A2Dominion Housing Group Limited

Full Rating Report

IDRs

Foreign Currency

Long-Term IDR	A+
Short-Term IDR	F1

Local Currency

Long-Term IDR	A+

Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Financial Data

A2Dominion Housing Group Ltd

	31 Mar 15	31 Mar 14
Operating revenues (GBPm)	297.2	272.1
Rev. from pub. sector (GBPm)	0	0
Oper. bal. after rev. from pub. sector (GBPm)	85.80	78.00
Total debt (GBPm)	1,348.10	1,159.30
Total assets (GBPm)	2,157.5	1,887.5
Equity and reserves (GBPm)	690.2	636.5
EBITDA/oper. rev. inc. rev. from pub. sector (%)	34.92	35.83
ROA %	2.08	2.06
ROE %	6.48	6.1
Total debt/EBITDA %	12.86	11.88

Related Research

Fitch Affirms 2 English Social Housing Registered Providers (November 2015)

Rent Cuts Negative for UK Social Housing Providers (July 2015)

Registered Providers: Rising Commercial Activities (May 2015)

Fitch: New Right-to-Buy Could Add to Housing Provider Challenges (April 2015)

Registered Providers: Regulatory Considerations (March 2015)

English Social Housing: Registered Providers (February 2015)

Fitch Downgrades 3 English Social Housing Registered Providers (November 2014)

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Key Rating Drivers

Stable and Predictable Revenue: The ratings of A2Dominion Housing Group Limited (A2D) reflect its secured cash flow from public funds and the control and regulation provided through the Homes and Communities Agency (HCA). The ratings also reflect the continuing demand for social housing in the south of England, and continued cash flow from rented properties.

Business Risks Increasing: Fitch Ratings downgraded the English social housing sector by one notch in November 2014. This reflected Fitch's reassessment of Registered Providers' (RPs) standalone credit strength, which may weaken as the sector expands its non-social housing activities and increases its debt. However, this is compensated by the high level of public funding that is included in the agency's assessment of the standalone profile, rather than in the rating uplift. As a result, Fitch narrowed the uplift to one notch from two.

Strong State Support: A2D receives government subsidies through housing benefit (HB) and social housing grants. In response to welfare reforms, A2D set up a working group, which identified areas of risk and quantified the potential impacts. Only 37% of A2D's tenants receive HB to pay for part or all of their rent, and only 19% of tenants have all their rent paid by HB. This will mitigate the reform's effects on social housing rent arrears, which were 3.84% at end-March 2015 (FYE14: 4.14%) for general needs homes, in line with the sector average.

High Demand for Housing: Demand is strong and waiting lists are long in the 79 local authorities where A2D has housing units. Strong demand is also reflected in the 120 applications on average per vacancy for choice-based lettings. A2D has good performance on void loss and re-letting times, which are good identifiers of demand.

Annual Surpluses: A2D has recorded net group annual surpluses on a group consolidated basis for the last five years and its business plan forecasts further surpluses. Fitch expects the operating margin over the next five years to be between 23% and 29%, with variations largely dependent on the timing of major repairs expenditure and the profits generated from shared ownership and outright sales. We forecast the mix of A2D's turnover to change, with a rise in non-social housing turnover from 26% of overall turnover in FY16 to 50% in FY17.

Development Programme: A2D aims to deliver just over 1,100 new housing units in 2016, just under 1,400 in 2017 and just over 600 in 2018, while reducing its reliance on the HCA grant. The group's strategy in recent years has been to develop whole sites, with a mix of tenures including rented, shared ownership and units for sale. Profits from housing sales and market rent can be gift-aided to charitable RPs to support affordable housing development.

Debt Continues to Rise: A2D's debt will rise to fund its development programme. The group issued a GBP150m unsecured bond through A2D Funding II plc in October 2014, following a GBP150m bond insured through A2DFunding in October 2013, both with a guarantee from A2D. Nevertheless, overall gearing is fairly average within the sector.

Rating Sensitivities

Widespread Diversification, Volatility: Fitch will continue to monitor challenges to the ratings, including: widespread diversification into non-social housing activity and the private real estate market, through increasing outright sales; increased volatility in operating revenue as a result of higher exposure to development activities and a significant increase in gearing; sustained weaker operating performance.

