T.H.F.C. (FUNDING NO. 3) PLC

Annual Report

For the year ended 31 December 2017

Companies House no: 07765422

T.H.F.C. (FUNDING NO. 3) PLC

Annual report and financial statements for the year ended 31 December 2017

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Directors

C. Burke
F. Edge
I. Peacock
P. Williamson

Company Secretary

T.H.F.C. (Services) Limited

Registered Office

4th Floor
107 Cannon Street
London
EC4N 5AF

Company Number

07765422

Independent Auditor

Nexia Smith & Williamson Audit Limited
Chartered Accountants and Statutory Auditor
25 Moorgate
London
EC2R 6AY

The directors submit their Directors' report, Strategic report and audited financial statements for the year ended 31 December 2017.

RESULTS AND DIVIDEND

T.H.F.C. (Funding No.3) Plc (the **company**) made neither a profit nor a loss for the year. The directors do not propose the payment of a dividend.

SHARE CAPITAL AND COMPANY STRUCTURE

T.H.F.C. (Funding No.3) Plc is a public limited company incorporated and domiciled in England and Wales. The entire issued share capital of the company is owned by T.H.F.C. (Funding No.3) Holdings Limited.

DIRECTORS

The directors of the company who served throughout the year and up to the date of signing the financial statements were:

C. Burke
F. Edge
I. Peacock
P. Williamson

CORPORATE GOVERNANCE

As an issuer of asset-backed securities (the **secured bonds**), the operations of the company are conducted by an administrator, T.H.F.C. (Services) Limited, in accordance with the requirements of a corporate services agreement and the trust deed. This arrangement is monitored by the board of directors who are also directors of the administrator. There is no requirement for a separate audit committee.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (**IFRSs**) as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006. Under company 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 company and of the profit or loss of the company 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 International Financial Reporting Standards (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 company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of any information published on the administrator's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DISCLOSURE OF INFORMATION TO AUDITOR

In the case of each director in office at the date the Directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- 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 the company's auditor is aware of that information.

This report was approved by the board and signed on its behalf by

Colin Burke
T.H.F.C. (Services) Limited
Company Secretary
22 May 2018

PRINCIPAL ACTIVITY

The company was incorporated on 7 September 2011. The principal activity of the company is to provide finance to The Housing Finance Corporation Limited (**THFC**) (the **borrower**) for on-lending to housing associations (**HAs**) (the **Bond Issuance Authorised Borrowers**, as defined in the loan agreement between the company and THFC) registered under The Housing Act 1996 through the issue of bonds ultimately secured on the assets of the company (the **secured bonds**).

On 11 October 2011 the company made an initial issue of secured bonds to a nominal value of £100,000,000. £30,500,000 of these bonds were retained by the issuer. The proceeds of the net nominal bonds issued, £69,500,000, were on lent to THFC on terms that ensured the company was not exposed to any risk on changes of interest rates.

Subsequent issues of secured bonds to the nominal value of £525,300,000 were made during the course of 2012 and 2013. The company resumed issuing secured bonds in the financial year with an issuance on 4 August 2017 of £186,000,000, with £93,000,000 of these bonds retained by the issuer. The total value of secured bonds in issue at 31 December 2017 is £811,300,000 (2016: £625,300,000) of which £93,000,00 were retained (2016: £Nil). Further information on issues during the year is given in note 12.

The proceeds were on lent by THFC to the HAs noted below:

Accent Peerless Limited
Apex Housing Association
Arches Housing Limited
Arcon Housing Association Limited
Bournville Village Trust
Bromford Housing Association Limited
Cadwyn Housing Association Limited
Charter Housing Association Limited
Clanmil Housing Association Limited
Choice Housing Ireland Limited (formerly known as OakleeTrinity Limited)
Coastal Housing Group Limited
Connswater Housing Association Limited
Cornerstone Housing Limited
Derwen Cymru Limited (formerly known as Newport Housing Trust Limited)
Dumfries & Galloway Housing Partnership
Eildon Housing Association Limited
Equity Housing Group Limited
Estuary Housing Association Limited
Family Housing Association (Birmingham) Limited
Fold Housing Association Limited
Greenoak Housing Association Limited
Grwp Cynefin (formerly known as Cymdeithas Tai Eryri Limited)
Harrogate Families Housing Association Limited
Heantun Housing Association Limited
Inquilab Housing Association Limited
"Johnnie" Johnson Housing Trust Limited
Joseph Rowntree Housing Trust
Liverpool Mutual Homes
Manningham Housing Association Limited
Melin Homes Limited
Mid Wales Housing Association Limited

