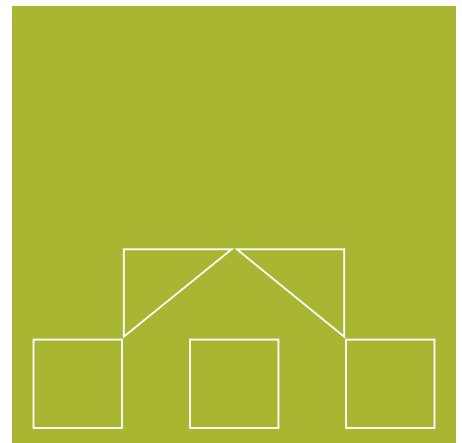


THE HOUSING FINANCE CORPORATION LIMITED

Annual Report and Accounts

2008

Creating loans for
affordable homes



THFC is an independent specialist organisation that makes loans to Registered Social Landlords (“RSLs”), 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.

Unlike banks, THFC does not trade with the objective of making profits and has no shareholders to whom dividends are paid. Surpluses are retained in order to support additional lending to RSLs.

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HIGHLIGHTS

1

£1,790M

THFC GROUP'S LOAN BOOK

£2,530K

TOTAL REVENUES

£867K

PRE-TAX SURPLUS

21 YEAR 100%

CUSTOMER REPAYMENT RECORD

CHAIRMAN'S STATEMENT

THFC's most successful performance for ten years is based on solid growth in tough markets. THFC has also assisted in the development of new regulatory standards, appropriate for the phase of the economic cycle we are now entering.

THFC's Performance

In a year that experienced unprecedented turbulence in financial markets THFC has continued to support the social housing sector as it was established to do twenty-one years ago. We have had continuing success adding to THFC's new bond issuance in the year, with our S&P rated THFC Funding bond now having issued £169m (nominal) on behalf of 11 housing associations. Our S&P General Obligations rating of A+ was reaffirmed recently and has remained unchanged since we first obtained it in 2004.

Financially 2008 proved the most successful for THFC for 10 years. This performance has been driven by solid investment earnings and modest new bond issuance, in a market that was closed to many borrowers, combined with tight control of costs. This has allowed us to add over £750,000 to our reserves in the year, while total customer loans have shown steady progress to stand at £1.790 billion.

At a time when complex structured financing has been much criticised, the combination of THFC's straight forward credit and cash-flow structure has stood it in good stead, with investors still willing to invest, even in the midst of the most significant credit and liquidity crunch in living memory.

The crunch has been felt most acutely in the capital markets, but for a significant proportion of the year the resulting impact on liquidity was also felt in the banking markets with 3m LIBOR peaking at 115bp over Base Rate in mid September.

Social housing sector

From a liquidity point of view, housing associations have been little impacted to date by the rapid turnaround in the funding markets because many had negotiated credit lines surplus to their short-term needs. It is not uncommon for a developing housing association to obtain committed funding two years in advance of need. This will serve them well in a tightening market. Recent evidence of changing appetite includes one major funder selling a £2.0 billion social housing portfolio towards the end of 2007. Increased pricing and limited availability of bank lines are beginning to have an impact, particularly on housing associations with substantial development programmes. At THFC we view this as an opportunity for cautious bond issuance, once an orderly primary market re-emerges.

Timing of this market dislocation has coincided with increased political support for the development of new housing. The Community & Local Government Department's ("CLG") £8.4 billion National Affordable Housing Programme settlement over 3 years and a policy objective to build 3m new houses by 2020 represent a step change in the priority central Government gives social and affordable housing. At the same time, Government has been more demanding in the return that it requires for this investment. Following the publication of the Cave Report earlier in the year, the investment and regulatory functions currently performed by the Housing Corporation are to be split through provisions contained within the Housing and Regeneration Bill currently before Parliament. The Homes and Communities Agency ("HCA"), led by

Sir Bob Kerlake, is to commence business later this year and a new independent regulator, the Tenants' Services Authority, is to be established. Through its membership of the Social Housing Panel of the Council of Mortgage Lenders ("CML"), THFC has been very active in lobbying for a regulator who will understand the needs of long term investors for effective regulation of the social and affordable housing sector and thereby help ensure that RSLs have access to long-dated funds at attractive rates.

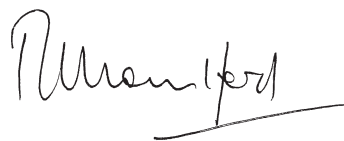
Looking forward to the year ahead, the prospects for the credit and residential housing markets are by no means certain. House-builders' share prices, like banking stocks, have been greatly impacted in recent months. However, it is important to keep in mind the growing underlying demographic demand for housing, and affordable housing in particular, which is recognised by the Government in the Comprehensive Spending Review. Social Housing as an investment is also widely viewed by market professionals as counter-cyclical. It is also worthy of note that the sector was the one part of the property sector which came through the 1989-1992 recession unscathed.

The Board

I became Chairman of THFC in the summer just as THFC celebrated its 20th anniversary. We were able to mark this notable occasion by bringing together both old and new friends at a reception in the Merchant Taylors' Hall.

The entire Board owes a debt of gratitude to my predecessor David Creed who retired on completion of his rotation after a total of 16 years as a Board member and latterly as Chairman for 5 years. He leaves the organisation in great shape.

There have been no other changes to the Board or management team, all of whom I thank for their contributions during the year.



Roger Mountford Chairman

CHIEF EXECUTIVE'S REVIEW

In an uncertain market THFC is utilising its niche skills to fulfil selective needs of housing associations for funding sourced from capital markets and from the European Investment Bank.

I am now in my sixth year as Chief Executive of THFC. The organisation remains a not-for-profit finance company, unique amongst lenders in being wholly focussed on fulfilling the often complex financing needs of Registered Social Landlords ("RSLs"). The team we have built is highly specialist and skilled and reflects the needs of today's market. We are leaders in the market for restructuring historic bond issuance along with an expertise in the intermediation and structuring of funding from the European Investment Bank ("EIB").

We had a very successful year restructuring historic debenture stocks and making £32.6m further issuance of our AA- rated THFC (Funding No.1) Plc bond in December on behalf of three borrowers. Issuing this tap on time, inside budget, proved to us that institutional investors are still prepared to commit fresh long term money to the sector, even in these difficult times.

Lending to regulated housing associations still has an enviable track record of no losses throughout the 21 years THFC has been in business. Fundamentally strong cash-flows from rents are supported by a good regulatory track record and the orderly rescue of problem housing associations, typically facilitated by the regulator.

The system was put to the test in December and January with the transfer of engagements of Ujima Housing Association to London & Quadrant Housing Trust, one of the strongest associations in the sector. This rescue was the first time that the statutory 28 day moratorium was put to the test and THFC was one of four lenders to Ujima that invoked this procedure. Since January we have participated in analysing the lessons learnt, and these have been fed into fine tuning of the drafting of the Housing and Regeneration Bill, currently making its way through Parliament.

In 2008 we are observing tougher markets in terms of both volatility and sentiment in the capital markets and in the residential development market in which many of our housing association customers are active.

As the liquidity squeeze has progressively impacted the bank and building society funders with whom we compete, so we have seen the majority become more selective in their appetite for fine margin business. It is likely that the phase of large-scale refinancing and syndicated loans seen in 2006/7 has come to an end for now. Since our year end there have been early signs of convergence of bond and banking credit spreads in the sector and there is considerably more interest being expressed by housing associations in undertaking bond financing.

A central theme in our product development is to bring to the housing association market products that are not available from our mainstream banking competitors. Our aim is to be innovative while carefully controlling any risk to the organisation. With that in mind we had developed a working capital product for developing associations, funded in the commercial paper market. Unfortunately, this funding source was one of the early casualties in the liquidity squeeze which progressively gripped markets from August. We were able to withdraw the product without any detrimental impact on either our customers or ourselves. In retrospect our decision was borne out by the continued dislocation and losses which have occurred elsewhere.

In the year ahead we intend to bring a fresh tranche of EIB funding to the sector. As a supra-national bank, EIB is one of the funding agencies least impacted by the current liquidity squeeze; fresh lending from them will add much sought after diversification to our customers' funding. EIB funding provides very attractive long-term and low-cost support to associations involved in regeneration.

THFC has been a long term supporter of housing regeneration throughout the UK, working in partnership with the housing associations responsible for transforming neighbourhoods. We understand that successful sustainable regeneration comes from a multi-disciplinary approach and as we look to develop further the contribution we can make, we intend that THFC will consider whether it can apply its expertise in a wider context.

Throughout the year we provided input to the CML on the drafting of the Cave Review and subsequently via the Communities & Local Government Department to the team drafting the Housing and Regeneration Bill. Our job has been to ensure that both the transition of the regulatory function of the Housing Corporation to the new regulator is a smooth one and the regulatory toolkit which is provided under the new legislation is appropriate for the changing market dynamics.

