

THFC

Creating loans for
affordable homes

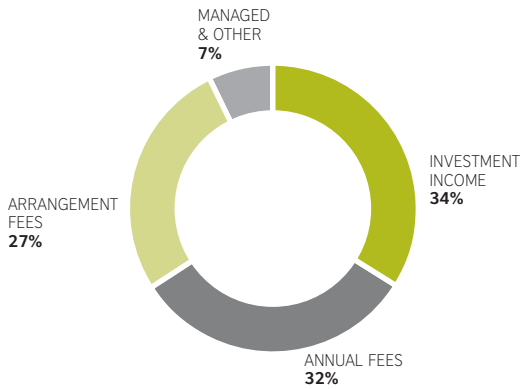


THFC is an independent, specialist, not-for-profit organisation that makes loans to over 120 Registered Social Landlords, which are organisations, such as Housing Associations, that provide affordable housing to tenants throughout the United Kingdom.

THFC funds itself through the issue of bonds to institutional investors and by borrowing from banks. It therefore acts as an aggregating financial intermediary, so diversifying risk for those who make funds available to THFC and reducing the cost and standardising the loan terms for those RSLs that borrow from THFC.

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Financial and Operating Highlights



INCOME EXCLUDING
LOAN INTEREST

£1,607m

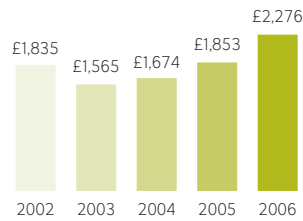
SIZE OF THE THFC GROUP LOAN BOOK



£100 MILLION NEW FACILITY
SECURED FROM EIB



19 YEARS' 100% CUSTOMER
REPAYMENT RECORD

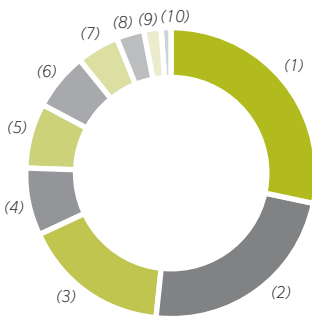


TOTAL REVENUE
(ALL FIGURES ARE IN THOUSANDS)

£629k

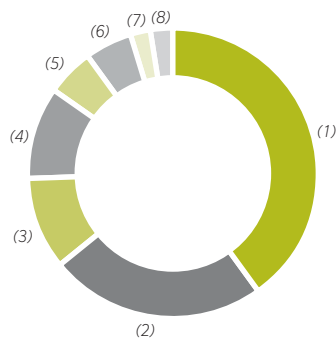
PRE-TAX SURPLUS

Group at a Glance



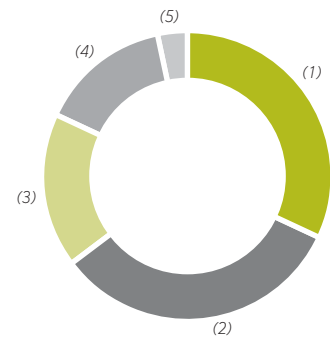
GEOGRAPHICAL DISTRIBUTION

	£000
(1) NORTH EAST	447,673
(2) LONDON	367,459
(3) MIDLANDS	258,883
(4) SOUTH EAST	121,430
(5) NORTH WEST	114,064
(6) NATIONAL	99,204
(7) SOUTH WEST	76,890
(8) EAST ANGLIA	49,647
(9) WALES	34,265
(10) SCOTLAND	7,494
	1,577,009
PREMIUM/DISCOUNT	29,961
TOTAL	1,606,970



INSTRUMENT STRUCTURE

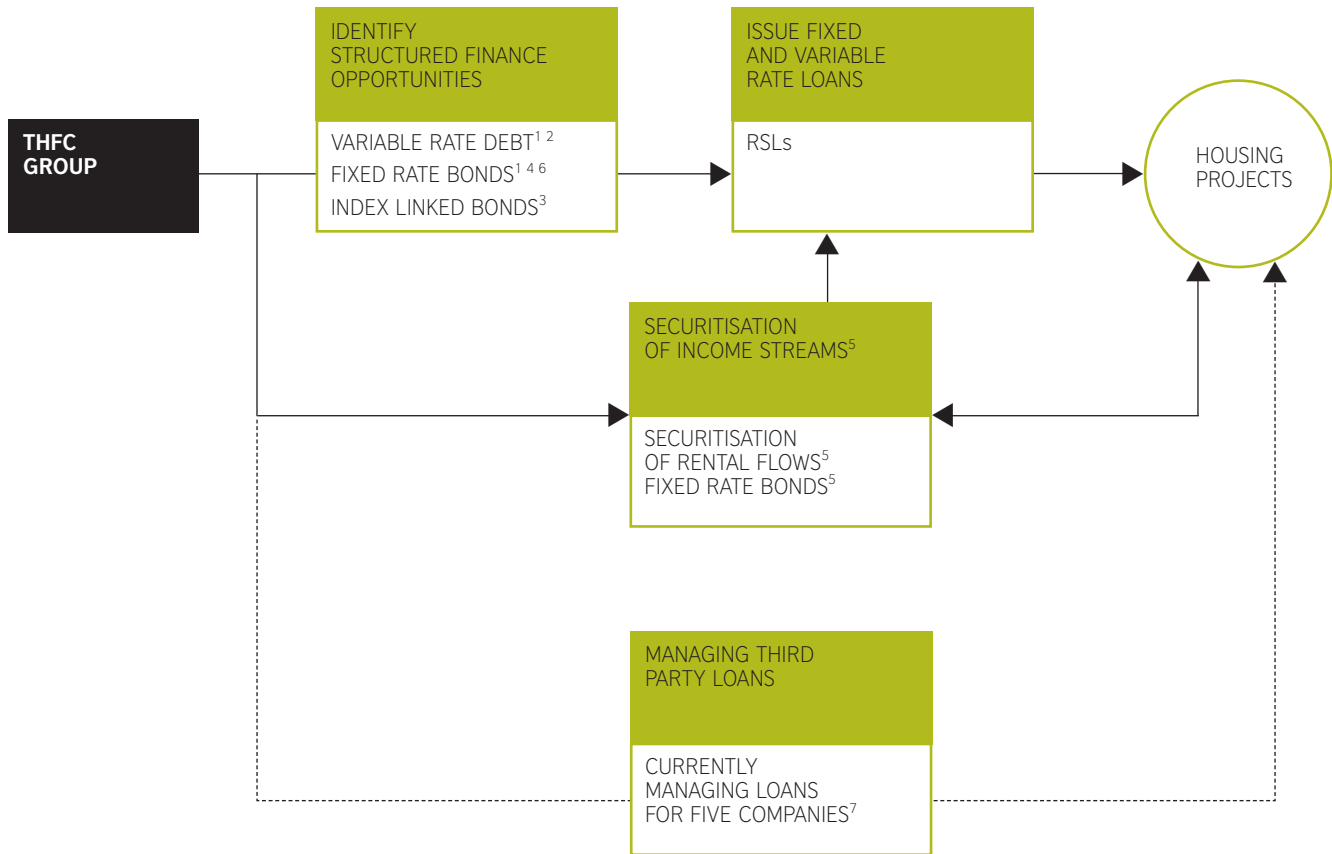
	£000
(1) FIXED RATE (BULLET)	635,379
(2) T.H.F.C. (CAPITAL) PLC	377,500
(3) INDEX LINKED	164,868
(4) FIXED RATE (ANNUITY)	160,724
(5) DISCOUNTED	84,039
(6) VARIABLE	81,156
(7) STEPPED COUPON	37,617
(8) RENTAL SECURITISATION	35,726
	1,577,009
PREMIUM/DISCOUNT	29,961
TOTAL	1,606,970



OUTSTANDING LOAN TERMS

	£000
(1) 21-25 YEARS	506,306
(2) 16-20 YEARS	518,048
(3) 11-15 YEARS	270,593
(4) 6-10 YEARS	230,318
(5) 0-5 YEARS	51,744
	1,577,009
PREMIUM/DISCOUNT	29,961
TOTAL	1,606,970

What we do



- NOTES
- 1 THE HOUSING FINANCE CORPORATION LIMITED
 - 2 T.H.F.C. (FIRST VARIABLE) LIMITED
 - 3 T.H.F.C. (INDEXED)/(INDEXED 2) LIMITED
 - 4 T.H.F.C. (SOCIAL HOUSING FINANCE) LIMITED
 - 5 UK RENTS (NO.1) PLC
 - 6 T.H.F.C. (CAPITAL) PLC
 - 7 HAVEN FUNDING PLC
HAVEN FUNDING (32) PLC
HARBOUR FUNDING PLC
SUNDERLAND (SHG) FINANCE PLC
T.H.F.C. (FUNDING NO.1) PLC

Chairman's Report

£1,607m

THE THFC GROUP LOAN BOOK STANDS AT £1,607M WITH A FURTHER £735M OF RELATED AND THIRD PARTY LOANS



DAVID CREED CHAIRMAN

We achieved a strong financial performance against a background of concerted price competition

The year to 31 March 2006 was characterised by a consolidation of our existing business, with a small net increase in our loan book. We undertook a substantial amount of preparatory work to allow THFC to sell a wider range of financial products to housing associations in the future. We achieved a strong financial performance, against a background of concerted price competition from banks and building societies which are already anticipating the adoption of new capital adequacy rules (Basel II). Against this, it is pleasing to note that THFC generated the largest annual addition to our reserves since 2000/01, helped by fee income from several prepayment transactions implemented by THFC at the request of specific borrowers.

THFC remains committed to its core task of providing funding to regulated Housing Associations (HAs) – known as Registered Social Landlords (RSLs). To do this we have to remain relevant to borrowers that are changing rapidly and consolidating in number. We have three primary goals. We intend to create flexible and cost effective refinancing opportunities for those borrowers with historic, high interest debt; offer a price-competitive long term bond structure which is complementary to existing bank/building society financing, and provide high levels of customer service. In the current year we also intend to introduce a rated, cost-effective short-term uncommitted financing facility for those RSLs with active development programmes to assist them in funding their growing working capital needs.

Our low risk profile was re-affirmed in January by Standard & Poor's in the maintenance of its AA- long term rating on T.H.F.C. (Funding No. 1) PLC's bonds and the A+ general obligations rating of the THFC Group.

In June 2006 a THFC bondholders' meeting approved certain changes to our Trust Deeds, as a result of which THFC may now lend to a non-RSL finance company provided it is part of an RSL group and it lends the proceeds of our loan to an RSL member of its group. Other approved changes were made to the Trust Deeds which will improve certain details of the terms under which THFC manages its loans to borrowers, but without reducing protections for our lenders and bondholders.

We were also successful in the year in obtaining a further £100m facility from the European Investment Bank (EIB) for on-lending to HAs. THFC first introduced EIB funding to HAs in 1998 and since then has on-lent in excess of £180m. It is planned that the current round of funding for regeneration purposes is made available to around 10-12 RSLs of varying sizes for them to develop schemes throughout the UK. Because of THFC's not-for-profit status, the on-lending will be on terms more attractive than is usually available through mainstream banks, and THFC will act as the conduit for EIB's initial and subsequent due diligence. The financial terms are thought to be some of the most favourable yet secured from the EIB and take into account THFC's credit rating and unique market position.

In response to approaches from our borrowers, during the year we negotiated the prepayment of some of our loans to them and made an associated redemption of £53.8 million of our debenture stocks (2005: £36.8 million), thereby improving the financial profiles of several of our borrowers. We intend to continue facilitating prepayments of our borrowers' outstanding loans whenever institutional investors are prepared to exchange or sell the existing debenture

128

AT THE YEAR-END THE GROUP WAS THE PROVIDER OF FUNDS TO 128 BORROWERS

stocks which funded the loans, and where there is a proven benefit for our borrowers. At the same time we will ensure that such activity does not disadvantage THFC. In any prepayment our primary objective is to provide the competitively priced finance needed for these redemptions.

A total of £88.2 million (2005: £117.2 million) of new money sourced from bank debt was either advanced or made available to RSLs by members of the THFC Group during the year. These loans, our prepayment programme and other changes to our existing loans gave an increase in our loan book of £16.0 million (2005: £52.6 million), before adjustment for indexation and amortisation of premiums and discounts.

As a result the THFC Group loan book stands at £1,607 million (2005: £1,585 million), with a further £735 million (2005: £714 million) of related and third party loans that our service company, T.H.F.C. (Services) Limited (THFCS) manages; a total increase of £43 million from last year. The companies that THFCS manages that are not Group companies are termed "managed companies". Details of borrowings by the THFC Group to fund its loan book are shown on page 21.

We continued with our marketing, frequently creating bespoke solutions for potential borrowers and investors, and reinforcing the ideas we suggest with presentations at sector conferences and in our own THFC-led seminars. THFC is now recognised as the only capital markets specialist in the sector focused purely on RSLs. With the benefit of our public rating THFC is turning progressively to the development of new products which complement existing mainstream lenders' offerings.

