

AFFORDABLE HOUSING FINANCE PLC

Annual Report

For the year ended 31 March 2019

Companies House Number: 08434613

AFFORDABLE HOUSING FINANCE PLC

Annual Report and Financial Statements for the year ended 31 March 2019

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Directors

George Blunden (appointed 26 March 2019)
Scott Bottles
Colin Burke
Isabella Connell
Fenella Edge
Keith Exford CBE
Peter Impey
John Parker
Gill Payne
Ian Peacock
Will Perry
Deborah Shackleton CBE
Shirley Smith
Guy Thomas (appointed 14 May 2019)
Charles Arbuthnot (resigned 24 July 2018)
Piers Williamson

Company Number

08434613

Independent Auditor

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

Registered Office

3rd Floor
17 St. Swithin's Lane
London
EC4N 8AL

Company Secretary

Colin Burke

AFFORDABLE HOUSING FINANCE PLC

CHAIRMAN'S STATEMENT AND CHIEF EXECUTIVE'S REVIEW

Year ended 31 March 2019

2018/19 was the first full year without the benefit of any new underwriting, having concluded the underwriting of new guaranteed loans in the previous financial year, which saw the AHF portfolio grow to a total of £3.2bn (nominal) comprising loans to 62 housing association borrower groups. Measured against the £3.5bn of Guarantee capacity available under the Affordable Housing Guarantee Scheme ("AHGS"), this represented a very successful outcome.

The cumulative weighted average cost to borrowers of the entire £3.2bn long-term programme was 2.39% and we estimate that, in its four-year underwriting phase, the AHGS supported the delivery of more than 32,000 homes along with regeneration projects and various forms of community investment.

AHF's 2.893% bond with principal outstanding of £1.14bn remains one of the largest long-term housing association bonds in the market.

Investors in AHF comprise 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 who applied to borrow from AHF were English-based, but, as the AHGS is a UK scheme, we also funded two Scottish and four Welsh borrowers under the programme.

AHF now efficiently manages the portfolio under the terms of its Licence with the Ministry for Housing, Communities and Local Government ("MHCLG") and expects to continue to do so through to maturity of the loans made.

Given that all underwriting is now complete the company accrues a small surplus based on the element of annual fee income which it retains under the terms of the Management Services Agreement with T.H.F.C (Services) Limited (its sole shareholder) and a small amount of investment income. On this basis the company achieved a surplus after tax for the year of £233,000 (2018: £1,417,000). This income stream will continue to grow in line with inflation throughout the life of the loans.

In May 2019 the THFC group moved all its operations, including AHF, to brand new offices which provide enhanced IT resilience and space to accommodate the expected increase in staff numbers that will arise from the group's continued strategy of sustainable growth. The group has invested significantly in Information Technology over the course of the last year. This included the complete replacement of IT infrastructure, a change of managed service provider and installation of next-generation connectivity and communication services. An additional raft of technologies have been introduced which strengthen the organisation's cyber resilience in response to the ever-changing threats. We have also employed a full-time IT Director to develop and lead our IT and wider business system strategy.

The February 2019 UK Budget saw the Chancellor specifically announce a further £3bn of Affordable Housing Guarantees. AHF was very successful in its delivery under the previous scheme and has the support of its board to bid in the formal procurement, expected to be launched later in 2019. Given BREXIT uncertainties, it is highly unlikely that European Investment Bank funding will be available. Nevertheless, having established 'proof of concept' and some of the most competitive long-term funding executed for the housing association sector under the first scheme, AHF is confident that it will put forward a compelling and competitively priced bid.

We are delighted to welcome George Blunden to the board of non-executive directors. He joined in March 2019 and will take over as Chair of the Board at the end of July 2019 at which time Ian Peacock will have completed the maximum permitted six-year term under AHF's tenure rules.

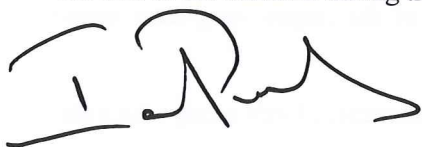
George brings a wealth of sector-specific experience and financial expertise to the board. He has invaluable knowledge of chairing large housing associations since 1993 and since 2010 has been the Chair of Stonewater, overseeing the successful integration of Raglan and Jephson Housing Associations.

