

BLEND FUNDING PLC

Annual Report

**For the 47 Week Period from Incorporation on 9 May
2018 to 31 March 2019**

Companies House Number: 11352234

BLEND FUNDING PLC

Annual Report for the 47 weeks ended 31 March 2019

Contents

Page:

1 - 2	Directors' Report
3 - 4	Strategic Report
5 - 7	Independent Auditors' Report to the Members of Blend Funding Plc
8	Statement of Comprehensive Income
9	Statement of Financial Position
10	Statement of Changes in Equity
11	Statement of Cash flows
12 - 26	Notes to the Financial Statements

Directors

F. Edge (appointed 9th May 2018)
P. Williamson (appointed 9th May 2018)
C. Burke (appointed 9th May 2018)
G. Blunden (appointed 26th May 2019)
S. Bottles (appointed 3rd August 2018)
K. Exford (appointed 3rd August 2018)
J. Parker (appointed 3rd August 2018)
G. Payne (appointed 3rd August 2018)
I. Peacock (appointed 3rd August 2018)
W. Perry (appointed 3rd August 2018)
D. Shackleton (appointed 3rd August 2018)
W. Thomas (appointed 14th May 2019)

Company Secretary

C. Burke (appointed 9th May 2018)

Registered Office

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

Company Number

11352234

Independent Auditors

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

The directors submit their directors' report, strategic report and audited financial statements for the 47 weeks ended 31 March 2019.

BLEND FUNDING PLC

DIRECTORS' REPORT

47 weeks ended 31 March 2019

RESULTS AND DIVIDEND

Blend Funding Plc (the "Company") made a profit after tax for the period of £695,000.

The Directors consider the position of the Company at the year-end to be satisfactory.

SHARE CAPITAL AND COMPANY STRUCTURE

Blend Funding 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 period and up to the date of signing the financial statements were:

F. Edge	(appointed 9 th May 2018)
P. Williamson	(appointed 9 th May 2018)
C. Burke	(appointed 9 th May 2018)
G. Blunden	(appointed 26 th May 2019)
S. Bottles	(appointed 3 rd August 2018)
K. Exford	(appointed 3 rd August 2018)
J. Parker	(appointed 3 rd August 2018)
G. Payne	(appointed 3 rd August 2018)
I. Peacock	(appointed 3 rd August 2018)
W. Perry	(appointed 3 rd August 2018)
D. Shackleton	(appointed 3 rd August 2018)
W. Thomas	(appointed 14 th May 2019)

CORPORATE GOVERNANCE

As an issuer of asset-backed securities (the secured notes), the operations of the company are conducted by an administrator, T.H.F.C. (Services) Limited, in accordance with the requirements of a corporate services agreement and the trust deed. This arrangement is monitored by the board of directors who are also directors of the administrator (with the exception of Shirley Smith). There is no requirement for a separate audit committee.

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;

BLEND FUNDING PLC

DIRECTORS' REPORT (continued) 47 weeks ended 31 March 2019

- 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.

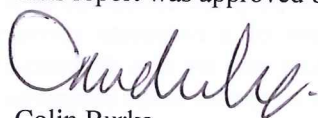
DISCLOSURE OF INFORMATION TO AUDITORS

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

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



Colin Burke
Company Secretary
30 July 2019

BLEND FUNDING PLC

STRATEGIC REPORT

47 weeks ended 31 March 2019

PRINCIPAL ACTIVITY

Blend Funding Plc (the 'Company') was incorporated on 9 May 2018.

The principal activity of the Company is to raise debt for the purpose of on-lending to registered providers of social housing, registered social landlords and registered housing associations, in England, Wales, Scotland and Northern Ireland (HAs") through the issue of notes under a Secured Euro Medium Term Note Programme established on 8 August 2018. The maximum aggregate principal amount of all Notes from time to time outstanding under the Programme will not exceed £2bn. All secured notes issued under the programme are ultimately secured on the borrowings of the HAs.

On 14 September 2018 the Company made an initial issue of Secured Notes to a nominal value of £250,000,000. The proceeds of the net nominal notes issued, £250,000,000, were on lent to borrowers on terms that ensured the Company was not exposed to any risk on changes of interest rates. A second issue of Secured Notes to a nominal value of £50,000,000 was made on 8 March 2019. £20,000,000 of these notes were retained by the issuer to finance further loans to HA borrowers at a later date.