THFC has always made an active contribution to government policy on investment in social and affordable housing and this trend continued in the year. It is a member of the Council of Mortgage Lenders Social Housing Panel and is playing an increasing role in a number of technical government studies. During the year we provided advice to the National Audit Office on funding models for equity loans and took part in the Housing Corporation's forum on funding innovation. Two non-executive directors serve on the "Housing and Regeneration Review Sounding Board". We have recently been asked to contribute to the forthcoming Treasury study on affordable shared ownership.

At the year-end the Group was the provider of funds to 128 borrowers (2005: 133), a number of which are in the same group. As foreshadowed last year we expected the number of THFC borrowers to decline as RSLs consolidate to create more efficient groups. The Housing Corporation currently lists only 74 RSLs as Development Partners and, as we expected, the largest single Development Partner borrowing portfolio has now risen to over £1 billion. We continue to view this scale of requirement, coupled with the current bank lender concentration, as a prime opportunity for the application of our bond issuance expertise.

As well as serving the largest borrowers, THFC continues to fulfil its historic role of being the not-for-profit provider of funding to a full cross-section of RSLs. These include community-based associations that continue to play a vital role in delivering the cohesive neighbourhood management advocated by the National Housing Federation's 'IN Business for Neighbourhoods' sector initiative. A full list of borrowers can be seen on pages 18 to 20.

Work continued during the year on improving the quality of our systems and controls. We reviewed and updated our programme of procedures documentation and, in the past month, we implemented our new treasury management system. Our outsourced IT systems support is working well and it has allowed us to revise and improve our disaster recovery capability.

The completion of the major changes we have been implementing over the last few years in our operating procedures led to a rise in our operating overheads compared with last year of 11% (2005: (0.3%)). Nevertheless our expenses were held to 0.072% (2005: 0.066%) of the £2.3 billion of outstanding loans at the year-end that we own or manage.

The table on page 44 gives a 5 year comparative history of the THFC Group and shows that our loan book has increased by 12.3% while total costs have increased by 30% and our total revenues by 24% over the period.

The timely and efficient management of our existing loans portfolio continues to be a less high profile, but nevertheless essential, part of THFC's core service to borrowers. In the current low interest rate environment several more borrowers of the proceeds of THFC's early 1990s' high coupon debenture stocks sought ways of prepaying their debt without incurring the onerous penalty arising from the combination of historic high fixed interest rates entered into, and the particular 'Spens' prepayment formula customarily incorporated into these early bonds. This formula calculates the size of the prepayment that when invested in gilts will give an identical yield to that lost from the prepayment. Working with the prepaying borrowers, our bond trustee

Chairman's Report

continued

£6.5m

THFC GROUP RESERVES HAVE RISEN
FROM £6.0M TO £6.5M

and our legal advisers, we refined the bond repurchase route used in previous years so as to make the process less onerous. As a result purchases and cancellations of bonds from six of our outstanding bond issues were made to a total value of £53.8 million and our borrowers prepaid their loans. We will explore the potential application of the skill-set we have assembled to third party portfolios where refinancing would benefit their borrowers.

Our service company, THFCS, provides administration services to all THFC Group companies and to certain third party lenders to the social housing sector. It is part of our business strategy to develop these services to capitalise on the economies of scale possible in bond and loan management. We also recognise the importance to customers of the consistent provision of a high quality administrative service over the long expected life of housing association bonds. THFCS' total managed companies' portfolio is £1,041 million (2005: £1,020 million). However £306 million of this amount is borrowed by managed companies and lent to RSLs via THFC or one of its subsidiaries and is therefore on the Group balance sheet. This makes THFCS the largest provider of third party administration services to the sector. Our website information includes data on our managed companies which allows borrowers and investors to check an up-to-date position on the status of their loans. Our income from our managed companies' contracts was £102,000 (2005: £90,000).

Primarily as a result of the compensation we received for the loss of future management fees from those loans that were prepaid in the year, the Group achieved an improved pre-tax surplus of £629,000 (2005: £376,000).

Our objective remains that of generating a sufficient surplus each year to achieve a steady progression in THFC's financial reserves. As a consequence of a sound year the Group's reserves have risen from £6.0 million to £6.5 million. This continuing trend, combined with historically conservative over-collateralisation of our loan assets, allows THFC to position itself to meet the potentially significant requirements of the largest RSLs as they look to diversify their funding into the capital markets.

During the year Shaukat Moledina was the Housing Corporation's nominee to the board. In April 2006 the Corporation replaced him as its board nominee with Gill Rowley who is the Corporation's Head of Private Finance. Our thanks go to Mr Moledina for his help over the last year and we welcome Mrs Rowley to our board with her wide, practical knowledge of the sector and its financing.

At the end of the year the board also decided to make the post of THFC's Group treasurer an executive director role. As a consequence we have welcomed Fenella Edge to the board. She already has over three years specific experience of THFC's operations and is also able to draw on her considerable past experience in marketing, risk control and the governance of large, complex financial institutions.

My thanks go to members of the board and the executive team for their hard work during a busy year which saw us produce the largest pre-tax surplus since 2001. The appetite for new funding within the social housing sector remains strong, and with our growing product range THFC is well placed to continue its development as the only not-for-profit finance provider to the sector.



DAVID CREED
CHAIRMAN
26 JUNE 2006

Group Report

THFC and its subsidiaries carry out the core function of raising private sector loan finance for RSLs to further their work in developing or refurbishing affordable and social housing



SOME OF THE ORIGINAL EIB MONEY SOURCED BY THFC FROM 1997 ONWARDS FINANCED THE DEVELOPMENT OF THE PENWITH HA HOUSING SCHEMES SHOWN ON THE FOLLOWING PAGES

Group Structure

Since the incorporation of The Housing Finance Corporation Limited (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 and all its subsidiaries operate on a non-profit-distributing basis. They carry out the core function of raising private sector loan finance for Registered Social Landlords (RSLs) to further their work in developing or refurbishing affordable and social housing. A further Group member, T.H.F.C. (Services) Limited (THFCS), provides management services to the rest of the Group and to related and third party companies. The structure of the Group is set out in the diagram on the inside back cover.

The Board

The Group undertakings are each controlled by boards consisting of the Group's chief executive, Piers Williamson and Fenella Edge (the Group's treasurer who was appointed to the board in April 2006), and six non-executive directors (short biographies of the current eight directors can be found on pages 16 and 17). T.H.F.C. (Capital) PLC has an additional director, John Shinton of RBC Capital Markets.

The Housing Corporation, the national government agency which acts as the regulator of RSLs and is currently the principal distributor of social housing grant, has the right to nominate a director to the board. In April 2006 the Corporation nominated its Head of Private Finance, Gill Rowley, to replace its deputy chairman, Shaukat Moledina, on the board. The National Housing Federation has a similar right and nominates its chief executive. Other directors are selected for their expertise in the fields of finance, commerce and housing.

The Executive Staff

The THFC management team is led by Piers Williamson, an experienced treasurer and banker, who joined the Group in 2002. The team includes other executives with a broad range of banking, accounting and treasury qualifications. Fenella Edge joined THFC to undertake the new position of Group treasurer in 2002. She has an extensive background in treasury risk management and, within THFC, has responsibility for lending and treasury management operations, including the negotiation of institutional and customer funding agreements. She is supported by Colleen Green who joined in August 2003 from the Housing Corporation and Nigel Perryman who had experience as a senior finance professional in a number of housing associations prior to joining THFC in October 2004.

Fenella Edge's team is responsible for relationships with housing association customers. Its success in managing the loans pre-payment programme and in developing new products that appeal to RSL customers has been a key driver of the increase in the net surplus during the year.

Colin Burke, a chartered accountant, was recruited to the position of company secretary and finance manager in 2002. He has a background in reporting and financial control, gained in the media industry.

Group Financing Principles

THFC and its issuing subsidiaries, T.H.F.C. (Indexed) Limited, T.H.F.C. (Indexed 2) Limited, T.H.F.C. (First Variable) Limited and T.H.F.C. (Social Housing Finance) Limited have between them issued financial instruments including zero-coupon, deep-discounted, index-linked

Group Report

continued



PENMERE CLOSE, PENWITH HOUSING ASSOCIATION, WAS BUILT ON THE SITE OF A FORMER SCHOOL KNOWN AS HUMPHRY DAVY

and conventional public debenture stocks, stepped and par-coupon private placements, credit-enhanced eurobonds 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 for on-lending to RSLs/RSL groups. Funds raised are on-lent immediately or within a negotiated availability period
- Funds are on-lent on a substantially identical maturity, interest and repayment profile thus ensuring that no material mis-match 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 relevant individual Group member's governing Trust Deed
- The Group makes its own independent credit assessment of its borrowers, including credit-scoring, and accepts or refuses applications for funding after a careful review by a credit committee.

Security Offered to Investors

The security which THFC and its issuing subsidiaries offer to their respective investors is illustrated on pages 18 to 20. Upstream lenders to each THFC organisation benefit from a floating charge over its assets, which are primarily its secured loans to RSLs and 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 well-diversified portfolio of instruments and borrowers.

Property Security

Whilst one of the benefits of THFC's standard loan terms is to offer RSLs 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 three borrowers have switched from floating to fixed charge security. THFC operates a panel of approved valuers to be 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 nineteen-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. New or increased credit exposures are reviewed and approved or rejected by THFC's credit committee, which is an executive committee comprising senior executives of THFC and one nominated non-executive board member.

100%+

THFC REMAINS ONE OF THE FEW LENDERS IN THE SECTOR TO HAVE AN ASSET SPECIFIC NET INCOME COVER OF AT LEAST 100% AS A CORE COVENANT FOR ALL ITS LOANS

THFC's bespoke credit-grading model was reviewed and improved during the year. It ranks all current and prospective borrowers against a number of parameters. This model enables internal ratings to be derived for each borrower and a default probability to be estimated. The assumption of a loss given default ratio allows the likely maximum loss to be assessed. This exercise is an integral part of the credit assessment process and a necessary component in the maintenance of THFC's external credit rating. Credit grading, together with regular reviews of credit information and customer visits, provides the basis for credit monitoring and reports to the credit committee and the board on the health of the portfolio.

The financial health of RSLs continues to be under pressure from a number of factors. The strong underlying demand for social housing continues to put pressure on the government to increase the production of new social housing and improve older stock. Government has responded with a review of the way in which social housing and community regeneration is provided, and a report is expected to be made public in the summer of 2006. Meanwhile the Housing Corporation is channelling grant funding only to RSLs that are improving their efficiencies and that act as Development Partners which consolidate their new build programmes with those of other RSLs. At the same time the corporation is increasingly delaying payment and lessening the amount of grant per unit output, causing pressures on RSL cash flow generation. This most commonly impacts the debt service capability forecast in RSL business plans and underlines the need for THFC to maintain a strong internal credit function to complement the regulatory function of the Housing Corporation. Additionally THFC remains one of the few lenders in the sector to have an



ST. PIRANS COURT, PENWITH HOUSING ASSOCIATION, WAS BUILT ON THE SITE OF A FORMER LAUNDRY

asset specific net income cover of at least 100% as a core covenant for all its loans.

The following entities are structured differently from the issuing subsidiaries.

UK Rents (No. 1) PLC ('UK Rents')

UK Rents is a special purpose vehicle established in 1994 solely for the purpose of issuing bonds, with a 'AAA' rating achieved through a rental securitisation, and making the funds raised available to housing associations as direct loans.

T.H.F.C. (Capital) PLC ('THFC Capital')

THFC Capital was established in 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 bond investors.

T.H.F.C. (Funding No.1) PLC ('Funding No.1')

Funding No.1 is a non-consolidated "orphan" company. The entire issued share capital of its holding company, T.H.F.C. Funding (Holdings) Limited, is held by THFCS under a declaration of trust. It was incorporated in November 2004 to act as the issuing company for secured bonds carrying a AA- rating from Standard & Poor's rating agency. Funding No.1's rating is linked to the general obligations rating of THFC and is achieved partly through the addition of a bespoke liquidity facility. Should this facility no longer be available to draw, or the rating of the liquidity provider (ABN Amro Bank) be downgraded then, and to the extent an alternative liquidity facility is not substituted, Funding No.1's bonds could be downgraded. Funding No.1's liquidity facility was renewed in the year and its AA- long term rating was re-confirmed.

All the funds raised are lent to THFC at cost for on-lending by it to RSLs. Like all other lenders to THFC, Funding No.1 has a *pari passu* floating charge over THFC's assets.

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.

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 £6.5 million (2005: £6.0 million).

Taxation

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

Administration Services

Since 1999 THFCS has provided loans administration and company secretariat services to Haven Funding PLC and Haven Funding (32) PLC which as at 31 March 2006 had, in total, issued £429.9 million (nominal) in loans to 21 registered social landlords arranged by RBC Capital Markets.

