Legal & General
AFFORDABLE HOMES

Legal & General Affordable Homes

Annual Report and Accounts for the year end 31 December 2020

Registered Office:
One Coleman Street
London EC2R 5AA

Registered in England & Wales No. 11223470

Legal & General
AFFORDABLE HOMES

Legal & General Affordable Homes Limited
Company Registration Number: 11223470
Registered Provider Number: 5062

Improving lives through inclusive capitalism.

Our purpose is to improve the lives of our customers, build a better society for the long term and create value for our shareholders. This inspires us to use our long-term assets in an economically and socially useful way to benefit everyone in our communities.

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Registered Office:
One Coleman Street
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Directors and advisors at date of approval of the financial statements

Directors
Ben Denton
Ian Graham (Chair)
Karen Wilson
Kerrigan Procter
Simon Century
Sarah Melinek

Independent Statutory Auditor
KPMG LLP
One Snowhill
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Bankers
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Churchill Place
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Legal Advisors
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3 Bunhill Row
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EC1Y 8YZ

Registered Office
One Coleman Street
London EC2R 5AA

Registration Numbers
Company Registration Number: 11223470
Registered Provider Number: 5062

Highlights of 2020 in numbers

Operating surplus*

£3.1m

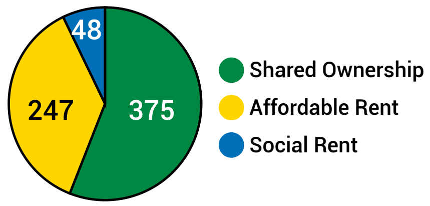
(2019: £1m)
* Before interest and tax

Number of homes*

670

(2019: 117)
*Units under management

Homes by tenure



Investment Property

£139.4m

(2019: £20.1m)

Secured homes pipeline*

4,400

*As at 31 December 2020

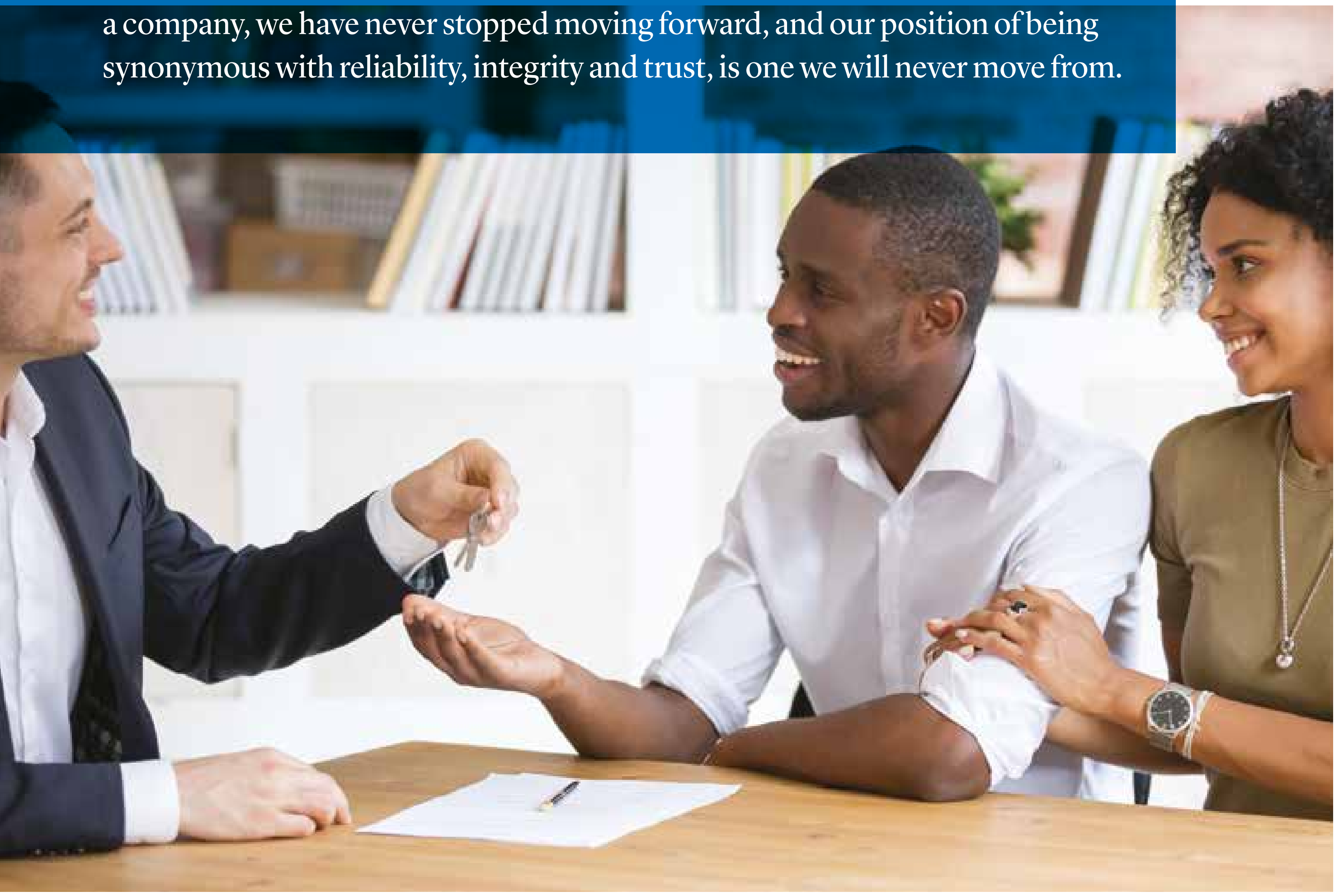
Net promotor score

49

(2019: 60)

We put the customer at the heart of everything that we do

Our mission is to become the leading private affordable housing provider in the UK and to make a positive difference to the affordable housing sector. As a company, we have never stopped moving forward, and our position of being synonymous with reliability, integrity and trust, is one we will never move from.



Our key principles

Our key principles underpin our approach and put the customer at the heart of everything that we do:

- Quality - We aim to bring customers the best possible experience in every aspect of their new home. That's in location, design, furnishing, environment and, above all, value.
- Customer Service - We're committed to providing first-class customer service, from the moment a tenant opens the door to their new home until they choose to leave.
- Sustainability - We work to minimise the environmental impact of what we do and at the same time lower costs for customers. That means reducing carbon emissions, using renewable materials and following sustainable design and building processes.

Our Vision

Our vision is for everyone to have a great quality, environmentally sustainable and affordable home from which they can build better futures.

We are committed to having a positive impact on our customers, our partners and on the environment and society.

Our ambition is to operate as a net zero carbon Company and to support our customers to live low carbon lifestyles which ultimately will lead to lower running costs. Our ESG Statement in this annual report provides further information on our strategy.

We believe that every property we create should be ready to be a home from the moment a customer moves in. We ensure that every one of our homes includes:

- Carpets and flooring for every room in the house
- Clean, bright and crisp decoration which is ideal to live in or a great canvas from which to evolve and

In addition all our houses come with gardens and sheds and we always look to offer private outdoor space with our apartments.