Network Stadium Housing Association Limited
New Gorbals Housing Association Limited
Newydd Housing Association Limited
North Wales Housing Association Limited
Oxford Citizens Housing Association Limited
Paradigm Homes Charitable Housing Association Limited
The Riverside Group Limited
Salvation Army Housing Association
Soho Housing Association Limited
Staffordshire Housing Association Limited
Three Rivers Housing Association Limited
United Welsh Housing Association Limited
Venture Housing Association Limited
Wales and West Housing Association Limited
West Kent Housing Association
Westfield Housing Association Limited
Wirral Methodist Housing Association Limited
Womens Pioneer Housing Limited
Worthing Homes
York Housing Association Limited

All the company's operating costs, net of interest earned, are recoverable from the borrower.

The occurrence of an event of default under the secured bonds entitles the Trustee to accelerate the maturity of the secured bonds and to enforce the security for the secured bonds (including converting the floating charge granted by the company into a fixed charge). However, an event of default under the secured bonds will not, by itself, be an event of default under the loan agreement with the borrower and accordingly acceleration of the maturity of the secured bonds and enforcement of security for the secured bonds will not, by itself, entitle the trustee to accelerate the maturity of the loan agreement or to enforce the security given by THFC under the loan agreement except in pre-determined circumstances.

The company expects to continue its principal activity for the life of the secured bonds, which have a final legal repayment date of 2045.

The company does not use derivative financial instruments in its risk management procedures.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The company has fulfilled its obligations under the bonds. Given the straightforward nature of the business, the company's directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance or position of the business.

Since 31 December 2017, a sale of retained bonds, with a nominal value of £15,500,000, was made on 12 February 2018. On 20 March 2018 a further issue of bonds amounting to a nominal value of £121,000,000 was made, with £60,500,000 retained by the company.

The directors consider the position of the company at the year end to be satisfactory.

The directors of the issuer's holding company, T.H.F.C. (Funding No.3) Holdings Limited, are proposing to simplify the group structure by transferring its investment in the issuer to T.H.F.C. (Services) Limited and then dissolving the holding company.

FINANCIAL RISK MANAGEMENT

The key financial risks of the company and how they are mitigated are explained in note 3.

This report was approved by the board and signed on its behalf by

Colin Burke
T.H.F.C. (Services) Limited
Company Secretary
22 May 2018

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF T.H.F.C. (FUNDING NO. 3) PLC
For the year ended 31 December 2017

Opinion

We have audited the financial statements of T.H.F.C. (Funding No.3) Plc (the **company**) for the year ended 31 December 2017 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the 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.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the 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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its result for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 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 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, 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, except to the extent otherwise explicitly stated in our report, 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 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on pages 1 to 2, 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 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 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.

Nexia Smith & Williamson

Guy Swarbreck
Senior Statutory Auditor, for and on behalf of
Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants

25 Moorgate
London
EC2R 6AY

23 May 2018

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2017

	Note	2017 £	2016 £
OPERATING INCOME			
Interest receivable	4	**33,296,458**	31,979,163
Costs receivable from borrower		**27,700**	28,004
		33,324,158	32,007,167
OPERATING EXPENDITURE			
Interest payable	5	**33,296,458**	31,979,163
Operating expenses	6	**27,700**	28,004
		33,324,158	32,007,167
RESULT BEFORE AND AFTER TAXATION	7	**-**	-
Other comprehensive income		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**-**	-

There have been no changes in equity in the current or prior year, therefore no separate statement of changes in equity has been prepared.

