The Housing Finance Corporation Limited

Annual Report & Accounts 2018

THFC
issue no.31

Contents

Purpose

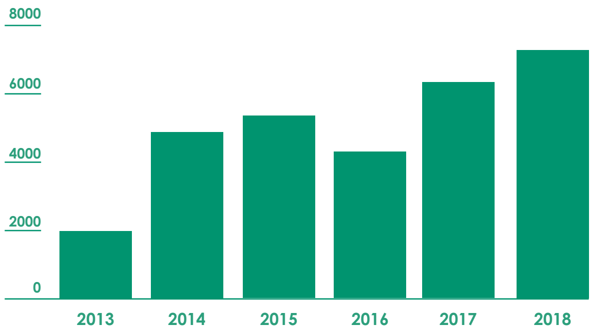
Our purpose is to enable regulated housing associations to achieve their social objectives and meet housing needs in their local communities. We do this by:

- sourcing funding from a range of institutional investors to deliver cost-efficient, responsible funding through the economic cycle and;
- operating as a non-profit-distributing finance company utilising our expertise, reputation and strong relationships.

Highlights

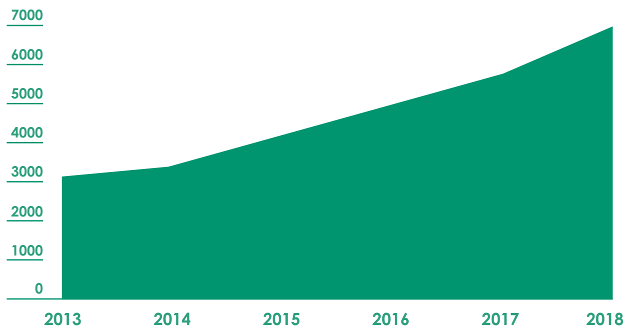
£7,108k **(2017: £6,136k)**

Group pre-tax surplus



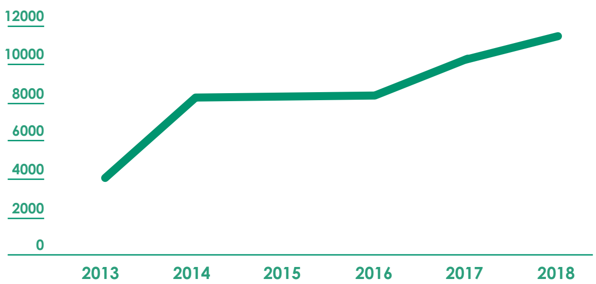
£6,991m **(2017: £5,885m)**

THFC group loan book



£11,462k **(2017: £10,312k)**

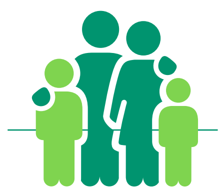
Group total income*



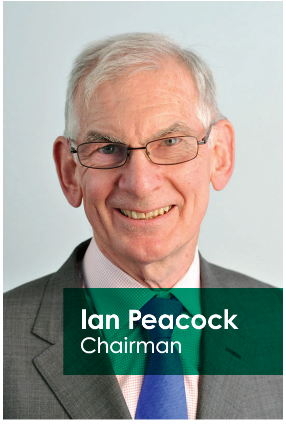
*(includes all fees and investment income on short-term deposits)

165
(2017: 173)
housing associations lent to

32,000+
Homes
Funded under AHF



Joint Chairman's and Chief Executive's Statement



We are delighted to report on another very good year for the The Housing Finance Corporation ("THFC") Group. We concluded the underwriting of new guaranteed Affordable Housing Finance Plc ("AHF") loans in the first five months of the financial year which resulted in an AHF portfolio total of £3.2bn (2017: £2.47bn), comprising loans to 67 housing association borrower groups. Measured against the £3.5bn of Guarantee capacity available under the Affordable Homes Guarantee Scheme ("AHGS"), this represents a very successful outcome. The cumulative weighted average cost of the entire £3.2bn long-term programme was 2.39% and we estimate that, in its four year underwriting phase, the AHGS supported the delivery of more than 32,000 homes along with regeneration projects and various forms of community care.

The 2018 surplus before tax for the Group at £7.1m (2017: £6.1m) was the highest in the Group's 31-year history and reflected increased fee earning combined with effective cost management. Total fee income amounted to £11.46m and was generated from a broad base of underlying sources of earnings. We have commented already on growth in the AHF portfolio, but the year also marked THFC's return to the market, through its largest bond issuing vehicle, T.H.F.C. (Funding No 3) Plc. This tapped the market twice in the year, issuing a total of £307m of bonds (including retained bonds).

Between AHF and THFC we have issued by far the two largest long-term housing association bonds in the market. AHF's 2.893% issue has principal outstanding of £1.14bn, and T.H.F.C. (Funding No 3) Plc has principal outstanding of £932m. In total, the THFC Group has issued rated bonds exceeding £3.2bn. The scale of our activity underpins the view that THFC remains the sector's leading capital markets specialist. With total loans of £7.0bn (2017: £6.0bn) we estimate that we are the sixth largest lender to the housing association sector and the only one still predominantly underwriting new long-term loans.

At a macro level, there has been a progressive shift in tone from Government on housing policy over the last two years:

- A pledge to fund social rented homes where need is greatest.
- An agreed rent settlement of CPI+1% between 2020 and 2025.
- Reversal of the decision to implement Local Housing Allowance caps on social housing.
- Abandonment of pay-to-stay.
- A reduction in funding for starter homes.
- Further extension of the timescale to implement voluntary right-to-buy.

These policy changes reflect the pragmatic response of the Government operating in a politically volatile environment without a majority. We forecast that this shifting and responsive characteristic of Government policy is likely to endure over the next electoral cycle, given the polarising impact of BREXIT, an unequal regional economic performance, and increasing popular distrust in mainstream politics.

Universal Credit remains an emerging risk issue within the sector. Certain housing associations at the forefront of the full-service roll-out are showing concern over the effect of the policy on both their business continuity and the welfare of their tenants. The Department of Work and Pensions ("DWP") aims to have the full digital service rolled out by December 2018. Although many housing associations welcome the modernisation of the benefits system, this year has seen modest rises in rent arrears, and with it the potential to decrease housing investment (and therefore housing supply).

Housing associations continue to be proactive, by preparing strategically for rental losses and the wellbeing of their residents, including counselling and the introduction of support networks.

The economic environment remained relatively benign for housing associations in the year. There was a 0.25% rise in Bank Base Rate (the first increase for over nine years) to 0.5% in November. Housing associations either through their own name bonds or through THFC and AHF, issued a total of £3.7bn of publicly-listed, long-term funding in the year, at rates of between 2.14% and 3.63%. There were no significant problem-case housing associations, or work-outs in the year and the sector retained its (now) 31 year 'no hard default' record.

That said, of the 16 completed mergers where THFC or AHF gave its consent in the financial year, three involved the "rescue" of smaller housing associations, one of which was a relatively small customer of THFC. (Derwent Housing Association, merged with Places for People). At the other end of the spectrum, two of the mergers were between G15 housing associations (large London/South east based housing associations) and a third merger was between a G15 and another medium sized London housing association. None of this merger activity caused significant changes in THFC's portfolio concentration in the year.

As we have noted during the last couple of years many of the largest housing associations have changed their business model to one where they are potentially reliant upon receipts from shared ownership or build for sale. In our view this type of business model presents an increase in those associations' risk profile .

For the small group of large housing associations developing build-for-sale properties, there were continued signs of slowing sales (particularly in London). Several factors appear to have contributed to the slowdown to date: affordability, the introduction of regulatory/fiscal policy tightening in the buy-to-let market, and uncertainty in the current UK political environment. The slowdown has been most marked in higher-value London properties, a part of the market not material in the development activity of housing associations. At the same time, to fund development and to mitigate any slowdown in sales, the provision of committed liquidity for developing housing associations remains relatively strong, with the Regulator for Social Housing ("RSH") guiding housing associations to hold at least 18 months undrawn, committed liquidity and monitoring housing association sales activity more closely. There were some early indicators of housing associations opting to switch small numbers of properties built for outright sale to other forms of tenure, particularly outside London. This is often observed as a "plan B" available to housing associations but not conventional house builders.

Last year's report and accounts was written in the immediate aftermath of the Grenfell Tower tragedy and soon afterwards we surveyed all our borrowers to ascertain their potential exposure to remediation of high-rise buildings with flammable cladding. Our definition of 'high-rise' mirrored the Ministry of Housing, Community & Local Government's ("MHCLG") definition of 'six floors or over'. There were a total of 8 potentially affected blocks. Throughout the financial year we have been periodically updated by these housing associations. At the end of the year, a small number of our clients have been impacted, but not materially. In a small number of cases, housing association's development plans have been slowed down to accommodate potential remediation costs although the government recently announced its intention to fully fund any such costs.