AFFORDABLE HOUSING FINANCE PLC

CHAIRMAN'S STATEMENT AND CHIEF EXECUTIVE'S REVIEW (continued) Year ended 31 March 2019

Coincidentally, the tenure of AHF's longest serving Non-Executive Director, Senior Independent Director and chair of Audit Committee, John Parker, ends this summer. John has helped facilitate very significant change in the Group during his term, which has encompassed the majority of the Global Financial Crisis. His commitment to mutual finance and wise counsel will be greatly missed. In his place I am delighted to announce the appointment of Guy Thomas. Guy has a long-standing background as a building society finance director, and in addition to his prospective duties at AHF is currently the non-executive director and Chair of the Risk Committee at Sainsbury's Bank.

Once again, we would like to thank all directors and staff for their hard work and contribution to the continued success of the business during the year.



Ian Peacock
Chairman
30 July 2019

Note from the Chief Executive

George Blunden's appointment sees the completion of Ian Peacock's six-year term as Chair of AHF and the rest of the group. Ian has helped to lay down the strategic path that has shaped the group into what it is today. During Ian's time as Chair, the company won the bid to deliver the Affordable Homes Guarantee Scheme (AHGS). This proved to be the most successful scheme of its type in over 30 years of provision of private finance to UK housing associations, delivering consistent borrowing rates of often below 2%.

On behalf of myself and the entire board I would like to express my sincere thanks to Ian for his stewardship and guidance over this key period of growth.



Piers Williamson
Chief Executive
30 July 2019

AFFORDABLE HOUSING FINANCE PLC

DIRECTORS' REPORT

Year ended 31 March 2019

The directors submit their Directors' report, Strategic report and audited financial statements for the year ended 31 March 2019.

RESULTS AND DIVIDEND

Affordable Housing Finance Plc (the "company") made a profit after tax for the year ended 2019 of £233,000 (2018: £1,417,000). 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 then 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 2017.

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:

George Blunden (appointed 26 March 2019)
Scott Bottles
Colin Burke (executive director)
Isabella Connell
Fenella Edge (executive director)
Keith Exford CBE
Peter Impey
John Parker
Gill Payne
Ian Peacock
Will Perry
Deborah Shackleton CBE
Shirley Smith
Guy Thomas (appointed 14 May 2019)
Charles Arbuthnot (resigned 24 July 2018)
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. The Board has sought to comply with a number of provisions of the Code in so far as it considers them appropriate to a company of its size and nature.

AFFORDABLE HOUSING FINANCE PLC

DIRECTORS' REPORT (continued)

Year ended 31 March 2019

Board

The Board comprises up to a maximum of fifteen 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 Ministry for Housing, Communities and Local Government ("MHCLG"). 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 Chief Executive, the Treasurer and the Finance Director. All non-executive directors are independent directors with the exception of those nominated by MHCLG. 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 four 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. 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 the Board or its committees. Exceptionally a Board or committee

AFFORDABLE HOUSING FINANCE PLC

DIRECTORS' REPORT (continued)

Year ended 31 March 2019

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 MHCLG 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), Keith Exford, Isabella Connell, Guy Thomas and Will Perry. The THFC Group Chairman attends by invitation. The THFC Group Chief Executive and other senior members of staff attend when required.

John Parker will retire at the next AGM and Guy Thomas will assume the Chairmanship of the Committee.

Credit Committee

The Credit Committee is a committee of the Board. It comprises a minimum of two non-executive directors appointed by the Board together with the Chief Executive, Group Treasurer and the Credit and Risk Director. The Chairman of Credit Committee is Scott Bottles.

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 Scott Bottles (Chairman), Peter Impey, John Parker, Gill Payne, Ian Peacock, Deborah Shackleton, Shirley Smith and Guy Thomas as non-executive directors and Piers Williamson, Fenella Edge and David Stokes, THFC Group Chief Executive, THFC Group Treasurer and THFC 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 issues that require greater understanding are covered by a presentation to the Board by an appropriate expert in

AFFORDABLE HOUSING FINANCE PLC

DIRECTORS' REPORT (continued)

Year ended 31 March 2019

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 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

Crowe (UK) LLP 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.

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.

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DIRECTORS' REPORT (continued)

Year ended 31 March 2019

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 MHCLG board nominees are remitted either to their employer or, at the direction of the Guarantor, directly to the MHCLG board nominee. The fees of the non-executive directors are reviewed annually by the board and were increased with effect from 1 April 2019 following an independent benchmarking exercise which was overseen by the THFC Remuneration Committee. This was the first exercise to take place for many years and adjustments reflect both the significant growth in AHF over the last 5 years and the need to maintain a board of the appropriate calibre. The non-executive directors do not receive any pension benefits, bonuses or benefits-in-kind from the company.

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 Remuneration Committee 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 two principal sources; 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

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DIRECTORS' REPORT (continued)

Year ended 31 March 2019

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:

- 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.

