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

Annual Report

For the year ended 31 December 2021

Companies House no: 07765422

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

Annual report and financial statements for the year ended 31 December 2021

Contents

Page:

Directors

C. Burke
F. Edge
D. Stokes
P. Williamson
G. Blunden
S. Bottles
P. Impey
A. King
D. Montague
G. Payne
W. Perry
S. Smith
W. Thomas

Company Secretary

E. Hoareau

Registered Office

3rd Floor, 17 St. Swithin's Lane
London
EC4N 8AL

Company Number

07765422

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

DIRECTORS' REPORT
Year ended 31 December 2021

The directors submit their Directors' report, Strategic report and audited financial statements for the year ended 31 December 2021.

RESULTS AND DIVIDEND

T.H.F.C. (Funding No.3) Plc (the **company**) made neither a profit nor a loss for the year (2020: £Nil). The directors do not propose the payment of a dividend (2020: £Nil).

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. (Services) 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
D. Stokes
P. Williamson
G. Blunden
S. Bottles
P. Impey
A. King
D. Montague
G. Payne
W. Perry
S. Smith
W. Thomas

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, three of whom 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 accounting standards in conformity with the requirements 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 accounting standards in conformity with the requirements of the Companies Act 2006 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 information is given and should be interpreted in accordance with the provisions of s.418 of the Companies Act 2006.

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

Colin Burke
Director
5 April 2022

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 registered providers of social housing, registered social landlords and registered housing associations, in England, Wales, Scotland and Northern Ireland (**HAs**) (the **Bond Issuance Authorised Borrowers**, as defined in the loan agreement between the company and THFC) 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 £955,300,000 were made between 2012 and 2020. The total value of secured bonds in issue at 31 December 2021 is £1,055,300,000 (2020: £1,055,300,000) of which £72,000,000 were retained (2020: £95,500,000). Further information on issues during the year is given in note 13.

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

Accent Housing Limited
Accord Housing Association Limited
Adactus Housing Association Limited
Apex Housing Association
Arches Housing Limited
Arcon Housing Association Limited
Bernicia Group
Bournville Village Trust
Bromford Housing Association Limited
Bromsgrove District Housing Trust Limited
Cadwyn Housing Association Limited
Charter Housing Association Limited
Citizen Housing Group
Clanmil Housing Association Limited
Choice Housing Ireland Limited
Coastal Housing Group Limited
Connswater Housing Association Limited
Cornerstone Housing Limited
Croydon Churches Housing Association Limited
Derwen Cymru Limited
Dumfries & Galloway Housing Partnership
Eildon Housing Association Limited
Equity Housing Group Limited
Estuary Housing Association Limited
Greenoak Housing Association Limited
Greensquare Group
Grwp Cynefin
Harrogate Families Housing Association Limited
Hexagon Housing Association Limited
Honeycomb Group Limited

Inquilab Housing Association Limited
Irwell Valley Housing Association Limited
"Johnnie" Johnson Housing Trust Limited
Joseph Rowntree Housing Trust
Leeds & Yorkshire Housing Association Limited
Manningham Housing Association Limited
Melin Homes Limited
Merthyr Tydfil Housing Association Limited
Mid Wales Housing Association Limited
Network Stadium Housing Association Limited
New Gorbals Housing Association Limited
Newport City Homes
Newydd Housing Association Limited
North Wales Housing Association Limited
One Vision
Paradigm Homes Charitable Housing Association Limited
Pickering & Ferens Homes
Radius Housing Housing Association Limited
Rhondda Housing Association Limited
Riverside Group Limited
Salvation Army Housing Association
Soho Housing Association Limited
South Western Housing Trust
Torus62 Limited
Trent and Dove Housing Association Limited
United Communities Limited
United Welsh Housing Association Limited
Unity Housing Association Limited
Wales and West Housing Association Limited
Weaver Vale Housing Trust Limited
West Kent Housing Association
Westfield Housing Association Limited
Wirral Methodist Housing Association Limited
Womens Pioneer Housing Limited
Worthing Homes Limited
York Housing Association Limited

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

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 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 straight forward 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.

