



**THE HOUSING FINANCE CORPORATION**

**REPORT AND ACCOUNTS  
FOR THE YEAR ENDING  
31 MARCH 2002**

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## CHAIRMAN'S REPORT

The THFC Group made further loans during the year and the portfolio now stands at £1,467 million with a further £435 million under management. New loan facilities of £31.35 million, not all of which was drawn at the year end, were put in place and a fifth tranche of the 8.625% debenture stock 2023 was issued generating gross proceeds of £27.3 million. The amount of new lending was less than last year, reflecting the absence of any major transaction similar to the Sunderland financing which was initiated during March 2001. However the cost of funds to borrowers in the social housing sector dropped to a record low level. The fifth tranche of the 8.625% Debenture Stock 2023 was issued at a price which allowed THFC to make funds available to Housing Associations at a fixed rate of 5.65%, the lowest such rate ever achieved by an issuer in this sector.

New financing opportunities have been limited owing to the competitive environment for THFC that is continuing as a result of the combined effect of aggressive bank lending and a sterling domestic bond market where margins widened markedly during the year. Until the cost of capital from the capital markets moves more closely into line with the cost of funds provided by banks, THFC's new issue activity will be suppressed. Nevertheless we finished the year with a comfortable surplus to add to our reserves.

During the year the Royal Bank of Canada arranged the refinancing of the bank loans that funded the transfer of Sunderland City Council's housing stock to Sunderland Housing Group last year. Those loans were routed through T.H.F.C.(Capital) PLC and the partial refinancing, which was achieved by a bond issue made by Sunderland (SHG) Finance PLC, was routed similarly.

Education Capital Finance PLC, an independent intermediary which lends capital finance to Colleges of Further Education, made its first loans to colleges during the year. T.H.F.C. (Services) Limited provides the marketing and loan administration services to the new company. ECF is an independent company, chaired by Christopher Jonas with a board consisting of representative from Colleges of Further Education and the Association of Colleges. We are pleased to be providing support to this initiative which has introduced forceful competition into the market, bringing about a substantial reduction in the margins on loans to colleges from competitor banks. Nevertheless the slow growth in loans advanced has caused the ECF board to review its business position, as a result of which ECF is likely to withdraw from the market during the Summer of 2002.

THFC has been providing input to research into the feasibility of setting up a new financial wholesaling intermediary for Community Development Finance Institutions. The work was carried out by Barbara Ainger on our behalf, together with the New Economics Foundation and the Local Investment Fund, with the benefit of a DTI Phoenix Fund grant. The initiative is well supported, but it will be some while before all the conditions will be in place to make a new financial intermediary an economic proposition.

In March this year George Dennis, our Chairman for nine years, and Stephen Wood, both founder Board members, retired from the Board, having reached the 15 year term maximum for service as a director set by the Board's governance arrangements. Their tremendous contribution to the success of THFC since its foundation in 1987 cannot be overstated. Their guidance was a critical element, both in establishing THFC and in developing its position today as one of the pre-eminent providers of funds to the social housing sector. I would like to add my thanks to those of my fellow Directors for the commitment and enthusiasm that they brought to the Board and to wish them well in a long and happy retirement.

As a result of the Board vacancies we made two appointments to the Board at the beginning of April. Pam Alexander and Sadru Visram have joined us and bring a wealth of practical experience in the management and needs of Housing Associations.

Last year George Dennis thanked Barbara Ainger for her work over many years as our Chief Executive and I was pleased see that she was awarded the O.B.E. in the Queen's Birthday Honours list last year.

We were fortunate to be able to call on her experience again during the year after Deanne Cooke-Yarborough decided not to take up a permanent appointment with THFC. At the Board's request, and after difficulties in finding a suitable replacement for Deanne, I took over provisional executive responsibility for THFC in early January this year. The Board expects to appoint a new Chief Executive by the end of 2002, after which my position will be that of non-executive Chairman, thus enabling THFC to meet good governance guidelines through the separation of the two roles.

My thanks go to the members of the Board and the staff who met the demands of a difficult year with determination and initiative.

David Creed  
Executive Chairman

## **GROUP REPORT**

### **Group Structure**

Since the incorporation of The Housing Finance Corporation (THFC) in 1987 various subsidiaries have been created within the THFC Group (the Group) to cater for the different financial instruments and covenant structures which have been required over time. THFC itself and all its operating subsidiaries operate on a non-profit-distributing basis. They carry out the core function of raising private sector loan finance for registered social landlords to further their work in developing or refurbishing housing for people in housing need. A further Group member, T.H.F.C. (Services) Limited (THFCS) provides management services to the rest of the Group and to third parties.

### **The Board**

The Group organisations are each controlled by a Board consisting of the same non-executive Directors, with the exception of T.H.F.C. (Capital) PLC which has an additional Director, John Shinton of the Royal Bank of Canada. The Housing Corporation, the public sector corporation which acts as regulator and principal distributor of social housing grant, holds a share in THFC and has nominated Peter Cooke to the Board. Other Directors are selected for their expertise in the fields of finance, commerce and housing and include the Chief Executive of the trade body for registered social housing, the National Housing Federation.

### **The Executive Staff**

The professional team includes executives with banking, accounting, treasury and legal qualifications. The team has recently been strengthened in response to the departure of Peter Impey who was our Head of Credit and the decision to keep more closely in touch with housing associations' needs.

### **Group Financing Principles**

THFC and its issuing subsidiaries, T.H.F.C. (Indexed) Ltd., T.H.F.C. (Indexed 2) Ltd., T.H.F.C. (First Variable) Ltd. and T.H.F.C. (Social Housing Finance) Ltd have between them issued financial instruments including zero-coupon, deep-discounted, index-linked and conventional public debenture stocks, stepped and par-coupon private placements and fixed and variable rate bank loans. Despite the variety of loan structures they all adhere to the same fundamental principles:

- Funds are raised solely on behalf of registered social landlords
- Funds raised are on-lent immediately
- Funds are on-lent on a substantially identical maturity, interest and repayment profile thus ensuring that no mis-matching risk is taken on interest rate movements
- No currency risk in relation to its funds is taken by the Group or passed on to its borrowers
- Loans are fully secured and covenanted in accordance with the terms of the individual Group member's governing Trust Deed
- The Group makes its own independent credit assessment of its borrowers and accepts or refuses applications for funding after a careful review by a Credit Committee comprising senior executives, the Executive Chairman and a non-executive Director.

### **Security Offered to Investors**

Lenders to each organisation benefit from a floating charge over its assets, which are primarily its secured loans to registered social landlords but which include any reserves accumulated from income. All the stocks and loans rank *pari passu* and are protected by a negative pledge. This form of security was designed to enable investors to spread their risk across a growing range of instruments and borrowers.

### **Property Security**

Although one of the benefits of THFC's standard loan terms is to offer registered social landlords the ability to secure their loans by way of floating charges – subject to appropriate asset cover tests – many borrowers continue to prefer to provide fixed charge security on specified properties. Most new borrowers choose to adopt fixed charge security from the outset and during the year a further four borrowers have switched from floating to fixed charge security. THFC approves the valuers used by borrowers in order to ensure a consistent and adequately detailed approach which takes account of the physical condition, the future rental potential and the market context of the property being valued.

### **Loans Administration**

THFC's exemplary record of prompt collection and payment of interest and principal has remained intact over its fifteen year history. Borrowers' payments are made one month prior to THFC's obligation to pay investors thus providing a timing cushion and a source of additional investment income.

### **Credit Monitoring**

Each borrower undergoes a credit review prior to a loan being granted which involves accounts analysis, review of business plans and projections, scrutiny of regulatory and audit reports, comparison of performance indicators and an assessment of management capabilities. This provides the basis for regular credit monitoring and quarterly reports to the Board on the health of the portfolio. New or increased credit exposures are reviewed and approved or rejected by THFC's Credit Committee, an executive committee comprising the senior executives of THFC and one nominated Board member (Jim Coulter). The financial health of registered social landlords continues to be under pressure from higher gearing ratios, restrictions on rental growth and pockets of low demand underlining the need for a strong internal credit function to complement the regulatory function of The Housing Corporation.

### **UK Rents (No. 1) Plc and T.H.F.C. (Capital) Plc**

These Group entities were structured differently from the issuing subsidiaries. UK Rents (No.1) PLC is a special purpose vehicle established in 1994 solely for the purpose of issuing a triple A rated rental securitisation. T.H.F.C. (Capital) PLC was established in March 2001 to act as a conduit for funds raised for the transfer of housing stock from Sunderland City Council to the Sunderland Housing Group. The loans to Sunderland are structured on a non-recourse basis and the property security is held by a Security Trustee for the benefit of the bank lenders and investors.

### **Reserves**

THFC and its issuing subsidiaries each covenant to their respective investors that they will maintain total operating expenditure within total operating income on a three year basis. They have all successfully complied with this covenant since incorporation and by generating fee income, investing "month-early" interest payments, investing reserves and exercising tight cost control the Group has now accumulated non-distributable reserves amounting to £5.6 million.

