

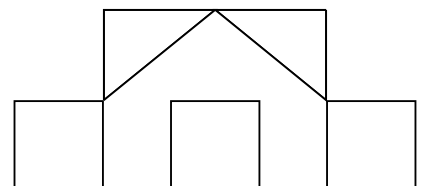
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# The Housing Finance Corporation Limited

## Annual Report and Accounts **2009**

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THFC  
Creating loans for affordable homes



# Highlights

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The Housing Finance Corporation (“THFC”) and subsidiaries (“the group”) is an independent, specialist organisation that makes loans to housing associations that provide affordable housing to tenants throughout the United Kingdom.

The group 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 housing associations through the group and reducing the cost and standardising the loan terms for those housing associations that borrow from the group.

Unlike banks, the group 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 housing associations.

**£1,898M**

THFC GROUP’S LOAN BOOK

**£2,849K**

TOTAL REVENUES (EXC. INTEREST)

**£1,158K**

PRE-TAX SURPLUS

**22 YEAR 100%**

CUSTOMER REPAYMENT RECORD

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# Chairman's Statement

**2008/9 has been a year without parallel for the majority of financial institutions. Two UK clearing banks have been substantially nationalised, as have a number of high profile US and European banks and insurers. A number of converted mortgage banks as well as a small number of building societies have also been rescued. For most of the year the financial sector has been on the corporate equivalent of a life support machine. The total value of the UK Government rescue package to date alone is £626bn. These are truly unprecedented times and financing of the social housing sector has been impacted. However, in contrast to other sectors the structural underpinnings of housing associations have held them in good stead and today they are showing very early signs of being one of the first parts of the residential property and regeneration sector to come through this economic turmoil.**

In contrast to the structured finance market, the business and financing model of the housing association sector is a relatively simple and transparent one and remained robust. This has served both associations and investors/lenders well and in the capital markets (where there has been something of a sector renaissance in the last year), housing associations have remained one of the few credit sectors acceptable to long term investors throughout the credit crunch. The importance of this differentiation will grow as we expect a larger proportion of future funding needs to be met from the capital markets in the year ahead.

Against this backdrop I am pleased to report that, with a post-tax surplus of £841,000, the group has enjoyed its most profitable year since 1993. It has seen strong growth in the year both through the issue of new long-term, publicly rated bonds and by completing a further tranche of £100m of funding from the European Investment Bank; the proceeds were fully placed with eight underlying borrowers in the year. This growth underpins our reputation for the steady delivery of cost-effective, long-term funding, even in highly volatile markets. We have targeted our EIB product at a mixture of new and existing borrowers and are in the process of completing our first Northern Irish lending to fund regeneration in Belfast.

As a result of the shortage of both liquidity and regulatory capital there has been a marked reduction in both the appetite of banks and building societies to lend to the housing association sector and in the number of institutions from whom associations can borrow. With upwards of £50bn already committed to the sector this has manifested itself principally in a desire by banks not only to price new business at current market rates, but also to re-negotiate credit margins on existing loans.

It is a major plus for housing associations that they have their own bespoke finance company in the form of the THFC group and one that, unlike the banking industry, will never require re-pricing of earlier loans as a condition of a new loan. The very largest associations are capable of issuing bonds in their own name, but the majority cannot justify the cost of single-name bond issuance and the burden of securing and maintaining a rating. It is notable that, of the five major capital markets issues completed by either single name HAs or the group in calendar year 2008, THFC's £80m transaction had the lowest all-in cost of funds.

It is also noteworthy that the group's long-term, general obligations rating from Standard & Poors was once again reviewed in January 2009 and re-affirmed at A+ stable. This rating has remained constant since inception, four years ago.

Royal Assent was granted to the Housing and Regeneration Act in July 2008. This primary legislation led to the Housing Corporation's former roles of investment and regulation being split between two brand-new agencies. The Homes & Communities Agency ("HCA") has taken on the former investment activities of the Housing Corporation and English Partnerships. Separately, regulation of social housing has been entrusted to the newly formed Tenant Services Authority ("TSA"). It is particularly pleasing to note that the TSA has taken over the shareholding in THFC previously owned by the Housing Corporation and that Gill Rowley, the TSA's Head of Private Finance, continues in her role as a THFC Board member. This continuity in the stewardship of the group since it was founded in 1987 provides a secure platform for us and reinforces our central role in the social housing sector.