On 28 February 2022 retained bonds with a nominal value of £9,500,000 were sold into the market.

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

The company has assessed the likely ongoing impact of the coronavirus pandemic on its business operations and finances (see note 2) and concluded that this will not have a material impact on going concern.

The company has issued fixed rate debt in the form of secured bonds and on-lent the proceeds to THFC on matched terms hence the secured bonds and loan to THFC are not impacted by the transition from LIBOR to SONIA as the new benchmark for floating rate debt.

FINANCIAL RISK MANAGEMENT

The key financial risks of the company and how they are mitigated are explained in note 4.

SECTION 172(1) STATEMENT

Long-term consequences

The Board's objective is to have a long-term beneficial impact on the company and the wider affordable housing sector through the delivery of cost-effective funding to The Housing Finance Corporation Limited (THFC). THFC on-lends the proceeds of its funding from the company to UK housing associations.

The length and secured nature of the loan to THFC requires the company to ensure that both the borrower and the company will continue to meet their respective legal and other obligations to both the company and bondholders as detailed in the relevant transaction documents.

The loan agreement stipulates that all on going costs of the issuer are recoverable from the borrower. All expenses of the company are funded before they are incurred.

Material risks of the borrower are monitored by its board on a regular basis. The majority of Board members of the issuer are also Board members of the borrower.

Interests of employees

Due to the nature of the activities of the business the only employees are the Board of Directors. Each of these employees has a say over the decisions of the business and has full knowledge of all decisions taken throughout the year. There are no plans for the business to hire further employees in the foreseeable future.

Foster business relationships

The company has one borrower which is a related party of the company and the majority of the company's Board also serve on the borrower's Board.

The administrator, T.H.F.C. (Services) Limited, who supplies all services to the company (and is a subsidiary of the borrower), has a structure that incorporates Relationship Management (for liaison with borrowers to whom funds have been on-lent as well as potential borrowers), Treasury (who maintain relationships with current and potential investors in the company's bonds through regular updates and meetings), Finance (who manage relationships with suppliers and ensure the efficient collection and distribution of coupons between the borrower and investors (or their duly appointed agent)) and Secretarial (who manage compliance obligations with various stakeholders). This arrangement is monitored by the board of directors.

Lending requires a constant focus on maintaining stakeholder relationships and the administrator's team has a wealth of experience in all relevant areas.

Impact of operations on community and environment

Our corporate objective, and that of our related party borrower, is to deliver cost-effective funding to housing associations. In so doing, we aim to boost the provision and quality of affordable housing for the benefit of tenants and communities throughout the UK. The company operates on a not-for-profit basis and makes no surplus or loss after cost recoveries.

The company ensures its employees are aware of the changing landscape of regulation and best practice, whether environmental or social in nature. Every effort is made to consider the environmental impact of decisions taken, although due to the nature of its activities the company's direct environmental impact is limited.

Maintaining reputations

The intention of the Board is to operate the business responsibly and in line with the good industry practice and governance expected of a lending business and in so doing, will contribute to the delivery of our plan. The ongoing operations of the business are conducted by an administrator under a corporate services agreement. This arrangement is monitored by the Board of the administrator through periodic reporting.

Acting fairly between members of the company

As a Board of Directors, we have a responsibility to act fairly between members of the company. The entire issued share capital is held by T.H.F.C. (Services) Limited on a fiduciary basis on behalf of qualifying charities as defined in the Declaration of Trust. The majority of the company's Board also serve on the Board of T.H.F.C. (Services) Limited.

ENERGY AND CARBON REPORTING

In line with the Streamlined Energy and Carbon requirements, the company is required to report on its energy use. T.H.F.C (Services) Limited ("the administrator") who supplies corporate services to the company operates from modern, energy efficient offices located at 17 St. Swithin's Lane in the City of London. The office has no car parking facilities and all staff commute by bike or public transport.

