Maoiniú Teaghais–Tógála Éireann (Iasachtú) CGA
Home Building Finance Ireland (Lending) DAC

FINANCIAL STATEMENTS OF
HOME BUILDING FINANCE IRELAND (LENDING) DAC

For the year ended 31 December 2020

Company Registration Number: 640801

Contents **Page**

Directors
Andrew O'Flanagan
Claire Solon
Dara Deering
Desmond Carville
Grainne Hennessey
Marie Collins
Timothy Ken Slattery

Company Secretary
Caroline Ensor

Registered Office
Treasury Dock
North Wall Quay
Dublin 1
D01 A9T8

Bankers
Allied Irish Banks Plc
Molesworth Street
Dublin 2
D02 W260

Central Bank of Ireland
New Wapping Street
North Wall Quay
Dublin 1
D01 F7X3

Auditor
Comptroller and Auditor General
3A Mayor Street Upper
Dublin 1
D01 PF72

The Directors of Home Building Finance Ireland (Lending) DAC ("the Company") present their report and audited financial statements for the year ended 31 December 2020 ("the financial year").

Home Building Finance Ireland (Lending) DAC ("HBFIL") was incorporated on 4 January 2019 (company reg. 640801). HBFIL is a 100% subsidiary of Home Building Finance Ireland DAC ("HBFI") which was incorporated on 7 December 2018 (company reg. 639272) pursuant to the Home Building Finance Act 2018 ("HBFI Act 2018") which was enacted on 3 December 2018.

Principal activities

The principal activities of the Company are to provide debt funding for residential development in the State. HBFIL provides financing to builders and developers seeking to build viable residential development projects in Ireland on commercial, market equivalent terms and conditions.

Business review

During the financial year, HBFIL focused on expanding its product offering to address gaps which were identified following a strategic review of the residential development market in Q1 2020. It also launched a product as a direct response to COVID-19 to ensure continuity of finance for the sector at a time of increased uncertainty. During the financial year, the following represent the key outcomes:

- €285m of loans approved for borrowers[1];
- €49m of funds advanced to borrowers under approved loans;
- €20m of capital loans repaid by borrowers;
- A €200m Momentum Fund was launched in response to COVID-19, which was subsequently increased to €300m due to challenges with the availability of funding in the market:
- COSME Loan Guarantee Facility executed with the European Investment Fund which will provide a loan guarantee of up to 50% of certain eligible HBFI loan facilities[2].

Principal risks and uncertainties

The principal risks and uncertainties facing the Company are detailed below.

Credit Risk

- The Company is exposed to the risk that a borrowing counterparty defaults on its obligations and fails to repay its debt in full, resulting in losses to the Company.

Demand Risk

- There is a risk that there may not be sufficient demand for funding for viable residential developments to generate an adequate return for the Company.

Operational Risk

- The Company is exposed to a broad range of operational risks arising from the people, systems and processes involved in meeting its objectives and from external events such as weather events or pandemics. Key operational risks include and are not limited to systems failures, process errors, over reliance on key individuals, failure to follow procedures and reporting errors which could ultimately result in the Company failing to meet its objectives and significant reputational damage.

Regulatory Risk

- The Company may be subject to a legal challenge under State aid rules. Such a challenge could inhibit the Company's activities pending a resolution.

[1] Not all loans approved will proceed to draw down funding from HBFI for various reasons including the project not progressing or alternative funding secured

[2] Subject to certain terms and conditions including a maximum guarantee amount of €25m and eligible HBFI loans shall relate to developments of no more than 10 units

Principal risks and uncertainties (continued)

COVID-19 Risk

- The Company is currently exposed to additional risk from the challenges arising from the COVID-19 pandemic across most of its key risk areas.

Financial risk management

The Company is exposed to credit risk, market risk, liquidity risk, capital risk and concentration risk in the normal course of its business. Further details on how the Company manages these risks are given in Note 11 to the financial statements.

Directors

The following are the names of the persons who, at any time during the year, were Directors of the Company:

Marie Collins (Chairperson)
Andrew O'Flanagan
Claire Solon
Dara Deering
Desmond Carville
Grainne Hennessey
Timothy Ken Slattery

Company Secretary

Caroline Ensor

Directors' interests

The Directors had no beneficial interest in the Company during the year or at the year end. The issued share capital of the Company is owned solely by HBFI which is 100% owned by the Minister for Finance.

Adequate accounting records

The Directors ensure compliance with the Company's obligations with regards to keeping accounting records required under sections 281 to 285 of the Companies Act 2014, through the use of qualified accounting personnel and appropriate systems and procedures. The accounting records are kept at the Company's registered office at Treasury Dock, North Wall Quay, Dublin 1, D01 A9T8.

Results and dividends

The results for the financial year and assets, liabilities and financial position of the Company are set out in the Statement of Comprehensive Income and the Statement of Financial Position on pages 10 and 11 respectively.

The Company did not pay any dividends during the financial year to the holding company, HBFI, and does not propose to pay any dividends for this financial year.

Events after the reporting period

Refer to Note 23 of the financial statements.

Auditor

The Comptroller and Auditor General ("C&AG") is the Company's statutory auditor by virtue of section 15 (2) of the HBFI Act 2018 which permits the C&AG to be HBFIL's statutory auditor notwithstanding HBFIL is a for profit entity.