In the year we also launched a new subscriber blog: www.thfcorp-space.com targeted principally at Chief Executives and Finance Directors of housing associations, with the aim of providing well

focussed information and comment in the most timely form. As well as our own views on strategic matters such as regulation, the credit crunch and development risk, we have commissioned articles by well informed and influential commentators. At the end of the year we had in excess of 400 senior housing personnel registered on the site.

Business and Financial Review

The 5 year table gives a comparative history of the THFC Group and shows that our loan book has increased by 23.3% while total costs have increased by 12.9% and our total revenues by 51% over the period.

Five Year Financial Record					
<small>(excluding loan interest and similar items)</small>					
<small>Year to 31 March</small>					
	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000
Fees	877	951	1,349	1,123	1,215
Investment income	656	733	766	877	1,088
Other income	141	169	161	169	227
Total revenues	1,674	1,853	2,276	2,169	2,530
Staff costs	738	742	797	779	856
Non-executive directors' costs	97	98	102	99	97
Legal/trustees and registrars costs	211	236	301	303	230
Premises costs	75	102	104	111	107
Other costs	361	306	343	338	370
Total costs	1,482	1,484	1,647	1,630	1,663
Surplus before tax	192	369	629	539	867
Tax	54	103	176	152	107
Surplus after tax	138	266	453	387	760
Accumulated reserves	5,777	6,043	6,496	6,883	7,643
	£m	£m	£m	£m	£m
Loans outstanding	1,452	1,585	1,607	1,672	1,790

CHIEF EXECUTIVE'S REVIEW CONTINUED

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 £867,000 (2007: £539,000). 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 £6.9 million to £7.6 million. This continuing trend, combined with historically conservative over-collateralisation of our loan assets, allows THFC to position itself to meet the requirements of the largest housing associations as they look to diversify their funding by borrowing in the capital markets.

A total of £194.9 million (2007: £136.8 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 a net increase in our loans of £109.2 million (2007: £58.7 million), before adjustment for indexation and amortisation of premiums and discounts.

As a result the THFC Group loan book stands at £1,790 million (2007: £1,672 million), with a further £663 million (2007: £734 million) of related and third party loans that our service company, T.H.F.C. (Services) Limited ("THFCS") manages. The companies that THFCS manages and 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.

At the year-end the Group was the provider of funds to 118 borrowers (2007: 124).

Our overall expenses were held to 0.070% (2007: 0.070%) of the £2.45 billion of outstanding loans at the year-end that we own or manage.

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 investors and borrowers alike of the consistent provision of a high quality administrative service over the long expected life of housing association bonds. Our website, www.thfcorp.com, provides data which allows borrowers and investors to obtain an up-to-date position on the status of their loans.

THFCS' total managed companies' portfolio is £1,072 million (2007: £1,113 million). However £409 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 RSL sector.

Our income from our managed companies' contracts was £107,000 (2007: £104,000).



Piers Williamson Chief Executive

THFC and its subsidiaries carry out the core function of raising private sector loan finance for Registered Social Landlords (“RSLs”) to further their work in developing or refurbishing affordable and social housing.

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. 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 page 49.

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 a variety of 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 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 applications for funding only 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 summarised on pages 18 to 20. Lenders to each THFC organisation benefit from a floating charge over its assets, which are primarily its secured loans to RSLs and which include accumulated revenue reserves. 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, the majority of 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 five 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-one 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.

GROUP REPORT CONTINUED

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.

Our credit assessment process is underpinned by the financial covenants associated with the security provided by 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.

The following entities are structured differently from the issuing subsidiaries.

UK Rents (No.1) Plc ("UK Rents")

UK Rents is a subsidiary company 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 is a subsidiary company 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 (currently ABN Amro Bank) be downgraded then, and to the extent an alternative liquidity facility is not substituted, Funding No.1's bonds could be downgraded. Funding No.1's liquidity facility was renewed in the year and its AA- long term rating was re-confirmed.

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

Reserves

THFC and its issuing subsidiaries each covenant to their respective investors that they will maintain total operating expenditure within total operating income on a rolling three-year basis. They have all successfully complied with this covenant since incorporation.

By generating fee income, investing interest payments received early, investing its reserves and exercising tight cost control the Group has now accumulated non-distributable reserves amounting to £7.6 million (2007: £6.9 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 2008 these companies had a total of £373.8 million (nominal) lent to 15 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 2008 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.

DIRECTORS' REPORT

Principal Activities

The Housing Finance Corporation Limited (THFC) was incorporated in Great Britain in 1987, with limited liability under the Industrial and Provident Societies Acts 1965 to 2002. Its principal objective is to lend money to Registered Social Landlords ("RSLs"). 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 2008 was £867,000 (2007: £539,000).

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 bank 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 Statement and the Chief Executive's Review on pages 2 to 6.

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, Michael Boohan and Sadru Visram will resign and offer themselves for re-election.

Chief Executive, Group Treasurer and Company Secretary

Piers Williamson, Fenella Edge and Colin Burke, chief executive, group treasurer 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. The company secretary is responsible for ensuring board procedures are followed.

Directors and Shareholders

Director	Period Served to 31 March 2008	THFC Shareholdings at 31 March 2008
Pam Alexander	Full Year	£1
Michael Boohan	Full Year	£1
David Creed	to 25 June 2007	NIL
Fenella Edge	Full Year	NIL
Roger Mountford	Full Year	£1
David Orr	Full Year	NIL
Gill Rowley	Full Year	NIL
Sadru Visram	Full Year	£1
Piers Williamson	Full Year	NIL
Other shareholders		
The Housing Corporation		£1
The National Housing Federation		£1
Total issued share capital at 31 March 2008		£6

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

Directors' Attendance at Meetings

	Board Meetings	Special Board Meetings	Audit Committee
Roger Mountford (Chairman)	6 (6)	2	–
David Creed (Retired Chairman)	2 (2)	2	–
Pam Alexander	6 (6)	–	–
Michael Boohan	6 (6)	1	3 (4)
Fenella Edge	6 (6)	4	–
David Orr	4 (6)	1	–
Gill Rowley	4 (6)	2	3 (4)
Sadru Visram	6 (6)	2	4 (4)
Piers Williamson	6 (6)	4	–

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

Directors' Remuneration

The directors' remuneration is established by the board in the light of periodic advice from advisers. In addition to salaries and bonuses, the chief executive and the group treasurer receive pension benefits and certain other employee benefits in accordance with guidelines determined by the board. Fees are paid to non-executive directors except that the fees payable to the National Housing Federation's representative director (David Orr) were remitted to his employer and the Housing Corporation waived its right to receive the fee payable in respect of its nominee director Gill Rowley. The fees of the non-executive directors were increased by 3.8% on 1 April 2008. The non-executive directors do not receive any pension benefits, bonuses or benefits-in-kind.

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 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 committees:

Nominations Committee

Meets as required to consider potential nominees to the board, both executive and non-executive. It comprises Michael Boohan (chairman), Roger Mountford and David Orr.

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 during the year is shown in the table below. 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.

DIRECTORS' REPORT

CONTINUED

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.

Senior Non-Executive Director

In accordance with best practice, the Board appointed Michael Boohan as Senior Non-Executive Director on 1 April 2007.

Management

The management and administrative functions of the Group are carried out by T.H.F.C. (Services) Limited ("THFCS"), which is a wholly owned subsidiary of THFC with the same board membership. THFCS employs the Group's executive and administrative staff for this purpose and carries out its functions under management agreements with each of the other organisations. THFCS also provides administrative and secretariat services to third parties.

Pension Scheme

All THFCS permanent employees, but not non-executive directors, participate in the Social Housing Pension Scheme ("SHPS"). This scheme, with assets under management of £1.3 billion 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. Accordingly, 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 regularly reviews the risks associated with membership of SHPS, including the possible size of future contribution requirements and the 'last man standing' and discontinuance risks.

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, without a market in its shares. Additionally, as THFC's bonds are listed, the Group is required by the UK Listing Authority ("UKLA") 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. Regular 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 eight. The internal audit function is undertaken by Michael Boohan, a non-executive director and Chartered Accountant, 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 23 June 2008 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 reasonable 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.thfcorp.com) and the directors are responsible for the maintenance and integrity of that website. However there is currently uncertainty regarding the legal requirements in publishing information on websites, and 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.

