AFFORDABLE HOUSING FINANCE PLC

Annual Report

For the year ended 31 March 2020

Companies House Number: 08434613

AFFORDABLE HOUSING FINANCE PLC

Annual Report and Financial Statements for the year ended 31 March 2020

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Directors

George Blunden
Scott Bottles
Colin Burke
Isabella Connell
Fenella Edge
Keith Exford CBE
Peter Impey
Anthony King (appointed 17 March 2020)
David Montague (appointed 17 March 2020)
John Parker (resigned 30 July 2019)
Gill Payne
Ian Peacock (resigned 30 July 2019)
Will Perry
Deborah Shackleton CBE
Shirley Smith
Guy Thomas (appointed 14 May 2019)
Piers Williamson

Company Secretary

Colin Burke

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

Chairman's Statement 2020

The year under review will most likely be remembered for two over-riding externalities: the vote to exit the European Union and, towards the end of the year, the coronavirus pandemic and the subsequent descent into lockdown. It is in this context that we are pleased to be able to report that Affordable Housing Finance Plc (AHF) has continued to operate very much on a business as usual basis.

Results

Having completed all origination under the guarantee scheme AHF now continues to efficiently manage its £3.2bn 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 with T.H.F.C (Services) Limited (its sole shareholder) and a small amount of investment income. On this basis the company achieved a profit after tax for the year of £257,000 (2019: £233,000). This income stream will continue to grow in line with inflation throughout the life of the loans.

Coronavirus Pandemic

The ongoing coronavirus outbreak was declared a pandemic on 11 March, and the UK was put into lockdown on 23 March to attempt to limit its spread. We are able to report that shortly before the end of the financial year all staff of our service provider were working remotely with no dilution in either our service offering or the checks and controls that are an essential part of any finance business.

The government guidance remains that staff should continue to work from home if they can. Whilst we envisage this arrangement continuing for some time to come, given our office location in the City of London, we have already conducted a full return to work risk assessment, and are ready to undertake a phased return to the office as soon as government guidance indicates that this is advisable, and management are happy that this can be undertaken safely

Given the timing of lockdown, the full extent of the impact on housing associations' cash flows will not be evident until, at the earliest, the release of June quarter's management accounts which are typically released to us in August.

Exiting the European Union

For much of the financial year there was unprecedented political uncertainty in the UK as to the nature of the UK's potential exit from the EU. This translated into a number of impacts on housing associations, particularly those with large development programmes. Early on, there were signs of a slowdown in demand for homes built for sale (albeit demand for shared ownership appeared to hold up outside London). However, there are early signs of the market, particularly for affordable home ownership, reviving and housing associations have been conservative in mitigating any slowdown in sales activity with available committed credit and cash balances.

AHGS 2020

As the existing provider of £3.2bn of long-term guaranteed financing through AHF, T.H.F.C. (Services) Limited (AHF's holding company), submitted a strong and competitive bid to the Ministry of Housing, Communities and Local Government for the Affordable Homes Guarantee Scheme (2020). We believed we were ideally placed to deliver the new scheme and whilst shortlisted, we were ultimately unsuccessful in being selected as the preferred partner.

Staff and Board

We would like to place on record our gratitude to the entire team for the flexibility and dedication they have shown, enabling us to collectively transition into home working during Covid-19 lockdown. It has proved our contingency planning has been effective and that our control mechanisms are robust. We anticipate that it may take the majority of the current financial year to return to any semblance of normal office-based working, whilst recognising that the safety and well-being of our staff is paramount.

This year marks the conclusion of the 'changing of the guard' amongst our non-executive director team. In July Keith Exford CBE and Deborah Shackleton CBE complete their nine-year terms on the Group and subsidiary boards. Each previously led two of the largest, most influential housing associations in the country and have given us the benefit of their considerable knowledge throughout their tenure as non-executive directors. Their wise counsel will be missed. However, we have been fortunate to recruit two worthy successors in David Montague CBE, Chief Executive of L&Q and Tony King, recently retired Group Treasurer of Sanctuary Group. We welcome them to THFC at another really important juncture for the Group.

