The Housing Finance Corporation Limited Annual Report & Accounts 2017

30th Year Edition

Contents

Highlights	1
30 Years Supporting the Sector	2
Chairman's Statement	3
Chief Executive's Review	6
Business and Financial Review	9
Group Report	10
Directors' Report	13
Directors	19
THFC Group Loans	22
Group Source of Funds	27
Independent Auditor's Report	29
Group Statement of Comprehensive Income	30
Group Statement of Financial Position	31
Group Statement of Changes in Equity	32
Group Statement of Cash Flows	33
THFC Statement of Comprehensive Income	34
THFC Statement of Financial Position	35
THFC Statement of Changes in Equity	36
THFC Statement of Cash Flows	37
Notes to the Financial Statements	38
Five Year Financial Record	60
THFC Group Structure	IBC
THFC Related Companies	IBC

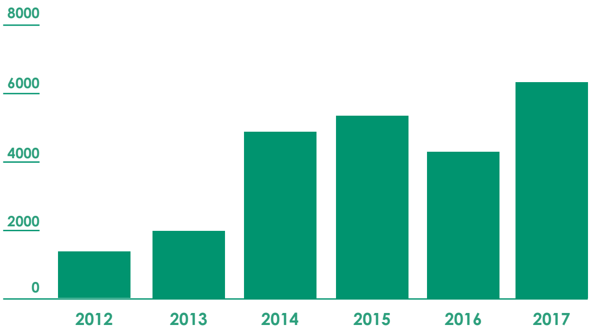
Highlights

The Housing Finance Corporation ("THFC") and subsidiaries ("the group") is an independent, specialist organisation that makes loans to housing associations that provide affordable housing to tenants throughout the United Kingdom.

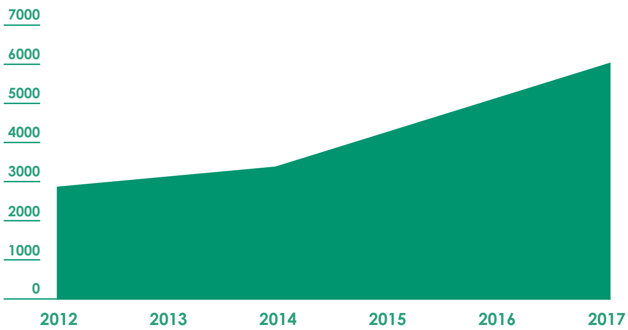
The group funds itself through the issue of bonds to private investors and by borrowing from banks. It acts as an aggregating financial intermediary diversifying risk for those who fund housing associations through the group and providing standardised loan terms, ease of access to funders and value for money for those housing associations that borrow from the group.

Unlike banks, the group does not trade with the objective of distributing profits and does not pay dividends to shareholders. Surpluses are retained in order to support additional lending to housing associations.

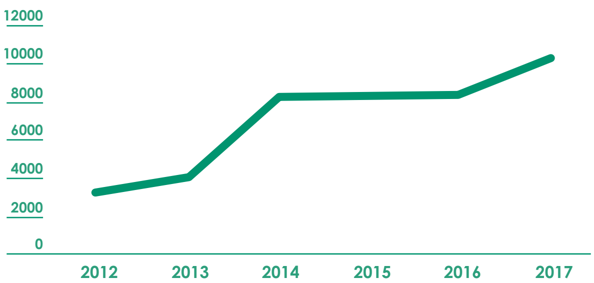
£6,136k **(2016: £4,121k)**
Group pre-tax surplus



£5,885m **(2016: £5,087m)**
THFC group loan book



£10,312k **(2016: £8,421k)**
Group total income*



173 HAs
(2016: 171 HAs)
Housing associations lent to

28,000+
Homes
Funded under AHF

*(includes all fees and investment income on short-term deposits)

30 Years Supporting the Sector

The Year is 1987.

IKEA opened its first UK store, Margaret Thatcher began her third term in government, the Docklands Light Railway was born, 'second class' train tickets died, Rick Astley didn't want to give up, the UK Base Rate stood at 10%.

Between the heavy snow that fell in January and the first stages of the Channel Tunnel's construction in December, The Housing Finance Corporation Limited ("THFC") opened its doors.

The Group was established through an innovative partnership between the National Housing Federation and the Housing Corporation.

The initiative aimed to facilitate the on-lending of capital-market funding to housing associations, who were beginning to provide a larger volume of social stock, in accordance with the Conservative Government's aim to reduce spending.

The timing was vital. Housing associations were unable to obtain the long-term finance they needed to invest in badly needed social homes for their customers. So THFC entered the market as an aggregating platform, implementing a core set of business procedures:

- To on-lend on a substantially identical maturity, interest and repayment profile.
- To ensure that no material mismatch risk is taken on interest rate movements
- To have no currency risk, taken by the group or passed on to its borrowers
- To ensure all loans are fully secured and covenanted in accordance with the terms of the relevant individual issuing company's governing Trust Deed
- To maintain its own independent credit assessment of its borrowers
- To monitor the financial position of its housing association borrowers on an on-going basis, including measurement against covenant undertakings

It is now 2017, and times have changed.

Over the last 30 years, THFC has witnessed a continual shift in providers; local authorities ("LAs") have significantly reduced their proprietorship of housing stock as housing associations have become the owners of around one in ten UK homes.

While the global financial crash saw banks retrenching, THFC continued to be an attractive provider of private investment, offering a highly professional team and diverse forms of finance without prejudice to the size or scale of an individual housing association.

The group has now become the UK's leading affordable housing aggregator.

The 2010 Coalition Government rebranded 'social' as 'affordable' and 'housing' as 'homes'. A linguistic manoeuvre aimed at removing the stigma of subsidised renting. Arguably, it has confused the aim of affordable/social housing, while shrewdly underplaying the turbulent housing climate.

Philip Hammond's 2016 autumn budget and Sajid Javid's white paper saw direct assurance from government that housing was a political and social priority. Both documents outlined an increase in the provision of additional subsidy to encourage steady growth in those seeking affordable homes.

Yet housing associations still face greater risk, with growing numbers of credit-rating downgrades across the affordable housing sector. This, in conjunction with efforts to bring about further efficiency in housing development, has seen a variety of sector mergers. These, thus far, have strengthened the sector's ability to produce housing, with housing association output beginning to increase.

The adapting housing landscape has provided challenges, but has not deterred THFC's development or ability to competitively conduct business.

In 2013 we signed an agreement with the Department for Communities and Local Government to implement the Affordable Homes Guarantee Scheme ("AHGS"). The AHGS offered a lower cost of funding than the equivalent direct issuance by a housing association, and helped provide incremental affordable rental and homeownership products.

Under the scheme, we have repeatedly delivered funding priced at lower than 2%, while financing over 28,000 affordable homes across the UK.

In 2016 we repaid in full the 11.5% coupon bond issued 25 years previously. This bond was issued in the early 90's which, at the time, redefined what could be lent in the affordable rented sector.

Our loan book exceeded £5 billion in 2017, with our portfolio containing over 170 housing associations ranging in size and structure.

Although THFC is primarily a vehicle for financing cost-effective debt, we also maintain a strong presence as a commentator, attending regular conferences, debates and other relevant events.

July 2017 saw the biennial and prestigious Cambridge Symposium take place for the second time. It was underwritten exclusively by THFC, and facilitated innovative discussions on the theme of corporate finance in the broader context of the time.

We have also recently acted as a Special International Advisor to the Australian Federal Government as they evaluate the scope for an equivalent debt aggregator to THFC across Australia.

The group continues to explore new avenues in which its expertise can benefit the housing market and those it serves. With housing associations only making up 2% of the non-gilt sterling fixed income debt, THFC is excited to continue its goal of facilitating cost-effective debt to finance the developments of more affordable homes.

THFC is a small not-for profit organisation. It is this compassionate dynamism that differentiates us from other lenders. We employ 15 staff and 10 board members, across varying backgrounds and age groups, who have grown the business into something extraordinary. The group provides a reliable, invaluable service. A service that for 30 years, has helped shape the affordable housing market and provide finance for much-needed support and community care.

Chairman's Statement

Overall the group achieved a record pre-tax surplus of £6.1m in the year with a net growth in the loan book of nearly £800m.

I am pleased to report that 2016/17 was another very successful year for The Housing Finance Corporation ("THFC") Group. It was the third year of underwriting under the Affordable Housing Guarantee Scheme ("AHGS"). We expected the year to be the last significant new debt underwriting year for the AHGS. However, significant incremental interest in the scheme, principally from existing participant housing associations, means that portfolio growth will continue into 2017/18 and we are likely to comfortably exceed the £2.5bn estimate we predicted last year for the Affordable Housing Finance Plc ("AHF") element of the group loan book.

Overall the group achieved a record pre-tax surplus of £6.1m in the year with a net growth in the loan book of nearly £800m. Although growth was driven almost exclusively by AHF loans, 2016/17 also marked the maturity of THFC's 11.5% debenture stock, its largest historic debenture stock in issue. £152.8m of loans funded from this stock and on-lent to 41 underlying housing associations between November 1991 and October 1992, were repaid in a full and timely manner in November 2016. This marked an important watershed for the group where we are now superseding loans that had one of the highest coupons in the sector's history with AHF loans which, to date, bear some of the lowest long-term coupons.

2016/17 was an important year in terms of change of political policy towards housing associations. We reported last year the (then) new Government's housing policy was focussed almost exclusively on promoting growth in home ownership. The months since last June's "Brexit" referendum have been marked by a significant and welcome change in policy emphasis. The 2016 Autumn Financial Statement announced an increase of £1.4bn to the existing £4.7bn Capital Grant programme for housing associations coupled with the acceleration of availability and greater flexibility of tenure for the entire programme.

At the same time we are now in the second of four successive years of 1% rent cuts for housing associations, with the rent-settlement position post 2020 still unclear. Supported Housing housing associations are also likely to be impacted by forthcoming Local Housing Allowance ("LHA") caps, particularly in lower demand areas of housing where social/affordable and market rent differentials are small or non-existent. Given the on-going constraints on expenditure, the Government has shown no change of tack to date in relation to intended welfare expenditure savings.

The "Brexit" referendum has awokened the debate about independence in Scotland and may have implications in Northern Ireland too. THFC lends to housing associations in both countries. At the time of writing, there are no clear signals as to whether there will be any further vote in either country. However, the uncertainty created does not help promote the type of long-term investment decisions that underpin the provision of social and affordable housing.

Last year we highlighted growing sales dependence in housing associations' development plans and the risks associated with timing and sales margins as well as local markets. This year has seen a softening of the London sales market in particular. So far evidence from a number of housing association customers suggests delays in sales are driven by slower completions/handovers rather than a lack of demand for properties. Most developing housing associations also emphasise that their sales are not concentrated in high value units.

That said, the cross-subsidisation model increasingly being adopted by housing associations in an attempt to develop affordable homes efficiently, has generated significant cash so far in this cycle. The Homes and Communities Agency ("HCA")'s Global Accounts for 2016 highlighted that sales turnover for housing associations (including both shared ownership and outright sale) at £2.8bn increased 39% on the previous year. However, the majority of sales activity to date has been concentrated amongst a relatively small number of housing associations. Global Accounts quote 50% of shared ownership turnover attributed to eighteen HAs and more that 75% of outright sales turnover is concentrated in fourteen housing association groups.

"2016/17 marked the third year of underwriting under the Affordable Housing Guarantee Scheme. Additional interest from borrowers means that the portfolio will continue to grow in 2017/18 beyond the £2.5bn estimated last year".

The drive for more efficiency has also resulted in an increased volume of merger activity in the sector. The most high-profile of these mergers have been between large developing housing associations. In the year, L&Q has both merged with East Thames Housing Association and also purchased Gallagher (a private land banking company). The latter represented a marked departure from previous sector M&A activity. The new Clarion Group bringing together Affinity and Circle Housing groups has created a 120,000+ landlord with a stated aspiration to produce 50,000 new homes over the next ten years.

At the other end of the scale, we are starting to see some limited consolidation amongst smaller housing associations, driven primarily by the impact of rent and welfare cuts and limited scope for cost saving within individual housing associations. To date this merger activity has not (in the case of either large or small housing associations) resulted in any undue concentration risk in THFC's loan portfolio.

At the end of the 2016/17 financial year the Government switched on so-called 'de-regulation' legislation. These measures are primarily intended to de-classify English housing associations from the public accounts following an Office for National Statistics decision to re-classify housing associations in 2015. Similar de-regulatory measures are expected to be progressively adopted in each of Scotland, Northern Ireland and Wales where each region has its own regulatory regime for housing associations. In England, the most prominent of these changes is that the Housing Regulator will no longer formally sign off transfers of engagement or amalgamations of housing associations. This leaves permission for mergers typically in the hands of banks and lenders like THFC. In practice, the Regulator has signalled that, short of formal sign-off, it still expects housing associations to pro-actively consult with it in relation to strategic changes, including mergers. The Regulator underlines its expectation by reserving its right to conduct In Depth Assessments ("IDA's" or so-called 'deep-dives') into any aspect of a housing association's activities it considers higher risk.

The Regulator has also indicated its intention to both charge fees for regulation and for itself to become independent of the HCA at an undisclosed date in the future. THFC views the independence of the Regulator as a positive feature of the overall governance of the sector and, as the affairs of developing housing associations become progressively more complex, we also support measures adopted by the Regulator to resource itself appropriately.

In March 2017 the industry body for professional investment managers; the Investment Association, published "Governance and disclosure guidelines for housing associations seeking funding from capital markets". These guidelines mark an important step forward in professional disclosure standards for housing associations. Through the dominance in the take up of bank debt by housing associations, particularly in the period up until 2008, the sector has become accustomed to bank-style disclosure. Post the Global Financial Crisis, where the mix of capital markets and bank debt at the margin is becoming more even (albeit currently 33% CM, 66% Bank), the potential for improper disclosure (as defined under the Market Abuse Regulation) by housing associations is becoming much more of a concern to institutional investors. The Investment Association has consequently made a series of recommendations to housing association issuers. These can be found at: https://www.theinvestmentassociation.org/investment-industry-information/current-initiatives/housing-associations.html

In THFC's own case, investors' exposure to housing associations is indirect, and, outside of this current initiative THFC has for a number of years voluntarily adopted the UK Corporate Governance Code issued by the Financial Reporting Council.

Part of our regular engagement with institutional investors continues to be our annual 'non deal-specific' roadshow for THFC and AHF. This forum is intended to give investors an update on both THFC and sector developments.

As a relatively small team managing a large debt portfolio and based in the City of London, operational risk and contingency planning both represent on-going areas of scrutiny for the executive and the board. This year the THFC team have successfully dealt with separate (un-planned) extended network and premises denial incidents without interruption to the conduct of normal business. I applaud both the resilience of systems and the team's response to these incidents from which we have learnt useful lessons which continue to be incorporated into our contingency planning.

In the 2017/18 financial year I am pleased to say that we predict a phased return to writing incremental core THFC credit business at the same time as we investigate a number of complementary areas of housing association business development.

This shift back to core growth will be particularly important given the uncertain nature of the UK's relationship with the European Investment Bank ("EIB") through and after "Brexit" negotiations. THFC has enjoyed a first rate relationship with EIB since 1998, and it remains, by some margin, THFC's largest creditor. Because of the size of this relationship, it is important to stress that we intend to promote the quality of our dialogue with EIB, regardless of political developments and at the same time it is important to emphasise that the success of the THFC model in no way depends upon incremental EIB funding.

2017 also marks an important anniversary for the business: the 30th anniversary of underwriting our first THFC bond. The period since 1987 has seen significant growth, professionalisation of the housing association sector, and a period during which, despite a series of financial cycles, no bank or institutional creditor has suffered loss lending secured credit to housing associations. That said, the past is no guide to the future and I am pleased that the standards of underwriting and portfolio monitoring in THFC are reflective of the risk environment we now find ourselves in.

My thanks, as ever, afford to the THFC team and to my non-executive colleagues who continue to give us the considerable benefit of their professional and sector-specific knowledge.

Ian Peacock
Chairman

11 August 2017

Potential Impact of the Grenfell Tower Tragedy.

The ramifications of the fire which occurred in Grenfell Tower in North Kensington on 14 June 2017 and its tragic aftermath are far-reaching, for local authorities, housing associations and other owners and managers of high-rise buildings.

At the time of writing, a consultation process for the terms of reference of a public inquiry, to be led by the former Deputy Head of the Court of Appeal, Sir Martin Moore-Bick, has been extended.

Whilst the exact reasons for the speed of the spread of fire have yet to be determined, it has been concluded that there are additional tests that can be undertaken with regard to certain types of cladding. Accordingly, DCLG is already asking local authorities and other registered providers of social housing to identify whether any panels used in new build or refurbishment are a particular type of cladding made of Aluminium Composite Material ("ACM"). If ACM cladding is identified, DCLG has put in place a testing process at no cost to the association or local authority.

We will be assessing the financial impact on our borrowers and ensuring that adequate plans are in place to mitigate any adverse impact.

We will be working in partnership with affected registered providers to ensure all our charged security is robust.

Chief Executive's Review

2016/17 proved another very good year for THFC, with its loan book growing to £5.88bn (2016: £5.09bn).

Since 2013, when the AHF licence was first negotiated, our group loan book has grown 88%. With the maturity of the historic 11.5% THFC debenture portfolio, combined with the completion of AHF loans we expect the tipping point to be reached for the first time in 2017/18, when the (guaranteed) AHF book exceeds the THFC book for the first time.

We now expect the AHF portfolio, once fully drawn, to exceed £3bn. This point should be reached later this financial year when all EIB funded AHF loans are drawn down.

Our group surplus after tax was £4.89m (2016: £3.29m).

2016/17 represented AHF's third full year of contribution, and this portfolio generated the majority of new business origination fees. The THFC board's strategic priority for the 2016/17 year remained the growth of the AHF portfolio. At year end AHF had 65 housing association customers, of which 23 were new to the THFC group.

The operating surplus (before arrangement fees) for the business showed strong growth to £1.07m (2016: £340k). Growth in earnings from the AHF portfolio was a strong contributor along with a relatively unchanged cost base from the previous year. We expect the healthy operating surplus to grow further in 2017/18, driven by further growth in the AHF portfolio.

Affordable Housing Finance Plc

AHF loan balances at year end stood at £2,473m, (2016: £1,469m) with loan agreements signed for a further £449m giving a total programme size for the Affordable Homes Guarantee Scheme ("AHGS") of £2,922m at the year end.

AHF has enjoyed an exclusive licence with the Department of Communities and Local Government ("DCLG") to issue long-term debt up to a principal sum of £3.5bn, with the benefit of a full faith Government Guarantee, under the AHGS. AHF could accept housing association applications for guaranteed funding until 31 March 2016. Since then underwriting has continued in respect of the substantial number of applications received.

Funding to date has continued to come from two principal sources: EIB and UK Sterling capital market long-term fixed income debt issues. We anticipate that the underwriting process for new loans will be substantially completed by July 2017.

EIB provided an additional £1bn line of credit to AHF (the largest housing regeneration loan made by EIB in Europe in its entire 58 year history). This facility was signed prior to the "Brexit" referendum and can be drawn up until December 2017. A significant number of drawings have been made from the facility during the year at very competitive funding rates, indicating EIB's continuing desire to fund UK housing regeneration at a low cost. The weighted average cost of funds for the £409.5m of long-term EIB drawings priced in the year was 1.733%.

The year also saw AHF consolidate its second 28 year, benchmark public sterling bond to be by far the largest housing association bond in issue.

