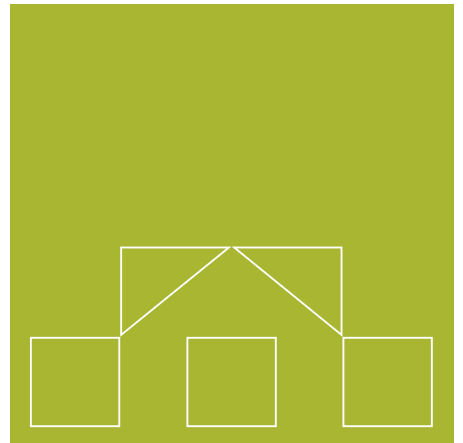
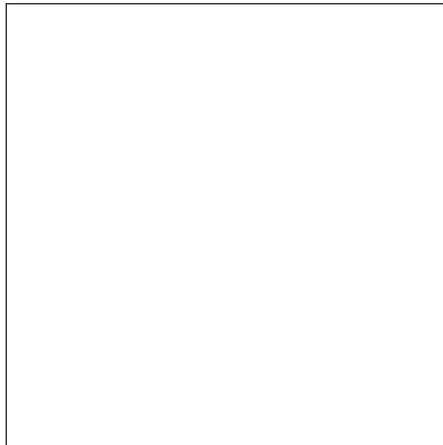


The Housing  
Finance  
Corporation  
Limited

ANNUAL REPORT AND ACCOUNTS 2007

Creating loans  
for affordable  
homes



THFC is an independent, specialist, not-for-profit organisation that makes loans to 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 private investors and by borrowing from banks. It therefore acts as an aggregating financial intermediary, so diversifying risk for those who fund RSLs through 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

INVESTMENT INCOME  
40%

ANNUAL FEES  
34%

ARRANGEMENT FEES  
18%

MANAGED & OTHER  
8%



# £100M

New facility from EIB allocated to borrowers for regeneration projects

The size of THFC Group's Loan Book

# £1,672M

# £539k

Pre-tax surplus



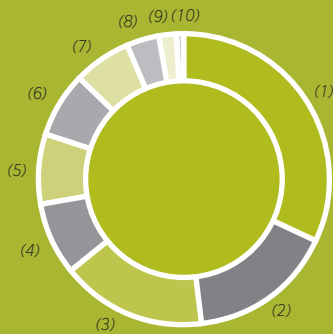
## TOTAL REVENUE

(ALL FIGURES ARE IN THOUSANDS)



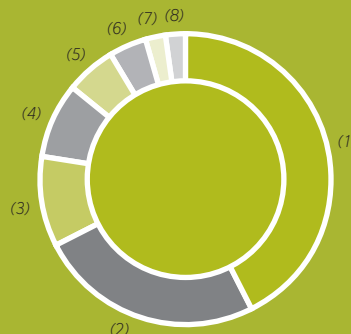
# Analysis of Group Loans Portfolio

## GEOGRAPHICAL DISTRIBUTION



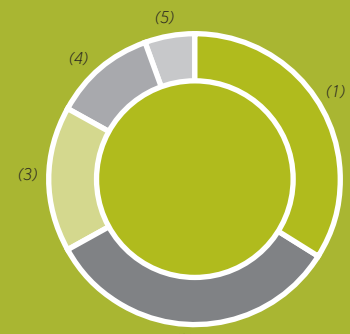
	£000
(1) NORTH EAST	490,399
(2) LONDON	349,616
(3) MIDLANDS	247,925
(4) NORTH WEST	125,912
(5) SOUTH WEST	118,184
(6) NATIONAL	112,661
(7) SOUTH EAST	98,456
(8) EAST ANGLIA	57,809
(9) WALES	34,186
(10) SCOTLAND	7,377
	1,642,525
PREMIUM/DISCOUNT	29,713
<b>TOTAL</b>	<b>1,672,238</b>

## INSTRUMENT STRUCTURE



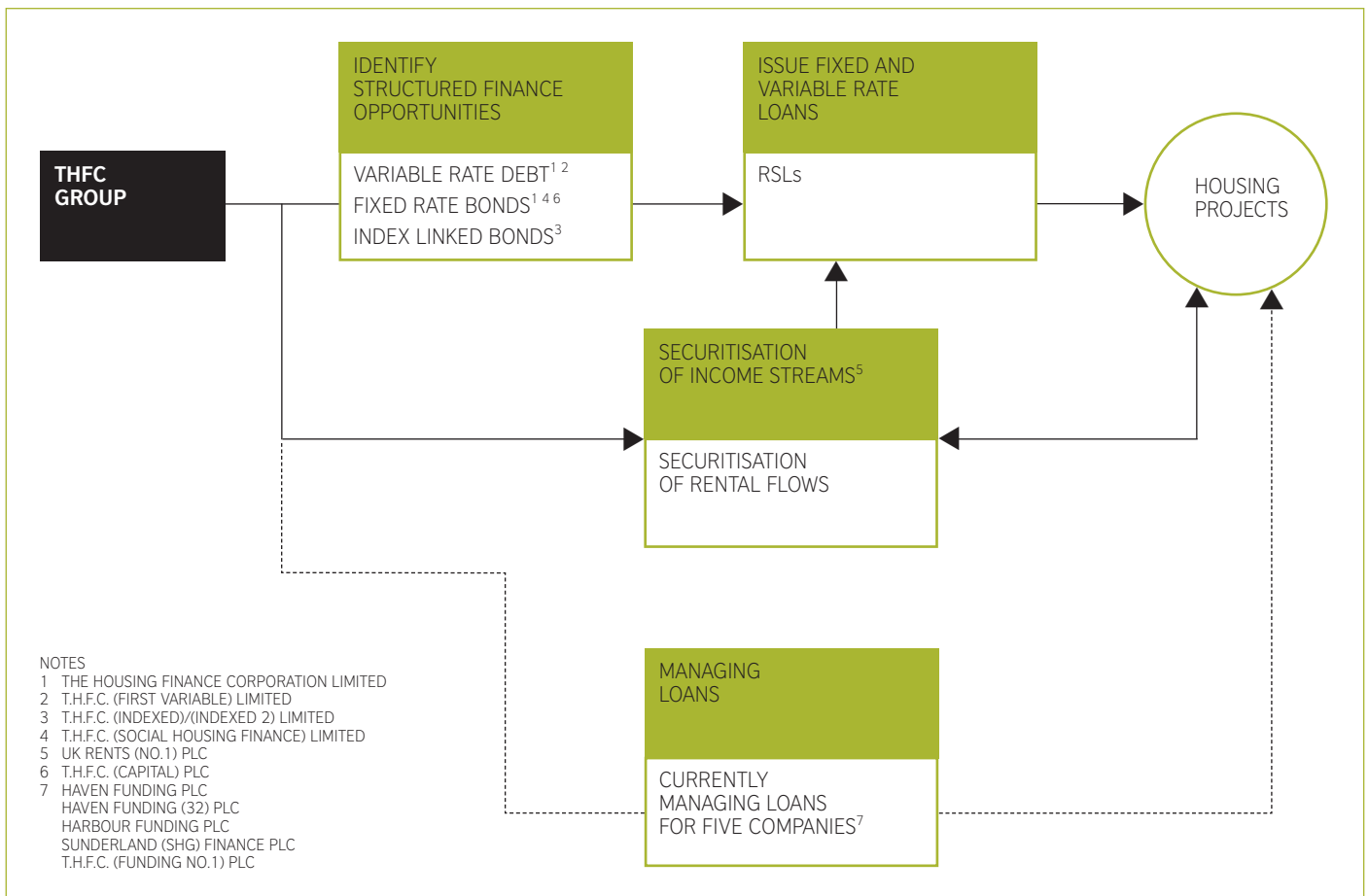
	£000
(1) FIXED RATE (BULLET)	699,526
(2) T.H.F.C. (CAPITAL) PLC	413,727
(3) INDEX LINKED	162,008
(4) FIXED RATE (ANNUITY)	137,383
(5) DISCOUNTED	89,746
(6) VARIABLE	67,350
(7) STEPPED COUPON	37,551
(8) RENTAL SECURITISATION	35,234
	1,642,525
PREMIUM/DISCOUNT	29,713
<b>TOTAL</b>	<b>1,672,238</b>

## OUTSTANDING LOAN TERMS



	£000
(1) 21 YEARS	593,085
(2) 16-20 YEARS	524,850
(3) 11-15 YEARS	257,357
(4) 6-10 YEARS	182,450
(5) 0-5 YEARS	84,783
	1,642,525
PREMIUM/DISCOUNT	29,713
<b>TOTAL</b>	<b>1,672,238</b>

# What we do



# Chairman's Report

DAVID CREED CHAIRMAN



## **We achieved a further year of strong financial performance and a substantial net increase in our loan book.**

The year to 31 March 2007 was a thoroughly successful one during which we increased the size of our loan book and added new borrowers, despite further intense competition. We continued the development of new financial products, some of which we began to market to housing associations. Another strong financial performance was achieved driven by higher income from new issuance fees and careful cost control.

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 create flexible and cost effective refinancing opportunities for those borrowers with historic, high interest debt; offer price-competitive lending products including a long term rated bond structure which is complementary to existing bank/building society financing, and provide first rate levels of customer service.

Our low risk profile was again re-affirmed in January by Standard & Poor's (S&P) 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. We also finished the preparatory work with S&P for it to deliver an expected A-1+ rating for our commercial paper programme.

We completed the placing of the £100 million loan facility from the European Investment Bank (EIB) with seven housing associations. The resultant funding will be allocated to a diverse collection of regeneration schemes in London, West Midlands, Nottingham, Yorkshire, Liverpool and Manchester. This brings the total of EIB funded housing association loans originated through THFC since 1998 to £383 million. It is planned that we will introduce further EIB-sourced funding to associations during the current year. Because of THFC's not-for-profit status, the on-lending will be on terms more attractive than is available through mainstream banks, and THFC will act as the conduit for the EIB's initial and subsequent due diligence. The financial terms of the planned further lending are expected to continue to be some of the most favourable yet secured from the EIB and to take into account THFC's credit rating and unique market position.

Favourable conditions in the bond markets allowed us to complete two tap issues of our T.H.F.C. (Funding No.1) Plc ("Funding No.1") bond issue during the year, the first having a nominal value of £32 million for three borrowers and the second of £37 million for one further borrower. Both of these issues were completed in less than three weeks, confirming the efficiency with which housing associations can

FUNDING NO.1 BOND  
TOTAL NOMINAL NOW  
£136.4 MILLION

**£136.4M**

A further two  
tap issues of the  
Funding No.1  
bond amounting  
to £69 million

raise funds in this market through THFC. These tap issues gave the two lowest effective interest rates for the issue of any social housing bond at 4.85% and 4.96% respectively and were for a period of twenty-nine years. The total Funding No.1 bond size is now £136.4 million and it is expected that it will soon exceed £150 million, thus making it attractive to a wider group of investors who seek larger bond sizes to ensure sufficient market liquidity.

We have begun marketing our commercial paper programme which is a rated, cost-effective short-term financing facility for those associations with active development programmes to assist them in funding their growing working capital needs.

In response to approaches from some of our borrowers, during the year we negotiated the prepayment of £35 million (nominal) of loans and our debenture stocks (2006: £53.8 million), thereby improving the financial profiles of those housing associations. We intend to continue facilitating prepayments of our borrowers' outstanding loans whenever institutional investors are prepared to exchange or sell the existing debenture 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 £136.8 million (2006: £88.2 million) of new money sourced from bond issues and bank debt was either advanced or made available to housing associations 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 £58.7 million (2006: £16.0 million), before adjustment for indexation and amortisation of premiums and discounts.

As a result the THFC Group loan book stands at £1,672 million (2006: £1,607 million), with a further £734 million (2006: £735 million) of related and third party loans that our service company, T.H.F.C. (Services) Limited ("THFCS") manages; a total increase of £64 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.

The combination of the turn in the interest rate cycle during the year and continued significant consolidation between associations has made capital markets products more appealing to our borrowers. Our proven product, first rate project management and consequent speed to market have proved highly attractive to a number of our customers already, which we believe should lead to further bond origination in the current year.

