Notes to the financial statements

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 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 2020 the average maturity of HFA debt was 5.2 years (2019: 4.0 years). The NTMA had purchased €1.59bn in GNs at 31 December 2020 (2019: €1.91bn).

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 ongoing 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 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, Local Government & Heritage; (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 €5.2 million (2019: €5.3 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 2020 of €1.76 billion (2019: €1.25 billion). 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. Eight 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.

Notes to the financial statements
(continued)

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, approved housing bodies and higher education institutions.

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.

Notes to the financial statements
(continued)

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 36% 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 continues 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.

Notes to the financial statements
(continued)

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.

Notes to the financial statements
(continued)

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, Local Government & Heritage 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 2020, can be found in Note 15. The interest expense relating to these facilities for the financial year was €12.84 million (2019: €13.74 million) for the NTMA, and €3.63 million (2019: €4.29 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 5 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. (in whom the State owns a majority of its shares), on either of the HFA's treasury related or expense accounts, or with the NTMA. Interest earned on these deposits during 2020 was €nil (2019: €nil) and amounts on deposit as at 31 December 2020 were €0.99 million (2019: €0.36 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 2020 €'000	31 December 2019 €'000
Salaries*	**328**	306
Directors' fees	**46**	51
Pension contributions	**129**	99
	503	456

**Salaries include Chief Executive Officer's remuneration which is detailed in Note 8, in addition to other salaried key senior Management personnel. One key Management employee is in the Single Public Service Pension Scheme.*

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.

5. Interest income – continuing activities

	31 December 2020 €'000	31 December 2019 €'000
Interest on advances to local authorities:		
Post 27 May 1986	**42,157**	41,840
Pre 27 May 1986	**97**	102
Interest on advances to approved housing bodies	**37,287**	22,300
Interest on advances to higher education institutions	**1,157**	106
	80,698	64,348

Total interest income on financial assets not carried at fair value through the Income Statement amounted to gross interest of €82.83 million (2019: €66.55 million).

6. Interest expense – continuing activities

	31 December 2020 €'000	31 December 2019 €'000
Loan costs		
Interest payable on Guaranteed Notes	**16,472**	18,037
Interest payable on EIB and CEB facilities	**5,702**	5,188
Interest payable on positive balances on AIB account	**197**	-
Total Interest Expenses	**22,371**	23,225

7. Non-interest expenditure

	31 December 2020 €'000	31 December 2019 €'000
Operating lease (Note 8)	**196**	197
General expenditure, Directors emoluments and Employee	**1,657**	1,706
Depreciation (Note 12)	**53**	53
Total Non-interest expenditure	**1,906**	1,956

Notes to the financial statements
(continued)

8. 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	**196**
After one year less than five years	**788**
After five years	**1,825**

Administration expenditure

Administration expenditure has been arrived at after charging:

Year ended	**31 December 2020 €'000**	31 December 2019 €'000
Auditor's remuneration		
Audit of financial statements	**34**	34
Total Auditor's remuneration	**34**	34
General Expenses	**323**	554
Directors emoluments		
Fees – Chairperson	**-***	-*
Fees – other Directors	**46**	51
Total Director emoluments	**46**	51
Employee costs (excluding Directors)		
Chief Executive Officer's remuneration	**124**	117
Other salaries	**754**	656
Pension contributions	**74**	56
Social Welfare costs	**83**	69
Pension service costs - present	**219**	169
Total employee costs	**1,254**	1,067
Total administration expenses	**1,657**	1,706

**A sum of €9,000 (2019: €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 2020.*

Total salaries for key Management were €328,000 (2019: €306,000). The balance of €550,000 (2019: €467,000) was for administration staff. PAYE/PRSI and VAT at the year-end were €56,999 (2019: €49,796). The average number of employees during the year was fifteen (2019: fourteen) including the Executive Director.