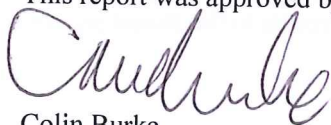
DISCLOSURE OF INFORMATION TO AUDITORS

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 information is given and should be interpreted in accordance with the provision of S418 of the Companies Act 2006.

This report was approved by the board and signed on its behalf by:



Colin Burke
Company Secretary
30 July 2019

AFFORDABLE HOUSING FINANCE PLC

STRATEGIC REPORT

Year ended 31 March 2019

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The company has fulfilled its obligations under the terms of the Licence with the Secretary of State for MHCLG 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 MHCLG 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 (EIB) with an availability period expiring on 30 September 2015. As at 31 March 2017 this facility was fully drawn.

On 29 February 2016 and 12 May 2016 the company signed two additional £500m credit facilities with EIB, with an availability period which expired on 31 December 2017.

The total credit facility with EIB now stands at £1,500m which was fully drawn as at year end.

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, £402.0m, £561.2m and £180.0m were made during the financial years ended 31 March 2015, 31 March 2016, 31 March 2017 and 31 March 2018 respectively as further outlined in note 13. The total value of guaranteed secured bonds in issue at 31 March 2019 was £1,744.1m (2018: £1,744.1m).

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

Accent Housing Limited
Adactus Housing Association Limited
Aster Communities
Bernicia Group (formerly Three Rivers Housing Association Limited)
bpha Limited
Bromford Housing Association Limited
Catalyst Housing Limited
Coastal Housing Group Limited
Coastline Housing Limited
Colne Housing Society Limited
Cornerstone Housing Limited
Croydon Churches Housing Association Limited
Drum Housing Association Limited
English Rural Housing Association Limited
Flagship Housing Group Limited
Fortis Living Limited
Gateway Housing Association Limited
Golding Homes Limited
Great Places Housing Association
Greenfields Community Housing Limited
Greensquare Group Limited
Grwp Cynefin
Heart of England Housing Association Limited
Hexagon Housing Association Limited

AFFORDABLE HOUSING FINANCE PLC

STRATEGIC REPORT (continued)

Year ended 31 March 2019

Home Group Limited
Home in Scotland Limited
Hundred Houses Society Limited
Karbon Homes
Leeds Federated Housing Association Limited
LiveWest Homes Limited (formerly Liverty Living)
Merlin Housing Society Limited
Metropolitan Housing Trust Limited (formerly Thames Valley Charitable Housing Association Limited)
Midland Heart Limited
Moat Homes Limited
Mosscafe St Vincent Housing Group Limited
Mount Green Housing Association Limited
Network Homes Limited
New Gorbals Housing Association Limited
North Devon Homes Limited
Notting Hill Genesis (formerly Notting Hill Housing Trust)
Nottingham Community Housing Association Limited
Octavia Housing
Optivo
Orbit South Housing Association Limited
Orwell Housing Association Limited
Paradigm Homes Charitable Housing Association Limited
Peabody Trust
Pickering and Ferens Homes
Railway Housing Association and Benefit Fund
Riverside Group Limited
Selwood Housing Society Limited
Shepherds Bush Housing Association Limited
Silva Homes Limited (formerly Bracknell Forest Homes Limited)
Sovereign Housing Association Limited
Stonewater Limited
Stonewater (3) Limited
Synergy Housing Limited
Swaythling Housing Society Limited
United Welsh Housing Association Limited
Vivid Housing Limited
Wales and West Housing Association Limited
Wandle Housing Association Limited
Watford Community Housing Trust
Westward Housing Group Limited
West Kent Housing Association
Yarlington Housing Group
Yorkshire Housing Limited

Obligations of the company and borrowers under both transactions are guaranteed by the Secretary of State for MHCLG.

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.

AFFORDABLE HOUSING FINANCE PLC

STRATEGIC REPORT (continued)

Year ended 31 March 2019

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 and signed on its behalf by:



Colin Burke

Company Secretary

30 July 2019

AFFORDABLE HOUSING FINANCE PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AFFORDABLE HOUSING FINANCE PLC

Year ended 31 March 2019

Opinion

We have audited the financial statements of Affordable Housing Finance Plc (the “company”) for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the notes to the financial statements, including a summary of significant accounting policies. 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.

In our opinion, the financial statements:

- give a true and fair view of the state of the company’s affairs as at 31 March 2019 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Other information

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

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

AFFORDABLE HOUSING FINANCE PLC

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AFFORDABLE HOUSING FINANCE PLC (continued) Year ended 31 March 2019

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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.