T.H.F.C. (FUNDING NO. 3) PLC

STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	Note	2017 £	2016 £
ASSETS			
Non-current assets			
Loan to borrower	9	**779,091,386**	652,827,838
Current assets			
Other receivables	10	**9,796,347**	7,797,213
Cash and cash equivalents		**12,500**	12,500
TOTAL ASSETS		**788,900,233**	660,637,551
EQUITY AND LIABILITIES			
Current liabilities			
Other payables	11	**9,796,347**	7,797,213
Non-current liabilities			
Financial liabilities – secured bonds	12	**779,091,386**	652,827,838
TOTAL LIABILITIES		**788,887,733**	660,625,051
EQUITY			
Share capital	13	**12,500**	12,500
Retained earnings		-	-
TOTAL EQUITY		**12,500**	12,500
TOTAL EQUITY AND LIABILITIES		**788,900,233**	660,637,551

The accompanying notes on pages 12-23 are an integral part of these financial statements.

These financial statements on pages 9-23 were approved by the board and signed on its behalf by:

Piers Williamson
Director
22 May 2018

T.H.F.C. (Funding No 3) Plc

Registration Number 07765422

T.H.F.C. (FUNDING NO. 3) PLC

STATEMENT OF CASH FLOWS
Year ended 31 December 2017

	Note	2017 £	2016 £
NET CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from / (used in) operations	14	**-**	-
Interest paid on bonds		**(34,489,748)**	(32,515,600)
Interest received on loan		**34,489,748**	32,515,600
Loans advanced		**(128,380,920)**	-
NET CASH (OUTFLOW) FROM OPERATING ACTIVITIES		**(128,380,920)**	-
CASH FLOW FROM FINANCING ACTIVITIES			
Net proceeds from issue of bonds		**128,380,920**	-
NET CASH GENERATED FROM FINANCING ACTIVITIES		**128,380,920**	-
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS IN THE YEAR		**-**	-
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**12,500**	12,500
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**12,500**	12,500

1 GENERAL INFORMATION

T.H.F.C. (Funding No. 3) Plc (the **company**) provides finance to The Housing Finance Corporation Limited (**THFC**) (the **borrower**) for on-lending to housing associations (**HAs**) (the **Bond Issuance Authorised Borrowers**, as defined in the loan agreement between the company and THFC) registered under The Housing Act 1996. The company is a public limited company limited by shares which has secured bonds listed on the Professional Securities Market of the London Stock Exchange. It is incorporated and domiciled in England and Wales. The address of the registered office is 4th Floor, 107 Cannon Street, London, EC4N 5AF.

On occasions the company will retain a certain number of bonds from a particular issue of secured bonds. The retained bonds are held at par on the company's statement of financial position and netted off the total amount of bonds outstanding until such time as a HA (on whose behalf the bonds have been retained) requests the release of the bonds into the market to fund further loans to THFC for on-lending to the association.

2 ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards (**IFRSs**) as adopted by the European Union, applied in accordance with the provisions of the Companies Act 2006.

The financial statements have been prepared under the historical cost convention.

Changes in accounting policies and disclosures

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

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

- IAS 7 Statement of Cash Flows Disclosure Initiative (Effective 1 January 2017): The amendments respond to requests from investors for improved disclosures about changes in liabilities arising from financing activities by introducing a reconciliation of debt balances.

The adoption of these amendments has not had a material impact on the reported results or financial position of the Company and has not given rise to any additional disclosure requirements.

(b) New and amended Standards and Interpretations mandatory for the first time for the financial year beginning 1 January 2017 but not currently relevant to the Company

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

(c) New and amended Standards and Interpretations issued but not effective for the financial year beginning 1 January 2017.

- IFRS 9 Financial Instruments (Effective 1 January 2018): This deals with the classification, measurement and impairment of financial assets and financial liabilities.

- IFRS 15 Revenue from Contracts with Customers (Effective 1 January 2018): The standard represents a single revenue recognition standard to be applied across various industries. The standard replaces IAS 18 Revenue.