Rating History

Date	Long-term Foreign IDR	Long-term local IDR
11 Nov 15	A+/Stable	A+/Stable
14 Nov 14	A+/Stable	A+/Stable
11 Aug 14	AA-/Neg.	AA-/Neg.
19 Sept 13	AA-/Neg.	AA-/Neg.

Figure 1

Social Housing

	Units	
	FY15	**FY14**
General needs/affordable	17,829	17,789
Managed for others	4,809	4,251
Shared ownership	3,916	4,027
Key worker	2,775	2,819
Supported/housing for older people	2,413	2,441
Social housing - other	1,219	1,189
Temporary accommodation	451	424
Non-social housing	1,987	1,878
Total owned and managed	**35,399**	**34,818**

Source: A2D

Related Criteria

Ratings of Public-Sector Entities – Outside the US (February 2015)
Revenue-Supported Rating Criteria (June 2014)

Profile and Group Structure

Location Numbers and History of Social Housing

The group has grown organically and by acquisitions of housing associations and large-scale voluntary transfers.

A2Dominion Group was formed in October 2008, when A2 Housing Group merged with Dominion Housing Group. It provides social, affordable and low-cost home ownership, and supported/sheltered, student accommodation and units for private rent and private sale. A2D is the parent and provides strategic direction, and central and development services.

A2Dominion Homes and A2Dominion South are the charitable RPs. A2Dominion Housing Options provides low-cost ownership and is a non-charitable organisation.

A2Dominon Developments Ltd, which was formed in FY14 by merging two existing companies, carries out development activity on behalf of the whole group, including affordable housing and housing for sale. A2D Residential is the vehicle used for market rent activity. A2D provides a repairs and maintenance service through two joint ventures (JVs) with two maintenance contractors. Pyramid Plus South and Pyramid Plus London are 70% owned by A2D and sit under A2Dominion Housing Options.

The group also has interests in an additional five JVs, four of which are development JVs. Two of these will develop 606 homes with Mount Anvil for Keybridge House in Vauxhall and Queen's Wharf in Hammersmith; with A2D acting as funder and partner, this reduces risks, costs and time.

In FY15 the FABRICA by A2Dominion brand was launched along with a website for marketing the growing range of private sale, shared ownership and private rent homes.

A2D is now one of the largest registered social housing providers in the south of England, with just under 35,500 total units at FYE15. It is a member of the G15 group of London's largest housing associations. A2D operates in London and throughout the south east of England; with a strong presence in Ealing, Bromley and Oxford through A2Dominion Homes, and in Staines and Winchester through A2Domion South. The group operates across 79 local authorities, of which 10 are key partners for the future.

Corporate Governance and Regulatory Judgement

The board consists of nine members, including seven non-executive members, the chief executive and the group commercial officer. In FY15 there was one resignation, and there has been another since FYE (31 March), in June 2015. A2D has six tenant places on the customer services committee, including the chair, who is also a member of the group board. There are likely to be some further changes in the board and across the various committees over the next couple of years, in line with the agreed board renewal plan.

The executive team consists of nine members: the group chief executive, the group chief commercial officer, and executive directors covering the following areas: IT and facilities, corporate services, operations, finance and strategy, financial services and development activities (one covering London, the other covering the south east). There is a centralised management structure and the single board oversees the subsidiaries.

The external auditor, BDO LLP, raised no significant concerns on the FYE15 unqualified accounts, which were approved by the board in July 2015.

Regulatory and Viability Judgements

The latest regulatory judgement, issued on 25 June 2014, affirmed the highest HCA rating of G1/V1 for governance and viability.

Fitch assesses the credit profile of RPs on a standalone basis, but also factors in the strong quality of the cash flow, through HBs and government-supported funding for capex investments (housing grants). In addition, the strong regulatory oversight and potential for extraordinary support provides a one-notch uplift to the standalone assessment. In November 2014, Fitch downgraded the ratings of English social housing RPs to reflect the reassessment of their stand-alone credit strength. Fitch considers this may weaken as the sector expands its non-social housing activities and increases its debt.

Operations

Stock Profile of Social Housing Provided

The group regularly carries out a planned stock survey. On average, all stock is inspected on a rolling five-year basis. This information is fed into the stock condition survey. New surveys are budgeted for annually and include new units and any stock swaps. The stock condition survey influences the asset management strategy and future planned programmes, and provides data for internal/external clients who may request stock data. Ninety-nine per cent of the total stock is compliant with the Decent Homes Standard. Just above 40% of the stock was built post-1996, demonstrating a fairly new portfolio.