### **Taxation**

Under existing U.K. law and practice, payments of interest on debenture stock issued by THFC and its issuing subsidiaries may be made gross to U.K. resident stockholders.

### **Administration Services**

Since October 1999 THFCS has provided loans administration and company secretariat services to Haven Funding PLC and Haven Funding (32) PLC which as at 31 March 2002 had issued £429.9 million in loans to 21 registered social landlords arranged by the Royal Bank of Canada. In November 2000 THFCS also entered into a management contract with Education

Capital Finance PLC (ECF), an independent intermediary which lends capital finance to Colleges of Further Education. THFCS is responsible to the Board of ECF for marketing, loans origination and administration. The management fee has been waived by THFCS since January 2002 as part of the support arrangements agreed between ECF and its sponsors.

## DIRECTORS REPORT

### Principal Activities

The Housing Finance Corporation Limited (THFC) was incorporated in Great Britain in 1987, with limited liability under the Industrial and Provident Societies Act 1965. Its principal objective is to lend money to registered social landlords. It has established a number of wholly owned subsidiaries to cater for the varying interests of stockholders and bank lenders in different forms of financial instrument and the reports and accounts for all companies within the THFC group (the Group) are available separately on request from T.H.F.C. (Services) Limited, 21 Ironmonger Lane, London EC2V 8EY.

### Results

During the year ended 31 March 2002 the following transactions were completed:

#### THFC

25 year fixed rate loan – facility amount £9,350,000

5 year revolving loan facility – facility amount £5,000,000

25 year amortising term loan – facility amount £17,000,000

8.625% debenture stock 2023 (5<sup>th</sup> tranche) – gross proceeds £27,265,951.

#### T.H.F.C. (Capital) Plc

The proceeds of a £239,500,000 bond issued by Sunderland (SHG) Finance PLC were made available to the Sunderland Housing Group.

The result of the above transactions has been to increase the nominal amount raised by the Group and still outstanding to a total of £1.5 billion at the year-end. This represents loans to 134 registered social landlords.

### Consolidated Operating Surplus

The consolidated operating surplus before taxation was £573,000 (2001 - £745,000).

Under its rules, THFC cannot 'trade for profit'. It is, however, the intention of the Directors that it will continue to make operating surpluses each year. Any such surpluses may not be distributed either directly or indirectly to shareholders and are accumulated as reserves to act as an additional protection for investors.

The reserves, plus the £1.7 million deferred tax provision, are held as cash deposits. Investment strategy remains unchanged from prior accounting periods.

THFC makes no political donations.

### Directors and Shareholders

Details of Directors, their service periods for the year and Shareholders of THFC are set out in the table below. Messrs Dennis and Wood retired on 31 March 2002. Ms Pam Alexander and Mr Sadru Visram joined the Board on 1 April 2002. The shares held by Messrs Dennis and Wood have been transferred since the year end to Ms Alexander and Mr Visram. The share held at the beginning of the year by Mr Binder has been bought in and cancelled. The biographies of the current Directors appear on our website [www.thfc.com](http://www.thfc.com).

Mrs Blomfield-Smith served as a Director only during her term of office as THFC's Chief Executive.

One third of the Directors are required under THFC's rules to retire each year in rotation and may offer themselves for re-election.

Accordingly, at the forthcoming Annual General Meeting, Messrs. Coulter and Cooke are retiring as Directors of THFC and offer themselves for re-election. In addition, Ms Alexander and Mr Visram, being Directors appointed during the year, also offer themselves for re-election at the forthcoming Annual General Meeting.

Director	Period Served	THFC Shareholding 31 March 2002
George Dennis	Full Year	£1
Rosamund Blomfield-Smith	5 November 2001 – 7 January 2002	NIL
Michael Boohan	Full Year	£1
Alan Binder	1 April 2001 – 23 April 2001	NIL
Peter Cooke	Full Year	NIL
James Coulter	Full Year	NIL
David Creed	Full Year	£1
Stephen Wood	Full Year	£1

*Other Shareholders*

The Housing Corporation	£1
National Housing Federation	£1
Total shareholding 31 March 2002	£6

**Chief Executive and Company Secretary**

Mrs. Barbara Ainger resigned and Ms. Deanne Cooke-Yarborough was appointed to succeed her as Chief Executive and Company Secretary on 17 April 2001. Ms Cooke-Yarborough resigned and Barbara Ainger was re-appointed acting Chief Executive in her place on 30 June 2001. Mrs Rosamund Blomfield-Smith served as Chief Executive from 29 October 2001 to 7 January 2002, following which David Creed took on the duties of the Chief Executive as Executive Deputy Chairman on 9 January 2002.

Miss Virginia Pearson succeeded Ms Cooke-Yarborough as Company Secretary on 1 July 2001. The Company Secretary is responsible for ensuring Board procedures are followed.

**Directors' Remuneration**

The Directors' remuneration is established by the Annual General Meeting in the light of periodic advice from financial advisers. None of the current Directors receives pension benefits, bonuses or benefits in kind with the exception of the Executive Chairman (David Creed) who is paid a salary on a per diem basis for his time spent on executive matters in addition to his fees as a Director and as Chairman since the end of the year. He received a salary of £15,000 for his services as an executive in the year in addition to his director's fees of £13,468.

Other than Mrs Blomfield-Smith and David Creed, the Chairman (George Dennis) was the highest paid Director in 2001/2002 receiving £21,548. Other Directors each received £13,468 except Mr Binder who was paid £1,122. Mr Coulter's remuneration was remitted to his employer. Mrs Blomfield-Smith received £54,208 during the year in salary, director's fees, pension benefits and compensation for loss of office.

## Board

The Directors as set out above (all of whom are non-executive with the exception of the Executive Chairman) comprise the Board of THFC and its subsidiaries, with the exception of T.H.F.C. (Capital) PLC which has an additional Director, John Shinton of the Royal Bank of Canada. Peter Cooke is nominated by The Housing Corporation and James Coulter represents the National Housing Federation. The Board is responsible for the overall direction and strategy of THFC and its subsidiaries, establishing an adequate control framework within which the executive can operate effectively, monitoring performance, ensuring adequate resources are available and taking all borrowing and lending decisions.

The Board meets a minimum of five times per year to conduct its regular business with further meetings as required to approve and execute all new loan transactions. The Board has established two sub-committees:

### ***Nominations and personnel committee***

Considers potential nominees to the Board and personnel matters including recommendations to the Board on executive remuneration and appointments. Comprises David Creed (chairman), Peter Cooke and Jim Coulter.

### ***Audit committee***

Reviews internal controls, financial reporting, annual financial statements, the performance and recommendations of external auditors and compliance with laws and regulations. It does not consider financial or operational risks since these matters are covered by the full Board at its scheduled meetings. The committee was constituted by the Board at its January 2002 meeting. Before that date all audit committee matters were considered by the full Board. Members comprise Michael Boohan (chairman), Peter Cooke and Jim Coulter. David Creed and senior members of staff attend when required.

There are no other permanent committees of the Board and all matters reviewed in committee are reserved for decisions to be considered by the full Board. Matters of Board governance are considered by the full Board. Directors are entitled to take independent financial advice.

## **Principles of tenure for Board members**

Board members of THFC and its subsidiaries are appointed under the following conditions:

- Individuals who have not previously served on the Board may be appointed to the Board for no more than three successive terms, each term being of three years' duration, unless they are Nominated Board members (those nominated by the Housing Corporation or the National Housing Federation).
- Nominated Board members will be allowed to serve any number of successive terms provided they have the consent and continuing support/approval of their sponsoring organisations.
- No Board Member (other than a Nominated Board member) may serve on the Board for a cumulative total of more than 15 years.
- No Board member will be permitted to serve after the age of 70 unless by unanimous agreement of the Board, such agreement to be reconfirmed annually.
- Following retirement or resignation from the Board, an ex-Board member cannot submit him/herself for re-election until three years have elapsed from the date such member last served on the Board.
- No member can serve as Chairman of the Board for a continuous period in excess of five years. The Board will select each Chairman in accordance with the Rules of THFC, under which the Chairman must stand for re-election every year.

## **Management**

The management and administrative functions of the Group are carried out by T.H.F.C. (Services) Limited (THFCS) which is itself a wholly owned subsidiary of THFC with the same Board membership. THFCS employs the executive and administrative staff for this purpose and carries out its functions under management agreements with each of the other organisations. THFCS also offers administrative and consultancy services to third parties.

## **Combined Code**

THFC complies with the Combined Code issued by the London Stock Exchange except in relation to the requirements regarding institutional shareholders which are not applicable to THFC as an Industrial and Provident Society.