So far as each of the Directors in office at the date of approval of the financial statements is aware:

- There is no relevant audit information of which the Company's auditors are unaware; and
- The Directors have taken all the steps that they have ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

Approved and authorised for issue by the Board of Directors and signed on its behalf:

Dara Deering
Chief Executive Officer
Home Building Finance Ireland (Lending) DAC

Marie Collins
Chairperson
Home Building Finance Ireland (Lending) DAC

21 April 2021

Directors' responsibilities statement
The directors are responsible for preparing the Directors' Report and the financial statements in accordance with the Companies Act 2014.

Irish 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 Republic of Ireland, issued by the Financial Reporting Council ("relevant financial reporting framework"). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of assets, liabilities and financial position of the Company as at the financial year end date and of the profit or loss of the Company for the financial year and otherwise comply with the Companies Act 2014. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with the applicable accounting standards, identify those standards, and note the effect and the reasons for any material departure from those standards; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for ensuring that the Company keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of the Company, enable at any time the assets, liabilities, financial position and profit or loss of the Company to be determined with reasonable accuracy, enable them to ensure that the financial statements and the director's report comply with the Companies Act 2014 and enable the financial statements to be audited.

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Approved and authorised for issue by the Board of Directors and signed on its behalf:

Dara Deering
Chief Executive Officer
Home Building Finance Ireland (Lending) DAC

Marie Collins
Chairperson
Home Building Finance Ireland (Lending) DAC

21 April 2021

Ard Reachtaire Cuntas agus Ciste
Comptroller and Auditor General

Report for presentation to the Houses of the Oireachtas

Home Building Finance Ireland (Lending) Designated Activity Company

Opinion on the financial statements

I have audited the financial statements of Home Building Finance Ireland (Lending) Designated Activity Company (the company) for the year ended 31 December 2020 as required under the provisions of the Home Building Finance Ireland Act 2018. The financial statements comprise 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, including a summary of significant accounting policies.

In my opinion, the financial statements

- give a true and fair view of the assets, liabilities and financial position of the company at 31 December 2020 and of its loss for the year
- have been properly prepared in accordance with Financial Reporting Standard (FRS) 102 — *The Financial Reporting Standard applicable in the UK and the Republic of Ireland,* and
- have been properly prepared in accordance with the Companies Act 2014.

Basis of opinion

I conducted my audit of the financial statements in accordance with the International Standards on Auditing (ISAs) as promulgated by the International Organisation of Supreme Audit Institutions. My responsibilities under those standards are described in the appendix to this report. I am independent of the company and have fulfilled my other ethical responsibilities in accordance with the standards.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions related to going concern

The directors have prepared the financial statements on a going concern basis. As described in the appendix to this report, I conclude on

- the appropriateness of the use of the going concern basis of accounting by the directors and
- whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern.

I have nothing to report in that regard.

Opinion on matters prescribed by the Companies Act 2014

Based solely on the work undertaken in the course of the audit, I report that in my opinion

- the information given in the directors' report is consistent with the financial statements, and
- the directors' report has been prepared in accordance with the Companies Act 2014.

I have obtained all the information and explanations that I consider necessary for the purposes of my audit.

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

The Companies Act 2014 also requires me to report if, in my opinion, the disclosures of directors' remuneration and transactions required by sections 305 to 312 of the Act are not made. I have nothing to report in that regard.

Report on information other than the financial statements, and on other matters

The directors have presented certain other information with the financial statements. This comprises the directors' report and the statement of director's responsibilities. My responsibilities to report in relation to such information, and on certain other matters upon which I report by exception, are described in the appendix to this report.

I have nothing to report in that regard.

Colette Drinan
For and on behalf of the
Comptroller and Auditor General

26 April 2021

Appendix to the report

Responsibilities of the Directors

As detailed in the statement of directors' responsibilities, the directors' are responsible for

- the preparation of financial statements in the form prescribed under the Companies Act 2014
- ensuring that the financial statements give a true and fair view in accordance with FRS102
- ensuring the regularity of transactions
- assessing whether the use of the going concern basis of accounting is appropriate, and
- such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibilities of the Comptroller and Auditor General

I am required under section 15 of the Home Building Finance Ireland Act 2018 to audit the financial statements of the company and to report thereon to the Houses of the Oireachtas.

My objective in carrying out the audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs 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.

As part of an audit in accordance with the ISAs, I exercise professional judgment and maintain professional scepticism throughout the audit. In doing so,

- I identify and assess the risks of material misstatement of the financial statements whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- I obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls.
- I evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures.
- I conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, on whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the company to cease being a going concern.
- I evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Information other than the financial statements

My opinion on the financial statements does not cover the other information presented with those statements, and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, I am required under the ISAs to read the other information presented and, in doing so, consider whether the other information is materially inconsistent with the financial statements or with knowledge obtained during the audit, or if it otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

Reporting on other matters

My audit is conducted by reference to the special considerations which attach to State bodies in relation to their management and operation. I report if I identify material matters relating to the manner in which public business has been conducted.

I seek to obtain evidence about the regularity of financial transactions in the course of audit. I report if I identify any material instance where public money has not been applied for the purposes intended or where transactions did not conform to the authorities governing them.

Home Building Finance Ireland (Lending) DAC

Statement of Comprehensive Income
For the financial year ended 31 December 2020

	Note	Year ended 31 December 2020 €000	4 January 2019 to 31 December 2019 €000
Interest income	5	1,248	135
Interest expense	6	(704)	(76)
Net interest income		544	59
Other income	7	320	115
Operating expenses	8	(5,514)	(5,960)
Operating loss before tax		(4,650)	(5,786)
Tax expense	9	-	-
Loss for the year/period after tax		(4,650)	(5,786)
Other comprehensive income		-	-
Total comprehensive income for the year/period		(4,650)	(5,786)

The accompanying notes form an integral part of the financial statements.

