T.H.F.C. (CAPITAL) PLC

ANNUAL REPORT

FOR THE YEAR ENDED 31 MARCH 2021

COMPANIES HOUSE NUMBER: 04178835

T.H.F.C. (CAPITAL) PLC

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

Contents

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Registered Office

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

Company Number

04178835

Independent Auditor

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

DIRECTORS' REPORT
Year ended 31 March 2021

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

PRINCIPAL ACTIVITIES

T.H.F.C. (Capital) PLC ("the company") is a wholly owned subsidiary of The Housing Finance Corporation Limited ("THFC") and is engaged in raising and on-lending fixed and variable rate funds to its only borrower, Gentoo Group Limited. The company is incorporated in England and Wales with limited liability.

The company expects to continue its principal activity for the foreseeable future.

RESULTS AND DIVIDEND

The result for the year after taxation was £nil (2020: £1,000).

The company earned annual fees from its borrower during the year of £102,000 (2020: £99,000) and incurred management fees from T.H.F.C (Services) Limited amounting to £102,000 (2020: £99,000).

THFCS provides all services to the company to ensure it, and its borrower, fulfil their obligations under the respective funding and loan agreements.

The directors do not propose the payment of a dividend.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

This is covered in the Strategic report.

DIRECTORS

Directors of the company who were in office during the year and up to the date of signing the financial statements are set out below:

George Blunden
Scott Bottles
Colin Burke
Fenella Edge
Keith Exford CBE (resigned 28 July 2020)
Gill Payne
Will Perry
Deborah Shackleton CBE (resigned 28 July 2020)
Shirley Smith
Guy Thomas
Anthony King
David Montague
Peter Impey (appointed 19 May 2020)
Piers Williamson

The directors receive no remuneration from the company.

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. Also under that 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.

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

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

(a) so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and

(b) 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 S418 of the Companies Act 2006.

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

Colin Burke
Director
27 July 2021

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The company has fulfilled its obligations under the terms of its bank and other loans, and expects to do so for the foreseeable future. Given the straightforward nature of the business, the directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance and position of the business.

As the Coronavirus pandemic continues to impact businesses nationwide, the company's key concern is that its borrowers are able to continue to satisfy their obligations under their respective loan agreements. There are a number of key areas where the pandemic could potentially affect the cash flows of borrowers and impact their ability to service debt with the principal one being the ability of tenants to continue to pay rent.

The company has assessed the likely 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.

FINANCIAL RISK MANAGEMENT

The principal risks and uncertainties facing the company relate to financial risks. The key financial risks of the company and how they are managed are explained in note 4.

OPERATIONAL RISK MANAGEMENT

Operational risks are referred to in note 4.

SECTION 172(1) STATEMENT

Long-term consequences of decisions made

The board's objective is to promote steady, sustainable growth in order to have a long-term beneficial impact on the company and the wider affordable housing sector through the delivery of cost-effective funding to UK housing associations.

The long-term tenor and secured nature of the loans made by the company to its borrower, Gentoo, requires the board to ensure that both its borrowers and the company are able to continue to meet their respective legal and other obligations to both the company and investors as detailed in the relevant transaction documents.

All material lending and other decisions are made with this in mind and we aim to grow in a measured way balancing the risks inherent in long-term lending against the resources of the company. The borrower's performance is monitored regularly to ensure obligations are met on an ongoing basis.

The company funds itself through arrangement fees and annual fees which are charged to the borrower. Arrangement fees reflect the resource expended in originating the loan whist the annual fee covers the costs of the ongoing administration of the loans through to maturity. The annuity income generated by the annual fees ensures that the company has a sustainable business model over the medium-term.

All loans made to the borrower are done so on a non-recourse basis which mitigates against credit risk of the borrower.

The board regularly monitors the material risks to the company and how they might impact on its long-term health. Key risks and their mitigants are detailed in note 4 to the financial statements.

