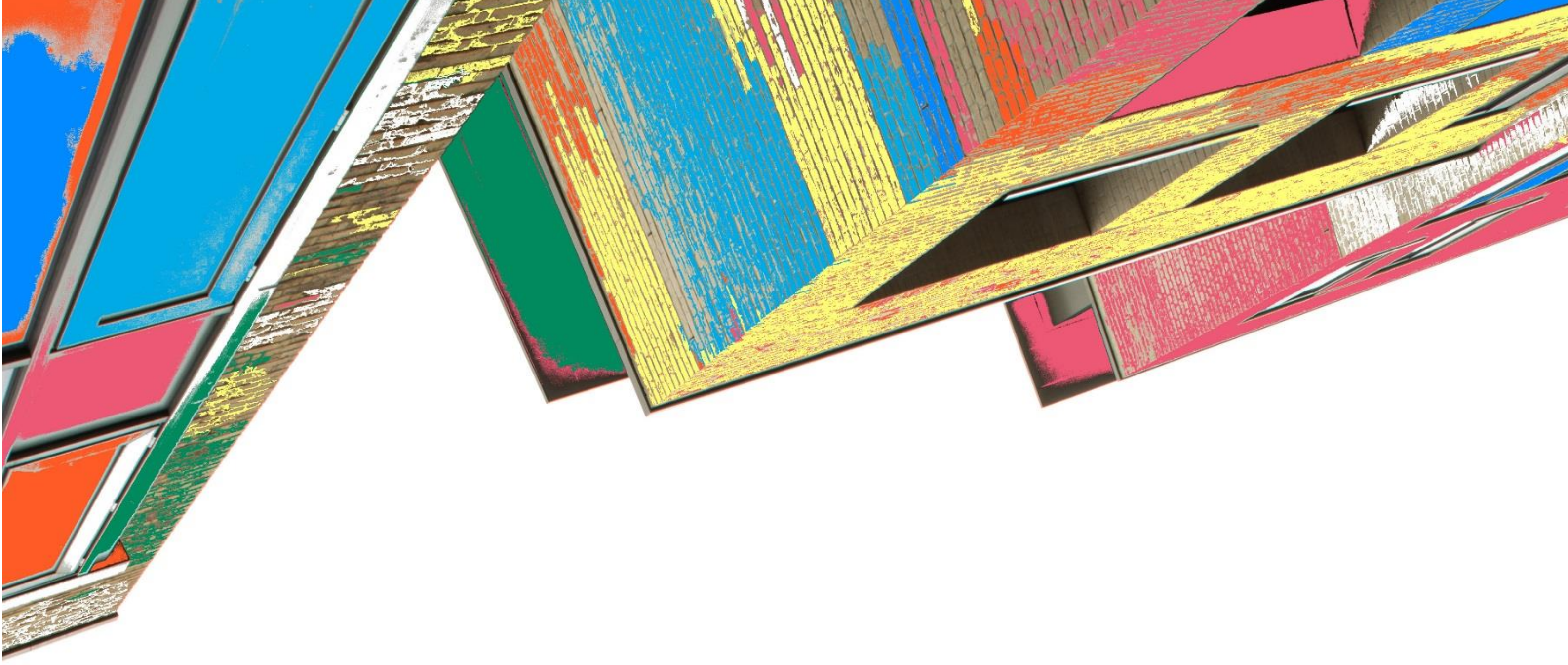
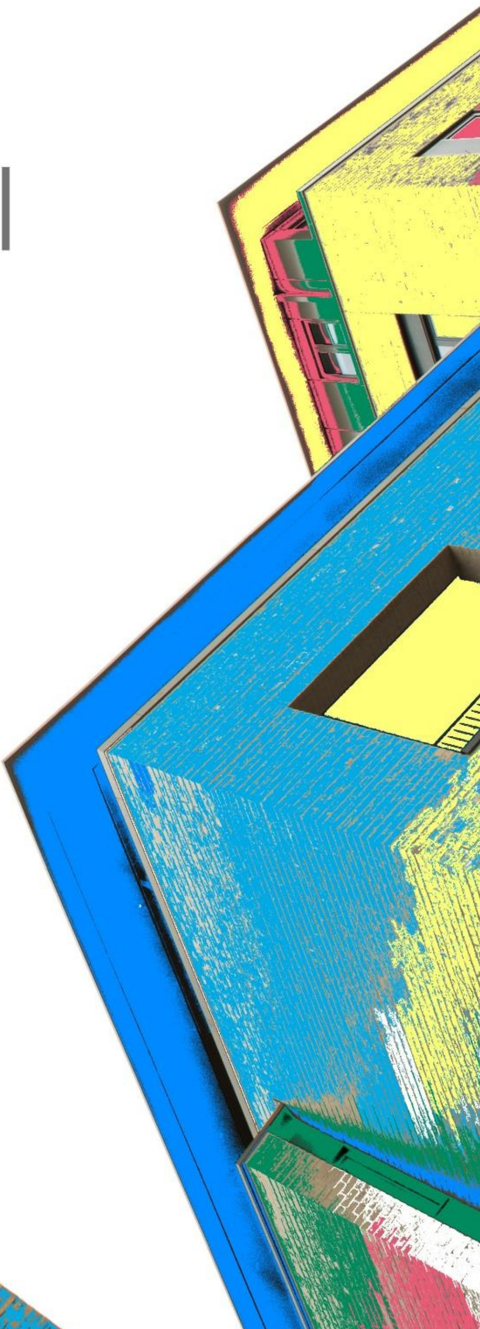
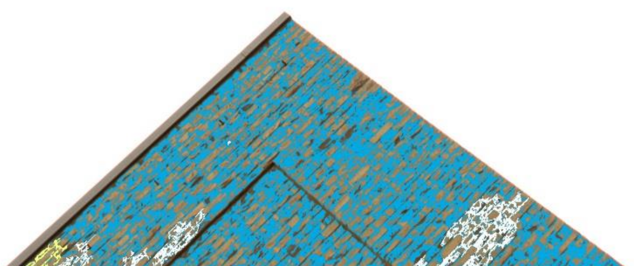


