



Housing Finance Agency

HOUSING FINANCE AGENCY PLC

Annual Report

2013



## About us

Housing Finance Agency plc. ('HFA') 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.

The HFA's Board is appointed by the 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 and senior public servants.



## CONTENTS

Board of Directors	2
Chairman's Report	4
Chief Executive Officer's Report	8
Directors' Report	12
Governance and Oversight - Corporate Governance Statement	18
Statement of Directors' responsibilities	28
Independent Auditor's Report to the Members of Housing Finance Agency plc.	29
Statement of accounting policies	32
Income and expenditure account	37
Statement of total recognised gains and losses	38
Balance sheet	39
Cash flow statement	40
Reconciliation of net cash flow to movement in net debt	41
Notes forming part of the Financial Statements	42
Appendix 1: Balance outstanding by local authority and approved housing body (unaudited)	71
Appendix 2: Loans advanced during the year by local authority and approved housing body (unaudited)	73
Appendix 3: Balance outstanding on loan book by rate type & duration of loan (unaudited)	75
Appendix 4: Staff structure	76
Appendix 5: Quality Customer Service and Energy Conservation Summary	77



# 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.



**Barry O'Leary**  
Chief Executive Officer

An accountant by profession, Barry has experience of insolvencies and worked with the Comptroller and Auditor General. Since 1988 Barry has worked with the Housing Finance Agency holding the roles of Financial Controller/Company Secretary and Head of Treasury. Barry was selected as Chief Executive Officer in September 2012 and appointed to the Board of Directors in August 2013.



**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.



**Jackie Maguire**

County Manager of Meath County Council since 2013; commencing her Local Government career with Meath County Council in 1981, being promoted to Head of Finance in 2000, Director of Services in 2003; and County Manager for Leitrim from 2006 to 2013. Jackie has a Diploma in Financial Management and a Masters in Project Finance/Venture Management.



**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, [www.myhome.ie](http://www.myhome.ie) which has given him a thorough understanding and first-hand knowledge of the Irish property market. In addition to his professional interest, he was Chairman of Concern Worldwide from 2007 to 2010.



**Michelle Murphy**

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



### Padraic Cafferty

Managing Director of Datascan, Executive Chairperson 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.



### John Hogan

Assistant Secretary in the Banking Policy 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.



### Michael Murray

An 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, Michael 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.



### Philip Nugent

Principal Officer in the Department of the Environment, Community and Local Government, with responsibility for Waste Policy and Resource Efficiency.



### 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 a member of the Interim Regulatory Committee which is tasked with rolling out the voluntary regulation code for the AHB sector and preparing for statutory regulation. 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

46 St. Stephen's Green, Dublin 2.

**T** +353 1 872 5722

**F** +353 1 872 5878

**E** cosec@hfa.ie

**W** www.hfa.ie

### 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 2013 Annual Report which covers the second year of the current Board's stewardship of the HFA. It is my stated ambition during my tenure as Chairman that 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.

## 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* ("The Code") 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 (DoECLG), and Public Expenditure and Reform (DPER).

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 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 voluntarily with the provisions of 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 in 2011.

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

## Board of Directors

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, housing valuation, the Voluntary Housing Sector, the DoECLG and Department of Finance, which 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 2013, the Chairman and Senior Management appeared before the Joint Oireachtas Committee for Environment, Culture and the Gaeltacht to outline the HFA's role in lending to approved housing bodies ('AHBs'). The Committee expressed its appreciation of the work of the HFA and noted our solid financial position.

### Expanding financial capacity of the approved housing body sector

On Friday 28 February 2014 the HFA hosted a seminar titled "Financing Social Housing in Ireland" which was attended by many key stakeholders in the sector. Guest speakers from the UK, Austria, Holland and Ireland presented different models and structures for financing social housing. The seminar received very positive feedback from those who attended and the outputs will be used in the ongoing development of new financing structures for social housing in Ireland. The HFA will continue to play a central role in the development of the sector. I expect to report on progress on this matter in future reports.

### Freedom of information

The HFA has been within the scope of the Freedom of Information Act, 1997 since 2002. Details of access to the records and information on the HFA can be found on our website, [www.hfa.ie](http://www.hfa.ie). The Freedom of Information Officer is Mr Seán Cremen and the HFA's internal reviewer is Mr Barry O'Leary. One request for information was received in 2013.



## Chairman's Report (continued)

### Energy conservation

In accordance with current public policy on energy conservation, the HFA has adopted relevant conservation measures. In 2013 the HFA undertook a range of initiatives to improve our energy performance and will continue to endeavour to deliver efficiency savings in all aspects of our business in 2014 (see Appendix 5 for further detail).

### Administration and staff

The HFA is one of the very few non-commercial state agencies that operates without exchequer support. 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, it keeps 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 2013. The final outturn for 2013 achieved an administrative cost saving of 9% against projected costs for 2013. The HFA's staff consists of the equivalent of eleven full-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.

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

### 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 HFA's work is the assistance and co-operation of its stakeholders including the National Treasury Management Agency ('NTMA'), the Central Bank of Ireland ('The Central Bank'), its auditors, lawyers, IT contractors, financiers and all those who provide essential services. Thanks are offered for their support and especially to the Minister for the Environment, Community and Local Government, Minister for Public Expenditure and Reform, Minister for Finance 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.

Mr Barry O'Leary was appointed as a Director of the HFA in August 2013. On behalf of the Board we would like to congratulate Barry on his appointment and wish him every success in his role into the future.



**Dr Michelle Norris**  
**Chairman of the Board**

30 April 2014



# Chief Executive Officer's Report

## Key achievements in 2013

2013 was a good year as Ireland emerged from the multi-lateral EU/IMF Programme of Financial Support. The HFA had considerable success in achieving its mandate which is to source and supply funds to local authorities and AHBs at competitive interest rates.

## The most notable items for the year were:

- The HFA has earned a gain on ordinary activities after finance income of €19.76 million (2012: €15.10 million).
- This gain was achieved while delivering an average interest rate of 1.95% (2012: 2.29%) to our customers.
- Reserves now stand at €93 million (2012: €73 million) and exist to cover the long-term and lifetime risks that arise in the HFA's loan portfolio.

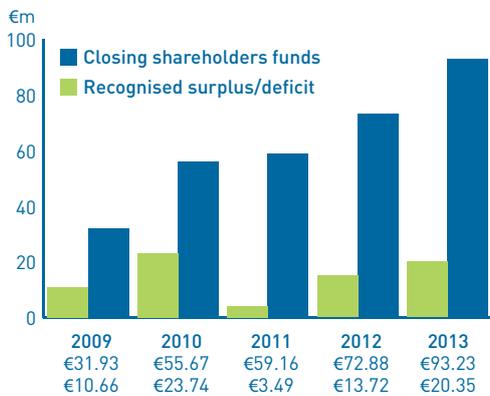
## Results and dividends

	31 December 2013 €'000	31 December 2012 €'000
<b>Gain on ordinary activities after finance income</b>	<b>19,760</b>	15,104
Actuarial gain/(loss)	591	(1,381)
<b>Total recognised gain/loss for the financial year</b>	<b>20,351</b>	13,723
Shareholders' Funds at beginning of year	72,884	59,161
<b>Shareholders' Funds at end of year</b>	<b>93,235</b>	72,884

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



## Surplus/Deficit & Reserves 2009-2013



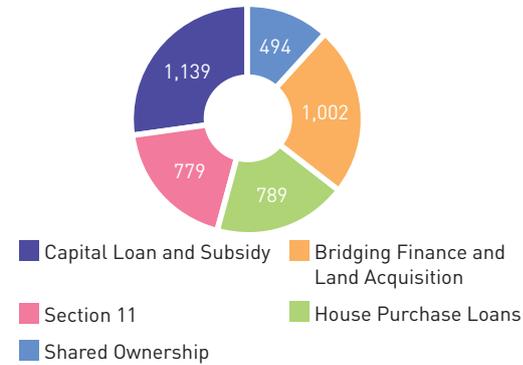
The Board closely monitors risk management and earnings. Adjustments in its margins are made from time to time to ensure that returns are sufficient to generate the required level of reserves.

A summary review of the significant financial risks and exposures to the HFA in respect of its assets, liabilities and financial instruments is set out together with the risk management objectives and policies employed by the HFA with respect to managing those risks in Note 17 to the Financial Statements.

## Lending to local authorities

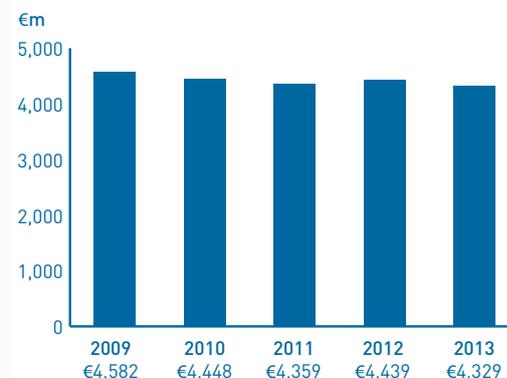
The HFA currently lends to 42 local authorities and 3 AHBs under a variety of schemes and structures. In 2013, gross loan advances amounted to €139 million, repayments and redemptions totalled €259 million, resulting in net redemptions of €120 million for the year.

## Main Categories of HFA Lending - 31 Dec 2013 € million



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 HFA is working with the DoECLG 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, they all remain fully compliant with their repayment obligations to the HFA.

## Loan Book 2009-2013



# Chief Executive Officer's Report (continued)

## Lending to 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. The HFA continued to work with AHBs in 2013 to deliver cost efficient finance to them for the provision of social housing.

The HFA's Credit Committee comprises Board members and Senior Management. The Committee met six times during the year and as at 31 December 2013 had approved loan applications totalling €37.64 million (2012:€13.81 million), €22.82 million (2012: €8.75 million) of which has been advanced at the time of writing.

It is anticipated that there will be continued growth in the level of lending in this area for 2014 and we continue to have frequent interaction with AHBs to develop our product offering. Additional detail of the credit applications made by AHBs can be found on page 14 of this Report.

The Board of the HFA adopted a credit policy in June 2013 and this was updated at the February 2014 meeting. It is anticipated that 2014 will see further growth in the level of lending. In particular two new products will be offered; "Mortgage to Rent" (MTR) and financing for "New Build" schemes. The MTR scheme will be financed by way of a Facility Agreement which will be subject to update and approval on an annual basis by the Credit Committee. New Build/Construction projects will provide financing to assist AHBs in delivering suitable accommodation which will be used for renting under social housing projects and which will be eligible for Capital Advance Leasing Facility (CALF) and Payment and Availability Agreement (PAA).

## Interest rates

The HFA is required by the Housing Finance Agency Act, 1981 to meet its costs from its operations and this it does. The HFA does not receive any exchequer grant or subvention.

The HFA has adopted a policy of setting interest rates that will enable it, taking risk into account, to at least achieve a break-even result in accordance with the provision of the Act. This policy was adopted in 2000 and approved by the Minister for the Environment, Community and Local Government with the consent of the Minister for Finance. The HFA therefore sets its variable interest rates at margins over the cost of funds to meet the cost of administration and risk.

The HFA does not lend directly to individuals or households. In relation to local authorities the HFA is, in effect, a centralised borrower on their behalf. The HFA block-lends to the local authorities, and they, in turn lend at individual level, having added a margin to cover their administrative and risk costs in so doing. The HFA sets its interest rates at a level that will enable it, taking one year with another, and taking account of risk, to achieve a break-even result.

## Mortgage related 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% which is a saving of 1.80% on average mortgage loan rates charged. This delivers an interest saving of circa €1,800 on an average loan of €100,000 borrowed for a term of 25 years. 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 the HFA to meet its costs from operations.

## Non-mortgage related rates

In 2013 local authorities paid an average variable rate of 2.00% (2012: 2.29%) on loans for non-mortgage housing and housing-related purposes. This is set, monthly in arrears, so as to track the HFA's cost of funds.

## Interest rates to approved housing bodies

The interest rate applicable to each AHB loan is approved by the Credit Committee. The interest rate applied to the portfolio is reviewed by the Credit Committee on an annual basis. The interest rate structure for loans made directly to AHBs is higher than that to local authorities, at 3.21% (2012: 3.16%), reflecting the higher risks associated with lending to the independent, non-profit sector. These rates are still very attractive when compared with the interest rates available from the market.

## Funding

The HFA currently raises the majority of its funding via the NTMA using the HFA's Guaranteed Notes (GN) programme. 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 €4.0 billion was drawn by the HFA under the GN programme at 31 December 2013, of which €3.7 billion was funded by NTMA Guaranteed Notes. The relatively short tenor of notes issued under this programme has enabled the HFA to offer very competitive interest rates to its customers while having an assured supply of funding. For further details on interest rates on borrowings by the HFA please refer to Note 17 (c) to the Financial Statements.

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 2013 the HFA dealt with eighteen local authorities in this area of its business (2012: twenty one). The average weekly turnover of investments increased by 41% to €132 million in 2013 (2012: €93 million). As well as providing a cost-effective and flexible service to our customers, the facility remains an important source 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 vast majority of the HFA's loans have a variable rate structure and the HFA has traditionally generated the funding for these loans by means of a State-guaranteed €6 billion eurocommercial paper (ECP). While it was relatively inactive in 2013, the HFA retains capacity to raise external funding through its ECP programme which was re-listed on the Irish Stock Exchange in Quarter 4 of 2013. The impact on the HFA's cost of funds is difficult to gauge at this juncture. However, the Board is satisfied that there is a sufficient range of funding options available to allow the HFA continue to fulfil our mission of providing the finest rate possible to our customers.

## Staff

I wish to express my appreciation for the contribution of the team in the HFA for the successful delivery of all of the work detailed in the Annual Report. We have a compliment of just eleven staff, with each person not only contributing to the achievements of the HFA, but also embracing more work, meeting the challenges of reduced financial and manpower resources and showing exemplary agility, adaptability and public service ethos in so doing.

I would like to take the opportunity to welcome Seán Cremen who took up the role of Head of Treasury in January 2014.