Since 2001 THFCS has provided loans administration and company secretariat services to Sunderland (SHG) Finance PLC which as at 31 March 2006 had £239.5 million in loans to Sunderland Housing Group via an on balance sheet funding conduit company, T.H.F.C. (Capital) PLC.

In August 2003 THFCS was appointed loans administrator and company secretary to Harbour Funding PLC, a special purpose vehicle that issued bonds into the UK market and lent the proceeds of £276.3 million (nominal) to four large scale voluntary transfer RSLs.

In December 2004 THFCS was appointed loans administrator and company secretary to Funding No.1.

THFCS also provides administrative services to all THFC Group companies.

Directors' Report

The new
£100m EIB
facility will be
on-lent at
some of the
finest credit
spreads ever
obtained by
HAs in the UK

Principal Activities

The Housing Finance Corporation Limited (THFC) was incorporated in Great Britain in 1987, with limited liability under the Industrial and Provident Societies Acts 1965 to 2002. 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. The report and accounts for all companies within the THFC Group (the Group) are available separately on request from T.H.F.C. (Services) Limited, 4th Floor, 107 Cannon Street, London EC4N 5AF.

Results

The consolidated operating surplus before taxation for the year ended 31 March 2006 was £629,000 (2005: £376,000).

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. On a winding up of THFC the reserves must be passed back to borrowers from THFC in a manner and with an allocation to be determined by the board of THFC, or be paid out to any other society or charitable body with objects similar to the objects of THFC.

The reserves are held as cash deposits. Our investment strategy remains broadly unchanged from prior accounting periods.

In the year THFC made no charitable or political donations.

Review of Business

A review of business is included in the Chairman's Report and in the Group Report on pages 4 to 9.

Directors and Shareholders

Details of directors, their service periods for the year and the shareholders of THFC are set out in the adjacent table. The biographies of the current directors appear on pages 16 and 17.

One third of the independent directors (that is directors not nominated by either the Housing Corporation or the National Housing Federation) 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, Piers Williamson and Michael Boohan are offering themselves for re-election. As directors appointed to the board since the last Annual General Meeting Fenella Edge and Gill Rowley are required to resign and offer themselves for election at the forthcoming Meeting.

Chief Executive and Company Secretary

Piers Williamson and Colin Burke, chief executive and company secretary respectively, held those positions throughout the year. The chief executive has defined powers of authority and responsibility which are delegated to him and which were reviewed by the board of THFC during the year, and the company secretary is responsible for ensuring board procedures are followed.

Directors' Remuneration

The directors' remuneration is established by the board in the light of periodic advice from financial advisers. None of the current directors receives pension benefits, bonuses or benefits-in-kind with

Director	Period Served	THFC Shareholdings 31 March 2006
Pam Alexander	Full Year	£1
Michael Boohan	Full Year	£1
Jim Coulter	1 April 2005 to 20 June 2005	NIL
David Creed	Full Year	£1
Shaukat Moledina	Full Year	NIL
David Orr	Since 20 June 2005	NIL
Sadru Visram	Full Year	£1
Piers Williamson	Full Year	NIL
Other Shareholders		
Housing Corporation		£1
National Housing Federation		£1
Total Shareholdings		
31 March 2006		£6

THFC's rules prescribe that all shareholdings are non-beneficial.

Gill Rowley replaced Shaukat Moledina on 25 April 2006 and Fenella Edge was appointed a director on 24 April 2006.

the exception of the chief executive and group treasurer who are paid a salary, pension benefits and certain other employee benefits in accordance with guidelines determined by the board. The remunerations of David Orr and Shaukat Moledina were remitted to their employers. The fees of the non-executive directors were increased by 2.4% on 1 April 2006. With effect from 1 April 2006 the Housing Corporation has waived its right to receive the fee payable in respect of its nominee director.

Board

The directors of THFC (all of whom are non-executive with the exception of Piers Williamson, chief executive, and Fenella Edge, group treasurer) comprise the boards of THFC and its subsidiaries, with the exception of T.H.F.C. (Capital) PLC which has an additional director, John Shinton of RBC Capital Markets. Gill Rowley (who

replaced Shaukat Moledina on 25 April 2006) is nominated by the Housing Corporation and David Orr 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 six 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 Committee

Considers potential nominees to the board, both executive and non-executive. It comprises Michael Boohan (chairman), David Creed and

David Orr and meets as required to consider new board appointments. Its major task during 2006 will be to identify a short-list of candidates for interview by the board with the aim of selecting a candidate to join the board as chairman designate to replace the retiring chairman in June 2007.

Audit Committee

Reviews internal controls, financial reporting, annual financial statements, the performance and recommendations of external auditors and compliance with laws and regulations. It considers financial and operational risks as a precursor to these matters being reviewed by the full board at its scheduled meetings. Members comprise Sadru Visram (chairman), Michael Boohan and Gill Rowley. Piers Williamson and senior members of staff attend when required.

Directors' Report

continued

Credit Committee

The credit committee is primarily an executive committee of the Group but has a non-executive director, David Orr (with Sadru Visram as alternate), as a member. The credit committee reviews and approves all funding applications as well as reviewing periodic reports on the credit status of existing borrowers.

There are no other permanent committees of the board and all matters reviewed in committee are reserved for decisions to be considered by the board at one of its scheduled meetings. Matters of board governance are considered only by the board. Directors are entitled to take independent professional advice.

Principles of Tenure for Non-executive Board Members

Non-executive board members of THFC and its subsidiaries are appointed under the following conditions which were established in 2002:

- Individuals who had not served on the board prior to 2002 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. (However it has been agreed by those organisations that the normal practice will be for nominated members to follow the nine-year limit that applies to the other non-executive directors).
- 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 board 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 a wholly owned subsidiary of THFC with the same board membership. THFCS employs the Group's executive and administrative staff for this purpose and carries out its functions under management agreements with each of the other organisations. THFCS also provides administrative and secretariat services to third parties.

Pension Scheme

Staff members, but not non-executive directors, are eligible to, or do, participate in the Social Housing Pension Scheme (SHPS). This scheme, with assets under management of £1.3bn and a deficit of £283m (at preliminary valuation as of 30 September 2005), is by far the largest pension provider in the Housing Association sector and is currently operated on a final salary basis. Recognising the current trend to accelerate the elimination of funding deficits, the trustees of SHPS have put three alternative scheme structures out to consultation with

employers and members (including continuing the current scheme with increased employer and member contributions). It is expected that a decision will be made by each participant employer as to which alternatives to follow by September 2006, with the revised schemes coming into force from April 2007. As a participant in an indivisible multi-employer scheme, it is currently impossible for THFCS to identify its share of the current scheme deficit. Under IAS, which the Group has adopted with effect from 1 April 2005, no element of the scheme deficit is accounted for in the Group balance sheet. However, with THFCS's relatively small team, the directors of THFCS do not consider the obligation to be material. THFC has no present intention of leaving the SHPS Scheme.

Combined Code

The Group is not required to comply with the Combined Code issued by the FRC. Nevertheless it does follow the Code's best practice guidelines where these are relevant for a small not-for-profit entity operating as an Industrial and Provident Society.

Internal Control

The board is responsible for the Group's system of internal control and for the regular review of its effectiveness. It should be recognised that the internal control system has been designed to manage rather than eliminate the specific business risks faced by the Group and can only provide reasonable and not absolute assurance against material misstatement or loss.

The board discharges its responsibilities for internal control through the following key procedures:

- the establishment of an organisational structure with clearly defined levels of authority and division of responsibility;
- a comprehensive system of reporting, budgeting and planning against which performance is monitored;
- the formulation of policies and of approval procedures in key areas such as loan administration and treasury operations.

Key business risks, and their likelihood and potential impact, have been considered by the board during the year and appropriate controls and mitigating action implemented. All loans to borrowers are substantially matched in terms of their maturity, interest and repayment profile to the equivalent bond issue or bank loan. Therefore primary operating risks relate to the initial credit assessment, 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. THFC periodically enters into interest rate swaps to protect income arising on its reserves. Quarterly reports on these risks are made to the board.

The board has decided that the establishment of a staffed internal audit function would not be appropriate for an organisation with a total staff complement of nine. The internal audit function is undertaken by Michael Boohan, a non-executive director, who reviews adherence to financial controls and the collation of management accounts on a quarterly basis.

The directors considered periodic reports on the effectiveness of internal controls during the period to 26 June 2006 and no significant weaknesses have been identified which resulted in significant risk of material loss, actual material loss or require disclosure.

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 and the Group have 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 Acts 1965 to 2002 require 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 surplus or deficit 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 the financial statements comply with International Financial Reporting Standards as adopted by the European Union;
- 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.

In the case of each director:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- he/she has taken all the steps that he/she ought to have taken as a director in order to make him/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

The Group's financial statements are published on THFC's website (www.thfc.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 Acts 1965 to 2002 and with the Companies Act 1985. They are also responsible for safeguarding the assets of THFC and the Group and hence for taking reasonable steps for the prevention of fraud and other irregularities.

Creditor Payment Policy

The Group's principal creditors are the holders of the debenture stocks and secured bonds and providers of bank borrowings. Payments to the holders of these securities are made in

Directors' Report continued

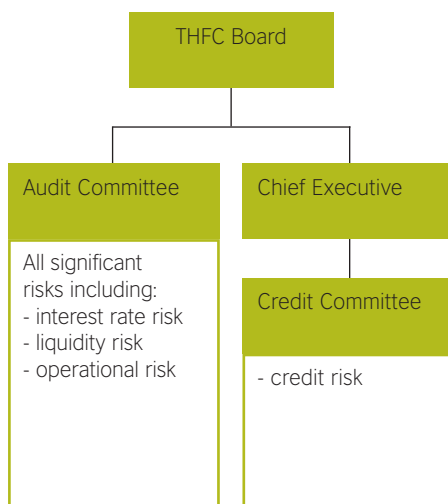
accordance with the underlying issue or loan documents. As at the financial year end, no amounts due for payment to the holders of these securities were outstanding.

All other creditors are paid within 60 days of receipt of invoice.

Financial Risk Management

The board is responsible for approving THFC's strategy and the level of acceptable risks. The board has established an Audit Committee and the chief executive has established a Credit Committee reporting periodically to the board to administer a risk management process which identifies the key risks facing the business and the board reviews reports/minutes submitted by those committees on how those risks are being managed.

Risk management structure



Financial risk factors

THFC's operations and significant debt financing expose it to a variety of potential financial risks including interest rate risk, credit risk and liquidity risk. The preceding chart indicates where these specific risks are reviewed within THFC's governance structure.

(a) Interest rate risk

THFC and its issuing subsidiaries issue debt 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 mismatch 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. Additionally the policy and periodic strategy for the hedging of THFC's reserves is also approved by the board.

(b) Credit risk

THFC's primary risk is the failure of one of its customers to pay principal or interest in a full and timely manner under a downstream loan. Loans are fully secured and covenanted in accordance with the terms of the issuing company's Trust Deed. THFC makes its own independent credit assessment of its borrowers including credit scoring and accepts or refuses applications for funding after careful review by a credit committee. THFC has implemented policies that require periodic credit assessment of each of its borrowers as well as monitoring of the adequacy of underlying collateral. Credit monitoring includes an estimate of the probability of loss and the loss, given default.

(c) Liquidity risk

The Group mitigates liquidity risk in a number of ways. 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. The Group has cash reserves that are held in term deposits designed to provide liquidity in the event of a late payment from a borrower. All of the Group's lending and borrowing maturities are matched. The latest bond issue by the Group, through a special purpose vehicle T.H.F.C. (Funding No.1) PLC, includes a liquidity facility and a two-year maturity mismatch between the expected and legal maturity dates. The Group is able to arrange appropriate overdraft facilities to cover short-term timing differences should they arise.

Deposit counterparties are subject to pre-approval by the board and such approval is limited to financial institutions with an 'A' long term rating or better. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by the board.

(d) Operational risk

This 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 which include formal internal control procedures, training, segregation of duties, delegated authorities and contingency planning.

Adoption of International Financial Reporting Standards

THFC and its subsidiaries have adopted International Financial Reporting Standards (IFRS) in these financial statements. The impact of adopting IFRS is set out in note 23. The main changes are in relation to the carrying values of financial instruments, presentation of the cashflow and disclosure of risk policies.

The previously reported results and net assets under UK GAAP when restated under IFRS are unchanged, except for a fair value charge of £5,160. However, the carrying values of loans, debentures and secured bonds have been changed as explained in note 23.

No IFRS have been adopted prior to their effective date.

