The Housing Finance Corporation Limited

Annual Report & Accounts

2019

THFC
issue no.32

Contents

Purpose

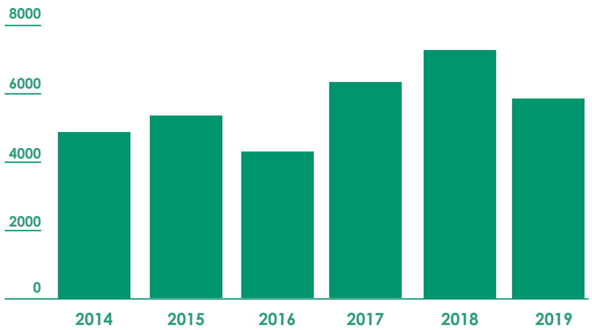
THFC has served the funding requirements of housing associations for the last 32 years.

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:

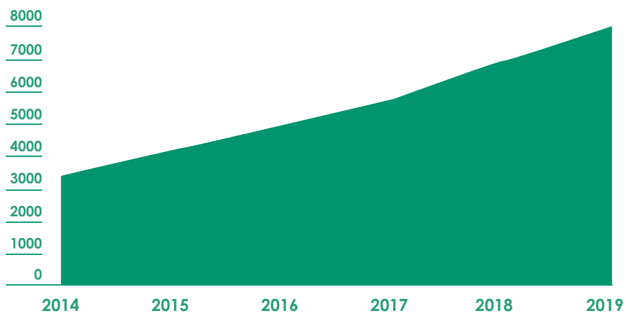
- sourcing funding from a range of institutional investors to deliver cost-efficient, responsible funding through the economic cycle and;
- operating as a non-profit-distributing finance company utilising our expertise, reputation and strong relationships.

Highlights

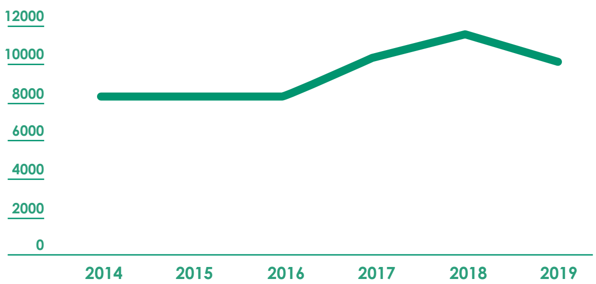
£5,809k (2018: £7,108k)
Group pre-tax surplus



£7,333m (2018: £6,991m)
THFC group loan book



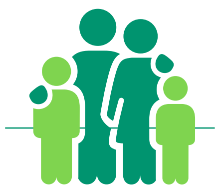
£10,595k (2018: £11,462k)
Group total income*



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

166
(2018: 165)
Housing Associations lent to

32,000+
Homes
Funded under AHF



Joint Chairman's and Chief Executive's Statement

The year under review has been an exciting one for The Housing Finance Corporation ("THFC") with the launch of the new bLEND Funding Plc ("bLEND") product, continued new issuance through THFC (Funding No 3) Plc, and a move to new office premises to accommodate the continued strong growth of the group.

Result for the year

An after-tax surplus of £4.7m (before net pension provisions of £1.2m) was - as expected - lower than 2017/18 (£5.8m), reflecting a return to more normalised business volumes post completion of AHF, the investment associated with the bLEND launch, our office move and IT upgrades. The net pension provision of £1.2m represents the one-off adjustment required in the year in adopting defined benefit accounting in relation to the Social Housing Pension Scheme. The group's total nominal loan book size exceeds £7bn for the first time in our history.

New business

The £2bn bLEND Medium Term Note ("MTN") programme was established in August 2018. This programme offers prospective borrowers competitive terms, a streamlined ratings process and significant flexibility, delivering a range of maturities to match their funding needs. We believe that THFC enjoys unrivalled knowledge of both borrower and investor preferences, which enables bLEND to match supply and demand. bLEND is a subsidiary of the group with its own distinct lending terms and is rated by Moody's Investor Services ("Moody's").

bLEND's public credit rating is a composite of the individual borrowing housing associations, combined with liquidity enhancement provided by interest service reserves, amounting to one year's interest. In contrast to the usual THFC credit due diligence, each borrower within bLEND undergoes a private rating assessment from Moody's and agrees that it will continue to support the rating process through the provision of private financial data throughout the life of their loan. bLEND undertakes not to add further borrowers to the bLEND pool if their addition would result in the then prevailing bLEND public rating being downgraded.

An inaugural 29 year benchmark bLEND transaction for £250m was priced for four borrowers in September 2018.

This was followed by two further transactions; a £50m 15 year deal (completed in March 2019 with £20m retained bonds) and a £20m, 35-year deal, priced just before 31 March (but closed post year-end). At year end, bLEND had £300m of bonds (with £20m of retained bonds) outstanding and has an A2 (stable) long-term rating from Moody's.

THFC (Funding 3) Plc issued a tap for four borrowers in the year and sold retained bonds to fund loans to five further borrowers. Total outstanding bonds issued by THFC (Funding No 3) Plc, including retained bonds, is now in excess of £1bn, a record size for a non-guaranteed housing bond. Issuance included a number of new borrowers, as well as existing customers. We are pleased that both our existing and new products are proving attractive. THFC continues to enjoy an 'A' Stable long-term rating from Standard and Poor's.

We continue to see healthy demand for our product from annuity funds. Any fall in demand associated with the Chancellor permitting individuals to opt out of annuity purchase from 2017 appears to be more than offset by the growth in UK bulk annuity market.

Infrastructure

The group is pleased to announce that it has moved to brand new offices which provide enhanced IT resilience and space to accommodate the expected growth in staff numbers that will arise from its continued strategy of sustainable growth.

The group has invested significantly in Information Technology over the course of the last year. This included the complete replacement of our IT infrastructure, a change of managed service provider and installation of next-generation connectivity and communication services. An additional raft of technologies have been introduced which strengthen the organisation's cyber resilience in response to the ever-changing threats. We have also employed a full-time IT Director to develop and lead our IT and wider business system strategy.

Sector developments

The year was marked by magnified Brexit uncertainty. The Regulator of Social Housing was proactive in requiring all housing associations to consider their Brexit risk exposure. Although the sector is domestically oriented, housing associations' core business is potentially exposed to asymmetric cost inflation (for instance labour costs in supported housing rising faster than income) and any 'for sale' activities are particularly exposed to a downturn in market confidence as purchasers defer or require lower prices to transact. In the year, there were some signs of this in the London market. Both Notting Hill Genesis and London & Quadrant Housing Trust publicly reported slowdowns in sales.

Outside London the sales market, particularly for shared ownership, held up well throughout the year, although even in the current relatively benign market, we have seen some instances of housing associations switching the tenure of new developments to shared ownership or affordable rent from outright market sale.

We continue to monitor housing associations' exposure to sales markets very closely.

Housing associations have continued to pursue merger opportunities during the year. THFC has approved a significant number of merger requests from its borrowers, many of which borrow from both THFC and Affordable Housing Finance Plc ("AHF"). The mergers have come in all shapes and sizes, but in nearly all cases, the consistent theme has been a desire to increase housing output through the combined resources of the enlarged organisation. In theory merger activity could raise our concentration risk significantly. So far, however, this has not proved to have been a concern.

In the wake of the Grenfell Tragedy, the Ministry for Housing, Communities and Local Government ("MHCLG") announced in May 2018 that it would fully fund the removal and replacement of unsafe cladding by around 12 Local Authorities and 31 housing associations, estimated at £400m. A welcome additional step was the announcement on the 9th May 2019 that a further £200 million will be made available to remove and replace unsafe cladding from around 170 privately owned high-rise buildings.

The year also saw the Government tone down a number of housing policy measures. Whilst Voluntary Right to Buy for housing associations is still being piloted, it is no longer viewed as a material policy measure. Importantly the housing association rent settlement was agreed for English housing associations, restoring the CPI +1% linkage from April 2020. We are now in the last year of the -1%p.a. rent cut sequence and our experience is that most housing associations have been able to adjust their cost base to absorb the series of rent cuts. There has been no widespread credit deterioration as a result of the rent settlement.

Universal Credit ("UC") continues to be rolled out and housing associations are seeing increased short-term arrears, especially driven from the five-week period before the first UC payment is made. However, housing associations appear to have improved/resourced their rent collection and benefit advice areas. Housing associations acting in conjunction with local Department of Work and Pension ("DWP") offices have been more proactive with reversion to direct-pay and DWP has in some cases slowed down further roll-out of UC meaning that potential problems have been contained to date. Nevertheless, the impact of UC is an area of focus when assessing creditworthiness.

The February 2019 UK Budget saw the Chancellor specifically announce a further £3bn of Affordable Housing Guarantees. AHF was very successful in its delivery under the previous scheme and intends to bid in the formal procurement, expected to be launched later in 2019. Having established 'proof of concept' and some of the most competitive long-term funding executed for the housing association sector under the first scheme, AHF is confident that it will put forward a compelling and competitively-priced bid.

Other initiatives

THFC has always considered that, as a "not-for-profit" entity, it should assist in an advisory capacity in the 'best-in-class' delivery of social and affordable housing finance in jurisdictions outside the UK, where resources permit. Three years ago, the (then) Australian Commonwealth Treasurer, Scott Morrison, approached THFC to assist the Australian Commonwealth Treasury in the establishment of a sovereign-guaranteed funding agency for their Community Housing Providers (CHPs: the formative equivalent of UK housing associations). THFC provided strategic advice on the structure of the National Housing Finance and Investment Corporation ("NHFIC") and how they might go about achieving their goals as a financial intermediary.

We are delighted that subsequently after new legislation was approved, NHFIC announced, in January, that it had successfully launched its first bond issue of A$315 million at a fixed rate of under 3.00%. The issue is the largest social bond issued in Australia to date.

Shareholdings

On the first of October 2018, the share held by the Homes and Communities Agency ("HCA") in THFC transferred to the Regulator of Social Housing. This was in line with the transfer of functions from the HCA to the regulator in accordance with the Legislative Reform (Regulator of Social Housing) (England) Order 2018.

Board changes

We are delighted to welcome George Blunden to the board of non-executive directors. He joined in March 2019 and will take over as Chair of the Board at the end of July 2019 at which time Ian Peacock will have completed the maximum permitted six-year term under THFC's tenure rules.

George brings a wealth of sector-specific experience and financial expertise to the board. He has invaluable knowledge of chairing large housing associations since 1993 and since 2010 has been the Chair of Stonewater, overseeing the successful integration of Raglan and Jephson Housing Associations.

Coincidentally, the tenure of THFC's longest serving Non-Executive Director, Senior Independent Director and chair of Audit Committee, John Parker, ends this summer. John has helped facilitate very significant change in the group during his term, which has encompassed the majority of the Global Financial Crisis. His commitment to mutual finance and wise counsel will be greatly missed. In his place I am delighted to announce the appointment of Guy Thomas. Guy has a long-standing background as a building society finance director, and in addition to his prospective duties at THFC he is currently the non-executive director and Chair of the Risk Committee at Sainsbury's Bank.