# Chairman's Statement continued

The Board is particularly pleased that, in addition to a busy year in funding HAs, the management team led by Piers Williamson has continued to contribute actively by debating and disseminating best practice and knowledge in the sector. Their imaginative development of THFC's own blog, THFC Space, and its stimulating content contribute to this.

The last year has been a particularly difficult one for volume house-builders. It is estimated that around 50% of the industry is effectively in the hands of its bankers, having either consolidated or built up land-bank towards the top of the economic cycle. It is important to note at the same time that the social housing sector is a truly counter-cyclical business. Housing those in need remains a statutory obligation of local government and the waiting list for rehousing remains long at all stages in the economic cycle.

Large developing housing associations did not escape entirely from the market conditions affecting the major house-builders. Continued restricted availability of mortgage finance, particularly for first time buyers, has impacted sales of shared ownership homes and, as new housing starts have slowed considerably, so the supply pipeline of all future new housing,

including affordable homes, will empty. Last year, the cash-flow impact of weak shared ownership sales was compounded for a small number of housing associations who were required to collateralise stand-alone derivative positions late in the calendar year.

The number of associations which, through weak governance or financial stress, needed to merge into stronger associations was no greater than in previous years.

It is a tribute to both the financial strength of the sector and the speed of response of the TSA and HCA that the sector came through this 'double-witching hour' with no defaults or lasting issues. Associations' finances continue to be closely monitored and, given the predominance of very long dated debt in the housing association market, they have found themselves well placed compared with borrowers in other sectors. They have also often been able to convert built-out schemes into intermediate rental and the HCA is actively considering measures to bring dormant land-banks into use.

The year ahead will remain challenging for the group not least the falling short-term rates reduces earnings on our capital and liquid funds. However, we are seeing unprecedented interest in both our bond and EIB offering and are looking to be active

throughout the year. We expect the fall-off in investment earnings to be relatively short term and this should be more than fully offset by arrangement fees in the year.

On behalf of the Board, I would like to thank the staff of THFC for their hard work and positive response to unprecedented market conditions.

To close, we have been fortunate in being able to attract Charlie Arbuthnot as an additional member of the Board of THFC. Charlie brings with him a huge wealth of experience of the capital markets where he, like THFC, was a pioneer in using bond markets to fund social housing.

**Roger Mountford**  
**Chairman**

# Chief Executive's Review

**In the wake of the sometimes chaotic events that have engulfed the finance markets over the last 12 months I am pleased to report that THFC has got on and 'done what it says on the tin' that is: "creating loans for affordable homes". With the vacuum left in the market by many of our competitors, we have seen an almost unprecedented surge in interest in the capital markets and EIB products that we offer. I say 'almost', because the first serious growth spate in the group's history was in 1992 – at the tail end of the last UK housing recession. Our business – sourcing institutional investment – is mostly a very long-term one, and it is encouraging that the THFC model works just as well now, in satisfying unmet demand from housing associations, as it worked in the 1990s.**

Principal growth in the balance sheet in 2008/09 has been through an £80m loan (sourced through a tap of a related party funder, T.H.F.C. (Funding No.1) Plc), made to three existing customers, which we executed in the early summer – once again with costs under budget and ahead of time. Amongst nearly £1bn of capital markets issues for housing associations in the year, our transaction came at the lowest yield of all. Unlike previous taps, the issue represented all new money for new homes. Given the marked changes in appetite and behaviour of bank and building society lenders around us, we predict that restructuring/prepayment of bonds will now level off or decline in the short-term. Given the significant level of latent demand for bond product amongst housing associations we have been spending recent months optimising the type of bond structure best suited to the current market environment and expect to issue again in 2009.