Regulation of the housing association sector has been pulled in different directions in the year, between deregulation, on the one hand, and risk-based thematic reviews (so called In-Depth Assessments ("IDAs")) of housing association's finances, viability and value for money, on the other. The aftermath of the Grenfell Tower fire has brought a new focus to the health and safety aspects of buildings. The findings from the Hackett Review together with subsequent political announcements on the potential banning of combustible materials in high rise buildings suggests stricter regulation in this area is highly likely. Other changes included:

- Following the Office of National Statistics ("ONS") classification of housing associations as public bodies in 2015, the Government deregulated the housing association sector to remove the (then) £60bn private finance from the Government balance sheet.
- The Regulation of Social Housing (Influence of Local Authorities) Regulations 2017 removed the 'consents regime' for constitutional changes and stock disposals, and limited the influence of local authorities on boards, and that of the regulator to appoint officers to Registered Providers ("RPs"): English regulated housing associations).
- As primarily an economic regulator, the newly independent RSH has a particular focus on proportionate, risk-based appraisal of the financial and governance standing of housing associations. Recently the regulator has made greater use of its V2 Viability grade to reflect presenting risks, although it has emphasised that V2 is a compliant rating and does not necessarily imply inadequate management of those risks.
- Outside England there remain separate regulatory regimes for housing associations. Each jurisdiction must adopt its own version of deregulation to de-classify housing associations. At the time of writing the Welsh Assembly has recently passed the equivalent legislation and is awaiting confirmation from the ONS.
- Scotland is following the same track, but the suspension of the Northern Ireland Assembly has paused the equivalent process in Northern Ireland.

The bulk of legislation for the creation of 'Housing Administration' passed onto the statute books on 5 July 2018. The need for Housing Administration arose from the lessons learned from the resolution of problems at Cosmopolitan Housing Group in 2014. The RSH's concerns focus on the potentially complex nature of a rescue/resolution of a large housing association and the theoretical conflicts between different creditor groups. In practice, the full suite of regulatory interventions available prior to Housing Administration are still in place and may be used first. However, Housing Administration has the scope to cover a protracted work-out period. THFC has built in liquidity enhancements to all its bonds since 2004 with a minimum cover period of 12 months.

Following completion of the AHF underwriting period, we are in the advanced stages of planning a complementary funding structure to THFC, with the aim to facilitate the growth of new business.

Our market research suggests that key housing association requirements are:

- An offer with market covenants (primarily competitive asset-cover and an absence of intrusive corporate covenants).
- Long-term funding, delivered in a short time frame.
- An ability to deliver scale financing not dependent on THFC and its limited level of reserves.

Our intention is to launch this new vehicle in the current financial year, while continuing to issue retained bonds in THFC, where this presents advantages for the housing association.

Looking ahead, the Chancellor announced the possible provision of £8Bn of housing guarantees in his Autumn 2017 Budget. We, along with other potentially interested parties, have been consulted on what form these might take and what risks to mitigate. Government has yet to specify its detailed policy thinking but we are strong advocates of the savings and efficiencies to be gained from a further affordable housing guarantee program. We are currently considering the resourcing impact that supporting a further program would require, but do not consider there to be a material impact on resourcing in the 2018/19 financial year.

THFC has, for four years, been involved in a growing debate in Australia as to the best way of aggregating private finance for Australian Community Housing Providers ("CHPs"). With the agreement of the board, Piers Williamson was appointed a Special International Advisor to the Australian Federal Treasury in April 2017. The Australian Treasury subsequently brought forward legislation to set up an equivalent structure to AHF in the Commonwealth: the National Housing Finance and Infrastructure Corporation ("NHFIC"). Since October 2017, Piers has been providing strategic input to the formation of NHFIC.

THFC also played host to a secondee from the Australian Federal Treasury in January, to help provide insights into the operational workings of a sector debt aggregator. Then, later in the financial year, we welcomed a delegation from the Canadian Housing Services Corporation who also viewed THFC as the leading international example of a debt aggregator.

One of the principles set out in the Financial Reporting Council's current proposed revisions to the UK Corporate Governance Code is that the Board should establish the company's purpose, strategy and values, and satisfy itself that these and its culture are aligned. THFC's Board recently reviewed and agreed the purposed statement included on page 1

This year, for conformity, we transferred all The Group's listed bonds and debenture stocks to the Professional Securities Market of the London Stock Exchange.

In July 2018 we bid farewell to our longest serving non-executive director, Charlie Arbuthnot. Charlie has completed his nine-year permitted term of office and has been a most diligent Chair of both AHF and THFC Credit Committees for a number of years. We thank him for the time, invaluable service and insight he has given our organisation through a truly transformational period.

At the same time, we are delighted to welcome to the board: Scott Bottles and Shirley Smith who join us with significant credit underwriting and real estate experience. Scott will take on the role of Chair of Credit Committee following the departure of Charlie Arbuthnot.

Piers Williamson
Chief Executive

Ian Peacock
Chairman

24 July 2018

Business and Financial Review

The five-year table on page 58 gives a comparative history of the THFC group and shows that our loan book has increased by 107.6% while total costs in that time have increased by 18.9% and our total revenues (net of interest expense) by 37.8% over the period.

The group achieved a pre-tax surplus of £7,108,000 (2017: £6,136,000). 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 growth in the group's financial reserves. The group's reserves are non-distributable and held to support additional lending and provide cash flow cover in the event of a borrower default. For the year ended 31 March 2018, as a consequence of another successful year, the group's reserves have risen from £28.8m to £34.6m. 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.

A total of £1,178.4m (2017: £1,007.5m) 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 £1,114.6m (2017: £794.8m), before adjustment for indexation and amortisation of premiums and discounts.

As a result the group loan book stands at £6,991m (2017: £5,885m). Details of borrowings by the 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 165 borrowers (2017: 173).

Our operating expenses were 0.06% (2017: 0.07%) of the £7.0bn (2017: £5.9bn) 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 58). 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 all group companies 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.
- THFC 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 18 to 22. 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 4 borrowers who have an element of floating charge security on 6 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-one 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 THFC 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 registers 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 2018 AHF had issued guaranteed secured bonds amounting to £1,744.1m. Guaranteed Bank facilities in place at 31 March 2018 amounted to £1.5bn. 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 Aa2 (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 £34.6m (2017: £28.8m).

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 £152,005 (2017: £137,316).

The related companies are:

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

Funding No. 1 is a non-consolidated company. Its entire issued share capital , 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 2017. 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. Its entire issued share capital 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. Its entire issued share capital 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 2018 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 2018 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 2018 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 2018.

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 2018 was £7,108,000 (2017: £6,136,000).

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 dissolution 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.

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 5.

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 15 to 17.

Details of directors' terms of office are given on page 11.

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

Charlie Arbuthnot having completed nine years' service with the group will step down at the Annual General meeting.

Scott Bottles and Shirley Smith, each having been appointed since the last AGM, are required to retire 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 page 13.

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 2018	THFC Shareholdings at 31 March 2018
Charlie Arbuthnot	Full Year	£1
Scott Bottles	(appointed 20 March 2018)	£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
Shirley Smith	(appointed 20 March 2018)	£1
Piers Williamson	Full Year	NIL

(continued)

Other shareholders	
Homes and Communities Agency	£1
The National Housing Federation	£1
Total issued share capital at 31 March 2018	£9

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)
Scott Bottles (non-executive director)
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 (non-executive director)
Will Perry (non-executive director)
Deborah Shackleton CBE (non-executive director)
Shirley Smith (non-executive director)
Piers Williamson (executive director)

The directors biographies can be found on pages 15 to 17.

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 9.

Directors' Attendance at Meetings

Directors' attendance at THFC board and board committee meetings during the year is shown in the table on page 14. 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. Charlie Arbuthnot retires at the next Annual General Meeting and will be replaced as chairman by Scott Bottles.

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), Scott Bottles, John Parker, Gill Payne, Ian Peacock, Deborah Shackleton and Shirley Smith 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 (routine elements) 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), Charlie Arbuthnot, Gill Payne, Ian Peacock and Shirley Smith. 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 members of the nominations committee are Keith Exford (chairman), John Parker, Will Perry and Deborah Shackleton.

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 nineteen. 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 24 July 2018 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 April 2018. 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 41 and 42.

Shareholders

The shareholders of THFC are listed in the table on pages 9 and 10. 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 (2017: 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
24 July 2018

Directors' Attendance at Meetings update attendance

	Main Board (6)	Special Board (2)	Audit Committee (3)	Credit Committee (12)	Remuneration Committee (3)	Nominations Committee (2)
Charlie Arbuthnot	6	2	-	9	3	-
Scott Bottles*	1	-	-	-	-	-
Colin Burke	6	2	3	9	-	-
Fenella Edge	6	2	3	10	-	-
Keith Exford	6	1	3	-	3	2
John Parker	5	1	3	7	-	2
Gill Payne	4	1	-	7	1	-
Ian Peacock	6	2	-	12	3	-
Will Perry	6	1	3	-	-	2
Deborah Shackleton	5	2	-	7	-	-
Shirley Smith*	1	-	-	-	-	-
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.
* appointed 20 March 2018

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. Charlie is chair of credit committee.

Scott Bottles was appointed to the Board in March 2018. He served as Executive Vice President and Senior Credit Officer for International Commercial Real Estate at Wells Fargo Bank. Now retired, he has more than 30-years of experience in the commercial and residential real estate sectors in both the United Kingdom and the United States.