Once again, we would like to thank all directors and staff for their hard work and contribution to the continued success of the business during the year.

Ian Peacock
Chairman

Piers Williamson
Chief Executive

30 July 2019

Note from the Chief Executive

George Blunden's appointment sees the completion of Ian Peacock's six year term as Group Chair. Ian has helped to lay down the strategic path that has shaped the company into what it is today. During Ian's time as THFC Chair, the group won the bid to deliver the Affordable Homes Guarantee Scheme ("AHGS") and set up its delivery partner, AHF. The AHGS proved to be the most successful scheme of its type in over 30 years of provision of private finance to UK housing associations, delivering consistent borrowing rates of often below 2%.

On behalf of myself and the entire board I would like to express my sincere thanks to Ian for his stewardship and guidance over this key period of growth.

Piers Williamson
Chief Executive

Business and Financial Review

The five-year table on page 65 gives a comparative history of the THFC group and shows that our loan book has increased by 76.5% while total costs in that time have increased by 49.5% and our total revenues (net of interest expense) by 27.0% over the period.

The group achieved a pre-tax surplus of £5,809,000 (2018: £7,108,000). 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 2019, as a consequence of another successful year, the group's reserves have risen from £34.6m to £38.0m. 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 £421.8m (2018: £1,178.4m) of new money sourced from bond issues and other funders was advanced to housing associations by members of the group during the year. These loans, prepayments and other changes to our existing loans, produced net lending of £348.4m (2018: £1,114.6m), before adjustment for indexation and amortisation of premiums and discounts.

As a result the group loan book stands at £7,333m (2018: £6,991m). Details of borrowings by the group to fund its loan book are shown on page 29.

At the year-end the group was the provider of funds to 166 borrowers (2018: 165).

Our operating expenses were 0.06% (2018: 0.06%) of the £7.3bn (2018: £7.0bn) 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 65). The group achieved another strong surplus before and after tax and the ratio of expenses to the loan book has remained stable.

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 19 to 23. 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 four borrowers who have an element of floating charge security on six 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-two 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 2019 AHF had issued guaranteed secured bonds amounting to £1,744.1m. Guaranteed Bank facilities in place at 31 March 2019 amounted to £1,500.0m. 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.

Blend Funding Plc

Blend Funding Plc ("Blend") was incorporated in May 2018 and in August 2018 established a £2bn Medium Term Note Programme for the purposes of issuing notes to fund loans to housing associations under varying maturities and interest rates.

Blend's Medium Term Note Programme has been assigned a Moody's rating of "A2" driven by the weighted average rating of its pool of borrowers and this also determines the eligibility of new borrowers.

Borrowers from Blend are required to maintain asset cover of between 110% and 120% and income cover of 100%.

Blend borrowers are not subject to the same credit procedures as THFC borrowers.

The notes are listed on the International Securities Market of the London Stock Exchange.

HFP 2019 Limited

HFP 2019 Limited was incorporated in April 2019 and is currently dormant.

Reserves

All the issuing companies each covenant to their respective investors that they will maintain total operating expenditure within total operating income each year or on a rolling three-year basis as set out in their respective Trust Deeds. 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 £38.0m (2018: £34.6m).

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 £146,418 (2018: £152,005).

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 2018. 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 2019 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 2019 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 2019 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 2019.

Principal Activities

The Housing Finance Corporation Limited ("THFC") was incorporated 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, 3rd Floor, 17 St Swithin's Lane, London EC4N 8AL.

Results

The consolidated operating surplus before taxation for the year ended 31 March 2019 was £5,809,000 (2018: £7,108,000).

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 and treasury bills. 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 18.

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

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

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

George Blunden and Guy Thomas, 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, having served the maximum 6-year term with the company, will not offer himself for re-election. George Blunden will offer himself for election as Chairman.

Directors' Remuneration

Details of directors' remuneration are given on pages 46 and 47.

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 2019	THFC Shareholdings at 31 March 2019
Charlie Arbuthnot	(period to 24 July 2018)	NIL
Scott Bottles	(Full Year)	£1
George Blunden	(appointed 26 March 2019)	£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	(Full Year)	£1
Guy Thomas	(appointed 14 May 2019)	NIL

(continued)

Piers Williamson	Full Year	NIL
Other shareholders		
Regulator of Social Housing*		£1
The National Housing Federation		£1
Total issued share capital at 31 March 2019		£9

* Transferred from the Homes and Communities Agency on 1 October 2018.

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 £6.1bn and an actuarial deficit of £1.52bn (based on the results of the triennial valuation as of 30 September 2017) 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.

From 31 March 2019 THFCS' share of the current scheme deficit is accounted for in the group balance sheet. 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 (2018) 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)
Scott Bottles (chairman of credit committee)
George Blunden (non-executive director)
Colin Burke (executive director)
Fenella Edge (executive director)
Keith Exford CBE (chairman of remuneration committee and nominations 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)
Guy Thomas (non-executive director)
Piers Williamson (executive director)

The directors' biographies can be found on pages 15 to 18.

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

Shirley Smith does not serve on the Board of Blend Funding Plc.

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 Regulator of Social Housing 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 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 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 framework and evaluate individual credits.

Members comprise Scott Bottles (Chairman), George Blunden, John Parker, Gill Payne, Deborah Shackleton, Shirley Smith and Guy Thomas 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.

The chairman of audit committee is John Parker. John Parker steps down at the next AGM and will be replaced by Guy Thomas as chairman.

Members comprise John Parker (chairman), Keith Exford, Will Perry and Guy Thomas. 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), George Blunden, 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.

The members of the nominations committee are Keith Exford (chairman), Gill Payne, Will Perry and Deborah Shackleton.

Training and Development

New non-executive directors are provided with a tailored induction shortly after their appointment involving professional advisors where appropriate. 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 by 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. Crowe (UK) LLP are the current appointee.

The directors considered periodic reports on the effectiveness of internal controls during the period to 30 July 2019 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 Regulator of Social Housing (Will Perry) were remitted to their employers. The fees of the non-executive directors were increased with effect from 1 April 2019 following an independent benchmarking exercise which was overseen by the Remuneration Committee. This was the first exercise to take place for many years and adjustments reflect both the significant growth in the group over the last 5 years and the need to maintain a board of the appropriate calibre. 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 46 and 47.

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 Regulator of Social Housing 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 framework 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 (2018: 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
30 July 2019

Directors' Attendance at Meetings

	Main Board (6)	Special Board (2)	Audit Committee (3)	Credit Committee (8)	Remuneration Committee (2)	Nominations Committee (1)
Charlie Arbuthnot*	2	-	-	3	1	-
Scott Bottles	6	2	-	8	-	-
Colin Burke	6	1	3	-	-	-
Fenella Edge	6	2	3	8	-	
Keith Exford	5	-	3	-	2	1
John Parker	6	1	3	7	-	-
Gill Payne	4	-	-	4	1	1
Ian Peacock	6	-	-	7	2	-
Will Perry	6	2	3	-	-	1
Deborah Shackleton	6	-	-	7	-	1
Shirley Smith	6	1	-	7	2	-
Piers Williamson	6	2	3	7	-	-

- 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.
* resigned 24 July 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 Special 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.

George joined THFC as a Non-Executive Director in March 2019. His full-time career has ranged from adventure playgrounds to investment banking and fund management. For the last nine years George has been Chair of Charity Bank, retiring in May this year. He has also just completed his term of office as the Senior Independent Director of the insurer, Beazley Plc. He has also been deeply involved in social housing Chairing Southern Housing Group from 1993 to 2006 and Stonewater, one of the UK's largest housing associations since 2010. George will stand down as Chair from Stonewater in October this year.

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 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 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 since retiring from his executive career, he has become a consultant to leading property consultancy CBRE, Non-Executive Director of property professional practice Baily Garner and Vice Chair of CLIC Sargent, the largest children's and young people's cancer charity. Keith was appointed to the board in April 2011and is chair of remuneration and nominations committees.

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 (then) Financial Services 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 Perry
Non-Executive Director

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 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 Shackleton CBE
Non-Executive Director

Deborah is Chairman of Grainger Trust, one of the first for-profit Registered Providers. She was, until her retirement, Chief Executive of The Riverside Group, a major housing association serving over 50,000 tenants and has been involved in housing and regeneration for over 40 years. Her other interests include, Chair of Career Connect, Independent member, Progress Housing Group Audit Committee and Trustee of Lancashire Wildlife Trust. She has previously held non-executive roles with Liverpool John Moores University, National Museums Liverpool 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 Smith
Non-Executive Director

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.

Guy Thomas
Non-Executive Director

Guy is a Chartered Accountant and Chartered Director with over 30 years' experience in the financial services industry.

Prior to his executive retirement he was Group Finance Director of Principality Building Society, a lender to housing associations. A fellow of The Association of Corporate Treasurers he has extensive experience in treasury and risk management.

Guy is currently a Non-Executive director of Sainsbury's Bank where he is Chair of the Risk Committee and a member of the Audit Committee. He is also the Chair of Penhurst Properties Limited.

He was appointed to the Board in May 2019.

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 2019

Fixed Charge Security

Association borrower (legal entity)	Area	The Housing Finance Corp Limited Loans £000	Blend Funding Plc 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	Total Loan Value £000
A2Dominion Homes Limited	South East	81,944	–	–	–	–	–	–	81,944
A2Dominion South Limited	South East	50,000	–	–	1,503	–	–	–	51,503
Accent Housing Limited	National	11,471	–	2,702	–	–	–	20,000	34,173
Accord Housing Association Limited	Midlands	15,500	–	–	1,819	550	–	–	17,869
Adactus Housing Association Limited	North West	18,828	–	–	–	–	–	48,500	67,328
Anchor Hanover Group	South East	30,000	–	–	–	–	–	–	30,000
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 Anglia	20,638	–	–	–	–	–	–	20,638
Bernicia Group	North East	14,562	–	–	–	–	3,654	5,000	23,216
Bournville Village Trust	Midland	20,000	–	–	–	–	–	–	20,000
bpha Limited	South East	–	–	–	–	–	–	80,000	80,000
Bromsgrove District Housing Trust Limited	Midland	10,000	–	–	–	–	–		10,000
Bromford Housing Association Limited	Midland	55,000	–	–	–	–	–	70,000	125,000
Cadwyn Housing Association Limited	Wales	5,000	–	–	–	–	–	–	5,000
Cambridge Housing Society Limited	East Anglia	4,200	–	–	–	–	–	–	4,200
Cardiff Community Housing Association Limited	Wales	7,500	–	64	–	–	–	–	7,564
Castle Rock Edinvar Housing Association Limited	Scotland	5,500	–	–	–	–	–	–	5,500
Catalyst Housing Limited	London	–	–	298	–	–	–	50,000	50,298
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 Association Limited	National	3,722	–	–	1,504	–	–	–	5,226
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	1,667	–	–	–	–	4,162	–	5,829
Cornerstone Housing Limited	South West	5,000	–	–	–	–	–	5,000	10,000
Cotman Housing Association Limited	East Anglia	1,500	–	–	–	–	–	–	1,500
Croydon Churches Housing Association	London	–	–	–	–	–	–	13,000	13,000
Derwen Cymru	Wales	1,500	–	–	–	–	–	–	1,500
Derwent Housing Association Limited	East Midlands	10,000	–	–	–	–	–	–	10,000
Drum Housing Association	London	–	–	–	–	–	–	33,700	33,700
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	–	–	–	550	–	–	25,550
English Rural Housing Association	National	–	–	–	–	–	–	10,000	10,000
Equity Housing Group Limited	North West	20,000	–	80	–	894	–	–	20,974
Estuary Housing Association Limited	East Anglia	29,958	–	–	–	–	–	–	29,958
Family Housing Association (Birmingham) Limited	Midlands	6,500	–	–	–	–	3,366	–	9,866
Flagship Housing Group Limited	East Anglia	–	–	–	–	–	–	45,000	45,000
Fortis Living Limited	Midlands	–	70,000	–	–	–	–	140,000	210,000
Friendship Care and Housing Limited	Midland	2,000	–	–	–	–	5,500	–	7,500
Gateway Housing Association Limited	London	1,250	–	–	–	–	4,855	45,000	51,105