Digital transformation

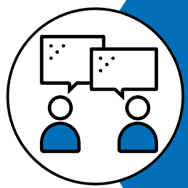
A fundamental aspect of delivering our vision is to be at the forefront of using technology to improve customer experience and give customers the ability to self-serve to meet the service standard customers have come to expect enabling them to do everything they want to do, when it suits them wherever they are without having to call. We've invested significantly in building an in-house Housing Management system over the last year with the aim to have it fully operational by 2022.

We are determined to deliver a convenient and frictionless customer experience throughout the whole journey that every customer has with us. We appreciate that everyone leads busy lives and do what we can to minimise the impact of service failures on our customers.

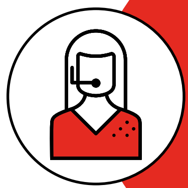
Through better technology we will soon be able to offer customers the ability to control their account with us as they do with their online bank, to manage repairs to their home in the same way that they order their shopping to be delivered and to allow us to share information with one another wherever they are through a mobile. Ultimately, we are changing the way our operating model works for the benefit of our customers and our partners and at the same time delivering a low effort experience and a more efficient business.

Customer Engagement

Legal & General Affordable Homes deploys a three-stage cycle of engagement with all of our customers, both tenants and shared owners:



Inform
Provide customers with information about the services they receive, the standards to expect and our perfomance



Listen
Meaningful and independent insight from customers on an ongoing basis to inform how we are doing and where we can improve

Evolve
Use customer feedback to evolve the services on offer and invite them to engage in telling us what to deliver when

Inform

All new customers receive an onboarding induction, either face to face or via video link, including the services provided and standards to expect.

We let customers know who their Management provider is.

We provide an Annual Report to customers on the performance of our Company.

Listen

All new customers are surveyed and invited to provide feedback on their experience and improvements that can be made to our properties and services.

We survey all customers annually on their overall satisfaction. We will move to quarterly surveying once we have sufficient numbers of customers living in our homes.

We publish online a quarterly review of all complaints made by customers.

We work with all of our Management Providers to review feedback and identify trends and options to further improve our service to customers.

Evolve

We publish proposals annually for service improvements based on customer feedback and give customers the opportunity to vote for the service improvements that will make the biggest difference to them.

We actively support any communities wishing to create their own forums

By developing these themes across the Company and through our network of Management Providers, we firmly believe that we are giving customers an opportunity to have a voice and give us strong insight into what matters most to them. This will help us determine the right priorities to improve our services and make it really easy to interact with us.

Legal & General Affordable Homes customer stories

"Hi, my name is Ojie and I live with my partner Lisa. We live in Stortford Fields. We found it from shared ownership, and we're loving it. Paying the mortgage is just like you're investing already, and paying rent is not that bad knowing that you're going to have a four bedroom house. Staircasing is a really good step in this shared ownership scheme to purchase the property sooner or later. For me and my partner we are definitely going to purchase 100%."

"Legal & General being involved in the process, that's quite a big help. They are literally guiding us, also updating us what is the progress of the property. So at least we're quite at ease that we know that we're going in the right direction. What I love here in Stortford Fields is, there's a lot of green areas around and square, good in bringing up our family. We love shared ownership because it is affordable. It doesn't pressure us financially, and we can start to live our lives."

Ojie, Stortford Fields

"Hi, my name is Tracy and I live at Stortford Fields. I do Affordable Renting with Legal & General. It's a three bedroom property that I live in. It's myself here and my two teenage children. I also live with my two cats Buster and Patch, they seem to be very happy here too. First impressions were fantastic - brand new carpets, inside was fresh, clean, a really, really good size, the hallway is a lovely, open space. Kitchen kitted out and the bathrooms as well."

"It's been fantastic. When I moved in I got a nice welcome basket with all goodies in it. Move in day was really, really easy, really smooth. My favourite thing about living in Stortford Fields, is probably my neighbours actually. They've been really really nice, really friendly. We've all sort of helped each other out if we've needed it. Anyone thinking of buying or renting with Legal & General, I wouldn't hesitate to recommend them they've been wonderful throughout from start to finish."

Tracy, Stortford Fields

Chairman's statement

A long-term business focussed on quality of service

In a year dominated by uncertainty, we have been able to deliver on our strategy and achieve a strong performance, proving the robustness of our model.

The business is committed to playing a leading role in supporting the evolution of the affordable housing sector through raising service standards whilst increasing the long-term supply of affordable housing. Overall, our net promoter score on handovers was 49 which is a great result compared to sector norms.

At the year-end we have 670 homes under management and we are on target to deliver 3,000 affordable homes each year by 2023; our current secured pipeline is over 5,000 homes right across the country.

We remain deeply committed to working in partnership with the sector. We continue to build on our relationships with our network of fourteen management partners and continue to explore opportunities to improve customer service whilst supporting the growth of our business and the sector at large.

To further strengthen our customer service leadership, I am delighted that Sarah Melinek has joined the board as a Non-Executive Director. Her deep background in customer focussed roles across a wide range of sectors will help us to continue to drive the highest levels of customer service across the business.

"Legal & General is leading the evolution of the affordable housing sector"

Looking ahead

Our vision is for everyone to have a great quality, environmentally sustainable and affordable home from which they can build better futures. Our business plan is robust and we are in a strong position to deliver on our ambitious strategic goals.

Over the next year, I'm looking forward to contracting a significant programme of EPC A and low carbon affordable homes – delivering against our sustainability aims, with many of these low carbon homes being delivered in conjunction with our other leading businesses across the Group.

We will continue to design and implement the digitisation of the business and by the year end, we aim to have the end-to-end fully digital infrastructure in place covering all aspects of the business.

We will continue to build the relationships with our management providers, to improve the customer experience whilst working in partnership with existing players to support the evolution and growth of the sector.

Ian Graham
Director (Chairman)

Board of Directors

Ian Graham | Chairman
Appointed July 2018

Ian is Chair of Legal & General Affordable Homes Limited. Ian was a Partner of leading affordable housing law firm Trowers & Hamlins for 28 years. Ian led the Housing and Regeneration Team at Trowers as well as serving on the firm's board and Managing Partner. He retired from Trowers in 2018. Ian was a member of the Board of Notting Hill Housing Trust and was also the Chair of Governors at St Paul's Whitechapel and St John's Bethnal Green Primary Schools. He holds an LLB from the University of Southampton and qualified as a solicitor in 1986.

Karen Wilson | Independent Non Executive Director
Appointed July 2018

Karen is a non-executive director of Legal & General Affordable Homes Limited and Chair of the Risk and Audit Committee. Karen was Chief Executive of London and Hertfordshire based Origin Housing Association for over 13 years, managing over 6,000 properties. Prior to Origin, Karen was Operations Director at English Churches Housing Group, Director of Planning & Operations at Metropolitan Housing Partnership and held various housing roles at both the London Borough of Greenwich and Sheffield City Council. Karen is also Vice Chair of Women in Sport and previously also held non-executive positions at Euston Town Limited, Placeshapers Limited and was Vice Chair of Homes Connections Limited. Karen is a Fellow of the Chartered Institute of Housing and has a degree in Geography from Sheffield University.