Figure 2

Top 5 Local Authorities by Unit Number

	FY15	FY14
Spelthorne	7,503	7,313
Ealing	3,462	3,467
Oxford	2,566	2,565
Hounslow	2,490	2,447
Hillingdon	2,092	2,047

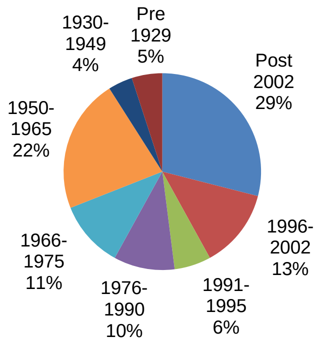
Source: A2D

The group's stock is located in regions with high property values and market rents. There is also strong demand for housing in these areas, with 120 applications on average per vacancy for choice-based lettings. One of the aims of the 2011-2014 business plan was to reduce the number of local authority areas in which A2D has a presence, with the objectives of improving customer service and the economic management of stock, and to engage with fewer and key local authority development and regeneration partners. To date, A2D has transferred just over 1,000 tenanted properties to other RPs and reduced the number of local authority areas in which it works to 79 from 90 in 2011.

Only 37% of all A2D's tenants received HB to pay for either part or all their rent. Eighty-one per cent of tenants already have a paying relationship with A2D and 55% of rental income is paid directly by tenants.

Figure 3

A2D: Age of Stock Profile



Source: A2D

Development Programme and Partnerships

A2D has developed just under 9,000 units since FY08. It has an in-house developer, which undertakes certain developments as the main contractor employing sub-contractors. Of those units developed, 53% were for social rent, which were previously helped by the grant regime. Just under 30% were shared ownership and the rest were for private sale, or intermediate rent. Total units developed annually fell from just over 1,700 units in FY08 to around 600 in each of the last three years. These numbers will increase over the coming years as final completion of current developments is achieved.

The group has a robust development appraisal process, procedures and controls. As affordable housing development in London and the south-east requires subsidy, this must be provided from surpluses generated elsewhere within the group. A2D has managed to lessen the impact of reduced government grants by reinvesting more of its reserves in subsidising the provision of affordable homes. To date GBP118m of its cash surpluses has been used as internal subsidy to support the development of new homes.

The group's strategy is to develop whole sites, with a mix of tenures. This gives it full control over the site and the ability to appoint contractors or use its in-house developers. Profits from housing sales can be gift-aided to the charitable RPs to support affordable housing development.

At FYE15, the group managed or owned 35,399 homes, a net increase of 581 from the previous year. Organic growth through development was offset by the disposal of units under the group's stock rationalisation programme. In FY15, 579 units were developed, of which 204 were affordable rent, 102 private sales, 206 private rented or student, and 69 shared ownership. The group has over 4,400 units under development and its strategy is to develop between

Figure 4
Development Track Record

	Units developed/ completed	Units in development
2007-2008	1,767	
2008-2009	1,553	
2009-2010	1,253	
2010-2011	1,107	
2011-2012	1,101	
2012-2013	636	
2013-2014	695	
2014-2015	579	
2015-2016		1,139
2016-2017		1,386
2017-2018		614
2018-2019		1,170
2019-2020		1,427
2020-2021		718
2021-2022		474

Source: A2D

4,500-6,000 over 2015-2020. The group's target was to deliver 900 units in FY13 and FY14, and 1,200 in FY15, with reducing reliance on HCA grants. Nevertheless, A2D has experienced some delays in completion of homes, predominantly due to planning issues.

Between FY16 and FY20, A2D aims to develop around 1,800 social and affordable units, 800 units for market rent, another 800 for shared ownership and 2,300 for private sale. A2D submitted bids for the 2015-2018 programme that include 154 rented and 61 shared ownership bids through the Greater London Authority and 55 rented and 20 shared ownership bids through the HCA (through A2D South).

A2D had GBP832m of total capital commitments in FY15, representing 280% of total turnover. Of these commitments, GBP590m or 71% were authorised by the board but not contracted. Total commitments are phased up to FY18 and are expected to be met by: GBP290m of undrawn loan facilities, social housing grant, projected proceeds from first-tranche sales of shared-ownership properties and the sale of properties for a projected GBP1,223m.

