

AFFORDABLE HOUSING FINANCE PLC

Annual Report and Financial Statements

For the year ended 31 March 2016

AFFORDABLE HOUSING FINANCE PLC

Annual Report and Financial Statements for the year ended 31 March 2016

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Directors

Charlie Arbuthnot
Colin Burke
Fenella Edge
Keith Exford CBE
Lee Heley
Peter Impey
John Parker
Gill Payne
Ian Peacock
Will Perry
Deborah Shackleton CBE
Piers Williamson

Company Number

08434613

Independent Auditor

Nexia Smith & Williamson Audit Limited
Chartered Accountants and Statutory Auditor
25 Moorgate
London
EC2R 6AY

Company Secretary

Colin Burke

Registered Office

4th Floor
107 Cannon Street
London
EC4N 5AF

AFFORDABLE HOUSING FINANCE PLC

CHAIRMAN'S STATEMENT AND CHIEF EXECUTIVE'S REVIEW

Year ended 31 March 2016

We are pleased to report that the second full financial year of trading for Affordable Housing Finance Plc (AHF) has proved yet again to be a highly successful one. AHF loan balances at year end stood at £1,411.9m, with loan agreements signed for a further £278.0m and Credit Approvals already agreed for an additional £155.3m, giving a total programme size for the Affordable Housing Guarantee Scheme (AHGS) of £1.8bn at the year end. Much of this funding was delivered to the borrowers at record low costs in the sector's 29 year history of private finance borrowing.

The Company has an exclusive licence with the Secretary of State for Communities and Local Government (DCLG) to issue long term debt with the benefit of a full faith Government Guarantee, up to a principal sum of £3.5bn under the AHGS.

Following an extension of the licence period, AHF could accept housing association applications for guaranteed funding up until 31 March 2016. Funding to date has come from two principal sources: EIB and UK Sterling capital market long term fixed income debt issues. We anticipate that the underwriting process for new loans will be substantially completed by September 2016. However, EIB has provided an additional £1bn line of credit to AHF (the largest housing regeneration loan made by EIB in Europe in its entire 58 year history) which can be drawn up until December 2017. Hence we expect the AHF loan portfolio to continue to grow throughout the current and into the next financial year.

We estimate that once all AHF loans are drawn, the portfolio will amount to approximately £2.5bn, with in excess of sixty housing association participants. By any account this is a very successful outcome for housing associations, Government and AHF.

Given the pressing need for efficiencies in the housing association sector, it is particularly pleasing to note that AHF loans have been made at historically very low interest rates, sometimes significantly lower than those rates at which the Government itself borrows. This is exemplified by the initial £500m EIB long term facility, which was fully drawn by the end of the year.

The year also saw AHF launch and consolidate its second 28 year, benchmark public sterling bond. Having grown the initial 28 year bond to £600.9m a decision was made to launch a second bond in August 2015, one of only a very small number of housing-related bonds in the period. Its pricing benefited significantly from the Government Guarantee, given the uncertainties created by the July 2015 Budget. The six borrowers in the August issue went through an additional post Budget due diligence appraisal, before participating. The initial £208m transaction was priced at a competitive cost of: 2.89% (Gilts + 0.40%).

This was followed up in March 2016 with a significant tap transaction for seven housing associations. The £194m transaction, priced at Gilts plus 0.43% and an overall cost of 2.71% represented the lowest cost of bulk issuance under the programme to date.

AHF Public Bond Issuance History

Date of Issue	Amount	Effective Rate at Issue	Total Deal Size
May 2014	£208.4m	3.76%	
October 2014	£198.5m	3.30%	
March 2015	£194.0m	2.92%	£600.9m
Second Series			
August 2015	£208.0m	2.89%	
March 2016	£194.0m	2.71%	£402.0m

Throughout the year AHF has also continued to issue relatively small parcels of retained bonds on behalf of individual housing associations. When both retained bonds and public issuance are taken into account, in contrast to housing association own-name bond spreads (which have widened significantly to reflect the market's view

CHAIRMAN'S STATEMENT AND CHIEF EXECUTIVE'S REVIEW (continued)
Year ended 31 March 2016

of increased risk/uncertainty), AHF's credit spread has varied in a narrow range between Gilts +0.30% and Gilts +0.43%, indicating the market's value of the structural integrity of AHF and the Guarantee. Predominant investors in AHF remain a wide variety of UK institutional insurance and investment funds along with a small number of sovereign wealth funds and central banks.

The majority of housing associations applying to borrow from AHF remain English-based, but the AHGS is a UK scheme and two Scottish and two Welsh borrowers have so far been funded under the programme.

In order for borrowers to access the AHGS, they undergo a comprehensive credit evaluation process. This process was further intensified following the July 2015 Budget announcements.

For the year ended 31 March 2016 the Company made a pre-tax surplus of £1.70m being its 50% share of EIB arrangement fees and a small amount of other/investment income.

This report has been finalised in the immediate aftermath of the UK Referendum result for the UK to leave the European Union. In the short term this has led to a double downgrade of the UK Sovereign Rating by S&P, unprecedented market volatility and a period which is likely to see significant political change. Early signs are that AHF's bonds' ratings will be impacted by virtue of their linkage to the Sovereign Rating. However, we view underlying sentiment towards investing in AHF as remaining strong. Additionally the European Investment Bank has issued us with a statement confirming their on-going commitment to the business they have written with us.

It is too early to say whether 'Brexit' will alter the creditworthiness of housing associations in any significant way, although it is evident that it has increased uncertainty within the sector.

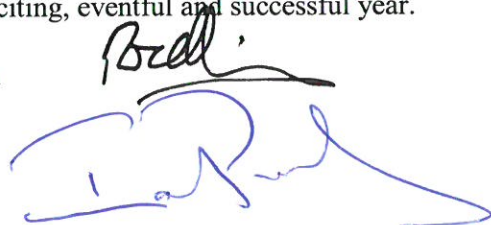
We welcomed Lee Heley to the Board of AHF in January 2016. Lee has helped us during the busy final months of the AHF Licence and his input will be critical as we move AHF from 'new business' to 'loan administration' mode.

During the year, David Orr stood down as Chairman of the AHF Credit Committee, having retired from the THFC and AHF Boards in 2015. We are hugely grateful to David for his good humoured wisdom and help over the last 10 years. David is ably replaced by Charlie Arbuthnot who was appointed Chairman of AHF Credit Committee on 31 March 2016.

It has been an immensely busy year and one where everyone has had to work to difficult timetables. The Board is very grateful for the dedication of the management and staff in managing and growing the AHF portfolio.

As Chairman and Chief Executive of the Group, we would also like to thank the Board members themselves for their invaluable contributions; they have shared enthusiastically in the additional burden of work, through what has proved an exciting, eventful and successful year.

