

A2D FUNDING II PLC
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR END 31 MARCH 2018
REGISTERED NUMBER: 09136166



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COMPANY INFORMATION

Directors

L.D.C. Corporate Director No. 3 Limited
L.D.C. Corporate Director No. 4 Limited
M.H. Filer

Secretary

Law Debenture Corporate Services Limited

Registered Office

Fifth Floor
100 Wood Street
London EC2V 7EX

Registered Number

09136166

Auditor

BDO LLP
London
United Kingdom

The directors present their strategic report for A2D Funding II plc (the “Company”) for the year ended 31 March 2018.

Activity, Objective, Business Model and Review of the Year

The Company was incorporated in England and Wales on 17 July 2014 as a public limited company. It is a special purpose company established for the purpose of issuing retail bonds on the London Stock Exchange (including further retail bonds issued in accordance with the Conditions) and lending the proceeds thereof to A2Dominion Housing Group Limited or one or more of its subsidiaries (“A2Dominion”). The Company has the benefit of a financial guarantee from A2Dominion for the full and punctual payment of interest and principal.

On the 30 September 2014 the Company issued £150,000,000 bonds. The proceeds of the issue were loaned to A2Dominion. Both the bonds and the loan to A2Dominion bear interest at a fixed rate of 4.50% payable semi-annually in March and September. The loan was issued net of transaction costs of £784,573 which are amortised through the statement of comprehensive income over the loan term as deferred income. The loan and the bonds are due for repayment on 30 September 2026.

The directors consider the financial position of the Company to be satisfactory.

Results

The Company’s profit after tax for the year was £1k (2017:£2k) and the directors do not recommend the payment of a dividend.

The Company had net equity shareholders’ funds of £18k (2017: £16k) at the year end.

Performance and position of the business

Financial KPIs - The key performance indicators of the business is considered to be the payment and receipt of interest and the net equity shareholders’ funds, which at the year end was £18k (2017:£16k). The loan receivable and payable balances are matched and interest receivable and payable are broadly matched as they are both at the same fixed rate.

The directors have monitored the actual receipts and payments of interest to and from the Company through the bank statements to ensure these obligations are met. The directors believe that all conditions of the transaction documents have been met.

Non-financial KPIs – as the purpose of the business is entirely finance related, the directors are of the view that there are no meaningful non-financial KPIs that could be adopted.

Principal Risk and Uncertainty

The principal risk and uncertainty for the Company is primarily credit rate risk as described more fully in Note 9. This includes the correct and timely receipt of interest and principal on the loan due from A2Dominion. During the current and prior year, all such amounts were received on their due dates.

The directors have considered the nature and structure of the Company and are satisfied that there is sufficient capital in relation to the business activities of the Company and levels of planned financial performance.

Future Developments

The directors consider the financial position of the Company to be satisfactory and that the Company will continue to operate in its principal activities.

By order of the Board



Virginia Duncan

Representing Law Debenture Corporate Services Limited

Secretary

18 July 2018

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2018.

Directors

The directors of the Company who held office during the year and up to the date of this report were:

L.D.C. Corporate Director No. 3 Limited
L.D.C. Corporate Director No. 4 Limited
I.K. Bowden (resigned 22 May 2017)
M.H. Filer (appointed 22 May 2017)

The directors are not subject to retirement by rotation.

Directors' Interests

The Directors have no interests in any shares in the Company or its ultimate controlling party.

Going Concern

The directors consider that the Company has adequate capital and liquid resources, an appropriate business model and financial structure and suitable arrangements in place for it to be able to continue in operational existence for the foreseeable future. Therefore the directors believe it appropriate for the financial statements to be prepared on a going concern basis.

Dividends

The directors do not recommend the payment of a dividend (2016:£nil).

Financial Instruments and Borrowings

A discussion of the Company's objectives, policies, strategies and risks with regard to financial instruments can be found in Note 9 to the financial statements.

The Company is party to an agreement which raised finance through a fixed rate retail bond issue, the proceeds of which were advanced to A2Dominion Treasury Limited.

The Company does not undertake financial instrument transactions which are speculative or unrelated to the Company's trading activities.

Directors' indemnities

Adequate third party indemnity provisions for the benefit of the directors were in place during the year and remain in force at the date of this report.