Notes to the financial statements
(continued)

9. Other Administration Expenditure

	31 December 2020 €'000	31 December 2019 €'000
Other Administration Expenditure	**150**	-
Total Other Administration Expenditure	**150**	-

Other Administration Expenditure relates to the HFA Social Investment Fund. The HFA contributes towards the social and economic fabric of communities through sponsorship of schemes submitted for approval by customers. The aim of the Social Investment Fund is to enable the HFA to support suitable local projects that complement social housing and enable community development.

10. Finance expense

	31 December 2020 €'000	31 December 2019 €'000
Net Interest expense on defined benefit pension scheme liabilities	**8**	-
Net finance expense	**8**	-

11. Cash and cash equivalents

Year ended	31 December 2020 €'000	31 December 2019 €'000
Cash at bank and in hand	**987**	361
	987	361

Notes to the financial statements
(continued)

12. Property, plant and equipment

	31 December 2020 €'000
Cost or valuation	
At 1 January 2020	**678**
Additions	**60**
At end of year	**738**
Accumulated Depreciation	
At beginning of year	**580**
Charged for year	**54**
At end of year	**634**
Net book value	
31 December 2020	**104**
31 December 2019	98

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

	31 December 2020 €'000	31 December 2019 €'000
Loans advanced to local authorities	**3,325,889**	3,337,519
Loans advanced to approved housing bodies (AHBs)	**1,756,145**	1,245,825
Loans advanced to higher education institutions (HEIs)	**107,207**	60,000
Total balances due on advances	**5,189,241**	4,643,344
Less: Collective provision	**(2,711)**	(2,711)
	5,186,530	4,640,633
Due from local authorities, AHBs and HEIs	**94,862**	92,260
Total loans and advances to local authorities, AHBs and HEIs	**5,281,392**	4,732,893

The HFA is liable for any credit losses that may arise on the €5.2 million (2019: €5.3 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 (2019: €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 2020 and subject to changes in the underlying assumptions and may increase or decrease in future years.

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

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, Local Government & Heritage; (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 2020 and no provision is considered necessary in respect of these advances as at 31 December 2020.

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 2020 and no provision is considered necessary in respect of these advances as at 31 December 2020.

14. Other debtors and receivables

	31 December 2020 €'000	31 December 2019 €'000
Amounts due to MARP Fund	**3,502**	3,676
Pension related receivables	**41**	148
Total other debtors and receivables	**3,543**	3,824

15. Debt securities in issue

Guaranteed Notes	**31 December 2020 €'000**	31 December 2019 €'000
Local authorities	**2,683,803**	2,001,418
National Treasury Management Agency	**1,586,150**	1,912,833
Environment Fund	**4,428**	10,774
Local authority MARP fund	**9,054**	4,929
Total Guaranteed Notes advanced	**4,283,435**	3,929,954
Interest payable on Guaranteed Notes	**7,326**	6,167
Total debt securities issued	**4,290,761**	3,936,121

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

Notes to the financial statements
(continued)

16. Bank loans

Bank loans	31 December 2020 €'000	31 December 2019 €'000
Between one and two years	**56,479**	61,911
Between two and five years	**-**	-
After more than five years	**642,205**	499,111
Total	**698,684**	561,022

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 25 June 2020 using the Projected Unit Lost Method.

At 31 December 2020, the market value of the fund's assets was €5.66 million (2019: €5.22 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 2020 by a qualified independent actuary using the projected unit cost method.