Figure 5
Total Stock and Development Track Record

	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
Total owned & managed	15,104	32,912	33,787	34,557	34,931	34,343	34,818	35,399	
Units developed	1,767	1,553	1,253	1,107	1,101	636	695	579	
(%)	11.7	4.7	3.7	3.2	3.2	1.9	2.0	1.6	

Source: A2D

Market Rent

The group has developed a market rent programme with the key objective of achieving a commercial return to reinvest in social housing. These properties will be developed in key areas within a 20-mile radius of one of A2D's management offices. Around 800 market rent-committed units are planned to be built or acquired in FY16-FY20, totalling GBP278m.

Demand Indicators and Changes to Rent Increases

Average weekly current general needs rents across the areas in which A2D operates vary considerably. The weekly rent including service charges (for all housing profiles) ranges between about GBP90 and GBP175.

In April 2002, the Housing Corporation set a rent plan for housing authorities to achieve target rents by 2012, the maximum yearly increase being RPI+0.5% plus or minus GBP2 a week or GBP8.67 a month. The increase in rents from 1 April 2014 was based on September 2013's RPI of 3.2% plus 0.5%. From 1 April 2015, the ability to converge regulated rents below target rent by up to an additional GBP2 a week was removed and rents were set to be increased by CPI+1% per annum for the next 10 years. This changed with the summer budget: social housing rents will now be reduced by 1% a year for four years starting in April 2016.

Efficiency Indicators

A2D's performance indicators have improved in recent years partly due to a business improvement exercise. The general needs re-let void period has remained at 18 days since FY13, but has reduced substantially from a high of 29 days in FY11. This was significantly below the G15 average. In FY15, general needs rent arrears fell to 3.8% from 4.1%. In FY15,

Figure 6
Development of A2D's Structural Costs

	FY10	FY11	FY12	FY13	FY14	FY15
Management cost per unit (GBP)	1,290	1,166	1,165	1,339	1,292	1,308
Total maintenance cost per unit (GBP)[a]	414	460	444	463	439	458
Total cost per unit (GBP)	1,704	1,626	1,609	1,802	1,731	1,766

[a] Includes routine maintenance but not planned or major repairs
Source: Fitch, A2D

A2D achieved an average sales time for property availability of six weeks against a 18-week target and actuals of 15 weeks in FY14. This was as a result of successful pre-sales.

Overall customer satisfaction with the customer service centre increased to 96% in FY15 from 71% in FY11. The percentage of repairs completed within target time increased substantially in FY15 to 92% from 81%. However, FY14 was an exceptional year due to the severe weather and flooding over the winter, which caused a significant increase in the number of repairs undertaken. Additionally there has been a change in the definition of this KPI as it now refers to repairs attended rather than repairs competed. Overall satisfaction with responsive repairs service was 82%.

FY15 was the second year of operations for Pyramid Plus London and Pyramid Plus South, which provide responsive repairs and allow A2D to continue investing to maintain and upgrade its homes. This service model allowed for savings of GBP1m against the previous model.

Figure 7

Benchmarking A2D's Financial Indicators

Total cost per property	A2D FY13	A2D FY14	G15	London registered providers
Major works and cyclical repairs (GBP)	1,592	1,453	1,344	1,250
Responsive repairs and void works (GBP)	806	763	869	900
Housing management (GBP)	564	595	555	585
Arrears (%)	4.9	4.1	4.2	4.4
Void rent loss (%)	0.6	0.9	1.1	0.9

Source: A2D, housemark G15

Financial Analysis

Revenues

In FY15, turnover increased to GBP297m, from GBP272m in FY14 and GBP259m in FY13. In FY15, the increase was primarily due to a GBP22.5m increase in developments for sale. The net group surplus for FY15 rose to GBP43.8m from GBP38.1m in FY14. The operating surplus in FY15 was higher than in the prior year at GBP83m, and the operating margin remained stable at 28%.

In FY15, planned and major repairs totalled GBP17m, an increase from GBP14m in the previous year. A2D reported impairments of housing properties and investments of only GBP0.1m. In FY15 there were no disposals of assets relating to stock rationalisation (FY14: GBP9m). Interest payable increased slightly to GBP49m, but was more than covered by the increase in operating surpluses.

