AFFORDABLE HOUSING FINANCE PLC

Annual Report

For the year ended 31 March 2018

Companies House Number: 08434613
Affordable Housing Finance Plc
Annual Report and Financial Statements for the year ended 31 March 2018

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Directors

Charlie Arbuthnot
Scott Bottles (appointed 20 March 2018)
Colin Burke
Isabella Connell
Fenella Edge
Keith Exford CBE
Peter Impey
John Parker
Gill Payne
Ian Peacock
Will Perry
Deborah Shackleton CBE
Shirley Smith (appointed 20 March 2018)
Piers Williamson

Company Secretary

Colin Burke

Registered Office

4th Floor
107 Cannon Street
London
EC4N 5AF

Company Number

08434613

Independent Auditor

Nexia Smith & Williamson Audit Limited
Chartered Accountants and Statutory Auditor
25 Moorgate
London
EC2R 6AY
We are delighted to report on another very good year for Affordable Housing Finance Plc ("AHF"). We concluded the underwriting of new guaranteed loans in the first five months of the financial year which grew the AHF portfolio to a total of £3.2bn (nominal) (2017: £2.34bn (nominal)), comprising loans to 62 housing association borrower groups. Measured against the £3.5bn of Guarantee capacity available under the Affordable Homes Guarantee Scheme ("AHGS"), this represents a very successful outcome. The cumulative weighted average cost of the entire £3.2bn long-term programme was 2.39% and we estimate that, in its four-year underwriting phase, the AHGS supported the delivery of more than 32,000 homes along with regeneration projects and various forms of community care.

Overall the company achieved a strong post-tax surplus of £1,417,000 (2017: £1,634,000) in the year with a net growth in the loan book of just under £1bn providing the sector with some of its lowest cost, long-term debt to date.

AHF has enjoyed an exclusive licence with the Ministry for Housing, Communities and Local Government ("MHCLG") to issue long-term debt up to a principal sum of £3.5bn, with the benefit of a full-faith Government Guarantee, under the AHGS.

Funding to date has continued to come from two principal sources: EIB and UK Sterling capital market long-term fixed income debt issues.

The year saw AHF complete further issuance of its second 28-year, benchmark public sterling bond, becoming by far the largest housing association bond in issue.

The weighted average effective yield of the over £250.5m of bonds issued in 2017/18 was 2.107% and the combined weighted average effective yield for the £654.5m of EIB and bond issuance was 1.787% for the year.

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

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction type</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 2017</td>
<td>EIB Funding, £60m drawdown, effective rate: 1.772%</td>
</tr>
<tr>
<td>September 2017</td>
<td>£35m Fixed Rate EIB drawdown, effective rate 1.798%</td>
</tr>
<tr>
<td>October 2017</td>
<td>£92m (£7m retained bonds) GILTS +0.28%, effective rate: 2.14%</td>
</tr>
<tr>
<td>October 2017</td>
<td>EIB £25m floating rate 6-month LIBOR +0.201%</td>
</tr>
<tr>
<td>October 2017</td>
<td>£25m Fixed rate EIB drawdown, effective rate: 1.939% (1bp below GILTS)</td>
</tr>
<tr>
<td>November 2017</td>
<td>£50m floating rate EIB 6-month LIBOR+0.178%,</td>
</tr>
<tr>
<td>November 2017</td>
<td>£25m fixed rate EIB drawdown effective rate 1.867%</td>
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<tr>
<td>November 2017</td>
<td>£20m fixed rate EIB drawdown, effective rate 1.873%</td>
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<tr>
<td>November 2017</td>
<td>£70m fixed rate EIB drawdown effective rate 1.852%</td>
</tr>
<tr>
<td>November 2017</td>
<td>£25m fixed rate EIB drawdown effective rate 1.702%</td>
</tr>
<tr>
<td>November 2017</td>
<td>£5.5m fixed rate EIB drawdown effective rate 1.791%</td>
</tr>
</tbody>
</table>
Investors in AHF remain a wide variety of UK institutional insurance and investment funds along with a small number of sovereign wealth funds and Central Banks.

The majority of housing associations who applied to borrow from AHF are English-based, but, as the AHGS is a UK scheme, we have also funded two Scottish and four Welsh borrowers under the programme.

Before borrowers could access the AHGS, they had to undergo a comprehensive credit evaluation process. In conjunction with the investment function of Homes England AHF also has a comprehensive portfolio review process.

