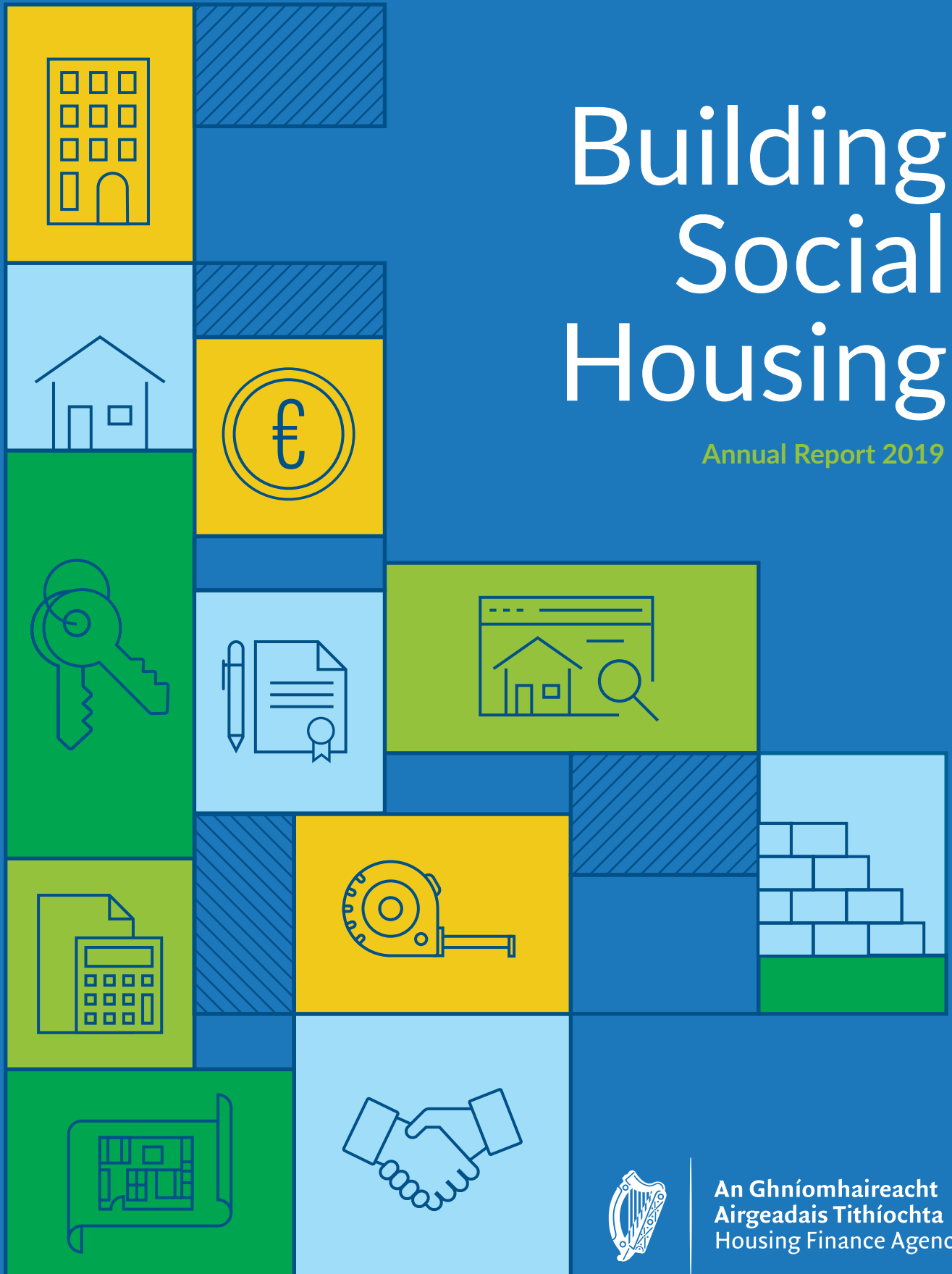


Building Social Housing

Annual Report 2019



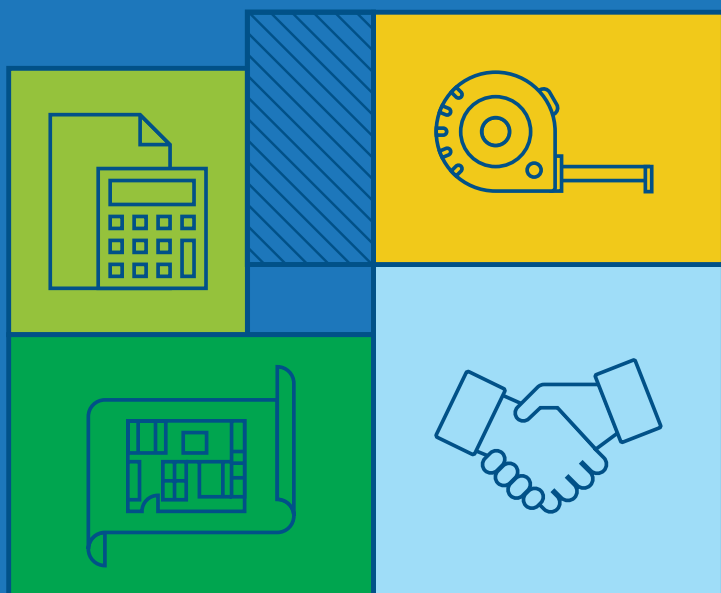
An Gníomhaireacht
Airgeadais Tithíochta
Housing Finance Agency

About HFA

The HFA is a public company limited by shares and was incorporated under the Companies Acts of Ireland on 8 February 1982.

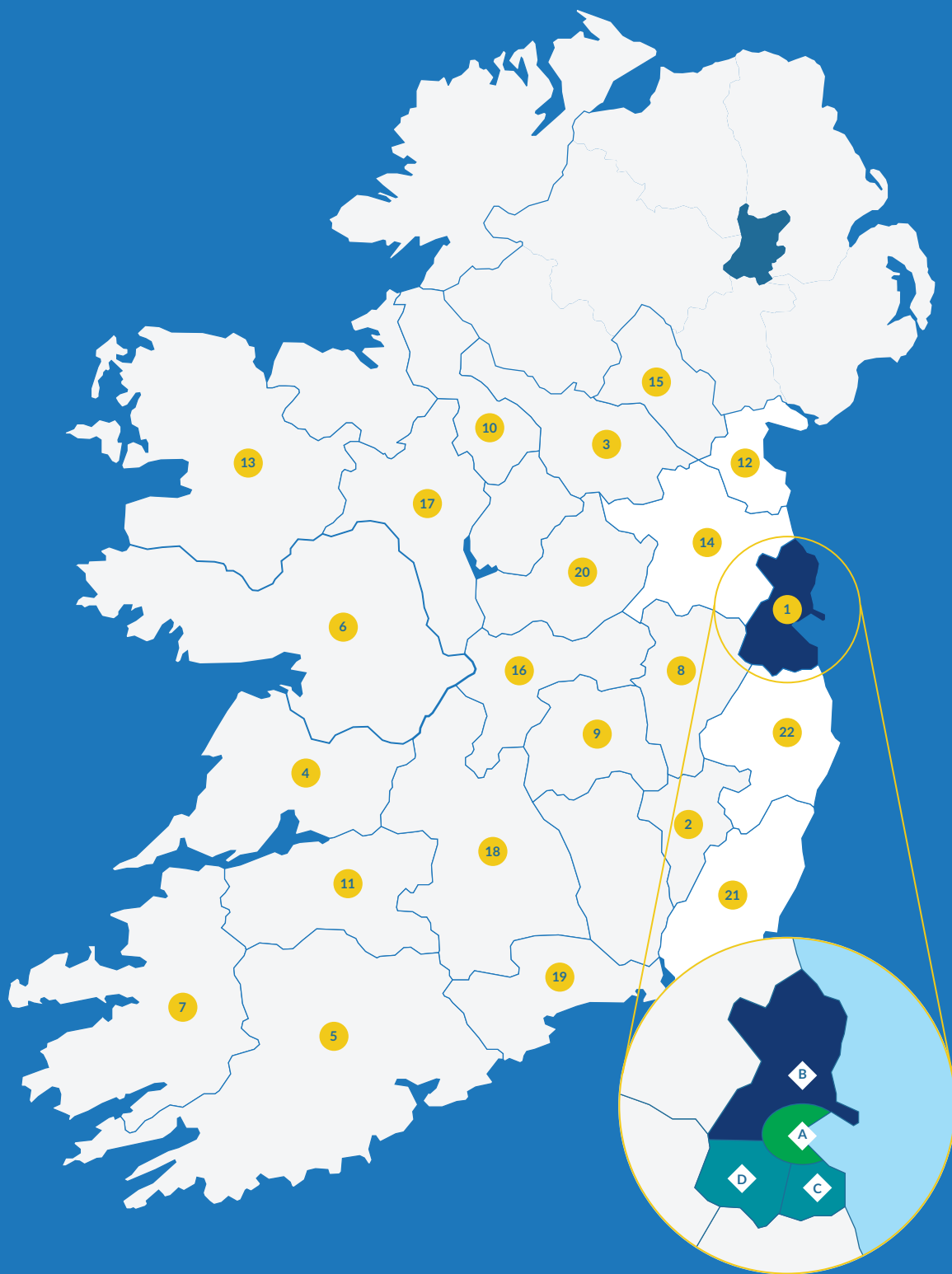
The principal objective of the HFA is to raise and on-lend funds to Irish local authorities, approved housing bodies, Higher Education Institutions, and other government bodies for housing and housing-related purposes.

The Minister for Public Expenditure and Reform beneficially owns all the issued share capital of the HFA and the Minister for Finance has the power to guarantee debt issued by the HFA.



2019 AHB Loan Approvals by County





Using our resources to benefit those most in need

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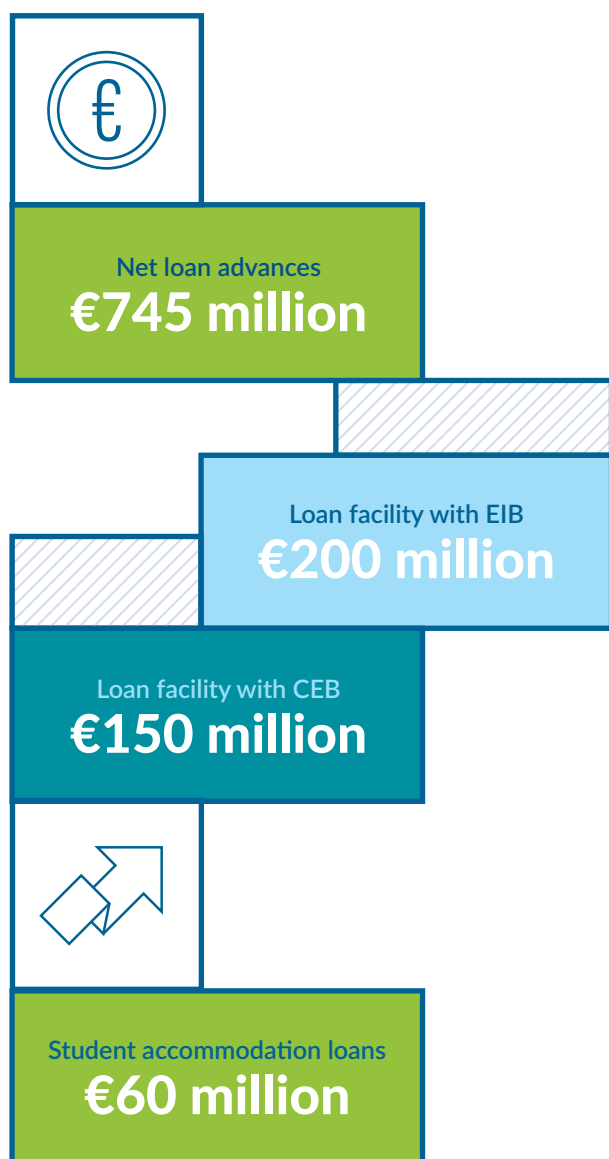
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For more information visit our website
www.HFA.ie

An exceptionally busy year



It is a great pleasure to introduce the Housing Finance Agency's 2019 Annual Report, with our adoption of the single unified Government of Ireland identity. This is my eighth annual Chairperson's letter, in what has been an exceptionally busy year for the HFA.

Highlights for the last year were:

- Record net loan advances amounting to €745 million – a threefold increase on 2018 - with outstanding loans now standing at €4.64 billion.
- The arrangement of additional loan facilities with the European Investment Bank (EIB) and Council of Europe Development Bank (CEB) of €200 million and €150 million, respectively, offering competitive long-term fixed rate finance.
- The drawdown of an initial €60 million for new student accommodation.

The HFA operates within a fast-moving environment. Lending to our customers is at record levels with continued growth in finance to approved housing bodies and local authorities for the development of social housing, as well as the introduction of lending to universities for new student accommodation – an area that is likely to see growth over the next few years. This is enabled by the availability of low cost long-term fixed rate finance from the National Treasury Management Agency (NTMA) and supranational banks such as the EIB and CEB.



Our customers continue to avail of our excellent 25 and 30-year fixed rate finance



Our customers continue to avail of our excellent 25- and 30-year fixed rate finance which offers low interest charges and certainty in repayments. Individual borrowers also benefit from these long-term products in the form of the hugely successful *Rebuilding Ireland Home Loan* offered by local authorities and financed by the HFA, and for which additional funding was arranged in 2019.

In terms of competition, we welcome the arrangement of a number of long-term loan facilities, by AHBs, from Irish banks which will help diversify AHB debt portfolios and encourage continued growth and expansion in the sector. It is gratifying to see other financial institutions following the lead of the HFA into the AHB sector with the provision of long-term fixed rate finance. Following the recent General Election, we will be happy to work with whatever government is formed in the continued development and delivery of new social and affordable housing.

Throughout the year, the Board's discussions have focused on longer-term strategic planning. We have now completed our fourth year of a five-year strategic programme which identified four strategic drivers that are central to its successful delivery - focusing on our customers, working with our stakeholders, collaborating with the wider 'housing group' and ensuring top class service by improving our internal operations. The programme set out to innovate, collaborate and support the delivery of homes, and 2019 has seen substantial progress on each of these fronts. More detail on our strategic framework can be found on pages 12 to 14 and it is anticipated that a full review of the strategy will be undertaken when a successor to *Rebuilding Ireland* is formulated by the Department of Housing, Planning and Local Government. The HFA has already commenced

the formulation of its next strategic plan and stakeholder consultation is currently underway.

The HFA, with its small core staff, could not operate effectively without the assistance and co-operation of all its stakeholders. Our thanks for their support go especially to the Ministers for Housing, Planning & Local Government, Public Expenditure & Reform, and Finance, and their staff. We offer our appreciation to the NTMA, our auditors, lawyers, IT contractors and bankers and all those who provide essential services to the HFA. In particular, I would like to thank my fellow Board members, our CEO Barry O'Leary and his staff for their hard work and dedication throughout the year. Our focus is on the needs of our customers, and we are appreciative of the support of all our stakeholders.

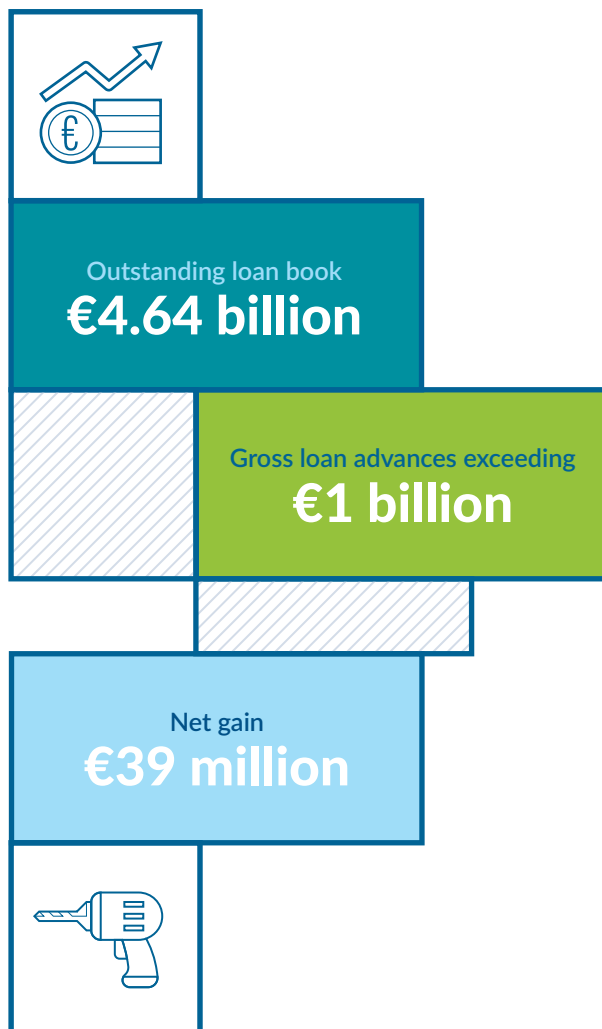
Finally, Michael Murray resigned from the Board in late 2019 after two successive terms as a Director and his contributions, knowledge and good wit will be missed at Board meetings. On behalf of the Board I would like to thank Michael for all his work for the HFA over the last 8 years and send him every good wish for the future.

