Legal & General Affordable Homes

Annual Report and Accounts for the year ended 31 December 2021

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

Improving lives through inclusive capitalism.

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, but our position of being a byword for reliability, integrity and trust, is one we will never move from. That's why our key principles underpin everything we do:

Quality

We aim to bring you the best possible experience in every aspect of your 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 you arrive to when you open the door of your new home.

Sustainability

We work to minimise the environmental impact of what we do. That means reducing carbon emissions, using renewable materials and following sustainable design and building processes.

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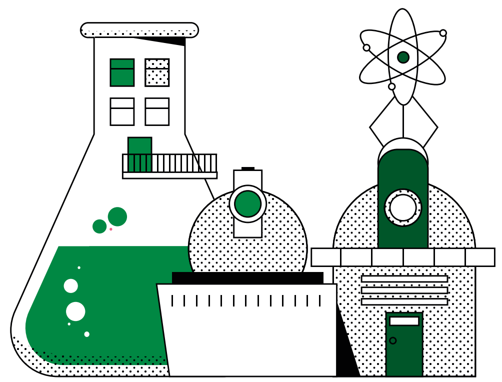


Registered Office:
One Coleman Street
London EC2R 5AA

Registered in England & Wales No. 11223470

Directors and advisors at date of approval of the financial statements

Directors
Ian Graham (Chair)
Karen Wilson
Sarah Melinek
Ben Denton
Simon Century
Karl Shaw

Independent Statutory Auditor
KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Bankers
Barclays Bank PLC
Churchill Place
Canary Wharf
London
E14 5RB

Legal Advisors
Trowers & Hamlins
3 Bunhill Row
London
EC1Y 8YZ

Registered Office
One Coleman Street
London
EC2R 5AA

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

Highlights of 2021 in numbers

Operating surplus*

£11.0m

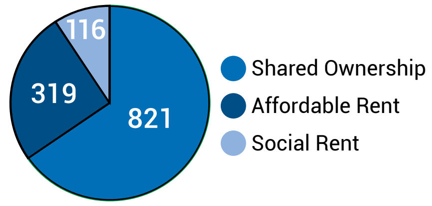
(2020: £3.1m)
* Before interest and tax

Number of homes*

1,256

(2020: 670)
*Units under management

Homes by tenure



Investment property

£264.1m

(2020: £139.4m)

Secured homes pipeline*

7,000+

(2020: 4,400)
*As at 31 December 2021
(including completed units)

Net Promoter score

55

(2020: 49)

Chairman's statement

A long-term business focused on quality of service

During the year, just our third year of trading, we passed the milestone of 1,000 homes under management and continue to be on track with our strategy and stated aim of delivering 3,000 affordable homes each year by 2023.

This was achieved through the handover of 896 completed properties from our developing sister companies and the acquisition of 101 existing shared ownership homes. The wider Legal & General Affordable Homes business continues to expand, establishing 4 new registered providers and as part of this we transferred 411 of our rented properties to Legal & General Affordable Homes (AR) LLP, meaning we finished the year with 1,256 homes.

We aim to play a leading role in raising service standards whilst increasing the long-term supply of affordable housing. Our net promoter score on handovers was 55 which is a great result compared to sector norms.

We remain deeply committed to working in partnership with the sector and have established several exciting partnerships that will deliver homes over the coming years.

Legal & General Affordable Homes publishes an Annual Customer Report and information about the Company's properties and customers are included in that. The report can be viewed on the website: www.legalandgeneral.com/affordable-homes

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

Looking ahead

We continue to strive for high standards of energy efficiency in the homes we acquire. This is important for our customers with utility prices rising rapidly at the moment but also as part of our larger ambitions as we work towards net zero carbon.

We have made significant progress in designing a range of house types for delivery by our sister companies within Legal & General Affordable Homes, other businesses across the Legal & General group or our external partners.

We were delighted to be awarded Strategic Partner status by Homes England and an allocation of £125m of grant to deliver 2,121 homes.

Our digitisation of the business through our bespoke Housing Management system continues apace with many of our management partners now working directly in our system, providing real-time access to portfolio information and enhancing our customer experience.

Ian Graham
Director (Chairman)
24 June 2022

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 as a 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 Chair of the Risk & 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 previously held non-executive positions at Euston Town Ltd, Placeshapers Ltd 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.

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 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, Trade Risks, advising clients in the infrastructure and quasi-government sectors across debt and equity advisory and trading, banking and DCM transactions. Simon holds full membership of the Association of Corporate Treasurers, 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 is the Senior Independent Director. 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.

Karl Shaw | Director

Appointed June 2021

Karl is the Corporate Development Director for Legal & General Retirement. He has a remit of Corporate Finance activities for the division, including the funding of Affordable Housing and other Legal & General businesses. Karl is a qualified actuary who has worked in the life insurance industry for over 25 years, with the majority of that time in various roles at Legal & General. Karl holds a first class degree in Mathematics from Cambridge University.