Interests of employees

The company has no employees except for its board of directors who are party to, and therefore consulted on, all decisions made by the company. All management services are provided to THFC (Capital) Plc by T.H.F.C. (Services) Limited (THFCS), a fellow subsidiary.

The health and safety of board members is of paramount importance particularly in the current pandemic. Accordingly, all necessary measures have been taken in accordance with government guidance to ensure their safety and well-being. The board has ensured that THFCS has undertaken the necessary risk assessment and implemented appropriate measures for a potential return to the London based office when official guidance permits.

Fostering business relationships

The board is aware of the need to foster on-going business relationships to ensure the success of the business.

The board ensures that THFCS, the service provider, has the appropriate skill set amongst employees to allow for an operational structure that incorporates Relationship Management (for liaison with borrowers to whom funds have been on-lent as well as potential new 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.

Lending requires a constant focus on maintaining stakeholder relationships and the service provider has a wealth of experience in all relevant areas. THFCS fosters close relationships with sector specialists, such as valuers, lawyers, accountancy firms, treasury advisers and also maintains close relationships with its investment banks and the investor community at large.

Impact of operations on community and environment

The board makes every effort to minimise its carbon footprint, aided by the move to new premises in 2019. Staff of the service provider are encouraged to cycle for all or part of their commute to the office and effective recycling policies have been implemented to minimise office waste.

In delivering cost-effective funding to housing associations the board aims to boost the number and quality of affordable housing for the benefit of tenants and communities throughout the UK. The company does not distribute any surpluses.

The board ensures the service provider's 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 reputation for high standards of business conduct

The board operates the business responsibly and in line with the good industry practice and the highest level of governance expected of a lending business and in so doing maintains an exceptional reputation amongst investors and borrowers alike. High levels of integrity are key in the success of our business and delivery of our objectives.

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 of T.H.F.C. (Capital) Plc (THFCC) is held by T.H.F.C. (Services) Limited. THFCS and THFCC have common board membership. Each director of the holding company is therefore closely involved in the key strategic decisions and has the right to challenge on a regular basis.

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

Colin Burke
Director
27 July 2021

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF T.H.F.C. (CAPITAL) PLC
For the year ended 31 March 2021

Opinion

We have audited the financial statements of T.H.F.C. (Capital) PLC (the 'company') for the year ended 31 March 2021 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, 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 March 2021 and of its profit 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 page 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 a general understanding of the company's legal and regulatory framework through enquiry of management concerning: their understanding of relevant laws and regulations; the entity's policies and procedures regarding compliance; and how they identify, evaluate and account for litigation claims. We also drew on our existing understanding of the company's industry and regulation.

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

- The directors ensuring that the wider The Housing Finance Corporation Limited Group management 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; and
- The outsourcing of tax compliance to external experts.

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.

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

- 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 areas identified as part of the discussion were 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 of manual journal entries, selected based on specific risk assessments applied based on the client 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF T.H.F.C. (CAPITAL) PLC (continued)
For the year ended 31 March 2021

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.

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

28 July 2021

T.H.F.C. (CAPITAL) PLC

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2021

	Note	2021 £000	2020 £000
OPERATING INCOME			
Interest on loans to borrower	2	**21,955**	23,264
Premium amortised	8	**(3)**	(3)
Fees receivable and other income		**102**	100
		22,054	23,361
OPERATING EXPENDITURE			
Interest on bank loans and other borrowings	5	**21,952**	23,261
Administration expenses	6	**102**	99
		22,054	23,360
PROFIT BEFORE TAXATION		**-**	1
Taxation	7	**-**	-
Profit after taxation		**-**	1
Other comprehensive income		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**-**	1