I am also delighted to report the successful completion of a further £100m tranche of EIB funding on behalf of eight customers (five of whom were new to the group). The associated downstream loans will all be drawn in 2009. Of particular note amongst the new customers was our first lending facility to a Northern Irish housing association, Clanmil Housing in Belfast. As we continue to develop our role in on-lending EIB funding for housing regeneration purposes, we foresee a greater focus on geographically diverse lending throughout the UK. This has been particularly pertinent in recent weeks with the failure and subsequent break-up of Dunfermline Building Society.

Investment income in 2008/9, at £979k, is just below the peak of £1.1m earned in 2007/8 but has held up well, given the very rapid fall off in interest rates seen since November 2008. In the nearly seven years I have been Chief Executive, total revenues have grown 82% while total costs have grown 12.2%. Within the remit of operating as a financier of social housing, we have consistently looked to diversify our sources of income. Hence, our revenues come from arrangement fees, annual fees on our loan book, third party management fees as well as investment income.

The group regularly places funds on term deposits to generate investment income and carefully manages the counterparty risk through strict adherence to minimum credit ratings and has not been exposed to any of the bank and building society failures in the year. Since the year end we have further reviewed and rebalanced our counterparty matrix with a view to current market trends. We expect current year investment earnings to be down, but counter-balanced by fees earned both from arranging new transactions and strong growth in annual fees from our long-term loan book.

We have seen good growth in our balance sheet in 2008/09, finishing the year with total loans of £1.9bn (with a further £100m of undrawn EIB loans). This growth has not been at the cost of quality. THFC's core covenants, which we did not relax during the recent years of easy credit, remain unchanged. We have focussed this year on reinforcing our internal credit standards. During the year we recruited a second full-time relationship manager who has a banking and credit background. We are also currently in the process of re-weighting our credit-scoring model to reflect more forward looking credit factors. During the year, the Board accepted management's recommendation to make the group's credit committee a committee of the Board, providing increased participation by non-executive board members in the review of credit policies and decisions and reinforcing our governance. At a compliance level, we continue to focus on routine adherence to covenants and have encouraged our customers to reinforce their own processes for monitoring and covenant compliance. We have continued to be vigilant in ensuring that both old and new loans meet proper standards of security. Our reviews of portfolios have included risk-based analysis where loans were secured around the time of the peak in the valuation cycle. Given the relatively conservative collateralisation rules to which the group adheres, the impact of a fall-off in recent valuations has tended to require relatively light top-ups of portfolios.

# Chief Executive's Review continued

Despite the liquidity crisis in the banking sector, housing associations, by virtue of their typical policy of 'borrowing long', have proved comparatively well insulated from the worst excesses of the markets in the year. Developing associations have been exposed to some extent to sales risk, but on the whole have adapted well to the new environment and have been able to bring finished units into use as intermediate rental stock while the sector rides out the worst of the property cycle. As 'not for profits' they are not exposed to the vagaries of the stock market or short selling and must regularly produce 30 year business plans to comply with regulatory standards. In the year ahead, we expect the majority of new-build property output in the UK generally to be for the housing association sector. In terms of our monitoring of housing associations we remain acutely aware of the need for prudent cash flow forecasting and, given their reliance on committed banking lines, we also obtain regular updates from our customers as to their relationships with other lenders and on-going forecast adherence with key financial covenants.

Outside THFC group our views continue to be sought both at a sector and governmental level. We continue to play an active role in the Council of Mortgage Lenders Social Housing Panel and have recently been asked to take part in the Audit Commission's Housing and Regeneration Advisory Group. We have developed a close dialogue with our shareholders, the National Housing Federation and the Tenant Services Authority, and with the HCA as well as holding periodic discussions with HM Treasury and Communities and Local Government (CLG), the government department that sponsors the TSA and HCA. We are increasingly asked to address the Boards of our customers on the impact of the credit crunch and developments in funding markets.

Turning to the year ahead, we expect to be actively involved in arranging new loans. Both the inflationary and capital expenditure environment for our customers look volatile, but we are firm believers that housing associations, supported by the higher grants now being provided by the HCA, will play an important role in underpinning the construction industry's progress through the cycle.