While ordinarily it would be wrong to single out one person from a team of eleven, I nevertheless wish to particularly applaud Tom Conroy, Company Secretary whose support, advice and guidance have been essential to me during the year while we had significant staff vacancies and special leave. I also wish to thank Aishling, Damian, Proinsias, Annette, Ursula, Nikki, Maria, Bernadette, Natalie, Karen, Loreto and Murette for their hard work and invaluable contributions during the year.

## Board and Chair

I want to thank each of my fellow Board members for their unfailing commitment and skill, given so freely for the benefit of the HFA.

Finally, I wish to thank the Chairman, Dr Michelle Norris. Michelle has shown great commitment to the HFA and has been generous with her time and advice. I acknowledge my deepest appreciation and gratitude for her support, professionally and personally, over the past year. The relationship between the Chairman and the CEO of any organisation is hugely important and I hope we continue as we have started. Tús maith leath na hoibre.



**Barry O'Leary**  
Chief Executive Officer

3 April 2014

# Directors' Report

The Directors present their annual report and audited Financial Statements for the year ended 31 December 2013.

## 1. Background

Housing Finance Agency plc. ('the HFA') 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 HFA 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 HFA 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

	2013 €'000	2012 €'000
Total recognised gain for the year	<b>20,351</b>	13,723
Shareholders' funds at beginning of year	<b>72,884</b>	59,161
<b>Shareholders funds at end of year</b>	<b>93,235</b>	72,884

This is a good performance with profits generated by a margin policy, approved by the Directors, which is designed to ensure that the HFA has reserves sufficient to meet the estimated costs arising from index linked, fixed rate funding mismatches and other risks.



The Directors do not propose the payment of a dividend for 2013 (2012: €20m). Please see section 15 of the Directors' Report detailing the treatment of the dividend declared in 2012.

A review of the significant financial risks and exposures to the HFA in respect of its assets, liabilities and financial instruments is set out together with the risk management objectives and policies employed with respect to managing those risks in Note 17 to the Financial Statements. The Directors' Report also addresses the significant business risks to which the HFA is exposed and the CEO's Report highlights key performance indicators.

### 3. Review of the development of the business

#### (a) Loans to local authorities (approved pre 27 May 1986)

The HFA 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 2013 such loans represented outstanding balances of €11.45 million. The HFA is liable for any credit losses that may arise on these loans.

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

With effect from May 1986, the HFA has issued loans to local authorities to finance income related, convertible and annuity loans and improvement grants. The extension of the HFA'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 HFA issuing loans to local authorities to fund the Shared Ownership and Voluntary Housing schemes.



## Directors' Report (continued)

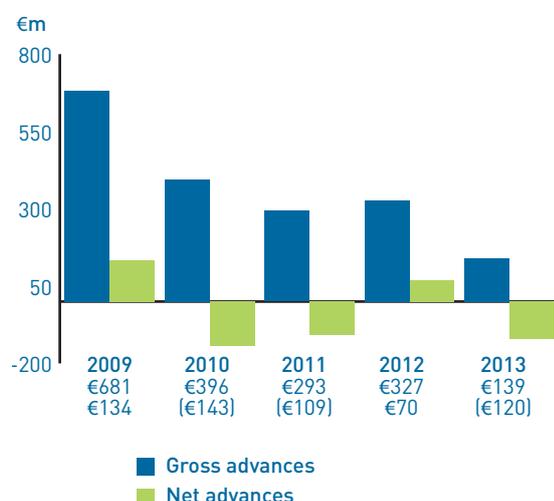
A significant portion of these funds is retained by the local authorities for purposes such as land acquisition. The remainder is lent by the local authorities to individual borrowers and AHBs. The local authorities are responsible for any losses that may arise on these loans. In the context of:

- (i) local authorities being statutory bodies under the Local Government Act, 2001 and other enactments;
- (ii) 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);
- (iii) all loans advanced to local authorities are approved by the Minister for the Environment, Community and Local Government;
- (iv) the Board's understanding that central Government supports local authorities in meeting their obligations to the HFA; and,
- (v) the HFA has not experienced any loan losses on its loans advanced to local authorities after 1986;

the Board is of the opinion that, in substance, no credit risk arises, other than sovereign risk, on loans advanced to local authorities on or after 27 May 1986 and no loan loss provisions are recorded in respect of these loans.

In 2013, gross loan advances amounted to €139 million, repayments and redemptions totalled €259 million, resulting in net redemptions of €120 million for the year. Such loans represented outstanding balances of €4.33 billion (2012: €4.41 billion).

### Gross and net advances 2009-2013



The HFA 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 HFA may provide extended loan terms, offer interest free periods or offer other renegotiations as appropriate.

During 2013, the HFA renegotiated €108.03 million (2012: €33.38 million) of non-housing related loans and €28.60 million (2012: nil) of housing related loans. These renegotiations have taken place in the context of €4.33 billion of loans advanced to local authorities as at 31 December 2013 and thus represents renegotiation activity of circa 3.80% in 2013 (2012: 0.75%).

Renegotiated non-housing related and housing related loans did not result in impairment or derecognition of the original loan assets as it did not represent a significant modification of terms. The HFA ceases to consider these loans as renegotiated once one year of up to date scheduled repayments has elapsed post renegotiation. In this regard, the HFA considers €164.52 million of loans (2012: €33.38 million) to be renegotiated in 2013 with €1.60 million (2012: €0.35 million) of interest income recognised on these assets.

As at year ended 31 December 2013 €59.55 million (2012: €162.06 million) of land acquisition loans were converted upon maturity to annuity loans repayable over a period of up to 30 years. €132.40 million of land acquisition loans are no longer considered renegotiated at 31 December 2013 as we have received one full year of up to date scheduled repayments. Interest accrued on loans converted upon maturity at 31 December 2013 amounts to €0.62 million (2012: €1.72 million).

### (c) Loans to approved housing bodies

Under Section 17 of the Housing (Miscellaneous Provisions) Act 2002, the HFA is empowered to lend directly to AHBs, which includes voluntary housing bodies and co-operative housing societies. Under the Social Housing Leasing Initiative, 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 PAA with a local authority for a period of up to 30 years, will fund the repayment of the HFA's loan.

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

apply for loan advances which are subsequently assessed independently. As at 31 December 2013, twenty applications (2012: eighteen) for Certified Body status have been received from AHBs. Six approved housing bodies (2012: six) have been successful and twelve were unsuccessful with two of these still pursuing the path to a successful application. Please find list of approved AHBs below.

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

The HFA's Credit Committee, as at 31 December 2013, has approved 26 loan applications (2012: 8) totalling €37.64 million (2012: €22.57 million), €22.82 million of which has been advanced (2012: €8.75 million). It is anticipated that 2014 will herald continued growth in the level of lending in this area. The HFA continues to have frequent interaction with the AHBs to develop and fine tune the suite of products which it offers.

NABCO (National Association of Building Co-operatives) was approved as a Certified Body by the HFA's Credit Committee in February 2014.

#### 4. Going concern

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.

The HFA's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' and Chief Executive Officer's Report on pages 8 to 17, in the Risk Management section below 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 17 to the Financial Statements details the HFA's financial risk management objectives, details of its financial instruments and hedging activities; and its exposures to credit, liquidity and market risks. The assessment of going concern is presented on page 32.

#### 5. 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 Chief Executive Officer, Head of Treasury and Company Secretary collegially manage the risk of the HFA, in place of a Chief Risk Officer, as permitted under the Code of Practice. The Risk Management Framework and Policy are regularly reviewed by the Committee. 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. The Risk Management Framework and Policy was fully implemented in 2012.

The HFA 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 17. The HFA has developed a risk management process which includes constant reviews of its loans and advances portfolio and an on-going review of treasury related risk which allows it to manage these risks. The Board of the HFA adopted a Credit Policy regarding lending to AHBs at its June 2013 meeting, which was recently updated at its February 2014 Board meeting.

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 as detailed in the HFA's Policies and Procedures Manual and also within the Risk Register of the Risk Management Framework and Policy. The HFA carries out a comprehensive annual review of risks which is approved by the Board and forms part of the HFA'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 €19.4 million of pre May 1986 loans outstanding at 31 December 2013 (2012 €19.9 million), only €11.45 million (2012: €11.77 million) of these are still due to the local authorities from the underlying borrowers. The gap

## Directors' Report (continued)

of €7.95 million (2012: €8.6 million) has arisen as the local authorities are not required to remit in full to the HFA monies received in relation to redemptions and repayments as allowed under the terms of the loan facility. The Board is of the opinion that, similar to post 1986 loans, in substance, no credit risk arises, other than sovereign risk, for this €7.95 million balance (2012: €8.6 million).

The local authorities hold collateral against the remaining €11.45 million of loans advanced pre 27 May 1986, in the form of mortgage interests over property. 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 ('MPI') on their property.

MPI covers the borrower in the event of death or disability on the loan amount outstanding, excluding arrears.

It is assessed that, in substance, there is no repayment risk of loans advanced to local authorities on or after 27 May 1986, other than sovereign risk, 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 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;
- (d) the Board's understanding that central Government supports local authorities in meeting their obligations to the HFA; and,
- (e) the HFA has not experienced any loan losses on its loans advanced to local authorities after 1986;

the Board is of the opinion that, in substance, no credit risk arises, other than sovereign risk, 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 2013, 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 commenced lending to AHBs in 2012, which 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 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 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 HFAs access to and cost of borrowing is influenced by, among other things, its credit ratings as assessed by international rating agencies. Ratings downgrades create the risk that external investors may seek to reduce credit exposures to the debt-guaranteeing entity – Ireland – and thus to the HFA. Ireland, and consequently the HFA, suffered ratings downgrades during 2010 and 2011 which have limited the HFAs access to capital markets in terms of both quantum of and duration of ECP funding, with no ECP funding in issuance at 31 December 2013. The total ECP funding drawn during the year was €143 million with an average tenure of 78 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. Risk is a standing item on the agenda at each meeting of the Board. Where areas for improvements in the system are identified, the Board considers the recommendations made by Management and the Audit Committee.

### 6. Directors

The Directors have considered the principal risks and uncertainties which impact the HFA. In this regard the Directors have concluded that the HFA has potential exposure to credit risk, liquidity risk and market risks owing to its use of financial instruments. The HFA's objectives, policies and procedures for measuring and managing these risks are set out above and in Note 17 to the Financial Statements.

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

## 7. Contracts

There has not been any contract or arrangement with the HFA during the year in which a Director of the HFA was interested in relation to the HFA's business.

## 8. Post balance sheet events

No events have taken place since the year end that would result in an adjustment to the Financial Statements or inclusion of a note thereto.

## 9. Electoral Act, 1997

The HFA made no political donations during the year.

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

The HFA 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 2013 shows no late payments were made during 2013 under the above Act.

## 11. 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 HFA are maintained at its registered office.

## 12. Corporate Governance

As required by the UK Corporate Governance Code, which the HFA 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.

## 13. Auditors

In accordance with Section 160(2) of the Companies Act, 1963 to 2013, the Auditor, KPMG, Chartered Accountants, will continue in office.

## 14. Principal risks and uncertainties

The Directors have considered the principal risks and uncertainties which impact the HFA. In this regard, the Directors have concluded that the HFA's principal risk exposures are in respect of credit risk, liquidity risk and market risk owing to its use of financial instruments. The HFA's objectives, policies and procedures for measuring and managing these risks are set out in Note 17 to the Financial Statements.

## 15. Dividend

A dividend of €20m to the HFA's beneficial shareholder, the Minister for Public Expenditure & Reform, was declared and agreed at the Annual General Meeting on 25 April 2013.

Since this declaration, and following discussions between DoECLG and DPER on the proposed usage of the dividend, the Minister for Public Expenditure & Reform, understanding the importance of addressing local authority mortgage arrears and boosting the Local Authority Mortgage Arrears Resolution Process Fund ('MARP'), decided to waive his rights to the dividend payment, on the understanding that the HFA would consider using the funds to help address the issue of mortgage arrears in the local authority sector by making an allocation to the MARP Fund from its reserves. For more details with regard the MARP Fund please see Note 17.

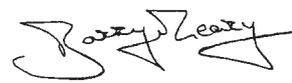
A decision by all shareholders to reverse the dividend via a resolution-in-writing was taken in December 2013 whereby all the shareholders, agreed to the decision. In order to pay the €20m in funds directly into the MARP Fund, legal advice indicates that the HFA may require changes to its statutory powers, and its Articles of Association. The Board is working together with its legal advisors and the DoECLG to amend the necessary legislation and the HFA's Articles of Association. This is likely to be completed during 2014. No dividend has been declared at 31 December 2013.

On behalf of the Board,



**Michelle Norris**  
Chairman of the Board

3 April 2014



**Barry O' Leary**  
Chief Executive Officer

3 April 2014

# Governance and Oversight – Corporate Governance Statement

The Directors are committed to maintaining the highest standards of corporate governance and support the UK Corporate Governance Code (available at [www.frc.org.uk](http://www.frc.org.uk)), formerly known as the Combined Code, which the HFA voluntarily complies with. The *Code of Practice for the Governance of State Bodies*, as published by the Department of Finance, was issued in June 2009 and the HFA 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 recently reviewed 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. As required by the UK Corporate Governance Code, which the HFA has adopted voluntarily, the Directors have prepared a 'Governance and Oversight – Corporate Governance Statement', which is set out on in this section and which, for the purpose of Statutory Instrument 450/2009 European Community (Directive 2006/46) Regulations 2009, forms part of the Directors' Report. The HFA has complied with the UK Corporate Governance Code except for matters discussed in the Corporate Governance Compliance Statement.

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

The following information explains how the HFA applies the principles and provisions of The UK *Corporate Governance Code* issued by the Financial Reporting Council (FRC), *The Irish Corporate Governance Annex* issued by the Irish Stock Exchange (ISE), and the *Code of Practice for the Governance of State Bodies*, published by the Department of Finance.

## Board of Directors

At 31 December 2013 the Board of Directors comprised eleven non-Executive Directors and one executive Director. The Directors are appointed by the Minister for the Environment, Community and Local Government in consultation with the Minister for Public Expenditure and Reform for a period not to exceed five years, unless the Minister sees fit to reappoint a Director for a second term. The roles of the Chairman of the Board and Chief Executive Officer (CEO) are separate. The CEO is employed full time and does not have any other significant commitments. All Directors except for the CEO are independent non-Executive Directors. The Board met seven times in 2013 and is responsible for the proper management of the HFA.