Responsibilities of directors

As explained more fully in the Statement of Directors' responsibilities 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

AFFORDABLE HOUSING FINANCE PLC

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AFFORDABLE HOUSING FINANCE PLC (continued) Year ended 31 March 2019

Use of this report

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.

Nexia Smith & Williamson

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

25 Moorgate
London
EC2R 6AY

31 July 2019

AFFORDABLE HOUSING FINANCE PLC

STATEMENT OF FINANCIAL POSITION
As at 31 March 2019

ASSETS	Note	2019 £000	2018 £000
Non-current assets			
Loans to borrowers	11	3,402,834	3,407,975
Current assets			
Other receivables	12	23,527	22,971
Cash and cash equivalents		5,984	7,432
TOTAL ASSETS		3,432,345	3,438,378
EQUITY AND LIABILITIES			
Non-Current liabilities			
Financial liabilities – Guaranteed Secured Bonds and bank borrowings	13	3,402,834	3,407,975
Current liabilities			
Other payables	14	23,156	24,108
Current tax liabilities		30	203
TOTAL LIABILITIES		3,426,020	3,432,286
EQUITY			
Share capital	15	13	13
Retained earnings	16	6,312	6,079
TOTAL EQUITY		6,325	6,092
TOTAL EQUITY AND LIABILITIES		3,432,345	3,438,378

The accompanying notes on pages 19-35 are an integral part of these financial statements.

These financial statements on pages 15-35 were approved by the board and signed on its behalf by:



Ian Peacock
Chairman
30 July 2019

Affordable Housing Finance Plc

Registration Number 08434613

AFFORDABLE HOUSING FINANCE PLC**STATEMENT OF COMPREHENSIVE INCOME**
Year ended 31 March 2019

	Note	2019 £000	2018 £000
OPERATING INCOME			
Interest receivable	4	79,046	68,798
Fees receivable and other income	2	3,591	6,760
		<u>82,637</u>	<u>75,558</u>
OPERATING EXPENDITURE			
Interest payable	5	79,046	68,798
Operating expenses	6	3,303	5,011
		<u>82,349</u>	<u>73,809</u>
PROFIT BEFORE TAXATION	7	288	1,749
Taxation	10	(55)	(332)
Profit after taxation		<u>233</u>	<u>1,417</u>
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		<u>233</u>	<u>1,417</u>

AFFORDABLE HOUSING FINANCE PLC**STATEMENT OF CHANGES IN EQUITY****Year ended 31 March 2019**

	Share capital	Retained earnings	Total equity
	£000	£000	£000
Balance as at 1 April 2018	13	6,079	6,092
Profit for period	-	233	233
Balance as at 31 March 2019	13	6,312	6,325
Balance as at 1 April 2017	13	4,662	4,675
Profit for period	-	1,417	1,417
Balance as at 31 March 2018	13	6,079	6,092

AFFORDABLE HOUSING FINANCE PLC**STATEMENT OF CASH FLOWS****Year ended 31 March 2019**

		2019	2018
	Note	£000	£000
NET CASH FLOW FROM OPERATING ACTIVITIES			
Cash (used in) / generated from operations	18	(1,448)	1,783
Interest paid on borrowings		(83,846)	(70,257)
Interest received on loans		83,846	70,257
Loans advanced		-	(944,287)
NET CASH USED IN OPERATING ACTIVITIES		<u>(1,448)</u>	<u>(942,504)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Net proceeds from issue of bonds and bank loans		-	944,287
NET CASH GENERATED FROM FINANCING ACTIVITIES		<u>-</u>	<u>944,287</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS IN THE PERIOD		(1,448)	1,783
CASH AND CASH EQUIVALENTS AT 1 APRIL		7,432	5,649
CASH AND CASH EQUIVALENTS AT 31 MARCH		<u>5,984</u>	<u>7,432</u>

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

1. GENERAL INFORMATION

Affordable Housing Finance Plc (the “company”) provides finance to registered providers of social housing, registered social landlords and registered housing associations, in England, Wales, Scotland and Northern Ireland (HAs”). 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. The address of the registered office is 3rd Floor, 17 St. Swithin’s Lane, London, EC4N 8AL.

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:

- IFRS 15 Revenue from Contracts with Customers: The standard represents a single revenue recognition standard to be applied across various industries. The standard replaces IAS 18 Revenue.
- IFRS 9 Financial Instruments: This deals with the classification, measurement and impairment of financial assets and financial liabilities.

The company has adopted these standards in line with the transitional provisions provided in the new standards. The adoption of these standards has not had a material impact on the reported results of the financial position of the company but has given rise to additional disclosure requirements.