The proceeds were on lent to the HAs noted below:

Fortis Living Limited
Hightown Housing Association Limited
Wales & West Housing Association Limited
Waterloo Housing Group Limited

The majority of the Group's operating costs, net of interest earned, are recoverable from the borrower.

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.

Neither T.H.F.C. (Services) nor the issuer undertake any credit due diligence on the borrowers, but will ensure that all borrowers go through a rating assessment process by Moody's sufficient to establish and maintain a rating on the Notes.

The Group expects to continue its principal activity for the life of the Programme until maturity of all secured notes outstanding.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The Company has fulfilled its obligations under the notes and expects to do so for the foreseeable future. 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.

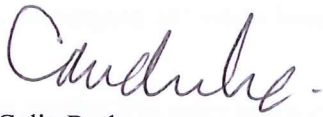
Since year end, a further issue of secured notes was made on 5 April 2019 amounting to a nominal value of £20,000,000.

The directors consider the position of the company at the year-end to be satisfactory.

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:



Colin Burke
Company Secretary
30 July 2019

BLEND FUNDING PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BLEND FUNDING PLC 47 weeks ended 31 March 2019

REPORT ON THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Blend Funding Plc (the **company**) for the period from 9 May 2018 to 31 March 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (**IFRSs**) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its result for the period 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.

BLEND FUNDING PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BLEND FUNDING PLC

(continued)

47 weeks ended 31 March 2019

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 work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic report and the Directors' report for the period 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 1 to 2, 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.

BLEND FUNDING PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BLEND FUNDING PLC

(continued)

47 weeks ended 31 March 2019

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

Use of this report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Nexia Smith & Williamson

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

25 Moorgate
London
EC2R 6AY

31 July 2019

BLEND FUNDING PLC**STATEMENT OF COMPREHENSIVE INCOME**
47 weeks ended 31 March 2019

	Note	2019 £000
OPERATING INCOME		
Interest receivable	4	4,600
Fees receivable and other income	2	<u>2,542</u>
		<u>7,142</u>
OPERATING EXPENDITURE		
Interest payable	5	4,600
Operating expenses	6	<u>1,684</u>
		<u>6,284</u>
PROFIT BEFORE TAXATION	7	858
Taxation	10	(163)
Profit after taxation		<u>695</u>
Other comprehensive income		-
TOTAL COMPREHENSIVE INCOME		<u><u>695</u></u>

BLEND FUNDING PLC

STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

ASSETS	Note	2019 £000
Non-current assets		
Loans to borrowers	9	280,000
Current assets		
Other receivables	11	829
Cash and cash equivalents		873
TOTAL ASSETS		<u><u>281,702</u></u>
EQUITY AND LIABILITIES		
Non-Current liabilities		
Financial liabilities – Secured Notes	12	280,000
Current liabilities		
Other payables	13	917
Current tax liabilities	13	77
TOTAL LIABILITIES		<u>280,994</u>
EQUITY		
Share capital	14	13
Retained earnings	15	695
TOTAL EQUITY		<u>708</u>
TOTAL EQUITY AND LIABILITIES		<u><u>281,702</u></u>

The accompanying notes on pages 12-26 are an integral part of these financial statements.

These financial statements on pages 8-26 were approved by the board and signed on its behalf by:



Ian Peacock
Director
30 July 2019

Blend Funding Plc

Registration Number 11352234

BLEND FUNDING PLC

STATEMENT OF CHANGES IN EQUITY
47 weeks ended 31 March 2019

	Called Up Share Capital	Retained Earnings	Total Equity
	£000	£000	£000
Balance as at 9 May 2018	-	-	-
Shares issued in period	13	-	13
Profit for period	-	695	695
Balance as at 31 March 2019	<u>13</u>	<u>695</u>	<u>708</u>