Looking ahead, the Chancellor announced the possible provision of £8Bn of housing guarantees in his Autumn 2017 Budget. AHF, along with other potentially interested parties, has been consulted on what form these might take, what risks to mitigate and how housing output might be maximised. Government has yet to specify its detailed policy thinking but AHF are strong advocates of the savings and efficiencies to be gained from a further affordable housing guarantee program and we are currently considering the resourcing impact that supporting a further program would require. We do not consider there to be a material impact on resourcing in the 2018/19 financial year.

This year, for conformity with the Group, we transferred all of AHF’s listed bonds to the Professional Securities Market of the London Stock Exchange.

In July 2018 we bid farewell to our longest serving non-executive director, Charlie Arbuthnot. Charlie retires as a director having completed his nine-year permitted term of office with AHF’s ultimate holding company, The Housing Finance Corporation Limited, and has been a most diligent Chair of AHF Credit Committee.

We thank him for the time and fantastic service he has given our organisation.

We have recruited two new non-executive directors: Scott Bottles and Shirley Smith who join us with significant credit underwriting and real estate experience. Scott Bottles has been elected as Charlie Arbuthnot’s successor as Chair of Credit Committee.

It has once again been an immensely busy year and one where everyone has had to work to challenging timetables. The Board is very grateful for the dedication of the management and staff in continuing to grow the AHF portfolio.

As Chairman, once again I would also like to thank the Board members themselves for their invaluable contributions through what has proved to be an exciting and successful final year of new AHF business.

Ian Peacock
Chairman
24 July 2018
AFFORDABLE HOUSING FINANCE PLC

DIRECTORS’ REPORT
Year ended 31 March 2018

The directors submit their Directors’ report, Strategic report and audited financial statements for the year ended 31 March 2018.

RESULTS AND DIVIDEND

Affordable Housing Finance Plc (the “company”) made a profit after tax for the year ended 2018 of £1,417,000 (2017: £1,634,000). 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:

Charlie Arbuthnot
Scott Bottles (appointed 20 March 2018)
Colin Burke (executive director)
Isabella Connell
Fenella Edge (executive director)
Keith Exford CBE
Peter Impey
John Parker
Gill Payne
Ian Peacock
Will Perry
Deborah Shackleton CBE
Shirley Smith (appointed 20 March 2018)
Piers Williamson (executive director)

CORPORATE GOVERNANCE STATEMENT

Introduction

The company complies with the UK Corporate Governance Code’s best practice guidelines where these are relevant to the company as an entity without a market in its shares. The board has sought to comply with a number of provisions of the Code in so far as it considers them appropriate to a company of its size and nature.
Board

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

Senior Non-Executive Director

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

Directors' Independence

All current directors are non-executive with the exception of the Group Chief Executive, the Group Treasurer and the Group Finance Director. All non-executive directors are independent directors with the exception of those nominated by 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 chairman report orally on the proceedings of their committees at the next following Board meeting and the minutes of all committee meetings are included in papers distributed to Board members in advance of the next Board meeting. The Board and committees meet at regular intervals to cover all on-going business and ad hoc meetings are convened as necessary.

Audit Committee

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

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

Members comprise John Parker (Chairman), Charlie Arbuthnot, Keith Exford, Isabella Connell and Will Perry. The Group Chairman attends by invitation. The Group Chief Executive and other senior members of staff attend when required.

Credit Committee

The Credit Committee is a committee of the Board. It comprises a minimum of 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 Charlie Arbuthnot.

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

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

Charlie Arbuthnot will retire at the next AGM and Scott Bottles will assume the Chairmanship of the Committee.

Training and Development

New non-executive directors are provided with a tailored induction shortly after their appointment. They are asked to submit requests for additional training as part of the annual performance evaluation process. Emerging issues that require greater understanding are covered by a presentation to the Board by an appropriate expert in
AFFORDABLE HOUSING FINANCE PLC

DIRECTORS’ REPORT (continued)
Year ended 31 March 2018

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

KPMG fulfil the internal audit function and undertake periodic reviews in line with a programme of reviews
determined by the Audit Committee. Reports are issued to the Chair of the Audit Committee.

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 2018. 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 three principal sources; arrangement fees on new lending, annual fees accruing on the existing loan book and investment income on any cash balances. Annual fees receivable and payable are contractual and subject to indexation using the Consumer Prices Index. Any investment income is subject to interest rate risk.