Piers Williamson
Chief Executive
Ian Peacock
Chairman
19 July 2016

The image shows two handwritten signatures in blue ink. The top signature is for Piers Williamson, and the bottom signature is for Ian Peacock. The signatures are written over a faint, light blue grid background.

AFFORDABLE HOUSING FINANCE PLC

DIRECTORS' REPORT

Year ended 31 March 2016

The Directors submit their Directors' Report, Strategic Report and audited financial statements for the year ended 31 March 2016.

RESULTS AND DIVIDEND

Affordable Housing Finance Plc (the "Company") made a profit after tax for the year ended 2016 of £1, 356,000 (2015: £1,454,000). The directors do not propose the payment of a dividend. The Directors consider the position of the Company at the year end to be satisfactory.

PRINCIPAL ACTIVITIES

The Company was incorporated on 7 March 2013. On 19 June 2013, the Secretary of State for Communities and Local Government granted a licence to the Company for the management and delivery of the Affordable Housing Guarantee Scheme, with exclusivity for the year ended 31 March 2016.

In accordance with a Management Services Agreement entered into between the Company and T.H.F.C. (Services) Limited, the latter provides staff, premises and other services to the Company to enable it to fulfil its obligations under the Licence.

SHARE CAPITAL AND COMPANY STRUCTURE

Affordable Housing Finance Plc is a public limited company incorporated and domiciled in England and Wales. The entire issued share capital of the Company is owned by T.H.F.C. (Services) Limited.

DIRECTORS

The Directors of the Company who served throughout the year and up to the date of signing the financial statements were:

Charlie Arbuthnot
Colin Burke (executive Director)
Fenella Edge (executive Director)
Keith Exford CBE
Emma Fraser (resigned 11 May 2015)
Lee Heley (appointed 20 January 2016)
Peter Impey
David Orr (resigned 31 March 2016)
John Parker
Gill Payne
Ian Peacock
Will Perry
Deborah Shackleton CBE
Piers Williamson (executive Director)

CORPORATE GOVERNANCE STATEMENT

Introduction

The Company complies with the UK Corporate Governance Code's best practice guidelines where these are relevant to the Company as an entity without a market in its shares. This statement explains key features of the Company's governance structure how it applies the principles set out in the code and the extent to which the Company has complied with the provisions of the code.

Board

The Board comprises up to a maximum of thirteen Directors. Up to three of these Directors may be executive employees of T.H.F.C. (Services) Limited and the remainder non-executive Directors, two of whom may be nominated by the Department for Communities and Local Government. All Board service contracts are available for inspection at the registered office.

Senior Non-Executive Director

The Board appoints a Senior Non-Executive Director. The Senior Non-Executive Director is John Parker

Directors' Independence

All current Directors are non-executive with the exception of the Group Chief Executive, the Group Treasurer and the Group Finance Director. All non-executive Directors are Independent Directors with the exception of those nominated by DCLG. With the exceptions mentioned above the Board has determined that all remaining non-executive Directors are independent and free from any material relationship that could interfere with their ability to discharge their duties apart from those disclosed.

Terms of Office

All non-executive Directors are limited to nine years' service on the Board. Independent Directors are normally elected for terms of three years and may offer themselves for re-election at the conclusion of the first and second terms. The Chairman may serve for a maximum term of six years and is subject to re-election annually at the Annual General Meeting. The Board will select each Chairman in accordance with the Articles of Association of the Company.

Meetings

Directors' attendance at Board and Board committee meetings is monitored and reported in the Annual Report. Where a Director is unable to attend a meeting he or she was scheduled to attend, the Chairman receives a sound reason for the non-attendance. Special Board meetings are those called at short notice principally to approve the documentation of borrowing and lending. It is not expected that every Board member attends each special meeting, only that a quorum (two non-executive Directors) is present, though all Board members are given notice of the meeting and informed of the business to be conducted.

Role of Board

The Board sets the strategic objectives of the Company, determines investment policies, and agrees performance criteria and delegates to management the detailed planning and implementation of those objectives and policies in accordance with appropriate risk parameters. The Board monitors compliance with policies and achievement against objectives by holding management accountable for its activities through quarterly performance reporting and budget updates. The Board has six scheduled meetings each year which cover both standard and ad hoc business.

Standard business is tracked via a Board diary and determines the standard section of the agenda and details the key items of business that are considered by the Board. A rolling agenda is maintained to record emerging issues that require Board consideration at future scheduled meetings. Two of the six scheduled meetings focus specifically on strategic issues. Ad hoc meetings are convened as and when required where Board approval is required outside of the scheduled meetings. Certain matters are dealt with exclusively by the Board. These include approval of financial statements, strategy, major capital projects, changes to the control structure and all borrowing loan agreements and the standard form of all lending loan agreements. All key decisions are taken by

DIRECTORS' REPORT (continued)

Year ended 31 March 2016

the Board or its committees. Exceptionally a Board or committee will delegate certain decisions to management within clearly defined parameters which are minuted. However there is no standing delegation to management beyond that required for the day to day running of the business. The roles of Chairman and Group Chief Executive are not fulfilled by the same individual. The Board reviews and approves the Group Chief Executive's operational authorities on an annual basis. This document also determines which items are reserved for Chairman's or non-executive approval. All other decisions require Board approval. All directors may call upon independent professional advice at the expense of the Company.

Committees of the Board

The Board governs through clearly mandated Board committees. Each Board committee has specific written terms of reference which are approved annually by the Board and committee. Committee chairmen report orally on the proceedings of their committees at the next following Board meeting and the minutes of all committee meetings are included in papers distributed to Board members in advance of the next Board meeting. The Board and committees meet at regular intervals to cover all on-going business and ad hoc meetings are convened as necessary.

Audit Committee

The Audit Committee is a committee of the Board. It comprises a minimum of three non-executive Directors (one of whom must be a DCLG board nominee). The Chairman of the Audit Committee is John Parker.

The Audit Committee reviews internal controls, financial reporting, annual financial statements, the performance and recommendations of external and internal auditors, the independence of the external auditor, the level of any non-audit services provided by them and compliance with laws and regulations. It considers financial and operational risks as a precursor to these matters being reviewed by the full Board at its scheduled meetings.

Members comprise John Parker (Chairman), Charlie Arbuthnot, Keith Exford, Emma Fraser (until her resignation on 11 May 2015) Lee Heley (from his appointment as a director on 20 January 2016) and Will Perry. The Group Chairman attends by invitation. The Group Chief Executive and other senior members of staff attend when required.

Credit Committee

The Credit Committee is a committee of the Board. It comprises a minimum of three non-executive Directors (one of whom must be a DCLG board nominee) appointed by the Board together with the Chief Executive, Group Treasurer and the Credit and Risk Director. The Chairman of Credit Committee is Charlie Arbuthnot who replaced David Orr as Chair on 31 March 2016.