Statement of Disclosure to Auditor

In so far as the directors are aware there is no relevant audit information of which the Company's auditors are unaware. The directors have taken all steps that they ought to have taken, as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Financial Reporting, Risk and Internal Controls

The Company has outsourced the financial reporting function to Law Debenture Corporate Services Limited.

Corporate Governance and Audit Committee

Due to the Company's limited scope and nature of its activities, the Company's Board is itself responsible for all aspects of the Company's corporate governance. The Company does not, therefore, have a separate audit committee.

Auditors

The auditors, BDO LLP, have expressed their willingness to continue in office and a resolution to support them will be proposed at the annual general meeting in accordance with section 485 of the Companies Act 2006.

By order of the Board



Virginia Duncan

Representing Law Debenture Corporate Services Limited

Secretary

18 July 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT, STRATEGIC 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards 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 confirm, to the best of their knowledge:

- the financial statements have been prepared in accordance with UK Generally Accepted Accounting Practice and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- the annual report includes a fair review of the development and performance of the business and the financial position of the Company, together with a description of the principal risks and uncertainties that it faces.

The names and functions of all the directors are stated on page 5.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF A2D FUNDING II PLC**Opinion**

We have audited the financial statements of A2D Funding II Plc (the Company) for the year ended 31 March 2018 which comprise statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard in the United Kingdom and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

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 profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 as applied to listed public interest entities, 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.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF A2D FUNDING PLC
(Continued)****Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Measurement of Loan Receivable Assets & Retail Bond Liabilities

Description	Audit Response
<p>In accordance with accounting standards, the loan receivable and the retail bonds have been valued at amortised cost less impairment.</p> <p>Measurement of the loan receivables and the retail bonds, as disclosed in Note 1 and Note 9 in the accounts, are considered to be significant risks and a key audit matter because of their material nature.</p>	<p>Loan receivables</p> <p>We assessed valuation and recoverability of the loan receivables held at amortised cost derived using the effective interest rate (EIR) by performing the audit procedures below:</p> <p>We re-performed the amortised cost calculation to gain assurance over the carrying value of loan balance and interest income. We validated the completeness, accuracy and integrity of the model by agreeing the inputs to supporting documents.</p> <p>We challenged management's impairment assessment by examining the financial performance of the borrower. We agreed the assumptions and judgements made in management's impairment assessment with reference to relevant external economic and market data.</p> <p>We examined post balance sheet events to identify whether the impairment assessment assumptions remained valid. In addition, we obtained management's confirmation that no significant post balance sheet events had occurred which would impact the valuation.</p>

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF A2D FUNDING PLC
(Continued)**

Description	Audit Response
	Retail bonds The measurement of the retail bonds is equal and opposite to the loan receivable due to the asymmetric cash flows of the SPV and the identical measurement methodology. The accuracy of the balance has been verified as per procedures on loan receivables above.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on the audit and forming our opinion. Materiality is assessed on both quantitative and qualitative grounds.

Materiality

We consider materiality to be the magnitude by which misstatements, individually or aggregate, could reasonably be expected to influence the economic decisions of users of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take into account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

We determined the materiality for the financial statements to be £2,990,000 (FY17: £1,494,500) based on 2% of total assets due to this being an asset based entity. This provides a basis for determining the nature and extent to our risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature and extent of further audit procedures.

Performance materiality

The application of materiality at the individual account or balance level is set at an amount to reduce to an appropriately low level the probability that the aggregate of unrecorded and undetected misstatement exceeds materiality.

On the basis of our risk assessment together with our assessment of the company's overall control environment, we determined performance materiality to be £2,242,000 (FY17: £1,120,875), being 75% of materiality.

We agreed with the directors that we would report to the them all individual audit differences identified during the course of our audit in excess of £59,000 (2017: £30,000). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF A2D FUNDING PLC
(Continued)****An overview of the scope of our audit**

We undertook a full scope audit. Our audit approach was developed by obtaining an understanding of the company's activities and the overall control environment. Based on this understanding we assessed those aspects of the company's transactions and balances which were most likely to give rise to a material misstatement

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions 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 in relation to which 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 company financial statements are not in agreement with the accounting records and returns; or

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF A2D FUNDING PLC
(Continued)**

- 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 page 7, 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 group's and the parent 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 group or the parent 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.