Loans Portfolio as at 31 March 2019

Fixed Charge Security (continued)

Association borrower (legal entity)	Area	The Housing Finance Corp Limited Loans £000	Blend Funding Plc 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	Total Loan Value £000
Glen Oaks Housing Association Limited	Scotland	14,300	–	–	–	–	–	–	14,300
Golding Homes Limited	South East	–	–	–	–	–	–	102,500	102,500
Grampian Housing Association Limited	Scotland	–	–	–	–	–	359	–	359
Gravesend Churches Housing Association Limited	South East	–	–	–	–	–	1,750	–	1,750
Great Places Housing Association Limited	North West	22,396	–	–	–	–	–	50,000	72,396
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	2,430	–	–	–	–	3,000	–	5,430
Hafod Housing Association Limited	Wales	10,000	–	–	–	–	–	–	10,000
Harrogate Housing Association Limited	Yorkshire & the Humber	2,000	–	–	–	–	–	–	2,000
Heart of England Housing Association Limited	Midland	–	–	–	–	–	–	50,000	50,000
Hexagon Housing Association Limited	London	7,000	–	–	2,633	–	–	49,000	58,633
Hightown Housing Association Limited	South East	30,733	30,000	–	–	–	–	–	60,733
Home Group Limited	National	44,840	–	2,277	7,334	–	–	139,000	193,451
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	61,292	–	–	–	–	–	–	61,292
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	11,800	–	–	1,504	–	–	–	13,304
Islington & Shoreditch Housing Association Limited	London	22,000	–	–	–	–	1,894	–	23,894
"Johnnie" Johnson Housing Trust Limited	North West	22,500	–	–	–	–	–	–	22,500
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	2,750	–	–	–	–	–	–	2,750
Leeds Federated Housing Association Limited	North East	13,300	–	–	–	–	–	15,000	28,300
LiveWest Homes Limited	South West	45,277	–	3,692	–	–	–	122,500	171,469
London & Quadrant Housing Trust	London	14,335	–	229	–	–	–	–	14,564
Longhurst & Havelok Homes Limited	East Anglia	6,000	–	–	–	–	–	–	6,000
Manningham Housing Association Limited	North East	34,003	–	–	–	–	2,000	–	36,003
Melin Homes Limited	Wales	22,000	–	–	–	–	–	–	22,000
Merlin Housing Society Limited	Midlands	–	–	–	–	–	–	75,000	75,000
Metropolitan Housing Trust Limited	London	84,056	–	527	1,128	–	–	25,000	110,711
Mid Wales Housing Association Limited	Wales	3,000	–	–	828	–	–	–	3,828
Midland Heart Limited	Midland	36,905	–	2,078	–	–	–	50,000	88,983
Moat Homes Limited	South East	–	–	–	–	–	–	50,000	50,000
Mosscare St. Vincents Housing Group Limited	North West	31,440	–	–	–	–	4,000	5,000	40,440
Mount Green Housing Association Limited	South East	–	–	–	–	–	–	6,000	6,000
Network Homes Limited	London	131,699	–	–	–	–	–	75,500	207,199
New Gorbals Housing Association Limited	Scotland	14,000	–	–	–	–	–	6,100	20,100
Newlon Housing Trust	London	22,000	–	–	–	–	–	–	22,000
Newydd Housing Association (1974) Limited	Wales	26,500	–	–	–	–	–	–	26,500
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	–	92	–	–	5,000	–	17,592
Notting Hill Genesis	London	65,500	–	–	–	–	2,000	50,000	117,500
Nottingham Community Housing Association Limited	Midland	12,400	–	–	–	–	–	29,000	41,400
Octavia Housing	London	15,000	–	–	–	–	–	18,000	33,000

Fixed Charge Security (continued)

Association borrower (legal entity)	Area	The Housing Finance Corp Limited Loans £000	Blend Funding Plc 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	Total Loan Value £000
One Housing Group Limited	London	38,500	–	–	–	–	–	–	38,500
One Vision Housing Limited	North West	3,000	–	–	–	–	3,250	–	6,250
Onward Homes Limited	North West	7,000	–	–	–	–	2,745	–	9,745
Optivo	London	40,000	–	3,324	–	–	–	150,100	193,424
Orbit South Housing Association Limited	Midland	–	–	–	–	–	–	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	London	23,039	–	160	–	1,752	3,000	–	27,951
Peabody Trust	London	104,000	–	–	–	–	–	100,000	204,000
Pickering and Ferens Homes	North West	–	–	–	–	–	–	10,000	10,000
Places for People Homes Limited	National	1,962	–	–	–	–	–	–	1,962
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 & Benefit Fund	North East	–	–	–	–	–	–	5,000	5,000
Regenda Limited	North West	3,000	–	–	2,185	–	2,000	–	7,185
Rhondda Housing Association Limited	Wales	10,000	–	–	–	–	–	–	10,000
Sadeh Lok Limited	North East	650	–	–	–	–	–	–	650
Salvation Army Housing Association	London	3,000	–	–	–	–	–	–	3,000
Sanctuary Housing Association	National	8,161	–	412	–	–	–	–	8,573
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
Silva Homes Limited	South East	–	–	–	–	–	–	40,000	40,000
Soho Housing Association Limited	London	15,000	–	–	–	–	1,500	–	16,500
South Western Housing Society Limited	South West	5,000	–	–	–	–	–	–	5,000
South Yorkshire Housing Association Limited	North East	2,954	–	–	–	–	–	–	2,954
Southern Housing Group Limited	London	141,970	–	459	–	–	10,000	–	152,429
Sovereign Housing Association Limited	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
The Riverside Group Limited	National	37,838	–	161	–	–	–	55,000	92,999
The Swaythling Housing Society Limited	South West	12,000	–	–	–	–	–	66,100	78,100
Thenue Housing Association Limited	Scotland	5,000	–	–	–	–	–	–	5,000
Torus62 Limited	North West	38,000	–	–	–	–	–	–	38,000
Trent & Dove Housing Limited	Midlands	24,000	–	–	–	–	–	–	24,000
Trident Housing Association Limited	Midland	3,500	–	620	–	–	–	–	4,120
Tuntum Housing Association Limited	Midland	7,000	–	–	–	–	–	–	7,000
United Communities Limited	South West	10,000	–	–	–	–	–	–	10,000
United Welsh Housing Association Limited	Wales	64,500	–	–	–	–	–	25,000	89,500
Vivid Housing Limited	South East	12,591	–	–	–	–	–	164,700	177,291
Wales and West Housing Association Limited	Wales	56,500	70,000	–	–	–	–	46,000	172,500
Wandle Housing Association Limited	London	21,418	–	–	–	–	–	35,000	56,418
Waterloo Housing Group Limited	Midland	9,750	110,000	–	–	–	–	–	119,750
Watford Community Housing Trust	South East	–	–	–	–	–	–	30,000	30,000
Weaver Vale Housing Trust Limited	North West	20,500	–	–	–	–	–	–	20,500
West Kent Housing Association	South East	45,000	–	–	–	–	–	54,000	99,000
West Mercia Homes Limited	Midlands	10,000	–	–	–	–	–	–	10,000
Westfield Housing Association Limited	North West	6,000	–	–	–	–	–	–	6,000

Loans Portfolio as at 31 March 2019

Fixed Charge Security (continued)

Association borrower (legal entity)	Area	The Housing Finance Corp Limited Loans £000	Blend Funding Plc 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	Total Loan Value £000
Westward Housing Group Limited	South West	47,000	–	–	–	–	–	20,000	67,000
White Horse Housing Association Limited	South West	675	–	–	–	–	–	–	675
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 Limited	North West	5,000	–	–	5,267	–	6,000	–	16,267
Total Fixed Charge Security		**2,809,504**	**280,000**	**17,175**	**25,705**	**3,746**	**88,335**	**3,244,100**	**6,468,565**

Floating Charge Security

Association borrower (legal entity)	Area	The Housing Finance Corp Limited Loans £000	Blend Funding Plc 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	Total Loan Value £000
Bernicia Group	North East	500	–	–	–	–	–	–	500
Bromford Housing Association Limited	South West	2,000	–	–	1,128	–	–	–	3,128
Waterloo Housing Group	Midlands	4,250	–	160	0	–	–	–	4,410
Total Floating Charge Security		**6,750**	**–**	**160**	**1,128**	**–**	**–**	**–**	**8,038**

Income Security

Association borrower (legal entity)	Area	The Housing Finance Corp Limited Loans £000	Blend Funding Plc 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	–	–	–	–	–	–	–	–	2,838	2,838
Bernicia Group	North East	–	–	–	–	–	–	–	–	4,216	4,216
Clarion Housing Association Limited	Midland	–	–	–	–	–	–	–	–	3,184	3,184
Contour Homes Limited	North West	–	–	–	–	–	–	–	–	3,150	3,150
London & Quadrant Housing Trust	London	–	–	–	–	–	–	–	–	4,376	4,376
Vivid Housing Limited	South East	–	–	–	–	–	–	–	–	3,148	3,148
Income Cover		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**20,912**	**20,912**
T.H.F.C (Capital) PLC											
Gentoo Group Limited	North East	–	–	–	–	–	–	–	538,286	–	538,286
Total		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**538,286**	**–**	**538,286**
Grand Total		**2,816,254**	**280,000**	**17,335**	**26,833**	**3,744**	**88,335**	**3,244,100**	**538,286**	**20,912**	**7,035,801**
Premium 31 March 2019											**297,190**
Total at 31 March 2019		**2,816,254**	**280,000**	**17,335**	**26,833**	**3,744**	**88,335**	**3,244,100**	**538,286**	**20,912**	**7,332,991**

Group Source of Funds

Government Guaranteed Funds, Secured Medium Term Notes, Debenture Stocks, Eurobonds, Bank and Other Loans as at 31 March 2019