Members	Occupation	Date of appointment	Length of Service to 31 Dec 2013	Meetings eligible to attend	Meetings attended
Michelle Norris (Chairman)	Senior Lecturer	22/2/2012	1 year, 10 months	7	7
Barry O'Leary (CEO)*	Chief Executive Officer	26/8/2013	4 months	3*	3
Colm Brophy	Councillor	13/3/2012	1 year, 9 months	7	7
Padraic Cafferty	MD of Datascan	21/3/2012	1 year, 9 months	7	6
John Hogan	Civil Servant	22/2/2012	1 year, 10 months	7	7
Gerry Leahy	Estate Agent	30/4/2012	1 year, 8 months	7	5
Jackie Maguire	County Manager	7/3/2002	11 years, 9 months**	7	4
James Miley	Business Consultant	13/3/2012	1 year, 9 months	7	7
Michelle Murphy	HR Regional Manager	30/4/2012	1 year, 8 months	7	7
Michael Murray	Financial Service Consultant	30/4/2012	1 year, 8 months	7	7
Philip Nugent	Civil servant	7/4/2008	5 years, 8 months	7	7
Mary Lee Rhodes	Lecturer	21/3/2012	1 Year, 9 months	7	6

\*Appointed as Director on 26 August 2013

\*\*Please see Corporate Governance Compliance Statement on page 26

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, housing valuation, the Voluntary Housing Sector, the DoECLG and Department of Finance which should enable the HFA to address major future challenges.

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 HFA and its future direction such as major acquisitions and disposals, 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 HFA's professional advisors are available for consultation with the Directors as required. Individual Directors may take independent professional advice, if necessary, at the HFA's expense.

### Boardroom Diversity

The Board believes that diversity is important for effectiveness and has been following the debate regarding gender, age, culture, educational background and professional experience. While the Board does not think specific quotas on such criteria as gender are appropriate and believes that the opportunities should be made on merit, it does believe that a diverse mix of skills, experience, and knowledge background is important of which gender is a significant element.

# Governance and Oversight - Corporate Governance Statement (continued)

As at 31 December 2013 there were four female members on the Board out of twelve members. The CEO and employees are also subject to a Code of Conduct and must comply with all statutory requirements, namely Equal Status Act (2000), Equality Act (2004), Disability Act (2005) Part 5 and Civil Law (Miscellaneous Provisions) Act (2008) to ensure that the work environment is free of discrimination based on membership of the Traveller Community, race or ethnic origin, religion or belief, age, disability, sexual orientation or gender in relation to employment and occupational or vocational training. Looking beyond the Board, the HFA also recognises the importance of diversity including gender diversity and the benefits this could bring to the organisation.

## Board Committees

The Board has an effective committee structure to assist in the discharge of its responsibilities. Please see the terms of reference for each Board committee available on the HFA website, [www.hfa.ie](http://www.hfa.ie):

## Audit Committee

The purpose of the Audit Committee, as per its terms of reference, is to assist the Board in its general oversight of the HFA's financial reporting, internal controls and audit functions. 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/Head of Finance), external consultants, and the external and internal auditors. The terms of reference for the Audit Committee were updated in February 2014 to take into account the revisions to the UK Corporate Governance Code. The Audit Committee has an agenda, as per its terms of reference, for the year that includes:

- monitoring the financial reporting process, integrity of the Financial Statements and any formal announcements relating to the HFA's financial performance;
- reviewing significant financial reporting judgements
- reviewing any proposed changes to corporate governance practices and endorse the same for adoption by the Board;

- monitoring the statutory audit of the annual accounts;
- reviewing the External Auditor's performance, objectivity, qualification and independence;
- making recommendations to the Board in relation to the appointment of the External Auditor, the approval of the Auditors' remuneration and terms of engagement;
- monitoring the effectiveness of the HFA's risk management and internal control arrangements; and,
- reviewing the cost of funds and interest rates charged accordingly.

In line with Provision C.3.4 of the UK Corporate Governance Code, the Board has extended the Committee's remit such that the Committee must now formally advise the Board on whether the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the performance of the HFA, along with its business model and strategy.

Risk is overseen by the Risk Management Committee, consisting of the CEO, Head of Treasury and Head of Finance/Company Secretary, which reports to the Audit committee and the Board on a regular basis. An annual review of the Risk Management and Framework was performed by the Board at its April 2014 meeting.

## Scheduled Audit Committee meetings for the year ended 31 December 2013:

Members	Meetings eligible to attend	Meetings attended
Colm Brophy	4	3
Padraic Cafferty	4	3
Gerry Leahy	4	3
Jackie Maguire	4	3
James Miley	4	2
Michael Murray	4	3

The Chief Executive Officer, Company Secretary, Head of Treasury and representatives of the External Auditors attend upon invitation.

## Monitoring the Integrity of the Financial Statements including Significant Judgements

### Financial Reporting

The Audit Committee receives and considers regular reports on financial performance from Management during the course of the year, as well as directing the work of and receiving reports from the Internal Auditor and discussing the audit strategy and focus of the External Auditor. Taking into the account the information from these activities and views from the meetings of the Board of Directors, the Audit Committee determined the key risks of financial reporting related to the availability of funding and going concern and provisions for doubtful debts arising on post-1986 loans in the context of current market conditions.

These issues were discussed with Management during the year, with the auditor at the time the committee reviewed and agreed the External Auditor's audit plan and also at the conclusion of the external audit of the Financial Statements.

Management represented to the Audit Committee that the HFA's audited Financial Statements were prepared in accordance with generally accepted accounting principles in Ireland (Irish GAAP). This review included a discussion with Management of the quality, not merely the acceptability, of the HFA's accounting principles, the reasonableness of significant estimates and judgments and the clarity of disclosure in HFA's Financial Statements, including the disclosures related to critical accounting estimates.

### Availability of funding and going concern

These Financial Statements have been prepared on a going concern basis. The most significant risks and uncertainties that currently impact the HFA are difficulties in relation to access to funding. As a result the HFA remains heavily reliant on short term funding. The majority of the HFA's funding is sourced from the NTMA through the GN programme. The Audit Committee has reviewed the written assurances received from the Department of Finance addressed to the DoECLG confirming that it has requested the NTMA to continue to

provide GN funding to the HFA over the next twelve months. This assurance details a funding requirement which coincides with the net advances projected by the HFA for the next twelve months. The Audit Committee is satisfied with the disclosures of the appropriateness of the going concern assumption and access to funding that are made in these Financial Statements.

### Provisions for doubtful debts arising on loans issued post-1986

In the assessment of credit risk arising on loans issued to Local Authorities post 1986, The Audit Committee has considered the opinion of the Board of Directors that, in substance, no credit risk arises, other than sovereign risk, on these loans. This opinion is based on local authorities being statutory bodies under the Local Government Act 2001, the revenues or funds being security of the due payment to the HFA, the loans having been approved by the Minister for the Environment, Community and Local Government and the Board of Directors' understanding that Central Government supports local authorities in meeting their obligations to the HFA. The HFA has not experienced any losses on its loans advanced to local authorities after 1986. The Audit Committee is satisfied with the use of this assumption in preparation of these Financial Statements and with the disclosure of these circumstances.

### Misstatements

Management confirmed to the Audit Committee that it was not aware of any material misstatements or immaterial misstatements made intentionally to achieve a particular presentation.

### Discussions with the Auditor

The Audit Committee has received and discussed a report from the External Auditor on the findings from the external audit engagement, including those relating to the risks noted above. The External Auditor reported to the Audit Committee the misstatements that they had found in the course of their work and no material amounts remain unadjusted.

# Governance and Oversight - Corporate Governance Statement (continued)

## Conclusion

After reviewing the presentations and reports from Management and Internal Audit and taking into account views expressed by the External Auditor, the Audit Committee is satisfied that the Financial Statements appropriately address the critical judgements and key estimates, both in respect to the amounts reported and the disclosures. The Committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust.

## Recommendation of approval of Financial Statements

In reliance on these reviews and discussions and the reports of the External Auditor, the Audit Committee has reported to the Board that it considers the Financial Statements, taken as a whole, to be fair, balanced and understandable and provides the information necessary for stakeholders to assess the HFA's performance, business model and strategy. The Audit Committee also recommended the inclusion of the audited Financial Statements in the HFA's Annual Report for the year ended 31 December 2013.

## External Audit

### Audit Firm Tendering

The Committee acknowledges the provisions contained in the UK Corporate Governance Code in respect of audit tendering. As per the UK Corporate Governance Code, FTSE 350 companies are now required to put their external audit contract out to tender at least every 10 years. The Committee has considered the audit tendering provisions outlined in the UK Corporate Governance Code. Given the size of the HFA it is not obliged to tender. However the Committee will continue to review this position annually. The HFA concluded a formal audit tender process in the year to 31 December 2012. During this process the Committee recommended the appointment of KPMG as independent External Auditor for a tenure of 3 years. Subject to the continued satisfactory performance of KPMG, it is the current intention to tender for the External Audit during the financial year ended 31 December 2015.

## Ensuring the independence of our external auditor

The Audit Committee believes the independence of the HFA's External Auditor is crucial to the effectiveness of its corporate governance and should not be compromised. The issue of auditor independence is taken very seriously and is reviewed annually. KPMG has provided the Audit Committee with written disclosures regarding its communications with the Audit Committee concerning independence, and the Audit Committee has discussed with KPMG and management that firm's independence. There were no issues to note.

In 2013, apart from audit work, the HFA also awarded non-audit work to its independent auditor including taxation services. The Audit Committee reviewed non-audit work performed by the External Auditor and confirmed that there is no adverse effect on actual or perceived independence or objectivity of the audit work itself.

A summary of fees for audit and non-audit services to the HFA's independent auditor, KPMG, for the financial years ended 31 December 2013 and 2012 is as follows:

	31 December 2013	31 December 2012
Year ended	€'000	€'000
Audit of Financial Statements	29	29
Tax advisory services	4	3
Other services	-	8
<b>Total Auditor's remuneration</b>	<b>33</b>	<b>40</b>

## Liaising with External Auditors

The Audit Committee provides a link between the Board and the External Auditor and is independent of the HFA's management. KPMG, the HFA's independent registered accounting firm, is responsible for performing an independent audit of the HFA's Financial Statements in accordance with Standards of Auditing in the UK and Ireland. The Audit Committee has ultimate authority and responsibility for selecting, compensating, evaluating, and, when appropriate, replacing the HFA's independent audit firm. In accordance with Section 160(2) of the Companies Act 1963-2013, the auditor, KPMG, Chartered Accountants, will continue in office.

The Audit Committee pre-approves all services to be provided by External Auditors. Pre-approval includes audit services, audit-related services, tax services, and other services. Please see a breakdown down of fees charged by external independent auditors above.

The Audit Committee also has the authority to engage its own outside advisors, including experts in particular areas of accounting, as it determines appropriate, apart from counsel or advisors hired by Management.

### Assessment of External Audit Process

The performance of the External Auditor is reviewed annually by the Committee at the end of the annual audit cycle. The review encompasses taking into account feedback from Management and staff of the HFA involved in the audit process together with a review of the level of service provided by KPMG to the HFA. Based on its consideration of the feedback, together with its own on-going assessment, for example through the quality of the External Auditors' reports to, and the audit partner's interaction with the Committee, the Audit Committee is satisfied that KPMG continues to provide an effective audit service.

### Review of internal controls

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 Audit Committee has regard to what, in its judgement, is appropriate to the HFA'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 Board, at its September 2012 meeting, agreed that the task of reviewing risks, in detail, would in future be reserved as a standing agenda item for meetings of the Audit Committee. The Audit Committee subsequently reports and makes recommendations to the Board on its findings, with the Board tasked with overseeing risk and considering recommendations from the Committee.

At most of the meetings of the Audit Committee a review is undertaken of one area of risk as detailed in Section A4 of the HFA's Risk Register, contained within its Risk Management Framework and Policy.

The HFA'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, due to changes in conditions, the effectiveness of an internal control system may vary over time and the management of the HFA endeavours to amend internal control systems in line with changes in the underlying business in a timely manner.

The Audit Committee assesses material risks namely:

- funding, liquidity and going concern risks;
- credit risk associated with post 1986 local authority lending;
- credit risk associated with AHB lending;
- credit risk associated with pre 1986 local authority lending; and,
- defined benefit pension scheme.

The Directors have established an organisational structure with defined responsibility for internal control for each element of the HFA'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 organisational structure with appropriate segregation of duties and limits of authority;
- (b) internal financial controls documented in a Policies and Procedures Manual which is reviewed semi-annually and any subsequent changes 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 HFA identifying key risks and opportunities;

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

- (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. Whilst the Directors have the responsibility for the preparation of the Financial Statements, the Directors are 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 prior to being submitted to the Audit Committee. The Annual Report is also reviewed by the Audit Committee in advance of being presented to the Board for its approval.

The Audit Committee has reviewed and discussed with Management its assessment and report on the effectiveness of the HFA's internal control over financial reporting and information technology as of 31 December 2013.

### Committee Effectiveness

The effectiveness of the Committee is reviewed on an annual basis by both the Board and the Committee itself. Following such reviews, the Committee is satisfied to advise that it is considered to discharge its duties, as per its terms of reference, in an effective and efficient manner.

### Board Performance Review Committee

The Board Performance Review Committee met once during the year. The Committee was established in 2008 for the formal evaluation of the Boards 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. For further information please refer to the Corporate Governance Compliance Statement on page 31.

Scheduled Board Performance Review Committee meetings for the year ended 31 December 2013:

Members	Meetings eligible to attend	Meetings attended
Colm Brophy	1	1
John Hogan	1	1
Jim Miley	1	1
Michelle Murphy	1	0

### Finance Committee

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

The Committee is empowered on behalf of the HFA 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 2013 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 2013. No circumstances arose during 2013 which necessitated the convening of a meeting of the Remuneration Committee. For further information please refer to the Corporate Governance Compliance Statement.