The Credit Committee is responsible for the assessment of individual credit propositions for recommendation for guaranteed funding and ongoing monitoring of the portfolio. The Committee reports periodically to the Board to administer a risk management process and evaluate individual credits.

Members comprise Charlie Arbuthnot (Chairman), Peter Impey, John Parker, Gill Payne, Ian Peacock and Deborah Shackleton as non-executive directors and Piers Williamson, Fenella Edge and David Stokes, Group Chief Executive, Group Treasurer and Group Credit and Risk Director respectively of The Housing Finance Corporation Limited, the Company's ultimate parent undertaking.

Training and Development

New non-executive Directors are provided with a tailored induction shortly after their appointment. They are asked to submit requests for additional training as part of the annual performance evaluation process. Emerging

DIRECTORS' REPORT (continued)

Year ended 31 March 2016

issues that require greater understanding are covered by a presentation to the Board by an appropriate expert in the area concerned. The Board conducts a critical evaluation of its activities on an annual basis. A questionnaire based peer review of the performance of the Chairman, the Board and its Committees is conducted by the Company Secretary or periodically by an external facilitator. The results of the evaluation are reviewed and discussed by the Board and a list of action points drawn up where appropriate.

Internal Control

The Board is responsible for the Company's system of internal control and for the regular review of its effectiveness. It should be recognised that the internal control system has been designed to manage rather than eliminate the specific business risks faced by the Company and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board discharges its responsibilities for internal control through the following key procedures:

- the establishment of an organisational structure with clearly defined levels of authority and division of responsibility;
- a comprehensive system of reporting, budgeting and planning against which performance is monitored;
- the formulation of policies and of approval procedures in key areas such as a loan administration, treasury operations, financial reporting and preparation of consolidated financial statements.

Key business risks, and their likelihood and potential impact, are formally considered by the Board half yearly and appropriate controls and mitigating action implemented. All loans to borrowers are substantially matched in terms of their maturity, interest and repayment profile to the equivalent bond issue or bank loan. Therefore primary operating risks relate to the initial credit assessment, credit monitoring of borrowers, the completion of appropriate loan security, timely collection of all payments due and the achievement of a sufficient income to offset the operating costs. Regular reports on these risks are made to the Board.

The system of internal control is provided and managed by T.H.F.C. (Services) Limited, the Company's holding company, under the terms of a Management Services Agreement.

Internal Audit

KPMG fulfil the internal audit function and undertake periodic reviews in line with a programme of reviews determined by the Audit Committee. Reports are issued to the Chair of the Audit Committee. This role was previously undertaken by Smith & Williamson until their appointment as external auditors in October 2014.

Continuing Resources

After making enquiries, the Directors form a judgment at the time of approving the financial statements that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Senior Management

The senior management provided to the Company comprise the Group Chief Executive, Group Treasurer, Group Finance Director and Company Secretary and the Group Credit and Risk Director. The Group Chief Executive has defined powers of authority and responsibility which are delegated to him and reviewed annually by the Board. The Group Company Secretary is responsible for ensuring that Board procedures are followed.

DIRECTORS' REPORT (continued)

Year ended 31 March 2016

Non-executive Directors' Remuneration

Non-executive Directors' remuneration is established by the Board in the light of periodic advice from advisers. Fees are paid to non-executive Directors except that the fees payable to the DCLG board nominee are remitted either to their employer or, at the direction of the Guarantor, directly to the DCLG board nominee. The fees of the non-executive Directors are reviewed annually by the board and were increased with effect from 1 July 2016. The non-executive Directors do not receive any pension benefits, bonuses or benefits-in-kind.

The services of executive Directors are provided by T.H.F.C. (Services) Limited in accordance with a Management Services Agreement. Remuneration is determined by the board of The Housing Finance Corporation Limited and paid by T.H.F.C. (Services) Limited.

Shareholder

The sole shareholder of the Company is T.H.F.C. (Services) Limited, a subsidiary of the ultimate parent, The Housing Finance Corporation Limited.

Financial Risk Management

The Board is responsible for approving the Company's strategy and the level of acceptable risks. The Board has established an Audit Committee and a Credit Committee reporting periodically to the Board to administer a risk management process which identifies the key risks facing the business and the Board reviews reports/minutes submitted by those committees on how those risks are being managed. The Company derives income from three principal sources; arrangement fees on new lending, annual fees accruing on the existing loan book and investment income on any cash balances. Annual fees receivable and payable are contractual and subject to indexation using the Consumer Prices Index. Any investment income is subject to interest rate risk.

The Company's transactions are structured such that all costs are at least covered by matching income.

Risk Management Structure

The Board is ultimately responsible for reviewing and managing all risks facing the Company. The Audit Committee will initially review and report to the Board on all key significant risks including operational, financial and interest rate risk. The Credit Committee addresses specifically, and reports to the Board on, credit and liquidity risk.

Independent Auditor

Nexia Smith & Williamson Audit Limited have been engaged by the Board as auditor of the Company and a resolution for their reappointment will be proposed at the Annual General Meeting.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

AFFORDABLE HOUSING FINANCE PLC

DIRECTORS' REPORT (continued) Year ended 31 March 2016

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

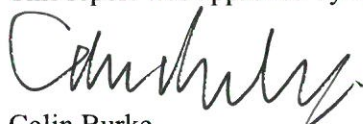
The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DISCLOSURE OF INFORMATION TO AUDITORS

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- he/she has taken all steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This report was approved by the Board of Directors and signed on its behalf by:



Colin Burke
Company Secretary
19 July 2016

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The Company has fulfilled its obligations under the terms of the Licence with the Secretary of State for Communities and Local Government and expects to do so for the foreseeable future.

The Company raises debt for the purpose of on lending to housing associations in England, Wales, Scotland and Northern Ireland for the development of new affordable housing which meets the eligibility criteria set out in the rules of the Affordable Housing Guarantee Scheme. As set out in the Licence, the Secretary of State for Communities and Local Government guarantees the payment obligations of the Company in respect of debt raised under the Affordable Homes Guarantee Scheme. It also guarantees the payment obligations of each Approved Borrower to the Company pursuant to their respective Loan Agreements.

On 20 December 2013 the Company signed a £500m credit facility with the European Investment Bank with an availability period expiring on 30 September 2015. As at 31 March 2016 this facility was fully drawn.

On 30 May 2014 the Company made an initial issue of £208.4m of guaranteed secured bonds. Further issues of guaranteed secured bonds to a nominal value of £392.5m and £402.0m were made during the financial years ended 31 March 2015 and 31 March 2016 respectively as further outlined in Note 13. The total value of guaranteed secured bonds in issue at 31 March 2016 was £1,002.9m, of which £91m were retained by the Company to be sold into the market at a later date to fund further loans.