Kerrigan Procter | Director
Appointed February 2018

Kerrigan Procter is the CEO of Legal & General Capital. Previously Kerrigan worked as the CEO of Legal & General Retirement. Kerrigan managed the retirement business that helps over one million customers to achieve financial security in retirement and invests over £50bn of assets to back Legal & General's annuity promises to pensioners. Prior to that, he was Head of Solutions at Legal & General Investment Management from 2006 to 2012 where he was responsible for Liability Driven Investment and multi-asset funds for defined benefit and defined contribution pension schemes. Prior to joining Legal & General, Kerrigan worked at RBS in the financial markets division where he held several roles including Head of Pensions Advisory, Head of Credit Risk Measurement and Director of Interest Rate Derivative Structuring. Kerrigan started his career in 1994 with Ernst & Young Corporate Finance before moving to Mercer where he was both an investment consultant and responsible for ALM in Europe. Kerrigan is a Fellow of the Institute of Actuaries, has a First Class Honours Degree in Mathematics from Reading University and a PhD in number theory from King's College, London.

Simon Century | Director
Appointed February 2018

Simon is responsible for leading investment into the affordable housing, build to rent and other residential long income sectors. He led the creation of Legal & General's wholly owned affordable housing business, Legal & General Affordable Homes in 2018. Simon's experience ranges across residential real estate, specialising in corporate finance and corporate strategy. He joined from the affordable housing provider, BPHA Group where he was Director of Strategy and Corporate Finance and spent the majority of his career at the corporate finance firm, TradeRisks, advising clients in the infrastructure and quasi-government sectors across debt and equity advisory and trading, banking and DCM transactions. Simon is a member of the Association of Corporate Treasurers, holds the Certificate in Investment Management and a Psychology degree from the University of Liverpool.

Ben Denton | Director
Appointed October 2018

Ben joined Legal & General from Sovereign Housing Association, the 6th largest housing association in the UK. As executive director of Property and Development, he delivered a development programme of 1,300 homes a year, managing an annual budget of c.£250 million. Ben has over 30 years of experience across residential housing, regeneration and real estate. Prior to Sovereign, Ben held the position of Group Director of Strategy and Business Development at house builder Keepmoat, Executive Director of Growth, Planning and Housing at Westminster City Council, was Director of Investment at First Base and was a Director and Executive Consultant for ABROS financial advisory and KPMG. Additionally, Ben was previously Chair at Westminster Community Homes, Deputy Chair of Thames Valley Housing Association. Ben is MRICS qualified from the Royal Institute of Chartered Surveyors, Holds a First Class degree in Agriculture from the University of Reading as well as a Diploma in Business Administration from Manchester Business School.

Sarah Melinek | Independent Non Executive Director
Appointed November 2020

Sarah joined the Board of Legal & General Affordable Homes Limited as a non-executive director in November 2020 with a main focus on customer service. Sarah has over 20 years' experience in customer focused roles across the telecommunications, utilities and financial services sectors for organisations serving millions of customers including TalkTalk, The Carphone Warehouse, E.ON and Thames Water. Sarah has expertise as a Consultant and Director in transforming customer experience and customer service, embedding customer needs at the heart of business decision making, reducing customer effort and bringing the voice of the customer into the board room. Sarah has a degree in French and Spanish from the University of Exeter.

Environmental, Social and Governance Statement: Investing societies capital to deliver a societal benefit

Our business model uses long term pension fund capital to deliver homes that people can afford. This model is applied to respond to a societal challenge – there are not enough affordable homes being delivered to meet local need.

Our vision is for everyone to have a great quality, environmentally sustainable and affordable home from which they can build better futures.

Since 2018 we have been working to become the leading developer and operator of affordable homes in the UK by investing long-term capital at scale and significantly increasing the supply, design quality and choice of affordable homes.

LGAH is a for-profit business, guided by a social purpose. We recognise the importance of balancing financial returns with environmental, social and governance ("ESG") outcomes. Since being established in 2018 we have invested £1bn in the delivery of affordable homes delivering major ESG impact. This impact builds much needed homes whilst also supporting people in building better futures for themselves and their families.

During 2020, we developed our sustainability strategy setting out our vision to become:

1. the UK market leader in providing sustainable, affordable homes that can operate at net zero carbon emissions by 2030, supporting our residents to live low carbon lifestyles;
2. to operate LGAH as a net zero carbon business; and
3. to understand, monitor and actively reduce the embodied carbon associated with the construction of our homes.

The strategy seeks to drive changes and improvements across the business. The strategy defines eight themes of sustainability and a framework has been developed which sets Key Performance Indicators (KPIs) and targets for use in driving that change. We are now well placed to benchmark our sustainability performance and understand the impacts that our activities have on the environment, our customers and the communities within which we work.

We are committed to having a positive impact on our customers, the people that work for and with us, on the environment and society. Our team was part of the ESG social housing working group that developed the recently launched Sustainability Reporting Standard for Social Housing, a voluntary ESG performance disclosure framework which aims to drive transparency, consistency and comparability in the sector. We will report against the Standard from 2021. We are aiming to deliver 3,000 homes per year by 2023 and we are on target to deliver this goal. We are committed to working with government, our partners and other businesses within the Legal & General group of companies to reduce our carbon emissions and accelerate the pace of change towards net zero carbon.

As we commence the implementation of our sustainability strategy we will focus on delivering on our three key objectives:

Delivering sustainable, affordable homes that operate at net zero carbon emissions

Our new sustainability framework will be implemented on all projects to monitor, measure and guide our journey to ensuring the homes we own and operate are net zero carbon by 2030. Currently 91% of the homes that we have invested in are EPC B. We are seeking to improve on this during 2021 by targeting that 100% of the homes that we invest in achieve a minimum EPC B rating with 50% of the homes that we build ourselves achieving an EPC A rating. In December 2020 LGAH, supported by Legal & General's Fin Tech team, commissioned our first retrofit pilot in Wolverhampton to understand the cost and benefits of retrofitting homes in moving to net zero carbon. Partnering with Wondrwall, solar PV panels supported by a 6.5kwh battery and smart light switches and controls have been installed on three homes improving the energy performance to EPC A and reduce running costs for residents. During 2021 running costs will be reviewed against non-retrofit homes. The results will be analysed at the end of the year and will inform our retrofit strategy.

Understanding, monitoring and actively reducing the embodied carbon associated with the construction of our homes

We have started work to actively understand and monitor the embodied carbon associated with the construction of our homes using the One Click model. Our focus over the next 12 months is on piloting a number of our projects using One Click to establish a baseline from which we can then actively plan to reduce emissions.