## **Internal Control**

The Board acknowledges that it is responsible for THFC's system of internal control and for reviewing its effectiveness. It should be recognised that such a system can provide only reasonable and not absolute assurance against material misstatement or loss. The Board has decided that the establishment of a separate internal audit function would not be appropriate for an organisation with a total staff complement of eight but the key accounting and financial records are scrutinised by the chairman of the Audit Committee on a quarterly basis and by meetings of the Audit Committee at least twice a year. Controls are otherwise exercised through written standing orders, clear lines of responsibility and restrictions on delegated executive powers. The Directors have assessed the adequacy of internal controls during the period up to 24 June 2002. No weaknesses of internal control have resulted in material loss or require disclosure.

## **Business Risk Assessment**

Key business and operating risks have been assessed during the year by the Board and mitigating action implemented. All loans to borrowers are matched in terms of their maturity, interest and repayment profile to the equivalent bond issue or bank loans. Therefore, primary operating risks relate to the credit monitoring of borrowers, the completion of appropriate loan security, timely collection of all payments due and the achievement of a secure return on investment income. Quarterly reports on these areas are made to the Board in addition to detailed reviews of performance against budget.

## **Continuing Resources**

After making enquiries, the Directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that THFC has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

## **Statement of Directors' Responsibilities**

The Industrial and Provident Societies Act 1965 requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of THFC and the Group and of the profit or loss of THFC and the Group for that period. In preparing those financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is not appropriate to presume that THFC will continue in business.

The Group's financial statements are published on THFC's website ([www.thfcorp.com](http://www.thfcorp.com)) and the Directors are responsible for the maintenance and integrity of that website. However there is currently uncertainty regarding the legal requirements in publishing information on

websites, compounded because information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of THFC and the Group and to enable them to ensure that the financial statements comply with the Industrial and Provident Societies Act 1965 to 1978 and with the Companies Act 1985. They are also responsible for the safeguarding of the assets of THFC and the Group and hence for taking reasonable steps for the prevention of fraud and other irregularities.

### **Auditors**

PricewaterhouseCoopers have been engaged by the Board as auditors of all Group companies, and a resolution for their reappointment will be proposed at the Annual General Meeting.

By order of the Board

Virginia Pearson  
Company Secretary

The Housing Finance Corporation Limited  
24 June 2002

**THFC Group Summary**  
**Loans Portfolio as at 31 March 2002**

Floating Charge Security		THFC	THFCIL	THFCIL2	SHF	THFCFV	UK Rents	Total Loan	
Association	Area	Loans £000	Loans £000	Loans £000	Loans £000	Loans £000	Loans £000	Value £000	Gearing
Aldwyck HA Ltd	SE	18,535	1,470	6,054	0	4,000	0	30,059	62.3
Arena HA Ltd	NW	5,000	0	8,476	6,000	0	0	19,476	28.8
Asra Greater London HA Ltd	LN	10,000	0	0	0	5,000	0	15,000	23.1
Axiom HA Ltd	EA	550	0	0	3,000	0	0	3,550	55.7
Barnsbury HA Ltd	LN	0	0	0	0	1,250	0	1,250	19.4
Black Country HCSG Ltd	MD	7,000	0	0	0	0	0	7,000	43.7
Cheltenham & District HA Ltd	SW	4,500	0	1,816	0	0	0	6,316	66.3
Cheviot HA Ltd	NE	9,415	2,149	0	0	0	0	11,563	49.6
Circle 33 HT Ltd	LN	1,062	0	0	0	0	0	1,062	36.8
De Montfort HS Ltd	MD	6,250	792	0	0	0	0	7,042	48.6
Devon & Cornwall HA Ltd	SW	12,981	6,068	0	0	0	0	19,049	31.1
East Midlands HA Ltd	MD	13,718	0	1,392	0	2,000	0	17,110	48.5
English Churches HG Ltd	NA	21,000	792	0	0	0	0	21,792	28.0
FCH Housing and Care	MD	2,000	0	0	0	3,000	0	5,000	49.9
Family HA (Birmingham) Ltd	MD	6,000	0	0	3,979	0	0	9,979	32.9
Family HA (Manchester) Ltd	NW	5,500	0	0	0	0	0	5,500	24.2
Focus HA Ltd	MD	21,782	0	0	0	0	0	21,782	48.3
Granta HS Ltd	EA	4,500	0	1,816	0	0	0	6,316	29.4
Habinteg HA Ltd	NA	6,500	0	0	0	0	0	6,500	24.6
Harden HA (Midlands) Ltd	MD	5,500	0	0	0	0	0	5,500	37.2
Heantun HA Ltd	MD	2,850	0	0	3,300	0	0	6,150	43.1
Islington & Shoreditch HA Ltd	LN	1,067	0	0	0	0	0	1,067	25.9
Leeds Federated HA Ltd	NE	3,000	0	0	0	0	0	3,000	39.2
Leicester HA Ltd	MD	22,158	792	0	0	1,400	0	24,350	48.5
London & Quadrant HT	LN	7,876	0	0	0	0	0	7,876	31.2
Manningham HA Ltd	NE	6,000	0	0	2,000	1,050	0	9,050	30.1
Mercian HA Ltd	MD	11,750	1,131	0	0	0	0	12,881	60.4
Metropolitan HT Ltd	LN	22,990	2,601	0	0	0	0	25,591	38.9
Midland Area HA Ltd	MD	6,750	0	0	0	0	0	6,750	21.2
Moseley & District Churches HA Ltd	MD	3,050	0	2,930	0	2,000	0	7,980	34.3
Mosscares Housing Ltd	NW	11,500	0	0	0	0	0	11,500	47.6
Network HA Ltd	LN	25,253	0	0	0	0	0	25,253	57.6
New Islington & Hackney HA	LN	1,981	0	0	0	0	0	1,981	25.8
North Cheshire HA Ltd	NW	1,000	396	0	0	0	0	1,396	40.5
North London Muslim HA Ltd	LN	0	0	0	1,500	0	0	1,500	32.4
Oxford Citizens HA Ltd	SE	1,500	0	0	0	750	0	2,250	45.7
Patchwork Community Ltd	LN	222	0	0	0	0	0	222	1.0
Portsmouth HA Ltd	SE	7,095	0	0	0	0	0	7,095	49.0
Sadeh Lok HA Ltd	NE	650	0	0	0	0	0	650	41.7
Selhal Housing Ltd	NW	1,500	0	0	0	0	0	1,500	50.0
Staffordshire HA Ltd	MD	3,800	0	0	5,300	0	0	9,100	51.8
Swaythling HS Ltd	SW	12,000	0	0	0	0	0	12,000	61.0
The Ridings HA Ltd	NE	2,750	0	0	0	0	0	2,750	51.7
Three Rivers HA Ltd	NE	6,000	0	0	0	0	0	6,000	37.8
Threshold Housing and Support Ltd	LN	5,000	0	0	0	3,000	0	8,000	23.8
Trident HA Ltd	MD	5,000	3,053	0	0	0	0	8,053	66.1
Ujima HA Ltd	LN	6,569	0	0	0	0	0	6,569	40.2
Waterloo HA Ltd	MD	6,000	0	0	0	0	0	6,000	56.4
West Pennine HA Ltd	NW	3,000	0	0	0	0	0	3,000	38.4
Westcountry HA Ltd	SW	6,000	0	0	0	3,500	0	9,500	31.5
Winchester HA Ltd	SW	2,500	0	2,422	0	0	0	4,922	53.5
Wycombe Friendship HA Ltd	SE	609	0	0	0	0	0	609	23.6
<b>Total Floating Charge Security</b>		<b>359,213</b>	<b>19,244</b>	<b>24,906</b>	<b>25,079</b>	<b>26,950</b>	<b>0</b>	<b>455,391</b>	

