AFFORDABLE HOUSING FINANCE PLC

Annual Report and Financial Statements

For the 56 week period from incorporation on 7 March 2013 to 31 March 2014
AFFORDABLE HOUSING FINANCE PLC

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Directors

Charlie Arbuthnot
Fenella Edge
Keith Exford
Emma Fraser
Peter Impey
David Orr
John Parker
Ian Peacock
Stuart Ropke
Deborah Shackleton
Jonathan Walters
Piers Williamson

Company Secretary
Colin Burke

Registered Office

4th Floor
107 Cannon Street
London
EC4N 5AF

Company Number

08434613

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT
It is with great pleasure that I present the financial statements of Affordable Housing Finance Plc covering its first period of trading from 19 June 2013 to 31 March 2014.

The Company was incorporated in March 2013 with the sole purpose of bidding for the Licence to run the government’s Affordable Housing Guarantee Scheme. The bid was successful and, on 19 June 2013, the Secretary of State for Communities and Local Government granted a Licence to the Company for the management and delivery of the Scheme, with exclusivity for the period to 31 March 2016.

Under the Licence, the Company will issue up to £3.5bn of debt and bank funding for on-lending to housing associations (“HAs”) throughout the UK who meet the Scheme’s eligibility criteria. To date the Company has credit approved £631m of schemes from housing associations eligible for guaranteed funding.

The obligations of the Company, and those of its borrowers, under any debt raised will be guaranteed by the Department of Communities and Local Government and hence lower the cost of debt to HAs.

As its first form of committed funding the Company negotiated a £500m 30 year facility from the European Investment Bank (EIB). This was signed by the Housing Minister, Kris Hopkins, in January 2014. The first on-loan to an HA was signed prior to the period end but not drawn down. In addition, since the period end, the Company has completed a maiden issue of £208.4m of guaranteed secured bonds. As a result of the guarantee, the bonds received a rating of “AAA” from Standard and Poor’s, identical to the senior sovereign debt rating of the UK government, and secured the tightest pricing seen in the sector to date.

All staff, premises and other services are provided by T.H.F.C. (Services) Limited, the service company of The Housing Finance Corporation Limited (THFC), under a management services agreement.

The Company’s Board comprises all the members of the board of its ultimate holding company, THFC, and therefore benefits from the considerable expertise this brings with it. There are two additional Board members, Emma Fraser and Peter Impey, nominated by the Department of Communities and Local Government in its role as Guarantor.

For the period ended 31 March 2014 the Company made a pre-tax profit of £283,000 being its 50% share of the first arrangement fee received in connection with EIB funded lending.

The financial year ahead is expected to achieve bond issuance and committed EIB lending of close to £1bn. All this is attributable to the hard work of the whole team to date and accordingly I would like to extend my sincere thanks to them for setting a solid foundation for future growth of the Company in delivering competitively priced funding for affordable housing across the UK.

Ian Peacock
Chairman
22 July 2014
AFFORDABLE HOUSING FINANCE PLC

DIRECTORS' REPORT
56 weeks ended 31 March 2014

The directors submit their directors’ report, strategic report and audited financial statements for the 56 weeks ended 31 March 2014.

RESULTS AND DIVIDEND

Affordable Housing Finance Plc (the “Company”) made a profit after tax for the period of £218,000. The directors do not propose the payment of a dividend. The Directors consider the position of the Company at the period end to be satisfactory.

PRINCIPAL ACTIVITIES

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

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

SHARE CAPITAL AND COMPANY STRUCTURE

Affordable Housing Finance Plc is a public limited company incorporated and domiciled in the United Kingdom. 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 period and up to the date of signing the financial statements were:

Charlie Arbuthnot (appointed 22 May 2013)
Deborah Shackleton (appointed 22 May 2013)
Peter Impey (appointed 18 July 2013)
John Parker (appointed 22 May 2013)
Ian Peacock (appointed 22 May 2013)
Piers Williamson (executive director) (appointed 7 March 2013)
Fenella Edge (executive director) (appointed 7 March 2013)
Emma Fraser (appointed 18 July 2013)
Keith Exford (appointed 22 May 2013)
David Orr (appointed 22 May 2013)
Jonathan Walters (appointed 22 October 2013)
Stuart Ropke (appointed 17 June 2014)

CORPORATE GOVERNANCE STATEMENT

Introduction

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

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

Senior Non-Executive Director

The Board appoints a Senior Non-Executive Director. The Senior Non-Executive director is David Orr.

