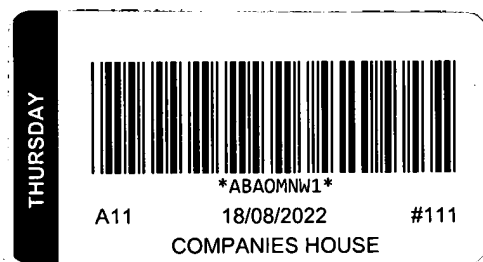


AFFORDABLE HOUSING FINANCE PLC
ANNUAL REPORT AND FINANCIAL
STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022



AFFORDABLE HOUSING FINANCE PLC

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AFFORDABLE HOUSING FINANCE PLC

DIRECTORS AND OFFICERS

Registered No. 08434613

Board of Directors

Non-Executive and Chair

George Blunden

Other Non-Executives

Scott Bottles

Peter Impey

Anthony King

David Montague

Gill Payne

Will Perry

Catherine Ryder (appointed 1 April 2022)

Shirley Smith

Guy Thomas

Stephen Wright

Chief Executive

Piers Williamson

Treasurer

Fenella Edge

Finance Director

Colin Burke (resigned 24 May 2022)

Ray Walker (appointed 24 May 2022)

Additional information

Secretary

Ella Hoareau

Registered office and principal place of business

3rd Floor

17 St. Swithin's Lane

London

EC4N 8AL

Independent Auditor

CLA Evelyn Partners Limited*

Chartered Accountants and Statutory Auditor

45 Gresham Street

London

EC2V 7BG

**Formerly (Nexia Smith & Williamson)*

AFFORDABLE HOUSING FINANCE PLC

CHAIR'S STATEMENT AND CHIEF EXECUTIVE'S REVIEW **Year ended 31 March 2022**

Chair's Statement

The financial year was the second consecutive year dominated by COVID-19 and the associated restrictions, however, Affordable Housing Finance PLC (the "Company") continued to function well through extended periods of both home working and hybrid office working. We are therefore pleased to be able to report that the Company has continued to operate very much on a business-as-usual basis.

Results for the Year

Having completed all origination under the guaranteed scheme, the Company continues to efficiently manage its £3.2bn loan portfolio under the terms of its licence with the Ministry of Housing, Communities and Local Government ("MHCLG") and expects to continue to do so through to maturity of the loans made.

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 ("MSA") with T.H.F.C (Services) Limited (the "Immediate Parent Company") and a small amount of investment income. On this basis the Company achieved a profit after tax for the year of £224,000 (2021: £415,000). This income stream will continue to grow in line with inflation throughout the life of the loans.

The Company's issued debt continues to be rated AA by Standard & Poor's ("S&P") reflecting the unconditional and irrevocable guarantee from the United Kingdom ("U.K") Government.

Stakeholder engagement

We were able to maintain engagement with a wide variety of stakeholders in the year. Regular dialogue continued with all borrowers and the Board took advantage of video conferencing to conduct a wide range of different stakeholder briefings. We also held the latest of our annual series of non-deal specific roadshows, in hybrid format. Apart from perceived major risk factors – such as housing market sales risk and fire remediation, a continued theme for many investors throughout the year has been Environmental, Social and Governance ("ESG") reporting and the potentially major task of retrofitting existing stock to achieve decarbonisation objectives, in particular.

We continue to be an important partner to Homes England ("HE") in relation to the performance of the Company's portfolio, which is guaranteed by MHCLG, and we meet with them regularly to share information, and to deal with borrower merger and amendment requests.

Staff and Governance

We are pleased to report that since the end of government restrictions during January 2022, we have reverted to a hybrid office and home working arrangement. Throughout the year, we have periodically taken the pulse of staff and board members as to their working preferences and remain conscious of the need to attract and retain a high calibre team. We are therefore continuing to monitor our current arrangements and are consulting with all colleagues as to the most appropriate operational model going forward.

We have also taken the opportunity this year to review a number of our own governance processes, including a stock-take of progress made in relation to diversity and inclusion.

There have been a few changes amongst directors this year. We welcome Catherine Ryder, who was appointed to the board as non-executive director on 1 April 2022. Catherine is a nominee of the National Housing Federation on the board of The Housing Finance Corporation Limited ("THFC").

AFFORDABLE HOUSING FINANCE PLC

CHAIR'S STATEMENT AND CHIEF EXECUTIVE'S REVIEW (continued)

Year ended 31 March 2022

Catherine joined the Credit Committee upon appointment to the board. David Montague also joined the Credit Committee on 22 March 2022.

We also note the contribution of our Finance Director, Colin Burke, who retired from his role as Group Finance Director and Company Secretary at the start of June 2022. Colin joined The Housing Finance Corporation Limited and its related subsidiaries, (the "Group") during 2002 and played a critical role in laying the foundations upon which the business has since grown. We record the huge contribution he has made and wish him well for the years ahead. His role has been filled by Ray Walker, who has joined the Group from UBS and was appointed to the board on 24 May 2022.



George Blunden
Chair

5 August 2022

AFFORDABLE HOUSING FINANCE PLC

STRATEGIC REPORT **Year ended 31 March 2022**

The Directors present their Strategic Report, Directors' Report and audited financial statements of Affordable Housing Finance Plc (the "Company") for the year ended 31 March 2022.

STRATEGIC REPORT

The strategic report has been prepared in compliance with the provisions of Section 414C of the Companies Act 2006 and includes a summary of how the Directors have acted in good faith to promote the success of the Company for the benefit of its stakeholders. The Company is a wholly owned subsidiary of T.H.F.C. (Services) Limited, (the "Immediate Parent Company") and the ultimate parent company is The Housing Finance Corporation Limited ("THFC") and along with THFC's related subsidiaries, is known as (the "Group").