Professor Michelle Norris

Chairperson

26 March 2020

Increasing our loan book



I am delighted to report that the HFA has had another excellent year in 2019. Gross loan advances exceeded €1.0 billion this year – lending levels not seen since 2008 – increasing our outstanding loan book to a record €4.64 billion.

Our reported net gain of €39 million, was achieved while offering the most competitive interest rates in the market to our customers. The HFA is in a strong financial position, with retained reserves now standing at €239 million to cover the financial risks in the business.

Lending

We are now dealing directly with twenty-five approved housing bodies and our lending to the sector continues to show significant growth. AHB loan advances more than doubled from €283m in 2018 to €634m in 2019. The loans advanced directly supported the delivery of 2,561 new homes. AHB loans approvals also rose from €615m in 2018 to €694m in 2019. Pages 16 to 20 of the Annual Report showcases the truly first-class product which AHBs are providing on a nationwide scale.

The pace of lending to local authorities is not at the level of AHB growth, but it is noteworthy that this loan portfolio has returned to positive net lending as local authorities again begin to draw down significant funding for housing with gross advances of €343m in 2019.



Our lending to the sector continues to show unprecedented growth

Interest rates continue to be at historically low levels and present an opportunity for both the HFA and our customers. We were pleased to make low cost, long term fixed rate finance available, to support the delivery of affordable and sustainable housing across the country.

Another positive to report is the drawdown in 2019 of our first university loan of €60 million for the development of new student accommodation. Further growth in this portfolio is anticipated in 2020 and beyond, as projects reach building phase.

Funding

The HFA continues to avail of long term, competitive fixed and variable rate finance from the National Treasury Management Agency (NTMA), European Investment Bank (EIB), Council of Europe Development Bank (CEB), local authorities and others. The HFA arranged a new long-term fixed rate loan facility with the EIB for €200 million in 2019, from which drawdowns are expected to commence in 2020.

The HFA also succeeded in lengthening the maturity profile of its funding portfolio in 2019 from 3.4 years to 4.0 years which gives us additional stability.

Risk management

The management of risk within the HFA is of central importance to our operations. Our Risk Management Committee oversees the monitoring of risk and it is a standing agenda item for the Board's Audit & Risk Committee. A revised Risk Register was adopted by the HFA in 2019.



The key financial risk areas of the business comprise the management of credit, liquidity, operational and market risk, the details of which are explained throughout this report.

The Board and Management work closely to understand, measure, monitor and control all aspects of risk within the business.

Governance

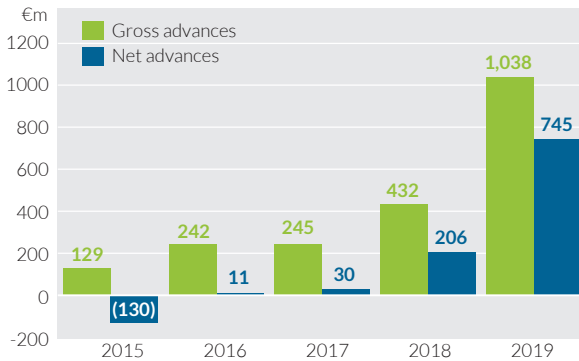
The Board of Directors holds annual reviews and discussions of its performance – seeking ways to better its contribution to the sustainable growth of our business. The Board, collectively, has considerable experience in the areas of social housing policy, the building sector, finance, legal and banking.

Each year the Board visits a number of social housing schemes which facilitates meeting with a wide selection of people directly engaged in the delivery of social housing, thereby gaining first hand knowledge of the opportunities and challenges they face. In 2019, the Board visited the Clós na Manach social housing scheme in Carlingford, Co. Louth and the recently developed fast-build Castleguard Manor scheme in Ardee, Co. Louth.

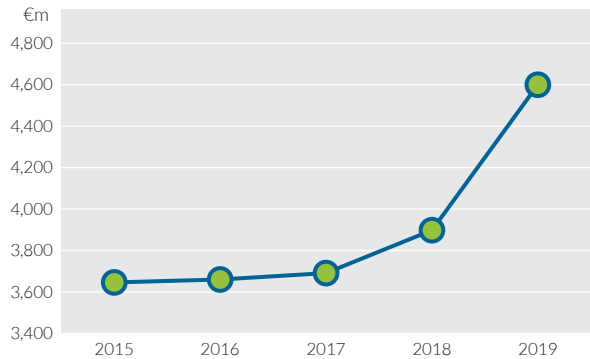
The HFA complies with the Code of Practice for the Governance of State Bodies as detailed in the Corporate Governance Statement on pages 30 to 35. The Code contains a 'comply or explain' concept and the HFA has complied fully with the Code except for matters outlined in the Corporate Governance Compliance Statement.

Chief Executive's review (Continued)

Loan advances 2015 – 2019



Loan book 2015 – 2019



Chair and Board support

The support and advice that I receive from my Chairperson, Professor Michelle Norris, is very much appreciated. I would also like to acknowledge the hard work of the other Board members, particularly those on the Credit Committee which has been very busy this year.

To conclude

I would like to take this opportunity to express my sincere thanks to all the staff of the HFA, without which none of this work would be possible. During the year, the HFA lost a member of staff following the retirement of a long-serving employee, Loreto Corish. Loreto will be missed, and we wish her a happy and fulfilling retirement. I would also like to welcome five new staff members who joined the HFA in 2019 – Aidan, Alan, Ella, Kevin and Mieczyslaw. The appointment of new staff reflects the considerable workload on the HFA with record new lending and the administration of an already substantial loan book, as well as the raising of finance for those loans.

In common with all companies, the COVID-19 pandemic presents many challenges for the HFA, and I am delighted that the staff have risen to the task and ensured that business operations continue uninterrupted. Staff welfare is of paramount importance to the HFA and, as such, this has been accomplished while employees continue operations from the safety of their homes.

We are confident that, with the availability of funding at the lowest ever interest rates, the year ahead will see a continuation of the lending activity seen in 2019, supporting the delivery of new homes.

Barry O'Leary

Chief Executive Officer

26 March 2020



Professor Michelle Norris
Chairperson



Padraic Cafferty
Non-Executive Director



Emma Cunningham
Non-Executive Director

Appointment to the Board

Initially in February 2012 and re-appointed in January 2017 as Chairperson and non-executive Board Member (ex-officio).

Initially in March 2012 and re-appointed in January 2017 as a non-executive Board Member.

January 2017 as a non-executive Board Member (ex officio).

Committee membership

Credit, Finance and Remuneration Committees.

Credit Committee.

Audit & Risk Committee.

Career experience

Michelle is Professor of Social Policy in UCDS' School of Social Policy, Social Work and Social Justice, and her teaching and research interests focus on social 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. Her latest book entitled *Property, Family and the Irish Welfare State* was published by Palgrave Macmillan in 2016.

Founder and Chairman of Datascan, Executive Chairman at Northwood Technology Ltd, and Proprietor at Westpoint Business Centre and Sigmund Business Centre, Glasnevin, Dublin. Padraic is a member of the Institute of Directors and Past President of the Irish Security Industry Association. Padraic serves as a non-executive director of the Private Security Authority.

Emma is the Assistant Secretary in the Banking Division. She leads a team responsible for the development of policy and legislation at domestic and EU level on issues such as banking regulation, the provision of credit, and consumer protection. The team is also responsible for policy development in relation to the powers and functions of the Central Bank and the NTMA.

Emma has held a number of positions in the Department throughout her career to date, including working in the International and EU Division and in Budget and Economic Division. She has also worked as Budget Counsellor in the Permanent Representation of Ireland to the European Union and at the International Monetary Fund.



Board of Directors (Continued)



Clare Curley
Non-Executive
Director



Brian Fitzpatrick
Non-Executive
Director



Aideen Hayden
Non-Executive
Director

Appointment to the Board

January 2017 as a non-executive Board Member (ex officio).

March 2017 as a non-executive Board member.

March 2017 as a non-executive Board Member.

Committee membership

Finance and Remuneration Committees.

Chairperson of the Audit & Risk Committee and a member of the Credit Committee.

Audit & Risk and Credit Committees.

Career experience

Director of Services for Corporate Services, Human Resources, Environment and Climate Action with Tipperary County Council. Clare previously worked as Director of Services for Housing and also as Director of Fire and Emergency Services and Health and Safety with Tipperary County Council. She has also worked in other Local Authorities. Clare holds a BA degree in Public Management.

An accountant by profession, Brian has considerable experience in the mortgage finance industry, having served as Group Financial Controller in First National Building Society. Brian most recently worked as Finance Director and Company Secretary in BAM Contractors Ltd, Ireland's largest civil engineering & construction company, until his retirement four years ago. He continued to be a non-executive director of BAM Contractors Ltd until December of 2019 at which time he resigned from the Board. Brian was appointed to the Board of CIE in April 2019 and is also a member of the CIE Board Audit & Risk Committee and the Strategy Committee.

A solicitor with a degree in Economics, Aideen holds a PhD in housing policy from UCD. She was a member of Seanad Éireann from 2011 to 2016, nominated by the Taoiseach, where she served as vice chair of the Joint Oireachtas Committee on Finance, Public Expenditure and Reform. She is currently Chair of Threshold National Housing charity. Aideen was also a founding member of the Residential Tenancies Board.



William Johnston
Non-Executive
Director



Lianne Patterson
Non-Executive
Director

Appointment to the Board

March 2017 as a non-executive Board Member.

March 2017 as a non-executive Board Member.

Committee membership

Credit and Finance Committees.

Audit & Risk Committee.

Career experience

William is a solicitor with an M.A. in economics and administration from Trinity College Dublin. He was chair of the International Bar Association's banking law division and a partner in Arthur Cox for 30 years where he headed the Finance Department. He is a board member of the Port of Waterford Company, the Honorary Secretary of the National Maternity Hospital and the external examiner for the Law Society in banking law.

Lianne joined the Northern Ireland Civil Service in 2005 and was appointed to her current role of Deputy Secretary for Resources, Reform and Infrastructure at the Department of Education in March 2019. Lianne is a chartered accountant by profession and spent much of her career in management roles in Deloitte and PricewaterhouseCoopers in the areas of organisational change, audit, financial advisory services and management consultancy. Prior to her current role she previously held roles as Director of Justice Delivery in the Department of Justice, Senior Finance Director in the Department of Infrastructure and as Head of Finance in the Public Prosecution Service and the Northern Ireland Office.

Board of Directors (Continued)



Derek Rafferty
Non-Executive
Director



Jennifer Ward
Non-Executive
Director

Appointment to the Board

January 2017 as a non-executive Board Member (ex officio).

March 2017 as a non-executive Board Member.

Committee membership

Audit & Risk, Finance and Remuneration Committees.

Audit & Risk and Credit Committees

Career experience

Derek is a Principal Officer in the Department of Housing, Planning and Local Government. Derek previously worked in a number of other Government Departments including the Department of Transport where he held a number of roles including Head of the Aviation Security Unit and in the EU Commission (Directorate-General for Economic and Financial Affairs). Derek holds Master's degrees in Business (University College Dublin), Taxation (Dublin City University) and Economics (Trinity College Dublin).

An independent consultant working with an active client base, and an associate with PriceWaterhouseCoopers in Advisory Consulting. Jennifer was a non-Executive Board member of Clúid Housing from 2015 to 2017, and a member of Clúid's 'Growing Our Business' Committee. She previously worked with AIB's Financial Solutions Group and, in roles as, Head of Investment Planning & Prioritisation and Head of Group Change Management for AIB Group. Jennifer holds an MSc in Management Practice and a BA (Mod) in Economics & Business, both from Trinity College Dublin's Business School.



Barry O'Leary | Chief Executive Officer

An accountant by profession, Barry began his working career carrying out liquidations and receiverships, worked for a short time in the Comptroller and Auditor General's Office, and has worked for Housing Finance Agency plc. since 1988. He was selected as Chief Executive Officer in September 2012.



Seán Cremen | Head of Treasury

Sean has over thirty years' experience working in Treasury and Capital Markets primarily with Allied Irish Banks and Keppel TatLee Bank in Singapore. Sean previously served as Executive Director on the Board of AIB Mortgage Bank and joined the HFA as Head of Treasury in 2014.



Tom Conroy | Head of Finance & Company Secretary

An accountant by profession, Tom has worked for the HFA since 1999 in a number of key financial roles, before being appointed in his present capacity in 2008. As such, he has extensive experience in all elements of the HFA's business. Tom previously worked as an accountant with the Jurys Hotel.



Damian Flynn | Financial Accountant

Damian joined the HFA in 2000 and currently holds the role of Financial Accountant, managing the HFA Corporate Services team. He holds an MA-Financial Management and a Higher Diploma - Public Management. Damian previously worked in the private sector for Irish Cement Ltd, (part of the CRH Group), where he qualified as an accountant.

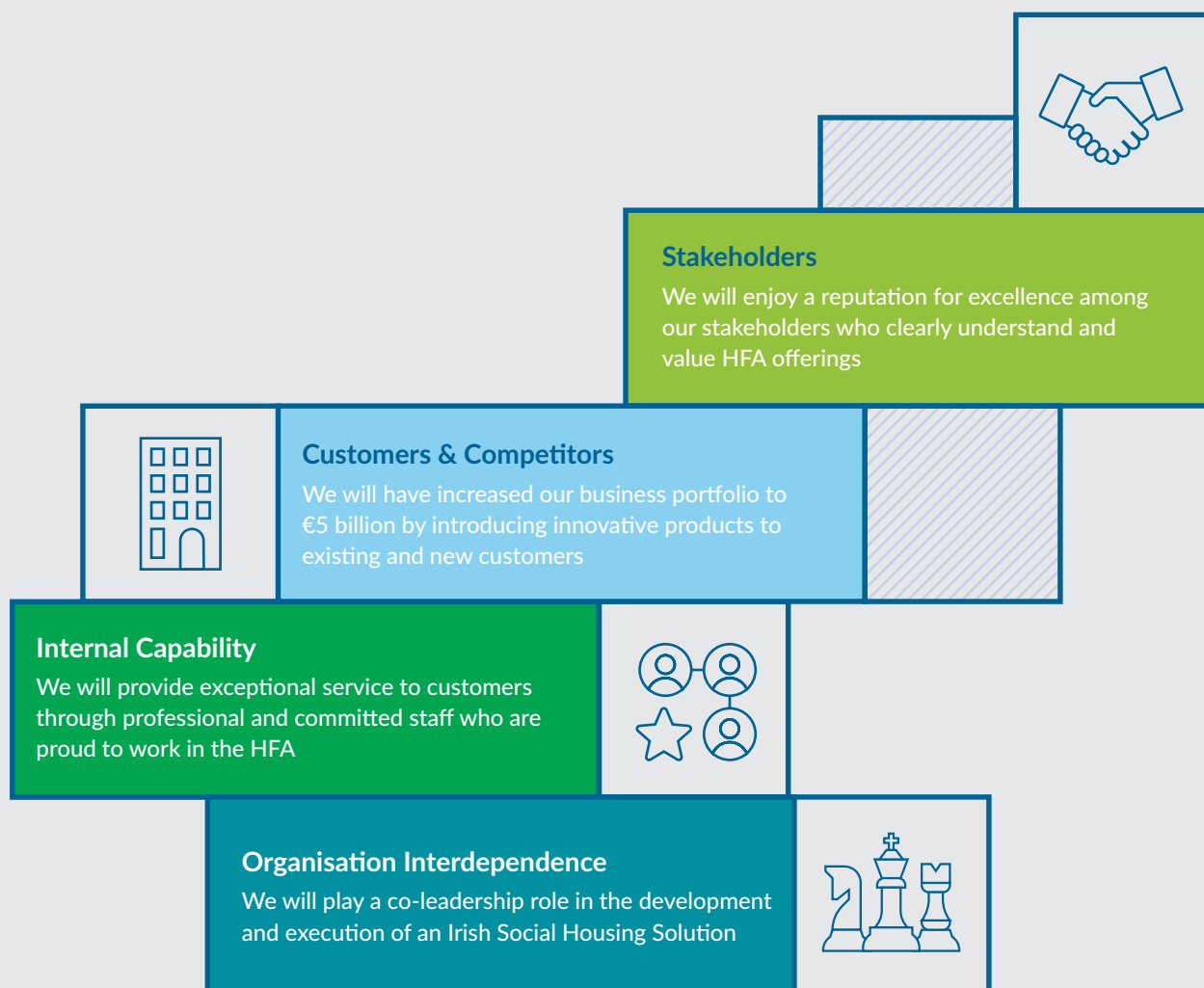


Maria O'Reilly | Senior Lending Officer

Maria currently manages the HFA Lending Services team. She graduated from the Waterford Institute of Technology in 2006 with a Bachelor of Business Studies (Hons). Maria has worked with the HFA since graduating, holding the roles of Accounts Assistant and Lending Executive AHBs, and in that time has accrued experience lending into the AHB sector.