DIRECTORS' REPORT

CONTINUED

Creditor Payment Policy

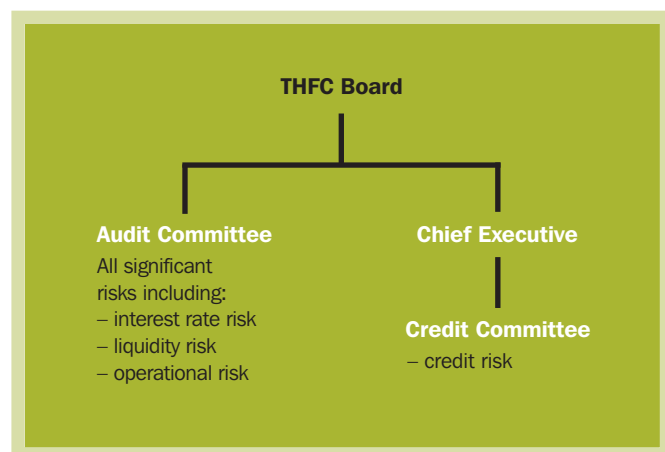
The Group's principal creditors are the holders of the debenture stocks and secured bonds and providers of bank borrowings. Payments to the holders of these securities are made in accordance with the underlying issue or loan documents. As at the financial year end, no amounts due for payment to the holders 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 makes loans only after careful review by the 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 estimates of the probability of loss and of the loss, given default.

(c) Liquidity risk

The Group mitigates liquidity risk in a number of ways. In general borrowers' payments are received 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 short-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 dedicated liquidity facility and a two-year maturity mismatch between the expected and legal maturity dates. The Group is also 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, contingency planning and documentation of procedures.

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
23 June 2008**

DIRECTORS



Roger Mountford NON-EXECUTIVE CHAIRMAN

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 a governor of the London School of Economics and chairman of its commercial subsidiary, Enterprise LSE Limited. Roger joined the board in September 2006.

Pam Alexander

Pam Alexander is chief executive of the South East England Development Agency. She was previously chief executive of English Heritage from 1997 to 2001 and 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 co-chair of the Women's Enterprise Task Force and a Trustee of the Brighton Dome and Festival Limited. 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.



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 currently 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 Leicester Housing Association.

Piers Williamson CHIEF EXECUTIVE

Piers Williamson was appointed chief executive of THFC in October 2002 and joined its board in 2003. Piers has over 25 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 2008 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 SOUTH LIMITED	SOUTH WEST	2,500	-	2,396	-	-	-	-	4,896
ACCENT NENE LIMITED	EAST ANGLIA	1,848	-	-	-	-	-	-	1,848
ACCENT ON GIVING LIMITED	NATIONAL	-	12,376	-	-	-	-	-	12,376
ACTON HA LIMITED	LONDON	25,254	-	-	-	-	-	-	25,254
ADACTUS HA LIMITED	NORTH WEST	-	-	-	-	2,016	-	-	2,016
AGUDAS ISRAEL HA LIMITED	LONDON	206	-	599	-	-	-	-	805
ALDWYCK HA LIMITED	SOUTH EAST	1,083	-	-	-	-	-	-	1,083
AMICUSHORIZON GROUP LIMITED	LONDON	28,500	15,215	-	-	-	-	-	43,715
ASRA GREATER LONDON HA LIMITED	LONDON	3,000	-	-	4,281	-	-	-	7,281
AXIOM HA LIMITED	EAST ANGLIA	21,802	-	-	-	-	-	-	21,802
BETH JOHNSON HA LIMITED	MIDLANDS	4,000	-	-	-	-	-	-	4,000
BETHNAL GREEN & VICTORIA PARK HA LIMITED	LONDON	1,250	-	-	-	7,153	-	-	8,403
CAMBRIDGE HOUSING SOCIETY LIMITED	EAST ANGLIA	4,200	-	-	-	-	-	-	4,200
CATALYST COMMUNITIES HA LIMITED	LONDON	4,376	1,363	-	-	-	-	-	5,739
CARDIFF COMMUNITY HA LIMITED	WALES	-	294	-	-	-	-	-	294
CHERWELL HOUSING TRUST	SOUTH EAST	5,000	-	-	-	-	-	-	5,000
CHEVIOT HA LIMITED	NORTH EAST	-	-	-	-	3,000	-	-	3,000
CIRCLE 33 HOUSING TRUST LIMITED	LONDON	1,068	-	-	-	-	-	-	1,068
CLWYD ALYN HA LIMITED	WALES	2,000	2,622	-	-	-	-	-	4,622
COMMUNITY HA LIMITED	LONDON	13,891	-	-	-	-	-	-	13,891
CONNECT HA LIMITED	NORTH EAST	-	-	-	-	5,000	-	-	5,000
CONTOUR HOMES LIMITED	NORTH WEST	2,500	-	-	-	8,533	-	-	11,033
COTMAN HA LIMITED	EAST ANGLIA	1,500	-	-	-	-	-	-	1,500
CYMDEITHAS TAI CLWYD	WALES	1,500	-	-	-	-	-	-	1,500
CYMDEITHAS TAI ERYRI LIMITED	WALES	2,500	-	-	-	-	-	-	2,500
DEVON & CORNWALL HA LIMITED	SOUTH WEST	2,634	5,628	-	-	-	-	-	8,262
DE MONTFORT HOUSING SOCIETY LIMITED	MIDLANDS	5,550	-	-	-	-	-	-	5,550
EAST HOMES LIMITED	LONDON	1,410	-	-	-	-	-	-	1,410
EILDON HA LIMITED	SCOTLAND	-	-	-	-	3,900	-	-	3,900
ENGLISH CHURCHES HOUSING GROUP LIMITED	NATIONAL	20,064	734	-	-	-	-	-	20,798
EQUITY HOUSING GROUP LIMITED	NORTH WEST	2,288	-	-	2,784	-	-	-	5,072
ESTUARY HA LIMITED	EAST ANGLIA	7,800	682	-	-	-	-	-	8,482
FAMILY MOSAIC HOUSING	LONDON	43,584	1,783	-	-	-	-	-	45,367
FRIENDSHIP CARE HA LIMITED	MIDLANDS	2,000	-	-	-	5,500	-	-	7,500
GRAMPIAN HA LIMITED	SCOTLAND	-	-	-	-	3,355	-	-	3,355
GRAVESEND CHURCHES HA LIMITED	SOUTH EAST	-	-	-	-	1,750	-	-	1,750
HEANTUN HA LIMITED	MIDLANDS	10,000	-	-	-	-	-	-	10,000
HEXAGON HA LIMITED	LONDON	1,500	262	4,193	-	-	-	-	5,955
HIGHTOWN PRAETORIAN & CHURCHES HA LIMITED	SOUTH EAST	1,100	1,049	-	-	-	-	-	2,149
HOME GROUP LIMITED	NATIONAL	2,634	10,425	11,678	-	-	-	-	24,737
HYDE HA LIMITED	SOUTH EAST	-	-	11,592	-	-	-	-	11,592
INNISFREE HA LIMITED	LONDON	3,000	-	-	-	-	-	-	3,000
IRWELL VALLEY HA LIMITED	NORTH WEST	-	-	2,396	-	-	-	-	2,396
ISLINGTON & SHOREDITCH HA LIMITED	LONDON	2,000	-	-	-	4,162	-	-	6,162
JOHN GROOMS HA	NATIONAL	-	-	-	-	3,000	-	-	3,000
JOHNNIE JOHNSON HOUSING TRUST LIMITED	NORTH WEST	3,500	734	-	-	-	-	-	4,234
KNIGHTSTONE HA LIMITED	SOUTH WEST	9,032	11,271	-	-	-	-	-	20,303
KUSH HA LIMITED	LONDON	4,000	-	-	-	-	-	-	4,000
LEEDS & YORKSHIRE HA LIMITED	NORTH EAST	1,500	-	-	-	-	-	-	1,500
LHA - ASRA GROUP LIMITED	MIDLANDS	-	-	-	-	4,659	-	-	4,659
LIVERPOOL HOUSING TRUST LIMITED	NORTH WEST	7,000	-	-	-	6,201	-	-	13,201
LONDON & QUADRANT HOUSING TRUST	LONDON	31,559	1,049	-	2,669	-	-	-	35,277
LONGHURST HOMES LIMITED	EAST ANGLIA	9,400	-	-	-	-	-	-	9,400
MANCHESTER METHODIST HA LIMITED	NORTH WEST	5,651	-	599	643	-	-	-	6,893
MANNINGHAM HA LIMITED	NORTH EAST	6,000	-	-	899	2,000	-	-	8,899
MERCIAN HA LIMITED	MIDLANDS	2,341	-	-	-	-	-	-	2,341
METROPOLITAN HOUSING TRUST LIMITED	LONDON	5,420	-	1,797	-	-	-	-	7,217
MID WALES HA LIMITED	WALES	-	-	1,318	-	-	-	-	1,318
MIDLAND HEART LIMITED	MIDLANDS	24,720	9,513	-	-	-	-	-	34,233
MINSTER GENERAL HA LIMITED	EAST ANGLIA	5,653	-	-	-	1,500	-	-	7,153
MOAT HOMES LIMITED	SOUTH EAST	3,500	6,575	-	-	-	-	-	10,075
MOSELEY & DISTRICT CHURCHES HA LIMITED	MIDLANDS	3,050	-	2,899	-	-	-	-	5,949
MOSSCARE HOUSING LIMITED	NORTH WEST	21,874	-	-	-	-	-	-	21,874
NEWLON HOUSING TRUST	LONDON	5,058	-	-	-	-	-	-	5,058
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	419	-	-	5,000	-	-	7,919
NOTTINGHAM COMMUNITY HA LIMITED	MIDLANDS	17,478	-	-	-	-	-	-	17,478