PRINCIPAL ACTIVITY

The principal activity of the Company is to manage and deliver the Affordable Housing Guarantee Scheme (the "AHGS"), under its Licence granted on 19 June 2013, by the then Secretary of State for Communities and Local Government and with exclusivity for the year ended 31 March 2017.

The Company raises debt in the form of loans and bonds, 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 AHGS. As set out in the Licence, the Secretary of State for the Ministry of Housing, Communities and Local Government ("MHCLG") guarantees the payment obligations of the Company in respect of debt raised under the AHGS. It also guarantees the payment obligations of each Approved Borrower to the Company pursuant to their respective loan agreements.

In accordance with a Management Services Agreement ("MSA") entered into between the Company and its Immediate Parent Company, the latter provides staff, premises and other services to the Company to enable it to fulfil its obligations under the Licence.

To date, the Company has reached its capacity of £3.2bn of debt issued under the terms of its Licence with MHCLG. The Company's borrowers are disclosed in the group accounts of THFC located at: www.thfcorp.com.

REVIEW OF BUSINESS

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 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. Due to the simple nature of the business, the Directors have taken the view that key performance indicators are not required to be disclosed to understand the business.

The total annual fee income for the year was £3,671,000 (2021: £3,494,000) which, after costs, generated a profit before tax of £277,000 (2021: £512,000).

PRINCIPAL RISKS AND UNCERTAINTIES

The Board of Directors is ultimately responsible for adequate risk management and establishing an integrated and companywide risk culture but can delegate general day to day business conduct to a number of Committees. Detail on governance structures and processes in place for assessing and managing risk is discussed in greater detail in the Corporate Governance Report (see pages 8-11). The principal risks and uncertainties facing the Company relate to financial and operational risks and are explained in note 2: *financial instruments – Risk management & fair value hierarchy*.

AFFORDABLE HOUSING FINANCE PLC

STRATEGIC REPORT (CONTINUED)

Year ended 31 March 2022

FUTURE TRENDS

See the Group report at www.thfcorp.com for a detailed analysis of the future trends.

DUTY TO PROMOTE THE SUCCESS OF THE COMPANY

Statement by the Directors in performance of their statutory duties in accordance with S172(1) of the Companies Act 2006.

The Company is required to comply with Section 172 (1) of the Companies Act 2006. Section 172(1) is a part of the section of the Act which defines the duties of a company director and concerns the “duty to promote the success of the Company” for the benefit of its stakeholders whose interests are in the future success of the Company. Stakeholders include shareholders, employees, suppliers and the local communities affected by the Company’s activities.

A director of a company must act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its stakeholders as a whole and, in doing so have regard (amongst other matters) to:

- the likely consequences of any decisions on the long-term;
- the interests of the company’s employees;
- the need to foster the company’s business relationships with suppliers, customers and others;
- the impact of the company’s operations on the community and environment;
- maintaining a reputation for high standards of business conduct, and
- the need to act fairly as between members of the company.

The following paragraphs summarise how the Directors fulfil their duties:

Long-term consequences of decisions made

To meet the Company’s principal objective of providing cost-effective long-term funding to HAs, the board has set a strategy to promote steady, sustainable growth.

The long-term tenor and secured nature of the loans made or committed to by the Company to its borrowers requires the board to ensure that both its borrowers and the Company are able to continue to meet their respective legal and other obligations to both the Company and note holders, as detailed in the relevant transaction documents.

Borrowers’ performance is monitored regularly to ensure obligations are met on an ongoing basis. The Board also monitors the material risks to the Company and how they might impact on its long-term health.

The Company no longer makes new loans but the Board continues to monitor borrowers’ performance regularly to ensure obligations are met on an ongoing basis. The Board also monitors the material risks to the Company and how they might impact on its long-term health.

The Company has funded itself through arrangement fees and annual fees which are charged to each borrower. Arrangement fees were charged to reflect the resource expended in originating the loan whilst the annual fee covers the costs of the ongoing administration of the loans through to maturity. The annuity income generated by the annual fees ensures that the Company has a sustainable business model and all obligations of the Company (and its borrowers) are subject to a sovereign guarantee.

AFFORDABLE HOUSING FINANCE PLC

STRATEGIC REPORT (CONTINUED)

Year ended 31 March 2022

The Board regularly monitors the material risks to the Company and how they might impact on its long-term health. Key risks and their mitigants are detailed in note 2: *financial instruments – Risk management & fair value hierarchy*.

Culture and conduct

To further strengthen the Company's 'culture and conduct', the Board conducted an 'External Board Effectiveness Review' and continues to place emphasis on defining the Company's core values and culture. The Board intends to refresh the core values and culture in the coming year.

Governance

The Company benefits from having ten independent non-executive directors which enables independent constructive challenge. Detail on governance structures and processes in place for assessing and managing risk is discussed in greater detail in the Corporate Governance Report (see pages 8-11).

Interests of employees

The Company has no employees except for its board of directors who are party to, and therefore consulted on, all decisions made by the Company. All services are provided to the Company by its Immediate Parent Company, in accordance with the MSA.

Diversity and inclusion

The Company has adopted THFC's 'Diversity and Inclusion' ("D&I") ambition.

Key initiatives undertaken include:

- A review of progress made against recommendations from a previous externally facilitated Board Diversity Review, considered in tandem with the findings of the recent Board Effectiveness Review.
- A review of the Group's values and culture, ensuring that D&I considerations are embedded throughout the organisation.

See the Group report at www.thfcorp.com for more detail.

Fostering business relationships

The Board ensures that its Immediate Parent Company has the appropriate skill set amongst employees to allow for an operational structure that incorporates the following:

- Relationship Management (for liaison with borrowers to whom funds have been on-lent as well as potential new borrowers);
- Treasury (who maintain relationships with current and potential investors in the Company's bonds through regular updates and meetings);
- Finance (who manage relationships with suppliers and ensure the efficient collection and distribution of coupons between the borrower and investors (or their duly appointed agent));
- Secretarial (who manage compliance obligations with various stakeholders).