The principal actuarial assumptions used were as follows:

	31 December 2020 %	31 December 2019 %	31 December 2018 %
Rate of increase in salaries	**2.80**	2.90	3.00
Rate of increase in pensions payments	**2.00**	2.00	2.00
Discount rate	**0.60**	1.20	2.20
Inflation assumption	**1.30**	1.40	1.50
Life expectancies			
Post retirement – male age 65	**23.6 years**	23.6 years	24.1 years
Post retirement – female age 65	**25.5 years**	25.5 years	27.8 years
Post retirement – male age 62.5	**26.0 years**	26.0 years	27.1 years
Post retirement – female age 62.5	**28.0 years**	28.0 years	30.5 years

Notes to the financial statements
(continued)

17. Pension scheme deficit (continued)

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

	31 Dec 2020 €'000	31 Dec 2019 €'000	31 Dec 2018 €'000	31 Dec 2017 €'000	31 Dec 2016 €'000
Pension assets	**5,661**	5,222	4,497	4,486	3,869
Pension liabilities	**(7,264)**	(5,966)	(4,580)	(4,654)	(4,180)
Deficit	**(1,603)**	(744)	(83)	(168)	(311)

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 2020 €'000	Value at 31 Dec 2019 €'000	Value at 31 Dec 2018 €'000
Equities	**1,778**	2,415	2,192
Bonds	**3,616**	2,289	1,262
Property	**151**	236	281
Cash and other assets	**116**	282	762
Total market value of pension scheme assets	**5,661**	5,222	4,497
Present value of pension scheme liabilities	**(7,264)**	(5,966)	(4,580)
Total net pension deficit recognised in the Statement of financial position	**(1,603)**	(744)	(83)

Interest income on plan assets for 2020 has been calculated based on the discount rate for the prior year which stood at 1.20%. For the year ended 31 December 2021, interest income on plan assets will be based on a discount rate of 0.60%.

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

	31 December 2020 €'000	31 December 2019 €'000
Present value of defined benefit obligations at 1 January	**(5,966)**	(4,579)
Current and past service cost	**(219)**	(169)
Interest cost	**(71)**	(102)
Contributions by employees	**(23)**	(23)
Actuarial (loss)/gain and remeasurements	**(1,013)**	(1,158)
Benefits paid	**28**	65
Present Value of defined benefit obligations at 31 December	**(7,264)**	(5,966)

Notes to the financial statements
(continued)

17. Pension scheme deficit (continued)

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

	31 December 2020 €'000	31 December 2019 €'000
Fair value of plan assets as at 1 January	**5,222**	4,497
Expected return on plan assets	**63**	101
Contributions by employer	**210**	170
Contributions by employees	**23**	23
Actuarial (loss)/gain	**171**	496
Benefits paid	**(28)**	(65)
Present value of defined benefit obligations at 31 December	**5,661**	5,222

History of actuarial gains and losses:

	31 Dec 2020 €'000	31 Dec 2019 €'000	31 Dec 2018 €'000	31 Dec 2017 €'000	31 Dec 2016 €'000
Difference between expected and actual return on assets	**171**	497	(221)	399	202
Expressed as a percentage of scheme assets	**3.0%**	9.5%	4.91%	8.89%	5.20%
Actuarial gains and (losses) on scheme liabilities	**(1,013)**	(1,158)	346	(264)	(494)
Expressed as a percentage of scheme liabilities	**13.9%**	19.40%	7.55%	5.67%	11.80%
Total actuarial gains and (losses)	**(842)**	(661)	125	135	(292)
Expressed as a percentage of scheme liabilities	**11.6%**	11.10%	2.73%	2.90%	6.98%

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

	31 December 2020 €'000	31 December 2019 €'000
Cumulative amount at 1 January	**(3,085)**	(2,424)
Recognised during the period	**(842)**	(661)
Cumulative amount at 31 December	**(3,927)**	(3,085)

The amounts related to the defined benefit scheme that were recognised in the Income Statement and Other Comprehensive Income are presented in Note 8.