- Amendments to IFRS 9 Prepayment Features with Negative Compensation (Effective 1 January 2019, not yet endorsed by the EU): These amendments are designed to enable, if certain conditions are met, companies to measure at amortised cost certain prepayable financial assets with so-called negative compensation and also clarifies the accounting for non-substantial modifications of financial liabilities should follow the same process as financial assets in similar circumstances.

The directors are currently assessing the impact and timing of adoption of these Standards on the Company's results and financial position.

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

Critical Accounting Judgements

The preparation of financial statements in accordance with IFRSs requires the use of certain critical accounting adjustments; these require management's judgement in applying the accounting policies. The main critical accounting judgement in preparing these financial statements is the evaluation as to whether the loans to HAs, and therefore potentially the loan to the borrower, are impaired. The directors have concluded there is no objective evidence of any such impairment in the current year. As the company is not subject to any net credit risk any impairment would be matched by a similar adjustment to the gross liability.

The principal accounting policies adopted in the preparation of these financial statements, which have been applied consistently, are set out below.

Interest

Interest receivable on the loan to the borrower, THFC, and interest payable on the secured bonds is accounted for using the effective interest rate method. Any premium/discount on issue is added to/deducted from the original loan amount or secured bonds' nominal value using the effective interest rate method and charged/credited to the statement of comprehensive income over the expected life of the loan or bonds so that the interest receivable and payable, as adjusted for the amortisation of premiums/discounts, gives a constant yield to maturity.

Cash and cash equivalents

Cash and cash equivalents represent amounts on demand deposited at commercial banks.

Loan to Borrower ("loan")

The loan is stated at amortised cost less allowance for impairment. Any premium or discount on issue is added to/deducted from the nominal value of the loan and charged or credited to the statement of comprehensive income over the expected life of the loan so that the interest income as adjusted for the amortisation of premium/discount gives a constant yield to maturity. Additional loan amounts are recognised in the financial statements as the proceeds are drawn down.

Secured bonds

Secured bonds are stated at amortised cost.

Any premium or discount on issue is added to/deducted from the nominal value of the secured bonds and charged or credited to the statement of comprehensive income over the expected life of the secured bonds so that the interest charge as adjusted for the amortisation of premium/discount gives a constant yield to maturity. Secured bonds are recognised in the financial statements as a liability when the proceeds are received.

Netting

The company does not net financial assets and liabilities and has no other enforceable offsets.

Fair Values

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

IFRS 13 *Fair value measurement* requires an entity to classify for disclosure purposes its financial instruments held at amortised cost according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

Quoted market prices – Level 1

Financial instruments are classified as Level 1 if their value is observable in an active market. Fair values for such instruments are reported by reference to unadjusted quoted prices for identical assets or liabilities where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis.

Valuation technique using observable inputs – Level 2

Financial instruments classified as Level 2 are fair valued using models whose inputs (for example, interest rates and credit spreads) are observable in an active market.

Valuation technique using significant unobservable inputs – Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data. The company has no instruments classified in Level 3 (2016: none).

The company's secured bonds are tradable but the markets are not considered to be active. Accordingly market prices of the reference gilt have been adjusted for an appropriate credit spread to arrive at a fair value (Level 2 valuation). The fair value of the associated fixed rate loan to THFC is similarly adjusted for appropriate credit spreads (Level 2 valuation) on the basis that the Standard and Poor's credit rating of the company is dependent on that of THFC.

Prepayment

It is expected that each loan will run to maturity however THFC or any Bond Issuance Authorised Borrower may at any time purchase bonds and, following such purchase, THFC or any Bond Issuance Authorised Borrower, may surrender the bonds to the company for cancellation. An amount equal to the outstanding principal amount of the bonds being surrendered shall be deemed prepaid under the loan

Agreement. The prepaid amount of the loan and the equivalent bond nominal amount is removed from the statement of financial position on delivery of the Deed of Surrender.

Segmental Analysis

All operating income and expenditure is derived from activities undertaken in the United Kingdom. The company's only activity is to provide finance to THFC for on-lending to HAs. Therefore 100% of interest income is receivable from THFC.