Date of Issue	Nominal Amount Issued	Effective Rate of drawn bonds at issue	Total Deal Size
Second Series			
Opening Balance:			£402.0m
May 2016	£130.5m	2.64%	
August 2016	£191.4m	2.01%	
October 2016	£124.5m	2.07%	
January 2017	£114.8m	2.27%	
Issued in Year:	£561.2m		
Closing balance:			£963.2m

The weighted average effective yield of the over £0.5bn of bonds issued in 2016/17 was 2.19%. and the combined weighted average effective yield for the £970.7m of EIB and bond issuance was 1.92% for the year.

Throughout the year AHF has also continued to issue relatively small parcels of retained bonds on behalf of individual housing associations. When both retained bonds and public issuance are taken into account, AHF's credit spread has varied in a relatively narrow range between Gilts +0.29% and Gilts +0.41%, indicating the market's value of the structural integrity of AHF and the Guarantee. However, through the period before and after the "Brexit" referendum, Gilt yields have been far more volatile and the overall range in cost of funds including syndicated and retained bond sales for AHF has varied between 2.68% and 1.59% in the year.

Investors in AHF remain a wide variety of UK institutional insurance and investment funds along with a small number of sovereign wealth funds and central banks.

The majority of housing associations applying to borrow from AHF remain English-based, but the AHGS is a UK scheme and two Scottish and four Welsh borrowers have now been funded under the programme.

Before borrowers can access the AHGS, they undergo a comprehensive credit evaluation process. In conjunction with the investment function of the Homes and Communities Agency ("HCA") AHF has also put into place a portfolio review process during the year. In order to resource this we have added a further experienced credit analyst to the team.

THFC Rating

On 27 June, four days after the result of the "Brexit" referendum became clear, Standard & Poor's ("S&P") downgraded the UK Sovereign credit rating two notches to AA from AAA.

AHF's public bonds were consequently downgraded to AA in line with the Sovereign rating.

Up until that point, THFC had retained its 'A+ stable' long term rating from S&P for 12 years. Because THFC's rating currently includes one degree of linkage to the Sovereign rating, it too was downgraded, but by only one notch to 'A' Stable.

Sector Developments

In some ways, housing associations have so far enjoyed a relatively benign "Brexit". The Government has signalled the availability of more capital grant, earlier in this spending round and it has acknowledged a need for a broader range of new housing output than hitherto. A bi-product of the deregulation provisions now in force is that housing associations have more freedom to dispose of assets. Housing associations are now into the second of four annual 1% absolute rent cuts. Many housing associations have absorbed these by administering cost savings in their business as well as providing counselling services to their tenants to maximise their benefit entitlement.

Scale development risk arising from sales is concentrated in a relatively small number of housing associations. Here there are some signs of the market slowing, particularly in London, but the underlying causes are currently not clear. If "Brexit" uncertainty increases then we would expect many housing associations to de-risk their sales exposure.

Looking forward, "Brexit" is likely to inflate build costs for housing associations. In the financial year, UK annual CPI rose from 0.3% to 2.3%, rising (and staying) above the Bank of England Monetary Policy Committee's 2% inflation target from February 2017. The DCLG sponsored Farmer review: http://www.cast-consultancy.com/news-casts/farmer-review-uk-construction-labour-model-3/ provided a salutary reminder in the year of the looming shortage of skilled labour in the construction industry. Mark Farmer, the review author, quoted a 20-25% shortage in the availability of skilled labour in the UK construction industry within a decade, based solely on the industry's existing workforce age and current levels of new-entrant attraction.

The two year period up until the terms of "Brexit" may be known is also likely to be a period of uncertain consumer confidence and market volatility.

Aside from "Brexit", further welfare reform and increased refinance risk are two risks likely to impact further in the period up until 2020. While non-working age benefits are ring-fenced, the scope for the Government to deliver its stated appetite of £12bn of welfare cuts remains very narrow. The implication of further rent cuts beyond 2020 would be that they will severely impact the free cash-flow of housing associations and consequently curtail their development appetite.

The HCA's latest Quarterly Survey of housing associations quotes agreed borrowing facilities of £83.6bn of which 69% are bank loans. Of this total, £14.9bn remain undrawn, sector cash balances were quoted as £5.8bn and cash interest cover remains strong at 198% over the 12 months to March 2018. However, the shortening of the maturity of committed bank debt as a quid pro quo for other flexibilities is a growing trend and THFC expects the annual refinance burden to grow to £2bn per annum by 2019. In an orderly market, this represents an opportunity for a provider of long-term debt, but one where THFC believes it should be selective in its underwriting.

Conclusion and Outlook

We expected 2016/17 to be a year of completion of AHF underwriting and a year of transition where we revert to THFC debt underwriting and product development. In 2016, "Brexit" made our remaining EIB funding capacity a scarce resource upon which the sector has sought to capitalise. We are now in a position where we expect to have completed our underwriting process for the last incremental AHF loans by August 2017. Given the current rude state of health of the development market, we do not expect further guarantee initiatives from the UK Government in the short term.

We are already turning our attention to a return to THFC debt underwriting and analysis of suitable sub-market segments of the housing association market where we would be prepared to lend.

Our role is to be additive to the range of bank and capital markets providers of debt to housing associations. As our housing association customers have a choice, our role continues to be to match aggregated needs with competitively priced loans. Our experience in 2016/17 is that we have supplied our customers with a significant volume of some of the most competitively priced long-term debt in the sector's history of access to private finance. A fantastic record to carry into our 30th year in business.

Piers Williamson
Chief Executive

11 August 2017

Business and Financial Review

The five-year table on page 60 gives a comparative history of the THFC group and shows that our loan book has increased by 88.4% while total costs have increased by 78.4% and our total revenues (net of interest expense) by 145.8% over the period.

The THFC group achieved a pre-tax surplus of £6,136,000 (2016: £4,121,000). This was primarily as a result of the fees we received for arranging new loans for our customers and growth in annual fees. Our objective remains that of generating a sufficient surplus each year to achieve a steady progression in the group's financial reserves. The group's reserves are non-distributable and held to provide cash flow cover in the event of a borrower default. For the year ended 31 March 2017, as a consequence of another successful year, the group's reserves have risen from £23.9m to £28.8m. This continuing trend, combined with historically conservative over-collateralisation of our loan assets, allows the group to position itself to meet the requirements of a broad range of housing associations as they look to diversify their funding by borrowing in capital markets and, through AHF and THFC, from the European Investment Bank.

A total of £1,007.5m (2016: £991.4m) of new money sourced from bond issues and other funders was advanced to housing associations by members of the group during the year. These loans, prepayments and other changes to our existing loans, produced net lending of £794.8m (2016: £948.5m), before adjustment for indexation and amortisation of premiums and discounts.

As a result the THFC group loan book stands at £5,885m (2016: £5,087m). Details of borrowings by the THFC group to fund its loan book are shown on pages 27 and 28.

At the year-end the group was the provider of funds to 173 borrowers (2016: 171).

Our operating expenses were 0.07% (2016: 0.08%) of the £5.9bn (2016: £5.1bn) of outstanding loans at the year-end.

The group regards its Key Performance Indicators to be growth in pre-tax surplus, reserves and group loan book, together with the ratio of operating expenses to year end loan book (see Five Year Financial Record on page 60). The group achieved another strong surplus before and after tax and the ratio of expenses to the loan book has decreased.

Group Report

The Housing Finance Corporation Limited ("THFC") and its subsidiaries (together "the group") carry out the core function of raising private sector loan finance for housing associations to further their work in developing or refurbishing social housing.

Group Structure

Since the incorporation of THFC in 1987 various subsidiaries have been created within the group to cater for the different financial instruments and covenant structures which have been required over time. THFC and all its lending subsidiaries operate on a non-profit-distributing basis. A further group member, T.H.F.C. (Services) Limited ("THFCS"), provides management services to the rest of the group and to related companies. The structure of the group is set out in the diagram on the inside back cover.

Group Financing Principles

THFC and a number of its subsidiaries, T.H.F.C. (Indexed) Limited, T.H.F.C. (Indexed 2) Limited, T.H.F.C. (First Variable) Limited and T.H.F.C. (Social Housing Finance) Limited (together the "issuing companies"), have between them issued a variety of financial instruments including deep-discounted, index-linked and conventional public debenture stocks, stepped and par-coupon private placements and raised fixed and variable rate bank loans.

THFC has also raised funds by borrowing from three related companies, all of which issue rated public Eurobonds.

Despite the variety of loan structures they all adhere to the same fundamental principles:

- Funds are raised solely for on-lending to housing association groups.
- Funds are on-lent on a substantially identical maturity, interest and repayment profile thus ensuring that no material mismatch risk is taken on interest rate movements.
- No currency risk in relation to its funds is taken by the group or passed on to its borrowers.
- Loans are fully secured and covenanted in accordance with the terms of the relevant individual issuing company's governing Trust Deed.
- The group makes and maintains its own independent credit assessment of its borrowers, using its own credit rating system, and approves applications for funding only after a careful review by the group's credit committee.
- THFC monitors the financial position of its housing association borrowers on an on-going basis, including measurement against covenant undertakings. All housing association borrowers are subject to external regulation by the social housing regulator in the relevant jurisdiction in which they operate.

Security Offered to Investors

The security which issuing companies offer to investors is illustrated on pages 22 to 26. Lenders to each issuing company benefit from a floating charge over that company's assets, which are primarily its secured loans to housing associations. All the stocks, bonds and loans within each issuing company rank pari-passu among themselves and are protected by a negative pledge. This form of security was designed to enable investors to spread their risk across a portfolio of instruments and borrowers.

As the investors are secured by a floating charge on the whole of the relevant issuing company's pooled undertakings it is not practical or cost effective to obtain a measure of the fair value of this collateral.

THFC and its subsidiary and related companies (as further outlined below) are finance vehicles and the security offered to investors by each company is limited only to the assets of that company being principally its secured loans and share capital. The shareholders of each company's parent cannot be held liable for the debts of its subsidiary in the event of insolvency.

Neither THFC nor its group and related companies are regulated although the entities registered under the Co-operative and Community Benefit Societies Act 2014 are registered at the Financial Conduct Authority.

Property Security

The majority of borrowers continue to prefer to provide fixed charge security on specified properties and most new borrowers choose to adopt this option from the outset although the issuing companies can offer housing associations the ability to secure their loans by way of floating charges, subject to appropriate asset cover tests. There are 6 borrowers who have an element of floating charge security on 10 loans. Where borrowers have opted for fixed charge security, each issuing company is required to obtain a charge over the borrowers' assets which, at all times during the life of each loan, covers at least 150%

(135% for certain loans made by T.H.F.C. (Social Housing Finance) Limited) of the outstanding loan balance. For loans secured by fixed charges, formal property valuations of the specific security are undertaken at least every five years. For loans secured by floating charge, compliance is measured by reference to the balance sheet of the borrower. The group operates a panel of approved valuers to be used by borrowers in order to ensure a consistent and adequately detailed approach which takes account of the physical condition, the future rental potential and the market context of the property being valued.

Loans Administration

The group's exemplary record of prompt collection and payment of interest and principal has remained intact over its thirty year history. In general borrowers' payments are received up to one month prior to the group's obligation to pay investors, thus providing a timing cushion and a source of additional investment income.

Credit Monitoring

Each borrower undergoes a credit review prior to a loan being granted. This involves accounts analysis, review of business plans and projections, scrutiny of regulatory and audit reports, comparison of performance indicators, review of the borrowers' own risk register and an assessment of its management capabilities. New or increased credit exposures are reviewed and approved or rejected by THFC's credit committee, which is a board committee.

The group's bespoke credit rating model reflects forward looking risks appropriate to the current economic environment. It ranks all current and prospective borrowers against a number of parameters. This model enables internal ratings to be derived for each borrower and a default probability to be estimated. The loss given default is also estimated. This exercise is an integral part of the credit assessment process and a necessary component in the maintenance of the group's external credit rating. The group's credit rating of its borrowers, together with regular reviews of credit information and customer visits, provides the basis for credit monitoring and reports to the credit committee and the board on the health of the portfolio.

The credit rating model is regularly updated to take account of emerging risks.

Our credit assessment process is underpinned by the financial covenants associated with the security provided by our borrowers. The group remains one of the few lenders in the sector to have an asset specific net income cover of at least 100% as a core covenant for substantially all its loans.

The following entities are structured differently from the issuing companies.

Affordable Housing Finance Plc ("AHF")

AHF, a subsidiary of THFCS, was incorporated in 2013. On 19 June 2013 AHF was awarded the licence to provide guaranteed funding under the Government's Affordable Housing Guarantee Scheme. As at 31 March 2017 AHF had issued guaranteed secured bonds amounting to £1,564.1m of which £70.5m were retained by AHF to fund further loans. Guaranteed Bank facilities in place at 31 March 2017 amounted to £1.5bn of which £845.5m had been drawn by borrowers at that date. Under the Guarantee both the obligations of the borrowers to the issuer (under their respective loan agreements) are guaranteed as well as AHF's obligations to the investors.

Borrowers from AHF are required to maintain asset cover of 105% and income cover of 100%.

All borrowers have to meet certain eligibility criteria in order to borrow from AHF.

UK Rents (No.1) Plc ("UK Rents")

UK Rents is a subsidiary company established in 1994 solely for the purpose of issuing bonds with a rating of Aa1 (Moody's Investor Services) achieved through a rental securitisation, and using the funds raised to purchase rent receivables from housing associations.

T.H.F.C. (Capital) Plc ("THFC Capital")

THFC Capital is a subsidiary company established in 2001 to act as a conduit for funds raised for the transfer of housing stock from Sunderland City Council to Gentoo Group (formerly Sunderland Housing Group). The loans to Gentoo are structured on a non-recourse (to THFC Capital) basis and the property security is held by a security trustee for the benefit of the bank lenders and bond investors.

Reserves

All the issuing companies each covenant to their respective investors that they will maintain total operating expenditure within total operating income on a rolling three-year basis. They have all successfully complied with this covenant since incorporation. Any surplus made by AHF can only be used for clearly defined purposes set out in the licence.

By generating fee income, investing interest payments received early, investing its reserves and exercising tight cost control, the group has now accumulated non-distributable reserves amounting to £28.8m (2016: £23.9m).

Taxation

Under existing legislation, payments of interest on debenture stock and Eurobonds issued by THFC and its issuing subsidiaries may be made gross to UK resident stockholders.

Administration services to related companies

Our service company, THFCS, provides administration and management services to certain related companies. All the related companies lend to the social housing sector. All directors of these companies are also directors of THFC. These companies are regarded as related parties for accounting disclosure purposes. THFCS is the largest provider of bond administration services to the housing association sector and its income in the year from related party contracts was £137,316 (2016: 142,403).

The related companies are:

T.H.F.C. (Funding No.1) Plc ("Funding No. 1")

Funding No. 1 is a non-consolidated company. The entire issued share capital of its holding company, T.H.F.C. Funding (Holdings) Limited, is held by THFCS under a declaration of trust. It was incorporated in November 2004 to act as the issuing company for secured bonds currently carrying an "A stable" rating from Standard & Poor's rating agency. Funding No. 1's rating is achieved partly through the addition of a bespoke liquidity facility provided by Royal Bank of Scotland Plc (RBS). Funding No. 1's rating is therefore linked to the short-term rating of the liquidity provider (currently Royal Bank of Scotland Plc). Funding No. 1's liquidity facility was renewed in December 2016. In January 2014 the rating of RBS was downgraded and, under the terms of the liquidity facility agreement between Funding No.1 and RBS, Funding No.1 has made a standby drawing of the entire liquidity facility commitment. The standby drawing is repayable on the earlier of the provider being upgraded to the requisite rating or the legal maturity date of the secured bonds.

T.H.F.C. (Funding No. 2) Plc ("Funding No. 2")

Funding No. 2 is also a non-consolidated company. The entire issued share capital of its holding company, T.H.F.C. Funding (Holdings) Limited, is held by THFCS under a declaration of trust. It was incorporated in June 2009 to act as the issuing company for secured bonds currently carrying an "A stable" rating from Standard & Poor's rating agency.

T.H.F.C. (Funding No. 3) Plc ("Funding No. 3")

Funding No. 3 is also a non-consolidated company. The entire issued share capital of its holding company, T.H.F.C. Funding (Holdings No.3) Limited, is held by THFCS under a declaration of trust. It was incorporated in September 2011 to act as the issuing company for secured bonds currently carrying an "A stable" rating from Standard & Poor's rating agency.

All the funds raised by Funding No.1, Funding No.2 and Funding No.3 are lent to THFC at cost for on-lending by it to housing associations. Like all other lenders to THFC, Funding No. 1, Funding No. 2 and Funding No. 3 have a pari passu floating charge over THFC's assets.

Haven Funding Plc and Haven Funding (32) Plc

Since 1999 THFCS has provided loans administration and company secretariat services to Haven Funding Plc and Haven Funding (32) Plc. As at 31 March 2017 these companies had loans outstanding of £308.8m (nominal) made to 15 housing associations funded by bond issues arranged by a third party investment bank.

Sunderland (SHG) Finance Plc

Since 2001 THFCS has provided loans administration and company secretariat services to Sunderland (SHG) Finance Plc which as at 31 March 2017 had £212.8m (nominal) in loans to Gentoo Group (formerly Sunderland Housing Group) on-lent via T.H.F.C. (Capital) Plc.

Harbour Funding Plc

In August 2003 THFCS was appointed as loans administrator and company secretary to Harbour Funding Plc, a special purpose vehicle that issued bonds into the UK market and lent the proceeds to four large-scale voluntary transfer housing associations. One of these associations has since prepaid its loan.

At 31 March 2017 Harbour Funding Plc had loans outstanding of £206.3m (nominal) made to three housing associations.

Directors' Report

The directors present their report and the audited consolidated financial statements of The Housing Finance Corporation Limited and its subsidiaries ("the group") for the year ended 31 March 2017.

Principal Activities

The Housing Finance Corporation Limited ("THFC") was incorporated in England and Wales in 1987, with limited liability and is registered under the Co-operative and Community Benefit Societies Act 2014.

Its principal objective is to lend money to housing associations funded through the issue of bonds and raising bank loans. It has established a number of wholly owned subsidiaries to cater for the varying interests of stockholders and bank lenders in different forms of financial instrument. The report and financial statements for each of the companies within the group are available separately on request from T.H.F.C. (Services) Limited, 4th Floor, 107 Cannon Street, London EC4N 5AF.

Results

The consolidated operating surplus before taxation for the year ended 31 March 2017 was £6,136,000 (2016: £4,121,000).

Under its Rules, THFC cannot "trade for profit". It is, however, the intention of the directors that it will continue to make operating surpluses each year. Surpluses may not be distributed either directly or indirectly to shareholders and are accumulated as reserves to act as an additional protection for our lenders. On a winding up of THFC the reserves must be passed back to borrowers from THFC in a manner and with an allocation to be determined by the board of THFC, or be paid out to any other society or charitable body with objects similar to the objects of THFC.

The reserves are held as bank deposits. Our investment strategy remains broadly unchanged from prior accounting periods and we continue to keep the range of counterparties with whom we are willing to deposit under active review.

THFC made no charitable or political donations during the year.

Review of Business

A review of business is included in the Business and Financial Review on page 9.

Directors and Shareholders

Details of directors, their service periods for the year and the shareholders of THFC are set out in the table below. The biographies of the current directors appear on pages 19 to 21.

Details of directors' terms of office are given on page 15.

Certain restrictions applicable to share capital are detailed in note 17.