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

Risk Management Structure

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

Independent Auditor

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
AFFORDABLE HOUSING FINANCE PLC

DIRECTORS’ REPORT (continued)
Year ended 31 March 2018

- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company’s transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

DISCLOSURE OF INFORMATION TO AUDITORS

In the case of each director in office at the date the Directors’ report is approved:

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

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

Colin Burke
Company Secretary
24 July 2018
REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The company has fulfilled its obligations under the terms of the Licence with the Secretary of State for MHCLG and expects to do so for the foreseeable future.

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

On 20 December 2013 the company signed a £500m credit facility with the European Investment Bank (EIB) with an availability period expiring on 30 September 2015. As at 31 March 2017 this facility was fully drawn.

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

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

On 30 May 2014 the company made an initial issue of £208.4m of guaranteed secured bonds. Further issues of guaranteed secured bonds to a nominal value of £392.5m, £402.0m, £561.2m and £180.0m were made during the financial years ended 31 March 2015, 31 March 2016, 31 March 2017 and 31 March 2018 respectively as further outlined in note 13. The total value of guaranteed secured bonds in issue at 31 March 2018 was £1,744.1m (2017: £1,493.6m).

On 21 February 2018 the listing of all Guaranteed Bonds was moved from the Main Market of the London Stock Exchange to the Professional Securities Market of the London Stock Exchange.

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
bpha Limited
Bracknell Forest Homes Limited
Bromford Housing Association Limited
Catalyst Housing Limited
Coastal Housing Group Limited
Coastline Housing Association
Colne Housing Society Limited
Cornerstone Housing Limited
Croydon Churches Housing Association Limited
Drum Housing Association
English Rural Housing Association
Flagship Housing Group Limited
Fortis Living Limited
Gateway Housing Association Limited
Golding Homes Limited
Great Places Housing Association Limited
Green Square Housing Association
Greenfields Community Housing 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
Liverty Living
Merlin Housing Society Limited
Midland Heart Limited
Moat Homes Limited
MossCare St Vincent
Mount Green Housing Association Limited
Network Homes Limited
New Gorbals Housing Association Limited
North Devon Homes Limited
Notting Hill Housing Trust
Nottingham Community Housing Association Limited
Octavia Housing
Optivo
Orbit South Housing Association Limited
Orwell Housing Association
Paradigm Homes Charitable Housing Association Limited
Peabody Trust
Pickering and Ferens Homes
Railway Housing Association
Riverside Group Limited
Selwood Housing
Shepherds Bush Housing Association Limited
Sovereign Housing Association Limited
Stonewater Limited
Stonewater (3) Limited
Synergy Housing Limited
Thames Valley Charitable Housing Association Limited
The Riverside Group Limited
The Swaythling Housing Society Limited
Three Rivers Housing Association Limited
United Welsh Housing Association Limited
Vivid Housing
Wales and West Housing Association Limited
Wandle Housing Association Limited
Watford Community Homes
Westward Housing Association Limited
West Kent Housing Association
Yarlington Housing Association
Yorkshire Housing Association

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.

FINANCIAL RISK MANAGEMENT

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

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

Colin Burke
Company Secretary
24 July 2018
Opinion

We have audited the financial statements of Affordable Housing Finance Plc (the "company") for the year ended 31 March 2018 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows 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 2018 and of its result for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

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

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

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF AFFORDABLE HOUSING
FINANCE PLC (continued)
Year ended 31 March 2018

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 directors’ responsibilities statement set out on pages 7-8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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.

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.

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

25 Moorgate
London
EC2R 6AY

27 July 2018
## AFFORDABLE HOUSING FINANCE PLC

### STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2018

<table>
<thead>
<tr>
<th>OPERATING INCOME</th>
<th>Note</th>
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<td>Interest receivable</td>
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<td>68,798</td>
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<td>Fees receivable and other income</td>
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<td>6,760</td>
<td>7,222</td>
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<tr>
<td></td>
<td></td>
<td>75,558</td>
<td>59,046</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OPERATING EXPENDITURE</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest payable</td>
<td>5</td>
<td>68,798</td>
<td>51,824</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>6</td>
<td>5,011</td>
<td>5,179</td>
</tr>
<tr>
<td></td>
<td></td>
<td>73,809</td>
<td>57,003</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PROFIT BEFORE TAXATION</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxation</td>
<td>7</td>
<td>1,749</td>
<td>2,043</td>
</tr>
<tr>
<td></td>
<td>10</td>
<td>(332)</td>
<td>(409)</td>
</tr>
<tr>
<td>Profit after taxation</td>
<td></td>
<td>1,417</td>
<td>1,634</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