George Blunden
Chairman
28 July 2020

DIRECTORS' REPORT
Year ended 31 March 2020

The directors submit their Directors' report, Strategic report and audited financial statements for the year ended 31 March 2020.

RESULTS AND DIVIDEND

Affordable Housing Finance Plc (the "company") made a profit after tax for the year ended 2020 of £257,000 (2019: £233,000).

The company issued or raised £3.2bn of debt under the terms of its Licence with the Secretary of State for MHCLG. All issuance is now complete but the company continues to earn an annual fee from the portfolio equivalent to 10 basis points of the nominal value of the loans plus an annual adjustment in line with the Consumer Prices Index. The fee is used to cover all operating costs of the business and to generate a small profit.

Total annual fee income in the year was £3,496,000 which, after costs, generated a profit before tax for the year of £317,000.

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
Scott Bottles
Colin Burke (executive director)
Isabella Connell
Fenella Edge (executive director)
Keith Exford CBE
Peter Impey
Anthony King (appointed 17 March 2020)
David Montague (appointed 17 March 2020)
John Parker (resigned 30 July 2019)
Gill Payne
Ian Peacock (resigned 30 July 2019)
Will Perry
Deborah Shackleton CBE

Shirley Smith
Guy Thomas (appointed 14 May 2019)
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.

Board

The Board comprises up to a maximum of fifteen directors (this is temporarily increased on occasions with MHCLG permission). 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 Keith Exford up until 28 July 2020 when he steps down from the board. The new Senior Non-Executive director from 28 July 2020 is Shirley Smith.

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 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 Guy Thomas.

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

Credit Committee

The Credit Committee is a committee of the Board. It comprises a minimum of 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, George Blunden, Tony King, Gill Payne, 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 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.

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.

Energy and carbon reporting

In line with the Streamlined Energy and Carbon requirements, the company is required to report on it's energy use. The company shares it's premises with other members of the THFC Group and this information is presented at a Group level within the Ultimate Parent's consolidated financial statements. A copy of these financial statements can be obtained at www.thfcorp.com.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- 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
Director
28 July 2020

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 forseeable 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.

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 (2019: £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 14. The total value of guaranteed secured bonds in issue at 31 March 2020 was £1,744.1m (2019: £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
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
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
Mosscare 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 Limted
Octavia Housing
Optivo
Orbit South Housing Association Limited
Orwell Housing Association Limited
Paradigm Homes Charitable Housing Association Limited
Peabody Trust
Pickering and Ferens Homes
Platform Housing Group (formerly Fortis Living Limited)
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 Limted
Wandle Housing Association Limited
Watford Community Housing Trust
Westward Housing Group Limted
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.

The Coronavirus pandemic is affecting all businesses nationwide to some degree, many with immediate and severe ramifications.

The company's key concern is that its borrowers are able to continue to satisfy their obligations under their respective loan agreements. There are a number of key areas where the pandemic could potentially affect the cash flows of borrowers and impact their ability to service debt with the principal one being the ability of tenants to continue to pay rent.

The company has assessed the likely impact of the coronavirus pandemic on its business operations and finances (see note 2) and concluded that this will not have a material impact on going concern.

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 4.

SECTION 172(1) STATEMENT

Long-term consequences of decisions made

The board's objective is to promote steady, sustainable growth in order to have a long-term beneficial impact on the company and the wider affordable housing sector through the delivery of cost-effective funding to UK housing associations.

The long term tenor and secured nature of the loans made 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 funders as detailed in the relevant transaction documents.

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 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 whist 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.

As outlined in the directors report all obligations of the company's and its borrowers are subject to a sovereign guarantee.

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 4 to the financial statements.

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 AHF by T.H.F.C. (Services) Limited (THFCS), a fellow subsidiary, in accordance with a corporate services agreement.