Through its continued membership of the Council of Mortgage Lenders ("CML") Social Housing Panel, THFC has continued to be an active contributor to the policy debate covering the provision of affordable housing. The proposed merger of the investment activities of the Housing Corporation and English Partnerships into Communities England, and the consequent intended modification of the framework for regulation of providers of social housing are potentially very important developments for all funders. THFC has been actively involved in providing both its own input and supporting the CML in its policy contribution to the review of regulation of the sector being led by Martin Cave. This review was published on 19 June 2007 at the same time as a CLG Consultation Paper on the formation of Communities England and the Cave review. We expect primary legislation as a result later this year.

At the year-end the Group was the provider of funds to 124 borrowers (2006: 128), a number of which are in the same group. I am pleased to report that we added four new borrowers to the Group's portfolio during the year. The overall number of THFC borrowers shown on pages 18 to 20 masks the concentration of housing associations into larger, more efficient groups. The Housing Corporation's list of just 74 housing associations as its Development Partners remains our primary target for the application of our expertise in issuing bonds

£2.2M

Total revenue  
in the year



Over £2.4 billion  
of Group and  
Managed Loans

£2.4BN

# Chairman's Report

Continued

to finance the social housing sector. In the next bid round for grant we expect this list to be further concentrated into perhaps 50 or 60 primary group recipients.

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 housing associations. These include community-based housing 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.

The consolidation of our operating procedures and stabilisation in staff numbers allowed us to reduce our operating overheads by 1.2% compared with an 11% increase in 2006. Our overall expenses were held to 0.070% (2006: 0.072%) of the £2.4 billion of outstanding loans at the year-end that we own or manage.

The table on page 47 gives a 5 year comparative history of the THFC Group and shows that our loan book has increased by 15.4% while total costs have increased by 8.3% and our total revenues by 38.6% over the period.

The timely and efficient management of our existing loans portfolio continues to be an essential part of THFC's core service to borrowers. The continuing low interest rate environment encouraged several more of our borrowers to look at ways of prepaying their

high coupon bond-funded debt without incurring the onerous penalty arising from the combination of the historic high fixed interest rates entered into, and the particular 'Spens' prepayment formula customarily incorporated into our 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 past prepaying borrowers, our bond trustee and our legal advisers, we have established a method that allows borrowers to use a bond repurchase route that reduces the prepayment cost significantly below that implied by the Spens formula. The approach involves investors selling their bonds at a discount to the Spens implied value and this is best achieved when the investor is willing to take newly issued bonds in exchange for the bonds under redemption.

During the year three borrowers prepaid certain of their loans with a nominal value of £35.04 million, of which £14.35 million was refinanced with part of the proceeds of the first tap issue of £32 million 5<sup>1</sup>/<sub>8</sub>% 2035/7 bonds issued by Funding No.1. In addition, THFC and our service company, THFCS, have arranged the prepayment of a further £6 million of THFC loans and £10.5 million of loans funded by the 7% 2032 bonds issued by Haven Funding (32) PLC. These prepayments, which will be completed once the underlying security transfers are in place, were funded with part of the proceeds of our second tap issue of bonds issued by

TOTAL REVENUES HAVE GROWN BY 39% OVER THE LAST FIVE YEARS

39%

Funding No.1. This will be the first prepayment of a Haven loan. We will continue to 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 £1,113 million (2006: £1,041 million). However £379 million of this amount is borrowed by managed companies and lent to associations via THFC or one of its subsidiaries and is therefore on the Group balance sheet. THFCS is 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 £104,000 (2006: £102,000).

Primarily as a result of the fees we received for arranging new loans and payments for the loss of future management fees from prepaid

loans, the Group achieved a pre-tax surplus of £539,000 (2006: £629,000). 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 £6.5 million to £6.9 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 housing associations as they look to diversify their funding into the capital markets.

During the summer of 2006 the Nominations Committee carried out an extensive search for a well qualified individual to join our board and to take over the position of chairman at the end of the 2007 Annual General Meeting. The committee interviewed 6 of the 32 candidates who were considered and recommended two names to the board for its consideration. As announced last August the selected candidate was Roger Mountford, who joined the board in September 2006. Roger has a long experience of the financial markets and has served on the board of a housing association for several years and we are delighted that he will be taking up his responsibilities as chairman after the Annual General Meeting. Roger's background is shown under the directors' details on page 17.

This is my last report as chairman of THFC and I am pleased that I am leaving THFC

well placed to serve the financing needs of housing associations. It remains the only not-for-profit finance provider to the sector and has developed a niche business that will provide a sound platform from which to widen the services it provides.

The changes made in the five years of my chairmanship have been led by Piers Williamson, who has re-fashioned and modernised the business to make it a more effective and relevant institution than it has been at any time since I joined the board in 1992. My board colleagues and I are grateful to him and his team for the hard work, dedication and professional expertise which have created an organisation that is both successful and a pleasure to work with.



DAVID CREED  
CHAIRMAN  
25 JUNE 2007

A niche business  
and sound platform  
for further growth



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

### 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 lending subsidiaries operate on a non-profit-distributing basis. They carry out the core function of raising private sector loan finance for housing associations 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 the Group's treasurer Fenella Edge together with six (temporarily seven) non-executive directors (short biographies of the current nine directors can be found on pages 16 and 17). In September 2006, after a thorough search undertaken by THFC's nominations committee, the board appointed Roger Mountford as a director and as its chairman elect. Roger will take up the chairman's duties at the end of the Annual General Meeting to be held on 25 June after which the present chairman, David Creed, intends to resign from the board.

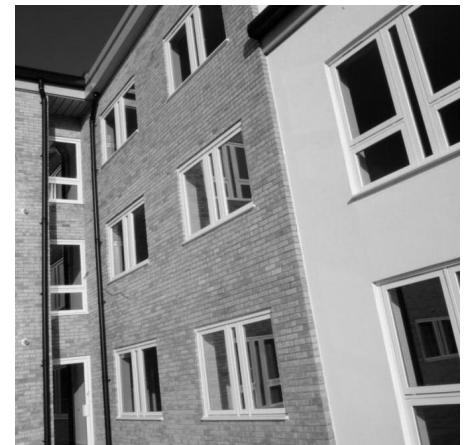
The Housing Corporation, the national government agency which acts as the regulator of RSLs and is currently the principal distributor of social housing grant, has the right to nominate a director to the board. Its current nominated director is its Head of Private Finance, Gill Rowley. The National Housing Federation has a similar right and nominates its chief executive who is presently David Orr. 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, Nigel Perryman who had experience as a senior finance professional in a number of housing associations prior to joining THFC in October 2004 and Yang May Ooi, a qualified solicitor, who joined THFC in July 2006.

Fenella Edge's team is responsible for relationships with housing association customers. Its continuing success in managing the loans pre-payment programme and in developing new products that appeal to association customers has been the major contributor to our sound financial performance during the year.

Roger Mountford  
appointed  
director and  
chairman elect



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 and vehicles, T.H.F.C. (Indexed) Limited, T.H.F.C. (Indexed 2) Limited, T.H.F.C. (First Variable) Limited, T.H.F.C. (Social Housing Finance) Limited and T.H.F.C. (Funding No.1) Plc have between them issued financial instruments including zero-coupon, deep-discounted, index-linked 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 mismatch 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, using its own credit rating system, and accepts or refuses applications for funding after a careful review by the Group's 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, bonds 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

While THFC can 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 and most new borrowers choose to adopt fixed charge security from the outset. 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 twenty-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.

THFC's bespoke credit rating model was further reviewed and fine-tuned 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 rating, 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.

RSLs continue to be pressured by the Government to produce more for less. In the current grant round the department for Communities and Local Government (CLG) is seeking bids from housing associations that decrease the amount of grant per housing unit developed, while at the same time actively promoting competitive bids from non-housing associations for grant funding. It is widely expected that the provision of grant will be concentrated in an even smaller group of the

THFC'S EXEMPLARY RECORD OF PROMPT COLLECTION AND PAYMENT OF INTEREST AND PRINCIPAL HAS REMAINED INTACT OVER ITS TWENTY-YEAR HISTORY

A+  
long term  
rating

larger Development Partners which have proved their ability to use grants effectively.

There is also a growing consolidation among residential house-builders, of which the recent Taylor Woodrow/George Wimpey merger is the most high profile example to date. Like housing associations, house builders are rationalising cost bases and concentrating their development resources, most importantly their land banks. While conditions in the housing market have been benign over the last year, there are signs that the four increases in Base Rate are beginning to slow the residential mortgage market down. The concern in the short term is that this will also result in social housing projects taking longer from planning to completion, at a time when Government has identified growing demand and a lack of affordability. The next two years will be a key period for the larger Development Partners, with many major schemes in development. All of these factors continue to put strains on RSL resources, commonly impacting the debt service capability forecast in RSL business plans, and this underlines the need for THFC to maintain a strong internal credit function to complement the regulatory function of the Housing Corporation.

Our credit assessment process is underpinned by the financial covenants we require of our borrowers. 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 substantially all its loans.

### Subsidiaries

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 an 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 Gentoo Group (formerly Sunderland Housing Group). The loans to Gentoo 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

THE NEW £100 MILLION  
EIB FACILITY WILL BE  
ON-LENT AT SOME OF THE  
FINEST CREDIT SPREADS  
EVER OBTAINED BY  
HOUSING ASSOCIATIONS  
IN THE UK

£136.8M

of new lending  
in the year

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 £6.9 million (2006: £6.5 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. As at 31 March 2007 these companies had a total of £429.9 million (nominal) lent to 21 housing associations funded by bond issues 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 2007 had £239.5 million (nominal) in loans to Gentoo Group (formerly 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.

Accumulated reserves stand at £6.9 million

**£6.9M**



## 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 housing associations. 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 2007 was £539,000 (2006: £629,000).

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 11.

## 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, David Creed will resign and is not offering himself for re-election and Pam Alexander will resign and is offering herself for re-election. As a director appointed to the board since the last Annual General

Meeting Roger Mountford is required to resign and offers himself 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 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 fees payable to the National Housing Federation representative director (David Orr) were remitted to his employer. On 25 April 2006 the Housing Corporation waived its right to receive the fee payable in respect of its nominee director (Shaukat Moledina and subsequently Gill Rowley). The fees of the non-executive directors were increased by 4.8% on 1 April 2007.

## Board

The directors of THFC (all of whom are non-executive with the exception of Piers Williamson, chief executive, and Fenella Edge, group treasurer) also comprise the boards of its subsidiaries. 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 (to be replaced by Roger Mountford) and David Orr and meets as required to consider new board appointments.

## Directors and Shareholders

Director	Period Served to 31 March 2007	THFC Shareholdings
Pam Alexander	Full Year	£1
Michael Boohan	Full Year	£1
David Creed	Full Year	£1
Fenella Edge	since 24 April 2006	NIL
Shaukat Moledina	to 25 April 2006	NIL
Roger Mountford	since 1 September 2006	NIL
David Orr	Full Year	NIL
Gill Rowley	since 25 April 2006	NIL
Sadru Visram	Full Year	£1
Piers Williamson	Full Year	NIL

### Other shareholders

The Housing Corporation	£1
The National Housing Federation	£1

### Total shareholdings at 31 March 2007

£6

David Creed will retire on 25 June 2007.

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

### 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.

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.

### Directors' Attendance at Meetings

Directors' attendance at THFC board and board committee meetings was monitored during the year and their record is shown in the adjacent table. Where a director was unable to attend a meeting he or she was scheduled to attend, the chairman received a sound reason for the non-attendance. Special board meetings are those called to approve the documentation of all borrowings and lendings. It is not expected that every board member attend each special meeting, only that a quorum is present. In each case those directors who were asked and agreed to attend special meetings did so.

### 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.

### Principles of Tenure for Non-executive Board Members

Non-executive board members of THFC and its subsidiaries are appointed under the following conditions that 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.