BLEND FUNDING PLC

STATEMENT OF CASH FLOWS
47 weeks ended 31 March 2019

	Note	2019 £000
NET CASH FLOW FROM OPERATING ACTIVITIES		
Cash generated from operations	18	946
Interest paid on borrowings		(4,324)
Interest received on loans		4,324
Loans advanced		(280,000)
Tax paid		(86)
NET CASH (USED IN) OPERATING ACTIVITIES		<u>(279,140)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Net proceeds from issue of notes		280,000
Share capital paid		13
NET CASH GENERATED FROM FINANCING ACTIVITIES		<u>280,013</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS IN THE PERIOD		873
CASH AND CASH EQUIVALENTS AT INCORORATION		-
CASH AND CASH EQUIVALENTS AT 31 MARCH		<u><u>873</u></u>

BLEND FUNDING PLC

NOTES TO THE FINANCIAL STATEMENTS

47 weeks ended 31 March 2019

1. GENERAL INFORMATION

Blend Funding Plc (the “Company”) provides finance to registered providers of social housing, registered social landlords and registered housing associations, in England, Wales, Scotland and Northern Ireland (HAs”). The Company is a public limited company which raises funding through issuing Secured Notes listed on the International Securities Market of the London Stock Exchange. It is incorporated and domiciled in the England and Wales.

It is the intention that, on occasions the Company will retain a certain number of notes from a particular issue of Secured Notes. The retained notes will be held at par on the Company’s balance sheet and netted off against the total amount of notes outstanding until such time as they are sold 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 policies have been consistently applied to all years presented unless otherwise stated.

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.

(a) *New and amended Standards and Interpretations issued but not effective for the financial year beginning 1 April 2018.*

- Annual improvements to IFRS 2015-2017 cycle (effective 1 January 2019, not yet EU endorsed): These improvements form part of the IASB’s annual improvement process which is designed to make necessary, but not urgent, amendments to IFRSs. The amendments relate to: IAS 12 Income taxes: The amendments clarify that a company accounts for all income tax consequences of dividend payments in the same way.

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

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

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.

BLEND FUNDING PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

47 weeks ended 31 March 2019

Interest

Interest receivable on loans to the borrowers and interest payable on the secured notes is accounted for using the effective interest rate method. Any premium/discount on issue is added to/deducted from the original loan amount or secured notes' 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 notes so that the interest receivable and payable, as adjusted for the amortisation of premiums/discounts, gives a constant yield to maturity.

Fees and premiums receivable

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

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

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

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

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")

Initial recognition and measurement

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

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

Financial assets

Classification and measurement

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

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

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

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

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

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

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

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

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

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

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

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

BLEND FUNDING PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

47 weeks ended 31 March 2019

Reclassification

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

The Company holds the following debt instrument under financial assets:

Loans receivable

The Loans receivable represent monies lent to HAs under the terms of a loan agreement and held at amortised cost.

Cash and bank balances

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

Trade and other receivables

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

Impairment

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

IFRS 9 permits the use of models for estimating expected losses that do not require explicit scenario and probability analysis. The directors are of the opinion that historical average credit loss experience in relation to the loans is a reasonable estimate of the probability-weighted amount.

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

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

The measurement of ECL of the loans reflects:

- (a) The loss experience of the company in relation to its loans
- (b) reasonable and supportable information on the social housing sector that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of the future operating environment
- (c) Performance of the borrower in relation to the loans

The company operates within a loss free sector and all four borrowers have complied with their obligations under their respective loan agreements since inception. To be eligible for funding all borrowers have to meet a pre-requisite high quality investment grade rating assigned by Moody's.

BLEND FUNDING PLC

NOTES TO THE FINANCIAL STATEMENTS (continued) 47 weeks ended 31 March 2019

For these reasons the company does not use a complex expected loan loss model and bases its assessment of 12-month expected credit loss solely on its loss experience to date also the fact that there are no material indicators of future losses.

Management's view therefore is that the calculation of expected credit loss for blend's loans is zero.

Management monitor the performance of the borrowers only in relation to payment and covenant obligations contained in each borrower's loan agreement.

Collateral arrangements are described in note 3 on page 18.

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

The Company has identified a number of early warning indicators (EWIs) against which its loan is monitored. If any of the events occur, internal consideration is given as to whether the loan should move to stage 2 classification.