On 29 February 2016 the Company signed an additional £500m credit facility with the European Investment Bank with an availability period expiring on 31 December 2017. No funds were drawn as at year end.

The proceeds of the bank borrowings and bonds were on lent to the housing associations noted below:

Adactus Housing Association Limited
AmicusHorizon Limited
bpha Limited
Bromford Housing Association Limited
Catalyst Housing Limited
Coastline Housing Association
Colne Housing Society Limited
Cornerstone Housing Limited
Devon & Cornwall Housing Limited
English Rural Housing Association
Family Mosaic Housing
Festival Housing Group
First Wessex
Gateway Housing Association Limited
Golding Homes Limited
Great Places Housing Association Limited
Grwp Cynefin
Hexagon Housing Association Limited
Home Group Limited
Home (Scotland) Limited
Hundred Houses Society
Merlin Housing Society
Mount Green Housing Association Limited
Network Stadium Housing Association Limited
New Gorbals Housing Association Limited
North Devon Homes Limited

AFFORDABLE HOUSING FINANCE PLC

STRATEGIC REPORT (continued)

Year ended 31 March 2016

Notting Hill Housing Trust
Nottingham Community Housing Association Limited
Octavia Housing
Orwell Housing Association
Paradigm Homes Charitable Housing Association Limited
Railway Housing Association
Riverside Group Limited
Selwood Housing
Sentinel Housing Association
Shepherds Bush Housing Association
Stonewater Limited
Stonewater (3) Limited
Thames Valley Charitable Housing Association Limited
The Riverside Group Limited
Three Rivers Housing Association
Viridian Housing
Wales and West Housing Association Limited
Westcountry Housing Association Limited
Worcester Community Housing

Since 31 March 2016, a further issue of guaranteed secured bonds amounting to a nominal value of £130.5m was made on 2 June 2016, of which £16.5m were retained by the Company. Sales of retained bonds were made on 19 April 2016, 11 May 2016 and 2 June 2016 to a total nominal value of £71m. The proceeds were used to fund further loans to borrowers.

On 12 May 2016 the Company signed a further £500m credit facility with the European Investment Bank with an availability period expiring in December 2017. The total credit facility with the European Investment Bank now stands at £1,500m.

On 19 May 2016 and 3 June 2016 amounts of £11m and £15m respectively, were drawn under the first £500m EIB facility and on-lent to borrowers.

Obligations of the Company and borrowers under both transactions are guaranteed by the Secretary of State for Communities and Local Government.

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance or position of the business.

FINANCIAL RISK MANAGEMENT

The principal risks and uncertainties facing the Company relate to financial risks. The key financial risks of the Company and how they are mitigated are explained in Note 3.

This report was approved by the Board of Directors and signed on its behalf by:



Colin Burke
Company Secretary
19 July 2016

AFFORDABLE HOUSING FINANCE PLC

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AFFORDABLE HOUSING FINANCE PLC

Year ended 31 March 2016

We have audited the financial statements of Affordable Housing Finance Plc for the year ended 31 March 2016 which 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 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 7-8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its result for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

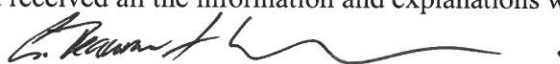
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Guy Swarbreck
Senior Statutory Auditor, for and on behalf of
Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants



25 Moorgate
London
EC2R 6AY
20 July 2016

AFFORDABLE HOUSING FINANCE PLC**STATEMENT OF COMPREHENSIVE INCOME**
Year ended 31 March 2016

		2016	2015
	Note	£000	£000
OPERATING INCOME			
Interest receivable	4	30,584	13,367
Fees receivable and other income		5,256	5,102
		35,840	18,469
OPERATING EXPENDITURE			
Interest payable	5	30,611	13,367
Operating expenses	6	3,534	3,261
		34,145	16,628
PROFIT BEFORE TAXATION	7	1,695	1,841
Taxation	10	(339)	(387)
Profit after taxation		1,356	1,454
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		1,356	1,454

AFFORDABLE HOUSING FINANCE PLC

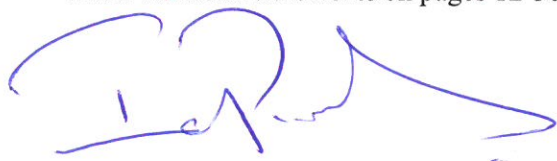
STATEMENT OF FINANCIAL POSITION

As at 31 March 2016

ASSETS	Note	2016 £000	2015 £000
Non-current assets			
Loans to borrowers	11	1,467,574	679,872
Current assets			
Other receivables	12	11,431	7,451
Cash and cash equivalents		4,555	4,173
TOTAL ASSETS		1,483,560	691,496
EQUITY AND LIABILITIES			
Non-Current liabilities			
Financial liabilities – Guaranteed Secured Bonds and bank borrowings	13	1,467,574	679,872
Current liabilities			
Other payables	14	12,718	9,785
Current tax liabilities		227	154
TOTAL LIABILITIES		1,480,519	689,811
EQUITY			
Share capital	15	13	13
Retained earnings	16	3,028	1,672
TOTAL EQUITY		3,041	1,685
TOTAL EQUITY AND LIABILITIES		1,483,560	691,496

The accompanying notes on pages 16-30 are an integral part of these financial statements.

These financial statements on pages 12-30 were approved by the board and signed on its behalf by:



Ian Peacock
Chairman
19 July 2016

Affordable Housing Finance Plc

Registration Number 08434613

AFFORDABLE HOUSING FINANCE PLC

STATEMENT OF CHANGES IN EQUITY
Year ended 31 March 2016

	Share capital	Retained earnings	Total equity
	£000	£000	£000
Balance as at 1 April 2015	13	1,672	1,685
Profit for period	-	<u>1,356</u>	<u>1,356</u>
Balance as at 31 March 2016	<u>13</u>	<u>3,028</u>	<u>3,041</u>

	Share capital	Retained earnings	Total equity
	£000	£000	£000
Balance as at 7 March 2014	13	218	231
Profit for period	-	<u>1,454</u>	<u>1,454</u>
Balance as at 31 March 2015	<u>13</u>	<u>1,672</u>	<u>1,685</u>

AFFORDABLE HOUSING FINANCE PLC

STATEMENT OF CASHFLOWS

Year ended 31 March 2016

		2016	2015
	Note	£000	£000
NET CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	18	2,003	2,014
Interest paid on borrowings		(29,909)	(5,671)
Interest received on loans		28,288	7,809
Loans advanced		(789,730)	(681,161)
NET CASH (USED IN) OPERATING ACTIVITIES		(789,348)	(677,009)
CASH FLOW FROM FINANCING ACTIVITIES			
Net proceeds from issue of bonds and bank loans		789,730	681,161
NET CASH GENERATED FROM FINANCING ACTIVITIES		789,730	681,161
NET INCREASE IN CASH AND CASH EQUIVALENTS IN THE PERIOD		382	4,152
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		4,173	21
CASH AND CASH EQUIVALENTS AT 31 MARCH		4,555	4,173

1. GENERAL INFORMATION

Affordable Housing Finance Plc (the “Company”) provides finance to housing associations (“HAs”) registered under The Housing Act 1996. The Company is a public limited company which raises funding through issuing Secured Bonds listed on the London Stock Exchange and raising bank funding. It is incorporated and domiciled in England and Wales.