The Board maintains close relationships with the MHCLG, provider of the sovereign guarantee, through representation on the Board and regular meetings and provision of reports on the health of the portfolio.

AFFORDABLE HOUSING FINANCE PLC

STRATEGIC REPORT (CONTINUED)

Year ended 31 March 2022

Long-term lending requires a constant focus on maintaining stakeholder relationships and the service provider has a wealth of experience in all relevant areas. This includes fostering close relationships with sector specialists, such as valuers, lawyers, accountancy firms, treasury advisers and also maintaining close relationships with its investment banks and the investor community at large.

The Board receives regular presentations from key stakeholders as part of a 'Stakeholder Speaker Series'. This was introduced this financial year and allows the Board to develop its knowledge of the landscape in which the Company operates; ensures board members are familiar with the Company's key stakeholders and their objectives; and provides an opportunity for the Company to strengthen these relationships.

Impact of operations on community and environment

In delivering cost-effective funding to housing associations the Company aims to boost the number and quality of affordable housing for the benefit of tenants and communities throughout the UK. The Company operates on a not-for-profit basis. Surpluses are therefore not distributable but retained for the greater good of the sector and the communities that it serves.

See the Group report at www.thfcorp.com for more detail.

Maintaining reputation for high standards of business conduct

The Board operates the business responsibly and in line with good industry practice and the highest level of governance expected of a lending business and in so doing maintains an exceptional reputation amongst investors and borrowers alike. This includes:

- A code of conduct based on the seven principles of public life identified by the Nolan Committee.
- The Company complies with relevant legislation beyond its statutory obligations as best practice.
- Regular compliance training for directors including anti-money laundering and data protection.

Acting fairly between members of the company

The Board has a responsibility to act fairly between members of the Company. The entire issued share capital of the Company is held by the Immediate Parent Company which also shares a common board, with the exception of one MHCLG nominee on the Company's Board. Each director of the Immediate Parent Company is therefore closely involved in the key strategic decisions of the business and has the right to challenge on a regular basis.

This report was approved by the Board of Directors and signed on its behalf on 5 August 2022 by:



Ray Walker
Finance Director

AFFORDABLE HOUSING FINANCE PLC

CORPORATE GOVERNANCE STATEMENT

Year ended 31 March 2022

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.

Board

The Board comprises up to a maximum of fifteen directors (this is temporarily increased on occasion with MHCLG permission). Up to three of these directors may be executive employees of the Immediate Parent Company and the remainder non-executive directors, two of whom may be nominated by the Department for Levelling Up, Housing and Communities ("DLUHC"). 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 Shirley Smith who was appointed on 28 July 2020.

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 DLUHC. 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 Chair 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 Chair in accordance with the Articles of Association of the Company.

Meetings

Directors' attendance at board and board committee meetings is monitored. Where a director is unable to attend a meeting he or she was scheduled to attend, the Chair 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.

AFFORDABLE HOUSING FINANCE PLC

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Year ended 31 March 2022

Role of Board

The Board sets the strategic objectives of the Company, determines investment policies, 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. 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. 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 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 Chair 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 Chair 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. The respective chairs of the Committees report orally on the proceedings of their Committees at the next board meeting and the minutes of all committee meetings are included in papers distributed to the 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 and Risk Committee

The Audit and Risk Committee is a committee of the Board. It comprises a minimum of three non-executive directors (one of whom must be a DLUHC board nominee). The Chair of the Audit and Risk Committee is Guy Thomas.

The Audit and Risk 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 Guy Thomas (Chair), Tony King, Stephen Wright, David Montague and Will Perry. The Group's Chair attends by invitation. The Group's Chief Executive and other senior members of staff attend when required.

AFFORDABLE HOUSING FINANCE PLC

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Year ended 31 March 2022

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, the Group Treasurer and the Credit and Risk Director.

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 (Chair), Peter Impey, George Blunden, Tony King, David Montague (appointed 22 March 2022), Gill Payne, Catherine Ryder (appointed 1 April 2022), Shirley Smith and Guy Thomas as non-executive directors. The Group's Chief Executive, Treasurer and Credit and Risk Directors are also members.

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 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 Chair, 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 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 the Immediate Parent Company under the terms of the MSA.

Internal Audit

Crowe (UK) LLP fulfil the internal audit function and undertake periodic reviews in line with a programme determined by the Audit and Risk Committee. Reports are issued to the Chair of the Audit and Risk Committee with the most recent rating the Company's internal controls as providing 'significant assurance'.

AFFORDABLE HOUSING FINANCE PLC

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Year ended 31 March 2022

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. The services of executive directors are provided by the Immediate Parent Company in accordance with the MSA.

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 DLUHC board nominees are remitted either to their employer or, at the direction of the Guarantor, directly to the DLUHC board nominee. The fees of the non-executive directors are reviewed annually by the board and were increased with effect from 1 April 2022. The non-executive directors do not receive any pension benefits, bonuses or benefits-in-kind from the Company.

Remuneration is determined by the Remuneration Committee of THFC and paid by the Immediate Parent Company.

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 and Risk 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 and financial risk. The principal risks and uncertainties facing the Company relate to financial and operational risks and are explained in note 2: *financial instruments – Risk management & fair value hierarchy*.

AFFORDABLE HOUSING FINANCE PLC

DIRECTORS' REPORT

Year ended 31 March 2022

The Directors present their report together with the audited Financial Statements of Affordable Housing Finance Plc (the "Company") for the year ended 31 March 2022 which have been prepared in accordance with the provisions of the Companies Act 2006.

GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out within the Strategic Report. The financial position of the Company and its liquidity position is reflected on the balance sheet.

The Directors have concluded that the Company has adequate resources to continue in operational existence for the 12 months from the date on which the financial statements are approved. For this reason, the Company will continue to adopt the going concern basis in preparing the financial statements.

DIRECTORS

The names of the current directors are shown in the directors and officers section.

SHARE CAPITAL AND COMPANY STRUCTURE

The Company 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, (the "Immediate Parent Company").

DIVIDEND

The Directors did not declare a dividend for the year (2021: nil).

INSURANCE OF DIRECTORS

The Company maintains third-party liability insurance in respect of proceedings brought by third parties in respect of their duties as directors of the Company.

CHARITABLE AND POLITICAL CONTRIBUTIONS

There were no charitable donations nor any contributions for political purposes made by the Company during the year (2021: nil).

STREAMLINED ENERGY AND CARBON REPORTING ("SECR")

In line with the SECR reporting requirements, the Company has elected to report on its energy use. The Company shares its premises with The Housing Finance Corporation Limited ("THFC"), the Company's ultimate parent company and this information is presented at a Group level within THFC's consolidated financial statements. A copy of these financial statements can be obtained at www.thfcorp.com.

INDEPENDENT AUDITOR

CLA Evelyn Partners Limited has been engaged by the Board as auditor of the Company and a resolution for their reappointment will be proposed at the Annual General Meeting.

AFFORDABLE HOUSING FINANCE PLC

DIRECTORS' REPORT (continued)
Year ended 31 March 2022

This report was approved by the Board of Directors and signed on its behalf on 5 August 2022 by:



Ray Walker
Finance Director and Company Secretary
Affordable Housing Finance Plc

AFFORDABLE HOUSING FINANCE PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Year ended 31 March 2022

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 accounting standards in conformity with the requirements of the Companies Act 2006. 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:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 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 AUDITOR

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 of Directors and signed on its behalf on 5 August 2022 by:



Ray Walker
Director

Opinion

We have audited the financial statements of Affordable Housing Finance Plc (the 'company') for the year ended 31 March 2022 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 notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 contained within the Annual Report. 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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. We have nothing to report in this regard.

Opinions 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 in relation to which 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 page 14, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

We obtained a general understanding of the company's legal and regulatory framework through enquiry of management concerning: their understanding of relevant laws and regulations; the entity's policies and procedures regarding compliance; and how they identify, evaluate and account for litigation or claims. We also drew on our existing understanding of the company's industry and regulation.

We understand the company complies with requirements of the framework through:

- The directors overseeing the operation of the Company's management services agreement with the THFC Group, which requires T.H.F.C. (Services) Limited to implement, monitor and update operating procedures, manuals and internal controls as legal and regulatory requirements change;
- The directors' close involvement in the day-to-day running of the business, meaning that any litigation or claims would come to their attention directly;
- Engagement with legal and professional advisers as to the Listing Rule requirements of the Professional Securities Market ("PSM") ("the PSM Rules") in relation to the listing of secured bonds; and
- The outsourcing of tax compliance to external third parties.

In the context of the audit, we considered those laws and regulations which determine the form and content of the financial statements, which are central to the company's ability to conduct business and where failure to comply could result in material penalties. We have identified the following laws and regulations as being of significance in the context of the company:

- The Companies Act 2006 and international accounting standards in conformity with the Companies Act 2006 in respect of the preparation and presentation of the financial statements;
- The PSM Rules in relation to the listing of secured bonds; and
- The requirements of the Affordable Housing Guarantee Licence ("AHGL") with the Ministry of Housing, Communities and Local Government.

We performed the following specific procedures to gain evidence about compliance with the significant laws and regulations above:

- Discussions with management including consideration of known or suspected non-compliance with the PSM Rules and the AHGL;
- Reviewing board minutes to identify any indicators of known or suspected non-compliance with significant laws and regulations;
- Confirming through review of the engagement letter with legal advisors that they are engaged to provide ongoing updates and advice to ensure ongoing compliance with the PSM Rules;
- Performing a review of the AHGL to understand its key requirements and obtaining written representations from the board regarding compliance with the AHGL; and
- Performing a review of any legal correspondence with the company's legal advisors.

The senior statutory auditor led a discussion with senior members of the engagement team regarding the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur. The key areas identified as part of the discussion were with regard to the manipulation of the financial statements, especially operating income, through manual journals and judgements as to whether loans to borrowers are impaired. This was communicated to the other members of the engagement team who were not present at the discussion.

The procedures carried out to gain evidence in the above areas included:

- Testing a sample of manual journal entries, selected based on specific risk assessments applied based on the Company's processes and controls surrounding manual journals;
- Challenging management regarding the assumptions used in the judgements and estimates above; and
- Substantive testing of operating income.

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

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
AFFORDABLE HOUSING FINANCE PLC
Year ended 31 March 2022**

evelyn
PARTNERS

Use of our 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.

L Manson

Lindsay Manson
Senior Statutory Auditor, for and on behalf of
CLA Evelyn Partners Limited
Statutory Auditor
Chartered Accountants

45 Gresham Street
London
EC2V 7BG

5 August 2022

AFFORDABLE HOUSING FINANCE PLC**STATEMENT OF COMPREHENSIVE INCOME**

Year ended 31 March 2022

		2022	2021
	Note	£000	£000
OPERATING INCOME			
Interest receivable	3	78,096	78,145
Fees receivable and other income		3,677	3,749
		<u>81,773</u>	<u>81,894</u>
OPERATING EXPENDITURE			
Interest payable	4	78,096	78,145
Operating expenses	5	3,400	3,237
		<u>81,496</u>	<u>81,382</u>
PROFIT BEFORE TAXATION	6	277	512
Taxation	9	(53)	(97)
Profit after taxation		224	415
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		<u>224</u>	<u>415</u>

The notes on pages 23-39 form an integral part of these financial statements.