Strategic Report

Principal activities

Legal & General Affordable Homes Limited ("the Company") is a Registered Provider of social housing for profit. The Company is a private company limited by shares incorporated under the Companies Act 2006 and is registered in England and Wales.

Review of the business

The Company is in a net asset position and profit making as at 31 December 2020. During the year the Company took ownership of a further 553 homes. Gross rental income grew to £1.4m with a profit before tax for the year amounting to £3.1m.

Principal risks and uncertainties

In meeting its long term objectives the key business risks and uncertainties affecting the Company are:

- Valuation of the properties
- Ability to source new housing opportunities
- The availability of sources of financing
- Rent regime risk
- 3rd party operator management performance
- Inflation and interest rate risks
- Financial impact of void units and rent arrears

Statement of internal control

The Board is ultimately responsible for ensuring the Company maintains a system of internal control that is appropriate to the various business environments in which it operates. Business risks are identified through a system of continuous monitoring. The risk control framework includes the following key features:

- The Risk and Audit Committee, which is a formal committee of the Company's Board.
- Risk Appetite Statements which set out the key decisions that the business makes are assessed against the risk framework.
- The Legal & General Group PLC (the "Group") internal audit function provides independent assurance on the effectiveness of business risk management and the overall operation of our risk framework.
- The Investment Manager identifies and evaluates risks to which the Company may be exposed so that they can be managed in line with risk policies.
- Regular reporting of ongoing and emerging risks to assess whether risk positions are within the limits set by the risk appetite.

Since the year end the Legal & General Group's PLC internal audit function performed an internal audit to provide assurance that the Company had implemented a sufficient and effective control framework. No major or high risk issues were noted.

Impact of Covid-19 pandemic

Over the last year, the United Kingdom has been impacted by the Covid-19 pandemic. The primary impact on the business has been a delay in handover of units from developers, however developers have adapted to the new ways of working required and the business is comfortable that there are no significant risks to the business which would impact its ability to continue as a going concern.

Financial key performance

Please refer to the Value for Money statement section of this report.

NHF Code of Governance

During 2020, and since its registration as a Registered Provider in December 2018, the Company adopted and was complaint with the NHF Code of Governance 2015. Since the year end the Company has now adopted the 2020 edition of the NHF Code of Governance.

Governance and Viability Standard

Each year the Regulator of Social Housing requires Registered Providers to assess their compliance with the governance and financial viability standard. The Company has undertaken an annual review of compliance and the board is assured that the Company is compliant with the regulatory framework including the governance and financial viability standard and its accompanying code of practice.

By Order of the Board

Ian Graham
Director (Chairman)
8th June 2021

Directors' Report

The Directors present their annual report together with the audited financial statements of the Company for the year ended 31 December 2020.

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

Future developments

The Company's ambition is to deliver 3,000 homes per year by 2023. It should be noted that the development risk is borne by the Company's sister companies, Legal & General Affordable Homes (Development) Limited and Legal & General Affordable Homes (Development 2) Limited. Together, the business had a secured pipeline of 4,400 homes at year end.

Future developments of relevance to the Company can be found within the Review of the Business section of the Strategic Report.

Debt financing

At the start of the year the Company successfully agreed terms with Legal & General's Retirement business to provide the Company with £100m of long term debt financing. During 2020 £23m of this facility had been drawn down.

Result for the year end

The results of the Company are set out on page 27.
The Directors do not recommend the payment of a dividend (2019: £nil).

Going concern

No material uncertainties that cast significant doubt on the ability of the Company to continue as a going concern have been identified by the Directors.

An analysis of the impact of the Covid-19 pandemic can be found within the Strategic report. The Company has the ability to drawdown on committed capital from its parent company. A £100m debt facility is also in place of which £23m had been drawn down on in the year. This will support the Company's business activities for the foreseeable future.

Units under management

	2020 units	2019 units
Shared ownership	375	72
Affordable rent	247	27
Social rent	48	18
Total units under management	**670**	**117**

The management of units is outsourced to external management provider companies. The Company currently has 14 housing associations and partners selected to manage the affordable homes.

Directors

The Directors of the Company, who were in office during the year and up to the date of signing the financial statements are shown below:

Director	Date appointed
Simon Century	23 February 2018
Kerrigan Procter	23 February 2018
Ian Graham	17 July 2018
Karen Wilson	17 July 2018
Ben Denton	10 October 2018
Sarah Melinek	19 November 2020

Value for Money Statement

Introduction

The Company's central purpose is to deliver great quality housing supported by great quality customer and property services and thereby deliver high levels of customer satisfaction. The business was formed in 2018 and is in a period of significant growth. At the 31 December 2020, the Company owned and operated 670 properties.

In complying with the Value for Money Standard, the business seeks to achieve economy, efficiency and effectiveness across all areas of activity. We currently have a small number of homes in operation, but have ambitious plans for growth. As the business is still in its early growth stage some of its value for money metrics will include outliers when benchmarked to the sector. As we grow, we expect it will become more possible to benchmark performance with sector peers.

Given the growth aspirations, and the ambitions of the organisation overall, the business has assessed itself against the median of the sector and the top quartile. The top quartile tend to be the best performers against the Regulator Value for Money metrics and as a newly formed but ambitious organisation, the target is to perform well compared to the top quartile businesses in the Registered Provider sector.

The Organisation

The business focusses solely on the acquisition and management of affordable housing properties throughout England. It takes limited development risk and typically acquires homes upon practical completion, primarily from its sister companies, Legal & General Affordable Homes (Development) Limited and Legal & General Affordable Homes (Development 2) Limited, which are owned by the common ultimate shareholder, the Group. The business focuses on managing the properties it owns and serving the interests of its customers.

The business does not employ its own workforce but utilises the resources of an Investment Manager, Legal & General Affordable Homes (Operations) Limited, under an Investment Management Agreement. The Investment Manager is also owned by the common ultimate shareholder, the Company.

As part of its role, the Investment Manager oversees the outsourced management providers who deliver services to customers and properties on the business' behalf.

Activities undertaken in 2020

At the beginning of 2020, the Company had 117 properties in operation. Over the course of 2020 the business has continued to take handover of completed stock and at the end of the year had 670 homes under management being operated via its network of 14 management providers.

How L&G Affordable Homes delivers Value for Money

The principle costs of the business are:

- Its financing costs
- Its property and customer management costs
- The fees paid to the Investment Manager

In respect of financing costs, the business is financed by the Group and in order for the business to be successful and grow, it must deliver fair returns to shareholders and funders whilst delivering a great quality customer service. Where the Company enters into debt financing arrangements the Board receives assurance that value for money is being secured by the business through independent reviews of the transactions to ensure the pricing and terms reflect market norms.