### Directors' Attendance at Meetings

	Audit Committee	Board Meetings	Special Board Meetings	Nominations Committee
David Creed (Chairman)	–	6 (6)	8	3 (3)
Pam Alexander	–	3.5 (6)	–	–
Michael Boohan	2 (2)	6 (6)	5	3 (3)
Fenella Edge	–	6 (6)	8	–
Shaukat Moledina	–	0 (1)	–	–
Roger Mountford	–	3 (3)	2	–
David Orr	–	5.5 (6)	–	3 (3)
Gill Rowley	2 (2)	4 (5)	2	–
Sadru Visram	2 (2)	4 (6)	4	–
Piers Williamson	–	6 (6)	6	–

“–” indicates not a member or not required to attend

### Pension Scheme

All THFCS employees, but not non-executive directors, participate in the Social Housing Pension Scheme (SHPS). This scheme, with assets under management of £1.3bn and an actuarial deficit of £283m (at the triennial valuation as of 30 September 2005), is by far the largest pension provider in the Housing Association sector and until 31 March 2007 was operated exclusively on a final salary basis. As part of the plan to accelerate the elimination of the funding deficit the trustees of SHPS offered three alternative scheme structures to employers and members, including a continuation of the existing arrangements. With effect from 1 April 2007 THFCS and all its employees elected to stay with the pre-existing arrangements and to pay increased employer and member contributions. Any employees appointed by THFCS in the future will be offered participation in SHPS only on a career average salary basis.

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 adopted with effect from 1 April 2005, no element of the scheme deficit is accounted for in the Group balance sheet. THFCS's share of the deficit on a discontinuance basis would be material, but THFCS has no present intention of leaving the SHPS Scheme. The board of THFC has considered the risks associated with membership of SHPS, including the possible size of future contribution requirements and the 'last man standing' and discontinuance risks. It is pursuing further discussions with SHPS trustees to ensure that these risks are closely examined and prudently managed by the trustees and member employers.

### Combined Code issued by the FRC ("The Code")

The Group has for a number of years chosen to 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. Additionally under UK Listing Authority ("UKLA") rules the Group is required to comply with a number of the provisions of the Code. These principally relate to the conduct of the Group's Audit Committee and to disclosures in the sections covering corporate governance contained within the Directors' Report.

### 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, are formally considered by the board half yearly 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 25 June 2007 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](http://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

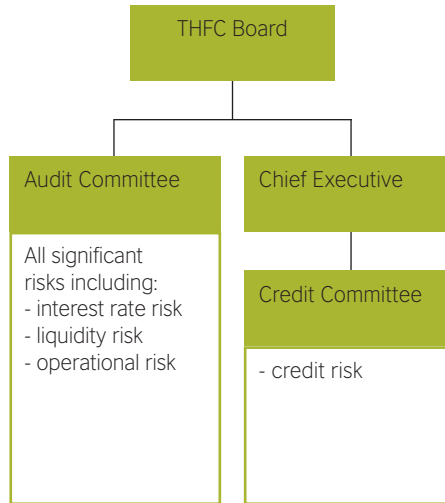
The Group's principal creditors are the holders of the debenture stocks and secured bonds and providers of bank borrowings. Payments to the holders of these securities are made in accordance with the underlying issue or loan documents. As at the financial year end, no amounts due for payment to the holders 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 or more 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 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. In general 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 counter-parties are subject to pre-approval by the board and such approval is limited to financial institutions with a suitable minimum long term rating in accordance with THFC treasury policy. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed 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.

#### 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  
25 JUNE 2007

# Directors

**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**

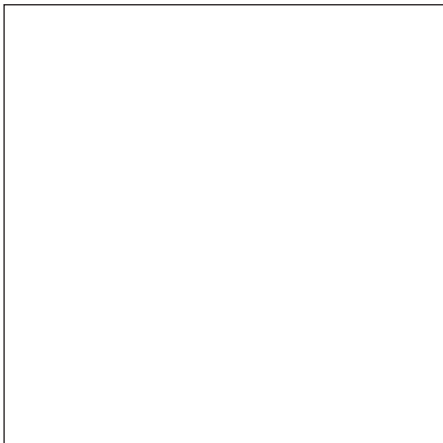
Michael Boohan is a Chartered Accountant. He practices as a business consultant and acts as a CEDR (Centre for Effective Dispute Resolution) Accredited Mediator. He is a former partner in Grant Thornton and has been a THFC board member since 1995. Michael was appointed senior non-executive director of the board on 1 April 2007.

**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.

Top row, left to right:  
 DR DAVID CREED  
 MICHAEL BOOHAN  
 ROGER MOUNTFORD  
 GILL ROWLEY  
 PIERS WILLIAMSON

Bottom row, left to right:  
 PAM ALEXANDER  
 FENELLA EDGE  
 DAVID ORR  
 SADRU VISRAM



**ROGER MOUNTFORD**

Roger Mountford was a merchant banker in London and Hong Kong. Since his retirement he has served on a number of boards including Thames Valley Housing Association, the Civil Aviation Authority and the Port of Dover. He is chairman of HgCapital Trust PLC and the CAA Pension Scheme. Roger is also chairman of the London School of Economics' commercial subsidiary, Enterprise LSE Limited. Roger joined the board in September 2006.

**DAVID ORR**

David Orr took up his post as chief executive of the National Housing Federation in July 2005. For the previous 15 years David was 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**

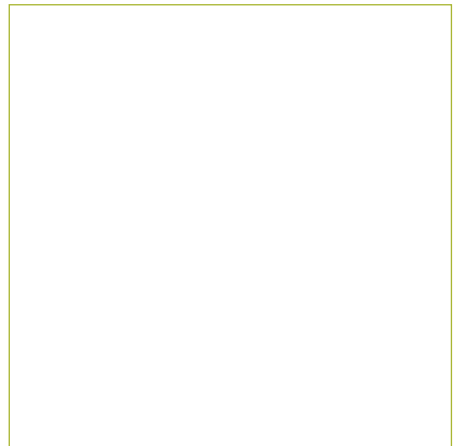
Gill Rowley joined the Housing Corporation in January 2000 and is their Head of Private Finance. She has over 15 years experience of funding for the housing association sector and previously worked at the United Bank of Kuwait (now Ahli United Bank) and Nationwide Building Society. Gill was appointed 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 and deputy Chair of ASRA's parent company LHA-ASRA.

**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.



# Group Loans

Loans Portfolio  
as at 31 March 2007

Fixed charge security

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
A2 WINCHESTER LIMITED	SOUTH WEST	2,500	-	2,365	-	-	-	-	4,865
ACCENT ON GIVING LIMITED	NATIONAL	-	12,561	-	-	-	-	-	12,561
ACTON HA LIMITED	LONDON	25,402	-	-	-	-	-	-	25,402
ADACTUS HA LIMITED	NORTH WEST	-	-	-	-	2,093	-	-	2,093
AGUDAS ISRAEL HA LIMITED	LONDON	208	-	591	-	-	-	-	799
ALDWYCK HA LIMITED	SOUTH EAST	1,093	-	-	-	-	-	-	1,093
AMICUSHORIZON GROUP LIMITED	LONDON	28,500	15,444	-	-	-	-	-	43,944
ASRA GREATER LONDON HA LIMITED	LONDON	3,000	-	-	-	-	-	-	3,000
AXIOM HA LIMITED	EAST ANGLIA	21,806	-	-	-	-	-	-	21,806
BETH JOHNSON HA LIMITED	MIDLAND	4,000	-	-	-	-	-	-	4,000
BETHNAL GREEN & VICTORIA PARK HA LIMITED	LONDON	1,250	-	-	-	7,297	-	-	8,547
CAMBRIDGE HOUSING SOCIETY LIMITED	EAST ANGLIA	4,200	-	-	-	-	-	-	4,200
CATALYST COMMUNITIES HA LIMITED	LONDON	4,426	1,384	-	-	-	-	-	5,810
CARDIFF COMMUNITY HA LIMITED	WALES	-	298	-	-	-	-	-	298
CHERWELL HOUSING TRUST	SOUTH EAST	5,000	-	-	-	-	-	-	5,000
CHEVIOT HA LIMITED	NORTH EAST	-	-	-	-	3,000	-	-	3,000
CLWYD ALYN HA LIMITED	WALES	2,000	2,662	-	-	-	-	-	4,662
COMMUNITY HA LIMITED	LONDON	14,036	-	-	-	-	-	-	14,036
CONNECT HA LIMITED	NORTH EAST	-	-	-	-	5,000	-	-	5,000
CONTOUR HOMES LIMITED	NORTH WEST	2,500	-	-	-	8,813	-	-	11,313
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 HOUSING SOCIETY LIMITED	MIDLAND	5,550	-	-	-	-	-	-	5,550
EAST HOMES LIMITED	LONDON	1,417	-	-	-	-	-	-	1,417
EILDON HA LIMITED	SCOTLAND	-	-	-	-	3,900	-	-	3,900
EQUITY HOUSING GROUP LIMITED	NORTH WEST	2,309	-	-	2,891	-	-	-	5,200
ESTUARY HA LIMITED	EAST ANGLIA	7,864	692	-	-	-	-	-	8,556
FAMILY MOSAIC HOUSING	LONDON	13,613	1,810	-	-	-	-	-	15,423
FRIENDSHIP CARE HA LIMITED	MIDLAND	2,000	-	-	-	5,500	-	-	7,500
GRAMPIAN HA LIMITED	SCOTLAND	-	-	-	-	3,477	-	-	3,477
GRAVESEND CHURCHES HA LIMITED	SOUTH EAST	-	-	-	-	1,750	-	-	1,750
HASTOE HA LIMITED	SOUTH EAST	5,364	-	-	-	-	-	-	5,364
HEANTUN HA LIMITED	MIDLAND	10,000	-	-	-	-	-	-	10,000
HEXAGON HA LIMITED	LONDON	1,500	266	4,139	-	-	-	-	5,905
HIGHTOWN PRAETORIAN & CHURCHES HA LIMITED	SOUTH EAST	1,100	1,064	-	-	-	-	-	2,164
HOME GROUP LIMITED	NATIONAL	2,710	10,581	11,529	-	-	-	-	24,820
HYDE HA LIMITED	SOUTH EAST	-	-	11,445	-	-	-	-	11,445
INNISFREE HA LIMITED	LONDON	3,000	-	-	-	-	-	-	3,000
IRWELL VALLEY HA LIMITED	NORTH WEST	-	-	2,365	-	-	-	-	2,365
ISLINGTON & SHOREDITCH HA LIMITED	LONDON	2,000	-	-	-	4,310	-	-	6,310
JOHN GROOMS HA	NATIONAL	-	-	-	-	3,000	-	-	3,000
JOHNNIE JOHNSON HOUSING TRUST LIMITED	NORTH WEST	3,500	745	-	-	-	-	-	4,245
KNIGHTSTONE HA LIMITED	SOUTH WEST	9,133	11,439	-	-	-	-	-	20,572
KUSH HA LIMITED	LONDON	4,000	-	-	-	-	-	-	4,000
L&Q BEAVER LIMITED	LONDON	12,000	1,064	-	-	-	-	-	13,064
L&Q THRESHOLD HOMES LIMITED	LONDON	5,000	-	-	2,669	-	-	-	7,669
LHA - ASRA GROUP LIMITED	MIDLAND	-	-	-	-	4,717	-	-	4,717
LIVERPOOL HOUSING TRUST LIMITED	NORTH WEST	-	-	-	-	6,420	-	-	6,420
LONDON & QUADRANT HOUSING TRUST	LONDON	7,998	-	-	-	-	-	-	7,998
LONGHURST HOMES LIMITED	EAST ANGLIA	9,400	-	-	-	-	-	-	9,400
MANCHESTER METHODIST HA LIMITED	NORTH WEST	2,250	-	591	667	10,015	-	-	13,523
MANNINGHAM HA LIMITED	NORTH EAST	6,000	-	-	934	2,000	-	-	8,934
MERCIAN HA LIMITED	MIDLAND	2,432	-	-	-	3,000	-	-	5,432
METROPOLITAN HOUSING TRUST LIMITED	LONDON	4,000	-	1,774	-	-	-	-	5,774
MID WALES HA LIMITED	WALES	-	-	1,301	-	-	-	-	1,301
MIDLAND HEART LIMITED	MIDLAND	22,057	9,655	-	-	-	-	-	31,712
MINSTER GENERAL HA LIMITED	EAST ANGLIA	5,868	-	-	-	1,500	-	-	7,368
MOAT HOMES LIMITED	SOUTH EAST	3,500	6,675	-	-	-	-	-	10,175
MOSSCARE HOUSING LIMITED	NORTH WEST	4,500	-	-	-	13,361	-	-	17,861
NENE HOUSING SOCIETY LIMITED	EAST ANGLIA	1,859	-	-	-	-	-	-	1,859
NEWLON HOUSING TRUST	LONDON	5,066	-	-	-	-	-	-	5,066
NOMADES HA LIMITED	NORTH EAST	-	-	-	-	5,500	-	-	5,500
NORTH LONDON MUSLIM HA LIMITED	LONDON	1,000	-	-	-	1,500	-	-	2,500
NORTH WALES HA LIMITED	WALES	2,500	425	-	-	5,000	-	-	7,925
NOTTINGHAM COMMUNITY HA LIMITED	MIDLAND	17,339	-	-	-	-	-	-	17,339