The Housing Finance Corporation Limited Half-Yearly Financial Report

2017



For the six-month period ended 30th September 2017 (Unaudited)



Contents

Interim Management Report

	As at 30 September 2017 (unaudited)	As at 30 September 2016 (unaudited)	As at 31 March 2017 (audited)
	£000	£000	£000
New Business Income	2,505	2,205	5,068
Operating Income	3,029	2,508	5,245
Operating Expenditure	(1,962)	(1,990)	(4,177)
Profit before Tax	3,572	2,723	6,136
Loan Book	6,160,785	5,674,258	5,885,079
Retained earnings	31,707	26,095	28,814

Review

The Board is pleased to present its interim accounts for the six-month period ended 30 September 2017.

During this period, the group made a pre-tax surplus of £3.572m compared to £2.723m for the same period last year.

Total income has increased by £821,000 (17.4%) compared to the same period last year and costs are £28,000 lower at £1,962,000.

The growth in revenue is driven primarily by income generated by THFC's subsidiary Affordable Housing Finance Plc (AHF) which operates the Affordable Homes Guarantee Scheme under licence from the Department of Communities and Local Government. All lending under this scheme carries a full-faith government guarantee.

Revenue growth represents both arrangement fees for new lending and annual fees on existing loans. Origination of new debt under the Affordable Homes Guarantee Scheme is coming to a close, but will have generated an additional estimated £3.2bn of new lending to the sector, by the time all loans are completed.

During the period, a total of £308.8m of new money sourced from bond issues and other lenders was advanced to housing associations by members of the THFC group (2016: £606.2m) resulting in a group loan book of £6.16bn compared to £5.67bn at 30 September 2016.

Total group reserves stood at £31.7m (2016: £26.1m) All reserves are non-distributable.