Environmental, Social, and Governance Statement: Investing society's capital for society's benefit

Legal & General Affordable Homes 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.

Our vision is for everyone to have a high quality, well managed, sustainable and affordable home from which they can live better futures. However, there are not enough affordable homes being delivered to meet the housing need. The National Housing Federation estimate that 145,000 affordable homes per year in England alone are required, with only around one third of those being delivered.

Our business model uses long-term capital to deliver those homes. Since 2018, the Legal & General Affordable Homes entities have committed £1.15bn on our path to becoming the leading developer and operator of affordable homes in the UK. By investing this long-term capital at scale, our aim is to significantly increase the supply of sustainable affordable homes. 96% of completed homes have EPC ratings of A or B.

We believe that our business is delivering significant impact - our Impact Objectives are to:

1. Increase the Supply of Affordable Homes
2. Fund High Quality Sustainable Developments
3. Provide Best in Class Customer Service

These three objectives aim to have two direct outcomes - the Improvement in Customer Wellbeing and Becoming Net Zero Carbon. The business believes its impacts will also have wider systemic outcomes - raising standards across the whole Social Housing sector and motivating wider investment into the sector.

The Legal & General Affordable Homes business is in the process of developing a detailed Sustainability Framework with six themes of sustainability, each with detailed objectives which set KPIs and targets for use in driving that change. These themes are:

1. Social and Economic Inclusion
2. Health and Wellbeing
3. Environmental Quality
4. Travel and Mobility
5. Resources Management
6. Energy and Carbon

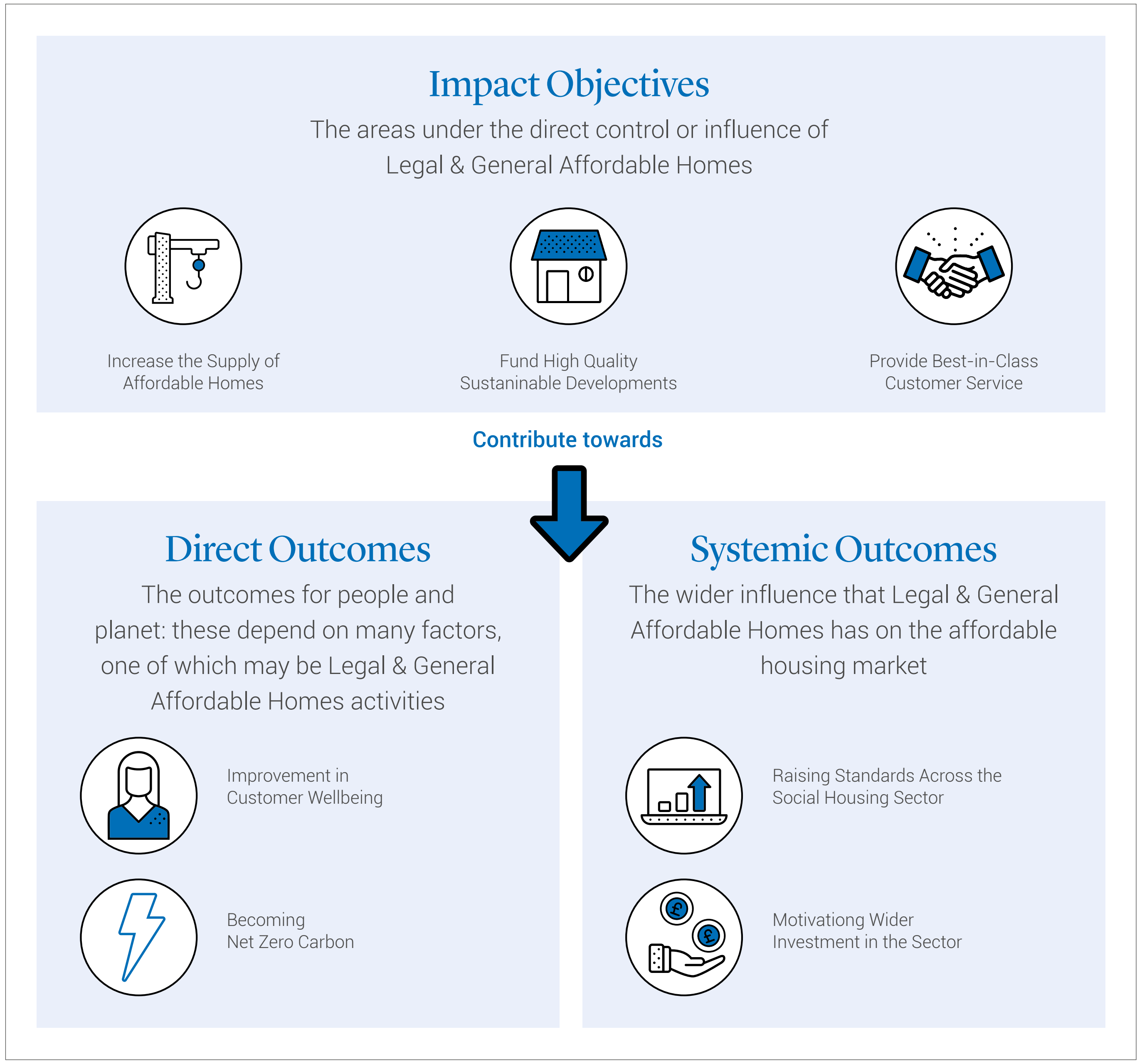
Alongside this, we are reporting against the Sustainability Reporting Standard for Social Housing, a voluntary ESG performance disclosure framework which aims to drive transparency, consistency and comparability in the Social Housing sector.