Approved and authorised for issue by the Board of Directors and signed on its behalf:

Dara Deering
Chief Executive Officer
Home Building Finance Ireland (Lending) DAC

Marie Collins
Chairperson
Home Building Finance Ireland (Lending) DAC

21 April 2021

Home Building Finance Ireland (Lending) DAC

Statement of Financial Position as at 31 December 2020

	Note	31 December 2020 €000	31 December 2019 €000
Non-current assets			
Financial assets – loans and receivables	10	28,533	5,768
Other receivables	13	309	37
		28,842	5,805
Current assets			
Financial assets – loans and receivables	10	8,150	-
Other receivables	13	498	93
Cash and cash equivalents		9,259	11,913
		17,907	12,006
Creditors; amounts falling due within 1 year			
Other liabilities	14	(3,234)	(1,480)
Net current assets		**14,673**	**10,526**
Total assets less current liabilities		43,515	16,331
Creditors; amounts falling due after 1 year			
Funding	15	(37,262)	(7,010)
Other Liabilities	14	(1,689)	(107)
Net assets		**4,564**	**9,214**
Capital and reserves			
Capital contribution reserve	18	15,000	15,000
Retained losses		(10,436)	(5,786)
Total equity		**4,564**	**9,214**

The accompanying notes form an integral part of the financial statements.

Approved and authorised for issue by the Board of Directors and signed on its behalf:

Dara Deering
Chief Executive Officer
Home Building Finance Ireland (Lending) DAC

Marie Collins
Chairperson
Home Building Finance Ireland (Lending) DAC

21 April 2021

Home Building Finance Ireland (Lending) DAC

Statement of Changes in Equity
For the year ended 31 December 2020

	Capital contribution €000	Retained losses €000	Total equity €000
Capital contribution reserve	15,000	-	15,000
Total comprehensive income for the period	-	(5,786)	(5,786)
Balance at 31 December 2019	15,000	(5,786)	9,214
Total comprehensive income for the year	-	(4,650)	(4,650)
Balance at 31 December 2020	**15,000**	**(10,436)**	**4,564**

Approved and authorised for issue by the Board of Directors and signed on its behalf:

Dara Deering
Chief Executive Officer
Home Building Finance Ireland (Lending) DAC

Marie Collins
Chairperson
Home Building Finance Ireland (Lending) DAC

21 April 2021

Home Building Finance Ireland (Lending) DAC

Statement of Cash Flows
For the year ended 31 December 2020

	Year ended 31 December 2020 €000	4 January 2019 to 31 December 2019 €000
Cash flows from operating activities		
Loss for year/period	(4,650)	(5,786)
Increase in financial assets - loans and advances to borrowers	(49,346)	(6,909)
Increase in loan repayments	20,500	1,276
Interest receivable	(1,224)	(135)
Increase in receivables	(678)	(130)
Interest payable	605	76
Increase in liabilities	2,492	1,587
Net cash from operating activities	**(32,301)**	**(10,021)**
Cash flows from financing activities		
Funding loans received	39,547	6,934
Funding loans repaid	(9,900)	-
Contribution of capital received	-	15,000
Net cash inflow from financing activities	**29,647**	**21,934**
Net (decrease)/ increase in cash and cash equivalents	**(2,654)**	**11,913**
Cash and cash equivalents at 1 January	**11,913**	**-**
Cash and cash equivalents at 31 December	**9,259**	**11,913**

1. Reporting entity

HBFIL is a Designated Activity Company limited by shares and incorporated under the Companies Act 2014 (Registered Number 640801). HBFIL is a 100% subsidiary of HBFI. The principal activities of the Company are to provide debt funding for residential development in the State.

The registered office of HBFIL is at Treasury Dock, North Wall Quay, Dublin 1, D01 A9T8.

2. Statement of Compliance

These financial statements for the financial year ended 31 December 2020 have been prepared in accordance with the Companies Act 2014 and FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, issued by the Financial Reporting Council in the UK ("FRS 102") having elected, as permitted by FRS 102, to account for all of the Group's and Company's financial instruments by applying the recognition and measurement rules of IAS 39 Financial Instruments: Recognition and Measurement.

3. Critical accounting estimates and judgements

The preparation of financial statements in conformity with FRS 102 requires the use of estimates and judgements that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on a number of factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management believes that the underlying assumptions used are appropriate and that the Company's financial statements, therefore, present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are described as below:

3.1. Key sources of estimates and judgements

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting year that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

3.1.1. Loan impairment assessment

In line with the requirements of IAS 39 as permitted by FRS 102, the Company reviews its portfolio of loans for indication of impairment at the statement of financial position date. In determining whether an impairment loss should be recorded in the Statement of Comprehensive Income at the reporting date, the Company uses internal and external sources of information to assess whether there is any indication that an asset may be impaired (in line with IAS 39.59). Indications may include the following:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default in interest or principal payments;
- the granting of a concession to the borrower for economic or legal reasons relating to the borrower's financial difficulty that wouldn't otherwise be considered; or
- where it is probable that the borrowers will enter bankruptcy or other financial reorganisation.

If any objective evidence of impairment exists, the Company performs a detailed impairment calculation on each loan individually to determine whether an impairment loss should be recognised. An asset is impaired, and an impairment loss is recognised, if the loss is incurred at the reporting date as a result of one or more events that occurred after initial recognition of the asset.

3.1.2. Income recognition on loans and receivables

The accounting policy for the recognition of interest income on loans and receivables is set out in Note 4.3.