The health and safety of board members is of paramount importance particularly in the current pandemic. Accordingly all necessary measures have been taken in accordance with government guidance to ensure their safety and well-being. The board has ensured that THFCS has undertaken the necessary risk assessment and implemented appropriate measures for a potential return to the London based office when official guidance permits.

Fostering business relationships

The board is aware of the need to foster on-going business relationships to ensure the success of the business

The board ensures that THFCS, the service provider, has the appropriate skill set amongst employees to allow for an operational structure that incorporates 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)) and Secretarial who manage compliance obligations with various stakeholders.

The board maintains close relationships with the Ministry of Housing, Communities and Local Government (MHCLG), provider of the sovereign guarantee, through representation on the board and regular meetings and provision of reports on the health of the portfolio.

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

Impact of operations on community and environment

The board makes every effort to minimise its carbon footprint, aided by the move to new premises in 2019. Staff of the service provider are encouraged to cycle for all or part of their commute to the office and effective recycling policies have been implemented to minimise office waste.

In delivering cost-effective funding to housing associations we aim to boost the number and quality of affordable housing for the benefit of tenants and communities throughout the UK. AHF 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.

The board ensures the service provider's employees are aware of the changing landscape of regulation and best practice, whether environmental or social in nature. Every effort is made to consider the environmental impact of decisions taken, although due to the nature of its activities the company's direct environmental impact is limited.

Maintaining reputation for high standards of business conduct

The board operates the business responsibly and in line with the 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. High levels of integrity are key in the success of our business and delivery of our objectives. See the governance statement on page 4.

Acting fairly between members of the company

As a board of directors, we have a responsibility to act fairly between members of the company. The entire issued share capital of AHF is held by T.H.F.C. (Services) Limited. THFCS and AHF have a common board with the exception of one MHCLG nominee on the board of AHF. Each director of the holding 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 and signed on its behalf by:

Colin Burke
Director
28 July 2020

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AFFORDABLE HOUSING FINANCE PLC
Year ended 31 March 2020

Opinion

We have audited the financial statements of Affordable Housing Finance Plc (the "company") for the year ended 31 March 2020 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 2020 and of its profit 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.

Emphasis of matter – impact of COVID-19

We draw attention to note 2 of the financial statements, which describes the impact of COVID-19 on the company. Our opinion is not modified in respect of this matter.

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.

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 page 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.

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

29 July 2020

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 March 2020

		2020	2019
OPERATING INCOME	**Note**	**£000**	£000
Interest receivable	5	**79,595**	79,046
Fees receivable and other income	2	**3,555**	3,591
		83,150	82,637
OPERATING EXPENDITURE			
Interest payable	6	**79,595**	79,046
Operating expenses	7	**3,238**	3,303
		82,833	82,349
PROFIT BEFORE TAXATION	8	**317**	288
Taxation	11	**(60)**	(55)
Profit after taxation		**257**	233
Other comprehensive income		**-**	-
TOTAL COMPREHENSIVE INCOME		**257**	233

STATEMENT OF FINANCIAL POSITION
As at 31 March 2020

ASSETS	Note	2020 £000	2019 £000
Non-current assets			
Loans to borrowers	12	**3,397,588**	3,402,834
Current assets			
Other receivables	13	**23,812**	23,527
Cash and cash equivalents		**6,659**	5,984
TOTAL ASSETS		**3,428,059**	3,432,345
EQUITY AND LIABILITIES			
Non-Current liabilities			
Financial liabilities – Guaranteed Secured Bonds and bank borrowings	14	**3,397,588**	3,402,834
Current liabilities			
Other payables	15	**23,847**	23,156
Current tax liabilities		**42**	30
TOTAL LIABILITIES		**3,421,477**	3,426,020
EQUITY			
Share capital	16	**13**	13
Retained earnings	17	**6,569**	6,312
TOTAL EQUITY		**6,582**	6,325
TOTAL EQUITY AND LIABILITIES		**3,428,059**	3,432,325

The accompanying notes on pages 22-39 are an integral part of these financial statements.