At the forthcoming Annual General Meeting, Keith Exford and Deborah Shackleton having each completed their second three-year term in office, will be required to resign and offer themselves for re-election.

The chairman is required to retire annually at the Annual General Meeting and accordingly Ian Peacock will retire and offer himself for re-election.

Directors' Remuneration

Details of directors' remuneration are given on pages 44 and 45.

Management

The management and administrative functions of the group are carried out by T.H.F.C. (Services) Limited ("THFCS"), which is a wholly owned subsidiary of THFC with the same board membership. THFCS employs the group's executive and administrative staff for this purpose and carries out its functions under management agreements with each of the other organisations. THFCS also provides administrative and secretariat services to other related companies.

The directors of the group who were in office during the year and up to the date of signing the financial statements were:

Director	**Period Served to 31 March 2017**	**THFC Shareholdings at 31 March 2017**
Charlie Arbuthnot	Full Year	£1
Colin Burke	Full Year	NIL
Fenella Edge	Full Year	NIL
Keith Exford	Full Year	£1
John Parker	Full Year	£1
Gill Payne	Full Year	NIL
Ian Peacock	Full Year	£1
Will Perry	Full Year	NIL
Deborah Shackleton	Full Year	£1
Piers Williamson	Full Year	NIL
Other shareholders		
Homes and Communities Agency		£1
The National Housing Federation		£1
Total issued share capital at 31 March 2017		£7

Pension Scheme

All THFC group employees, but not non-executive directors, are eligible to participate in the Social Housing Pension Scheme ("SHPS"). The scheme operates both defined benefit and defined contribution structures.

The defined benefit scheme, with assets under management of £3.12bn and an actuarial deficit of £1.32bn (based on the results of the triennial valuation as of 30 September 2014) is by far the largest pension provider in the housing association sector and until 31 March 2007 was operated exclusively on a final salary basis. As part of the plan to accelerate the elimination of the funding deficit the trustees of SHPS offered three alternative scheme structures to employers and members, including a continuation of the existing arrangements. With effect from 1 April 2007 THFCS and all its employees elected to stay with the pre-existing arrangements and to pay increased employer and member contributions for those members of staff who had joined prior to this date. Employees appointed by THFCS after 31 March 2007 participated in SHPS on a career average related earnings ("CARE") basis.

From 1 April 2013 THFC offered membership of the SHPS scheme to new members on a defined contribution basis in addition to the CARE structure.

On 31 March 2017, THFC closed the final salary and CARE scheme structures to future accrual. The majority of members in these scheme structures joined the defined contribution scheme which is now the only open scheme.

As a participant in an indivisible multi-employer scheme, it is currently impossible for THFCS to identify its share of the current scheme deficit. Accordingly, no element of the scheme deficit is accounted for in the group balance sheet except for the provision for future deficit contribution payments. THFCS' share of the deficit on a discontinuance basis would be material, but THFCS has no present intention of leaving the SHPS Scheme. The board of THFC regularly reviews the risks associated with membership of SHPS, including the possible size of future contribution requirements and the "last man standing" and discontinuance risks.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

The Co-operative and Community Benefit Societies Act 2014 requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and THFC's financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

Also under that 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 group and THFC and of the surplus or deficit of the group and THFC for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and THFC will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain THFC's transactions and disclose with reasonable accuracy at any time the financial position of the group and THFC and enable them to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014. They are also responsible for ensuring that a satisfactory system of control over transactions has been maintained and for safeguarding the assets of the group and THFC and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The group's financial statements are published on THFC's website (www.thfcorp.com) and the directors are responsible for the maintenance and integrity of that website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In the case of each director in office at the date the Directors' report is approved:

(a) so far as the director is aware, there is no relevant audit information of which THFC's auditor is unaware; and

(b) he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that THFC's auditor is aware of that information.

Corporate Governance Statement

The UK Corporate Governance Code issued by the FRC ("The Code")

Introduction

The group has for a number of years chosen to comply with the Code's best practice guidelines where these are relevant to THFC as a non-profit-distributing entity operating as a society registered under the Co-operative and Community Benefit Societies Act 2014, without a market in its shares.

The board has sought to comply with a number of provisions of the code in so far as it considers them appropriate to a group of its size and nature.

Board

The board of directors of THFC comprises:

Ian Peacock (chairman)
Charlie Arbuthnot (chairman of credit committee)
Colin Burke (executive director)
Fenella Edge (executive director)
Keith Exford CBE (chairman of remuneration committee)
John Parker (chairman of audit committee
and senior independent director)
Gill Payne
Will Perry
Deborah Shackleton CBE
Piers Williamson (executive director).

The directors biographies can be found on pages 19 to 21.

The board of THFC also comprises the boards of its subsidiaries except for AHF which has two additional directors who are nominated directors.

All board service contracts are available for inspection at the registered office.

Senior Non-Executive Director

The board appoints a senior non-executive director. The appointed senior non-executive director is John Parker.

Directors' Independence

All directors are non-executive with the exception of Piers Williamson, the chief executive, Fenella Edge, the group treasurer and Colin Burke, the finance director.

Will Perry is nominated by the Homes and Communities Agency and Gill Payne is nominated by the National Housing Federation.

With the exceptions mentioned above the board has determined that all remaining non-executive directors are independent and free from any material relationship that could interfere with their ability to discharge their duties.

Terms of Office

All non-executive directors are limited to nine years' service on the board. Independent directors are normally elected for terms of three years and may offer themselves for re-election at the conclusion of the first and second terms.

The chairman may serve for a maximum term of six years and is subject to re-election annually at the Annual General Meeting. The board will select each chairman in accordance with the rules of THFC.

Details of directors retiring and offering themselves for re-election at the next Annual General Meeting are given on page 13.

Directors' Attendance at Meetings

Directors' attendance at THFC board and board committee meetings during the year is shown in the table on page 18. Where a director was unable to attend a meeting he or she was scheduled to attend, the chairman received a sound reason for the non-attendance. Special board meetings are those called at short notice principally to approve the documentation of borrowing and lending. It is not expected that every board member attends each special meeting, only that a quorum is present, though all board members are given notice of the meeting and informed of the business to be conducted.

Role of Board

The board sets the strategic objectives of the group, determines investment policies, agrees performance criteria and delegates to management the detailed planning and implementation of those objectives and policies in accordance with appropriate risk parameters. The board monitors compliance with policies and achievement against objectives by holding management accountable for its activities through quarterly performance reporting and budget updates.

The board holds six scheduled meetings each year which cover both standard and ad hoc business. Standard business is tracked via a board diary and determines the standard section of the agenda and details the key items of business that are considered by the board. A rolling agenda is maintained to record emerging issues that will require board consideration at future scheduled meetings. Two of the six scheduled meetings focus specifically on strategic issues. Ad hoc meetings are convened as and when required where board approval is required outside of the scheduled meetings.

Certain matters are dealt with exclusively by the board. These include approval of financial statements, strategy, major capital projects, changes to the group's management and control structure and approval of all borrowing loan agreements and the standard form of all lending loan agreements.

All key decisions are taken by the board or its committees. Where necessary the board or committee will delegate certain decisions to management within clearly defined parameters which are minuted.

The roles of chairman and chief executive are not fulfilled by the same individual. The board reviews and approves the chief executive's operational authorities on an annual basis. This document also determines which items are reserved for chairman's or non-executive approval. All other decisions require board approval.

All directors may call upon independent professional advice at the expense of THFC.

Committees of the Board

The board governs through clearly mandated board committees. Each board committee has specific written terms of reference which are approved annually by the board and committee. Committee chairmen report orally on the proceedings of their committees at the next following board meeting and the minutes of all committee meetings are included in papers distributed to board members in advance of the next board meeting.

The board and committees meet at regular intervals to cover all on-going business and ad hoc meetings are convened as necessary.

Credit Committee

The credit committee is a committee of the board. It comprises a minimum of four independent non-executive directors appointed by the board of THFC, together with the chief executive, group treasurer and the credit and risk director. The chairman of credit committee is Charlie Arbuthnot.

The credit committee is primarily responsible for the assessment of individual credit propositions and ongoing monitoring of the portfolio. It reports periodically to the board to administer a risk management process and evaluate individual credits.

Members comprise Charlie Arbuthnot (chairman), John Parker, Gill Payne, Ian Peacock and Deborah Shackleton as non-executive directors and Piers Williamson, Fenella Edge and David Stokes, chief executive, group treasurer and credit and risk director respectively of THFC.

Audit Committee

The audit committee reviews internal controls, financial reporting, annual financial statements, the performance and recommendations of external and internal auditors, the independence of the external auditors, the level of any non-audit services provided by them and compliance with laws and regulations. It considers financial and operational risks as a precursor to these matters being reviewed by the full board at its scheduled meetings.

Members comprise John Parker (chairman), Keith Exford and Will Perry. The group chairman attends by invitation. The chief executive and other senior members of staff attend when required.

Remuneration Committee

The remuneration committee is a non-executive committee of the board established under the chairmanship of Keith Exford.

The remuneration committee agrees policies on group staff remuneration, terms and conditions including annual pay and bonus awards and any external benchmarking exercise of pay and benefits.

It agrees the remuneration of the chief executive and executive directors and makes recommendations to the board on the level of non-executive directors' fees. It also oversees the annual appraisals of the executive directors.

Members comprise Keith Exford (chairman), Gill Payne, Ian Peacock and Charlie Arbuthnot. The chief executive and other senior members of staff attend when required.

Nominations Committee

The nominations committee meets as required to consider potential nominees to the board, both executive and non-executive independent directors.

When required by the board the nominations committee evaluates the balance of skills, experience, independence and knowledge on the board and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment.

All new directors participate in a tailored induction programme involving professional advisors where required.

The nominations committee was not convened during the year.

Training and Development

New non-executive directors are provided with a tailored induction shortly after their appointment. They are asked to submit requests for additional training as part of the annual performance evaluation process.

Emerging issues that require greater understanding are covered by a presentation to the board by an appropriate expert in the area concerned.

Performance evaluation

The board conducts a critical evaluation of its activities on an annual basis. A questionnaire based peer review of the performance of the chairman, the board and its committees is conducted by the company secretary, or periodically an external facilitator. The results of the evaluation are reviewed and discussed by the board and a list of action points drawn up where appropriate.

Internal Control

The board is responsible for the group's system of internal control and for the regular review of its effectiveness. It should be recognised that the internal control system has been designed to manage rather than eliminate the specific business risks faced by the group and can only provide reasonable and not absolute assurance against material misstatement or loss.

The board discharges its responsibilities for internal control through the following key procedures:

- the establishment of an organisational structure with clearly defined levels of authority and division of responsibility;
- a comprehensive system of reporting, budgeting and planning against which performance is monitored;
- the formulation of policies and of approval procedures in key areas such as loan administration, treasury operations, financial reporting and preparation of consolidated financial statements.

Key business risks, and their likelihood and potential impact, are formally considered by the board half yearly and appropriate controls and mitigating action implemented. All loans to borrowers are substantially matched in terms of their maturity, interest and repayment profile to the equivalent bond issue or bank loan. Therefore primary operating risks relate to the initial credit assessment, credit monitoring of borrowers, the completion of appropriate loan security, timely collection of all payments due and the achievement of sufficient income to offset the group's operating costs. Regular reports on these risks are made to the board.

Internal Audit

The board has decided that the establishment of a staffed internal audit function would not be appropriate for an organisation with a total staff complement of eighteen. Since April 2010 professional accounting firms have been appointed to undertake periodic reviews of internal controls. KPMG are the current appointee.

The directors considered periodic reports on the effectiveness of internal controls during the period to 11 August 2017 and no significant weaknesses have been identified.

Continuing Resources

After making enquiries, the directors have formed a judgment at the time of approving the financial statements that there is a reasonable expectation that THFC and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Senior Management

Piers Williamson, Fenella Edge, Colin Burke and David Stokes, the chief executive, group treasurer, finance director (and company secretary) and credit and risk director respectively, held those positions throughout the year. The chief executive has defined powers of authority and responsibility which are delegated to him and reviewed annually by the board. The company secretary is responsible for ensuring that board procedures are followed.

Directors' Remuneration

The directors' remuneration is established by the board in the light of periodic advice from advisers. In addition to salaries and bonuses, the executive directors, being the chief executive, the group treasurer and finance director receive pension benefits and/or certain other employee benefits in accordance with guidelines determined by the board. Fees are paid to non-executive directors except that the fees payable to the director nominated by the National Housing Federation (Gill Payne) and the Homes and Communities Agency (Will Perry) were remitted to their employers. The fees of the non-executive directors were increased with effect from 1 July 2017. The non-executive directors do not receive any pension benefits, bonuses or benefits-in-kind except for certain travel expenses.

Details of directors' remuneration is given on pages 44 and 45.

Shareholders

The shareholders of THFC are listed in the table on page 13. All shareholders of THFC are non-executive directors except for the Homes and Communities Agency and the National Housing Federation who nominate board members.

Financial Risk Management

The board is responsible for approving THFC's strategy and the level of acceptable risks. The board has established an audit committee and a credit committee reporting periodically to the board to administer a risk management process which identifies the key risks facing the business and the board reviews reports/minutes submitted by those committees on how those risks are being managed.

The group derives income from three principal sources; arrangement fees on new lending, annual fees accruing on the existing loan book and investment income on cash balances.

The level of arrangement fees is subject to market conditions, competition from other lenders and demand from borrowers, and therefore creates a certain amount of volatility in this income stream. Annual fees are contractual and for the most part subject to indexation using the Retail Price Index or Consumer Price Index. Investment income is subject to interest rate risk although on occasions rates are fixed on the group reserves investment income using swap transactions. No swap transactions were entered into during the year (2016: None).

Subject to the risks to income outlined above the group endeavours to cover operating costs from investment income and contractual annual fees.

Risk Management Structure

The board is ultimately responsible for reviewing and managing all risks facing the group. The audit committee will initially review and report to the board on all key significant risks including operational, financial and interest rate risk. The credit committee addresses specifically, and reports to the board on credit and liquidity risk.

For further information on financial risk management see note 22 to the Financial Statements.

Operational Risk

This arises from the potential for key systems failures, breaches in internal controls or from external events resulting in financial loss or reputational damage. Key operational risks include outsourced contracts, payments systems, information systems and over-dependence on key personnel. Operational risk is controlled and mitigated through comprehensive, ongoing risk management practices which include formal internal control procedures, training, segregation of duties, delegated authorities and contingency planning and documentation of procedures.

Independent Auditor

Nexia Smith & Williamson Audit Limited have been engaged by the board as auditor of all group companies, and a resolution for their reappointment will be proposed at the Annual General Meeting.

By order of the board

Colin Burke
Company Secretary
The Housing Finance Corporation Limited
11 August 2017

Directors' Attendance at Meetings

	Main Board (6)	Special Board (2)	Audit Committee (3)	Credit Committee (12)
Charlie Arbuthnot	6	2	-	9
Colin Burke	6	2	3	9
Fenella Edge	6	2	3	10
Keith Exford	6	1	3	-
John Parker	5	1	3	7
Gill Payne	4	1	-	7
Ian Peacock	6	2	-	12
Will Perry	6	1	3	-
Deborah Shackleton	5	2	-	7
Piers Williamson	6	1	3	11

- indicates not a member or not required to attend
Figures in brackets are the total number of meetings the director could have attended if in office for the whole year.

Directors

Ian brings a wealth of financial experience to THFC, including extensive periods running the Financing Division of Kleinwort Benson and the Merchant Banking operation of Barclays in North America. He was a specialist advisor to the Bank of England between 1998 and 2000. Until 2013 he was Chair of one of the South East's leading Housing Associations: Family Mosaic.

Ian has had a long and successful career in international financial services. Ian has excellent customer service experience gained as a former Chairman of Mothercare, Chairman of Howdens Joinery plc and Deputy Chairman of a software company that develops systems to assess market risk, credit risk and management reporting. He was also a trustee to a volunteer based charitable organisation with 60,000 volunteers. Ian was appointed to the Board in April 2013 and became Chairman from June 2013.

Charlie currently works as a financial consultant principally in the social housing sector. Prior to this he worked for S G Warburg, Hambros Bank and Royal Bank of Canada in a variety of funding roles. He has over 25 years' experience in the social housing sector having arranged borrowings for registered providers in both banking and capital markets and having been head of UK institutional corporate bond sales at RBC for six years. He was appointed to the board in November 2008.

Colin joined THFC as Finance Manager in October 2002. After qualifying as a Chartered Accountant with Deloitte, he spent 15 years in Financial Controller roles at various publishing and media companies including Trinity Mirror, Sky and News International. He was appointed to the board in July 2014.

Fenella joined THFC in 2002 having previously spent eleven years at Abbey National Treasury Services (ANTS). Her roles at ANTS included Director of Market Risk, Director of Financial Products and Manager, Capital Markets. Prior to joining ANTS she was at Wood Gundy, Elders Finance Group and Nikko Securities in a variety of capital markets and derivative roles. She was appointed to the board in April 2006. Fenella is also a Non-executive Board member of Dolphin Living, a Registered Provider operating in central London.

Keith Exford is the Chief Executive of Clarion Housing Group, the largest housing association group in England with more than 125,000 homes across 176 local authorities. Clarion is also one of the country's major house builders with ambitions to develop over 50,000 over the next decade.

Keith's career in housing spans over 40 years. He is a member of the Chartered Institute of Housing and a Fellow of the Royal Society of Arts. He is a trustee of CLIC Sargent, the leading children's cancer charity. Keith was awarded a CBE in the 2015 New Year's Honours List for services to housing. Keith was appointed to the board in April 2011.

Gill has worked in a variety of management and strategy roles across the private and public sector. She has worked for Eagle Star Assurance Company, the Financial Conduct Authority and in 2001 joined the Countryside Agency. As Director of Organisation and Development (OD) she led work to establish Natural England and the Commission for Rural Communities (CRC).

She was Director for OD and Communications at the CRC and was interim CEO. Gill joined the National Housing Federation in October 2011 to job share with Ruth Davison as the Director for Policy and External Affairs and is now Executive Director of Public Impact. She was appointed to the board in October 2014.

John is vice chairman of Newbury Building Society, and a qualified chartered accountant. He was chief executive of the Stroud and Swindon Building Society for 13 years, retiring in 2005. His previous executive roles were as business economist with Morgan Grenfell, chief internal auditor at Chelsea Building Society, and in successive financial posts at Burmah Oil Plc. John was a member of the BSA Council for 6 years and its Chairman in 2004. He has held non-executive roles with English Partnerships, Stroudwater Navigation and Department for Work and Pensions. John was appointed to the board in April 2010.

Will is currently Assistant Director – Commercial and New Entrants at the HCA. He leads the Regulator's engagement with the lending markets and is responsible for developing regulatory policy around funding, treasury and financial risk. He is also the lead regulator for for-profit registered providers and providers with unconventional corporate structures. A qualified chartered accountant, Will has previously worked in social housing consultancy, corporate finance lead advisory for a top 10 firm and government audit. Will joined the board in November 2014.

Deborah Shackleton CBE
Non-Executive Director

Deborah is Chairman of Grainger Trust, one of the first for-profit Registered Providers. She was, until her retirement, Chief Executive of The Riverside Group, a major housing association serving over 50,000 tenants and has been involved in housing and regeneration for over 30 years. Her other interests include Chair of Career Connect, independent member of Progress Housing Group Audit Committee and has previously held non-executive roles with Liverpool John Moores University and the National Housing Federation . She was awarded a CBE for services to housing in 2009. Deborah was appointed to the board in April 2011.

