The Housing Finance Corporation Limited

Half-Yearly Financial Report 2018

For the six-month period ended 30 September 2018 (unaudited)

Contents

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Interim Management Report

	As at 30 September 2018 (unaudited)	As at 30 September 2017 (unaudited)	As at 31 March 2018 (audited)
	£000	£000	£000
New Business Income	**2,106**	2,505	5,134
Operating Income	**3,647**	3,029	6,328
Operating Expenditure	**(2,122)**	(1,962)	(4,354)
Profit before Tax	**3,631**	3,572	7,108
Loan Book	**7,218,738**	6,160,785	6,991,476
Retained earnings	**37,505**	31,707	34,564

Review

The Board is pleased to present its interim accounts for the six-month period ended 30 September 2018.

During this period, the group made a pre-tax surplus of £3.631m compared to £3.572m for the same period last year.

Total income has increased by £219,000 (4.0%) from £5,534,000 to £5,753,000 compared to the same period last year and costs are £160,000 higher at £2,122,000.

Revenue, which represents both arrangement fees for new lending and annual fees from existing loans, showed further growth in the period ended 30 September 2018. This was driven by indexation and volume uplifts on annual fees for both THFC and Affordable Housing Finance Plc and fees from the inaugural issue of bLEND Funding Plc, the group's new funding vehicle which was incorporated earlier in the year.

THFC launched bLEND's issuance programme in August and completed its first issue in September. The aggregating vehicle obtains its funding under a Euro Medium Term Note (EMTN) programme and offers diverse and flexible lending structures to its borrowers. It currently has three pool participants in its £250m inaugural bond transaction.

During the period ended 30 September, a total of £263.3m of new money sourced from bond issues and other lenders was advanced to housing associations by members of the THFC group (2017: £308.8m) resulting in a group loan book of £7.22bn compared to £6.16bn at 30 September 2017.

Total group reserves stood at £37.5m (2017: £31.7m) All reserves are non-distributable. There are restrictions over the use of AHF's reserves as set out in the Licence with MHCLG.

Statement of Directors' Responsibilities

We confirm that to the best of our knowledge:

a) The condensed set of interim financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole as at 30 September 2018 as required by DTR 4.2.4R;

b) The interim management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that the group faces; and

c) The condensed set of interim financial statements have been prepared in accordance with IAS 34.

Forward-looking statements

These interim financial statements may contain forward-looking statements with respect to the financial condition, results, operations and businesses of the group. Although the group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct. Such statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future.

There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by forward-looking statements and forecasts. Forward-looking statements and forecasts are based on the Directors' current view and information known to them at the date of this statement. The Directors do not make any undertaking to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Nothing contained in these condensed interim financial statements, the latest Annual Report, or THFC's website, should be construed as a profit-forecast or an invitation to deal in the securities of the group.

Colin Burke
Company Secretary
By order of the Board
13 November 2018

Condensed Group Statement of Comprehensive Income

Six-month period ended 30 September 2018

	Note	**Six months ended 30 September 2018 (unaudited)**	Six months ended 30 September 2017 (unaudited)	Year ended 31 March 2018 (audited)
OPERATING INCOME	**Note**	**£000**	£000	£000
On loans to housing associations				
Interest receivable	3	**128,064**	116,679	238,517
Discount amortised		**543**	489	1,582
Premium amortised		**(4,467)**	(3,550)	(8,506)
Income from securitised assets		**1,001**	1,093	2,142
Indexation on investments		**1,171**	958	2,656
Premium receivable on prepayment		**53**	192	643
Other interest		**149**	97	220
Fees receivable and other income		**5,598**	5,427	11,204
		132,112	121,385	248,458
OPERATING EXPENDITURE				
On debenture stocks, secured bonds, bank loans and other loans				
Interest payable	4	**129,059**	117,762	240,635
Discount amortised		**543**	489	1,582
Premium amortised		**(4,467)**	(3,550)	(8,506)
Indexation on loans payable		**1,171**	958	2,656
Premium payable on prepayment		**53**	192	629
Administration expenses		**2,122**	1,962	4,354
		128,481	117,813	241,350
SURPLUS BEFORE TAXATION		**3,631**	3,572	7,108
Taxation		**(690)**	(679)	(1,358)
Surplus after taxation		**2,941**	2,893	5,750
Other comprehensive income		**-**	-	-
TOTAL COMPREHENSIVE INCOME		**2,941**	**2,893**	5,750