			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	77,000	77,000
THFC Debenture Stocks					
Discounted	5% 2027		08.12.87	50,954	34,812
Stepped Coupon:	7.91% to 19.75% 2019		28.06.89	4,630	4,801
	7.55% to 17.61% 2019		17.08.89	7,860	7,644
	8.44% to 15.98% 2019		11.10.89	2,900	2,962
Conventional Fixed Rate:	12.04% 2021 (Annuity)		02.07.91	15,000	3,646
	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	2,838
	10.0938% 2024 (Annuity)		14.07.95	13,000	4,860
	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	75
25 year £26.5m fixed rate loan 2023 – EIB (Annuity)			26.11.98	24,860	7,338
25 year £10m fixed rate loan 2024 – EIB (Annuity)			02.09.99	28,000	10,164
25 year £20m fixed rate loan 2025 – EIB (Annuity)			08.09.00	10,500	4,444
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	6,160
25 year £9.86m sterling facility repayable 2028 (Annuity)			08.09.03	4,640	3,093
25 year £15m sterling fixed loan 2029 (Annuity)			16.06.04	15,000	7,195
25 year £15m revolver into term			14.03.05	15,000	5,115
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 – Greater London Authority (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, Secured Medium Term Notes, Debenture Stocks, Eurobonds, Bank and Other Loans as at 31 March 2019

		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	196,000	196,000
	tranche 3	25.04.12	120,500	120,500
	tranche 4	27.09.12	132,100	132,100
	tranche 5	15.04.13	61,600	61,600
	tranche 6	15.10.13	44,500	44,500
	tranche 7	04.08.17	151,300	151,300
	tranche 8	30.03.18	31,000	41,000
	tranche 9	25.01.19	15,000	15,000
T.H.F.C. (First Variable) Bank Loans				
30 year variable 2023 (Annuity)	tranche 1	30.04.93	2,750	545
	tranche 2	21.07.93	7,650	2,083
	tranche 3	17.12.93	2,750	545
	tranche 4	30.06.94	2,000	545
T.H.F.C. (Indexed) Limited Index Linked Debenture Stocks				
5.65% 2020 (Annuity)	tranche 1	13.11.90	45,600	10,450
	tranche 2	31.03.93	30,060	6,888
T.H.F.C. (Indexed 2) Limited Index Linked Debenture Stocks				
5.50% 2024 (Annuity)	tranche 1	16.12.94	20,600	15,553
	tranche 2	28.12.95	15,072	11,281
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	31,250	31,250
	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	655
25 year £40m fixed rate loan 2024 – EIB (Annuity)		02.09.99	16,500	6,046
25 year £18.9m fixed rate loan 2025 – EIB (Annuity)		08.09.00	14,900	5,333
UK Rents (No.I) Plc Rental Securitisation				
9.10% 2025 (Eurobond)		06.01.95	36,143	20,913
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	325,484
Blend Funding Plc				
3.459% Secured medium term notes 2047/49		21.09.18	250,000	250,000
2.984% Secured medium term notes 2034/36		15.03.19	30,000	30,000
Total			**7,807,528**	**7,038,798**
Premium at 31 March 2019				297,190
Grand Total				**7,335,988**

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 2019 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 2019 and of the Group's and Parent Company'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 2019, 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 page 10, 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

31 July 2019

Group Statement of Comprehensive Income

For the year ended 31 March 2019

	Notes	2019 £000	2018 £000
Operating Income			
On loans to housing associations			
Interest receivable	2	259,360	238,517
Discount amortised	11	1,733	1,582
Premium amortised	11	(10,051)	(8,506)
Income from securitised assets	16	1,953	2,142
Indexation on investments	11	2,113	2,656
Premium receivable on prepayment		3,168	643
Other interest		355	220
Fees receivable and other income		10,219	11,204
		268,850	248,458
Operating Expenses			
On debenture stocks, secured bonds, bank loans and other loans			
Interest payable	6	261,293	240,635
Discount amortised	14	1,733	1,582
Premium amortised	14	(10,051)	(8,506)
Indexation on loans payable	14	2,113	2,656
Premium payable on prepayment		3,167	629
Administration expenses	3	4,744	4,354
Finance costs	23	42	-
		263,041	241,350
Surplus before taxation		5,809	7,108
Taxation	7	(1,111)	(1,358)
Surplus for the year		4,698	5,750
Other comprehensive income for the year			-
Actuarial (loss) on defined benefit pension plan due to change in accounting estimate	23	(978)	-
Actuarial (loss) on defined benefit pension plan in the year	23	(423)	-
Income tax associated with actuarial (loss) on pension liability	15	238	-
Total comprehensive income for the year		3,535	5,750

Group Statement of Financial Position

At 31 March 2019

	Notes	2019 £000	2018 £000
Assets			
Non-current assets			
Loans	11	7,258,246	6,910,865
Intangible assets	8	108	83
Property, plant and equipment	9	256	72
Deferred tax asset	15	333	143
Current assets			
Loans	11	74,745	80,611
Other receivables	12	43,347	39,992
Short-term deposits	2	9,353	15,588
Cash and cash equivalents	2	70,404	60,641
Total assets		7,456,792	7,107,995
Liabilities			
Non-current liabilities			
Financial liabilities – borrowings	14	7,261,243	6,914,848
Deferred tax liabilities	15	100	100
Provision for other liabilities and charges	23	2,193	888
Current liabilities			
Financial liabilities – borrowings	14	74,745	80,611
Trade and other payables	13	79,873	76,216
Current tax liabilities		539	768
Total liabilities		7,418,693	7,073,431
Equity			
Called up share capital	17	-	-
Retained earnings	18	38,099	34,564
Total equity		38,099	34,564
Total equity and liabilities		7,456,792	7,107,995

The financial statements on pages 28 to 64 were approved by the Board of directors on 30 July 2019 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 2019

	Called up share capital £	Retained earnings £000	Total equity £000
Balance as at 1 April 2018	**7**	**28,814**	**28,814**
Surplus for the year	-	5,750	5,750
Shares issued in year	2	-	-
Other comprehensive income	-	-	-
Balance as at 31 March 2018	**9**	**34,564**	**34,564**
Surplus for the year	-	4,698	4,698
Shares issued in the year	**1**	-	-
Shares cancelled in the year	(1)	-	-
Other comprehensive income		(1,163)	(1,163)
Balance as at 31 March 2019	**9**	**38,099**	**38,099**

Group Statement of Cash Flows

For the year ended 31 March 2019

	Notes	2019 £000	2018 £000
Cash flows from operating activities			
Cash generated from operations	19	4,980	10,714
Interest received on loans to housing associations		260,545	238,129
Interest paid on debenture stocks, secured bonds, bank loans and other loans		(259,631)	(227,456)
Premium received on prepayment		3,168	-
Premium paid on prepayment		(3,168)	-
Loans to housing associations		(421,828)	(1,178,304)
Repayment of loans by housing associations		72,680	66,036
New borrowings		421,828	1,178,307
Repayment of amounts borrowed		(73,462)	(63,672)
Tax paid		(1,293)	(1,227)
Net cash generated from operating activities		3,819	22,527
Cash flows from investing activities			
Movement on short-term deposits		6,235	(11,687)
Purchase of property, plant and equipment	9	(236)	(12)
Purchase of intangible assets	8	(55)	(45)
Net cash generated from/(used in) investing activities		5,944	(11,744)
Net increase in cash and cash equivalents		9,763	10,783
Cash and cash equivalents at beginning of year		60,641	49,858
Cash and cash equivalents at end of year	20	70,404	60,641

THFC Statement of Comprehensive Income

For the year ended 31 March 2019

	Notes	2019 £000	2018 £000
Operating income			
On loans to housing associations			
Interest receivable	2	135,583	128,220
Discount amortised	11	1,724	1,571
Premium amortised	11	(3,994)	(2,892)
Premium receivable on prepayment		358	-
Other interest		257	172
Fees receivable and other income		3,471	3,963
Dividend from subsidiary undertaking		2,875	750
		140,274	131,784
Operating expenses			
On debenture stocks, bank loans and other loans			
Interest payable	6	135,568	128,202
Discount amortised	14	1,724	1,571
Premium amortised	14	(3,994)	(2,892)
Premium payable on prepayment		358	-
Administration expenses	3	3,213	2,627
		136,869	129,508
Surplus before taxation		3,405	2,276
Taxation	7	(101)	(289)
Surplus for the year		3,304	1,987
Other comprehensive income		-	-
Total comprehensive income for the year		3,304	1,987

THFC Statement of Financial Position

As at 31 March 2019

	Notes	2019 £000	2018 £000
Assets			
Non-current assets			
Loans	11	2,919,852	2,807,911
Investment in subsidiaries	10	-	-
Current assets			
Loans	11	27,459	21,165
Other receivables	12	21,389	20,577
Current tax asset		34	-
Short-term deposits	2	5,472	8,011
Cash and cash equivalents	2	45,927	39,406
Total assets		3,020,133	2,897,070
Liabilities			
Non-current liabilities			
Financial liabilities – borrowings	14	2,922,148	2,811,200
Deferred tax liabilities	15	100	100
Current liabilities			
Financial liabilities – borrowings	14	27,459	21,165
Trade and other payables	13	47,464	44,769
Current tax liabilities		-	178
Total liabilities		2,997,171	2,877,412
Equity			
Called up share capital	17	-	-
Retained earnings	18	22,962	19,658
Total equity		22,962	19,658
Total equity and liabilities		3,020,133	2,897,070

The financial statements on pages 28 to 64 were approved by the Board of directors on 30 July 2019 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 2019

	Called up share capital £	Retained earnings £000	Total equity £000
Balance as at 1 April 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**
Surplus for the year	-	3,304	3,304
Shares issued in the year	1	-	-
Shares cancelled in the year	(1)	-	-
Balance as at 31 March 2019	**9**	**22,962**	**22,962**

THFC Statement of Cash Flows

For the year ended 31 March 2019

	Notes	2019 £000	2018 £000
Cash flows from operating activities			
Cash (used in)/generated from operations	19	(745)	2,636
Interest received on loans to housing associations		137,012	130,419
Interest paid on debenture stocks, bank loans and other loans		(134,057)	(124,327)
Premium received on prepayment		358	-
Premium paid on prepayment		(358)	-
Loans to housing associations		(141,828)	(229,019)
Repayment of loans by housing associations		19,895	10,059
New borrowings		141,828	229,019
Repayment of amounts borrowed		(20,685)	(7,703)
Tax (charge paid)		(313)	(279)
Net cash generated from operating activities		1,107	10,805
Cash flows from investing activities			
Dividend received		2,875	750
Preference shares redeemed		-	1,000
Movement on short-term deposits		2,539	(8,011)
Net cash generated from/(used in) investing activities		5,414	(6,261)
Net increase in cash and cash equivalents		6,521	4,544
Cash and cash equivalents at beginning of year		39,406	34,862
Cash and cash equivalents at end of year	20	45,927	39,406

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 and International Securities Market of the London Stock Exchange.