Piers Williamson
Chief Executive

Piers was appointed Chief Executive of THFC in October 2002 and joined its board in 2003. He has over 30 years of experience of the UK, US and European financial markets specialising in bank treasury risk management and securitisation.

He holds professional qualifications in both treasury and banking and in addition to his duties at THFC, Piers was a non-executive member of the Regulation Committee of the HCA between 2012 and 2015.

THFC Group Loans

Loans Portfolio as at 31 March 2017

Fixed Charge Security

Association borrower (legal entity)	Area	The Housing Finance Corp Limited Loans £000	T.H.F.C. (Indexed) Limited Loans £000	T.H.F.C. (Indexed 2) Limited Loans £000	T.H.F.C. (First Variable) Limited Loans £000	T.H.F.C. (Social Housing Finance) Limited Loans £000	Affordable Housing Finance Plc Loans £000	T.H.F.C. (Capital) PLC Loans £000	UK Rents (No.1) PLC Loans £000	Total Loan Value £000
A2Dominion Homes Limited	South East	82,477	–	–	–	–	–	–	–	82,477
A2Dominion South Limited	South East	50,000	–	1,789	–	–	–	–	–	51,789
Accent Housing Limited	National	11,579	5,586	–	–	–	20,000	–	–	37,165
Accord Housing Association Limited	Midlands	15,500	–	2,164	786	–	–	–	–	18,450
Adactus Housing Association Limited	North West	3,101	–	–	–	–	22,500	–	–	25,601
Affinity Sutton Homes Limited	National	–	–	1,789	–	–	–	–	–	1,789
Agudas Israel Housing Association Limited	London	158	–	–	–	–	–	–	–	158
AmicusHorizon Limited	London	40,000	6,868	–	–	–	25,100	–	–	71,968
Apex Housing Association Limited	Northern Ireland	35,000	–	–	–	–	–	–	–	35,000
Arches Housing Limited	Yorkshire & the Humber	5,100	–	–	–	–	–	–	–	5,100
Arcon Housing Association Limited	North West	4,000	–	–	–	–	–	–	–	4,000
Arena Housing Group Limited	North West	–	–	–	–	6,000	–	–	–	6,000
Asra Housing Association Limited	London	7,000	–	–	1,957	–	–	–	–	8,957
Aster Communities	South West	–	–	–	–	–	50,000	–	–	50,000
Axiom Housing Association Limited	East Anglia	20,685	–	–	–	–	–	–	–	20,685
Bournville Village Trust	Midlands	20,000	–	–	–	–	–	–	–	20,000
bpha Limited	South East	–	–	–	–	–	69,000	–	–	69,000
Bracknell Forest Homes Limited	South East	–	–	–	–	–	15,000	–	–	15,000
Bromford Housing Association Limited	Midlands	–	–	–	–	–	70,000	–	–	70,000
Cadwyn Housing Association Limited	Wales	5,000	–	–	–	–	–	–	–	5,000
Cambridge Housing Society Limited	East Anglia	4,200	–	–	–	–	–	–	–	4,200
Cardiff Community Housing Association Limited	Wales	7,500	133	–	–	–	–	–	–	7,633
Castle Rock Edinvar Housing Association Limited	Scotland	5,500	–	–	–	–	–	–	–	5,500
Catalyst Housing Limited	London	3,134	615	–	–	–	50,000	–	–	53,749
Charter Housing Association Limited	Wales	25,000	–	–	–	–	–	–	–	25,000
Cheviot Housing Association Limited	North East	2,734	899	–	–	3,000	–	–	–	6,633
Choice Housing Ireland Limited	Northern Ireland	45,000	–	–	–	–	–	–	–	45,000
Circle Thirty Three Housing Trust Limited	Midland	3,964	–	–	–	–	–	–	–	3,964
Clanmil Housing Association Limited	Northern Ireland	30,000	–	–	–	–	–	–	–	30,000
Clwyd Alyn Housing Association Limited	Wales	7,000	1,183	–	–	–	–	–	–	8,183
Coastal Housing Group Limited	Wales	35,000	–	–	–	–	7,000	–	–	42,000
Coastline Housing Limited	South West	–	–	–	–	–	31,300	–	–	31,300
Colne Housing Society Limited	East Anglia	–	–	–	–	–	21,000	–	–	21,000
Connect Housing Association Limited	North East	–	–	–	–	5,000	–	–	–	5,000
Connswater Homes Limited	Northern Ireland	4,000	–	–	–	0	–	–	–	4,000
Contour Homes Limited	North West	2,000	–	–	–	5,168	–	–	–	7,168
Cornerstone Housing Limited	South West	5,000	–	–	–	–	5,000	–	–	10,000
Cotman Housing Association Limited	East Anglia	1,500	–	–	–	–	–	–	–	1,500
Croydon Churches Housing Association	London	–	–	–	–	–	9,000	–	–	9,000
De Montfort Housing Society Limited	Midlands	3,750	–	–	–	–	–	–	–	3,750
Derwen Cymru	Wales	1,500	–	–	–	–	–	–	–	1,500
Derwent Housing Association Limited	East Midlands	10,000	–	–	–	–	–	–	–	10,000
Devon & Cornwall Housing Limited	South West	24,813	2,540	–	–	–	122,500	–	–	149,853
Ducane Housing Association Limited	London	5,000	–	–	–	–	–	–	–	5,000
Dumfries & Galloway Housing Partnership Limited	Scotland	40,000	–	–	–	–	–	–	–	40,000
Dunedin Canmore Housing Limited	Scotland	16,500	–	–	–	–	–	–	–	16,500
Drum Housing Association	London	–	–	–	–	–	28,200	–	–	28,200
East Homes Limited	London	1,303	–	–	–	–	–	–	–	1,303
EMH Housing and Regeneration Limited	Midlands	25,000	–	1,028	786	–	–	–	–	26,814
Eildon Housing Association Limited	Scotland	10,000	–	–	–	–	–	–	–	10,000
English Rural Housing Association	National	–	–	–	–	–	10,000	–	–	10,000
Equity Housing Group Limited	North West	21,755	167	–	1,278	–	–	–	–	23,200
Estuary Housing Association Limited	East Anglia	30,321	308	–	–	–	–	–	–	30,629
Family Housing Association (Birmingham) Limited	Midlands	6,500	–	–	–	3,473	–	–	–	9,973
Family Mosaic Housing	London	82,698	805	–	–	–	50,000	–	–	133,503
Flagship Housing Group Limited	East Anglia	–	–	–	–	–	15,000	–	–	15,000

Fixed Charge Security (continued)

Association borrower (legal entity)	Area	The Housing Finance Corp Limited Loans £000	T.H.F.C. (Indexed) Limited Loans £000	T.H.F.C. (Indexed 2) Limited Loans £000	T.H.F.C. (First Variable) Limited Loans £000	T.H.F.C. (Social Housing Finance) Limited Loans £000	Affordable Housing Finance Plc Loans £000	T.H.F.C. (Capital) PLC Loans £000	UK Rents (No.1) PLC Loans £000	Total Loan Value £000
Friendship Care and Housing Limited	Midlands	2,000	–	–	–	5,500	–	–	–	7,500
First Wessex	South East	2,910	–	–	–	–	84,700	–	–	87,610
Fold Housing Association	Northern Ireland	35,000	–	–	–	–	–	–	–	35,000
Fortis Living Limited	Midlands	–	–	–	–	–	90,000	–	–	90,000
Gallions Housing Association Limited	London	24,000	–	–	–	–	–	–	–	24,000
Gateway Housing Association Limited	London	1,250	–	–	–	5,392	25,000	–	–	31,642
Genesis Housing Association Limited	London	50,500	–	–	–	2,000	–	–	–	52,500
Glen Oaks Housing Association Limited	Scotland	14,300	–	–	–	–	–	–	–	14,300
Golding Homes Limited	South East	–	–	–	–	–	30,000	–	–	30,000
Grampian Housing Association Limited	Scotland	–	–	–	–	793	–	–	–	793
Gravesend Churches Housing Association Limited	South East	–	–	–	–	1,750	–	–	–	1,750
Great Places Housing Association Limited	North West	22,797	–	447	297	–	50,000	–	–	73,541
Greenfields Community Housing Limited	South East	–	–	–	–	–	25,000	–	–	25,000
Greenoak Housing Association Limited	South East	3,500	–	–	–	–	–	–	–	3,500
Grwp Cynefin	Wales	11,500	–	–	–	–	10,000	–	–	21,500
Habinteg Housing Association Limited	National	3,034	–	–	–	3,000	–	–	–	6,034
Hafod Housing Association Limited	Wales	10,000	–	–	–	–	–	–	–	10,000
Hanover Housing Association	National	30,000	–	–	–	–	–	–	–	30,000
Harrogate Housing Association Limited	Yorkshire & the Humber	2,000	–	–	–	–	–	–	–	2,000
Heart of England Housing Association Limited	Midlands	–	–	–	–	–	25,000	–	–	25,000
Helm Housing Limited	Ireland	15,000	–	–	–	–	–	–	–	15,000
Hexagon Housing Association Limited	London	–	118	3,130	–	–	49,000	–	–	52,248
Hightown Housing Association Limited	South East	30,880	473	–	–	–	–	–	–	31,353
Home Group Limited	National	45,356	4,705	8,718	–	–	139,000	–	–	197,779
Home in Scotland Limited	Scotland	20,000	–	–	–	–	10,700	–	–	30,700
Hundred Houses Society Limited	East Anglia	–	–	–	–	–	10,000	–	–	10,000
Hyde Housing Association Limited	South East	62,622	–	8,655	–	1,500	–	–	–	72,777
Innisfree Housing Association Limited	London	3,000	–	–	–	–	–	–	–	3,000
Inquilab Housing Association Limited	London	10,000	–	–	–	–	–	–	–	10,000
Irwell Valley Housing Association Limited	North West	–	–	1,789	–	–	–	–	–	1,789
Islington & Shoreditch Housing Association Limited	London	22,633	–	–	–	2,411	–	–	–	25,044
Isos Housing Limited	North East	–	–	–	–	5,500	34,400	–	–	39,900
"Johnnie" Johnson Housing Trust Limited	North West	22,500	331	–	–	–	–	–	–	22,831
Joseph Rowntree Housing Trust	Yorkshire & the Humber	15,000	–	–	–	–	–	–	–	15,000
Knightstone Housing Association Limited	South West	22,328	5,087	–	–	–	–	–	–	27,415
Leeds Federated Housing Association Limited	North East	13,300	–	–	–	–	10,000	–	–	23,300
Leeds & Yorkshire Housing Association Limited	North East	3,250	–	–	–	–	–	–	–	3,250
Leicester Housing Association Limited	Midlands	16,253	331	–	548	3,000	–	–	–	20,132
Liverpool Housing Trust Limited	North West	7,000	–	–	–	3,547	–	–	–	10,547
London & Quadrant Housing Trust	London	14,543	473	–	–	–	–	–	–	15,016
Longhurst & Havelok Homes Limited	East Anglia	6,000	–	–	–	–	–	–	–	6,000
Manningham Housing Association Limited	North East	29,294	–	–	–	2,000	–	–	–	31,294
Melin Homes Limited	Wales	22,000	–	–	–	–	–	–	–	22,000
Merlin Housing Society Limited	South West	–	–	–	–	–	40,000	–	–	40,000
Metropolitan Housing Trust Limited	London	31,201	1,089	1,342	–	–	–	–	–	33,632
Mid Wales Housing Association Limited	Wales	3,000	–	984	–	–	–	–	–	3,984
Midland Heart Limited	Midlands	37,528	4,295	–	–	–	17,000	–	–	58,823
Moat Homes Limited	South East	–	2,970	–	–	–	50,000	–	–	52,970
Mosscare Housing Limited	North West	29,414	–	–	–	–	–	–	–	29,414
Mount Green Housing Association Limited	South East	–	–	–	–	–	6,000	–	–	6,000

Loans Portfolio as at 31 March 2017

Fixed Charge Security (continued)

Association borrower (legal entity)	Area	The Housing Finance Corp Limited Loans £000	T.H.F.C. (Indexed) Limited Loans £000	T.H.F.C. (Indexed 2) Limited Loans £000	T.H.F.C. (First Variable) Limited Loans £000	T.H.F.C. (Social Housing Finance) Limited Loans £000	Affordable Housing Finance Plc Loans £000	T.H.F.C. (Capital) PLC Loans £000	UK Rents (No.1) PLC Loans £000	Total Loan Value £000
Network Homes Limited	London	130,940	–	–	–	–	75,500	–	–	206,440
New Gorbals Housing Association Limited	Scotland	14,000	–	–	–	–	6,100	–	–	20,100
Newlon Housing Trust	London	22,584	–	–	–	–	–	–	–	22,584
Newydd Housing Association (1974) Limited	Wales	10,000	–	–	–	–	–	–	–	10,000
North Devon Homes Limited	South West	–	–	–	–	–	8,000	–	–	8,000
North Glasgow Housing Association Limited	Scotland	8,000	–	–	–	–	–	–	–	8,000
North London Muslim Housing Association Limited	London	1,000	–	–	–	1,500	–	–	–	2,500
North Wales Housing Association Limited	Wales	12,500	189	–	–	5,000	–	–	–	17,689
Notting Hill Housing Trust	London	15,000	–	–	–	–	50,000	–	–	65,000
Nottingham Community Housing Association Limited	Midlands	12,400	–	–	–	–	29,000	–	–	41,400
Octavia Housing	London	10,000	–	–	–	–	18,000	–	–	28,000
One Housing Group Limited	London	42,765	–	–	–	–	–	–	–	42,765
One Vision Housing Limited	North West	3,000	–	–	–	3,250	–	–	–	6,250
Orbit South Housing Association Limited	Midlands	–	–	–	–	–	25,000	–	–	25,000
Origin Housing Limited	South East	29,600	–	–	–	–	–	–	–	29,600
Orwell Housing Association Limited	East Anglia	–	–	–	–	–	10,000	–	–	10,000
Oxford Citizens Housing Association Limited	South East	7,600	–	–	–	–	20,000	–	–	27,600
Paradigm Homes Charitable Housing Association Limited	South East	65,000	–	–	–	–	90,000	–	–	155,000
Pembrokeshire Housing Association Limited	Wales	1,000	–	–	–	–	–	–	–	1,000
Pickering and Ferens Homes	North West	–	–	–	–	–	10,000	–	–	10,000
Places for People Homes Limited	National	2,177	–	–	–	–	–	–	–	2,177
Places for People Living+ Limited	London	4,000	–	–	–	–	–	–	–	4,000
Plymouth Community Homes Limited	South West	30,000	–	–	–	–	–	–	–	30,000
Portal Housing Association Limited	South West	21,000	–	–	–	–	–	–	–	21,000
Railway Housing Association	North East	–	–	–	–	–	5,000	–	–	5,000
Regenda Limited	North West	3,000	–	2,597	–	2,000	–	–	–	7,597
Sadeh Lok Limited	North East	650	–	–	–	–	–	–	–	650
Salvation Army Housing Association	London	3,000	–	–	–	–	–	–	–	3,000
Sanctuary Housing Association	National	9,970	852	–	–	–	–	–	–	10,822
Sanctuary Scotland Housing Association Limited	Scotland	10,000	–	–	–	–	–	–	–	10,000
Selwood Housing Society Limited	South West	–	–	–	–	–	40,000	–	–	40,000
Sentinel Housing Association Limited	South East	10,000	–	–	–	–	60,000	–	–	70,000
Shepherds Bush Housing Association Limited	London	–	–	–	–	–	25,000	–	–	25,000
Soho Housing Association Limited	London	15,000	–	–	–	1,500	–	–	–	16,500
South Yorkshire Housing Association Limited	North East	3,380	–	–	–	–	–	–	–	3,380
Southern Housing Group Limited	London	144,163	1,392	–	–	10,000	–	–	–	155,555
Sovereign Housing Association	South West	22,000	–	–	–	–	95,000	–	–	117,000
St Vincent's Housing Association Limited	North West	2,595	–	–	–	4,000	–	–	–	6,595
Staffordshire Housing Association Limited	Midlands	14,800	–	–	–	5,300	–	–	–	20,100
Stonewater Limited	Midlands	–	–	–	–	–	35,000	–	–	35,000
Stonewater (3) Limited	Midlands	–	–	–	–	–	15,000	–	–	15,000
Synergy Housing	South West	–	–	–	–	–	50,000	–	–	50,000
Taff Housing Association Limited	Wales	5,500	–	–	–	1,000	–	–	–	6,500
Tenants First Housing Co-operative Limited	Scotland	5,000	–	–	–	–	–	–	–	5,000
Thames Valley Charitable Housing Association Limited	South East	53,935	–	–	–	–	25,000	–	–	78,935
Thenue Housing Association Limited	Scotland	5,000	–	–	–	–	–	–	–	5,000

Fixed Charge Security (continued)

Association borrower (legal entity)	Area	The Housing Finance Corp Limited Loans £000	T.H.F.C. (Indexed) Limited Loans £000	T.H.F.C. (Indexed 2) Limited Loans £000	T.H.F.C. (First Variable) Limited Loans £000	T.H.F.C. (Social Housing Finance) Limited Loans £000	Affordable Housing Finance Plc Loans £000	T.H.F.C. (Capital) PLC Loans £000	UK Rents (No.1) PLC Loans £000	Total Loan Value £000
The Riverside Group Limited	National	38,930	331	–	–	–	45,000	–	–	84,261
The Swaythling Housing Society Limited	South West	12,000	–	–	–	–	45,100	–	–	57,100
Three Rivers Housing Association Limited	North East	11,950	–	–	–	872	5,000	–	–	17,822
Trident Housing Association Limited	Midlands	3,500	1,278	–	–	–	–	–	–	4,778
Tuntum Housing Association Limited	Midlands	7,000	–	–	–	–	–	–	–	7,000
United Welsh Housing Association Limited	Wales	39,500	–	–	–	–	25,000	–	–	64,500
Viridian Housing	London	–	–	–	–	–	100,000	–	–	100,000
Wales and West Housing Association Limited	Wales	36,500	–	–	–	–	46,000	–	–	82,500
Wandle Housing Association Limited	London	21,418	–	–	–	–	35,000	–	–	56,418
Waterloo Housing Association Limited	Midlands	6,000	–	–	–	–	–	–	–	6,000
Westcountry Housing Association Limited	South West	47,000	–	–	–	–	20,000	–	–	67,000
West Kent Housing Association	South East	35,000	–	–	–	–	–	–	–	35,000
West Mercia Homes Limited	Midlands	10,000	–	–	–	–	–	–	–	10,000
Westfield Housing Association Limited	North West	6,000	–	–	–	–	–	–	–	6,000
White Horse Housing Association Limited	South West	750	–	–	–	–	–	–	–	750
Wirral Methodist Housing Association Limited	North West	5,200	–	–	–	–	–	–	–	5,200
Womens Pioneer Housing Limited	London	10,000	–	–	–	–	–	–	–	10,000
Worthing Homes Limited	South East	10,000	–	–	–	–	–	–	–	10,000
York Housing Association Limited	Yorkshire & the Humber	4,000	–	–	–	–	–	–	–	4,000
Yorkshire Housing Limited	Yorkshire & the Humber	40,500	–	–	–	–	–	–	–	40,500
Total Fixed Charge Security		**2,550,972**	**43,018**	**34,432**	**5,652**	**93,456**	**2,339,100**	**–**	**–**	**5,066,630**