**THFC Group Summary**  
**Loans Portfolio as at 31 March 2002**

## Fixed Charge Security

Association	Area	THFC	THFCIL	THFCIL2	SHF	THFCFV	UK Rents	Total	Gearing
		Loans £000	Loans £000	Loans £000	Loans £000	Loans £000	Loans £000	Loan Value £000	
Acton HA Ltd	LN	21,395	0	0	0	0	0	21,395	48.9
Agudas Israel HA Ltd	LN	1,204	0	605	0	0	0	1,810	23.6
Axiom HA Ltd	EA	4,799	0	0	5,000	0	0	9,799	55.7
Beaver HS Ltd	LN	12,000	1,131	0	0	0	0	13,131	52.6
Beth Johnson HA Ltd	MD	4,000	0	0	0	0	0	4,000	37.8
Bethnal Green & Victoria Park HA Ltd	LN	1,250	0	0	7,900	0	0	9,150	19.4
Bradford & Northern HA Ltd	NA	0	13,344	0	0	0	0	13,344	54.7
Cambridge HS Ltd	EA	3,000	0	0	0	0	0	3,000	47.3
Cardiff Community HA Ltd	WA	0	317	0	0	0	0	317	32.0
Cherwell HT Ltd	SE	2,000	0	0	3,000	0	0	5,000	27.3
Cheviot HA Ltd	NE	0	0	0	3,000	0	0	3,000	49.6
Clwyd Alyn HA Ltd	WA	2,000	2,827	0	0	0	0	4,827	42.5
Clwyd CT	WA	1,500	0	0	0	0	0	1,500	38.3
Collingwood HA	NW	0	0	0	10,000	0	0	10,000	16.0
Community HA	LN	12,902	0	0	0	0	0	12,902	41.4
Cotman HA Ltd	EA	2,213	0	0	0	0	0	2,213	35.5
Dartington HA Ltd	SW	500	0	0	0	0	0	500	50.1
De Montfort HS Ltd	MD	5,550	0	0	0	0	0	5,550	48.6
Ealing Family HA Ltd	LN	4,270	1,470	0	0	0	0	5,740	33.9
East Thames HG Ltd	LN	24,615	0	0	0	0	0	24,615	40.5
Eildon HA Ltd	SC	0	0	0	3,900	0	0	3,900	24.5
Eryri CT Ltd	WA	2,500	0	0	0	0	0	2,500	32.2
Estuary HA Ltd	EA	8,000	735	0	0	0	0	8,735	35.5
FCH Housing and Care	MD	0	0	0	5,500	0	0	5,500	49.9
Family HA	LN	9,438	0	0	0	0	0	9,438	18.6
Family HA (Manchester) Ltd	NW	0	0	0	2,418	0	0	2,418	24.2
Focus HA Ltd	MD	6,327	0	0	0	0	0	6,327	48.3
Grampian HA Ltd	SC	0	0	0	4,000	0	0	4,000	44.4
Granta HS Ltd	EA	1,500	0	0	0	0	0	1,500	29.4
Gravesend Churches HA Ltd	SE	0	0	0	1,750	0	0	1,750	34.7
Griffin HA Ltd	LN	5,000	0	0	0	0	0	5,000	62.0
Hastoe HA Ltd	SE	5,500	0	0	0	0	0	5,500	48.7
Heantun HA Ltd	MD	2,500	0	0	0	0	0	2,500	43.1
Hexagon HA Ltd	LN	1,500	283	4,238	0	0	0	6,021	30.2
Hightown Praetorian HA Ltd	SE	0	1,131	0	0	0	0	1,131	58.9
Home Group Ltd	NA	2,981	11,240	11,805	0	0	0	26,026	57.3
Horizon Housing Group Ltd	LN	28,500	16,406	0	0	0	0	44,906	52.0
Hyde HA Ltd	SE	0	0	11,718	0	0	0	11,718	51.9
Innisfree HA Ltd	LN	3,000	0	0	0	0	0	3,000	20.1
Irwell Valley HA Ltd	NW	0	0	2,422	4,000	0	0	6,422	54.1
Islington & Shoreditch HA Ltd	LN	2,000	0	0	4,936	0	0	6,936	25.9
John Grooms HA	NA	0	0	0	3,000	0	0	3,000	19.8
Johnnie Johnson HT Ltd	NW	3,500	792	0	0	0	0	4,292	34.9
Knightstone HA Ltd	SW	7,474	12,152	0	0	0	0	19,626	52.6
Kush HA Ltd	LN	4,000	0	0	0	0	0	4,000	47.3
Leicester HA Ltd	MD	0	0	0	4,959	0	0	4,959	48.5
Liverpool HT	NW	0	0	0	7,345	0	0	7,345	34.5
Longhurst HA Ltd	EA	9,400	0	0	0	0	0	9,400	53.1
Manchester Methodist HA Ltd	NW	0	0	605	6,500	0	0	7,105	44.3
Mercian HA Ltd	MD	2,826	0	0	3,000	0	0	5,826	60.4
Mid Wales HA Ltd	WA	0	0	1,332	0	0	0	1,332	35.5
Midland Area HA Ltd	MD	2,200	1,244	0	0	0	0	3,444	21.2

**THFC Group Summary**  
**Loans Portfolio as at 31 March 2002**  
**Fixed Charge Security continued**

Association	Area	THFC	THFCIL	THFCIL2	SHF	THFCFV	UK Rents	Total	Gearing
		Loans	Loans	Loans	Loans	Loans	Loans	Loan	
		£000	£000	£000	£000	£000	£000	£000	£000
Minster General HA Ltd	EA	1,066	0	0	1,500	0	0	2,566	35.2
Moat HS Ltd	SE	3,500	7,090	0	0	0	0	10,590	51.8
Mosscares Housing Ltd	NW	0	0	0	13,873	0	0	13,873	47.6
Nene HS Ltd	EA	1,842	0	0	0	0	0	1,842	33.7
New Downland HA Ltd	SE	12,000	6,932	4,238	0	0	0	23,170	73.8
New Islington & Hackney HA	LN	2,100	1,922	0	0	0	0	4,022	25.8
Newlon HT	LN	5,054	0	0	0	0	0	5,054	19.6
Nomad Housing Group Ltd	NE	0	0	0	5,500	0	0	5,500	39.0
North British Housing Ltd	NA	35,554	0	0	0	0	0	35,554	68.7
North Cheshire HA Ltd	NW	2,240	0	0	0	3,250	0	5,490	40.5
North London Muslim HA Ltd	LN	1,000	0	0	0	0	0	1,000	32.4
North Wales HA Ltd	WA	2,500	452	0	5,000	0	0	7,952	36.9
Nottingham Community HA Ltd	MD	16,829	0	0	0	0	0	16,829	71.0
Octavia Housing and Care	LN	2,000	0	0	3,500	0	0	5,500	8.3
Oxford Citizens HA Ltd	SE	0	0	0	0	750	0	750	45.7
Pembrokeshire HA Ltd	WA	1,000	0	0	0	0	0	1,000	47.3
Penwith HA Ltd	SW	6,500	0	0	0	0	0	6,500	654.7
Sanctuary HA	NA	0	0	0	16,641	0	0	16,641	50.8
Selhal Community Housing Ltd	NW	750	0	0	0	0	0	750	31.4
Selhal Housing Ltd	NW	0	0	0	0	750	0	750	50.0
Shaftesbury HA	NA	0	2,035	0	0	0	0	2,035	114.9
Soho HA Ltd	LN	0	0	0	1,500	0	0	1,500	34.8
South Yorkshire HA Ltd	NE	1,500	0	0	3,916	0	0	5,416	40.5
Southern Housing Group Ltd	LN	2,520	3,325	0	18,705	0	0	24,549	21.7
Sovereign HA Ltd	SW	9,500	0	0	0	0	0	9,500	129.7
Springboard HA Ltd	LN	6,000	0	0	0	0	0	6,000	65.6
St Pancras & Humanist HA	SE	600	0	0	0	0	0	600	46.4
St Vincent's HA Ltd	NW	1,750	0	0	4,000	0	0	5,750	30.2
Sutton HS Ltd	SE	250	0	0	0	0	0	250	23.8
Swaythling HS Ltd	SW	10,500	0	0	0	0	0	10,500	61.0
Taff HA Ltd	WA	500	0	0	1,000	0	0	1,500	22.6
Thames Valley Charitable HA Ltd	SE	14,796	0	0	0	0	0	14,796	365.0
The Ridings HA Ltd	NE	0	0	0	5,000	0	0	5,000	51.7
Three Rivers HA Ltd	NE	0	0	0	1,933	0	0	1,933	37.8
Touchstone HA Ltd	MD	13,958	9,013	0	0	0	0	22,971	52.8
Toynbee HA Ltd	LN	500	0	0	0	0	0	500	60.6
Two Castles HA Ltd	NE	7,000	0	0	0	0	0	7,000	28.4
United Welsh HA Ltd	WA	4,500	0	0	0	0	0	4,500	22.2
Venture HA Ltd	NW	0	0	0	3,250	0	0	3,250	15.3
Walbrook HA Ltd	MD	1,450	0	0	0	0	0	1,450	30.1
Wales and West HA Ltd	WA	3,400	0	0	0	0	0	3,400	31.3
Wandle HA Ltd	LN	5,000	0	0	10,400	0	0	15,400	38.6
West Hampstead HA Ltd	LN	2,500	0	0	2,000	0	0	4,500	59.2
West Pennine HA Ltd	NW	0	0	3,515	2,000	0	0	5,515	38.4
William Sutton Trust	NA	0	0	2,422	0	0	0	2,422	32.6
Wiltshire Rural HA Ltd	SW	1,550	0	0	0	0	0	1,550	57.3
Wirral Methodist HA Ltd	NW	1,200	0	0	0	0	0	1,200	24.4
Womens Pioneer Housing Ltd	LN	1,000	0	0	0	0	0	1,000	5.3
Worcestershire HA Ltd	MD	950	0	0	0	0	0	950	18.3
		396,20							
<b>Total Fixed Charge Security</b>		<b>3</b>	<b>93,841</b>	<b>42,900</b>	<b>179,926</b>	<b>4,750</b>	<b>0</b>	<b>717,619</b>	

