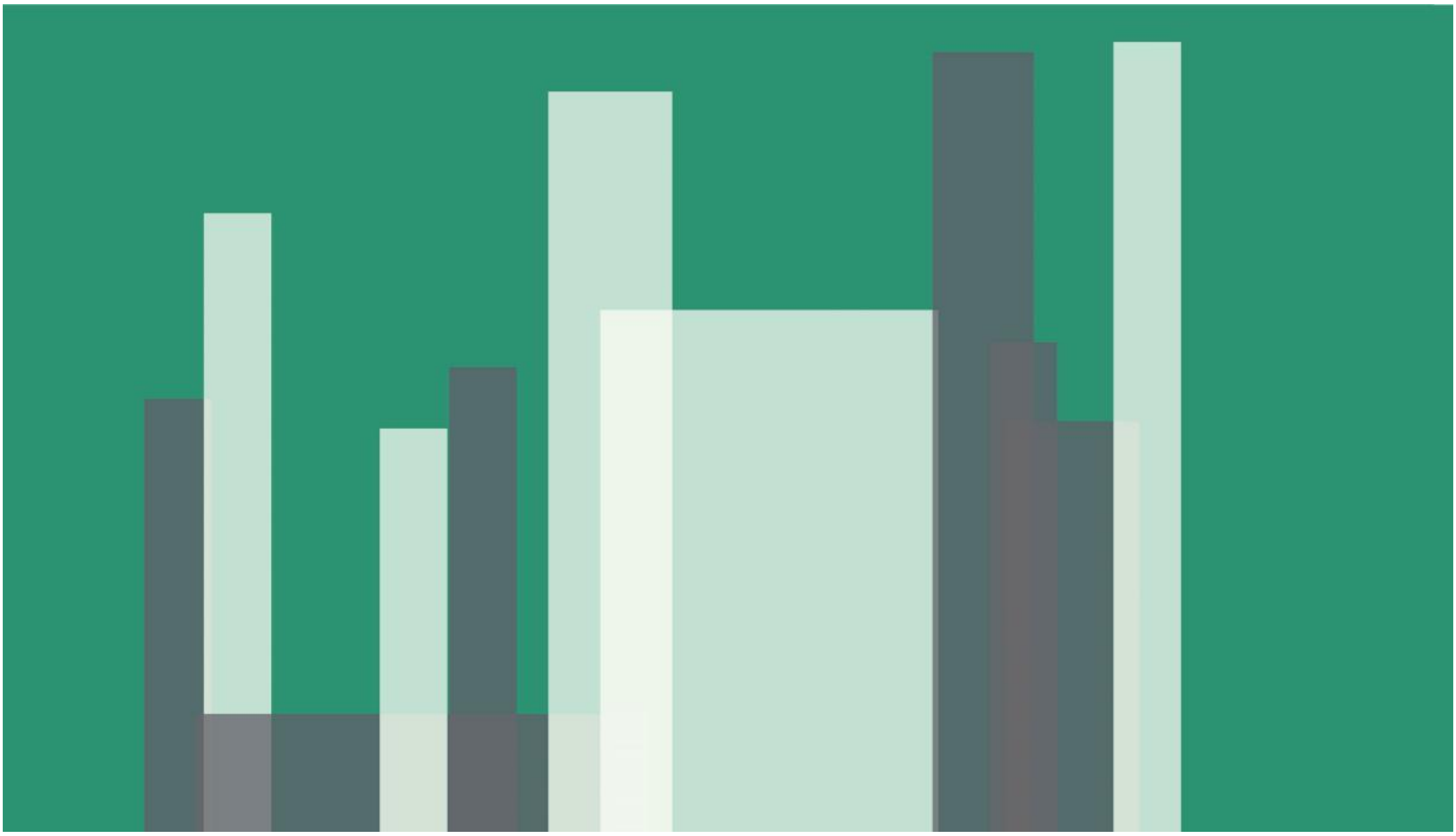
The Housing Finance Corporation Limited

Interim Report & Accounts 2019



Contents

Page:

Interim Management Report

	Note	As at 30 September 2019 (unaudited)	As at 30 September 2018 (unaudited)	As at 31 March 2019 (audited)
		£000	£000	£000
New Business Income	11	761	2,351*	3,524
Operating Income Net of Interest	11	3,638	3,402*	7,071
Administration Expenditure		(2,609)	(2,122)	(4,786)
Profit before Tax		1,790	3,631	5,809
Loan Book		7,331,049	7,218,738	7,332,991
Retained earnings		39,549	37,505	38,099

*Restated – reallocation of arrangement fees previously classified as Operating Income.

Review

The Board is pleased to present its interim accounts for the six-month period ended 30 September 2019.

During this period, the group made a pre-tax surplus of £1.790m compared to £3.631m for the same period last year.

Total income net of interest has decreased by £1.354m (23.5%) from £5.753m to £4.399m compared to the same period last year and costs are £0.487m higher at £2.609m.

Revenue represents principally arrangement fees for new lending and annual fees receivable on the existing loan book.

Arrangement fees are derived from new lending originated through THFC and Blend Funding Plc. Blend funding Plc is the group's new arm's length funding vehicle which was incorporated and began lending last year. Blend is funded under a Euro Medium Term Note (EMTN) programme and offers diverse and flexible lending structures to its borrowers. The timing of receipts of arrangement fees is driven by market conditions and demand from borrowers.

Operating income (before arrangement fees) net of interest grew by 6.9% in the period ended 30 September 2019. This was driven by a combination of indexation on existing annual fees and volume uplifts from lending in the period.

Administration expenditure increased by 23% in the period reflecting investment in staff, new premises and IT infrastructure.

During the period ended 30 September 2019, a total of £45.5m of new money sourced from bond issues and other lenders was advanced to housing associations by members of the THFC group (2018: £263.3m) resulting in a group loan book of £7.33bn compared to £7.22bn at 30 September 2018.

Total group reserves stood at £39.5m (2018: £37.5m) All reserves are non-distributable. There are restrictions over the use of Affordable Housing Finance PLC's reserves as set out in the Licence with the Ministry of Housing, Communities and Local Government.

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 2019 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
12 November 2019

Condensed Group Statement of Comprehensive Income

Six-month period ended 30 September 2019

	Note	Six months ended 30 September 2019 (unaudited)	Six months ended 30 September 2018 (unaudited)	Year ended 31 March 2019 (audited)
OPERATING INCOME	**Note**	**£000**	£000	£000
On loans to housing associations				
Interest receivable	5	**134,335**	128,064	259,360
Discount amortised		**604**	543	1,733
Premium amortised		**(4,919)**	(4,467)	(10,051)
Income from securitised assets		**899**	1,001	1,953
Indexation on investments		**639**	1,171	2,113
Premium receivable on prepayment		**175**	53	3,168
Other interest		**208**	149	355
Fees receivable and other income		**4,184**	5,598	10,219
		136,125	132,112	268,850
OPERATING EXPENDITURE				
On debenture stocks, secured bonds, bank loans and other loans				
Interest payable	6	**135,231**	129,059	261,293
Discount amortised		**604**	543	1,733
Premium amortised		**(4,919)**	(4,467)	(10,051)
Indexation on loans payable		**639**	1,171	2,113
Premium payable on prepayment		**171**	53	3,167
Administration expenses		**2,609**	2,122	4,786
		134,335	128,481	263,041
SURPLUS BEFORE TAXATION		**1,790**	3,631	5,809
Taxation		**(340)**	(690)	(1,111)
Surplus after taxation		**1,450**	2,941	4,698
Other comprehensive income		**-**	-	(1,163)
TOTAL COMPREHENSIVE INCOME		**1,450**	**2,941**	3,535