In relation to the property and customer management costs, the business achieves value for money through its relationships with the management provider network it has procured. This network was competitively tendered in 2019. In creating the network, the business was keen to ensure that it secured quality of service at an efficient cost of management. To deliver this aim, a two-stage tender process was adopted where bidders were required to pass through a quality scoring stage before submitting pricing. The business had a great response from the sector with over 130 expressions of interest and 34 final quality submissions received. 24 bidders were then invited to submit pricing before the final 14 providers were selected. This exercise has resulted in the business securing a network of high-quality management providers at competitive prices. The quality of service that the management providers deliver is overseen by the Investment Manager through performance management agreements which require sector leading performance on service delivery and customer feedback metrics.

Additional services provided to the business are undertaken by the Investment Manager, under an Investment Management Agreement. In 2018, the Board independently benchmarked the Investment Manager's costs on an arm's length basis. These represented value for money based on the services and responsibilities provided.

A Forward View of LGAH's Value For Money Targets

The Company recognises that during its initial growth phase its value for money data is not directly comparable to other more established businesses in the affordable housing sector. However, the Company sees the benefit in benchmarking and has selected organisations that are classified as Traditional Registered Providers with limited levels of supported housing stock and in excess of 10,000 units in management to benchmark against. This group of organisations have been selected as they represent the best example in the sector of the Company's eventual mature state.

It is expected that by around 2025 the Company will reach the position of holding 10,000 homes in management. The Company therefore intends to use the metrics data produced by the Regulator to plot out the likely performance trajectory of its benchmark group to 2025 and then set its own performance targets in order to deliver upper quartile performance at the point of maturing into the benchmark group. Unfortunately, the 2020 VFM metrics report was not yet available at the time these accounts were signed. As a result, this means that only one years' worth of comparative data is currently available from the Company's benchmark group. Therefore, the business will now publish this information in its next Value for Money statement.

Value for Money Metrics

The business tracks its performance using financial, operational and strategic metrics as well as specific value for money metrics. These are monitored in line with the Value for Money Standard 2018 as set out by The Regulator of Social Housing. The business is consistently seeking to balance the efficiency of its operation with the value it generates for its residents. Therefore, it will always report on customer experience in addition to the required financial metrics in its annual statement. The business uses net promoter scores as its core indicator of customer experience and has included it in the reporting for the financial year 2020.

The Company is a relatively unique business in the affordable housing sector. It is a for profit Registered Provider in only its second year of trading, with a growth trajectory projected to mature in 2023 at around 3,000 affordable homes per year and a broadly even split between shared ownership and rented tenures. As a result, its performance is not easily comparable with others in the market. That said, as the business plans to grow to around 10,000 homes by 2025, it has established a benchmark against the performance of traditional Housing Associations owning in excess of 10,000 units. These businesses are managing the scale of asset and customer base that this business will mature towards and they will come to offer a more direct comparison than any other benchmark group in the sector.

Metric 1 - Reinvestment [2020: 88%; Target: 86.4%]
This metric looks at the fixed asset investment in properties (existing as well as new supply) as a percentage of the value of total properties held. During the year the investment in properties has grown by £121m to £167m by the end of December 2020. As the business had relatively low stock at the beginning of 2020, its performance is markedly different from the rest of the sector where businesses typically hold a large existing asset base.

Metric 2 - New supply delivered [2020: 82.5%; Target: 88.9%]
This metric considers the number of new housing units developed in the year as a proportion of total units owned at the end of the year. We started the year with 117 homes but by the end of 2020 we had delivered an additional 553 new social homes representing 82.5% new supply. This is slightly behind our 2020 target which was expected given the delays caused by the Covid-19 pandemic. The focus is on delivering social housing and we have not acquired or delivered any non-social housing units in 2020 and therefore have not reported against part b of this metric.

Metric 3 - Gearing [2020: 14.2%; Target: 45.0%]
During 2020 the Company drew-down £23m on its £100m loan facility which was put in place at the start of 2020. The Company drew down less than expected debt due to delays in handovers of homes caused by the Covid-19 pandemic. The Company will ensure that its gearing levels are appropriate by balancing the need for debt funding to increase capacity to deliver more homes and enable us to be capital efficient with the need for the organisation to be financially stable and resilient to any market downturns.

Metric 4 - Earnings Before Interest, Tax, Depreciation, Amortisation, Major Repairs Included (EBITDA MRI) [2020: 3039.0%; Target: 180.0%]
This metric measures the level of surplus compared to interest payable. For the year ended 31 December 2020 the debt was drawn-down at the very end of the year therefore there was very small amount of interest payable during 2020.

Metric 5 - Headline social housing cost per unit [2020: £1,461; Target: £1,230]
This metric assesses the cost per unit of operating properties in management. The organisation's headline cost per unit benchmarks well to industry peers as a result of the portfolio being predominantly made up of new build housing. It is anticipated that the business will have costs lower than the sector median for a number of years to come due to this feature of its portfolio. 2020 cost per unit is broadly is slightly ahead of our target however still significantly under the expected cost per unit once the Company is delivering a stabilised number of homes per year.

Metric 6a&b - Operating Margin [6a: 2020: 10.0%; Target: 62.0% 6b: 2020: 173.4%; Target: 62.0%]
This metric demonstrates the profitability of the operating assets. Metric 6a represents the operating margin on social housing only and 6b takes in to account all operating surplus for the year (excluding revaluation gain). Grant income has been excluded from metric 6a but included within 6b. Any gain/loss on Investment Property revaluation is excluded from both metrics. The operating margin on social housing is below the target of 62.0% which was driven by the fact the Company is still ramping up to its steady state therefore seeing operating costs as a higher proportion of its rental income. We expect this to stabilise over the next 5 years to c68%.

Metric 7 - Return on capital employed (ROCE) [2020: 2.2%; Target: 0.8%]
This metric compares the operating surplus to total assets less current liabilities and is a measure to assess the efficient use of capital. The ROCE for the Company is representative of the fact that significant investment is being made in social housing stock to achieve our ambitious targets with revenue not yet fully stabilised. Total assets less current liabilities are taken at the Balance Sheet date of 31 December 2020. This means the return is low in comparison to peers who hold and maintain a large standing stock. It is anticipated that the business will perform below the sector norm for the first four years of trading as it establishes a stock holding commensurate with its peer group. This is reflected in the 2021 target measure.

2020 Sector Value for Money							
Metric	Description		Median Quartile*	Upper Quartile*	2020 Actual	2020 Target	2021 Target
1	Reinvestment	%	5.3	7.3	88.0	86.4	66.5
2	New supply delivered	%	2.0	2.6	82.5	88.9	66.8
3	Gearing	%	46.8	51.4	14.2	45.0	32.2
4	EBITDA MRI	%	154.9	191.2	3,039.0	180.0	565.2
5	Headline social housing cost per unit	%	3,789	3,321	1,461	1,230	2,550
6a	Operating Margin - social housing lettings	%	38.2	33.8	10.0	62.0	68.0
6b	Operating Margin - overall	%	30.4	26.6	173.4	62.0	68.0
7	Return on capital employed	%	3.6	4.2	2.2	0.8	1.5
8	Net promoter score	%	-16	N/A	+49	+50	+50

* This is based on the 2019 VFM metric release as the 2020 metric release had not been published at the time of producing this statement.