In FY12, A2D fully implemented component accounting, which resulted in the group maintaining full compliance with all accounting and SORP requirements. This was achieved without the need for a formal change in accounting policy. The group previously capitalised its major repairs within components; in FY12. it revised the useful economic life of the components and wrote off any components that had not been fully depreciated by the time they were replaced. As a result, there was an increase in depreciation (operating costs) at FYE12, representing: an adjustment for the change in depreciation rate for the components on all the group's assets from 75 years to their useful economic lives; and the write-off of any remaining cost (book value) of a component that had been replaced.

Welfare Benefit Reform

The key welfare reforms affecting A2D concern direct payment by, and lower benefits to, tenants, under-occupancy rules and benefit caps. In July 2012, A2D set up a working group to identify areas of risk and quantify the potential impacts. The group needs to take some risk to grow and improve services while ensuring that risks are well managed and appropriate controls and contingencies are in place. Changes in rent payments to A2D were reviewed and changes were made to finance/IT, processes and resources. Staff and tenants were also briefed on changes. Of A2D's tenants, 37% receive HB, but only 19% are on full HB. Fifty-five per cent of all rental income is paid directly by tenants and 81% of tenants already have a paying relationship with A2D.

General needs arrears were 3.84% in FY15, a slight reduction from 4.14% in FY14. Shared ownership rent arrears were 1.4% in FY15, down from 1.7% in FY14. The analysis of the financial impact of welfare reform has been across the board. The areas affected have been analysed for the financial impact over FY14-FY17 under two scenarios: if no action is taken and if preparatory work is undertaken.

- Universal Credit: This was initially estimated to have the single biggest impact on the group and was estimated to affect just over 10,200 units from FY19. Due to the delay in the implementation of Universal Credit, there will be no impact on the group until FY17, with the projected impact being GBP0.4m in FY17, GBP1.3m in FY18 and GBP2.1m in FY19 after A2D carries out preparatory work on reforms.
- Spare Room Subsidy: This is expected to affect just over 900 units and the group is still facilitating downsizing moves. The group aims to keep potential exposure at GBP0.3m in FY16, reducing to GBP0.07m by FY19.
- Council Tax Benefit Reductions: This has been estimated to affect just over 9,200 units and the aim is to keep exposure to a minimum of GBP0.1m in FY16-FY19.
- Benefit Cap: It is estimated this may affect 1,150 residents. The maximum exposure is not expected to be more than GBP0.1m in FY16, reducing to GBP0.05m in FY19 after preparatory work has been carried out.
- Working age benefit freeze: Although this is estimated to affect 10,200 residents, there should be no financial impact over FY16-FY19.

Expenditure

A2D's average number of employees was 983 full-time equivalents during FY15, a rise of just under 50 yoy. Employee costs increased to GBP40.7m from GBP38.4m in FY14. This increase was primarily due to increased repairs and maintenance services, provided by the two JVs, Pyramid Plus South and Pyramid Plus London.

The group focuses on value for money and is continually looking for efficiencies. The group achieved GBP2.3m in efficiency savings in FY15 through various process reviews, and procurement and contract savings. A total of GBP15.8m has been saved since FY10 through rationalisation, the business transformation programme and testing the market in all areas of expenditure. A2D aims to save a further GBP5.4m over the next three years. The relocation of offices to Paddington and redevelopment of the offices in Staines and Ealing will also help reduce costs in the long term.

Business Plan 2016-2020, Long-term Financial Forecast 2016-2045

The business plan is reviewed annually and approved by the board. The key areas the group has focused on are: providing new quality homes and places; delivering customer-led services; investing in homes and local communities; and strengthening the business.

The business plan shows that interest cover will increase to just over 2.8x by FY18 from 2.2x in FY15. The group expects the operating margin to fluctuate between 26% and 30% over FY15-FY20. The mix of A2D's turnover is forecast to change with a rise in non-social turnover, which contributed 26% of the overall turnover in FY15 and is likely to increase to 50% in FY17. A2D regularly measures progress against its business plan. The tenure split in the business plan prior to the Summer Budget Announcement was: 40% private sale, 20% shared ownership, 20% private rent and 20% affordable rent; with a regional split of 60% London, 40% south east.

The main challenges to delivery of new homes have come from planning delays and overheated markets affecting the scale of land purchases. However, most of the supporting goals in terms of customer-led services, investing in local communities and strengthening the business have been met or are on track. Some remain works in progress with more to do to meet the targets.

