

**T.H.F.C. (FUNDING NO. 3) PLC**  
**Annual Report and Financial Statements**  
**For the year ended 31 December 2016**  
**Companies House no: 07765422**

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

## **Annual report and financial statements for the year ended 31 December 2016**

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### **Contents**

#### **Page:**

|         |  |
|---------|--|
| 1 - 2   | Directors' report  |
| 3 - 5   | Strategic report   |
| 6 - 7   | Independent Auditor's report to the Members of T.H.F.C. (Funding No.3) plc |
| 8       | Statement of comprehensive income  |
| 9       | Statement of financial position  |
| 10      | Statement of cash flows  |
| 11 - 22 | Notes to the financial statements  |

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### **Directors**

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

### **Company Secretary**

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

### **Registered Office**

4<sup>th</sup> 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

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

### **DIRECTORS' REPORT**

**Year ended 31 December 2016**

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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.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**  
9 June 2017

## **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 total value of secured bonds in issue at 31 December 2016 is £625,300,000 (2015: £625,300,000). 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  
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  
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.

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.

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

**STRATEGIC REPORT (continued)**

**Year ended 31 December 2016**

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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

We have audited the financial statements of T.H.F.C. (Funding No.3) 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](http://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.



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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF T.H.F.C. (FUNDING NO. 3) PLC  
(continued)

For the year ended 31 December 2016

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*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

**T.H.F.C. (FUNDING NO. 3) PLC****STATEMENT OF COMPREHENSIVE INCOME****Year ended 31 December 2016**

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|  | Note | 2016<br>£         | 2015<br>£         |
|--|------|-------------------|-------------------|
| <b>OPERATING INCOME</b>                        |      |                   |                   |
| Interest receivable                            | 4    | 31,979,163        | 31,942,864        |
| Costs receivable from borrower                 |      | 28,004            | 28,345            |
|  |      | <u>32,007,167</u> | <u>31,971,209</u> |
| <b>OPERATING EXPENDITURE</b>                   |      |                   |                   |
| Interest payable                               | 5    | 31,979,163        | 31,942,864        |
| Operating expenses                             | 6    | 28,004            | 28,345            |
|  |      | <u>32,007,167</u> | <u>31,971,209</u> |
| <b>RESULT BEFORE AND AFTER TAXATION</b>        | 7    | -                 | -                 |
| Other comprehensive income                     |      | -                 | -                 |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b> |      | <u>-</u>          | <u>-</u>          |

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 2016**

|                                       | Note | 2016<br>£          | 2015<br>£          |
|---------------------------------------|------|--------------------|--------------------|
| <b>ASSETS</b>                         |      |                    |                    |
| <b>Non-current assets</b>             |      |                    |                    |
| Loan to borrower                      | 9    | 652,827,838        | 653,387,843        |
| <b>Current assets</b>                 |      |                    |                    |
| Other receivables                     | 10   | 7,797,213          | 7,773,480          |
| Cash and cash equivalents             |      | 12,500             | 12,500             |
| <b>TOTAL ASSETS</b>                   |      | <u>660,637,551</u> | <u>661,173,823</u> |
| <b>EQUITY AND LIABILITIES</b>         |      |                    |                    |
| <b>Current liabilities</b>            |      |                    |                    |
| Other payables                        | 11   | 7,797,213          | 7,773,480          |
| <b>Non-current liabilities</b>        |      |                    |                    |
| Financial liabilities – secured bonds | 12   | 652,827,838        | 653,387,843        |
| <b>TOTAL LIABILITIES</b>              |      | <u>660,625,051</u> | <u>661,161,323</u> |
| <b>EQUITY</b>                         |      |                    |                    |
| Share capital                         | 13   | 12,500             | 12,500             |
| Retained earnings                     |      |                    |                    |
| <b>TOTAL EQUITY</b>                   |      | <u>12,500</u>      | <u>12,500</u>      |
| <b>TOTAL EQUITY AND LIABILITIES</b>   |      | <u>660,637,551</u> | <u>661,173,823</u> |

The accompanying notes on pages 11-22 are an integral part of these financial statements.

These financial statements on pages 8-22 were approved by the board and signed on its behalf by:



**Piers Williamson**  
Director  
9 June 2017

**T.H.F.C. (FUNDING NO. 3) PLC****STATEMENT OF CASH FLOWS**

Year ended 31 December 2016

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|   |      | 2016                | 2015         |
|---|------|---------------------|--------------|
|   | Note | £                   | £            |
| <b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>                            |      |                     |              |
| Cash generated from / (used in) operations                                | 14   | -                   | (284)        |
| Interest paid on bonds  |      | <b>(32,515,600)</b> | (32,515,600) |
| Interest received on loan   |      | <b>32,515,600</b>   | 32,515,600   |
| Loan advance  |      | -                   | (2,636,900)  |
|   |      | <hr/>               | <hr/>        |
| <b>NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES</b>              |      | -                   | (2,637,184)  |
|   |      | <hr/>               | <hr/>        |
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>                                |      |                     |              |
| Net proceeds from sale of retained bonds                                  |      | -                   | 2,636,900    |
|   |      | <hr/>               | <hr/>        |
| <b>NET CASH GENERATED FROM FINANCING ACTIVITIES</b>                       |      | -                   | 2,636,900    |
|   |      | <hr/>               | <hr/>        |
| <b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS IN THE YEAR</b> |      | -                   | (284)        |
|   |      | <hr/>               | <hr/>        |
| <b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>                             |      | <b>12,500</b>       | 12,784       |
|   |      | <hr/>               | <hr/>        |
| <b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>                           |      | <b>12,500</b>       | 12,500       |
|   |      | <hr/> <hr/>         | <hr/> <hr/>  |