2. Accounting policies

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

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

Basis of preparation

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

Going Concern

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

Changes in accounting policies and disclosures

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

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

- IFRS 15 Revenue from Contracts with Customers: The standard represents a single revenue recognition standard to be applied across various industries. The standard replaces IAS 18 Revenue.
- IFRS 9 Financial Instruments: This deals with the classification, measurement and impairment of financial assets and financial liabilities.

The group has adopted these standards in line with the transitional provisions provided in the new standards. The adoption of these standards has not had a material impact on the reported results of the financial position of the group but has given rise to additional disclosure requirements.

(b) *New and amended Standards and Interpretations mandatory for the first time for the financial year beginning 1 April 2018 but not currently relevant to the company and the group.*

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

- Annual improvements to IFRSs 2014-2016 cycle: 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:
  - IFRS 12 Disclosure of Interests in Other Entities - clarifies the scope of the disclosure requirements in IFRS 12.

(c) *New and amended Standards and Interpretations issued but not effective for the financial year beginning 1 April 2018*

- 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.

- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (Effective 1 January 2019): The amendments clarify the calculation of current service cost and net interest when an entity re-measures the net defined benefit liability (asset) when a plan amendment, curtailment or settlement occurs. The amendments are applied prospectively and early application is permitted.
- 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 and group's results and financial position.

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

a) Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in accordance with IFRSs requires the use of certain critical accounting judgements and estimates. 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:

The evaluation as to whether the loans to borrowers are impaired (note 11)

The directors have concluded that no impairment provision is required in relation to its loans to borrowers in accordance with IFRS 9. This is for a number of reasons which includes, but is not limited to, the credit quality of its borrowers and the group's zero loss experience to date. As the group is not subject to any net credit risk, any incurred loss would be matched by a similar adjustment to the gross liability.

The non-consolidation of related companies in which the group has a non-beneficial shareholding (note 2b)

The directors have concluded that the related companies do not fall within the definition of control contained in IFRS 10 primarily because the shares are held on a fiduciary basis.

Defined benefit pension liability (note 23)

Various estimates are used in the calculation of the defined pension liability, such as discount rate, inflation and mortality rates. In determining the appropriate discount rate, consideration is made to the interest rates of corporate bonds with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Inflation is set by considering market expectations, for example taking the difference between yields available on long-dated fixed-interest and index-linked gilts. Mortality rates are set in line with SAPS tables S2, adjusted to allow for any expectation of higher or lower life expectancy of scheme members due to geographic, socio-economic or demographic factors. At 31 March 2019, a liability of £2,193,000 for pensions (2018: £888,000) is recorded in the Statement of Financial Position.

During the current year, additional information has emerged which allows the group to reliably measure the defined benefit liability at 31 March 2019 and the cost going forward. This change in accounting estimate has been applied prospectively in the current year as explained in further detail in Note 23.

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 registered societies with limited liability incorporated 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.

2. Accounting policies continued

T.H.F.C. (Services) Limited ("THFCS"), UKRH and UKRT are private limited companies; UKR1, T.H.F.C. (Capital) PLC ("THFCC"), Affordable Housing Finance PLC ("AHF") and Blend Funding Plc ("Blend") 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, Blend 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 2018 and the summary information relates to that period end:

	Net assets	Profit for period
Harbour Funding Plc	£12,500	Nil
T.H.F.C. (Funding No.1) Plc	£12,500	Nil
T.H.F.C. (Funding No.2) Plc	£12,500	Nil
T.H.F.C. (Funding No.3) Plc	£12,500	Nil

At 31 December 2018 Harbour Funding Plc had loans and receivables of £208,869,512 (31 December 2017: £208,854,960), T.H.F.C. (Funding No.1) Plc had loans and receivables of £229,143,395 (31 December 2017: £228,884,894) ,T.H.F.C. (Funding No.2) Plc had loans and receivables of £401,631,624 (31 December 2017: £402,133,678) and T.H.F.C. (Funding No.3) Plc had loans and receivables of £960,964,619 (31 December 2017: £788,887,733).

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

c) Loans to housing associations, debenture stocks, secured bonds, secured notes 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, secured notes, 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, secured notes, 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, secured notes, bank borrowings and other borrowings are also stated at amortised cost.

Specific types of loan

(i) Stepped coupon loans and debenture stocks

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

(ii) Indexed-linked loans and debenture stocks

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

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

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

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

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

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

d) Financial Instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Net transaction costs that are directly attributable to the acquisition or issue of the financial assets and financial liabilities (other than financial assets and financial liabilities at FVPL) are respectively added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. The company recovers all transaction costs, so they do not form part of the fair value at recognition.

Financial Assets

Classification and measurement

The Group applies IFRS 9 and classifies its financial assets in the following measurement categories:

- fair value through profit or loss (FVPL)
- fair value through other comprehensive income (FVOCI)
- amortised cost

2. Accounting policies continued

The classification requirements for debt instruments are described below. Classification and subsequent measurement of debt instruments depend on:

1) the Group's business model for managing the asset; and

2) the cash flow characteristics of the asset ("SPPI test").

1) Business model: The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is:

- solely to collect the contractual cash flows from the assets ("Hold to collect"); or
- to collect both the contractual cash flows and cash flows arising from sale of the assets ("Hold to collect and sell"); or
- neither of these ("Other").

Factors considered by the Group in determining the business model for a group of assets include past experience of how the cash flows for these assets were collected, how the assets' performance is evaluated and reported to key management personnel, the likely future experience of cash flows, and how credit risks are assessed and managed.

2) SPPI test: Where the business model is "Hold to collect" or "Hold to collect and sell", the Group assesses whether the financial instruments' contractual cash flows represent solely payment of principal and interest on that principal ("SPPI"). In making this assessment, the Group considers whether those cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk and other basic lending risks that are consistent with a basic lending arrangement) or reflect exposure to risk or volatility that are inconsistent with a basic lending arrangement.

Based on these factors, the Group classifies its debt instruments into one of the measurement categories detailed above. All of the Group's financial assets have been assessed as falling within a "Hold to collect" business model whose contractual cash flows are SPPI and therefore measured at amortised cost.

Amortised cost is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest rate method, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of an asset.

Interest income from these financial assets is calculated by applying the effective interest rate to the gross carrying amount of the financial asset and is included in the statement of comprehensive income within 'operating income'.

Reclassification

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change.

The Group holds the following debt instruments as financial assets:

Loans receivable

Loans receivable represents monies lent to Housing Associations under loan agreements and held at amortised cost.

Cash and bank balances

Cash and cash equivalents comprise cash balances that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Short-term deposits

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

Trade and other receivables

Other receivables are recognised at transaction price and are subsequently measured at amortised cost, less provision for bad debts.

Collateral for loans

Collateral arrangements are described in note 22.

Collateral, unless subject to enforcement, is not recorded on the Group's statement of financial position. However, the value of collateral affects the calculation of expected credit losses.

Impairment

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, Stage 2 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.

The measurement of ECL reflects:

- probability-weighted amounts of loss given default using the Group's agreed methodology
- the time value of money; and
- reasonable and supportable information on the social housing sector that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of the future operating environment

The model for calculating the provisions for stage 1 and stage 2 is based on historical risk data. The expected loan loss in a future period is obtained by multiplying the present value of the exposure at default (EAD) by the probability of default (PD) and by the loss given default (LGD). The loan loss estimate is based on forward –looking assessments of PD, the LGD based on the latest security value, and the likely EAD.

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 the Regulatory environment. Loans which benefit from a "full faith" guarantee from the UK Government (SoS for MHCLG) have zero expected loss as the LGD is zero.

Significant Increase in Credit Risk (movement from stage 1 to stage 2)

The Group has identified a number of early warning indicators (EWIs) against which assets are monitored. If any of the events occur, internal consideration is given as to whether an individual loan should move to stage 2 classification.

EWIs include but are not restricted to, the following:

a) Unexpected adverse changes in the executive and management structure of the borrower

b) Annual financial statements carry an auditor's qualification

c) Government or regulatory action which negatively impacts on the client's business

d) Significant adverse changes in the business or financial condition of the borrower

e) Regulatory down-grade to a non-compliant financial grading

f) Payment of interest and capital after due date but within grace period

g) Early warning signs of cash flow/ liquidity problems

h) Indications of likely difficulty in meeting a forthcoming Bullet maturity using the company's proprietary tracker process

i) Decline in internal credit grading to a level below an equivalent investment grade

2. Accounting policies continued

Definition of default (movement to stage 3)

The Group has identified a series of quantitative and qualitative criteria that will be used to determine if an account meets the definition of default, and therefore should move to stage 3:

a) payment default

b) cross default

c) breach of covenant(s)

Prepayments

Although all loans are expected to run to maturity a borrower may, in accordance with the terms of its loan agreement, prepay the whole (or in some cases part) of the outstanding amount of its original loan. Any prepayment proceeds will be applied in accordance with the relevant Trust Deeds in the case of loans funded by the issue of stock, bonds or notes and in accordance with the relevant loan agreement in the case of bank borrowings. Such application may include redemption of stock, bonds or notes, investment in permitted investments, prepayment of the bank borrowing or on-lending to a substitute borrower.

The terms of the Trust Deeds of THFC and certain other issuers in the group provide that a housing association borrower shall be entitled to purchase an amount of stock, bonds or notes and may surrender the same to THFC for cancellation. In those circumstances an equivalent amount of the borrower's loan shall be deemed to be repaid.

Derecognition

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either

- The Group transfers substantially all the risks and rewards of ownership; or
- The Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

Financial liabilities

Classification and measurement

Financial liabilities are recognised where the substance of the contractual arrangement results in the Group having an obligation to either deliver cash or another financial asset to the holder.

Financial liabilities include borrowings and trade and other payables.

Initial recognition and subsequent measurement

Financial liabilities (other than derivatives) are initially recognised at the fair value of consideration less directly attributable net transaction costs and subsequently at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method.

Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

e) 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.

f) 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.

g) 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.

h) 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.

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.

2. Accounting policies continued

i) 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.

j) 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.

Depreciation rate

Plant and equipment 25% per annum

k) Leased assets

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

l) 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.

m) Pension fund

The group is part of the Social Housing Pension Scheme, a multi-employer defined benefit pension scheme administered independently by The Pensions Trust.

Previously, the administrator of the scheme was unable to allocate the scheme assets to individual employers, and hence was unable to determine the deficit attributable to each employer. As a result, historically the SHPS scheme has been accounted for as a defined contribution scheme, with a liability being recognised in respect of the present value of the contributions payable to fund the deficit. This was consistent with the accounting treatment required by IAS 19 for all schemes of this nature.

The accounting treatment for the SHPS defined benefit scheme has changed for the year ended 31 March 2019. The change has arisen as a result of a method of allocation being developed by the administrator that will allow each employer to recognise their share of assets and liabilities.

As such, the group recognises in its Statement of Financial Position the present value of its defined benefit obligations less the fair value of plan assets. The current service cost is charged against operating profit. Interest on the scheme liabilities net of the expected return on scheme assets is included in finance costs.

The defined benefit obligation is calculated at each period end by independent actuaries using the projected unit credit method. The present value of the obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefit will be paid and which have terms to maturity approximating to the terms of the related pension liabilities. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are reflected in the Statement of Comprehensive Income in the period in which they arise.