The administrator's premises is shared by all members of the T.H.F.C. Group and is the registered address for various other companies. The directors have estimated that the company's share of the total energy usage of the administrator's premises is below 40,000 kWh and therefore have taken the exemption from the requirement to disclose this information. THFC Group publishes its total energy usage within its consolidated financial statements. A copy of these financial statements can be obtained at www.thfcorp.com.

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

Colin Burke
Director
5 April 2022

Opinion

We have audited the financial statements of T.H.F.C. (Funding No.3) Plc (the **company**) for the year ended 31 December 2021 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 significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its result for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 contained within the Annual Report. 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions 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 in relation to which 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 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, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

We obtained an understanding of the company's legal and regulatory framework through enquiry of management of their understanding of the relevant laws and regulations, the company's policies and procedures regarding compliance and how they identify, evaluate and rectify any instances of non-compliance. We also drew on our existing understanding of the company's industry and regulation.

We understand that the company complies with requirements of the framework through:

- The directors overseeing the operation of the company's management services agreement with the THFC Group, which requires T.H.F.C. (Services) Limited to implement, monitor and update operating procedures, manuals and internal controls as legal and regulatory requirements change.
- The directors' close involvement in the day-to-day running of the business, meaning that any litigation or claims would come to their attention directly.
- The outsourcing of tax compliance to external service providers.

In the context of the audit, we considered those laws and regulations which determine the form and content of the financial statements, which are central to the company's ability to conduct business and where failure to comply could result in material penalties. We have identified the following laws and regulations as being of significance in the context of the company:

- The Companies Act 2006 and international accounting standards in conformity with the Companies Act 2006 in respect of the preparation and presentation of the financial statements; and
- The Listing Rules as applicable to the Professional Securities Market ("PSM") ("the PSM Rules"), in relation to the listing of secured bonds.

We performed the following specific procedures to gain evidence about compliance with the significant laws and regulations above:

- Discussions with management including consideration of known or suspected non-compliance with the PSM Rules;
- Confirming through review of the company's engagement letter with legal advisors that they are engaged to provide ongoing updates and advice to ensure ongoing compliance with the PSM Rules;
- Performing a review of board minutes to identify any indicators of known or suspected non-compliance with significant laws and regulations; and
- Performing a review of any legal correspondence with the company's legal advisors.

The senior statutory auditor led a discussion with senior members of the engagement team regarding the susceptibility of the entity's financial statements to material misstatement, including how fraud might occur. The key area identified as part of the discussion was with regard to the manipulation of the financial statements through manual journals. This was communicated to the other members of the engagement team who were not present at the discussion.

The procedures carried out to gain evidence in the above areas included;

- Testing a sample of manual journal entries, selected through applying specific risk assessments based on the company's processes and controls surrounding manual journals.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

L Manson

Lindsay Manson
Senior Statutory Auditor, for and on behalf of
Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants

25 Moorgate
London
EC2R 6AY

5 April 2022

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

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2021

	Note	**2021**	2020
OPERATING INCOME		**£**	£
Interest receivable	5	**46,010,467**	44,920,351
Costs receivable from borrower		**44,217**	40,955
		46,054,684	44,961,306
OPERATING EXPENDITURE			
Interest payable	6	**46,010,467**	44,920,351
Operating expenses	7	**44,217**	40,955
		46,054,684	44,961,306
RESULT BEFORE AND AFTER TAXATION	8	**-**	-
Other comprehensive income		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**-**	**-**

There have been no changes in equity or reserves 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 2021

	Note	**2021**	2020
ASSETS		**£**	£
Non-current assets			
Loan to borrower	10	**1,127,001,679**	1,095,160,870
Current assets			
Other receivables	11	**16,222,707**	15,324,652
Cash and cash equivalents		**12,535**	12,458
TOTAL ASSETS		**1,143,236,921**	1,110,497,980
EQUITY AND LIABILITIES			
Current liabilities			
Other payables	12	**16,222,742**	15,324,610
Non-current liabilities			
Financial liabilities – secured bonds	13	**1,127,001,679**	1,095,160,870
TOTAL LIABILITIES		**1,143,224,421**	1,110,485,480
EQUITY			
Share capital	14	**12,500**	12,500
Retained earnings		**-**	-
TOTAL EQUITY		**12,500**	12,500
TOTAL EQUITY AND LIABILITIES		**1,143,236,921**	1,110,497,980

The accompanying notes on pages 15-32 are an integral part of these financial statements.