Income Security Association	Area	THFC Loans £000	THFCIL Loans £000	THFCIL2 Loans £000	SHF Loans £000	THFCFV Loans £000	UK Rents Loans £000	Total Loan Value £000	Excess Cover
Beaver HS Ltd	LN	0	0	0	0	0	7,563	7,563	135%
Cheviot HA Ltd	NE	0	0	0	0	0	7,286	7,286	132%
Kelsey HA Ltd	LN	0	0	0	0	0	4,905	4,905	137%
Mercian HA Ltd	MD	0	0	0	0	0	5,503	5,503	132%
Portico HA Ltd	NW	0	0	0	0	0	5,445	5,445	132%
Portsmouth HA Ltd	SE	0	0	0	0	0	5,441	5,441	135%
<b>Income Cover</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>36,143</b>	<b>36,143</b>	<b>134%</b>

T.H.F.C. (Capital) Plc Association	Area	Total Loan Value £000
Sunderland HG	NE	258,200
<b>Total</b>		<b>258,200</b>
<b>Grand Total</b>		<b>755,416 113,085 67,806 205,005 31,700 36,143 1,467,353</b>

KEY	Area:			
	EA	East Anglia	NE	North East
	LN	London	SE	South East
	MD	Midlands	SW	South West
	NA	National	WA	Wales
	NW	North West	SC	Scotland

Abbreviations	
THFC	The Housing Finance Corporation
THFCIL	T.H.F.C. (Indexed) Limited
THFCIL2	T.H.F.C. (Indexed 2) Limited
SHF	T.H.F.C. (Social Housing Finance) Limited
THFCFV	T.H.F.C. (First Variable) Limited
UK Rents	UK Rents (No. 1) PLC

**THE HOUSING FINANCE CORPORATION LIMITED****DEBENTURE STOCKS AND BANK LOANS**

		<b>Date</b>	<b>Nominal Amount £000</b>	<b>Outstanding Principal Amount £000</b>
<b>THFC Debenture Stocks:</b>				
Discounted:				
	Zero Coupon 2012	8.12.87	93,502	29,442
	5% 2027	8.12.87	50,954	25,497
	7% 2009 (series I)	20.5.88	10,114	8,034
	7% 2009 (series II)	8.7.88	4,350	3,401
Stepped Coupon:				
	6.58% to 19.60% 2019	2.3.89	10,000	15,066
	7.91% to 19.75% 2019	28.6.89	4,630	6,735
	7.55% to 17.61% 2019	17.8.89	7,860	10,896
	8.44% to 15.98% 2019	11.10.89	2,900	3,708
Conventional Fixed Rate:				
	12.04% 2021 (Annuity)	2.7.91	15,000	14,903
	11.5% 2016 (Bullet)			
		tranche 1	27.11.91	100,000
		tranche 2	27.5.92	51,500
		tranche 3	20.10.92	80,000
	8.625% 2023 (Bullet)			
		tranche 1	13.10.93	140,000
		tranche 2	24.5.94	31,500
		tranche 3	16.6.99	17,200
		tranche 4	29.2.00	9,500
		tranche 5	5.12.01	19,800
	8.8% 2023 (Annuity)	6.1.94	8,000	8,000
	10.0938% 2024 (Annuity)	14.7.94	13,000	13,000
	9.625% 2025 (Bullet)			
		tranche 1	4.7.95	45,850
		tranche 2	12.11.97	21,100
<b>THFC Bank Loans:</b>				
	10 year 8.128% repayable 2003	7.9.93	14,200	14,200
	5 year £5m variable 2000 - extended to 2005	21.3.95	5,000	5,000
	5 year £5m variable 2000 - extended to 2005	29.3.95	5,000	5,000
	10 year £2.75m variable - option to fix repayable 2005	1.5.95	1,500	1,500
	25 year £2.75m variable repayable 2021	8.3.96	2,613	2,613
	25 year £3m variable repayable 2021	16.7.96	2,850	2,850
	5 year £6m revolving evergreen facility	24.7.97	5,500	5,500
	25 year £26.5m fixed rate loan 2023 - EIB (Annuity)	26.11.98	18,826	18,826
	25 year £10m fixed rate loan 2024 - EIB (Annuity)	2.9.99	9,796	9,796
	25 year £20m fixed rate loan 2025 - EIB (Annuity)	8.9.00	20,000	20,000
	5 year £10m revolving credit facility variable, repayable 2006	6.3.01	8,000	8,000
	25 year £9.35m fixed rate loan - ANTS (from Sep 2003)	2.4.01	0	0
	5 year £5m revolving credit facility variable, repayable 2006	1.10.01	0	0
	25 year £17m variable repayable 2026	9.11.02	7,000	7,000
<b>THFCFV Bank Loans</b>				
	30 Year Variable 2023			
		tranche 1	30.4.93	3,500
		tranche 2	21.7.93	11,450
		tranche 3	17.12.93	11,750
		tranche 4	30.6.94	5,000

**THFCIL Index Linked Debenture Stocks:**

5.65% 2020 (Annuity)	tranche 1	13.11.90	60,000	67,849
	tranche 2	31.3.93	40,000	45,233

**THFCIL2 Index Linked Debenture Stocks:**

5.50% 2024 (Annuity)	tranche 1	16.12.94	31,250	37,838
	tranche 2	28.12.95	24,750	29,968

**SHF Debenture Stocks:**

8.75% Debenture Stock 2016/21	tranche 1	5.12.96	32,800	32,800
	tranche 2	9.6.97	16,000	16,000
	tranche 3	11.9.97	18,300	18,300
	tranche 4	3.12.97	34,750	34,750
	tranche 5	1.7.98	28,650	28,650

**SHF Bank Loans:**

25 year £17.7m fixed rate loan 2023 - EIB (Annuity)	26.11.98	16,929	16,929
25 year £40m fixed rate loan 2024 - EIB (Annuity)	2.9.99	38,676	38,676
25 year £18.9m fixed rate loan 2025 - EIB (Annuity)	8.9.00	18,900	18,900

**UK Rents (No. 1) Plc Rental Securitisation:**

9.10% 2025	6.1.95	36,143	36,143
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**T.H.F.C. (Capital) Plc Bank Loans:**

Long term loan	26.3.01	239,500	239,500
Variable Rate Loan	26.3.01	18,700	18,700

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<b>Total at 31 March 2002</b>		<b>1,524,093</b>	<b>1,467,353</b>
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## **Auditors Report**

We have audited the financial statements which comprise the consolidated and company profit and loss accounts, the consolidated and company balance sheets, the cash flow statement and the related notes.

### **Respective responsibilities of Directors and Auditors**

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Industrial and Provident Societies Acts, 1965 to 1978. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chairman's Report, the Group Report and the Directors' Report.

We also, at the request of the Directors (because the company applies the Financial Services Authority Listing Rules as if it is a listed company), review whether the statement on page x reflects the Group's compliance with the seven provisions of the Combined Code specified by the Financial Services Authority for review by auditors of listed companies, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

### **Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the Group at 31 March 2002 and of their surplus and the cash flows of the Group for the year then ended and have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 1978.

PricewaterhouseCoopers  
Chartered Accountants and Registered Auditors

London, 24 June 2002

**THE HOUSING FINANCE CORPORATION LIMITED**

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

**For the year ended 31 March 2002**

	<b>2002</b>	2001	
	<b>£000</b>	£000	Notes
<b>INCOME</b>			
On loans to registered social landlords			
Interest	<b>109,596</b>	94,604	
Discount	<b>3,370</b>	3,033	11
Income from securitised assets	<b>3,289</b>	3,289	15
Indexation on investments	<b>2,987</b>	5,830	
Other interest	<b>799</b>	910	
Fees receivable and other income	<b>990</b>	933	
	<b><u>121,031</u></b>	<u>108,599</u>	
<b>EXPENDITURE</b>			
On debenture stocks and bank loans			
Interest	<b>112,839</b>	97,908	10
Discount	<b>3,370</b>	3,033	14
Indexation on loans payable	<b>2,987</b>	5,830	
Operating expenses	<b>1,262</b>	1,083	
	<b><u>120,458</u></b>	<u>107,854</u>	
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	<b>573</b>	745	2
Tax on profit on ordinary activities	<b>170</b>	215	8
<b>PROFIT FOR THE YEAR</b>	<b><u>403</u></b>	<u>530</u>	
Retained profit brought forward	<b>5,203</b>	4,673	
<b>RETAINED PROFIT CARRIED FORWARD</b>	<b><u><u>5,606</u></u></b>	<u><u>5,203</u></u>	17

The Group has no recognised gains and losses other than the profit for the year.

Income and operating surplus derive from continuing activities.

There were no movements in shareholders' funds other than the profit for the year.