EWIs include but are not restricted to, the following:

- (a) Borrower's annual financial statements carry an auditor's qualification
- (b) Government or regulatory action which negatively impacts on the borrower's business
- (c) Down grade of the borrower to below investment grade rating
- (d) Payment of interest and capital after due date for other than operational reasons

Definition of default (movement to stage 3)

The Company has identified a series of criteria that will be used to determine if a loan meets the definition of default, and therefore should move to stage 3:

- (a) payment default
- (b) cross default
- (c) breach of covenant(s)

Derecognition

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

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

Financial Liabilities - Secured notes

Classification and measurement

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

Financial liabilities include borrowings and trade and other payables.

BLEND FUNDING PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

47 weeks ended 31 March 2019

Initial recognition and subsequent measurement

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

Derecognition

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

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 for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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

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.

The company's secured notes are tradable, but the markets are not considered to be active. Accordingly, market prices of the 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 loan to THFC is similarly adjusted for appropriate credit spreads (Level 2 valuation) on the basis that the Standard and Poor's credit rating of the company is dependent on that of THFC.

Prepayment

Although all loans are expected to run to maturity a borrower may, in accordance with the terms of its loan agreement, prepay the whole or part of the outstanding amount of its original loan. Any prepayment

BLEND FUNDING PLC

NOTES TO THE FINANCIAL STATEMENTS (continued) **47 weeks ended 31 March 2019**

proceeds will be applied in accordance with the Trust Deed which may include redemption of bonds or purchase and cancellation of bonds by the company.

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

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.

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.

3. FINANCIAL RISK MANAGEMENT

The proceeds from the issue of the secured notes were used to make loans to HAs.

Credit risk

The company is subject to gross credit risk on its loans but no net risk.

The ability of the company to make payments of interest, principal and any other sums due in respect of the notes will depend on the company receiving like amounts from the borrowers under their loan agreements.

To the extent that the company does not receive sufficient amounts in respect of such loan agreements (whether in the ordinary course of business, following the enforcement of its security obtained in respect of each loan agreement or otherwise) then the company will not have sufficient monies to pay interest, principal or other sums due in respect of the notes.

The carrying value of the loans represents the maximum exposure to gross credit risk. No loans are past due or impaired at 31 March 2019.

Gross credit risk on the loans is mitigated by the collateral and security arrangements described below:

The Programme has been assigned a Moody's rating of "A2" driven by the weighted average rating of its pool of borrowers and this also determines the eligibility of new borrowers.

Collateral and security arrangements

The investors in the company benefit from a floating charge over the company's assets which are primarily its secured loans to HAs.

Law Debenture Trust Corporation Plc acts as the trustee on behalf of all secured noteholders, under the terms of a Trust Deed, and has the benefit of the floating charge over all the assets of the issuer.

BLEND FUNDING PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

47 weeks ended 31 March 2019

HAs who borrow from the company create a first fixed charge in favour of the company over certain property assets. All of the company's assets, including the loans to the HAs, and the security granted in respect of its assets are pooled rather than being allocated to specific liabilities of the company. As such the obligations to the investors are indirectly secured by the properties owned by the HA borrowers. As the investors are secured by a floating charge on the whole of the company's pooled undertakings it is not practical or cost effective to obtain a measure of the book or fair value of this collateral.

The company is required to obtain a charge over the assets of HAs which, at all times during the life of each loan, covers at least 110% of the outstanding loan balance and 100% income cover. The latter is to ensure that the debt is adequately serviced from the relevant assets through to maturity in the event of a default. Formal property valuations of the specific security are undertaken at least every five years. The range of borrowing HAs assists in diversification of the credit risks faced by investors. All HA borrowers are subject to external regulation by the regulator of social housing in the relevant jurisdiction.

Collateral, unless subject to enforcement, is not recorded on the Company's statement of financial position.

Liquidity risk

To mitigate liquidity risk the company collects interest payments from borrowers one month prior to payment to noteholders. Additionally borrowers maintain a debt service reserve fund, with Blend as trustee, which amounts to a minimum of one year's worth of interest that can be drawn upon in the event of non payment by an HA borrower

There is a two-year maturity mis-match between expected and legal maturity of the secured notes. This means if the borrower has insufficient funds to repay the principal amount outstanding on its loan on the expected maturity date then repayment of the relevant note will be postponed to the legal maturity date.