STATEMENT OF FINANCIAL POSITION
For the year ended 31 March 2021

	Note	2021 £000	2020 £000
ASSETS			
Non-Current Assets			
Loans	8	**467,146**	497,536
Current Assets			
Loans	8	**28,765**	44,891
Other receivables	9	**272**	310
Cash and cash equivalents		**36**	58
TOTAL ASSETS		**496,219**	542,795
EQUITY AND LIABILITIES			
Non-Current Liabilities			
Financial liabilities – bank and other borrowings	10	**467,146**	497,536
Current Liabilities			
Financial liabilities – bank and other borrowings	10	**28,765**	44,891
Other payables	11	**275**	335
Current tax liabilities		**-**	-
TOTAL LIABILITIES		**496,186**	542,762
Equity			
Called up share capital	12	**13**	13
Retained earnings	13	**20**	20
TOTAL EQUITY		**33**	33
TOTAL EQUITY AND LIABILITIES		**496,219**	542,795

The accompanying notes on pages 14-29 are an integral part of these financial statements.

These financial statements on pages 10-29 were approved by the board on 27 July 2021 and signed on its behalf by

Fenella Edge

Fenella Edge
Director

Registered Number 04178835

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2021

	Called up share capital	Retained earnings	Total equity
	£000	£000	£000
Balance as at 1 April 2020	**13**	**20**	**33**
Surplus for year	-	-	-
Other comprehensive income	-	-	-
Balance as at 31 March 2021	**13**	**20**	**33**
Balance as at 1 April 2019	13	19	32
Surplus for year	-	1	1
Other comprehensive income	-	-	-
Balance as at 31 March 2020	13	20	33

T.H.F.C. (CAPITAL) PLC

STATEMENT OF CASH FLOWS
For year ended 31 March 2021

	Note	2021	2020
NET CASH FLOW FROM OPERATING ACTIVITIES		**£000**	£000
Cash (used in) / generated from operations	16	**(22)**	8
Interest received on loans		**21,997**	23,307
Interest paid		**(21,997)**	(30,095)
New borrowings		**77,250**	12,000
Loans to borrower	8	**(77,250)**	(12,000)
Repayment of amounts borrowed		**(123,763)**	(7,913)
Loans repaid	8	**123,763**	7,913
NET CASH FLOW (USED IN) / GENERATED FROM OPERATING ACTIVITIES		**(22)**	(6,780)
NET DECREASE IN CASH AND CASH EQUIVALENTS IN THE YEAR		**(22)**	(6,780)
CASH AND CASH EQUIVALENTS AT 1 APRIL		**58**	6,838
CASH AND CASH EQUIVALENTS AT 31 MARCH		**36**	58

1. GENERAL INFORMATION

T.H.F.C. (Capital) PLC ("the company") is engaged in the raising and on-lending of funding to housing associations ("HAs"). The company is a public limited company registered and domiciled in England and Wales. The address of the registered office is 3rd Floor, 17 St. Swithin's Lane, London, EC4N 8AL.

2. ACCOUNTING POLICIES

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

Basis of preparation

These financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements have been prepared under the historical cost convention.

Going Concern

Given the uncertainties around Covid-19, the company has assessed the likely impact of the ongoing coronavirus pandemic on its business operations and finances.

The company has made loans to registered providers of social housing and its viability is dependent on the ongoing receipt of interest and principal from its borrowers in accordance with their respective loan agreements thereby ensuring that the company is able to meet its obligations under the terms of its funding arrangements in addition to covering operating costs.

The company has concluded that there are sufficient mitigants in place to ensure there is no material impact on the its borrowers' businesses such that they would encounter difficulty in meeting their loan obligations. These mitigants include government measures to support tenant incomes, the high proportion of tenant rental income payable by housing benefit and the strong liquidity position of the sector in general.

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

In accordance with the terms of a corporate services agreement, all operations of the company are provided by T.H.F.C. (Services) Limited (THFCS) a fellow subsidiary entity.

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.