These financial statements on pages 12-32 were approved by the board and signed on its behalf by:

Fenella Edge

Fenella Edge
Director
5 April 2022

STATEMENT OF CASH FLOWS
Year ended 31 December 2021

	Note	**2021**	2020
NET CASH FLOW FROM OPERATING ACTIVITIES		**£**	£
Cash generated from / (used in) operations	15	**77**	1
Interest paid on bonds		**(50,388,499)**	(48,486,692)
Interest received on loan		**50,388,499**	48,486,692
Loans advanced		**(37,115,365)**	(58,256,841)
Net proceeds from issue of bonds		**37,115,365**	58,256,841
NET CASH GENERATED FROM / (USED IN) FROM OPERATING ACTIVITIES		**77**	1
NET MOVEMENT IN CASH AND CASH EQUIVALENTS IN THE YEAR		**77**	1
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**12,458**	12,457
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**12,535**	12,458

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 registered providers of social housing, registered social landlords and registered housing associations, in England, Wales, Scotland and Northern Ireland (HAs) (the **Bond Issuance Authorised Borrowers**, as defined in the loan agreement between the company and THFC). 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 3rd Floor, 17 St Swithin's Lane, London, EC4N 8AL.

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 THFC requests sale of the bonds into the market to fund further loans to itself for on-lending to housing associations.

2 ACCOUNTING POLICIES

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.

Basis of preparation

The financial statements have been prepared on a going concern basis in international accounting standards in conformity with the provisions of the Companies Act 2006.

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

Going concern

The company considers that, as all remaining restrictions related to Covid-19 have now been lifted, there is unlikely to be any further impact on its business operations and finances from the pandemic.

The company has made a loan to THFC, a related entity, who has on lent the proceeds of the loan to registered providers of social housing. The ongoing viability of the company is dependent on the ongoing receipt of interest and principal from its borrower in accordance with its loan agreement thereby ensuring that the company is able to meet its obligations under the terms of its funding arrangements in addition to covering operating costs.

At the date of signing the accounts there is no evidence to suggest that the company or its borrower will be unable to meet its covenants in the foreseeable future.

As such, the Board has a reasonable expectation that the company has adequate resources to continue in operation for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing the financial statements.

ACCOUNTING POLICIES (continued)

Changes in accounting policies and disclosures

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

The following new and amended Standards and Interpretations are effective for periods beginning on or after 1 January 2021, but were adopted early by the company in the prior year:

- Amendments to IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7: Financial Instruments Disclosures. Following the amendments issued as part of Phase 1, the changes in the final phase relate to:
    - Changes to contractual cash flows whereby a company will not be required to derecognise or change the carrying amount of financial instruments for changes required by the reform. Companies will however be required to adjust the effective interest rate to reflect a change to the alternative benchmark.
    - Hedge accounting – a company will not be required to discontinue hedge accounting solely due to the reform, provided other hedge accounting criteria is met.
    - Disclosures – requirements to disclose information about new risks arising from the interest rate benchmark reform and how the company has managed transition to alternative benchmark rates.

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 2021 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 mandatory and not yet UK endorsed so not yet available for early adoption

- Annual Improvements: IFRS 2018–2020 cycle. These amendments form part of the IASB's annual improvement process, which is designed to make necessary, but not urgent, amendments to IFRSs. The amendments relate to:
    - IFRS 1 First-time Adoption of International Financial Reporting Standards – Widens an exemption for subsidiaries who become first-time adopters later than their parent, to include cumulative translation differences, to further reduce the likelihood of having to keep two parallel sets of accounting records based on different dates of transition to IFRSs.
    - IFRS 9 Financial Instruments – Clarifies which fees should be included in the '10 per cent' test on substantial modification of financial liabilities i.e., only those exchanged between the borrow and lender directly.
    - Illustrative Examples accompanying IFRS 16 Leases – One of the examples has been updated to remove the potential for confusion over the treatment of lease incentives.
    - IAS 41 Agriculture – Removes the requirement that pre-tax cashflows need to be used in fair value measurements under IAS 41.