Floating Charge Security

Association borrower (legal entity)	Area	The Housing Finance Corp Limited Loans £000	T.H.F.C. (Indexed) Limited Loans £000	T.H.F.C. (Indexed 2) Limited Loans £000	T.H.F.C. (First Variable) Limited Loans £000	T.H.F.C. (Social Finance) Limited Loans £000	Affordable Housing Finance Plc Loans £000	T.H.F.C. (Capital) PLC Loans £000	UK Rents (No.1) PLC Loans £000	Total Loan Value £000
Arena Housing Group Limited	North West	5,000	–	6,260	–	–	–	–	–	11,260
Barnsbury Housing Association Limited	London	–	–	–	491	–	–	–	–	491
Bromford Housing Association Limited	South West	2,000	–	1,342	–	–	–	–	–	3,342
De Montfort Housing Society Limited	Midlands	4,250	331	–	–	–	–	–	–	4,581
Manningham Housing Association Limited	North East	5,600	–	–	–	–	–	–	–	5,600
Three Rivers Housing Association Limited	North East	500	–	–	–	–	–	–	–	500
Total Floating Charge Security		**17,350**	**331**	**7,602**	**491**	**–**	**–**	**–**	**–**	**25,774**

Loans Portfolio as at 31 March 2017

Income Security

Association borrower (legal entity)	Area	The Housing Finance Corp Limited Loans £000	T.H.F.C. (Indexed) Limited Loans £000	T.H.F.C. (Indexed 2) Limited Loans £000	T.H.F.C. (First Variable) Limited Loans £000	T.H.F.C. (Social Housing Finance) Limited Loans £000	Affordable Housing Finance Plc Loans £000	T.H.F.C. (Capital) PLC Loans £000	UK Rents (No.1) PLC Loans £000	Total Loan Value £000
A2 Dominion Homes Limited	London	-	-	-	-	-	-	-	3,388	3,388
Cheviot Housing Association Limited	North East	-	-	-	-	-	-	-	5,032	5,032
Contour Homes Limited	North West	-	-	-	-	-	-	-	3,761	3,761
Circle Thirty Three Housing Trust Limited	Midlands	-	-	-	-	-	-	-	3,801	3,801
First Wessex	South East	-	-	-	-	-	-	-	3,758	3,758
London & Quadrant Housing Trust	London	-	-	-	-	-	-	-	5,224	5,224
Income Cover		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**24,964**	**24,964**
Fixed Change Security – Cash Flow Covenants										
Gentoo Group Limited	North East	-	-	-	-	-	-	584,495	-	584,495
Total		**-**	**-**	**-**	**-**	**-**	**-**	**584,495**	**-**	**584,495**
Grand Total		**2,568,322**	**43,349**	**42,034**	**6,143**	**93,456**	**2,339,100**	**584,495**	**24,964**	**5,701,863**
Premium 31 March 2017										**183,217**
Total at 31 March 2017		**2,568,322**	**43,349**	**42,034**	**6,143**	**93,456**	**2,339,100**	**584,495**	**24,964**	**5,885,080**

Group Source of Funds

Government Guaranteed Funds, Debenture Stocks, Eurobonds, Bank and Other Loans as at 31 March 2017

			Date	Nominal Amount £000	Outstanding Principal Amount £000
Affordable Housing Finance Plc					
30 year £500m Fixed and Variable rate loan 2045 – EIB I (Annuity)			20.12.13	500,000	500,000
30 year £500m Fixed and Variable rate loan 2047 – EIB IIA (Annuity)			29.02.16	283,000	283,000
30 year £500m Fixed and Variable rate loan 2047 – EIB IIB (Annuity)			12.05.16	62,500	62,500
3.8% Guaranteed Secured Bonds 2042/2044 (Bullet)		tranche 1	22.05.14	208,400	208,400
		tranche 2	06.11.14	198,500	198,500
		tranche 3	17.03.15	194,000	194,000
2.893% Guaranteed Secured Bonds 2043/2045 (Bullet)		tranche 1	04.08.15	208,000	208,000
		tranche 2	09.03.16	194,000	194,000
		tranche 3	25.05.16	120,500	120,500
		tranche 4	28.07.16	173,400	181,400
		tranche 5	11.10.16	100,500	100,500
		tranche 6	11.01.17	88,300	88,300
THFC Debenture Stocks					
Discounted	5% 2027		08.12.87	50,954	32,691
Stepped Coupon:	6.58% to 19.60% 2019		02.03.89	9,273	10,709
	7.91% to 19.75% 2019		28.06.89	4,630	5,426
	7.55% to 17.61% 2019		17.08.89	7,860	8,464
	8.44% to 15.98% 2019		11.10.89	2,900	3,177
Conventional Fixed Rate:	12.04% 2021 (Annuity)		02.07.91	15,000	5,886
	8.625% 2023 (Bullet)	tranche 1	13.10.93	121,100	121,100
		tranche 2	24.05.94	31,500	31,500
		tranche 3	16.06.99	12,200	11,200
		tranche 4	29.02.00	9,500	9,500
		tranche 5	05.12.01	14,800	14,800
	8.8% 2023 (Annuity)		05.11.93	8,000	3,930
	10.0938% 2024 (Annuity)		14.07.95	13,000	6,069
	9.625% 2025 (Bullet)	tranche 1	04.07.95	40,850	40,850
		tranche 2	12.11.97	8,600	8,600
THFC Bank Loans					
25 year £2.75m variable repayable 2021			08.03.96	750	150
25 year £26.5m fixed rate loan 2023 – EIB (Annuity)			26.11.98	24,860	9,746
25 year £10m fixed rate loan 2024 – EIB (Annuity)			02.09.99	33,000	15,558
25 year £20m fixed rate loan 2025 – EIB (Annuity)			08.09.00	10,500	5,504
25 year £9.35m fixed rate loan – ANTS (from Sep 2003) (Bullet)			02.04.01	8,700	8,700
25 year £17m variable repayable 2026			09.11.01	11,000	7,260
25 year £9.86m sterling facility repayable 2028 (Annuity)			08.09.03	6,740	5,392
25 year £15m sterling fixed loan 2029 (Annuity)			16.06.04	15,000	8,503
25 year £15m revolver into term			14.03.05	15,000	6,045
20 year £100m Fixed and Variable rate loan 2025 – EIB (Bullet)			22.12.05	100,000	100,000
30 year £100m Fixed and Variable rate loan 2040 – EIB (Bullet)			14.11.08	100,000	100,000
30 year £100m Fixed and Variable rate loan 2040 – EIB (Bullet)			04.12.09	172,500	172,500
30 year £100m Fixed and Variable rate loan 2040 – EIB (Bullet)			04.12.09	172,500	172,500
5 year £10m revolving credit facility variable, repayable 2020			28.09.11	5,000	0
30 year £400m Fixed and Variable rate loan 2045 – EIB (Annuity)			19.12.12	400,000	400,000
JESSICA £12m 30 year amortising facility – EIB (Annuity)**			28.02.13	12,000	12,000
THFC Loan from T.H.F.C. (Funding No.1) Plc					
Long term – 5.125% due 2035 (Bullet)		tranche 1	13.12.04	53,572	53,572
		tranche 2	21.12.06	32,000	32,000
		tranche 3	28.02.07	37,000	37,000
		tranche 4	28.11.07	32,633	32,633
		tranche 5	30.07.08	80,000	80,000
THFC Loan from T.H.F.C. (Funding No.2) Plc					
Long term – 6.35% due 2041 (Bullet)		tranche 1	02.07.09	191,000	191,000
		tranche 2	24.03.10	72,250	72,250
		tranche 3	21.01.11	76,600	76,600
		tranche 4	04.04.11	31,000	31,000

Government Guaranteed Funds, Debenture Stocks, Eurobonds, Bank and Other Loans as at 31 March 2017

		Date	Nominal Amount £000	Outstanding Principal Amount £000
THFC Loan from T.H.F.C. (Funding No.3) Plc				
Long term – 5.2% due 2043 (Bullet)	tranche 1	05.10.11	142,100	142,100
	tranche 2	18.01.12	161,000	161,000
	tranche 3	18.04.12	100,500	100,500
	tranche 4	20.09.12	132,100	132,100
	tranche 5	15.04.13	45,100	45,100
	tranche 6	15.10.13	44,500	44,500
T.H.F.C. (First Variable) Bank Loans				
30 year variable 2023 (Annuity)	tranche 1	30.04.93	2,750	780
	tranche 2	21.07.93	7,650	2,982
	tranche 3	17.12.93	4,750	1,560
	tranche 4	30.06.94	2,000	780
T.H.F.C. (Indexed) Limited Index Linked Debenture Stocks				
5.65% 2020 (Annuity)	tranche 1	13.11.90	56,540	26,767
	tranche 2	31.03.93	30,824	16,584
T.H.F.C. (Indexed 2) Limited Index Linked Debenture Stocks				
5.50% 2024 (Annuity)	tranche 1	16.12.94	22,250	19,956
	tranche 2	28.12.95	24,750	22,079
T.H.F.C. (Social Housing Finance) Limited Debenture Stocks				
8.75% Debenture Stock 2016/21 (Bullet)	tranche 1	05.12.96	18,300	14,800
	tranche 2	09.06.97	8,000	8,000
	tranche 3	11.09.97	9,900	8,000
	tranche 4	03.12.97	34,750	32,750
	tranche 5	01.07.98	15,350	14,250
T.H.F.C. (Social Housing Finance) Limited Bank Loans				
25 year £17.7m fixed rate loan 2023 – EIB (Annuity)		26.11.98	2,000	872
25 year £40m fixed rate loan 2024 – EIB (Annuity)		02.09.99	16,500	7,811
25 year £18.9m fixed rate loan 2025 – EIB (Annuity)		08.09.00	14,900	6,973
UK Rents (No.I) Plc Rental Securitisation				
9.10% 2025 (Eurobond)		06.01.95	36,143	24,963
Subordinated Loan				723
T.H.F.C. (Capital) Plc Loans				
Long term loan – 6.38% due 2042		26.03.01	212,802	212,802
Fixed and variable rate loans		26.03.01	475,000	371,693
Total			**5,995,331**	**5,703,340**
Premium at 31 March 2017				183,217
Grand Total				**5,886,559**

** This facility was novated to the Greater London Authority on 13 July 2017.

Auditor's Report

Independent Auditor's Report to the Members of The Housing Finance Corporation Limited

We have audited the financial statements of The Housing Finance Corporation Limited for the year ended 31 March 2017 which comprise the Group and Parent Company Statements of Comprehensive Income, the Group and Parent Company Statements of Financial Position, the Group and Parent Company Statements of Changes in Equity, the Group and Parent Company Statements of Cash Flows and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Co-operative and Community Benefit Societies Act 2014.

This report is made solely to the company's members, as a body, in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and the auditor

As explained more fully in the Statement of Directors Responsibilities set out on page 14, the directors are responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and Parent Company's affairs as at 31 March 2017 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union;
- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014 and the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- the society has not kept proper accounting records; or
- the financial statements are not in agreement with the books of account; or
- we have not received all the information and explanations we need for our audit.

Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants

25 Moorgate
London
EC2R 6AY

Group Statement of Comprehensive Income

For the year ended 31 March 2017

	Notes	2017 £000	2016 £000
Operating Income			
On loans to housing associations			
Interest receivable	2	231,508	217,144
Discount amortised	11	1,452	1,457
Premium amortised	11	(6,630)	(5,349)
Income from securitised assets	16	2,312	2,463
Indexation on investments	11	1,671	1,080
Premium receivable on prepayment		2,323	-
Other interest		242	283
Fees receivable and other income		10,047	8,138
		242,925	225,216
Operating Expenses			
On debenture stocks, secured bonds, bank loans and other loans			
Interest payable	6	233,786	219,605
Discount amortised	14	1,452	1,457
Premium amortised	14	(6,630)	(5,349)
Indexation on loans payable	14	1,671	1,081
Premium payable on prepayment		2,334	-
Administration expenses	3	4,176	4,301
		236,789	221,095
Surplus before taxation		6,136	4,121
Taxation	7	(1,238)	(832)
Surplus for the year		4,898	3,289
Other comprehensive income for the year		-	-
Total comprehensive income for the year		4,898	3,289

Group Statement of Financial Position

At 31 March 2017

	Notes	2017 £000	2016 £000
Assets			
Non-current assets			
Loans	11	5,794,993	4,841,419
Intangible assets	8	59	51
Property, plant and equipment	9	109	157
Deferred tax asset	15	155	192
Current assets			
Loans	11	90,087	245,660
Other receivables	12	38,495	40,821
Short-term deposits	2	3,901	16,093
Cash and cash equivalents	2	49,858	41,905
Total assets		5,977,657	5,186,298
Liabilities			
Non-current liabilities			
Financial liabilities – borrowings	14	5,796,472	4,842,113
Deferred tax liabilities	15	100	118
Provision for other liabilities and charges	23	999	1,085
Current liabilities			
Financial liabilities – borrowings	14	90,087	254,160
Trade and other payables	13	60,537	64,354
Current tax liabilities		648	552
Total liabilities		5,948,843	5,162,382
Equity			
Called up share capital	17	-	-
Retained earnings	18	28,814	23,916
Total equity		28,814	23,916
Total equity and liabilities		5,977,657	5,186,298

The financial statements on pages 30 to 59 were approved by the Board of directors on 11 August 2017 and signed on its behalf by:

Ian Peacock
Chairman

Fenella Edge
Director

Colin Burke
Company Secretary

Group Statement of Changes in Equity

For the year ended 31 March 2017

	Called up share capital £	Retained earnings £000	Total equity £000
Balance as at 1 April 2015	**7**	**20,627**	**20,627**
Surplus for the year	-	3,289	3,289
Other comprehensive income	-	-	-
Balance as at 31 March 2016	**7**	**23,916**	**23,916**
Surplus for the year	-	4,898	4,898
Other comprehensive income	-	-	-
Balance as at 31 March 2017	**7**	**28,814**	**28,814**

Group Statement of Cash Flows

For the year ended 31 March 2017

	Notes	2017 £000	2016 £000
Cash flows from operating activities			
Cash generated from operations	19	8,333	7,491
Interest received on loans to housing associations		238,189	213,554
Interest paid on debenture stocks, secured bonds, bank loans and other loans		(241,766)	(216,641)
Loans to housing associations		(1,007,540)	(991,366)
Repayment of loans by housing associations		203,925	51,399
New borrowings		1,007,541	991,365
Repayment of amounts borrowed		(211,770)	(42,893)
Tax paid		(1,124)	(696)
Net cash (used in)/generated from operating activities		(4,212)	12,213
Cash flows from investing activities			
Movement on short-term deposits		12,192	(1,169)
Purchase of property, plant and equipment	9	(2)	(52)
Purchase of intangible assets	8	(25)	(181)
Net cash (used in)/generated from investing activities		12,165	(1,402)
Net increase in cash and cash equivalents		7,953	10,811
Cash and cash equivalents at beginning of year		41,905	31,094
Cash and cash equivalents at end of year	20	49,858	41,905

THFC Statement of Comprehensive Income

For the year ended 31 March 2017

	Notes	2017 £000	2016 £000
Operating income			
On loans to housing associations			
Interest receivable	2	137,933	145,026
Discount amortised	11	1,430	1,440
Premium amortised	11	(2,240)	(2,477)
Premium receivable on prepayment		258	-
Other interest		180	197
Fees receivable and other income		2,336	2,364
Dividend from subsidiary undertaking		2,000	600
		141,897	147,150
Operating expenses			
On debenture stocks, bank loans and other loans			
Interest payable	6	137,905	145,008
Discount amortised	14	1,430	1,440
Premium amortised	14	(2,240)	(2,477)
Premium payable on prepayment		269	-
Administration expenses	3	1,699	2,394
		139,063	146,365
Surplus before taxation		2,834	785
Taxation	7	(149)	(37)
Surplus for the year		2,685	748
Other comprehensive income		-	-
Total comprehensive income for the year		2,685	748

THFC Statement of Financial Position

As at 31 March 2017

	Notes	2017 £000	2016 £000
Assets			
Non-current assets			
Loans	11	2,604,039	2,616,269
Investment in subsidiaries	10	1,000	2,700
Current assets			
Loans	11	9,004	161,885
Other receivables	12	21,050	27,167
Short-term deposits	2	-	8,530
Cash and cash equivalents	2	34,862	32,235
Total assets		2,669,955	2,848,786
Liabilities			
Non-current liabilities			
Financial liabilities – borrowings	14	2,604,832	2,616,280
Deferred tax liabilities	15	100	118
Current liabilities			
Financial liabilities – borrowings	14	9,004	170,385
Trade and other payables	13	38,181	46,980
Current tax liabilities		167	37
Total liabilities		2,652,284	2,833,800
Equity			
Called up share capital	17	-	-
Retained earnings	18	17,671	14,986
Total equity		17,671	14,986
Total equity and liabilities		2,669,955	2,848,786

The financial statements on pages 30 to 59 were approved by the Board of directors on 11 August 2017 and signed on its behalf by:

Ian Peacock
Chairman

Fenella Edge
Director

Colin Burke
Company Secretary

THFC Statement of Changes in Equity

For the year ended 31 March 2017

	Called up share capital £	Retained earnings £000	Total equity £000
Balance as at 1 April 2015	7	14,238	14,238
Surplus for the year	-	748	748
Other comprehensive income	-	-	-
Balance as at 31 March 2016	**7**	**14,986**	**14,986**
Surplus for the year	-	2,685	2,685
Other comprehensive income	-	-	-
Balance as at 31 March 2017	**7**	**17,671**	**17,671**

THFC Statement of Cash Flows

For the year ended 31 March 2017

	Notes	2017 £000	2016 £000
Cash flows from operating activities			
Cash (used in)/generated from operations	19	(1,065)	303
Interest received on loans to housing associations		145,798	145,263
Interest paid on debenture stocks, bank loans and other loans		(146,452)	(144,212)
Loans to housing associations		-	(178,637)
Repayment of loans by housing associations		161,856	19,726
New borrowings		-	178,637
Repayment of amounts borrowed		(169,703)	(11,226)
Tax (charge paid)/credit received		(37)	93
Net cash (used in)/generated from operating activities		(9,603)	9,947
Cash flows from investing activities			
Dividend received		2,000	600
Preference shares redeemed		1,700	-
Movement on short-term deposits		8,530	(1,053)
Net cash generated from/(used in) investing activities		12,230	(453)
Net increase in cash and cash equivalents		2,627	9,494
Cash and cash equivalents at beginning of year		32,235	22,741
Cash and cash equivalents at end of year	20	34,862	32,235

Notes to the Financial Statements

1. General Information

The Housing Finance Corporation Limited ("THFC" or "the company") provides funding for housing associations. THFC is a private limited company domiciled and incorporated in England and Wales and registered under the Co-operative and Community Benefit Societies Act 2014. Funding to housing associations is sourced through issuing debenture stocks, secured bonds, bank funding and long-term loans from related companies. The debenture stocks and secured bonds issued by THFC and certain subsidiaries are listed on the London Stock Exchange.

2. Accounting policies

The principal accounting policies adopted in the preparation of these financial statements of THFC, together with its subsidiaries ("the group"), are set out below.

These policies have been consistently applied to all years presented unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with IFRS as adopted by the European Union and, as regards the parent company financial statements, applied in accordance with the provisions of the Co-operative and Community Benefit Societies Act 2014. The financial statements have been prepared under the historical cost convention. A summary of the more important group accounting policies is set out below.