These financial statements on pages 18-39 were approved by the board and signed on its behalf by:

Fenella Edge
Director
28 July 2020

Affordable Housing Finance Plc — Registration Number 08434613

STATEMENT OF CHANGES IN EQUITY
Year ended 31 March 2020

	Share capital	Retained earnings	Total equity
	£000	£000	£000
Balance as at 1 April 2019	13	6,312	6,325
Profit for period	-	257	257
Balance as at 31 March 2020	**13**	**6,569**	**6,582**
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**

STATEMENT OF CASH FLOWS
Year ended 31 March 2020

NET CASH FLOW FROM OPERATING ACTIVITIES	Note	2020 £000	2019 £000
Cash generated / (used in) from operations	19	**675**	(1,448)
Interest paid on borrowings		**(84,592)**	(83,846)
Interest received on loans		**84,592**	83,846
NET CASH GENERATED FROM / (USED IN) OPERATING ACTIVITIES		**675**	(1,448)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS IN THE PERIOD		**675**	(1,448)
CASH AND CASH EQUIVALENTS AT 1 APRIL		**5,984**	7,432
CASH AND CASH EQUIVALENTS AT 31 MARCH		**6,659**	5,984

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.

Going Concern

Given the uncertainties around Covid-19, the company has assessed the likely impact of the coronavirus pandemic on its business operations and finances.

The company has raised bank loans and issued secured bonds and used the proceeds to make loans to registered providers of social housing in accordance with the Licence between the company and the Secretary of State for the Ministry of Housing Communities and Local Government (MHCLG). As set out in the Licence MHCLG guarantees the payment obligations of the company in respect of debt raised and also guarantees the payment obligations of each Approved Borrower to the company pursuant to their respective Loan Agreements.

The company has concluded therefore that going concern is unaffected by the risks presented by the pandemic in relation to its loan book.

Nevertheless the company continues to monitor the potential impact the pandemic may have on its borrowers' viability and the mitigants that are place which include government measures to support tenant incomes, the high proportion of tenant rental income payable by housing benefit and the strong liquidity position of the sector in general.

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.

In accordance with the terms of a corporate services agreement, all operations of the company are provided by T.H.F.C. (Services) Limited (THFCS) a fellow subsidiary entity. The operations of THFCS have transitioned smoothly to remote working during the pandemic and there has been no interruption to operations nor prospect of any such interruption which could affect the business.

As such, the Board has a reasonable expectation that the company has adequate resources to continue in operation for the foreseeable future. The company therefore continues 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:

- Amendments to IFRS 9. Prepayment Features with Negative Compensation (Effective: 1 January 2019): These amendments to IFRS 9 Financial Instruments are designed to enable, if certain conditions are met, companies to measure at amortised cost certain prepayable financial assets with so-called negative compensation and also clarifies the accounting for non-substantial modifications of financial liabilities should follow the same process as financial assets in similar circumstances.

The adoption of this amendment has not had a material impact on the reported results or the financial position of the company and has not given rise to any additional disclosure requirements.

(b) New and amended Standards and Interpretations mandatory for the first time for the financial year beginning 1 April 2019 but not currently relevant to the company

- 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.

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 2019

- Amendments to IAS 1 and IAS 8: Definition of Material. Effective for periods beginning on or after 1 January 2020. The amendments to both IAS 1 and IAS 8 refine the definition of 'material' and clarify its application. The amendments improve understanding of the existing requirements, but because they are based on existing guidance, they do not significantly affect how materiality judgements are made in practice or significantly affect entities' financial statements.
- Conceptual Framework for Financial Reporting. Effective for periods beginning on or after 1 January 2020. The amendments build upon the existing Conceptual Framework to provide a comprehensive set of concepts for financial reporting. There have been new concepts added for measurement, presentation and disclosure and derecognition. Updated concepts for definitions and recognition and clarifications to concepts for stewardship, measurement uncertainty, substance over form and the return of a clarified concept of prudence.
- Amendments to IAS 1: Classification of Liabilities as Current or Non-current. Effective for periods beginning on or after 1 January 2022 (expected to be delayed to 2023 and not yet endorsed by EU). The amendments aim to promote consistency in presentation of liabilities with an uncertain settlement date as current or non-current and classification for liabilities which may

be settled by the issue of equity. Due to the potential impact on bank covenants a long lead time to application date has been given for this amendment.