The business plan has been stress tested and includes variants such as a 1% increase in lenders' margins on all bank loans, a 10% reduction in sales price and a 12-month delay in sales receipts. All covenants are met for all years in the base model and stressed variants, and all plans show sufficient cash generated to repay borrowings over the life of the plan.

Revised Business Plan October 2015

The original LTFF from June 2015 has been revised to take account of the 1% rent reduction for the years ending 2017-2020 announced in the summer budget. The effect of this reduction will be to reduce the group's projected surpluses by GBP56m in total over the four year period, and continue to accumulate for the life of the plan, in turn diminishing the cross-subsidy available to develop affordable homes. This will also result in an increase in borrowing.

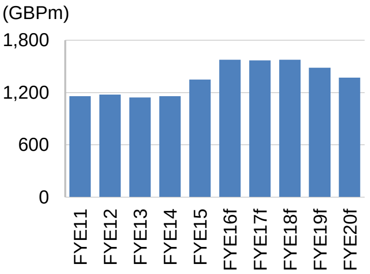
The stress tested plans shows that A2D can individually cope with the stresses, but a combination of these would push A2D closer to its covenant limits if no action was taken. The individual stresses assumed to be the most critical were interest rate margins and sales variant. An increase in lending margins by 1% was considered, as were sales prices falling by 10% and sales delayed by 12 months.

There are various actions to ensure that the group would continue to meet its covenants. Larger loss-making developments could be converted into intermediate or market rented properties. Further reductions and savings would be carried out through a further review of costs. General asset sales as part of the asset management programme that are currently not part of the programme could be carried out. Part of the group's rented stock, which is held in A2D Residential and is unencumbered and could be sold. There are a number of social housing schemes requiring a significant amount of subsidy that have not been committed to that could be delayed or the site disposed of to another RP.

Figure 8

Actual and Projected Total Debt

Financial debt



f: Long-term Business Plan
Source: A2D

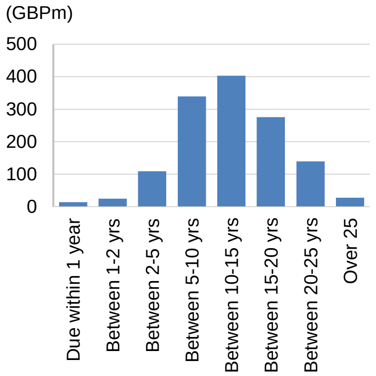
Debt and Liquidity

A2Dominion Homes, A2Dominion South, and A2D Residential Ltd are the group's main active borrowers. A2D South is partly funded by loans provided through the group's parent, and the remaining borrowing within the group is through bilateral agreements or from retail bonds. Total drawn debt increased by GBP191m in FY15 due to a GBP150m bond issuance in October 2014. The proportion of fixed or index-linked debt for the group was 71%, while an additional 19% was with interest rate swaps.

Figure 9

Loan Maturity Profile

Financial debt



Source: A2D

All loans are secured by charges on properties, apart from the retail bonds, which are unsecured. The loans are to be repaid between 2016 and 2043 in bullet payments or half-yearly and quarterly instalments. There are no bullet loans maturing over the next three years, although repayments amount to GBP66.3m (GBP22.9m for Homes and GBP43.4m for South (Feb 2015)). Of the over 30,000 units the group owned at FYE15, just over 10,000 were uncharged of which just under 2,500 were unavailable for charging, leaving just under 8,000 available units. The total value of the stock is GBP2.3bn on an Existing Use Value for Social Housing (EUV-SH) basis, giving an average EUV-SH figure of GBP74,500 per unit compared to an average MV-T value of GBP127,400.

Fixed and variable rates on interest vary between libor+0.21% and 11.5%, and the average cost of debt is 4.98%, in line with FYE14. Loan covenants are primarily based on interest cover and gearing ratios. Individual loan covenant ratios at FYE15 were comfortably above the most constraining interest cover limits of 110% over one year, and comfortably inside its most constraining gearing limits of 85%. At FYE15, the group had GBP290m of undrawn immediately available loans, sufficient to meet business plan requirements for at least 36 months. The group had GBP29m of cash and sinking funds at FYE15.