| TOTAL COMPREHENSIVE INCOME  |      | 1,417 | 1,634 |


**AFFORDABLE HOUSING FINANCE PLC**

**STATEMENT OF FINANCIAL POSITION**

As at 31 March 2018

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>Note</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans to borrowers</td>
<td>11</td>
<td>3,407,975</td>
<td>2,469,684</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other receivables</td>
<td>12</td>
<td>22,971</td>
<td>17,998</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td></td>
<td>7,432</td>
<td>5,649</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td></td>
<td>3,438,378</td>
<td>2,493,331</td>
</tr>
<tr>
<td><strong>EQUITY AND LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-Current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial liabilities – Guaranteed Secured Bonds and bank borrowings</td>
<td>13</td>
<td>3,407,975</td>
<td>2,469,684</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other payables</td>
<td>14</td>
<td>24,108</td>
<td>18,779</td>
</tr>
<tr>
<td>Current tax liabilities</td>
<td></td>
<td>203</td>
<td>193</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td></td>
<td>3,432,286</td>
<td>2,488,656</td>
</tr>
<tr>
<td><strong>EQUITY</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>15</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>16</td>
<td>6,079</td>
<td>4,662</td>
</tr>
<tr>
<td><strong>TOTAL EQUITY</strong></td>
<td></td>
<td>6,092</td>
<td>4,675</td>
</tr>
<tr>
<td><strong>TOTAL EQUITY AND LIABILITIES</strong></td>
<td></td>
<td>3,438,378</td>
<td>2,493,331</td>
</tr>
</tbody>
</table>

The accompanying notes on pages 19-32 are an integral part of these financial statements.

These financial statements on pages 15-32 were approved by the board and signed on its behalf by:

![Signature]

**Ian Peacock**  
Chairman  
24 July 2018

Affordable Housing Finance Plc  
Registration Number 08434613
## AFFORDABLE HOUSING FINANCE PLC

### STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2018

<table>
<thead>
<tr>
<th></th>
<th>Share capital</th>
<th>Retained earnings</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£000</td>
<td>£000</td>
<td>£000</td>
</tr>
<tr>
<td><strong>Balance as at 1 April 2016</strong></td>
<td>13</td>
<td>3,028</td>
<td>3,041</td>
</tr>
<tr>
<td>Profit for period</td>
<td></td>
<td>1,634</td>
<td>1,634</td>
</tr>
<tr>
<td><strong>Balance as at 31 March 2017</strong></td>
<td>13</td>
<td>4,662</td>
<td>4,675</td>
</tr>
<tr>
<td>Profit for period</td>
<td></td>
<td>1,417</td>
<td>1,417</td>
</tr>
<tr>
<td><strong>Balance as at 31 March 2018</strong></td>
<td>13</td>
<td>6,079</td>
<td>6,092</td>
</tr>
</tbody>
</table>
## Statement of Cash Flows

Year ended 31 March 2018

<table>
<thead>
<tr>
<th>NET CASH FLOW FROM OPERATING ACTIVITIES</th>
<th>Note</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash generated from operations</td>
<td>18</td>
<td>1,783</td>
<td>1,636</td>
</tr>
<tr>
<td>Interest paid on borrowings</td>
<td></td>
<td>(70,257)</td>
<td>(52,231)</td>
</tr>
<tr>
<td>Interest received on loans</td>
<td></td>
<td>70,257</td>
<td>51,689</td>
</tr>
<tr>
<td>Loans advanced</td>
<td></td>
<td>(944,287)</td>
<td>(1,007,540)</td>
</tr>
<tr>
<td><strong>NET CASH (USED IN) OPERATING ACTIVITIES</strong></td>
<td></td>
<td><strong>(942,504)</strong></td>
<td><strong>(1,006,446)</strong></td>
</tr>
</tbody>
</table>