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 CBE was formerly the Chief Executive of Clarion Housing Group, the largest housing association group in the UK. Keith's housing career spans over 40 years, more than 30 as a Chief Executive. He is a member of the Chartered Institute of Housing and was awarded the CBE in 2015 for services to housing. He is now a consultant to leading property consultancy CBRE and Vice Chair of CLIC Sargent, the largest children's and young people's cancer charity. Keith was appointed to the board in April 2011. Keith is chair of remuneration and nominations committee.

John is a qualified accountant and was vice chairman of Newbury Building Society. 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. He is chair of audit committee.

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.

Will is currently Assistant Director – Commercial and New Entrants at the Regulator of Social Housing. 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 advises on 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 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, 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.

Shirley's experience comprises over 35-years in real estate and infrastructure finance, covering debt, investment, restructuring, workout and credit with blue chip organisations (including CBRE, Citi, Barings, PwC, Lend Lease, Assured Guaranty and EY). She has an MA in Economics & Land Economy from the University of Cambridge, is a qualified Chartered Surveyor and holds a Certificate in Investments and Financial Derivatives from the Securities & Investment Institute. Shirley is a Non-Executive Director at CREFC (Europe), the Industry Association for commercial real estate debt in Europe and is a member of the Investment Property Forum. She joined THFC's board in March 2018.

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 2018

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. (Indexed2) 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	82,217	–	–	–	–	–	–	–	82,217
A2Dominion South Limited	South East	50,000	–	1,655	–	–	–	–	–	51,655
Accent Housing Limited	National	11,527	4,246	–	–	–	20,000	–	–	35,773
Accord Housing Association Limited	Midlands	15,500	–	2,002	668	–	–	–	–	18,170
Adactus Housing Association Limited	North West	2,968	–	–	–	–	48,500	–	–	51,468
Agudas Israel Housing Association Limited	London	150	–	–	–	–	–	–	–	150
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
Aster Communities	South West	–	–	–	–	–	100,000	–	–	100,000
ATEB Group Limited	Wales	1,000	–	–	–	–	–	–	–	1,000
Axiom Housing Association Limited	East of England	20,663	–	–	–	–	–	–	–	20,663
Bernicia Group	North East	14,619	684	–	–	3,766	5,000	–	–	24,069
Bournville Village Trust	Midlands	20,000	–	–	–	–	–	–	–	20,000
bpha Limited	South East	–	–	–	–	–	80,000	–	–	80,000
Bracknell Forest Homes Limited	South East	–	–	–	–	–	40,000	–	–	40,000
Bromford Housing Association Limited	Midlands	55,000	–	–	–	–	70,000	–	–	125,000
Cadwyn Housing Association Limited	Wales	5,000	–	–	–	–	–	–	–	5,000
Cambridge Housing Society Limited	East of England	4,200	–	–	–	–	–	–	–	4,200
Cardiff Community Housing Association Limited	Wales	7,500	101	–	–	–	–	–	–	7,601
Castle Rock Edinvar Housing Association Limited	Scotland	5,500	–	–	–	–	–	–	–	5,500
Catalyst Housing Limited	London	2,908	468	–	–	–	50,000	–	–	53,376
Charter Housing Association Limited	Wales	25,000	–	–	–	–	–	–	–	25,000
Choice Housing Ireland Limited	Northern Ireland	45,000	–	–	–	–	–	–	–	45,000
Clanmil Housing Association Limited	Northern Ireland	30,000	–	–	–	–	–	–	–	30,000
Clarion Housing Group	National	3,849	–	1,656	–	–	–	–	–	5,505
Clwyd Alyn Housing Association Limited	Wales	7,000	–	–	–	–	–	–	–	7,000
Coastal Housing Group Limited	Wales	35,000	–	–	–	–	20,000	–	–	55,000
Coastline Housing Limited	South West	–	–	–	–	–	31,300	–	–	31,300
Colne Housing Society Limited	East of England	–	–	–	–	–	21,000	–	–	21,000
Connect Housing Association Limited	North East	–	–	–	–	5,000	–	–	–	5,000
Connswater Homes Limited	Northern Ireland	4,000	–	–	–	–	–	–	–	4,000
Contour Homes Limited	North West	1,833	–	–	–	4,679	–	–	–	6,512
Cornerstone Housing Limited	South West	5,000	–	–	–	–	5,000	–	–	10,000
Cotman Housing Association Limited	East of England	1,500	–	–	–	–	–	–	–	1,500
Croydon Churches Housing Association	London	–	–	–	–	–	13,000	–	–	13,000
Derwen Cymru	Wales	1,500	–	–	–	–	–	–	–	1,500
Derwent Housing Association Limited	Midlands	10,000	–	–	–	–	–	–	–	10,000
Drum Housing Association	London	–	–	–	–	–	33,700	–	–	33,700
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
Eildon Housing Association Limited	Scotland	10,000	–	–	–	–	–	–	–	10,000
EMH Housing and Regeneration Limited	Midlands	25,000	–	–	668	–	–	–	–	25,668
English Rural Housing Association	National	–	–	–	–	–	10,000	–	–	10,000
Equity Housing Group Limited	North West	21,658	126	–	1,086	–	–	–	–	22,870
Estuary Housing Association Limited	East of England	30,148	–	–	–	–	–	–	–	30,148
Family Housing Association (Birmingham) Limited	Midlands	6,500	–	–	–	3,421	–	–	–	9,921
Flagship Housing Group Limited	East of England	–	–	–	–	–	45,000	–	–	45,000
Fortis Living Limited	Midlands	–	–	–	–	–	140,000	–	–	140,000
Friendship Care and Housing Limited	Midlands	2,000	–	–	–	5,500	–	–	–	7,500
Gateway Housing Association Limited	London	1,250	–	–	–	5,131	45,000	–	–	51,381

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. (Indexed2) 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
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	–	–	–	–	–	102,500	–	–	102,500
Grampian Housing Association Limited	Scotland	–	–	–	–	581	–	–	–	581
Gravesend Churches Housing Association Limited	South East	–	–	–	–	1,750	–	–	–	1,750
Great Places Housing Association Limited	North West	22,602	–	414	253	–	50,000	–	–	73,269
Greenfields Community Housing Limited	South East	–	–	–	–	–	25,000	–	–	25,000
Greenoak Housing Association Limited	South East	3,500	–	–	–	–	–	–	–	3,500
GreenSquare Group	South East	7,600	–	–	–	–	20,000	–	–	27,600
Grwp Cynefin	Wales	11,500	–	–	–	–	10,000	–	–	21,500
Habinteg Housing Association Limited	National	2,747	–	–	–	3,000	–	–	–	5,747
Hafod Housing Association Limited	Wales	10,000	–	–	–	–	–	–	–	10,000
Hanover Housing Association	South East	30,000	–	–	–	–	–	–	–	30,000
Harrogate Housing Association Limited	Yorkshire & the Humber	2,000	–	–	–	–	–	–	–	2,000
Heart of England Housing Association Limited	Midlands	–	–	–	–	–	50,000	–	–	50,000
Hexagon Housing Association Limited	London	7,000	–	2,897	–	–	49,000	–	–	58,897
Hightown Housing Association Limited	South East	30,807	360	–	–	–	–	–	–	31,167
Home Group Limited	National	45,113	3,578	8,071	–	–	139,000	–	–	195,762
Home in Scotland Limited	Scotland	20,000	–	–	–	–	10,700	–	–	30,700
Hundred Houses Society Limited	East of England	–	–	–	–	–	10,000	–	–	10,000
Hyde Housing Association Limited	South East	62,385	–	8,011	–	1,500	–	–	–	71,896
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	–	–	1,656	–	–	–	–	–	1,656
Islington & Shoreditch Housing Association Limited	London	22,598	–	–	–	2,160	–	–	–	24,758
"Johnnie" Johnson Housing Trust Limited	North West	22,500	252	–	–	–	–	–	–	22,752
Joseph Rowntree Housing Trust	Yorkshire & the Humber	15,000	–	–	–	–	–	–	–	15,000
Karbon Homes	North East	–	–	–	–	5,500	34,400	–	–	39,900
Leeds & Yorkshire Housing Association Limited	North East	3,000	–	–	–	–	–	–	–	3,000
Leeds Federated Housing Association Limited	North East	13,300	–	–	–	–	15,000	–	–	28,300
Liverpool Housing Trust Limited	North West	7,000	–	–	–	3,158	–	–	–	10,158
Liverpool Mutual Homes Ltd	North West	38,000	–	–	–	–	–	–	–	38,000
Liverty Limited	South West	46,254	5,800	–	–	–	122,500	–	–	174,554
London & Quadrant Housing Trust	London	15,639	360	–	–	–	–	–	–	15,999
Longhurst & Havelok Homes Limited	East of England	6,000	–	–	–	–	–	–	–	6,000
Manningham Housing Association Limited	North East	34,449	–	–	–	2,000	–	–	–	36,449
Melin Homes Limited	Wales	22,000	–	–	–	–	–	–	–	22,000
Merlin Housing Society Limited	Midlands	–	–	–	–	–	75,000	–	–	75,000
Metropolitan Housing Trust Limited	London	30,873	828	1,242	–	–	–	–	–	32,943
Mid Wales Housing Association Limited	Wales	3,000	–	911	–	–	–	–	–	3,911
Midland Heart Limited	Midlands	37,206	3,265	–	–	–	50,000	–	–	90,471
Moat Homes Limited	South East	–	2,257	–	–	–	50,000	–	–	52,257
Mosscare Housing Limited	North West	31,731	–	–	–	4,000	5,000	–	–	40,731
Mount Green Housing Association Limited	South East	–	–	–	–	–	6,000	–	–	6,000
Network Homes Limited	London	131,300	–	–	–	–	75,500	–	–	206,800
New Gorbals Housing Association Limited	Scotland	14,000	–	–	–	–	6,100	–	–	20,100
Newlon Housing Trust	London	22,552	–	–	–	–	–	–	–	22,552
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	144	–	–	5,000	–	–	–	17,644