On occasions the Company retains a certain number of bonds from a particular issue of Secured Bonds. The retained bonds are held at par on the Company’s balance sheet and netted off the total amount of bonds outstanding until such time as the bonds are sold into the market to fund further loans to borrowers.

2. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements of the Company are set out below.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union and, as regards the financial statements, applied in accordance with the provisions of the Companies Act 2006. The financial statements have been prepared under the historical cost convention. A summary of the more important accounting policies is set out below.

Going Concern

After making enquiries, the Directors form a judgement at the time of approving the financial statements that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Changes in accounting policies and disclosures

(a) New and amended Standards and Interpretations adopted by the Company

In the current year, the following new and amended Standards and Interpretations have been adopted by the Company:

- Annual improvements to IFRSs 2011 – 2013 cycle: These improvements form part of the IASB’s annual improvement process which is designed to make necessary, but not urgent, amendments to IFRSs. The amendments relate to IFRS 13 Fair Value Measurement – scope of paragraph 52 (portfolio exceptions).
- Annual improvements to IFRSs 2010- 2012 cycle: These improvements form part of the IASB’s annual improvement process which is designed to make necessary, but not urgent, amendments to IFRSs. The amendments relate to:
 - IFRS 13 Fair Value Measurement – short-term receivables and payables;
 - IAS 24 Related Party Disclosures - key management personnel; and

The adoption the standards listed above has not had a material impact on the reported results or financial position of the Company and has not given rise to any additional disclosure requirements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 March 2016

(b) New and amended Standards and Interpretations mandatory for the first time for the financial year beginning 1 April 2015 but not currently relevant to the Company

Other standards effective or amended in the year have not had a material impact on the reported results or financial position of the Company.

(c) New and amended Standards and Interpretations issued but not effective for the financial year beginning 1 April 2015.

At the date of authorisation of these financial statements, the following new and amended Standards and Interpretations are in issue but not yet mandatorily effective and are expected to have a material effect on the financial statements of the Company when they are adopted:

- IFRS 9 Financial Instruments (Effective 1 January 2018, not yet endorsed by EU): This is part of a project to replace IAS 39 Financial Instruments: Recognition and Measurement and deals with the classification and measurement of financial assets and financial liabilities. In November 2009, the IASB published IFRS 9 Financial Instruments which covered the classification and measurement of financial assets. In October 2010 the requirements for classifying and measuring financial liabilities were added to IFRS 9.

In November 2013 the IASB issued hedge accounting and amendments to IFRS 9, IFRS 7 and IAS 39 covering general hedge accounting requirements. The requirements also include enhanced presentation and new disclosure requirements.

Further amendments have been issued relating to the introduction of a fair value through other comprehensive income (FVOCI) measurement category for debt instruments that would be based on an entity's business model and expected credit losses are to be recognised on all financial instruments within the scope of the amendment from when they are originated or purchased. Full lifetime expected credit losses are recognised when a financial instrument deteriorates significantly in credit quality.

- Annual improvements to IFRSs 2012 – 2014 cycle (Effective 1 January 2016): These improvements form part of the IASB's annual improvement process which is designed to make necessary, but not urgent, amendments to IFRSs. The amendments relate to IFRS 7 Financial Instruments: Disclosures - Servicing Contracts and applicability of the amendments to IFRS 7 to condensed interim financial statements.
- Amendments to IAS 1 Presentation of Financial Statements (Effective 1 January 2016): The amendments address some of the concerns expressed about existing presentation and disclosure requirements relating to the use of judgement when preparing their financial statements. The amendments;
 - Clarify the materiality requirements in IAS 1;
 - Clarify that specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated;
 - Add requirements for how an entity should present subtotals in the above statements;
 - Clarify that entities have flexibility as to the order in which they present the notes; and
 - Remove potentially unhelpful guidance in IAS 1 for identifying a significant accounting policy.
- Amendments to IAS 7 Statement of Cash Flows: Disclosure initiative (Effective 1 January 2017, not yet endorsed by EU): The amendments respond to requests from investors for improved disclosures about changes in liabilities arising from financing activities by introducing a reconciliation of debt balances (not quite the same as an old FRS 1 'net debt reconciliation' but pretty close).

The effect of all other new and amended Standards and Interpretations which are in issue but not yet mandatorily effective is not expected to be material.

Interest

Interest receivable on loans to borrowers and interest payable on the Secured Bonds and bank loans is accounted for using the effective interest rate method. Any premium/discount on issue is added to/deducted from the original loan amount or Secured Bonds nominal value using the effective interest rate method and charged/credited to the statement of comprehensive income over the expected life of the loan or bonds so that the interest receivable and payable, as adjusted for the amortisation of premiums/discounts, gives a constant yield to maturity.

Fees receivable

Fees receivable are recognised on an effective interest rate basis except for front-end fees that are not considered to form an integral part of the effective interest rate and are therefore taken to income when earned. Fees for services are recognised as the service is provided.

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities using the tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date.

Cash and cash equivalents

Cash and cash equivalents represent amounts on demand deposit at commercial banks.

Other receivables

Other receivables are recognised at transaction price and are subsequently measured at amortised cost. A provision is established when there is objective evidence that the Company will not be able to collect all amounts due. The amount of any provision is recognised in the Statement of Comprehensive Income.

Other payables

Other payables are initially measured at fair value, and are subsequently measured at amortised cost.

Loans to borrowers ("Loans")

The Loans are stated at amortised cost less allowance for impairment. Any premium or discount on issue is added to/deducted from the nominal value of the Loan and charged or credited to the statement of comprehensive income over the expected life of the Loan so that the interest income as adjusted for the amortisation of premium/discount gives a constant yield to maturity. Additional loan amounts are recognised in the financial statements as the proceeds are drawn down.

Secured Bonds and bank loans

Secured Bonds and bank loans are stated at amortised cost.

Any premium or discount on issue is added to/deducted from the nominal value of the Secured Bonds and charged or credited to the statement of comprehensive income over the expected life of the Secured Bonds so that the interest charge as adjusted for the amortisation of premium/discount gives a constant yield to

maturity. Secured Bonds and bank loans are recognised in the financial statements as a liability when the proceeds are received.

