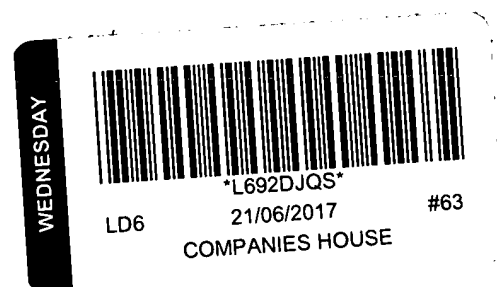


**T.H.F.C. (FUNDING) HOLDINGS LIMITED**

**Annual Report and Financial Statements**

**For the year ended 31 December 2016**

**Companies House no: 04954968**



# **T.H.F.C. (FUNDING) HOLDINGS LIMITED**

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

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## **Directors**

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

## **Company Secretary**

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

## **Registered office**

4th Floor  
107 Cannon Street  
London  
EC4N 5AF

## **Company number**

04954968

## **Independent Auditor**

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

# **T.H.F.C. (FUNDING) HOLDINGS LIMITED**

## **DIRECTORS' REPORT**

**Year ended 31 December 2016**

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

### **RESULTS AND DIVIDEND**

T.H.F.C. (Funding) Holdings Limited ("the company") and its subsidiaries, T.H.F.C. (Funding No.1) Plc and T.H.F.C. (Funding No.2) Plc (together "the group") made neither a profit nor a loss for the year. The directors do not propose the payment of a dividend (2015: Nil).

### **SHARE CAPITAL AND COMPANY STRUCTURE**

T.H.F.C (Funding) Holdings Limited is a private limited company incorporated and domiciled in England and Wales. The entire issued share capital of the Company is held by T.H.F.C. (Services) Limited as Share Trustee under a Declaration of Trust for the benefit of selected charities as defined in the declaration of trust.

### **DIRECTORS**

The directors who served during the year and up to the date of signing the financial statements are as follows:

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

### **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 group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards to the parent company's financial statements 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 group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group 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 the group 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **T.H.F.C. (FUNDING) HOLDINGS LIMITED**

### **DIRECTORS' REPORT (continued)** **Year ended 31 December 2016**

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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

# **T.H.F.C. (FUNDING) HOLDINGS LIMITED**

## **STRATEGIC REPORT**

**Year ended 31 December 2016**

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### **PRINCIPAL ACTIVITIES**

The company is the parent company of T.H.F.C. (Funding No.1) Plc and T.H.F.C (Funding No.2) Plc (“the issuers”) and owns 100% of the issued share capital. T.H.F.C. (Funding) Holdings Limited was incorporated on 6 November 2003.

The principal activity of the issuers is to provide finance to The Housing Finance Corporation Limited (“THFC”) for on-lending to housing associations (“HAs”) (“the Bond Issuance Authorised Borrowers” as defined in the loan agreements between the issuers and THFC) registered under The Housing Act 1996 through the issue of bonds secured on the borrowing of the HAs (the “secured bonds”).

The Law Debenture Trust Corporation p.l.c. 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 borrowers.

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

All the group’s operating costs, net of interest earned, are recoverable from the borrower.

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

A2Dominion Homes Limited (formerly known as Cherwell Housing Trust Limited)  
A2Dominion London Limited  
Apex Housing Limited  
Axiom Housing Association Limited  
Connswater Homes Limited  
Choice Housing Ireland Limited (formerly known as OakleeTrinity Limited)  
East Midlands Housing Association Limited  
Equity Housing Group Limited  
Genesis Housing Association Limited  
Glen Oaks Housing Association Limited  
Heantun Housing Association Limited  
Helm Housing Association Limited  
Hightown Praetorian and Churches Housing Association Limited (formerly known as Hightown Housing Association Limited)  
“Johnnie” Johnson Housing Trust Limited  
Knightstone Housing Association Limited  
Leeds Federated Housing Association Limited  
Manningham Housing Association Limited  
Mosscares Housing Limited  
New Gorbals Housing Association Limited  
One Housing Group Limited (formerly known as Community Housing Association Limited)  
Paradigm Homes Charitable Housing Association Limited  
Portal Housing Association Limited  
Southern Housing Group Limited  
Staffordshire Housing Association  
Taff Housing Association Limited

## **T.H.F.C. (FUNDING) HOLDINGS LIMITED**

### **STRATEGIC REPORT (continued)**

**Year ended 31 December 2016**

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Wales and West Housing Association Limited  
Wandle Housing Association Limited  
Westcountry Housing Association Limited  
Wirral Methodist Housing Association Limited  
Yorkshire Housing Limited

The group expects to continue its principal activity for the life of the secured bonds, which have a final repayment date of 2041.

