

bpha Finance plc

FINANCIAL STATEMENTS

For the year ended 31 March 2017

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bpha Finance plc

FINANCIAL STATEMENTS **For the year ended 31 March 2017**

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bpha Finance plc

COMPANY INFORMATION

For the year ended 31 March 2017

Board of Directors:	Kevin Bolt Paul Gray Simon Century (resigned 29 April 2016)
Company secretary:	Philippa Spratley
Registered office address:	Bedford Heights Manton Lane Bedford MK41 7BJ
Company Registration Number:	08926923 (England and Wales)

bpha Finance plc

STRATEGIC REPORT For the year ended 31 March 2017

The directors present their strategic report with the financial statements of bpha Finance plc ("The Company") for the year ended 31 March 2017.

Principal activities

The principal activity of the Company in the year under review was issuing bonds, sourcing financing and lending these funds to bpha Limited.

Business review

bpha Finance plc has not issued any further bonds during the year ended 31 March 2017. The Company maintains the relationship with external funders in its capacity as the financing company within the Group. Interest is payable to third parties by bpha Finance plc and is ultimately charged to, and borne by, bpha Limited on the loans taken on behalf of the Group.

Financial review

The Company operates on a no profit/no loss basis. For the year ended 31 March 2017, the Company result was £nil.

Principal risks and uncertainties

The company is part of the bpha Group which is committed to effective business risk management. The main risks that may prevent the company achieving its objectives are considered and reviewed in accordance with the bpha Group's risk strategy and procedures.

Refer to Note 9 for discussion of the types of risks faced and their mitigation.

This report was approved by the Board of Directors on 18 July 2017 and signed on behalf of the Board by:



Paul Gray
Director

bpha Finance plc

DIRECTORS' REPORT **For the year ended 31 March 2017**

The directors present their report and audited financial statements of the Company for the year ended 31 March 2017.

Registration Details

bpha Finance is a company limited by shares under the Companies Act 2006 (no 08928998). The company is a subsidiary of bpha Limited ("The Group") and was incorporated on the 6 March 2014.

Directors

The directors shown below have held office during the whole of the year:

Kevin Bolt
Paul Gray

Statement as to disclosure of information to auditors

The directors who held office at the date of approval of this Directors Report confirm that, so far as they are each aware, there is no relevant information which the Company's auditors are unaware, and each director has taken steps that they ought to have taken as a director to make themselves aware of any relevant information and to establish that the Company's auditors are aware of this information.

Auditors

A resolution to reappoint KPMG LLP as auditors of the Company will be submitted to the 2017 Annual General Meeting.

Political and charitable donations

There were no charitable donations and no contributions to political organisations were made during the year (2015/16: £nil).

Future developments

The Directors are satisfied with the results since incorporation and expect future performance to continue on the same basis.

Directors Indemnity provisions

bpha Finance plc has insurance policies which indemnify its Board against liability when acting for the Company.

Post Balance sheet events

A payment of £4,816,000 was made to the bond investors on the 10 April 2017.

This report was approved by the Board of Directors on 18 July 2017 and signed on behalf of the Board by:



Paul Gray
Director

bpha Finance plc

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, the Directors' 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

This report was approved by the Board of Directors on 18 July 2017 and signed on behalf of the Board by:


Paul Gray
Director

bpha Finance plc

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BPHA FINANCE PLC

We have audited the financial statements of bpha Finance plc for the year ended 31 March 2017 set out on pages 6 to 14. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its result for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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



Sarah Brown (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill, Snow Hill Queensway,
Birmingham, B4 6GH.

28th July 2017

bpha Finance plc

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2017

	Note	2017 £	2016 £
Interest Income	3	9,669,487	9,738,464
Interest Expense		(9,669,487)	(9,738,464)
Gross profit		<u>-</u>	<u>-</u>
Tax on Profit on ordinary activities		<u>-</u>	<u>-</u>
Profit for the financial year		<u>-</u>	<u>-</u>

All results for the year are in respect of continuing operations.

bpha Finance plc

STATEMENT OF FINANCIAL POSITION

As at 31 March 2017

	Note	2017 £	2016 £
Current Assets			
Debtors: due within one year	6	4,552,210	4,605,581
Debtors: due after more than one year	6	199,349,245	199,326,891
Cash at bank and in hand		12,494	485,219
Total Assets		203,913,949	204,417,691
Creditors: amount falling due within one year	7	(4,552,205)	(5,078,300)
Total Assets less Current Liabilities		199,361,744	199,339,391
Creditors: amounts falling due after more than one year	8	(199,349,244)	(199,326,891)
Net Assets		12,500	12,500
Capital and Reserves			
Called up Share Capital	10	12,500	12,500
Profit and Loss Account		-	-
Equity Shareholders' Funds		12,500	12,500

The financial statements were approved by the Board of Directors on 18 July 2017.