17. Pension scheme deficit (continued)

Expected Employer contributions:

	2021 €'000	2020 €'000
Expected Employer contributions	**210**	210

18. Financial risk management

Introduction and overview

The HFA has potential exposure to the following risks from its use of financial instruments:

a) credit risk

b) liquidity risk

c) market risks (including interest rate, inflation and currency). This note presents information about the HFA's exposure to each of the above risks and the HFA's objectives, policies and procedures for measuring and managing risk.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the HFA's Risk Management Framework. The HFA's risk management policies are established to identify and analyse the risks faced by the HFA, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and products and services offered. The HFA's Policies and Procedures manual includes policies on the use of derivative financial instruments. These support and ensure that HFA meet its requirements under the Specification and Requirements of the Minister for Finance issued under the terms of the Financial Transactions of Certain Companies and Other Bodies Act, 1992 and take into account best practice on the use of derivative treasury instruments. The principal objective of using derivative financial instruments is to match or eliminate risk from potential movements in foreign exchange rates in the HFA's assets and liabilities.

The current 'Specification and Requirements' (recently re-signed with no expiration date), 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.

Notes to the financial statements
(continued)

18. Financial risk management (continued)

(a) Credit risk

Credit risk is the risk of financial loss to the HFA if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the HFA's loans and advances to its customers, Irish local authorities, 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 2020 €'000**	31 December 2019 €'000
Loans advanced to local authorities	**3,325,889**	3,337,519
Loans advanced to approved housing bodies	**1,756,145**	1,245,825
Loans to higher education institutions	**107,207**	60,000
Total loans advanced	**5,189,241**	4,643,344
Less collective provision-local authorities	**(2,711)**	(2,711)
	5,186,530	4,640,633
Due from local authorities, AHBS and HEIs	**94,862**	92,260
Cash at bank and in hand	**987**	361
Due from other debtors and receivables	**3,543**	3,824
	5,285,922	4,737,078

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.
- higher education institutions for the provision or management of student accommodation, including the acquisition of land for this purpose and
- to lend funds to the Housing Agency.

18. Financial risk management (continued)

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

Balance due on advances	31 December 2020 €'000	31 December 2019 €'000
Mortgage related loans*	**1,090,158**	1,069,142
Capital subsidy and rental	**824,037**	872,976
Bridging finance	**426,810**	426,881
Land acquisition	**382,900**	399,437
Other non-mortgage housing related loans	**601,984**	569,083
Advances due from local authorities	**3,325,889**	3,337,519
Advances due from approved housing bodies	**1,756,145**	1,245,825
Advances due from higher education institutions	**107,207**	60,000
Overall total balances due on advances	**5,189,241**	4,643,344

**Loans issued pre-1986 of €7.5m are included in the Mortgage related loans (2019: €8.6m)*

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.

The HFA has a credit policy regarding lending to AHBs which was approved by the Board in June 2013 and recently updated in October 2020. The Credit Committee maintains credit risk within Board limits and reports on the credit worthiness of AHBs.

18. Financial risk management (continued)

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 2020 (2019: 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 2020 €'000**	31 December 2019 €'000
Pre 1986 loans	**7,470**	8,636
Post 1986 loans	**3,318,419**	3,328,883
Loans to approved housing bodies	**1,756,145**	1,245,825
Loans to higher education institutions	**107,207**	60,000
	5,189,241	4,643,344
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, Local Government & Heritage. 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 and higher education institutions to the extent that losses are incurred. No such losses arose in 2020.

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, Heritage 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 DHHLG's guidelines.

In order to offset future losses and to allay impending financial constraints on local authority revenue streams, the DHHLG 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, the rate increased 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 County and City Management Association (CCMA) 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 ongoing 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	**58,893**
Disbursements from MARP Fund	**(49,878)**
Interest Earned	**39**
Balance at 31 December 2020	**9,054**

The above table represents cash movements since the inception.

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 2020, the 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 loans, 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.