**THE HOUSING FINANCE CORPORATION LIMITED**

**CONSOLIDATED BALANCE SHEET**

at 31 March 2002

	<b>2002</b>	2001	
	<b>£000</b>	£000	Notes
<b>FIXED ASSETS</b>			
Tangible assets	<b>28</b>	33	9
Investments	<u><b>1,453,445</b></u>	<u>1,381,660</u>	11
	<u><b>1,453,473</b></u>	<u>1,381,693</u>	
<b>CURRENT ASSETS</b>			
Investments	<b>13,932</b>	20,683	11
Debtors	<b>25,710</b>	25,536	12
Cash at bank and in hand	<u><b>11,478</b></u>	<u>11,107</u>	
	<u><b>51,120</b></u>	<u>57,326</u>	
CREDITORS: amounts falling due within one year	<u><b>43,116</b></u>	<u>49,843</u>	13
NET CURRENT ASSETS	<b>8,004</b>	7,483	
TOTAL ASSETS LESS CURRENT LIABILITIES	<u><u><b>1,461,477</b></u></u>	<u><u>1,389,176</u></u>	
CREDITORS: amounts falling due after more than one year	<b>1,454,145</b>	1,382,339	14
PROVISION FOR LIABILITIES AND CHARGES	<b>1,726</b>	1,634	7
<b>CAPITAL AND RESERVES</b>			
Called up share capital	-	-	16
Profit and loss account	<u><b>5,606</b></u>	<u>5,203</u>	17
	<u><u><b>1,461,477</b></u></u>	<u><u>1,389,176</u></u>	

Approved by the Board of Directors on 24 June 2002 and signed on its behalf by:

David Creed  
Executive Chairman

Michael Boohan  
Director

Virginia Pearson  
Company Secretary

**THE HOUSING FINANCE CORPORATION LIMITED**

**CONSOLIDATED CASH FLOW STATEMENT**

<b>For the year ended 31 March 2002</b>	<b>2002</b>	2001	
	<b>£000</b>	£000	Notes
NET CASH INFLOW FROM OPERATING ACTIVITIES	<b>3,726</b>	4,054	18
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received on loans to registered social landlords	<b>109,518</b>	94,249	
Interest paid on debenture stocks, bond and bank loans	<u>(112,702)</u>	<u>(97,782)</u>	
	<b>(3,184)</b>	<b>(3,533)</b>	
NET CASH INFLOW FROM OPERATING ACTIVITIES, RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	<b>542</b>	521	
TAXATION PAID			
Corporation tax paid	<b>(163)</b>	(81)	
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Loans to registered social landlords	<b>(343,420)</b>	(268,740)	11
Repayment of loans from registered social landlords	<b>285,303</b>	14,469	11
Acquisition of tangible fixed assets	<u>(9)</u>	<u>(32)</u>	9
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<u><b>(58,126)</b></u>	<u>(254,303)</u>	
NET CASH OUTFLOW BEFORE FINANCING	<b>(57,747)</b>	(253,863)	
MANAGEMENT OF LIQUID RESOURCES			
Payments into short-term deposits	<u><b>(309)</b></u>	<u>(502)</u>	
FINANCING			
Issue of debenture stocks and bonds	<b>259,300</b>	0	14
New loans	<b>79,120</b>	268,740	14
Repayment of amounts borrowed	<u>(280,302)</u>	<u>(14,469)</u>	14
NET CASH INFLOW FROM FINANCING	<u><b>58,118</b></u>	<u>254,271</u>	
INCREASE IN CASH	<u><b>62</b></u>	<u>(94)</u>	19

**THE HOUSING FINANCE CORPORATION LIMITED**

**PROFIT AND LOSS ACCOUNT**

**For the year ended 31 March 2002**

	<b>2002</b>	2001	
	<b>£000</b>	£000	Notes
<b>INCOME</b>			
On loans to registered social landlords			
Interest	<b>67,804</b>	67,344	
Discount	<b>3,370</b>	3,033	11
Other interest	<b>598</b>	670	
Fees receivable and other income	<b>529</b>	472	
	<b><u>72,301</u></b>	<u>71,519</u>	
<b>EXPENDITURE</b>			
On debenture stocks and bank loans			
Interest	<b>67,809</b>	67,351	10
Discount	<b>3,370</b>	3,033	14
Operating expenses	<b>814</b>	790	
	<b><u>71,993</u></b>	<u>71,174</u>	
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	<b>308</b>	345	2
Tax on profit on ordinary activities	<b>92</b>	104	8
<b>PROFIT FOR THE YEAR</b>	<b><u>216</u></b>	<u>241</u>	
Retained profit brought forward	<b>3,252</b>	3,011	
<b>RETAINED PROFIT CARRIED FORWARD</b>	<b><u><u>3,468</u></u></b>	<u><u>3,252</u></u>	17

The company has no recognised gains and losses other than the profit for the year.  
Income and operating surplus derive from continuing activities.  
There were no movements in shareholders' funds other than the profit for the year.

**THE HOUSING FINANCE CORPORATION LIMITED**

**BALANCE SHEET**

at 31 March 2002

	<b>2002</b>	2001	
	<b>£000</b>	£000	Notes
<b>FIXED ASSETS</b>			
Investments	<u>748,338</u>	<u>705,134</u>	11
 <b>CURRENT ASSETS</b>			
Investments	7,103	16,182	11
Debtors	19,834	19,169	12
Cash at bank and in hand	<u>5,256</u>	<u>5,055</u>	
	<u>32,193</u>	<u>40,406</u>	
 CREDITORS: amounts falling due within one year	<u>27,022</u>	<u>35,564</u>	13
 NET CURRENT ASSETS	5,171	4,842	
 TOTAL ASSETS LESS CURRENT LIABILITIES	<u>753,509</u>	<u>709,976</u>	
 CREDITORS: amounts falling due after more than one year	748,315	705,090	14
 PROVISION FOR LIABILITIES AND CHARGES	1,726	1,634	7
 <b>CAPITAL AND RESERVES</b>			
Called up share capital	-	-	16
Profit and loss account	<u>3,468</u>	<u>3,252</u>	17
	<u>753,509</u>	<u>709,976</u>	

Approved by the Board of Directors on 24 June 2002 and signed on its behalf by:

David Creed  
Executive Chairman

Michael Boohan  
Director

Virginia Pearson  
Company Secretary

**The Housing Finance Corporation Limited**  
**Notes to the Accounts**

**1. Accounting policies**

The following accounting policies have been applied in relation to the financial statements of The Housing Finance Corporation Limited ("THFC") and of THFC together with its subsidiary undertakings ("the Group")

**a) Basis of preparation**

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. THFC is incorporated in Great Britain with limited liability under the Industrial and Provident Societies Act 1965. Although THFC's constitution is not governed by the Companies Act 1985, these financial statements have been prepared so as to comply with the requirements of that Act as well as those of the Industrial and Provident Societies Act 1965.

**b) Basis of consolidation**

The Group accounts consolidate the results of THFC and all its subsidiaries drawn up to 31 March each year. UK Rents (Holdings) Limited ("UKRH"), UK Rents (No.1) PLC ("UKR1") and UK Rents Trustee Limited ("UKRT") have financial years ending 6 April, and therefore transactions for the period 1-6 April in each year have been reversed as part of the consolidation.

T.H.F.C. (Indexed) Limited ("THFCIL"), T.H.F.C. (Indexed 2) Limited ("THFCIL2"), T.H.F.C. (First Variable) Limited ("THFCFV") and T.H.F.C.(Social Housing Finance) Limited ("SHF") are incorporated in Great Britain with limited liability under the Industrial and Provident Societies Act 1965. All the shareholders of THFCIL, THFCIL2, THFCFV and SHF have executed deeds of trust in favour of THFC and thus THFCIL, THFCIL2, THFCFV and SHF are treated as wholly owned subsidiaries of THFC.

T.H.F.C. (Services) Limited ("THFCS"), UKRH and UKRT are private limited companies; UKR1 and T.H.F.C.(Capital) PLC ("THFCC") are public limited companies, all being incorporated under the Companies Act 1985. The majority of the shares of THFCS are owned by THFC with the remaining shareholders having executed deeds of trust in favour of THFC. THFCS owns all of the shares of THFCC and UKRH and UKRH owns all of the shares of both UKRT and UKR1 so THFCS, THFCC, UKRH, UKRT and UKR1 are treated as wholly owned subsidiaries of THFC.

Haven Indexed PLC ("HAVIND"), and Haven Indexed Holdings Limited ("HAVH") were incorporated in March 2001. HAVIND and HAVH have not commenced trading.

**c) Loans to registered social landlords and debenture stocks**

The terms of the loans to registered social landlords ("RSLs") are matched to those on which the funds have been raised through the issue of debenture stocks, and hence both are accounted for on a similar basis as set out below:

**(i) Discounted debenture stocks**

Loans to RSLs are stated at cost plus accrued discount which is credited to the profit and loss account on a basis that, together with the interest receivable, gives a constant rate of return on the investment

Debenture stocks are stated at issue price plus accrued discount which is debited to the profit and loss account on a basis that, together with interest payable, gives constant rate of return on the amount outstanding at any one time.

**(ii) Stepped coupon debenture stocks**

Loans to RSLs are stated at cost plus deferred interest which is credited to the profit and loss account on a basis that, together with the interest receivable, gives a constant rate of return on the investment. Debenture stocks are stated at their nominal value plus deferred interest.