HFA 2020 was developed by the HFA Leadership Team in 2016 with input from HFA staff, and in consultation with:

- Officials of the Departments of Housing, Planning & Local Government, Public Expenditure & Reform, and Finance;
- local authorities, approved housing bodies and their representative organisations; and,
- staff.



Key Actions

The following provides an outline of recent progress made in the penultimate year of the Plan.

Lending

The HFA exceeded its lending forecasts in 2019 with a record €1 billion in gross loans advanced, resulting in a net loan book increase of €745 million in the year after accounting for annuity repayments and normal-course redemptions. This is well ahead of the planned target of €400 million for 2019 and is largely a result of a huge increase in activity by AHBs to €616 million in the year.

The HFA's outstanding loan book totalled €4.64 billion at year end compared to a target in the Plan of €4.40 billion. The table below shows a comparison between the original lending estimates in the Plan compared with actual results, with revised projections also included for 2020.

Aside from increased activity seen by local authorities and approved housing bodies, the higher education institutions began drawing down funds in 2019 for the development of new student accommodation, with the first loan in this new portfolio advanced to UCD for €60 million. It is expected that further loan applications will be received in the coming months as building works reach completion.

Overall net lending estimates for 2020, the final year of the Plan, have since been revised upwards from €605 million to €750 million to give a planned loan book value of €5.40 billion. By any barometer, this represents a huge success by the HFA in meeting and exceeding planned growth.

Funding

The HFA completed a €200 million facility agreement with the European Investment Bank in 2019 – the third loan facility with the EIB – as a result of continued (increased) demand from our customers for this product. Another fixed rate facility of €150 million was also arranged with the Council of Europe Development Bank in early 2020 and the HFA arranged over €210 million in long-term fixed rate finance from the NTMA in 2019.

Availing of the fixed rates currently on offer in the market enables the HFA to continue to offer long-term fixed rate finance for the provision of social and affordable housing at market leading rates, which is central to our strategy.

Original Vs. Revised lending forecast

	2016 €m	2017 €m	2018 €m	2019 €m	2020 €m	Totals €m
LA Strategy forecast	(90)	(40)	55	250	445	620
AHB Strategy forecast	100	130	140	150	160	680
Total forecast	10	90	195	400	605	1,300
LA actual/revised	(113)	(136)	(68)	69	100*	(167)
AHB actual/revised	124	166	274	616	500†	1,464
HEI actual/forecast	-	-	-	60	150†	250
Total actual/revised	11	30	206	745	750	1,547

* Updated forecast based on actual advances in 2019, including Rebuilding Ireland Home Loan activity

† Updated forecast based on existing approvals and applications

Strategic programme (Continued)

Competition influence

The decision by the HFA to raise and on-lend long-term low-cost fixed rate funding for terms up to 30 years was made in 2018 with the launch of the Rebuilding Ireland Home Loan by local authorities and expanded upon in 2019 by offering lower interest products to AHBs. At the time, there was no comparable offering in the market, and the effect has been a market reaction of a larger suite of longer term competitive fixed rate products coming on stream.

Departmental Working Groups

A number of departmental strategic working groups were established in 2019 of which the HFA is an active member offering its particular expertise in financing.

These include the Cost Rental Working Group, the task of which is to assess and consider methodologies for an affordable housing cost-based rental solution, and the Retrofit Taskforce Subgroup on Financing tasked with considering financing options for the energy efficient retrofit of local authority housing stock.

Meetings with Stakeholders

HFA Senior Management met with, and presented to, local authority Chief Executives, Heads of Finance and Directors of Housing at a number of separate seminars & conferences in the past year. This has generated significant interaction with local authority officials and has helped raise the HFA's corporate profile. The HFA also continues to hold regular bilateral meetings with local authorities, AHBs and universities.

To conclude

The results are now being seen of the ongoing efforts of staff to develop and maintain close relationships with our customers, to listen to them and address their needs. Fixed interest rates were also reduced significantly in 2019, which has further encouraged loan drawdowns and social housing development.

The HFA has commenced a stakeholder needs review exercise to assess the requirements of our customers and other interested parties, in anticipation of formulating our next strategic plan.

Pillar 1 of strategy HFA 2020 refers to progressively building strong relationships with our customers, identifying and addressing the needs of key customers and developing new products. The HFA also has a responsibility to support the development of sustainable social housing communities.



Sponsorship of Research Fellowship

In 2019, the HFA undertook to jointly sponsor a bursary with Clúid Housing Association for research on financial inclusion of social housing tenants.

Financial services are important in allowing access to credit and savings facilities, facilitating regular payments, increasing consumer protection, and receiving State benefits. While access to credit and banking in recent years has largely been made available online, many low-income households experience challenges with regards to accessing financial services.

Approximately 7% of the poorest 40% of households in Ireland do not have access to a bank account, compared to just over 3% of the richest 60% of Irish households. This research on the level of financial exclusion among AHB tenants will provide an insight into the challenges facing tenants.



Social Investment Fund

The HFA has arranged a new Social Investment Fund to support suitable local projects to complement social housing communities, such as playgrounds and other community enhancing developments.

It is anticipated that suitable projects will find support from the Fund over the coming year.

The HFA is uniquely positioned, as a State body, to provide the funding required for social housing development at market-leading variable and long-term fixed interest rates; and 2019 saw continued growth in demand for funding by approved housing bodies. In 2019, the HFA provided finance of €634 million to AHBs for the acquisition and new build of social housing developments. The following highlights some of the schemes financed during the year.



40
homes





47
homes

FOLD Ireland
Tongleeg Road, Raheny, Dublin 5



42
homes

Respond Housing Association
Market Green,
Midleton, Co. Cork



Respond Housing Association
1 Mountjoy Square, Dublin 1

31
homes





20
homes

**Clúid Housing
Association**
Murrough,
Renmore,
Co. Galway





54
homes

Túath Housing Association
Gainsfield, Navan, Co. Meath



35
homes

Túath Housing Association
Ramparts Green,
Drogheda, Co. Louth

Sustainability and Customer Service concepts are embedded in the heart of the HFA's business and are fundamental to achieving our vision of being the preferred finance provider for Social Housing development.

Energy Conservation

The HFA operates from 46 St Stephen's 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 2019, the HFA used 27.2 MWh (2018: 26.6 MWh) of electricity. This represents an average consumption of 1.8 MWh (2018: 2.0 MWh) of electricity per employee. Our leased premises were redeveloped during 2009/2010, with energy-efficient lighting & heating installed at that stage.

- The HFA's offices have a BER rating of B1.
- The HFA recycles paper and cardboard, electronic equipment, printer toners and mobile phones.
- The HFA purchases and operates energy-rated servers, personal computers and printers.
- 84% of HFA staff use public transport for commuting, while 16% of staff cycle or run to and from work, encouraged by the availability of appropriate facilities in the HFA, and the cycle to work scheme.
- HFA employees are encouraged to be energy conscious, and we endeavour to ensure that our office is operated in the most energy-efficient manner possible.
- The HFA requires that all new-build properties, for which it lends, must have an energy rating of A3 or better.
- The HFA lends for energy-efficient retrofitting of homes.

Actions undertaken in 2019

In 2019, the HFA was audited by an SEAI-registered Energy Auditor whose report examined the HFA's energy usage and considered initiatives for saving energy.

The scope of the audit was the area (322m²) occupied by HFA on the second floor of 46 St Stephen's Green, Dublin 2. The audit considered all energy users: lighting, heating, cooling, office equipment and hot water usage and found that the HFA has limited scope to effect further energy reduction by way of equipment upgrades or operational changes. Power usage for heating, ventilation and air conditioning is outside of the control of the HFA, with the landlord responsible for the power used and operation/maintenance of the equipment for the entire building.

Using iSBEM5 as a simulation tool indicated a lighting usage of 52 kWh/m². This compares well with the Energy Consumption Guide 19 value of 54 kWh/m². Adjusted for the actual sub-metered consumption, the lighting component equates to 42 kWh/m². This would suggest that lighting control, albeit manual, is being exercised by staff.

The report made one recommendation to consider the upgrading of lighting to LED to effect estimated energy efficiencies of 40%. This will be implemented later this year by the HFA.

In line with Government legislation passed in 2019, the HFA has discontinued using single use plastic beverage containers, cutlery or straws.

Actions planned for 2020

Energy conservation is very important to the HFA. We will continue to deliver efficiency savings in all aspects of our business in 2019 and will explore the possibility of working with the Sustainable Energy Authority of Ireland ("SEAI") to ascertain what further progress can be made.

Maximisation of recycling

HFA staff are encouraged to practice recycling to the greatest extent possible. The HFA has segregated bins for waste with glass, paper and used print ink cartridges sent for recycling.

Sustainable procurement

The HFA endeavours to procure services and goods in as sustainable a way as possible, taking account of our small size – a staff of 15 and our location on one floor of an office building in the centre of Dublin city. Our office is leased, and this reduces the HFA's control over elements of our spending.

Energy efficient builds

2019 saw the approval of €694 million (2018: €615m) in AHB loan finance for the provision of 3,280 (2018: 3,292) social housing units. 89% of these homes are new-builds which will have an energy-efficiency rating of A3 or higher. The HFA hopes to expand on this success over the coming year, consider the development of other sustainable energy products and to bring these to the market.

Information Technology

Reliance on Information Technology

With a staff of 15 full-time equivalents managing a loan book of €4.6 billion and approximately 8,800 live loans, the HFA relies heavily on the use of information technology to facilitate more efficient use of its resources and effective delivery of its services.

The HFA aims to maximise the number of online services it provides, thereby providing better customer service, improving data accessibility and reducing costs for service users. The HFA provides access to data via its online portal, which enables customers and other stakeholders to carry out tasks more efficiently. The HFA has introduced the most appropriate, reliable and integrated electronic systems to complement its ability to deliver on the expectations of customers and stakeholders. Clients can access services instantaneously, from a variety of locations and at any time of day via the HFA website.

Relationships

The delivery of excellent Quality Customer Service (QCS) is of prime importance to the HFA. The HFA has critical relationships with stakeholders in several different categories, i.e. government departments, local authorities, approved housing bodies, universities and other bodies within the wider housing group.

A number of strategic initiatives regarding Customer Service were identified in the development of the Strategy HFA 2020, in particular, identifying and building strong relationships with representative local authorities and AHBs to fully understand their needs and challenges. This involves organising regular information gathering sessions between HFA representatives and key LA and AHB staff, participation on Finance and Housing Groups, and developing the AHB and HEI markets with appropriate structures and products.

In tandem with this, the HFA has commenced a 'Stakeholder Needs Assessment' in 2020 to enable it to interact more effectively in assisting our customers and our Departmental Stakeholders in gaining clarity regarding our products and developing a communication framework to regularly update our customers and Government Departments.

Oversight Agreement

As per the Code of Practice for the Governance of State Bodies, the HFA is required to have an Oversight Agreement in place with the Department of Housing, Planning & Local Government. This replaces a service level agreement (SLA) which the HFA has had in place for many years, and which was updated annually.

The Oversight Agreement should reflect the HFA's legal framework; the environment in which it operates (i.e. a non-commercial State body); its purpose and responsibilities; the HFA's level of compliance with this Code; details of the Performance Delivery Agreement (e.g. outputs to be delivered); and arrangements for oversight, monitoring and reporting on conformity with Government policy including those actions and areas of expenditure where prior sanction from the parent Department and/or the Department of Public Expenditure and Reform is required.

The latest Agreement is currently being finalised, with ongoing discussions with the Department concerning the finer details.

The coherence of public policy in relation to housing and the coordination of the associated financing initiatives are ensured by having them all under the control of the Minister for the Housing, Planning & Local Government. The HFA's position under the aegis of the Minister ensures that its services are efficient and fully supportive of Government policy.

The Directors present their report and the audited financial statements for the year ended 31 December 2019.

Results and dividends

	2019 €'000	2018 €'000
Total recognised gain for the year	38,506	27,995
Shareholders' funds at beginning of year	200,009	172,014
Shareholders' funds at end of year	238,515	200,009

This is an excellent result 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 fixed rate funding mismatches and other risks.

The Directors do not propose the payment of a dividend for 2019 (2018: nil).

Note 18 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 Directors' Report also addresses the significant business risks to which the HFA is exposed.

Review of the development of the business

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 from 1982 to 1986 and was used to finance 15,571 mortgages. These loans were converted to variable and fixed rate loans in 2015, on the maturity of an underlying index-linked bond. At 31 December 2019 such loans represented outstanding balances of €5.3 million. The HFA is liable for any credit losses that may arise on these loans.

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

With effect from May 1986, the HFA has issued loans to local authorities to be used by them for any purpose authorised by the Housing Acts, 1966-2014 to finance social housing development. Outstanding loans to local authorities advanced since 27 May 1986, totalled €3.3 billion at end-December 2019.

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

- local authorities being statutory bodies under the Local Government Act, 2001 and other enactments;
- 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);
- all loans advanced to local authorities are approved by the Minister for Housing, Planning & Local Government;
- the Board's understanding that central Government supports local authorities in meeting their obligations to the HFA; and
- 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 2019, gross loan advances for Post May 1986 loans amounted to €343 million (2018: €101 million), repayments and redemptions totalled €275 million (2018: €217 million), resulting in net advances of €68 million (2018: net redemptions of €116 million). Such loans represented outstanding balances of €3.34 billion (2018: €3.26 billion).

The HFA endeavours to work with the local authorities to develop appropriate loan structures for them in order to better match their financial circumstances. The HFA may provide extended loan terms, interest deferred periods or

Directors' Report (Continued)

offer other renegotiations as appropriate. During 2019, the HFA renegotiated €39.81 million (2018: €73.22 million) of non-mortgage related loans and had no housing related loans renegotiated during the year (2018: €nil). These renegotiations have taken place in the context of €3.34 billion of loans advanced to local authorities as at 31 December 2019 and represents renegotiation activity of circa 0.001% in 2019 (2018: 0.002%).

Renegotiated non-mortgage 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 €39.81 million of loans (2018: €73.22 million) to be renegotiated in 2018 with €0.20 million (2018: €0.38 million) of interest income recognised on these assets.

As at year ended 31 December 2019 no land acquisition loans were converted upon maturity to annuity loans repayable over a period of up to 30 years, (2018: €0.93 million). Interest accrued on loans converted upon maturity at 31 December 2019 amounts to €nil (2018: €0.01 million).