3 FINANCIAL RISK MANAGEMENT

The proceeds from the issue of the 5.20% secured bonds due 2043/45 were used to make a loan to the borrower.

Credit risk

The company is subject to gross credit risk on its loan to THFC but no net risk.

The ability of the company to make payments of interest, principal and any other sums due in respect of the bonds will depend on the issuer receiving like amounts from the borrower THFC under its loan agreement.

To the extent that the company does not receive sufficient amounts in respect of the loan agreement (whether in the ordinary course of business, following the enforcement of its security obtained in respect of the loan agreement or otherwise) then the company will not have sufficient monies to pay interest, principal or other sums due in respect of the bonds. Non-payment by the company may not necessarily constitute an event of default under the bonds.

Gross credit risk on the loans is mitigated by the collateral and security arrangements described below.

THFC has a general obligations A rating from Standard and Poor's. THFC only makes loans to HAs registered with, and regulated by, the Homes and Communities Agency for the purposes of funding social housing. The Homes and Communities Agency has a range of statutory powers as set out in chapter 6 of Housing and Regeneration Act 2008 as amended by the Localism Act 2011. These include enforcement powers and the ability to call a moratorium in certain circumstances.

The carrying value of the loan represents the maximum exposure to credit risk. No part of the loan is past due or impaired at 31 December 2017 (2016: none).

Collateral and security arrangements

THFC has granted security to the company under the loan agreement in the form of a floating charge over its undertaking, property and assets. This floating charge ranks *pari passu* with a number of existing floating charges previously granted by THFC to secure other existing borrowings. THFC's undertakings, property and assets largely consist of its existing loan book together with some accumulated reserves.

HAs who borrow money from THFC create either a first floating charge over the whole or an identifiable part of its property, undertaking and assets in favour of THFC or a first fixed charge in favour of THFC. All of THFC's assets, including the loans to the HAs, and the security granted in respect of its assets are pooled rather than being allocated to specific liabilities of THFC. As such, the loan to THFC is indirectly secured by the properties owned by the HA borrowers. As the company is secured by a floating charge on the whole of THFC's pooled undertakings it is not practical or cost effective to obtain a measure of the book or fair value of this collateral.

THFC is required to obtain a charge over the assets of HAs which, at all times during the life of each loan, covers at least 150% 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 statement of financial position of the underlying HA. In addition THFC monitors the financial position of its HA borrowers on an on-going basis, including measurement against covenant undertakings. The large number of borrowing HAs assists in diversification of the credit risks inherent in the loan to THFC. All HA borrowers are subject to external regulation by the Regulator of Social Housing or other relevant authority for housing associations outside England.

The obligations of the company to the holders of the secured bonds are secured by a first floating charge on the whole of the company's undertaking, property and assets, and a first ranking assignment by way of security of the benefit of the floating charge granted to the company by THFC as described above.

Liquidity risk

To mitigate liquidity risk of the company, the borrower collects interest and capital repayments from the Bond Issuance Authorised Borrowers one month prior to the scheduled date of payment to the company. Additionally Bond Issuance Authorised Borrowers are required to maintain an Interest Service Reserve Fund with THFC, amounting to a minimum of one year's worth of interest, that can be drawn upon in the event of a late payment.

There is a two year maturity mis-match between expected and legal maturity of the secured bonds. This means if the borrower has insufficient funds to repay the principal amount outstanding on its loan on the expected maturity date then repayment of the loan and bond will be postponed to the legal maturity date.

The loan agreements provide that the Bond Issuance Authorised Borrowers must repay their loans in full to THFC, the borrower, three business days before 11 October 2043 (expected maturity) or 11 October 2045 (legal maturity). Interest is receivable half yearly in arrears. The maturity profile of liabilities is given in note 12.

As with credit risk to the extent that the company does not receive sufficient amounts in respect of the loan agreement (whether in the ordinary course of business, following the enforcement of its security obtained in respect of each loan agreement or otherwise) then the company will not have sufficient monies to pay interest, principal or other sums due in respect of the bonds. Non-payment by the company may not necessarily constitute an event of default under the bonds.