4. Significant accounting policies

4.1. Basis of preparation

The financial statements are prepared on a going concern basis and the Board of Directors of the Company ("the Board") is satisfied that the Company will continue as a going concern for the foreseeable future.

In its consideration of whether accounting on a going concern basis is appropriate, the Board has had regard to the functions of the Company as set out in the HBFI Act 2018 and believes it is reasonable to assume that, given the purpose of the legislation, the State will take appropriate steps to ensure that the Company is put in a position to discharge its mandate.

The function of the Company is to provide debt funding in a prudent manner to borrowers and other persons in the State, for the development of residential units in the State.

The Company's activities are subject to risk factors including credit, liquidity, market, concentration and capital risk. The Board has reviewed these risk factors and all relevant information to assess the Company's ability to continue as a going concern. The Board and Audit and Risk Committee review key aspects of the Company's activities on an on-going basis and review, whenever appropriate, the critical assumptions underpinning its long-term strategies.

The financial statements are presented in euro (€), which is the Company's functional and presentational currency. The figures shown in the financial statements are stated in € thousands.

4.2. Basis of measurement

The financial statements have been prepared under the historic cost convention.

4.3. Interest income and expense

Interest income and expense for all financial instruments is recognised in the Statement of Comprehensive Income using the Effective Interest Rate ("EIR") method.

The EIR method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant financial year. The EIR is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument to the net carrying amount of the financial asset or liability. When calculating the EIR, the Company estimates cash flows considering all contractual terms of the financial instrument.

Once a financial asset has been written down as a result of an impairment loss, interest income is recognised using the original rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income receivable on loans to borrowers and interest expense payable on loans from funders are presented within operating activities in the Statement of Cash Flows.

4.4 Other income

Fee income relates mainly to arrangement fees and commitment fees charged to the borrower. Fee expenditure relates to due diligence and legal fees incurred on facilities. Fee income and fee expenditure are deferred initially and then released to the Statement of Comprehensive income over the term of the relevant facility in line with FRS 102 Section 23 Revenue.

4.5 Costs reimbursable to the NTMA

In accordance with section 9 (2) of the HBFI Act 2018, the NTMA provides business and support services and systems in addition to assigning staff to the Company. Costs reimbursable to the NTMA are recognised on an accruals basis. These expenses are recovered from the Company by the NTMA at cost. Further information on costs reimbursable to the NTMA is included in Note 8.1.

4.6 Financial assets

The Company classes its financial assets in accordance with IAS 39 classifications. The Company determines the classification of its financial instruments at initial recognition.

4. Significant accounting policies (continued)

4.6 Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. On initial recognition, the loans are measured at fair value plus incremental direct transaction costs that are directly attributable to the issue of the loan. They are then subsequently measured at amortised cost using the EIR method as described in Note 4.3.

4.7 Financial liabilities

Funding are those readily accessible loans drawn down by the Company from the ISIF in order to support its lending activities. The Company recognises these loans in its Statement of Financial Position on the date the loan is drawn down. These loans are measured initially at fair value plus incremental direct transaction costs that are directly attributable to the issue of the financial liability. They are subsequently measured at amortised cost using the EIR method as described in Note 4.3.

4.8 De-recognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets have also been transferred. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

4.9 Impairment of financial assets

The Company assesses at the end of each financial year whether there is objective evidence that a financial asset or group of financial assets, measured at amortised cost, is impaired.

For loans and receivables, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original EIR. The amount of the impairment loss is recognised in the Statement of Comprehensive Income.

The loans to each borrower deemed to be individually significant are objectively assessed for evidence of impairment at the end of the financial year. A collective assessment approach, grouped on the basis of similar credit risk characteristics is adopted for all other loans without individual specific impairments.

Objective evidence that a financial asset is impaired includes:

- significant financial difficulty of the borrower;
- granting a concession to the borrower for economic or legal reasons relating to the borrower's financial difficulty which would not otherwise have been considered;
- breaches of contract, such as default or delinquency in interest or principal payments;
- signs that the borrower will enter bankruptcy or other financial reorganisation.

The Company recognises interest income following impairment using the rate of interest used to discount the future cash flows in measuring that impairment. If, in a subsequent financial year, the amount of the impairment loss decreases due to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in the Statement of Comprehensive Income.

Where there is no further prospect of recovering the carrying value of a loan, or a portion of a loan, the Company writes the amount that is not recoverable off against the related impairment loss (i.e. in this circumstance, there is no additional charge to the Statement of Comprehensive Income). Subsequent recoveries of amounts previously written off decrease the amount of the allowance for loan impairment in the Statement of Comprehensive Income.

4. Significant accounting policies (continued)

4.10 Cash and cash equivalents

Cash comprises cash on hand and on demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

The Statement of Cash Flows shows the changes in cash and cash equivalents arising during the financial year from operating activities, investing activities and financing activities. The cash flows from operating activities are reported using the indirect method, whereby major classes of gross cash receipts and gross payments are disclosed.

4.11 Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

When the effect is material, provisions are determined by discounting expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

4.12 Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by the occurrence of uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably estimated. Contingent liabilities are not recognised but disclosed in the notes to the financial statements unless the probability of the transfer of economic benefit is remote.

4.13 Taxation

Current tax is recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting years using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated.

4.14 Capital contribution reserve

Any capital contributions are recorded by the Company as an increase in equity.

4.15 Leasing

Rentals under operating leases are charged on a straight line basis over the term of the lease to the Statement of Comprehensive Income in line with FRS 102 Section 20 Leases.