As explained in further detail in Note 23, the recognition as a defined benefit scheme has been treated as a change in accounting estimate. This is being reflected as a change in actuarial gains and losses through Other Comprehensive Income.

n) Investment in subsidiaries

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

o) 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.

p) 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 2019 £000	THFC 2019 £000	Group 2018 £000	THFC 2018 £000
Amortisation of intangible fixed assets	30	-	21	-
Depreciation of property, plant and equipment	52	-	48	-
Fees paid to auditors for:				
auditing of the financial statements	64	64	55	55
auditing of the financial statements of subsidiaries	72	-	52	-
other advisory services	2	-	4	-
Operating lease rentals:				
plant and machinery	4	-	4	-
other	127	-	112	-
Staff costs (note 4)	2,711	-	2,597	-
Pension provision charge (note 4)	152	-	21	-
Other	1,530	3,149	1,440	2,572
Total administration expenses	4,744	3,213	4,354	2,627

4. Staff numbers and cost

	Group 2019	Group 2018
Average number of persons (including Directors) employed during the year (monthly average):		
Non-executive Directors	8	7
Executive Directors	3	3
Management and administrative	16	15
	27	25

The aggregate employee costs amounted to:

	£000	£000
Non-executive Directors' fees	247	206
Wages & salaries	2,095	1,920
Social security costs	288	252
Other pension costs	233	219
	2,863	2,597

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

	2019 £000	2018 £000
Non-executive Directors:		
Fees	247	206
Executive Directors:		
Salaries	726	699
Bonuses	106	96
Benefits	23	22
Aggregate emoluments	1,102	1,023
Pension contributions	10	10
Total	1,112	1,033
Highest paid executive director:		
Salary	345	349
Bonus	49	46
Benefits	13	12
Aggregate emoluments	407	407
Pension contributions	-	-
Total	407	407

The fees of the chairman were £40,348 (2018: £40,104). Each other non-executive director (or their employer) received fees at the rate of £14,732 from THFC (2018: £14,334) per annum and £13,220 from AHF (2018: between £12,888 and £14,488).

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

During the year fees of £69,124 (2018: £55,264) in respect of three non-executive directors were paid to those directors' employers. No pension contributions were made by the group in respect of non-executive directors (2018: Nil).

On 1 April 2018 non-executive directors' fees were increased by 2.7%. The other increase in costs in the year relates to the appointment of an additional director to the board.

Executive directors' remuneration was subject to an external benchmarking exercise during the year.

A total amount of £137,992 was paid by the company in the year (2018: £133,000) 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.

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 1 January 2018 Piers Williamson was appointed a non-executive director of the Newbury Building Society. All fees payable in relation to this appointment are paid directly to Piers Williamson.

6. Interest payable

	Group 2019 £000	THFC 2019 £000	Group 2018 £000	THFC 2018 £000
On debenture stocks, secured bonds, secured notes, bank borrowings and other borrowings which are:				
Repayable wholly in more than five years				
Interest payable	178,886	90,229	182,525	108,981
Interest deferred	(1,632)	(1,632)	(1,465)	(1,465)
Repayable within five years	84,039	46,971	59,575	20,686
	261,293	135,568	240,635	128,202

7. Taxation

	Group 2019 £000	THFC 2019 £000	Group 2018 £000	THFC 2018 £000
UK corporation tax in respect of the current year	1,063	101	1,346	289
Deferred taxation in respect of the current year (see note 15)	48	-	12	-
Total tax expense for the year	1,111	101	1,358	289
The difference between the total tax expense shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:				
Profit before taxation	5,809	3,405	7,108	2,276
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	1,104	647	1,351	432
Timing difference between accountancy and taxation treatment of expenditure	(4)	-	3	-
Dividend not allowable for taxation	-	(546)	-	(143)
Permanently dis-allowable items and other timing differences	11	-	4	-
Total tax expense for the year	1,111	101	1,358	289
Effective tax rate	19.14%	19.19%	19.11%	12.70%

8. Intangible assets

	Group 2019 £000	THFC 2019 £000	Group 2018 £000	THFC 2018 £000
Implementation costs of software				
Cost				
At beginning of year	201	-	156	-
Additions	55	-	45	-
At end of year	256	-	201	-
Accumulated amortisation				
At beginning of year	118	-	97	-
Charge for the year	30	-	21	-
At end of year	148	-	118	-
Net book value at end of year	108	-	83	-
Net book value at beginning of year	83	-	59	-

9. Property, plant and equipment

	Group 2019 £000	THFC 2019 £000	Group 2018 £000	THFC 2018 £000
Fixtures, fittings and equipment				
Cost				
At beginning of year	397	-	386	-
Additions	236	-	11	-
At end of year	633	-	397	-
Accumulated depreciation				
At beginning of year	325	-	277	-
Charge for the year	52	-	48	-
At end of year	377	-	325	-
Net book value at end of year	256	-	72	-
Net book value at beginning of year	72	-	109	-

10. Investments

	THFC 2019 £	THFC 2018 £
Shares held in subsidiary undertakings		
THFCIL – 8 ordinary shares of £1 each (2018: 8)	8	8
THFCFV – 7 ordinary shares of £1 each (2018: 7)	7	7
THFCS – 92 ordinary shares of £1 each (2018: 92)	92	92
THFCIL2 – 7 ordinary shares of £1 each (2018: 7)	7	7
SHF – 7 ordinary shares of £1 each (2018: 7)	7	7
	121	121

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

THFCS declared a cash dividend in the year of £2,875,000 (2018: £750,000).

THFC beneficially owns directly or indirectly 100% of the ordinary share capital of THFCIL, THFCIL2, THFCFV, SHF, THFCC, THFCS, AHF, Blend, 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 3rd Floor, 17 St Swithin's Lane, London EC4N 8AL.

11. Loans and receivables

	Group 2019 £000	THFC 2019 £000	Group 2018 £000	THFC 2018 £000
Loans to housing associations				
At beginning of year	6,968,427	2,829,076	5,860,116	2,613,043
Premium on new issues	32,028	32,028	99,306	60,019
Premium adjustments	-	-	-	-
Loans repaid during the year	(70,544)	(19,895)	(64,121)	(10,059)
Loans advanced during the year	389,800	109,800	1,079,000	169,000
	7,319,711	2,951,009	6,974,301	2,832,003
Discount amortised for the year	1,733	1,724	1,582	1,571
Premium amortised for the year	(10,051)	(3,994)	(8,506)	(2,892)
Interest deferred for the year	(1,428)	(1,428)	(1,606)	(1,606)
Indexation for the year	2,113	-	2,656	-
At end of year	7,312,078	2,947,311	6,968,427	2,829,076
Securitised assets				
At beginning of year (Note 16)	23,049	-	24,964	-
Loans repaid during the year	(2,136)	-	(1,915)	-
At end of year	20,913	-	23,049	-
Total loans and receivables	7,332,991	2,947,311	6,991,476	2,829,076
Due within one year	74,745	27,459	80,611	21,165
Due after more than one year	7,258,246	2,919,852	6,910,865	2,807,911
Total	7,332,991	2,947,311	6,991,476	2,829,076

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, AHF where the minimum is 1.05 times cover and Blend where the minimum is 1.10 times);

(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 described 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 there is no evidence that the loans are impaired.

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 2019 £000	THFC 2019 £000	Group 2018 £000	THFC 2018 £000
Due within one year:				
Accrued interest income	39,591	19,747	39,348	19,748
Other receivables	3,756	1,603	644	729
Amounts due from subsidiary undertaking	-	39	-	100
	43,347	21,389	39,992	20,577

13. Trade and other payables

	Group 2019 £000	THFC 2019 £000	Group 2018 £000	THFC 2018 £000
Due within one year:				
Accrued interest payable	74,007	46,454	70,714	43,312
Other taxation and social security	90	-	78	-
Other payables	5,776	513	5,424	464
Amounts due to subsidiary undertakings	-	497	-	993
	79,873	47,464	76,216	44,769

14. Financial liabilities – borrowings

	Group 2019 £000	THFC 2019 £000	Group 2018 £000	THFC 2018 £000
Guaranteed secured bonds				
At beginning of year	1,912,988	-	1,627,949	-
Issued during the year	-	-	250,500	-
Premium on issue	-	-	39,287	-
Premium amortised	(5,012)	-	(4,748)	-
At end of year	1,907,976	-	1,912,988	-

	Group 2019 £000	THFC 2019 £000	Group 2018 £000	THFC 2018 £000
Guaranteed secured bank loans				
At beginning of year	1,500,000	-	845,500	-
Borrowings during the year	-	-	654,500	-
At end of year	1,500,000	-	1,500,000	-

	Group 2019 £000	THFC 2019 £000	Group 2018 £000	THFC 2018 £000
Eurobonds (note 16)				
At beginning of year	23,049	-	24,964	-
Repaid during the year	(2,136)	-	(1,915)	-
At end of year	20,913	-	23,049	-

	Group 2019 £000	THFC 2019 £000	Group 2018 £000	THFC 2018 £000
Secured medium term note programme				
At beginning of year	-	-	-	-
Issued during the year	280,000	-	-	-
At end of year	280,000	-	-	-

	Group 2019 £000	THFC 2019 £000	Group 2018 £000	THFC 2018 £000
Debenture stocks				
At beginning of year	677,575	314,594	697,810	317,672
Repaid during the year	(40,185)	(11,662)	(21,110)	(2,152)
Discount amortised	1,375	1,368	1,247	1,236
Premium amortised	(1,785)	(740)	(1,562)	(696)
Deferred interest	(1,630)	(1,631)	(1,466)	(1,466)
Indexation	2,113	-	2,656	-
At end of year	637,463	301,929	677,575	314,594

	Group 2019 £000	THFC 2019 £000	Group 2018 £000	THFC 2018 £000
Bank borrowings				
At beginning of year	1,381,660	1,018,307	1,417,307	1,023,858
Borrowed during the year	-	-	5,000	-
Repaid during the year	(31,141)	(9,023)	(40,647)	(5,551)
At end of year	1,350,519	1,009,284	1,381,660	1,018,307

	Group 2019 £000	THFC 2019 £000	Group 2018 £000	THFC 2018 £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	1,499,464	1,499,464	1,272,306	1,272,306
Loans during the year	109,800	109,800	169,000	169,000
Premium on issue	32,028	32,028	60,019	60,019
Premium amortised	(3,254)	(3,254)	(2,196)	(2,196)
Discount amortised	356	356	335	335
At end of year	1,638,394	1,638,394	1,499,464	1,499,464
Subordinated loans (note 16)	723	-	723	-
Total borrowings at 31 March 2019	7,335,988	2,949,607	6,995,459	2,832,365

	Group 2019 £000	THFC 2019 £000	Group 2018 £000	THFC 2018 £000
Amounts falling due within one year	74,745	27,459	80,611	21,165
Amounts falling due after one year	7,261,243	2,922,148	6,914,848	2,811,200
Total	7,335,988	2,949,607	6,995,459	2,832,365

Amounts falling due after one year are repayable as follows:

	Group 2019 £000	THFC 2019 £000	Group 2018 £000	THFC 2018 £000
Between one and two years	55,550	14,165	64,455	27,895
Between two and five years	456,202	248,780	247,785	52,133
In five years or more	6,749,491	2,659,203	6,602,608	2,737,902
	7,261,243	2,922,148	6,914,848	2,811,200

The guaranteed secured bonds, secured medium term notes, debenture stocks, bank and other loans are secured by floating charges over all the assets of AHF, Blend, 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, secured notes, debenture stocks, bank borrowings and other borrowings are substantially identical to the income and repayment terms of the related investments.