- Narrow scope amendments in May 2020. Effective for periods beginning on or after 1 January 2022 (not yet endorsed by EU). These narrow scope amendments cover the following areas:
    - IAS 37 Provisions, contingent liabilities and contingent assets: Clarifies which costs to consider when determining whether an asset is loss making;
    - IFRS 9 Financial instruments: clarification of the 10% test when modifying a debt instrument.

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.

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.

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); or
- fair value through other comprehensive income (FVOCI); or
- 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
- 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. 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.

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.

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 4.

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.

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 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).

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 (2019: None).

The company's 3.80% & 2.893% Secured Bonds are tradable. The market for the company's 3.80% Secured Bonds 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 market for the 2.893% Secured Bonds are considered active. Accordingly the quoted active price has been used (Level 1 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.

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.

3. CRITICAL ACCOUNT JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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:

Critical accounting judgement

Impairment of loans to borrowers (note 12)

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.

4. 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 2020 (2019: 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.

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.

5. INTEREST RECEIVABLE

	2020	2019
	£000	£000
On Loans to borrowers	**84,736**	84,058
Amortisation of net premium	**(5,141)**	(5,012)
	79,595	79,046

6. INTEREST PAYABLE

	2020 £000	2019 £000
On Guaranteed Secured Bonds and bank loans	**84,736**	84,058
Amortisation of net premium	**(5,141)**	(5,012)
	79,595	79,046

7. 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.

8. 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:

	2020 £000	2019 £000
Fees paid to auditors for:		
Annual audit of financial statements – current period	**31**	32

9. EMPLOYEES

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

10. DIRECTORS REMUNERATION

	2020 £000	2019 £000
Non-executive directors:	**183**	143

The fees of the Chairman were £22,412 (2019: £19,084). Each other non-executive director earned fees of £16,500 per annum (2019: between £13,220 and £13,650). 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 £39,875 (2019: £39,660) 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.

11. TAXATION

	2020 £000	2019 £000
UK Corporation tax at 19% (2019: 19%)	**60**	55

The effective tax rate for the period of 19% (2019: 19%) is the same as the standard rate of corporation tax.

12. LOANS TO BORROWERS

	2020 £000	2019 £000
Nominal amount in issue at beginning of year	**3,244,100**	3,244,100
Unamortised premium at beginning of year	**163,875**	168,887
	3,407,975	3,412,987
Premium amortised for the year	**(5,141)**	(5,012)
Amortised cost at end of year	**3,402,834**	3,407,975
Premium due within one year	**(5,246)**	(5,141)
Non-current amortised cost	**3,397,588**	3,402,834

Details of security are set out in note 4.

13. OTHER RECEIVABLES

	2020 £000	2019 £000
Net premium on loans due within one year	**5,246**	5,141
Interest receivable	**16,955**	16,811
Other receivables	**1,611**	1,575
	23,812	23,527

14. FINANCIAL LIABILITIES

	2020	2019
	£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	**47,514**	48,913
	648,414	649,813
Premium amortised in year	**(1,443)**	(1,399)
Amortised cost at end of year	**646,971**	648,414
Less: premium due within one year	**(1,485)**	(1,443)
Amount due after more than one year	**645,486**	646,971
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	**116,361**	119,974
	1,259,561	1,263,174
Premium amortised in year	**(3,698)**	(3,613)
Amortised cost at end of year	**1,255,863**	1,259,561
Less: premium due within one year	**(3,761)**	(3,697)
Amount due after more than one year	**1,252,102**	1,255,864
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	**1,500,000**	1,500,000
Total falling due after more than one year	**3,397,588**	3,402,835

Details of security are set out in note 4.