Auditors

PricewaterhouseCoopers LLP 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



COLIN BURKE
COMPANY SECRETARY
THE HOUSING FINANCE CORPORATION
LIMITED
26 JUNE 2006

Directors



PAM ALEXANDER



MICHAEL BOOHAN



Dr DAVID CREED CHAIRMAN



FENELLA EDGE

DR DAVID CREED NON-EXECUTIVE CHAIRMAN
David Creed retired in 1998 from the position of Group treasurer at Tate & Lyle PLC where he had responsibility for worldwide treasury, tax and insurance matters. He was chief executive of The Association of Corporate Treasurers until his retirement in April 2002 and was a non-executive director of F&C Emerging Markets Investment Trust PLC until its voluntary liquidation and merger with JPMorgan Emerging Markets Investment Trust in April 2006. He has been a board member since 1992.

PAM ALEXANDER
Pam Alexander is the chief executive of the South East England Development Agency and was the chief executive of English Heritage from 1997 to 2001. Prior to this she was deputy chief executive of the Housing Corporation from 1995 to 1997 after holding several senior posts in the Department of the Environment. Pam is Chair of the Peabody Trust and of the Joseph Rowntree Foundation's Mixed Income Communities programme and is an Associate of the New Economics Foundation. Pam was appointed to the board in 2002.

MICHAEL BOOHAN
Michael Boohan is a Chartered Accountant. He practices as a business consultant and acts as a CEDR (Centre for Effective Dispute Resolution) Accredited Mediator. He is a former partner in Grant Thornton and has been a THFC board member since 1995.

FENELLA EDGE
Fenella Edge joined THFC in 2002 having previously spent 11 years at Abbey National Treasury Services ("ANTS"). Her roles at ANTS included Director of Market Risk, Director of Financial Products and Manager, Capital Markets. Prior to joining ANTS she was at Wood Gundy, Elders Finance Group and Nikko Securities in a variety of capital markets and derivative roles. She was appointed to the board in April 2006.



DAVID ORR



PIERS WILLIAMSON CHIEF EXECUTIVE



GILL ROWLEY



SADRU VISRAM

PIERS WILLIAMSON CHIEF EXECUTIVE

Piers Williamson was appointed chief executive of THFC in October 2002 and joined its board in 2003. Piers has over 20 years' experience of the financial markets having previously worked as treasurer and then as director of corporate finance for HFC Bank. Prior to this he was assistant Group treasurer at the Mortgage Funding Corporation, a centralised residential mortgage lender run by Kleinwort Benson, and prior to that he worked at NatWest International in a variety of roles, including the structured finance group. He holds professional qualifications in both treasury and banking.

With the agreement and support of the board, Piers has served as a non-executive director of the Cooperative Bank, Cooperative Insurance Services Limited, CIS (General Insurance) Limited and their holding company CFS since July 2005.

DAVID ORR

David Orr took up his post as chief executive of the National Housing Federation in July 2005. For the past 15 years David has been chief executive of the Scottish Federation of Housing Associations. David also previously worked in London as Director of Newlon Housing Trust (a housing association in the high stress, high need areas of the East End) and for nine years with young homeless people at Centrepoint, in Soho.

David completed a one-year secondment to the Scottish Executive in October 2001, as Community Ownership Manager. He is presently Vice President of CECODHAS, the European network of housing federations. He joined the board in 2005.

GILL ROWLEY

Gill Rowley joined the Housing Corporation in January 2000 and is their Head of Private Finance. She has over 15 years experience of funding for the housing association sector and previously worked at the United Bank of Kuwait (now Ahli United Bank) and Nationwide Building Society. Gill was appointed to the board in April 2006.

SADRU VISRAM

Sadru Visram was appointed to the board in 2002. He manages a company providing consultancy and training to the RSL sector and until 2000 was Group Finance Director at London & Quadrant Housing Trust. He is Chair of the Governing Body of ASRA, a leading housing association that specialises in meeting the needs of the Asian community and is also a board member and treasurer of Notting Hill Housing Trust.

Group Loans

Loans Portfolio as at 31 March 2006

Association borrower (legal entity)	Area	The Housing Finance Corp Limited Loans £000	T.H.F.C. (Indexed) Limited Loans £000	T.H.F.C. (Indexed 2) Limited Loans £000	T.H.F.C. (First Variable) Limited Loans £000	T.H.F.C. (Social Housing Finance) Limited Loans £000	T.H.F.C. (Capital) PLC Loans £000	UK Rents (No. 1) PLC Loans £000	Total Loan Value £000
FIXED CHARGE SECURITY									
A2 WINCHESTER HA LIMITED	SOUTH WEST	2,500	-	2,417	-	-	-	-	4,917
ACCENT HOMES LIMITED	NATIONAL	-	12,750	-	-	-	-	-	12,750
ACTON HA LIMITED	LONDON	25,542	-	-	-	-	-	-	25,542
ADACTUS HA LIMITED	NORTH WEST	-	-	-	-	2,165	-	-	2,165
AGUDAS ISRAEL HA LIMITED	LONDON	209	-	604	-	-	-	-	813
AXIOM HA LIMITED	EAST ANGLIA	5,359	-	-	-	8,000	-	-	13,359
BETH JOHNSON HA LIMITED	MIDLAND	4,000	-	-	-	-	-	-	4,000
BETHNAL GREEN & VICTORIA PARK HA LIMITED	LONDON	1,250	-	-	-	7,432	-	-	8,682
CAMBRIDGE HS LIMITED	EAST ANGLIA	4,200	-	-	-	-	-	-	4,200
CARDIFF COMMUNITY HA LIMITED	WALES	-	302	-	-	-	-	-	302
CHERWELL HT LIMITED	SOUTH EAST	5,000	-	-	-	-	-	-	5,000
CHEVIOT HA LIMITED	NORTH EAST	-	-	-	-	3,000	-	-	3,000
CLWYD ALYN HA LIMITED	WALES	2,000	2,701	-	-	-	-	-	4,701
COMMUNITY HA LIMITED	LONDON	13,943	-	-	-	-	-	-	13,943
CONNECT HOUSING	NORTH EAST	-	-	-	-	5,000	-	-	5,000
CONTOUR HOMES	NORTH WEST	2,500	-	-	-	9,078	-	-	11,578
COTMAN HA LIMITED	EAST ANGLIA	4,620	-	-	-	-	-	-	4,620
CYMDEITHAS TAI CLWYD	WALES	1,500	-	-	-	-	-	-	1,500
CYMDEITHAS TAI ERYRI LIMITED	WALES	2,500	-	-	-	-	-	-	2,500
DARTINGTON HA LIMITED	SOUTH WEST	650	-	-	-	-	-	-	650
DE MONTFORT HS LIMITED	MIDLAND	5,550	-	-	-	-	-	-	5,550
EALING FAMILY HA LIMITED	LONDON	4,442	1,405	-	-	-	-	-	5,847
EAST HOMES	LONDON	22,251	-	-	-	-	-	-	22,251
EILDON HA LIMITED	SCOTLAND	-	-	-	-	3,900	-	-	3,900
EQUITY HOUSING GROUP	NORTH WEST	2,316	-	-	3,000	-	-	-	5,316
ESTUARY HA LIMITED	EAST ANGLIA	7,923	702	-	-	-	-	-	8,625
FCH HOUSING AND CARE	MIDLAND	2,000	-	-	2,769	5,500	-	-	10,269
FAMILY HA	LONDON	9,499	-	-	-	-	-	-	9,499
FOCUS HA LIMITED	MIDLAND	5,680	-	-	-	-	-	-	5,680
GRAMPIAN HA LIMITED	SCOTLAND	-	-	-	-	3,594	-	-	3,594
GRAVESEND CHURCHES HA LIMITED	SOUTH EAST	-	-	-	-	1,750	-	-	1,750
HASTOE HA LIMITED	SOUTH EAST	5,423	-	-	-	-	-	-	5,423
HEANTUN HA LIMITED	MIDLAND	2,500	-	-	-	-	-	-	2,500
HEXAGON HA LIMITED	LONDON	1,500	270	4,229	-	-	-	-	5,999
HIGHTOWN PRAETORIAN HA LIMITED	SOUTH EAST	1,100	1,081	-	-	-	-	-	2,181
HOME GROUP LIMITED	NATIONAL	2,777	10,740	11,781	-	-	-	-	25,298
HYDE HA LIMITED	SOUTH EAST	-	-	11,695	-	-	-	-	11,695
INNISFREE HA LIMITED	LONDON	3,000	-	-	-	-	-	-	3,000
IRWELL VALLEY HA LIMITED	NORTH WEST	-	-	2,417	-	-	-	-	2,417
ISLINGTON & SHOREDITCH HA LIMITED	LONDON	2,000	-	-	-	4,449	-	-	6,449
JOHN GROOMS HA	NATIONAL	-	-	-	-	3,000	-	-	3,000
JOHNNIE JOHNSON HT LIMITED	NORTH WEST	3,500	756	-	-	-	-	-	4,256
KNIGHTSTONE HA LIMITED	SOUTH WEST	9,223	11,611	-	-	-	-	-	20,834
KUSH HA LIMITED	LONDON	4,000	-	-	-	-	-	-	4,000
L&Q BEAVER	LONDON	12,000	1,080	-	-	-	-	-	13,080
LHA - ASRA GROUP	MIDLAND	-	-	-	-	4,771	-	-	4,771
LIVERPOOL HT	NORTH WEST	-	-	-	-	6,627	-	-	6,627
LONDON & QUADRANT HT	LONDON	7,999	-	-	-	-	-	-	7,999
LONGHURST HA LIMITED	EAST ANGLIA	9,400	-	-	-	-	-	-	9,400
MANCHESTER METHODIST HA LIMITED	NORTH WEST	750	-	604	692	10,123	-	-	12,169
MERCIAN HA LIMITED	MIDLAND	2,519	-	-	-	3,000	-	-	5,519
METROPOLITAN HT	LONDON	5,500	-	1,812	-	-	-	-	7,312
MID WALES HA LIMITED	WALES	-	-	1,330	-	-	-	-	1,330
MIDLAND AREA HA LIMITED	MIDLAND	2,200	1,189	-	-	-	-	-	3,389
MINSTER GENERAL HA LIMITED	EAST ANGLIA	1,079	-	-	-	1,500	-	-	2,579
MOAT HOUSING GROUP - SOUTH	SOUTH EAST	3,500	6,775	-	-	-	-	-	10,275
MOSAIC HOMES	LONDON	4,124	1,837	-	-	-	-	-	5,961
MOSSCARE HOUSING LIMITED	NORTH WEST	-	-	-	-	13,475	-	-	13,475
NENE HS LIMITED	EAST ANGLIA	1,864	-	-	-	-	-	-	1,864
NEWLON HT	LONDON	5,070	-	-	-	-	-	-	5,070
NOMAD HOUSING GROUP LIMITED	NORTH EAST	-	-	-	-	5,500	-	-	5,500
NORTH BRITISH HOUSING LIMITED	NATIONAL	26,051	-	-	-	-	-	-	26,051
NORTH LONDON MUSLIM HA LIMITED	LONDON	1,000	-	-	-	1,500	-	-	2,500
NORTH WALES HA LIMITED	WALES	2,500	432	-	-	5,000	-	-	7,932
NOTTINGHAM COMMUNITY HA LIMITED	MIDLAND	17,214	-	-	-	-	-	-	17,214
OCTAVIA HOUSING AND CARE	LONDON	2,000	-	-	-	3,500	-	-	5,500
OXFORD CITIZENS HA LIMITED	SOUTH EAST	-	-	-	692	-	-	-	692
PADDINGTON CHURCHES HA	LONDON	2,500	-	-	-	2,000	-	-	4,500
PEMBROKESHIRE HA LIMITED	WALES	1,000	-	-	-	-	-	-	1,000
PENWITH HA LIMITED	SOUTH WEST	5,938	-	-	-	-	-	-	5,938