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
OCTAVIA HOUSING AND CARE	LONDON	2,000	-	-	-	3,500	-	-	5,500
ORIGIN HOUSING GROUP LIMITED	SOUTH EAST	5,600	-	-	-	-	-	-	5,600
OXFORD CITIZENS HA LIMITED	SOUTH EAST	-	-	-	667	-	-	-	667
PADDINGTON CHURCHES HA	LONDON	2,500	-	-	-	2,000	-	-	4,500
PEMBROKESHIRE HA LIMITED	WALES	1,000	-	-	-	-	-	-	1,000
PENWITH HA LIMITED	SOUTH WEST	5,776	-	-	-	-	-	-	5,776
PLACES FOR PEOPLE HOMES LIMITED	NATIONAL	26,181	-	-	-	-	-	-	26,181
PORTAL HA LIMITED	SOUTH WEST	5,000	-	-	-	-	-	-	5,000
SADEH LOK HOUSING GROUP LIMITED	NORTH EAST	650	-	-	-	-	-	-	650
SANCTUARY HA	NATIONAL	14,515	-	-	-	-	-	-	14,515
SHAFTESBURY HA	NATIONAL	-	1,916	-	-	-	-	-	1,916
SOHO HA LIMITED	LONDON	-	-	-	-	1,500	-	-	1,500
SOUTH YORKSHIRE HA LIMITED	NORTH EAST	1,500	-	-	-	3,418	-	-	4,918
SOUTHERN HOUSING GROUP LIMITED	LONDON	10,163	3,130	-	-	10,000	-	-	23,293
SPRINGBOARD HA LIMITED	LONDON	6,000	-	-	-	-	-	-	6,000
STAFFORDSHIRE HA LIMITED	MIDLANDS	-	-	-	-	5,300	-	-	5,300
ST VINCENT'S HA LIMITED	NORTH WEST	3,050	-	-	-	4,000	-	-	7,050
SUTTON HOUSING SOCIETY LIMITED	SOUTH EAST	250	-	-	-	-	-	-	250
SWAYTHLING HOUSING SOCIETY LIMITED	SOUTH WEST	10,500	-	-	-	-	-	-	10,500
TAFF HA LIMITED	WALES	500	-	-	-	1,000	-	-	1,500
THAMES VALLEY CHARITABLE HA LIMITED	SOUTH EAST	14,999	-	-	-	-	-	-	14,999
THREE RIVERS HA LIMITED	NORTH EAST	-	-	-	-	1,669	-	-	1,669
TOYNBEE HA LIMITED	LONDON	500	-	-	-	-	-	-	500
TRIDENT HA LIMITED	MIDLAND	5,000	2,874	-	-	-	-	-	7,874
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
WESTCOUNTRY HA LIMITED	SOUTH WEST	37,000	-	-	-	-	-	-	37,000
WEST MERCIA HOMES LIMITED	MIDLANDS	4,000	-	-	-	-	-	-	4,000
WEST PENNINE HA LIMITED	NORTH WEST	3,000	-	3,433	-	2,000	-	-	8,433
WILLIAM SUTTON HA LIMITED	NATIONAL	-	-	2,365	-	-	-	-	2,365
WILTSHIRE RURAL HA LIMITED	SOUTH WEST	1,125	-	-	-	-	-	-	1,125
WIRRAL METHODIST HA LIMITED	NORTH WEST	1,200	-	-	-	-	-	-	1,200
WOMENS PIONEER HOUSING LIMITED	LONDON	1,000	-	-	-	-	-	-	1,000
YORKSHIRE HOUSING LIMITED	NORTH EAST	5,000	-	-	-	-	-	-	5,000
<b>TOTAL FIXED CHARGE SECURITY</b>		<b>533,741</b>	<b>84,685</b>	<b>41,898</b>	<b>7,828</b>	<b>138,790</b>	<b>0</b>	<b>0</b>	<b>806,942</b>

#### FLOATING CHARGE SECURITY

ADACTUS HA LIMITED	NORTH WEST	5,500	-	-	-	-	-	-	5,500
ALDWYCK HA LIMITED	SOUTH EAST	17,307	1,384	5,912	-	-	-	-	24,603
ARENA HOUSING GROUP LIMITED	NORTH WEST	5,000	-	8,278	-	6,000	-	-	19,278
ASRA GREATER LONDON HA LIMITED	LONDON	7,000	-	-	4,446	-	-	-	11,446
BARNSBURY HA LIMITED	LONDON	-	-	-	1,112	-	-	-	1,112
BLACK COUNTRY HOUSING GROUP LIMITED	MIDLANDS	7,000	-	-	-	-	-	-	7,000
BROMFORD CARINTHIA HA	SOUTH WEST	4,500	-	1,774	-	-	-	-	6,274
CHEVIOT HA LIMITED	NORTH EAST	11,445	2,023	-	-	-	-	-	13,468
CIRCLE 33 HOUSING TRUST LIMITED	LONDON	1,079	-	-	-	-	-	-	1,079
CONNECT HA LIMITED	NORTH EAST	2,750	-	-	-	-	-	-	2,750
DE MONTFORT HOUSING SOCIETY LIMITED	MIDLANDS	6,250	745	-	-	-	-	-	6,995
DEVON & CORNWALL HA LIMITED	SOUTH WEST	2,710	5,712	-	-	-	-	-	8,422
EAST MIDLANDS HA LIMITED	MIDLANDS	13,973	-	1,360	1,779	-	-	-	17,112
ENGLISH CHURCHES HOUSING GROUP LIMITED	NATIONAL	20,284	745	-	-	-	-	-	21,029
EQUITY HOUSING GROUP LIMITED	NORTH WEST	1,000	373	-	-	-	-	-	1,373
FAMILY HA (BIRMINGHAM) LIMITED	MIDLANDS	6,000	-	-	-	3,856	-	-	9,856
HABINTEG HA LIMITED	NATIONAL	6,274	-	-	-	-	-	-	6,274
ISLINGTON & SHOREDITCH HA LIMITED	LONDON	1,081	-	-	-	-	-	-	1,081
LEEDS FEDERATED HA LIMITED	NORTH EAST	3,000	-	-	-	-	-	-	3,000
LHA-ASRA GROUP LIMITED	MIDLANDS	22,545	745	-	1,245	-	-	-	24,535
MANNINGHAM HA LIMITED	NORTH EAST	9,680	-	-	-	-	-	-	9,680
MERCIAN HA LIMITED	MIDLANDS	20,969	1,064	-	-	-	-	-	22,033
METROPOLITAN HOUSING TRUST LIMITED	LONDON	27,556	2,448	-	-	-	-	-	30,004
MIDLAND HEART LIMITED	MIDLANDS	31,626	-	-	-	-	-	-	31,626
MOSELEY & DISTRICT CHURCHES HA LIMITED	MIDLANDS	3,050	-	2,861	1,779	-	-	-	7,690
MOSSCARE HOUSING LIMITED	NORTH WEST	11,500	-	-	-	-	-	-	11,500
OXFORD CITIZENS HA LIMITED	SOUTH EAST	1,500	-	-	667	-	-	-	2,167
PORTSMOUTH HA LIMITED	SOUTH EAST	7,247	-	-	-	-	-	-	7,247

# Group Loans

Loans Portfolio  
as at 31 March 2007  
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
<b>STADIUM HA LIMITED</b>	LONDON	36,865	-	-	-	-	-	-	36,865
<b>STAFFORDSHIRE HA LIMITED</b>	MIDLANDS	3,800	-	-	-	-	-	-	3,800
<b>SWAYTHLING HOUSING SOCIETY LIMITED</b>	SOUTH WEST	12,000	-	-	-	-	-	-	12,000
<b>THREE RIVERS HA LIMITED</b>	NORTH EAST	6,000	-	-	-	-	-	-	6,000
<b>TOYNBEE HA LIMITED</b>	LONDON	600	-	-	-	-	-	-	600
<b>UJIMA HA LIMITED</b>	LONDON	6,595	-	-	-	-	-	-	6,595
<b>WESTCOUNTRY HA LIMITED</b>	SOUTH WEST	6,000	-	-	-	-	-	-	6,000
<b>WYCOMBE FRIENDSHIP HA LIMITED</b>	SOUTH EAST	628	-	-	-	-	-	-	628
<b>TOTAL FLOATING CHARGE SECURITY</b>		<b>330,314</b>	<b>15,239</b>	<b>20,185</b>	<b>11,028</b>	<b>9,856</b>	-	-	<b>386,622</b>
<b>INCOME SECURITY</b>									
<b>CHEVIOT HA LIMITED</b>	NORTH EAST	-	-	-	-	-	-	7,103	7,103
<b>CONTOUR HOMES LIMITED</b>	NORTH WEST	-	-	-	-	-	-	5,308	5,308
<b>KELSEY HA LIMITED</b>	LONDON	-	-	-	-	-	-	4,782	4,782
<b>L&amp;Q BEAVER LIMITED</b>	LONDON	-	-	-	-	-	-	7,373	7,373
<b>MERCIAN HA LIMITED</b>	MIDLAND	-	-	-	-	-	-	5,364	5,364
<b>PORTSMOUTH HA LIMITED</b>	SOUTH EAST	-	-	-	-	-	-	5,304	5,304
<b>INCOME COVER</b>		-	-	-	-	-	-	<b>35,234</b>	<b>35,234</b>
<b>T.H.F.C (Capital) PLC</b>									
<b>GENTOO GROUP LIMITED</b>	NORTH EAST	-	-	-	-	-	413,727	-	413,727
<b>TOTAL</b>		-	-	-	-	-	<b>413,727</b>	-	<b>413,727</b>
<b>GRAND TOTAL</b>		<b>864,055</b>	<b>99,924</b>	<b>62,083</b>	<b>18,856</b>	<b>148,646</b>	<b>413,727</b>	<b>35,234</b>	<b>1,642,525</b>
<b>PREMIUM/DISCOUNT</b>									<b>29,713</b>
<b>TOTAL AT 31 MARCH 2007</b>									<b>1,672,238</b>
<b>LOAN PREPAYMENTS</b>									
Amount £ million	Basis	Issuer/Lender				Bond/Loan			
£12.2	OUTSTANDING PRINCIPAL	THE HOUSING FINANCE CORPORATION LIMITED				FIXED RATE LOAN 2025			
£8.5	OUTSTANDING PRINCIPAL	THE HOUSING FINANCE CORPORATION LIMITED				FIXED RATE LOAN 2023			
£3.0	FACE VALUE	THE HOUSING FINANCE CORPORATION LIMITED				11.5% 2016			
£11.3	FACE VALUE	T.H.F.C. (SOCIAL HOUSING FINANCE) LIMITED				8.75% 2016/21			
<b>£35.0</b>									
<b>MOVEMENTS IN THE GROUP LOAN BOOK</b>									
		2007 £ million		2006 £ million					
OPENING LOAN BALANCE		1,606.9		1,584.8					
NET REPAYMENTS AND PREPAYMENTS	(78.1)		(72.2)						
NET NEW LOANS DRAWN	134.1		88.2						
PREMIUMS ON NEW ISSUES	2.7		-						
CHANGES IN INDEXATION, PREMIUM AND DISCOUNT	58.7		16.0						
	6.6		6.1						
CLOSING LOAN BALANCE		1,672.2		1,606.9					

