T.H.F.C. (FUNDING NO. 1) PLC

Annual Report and Financial Statements

For the year ended 31 December 2016

Companies House no: 05290731

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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

05290731

Independent Auditor

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

DIRECTORS' REPORT
Year ended 31 December 2016

The directors submit their Directors' report, Strategic report and audited financial statements for the year ended 31 December 2016.

RESULTS AND DIVIDEND

T.H.F.C. (Funding No.1) 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.1) Plc is a public limited company incorporated and domiciled in England and Wales. 49,999 shares of the company are owned by T.H.F.C. (Funding) Holdings Limited. 1 share is held by T.H.F.C. (Services) Limited on a fiduciary basis for the benefit of qualified charities.

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 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
9 June 2017

PRINCIPAL ACTIVITIES

The company was incorporated on 18 November 2004. 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 21 December 2004 the company made an initial issue of secured bonds to a nominal value of £67,376,000 and on 21 December 2006, 5 March 2007, 5 December 2007 and 7 August 2008 made further issues of secured bonds to a nominal value of £32,000,000, £37,000,000, £32,633,000 and £80,000,000 respectively the proceeds of which were onlent to THFC on terms that ensured the company was not exposed to any risk on changes of interest rates. All the company's operating costs, net of interest earned, are recoverable from the borrower.

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

A2Dominion Homes Limited (formerly known as Cherwell Housing Trust Limited)
A2Dominion London Limited
Axiom Housing Association Limited
Equity Housing Group Limited
Heantun Housing Association Limited
"Johnnie" Johnson Housing Trust Limited
Knightstone Housing Association Limited
Manningham Housing Association Limited
Mosscare Housing Limited
One Housing Group Limited
Portal Housing Association Limited
Wales and West Housing Association Limited
Wandle Housing Association Limited
Westcountry Housing Association Limited
Yorkshire Housing Limited

The Law Debenture Trust Corporation Plc acts as the trustee on behalf of all secured bond holders, under the terms of a trust deed, and has the benefit of a floating charge over certain assets of 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 and accordingly acceleration of the maturity of the secured bonds and enforcement of security for the 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 2037.

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 straight forward nature of the business, the company's directors are of the opinion that analysis using key performance indicators is not necessary for the understanding of the development, performance or position of the business.

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

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
9 June 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF T.H.F.C. (FUNDING NO.1) PLC
Year ended at 31 December 2016

We have audited the financial statements of T.H.F.C. (Funding No.1) Plc for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 19. 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.

Respective responsibilities of directors and auditor
As explained more fully in the Statement of Directors' Responsibilities 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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 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.

Opinion on other matter 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 those financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

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.

Matters on which we are required to report by exception
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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF T.H.F.C. (FUNDING NO.1) PLC (continued)
Year ended at 31 December 2016

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
12 June 2017

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2016

	Note	**2016** £	2015 £
OPERATING INCOME			
Interest receivable	4	**12,312,368**	12,225,183
Costs receivable from borrower		**147,315**	152,958
		12,459,683	12,378,141
OPERATING EXPENDITURE			
Interest payable	5	**12,312,368**	12,225,183
Operating expenses	6	**147,315**	152,958
		12,459,683	12,378,141
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.

STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

	Note	2016 £	2015 £
ASSETS			
Non-current assets			
Loan to borrower	9	**228,091,204**	227,880,557
Current assets			
Other receivables	10	**556,208**	540,398
Cash and cash equivalents		**24,136,037**	24,136,040
TOTAL ASSETS		**252,783,449**	252,556,995
EQUITY AND LIABILITIES			
Current liabilities			
Other payables	11	**556,205**	540,398
Drawn liquidity facility		**24,123,540**	24,123,540
Non-current liabilities			
Financial liabilities – secured bonds	12	**228,091,204**	227,880,557
TOTAL LIABILITIES		**252,770,949**	252,544,495
Equity			
Share capital	13	**12,500**	12,500
Retained earnings		-	-
TOTAL EQUITY		**12,500**	12,500
TOTAL EQUITY AND LIABILITIES		**252,783,449**	252,556,995

The accompanying notes on pages 10-20 are an integral part of these financial statements.

These financial statements on pages 7-20 were approved by the board and signed on its behalf by:

Piers Williamson
Director
9 June 2017

STATEMENT OF CASH FLOWS
Year ended 31 December 2016

	Note	2016 £	2015 £
NET CASH FLOW FROM OPERATING ACTIVITIES			
Cash (used in) / generated from operations	14	**(3)**	31
Interest paid on bonds		**(12,054,256)**	(12,054,256)
Interest received on loan		**12,054,256**	12,054,256
Interest paid on liquidity facility		**(56,905)**	-
Interest received on liquidity facility		**56,905**	-
NET CASH (OUTFLOW) / INFLOW FROM OPERATING ACTIVITES		**(3)**	31
NET CASH FLOW FROM FINANCING ACTIVITES			
Drawn liquidity facility		-	-
NET CASH INFLOW FROM FINANCING ACTIVITES		-	-
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS IN THE YEAR		**(3)**	31
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**24,136,040**	24,136,009
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**24,136,037**	24,136,040

1 GENERAL INFORMATION

T.H.F.C. (Funding No. 1) 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.