AFFORDABLE HOUSING FINANCE PLC**STATEMENT OF FINANCIAL POSITION
As at 31 March 2022**

ASSETS	Note	2022 £000	2021 £000
Non-current assets			
Loans to borrowers	10	3,386,699	3,392,208
Current assets			
Other receivables	11	24,232	23,922
Cash and cash equivalents		6,960	6,769
TOTAL ASSETS		3,417,891	3,422,899
EQUITY AND LIABILITIES			
Non-Current liabilities			
Financial liabilities – Guaranteed Secured Bonds and bank borrowings	12	3,386,699	3,392,208
Current liabilities			
Other payables	13	23,944	23,615
Current tax liabilities		27	79
TOTAL LIABILITIES		3,410,670	3,415,902
EQUITY			
Share capital	14	13	13
Retained earnings	15	7,208	6,984
TOTAL EQUITY		7,221	6,997
TOTAL EQUITY AND LIABILITIES		3,417,891	3,422,899

Approved and authorised for issue by the Board of Directors on 5 August 2022 and signed on its behalf by:



Fenella Edge
Director

Affordable Housing Finance Plc

Registration Number 0843461

The notes on pages 23-39 form an integral part of these financial statements.

AFFORDABLE HOUSING FINANCE PLC

STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2022

	Share capital	Retained earnings	Total equity
	£000	£000	£000
Balance as at 1 April 2021	13	6,984	6,997
Profit for period	-	224	224
Balance as at 31 March 2022	13	7,208	7,221
Balance as at 1 April 2020	13	6,569	6,582
Profit for period	-	415	415
Balance as at 31 March 2021	13	6,984	6,997

The notes on pages 23-39 form an integral part of these financial statements.

AFFORDABLE HOUSING FINANCE PLC**STATEMENT OF CASH FLOWS**

Year ended 31 March 2022

		2022	2021
	Note	£000	£000
NET CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations as per reconciliation of profit to net cash generated from operations	17	191	110
<i>Adjustments for:</i>			
Interest paid on borrowings		(83,328)	(83,716)
Interest received on loans		83,328	83,716
NET CASH GENERATED FROM OPERATING ACTIVITIES		<u>191</u>	<u>110</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS IN THE PERIOD		191	110
CASH AND CASH EQUIVALENTS AT 1 APRIL		6,769	6,659
CASH AND CASH EQUIVALENTS AT 31 MARCH		<u><u>6,960</u></u>	<u><u>6,769</u></u>

The notes on pages 23-39 form an integral part of these financial statements.

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2022

1. ACCOUNTING POLICIES

a) Significant accounting policies

The accounting policies applied in the preparation of the financial statements of Affordable Housing Finance Plc (the “Company”) are described in this note. These policies have been applied consistently in all the years presented unless otherwise stated. The Company is a wholly owned subsidiary of T.H.F.C. (Services) Limited, (the “Immediate Parent Company”). The group into which the Company is consolidated, and the ultimate parent undertaking is The Housing Finance Corporation Limited (“THFC”).

Presentational currency

The Company’s financial statements are presented in pound sterling, which is also the Company’s functional currency with no transactions in foreign currency.

Basis of preparation

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements have been prepared under the historical cost convention.

Critical accounting judgements, estimates and assumptions

Preparation of these financial statements requires management to apply judgement, make estimates and assumptions that affect reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Such estimates and assumptions are based on the best available information and are regularly reassessed.

The Directors have concluded that no impairment provision is required in relation to its loans to borrowers in accordance with IFRS 9. See *Expected credit loss provision* below.

Going Concern

The Company continues to adopt the going concern basis, as disclosed in the Directors’ Report on page 12. As noted in the Principal Activity section within the Strategic Report, the payment obligations of both the Company and borrowers are guaranteed by the Secretary of State for the Ministry of Housing, Communities and Local Government (“MHCLG”). At the date of signing the accounts there is no evidence to suggest that the Company or any borrower will be unable to meet its covenants in the foreseeable future. Having reviewed its own financial position and that of the borrowers upon which it is dependent, the Board has a reasonable expectation that the Company has adequate resources to continue in operation for the foreseeable future being a period of no less than 12 months from approval of these financial statements. The Company therefore continues to adopt the going concern basis in preparing the financial statements.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument and are initially measured at fair value but may be subsequently amortised if held at amortised cost. 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. 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 fair value through profit or loss (“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 incurs and recovers substantially all transaction costs, so they do not form part of the fair value at recognition.

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2022

ACCOUNTING POLICIES (continued)

For further disclosure on fair values, see note 2: *Financial instruments – risk management & fair value hierarchy*.

Debt instruments at amortised cost

A debt instrument is measured at amortised cost if it meets the following conditions:

- It is held within a business model that has an objective to hold financial assets to collect contractual cash flow; and
- The contractual terms of the financial asset result in cash flows that are solely payments of principal and interest on the principal amount outstanding (“SPPI”).

Refer to notes 10: *loans to borrowers* and 12: *financial liabilities – secured notes*

Expected credit loss provision

Debt instruments measured at amortised cost are assessed for their expected credit loss (“ECL”) in the 12 months after the reporting date. ECL is the probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of a financial instrument. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. ECL recognises the shortfall of cash flows that would result if default occurred within 12 months of the reporting date, weighted by the risk of that default occurring.

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 2: *Financial instruments – Risk management & fair value hierarchy*.

Loans to borrowers

Loans to borrowers represent monies lent to non-profit United Kingdom (“U.K”) Registered Providers of Social Housing (housing associations, or “HAs”) under loan agreements and held at amortised cost. 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 which may include redemption of bonds or purchase and cancellation of bonds by the Company. The terms of the Trust Deed provide that a HA borrower shall be entitled to purchase an amount of notes 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.