Loans Portfolio as at 31 March 2018

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
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	42,354	–	–	–	–	–	–	–	42,354
One Vision Housing Limited	North West	3,000	–	–	–	3,250	–	–	–	6,250
Optivo	London	40,000	5,222	–	–	–	150,100	–	–	195,322
Orbit South Housing Association Limited	Midlands	–	–	–	–	–	50,000	–	–	50,000
Origin Housing Limited	South East	29,600	–	–	–	–	–	–	–	29,600
Orwell Housing Association Limited	East of England	–	–	–	–	–	10,000	–	–	10,000
Paradigm Homes Charitable Housing Association Limited	South East	65,000	–	–	–	–	125,000	–	–	190,000
Paragon Asra Housing Ltd	National	23,149	252	–	2,129	3,000	–	–	–	28,530
Peabody Trust	London	104,000	–	–	–	–	100,000	–	–	204,000
Pickering and Ferens Homes	Yorkshire & the Humber	–	–	–	–	–	10,000	–	–	10,000
Places for People Homes Limited	National	2,076	–	–	–	–	–	–	–	2,076
Places for People Homes 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
Radius Housing Association Ltd	Northern Ireland	50,000	–	–	–	–	–	–	–	50,000
Railway Housing Association	North East	–	–	–	–	–	5,000	–	–	5,000
Regenda Limited	North West	3,000	–	2,403	–	2,000	–	–	–	7,403
Sadeh Lok Limited	Yorkshire & the Humber	650	–	–	–	–	–	–	–	650
Salvation Army Housing Association	London	3,000	–	–	–	–	–	–	–	3,000
Sanctuary Housing Association	National	9,091	648	–	–	–	–	–	–	9,739
Sanctuary Scotland Housing Association Limited	Scotland	15,000	–	–	–	–	–	–	–	15,000
Selwood Housing Society Limited	South West	–	–	–	–	–	50,000	–	–	50,000
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	Yorkshire & the Humber	3,173	–	–	–	–	–	–	–	3,173
Southern Housing Group Limited	London	143,586	1,058	–	–	10,000	–	–	–	154,644
Sovereign Housing Association	National	22,000	–	–	–	–	155,000	–	–	177,000
Staffordshire Housing Association Limited	Midlands	14,800	–	–	–	5,300	–	–	–	20,100
Stonewater (3) Limited	National	–	–	–	–	–	40,000	–	–	40,000
Stonewater Limited	National	–	–	–	–	–	60,000	–	–	60,000
Synergy Housing	South West	–	–	–	–	–	50,000	–	–	50,000
Taff Housing Association Limited	Wales	5,500	–	–	–	1,000	–	–	–	6,500
Thames Valley Charitable Housing Association Limited	South East	53,739	–	–	–	–	25,000	–	–	78,739
The Riverside Group Limited	National	38,408	252	–	–	–	55,000	–	–	93,660
The Swaythling Housing Society Limited	South West	12,000	–	–	–	–	66,100	–	–	78,100
Thenue Housing Association Limited	Scotland	5,000	–	–	–	–	–	–	–	5,000
Trent & Dove Housing Association Limited	Midlands	24,000	–	–	–	–	–	–	–	24,000
Trident Housing Association Limited	Midlands	3,500	972	–	–	–	–	–	–	4,472
Tuntum Housing Association Limited	Midlands	7,000	–	–	–	–	–	–	–	7,000
United Welsh Housing Association Limited	Wales	64,500	–	–	–	–	25,000	–	–	89,500
Vivid Housing Limited	South East	12,759	–	–	–	–	164,700	–	–	177,459
Wales and West Housing Association Limited	Wales	56,500	–	–	–	–	46,000	–	–	102,500
Wandle Housing Association Limited	London	21,418	–	–	–	–	35,000	–	–	56,418
Waterloo Housing Group Limited	Midlands	9,750	–	–	–	–	–	–	–	9,750
Watford Community Housing Trust	South East	–	–	–	–	–	30,000	–	–	30,000
West Kent Housing Association	South East	35,000	–	–	–	–	54,000	–	–	89,000
West Mercia Homes Limited	Midlands	10,000	–	–	–	–	–	–	–	10,000
Westfield Housing Association Limited	North West	6,000	–	–	–	–	–	–	–	6,000

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
Westward Housing Association Ltd	South West	47,000	–	–	–	–	20,000	–	–	67,000
White Horse Housing Association Limited	South West	713	–	–	–	–	–	–	–	713
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
Yarlington Housing Group	South West	–	–	–	–	–	15,000	–	–	15,000
York Housing Association Limited	Yorkshire & the Humber	4,000	–	–	–	–	–	–	–	4,000
Yorkshire Housing Limited	Yorkshire & the Humber	40,500	–	–	–	–	90,000	–	–	130,500
Your Housing Group	North West	5,000	–	5,795	–	6,000	–	–	–	16,795
Total Fixed Charge Security		**2,719,912**	**30,873**	**36,713**	**4,804**	**91,696**	**3,244,100**	**–**	**–**	**6,128,098**

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. (Indexed2) Limited Loans £000	T.H.F.C. (First Variable) Limited Loans £000	T.H.F.C. (Social Housing Finance) Limited Loans £000	T.H.F.C. (Capital) PLC Loans £000	UK Rents (No.1) PLC Loans £000	Total Loan Value £000
Bernicia Group	North East	500	–	–	–	–	–	–	500
Bromford Housing Association Limited	Midlands	2,000	–	1,242	–	–	–	–	3,242
Waterloo Housing Group	Midlands	4,250	252	–	–	–	–	–	4,502
Total Floating Charge Security		**6,750**	**252**	**1,242**	**–**	**–**	**–**	**–**	**8,244**

Loans Portfolio as at 31 March 2018

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	–	–	–	–	–	–	–	3,129	3,129
Bernicia Group	North East	–	–	–	–	–	–	–	4,646	4,646
Clarion Housing Group	Midlands	–	–	–	–	–	–	–	3,509	3,509
Contour Homes Limited	North West	–	–	–	–	–	–	–	3,472	3,472
London & Quadrant Housing Trust	London	–	–	–	–	–	–	–	4,823	4,823
Vivid Housing Limited	South East	–	–	–	–	–	–	–	3,470	3,470
Income Cover		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**23,049**	**23,049**
T.H.F.C (Capital) PLC										
Gentoo Group Limited	North East	–	–	–	–	–	–	557,490	–	557,490
Total		**–**	**–**	**–**	**–**	**–**	**–**	**557,490**	**-**	**557,490**
Grand Total		**2,726,662**	**31,125**	**37,955**	**4,804**	**91,696**	**3,244,100**	**557,490**	**23,049**	**6,716,881**
Premium 31 March 2018										**274,595**
Total at 31 March 2018		**2,726,662**	**31,125**	**37,955**	**4,804**	**91,696**	**3,244,100**	**557,490**	**23,049**	**6,991,476**

Group Source of Funds

Government Guaranteed Funds, Debenture Stocks, Eurobonds, Bank and Other Loans as at 31 March 2018

			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	500,000	500,000
30 year £500m Fixed and Variable rate loan 2048 – EIB IIB (Annuity)			12.05.16	500,000	500,000
3.8% Guaranteed Secured Bonds 2042/2044 (Bullet)		tranche 1	30.05.14	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	11.08.15	208,000	208,000
		tranche 2	16.03.16	209,000	209,000
		tranche 3	02.06.16	130,500	130,500
		tranche 4	04.08.16	191,400	191,400
		tranche 5	18.10.16	124,500	124,500
		tranche 6	18.01.17	114,800	114,800
		tranche 7	04.04.17	88,000	88,000
		tranche 8	24.10.17	92,000	92,000
THFC Debenture Stocks					
Discounted	5% 2027		08.12.87	50,954	33,695
Stepped Coupon:	6.58% to 19.60% 2019		02.03.89	9,273	10,028
	7.91% to 19.75% 2019		28.06.89	4,630	5,131
	7.55% to 17.61% 2019		17.08.89	7,860	8,075
	8.44% to 15.98% 2019		11.10.89	2,900	3,076
Conventional Fixed Rate:	12.04% 2021 (Annuity)		02.07.91	15,000	4,832
	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	11,200	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	3,408
	10.0938% 2024 (Annuity)		14.07.95	13,000	5,494
	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	113
25 year £26.5m fixed rate loan 2023 – EIB (Annuity)			26.11.98	24,860	8,576
25 year £10m fixed rate loan 2024 – EIB (Annuity)			02.09.99	33,000	13,849
25 year £20m fixed rate loan 2025 – EIB (Annuity)			08.09.00	10,500	4,989
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	6,710
25 year £9.86m sterling facility repayable 2028 (Annuity)			08.09.03	6,740	4,942
25 year £15m sterling fixed loan 2029 (Annuity)			16.06.04	15,000	7,849
25 year £15m revolver into term			14.03.05	15,000	5,580
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	–
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