Metric 8 - Net promoter score [2020: +49; Target: +50]
Net Promoter Score is calculated based on the question: "On a scale of 1-10, how likely is it that you would recommend us to a friend or colleague?" Based on the number a customer selects, they are categorised as promoters, passives or detractors. The score is the difference between promoters and detractors. The Company has an independent organisation, CX Feedback, collect all of its customer experience data to ensure neutrality and accuracy. In any sector a score of +50 and above is deemed to be excellent and the business is intent on maintaining this level as it matures.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report and 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 prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

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 United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the Company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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.

Disclosure of information to auditor

Each of the Directors, who held office at the date the Directors's report is approved, confirms that:

(a) so far as the Director is aware, there is no relevant audit information of which the Company's auditors is unaware; and

(b) they have taken all the steps that ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Independent auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By Order of the Board

Andrew D Fairhurst

By Order of the Board
Andrew Fairhurst
For and on behalf of Legal & General Co Sec Limited
Company Secretary
8th June 2021

Independent Auditor's Report To The Members of Legal & General Affordable Homes Limited

Our opinion

- We have audited the financial statements of Legal & General Affordable Homes Limited ("the Company") for the year ended 31 December 2020 the Income Statement, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the Company as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect.

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board meeting minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as provision for impairment. On this audit we have rebutted the presumed fraud risk from revenue recognition.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries based on risk criteria and comparing the identified entries to supporting documentation.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law and certain aspects of company legislation recognising the nature of the activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures

required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic Report, Directors' Report and the Chairman's Statement

The directors are responsible for the other information, which comprises the strategic report, the directors' report, and the chairman's statement. Our opinion on the financial statements does not cover these reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report, the directors' report and the chairman's and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge.

Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; 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

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 20, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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 and section 128 of the Housing and Regeneration Act 2008. 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.

SBrown

Sarah Brown (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill, Snow Hill Queensway
Birmingham B4 6GH
10th June 2021

Financial Statements

Legal & General
AFFORDABLE HOMES

Income Statement

For the year ended 31 December 2019	Notes	2020 £'000	2019 £'000
Income	3	3,013	1,960
Other income/(costs)	4	3,468	(826)
Operating expenditure	5	(1,257)	(500)
Other gains and losses	6	(2,050)	341
Operating surplus before interest and tax		**3,175**	**975**
Finance costs		(50)	
Surplus before income tax		**3,125**	**975**
Income tax expense	10	(601)	(197)
Profit/(loss) for the year		**2,524**	**777**

There were no gains or losses in the year other than those included in the above Income Statement.

Balance Sheet

As at 31 December 2020	Notes	2020 £'000	2019 £'000
Assets			
Non-current assets			
Investment property	11	139,391	20,096
Current assets			
Inventories	12	27,565	26,661
Cash at bank		3,316	21
Financial Asset	13	14,847	523
Trade and other Recievables	14	2,476	-
Deferred tax asset	15	289	-
		48,493	**27,205**
Total assets		**187,884**	**47,301**
Liabilities			
Non-current liabilities			
Loan facility		23,064	
		23,064	
Current liabilities			
Trade and other payables	16	27,908	2,566
Financial Liability	13	14,847	523
Reservation deposits held		102	8
Deferred grant income on schemes under development		**5,791**	1,588
Deferred tax liability	17	-	58
		48,648	**4,743**
Total liabilities		**71,712**	**4,743**
Net assets		**116,172**	**42,558**
Equity			
Share capital and premium	18	112,871	41,781
Retained earnings		3,301	777
Total equity		**116,172**	**42,558**

The notes on pages 34 to 43 form an integral part of these financial statements.
The financial statements were approved and authorised for issue by the Board on 8th June 2021 and were signed on its behalf by

Ian Graham
Chairman of the Board

Statement of changes in Equity

For the year ended 31 December 2020	Share Capital £'000	Share Premium £'000	Retained Earnings £'000	Total £'000
As at 1 January 2020	-	41,781	777	42,558
Profit for the year	-	-	2,524	2,524
Total comprehensive income for the year	**-**	**41,781**	**3,301**	**45,082**
Shares purchased	-	71,090	-	71,090
As at 31 December 2020	**-**	**112,871**	**3,301**	**116,172**

For the year ended 31 December 2019	Share Capital £'000	Share Premium £'000	Retained Earnings £'000	Total £'000
As at 1 January 2019	**-**	**-**	**-**	**-**
Profit for the year	-	-	777	777
Total comprehensive income for the year	**-**	**-**	**777**	**777**
Shares purchased	-	41,781	-	41,781
As at 31 December 2019	**-**	**41,781**	**777**	**42,558**

Notes to the Financial Statements

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of Preparation

Legal & General Affordable Homes Limited (the Company) is a registered provider of social housing for profit. The financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS101). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and derivative financial assets and financial liabilities measured at fair value through profit and loss, and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2. The accounts are also prepared in accordance with the Accounting Direction for Private Registered Providers of Social Housing 2019 and the Housing SORP 2018, to the extent that the SORP does not contradict the requirements of IFRS.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise price of share options, and how the fair value of goods or services received was determined)
- IFRS 7, 'Financial Statements: Disclosures'
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15, 'Revenue from Contracts with Customers'.
- The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16, 'Leases'.
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:

(i) paragraph 79(a)(iv) of IAS 1;

(ii) paragraph 73(e) of IAS 16 Property, plant and equipment

(iii) paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period).

- The following paragraphs of IAS 1, 'Presentation of financial statements':
- 10(d), (statement of cash flows)
- 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements),
- 16 (a statement of compliance with all IFRS),
- 38A (requirement for minimum of two primary statements, including cash flow statements),
- 38B-D (additional comparative information),
- 40A-D (requirements for a third statement of financial position)
- 111 (cash flow statement information), and
- 134-136 (capital management disclosures)
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

(b) Going Concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements. The Company has continued to model various scenarios around the impact of the pandemic and is comfortable that there are no significant risks to the business which would impact its ability to continue as a going concern. The Company has the ability to draw down on c£500m of committed capital from its parent Company. A £100m debt facility was also entered at the start of the year of which £23m has been drawn as at the end of December 2020. This will support the Company's business activities for the foreseeable future.

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds, through funding from its immediate parent, Legal & General Assurance Society Limited ("LGAS"), to meet its liabilities as they fall due for that period as well as a debt facility which was entered in to after the year end.

LGAS has indicated its intention to continue to make available such funds as are needed by the Company for the period covered by the forecasts. As with any Company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so. The Directors have considered plausible downsides which may impact the ability of LGAS to provide continued funding and have a reasonable expectation that the parent Company has sufficient capital resources to meet funding commitments.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

(c) Investment Property

Under the Housing SORP Housing guidance, properties that are held for the provision of social housing must be treated as property, plant and equipment ("PPE"). Investment properties are measured at cost on initial recognition and subsequently at fair value as at the year end, with changes in fair value recognised in income and expenditure.