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

### **REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS**

The group 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.

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

### **FINANCIAL RISK MANAGEMENT**

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

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



Colin Burke  
T.H.F.C. (Services) Limited  
**Company Secretary**  
9 June 2017

## **T.H.F.C. (FUNDING) HOLDINGS LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF T.H.F.C. (FUNDING) HOLDINGS LIMITED**

**Year ended 31 December 2016**

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We have audited the financial statements of T.H.F.C. (Funding) Holdings Limited for the year ended 31 December 2016 which comprise the group Statement of Comprehensive Income, the group and parent company Statements of Financial Position, the group Statement of Cash Flows and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 group's and of the parent company's affairs as at 31 December 2016 and of the group's result for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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.

**T.H.F.C. (FUNDING) HOLDINGS LIMITED**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF T.H.F.C. (FUNDING) HOLDINGS LIMITED (continued)**  
**Year ended 31 December 2016**

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**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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

*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) HOLDINGS LIMITED****GROUP STATEMENT OF COMPREHENSIVE INCOME**  
**Year ended 31 December 2016**

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	Note	2016 £	2015 £
<b>OPERATING INCOME</b>			
Interest receivable	4	35,409,362	35,425,573
Costs recoverable from borrower		174,632	183,632
		<u>35,583,994</u>	<u>35,609,205</u>
<b>OPERATING EXPENDITURE</b>			
Interest payable	5	35,409,362	35,425,573
Operating expenses	6	174,632	183,632
		<u>35,583,994</u>	<u>35,609,205</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 for the group or the parent company have been prepared.


**T.H.F.C. (FUNDING) HOLDINGS LIMITED**

**GROUP STATEMENT OF FINANCIAL POSITION**  
**As at 31 December 2016**

	Note	2016 £	2015 £
<b>ASSETS</b>			
<b>Non-current assets</b>			
Loans to borrower	9	618,853,163	619,119,526
<b>Current assets</b>			
Other receivables	10	12,404,531	12,363,996
Cash and cash equivalents		24,148,538	24,148,541
<b>TOTAL ASSETS</b>		<b>655,406,232</b>	<b>655,632,063</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Current liabilities</b>			
Other payables	11	12,429,528	12,388,996
Drawn liquidity facility		24,123,540	24,123,540
<b>Non-current liabilities</b>			
Financial liabilities – secured bonds	12	618,853,163	619,119,526
		<b>655,406,231</b>	<b>655,632,062</b>
<b>Equity</b>			
Share capital	13	1	1
<b>TOTAL EQUITY</b>		<b>1</b>	<b>1</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>655,406,232</b>	<b>655,632,063</b>

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

These financial statements on pages 7-22 were approved by the board and signed on its behalf by:

  
**Piers Williamson**  
 Director  
 9 June 2017

**T.H.F.C. (FUNDING) HOLDINGS LIMITED****COMPANY STATEMENT OF FINANCIAL POSITION****As at 31 December 2016**

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	Note	2016 £	2015 £
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments	9	25,000	25,000
<b>Current assets</b>			
Cash and cash equivalents		1	1
<b>TOTAL ASSETS</b>		<u>25,001</u>	<u>25,001</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Non-current liabilities</b>			
Other payables	11	25,000	25,000
<b>Equity</b>			
Share capital	13	1	1
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>25,001</u>	<u>25,001</u>

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

These financial statements on pages 7-22 were approved by the board and signed on its behalf by:



**Piers Williamson**  
Director  
9 June 2017

T.H.F.C. (Funding) Holdings Limited

Registration Number 04954968

**T.H.F.C. (FUNDING) HOLDINGS LIMITED****GROUP STATEMENT OF CASH FLOWS****Year ended 31 December 2016**

	Note	2016 £	2015 £
<b>NET CASH FLOW GENERATED FROM OPERATING ACTIVITIES</b>			
Cash (used in) / generated from operations	14	(3)	31
Interest paid on bonds		(35,603,231)	(35,603,231)
Interest received on loan		35,603,231	35,603,231
Interest paid on liquidity facility		(56,905)	-
Interest received on liquidity facility		56,905	-
<b>NET CASH (OUTFLOW) / INFLOW FROM OPERATING ACTIVITIES</b>		<u>(3)</u>	<u>31</u>
<b>NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS IN THE YEAR</b>		(3)	31
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>		<u>24,148,541</u>	<u>24,148,510</u>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>		<u><u>24,148,538</u></u>	<u><u>24,148,541</u></u>

There were no cash flows in the company during the current and prior year.

