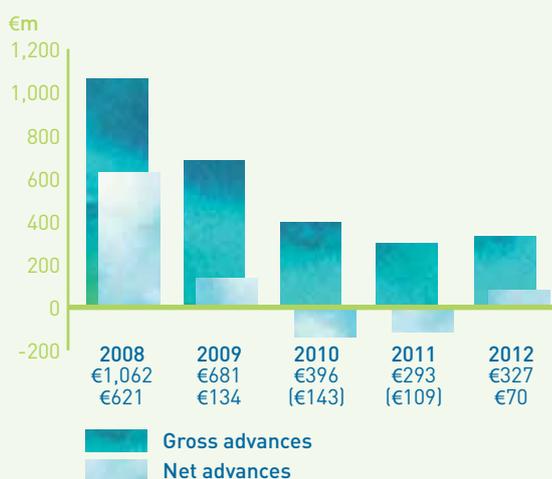
The HFA's loan book is comprised, in the main, of loans under the:

- Capital Loan and Subsidy scheme (€1,174 million), which funds the provision of social housing by AHBs;
- Bridging Finance and Land Acquisition for affordable housing (€993 million) for low income home borrowers;
- €863 million remains outstanding from local authorities for housing-related purposes under Section 11 of the Housing (Miscellaneous Provisions) Act, 2009, of which €337 million was for infrastructural water, waste and environmental projects;
- Fixed and variable rate House Purchase loans which are provided by local authorities to low and middle income households (€825 million); and
- Shared Ownership loans (€528 million) – a part buy/part rent scheme for low income home buyers.

## Balance due on loan advances 2008-2012



## Loan advances by gross/net lending 2008-2012



The HFA is conscious of the financial pressures under which the local government system and many of those who have availed of local authority house purchase loans are operating. The Agency is working with the Department of the Environment, Community and Local Government, and local authorities, to ensure that the range of options set out under the Central Bank's Code of Conduct on Mortgage Arrears (including a local authority variant of the Mortgage Arrears Resolution Process) is available to distressed local authority borrowers. It is also developing appropriate loan structures for local authorities in order to better match their financial circumstances. It is noteworthy, that notwithstanding the development of such loan structures and the financial constraints facing local authorities that they all remain fully compliant with their repayment obligations to the HFA.

## Approved Housing Bodies

Current Government housing policy is based on choice, fairness and equity across tenures and on delivering quality outcomes for the resources invested. The policy objective is to enable all households access good quality, affordable housing, appropriate to household circumstances and in their particular community of choice.

In view of the country's current economic circumstances policy makers have decided that government housing supports must focus on meeting the most acute housing needs and approved housing bodies (AHBs) are to play a central role in the delivery of social rented housing. From the HFA's perspective, this has presented a welcome challenge to allow us offer a range of innovative funding solutions for our customers. The HFA is well positioned to provide finance, with private-sector banking participation increasing, as and when the economic climate generally improves.

Last year's Annual Report promised an increase in business with AHBs. I am pleased to say that this optimism has been borne out. AHBs initially apply for Certified Body status which assesses their suitability for lending purposes by examining their financial accounts over three years, by looking at their corporate governance structure and their financial and development plans. Of the 18 applications received for Certified Body status, 6 AHBs have been approved and 8 have been declined, of which 4 are still pursuing the path to a successful application.

The HFA's Credit Committee comprises Board members and senior management. The Committee met seven times during the year and, as at 31 December 2012, the HFA has approved loan applications totalling €23 million, €9 million of which has been advanced at the time of writing. It is anticipated that 2013 will herald continued growth in the level of lending in this area. The Agency continues to have frequent interaction with AHBs to fine tune the suite of products which it offers. Additional detail of the credit applications made by AHBs can be found on page 15 of this Report.

## Interest rates

The HFA's standard variable interest rates continue to be the lowest available in the market. The current rate to borrowers of local authority housing loans is 2.75%. Households benefited from an HFA-generated house purchase annuity mortgage rate that was about 1.5% below the average standard variable rates in the market, which stood at 4.25 % at the end of 2012. The HFA's decisions in regard to future interest rate changes triggered by ECB/EURIBOR® movements will, as in the past, have to have regard for its cost of funds and the necessity for it to meet its costs from its operations.

In 2012, local authorities paid an average variable rate of 2.29% on loans for non-mortgage housing and housing-related purposes.

The interest rate structure for loans made directly to AHBs is higher, reflecting the higher risks associated with lending to the independent, non profit sector; but they are still very attractive when compared with the interest rates available from the market.

## Funding

The vast majority of the HFA's loans have a variable rate structure and the Agency has traditionally generated the funding for these loans by means of a State-guaranteed €6 billion eurocommercial paper [ECP] programme. Following the withdrawal of the Irish government from international money markets, the HFA gained access to an alternative source of floating rate funding in 2011 via the multi-lateral EU/IMF Programme of Financial Support for Ireland. This facility, which is accessed through the National Treasury Management Agency (NTMA) using the Agency's Guaranteed Notes programme, remains in place. It has a capacity of €4.5 billion, which is more than sufficient to cover the HFA's variable funding needs at present. An amount of €4.11 billion was drawn by the HFA under the GN programme at year end, of which €3.98 billion was funded through the EU/IMF Programme of Financial Support.

The relatively short tenor of notes issued under this programme has enabled the HFA to maintain very competitive interest rates to its customers, while having an assured supply of funding.

While the HFA's return to independent funding on international markets may lag the sovereign's re-entry to the markets, it is nevertheless ready to re-launch its ECP programme to facilitate a return to self-funding. The impact on the HFA's cost of funds is difficult to gauge at this juncture but the Board is satisfied that there is a sufficient range of funding options available to it, to allow us continue to fulfil our mission of providing the finest rate possible to our customers.

The HFA also utilises the GN programme to provide local authorities with an investment facility for their surplus cash and offering competitive interest rates. In 2012, the HFA dealt with 21 local authorities in this area of its business (24 in 2011). The average weekly turnover of investments fell by 48% to €89 million in 2012 (from €173 million in 2011). This decline is as a result of the retail banking sector paying higher rates for deposits and attracting local authority business. As well as providing a cost-effective and flexible service to our customers, the facility remains another source of funding for the HFA.

## Corporate governance and planning

The HFA is committed to achieving the highest standards of corporate governance. It conforms to the *Code of Practice for the Governance of State Bodies* issued by the Department of Finance. The Code sets out a framework for adherence by State bodies towards the achievement of best practice for corporate governance in both commercial and non-commercial State bodies. Under the Code the HFA furnishes biannual reports to the Departments of the Environment, Community and Local Government, and Public Expenditure and Reform.

## Chairman's report (continued)

The Board has responsibility for the HFA's system of internal control. Additional information, as required to be disclosed by Appendix V of the Code is contained within the Governance and Oversight – Corporate Governance Statement on page 18.

The HFA has a Policies and Procedures Manual benchmarked to best practice which acts as an essential tool for the proper and consistent management of the HFA's business. The HFA's rolling five-year Corporate Plan, published on its website, is updated annually and is tabled for approval by the Minister for the Environment, Community and Local Government, and the Board thereafter. The HFA complies with the UK Code of Corporate Governance (see the Governance and Oversight – Corporate Governance Statement on page 18).

The HFA continues to comply with the Irish Corporate Governance Annex issued by the Irish Stock Exchange adopted voluntarily by the HFA in 2011.

In addition, the HFA's objectives under the Croke Park Agreement are reported on regularly and published on its website, [www.hfa.ie](http://www.hfa.ie).

### Risk management

As prescribed by the revised *Code of Practice for the Governance of State Bodies*, a risk management policy framework (overseen by the Audit Committee) was adopted by the Board and a formal Risk Management Committee, consisting of senior management, has been operational since 2009. The monitoring of risk remains an ever present item at all Board meetings. The most recent wholesale revision of our *Risk Management Framework and Policy* was concluded in December 2011 following an independent review of the policy framework to ensure that it captured all appropriate risks. This was fully implemented in 2012.

The HFA faces risks that require the maintenance of adequate reserves and, where appropriate, specific provisions. For instance, the Agency faces inflation risk principally due to the cost of a long-term mismatch between older shared ownership and income-related indexed loans, with the legacy bonds that fund them. This mismatch led to a loss of €2.7 million in 2012, (2011: €2.0 million) and this mismatch will continue to 2015 (when the bonds mature). In addition, intra-year differences in inflation can produce gains or losses.

In 2012 these differences produced a loss of €0.7 million, compared with a gain of €1.4 million in 2011. Over the medium to long term, however, intra-year movements should broadly balance.

The HFA 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 HFA 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 HFA has been the development of a considerable mismatch in the loan book.

The fixed rate mismatch will continue until 2018, when the bond matures. In the years 1986-89, the HFA 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 €4.8 million in 2012 (2011: €4.4 million).

The HFA 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. 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 HFA liable for any impairment losses which may arise. Individual borrowers are required to hold mortgage protection insurance on their property. On post May 1986 loans, in the context of (a) local authorities being statutory bodies under the Local Government Act, 2001 and other enactments, (b) their revenues or funds being security for the due payment to the HFA of all amounts due by local authorities (as set out in the agreement between each local authority and the HFA), (c) all loans advanced to local authorities are approved by the Minister for the Environment, Community and Local Government, and (d) the Board's understanding that central Government

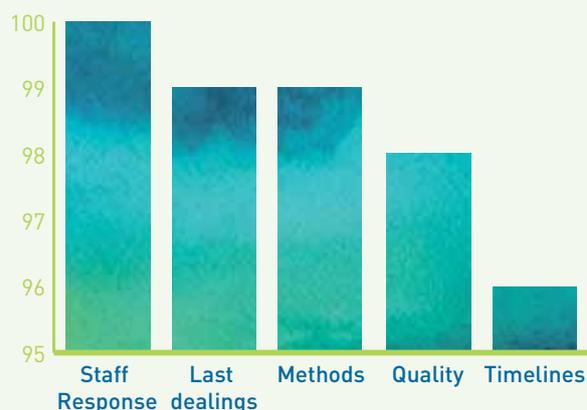
supports local authorities in meeting their obligations to the HFA; the Board is of the opinion that, in substance, no credit risk arises on loans advanced to local authorities on or after 27 May 1986 and no loan loss provisions are recorded in respect of these loans. During 2012, the credit risk relating to balances on older pre-May 1986 income-related loans necessitated a further collective provision of €0.33 million, increasing the total provision for this element of risk to €1.41 million. While the provision provided has not yet been utilised to date, it may crystallise in the future.

The bulk of the HFA'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 tenures 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 HFA through the GN programme. The Board considers that adequate resources are in place to cover any liquidity risk that may arise over the next 12 months from the date of approving the financial statements.

Under Section 17 of the Housing (Miscellaneous Provisions) Act 2002, the HFA is empowered to lend directly to approved housing bodies (voluntary housing bodies and co-operative housing societies). Direct lending to such bodies, marks a fundamental shift away from the HFA's existing operations and risk profile. Up to now, the HFA's exposure has been to local authorities. Lending to other entities implies a greater level of risk and this requires a different level of assessment and due diligence. To mitigate this risk the services of an independent financial assessment firm has been engaged, and a Credit Committee has been established to assess all applications. AHBs wishing to borrow from the HFA have to submit to a general financial assessment in order to receive Certified Body status. Only when that status has been confirmed can they apply for loan advances, which are subsequently assessed.

I am pleased to report that the HFA's pension fund was fully funded at its last review at 30 September 2012, in compliance with the Funding Standard of the Irish Pensions Board.

## Communications – % Customer Satisfaction with HFA



## Quality Customer Service

The delivery of excellent Quality Customer Service ('QCS') remains of paramount importance to the HFA. During the year we carried out a customer survey of local authorities and were encouraged with the very positive feedback received.

The survey covered all local authorities and the Department of Environment Community and Local Government. It contained 21 questions in total – 18 multi-choice and 3 open-ended which covered topics such as communications and correspondence, the HFA's website, and feedback on our information seminars. 88 completed surveys were received, covering 42 local authorities. 20 housing personnel in the Department were also asked to complete the survey and, of those, 8 responses were received.

There were positive affirmations made on the service provided by the HFA, and some useful suggestions made by the respondents for the improvement of our service.

The HFA continues to focus on issues impacting on Quality Customer Service such as:

The timely disbursement of *loan advances to local authorities*. The HFA has as its target that 95% of loans are advanced within seven days of receipt of the application. The HFA fell marginally short of this target in 2012 with a 93% level of compliance.

*Compliance with the HFA'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 policies and procedures breaches (other than those arising from staff absences) to less than ten. I am pleased to report that we achieved our target, with just one such exception report in 2012.

## Chairman's report (continued)

*Staff training and development* is important for the on-going efficiency of the HFA. 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 3.9% outturn for 2012 (2011: 2.6%).

*Dealing with correspondence from external sources in a timely fashion* is an important measure of how well an organisation serves its customers. The HFA continues to meet its target of replying to all correspondence received from external sources within one working week.

The HFA makes a point of maintaining close contact with its 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 HFA/local authority liaison committee, comprised of HFA directors and county and city managers. During the year, the HFA held a series of regional information seminars for local authority personnel who administer housing loans. The general consensus is that these are valuable exercises, and it is intended to continue them at periodic intervals.

### Freedom of information

The HFA has been within the scope of the Freedom of Information Act, 1997 since 2002. Details of access to the HFA's records and information on the HFA can be found at the HFA's website, [www.hfa.ie](http://www.hfa.ie). The Freedom of Information Officer is Mr Tom Conroy and the HFA's internal reviewer is Mr Barry O'Leary. One request for information was received in 2012.