Directors’ Independence

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

Terms of Office

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

Meetings

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

Role of Board

The Board sets the strategic objectives of the Company, determines investment policies, and agrees performance criteria and delegates to management the detailed planning and implementation of those objectives and policies in accordance with appropriate risk parameters. The Board monitors compliance with policies and achievement against objectives by holding management accountable for its activities through quarterly performance reporting and budget updates. The Board has six scheduled meetings each year which cover both standard and ad hoc business. Standard business is tracked via a Board diary and determines the standard section of the agenda and details the key items of business that are considered by the Board. A rolling agenda is maintained to record emerging issues that require Board consideration at future scheduled meetings. Two of the 6 scheduled meetings focus specifically on strategic issues. Ad hoc meetings are convened as and when required where Board approval is required outside of the scheduled meetings. Certain matters are dealt with exclusively by the Board. These include approval of financial statements, strategy, major capital projects, changes to the control structure and all borrowing loan agreements and the standard form of all lending loan agreements. All key decisions are taken by the Board or its committees. Exceptionally a Board or committee will delegate certain decisions to management within clearly defined parameters which are minuted. However there is no standing delegation to management.
beyond that required for the day to day running of the business. The roles of Chairman and Group Chief Executive are not fulfilled by the same individual. The Board reviews and approves the Group Chief Executive’s operational authorities on an annual basis. This document also determines which items are reserved for Chairman’s or non-executive approval. All other decisions require Board approval. All directors may call upon independent professional advice at the expense of the company.

Committees of the Board

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

Audit Committee

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

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

Members comprise John Parker (Chairman) Keith Exford, Emma Fraser and Jonathan Walters. The Group Chairman attends by invitation. The Group Chief Executive and other senior members of staff attend when required.

Credit Committee

The Credit Committee is a committee of the Board. It comprises a minimum of three non-executive Directors (one of whom must be a DCLG board nominee) appointed by the Board together with the Chief Executive, Group Treasurer and the Credit and Risk Manager. The Chairman of Credit Committee is David Orr.

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

Members comprise David Orr (Chairman), Charlie Arbuthnot, Peter Impey John Parker, Ian Peacock, Stuart Ropke and Deborah Shackleton as non-executive Directors and Piers Williamson, Fenella Edge and David Stokes, Group Chief Executive, Group Treasurer and Group Credit and Risk Manager 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. The results of the evaluation are reviewed and discussed by the Board and a list of action points drawn up where appropriate.

Internal Control

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

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

Smith and Williamson Limited fulfil the internal audit function and undertake periodic reviews of internal controls. Reports are issued to the Chair of the Audit Committee.

Continuing Resources

After making enquiries, the Directors form 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 Company Secretary and the Group Credit and Risk Manager. 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 DCLG nominees are remitted either to their employer or, at the direction of the Guarantor, directly to the DCLG nominee. The fees of the non-executive Directors are reviewed annually by the board. The non-executive Directors do not receive any pension benefits, bonuses or benefits in-kind.

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

Shareholder


Financial Risk Management

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

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

Risk Management Structure

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

Independent Auditors

PricewaterhouseCoopers LLP have been engaged by the Board as auditors of the Company.

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 auditors are unaware, and
· he/she has taken all reasonable 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 auditors are aware of that information.

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

Colin Burke
Company Secretary
22 July 2014
REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

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

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

On 19 December 2013 the Company signed a £500m credit facility with the European Investment Bank with an availability period expiring on 30 September 2015. On 30 May 2014 the Company issued £208.4m of guaranteed secured bonds. Obligations of the Company and borrowers under both transactions are guaranteed by the Department for Communities and Local Government.