# **T.H.F.C. (FUNDING) HOLDINGS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **Year ended 31 December 2016**

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### **1 GENERAL INFORMATION**

T.H.F.C. (Funding) Holdings Limited (“the company”) provides finance for housing associations (“HAs”) through its subsidiaries, T.H.F.C. (Funding No.1) Plc and T.H.F.C. (Funding No.2) Plc (“the issuers”, together “the group”), which issue secured bonds the proceeds of which are lent to The Housing Finance Corporation Limited (“THFC”) (“the borrower”) for on-lending to housing associations (the “Bond Issuance Authorised Borrowers”, as defined in the loan agreement between the issuers and THFC) registered under The Housing Act 1996.

The secured bonds are listed on the Professional Securities Market of the London Stock Exchange.

The company is incorporated and domiciled in England and Wales. The company is a private limited company limited by shares, 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.

### **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 group*

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

- IAS 27 Separate Financial Statements: This allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.
- 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 which 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 THFC are impaired. The directors have concluded there is no objective evidence of any such impairment in the current year. As the group is not subject to any net credit risk any impairment would be matched by a similar adjustment to the gross liability.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented unless otherwise stated.

#### **Basis of consolidation**

The group financial statements fully consolidate the results of subsidiary undertakings from the date on which control is acquired. The purchase method of accounting is used to account for the acquisition of subsidiaries by the group.

The company is the parent company of T.H.F.C. (Funding No.1) Plc and T.H.F.C. (Funding No.2) Plc and owns 100% of the issued share capital of both subsidiary companies.

#### **Investments in subsidiaries**

Investments in subsidiaries are held at cost less provisions for impairment where appropriate.

#### **Interest**

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

#### **Cash and cash equivalents**

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

**Loans to Borrower ('loans')**

The loans are stated at amortised cost less allowance for loan losses. Any premium or discount on issue is added to/deducted from the nominal value of the loans and charged or credited to the statement of comprehensive income over the expected life of the loans so that the interest income as adjusted for the amortisation of premium/discount gives a constant yield to maturity.

**Secured bonds**

Secured bonds are stated at amortised cost.

Any premium or discount on issue is added to/deducted from the nominal value of the secured bond and charged or credited to the statement of comprehensive income over the expected life of the secured bond so that the interest charge as adjusted for the amortisation of premium/discount gives a constant yield to maturity.

**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 group has no instruments classified in Level 3 (2015: none).

The secured bonds of T.H.F.C. (Funding No.1) Plc 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).

## **T.H.F.C. (FUNDING) HOLDINGS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

**Year ended 31 December 2016**

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The secured bonds of T.H.F.C (Funding No.2) Plc 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 loans to THFC is similarly adjusted using the same valuation as each issuer company respectively, 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 the loans will run to maturity, however THFC or any Bond Issuance Authorised Borrower (as defined in the loan agreement) may at any time purchase bonds and, following such purchase, THFC or any Bond Issuance Authorised Borrower may surrender the bonds to the issuer 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 Deed of Surrender.

#### **Segmental Analysis**

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

### **3 FINANCIAL RISK MANAGEMENT**

The proceeds from the issue of the 5.125% secured bonds due 2035/37 and the 6.35% secured bonds 2039/41 were used to make loans to the borrower, THFC. The interest charged on the loans to the borrower is equal to the interest payable on the related secured bonds.

#### **Credit risk**

The group is subject to gross credit risk on its loans to THFC but no net risk.

The ability of the group 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 group does not receive sufficient amounts in respect of the loan agreements (whether in the ordinary course of business, following the enforcement of its security obtained in respect of the loan agreement or otherwise) then the group will not have sufficient monies to pay interest, principal or other sums due in respect of the bonds. Non-payment by the group 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 loans represents the maximum exposure to credit risk. No part of the loans are past due or impaired at 31 December 2016 (2015: none).