As a business we are starting on the journey to benchmark our overall sustainability performance and understand the impacts that our activities have on the environment, our customers and the communities within which we work. That is why we have asked The Good Economy to opine on our progress with a Sustainability and Impact Report which will be published mid 2022. Our aim is to annually report on our sustainability journey.

Operating as a Net Zero Carbon business

We want to work with government, our partners and other businesses within the Legal & General Group to reduce our carbon emissions and accelerate the pace of change towards net zero carbon.

We are committed to running Legal & General Affordable Homes as an agile and net zero carbon business and reducing the emissions generated via business travel, employee commuting, purchased goods and services and hotel accommodation. We are taking practical steps to reduce emissions by enabling 100% home working, implementing an electric car salary sacrifice scheme and buying 100% green energy for all the offices we control.



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 at 31 December 2021. During the year the Company took ownership of a further 997 homes. Gross rental income grew to £7.6m with a profit before tax for the year amounting to £7.4m.

Operational, financing and asset management services are provided to the Company by Legal & General Affordable Homes (Operations) Limited (the "Investment Manager") under a long term management agreement.

The Company is ultimately owned by Legal & General Group Plc (the "Group").

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

- Valuation of its properties
- Ability to source new housing opportunities
- Political changes to the operating environment
- Reputational damage arising from poor performance of the business
- The availability of sources of financing

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 Board.
- Risk Appetite Statements which set out the tolerance the business has for identified risks.
- The Legal & General 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.

External Outlook
Since March 2020, 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. 2022 is seeing significant inflation caused by continued global disruption from Covid-19 and the war in Ukraine, leading to an increase in the cost of living that could have an impact on our customers and the affordability of our homes.

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

NHF Code of Governance
At the start of 2021, and since its registration as a Registered Provider in December 2018, the Company adopted and was compliant with the NHF Code of Governance 2015. In March 2021 the Company adopted the 2020 edition of the NHF Code of Governance and has been working towards full compliance in accordance with the NHF recommended approach. As at 31 December 2021 the Company was fully compliant with the NHF Code of Governance 2020 with the exception of provision 4.5 as the Company adopts the Legal & General Group Whistleblowing Policy. Although this does not include a route to contact the iNEDs on the board, it is a robust approach to whistleblowing, which is considered an appropriate alternative for the Company given its ownership by the Legal & General Group.

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.

Equality and Diversity
We are committed to equality, diversity and inclusion and in 2022 we adopted our Equality and Diversity targets and approved a Board Diversity Statement. Our business, like that of the Legal & General Group more widely, is built on the belief of being economically and socially useful, embracing diversity and being fully inclusive in everything we do.

In engaging our Management Providers, their commitment to equality and inclusion through customer service was part of our selection criteria and is enshrined in the contracts for services that we have with them.

The Company employs no staff but its Investment Manager employs staff to deliver services to the Company and therefore the Board will encourage and influence the actions of the Investment Manager to act in accordance with the equality, diversity and inclusion principles set out by the Board.

The Investment Manager reports key diversity metrics to the Board on a regular basis to enable monitoring and the Company will publish information about its progress in this area

By Order of the Board

Andrew D. Fairhurst
For and on behalf of Legal & General Co Sec Limited
Company Secretary
24 June 2022

Directors' Report

The Directors present their annual report together with the audited financial statements of the Company for the year ended 31 December 2021.

Future developments

The Company's ambition is to deliver 3,000 homes per year by 2023. It should be noted that development risk is borne by the Company's sister companies, Legal & General Affordable Homes (Development) Limited, Legal & General Affordable Homes (Development 2) Limited and Legal & General Affordable Homes (Development 3) Limited. Together, the business had a secured pipeline of over 7,000 homes at the year end (including completed units).

Debt financing

The Company has a £100m long term debt facility provided by Legal & General's Retirement business and this facility was fully drawn during the year.