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 Department of Housing, Planning and Local Government, 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 Payment and Availability Agreement (PAA) with a local authority for a period of up to 30 years, will fund the repayment of the HFA's loan.

Tier 3 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, they can then furnish loan applications which are

subsequently assessed in-house by the credit assessment team if under a value of €5 million and assessed independently in excess of this value. As at 31 December 2019, eighteen Certified AHBs (2018: seventeen) have been successful in obtaining Certified Body status.

The approved AHBs are:

- ALONE
- Cabhru Housing Association Services
- Circle Voluntary Housing Association
- Clanmil Housing Association Ireland
- Clúid Housing Association
- Co-operative Housing Ireland
- Dublin Simon Community
- Focus Housing Association
- FOLD Ireland
- Foscadh Housing Association
- Housing Association for Integrated Living (HAIL)
- North and East Housing Association
- Oaklee Housing
- Respond Housing Association
- Saint John of God Housing Association
- The Iveagh Trust
- Tinteán Carlow Voluntary Housing Association
- Túath Housing Association

Category 2 product

The HFA introduced a 'Category 2' product offering for Tier 2 (mid-sized AHBs, whereby they could apply for loan finance up to a limit of €1.5 million, without undergoing a full Certified Body assessment). Loan applications are considered on a case-by-case basis. To date, two AHBs have availed of the Category 2 offering and subsequently underwent a successful Certified Body application. There are currently seven AHBs in this category, these are:

- Arlington Novas Ireland
- Carbery Housing Association

- Cill Dara Housing Association
- Galway Simon Community
- Inis Housing Association
- The Paddy McGrath Housing Project
- Threshold

The HFA's Credit and Management Committees, as at 31 December 2019, have approved 634 loan applications (2018: 490) totalling €1.95 billion (2018: €1.28 billion), €1.28 billion of which has been advanced (2018: €651 million). It is anticipated that 2020 will herald continued growth in the level of lending in this area. The HFA continues to have frequent interaction with AHBs to develop the suite of products on offer.

Loans to Higher Education Institutions

Under Section 51 of the Planning and Development (Housing) and Residential Tenancies Act, the HFA is empowered to lend directly to Higher Education Institutions (HEIs), for the development of new student accommodation.

These new powers will allow HEI's access the HFA's low cost, long term fixed rate finance for on and off campus student housing, thereby significantly reducing the costs to Universities of such projects and improving the affordability for students. The provision of new student accommodation will have the added benefit of freeing up existing rental stock to support additional social and affordable housing.

Currently three Universities have had loan applications approved totalling €157m for the provision of 1,428 new student bedrooms. It is anticipated that further loan applications will be received in the coming months. The HFA advanced funds of €60 million (2018: €nil) to one HEI at the end of 2019.

The HEIs with loan approvals are:

- Trinity College Dublin
- University College Cork
- University College Dublin

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. 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, lists the HFA's business activities and takes into consideration the significant risks and uncertainties that currently impact the HFA.

In addition, Note 18 to the financial statements details the HFA's financial risk, management objectives, details of its financial instruments, and its exposures to credit, liquidity and market risks. The assessment of going concern is presented on page 37.

Risk management

The Board is responsible for the HFA's system of risk management and internal control, which is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board has delegated responsibility for the ongoing monitoring of the effectiveness of this system to the Audit & Risk Committee. Details in relation to the Committee's work in this regard are set out in the Audit & Risk Committee Report on pages 36 to 42.

The Chief Executive Officer also reports to the Board, on behalf of Management, on significant changes in the business and external environment, which affect risk. 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 & Risk Committee.

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 for certain types

Directors' Report (Continued)

of loans. The HFA's objectives, policies and procedures for measuring and managing these risks are set out above and in Note 18 to the financial statements. The Directors and Secretary have no interests in the shares or debentures of the HFA.

Contracts

Dr Aideen Hayden, a HFA director, is also a director and chairperson of Threshold, who have been approved for funding under the Category 2 product. Threshold did not draw down funds during 2019 (2018: €0.45 million).

Post statement of financial position 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.

Electoral Act, 1997

The HFA made no political donations during the year.

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 2019 shows no late payments were made during 2019 under the above Act.

Accounting records

The Directors are aware of their responsibilities under Sections 281 to 285 of the Companies Act 2014 as to whether, in their opinion, the accounting records of the HFA are sufficient to permit the financial statements to be readily and properly audited and are discharging their responsibility by ensuring that sufficient company resources are available for the task. The accounting records are held at the HFA's Registered Office, 46 St. Stephen's Green, Dublin 2.

Corporate Governance

As required by the Code of Practice for the Governance of State Bodies, which the HFA has adopted, the Directors have prepared a Corporate Governance Statement, which is set out on pages 30 to 35 and which, for the purpose of Statutory Instrument 450/2009 European Community (Directive 2006/46) Regulations, forms part of the Report of the Directors.

Auditors

In accordance with Section 383(2) of the Companies Act, 2014, the Auditors, JPA Brenson Lawlor, Chartered Accountants, will continue in office. A resolution authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting.

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 18 to the financial statements.

Compliance Statement

The Directors have put in place appropriate arrangements or structures that, in their opinion, provide a reasonable assurance of compliance in all material respects with the HFA's "Relevant Obligations" for the purposes of section 225 of the Companies Act 2014 (the "Relevant Obligations").

The principal arrangements and structures that the HFA has put in place, to secure material compliance with its Relevant Obligations are the HFA and the Directors having put in place suitably qualified and experienced personnel (both internal, and also external advisers) to perform and assist in the performance of the legal and tax compliance and financial functions. In this regard, it appears to the Directors that the Company Secretary has the knowledge and experience to advise the HFA on the Company's compliance with its Relevant Obligations.

The HFA also is entitled to rely upon, and has access to, service-providers and professional advisers who have the requisite knowledge and experience to advise the HFA on compliance with its Relevant Obligations.

Specifically, the Directors are satisfied that the Company Secretary:

- has been briefed fully regarding section 225 of the Companies Act 2014;
- is aware of and understands the Relevant Obligations and their relevance to the HFA's business and operations, and vice versa;
- has undertaken a risk assessment in respect of those of the Relevant Obligations that are within his/her functional or operational responsibility;
- has implemented appropriate control processes in respect of each of the applicable Relevant Obligations;
- has, or has access to other personnel who have, the requisite knowledge, skills, experience and resources to advise the HFA on the Company's compliance with its Relevant Obligations; and
- reports regularly to the Board of Directors of the HFA, and through more frequent operational channels as necessary, regarding the control processes that are in place to ensure material compliance by the HFA with its Relevant Obligations;

such that, taken together, these arrangements and structures provide a reasonable assurance of compliance by the HFA with those Relevant Obligations, in all material respects. The Board will review these arrangements and structures at least annually.

Dividend

No dividend is due to be declared for 2019.

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 FRS 102 (the Financial Reporting Standard applicable in the UK and Ireland comprising applicable law) and the accounting standards issued by the Financial Reporting Council and promulgated by Chartered Accountants Ireland, together with the Companies Act 2014. 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 judgements and estimates that are reasonable and prudent;
- comply with applicable accounting standards, identify those standards, and note the effects and the reasons for any material departures from those standards; 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 HFA'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 Act 2014. 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).

Each of the Directors confirms that, to the best of each person's knowledge and belief,

- the HFA's financial statements, prepared in accordance with FRS 102, give a true and fair view of the assets, liabilities and financial position of the HFA at 31 December 2019 and of the profit of the HFA for the year then ended; and,
- 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.

Each of the Directors in office at the date of approval of this annual report confirms that:

- there is no relevant audit information of which the company's auditor is unsure; and,
- the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

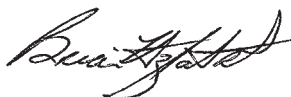
This confirmation is given and should be interpreted in accordance with the provision of Section 330 of the Companies Act 2014.

On behalf of the Board,



Professor Michelle Norris
Chairperson

26 March 2020



Brian Fitzpatrick
Director

26 March 2020

The Directors are committed to maintaining the highest standards of corporate governance and support the 2014 UK Corporate Governance Code (available at www.frc.org.uk) formerly known as the Combined Code, with which the HFA voluntarily complies with. The HFA also complies with the revised Code of Practice for the Governance of State Bodies, as published by the Department of Public Expenditure and Reform.

The Directors understand that the 'comply or explain' concept continues to apply for both Codes. The Board reviewed its obligations under the guidance which includes requirements on the Board regarding consistency and appropriateness of disclosure, as well as a separate section for the Audit & Risk Committee in the annual report. As required by the UK Corporate Governance Code which the HFA has adopted voluntarily, the Directors have prepared a '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 both codes except for matters discussed in the Corporate Governance Compliance Statement.

Application of the Principles and Provisions of Corporate Governance

The following information explains how the HFA applies the principles and provisions of the Corporate Governance Code issued by the Financial Reporting Council, 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 Public Expenditure and Reform.

Board of Directors

The Board takes 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.

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 Board members as required. Individual Directors may take independent professional advice, if necessary, at the HFA's expense.

At 31 December 2019, the Board of Directors comprised ten non-executive Directors. The Directors are appointed by the Minister for Housing, Planning & Local Government in consultation with the Minister for Public Expenditure & Reform for a period not to exceed five years, unless the Minister sees fit to reappoint a Director for a second or subsequent term. The roles of the Chairperson and Chief Executive Officer (CEO) are separate. The CEO is employed full time and does not have any other significant commitments. All Directors are independent non- Executive Directors. The Board met seven times in 2019 and is responsible for the proper management of the HFA.

Attendance at Board meetings during the year ended 31 December 2019 and length of service at 31 December 2019

Members	Meetings held	Directors attendance	Board service in years
Michelle Norris (Non-executive Chairperson)	7	6	7.83 years
Padraic Cafferty (Non-executive Director)	7	6	7.75 years
Emma Cunningham (Non-executive Director)	7	6	2.97 years
Clare Curley (Non-executive Director)	7	7	2.97 years
Brian Fitzpatrick (Non-executive Director)	7	6	2.81 years
Aideen Hayden (Non-executive Director)	7	5	2.81 years
William Johnston (Non-executive Director)	7	7	2.81 years
Michael Murray* (Non-executive Director)	7	2	7.43 years
Lianne Patterson (Non-executive Director)	7	5	2.81 years
Derek Rafferty (Non-executive Director)	7	6	2.97 years
Jennifer Ward (Non-executive Director)	7	7	2.81 years

*Michael Murray resigned as a Director on 5 September 2019.

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, legal services, construction, the Departments of Housing, Planning and Local Government and Finance, which should enable the HFA to address major future challenges.

Directors' Remuneration

The Minister for Housing, Planning & 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 2019 €	Fees 2018 €
Michelle Norris*	-	-
Padraic Cafferty	7,695	7,695
Emma Cunningham	-	-
Clare Curley	-	-
Brian Fitzpatrick	7,695	7,695
Aideen Hayden	7,695	7,695
William Johnston	7,695	7,695
Michael Murray†	5,248	7,695
Lianne Patterson	7,695	7,695
Derek Rafferty	-	-
Jennifer Ward	7,695	7,695
Total	51,418	53,865

* During 2019, a sum of €9,000 (2018: €9,000) was charged by University College Dublin as compensation for loss of hours worked by Professor Michelle Norris for time spent in her duties as Chairperson of the HFA in 2019.

† Michael Murray resigned as a Director on 5 September 2019.

The remuneration of the Chief Executive Officer is detailed in Note 9 to the financial statements.

Corporate Governance (Continued)

Ethics in Public Office

The HFA is included in Statutory Instrument no. 699 of 2004 for the purposes of the Ethics in Public Office Acts, 1995 and 2001. The Members of the HFA and relevant staff have fulfilled their obligation under this legislation.

Protected Disclosure

In accordance with Section 21 of the Protected Disclosures Act, 2014, the HFA has established and maintains procedures for current or former employees to make protected disclosures in relation to the HFA and its work and for dealing with such disclosures. Written information in relation to these procedures has been provided to all employees. The HFA's policy can be found on its website at: <http://www.hfa.ie/hfa/Live/Release/WebSite/HomePage/ProtectedDisclosuresReport.html>

The HFA confirms that it did not have any Protected Disclosures reported to it in 2019.

Administrative Expenses

In line with Appendix B.7 of the Code of Practice for the Governance of State Bodies, the total number of employees whose benefits exceeded €60,000 p.a. (excluding employer pension costs) is as follows:

€	No.
110,001-120,000	1
100,001-110,000	1
90,001-100,000	-
80,001-90,000	1
70,001-80,000	1
60,001-70,000	2

Also, as required under Appendix B.5 of the Code, expenditure on external consultancy/advisory services for 2019 was as follows:

Legal fees: €1,899,632 (2018: €898,077). Legal fees are directly related to the increasing number of conveyances which are being completed. This is due to higher levels of loan requests for housing purposes from approved housing bodies.

Management consultancy fees: €7,246 (2018: €nil).

Total expenses reimbursed to Directors for travel and subsistence: €3,615 (2018: €5,598) and international travel (in relation to the UK and the EU): €nil (2018: €488).

Travel and subsistence for employees: €11,609 (2018: €12,430) and international travel (in relation to the UK and the EU): €550 (2018: nil).

Hospitality expenditure: €2,280 (2018: €3,151).

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.

As at 31 December 2019 there were six female Directors on the Board out of ten members. Looking beyond the Board, the HFA also recognises the importance of diversity including gender diversity and the benefits this could bring to the organisation. The CEO and employees are 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, nationality, colour or ethnic origin, religion or belief, age, disability, sexual orientation, civil status, family status or gender in relation to employment and occupational or vocational training.

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.

Audit & Risk Committee

Please see Audit & Risk Committee Report on pages 36 to 42.

Finance Committee

As at 31 December 2019, the following Directors are members of the Finance Committee:

Professor Michelle Norris (Chairperson), Clare Curley, William Johnston and Derek Rafferty.

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 2019 which necessitated the convening of a meeting of the Finance Committee.

Remuneration Committee

As at 31 December 2019, the following Directors are members of the Remuneration Committee:

Professor Michelle Norris (Chairperson), Clare Curley and Derek Rafferty.

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 Housing, Planning & Local Government. Details of emoluments are set out in Note 9 to the financial statements in accordance with the requirements of Section 155 of the Companies Act 2014.

No circumstances arose during 2019 which necessitated the convening of a meeting of the Remuneration Committee.

Credit Committee

The HFA's Credit Committee comprises Board members and Management. The Committee was established in 2009, to maintain credit risk within Board policy, to review the creditworthiness of AHBs, 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.

Attendance at meetings during the year ended 31 December 2019

Members	Meetings held	Members Attendance
Prof. Michelle Norris	11	6
Barry O' Leary	11	8
Padraic Cafferty	11	8
Tom Conroy	11	9
Seán Cremen	11	11
Brian Fitzpatrick	11	10
Dr. Aideen Hayden	11	9
William Johnston	11	10
Michael Murray*	8	2
Jennifer Ward	11	8

*Michael Murray resigned as a Director on 5 September 2019.

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 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 Housing, Planning & Local Government and/or the Minister for Public Expenditure & Reform, in respect of which, on-going communication with the Ministers, through their Departments, is maintained.

Dedicated email address for Oireachtas members

The HFA has a dedicated email address for Oireachtas members to provide enquiries - oireachtas.enquiries@hfa.ie. The HFA received two enquiries in 2019 (2018: two).

Corporate Governance (Continued)

These were acknowledged and responded to within the required timelines.

Accountability and Audit

Accounts and Directors' responsibilities

The Directors are of the view that the Annual Report for the year ended 31 December 2019 is consistent with the 2014 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 2019 Annual Report and believe that it presents a fair, balanced and understandable assessment of the HFA's position and prospects.

Viability statement

The Directors have assessed the viability of the HFA taking into account its current position and the principal risks facing the HFA over the next two years to 31 December 2021. The Directors have assumed that a two-year time span is an appropriate period for the annual assessment given that this is the key period of focus within the HFA's strategic planning process.