Government Guaranteed Funds, Debenture Stocks, Eurobonds, Bank and Other Loans as at 31 March 2018

		Date	Nominal Amount £000	Outstanding Principal Amount £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
THFC Loan from T.H.F.C. (Funding No.3) Plc				
Long term – 5.2% due 2043 (Bullet)	tranche 1	11.10.11	142,100	142,100
	tranche 2	25.01.12	186,000	186,000
	tranche 3	25.04.12	120,500	120,500
	tranche 4	27.09.12	132,100	132,100
	tranche 5	15.04.13	45,100	45,100
	tranche 6	15.10.13	44,500	44,500
	tranche 7	04.08.17	93,000	93,000
	tranche 8	30.03.18	31,000	31,000
T.H.F.C. (First Variable) Bank Loans				
30 year variable 2023 (Annuity)	tranche 1	30.04.93	2,750	663
	tranche 2	21.07.93	7,650	2,533
	tranche 3	17.12.93	3,500	911
	tranche 4	30.06.94	2,000	663
T.H.F.C. (Indexed) Limited Index Linked Debenture Stocks				
5.65% 2020 (Annuity)	tranche 1	13.11.90	51,440	18,516
	tranche 2	31.03.93	35,030	12,612
T.H.F.C. (Indexed 2) Limited Index Linked Debenture Stocks				
5.50% 2024 (Annuity)	tranche 1	16.12.94	21,100	17,524
	tranche 2	28.12.95	24,750	20,432
T.H.F.C. (Social Housing Finance) Limited Debenture Stocks				
8.75% Debenture Stock 2016/21 (Bullet)	tranche 1	05.12.96	14,800	14,800
	tranche 2	09.06.97	8,000	8,000
	tranche 3	11.09.97	8,000	8,000
	tranche 4	03.12.97	32,750	32,750
	tranche 5	01.07.98	14,250	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	767
25 year £40m fixed rate loan 2024 – EIB (Annuity)		02.09.99	16,500	6,954
25 year £18.9m fixed rate loan 2025 – EIB (Annuity)		08.09.00	14,900	6,175
UK Rents (No.I) Plc Rental Securitisation				
9.10% 2025 (Eurobond)		06.01.95	36,143	23,049
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	344,688
Total			**7,064,537**	**6,720,864**
Premium at 31 March 2018				274,595
Grand Total				**6,995,459**

** 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

Opinion

We have audited the financial statements of The Housing Finance Corporation Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2018 which comprise the Group and THFC Statements of Comprehensive Income, the Group and THFC Statements of Financial Position, the Group and THFC Statements of Changes in Equity and the Group and THFC Statement of Cash Flows and the notes to the financial statements, including a summary of significant accounting policies. 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.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Co-operative and Community Benefit Societies Act 2014; and
- the Parent Company financial statements have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Annual Report & Accounts, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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 Parent Company 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on pages 10 and 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of this report

This report is made solely to the Parent Company's members, as a body, in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants

25 Moorgate
London
EC2R 6AY

27 July 2018

Group Statement of Comprehensive Income

For the year ended 31 March 2018

	Notes	2018 £000	2017 £000
Operating Income			
On loans to housing associations			
Interest receivable	2	238,517	231,508
Discount amortised	11	1,582	1,452
Premium amortised	11	(8,506)	(6,630)
Income from securitised assets	16	2,142	2,312
Indexation on investments	11	2,656	1,671
Premium receivable on prepayment		643	2,323
Other interest		220	242
Fees receivable and other income		11,204	10,047
		248,458	242,925
Operating Expenses			
On debenture stocks, secured bonds, bank loans and other loans			
Interest payable	6	240,635	233,786
Discount amortised	14	1,582	1,452
Premium amortised	14	(8,506)	(6,630)
Indexation on loans payable	14	2,656	1,671
Premium payable on prepayment		629	2,334
Administration expenses	3	4,354	4,176
		241,350	236,789
Surplus before taxation		7,108	6,136
Taxation	7	(1,358)	(1,238)
Surplus for the year		5,750	4,898
Other comprehensive income for the year		-	-
Total comprehensive income for the year		5,750	4,898

Group Statement of Financial Position

At 31 March 2018

	Notes	2018 £000	2017 £000
Assets			
Non-current assets			
Loans	11	6,910,865	5,794,993
Intangible assets	8	83	59
Property, plant and equipment	9	72	109
Deferred tax asset	15	143	155
Current assets			
Loans	11	80,611	90,087
Other receivables	12	39,992	38,495
Short-term deposits	2	15,588	3,901
Cash and cash equivalents	2	60,641	49,858
Total assets		7,107,995	5,977,657
Liabilities			
Non-current liabilities			
Financial liabilities – borrowings	14	6,914,848	5,796,472
Deferred tax liabilities	15	100	100
Provision for other liabilities and charges	23	888	999
Current liabilities			
Financial liabilities – borrowings	14	80,611	90,087
Trade and other payables	13	76,216	60,537
Current tax liabilities	13	768	648
Total liabilities		7,073,431	5,948,843
Equity			
Called up share capital	17	-	-
Retained earnings	18	34,564	28,814
Total equity		34,564	28,814
Total equity and liabilities		7,107,995	5,977,657

The financial statements on pages 27 to 57 were approved by the Board of directors on 24 July 2018 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 2018

	Called up share capital £	Retained earnings £000	Total equity £000
Balance as at 1 April 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**
Surplus for the year	-	5,750	5,750
Shares issued in the year	**2**	-	-
Other comprehensive income	-	-	-
Balance as at 31 March 2018	**9**	**34,564**	**34,564**

Group Statement of Cash Flows

For the year ended 31 March 2018

	Notes	2018 £000	2017 £000
Cash flows from operating activities			
Cash generated from operations	19	10,714	8,333
Interest received on loans to housing associations		238,129	238,189
Interest paid on debenture stocks, secured bonds, bank loans and other loans		(227,456)	(241,766)
Loans to housing associations		(1,178,304)	(1,007,540)
Repayment of loans by housing associations		66,036	203,925
New borrowings		1,178,307	1,007,541
Repayment of amounts borrowed		(63,672)	(211,770)
Tax paid		(1,227)	(1,124)
Net cash generated from/(used in) operating activities		22,527	(4,212)
Cash flows from investing activities			
Movement on short-term deposits		(11,687)	12,192
Purchase of property, plant and equipment	9	(12)	(2)
Purchase of intangible assets	8	(45)	(25)
Net cash (used in)/generated from investing activities		(11,744)	12,165
Net increase in cash and cash equivalents		10,783	7,953
Cash and cash equivalents at beginning of year		49,858	41,905
Cash and cash equivalents at end of year	20	60,641	49,858

THFC Statement of Comprehensive Income

For the year ended 31 March 2018

	Notes	2018 £000	2017 £000
Operating income			
On loans to housing associations			
Interest receivable	2	128,220	137,933
Discount amortised	11	1,571	1,430
Premium amortised	11	(2,892)	(2,240)
Premium receivable on prepayment		-	258
Other interest		172	180
Fees receivable and other income		3,963	2,336
Dividend from subsidiary undertaking		750	2,000
		131,784	141,897
Operating expenses			
On debenture stocks, bank loans and other loans			
Interest payable	6	128,202	137,905
Discount amortised	14	1,571	1,430
Premium amortised	14	(2,892)	(2,240)
Premium payable on prepayment		-	269
Administration expenses	3	2,627	1,699
		129,508	139,063
Surplus before taxation		2,276	2,834
Taxation	7	(289)	(149)
Surplus for the year		1,987	2,685
Other comprehensive income			
Total comprehensive income for the year		1,987	2,685

THFC Statement of Financial Position

As at 31 March 2018

	Notes	2018 £000	2017 £000
Assets			
Non-current assets			
Loans	11	2,807,911	2,604,039
Investment in subsidiaries	10	-	1,000
Current assets			
Loans	11	21,165	9,004
Other receivables	12	20,577	21,050
Short-term deposits	2	8,011	-
Cash and cash equivalents	2	39,406	34,862
Total assets		2,897,070	2,669,955
Liabilities			
Non-current liabilities			
Financial liabilities – borrowings	14	2,811,200	2,604,832
Deferred tax liabilities	15	100	100
Current liabilities			
Financial liabilities – borrowings	14	21,165	9,004
Trade and other payables	13	44,769	38,181
Current tax liabilities		178	167
Total liabilities		2,877,412	2,652,284
Equity			
Called up share capital	17	-	-
Retained earnings	18	19,658	17,671
Total equity		19,658	17,671
Total equity and liabilities		2,897,070	2,669,955

