Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2020.

Results and dividends

	2020 €'000	2019 €'000
Total recognised gain for the year	**55,421**	38,506
Shareholders' funds at beginning of year	**238,515**	200,009
Shareholders' funds at end of year	**293,936**	238,515

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 2020 (2019: 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 2020 such loans represented outstanding balances of €5.2 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 €3.2 billion at end-December 2020.

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:

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

(ii) their revenues or funds being security for the due payment to the HFA of all amounts due by local authorities (as set out in the agreement between each local authority and the HFA);

(iii) all loans advanced to local authorities are approved by the Minister for Housing, Local Government & Heritage;

(iv) the Board's understanding that central Government supports local authorities in meeting their obligations to the HFA; and

(v) the HFA has not experienced any loan losses on its loans advanced to local authorities after 1986,

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

In 2020, gross loan advances for Post May 1986 loans amounted to €175 million (2019: €343 million), repayments and redemptions totalled €188 million (2019: €275 million), resulting in net redemptions of €13 million (2019: net advances of €68 million). Such loans represented outstanding balances of €3.32 billion (2019: €3.34 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 offer other renegotiations as appropriate. During 2020 the

Directors' Report
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HFA renegotiated €254.02 million (2019: €39.81 million) of non-mortgage related loans and €31.32 million (2019: €nil) of housing related loans. These renegotiations have taken place in the context of €3.32 billion of loans advanced to local authorities as at 31 December 2020 and thus represents renegotiation activity of circa 7.65% in 2020 (2019: 0.001%).

Renegotiated non-mortgage related and mortgage related loans were given interest only periods, and mortgage related loans were given payment breaks for three to six monthly terms, 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 €254.02 million of loans (2019: €39.81 million) to be renegotiated as at 31 December 2020 with €0.98 million (2019: €0.20 million) of interest income recognised on these assets.

Interest accrued on loans converted upon maturity at 31 December 2020 amounts to €nil (2019: €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, Local Government & Heritage, 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. Income received by the AHBs from a Payment and Availability Agreement 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, can they 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 2020, eighteen Certified AHBs (2019: eighteen) have been successful in obtaining Certified Body status.

The HFA's Credit and Management Committees, as at 31 December 2020, have approved 816 loan applications (2019: 634) totalling €2.95 billion (2019: €1.95 billion), €1.85 billion of which has been advanced (2019: €1.28 billion). It is anticipated that 2021 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.

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 in 2016. 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 eight AHBs in this category.

Loans to higher education institutions

Under Section 51 of the Planning and Development (Housing) and Residential Tenancies Act 2016, the HFA is empowered to lend directly to higher education institutions (HEIs), for the development of new student accommodation.

These powers allow HEIs 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 has the added benefit of freeing up existing rental stock to support additional social and affordable housing.

Currently three Universities have had loan facilities 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 €49 million (2019: €60 million) to three HEIs during 2020.

Directors' Report
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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 38.

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 37 to 43.

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 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, Director, is also a director and chairperson of Threshold who has been approved for funding under the Category 2 product. Threshold drew down funds of €0.26 million during 2020 (2019: €nil).

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 2020 shows no late payments were made during 2020 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.

Directors' Report
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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 32 to 36 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 having suitably qualified and experienced personnel (both internal, and external advisers) to perform and assist in the performance of 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 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 2020.