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 March 2019

- (b) *New and amended Standards and Interpretations mandatory for the first time for the financial year beginning 1 April 2018 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 2018.*

- Annual improvements to IFRS 2015-2017 cycle (effective 1 January 2019, not yet EU endorsed): 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: IAS 12 Income taxes: The amendments clarify that a company accounts for all income tax consequences of dividend payments in the same way.

The directors are currently assessing the impact and timing of adoption of these Standards on the company's results and financial position.

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.

Critical accounting judgements

The preparation of financial statements in accordance with IFRSs requires the use of certain critical accounting judgements and estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity or where assumptions are significant to the consolidated financial statements are:

Impairment of loans to borrowers (note 11)

The directors have concluded that no impairment provision is required in relation to its loans to borrowers in accordance with IFRS 9. This is for a number of reasons which includes, but is not limited to, the credit quality of its borrowers and the company's zero loss experience to date. As the company is not subject to any net credit risk, any incurred loss impairment would be matched by a similar adjustment to the gross liability.

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 and premiums receivable

Fees receivable and other income comprise arrangement fees payable on completion of loan transactions, annual fees for the ongoing service provided to borrowers and premiums receivable on completion of loan prepayment transactions. All fees receivable are charged in line with contractual arrangements.

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 March 2019

Fees are measured at the transaction price received or receivable allocated to the performance obligation satisfied and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes. As the expected period between transfer of a promised good or service and payment from the borrower is one year or less then no adjustment for a financing component has been made.

Arrangements fees and premiums receivable are recognised on the completion of the transaction with the borrower.

Annual fees for the ongoing service provided to borrowers is recognised over the period in which the services are 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.

Financial Instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Net transaction costs that are directly attributable to the acquisition or issue of the financial assets and financial liabilities (other than financial assets and financial liabilities at FVPL) are respectively added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. The company recovers all transaction costs from its borrower, so they do not form part of the fair value at recognition.

Financial assets

Classification and measurement

The company applies IFRS 9 and classifies its financial assets in the following measurement categories:

- fair value through profit or loss (FVPL)
- fair value through other comprehensive income (FVOCI)
- amortised cost

The classification requirements for debt instruments are described below. Classification and subsequent measurement of debt instruments depend on:

- 1) the company's business model for managing the asset; and
- 2) the cash flow characteristics of the asset ("SPPI test").

1) *Business model*: The business model reflects how the company manages the assets in order to generate cash flows. That is, whether the company's objective is:

- solely to collect the contractual cash flows from the assets ("Hold to collect"); or

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 March 2019

- to collect both the contractual cash flows and cash flows arising from sale of the assets (“Hold to collect and sell”); or
- neither of these (“Other”).

Factors considered by the company in determining the business model for a group of assets include past experience of how the cash flows for these assets were collected, how the assets’ performance is evaluated and reported to key management personnel, the likely future experience of cash flows, and how credit risks are assessed and managed.

2) *SPPI test*: Where the business model is “Hold to collect” or “Hold to collect and sell”, the company assesses whether the financial instruments’ contractual cash flows represent solely payment of principal and interest on that principal (“SPPI”). In making this assessment, the company considers whether those cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk and other basic lending risks that are consistent with a basic lending arrangement) or reflect exposure to risk or volatility that are inconsistent with a basic lending arrangement.

Based on these factors, the company classifies its debt instruments into one of the measurement categories detailed above. All of the company’s financial assets have been assessed as falling within a “Hold to collect” business model whose contractual cash flows are SPPI and therefore measured at amortised cost.

Amortised cost is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest rate method, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of an asset.

Interest income from these financial assets is calculated by applying the effective interest rate to the gross carrying amount of the financial asset and is included in the statement of comprehensive income within ‘operating income’.

Reclassification

The company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change.

The company holds the following debt instrument under financial assets:

Loan receivable

Loans receivable represents monies lent to Housing Associations under loan agreements and held at amortised cost.

Cash and bank balances

Cash and cash equivalents comprise cash balances that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Other receivables

Other receivables are recognised at transaction price and are subsequently measured at amortised cost.

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 March 2019

Impairment

The company assesses on a forward-looking basis the expected credit losses (ECL) associated with any debt instruments carried at amortised cost. The company may recognise a loss allowance for such losses at each reporting date.

The IFRS 9 impairment model has three stages – Stage 1, Stage 2 and Stage 3 (default).

The company may recognise a 12-month expected credit loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk (stage 2) that would no longer render the instrument low risk. Stage 3 requires objective evidence that an asset is credit impaired.