### Cash Flow from Financing Activities

| Net proceeds from issue of bonds and bank loans | 944,287 | 1,007,540 |

**NET CASH GENERATED FROM FINANCING ACTIVITIES**

| 944,287 | 1,007,540 |

**NET INCREASE IN CASH AND CASH EQUIVALENTS IN THE PERIOD**

| 1,783 | 1,094 |

**CASH AND CASH EQUIVALENTS AT 1 APRIL**

| 5,649 | 4,555 |

**CASH AND CASH EQUIVALENTS AT 31 MARCH**

| 7,432 | 5,649 |
AFFORDABLE HOUSING FINANCE PLC
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2018

1. GENERAL INFORMATION

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

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

On 21 February 2018 the listing of all Guaranteed Bonds was moved from the Main Market of the London Stock Exchange to the Professional Securities Market of the London Stock Exchange.

2. ACCOUNTING POLICIES

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

Basis of preparation

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

Going Concern

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

Changes in accounting policies and disclosures

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

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

- IAS 7 Statement of Cash Flows Disclosure Initiative: The amendments respond to requests from investors for improved disclosures about changes in liabilities arising from financing activities by introducing a reconciliation of debt balances.

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

(b) New and amended Standards and Interpretations mandatory for the first time for the financial year beginning 1 April 2017 but not currently relevant to the company
Other standards effective or amended in the year have not had a material impact on the reported results or financial position of the company.

(c) New and amended Standards and Interpretations issued but not effective for the financial year beginning 1 April 2017.

- IFRS 9 Financial Instruments (Effective 1 January 2018): This deals with the classification, measurement and impairment of financial assets and financial liabilities.
- IFRS 15 Revenue from Contracts with Customers (Effective 1 January 2018): The standard represents a single revenue recognition standard to be applied across various industries. The standard replaces IAS 18 Revenue.
- Annual improvements to IFRS 2015-2017 cycle (effective 1 January 2019, not yet EU endorsed): These improvements form part of the IASB's annual improvement process which is designed to make necessary, but not urgent, amendments to IFRSs. The amendments relate to: IAS 12 Income taxes: The amendments clarify that a company accounts for all income tax consequences of dividend payments in the same way.

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

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

Interest

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

Fees receivable

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

Taxation

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

Cash and cash equivalents

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

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

Other payables

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

Loans to borrowers (“Loans”)

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

Secured Bonds and bank loans

Secured Bonds and bank loans are stated at amortised cost.

Any premium or discount on issue is added to/deducted from the nominal value of the Secured Bonds and charged or credited to the statement of comprehensive income over the expected life of the Secured Bonds so that the interest charge as adjusted for the amortisation of premium/discount gives a constant yield to maturity. Secured Bonds and bank loans are recognised in the financial statements as a liability when the proceeds are received.

Netting

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

Fair values

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

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

Quoted market prices – Level 1

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

Valuation technique using observable inputs – Level 2

Financial instruments classified as Level 2 are fair valued using models whose inputs (for example, interest rates and credit spreads) are observable in an active market.
Valuation technique using significant unobservable inputs – Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data. The company has no instruments classified in Level 3 (2017: None).

The company’s 3.80% & 2.893% Secured Bonds are tradable but the markets are not considered to be active. Accordingly market prices of a suitable reference gilt have been adjusted for an appropriate credit spread to arrive at a fair value (Level 2 valuation). The fair value of the associated fixed rate Loans is similarly adjusted for appropriate credit spreads (Level 2 valuation).

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

Segmental analysis

All operating income and expenditure is derived from activities undertaken in the United Kingdom. The company’s only activity is to provide finance to housing associations, of which none exceed 10% of total income receivable for the year.

3. FINANCIAL RISK MANAGEMENT

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

As set out in the Licence, the Secretary of MHCLG unconditionally and irrevocably guarantees the payment obligations of the company in respect of debt raised under the Affordable Housing Guarantee Scheme, “the Guarantee”. It also guarantees the payment obligations of each Approved Borrower to the company pursuant to their respective Loan Agreements.

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

Credit risk

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

The carrying value of the loans represents the maximum exposure to credit risk. None of the loans are past due or impaired at 31 March 2018 (2017: 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.