FIXED CHARGE SECURITY CONTINUED

Association borrower (legal entity)	Area	The Housing Finance Corp Limited Loans £000	T.H.F.C. (Indexed) Limited Loans £000	T.H.F.C. (Indexed 2) Limited Loans £000	T.H.F.C. (First Variable) Limited Loans £000	T.H.F.C. (Social Housing Finance) Limited Loans £000	T.H.F.C. (Capital) PLC Loans £000	UK Rents (No. 1) PLC Loans £000	Total Loan Value £000
SADEH LOK HA LIMITED	NORTH EAST	650	-	-	-	-	-	-	650
SANCTUARY HA	NATIONAL	14,989	-	-	-	-	-	-	14,989
SHAFTESBURY HA	NATIONAL	-	1,945	-	-	-	-	-	1,945
SLFHA LIMITED	LONDON	28,500	15,676	-	-	-	-	-	44,176
SOHO HA LIMITED	LONDON	-	-	-	-	1,500	-	-	1,500
SOUTH YORKSHIRE HA LIMITED	NORTH EAST	1,500	-	-	-	3529	-	-	5,029
SOUTHERN HOUSING GROUP LIMITED	LONDON	2,623	3,177	-	-	17,788	-	-	23,588
SPRINGBOARD HA LIMITED	LONDON	6,000	-	-	-	-	-	-	6,000
ST PANCRAS & HUMANIST HA	SOUTH EAST	5,600	-	-	-	-	-	-	5,600
ST VINCENT'S HA LIMITED	NORTH WEST	1,750	-	-	-	4,000	-	-	5,750
SUTTON HS	SOUTH EAST	250	-	-	-	-	-	-	250
SWAYTHLING HS LIMITED	SOUTH WEST	10,500	-	-	-	-	-	-	10,500
TAFF HA LIMITED	WALES	500	-	-	-	1,000	-	-	1,500
THAMES VALLEY CHARITABLE HA LIMITED	SOUTH EAST	14,998	-	-	-	-	-	-	14,998
THREE RIVERS HA LIMITED	NORTH EAST	-	-	-	-	1,728	-	-	1,728
TOUCHSTONE HA LIMITED	MIDLAND	14,264	8,611	-	-	-	-	-	22,875
TOYNBEE HA LIMITED	LONDON	500	-	-	-	-	-	-	500
TRIDENT HA LIMITED	MIDLAND	5,000	2,917	-	-	-	-	-	7,917
UNITED WELSH HA LIMITED	WALES	4,500	-	-	-	-	-	-	4,500
VENTURE HA LIMITED	NORTH WEST	-	-	-	-	3,250	-	-	3,250
WALBROOK HA LIMITED	MIDLAND	2,490	-	-	-	-	-	-	2,490
WALES AND WEST HA LIMITED	WALES	9,000	-	-	-	-	-	-	9,000
WANDLE HA LIMITED	LONDON	26,722	-	-	-	-	-	-	26,722
WATERLOO HA LIMITED	MIDLAND	6,000	-	-	-	-	-	-	6,000
WEST PENNINE HA LIMITED	NORTH WEST	-	-	3,508	-	2,000	-	-	5,508
WILLIAM SUTTON HA	NATIONAL	-	-	2,417	-	-	-	-	2,417
WILTSHIRE RURAL HA LIMITED	SOUTH WEST	1,163	-	-	-	-	-	-	1,163
WIRRAL METHODIST HA LIMITED	NORTH WEST	1,200	-	-	-	-	-	-	1,200
WOMENS PIONEER HOUSING LIMITED	LONDON	1,000	-	-	-	-	-	-	1,000
TOTAL FIXED CHARGE SECURITY		444,364	85,957	42,814	7,153	148,659	-	-	728,947

FLOATING CHARGE SECURITY

ADACTUS HA LIMITED	NORTH WEST	5,500	-	-	-	-	-	-	5,500
ALDWYCK HA LIMITED	SOUTH EAST	18,447	1,405	6,041	-	-	-	-	25,893
ARENA HA LIMITED	NORTH WEST	5,000	-	8,459	-	6,000	-	-	19,459
ASRA GREATER LONDON HA LIMITED	LONDON	10,000	-	-	4,614	-	-	-	14,614
BARNSBURY HA LIMITED	LONDON	-	-	-	1,154	-	-	-	1,154
BLACK COUNTRY HCSG LIMITED	MIDLANDS	7,000	-	-	-	-	-	-	7,000
BROMFORD CARINTHIA HA	SOUTH WEST	4,500	-	1,812	-	-	-	-	6,312
CHEVIOT HA LIMITED	NORTH EAST	10,950	2,053	-	-	-	-	-	13,003
CIRCLE 33 HOUSING TRUST LIMITED	LONDON	1,084	-	-	-	-	-	-	1,084
COMMUNITY HA LIMITED	LONDON	227	-	-	-	-	-	-	227
CONNECT HOUSING	NORTH EAST	2,750	-	-	-	-	-	-	2,750
DE MONTFORT HS LIMITED	MIDLANDS	6,250	756	-	-	-	-	-	7,006
DEVON & CORNWALL HA LIMITED	SOUTH WEST	2,777	5,799	-	-	-	-	-	8,576
EAST MIDLANDS HA LIMITED	MIDLANDS	15,410	-	1,390	1,846	-	-	-	18,646
ENGLISH CHURCHES HOUSING GROUP LIMITED	NATIONAL	20,487	756	-	-	-	-	-	21,243
EQUITY HOUSING GROUP	NORTH WEST	1,000	378	-	-	-	-	-	1,378
FAMILY HA (BIRMINGHAM) LIMITED	MIDLANDS	6,000	-	-	-	3,884	-	-	9,884
FOCUS HA LIMITED	MIDLANDS	22,988	-	-	-	-	-	-	22,988
HABINTEG HA LIMITED	NATIONAL	6,371	-	-	-	-	-	-	6,371
HARDEN HA (MIDLANDS) LIMITED	MIDLANDS	4,000	-	-	-	-	-	-	4,000
HEANTUN HA LIMITED	MIDLANDS	-	-	-	-	3,300	-	-	3,300
ISLINGTON & SHOREDITCH HA LIMITED	LONDON	1,085	-	-	-	-	-	-	1,085
LEEDS FEDERATED HA LIMITED	NORTH EAST	3,000	-	-	-	-	-	-	3,000
LHA - ASRA GROUP	MIDLANDS	22,450	756	-	1,292	-	-	-	24,498
MANCHESTER METHODIST HA LIMITED	NORTH WEST	1,500	-	-	-	-	-	-	1,500
MANNINGHAM HA LIMITED	NORTH EAST	14,340	-	-	969	2,000	-	-	17,309
MERCIA HA LIMITED	MIDLANDS	31,698	1,080	-	-	-	-	-	32,778
METROPOLITAN HOUSING TRUST LIMITED	LONDON	24,650	2,485	-	-	-	-	-	27,135
MIDLAND AREA HA LIMITED	MIDLANDS	8,250	-	-	-	-	-	-	8,250
MINSTER GENERAL HA LIMITED	EAST ANGLIA	5,000	-	-	-	-	-	-	5,000
MOSELEY & DISTRICT CHURCHES HA LIMITED	MIDLANDS	3,050	-	2,923	1,846	-	-	-	7,819
MOSSCARE HOUSING LIMITED	NORTH WEST	11,500	-	-	-	-	-	-	11,500

Group Loans

Loans Portfolio as at 31 March 2006
continued

FLOATING CHARGE SECURITY CONTINUED		The Housing Finance Corp Limited Loans £000	T.H.F.C. (Indexed) Limited Loans £000	T.H.F.C. (Indexed 2) Limited Loans £000	T.H.F.C. (First Variable) Limited Loans £000	T.H.F.C. (Social Housing Finance) Limited Loans £000	T.H.F.C. (Capital) PLC Loans £000	UK Rents (No. 1) PLC Loans £000	Total Loan Value £000
Association borrower (legal entity)	Area								
OXFORD CITIZENS HA LIMITED	SOUTH EAST	1,500	-	-	692	-	-	-	2,192
PORTSMOUTH HA LIMITED	SOUTH EAST	7,248	-	-	-	-	-	-	7,248
STADIUM HA	LONDON	34,033	-	-	-	-	-	-	34,033
STAFFORDSHIRE HA LIMITED	MIDLANDS	3,800	-	-	-	5,300	-	-	9,100
SWAYTHLING HS LIMITED	SOUTH WEST	12,000	-	-	-	-	-	-	12,000
THREE RIVERS HA LIMITED	NORTH EAST	6,000	-	-	-	-	-	-	6,000
THRESHOLD HOUSING AND SUPPORT LIMITED	LONDON	5,000	-	-	2,769	-	-	-	7,769
UJIMA HA LIMITED	LONDON	6,603	-	-	-	-	-	-	6,603
WEST PENNINE HA LIMITED	NORTH WEST	3,000	-	-	-	-	-	-	3,000
WESTCOUNTRY HA LIMITED	SOUTH WEST	6,000	-	-	-	-	-	-	6,000
WYCOMBE FRIENDSHIP HA LIMITED	SOUTH EAST	629	-	-	-	-	-	-	629
TOTAL FLOATING CHARGE SECURITY		363,077	15,468	20,625	15,182	20,484	-	-	434,836

INCOME SECURITY

CHEVIOT HA LIMITED	NORTH EAST	-	-	-	-	-	-	7,202	7,202
CONTOUR HOMES	NORTH WEST	-	-	-	-	-	-	5,378	5,378
KELSEY HA LIMITED	LONDON	-	-	-	-	-	-	4,848	4,848
L&Q BEAVER	LONDON	-	-	-	-	-	-	7,476	7,476
MERCIAN HA LIMITED	MIDLAND	-	-	-	-	-	-	5,440	5,440
PORTSMOUTH HA LIMITED	SOUTH EAST	-	-	-	-	-	-	5,382	5,382
INCOME COVER		-	-	-	-	-	-	35,726	35,726

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

SUNDERLAND HOUSING COMPANY LIMITED	NORTH EAST	-	-	-	-	-	377,500	-	377,500
TOTAL		-	-	-	-	-	377,500	-	377,500

GRAND TOTAL		807,441	101,425	63,439	22,335	169,143	377,500	35,726	1,577,009
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PREMIUM/DISCOUNT									29,961
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TOTAL AT 31 MARCH 2006									1,606,970
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LOAN PREPAYMENTS

Amount £ million	Basis	Issuer	Bond
£18.0	FACE VALUE	THE HOUSING FINANCE CORPORATION LIMITED	11.5% 2016
£12.0	FACE VALUE	THE HOUSING FINANCE CORPORATION LIMITED	8.625% 2023
£3.0	FACE VALUE	T.H.F.C. (SOCIAL HOUSING FINANCE) LIMITED	8.75% 2016/21
£10.0	FACE VALUE	THE HOUSING FINANCE CORPORATION LIMITED	9.625% 2025
£6.6	INDEXED PRINCIPAL	T.H.F.C. (INDEXED) LIMITED	5.65% 2020
£4.2	INDEXED PRINCIPAL	T.H.F.C. (INDEXED 2) LIMITED	5.5% 2024
£53.8			

MOVEMENTS IN THE GROUP LOAN BOOK

	£ million
OPENING LOAN BALANCE	1,584.8
NET REPAYMENTS AND PREPAYMENTS	(72.2)
NET NEW LOANS DRAWN	88.2
CHANGES IN INDEXATION, PREMIUM AND DISCOUNT	16.0
	6.1
CLOSING LOAN BALANCE	1,606.9