The assessment considered current financial performance, funding and liquidity management of the HFA, and the governance and organisation framework by which the HFA manages and seeks, where possible, to mitigate risk, as described in Note 18. An assessment of the principal risks facing the HFA including those that affect the operations, governance and internal control systems was also undertaken and considered, the details of which are included in Note 18. The Directors have a reasonable expectation, taking into account the HFA's current position, and subject to the identified risks, that the HFA will continue in operation and meet its liabilities as they fall due over the two-year period of assessment.

Corporate Governance Compliance Statement

The Directors are pleased to report that the HFA has chosen to comply with the 2014 UK Corporate Governance Code as 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 Public Expenditure and Reform, during the year ended 31 December 2019, except for the following matters:

Current Board size and structure

Non-executive Directors are appointed by the Minister for Housing, Planning & Local Government for a period not to exceed five years. The Minister, after consultation with the Minister for Public Expenditure & Reform, may appoint a Chief Executive Officer. This appointment process also addresses the HFA's requirement for determination of how a Director is regarded as independent/non-independent.

With the resignation of Michael Murray in September 2019 there are currently two vacancies on the board.

The Government has arrangements for making appointments to State boards and bodies. In appointing the current Board of the HFA, the Department of Housing, Planning & Local Government 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. Professor 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 Chairperson 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. This will be kept under review.

Procedures for election and re-election

Non-executive Directors are appointed by the Minister for Housing, Planning & 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 Housing, Planning & 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 9 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.

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

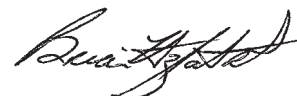
The Directors have complied with the disclosure guidelines set out in the Code of Practice for the Governance of State Bodies, rather than following the UK Corporate Governance Code, in this respect, as they are considered to be more appropriate to the HFA.

On behalf of the Board,



Professor Michelle Norris
Chairperson

26 March 2020



Brian Fitzpatrick
Director

26 March 2020

The purpose of the Audit & Risk Committee, as per its terms of reference, is to assist the Board in its general oversight of the HFA's financial reporting, internal controls, risk management and audit functions. The responsibilities of the Audit & Risk 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), external consultants, and the external and internal auditors. The Audit & Risk 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;
- monitoring the effectiveness of the HFA's risk management and internal control arrangements;
- 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 Financial statements;
- 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;
- dealing with significant control issues raised by Internal or External Audit; and,
- reviewing the cost of funds and interest rates charged accordingly.

In line with Provision C.3.4 of the 2014 UK Corporate Governance Code, the Committee must 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 the Company Secretary, which reports to the Audit & Risk Committee and to the Board on a regular basis. An annual review of the Risk Management and Framework Policy was performed by the Board at its 26 March 2020 meeting.

Scheduled Audit & Risk Committee meetings for the year ended 31 December 2019

Members	Meetings held in 2019	Directors attendance
Emma Cunningham	4	4
Brian Fitzpatrick	4	4
Dr Aideen Hayden	4	4
Lianne Patterson	4	4
Derek Rafferty	4	2
Jennifer Ward	4	4

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

Monitoring the integrity of the financial statements including significant judgements

Financial Reporting

The Audit & Risk 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 account the information from these activities and views from the meetings of the Board of Directors, the 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 and with the External Auditor at the conclusion of the external audit of the financial statements. Management represented to the Audit & Risk Committee that the HFA's audited financial statements were prepared

in accordance with generally accepted accounting principles applicable to the UK and Ireland. 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 judgements and the clarity of disclosure in the 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 Guaranteed Note ("GN") Programme is guaranteed by the Minister for Finance and facilitates issuance out to a maximum maturity of thirty years from the date of issue. At end 2019 the average maturity of HFA debt was 4.0 years (2018: 3.4 years). This provides a stable funding base for the HFA's loan portfolio and significantly reduces short term liquidity risk for the HFA.

The liability maturity profile is expected to increase in 2020 as additional long-term fixed rate funding is accessed via the GN Programme with the NTMA and the bilateral agreements with the European Investment Bank and the Council of Europe Development Bank. In addition, the HFA will continue to have access to the NTMA and a Bank overdraft for short term liquidity needs, as required.

The Audit & Risk 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.

Misstatements

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

Interaction with Management

The Audit & Risk Committee, as part of the approval of the financial statements, obtains and reviews a paper prepared by Management which sets out the significant risks impacting the HFA, Management's detailed assessment of these risks and how they are mitigated. The Committee challenges the assumptions and judgements contained in these management reports prior to submitting the financial statements to the Board for approval. See pages 40 to 42 of the financial statements

for further information relating to the Audit & Risk Committee's ongoing responsibilities in respect of the HFA's internal controls.

Recommendation of approval of financial statements

As a result of these reviews and discussions with Management and Internal Audit, and the reports to the Audit & Risk Committee of the External Auditor, the 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 & Risk Committee also recommended the inclusion of the audited financial statements in the HFA's annual report for the year ended 31 December 2019.

External Audit

Audit Firm Tendering

The Committee acknowledges the provisions contained in the 2014 UK Corporate Governance Code in respect of audit tendering. As per the 2014 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 2014 UK Corporate Governance Code. Given the size of the HFA it is not obliged to tender. However, in 2018 the HFA continued its practice of tendering for the provision of external audit services, to cover the 2018-2020 external audit period and JPA Brenson Lawlor were the tender winners. The Board recommended the appointment of JPA Brenson Lawlor as independent External Auditor for a tenure of 3 years.

Ensuring the independence of our external auditor

The Audit & Risk Committee believes the issue of auditor independence is taken very seriously and is reviewed annually. The Audit & Risk Committee has discussed with JPA Brenson Lawlor and Management regarding the firm's independence and there were no issues to note.

In 2019, apart from audit work, there was no other non-audit services carried out by our independent external auditor. The Audit & Risk Committee via its terms

Audit & Risk Committee Report (Continued)

of reference reviews non-audit work performed by the external auditor and confirms that there is no adverse effect on actual or perceived independence or objectivity of the audit work itself.

The Board of the HFA monitors the provision of non-audit services by the external auditor and the Audit Committee through the ongoing review of administration expenses. Given that there were no non-audit services provided during 2019, therefore there was no conflict with auditor independence.

Fees for audit and non-audit services to the HFA's independent auditors JPA Brenson Lawlor

Year ended	31 December 2019	31 December 2018
	€'000	€'000
Audit of financial statements	34	34
Tax advisory services	-	-
Other services	-	-
Total Auditors remuneration	34	34

Liaising with external auditors

The Audit & Risk Committee provides a link between the Board and the External Auditor and is independent of the HFA's Management. JPA Brenson Lawlor, the HFA's statutory auditor, is responsible for performing an independent audit of the HFA's financial statements in accordance with international Standards on Auditing (Ireland). The Audit & Risk Committee has ultimate authority and responsibility for selecting, compensating, evaluating, and, when appropriate, replacing the HFA's independent audit firm. In accordance with Section 383(2) of the Companies Act 2014, the Auditor, JPA Brenson Lawlor, Chartered Accountants, will continue in office.

The Audit & Risk Committee pre-approves all services to be provided by the external auditors. Pre-approval includes audit services, audit-related services, taxation advice, and other services.

The Audit & Risk 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 JPA Brenson Lawlor 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 & Risk Committee is satisfied that JPA Brenson Lawlor continues to provide an effective audit service.

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 & Risk 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 manages 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 is regularly reviewed by the Committee. The monitoring of risk remains a standing item at Board meetings. 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 18 of our financial statements.

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 in 2013 which is regularly updated, most recently in October 2019.

Residual risk is associated principally with fixed rate borrowings. 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. In the context of the HFA's Balance Sheet, interest rate risk arises where a

move in interest rates gives rise to a change in the cost of existing funding, which is not offset by a corresponding change in the income earned from existing loans, leading to a positive or negative impact on current and future profitability. To measure this risk, HFA Management developed a Interest Rate Risk (IRR) model which calculates the outstanding IRR exposure on an annual basis (the annual gap) for all fixed rate liabilities and assets, up until their re-pricing date. The IRR model has been reviewed and reported on by the HFA external auditors.

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.

The Audit & Risk Committee assesses material risks namely:

- interest rate risk mismatch;
- funding, liquidity and going concern risks;
- credit risk associated with post 1986 local authority lending;
- local authority mortgage arrears;
- credit risk associated with Approved Housing Body (AHB) lending;
- credit risk associated with HEI lending;
- credit risk associated with pre 1986 local authority lending; and,
- funding risks in relation to the defined benefit pension scheme.

Pre 27 May 1986 Loans

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 €8.6 million of pre-May 1986 loans outstanding at 31 December 2019 (2018: €9.2 million), only €5.3 million (2018: €6.1 million) of these are still due to the local authorities from the underlying borrowers and there is a total impairment provision of €2.7 million.

The gap of €3.3 million (2018: €3.1 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 funding mismatch. The local authorities hold collateral against the remaining €5.3 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.

Post 27 May 1986 Local Authority Loans

The legal relationship of post May 1986 loan advances is with local authorities and is not dependent 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 Housing, Planning, Community & 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. The Audit & Risk Committee is satisfied with the use of this assumption in the preparation of these financial statements and with the disclosure of these circumstances. At 31 December 2019, following the renegotiation of the terms of certain loans, all local authorities were up to date with their scheduled repayments on this portfolio (see Note 18(a)). The HFA has not experienced any losses on its post May 1986 loans advanced to local authorities.

Audit & Risk Committee Report (Continued)

Loans to Approved Housing Bodies

Up until 2011, the Government grant funded AHBs, through local authorities, for social housing. There was a rationale for the introduction of loan finance to replace grants, and for lending directly to AHBs to enable the timely completion of social housing projects. The HFA was given a central role in the provision of loan funding for the sector, in the absence of competitive rates and tenors, at the time, in the market.

The HFA established a process for the assessment of AHBs for 'Certified Body' status, i.e. deemed suitable for the provision of loan finance. The assessment process for AHBs is in two parts. The first is a market standard corporate review which uses a scoring matrix to assess current performance, corporate governance, and development and financial plans. The application is then brought before the HFA's Credit Committee for consideration. Following this, applicants are then awarded Certified Body status and can apply for funding on a case-by-case basis. Project applications are supported by the State funded Capital Advance Leasing Facility (CALF) and a Payment and Availability Agreement (PAA).

In December 2015 the HFA launched a new lending initiative specifically targeted at Tier 2 AHBs which are not currently Certified Bodies. This product targets AHBs with lending requirements from a minimum of €0.25 million up to €1.50 million and is specifically tailored towards property acquisitions. The lending is offered on a variable interest rate basis over 30 years or with any of the fixed rates available (reverting to variable thereafter). Tier 2 AHBs who apply for the new product do not have to undergo a full HFA credit review process.

There has been significant growth in AHB activity which has continued in 2019, strongly supported by the HFA's increasing range of variable and fixed rate offerings including acquisition, new build and mortgage-to-rent products. In particular the National Treasury Management Agency (NTMA), European Investment Bank ("EIB") and Council of Europe Development Bank ("CEB") financing has facilitated the introduction of 25-year fixed rate funding at a current rate of 2.25%, which has significantly de-risked the interest rate environment for AHBs borrowing from the HFA. The availability of long term fixed rate finance has significantly de-risked the interest rate environment for AHBs borrowing from the HFA. The HFA remains confident that it can play a central role in ensuring that any development plans can be supported with competitive and

flexible financing which will meet the needs of the AHB sector.

Loans to Higher Education Institutions

Following on from the enactment of legislation allowing the HFA to lend to Higher Education Institutes (HEIs) in relation to the provision of new student accommodation, the HFA met with representatives of Individual Universities, the Department of Housing, Planning and Local Government and the Department of Education and Skills.

These new powers will allow HEI's access the HFA's low cost, long term fixed rate finance for on and off campus student housing, thereby significantly reducing the costs to Universities of such projects and improving the affordability for students. The provision of new student accommodation will have the added benefit of freeing up existing rental stock to support additional social and affordable housing.

Currently three Universities have had loan applications approved totalling €157m for the provision of 1,428 new student bedrooms. It is anticipated that further loan applications will be received in the coming months. The HFA advanced funds of €60 million (2018:€nil) to one HEI at the end of 2019.

Treasury

The HFA raises funding, with the support of a Guarantee from the Minister of Finance, largely through the NTMA, local authorities and international agencies such as the European Investment Bank and the Council of Europe Development Bank. Marginal funding is raised via the NTMA using the Guaranteed Note Programme under an agreed pricing arrangement as approved by the Board.

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 & Risk 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 HFA has a policy outlined in its Policies and Procedures Manual whereby employees can raise concerns, in confidence, about possible irregularities in financial reporting or other matters.

The Board has devolved the task of reviewing risks, in detail, to the Committee, and this is a standing agenda item for meetings of the Audit & Risk Committee. The Audit & Risk 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 & Risk Committee a review is undertaken of one area of risk as detailed in 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 Internal Auditor identifies and evaluates the HFA's internal control systems as a basis for reporting upon its adequacy and effectiveness. An approved plan is agreed with the Audit & Risk Committee and the Internal Auditor plans, performs and evaluates their work based around this schedule. If significant weaknesses are found with internal controls within any sample tested, then the Internal Auditor reverts to carrying out substantive tests on the areas where the controls were found to be ineffective/defective. The Audit & Risk Committee reviews the reports carried out by the Internal Auditor on a twice-yearly basis and the Internal Auditor also holds a yearly private meeting with the Committee, without Management present, where any issues can be raised by either the Internal Auditor or the Committee.

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 reported upon by the Chief Executive Officer once a year and is subject to testing by Internal Audit throughout the year with reports issued to the Audit & Risk Committee twice 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;
- (e) monthly management accounts prepared and presented to the Board;
- (f) an Internal Auditor reviewing key financial systems and controls;
- (g) an Audit & Risk Committee dealing with any 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 & Risk 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 & Risk Committee. The Annual Report is also reviewed by the Audit & Risk Committee in advance of being presented to the Board for its approval.

Audit & Risk Committee Report (Continued)

The Audit & Risk Committee has reviewed and discussed with Management its assessment and report on the effectiveness of the HFA's internal control over financial reporting as of 31 December 2019.

Discussions with the Auditor

The Audit & Risk 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 & Risk Committee the misstatements that they had found in the course of their work and no material amounts remain unadjusted.

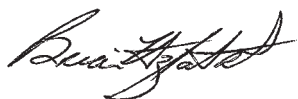
Committee Effectiveness

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 have discharged its duties, as per its terms of reference, in an effective and efficient manner.

Conclusion

After reviewing the presentations and reports from Management and Internal Audit and taking into account views expressed by the External Auditor, the Audit & Risk 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 Audit & Risk Committee is also satisfied that it has sufficiently scrutinised and challenged the significant assumptions used for determining the value of assets and liabilities.

On behalf of the Audit and Risk Committee,



Brian Fitzpatrick
Committee Chairperson

26 March 2020

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

Opinion

We have audited the financial statements of Housing Finance Agency plc (the 'company') for the year ended 31 December 2019 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, and the related notes. The relevant financial reporting framework that has been applied in their preparation is the Companies Act 2014 and FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its gain for the year then ended;
- have been properly prepared in accordance with FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and,
- have been prepared in accordance with the requirements of the Companies Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements section of our report*. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our assessment of risks of material misstatement

The risks of material misstatement detailed in this section of the 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 that had the greatest effect on the audit were as follows:

Existence and recoverability of loans

There is a risk that loans on the Agency's loan book do not exist, or that funds have been disbursed to bodies other than the Local Authorities or Approved Housing Bodies. There is also a risk that loans may not be recoverable and that credit risk arises on the Agency's loan book, particularly post May 1986 loans which account for the substantial portion of the Agency's loan book.

We selected a sample of loans outstanding at the statement of financial position date, including loans that were advanced during the year. We inspected the documentation to support each of these loans, and we performed recalculations of the amounts outstanding on each of the loans at the statement of financial position date, referring to key inputs such as interest rates and repayment history. In all cases we discussed the status of each loan with management. In relation to recoverability we considered the disclosures made in the Audit Committee Report in relation to the recoverability of post May 1986 loans in particular. We are satisfied that management's assessment that there is no credit risk on post May 1986 loans is appropriate.