### 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 2013 €	Fees 2012 €
Michelle Norris	-*	-*
Colm Brophy	7,695	6,181
Padraic Cafferty	7,695	6,013
John Hogan	-	-
Gerry Leahy	7,695	5,172
Jackie Maguire	-	-
James Miley	7,695	5,172
Michelle Murphy	7,695	5,172
Michael Murray	7,695	6,181
Philip Nugent	-	-
<b>Total</b>	<b>46,170</b>	<b>33,891</b>

\* During 2013 a sum of €5,182 was paid 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 in 2012 and 2013.

The remuneration of the Executive Director/Chief Executive Officer is detailed in Note 6 to the Financial Statements. Total expenses reimbursed to Directors during 2013 for travel and subsistence were €3,101 (2012: € 5,146).

### Credit Committee

The HFA's Credit Committee is comprised of Board members and Management. The Committee was established in 2009, to maintain credit risk within Board policy, to review the creditworthiness of AHBs and approve credit risk limits and to ensure 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 six times during the year.

### Scheduled Credit Committee meetings for the year ended 31 December 2013:

Members	Meetings eligible to attend	Meetings attended
Michelle Norris	6	6
Barry O'Leary*	6	6
Colm Brophy	6	5
Tom Conroy	6	5
Jackie Maguire**	1	0
Michael Murray	6	5
Mary Lee Rhodes**	5	4

\* Appointed as Director on 26 August 2013

\*\* Jackie Maguire resigned from the Committee on 25 April 2013 on the appointment of Mary Lee Rhodes

# Governance and Oversight - Corporate Governance Statement (continued)

## 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 HFA and its operations and comprises the provision of relevant briefing material, including details of the HFA's strategic and operational plans, and a programme of meetings with the Chief Executive Officer and Senior Management.

## Relations with stakeholders

The Directors and Management maintain an on-going dialogue with the HFA's stakeholders 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.

## Accountability and Audit

### Accounts and Directors' Responsibilities

The Directors are of the view that the Annual Report for the year ended 31 December 2013 is consistent with the UK Corporate Governance Code principles requiring the presentation of 'a fair, balanced and understandable assessment of the Company's position and prospects'. The Directors have reviewed the 2013 Annual Report and believe that it presents a fair, balanced and understandable assessment of the HFA's position and prospects.

## Corporate Governance Compliance Statement

The Directors are pleased to report that the HFA has chosen to voluntarily comply with the *UK Corporate Governance Code 2012*, issued by the Financial Reporting Council, *The Irish Corporate Governance Annex*, issued by the Irish Stock Exchange and *The Code of Practice for the Governance of State Bodies*, published by the Department of Finance, during the year ended 31 December 2013 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 provisions B.2.1 of the Code are not applicable to the HFA. This appointment process also addresses the HFA'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 current Board of the HFA, the DoECLG asked persons interested to apply on their website for vacancies on the boards of bodies under their aegis. Ministers are 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 in 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, in accordance with provision A.4.1 of the Code. It has been concluded that it is not appropriate in the circumstances to nominate a non-Executive board member as a Senior Independent non-Executive Director.

### Independence of non-Executive Director

Jackie Maguire was reappointed to the Board in 2012 having been originally appointed in 2002. The length of her service on the Board exceeds ten years and the UK Corporate Governance Code, under provision B.1.1, provides that an explanation 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 HFA and has other significant commercial commitments. Ms Maguire has extensive experience of the unique environment in which the HFA operates. Her experience and long term perspective on the HFA'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.

### 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, provision B.2.1 of the Code is not applicable to the HFA Directors' appointment. There is no policy for board renewal.

### Director's Remuneration

There is no internally developed remuneration policy, as 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.

### External Review of the evaluation of Board Performance

Provision B.6.2 of The UK Corporate Governance Code requires that the Board of FTSE 350 companies should be evaluated by an external facilitator at least every three years. The HFA does not consider this provision of the code relevant to its present structure.

### Internal audit

Due to the size and nature of the HFA 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

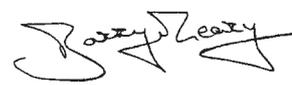
The Directors have complied with the disclosure guidelines set out in the Code of Practice for State Bodies, rather than following the UK Corporate Governance Code, in this respect, as they are considered to be more appropriate to the HFA.

On behalf of the Board,



**Michelle Norris**  
Chairman of the Board

3 April 2014



**Barry O'Leary**  
Chief Executive Officer

3 April 2014

# Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and 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 (Irish GAAP) comprising applicable law and the accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland together with the Companies Acts 1963 to 2013. Under company law the Directors must approve the Financial Statements when they are satisfied that they give a true and fair view of the state of affairs of the HFA and of its profit and loss for that period.

In preparing the Financial Statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the HFA will continue in business.

The Directors are also required under company law to include a Directors' report containing a fair review of the business and a description of the principal risks and uncertainties. Under Company law the Directors are required to prepare a report to deal, so far as is material for the appreciation of the state of the company's affairs, with any change during the financial year in the nature of the business of the company. The Directors are responsible for keeping proper books of account that

disclose with reasonable accuracy at any time the financial position of the HFA and enable them to ensure that its Financial Statements comply with the Companies Acts 1963 to 2013. 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 responsible for the maintenance and integrity of the website ([www.hfa.ie](http://www.hfa.ie)). The Directors are also responsible for preparing a Directors' report that complies with the requirements of the Companies Acts, 1963 to 2013.

## Directors' Statement

Each of the Directors, whose names and functions are listed on pages 2, 3 and 19, confirms that, to the best of each person's knowledge and belief:

- The HFA's Financial Statements, prepared in accordance with Irish GAAP, give a true and fair view of the assets, liabilities, financial position of the HFA at 31 December 2013 and of the profit of the HFA for the year then ended;
- The annual report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the HFA's performance, business model and strategy.

On behalf of the Board,



**Michelle Norris**  
Chairman of the Board

3 April 2014



**Barry O'Leary**  
Chief Executive Officer

3 April 2014



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

Opinion and conclusions arising from our audit.

## 1. Our opinion on the Financial Statements is unmodified

We have audited the Financial Statements ("Financial Statements") of the Housing Finance Agency plc ("HFA") for the year ended 31 December 2013 as set out on pages 32-70, which comprise the Income and expenditure account, Statement of total recognised gains and losses, Balance sheet, Cash flow statement, Statement of accounting policies and the related notes. Our audit was conducted in accordance with International Standards on Auditing (ISAs) (UK and Ireland).

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 HFA's affairs as at 31 December 2013 and of its surplus for the year then ended;
- the Financial Statements have been properly prepared in accordance with the Companies Acts 1963 to 2013.

## 2. Our assessment of risks of material misstatement

The risks of material misstatement detailed in this section of this report are those risks that we have deemed, in our professional judgement, to have had the greatest effect on: the overall audit strategy; the allocation of resources in our audit and directing the efforts of the engagement team. Our audit procedures relating to these risks were designed in the context of our audit of the Financial Statements as a whole. Our opinion on the Financial Statements is not modified with respect to any of these risks, and we do not express an opinion on these individual risks.

In arriving at our audit opinion above on the Financial Statements, the risks of material misstatement that had the greatest effect on our audit were as follows:

### Access to Funding and Going concern

*Refer to Page 18 Governance and Oversight – Corporate Governance Statement, Page 32 Statement of accounting policies.*

#### The risk

The HFA's access to debt markets remained restricted over the last number of years. At 31 December 2013 none of the HFA's funding was provided under the eurocommercial paper ("ECP") programmes. There is a risk that the HFA may not be able to access sufficient funding to refinance its liabilities as they fall due.

#### Our response

Our procedures included meeting with HFA's Audit Committee and Treasury Management to understand the HFA's funding requirements and plans. We also inspected a Board paper detailing the HFA's liquidity position and access to funding. In addition, we considered the written assurances from the Department of Finance ("DoF") to the HFA's sponsoring department, the Department of the Environment, Community and Local Government, confirming that the DoF had considered the HFA's liquidity and funding position and had requested the NTMA to provide the requisite Guaranteed Notes funding to the HFA. We have also assessed whether the disclosures in the Financial Statements appropriately reflect the Board's assessment of the HFA's funding risk and going concern basis of preparation.

### Credit risk on loans advanced to local authorities after 1986

*Refer to Page 18 Governance and Oversight – Corporate Governance Statement, Page 32 Statement of accounting policies.*

#### The risk

There is a risk that credit risk, other than sovereign risk, arises on loans advanced to the local authorities after 1986 and that loan loss provisions should be recorded in respect of these loans. It is the Board's opinion that, in substance, no credit risk, other than sovereign risk, arises on loans advanced to local authorities after 1986.

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

## Our response

Our procedures included consideration of the status of the local authorities and support received from central Government, inspecting the Master Loan Agreements, loan repayment history and payment status at 31 December 2013 and meetings with the HFA's Audit Committee and members of management. We have also assessed whether the disclosures included in the Financial Statements adequately reflect the Board's assessment of credit risk in respect of post 1986 loans.

## 3. Our application of materiality and an overview of the scope of our audit

Materiality is a term used to describe the acceptable level of precision in Financial Statements. Auditing standards describe a misstatement or an omission as "material" if it could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements. We identify a monetary amount "materiality for the Financial Statements as a whole" based on this criteria and apply the concept of materiality in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the Financial Statements and in forming our opinion on them.

The materiality for the Financial Statements as a whole was set at €22 million. This has been calculated using a benchmark of total assets, which we have determined, in our professional judgement, to be one of the principal benchmarks within the Financial Statements relevant to members of the HFA in assessing financial performance.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit in excess of €500,000; in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

The HFA consists of one component which is accounted for at the HFA's head office. The audit team performed the audit of this component using the materiality thresholds set out above. The scope of the audit work was designed so as to respond effectively to the risks of material misstatement the audit team judged to be significant, discussed above, and to provide reasonable assurance that the Financial Statements as a whole are not materially misstated.

## 4. We have nothing to report in respect of matters on which we are required to report by exception

ISAs (UK and Ireland) require that we report to you if, based on the knowledge we acquired during our audit, we have identified information in the Annual Report that contains a material inconsistency with either that knowledge or the Financial Statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified any inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and provides information necessary for shareholders to assess the entity's performance, business model and strategy; or
- the *Governance and Oversight – Corporate Governance Statement* does not appropriately disclose those matters that we communicated to the Audit Committee.

In addition, the Companies Acts require us 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 4 of the Chairman's Report does not reflect the HFA'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.

We also review, as agreed in our terms of engagement, the parts of the voluntary Corporate Governance Compliance Statement on page 26 relating to the HFA's compliance with the 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.

## 5. Our conclusions on other matters on which we are required to report by the Companies Acts 1963 to 2013 are set out below

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

The HFA balance sheet is in agreement with the books of account and, in our opinion, proper books of account have been kept by the HFA.

In our opinion the information given in the Directors' Report is consistent with the Financial Statements and the description in the *Governance and Oversight – Corporate Governance Statement* of the main features of the internal control and risk management systems in relation to the process for preparing the Financial Statements is consistent with the Financial Statements.

## 6. Basis of our report, responsibilities and restrictions on use

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 and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

An audit undertaken in accordance with ISAs (UK and Ireland) 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 HFA'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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent

with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Whilst an audit conducted in accordance with ISAs (UK and Ireland) is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather the auditor plans the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the Financial Statements as a whole. This testing requires us to conduct significant audit work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the engagement partner responsible for the audit, to subjective areas of the accounting and reporting.

Our report is made solely to the HFA'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 HFA'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 HFA and the HFA's members as a body, for our audit work, for this report, or for the opinions we have formed.



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

3 April 2014



# Statement of accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the HFA's Financial Statements.

## Basis of preparation

The Financial Statements have been prepared under the historic cost convention except where 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 and assets held in respect of defined benefit schemes 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.

Due to the nature of the HFA's business and the type of transactions it is engaged in, the Directors have adapted the profit and loss account to suit the circumstances of the business in accordance with Section 4(13) of the Companies (Amendment) Act, 1986. The Directors have chosen to present their Financial Statements in a format which is used by similar financial institutions which is a change in accounting policy implemented to better represent the operations of the HFA. Accordingly, the comparative figures for 2012 have been reclassified and presented on a consistent basis with current year Financial Statements. There have been no changes to the measurement of the comparative information and no effect on the HFA's financial position and results of operations and cash flows for 2012.

## Access to Funding and Going Concern

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 HFA the power to request the NTMA to undertake borrowing and debt management on the HFA's behalf. Under the terms of a formal agreement between the NTMA and the HFA, the HFA decides the general policy within which funding carried out by the NTMA together with the appropriate debt instruments, takes place. The HFA 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 €3.70bn in GNs at 31 December 2013 (2012: €3.98bn).

The HFA's access to debt markets remained restricted over the last number of years. At 31 December 2013 none of the HFA's funding was provided under the ECP and GN programme (2012: €18 million). The total ECP funding drawn during the year was €143 million (2012: €317 million), with an average tenor of 78 days (2012: 38 days). In light of this uncertainty surrounding access to funding the Board sought assurances from the Department of Finance. 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. The GNs are guaranteed by the Minister for Finance of Ireland.

Historically the HFA raised the majority of its funding through the ECP programme and in 2013 the HFA re-listed its ECP programme on the Irish Stock Exchange to facilitate a potential return to external markets. The impact on the HFA's cost of funds is difficult to gauge at this juncture but the Directors are satisfied that there is a sufficient range of funding options available, to allow the HFA continue to provide ongoing financing to its customers and to continue its operations into the foreseeable future.

The Directors are satisfied that, in the light of the Department of Finance's request to the NTMA, the HFA will have access to sufficient funding for at least 12 months from the 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 HFA will continue in business for the foreseeable future.

## Functional and presentation currency

These Financial Statements are presented in Euro, which is the HFA's functional currency. Financial information presented in euro has been rounded to the nearest thousand, except where indicated.

## 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 issued after 1986.

## Impairment loss on loans and advances

The HFA primarily lends to local authorities and to AHBs. These borrowers have a different credit risk profile. The most significant judgement on which the Financial Statements have been prepared relates to the Directors view of the credit risk of loans issued post 1986. A more detailed explanation regarding this can be found in Note 17(a).