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

FINANCIAL RISK MANAGEMENT

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

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

[Signature]
Colin Burke
Company Secretary
22 July 2014
REPORT ON THE FINANCIAL STATEMENTS

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Company’s affairs as at 31 March 2014 and of its profit and cash flows for the period then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by the Company, comprise:

- the statement of financial position as at 31 March 2014;
- the statement of comprehensive income for the period then ended;
- the statement of changes in equity for the period then ended;
- the statement of cash flows for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company’s circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.
In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material inconsistencies we consider the implications for our report.

**OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006**

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

**OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

**Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or

- 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.

We have no exceptions to report arising from this responsibility.

**Directors’ remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors’ remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

**RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT**

**Our responsibilities and those of the directors**

As explained more fully in the Statement of Directors’ Responsibilities set out on pages 6-7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.
This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Andrew Hawkins (Senior Statutory Auditor)
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
22 July 2014
<table>
<thead>
<tr>
<th>OPERATING INCOME</th>
<th>2014</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fees receivable and other income</td>
<td>567</td>
<td></td>
</tr>
<tr>
<td></td>
<td>567</td>
<td></td>
</tr>
</tbody>
</table>

| OPERATING EXPENDITURE                                |      |      |
| Operating expenses                                   | 4    | (284)|
|                                                      |      | (284)|

| PROFIT BEFORE TAXATION                               | 5    | 283  |
| TAXATION                                             | 8    | (65) |

| PROFIT AFTER TAXATION                                |      | 218  |
| Other comprehensive income                          |      |      |
|                                                      |      |      |

| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD            |      | 218  |
## Statement of Financial Position

**As at 31 March 2014**

### Assets

<table>
<thead>
<tr>
<th>Current assets</th>
<th>2014</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other receivables</td>
<td></td>
<td>9</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td></td>
<td>21</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Equity and Liabilities

<table>
<thead>
<tr>
<th>Current liabilities</th>
<th>2014</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other payables</td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>Current tax liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Equity

<table>
<thead>
<tr>
<th>Share capital</th>
<th>2014</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit and loss account</td>
<td></td>
<td>11</td>
</tr>
<tr>
<td><strong>TOTAL EQUITY</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**TOTAL EQUITY AND LIABILITIES**

<table>
<thead>
<tr>
<th>Note</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>477</td>
</tr>
</tbody>
</table>

The accompanying notes on pages 16-21 are an integral part of these financial statements.

These financial statements on pages 12-21 were approved by the board and signed on its behalf by:

**Ian Peacock**

Chairman

22 July 2014
<table>
<thead>
<tr>
<th></th>
<th>Share Capital £000</th>
<th>Retained Earnings £000</th>
<th>Total Equity £000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance as at 7 March 2013</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Shares issued in period</td>
<td>13</td>
<td>-</td>
<td>13</td>
</tr>
<tr>
<td>Profit for period</td>
<td>-</td>
<td>218</td>
<td>218</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Balance as at 31 March 2014</strong></td>
<td>13</td>
<td>218</td>
<td>231</td>
</tr>
<tr>
<td>Description</td>
<td>Note</td>
<td>2014</td>
<td></td>
</tr>
<tr>
<td>-----------------------------------------------------------------------------</td>
<td>------</td>
<td>-------</td>
<td></td>
</tr>
<tr>
<td><strong>NET CASH FLOW FROM OPERATING ACTIVITIES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash generated from operations</td>
<td>12</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td><strong>NET CASH INFLOW FROM OPERATING ACTIVITIES</strong></td>
<td></td>
<td>8</td>
<td></td>
</tr>
<tr>
<td><strong>CASH FLOW FROM FINANCING ACTIVITIES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issue of share capital</td>
<td>13</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NET CASH GENERATED FROM FINANCING ACTIVITIES</strong></td>
<td></td>
<td>13</td>
<td></td>
</tr>
<tr>
<td><strong>NET INCREASE IN CASH AND CASH EQUIVALENTS IN THE PERIOD</strong></td>
<td></td>
<td>21</td>
<td></td>
</tr>
<tr>
<td><strong>CASH AND CASH EQUIVALENTS AT 7 MARCH 2013</strong></td>
<td></td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>CASH AND CASH EQUIVALENTS AT 31 MARCH 2014</strong></td>
<td></td>
<td>21</td>
<td></td>
</tr>
</tbody>
</table>
AFFORDABLE HOUSING FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS
56 weeks ended 31 March 2014

1. GENERAL INFORMATION

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

It is the intention that, on occasions the Company will retain a certain number of bonds from a particular issue of Secured Bonds. The retained bonds will be held at par on the Company’s balance sheet and netted off the total amount of bonds outstanding until such time as a HA (on whose behalf the bonds have been retained) requests the release of the bonds into the market to fund further loans.

2. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements of the Company are set out below. These are the Company’s first financial statements so no comparatives are presented.

Basis of preparation

These financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (“IFRS”) and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations as adopted by the European Union and the Companies Act 2006 as it applies to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

New standards, amendments and interpretations issued but not effective for the financial period

- Amendment to IAS 32, ‘Financial instruments: Presentation on offsetting financial assets and financial liabilities’ (effective 1 January 2014 and EU endorsed) clarifies the situations where offsetting should or should not be used but this is not expected to have significant impact on the Company.

- Amendment to IAS 19, ‘Employee benefits’ (effective 1 July 2014 but not yet EU endorsed) on defined benefit plans.

- IFRS 9, ‘Financial instruments’ (effective 1 January 2018) addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010 and further updated in November 2013. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments and established a more principles-based approach to hedge accounting. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity’s own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Company does not believe that the current version new standard will necessitate a change to its current amortised cost treatment for all financial instruments but this will be kept under review pending further changes to the standard. The
changes to hedge accounting will not affect the Company. The final standard remains subject to endorsement by the EU.

- IFRS 10, ‘Consolidated financial statements’ (effective 1 January 2013 and EU endorsed from 1 January 2014, with earlier adoption permitted) builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

- IFRS 11, ‘Joint arrangements’ (effective 1 January 2013 and EU endorsed from 1 January 2014, with earlier adoption permitted)

- IFRS 12, ‘Disclosures of interests in other entities’ (effective 1 January 2013 and EU endorsed from 1 January 2014, with earlier adoption permitted)

- Amendment to IFRS 10, 11, 12 ‘Transitional Guidance’ (effective 1 January 2013 and EU endorsed)

- IAS 27 (revised 2011), ‘Separate financial statements’ (effective 1 January 2013 and EU endorsed from 1 January 2014, with earlier adoption permitted)

- IAS 28 (revised 2011), ‘Associates and joint ventures’ (effective 1 January 2013 and EU endorsed from 1 January 2014, with earlier adoption permitted)

- Annual Improvements to IFRSs 2012-2013 contain several other amendments to IFRS. The amendments are effective for annual periods beginning on or after 1 July 2014 but are not yet endorsed by the EU. No material changes to accounting policies arise as a result of these amendments.

Except for where noted, IFRSs or IFRIC that are not yet effective that would be expected to have a material impact on the Company.

Critical Accounting Judgements

The preparation of financial statements in accordance with IFRSs requires the use of certain critical accounting adjustments; these require management’s judgement in applying the accounting policies.

The directors are of the opinion that no critical accounting judgements were required in the 56 weeks ended 31 March 2014. In future years, pending successful on-lending of funds to housing associations, the main critical accounting judgement in preparing these financial statements will be the evaluation as to whether the loans to housing associations are impaired.

The principal accounting policies adopted in the preparation of these financial statements, which have been applied consistently, are set out below.

Fees receivable

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

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

Cash and cash equivalents

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

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 HAs. Therefore no segmental information is prepared by management.

3. FINANCIAL RISK

Credit risk

For the period ended 31 March 2014, credit risk only arose on deposits placed with banks.

Deposit counterparties are subject to pre-approval by the Board and such approval is limited to financial institutions with a suitable minimum long term rating in accordance with treasury policy. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed at least annually by the Board. The book value of the Company's bank deposits represents the maximum credit exposure.

Operational risk

This 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 which include formal internal control procedures, training, segregation of duties, delegated authorities, contingency planning and documentation of procedures.

The directors are of the opinion that the company is not subject to liquidity or interest rate risk.