Report of the Independent Auditor (Continued)

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (Ireland) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2014

Based solely on the work undertaken in the course of the audit, we report that in our opinion:

- the information given in the Directors' Report is consistent with the financial statements; and,
- the Directors' Report has been prepared in accordance with applicable legal requirements.

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

In our opinion the accounting records of the company were sufficient to permit the financial statements to be readily and properly audited, and the statements are in agreement with the accounting records.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.

We have nothing to report in respect of our obligation under the Companies Act 2014 to report to you if, in our opinion, the disclosures of director's remuneration and transactions specified by sections 305 to 312 of the Act are not made.

Responsibilities of directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

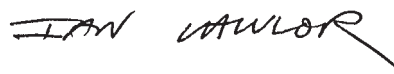
Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the IAASA's website at: [http://www.iaasa.ie/Publications/Auditing-standards/International-Standards-on-Auditing-for-use-in-Ire/International-Standards-on-Auditing-\(Ireland\)/ISA-700-\(Ireland\)](http://www.iaasa.ie/Publications/Auditing-standards/International-Standards-on-Auditing-for-use-in-Ire/International-Standards-on-Auditing-(Ireland)/ISA-700-(Ireland)). This description forms part of our auditor's report.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the company'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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Ian Lawlor,

**For and on behalf of JPA Brenson Lawlor
Chartered Accountants, Statutory Audit Firm**

Argyle Square
Morehampton Road
Donnybrook
Dublin 4
Ireland

26th March 2020

Income Statement

	Note	31 December 2019 €'000	31 December 2018 €'000
Interest income	6	64,348	54,032
Interest expense	7	(23,225)	(24,154)
Net Interest Income		41,123	29,878
Administration expenditure	9	(1,705)	(1,689)
Operating lease	9	(197)	(197)
Depreciation on tangible assets	8, 12	(53)	(120)
Gain on ordinary activities before finance income/expense		39,168	27,872
Finance income	10	-	-
Finance expense	10	-	(2)
Gain on ordinary activities after finance income		39,168	27,870

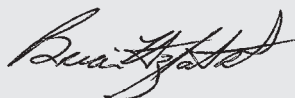
The accompanying notes on pages 51 to 80 form an integral part of the financial statements.

On behalf of the Board,



Professor Michelle Norris
Chairperson

26 March 2020



Brian Fitzpatrick
Director

26 March 2020

Statement of Comprehensive Income

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	Note	31 December 2019 €'000	31 December 2018 €'000
Gain on ordinary activities after finance income		39,168	27,870
Actuarial gain	17	(662)	125
Total comprehensive income for the financial year		38,506	27,995

Statement of Financial Position

	Note	31 December 2019 €'000	31 December 2018 €'000
Assets			
Cash and cash equivalents	11	361	589
Property, plant and equipment	12	98	86
Loans and advances	13	4,732,893	3,986,188
Other debtors and receivables	14	3,824	3,809
Total assets		4,737,176	3,990,672
Liabilities			
Bank overdraft	11	-	-
Debt securities in issue	15	3,936,119	3,442,899
Bank loans	16	561,022	347,342
Pension scheme deficit	17	744	83
Other payables		776	339
Total liabilities		4,498,661	3,790,663
Equity			
Called up share capital	20	39	39
Retained surplus	21	238,476	199,970
Total equity		238,515	200,009
Total liabilities and equity		4,737,176	3,990,672

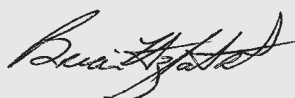
The accompanying notes on pages 51 to 80 form an integral part of the financial statements.

On behalf of the Board,



Professor Michelle Norris
Chairperson

26 March 2020



Brian Fitzpatrick
Director

26 March 2020

Statement of Changes in Equity

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	Share Capital € '000	Retained Earnings € '000	Total € '000
Balance as at 1 January 2019 as previously reported	39	199,970	200,009
Profit for the year	-	39,168	39,168
Actuarial gain on defined benefit pension schemes	-	(662)	(662)
Balance as at 31 December 2019	39	238,476	238,515

Statement of Cash Flows

	31 December 2019 €'000	31 December 2018 €'000
Cash flow from operating activities		
Profit for the financial year	39,168	27,870
<i>Adjustments for:</i>		
Amortisation of premium discount on liabilities	-	67
Depreciation	53	120
Pension actuarial costs	(662)	125
Impairment charges	-	-
Net (increase)/decrease in loans and advances	(746,650)	(201,145)
Net (increase)/decrease in other creditors	1,096	(2)
Net (increase)/decrease in debtors	(71)	(4)
Net cash generated from operating activities	(707,066)	(172,969)
Cash flows from investing activities		
Purchases of property, plant and equipment	(65)	(60)
Net cash used in investing activities	(65)	(60)
Cash flows from financing activities		
Movement of borrowings	706,902	173,267
Net cash used in financing activities	706,902	173,267
Net increase (decrease) in cash and cash equivalents	(228)	238
Cash and cash equivalents at the beginning of the year	589	352
Cash and cash equivalents at the end of the year	361	589

1. Statutory Information

The Housing Finance Agency is a public limited company domiciled in Ireland, registration number 87513. The registered office is located at 46, St Stephen's Green, Dublin 2.

2. Compliance with Accounting Standards

The financial statements have been prepared in accordance with FRS102, the Financial Reporting Standard applicable in the UK and Ireland issued by the Financial Reporting Council. There were no material departures from that Standard.

3. Accounting Policies

Basis of preparation

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

The financial statements have been prepared under the historic cost convention as modified by the revaluation of certain fixed assets.

The financial statements comply with generally accepted accounting practice in Ireland, which includes compliance with Irish law and FRS 102, the Financial Reporting Standard applicable in the UK and Ireland, issued by the Financial Reporting Council, as promulgated by Chartered Accountants 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 Income Statement to suit the circumstances of the business in accordance with Section 3, Part II of the Companies Act 2014. The Directors have chosen to present their financial statements in a format which is used by similar financial institutions.

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 may impact the HFA, in particular with regard to difficulties which may arise in relation to access to funding.

The majority of the HFA's loans have a variable rate structure, and the funding acquired to provide these loans is similarly structured. The HFA's main funder is the National Treasury Management Agency (NTMA) through the HFA's Guaranteed Notes (GN) programme. The GN programme is guaranteed by the Minister for Finance and facilitates issuance out to a maximum maturity of thirty years from the date of issue.

In January 2016 a new pricing arrangement with the NTMA was introduced whereby the interest rate for new issues (fixed or floating) is priced off the Irish Government bond yield curve for the respective maturity plus a margin agreed between both parties. At end 2019 the average maturity of HFA debt was 4.0 years (2018: 3.4 years). The NTMA had purchased €1.91bn in GNs at 31 December 2019 (2018: €1.56bn).

The Directors are satisfied that there is a sufficient range of funding options available, to allow the HFA to continue to provide ongoing financing to its customers and to continue its operations into the foreseeable future. The Directors are also assured that, given the average life of the HFA's borrowing is significantly longer than 18 months from the date of approval of these financial statements, 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.

3. Accounting Policies (continued)

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 judgements 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 before 1986 and on loans to approved housing bodies.

Impairment loss on loans and advances

The HFA currently lends to local authorities, approved housing bodies, the Local Government Management Agency (LGMA) and higher education institutions. These borrowers have different credit risk profiles. A more detailed explanation regarding this can be found in Note 18 (a).

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 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 Housing, Planning & 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 May 1986 and loans to AHBs. The HFA is liable for any credit losses that may arise on the €5.3 million (2018: €6.1 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 €2.71 million has been recognised in respect of these accounts. Refer to Note 13 for further details. Direct lending to AHBs commenced in 2012 with the total balances as at 31 December 2019 of €1,245.8 million (2018: €629.9 million). No loans losses were incurred on loans to AHBs and therefore no loan loss allowances were made.

Employee benefits

The HFA operates a defined benefit pension scheme covering all employees that commenced employment prior to 2013. Seven employees, recruited since 1 January 2013, are included in the Single Public Service Pension Scheme in line with government policy. The market value of the assets and actuarial value of the liabilities of the HFA's pension scheme are evaluated annually. This involves Management, with the advice of an external actuary, making assumptions regarding the future as to price inflation, salary and pension increases, return on investments and employee mortality. There are acceptable ranges in which these estimates validly fall. The impact on the results for the period and financial position could be materially different if alternative assumptions were used. Further details are disclosed in Note 17 to the financial statements.

3. Accounting Policies (continued)

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 year-end 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 other comprehensive income in the year in which they are incurred. The impact on the Income Statement includes current service cost, past service cost, the interest cost of the plan liabilities and the expected return on plan assets.

Financial assets and liabilities

Recognition

The HFA initially recognises, at fair value, loans and advances, deposits and debt securities issued 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. 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, cancelled or expire. The HFA may enter into transactions whereby it transfers assets recognised on its Statement of Financial Position 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 Statement of Financial Position.

Financial Instruments

In previous financial years, the HFA opted-in to the requirements of FRS 26 'Financial Instruments: Recognition and Measurement'. FRS 26 implements the recognition, measurement and hedge accounting requirements of the International Standard IAS 39 'Financial Instruments: Recognition and Measurement'. IAS 39 requires Financial Assets to be classified into one of four categories. The HFA classified its loans to Local Authorities, approved housing bodies and higher education institutions under the category of 'Loans and Receivables' in accordance with IAS 39.

Therefore, the HFA's loans were initially recognised at fair value of the consideration paid and were subsequently measured at amortised cost less provision for impairment. The related income on loans and receivables was recognised on an effective interest rate basis. The HFA has considered the requirements of Sections 11 and 12 of FRS 102 in deciding on the accounting treatment for its loans to Local Authorities and approved housing bodies.

Pre May 1986 loans

The HFA is liable for any credit losses that arise on pre-May 1986 mortgages which are secured by the underlying mortgage property. The HFA considers that these loans fall under the category of asset-backed securities in accordance with Paragraph 11.6 of FRS 102, and therefore they fall under the scope of section 12 which deals with complex financial instruments.

Post May 1986 local authority loans

The HFA notes the definitions included in paragraphs 11.8 and 11.9 of FRS 102 and considers that its post May 1986 loans to local authorities constitute debt instruments in which the contractual return to the Agency is a fixed amount and a positive fixed rate or a positive variable rate, and therefore meet the definition of basic financial instruments.

3. Accounting Policies (continued)

Loans to approved housing bodies

The HFA commenced lending to approved housing bodies in 2012. The HFA considers that the loans advanced to AHBs meet the definition of complex financial instruments on the basis that the loans are secured by way of charges over the underlying properties.

Loans to higher education institutions

The HFA commenced lending to higher education institutions in 2019. The HFA considers that the loans advanced to HEIs meet the definition of complex financial instruments on the basis that the loans are secured by way of charges over the underlying properties.

Consideration of accounting treatment

Section 11 of FRS 102 requires that Basic Financial Instruments be measured initially at the transaction price, and subsequently at amortised cost using the effective interest method. This method of accounting represents no difference from what the HFA previously applied and therefore would not give rise to any transition adjustments. Section 11 applies to the most significant part of the Agency's loan books, dealing with the loans advanced to local authorities post May 1986. Section 12 of FRS 102 requires that complex financial instruments be initially recognised at fair value, and subsequently should also be measured at fair value at the end of each reporting period. As noted above the loans that would fall into this category comprise the HFA's loans advanced to local authorities prior to May 1986, and its loans to approved housing bodies and higher education institutions. These loans collectively account for 28% of the HFA's total loan book.

The HFA considers that the nature of its business means that it meets the requirements to be classified as a Public Benefit Entity in accordance with FRS 100. In accordance with paragraph 11.1A of FRS 102, a Public Benefit Entity that makes or receives public benefit entity concessionary loans may refer to the paragraphs of Section 34 of the standard for the accounting requirements for these loans. In so far as it applies to the HFA, the standard defines such a loan as one that is below the prevailing market rate of interest, is not payable on demand, and is for the purpose of furthering the objectives of the Public Benefit Entity. Section 34 of the standard allows the user to apply the recognition, measurement and disclosure requirements of Section 11 or Section 12. The HFA has therefore opted to apply the provisions of Section 34 and continue to account for its loans at fair value on initial measurement, and at amortised cost using the effective interest rate method. This applies the principles of Section 11 of the Standard covering Basic Financial Instruments.

In relation to all other Financial Instruments, the HFA is satisfied that these meet the definition of Basic Financial Instruments and therefore should continue to be accounted for in the same manner as in previous years. This does not give rise to any transition adjustments.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the Statement of Financial Position 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.

3. Accounting Policies (continued)

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 paid 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 year-end 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 the Income Statement and reflected in an allowance account against loans and advances.

All loans that are assessed for renegotiation are tested for impairment 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 cash flows discounted at the loan's original effective interest rate. Where the terms on a renegotiated loan which has been subject to an impairment provision differ substantially from the original loan terms either in a quantitative or qualitative analysis, the original loan is derecognised, and a new loan is recognised at fair value.

Any difference between the carrying amount of the loan and the fair value of the new renegotiated loan terms is recognised in the income statement.

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 Statement.

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and on hand, and short-term investments which 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.

3. Accounting Policies (continued)

Property, plant and equipment

Depreciation has been computed to write off the cost of tangible fixed assets over their expected useful lives using the following rates:

Computer assets Straight line over 3 years

Other assets Straight line over 5 years

Estimates of expected useful life are reviewed at the end of each accounting period. 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 less costs or its value in use. Impairment losses are recognised in Other Comprehensive Income.

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 or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability at initial recognition.

The effective interest rate is the rate that discounts the expected future cash flows over the expected life of the financial instrument.

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 year-end date. The exchange differences are dealt with in the Income Statement.

Segment reporting

The HFA has only one type of operation carried out in only one country. Management reviews the operations of HFA as a whole and does not distinguish operating segments. As a result, operations are reported in these financial statements as a single segment.

Operating lease

Operating lease costs are disclosed separately in the Income Statement on an accruals basis over the period of the lease using the straight-line method. Operating lease incentives are recognised in the statement of financial position and released on a straight-line basis over the period to the first review to market rate contained within the lease.

Inflationary increases in lease rentals are expensed as incurred.

Finance income

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

4. Status of the HFA and related party transactions

Housing Finance Agency plc. is a public company limited by shares promoted by the Minister for Housing, Planning & Local Government under the terms of the Housing Finance Agency Act, 1981. The issued share capital is beneficially owned by the Minister for Public Expenditure and Reform. The 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 and local authorities, which are also Government bodies and are as such considered to be related parties. Details of amounts outstanding under the Guaranteed Note programme which are provided by the NTMA and local authorities, at 31 December 2019, can be found in Note 15. The interest expense relating to these facilities for the financial year was €13.74 million (2018: €14.87 million) for the NTMA, and €4.29 million (2018: €5.14 million) for local authorities.

In the normal course of business, the HFA loans funds to local authorities which are Government bodies and are, in this respect, also considered to be related parties. Interest earned on these advances is detailed in Note 6 to the financial statements.

The management/administration of the HFA's pension scheme (see Note 17) is performed by 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 2019 was €nil (2018: €nil) and amounts on deposit as at 31 December 2019 were €0.36 million (2018: €0.59 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 include the Board of Directors and the Chief Executive Officer, Head of Treasury and Head of Finance. 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 2019 €'000	31 December 2018 €'000
Salaries*	306	304
Directors' fees	51	54
Pension contributions	99	98
	456	456

*Salaries include Chief Executive Officer's remuneration which is detailed in Note 9, in addition to other salaried key senior Management personnel. One key Management employee is in the Single Public Service Pension Scheme.

5. Taxation status of the HFA

Under Section 218 of the Taxes Consolidation Act 1997, income earned by 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.

Notes to the financial statements (Continued)

6 Interest income – continuing activities

	31 December 2019 €'000	31 December 2018 €'000
Interest on advances to local authorities:		
Post 27 May 1986	41,840	41,581
Pre 27 May 1986	102	105
Interest on advances to approved housing bodies	22,300	12,346
Interest on advances to higher education institutes	106	-
	64,348	54,032

Total interest income on financial assets not carried at fair value through the Income Statement amounted to gross interest of €66.55 million which includes nil finance income (see Note 10) for the year ended 31 December 2019 (2018: €nil).