The HFA lends to local authorities. 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, (d) the Board's understanding that central Government supports local authorities in meeting their obligations to the HFA and (e) the HFA has not experienced any loan losses on its loans advanced to local authorities after 1986, the Board is of the opinion that, in substance, no credit risk arises, other than sovereign risk, on loans advanced to local

authorities on or after 27 May 1986 and no loan loss provisions are recorded in respect of these loans.

Other areas of estimates which have a less significant impact on the HFA's financial reporting include impairment losses that may arise on loans issued before 1986 and employee benefits.

The HFA is liable for any credit losses that may arise on the €11.45 million (2012: €11.77 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 €1.71 million has been recognised in respect of these accounts. Refer to Note 17(a) for further details.

Direct lending to AHBs commenced in 2012 and loan losses are recognised on these loans to the extent that losses arise. No such losses arose in 2013.

## Employee benefits

The HFA 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 evaluated annually. This involves management, with the advice of an external actuary, to make 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 16 to the Financial Statements.

## Financial assets and liabilities

### Recognition

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

### Derecognition

The HFA 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.

## Statement of accounting policies (continued)

Any interest in transferred financial assets that is created or retained by the HFA is recognised as a separate asset or liability.

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

The HFA 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 only when the HFA 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 HFA 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 HFA 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 HFA 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 HFA 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 HFA 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.

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 loans 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.

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 a 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 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.

### Segment reporting

The HFA has only one type of operation carried out in one country. Management reviews the operations of HFA as a whole and do not distinguish operating segments. Therefore, operations are reported in these Financial Statements as a single segment.

### Operating lease

Costs from operating leases are disclosed separately in the Income and Expenditure Account 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 to 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.

## Employee Benefits

The HFA'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 HFA'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.

## Accounting Standards Update

In late 2012 and early 2013 the Financial Reporting Council in the UK issued a suite of standards that replace existing UK and Irish Accounting Standards ("Old UK GAAP" and "Old Irish GAAP"). Entities that are currently required by applicable law and regulation to apply EU endorsed International Financial Reporting Standards ("EU-IFRS") will continue to do so. Other entities, subject to eligibility, will be able to choose to prepare their Financial Statements in accordance with EU-IFRS, FRS 101 – Reduced Disclosure Framework, FRS 102 – The Reporting Standard applicable in the UK and Republic of Ireland, or the Financial Reporting Standard for Smaller Entities ("New GAAP"). The mandatory effective date for moving to New GAAP is accounting periods commencing on or after 1 January 2015, although early adoption is permitted.

The HFA is currently considering its accounting options and assessing the impact of the change in GAAP including its accounting and risk management systems, hedging strategies, and employee benefits.

Consistent with prior years, the 2013 Financial Statements are prepared under Old Irish GAAP and the 2014 Financial Statements will be prepared on the same basis. The Financial Statements for the year ended 31 December 2015 will be prepared under the selected New GAAP with comparatives restated as appropriate.

# Income and expenditure account

		31 December 2013	31 December 2012
	Note	€'000	€'000
Interest income	3	90,925	107,508
Interest expense	4	(69,964)	(90,819)
<b>Net Interest Income</b>		<b>20,961</b>	16,689
Administration expenditure	6	(1,194)	(1,171)
Depreciation on tangible assets	9	(23)	(24)
Operating lease	6	(153)	(153)
Administration expenses to local authorities	5	(100)	(102)
Direct lending to AHB expenses	5	(107)	(71)
Impairment charges	5	(299)	(328)
<b>Gain on ordinary activities before finance income</b>		<b>19,085</b>	14,840
Finance income	7	811	376
Finance expense	7	(136)	(112)
<b>Gain on ordinary activities after finance income</b>		<b>19,760</b>	15,104

On behalf of the Board,



**Michelle Norris**  
Chairman of the Board

3 April 2014



**Barry O'Leary**  
Chief Executive Officer

3 April 2014

# Statement of total recognised gains and losses

		<b>31 December 2013</b>	31 December 2012
	<b>Note</b>	<b>€'000</b>	<b>€'000</b>
<b>Gain on ordinary activities after finance income</b>		<b>19,760</b>	15,104
Actuarial gain/(loss)	<b>16</b>	<b>591</b>	(1,381)
<b>Total recognised gains for the financial year</b>		<b>20,351</b>	13,723

# Balance sheet

		31 December 2013	31 December 2012
<b>Assets</b>	<b>Note</b>	<b>€'000</b>	<b>€'000</b>
Cash and cash equivalents	8	74,352	20,881
Tangible assets	9	51	41
Loans and advances to local authorities and approved housing bodies	10	4,442,074	4,553,086
Other debtors and receivables		32	218
<b>Total assets</b>		<b>4,516,509</b>	<b>4,574,226</b>
<b>Liabilities</b>			
Debt securities in Issue	11	4,303,907	4,425,878
Bank loans	15	118,673	74,319
Pension scheme deficit	16	86	679
Other payables		608	466
<b>Total liabilities</b>		<b>4,423,274</b>	<b>4,501,342</b>
<b>Equity</b>			
Called up share capital	21	39	39
Retained surplus	22	93,196	72,845
<b>Total equity</b>		<b>93,235</b>	<b>72,884</b>
<b>Total liabilities and equity</b>		<b>4,516,509</b>	<b>4,574,226</b>

On behalf of the Board,



**Michelle Norris**  
Chairman of the Board

3 April 2014



**Barry O'Leary**  
Chief Executive Officer

3 April 2014

# Cash flow statement

		31 December 2013	31 December 2012
	Note	€'000	€'000
<b>Net cash inflow/(outflow) from operating and trading activities</b>	<b>18</b>	<b>133,472</b>	(61,510)
Returns on investments and servicing of finance		-	-
Capital expenditure	<b>19</b>	<b>(33)</b>	(26)
<b>Cash inflow/(outflow) before management of liquid resources and financing</b>		<b>133,439</b>	(61,536)
Cash (outflow)/inflow from management of liquid resources and financing	<b>20</b>	<b>(79,968)</b>	81,924
<b>Increase in cash during the year</b>		<b>53,471</b>	20,388
Cash and cash equivalents at 1 January		<b>20,881</b>	493
<b>Cash and cash equivalents at 31 December</b>		<b>74,352</b>	20,881

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

		31 December 2013	31 December 2012
	Note	€'000	€'000
<b>Increase in cash during the year</b>		<b>53,471</b>	20,388
Non-cash movements	20	(2,350)	(5,076)
Cash used to settle financing obligations	20	79,968	(81,924)
<b>Movement in net debt in the year</b>		<b>131,089</b>	(66,612)
Net debt at beginning of year		(4,479,316)	(4,412,704)
<b>Net debt at end of year</b>		<b>(4,348,227)</b>	(4,479,316)

# Notes forming part of the Financial Statements

## 1. Status of the HFA 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 Finance. The HFA 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 HFA is funded by the 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 2013, can be found in Note 12. The interest expense relating to these facilities including the NTMA and local authorities totalled €50.1m for the financial year (2012: €67.8m).

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. The management/administration of the HFA's pension scheme (see Note 16) transferred to Irish Life Corporate Business, effective from 1 January 2012.

In the normal course of business, the HFA deposits funds from short term surpluses that arise with Allied Irish Bank plc, (who are currently owned by the state), or the NTMA, on either of the HFA's treasury related or expense accounts. Interest earned on these deposits during 2013 was €0.68 million (2012:€0.27 million) and amounts on deposit as at 31 December 2013 were €74.35 million (2012:€20.88 million).

### Transactions with key management personnel

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

	31 December 2013	31 December 2012
	€'000	€'000
Salaries *	183	217
Directors' fees	46	34
Pension contributions	42	73
	<b>271</b>	<b>324</b>

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

## 2. Taxation status of the HFA

Under Section 218 of the Taxes Consolidation Act 1997, income earned by the HFA 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 HFA is entitled to pay dividends gross of Dividend Withholding Tax.

## 3. Interest income – continuing activities

	31 December 2013	31 December 2012
	€'000	€'000
Interest on advances to local authorities:		
Post 27 May 1986	89,783	106,355
Pre 27 May 1986	762	1,038
Interest on advances to approved housing bodies	380	115
	<b>90,925</b>	107,508

Total interest income on financial assets not carried at fair value through the Income and expenditure account amounted to €91.58 million which includes €0.67 million of Finance income (see Note 7) for the year ended 31 December 2013 (2012: €107.77 million which includes Finance income of €0.26 million).

## 4. Interest expense – continuing activities

	31 December 2013	31 December 2012
	€'000	€'000
<b><i>Index linked bonds effective interest</i></b>		
Bond interest	7,875	7,791
Premium on redemption of bonds (Note 14)	2,141	4,866
<b><i>Stock and loan costs</i></b>		
Interest payable on bank borrowings, commercial paper, guaranteed notes and stock	59,661	77,918
<b><i>Fees and commission expense</i></b>		
Eurocommercial Paper (ECP) fees	287	244
<b>Total interest expense</b>	<b>69,964</b>	90,819

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

### 5. Non Interest expenditure

	<b>31 December 2013</b>	31 December 2012
	<b>€'000</b>	€'000
<b>Administration expenditure</b>		
Operating lease (Note 6)	<b>153</b>	153
General expenditure, Directors emoluments and employee costs (Note 6)	<b>1,194</b>	1,171
Depreciation (Note 9)	<b>23</b>	24
<b>Total administration expenditure</b>	<b>1,370</b>	1,348
<b>Administration expense to local authorities</b>	<b>100</b>	102
<b>Direct lending to approved housing body expenses</b>	<b>107</b>	71
<b>Impairment Charges</b>		
Impairment Charges incurred on Pre May 1986 loans*	<b>299</b>	328

\*Refer to Note 17 for further detail on credit risk.

The HFA is liable for any credit losses that may arise on the €11.45 million (2012: €11.77 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 €1.71 million (2012: €1.41 million) has been recognised in respect of these loans. Refer to Note 17 (a) for further details. This provision is based on the HFA's best estimate, and subject to changes in the underlying assumptions may increase or decrease in future years.

### 6. Administration expenditure

#### Operating lease commitments

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

Lease expiring:	<b>Buildings</b>
	<b>€'000</b>
Not later than one year	-
After one year less than five years	<b>153</b>
After five years	-

## 6. Administration expenditure (continued)

### Administration expenditure

Administration expenditure has been arrived at after charging:

Year ended	31 December 2013	31 December 2012
	€'000	€'000
<b>Auditor's remuneration</b>		
Audit of Financial Statements	29	29
Tax advisory services	4	3
Other services	-	8
<b>Total Auditor's remuneration</b>	<b>33</b>	40
<b>General expenses</b>	<b>367</b>	322
<b>Directors' emoluments</b>		
Fees – Chairman	-*	-*
Fees – other Directors	46	34
Executive Director/Chief Executive Officer's remuneration	106**	123
Pension contributions	42**	73
<b>Total Director Emoluments</b>	<b>194</b>	230
<b>Employee costs (excluding Directors)</b>		
Salaries	432	448
Social welfare costs	41	41
Service costs-pension-present	125	90
Service costs-pension-past	-	-
<b>Total employee costs</b>	<b>598</b>	579
<b>Total Directors emoluments, employee costs and general expenditure (excl. administration fees to local authorities)</b>	<b>1,194</b>	1,171

\* A sum of €5,182 (2012: nil) was paid 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 for 2012 and 2013. The average number of employees, including the Executive Director, during the year was eleven (2012: ten).

\*\*Barry O'Leary was appointed a director on 26 August 2013 and received €34,715 remuneration and pension contributions of €13,886 since his appointment.

Total salaries for key management were €183k. The balance of €355k was for administration staff.

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

### 7. Finance income

Year ended	31 December 2013	31 December 2012
	€'000	€'000
Investment income on short-term deposits	14	1
Interest received on cash balances	681	271
Expected return on pension assets	116	104
<b>Net finance income</b>	<b>811</b>	<b>376</b>

### Finance expense

Year ended	31 December 2013	31 December 2012
	€'000	€'000
Interest cost on pension liabilities	136	112
<b>Total finance expense</b>	<b>136</b>	<b>112</b>

### 8. Cash and cash equivalents

Year ended	31 December 2013	31 December 2012
	€'000	€'000
Cash at bank and in hand	352	20,881
Amounts held on short term deposits with the NTMA	74,000	-
	<b>74,352</b>	<b>20,881</b>

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

Year ended	31 December 2013
	€'000
<b>Cost or valuation</b>	
At 1 January 2013	186
Additions	33
Disposals*	-
<b>At end of year</b>	<b>219</b>
<b>Accumulated Depreciation</b>	
At beginning of year	145
Disposals*	-
Charged for year	23
<b>At end of year</b>	<b>168</b>
<b>Net book value</b>	
<b>31 December 2013</b>	<b>51</b>
31 December 2012	41

\*No assets were disposed of during the year. In 2012, assets with an original cost of €12,084 were disposed of, which were fully depreciated prior to disposal, for nil value.

## 10. Loans and advances to local authorities and approved housing bodies

Year ended	31 December 2013	31 December 2012
	€'000	€'000
Loans advanced to local authorities	4,305,935	4,431,900
Loans advanced to approved housing bodies	22,818	8,748
<b>Total balances due on advances</b>	<b>4,328,753</b>	4,440,648
Less: Incurred but not reported losses	(1,711)	(1,412)
	<b>4,327,042</b>	4,439,236
Due from local authorities and approved housing bodies	115,032	113,850
<b>Total loans and advances to local authorities and approved housing bodies</b>	<b>4,442,074</b>	4,553,086

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

### 10. Loans and advances to local authorities and approved housing bodies (continued)

The HFA is liable for any credit losses that may arise on the €11.45 million (2012: €11.77 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 provision of €1.71 million has been recognised in respect of these loans. Refer to Note 17 (a) for further details. This provision is based on the HFA's best estimate of the present value of estimated future cash flows compared to the carrying value of the loans as at 31 December 2013 and subject to changes in the underlying assumptions and may increase or decrease in future years.