During the year Blend issued secured notes in principal amount of £280.0m.

15. Deferred tax

	Group 2019 £000	THFC 2019 £000	Group 2018 £000	THFC 2018 £000
At beginning of the year	(43)	100	(55)	100
Charged to the statement of profit or loss	48	-	12	-
Credited to other comprehensive income	(238)	-	-	-
At end of the year	(233)	100	(43)	100

	Group 2019 £000	THFC 2019 £000	Group 2018 £000	THFC 2018 £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
Retirement benefit obligation	(374)	-	(151)	-
Accelerated capital allowances	41	-	8	-
Amount provided	(233)	100	(43)	100

The UK Government has announced future tax changes to the corporation tax rate. These changes resulted in a decrease in the standard rate of corporation tax to 20% for the 2016/17 tax year, falling to a rate of 19% for the 2017/18, 2018/19 and 2019/20 tax years and eventually culminating in a rate of 17% by 2020/21.

As at 31 March 2019 all such changes have been substantively enacted and have therefore been reflected in the calculation of deferred tax for the year ended 31 March 2019.

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 2019 was £723,000 (2018: £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 £1,953,000 (2018: £2,142,000) 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

	2019 £	2018 £
At beginning of year	9	7
Issued in year	1	2
Cancelled in year	(1)	-
At end of year	9	9

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 2019 £000	THFC 2019 £000	Group 2018 £000	THFC 2018 £000
Opening reserves	34,564	19,658	28,814	17,671
Surplus for the year	4,698	3,304	5,750	1,987
Other comprehensive income	(1,163)	-	-	-
Closing reserves	38,099	22,962	34,564	19,658

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 2019 were £1,979,000 (2018: £1,975,000).

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. AHF's reserves at 31 March 2019 were £6.3m.

19. Reconciliation of surplus to net cash flow from operations

	Group 2019 £000	THFC 2019 £000	Group 2018 £000	THFC 2018 £000
Surplus before taxation	5,809	3,405	7,108	2,276
Interest receivable	(251,042)	(133,313)	(232,235)	(126,899)
Interest payable	252,974	133,298	234,340	126,880
Dividend receivable	-	(2,875)	-	(750)
Adjustment for:				
Depreciation and amortisation	82	-	69	-
Finance costs	42	-	-	-
Net employer contribution after administration costs	(137)	-	-	-
Increase/(decrease) in pension provision	-	-	(111)	-
(Increase)/decrease in other receivables	(3,112)	(813)	1,138	(119)
Increase/(decrease) in other payables	364	(447)	405	1,248
Net cash inflow/(outflow) from operating activities	4,980	(745)	10,714	2,636

20. Analysis of changes in net funds

	At 1 April 2018 £000	Cash Flows £000	Other Non-cash Changes £000	At 31 March 2019 £000
Group				
Cash and cash equivalents	60,641	9,763	-	70,404
Debt due after 1 year	(6,914,848)	(348,366)	1,971	(7,261,243)
Debt due within 1 year	(80,611)	-	5,866	(74,745)
Short-term deposits	15,588	(6,235)	-	9,353
	(6,919,230)	(344,838)	7,837	(7,256,231)

	At 1 April 2018 £000	Cash Flows £000	Other Non-cash Changes £000	At 31 March 2019 £000
THFC				
Cash and cash equivalents	39,406	6,521	-	45,927
Debt due after 1 year	(2,811,200)	(121,143)	10,195	(2,922,148)
Debt due within 1 year	(21,165)	-	(6,294)	(27,459)
Short-term deposits	8,011	(2,539)	-	5,472
	(2,784,948)	(117,161)	3,901	(2,898,208)

21. Commitments

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

	Group 2019 £000	Group 2018 £000
Due within 1 year	107	129
In the 2nd to 5th year inclusive	779	59
Over 5 years	145	-
	1,031	188

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 2019 each 0.5% increase/decrease in interest rates gives rise to a £301,027 (2018: £256,034) increase/decrease in income for the group and £180,366 (2018: £108,024) increase/decrease for THFC.

(b) Credit risk

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

THFC makes its own independent credit assessment of its borrowers including credit scoring and makes loans only after careful review by the credit committee. THFC has implemented policies that require regular credit assessment of each of its borrowers as well as monitoring the adequacy of underlying collateral. Blend borrowers are not subject to the same credit procedures as other borrowers from the group but they must meet a prerequisite rating assigned by Moody's to be eligible for funding.

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 2019 (2018: 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 four borrowers who have an element of floating charge security on six 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, 105% Existing Use Value (EUV) for AHF) and 120% MVT or 110% EUV for Blend Funding Plc). 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 2019 (2018: 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. Blend Funding Plc notes similarly have a two-year maturity mismatch.

22. Financial risk management continued

In connection with T.H.F.C. (Funding No. 2) Plc and T.H.F.C. (Funding No. 3) Plc, THFC holds an interest service reserve, as Trustee, as a first call in the event of a borrower default. AHF and Blend borrowers provide AHF and Blend as Trustees respectively 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 2019 (2018: None).

The maturity profile of financial assets	Group 2019 £000	THFC 2019 £000	Group 2018 £000	THFC 2018 £000
Loans to housing associations	7,312,078	2,947,311	6,968,427	2,829,076
Securitised assets	20,913	-	23,049	-
	7,332,991	2,947,311	6,991,476	2,829,076
Due within one year	74,745	27,459	80,611	21,165
Due between one and two years	55,550	14,165	64,455	27,895
Due between two and five years	456,202	248,780	247,785	52,133
Due in over five years	6,746,494	2,656,907	6,598,625	2,727,883
	7,332,991	2,947,311	6,991,476	2,829,076

Interest rate risk profile of loans and borrowings

	Group 2019 Financial Liabilities £000	Group 2019 Financial Assets £000	Group 2018 Financial Liabilities £000	Group 2018 Financial Assets £000
Fixed rate	6,678,794	6,676,493	6,300,789	6,297,495
Floating rate	656,471	656,498	693,947	693,981
No interest payable	723	-	723	-
	7,335,988	7,332,991	6,995,459	6,991,476

	THFC 2019 Financial Liabilities £000	THFC 2019 Financial Assets £000	THFC 2018 Financial Liabilities £000	THFC 2018 Financial Assets £000
Fixed rate	2,637,437	2,635,141	2,502,975	2,499,686
Floating rate	312,170	312,170	329,390	329,390
	2,949,607	2,947,311	2,832,365	2,829,076

The effective interest rates during the year for the group and THFC were between 0.79% and 12.04%. The weighted average interest rate on both fixed financial liabilities and fixed financial assets of the group is 3.98% and the weighted average period for which interest rates are fixed is 19.04 years. The corresponding figures for THFC are 5.234% and 17.55 years respectively.

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

All assets and liabilities are denominated in £ sterling.

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

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

	Group 2019 £000	THFC 2019 £000	Group 2018 £000	THFC 2018 £000
Within one year	5,000	5,000	-	-
Between one and two years	-	-	143,000	143,000
Over two years	160,270	111,200	39,675	-
	165,270	116,200	182,675	143,000

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 2019 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 2019 remain unchanged until the contract maturity. Similarly, on indexed liabilities it has been assumed that the liability is fixed from 31 March 2019.

Group

As at 31 March 2019	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	267,238	264,188	766,416	3,519,903	4,817,745
Contractual principal cash flows	64,466	45,541	426,590	6,517,153	7,053,750
Total contractual cash flows	331,704	309,729	1,193,006	10,037,056	11,871,495

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

THFC

As at 31 March 2019	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	138,027	136,289	404,812	1,686,518	2,365,646
Contractual principal cash flows	23,117	10,185	236,338	2,564,587	2,834,227
Total contractual cash flows	161,144	146,474	641,150	4,251,105	5,199,873

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

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

23. Pensions

The group's employees and past employees are deferred members or pensioners of the Social Housing Pension Scheme (SHPS).

With effect from 1 April 2017 all active membership of defined benefit pension schemes was ceased.

The group currently contributes to one defined contribution pension scheme for certain employees, which is operated by The Pensions Trust. During the year, the group recognised £76,464 (2018: £69,000) of pension costs in relation to the defined contribution scheme.

Social Housing Pension Scheme

The group participates in this scheme, a multi-employer scheme which provides benefits to approximately 500 non-associated employers.

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 last triennial valuation of the scheme for funding purposes was carried out as at 30 September 2017. This valuation revealed a deficit of £1,522m. A Recovery Plan has been put in place with the aim of removing this deficit by 30 September 2026.

In line with the recovery plan, the group expects to make a contribution of £206,385 to the SHPS scheme in the year ended 31 March 2020.

The Scheme is classified as a 'last-man standing arrangement'. Therefore the group 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.

Previously, the administrator of the scheme was unable to allocate the scheme assets to individual employers, and hence was unable to determine the deficit attributable to each employer. As a result, historically SHPS has been accounted for as a defined contribution scheme, with a liability being recognised in respect of the present value of the contributions payable to fund the deficit. This is consistent with the accounting treatment required by IAS 19 for all schemes of this nature. The accounting treatment for the SHPS defined benefit scheme has changed for the year ended 31 March 2019. The change has arisen as a result of a method of allocation being developed by the administrator that will allow each employer to recognise their share of assets and liabilities.

The emergence of this new information means the group has sufficient information to enable it to reliably measure the defined benefit liability at 31 March 2019 and the cost going forward. This change in the best estimate of the liability has been treated as a change in accounting estimate and has been applied prospectively in the current year. The impact of this change has resulted in a £978,000 increase in the defined benefit provision which is being treated as a change in actuarial gains and losses through Other Comprehensive Income.

For accounting purposes, two actuarial valuations for the scheme were carried out with effective dates of 31 March 2018 and 30 September 2018. The liability figures from each valuation are rolled forward to the relevant accounting dates, if applicable, and are used in conjunction with the Group's fair share of the Scheme's total assets to calculate the group's net deficit or surplus at the accounting period start and end dates.

Pension scheme liabilities recognised in the statement of financial position

	31 March 2019 £000	31 March 2018 £000
Pension obligations recognised as Defined Benefit schemes	2,193	-
Pension obligations recognised as Defined Contribution Schemes	-	888
Total pension scheme liabilities	2,193	888

The weighted average duration of the defined benefit obligation is approximately 19 years.