## 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 4<sup>th</sup> 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 balance sheet 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:

- **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 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 (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 5.20% 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 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 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 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 Homes and Communities Agency 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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Year ended 31 December 2016**

**4 INTEREST RECEIVABLE**

|                             | 2016<br>£         | 2015<br>£         |
|-----------------------------|-------------------|-------------------|
| On loan to borrower         | 32,515,600        | 32,538,679        |
| Amortisation of net premium | (536,437)         | (595,815)         |
|                             | <u>31,979,163</u> | <u>31,942,864</u> |

**5 INTEREST PAYABLE**

|                                    | 2016<br>£         | 2015<br>£         |
|------------------------------------|-------------------|-------------------|
| On 5.20% secured bonds due 2043/45 | 32,515,600        | 32,538,679        |
| Amortisation of net premium        | (536,437)         | (595,815)         |
|                                    | <u>31,979,163</u> | <u>31,942,864</u> |

**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<br>£    | 2015<br>£    |
|---|--------------|--------------|
| Fees paid to current auditor for annual audit of financial statements<br>- current year | <u>7,374</u> | <u>7,230</u> |

**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. Related party transactions are given in note 17.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Year ended 31 December 2016

9 LOAN TO BORROWER

|                                   | 2016<br>£          | 2015<br>£          |
|-----------------------------------|--------------------|--------------------|
| Loan value at 1 January           | 625,300,000        | 625,300,000        |
| Unamortised premium at 1 January  | 31,591,409         | 31,595,718         |
| Unamortised discount at 1 January | (2,967,129)        | (3,012,523)        |
|                                   | <u>653,924,280</u> | <u>653,883,195</u> |
| Premium on issue in the year      | -                  | 636,900            |
| Premium amortised in the year     | (584,419)          | (651,071)          |
| Discount amortised in the year    | 47,982             | 55,256             |
|                                   | <u>653,387,843</u> | <u>653,924,280</u> |
| Premium due within one year       | (610,539)          | (584,419)          |
| Discount due within one year      | 50,534             | 47,982             |
|                                   | <u>652,827,838</u> | <u>653,387,843</u> |

Collateral arrangements are set out in note 3.

10 OTHER RECEIVABLES

|   | 2016<br>£        | 2015<br>£        |
|---|------------------|------------------|
| Net premium on loan due within one year | 560,005          | 536,437          |
| Interest receivable                     | 7,215,791        | 7,215,791        |
| Other receivables                       | 21,417           | 21,252           |
|   | <u>7,797,213</u> | <u>7,773,480</u> |

11 OTHER PAYABLES

|  | 2016<br>£        | 2015<br>£        |
|--|------------------|------------------|
| Net premium on secured bonds due within one year | 560,005          | 536,437          |
| Interest payable                                 | 7,215,791        | 7,215,791        |
| Other creditors                                  | 21,417           | 21,252           |
|  | <u>7,797,213</u> | <u>7,773,480</u> |

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Year ended 31 December 2016

## 12 FINANCIAL LIABILITIES – SECURED BONDS

|                                      | 2016<br>£          | 2015<br>£          |
|--------------------------------------|--------------------|--------------------|
| Nominal amount in issue at 1 January | 625,300,000        | 625,300,000        |
| Unamortised premium at 1 January     | 31,591,409         | 31,595,718         |
| Unamortised discount at 1 January    | (2,967,129)        | (3,012,523)        |
|                                      | <u>653,924,280</u> | <u>653,883,195</u> |
| Premium on issue of bonds            | -                  | 636,900            |
| Premium amortised in the year        | (584,419)          | (651,071)          |
| Discount amortised in the year       | 47,982             | 55,256             |
| Amortised cost                       | <u>653,387,843</u> | <u>653,924,280</u> |
| Premium due within one year          | (610,539)          | (584,419)          |
| Discount due within one year         | 50,534             | 47,982             |
| Non-current amortised cost           | <u>652,827,838</u> | <u>653,387,843</u> |

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<br>Value initially<br>issued<br>£ | Retained by<br>Company<br>£ | Nominal<br>Value<br>£ | Premium/<br>(Discount)<br>£ |
|---|---|-----------------------------|-----------------------|-----------------------------|
| 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                     |
|   | <u>625,300,000</u>                        | <u>-</u>                    | <u>625,300,000</u>    | <u>30,004,243</u>           |

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Year ended 31 December 2016**

The net premium and cumulative amortisation at the beginning of the year was £28,624,280 and £1,379,963 (2015: £28,583,195 and £784,148) respectively. Premium on the sale of retained bonds during the year was £Nil (2015: £636,900). Amortisation charged during the year was £536,437 (2015: £595,815).