Interest rate risk

The interest charged on the loan is fixed and is equal to the interest payable on the related secured bonds. Accordingly, the directors consider that the company is not subject to any risk on the fluctuation of interest rates.

Fair value risk and market price risk

There is a gross fair value risk on the loan and secured bonds but there is no net risk. Market price risk is not expected to impact on the company because (i) the loans and secured bonds are held at amortised cost in the financial statements and (ii) the company expects to hold them until maturity.

Currency risk

All financial assets and liabilities are denominated in sterling and hence there is no currency risk.

4 INTEREST RECEIVABLE

	2017 £	2016 £
On loan to borrower	**34,489,748**	32,515,600
Amortisation of net premium	**(1,193,290)**	(536,437)
	33,296,458	31,979,163

5 INTEREST PAYABLE

	2017 £	2016 £
On 5.20% secured bonds due 2043/45	**34,489,748**	32,515,600
Amortisation of net premium	**(1,193,290)**	(536,437)
	33,296,458	31,979,163

6 OPERATING EXPENSES

Operating expenses comprise management fees payable to T.H.F.C. (Services) Limited and other professional service fees.

7 RESULT BEFORE AND AFTER TAXATION

The result before taxation is wholly attributable to the company's principal activity, arose wholly within the United Kingdom, and is stated after charging:

	2017 £	2016 £
Fees paid to current auditor for annual audit of financial statements - current year	**7,422**	7,374

8 EMPLOYEES

There were no employees during the year other than the directors (2016: Nil). The directors received no remuneration during the year directly from the company in respect of their qualifying services (2016: £Nil). All directors are remunerated by T.H.F.C. (Services) Limited for their services to the company. It is not practicable to obtain the relevant data to accurately disclose the company's share of this cost. Related party transactions are given in note 17.

9 LOAN TO BORROWER

	2017	2016
	£	£
Loan value at 1 January	**625,300,000**	625,300,000
Unamortised premium at 1 January	**31,006,990**	31,591,409
Unamortised discount at 1 January	**(2,919,147)**	(2,967,129)
	653,387,843	653,924,280
Loans issued in the year	**93,000,000**	-
Premium on issue in the year	**35,380,920**	-
Premium amortised in the year	**(1,243,824)**	(584,419)
Discount amortised in the year	**50,534**	47,982
Amortised cost	**780,575,473**	653,387,843
Premium due within one year	**(1,537,371)**	(610,539)
Discount due within one year	**53,284**	50,534
Non-current amortised cost	**779,091,386**	652,827,838

Collateral arrangements are set out in note 3.

10 OTHER RECEIVABLES

	2017	2016
	£	£
Net premium on loan due within one year	**1,484,087**	560,005
Interest receivable	**8,288,985**	7,215,791
Other receivables	**23,275**	21,417
	9,796,347	7,797,213

11 OTHER PAYABLES

	2017	2016
	£	£
Net premium on secured bonds due within one year	**1,484,087**	560,005
Interest payable	**8,288,985**	7,215,791
Other creditors	**23,275**	21,417
	9,796,347	7,797,213

12 FINANCIAL LIABILITIES – SECURED BONDS

	2017 £	2016 £
Nominal amount in issue at 1 January	**625,300,000**	625,300,000
Unamortised premium at 1 January	**31,006,990**	31,591,409
Unamortised discount at 1 January	**(2,919,147)**	(2,967,129)
	653,387,843	653,924,280
Bonds issued in the year	**93,000,000**	-
Premium on issue of bonds	**35,380,920**	-
Premium amortised in the year	**(1,243,824)**	(584,419)
Discount amortised in the year	**50,534**	47,982
Amortised cost	**780,575,473**	653,387,843
Premium due within one year	**(1,537,371)**	(610,539)
Discount due within one year	**53,284**	50,534
Non-current amortised cost	**779,091,386**	652,827,838

Details of security are set out in note 3.