Result for the year end

The results of the Company are set out on page 28. The Directors do not recommend the payment of a dividend (2020: £nil).

Going concern

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

Units under management

	2021 units	2020 units
Shared ownership	821	375
Affordable rent	319	247
Social rent	116	48
Total units under management	**1,256**	**670**

The units under management at year end are shown after the Company transferred 411 of its properties to Legal & General Affordable Homes (AR) LLP in December 2021. The management of units is outsourced to external management providers. During the year the Company had 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	Date resigned
Simon Century	23 February 2018	
Kerrigan Procter	23 February 2018	17 June 2021
Ian Graham	17 July 2018	
Karen Wilson	17 July 2018	
Ben Denton	10 October 2018	
Sarah Melinek	19 November 2020	
Karl Shaw	17 June 2021	

Section 172 Statement

The Board of the Company consider that they have adhered to the requirements of section 172 of the Companies Act 2006 and have, in good faith, acted in a way that they consider would be most likely to promote the success of the Company for the benefit of its shareholders as a whole and, in doing so, have had regard to and recognised the importance of considering all stakeholders and other matters (as set out in s.172(1)(a-f) of the Companies Act 2006) in its decision-making.

As part of the wider Legal & General Group Plc (the "Group"), taking into account the relative size and complexity of the Company and centralised nature of the Group, the Board may consider it reasonable for decision making to be handled by the Group Board. In such cases, this will be articulated in the statement and reference provided to the appropriate section of the Group's Annual Report & Accounts.

The reporting legislation around stakeholder engagement is welcomed by the Board and the commentary and table below sets out our s.172(1) statement. This statement provides details of key stakeholder engagement undertaken by the Board during the year and how this helps the Board to factor potential impacts on stakeholders in the decision making process. Additional details of the Group's key stakeholders and why they are important to us are set out on in the Group's Annual Report & Accounts, which can be found here: www.legalandgeneralgroup.com/investors/results-reports-and-presentations.

General

The Group promotes the highest standards of governance and ensures that these standards cascade throughout the Group and its subsidiaries. Guiding principles are in place for the relationship between the Group Board and the Boards of the Group's principal subsidiaries. This framework promotes full and effective interaction across all levels of the Group to support the delivery of strategy and business objectives within a framework of best corporate governance practice. A full description of the Group's governance arrangements can be found in the Group Annual Report & Accounts, which can be found at: www.legalandgeneralgroup.com/investors/results-reports-and-presentations.

Corporate governance underpins how we conduct ourselves as a Board, our culture, values, behaviours and how we do business. As a Board we are conscious of the impact that our business and decisions have on our direct stakeholders as well as our wider societal impact.

As part of the Director induction process, Directors are briefed on their duties, including their duty under s.172 of the Companies Act 2006. The Directors are entitled to request from the Company all such information they may reasonably require in order to be able to perform their duties as Directors, including professional advice from either the Company Secretary or from an independent advisor at the Company's expense. On-going training is provided to the Directors, as required, to ensure that their knowledge remains up to date and they continue to be able to discharge their duties as Directors.

In 2019 the Group implemented a new standard practice which requires all Group and subsidiary Board papers demonstrate that stakeholders have been considered. Details of this have been included in the cover sheet for each Group and subsidiary Board papers since implementation. For each transaction approved by the Board, including but not limited to material acquisitions and strategic expansion, discussion takes place around employee impact and impact on other stakeholders, such as customers. The relevance of each stakeholder group may vary by reference to the issue in question, so the Board seeks to understand the needs of each stakeholder group and any potential conflicts as part of its decision-making. Additionally, the Company Secretary is on hand to provide support to the Board in ensuring that sufficient consideration and time is given to stakeholder issues during these discussions.

Principal decisions

For the year ended 31 December 2021, the Board consider that the following are examples of principal decisions that it made in the period:

- Contracting on Affordable housing development schemes delivered by housebuilders and developers
  – as part of the Company's principal activities it contracted on several developments during the year
- Approval of annual budget and business plans
  – the Company's 5 year plan was approved
- Sale of homes to Legal & General Affordable Homes (AR) LLP
  – during the year, properties were sold to a sister entity

  The table on the right sets out our key stakeholders and how we have engaged with them in the period, as well as demonstrating stakeholder consideration in the decision making process.