The financial statements on pages 27 to 57 were approved by the Board of directors on 24 July 2018 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 2018

	Called up share capital £	Retained earnings £000	Total equity £000
Balance as at 1 April 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**
Surplus for the year	-	1,987	1,987
Shares issued in the year	**2**	-	-
Other comprehensive income	-	-	-
Balance as at 31 March 2018	**9**	**19,658**	**19,658**

THFC Statement of Cash Flows

For the year ended 31 March 2018

	Notes	2018 £000	2017 £000
Cash flows from operating activities			
Cash (used in)/generated from operations	19	2,636	(1,065)
Interest received on loans to housing associations		130,419	145,798
Interest paid on debenture stocks, bank loans and other loans		(124,327)	(146,452)
Loans to housing associations		(229,019)	-
Repayment of loans by housing associations		10,059	161,856
New borrowings		229,019	-
Repayment of amounts borrowed		(7,703)	(169,703)
Tax (charge paid)/credit received		(279)	(37)
Net cash generated from/(used in) operating activities		10,805	(9,603)
Cash flows from investing activities			
Dividend received		750	2,000
Preference shares redeemed		1,000	1,700
Movement on short-term deposits		(8,011)	8,530
Net cash (used in)/generated from investing activities		(6,261)	12,230
Net increase in cash and cash equivalents		4,544	2,627
Cash and cash equivalents at beginning of year		34,862	32,235
Cash and cash equivalents at end of year	20	39,406	34,862

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 Professional Securities Market of 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 company*

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

- IAS 7 Statement of Cash Flows Disclosure Initiative: 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): 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.

The adoption of these amendments has not had a material impact on the reported results or financial position of 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 2017 but not currently relevant to the 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 2017.*

- 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.

2. Accounting policies continued

- IFRS 16 Leases (Effective 1 January 2019): 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 (with a term of no more than 12 months) and low value leases (not specifically defined so may vary by entity, as a rule of thumb $5k total payments) will remain consistent with current 'operating lease' treatment.
- Annual improvements to IFRS 2015-2017 cycle (effective 1 January 2019, not yet EU endorsed): These improvements form part of the IASB's annual improvement process which is designed to make necessary, but not urgent, amendments to IFRSs. The amendments relate to: IAS 12 Income taxes: The amendments clarify that a company accounts for all income tax consequences of dividend payments in the same way.

The directors are currently assessing the impact and timing of adoption of these Standards on the company'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.

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 2017 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 2017 Harbour Funding (Holdings) Limited Group had loans and receivables of £208,854,960 (31 December 2016: £208,843,809), T.H.F.C. (Funding) Holdings Limited Group had loans and receivables of £631,018,572 (31 December 2016: £631,257,694) and T.H.F.C. (Funding No.3) Holdings Limited had loans and receivables of £788,887,733 (31 December 2015: £660,625,051).

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.

2. Accounting policies continued

(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.

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 (2017: 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.

2. Accounting policies continued

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 2018 £000	THFC 2018 £000	Group 2017 £000	THFC 2017 £000
Amortisation of intangible fixed assets	21	-	17	-
Depreciation of property, plant and equipment	48	-	50	-
Fees paid to auditors for:				
auditing of the financial statements	55	55	52	52
auditing of the financial statements of subsidiaries	52	-	53	-
other advisory services	4	-	4	-
Operating lease rentals:				
plant and machinery	4	-	2	-
other	112	-	112	-
Staff costs (note 4)	2,597	-	2,633	-
Pension provision charge	21	-	42	-
Other	1,440	2,572	1,211	1,647
Total administration expenses	4,354	2,627	4,176	1,699

4. Staff numbers and cost

	Group 2018	Group 2017
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	15
	25	25

The aggregate employee costs amounted to:

	£000	£000
Non-executive Directors' fees	206	211
Wages & salaries	1,920	1,957
Social security costs	252	275
Other pension costs	219	190
	2,597	2,633

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

	2018 £000	2017 £000
Non-executive Directors:		
Fees	206	211
Executive Directors:		
Salaries	699	622
Bonuses	96	94
Benefits	22	15
Aggregate emoluments	1,023	942
Pension contributions	10	54
Total	1,033	996
Highest paid executive director:		
Salary	349	297
Bonus	46	45
Benefits	12	8
Aggregate emoluments	407	350
Pension contributions	-	-
Total	407	350

The fees of the chairman were £40,104 (2017: £42,424). Each other non-executive director (or their employer) received fees at the rate of £14,334 from THFC (2017: £15,334) per annum and between £12,888 and £14,488 from AHF (2017: between £10,562 and £14,962).

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

During the year fees of £55,264 (2017: £57,392) 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 (2017: Nil).

A total amount of £133,000 was paid by the company in the year (2017: £128,000) 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.

5. Directors' remuneration continued

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 2018 £000	THFC 2018 £000	Group 2017 £000	THFC 2017 £000
On debenture stocks, secured bonds, bank borrowings and other borrowings which are:				
Repayable wholly in more than five years				
Interest payable	182,525	108,981	174,441	105,568
Interest deferred	(1,465)	(1,465)	(1,315)	(1,315)
Repayable within five years	59,575	20,686	60,660	33,652
	240,635	128,202	233,786	137,905

7. Taxation

	Group 2018 £000	THFC 2018 £000	Group 2017 £000	THFC 2017 £000
U.K. Corporation tax at 19% (2017: 20%) on taxable surplus for year	1,346	289	1,219	167
Deferred taxation (note 15)	12	-	19	(18)
	1,358	289	1,238	149
Reconciliation of tax charge				
Profit before tax	7,108	2,276	6,136	2,834
Tax charge at standard UK corporation tax rate of 19% (2017: 20%)	1,351	432	1,227	567
Reduction in corporation tax rate – deferred	-	-	(3)	(18)
Timing differences between accountancy and taxation treatment of expenditure	3	-	22	-
Intra Group dividend – non taxable		(143)	-	(400)
Permanently dis-allowable items and other timing differences	4		(8)	-
Overall tax charge	1,358	289	1,238	149
Effective tax rate	19.11%	12.70%	20.18%	5.26%

8. Intangible assets

	Group 2018 £000	THFC 2018 £000	Group 2017 £000	THFC 2017 £000
Implementation costs of software				
Cost				
At beginning of year	156	-	131	-
Additions	45	-	25	-
At end of year	201	-	156	-
Accumulated amortisation				
At beginning of year	97	-	80	-
Charge for the year	21	-	17	-
At end of year	118	-	97	-
Net book value at end of year	83	-	59	-
Net book value at beginning of year	59	-	51	-

9. Property, plant and equipment

	Group 2018 £000	THFC 2018 £000	Group 2017 £000	THFC 2017 £000
Fixtures, fittings and equipment				
Cost				
At beginning of year	386	-	384	-
Additions	11	-	2	-
At end of year	397	-	386	-
Accumulated depreciation				
At beginning of year	277	-	227	-
Charge for the year	48	-	50	-
At end of year	325	-	277	-
Net book value at end of year	72	-	109	-
Net book value at beginning of year	109	-	157	-

10. Investments

	THFC 2018 £	THFC 2017 £
Shares held in subsidiary undertakings		
THFCIL – 8 ordinary shares of £1 each (2017: 6)	8	6
THFCFV – 7 ordinary shares of £1 each (2017: 5)	7	5
THFCS – 92 ordinary shares of £1 each (2017: 92)	92	92
THFCS – preference shares of £1 each (2017: 1,000,000)	-	1,000,000
THFCIL2 – 7 ordinary shares of £1 each (2017: 5)	7	5
SHF – 7 ordinary shares of £1 each (2017: 5)	7	5
	121	1,000,113

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 £750,000 (2017: £2,000,000). On 29 March 2018 it redeemed the remaining balance of preference shares of £1,000,000 (2017: £1,700,000).

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 2018 £000	THFC 2018 £000	Group 2017 £000	THFC 2017 £000
Loans to housing associations				
At beginning of year	5,860,116	2,613,043	5,060,401	2,778,154
Premium on new issues	99,306	60,019	80,340	-
Premium adjustments	-	-	336	-
Loans repaid during the year	(64,121)	(10,059)	(203,211)	(162,856)
Loans advanced during the year	1,079,000	169,000	927,200	-
	6,974,301	2,832,003	5,865,066	2,615,298
Discount amortised for the year	1,582	1,571	1,452	1,430
Premium amortised for the year	(8,506)	(2,892)	(6,629)	(2,240)
Interest deferred for the year	(1,606)	(1,606)	(1,445)	(1,445)
Indexation for the year	2,656	-	1,672	-
At end of year	6,968,427	2,829,076	5,860,116	2,613,043
Securitised assets				
At beginning of year (Note 16)	24,964	-	26,678	-
Loans repaid during the year	(1,915)	-	(1,714)	-
At end of year	23,049	-	24,964	-
Total loans and receivables	6,991,476	2,829,076	5,885,080	2,613,043
Due within one year	80,611	21,165	90,087	9,004
Due after more than one year	6,910,865	2,807,911	5,794,993	2,604,039
Total	6,991,476	2,829,076	5,885,080	2,613,043

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 continues to monitor 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. At the date of this report there is no evidence that the loans are impaired because of this issue.