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**

The interest rates on the bank borrowings are both fixed and floating and the rates are between the range 0.751% and 3.8% (2019: 0.756% and 3.8%).

15. OTHER PAYABLES

	2020	2019
	£000	£000
Net premium on Secured Bonds due within one year	**5,246**	5,141
Interest payable	**16,955**	16,811
Intra-group payables	**1,572**	1,144
Other taxation and social securities	**14**	10
Other payables	**60**	50
	23,847	23,156

16. SHARE CAPITAL

	2020	2019
	£000	£000
Allotted, called up and quarter paid		
50,000 (2019: 50,000) ordinary shares of £1 each	**13**	13

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.

17. RESERVES

Retained earnings

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

18. CONTRACTUAL CASH FLOWS

The table below summarises the cash flows payable by the company from 31 March 2020 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 2020 remain unchanged until the contract maturity.

2020	**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 2020 £000**
Principal	**-**	**-**	**1,678**	**3,242,422**	**3,244,100**
Interest	**84,151**	**84,152**	**252,448**	**1,341,603**	**1,762,354**
Total	**84,151**	**84,152**	**254,126**	**4,584,025**	**5,006,454**

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

19. RECONCILIATION OF PROFIT TO NET CASH GENERATED FROM / (USED IN) OPERATIONS

	2020 £000	2019 £000
Profit before taxation	**317**	288
Adjustments for:		
Interest receivable	**(79,595)**	(79,046)
Interest payable	**79,595**	79,046
Change in working capital:		
Increase in receivables	**(36)**	(217)
Increase / (decrease) in payables	**442**	(1,293)
Tax paid	**(48)**	(226)
Cash generated from / (used in) operations	**675**	(1,448)

20. FAIR VALUES OF FINANCIAL INSTRUMENTS

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 and the markets are considered to be active and the Secured Bonds are therefore classified Level 1.

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 1 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.

	2020		2019	
	Carrying value	**Fair Value**	Carrying value	Fair Value
	£000	**£000**	£000	£000
Financial assets:				
Classified as Loans & Receivables				
Loans to borrower(s)				
Non-current	**3,397,588**		3,402,834	
Current	**5,246**		5,141	
Total	**3,402,834**	**4,254,472**	3,407,975	4,175,027
Interest receivable	**16,955**	**16,955**	16,811	16,811
Other receivables	**1,609**	**1,609**	1,577	1,577
Total financial assets	**3,421,398**	**4,273,036**	3,426,363	4,193,415
Financial liabilities:				
Classified as Financial Liabilities at Amortised Costs				
Secured Bonds				
Non-current	**3,397,588**		3,402,834	
Current	**5,246**		5,141	
Total	**3,402,834**	**4,254,472**	3,407,975	4,175,027
Interest payables	**16,955**	**16,955**	16,811	16,811
Other payables and accruals	**1,646**	**1,646**	1,204	1,204
Total financial liabilities	**3,421,435**	**4,273,073**	3,425,990	4,193,042

21. 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.

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 £2,845,102 (2019: £2,965,235). The amount due to THFCS as at 31 March 2020 was £1,547,655 (2019: £1,119,653). Arrangement fees payable to THFCS during the period amounted to £nil (2019: £20,000). The amount due to THFC as at 31 March 2020 was £24,600 (2019: £24,600).

The directors of THFCS are also directors of the company. The company deems the executive directors to be the only key management personnel. The executive directors are employees of and paid by THFCS and therefore no remuneration is incurred by the company for key management personnel (2019: £nil). Their remuneration is disclosed in the financial statements of T.H.F.C. (Services) Limited.

22. 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.

23. 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 2020 amounted to £98.7m (2019: £101.5m).