The 5.20% secured bonds are listed and repayable between 2043 and 2045 and were issued in the following tranches:

	Nominal Value initially issued £	Retained by Company £	Nominal Value £	Premium/ (Discount) £
11 October 2011	100,000,000	30,500,000	69,500,000	313,445
25 January 2012	131,000,000	15,000,000	116,000,000	4,644,640
25 April 2012	130,500,000	10,000,000	120,500,000	(3,114,925)
12 June 2012 (sale of retained bonds)		(3,500,000)	3,500,000	201,915
17 July 2012 (sale of retained bonds)		(4,000,000)	4,000,000	130,000
13 August 2012 (sale of retained bonds)		(2,500,000)	2,500,000	143,465
27 September 2012	127,100,000	5,000,000	122,100,000	3,846,150
20 December 2012 (sale of retained bonds)		(10,000,000)	10,000,000	800,300
15 January 2013 (sale of retained bonds)		(5,000,000)	5,000,000	404,000
17 January 2013 (sale of retained bonds)		(5,000,000)	5,000,000	441,000
15 April 2013	55,200,000	2,000,000	53,200,000	7,902,328
15 April 2013 (sale of retained bonds)		(25,500,000)	25,500,000	3,787,770
18 June 2013 (sale of retained bonds)		(1,500,000)	1,500,000	141,555
15 October 2013	81,500,000	-	81,500,000	9,325,230
15 October 2013 (sale of retained bonds)		(3,500,000)	3,500,000	400,470
02 April 2015 (sale of retained bonds)		(2,000,000)	2,000,000	636,900
04 August 2017	186,000,000	(93,000,000)	93,000,000	35,380,920
	811,300,000	(93,000,000)	718,300,000	65,385,163

The net premium and cumulative amortisation at the beginning of the year was £28,087,843 and £1,916,400 (2016: £28,624,280 and £1,379,963) respectively. Premium on the issue of new bonds during the year was £35,380,920 (2016: £Nil). Amortisation charged during the year was £1,193,290 (2016: £536,437).

The premiums/discount have been added to/deducted from the value of the secured bonds and are amortised through the statement of comprehensive income over the life of the secured bonds.

The net proceeds of the above issues were used to make loans to the borrower, THFC. The secured bonds are repayable in full between 11 October 2043 and 11 October 2045. Interest on the secured bonds is payable half yearly in arrears. All issue costs relating to the secured bonds are borne by the borrower, THFC.

A sale of retained bonds was made on 12 February 2018 amounting to a nominal value of £15,500,000 with premium of £5,446,700.

A further issue of bonds was made on 20 March 2018 amounting to a nominal value of £121,000,000, with £60,500,000 retailed by the company. Premium amounted to £19,191,992.

Contractual cash flows on secured bonds

2017	**Due within one year**	**Due within one to two years**	**Due within two to five years**	**Due in over five years**	**Total 2017**
	£	**£**	**£**	**£**	**£**
Principal	-	-	-	**718,300,000**	**718,300,000**
Interest	**37,351,600**	**37,351,600**	**112,054,800**	**784,383,600**	**971,141,600**
Total	**37,351,600**	**37,351,600**	**112,054,800**	**1,502,683,600**	**1,689,441,600**

2016	Due within one year	Due within one to two years	Due within two to five years	Due in over five years	Total 2016
	£	£	£	£	£
Principal	-	-	-	625,300,000	625,300,000
Interest	32,515,600	32,515,600	97,546,800	715,343,200	877,921,200
Total	32,515,600	32,515,600	97,546,800	1,340,643,200	1,503,221,200

13 SHARE CAPITAL

	2017	2016
	£	£
Allotted, called up and quarter paid		
50,000 (2016: 50,000) ordinary shares of £1 each	**12,500**	12,500

The company's capital comprises only its share capital which the directors consider adequate for its ongoing working capital requirements in relations to its obligation under the bonds. The company is not subject to externally imposed capital requirements.