31 December 2020	**Number of loans**	**Carrying value €'000**
Opening renegotiated loans	**3**	**39,813**
Renegotiated during the year	**401**	**254,016**
Repaid during the year	**-**	**-**
Less loans no longer considered renegotiated	**(3)**	**(39,813)**
Closing renegotiated loans	**401**	**254,016**

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

As at year ended 31 December 2020, no land acquisition loans were converted upon maturity to annuity loans (2019: €nil) repayable over a period of up to 30 years. There was no interest accrued on loans converted upon maturity at 31 December 2020 (2019: €nil).

18. Financial risk management (continued)

Concentrations

All loans and advances to local authorities are approved by the Minister for Housing, Local Government & Heritage.

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 2020 the HFA had no investments (2019: €nil) in Exchequer Notes with the NTMA.

Allied Irish Bank plc. is currently the main counterparty for cash, with a surplus of €0.99 million held at 31 December 2020 (2019: €0.36 million). At 31 December 2020, the Standard & Poor's rating for Allied Irish Bank plc. was BBB- (2019: 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 2020, the HFA had €0.25 billion (2019: €0.76 billion) of floating rate guaranteed notes held by the National Treasury Management Agency.

This floating rate notes has a maturity date in January 2021. The interest rate on this note is refixed on a quarterly basis, at a margin over the three-month Euribor rate. In addition to this the HFA has arranged €1.67 billion in fixed rate deals with the NTMA.

The HFA issued 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. A further €650 million worth of deals have been arranged with start dates in 2021 as follows: - the first two deals due to start in April 2021, one worth €175m, has a maturity in 2036, and one with a value of €125 million, with a maturity date of 2046. Two further deals are due to start in November 2021, one for €200 million with a maturity date in 2046 and a deal of €100 million with a maturity date of 2050.

The GNs are guaranteed by the Minister for Finance of Ireland. In contrast, loans and receivables have an average original loan term of 26 years (2019: 27 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 15).

In managing liquidity risk, HFA Management hold regular meetings with the NTMA, the Banks, AHBs, HEIs 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 2021 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.

31 December 2020	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
Non-derivative liabilities							
NTMA Floating Rate FRN	**(252,000)**	**(252,362)**	**(252,362)**	**-**	**-**	**-**	**-**
NTMA 10 Year Fixed Rate	**(75,000)**	**(79,437)**	**(402)**	**-**	**(402)**	**(3,229)**	**(75,404)**
NTMA €200m Fixed Rate	**(200,000)**	**(234,671)**	**-**	**(936)**	**(941)**	**(7,521)**	**(225,273)**
NTMA €130m Fixed Rate	**(130,000)**	**(162,816)**	**-**	**-**	**(2,063)**	**(8,264)**	**(152,489)**
NTMA €210m Year Fixed Rate	**(210,000)**	**(266,906)**	**-**	**-**	**(3,191)**	**(12,827)**	**(250,888)**
NTMA €200m 15 Year Fixed Rate	**(200,000)**	**(209,318)**	**-**	**(622)**	**-**	**(2,484)**	**(206,212)**
NTMA €200m 19 Year Fixed Rate	**(200,000)**	**(220,535)**	**-**	**(1,029)**	**-**	**(4,107)**	**(215,399)**
NTMA Guaranteed Notes	**(319,150)**	**(319,277)**	**(319,277)**	**-**	**-**	**-**	**-**
Guaranteed Notes facility (LA)	**(2,683,804)**	**(2,687,162)**	**(928,841)**	**(535,341)**	**(1,154,053)**	**(68,928)**	**-**
Guaranteed Notes facility (MARP)	**(9,054)**	**(9,054)**	**(9,054)**	**-**	**-**	**-**	**-**
Guaranteed Notes (Environment Fund)	**(4,428)**	**(4,428)**	**(4,428)**	**-**	**-**	**-**	**-**
EIB and CEB loans	**(698,684)**	**(715,649)**	**(1,025)**	**-**	**(12,173)**	**(81,577)**	**(620,874)**
	(4,982,120)	**(5,161,615)**	**(1,515,389)**	**(537,928)**	**(1,172,823)**	**(188,937)**	**(1,746,539)**