Outlook

Housing associations are now in the second of four successive years of 1% absolute rent cuts, although in October the Government announced that increases in social and affordable rents would revert to CPI +1% post 2020, in a move welcomed by the sector. This, and a further range of housing initiatives announced in the Budget may help underpin the long-term investment decisions that housing associations will need to make to deliver much needed affordable housing

However, the continued impact of welfare reform measures, and in particular the full roll out of Universal Credit will present challenges for the sector in the period up until 2020. Further risks are presented by 'Brexit' which is expected to lead to a shortage of skilled labour in the construction industry, and this would also impact developing housing associations. The uncertainty of 'Brexit' negotiations could begin to undermine consumer confidence and may lead to market volatility and this has the potential to affect the financing markets upon which the sector is dependent for refinancing.

Piers Williamson, THFC's Chief Executive said the following of the Financial Interim Report:

"The Half-Yearly report demonstrates that the group continues to play a valuable role in providing cost-effective debt to our borrowers and secure lending opportunities to our investors. As expected the first half of 2017/18 has seen the completion of AHF underwriting and a period of transition as we revert to THFC underwriting and product development."

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 2017 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 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

30 November 2017

Condensed Group Statement of Comprehensive Income

Six-month period ended 30 September 2017

	Note	**Six months ended 30 September 2017 (unaudited)**	Six months ended 30 September 2016 (unaudited)	Year ended 31 March 2017 (audited)
OPERATING INCOME	**Note**	**£000**	£000	£000
On loans to housing associations				
Interest receivable	3	**116,679**	116,942	231,508
Discount amortised		**489**	440	1,452
Premium amortised		**(3,550)**	(2,519)	(6,630)
Income from securitised assets		**1,093**	1,176	2,312
Indexation on investments		**958**	535	1,671
Premium receivable on prepayment		**192**	134	2,323
Other interest		**97**	133	242
Fees receivable and other income		**5,427**	4,570	10,047
		121,385	121,411	242,925
OPERATING EXPENDITURE				
On debenture stocks, secured bonds, bank loans and other loans				
Interest payable	4	**117,762**	118,108	233,786
Discount amortised		**489**	440	1,452
Premium amortised		**(3,550)**	(2,519)	(6,630)
Indexation on loans payable		**958**	535	1,671
Premium payable on prepayment		**192**	134	2,334
Administration expenses		**1,962**	1,990	4,176
		117,813	118,688	236,789
SURPLUS BEFORE TAXATION		**3,572**	2,723	6,136
Taxation		**(679)**	(544)	(1,238)
Surplus after taxation		**2,893**	2,179	4,898
Other comprehensive income		**-**	-	-
TOTAL COMPREHENSIVE INCOME		**2,893**	**2,179**	4,898

Condensed Group Statement of Financial Position

As at 30 September 2017

		As at 30 September 2017 (unaudited)	As at 30 September 2016 (unaudited)	As at 31 March 2017 (audited)
ASSETS	**Note**	**£000**	£000	£000
Non-current assets				
Loans	5	**6,088,341**	5,428,598	5,794,993
Intangible assets		**49**	48	59
Property, plant and equipment		**94**	132	109
Deferred tax asset		**155**	192	155
Current assets				
Loans	5	**72,444**	245,660	90,087
Other receivables		**38,342**	43,515	38,495
Short-term deposits		**15,601**	16,862	3,901
Cash and cash equivalents		**51,402**	37,078	49,858
TOTAL ASSETS		**6,266,428**	5,772,085	5,977,657
EQUITY AND LIABILITIES				
Non-Current liabilities				
Financial liabilities – borrowings	6	**6,089,794**	5,429,294	5,796,472
Deferred tax liabilities		**100**	118	100
Provision for other liabilities and charges		**934**	1,020	999
Current liabilities				
Financial liabilities – borrowings	6	**72,444**	249,294	90,087
Trade and other payables		**70,769**	65,682	60,537
Current tax liabilities		**680**	582	648
TOTAL LIABILITIES		**6,234,721**	5,745,990	5,948,843
EQUITY				
Called up share capital		**-**	-	-
Retained earnings		**31,707**	26,095	28,814
TOTAL EQUITY				
TOTAL EQUITY AND LIABILITIES		**6,266,428**	5,772,085	5,977,657

The accompanying notes on pages 8-15 are an integral part of these condensed consolidated financial statements.