7. Interest expense – continuing activities

	31 December 2019 €'000	31 December 2018 €'000
Loan costs		
Interest payable on Guaranteed Notes	18,037	20,040
Interest payable on EIB and CEDB facilities	5,188	3,031
Interest payable on 8.75% stock	-	1,083
Total Interest Expenses	23,225	24,154

8. Non-interest expenditure

	31 December 2019 €'000	31 December 2018 €'000
Administration expenditure		
Operating lease (Note 8)	197	197
General expenditure, Directors emoluments and Employee costs (Note 8)	1,706	1,689
Depreciation (Note 12)	52	120
Total administration expenditure	1,955	2,006

9. Administration expenditure

Operating lease commitments

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

Buildings	€'000
Not later than one year	197
After one year less than five years	788
After five years	2,022

Administration expenditure

Administration expenditure has been arrived at after charging:

Year ended	31 December 2019 €'000	31 December 2018 €'000
Auditor's remuneration		
Audit of financial statements	34	34
Tax advisory services	-	-
Other services	-	-
Total Auditor's remuneration	34	34
General Expenses	554	565
Directors emoluments		
Fees – Chairperson	_*	_*
Fees – other Directors	51	54
Total Director emoluments	51	54
Employee costs (excluding Directors)		
Chief Executive Officer's remuneration	117	116
Other salaries	656	640
Pension contributions	56	36
Social Welfare costs	69	61
Pension service costs - present	169	183
Total employee costs	1,067	1,036
Total administration expenses	1,706	1,689

*A sum of €9,000 (2018: €9,000) was charged by University College Dublin as compensation for loss of hours worked by Professor Michelle Norris for time spent in her duties as Chairperson of the HFA for 2019.

Total salaries for key Management were €306,000 (2018: €304,000). The balance of €467,000 (2018: €452,000) was for administration staff. PAYE/PRSI and VAT at the year-end was €49,796 (2018: €38,012). The average number of employees during the year was fourteen (2018: thirteen including the Executive Director).

Notes to the financial statements (Continued)

10. Finance income

	31 December 2019 €'000	31 December 2018 €'000
Investment income on short-term deposits	-	-
Interest received on cash balances	-	-
Net finance income	-	-

Finance expense

	31 December 2019 €'000	31 December 2018 €'000
Net Interest expense on defined benefit pension scheme liabilities	-	(2)
Net finance expense	-	(2)

11. Cash and cash equivalents

Year ended	31 December 2019 €'000	31 December 2018 €'000
Cash at bank and in hand	361	589
Overdrafts	-	-
	361	589

12. Property, plant and equipment

	31 December 2019 €'000
Cost or valuation	
At 1 January 2019	613
Additions	65
At end of year	678
Accumulated Depreciation	
At beginning of year	528
Charged for year	52
At end of year	580
<i>Net book value</i>	
31 December 2019	98
31 December 2018	86

13. Loans and advances to local authorities, approved housing bodies and higher education institutions

	31 December 2019 €'000	31 December 2018 €'000
Loans advanced to local authorities	3,337,519	3,267,215
Loans advanced to approved housing bodies	1,245,825	630,426
Loans advanced to higher education institutions	60,000	-
Total balances due on advances	4,643,344	3,897,641
Less: Collective provision	(2,711)	(2,711)
	4,640,633	3,894,930
Due from local authorities, AHBS and HEIs	92,260	91,257
Total loans and advances to local authorities, AHBS and HEIs	4,732,893	3,986,187

The HFA is liable for any credit losses that may arise on the €5.3 million (2018: €6.1 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 €2.71 million (2018: €2.71 million) has been recognised in respect of these loans. Refer to Note 18 (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 2019 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 Housing, Planning & 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 18 (a) for further details.

Direct lending to approved housing bodies commenced in 2012 and losses are recognised on these loans to the extent that losses are incurred. No such losses arose in 2018 and no provision is considered necessary in respect of these advances as at 31 December 2019.

Lending to higher education institutions commenced in 2019 and losses are recognised on these loans to the extent that losses are incurred. No such losses arose in 2019 and no provision is considered necessary in respect of these advances as at 31 December 2019.

14. Other debtors and receivables

	31 December 2019 €'000	31 December 2018 €'000
Amounts due to MARP Fund	3,676	3,731
Pension related receivables	148	78
Total other debtors and receivables	3,824	3,809

15. Debt securities in issue

	31 December 2019 €'000	31 December 2018 €'000
Guaranteed Notes		
Local authorities	2,001,418	1,848,859
National Treasury Management Agency	1,912,833	1,557,524
Environment Fund	10,774	29,737
Local authority MARP fund	4,929	1,609
Total Guaranteed Notes advanced	3,929,954	3,437,729
Interest Payable on Guaranteed Notes	6,167	5,170
Total debt securities issued	3,936,121	3,442,899

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

16. Bank loans

	31 December 2019 €'000	31 December 2018 €'000
Bank loans		
Between one and two years	61,911	67,342
Between two and five years	-	-
After more than five years	499,111	280,000
Total	561,022	347,342

The bank loans payable are fully guaranteed by the Minister for Finance, excepting one small facility for the purpose of unguaranteed lending for water, waste and environmental projects, totalling just under €3 million, with the Council of Europe Development Bank. The maturity of the amounts falling due after more than one year is further split out in Note 18 (c).

17. Pension scheme deficit

The HFA operates a defined benefit pension scheme covering all permanent employees (apart from employees recruited after 31 December 2012). This pension scheme is internally funded.

The latest full actuarial valuation was carried out at 15 September 2017 using the Aggregate Method.

At 31 December 2019, the market value of the fund's assets was €5.22 million (2018: €4.50 million). The contributions to the fund have been increased in line with the actuary's recommendations. The Actuarial Report is available for inspection by members of the scheme.

For the purposes of FRS 102 Section 28, Employee Benefits, the latest valuations have been updated to 31 December 2019 by a qualified independent actuary using the projected unit cost method.

The principal actuarial assumptions used were as follows:

	31 December 2019 %	31 December 2018 %	31 December 2017 %
Rate of increase in salaries	2.90	3.00	3.25
Rate of increase in pensions payments	2.00	2.00	2.00
Discount rate	1.20	2.20	2.00
Inflation assumption	1.40	1.50	1.80
Life expectancies			
Post retirement – male age 65	23.6 years	24.1 years	24.1 years
Post retirement – female age 65	25.5 years	27.8 years	27.8 years
Post retirement – male age 62.5	26.0 years	27.1 years	-
Post retirement – female age 62.5	28.0 years	30.5 years	-

The (deficit)/surplus of the scheme may be analysed as follows:

	31 Dec 2019 €'000	31 Dec 2018 €'000	31 Dec 2017 €'000	31 Dec 2016 €'000	31 Dec 2015 €'000
Pension assets	5,222	4,497	4,486	3,869	3,471
Pension liabilities	(5,966)	(4,580)	(4,654)	(4,180)	(3,478)
Deficit	(744)	(83)	(168)	(311)	(7)

17. Pension scheme deficit (continued)

Based on these assumptions, the following table sets out the market value of the assets of the defined benefit scheme together with the most recent valuation of the scheme liabilities updated for movements in the financial assumptions:

	Value at 31 Dec 2019 €'000	Value at 31 Dec 2018 €'000	Value at 31 Dec 2017 €'000
Equities	2,415	2,192	3,832
Bonds	2,289	1,262	654
Property	236	281	-
Cash and other assets	282	762	-
Total market value of pension scheme assets	5,222	4,497	4,486
Present value of pension scheme liabilities	(5,966)	(4,580)	(4,654)
Total net pension deficit recognised in the Statement of financial position	(744)	(83)	(168)

Interest income on plan assets for 2019 has been calculated based on the discount rate for the prior year which stood at 2.20%. For the year ended 31 December 2020, interest income on plan assets will be based on a discount rate of 1.20%.

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

	31 December 2019 €'000	31 December 2018 €'000
Present value of defined benefit obligations at 1 January	(4,579)	(4,654)
Current and past service cost	(169)	(183)
Interest cost	(101)	(93)
Contributions by employees	(23)	(22)
Actuarial (loss)/gain	(1,158)	346
Benefits paid	65	27
Present Value of defined benefit obligations at 31 December	5,965	(4,579)

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

	31 December 2019 €'000	31 December 2018 €'000
Fair value of plan assets as at 1 January	4,497	4,486
Expected return on plan assets	101	91
Contributions by employer	170	146
Contributions by employees	23	22
Actuarial (loss)/gain	496	(221)
Benefits paid	(65)	(27)
Present value of defined benefit obligations at 31 December	5,222	4,497

17. Pension scheme deficit (continued)

History of actuarial gains and losses:

	31 Dec 2019 €'000	31 Dec 2018 €'000	31 Dec 2017 €'000	31 Dec 2016 €'000	31 Dec 2015 €'000
Difference between expected and actual return on assets	497	(221)	399	202	59
Expressed as a percentage of scheme assets	9.5%	4.91%	8.89%	5.20%	1.70%
Actuarial gains and (losses) on scheme liabilities	(1,158)	346	(264)	(494)	569
Expressed as a percentage of scheme liabilities	19.40%	7.55%	5.67%	11.80%	16.36%
Total actuarial gains and (losses)	(661)	125	135	(292)	628
Expressed as a percentage of scheme liabilities	11.10%	2.73%	2.90%	6.98%	18.06%

Cumulative actuarial gains and losses recognised in the Statement of Comprehensive Income:

	31 December 2019 €'000	31 December 2018 €'000
Cumulative amount at 1 January	(2,424)	(2,549)
Recognised during the period	(661)	125
Cumulative amount at 31 December	(3,085)	(2,424)

The amounts related to the defined benefit scheme that were recognised in the Income Statement and Other Comprehensive Income are presented in Note 9.

Expected Employer contributions:

	2020 €'000	2019 €'000
Expected Employer contributions	173	170

18. 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.

18. Financial risk management (continued)

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 2020), 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, Head of Treasury 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, Head of Treasury or Head of Finance) and are subject to regular periodic internal audit checks during their lifetime.

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 and a separate category for loans to AHBs and HEIs. These three categories have a different credit risk profile.

(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, approved housing bodies and higher education institutions. The HFA's maximum exposure to credit risk is set out in the table below.

Financial assets	31 December 2019 €'000	31 December 2018 €'000
Loans advanced to local authorities	3,337,519	3,267,216
Loans advanced to approved housing bodies	1,245,825	630,426
Loans to higher education institutions	60,000	-
Total loans advanced	4,643,344	3,897,642
Less collective provision-local authorities	(2,711)	(2,711)
	4,640,633	3,894,931
Due from local authorities, AHBS and HEIs	92,260	91,257
Cash at bank and in hand	361	589
Due from other debtors and receivables	0	-
	4,733,254	3,986,777

18. Financial risk management (continued)

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.
- Institutions of Higher Education for the provision or management of student accommodation, including the acquisition of land for this purpose and
- to lend funds to the Housing Agency.

Balances due from local authorities, AHBs and HEIs are categorised as follows:

	31 December 2019 €'000	31 December 2018 €'000
Balance due on advances		
Mortgage related loans*	1,069,142	969,034
Capital subsidy and rental	872,976	921,909
Bridging finance	426,881	429,217
Land acquisition	399,437	427,916
Other non-mortgage housing related loans	569,083	519,140
Advances due from local authorities	3,337,519	3,267,216
Advances due from approved housing bodies	1,245,825	630,426
Advances due from higher education institutions	60,000	-
Overall total balances due on advances	4,643,344	3,897,642

*Loans issued pre-1986 of €8.6m are included in the Mortgage related loans (2018: €9.1m)

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. With regard to loans to AHBs the HFA is permitted under Section 17 of the Housing Miscellaneous Provision Act 2002 to lend to AHBs and under section 51 of the Planning and Development (Housing) and Residential Tenancies Act 2016 to lend to Higher Education Institutions and the Housing Agency.

Under the Social Housing Leasing Initiative, the Department of Housing, Planning and Local Government 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 DHPLG for a period of up to 30 years, will fund the repayment of the HFA's loan.

18. Financial risk management (continued)

The HFA has a credit policy regarding lending to AHBs and HEIs which was approved by the Board in June 2013 and recently updated in October 2019. The Credit Committee maintains credit risk within Board limits and reports on the credit worthiness of AHBs.

Impaired and past due loans

Fair value is not assessed 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 2019 (2018: nil). Details of loans that were subject to renegotiation in the year are in the Renegotiated Loans section of this note.

Analysis of loans to local authorities and approved housing bodies	31 December 2019 €'000	31 December 2018 €'000
Pre 1986 loans	8,636	9,151
Post 1986 loans	3,328,883	3,258,065
Loans to approved housing bodies	1,245,825	630,426
Loans to higher education institutions	60,000	-
	4,643,344	3,897,642
Collective Provision		
Pre 1986 loans	2,711	2,711
Other loans	-	-
	2,711	2,711

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 Housing, Planning, 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 are incurred. No such losses arose in 2019.

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;
- approving any loans advanced to AHBs under the terms of Section 17 of the Housing (Miscellaneous Provisions) Act 2002 and to ensure that all loans advanced are in accordance with the HFA's Credit Policy;

18. Financial risk management (continued)

- considering and approving the creditworthiness of each AHB prior to a Master Loan Agreement being executed by the HFA;
- approving any loans advanced to HEIs under the terms of Section 51 of the Planning and Development (Housing) and Residential Tenancies Act 2016 and to ensure that all loans advanced are in accordance with the HFA's Credit Policy;
- ensuring that it has obtained all relevant documentation pertaining to the credit application; and,
- maintaining credit risk within Board approved limits.

Mortgage Arrears Resolution Process (MARP)

In August 2012, the Department of Housing, Planning and Local Government provided assistance to local authorities in dealing with their borrowers' mortgage arrears, by issuing guidelines detailing the proposed Mortgage Arrears Resolution Process (MARP). These guidelines reflect the Central Bank's Code of Conduct on Mortgage Arrears and have the intention of standardising an approach to arrears among the Local Authorities Sector. The MARP process consists of a five steps process mentioned in the DHPLG's guidelines.

In order to offset future losses and to allay impending financial constraints on local authority revenue streams, the DHPLG established a MARP premium to begin to accumulate funds. MARP has been operational for local authorities since 1 October 2012 through the application of a premium to all variable mortgage related local authority loan accounts.

A MARP premium of 0.80% on variable rate mortgage loans (from 1 January 2014) and a rate of 0.25% is charged on Rebuilding Ireland mortgage loans (for loan applications from 1 January 2018 to 14 January 2020, to increase to 0.995% for applications from 15 January 2020). This is collected on the MARP Adjudicating Panel's behalf by the HFA half-yearly and retained in a separate interest bearing account with the intention of being drawn down, as necessary, when given the proper authorisation. The MARP fund purchases a Guaranteed Note for the amounts collected on their behalf.

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.

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

MARP Fund Reconciliation

	€'000
Receipts to MARP Fund	51,621
Disbursements from MARP fund	(46,727)
Interest Earned	35
Balance at 31 December 2019	4,929

Notes to the financial statements (Continued)

18. Financial risk management (continued)

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 deferred interest periods or offer other renegotiations as appropriate.

During 2019, the HFA renegotiated €39.81 million (2018: €73.22 million) of non-mortgage related loans and €nil (2018: €nil) of housing related loans.

These renegotiations have taken place in the context of €3.34 billion of loans advanced to local authorities as at 31 December 2019 and thus represents renegotiation activity of circa 0.001% in 2019 (2018: 0.002%).

Renegotiated non-mortgage related and mortgage related loans were given interest only loans that 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 €39.81 million of loans (2018: €73.22 million) to be renegotiated as at 31 December 2019 with €0.20 million (2018: €0.38 million) of interest income recognised on these assets.

31 December 2019	Number of loans	Carrying value €'000
Opening renegotiated loans	13	73,218
Renegotiated during the year	3	39,813
Repaid during the year	-	-
Less loans no longer considered renegotiated	(13)	(73,218)
Closing renegotiated loans	3	39,813

31 December 2018	Number of loans	Carrying value €'000
Opening renegotiated loans	5	21,833
Renegotiated during the year	13	73,218
Repaid during the year	-	-
Less loans no longer considered renegotiated	(5)	(21,833)
Closing renegotiated loans	13	73,218

As at year ended 31 December 2019, no land acquisition loans were converted upon maturity to annuity loans (2018: €0.93 million) repayable over a period of up to 30 years. There was no interest accrued on loans converted upon maturity at 31 December 2019 (2018: €0.01 million).