The measurement of ECL reflects:

- (a) Probability-weighted amounts of loss given default using an agreed methodology
- (b) the time value of money; and
- (c) reasonable and supportable information on the social housing sector that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of the future operating environment

All loans made by AHF benefit from a guarantee and indemnity from the UK government (Secretary of State for Housing, Communities and Local Government) and hence the loss given default and expected credit loss is zero in all circumstances.

Collateral arrangements are described in note 3 on page 26.

Significant Increase in Credit Risk (movement from stage 1 to stage 2)

The company has identified a number of early warning indicators (EWIs) against which assets are monitored. If any of the events occur, internal consideration is given as to whether an individual loan should move to stage 2 classification. The loss given default remains zero.

EWIs include but are not restricted to, the following:

- a) Unexpected adverse changes in the executive and management structure of the borrower or underlying borrower
- b) Annual financial statements carry an auditor's qualification
- c) Government action which negatively impacts on the borrower's business
- d) Significant adverse changes in the business or financial condition of the borrower or underlying borrower
- e) Failure of semi-annual performance tests by the underlying borrower
- f) Regulatory down grade to a non-compliant financial grading
- g) Payment of interest and capital after due date but within grace period
- h) Early warning signs of cash flow/ liquidity problems
- i) Decline in credit grading of underlying borrower to a level below an equivalent investment grade

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 March 2019

Definition of default (movement to stage 3)

The company has identified a series of quantitative and qualitative criteria that will be used to determine if an account meets the definition of default, and therefore should move to stage 3:

- a) Payment default
- b) Cross default
- c) Breach of covenant(s)

Any potential provisions are mitigated by the guarantee.

Derecognition

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either:

- The company transfers substantially all the risks and rewards of ownership; or
- The company neither transfers nor retains substantially all the risks and rewards of ownership and the company has not retained control.

Financial liabilities

Classification and measurement

Financial liabilities are recognised where the substance of the contractual arrangement results in the company having an obligation to either deliver cash or another financial asset to the holder.

Financial liabilities include borrowings and trade and other payables.

Initial recognition and subsequent measurement

Financial liabilities (other than derivatives) are initially recognised at the fair value of consideration less directly attributable net transaction costs and subsequently at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method.

Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

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.

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 March 2019

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 (2018: None).

The company's 3.80% & 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).

Prepayment

Although all loans are expected to run to maturity a borrower may, in accordance with the terms of its loan agreement, prepay the whole or part of the outstanding amount of its original loan. Any prepayment proceeds will be applied in accordance with the Trust Deed in the case of loans funded by the issue of bonds and in accordance with the relevant loan agreement in the case of bank borrowings. Such application may include redemption of bonds, purchase and cancellation of bonds by the company or prepayment of the bank borrowing.

The terms of the Trust Deed provide that a housing association borrower shall be entitled to purchase an amount of bonds and may surrender the same to the company for cancellation. In those circumstances an equivalent amount of the borrower's loan shall be deemed to be repaid.

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, of which none exceed 10% of total income receivable for the year.

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 MHCLG 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 Homes England (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 by the Regulator of Social Housing in the relevant jurisdiction.

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 2019 (2018: 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 Company 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.

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 March 2019

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 Existing Use Value – Social Housing) 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.

Liquidity risk

To mitigate liquidity risk the company collects interest and capital repayments from borrowers eight 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

	2019 £000	2018 £000
On Loans to borrowers	84,058	73,546
Amortisation of net premium	(5,012)	(4,748)
	<u>79,046</u>	<u>68,798</u>

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 March 2019

5. INTEREST PAYABLE

	2019 £000	2018 £000
On Guaranteed Secured Bonds and bank loans	84,058	73,546
Amortisation of net premium	(5,012)	(4,748)
	<u>79,046</u>	<u>68,798</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:

	2019 £000	2018 £000
Fees paid to auditors for:		
Annual audit of financial statements – current period	32	29
	<u>32</u>	<u>29</u>

8. EMPLOYEES

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

9. DIRECTORS REMUNERATION

	2019 £000	2018 £000
Non-executive directors:	<u>143</u>	<u>127</u>

The fees of the Chairman were £19,084 (2018: £19,400). Each other non-executive director earned fees of between £13,650 and £13,220 per annum (2018: £12,888 and £14,488). 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 £39,660 (2018: £38,664) 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 2019

10. TAXATION

	2019 £000	2018 £000
UK Corporation tax at 19% (2018: 19%)	<u>55</u>	<u>332</u>

The effective tax rate for the period of 19% (2018: 19%) is the same as the standard rate of corporation tax.