These condensed consolidated financial statements on pages 4-15 were approved by the board on 14 November 2017.

The Housing Finance Corporation Limited

Registration Number: 245534

Condensed Group Statement of Changes in Equity

Six-month period ended 30 September 2017

	Share capital	Retained earnings	Total equity
	£	£000	£000
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 2016 (audited)	7	23,916	23,916
Surplus for period	-	2,179	2,179
Other comprehensive income	-	-	-
Balance as at 30 September 2016 (unaudited)	**7**	**26,095**	**26,095**
Balance as at 1 April 2016 (audited)	7	23,916	23,916
Surplus for period	-	4,898	4,898
Other comprehensive income	-	-	-
Balance as at 31 March 2017 (audited)	**7**	**28,814**	**28,814**

Condensed Group Statement of Cash flows

Six-month period ended 30 September 2017

	Note	**Six months ended 30 September 2017 (unaudited)**	Six months ended 30 September 2016 (unaudited)	Year ended 31 March 2017 (audited)
NET CASH FLOW FROM OPERATING ACTIVITIES	**Note**	**£000**	£000	£000
Cash generated from operating activities	7	**5,369**	3,339	8,333
Interest received on loans to housing associations		**116,890**	114,714	238,189
Interest paid on debenture stocks, secured bonds, bank loans and other loans		**(108,357)**	(116,729)	(241,766)
Loans to housing associations		**(308,788)**	(606,209)	(1,007,540)
Repayment of loans by housing associations		**30,293**	16,846	203,925
New borrowings		**308,788**	606,209	1,007,541
Repayment of amounts borrowed		**(30,293)**	(21,710)	(211,770)
Tax paid		**(647)**	(514)	(1,124)
NET CASH GENERATED FROM / (USED IN) OPERATING ACTIVITIES		**13,255**	(4,054)	(4,212)
CASH FLOW FROM INVESTING ACTIVITIES				
Movement on short-term deposits		**(11,700)**	(769)	12,192
Purchase of property, plant and equipment		**(11)**	(4)	(2)
Purchase of intangible equipment		**-**	-	(25)
NET CASH (USED IN) / GENERATED FROM INVESTING ACTIVITIES		**(11,711)**	(773)	12,165
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		**1,544**	(4,827)	7,953
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**49,858**	41,905	41,905
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**51,402**	37,078	49,858

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 London Stock Exchange.

The interim condensed consolidated financial statements of THFC together with its subsidiaries (the "group") for the six months ended 30 September 2017 were approved by the Board of Directors for issue on 14 November 2017.

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 2017 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 2018. 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 2017.

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.

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 2017 and 30 September 2016 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)

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.

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 losses

The group assesses 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 reporting 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.

Notes to the Condensed Consolidated Financial Statements

(continued)

Interest receivable and payable

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.

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 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 2017 (unaudited)	Six months ended 30 September 2016 (unaudited)	Year ended 31 March 2017 (audited)
On loans to housing associations:	**£000**	£000	£000
Interest receivable	**117,365**	117,582	232,953
Interest deferred	**(686)**	(640)	(1,445)
	116,679	116,942	231,508

Notes to the Condensed Consolidated Financial Statements
(continued)

4. INTEREST PAYABLE

	Six months ended 30 September 2017 (unaudited)	Six months ended 30 September 2016 (unaudited)	Year ended 31 March 2017 (audited)
On debenture stocks, secured bonds, bank borrowings and other borrowings which are:	**£000**	£000	£000
Interest payable	**118,474**	118,748	235,101
Interest deferred	**(712)**	(640)	(1,315)
	117,762	118,108	233,786

Notes to the Condensed Consolidated Financial Statements
(continued)