Netting

The Company does not net financial assets and liabilities and has no other enforceable offsets.

Fair values

The fair value of a financial instrument is the amount an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

IFRS 13 *Fair value measurement* requires an entity to classify for disclosure purposes its financial instruments held at amortised cost according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

Quoted market prices – Level 1

Financial instruments are classified as Level 1 if their value is observable in an active market. Fair values for such instruments are reported by reference to unadjusted quoted prices for identical assets or liabilities where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis.

Valuation technique using observable inputs – Level 2

Financial instruments classified as Level 2 are fair valued using models whose inputs (for example, interest rates and credit spreads) are observable in an active market.

Valuation technique using significant unobservable inputs – Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data. The Company has no instruments classified in Level 3 (2015: None).

The Company's 3.80 % Secured Bonds are tradeable and the markets are considered to be active and the Secured Bonds are therefore classified Level 1. Accordingly quoted market prices at, or close to, the balance sheet date have been used to evaluate the fair value of the Secured Bonds. The fair value of the associated fixed rate loans to borrowers is based on the same quoted market price on the basis that these loans also carry a full guarantee from UK Government.

The Company's 2.893% Secured Bonds are tradable but the markets are not considered to be active. Accordingly market prices of a suitable reference gilt have been adjusted for an appropriate credit spread to arrive at a fair value (Level 2 valuation). The fair value of the associated fixed rate Loans is similarly adjusted for appropriate credit spreads (Level 2 valuation).

The Company's fixed rate bank loans are not tradable but fair values are arrived at using current available market data of loans with similar characteristics (Level 2 valuation).

Segmental analysis

All operating income and expenditure is derived from activities undertaken in the United Kingdom. The Company's only activity is to provide finance to housing associations. Other relevant segmental information is given in Note 22.

3. FINANCIAL RISK MANAGEMENT

The Company's operations and debt financing potentially expose it to a variety of financial risks including interest rate risk, credit risk, liquidity risk, fair value and market price risk and currency risk.

As set out in the Licence, the Secretary of State for Communities and Local Government unconditionally and irrevocably guarantees the payment obligations of the Company in respect of debt raised under the Affordable Housing Guarantee Scheme, "the Guarantee". It also guarantees the payment obligations of each Approved Borrower to the Company pursuant to their respective Loan Agreements.

The form of the Guarantees insulates the Company from any potential exposure to Credit Risk and Liquidity Risk arising from the debt portfolio. Under the terms of the Licence AHF is obliged to monitor, on behalf of the Guarantor, exposures which give rise to credit risk and the related collateral arrangements, and also liquidity risk, as set out below.

Credit risk

The Company has implemented policies that require periodic credit assessment of each of its borrowers as well as monitoring of the adequacy of underlying collateral. Credit monitoring includes an estimate of the probability of default. The Company only makes loans to housing associations registered with, and regulated, by the Homes and Communities Agency (or other relevant authority for housing associations outside England) for the purposes of funding affordable housing within the rules of the Affordable Homes Guarantee Scheme. All borrowers are subject to external regulation by the relevant Regulator.

The carrying value of the loans represents the maximum exposure to credit risk. None of the loans are past due or impaired at 31 March 2016 (2015: None).

Deposit counterparties are subject to approval by the Credit Committee and Board and such approval is limited to financial institutions with a suitable minimum long-term rating in accordance with THFC treasury policy. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by the Board.

The carrying value of cash and cash equivalents represents the maximum exposure to credit risk.

Collateral arrangements

In addition to the Guarantee, AHF has granted security to all investors in the Company in the form of a floating charge over its undertaking, property and assets. Its assets are primarily its secured loans to housing associations and some accumulated reserves. All floating charges granted by the Company to secure borrowings are ranked pari passu. All of the Company's assets, including the loans to the borrowers and the security granted in respect of its assets are pooled rather than being allocated to specific liabilities of the Company.

Law Debenture Trust Corporation p.l.c. acts as Trustee on behalf of the Secured Bondholders under the terms of a Trust Deed and has the benefit of a floating charge over the all the assets of the Company.

Borrowers from the Company create a first fixed charge in favour of the Company as security for their loans from the Company.

The Company is required to obtain a charge over property of the borrowers which, at all times during the life of each loan, covers at least 105% (on the basis of EUV-SH) of the outstanding loan balance and generate net rental income of at least 100% of interest payable on the loan. Formal property valuations of the specific security are undertaken at least every five years.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 March 2016

Liquidity risk

To mitigate liquidity risk the Company collects interest and capital repayments from borrowers 8 business days prior to the scheduled date of payment to investors/lenders. Additionally all borrowers are required to maintain a Liquidity Reserve Fund with AHF, amounting to a minimum of one year's worth of interest that can be drawn upon in the event of a late payment.

The Company has cash reserves which may be used to provide additional liquidity in the event of a late payment from a borrower.

Interest rate risk

The Company issues debt and raises bank funding and on lends funds on an identical maturity, interest and repayment profile thus ensuring that no mis-match risk is taken in interest rate movements.

The Company is subject to interest rate risk on its investment income arising on its surplus cash balances but this is not regarded as significant.

Fair value risk and market price risk

There is a gross fair value risk on the Loans and related bonds and bank loan but there is no net risk. Market price risk is not expected to impact on the Company because (i) the loans and borrowings are held at amortised cost in the financial statements and (ii) the Company expects to hold them until maturity.

Currency risk

All financial assets and liabilities are denominated in sterling and hence there is no currency risk.

Operational Risk

Operational risk arises from the potential for key systems failures, breaches in internal controls or from external events resulting in financial loss or reputational damage. Key operational risks include outsourced contracts, payments systems, information systems and over-dependence on key personnel. Operational risk is controlled and mitigated through comprehensive, ongoing risk management practices (including procedures within the management company) which include formal internal control procedures, training, and segregation of duties, delegated authorities, contingency planning and documentation of procedures.

4. INTEREST RECEIVABLE

	2016	2015
	£000	£000
On Loans to borrowers	32,236	13,562
Amortisation of net premium	(1,652)	(194)
	<u>30,584</u>	<u>13,368</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
Year ended 31 March 2016

5. INTEREST PAYABLE

	2016	2015
	£000	£000
On Guaranteed Secured Bonds and bank loans	32,263	13,562
Amortisation of net premium	(1,652)	(194)
	<u>30,611</u>	<u>13,368</u>

6. OPERATING EXPENSES

Operating expenses comprise Directors fees, professional fees and fees payable to T.H.F.C. (Services) Limited under the terms of a management services agreement.