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, (d) the Board's understanding that central Government supports local authorities in meeting their obligations to the HFA and (e) the HFA has not experienced any loan losses on its loans advanced to local authorities after 1986.

The Board is of the opinion that, in substance, no credit risk arises, other than sovereign risk, 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 17 (a) for further details.

Direct lending to approved housing bodies commenced in 2012 and loan losses are recognised on these loans to the extent that losses arise. No such losses arose in 2013 and no provision is considered necessary in respect of these advances as at 31 December 2013.

### 11. Debt securities in issue

Year ended	31 December 2013	31 December 2012
	€'000	€'000
Commercial paper and Guaranteed notes (Note 12)	4,004,668	4,128,990
Index Linked Bonds (Note 13)	202,369	200,378
8.75% Housing Finance Agency Stock (Note 14)	96,870	96,510
<b>Total Debt Securities Issued</b>	<b>4,303,907</b>	<b>4,425,878</b>

### 12. Debt securities in issue - Commercial Papers and Guaranteed Notes

Year ended	31 December 2013	31 December 2012
	€'000	€'000
Commercial Papers	-	17,962
Guaranteed Notes		
National Treasury Management Agency	3,703,756	3,982,178
Local authorities	287,378	119,242
Environment Fund	7,244	4,928
<b>Total Commercial Paper and Guaranteed Notes advanced</b>	<b>3,998,378</b>	<b>4,124,311</b>
Interest Payable on Commercial Papers and Guaranteed Notes	6,290	4,680
<b>Total Commercial Papers and Guaranteed Notes</b>	<b>4,004,668</b>	<b>4,128,990</b>

The Commercial paper and Guaranteed Notes are fully guaranteed by the Minister for Finance.

### 13. Debt securities in issue - Index linked bonds

	<b>31 December 2013</b>	31 December 2012
	<b>€'000</b>	€'000
<b>HFA bond issues issue 4% Index Linked Bonds 2015</b>		
<b>Nominal value of bonds</b>	<b>95,230</b>	95,230
Net unamortised expenses and premium/discount on issue	<b>267</b>	418
Provision for premium on redemption of bonds	<b>104,881</b>	102,740
<b>Total bonds in Issue</b>	<b>200,378</b>	198,388
Interest payable on Index Linked Bonds	<b>1,991</b>	1,990
<b>Total Index Linked Bonds</b>	<b>202,369</b>	200,378

Maturities of the debt securities in issue are tabled in Note 17 (c).

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

	<b>Total</b>	<b>Deferred</b>	<b>Provided</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
<b>31 December 2013</b>			
At beginning of year	<b>104,356</b>	<b>(1,616)</b>	<b>102,740</b>
Arising during the year	<b>1,294</b>	<b>847</b>	<b>2,141</b>
At end of year	<b>105,650</b>	<b>(769)</b>	<b>104,881</b>
<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	104,356	(1,616)	102,740

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

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

### 14. Debt securities in issue - 8.75% Housing Finance Agency Stock

	<b>31 December 2013</b>	31 December 2012
	<b>€'000</b>	€'000
8.75% Housing Finance Agency Stock at par value	<b>95,230</b>	95,230
Less: unamortised discount on issue	<b>(1,510)</b>	(1,870)
	<b>93,720</b>	93,360
Coupon interest payable	<b>3,150</b>	3,150
<b>Total</b>	<b>96,870</b>	96,510

The par value due on redemption and interest on this stock are fully guaranteed by the Minister for Finance. Maturities of the debt securities in issue are tabled in Note 17 (c).

### 15. Bank loans

<b>Year ended</b>	<b>31 December 2013</b>	31 December 2012
	<b>€'000</b>	€'000
<b>Bank loans</b>		
Between one and two years	-	-
Between two and five years	<b>5,022</b>	1,438
After more than five years	<b>113,651</b>	72,880
	<b>118,673</b>	74,318

The bank loans payable are fully 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 split out in Note 17(c).

### 16. Pension (deficit)/surplus

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

The latest full actuarial valuation was carried out at 30 September 2012 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 2013 the market value of the fund's assets was €2.70 million (2012: €3.38 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.

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

For the purposes of FRS 17 Retirement Benefits the latest valuations have been updated to 31 December 2013 by a qualified independent actuary using the projected unit cost method. The principal actuarial assumptions used were as follows:

	<b>31 December 2013</b>	31 December 2012	31 December 2011
	<b>%</b>	%	%
Rate of increase in salaries	<b>3.50</b>	3.50	3.75
Rate of increase in pensions payments	<b>2.00</b>	2.00	2.00
Discount rate	<b>4.00</b>	3.25	5.10
Inflation assumption	<b>2.00</b>	2.00	2.00
<b>Mortality rate</b>			
Post retirement – male age 65	<b>24.1 years</b>	24.1 years	23.5 years
Post retirement – female age 65	<b>27.8 years</b>	27.8 years	25.3 years

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

	<b>31 Dec 2013</b>	31 Dec 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
	<b>€'000</b>	€'000	€'000	€'000	
<b>Pension Assets</b>	<b>2,699</b>	3,381	2,773	2,631	2,823
<b>Pension Liabilities</b>	<b>(2,785)</b>	(4,060)	(2,124)	(1,894)	(2,344)
<b>Surplus/Deficit</b>	<b>(86)</b>	(679)	649	737	479

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

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

### 16. 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:

	<b>Long-term rate of return expected at 31 December 2013</b>	<b>Value at 31 December 2013</b>	Long-term rate of return excepted at 31 December 2012	Value at 31 December 2012	Long-term rate of return excepted at 31 December 2011	Value at 31 December 2011
	<b>%</b>	<b>€'000</b>	<b>%</b>	<b>€'000</b>	<b>%</b>	<b>€'000</b>
Equities	<b>6.10</b>	<b>2,264</b>	5.70	2,691	7.00	1,335
Bonds	<b>3.10</b>	<b>385</b>	2.70	644	4.00	1,258
Property	<b>4.10</b>	<b>50</b>	3.70	46	6.50	83
Cash and other assets	<b>1.00</b>	<b>-</b>	1.00	-	2.00	97
Total market value of pension scheme assets		<b>2,699</b>		3,381		2,773
Present value of pension scheme liabilities		<b>(2,785)</b>		(4,060)		(2,124)
<b>Total net pension (deficit)/ surplus recognised in the balance sheet</b>		<b>(86)</b>		(679)		649

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 6.1% p.a., for property 4.1%, for bonds 3.1%. For cash, the expected return is 1.0%.

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

	<b>31 December 2013</b>	31 December 2012
	<b>€'000</b>	€'000
Present Value of defined benefit obligations at 1 January	<b>(4,060)</b>	(2,124)
Current and past service cost	<b>(125)</b>	(90)
Interest cost	<b>(136)</b>	(112)
Contributions by employees	<b>(25)</b>	(20)
Actuarial (losses) and gains	<b>187</b>	(1,725)
Benefits paid	<b>1,374</b>	11
Present Value of defined benefit obligations at 31 December	<b>(2,785)</b>	(4,060)

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

Changes in the fair value of plan assets are as follows:	31 December 2013	31 December 2012
Fair value of plan assets at 1 January	3,381	2,773
Expected return on plan assets	116	104
Contributions by employer	147	150
Contributions by employees	25	20
Actuarial gains	404	344
Benefits paid	(1,374)	(10)
Fair value of plan assets at 31 December	2,699	3,381

### History of actuarial gains and losses

	31 Dec 2013	31 Dec 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
	€'000	€'000	€'000	€'000	€'000
Difference between expected and actual return on assets	404	344	(190)	75	152
Expressed as a percentage of scheme assets	14.97%	10.17%	6.86%	2.85%	5.38%
Experience (losses) and gains on scheme liabilities	187	(1,725)	38	34	(89)
Expressed as a percentage of scheme liabilities	6.71%	42.49%	1.4%	1.8%	2.30%
<b>Total actuarial gains and (losses)</b>	<b>591</b>	<b>(1,381)</b>	<b>(152)</b>	<b>109</b>	<b>63</b>
<b>Expressed as a percentage of scheme liabilities</b>	<b>21.22%</b>	<b>34.01%</b>	<b>7.16%</b>	<b>5.76%</b>	<b>2.69%</b>

### Cumulative actuarial gains and losses recognised in the Statement of Total Recognised Gains and Losses:

	31 December 2013	31 December 2012
Cumulative amount at 1 January	(2,500)	(1,119)
Recognised during the period	591	(1,381)
Cumulative amount at 31 December	(1,909)	(2,500)

The amounts related to the defined benefit scheme that were recognised in income and expenditure account are presented in Note 7.

### Expected Employer contributions

	2014	2013
	€'000	€'000
Expected Employer contributions	130	130

# Notes forming part of the financial statements (continued)

## 17. Financial risk management

### Introduction and overview

The HFA 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 HFA's exposure to each of the above risks and the HFA'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 HFA's Risk Management Framework. The HFA's risk management policies are established to identify and analyse the risks faced by the HFA, 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 and products and services offered. The HFA's Policies and Procedures manual includes policies on the use of derivative financial instruments. These support and ensure that HFA 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 HFA's assets and liabilities.

The current 'Specification and Requirements' (valid to 31 December 2014), 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 Head of Finance (in the case of those involving the NTMA as agent/counterparty, the NTMA 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 Head of Finance) 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 HFA enters into foreign currency forward rate agreements. The HFA had no ECP deals (2012: €18 million) outstanding at the year end. Further details in respect of currency risk are included in note (c) below.

While the below tables set out the purpose for which lending has been provided to local authorities, the HFA 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.

## 17. Financial risk management (continued)

### (a) Credit risk

Credit risk is the risk of financial loss to the HFA if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the HFA's loans and advances to its customers, Irish local authorities and approved housing bodies. The HFAs maximum exposure to credit risk is set out in the table below.

	<b>31 December 2013</b>	31 December 2012
	<b>€'000</b>	€'000
<b>Financial assets</b>		
Loans advanced to local authorities	<b>4,305,935</b>	4,431,900
Loans advanced to approved housing bodies	<b>22,818</b>	8,748
<b>Total loans advanced</b>	<b>4,328,753</b>	4,440,648
Less collective provision-local authorities	<b>(1,711)</b>	(1,412)
	<b>4,327,042</b>	4,439,236
Due from local authorities and approved housing bodies	<b>115,032</b>	113,850
Cash at bank and in hand	<b>74,352</b>	20,881
Due from other debtors and receivables	<b>32</b>	218
	<b>4,516,458</b>	4,574,184

The HFA 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 AHBs are categorised as follows:

	<b>31 December 2013</b>	31 December 2012
	<b>€'000</b>	€'000
<b>Balance due on advances</b>		
Mortgage Housing related loans*	<b>1,293,405</b>	1,364,841
Capital Subsidy and Rental	<b>1,139,420</b>	1,174,124
Bridging Finance	<b>495,269</b>	492,666
Land Acquisition	<b>507,011</b>	464,609
Water, Waste and Environment Projects	<b>355,810</b>	336,603
Other Non-Mortgage Housing Related Loans	<b>515,020</b>	599,057
<b>Advances due from local authorities</b>	<b>4,305,935</b>	4,431,900
<b>Advances due from approved housing bodies</b>	<b>22,818</b>	8,748
<b>Overall total balances due on advances</b>	<b>4,328,753</b>	4,440,648

\*Loans issued pre 1986 of €19.4m are included in the Mortgage Housing related loans

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

### 17. Financial risk management (continued)

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

##### Policies and Procedures for managing credit risk

##### Collateral

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 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 HFA liable for any impairment losses which may arise.

On post May 1986 loans the HFA has security, following the discharging of priority charges and payments, over the local authority's revenues or funds for the payment to the HFA 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 AHBs the HFA is permitted under section 17 of the Housing Miscellaneous Provision Act 2002 to lend to AHBs.

Under the Social Housing Leasing Initiative, 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 HFA has a Credit Policy regarding lending to AHBs which was approved by the Board in June 2013, and recently updated in February 2014. The Credit Committee maintains credit risk within Board limits and reports on the creditworthiness of AHBs.

##### Impaired and Past due loans

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

Impaired loans are loans for which the HFA 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 HFA had no loans and advances which are past due at 31 December 2013 (2012: nil). Details of loans that were subject to renegotiation in the year are in the Renegotiated Loans section of this note.

	<b>31 December 2013</b>	31 December 2012
	<b>€'000</b>	€'000
<b>Analysis of loans to local authorities</b>		
Pre 1986 loans	<b>19,400</b>	19,907
Post 1986 loans	<b>4,286,535</b>	4,411,993
Loans to approved housing bodies	<b>22,818</b>	8,748
	<b>4,328,753</b>	4,440,648
<b>Provision for incurred but not reported losses</b>		
Pre 1986 loans	<b>1,711</b>	1,412
Post 1986 loans	<b>-</b>	-
	<b>1,711</b>	1,412

## 17. Financial risk management (continued)

### (a) Credit risk (continued)

In substance, no material credit risk other than sovereign 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.

Loan losses are recognised on direct lending to approved housing bodies to the extent that losses arise. No such losses arose in 2013.

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 HFA's Credit Policy;
- consider and approve the creditworthiness of each AHB prior to a Master Loan Agreement being executed by the HFA;
- ensure that it has obtained all relevant documentation pertaining to the credit application; and
- maintain credit risk within Board approved limits.

### Mortgage Arrears Resolution Process (MARP)

In August 2012, the DoECLG provided assistance to local authorities in dealing with borrowers' mortgage arrears by issuing guidelines, detailing the proposed Mortgage Arrears Resolution Process (MARP). These reflect the Central Bank's Code of Conduct on Mortgage Arrears and have the intention of standardising an approach to the rising arrears levels in the Local Authority Sector. The MARP process consists of a five step process mentioned in the DoECLG's guidelines.

In order to offset future losses and to allay impending financial constraints on local authority revenue streams, the DoECLG established a MARP premium to begin to accumulate reserves. MARP has been operational for local authorities since 1 October 2012 through the application of a 0.30% premium to all variable mortgage related local authority loan accounts, increased to 0.55% from 1 July 2013. A MARP premium of 0.80%, (from 1 January 2014), will be collected by the HFA half-yearly and retained in separate interest bearing account with the intention of being drawn down, as necessary, when given the proper authorisation.