Condensed Group Statement of Financial Position

As at 30 September 2019

		As at 30 September 2019 (unaudited)	As at 30 September 2018 (unaudited)	As at 31 March 2019 (audited)
ASSETS	**Note**	**£000**	£000	£000
Non-current assets				
Loans	7	**7,271,545**	7,138,399	7,258,246
Intangible assets		**92**	67	108
Property, plant and equipment		**1,655**	45	256
Deferred tax asset		**333**	143	333
Current assets				
Loans	7	**59,504**	80,339	74,745
Other receivables		**42,314**	41,856	43,347
Short-term deposits		**22,392**	20,678	9,353
Cash and cash equivalents		**49,412**	57,444	70,404
TOTAL ASSETS		**7,447,247**	7,338,971	7,456,792
EQUITY AND LIABILITIES				
Non-Current liabilities				
Financial liabilities – borrowings	8	**7,272,900**	7,139,104	7,261,243
Leases		**1,208**		
Deferred tax liabilities		**100**	100	100
Provision for other liabilities and charges		**2,090**	819	2,193
Current liabilities				
Financial liabilities – borrowings	8	**58,913**	83,512	74,745
Trade and other payables		**72,068**	77,240	79,873
Leases		**179**	-	-
Current tax liabilities		**240**	691	539
TOTAL LIABILITIES		**7,407,698**	7,301,466	7,418,693
EQUITY				
Called up share capital		**-**	-	-
Retained earnings		**39,549**	37,505	38,099
TOTAL EQUITY				
TOTAL EQUITY AND LIABILITIES		**7,447,247**	7,338,971	7,456,792

The accompanying notes on pages 8-16 are an integral part of these condensed consolidated financial statements. These condensed consolidated financial statements on pages 4-16 were approved by the board on 12 November 2019.

The Housing Finance Corporation Limited Registration Number: IP25862R

Condensed Group Statement of Changes in Equity

Six-month period ended 30 September 2019

	Share capital	Retained earnings	Total equity
	£	£000	£000
Balance as at 1 April 2019 (audited)	9	38,099	38,099
Shares issued in year	-	-	-
Surplus for period	-	1,450	1,450
Other comprehensive income	-	-	-
Balance as at 30 September 2019 (unaudited)	**9**	**39,549**	**39,549**
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 2018 (audited)	9	34,564	34,564
Shares issued in year	1	-	-
Shares cancelled in year	(1)	-	-
Surplus for period	-	4,698	4,968
Other comprehensive income	-	(1,163)	(1,163)
Balance as at 31 March 2019 (audited)	**9**	**38,099**	**38,099**

Condensed Group Statement of Cash flows

Six-month period ended 30 September 2019

		Six months ended 30 September 2019 (unaudited)	Six months ended 30 September 2018 (unaudited)	Year ended 31 March 2019 (audited)
NET CASH FLOW FROM OPERATING ACTIVITIES	**Note**	**£000**	£000	£000
Cash generated from operating activities	9	**4,006**	3,214	4,980
Interest received on loans to housing associations		**134,538**	128,064	260,545
Interest paid on debenture stocks, secured bonds, bank loans and other loans		**(143,521)**	(128,621)	(259,631)
Loans to housing associations		**(45,456)**	(263,295)	(421,828)
Repayment of loans by housing associations		**43,320**	32,593	72,680
New borrowings		**45,456**	263,295	421,828
Repayment of amounts borrowed		**(45,488)**	(32,591)	(73,462)
Tax paid		**(640)**	(767)	(1,293)
NET CASH (USED IN) / GENERATED FROM OPERATING ACTIVITIES		**(7,785)**	1,892	3,819
CASH FLOW FROM INVESTING ACTIVITIES				
Movement on short-term deposits		**(13,039)**	(5,090)	6,235
Purchase of property, plant and equipment		**(159)**	1	(236)
Purchase of intangible equipment		**(9)**	-	(55)
NET CASH (USED IN) INVESTING ACTIVITIES		**(13,207)**	(5,089)	5,944
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(20,992)**	(3,197)	9,763
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**70,404**	60,641	60,641
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**49,412**	57,444	70,404

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 2019 were approved by the Board of Directors for issue on 12 November 2019.