The company on-lent the proceeds of the issue of the secured bonds to The Housing Finance Corporation Limited (THFC), which on-lent the funds to certain housing associations being the Bond Issuance Authorised Borrowers (as defined in the loan agreement).

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:

- Amendments to IAS 1: Presentation of Financial Statements: The amendments address some of the concerns expressed about existing presentation and disclosure requirements relating to the use of judgement when preparing their financial statements.

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 2016 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 2016

- IAS 7 Statement of Cash Flows Disclosure Initiative (Effective 1 January 2017, not yet endorsed by EU): 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.

- 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.

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 on preparing these financial statements is the evaluation as to whether the loan to THFC is impaired. The directors have concluded that 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 are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

Interest

Interest receivable on the loan to THFC and interest payable on the secured bonds is accounted for using the effective interest rate method. Any premium/discounts on issue are added to/deducted from the original loan amount or secured bond 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 deposit at commercial banks.

Loan to borrower ("loan")

The loan is stated at amortised cost less allowance for loan losses. 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.

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 bond and charged or credited to the statement of comprehensive income over the expected life of the secured bond 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 of 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 (2015: 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 5.125% secured bonds due 2035/37 were used to make a loan to the borrower, THFC.

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 arrangements described below:

THFC has a general obligations A rating from Standard and Poor's. THFC's rating was downgraded from A+ during the year following the UK's sovereign rating downgrade.

THFC only makes loans to HAs registered with, and regulated by, the Homes and Communities Agency (or other relevant authorities for HAs based outside of England) 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 2016 (2015: none).

Collateral 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 fixed first charge in favour of THFC. All of the 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.

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 relevant Authority.

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 HA borrowers one month prior to payment by the company. The secured bonds have a £24.1m liquidity facility from a third party bank attached to them that is renewed annually. If the company determines that it has insufficient funds available to meet its obligations of interest and issuer expenses due under the secured bond then in certain circumstances it may draw on the liquidity facility to cover such short falls.

During 2014 the rating of the provider of the £24.1m liquidity facility was downgraded. The downgrade constituted a Downgrade Event and a Liquidity Facility Event under the terms of the Liquidity Facility Agreement between the company and the provider and as such the company 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.

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

The loan agreements provide that the HA borrowers must repay their loans in full to THFC, three business days before 21 December 2035, the expected maturity date. Interest is receivable half yearly in arrears. The maturity analysis of financial 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 and hence there is no cash flow risk between the receipt and payment of interest. 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 loan 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

	2016 £	2015 £
On loan to borrower	**12,054,256**	12,054,256
Other interest receivable	**59,978**	-
Amortisation of net discount	**198,134**	170,927
	12,312,368	12,225,183

5 INTEREST PAYABLE

	2016 £	2015 £
On 5.125% secured bonds due 2035/37	**12,054,256**	12,054,256
Other interest payable	**59,978**	-
Amortisation of net discount	**198,134**	170,927
	12,312,368	12,225,183

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:

	2016 £	2015 £
Fees paid to current auditor for annual audit of financial statements - current year	**7,374**	7,230

8 EMPLOYEES

There were no employees during the year other than the directors (2015: Nil). The directors received no remuneration during the year directly from the company in respect of their qualifying services (2015: £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.

9 LOAN TO BORROWER

	2016	2015
	£	£
Loan amount	**235,205,000**	235,205,000
Unamortised premium	**2,115,702**	2,182,268
Unamortised discount	**(9,440,145)**	(9,704,845)
Amortised cost	**227,880,557**	227,682,423
Net discount due within one year	**210,647**	198,134
Non-current amortised cost	**228,091,204**	227,880,557

Collateral arrangements are set out in note 3.

10 OTHER RECEIVABLES

	2016	2015
	£	£
Net discount on secured bonds due within one year	**210,647**	198,134
Interest receivable	**330,254**	330,254
Other receivables	**15,307**	12,010
	556,208	540,398

11 OTHER PAYABLES

	2016	2015
	£	£
Net discount on loan due within one year	**210,647**	198,134
Interest payable	**330,254**	330,254
Accruals	**15,304**	12,010
	556,205	540,398

12 FINANCIAL LIABILITIES – SECURED BONDS

5.125% secured bonds due 2035/37	**2016**	2015
	£	£
Nominal amount	**235,205,000**	235,205,000
Unamortised premium	**2,115,702**	2,182,268
Unamortised discount	**(9,440,145)**	(9,704,845)
Amortised cost	**227,880,557**	227,682,423
Net discount due within one year	**210,647**	198,134
Non-current amortised cost	**228,091,204**	227,880,557

Details of security are set out in note 3.