In October 2014, A2D Funding II issued a GBP150m 12-year fixed-rate bond at a coupon rate of 4.5%. This followed from GBP150m of unsecured retail bonds issued in October 2013 by A2D Funding for a nine-year fixed-rate bond at a coupon rate of 4.75%. The sole purpose of the two SPVs, governed and owned by trustees, are to issue bonds and on-lend the proceeds to A2Dominion subsidiaries. The bond issuances both had a guarantee from A2Dominion Housing Group. The guarantee is a senior unsecured primary obligation of the guarantor, who has the primary obligation to make the payments in full and on the due date if the issuer fails to make the payment.

Figure 10

Borrowings FYE15

(GBPm)	Arranged	Drawn
A2D Homes Ltd	809.1	614.8
A2D South Ltd	705.2	609.3
A2D Housing Options Ltd	5.8	5.8
A2D Residential Ltd	103.8	103.8
Total	**1,623.9**	**1,333.7**[a]

[a] Difference of GBP14.3m with total debt in Appendix A. When Kelsey Housing Association joined the Dominion Group, its loans were incorporated into the A2D accounts at fair value. The difference consists of remaining fair value adjustment and loan issue costs

Source: A2D financial statements

Figure 11

Total Drawn Loans FYE15

(GBPm)	Less than 1yr	1-2yrs	2-5yrs	More than 5yrs	Total due
A2D Homes Ltd	1.5	8.0	52.0	553.3	614.8
A2D South Ltd	12.3	16.4	62.9	517.7	609.3
A2D Housing Options Ltd				5.8	5.8
A2D Residential Ltd				103.8	103.8
Total	**13.8**	**24.4**	**114.9**	**1,108.6**	**1,333.7**
(%)	1%	1.8%	8.6%	83.1%	

Source: A2D

The latest cash flow forecasts show that all group companies have sufficient loan facilities to cover planned expenditure for the whole of the forecast period to FY19. The group's strategy is to repay loans rather than hold large cash balances, and it has GBP55m of currently drawn revolving credit facilities that could be repaid if required.

A2D has two pension schemes for which the funded assets total GBP15.2m and the liabilities GBP21m, resulting in a net deficit of GBP5.8m (GBP4.6m at FYE14), equivalent to 72% funded (compared to 75% in FY14). In the LTFF remodelled to incorporate the rent cuts, debt is forecast to peak at GBP1.58bn in FY18, which is virtually unchanged from the FY16 figures.

A2D is looking to increase its headroom to safeguard against any market shocks or a slowdown in sales, as well as to take advantage of development opportunities as they arise. As such, in September 2015 they entered into two new five-year revolving credit facilities to act as standby facilities.