11. LOANS TO BORROWERS

	2019 £000	2018 £000
Nominal amount in issue at beginning of year	3,244,100	2,339,100
Unamortised premium at beginning of year	168,887	134,348
Loans issued in year	-	905,000
	<u>3,412,987</u>	<u>3,378,448</u>
Premium on issue	-	39,287
Premium amortised for the year	(5,012)	(4,748)
Amortised cost at end of year	<u>3,407,975</u>	<u>3,412,987</u>
Premium due within one year	(5,141)	(5,012)
Non-current amortised cost	<u>3,402,834</u>	<u>3,407,975</u>

Details of security are set out in note 3.

12. OTHER RECEIVABLES

	2019 £000	2018 £000
Net premium on loans due within one year	5,141	5,012
Interest receivable	16,811	16,597
Other receivables	1,575	1,362
	<u>23,527</u>	<u>22,971</u>

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 March 2019

13. FINANCIAL LIABILITIES

	2019 £000	2018 £000
3.8% Guaranteed Secured Bonds 2042/44		
Nominal amount in issue at beginning of year	600,900	600,900
Unamortised premium at beginning of year	48,913	50,271
	<u>649,813</u>	<u>651,171</u>
Premium amortised in year	(1,399)	(1,358)
Amortised cost at end of year	<u>648,414</u>	<u>649,813</u>
Less: premium due within one year	(1,443)	(1,399)
Amount due after more than one year	<u>646,971</u>	<u>648,414</u>
 2.893% Guaranteed Secured Bonds 2043/45		
Nominal amount in issue at beginning of year	1,143,200	892,700
Unamortised premium at beginning of year	119,974	84,077
	<u>1,263,174</u>	<u>976,777</u>
Bonds issued in year	-	250,500
	<u>1,263,174</u>	<u>1,227,277</u>
Premium on issue of Bonds	-	39,287
Premium amortised in year	(3,613)	(3,390)
Amortised cost at end of year	<u>1,259,561</u>	<u>1,263,174</u>
Less: premium due within one year	(3,697)	(3,613)
Amount due after more than one year	<u>1,255,864</u>	<u>1,259,561</u>
 Bank borrowings		
At beginning of year	1,500,000	845,500
Bank borrowings in the year	-	654,500
At end of year	<u>1,500,000</u>	<u>1,500,000</u>
Less: falling due within one year	-	-
Amount due after more than one year	<u>1,500,000</u>	<u>1,500,000</u>
 Total falling due after more than one year	<u>3,402,835</u>	<u>3,407,975</u>

Details of security are set out in note 3.

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 March 2019

The 3.8% Guaranteed Secured Bonds are listed and repayable 2042/44 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 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	5,817,840
19 April 2016 (sale of retained bonds)	-	(9,000,000)	9,000,000	378,810
11 May 2016 (sale of retained bonds)	-	(15,000,000)	15,000,000	829,800
2 June 2016 (sale of retained bonds)	-	(47,000,000)	47,000,000	2,530,480
2 June 2016	130,500,000	16,500,000	114,000,000	6,137,760
13 July 2016 (sale of retained bonds)	-	(10,000,000)	10,000,000	2,068,100
4 August 2016	191,400,000	18,000,000	173,400,000	32,642,550
11 August 2016 (sale of retained bonds)	-	(10,000,000)	10,000,000	2,451,100
23 August 2016 (sale of retained bonds)	-	(6,500,000)	6,500,000	1,844,750
18 October 2016	124,500,000	24,000,000	100,500,000	18,948,270
18 January 2017	114,800,000	26,500,000	88,300,000	11,420,722
13 February 2017 (sale of retained bonds)	-	(8,000,000)	8,000,000	1,087,840
4 April 2017	88,000,000	16,000,000	72,000,000	12,198,240
2 May 2017 (sale of retained bonds)	-	(24,000,000)	24,000,000	4,223,280
10 July 2017 (sale of retained bonds)	-	(8,000,000)	8,000,000	1,154,400
26 July 2017 (sale of retained bonds)	-	(7,000,000)	7,000,000	1,011,850
18 September 2017 (sale of retained bonds)	-	(5,000,000)	5,000,000	818,350
24 October 2017	92,000,000	7,000,000	85,000,000	12,563,850
8 December 2017 (sale of retained bonds)	-	(49,500,000)	49,500,000	7,316,770
	1,143,200,000	-	1,143,200,000	125,520,062

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 March 2019

The interest rates on the bank borrowings are both fixed and floating and the rates are between the range 0.756% and 3.8%.