### **Collateral arrangements**

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

HAs who borrow money from THFC create either a first floating charge over the whole or an identifiable part of its property, undertaking and assets in favour of THFC or a fixed first charge in favour of THFC. All of the THFC's assets, including the loans to the HAs, and the security granted in respect of its assets are pooled rather than being allocated to specific liabilities of THFC. As such, the loan to THFC is indirectly secured by the properties owned by the HA borrowers.

THFC is required to obtain a charge over the assets of HAs which, at all times during the life of each loan, covers at least 150% of the outstanding loan balance. For loans secured by fixed charges formal property valuations of the specific security are undertaken at least every five years. For loans secured by floating charge compliance is measured by reference to the statement of financial position of the underlying HA. In addition THFC monitors the financial position of its HA borrowers on an on-going basis, including measurement against covenant undertakings. The large number of borrowing HAs assists in diversification of the credit risks inherent in the loan to THFC. All HA borrowers are subject to external regulation by the Homes and Communities Agency (or other relevant authority for housing associations based outside of England).

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

### **Liquidity risk**

To mitigate liquidity risk to the group, the borrower collects interest and capital repayments from the HA borrowers one month prior to payment to the group. The T.H.F.C. (Funding No.1) Plc bonds have a £24.1m liquidity facility attached to them that is renewed annually. The T.H.F.C. (Funding No.2) Plc HA borrowers maintain an Interest Service Reserve Fund with the borrower, that approximates to one year's worth of interest that can be drawn upon in the event of a late payment. There is a two year maturity mismatch between expected and legal maturity in respect of all issued bonds.

The loan agreements provide that the HA borrowers must repay their loans in full to THFC, the borrower, three business days before the expected maturity date. Interest is receivable half yearly in arrears.

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

### **Interest rate risk**

The interest charged on the loans is fixed and is equal to the interest payable on the related secured bonds and hence there is no cash flow risk between the receipt and payment of interest. Accordingly, the directors consider that the group is not subject to any risk on the fluctuation of interest rates.

**T.H.F.C. (FUNDING) HOLDINGS LIMITED****NOTES TO THE FINANCIAL STATEMENTS (continued)**

Year ended 31 December 2016

**Fair value risk and market price risk**

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

**Currency risk**

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

**Company**

The company has no significant financial instruments.

**4 INTEREST RECEIVABLE**

	2016 £	2015 £
On loans to borrower	35,603,231	35,603,231
Interest received on liquidity facility	59,978	-
Amortisation of net premium	(253,847)	(177,658)
	<u>35,409,362</u>	<u>35,425,573</u>

**5 INTEREST PAYABLE**

	2016 £	2015 £
On 5.125% and 6.35% secured bonds due 2035/37 and 2039/2041 Respectively	35,603,231	35,603,231
Interest paid on liquidity facility	59,978	-
Amortisation of net premium	(253,847)	(177,658)
	<u>35,409,362</u>	<u>35,425,573</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 group's principal activity, arose wholly within the United Kingdom and is stated after charging:

	2016 £	2015 £
Fees paid to current auditor for annual audit of financial statements – current year	<u>14,748</u>	<u>14,460</u>

# T.H.F.C. (FUNDING) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2016

### 8 EMPLOYEES

There were no employees during the year other than the directors (2015: Nil). The directors received no remuneration during the year directly from the company in respect of their qualifying services (2015: £Nil). All directors are remunerated by T.H.F.C. (Services) Limited for their services to the company. It is not practicable to obtain the relevant data to accurately disclose the company's share of this cost.

### 9 LOANS TO BORROWER AND INVESTMENTS

<b>Company</b>	<b>2016</b>	<b>2015</b>
Investment in subsidiaries	£	£
At 1 January and 31 December	<u>25,000</u>	<u>25,000</u>

The company owns the entire share capital of T.H.F.C (Funding No.1) Plc and T.H.F.C (Funding No.2) Plc both of whom are incorporated in England. The principal activity of both subsidiaries is to provide finance to THFC for on lending to HAs ("the borrowers") registered under The Housing Act 1996. The net assets of T.H.F.C. (Funding No.1) Plc at 31 December 2016 were £12,500 (2015: £12,500). The net assets of T.H.F.C. (Funding No.2) Plc at 31 December 2016 were £12,500 (2015: £12,500).