### Energy conservation

In accordance with current public policy on energy conservation, the HFA has adopted relevant conservation measures. I report as follows:-

- the HFA's offices have a BER rating of B1;
- the HFA recycles paper & cardboard, electronic equipment and mobile phones;
- it purchases and operates energy-rated servers, personal computers and printers; and
- 90% of staff use public transport for commuting, while 10% of staff cycle to and from work, encouraged by the availability of appropriate facilities in the HFA.

### Board of Directors

A new Board was appointed in 2012. I am very pleased to be joined on the Board by Colm Brophy, Padraic Cafferty, John Hogan, Gerry Leahy, Jackie Maguire, Jim Miley, Michelle Murphy, Michael Murray, Philip Nugent and Mary Lee Rhodes.

It has been a pleasure getting to know each of my fellow Board members and I thank them for their energy, commitment and no little good humour, during our first year together.

The Board of the HFA comprises individuals who bring a wide range and depth of experience to the activities of the HFA being drawn from experts from areas such as housing policy, the voluntary housing sector, the Departments of Environment, Community and Local Government and Finance, and housing valuation and should enable the HFA to address major future challenges.

The Board makes the major strategic decisions and retains full and effective control while allowing management sufficient flexibility to run the business efficiently and effectively within a centralised reporting framework. 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.

In October 2012, the HFA's Chairman and Senior Management appeared before the Joint Oireachtas Committee for Environment, Transport, Culture and the Gaeltacht, to outline the Agency's role and responsibilities and discuss its Annual Report for 2011. The Committee expressed its appreciation of the work of the HFA and noted our solid financial position.

### Administration and staff

The HFA is one of the very few non-commercial State Agencies that operates without exchequer support, paying its own way by taking a small margin from its lending. While the HFA – 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 HFA has some discretion on expenditure, we keep

operating costs as low as possible, while delivering the service level required of it. As a percentage of the end-year loan book, the HFA's administrative costs have dropped from 0.06% to 0.03% in the period from 2002 to 2012, and an administrative cost saving was made of 8.0% in 2012 over the actual outturn in 2011.

The HFA's staff consists of the equivalent of eleven whole-time persons. The HFA appreciates the qualities of flexibility and dedication that its staff exhibit, particularly in these difficult times, and it endeavours, where possible, to operate family-friendly and work-life balance structures. The HFA does not pay bonuses, overtime or premium pay.

### Acknowledgements

The HFA, with its small core staff, could not operate effectively without the dedication, professionalism and hard work of these staff and I want to take this opportunity to thank them for their contribution throughout the year. Also vital to the Agency's work is the assistance and co-operation of its stakeholders, including the NTMA, the Central Bank, its auditors, lawyers, IT contractors and bankers and all those who provide essential services. Thanks are offered for their support and especially to the Ministers for the Environment, Community and Local Government, Finance and Public Expenditure and Reform and their staff. Our customers, the local authorities and the AHBs, are what the HFA focus on, and their courtesy and efficiency is much appreciated.

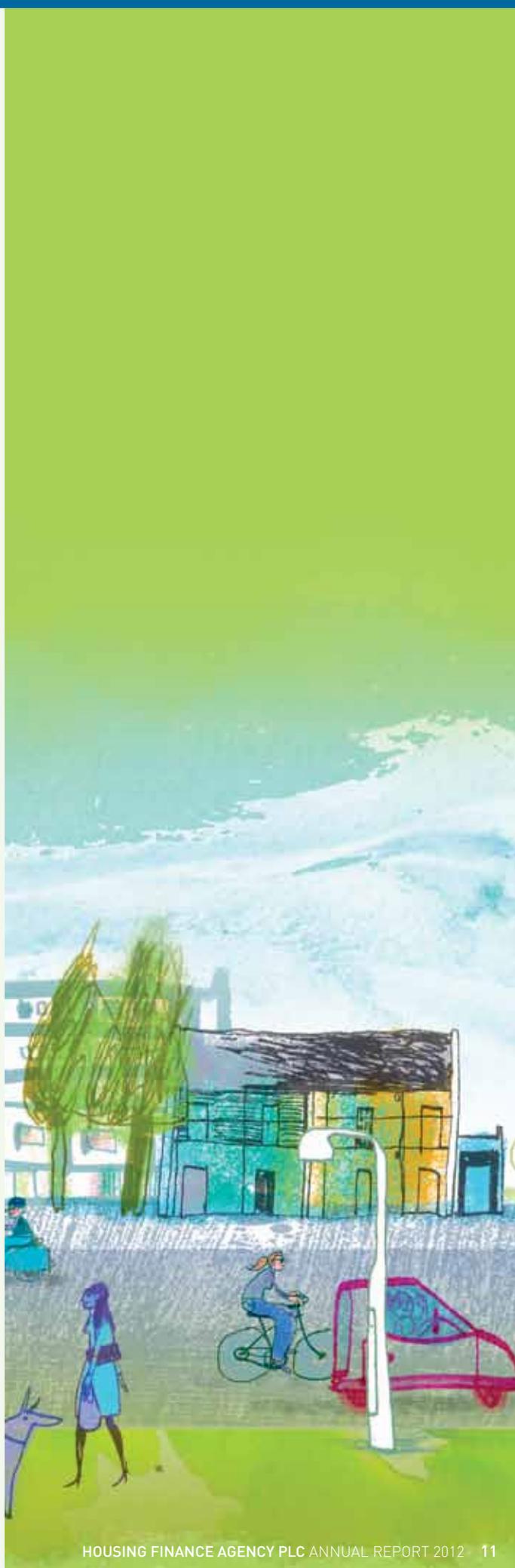
The HFA's Chief Executive Officer, Ian d'Alton, retired at the end of February 2012, having guided the Agency since 2007. Ian's substantial contribution to the HFA was noted in last year's Chairman's Report and I would like to take this opportunity to again thank him for his outstanding service and wish him many years of health and happiness.

In September 2012, the Board recommended to the Minister for the Environment, Community and Local Government that Mr Barry O'Leary be appointed as Chief Executive Officer, following an open competition. The Department of Public, Expenditure and Reform has approved this recommendation, with final contract details to be agreed upon shortly.



**Dr Michelle Norris**  
Chairman

25 April 2013





# Directors' Report

The Directors present their annual report and audited financial statements for the year ended 31 December 2012.

## 1. Background

Housing Finance Agency plc. is a company limited by shares promoted by the Minister for the Environment, Community and Local Government under the terms of the Housing Finance Agency Act, 1981 and incorporated on 8 February 1982. The principal objectives of the company are:

- (a) to advance funds to local authorities and approved housing bodies 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 Public Expenditure and Reform. Directors are appointed by the Minister for the Environment, Community and Local Government, with the consent of the Minister for Public Expenditure and Reform.

## 2. Results and dividends

	2012 €'000	2011 €'000
Total recognised gain for the year	<b>13,723</b>	3,494
Shareholders funds at beginning of year	<b>59,161</b>	55,667
Shareholders funds at end of year	<b>72,884</b>	59,161



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 recommend the payment of a €20 million dividend (2011: nil). As this was recommended subsequent to the year end it has not been reflected in these financial statements.

During the year the Agency's Chief Executive Officer, Ian d'Alton resigned. In September 2012, the Board recommended to the Minister of the Environment, Community and Local Government, the appointment of Barry O'Leary as Chief Executive Officer.

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 note 15 to these accounts. The Chairman's Report addresses the significant business risks to which the Agency is exposed and key performance indicators.

### 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 2012 such loans represented outstanding balances of €19.9 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.

## Directors' Report (continued)

A significant portion of these funds is retained by the local authorities 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 these loans. In the context of:

- (a) local authorities being statutory bodies under the Local Government Act, 2001 and other enactments,
- (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),
- (c) all loans advanced to local authorities are approved by the Minister for the Environment, Community and Local Government, and
- (d) the Board's understanding that central Government supports local authorities in meeting their obligations to the Agency; the Board is of the opinion that, in substance, no credit risk arises on loans advanced to local authorities on or after 27 May 1986 and no loan loss provisions are recorded in respect of these loans.

After advancing new loans of €327.4 million in the current year, at 31 December 2012 such loans represented outstanding balances of €4.41 billion (2011: €4.34 billion).

The Agency endeavours to work with the Local Authorities to develop appropriate loan structures for them in order to better match their financial circumstances. In this regard, the Agency may provide extended loan terms, interest free periods or offer other renegotiations as appropriate.

At 1 July 2012, €162 million of land acquisition loans were converted from interest-only to normal course annuity loans, repayable over a period of 25 years. At 1 January 2013, a further €54 million in land acquisition loans was transferred from an interest only to annuity basis.

During 2012, the Agency renegotiated €33 million of non-housing related loans. So far in 2013, the Agency has agreed to the renegotiation of a further €68 million of loans. These renegotiations have taken place in the context of €4.4 billion of loans advanced to local authorities as at 31 December 2012 and thus represents renegotiation activity of circa. 4.4% in 2012, and 2.7% thus far in 2013.

These renegotiations did not result in impairment or derecognition of the original loan assets. The Agency ceases to consider these loans as renegotiated once 1 year of up to date scheduled repayments has elapsed post renegotiation. In this regard, the Agency considers €195 million of loans (2011: €0 million) to be renegotiated in 2012 with €2.0 million (2011: €0 million) of interest income recognised on these assets.

### (c) Loans to approved housing bodies

Under Section 17 of the Housing (Miscellaneous Provisions) Act 2002, the HFA is empowered to lend directly to approved housing bodies (AHBs), which includes voluntary housing bodies and co-operative housing societies.

Under the Social Housing Leasing Initiative of the Department of the Environment, Community & Local Government [DoECLG], the DoECLG, through local authorities, leases suitable housing units from AHBs which are rented to social housing tenants nominated by local authorities. Properties are either bought or built by AHBs and financed by loan finance raised by the AHB (from the HFA or the private sector). Income received by the AHBs from a lease, taken out by the DoECLG for a period of up to 30 years, will fund the repayment of the HFA's loan.



Direct lending to such bodies implies a greater level of risk than lending to local authorities, and this requires a different level of assessment and due diligence. To mitigate this risk the services of an independent financial assessment firm has been engaged, and a Credit Committee is established to assess all applications and monitor borrowers on an ongoing basis. AHBs wishing to borrow from the HFA have to submit to a general financial assessment in order to be assessed for Certified Body status. Only when that status has been confirmed and a master loan agreement signed, can they then apply for loan advances.

As at 31 December 2012, eighteen applications for Certified Body status have been received from AHBs.

Six AHBs have been successful –

1. Circle Voluntary Housing Association,
2. Clúid Housing Association,
3. Clanmil Ireland Housing Association,
4. Oaklee Housing Trust Limited,
5. The Iveagh Trust, and
6. Túath Housing Association

and eight were unsuccessful, with four of these still pursuing the path to a successful application.

The Agency's Credit Committee, as at 31 December 2012, has approved eight loan applications totalling €22.57 million, €8.75 million of which has been advanced. It is anticipated that 2013 will herald continued growth in the level of lending in this area. The Agency continues to have frequent interaction with the AHBs to fine tune the suite of products which it offers.

#### 4. 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 Basis of Preparation section of 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 €3.98 billion in GNs at 31 December 2012 (2011: €3.8 billion).

Ireland's access to sovereign debt markets remained restricted throughout the year and this had a significant impact on the Agency's access to funding through its market-oriented ECP programme during the year with only €18 million of ECP funding in issuance at 31 December 2012. The total ECP funding drawn during the year was €317 million, with an average tenor of 38 days. While the HFA's return to independent funding may trail the sovereign's re-entry to the markets, the HFA is nevertheless ready to re-launch its ECP programme to facilitate the Agency's return to self-funding. The impact on the HFA's cost of funds is difficult to gauge at this juncture but the Board is satisfied that access to the GN programme satisfies its funding requirements to allow the continue to fulfil our mission of providing the finest rate possible to our customers.

At 31 December 2012, €18.0 million of the Agency's funding was provided under the ECP programme (2011: € nil). 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.

## Directors' Report (continued)

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 continued ability to access liquidity and funding via Ireland's participation in the EU/IMF Programme of Financial Support ('the Programme') through the GN programme.

Ireland's access to funding via the Programme is predicated on its compliance with the Programme conditions. The recent Letter of Intent, dated 29 November 2012, from the Department of Finance notes that Ireland remains firmly committed to the Programme demonstrated by strong performance in implementing the agreed policy framework measures.

The Directors are satisfied that, 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, for this reason, it continues to be appropriate to prepare the financial statements on a going concern basis and that the Agency will continue in business for the foreseeable future.

### 5. Directors

A summary of all Directors appointed during the year is detailed on page 19. The following Directors resigned from the Board when their term of office expired at the end of December 2011:

John Bolger, Julia Carmichael, Clodagh Henehan, Fr. Patrick Cogan, Patrick Doyle, Michael Hayes, Áine Stapleton and Eddie Wade

The Directors and Secretary have no interests in the shares or debentures of the Agency.

### 6. 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.

### 7. 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.

### 8. Electoral Act, 1997

The Agency made no political donations during the year.

### 9. European Communities (Late Payment in Commercial Transactions) Regulations 2012

The Agency is required to comply with the requirements of the European Community (Late Payment in Commercial Transactions) Regulations, 2012, giving effect to Directive No. 2011/7/EC of the European Parliament and of the Council of 23 February 2011 and its predecessor, the European Community (Late Payment in Commercial Transactions) Regulations, 2002. A review of all payments made during the year ended 31 December 2012, shows no late payments were made during 2012 under the above Act.