In closing, I would like to highlight the effort played by the entire THFC team in producing another very successful year. In contrast to some of the excesses seen elsewhere in the investment banking fraternity, we intend to celebrate our team performance by undertaking the National Three Peaks Challenge (climbing Ben Nevis, Scafell Pike and Snowdon in under 24 hours), in aid of the Breast Cancer Campaign in July this year. Everyone in the THFC team is contributing to make this a success, whether or not they are taking part directly. Many of our customers and investors have supported us and I look forward to reporting on our Blog [www.thfcorp-space.com](http://www.thfcorp-space.com) on our progress. My sincere thanks go to all.

**Piers Williamson**  
**Chief Executive**

## Business and Financial Review

The 5 year table on page 36 gives a comparative history of the THFC group and shows that our loan book has increased by 19.8% while total costs have increased by 13.9% and our total revenues by 53.8% over the period.

The THFC group achieved a pre-tax surplus of £1,158,000 (2008: £867,000). This was primarily as a result of the fees we received for arranging new loans and payments for the loss of future management fees from loans prepaid by our customers. Our objective remains that of generating a sufficient surplus each year to achieve a steady progression in the group's financial reserves. As a consequence of a sound year the group's reserves have risen from £7.6 million to £8.5 million. This continuing trend, combined with historically conservative over-collateralisation of our loan assets, allows the group to position itself to meet the requirements of a broad range of housing associations as they look to diversify their funding by borrowing in capital markets and, through THFC, from the European Investment Bank.

A total of £152.8 million (2008: £194.9 million) of new money sourced from bond issues and bank debt was advanced to housing associations by members of the THFC group during the year. These loans, a small element of prepayments and other changes to our existing loans, gave a net increase in our loans of £139.6 million (2008: £109.2 million), before adjustment for indexation and amortisation of premiums and discounts.

As a result the THFC group loan book stands at £1,897.8 million (2008: £1,790.5 million). Details of borrowings by the THFC group to fund its loan book are shown on page 15.

At the year-end the group was the provider of funds to 118 borrowers (2008: 118).

Our overall expenses were held to 0.090% (2008: 0.090%) of the £1.90 billion of outstanding loans at the year-end.

The group regards its Key Performance Indicators to be growth in pre-tax surplus, reserves and the group loan book together with the ratio of operating expenses to the year end loan book.

# Group Report

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

## Group Structure

Since the incorporation of The Housing Finance Corporation Limited 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 group and to related party companies. The structure of the group is set out in the diagram on page 37.

## Group Financing Principles

THFC and its issuing subsidiaries, T.H.F.C. (Indexed) Limited, T.H.F.C. (Indexed 2) Limited, T.H.F.C. (First Variable) Limited and T.H.F.C. (Social Housing Finance) Limited have between them issued a variety of financial instruments including zero-coupon, deep-discounted, index-linked and conventional public debenture stocks, stepped and par-coupon private placements and raised fixed and variable rate bank loans.

THFC has also raised funds by borrowing from a related party, T.H.F.C (Funding No.1) plc, which issues credit enhanced Eurobonds.

Despite the variety of loan structures they all adhere to the same fundamental principles:

- Funds are raised solely for on-lending to housing associations.
- 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 and maintains 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 lending subsidiaries offers to investors is illustrated on pages 12 to 14. Lenders to each THFC organisation benefit from a floating charge over that organisation’s assets, which are primarily its secured loans to housing associations and which include accumulated revenue reserves. All the stocks, bonds and loans within each THFC organisation 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 portfolio of instruments and borrowers.

## Property Security

While THFC can offer housing associations 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 eight borrowers have switched fifteen loans from floating to fixed charge security. The group 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. Properties held as security are revalued at regular intervals.

## Loans Administration

The group’s exemplary record of prompt collection and payment of interest and principal has remained intact over its twenty-two year history. In general borrowers’ payments are made one month prior to the group’s obligation to pay investors, thus providing a timing cushion and a source of additional investment income.