4.16 Key management personnel

Key management personnel in the Company consist of the members of the Board, the Chief Executive Officer and the senior management team reporting directly to the Chief Executive Officer. See Note 8.

5. Interest income

	Year ended 31 December 2020 €000	4 January 2019 to 31 December 2019 €000
Interest on loans and receivables	1,248	135

Interest on loans and receivables relates to interest income from loans provided to borrowers. The EIR method is applied as per note 4.3.

6. Interest expense

	Year ended 31 December 2020 €000	4 January 2019 to 31 December 2019 €000
Interest on funding	704	76

Interest on funding relates to the interest charge on the ISIF funding facility.

7. Other income

	Year ended 31 December 2020 €000	4 January 2019 to 31 December 2019 €000
Fee income	493	153
Fee expenditure	(173)	(38)
	320	**115**

Fee income relates mainly to arrangement fees and commitment fees charged to the borrower and recognised over the term of the relevant facility. Commitment fees are fees charged to the borrower on certain facilities based on the committed but undrawn balance of the approved facility. Fee expenditure relates to due diligence and legal fees incurred on facilities. The amounts are recognised in line with note 4.4.

8. Operating expenses

	Note	Year ended 31 December 2020 €000	4 January 2019 to 31 December 2019 €000
Costs reimbursable to the NTMA	8.1	5,044	5,321
Other Expenses		470	639
		5,514	**5,960**

8. Operating expenses (continued)

8.1 Costs reimbursable to the NTMA (see note 21)

	Year ended 31 December 2020 €000	4 January 2019 to 31 December 2019 €000
NTMA staff costs	3,312	2,461
Occupancy costs	224	282
Business services	66	84
Professional fees	284	133
Technology	257	359
Other operating costs	901	2,002
	5,044	**5,321**

Other operating costs consists mainly of the corporate function recharges, depreciation costs and other staff costs such as recruitment, staff training and temporary staff costs.

8.1.1 NTMA staff costs

The Company has no employees. All personnel are employed by the NTMA and the remuneration cost of staff who are engaged full time in the Company business is recharged to the Company by the NTMA. The number of NTMA employees directly engaged in the Company at the reporting date was 27 (2019: 21).

	Year ended 31 December 2020 €000	4 January 2019 to 31 December 2019 €000
Aggregate Employee Benefits		
Staff short term benefits	2,606	2,034
Pay related social insurance	262	202
	2,868	**2,236**
Staff Short-term Benefits		
Basic Pay	2,569	2,014
Allowances	37	20
	2,606	**2,034**

The NTMA contributed €363,000 (2019: €280,000) in pension contributions for the year ended 31 December 2020 to those engaged full time in the Company.

NTMA staff costs include the CEO's salary which is as detailed below.

8.1.2 Key management personnel

	Year ended 31 December 2020 €000	4 January 2019 to 31 December 2019 €000
Salary	883	742
Allowances	23	12
Performance related pay	-	-
Health insurance	1	-
	907	**754**

8. Operating expenses (continued)

8.1.2 Key management personnel (continued)

Key management personnel in HBFI consists of the members of the Board, the Chief Executive Officer and the senior management team reporting directly to the Chief Executive Officer. The total value of employee benefits for key management personnel is set out above (excluding employer's contribution to social insurance costs).

This does not include the value of retirement benefits earned in the year. The key management personnel (excluding the Chief Executive Officer and the Board) are members of the NTMA pension scheme.

8.1.3 Chief Executive Officer salary and benefits – Dara Deering

	Year ended 31 December 2020	4 January 2019 to 31 December 2019
	€000	€000
Salary	250	83
Taxable benefits	19	6
Contributions to retirement schemes	45	15
	314	104

Dara Deering was appointed as CEO on 2 September 2019. No performance related payment was paid or is payable to the CEO during the year. The amounts paid to the CEO are included in the costs reimbursable to the NTMA.

9. Taxation

	Year ended 31 December 2020	7 December 2019 to 31 December 2019
	€000	€000
Operating loss before tax	(4,650)	(5,786)
Corporation tax	-	-

The tax on profits is charged at the standard rate of corporation tax in Ireland (12.5%). Deferred tax is only recognised to the extent that it would be recovered from future taxable profits. Notwithstanding that the Company's intention is to be profitable, the Company is in start-up phase and there is no history to support recoverability on a sufficiently robust basis for financial reporting purposes.

	2020	2019
	€000	€000
Operating loss before tax	(4,650)	(5,786)
Non-deductible expenses	131	93
Adjusted loss	(4,519)	(5,693)
Corporation tax charge @ 12.5%	565	712
Unrecognised tax loss	(565)	(712)
Tax Charge	-	-

10. Loans and receivables

	2020	2019
Non-Current	**€000**	**€000**
Loans to borrowers	28,533	5,768
Current		
Loans to borrowers	8,150	-
	36,683	**5,768**

The Company had loans in issue to fifteen borrowers (2019: four) at the end of the year. The remaining term of the loans being due range from less than one year to three years.

The Company assesses at the end of each financial year, whether there is objective evidence that the loans are impaired (see Note 4.9). Following the impairment assessment of the loans as at 31 December 2020, the Company concluded that no evidence of impairment existed at the reporting date.

11. Risk management

The Company aims to be risk aware and to actively manage its risks. The critical activities carried out by the organisation and the reliance on its good reputation mean that there is a strong emphasis on an appropriate range of controls.