### 10. 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.

## 11. Corporate Governance

As required by the UK Code of Corporate Governance, which the Agency has adopted voluntarily, the Directors have prepared a 'Governance and Oversight – Corporate Governance Statement, which is set out on pages 18 to 27 and which, for the purpose of Statutory Instrument 450/2009 European Community (Directive 2006/46) Regulations 2009, forms part of the Directors' report.

## 12. Principal risks and uncertainties

The Directors have considered the principal risks and uncertainties which impact the Agency. In this regard, the Directors have concluded that the Agency has potential exposure to credit risk, liquidity risk and market risks owing to its use of financial instruments. The Agency's objectives, policies and procedures for measuring and managing these risks are set out in note 15 to the financial statements.

## 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,



**Michelle Norris**  
Chairman

4 April 2013



**Philip Nugent**  
Director

4 April 2013



## Governance and Oversight – Corporate Governance Statement

The Directors are committed to maintaining the highest standards of corporate governance and support the Principles of Good Governance and Code of Best Practice (“UK Code of Corporate Governance”), formerly known as the Combined Code. 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 also complies with this code.

The Directors note that an updated version of the UK Corporate Governance Code was issued at the end of September 2012, and is effective from the start of January 2013. The Directors understand that the ‘comply or explain’ concept continues to apply in the updated Code. The Board is currently reviewing its obligations under the new legislation which include further requirements on the Board and Audit Committees regarding consistency and appropriateness of disclosure, as well as a separate section for the Audit Committee in the annual report.

### **Application of the Principles and Provisions of the UK Code of Corporate Governance**

The following information explains how Housing Finance Agency plc. applies the principles and provisions of the UK Code, the Irish Annex, and the *Code of Practice for the Governance of State Bodies*.



## Board of Directors

Scheduled of attendance at Board meetings, dates of appointment and lengths of service for the year ended 31 December 2012:

Members	Occupation	Date of appointment	Length of service to 31 December 2012	Meetings held since appointment	Attended since appointment
Michelle Norris (Chairman)	Senior Lecturer	22/02/2012	10 months	7	6
Colm Brophy	Councillor	13/03/2012	9 months	7	7
Padraic Cafferty	MD of Datascan	21/03/2012	9 months	6	6
John Hogan	Civil Servant	22/02/2012	10 months	7	7
Gerry Leahy	Estate Agent	30/04/2012	8 months	4	3
Jackie Maguire	County Manager	07/03/2002	10 years 9 months	5	5
James Miley	Business Consultant	30/04/2012	8 months	4	4
Michelle Murphy	HR Regional Manager	30/04/2012	8 months	4	4
Michael Murray	Financial Services Consultant	13/03/2012	9 months	7	7
Philip Nugent	Civil servant	07/04/2008	4 years 8 months	7	5
Mary Lee Rhodes	Lecturer	21/03/2012	9 months	6	3

The Board met seven times in 2012 and is responsible for the proper management of the Agency.

## Governance and Oversight – Corporate Governance Statement (continued)

The roles of the Chairman and Chief Executive are separate. At 31 December 2012 the Board of Directors comprised eleven non-executive Directors and no executive Director. The Directors are appointed by the Minister for the Environment, Community and Local Government for a period not to exceed five years, unless the Minister sees fit to reappoint a Director for a subsequent term. All of the non-executive Directors are considered to be independent of management as discussed further on page 25.

The Board of the Agency comprises individuals who bring a wide range and depth of experience to the activities of the Agency being drawn from experts in areas such as housing policy, the voluntary housing sector and housing valuation, the Departments of Environment, Community and Local Government and Finance and should enable the Agency to address major future challenges. [See details of individual Directors skills, expertise and experience in the Board of Directors section on pages 2 and 3].

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 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 2012. 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 2012

Members	Meetings held since appointment	Attended since appointment
Colm Brophy	4	2
Padraic Cafferty	4	3
Gerry Leahy	2	1
Jackie Maguire	3	3
James Miley	2	2
Michael Murray	4	4

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 and is independent of the Agency's management.

It reviews the annual financial statements, compliance with accounting standards, cost of funds and interest rates charged, is responsible for making recommendations in respect of the appointment and fees of the external auditors, reviewing, the approval of the internal audit plan against which performance of the plan is measured, to oversee the Agency's Risk Management Framework and Policy 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.

The responsibilities of the Audit Committee are discharged through its meetings and receipt of reports from management, the Risk Management Committee (consisting of the Chief Executive Officer, Head of Treasury and Company Secretary/ Financial Controller), external consultants, and the external and internal auditors.

Risk is overseen by the Risk Management Committee who report to the committee and the Board on a regular basis. An annual review of the Policy was approved by the Board at the October 2012 meeting.

### Finance Committee

The following Directors are members of the Finance Committee: Michelle Norris (Chairman), John Hogan, Michael Murray, Philip Nugent and Mary Lee Rhodes.

The Committee is empowered on behalf of the Agency to borrow and raise money and to implement, utilise and operate any approved facilities. The Committee operates under formal terms of reference approved by the Directors. No circumstances arose during 2012 which necessitated the convening of a meeting of the Finance Committee.

### Remuneration Committee

The following Directors are members of the Remuneration Committee: Michelle Norris (Chairman), Jackie Maguire and Philip Nugent

The Remuneration Committee's 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, Community and Local Government. Details of emoluments are set out in note 6 to the financial statements in accordance with the requirements of the Companies Acts, 1963 to 2012. No circumstances arose during 2012 which necessitated the convening of a meeting of the Remuneration Committee.

### Board Performance Review Committee

Scheduled Board Performance Review Committee meetings for the year ended 31 December 2012

Members	Meetings held since appointment	Attended since appointment
Colm Brophy	1	0
John Hogan	1	1
Jim Miley	1	1
Michelle Murphy	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.

The Committee reviews the Board's performance and that of its Committees and also appraises each member of the Board of Directors to ensure that they are adequately fulfilling their role and objectives. It also undertakes an annual review of each Director's independence including his/her actual, potential or perceived conflicts of interests and commitments in terms of time.

Jackie Maguire was reappointed to the Board in 2012, having been originally appointed in 2002. The length of her service on the Board exceeds nine years and the Combined Code provides that a statement be made to stakeholders concerning her continued independence. The Board considers that the integrity and independence of Ms Maguire is beyond doubt. She is financially independent of the Agency and has other significant commercial commitments. Ms. Maguire has extensive experience of the unique industry in which the Agency operates. Her experience and long term perspective on the Agency's business has been most valuable to the Board. It is the Board's view that the independence of Ms Maguire has not been compromised by the virtue of her period in office exceeding nine years.

## Governance and Oversight – Corporate Governance Statement (continued)

The Committee also recommended that procedures be put in place to ensure Directors are given adequate training on the workings of the Agency, given the technical nature of its business.

### Credit Committee

Members	Meetings held since appointment	Attended since appointment
Michelle Norris	7	7
Colm Brophy	7	7
Tom Conroy	7	7
Jackie Maguire	6	3
Michael Murray	7	7
Barry O'Leary	7	7

The Agency's Credit Committee is comprised of Board members and Management. 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 to AHBs are within the remit of the Agency's draft Credit Policy, and that all the relevant documentation is in order before proceeding to advance such monies to AHBs. The Committee operates under formal terms of reference approved by the Board. The Credit Committee met 7 times during the year.

### Induction and Professional Development

There is an induction process for new Directors. Its content varies between Executive and non-Executive Directors. In respect of the latter, the induction is designed to familiarise non-Executive Directors with the Agency and its operations, and comprises the provision of relevant briefing material, including details of the Company's strategic and operational plans, and a programme of meetings with the Chief Executive Officer and senior management.

### Directors' remuneration

The Minister for the Environment, Community and 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.

Members	Fees 2012 €	Fees 2011 €
Michelle Norris	-*	-
Colm Brophy	6,181	-
Padraic Cafferty	6,013	-
John Hogan	-	-
Gerry Leahy	5,172	-
Jackie Maguire	-	-
James Miley	5,172	-
Michelle Murphy	5,172	-
Michael Murray	6,181	-
Philip Nugent	-	-
Mary Lee Rhodes	-	-
John Bolger	-	9,975
Julia Carmichael	-	7,695
Fr Pat Cogan	-	7,695
Ian d'Alton	-	-
Patrick Doyle	-	7,695
Michael Hayes	-	7,695
Clodagh Henehan	-	-
Áine Stapleton	-	-
Anthony Vesey	-	-
Eddie Wade	-	7,695
<b>Total</b>	<b>33,891</b>	<b>48,450</b>

\* During 2012 a sum of €2,591 was accrued for payment to University College Dublin as compensation for loss of hours worked by Michelle Norris for time spent in her duties as Chairman of the HFA.

The remuneration of the Executive Director/Chief Executive Officer is detailed in note 6 to the financial statements. Total expenses reimbursed to Directors during 2012, for travel and subsistence, were €5,146 (2011: €9,889).

## Relations with shareholders

The Directors and Management maintain an on-going dialogue with the Agency's shareholders on strategic issues. Certain specified matters require the approval of the Minister for the Environment, Community and Local Government, and/or the Minister for Public Expenditure and Reform, in respect of which on-going 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.

There is an on-going 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. The HFA is currently finalising a Credit Policy regarding lending to approved housing bodies (AHBs)

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.

With regard to the HFA's lending to local authorities, the HFA 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. Of the €19.9 million of pre May 1986 loans outstanding at 31 December 2012 (2011: €20.2 million), only €11.3 million (2011: €11.6 million) of these are still due to the local authorities from the underlying borrowers. The gap of €8.6 million (2011: €8.6 million) has arisen as the local authorities are not required to remit in full to the Agency monies received in relation to redemptions and repayments as allowed under the terms of the loan facility. The Board is of the opinion that no credit risk arises for this balance.

The local authorities hold collateral against the remaining €11.3 million of 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 HFA liable for any impairment losses which may arise. Individual borrowers are required to hold mortgage protection insurance on their property.

The repayment risk of loans advanced to local authorities on or after 27 May 1986, is assessed as being negligible as the legal relationship is with local authorities and is not dependant on changes in house prices or other economic variations. In the context of:

- (a) local authorities being statutory bodies under the Local Government Act, 2001 and other enactments,
- (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),

## Governance and Oversight – Corporate Governance Statement (continued)

- (c) all loans advanced to local authorities are approved by the Minister for the Environment, Community and Local Government, and
- (d) the Board's understanding that central Government supports local authorities in meeting their obligations to the Agency, the Board is of the opinion that, in substance, no credit risk arises on loans advanced to local authorities on or after 27 May 1986 and no loan loss provisions are recorded in respect of these loans.

At 31 December 2012, following the renegotiation of the terms of certain loans, all local authorities were up to date with their scheduled repayments on this portfolio.

The HFA has commenced lending, in 2012, to approved housing bodies (AHBs), which marks a fundamental shift away from the Agency's existing operations and risk profile. Up to now, the Agency's exposure has been to local authorities. Lending to other entities implies a greater level of risk and this requires a different level of assessment and due diligence. To mitigate this risk the services of an independent financial assessment firm has been engaged, and a Credit Committee is established to assess all applications and monitor borrowers on an ongoing basis. AHBs wishing to borrow from the Agency have to submit to a general financial assessment in order to receive Certified Body status. Only when that status has been confirmed can they apply for loan advances, which are subsequently assessed in a similar fashion.

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 and 2011 which have limited the Agency's access to capital markets in terms of both quantum of and duration of ECP funding, with only €18 million of ECP funding in issuance at 31 December 2012. The total ECP funding drawn during the year was €317 million,

with an average tenor of 38 days. Alternative funding arrangements from the NTMA have been utilised under the Guaranteed Note programme.

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

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

The Agency can access a Guaranteed Notes programme of €4,500 million for funding purposes following its limited access to the ECP market. The Agency's statutory borrowing limit is €10 billion. These facilities 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;
- (d) annual budgets (and means of comparing actual results with budgets during the year) 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 reviewing key financial systems and controls;
- (g) an Audit Committee dealing with significant control issues raised by internal or external audit, and
- (h) the preparation and issue of financial reports, including the Annual Report, managed by the Finance Section 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 its 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.

## Accountability and Audit

### Accounts and Directors' Responsibilities

The Directors are of the view that the Annual Report for the year ended 31 December 2012 is consistent with the UK Code Principles requiring the presentation of 'a balanced and understandable assessment of the Company's position and prospects'. The Directors have reviewed the 2012 Annual Report and believe that it presents a balanced and understandable assessment of the Agency's position and prospects.

### Compliance statement

The Directors are pleased to report that the Agency has chosen to comply with, so far as is possible given Agency's particular circumstances, the UK Corporate Governance Code 2010 (issued by the Financial Reporting Council), the Irish Corporate Governance Annex and the Code of Practice for the Governance of State Bodies, during the year ended 31 December 2012, except for the following matters:

### Current Board size and structure

Non-executive Directors are appointed by the Minister for the Environment, Community and Local Government for a period not to exceed five years. The Minister, after consultation with the Minister for Public Expenditure and Reform, may appoint a Chief Executive Officer, and as a result, these provisions of the Code are not applicable to the Agency. This appointment process also addresses the Agency's requirement for determination of how a Director is regarded as independent/non independent. There are no planned or anticipated changes to the Board's size or structure.

The Government has brought in new arrangements for making appointments to State boards and bodies. In appointing the new Board of the Agency, the Department of Environment, Community and Local Government asked persons interested to apply on their website for vacancies on the boards of bodies under their aegis. Ministers are

## Governance and Oversight – Corporate Governance Statement (continued)

not necessarily confined to those who make expressions of interest, but will ensure all appointees have the relevant qualifications.