4. INTEREST RECEIVABLE

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>On Loans to borrowers</td>
<td>73,546</td>
<td>55,297</td>
</tr>
<tr>
<td>Amortisation of net premium</td>
<td>(4,748)</td>
<td>(3,473)</td>
</tr>
<tr>
<td></td>
<td>68,798</td>
<td>51,824</td>
</tr>
</tbody>
</table>

5. INTEREST PAYABLE

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£000</td>
<td>£000</td>
</tr>
<tr>
<td>On Guaranteed Secured Bonds and bank loans</td>
<td>73,546</td>
<td>55,297</td>
</tr>
<tr>
<td>Amortisation of net premium</td>
<td>(4,748)</td>
<td>(3,473)</td>
</tr>
<tr>
<td></td>
<td>68,798</td>
<td>51,824</td>
</tr>
</tbody>
</table>

6. OPERATING EXPENSES

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

7. PROFIT BEFORE TAXATION

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

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fees paid to auditors for:</td>
<td>£000</td>
<td>£000</td>
</tr>
<tr>
<td>Annual audit of financial statements – current period</td>
<td>29</td>
<td>31</td>
</tr>
<tr>
<td></td>
<td>29</td>
<td>31</td>
</tr>
</tbody>
</table>

24
8. EMPLOYEES

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

9. DIRECTORS REMUNERATION

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>£000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-executive directors:</td>
<td>127</td>
<td>119</td>
</tr>
</tbody>
</table>

The fees of the Chairman were £19,400 (2017: £19,552). Each other non-executive director earned fees of between £12,888 and £14,488 per annum (2017: £10,562 and £15,362). 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 £38,664 (2017: £31,336) 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.

10. TAXATION

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>£000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK Corporation tax at 19% (2017: 20%)</td>
<td>332</td>
<td>409</td>
</tr>
</tbody>
</table>

The effective tax rate for the period of 19% (2017: 20%) is the same as the standard rate of corporation tax.
## 11. LOANS TO BORROWERS

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal amount in issue at beginning of year</td>
<td>2,339,100</td>
<td>1,411,900</td>
</tr>
<tr>
<td>Unamortised premium at beginning of year</td>
<td>134,348</td>
<td>57,145</td>
</tr>
<tr>
<td>Premium adjustment</td>
<td>-</td>
<td>336</td>
</tr>
<tr>
<td>Loans issued in year</td>
<td>905,000</td>
<td>997,700</td>
</tr>
<tr>
<td>Less retained at end of year</td>
<td>-</td>
<td>(70,500)</td>
</tr>
<tr>
<td></td>
<td>3,378,448</td>
<td>2,396,581</td>
</tr>
<tr>
<td>Premium on issue</td>
<td>39,287</td>
<td>80,340</td>
</tr>
<tr>
<td>Premium amortised for the year</td>
<td>(4,748)</td>
<td>(3,473)</td>
</tr>
<tr>
<td>Amortised cost at end of year</td>
<td>3,412,987</td>
<td>2,473,448</td>
</tr>
<tr>
<td>Premium due within one year</td>
<td>(5,012)</td>
<td>(3,764)</td>
</tr>
<tr>
<td>Non-current amortised cost</td>
<td>3,407,975</td>
<td>2,469,684</td>
</tr>
</tbody>
</table>

Details of security are set out in note 3.

## 12. OTHER RECEIVABLES

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net premium on loans due within one year</td>
<td>5,012</td>
<td>3,764</td>
</tr>
<tr>
<td>Interest receivable</td>
<td>16,597</td>
<td>13,309</td>
</tr>
<tr>
<td>Other receivables</td>
<td>1,362</td>
<td>925</td>
</tr>
<tr>
<td></td>
<td>22,971</td>
<td>17,998</td>
</tr>
</tbody>
</table>
13. **FINANCIAL LIABILITIES**

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£000</td>
<td>£000</td>
</tr>
<tr>
<td><strong>3.8% Guaranteed Secured Bonds 2042/44</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nominal amount in issue at beginning of year</td>
<td>600,900</td>
<td>600,900</td>
</tr>
<tr>
<td>Unamortised premium at beginning of year</td>
<td>50,271</td>
<td>51,596</td>
</tr>
<tr>
<td></td>
<td>651,171</td>
<td>652,496</td>
</tr>
<tr>
<td>Premium amortised in year</td>
<td>(1,358)</td>
<td>(1,325)</td>
</tr>
<tr>
<td>Amortised cost at end of year</td>
<td>649,813</td>
<td>651,171</td>
</tr>
<tr>
<td>Less: premium due within one year</td>
<td>(1,399)</td>
<td>(1,358)</td>
</tr>
<tr>
<td>Amount due after more than one year</td>
<td>648,414</td>
<td>649,813</td>
</tr>
</tbody>
</table>