# Group Source of Funds

Debenture Stocks, Eurobonds,  
Bank and other Loans  
as at 31 March 2007

	Date	Nominal Amount £000	Outstanding Principal Amount £000
<b>THFC DEBENTURE STOCKS</b>			
DISCOUNTED:			
ZERO COUPON 2012	08.12.87	93,502	49,783
5% 2027	08.12.87	50,954	26,793
7% 2009 (SERIES I)	20.05.88	10,114	9,227
7% 2009 (SERIES II)	08.07.88	4,350	3,943
STEPPED COUPON:			
6.58% TO 19.60% 2019	02.03.89	10,000	15,532
7.91% TO 19.75% 2019	28.06.89	4,630	7,025
7.55% TO 17.61% 2019	17.08.89	7,860	11,255
8.44% TO 15.98% 2019	11.10.89	2,900	3,741
CONVENTIONAL FIXED RATE:			
12.04% 2021 (ANNUITY)	02.07.91	15,000	13,555
11.5% 2016 (BULLET)	27.11.91	68,450	68,450
	TRANCHE 2	27.05.92	38,500
	TRANCHE 3	20.10.92	75,500
8.625% 2023 (BULLET)	13.10.93	124,600	124,600
	TRANCHE 2	24.05.94	31,500
	TRANCHE 3	16.06.99	12,200
	TRANCHE 4	29.02.00	9,500
	TRANCHE 5	05.12.01	19,800
8.8% 2023 (ANNUITY)	05.11.93	8,000	7,284
10.0938% 2024 (ANNUITY)	14.07.95	13,000	12,412
9.625% 2025 (BULLET)	04.07.95	45,850	45,850
	TRANCHE 1	04.07.95	45,850
	TRANCHE 2	12.11.97	11,100
<b>THFC BANK LOANS</b>			
5 YEAR £5M VARIABLE 2000 – EXTENDED TO 2010	21.03.95	5,000	5,000
5 YEAR £5M VARIABLE 2000 – EXTENDED TO 2010	29.03.95	2,000	2,000
25 YEAR £2.75M VARIABLE REPAYABLE 2021	08.03.96	750	525
5 YEAR £6M REVOLVING EVERGREEN FACILITY	24.07.97	5,500	5,500
25 YEAR £26.5M FIXED RATE LOAN 2023 – EIB (ANNUITY)	26.11.98	19,360	15,453
25 YEAR £10M FIXED RATE LOAN 2024 – EIB (ANNUITY)	02.09.99	27,000	23,093
25 YEAR £20M FIXED RATE LOAN 2025 – EIB (ANNUITY)	08.09.00	6,500	5,776
25 YEAR £9.35M FIXED RATE LOAN – ANTS (FROM SEP 2003) (BULLET)	02.04.01	9,350	9,350
25 YEAR £17M VARIABLE REPAYABLE 2026	09.11.01	11,000	11,000
25 YEAR £9.86M STERLING FACILITY REPAYABLE 2028 (ANNUITY)	08.09.03	9,860	9,860
25 YEAR £15M STERLING FIXED AND VARIABLE RATE LOANS 2029 (ANNUITY)	16.06.04	15,000	14,472
25 YEAR £15M REVOLVER INTO TERM	14.03.05	15,000	9,300
5 YEAR £20M REVOLVING FACILITY	27.05.05	20,000	9,310
20 YEAR £100M FIXED AND VARIABLE RATE LOAN 2025 – EIB (BULLET)	22.12.05	100,000	9,500
<b>THFC LOAN FROM T.H.F.C. (FUNDING NO.1) PLC</b>			
LONG TERM – 5.125% DUE 2035 (BULLET)			
	TRANCHE 1	13.12.04	67,376
	TRANCHE 2	21.12.06	32,000
	TRANCHE 3	28.02.07	37,000
<b>T.H.F.C. (FIRST VARIABLE) BANK LOANS</b>			
30 YEAR VARIABLE 2023 (ANNUITY)			
	TRANCHE 1	30.04.93	3,500
	TRANCHE 2	21.07.93	7,950
	TRANCHE 3	17.12.93	7,750
	TRANCHE 4	30.06.94	5,000
<b>T.H.F.C. (INDEXED) LIMITED INDEX LINKED DEBENTURE STOCKS</b>			
5.65% 2020 (ANNUITY)			
	TRANCHE 1	13.11.90	42,734
	TRANCHE 2	31.03.93	28,490
<b>T.H.F.C. (INDEXED 2) LIMITED INDEX LINKED DEBENTURE STOCKS</b>			
5.50% 2024 (ANNUITY)			
	TRANCHE 1	16.12.94	29,025
	TRANCHE 2	28.12.95	22,988
<b>T.H.F.C. (SOCIAL HOUSING FINANCE) LIMITED DEBENTURE STOCKS</b>			
8.75% DEBENTURE STOCK 2016/21 (BULLET)			
	TRANCHE 1	05.12.96	29,800
	TRANCHE 2	09.06.97	8,000
	TRANCHE 3	11.09.97	12,900
	TRANCHE 4	03.12.97	34,750
	TRANCHE 5	01.07.98	20,350
<b>T.H.F.C. (SOCIAL HOUSING FINANCE) LIMITED BANK LOANS</b>			
25 YEAR £17.7M FIXED RATE LOAN 2023 – EIB (ANNUITY)	26.11.98	7,122	7,122
25 YEAR £40M FIXED RATE LOAN 2024 – EIB (ANNUITY)	02.09.99	19,265	19,265
25 YEAR £18.9M FIXED RATE LOAN 2025 – EIB (ANNUITY)	08.09.00	16,457	16,457
<b>UK RENTS (NO. 1) PLC RENTAL SECURITISATION</b>			
9.10% 2025 (EUROBOND)	06.01.95	36,143	35,234
<b>T.H.F.C. (CAPITAL) PLC LOANS</b>			
LONG TERM LOAN – 6.38% DUE 2042	26.03.01	239,500	239,500
FIXED AND VARIABLE RATE LOANS	26.03.01	375,000	174,230
<b>AT 31 MARCH 2007</b>		<b>1,991,730</b>	<b>1,642,508</b>
<b>PREMIUM/DISCOUNT</b>			<b>29,713</b>
<b>TOTAL AT 31 MARCH 2007</b>			<b>1,672,221</b>

# Auditor's Report

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HOUSING FINANCE CORPORATION LIMITED

We have audited the Group and Parent Company financial statements (the "financial statements") of The Housing Finance Corporation Limited ("THFC") for the year ended 31 March 2007 which comprise the Group and Parent Company Income Statements, the Group and Parent Company Balance Sheets, the Group and Parent Company 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 (including the Friendly and Industrial and Provident Societies Act 1968) 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 (including the Friendly and Industrial and Provident Societies Act 1968) and, as regards to the Group financial statements, Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Chairman's 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, the 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.

We also, at the request of the directors (because THFC applies the Financial Services Authority Listing Rules as if it were a listed company), review whether the corporate governance statement reflects THFC's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of THFC's corporate governance procedures or its risk and control procedures.

### 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 Company's circumstances, consistently applied and adequately disclosed.

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

### Opinion

In our opinion:

- the 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 2007 and of its profit and cash flows for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Parent Company's affairs as at 31 March 2007 and of its profit and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002 (including the Friendly and Industrial and Provident Societies Act 1968) and, as regards to the Group financial statements, Article 4 of the IAS Regulation;
- the information given in the Chairman's Report, the Directors' Report and the Group Report is consistent with the financial statements.

PRICEWATERHOUSECOOPERS LLP  
CHARTERED ACCOUNTANTS AND  
REGISTERED AUDITORS  
LONDON  
20 JULY 2007

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# Group Income Statement

For the year ended 31 March 2007

	NOTES	2007 £000	2006 £000
<b>Operating Income</b>			
On loans to registered social landlords			
Interest		<b>113,648</b>	112,488
Discount amortised	11	<b>5,707</b>	5,137
Premium amortised	11	<b>(2,904)</b>	(3,858)
Income from securitised assets	15	<b>3,240</b>	3,280
Indexation on investments	11	<b>3,880</b>	4,720
Premiums receivable on prepayments		<b>5,148</b>	26,428
Other interest		<b>876</b>	768
Fees receivable and other income		<b>1,259</b>	1,489
		<b>130,854</b>	150,452
<b>Operating Expenses</b>			
On debenture stocks and bank loans			
Interest	10	<b>116,740</b>	115,347
Discount amortised	14	<b>5,707</b>	5,137
Premium amortised	14	<b>(2,904)</b>	(3,858)
Indexation on loans payable	14	<b>3,880</b>	4,720
Premiums payable on prepayments		<b>5,262</b>	26,828
Other expenses		<b>1,630</b>	1,649
		<b>130,315</b>	149,823
<b>Profit before taxation</b>	2	<b>539</b>	629
Taxation	6	<b>(152)</b>	(176)
<b>Profit for the year</b>		<b>387</b>	453
Retained profit brought forward		<b>6,496</b>	6,043
<b>Retained profit carried forward</b>	17	<b>6,883</b>	6,496

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.

# Group Balance Sheet

at 31 March 2007

	NOTES	2007 £000	2006 €000
<b>Assets</b>			
Intangible assets	7	64	–
Property plant and equipment	8	68	148
Loans	11	1,634,508	1,563,677
Deferred tax assets	5	1,080	1,163
Loans (current element)	11	37,730	43,293
Other receivables	12	23,770	23,803
Short-term deposits		21,184	9,658
Cash and cash equivalents		444	3,124
<b>Total assets</b>		<b>1,718,848</b>	<b>1,644,866</b>
<b>Liabilities</b>			
Financial liabilities – borrowings	14	1,635,214	1,564,382
Financial liabilities – borrowings (current element)	14	37,730	43,293
Trade and other payables	13	35,887	27,563
Current tax liabilities		71	69
Deferred tax liabilities	5	3,063	3,063
<b>Capital and reserves</b>			
Ordinary shares	16	–	–
Retained earnings	17	6,883	6,496
<b>Total capital, reserves and liabilities</b>		<b>1,718,848</b>	<b>1,644,866</b>

Approved by the Board of Directors on 25 June 2007 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 2007

	NOTES	2007 £000	2006 £000
<b>Cash flows from operating activities</b>			
Cash generated from operations	18	<b>4,068</b>	4,124
Interest received on loans to registered social landlords		<b>113,559</b>	113,548
Interest paid on debenture stocks, bonds and bank loans		<b>(108,688)</b>	(116,895)
Loans to registered social landlords	11	<b>(136,783)</b>	(88,250)
Repayment of loans by registered social landlords	11	<b>78,132</b>	72,185
Tax paid		<b>(67)</b>	(61)
<b>Net cash used in operating activities</b>		<b>(49,779)</b>	(15,349)
<b>Cash flows from investing activities</b>			
Purchase of intangible assets	7	<b>(26)</b>	(50)
Movement on short-term deposits		<b>(11,526)</b>	6
<b>Net cash used in investing activities</b>		<b>(11,552)</b>	(44)
<b>Cash flows from financing activities</b>			
New borrowings	14	<b>136,783</b>	88,250
Repayment of amounts borrowed	14	<b>(78,132)</b>	(72,190)
<b>Net cash generated from financing activities</b>	19	<b>58,651</b>	16,060
<b>Net (decrease)/increase in cash equivalents</b>		<b>(2,680)</b>	667
Cash and cash equivalents at beginning of period		<b>3,124</b>	2,457
<b>Cash and cash equivalents at end of period</b>	19	<b>444</b>	3,124

# THFC Income Statement

For the year ended 31 March 2007

	NOTES	2007 £000	2006 £000
<b>Operating income</b>			
On loans to registered social landlords			
Interest		<b>67,333</b>	66,564
Discount amortised	11	<b>5,707</b>	5,137
Premium amortised	11	<b>(602)</b>	(2,685)
Premiums receivable on prepayments		<b>1,349</b>	21,529
Other interest		<b>628</b>	548
Fees receivable and other income		<b>860</b>	939
		<b>75,275</b>	92,032
<b>Operating expenses</b>			
On debenture stocks and bank loans			
Interest	10	<b>67,301</b>	66,228
Discount amortised	14	<b>5,707</b>	5,137
Premium amortised	14	<b>(602)</b>	(2,685)
Premiums payable on prepayments		<b>1,379</b>	21,869
Operating expenses		<b>1,211</b>	1,172
		<b>74,996</b>	91,721
<b>Profit before taxation</b>	2	<b>279</b>	311
Taxation	6	<b>(84)</b>	(93)
<b>Profit for the year</b>		<b>195</b>	218
Retained profit brought forward		<b>3,876</b>	3,658
<b>Retained profit carried forward</b>	17	<b>4,071</b>	3,876

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.