The Company aims to manage risks in an informed and proactive manner, in accordance with its risk appetite, such that the level of risk is consistent with the underlying business activity and the Company understands and is able to manage or absorb the impact of the risk in the event that it materialises.

The principal risk categories identified and managed by the Company in its day-to-day business and which potentially have the greatest impact on the financial statements of the Company are credit risk, liquidity risk and market risk.

Risk management framework

The Board is responsible for setting the risk appetite and overseeing and guiding risk management activity across the Company. The Board has mandated that risk management be integrated and embedded into the tone and culture of the Company.

The Audit and Risk Committee is responsible for overseeing the implementation of the Company's Risk Management Framework. The Audit and Risk Committee will seek to ensure that the Company's risk management governance model provides appropriate levels of independence and challenge. The Audit and Risk Committee reports to the Board independently.

The Company's Risk Management Framework is in accordance with the principles of the Code of Practice for the Governance of State Bodies.

The Company relies on the services provided by the NTMA for certain elements of risk management, namely:

- business continuity services;
- compliance services;
- counterparty credit risk services for cash management purposes; and
- internal audit services.

11. Risk management (continued)

Risk management framework (continued)

First line of defence:
The Company's management is responsible for the day-to-day management of risk and for ensuring that adequate21 controls are in place and operating effectively. Management report on risk management to the Audit and Risk Committee. The following are the key steps used in the risk management process:

- Identify all risks that may affect/prevent the Company from achieving the objectives established by the Company's Board and management (taking into consideration any historical events/near misses which may have threatened the achievement of such objectives);
- For each risk, determine its initial impact and its probability of occurrence;
- For each risk, determine whether the risk can be accepted or will need to be transferred, reduced or avoided;
- For each risk, regardless of its impact or probability of occurrence, consider actions to reduce risk;
- Review residual impact/probability of occurrence and criticality status of the risk in light of the implemented actions/controls/mitigants;
- Review and monitor mitigating actions on an on-going basis.

Second line of defence:
The Company Risk function (and the NTMA Compliance function with regard to Compliance Risk) provide independent challenge and oversight to ensure implementation of the Company's Risk Management Policy and Framework.

Third line of defence:
Internal Audit is the third line of defence and provides independent, reasonable, risk based assurance on the robustness of the Company's risk management system, governance and the design and operating effectiveness of the internal control environment.

11.1 Credit risk

Credit risk is the risk of incurring financial loss as a result of default of a counterparty to a particular transaction. In order to achieve its key objectives and fulfil its mandate, the Company must assume a certain level of credit risk. As a fundamental principle, the Company will seek to do so in a prudent manner that assumes the minimum level of credit risk required to achieve its objectives, which is in line with the Company's Risk Appetite Statement. The Company's main credit risk arises from the potential failure of a borrower to fulfil its contractual obligations to the Company.

Credit risk is the most important risk for the Company's business. The Company, therefore, carefully manages its exposure to credit risk. Credit risk is measured, assessed and controlled for all transactions or credit events entered into by the Company.

The Company endeavours to minimise its credit risk exposure by undertaking an extensive due diligence process in advance of any lending decisions. The Company's credit risk management process includes the following:

Underwriting approval

- thorough assessment of each prospective borrower and development, its management, operational capability, development experience, financial performance and repayment capacity;
- on-site visits and face to face meetings with management;
- assessment of the financial performance of the prospective borrower by reference to available information, including financial accounts, management accounts and financial projections;
- analysis of the borrower's repayment capacity, including clear and reasonable demonstration of the borrower's ability to meet its obligations and discharge the Company's debt in full;
- independent risk review and sign off by the Company's Head of Credit and Risk (or appointed delegate) of each potential transaction;
- obtaining adequate security for each transaction;
- credit decisions reserved to the HBFIL Board, HBFIL Credit Committee or Executive Management Team Credit Committee depending on size of facility;

11. Risk management (continued)

11.1 Credit Risk (continued)

- on-going monitoring and review of credit facilities, including monitoring surveyor reviews of each development on an ongoing basis;
- regular review of compliance with the respective covenants and undertakings and any terms and conditions imposed by the Company.

The maximum exposure to credit risk for financial assets with credit risk at 31 December 2020 is €46m. This maximum exposure to credit risk is presented by class of financial instrument below. The credit quality of HBFIL's loans and receivables are non-rated. Cash and cash equivalents are held with the Central Bank of Ireland (Standard & Poor's rating: A2) and Allied Irish Bank Plc (Standard & Poor's rating: BBB-).

	2020	**2019**
	€000	**€000**
Cash and cash equivalents	9,259	11,913
Loans and receivables	36,683	5,768
	45,942	**17,681**
Undrawn commitments at 31 December	**206,000**	**26,000**

11.2 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet all of its financial obligations as and when they fall due. It is the risk of loss arising from a situation where there will not be enough cash to fund day-to-day operations.

The Company's liquidity risk management process includes:

- Management of day-to-day funding including the monitoring of future expected cash flows, e.g. future lending commitments, to ensure that requirements can be met as they fall due.
- Asset and liability management by monitoring the maturity profile within the Company's Statement of Financial Position to ensure that sufficient cash resources are retailed and or funding established where mismatches are likely to occur, thereby minimising the impact of liquidity outflows.
- Managing its liquidity risk by aligning, to the greatest extent possible, the maturity profile of its assets and liabilities so eliminating refinancing risk where possible. The Company has sourced long-term funding from its funder, and where possible it structures the tenor and repayment schedule of its loans to reflect that funding maturity profile.
- Maintaining a cash liquidity buffer to address any short-term liquidity needs that may arise.