| **2.893% Guaranteed Secured Bonds 2043/45** |       |       |
| Nominal amount in issue at beginning of year  | 892,700 | 311,000 |
| Unamortised premium at beginning of year      | 84,077  | 5,549  |
| Premium adjustment                            | -       | 336    |
|                                                  | 976,777 | 316,885 |
| Bonds issued in year                          | 250,500 | 652,200 |
| Less retained at end of year                  | -       | (70,500) |
|                                                  | 1,227,277 | 898,585 |
| Premium on issue of Bonds                     | 39,287  | 80,340  |
| Premium amortised in year                     | (3,390) | (2,148) |
| Amortised cost at end of year                 | 1,263,174 | 976,777 |
| Less: premium due within one year             | (3,613) | (2,406) |
| Amount due after more than one year           | 1,259,561 | 974,371 |

| **Bank borrowings**                           |       |       |
| At beginning of year                          | 845,500 | 500,000 |
| Bank borrowings in the year                   | 654,500 | 345,500 |
| At end of year                                | 1,500,000 | 845,500 |
| Less: falling due within one year             | -      | -      |
| Amount due after more than one year           | 1,500,000 | 845,500 |
| **Total falling due after more than one year**| 3,407,975 | 2,469,684 |

Details of security are set out in note 3.

The 3.8% Guaranteed Secured Bonds are listed and repayable 2042/44 and were issued in the following tranches:
The 2.893% Guaranteed Secured Bonds are listed and repayable 2043/45 and were issued in the following tranches:
On 12 May 2016 the company signed a further £500m credit facility with the European Investment Bank (EIB). The total credit facility with EIB now stands at £1,500m of which £1,500m was drawn as at year end.

The interest rates on the bank borrowings are both fixed and floating and the fixed rates are between the range 1.365% and 3.29%.

### 14. OTHER PAYABLES

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>£000</td>
<td>£000</td>
<td></td>
</tr>
<tr>
<td>Net premium on Secured Bonds due within one year</td>
<td>5,012</td>
<td>3,764</td>
</tr>
<tr>
<td>Interest payable</td>
<td>16,601</td>
<td>13,311</td>
</tr>
<tr>
<td>Intra-group payables</td>
<td>2,397</td>
<td>1,420</td>
</tr>
<tr>
<td>Other payables</td>
<td>98</td>
<td>284</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>24,108</td>
<td>18,779</td>
</tr>
</tbody>
</table>

### 15. SHARE CAPITAL

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>£000</td>
<td>£000</td>
<td></td>
</tr>
<tr>
<td>Allotted, called up and quarter paid</td>
<td></td>
<td></td>
</tr>
<tr>
<td>50,000 (2017:50,000) ordinary shares of £1 each</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>13</td>
<td>13</td>
</tr>
</tbody>
</table>

The company's capital comprises only its share capital and retained earnings (note 16) which the directors consider adequate for its ongoing working capital requirements. The company is not subject to externally imposed capital requirements.

### 16. RETAINED EARNINGS

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>£000</td>
<td>£000</td>
<td></td>
</tr>
<tr>
<td>Opening reserves</td>
<td>4,662</td>
<td>3,028</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>1,417</td>
<td>1,634</td>
</tr>
<tr>
<td>Closing reserves</td>
<td>6,079</td>
<td>4,662</td>
</tr>
</tbody>
</table>
17. CONTRACTUAL CASH FLOWS

The table below summarises the cash flows payable by the group from 31 March 2018 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 2018 remain unchanged until the contract maturity.