Cash and cash equivalents

Cash and cash equivalents comprise balances with an original maturity of three months or less, including cash and money market products.

Other receivables

Other receivables are amounts due to the Company in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. They are recognized initially at fair value and subsequently measured at amortised cost.

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2022

ACCOUNTING POLICIES (continued)

Other payables

Other payables are obligations to pay for services that have been acquired in the ordinary course of business. These are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. They are recognised initially at fair value and subsequently measured at amortised cost.

Corporate taxation

Corporation taxation payable on profits is recognised as an expense based on the applicable tax laws in the period in which profits arise.

Interest

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

Fees and premium receivable

This comprises arrangement fees receivable on completion of loan transactions, annual fees (for the ongoing service provided to borrowers) and premium receivable on completion of loan prepayment transactions.

Fees are measured at the transaction price received or receivable, net of discounts, VAT and other sales related taxes. They are recognised over the period the performance obligation is satisfied, which is expected to be less than one year, so there is no adjustment for a financing component.

Arrangement fees and premium receivable are recognised on the completion of the transaction with the borrower. Annual fees are recognised over the period in which the services are provided.

Equity

Equity instruments issued by the company are recorded at the proceeds received net of direct issue costs.

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.

Operating expenses

Operating expenses relate to the on-going operating costs of the Company and are recognised in the period in which the services are provided.

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2022

ACCOUNTING POLICIES (continued)

b) New and amended Standards and Interpretations adopted by the Company

The following new and amended Standards and Interpretations are effective for periods beginning on or after 1 January 2021, but were adopted early by the Company in the prior year:

- Amendments to IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7: Financial Instruments Disclosures. Following the amendments issued as part of Phase 1, the changes in the final phase that are likely to be applicable to the Company relate to:
 - Changes to contractual cash flows whereby a company will not be required to derecognise or change the carrying amount of financial instruments for changes required by the reform. Companies will however be required to adjust the effective interest rate to reflect a change to the alternative benchmark.
 - Disclosures – requirements to disclose information about new risks arising from the interest rate benchmark reform and how the Company has managed transition to alternative benchmark rates.

The adoption of these amendments 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.

c) New and amended Standards and Interpretations mandatory for the first time for the financial year beginning 1 January 2021 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.

d) New and amended Standards and Interpretations issued but not mandatory and not yet UK endorsed so not yet available for early adoption

- Annual Improvements: IFRS 2018–2020 cycle. These amendments form part of the IASB's annual improvement process, which is designed to make necessary, but not urgent, amendments to IFRSs. The amendments that are likely to be applicable to the Company are:
 - IFRS 9 Financial Instruments – Clarifies which fees should be included in the '10 per cent' test on substantial modification of financial liabilities i.e., only those exchanged between the borrower and lender directly.

ACCOUNTING POLICIES (continued)

The amendments to IFRS 9 are effective for annual periods beginning on or after 1 January 2022, with early application permitted in the EU. Early application for use in the UK will be permitted once endorsed. The amendments to IFRS 16 relate to an illustrative example and so no effective date is stated.

- IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies. This amendment applies the concept of materiality to the disclosure of accounting policies. Consequently, all instances of “significant accounting policies” within IAS 1 Presentation of financial statements has been replaced with “material accounting policy information”. Information in an accounting policy is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make based on those financial statements. Immaterial accounting policies can still be presented if these do not obscure material accounting policy information. The amendments to IFRS Practice Statement 2 provide guidance and examples to determine when an accounting policy is material to the financial statements. The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted upon endorsement. They are applied prospectively. As the guidance per IFRS Practice Statement 2 is not mandatory, no effective date is issued.
- Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a single transaction. In certain instances, such as the initial recognition of a lease or a decommissioning provision, IFRS requires simultaneous recognition of an asset and liability and consequently, there may be also offsetting temporary differences. Prior to this amendment, IAS 12 Income taxes was unclear around whether deferred tax was also required to be recognised on these temporary differences or whether the initial recognition exemption applied. The initial recognition exemption prohibits an entity from recognising a deferred tax asset or liability on initial recognition of an asset or liability in a transaction that is not a business combination and neither affects profit or loss. The amendments issued provides an exception to the initial recognition exemption where transactions give rise to equal taxable and deductible temporary differences and will therefore require careful consideration whether such temporary differences exist. The amendment is effective for periods beginning on or after 1 January 2023, with early application permitted upon endorsement.
- Amendments to IAS 8: Definition of Accounting Estimates. The IASB issued Definitions of Accounting Estimates (Amendments to IAS 8) in February 2021. The changes focus on the distinction between accounting estimates and accounting policies, and make the following key clarifications:
 - The definition of a change in accounting estimate has been deleted and replaced with a definition of an accounting estimate, which includes “monetary amounts in the financial statements which are subject to measurement uncertainty”.
 - A change in accounting estimate that results from new information or new developments is not a correction of error.
 - The impact from a change in input or measurement technique used to determine an accounting estimate is a change in an accounting estimate if it does not result from the correction of a prior period error.
 - A change in an accounting estimate may only affect the current period profit or loss, or the current and future profit and loss.

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2022

ACCOUNTING POLICIES (continued)

The amendment is effective for financial periods beginning on or after 1 January 2023 to changes in accounting policies and estimates that occur after the start of that period. Earlier adoption is permitted upon endorsement.

- Amendments to IAS 1: Classification of Liabilities as Current or Non-current. The proposed amendments are designed to improve presentation in financial statements by clarifying the criteria for the classification of a liability as either current or non-current. The proposed amendments do this by:
 - Clarifying that the classification of a liability as either current or non-current is based on the entity's rights at the end of the reporting period rather than requiring an unconditional right to defer settlement; and
 - Making clear the link between the settlement of the liability and the outflow of resources from the entity.