Other matters we are required to address

We were appointed by the directors in 14 December 2015 to audit the financial statements for the year ending 30 September 2015 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ending 30 September 2015 to 31 March 2018.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting our audit. Our audit opinion is consistent with the additional report to the audit committee.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF A2D FUNDING PLC
(Continued)****Use of our report**

This report is made solely to the parent 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 parent 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 parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Michelle Carroll (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
18 July 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

STATEMENT OF COMPREHENSIVE INCOME**For the year ended 31 March 2018**

	Note	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Interest receivable and similar income		6,826	6,817
Interest payable and similar charges		(6,824)	(6,815)
Gross profit		2	2
Other operating income		50	45
Administrative expenses		(50)	(45)
Profit on ordinary activities before taxation	3	2	2
Taxation	4	(1)	-
Profit for the period		1	2

There are no other comprehensive income items other than the result for the period stated above. Accordingly, no statement of other comprehensive income is given.

The above amounts relate exclusively to continuing operations.

The notes on pages 18 to 23 form part of these financial statements.

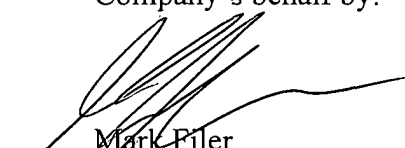
A2D FUNDING II PLC
STATEMENT OF FINANCIAL POSITION
As at 31 March 2018

REGISTERED NUMBER: 09136166

	Note	2018 £000	2017 £000
Financial assets			
Loans and receivables	5	149,453	149,378
Current assets			
Debtors: Amounts falling due within one year	6	31	32
Cash at bank		41	39
		72	71
Financial liabilities: Amounts falling due within one year	7	(54)	(54)
Net current assets		18	17
Total assets less current liabilities		149,471	149,395
Financial liabilities: Amounts falling due after more than one year	8	(149,453)	(149,378)
Net assets		18	17
Capital and reserves			
Called up share capital	10	13	13
Profit and loss account		5	4
Shareholders' funds		18	17

The notes on pages 18 to 23 form part of these financial statements.

Approved and authorised for issue by the directors on 18 July 2018 and signed on the Company's behalf by:


Mark Piler
Director

STATEMENT OF CHANGES IN EQUITY**For the year ended 31 March 2018**

	Share capital	Retained income	Total
	£000	£000	£000
Total equity as at 31 March 2016	13	2	15
Profit for the period	-	2	2
Total equity as at 31 March 2017	13	4	17
Profit for the year	-	1	1
Total equity as at 31 March 2018	13	5	18

The notes on pages 18 to 23 form part of these financial statements.

A2D FUNDING II PLC
STATEMENT OF CASH FLOWS
For the year ended 31 March 2018

REGISTERED NUMBER: 09136166

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Operating activities		
Operating profit	1	2
Interest received	6,750	6,750
Interest paid	(6,750)	(6,750)
Decrease in debtors	1	9
Increase in creditors	-	5
Cash flow from operating activities	2	16
Cash flow from investing activities	-	-
Cash flow from financing activities	-	-
Net increase in cash and cash equivalents	2	16
Cash and cash equivalent at beginning of period	39	23
Cash and cash equivalent at end of period	41	39

The notes on pages 18 to 23 form part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of preparation**

The financial statements have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland.

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom law and accounting standards. The modified Companies Act format have been used for the financial statement due to the special nature of the entity.

Going concern

The directors consider that the Company has adequate resources, an appropriate financial structure and suitable arrangements in place for it to continue in operational existence for the foreseeable future and therefore believe it appropriate for the financial statements to be prepared on the going concern basis.

Functional and presentational currency

The financial statements are presented in pound sterling, which is the Company's functional and presentational currency.

Income recognition

The Company's principal source of income is interest receivable. The directors consider it would be misleading to classify this source as turnover and have therefore classified it as interest receivable. All income derives from the Company's principal activity, wholly within the UK, and is accounted for on an accruals basis.

Other operating income

Other operating income, which comprises amounts received from the borrower to finance professional fees incurred in the period and subsequent administration costs of the Company, is accounted for on an accruals basis.