## Credit Monitoring

Each borrower undergoes a credit review prior to a loan being granted. This 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 now a Board committee.

The groups’s bespoke credit rating model is in the process of being re-weighted to reflect more forward looking risks appropriate to the current economic environment. 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 loss given default is also estimated, to allow 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 the group’s external credit rating. The group’s credit rating of its borrowers, 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. The group 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 subsidiaries are structured differently from the issuing subsidiaries.

## UK Rents (No.1) Plc (“UK Rents”)

UK Rents was 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.

# Group Report continued

## **T.H.F.C. (Capital) Plc (“THFC Capital”)**

THFC Capital was established in 2001 to act as a conduit for funds raised for the transfer of housing stock from Sunderland City Council to Gentoo Group (formerly Sunderland Housing Group). The loans to Gentoo are structured on a non-recourse (to THFC Capital) basis and the property security is held by a Security Trustee for the benefit of the bank lenders and bond investors.

## **Reserves**

THFC and its issuing subsidiaries each covenant to their respective investors that they will maintain total operating expenditure within total operating income on a 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 £8.5 million (2008: £7.6 million).

## **Taxation**

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

## **Administration services to related parties**

Our service company, THFCS, provides administration and management services to certain related parties. All the related parties lend to the social housing sector. The total related parties portfolio is £1,130 million (2008: £1,132 million) of which £466 million of this amount is on-lent to associations via THFC or one of its subsidiaries and is therefore on the group balance sheet.

The related parties are:

## **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 an 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. Funding No.1’s rating is also therefore linked to the rating of the liquidity facility provider (currently ABN). 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 housing associations. Like all other lenders to THFC, Funding No.1 has a parri passu floating charge over THFC’s assets.

## **Haven Funding Plc and Haven Funding (32) Plc**

Since 1999 THFCS has provided loans administration and company secretariat services to Haven Funding PLC and Haven Funding (32) PLC. As at 31 March 2009 these companies had loans outstanding totalling £363.3 million (nominal) made to 18 housing associations funded by bond issues arranged by RBC Capital Markets.

## **Sunderland (SHG) Finance Plc**

Since 2001 THFCS has provided loans administration and company secretariat services to Sunderland (SHG) Finance PLC which as at 31 March 2009 had £239.5 million (nominal) in loans to Gentoo Group (formerly Sunderland Housing Group) on-lent via T.H.F.C. (Capital) PLC.

## **Harbour Funding 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 housing associations.

A new related party, T.H.F.C. (Funding No.2) Plc, was incorporated on 3 June 2009 and is expected to issue eurobonds and on-lend the proceeds to the group, under a different structure, in July 2009.

THFCS is the largest provider of administration services to the RSL sector and its income from related party contracts was £106,000 (2008: £107,000).

# 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 housing associations through the issue of bonds and raising of bank loans. 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 2009 was £1,158,000 (2008: £867,000).

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. 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 although we have kept the range of counterparties with whom we are willing to deposit on active review throughout the year.

In the year THFC made no charitable or political donations.

## Review of Business

A review of business is included in the Business and Financial Review on page 4.

## 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 page 11.

One third of the independent directors (that is directors not nominated by either the Tenant Services Authority or the National Housing Federation) are required under THFC's Rules to retire each year in rotation and may offer themselves for re-election.

Accordingly, at the forthcoming Annual General Meeting, Piers Williamson and Fenella Edge will resign and offer themselves for re-election.

As a director appointed to the board since the last Annual General Meeting Charlie Arbutnot is required to resign and will offer himself for re-election at the forthcoming meeting.

## Senior Management

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 reviewed annually by the Board. The company secretary is responsible for ensuring board procedures are followed.