ACCOUNTING POLICIES (continued)

The amendments to IAS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022, with early application permitted in the EU. Early application for use in the UK will be permitted once endorsed. The amendments to IFRS 16 relate to an illustrative example and so no effective date is stated.

- Amendments: Reference to the Conceptual Framework (Proposed amendments to IFRS 3). This amendment references to the currently extant Conceptual Framework rather than the version of the Conceptual Framework in existence when IFRS 3 Business combinations was developed.

  Additionally, the amendment refers companies to IAS 37 instead of the Conceptual Framework to determine what constitutes a liability as the conceptual framework has a broader definition.

  The amendments to IFRS 3 are effective for annual reporting periods beginning on or after 1 January 2022, with early application permitted in the EU. Early application for use in the UK will be permitted once endorsed.

- IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies. This amendment applies the concept of materiality to the disclosure of accounting policies. Consequently, all instances of “significant accounting policies” within IAS 1 Presentation of financial statements has been replaced with “material accounting policy information”. Information in an accounting policy is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make based on those financial statements. Immaterial accounting policies can still be presented if these do not obscure material accounting policy information. The amendments to IFRS Practice Statement 2 provide guidance and examples to determine when an accounting policy is material to the financial statements.

  The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted upon endorsement. They are applied prospectively. As the guidance per IFRS Practice Statement 2 is not mandatory, no effective date is issued.

- Amendments to IAS 8: Definition of Accounting Estimates. The IASB issued Definitions of Accounting Estimates (Amendments to IAS 8) in February 2021. The changes focus on the distinction between accounting estimates and accounting policies, and make the following key clarifications:

  - The definition of a change in accounting estimate has been deleted and replaced with a definition of an accounting estimate, which includes “monetary amounts in the financial statements which are subject to measurement uncertainty”.
  - A change in accounting estimate that results from new information or new developments is not a correction of error.
  - The impact from a change in input or measurement technique used to determine an accounting estimate is a change in an accounting estimate if it does not result from the correction of a prior period error.
  - A change in an accounting estimate may only affect the current period profit or loss, or the current and future profit and loss.

  The amendment is effective for financial periods beginning on or after 1 January 2023 to changes in accounting policies and estimates that occur after the start of that period. Earlier adoption is permitted upon endorsement.

ACCOUNTING POLICIES (continued)

- Amendments to IAS 1: Classification of Liabilities as Current or Non-current. The proposed amendments are designed to improve presentation in financial statements by clarifying the criteria for the classification of a liability as either current or non-current. The proposed amendments do this by:
  - Clarifying that the classification of a liability as either current or non-current is based on the entity's rights at the end of the reporting period rather than requiring an unconditional right to defer settlement; and
  - Making clear the link between the settlement of the liability and the outflow of resources from the entity.

The effective date is for periods beginning on or after 1 January 2023. There is a proposal to defer the effective date until not earlier than 1 January 2024, which is subject to IASB approval.

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.

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.

Costs recoverable

All operating costs are recovered from the borrower in line with contractual arrangements. All recovered costs are recognised within operating income in the period in which costs are recovered.

Issue costs incurred during the issue of the loans to borrowers are recovered from the borrower on completion of the loan transaction.

Fees are measured at the transaction price received or receivable allocated to the performance obligation satisfied and represent amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes. As the expected period between transfer of a promised good or service and payment from the borrower is one year or less then no adjustment for a financing component has been made.

Financial Instruments

Initial recognition and measurement

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

Financial assets and financial liabilities are initially measured at fair value. Net transaction costs that are directly attributable to the acquisition or issue of the financial assets and financial liabilities (other than

ACCOUNTING POLICIES (continued)

financial assets and financial liabilities at fair value through profit or loss (FVPL)) are respectively added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. The company's only borrower, THFC, incurs and recovers all transaction costs, so they do not form part of the fair value at recognition.