<table>
<thead>
<tr>
<th></th>
<th>Due within one year £000</th>
<th>Due within one to two years £000</th>
<th>Due within two to five years £000</th>
<th>Due in over five years £000</th>
<th>Total £000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2018</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3,244,100</td>
</tr>
<tr>
<td>Interest</td>
<td>83,612</td>
<td>83,763</td>
<td>251,286</td>
<td>1,504,652</td>
<td>1,923,313</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>83,612</td>
<td>83,763</td>
<td>251,286</td>
<td>4,748,752</td>
<td>5,167,413</td>
</tr>
<tr>
<td><strong>2017</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2,339,100</td>
</tr>
<tr>
<td>Interest</td>
<td>65,093</td>
<td>65,368</td>
<td>196,110</td>
<td>1,257,063</td>
<td>1,583,634</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>65,093</td>
<td>65,368</td>
<td>196,110</td>
<td>3,596,163</td>
<td>3,922,734</td>
</tr>
</tbody>
</table>

18. RECONCILIATION OF PROFIT TO NET CASH GENERATED FROM OPERATIONS

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Results before taxation</td>
<td>1,749</td>
<td>2,043</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest receivable</td>
<td>(68,798)</td>
<td>(51,824)</td>
</tr>
<tr>
<td>Interest payable</td>
<td>68,798</td>
<td>51,824</td>
</tr>
<tr>
<td>Change in working capital:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Increase) in receivables</td>
<td>(436)</td>
<td>(666)</td>
</tr>
<tr>
<td>Increase in payables</td>
<td>792</td>
<td>701</td>
</tr>
<tr>
<td>Tax paid</td>
<td>(322)</td>
<td>(442)</td>
</tr>
<tr>
<td><strong>Cash generated from operations</strong></td>
<td>1,783</td>
<td>1,636</td>
</tr>
</tbody>
</table>
19. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

In respect of the 3.80% & 2.893% Secured Bonds the fair value of the associated fixed rate loans to borrowers is similarly adjusted for appropriate credit spreads (Both Level 2 valuation).

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

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

<table>
<thead>
<tr>
<th>Financial assets:</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrying value</td>
<td>Fair Value</td>
<td>Carrying value</td>
</tr>
<tr>
<td>£000</td>
<td>£000</td>
<td>£000</td>
</tr>
<tr>
<td>Loans to borrower(s)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current</td>
<td>3,407,975</td>
<td>2,469,684</td>
</tr>
<tr>
<td>Current</td>
<td>5,012</td>
<td>3,764</td>
</tr>
<tr>
<td>Total</td>
<td>3,412,987</td>
<td>2,473,448</td>
</tr>
<tr>
<td>Interest receivable</td>
<td>16,599</td>
<td>13,309</td>
</tr>
<tr>
<td>Other receivables</td>
<td>1,362</td>
<td>925</td>
</tr>
<tr>
<td>Total financial assets</td>
<td>3,430,948</td>
<td>2,487,682</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial liabilities:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Classified as Financial Liabilities at Amortised Costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Secured Bonds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current</td>
<td>3,407,975</td>
<td>2,469,684</td>
</tr>
<tr>
<td>Current</td>
<td>5,012</td>
<td>3,764</td>
</tr>
<tr>
<td>Total</td>
<td>3,412,987</td>
<td>2,473,448</td>
</tr>
<tr>
<td>Interest payables</td>
<td>16,599</td>
<td>13,311</td>
</tr>
<tr>
<td>Other payables and accruals</td>
<td>2,495</td>
<td>1,003</td>
</tr>
<tr>
<td>Total financial liabilities</td>
<td>3,432,081</td>
<td>1,480,292</td>
</tr>
</tbody>
</table>

20. RELATED PARTY TRANSACTIONS

The company operates the Government’s Affordable Homes Guarantee Scheme under a Licence awarded by the Secretary of State for MHCLG. MHCLG appoints two nominees to the board and receives the director’s fees in respect of one nominee. No other fees are payable between the parties.
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 £4,681,816 (2017: £4,853,560). The amount due to THFCS as at 31 March 2018 was £555,974 (2017: £1,419,761).

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

21. ULTIMATE PARENT UNDERTAKING AND INCORPORATION

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

22. 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 2018 amounted to £194.4m (2017: £304.0m).

23. IMPACT OF GRENFELL TOWER TRAGEDY

Last year’s report and accounts was written in the immediate aftermath of the Grenfell Tower tragedy and soon afterwards the Company surveyed all AHF borrowers to ascertain their potential exposure to remediation of high-rise buildings with flammable cladding. The definition of ‘high-rise’ that the group used mirrored the MHCLG definition of ‘6 floors or over’. A total of 5 blocks were identified. Throughout the financial year we have been periodically updated by these HAs. At the end of the year, a small number of our clients have been impacted, but not materially so. In one or two cases, housing association development plans have been slowed down to accommodate potential remediation costs although the government recently announced its intention to fully fund any such costs.