## Directors' Remuneration

The directors' remuneration is established by the Board in the light of periodic advice from advisers. In addition to salaries and bonuses, the executive directors, being 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 directors nominated by National Housing Federation (David Orr)

and the Tenant Services Authority (Gill Rowley) were remitted to their employers. Fees became payable to the Tenant Services Authority from 1 December 2008 when the Housing Corporation share was transferred to the Tenant Services Authority, prior to this date the fee had been waived. The fees of the non-executive directors, in accordance with board approved policy, were not increased on the annual review date of 1 April 2009. 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 Tenant Services Authority and David Orr is nominated by 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 three committees:

### Credit Committee

In July 2008 the credit committee was reconstituted as a committee of the board. It comprises a minimum of four independent non-executive directors appointed by the

## Directors and Shareholders

Director	Period Served to 31 March 2009	THFC Shareholdings at 31 March 2009
Pam Alexander	Full Year	£1
Charlie Arbutnot	Since 28 November 2008	£1
Michael Boohan	Full Year	£1
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		
Tenant Services Authority		£1
The National Housing Federation		£1
Total issued share capital at 31 March 2009		£7

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

# Directors' Report continued

Board of THFC, together with the chief executive and group treasurer. The chairman is nominated at each meeting and is in all cases an independent non-executive director.

The credit committee is primarily responsible for the assessment of individual credit propositions and reports periodically to the Board to administer a risk management process and evaluate individual credits.

Members comprise Roger Mountford, Sadru Visram, David Orr, Michael Boohan and Charlie Arbuthnot as non-executive independent directors and Piers Williamson and Fenella Edge, chief executive and group treasurer of THFC.

## 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. The Chairman attends by invitation and Piers Williamson and senior members of staff attend when required.

## 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.

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 adjacent table. Where a director was unable to attend a meeting he or she was scheduled to attend, the Chairman received a sound reason for the non-attendance. Special board meetings are those called at short notice to approve the documentation of borrowing and lending. It

is not expected that every board member attends each special meeting, only that a quorum is present, though all Board members are given notice of the meeting and informed of the business to be conducted.

## 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 Tenant Services Authority 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.

## Performance Evaluation

The directors undertake an annual performance evaluation of the board, the chairman and the board committees.

## Senior Non Executive Director

In accordance with best practice, the Board appoints a Senior Non Executive Director. Michael Boohan was appointed 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 related parties.

## Pension Scheme

All THFCS employees, but not non-executive directors, participate in the Social Housing Pension Scheme ("SHPS"). This scheme,

## Directors' Attendance at Meetings

	Main Board (6)	Special Board(4)	Audit Committee (3)	Credit Committee (5)
Pam Alexander	5	-	-	-
Charlie Arbuthnot	2 (2)	-	-	1 (1)
Michael Boohan	6	3	3	3
Fenella Edge	6	4	-	5
Roger Mountford	6	2	-	3
David Orr	4	-	-	4
Gill Rowley	5	4	2	-
Sadru Visram	5	1	3	4
Piers Williamson	6	3	-	5

"-" indicates not a member or not required to attend

Figures in brackets are the total number of meetings the director could have attended.

with assets under management of £1.5bn and an actuarial deficit of £663m (at the triennial valuation as of 30 September 2008) 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 for those members of staff who had joined prior to this date. Employees appointed by THFCS after 31 March 2007 participate in SHPS 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.

### The 2006 Combined Code issued by the FRC ("The Code")

The group has for a number of years chosen to comply with the Code's best practice guidelines to the extent that these are relevant to THFC being 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 nine. 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 2009 and no significant weaknesses have been identified which resulted in significant risk of material loss, actual material loss or require disclosure.

### Continuing Resources

After making enquiries, the directors have formed a judgement at the time of approving the financial statements that there is a

reasonable expectation that THFC and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

### Statement of Directors' Responsibilities

The Industrial and Provident Societies Acts 1965 to 2002 require the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of THFC and the group and of the surplus or deficit of THFC and the group for that period. In preparing those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether the financial statements comply with International Financial Reporting Standards as adopted by the European Union;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is not appropriate to presume that THFC will continue in business.

In the case of each director:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- he/she has taken all the 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](http://www.thfcorp.com)) and the directors are responsible for the maintenance and integrity of that website. However there is currently uncertainty regarding the legal requirements in publishing information on websites, 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

# Directors' Report continued

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.

They are also responsible for safeguarding the assets of THFC and the group and hence for taking reasonable steps for the prevention of fraud and other irregularities.