The Government also decided that those who are being proposed for appointment as chairpersons of State boards are required to make themselves available to the appropriate Oireachtas committee to discuss the approach they will take as chairperson and their views about the future contribution of the body or board in question. Following that discussion, decisions are taken by the Minister or the Government, as appropriate, to confirm the nominee as chairperson. Michelle Norris appeared before the Oireachtas committee for the Environment, Transport, Culture and the Gaeltacht on 25 April 2012 for this purpose.

### 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.

### Independence of Director

One of the Directors has served on the Board for a period exceeding the nine year guidance provided by the Combined Code. The Board has considered the independence implications of this and have concluded that the Director's independence has not been compromised.

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

Non-Executive Directors are appointed by the Minister for the Environment, Community and Local Government and hold office for such term as the Minister specifies when making the appointment but not for a period exceeding five years, unless the Minister sees fit to reappoint a Director for a second term, and, as a result, these provisions of the Code are not applicable to the Agency.

### Directors' remuneration

The Minister for the Environment, Community and Local Government determines the level of remuneration for non-executive Directors. The remuneration of the Chief Executive Officer is set in line with current guidelines for pay in the Public Service. Remuneration of non-executive Directors is not linked to performance and is disclosed 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, in this respect, as they are considered to be more appropriate to the Agency.

On behalf of the Board,



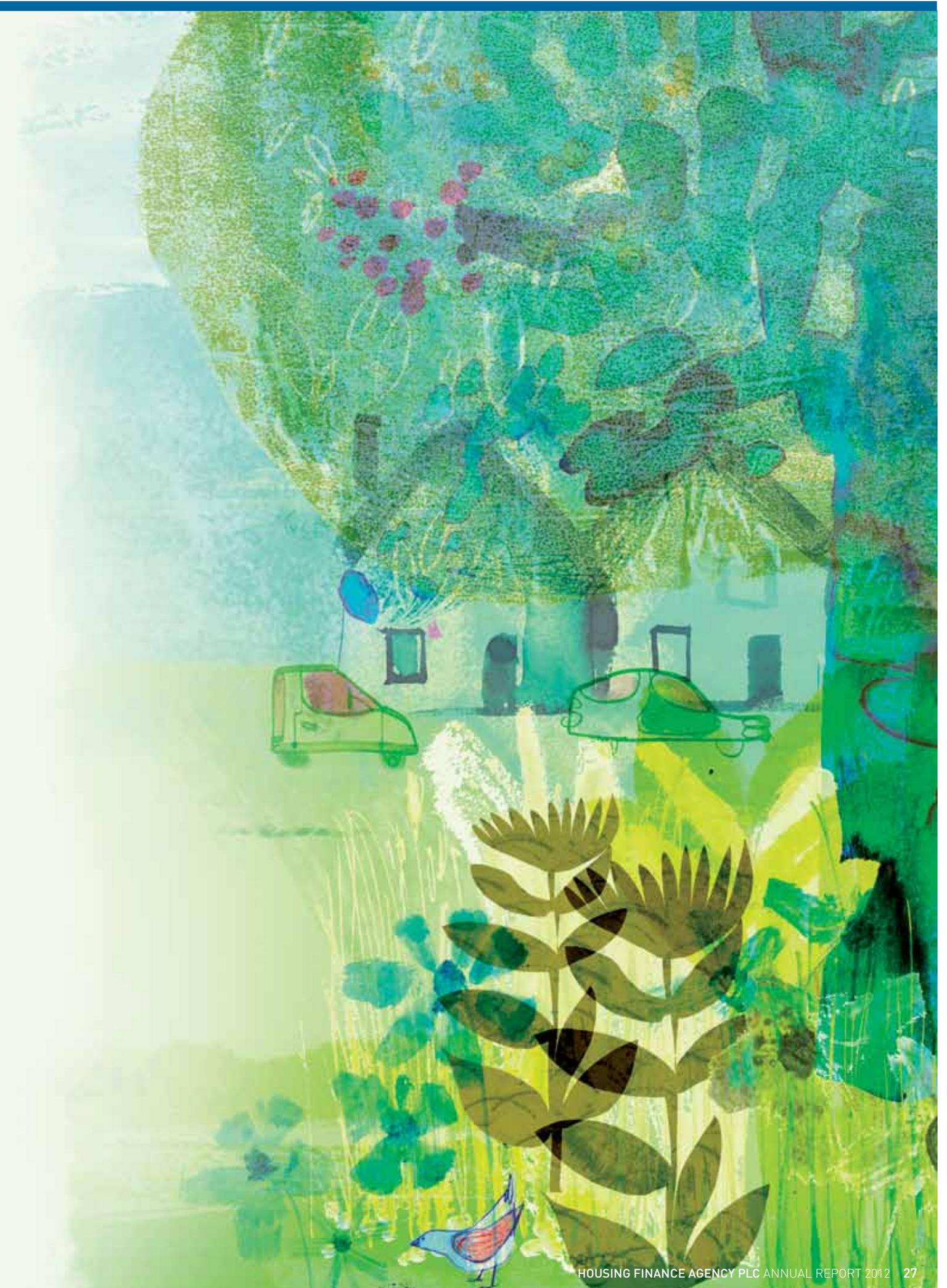
**Michelle Norris**  
Chairman

4 April 2013



**Philip Nugent**  
Director

4 April 2013





## 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 Financial Reporting Council 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 2012. 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, 1963 to 2012.

On behalf of the Board,

**Michelle Norris**  
Chairman

4 April 2013

**Philip Nugent**  
Director

4 April 2013

# Independent Auditor's report to the members of Housing Finance Agency plc.

We have audited the financial statements ("financial statements") of Housing Finance Agency plc. ('the Agency') for the year ended 31 December 2012 which comprise the income and expenditure account, the balance sheet, the statement of total recognised gains and losses, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is Irish law and accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland).

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 auditor

As explained more fully in the Statement of Directors' responsibilities set out on page 28 the directors are responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Ethical Standards for Auditors issued by the Auditing Practices Board.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material

inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

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 2012 and of its surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2012.

Matters on which we are required to report by the Companies Acts 1963 to 2012

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.

The financial statements are in agreement with the books of account and, in our opinion, proper books of account have been kept by the Agency.

In our opinion the information given in the directors' report is consistent with the financial statements and the description in the Corporate Governance Statement of the main features of internal control and risk management systems in relation to the process for preparing the financial statements 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 2012 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.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Acts 1963 to 2012 we are required to report to you if, in our opinion the disclosures of directors' remuneration and transactions specified by law are not made.

Under the *Code of Practice for the Governance of State Bodies* ("the Code") we are required to report to you if the statement regarding the system of internal financial control required under the Code as included on page 7 of the Chairman's Statement does not reflect the group's compliance with paragraph 13.1 (iii) of the Code or if it is not consistent with the information of which we are aware from our audit work on the financial statements and we report if it does not.

We also review, as requested by the Board, the parts of the voluntary Corporate Governance Statement on page 18 relating to the company's compliance with the nine provisions of the UK Corporate Governance Code and the two provisions of the Irish Corporate Governance Annex specified under the Listing Rules of the Irish Stock Exchange for review by the auditor.



**Jonathan Lew**  
for and on behalf of  
**KPMG**  
Chartered Accountants, Statutory Audit Firm  
1 Harbourmaster Place,  
IFSC,  
Dublin 1,  
Ireland



# 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 those recognised financial assets and financial liabilities that are hedged are stated at fair value in respect of the risk that is hedged and 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 Financial Reporting Council 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 HFA'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 HFA, 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 €3.98bn in GNs at 31 December 2012 (2011: €3.8bn).

Ireland's access to sovereign debt markets remained restricted throughout the year and this had a significant impact on the Agency's access to funding through its market-oriented ECP programme. At 31 December 2012 €18 million of the Agency's funding was provided under this programme (2011: € Nil). The total ECP funding

drawn during the year was €317 million, with an average tenor of 38 days. The Department of Finance has considered the HFA's liquidity and funding position for the next 12 months from date of approval of these financial statements 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.

While the HFA's return to independent funding may trail the sovereign's re-entry to the markets, the HFA is nevertheless ready to re-launch its ECP programme to facilitate a return to self-funding. The impact on the HFA's cost of funds is difficult to gauge at this juncture but the Board is satisfied that there are a sufficient range of funding options available to it, to allow the HFA continue to provide ongoing financing to its customers.

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 continued ability to access liquidity and funding via Ireland's participation in the EU/IMF Programme of Financial Support through the GN programme.

Ireland's access to funding via the EU/IMF Programme of Financial Support (the Programme) is predicated on its compliance with the Programme conditions. The recent Letter of Intent from the Department of Finance notes that Ireland remains firmly committed to the Programme, demonstrated by strong performance in implementing the agreed policy frameworks and measures.

The Directors are satisfied that, in the light of the Department of Finance's request to the NTMA, the Agency will have access to sufficient funding for at least 12 months from date of approval of these financial statements; that it continues to be appropriate to prepare the financial statements on a going concern basis; and that the Agency will continue in business for the foreseeable future.

## 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 on-going 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 loans and advances, employee benefits and determination of fair value of derivative financial instruments.

## Impairment loss on loans and advances

The Agency lends to local authorities and to approved housing bodies (AHBs). These borrowers have a different credit risk profile. The different credit risk profiles are set out below. A more detailed explanation regarding this can be found in note 15(a).

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), (c) all loans advanced to local authorities are approved by the Minister for the Environment, Community and Local Government, and (d) the Board's understanding that central Government supports local authorities in meeting their obligations to the Agency; the Board is of the opinion that, in substance, no credit risk arises on loans advanced to local authorities on or after 27 May 1986 and no loan loss provisions are recorded in respect of these loans.

The Agency is liable for any credit losses that may arise on the €11.3 million (2011: €11.6 million) still due to the local authorities from the underlying borrowers on pre-May 1986 mortgages which are secured by the underlying mortgage property. A collective provision of €1.41 million has been recognised in respect of these accounts. Refer to note 15 (a) for further details.

Direct lending to approved housing bodies, commenced in 2012, gives rise to a greater level of risk and this requires a different level of assessment and due diligence. The services of an independent financial assessment firm has been engaged, and a Credit Committee has been established. To mitigate against risk AHBs wishing to borrow from the Agency have to submit to a general financial assessment in order to receive Certified Body status as recommended by the independent financial assessment, the Credit Committee and the Board as required. Only when that status has been confirmed can they apply for loan advances, which are subsequently assessed for impairment. Loan losses are recognised on these loans to the extent that losses arise.

## Employee benefits

The Agency operates a defined benefit pension scheme covering all employees; the market value of the assets and actuarial value of the liabilities of the scheme are calculated. This involves management, with the advice of an external actuary, making assumptions regarding the future 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 22.

## Financial assets and liabilities

### Recognition

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

## Statement of accounting policies (continued)

### 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.

### 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 for assets 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 of 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 income and expenditure account and reflected in an allowance account against loans and advances.

Interest on the impaired asset continues to be recognised and a write-off is made when all or part of a loan is deemed uncollectible or forgiven. Write-offs are charged against previously established provisions for impairment or directly to the income and expenditure account.

## 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 interest rate 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 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. Operating lease incentives are recognised on the balance sheet and released on a straight line basis over the period to the first review market rate contained within the lease.

## 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.

# Income and expenditure account

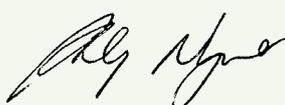
	<i>Note</i>	<b>Year ended 31 December 2012</b>	Year ended 31 December 2011
		<b>€'000</b>	€'000
<b>Income – continuing activities</b>	3	<b>107,508</b>	116,790
Direct expenditure	4	<b>(91,218)</b>	(111,709)
<b>Surplus of income over direct expenditure</b>		<b>16,290</b>	5,081
Indirect expenditure	5	<b>(1,450)</b>	(1,603)
<b>Operating surplus for the financial year – continuing activities</b>		<b>14,840</b>	3,478
Finance income (net)	7	<b>264</b>	149
<b>Surplus for the financial year</b>		<b>15,104</b>	3,627

On behalf of the Board,



**Michelle Norris**  
Chairman

4 April 2013



**Philip Nugent**  
Director

4 April 2013

# Statement of total recognised gains and losses

	<i>Note</i>	<b>Year ended 31 December 2012</b>	Year ended 31 December 2011
		<b>€'000</b>	€'000
<b>Surplus for the financial year</b>		<b>15,104</b>	3,627
Actuarial loss	22	<b>(1,381)</b>	(152)
Net change in cash flow hedge reserve	16	-	19
<b>Total recognised gains for the financial year</b>		<b>13,723</b>	3,494

# Balance sheet

	Note	31 December 2012 €'000	31 December 2011 €'000
<b>Assets employed</b>			
Tangible fixed assets	9	41	39
<b>Current assets</b>			
Debtors (advances due after more than one year: €3,809,318 (2011: €3,776,651))	8	4,553,304	4,471,575
Cash and cash equivalents	10	20,881	493
		<b>4,574,185</b>	4,472,068
<b>Current liabilities</b>			
Creditors (amounts falling due within one year)	11	(4,134,596)	(4,046,957)
<b>Net current assets</b>		<b>439,589</b>	425,111
<b>Total assets less current liabilities</b>		<b>439,630</b>	425,150
Creditors (amounts falling due after more than one year)	12	(74,319)	(79,966)
Debt securities in issue index-linked bonds	13	(198,388)	(193,674)
8.75% Housing Finance Agency stock 2018	14	(93,360)	(92,998)
<b>Net asset before pension surplus</b>		<b>73,563</b>	58,512
Pension( deficit)/surplus	22	(679)	649
<b>Net assets</b>		<b>72,884</b>	59,161
<b>Capital and reserves</b>			
Called up share capital	18	39	39
Retained surplus	19	72,845	59,122
<b>Shareholder's funds</b>	20	<b>72,884</b>	59,161