Fair Values

All financial assets and liabilities are short-term and their fair values are not significantly different from their book value.

4. 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.
5. **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:

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>£000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fees paid to auditors for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual audit of financial statements – current period</td>
<td>21</td>
<td></td>
</tr>
</tbody>
</table>

6. **EMPLOYEES**

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

7. **DIRECTORS' REMUNERATION**

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>£000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-executive directors:</td>
<td></td>
<td>28</td>
</tr>
</tbody>
</table>

The fees of the Chairman were £3,281. Each other non-executive director earned fees at the rate of £4,373 per annum (£3,281 for the period). All directors’ fees were borne by the Company except for the two executive directors who are employed and paid by the immediate parent T.H.F.C. (Services) Limited.

Fees of £8,750 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.

8. **TAXATION**

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>£000</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK Corporation tax at 23%</td>
<td>65</td>
<td></td>
</tr>
</tbody>
</table>

The effective tax rate for the period of 23% is the same as the standard rate of corporation tax.

9. **OTHER RECEIVABLES**

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>£000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Falling due within one year</td>
<td>456</td>
<td></td>
</tr>
<tr>
<td>Recoverable issue costs</td>
<td></td>
<td>456</td>
</tr>
</tbody>
</table>

19
## 10. OTHER PAYABLES

<table>
<thead>
<tr>
<th>Description</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Falling due within one year</td>
<td>£000</td>
</tr>
<tr>
<td>Intra-group payables</td>
<td>140</td>
</tr>
<tr>
<td>Taxation</td>
<td>65</td>
</tr>
<tr>
<td>Other creditors</td>
<td>41</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>246</td>
</tr>
</tbody>
</table>

## 11. SHARE CAPITAL

<table>
<thead>
<tr>
<th>Description</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allotted, called up and quarter paid</td>
<td>£000</td>
</tr>
<tr>
<td>50,000 ordinary shares of £1 each</td>
<td>13</td>
</tr>
</tbody>
</table>

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

## 12. RECONCILIATION OF PROFIT TO NET CASH USED IN OPERATIONS

<table>
<thead>
<tr>
<th>Description</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before taxation</td>
<td>283</td>
</tr>
<tr>
<td>Changes in working capital:</td>
<td></td>
</tr>
<tr>
<td>(Increase) in receivables</td>
<td>(456)</td>
</tr>
<tr>
<td>Increase in payables</td>
<td>181</td>
</tr>
<tr>
<td>Cash generated from operations</td>
<td>8</td>
</tr>
</tbody>
</table>

## 13. RELATED PARTY TRANSACTIONS

The Company operates the government's Affordable Housing Guarantee Scheme under a Licence awarded by the Secretary of State for Communities and Local Government (“SSCLG”). The SSCLG 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 £191,260. The amount due to THFCS as at 31 March 2014 was £139,471.

The directors of THFCS are also directors of the Company. The executive directors are employees of and paid by THFCS.
14. ULTIMATE PARENT UNDERTAKING AND INCORPORATION

The Company's immediate parent undertaking and controlling company is T.H.F.C. (Services) Limited which is incorporated in the United Kingdom and registered in England and Wales. The ultimate parent undertaking is The Housing Finance Corporation Limited ("THFC") which is incorporated in Great Britain and registered in England and Wales as an Industrial and Provident Society. THFC is the only company to prepare consolidated financial statements which include the Company. The consolidated financial statements of THFC may be obtained from the Company Secretary, The Housing Finance Corporation Limited, 4th floor, 107 Cannon Street, London, EC4N 5AF, the Company's registered office.

15. BORROWING FACILITIES

Undrawn committed borrowing facilities granted to the Company and to be on-lent to borrowers are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>£000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between one and two years</td>
<td>500,000</td>
<td></td>
</tr>
</tbody>
</table>

Facilities will only be drawn down when corresponding drawdowns are requested by the relevant borrower under matching committed facilities granted to them by the Company.

16. EVENT AFTER REPORTING PERIOD

On 30 May the Company completed its debut issue of £208.4m 3.8% Guaranteed Secured Bonds due 2042/2044.