Signed on behalf of the Board by:



Paul Gray
Director

bpha Finance plc

STATEMENT OF CHANGES IN EQUITY As at 31 March 2017

	Share Capital £	Reserves £	Total Equity £
Balance at 1 April 2015	12,500	-	12,500
Shares issued during the year	-	-	-
Balance at 31 March 2016	12,500	-	12,500

	Share Capital £	Reserves £	Total Equity £
Balance at 1 April 2016	12,500	-	12,500
Movements for the year	-	-	-
Balance at 31 March 2017	12,500	-	12,500

bpha Finance plc

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

1. Principal Accounting policies

Basis of measurement and preparation of accounts

The financial statements of the Company are prepared under the historic cost convention and in accordance with Financial Reporting Standard 102 – The applicable financial reporting standard in the UK and Republic of Ireland, in accordance with applicable accounting standards and on a going concern basis.

Under FRS 102 section 1.12, the Company is exempt from the requirement to prepare a cash flow statement or disclose transactions or balances with entities which form part of the Group on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

Going Concern

The Company is expected to continue to generate sufficient cash flows on its own account for the foreseeable future. The Company participates in the Group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries.

The Directors, having assessed the responses of the Directors of the Company's parent bpha Limited to their enquiries, have no reason to believe that a material uncertainty exists that may cast significant doubt over the ability of the bpha Limited Group to continue as a going concern or over its ability to continue with the current banking arrangements.

Based on their assessment of the Company's financial position and of the enquiries made of the Directors of bpha Limited, the Company's Directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. Thus, they adopt the going concern basis of accounting in preparing the annual financial statements.

Financial Assets

Financial assets are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets are initially recognised at fair value adjusted by transaction costs. Following initial recognition, all financial assets have been classified as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Intercompany debtors are classified as loans and receivables. Loans and receivables are measured after initial recognitions at amortised cost, discounted at a rate equal to the original effective rate, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the profit and loss account.

Financial Liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Company becomes party to the contractual provisions of the instrument. Financial liabilities are recorded initially at fair value, net of direct interest costs.

The only financial liabilities held are classified as other liabilities, and consequently are initially recorded at fair value, and subsequently held at amortised cost.

Financial liabilities are derecognised only when the obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.

With the exception of the Company's borrowings (Note 9), there is no difference between the carrying value and fair value of the Company's financial assets and liabilities.

bpha Finance plc

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2017

Interest Payable and Receivable

Interest payable and receivable is accrued over the term of the related borrowing or loan so as to recognise the total income/cost evenly over the life of the loan or deposit.

2. Directors' Emoluments and Employee information

None of the Directors received remuneration for their services as a Director of bpha Finance plc. Those Directors who also serve on the bpha Limited Board are remunerated for their services by bpha Limited.

bpha Finance plc has no direct employees. Those employees who perform duties for bpha Finance plc are remunerated by the parent company, bpha Limited.

3. Other Operating Income

	2017	2016
	£	£
Interest Income	<u>9,669,487</u>	<u>9,738,464</u>

4. Interest Payable

Interest payable relates to interest payable on the bonds sold to investors together with amortisation of set up fees.

5. Profit on Ordinary Activities before tax

The audit fee is borne by the parent company, bpha Limited. The Group accounts of the parent, bpha Limited, disclose the non-audit fees paid to the Group's auditors.

6. Debtors

	2017	2016
	£	£
Due within one year		
Amounts due from parent undertaking	<u>4,552,210</u>	<u>4,605,581</u>
Due after more than one year		
Amounts due from parent undertaking - On Bonds issued	200,000,000	200,000,000
- Set-up fees on Bonds issued	<u>(650,755)</u>	<u>(673,109)</u>
	<u>203,901,455</u>	<u>203,932,472</u>

The amount due within one year from parent undertaking, bpha Limited, is for the interest payable on the intercompany loan to bpha Limited. The amount due after more than one year relates to the loan provided to bpha Limited.

bpha Finance plc

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2017

7. Creditors: Amounts falling due within one year

	2017	2016
	£	£
Amount due to parent undertaking	-	(541,781)
Amount due to investors	(4,552,205)	(4,536,519)
	(4,552,205)	(5,078,300)

The amount owing to the parent undertaking, bpha Limited, represents the liability for the bond issued during the year and is comprised of the bond premium.

8. Creditors: Amounts falling due after more than one year

	2017	2016
	£	£
Amount due to investors	(200,000,000)	(200,000,000)
Set-up fees on Bonds issued	650,756	673,109
	(199,349,244)	(199,326,891)

Bonds

On 11 April 2014, the Company issued £200,000,000 of bonds of which £60,000,000 were retained by the Company pending future sales within 5 years. The remaining £140,000,000 of bonds were sold at a specified denomination of £140,000,000 repayable on 10 April 2044 at par, with interest payable at a fixed rate of 4.816%.

On 30 September 2014, the Company sold £13,150,000 of bonds at a specified denomination of £13,150,000 repayable on 10 April 2044 at par, with interest payable at a fixed rate of 4.816%.