Interest is receivable half yearly in arrears at an amount equal to the relevant borrower's proportionate share of all interest falling due for payment by the company on the secured notes. The maturity analysis of financial liabilities is given in note 12.

As with credit risk to the extent that the company does not receive sufficient amounts in respect of the loan agreements (whether in the ordinary course of business, following the enforcement of its security obtained in respect of each loan agreement or otherwise) and the company has drawn in full on any relevant debt service reserves, then the company will not have sufficient monies to pay interest, principal or other sums due in respect of the notes.

Interest rate risk

The interest charged on the loans is fixed and is equal to the interest payable on the related secured notes and hence there is no cash flow risk between the receipt and payment of interest. Accordingly, the directors consider that the company is not subject to any risk on the fluctuation of interest rates.

Fair value risk and market price risk

There is a gross fair value risk on the loans and secured notes but there is no net risk. Market price risk is not expected to impact on the company because (i) the loans and secured notes 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.

BLEND FUNDING PLC

NOTES TO THE FINANCIAL STATEMENTS (continued) 47 weeks ended 31 March 2019

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.

Fair Values

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

4. INTEREST RECEIVABLE

	2019
	£000
Interest receivable on debenture stocks and bank loans	4,600
	<u>4,600</u>

5. INTEREST PAYABLE

	2019
	£000
Interest payable on secured notes	4,600
	<u>4,600</u>

6. OPERATING EXPENSES

	2019
	£000
Management fee payable	1,638
Other	46
	<u>1,684</u>

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

7. PROFIT BEFORE TAXATION

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

	2019
	£000
Fees paid to auditors for:	
Annual audit of financial statements – current period	<u>5</u>

BLEND FUNDING PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

47 weeks ended 31 March 2019

8. EMPLOYEES

There were no employees during the year other than the directors. The directors received no remuneration during the year directly from the company in respect of their qualifying services. All directors are remunerated by T.H.F.C. (Services) Limited for their services to the company. It is not practicable to obtain the relevant data to accurately disclose the company's share of this cost. Related party transactions are given in note 19.

9. LOANS TO BORROWERS

	2019 £000
Amortised Cost	
At beginning of period	-
Loans made in the period	280,000
Loans repaid during the period	-
At end of year	<u>280,000</u>
Less: repayable within one year	-
	<u>280,000</u>
The amounts are repayable as follows:	
Between one and two years	-
Between two and five years	-
In five years or more	280,000
	<u>280,000</u>

10. TAXATION

	2019 £000
UK Corporation tax at 19%	<u>163</u>

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

11. OTHER RECEIVABLES

	2019 £000
Falling due within one year	
Recoverable issue costs	218
Other debtors	335
Accrued interest	276
	<u>829</u>

BLEND FUNDING PLC**NOTES TO THE FINANCIAL STATEMENTS (continued)**
47 weeks ended 31 March 2019**12. FINANCIAL LIABILITIES – SECURED NOTES**

	2019 £000
At beginning of period	-
Notes issued during the period	280,000
Less: redeemed during the period	-
At end of period	<u>280,000</u>
Due within one year	-
Amount due after one year	<u>280,000</u>
Between one and two years	-
Between two and five years	-
In five years or more	280,000
	<u>280,000</u>

13. OTHER PAYABLES

	2019 £000
Falling due within one year	368
Intra-group payables	77
Taxation	276
Accrued interest	273
Other creditors	994
	<u>994</u>

14. SHARE CAPITAL

	2019 £000
<i>Allotted, called up and quarter paid</i> 50,000 ordinary shares of £1 each	<u>13</u>

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.

15. RESERVES

	2019 £000
Opening reserves	-
Total comprehensive income for the year	695
Closing reserves	<u>695</u>

BLEND FUNDING PLC**NOTES TO THE FINANCIAL STATEMENTS (continued)**
47 weeks ended 31 March 2019**16. CONTRACTUAL CASH FLOWS**

The table below summarises the cash flows payable by the company until contractual maturity of all its secured notes as at 31 March 2019.