Changes in accounting policies and disclosures

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

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

- Amendments to IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7: Financial Instruments Disclosures in response to interest rate

- benchmark reform and the impact on financial reporting. The following amendments have been issued.
  - 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.
- Amendments to IAS 1 and IAS 8: Definition of Material. Effective for periods beginning on or after 1 January 2020. The amendments to both IAS 1 and IAS 8 refine the definition of 'material' and clarify its application. The amendments improve understanding of the existing requirements, but because they are based on existing guidance, they do not significantly affect how materiality judgements are made in practice or significantly affect entities' financial statements.
- Conceptual Framework for Financial Reporting. Effective for periods beginning on or after 1 January 2020. The amendments build upon the existing Conceptual Framework to provide a comprehensive set of concepts for financial reporting. There have been new concepts added for measurement, presentation and disclosure and derecognition. Updated concepts for definitions and recognition and clarifications to concepts for stewardship, measurement uncertainty, substance over form and the return of a clarified concept of prudence.

The adoption of these amendments has not had a material impact on the reported results or financial position of the company but has given rise to additional disclosure requirements regarding benchmark reform, which impacts upon interest rate risk, see note 4.

(b) New and amended Standards and Interpretations mandatory for the first time for the financial year beginning 1 April 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 for the financial year beginning 1 April 2021.

- Conceptual Framework for Financial Reporting. This amendment references to the currently extant Conceptual Framework rather than version of the Conceptual Framework in existence when IFRS 3 was developed. Additionally, the amendment refers companies to IAS 37 Provisions, Contingent Liabilities and Contingent Assets 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 once endorsed.
- 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 9 Financial Instruments – Clarifies which fees should be included in the '10 per cent' test on modification of financial liabilities i.e. only those exchanged between the borrow and lender directly.

    The amendments to IFRS 9 are effective for annual periods beginning on or after 1 January 2022, with early application permitted once endorsed.

  The amendments are effective 1 January 2022 and early application is permitted once endorsed. The amendments would only apply retrospectively in certain circumstances.

- 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 amendments are effective from 1 January 2023 and shall be applied retrospectively, with early application permitted once endorsed.

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 loans to HAs and interest payable on bank and other borrowings is accounted for using the effective interest rate. Premiums on issue are added to the original loan value and charged to the statement of comprehensive income over the expected life of the loan so that the interest receivable, as adjusted for the amortisation of premiums, gives a constant yield to maturity.

Fees receivable and other income

Fees receivable and other income comprise arrangement fees payable on completion of loan transactions, annual fees for the ongoing service provided to borrowers and premiums receivable on completion of loan prepayment transactions. All fees receivable are charged in line with contractual arrangements.

Fees are measured at the transaction price received or receivable allocated to the performance obligation satisfied and represents 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.

Arrangements fees and premiums receivable are recognised on the completion of the transaction with the borrower.

Annual fees for the ongoing service provided to borrowers is recognised over the period in which the services are provided.

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 financial assets and financial liabilities at 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 recovers all transaction costs from its borrower, 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 therefore measured at amortised cost.

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

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

Loans receivable represents monies lent to Housing Associations under loan agreements and held at amortised cost. 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.

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 the loans 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.

The measurement of ECL of the loans reflects:

(a) The loss experience of the company in relation to its loans;
(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; and
(c) Performance of the borrower in relation to the loans.

The company operates within a loss free sector and its sole borrower has complied with its obligations under its respective underlying and on-lending loan agreements since inception. The borrower has an investment grade rating assigned by Standard and Poor's.

For these reasons the company does not use a complex expected loan loss model and bases its assessment of 12-month expected credit loss solely on its loss experience to date and also the fact that there are no material indicators of future losses.

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

Management monitor the performance of the borrower only in relation to payment and covenant obligations contained in its on-lending loan agreements.

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.

Definition of default (movement to stage 3)

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

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

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).

Fair values

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

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

Quoted market prices – Level 1

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

Valuation technique using observable inputs – Level 2

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

Valuation technique using significant unobservable inputs – Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data. The company has no instruments classified in Level 3 (2020: None).

The company's 6.38% Secured Bonds are tradable but the markets are not considered to be active. Accordingly, market prices of a suitable 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 is similarly adjusted for appropriate credit spreads (Level 2 valuation).

The company's fixed rate bank loans are not tradable but fair values are arrived at using current available market data of loans with similar characteristics (Level 2 valuation).