18. Financial risk management (continued)

Concentrations

All loans and advances to local authorities are approved by the Minister for Housing, Planning & 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 2019 the HFA had no investments (2018: €nil) in Exchequer Notes with the NTMA.

Allied Irish Bank plc. is currently the main counterparty for cash, with a surplus of €0.36 million held at 31 December 2019 (2018: €0.59 million). At 31 December 2019, the Standard & Poor's rating for Allied Irish Bank plc. was BBB- (2018: BBB-).

(b) Liquidity risk

Liquidity risk is the risk that the HFA will encounter difficulty in meeting its obligations from its financial liabilities. At the end of December 2019, the HFA had €0.76 billion of floating rate guaranteed notes held by the National Treasury Management Agency.

These floating rate notes have maturities tranchised at six monthly intervals from January 2020 to January 2021. The interest rates are refixed on a quarterly basis, at a margin over the three-month Euribor rate. In addition to this the HFA holds a fixed rate ten-year guaranteed note worth €75m with the NTMA, with a maturity date in July 2026. The HFA also holds €200m of fixed term deals with the NTMA, in five tranches of €40m, with maturity dates ranging from September 2027 to September 2046. The HFA also holds €130m of fixed term deals with the NTMA with a start date of September 2018, with maturity dates ranging from September 2028 to August 2046. The HFA also agreed €210m of fixed term deals with the NTMA with a start date of August 2019, in five tranches, two for €60m and three for €30m, with maturity dates ranging from September 2028 to August 2046. At the start of 2020 the HFA agreed deals worth €400m, one €200m tranche with a maturity in 2035 and the other €200m tranche with a maturity in 2040. Another deal, due to start in April 2021, worth €175m, with a maturity in 2036, was agreed with the NTMA recently.

The GNs are guaranteed by the Minister for Finance of Ireland. In contrast, loans and receivables have an average original loan term of 27 years (2017: 26 years). This represents a significant mismatch in the maturity profile, however given the assurances received from the NTMA 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 24 months. The HFA also holds GNs with local authorities and a small amount with the Environment Fund (see Note 16).

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 HFA's funding requirements for 2020 have been included as part of the overall planning process for State funding.

18. Financial risk management (continued)

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

	Carrying amount €'000	Gross nominal outflow €'000	Less than 1 month €'000	1-3 months €'000	3 months to 1 year €'000	1-5 years €'000	More than 5 years €'000
31 December 2019							
Non-derivative liabilities							
NTMA Floating Rate FRN	(756,000)	(758,162)	(253,304)	-	(252,858)	(252,000)	-
NTMA 10 Year Fixed Rate	(75,000)	(80,245)	(406)	-	(402)	(3,226)	(76,210)
NTMA €200m Year Fixed Rate	(200,000)	(237,214)	0	(936)	(936)	(7,526)	(227,815)
NTMA €130m Year Fixed Rate	(130,000)	(168,815)	0	-	(2,211)	(8,887)	(157,716)
NTMA €210m Year Fixed Rate	(210,000)	(270,132)	0	-	(3,226)	(12,792)	(254,114)
NTMA Guaranteed Notes	(540,833)	(541,882)	(513,784)	-	(28,098)	-	-
Guaranteed Notes facility (LA)	(2,001,418)	(2,004,037)	(211,516)	(294,689)	(1,107,337)	(390,495)	-
Guaranteed Notes facility (MARF)	(4,929)	(4,929)	0	(4,929)	0	-	-
Guaranteed Notes (Environment Fund)	(10,774)	(10,774)	(10,774)	0	0	-	-
EIB and CEDB loans	(561,022)	(649,574)	0	0	(16,690)	(77,497)	(555,387)
	(4,490,975)	(4,725,764)	(989,784)	(300,554)	(1,411,758)	(752,423)	(1,271,242)
31 December 2018							
Non-derivative liabilities							
NTMA Floating Rate FRN	(1,008,000)	(1,009,963)	(1,963)	-	(252,000)	(756,000)	-
NTMA 10 Year Fixed Rate	(75,000)	(81,050)	(406)	-	(400)	(3,226)	(77,018)
NTMA €200m Year Fixed Rate	(200,000)	(238,432)	-	(931)	(957)	(7,506)	(229,038)
NTMA €130m Year Fixed Rate	(130,000)	(166,948)	-	-	(2,074)	(8,247)	(156,627)
NTMA Guaranteed Notes	(144,524)	(144,540)	(144,540)	-	-	-	-
Guaranteed Notes facility (LA)	(1,848,859)	(1,852,585)	(623,955)	(299,436)	(929,194)	-	-
Guaranteed Notes facility (MARF)	(1,609)	(1,609)	(1,609)	-	-	-	-
Guaranteed Notes (Environment Fund)	(29,737)	(29,737)	(29,737)	-	-	-	-
EIB and CEDB loans	(347,342)	(385,575)	-	-	(4,403)	(35,769)	(345,403)
	(3,785,071)	(3,910,439)	(802,210)	(300,367)	(1,189,028)	(810,748)	(808,086)

18. Financial risk management (continued)

Management of liquidity risk

The HFA's policy in relation to liquidity risk is to ensure, by periodic reviews of cashflow requirements, that it can meet its funding obligations for an appropriate period ahead.

The Board approves a rolling update of a five-year Corporate Plan in the first half of each year. This takes into account the 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.

The Board regularly reviews the current debt programme, which includes, 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, bilateral funding agreements, and Guaranteed Notes issuance, bank overdrafts and retained profits. The NTMA had purchased €1.91bn in GNs at 31 December 2019 (2018: €1.56bn).

Given the assurances received from the NTMA concerning the continuity and quantum of 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 GNs with local authorities and a small amount with the Environment and MARP Funds (see Note 16). The HFA's overdraft facilities (€50 million available at 31 December 2019) are subject to annual review by the HFA's bankers.

The average cost of the HFA's debt in 2019 was an annualised 0.59% compared with 0.64% in 2018, primarily due to the reduction in interest rates, and as a result of lower rates charged by the NTMA in 2019.

(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 minimize or eliminate market risk exposures.

Management of market risks

The HFA splits market risks into risks related to changes in variable and fixed interest rates. Interest rate risk exposure is managed by minimising mismatches between its borrowings and its advances within its individual programmes, fixed rate and floating rate. The following uncertainties are taken into account in determining the policy:

- where borrowers can redeem without penalty;
- where specialised markets may not always be receptive to issues and redemptions; and,
- where the HFA's business is subject to changes in Government policy.

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.

Management reports to the Board on a quarterly basis with respect to Interest Rate Risk in the Balance Sheet.

18. Financial risk management (continued)

Following the extension of the maximum maturity for notes issued under the HFA's Guaranteed Notes Programme, a suite of fixed rate loan products targeted at local authorities (LAs) and approved housing bodies (AHBs) was approved by the Board in late 2016. In addition, the HFA has access to long term fixed rate funding for new build and retrofit projects from both the European Investment Bank and the Council of Europe Development Bank. Consequently, nearly all new business entered into by LAs, AHBs and HEIs is on a fixed rate basis, giving rise to potential interest rate risk on the HFA's balance sheet.

The gross financial assets are analysed below:

	31 December 2019 €'000	31 December 2018 €'000
Fixed rate	1,926,913	1,047,973
Floating Rate:		
Euribor	2,806,342	2,945,245
	4,733,255	3,993,218

The HFA made new fixed and floating rate advances during the financial year. Fixed rate €364.58 million; Floating rate €67.08 million. (2017: Fixed rate €191.38 million; Floating rate €53.95 million).

Interest rate risk profile of financial assets:

	31 December 2019	31 December 2018
Weighted average fixed interest rate	2.28%	2.28%
Weighted average floating interest rate	1.28%	1.27%
Weighted average period of fixed interest assets	23.6 years	23.4 years

HFA's fixed rate loans consist of 25 and 30-year loans issued to approved housing bodies, higher education institutions and local authorities, with lending to local authorities comprising 34% of fixed rate lending and AHBs and HEIs making up the remaining 66%. Floating rate loans consist mainly 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 26 years (2018: 27 years).

The financial liabilities principal amounts are analysed below:

	31 December 2019 €'000	31 December 2018 €'000
Fixed Rate	1,114,111	685,000
Floating Rate:		
Euribor	3,376,864	3,100,071
	4,490,975	3,785,071

18. Financial risk management (continued)

Interest rate risk profile of financial liabilities as at year end date:

	31 December 2019 €'000	31 December 2018 €'000
Weighted average fixed interest rate	1.19%	1.23%
Weighted average period for which fixed interest liabilities are fixed (years)	20.7 years	20.3 years
Weighted average floating interest rate	0.27%	0.51%
Weighted average period for which variable interest liabilities are fixed (days)	141 days	137 days

Fixed rate liabilities include longer-term fixed rate funding with the NTMA and the European Investment Bank and the Council of European Development Bank. 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. The Directors believe such debt is appropriately classified as floating rate.

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

	Maturity as at 31 December 2019 €'000	Repricing as at 31 December 2019 €'000
Maturity and interest rate of financial assets		
Amounts falling due in one month or less	92,621	2,820,537
Amounts falling due between one and three months	0	0
Amounts falling due between three and twelve months	446,989	1,311
Amounts falling due between one and two years	21,886	103
Amounts falling due between two and three years	18,865	7
Amounts falling due between three and four years	11,173	16
Amounts falling due between four and five years	20,020	1,948
Amounts falling due after more than five years	4,121,700	1,909,332
	4,733,254	4,733,254

Notes to the financial statements (Continued)

18. Financial risk management (continued)

	Maturity as at 31 December 2018 €'000	Repricing as at 31 December 2018 €'000
Maturity and interest rate of financial assets		
Amounts falling due in one month or less	91,846	2,957,453
Amounts falling due between one and three months	-	-
Amounts falling due between three and twelve months	449,696	945
Amounts falling due between one and two years	21,095	1,412
Amounts falling due between two and three years	12,580	128
Amounts falling due between three and four years	16,457	9
Amounts falling due between four and five years	13,536	63
Amounts falling due after more than five years	3,388,008	1,033,208
	3,993,218	3,993,218

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

	Maturity as at 31 December 2019 €'000	Repricing as at 31 December 2019 €'000
Maturity, liquidity measures and interest rate of financial liabilities		
Maturing in one month or less	1,531,682	2,069,892
Maturing between one and three months	229,433	254,433
Maturing between three and twelve months	1,301,839	1,052,539
Maturing greater than 1 year and less than 2 years	252,000	0
Maturing greater than 2 years and less than 3 years	0	0
Maturing greater than 3 years and less than 4 years	0	0
Maturing greater than 4 years and less than 5 years	0	0
Maturing greater than 5 years	1,176,022	1,114,111
	4,490,976	4,490,975

18. Financial risk management (continued)

	Maturity as at 31 December 2018 €'000	Repricing as at 31 December 2018 €'000
Maturity, liquidity measures and interest rate of financial liabilities		
Maturing in one month or less	833,312	870,155
Maturing between one and three months	264,880	292,380
Maturing between three and twelve months	1,178,537	1,181,536
Maturing greater than 1 year and less than 2 years	504,000	504,000
Maturing greater than 2 years and less than 3 years	252,000	252,000
Maturing greater than 3 years and less than 4 years	-	-
Maturing greater than 4 years and less than 5 years	-	-
Maturing greater than 5 years	752,342	685,000
	3,785,071	3,785,071

Undrawn committed facilities

The HFA had undrawn committed facilities at 31 December 2019 of €41.7 million (2018: €277.7 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 statement of financial position) would impact on gains/(losses) for the financial year as follows:

	100 bp parallel increase €'000 gain	100 bp parallel decrease €'000 (loss)	50 bp parallel increase €'000 gain	50 bp parallel decrease €'000 (loss)
At 31 December 2019	2,552	(10,980)	1,276	(4,158)
At 31 December 2018	993	(10,522)	(474)	(4,286)

The above figures have been calculated using outstanding balances of variable rate loan advances offsetting outstanding variable rate GN 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.

Fair value

The following tables outline the fair values of the financial assets and liabilities as at 31 December 2019 and 31 December 2018.

The carrying amount of all other financial assets and liabilities not carried at fair value is considered to be a reasonable approximation of fair value. Information for loans is presented below:

Notes to the financial statements (Continued)

18. Financial risk management (continued)

	Carrying value €'000	Fair value €'000
31 Dec 2019		
Financial assets		
<i>Loans and receivables:</i>		
Fixed rate	1,926,913	2,413,256
Floating rate	2,806,342	3,143,921
	4,733,255	5,557,177
Financial liabilities		
Fixed rate	1,114,111	1,129,515
Floating rate	3,376,874	3,376,874
	4,490,985	4,506,389

The carrying amount of all other financial assets and liabilities not carried at fair value is considered to be a reasonable approximation of fair value. The previous year figure did not include fixed rate stock debt and has now been restated to include all fixed rate debt as at the year end. Information for loans is presented on the next page:

	Carrying value €'000	Fair value €'000
31 Dec 2018		
Financial assets		
<i>Loans and receivables:</i>		
Fixed rate	1,047,973	1,126,316
Floating rate	2,945,245	2,956,005
	3,993,218	4,082,321
Financial liabilities		
Fixed rate	685,000	676,256
Floating rate	3,100,071	3,100,071
	3,785,071	3,776,327

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 fixed rate financial assets and liabilities. Estimated fair values of financial fixed rate assets and liabilities have been discounted using relevant Irish Government bond yields as at the statement of financial position 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.

18. Financial risk management (continued)

The fair value of the HFA's assets has been estimated as €5.56 billion (2018: €4.08 billion) while the fair value of its liabilities has been estimated as €4.51 billion (2018: €3.78 billion). A significantly different amount may arise if alternative assumptions were used in calculating fair value. In selecting this methodology, 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.

19. Movement in cash, liquid resources and financing

	At 31 December 2018 €'000	Cash flows €'000	Non-cash movements €'000	At 31 December 2019 €'000
Analysis of changes in net debt				
Cash and cash equivalents	589	(228)	-	361
Overdraft	-	-	-	-
	589	(228)	-	361
Guaranteed Notes	(3,437,729)	(492,225)	-	(3,929,954)
Bank loans	(347,342)	(213,680)	-	(561,022)
Interest payable on facilities	(5,170)	(997)	-	(6,167)
	(3,790,241)	(706,902)	-	(4,497,143)
Net debt	(3,789,652)	(707,130)	-	(4,496,782)

Proceeds from the issue of borrowings during 2019 amounted to €58.55 billion (2018: €51.16 billion) and the repayment of borrowings during 2019 amounted to €58.57 billion (2018: €51.18 billion).

20. Share capital

There are 30,000 ordinary shares of €1.30, (2018:30,000 shares of €1.30), authorised, allotted, called up and fully paid amounting to €39,000 at 31 December 2019 (2018:€39,000).

21. Reconciliation of retained surplus

	31 December 2019 €'000	31 December 2018 €'000
Retained surplus at the beginning of year	199,970	171,975
Total comprehensive income for the financial year	38,506	27,995
Retained surplus at end of year	238,476	199,970

Notes to the financial statements (Continued)

22. Reconciliation of shareholder's funds

	31 December 2019 €'000	31 December 2018 €'000
Opening shareholder's funds	200,009	172,014
Total recognised gain for the financial year	38,506	27,995
Closing shareholder's funds	238,515	200,009

23. Loan commitments

With regard to proposed lending by the HFA to AHBs, loan applications of €450 million were approved but undrawn at 31 December 2019 (2018: €454 million).

24. Post statement of financial position events

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

25. Contingent liability

No dividend is due to be declared for 2019.

26. Approval of Financial Statements

The audited financial statements, which are in the form approved by the Minister for Housing, Planning & Local Government, with the consent of the Minister for Public Expenditure & Reform, were approved by the Directors on 26 March 2020.

Secretary

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An Ghníomhaireacht
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