2019	Within 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000	Total £000
Contractual interest cash flows	9,543	9,543	28,628	212,168	259,882
Contractual principal cash flows	-	-	-	280,000	280,000
Total contractual cash flows	<u>9,543</u>	<u>9,543</u>	<u>28,628</u>	<u>492,168</u>	<u>539,882</u>

All the above cash flows are substantially matched by cash flows receivable on the company's loan assets.

BLEND FUNDING PLC

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

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Level 2 fair value of the secured notes and the Level 2 fair value of the associated loans, as at 31 March 2019 are shown below. The fair value is derived from the market value of the secured notes at that date. There is no difference between the fair value and carrying value of all other financial assets and liabilities.

	2019	
	Carrying value £'000	Fair value £'000
Financial assets:		
<i>Classified as loans & receivables</i>		
Loan to borrower(s)		
Non-current	280,000	
Current	-	
	<hr/>	<hr/>
Total	280,000	300,190
Interest receivable	276	276
Other receivables	553	553
	<hr/>	<hr/>
Total financial assets	280,829	301,019
	<hr/> <hr/>	<hr/> <hr/>
Financial liabilities:		
<i>Classified as financial liabilities at amortised cost</i>		
Secured Notes		
Non-current	280,000	
Current	-	
	<hr/>	<hr/>
Total	280,000	300,190
Interest payable	276	276
Other payables	641	641
	<hr/>	<hr/>
Total financial liabilities	280,917	301,107
	<hr/> <hr/>	<hr/> <hr/>

18. RECONCILIATION OF PROFIT TO NET CASH USED IN OPERATIONS

	2019 £000
Profit before taxation	858
Adjustments for:	
Interest receivable	(4,600)
Interest payable	4,600
Changes in working capital:	
(Increase) in receivables	(553)
Increase in payables	641
Cash generated from operations	<hr/> 946 <hr/>

BLEND FUNDING PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

47 weeks ended 31 March 2019

19. RELATED PARTY TRANSACTIONS

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 year amounted to £1,638,042. The amount due to THFCS as at 31 March 2019 was £367,761.

The directors of THFCS are also directors of the Company with the exception of Shirley Smith. The executive directors are employees of and paid by THFCS.

20. SEGMENTAL INFORMATION

Details of borrowers whose total interest payable to the company exceeds 10% of the total interest receivable for the year are given below.

Borrower	2019
	%
Waterloo Housing Group Limited	40
Fortis Living Limited	25
Wales & West Housing Association Limited	25
Hightown Housing Association Limited	10
Total	100

21. SECURITY OFFERED TO INVESTORS

Blend Funding Plc is a special purpose vehicle and the security offered to investors is limited only to the assets of the company being principally the secured loans and share capital. The shareholders of the company’s parent, T.H.F.C. (Services) Limited cannot be held liable for the debts of the company in the event of insolvency.

22. ULTIMATE PARENT UNDERTAKING AND INCORPORATION

The Company’s immediate parent undertaking and controlling company is T.H.F.C. (Services) Limited which is incorporated and registered in England and Wales. The ultimate parent undertaking is The Housing Finance Corporation Limited (“THFC”) which is a registered society incorporated under the Co-operative and Community benefit Societies Act 2014. THFC is the only company to prepare consolidated financial statements which include the Company. The consolidated financial statements of THFC may be obtained from the Company Secretary, The Housing Finance Corporation Limited, 3rd floor, 17 St. Swithin’s Lane, London, EC4N 8AL, the Company’s registered office.

23. CASH SECURITY ACCOUNTS AND LIQUIDITY RESERVE FUNDS

Under certain circumstances, an element of the security for loans made to housing associations can be cash. In those circumstances, Blend 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 Cash Security Account Trust Deed or Liquidity Reserve Fund Trust Deed between the borrower, Blend (as lender) and Blend (as Trustee).

Cash flows relating to cash security accounts and liquidity reserve funds are processed separately from Blend's own funds and invested only as directed by the borrower. Funds held by the company as Trustee as 31 March 2019 amounted to £119.6m.

24. POST YEAR END EVENTS

A further issue of secured notes was made on 5 April 2019 amounting to a nominal value of £20,000,000.