Deferred interest is the difference between interest calculated on the basis of the yield to redemption and the actual interest paid.

**(iii) Index linked debenture stocks**

The loans to RSLs and the debenture stocks are stated at the indexed value of the outstanding loan and stock respectively. The indexation is calculated by reference to the Retail Price Index applying to the period and a base Retail Price Index.

Prior to indexation, the total of each semi-annual repayment of principal and payment of interest is a constant amount over the term of the stock or loan. The total amount due in any interest period is calculated by reference to the Retail Price Index as above.

**d) Interest**

Interest receivable on loans to RSLs and interest payable on debenture stocks and bank loan is accounted for on an accruals basis.

**e) Securitised assets and related income**

Securitised assets are recorded in the accounts at cost. Income arising from the assets is accounted for on an accruals basis.

**f) Fees receivable**

Front-end fees and annual administration fees are taken to income as they fall due.

**g) Fixed assets and depreciation**

Tangible fixed assets are stated at cost less depreciation calculated on a straight line basis to write off the assets evenly over their estimated useful lives.

Fixtures, fittings and equipment: 25% per annum

**h) Deferred Taxation**

Deferred taxation is provided using the liability method on all timing differences to the extent that it is probable that an actual liability will crystallise in the foreseeable future.

**i) Pension Fund**

THFCS participates in the Social Housing Pension Scheme (SHPS). SHPS is a multi-employer, defined benefit scheme.

Due to the nature of the Scheme, the profit and loss account charge for the period under both SSAP24 and FRS17 represents the employer contribution payable.

	<b>Group</b>	Group
	<b>2002</b>	2001
	<b>£000</b>	£000
<b>2. Profit on ordinary activities before taxation is stated after charging:</b>		
Depreciation of tangible fixed assets	<b>14</b>	17
Fees paid to auditors		
for audit	<b>45</b>	38
for other services	<b>10</b>	10
Operating lease rentals - plant and machinery	<b>13</b>	12
- other	<b>38</b>	18
All administrative services for the Group are provided under management agreement with THFCS.		

**3. Staff numbers and cost**

Average number of persons (including Directors) employed during the year (monthly average):

Directors	<b>6</b>	7
Management and administrative	<b>8</b>	8

The aggregate employee costs amounted to:

Directors' fees	<b>£000</b>	£000
Salaries	<b>113</b>	100
Social security costs	<b>486</b>	439
Other benefit costs	<b>53</b>	48
	<b>40</b>	42
	<b>692</b>	629

THFC employed no staff during the year and so had no employee related costs.

**4. Directors' remuneration**

Fees paid to Directors for their services as Directors	<b>113</b>	100
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No costs were borne directly by THFC.

No pension contributions were made by the Group in respect of the Directors.

There are no long term incentive schemes.

<b>Group &amp; THFC 2002 £000</b>	<b>Group &amp; THFC 2001 £000</b>
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**5 . Directors' consultancy services**

The Group procures the services of one of its Directors, M.Boohan, in a financial consultancy capacity. Payments for the service provided are made to a private limited company of which the Director is the sole shareholder. During the year the Group was charged £14,806 (2001: £8,196) in relation to this arrangement. None of this cost was borne directly by THFC.

**6 . Interest rate hedging instruments**

The Group enters into certain hedging transactions as part of its normal treasury activities in order to protect its investment income against a possible drop in interest rates. The current arrangements protect income on reserves until August 2002 and a major proportion of income on interest flows until May 2002.

**7 . Provision for liabilities and charges**

Deferred Taxation

The potential liability for deferred taxation is as follows:

Difference between accounting and taxation treatment of discounts

Less: taxation losses available for future relief

Amount provided

<b>3,063</b>	3,063
<b>(1,336)</b>	<b>(1,429)</b>
<b><u>1,726</u></b>	<b><u>1,634</u></b>

**8 . Taxation**

U.K. Corporation Tax at 30 % (2001 - 30%)

Deferred Taxation

Adjustment in respect of prior years

<b>Group 2002 £000</b>	<b>THFC 2002 £000</b>	<b>Group 2001 £000</b>	<b>THFC 2001 £000</b>
<b>76</b>	-	111	-
<b>92</b>	<b>92</b>	104	104
<b>2</b>	-	-	-
<b><u>170</u></b>	<b><u>92</u></b>	<b><u>215</u></b>	<b><u>104</u></b>

**9 . Tangible Fixed Assets**

	<b>Group 2002 £000</b>
<b>COST</b>	
At beginning of year	137
Additions	9
Disposals	<u>(18)</u>
At end of year	<u><u>128</u></u>
<b>DEPRECIATION</b>	
At beginning of year	104
Charge for the year	14
On disposals	<u>(18)</u>
At end of year	<u><u>100</u></u>
Net book value at 31 March 2002	<u><u>28</u></u>
Net book value at 31 March 2001	<u><u>33</u></u>

None of the above tangible fixed assets was held by THFC.

**10 . Interest payable**

	<b>Group 2002 £000</b>	<b>THFC 2002 £000</b>	<b>Group 2001 £000</b>	<b>THFC 2001 £000</b>
On debenture stocks and bank loans				
Repayable wholly in more than five years				
Interest payable	109,176	66,985	93,893	63,336
Interest deferred	573	573	656	656
Repayable within five years	<u>3,090</u>	<u>251</u>	<u>3,359</u>	<u>3,359</u>
	<u><u>112,839</u></u>	<u><u>67,809</u></u>	<u><u>97,908</u></u>	<u><u>67,351</u></u>



THFC beneficially owns directly or indirectly 100% of the share capital of THFCIL, THFCIL2, THFCFV, SHF, THFCC, HAVIND, HAVH, THFCS, UKRH, UKRT and UKR1 which are incorporated in Great Britain and registered in England & Wales.

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

Each loan is secured by a combination of:

(a) either a floating charge secured on the undertakings of the relevant RSL, or a fixed charge on other assets to provide a minimum of one and a half times cover (except in the case of SHF where the minimum is 1.15 times cover), and

(b) a first fixed charge over cash and investments representing monies lent by the Group pending investment in assets and a first fixed charge over any assets acquired by the relevant registered social landlord with those monies.

and for discounted loans

(c) a sinking fund comprising monies paid by the relevant RSL and held by a trustee (Law Debenture Trustees Limited) towards the payment to THFC of the amount required to redeem the loan.

<b>Group</b>	<b>THFC</b>	Group	THFC
<b>2002</b>	<b>2002</b>	2001	2001
<b>£000</b>	<b>£000</b>	£000	£000

**12 . Debtors**

Accrued interest income	<b>25,159</b>	<b>19,470</b>	25,081	18,892
Other debtors	<b>530</b>	<b>364</b>	455	273
Corporation Tax	<b>21</b>	-	-	-
Amounts due from subsidiary undertaking	-	-	-	4
	<b>25,710</b>	<b>19,834</b>	25,536	19,169

**13 . Creditors - Falling due within one year**

Debenture stocks (Note 14)	<b>5,327</b>	<b>212</b>	3,452	97
Bank Loans (Note 14)	<b>8,605</b>	<b>6,891</b>	17,231	16,085
Corporation tax payable	<b>48</b>	-	11 2	-
Other creditors	<b>2,254</b>	<b>87</b>	2,303	117
Accruals and deferred income	<b>26,882</b>	<b>19,616</b>	26,745	18,966
Amounts due to subsidiary undertakings	-	<b>216</b>	-	299
	<b>43,116</b>	<b>27,022</b>	49,843	35,564

**14 . Creditors - Falling due after more than one year**

	<b>Group</b>	THFC
	<b>2002</b>	2002
	<b>£000</b>	<b>£000</b>
EUROBOND		
At beginning and end of year (Note 15)	<b>36,143</b>	-
DEBENTURE STOCKS		
At beginning of year	<b>943,258</b>	<b>631,479</b>
Issued during the year	<b>259,300</b>	<b>19,800</b>
Repaid during the year	<b>(3,473)</b>	<b>(96)</b>
Discount for the year	<b>3,370</b>	<b>3,370</b>
Deferred interest	<b>581</b>	<b>581</b>
Indexation	<b>2,986</b>	-
Less: falling due within one year (Note 13)	<b>(5,327)</b>	<b>(212)</b>
	<b>1,200,695</b>	<b>654,922</b>

	<b>Group</b>		<b>THFC</b>
	<b>2002</b>		<b>2002</b>
	<b>£000</b>		<b>£000</b>
<b>BANK LOANS</b>			
At beginning of year	422,898		89,793
Loans during the year	79,120		32,110
Repaid during the year	<u>(276,829)</u>		<u>(21,619)</u>
	225,189		100,284
Less: falling due within one year	<u>(8,605)</u>		<u>(6,891)</u>
	<u>216,584</u>		<u>93,393</u>
SUBORDINATED LOANS (Note 15)	<u>723</u>		<u>-</u>
Total falling due after more than one year at 31 March 2002	<u>1,454,145</u>		<u>748,315</u>
Total falling due after more than one year at 31 March 2001	<u>1,382,339</u>		<u>705,090</u>
The above are repayable as follows :	<b>Group</b>	<b>THFC</b>	<b>Group</b>
	<b>2002</b>	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Between one and two years	23,269	16,048	7,870
Between two and five years	69,100	23,325	65,650
In five years or more	<u>1,361,776</u>	<u>708,942</u>	<u>1,308,819</u>
	<u>1,454,145</u>	<u>748,315</u>	<u>705,090</u>

The debenture stocks and bank loans are secured by floating charges over all the assets of THFC, THFCIL, THFCIL2, THFCFV, SHF or THFCC respectively. The Eurobonds are secured by a first ranking fixed security interest over UKR1's beneficial interest in UKRT together with further security over all of UKR1's other assets. The interest and repayment terms of bonds, debenture stocks and bank loans are matched to the income and repayment terms of the related investments.