5. LOANS TO BORROWERS

	Six months ended 30 September 2017 (unaudited)	Six months ended 30 September 2016 (unaudited)	Year ended 31 March 2017 (audited)
	£000	£000	£000
Loans to housing associations			
At beginning of period	**5,860,116**	5,060,401	5,060,401
Premium on new issues	**54,787**	48,309	80,340
Premium adjustments	**-**	-	336
Loans repaid during the period	**(29,361)**	(16,013)	(203,211)
Loans advanced during the period	**254,000**	557,900	927,200
	6,139,542	5,650,597	5,865,066
Discount amortised for the period	**489**	440	1,452
Premium amortised for the period	**(3,550)**	(2,519)	(6,629)
Interest deferred for the period	**(686)**	(640)	(1,445)
Indexation for the period	**958**	535	1,672
At end of period	**6,136,753**	5,648,413	5,860,116
Securitised assets			
At beginning of period	**24,964**	26,678	26,678
Loans repaid during the period	**(932)**	(833)	(1,714)
At end of period	**24,032**	25,845	24,964
Total loans and receivables	**6,160,785**	5,674,258	5,885,080
Due within one year	**72,444**	245,660	90,087
Due after more than one year	**6,088,341**	5,428,598	5,794,993
Total	**6,160,785**	5,674,258	5,885,080

Notes to the Condensed Consolidated Financial Statements
(continued)

6. FINANCIAL LIABILITIES

	Six months ended 30 September 2017 (unaudited)	Six months ended 30 September 2016 (unaudited)	Year ended 31 March 2017 (audited)
	£000	£000	£000
Debenture stocks, secured bonds, bank borrowings and other borrowings			
At beginning of period	**5,885,836**	5,095,550	5,095,550
Premium on new borrowings	**54,787**	48,309	80,340
Premium adjustments	**-**	-	336
Repaid during the period	**(30,293)**	(21,710)	(212,770)
Borrowings during the period	**254,000**	557,900	927,200
	6,164,330	5,680,049	5,890,656
Discount amortised	**489**	440	1,452
Premium amortised	**(3,550)**	(2,519)	(6,628)
Deferred Interest	**(712)**	(640)	(1,316)
Indexation	**958**	535	1,672
At end of period	**6,161,515**	5,677,865	5,885,836
Subordinated loans	**723**	723	723
Total borrowings	**6,162,238**	5,678,588	5,886,559
Amounts falling due within one year	**72,444**	249,294	90,087
Amounts falling due after one year	**6,089,794**	5,429,294	5,796,472
Total	**6,162,238**	5,678,588	5,886,559

7. RECONCILIATION OF PROFIT TO NET CASH GENERATED FROM OPERATIONS

	Six months ended 30 September 2017 (unaudited)	Six months ended 30 September 2016 (unaudited)	Year ended 31 March 2017 (audited)
	£000	£000	£000
Surplus before taxation	**3,572**	2,723	6,136
Interest receivable	**(112,865)**	(116,942)	(228,691)
Interest payable	**113,948**	118,108	230,980
Adjustments for:			
Depreciation and amortisation	**36**	32	67
(Decrease) in pension provision	**(65)**	(65)	(86)
Decrease / (increase) in other receivables	**820**	(332)	(588)
(Decrease) / increase in other payables	**(77)**	(185)	515
Net cash inflow from operation activities	**5,369**	3,339	8,333

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 2017 was £744,000 (30 September 2016: £Nil). For the year ended 31 March 2017 it was £1,602,743 (2016: £2,266,769). The amount due from THFCS at 30 September 2017 was £161,035 (30 September 2016: £57,537) (31 March 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 £70,416 (30 September 2016: £65,860) for providing these services and had amounts owing from/(due to) these companies at 30 September 2017 of £7,829 (30 September 2016: (£11594)). Directors of these companies are also directors of THFC.

8. RELATED PARTY TRANSACTIONS (continued)

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 2017	Six months ended 30 September 2016	Year ended 31 March 2017
	(unaudited)	(unaudited)	(audited)
	£	£	£
T.H.F.C. (Funding No.1) Plc	**£6,060134**	£6,027,129	12,021,233
T.H.F.C. (Funding No.2) Plc	**£11,903,523**	£11,839,005	23,484,457
T.H.F.C. (Funding No.3) Plc	**£7,100,031**	£16,257,800	32,395,402