Financial assets

Classification and measurement

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

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

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

1) the company's business model for managing the asset; and
2) the cash flow characteristics of the asset ("SPPI test").

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

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

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

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

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

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

ACCOUNTING POLICIES (continued)

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

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

Reclassification

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

The company holds the following debt instrument under financial assets:

Loan receivable

The Loan receivable represents monies lent to THFC, a related party of the company, under a loan agreement and held at amortised cost.

Cash and bank balances

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

Other receivables

Other receivables are recognised at transaction price and are subsequently measured at amortised cost.

Impairment

The company assesses on a forward-looking basis the expected credit losses (ECL) associated with any debt instruments carried at amortised cost. The company may recognise a loss allowance for such losses at each reporting date.

IFRS 9 permits the use of models for estimating expected losses that do not require explicit scenario and probability analysis. The directors are of the opinion that historical average credit loss experience in relation to its sole loan is a reasonable estimate of the probability-weighted amount.

The IFRS 9 impairment model has three stages – Stage 1, Stage 2 and Stage 3 (default).

The company may recognise a 12-month expected credit loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk (stage 2) that would no longer render the instrument low risk. Stage 3 requires objective evidence that an asset is credit impaired.

ACCOUNTING POLICIES (continued)

The measurement of ECL of the loan reflects:

(a) the loss experience of the company in relation to its loan;
(b) reasonable and supportable information on the social housing sector that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of the future operating environment;
(c) performance of the borrower in relation to the loan.

The company has one loan outstanding to a single borrower which has been compliant since inception on 5th October 2011. The company has the benefit of a floating charge over all the assets of its borrower which are principally its loans and receivables which are all performing and have no loss experience.

Collateral arrangements are described in note 4.

To date the borrower has not provided for an expected credit loss on its loans which are secured by floating charges.

Management's view therefore is that the calculation of expected credit loss for this loan is zero.

Management monitor the performance of its borrower and its loan book and may consider a provision based on the performance of one or both.

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

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

EWIs include but are not restricted to, the following:

(a) borrower's annual financial statements carry an auditor's qualification;
(b) government or regulatory action which negatively impacts on the borrower's business;
(c) down grade of the borrower to below investment grade rating;
(d) payment of interest and capital after due date for other than operational reasons;
(e) borrower records an impairment loss.

Definition of default (movement to stage 3)

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

(a) payment default;
(b) cross default;
(c) breach of covenant(s).

ACCOUNTING POLICIES (continued)

Derecognition

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

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

Financial Liabilities

Classification and measurement

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

Financial liabilities include borrowings and other payables.

Initial recognition and subsequent measurement

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

Derecognition

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

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.

ACCOUNTING POLICIES (continued)

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 (2020: 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 the date that the bonds are surrendered to the issuer for cancellation.

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 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in accordance with international accounting standards requires the use of certain critical accounting adjustments; these require management's judgement in applying the accounting policies. The area involving a higher degree of judgement or complexity or where assumptions are significant to the financial statements is the evaluation as to whether the loans to HAs, and therefore potentially the loan to the borrower, are impaired.

Critical accounting judgement

Impairment of Loan to Borrower (Note 10)

The directors have concluded that no impairment provision is required in relation to the loan to THFC in accordance with IFRS9 (2020: £Nil). This is for a number of reasons which includes, but is not limited to, the credit quality of THFC's borrowers and the company's zero loss experience to date. As the company is not subject to any net credit risk any incurred loss impairment would be matched by a similar adjustment to the gross liability. At 31 December 2021, the carrying value of the loans to borrowers is £1,131,843,178 (2020: £1,099,377,028).

4 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 Regulator of Social Housing (or other relevant authority for housing associations outside England) for the purposes of funding social housing. The Regulator of Social Housing 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 2021 (2020: 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 charges 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.

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

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 13.

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.