31 December 2019	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
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 Fixed Rate	(200,000)	(237,214)	-	(936)	(936)	(7,526)	(227,815)
NTMA €130m Fixed Rate	(130,000)	(168,815)	-	-	(2,211)	(8,887)	(157,716)
NTMA €210m Fixed Rate	(210,000)	(270,132)	-	-	(3,226)	(12,792)	(254,114)
NTMA €200m Fixed Rate	-	-	-	-	-	-	-
NTMA €200m Fixed Rate	-	-	-	-	-	-	-
NTMA Guaranteed Notes	(540,000)	(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 (MARP)	(4,929)	(4,929)	-	(4,929)	-	-	-
Guaranteed Notes (Environment Fund)	(10,774)	(10,774)	(10,774)	-	-	-	-
EIB and CEB loans	(561,022)	(649,574)	-	-	(16,690)	(77,497)	(555,387)
	(4,489,143)	(4,725,764)	(989,784)	(300,554)	(1,411,758)	(752,423)	(1,271,242)

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 €1.59bn in GNs at 31 December 2020 (2019: €1.91bn).

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 15). The HFA's overdraft facilities (€50 million available at 31 December 2020) are subject to annual review by the HFA's bankers.

The average cost of the HFA's debt in 2020 was an annualised 0.48% compared with 0.59% in 2019,primarily due to the reduction in interest rates, and as a result of lower rates charged by the NTMA in 2020.

(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 2020 €'000	31 December 2019 €'000
Fixed rate	**2,609,850**	1,926,913
Floating Rate:	**2,672,528**	2,806,342
	5,282,378	4,733,255

The HFA made new fixed and floating rate advances during the financial year. Fixed rate €749.56 million; Floating rate €23.20 million. (2019: Fixed rate €916.48 million; Floating rate €121.18 million).

Interest rate risk profile of financial assets:

	31 December 2020	31 December 2019
Weighted average fixed interest rate	**2.26%**	2.28%
Weighted average floating interest rate	**1.27%**	1.28%
Weighted average period of fixed interest assets	**23.6 years**	23.6 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 30% of fixed rate lending and AHBs and HEIs making up the remaining 70%. 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 (2019: 26 years).

The financial liabilities principal amounts are analysed below:

	31 December 2020 €'000	31 December 2019 €'000
Fixed Rate	**1,657,205**	1,114,111
Floating Rate:	**3,324,915**	3,376,864
	4,982,120	4,490,975

18. Financial risk management (continued)

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

	31 December 2020 €'000	31 December 2019 €'000
Weighted average fixed interest rate	**0.93%**	1.19%
Weighted average period for which fixed interest liabilities are fixed (years)	**20.3 years**	20.7 years
Weighted average floating interest rate	**0.21%**	0.27%
Weighted average period for which variable interest liabilities are fixed (days)	**282 days**	141 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 e at the year-end date:

	Maturity as at 31 December 2020 €'000	Repricing as at 31 December 2020 €'000
Maturity and interest rate of financial assets		
Amounts falling due in one month or less	**95,848**	**2,691,340**
Amounts falling due between one and three months	**-**	
Amounts falling due between three and twelve months	**463,383**	**596**
Amounts falling due between one and two years	**20,808**	**6**
Amounts falling due between two and three years	**9,512**	**12**
Amounts falling due between three and four years	**20,598**	**1,859**
Amounts falling due between four and five years	**31,073**	**2,562**
Amounts falling due after more than five years	**4,641,156**	**2,586,003**
	5,282,378	**5,282,378**

18. Financial risk management (continued)

	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	-	-
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