## Creditor Payment Policy

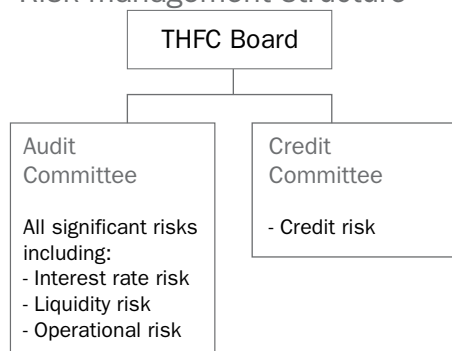
The group's principal creditors are the holders of the debenture stocks and secured bonds and providers of bank borrowings. Payments to the holders of these securities are made in accordance with the underlying issue or loan documents. As at the financial year end, no amounts due for payment to the holders of these securities were outstanding.

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

## Financial Risk Management

The Board is responsible for approving THFC's strategy and the level of acceptable risks. The board has established an audit committee and 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. The group is subject to interest rate risk on its investment income on reserves and month early interest receipts this income amounted to £979k during the financial year. 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. Security is required with an agreed margin and values are independently verified at regular intervals. In the event of a default the time required to obtain control of rental revenues, and to realise security, may not be certain; the group has taken action to mitigate any resulting impact on liquidity and this is described below.

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 regular 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.

Individual exposures to borrowers are included in the tables on pages 12 to 14.

### (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 credit committee and Board and such approval is limited to financial institutions with a suitable minimum long term rating in accordance with THFC treasury policy. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed at least annually by the Board.

### (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 2009

# Directors



## Roger Mountford

Roger Mountford was a merchant banker in London and Hong Kong. Since his retirement he has served on a

number of boards including Thames Valley Housing Association, the Civil Aviation Authority and the Port of Dover. He is chairman of HgCapital Trust PLC and the CAA Pension Scheme. Roger is a governor of the London School of Economics and chairman of its commercial subsidiary, LSE Enterprise Limited. Roger joined the board in September 2006 and was appointed chairman with effect from 23 June 2007.



## 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 Peabody 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.



## Charlie Arbuthnot

Charlie Arbuthnot currently works as a financial consultant principally in the housing association sector. Prior to this he

worked for S G Warburg, Hambros Bank and Royal Bank of Canada in a variety of funding roles. He has almost 20 years experience in the housing association sector having arranged borrowings in both banking and capital markets and having been head of UK institutional corporate bond sales at RBC for 6 years. He was appointed to the Board in November 2008.



## 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 is the Head of Private Finance at the Tenant Services Authority, the regulator of social housing in England. She

has over 15 years experience of funding for the housing association sector and previously worked at 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

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 Society Limited, CIS (General Insurance) Limited and their holding company CFS since July 2005.