5 INTEREST RECEIVABLE

	2021	2020
	£	£
On loan to borrower	**50,659,682**	48,930,929
Amortisation of net premium	**(4,649,215)**	(4,010,578)
	46,010,467	44,920,351

6 INTEREST PAYABLE

	2021	2020
	£	£
On 5.20% secured bonds due 2043/45	**50,659,682**	48,930,929
Amortisation of net premium	**(4,649,215)**	(4,010,578)
	46,010,467	44,920,351

7 OPERATING EXPENSES

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

8 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:

	2021	2020
	£	£
Fees paid to current auditor for annual audit of financial statements - current year	**14,292**	**12,408**

9 EMPLOYEES

There were no employees during the year other than the directors (2020: Nil). The directors received no remuneration during the year directly from the company in respect of their qualifying services (2020: £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.

10 LOAN TO BORROWER

	2021 £	2020 £
Loan value at 1 January	**959,800,000**	922,600,000
Unamortised premium at 1 January	**142,276,930**	125,289,980
Unamortised discount at 1 January	**(2,699,902)**	(2,759,215)
	1,099,377,028	1,045,130,765
Loans issued in the year	**23,500,000**	37,200,000
Premium on issue in the year	**13,615,365**	21,056,841
Premium amortised in the year	**(4,711,683)**	(4,069,891)
Discount amortised in the year	**62,468**	59,313
Amortised cost at end of year	**1,131,843,178**	1,099,377,028
Premium due within one year	**(4,907,367)**	(4,278,626)
Discount due within one year	**65,868**	62,468
Non-current amortised cost	**1,127,001,679**	1,095,160,870

Collateral arrangements are set out in note 4.

11 OTHER RECEIVABLES

	2021 £	2020 £
Net premium on loan due within one year	**4,841,499**	4,216,158
Interest receivable	**11,347,013**	11,075,829
Other receivables	**34,195**	32,665
	16,222,707	15,324,652

12 OTHER PAYABLES

	2021 £	2020 £
Net premium on secured bonds due within one year	**4,841,499**	4,216,158
Interest payable	**11,347,013**	11,075,829
Other creditors	**34,230**	32,623
	16,222,742	15,324,610

13 FINANCIAL LIABILITIES – SECURED BONDS

	2021	2020
	£	£
Nominal amount in issue at 1 January	**959,800,000**	922,600,000
Unamortised premium at 1 January	**142,276,930**	125,289,980
Unamortised discount at 1 January	**(2,699,902)**	(2,759,215)
	1,099,377,028	1,045,130,765
Bonds issued in the year	**23,500,000**	37,200,000
Premium on issue of bonds	**13,615,365**	21,056,841
Premium amortised in the year	**(4,711,683)**	(4,069,891)
Discount amortised in the year	**62,468**	59,313
Amortised cost at end of year	**1,131,843,178**	1,099,377,028
Premium due within one year	**(4,907,367)**	(4,278,626)
Discount due within one year	**65,868**	62,468
Non-current amortised cost	**1,127,001,679**	1,095,160,870

Details of security are set out in note 4.

FINANCIAL LIABILITIES – SECURED BONDS (continued)

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
12 February 2018 (sale of retained bonds)		(15,500,000)	15,500,000	5,446,700
20 March 2018	121,000,000	60,500,000	60,500,000	19,191,810
05 September 2018		(10,000,000)	10,000,000	3,295,100
16 October 2018		(20,500,000)	20,500,000	5,276,905
9 November 2018		(10,000,000)	10,000,000	2,809,900
12 December 2018		(16,000,000)	16,000,000	4,562,080
25 January 2019	83,000,000	41,500,000	41,500,000	12,032,095
19 March 2019		(11,800,000)	11,800,000	4,051,766
2 October 2019		(13,500,000)	13,500,000	6,844,944
1 November 2019		(5,000,000)	5,000,000	2,361,000
24 February 2020		(13,200,000)	13,200,000	6,991,776
06 July 2020		(4,500,000)	4,500,000	2,670,435
29 September 2020	40,000,000	20,500,000	19,500,000	11,394,630
15 January 2021		(7,500,000)	7,500,000	4,841,925
19 July 2021		(16,000,000)	16,000,000	8,773,440
	1,055,300,000	(72,000,000)	983,300,000	165,929,669

The net premium and cumulative amortisation at the beginning of the year was £139,577,028 and £12,737,276 (2020: £122,530,765 and £8,726,698) respectively. Premium on the issue of new bonds during the year was £13,615,365 (2020: £21,056,841). Amortisation charged during the year was £4,649,215 (2020: £4,010,578).