12. Trade and other receivables

	Group 2018 £000	THFC 2018 £000	Group 2017 £000	THFC 2017 £000
Due within one year:				
Accrued interest income	39,348	19,748	36,713	20,340
Other receivables	644	729	1,782	552
Amounts due from subsidiary undertaking	-	100	-	158
	39,992	20,577	38,495	21,050

13. Trade and other payables

	Group 2018 £000	THFC 2018 £000	Group 2017 £000	THFC 2017 £000
Due within one year:				
Accrued interest payable	70,714	43,312	55,440	37,972
Other taxation and social security	78	-	79	-
Other payables	5,424	464	5,018	136
Amounts due to subsidiary undertakings	-	993	-	73
	76,216	44,769	60,537	38,181

14. Financial liabilities – borrowings

	Group 2018 £000	THFC 2018 £000	Group 2017 £000	THFC 2017 £000
Guaranteed secured bonds				
At beginning of year	1,627,949	-	969,045	-
Premium adjustment	-	-	336	-
Issued during the year	250,500	-	581,700	-
Premium on issue	39,287	-	80,340	-
Premium amortised	(4,748)	-	(3,472)	-
At end of year	1,912,988	-	1,627,949	-

	Group 2018 £000	THFC 2018 £000	Group 2017 £000	THFC 2017 £000
Guaranteed secured bank loans				
At beginning of year	845,500	-	500,000	-
Borrowings during the year	654,500	-	345,500	-
At end of year	1,500,000	-	845,500	-

	Group 2018 £000	THFC 2018 £000	Group 2017 £000	THFC 2017 £000
Eurobonds (note 16)				
At beginning of year	24,964	-	26,678	-
Repaid during the year	(1,915)	-	(1,714)	-
At end of year	23,049	-	24,964	-

14. Financial liabilities – borrowings continued

	Group 2018 £000	THFC 2018 £000	Group 2017 £000	THFC 2017 £000
Debenture stocks				
At beginning of year	697,810	317,672	889,739	484,338
Repaid during the year	(21,110)	(2,152)	(191,379)	(165,338)
Discount amortised	1,247	1,236	1,135	1,113
Premium amortised	(1,562)	(696)	(2,041)	(1,125)
Deferred interest	(1,466)	(1,466)	(1,316)	(1,316)
Indexation	2,656	-	1,672	-
At end of year	677,575	314,594	697,810	317,672

	Group 2018 £000	THFC 2018 £000	Group 2017 £000	THFC 2017 £000
Bank borrowings				
At beginning of year	1,417,307	1,023,858	1,436,984	1,029,223
Borrowed during the year	5,000	-	-	-
Repaid during the year	(40,647)	(5,551)	(19,677)	(5,365)
At end of year	1,381,660	1,018,307	1,417,307	1,023,858

	Group 2018 £000	THFC 2018 £000	Group 2017 £000	THFC 2017 £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	1,272,306	1,272,306	1,273,104	1,273,104
Loans during the year	169,000	169,000	-	-
Premium on issue	60,019	60,019	-	-
Premium amortised	(2,196)	(2,196)	(1,115)	(1,115)
Discount amortised	335	335	317	317
At end of year	1,499,464	1,499,464	1,272,306	1,272,306
Subordinated loans (note 16)	723		723	
Total borrowings at 31 March 2018	6,995,459	2,832,365	5,886,559	2,613,836

	Group 2018 £000	THFC 2018 £000	Group 2017 £000	THFC 2017 £000
Amounts falling due within one year	80,611	21,165	90,087	9,004
Amounts falling due after one year	6,914,848	2,811,200	5,796,472	2,604,832
Total	6,995,459	2,832,365	5,886,559	2,613,836

Amounts falling due after one year are repayable as follows:

	Group 2018 £000	THFC 2018 £000	Group 2017 £000	THFC 2017 £000
Between one and two years	64,455	27,895	54,802	20,210
Between two and five years	247,785	52,133	245,628	56,224
In five years or more	6,602,608	2,737,902	5,496,042	2,528,398
	6,914,848	2,811,200	5,796,472	2,604,832

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.

During the year AHF issued guaranteed secured bonds in principal amount of £250.5m of which £nil were retained at 31 March 2018 (2017: £652.2m and £70.5m 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.

15. Deferred tax

	Group 2018 £000	THFC 2018 £000	Group 2017 £000	THFC 2017 £000
At beginning of the year	(55)	100	(74)	118
Credit/charge against surplus	12	-	19	(18)
Change in tax rate	-	-	-	-
At end of the year	(43)	100	(55)	100

	Group 2018 £000	THFC 2018 £000	Group 2017 £000	THFC 2017 £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	100	100
Timing differences on pension provision	(151)	-	(171)	-
Other timing differences	8	-	16	-
Amount provided	(43)	100	(55)	100

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 2018 was £723,000 (2017: £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 £2,142,000 (2017: £2,312,000) 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

	2018 £	2017 £
At beginning of year	7	7
Issued in year	2	-
Cancelled in year	-	-
At end of year	9	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 2018 £000	THFC 2018 £000	Group 2017 £000	THFC 2017 £000
Opening reserves	28,814	17,671	23,916	14,986
Surplus for the year	5,750	1,987	4,898	2,685
Closing reserves	34,564	19,658	28,814	17,671

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 2018 were £1,975,000 (2017: £1,971,000).

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.

AHF reserves can only be used for clearly defined purposes set out in the licence.

19. Reconciliation of surplus to netcash flow from operations

	Group 2018 £000	THFC 2018 £000	Group 2017 £000	THFC 2017 £000
Surplus before taxation	7,108	2,276	6,136	2,834
Interest receivable	(232,235)	(126,899)	(228,691)	(137,380)
Interest payable	234,340	126,880	230,980	137,364
Dividend receivable		(750)		(2,000)
Adjustment for:				
Depreciation and amortisation	69		67	
(Decrease)/increase in pension provision	(111)		(86)	
(Increase)/decrease in other receivables	1,138	(119)	(588)	(46)
Increase/(decrease) in other payables	405	1,248	515	(1,837)
Net cash inflow/(outflow) from operating activities	10,714	2,636	8,333	(1,065)

20. Analysis of changes in net funds

	At 1 April 2017 £000	Cash Flows £000	Other Non-cash Changes £000	At 31 March 2018 £000
Group				
Cash and cash equivalents	49,858	10,783	-	60,641
Debt due after 1 year	(5,796,472)	(1,114,634)	(3,742)	(6,914,848)
Debt due within 1 year	(90,087)	-	9,476	(80,611)
Short-term deposits	3,901	11,687	-	15,588
	(5,832,800)	(1,092,164)	5,734	(6,919,230)

	At 1 April 2017 £000	Cash Flows £000	Other Non-cash Changes £000	At 31 March 2018 £000
THFC				
Cash and cash equivalents	34,862	4,544	-	39,406
Debt due after 1 year	(2,604,832)	(221,316)	14,948	(2,811,200)
Debt due within 1 year	(9,004)	-	(12,161)	(21,165)
Short-term deposits	-	8,011	-	8,011
	(2,578,974)	(208,761)	2,787	(2,784,948)

21. Commitments

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

	Group 2018 £000	Group 2017 £000
Due within 1 year	129	129
In the 2nd to 5th year inclusive	59	176
Over 5 years	-	-
	188	305

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 £256,034 (2017: £170,685) increase/decrease in income for the group and £108,024 (2017: £106,306) increase/decrease for THFC.

22. Financial risk management continued

(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 2018 (2017: 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 4 borrowers who have an element of floating charge security on 6 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 2018 (2017: 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.

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 2018 (2017: None).

The maturity profile of financial assets	**Group 2018 £000**	**THFC 2018 £000**	**Group 2017 £000**	**THFC 2017 £000**
Loans to housing associations	6,968,427	2,829,076	5,860,116	2,613,043
Securitised assets	23,049	-	24,964	-
	6,991,476	2,829,076	5,885,080	2,613,043
Due within one year	80,611	21,165	90,087	9,004
Due between one and two years	64,455	27,895	54,802	20,210
Due between two and five years	247,785	52,133	245,628	56,224
Due in over five years	6,598,625	2,727,883	5,494,563	2,527,605
	6,991,476	2,829,076	5,885,080	2,613,043

Interest rate risk profile of loans and borrowings

	Group 2018 Financial Liabilities £000	**Group 2018 Financial Assets £000**	**Group 2017 Financial Liabilities £000**	**Group 2017 Financial Assets £000**
Fixed rate	6,300,789	6,297,495	5,273,127	5,272,329
Floating rate	693,947	693,981	612,709	612,751
No interest payable	723	-	723	-
	6,995,459	6,991,476	5,886,559	5,885,080

	THFC 2018 Financial Liabilities £000	**THFC 2018 Financial Assets £000**	**THFC 2017 Financial Liabilities £000**	**THFC 2017 Financial Assets £000**
Fixed rate	2,502,975	2,499,686	2,429,627	2,421,116
Floating rate	329,390	329,390	357,038	357,038
	2,832,365	2,829,076	2,786,665	2,778,154

The effective interest rates during the year for the group and THFC were between 0.59% and 12.04%. The weighted average interest rate on both fixed financial liabilities and fixed financial assets of the group is 4.35% and the weighted average period for which interest rates are fixed is 18.58 years. The corresponding figures for THFC are 5.25% and 18.03 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.