Group Source of Funds

Debenture Stocks, Eurobonds, Bank and other Loans as at 31 March 2006

	Date	Nominal Amount £000	Outstanding Principal Amount £000
THFC DEBENTURE STOCKS			
DISCOUNTED:			
ZERO COUPON 2012	8.12.87	93,502	44,818
5% 2027	8.12.87	50,954	26,477
7% 2009 (SERIES I)	20.5.88	10,114	8,934
7% 2009 (SERIES II)	8.7.88	4,350	3,810
STEPPED COUPON:			
6.58% TO 19.60% 2019	2.3.89	10,000	15,576
7.91% TO 19.75% 2019	28.6.89	4,630	7,026
7.55% TO 17.61% 2019	17.8.89	7,860	11,265
8.44% TO 15.98% 2019	11.10.89	2,900	3,752
CONVENTIONAL FIXED RATE:			
12.04% 2021 (ANNUITY)	2.7.91	15,000	13,891
11.5% 2016 (BULLET)	TRANCHE 1	27.11.91	70,000
	TRANCHE 2	27.5.92	38,500
	TRANCHE 3	20.10.92	77,000
8.625% 2023 (BULLET)	TRANCHE 1	13.10.93	124,600
	TRANCHE 2	24.5.94	31,500
	TRANCHE 3	16.6.99	12,200
	TRANCHE 4	29.2.00	9,500
	TRANCHE 5	5.12.01	19,800
8.8% 2023 (ANNUITY)		5.11.93	8,000
10.0938% 2024 (ANNUITY)		14.7.95	13,000
9.625% 2025 (BULLET)	TRANCHE 1	4.7.95	45,850
	TRANCHE 2	12.11.97	11,100
THFC BANK LOANS			
5 YEAR £5M VARIABLE 2000 – EXTENDED TO 2010	21.3.95	5,000	5,000
5 YEAR £5M VARIABLE 2000 – EXTENDED TO 2010	29.3.95	2,000	2,000
25 YEAR £2.75M VARIABLE REPAYABLE 2021	8.3.96	750	563
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	19,360	16,860
25 YEAR £10M FIXED RATE LOAN 2024 – EIB (ANNUITY)	2.9.99	27,000	23,840
25 YEAR £20M FIXED RATE LOAN 2025 – EIB (ANNUITY)	8.9.00	20,000	18,106
5 YEAR £10M REVOLVING CREDIT FACILITY VARIABLE, REPAYABLE 2006	6.3.01	5,000	5,000
25 YEAR £9.35M FIXED RATE LOAN – ANTS (FROM SEP 2003) (BULLET)	2.4.01	9,350	9,350
5 YEAR £5M REVOLVING CREDIT FACILITY VARIABLE, REPAYABLE 2006	1.10.01	5,000	1,500
25 YEAR £17M VARIABLE REPAYABLE 2026	9.11.01	17,000	11,000
25 YEAR £9.86M STERLING FACILITY REPAYABLE 2028 (ANNUITY)	8.9.03	9,860	9,260
25 YEAR £15M STERLING FIXED LOAN 2029 (ANNUITY)	16.06.04	15,000	13,340
25 YEAR £15M REVOLVER INTO TERM	14.03.05	15,000	3,000
5 YEAR £20M REVOLVING FACILITY	27.5.05	20,000	20,000
THFC LOAN FROM T.H.F.C(FUNDING NO.1) PLC			
LONG TERM – 5.125% DUE 2035 (BULLET)	13.12.04	67,376	67,376
T.H.F.C (FIRST VARIABLE) BANK LOANS			
30 YEAR VARIABLE 2023 (ANNUITY)			
	TRANCHE 1	30.4.93	3,500
	TRANCHE 2	21.7.93	7,950
	TRANCHE 3	17.12.93	7,750
	TRANCHE 4	30.6.94	5,000
			4,610
T.H.F.C (INDEXED) LIMITED INDEX LINKED DEBENTURE STOCKS			
5.65% 2020 (ANNUITY)			
	TRANCHE 1	13.11.90	42,734
	TRANCHE 2	31.3.93	28,490
			63,579
			37,850
T.H.F.C (INDEXED 2) LIMITED INDEX LINKED DEBENTURE STOCKS			
5.50% 2024 (ANNUITY)			
	TRANCHE 1	16.12.94	29,025
	TRANCHE 2	28.12.95	22,988
			33,590
			29,851
T.H.F.C (SOCIAL HOUSING FINANCE) LIMITED DEBENTURE STOCKS			
8.75% DEBENTURE STOCK 2016/21 (BULLET)			
	TRANCHE 1	5.12.96	29,800
	TRANCHE 2	9.6.97	11,000
	TRANCHE 3	11.9.97	12,900
	TRANCHE 4	3.12.97	34,750
	TRANCHE 5	1.7.98	28,650
			28,650
T.H.F.C (SOCIAL HOUSING FINANCE) LIMITED BANK LOANS			
25 YEAR £17.7M FIXED RATE LOAN 2023 – EIB (ANNUITY)	26.11.98	15,156	15,156
25 YEAR £40M FIXED RATE LOAN 2024 – EIB (ANNUITY)	2.9.99	22,500	19,884
25 YEAR £18.9M FIXED RATE LOAN 2025 – EIB (ANNUITY)	8.9.00	18,900	17,001
UK RENTS (NO.1) PLC RENTAL SECURITISATION			
9.10% 2025 (EUROBOND)	6.1.95	36,143	35,726
T.H.F.C (CAPITAL) PLC LOANS			
LONG TERM LOAN – 6.38% DUE 2042	26.3.01	239,500	239,500
VARIABLE RATE LOANS	26.3.01	375,000	138,000
AT 31 MARCH 2006		1,875,292	1,576,991
PREMIUM/DISCOUNT			29,961
TOTAL AT 31 MARCH 2006			1,606,952

Auditors' Report

INDEPENDENT AUDITORS' REPORT TO THE HOUSING FINANCE CORPORATION LIMITED

We have audited the Group and The Housing Finance Corporation Limited ("THFC") financial statements (the "financial statements") for the year ended 31 March 2006 which comprise the Group and THFC Income Statements, the Group and THFC Balance Sheets, the Group and THFC Cash Flow Statements and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs), as adopted by the European Union, 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 International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for THFC as a body in accordance with the Industrial and Provident Societies Acts 1965 to 2002 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if THFC 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 other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Report, Directors' Report and the Group Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and THFC'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 Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2006 and of its profit and cash flows for the year then ended;
- the THFC financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of THFC's affairs as at 31 March 2006 and of its profit and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002.

PRICEWATERHOUSECOOPERS LLP
CHARTERED ACCOUNTANTS AND
REGISTERED AUDITORS
LONDON
26 JUNE 2006

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Group Income Statement

For the year ended 31 March 2006

	NOTES	2006 £000	Restated* 2005 £000
Operating Income			
On loans to registered social landlords			
Interest		112,488	112,078
Discount amortised	10	5,137	4,623
Premium amortised	10	(3,858)	(3,314)
Income from securitised assets	14	3,280	3,289
Indexation on investments	10	4,720	5,342
Premiums receivable on prepayments		26,428	17,830
Other interest		768	733
Fees receivable and other income		1,489	1,089
		150,452	141,670
Operating Expenses			
On debenture stocks and bank loans			
Interest	8	115,347	115,022
Discount amortised	13	5,137	4,623
Premium amortised	13	(3,858)	(3,314)
Indexation on loans payable	13	4,720	5,342
Premiums payable on prepayments		26,828	18,141
Other expenses		1,649	1,480
		149,823	141,294
Profit before taxation	2	629	376
Taxation	6	(176)	(113)
Profit for the year		453	263
Retained profit brought forward		6,043	5,780
Retained profit carried forward	16	6,496	6,043

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

Income and profit derive from continuing activities in the UK.

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

*See Notes 1 and 23.

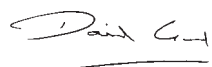
Group Balance Sheet

at 31 March 2006

	NOTES	2006 €000	Restated* 2005 €000
Assets			
Property plant and equipment	7	148	140
Loans	10	1,563,677	1,539,496
Deferred tax assets	5	1,163	1,270
Loans (current element)	10	43,293	45,306
Other receivables	11	23,803	25,292
Short-term deposits		9,658	9,664
Cash and cash equivalents		3,124	2,457
Total assets		1,644,866	1,623,625
Liabilities			
Financial liabilities – borrowings	13	1,564,382	1,540,207
Financial liabilities – borrowings (current element)	13	43,293	45,306
Trade and other payables	12	27,563	28,943
Current tax liabilities		69	63
Deferred tax liabilities	5	3,063	3,063
Capital and reserves			
Ordinary shares	15	–	–
Retained earnings	16	6,496	6,043
Total capital, reserves and liabilities		1,644,866	1,623,625

*See Notes 1 and 23.

Approved by the Board of Directors on 26 June 2006 and signed on its behalf by:



David Creed
Chairman



Michael Boohan
Director



Colin Burke
Company Secretary

Group Cash Flow Statement

For the year ended 31 March 2006

	NOTES	2006 £000	2005 £000
Cash flows from operating activities			
Cash generated from operations	17	4,124	3,623
Interest received on loans to registered social landlords		113,548	111,872
Interest paid on debenture stocks, bonds and bank loans		(116,895)	(115,078)
Loans to registered social landlords	10	(88,250)	(145,975)
Repayment of loans from registered social landlords	10	72,185	93,353
Tax paid		(61)	(51)
Net cash used in operating activities		(15,349)	(52,256)
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(50)	(143)
Movement on short-term deposits		6	193
Net cash (used in)/generated from investing activities		(44)	50
Cash flows from financing activities			
New borrowings	13	88,250	145,975
Repayment of amounts borrowed	13	(72,190)	(93,368)
Net cash generated from financing activities	18	16,060	52,607
Net increase in cash equivalents		667	401
Cash and cash equivalents at beginning of period		2,457	2,056
Cash and cash equivalents at end of period	18	3,124	2,457

THFC Income Statement

For the year ended 31 March 2006

	NOTES	2006 £000	Restated* 2005 £000
Operating income			
On loans to registered social landlords			
Interest		66,564	67,151
Discount amortised	10	5,137	4,623
Premium amortised	10	(2,685)	(1,925)
Premiums receivable on prepayments		21,529	13,854
Other interest		548	526
Fees receivable and other income		939	681
		92,032	84,910
Operating expenses			
On debenture stocks and bank loans			
Interest	8	66,228	66,914
Discount amortised	13	5,137	4,623
Premium amortised	13	(2,685)	(1,925)
Premiums payable on prepayments		21,869	14,090
Operating expenses		1,172	1,045
		91,721	84,747
Profit before taxation	2	311	163
Taxation	6	(93)	(49)
Profit for the year		218	114
Retained profit brought forward		3,658	3,544
Retained profit carried forward	16	3,876	3,658

The company has no recognised gains and losses other than the profit for the year.
Income and profit derive from continuing activities in the UK.

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

*See Notes 1 and 23.

THFC Balance Sheet

at 31 March 2006

	NOTES	2006 £000	Restated* 2005 £000
Assets			
Loans	10	793,675	782,034
Deferred tax asset	5	1,165	1,258
Loans (current element)	10	27,848	34,659
Other receivables	11	20,024	19,621
Short-term deposits		5,000	5,272
Cash and cash equivalents		978	582
Total assets		848,690	843,426
Liabilities			
Financial liabilities – borrowings	13	793,680	782,038
Financial liabilities – borrowings (current element)	13	27,848	34,659
Trade and other payables	12	20,223	20,008
Deferred tax liabilities	5	3,063	3,063
Capital and reserves			
Ordinary shares	15	–	–
Retained earnings	16	3,876	3,658
Total capital, reserves and liabilities		848,690	843,426

*See Notes 1 and 23.

Approved by the Board of Directors on 26 June 2006 and signed on its behalf by:



David Creed
Chairman



Michael Boohan
Director



Colin Burke
Company Secretary

THFC Cash Flow Statement

For the year ended 31 March 2006

	NOTES	2006 £000	2005 £000
Cash flows from operating activities			
Cash generated from operations	17	208	(11)
Interest received on loans to registered social landlords		67,842	66,985
Interest paid on debenture stocks, bonds and bank loans		(67,926)	(66,936)
Loans to registered social landlords	10	(50,989)	(84,726)
Repayment of loans from registered social landlords	10	48,715	38,277
Tax paid		–	–
Net cash used in operating activities		(2,150)	(46,411)
Cash flows from investing activities			
Movement on short-term deposits		272	173
Net cash generated from investing activities		272	173
Cash flows from financing activities			
New borrowings	13	50,989	84,726
Repayment of amounts borrowed	13	(48,715)	(38,277)
Net cash generated from financing activities	18	2,274	46,449
Net increase in cash equivalents		396	211
Cash and cash equivalents at beginning of period		582	371
Cash and cash equivalents at end of period	18	978	582

Notes to the Accounts

1 ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements of The Housing Finance Corporation Limited ("THFC") and of THFC together with its subsidiaries ("the Group") are set out below.

These policies have been consistently applied to all years presented unless otherwise stated.

a) Basis of preparation

THFC is incorporated in Great Britain with limited liability under the Industrial and Provident Societies Acts 1965-2002. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and IFRIC interpretations and, although THFC's constitution is not governed by the Companies Act 1985, with those parts of the Companies Act 1985 applicable to companies reporting under IFRS and The Industrial and Provident Societies Acts 1965-2002. The financial statements have been prepared under the historical cost convention. A summary of the more important Group accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year if applicable.

THFC has adopted IFRS in these financial statements. The impact of adopting IFRS is set out in note 23. The main changes are in relation to the carrying values of financial instruments, presentation of the cash flow and disclosure of risk policies.

The previously reported results and net assets under UK GAAP when restated under IFRS are unchanged except for a fair value charge of £5,160. However the carrying value of loans, debentures and secured bonds have been restated as explained in note 23.

No IFRS have been adopted prior to their effective dates. No exemptions under IFRS 1 have been taken advantage of. There are no IFRS issued but not effective that are expected to have an impact on the next financial statements.

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.

UKH, UK1 and UKT have different year-ends from the rest of the Group for transaction specific reasons.

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 Acts 1965 to 2002. 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.

THFCS holds shares on a fiduciary basis in the companies listed below and THFC does not therefore consolidate their results. Both companies report to 31 December 2005 and the summary information relates to that period end:

	Net assets	Profit for period
Harbour Funding PLC	Nil	Nil
T.H.F.C. (Funding No.1) PLC	Nil	Nil

At 31 December 2005 Harbour Funding PLC had loans and receivables of £275,961,236 and T.H.F.C. (Funding No.1) PLC had loans and receivables of £67,376,000.

1 ACCOUNTING POLICIES (CONTINUED)

c) Loans to registered social landlords and debenture stocks

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

Loans to RSLs are classified as loans and receivables. Debenture stocks, secured bonds and bank borrowings are defined as financial liabilities.

The Group has not encountered any credit loss to date and does not expect to do so in the foreseeable future. Consequently it does not have a policy on loans' impairment.

(i) Discounted debenture stocks

Loans to RSLs are stated at amortised cost. The discount on issue is deducted from the original loan value and credited to the income statement over the expected life of the loan so that the interest receivable, as adjusted for the amortisation of the discount, gives a constant yield to maturity.

Debenture stocks are stated at amortised cost.

(ii) Stepped coupon debenture stocks

Loans to RSLs are stated at amortised cost plus deferred interest. Deferred interest is the difference between interest calculated on the basis of the yield to redemption and the actual interest paid. Deferred interest is credited to the income statement on a basis that, together with the interest receivable, gives a constant yield to maturity.