Going Concern

After making enquiries, the directors have formed a judgment at the time of approving the financial statements that there is a reasonable expectation that THFC and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Changes in accounting policies and disclosures

(a) *New and amended Standards and Interpretations adopted by the group and company*

In the current year, the following new and amended Standards and Interpretations have been adopted by the group:

- IAS 27 Separate Financial Statements: This allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate (parent only) financial statements.
- Amendments to IAS 1: Presentation of Financial Statements: The amendments address some of the concerns expressed about existing presentation and disclosure requirements relating to the use of judgement when preparing their financial statements.

The adoption of these amendments has not had a material impact on the reported results or financial position of the group or the company and has not given rise to any additional disclosure requirements.

(b) *New and amended Standards and Interpretations mandatory for the first time for the financial year beginning 1 April 2016 but not currently relevant to the group or company*

Other standards effective or amended in the year have not had a material impact on the reported results or financial position of the company.

(c) *New and amended Standards and Interpretations issued but not effective for the financial year beginning 1 April 2016*

- IAS 7 Statement of Cash Flows Disclosure Initiative (Effective 1 January 2017, not yet endorsed by EU): The amendments respond to requests from investors for improved disclosures about changes in liabilities arising from financing activities by introducing a reconciliation of debt balances.
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (Effective 1 January 2017, not yet endorsed by EU): The amendments clarifies how to account for deferred tax assets related to debt instruments measured at fair value and the requirement to consider if tax losses are restricted in their use (for example capital losses not available to offset trading profits) when considering the value of a deferred tax asset.

- IFRS 9 Financial Instruments (Effective 1 January 2018): This deals with the classification, measurement and impairment of financial assets and financial liabilities.
- IFRS 15 Revenue from Contracts with Customers (Effective 1 January 2018): The standard represents a single revenue recognition standard to be applied across various industries. The standard replaces IAS 18 Revenue.
- IFRS 16 Leases (Effective 1 January 2019, not yet endorsed by EU): The standard replaces IAS 17 Leases and has the effect of bringing almost all leases onto the balance sheet in a manner similar to the current 'finance lease' treatment. Short term leases and low value leases will remain consistent with current 'operating lease' treatment.

The directors are currently assessing the impact and timing of adoption of these Standards on the group's results and financial position.

The effect of all other new and amended Standards and Interpretations which are in issue but not yet mandatorily effective is not expected to be material.

a) Critical accounting judgements

The preparation of financial statements in accordance with IFRSs requires the use of certain critical accounting judgements. It also requires management to exercise judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity or where assumptions are significant to the consolidated financial statements are a) the evaluation as to whether the loans to borrowers are impaired (note 11) and b) the non-consolidation of related companies in which the group has a non-beneficial shareholding (note 2b). The directors have concluded the loans to borrowers are not impaired in the current period and that the related companies do not fall within the definition of control contained in IFRS 10.

b) Basis of consolidation

The group financial statements consolidate the results of THFC and all its subsidiaries drawn up to 31 March each year. The company has effective control of the financial and operating policies of all subsidiaries. UK Rents (Holdings) Limited ('UKRH"), UK Rents (No.1) PLC ('UKR1") and UK Rents Trustee Limited ('UKRT") have financial years ending 6 April, and therefore transactions for the period 1-6 April in each year have been adjusted as part of the consolidation. UKRH, UKR1 and UKRT have different year-ends from the rest of the group for transaction specific reasons.

T.H.F.C. (Indexed) Limited ("THFCIL"), T.H.F.C. (Indexed 2) Limited ("THFCIL2"), T.H.F.C. (First Variable) Limited ("THFCFV") and T.H.F.C. (Social Housing Finance) Limited ("SHF") are incorporated in England and Wales with limited liability under the Co-operative and Community Benefit Societies Act 2014. All the shareholders of THFCIL, THFCIL2, THFCFV and SHF have executed deeds of trust in favour of THFC and thus THFCIL, THFCIL2, THFCFV and SHF are treated as wholly owned subsidiaries of THFC.

T.H.F.C. (Services) Limited ("THFCS"), UKRH and UKRT are private limited companies; UKR1, T.H.F.C. (Capital) PLC ("THFCC") and Affordable Housing Finance PLC ("AHF") are public limited companies, all being incorporated under the Companies Act 2006. The shares of THFCS are owned by THFC. THFCS owns all of the shares of THFCC, AHF and UKRH, and UKRH owns all of the shares of both UKRT and UKR1 so THFCS, THFCC, AHF, UKRH, UKRT and UKR1 are treated as wholly owned subsidiaries of THFC.

The group financial statements fully consolidate the results of subsidiary undertakings from the date on which control is acquired. The purchase method of accounting is used to account for the acquisition of subsidiaries of the company. Subsidiaries are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the company.

2. Accounting policies continued

When the group ceases to have control in an entity any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the statement of comprehensive income. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the statement of comprehensive income.

THFCS holds shares on a fiduciary basis in the companies listed below and THFC does not consolidate their results. These companies report to 31 December 2016 and the summary information relates to that period end:

	Net assets	Profit for period
Harbour Funding (Holdings) Limited Group	Nil	Nil
T.H.F.C. (Funding) Holdings Limited Group	Nil	Nil
T.H.F.C. (Funding No. 3) Holdings Limited Group	Nil	Nil

At 31 December 2016 Harbour Funding (Holdings) Limited Group had loans and receivables of £208,843,809 (31 December 2015: £208,830,807), T.H.F.C. (Funding) Holdings Limited Group had loans and receivables of £631,257,694 (31 December 2015: £631,483,522) and T.H.F.C. (Funding No.3) Holdings Limited had loans and receivables of £660,625,051 (31 December 2015: £661,161,323).

Investments in subsidiaries are stated at cost less provision for impairment where necessary.

c) Loans to housing associations, debenture stocks, secured bonds and bank borrowings

The terms of the loans to housing associations are substantially matched to those on which the funds have been raised through the issue of debenture stocks, secured bonds, bank borrowings and other borrowings and hence both loans and funds borrowed are accounted for on a similar basis as set out below:

Loans to housing associations are expected to run to contractual maturity and are classified as loans and receivables. Debenture stocks, secured bonds, bank borrowings and other long-term borrowings are classified as financial liabilities.

Loans to housing associations are stated at amortised cost. The discounts or premiums on issue are deducted from/added to the original loan value and credited or charged to the statement of comprehensive income over the expected life of the loan so that the interest receivable or payable, as adjusted for the amortisation of discounts or premiums, gives a constant yield to maturity.

The related debenture stocks, secured bonds, bank borrowings and other borrowings are also stated at amortised cost.

Specific types of loan

(i) Stepped coupon loans and debenture stocks

Stepped coupon loans to housing associations and the related debenture stocks are stated at amortised cost including deferred interest. Deferred interest is the difference between interest calculated on the basis of the yield to redemption and the actual interest paid. Deferred interest is credited to the statement of comprehensive income on a basis that, together with the interest receivable, gives a constant yield to maturity.

(ii) Indexed-linked loans and debenture stocks

The indexed-linked loans to housing associations and the related indexed-linked debenture stocks were issued with a fixed, pre-indexation schedule of semi-annual payments over the life of the instrument. After an initial period during which the payments include no amortisation of principal, subsequent payments are of a constant amount for the rest of the term of the instrument, with no additional final repayment at maturity.

Indexation is applied to each semi-annual payment by adjusting the payment amount by the percentage rise in the retail prices index (RPI), published eight months before the payment date, over the RPI published eight months before the instrument's issue date.

Certain of the bonds and their associated loans were issued at a premium to the instrument's nominal value. This did not affect the semi-annual payments.

For accounting purposes any initial issue premium is amortised over the term of the instrument and credited semi-annually to the statement of comprehensive income. Each semi-annual payment is divided into an interest payment and a repayment of principal, so that the amounts credited semi-annually to the statement of comprehensive income as interest and amortisation of premium, as adjusted for inflation, together give a constant yield to maturity on the outstanding indexed amortised principal at each payment date over the life of the instrument.

Indexed loans to borrowers and liabilities to bond investors are stated in the balance sheet at the indexed, amortised amount as at the latest semi-annual payment date plus an amount equal to any indexed unamortised premium at that date.

On prepayment of any of the above loans and associated stock the unamortised portion of the premium or discount relating to the prepayment is written off. THFC's Trust deeds and core lending terms (as amended) provide that THFC shall be entitled to accept from a borrower an amount of stock for cancellation. In those circumstances, an amount of the borrower's loan equivalent to the outstanding balance of the relevant stock surrendered shall be deemed to be prepaid.

d) Impairment losses

The group and the company assess at each financial year end (or earlier if there is an indication of impairment) whether there is evidence that the loans and receivables are impaired either individually for a particular borrower or collectively across the portfolio. Impairment losses are incurred if, and only if, there is evidence of impairment as a result of an event that has occurred after the initial recognition of the asset and prior to the balance sheet date and that the event or events has an impact on the estimated future cash flows of the financial asset and that the impact can be reliably estimated.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

e) Cash and cash equivalents

Cash and cash equivalents consist of term deposits (being deposits whose maturity date is three months or less from the investment date), demand deposits, current account balances and cash in hand.

f) Short-term deposits

Short-term deposits consist of term deposits whose original maturity dates are greater than three months from the investment date, but not more than twelve months.

g) Interest

Interest receivable on loans to housing associations and interest payable on debenture stocks, bonds, bank borrowings and other loans is accounted for on an effective interest rate basis. Premiums/discounts on issue are added to/deducted from the original loan or bond value and charged/credited to the statement of comprehensive income over the expected life of the loan or bond using the effective interest rate method so that the interest receivable and interest payable, as adjusted for the amortisation of premiums and discounts, gives a constant yield to maturity. If, and when, prepayments take place premiums receivable and payable on prepayment of debenture stocks are taken to the statement of comprehensive income in the period in which the prepayment takes place.

2. Accounting policies continued

h) Fair values

The fair value of a financial instrument is the amount an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

IFRS 13 Fair value measurement requires an entity to classify for disclosure purposes its financial instruments held at amortised cost according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

Quoted market prices – Level 1

Financial instruments are classified as Level 1 if their value is observable in an active market. Fair values for such instruments are reported by reference to unadjusted quoted prices for identical assets or liabilities where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis.

Valuation technique using observable inputs – Level 2

Financial instruments classified as Level 2 are fair valued using models whose inputs (for example, interest rates and credit spreads) are observable in an active market.

Valuation technique using significant unobservable inputs – Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data. The company has no instruments classified in Level 3 (2016: none).

i) Securitised assets and related income

Securitised assets are recorded in the financial statements at amortised cost. Income arising from the assets is accounted for on an effective interest rate basis.

j) Fees receivable

Fees receivable are recognised on an effective interest rate basis except for front-end fees that are not considered to form an integral part of the effective interest rate and are therefore taken to income when earned. Fees for services are recognised as the service is provided.

k) Intangible assets

Intangible fixed assets held for operational use are valued at historical cost and are amortised over the estimated life of the asset on a straight line basis. Intangible assets are subject to impairment reviews annually.

Implementation costs of software are capitalised as intangible fixed assets. They are amortised over the shorter of the term of the licence and their useful economic lives. Their estimated useful economic lives are four years.

There are no internally generated intangible assets.

l) Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation. Cost includes the original purchase price of the asset and the costs attributable to bring the asset to its working condition for its intended use. Depreciation is calculated on a straight line basis to write the assets down to residual value evenly over their estimated useful lives. Residual values and estimated useful lives are reviewed annually.

Plant and equipment 25% per annum

m) Leased assets

Operating lease costs are accounted for on a straight line basis over the lease term through the statement of comprehensive income.

n) Taxation

i) Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities using tax rates (and laws) that have been enacted by the balance sheet date.

ii) Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax is determined using the tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

o) Pension fund

THFCS participates in the Social Housing Pension Scheme ("SHPS"). SHPS is a multi-employer, defined benefit scheme.

It is not possible in the normal course of events to identify on a consistent and reasonable basis the share of underlying assets and liabilities belonging to individual participating employers. This is because the scheme is a multi-employer scheme where the scheme assets are co-mingled for investment purposes, and benefits are paid out of total scheme assets. Accordingly due to the nature of the scheme, the accounting charge for the period under IAS 19 represents the employer contribution payable for future service. The group has also provided for the present value of contractually agreed past-service deficit recovery contributions.

p) Investment in subsidiaries

Investment in subsidiaries is stated at cost, less any provision for impairment.

q) Trade and other receivables

Other receivables are recognised at transaction price and are subsequently measured at amortised cost. A provision is established when there is objective evidence that the group will not be able to collect all amounts due. The amount of any provision is recognised in the statement of comprehensive income.

r) Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost.

3. Administration expenses

	Group 2017 £000	THFC 2017 £000	Group 2016 £000	THFC 2016 £000
Amortisation of intangible fixed assets	17	-	7	-
Depreciation of property, plant and equipment	50	-	33	-
Fees paid to auditors for:				
auditing of the financial statements	52	52	52	52
auditing of the financial statements of subsidiaries	53	-	50	-
other advisory services	4	-	4	-
Operating lease rentals				
plant and machinery	2	-	4	-
other	112	-	96	-
Staff costs (note 4)	2,633	-	2,475	-
Pension provision charge	42	-	488	-
Other	1,211	1,647	1,092	2,342
Total administration expenses	4,176	1,699	4,301	2,394

4. Staff numbers and cost

	Group 2017	Group 2016
Average number of persons (including Directors) employed during the year (monthly average):		
Non-executive Directors	7	7
Executive Directors	3	3
Management and administrative	15	16
	25	26

The aggregate employee costs amounted to:

	£000	£000
Non-executive Directors' fees	211	196
Wages & salaries	1,957	1,877
Social security costs	275	249
Other pension costs	190	153
	2,633	2,475

THFC employed no staff during the year and so had no directly incurred employee related costs. All staff are employed by THFCS.

5. Directors' remuneration

	2017 £000	2016 £000
Non-executive Directors:		
Fees	211	196
Executive Directors:		
Salaries	622	596
Bonuses	94	123
Benefits	15	15
Aggregate emoluments	942	930
Pension contributions	54	67
Total	996	997
Highest paid executive director:		
Salary	297	283
Bonus	45	59
Benefits	8	8
Aggregate emoluments	350	350
Pension contributions	-	26
Total	350	376

The fees of the chairman were £42,424 (2016: £39,120). Each other non-executive director (or their employer) received fees at the rate of £15,334 from THFC (2016: £19,480) per annum and between £10,562 and £14,962 from AHF (2016: between 2,224 and £8,448).

All directors' costs, except those paid by AHF, were incurred by THFCS and recharged to THFC.

During the year fees of £57,392 (2016: £58,528) in respect of two non-executive directors were paid to those directors' employers. No pension contributions were made by the group in respect of non-executive directors (2016: Nil).

A total amount of £128,000 was paid by the company in the year (2016: £88,520) in respect of the pension scheme past service deficit for current and previous employees. An element of this relates to the executive directors' past service but it is not possible to quantify the attributable amount.

Two non-executive directors received benefits-in-kind in respect of certain travel expenses.

Two executive directors were members of the SHPS defined benefit pension scheme up until 31 March 2017(see note 23). From 1 April 2017 one executive director was a member of the SHPS defined contribution scheme. There are no long-term incentive schemes.

On 24 April 2017 Piers Williamson was appointed as a special international advisor to the Affordable Housing Implementation Taskforce Expert Panel set up by Australian Federal Treasury. Any fees payable for this appointment are payable directly to the company.

6. Interest payable

	Group 2017 £000	THFC 2017 £000	Group 2016 £000	THFC 2016 £000
On debenture stocks, secured bonds, bank borrowings and other borrowings which are:				
Repayable wholly in more than five years				
Interest payable	174,441	105,568	163,811	117,971
Interest deferred	(1,315)	(1,315)	(1,181)	(1,181)
Repayable within five years	60,660	33,652	56,975	28,218
	233,786	137,905	219,605	145,008

7. Taxation

	Group 2017 £000	THFC 2017 £000	Group 2016 £000	THFC 2016 £000
U.K. Corporation tax at 20% (2016: 20%) on taxable surplus for year	1,219	167	879	37
Deferred taxation (note 15)	19	(18)	(47)	-
	1,238	149	832	37
Reconciliation of tax charge				
Profit before tax	6,136	2,834	4,121	785
Tax charge at standard UK corporation tax rate of 20% (2016: 20%)	1,227	567	824	157
Reduction in corporation tax rate – deferred	(3)	(18)	-	-
Timing differences between accountancy and taxation				
treatment of expenditure	22	-	-	-
Intra Group dividend – non taxable	-	(400)	-	(120)
Permanently dis-allowable items and other timing differences	(8)	-	8	-
Overall tax charge	1,238	149	832	37
Effective tax rate	20.18%	5.26%	20.19%	4.71%

8. Intangible assets

	Group 2017 £000	THFC 2017 £000	Group 2016 £000	THFC 2016 £000
Implementation costs of software				
Cost				
At beginning of year	131	-	79	-
Additions	25	-	52	-
At end of year	156	-	131	-
Accumulated amortisation				
At beginning of year	80	-	73	-
Charge for the year	17	-	7	-
At end of year	97	-	80	-
Net book value at end of year	59	-	51	-
Net book value at beginning of year	51	-	6	-

9. Property, plant and equipment

	Group 2017 £000	THFC 2017 £000	Group 2016 £000	THFC 2016 £000
Fixtures, fittings and equipment				
Cost				
At beginning of year	384	-	203	-
Additions	2	-	181	-
At end of year	386	-	384	-
Accumulated depreciation				
At beginning of year	227	-	194	-
Charge for the year	50	-	33	-
At end of year	277	-	227	-
Net book value at end of year	109	-	157	-
Net book value at beginning of year	157	-	9	-

10. Investments

	THFC 2017 £	THFC 2016 £
Shares held in subsidiary undertakings		
THFCIL – 6 ordinary shares of £1 each (2016: 6)	6	6
THFCFV – 5 ordinary shares of £1 each (2016: 5)	5	5
THFCS – 92 ordinary shares of £1 each (2016: 92)	92	92
THFCS – 1,000,000 preference shares of £1 each (2016: 2,700,000)	1,000,000	2,700,000
THFCIL2 – 5 ordinary shares of £1 each (2016: 5)	5	5
SHF – 5 ordinary shares of £1 each (2016: 5)	5	5
	1,000,113	2,700,113

The directors believe that the carrying value of the company's investments is supported by the underlying net assets of the subsidiary undertaking.

THFCS declared a cash dividend in the year of £2,000,000 (2016: £600,000). On 29 March 2017 it redeemed preference shares to the value of £1,700,000 (2016: £Nil).

THFC beneficially owns directly or indirectly 100% of the ordinary share capital of THFCIL, THFCIL2, THFCFV, SHF, THFCC, THFCS, AHF, UKRH, UKRT and UKR1 which are incorporated in Great Britain and registered in England & Wales. (See group structure on inside back cover).

The principal place of business for all subsidiaries is 4th Floor, 107 Cannon Street, London, EC4N 5AF.