The 5.125% secured bonds are listed and are repayable between 2035 and 2037 and were issued in the following tranches:

	Nominal Value	**(Discount)/ Premium**
	£	**£**
21 December 2004	67,376,000	(30,993)
21 December 2006	32,000,000	1,352,320
5 March 2007	37,000,000	1,303,880
5 December 2007	32,633,000	(2,227,202)
7 August 2008	80,000,000	(9,036,800)
Amortised cost	249,009,000	(8,638,795)
Less 2008 prepayment	(13,804,000)	6,350
	235,205,000	(8,632,445)

The net discount and cumulative amortisation at the beginning of the year was £7,522,577 and £1,109,868 (2015: £7,693,504 and £938,941) respectively. Amortisation charged during the year was £198,134 (2015: £170,927).

The net proceeds of the above issues were used to make loans to the borrower, THFC. The secured bonds are repayable in full between 21 December 2035 and 21 December 2037. Interest on the secured bonds is payable half yearly in arrears.

The discount/premium has been deducted from/added to the value of the secured bond and is amortised through the statement of comprehensive income over the life of the secured bond.

All issue costs relating to the secured bonds are borne by the borrower THFC.

Contractual cash flows on secured bonds

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	-	-	-	**235,205,000**	**235,205,000**
Interest	**12,054,256**	**12,054,256**	**36,162,768**	**168,759,588**	**229,030,868**
Total	**12,054,256**	**12,054,256**	**36,162,768**	**403,964,588**	**464,235,868**

2015	Due within one year	Due within one to two years	Due within two to five years	Due in over five years	Total 2015
	£	£	£	£	£
Principal	-	-	-	235,205,000	235,205,000
Interest	12,054,256	12,054,256	36,162,768	180,813,844	241,085,124
Total	12,054,256	12,054,256	36,162,768	416,018,844	476,290,124

13 SHARE CAPITAL

	2016	2015
	£	£
Allotted, and quarter paid		
50,000 (2015: 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 obligations under the bonds. The company is not subject to externally imposed capital requirements.

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

	2016	2015
	£	£
Result before taxation	-	-
Adjustments for:		
Interest receivable	**(12,252,390)**	(12,225,183)
Interest payable	**12,252,390**	12,225,183
Changes in working capital:		
(Increase) in receivables	**(3,297)**	(6,950)
Increase in payables	**3,294**	6,981
Cash (used in) / generated from operations	**(3)**	31

15 FAIR VALUES OF FINANCIAL INSTRUMENTS

The Level 2 fair value of the 5.28% secured bonds due 2034/2044 and associated loan, as at 31 December 2016 are shown below. The fair value is derived from the market value of the bonds at that date. There is no difference between the fair value and carrying value of all other financial assets and liabilities.

	2016		2015	
	Carrying value	Fair value	Carrying value	Fair value
	£	£	£	£
Financial assets:				
Classified as loans & receivables				
Loans to borrower(s)				
Non-current	228,091,204		227,880,557	
Current	(210,647)		(198,134)	
Total	227,880,557	311,146,513	227,682,423	278,960,700
Interest receivable	330,254	330,254	330,254	330,254
Other receivables	15,307	15,307	12,010	12,010
Total financial assets	228,226,118	311,492,074	228,024,687	279,302,964
Financial liabilities:				
Classified as financial liabilities at amortised cost				
Secured bonds				
Non-current	228,091,204		227,880,557	
current	(210,647)		(198,134)	
Total	227,880,557	311,146,513	227,682,423	278,960,700
Interest payable	330,254	330,254	330,254	330,254
Other payables and accruals	15,304	15,304	12,010	12,010
Total financial liabilities	228,226,115	311,492,071	228,024,687	279,302,964

16 ULTIMATE PARENT COMPANY

At 31 December 2016 the company's immediate and ultimate holding company was T.H.F.C. (Funding) Holdings Limited, a company incorporated in the United Kingdom. T.H.F.C. (Funding) Holdings Limited is the only company to prepare consolidated financial statements which include the company. The entire share capital of T.H.F.C. (Funding) Holdings Limited is held by T.H.F.C (Services) Limited as Share Trustee for the benefit of qualified 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.

17 RELATED PARTY TRANSACTIONS

All administrative services are provided under a management agreement with T.H.F.C. (Services) Limited, a subsidiary of The Housing Finance Corporation 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 (2015: £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 or prior year.

19 SECURITY OFFERED TO INVESTORS

T.H.F.C. (Funding No.1) 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) Holdings Limited, cannot be held liable for the debts of the company in the event of insolvency.