Prepayment

Although the company expects all loans to run to maturity the borrower may, in accordance with the terms of its loan agreements, effect prepayment of its loans. The loan and corresponding liability are removed from the Statement of Financial Position on the effective date of prepayment.

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities using the tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date.

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 Gentoo Group Limited. Therefore 100% of interest income is receivable from Gentoo Group Limited.

Equity

Equity instruments issued by the company are recorded at proceeds received net of direct issue costs.

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 judgements and estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity or where assumptions are significant to the consolidated financial statements are:

Critical accounting judgements

Impairment of loans to borrowers (Note 8)

The directors have concluded that no impairment provision is required in relation to its loans to borrowers in accordance with IFRS 9. This is for a number of reasons which includes, but is not limited to, the credit quality of its borrowers and the company's zero loss experience to date. As the company is not subject to net credit risk, any incurred loss impairment would be matched by a similar adjustment to the gross liability.

4. FINANCIAL RISK MANAGEMENT

The company's operations and significant debt financing expose it to a variety of potential financial risks including interest rate risk, credit risk, liquidity risk, fair value and market price risk and currency risk. These risks and the means by which they are monitored and controlled have not changed significantly since the previous year.

Interest rate risk

The company raises funds with a variety of loan structures however they all adhere to the same fundamental principle that funds are on-lent on a substantially identical maturity, interest and repayment profile thus ensuring that no material mis-match risk is taken in interest rate movements. The form of all loan agreements (including provisions for setting of interest rates) is approved by the board.

The company is subject to interest rate risk on its investment income arising on its surplus cash balances but this is not regarded as significant. Investment income in the year was £10 (2020: £1,450).

LIBOR transition

The company is actively engaging with borrowers and lenders alike to facilitate the necessary changes required both operationally and from a documentation perspective to ensure a smooth transition from LIBOR to SONIA ("Sterling Overnight Indexed Average"), the latter being the new interest rate measure for floating rate loans.

For the majority of relevant loans the basis of calculating SONIA has been agreed and the company is about to enter the documentation phase to ensure that the changeover date can be achieved in an orderly fashion. Although the company will incur certain legal and other costs in managing the transition there are no other risks given the company is not subject to interest rate risk on its loans.

Credit and liquidity risk

The loans to the borrower are structured on a non–recourse basis (to the company) and the property security is held by a security trustee for the benefit of the bank lenders and bond investors. Any credit or liquidity loss would ultimately end up with the lenders to the company rather than the company itself. Because of this, the company is not subject to any material credit or liquidity risk in relation to the loans outstanding. The underlying collateral has to meet certain minimum performance criteria as set out in the relevant lender's loan agreement.

There are no financial assets that are past due or otherwise impaired at 31 March 2021 (2020: None) and the carrying value of the loans represents the maximum credit exposure to the ultimate lenders.

Deposit counterparties are subject to pre-approval by the board and such approval is limited to financial institutions with a suitable minimum long-term rating in accordance with THFC treasury policy. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed at least annually by the board.

The carrying value of cash and cash equivalents and short term deposits represents the maximum exposure to credit risk.

A table of the company's contractual cash flows payable until maturity of all its loans and bank borrowings is given in note 15.

Market price risk

Market price risk is not expected to impact on the company because (i) the loans to HAs and the related bank borrowings 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.

Operational risk

Arises from the potential for key systems failures, breaches in internal controls or from external events resulting in financial loss or reputational damage. Key operational risks include outsourced contracts, payments systems, information systems and over-dependence on key personnel. Operational risk is controlled and mitigated through comprehensive, ongoing risk management practices (including procedures with the management company) which include formal internal control procedures, training, segregation of duties, delegated authorities, contingency planning and documentation of procedures.