Condensed Group Statement of Financial Position

As at 30 September 2018

ASSETS	Note	As at 30 September 2018 (unaudited) £000	As at 30 September 2017 (unaudited) £000	As at 31 March 2018 (audited) £000
Non-current assets				
Loans	5	**7,138,399**	6,088,341	6,910,865
Intangible assets		**67**	49	83
Property, plant and equipment		**45**	94	72
Deferred tax asset		**143**	155	143
Current assets				
Loans	5	**80,339**	72,444	80,611
Other receivables		**41,856**	38,342	39,992
Short-term deposits		**20,678**	15,601	15,588
Cash and cash equivalents		**57,444**	51,402	60,641
TOTAL ASSETS		**7,338,971**	6,266,428	7,107,995
EQUITY AND LIABILITIES				
Non-Current liabilities				
Financial liabilities – borrowings	6	**7,139,104**	6,089,794	6,914,848
Deferred tax liabilities		**100**	100	100
Provision for other liabilities and charges		**819**	934	888
Current liabilities				
Financial liabilities – borrowings	6	**83,512**	72,444	80,611
Trade and other payables		**77,240**	70,769	76,216
Current tax liabilities		**691**	680	768
TOTAL LIABILITIES		**7,301,466**	6,234,721	7,073,431
EQUITY				
Called up share capital		**-**	-	-
Retained earnings		**37,505**	31,707	34,564
TOTAL EQUITY				
TOTAL EQUITY AND LIABILITIES		**7,338,971**	6,266,428	7,107,995

The accompanying notes on pages 7-14 are an integral part of these condensed consolidated financial statements. These condensed consolidated financial statements on pages 3-14 were approved by the board on 13 November 2018.

The Housing Finance Corporation Limited Registration Number: 245534

Condensed Group Statement of Changes in Equity

Six-month period ended 30 September 2018

	Share capital	Retained earnings	Total equity
	£	£000	£000
Balance as at 1 April 2018 (audited)	9	34,564	34,564
Shares cancelled in year	(1)	-	-
Surplus for period	-	2,941	2,941
Other comprehensive income	-	-	-
Balance as at 30 September 2018 (unaudited)	**8**	**37,505**	**37,505**
Balance as at 1 April 2017 (audited)	7	28,814	28,814
Surplus for period	-	2,893	2,893
Other comprehensive income	-	-	-
Balance as at 30 September 2017 (unaudited)	**7**	**31,707**	**31,707**
Balance as at 1 April 2017 (audited)	7	28,814	28,814
Shares issued in year	2	-	-
Surplus for period	-	5,750	5,750
Other comprehensive income	-	-	-
Balance as at 31 March 2018 (audited)	**9**	**34,564**	**34,564**

Condensed Group Statement of Cash flows

Six-month period ended 30 September 2018

	Note	**Six months ended 30 September 2018 (unaudited)**	Six months ended 30 September 2017 (unaudited)	Year ended 31 March 2018 (audited)
NET CASH FLOW FROM OPERATING ACTIVITIES	**Note**	**£000**	£000	£000
Cash generated from operating activities	7	**3,214**	5,369	10,714
Interest received on loans to housing associations		**128,064**	116,890	238,129
Interest paid on debenture stocks, secured bonds, bank loans and other loans		**(128,621)**	(108,357)	(227,456)
Loans to housing associations		**(263,295)**	(308,788)	(1,178,304)
Repayment of loans by housing associations		**32,593**	30,293	66,036
New borrowings		**263,295**	308,788	1,178,307
Repayment of amounts borrowed		**(32,591)**	(30,293)	(63,672)
Tax paid		**(767)**	(647)	(1,227)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**1,892**	13,255	22,527
CASH FLOW FROM INVESTING ACTIVITIES				
Movement on short-term deposits		**(5,090)**	(11,700)	(11,687)
Purchase of property, plant and equipment		**1**	(11)	(12)
Purchase of intangible equipment		**-**	-	(45)
NET CASH (USED IN) INVESTING ACTIVITIES		**(5,089)**	(11,711)	(11,744)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(3,197)**	1,544	10,783
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**60,641**	49,858	49,858
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**57,444**	51,402	60,641

Notes to the Condensed Consolidated 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 the London Stock Exchange.

The interim condensed consolidated financial statements of THFC together with its subsidiaries (the "group") for the six months ended 30 September 2018 were approved by the Board of Directors for issue on 13 November 2018.