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.

**Contractual cash flows on secured bonds**

| <b>2016</b>  | <b>Due within<br/>one year</b> | <b>Due within<br/>one to two<br/>years</b> | <b>Due within<br/>two to five<br/>years</b> | <b>Due in over<br/>five years</b> | <b>Total<br/>2016</b> |
|--------------|--------------------------------|--|---|-----------------------------------|-----------------------|
|              | £                              | £  | £   | £                                 | £                     |
| Principal    | -                              | -  | -   | 625,300,000                       | 625,300,000           |
| Interest     | 32,515,600                     | 32,515,600                                 | 97,546,800                                  | 715,343,200                       | 877,921,200           |
| <b>Total</b> | <b>32,515,600</b>              | <b>32,515,600</b>                          | <b>97,546,800</b>                           | <b>1,340,643,200</b>              | <b>1,503,221,200</b>  |
|              |                                |  |   |                                   |                       |
| <b>2015</b>  | <b>Due within<br/>one year</b> | <b>Due within<br/>one to two<br/>years</b> | <b>Due within<br/>two to five<br/>years</b> | <b>Due in over<br/>five years</b> | <b>Total<br/>2015</b> |
|              | £                              | £  | £   | £                                 | £                     |
| Principal    | -                              | -  | -   | 625,300,000                       | 625,300,000           |
| Interest     | 32,515,600                     | 32,515,600                                 | 97,546,800                                  | 747,858,800                       | 910,436,800           |
| <b>Total</b> | <b>32,515,600</b>              | <b>32,515,600</b>                          | <b>97,546,800</b>                           | <b>1,373,158,800</b>              | <b>1,535,736,800</b>  |

**13 SHARE CAPITAL**

|   | <b>2016</b>   | <b>2015</b>   |
|---|---------------|---------------|
|   | £             | £             |
| <i>Allotted, called up and quarter paid</i><br>50,000 (2015: 50,000) ordinary shares of £1 each | <b>12,500</b> | <b>12,500</b> |

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Year ended 31 December 2016

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

|  | 2016<br>£    | 2015<br>£    |
|--|--------------|--------------|
| Result before taxation                     | -            | -            |
| Adjustments for:                           |              |              |
| Interest receivable                        | (31,979,163) | (31,942,864) |
| Interest payable                           | 31,979,163   | 31,942,864   |
| Changes in working capital:                |              |              |
| (Increase) / decrease in receivables       | (165)        | 210          |
| Increase / (decrease) in payables          | 165          | (494)        |
| Cash generated from / (used in) operations | -            | (284)        |

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Year ended 31 December 2016**

**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 2016 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.

|  | 2016                |                    | 2015                |                    |
|--|---------------------|--------------------|---------------------|--------------------|
|  | Carrying value<br>£ | Fair value<br>£    | Carrying value<br>£ | Fair value<br>£    |
| <b>Financial assets:</b>                                     |                     |                    |                     |                    |
| <i>Classified as loans &amp; receivables</i>                 |                     |                    |                     |                    |
| Loan to borrower(s)  |                     |                    |                     |                    |
| Non-current  | 652,827,838         |                    | 653,387,843         |                    |
| Current  | 560,005             |                    | 536,437             |                    |
| <b>Total</b>   | <b>653,387,843</b>  | <b>871,615,696</b> | <b>653,924,280</b>  | <b>757,603,383</b> |
| Interest receivable  | 7,215,791           | 7,215,791          | 7,215,791           | 7,215,791          |
| Other receivables  | -                   | -                  | -                   | -                  |
| <b>Total financial assets</b>                                | <b>660,603,634</b>  | <b>878,831,487</b> | <b>661,140,071</b>  | <b>764,819,174</b> |
| <b>Financial liabilities:</b>                                |                     |                    |                     |                    |
| <i>Classified as financial liabilities at amortised cost</i> |                     |                    |                     |                    |
| Secured bonds  |                     |                    |                     |                    |
| Non-current  | 652,827,838         |                    | 653,387,843         |                    |
| Current  | 560,005             |                    | 536,437             |                    |
| <b>Total</b>   | <b>653,387,843</b>  | <b>871,615,696</b> | <b>653,924,280</b>  | <b>757,603,383</b> |
| Interest payable   | 7,215,791           | 7,215,791          | 7,215,791           | 7,215,791          |
| Other payables and accruals                                  | 21,417              | 21,417             | 21,252              | 21,252             |
| <b>Total financial liabilities</b>                           | <b>660,625,051</b>  | <b>878,852,904</b> | <b>661,161,323</b>  | <b>764,840,426</b> |

**16 ULTIMATE PARENT COMPANY**

At 31 December 2016 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, 4<sup>th</sup> 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. 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 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, cannot be held liable for the debts of the company in the event of insolvency.