7. PROFIT BEFORE TAXATION

The profit before taxation is wholly attributable to the Company's principal activity, arose wholly within the United Kingdom, and is stated after charging:

	2016	2015
	£000	£000
Fees paid to auditors for:		
Annual audit of financial statements – current period	<u>27</u>	<u>25</u>
	<u>27</u>	<u>25</u>

8. EMPLOYEES

There were no employees during the period other than the Directors.

9. DIRECTORS REMUNERATION

	2016	2015
	£000	£000
Non-executive Directors:	<u>66</u>	<u>56</u>

The fees of the Chairman were £8,048 (2015: £6,048). Each other non-executive Director earned fees of between £4,448 and £9,648 per annum (2015: £3,336 and £6,448). All Directors' fees were borne by the Company except for the three executive Directors who are employed and paid by the immediate parent T.H.F.C. (Services) Limited. A proportion of Executive Directors' fees are recharged to AHF by THFCS in line with the management services agreement.

Fees of £19,998 (2015: £17,480) in respect of three non-executive Directors were paid to those Directors' employers.

No pension contributions were made by the Company in respect of Directors. There are no long-term incentive schemes.

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 March 2016

10. TAXATION

	2016 £000	2015 £000
UK Corporation tax at 20% (2015: 21%)	<u>339</u>	<u>387</u>

The effective tax rate for the period of 20% (2015: 21%) is the same as the standard rate of corporation tax.

11. LOANS TO BORROWERS

	2016 £000	2015 £000
Nominal amount in issue at beginning of year	634,500	-
Unamortised premium at beginning of year	46,467	-
Loans issued in year	868,400	668,000
Less retained at end of year	<u>(91,000)</u>	<u>(33,500)</u>
	<u>1,458,367</u>	<u>634,500</u>
Premium on issue	12,330	46,661
Premium amortised for the year	<u>(1,652)</u>	<u>(194)</u>
Amortised cost at end of year	<u>1,469,045</u>	<u>680,967</u>
Premium due within one year	(1,471)	(1,095)
Non-current amortised cost	<u>1,467,574</u>	<u>679,872</u>

Details of security are set out in Note 3.

12. OTHER RECEIVABLES

	2016 £000	2015 £000
Net premium on loans due within one year	1,471	1,095
Interest receivable	9,701	5,752
Recoverable issue costs	<u>259</u>	<u>604</u>
	<u>11,431</u>	<u>7,451</u>

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 March 2016

13. FINANCIAL LIABILITIES

	2016 £000	2015 £000
3.8% Guaranteed Secured Bonds 2042/44		
Nominal amount in issue at beginning of year	567,400	-
Unamortised premium at beginning of year	46,467	-
	<u>613,867</u>	<u>-</u>
 Bonds issued in year	33,500	600,900
Less retained at end of year	-	(33,500)
	<u>647,367</u>	<u>567,400</u>
 Premium on issue of Bonds	6,773	46,661
Premium amortised in year	(1,644)	(194)
Amortised cost at end of year	<u>652,496</u>	<u>613,867</u>
 Less: premium due within one year	(1,321)	(1,095)
Amount due after more than one year	<u>651,175</u>	<u>612,772</u>
 2.893% Guaranteed Secured Bonds 2043/45		
Bonds issued in year	402,000	-
Less retained at end of year	(91,000)	-
	<u>311,000</u>	<u>-</u>
 Premium on issue of Bonds	5,557	-
Premium amortised in year	(8)	-
Amortised cost at end of year	<u>316,549</u>	<u>-</u>
 Less: premium due within one year	(150)	-
Amount due after more than one year	<u>316,399</u>	<u>-</u>
 Bank borrowings		
At beginning of year	67,100	-
Bank borrowings in the year	432,900	67,100
At end of year	<u>500,000</u>	<u>67,100</u>
 Less: falling due within one year	-	-
Amount due after more than one year	<u>500,000</u>	<u>67,100</u>
 Total falling due after more than one year	<u>1,467,574</u>	<u>679,872</u>

Details of security are set out in Note 3.

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 March 2016

The 3.8% Guaranteed Secured Bonds are listed and repayable 2042/44 and were issued in the following tranches:

	Nominal Value initially issued £	Retained by Company £	Nominal Value £	Premium/ (Discount) £
30 May 2014	208,400,000	-	208,400,000	1,292,080
6 November 2014	198,500,000	15,000,000	183,500,000	16,478,300
17 March 2015	194,000,000	18,500,000	175,500,000	28,890,810
22 April 2015 (sale of retained bonds)	-	(5,000,000)	5,000,000	1,161,800
6 May 2015 (sale of retained bonds)	-	(5,000,000)	5,000,000	967,750
25 August 2015 (sale of retained bonds)	-	(15,000,000)	15,000,000	2,823,000
29 February 2016 (sale of retained bonds)	-	(8,500,000)	8,500,000	1,820,190
	600,900,000	-	600,900,000	53,433,930

The 2.893% Guaranteed Secured Bonds are listed and repayable 2043/45 and were issued in the following tranches:

	Nominal Value initially issued £	Retained by Company £	Nominal Value £	Premium/ (Discount) £
11 August 2015	208,000,000	70,000,000	138,000,000	-
29 January 2016 (sale of retained bonds)	-	(5,000,000)	5,000,000	75,300
16 March 2016	194,000,000	26,000,000	168,000,000	5,481,840
	402,000,000	91,000,000	311,000,000	5,557,140

Sales of retained bonds was made on 19 April 2016, 11 May 2016, 2 June 2016 and 13 July 2016 amounting to a total of £81,000,000 nominal with premium of £5,807,190.

On 2 June 2016 a further issue of guaranteed secured bonds amounting to a nominal value of £130.5m was made including £16.5m of bonds which were retained by the Company. Premium on the issue amounted to £5,909,760.

On 12 May 2016 the Company signed a further £500m credit facility with the European Investment Bank (EIB). The total credit facility with EIB now stands at £1,500m of which £500m was drawn as at year end.

The interest rates on the bank borrowings are fixed and range between 2.204% and 3.29%.

AFFORDABLE HOUSING FINANCE PLC**NOTES TO THE FINANCIAL STATEMENTS (continued)**
Year ended 31 March 2016**14. OTHER PAYABLES**

	2016	2015
	£000	£000
Net premium on Secured Bonds due within one year	1,471	1,095
Interest payable	10,244	7,890
Intra-group payables	774	695
Other payables	229	105
	<u>12,718</u>	<u>9,785</u>

15. SHARE CAPITAL

	2016	2015
	£000	£000
<i>Allotted, called up and quarter paid</i>		
50,000 (2015:50,000) ordinary shares of £1 each	<u>13</u>	<u>13</u>
	<u>13</u>	<u>13</u>

The Company's capital comprises only its share capital and retained earnings (Note 16) which the Directors consider adequate for the nature and scale of the Company's operations and the risks to which it is subject as set out in Note 3. The Company is not subject to externally imposed capital requirements.