2. BASIS OF PREPARATION & STATUTORY ACCOUNTS

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 September 2019 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 2020. 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 2019.

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 2019 and 30 September 2018 is unaudited and has not been subject to review in accordance with International Standards on Review Engagements (UK and Ireland) 240 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

Notes to the Condensed Consolidated Financial Statements
(continued)

3. ACCOUNTING POLICIES

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 as described below:

Interims tax policy

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Changes in accounting policies and disclosures

The group has initially adopted IFRS 16 Leases from 1 April 2019. Under the transition method chosen, comparative information is not restated. The adoption of this standard has not had a material impact on the Group's consolidated interim financial statements.

A number of other new and amended standards and interpretations are effective from 1 April 2019 but they do not have a material effect on the Group's financial statements.

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.

No financial assets have been impaired as at 30 September 2019

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.

Fees and premiums receivable

Fees receivable and other income comprise arrangement fees payable on completion of loan transactions, annual fees for the ongoing service provided to borrowers and premiums receivable on completion of loan prepayment transactions. All fees receivable are charged in line with contractual arrangements.

Fees are measured at the transaction price received or receivable allocated to the performance obligation satisfied and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

As the expected period between transfer of a promised good or service and payment from the borrower is one year or less then no adjustment for a financing component has been made.

Notes to the Condensed Consolidated Financial Statements
(continued)

Arrangement fees and premiums receivable are recognised on the completion of the transaction with the borrower.

Annual fees for the ongoing service provided to borrowers is recognised over the period in which the services are provided.

4. 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.

5. INTEREST RECEIVABLE

	Six months ended 30 September 2019 (unaudited)	Six months ended 30 September 2018 (unaudited)	Year ended 31 March 2019 (audited)
On loans to housing associations:	**£000**	£000	£000
Interest receivable	**134,736**	128,750	260,788
Interest deferred	**(401)**	(686)	(1,428)
	134,335	128,064	259,360

6. INTEREST PAYABLE

	Six months ended 30 September 2019 (unaudited)	Six months ended 30 September 2018 (unaudited)	Year ended 31 March 2019 (audited)
On debenture stocks, secured bonds, bank borrowings and other borrowings which are:	**£000**	£000	£000
Interest payable	**135,698**	129,853	262,925
Interest deferred	**(467)**	(794)	(1,632)
	135,231	129,059	261,293

Notes to the Condensed Consolidated Financial Statements
(continued)

7. LOANS TO BORROWERS

	Six months ended 30 September 2019 (unaudited)	Six months ended 30 September 2018 (unaudited)	Year ended 31 March 2019 (audited)
	£000	£000	£000
Loans to housing associations			
At beginning of period	7,312,078	6,968,427	6,968,427
Premium on new issues	456	3,295	32,028
Loans repaid during the period	(42,165)	(31,554)	(70,544)
Loans advanced during the period	45,000	260,000	389,800
	7,315,369	7,200,168	7,319,711
Discount amortised for the period	604	543	1,733
Premium amortised for the period	(4,919)	(4,467)	(10,051)
Interest deferred for the period	(401)	(686)	(1,428)
Indexation for the period	640	1,171	2,113
At end of period	7,311,293	7,196,729	7,312,078
Securitised assets			
At beginning of period	20,913	23,049	23,049
Loans repaid during the period	(1,157)	(1,040)	(2,136)
At end of period	19,756	22,009	20,913
Total loans and receivables	7,331,049	7,218,738	7,332,991
Due within one year	59,504	80,339	74,745
Due after more than one year	7,271,545	7,138,399	7,258,246
Total	7,331,049	7,218,738	7,332,991

Notes to the Condensed Consolidated Financial Statements
(continued)