The effective date is for periods beginning on or after 1 January 2023. There is a proposal to defer the effective date until not earlier than 1 January 2024, which is subject to IASB approval.

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.

2. FINANCIAL INSTRUMENTS - RISK MANAGEMENT & FAIR VALUE HIERARCHY

RISK MANAGEMENT

The Company's operations and significant debt financing expose it to a variety of potential financial risks including interest rate, credit, liquidity, fair value and market price risk. These risks, and the means by which they are monitored and controlled, have not changed significantly since the previous period.

As set out in the Licence, the Secretary of State for the Ministry of Housing, Communities and Local Government ("MHCLG") unconditionally and irrevocably guarantees the payment obligations of the Company in respect of debt raised under the Affordable Housing Guarantee Scheme, ("AHGS"). It also guarantees the payment obligations of each approved borrower to the Company pursuant to their respective loan agreements.

The form of the AHGS insulates the Company from any potential exposure to credit and liquidity risk arising from the debt portfolio. Under the terms of the Licence, the Company 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 AHGS.

All borrowers are subject to external regulation by the by the Regulator of Social Housing in the relevant jurisdiction.

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2022

FINANCIAL INSTRUMENTS - RISK MANAGEMENT & FAIR VALUE HIERARCHY (continued)

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 2022 (2021: 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 and security arrangements

In addition to the Guarantee, the Company 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 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 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 the Company, 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 on 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.

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2022

FINANCIAL INSTRUMENTS - RISK MANAGEMENT & FAIR VALUE HIERARCHY (continued)

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.

Operational Risk

Operational risk is the risk of losses caused by flawed or failed processes, policies, systems or events that disrupt business operations.

Whilst operational risk cannot be entirely eliminated, the Company leverages the documented internal controls policy of THFC that is designed to prevent operational risk incidents having a material adverse impact on normal business operations. This policy is reviewed by THFC's internal auditors on a three-year cycle and has been rated as sufficient. The Company also has the ability to operate entirely as a remote business as was demonstrated during the pandemic of 2020/21. It also has a robust business continuity plan which is tested periodically.

FAIR VALUE HIERARCHY

The fair value of a financial instrument is the amount for which 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.

Level 1 - Quoted market prices

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.

Level 2 - Valuation technique using observable inputs

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.

Level 3 - Valuation technique using significant unobservable inputs

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 (2021: None).

The Company's 3.80% & 2.893% Secured Bonds are tradable. The market for the Company's 3.80% & 2.893% Secured Bonds is 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).

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2022

**FINANCIAL INSTRUMENTS - RISK MANAGEMENT & FAIR VALUE HIERARCHY
(continued)**

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

The Company's 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% Secured Bonds the fair value of the associated fixed rate loans to borrowers is similarly adjusted for appropriate credit spreads (Level 2 valuation).

In respect of the 2.893% Secured Bonds the fair value of the associated fixed rate loans to borrowers is based on the quoted price provided by the active market (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.

	2022		2021	
	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	3,386,699		3,392,208	
Current	5,509		5,380	
Total	3,392,208	3,963,123	3,397,588	4,165,746
Interest receivable	16,777	16,777	16,630	16,630
Other receivables	1,946	1,946	1,912	1,912
Total financial assets	3,410,931	3,981,846	3,416,130	4,184,288
Financial liabilities:				
<i>Classified as Financial Liabilities at Amortised Cost</i>				
Secured Bonds				
Non-current	3,386,699		3,392,208	
Current	5,509		5,380	
Total	3,392,208	3,963,123	3,397,588	4,165,746
Interest payable	16,777	16,777	16,630	16,630
Other payables and accruals	1,658	1,658	1605	1605
Total financial liabilities	3,410,643	3,981,558	3,415,823	4,183,981

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2022

3. INTEREST RECEIVABLE

	2022 £000	2021 £000
On Loans to borrowers	83,476	83,391
Amortisation of net premium	<u>(5,380)</u>	<u>(5,246)</u>
	<u>78,096</u>	<u>78,145</u>

4. INTEREST PAYABLE

	2022 £000	2021 £000
On Guaranteed Secured Bonds and bank loans	83,476	83,391
Amortisation of net premium	<u>(5,380)</u>	<u>(5,246)</u>
	<u>78,096</u>	<u>78,145</u>

5. OPERATING EXPENSES

Operating expenses comprise directors' fees, professional fees and fees payable to the Immediate Parent Company under the terms of the management services agreement ("MSA").

6. PROFIT BEFORE TAXATION

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

	2022 £000	2021 £000
Fees paid to the Company's auditor for: Annual audit of financial statements – current period	 43	 38
	<u>43</u>	<u>38</u>

7. EMPLOYEES

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

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2022

8. DIRECTORS' REMUNERATION

	2022 £000	2021 £000
Non-executive directors:	<u>187</u>	<u>189</u>

The fees of the Chair were £25,552 (2021: £25,376). Each other non-executive director earned fees of £16,864 per annum (2021: £16,748). All directors' fees were borne by the Company except for the three executive directors who are employed and paid by the Immediate Parent Company. A proportion of executive directors' fees are recharged to the Company by the Immediate Parent Company in line with the MSA.

Fees of £25,296 (2021: £33,496) in respect of two (2021: two) non-executive directors were paid to those directors' employers.

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

9. TAXATION

	2022 £000	2021 £000
UK Corporation tax at 19% (2021: 19%)	<u>53</u>	<u>97</u>

The effective tax rate for the period of 19% (2021: 19%) is the same as the standard rate of corporation tax.