Stakeholders - Their importance to us	The Board's approach to stakeholder engagement	Outcomes and Stakeholder consideration in the Board's decision making
Shareholders Our shareholders are vital to the future success of our business, providing funds which aid business growth and the generation of sustainable returns.	Our ultimate shareholder is the Group, whose shareholders are institutional and individual investors who own Legal & General shares or bonds. Performance metrics and updates are provided by the Board to our parent company, with subsidiary performance cascaded up the Group.	As a Board, we aim to provide clear information to our parent company and ultimate shareholders, being honest and transparent as to the performance of the business. Value is generated for shareholders by achieving the business plan, providing a sustainable, progressive dividend (where appropriate) and through share price performance of the ultimate shareholder, Legal & General Group Plc.
Customers Listening to our customers helps us to better understand their needs and provide suitable and reliable products and services.	The Company's primary customer is Legal & General Affordable Homes Limited which acquires completed homes from the Company. The quality of the product and the customer service provided to Legal & General Affordable Homes and the end users of the homes is tracked via Net Promoter Scores which are reported regularly to the Board.	When assessing any new development opportunity, the Board considers the quality of the home that will be provided. All developments must meet a number of Quality Criteria to be approved. Net Promoter Scores are tracked regularly to assess the quality of product and customer service provided for the Board to consider whether any actions need to be taken.
Workforce Engaging with our people enables us to create an inclusive Company culture and a positive working environment.	The Company does not have any employees.	The Company does not have any employees.
Suppliers Interaction with our suppliers and treating our suppliers fairly allows us to drive high standards and reduce risk in our supply chain whilst also benefitting from cost efficiencies and generating positive impact for the environment and wider society.	As a Group we hold regular meetings with our key suppliers ensuring risks are proactively managed and they are up to date on latest developments and best practice. We strive to work with like-minded businesses, requiring suppliers to comply with our Supplier Code of Conduct. This safeguards the relationship and establishes standards that ensure suppliers operate ethically, are environmentally responsible and that their workers are treated with respect and dignity.	We base our decisions on which suppliers to work with on a range of qualitative and quantitative factors rather than price alone.
Community/wider society Contributing positively to wider society enables us to create stronger communities and have a positive environmental impact.	Our purpose is to improve the lives of our customers and end users, build a better society for the long term and create value for our shareholders. This inspires us to create long-term assets in an economically and socially useful way to benefit everyone in our communities. Our approach to inclusive capitalism takes our belief in responsible behaviour and extends it into investing in communities and cities to change people's lives for the better.	We use our own capital to create real assets which the Group can invest in long term using Group capital and policyholder's assets. This allows us to create value for shareholders, provide stability for pension customers and benefit communities right across the UK. The Group has a Group Corporate Responsibility & Ethics (GCRE") Committee which has responsibility and oversight of such matters. The Group Board approve the GCRE Policy on an annual basis and this is implemented across the Group.

Further information on how the Group have engaged with stakeholders can be found in the Group s.172(1) Statement, which can be found here: www.legalandgeneralgroup.com/investors/results-reports-and-presentations.

Value for Money Statement

Introduction

Legal & General Affordable Homes business' 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 year-end 31 December 2021 the Company owned and operated 1,256 properties being operated via its network of management providers.

In complying with the Value for Money Standard the Legal & General Affordable Homes business seeks to achieve economy, efficiency and effectiveness across all areas of activity. 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 Organisation

The Company 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, Legal & General Group. The business focuses on managing the properties it owns and serving the interests of its customers.

The Company 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, Legal & General Group.

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

Activities undertaken in 2021

At the beginning of 2021, the Company had 670 properties in operation. Over the course of 2021 the business took handover of completed stock totalling 997 homes and in December 2021 transferred 411 homes to its sister business, Legal & General Affordable Homes (AR) LLP. As a result at the end of the year the Company held 1,256 homes under management. The transfer timing and materiality relative to the total stock holding had a significant impact on the reported metrics which use the end of year stock position in their computation. A similar impact is likely in 2022 and future years as this reflects the operating model adopted by the business. Supplemental measures will therefore continue to complement the sector standard Value for Money metrics.

How Legal & General 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 Company is financed by the Legal & General 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 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 Legal & General Affordable Homes 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

Legal & General Affordable Homes has sought over the past year to establish a benchmark group of organisations in the sector to compare its value for money performance against. A cross section of Registered Providers who were most similar to the Legal & General Affordable Homes business were selected for this purpose.

However, having attempted to create a meaningful benchmark group it became evident upon testing comparative performance that Legal & General Affordable Homes remains an almost unique business in the affordable housing sector and that benchmark comparisons yield limited value. This is simply as a result of Legal & General Affordable Homes still being in its growth phase as a business and its continued evolution, not least the emergence of additional Registered Providers in the Legal & General Affordable Homes family of businesses during 2021.

As a result, the attempts to form a benchmark group were halted during 2021 and the Board agreed a further set of value for money metrics, in addition to the mandatory measures, which it wishes to begin to monitor. From 2022 these metrics will begin to be reported upon and will help ensure value for money is delivered throughout the business.

Value for Money Metrics

The Company 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 Company 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 Company uses net promoter scores as its core indicator of customer experience.