2. ACCOUNTING POLICIES

The principal accounting policies adopted by the group in the preparation of these condensed consolidated financial statements are set out below.

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

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 September 2018 have been prepared using accounting policies consistent 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 information has been prepared on the basis of IFRS that the Directors expect to be adopted by the European Union and applicable as at 31 March 2019. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the group's annual financial statements for the year ended 31 March 2018.

The financial statements have been prepared under the historical cost convention. A summary of the more important group accounting policies is set out below.

The condensed set of interim financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting.

Statutory accounts

Financial information contained in this document does not constitute statutory accounts within the meaning of section 98 of the Co-operative and Community Benefit Societies Act 2014.

The financial information for the six months ended 30 September 2018 and 30 September 2017 is unaudited and has not been subject to review in accordance with International Standards on

Notes to the Condensed Consolidated Financial Statements
(continued)

Review Engagements (UK and Ireland) 240 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

Going Concern

After making enquiries, the directors have formed a judgment at the time of approving the condensed consolidated 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 condensed consolidated financial statements.

Changes in accounting policies and disclosures

The same accounting policies, presentation and methods of computation are followed in the condensed consolidated financial statements as applied in the group's latest annual consolidated financial statements except that the following new standards have been adopted by the group during the period:

IFRS 9 Financial Instruments

IFRS 9 has replaced IAS 39 Financial Instruments: Recognition and Measurement.

Implementing IFRS 9 has had no impact on the measurement and carrying value of the group's financial assets which remain held at amortised cost in the Statement of Financial Position and therefore it has had no impact on the condensed Statement of Financial Position or condensed Statement of Comprehensive Income.

The group has also reviewed impairment of financial assets in relation to IFRS 9 and has concluded that no provision is required.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 has replaced IAS 18 Revenue and IAS 11 Construction Contracts as well as various interpretations previously issued by the IFRS Interpretations Committee.

The group has reviewed its income streams in relation to the requirements of IFRS 15 and determined that no adjustment to recognition of revenue is required in relation to any contracts that fall within the scope of this standard.

There have been no other changes to accounting policies during the year.

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:

1. 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.

2. 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.

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

Impairment of Financial assets

The group assesses on a forward-looking basis the expected credit losses (ECL) associated with any debt instruments carried at amortised cost. The group may recognise a loss allowance for such losses at each reporting date.

The IFRS 9 impairment model has three stages – Stage 1 (low risk), Stage 2 (significantly increased risk) and Stage 3 (default).

The group may recognise a 12-month expected credit loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk (stage 2) that would no longer render the instrument low risk. Stage 3 requires objective evidence that an asset is credit impaired.

Management apply their own judgement to resulting outcomes by taking into account such factors as the group's own loss experience, low loan to value ratios and other relevant factors.

Interest receivable and payable

Interest receivable on loans to housing associations, 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.

Securitised assets and related income

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

Notes to the Condensed Consolidated Financial Statements
(continued)

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.

3. INTEREST RECEIVABLE

	Six months ended 30 September 2018 (unaudited)	Six months ended 30 September 2017 (unaudited)	Year ended 31 March 2018 (audited)
On loans to housing associations:	**£000**	£000	£000
Interest receivable	**128,750**	117,365	240,123
Interest deferred	**(686)**	(686)	(1,606)
	128,064	116,679	238,517

4. INTEREST PAYABLE

	Six months ended 30 September 2018 (unaudited)	Six months ended 30 September 2017 (unaudited)	Year ended 31 March 2018 (audited)
On debenture stocks, secured bonds, bank borrowings and other borrowings which are:	**£000**	£000	£000
Interest payable	**129,853**	118,474	242,100
Interest deferred	**(794)**	(712)	(1,465)
	129,059	117,762	240,635

Notes to the Condensed Consolidated Financial Statements
(continued)