# THFC Balance Sheet

at 31 March 2007

	NOTES	2007 €000	2006 €000
<b>Assets</b>			
Loans	11	<b>858,317</b>	793,675
Deferred tax asset	5	<b>1,081</b>	1,165
Loans (current element)	11	<b>21,878</b>	27,848
Other receivables	12	<b>18,855</b>	20,024
Short-term deposits		<b>6,593</b>	5,000
Cash and cash equivalents		<b>224</b>	978
<b>Total assets</b>		<b>906,948</b>	848,690
<b>Liabilities</b>			
Financial liabilities – borrowings	14	<b>858,323</b>	793,680
Financial liabilities – borrowings (current element)	14	<b>21,878</b>	27,848
Trade and other payables	13	<b>19,613</b>	20,223
Deferred tax liabilities	5	<b>3,063</b>	3,063
<b>Capital and reserves</b>			
Ordinary shares	16	–	–
Retained earnings	17	<b>4,071</b>	3,876
<b>Total capital, reserves and liabilities</b>		<b>906,948</b>	848,690

Approved by the Board of Directors on 25 June 2007 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 2007

	NOTES	2007 £000	2006 £000
<b>Cash flows from operating activities</b>			
Cash generated from operations	18	373	208
Interest received on loans to registered social landlords		66,808	67,842
Interest paid on debenture stocks, bonds and bank loans		(66,343)	(67,926)
Loans to registered social landlords	11	(108,215)	(50,989)
Repayment of loans by registered social landlords	11	54,582	48,715
<b>Net cash used in operating activities</b>		<b>(52,795)</b>	<b>(2,150)</b>
<b>Cash flows from investing activities</b>			
Movement on short-term deposits		(1,593)	272
<b>Net cash (used in)/generated from investing activities</b>		<b>(1,593)</b>	<b>272</b>
<b>Cash flows from financing activities</b>			
New borrowings	14	108,215	50,989
Repayment of amounts borrowed	14	(54,581)	(48,715)
<b>Net cash generated from financing activities</b>	19	<b>53,634</b>	<b>2,274</b>
<b>Net (decrease)/increase in cash equivalents</b>		<b>(754)</b>	<b>396</b>
Cash and cash equivalents at beginning of period		978	582
<b>Cash and cash equivalents at end of period</b>	19	<b>224</b>	<b>978</b>

# 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 to 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 to 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.

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.

UKRH, UKR1 and UKRT 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 Limited ("HAVIND"), and Haven Indexed Holdings Limited ("HAVH") were incorporated in March 2001. HAVIND and HAVH have not commenced trading and an application to have them struck off is in progress.

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 2006 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 2006 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 £100,706,300.

### 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.

## 1 ACCOUNTING POLICIES (CONTINUED)

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) Indexed-linked debenture stocks

The indexed bonds and the associated loans to borrowers were issued with a fixed, pre-indexation schedule of semi-annual payments over the life of the instrument. After an initial period during which the payments include no amortisation of principal, subsequent payments are of a constant amount for the rest of the term of the instrument, with no additional final repayment at the end of the term.

Indexation is applied to each semi-annual payment by adjusting the payment amount by the percentage rise in the retail prices index (RPI), published eight months before the payment date, over the RPI published eight months before the instrument's issue date.

Certain of the bonds and their associated loans were issued at a premium to the instrument's nominal value. This did not affect the semi-annual payments.

For accounting purposes any initial issue premium is amortised over the term of the instrument and credited semi-annually to the income statement. Each semi-annual payment is divided into an interest payment and a repayment of principal, so that the amounts credited semi-annually to the income statement as interest and amortisation of premium, as adjusted for inflation, together give a constant yield to maturity on the outstanding indexed amortised principal at each payment date over the life of the instrument.

Loans to borrowers and liabilities to bond investors are stated in the balance sheet at the indexed, amortised amount as at the latest semi-annual payment date plus an amount equal to any indexed unamortised premium at that date.

### Change in 2007

Prior to 2007, indexation on the T.H.F.C. (Indexed 2) bonds and loans has been calculated on the balance sheet date for the purpose of accounting the income accruals by reference to the inflated values for the next payment date after the balance sheet date, rather than the previous date. This was because the next date was closer to the balance sheet date than the prior date (31 May rather than 30 November). From 2007 the prior date has been used, to conform the accounting with that of the T.H.F.C. (Indexed) bonds. This has resulted in a reduction of the charge and credit for indexation of £1.6 million in the income statement which will now be recognised in the next financial year. The net impact on the income statement is nil.

### (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

Continued

## 1 ACCOUNTING POLICIES (CONTINUED)

### d) Derivative financial instruments

The Group enters into certain interest rate derivative 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
---------------------	---------------

### 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.

### m) Intangible assets

Intangible fixed assets held for operational use are valued at historical cost and are depreciated over the estimated life of the asset on a straight line basis. Intangible assets are subject to impairment reviews annually.

Purchased computer software licenses and associated costs are capitalised as intangible fixed assets. They are amortised over the shorter of the term of the licence and their useful economic lives.

## 2 PROFIT BEFORE TAXATION IS STATED AFTER CHARGING:

	Group 2007 £000	Group 2006 £000
Depreciation of tangible fixed assets	42	42
Fees paid to auditors		
for audit	69	50
for other services	1	–
Operating lease rentals		
plant and machinery	6	7
other	58	57

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

## 3 STAFF NUMBERS AND COST

	Group 2007	Group 2006
Average number of persons (including directors) employed during the year (monthly average):		
Directors	9	7
Management and administrative	7	8
	£000	£000
The aggregate employee costs amounted to:		
Directors' fees	91	95
Salaries	633	636
Social security costs	70	77
Other benefit costs	66	68
	860	876

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

# Notes to the Accounts

Continued

## 4 DIRECTORS' REMUNERATION

	2007 £000	2006 £000
Non-executive directors:		
Fees	<b>91</b>	95
Executive directors:		
Salary	<b>248</b>	141
Pension contributions	<b>29</b>	12
Bonus	<b>34</b>	16
Benefits	<b>8</b>	7
	<b>410</b>	271
Highest paid executive director:		
Salary	<b>147</b>	141
Pension contributions	<b>17</b>	12
Bonus	<b>20</b>	16
Benefits	<b>7</b>	7
	<b>191</b>	176

The fees of the chairman were £23,600. Each non-executive director received £14,800 per annum except the nominee of the Housing Corporation whose fee was waived. All directors' costs were borne by THFCS.

Fees of £14,800 in respect of one non-executive director were paid to that director's employer.

No pension contributions were made by the Group in respect of non-executive directors. There are no long-term incentive schemes.

## 5 DEFERRED TAX LIABILITIES

	Group 2007 £000	THFC 2007 £000	Group 2006 £000	THFC 2006 £000
The potential liability for deferred taxation is as follows:				
Difference between accounting and taxation treatment of discounts	<b>3,063</b>	<b>3,063</b>	3,063	3,063
Less: taxation losses available for future relief	<b>(1,080)</b>	<b>(1,081)</b>	(1,163)	(1,165)
Amount provided	<b>1,983</b>	<b>1,982</b>	1,900	1,898

## 6 TAXATION

	Group 2007 £000	THFC 2007 £000	Group 2006 £000	THFC 2006 £000
U.K. Corporation tax at 30% (2006 – 30%)	<b>69</b>	–	69	–
Deferred taxation	<b>83</b>	<b>84</b>	107	93
	<b>152</b>	<b>84</b>	176	93

## 7 INTANGIBLE ASSETS

	Group 2007 £000
Implementation costs of new software	
Cost	
At beginning of year	–
Additions	<b>26</b>
Transfers from fixed assets	<b>38</b>
At end of year	<b>64</b>
Net book value at 31 March 2007	<b>64</b>

## 8 PROPERTY, PLANT AND EQUIPMENT

	Group 2007 £000
Fixtures, fittings and equipment	
Cost	
At beginning of year	<b>335</b>
Transfer to intangible assets	<b>(38)</b>
Fully depreciated	<b>(123)</b>
At end of year	<b>174</b>
Depreciation	
At beginning of year	<b>187</b>
Charge for the year	<b>42</b>
Fully depreciated	<b>(123)</b>
At end of year	<b>106</b>
Net book value at 31 March 2007	<b>68</b>
Net book value at 31 March 2006	148

# Notes to the Accounts

Continued

## 9 INVESTMENTS

	THFC 2007
<i>Shares held in subsidiary undertakings</i>	
THFCIL – 3 ordinary shares of £1 each (2006 – £3)	<b>£3</b>
THFCFV – 3 ordinary shares of £1 each (2006 – £3)	<b>£3</b>
THFCS – 92 ordinary shares of £1 each (2006 – £92)	<b>£92</b>
THFCIL2 – 3 ordinary shares of £1 each (2006 – £3)	<b>£3</b>
SHF – 4 ordinary shares of £1 each (2006 – £4)	<b>£4</b>

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.

## 10 INTEREST PAYABLE

	Group 2007 £000	THFC 2007 £000	Group 2006 £000	THFC 2006 £000
<i>On debenture stocks, bank borrowings and other borrowings</i>				
<i>Repayable wholly in more than five years</i>				
Interest payable	<b>83,918</b>	<b>58,340</b>	83,223	57,693
Interest deferred	<b>(66)</b>	<b>(66)</b>	104	104
<i>Repayable within five years</i>	<b>32,888</b>	<b>9,027</b>	32,020	8,431
	<b>116,740</b>	<b>67,301</b>	115,347	66,228

## 11 LOANS AND RECEIVABLES

	Group 2007 £000	THFC 2007 £000	Group 2006 £000	THFC 2006 £000
<b>Loans to registered social landlords</b>				
At beginning of year	1,571,244	821,523	1,548,659	816,693
Premiums on new issues	2,656	2,656	–	–
Loans repaid during the year	(77,639)	(54,582)	(71,768)	(48,715)
Loans advanced during the year	134,127	105,559	88,250	50,989
	<b>1,630,388</b>	<b>875,156</b>	1,565,141	818,967
Discount amortised for the year	5,707	5,707	5,137	5,137
Premium amortised for the year	(2,904)	(602)	(3,858)	(2,685)
Interest deferred for the year	(66)	(66)	104	104
Indexation for the year	3,880	–	4,720	–
At end of year	<b>1,637,005</b>	<b>880,195</b>	1,571,244	821,523
Less: repayable within one year	(37,152)	(21,878)	(42,800)	(27,848)
	<b>1,599,853</b>	<b>858,317</b>	1,528,444	793,675
<b>Securitised assets</b>				
At beginning of year (Note 15)	35,726	–	36,143	–
Loans repaid during the year	(493)	–	(417)	–
At end of year	35,233	–	35,726	–
Less: repayable within one year	(578)	–	(493)	–
	<b>34,655</b>	–	35,233	–
<b>Total falling due after more than one year at 31 March 2007</b>	<b>1,634,508</b>	<b>858,317</b>	1,563,677	793,675

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 15.