Debenture stocks are stated at amortised cost plus deferred interest.

(iii) Index linked debenture stocks

Loans to RSLs are stated at indexed amortised cost. Any discounts or premiums on issue are deducted from/added to the original loan value and charged or credited to the income statement, as adjusted for indexation, over the expected life of the loan so that the interest receivable, as adjusted for the amortisation of premiums/discounts, gives a constant yield to maturity on an indexed basis.

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 loan. The total amount of payment due in any interest period is calculated by reference to the Retail Price Index as above.

Debenture stocks are stated at indexed amortised cost.

(iv) Other loans and debenture stocks

All other loans to RSLs are stated at amortised cost. Any discounts or premiums on issue are deducted from/added to the original loan value and credited or charged to the income statement over the expected life of the loan so that the interest receivable, as adjusted for the amortisation of discounts/premiums, gives a constant yield to maturity.

The related debenture stocks and loans are stated at amortised cost.

On prepayment of any of the above loans and associated stock the unamortised portion of the premium or discount relating to the prepayment is written off.

Notes to the Accounts

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1 ACCOUNTING POLICIES (CONTINUED)

d) Derivative financial instruments

The Group enters into certain forward rate agreements 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 2008.

Derivatives are initially accounted for and measured at fair value on the date a derivative contract is entered into and are revalued at subsequent balance sheet dates on the same basis. The gain or loss on re-measurement is taken to the income statement.

e) Cash and cash equivalents

Cash and cash equivalents consist of demand deposits, current account balances and cash in hand.

f) Interest

Interest receivable on loans to RSLs and interest payable on debenture stocks, bonds and bank borrowings is accounted for on an accruals basis. Premiums receivable and payable on prepayment of debenture stocks are taken to the income statement in the period in which the prepayment takes place.

g) Securitised assets and related income

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

h) Fees receivable

Front-end fees, prepayment fees and annual administration fees are not considered to form an integral part of the effective interest rate and are therefore taken to income as they fall due.

i) Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation calculated on a straight line basis to write off the assets evenly over their estimated useful lives.

Plant and equipment	25% per annum
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j) Leased assets

Operating lease costs are accounted for on an accruals basis through the income statement.

k) Deferred taxation

Deferred taxation is provided on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base.

l) Pension fund

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

Owing to the nature of the Scheme, the income statement charge for the period under IAS19 represents the employer contribution payable.

2 PROFIT BEFORE TAXATION IS STATED AFTER CHARGING:

	Group 2006 £000	Group 2005 £000
Depreciation of tangible fixed assets	42	17
Fees paid to auditors		
for audit	50	49
for other services	–	41
Operating lease rentals		
plant and machinery	7	6
other	57	58

All administrative services for the Group are provided under management agreements with THFCS.

3 STAFF NUMBERS AND COST

	Group 2006	Group 2005
Average number of persons (including directors) employed during the year (monthly average):		
Directors	7	7
Management and administrative	8	8
	£000	£000
The aggregate employee costs amounted to:		
Directors' fees	95	92
Salaries	636	610
Social security costs	77	72
Other benefit costs	68	66
	876	840

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

4 DIRECTORS' REMUNERATION

	2006 £000	2005 £000
Non-executive directors:		
Fees	95	92
Executive and highest paid director:		
Salary	141	136
Pension contributions	12	12
Bonus	16	21
Benefits	7	8
	271	269

The fees of the chairman were £23,080. Each non-executive director received £14,400 per annum. All directors' costs were borne by THFCS. No pension contributions were made by the Group in respect of non-executive directors. There are no long-term incentive schemes. Fees of £28,800 in respect of two non-executive directors were paid to their employers.

Notes to the Accounts

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5 DEFERRED TAX LIABILITIES

	Group 2006 £000	THFC 2006 £000	Group 2005 £000	THFC 2005 £000
The potential liability for deferred taxation is as follows:				
Difference between accounting and taxation treatment of discounts	3,063	3,063	3,063	3,063
Less: taxation losses available for future relief	(1,163)	(1,165)	(1,270)	(1,258)
Amount provided	1,900	1,898	1,793	1,805

6 TAXATION

	Group 2006 £000	THFC 2006 £000	Group 2005 £000	THFC 2005 £000
U.K. Corporation tax at 30% (2005 – 30%)	69	–	61	–
Deferred taxation	107	93	52	49
	176	93	113	49

7 PROPERTY, PLANT AND EQUIPMENT

	Group 2006 £000
Fixtures, fittings and equipment	
Cost	
At beginning of year	285
Additions	50
At end of year	335
Depreciation	
At beginning of year	145
Charge for the year	42
At end of year	187
Net book value at 31 March 2006	148
Net book value at 31 March 2005	140

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

8 INTEREST PAYABLE

	Group 2006 £000	THFC 2006 £000	Group 2005 £000	THFC 2005 £000
On debenture stocks, bank borrowings and other borrowings				
Repayable wholly in more than five years				
Interest payable	83,223	57,693	84,732	58,311
Interest deferred	104	104	249	249
Repayable within five years	32,020	8,431	30,041	8,354
	115,347	66,228	115,022	66,914

9 INVESTMENTS

	THFC 2006 £000
Shares held in subsidiary undertakings	
THFCIL – 3 ordinary shares of £1 each (2005 – £3)	£3
THFCFV – 3 ordinary shares of £1 each (2005 – £3)	£3
THFCS – 92 ordinary shares of £1 each (2005 – £92)	£92
THFCIL2 – 3 ordinary shares of £1 each (2005 – £3)	£3
SHF – 4 ordinary shares of £1 each (2005 – £4)	£4

10 LOANS AND RECEIVABLES

	Group 2006 £000	THFC 2006 £000	Group 2005 £000	THFC 2005 £000
Loans to registered social landlords				
At beginning of year	1,548,659	816,693	1,489,137	767,297
Loans repaid during the year	(71,768)	(48,715)	(93,353)	(38,277)
Loans advanced during the year	88,250	50,989	145,975	84,726
	1,565,141	818,967	1,541,759	813,746
Discount amortised for the year	5,137	5,137	4,623	4,623
Premium amortised for the year	(3,858)	(2,685)	(3,314)	(1,925)
Interest deferred for the year	104	104	249	249
Indexation for the year	4,720	–	5,342	–
At end of year	1,571,244	821,523	1,548,659	816,693
Less: repayable within one year	(42,800)	(27,848)	(45,107)	(34,659)
	1,528,444	793,675	1,503,552	782,034
Securitised assets				
At beginning of year (Note 14)	36,143	–	36,143	–
Loans repaid during the year	(417)	–	–	–
At end of year	35,726	–	36,143	–
Less: repayable within one year	(493)	–	(199)	–
	35,233	–	35,944	–
Total falling due after more than one year at 31 March 2006	1,563,677	793,675	1,539,496	782,034

Notes to the Accounts

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10 LOANS AND RECEIVABLES (CONTINUED)

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 Group was able to raise the finance.

Each loan is secured by a combination of:

- 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
- 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
- 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.

For securitised loans see note 14.

11 OTHER RECEIVABLES

	Group 2006 £000	THFC 2006 £000	Group 2005 £000	THFC 2005 £000
Accrued interest income	23,242	18,008	24,700	19,285
Other receivables	561	312	592	331
Amounts due from subsidiary undertaking	–	1,704	–	5
	23,803	20,024	25,292	19,621

12 TRADE AND OTHER PAYABLES

	Group 2006 £000	THFC 2006 £000	Group 2005 £000	THFC 2005 £000
Other creditors	62	26	93	3
Accruals and deferred income	27,501	18,086	28,850	19,510
Amounts due to subsidiary undertakings	–	2,111	–	495
	27,563	20,223	28,943	20,008

13 FINANCIAL LIABILITIES – BORROWINGS

	Group 2006 £000	THFC 2006 £000	Group 2005 £000	THFC 2005 £000
Eurobonds (Note 14)				
At beginning and end of year	36,143	–	36,143	–
Repaid during the year	(417)	–	–	–
At end of year	35,726	–	36,143	–
Less: falling due within one year	(493)	–	–	–
	35,233	–	36,143	–
Debenture Stocks				
At beginning of year	1,202,084	647,991	1,238,598	671,990
Repaid during the year	(61,007)	(40,714)	(43,414)	(26,946)
Discount amortised	5,137	5,137	4,623	4,623
Premium amortised	(3,858)	(2,685)	(3,314)	(1,925)
Deferred interest	104	104	249	249
Indexation	4,720	–	5,342	–
At end of year	1,147,180	609,833	1,202,084	647,991
Less: falling due within one year	(8,801)	(1,332)	(11,279)	(3,399)
	1,138,379	608,501	1,190,805	644,592
Bank borrowings				
At beginning of year	279,186	101,330	250,540	95,311
Borrowed during the year	88,250	50,989	78,600	17,350
Repaid during the year	(10,766)	(8,000)	(49,953)	(11,331)
At end of year	356,670	144,319	279,187	101,330
Less: falling due within one year	(33,999)	(26,516)	(34,027)	(31,260)
	322,671	117,803	245,160	70,070

Notes to the Accounts

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13 FINANCIAL LIABILITIES – BORROWINGS (CONTINUED)

	Group 2006 £000	THFC 2006 £000	Group 2005 £000	THFC 2005 £000
Loan from T.H.F.C. (Funding No. 1) PLC				
At beginning of year	67,376	67,376	–	–
Loans during the year	–	–	67,376	67,376
At end of year	67,376	67,376	67,376	67,376
Subordinated loans (Note 14)	723	–	723	–
Total falling due after more than one year at 31 March 2006	1,564,382	793,680	1,540,207	782,038

The above are repayable as follows:

	Group 2006 £000	THFC 2006 £000	Group 2005 £000	THFC 2005 £000
Between one and two years	19,967	3,902	19,001	2,905
Between two and five years	106,648	54,347	69,780	17,380
In five years or more	1,437,767	735,431	1,451,426	761,753
	1,564,382	793,680	1,540,207	782,038

The debenture stocks, bank and other 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 borrowings are matched to the income and repayment terms of the related investments.

14 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 RSLs are obliged to repurchase part of the rental stream, starting in October 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 2006 was £723,000 (2005: £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 surpluses (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.

15 CALLED UP SHARE CAPITAL

Authorised, allotted, called up and fully paid

	2006	2005
6 (2005 – 6) ordinary shares of £1 each	£6	£6

16 RETAINED EARNINGS

	Group 2006 £000	THFC 2006 £000	Group 2005 £000	THFC 2005 £000
Opening reserves	6,043	3,658	5,780	3,544
Profit for the year	453	218	263	114
Closing reserves	6,496	3,876	6,043	3,658

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 of THFCIL, THFCIL2, THFCFV and SHF (being companies incorporated under the Industrial and Provident Societies Acts 1965-2002), are not available for distribution. The aggregated reserves of these subsidiaries at 31 March 2006 were £1,665,000 (2005: £1,558,000).

17 RECONCILIATION OF PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	Group 2006 £000	THFC 2006 £000	Group 2005 £000	THFC 2005 £000
Profit before taxation	629	311	376	163
Interest receivable	(112,488)	(66,564)	(112,078)	(67,151)
Interest payable	115,347	66,228	115,022	66,914
Premium receivable	(26,428)	(21,529)	(17,830)	(13,854)
Premium payable	26,828	21,869	18,141	14,090
Adjustment for:				
Depreciation charges	42	–	17	–
Decrease/(increase) in debtors	30	(1,681)	(183)	1,241
(Decrease)/increase in creditors	164	1,574	158	(1,414)
Net cash inflow/(outflow) from operating activities	4,124	208	3,623	(11)

18 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 April 2005 £000	Cash Flows £000	Other Non-cash Changes £000	At 31 March 2006 £000
Group				
Cash and cash equivalents	2,457	667	–	3,124
Debt due after 1 year	(1,540,207)	–	(24,175)	(1,564,382)
Debt due within 1 year	(45,306)	(16,061)	18,074	(43,293)
Short-term deposits	9,664	(6)	–	9,658
	(1,573,392)	(15,400)	(6,101)	(1,594,893)

	At 1 April 2005 £000	Cash Flows £000	Other Non-cash Changes £000	At 31 March 2006 £000
THFC				
Cash and cash equivalents	582	396	–	978
Debt due after 1 year	(782,038)	–	(11,642)	(793,680)
Debt due within 1 year	(34,659)	(2,275)	9,086	(27,848)
Short-term deposits	5,272	(272)	–	5,000
	(810,843)	(2,151)	(2,556)	(815,550)

Notes to the Accounts

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19 COMMITMENTS

	Group 2006 £000	Group 2005 £000
At the end of the year the Group had annual commitments under non-cancellable operating leases as follows:		
Operating lease expiring:		
Within 1 year	–	2
In the 2nd to 5th year inclusive	78	72
After 5 years	–	–
	78	74

20 a) Maturity profile of financial assets

	Group 2006 £000	Group 2005 £000
Loans to RSLs	1,571,244	1,548,659
Securitised Assets	35,726	36,143
	1,606,970	1,584,802
Due within one year	43,293	45,306
Due between one and two years	19,966	19,001
Due between two and five years	106,648	69,780
Due in over five years	1,437,063	1,450,715
	1,606,970	1,584,802

b) Interest rate risk profile of financial assets and financial liabilities

	2006 Financial Liabilities £000	2006 Financial Assets £000	2005 Financial Liabilities £000	2005 Financial Assets £000
Fixed rate	1,387,822	1,387,814	1,437,133	1,437,132
Floating rate	219,130	219,156	147,657	147,670
No interest payable	723	–	723	–
	1,607,675	1,606,970	1,585,513	1,584,802

The effective interest rates during the year were between 0% and 19.41%. The weighted average interest rate on both fixed financial liabilities and fixed financial assets is 8.24%. The weighted average period for which interest rates are fixed is 16.23 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.