On behalf of the Board,



**Michelle Norris**  
Chairman

4 April 2013



**Philip Nugent**  
Director

4 April 2013

# Cash flow statement

	<i>Note</i>	<b>Year ended 31 December 2012</b>	Year ended 31 December 2011
		<b>€'000</b>	€'000
<b>Cash (outflow)/inflow from operating activities</b>	<i>17(a)</i>	<b>(66,024)</b>	92,866
Returns on investments and servicing of finance	<i>17(b)</i>	-	-
Capital expenditure	<i>17(b)</i>	<b>(26)</b>	(17)
<i>Financing activities</i>			
Increase /(Decrease) in bank loans and notes payable	<i>17(b)</i>	<b>86,438</b>	(109,551)
<b>Increase/(Decrease) in cash during the year</b>		<b>20,388</b>	(16,702)

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

	<i>Note</i>	<b>Year ended 31 December 2012</b>	Year ended 31 December 2011
		<b>€'000</b>	€'000
<b>Increase/(Decrease) in cash during the year</b>		<b>20,388</b>	(16,702)
Cash (outflow)/inflow from decrease in debt financing	<i>17(b)</i>	<b>(86,438)</b>	109,551
Non-cash movements	<i>17(c)</i>	<b>(5,076)</b>	(5,012)
<b>Movement in net debt during the year</b>		<b>(71,126)</b>	87,837
Net debt at beginning of year	<i>17(c)</i>	<b>(4,398,371)</b>	(4,486,208)
<b>Net debt at end of year</b>	<i>17(c)</i>	<b>4,469,497</b>	(4,398,371)

# 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, Community and Local Government under the terms of the Housing Finance Agency Act, 1981. The issued share capital is beneficially owned by the Minister for Public Expenditure and Reform. 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 2012, can be found in note 15. The interest expense relating to these facilities including the NTMA and local authorities totalled €67.8m for the financial year (2011: €86.7m).

In the normal course of business the HFA loans funds to local authorities, which are 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. Amounts outstanding at 31 December 2012 comprise 'Balances due on advances' and 'Balances due from local authorities as disclosed in note 8. The management/underwriting of the Housing Finance Agency's pension scheme (see note 22) transferred effective from 1 January 2012 to Irish Life Corporate Business (in state ownership at 31 December 2012).

In the normal course of business, the Agency deposits funds from short term surpluses that arise with Allied Irish Bank plc, (who are currently owned by the state), on either of the HFA's treasury related or expense accounts. Interest earned on these deposits during 2012 was €0.27 million (2011: €0.10 million) and amounts on deposit as at 31 December 2012 were €20.88 million (2011: €0.49 million).

### Transactions with key management personnel

Key management personnel include those personnel that have authority or responsibility for controlling the activities of the Agency, and would include 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 2012	Year ended 31 December 2011
	€'000	€'000
Salaries *	217	294
Directors' fees	34	48
Pension contributions	73	108
	<b>324</b>	450

\* Salaries include 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 2012	Year ended 31 December 2011
	€'000	€'000
Interest on advances to local authorities which were approved:		
Post 27 May 1986	106,355	115,274
Pre 27 May 1986	1,038	1,486
Interest on advances to approved housing bodies	115	-
Interest on advances to National Building Agency	-	30
	<b>107,508</b>	116,790

Total interest income on financial assets not carried at fair value through the income and expenditure account amounted to €107.8 million which includes €0.3 million of Finance income, (see note 7), for the year ended 31 December 2012 (2011: €116.9 million which includes Finance income of €0.1 million).

### 4. Direct expenditure

	Year ended 31 December 2012	Year ended 31 December 2011
	€'000	€'000
<b>Index – linked bonds – effective interest</b>		
Bond interest	7,791	7,624
Premium on redemption of bonds (note 13)	4,866	4,804
	<b>12,657</b>	12,428
<b>Stock and loan costs</b>		
Interest payable on bank borrowings, commercial paper, guaranteed notes and stock	77,918	99,012
ECP fees	244	229
Direct lending to approved housing body expenses	71	-
	<b>78,233</b>	99,241
<b>Incurred but not reported losses</b>		
Pre May 1986 loans*	328	40
	<b>91,218</b>	111,709

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

## 5. Indirect expenditure

	Year ended 31 December 2012	Year ended 31 December 2011
	€'000	€'000
<b>Other expenditure</b>		
Administration expenditure (note 6)	1,348	1,499
Administration fees to local authorities	102	104
	<b>1,450</b>	<b>1,603</b>

## 6. Administration expenditure

Administration expenditure has been arrived at after charging:

	Year ended 31 December 2012	Year ended 31 December 2011
	€'000	€'000
<b>Auditor's remuneration</b>		
Audit of financial statements	29	33
Other assurance services	8	-
Tax advisory services	3	-
Other non-audit services	-	-
Depreciation (note 9)	24	29
Rental payments under operating lease	153	150
<b>Directors' emoluments</b>		
Fees – Chairman	-*	10
Fees – other Directors	34	39
Executive Director/Chief Executive Officer's remuneration	123	119
Pension contributions	44	48
	<b>201</b>	<b>216</b>
<b>Employee costs (excluding Directors)</b>		
Salaries	448	523
Social welfare costs	41	42
Service costs-pension-present	90	97
Service costs-pension-past	-	59
<b>Total included in income and expenditure account</b>	<b>579</b>	<b>721</b>
Actuarial loss on defined benefit scheme included in the statement of recognised gains and losses	<b>(1,381)</b>	<b>(152)</b>

\* During 2012 a sum of €2,591 was accrued for payment to University College Dublin as compensation for loss of hours worked by Michelle Norris for time spent in her duties as chairman of the HFA.

The average number of employees, including the Executive Director, during the year was 10 (2011: 11).

## Notes forming part of the financial statements (continued)

### 7. Finance income (net)

	Year ended 31 December 2012	Year ended 31 December 2011
	€'000	€'000
Investment income on short-term deposits	1	17
Interest received on cash balances	271	100
Expected return on pension assets	104	134
Interest cost on pension liabilities	(112)	(102)
<b>Net finance income</b>	<b>264</b>	<b>149</b>

### 8. Debtors

	31 December 2012	31 December 2011
	€'000	€'000
Loans and receivables		
<i>Due from local authorities</i>	<b>4,431,900</b>	4,359,128
<i>Due from approved housing bodies</i>	<b>8,748</b>	-
<b>Total balances due on advances</b>	<b>4,440,648</b>	4,359,128
Due from local authorities *	<b>113,736</b>	113,504
Due from approved housing bodies *	<b>115</b>	-
Other debtors and prepayments	<b>217</b>	28
	<b>4,554,716</b>	4,472,660
Less: Incurred but not reported losses	<b>(1,412)</b>	(1,085)
	<b>4,553,304</b>	4,471,575

\*Represents loans and receivables that have been billed at 31 December 2012 in line with the underlying loan contracts.

## 8. Debtors (continued)

Balance due on advances is analysed as follows:

	31 December 2012	31 December 2011
	€'000	€'000
<b>(i) Loans to local authorities approved post 27 May 1986</b>		
Balance at beginning of year	4,338,882	4,428,123
Loans advanced	318,615	292,580
Less: loans repaid	(257,025)	(397,970)
Interest charged	106,354	115,305
Interest received	(94,833)	(99,156)
<b>Balance at end of year</b>	<b>4,411,993</b>	<b>4,338,882</b>
<b>(ii) Loans to local authorities approved pre 27 May 1986</b>		
Balance at beginning of year	20,246	20,814
Less: loans repaid	(378)	(590)
Interest charged	1,038	1,486
Interest received	(999)	(1,464)
<b>Balance at end of year</b>	<b>19,907</b>	<b>20,246</b>
<b>(iii) Loans to approved housing bodies</b>		
Balance at beginning of year	-	-
Loans advanced	8,748	-
Less: loans repaid	-	-
Interest charged	115	-
Interest received	(115)	-
<b>Balance at end of year</b>	<b>8,748</b>	<b>-</b>
<b>Balance at end of year</b>	<b>4,440,648</b>	<b>4,359,128</b>
<b>Collective provision</b>		
Balance at beginning of year	1,085	1,045
Provision in year	327	40
<b>Balance at end of year</b>	<b>1,412</b>	<b>1,085</b>

## Notes forming part of the financial statements (continued)

### 8. Debtors (continued)

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. Lending to approved housing bodies as at 31 December 2012, was €8.75 million (2011: Nil).

The Agency is liable for any credit losses that may arise on the €11.3 million (2011: €11.6 million) still due to the local authorities from the underlying borrowers on pre-May 1986 mortgages which are secured by the underlying mortgage property. A collective provision of €1.41 million has been recognised in respect of these accounts. Refer to note 15 (a) for further details. This provision is based on the Agency's best estimate, and subject to changes in the underlying assumptions and may increase or decrease going forward.

In the context of (a) local authorities being statutory bodies under the Local Government Act, 2001 and other enactments, (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), (c) all loans advanced to local authorities are approved by the Minister for the Environment, Community and Local Government, and (d) the Board's understanding that central Government supports local authorities in meeting their obligations to the Agency; the Board is of the opinion that, in substance, no credit risk arises on loans advanced to local authorities on or after 27 May 1986 and no loan loss provisions are recorded in respect of these loans. Please refer to note 15 (a) for further details.

As at 31 December 2012, there was outstanding advances of €8.75 million (2011: Nil) to approved housing bodies (AHBs). Direct lending to such bodies, marks a fundamental shift away from the Agency's existing operations and risk profile. Up to now, the Agency's exposure has been to local authorities. Lending to other entities implies a greater level of risk. As the Agency is exposed to credit risk on these loans an impairment provision will be recognised if required.

## 9. Tangible fixed assets – Computer and other equipment

	31 December 2012
	€'000
<b>Cost</b>	
At beginning of year	173
Additions	26
Disposals	(12)
<b>At end of year</b>	<b>187</b>
<b>Depreciation</b>	
At beginning of year	134
Charged for year	24
Disposals	(12)
<b>At end of year</b>	<b>146</b>
<b>Net book value</b>	
<b>31 December 2012</b>	<b>41</b>
31 December 2011	39

Tangible fixed assets totalling €12,084 were disposed of during the year for nil proceeds and they had already been depreciated to a net book value of nil. They are no longer used in the business.

## 10. Cash and cash equivalents

	31 December 2012	31 December 2011
	€'000	€'000
Cash at bank and in hand	20,881	493
	<b>20,881</b>	493

## Notes forming part of the financial statements (continued)

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

	<b>31 December 2012</b>	31 December 2011
	<b>€'000</b>	€'000
Commercial paper	<b>17,962</b>	-
Note issuance facilities	-	2,794
Guaranteed notes		
National Treasury Management Agency	<b>3,982,178</b>	3,847,950
Local authorities	<b>119,243</b>	178,654
Environment fund	<b>4,928</b>	2,828
	<b>4,124,311</b>	4,032,226
Interest payable on commercial paper, note issuance facilities and guaranteed notes	<b>4,682</b>	9,237
Interest due on stock and bonds	<b>5,138</b>	5,096
Accruals	<b>465</b>	398
	<b>4,134,596</b>	4,046,957
Tax creditors (included in accruals)		
PAYE	<b>27</b>	32
VAT	<b>13</b>	2

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

### 12. Creditors (amounts falling due after more than one year)

	<b>31 December 2012</b>	31 December 2011
	<b>€'000</b>	€'000
Bank loans and note issuance facilities		
Between one and two years	-	-
Between two and five years	<b>1,438</b>	1,797
After more than five years	<b>72,881</b>	78,169
	<b>74,319</b>	79,966

The loans and notes payable are guaranteed by the Minister for Finance, excepting two €25 million facilities with the European Investment Bank and the Council of Europe Development Bank, for the purpose of unguaranteed lending for water, waste and environmental projects. The maturity of the amounts falling due after more than one year is further analysed in note 15(c).

### 13. Debt securities in issue – index linked bonds

	31 December 2012	31 December 2011
	€'000	€'000
<b>Housing Finance Agency bond issues</b>		
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	418	570
	<b>95,648</b>	95,800
Provision for premium on redemption of bonds	102,740	97,874
	<b>198,388</b>	193,674

Maturities of the debt securities in issue are tabled in note 15(c).

#### Provision for premium on redemption of index linked bonds

	Total	Deferred	Provided
	€'000	€'000	€'000
<b>31 December 2012</b>			
At beginning of year	100,245	(2,371)	97,874
Arising during the year	4,111	755	4,866
At end of year	<b>104,356</b>	<b>(1,616)</b>	<b>102,740</b>
<b>31 December 2011</b>			
At beginning of year	96,261	(3,192)	93,069
Arising during the year	3,984	821	4,805
At end of year	100,245	(2,371)	97,874

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 guaranteed by the Minister for Finance.

### 14. 8.75% Housing Finance Agency Stock 2018

	31 December 2012	31 December 2011
	€'000	€'000
At par value	95,230	95,230
Less: Unamortised discount on issue	(1,870)	(2,232)
	<b>93,360</b>	92,998

The par value due on redemption and interest on this stock are guaranteed by the Minister for Finance. Maturities of the debt securities in issue are tabled in note 15(c).

# Notes forming part of the financial statements (continued)

## 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 financial instruments. These support and ensure that Agency meet its requirements under 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 2013), 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 HFA'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 HFA, 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 HFA, 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. The Agency had €18 million (2011: €Nil) ECP deals outstanding at the year end. Further details in respect of currency risk are included in note (c) below.