11. Loans and receivables

	Group 2017 £000	THFC 2017 £000	Group 2016 £000	THFC 2016 £000
Loans to housing associations				
At beginning of year	5,060,401	2,778,154	4,126,396	2,621,461 637
Premium on new issues	80,340	-	12,967	637
Premium adjustments	336	-	116	50
Loans repaid during the year	(203,211)	(162,856)	(53,369)	(19,726)
Loans advanced during the year	927,200	-	978,400	178,000
	5,865,066	2,615,298	5,064,510	2,780,422
Discount amortised for the year	1,452	1,430	1,457	1,440
Premium amortised for the year	(6,629)	(2,240)	(5,465)	(2,527)
Interest deferred for the year	(1,445)	(1,445)	(1,181)	(1,181)
Indexation for the year	1,672	-	1,080	-
At end of year	5,860,116	2,613,043	5,060,401	2,778,154
Securitised assets				
At beginning of year (Note 16)	26,678	-	28,208	-
Loans repaid during the year	(1,714)	-	(1,530)	-
At end of year	24,964	-	26,678	-
Total loans and receivables	5,885,080	2,613,043	5,087,079	2,778,154
Due within one year	90,087	9,004	245,660	161,885
Due after more than one year	5,794,993	2,604,039	4,841,419	2,616,269
Total	5,885,080	2,613,043	5,087,079	2,778,154

Loans have been made to housing associations on similar interest rate and repayment terms as those on which the group was able to raise the finance. Each loan is secured by a combination of:

(a) either a floating charge secured on the undertakings of the relevant housing association, or a fixed charge on other assets to provide a minimum of one and a half times cover (except in the case of SHF where the minimum is 1.35 times cover and AHF where the minimum is 1.05 times cover);

(b) a first fixed charge over cash and investments representing monies lent by the group pending investment in assets and a first fixed charge over any assets acquired by the relevant housing association with those monies; and

(c) for discounted loans, a sinking fund comprising monies paid by the relevant housing association and held by a trustee (Law Debenture Trustees Limited) towards the payment to THFC of the amount required to redeem the loan.

For securitised loans see note 16.

The maturity profile of the above loans is detailed in note 22.

Collateral arrangements on the group's loans are included in note 22.

The group's credit rating of its borrowers, together with periodic reviews of credit information provides the basis for credit monitoring. The loan book is regularly reviewed for evidence of potential impairment. Processes include review of available management accounts, covenant compliance, timeliness of payment, security, external investment ratings, viability assessments issued by the regulator, impact of statutory changes, general economic environment and meetings with management. Based upon the information available at the date of this report the directors are of the opinion that: a) the outcome of the EU referendum and; b) the proposals announced in relation to housing associations in the 8 July 2015 budget do not materially impact on the Directors' assessment that there is no evidence that the loans are impaired.

Also, the Board is monitoring the impact of potential additional liabilities housing associations may incur on remedial work and ancillary costs in relation to certain stock in light of the Grenfell tragedy. Information is still being collated on this issue but again, at the date of this report there is no evidence that the loans are impaired because of this.

12. Trade and other receivables

	Group 2017 £000	THFC 2017 £000	Group 2016 £000	THFC 2016 £000
Due within one year:				
Accrued interest income	36,713	20,340	39,627	26,503
Other receivables	1,782	552	1,194	621
Amounts due from subsidiary undertaking	-	158	-	43
	38,495	21,050	40,821	27,167

13. Trade and other payables

	Group 2017 £000	THFC 2017 £000	Group 2016 £000	THFC 2016 £000
Due within one year:				
Accrued interest payable	55,440	37,972	59,772	44,934
Other taxation and social security	79	-	72	-
Other payables	5,018	136	4,510	93
Amounts due to subsidiary undertakings	-	73	-	1,953
	60,537	38,181	64,354	46,980

14. Financial liabilities – borrowings

	Group 2017 £000	THFC 2017 £000	Group 2016 £000	THFC 2016 £000
Guaranteed secured bonds				
At beginning of year	969,045	-	613,867	-
Premium adjustment	336	-	-	-
Issued during the year	581,700	-	344,500	-
Premium on issue	80,340	-	12,330	-
Premium amortised	(3,472)	-	(1,652)	-
At end of year	1,627,949	-	969,045	-

	Group 2017 £000	THFC 2017 £000	Group 2016 £000	THFC 2016 £000
Guaranteed secured bank loans				
At beginning of year	500,000	-	67,100	-
Borrowings during the year	345,500	-	432,900	-
At end of year	845,500	-	500,000	-

	Group 2017 £000	THFC 2017 £000	Group 2016 £000	THFC 2016 £000
Eurobonds (note 16)				
At beginning of year	26,678	-	28,208	-
Repaid during the year	(1,714)	-	(1,530)	-
At end of year	24,964	-	26,678	-

	Group 2017 £000	THFC 2017 £000	Group 2016 £000	THFC 2016 £000
Debenture stocks				
At beginning of year	889,739	484,338	911,210	487,714
Premium adjustments	-	-	66	-
Repaid during the year	(191,379)	(165,338)	(19,845)	(1,875)
Discount amortised	1,135	1,113	1,091	1,074
Premium amortised	(2,041)	(1,125)	(2,681)	(1,394)
Deferred interest	(1,316)	(1,316)	(1,181)	(1,181)
Indexation	1,672	-	1,079	-
At end of year	697,810	317,672	889,739	484,338

	Group 2017 £000	THFC 2017 £000	Group 2016 £000	THFC 2016 £000
Bank borrowings				
At beginning of year	1,436,984	1,029,223	1,263,002	862,575
Borrowed during the year	-	-	199,000	176,000
Repaid during the year	(19,677)	(5,365)	(25,018)	(9,352)
At end of year	1,417,307	1,023,858	1,436,984	1,029,223

	Group 2017 £000	THFC 2017 £000	Group 2016 £000	THFC 2016 £000
Loans from T.H.F.C. (Funding No.1) Plc, T.H.F.C. (Funding No.2) Plc and T.H.F.C. (Funding No.3) Plc				
At beginning of year	1,273,104	1,273,104	1,271,184	1,271,184
Loans during the year	-	-	2,000	2,000
Premium on issue	-	-	637	637
Net premium adjustments	-	-	50	50
Premium amortised	(1,115)	(1,115)	(1,133)	(1,133)
Discount amortised	317	317	366	366
At end of year	1,272,306	1,272,306	1,273,104	1,273,104
Subordinated loans (note 16)	723	-	723	-
Total borrowings at 31 March 2017	5,886,559	2,613,836	5,096,273	2,786,665

	Group 2017 £000	THFC 2017 £000	Group 2016 £000	THFC 2016 £000
Amounts falling due within one year	90,087	9,004	254,160	170,385
Amounts falling due after one year	5,796,472	2,604,832	4,842,113	2,616,280
Total	5,886,559	2,613,836	5,096,273	2,786,665

Amounts falling due after one year are repayable as follows:

	Group 2017 £000	THFC 2017 £000	Group 2016 £000	THFC 2016 £000
Between one and two years	54,802	20,210	43,367	9,183
Between two and five years	245,628	56,224	166,618	60,033
In five years or more	5,496,042	2,528,398	4,632,128	2,547,064
	5,796,472	2,604,832	4,842,113	2,616,280

The guaranteed secured bonds, debenture stocks, bank and other loans are secured by floating charges over all the assets of AHF, THFC, THFCIL, THFCIL2, THFCFV or SHF respectively. The Eurobonds are secured by a first ranking fixed security interest over UKR1's beneficial interest in UKRT together with further security over all of UKR1's other assets. The interest and repayment terms of bonds, debenture stocks, bank borrowings and other borrowings are substantially identical to the income and repayment terms of the related investments.

14. Financial liabilities – borrowings continued

During the year AHF issued guaranteed secured bonds in principal amount of £652.2m of which £70.5m were retained at 31 March 2017 (2016: £435.5m and £91.0m respectively) to fund further loans to borrowers at future dates. Retained bonds are bonds that the issuer immediately purchased on closing of the original issue, or a subsequent issue, which can be sold into the market at a future date to fund further drawdowns of loans by AHF borrowers. Since the year end £39m of these retained bonds have been sold.

15. Deferred tax

	Group 2017 £000	THFC 2017 £000	Group 2016 £000	THFC 2016 £000
At beginning of the year	(74)	118	(27)	118
Credit/charge against surplus	19	(18)	(47)	-
Change in tax rate	-	-	-	-
At end of the year	(55)	100	(74)	118

	Group 2017 £000	THFC 2017 £000	Group 2016 £000	THFC 2016 £000
The asset/liability for deferred taxation at the end of the year is as follows:				
Difference between accounting and taxation treatment of discounts	100	100	118	118
Timing differences on pension provision	(171)	-	(218)	-
Other timing differences	16	-	26	-
Amount provided	(55)	100	(74)	118

The Finance Act 2016, which received Royal Assent on 15 September 2016, included legislation to reduce the main rate of corporation tax from 20% to 19% from 1 April 2017 and to 17% from 1 April 2020. The deferred tax assets have been recognised at the rate that is expected to apply for the period when the asset is realised.

16. Securitisation transaction

UK Rents (No.1) Plc ("UKR1") owns a pool of rent receivables of six housing associations which it purchased in January 1995. The cost of the rental pool was £36.143 million. To finance the purchase of the rent receivables UKR1 issued £36.143 million of Eurobonds. The housing associations' obligation to repurchase part of the rental stream started in October 2005 and concludes in 2025.

Each housing association which sold rent receivables has provided UKR1 with a subordinated loan to act as a reserve for its obligations. The total of such loans outstanding at 31 March 2017 was £723,000 (2016: £723,000).

Under the terms of the transaction each housing association undertakes to collect rent from and to manage and maintain the portfolio of rent receivables sold to UKR1. As security for these performance obligations and the repurchase obligations each housing association has given first fixed charges over the underlying properties.

UK Rents Trustee Limited ("UKRT") receives the rental flow and holds it on trust for UKR1 and thereafter the housing associations so that rent is firstly used to meet the interest and administrative expenses of UKR1 with any surpluses (after meeting the obligations of UKR1) returned to the housing associations.

The income from securitised assets in the year amounted to £2,312,000 (2016: £2,463,000) and is included in operating income in the group statement of comprehensive income. This income supports payment of the interest on the bonds to the same value.

THFCS provides all management and administrative services to UKR1 and monitors the performance of the housing associations in meeting their obligations under the terms of the various agreements.

17. Called up share capital

Authorised, allotted, called up and fully paid ordinary shares of £1 each

	2017 £	2016 £
At beginning of year	7	7
Issued in year	-	-
Cancelled in year	-	-
At end of year	7	7

The board of THFC may in its discretion admit to membership any individual or entity including nominees of unincorporated bodies. Shares cannot be withdrawn but upon a member ceasing to be a director the share is cancelled and the paid up amount added to reserves. The rules of THFC prescribe that surpluses cannot be distributed to members. All members enter into a declaration of trust in respect of their shares in favour of THFC.

18. Retained earnings

	Group 2017 £000	THFC 2017 £000	Group 2016 £000	THFC 2016 £000
Opening reserves	23,916	14,986	20,627	14,238
Surplus for the year	4,898	2,685	3,289	748
Closing reserves	28,814	17,671	23,916	14,986

Under its rules, THFC may not distribute its accumulated reserves either directly or indirectly to its shareholders. The consolidated reserves of the group shown above include the aggregation of the reserves of THFC's subsidiaries which, in the case of THFCIL, THFCIL2, THFCFV and SHF (being companies registered under the Co-operative and Community Benefit Societies Act 2014), are not available for distribution. The aggregated reserves of these subsidiaries at 31 March 2017 were £1,971,000 (2016: £1,967,000).

THFC group's reserves represent its capital and are non-distributable to shareholders. The group makes loans only on a fully secured basis and against matching funding; reserves are therefore primarily held to provide liquidity while security is realised, in the event that a borrower defaults. THFC is not subject to any regulatory capital requirement.

19. Reconciliation of surplus to net cash flow from operations

	Group 2017 £000	THFC 2017 £000	Group 2016 £000	THFC 2016 £000
Surplus before taxation	6,136	2,834	4,121	785
Interest receivable	(228,691)	(137,380)	(213,252)	(143,989)
Interest payable	230,980	137,364	215,713	143,971
Dividend receivable	-	(2,000)	-	(600)
Adjustment for:				
Depreciation and amortisation	67	-	40	-
(Decrease)/increase in pension provision	(86)	-	391	-
(Increase)/decrease in other receivables	(588)	(46)	569	18
Increase/(decrease) in other payables	515	(1,837)	(91)	118
Net cash inflow/(outflow) from operating activities	8,333	(1,065)	7,491	303

20. Analysis of changes in net funds

	At 1 April 2016 £000	Cash Flows £000	Other Non-cash Changes £000	At 31 March 2017 £000
Group				
Cash and cash equivalents	41,905	7,953	-	49,858
Debt due after 1 year	(4,842,113)	(794,770)	(159,589)	(5,796,472)
Debt due within 1 year	(254,160)	-	164,073	(90,087)
Short-term deposits	16,093	(12,192)	-	3,901
	(5,038,275)	(799,009)	4,484	(5,832,800)

	At 1 April 2016 £000	Cash Flows £000	Other Non-cash Changes £000	At 31 March 2017 £000
THFC				
Cash and cash equivalents	32,235	2,627	-	34,862
Debt due after 1 year	(2,616,280)	170,703	(159,255)	(2,604,832)
Debt due within 1 year	(170,385)	-	161,381	(9,004)
Short-term deposits	8,530	(8,530)	-	-
	(2,745,900)	(164,800)	2,126	(2,578,974)

21. Commitments

At the end of the year the group had future minimum lease payments under non-cancellable operating leases as follows:

	Group 2017 £000	Group 2016 £000
Due within 1 year	129	129
In the 2nd to 5th year inclusive	176	302
Over 5 years	-	-
	305	431

Undrawn committed facilities from lenders are given in note 22.

22. Financial risk management

THFC's operations and significant debt financing expose it to a variety of potential financial risks including interest rate risk, credit risk and liquidity risk.

(a) Interest rate risk

THFC and its issuing subsidiaries issue debt with a variety of loan structures, however they all adhere to the same fundamental principle that funds are on-lent on a substantially identical maturity, interest and repayment profile thus ensuring that no material mismatch risk is taken in interest rate movements. The form of all loan agreements (including provisions for setting of interest rates) is approved by the board. The group is subject to interest rate risk on its investment income on short-term deposits and cash balances. The policy and periodic strategy for investing of THFC's reserves is also approved by the board.

Based on the investment income budget for the year ended 31 March 2018 each 0.5% increase/decrease in interest rates gives rise to a £170,685 (2016: £167,611) increase/decrease in income for the group and £106,306 (2016: £97,320) increase/decrease for THFC.

(b) Credit risk

THFC's primary risk is the failure of one or more of its customers to pay principal or interest in a full and timely manner under a loan agreement. Loans are fully secured and covenanted in accordance with the terms of the issuing company's Trust Deed. Security is required with an agreed margin and values are independently verified at regular intervals. In the event of a default the time required to obtain control of rental revenues, and to realise security, may not be certain; the Group has taken action to mitigate any resulting impact on liquidity and this is described below.

THFC makes its own independent credit assessment of its borrowers including credit scoring and makes loans only after careful review by the credit committee. THFC has implemented policies that require regular credit assessment of each of its borrowers as well as monitoring the adequacy of underlying collateral.

Credit monitoring includes estimates of the probability of loss and of the expected loss, given default.

Individual exposures to borrowers which represents maximum credit exposures are represented by the carrying values in the statement of financial position.

Loans made by AHF are guaranteed and carry the same credit risk as the UK Government.

Deposit counter-parties are subject to approval by the credit committee and board and such approval is limited to financial institutions with a suitable minimum rating in accordance with THFC treasury policy. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed at least annually by the board. The carrying value of short-term deposits and cash and cash equivalents represents the maximum credit exposure.

No amounts are past due or otherwise impaired in either the group or THFC at 31 March 2017 (2016: None). The maturity profile of financial assets is given below.

(c) Collateral arrangements

The majority of borrowers provide fixed charge security on specified properties although the lending companies offer housing associations the ability to secure their loans by way of floating charges, subject to appropriate asset cover tests. There are 6 borrowers who have an element of floating charge security on 10 loans. Each lending company is required to obtain a first fixed charge over certain assets of its borrowers which, at all times during the life of each loan, covers at least 150% of the outstanding loan balance based on a Market Value subject to Tenancy professional valuation (MVT) (135% MVT for certain loans made by T.H.F.C. (Social Housing Finance) Limited and 105% Existing Use Value (EUV) for AHF). For loans secured by fixed charges, formal property valuations of the specific security are undertaken at least every five years. For loans secured by floating charge, compliance is measured by reference to the balance sheet of the borrower. The group operates a panel of approved valuers to be used by borrowers in order to ensure a consistent and adequately detailed approach which takes account of the physical condition, the future rental potential and the market context of the property being valued. It is neither practical nor cost effective to obtain a measure of the fair value of the group's entire pool of collateral at a single date.

(d) Liquidity risk

The group mitigates liquidity risk in a number of ways. In general borrowers' payments are received one month prior to the group's obligation to pay lenders, thus providing a timing cushion and a source of additional investment income. The group has cash reserves that are held in short-term deposits designed to provide liquidity in the event of a late payment from a borrower. All of the group's lending and borrowing maturities are matched. The bonds issued by related companies to the group have liquidity enhancements comprising a dedicated liquidity facility in the case of T.H.F.C. (Funding No. 1) Plc which is fully drawn as at 31 March 2017 (2016: fully drawn) and a two-year maturity mismatch between the expected and legal maturity dates in the case of T.H.F.C. (Funding No. 1) Plc, T.H.F.C. (Funding No. 2) Plc and T.H.F.C. (Funding No. 3) Plc.

22. Financial risk management continued

In connection with T.H.F.C. (Funding No. 2) Plc and T.H.F.C. (Funding No. 3) Plc, THFC holds an interest service reserve, as Trustee, as a first call in the event of a borrower default. AHF borrowers also provide AHF as Trustee with a Liquidity Reserve Fund which equates to two years' interest. Loans made by AHF are guaranteed and not subject to liquidity risk. The group is also able to arrange appropriate overdraft facilities to cover short-term timing differences should they arise although none are held at 31 March 2017 (2016: None).

The maturity profile of financial assets	**Group 2017 £000**	**THFC 2017 £000**	**Group 2016 £000**	**THFC 2016 £000**
Loans to housing associations	5,860,116	2,613,043	5,060,401	2,778,154
Securitised assets	24,964	-	26,678	-
	5,885,080	2,613,043	5,087,079	2,778,154
Due within one year	90,087	9,004	245,660	161,885
Due between one and two years	54,802	20,210	43,367	9,183
Due between two and five years	245,628	56,224	166,618	60,033
Due in over five years	5,494,563	2,527,605	4,631,434	2,547,053
	5,885,080	2,613,043	5,087,079	2,778,154

Interest rate risk profile of loans and borrowings

	Group 2017 Financial Liabilities £000	**Group 2017 Financial Assets £000**	**Group 2016 Financial Liabilities £000**	**Group 2016 Financial Assets £000**
Fixed rate	5,273,127	5,272,329	4,413,468	4,404,954
Floating rate	612,709	612,751	682,082	682,125
No interest payable	723	-	723	-
	5,886,559	5,885,080	5,096,273	5,087,079

	THFC 2017 Financial Liabilities £000	**THFC 2017 Financial Assets £000**	**THFC 2016 Financial Liabilities £000**	**THFC 2016 Financial Assets £000**
Fixed rate	2,294,021	2,293,228	2,429,627	2,421,116
Floating rate	319,815	319,815	357,038	357,038
	2,613,836	2,613,043	2,786,665	2,778,154

The effective interest rates during the year for the group and THFC were between 0.64% and 12.04%. The weighted average interest rate on both fixed financial liabilities and fixed financial assets of the group is 4.81% and the weighted average period for which interest rates are fixed is 19.06 years. The corresponding figures for THFC are 5.54% and 18.40 years respectively.

The interest rates on those group borrowings which are at floating rates are determined by the prevailing Sterling LIBOR (London Interbank Offered Rate) for the relevant maturity at the time of determination plus an agreed margin.