22. Financial risk management continued

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

	Group 2018 £000	THFC 2018 £000	Group 2017 £000	THFC 2017 £000
Within one year	-	-	750,000	-
Between one and two years	143,000	143,000	-	-
Over two years	39,675	-	5,155	5,000
	182,675	143,000	755,155	5,000

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 2018 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 2018 remain unchanged until the contract maturity. Similarly, on indexed liabilities it has been assumed that the liability is fixed from 31 March 2018.

Group

As at 31 March 2018	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	256,221	251,733	732,054	3,413,039	4,653,047
Contractual principal cash flows	70,975	54,120	220,448	6,389,756	6,735,299
Total contractual cash flows	327,196	305,853	952,502	9,802,795	11,388,346

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

THFC

As at 31 March 2018	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	134,559	131,288	386,512	1,690,207	2,342,566
Contractual principal cash flows	17,411	23,552	42,425	2,661,724	2,745,112
Total contractual cash flows	151,970	154,840	428,937	4,351,931	5,087,678

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	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

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 2018 (£000)	31 March 2017 (£000)
Present value of provision	888	999

Reconciliation of opening and closing provisions

	Period Ending 31 March 2018 (£000)	Period Ending 31 March 2017 (£000)
Provision at start of period	999	1,085
Unwinding of the discount factor (interest expense)	21	23
Deficit contribution paid	(132)	(128)
Remeasurements – impact of any change in assumptions	-	19
Remeasurements – amendments to the contribution schedule	-	-
Provision at end of period	888	999

23. Pensions continued

Income and expenditure impact

	Period Ending 31 March 2018 (£000)	Period Ending 31 March 2017 (£000)
Interest expense	21	23
Remeasurements – impact of any change in assumptions	-	19
Remeasurements – amendments to the contribution schedule	-	-
Contributions paid in respect of future service	69	61
Costs recognised in income and expenditure account	90	103

Assumptions

	31 March 2018 % per annum	31 March 2017 % per annum
Rate of discount	1.72	1.86

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 £138,000 (2017: £132,000).

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 2018 was £2,537,932 (2017: £1,602,743). The amount due (to)/from THFCS at 31 March 2018 was (£228,220) (2017: £123,687).

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 £152,005 (2017: £137,166) for providing these services and had amounts owing from/(due to) these companies at 31 March 2018 of £2,515 (2017: £2,175). 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 £750,000 with a further £1,000,000 being the proceeds of a redemption of 1,000,000 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 was as follows:

	2018 £	2017 £
T.H.F.C. (Funding No.1) Plc	£12,054,258	£12,021,233
T.H.F.C. (Funding No.2) Plc	£23,548,973	£23,484,457
T.H.F.C. (Funding No.3) Plc	£35,878,868	£32,395,402

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 and the Affordable Housing Finance Plc Guaranteed Secured Bonds ("the AHF bonds") are tradable but the markets are not considered to be active.

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 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).

25. Fair values of financial instruments continued

Group

	Book value 2018 £000	Fair value 2018 £000	Book value 2017 £000	Fair value 2017 £000
Assets				
Loans receivable	6,991,476	8,664,823	5,885,080	7,326,416
Trade and other receivables	39,992	39,992	38,495	38,495
Short-term cash deposits	15,588	15,588	3,901	3,901
Cash and cash equivalents	60,641	60,641	49,858	49,858
	7,107,697	8,781,044	5,977,334	7,418,670
Liabilities				
Financial liabilities-borrowings	6,995,459	8,676,026	5,886,559	7,328,604
Trade and other payables	76,216	76,216	60,537	60,537
	7,071,675	8,752,242	5,947,096	7,389,141

THFC

	Book value 2018 £000	Fair value 2018 £000	Book value 2017 £000	Fair value 2017 £000
Assets				
Loans receivable	2,829,076	3,545,548	2,613,043	3,427,004
Investments	-	-	1,000	1,000
Trade and other receivables	20,577	20,577	21,050	21,050
Short-term cash deposits	8,011	8,011	-	-
Cash and cash equivalents	39,406	39,406	34,862	34,862
	2,897,070	3,613,542	2,669,955	3,483,916
Liabilities				
Financial liabilities-borrowings	2,832,365	3,556,063	2,613,836	3,428,510
Trade and other payables	44,769	44,769	38,181	38,181
	2,877,134	3,600,832	2,652,017	3,466,691

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 2018 amounted to £172.4m (2017: £275.5m) for sinking fund balances and £147.1m (2017: £122.0m) for reserve funds balances.

27. Event after balance sheet date

Since the year end the group acquired the entire issued share capital of Blend Funding Plc. Blend Funding Plc was incorporated on 9 May 2018 and has not traded.

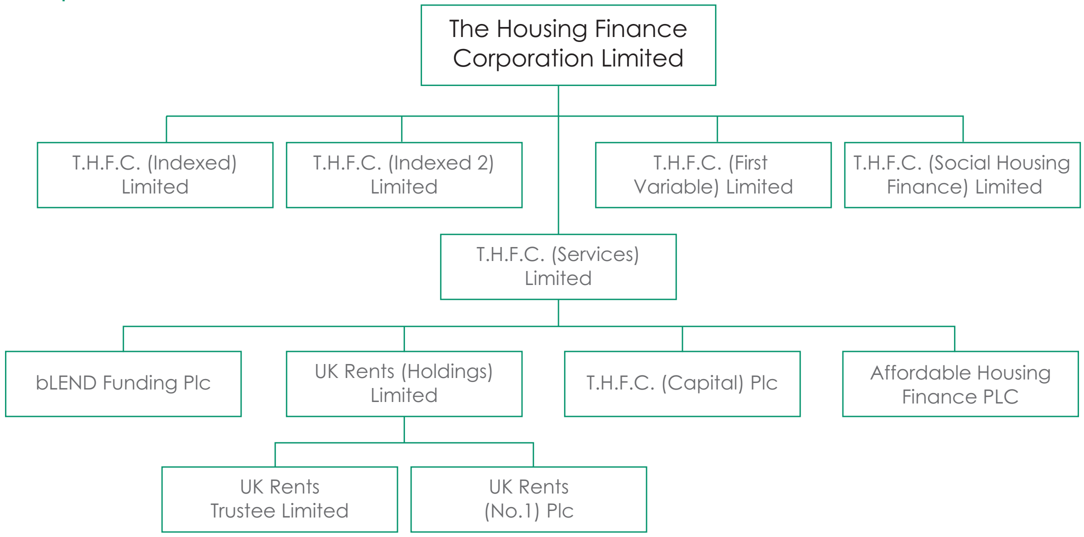
Five Year Financial Record

Excluding loan interest and similar items

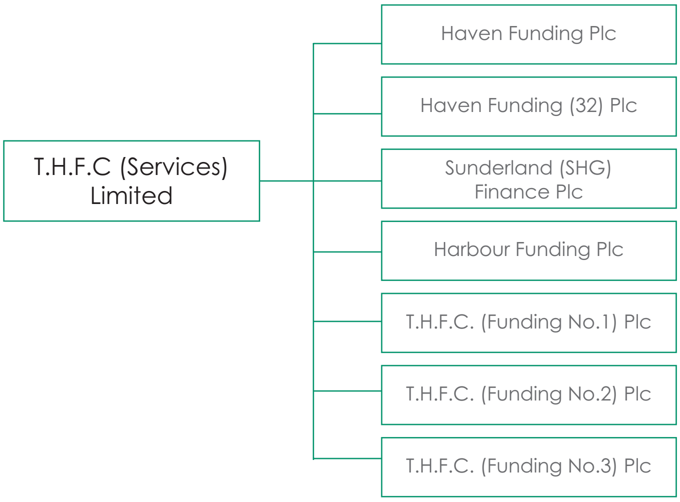
Year to 31 March	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000
Fees	7,675	7,848	7,945	9,859	11,000
Investment income	310	267	283	242	220
Other income	302	197	193	187	204
Interest margin	29	32	1	24	38
Total revenues (after interest expense off-set)	8,316	8,344	8,422	10,312	11,462
Staff costs	1,731	1,840	2,269	2,403	2,321
Pension provision	768	-	488	42	22
Non-executive directors costs	167	163	175	211	206
Legal/trustees and registrars	299	360	345	395	354
Premises	178	161	202	189	190
Other	519	677	822	936	1,261
Total operating expenses	3,662	3,201	4,301	4,176	4,354
Surplus before tax	4,654	5,143	4,121	6,136	7,108
Tax	1,082	1,081	832	1,238	1,358
Surplus after tax	3,572	4,062	3,289	4,898	5,750
Accumulated reserves	16,565	20,627	23,916	28,814	34,564
	£m	**£m**	**£m**	**£m**	**£m**
Loans outstanding	3,368	4,155	5,087	5,885	6,991
	%	%	%	%	
Ratio of operating expenses to loan book	0.11	0.08	0.08	0.07	0.06

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 **£794,300,000** 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 53 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: IP25862R

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

Perivan 250273