## 15. Financial risk management (continued)

### (a) Credit risk

	31 December 2012	31 December 2011
<b>Financial assets</b>	<b>€'000</b>	<b>€'000</b>
Loans and receivables to local authorities	4,431,900	4,359,128
Loans and receivables to approved housing bodies	8,748	-
Less collective provision-local authorities	(1,412)	(1,085)
	<b>4,439,236</b>	4,358,043
Cash at bank and in hand	20,881	493
Due from local authorities	113,851	113,504
Derivative financial instruments	-	-
	<b>4,573,968</b>	4,472,040

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 and approved housing bodies. The Agency's maximum exposure to credit risk is set out in the table above. The Board of Directors is of the opinion there is no credit risk on loans and receivables to local authorities (approved post 27 May 1986) of €4.41 billion (2011: €4.34 billion) which represents 96% (2011: 97%) of the total set out in the table above.

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.
- local authorities for capital projects authorised under Section 17 of the Housing (Miscellaneous Provisions) Act, 2002.

Balances due from local authorities and approved housing bodies are categorised as follows:

<b>Balance due on advances</b>	31 December 2012	31 December 2011
	<b>€'000</b>	<b>€'000</b>
<i>Advances due from local authorities</i>		
Mortgage Housing related loans	1,364,841	1,425,213
Capital Subsidy and Rental	1,174,124	1,200,259
Bridging Finance	492,666	485,055
Land Acquisition	464,609	499,581
Other Non Mortgage Housing Related Loans	599,057	422,274
Water, Waste and Environment Projects	336,603	326,746
	<b>4,431,900</b>	4,359,128
<i>Advances due from approved housing bodies</i>	<b>8,748</b>	-
Overall total balances due on advances	<b>4,440,648</b>	4,359,128

## Notes forming part of the financial statements (continued)

### 15. Financial risk management (continued)

#### (a) Credit risk (continued)

While the above table sets out the purpose for which lending has been provided to local authorities, the Agency considers it 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.

#### Collateral

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. The local authorities hold collateral in the form of mortgage interests over the property and individual borrowers hold mortgage protection insurance. Only in the event of collateral not being sufficient to discharge the debt is the Agency liable for any impairment losses which may arise.

On post May 1986 loans the Agency has security, following the discharging of priority charges and payments, over the local authority's revenues or funds for the payment to the Agency of all amounts due. In the maximum exposure to credit risk table above, a value has not been attributed to this charge given its low ranking nature.

With regard to loans to approved housing bodies (AHBs), the Agency is permitted under Section 17 of the Housing Miscellaneous Provision Act 2002 to lend to AHBs.

Under the Social Housing Leasing Initiative of the Department of the Environment, Community & Local Government [DoECLG], the DoECLG, through local authorities, leases suitable housing units from AHBs which are rented to social housing tenants nominated by local authorities. Properties are either bought or built by AHBs and financed by loan finance raised by the AHB (from the HFA or the private sector). Income received by the AHBs from a lease, taken out by the DoECLG for a period of up to 30 years, will fund the repayment of the HFA's loan.

The Agency has developed a draft Credit Policy subject to Board approval regarding lending to approved housing bodies (AHBs). The Credit Committee maintains credit risk within Board limits and reports on the creditworthiness of AHBs.

In addition the Credit Committee ensures all loans advanced within the terms of the HFA's Credit Policy and relevant documentation is in place before proceeding to advance such monies to AHBs. Where certain thresholds are exceeded in relation to AHB lending, the approval of the Board of Directors is also sought. The Agency is liable for any credit losses that may arise on loans advanced to AHBs, the HFA takes collateral in the form of a charge over the assets/ bank account of the AHB in relation to lending transactions for the purchase of residential property.

#### Impaired and Past due loans

Estimates of fair value are not updated except where a loan is individually assessed as past due or impaired. The definition of past due and impaired is as follows:

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. Loans where contractual interest or principal payments are past due are defined as past due. The Agency had no loans and advances which are past due at 31 December 2012 (2011: €nil). Details of loans that were subject to renegotiation in the year are in the renegotiated loans section of this note.

## 15. Financial risk management (continued)

### (a) Credit risk (continued)

	<b>31 December 2012</b>	31 December 2011
<b>Analysis of loans to local authorities</b>	<b>€'000</b>	<b>€'000</b>
Pre 1986 loans	<b>19,907</b>	20,246
Post 1986 loans	<b>4,411,993</b>	4,338,882
Loans to approved housing bodies	<b>8,748</b>	-
	<b>4,440,648</b>	4,359,128
<b>Collective provisions</b>		
Pre 1986 loans	<b>1,412</b>	1,085
Post 1986 loans	-	-
	<b>1,412</b>	1,085

No material credit risk arises on loans advanced to local authorities on or after 27 May 1986 and no loan loss provisions are recorded in respect of these loans. Local authorities are bodies constituted under statute. All loans advanced to local authorities are approved by the Minister for the Environment, Community and 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 HFA's credit risk including:

- formulating credit policies in conjunction with management, covering collateral requirements, documentary and legal procedures within the confines of statutory requirements;
- establishing the authorisation structure and approval for new counterparties (non-local authorities) and lending concentrations thereto;
- reviewing compliance with internal policies and procedures;
- monitoring of loans policy disclosure;
- approve 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;
- consider and approve the creditworthiness of each AHB prior to a Master Loan Agreement being executed by the Agency;
- ensure that it has obtained all relevant documentation pertaining to the credit application; and
- maintain credit risk within Board approved limits.

## Notes forming part of the financial statements (continued)

### 15. Financial risk management (continued)

#### (a) Credit risk (continued)

##### 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 until the loan has been performing 1 year post renegotiation.

A request for renegotiation acts as a trigger for an impairment test under FRS 26 as it may confirm that a loss event has occurred. All loans that are assessed for renegotiation are tested for impairment under FRS 26 and where a loan is deemed to be impaired, an appropriate provision is raised to cover the difference between the loan's carrying value and the present value of estimated future cashflows discounted at the loan's original effective interest rate.

Where the terms on a renegotiated loan which has been subject to an impairment provision differ substantially from the original loan terms either in a quantitative or qualitative analysis, the original loan is derecognised and a new loan is recognised at fair value. Any difference between the carrying amount of the loan and the fair value of the new renegotiated loan terms is recognised in the income statement.

The Agency endeavours to work with the local authorities to develop appropriate loan structures for them in order to better match their financial circumstances. In this regard, the Agency may extend loan terms, interest free periods or offer other renegotiations as appropriate.

During 2012, the Agency renegotiated €33 million of non housing related loans. So far in 2013, the Agency has agreed to the renegotiation of a further €68 million of loans.

At 1 July 2012 €162 million of land acquisition loans were converted to in normal course of the loan to annuity loans repayable over a period of up to 30 years. At 1 January 2013 a further €54 million were transferred from land acquisition loans to annuity loans.

These renegotiations have taken place in the context of €4.4 billion of loans advanced to local authorities as at 31 December 2012 and thus represents renegotiation activity of circa. 4.40% in 2012 and a further 2.73% thus far in 2013.

These renegotiations did not result in impairment or derecognition of the original loan assets. The Agency ceases to consider these loans as renegotiated once 1 year of up to date scheduled repayments has elapsed post renegotiation. In this regard, the Agency considers €195 million of loans (2011: €0 million) to be renegotiated as at 31 December 2012 with €2 million (2011: €0 million) of interest income recognised on these assets.

## 15. Financial risk management (continued)

### (a) Credit risk (continued)

	Number of loans	Carrying value €'000
Opening renegotiated loans	-	-
Interest accrued	135	€2,070
Renegotiated during the year	135	€196,055
Repaid during the year	40	€616
Less loans no longer considered renegotiated	-	-
Closing renegotiated loans	<b>135</b>	<b>€195,439</b>

### Concentrations

All loans and advances are to local authorities (all of which are approved by the Minister for the Environment, Community and Local Government) and approved housing bodies (all which are approved by the Credit Committee).

The HFA'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 (2011: €nil) in Exchequer Notes with the National Treasury Management Agency.

Allied Irish Bank plc is currently the counterparty for cash, with €20.878 million held at 31 December 2012 (2011: €0.493 million). At 31 December 2012, the S&P rating for Allied Irish Bank plc was BB (2011: CCC).

### (b) Liquidity risk

Liquidity risk is the risk that the HFA 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 tenures ranging from 1 day to 3 months, with the bulk of Notes being in the latter maturity. In contrast, loans and receivables have an average original loan term of 23 years (2011: 22 years). In the context of the assurances received from 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. The Agency also holds Guaranteed Notes with local authorities and a small amount with the Environment Fund (see note 11).

## Notes forming part of the financial statements (continued)

### 15. Financial risk management (continued)

#### (b) Liquidity risk (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
<i>31 Dec 2012</i>	€'000	€'000	€'000	€'000	€'000	€'000	€'000
<b>Non-derivative liabilities</b>							
ECP programme	17,962	(18,000)	(5,000)	(13,000)	-	-	-
Guaranteed notes facility	4,106,349	(4,117,968)	(1,600,121)	(2,517,847)	-	-	-
20-year variable loan	74,320	(78,398)	-	(83)	(6,041)	(23,816)	(48,458)
Index linked bonds	198,388	(225,400)	-	-	(7,942)	(217,458)	-
Fixed Rate Stock 8.75%	93,360	(137,946)	-	(4,167)	(4,167)	(33,332)	(96,280)
	<b>4,490,379</b>	<b>(4,577,712)</b>	<b>(1,605,121)</b>	<b>(2,535,097)</b>	<b>(18,150)</b>	<b>(274,606)</b>	<b>(144,738)</b>

	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
<i>31 Dec 2011</i>	€'000	€'000	€'000	€'000	€'000	€'000	€'000
<b>Non-derivative liabilities</b>							
ECP programme	-	-	-	-	-	-	-
Guaranteed notes facility	4,029,432	(4,052,364)	(1,529,970)	(2,522,087)	(306)	-	-
Fixed rate medium term note	2,294	(2,335)	(2,335)	-	-	-	-
Note Issuance Facility	500	(500)	(500)	-	-	-	-
20-year variable loan	79,966	(93,366)	-	(235)	(6,961)	(27,708)	(58,462)
Index linked bonds	193,674	(227,581)	-	-	(10,418)	(217,163)	-
Fixed Rate Stock 8.75%	92,998	(146,278)	-	(4,167)	(4,167)	(33,332)	(104,613)
	<b>4,398,864</b>	<b>(4,522,424)</b>	<b>(1,532,805)</b>	<b>(2,526,489)</b>	<b>(21,852)</b>	<b>(278,203)</b>	<b>(163,075)</b>

## 15. Financial risk management (continued)

### (b) Liquidity risk (continued)

#### Management of liquidity risk

The HFA'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 in the first half of 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 HFA'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 HFA 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 4% of the Agency's available borrowing facilities at 31 December 2012. 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 2012) are subject to annual review by the Agency's bankers. The Agency has access to a €6.0 billion ECP programme. Ireland's and hence the Agency's, access to ECP funding was restricted throughout the year. The average cost of the Agency's debt in 2012 was an annualised 1.70% compared with 2.2% in 2011 due to a decrease in EURIBOR rates throughout 2012. The Agency also has access to a Guaranteed Notes programme.

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 €3.98bn in GNs at 31 December 2012 (2011: €3.8bn).

Ireland's access to sovereign debt markets remained restricted throughout the year and this had a significant impact on the Agency's access to funding through its market-oriented ECP programme. At 31 December 2012 €18 million of the Agency's funding was provided under this programme (2011: € Nil). The total ECP funding drawn during the year was €317 million, with an average tenor of 38 days. The Department of Finance has considered the HFA's liquidity and funding position for the next 12 months from date of approval of these financial statements 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.

## Notes forming part of the financial statements (continued)

### 15. Financial risk management (continued)

#### (b) Liquidity risk (continued)

The Agency has historically issued 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 majority of the Agency's lending – consisting mostly of 30-year annuities – is funded by its Guaranteed Notes facility (see note 15(b)). The majority of maturities for currently outstanding Guaranteed Notes at year end 31 December 2012 are of a 90 day duration. This represents a significant mismatch in the maturity profile.

The prior years 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 12 months from date of approval of these financial statements 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.

#### (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 2012	31 December 2011
	€'000	€'000
Fixed rate	97,204	129,235
<b>Floating Rate:</b>		
EURIBOR®	4,344,440	4,208,814
Index linked	133,735	135,042
	<b>4,575,379</b>	<b>4,473,091</b>

The Agency made new fixed and floating rate advances during the financial year. (Fixed rate €1.41 million; Floating rate €325.95 million. 2011: Fixed rate €0.55 million; Floating rate €292.03 million). The Agency's index linked advances are classified as floating rate assets.

## 15. Financial risk management (continued)

### (c) Market risks (continued)

Interest rate risk profile of financial assets as at:

	31 December 2012	31 December 2011
Weighted average fixed interest rate	5.76%	5.76%
Weighted average floating interest rate	2.30%	2.40%
Weighted average period of fixed interest assets	16.9 years	19.6 years

A large proportion of the Agency's fixed rate loans consist 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.

Based on original loan balances advanced, the weighted average original loan term is 23 years (2011: 22 years).

Floating rate liabilities include the Agency's Guaranteed Notes, European Investment Bank and Council of European Development Bank debt. This debt consists of short-term debt priced off a variable index (EURIBOR®). Index linked borrowings, which are priced off the Consumer Price Index, are also classified as floating rate liabilities. The Directors believe the debt is appropriately classified as floating rate.