# Notes to the Accounts

Continued

## 12 OTHER RECEIVABLES

	Group 2007 £000	THFC 2007 £000	Group 2006 £000	THFC 2006 £000
Accrued interest income	<b>23,215</b>	<b>18,504</b>	23,242	18,008
Other receivables	<b>555</b>	<b>322</b>	561	312
Amounts due from subsidiary undertaking	–	<b>29</b>	–	1,704
	<b>23,770</b>	<b>18,855</b>	23,803	20,024

## 13 TRADE AND OTHER PAYABLES

	Group 2007 £000	THFC 2007 £000	Group 2006 £000	THFC 2006 £000
Other creditors	<b>86</b>	<b>214</b>	62	26
Accruals and deferred income	<b>35,801</b>	<b>19,039</b>	27,501	18,086
Amounts due to subsidiary undertakings	–	<b>360</b>	–	2,111
	<b>35,887</b>	<b>19,613</b>	27,563	20,223

## 14 FINANCIAL LIABILITIES – BORROWINGS

	Group 2007 £000	THFC 2007 £000	Group 2006 £000	THFC 2006 £000
<b>Eurobonds (Note 15)</b>				
At beginning and end of year	<b>35,726</b>	–	36,143	–
Repaid during the year	<b>(493)</b>	–	(417)	–
At end of year	<b>35,233</b>	–	35,726	–
Less: falling due within one year	<b>(578)<sup>(1)</sup></b>	–	(493) <sup>(1)</sup>	–
	<b>34,655</b>	–	35,233	–
<b>Debenture Stocks</b>				
At beginning of year	<b>1,147,180</b>	<b>609,833</b>	1,202,084	647,991
Repaid during the year	<b>(21,880)</b>	<b>(3,842)</b>	(61,007)	(40,714)
Discount amortised	<b>5,707</b>	<b>5,707</b>	5,137	5,137
Premium amortised	<b>(2,883)</b>	<b>(581)</b>	(3,858)	(2,685)
Deferred interest	<b>(66)</b>	<b>(66)</b>	104	104
Indexation	<b>3,880</b>	–	4,720	–
At end of year	<b>1,131,938</b>	<b>611,051</b>	1,147,180	609,833
Less: falling due within one year	<b>(9,522)<sup>(1)</sup></b>	<b>(1,457)<sup>(1)</sup></b>	(8,801) <sup>(1)</sup>	(1,332) <sup>(1)</sup>
	<b>1,122,416</b>	<b>609,594</b>	1,138,379	608,501

#### 14 FINANCIAL LIABILITIES – BORROWINGS (CONTINUED)

	Group 2007 £000	THFC 2007 £000	Group 2006 £000	THFC 2006 £000
<b>Bank borrowings</b>				
At beginning of year	356,670	144,319	279,186	101,330
Borrowed during the year	65,127	36,559	88,250	50,989
Repaid during the year	(55,758)	(50,739)	(10,766)	(8,000)
At end of year	366,039	130,139	356,670	144,319
Less: falling due within one year	(27,586) <sup>(1)</sup>	(20,377) <sup>(1)</sup>	(33,999) <sup>(1)</sup>	(26,516) <sup>(1)</sup>
	<b>338,453</b>	<b>109,762</b>	322,671	117,803
<b>Loan from T.H.F.C. (Funding No. 1) Plc</b>				
At beginning of year	67,376	67,376	67,376	67,376
Loans during the year	69,000	69,000	–	–
Premium on issue	2,656	2,656	–	–
Premium amortised	(21)	(21)	–	–
At end of year	139,011	139,011	67,376	67,376
Less falling due within one year	(44) <sup>(1)</sup>	(44) <sup>(1)</sup>	–	–
	<b>138,967</b>	<b>138,967</b>	67,376	67,376
<b>Subordinated loans (Note 15)</b>	<b>723</b>	<b>–</b>	723	–
<b>Total falling due after more than one year at 31 March 2007</b>	<b>1,635,214</b>	<b>858,323</b>	1,564,382	793,680
The above are repayable as follows:				
	Group 2007 £000	THFC 2007 £000	Group 2006 £000	THFC 2006 £000
Between one and two years	20,202	3,788	19,967	3,902
Between two and five years	94,445	42,618	106,648	54,347
In five years or more	1,520,567	811,917	1,437,767	735,431
	<b>1,635,214</b>	<b>858,323</b>	1,564,382	793,680

<sup>(1)</sup> amounts falling due within one year

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 substantially identical to the income and repayment terms of the related investments.

# Notes to the Accounts

Continued

## 15 SECURITISATION TRANSACTION

UKR1 owns a pool of rent receivables of six RSLs which it purchased in January 1995. The cost of the rental pool was £36.143 million. To finance the purchase of the rent receivables UKR1 issued £36.143 million of Eurobonds. The RSLs' obligation to repurchase part of the rental stream, started in October 2005 and concludes 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 2007 was £723,000 (2006: £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.

## 16 CALLED UP SHARE CAPITAL

Authorised, allotted, called up and fully paid

	2007	2006
6 (2006 – 6) ordinary shares of £1 each	<b>£6</b>	£6

## 17 RETAINED EARNINGS

	Group 2007 £000	THFC 2007 £000	Group 2006 £000	THFC 2006 £000
Opening reserves	<b>6,496</b>	<b>3,876</b>	6,043	3,658
Profit for the year	<b>387</b>	<b>195</b>	453	218
Closing reserves	<b>6,883</b>	<b>4,071</b>	6,496	3,876

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 2007 were £1,768,000 (2006: £1,665,000).

## 18 RECONCILIATION OF PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	Group 2007 £000	THFC 2007 £000	Group 2006 £000	THFC 2006 £000
Profit before taxation	539	279	629	311
Interest receivable	(113,648)	(67,333)	(112,488)	(66,564)
Interest payable	116,740	67,301	115,347	66,228
Premium receivable	(5,148)	(1,349)	(26,428)	(21,529)
Premium payable	5,262	1,379	26,828	21,869
Adjustment for:				
Depreciation charges	42	–	42	–
Decrease/(increase) in debtors	6	1,665	30	(1,681)
Increase/(decrease) in creditors	275	(1,569)	164	1,574
Net cash inflow from operating activities	4,068	373	4,124	208

## 19 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 April 2006 £000	Cash Flows £000	Other Non-cash Changes £000	At 31 March 2007 £000
Group				
Cash and cash equivalents	3,124	(2,680)	–	444
Debt due after 1 year	(1,564,382)	–	(70,832)	(1,635,214)
Debt due within 1 year	(43,293)	(58,651)	64,214	(37,730)
Short-term deposits	9,658	11,526	–	21,184
	(1,594,893)	(49,805)	(6,618)	(1,651,316)

	At 1 April 2006 £000	Cash Flows £000	Other Non-cash Changes £000	At 31 March 2007 £000
THFC				
Cash and cash equivalents	978	(754)	–	224
Debt due after 1 year	(793,680)	–	(64,643)	(858,323)
Debt due within 1 year	(27,848)	(53,634)	59,604	(21,878)
Short-term deposits	5,000	1,593	–	6,593
	(815,550)	(52,795)	(5,039)	(873,384)

## 20 COMMITMENTS

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

	Group 2007 £000	Group 2006 £000
Operating lease expiring:		
Within 1 year	–	–
In the 2nd to 5th year inclusive	78	78
After 5 years	–	–
	78	78

# Notes to the Accounts

Continued

## 21 a) MATURITY PROFILE OF FINANCIAL ASSETS

	Group 2007 £000	Group 2006 £000
Loans to RSLs	<b>1,637,005</b>	1,571,244
Securitised assets	<b>35,233</b>	35,726
	<b>1,672,238</b>	1,606,970
Due within one year	<b>37,730</b>	43,293
Due between one and two years	<b>20,202</b>	19,966
Due between two and five years	<b>94,445</b>	106,648
Due in over five years	<b>1,519,861</b>	1,437,063
	<b>1,672,238</b>	1,606,970

## b) INTEREST RATE RISK PROFILE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	2007 Financial Liabilities £000	2007 Financial Assets £000	2006 Financial Liabilities £000	2006 Financial Assets £000
Fixed rate	<b>1,427,772</b>	<b>1,427,764</b>	1,387,822	1,387,814
Floating rate	<b>244,449</b>	<b>244,474</b>	219,130	219,156
No interest payable	<b>723</b>	–	723	–
	<b>1,672,944</b>	<b>1,672,238</b>	1,607,675	1,606,970

The effective interest rates during the year were between 0% and 20.57%. The weighted average interest rate on both fixed financial liabilities and fixed financial assets is 7.89%. The weighted average period for which interest rates are fixed is 16.84 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 loans disclosed within Note 15. The liability is matched by an equivalent level of short term deposit with the interest thereon being returned to the RSLs.

Undrawn committed borrowing facilities are as follows:

	2007 £000	2006 £000
Within one year	–	–
Between one and two years	–	–
Over two years	<b>307,663</b>	185,600
	<b>307,663</b>	185,600

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

## 22 PENSIONS

THFCS participates in the Social Housing Pension Scheme ("SHPS"). The Scheme is funded and is contracted out of the state scheme.

SHPS is a multi-employer defined benefit scheme. Employer participation in the Scheme is subject to adherence with the employer responsibilities and obligations as set out in the "SHPS House Policies and Rules Employer Guide".

The Scheme operated a single benefit structure, final salary with a 1/60th accrual rate, to March 2007. From April 2007 there are three benefit structures available, namely:

- Final salary with a 1/60th accrual rate.
- Final salary with a 1/70th accrual rate.
- Career average revalued earnings with a 1/60th accrual rate.

An employer can elect to operate different benefit structures for their active members (as at the first day of April in any given year) and their new entrants. An employer can only operate one open benefit structure at any one time. An open benefit structure is one which new entrants are able to join.

THFCS has elected to operate the final salary with a 1/60th accrual rate benefit structure for active members as at 31 March 2007 and the career average revalued earnings with a 1/60th accrual rate benefit structure for new entrants from 1 April 2007.

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 £57,690 (2006: £52,506).

The Trustee commissions an actuarial valuation of the Scheme every three 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, in respect of each benefit structure, so that the Scheme can meet its pension obligations as they fall due. From April 2007 the split of the total contribution rate between member and employer is set at individual employer level, subject to the employer paying no less than 50% of the total contribution rate.

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% of employees' pensionable salaries. Member contributions varied between 3.1% and 6.1% depending on their age.

As at the balance sheet date all nine THFCS employees were active members of the Scheme. THFCS continues to offer membership of the Scheme to its employees.

The last formal valuation of the Scheme was performed as at 30 September 2005 by a professionally qualified actuary using the Projected Unit Method. The market value of the Scheme's assets at the valuation date was £1,278 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £283 million, equivalent to a past service funding level of 82%.

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30 September 2006. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The funding update revealed an increase in the assets of the Scheme to £1,515 million and indicated a decrease in the shortfall of assets compared with liabilities to approximately £235 million, equivalent to a past service funding level of 87%. Annual funding updates of the SHPS Scheme are carried out using approximate actuarial techniques rather than member by member calculations, and will therefore not produce the same results as a full actuarial valuation. However they will provide a good indication of the financial progress of the Scheme since the last full valuation.

# Notes to the Accounts

Continued

## 22 PENSIONS (CONTINUED)

Since the contribution rates payable to the Scheme have been determined by reference to the last full actuarial valuation the following notes relate to the formal actuarial valuation as at 30 September 2005.

The financial assumptions underlying the valuation as at 30 September 2005 were as follows:

	% pa
– Investment return pre-retirement	7.2
– Investment return post retirement	4.8
– Rate of salary increases to 30 September 2010	5.0
– Rate of salary increases from 1 October 2010	4.0
– Rate of pension increases	2.5
– Rate of price inflation	2.5

The valuation was carried out using the PA92C2025 mortality table for non-pensioners and PA92C2013 mortality table for pensioners. The table below illustrates the assumed life expectancy in years for pension scheme members at age 65 using these mortality assumptions:

	Males Assumed life expectancy in years at age 65	Females Assumed life expectancy in years at age 65
Non-pensioners	20.4	23.3
Pensioners	19.4	22.4

The long-term joint contribution rates required from employers and members to meet the cost of future benefit accrual were assessed at:

Benefit structure	Long-term joint contribution rate (% of pensionable salaries)
Final salary with a 1/60th accrual rate	17.6
Final salary with a 1/70th accrual rate	15.3
Career average revalued earnings with a 1/60th accrual rate	14.1

If an actuarial valuation reveals a shortfall of assets compared with liabilities the Trustee must prepare a recovery plan setting out the steps to be taken to make up the shortfall.

Following consideration of the results of the actuarial valuation it was agreed that the shortfall of £283 million would be dealt with by the payment of deficit contributions of 4.4% of pensionable salaries with effect from 1 April 2007. These deficit contributions are in addition to the long-term joint contribution rates set out in the table above.

With effect from 1 April 2007 the employer and employee contribution rates for THFCS will be 14.1% and 6.4% to 8.4% of pensionable salaries respectively.

Employers that participate in the Scheme on a non-contributory basis pay a joint contribution rate (i.e. a combined employer and employee rate).

Employers that have closed the Scheme to new entrants are required to pay an additional employer contribution loading of 3.0% to reflect the higher costs of a closed arrangement.

A small number of employers are required to contribute at a different rate to reflect the amortisation of a surplus or deficit on the transfer of assets and past service liabilities from another pension scheme into the SHPS Scheme.