16. RETAINED EARNINGS

	2016	2015
	£000	£000
Opening reserves	1,672	218
Total comprehensive income for the year	<u>1,356</u>	<u>1,454</u>
Closing reserves	<u>3,028</u>	<u>1,672</u>

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 March 2016

17. CONTRACTUAL CASH FLOWS

2016	Due within one year £000	Due within one to two years £000	Due within two to five years £000	Due in over five years £000	Total 2016 £000
Principal	-	-	-	1,411,900	1,411,900
Interest	42,801	42,801	128,413	852,359	1,066,374
Total	42,801	42,801	128,413	2,264,259	2,478,274
2015	Due within one year £000	Due within one to two years £000	Due within two to five years £000	Due in over five years £000	Total 2015 £000
Principal	-	-	-	634,500	634,500
Interest	21,452	23,611	70,832	515,358	631,253
Total	21,452	23,611	70,832	1,149,858	1,265,753

18. RECONCILIATION OF PROFIT TO NET CASH GENERATED FROM OPERATIONS

	2016 £000	2015 £000
Results before taxation	1,695	1,841
Adjustments for:		
Interest receivable	(30,584)	(13,368)
Interest payable	30,611	13,368
Change in working capital:		
Decrease/ (increase) in receivables	345	(148)
Increase in payables	203	619
Tax paid	(267)	(298)
Cash generated from operations	2,003	2,014

NOTES TO THE FINANCIAL STATEMENTS (continued)
Year ended 31 March 2016

19. FAIR VALUES OF FINANCIAL INSTRUMENTS

The Company's 3.80 % Secured Bonds are tradable and the markets are considered to be active and the Secured Bonds are therefore classified Level 1, however the Company's 2.893% Secured Bonds are tradable but the markets are not considered to be active (Level 2) .

In respect of the 3.80% Secured Bonds the fair value of the associated fixed rate loans to borrowers is based on the same quoted market price as adjusted to reflect the Company's assessment of the risk premium of the underlying borrower. The 2.893% Secured Bonds the fair value of the associated fixed rate loans to borrowers is similarly adjusted for appropriate credit spreads (Both Level 2 valuation).

The Company's fixed rate bank loans are not tradable but fair values are arrived at using current available market data of loans with similar characteristics (Level 2 valuation). The fair value of the associated loans receivable is adjusted to reflect the Company's assessment of the risk premium of the underlying borrower (Level 2 valuation).

The Directors consider that the carrying value amount of other receivables and other payables is a reasonable approximation of their fair value.

	2016		2015	
	Carrying value £000	Fair Value £000	Carrying value £000	Fair Value £000
Financial assets:				
<i>Classified as Loans & Receivables</i>				
Loans to borrower(s)				
Non-current	1,467,574		679,872	
Current	1,471		1,095	
Total	1,469,045	1,753,570	680,967	806,383
Interest receivable	9,701	9,701	5,752	5,752
Other receivable	259	259	604	604
Total financial assets	1,479,005	1,763,530	687,323	812,739
Financial liabilities:				
<i>Classified as Financial Liabilities at Amortised Costs</i>				
Secured Bonds				
Non-current	1,467,574		679,872	
Current	1,471		1,095	
Total	1,469,045	1,753,570	680,967	806,383
Interest payables	10,244	10,244	7,890	7,890
Other payables and accruals	1,003	1,003	800	800
Total financial liabilities	1,480,292	1,764,817	689,657	815,073

20. RELATED PARTY TRANSACTIONS

The Company operates the Government's Affordable Homes Guarantee Scheme under a Licence awarded by the Secretary of State for Communities and Local Government ("DCLG"). DCLG appoints two

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 March 2016

nominees to the board and receives the director's fees in respect of one nominee. No other fees are payable between the parties.

All administrative services are provided to the Company by T.H.F.C. (Services) Limited ("THFCS"), under a management services agreement. THFCS is the Company's immediate holding company. Management fees payable to THFCS during the period amounted to £3,297,804 (2015: £3,082,736). The amount due to THFCS as at 31 March 2016 was £774,222 (2015: £683,237).

The Directors of THFCS are also directors of the Company. The executive Directors are employees of and paid by THFCS.

21. ULTIMATE PARENT UNDERTAKING AND INCORPORATION

The Company's immediate parent undertaking and controlling company is T.H.F.C. (Services) Limited which is incorporated and registered in England and Wales. The ultimate parent undertaking is The Housing Finance Corporation Limited ("THFC") which is incorporated in England and Wales and is a registered society under the Co-operative and Community Benefit Societies Act 2014. THFC is the only company to prepare consolidated financial statements which include the Company. The consolidated financial statements of THFC may be obtained from the Company Secretary, The Housing Finance Corporation Limited, 4th floor, 107 Cannon Street, London, EC4N 5AF, the Company's registered office.

22. SEGMENTAL INFORMATION

Details of borrowers whose total interest payable to the Company exceeds 10% of the total interest receivable for the year are given below.

Borrower	2016	2015
	%	%
Home Group Limited	7	10
Family Mosaic Housing Association	7	10
Other borrowers	86	80
	100	100

23. EVENTS AFTER REPORTING PERIOD

On 19 April 2016, 11 May 2016, 2 June 2016 and 13 July 2016 retained bonds were sold into the market by the Company to finance further loans to borrowers.

On 12 May 2016 the Company signed an additional £500m credit facility with the European Investment Bank.

On 2 June 2016 a further issue of guaranteed Secured Bonds was made to finance further loans to borrowers.

Further details can be found in Note 13.

24. SINKING FUNDS AND DEBT SERVICE RESERVES

Under certain circumstances, an element of the security for loans made to housing associations can be cash. In those circumstances, AHF holds the cash security as trustee on behalf of the housing association borrower. Generally this occurs on loans which are drawn down prior to the completion of property security and for a period of time whilst property security is put in place. Throughout the life of a loan, cash can also be held on trust to cover the period between the release of a property from charge and a substitute property being found.

Under certain loan agreements borrowers are required to maintain a debt service reserve equivalent to one year's worth of interest for the life of the loan. This is held on trust on behalf of the borrower in an Interest Service Reserve Fund or Liquidity Reserve Fund.

In each case the trust and security arrangements are documented by a Sinking Fund Trust Deed or Interest Service Reserve/Liquidity Reserve Fund Trust Deed between the Borrower, AHF (as lender) and AHF (as Trustee).

Cash flows relating to sinking funds and debt service reserves are processed separately from AHF's own funds and invested only as directed by the borrower. Funds held by the Company as Trustee at 31 March 2016 amounted £288.3m (2015: £319.3m).