The City and County Managers Association have established an Adjudicating Panel to operate the MARP fund and to assess applications for assistance from local authorities under the Scheme. This Panel consists of a County Manager, Heads of Finance and an Executive Manager of the Housing Management Services. Applications for assistance from the MARP Premium Fund will be made on an on-going basis by local authorities. Decisions to approve/partially approve applications will be notified to the HFA, who will then arrange for payment of the approved amount from the MARP Fund to the applicant local authority, according to instructions received from the Panel.

# Notes forming part of the financial statements (continued)

## 17. Financial risk management (continued)

### (a) Credit risk (continued)

It should be emphasised that the HFA's only involvement in the MARP Fund will be to collect the MARP premium, on the local authorities' behalf, and to allow access to these funds as requested by the Adjudicating Panel, as per the instructions mentioned above.

### Discontinuance of the Land Aggregation Scheme

The DoECLG Land Aggregation Scheme (LAGS) first became operational in 2010 with the objective of gradually, over a period of about 10 years, reducing the outstanding loan balance for land on local authority books.

New arrangements were advised to local authorities in June 2012 in which the terms of the scheme were altered such that interest only land loans that have matured or are due to mature in 2012 and after, must either be repaid or converted into a standard annuity with a term of up to 25 years with the Department recouping the full cost of the capital and interest annuity payments.

In the context of the continuing pressure on Exchequer resources, a further review of the operation of LAGS by the Department, in consultation with the Department of Public Expenditure and Reform was completed in 2013. The review concluded that the land aggregation scheme be discontinued. Funding will continue to be made available, by the DoECLG, for the recouping of annuity loan payments to local authorities in respect of land already approved into the Scheme. Local authorities with loans not already accepted into the scheme were encouraged to contact the HFA to make arrangements as necessary.

The DoECLG will continue to engage with the HFA and the local government sector in relation to the management of the local authority loan book generally. The HFA have offered renegotiated loans terms for such loans, with Local Authorities, up to five years interest-only, with loans to revert thereafter to normal course annuities. This will enable the affected Local Authorities find alternative uses for the lands.

### Renegotiated Loans

Loans with renegotiated terms are loans that have been restructured due to budgetary circumstances and where the HFA has made concessions that it would not otherwise consider.

The HFA 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 HFA may extend loan terms, offer interest free periods or offer other renegotiations as appropriate.

During 2013 the HFA renegotiated €108.03 million (2012: €33.38 million) of non-housing related loans and €28.60 million (2012: nil) of housing related loans. These renegotiations have taken place in the context of €4.3 billion of loans advanced to local authorities as at 31 December 2013 and thus represents renegotiation activity of circa 3.80% in 2013 (2012: 0.75%).

## 17. Financial risk management (continued)

### (a) Credit risk (continued)

Renegotiated non-housing related and housing related loans did not result in impairment or derecognition of the original loan assets as it did not represent a significant modification of terms. The HFA ceases to consider these loans as renegotiated once one year of up to date scheduled repayments has elapsed post renegotiation. In this regard, the HFA considers €164.52 million of loans (2012: €33.38 million) to be renegotiated as at 31 December 2013 with €1.60 million (2012: €0.353 million) of interest income recognised on these assets.

	Number of loans	Carrying value €'000
Opening renegotiated loans	39	33,375
Renegotiated during the year	162	136,639
Repaid during the year		(109)
Less loans no longer considered renegotiated	(11)	(5,389)
<b>Closing renegotiated loans</b>	<b>190</b>	<b>164,516</b>

As at year ended 31 December 2013 €59.55 million (2012: €162.06 million) of land acquisition loans were converted upon maturity to annuity loans repayable over a period of up to 30 years. €132.40 million of land acquisition loans are no longer considered renegotiated at 31 December 2013 as we have received one full year of up to date scheduled repayments. Interest accrued on loans converted upon maturity at 31 December 2013 amounts to €0.62 million (2012: €1.72 million).

### Concentrations

All loans and advances are to local authorities and AHBs all of which are approved by the Minister for the Environment, Community and Local Government.

The HFA's credit risk also consists of its exposure to institutions (primarily the NTMA), 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 31 December the HFA had €74 million invested (2012: €nil) in Exchequer Notes with the NTMA.

Allied Irish Bank plc is currently the counterparty for cash, with €0.352m held at 31 December 2013 (2012: €20.881 million). At 31 December 2013, the Standard & Poor's rating for Allied Irish Bank plc was BB (2012: BB).

### (b) Liquidity risk

Liquidity risk is the risk that the HFA will encounter difficulty in meeting its obligations from its financial liabilities. The bulk of the HFA's lending – consisting mostly of 30-year annuities – is primarily funded by its Guaranteed Notes facility, guaranteed by the Minister for Finance of Ireland. Notes under this facility have tenors ranging from 1 day to 3 months, with a significant majority of Notes issued for 3 months. In contrast, loans and receivables have an average original loan term of 24 years (2012: 23 years). This represents a significant mismatch in the maturity profile, however, given the assurances received from the Department of Finance concerning the continuity and quantum of floating-rate funding, the Board considers that sufficient resources are available to cover any liquidity risk that may arise over the next 12 months. The HFA also holds Guaranteed Notes with local authorities and a small amount with the Environment Fund (see Note 12).

In managing liquidity risk, HFA management hold regular meetings with the NTMA, the Banks, AHBs and other market participants to assess future loan demand and funding requirements; agree access to funding sources; explore alternative funding sources and structures; negotiate terms and conditions and obtain the necessary funding commitments. In this regard the NTMA has confirmed that the HFA's funding requirements for 2014 have been included as part of the overall planning process for State funding.

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

### 17. 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
31 Dec 2013	€'000	€'000	€'000	€'000	€'000	€'000	€'000
<b>Non-derivative liabilities</b>							
Guaranteed Notes facility	(3,998,378)	(4,009,667)	(2,321,601)	(1,688,066)	-	-	-
20-year variable loan	(118,673)	(127,234)	-	(86)	(9,113)	(34,904)	(83,131)
Index linked bonds	(200,378)	(218,750)	-	-	(7,942)	(210,808)	-
Fixed Rate Stock 8.75%	(93,720)	(129,610)	-	(4,166)	(4,166)	(121,278)	-
	<b>(4,411,149)</b>	<b>(4,485,261)</b>	<b>(2,321,601)</b>	<b>(1,692,318)</b>	<b>(21,221)</b>	<b>(366,990)</b>	<b>(83,131)</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
31 Dec 2012	€'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>

#### 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 HFA'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.

## 17. Financial risk management (continued)

### (b) Liquidity risk (continued)

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, eurocommercial paper (ECP) and Global Note (GN) issuance, bank overdrafts and retained profits. Section 17 of the Housing (Miscellaneous Provisions) Act 2002 and Section 19 of the Planning and Development (Amendment) Act 2002 gives the HFA the power to request the NTMA to undertake borrowing and debt management on the HFA's behalf. The HFA acts in close consultation with, and on the advice of, the NTMA in regard to its ECP and GN programmes. The NTMA had purchased €3.70bn in GNs at 31 December 2013 (2012: €3.98bn).

At 31 December 2013 none of the HFA's funding was provided under the ECP programme (2012: €18 million). The total ECP funding drawn during the year was €143 million, with an average tenure of 78 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. The GNs are guaranteed by the Minister for Finance of Ireland.

Previous downgrading of the sovereign and consequently, the HFA credit ratings and the withdrawal of Ireland from the funding markets had significantly affected the HFA's access to funding through its ECP programme. In January 2014 Moody's Investors Service upgraded the short-term debt rating of the HFA's €6 billion ECP programme to P-3. This rating action reflects Moody's upgrade on 17 January 2014 of the Republic of Ireland's, the guarantor of the ECP programme, to Baa3/P-3 with a positive outlook.

The HFA's overdraft facilities (€50 million available at 31 December 2013) are subject to annual review by the HFA's bankers. The HFA 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 average variable cost of the HFA's debt in 2013 was an annualised 1.25% compared with 1.70% in 2012 due to a decrease in EURIBOR® rates throughout 2013.

### (c) Market risks

Market risk is the risk that changes in market prices, such as interest rate and foreign exchange rates will affect the HFA'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 HFA 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 floating rate. 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 HFA's business is subject to changes in government policy.

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

### 17. Financial risk management (continued)

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

The HFA'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 HFA 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 gross financial assets are analysed below:

	<b>31 December 2013</b>	31 December 2012
	<b>€'000</b>	€'000
Fixed rate	<b>50,392</b>	97,204
<b>Floating Rate:</b>		
EURIBOR®	<b>4,339,706</b>	4,344,440
Index linked	<b>128,071</b>	133,735
	<b>4,518,169</b>	4,575,379

The HFA made new fixed and floating rate advances during the financial year. (Fixed rate €0.45 million; Floating rate €138.24 million. (2012: Fixed rate €1.41 million; Floating rate €325.95 million). The HFA's index linked advances are classified as floating rate assets. Interest rate risk profile of financial assets as at:

	<b>31 December 2013</b>	31 December 2012
Weighted average fixed interest rate	<b>5.02%</b>	5.76%
Weighted average floating interest rate	<b>1.95%</b>	2.30%
Weighted average period of fixed interest assets	<b>13.5 years</b>	16.9 years

A large proportion of the HFA'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 23.7 years (2012: 23 years).

Floating rate liabilities include the HFA's GNs, 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.

## 17. Financial risk management (continued)

### (c) Market risks (continued)

The financial liabilities principal amounts are analysed below:

	<b>31 December 2013</b>	31 December 2012
	<b>€'000</b>	€'000
Fixed rate	<b>93,720</b>	93,360
<b>Floating Rate:</b>		
EURIBOR®	<b>4,117,051</b>	4,198,631
Index linked	<b>200,378</b>	198,388
	<b>4,411,149</b>	4,490,379

Interest rate risk profile of financial liabilities as at 31 December 2013:

	<b>31 December 2013</b>	31 December 2012
Weighted average fixed interest rate	<b>8.89%</b>	8.93%
Weighted average period for which fixed interest liabilities are fixed (years)	<b>4.1 years</b>	5.1 years
Weighted average floating interest rate	<b>1.25%</b>	1.70%
Weighted average period for which variable interest liabilities are fixed (days)	<b>80</b>	81

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.

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

	<b>Maturity</b>	Repricing
	<b>31 December 2013</b>	31 December 2013
	<b>€'000</b>	€'000
<b>Maturity and interest rate of financial assets</b>		
Amounts falling due in one month or less	<b>519,783</b>	4,363,948
Amounts falling due between one and three months	<b>1,744</b>	107,789
Amounts falling due between three and twelve months	<b>306,670</b>	3,047
Amounts falling due between one and two years	<b>73,726</b>	29
Amounts falling due between two and three years	<b>31,909</b>	418
Amounts falling due between three and four years	<b>30,074</b>	9,231
Amounts falling due between four and five years	<b>24,126</b>	2,512
Amounts falling due after more than five years	<b>3,530,137</b>	31,195
	<b>4,518,169</b>	4,518,169

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

### 17. Financial risk management (continued)

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

	<b>Maturity</b> <b>31 December 2012</b>	Repricing 31 December 2012
	€'000	€'000
<b>Maturity and interest rate 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>

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

	<b>Maturity</b>	<b>Repricing</b>
	€'000	€'000
<b>Maturity, liquidity measures and interest rate of financial liabilities as at 31 December 2013</b>		
Maturing in one month or less	<b>2,322,326</b>	<b>2,322,326</b>
Maturing between one and three months	<b>1,676,053</b>	<b>1,676,053</b>
Maturing between three and twelve months	-	-
Maturing greater than 1 year and less than 2 years	<b>200,377</b>	<b>200,377</b>
Maturing greater than 2 years and less than 3 years	<b>1,078</b>	<b>1,078</b>
Maturing greater than 3 years and less than 4 years	<b>3,945</b>	<b>3,945</b>
Maturing greater than 4 years and less than 5 years	<b>94,970</b>	<b>94,970</b>
Maturing greater than 5 years	<b>112,400</b>	<b>112,400</b>
	<b>4,411,149</b>	<b>4,411,149</b>

## 17. Financial risk management (continued)

### (c) Market risks (continued)

Maturity, liquidity measures and interest rate of financial liabilities as at 31 December 2012

	<b>Maturity</b>	<b>Repricing</b>
	<b>€'000</b>	<b>€'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>

### Undrawn committed facilities

The HFA had undrawn committed facilities at 31 December 2013 of €31.33 million (2012: €75.68 million), these are the amounts yet to be drawn down on approved committed facilities.

### Sensitivity to interest rate risk

An analysis of the HFA'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:

	<b>100 bp parallel increase</b>	<b>100 bp parallel decrease</b>	<b>50 bp parallel increase</b>	<b>50 bp parallel decrease</b>
	<b>€'000 Gain</b>	<b>€'000 (Loss)</b>	<b>€'000 Gain</b>	<b>€'000 (Loss)</b>
<b>At 31 December 2013</b>	<b>11,780</b>	<b>(12,023)</b>	<b>5,890</b>	<b>(5,932)</b>
At 31 December 2012	11,727	(11,898)	5,863	(5,949)

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 HFA may issue zero coupon commercial paper debt in currencies other than the functional currency. The NTMA, 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 2013, given that the HFA had no commercial paper debt in currencies other than the Euro, therefore no currency exposures existed (31 December 2012: none).

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

### 17. Financial risk management (continued)

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

##### Exposure to other market risks – non-trading portfolios

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

The HFA may issue ECP notes in currencies other than Euro. However, the HFA may hedge this currency exposure by entering into forward contracts to negate any currency risk. As 31 December 2013 there were no currency exposures and no outstanding foreign currency or 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 HFA's book. The HFA, 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 HFA'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 2013, the inflation mismatch was €76.80 million (2012: €69.26 million) - this mismatch is the bond values at 31 December 2013 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), Board sets aside reserves based on the net present value of potential losses at current market.

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 is a combination of the average income rate charged for the year less the EURIBOR® rate at the year end.