Administrative expenses

All administrative expenses, which comprise primarily professional fees and other overheads, are accounted for on an accruals basis.

Taxation

The Company is taxed under the The Taxation of Securitisation Companies Regulation 2006. As a result the Company will be subject to tax on its 'issuer profits' as determined in the securitisation documents.

Segmental analysis

The Company only operates one segment.

Financial assets

In applying FRS 102 the Company has made an accounting policy choice by applying the recognition and measurement requirements of IAS 39 instead of Section 11 and 12 of FRS 102. Accordingly the loan to A2Dominion is classified as loans and receivables and is initially recognised at fair value and then carried at amortised cost.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Financial liabilities**

In applying FRS 102 the Company has made an accounting policy choice by applying the recognition and measurement requirements of IAS 39 instead of Section 11 and 12 of FRS 102. Accordingly the retail bonds issued are also initially recognised at fair value and subsequently measured at amortised cost.

Deferred income/Finance costs

The costs of issuing the bond amounted to £784,573. These costs are amortised at EIR through the statement of comprehensive income over the life of the loan/bond and are classified as deferred income or finance costs respectively.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with FRS 102 requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period.

Critical accounting judgements

There are no critical accounting judgements.

Key sources of estimation uncertainty

The key source of estimation uncertainty is in relation to impairment of assets. The key assumptions included in the measurement of impairment are the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. These assumptions are based on observed historical data as well as the financial guarantee in place, and are updated as management considers appropriate to reflect current conditions. The accuracy of the impairment provision would therefore be affected by unexpected changes in these assumptions.

2. EMPLOYEE INFORMATION AND DIRECTORS' EMOLUMENTS

There were no employees in the Company during the year (2017: nil).

The directors received no emoluments in respect of their services to the Company during the year (2017:nil).

Under the terms of a corporate services agreement entered into by the Company at arm's length, Law Debenture Corporate Services Limited is contracted to provide certain corporate services including a registered office, corporate administration and directors amongst other services for which it charges a corporate service fee. The amount charged for these services during the year was £22k (2017:£21k) and the amount prepaid at year end was £11k (2017:£11k).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The following amounts have been included in arriving at the result on ordinary activities before taxation.

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Auditor's remuneration for audit of the Company's annual financial statements	16	16
Under accrual of prior year fees	3	-
	<u>19</u>	<u>16</u>

4. TAXATION**(a) Analysis of charge in the period**

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Current tax:		
Corporation tax charge for the period	1	-
Total taxation charge for the period	<u>1</u>	<u>-</u>

(b) Factors affecting the tax charge for the current period

The current tax for the year is higher than the standard rate of corporation tax in the UK of 19%.

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Profit on ordinary activities	2	2
Corporation tax levied at the standard rate of corporation tax in the UK of 19%	-	-
Tax charge in relation to prior year	1	-
Total current tax charge for the period	<u>1</u>	<u>-</u>

The Company is taxed under the permanent regime of taxation of securitisation companies. As a result the Company will be subject to tax on its 'retained profits' as determined in the securitisation documents.

5. LOANS AND RECEIVABLES

	2018 £000	2017 £000
Loan to A2Dominion (see Note 9)	150,000	150,000
Deferred finance income	(547)	(622)
	<u>149,453</u>	<u>149,378</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

6. **DEBTORS:** amounts falling due within one year

	2018	2017
	£000	£000
Accrued income	16	18
Prepayments	15	14
	<u>31</u>	<u>32</u>

7. **FINANCIAL LIABILITIES:** amounts falling due within one year

	2018	2017
	£000	£000
Accruals and deferred income	<u>54</u>	<u>54</u>

8. **FINANCIAL LIABILITIES:** amounts falling due after more than one year

	2018	2017
	£000	£000
Retail bonds (due September 2026) (see Note 9)	150,000	150,000
Finance costs	<u>(547)</u>	<u>(622)</u>
	<u>149,453</u>	<u>149,378</u>

9. **FINANCIAL INSTRUMENTS**

The Company's financial instruments comprise borrowings, loan receivable and cash to provide finance for its operations.