5. INTEREST ON BANK LOANS AND OTHER BORROWINGS

	2021	2020
	£000	£000
On bank loans and other borrowings	**21,955**	23,264
Premium (amortised)	**(3)**	(3)
	21,952	23,261

6. ADMINISTRATION EXPENSES

	2021	2020
	£000	£000
Management fee payable	**102**	99

The company employed no staff during the year. All administrative services, including audit and directors' services, are provided under a management agreement with T.H.F.C. (Services) Limited.

The fee for auditing the company's financial statements included in the management fee amounted to £3,378 (2020: £2,814).

7. TAXATION

	2021 £000	2020 £000
UK Corporation tax at 19% (2020: 19%)	-	-

8. LOANS

Amortised Cost	2021 £000	2020 £000
At beginning of year	542,427	538,343
Loans made during the year	77,250	12,000
Loans repaid during the year	(123,763)	(7,913)
	495,914	542,430
Premium amortised for year	(3)	(3)
At end of year	495,911	542,427
Less: repayable within one year	(28,762)	(44,888)
Less: premium due within one year	(3)	(3)
Amount due after more than one year	467,146	497,536
The amounts are repayable as follows:		
Between one and two years	13,216	17,965
Between two and five years	46,026	88,302
In five years or more	407,904	391,269
	467,146	497,536

Loans have been made to the borrower on similar interest rate and repayment terms as those on which the company was able to raise the finance.

All loans have been made to Gentoo Group Limited.

9. OTHER RECEIVABLES

	2021 £000	2020 £000
Accrued interest	220	261
Other receivables	52	49
	272	310

10. FINANCIAL LIABILITIES – BANK AND OTHER BORROWINGS

	2021 £000	2020 £000
6.38% Fixed rate loan from Sunderland (SHG) Finance Plc due 2042	**212,802**	212,802
Bank borrowings due 2021/2040	**283,057**	329,571
Unamortised premium	**52**	54
Amortised cost at end of year	**495,911**	542,427
Less: loans repayable within one year	**(28,762)**	(44,889)
Less: premium due within one year	**(3)**	(2)
Amount due after more than one year	**467,146**	497,536

The borrowings are secured by floating charge over all assets of the company and the above amounts are repayable as follows:

	2021 £000	2020 £000
Between one and two years	**13,216**	17,965
Between two and five years	**46,026**	88,302
In five years or more	**407,904**	391,269
	467,146	497,536

The interest on the bank borrowings are both fixed and floating and the fixed rates are between the range of 2.9225% and 5.48%.

The weighted average interest rate on both fixed financial liabilities and fixed financial assets is 3.7921%. The weighted average period for which interest rates are fixed is 13.31 years.

11. OTHER PAYABLES

	2021 £000	2020 £000
Accrued interest	**220**	261
Intra-group payables	**25**	46
Other payables	**30**	28
	275	335

12. SHARE CAPITAL

	2021 £	2020 £
Authorised		
100,000 (2020: 100,000) ordinary shares of £1 each	**100,000**	100,000
1 (2020: 1) special share of £1	**1**	1
	100,001	100,001
Allotted, called up and one quarter paid		
50,000 (2020: 50,000) ordinary share of £1 each, one quarter paid	**12,500**	12,500
1 (2020: 1) special share of £1, fully paid	**1**	1
	12,501	12,501

The special share is a non-beneficial holding. The holder has the right to appoint and remove directors, receive notice and attend the Annual General Meeting of the company but only vote on business concerning the appointment or removal of a director.

Management of capital

The company's capital comprises only its share capital and reserves which the directors consider adequate for its ongoing working capital requirements. The company is not subject to externally imposed capital requirements.

13. RESERVES

Retained earnings

This reserve relates to the cumulative profits and losses of the company.

14. FAIR VALUES OF FINANCIAL INSTRUMENTS

The company's 6.38% Secured Bonds are tradable but the markets are not considered to be active and therefore classified Level 2. The fair value of the associated fixed rate loans to borrowers is similarly adjusted for appropriate credit spreads (Level 2 valuation), and is based on the same quoted market price as adjusted to reflect the company's assessment of the risk premium of the underlying borrower.