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

	Maturity as at 31 December 2020 €'000	**Repricing as at 31 December 2020 €'000**
Maturity, liquidity measures and interest rate of financial liabilities		
Maturing in one month or less	**1,513,258**	**1,544,837**
Maturing between one and three months	**534,958**	**557,458**
Maturing between three and twelve months	**1,220,220**	**1,222,620**
Maturing greater than 1 year and less than 2 years	**-**	**-**
Maturing greater than 2 years and less than 3 years	**-**	**-**
Maturing greater than 3 years and less than 4 years	**-**	**-**
Maturing greater than 4 years and less than 5 years	**-**	**-**
Maturing greater than 5 years	**1,713,684**	**1,657,205**
	4,982,120	**4,982,120**

18. Financial risk management (continued)

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

Undrawn committed facilities

The HFA had undrawn committed facilities at 31 December 2020 of €150.0 million (2019: €41.7 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 2020	**(22,086)**	**(9,558)**	**(15,545)**	**(6,306)**
At 31 December 2019	2,552	(10,980)	1,276	(4,158)

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.

Notes to the financial statements
(continued)

18. Financial risk management (continued)

Fair value

The following tables outline the fair values of the financial assets and liabilities as at 31 December 2020 and 31 December 2019. 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:

	Carrying value €'000	Fair value €'000
31 Dec 2020		
Financial assets		
Loans and receivables:		
Fixed rate	**2,609,850**	**3,024,462**
Floating rate	**2,672,528**	**2,789,069**
	5,282,378	**5,813,531**
Financial liabilities		
Fixed rate	**1,657,205**	**1,712,488**
Floating rate	**3,324,915**	**3,324,915**
	4,982,120	**5,037,403**

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:

	Carrying value €'000	Fair value €'000
31 Dec 2019		
Financial assets		
Loans and receivables:		
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 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.

Notes to the financial statements
(continued)

18. Financial risk management (continued)

The fair value of the HFA's assets has been estimated as €5.81 billion (2019: €5.56 billion) while the fair value of its liabilities has been estimated as €5.04 billion (2019: €4.51 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

Analysis of changes in net debt	At 31 December 2019 €'000	Cash flows €'000	Non-cash movements €'000	**At 31 December 2020 €'000**
Cash and cash equivalents	361	626	-	**987**
Overdraft	-	-	-	**-**
	361	626	-	**987**
Guaranteed Notes	(3,929,954)	(353,481)	-	**(4,283,435)**
Bank loans	(561,022)	(137,662)	-	**(698,684)**
Interest payable on facilities	(6,167)	(1,159)	-	**(7,326)**
	(4,497,143)	(492,302)	-	**(4,989,445)**
Net debt	(4,496,782)	(491,676)	-	**(4,988,458)**

Proceeds from the issue of borrowings during 2020 amounted to €55.18 billion (2019: €58.55 billion) and the repayment of borrowings during 2020 amounted to €55.20 billion (2019: €58.57 billion).

20. Share capital

There are 30,000 ordinary shares of €1.30 (2019: 30,000 shares of €1.30), authorised, allotted, called up and fully paid amounting to €39,000 at 31 December 2020 (2019: €39,000).

21. Reconciliation of retained surplus

	31 December 2020 €'000	31 December 2019 €'000
Retained surplus at the beginning of year	**238,476**	199,970
Total comprehensive income for the financial year	**55,421**	38,506
Retained surplus at end of year	**293,897**	238,476

Notes to the financial statements
(continued)

22. Reconciliation of shareholder's funds

	31 December 2020 €'000	31 December 2019 €'000
Opening shareholder's funds	**238,515**	200,009
Total recognised gain for the financial year	**55,421**	38,506
	293,936	238,515

23. Loan commitments

With regard to proposed lending by the HFA to AHBs/HEIs, loan applications of €698 million were approved but undrawn at 31 December 2020 (2019: €450 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 2020.

26. Approval of Financial Statements

The audited financial statements, which are in the form approved by the Minister for Housing, Local Government & Heritage, with the consent of the Minister for Public Expenditure & Reform, were approved by the Directors on 25 March 2021.