14 RECONCILIATION OF RESULT BEFORE TAXATION TO CASH GENERATED FROM / (USED IN) OPERATIONS

	2017	2016
	£	£
Result before taxation	**-**	-
Adjustments for:		
Interest receivable	**(33,296,458)**	(31,979,163)
Interest payable	**33,296,458**	31,979,163
Changes in working capital:		
(Increase)/decrease in receivables	**(1,858)**	(165)
Increase/(decrease) in payables	**1,858**	165
Cash generated from / (used in) operations	**-**	-

15 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Level 2 fair value of the 5.20% secured bonds due 2043/2045 and the Level 2 fair value of the associated loan, as at 31 December 2017 are shown below. The fair value is derived from the market value of the secured bonds at that date. There is no difference between the fair value and carrying value of all other financial assets and liabilities.

	2017		2016	
	Carrying value	**Fair value**	Carrying value	Fair value
	£	**£**	£	£
Financial assets:				
Classified as loans & receivables				
Loan to borrower(s)				
Non-current	**779,091,386**		652,827,838	
Current	**1,484,087**		560,005	
Total	**780,575,473**	**1,009,991,810**	653,387,843	871,615,696
Interest receivable	**8,288,985**	**8,288,985**	7,215,791	7,215,791
Other receivables	**23,275**	**23,275**	-	-
Total financial assets	**788,887,733**	**1,018,304,070**	660,603,634	878,831,487
Financial liabilities:				
Classified as financial liabilities at amortised cost				
Secured bonds				
Non-current	**779,091,386**		652,827,838	
Current	**1,484,087**		560,005	
Total	**780,575,473**	**1,009,991,810**	653,387,843	871,615,696
Interest payable	**8,288,985**	**8,288,985**	7,215,791	7,215,791
Other payables and accruals	**23,275**	**23,275**	21,417	21,417
Total financial liabilities	**788,887,733**	**1,018,304,070**	660,625,051	878,852,904

16 ULTIMATE PARENT COMPANY

At 31 December 2017 the company's immediate and ultimate holding company was T.H.F.C. (Funding No.3) Holdings Limited. T.H.F.C. (Funding No.3) Holdings Limited is the only company to prepare consolidated financial statements which include the company. The entire issued share capital of T.H.F.C. (Funding No.3) Holdings Limited is held by T.H.F.C. (Services) Limited on a fiduciary basis on behalf of selected charities as defined in the Declaration of Trust. Copies of the group financial statements may be obtained from the company secretary's office c/o T.H.F.C. (Services) Limited, 4th Floor, 107 Cannon Street, London EC4N 5AF.

The directors of T.H.F.C. (Funding No.3) Holdings Limited are proposing to simplify the group structure by transferring its investment in the issuer to T.H.F.C. (Services) Limited and then dissolving the holding company.

17 RELATED PARTY TRANSACTIONS

All administrative services are provided under a management agreement with T.H.F.C. (Services) Limited. The directors are employees of T.H.F.C. (Services) Limited. Management fees payable to T.H.F.C. (Services) Limited during the year amounted to £Nil (2016: £Nil). T.H.F.C. (Services) Limited reserves the right to charge such fees in the future.

THFC, the borrower, is the parent of T.H.F.C. (Services) Limited. Transactions with and balances due from the borrower are set out in notes 4, 9 and 10 of these financial statements.

18 TAXATION

The company has incurred no tax liability in the current year or prior year.

19 SECURITY OFFERED TO INVESTORS

T.H.F.C. (Funding No.3) Plc is a special purpose vehicle and the security offered to investors is limited only to the assets of the company being principally the secured loans and share capital. The shareholders of the company's parent, T.H.F.C. (Funding 3) Holdings Limited (or the company's parent following the proposed dissolution of the holding company), cannot be held liable for the debts of the company in the event of insolvency.

20 EVENTS AFTER REPORTING PERIOD

A sale of retained bonds was made on 12 February 2018 amounting to a nominal value of £15,500,000.

A further issue of bonds was made on 20 March 2018 amounting to a nominal value of £121,000,000, of which £60,500,000 were retained by the company.

Further details can be found in note 3.