Theme	Measure	Benchmark result	Target 2022
More Affordable housing	No of new homes delivered annually	Top 15 of all RPs	1,100
Product quality	UKCSI Product Quality %	79%	80%
Environmentally sustainable	Average EPC score	B rating - 84	85
Truly affordable homes	i) Average rent as a % of market rent ii) Average rent as a % of local income	No benchmark data available	i) Lower than 75% ii) Lower than 35% of gross income
Efficient model of operation	Gross/Net rent level	No benchmark data available	Rented 79% Shared ownership 92%

Legal & General Affordable Homes 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 Company 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 Company uses net promoter scores as its core indicator of customer experience and has included it in the reporting for the financial year 2021.

Metric 1 - Reinvestment 2021: 78%; Target: 67%

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 £134m to £292m. As the business had a comparatively small stock holding at the beginning of 2021, 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 2021: 71%; Target: 67%

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. At the end of 2021 the business owned and managed 1,256 units and had delivered 896 new social homes in the period representing 79% new supply. The business focusses solely on delivering social housing and we have not acquired or delivered any non-social housing units in 2021 and therefore have not reported against part b of this metric.

Metric 3 - Gearing 2021: 18%; Target: 32%

During 2021 the Company drew-down the full balance of its inflation linked £100m loan facility which was put in place at the start of 2020. The Company will continue to ensure that its gearing levels are appropriate by balancing the need for debt funding alongside equity investment 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) 2021: 513%; Target: 565%

This metric measures the level of surplus compared to interest payable. For the year ended 31 December 2021 the Company's performance far exceeded the performance of the wider sector due to the structure of its funding yielding lower interest charges alongside the performance of its portfolio. Performance was marginally lower than target as a result of a less homes handing over in year than originally planned due to delays in schemes reaching practical completion.

Metric 5 - Headline social housing cost per unit 2021: £3,3450; Target: £2,550

This metric assesses the cost per unit of operating properties in management. The Company'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 Company will have costs lower than the sector median for a number of years to come due to this feature of its portfolio. 2021 cost per unit was behind target due to the transfer out of a quarter of the units of the Company at the end of the year, but nevertheless it remained under the average costs for the sector.

Metric 6a&b - Operating Margin 6a: 2021: 41%; Target: 68% 6b: 2021: 53%; Target: 68%

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 gains/losses). Grant income has been excluded from both metrics. Any gain/loss on Investment Property revaluation is excluded from both metrics. The operating margin on both metrics is below the target of 68.0% as a result of less homes handing over into the portfolio than originally targeted. This was the result of delays in the practical completion of homes under construction which resulted in lower revenue receipts than targeted.

2021 Sector Value for Money								
Metric	Description		Median Quartile*	Upper Quartile*	2021 Actual	2021 Target	2022 Target
1	Reinvestment	%	5.8	8.2	78.0	66.5	80.0
2	New supply delivered	%	1.3	2.0	79.0	66.8	70.0
3	Gearing	%	43.9	53.3	18.0	32.2	50.0
4	EBITDA MRI	%	183.0	248.0	512.00	565.20	500.0
5	Headline social housing cost per unit	£000	3.73	4.76	2.52	2.55	4.30
6a	Operating Margin - social housing lettings	%	26.3	32.6	41.0	68.0	65.0
6b	Operating Margin - overall	%	23.9	28.2	52.0	68.0	65.0
7	Return on capital employed	%	3.3	4.2	2.4	1.5	3.3
8	Net promoter score		N/A	N/A	55	+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. Metrics are rated green where they exceed the business benchmark and the sector upper quartile. They are rated amber where they fail to achieve the business target but exceed the sector benchmark.

Metric 7 - Return on capital employed 2021: 2.4%; Target: 1.5%

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 31st December 2021. This means the return is low compared to established peers who hold and maintain a large standing stock. It is anticipated that the business will perform below the sector norm whilst it continues to grow and it establishes a stock holding commensurate with its peer group. This is reflected in the 2022 target measure.

Metric 8 - Net promoter score 2020: +55; 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 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 delighted that customers reported such strong performance across the year on this important metric.

Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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 surplus or deficit 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 estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- matters related to going concern; 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, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019. They are responsible for 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

Disclosure of information to auditor

Each of the directors, who held office at the date the Directors' 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 are unaware; and

(b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

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 D. Fairhurst
For and on behalf of Legal & General Co Sec Limited
Company Secretary
24 June 2022

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

Opinion

We have audited the financial statements of Legal & General Affordable Homes Limited ("the Company") for the year ended 31 December 2021 which comprise 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 2021 and of the surplus of the Company 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 above conclusions are 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 and audit committee minutes.Using analytical procedures to identify any unusual or unexpected relationships.
- 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. On this audit we do not believe there is a fraud risk related to revenue recognition because of the routine, low value nature of rental transactions. We did not identify any additional fraud risks.