5. LOANS TO BORROWERS

	Six months ended 30 September 2018 (unaudited)	Six months ended 30 September 2017 (unaudited)	Year ended 31 March 2018 (audited)
	£000	£000	£000
Loans to housing associations			
At beginning of period	**6,968,427**	5,860,116	5,860,116
Premium on new issues	**3,295**	54,787	99,306
Loans repaid during the period	**(31,554)**	(29,361)	(64,121)
Loans advanced during the period	**260,000**	254,000	1,079,000
	7,200,168	6,139,542	6,974,301
Discount amortised for the period	**543**	489	1,582
Premium amortised for the period	**(4,467)**	(3,550)	(8,506)
Interest deferred for the period	**(686)**	(686)	(1,606)
Indexation for the period	**1,171**	958	2,656
At end of period	**7,196,729**	6,136,753	6,968,427
Securitised assets			
At beginning of period	**23,049**	24,964	24,964
Loans repaid during the period	**(1,040)**	(932)	(1,915)
At end of period	**22,009**	24,032	23,049
Total loans and receivables	**7,218,738**	6,160,785	6,991,476
Due within one year	**80,339**	72,444	80,611
Due after more than one year	**7,138,399**	6,088,341	6,910,865
Total	**7,218,738**	6,160,785	6,991,476

Notes to the Condensed Consolidated Financial Statements
(continued)

6. FINANCIAL LIABILITIES

	Six months ended 30 September 2018 (unaudited)	Six months ended 30 September 2017 (unaudited)	Year ended 31 March 2018 (audited)
	£000	£000	£000
Debenture stocks, secured bonds, bank borrowings and other borrowings			
At beginning of period	**6,995,459**	5,885,836	5,885,836
Premium on new borrowings	**3,295**	54,787	99,306
Premium adjustments	**-**	-	-
Repaid during the period	**(33,314)**	(30,293)	(63,672)
Borrowings during the period	**260,000**	254,000	1,079,000
	7,225,440	6,164,330	7,000,470
Discount amortised	**543**	489	1,582
Premium amortised	**(4,467)**	(3,550)	(8,506)
Deferred Interest	**(794)**	(712)	(1,466)
Indexation	**1,171**	958	2,656
At end of period	**7,221,893**	6,161,515	6,994,736
Subordinated loans	**723**	723	723
Total borrowings	**7,222,616**	6,162,238	6,995,459
Amounts falling due within one year	**83,512**	72,444	80,611
Amounts falling due after one year	**7,139,104**	6,089,794	6,914,848
Total	**7,222,616**	6,162,238	6,995,459

Notes to the Condensed Consolidated Financial Statements
(continued)

7. RECONCILIATION OF PROFIT TO NET CASH GENERATED FROM OPERATIONS

	Six months ended 30 September 2018 (unaudited)	Six months ended 30 September 2017 (unaudited)	Year ended 31 March 2018 (audited)
	£000	£000	£000
Surplus before taxation	**3,631**	3,572	7,108
Interest receivable	**(124,193)**	(112,865)	(232,235)
Interest payable	**125,188**	113,948	234,340
Adjustments for:			
Depreciation and amortisation	**40**	36	69
(Decrease) in pension provision	**(69)**	(65)	(111)
(Increase) / decrease in other receivables	**(1,122)**	820	1,138
(Decrease) / increase in other payables	**(261)**	(77)	405
Net cash inflow from operation activities	**3,214**	5,369	10,714

8. 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 period ended 30 September 2018 was £244,000 (30 September 2017: £744,000). For the year ended 31 March 2018 it was £2,537,932 (2017: £1,602,743). The amount due to/(from) THFCS at 30 September 2018 was £218,064 (30 September 2017: (£161,035)) (31 March 2018: (£228,220)).

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

Notes to the Condensed Consolidated Financial Statements
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8. RELATED PARTY TRANSACTIONS (continued)

The group earned fees of £72,218 (30 September 2017: £70,416) for providing these services and had amounts owing from/ (due to) these companies at 30 September 2018 of £9,796 (30 September 2017: (£7,829)). Directors of these companies are also directors of THFC.

Total interest charged by 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 were as follows:

	Six months ended 30 September 2018	Six months ended 30 September 2017	Year ended 31 March 2018
	(unaudited)	(unaudited)	(audited)
	£	£	£
T.H.F.C. (Funding No.1) Plc	**£6,060,154**	£6,060,134	12,054,258
T.H.F.C. (Funding No.2) Plc	**£11,903,523**	£11,903,523	23,548,973
T.H.F.C. (Funding No.3) Plc	**£20,795,393**	£17,100,031	35,878,868

9. EVENTS AFTER THE INTERIM PERIOD

On 1 October 2018 the share held in The Housing Finance Corporation Limited by the Homes and Communities Agency was transferred to the Regulator of Social Housing in line with the Legislative Reform (Regulator of Social Housing)(England) Order 2018.