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	-	-	-	642	-	-	-	642
PADDINGTON CHURCHES HA	LONDON	2,500	-	-	-	2,000	-	-	4,500
PEMBROKESHIRE HA LIMITED	WALES	1,000	-	-	-	-	-	-	1,000
PENWITH HA LIMITED	SOUTH WEST	5,603	-	-	-	-	-	-	5,603
PLACES FOR PEOPLE HOMES LIMITED	NATIONAL	26,316	-	-	-	-	-	-	26,316
PORTAL HA LIMITED	SOUTH WEST	11,000	-	-	-	-	-	-	11,000
SADEH LOK HOUSING GROUP LIMITED	NORTH EAST	650	-	-	-	-	-	-	650
SANCTUARY HA	NATIONAL	14,011	-	-	-	-	-	-	14,011
SHAFTESBURY HA	NATIONAL	-	1,888	-	-	-	-	-	1,888
SOHO HA LIMITED	LONDON	-	-	-	-	1,500	-	-	1,500
SOUTH YORKSHIRE HA LIMITED	NORTH EAST	1,500	-	-	-	3,300	-	-	4,800
SOUTHERN HOUSING GROUP LIMITED	LONDON	33,893	3,084	-	-	10,000	-	-	46,977
SPIRITA LIMITED	MIDLANDS	2,490	-	-	-	-	-	-	2,490
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	22,500	-	-	-	-	-	-	22,500
TAFF HA LIMITED	WALES	500	-	-	-	1,000	-	-	1,500
THAMES VALLEY CHARITABLE HA LIMITED	SOUTH EAST	14,973	-	-	-	-	-	-	14,973
THREE RIVERS HA LIMITED	NORTH EAST	3,000	-	-	-	1,607	-	-	4,607
TOYNBEE HA LIMITED	LONDON	500	-	-	-	-	-	-	500
TRIDENT HA LIMITED	MIDLANDS	5,000	2,832	-	-	-	-	-	7,832
TUNTUM HA LIMITED	MIDLANDS	7,000	-	-	-	-	-	-	7,000
UNITED WELSH HA LIMITED	WALES	4,500	-	-	-	-	-	-	4,500
VENTURE HA LIMITED	NORTH WEST	-	-	-	-	3,250	-	-	3,250
WALES AND WEST HA LIMITED	WALES	9,000	-	-	-	-	-	-	9,000
WANDLE HA LIMITED	LONDON	35,222	-	-	-	-	-	-	35,222
WATERLOO HA LIMITED	MIDLANDS	6,000	-	-	-	-	-	-	6,000
WESTCOUNTRY HA LIMITED	SOUTH WEST	37,000	-	-	-	-	-	-	37,000
WEST MERCIA HOMES LIMITED	MIDLANDS	12,500	-	-	-	-	-	-	12,500
WEST PENNINE HA LIMITED	NORTH WEST	3,000	-	3,477	-	2,000	-	-	8,477
WILLIAM SUTTON HA LIMITED	NATIONAL	-	-	2,396	-	-	-	-	2,396
WILTSHIRE RURAL HA LIMITED	SOUTH WEST	1,088	-	-	-	-	-	-	1,088
WIRRAL METHODIST HA LIMITED	NORTH WEST	1,200	-	-	-	-	-	-	1,200
WOMENS PIONEER HOUSING LIMITED	LONDON	1,000	-	-	-	-	-	-	1,000
YORKSHIRE HOUSING LIMITED	NORTH EAST	10,500	-	-	-	-	-	-	10,500
TOTAL FIXED CHARGE SECURITY		694,124	89,798	45,340	9,249	111,186	0	0	949,697
FLOATING CHARGE SECURITY									
ADACTUS HA LIMITED	NORTH WEST	5,500	-	-	-	-	-	-	5,500
ALDWYCK HA LIMITED	SOUTH EAST	17,256	1,363	5,989	-	-	-	-	24,608
ARENA HOUSING GROUP LIMITED	NORTH WEST	5,000	-	8,384	-	6,000	-	-	19,384
ASRA GREATER LONDON HA LIMITED	LONDON	7,000	-	-	-	-	-	-	7,000
BARNBURY HA LIMITED	LONDON	-	-	-	1,071	-	-	-	1,071
BLACK COUNTRY HOUSING GROUP LIMITED	MIDLANDS	7,000	-	-	-	-	-	-	7,000
BROMFORD CARINTHIA HA	SOUTH WEST	4,500	-	1,797	-	-	-	-	6,297
CHEVIOT HA LIMITED	NORTH EAST	11,996	1,993	-	-	-	-	-	13,989
CONNECT HA LIMITED	NORTH EAST	2,750	-	-	-	-	-	-	2,750
DE MONTFORT HOUSING SOCIETY LIMITED	MIDLANDS	6,250	734	-	-	-	-	-	6,984
EAST MIDLANDS HA LIMITED	MIDLANDS	16,042	-	1,378	1,713	-	-	-	19,133
EQUITY HOUSING GROUP LIMITED	NORTH WEST	1,000	367	-	-	-	-	-	1,367
FAMILY HA (BIRMINGHAM) LIMITED	MIDLANDS	6,000	-	-	-	3,827	-	-	9,827
HABINTEG HA LIMITED	NATIONAL	6,166	-	-	-	-	-	-	6,166
ISLINGTON & SHOREDITCH HA LIMITED	LONDON	1,073	-	-	-	-	-	-	1,073
LEEDS FEDERATED HA LIMITED	NORTH EAST	3,000	-	-	-	-	-	-	3,000
LHA-ASRA GROUP LIMITED	MIDLANDS	22,651	734	-	1,199	-	-	-	24,584
MANNINGHAM HA LIMITED	NORTH EAST	22,020	-	-	-	-	-	-	22,020
MERCIAN HA LIMITED	MIDLANDS	6,617	1,049	-	-	-	-	-	7,666
METROPOLITAN HOUSING TRUST LIMITED	LONDON	27,618	2,412	-	-	-	-	-	30,030
MIDLAND HEART LIMITED	MIDLANDS	23,668	-	-	-	-	-	-	23,668
MOSELEY & DISTRICT CHURCHES HA LIMITED	MIDLANDS	-	-	-	1,713	-	-	-	1,713
MOSSCARE HOUSING LIMITED	NORTH WEST	11,500	-	-	-	-	-	-	11,500
OXFORD CITIZENS HA LIMITED	SOUTH EAST	1,500	-	-	642	-	-	-	2,142
PORTSMOUTH HA LIMITED	SOUTH EAST	7,225	-	-	-	-	-	-	7,225

GROUP LOANS CONTINUED

Loans Portfolio as at 31 March 2008

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
STADIUM HA LIMITED	LONDON	40,014	-	-	-	-	-	-	40,014
STAFFORDSHIRE HA LIMITED	MIDLANDS	3,800	-	-	-	-	-	-	3,800
THREE RIVERS HA LIMITED	NORTH EAST	3,000	-	-	-	-	-	-	3,000
TOYNBEE HA LIMITED	LONDON	600	-	-	-	-	-	-	600
WYCOMBE FRIENDSHIP HA LIMITED	SOUTH EAST	624	-	-	-	-	-	-	624
TOTAL FLOATING CHARGE SECURITY		271,370	8,652	17,548	6,338	9,827	-	-	313,735
INCOME SECURITY									
CHEVIOT HA LIMITED	NORTH EAST	-	-	-	-	-	-	7,047	7,047
CONTOUR HOMES LIMITED	NORTH WEST	-	-	-	-	-	-	5,266	5,266
KELSEY HA LIMITED	LONDON	-	-	-	-	-	-	4,744	4,744
LONDON & QUADRANT HOUSING TRUST	LONDON	-	-	-	-	-	-	7,315	7,315
MERCIAN HA LIMITED	MIDLAND	-	-	-	-	-	-	5,322	5,322
PORTSMOUTH HA LIMITED	SOUTH EAST	-	-	-	-	-	-	5,262	5,262
INCOME COVER		-	-	-	-	-	-	34,956	34,956
T.H.F.C (CAPITAL) PLC									
GENTOO GROUP LIMITED	NORTH EAST	-	-	-	-	-	468,342	-	468,342
TOTAL		-	-	-	-	-	468,342	-	468,342
GRAND TOTAL		965,495	98,450	62,888	15,587	121,013	468,342	34,806	1,766,730
PREMIUM/DISCOUNT									23,804
TOTAL AT 31 MARCH 2008									1,790,534
LOAN PREPAYMENTS									
Amount £ million	Basis	Issuer/Lender				Bond/Loan			
£2.8	OUTSTANDING PRINCIPAL	THE HOUSING FINANCE CORPORATION LIMITED				FIXED RATE LOAN 2024			
£2.5	FACE VALUE	THE HOUSING FINANCE CORPORATION LIMITED				9.625% 2025			
£6.0	FACE VALUE	THE HOUSING FINANCE CORPORATION LIMITED				11.5% 2016			
£19.5	FACE VALUE	T.H.F.C. (SOCIAL HOUSING FINANCE) LIMITED				8.75% 2016/21			
£30.8									
MOVEMENTS IN THE GROUP LOAN BOOK									
		2008 £ million		2007 £ million					
OPENING LOAN BALANCE		1,672.2		1,606.9					
NET REPAYMENTS AND PREPAYMENTS	(85.7)		(78.1)						
NET NEW LOANS DRAWN	197.0		134.1						
(DISCOUNTS)/PREMIUMS ON NEW ISSUES	(2.1)		2.7						
CHANGES IN INDEXATION, PREMIUM AND DISCOUNT		109.2		58.7					
		9.0		6.6					
CLOSING LOAN BALANCE		1,790.4		1,672.2					