The Company has deviated from the Housing SORP in treating all properties as Investment Property due to the following reasons:

• The Company holds its property to earn rentals and for capital appreciation which is the definition of Investment Property under IAS 40.
• The Company is a for-profit registered provider and so it provides social housing not solely for the purpose of holding it for social benefit, but also with the aim of generating a financial return
• The accounts are prepared in accordance with the Housing SORP to the extent that the SORP does not contradict the requirements of IFRS.

The intended use of the property is the overriding criteria when determining whether a property is Property, Plant and Equipment or Investment Property. The SORP guidance in this respect has not been followed since it is considered to contradict management's interpretation of ISA 40. The intended use of Investment Properties are to earn profitable rents and/or capital appreciation and therefore the Company will hold its properties as Investment Property at fair value, with movements recognised through the profit and loss account.

(d) Inventory

Inventories are stated at the lower of cost and net realisable value and compromise of projects under development and proportions of shared ownership properties allocated as first trance sales.

(e) Financial Asset and Financial Liability

When completed Shared Ownership units are handed over to the Company from its sister development companies it recognises the residual element of the Shared Ownership units. The unsold first tranche element is recognised as a current asset 'Financial Asset' and an equal 'Financial Liability' is recognised to reflect the future sale of which the proceeds are due to the sister development Company. At year end a review of the market value of the first tranche element is carried out with any adjustments resulting in a change to the financial asset and corresponding liability.

(f) Government Grants

Grant income is accounted for under the performance model. Grants on completed schemes are recognised in the Income Statement as revenue at the point of completion. Grants on schemes currently under development are recognised as a liability on the Balance Sheet up until the point of completion.

(g) Impairment

For financial assets held at amortised cost or FVOCI ("Fair Value through Other Comprehensive Income") the Company reviews the carrying value of its assets at each balance sheet date. For such assets, the Company determines forward looking expected credit losses ("ECL"), based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The Company measures loss allowance at an amount equal to lifetime ECLs, except for debt securities that are determined to have low credit risk at the reporting date and other debt securities for which credit risk has not increased significantly since initial recognition. In these cases, ECLs are based on the 12-month ECL, which is the ECL that results from a possible default up to 12 months after the reporting date. The Company uses relevant quantitative and qualitative information and analysis based on historical experience, and informed credit assessment including forward-looking information in order to evaluate the credit-worthiness of each security at each reporting date, to determine whether a significant increase in credit risk since origination occurred. Should this be the case, the allowance will be based on the lifetime ECL.

ECLs are calculated by considering the probability of default ("PD"), the loss given default ("LGD") and the exposure at default ("EAD"). The PD is determined by reference to third party information on available companies, or using qualitative information available to the Company, and depends on whether a financial asset requires determination of a 12-month ECL or lifetime ECL. The LGD is determined with reference to any exposure reducing instruments such as collateral or liquid assets that the counterparty may have. The EAD is determined as the amount of the loan balance outstanding at the reporting date.

Investment property

Investment properties are measured at cost on initial recognition and subsequently at fair value (as determined by external valuers) as at year end, with changes in fair value recognised in income and expenditure.

Inventory

Inventories are stated at the lower of cost and net realisable value. An external valuation is used to determine whether impairment is required.

(h) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

(i) Revenue recognition

Revenue is stated excluding recoverable Value Added Tax and represents social housing related income from lets and first tranche sales. Please refer to the table below for revenue recognition by source.

(j) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' funds respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(k) Critical accounting estimates and judgments

In the application of the Company's accounting policies, the Directors are required to make judgements that have significant impact on the amounts recognised and to make estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources.

Revenue source	Recognition, nature and timing
Rental income	Rental income is recognised in the Income Statement for the period that it relates to.
Proceeds from first tranche sales	When proceeds are received the amount is credited against the Financial Asset created at the point the first tranche asset was purchased. The proceeds are then paid over to Legal & General Affordable Homes (Development 2) Limited against the Financial Liability which was also created at the same time the asset was purchased.
Grant income	Grants on completed schemes are recognised in the Income Statement as revenue at the point of completion.
Revaluation gains/(losses)	Investment Property is stated at fair value at the year end with changes in fair value recognised in income and expenditure.

The estimates and underlying assumptions are reviewed on an ongoing basis.

i) Significant estimates:

Investment Property

Investment Property is stated at fair value at year end with changes in fair value recognised in income and expenditure. Changes to the estimates used to derive the market value will therefore impact on the results and financial position of the Company. Any decrease in valuation and subsequent profitability of the Company in the next 12 months is not expected to impact the long term strategy of the Company.

Financial asset/liability - first tranche sales

At the year end a review of the market value of the first tranche element is carried out with any adjustments resulting in a change to the financial asset and corresponding liability. Changes to the estimates used to derive the market value will therefore impact on the financial position of the Company.

ii) Significant judgements:

Impairment

Determining whether inventories require any impairment requires judgement. As a result of the impairment reviews conducted for the year no indicators of impairment have been identified and no provisions have been required.

Deferred tax

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2. Segmental disclosure

The turnover and pre-tax profit is all attributable to the Company's activities as an owner of affordable housing and arises wholly in the UK.

3. Revenue

	2020 £'000	2019 £'000
Gross rental income	1,396	60
Grant income	1,617	1,900
	3,013	1,960

Net rental income relates to the gross rental income less direct costs (see note 5 below) on properties that had been handed over post development during the year. At year end 670 homes were under management.

Grants received

	2020 £'000	2019 £'000
Grant received recognised in the Income Statement	1,617	1,900
Grant received recognised on the Balance Sheet	5,791	1,588
	7,408	3,488

Grants on completed schemes are recognised in the profit and loss at the point of completion. Grants on schemes currently under development are recognised as a liability on the Balance Sheet up until the point of completion.

4. Other income/(costs)

	2020 £'000	2019 £'000
Amounts owed under the contract for difference	3,468	(826)
	3,468	(826)

The amounts received under the contract for difference relate to amounts received from the Company's sister Company (Legal & General Affordable Homes (Development) Limited) in relation to the capital charges arising from the services provided in the development of affordable housing less any development gains or loss paid over to Legal & General Affordable Homes (Development) Limited.

5. Operating expenditure

	2020 £'000	2019 £'000
Direct costs	(513)	(12)
Administrative expenses	(278)	(437)
Fee under an Investment Management Agreement	(466)	(51)
	(1,257)	**(500)**

6. Other gains and losses

	2020 £'000	2019 £'000
Revaluation (loss)/gain on Investment Property	(2,050)	341
	(2,050)	341

7. Audit fees

	2020 £'000	2019 £'000
Audit fees	45	40
	45	40

8. Employees

The Company had no employees during the year.

9. Directors' emoluments

The executive directors are not paid to undertake their activities as directors of the Company, and the costs are not paid by the Company however the costs included below represent a fair allocation of their remuneration in relation to the work they undertake for the Company.