11. Risk management (continued)

11.2 Liquidity risk (continued)

The dates of the contractual amounts that commit the Company to make repayments on loans it has borrowed are summarised in the below table. The amounts presented are undiscounted.

	No later than 1 year	1-5 years	Over 5 years	Total
	€000	€000	€000	€000
2020				
Repayments due	-	37,262	-	37,262
2019				
Repayments due	-	7,010	-	7,010

11.3. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. Market risks arise from open positions in interest rate products which are exposed to general and specific market movements, and changes in the level of volatility of interest rates.

Interest rate risk

The Company has limited exposure to market risk on its loans and receivables and cash and cash equivalents. The Company has limited interest rate risk based on the current maturity profile of its loans and receivables and the structure of the funding facilities. Any residual risk will be identified, monitored and managed by the Company.

The carrying amounts exposed to interest rate risk at 31 December are detailed below:

	2020	2019
Financial Assets	€000	€000
Cash and cash equivalents	9,259	11,913
Loans and receivables	36,683	5,768
	45,942	17,681
Financial liabilities		
Funding	37,262	7,010

Currency risk

The Company is not directly exposed to currency risk, as all of its funding and lending activities are denominated in euro.

Interest rate risk sensitivity

Information provided by the sensitivity analysis below does not necessarily represent the actual change in fair value that the Company would incur under normal market conditions because, due to practical limitations, all variables other than the specific market risk factor are held constant.

11. Risk management (continued)

11.3. Market risk (continued)

The following table represents the interest rate sensitivity arising from a 50 basis point (bp) increase or decrease in interest, subject to a minimum interest rate of 0 per cent. This risk is measured as the net present value (NPV) impact, on the Statement of Financial Position, of that change in interest rates. The analysis shifts all interest rates for each loan simultaneously by the same amount. The interest rates are set as at 31 December 2020. The figures take account of the effect on both loans receivable and payable.

Interest Rate Sensitivity Analysis - a 50bp move

	+50bp	**+50bp**
	€000	**€000**
Interest receivable	0	0

	+50bp	**+50bp**
	€000	**€000**
Interest payable	0	0

The interest rate on loans receivable is floating rate but with a 0% Euribor floor, therefore any reduction in current Euribor would have a nil impact on the accounts. Based on current Euribor rates, an increase of 50bps would have no impact as it would remain below the 0% floor. The interest rate on loans payable is fixed, therefore any movement in market rates has no impact.

11.4 Capital management

The Company is not subject to externally imposed capital requirements. The Company is committed to ensuring it is adequately capitalised as there is a risk that inappropriate management of the Company's capital will result in it being unable to absorb any potential credit losses. The Holding Company made a non-refundable capital contribution of €15m on incorporation.

The Board reviews the capital structure frequently to determine the appropriate level of capital to safeguard against these risks.

11.5 Concentration risk

Concentration risk is the risk that the Company is exposed to any single exposure or group of exposures that has the potential to produce losses large enough to threaten the ability of the Company to continue operating as a going concern.

The Company manages this risk by adhering to the limits set out in the Risk Appetite Statement which has been approved by the HBFIL Board and which is subject to regular review by the Board. The Risk Appetite Statement defines the maximum amounts of credit facilities to be committed to borrowers. The measures are intended to ensure that the risk profile of the overall portfolio is appropriately diversified, and not unduly exposed to excessive concentration of risk.

The Company's key geographic concentration of risk assets is in Ireland, and the key sectoral concentration of risk is to residential development, arising from its statutory mandate to make funding available for residential development in the State, as set out in the HBFI Act 2018.

12. Fair value of financial assets and liabilities

12.1. Comparison of carrying value to fair value

The table below summarises the carrying amounts and fair values of the financial assets and liabilities not presented on the Company's Statement of Financial Position at their fair value. None of the assets and liabilities in the Statement of Financial Position of the Company are measured at fair value.

The fair values of these financial instruments are measured according to the following fair value hierarchy:

Level 1 - financial assets and liabilities measured using quoted market prices (unadjusted).

Level 2 - financial assets and liabilities measured using valuation techniques which use observable market data.

Level 3 - financial assets and liabilities measured using valuation techniques which use unobservable market data.

2020	Carrying Value €000	Level 1 €000	Level 2 €000	Level 3 €000	Fair value €000
Financial assets					
Cash and cash equivalents	9,259	9,259	-	-	9,259
Loan and receivables	36,683	-	-	36,683	36,683
Financial liabilities					
Funding	37,262	-	-	37,262	37,262
Other liabilities	1,576	-	-	1,576	1,576

2019	Carrying Value €000	Level 1 €000	Level 2 €000	Level 3 €000	Fair value €000
Financial assets					
Cash and cash equivalents	11,913	11,913	-	-	11,913
Loan and receivables	5,768	-	-	5,768	5,768
Financial liabilities					
Funding	7,010	-	-	7,010	7,010
Other liabilities	763	-	-	763	763

12. Fair value of financial assets and liabilities (continued)

12.2 Fair value measurement principles

Cash and cash equivalents

The fair value of these financial instruments is equal to their carrying value due to these instruments being repayable on demand and short-term in nature.

Loans and receivables and Funding

The fair value of these financial instruments is equal to their carrying value due to the defined nature/purpose of these facilities.

13. Other receivables

	2020 €000	2019 €000
Non-Current:		
Deferred expenditure	196	37
Other receivables	113	-
	309	**37**
Current:		
Amounts due from HBFI	125	46
Deferred expenditure	295	47
Other receivables	78	-
	498	**93**

Deferred expenditure relates to external expenses the Company incurred and paid in carrying out due diligence reviews and finalising legal agreements on facilities which are recognised over the term of the relevant facility. Other receivables consist of commitment fees receivable from borrowers.