<b>Group</b>	<b>2016</b>	<b>2015</b>
	£	£
<b>Loans to borrower</b>		
Loan amount	606,055,000	606,055,000
Unamortised premium	22,504,672	23,023,218
Unamortised discount	<u>(9,440,145)</u>	<u>(9,704,845)</u>
<b>Amortised cost</b>	619,119,527	619,373,373
Net premium due within one year	<u>(266,364)</u>	<u>(253,847)</u>
<b>Non-current amortised cost</b>	<u>618,853,163</u>	<u>619,119,526</u>

Collateral arrangements are set out in note 3.

### 10 OTHER RECEIVABLES

<b>Group</b>	<b>2016</b>	<b>2015</b>
	£	£
Premium and discount due within one year	687,658	650,115
Interest receivable	11,685,376	11,685,376
Other receivables	31,497	28,505
	<u>12,404,531</u>	<u>12,363,996</u>

**T.H.F.C. (FUNDING) HOLDINGS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**Year ended 31 December 2016**

**11 OTHER PAYABLES**

<b>Group</b>	<b>2016</b> <b>£</b>	<b>2015</b> <b>£</b>
Premium and discount due within one year	687,658	650,115
Interest payable	11,685,376	11,685,376
Other payables	25,000	25,000
Accruals	31,494	28,505
	<u>12,429,528</u>	<u>12,388,996</u>

<b>Company</b>	<b>2016</b> <b>£</b>	<b>2015</b> <b>£</b>
Other payables	<u>25,000</u>	<u>25,000</u>

**12 FINANCIAL LIABILITIES – SECURED BONDS**

	<b>2016</b> <b>£</b>	<b>2015</b> <b>£</b>
5.125% secured bonds 2035/37	235,205,000	235,205,000
6.35% secured bonds 2039/41	370,850,000	370,850,000
	<u>606,055,000</u>	<u>606,055,000</u>
Unamortised premium	22,504,672	23,023,218
Unamortised discount	(9,440,145)	(9,704,845)
	<u>619,119,527</u>	<u>619,373,373</u>
Amortised cost		
Net premium due within one year	(266,364)	(253,847)
	<u>618,853,163</u>	<u>619,119,526</u>

Details of security are set out in note 3.

The 5.125% secured bonds are repayable in 2035/37 and were issued in the following tranches:

	<b>Nominal</b> <b>Value</b> <b>£</b>	<b>(Discount)/</b> <b>Premium</b> <b>£</b>
21 December 2004	67,376,000	(30,993)
21 December 2006	32,000,000	1,352,320
5 March 2007	37,000,000	1,303,880
5 December 2007	32,633,000	(2,227,202)
7 August 2008	80,000,000	(9,036,800)
	<u>249,009,000</u>	<u>(8,638,795)</u>

**T.H.F.C. (FUNDING) HOLDINGS LIMITED****NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Year ended 31 December 2016**


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Prepayment	(13,804,000)	6,350
Total	<u>235,205,000</u>	<u>(8,632,445)</u>

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

The bonds are listed and are repayable in full between 21 December 2035 and 21 December 2037. The bonds are secured by a fixed charge over the related loans to HAs granted by the borrower.

Interest on the bonds is payable half yearly in arrears.

The 6.35% secured bonds are repayable between July 2039 and July 2041 and were issued in the following tranches:

	<b>Nominal Value £</b>	<b>Premium £</b>
8 July 2009	191,000,000	76,400
24 March 2010	72,250,000	7,951,113
21 January 2011	76,600,000	10,504,158
4 April 2011	31,000,000	4,255,370
	<u>370,850,000</u>	<u>22,787,041</u>

The cumulative gross premium and amortisation at the beginning of the year was £20,840,950 and £1,946,090 (2015: £21,189,537 and £1,597,503) respectively. Amortisation charged during the year was £451,981 (2015: £348,587).

The bonds are listed and are repayable in full between 8 July 2039 and 8 July 2041. The bonds are secured by a fixed charge over the related loans to HAs granted by the borrower and a floating charge over the assets of the issuer.

Interest on the bonds is payable half yearly in arrears.

All discounts/premiums have been deducted from/added to the value of the secured bonds and are amortised through the statement of comprehensive income over the life of the secured bonds, this includes an amount that was previously written off on the original issue and has been reinstated during the prior year.