Identifying and responding to risks of material misstatement related to 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 through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.
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 or the loss of the Company's license to operate. We identified the following areas as those most likely to have such an effect: health and safety (including related fire safety and building standards). 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.

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 the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.
Our responsibility is to read the other information 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 other information;
- 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 by the Company, 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
- 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 21, 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
30 June 2022

Financial Statements

Income Statement

For the year ended 31 December 2021	Notes	2021 £'000	2020 £'000
Income	3	12,023	3,013
Other income	4	3,198	3,468
Operating expenditure	5	(4,485)	(1,257)
Other gains and losses	6	1,288	(2,050)
Operating surplus before interest and tax		**12,024**	**3,175**
Finance costs		(4,611)	(50)
Surplus before income tax		**7,413**	**3,125**
Income tax expense	10	(1,354)	(601)
Profit/(loss) for the year		**6,059**	**2,524**

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

Balance Sheet

As at 31 December 2021	Notes	2021 £'000	2020 £'000
Assets			
Non-current assets			
Investment property	11	264,058	139,391
Current assets			
Inventories	12	11,650	27,565
Cash at bank		55,655	3,316
Financial Asset	13	20,278	14,847
Trade and other Recievables	14	6,285	2,476
Deferred tax asset	15	261	289
		94,129	**48,493**
Total assets		**358,187**	**187,884**
Liabilities			
Non-current liabilities			
Loan facility	16	**103,801**	**23,064**
		103,801	**23,064**
Current liabilities			
Trade and other payables	17	18,177	27,908
Financial Liability	13	**20,278**	14,847
Reservation deposits held		248	102
Deferred grant income on schemes under development		**4,451**	**5,791**
Deferred tax liability	18	-	-
		43,154	48,648
Total liabilities		**146,955**	**71,712**
Net assets		**211,232**	**116,172**
Equity			
Share capital and premium	19	**201,871**	**112,871**
Retained earnings		**9,361**	**3,301**
Total equity		**211,232**	**116,172**

The notes on pages 31 to 40 form an integral part of these financial statements.

The financial statements were approved and authorised for issue by the Board on 8 June 2022 and were signed on its behalf by

Ian Graham
Director (Chairman)

Statement of changes in Equity

For the year ended 31 December 2021	Share Capital £'000	Share Premium £'000	Retained Earnings £'000	Total £'000
As at 1 January 2021	-	112,871	3,301	116,173
Profit for the year	-	-	6,059	6,059
Total comprehensive income for the year	**-**	**112,871**	**9,361**	**122,232**
Shares purchased	-	89,000	-	89,000
As at 31 December 2021	**-**	**201,871**	**9,361**	**211,232**

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	-	71,091	-	71,091
As at 31 December 2020	**-**	**112,871**	**3,301**	**116,173**

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 Statement of Recommended Practice 2018 ("SORP"), to the extent that the SORP does not conflict with UK adopted international accounting standards.

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 fully drawn at the end of the year. 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 guidance properties that are held for the provision of social housing must be treated as property, plant and equipment. The company recognises its properties as Investment properties, 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 conflict with UK adopted international accounting standards.

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 tranche 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 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 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 Fair Value through Other Comprehensive Income (FVOCI) 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 the 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.

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	Proceeds from First tranche sale is recognised in the income statement when proceeds are received.
Grant income	Grants on completed schemes are recognised in the Income Statement as revenue at the point of completion.

(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.

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 tax 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

	2021 £'000	2020 £'000
Gross rental income	7,608	1,396
Grant income	4,415	1,617
	12,023	3,013

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 the year end 1,256 homes were under management.

Grants received

	2021 £'000	2020 £'000
Grant received recognised in the Income Statement	4,415	1,617
Grant received recognised on the Balance Sheet	4,451	5,791
	8,866	7,408

Grants on completed schemes are recognised in the P&L 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)

	2021 £'000	2020 £'000
Amounts owed under the contract for difference	3,198	3,468
	3,198	3,468

'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

	2021 £'000	2020 £'000
Direct costs	(2,021)	(513)
Administrative expenses	(580)	(278)
Fee under an Investment Management Agreement	(1,884)	(466)
	(4,485)	**(1,257)**

6. Other gains and losses

	2021 £'000	2020 £'000
Revaluation gain/(loss) on Investment Property	477	(2,050)
Gain/Loss on Investment Property	**811**	
	1,288	(2,050)

7. Audit fees

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

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.

	2021 £'000	2020 £'000
Simon Century	14	25
Kerrigan Procter (resigned 17 June 2021)	9	18
Karl Shaw (appointed 17 June 2021)	4	-
Ben Denton	14	25
	41	68

The payments to Non Executive directors are shown below.