**The financial liabilities are analysed below:**

	31 December 2012	31 December 2011
	€'000	€'000
Fixed rate	93,360	95,293
<b>Floating Rate:</b>		
EURIBOR®	4,198,631	4,109,897
Prime	-	-
Index linked	198,388	193,674
	<b>4,490,379</b>	4,398,864

**Interest rate risk profile of financial liabilities as at 31 December 2012:**

	31 December 2012	31 December 2011
Weighted average fixed interest rate	8.93%	8.83%
Weighted average floating interest rate	1.25%	2.38%
Weighted average period of fixed interest liabilities	5.1 years	6.0 years

The floating rate financial liabilities comprise bank borrowings and Guaranteed Notes 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.

## Notes forming part of the financial statements (continued)

### 15. Financial risk management (continued)

#### (c) Market risks (continued)

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.

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

	Maturity 31 December 2012	Repricing 31 December 2012
	€'000	€'000
<b>Maturity and interest rate repricing of financial assets</b>		
Amounts falling due in one month or less	430,336	4,373,112
Amounts falling due between one and three months	-	125
Amounts falling due between three and twelve months	335,725	114,597
Amounts falling due between one and two years	90,319	31
Amounts falling due between two and three years	80,461	48
Amounts falling due between three and four years	34,855	533
Amounts falling due between four and five years	36,141	11,375
Amounts falling due after more than five years	3,567,542	75,558
	<b>4,575,379</b>	<b>4,575,379</b>

	Maturity 31 December 2011	Repricing 31 December 2011
	€'000	€'000
<b>Maturity and interest rate repricing of financial assets</b>		
Amounts falling due in one month or less	349,499	4,167,887
Amounts falling due between one and three months	-	152,383
Amounts falling due between three and twelve months	346,973	-
Amounts falling due between one and two years	64,422	-
Amounts falling due between two and three years	92,196	-
Amounts falling due between three and four years	80,547	1,051
Amounts falling due between four and five years	37,207	3,634
Amounts falling due after more than five years	3,502,280	148,169
	<b>4,473,124</b>	<b>4,473,124</b>

## 15. Financial risk management (continued)

### (c) Market risks (continued)

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

<b>Maturity, liquidity measures and interest rate repricing of financial liabilities as at 31 December 2012</b>	<b>Maturity €'000</b>	<b>Repricing €'000</b>
Maturing in one month or less	1,601,475	1,601,475
Maturing between one and three months	2,522,836	2,565,336
Maturing between three and twelve months	-	230,207
Maturing greater than 1 year and less than 2 years	-	-
Maturing greater than 2 years and less than 3 years	198,388	-
Maturing greater than 3 years and less than 4 years	1,437	-
Maturing greater than 4 years and less than 5 years	4,931	-
Maturing greater than 5 years	161,310	93,359
	<b>4,490,377</b>	<b>4,490,377</b>

<b>Maturity, liquidity measures and interest rate repricing of financial liabilities as at 31 December 2011</b>	<b>Maturity €'000</b>	<b>Repricing €'000</b>
Maturing in one month or less	1,525,764	1,525,764
Maturing between one and three months	2,506,158	2,551,158
Maturing between three and twelve months	304	228,943
Maturing greater than 1 year and less than 2 years	-	-
Maturing greater than 2 years and less than 3 years	-	-
Maturing greater than 3 years and less than 4 years	193,673	-
Maturing greater than 4 years and less than 5 years	1,797	-
Maturing greater than 5 years	171,168	92,999
	<b>4,398,864</b>	<b>4,398,864</b>

### Undrawn committed facilities

The Agency had undrawn committed facilities at 31 December 2012 of €75.68 million (2011: €167.24 million), these are the amounts yet to be drawn down on approved committed facilities.

## Notes forming part of the financial statements (continued)

### 15. Financial risk management (continued)

#### (c) Market risks (continued)

##### 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 2012	<b>11,727</b>	<b>(11,898)</b>	<b>5,863</b>	<b>(5,949)</b>
At 31 December 2011	11,267	(11,267)	5,633	(5,633)

The above figures have been calculated using outstanding balances of variable rate loan advances offsetting outstanding variable rate ECP funding, at the above dates. Increases in interest rates above assume mid-point average for the calendar year. 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 may issue zero coupon commercial paper debt in currencies other than the functional currency. The National Treasury Management Agency, acting as agent may hedge 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 2012, given that the Agency had no commercial paper debt in currencies other than the euro, therefore no 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 may issue ECP notes in currencies other than Euro. However, the Agency may hedge this currency exposure by entering into forward contracts to negate any currency risk. As at 31 December 2012 there were no currency exposures and no outstanding foreign currency or eurocommercial paper programme (ECP) deals outstanding.

##### 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.

As at 31 December 2012, the inflation mismatch was €69.26 million (2011: €62.14 million)-this mismatch is the bond values at 31 December 2012 less outstanding indexed linked loan advances at the end of the year. In relation to inflation mismatches and margin fluctuations, the Board determines a reserve figure for the current year, based on historic trends. In other areas (e.g. the potential cost of a mismatch between long-term fixed rate assets (advances to local authorities) and liabilities (bonds)) the Board sets aside reserves based on the net present value of potential losses at current market discount rates.

## 15. Financial risk management (continued)

### (c) Market risks (continued)

The fair value of the index linked assets were higher 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 uses relevant Irish Government bond yields as at the balance sheet date.

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

	100 bp parallel increase	100 bp parallel decrease	50 bp parallel increase	50 bp parallel decrease
	€'000 (Loss)	€'000 Gain	€'000 (Loss)	€'000 Gain
At 31 December 2012	<b>(346)</b>	<b>346</b>	<b>(173)</b>	<b>173</b>
At 31 December 2011	(317)	317	(159)	159

### Fair value

The following tables outline the fair values of the financial assets and liabilities as at 31 December 2012 and 31 December 2011:

	Carrying value €'000	Fair value €'000
<i>31 Dec 2012</i>		
<b>Financial assets</b>		
Loans and receivables:		
Fixed rate	<b>97,204</b>	<b>104,509</b>
Floating rate	<b>4,344,440</b>	<b>4,344,440</b>
Index linked	<b>133,735</b>	<b>137,962</b>
	<b>4,575,379</b>	<b>4,586,911</b>
<b>Financial liabilities</b>		
Fixed rate	<b>93,360</b>	<b>117,068</b>
Floating rate	<b>4,198,631</b>	<b>4,198,631</b>
Index linked	<b>198,388</b>	<b>209,474</b>
	<b>4,490,379</b>	<b>4,525,173</b>

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

## Notes forming part of the financial statements (continued)

### 15. Financial risk management (continued)

#### (c) Market risks (continued)

31 Dec 2011	Carrying value	Fair value
	€'000	€'000
<b>Financial assets</b>		
Fixed rate	129,235	107,596
Floating rate	4,208,847	4,208,847
Index linked	135,042	131,621
	4,473,124	4,448,064
<b>Financial liabilities</b>		
Fixed rate	95,293	95,868
Floating rate	4,109,897	4,109,897
Index linked	193,674	160,968
	4,398,864	4,366,733

The Agency operates in a relatively niche market serving a need for funding of local authorities and social housing. It is thus difficult to obtain market observable information on which to calculate a fair value of its indexed linked and fixed rate financial assets and liabilities. Estimated fair values of financial fixed rate and indexed linked assets and liabilities have been discounted using relevant Irish Government bond yields as at the balance sheet date. This is based on the Agency's exposure to sovereign risk as discussed in the liquidity risk section of this note. This represents a change in approach to the prior year. Thus, the prior year comparatives have been adjusted to align with the current year methodology. As per the prior year, the floating rate assets and liabilities are shown at par value due to the short term nature of their maturities.

The fair value of the Agency's assets has been calculated as €4.6 billion (2011: €4.5 billion) while the fair value of its liabilities have been estimated as €4.5 billion (2011: €4.4 billion). A significantly different amount may arise if someone were to use other alternatives in calculating fair value.

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 considered 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.

## 16. Hedging reserve/cash flow hedges

	2012	2011
	€'000	€'000
<b>Balance at beginning of year</b>	-	(19)
Effective portion of changes in fair value of cash flow hedges	-	-
Net changes in fair value of cash flow hedges recharged to profit and loss	-	19
<b>Balance at end of year</b>	-	-

## 17. Cash flow statement

	Year ended 31 December 2012	Year ended 31 December 2011
	€'000	€'000
<b>(a) Reconciliation of operating surplus/(deficit) to cash outflow from operating activities</b>		
<b>Operating surplus for the financial year</b>	<b>14,840</b>	3,478
Direct expenditure (note 4)	<b>91,218</b>	111,709
Finance fees	<b>(316)</b>	(229)
Depreciation (note 9)	<b>24</b>	29
Amortisation of eurocommercial paper issue expenses	-	(115)
Interest received	<b>272</b>	117
Interest paid	<b>(85,500)</b>	(99,643)
<b>Movements in working capital:</b>		
(Increase)/decrease in amounts due from local authorities and approved housing bodies (note 8)	<b>(81,867)</b>	89,848
Increase in other debtors and prepayments	<b>(189)</b>	(19,300)
(Decrease)/increase in creditors	<b>(4,446)</b>	(57)
Excess of contributions over cost	<b>(60)</b>	(53)
Decrease in derivatives	-	7,082
<b>Cash (outflow)/inflow from operating activities</b>	<b>(66,024)</b>	92,866

## Notes forming part of the financial statements (continued)

### 17. Cash flow statement (continued)

	Year ended 31 December 2012	Year ended 31 December 2011
	€'000	€'000
<b>(b) Gross cash flows</b>		
<b>Returns on investments and servicing of finance</b>		
<b>Capital expenditure</b>		
Payments to acquire tangible fixed assets	(26)	(17)
Gain on disposal of tangible fixed assets	-	-
Net cash outflow from capital expenditure and disposals	(26)	(17)
<b>Debt financing</b>		
Increase/(decrease) in bank loans and notes payable	86,438*	(109,551)
<b>Net cash inflow/(outflow) from change in debt</b>	<b>86,438</b>	<b>(109,551)</b>

\* Proceeds from the issue of borrowings during 2012 amounted to €32.06 billion (2011: €126.20bn) and the repayment of borrowings during 2012 amounted to €31.97 billion. (2011: €126.31bn).

	At 31 December 2012	Cash flows	Non-cash movements	At 31 December 2011
	€'000	€'000	€'000	€'000
<b>(c) Analysis of changes in net debt</b>				
Cash and cash equivalents	20,881	20,388	-	493
Overdraft	-	-	-	-
	20,881	20,388	-	493
Bank loans, ECP and notes repayable within one year	(4,124,311)	(92,085)	-	(4,032,226)
Bank loans and notes repayable after one year	(74,319)	5,647	-	(79,966)
Index linked bonds	(95,648)	-	152	(95,800)
Provision for premium on redemption of bonds	(102,740)	-	(4,866)	(97,874)
8.75% Housing Finance Agency Stock 2018	(93,360)	-	(362)	(92,998)
	(4,469,497)	(66,050)	(5,076)	(4,398,371)

## 18. Share capital

There are 30,000 ordinary shares of €1.30 authorised, allotted, called up and fully paid amounting to €39,000 at 31 December 2012 and 2011.

## 19. Reconciliation of retained surplus

	31 December 2012	31 December 2011
	€'000	€'000
Retained surplus at beginning of year	59,122	55,647
Total recognised gain for the financial year	13,723	3,475
Retained surplus at end of year	72,845	59,122

## 20. Reconciliation of shareholder's funds

	31 December 2012	31 December 2011
	€'000	€'000
Opening shareholder's funds	59,161	55,667
Total recognised gain for the financial year	13,723	3,494
Closing shareholder's funds	72,884	59,161

## 21. Commitments

### Loan commitments

With regard to proposed lending by the Agency, loan applications of €13.81 million were approved but undrawn at 31 December 2012. (2011: €8.47 million)

### 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	153
After five years	-

## Notes forming part of the financial statements (continued)

### 22. Pension (deficit)/surplus

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

The latest full actuarial valuation was carried out at 31 December 2010 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 2012 the market value of the fund's assets was €3.38 million (2011: €2.77 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.

For the purposes of FRS 17 Retirement Benefits the latest valuations have been updated to 31 December 2012 by a qualified independent actuary using the projected unit cost method. The principal actuarial assumptions used were as follows:

	<b>2012</b>	2011	2010
	%	%	%
Rate of increase in salaries	<b>3.50</b>	3.75	3.75
Rate of increase in pensions payments	<b>2.00</b>	2.00	2.00
Discount rate	<b>3.25</b>	5.10	5.10
Inflation assumption	<b>2.00</b>	2.00	2.00
<b>Mortality rate</b>	<b>2012</b>	2011	2010
Post retirement – male age 65	<b>24.1 years</b>	23.5 years	23.5 years
Post retirement – female age 65	<b>27.8 years</b>	25.3 years	25.3 years

## 22. Pension (deficit)/surplus (continued)

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

	Long-term rate of return expected at 31 December 2012 %	Value at 31 December 2012 €'000	Long-term rate of return expected at 31 December 2011 %	Value at 31 December 2011 €'000	Long-term rate of return expected at 31 December 2010 %	Value at 31 December 2010 €'000
Equities	5.70	2,691	7.00	1,335	7.00	1,279
Bonds	2.70	644	4.00	1,258	4.00	1,189
Property	3.70	46	6.50	83	6.50	71
Cash and other assets	1.00	-	2.00	97	2.00	92
Total market value of pension scheme assets		3,381		2,773		2,631
Present value of pension scheme liabilities		(4,060)		(2,124)		(1,894)
Total net retirement (deficit)/ surplus in scheme		(679)		649		737
Total net pension (deficit)/ surplus recognised in the balance sheet		(679)		649		737

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. The impact of the pension is reflected in the expected return. For equities the expected return has been taken as 5.7% p.a., for property 3.7%, for bonds 2.7%. For cash, the expected return is 1.0%.