The company's fixed rate bank loans are not tradable but fair values are arrived at using current available market data of loans with similar characteristics (Level 2 valuation). The fair value of the associated loans receivable is adjusted to reflect the company's assessment of the risk premium of the underlying borrower (Level 2 valuation).

	2021		2020	
	Carrying value £000	**Fair value £000**	Carrying value £000	Fair value £000
Financial assets:				
Classified as Loans & Receivables				
Loans to Borrower				
- Non-current	**467,146**		497,536	
- Current	**28,765**		44,891	
Total	**495,911**	**662,037**	542,427	695,798
Interest receivable	**220**	**220**	261	261
Other receivable	**52**	**52**	49	49
Total financial assets	**496,183**	**662,309**	542,737	696,108
Financial liabilities:				
Bank and other borrowings				
- Non-current	**467,146**		497,536	
- Current	**28,765**		44,891	
Total	**495,911**	**662,037**	542,427	695,798
Interest payable	**220**	**220**	261	261
Other payables and accruals	**55**	**55**	74	74
Total financial liabilities	**496,186**	**662,312**	542,762	696,133

The directors consider that the carrying value amount of other receivables and other payables is a reasonable approximation of their fair value.

Interest rate risk profile of financial assets and financial liabilities	**2021 £000**	2020 £000
Fixed rate	**337,302**	362,302
Floating rate	**158,558**	180,071
	495,860	542,373

15. CONTRACTUAL CASH FLOWS

The table below summarises the cash flows payable by the company until contractual maturity of all its bank borrowings and other loans as at 31 March 2021. On variable rate facilities it has been assumed that the interest rate and drawn amount as at 31 March 2021 remain unchanged until the contract maturity.

2021	**Within 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Contractual interest cash flows	**21,074**	**20,791**	**59,435**	**139,741**	**241,041**
Contractual principal cash flows	**28,762**	**13,213**	**46,023**	**407,861**	**495,859**
Total contractual cash flows	**49,836**	**34,004**	**105,458**	**547,602**	**736,900**

2020	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	£000	£000	£000	£000	£000
Contractual interest cash flows	22,928	22,244	61,844	166,834	273,850
Contractual principal cash flows	44,889	17,962	88,296	391,226	542,373
Total contractual cash flows	67,817	40,206	150,140	558,060	816,223

All the above cash flows are substantially matched by cash flows receivable on the company's loan assets.

16. RECONCILIATION OF SURPLUS TO NET CASH (USED IN) / GENERATED FROM OPERATING ACTIVITIES

	2021	2020
	£000	£000
Result before taxation	**-**	1
Interest receivable	**(21,952)**	(23,261)
Interest payable	**21,952**	23,261
Increase in other receivables	**(3)**	(1)
(Decrease) / increase in other payables	**(19)**	8
Net cash (used in) / generated from operating activities	**(22)**	8

17. RELATED PARTY TRANSACTIONS

The company incurs a management charge annually from T.H.F.C. (Services) Limited, its immediate parent company. The charge is for the services of staff and other office overheads not incurred directly by the company. The charge in 2021 was £101,860 (2020: £99,419). The amount due to T.H.F.C. (Services) Limited at 31 March 2021 was £24,907 (2020: £46,003). The amount due to The Housing Finance Corporation Limited at 31 March 2021 was £Nil (2020: £ Nil).

Key management comprises only the directors. There are no transactions between the directors and the company.

18. ULTIMATE PARENT UNDERTAKING AND INCORPORATION

The company's immediate parent undertaking is T.H.F.C. (Services) Limited which is incorporated in and registered in England and Wales. The ultimate parent undertaking and controlling party is The Housing Finance Corporation ("THFC"), incorporated in England and Wales and registered under the Co-operative and Community Benefit Societies Act 2014. THFC is the only company to prepare consolidated financial statements which include the company. The consolidated financial statements of THFC may be obtained from the Company Secretary, The Housing Finance Corporation Limited, 3rd Floor, 17 St. Swithin's Lane, London, EC4N 8AL, the company's registered office.