10. LOANS TO BORROWERS

	2022 £000	2021 £000
Nominal amount in issue at beginning of year	3,244,100	3,244,100
Unamortised premium at beginning of year	<u>153,488</u>	<u>158,734</u>
	<u>3,397,588</u>	<u>3,402,834</u>
Premium amortised for the year	<u>(5,380)</u>	<u>(5,246)</u>
Amortised cost at end of year	3,392,208	3,397,588
Premium due within one year	(5,509)	(5,380)
Non-current amortised cost	<u>3,386,699</u>	<u>3,392,208</u>

Details of the security held are set out in note 2: *Financial instruments – Risk management & fair value hierarchy*.

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2022

11. OTHER RECEIVABLES

	2022	2021
	£000	£000
Net premium on loans due within one year	5,509	5,380
Interest receivable	16,777	16,630
Other receivables	1,946	1,912
	<u>24,232</u>	<u>23,922</u>

12. FINANCIAL LIABILITIES

	2022	2021
	£000	£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	44,586	46,071
	<u>645,486</u>	<u>646,971</u>
Premium amortised in year	(1,531)	(1,485)
Amortised cost at end of year	<u>643,955</u>	<u>645,486</u>
Less: premium due within one year	(1,578)	(1,531)
Amount due after more than one year	<u>642,377</u>	<u>643,955</u>
2.893% Guaranteed Secured Bonds 2043/45		
Nominal amount in issue at beginning of year	1,143,200	1,143,200
Unamortised premium at beginning of year	108,902	112,663
	<u>1,252,102</u>	<u>1,255,863</u>
Premium amortised in year	(3,849)	(3,761)
Amortised cost at end of year	<u>1,248,253</u>	<u>1,252,102</u>
Less: premium due within one year	(3,931)	(3,849)
Amount due after more than one year	<u>1,244,322</u>	<u>1,248,253</u>
Bank borrowings		
At beginning of year	1,500,000	1,500,000
At end of year	1,500,000	1,500,000
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>3,386,699</u>	<u>3,392,208</u>

Details of the security held are set out in note 2: *Financial instruments – Risk management & fair value hierarchy*.

AFFORDABLE HOUSING FINANCE PLC**NOTES TO THE FINANCIAL STATEMENTS**

Year ended 31 March 2022

FINANCIAL LIABILITIES (Continued)

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
06 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
	<u>600,900,000</u>	<u>-</u>	<u>600,900,000</u>	<u>53,433,930</u>

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2022

FINANCIAL LIABILITIES (Continued)

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
02 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
04 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
04 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
	<u>1,143,200,000</u>	<u>-</u>	<u>1,143,200,000</u>	<u>125,520,062</u>

The interest rates on the bank borrowings are both fixed and floating and the rates are between the range 0.18288% and 3.8% (2021: 0.18288% and 3.8%).

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2022

13. OTHER PAYABLES

	2022	2021
	£000	£000
Net premium on Secured Bonds due within one year	5,509	5,380
Interest payable	16,777	16,630
Intra-Group payables	1,571	1,523
Other taxation and social securities	14	14
Other payables	73	68
	<u>23,944</u>	<u>23,615</u>

14. SHARE CAPITAL

	2022	2021
	£000	£000
<i>Allotted, called up and quarter paid</i>		
50,000 (2021: 50,000) ordinary shares of £1 each	<u>13</u>	<u>13</u>

The Company's capital comprises only its share capital and retained earnings which the Directors consider adequate for its ongoing working capital requirements. The Company is not subject to externally imposed capital requirements.

15. RESERVES

Retained earnings

This reserve relates to the cumulative profits and losses of the Company less dividends paid.

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2022

16. CONTRACTUAL CASH FLOWS

The table below summarises the cash flows payable by the Company from 31 March 2022 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 2022 remain unchanged until the contract maturity.

2022	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 2022 £000
Principal	-	-	48,780	3,195,320	3,244,100
Interest	84,312	84,283	252,168	1,174,482	1,595,245
Total	84,312	84,283	300,948	4,369,802	4,839,345

2021	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 2021 £000
Principal	-	-	17,555	3,226,545	3,244,100
Interest	83,312	83,311	249,838	1,248,299	1,664,760
Total	83,312	83,311	267,393	4,474,844	4,908,860

17. RECONCILIATION OF PROFIT TO NET CASH GENERATED FROM OPERATIONS

	2022 £000	2021 £000
Profit before taxation	277	512
Adjustments for:		
Interest receivable	(78,096)	(78,145)
Interest payable	78,096	78,145
Change in working capital:		
Increase in receivables	(34)	(300)
Increase/ (decrease) in payables	52	(41)
Tax paid	(104)	(61)
Cash generated from operations	191	110

AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2022

18. RELATED PARTY TRANSACTIONS

All administrative services are provided to the Company by the Immediate Parent Company, under a management services agreement.

Management fees payable to the Immediate Parent Company during the period amounted to £2,949,474 (2021: £2,820,953) and the amount due as at 31 March 2022 was £1,545,152 (2021: £1,498,136). The amount due to THFC as at 31 March 2022 was £24,600 (2021: £24,600).

During the year the directors of the Immediate Parent Company were also directors of the Company. The executive directors are employees of and paid by the Immediate Parent Company.

19. 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 a registered society incorporated 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, 3rd floor, 17 St. Swithin's Lane, London, EC4N 8AL, the Company's registered office.

20. SINKING FUNDS AND LIQUIDITY RESERVE FUNDS

Under certain circumstances, an element of the security for loans made to HAs can be cash. In those circumstances, the Company holds the cash security as trustee on behalf of the HA 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, the Company (as lender) and the Company (as Trustee).

Cash flows relating to sinking funds and liquidity reserve funds are processed separately from the Company's own funds and invested only as directed by the borrower. Funds held by the Company as Trustee at 31 March 2022 amounted to £96.9m (2021: £96.2m).