**15 . Securitisation transaction**

UKR1 owns a pool of rent receivables of six RSLs which it purchased in January 1995. The cost of the rental pool was £36.143 million. To finance the purchase of the rent receivables UKR1 issued £36.143 million of Eurobonds. The RSL's are obliged to repurchase part of the rental stream, starting in 2005 and concluding in 2025.

Each RSL which sold rent receivables has provided UKR1 with a subordinated loan to act as a reserve for its obligations. The total of such loans outstanding at 31 March 2002 was £723,000 (2001: £723,000)

Under the terms of the transaction each RSL undertakes to collect rent from and to manage and maintain the portfolio of rent receivables sold to UKR1. As security for these performance obligations and the repurchase obligations each RSL has given first fixed charges over the underlying properties.

UKRT receives the rental flow and holds it on trust for UKR1 and thereafter the RSLs so that rent is firstly used to meet the interest and administrative expenses of UKR1 with any surplus (after meeting the obligations of UKR1) returned to the RSLs.

THFCS provides all management and administrative services to UKR1 and monitors the performance of the RSLs in meeting their obligations under the terms of the various agreements.

**16 . Called up share capital**

Authorised, allotted, called up and fully paid  
6 (2001 - 7) ordinary shares of £1 each

<b>THFC</b>	THFC
<b>2002</b>	2001
<b>£6</b>	£7

In accordance with the Rules of THFC, one share was cancelled during the year following the retirement of the holder of the share.

**17 . Reserves**

Opening reserves  
Profit for the year  
Closing reserves

<b>Group</b>	<b>THFC</b>	Group	THFC
2002	<b>2002</b>	2001	<b>2001</b>
<b>£000</b>	<b>£000</b>	£000	£000
<b>5,203</b>	<b>3,252</b>	4,673	3,011
<b>403</b>	<b>216</b>	530	241
<b>5,606</b>	<b>3,468</b>	5,203	3,252

Under its rules THFC may not distribute its accumulated reserves either directly or indirectly to its shareholders. The consolidated reserves of the Group shown above include the aggregation of the reserves of THFC's subsidiaries which, in the case include the aggregation of the reserves of THFC's subsidiaries of THFCIL, THFCIL2, THFCFV and SHF (being companies incorporated under the Industrial and Provident Societies Act 1965), are not available for distribution. The aggregated reserves of these subsidiaries at 31 March 2002 were £1,445,000 (2001: £1,386,000).

<b>Group</b>	Group
<b>2002</b>	2001
<b>£000</b>	£000

**18 . Reconciliation of operating profits to net cash inflow from operating activities**

Income before interest and taxation	<b>3,816</b>	4,049
Depreciation charges	<b>14</b>	17
Amortisation of investment	<b>20</b>	16
Increase in debtors	<b>(75)</b>	(58)
(Decrease) Increase in creditors	<b>(49)</b>	30
Net cash inflow from operating activities	<u><b>3,726</b></u>	<u>4,054</u>

**19 . Analysis of changes in net debt**

	At 1.4.01 £000	Cash Flows £000	Other	At 31.3.02 £000
			Non-cash Changes £000	
Cash in hand and at bank	600	62	-	662
Debt due after 1 year	(1,382,339)	(58,118)	(13,688)	(1,454,145)
Debt due within 1 year	(49,843)	(24)	6,751	(43,116)
Short-term Deposits	<u>10,507</u>	<u>309</u>	-	<u>(10,816)</u>
	<u>(1,421,075)</u>	<u>(57,771)</u>	<u>(6,937)</u>	<u>(1,485,783)</u>

**20 . Commitments**

At the end of the year the Group had annual commitments under non- cancellable operating leases as follows:

	<b>Group</b>	Group
	<b>2002</b>	2001
	<b>£000</b>	£000
Operating lease expiring:		
Within 1 year	-	9
In the 2nd to 5th year inclusive	<u>31</u>	<u>11</u>
	<u><b>31</b></u>	<u>20</u>

**21. Disclosures under FRS 13**

**Details and Maturity Profile of Financial Assets**

	<b>Group 2002 £000</b>	<b>Group 2002 £000</b>
Loans to RSLs		1,431,209
Securitised Assets		<u>36,143</u>
		<u>1,467,352</u>
Due within one year		13,932
Due between one and two years		23,269
Due between two and five years		69,100
Due in over five years		<u>1,361,051</u>
		<u>1,467,352</u>

**Interest rate risk profile of financial assets and financial liabilities**

	<b>Financial Liabilities</b>	<b>Financial Assets</b>
Fixed Rate	1,380,203	1,380,202
Floating Rate	87,150	87,150
No interest payable	<u>723</u>	<u>-</u>
	<u>1,468,076</u>	<u>1,467,352</u>

The effective interest rates during the year were between 4.27 % and 12.04 %. The weighted average interest rate on both fixed financial liabilities and fixed financial assets is 7.9%. The weighted average period for which interest rates are fixed is 18.8 years.

The interest rates on those group borrowings which are at floating rates are determined by the prevailing Sterling LIBOR (London Interbank Offered Rate) for the relevant maturity at the time of determination plus an agreed margin.

The fair value of the net of financial assets and liabilities is nil.

<b>Group</b>	<b>Group</b>
<b>2002</b>	<b>2002</b>
<b>£000</b>	<b>£000</b>

All assets and liabilities are denominated in £ sterling.

The financial liability of £723,000 represents the subordinated loan disclosed within Note 15. The liability is matched by an equivalent level of short term deposit with the interest thereon being returned to the RSLs.

Undrawn committed borrowing facilities are as follows:

Within one year	<b>500</b>	29,750
Between one and two years	-	2,000
Over two years	<b>272,650</b>	192,910
	<b>273,150</b>	224,660

Facilities will be drawn only when corresponding drawdowns are requested by the RSLs.

## 21. Disclosures under FRS 17: Accounting for pensions

THFCS participates in the Social Housing Pension Scheme (SHPS). SHPS is a multi-employer, defined benefit scheme. The Scheme is funded and contracted out of the state scheme.

The last formal valuation of the scheme was performed at 30 September 1999 by a professionally qualified actuary using the "projected unit credit" method. The market value of the Scheme's assets at the last valuation date was £595 million.

THFCS paid contributions at the rate of 10.6% during the accounting period. Member contributions vary between 1.6% and 5.0% depending on their age at the date of joining the Scheme.

It is not possible to identify the share of underlying assets and liabilities belonging to individual participating employers.

Due to the nature of the Scheme, the profit and loss account charge for the period under both SSAP24 and FRS17 represents the employer contribution payable; the costs for the year were £35,663 (2001: £38,596).

Financial assumptions

The financial assumptions underlying the 1999 valuation were as follows:

**% pa**

Rate of return on future contributions

**6.6**

Rate of return on accumulated assets

**5.4**

Rate of salary increases

**4.5**

Rate of pension increases

**2.5**

Rate of price inflation

**2.5**

The accumulated assets of the Scheme were assumed to earn the same return as if they had been invested in a portfolio comprising 100% UK equities for non-pensioner liabilities and 50% UK equities/50% index-linked gilts for pensioner liabilities.

The valuation revealed a shortfall of assets compared with the value of liabilities of some £19 million (equivalent to a past service funding level of 97%). The employer's ongoing future service contribution rate, after allowing for changes in benefits, was, in 1999, 9.3% of pensionable salaries.

In view of the past service shortfall most employers (including THFCS) were required to contribute at the standard rate of 10.6% of pensionable salaries in order to bring the value of assets and liabilities into balance. Other employers that participate in the scheme on a non-contributory basis pay a joint contribution rate (i.e. a combined employer and employee rate) of 15.0%. Employers that have closed the Scheme to new members are required to contribute at the rate of 12.6% to reflect the higher costs of a closed arrangement. A small number of employers are required to contribute at a different rate to the standard 10.6% to reflect the amortisation of a surplus of deficit on the transfer of assets and past service liabilities from another pension scheme into the SHPS Scheme.

The next valuation will be as at 30 September 2002 and the results will be available after June 2003.