## 22 PENSIONS (CONTINUED)

Employers joining the Scheme after 1 October 2002 that do not transfer any past service liabilities to the Scheme pay contributions at the ongoing future service contribution rate. This rate is reviewed at each valuation and applies until the second valuation after the date of joining the Scheme, at which point the standard employer contribution rate is payable. Contribution rates are changed on the 1 April that falls 18 months after the valuation date.

If the valuation assumptions are borne out in practice this pattern of contributions should be sufficient to eliminate the past service deficit by 30 September 2020.

A copy of the recovery plan, setting out the level of deficit contributions payable and the period for which they will be payable, must be sent to the Pensions Regulator. The Regulator has the power under Part 3 of the Pensions Act 2004 to issue scheme funding directions where it believes that the actuarial valuation assumptions and/or recovery plan are inappropriate. For example the Regulator could require that the Trustee strengthens the actuarial assumptions (which would increase the scheme liabilities and hence impact on the recovery plan) or impose a schedule of contributions on the Scheme (which would effectively amend the terms of the recovery plan). The Regulator has reviewed the recovery plan for the SHPS Scheme and confirmed that, in respect of the September 2005 actuarial valuation, it does not propose to issue any scheme funding directions under Part 3 of the Pensions Act 2004.

The next full actuarial valuation will be carried out as at 30 September 2008. An Actuarial Report will be prepared as at 30 September 2007 in line with statutory regulations.

## 23 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 on 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 £104,000 for providing these services and had amounts owing from these companies at 31 March 2007 of £39,644 (2006: £48,400).

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 £9,914 (2006: £6,463) in relation to this arrangement. None of this cost was borne directly by THFC.

# Notes to the Accounts

Continued

## 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

THFC has entered into the following interest rate swaps as at 31 March 2007 to fix investment income on cash reserves.

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

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 2007 was a net liability of £47,594 (2006: liability £5,160). This amount has been charged to the income statement.

## 26 FAIR VALUES

The fair values of the Group's assets and liabilities at 31 March 2007 are as follows:

	Fair value 2007 £000	Book value 2007 £000	Fair value 2006 £000	Book value 2006 £000
<b>Assets</b>				
Loans receivable	<b>1,957,231</b>	<b>1,672,238</b>	1,994,931	1,606,970
Deferred tax asset	<b>1,163</b>	<b>1,163</b>	1,163	1,163
Trade and other receivables	<b>23,770</b>	<b>23,770</b>	23,803	23,803
Short term cash deposits	<b>21,184</b>	<b>21,184</b>	9,658	9,658
Cash and cash equivalents	<b>444</b>	<b>444</b>	3,124	3,124
	<b>2,003,792</b>	<b>1,718,799</b>	2,032,679	1,644,718
<b>Liabilities</b>				
Financial liabilities-borrowings	<b>1,957,937</b>	<b>1,672,944</b>	1,995,636	1,607,675
Trade and other payables	<b>27,563</b>	<b>35,973</b>	27,563	27,563
Deferred and current tax liabilities	<b>3,132</b>	<b>3,163</b>	3,132	3,132
	<b>1,988,632</b>	<b>1,712,080</b>	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

Year to 31 March	2003 £000	2004 £000	2005 £000	2006 £000	2007 £000
Fees	708	877	951	1,349	<b>1,123</b>
Investment income	728	656	733	766	<b>877</b>
Other income	129	141	169	161	<b>169</b>
<b>Total revenues</b>	<b>1,565</b>	<b>1,674</b>	<b>1,853</b>	<b>2,276</b>	<b>2,169</b>
Staff costs	646	738	742	797	<b>779</b>
Non-executive directors costs	161 <sup>(1)</sup>	97	98	102	<b>99</b>
Legal/trustees and registrars	297	211	236	301	<b>303</b>
Premises	85	75	102	104	<b>111</b>
Other	316	361	306	343	<b>338</b>
<b>Total costs</b>	<b>1,505</b>	<b>1,482</b>	<b>1,484</b>	<b>1,647</b>	<b>1,630</b>
Surplus before tax	60	192	369	629	<b>539</b>
Tax	28	54	103	176	<b>152</b>
<b>Surplus after tax</b>	<b>32</b>	<b>138</b>	<b>266</b>	<b>453</b>	<b>387</b>
<b>Accumulated reserves</b>	<b>5,639</b>	<b>5,777</b>	<b>6,043</b>	<b>6,496</b>	<b>6,883</b>
	£m	£m	£m	£m	£m
<b>Loans outstanding</b>	<b>1,449</b>	<b>1,452</b>	<b>1,585</b>	<b>1,607</b>	<b>1,672</b>

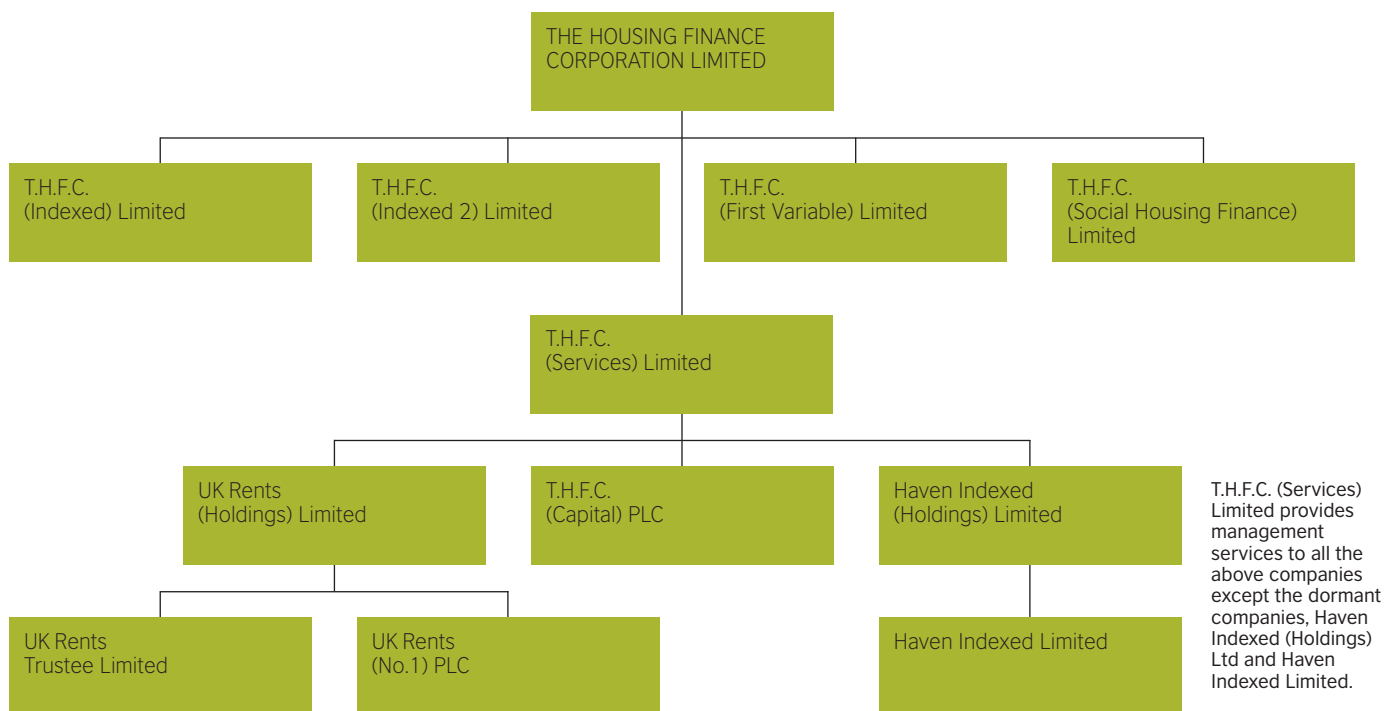
<sup>(1)</sup> Non-executive directors' costs in 2003 include additional payments made to the Chairman for assuming executive duties for part of the year.

# Managed Companies

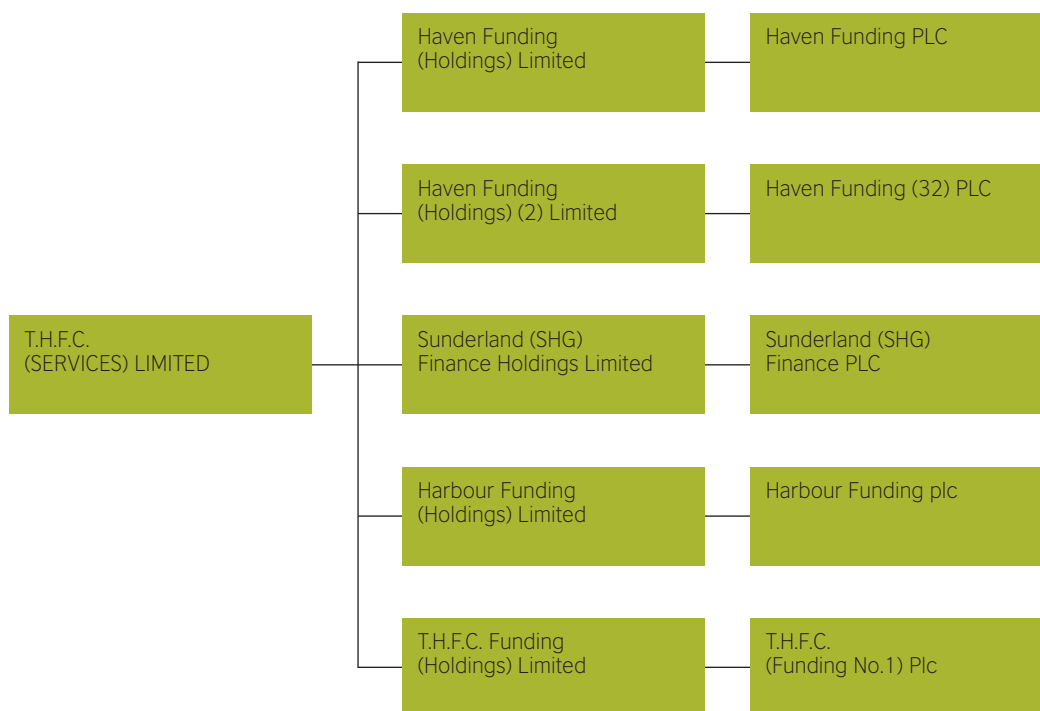
NOMINAL VALUE (£000s)

	<b>Haven Funding Plc</b>	<b>Haven Funding (32) Plc</b>	<b>Harbour Funding Plc</b>	<b>Sunderland (SHG) Finance Plc</b>	<b>T.H.F.C. (Funding No.1) Plc</b>	<b>Managed Companies Total Nominal outstanding</b>
	NOMINAL VALUE <b>£329,400</b>	NOMINAL VALUE <b>£100,500</b>	NOMINAL VALUE <b>£276,336</b>	NOMINAL VALUE <b>£239,500</b>	NOMINAL VALUE <b>£136,376</b>	<b>£1,082,112</b>
	ISSUE DATE <b>11.03.97</b>	ISSUE DATE <b>12.02.98</b>	ISSUE DATE <b>28.08.03</b>	ISSUE DATE <b>27.06.01</b>	ISSUE DATE <b>21.12.04</b>	
BUSINESS ACTIVITY	Quoted Eurobonds, proceeds on-lent to 11 borrowers	Quoted Eurobonds, proceeds on-lent to 9 borrowers	Quoted Eurobonds, proceeds on-lent to 4 borrowers	Quoted Eurobonds, dedicated issue to Gentoo Group on-lent via T.H.F.C. (Capital) Plc	Quoted Eurobonds, proceeds on-lent to 9 borrowers via THFC	
MANAGEMENT ACTIVITY	Company Secretariat Finance function Administration Credit monitoring	Company Secretariat Finance function Administration Credit monitoring	Company Secretariat Finance function Administration Credit monitoring	Company Secretariat Finance function Administration	Company Secretariat Finance function Administration	

## THFC GROUP STRUCTURE



## THFC MANAGED COMPANIES



The Housing Finance Corporation Limited  
4th Floor, 107 Cannon Street  
London EC4N 5AF  
Telephone +44 (0)20 7337 9920  
[www.thfcorp.com](http://www.thfcorp.com)

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