14. OTHER PAYABLES

	2019 £000	2018 £000
Net premium on Secured Bonds due within one year	5,141	5,012
Interest payable	16,811	16,601
Intra-group payables	1,144	2,397
Other taxation and social securities	10	9
Other payables	50	89
	<u>23,156</u>	<u>24,108</u>

15. SHARE CAPITAL

	2019 £000	2018 £000
<i>Allotted, called up and quarter paid</i>		
50,000 (2018: 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 its ongoing working capital requirements. The company is not subject to externally imposed capital requirements.

16. RETAINED EARNINGS

	2019 £000	2018 £000
Opening reserves	6,079	4,662
Total comprehensive income for the year	233	1,417
Closing reserves	<u>6,312</u>	<u>6,079</u>

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 March 2019

17. CONTRACTUAL CASH FLOWS

The table below summarises the cash flows payable by the group from 31 March 2019 until contractual maturity of all its bond and loan liabilities as at the same date. On variable rate facilities it has been assumed that the interest rate and drawn amount as at 31 March 2019 remain unchanged until the contract maturity.

2019	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 2019 £000
Principal	-	-	-	3,244,100	3,244,100
Interest	84,777	84,777	254,324	1,433,733	1,857,611
Total	84,777	84,777	254,324	4,677,833	5,101,711
2018	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 2018 £000
Principal	-	-	-	3,244,100	3,244,100
Interest	83,612	83,762	251,286	1,504,652	1,923,313
Total	83,612	83,762	251,286	4,748,652	5,167,413

18. RECONCILIATION OF PROFIT TO NET CASH GENERATED FROM OPERATIONS

	2019 £000	2018 £000
Result before taxation	288	1,749
Adjustments for:		
Interest receivable	(79,046)	(68,798)
Interest payable	79,046	68,798
Change in working capital:		
Increase in receivables	(217)	(436)
(Decrease) / increase in payables	(1,293)	792
Tax paid	(226)	(322)
Cash (used in) / generated from operations	(1,448)	1,783

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 March 2019

19. FAIR VALUES OF FINANCIAL INSTRUMENTS

The company's 3.80% & 2.893% Secured Bonds are tradable but the markets are not considered to be active and the Secured Bonds are therefore classified Level 2.

In respect of the 3.80% & 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.

	2019		2018	
	Carrying value	Fair Value	Carrying value	Fair Value
	£000	£000	£000	£000
Financial assets:				
<i>Classified as Loans & Receivables</i>				
Loans to borrower(s)				
Non-current	3,402,834		3,407,975	
Current	5,141		5,012	
Total	3,407,975	4,175,027	3,412,987	4,134,387
Interest receivable	16,811	16,811	16,599	16,599
Other receivables	1,577	1,577	1,362	1,362
Total financial assets	3,426,363	4,193,415	3,430,948	4,152,348
Financial liabilities:				
<i>Classified as Financial Liabilities at Amortised Costs</i>				
Secured Bonds				
Non-current	3,402,834		3,407,975	
Current	5,141		5,012	
Total	3,407,975	4,175,027	3,412,987	4,134,387
Interest payables	16,811	16,811	16,599	16,599
Other payables and accruals	1,204	1,204	2,495	2,495
Total financial liabilities	3,425,990	4,193,042	3,432,081	4,153,481

20. RELATED PARTY TRANSACTIONS

The company operates the Government's Affordable Homes Guarantee Scheme under a Licence awarded by the Secretary of State for MHCLG. MHCLG appoints two nominees to the board and receives the director's fees in respect of one nominee. No other fees are payable between the parties.

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 March 2019

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 £2,965,235 (2018: £4,681,816). The amount due to THFCS as at 31 March 2019 was £1,119,653 (2018: £555,974). Arrangement fees payable to THFCS during the period amounted to £20,000 (2018: Nil). The amount due to THFC as at 31 March 2019 was £24,600 (2018: £42,840).

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, 3rd floor, 17 St. Swithin’s Lane, London, EC4N 8AL, the company’s registered office.

22. SINKING FUNDS AND LIQUIDITY RESERVE FUNDS

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

Cash flows relating to sinking funds and liquidity reserve funds 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 2019 amounted to £101.5m (2018: £194.4m).

23. GRENFELL TOWER TRAGEDY

In the wake of the Grenfell tragedy, the Ministry for Housing, Communities and Local Government (MHCLG) has agreed to fund expenditure on specific forms of cladding remediation on tower blocks, up to £400m nationally. A welcome additional step was taken post-year end, with the announcement of a further £400m fund to support leaseholder remediation costs in private blocks of flats. A small number of AHF borrowers have been impacted but not materially so.