GROUP SOURCE OF FUNDS

20/21

Debenture Stocks, Eurobonds, Bank and other Loans as at 31 March 2008

	Date	Nominal Amount £000	Outstanding Principal Amount £000
THFC DEBENTURE STOCKS			
DISCOUNTED:			
ZERO COUPON 2012	08.12.87	93,502	55,297
5% 2027	08.12.87	50,954	27,145
7% 2009 (SERIES I)	20.05.88	10,114	9,553
7% 2009 (SERIES II)	08.07.88	4,350	4,093
STEPPED COUPON:			
6.58% TO 19.60% 2019	02.03.89	10,000	15,397
7.91% TO 19.75% 2019	28.06.89	4,630	6,985
7.55% TO 17.61% 2019	17.08.89	7,860	11,190
8.44% TO 15.98% 2019	11.10.89	2,900	3,720
CONVENTIONAL FIXED RATE:			
12.04% 2021 (ANNUITY)	02.07.91	15,000	13,177
11.5% 2016 (BULLET)	TRANCHE 1	27.11.91	66,450
	TRANCHE 2	27.05.92	34,500
	TRANCHE 3	20.10.92	75,500
	TRANCHE 1	13.10.93	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
8.625% 2023 (BULLET)		05.11.93	8,000
		14.07.95	13,000
8.8% 2023 (ANNUITY)		04.07.95	45,850
10.0938% 2024 (ANNUITY)	TRANCHE 1	12.11.97	8,600
9.625% 2025 (BULLET)	TRANCHE 2		
THFC BANK LOANS			
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	488
25 YEAR £26.5M FIXED RATE LOAN 2023 – EIB (ANNUITY)	26.11.98	22,360	18,129
25 YEAR £10M FIXED RATE LOAN 2024 – EIB (ANNUITY)	02.09.99	27,000	22,299
25 YEAR £20M FIXED RATE LOAN 2025 – EIB (ANNUITY)	08.09.00	10,500	9,004
25 YEAR £9.35M FIXED RATE LOAN – ANTS (FROM SEP 2003) (BULLET)	02.04.01	8,700	8,700
5 YEAR £5M REVOLVING CREDIT FACILITY VARIABLE REPAYABLE 2011	01.10.01	5,000	2,000
25 YEAR £1.7M VARIABLE REPAYABLE 2026	09.11.01	11,000	10,780
25 YEAR £9.86M STERLING FACILITY REPAYABLE 2028 (ANNUITY)	08.09.03	6,740	6,740
25 YEAR £15M STERLING FIXED AND VARIABLE RATE LOANS 2029 (ANNUITY)	16.06.04	15,000	14,103
25 YEAR £15M REVOLVER INTO TERM	14.03.05	15,000	5,800
5 YEAR £20M REVOLVING FACILITY	27.05.05	20,000	–
20 YEAR £100M FIXED AND VARIABLE RATE LOAN 2025 – EIB (BULLET)	22.12.05	100,000	100,000
THFC LOAN FROM T.H.F.C. (FUNDING NO.1) PLC			
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
	TRANCHE 4	28.11.07	32,633
T.H.F.C. (FIRST VARIABLE) BANK LOANS			
30 YEAR VARIABLE 2023 (ANNUITY)	TRANCHE 1	30.04.93	3,500
	TRANCHE 2	21.07.93	7,950
	TRANCHE 3	17.12.93	4,750
	TRANCHE 4	30.06.94	2,000
T.H.F.C. (INDEXED) LIMITED INDEX LINKED DEBENTURE STOCKS			
5.65% 2020 (ANNUITY)	TRANCHE 1	13.11.90	42,734
	TRANCHE 2	31.03.93	28,490
T.H.F.C. (INDEXED 2) LIMITED INDEX LINKED DEBENTURE STOCKS			
5.50% 2024 (ANNUITY)	TRANCHE 1	16.12.94	29,025
	TRANCHE 2	28.12.95	22,988
T.H.F.C. (SOCIAL HOUSING FINANCE) LIMITED DEBENTURE STOCKS			
8.75% DEBENTURE STOCK 2016/21 (BULLET)	TRANCHE 1	05.12.96	18,300
	TRANCHE 2	09.06.97	8,000
	TRANCHE 3	11.09.97	9,900
	TRANCHE 4	03.12.97	34,750
	TRANCHE 5	01.07.98	15,350
T.H.F.C. (SOCIAL HOUSING FINANCE) LIMITED BANK LOANS			
25 YEAR £17.7M FIXED RATE LOAN 2023 – EIB (ANNUITY)		26.11.98	4,500
25 YEAR £40M FIXED RATE LOAN 2024 – EIB (ANNUITY)		02.09.99	22,500
25 YEAR £18.9M FIXED RATE LOAN 2025 – EIB (ANNUITY)		08.09.00	14,900
UK RENTS (NO. 1) PLC RENTAL SECURITISATION			
9.10% 2025 (EUROBOND)		06.01.95	36,143
T.H.F.C. (CAPITAL) PLC LOANS			
LONG TERM LOAN – 6.38% DUE 2042		26.03.01	239,500
FIXED AND VARIABLE RATE LOANS		26.03.01	375,000
AT 31 MARCH 2008		1,987,149	1,766,713
PREMIUM/DISCOUNT			23,804
TOTAL AT 31 MARCH 2008			1,790,517

AUDITORS' REPORT

Independent Auditors' report to the members of The 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 2008 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 ("IFRS"), 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, 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 Statement, the Chief Executive's Review, the Group Report and the Directors' 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 Parent 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 IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 March 2008 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 IFRS as adopted by the European Union, of the state of the Parent Company's affairs as at 31 March 2008 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; and
- the information given in the Chairman's Statement, the Chief Executive's Review, the Directors' Report and the Group Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants and
Registered Auditors
London
23 June 2008

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GROUP INCOME STATEMENT

For the year ended 31 March 2008

	NOTES	2008 £000	2007 £000
Operating Income			
On loans to registered social landlords			
Interest		121,485	113,648
Discount amortised	11	6,341	5,707
Premium amortised	11	(3,683)	(2,904)
Income from securitised assets	15	3,194	3,240
Indexation on investments	11	6,739	3,880
Premiums receivable on prepayments		1,095	5,148
Other interest		1,088	876
Fees receivable and other income		1,374	1,259
		137,633	130,854
Operating Expenses			
On debenture stocks and bank loans			
Interest	10	124,581	116,740
Discount amortised	14	6,341	5,707
Premium amortised	14	(3,683)	(2,904)
Indexation on loans payable	14	6,739	3,880
Premiums payable on prepayments		1,125	5,262
Other expenses		1,663	1,630
		136,766	130,315
Profit before taxation	2	867	539
Taxation	6	(107)	(152)
Profit for the year		760	387
Retained profit brought forward		6,883	6,496
Retained profit carried forward	17	7,643	6,883

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.