On 3 February 2015, the Company sold £8,000,000 of bonds at a specified denomination of £8,000,000 repayable on 10 April 2044 at par, with interest payable at a fixed rate of 4.816%.

On 4 March 2015, the Company sold £38,850,000 of bonds at a specified denomination of £38,850,000 repayable on 10 April 2044 at par, with interest payable at a fixed rate of 4.816%.

The bonds are secured by a first fixed charge on properties owned by bpha Limited.

bpha Finance plc has not issued any further bonds during the year ended 31 March 2017.

9. Financial Instruments

Fair values of Financial Instruments

The fair values of all financial assets and liabilities by class together with their carrying amounts shown in the balance sheet are as follows:

	Carrying amount	Fair Value
	£	£
Financial assets		
Other loans and receivables	200,000,000	270,180,000
Financial liabilities measured at amortised cost		
Other interest-bearing loans and borrowings	(200,000,000)	(270,180,000)

bpha Finance plc

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2017

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

bpha Finance plc has no financial instruments measured at fair value so fair value hierarchy disclosure requirements do not apply. All financial assets held by the Company (loans and receivables) qualify to be held at amortised cost, therefore the requirement to disclose the effect of changing the inputs in calculation of fair values is not considered applicable.

At 31 March 2017, the fair value of the Company's long term debt was £270,180,000.

The fair value of financial liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Financial risk management

- **Risk management objectives and policies**

The main objective for bpha Finance plc is to raise bond funding from the Debt Capital Markets and if this was deemed necessary, extensive analysis would be presented to the Group Finance and Treasury Committee. Any decision to proceed would need formal authorisation from the Group Finance and Treasury Committee in conjunction with the bpha Finance plc board.

- **Credit risk**

All the company's capital markets financing proceeds are immediately on-lent to bpha Limited, which represents the only credit risk to the company. The credit risk is mitigated through the housing assets used as security for the loan; this is supported by the contractual protection of the loan agreement as well as the overall credit worthiness of the Group. There is also a guarantee from the group parent, bpha Limited.

Following the bpha Group's annual review with Standard & Poor's (S&P), the Group's credit rating was re-affirmed as AA- (stable) in July 2015. This was based upon a stand-alone credit profile (SACP) of A+ which was then uplifted by one notch to AA- to reflect the likelihood of receiving extraordinary government support. Following the results of the UK's European referendum held on 23 June 2016 and the decision to exit the EU, the UK lost its AAA status and S&P removed the one notch uplift previously widely applied to the sector. Accordingly, on 4 July 2016 bpha Group was one of many associations whose rating was lowered, bpha Group's SACP remained unchanged at A+. The Group's financial viability status as determined by the Homes & Communities Agency remained at the highest level of V1 in recognition of the financial strength of the Association.

All trade receivables at the balance sheet date are due from other group entities.

- **Capital management**

	2017	2016
	£	£
Equity	<u>12,500</u>	<u>12,500</u>

The company defines capital as its net assets, or equity. At the reporting date, the company's long term borrowing was £200m (2016: £200m) all of which is offset through on-lending to bpha Limited.

- **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company lends the full amount of the proceeds of the bond, thus the entity has assets to fully offset liabilities and interest receivable to offset interest payable.

bpha Finance plc

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2017

The contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements, are in 28 years.

The debt is repayable as follows:

	2017	2016
	£	£
In five years or more	(200,000,000)	(200,000,000)

The above figure is repayable as a lump sum in 2044. Interest is charged at a fixed rate of 4.816%. The loan is secured upon 2,209 housing properties owned by bpha Limited.

- **Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holding financial instruments.

- **Interest rate risk**

The Company currently borrows on a fixed rate basis from the capital market and then on-lends these funds to bpha Limited on a similar fixed rate basis. As such, the Company does not bear any interest rate risk.

The Company does not have any hedging activities and it does not have any derivatives.

10. Called up Share Capital

Allotted, issued and fully paid ordinary shares.

	Share Capital	Nominal value per share	Total
	£	£	£
Ordinary Shares - Authorised	50,000	1.00	50,000
Ordinary Shares - Issued and partially paid	50,000	0.25	12,500

11. Reconciliation of movement in Shareholder's Funds

	Share Capital	Profit and Loss Account	Total
	£	£	£
As at 1 April 2016	12,500	-	12,500
Profit/(Loss) for the year	-	-	-
As at 31 March 2017	12,500	-	12,500

12. Contingent Liabilities

There are no contingent liabilities at 31 March 2017.

bpha Finance plc

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2017

13. Disclosure of Group Activity

The ultimate parent of bpha Finance plc is bpha Limited and the results of bpha Finance plc are consolidated into those of the Group.

The Group accounts of bpha Limited for the year ended 31 March 2017 can be obtained from the registered office at the following address:

Bedford Heights
Manton Lane
Bedford
MK41 7BJ