All assets and liabilities are denominated in £ sterling.

The financial liability of £723,000 represents the subordinated loan disclosed within Note 14. 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:

	2006 £000	2005 £000
Within one year	–	4,000
Between one and two years	–	–
Over two years	185,600	324,350
	185,600	328,350

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

21 PENSIONS

T.H.F.C. (Services) Limited ("THFCS") participates in the Social Housing Pension Scheme ("SHPS").

SHPS is a multi-employer defined benefit scheme. The Scheme is funded and is contracted out of the state scheme.

The Trustee commissions an actuarial valuation of the Scheme every 3 years. The main purpose of the valuation is to determine the financial position of the Scheme in order to determine the level of future contributions required so that the Scheme can meet its pension obligations as they fall due.

The actuarial valuation assesses whether the Scheme's assets at the valuation date are likely to be sufficient to pay the pension benefits accrued by members as at the valuation date. Asset values are calculated by reference to market levels. Accrued pension benefits are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

During the accounting period THFCS paid contributions at the rate of 11.7%. Member contributions varied between 3.1% and 6.1% depending on their age.

As at the balance sheet date there were 6 active members of the Scheme employed by THFCS. THFCS continues to offer membership of the Scheme to its employees.

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers. Accordingly, owing to the nature of the Scheme, the accounting charge for the year under IAS19 represents the employer contribution payable. The amount charged to the profit and loss account was £52,506 (2005: £54,133).

The last formal valuation of the Scheme was performed as at 30 September 2002 by a professionally qualified actuary using the "projected unit credit" method. The market value of the Scheme's assets at the valuation date was £650 million. The valuation revealed a shortfall of assets compared with liabilities of £117 million (equivalent to a past service funding level of 85%).

THFCS has subsequently been notified of the preliminary results of the triennial valuation carried out on 30 September 2005. This indicates an increase in the assets of the Scheme to £1,278 million and an increase in the shortfall of assets compared with liabilities to £283 million. This valuation, and any consequent alteration to future contribution rates, is currently the subject of consultation with participating employers and members. The outcome of this consultation will be made known in September 2006, and any consequent changes to contribution rates applied from 1 April 2007. The following notes therefore relate to the formal valuation of September 2002.

The financial assumptions underlying the valuation as at 30 September 2002 were as follows:

	% pa
– Rate of return on future contributions	6.6
– Rate of return on accumulated assets	7.2
– Rate of salary increases	4.5
– Rate of pension increases	2.5
– Rate of price inflation	2.5

The long-term joint contribution rate required from employers and members to meet the cost of future benefit accrual was assessed at 15.0% of pensionable salaries.

Following consideration of the results of the actuarial valuation it was agreed that, with effect from 1 April 2004:

The standard employer contribution rate would be increased from 10.6% to 11.7% of pensionable salaries.

Member contributions would also be increased by 1.1% from between 2.0 and 5.0% to 3.1 and 6.1% of pensionable salaries depending on age.

Following a change in legislation in September 2005 there is a potential debt on the employer that could be levied by the Trustee of the Scheme. The debt is due in the event of the employer ceasing to participate in the Scheme or the Scheme winding up.

The debt for the Scheme as a whole is calculated by comparing the liabilities for the Scheme (calculated on a buyout basis i.e. the cost of securing benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the Scheme. If the liabilities exceed assets there is a buy-out debt.

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21 PENSIONS (CONTINUED)

The leaving employer's share of the buy-out debt is the proportion of the Scheme's liability attributable to employment with the leaving employer compared with the total amount of the Scheme's liabilities (relating to employment with all the currently participating employers). The leaving employer's debt therefore includes a share of any 'orphan' liabilities in respect of previously participating employers. The amount of the debt depends on many factors including total Scheme liabilities, Scheme investment performance, the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buy-out market. The amounts of debt can therefore be volatile over time.

THFCS has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the Plan based on the financial position of the Scheme as at 30 September 2005. As of that date the estimated employer debt for THFCS was £1,607,000.

22 RELATED PARTY TRANSACTIONS

T.H.F.C. (Services) Limited, a subsidiary undertaking, levies a service charge to THFC and its other subsidiaries reflecting their share of administrative overhead that is incurred during the year. Each subsidiary's share of the charge is based upon their own level of activity during the year and interest payable is adopted as the principal measure for allocating the charge. The holding company and each subsidiary will settle the charge in cash as and when required by THFCS.

THFC deposits subsidiaries' cash in its own bank account as agent for these subsidiary undertakings. This is disclosed as cash in the subsidiaries' financial statements.

The Group provides administrative services to the following third party lenders under management agreements:

Haven Funding PLC
Haven Funding (32) PLC
Harbour Funding PLC
Sunderland (SHG) Finance PLC
T.H.F.C. (Funding No.1) PLC

The Group earned fees of £102,000 for providing these services and had amounts owing from these companies at 31 March 2006 of £39,644.

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 £6,463 (2005: £9,179) in relation to this arrangement. None of this cost was borne directly by THFC.

23 RECONCILIATION OF NET ASSETS AND PROFIT UNDER UK GAAP TO IFRS

In adopting IFRS loans, secured bonds and debenture stocks are now recorded at amortised cost using the effective interest rate method.

Under UK GAAP premiums and discounts on issue of loans, secured bonds and debenture stocks were written off to the income statement in the year of issue (except for deep discounted stocks where the discount was amortised). Premiums and discounts are now added to/deducted from the loan receivable, secured bond or debenture stock and amortised over the period of the loan to maturity.

This has increased the carrying values of loans receivable and secured bonds and debenture stocks by £29,961,203 (2005: £33,819,653) and brought forward reserves by nil. The amortisation of premium/discount receivable and premium/discount payable in the year was £3,858,450 (2005: £3,314,674), therefore there was no impact on the result for the year or prior year.

Interest rate swaps outstanding at 31 March 2006 were revalued to fair value and resulted in a charge to the Income Statement of £5,160. The corresponding charge for 2005 was £12,700 but owing to immateriality this has not been charged to brought forward reserves.

The material adjustments to the cash flow statement are that returns on investments and servicing of finance, financial investment and taxation paid are reclassified as cash flows from operating activities.

There were no other material changes.

24 INCORPORATION

The Housing Finance Corporation Limited is incorporated in the United Kingdom.

No person or entity has the power to amend the financial statements after issue.

25 INTEREST RATE SWAPS

The Company has entered into the following interest rate swaps as at 31 March 2006 to fix investment income on cash reserves.

Trade date	Maturity date	Nominal	Rate
4 September 2003	8 September 2006	£2,000,000	4.65%
9 December 2005	24 March 2008	£2,000,000	4.70%
29 March 2006	8 September 2008	£2,000,000	4.76%
		£6,000,000	

The fair value of interest rate swap agreements is based on the market price of comparable instruments at the balance sheet date. The fair value of these swaps at 31 March 2006 was £5,994,840.

26 FAIR VALUES

The fair values of the Group's assets and liabilities are as follows:

	Fair value 2006 £000	Book value 2006 £000
Assets		
Loans receivable	1,994,931	1,606,970
Deferred tax asset	1,163	1,163
Trade and other receivables	23,803	23,803
Short term cash deposits	9,658	9,658
Cash and cash equivalents	3,124	3,124
	2,032,679	1,644,718
Liabilities		
Financial liabilities-borrowings	1,995,636	1,607,675
Trade and other payables	27,563	27,563
Deferred and current tax liabilities	3,132	3,132
	2,026,331	1,638,370

The fair values of short-term deposits, loans and overdrafts with a maturity of less than one year are not materially different from their book values. Financial assets and financial liabilities being loans to borrowers, and bank loans and stocks and bonds issued, are held at amortised cost using the effective interest method.

Five Year Financial Record

Excluding loan interest and similar items

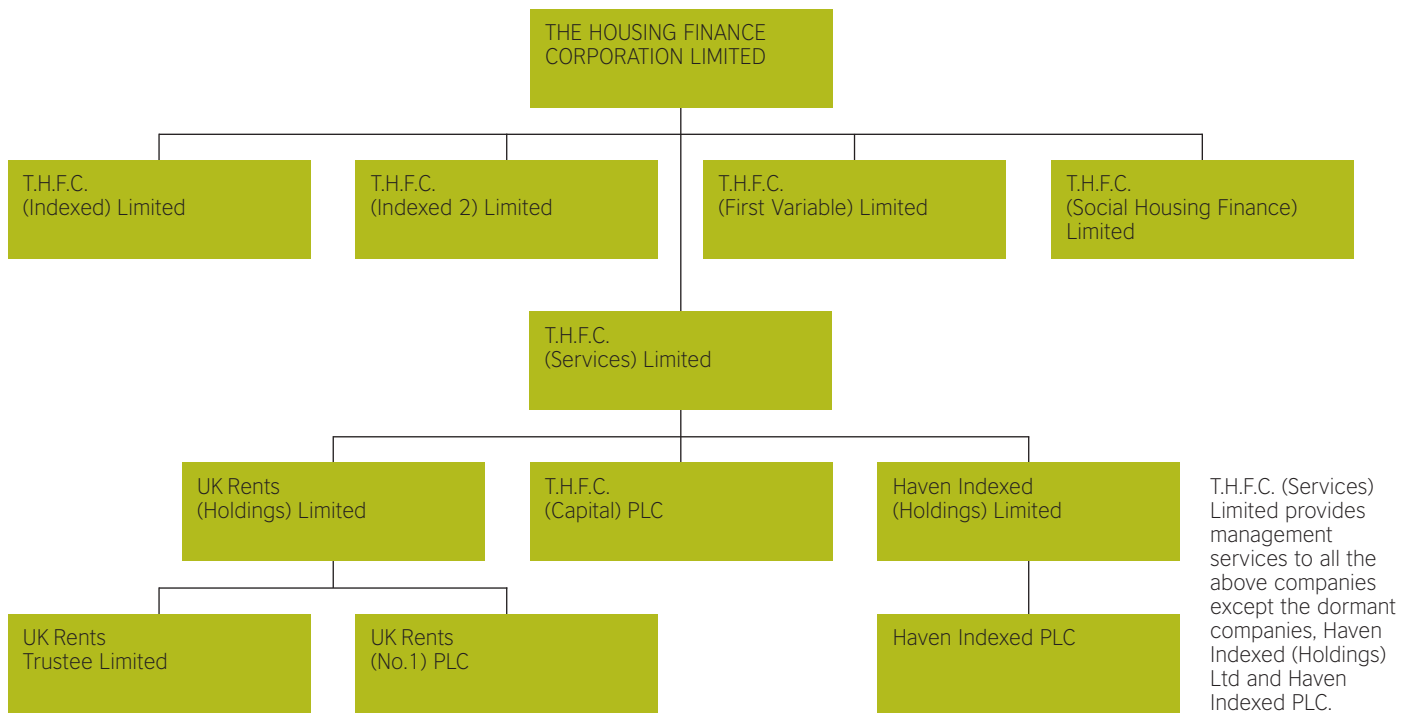
	2002 E000	2003 E000	2004 E000	2005 E000	2006 E000
Fees	890	708	877	951	1,349
Investment income	799	728	656	733	766
Other income	146	129	141	169	161
Total revenues	1,835	1,565	1,674	1,853	2,276
Staff costs	575	646	738	742	797
Directors costs	112	161	97	98	102
Legal/trustees and registrars	220	297	211	236	301
Premises	47	85	75	102	104
Other	308	316	361	306	343
Total costs	1,262	1,505	1,482	1,484	1,647
Surplus before tax	573	60	192	369	629
Tax	170	28	54	103	176
Surplus after tax	403	32	138	266	453
Accumulated reserves	5,607	5,639	5,777	6,043	6,496
	Em	Em	Em	Em	Em
Loans outstanding	1,431	1,449	1,452	1,585	1,607

This table is unaffected by the impact of IFRS.

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THFC Group Structure



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