All assets and liabilities are denominated in £ sterling.

The financial liability of £723,000 represents the obligation to repay at maturity the six subordinated loans disclosed within note 16. The liability is matched by an equivalent level of short-term deposit with the interest thereon being returned to the housing associations.

Undrawn committed borrowing facilities granted to the group and THFC are as follows:

	Group 2017 £000	THFC 2017 £000	Group 2016 £000	THFC 2016 £000
Within one year	750,000	-	106,000	15,000
Between one and two years	-	-	525,000	-
Over two years	5,155	5,000	-	-
	755,155	5,000	631,000	15,000

Facilities will only be drawn down when corresponding drawdowns are requested by the relevant borrower under matching committed facilities granted to them by the Group and THFC.

Contractual cash flows

The table below summarises the cash flows payable by the group from 31 March 2017 until contractual maturity of all its bond, debenture stock and loan liabilities as at the same date. On variable rate facilities it has been assumed that the interest rate and drawn amount as at 31 March 2017 remain unchanged until the contract maturity. Similarly, on indexed liabilities it has been assumed that the liability is fixed from 31 March 2017.

Group

As at 31 March 2017	Within 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000	Total £000
Contractual interest cash flows	230,363	228,871	662,655	3,119,246	4,241,135
Contractual principal cash flows	84,146	47,284	224,581	5,361,304	5,717,315
Total contractual cash flows	314,509	276,155	887,236	8,480,550	9,958,450

As at 31 March 2016	Within 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000	Total £000
Contractual interest cash flows	230,688	209,978	610,707	2,880,678	3,932,051
Contractual principal cash flows	250,179	39,686	150,116	4,562,507	5,002,488
Total contractual cash flows	480,867	249,664	760,823	7,443,185	8,934,539

THFC

31 March 2017	Within 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000	Total £000
Contractual interest cash flows	126,317	125,812	362,047	1,619,239	2,233,415
Contractual principal cash flows	7,703	17,411	49,620	2,509,081	2,583,815
Total contractual cash flows	134,020	143,223	411,667	4,128,320	4,817,230

31 March 2016	Within 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000	Total £000
Contractual interest cash flows	146,686	127,645	371,957	1,750,541	2,396,829
Contractual principal cash flows	168,797	7,865	50,820	2,528,309	2,755,791
Total contractual cash flows	315,483	135,510	422,777	4,278,850	5,152,620

All the above cash flows are substantially matched by cash flows receivable on the group's and THFC's loan assets.

23. Pensions

THFCS participates in the Social Housing Pension Scheme ("SHPS"), a multi-employer scheme which provides benefits to some 500 non-associated employers. The scheme is a defined benefit scheme in the UK. It is not possible for THFCS to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore THFCS accounts for the scheme as a defined contribution scheme.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The scheme is classified as a 'last-man standing arrangement'. Therefore THFCS is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

A full actuarial valuation for the scheme was carried out with an effective date of 30 September 2014. This actuarial valuation was certified on 23 November 2015 and showed assets of £3,123m, liabilities of £4,446m and a deficit of £1,323m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers, to the scheme as follows:

Deficit contributions

Tier 1	£40.6m per annum
From 1 April 2016 to 30 September 2020:	(payable monthly and increasing by 4.7% each year on 1st April)
Tier 2	£28.6m per annum
From 1 April 2016 to 30 September 2023:	(payable monthly and increasing by 4.7% each year on 1st April)
Tier 3	£32.7m per annum
From 1 April 2016 to 30 September 2026:	(payable monthly and increasing by 3.0% each year on 1st April)
Tier 4	£31.7m per annum
From 1 April 2016 to 30 September 2026:	(payable monthly and increasing by 3.0% each year on 1st April)

Note that the scheme's previous valuation was carried out with an effective date of 30 September 2011; this valuation was certified on 17 December 2012 and showed assets of £2,062m, liabilities of £3,097m and a deficit of £1,035m. To eliminate this funding shortfall, payments consisted of the Tier 1, 2 & 3 deficit contributions.

Where the scheme is in deficit and where THFCS has agreed to a deficit funding arrangement, THFCS recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate detailed in these disclosures. The unwinding of the discount rate is recognised as a finance cost.

Present values of provision

	31 March 2017 (£000)	31 March 2016 (£000)
Present value of provision	999	1,085

Reconciliation of opening and closing provisions

	Period Ending 31 March 2017 (£000)	Period Ending 31 March 2016 (£000)
Provision at start of period	1,085	693
Unwinding of the discount factor (interest expense)	23	(6)
Deficit contribution paid	(128)	(90)
Remeasurements – impact of any change in assumptions	19	103
Remeasurements – amendments to the contribution schedule	-	385
Provision at end of period	999	1,085

Income and expenditure impact

	Period Ending 31 March 2017 (£000)	Period Ending 31 March 2016 (£000)
Interest expense	23	(6)
Remeasurements – impact of any change in assumptions	19	103
Remeasurements – amendments to the contribution schedule	-	385
Contributions paid in respect of future service	61	74
Costs recognised in income and expenditure account	103	556

Assumptions

	31 March 2017 % per annum	31 March 2016 % per annum
Rate of discount	1.86	2.26

The discount rates shown above are the equivalent single discount rates which, when used to discount the future recovery plan contributions due, would give the same results as using a full AA corporate bond yield curve to discount the same recovery plan contributions.

Deficit contributions

Deficit contributions payable within one year amount to £132,000 (2016: £128,000).

THFCS must recognise a liability measured as the present value of the contributions payable that arise from the deficit recovery agreement and the resulting expense in the income and expenditure account i.e. the unwinding of the discount rate as a finance cost in the period in which it arises.

It is these contributions that have been used to derive THFCS's balance sheet liability.

Other information

Until 31 March 2007 the Scheme operated a single benefit structure based on final salary with a 1/60th accrual rate. From 1 April 2007 three defined benefit structures have been available, namely:

- Final salary with a 1/60th accrual rate.
- Final salary with a 1/70th accrual rate.
- Career average revalued earnings with a 1/60th accrual rate. From April 2010 a further two defined benefit structures have been available, namely:
- Final salary with a 1/80th accrual rate.
- Career average revalued earnings with a 1/80th accrual rate. A defined contribution benefit structure was made available from 1 October 2010.

A Career average revalued earnings (CARE) structure with a 1/120th accrual rate was made available from 1 April 2013. This structure is contracted-in to the State Second Pension scheme.

An employer can elect to operate different benefit structures for their active members and their new entrants. An employer can operate one open defined benefit structure plus CARE 1/120th, plus the defined contribution benefit structure at any one time. An open benefit structure is one which new entrants are able to join.

During the year THFCS continued to provide pension benefits based on final salary with a 1/60th accrual rate benefit structure for active members as at 31 March 2007 and on career average revalued earnings with a 1/60th accrual rate benefit structure for new entrants since 1 April 2007. Since 1 April 2013 employees have also been able to join a defined contribution scheme contributing up to 7% of their salary which is matched by the employer.

On 1 April 2017 THFCS closed the final salary 1/60th and the career average revalued earnings 1/60th structures to future accrual. The majority of members in these structures joined the defined contribution scheme which is now the only open scheme.

24. Related party transactions

T.H.F.C. (Services) Limited, a subsidiary undertaking, levies a service charge to THFC and its other subsidiaries reflecting their share of administrative overhead that is incurred during the year. Each subsidiary's share of the charge is based on their own level of activity during the year and interest payable is adopted as the principal measure for allocating the charge. THFC and each subsidiary will settle the charge in cash as and when required by THFCS. The total service charge payable by THFC to THFCS during the year ended 31 March 2017 was £1,602,743 (2016: £2,266,769). The amount due from/(to) THFCS at 31 March 2017 was £123,687 (2016: (£67,806)).

The group provides administrative services to the following related companies under management agreements:

Haven Funding Plc
Haven Funding (32) Plc
Harbour Funding Plc
Sunderland (SHG) Finance Plc
T.H.F.C. (Funding No. 1) Plc
T.H.F.C. (Funding No. 2) Plc
T.H.F.C. (Funding No. 3) Plc

The group earned fees of £137,166 (2016: £142,403) for providing these services and had amounts owing from/(due to) these companies at 31 March 2017 of £2,175 (2016: (£1,479)). Directors of these companies are also directors of THFC.

Details of key management compensation relating to the group's directors are included in note 5 to the financial statements.

During the year, THFC received a cash dividend from THFCS of £2,000,000 and further £1,700,000 being the proceeds of a redemption of 1,700,000 preference shares.

Total loan balances due to T.H.F.C. (Funding No.1) Plc, T.H.F.C. (Funding No.2) Plc and T.H.F.C. (Funding No.3) Plc are disclosed in note 14.

Total interest charged by these companies were as follows:

	2017 £	2016 £
T.H.F.C. (Funding No.1) Plc	£12,021,233	12,087,283
T.H.F.C. (Funding No.2) Plc	£23,484,457	23,613,493
T.H.F.C. (Funding No.3) Plc	£32,395,402	32,603,979

25. Fair values of financial instruments

All the group's and THFC's financial instruments are measured at amortised cost.

The group's debenture stocks and secured bonds are tradable but the markets are not considered to be active with the exception of Affordable Housing Finance Plc 2.893% Guaranteed Secured Bonds ("the AHF bonds").

Accordingly, market prices of a suitable reference gilt have been adjusted for an appropriate credit spread to arrive at a fair value (Level 2 valuation).

The fair value of the AHF bonds has been recorded at market value as the markets are considered to be active (Level 1 valuation).

The group's fixed rate bank loans and other borrowings are not tradable but fair values are arrived at using current available market data of loans with similar characteristics (Level 2 valuation).

The fair values of the associated loans receivable are adjusted to reflect the group's assessment of the risk premium of the underlying borrower (Level 2 valuation).

Group

	Book value 2017 £000	Fair value 2017 £000	Book value 2016 £000	Fair value 2016 £000
Assets				
Loans receivable	5,885,080	7,326,416	5,087,079	6,220,848
Trade and other receivables	38,495	38,495	40,821	40,821
Short-term cash deposits	3,901	3,901	16,093	16,093
Cash and cash equivalents	49,858	49,858	41,905	41,905
	5,977,334	7,418,670	5,185,898	6,319,667
Liabilities				
Financial liabilities-borrowings	5,886,559	7,328,604	5,096,273	6,230,899
Trade and other payables	60,537	60,537	64,354	64,354
	5,947,096	7,389,141	5,160,627	6,295,253

THFC

	Book value 2017 £000	Fair value 2017 £000	Book value 2016 £000	Fair value 2016 £000
Assets				
Loans receivable	2,613,043	3,427,004	2,778,154	3,413,640
Investments	1,000	1,000	2,700	2,700
Trade and other receivables	21,050	21,050	27,167	27,167
Short-term cash deposits	-	-	8,530	8,530
Cash and cash equivalents	34,862	34,862	32,235	32,235
	2,669,955	3,483,916	2,848,786	3,484,272
Liabilities				
Financial liabilities-borrowings	2,613,836	3,428,510	2,786,665	3,423,002
Trade and other payables	38,181	38,181	46,980	46,980
	2,652,017	3,466,691	2,833,645	3,469,982

The fair values of short-term deposits, loans and overdrafts with a maturity of less than one year are not materially different from their book values. Financial assets and financial liabilities being loans to borrowers, and bank loans and debenture stocks and bonds issued, are held at amortised cost using the effective interest method.

The directors consider that the carrying value amount of trade and other receivables and trade and other payables is a reasonable approximation of their fair value.

26. Sinking funds and reserve funds

Under certain circumstances, an element of the security for loans made to housing associations can be cash. In those circumstances, the group holds the cash security as trustee on behalf of the housing association borrower. Generally this occurs on loans which are drawn down prior to the completion of property security and for a period of time whilst property security is put in place. Throughout the life of a loan, cash can also be held on trust to cover the period between the release of a property from charge and a substitute property being found.

Under certain loan agreements borrowers are required to maintain a debt service reserve equivalent to one year's worth of interest for the life of the loan. This is held on trust on behalf of the borrower in an Interest Service Reserve Fund or Liquidity Reserve Fund ("reserve funds").

In each case the trust and security arrangements are documented by a Sinking Fund Trust Deed or Interest Service Reserve/Liquidity Reserve Fund Trust Deed between the borrower, the group (as lender) and the group (as Trustee).

Cash flows relating to sinking funds and reserves funds are processed separately from the group's own funds and invested only as directed by the borrower. Funds held by the group as Trustee at 31 March 2017 amounted to £275.5m (2016: £284.0m) for sinking fund balances and £122.0m (2016: £77.9m) for reserve funds balances.

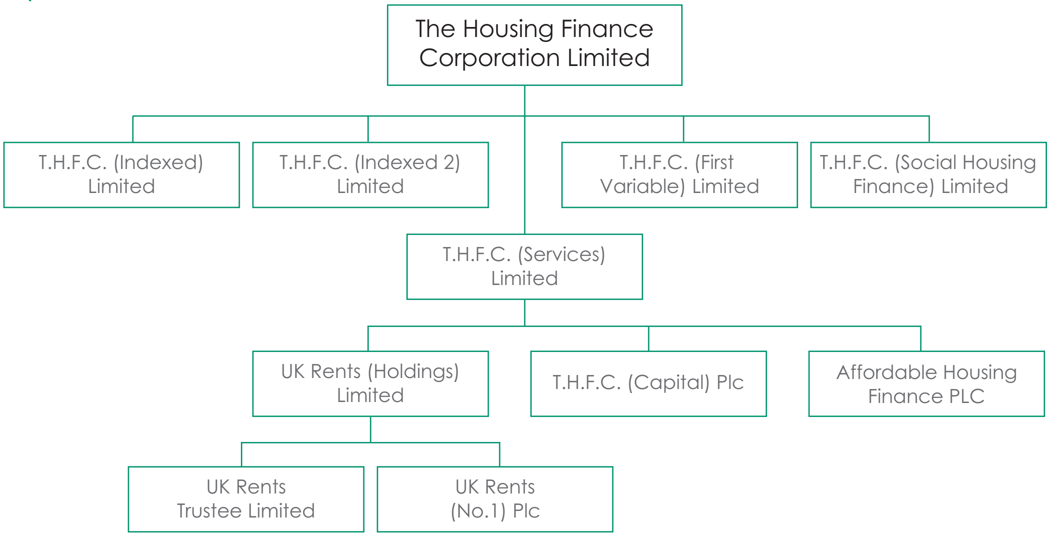
Five Year Financial Record

Excluding loan interest and similar items

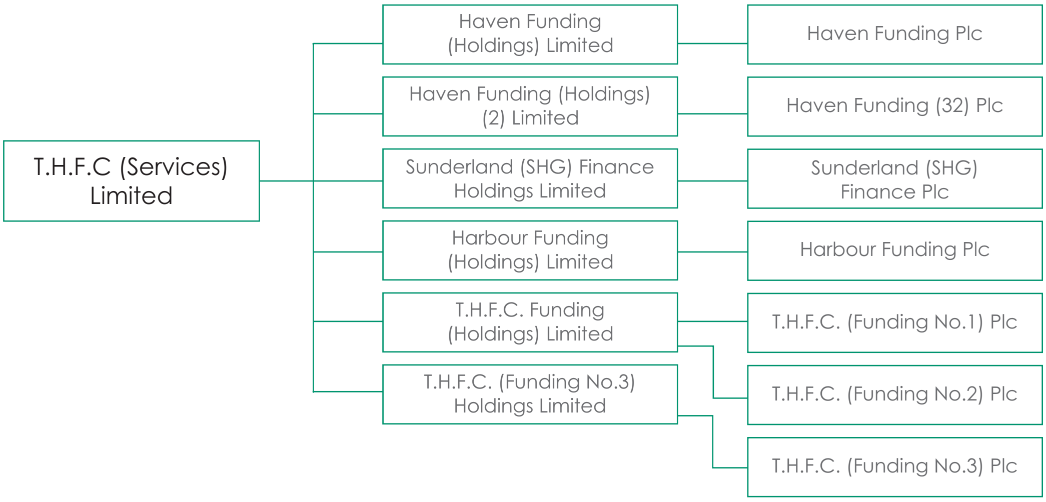
Year to 31 March	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000
Fees	3,550	7,675	7,848	7,945	9,859
Investment income	406	310	267	283	242
Other income	217	302	197	193	187
Interest margin	22	29	32	1	24
Total revenues (after interest expense off-set)	4,195	8,316	8,344	8,422	10,312
Staff costs	1,256	1,731	1,840	2,269	2,403
Pension provision	-	768	-	488	42
Non-executive directors costs	156	167	163	175	139
Legal/trustees and registrars	312	299	360	345	395
Premises	130	178	161	202	189
Other	487	519	677	822	1,008
Total operating expenses	2,341	3,662	3,201	4,301	4,176
Surplus before tax	1,854	4,654	5,143	4,121	6,136
Tax	444	1,082	1,081	832	1,238
Surplus after tax	1,410	3,572	4,062	3,289	4,898
Accumulated reserves	12,993	16,565	20,627	23,916	28,814
	£m	**£m**	**£m**	**£m**	**£m**
Loans outstanding	3,124	3,368	4,155	5,087	5,885
	%	**%**	**%**	**%**	**%**
Ratio of operating expenses to loan book	0.07	0.11	0.08	0.08	0.07

The information on this page does not form part of the Company's or Group's financial statements.

THFC Group Structure



THFC Related Companies



	Haven Funding Plc	**Haven Funding (32) Plc**	**Harbour Funding Plc**	**Sunderland (SHG) Finance Plc**	**T.H.F.C (Funding No.1) Plc**	**T.H.F.C (Funding No.2) Plc**	**T.H.F.C (Funding No.3) Plc**
	Nominal Value **£241,208,755** Issue Date **11.03.97**	Nominal Value **£67,600,000** Issue Date **12.02.98**	Nominal Value **£206,336,361** Issue Date **28.08.03**	Nominal Value **£212,802,000** Issue Date **27.06.01**	Nominal Value **£235,205,000** Issue Date **21.12.04**	Nominal Value **£370,850,000** Issue Date **08.07.09**	Nominal Value **£625,300,000** Issue Date **11.10.11**
Business Activity	Quoted Eurobonds, proceeds on-lent to 9 borrowers	Quoted Eurobonds, proceeds on-lent to 6 borrowers	Quoted Eurobonds, proceeds on-lent to 3 borrowers	Quoted Eurobonds, dedicated issue to Gentoo Group on-lent via THFC (Capital) Plc	Quoted Eurobonds, proceeds on-lent to 16 borrowers via THFC	Quoted Eurobonds, proceeds on-lent to 19 borrowers via THFC	Quoted Eurobonds, proceeds on-lent to 49 borrowers via THFC
Management Activity	Company Secretariat Finance function Administration Credit monitoring	Company Secretariat Finance function Administration Credit monitoring	Company Secretariat Finance function Administration Credit monitoring	Company Secretariat Finance function Administration	Company Secretariat Finance function Administration	Company Secretariat Finance function Administration	Company Secretariat Finance function Administration

The information on this page does not form part of the company's or group's financial statements.

T.H.F.C (Services) Limited provides management services to all the above companies.

The Housing Finance Corporation Limited
A Registered society under the Co-operative and
Community Benefit Societies Act 2014
Registered No: 25862R

4th floor, 107 Cannon Street, London, EC4N 5AF
T: 020 7337 9920 F: 020 7337 9935 E: offices@thfcorp.com
www.thfcorp.com

Designed and Printed by Perivan