**The surpluses/deficits of the scheme may be analysed as follows:**

	31 Dec 2012 €'000	31 Dec 2011 €'000	31 Dec 2010 €'000	31 Dec 2009 €'000	31 Dec 2008 €'000
<b>Pension Assets</b>	3,381	2,773	2,631	2,823	1,948
<b>Pension Liabilities</b>	(4,060)	(2,124)	(1,894)	(2,344)	(2,025)
<b>Surplus/Deficit</b>	(679)	649	737	479	(77)

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

## Notes forming part of the financial statements (continued)

### 22. Pension (deficit)/surplus (continued)

#### History of actuarial gains and losses

	<b>31 Dec 2012</b>	31 Dec 2011	31 Dec 2010	31 Dec 2009	31 Dec 2008
	<b>€'000</b>	€'000	€'000	€'000	€'000
Difference between expected and actual return on assets	<b>344</b>	(190)	75	152	(661)
Expressed as a percentage of scheme assets	<b>10.17%</b>	6.86%	2.85%	5.38%	(33.9%)
Experience (losses) and gains on scheme liabilities	<b>(1,725)</b>	38	34	(89)	(159)
Expressed as a percentage of scheme liabilities	<b>42.49%</b>	1.79%	1.8%	3.80%	7.85%
Total actuarial gains and losses	<b>(1,381)</b>	(152)	109	63	(820)
Expressed as a percentage of scheme liabilities	<b>34.01%</b>	7.16%	5.76%	2.69%	40.5%

#### Cumulative actuarial gains and losses recognised in other comprehensive income:

	<b>2012</b>	2011
Cumulative amount at 1 January	<b>(1,119)</b>	(967)
Recognised during the period	<b>(1,381)</b>	(152)
Cumulative amount at 31 December 2012	<b>(2,500)</b>	(1,119)

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

	<b>2012</b>	2011
	<b>€'000</b>	€'000
Deficit at 1 January	<b>(2,124)</b>	(1,895)
Current and past service cost	<b>(90)</b>	(97)
Interest cost	<b>(112)</b>	(102)
Contributions by employees	<b>(20)</b>	(24)
Actuarial (losses) and gains	<b>(1,725)</b>	38
Past service costs	<b>-</b>	(59)
Benefits paid	<b>11</b>	15
Deficit at 31 December	<b>(4,060)</b>	(2,124)

## 22. Pension (deficit)/surplus (continued)

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

	<b>2012</b>	2011
	<b>€'000</b>	€'000
Fair value of plan assets at 1 January	<b>2,773</b>	2,631
Expected return on plan assets	<b>104</b>	134
Contributions by employer	<b>150</b>	189
Contributions by employees	<b>20</b>	24
Actuarial gains	<b>344</b>	(190)
Benefits paid	<b>(10)</b>	(15)
Fair value of plan assets at 31 December	<b>3,381</b>	2,773

### Additional information

	<b>Year ended 31 December 2012</b>	Year ended 31 December 2011
	<b>€'000</b>	€'000
Expected Employer contributions	<b>130</b>	167

## 23. Post balance sheet events

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

## 24. Approval of financial statements

The audited financial statements, which are in the form approved by the Minister for the Environment, Community and Local Government, with the consent of the Minister for Public Expenditure and Reform, were approved by the Directors on 4 April 2013.

## Appendix 1: Balance outstanding by local authority and approved housing body (unaudited)

Local Authority	Year ended 31 December 2012	Year ended 31 December 2011
	€'000	€'000
Athlone Town Council	6,830	2,320
Athy Town Council	4,160	4,161
Bray Town Council	7,474	7,444
Bundoran Town Council	2,023	1,977
Carlow County Council	46,070	46,475
Carlow Town Council	2,750	2,750
Carrick-on-Suir Town Council	418	413
Castlebar Town Council	6,000	6,001
Castleblaney Town Council	54	61
Cavan County Council	23,574	22,863
Clare County Council	65,945	51,583
Clones Town Council	166	173
Clonmel Borough Council	4,635	4,837
Cork City Council	142,804	144,796
Cork County Council	411,030	391,454
Donegal County Council	141,126	124,291
Drogheda Borough Council	68,043	67,206
Dublin City Council	882,757	898,917
Dundalk Town Council	53,342	51,780
Dungarvan Town Council	1,075	2,124
Dunlaoghaire/Rathdown County Council	151,541	155,037
Ennis Town Council	2,041	2,125
Fermoy Town Council	349	345
Fingal County Council	368,260	387,838
Galway City Council	102,923	103,120
Galway County Council	96,559	97,485
Kerry County Council	85,969	85,962
Kildare County Council	123,256	127,009
Kilkenny Borough Council	836	606
Kilkenny County Council	49,281	51,039
Laois County Council	129,641	132,079
Leitrim County Council	12,613	13,429
Letterkenny Town Council	9,970	3,838
Limerick City Council	14,111	15,247

Local Authority	Year ended 31 December 2012	Year ended 31 December 2011
	€'000	€'000
Limerick County Council	45,586	43,640
Listowel Town Council	847	831
Longford County Council	43,864	43,113
Longford Town Council	732	845
Louth County Council	28,530	28,714
Mayo County Council	108,858	85,889
Meath County Council	83,656	84,343
Monaghan County Council	31,412	33,642
Naas Town Council	-	620
Navan Town Council	5,662	5,902
Nenagh Town Council	2,750	2,750
New Ross Town Council	3,175	1,057
North Tipperary County Council	48,172	49,087
Offaly County Council	37,435	38,697
Roscommon County Council	23,521	9,707
Skibbereen Town Council	1,457	1,424
Sligo Borough Council	42,761	43,057
Sligo County Council	72,800	65,816
South Dublin County Council	245,426	247,455
South Tipperary County Council	62,484	60,041
Tralee Town Council	14,606	14,273
Tullamore Town Council	4,837	4,727
Waterford City Council	95,069	98,453
Waterford County Council	47,364	42,202
Westmeath County Council	100,071	101,515
Westport Town Council	3,770	3,895
Wexford Borough Council	7,390	4,646
Wexford County Council	145,335	149,322
Wicklow County Council	103,701	80,623
Wicklow Town Council	3,003	6,056
<b>Sub total</b>	<b>4,431,900</b>	<b>4,359,128</b>
Cluid Housing Association	7,970	-
Oaklee Housing Trust	778	-
<b>Total</b>	<b>4,440,648</b>	<b>4,359,128</b>

## Appendix 2: Loans advanced during the year by local authority and approved housing body (unaudited)

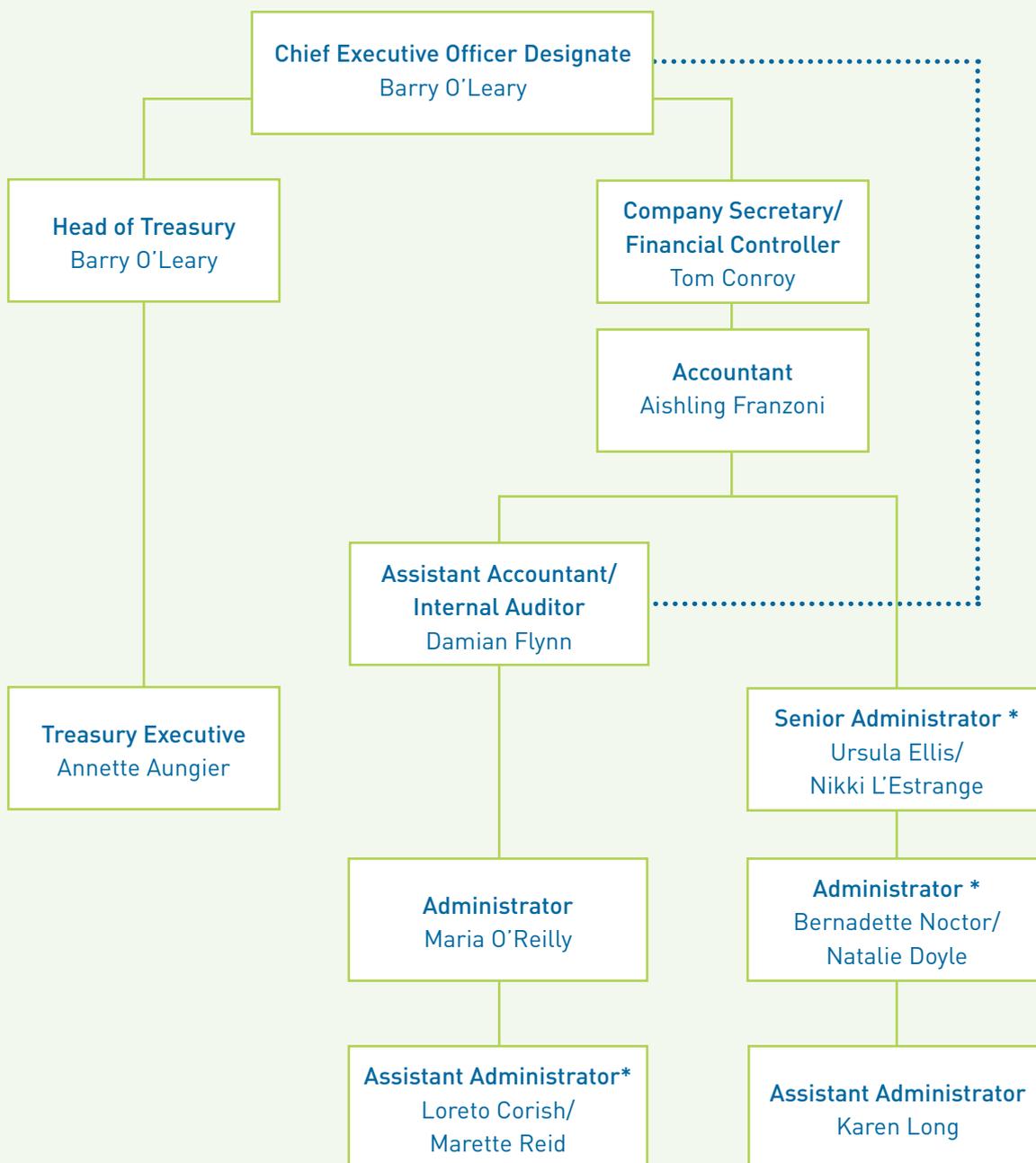
Local Authority	Year ended 31 December 2012	Year ended 31 December 2011
	€'000	€'000
Athlone Town Council	4,500	-
Carlow County Council	849	9,500
Cavan County Council	1,879	4,335
Clare County Council	16,585	509
Cork City Council	-	3,376
Cork County Council	48,923	49,441
Donegal County Council	23,614	33,679
Drogheda Borough Council	1,075	702
Dublin City Council	44,362	63,637
Dundalk Town Council	2,650	1,701
Dunlaoghaire/Rathdown County Council	1,274	13,310
Ennis Town Council	-	2,125
Fingal County Council	2,650	13,835
Galway City Council	9,854	1,000
Galway County Council	5,577	12,712
Kerry County Council	4,750	3,264
Kildare County Council	104	725
Kilkenny County Council	1,689	2,309
Kilkenny Brough Council	291	-
Laois County Council	2,839	1,458
Lettekeny Town Council	6,300	-
Limerick City Council	10,000	-
Limerick County Council	4,675	1,255
Longford County Council	2,549	1,697
Louth County Council	267	446
Mayo County Council	32,829	10,800
Meath County Council	1,101	-
Monaghan County Council	464	75
Navan Town Council	-	3,500
Nenagh Town Council	-	1,000
New Ross Town Council	3,200	-
North Tipperary County Council	996	670

Local Authority	Year ended 31 December 2012	Year ended 31 December 2011
	€'000	€'000
Offaly County Council	798	-
Roscommon County Council	14,170	2,710
Sligo County Council	11,709	3,626
South Dublin County Council	7,844	13,691
South Tipperary County Council	5,298	4,151
Waterford City Council	2,893	6,200
Waterford County Council	6,764	4,137
Westmeath County Council	1,555	504
Wexford Borough Council	3,000	-
Wexford County Council	950	10,000
Wicklow County Council	27,788	10,500
	<b>318,615</b>	<b>292,580</b>
Cluid Housing Association	7,970	-
Oaklee Housing Trust	778	-
<b>Total</b>	<b>327,363</b>	<b>292,580</b>

## Appendix 3: Balance outstanding on loan book by rate type & duration of loan (unaudited)

	Fixed Rate	Variable Rate	Index Linked	Total	
	€'000	€'000	Post May 1986 €'000	Pre May 1986 €'000	€'000
0 to 5 years	16,044	853,042	40	3,980	873,106
6 to 10 years	6,720	159,266	-	27,323	193,309
11 to 15 years	11,787	396,302	-	79,321	487,410
16 to 20 years	15,432	1,061,050	-	-	1,076,482
21 to 25 years	30,741	887,742	-	-	918,483
26 to 30 years	10,879	674,512	-	-	685,391
31 to 40 years	-	186,589	19,878	-	206,467
<b>Total</b>	<b>91,603</b>	<b>4,218,503</b>	<b>19,918</b>	<b>110,624</b>	<b>4,440,648</b>

# Appendix 4: Agency staff structure



\* Work-sharing

••• For internal audit purposes only.





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