	2020 £'000	2019 £'000
Simon Century	25	20
Kerrigan Procter	18	22
Ben Denton	25	20
	68	**62**

The payments to Non Executive directors are shown below.

	2020 £'000	2019 £'000
Ian Graham (Chairman)	33	30
Karen Wilson	21	18
Sarah Melinek	2	-
	57	**48**

There are no senior personnel in the Company as the management of the Company is performed by the Investment Manager. The Investment Manager charges a fee. Amounts paid are disclosed under note 23.

10. Income tax

	2020 £'000	2019 £'000
Current tax		
UK Corporation Tax at 19.0% (2019: 19.0%)		
- Current tax on profits for the year	948	139
Total current tax charge	**948**	**139**
Deferred tax		
- Origination and reversal of temporary differences	(354)	65
- Impact of change in tax rates	7	(7)
- Other		
Total deferred tax (credit)/charge	**(347)**	**58**
Tax charge on profit on ordinary activities	**601**	**197**

Factors affecting current tax charge/(credit) for the period:

Tax expense for the period is higher than the standard rate of corporation tax in the UK for the year ended 31 December 2020 of 19.0% (2019: 19.0%). The differences are explained below:

	2020 £'000	2019 £'000
Profit on ordinary activities before tax	3,125	975
Tax calculated at the standard UK corporation tax rate of 19%	594	185
Effects of:		
Expenses not deductible for tax purposes	-	19
Impact of reduction of change in tax rate	7	(7)
Tax Charge	**601**	**197**

Factors which may affect future tax charges

In the March 2019 budget the government announced that the UK Corporation Tax rate would remain at 19% from 1 April 2020 rather than reducing to 17% as implemented in Finance Act 2016. This change was substantively enacted in March 2020. In the Budget on 3 March 2021, the Chancellor of the Exchequer announced an increase in the headline rate of corporation tax to 25% from 1 April 2023. In line with the requirements of IAS12, the impact of the change in rate has not been reflected in the deferred tax balances at 31 December 2020 and will be recognised once it has been substantively enacted by the UK Parliament. The Company has no unprovided deferred tax assets or liabilities as at 31 December 2020 (2019: £nil).

11. Investment Property

	Long term investment property	
	2020 £'000	2019 £'000
Valuation		
At 1 January	20,096	-
Additions at cost	121,345	19,755
Disposals		-
(Loss)/gain on revaluation of investment property	(2,050)	341
At 31 December	**139,391**	**20,096**
Investment Property by tenure:		
Shared ownership	71,056	14,376
Affordable rent	62,562	3,845
Social rent	5,773	1,875
At 31 December	**139,391**	**20,096**

External valuations are carried out by CBRE Limited. Completed assets are held at fair value which is based on the Existing Use Value for Social Housing (EUV-SH).

12. Inventories

	2020 £'000	2019 £'000
Work in Progress	27,565	26,661
	27,565	26,661

Work in progress relates to the amounts spent on current projects under development. It should be noted that the development risk is borne by the Company's sister companies, Legal & General Affordable Homes (Development) Limited and Legal & General Affordable Homes (Development 2) Limited.

13. Financial Asset & Liability

When completed Shared Ownership units are handed over to the Company from its sister development companies it recognises the residual element as Investment Property on its Balance Sheet. The unsold first tranche element is recognised as a current asset 'Financial Asset' and an equal 'Financial Liability' is recognised to reflect the future sale of which the proceeds are due to the sister development company. At the year end this asset and corresponding liability amounted to £14,846,683.

14. Trade and other receivables

	2020 £'000	2019 £'000
Trade Debtors	3	-
Accrued Income	280	-
Loan Capitalised Costs	167	-
Intercompany Debtors	2,026	-
	2,476	**-**

15. Deferred tax asset

	2020 £'000	2019 £'000
At 1 January	-	-
Additional provision (debited)/credited during the year in the income statement	289	-
At 31 December	**289**	**-**

16. Loan facility

	2020 £'000	2019 £'000
Loan facility	23,064	-
	23,064	-

A £100m debt facility was entered in to at the start of 2020. During the year £23m has been utilised.

17. Trade and other payables

	2020 £'000	2019 £'000
Intercompany Creditors	25,706	1,435
Accruals	931	992
Corporation tax payable	940	139
Trade Creditors	272	-
VAT payable	59	-
	27,908	**2,566**

18. Deferred tax liability

	2020 £'000	2019 £'000
At 1 January 2020	58	-
Additional provision (debited)/credited during the year in the income statement	(58)	58
At 31 December	**-**	**58**

19. Share capital

Authorised share capital	**2020 Number of shares**	2020 £'000	**2019 Number of shares**	2019 £'000
At 31 December: ordinary shares of £1 each	8	-	4	-

Issued share capital, fully paid	**Number of shares**	**Share Capital £'000**	**Share Premium £'000**
As at 1 January 2020	4	4	41,781
Issued shares during the year	4	4	71,090
As at 31 December 2020	**8**	**8**	**112,871**

20. Commitments

The Company's ambition is deliver 3,000 homes per year by 2023. It should be noted that the development risk is borne by the Company's sister companies, Legal & General Affordable Homes (Development) Limited and Legal & General Affordable Homes (Development 2) Limited. Together, the business had a secured pipeline of 4,400+ homes at the year end. The number of uncompleted schemes committed to at the year end were 59 (2,620 homes). The Company has committed to purchasing these homes from its sister companies at a value of £526m.

21. Ultimate parent undertaking

The immediate parent company is Legal and General Assurance Society Limited.

The ultimate parent company is Legal & General Group Plc, a company incorporated in England & Wales - the controlling party which consolidates the financial statements of the Company. These accounts therefore provide information about the Company as an individual undertaking. Copies of the accounts of the ultimate holding company, Legal & General Group Plc, are available on the Group website, www.legalandgeneralgroup.com or from the Company Secretary at the Registered Office, One Coleman Street, London, EC2R 5AA.

22. Cash flow statement

The Company has taken advantage of the exemption under paragraph 8 (h) of FRS 101 from the requirements of IAS 7 Statement of Cash flows, and hence has not presented a cash flow statement.

23. Related party transactions

Transactions during the year related to fees paid under an Investment Management Agreement to its sister company, Legal & General Affordable Homes (Operations) Limited (£1.1m), payments made to its development sister companies for handover of homes (£102.8m) and the net amount paid under a contract for difference to Legal & General Affordable Homes (Development) Limited which is set out in note 4 to these accounts. Note that both these entities are not registered providers of social housing.

The only other related party transactions to disclose relate to transactions with one of the Company's legal advisors, Gowlings WLG (UK) LLP "Gowlings". A Director of the Company is married to a partner at Gowlings. Although the partner is not involved in any of the transactions with the Company and Gowlings are on the Group procurement framework, we are obliged to disclose the nature and amount of the transactions during the year. During the year £0.1m was paid to Gowlings by the Company and the year end creditor owed to Gowlings at 31 December 2020 amounted to £nil.