	2021 £'000	2020 £'000
Ian Graham (Chairman)	20	33
Karen Wilson	13	21
Sarah Melinek	11	2
	44	**57**

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

	2021 £'000	2020 £'000
Current tax		
UK corporation tax at 19.0% (2019: 19.0%)		
- Current tax on profits for the year	1,318	948
- Adjustments in respect of prior years	8	
Total current tax charge	**1,326**	**948**
Deferred tax		
- Origination and reversal of temporary differences	91	(354)
- Impact of change in tax rates		7
- Impact of the revaluation of deferred tax balances to 25% (2020: 19%)	(63)	
Total deferred tax (credit)/charge	**28**	**(347)**
Tax charge on profit on ordinary activities	**1,354**	**601**

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 2021 of 19.0% (2019: 19.0%). The differences are explained below:ined below:

	2021 £'000	2020 £'000
Profit on ordinary activities before tax	7,413	3,125
Tax calculated at the standard UK corporation tax rate of 19%	1,409	594
Effects of:		
Adjustments in respect of prior year current tax	**8**	
Expenses not deductible for tax purposes	-	-
Impact of the revaluation of deferred tax balances to 25% (2020: 19%)	**(63)**	
Impact of reduction of change in tax rate	**-**	**7**
Tax Charge	**1,354**	**601**

Factors which may affect future tax charges

Finance Act 2021 increased the rate of corporation tax from 19% to 25% from 1 April 2023. The prevailing rate of UK corporation tax for the year therefore remained at 19%. The future enacted tax rate of 25% has been used in the calculation of UK deferred tax assets and liabilities, as the rate of corporation tax that is expected to apply when those deferred tax balances reverse.

To calculate the current tax on profits, the rate of tax used is 19.0% (2020: 19.0%), which is the average rate of Corporation Tax applicable for the year.

The Company has no unprovided deferred tax assets or liabilities as at 31 December 2021 (2020: £nil).

11. Investment Property

	Long term investment property	
	2021 £'000	2020 £'000
Valuation		
At 1 January	139,391	20,096
Additions at cost	199,609	121,345
Disposal at cost	(76,230)	
Gain on Disposals	811	
Gain/(loss) on revaluation of investment property	477	(2,050)
At 31 December	**264,058**	**139,391**
Investment Property by tenure:		
Shared ownership	84,403	71,056
Affordable rent	33,241	62,562
Social rent	7,024	5,773
At 31 December	**124,667**	**139,391**

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

	2021 £'000	2020 £'000
Work in Progress	11,650	27,565
	11,650	27,565

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 £14.8m.

14. Trade and other receivables

	2021 £'000	2020 £'000
Trade Debtors		3
Accrued Income	2,150	280
Loan Capitalised Costs	155	167
Intercompany Debtors	2,392	2,026
Other Debtors	1,588	
	6,285	**2,476**

15. Deferred tax asset

	2021 £'000	2020 £'000
At 1 January	289	-
Additional provision (debited)/credited during the year in the income statement	(28)	289
At 31 December	**261**	**289**

16. Loan facility

	2021 £'000	2020 £'000
Loan facility	103,801	23,064
	103,801	23,064

A £100m debt facility was entered in to at the start of 2020. During the year £80m has been utilised.

17. Trade and other payables

	2021 £'000	2020 £'000
Intercompany Creditors	15,737	25,706
Accruals	1,032	931
Corporation tax payable	1,326	940
Trade Creditors	25	272
VAT payable	57	59
	18,177	**27,908**

18. Deferred tax liability

	2021 £'000	2020 £'000
At 1 January 2020	-	58
Additional provision (debited)/credited during the year in the income statement	-	(58)
At 31 December	**-**	-

19. Share capital

Authorised share capital	**2021 Number of shares**	2021 £'000	**2020 Number of shares**	2020 £'000
At 31 December: ordinary shares of £1 each	11	-	8	-

Issued share capital, fully paid	**Number of shares**	**Share Capital £'000**	**Share Premium £'000**
As at 1 January 2021	8	-	112,871
Issued shares during the year	3		89,000
As at 31 December 2021	**11**	**-**	**201,871**

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, Legal & General Affordable Homes (Development 2) Limited and Legal & General Affordable Homes (Development 3) Limited. Together, the business had a secured pipeline of over 7,000 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 under an Investment Management Agreement to sister company Legal & General Affordable Homes (Operations) Limited of £1.9m, payments made to its development sister companies on handover of homes of £186.7m and the net amount under a contract for difference to Legal & General Affordable Homes (Development) Limited which is set out in note 4 to these accounts. None of these related entities are registered providers of social housing.

Other related party transactions 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 Legal & General Group procurement framework, we are obliged to disclose the nature and amount of the transactions during the year. During the year £0.6m was billed by Gowlings to the Company and the year end creditor owed to Gowlings at 31 December 2021 amounted to £nil.

Registered Office:
One Coleman Street
London EC2R 5AA

Registered in England & Wales No. 11223470

Legal & General
AFFORDABLE HOMES