14. Other liabilities

	2020 €000	2019 €000
Current:		
Amounts due to the NTMA (Note 21)	732	763
Amounts owed to borrowers	844	-
Deferred income	1,509	138
Accrued expenses	149	579
	3,234	**1,480**
Non-current:		
Deferred income	1,689	107
	1,689	**107**

Deferred income relates to the facility arrangement fees received from the borrower. Each arrangement fee is recognised in the Statement of Comprehensive Income over the term of the relevant facility. Amounts owed to borrowers relates to funds repaid to the Company relating to the phased sale of units which exceeded the loan balance at the time of repayment. The excess funds are released as the borrower moves to the next phase of development.

15. Funding

	2020 €000	2019 €000
Funding loans	37,262	7,010

The Company had loans of €37m outstanding with ISIF as at 31 December 2020 with a maturity date of 16 May 2029. At the end of the year the Company had €693m in undrawn funding facilities.

16. Maturity analysis of assets and liabilities

The below table presents the breakdown of those assets and liabilities which contain a non-current element which has a contractual right to be recovered or settled more than 12 months after the reporting date. Current amounts represent those amounts expected to be recovered or settled within 12 months for each asset and liability.

2020	Current €000	Non-current €000	Total €000
Financial assets			
Loans and receivables	8,150	28,533	36,683
Financial liabilities			
Funding	-	(37,262)	(37,262)

2019	Current €000	Non-current €000	Total €000
Financial assets			
Loans and receivables	-	5,768	5,768
Financial liabilities			
Funding	-	(7,010)	(7,010)

17. Auditor's remuneration

	Year Ended 31 December 2020 €000	4 January 2019 to 31 December 2019 €000
Audit of financial statements	31	28

There are no non-audit services included above.

18. Equity

HBFIL is a 100% subsidiary of HBFI by means of 1 ordinary share (€1 nominal value) issued. The authorised share capital consists of 200,000,000 ordinary shares of €1.00.

HBFI made an irrevocable, unconditional capital contribution of €15 million to HBFIL on 1 February 2019. The contribution is non-refundable and gives no rights to shares in the capital or assets of the Company.

18. Equity (Continued)

The ultimate beneficial ownership of the Company is held by the Minister for Finance by means of 20,000,000 nominal shares of €1.00 each in the holding Company, HBFI.

19. Commitments

In January 2019 HBFI entered into an agreement for office accommodation at 1 Treasury Dock, North Wall Quay, Dublin 1. The lease term runs from 1 January 2019 to 24 May 2033. HBFI may break the lease term only on foot of a Ministerial Direction that HBFI cease operations and subject to providing a minimum twelve month notice period to the lessor to exercise this break. Lease expenditure of €0.16m was incurred in 2020. The nominal future minimum rentals payable to 24 May 2033 are as follows:

	2020	2019
	€000	€000
Within one year	159	162
In two to five years	636	646
Over five years	1,175	1,316
	1,970	**2,124**

20. Contingent liabilities

The Company had no contingent liabilities at the reporting date which would require disclosure in the financial statement.

21. Related parties disclosures

21.1. Related parties

Home Building Finance Ireland DAC
HBFIL is a 100% subsidiary of HBFI.

Minister for Finance
The issued share capital of the parent company HBFI is owned solely by the Minister for Finance.

NTMA
The NTMA provides staff and business support services to HBFIL. The costs incurred by the NTMA are charged to the Company, in accordance with the terms of the Service Level Agreement between HBFI and the NTMA.

Other Government controlled entities
The Ireland Strategic Investment Fund and Allied Irish Banks Plc. are related parties of the Company in accordance with FRS 102 Section 33 as each are under the control of the Minister for Finance.

Key management personnel
Key management personnel in HBFI consists of the members of the Board, the Chief Executive Officer and the senior management team reporting directly to the Chief Executive Officer.

21. Related parties disclosures (continued)

21.2. Transactions and balances with related parties

The following are the transactions that took place during the financial year with related parties:

NTMA recharge

The NTMA incurs costs for the running of the Company, which it recharges to the Company. The total of these costs for the financial year was €5m (2019: €5.3m). Further details in respect of these costs are disclosed in Note 8. There is an amount of €0.7m (2019: €0.8m) payable to the NTMA at the end of the financial year.

ISIF Loan Facility

The ISIF provided a loan facility of €730 million to the Company, under direction from the Minister for Finance. The ISIF loan operates as a revolving loan facility with a facility maturity date of 16 May 2029.

Allied Irish Banks Plc

At the end of the financial year, the Company held €4.3m of cash at Allied Irish Banks Plc.

Key management personnel

Transactions with key management personnel are disclosed in Note 8.

22. Disclosures of interest

There are disclosure of interest requirements on Directors under the Companies Act 2014, the Company's Articles of Association and the Code of Practice for the Governance of State Bodies. HBFIL has put in place procedures to assist Directors in meeting their disclosure of interest obligations during the year under review.

23. Events after the end of the reporting year

The closure of construction sites (with very limited exceptions) effective 8 January 2021 due to COVID-19 Level 5 restrictions will have an impact on the short-term completion of residential developments in 2021, including for HBFIL's existing customers. However, with the reopening of all residential construction activities from 12 April 2021, the financial impact on HBFIL is not expected to be material.

24. Approval of the financial statements

The financial statements were approved by the Directors on 21 April 2021.