**T.H.F.C. (FUNDING) HOLDINGS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**Year ended 31 December 2016**

**Contractual cash flows on secured bonds**

<b>2016</b>	<b>Due within one year</b>	<b>Due within one to two years</b>	<b>Due within two to five years</b>	<b>Due in over five years</b>	<b>Total 2016</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Principal	-	-	-	606,055,000	606,055,000
Interest	35,603,231	35,603,231	106,809,693	592,641,138	770,657,293
<b>Total</b>	<b>35,603,231</b>	<b>35,603,231</b>	<b>106,809,693</b>	<b>1,198,696,138</b>	<b>1,376,712,293</b>

<b>2015</b>	<b>Due within one year</b>	<b>Due within one to two years</b>	<b>Due within two to five years</b>	<b>Due in over five years</b>	<b>Total 2015</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Principal	-	-	-	606,055,000	606,055,000
Interest	35,603,231	35,603,231	106,809,693	616,469,882	794,486,037
<b>Total</b>	<b>35,603,231</b>	<b>35,603,231</b>	<b>106,809,693</b>	<b>1,222,524,882</b>	<b>1,400,541,037</b>

**13 SHARE CAPITAL**

**Group and company**

	<b>2016 £</b>	<b>2015 £</b>
<i>Allotted, called up and fully paid</i>		
1 (2015: 1) ordinary share of £1	<u>1</u>	<u>1</u>

The allotted share is held by T.H.F.C (Services) Limited as Share Trustee under a Declaration of Trust dated 13 December 2004 for the benefit of qualifying charities. Accordingly the Share Trustee has no beneficial interest in the group.

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

**T.H.F.C. (FUNDING) HOLDINGS LIMITED**

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

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

	2016 £	2015 £
Result before taxation	-	-
Adjustments for:		
Interest receivable	(35,349,384)	(35,425,572)
Interest payable	35,349,384	35,425,572
(Increase) in receivables	(2,991)	(6,711)
Increase in payables	2,988	6,742
Cash (used in) / generated from operations	(3)	31

**15 FAIR VALUES OF FINANCIAL INSTRUMENTS**

**Group**

The Level 2 fair value of the 5.125% secured bonds due 2035/2037 and associated loans, the Level 2 fair value of the 6.35% secured bonds due 2039/2041 and associated loans, as at 31 December 2016 are shown below. The fair value is derived from the market value of the reference gilts at that date. There is no difference between the fair value and carrying value of all other financial assets and liabilities.

	2016		2015	
	Carrying value £	Fair value £	Carrying value £	Fair value £
<b>Financial assets:</b>				
<i>Classified as loans &amp; receivables</i>				
Loans to borrower(s)				
Non-current	618,853,163		619,119,526	
Current	-		-	
Premium/(discount)	266,364		253,847	
Total	619,119,527	844,150,230	619,373,373	768,879,815
Interest receivable	11,685,376	11,685,376	11,685,376	11,685,376
Other receivables	31,497	31,497	28,505	28,505
<b>Total financial assets</b>	<b>630,836,400</b>	<b>895,867,103</b>	<b>631,087,254</b>	<b>780,593,696</b>
<b>Financial liabilities:</b>				
<i>Classified as financial liabilities at amortised cost</i>				
Secured bonds				
Non-current	618,853,163		619,119,526	
Current	-		-	
Premium/(discount)	266,364		253,847	
Total	619,119,527	844,150,230	619,373,373	768,879,815
Interest payable	11,685,376	11,685,376	11,685,376	11,685,376
Other payables and Accruals	56,494	56,494	53,505	53,505
<b>Total financial liabilities</b>	<b>630,861,397</b>	<b>895,867,100</b>	<b>631,112,254</b>	<b>780,618,696</b>

**.Company**

The company has no significant financial instruments.

**16 RESULTS FOR THE FINANCIAL YEAR**

The company has taken advantage of the exemption allowed under Section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The group results for the financial year arise solely from the subsidiary undertakings since the parent company did not recognise any income or expenditure in the financial year.

**17 RELATED PARTY TRANSACTIONS**

All administrative services are provided under a management agreement by T.H.F.C. (Services) Limited a subsidiary of The Housing Finance Corporation Limited. The directors are employees of T.H.F.C. (Services) Limited. Management and trustee 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.

The Law Debenture Trust Corporation plc acts as trustee for the benefit of the bondholders of both issues under the terms of trust deed dated 21 December 2004 and 8 July 2009. Fees payable to the trustee for the year were paid directly by the borrower.

**18 TAXATION**

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