8. FINANCIAL LIABILITIES

	Six months ended 30 September 2019 (unaudited)	Six months ended 30 September 2018 (unaudited)	Year ended 31 March 2019 (audited)
	£000	£000	£000
Debenture stocks, secured bonds, bank borrowings and other borrowings			
At beginning of period	7,335,265	6,994,459	6,994,736
Premium on new borrowings	456	3,295	32,028
Premium adjustments	-	-	-
Repaid during the period	(45,489)	(33,314)	(73,462)
Borrowings during the period	45,000	260,000	389,800
	7,335,232	7,225,440	7,343,102
Discount amortised	604	543	1,731
Premium amortised	(4,919)	(4,467)	(10,051)
Deferred Interest	(467)	(794)	(1,630)
Indexation	640	1,171	2,113
At end of period	7,331,090	7,221,893	7,335,265
Subordinated loans	723	723	723
Total borrowings	7,331,813	7,222,616	7,335,988
Amounts falling due within one year	58,913	83,512	74,745
Amounts falling due after one year	7,272,900	7,139,104	7,261,243
Total	7,331,813	7,222,616	7,335,988

Notes to the Condensed Consolidated Financial Statements
(continued)

9. RECONCILIATION OF PROFIT TO NET CASH GENERATED FROM OPERATIONS

	Six months ended 30 September 2019 (unaudited)	Six months ended 30 September 2018 (unaudited)	Year ended 31 March 2019 (audited)
	£000	£000	£000
Surplus before taxation	**1,790**	3,631	5,809
Interest receivable	**(129,401)**	(124,193)	(251,042)
Interest payable	**130,293**	125,188	252,974
Adjustments for:			
Depreciation and amortisation	**84**	40	82
(Decrease) in pension provision	**(103)**	(69)	(95)
Decrease / (increase) in other receivables	**1,409**	(1,122)	(3,112)
(Decrease) / increase in other payables	**(66)**	(261)	364
Net cash inflow from operation activities	**4,006**	3,214	4,980

10. 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 2019 was £0.212m (30 September 2018: £0.244m). For the year ended 31 March 2019 it was £3.134m (2018: £2.538m). The amount due to/(from) THFCS at 30 September 2019 was (£1.723m) (30 September 2018: £0.218m) (31 March 2019: (£0.423m)).

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 £74,407 (30 September 2018: £72,218) for providing these services and had amounts owing from/ (due to) these companies at 30 September 2019 of £9,860 (30 September 2018: £9,796). 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 2019 (unaudited)	Six months ended 30 September 2018 (unaudited)	Year ended 31 March 2019 (audited)
	£000	£000	£000
T.H.F.C. (Funding No.1) Plc	**6,060**	6,060	12,054
T.H.F.C. (Funding No.2) Plc	**11,904**	11,904	23,549
T.H.F.C. (Funding No.3) Plc	**23,629**	20,795	42,937

11. NEW BUSINESS INCOME & OPERATING INCOME NET OF INTEREST

	Six months ended 30 September 2019 (unaudited)	Six months ended 30 September 2018 (unaudited)	Year ended 31 March 2019 (audited)
NEW BUSINESS INCOME	**£000**	£000	£000
Arrangement fees	**732**	2,244	3,256
Sundry income	**29**	107	268
	761	2,351	3,524
OPERATING INCOME NET OF INTEREST			
Fees receivable and other income	**4,184**	5,598	10,219
- Less new business income	**(761)**	(2,351)	(3,524)
Other interest	**208**	149	355
Interest receivable	**134,335**	128,064	259,360
Interest payable	**(135,231)**	(129,059)	(261,293)
Income from securitised assets	**899**	1,001	1,953
Premium receivable	**175**	53	3,168
Premium payable	**(171)**	(53)	(3,167)
	3,638	3,402	7,071

Notes to the Condensed Consolidated Financial Statements
(continued)

12. EVENTS AFTER THE INTERIM PERIOD

None.