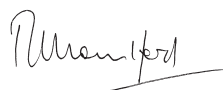
GROUP BALANCE SHEET

at 31 March 2008

24/25

	NOTES	2008 £000	2007 £000
Assets			
Intangible assets	7	55	64
Property, plant and equipment	8	29	68
Loans	11	1,753,183	1,634,508
Deferred tax assets	5	880	1,080
Loans (current element)	11	37,351	37,730
Other receivables	12	24,778	23,770
Short-term deposits		13,002	21,184
Cash and cash equivalents		1,390	444
Total assets		1,830,668	1,718,848
Liabilities			
Financial liabilities – borrowings	14	1,753,889	1,635,214
Financial liabilities – borrowings (current element)	14	37,351	37,730
Trade and other payables	13	28,813	35,887
Current tax liabilities		113	71
Deferred tax liabilities	5	2,859	3,063
Capital and reserves			
Ordinary shares	16	–	–
Retained earnings	17	7,643	6,883
Total capital, reserves and liabilities		1,830,668	1,718,848

Approved by the Board of Directors on 23 June 2008 and signed on its behalf by:



Roger Mountford
Chairman



Michael Boohan
Director



Colin Burke
Company Secretary

GROUP CASH FLOW STATEMENT

For the year ended 31 March 2008

	NOTES	2008 £000	2007 £000
Cash flows from operating activities			
Cash generated from operations	18	4,043	4,068
Interest received on loans to registered social landlords		121,214	113,559
Interest paid on debenture stocks, bonds and bank loans		(132,417)	(108,688)
Loans to registered social landlords	11	(197,048)	(136,783)
Repayment of loans by registered social landlords	11	85,660	78,132
Tax paid		(69)	(67)
Net cash used in operating activities		(118,617)	(49,779)
Cash flows from investing activities			
Purchase of intangible assets	7	(7)	(26)
Movement on short-term deposits		8,182	(11,526)
Net cash generated from/(used in) investing activities		8,175	(11,552)
Cash flows from financing activities			
New borrowings	14	197,048	136,783
Repayment of amounts borrowed	14	(85,660)	(78,132)
Net cash generated from financing activities	19	111,388	58,651
Net increase/(decrease) in cash and cash equivalents		946	(2,680)
Cash and cash equivalents at beginning of period		444	3,124
Cash and cash equivalents at end of period	19	1,390	444

THFC INCOME STATEMENT

26/27

For the year ended 31 March 2008

	NOTES	2008 £000	2007 £000
Operating income			
On loans to registered social landlords			
Interest		73,150	67,333
Discount amortised	11	6,341	5,707
Premium amortised	11	(1,571)	(602)
Premiums receivable on prepayments		1,095	1,349
Other interest		788	628
Fees receivable and other income		789	860
		80,592	75,275
Operating expenses			
On debenture stocks and bank loans			
Interest	10	73,089	67,301
Discount amortised	14	6,341	5,707
Premium amortised	14	(1,571)	(602)
Premiums payable on prepayments		1,125	1,379
Operating expenses		1,118	1,211
		80,102	74,996
Profit before taxation	2	490	279
Taxation	6	(5)	(84)
Profit for the year		485	195
Retained profit brought forward		4,071	3,876
Retained profit carried forward	17	4,556	4,071

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.

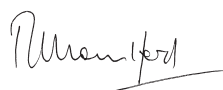
There were no movements in shareholders' funds other than the profit for the year.

THFC BALANCE SHEET

at 31 March 2008

	NOTES	2008 £000	2007 £000
Assets			
Loans	11	970,239	858,317
Deferred tax asset	5	872	1,081
Loans (current element)	11	7,596	21,878
Other receivables	12	20,401	18,855
Short-term deposits		6,234	6,593
Cash and cash equivalents		466	224
Total assets		1,005,808	906,948
Liabilities			
Financial liabilities – borrowings	14	970,246	858,323
Financial liabilities – borrowings (current element)	14	7,596	21,878
Trade and other payables	13	20,551	19,613
Deferred tax liabilities	5	2,859	3,063
Capital and reserves			
Ordinary shares	16	–	–
Retained earnings	17	4,556	4,071
Total capital, reserves and liabilities		1,005,808	906,948

Approved by the Board of Directors on 23 June 2008 and signed on its behalf by:



Roger Mountford
Chairman



Michael Boohan
Director



Colin Burke
Company Secretary

THFC CASH FLOW STATEMENT

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For the year ended 31 March 2008

	NOTES	2008 £000	2007 £000
Cash flows from operating activities			
Cash generated from operations	18	269	373
Interest received on loans to registered social landlords		71,743	66,808
Interest paid on debenture stocks, bonds and bank loans		(72,130)	(66,343)
Loans to registered social landlords	11	(144,132)	(108,215)
Repayment of loans by registered social landlords	11	48,773	54,582
Net cash used in operating activities		(95,477)	(52,795)
Cash flows from investing activities			
Movement on short-term deposits		359	(1,593)
Net cash generated from/(used in) investing activities		359	(1,593)
Cash flows from financing activities			
New borrowings	14	144,132	108,215
Repayment of amounts borrowed	14	(48,772)	(54,581)
Net cash generated from financing activities	19	95,360	53,634
Net increase/(decrease) in cash and cash equivalents		242	(754)
Cash and cash equivalents at beginning of period		224	978
Cash and cash equivalents at end of period	19	466	224

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 adjusted 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 but never traded, they were struck off the register on 10 July 2007.

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 2007 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 2007 Harbour Funding Plc had loans and receivables of £275,966,095 and T.H.F.C. (Funding No.1) Plc had loans and receivables of £169,394,904.

1 ACCOUNTING POLICIES CONTINUED

c) Loans to registered social landlords and debenture stocks

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

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

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

(i) Discounted debenture stocks

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

Debenture stocks are stated at amortised cost.

(ii) Stepped coupon debenture stocks

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

Debenture stocks are stated at amortised cost plus deferred interest.

(iii) 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.

NOTES TO THE ACCOUNTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

(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. THFC's trust deeds and core lending terms (as amended) provide that THFC shall be entitled to accept from a borrower an amount of stock for cancellation. In those circumstances, an amount of the borrower's loan equivalent to the outstanding balance of the relevant stock surrendered shall be deemed to be prepaid.

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.

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. There were no derivative financial instruments in existence at 31 March 2008.

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) 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.

j) Property, plant and equipment

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

Plant and equipment	25% per annum
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1 ACCOUNTING POLICIES CONTINUED

k) Leased assets

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

l) 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.

m) Pension fund

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

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

2 PROFIT BEFORE TAXATION IS STATED AFTER CHARGING:

	Group 2008 £000	Group 2007 £000
Depreciation of tangible fixed assets	55	42
Fees paid to auditors		
for audit	55	69
for other services	–	1
Operating lease rentals		
plant and machinery	6	6
other	57	58

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

3 STAFF NUMBERS AND COST

	Group 2008	Group 2007
Average number of persons (including directors) employed during the year (monthly average):		
Non-executive Directors	6	7
Executive Directors	2	2
Management and administrative	7	7
	£000	£000
The aggregate employee costs amounted to:		
Directors' fees	91	91
Salaries	611	633
Social security costs	67	70
Other benefit costs	86	66
	855	860

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

NOTES TO THE ACCOUNTS CONTINUED

4 DIRECTORS' REMUNERATION

	2008 £000	2007 £000
Non-executive directors:		
Fees	91	91
Executive directors:		
Salaries	276	248
Pension contributions	38	29
Bonuses	40	34
Benefits	10	8
	455	410
Highest paid executive director:		
Salary	153	147
Pension contributions	22	17
Bonus	23	20
Benefits	8	7
	206	191

The fees of the chairman were £24,732. Each non-executive director received £15,510 per annum except the nominee of the Housing Corporation whose fee was waived. All directors' costs were incurred by THFCS and recharged to THFC.

Fees of £15,510 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 2008 £000	THFC 2008 £000	Group 2007 £000	THFC 2007 £000
The potential liability for deferred taxation is as follows:				
Difference between accounting and taxation treatment of discounts	2,859	2,859	3,063	3,063
Less: taxation losses available for future relief	(880)	(872)	(1,080)	(1,081)
Amount provided	1,979	1,987	1,983	1,982

6 TAXATION

	Group 2008 £000	THFC 2008 £000	Group 2007 £000	THFC 2007 £000
U.K. Corporation tax at 30%	111	–	69	–
Deferred taxation	(4)	5	83	84
	107	5	152	84

7 INTANGIBLE ASSETS

	Group 2008 £000
Implementation costs of software	
Cost	
At beginning of year	64
Additions	7
At end of year	71
Depreciation	
At beginning of year	–
Charge for the year	16
At end of year	16
Net book value at 31 March 2008	55
Net book value at 31 March 2007	64

8 PROPERTY, PLANT AND EQUIPMENT

	Group 2008 £000
Fixtures, fittings and equipment	
Cost	
At beginning and end of year	174
Depreciation	
At beginning of year	106
Charge for the year	39
At end of year	145
Net book value at 31 March 2008	29
Net book value at 31 March 2007	68

9 INVESTMENTS

	THFC 2008
Shares held in subsidiary undertakings	
THFCIL – 3 ordinary shares of £1 each (2007 – £3)	£3
THFCFV – 3 ordinary shares of £1 each (2007 – £3)	£3
THFCS – 92 ordinary shares of £1 each (2007 – £92)	£92
THFCIL2 – 3 ordinary shares of £1 each (2007 – £3)	£3
SHF – 4 ordinary shares of £1 each (2007 – £4)	£4