An analysis of the HFA'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
<b>At 31 December 2013</b>	<b>(384)</b>	<b>384</b>	<b>(192)</b>	<b>192</b>
At 31 December 2012	(346)	346	(173)	173

## 17. Financial risk management (continued)

### (c) Market risks (continued)

#### Fair value

The following tables outline the fair values of the financial assets and liabilities as at 31 December 2013 and 31 December 2012:

31 Dec 2013	Carrying value €'000	Fair value €'000
<b>Financial assets</b>		
Loans and receivables:		
Fixed rate	50,392	48,169
Floating rate	4,339,706	3,623,319
Index linked	128,071	120,600
	<b>4,518,169</b>	<b>3,792,088</b>
<b>Financial liabilities</b>		
Fixed rate	93,720	110,184
Floating rate	4,117,051	4,117,050
Index linked	200,378	192,739
	<b>4,411,149</b>	<b>4,419,973</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.

31 Dec 2012	Carrying value €'000	Fair value €'000
<b>Financial assets</b>		
Loans and receivables:		
Fixed rate	97,204	104,509
Floating rate	4,344,440	3,425,803
Index linked	133,735	137,962
	<b>4,575,379</b>	<b>3,668,274</b>
<b>Financial liabilities</b>		
Fixed rate	93,360	117,068
Floating rate	4,198,631	4,198,631
Index linked	198,387	209,474
	<b>4,490,378</b>	<b>4,525,173</b>

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

### 17. Financial risk management (continued)

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

The HFA 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 HFA's exposure to sovereign risk as discussed in the liquidity risk section of this note. As per the prior year, the floating rate liabilities are shown at par value due to the short term nature of their maturities.

The fair value of the HFA's assets has been estimated as €3.80bn (2012: €3.67bn) while the fair value of its liabilities has been estimated as €4.42bn (2012: € 4.53bn). A significantly different amount may arise if alternative assumptions were used in calculating fair value.

In selecting this methodology, the Directors 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.

### 18. Reconciliation of expenditure to net cash inflow from operating and trading activities

	31 December 2013	31 December 2012
	€'000	€'000
<i>Cash flows from operating activities</i>		
Profit for the period	19,760	15,104
Amortisation of premium on discount on liabilities	2,350	5,076
Depreciation	23	23
Impairment charges	299	328
<b>Net cash from operating activities</b>	<b>22,432</b>	20,531
<i>Cash flows from trading activities</i>		
Net decrease/(increase) in loans and advances to local authorities and approved housing bodies (excl. MPI provision)	110,712	(81,919)
Net (increase)/decrease in other debtors and prepayments	186	(190)
Net (decrease)/increase in other creditors	142	68
<b>Net cash from trading activities</b>	<b>111,040</b>	(82,041)
<b>Net cash inflow/(outflow) from operating and trading activities</b>	<b>133,472</b>	(61,510)

## 19. Analysis of cash flows from investing activities

	31 December 2013	31 December 2012
	€'000	€'000
<i>Cash flows from investing activities</i>		
Acquisition of computers and equipment	(33)	(26)
Proceeds from the sale of computers and equipment	0	0
<b>Net cash from investing activities</b>	<b>(33)</b>	<b>(26)</b>

## 20. Movements in cash, liquid resources and financing

	31 December 2012	Cash flows	Non-cash movements	31 December 2013
	€'000	€'000	€'000	€'000
<b>Analysis of changes in net debt</b>				
Cash and cash equivalents	20,881	53,471	-	<b>74,352</b>
Overdraft	-	-	-	-
	20,881	53,471	-	<b>74,352</b>
Guaranteed Notes	(4,106,349)	(107,970)	-	<b>(3,998,378)</b>
Bank loans	(74,319)	44,352	-	<b>(118,672)</b>
ECP programme	(17,962)	(17,962)	-	-
Index linked bonds	(95,648)	-	(152)	<b>(95,496)</b>
Provision for premium on redemption of bonds	(102,740)	-	2,141	<b>(104,881)</b>
8.75% HFA Stock 2018	(93,359)	-	361	<b>(93,720)</b>
Interest on facilities	(9,820)	1,612	-	<b>(11,432)</b>
	(4,500,197)	(79,968)	2,350	<b>(4,422,579)</b>
<b>Net debt</b>	<b>(4,479,316)</b>	-	-	<b>(4,348,227)</b>

\* Proceeds from the issue of borrowings during 2013 amounted to €32.0bn (2012: €32.1bn) and the repayment of borrowings during 2013 amounted to €32.1bn. (2012: €32.0bn)

## 21. 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 2013 and 2012.

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

### 22. Reconciliation of retained surplus

	<b>31 December 2013</b>	31 December 2012
	<b>€'000</b>	€'000
Retained surplus at beginning of year	<b>72,845</b>	59,122
Total recognised gain for the financial year	<b>20,351</b>	13,723
Retained surplus at end of year	<b>93,196</b>	72,845

### 23. Reconciliation of shareholder's funds

	<b>31 December 2013</b>	31 December 2012
	<b>€'000</b>	€'000
Opening shareholder's funds	<b>72,884</b>	59,161
Total recognised gain for the financial year	<b>20,351</b>	13,723
Closing shareholder's funds	<b>93,235</b>	72,884

### 24. Loan commitments

With regard to proposed lending by the HFA to AHBs, loan applications of €14.68 million were approved but undrawn at 31 December 2013. (2012: €13.81 million).

### 25. Post balance sheet events

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

### 26. Contingent liability

As discussed in the Directors' Report, the Shareholder of the HFA – the Minister for Public Expenditure and Reform – has waived his right to a dividend of €20m that was declared in 2013. The Minister has asked the HFA to allocate the funds towards the local authority MARP Fund. However, the HFA may not, as the legislation currently stands, make the proposed payment to MARP, with legislation and Articles of Association changes required to effect such a payment. It is understood that the HFA will make the payment of €20m as soon as legislation is amended; however, the execution of the Amendment is not in HFA's control and the timing of it is uncertain.

### 27. 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 3 April 2014.

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

Local Authority	Year ended	Year ended
	31 December 2013	31 December 2012
	€'000	€'000
Athlone Town Council	6,599	6,830
Athy Town Council	4,160	4,160
Ballina Town Council	4,898	-
Bray Town Council	7,473	7,474
Bundoran Town Council	2,063	2,023
Carlow County Council	46,051	46,070
Carlow Town Council	2,750	2,750
Carrick-on-Suir Town Council	405	418
Castlebar Town Council	6,000	6,000
Castleblayney Town Council	47	54
Cavan County Council	26,530	23,574
Clare County Council	64,257	65,945
Clones Town Council	158	166
Clonmel Borough Council	4,358	4,635
Cork City Council	138,778	142,804
Cork County Council	405,009	411,030
Donegal County Council	139,065	141,126
Drogheda Borough Council	69,083	68,043
Dublin City Council	817,505	882,757
Dundalk Town Council	52,293	53,342
Dungarvan Town Council	1,042	1,075
Dunlaoghaire/Rathdown County Council	138,927	151,541
Ennis Town Council	2,327	2,041
Fermoy Town Council	339	349
Fingal County Council	364,427	368,260
Galway City Council	90,777	102,923
Galway County Council	99,289	96,559
Kerry County Council	82,661	85,969
Kildare County Council	120,164	123,256
Kilkenny Borough Council	1,059	836
Kilkenny County Council	48,159	49,281
Laois County Council	124,224	129,641
Leitrim County Council	11,882	12,613
Letterkenny Town Council	9,793	9,970
Limerick City Council	12,883	14,111
Limerick County Council	43,665	45,586

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

Local Authority	Year ended	Year ended
	31 December 2013	31 December 2012
	€'000	€'000
Listowel Town Council	861	847
Longford County Council	46,607	43,864
Longford Town Council	615	732
Louth County Council	36,137	28,530
Mayo County Council	108,670	108,858
Meath County Council	82,686	83,656
Monaghan County Council	30,089	31,412
Navan Town Council	5,408	5,662
Nenagh Town Council	3,250	2,750
New Ross Town Council	3,121	3,175
North Tipperary County Council	46,067	48,172
Offaly County Council	35,243	37,435
Roscommon County Council	22,828	23,521
Skibbereen Town Council	1,471	1,457
Sligo Borough Council	41,574	42,761
Sligo County Council	76,001	72,800
South Dublin County Council	239,785	245,426
South Tipperary County Council	59,942	62,484
Tralee Town Council	14,847	14,606
Tullamore Town Council	4,762	4,837
Waterford City Council	91,498	95,069
Waterford County Council	45,769	47,364
Westmeath County Council	102,046	100,071
Westport Town Council	3,637	3,770
Wexford Borough Council	7,042	7,390
Wexford County Council	139,966	145,335
Wicklow County Council	104,003	103,701
Wicklow Town Council	2,910	3,003
<b>Sub total</b>	<b>4,305,935</b>	<b>4,431,900</b>
Clúid Housing Association	17,725	7,970
Oaklee Housing Trust	762	778
Túath Housing Association	4,331	-
<b>Total</b>	<b>4,328,753</b>	<b>4,440,648</b>

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

Local Authority	Year ended	Year ended
	31 December 2013	31 December 2012
	€'000	€'000
Athlone Town Council	-	4,500
Ballina Town Council	5,000	-
Carlow County Council	2,069	849
Cavan County Council	4,252	1,879
Clare County Council	3,898	16,585
Cork City Council	366	-
Cork County Council	24,029	48,923
Donegal County Council	2,579	23,614
Drogheda Borough Council	1,654	1,075
Dublin City Council	14,027	44,362
Dundalk Town Council	428	2,650
Dunlaoghaire/Rathdown County Council	146	1,274
Ennis Town Council	375	-
Fingal County Council	11,049	2,650
Galway City Council	102	9,854
Galway County Council	6,774	5,577
Kerry County Council	300	4,750
Kildare County Council	1,623	104
Kilkenny County Council	2,848	1,689
Kilkenny Borough Council	303	291
Laois County Council	1,551	2,839
Lettekeny Town Council	-	6,300
Limerick City Council	-	10,000
Limerick County Council	750	4,675
Longford County Council	4,870	2,549
Louth County Council	8,173	267
Mayo County Council	5,501	32,829
Meath County Council	1,919	1,101
Monaghan County Council	229	464
Nenagh Town Council	500	-
New Ross Town Council	-	3,200

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

Local Authority	Year ended	Year ended
	31 December 2013	31 December 2012
	€'000	€'000
North Tipperary County Council	142	996
Offaly County Council	78	798
Roscommon County Council	-	14,170
Sligo County Council	4,500	11,709
South Dublin County Council	5,238	7,844
South Tipperary County Council	19	5,298
Waterford City Council	-	2,893
Waterford County Council	-	6,764
Westmeath County Council	4,692	1,555
Wexford Borough Council	-	3,000
Wexford County Council	1,500	950
Wicklow County Council	3,000	27,788
<b>Sub total</b>	<b>124,482</b>	<b>318,615</b>
Clúid Housing Association	9,840	7,970
Oaklee Housing Trust	-	778
Túath Housing Association	4,373	-
<b>Total</b>	<b>138,695</b>	<b>327,363</b>

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

	Fixed Rate	Variable Rate	Index Linked		Total
	€'000	€'000	Pre '86 Loans €'000	Post '86 Loans €'000	€'000
0 to 5 Years	15,238	778,209	-	5,383	798,830
6 to 10 years	1,637	176,043	-	25,853	203,534
11 to 15 years	6,979	419,559	-	74,808	501,346
16 to 20 years	9,767	1,085,081.83	-	-	1,094,849
21 to 25 years	11,446	1,043,197	-	-	1,054,643
26 to 30 years	1,367	451,108	-	-	452,475
31 to 40 years	-	203,676	19,400	-	223,076
	<b>46,433</b>	<b>4,156,875</b>	<b>19,400</b>	<b>106,045</b>	<b>4,328,753</b>



# Appendix 5: Quality Customer Service and Energy Conservation Summary

## Quality Customer Service

The delivery of excellent Quality Customer Service ('QCS') remains of paramount importance to the HFA. We continue to focus on issues impacting on QCS and as such challenging metrics have been established, and are continuously monitored, to track ongoing QCS in areas such as the disbursement of loan advances to local authorities, compliance with the HFA's Policies and Procedures Manual, staff training and development and dealing with correspondence from external sources in a timely fashion.

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 approved by the Department of Environment, Community and Local Government. The HFA fell marginally short of this target in 2013 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 10. I am pleased to report that we achieved our target, with no such exception reports in 2013. *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 3.6% outturn for 2013 (2012: 3.9%). *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.

*Relationship building and networking* is a key component of QCS and 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.

In addition we remain focussed on supporting and developing our relationships with the AHBs. Numerous meetings have been held throughout the year to assist the AHBs in preparing their applications for Certified Body status and individual loan financing and the HFA continues to develop new products to fulfil the financial needs of the Sector.

## Energy Conservation Summary

### Premises

The HFA operates from 46 St Stephens Green, Dublin 2, where it leases space on one floor. Our main use of energy is for lighting, heating/air-conditioning, and the powering of computers. In 2013, the HFA consumed 31.5 MWh of energy, consisting solely of: 31.5 MWh of electricity, (representing an average consumption of 2.9 MWh of electricity per employee, (compared to an average of 4.44 MWh of electricity per employee for the services sector, as calculated by Sustainable Energy Ireland). Our leased premises were redeveloped during 2009/2010, with energy-efficient lighting being installed then.

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

## Appendix 5: Quality Customer Service and Energy Conservation Summary

### Actions Undertaken in 2013

In 2013 the HFA undertook a range of initiatives to improve our energy performance, including:

- purchase of three new energy rated servers
- purchase of new energy rated computers with energy-saving LED screens and
- purchase of a new energy-rated printer.

### Actions Planned for 2014

We will continue to endeavour to deliver efficiency savings in all aspects of our business in 2014 and will explore the possibility of working with Sustainable Energy Ireland to ascertain what further progress can be made.









**Housing Finance Agency plc**, 46 St Stephen's Green, Dublin 2, Ireland

**T** +353 1 872 5722 | **F** +353 1 872 5878 | **E** [cossec@hfa.ie](mailto:cossec@hfa.ie) | [www.hfa.ie](http://www.hfa.ie)