Reconciliation of opening and closing balances of the defined benefit obligation

	31 March 2019 £000	31 March 2018 £000
Fair value of plan assets	6,057	6,052
Present value of defined benefit obligation	(8,250)	(7,917)
Defined benefit liability to be recognised	(2,193)	(1,865)

Reconciliation of opening and closing balances of the defined benefit obligation

	Year ended 31 March 2019 £000s
Defined benefit obligation at start of period	7,917
Expenses	4
Interest expense	191
Actuarial losses (gains) due to scheme experience	178
Actuarial losses (gains) due to changes in demographic assumptions	22
Actuarial losses (gains) due to changes in financial assumptions	528
Benefits paid and expenses	(742)
Losses (gains) due to benefit changes	152
Defined benefit obligation at end of period	8,250

Reconciliation of opening and closing balances of the fair value of plan assets

	Year ended 31 March 2019 £000s
Fair value of plan assets at start of period	6,052
Interest income	149
Experience on plan assets (excluding amounts included in interest income) - gain (loss)	305
Contributions by the employer	293
Benefits paid and expenses	(742)
Fair value of plan assets at end of period	6,057

The actual return on the plan assets (including any changes in share of assets) in the year ended 31 March 2019 was £454,000.

As the change in accounting estimate is being applied prospectively, the group has not presented comparative information for either of the above two reconciliations.

23. Pensions continued

Defined benefit costs recognised in statement of comprehensive income (SoCI)

	Year to 31 March 2019 £000
Expenses	4
Net interest expense	42
Losses due to benefit changes	152
Defined benefit costs recognised in statement of comprehensive income (SoCI)	198

The loss due to benefit changes relates to the enhanced element of cash enhanced transfer values offered to certain current and past members of the scheme during the year as part of a deficit reduction exercise. The cash enhancement was paid by the group.

Defined benefit costs recognised in other comprehensive income

	Year to 31 March 2019 £000
Experience on plan assets (excluding amounts included in net interest cost) - gain	305
Experience gains and losses arising on the plan liabilities - (loss)	(178)
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation - (loss)	(22)
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - (loss)	(528)
Total actuarial gains and losses (before restriction due to some of the surplus not being recognisable) - (loss)	(423)
Effect of change in accounting estimate - (loss)	(978)
Total amount recognised in other comprehensive income - gain (loss)	(1,401)

Assets

	31 March 2019 £000s	31 March 2018 £000s
Global Equity	1,019	1,195
Absolute Return	524	739
Distressed Opportunities	110	58
Credit Relative Value	111	-
Alternative Risk Premia	349	230
Fund of Hedge Funds	27	199
Emerging Markets Debt	209	244
Risk Sharing	183	56
Insurance-Linked Securities	174	159
Property	136	279
Infrastructure	318	155
Private Debt	81	54
Corporate Bond Fund	283	249
Long Lease Property	89	-
Secured Income	217	224
Liability Driven Investment	2,215	2,205
Net Current Assets	12	6
Total assets	6,057	6,052

None of the fair values of the assets shown above include any direct investments in the employer's own financial instruments or any property occupied by, or other assets used by, the employer.

Key assumptions

	31 March 2019 % per annum	31 March 2018 % per annum
Discount Rate	2.30	2.56
Inflation (RPI)	3.30	3.19
Inflation (CPI)	2.30	2.19
Salary Growth	3.30	3.19
Allowance for commutation of pension for cash at retirement	75% of maximum allowance	75% of maximum allowance

The mortality assumptions adopted at 31 March 2019 imply the following life expectancies:

	Life expectancy at age 65 (Years)
Male retiring in 2019	21.8
Female retiring in 2019	23.5
Male retiring in 2039	23.2
Female retiring in 2039	24.7
	Increase by 2.2%

The effect of changes in principal actuarial assumptions

The following table presents a sensitivity analysis for each significant actuarial assumption showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at the reporting date.

Assumption	Plus	Estimated increase/(decrease) to liability(£000)	Minus	Estimated increase/(decrease) to liability(£000)
Discount rate	0.1%	(150)	0.1%	154
RPI	0.1%	123	0.1%	(129)
CPI	0.1%	123	0.1%	(129)
Salary	0.1%	9	0.1%	(8)
Age of member	1 year	229	1 year	(222)

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.

23. Pensions continued

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 2019 was £3,133,703 (2018: £2,537,932). The amount due (to)/from THFCS at 31 March 2019 was (£422,544) (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

The group earned fees of £146,418 (2018: £152,005) for providing these services and had amounts owing from/(due to) these companies at 31 March 2019 of £2,956 (2018: £2,515). Certain Directors of THFC are also directors of these companies.

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

During the year, THFC received a cash dividend from THFCS of £2,875,000.

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:

	2019 **£**	**2018** **£**
T.H.F.C. (Funding No.1) Plc	£12,054,258	£12,054,258
T.H.F.C. (Funding No.2) Plc	£23,548,975	£23,548,973
T.H.F.C. (Funding No.3) Plc	£42,937,006	£35,878,868

25. Fair values of financial instruments

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

The fair value of the 5.2% secured bonds has been recorded at market value as the markets are considered to be active (Level 1 valuation).

All the group's other debenture stocks, secured bonds and secured medium term notes 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 2019 £000	Fair value 2019 £000	Book value 2018 £000	Fair value 2018 £000
Assets				
Loans receivable	7,332,991	9,049,791	6,991,476	8,664,823
Trade and other receivables	43,349	43,349	39,992	39,992
Short-term cash deposits	9,353	9,353	15,588	15,588
Cash and cash equivalents	70,404	70,404	60,641	60,641
	7,456,097	9,172,897	7,107,697	8,781,044
Liabilities				
Financial liabilities-borrowings	7,335,988	9,053,092	6,995,459	8,676,026
Trade and other payables	79,873	79,873	76,216	76,216
	7,415,861	9,132,965	7,071,675	8,752,242

THFC

	Book value 2019 £000	Fair value 2019 £000	Book value 2018 £000	Fair value 2018 £000
Assets				
Loans receivable	2,947,311	3,639,014	2,829,076	3,545,548
Investments	-	-	-	-
Trade and other receivables	21,389	21,389	20,577	20,577
Short-term cash deposits	5,472	5,472	8,011	8,011
Cash and cash equivalents	45,927	45,927	39,406	39,406
	3,020,099	3,711,802	2,897,070	3,613,542
Liabilities				
Financial liabilities-borrowings	2,949,607	3,641,618	2,832,365	3,556,063
Trade and other payables	47,464	47,464	44,769	44,769
	2,997,071	3,689,082	2,877,134	3,600,832

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 2019 amounted to £186.2m (2018: £172.4m) for sinking fund balances and £200.6m (2018: £147.1m) for reserve funds balances.

27. Event after balance sheet date

On 5 April 2019 and on 06 June 2019 further issues of secured medium term notes were made through Blend to finance further loans to borrowers.

On 11 April 2019 HFP 2019 Limited was incorporated and is currently dormant. The entire share capital is owned by THFC (Services) Limited.

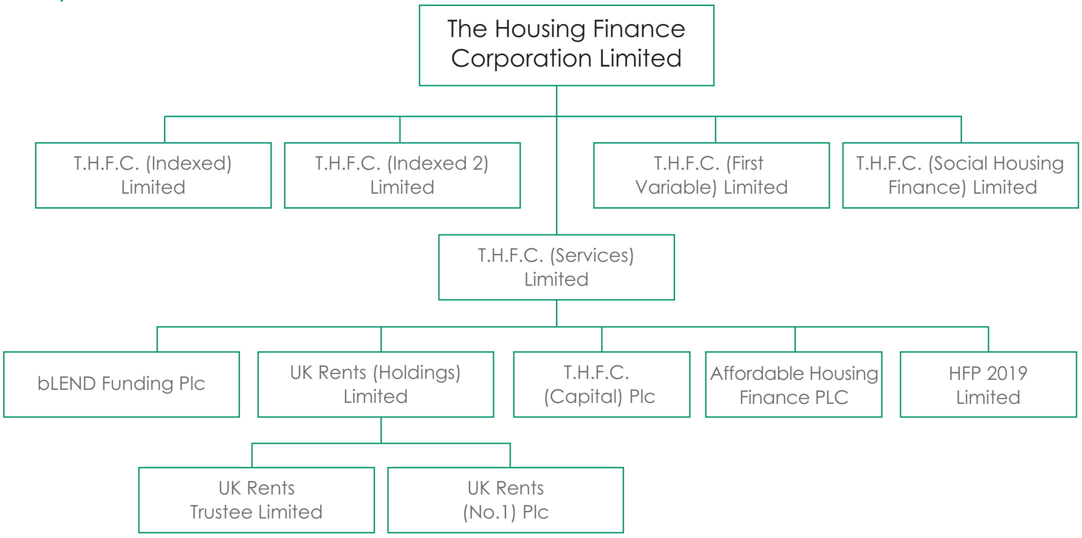
Five Year Financial Record

Excluding loan interest and similar items

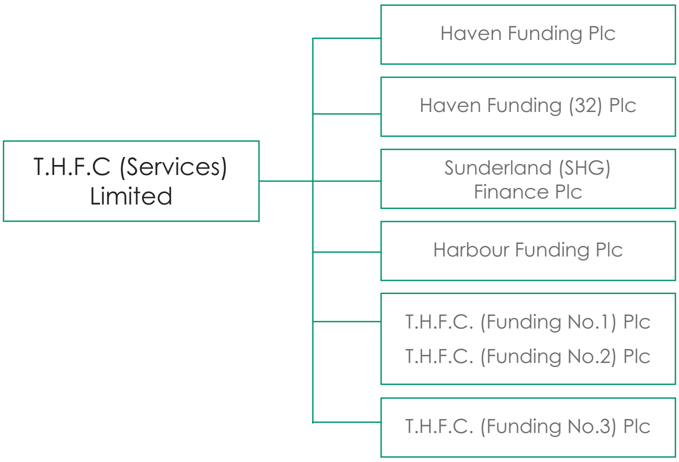
Year to 31 March	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000
Fees	7,848	7,945	9,859	11,000	10,021
Investment income	267	283	242	220	354
Other income	197	193	187	204	199
Interest margin	32	1	24	38	21
Total revenues (after interest expense off-set)	8,344	8,422	10,312	11,462	10,595
Staff costs	1,840	2,269	2,403	2,321	2,531
Pension provision	-	488	42	22	152
Non-executive directors costs	163	175	211	206	247
Legal/trustees and registrars	360	345	395	354	345
Premises	161	202	189	190	224
Other	677	822	936	1,261	1,287
Total operating expenses	3,201	4,301	4,176	4,354	4,786
Surplus before tax	5,143	4,121	6,136	7,108	5,809
Other comprehensive income	-	-	-	-	(1,163)
Tax	1,081	832	1,238	1,358	1,111
Surplus after tax	4,062	3,289	4,898	5,750	3,535
Accumulated reserves	20,627	23,916	28,814	34,564	38,099
	£m	**£m**	**£m**	**£m**	**£m**
Loans outstanding	4,155	5,087	5,885	6,991	7,333
	%	%	%	%	%
Ratio of operating expenses to loan book	0.08	0.08	0.07	0.06	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 **£904,100,000** 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 58 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

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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

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