The Company granted a loan to A2Dominion of £150,000,000 which was financed by a bond issue. The loan and the bond bear interest at a fixed rate of 4.50% payable semi-annually in March and September. The costs of issuing the bond amounted to £784,573. These costs are amortised over the loan and bond term as deferred income and finance costs respectively, using the effective interest rate (EIR) of approximately 4.56%. The principal is due for repayment on 30 September 2026. The Company has the benefit of a financial guarantee from A2Dominion Housing Group Limited for the due and punctual payment of interest and principal.

The Company does not undertake financial instrument transactions which are speculative or unrelated to the Company's trading activities.

A description of the principal risks relating to financial instruments and their relevance to the Company and how they are managed is given below.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

9. FINANCIAL INSTRUMENTS (Continued)

Liquidity risk

Liquidity risk is the risk that the Company will default on its obligations to its creditors. Repayment of the interest and principal on the loan to A2Dominion matches exactly the interest payment dates and repayment of the retail bonds payable. In the event of a delay or default in the payment of interest by the borrower, the terms of the fixed rate retail bond make it clear that the Company is only obligated to pay interest and capital to retail bond holders to the extent that amounts have been received from A2Dominion.

	Less than 1 year £000	1-2 years £000	2- 5 years £000	5 years and over £000	Total 2018 £000
Loan to A2Dominion	-	-		150,000	150,000
Interest received	6,750	6,750	20,250	20,250	54,000
Total financial assets	6,750	6,750	20,250	170,250	204,000
Retail bonds	-	-		150,000	150,000
Interest payable	6,750	6,750	20,250	20,250	54,000
Total financial liabilities	6,750	6,750	20,250	170,250	204,000

	Less than 1 year £000	1-2 years £000	2- 5 years £000	5 years and over £000	Total 2017 £000
Loan to A2Dominion	-	-		150,000	150,000
Interest received	6,750	6,750	20,250	27,000	60,750
N Total financial assets	6,750	6,750	20,250	177,000	210,750
Retail bonds	-	-		150,000	150,000
Interest payable	6,750	6,750	20,250	27,000	60,750
Total financial liabilities	6,750	6,750	20,250	177,000	210,750

Credit risk

Credit risk is the risk that the borrower will not be able to repay its loan. Although A2Dominion is the only client of the Company, based on the performance of the loan during the year as well as the existence of the financial guarantee, the directors have no reason to doubt that A2Dominion will be able to fulfil their obligations.

Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under different bases or which reset at different times. The rate on the loan to A2Dominion, matches the interest rate on the retail bonds exactly therefore there is no interest rate risk to the Company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)**9. FINANCIAL INSTRUMENTS (Continued)****Capital Management**

The Company has no externally imposed capital requirements other than a minimum share capital of £50,000 (of which £12,500 has been paid up) and has been set up for the sole purposes of financing of the loan to A2Dominion.

10. SHARE CAPITAL

	2018	2017
	£000	£000
As at 31 March	<u>13</u>	<u>13</u>

The Company issued 2 ordinary £1 shares, fully paid, on the 17 July 2014, consideration for which was £2.00 and a further 49,998 ordinary £1 shares, each a quarter paid on the 12 September 2014, consideration for which was £13k.

The capital of the Company comprises share capital only.

11. ULTIMATE PARENT AND THE CONTROLLING PARTY

Under the Trust Deed dated 17 July 2014, The Law Debenture Intermediary Corporation p.l.c. acts as share trustee, holding the member's rights on a discretionary basis for charitable purposes.

In the opinion of the directors, A2Dominion Housing Group Limited is the controlling party and A2D Funding plc's results are included in the consolidated A2Dominion Housing Group's financial statements. Copies of these can be obtained from A2Dominion Housing Group Limited, The Point, 37 North Wharf Road, London, W2 1BD.

12. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption under section 33 of FRS102, not to disclose transactions with other group companies consolidated by A2Dominion Housing Group Limited.

Under the terms of a corporate services agreement entered into by the Company at arm's length, Law Debenture Corporate Services Limited is contracted to provide certain corporate services including a registered office, corporate administration and directors amongst other services for which it charges a corporate service fee. The amount charged for these services during the year was £22k (2017:£21k) and the amount prepaid at year end was £11k (2017:£11k).