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.

FINANCIAL LIABILITIES – SECURED BONDS (continued)

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

2021	**Due within one year**	**Due within one to two years**	**Due within two to five years**	**Due in over five years**	**Total 2021**
	£	**£**	**£**	**£**	**£**
Principal	**-**	**-**	**-**	**983,300,000**	**983,300,000**
Interest	**51,131,600**	**51,131,600**	**153,394,800**	**869,237,200**	**1,124,895,200**
Total	**51,131,600**	**51,131,600**	**153,394,800**	**1,852,537,200**	**2,108,195,200**

2020	Due within one year	Due within one to two years	Due within two to five years	Due in over five years	Total 2020
	£	£	£	£	£
Principal	-	-	-	959,800,000	959,800,000
Interest	49,909,600	49,909,600	149,728,800	898,372,800	1,147,920,800
Total	49,909,600	49,909,600	149,728,800	1,858,172,800	2,107,720,800

14 SHARE CAPITAL

	2021	2020
	£	£
Allotted and part paid		
50,000 (2020: 50,000) ordinary shares of £1 each of which 25p per share is paid.	**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 relation to its obligations under the bonds. The company is not subject to externally imposed capital requirements.

15 RECONCILIATION OF RESULT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS

	2021	2020
	£	£
Result before taxation	**-**	-
Adjustments for:		
Interest receivable	**(46,010,467)**	(44,920,351)
Interest payable	**46,010,467**	44,920,351
Changes in working capital:		
(Increase) in receivables	**(1,530)**	(2,408)
Increase in payables	**1,607**	2,409
Cash generated from operations	**77**	1

16 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 2021 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.

	2021		2020	
	Carrying value	**Fair value**	Carrying value	Fair value
	£	**£**	£	£
Financial assets:				
Classified as loans & receivables				
Loan to borrower(s)				
Non-current	**1,127,001,679**		1,095,160,870	
Current	**4,841,499**		4,216,158	
Total	**1,131,843,178**	**1,498,821,843**	1,099,377,028	1,567,397,535
Interest receivable	**11,347,013**	**11,347,013**	11,075,829	11,075,829
Other receivables	**34,195**	**34,195**	32,665	32,665
Total financial assets	**1,143,224,386**	**1,510,203,051**	1,110,485,522	1,578,506,029
Financial liabilities:				
Classified as financial liabilities at amortised cost				
Secured bonds				
Non-current	**1,127,001,679**		1,095,160,870	
Current	**4,841,499**		4,216,158	
Total	**1,131,843,178**	**1,498,821,843**	1,099,377,028	1,567,397,535
Interest payable	**11,347,013**	**11,347,013**	11,075,829	11,075,829
Other payables and accruals	**34,230**	**34,230**	32,623	32,623
Total financial liabilities	**1,143,224,421**	**1,510,203,086**	1,110,485,480	1,578,505,987

17 ULTIMATE PARENT COMPANY

At 31 December 2021 the company's immediate and ultimate holding company was T.H.F.C. (Services) Limited. The share capital is held by T.H.F.C. (Services) Limited on a fiduciary basis on behalf of qualifying charities as defined in the Declaration of Trust and hence no group financial statements are prepared.

18 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 (2020: £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 5, 10 and 11 of these financial statements.

During the year, the company recovered costs of £44,217 (2020: £40,955) from THFC. At the end of the year, THFC owed the company for costs of £35 (2020: £42).

19 TAXATION

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

20 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. (Services) Limited cannot be held liable for the debts of the company in the event of insolvency.

21 EVENTS AFTER REPORTING PERIOD

On 28 February 2022 retained bonds with a nominal value of £9,500,000 were sold into the market.