Appendix A

A2Dominion Housing Group Limited

(GBPm) FYE: 31 March	2011	2012	2013	2014	2015
Income statement					
Operating revenues	201.9	249.2	258.6	272.1	297.2
Staff expenses	-30.4	-30.9	-32.8	-38.4	-40.7
Depreciation	-13.6	-34.6	-17.1	-19.6	-19.0
Other operating revenues and expenditure	-109.7	-142.5	-153.8	-136.1	-151.7
Operating balance before grants and subsidies	48.2	41.2	54.9	78.0	85.8
Revenue from public sector	-	-	-	-	-
Operating balance after revenue from public sector	48.2	41.2	54.9	78.0	85.8
Interest revenue	1.1	0.5	0.7	0.3	1.8
Interest expenditure	-38.3	-42.2	-43.4	-48.2	-49.5
Operating balance after financing	11.0	-0.5	12.2	30.1	38.1
Surplus on disposal of fixed assets	0.9	17.6	15.8	8.8	6.7
Non-operating revenue and expenditure	-	-	-	-	-
Profit (loss) before taxation	11.9	17.1	28.0	38.9	44.8
Taxation	0.0	0.0	0.0	0.0	0.0
Profit (loss) after tax	11.9	17.1	28.0	38.9	44.8
Minority interests	-	-	-	-0.8	-1.0
Profit or loss for the financial year	11.9	17.1	28.0	38.1	43.8
Balance sheet					
Assets					
Tangible assets	1,553.8	1,546.0	1,547.1	1,559.1	1,606.4
Intangible assets	-	-	-	-	-
Other long term assets	12.2	11.6	11.6	16.9	21.2
Long term investments	15.8	16.5	42.1	77.0	155.5
Stock	165.3	203.7	172.7	174.7	235.0
Trade debtors	0.0	0.1	0.1	0.0	0.0
Other current assets	54.2	27.8	43.7	29.8	110.0
Cash and liquid investments	15.2	28.4	17.3	30.0	29.4
Total assets	1,816.5	1,834.1	1,834.6	1,887.5	2,157.5
Liabilities and equity					
Long-term liabilities	15.9	16.6	27.0	25.0	33.7
Pension	2.0	3.8	3.2	4.6	5.8
Long-term debt	1,152.0	1,161.2	1,122.7	1,138.2	1,332.8
Trade creditors	20.7	9.6	7.7	11.5	10.8
Other short-term liabilities	65.8	57.9	54.6	49.8	67.9
Short-term debt	6.4	17.1	22.3	21.1	15.3
Equity	-	-	-	-	-
Reserves	553.7	567.9	597.1	636.5	690.2
Minority interests	-	-	-	0.8	1.0
Liabilities and equity	1,816.5	1,834.1	1,834.6	1,887.5	2,157.5
Debt statement					
Short term debt	6.4	17.1	22.3	21.1	15.3
Long term debt	1,152.0	1,161.2	1,122.7	1,138.2	1,332.8
Total debt	1,158.4	1,178.3	1,145.0	1,159.3	1,348.1
Other Fitch classified debt	2.0	3.8	3.2	4.6	5.8
Total risk	1,160.4	1,182.1	1,148.2	1,163.9	1,353.9
Cash, liquid deposits and sinking fund	18.8	32.1	21.5	34.6	34.8
Net risk	1,141.6	1,150.0	1,126.7	1,129.3	1,319.1
Contingent liabilities	0	0.0	0.0	-	-
Net overall risk	1,141.6	1,150.0	1,126.7	1,129.3	1,319.1
% Debt in foreign currency	0.0	0.0	0.0	0.0	0.0
% Issued debt	0.0	0.0	0.0	12.9	22.2
% Debt and fixed interest rate	72.0	80.3	83.0	95.4	90.4

Source: Issuer and Fitch calculations

Appendix B

A2Dominion Housing Group Limited

(GBPm) FYE: 31 March	2011	2012	2013	2014	2015
Cash flow statement					
Funds from operations	61.0	77.9	83.3	102.1	109.2
Other cash flow movements	43.1	0.3	-	-	-
Changes in working capital	-13.6	-20.3	4.7	-21.4	-89.3
Cash flow before net capital expenditure	90.5	57.9	88.0	80.7	19.9
Net capital expenditure	-30.0	-12.3	-15.1	-27.4	-135.9
Cash flow before financing	60.5	45.6	72.9	53.3	-116.0
New borrowing	34.4	164.0	26.3	237.4	583.9
Other cash financing	-47.3	-50.3	-50.6	-53.9	-61.5
Debt repayment	-54.8	-148.7	-66.6	-213.5	-395.1
Cash flow after financing	-7.2	10.6	-18.0	23.3	11.3
Ratio analysis					
Profitability ratios					
Personnel costs/oper.rev including revenue from public sector (%)	15.06	12.4	12.68	14.1	13.56
Revenue from the public sector/oper.rev including revenue from public sector		-	-	-	-
EBITDA/oper.rev including revenue from public sector (%)	32.29	31.9	31.01	35.83	34.92
Balance sheet ratios					
Current assets/total assets (%)	12.92	14.18	12.74	12.42	17.35
Current assets/total liabilities (%)	18.59	20.53	18.89	18.76	25.53
Return on equity (%)	2.15	3.01	4.69	6.1	6.48
Return on assets (%)	0.66	0.93	1.53	2.06	2.08
Debt ratios					
Net debt/EBITDA (x)	17.5	14.4	14.0	11.5	12.5
Long term debt/oper. rev including revenue from public sector (%)	570.58	465.97	434.15	417.84	444.12
Total debt/EBITDA (x)	17.8	14.8	14.3	11.9	12.9
Debt/equity (%)	209.21	207.48	191.76	181.91	195.04
EBITDA/ gross interest expenditure (x)	1.7	1.9	1.8	2.0	2.1
Debt servicing/operating balance before revenue from public sector (%)	193.15	463.35	200.36	335.51	518.18
Debt servicing/operating balance after revenue from public sector (%)	193.15	463.35	200.36	335.51	518.18

n.a.: Not available
Source: Issuer and Fitch calculations

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.