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

NOTES TO THE ACCOUNTS CONTINUED

10 INTEREST PAYABLE

	Group 2008 £000	THFC 2008 £000	Group 2007 £000	THFC 2007 £000
On debenture stocks, bank borrowings and other borrowings				
Repayable wholly in more than five years				
Interest payable	88,036	63,940	83,918	58,340
Interest deferred	(262)	(262)	(66)	(66)
Repayable within five years	36,807	9,412	32,888	9,027
	124,581	73,090	116,740	67,301

11 LOANS AND RECEIVABLES

	Group 2008 £000	THFC 2008 £000	Group 2007 £000	THFC 2007 £000
Loans to registered social landlords				
At beginning of year	1,637,005	880,195	1,571,244	821,523
(Discounts)/premiums on new issues	(2,227)	(2,227)	2,656	2,656
Loans repaid during the year	(85,383)	(48,773)	(77,639)	(54,582)
Loans advanced during the year	197,048	144,132	134,127	105,559
	1,746,443	973,327	1,630,388	875,156
Discount amortised for the year	6,341	6,341	5,707	5,707
Premium amortised for the year	(3,683)	(1,571)	(2,904)	(602)
Interest deferred for the year	(262)	(262)	(66)	(66)
Indexation for the year	6,739	–	3,880	–
At end of year	1,755,578	977,835	1,637,005	880,195
Less: repayable within one year	(36,729)	(7,596)	(37,152)	(21,878)
	1,718,849	970,239	1,599,853	858,317
Securitised assets				
At beginning of year (Note 15)	35,233	–	35,726	–
Loans repaid during the year	(277)	–	(493)	–
At end of year	34,956	–	35,233	–
Less: repayable within one year	(622)	–	(578)	–
	34,334	–	34,655	–
Total falling due after more than one year at 31 March 2008	1,753,183	970,239	1,634,508	858,317

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 RSL 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.

12 OTHER RECEIVABLES

	Group 2008 £000	THFC 2008 £000	Group 2007 £000	THFC 2007 £000
Accrued interest income	24,246	19,987	23,215	18,504
Other receivables	532	248	555	322
Amounts due from subsidiary undertaking	–	166	–	29
	24,778	20,401	23,770	18,855

13 TRADE AND OTHER PAYABLES

	Group 2008 £000	THFC 2008 £000	Group 2007 £000	THFC 2007 £000
Other creditors	50	82	86	214
Accruals and deferred income	28,763	20,105	35,801	19,039
Amounts due to subsidiary undertakings	–	364	–	360
	28,813	20,551	35,887	19,613

14 FINANCIAL LIABILITIES – BORROWINGS

	Group 2008 £000	THFC 2008 £000	Group 2007 £000	THFC 2007 £000
Eurobonds (Note 15)				
At beginning of year	35,233	–	35,726	–
Repaid during the year	(277)	–	(493)	–
At end of year	34,956	–	35,233	–
Less: falling due within one year	(622) ⁽¹⁾	–	(578) ⁽¹⁾	–
	34,334	–	34,655	–
Debenture Stocks				
At beginning of year	1,131,938	611,051	1,147,180	609,833
Repaid during the year	(39,090)	(12,178)	(21,880)	(3,842)
Discount amortised	6,341	6,341	5,707	5,707
Premium amortised	(3,656)	(1,544)	(2,883)	(581)
Deferred interest	(262)	(262)	(66)	(66)
Indexation	6,739	–	3,880	–
At end of year	1,102,010	603,408	1,131,938	611,051
Less: falling due within one year	(10,166) ⁽¹⁾	(1,482) ⁽¹⁾	(9,522) ⁽¹⁾	(1,457) ⁽¹⁾
	1,091,844	601,926	1,122,416	609,594

NOTES TO THE ACCOUNTS CONTINUED

14 FINANCIAL LIABILITIES – BORROWINGS CONTINUED

	Group 2008 £000	THFC 2008 £000	Group 2007 £000	THFC 2007 £000
Bank borrowings				
At beginning of year	366,039	130,139	356,670	144,319
Borrowed during the year	164,415	111,499	65,127	36,559
Repaid during the year	(46,293)	(36,594)	(55,758)	(50,739)
At end of year	484,161	205,044	366,039	130,139
Less: falling due within one year	(26,552)⁽¹⁾	(6,103)⁽¹⁾	(27,586) ⁽¹⁾	(20,377) ⁽¹⁾
	457,609	198,941	338,453	109,762
Loan from T.H.F.C. (Funding No. 1) Plc				
At beginning of year	139,011	139,011	67,376	67,376
Loans during the year	32,633	32,633	69,000	69,000
(Discounts)/premium on issue	(2,227)	(2,227)	2,656	2,656
Premium amortised	(27)	(27)	(21)	(21)
At end of year	169,390	169,390	139,011	139,011
Less: falling due within one year	(11)⁽¹⁾	(11)⁽¹⁾	(44) ⁽¹⁾	(44) ⁽¹⁾
	169,379	169,379	138,967	138,967
Subordinated loans (Note 15)	723	–	723	–
Total falling due after more than one year at 31 March 2008	1,753,889	970,246	1,635,214	858,323

⁽¹⁾ amounts falling due within one year

The above are repayable as follows:

	Group 2008 £000	THFC 2008 £000	Group 2007 £000	THFC 2007 £000
Between one and two years	42,261	25,277	20,202	3,788
Between two and five years	127,233	71,792	94,445	42,618
In five years or more	1,584,395	873,177	1,520,567	811,917
	1,753,889	970,246	1,635,214	858,323

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.

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 2008 was £723,000 (2007: £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

	2008	2007
6 (2007: 6) ordinary shares of £1 each	£6	£6

17 RETAINED EARNINGS

	Group 2008 £000	THFC 2008 £000	Group 2007 £000	THFC 2007 £000
Opening reserves	6,883	4,071	6,496	3,876
Profit for the year	760	485	387	195
Closing reserves	7,643	4,556	6,883	4,071

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 to 2002), are not available for distribution. The aggregated reserves of these subsidiaries at 31 March 2008 were £1,935,000 (2007: £1,768,000).

NOTES TO THE ACCOUNTS

CONTINUED

18 RECONCILIATION OF PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	Group 2008 £000	THFC 2008 £000	Group 2007 £000	THFC 2007 £000
Profit before taxation	867	490	539	279
Interest receivable	(121,485)	(73,150)	(113,648)	(67,333)
Interest payable	124,581	73,089	116,740	67,301
Premium receivable	(1,095)	(1,095)	(5,148)	(1,349)
Premium payable	1,125	1,125	5,262	1,379
Adjustment for:				
Depreciation charges	55	–	42	–
Decrease/(increase) in debtors	22	(60)	6	1,665
(Decrease)/increase in creditors	(27)	(130)	275	(1,569)
Net cash inflow from operating activities	4,043	269	4,068	373

19 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 April 2007 £000	Cash Flows £000	Other Non-cash Changes £000	At 31 March 2008 £000
Group				
Cash and cash equivalents	444	946	–	1,390
Debt due after 1 year	(1,635,214)	(111,088)	(7,587)	(1,753,889)
Debt due within 1 year	(37,730)	–	379	(37,351)
Short-term deposits	21,184	(8,182)	–	13,002
	(1,651,316)	(118,324)	(7,208)	(1,776,848)
THFC				
Cash and cash equivalents	224	242	–	466
Debt due after 1 year	(858,323)	(95,360)	(16,563)	(970,246)
Debt due within 1 year	(21,878)	–	14,282	(7,596)
Short-term deposits	6,593	(359)	–	6,234
	(873,384)	(95,477)	(2,281)	(971,142)

20 COMMITMENTS

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

	Group 2008 £000	Group 2007 £000
Operating lease expiring:		
Within 1 year	6	–
In the 2nd to 5th year inclusive	72	78
	78	78

21 A) MATURITY PROFILE OF FINANCIAL ASSETS

	Group 2008 £000	Group 2007 £000
Loans to RSLs	1,755,578	1,637,005
Securitised assets	34,956	35,233
	1,790,534	1,672,238
Due within one year	37,351	37,730
Due between one and two years	42,261	20,202
Due between two and five years	127,233	94,445
Due in over five years	1,583,689	1,519,861
	1,790,534	1,672,238

NOTES TO THE ACCOUNTS

CONTINUED

21 B) INTEREST RATE RISK PROFILE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	2008 Financial Liabilities £000	2008 Financial Assets £000	2007 Financial Liabilities £000	2007 Financial Assets £000
Fixed rate	1,589,787	1,589,775	1,427,772	1,427,764
Floating rate	200,730	200,759	244,449	244,474
No interest payable	723	–	723	–
	1,791,240	1,790,534	1,672,944	1,672,238

The effective interest rates during the year were between 0% and 18.84%. The weighted average interest rate on both fixed financial liabilities and fixed financial assets is 7.82%. The weighted average period for which interest rates are fixed is 16.65 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:

	2008 £000	2007 £000
Within one year	–	–
Between one and two years	–	–
Over two years	168,358	307,663
	168,358	307,663

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 until 31 March 2007. From 1 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 income statement was £80,128 (2007: £57,690).

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 14.1% of employees’ pensionable salaries. Member contributions varied between 6.4% and 8.4% depending on their age.

As at the balance sheet date seven 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 2007. 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 £1,760 million and indicated a decrease in the shortfall of assets compared with liabilities to approximately £209 million, equivalent to a past service funding level of 89%. 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.

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.

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 £107,000 for providing these services and had amounts owing from these companies at 31 March 2008 of £69,056 (2007: £39,644).

The Group procures the services of one of its directors, M. Boohan, in a financial consultancy capacity. Payments for the service provided are made to a private limited company of which the director is the sole shareholder. During the year the Group was charged £6,273 (2007: £9,914) 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

As at the beginning of the year THFC had entered into the following interest rate swaps 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	

On 31 March 2008 the remaining agreement was closed out at a cost of £9,850.

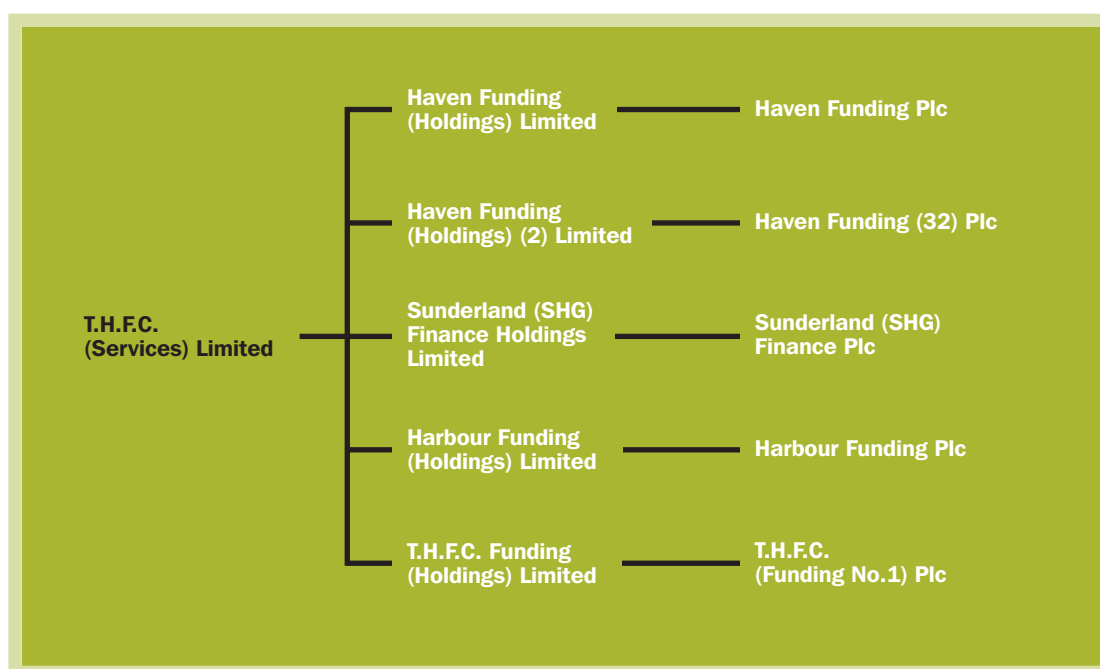
26 FAIR VALUES

The fair values of the Group's assets and liabilities at 31 March 2008 are as follows:

	Fair value 2008 £000	Book value 2008 £000	Fair value 2007 £000	Book value 2007 £000
Assets				
Loans receivable	2,034,095	1,790,534	1,957,231	1,672,238
Deferred tax asset	880	880	1,163	1,163
Trade and other receivables	24,778	24,778	23,770	23,770
Short term cash deposits	13,002	13,002	21,184	21,184
Cash and cash equivalents	1,390	1,390	444	444
	2,074,145	1,830,584	2,003,792	1,718,799
Liabilities				
Financial liabilities-borrowings	2,034,801	1,790,240	1,957,937	1,672,944
Trade and other payables	28,813	28,813	27,563	35,973
Deferred and current tax liabilities	2,972	2,972	3,132	3,163
	2,066,586	1,822,025	1,988,632	1,712,080

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.

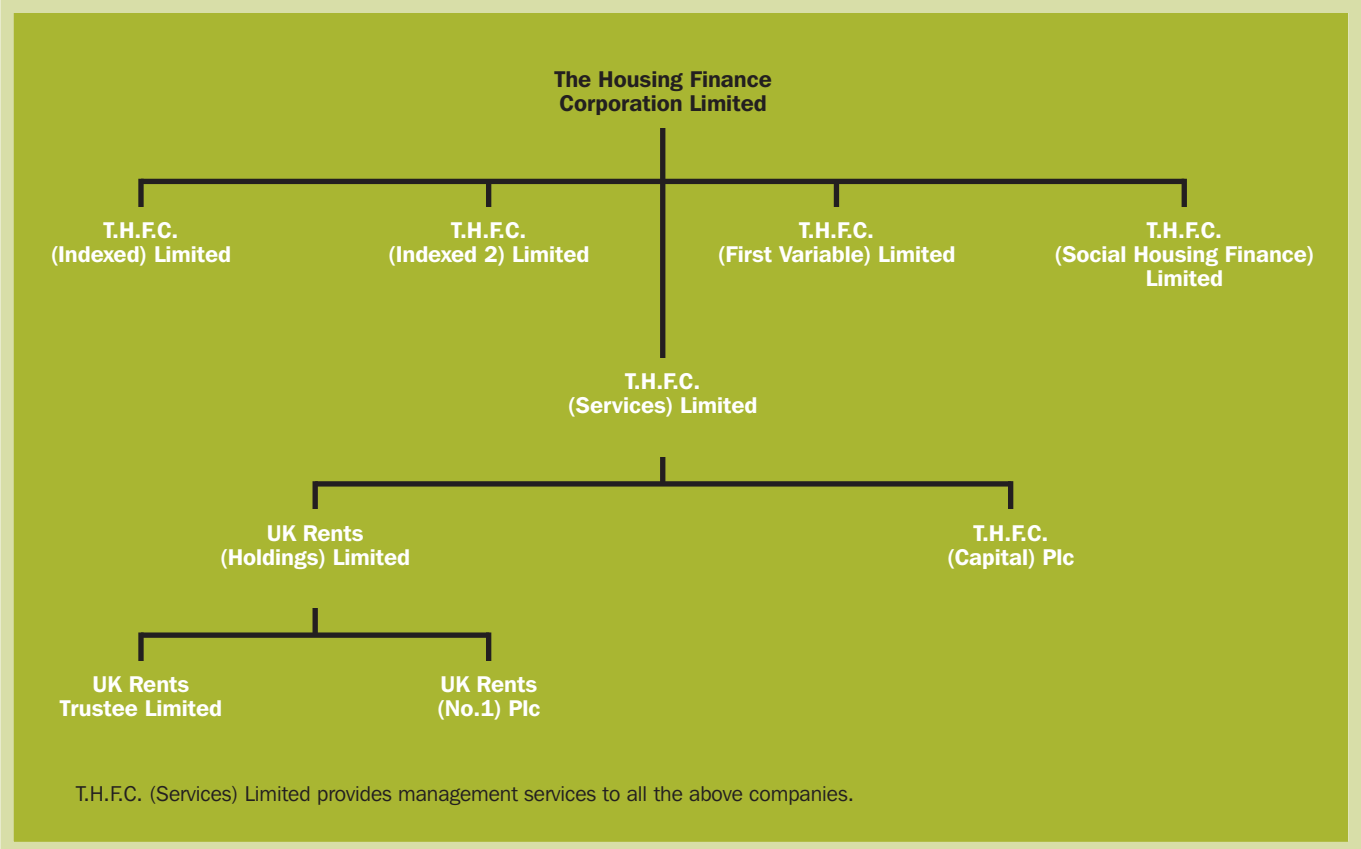
THFC MANAGED COMPANIES



MANAGED COMPANIES

NOMINAL VALUE (£000s)						Managed Companies Total Nominal outstanding
	Haven Funding Plc	Haven Funding (32) Plc	Harbour Funding Plc	Sunderland (SHG) Finance Plc	T.H.F.C. (Funding No.1) Plc	
	NOMINAL VALUE £273,300	NOMINAL VALUE £90,000	NOMINAL VALUE £276,336	NOMINAL VALUE £239,500	NOMINAL VALUE £169,009	£1,048,145
	ISSUE DATE 11.03.97	ISSUE DATE 12.02.98	ISSUE DATE 28.08.03	ISSUE DATE 27.06.01	ISSUE DATE 21.12.04	
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



**The Housing Finance
Corporation Limited
4th Floor,
107 Cannon Street
London EC4N 5AF**

Telephone

+44 (0)20 7337 9920

Fax

+44 (0)20 7337 9935

email

offices@thfcorp.com

www.thfcorp.com

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Provident Society at the FSA
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