# Group Loans

Loans Portfolio as at 31st March 2009

## 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
A2Dominion London Limited	South East	25,098	-	-	-	-	-	-	25,098
A2Dominion North Limited	South East	5,000	-	-	-	-	-	-	5,000
A2Dominion South Limited	South East	2,500	-	2,395	-	-	-	-	4,895
Accent Foundation Limited	National	-	12,260	-	-	-	-	-	12,260
Accent Nene Housing Society Limited	East Anglia	1,832	-	-	-	-	-	-	1,832
Adactus Housing Association Limited	North West	-	-	-	-	1,935	-	-	1,935
Agudas Israel Housing Association Limited	London	202	-	599	-	-	-	-	801
Aldwyck Housing Association Limited	South East	1,065	-	-	-	-	-	-	1,065
AmicusHorizon Group Limited	London	28,500	15,075	-	-	-	-	-	43,575
Asra Greater London Housing Association Limited	London	3,000	-	-	4,115	-	-	-	7,115
Axiom Housing Association Limited	East Anglia	21,795	-	-	-	-	-	-	21,795
Beth Johnson Housing Association Limited	Midlands	4,000	-	-	-	-	-	-	4,000
Cambridge Housing Society Limited	East Anglia	4,200	-	-	-	-	-	-	4,200
Catalyst Communities Housing Association Limited	London	4,290	1,350	-	-	-	-	-	5,640
Cardiff Community Housing Association Limited	Wales	-	291	-	-	-	-	-	291
Cheviot Housing Association Limited	North East	-	-	-	-	3,000	-	-	3,000
Clwyd Alyn Housing Association Limited	Wales	2,000	2,598	-	-	-	-	-	4,598
Cymdeithas Tai Clwyd	Wales	1,500	-	-	-	-	-	-	1,500
Community Housing Association Limited	London	43,738	-	-	-	-	-	-	43,738
Connect Housing Association Limited	North East	-	-	-	-	5,000	-	-	5,000
Contour Homes Limited	North West	2,500	-	-	-	8,237	-	-	10,737
Cotman Housing Association Limited	East Anglia	1,500	-	-	-	-	-	-	1,500
Cymdeithas Tai Eryri Limited	Wales	2,500	-	-	-	-	-	-	2,500
Devon & Cornwall Housing Association Limited	South West	2,549	5,576	-	-	-	-	-	8,125
De Montfort Housing Society Limited	Midlands	5,550	-	-	-	-	-	-	5,550
East Homes Limited	London	1,403	-	-	-	-	-	-	1,403
Eildon Housing Association Limited	Scotland	-	-	-	-	3,900	-	-	3,900
English Churches Housing Group Limited	National	19,823	727	-	-	-	-	-	20,550
Equity Housing Group Limited	North West	8,251	364	-	2,676	-	-	-	11,291
Estuary Housing Association Limited	East Anglia	7,729	676	-	-	-	-	-	8,405
Family Mosaic Housing	London	43,534	1,766	-	-	-	-	-	45,300
Friendship Care Housing Association Limited	Midlands	2,000	-	-	-	5,500	-	-	7,500
Gateway	London	1,250	-	-	-	7,001	-	-	8,251
Grampian Housing Association Limited	Scotland	-	-	-	-	3,225	-	-	3,225
Gravesend Churches Housing Association Limited	South East	-	-	-	-	1,750	-	-	1,750
Heantun Housing Association Limited	Midlands	10,000	-	-	-	-	-	-	10,000
Hexagon Housing Association Limited	London	1,500	260	4,190	-	-	-	-	5,950
Hightown Praetorian and Churches Housing Association Limited	South East	1,100	1,039	-	-	-	-	-	2,139
Home Group Limited	National	2,549	10,327	11,672	-	-	-	-	24,548
Hyde Housing Association Limited	South East	-	-	11,586	-	-	-	-	11,586
Innisfree Housing Association Limited	London	3,000	-	-	-	-	-	-	3,000
Irwell Valley Housing Association Limited	North West	-	-	2,394	-	-	-	-	2,394
Islington & Shoreditch Housing Association Limited	London	2,000	-	-	-	4,007	-	-	6,007
Johnnie Johnson Housing Trust Limited	North West	18,500	727	-	-	-	-	-	19,227
Knightstone Housing Association Limited	South West	8,918	11,166	-	-	-	-	-	20,084
Kush Housing Association Limited	London	4,000	-	-	-	-	-	-	4,000
Leeds Federated Housing Association Limited	North East	3,000	-	-	-	-	-	-	3,000
Leeds & Yorkshire Housing Association Limited	North East	2,000	-	-	-	-	-	-	2,000
Leicester Housing Association Ltd	Midlands	-	-	-	-	4,598	-	-	4,598
Livability Housing	National	-	-	-	-	3,000	-	-	3,000
Liverpool Housing Trust Limited	North West	7,000	-	-	-	5,970	-	-	12,970
London & Quadrant Housing Trust	London	31,496	1,039	-	-	-	-	-	32,535
Longhurst Homes Limited	East Anglia	9,400	-	-	-	-	-	-	9,400
Manchester Methodist Housing Association Limited	North West	5,531	-	599	618	-	-	-	6,748
Manningham Housing Association Limited	North East	15,360	-	-	864	2,000	-	-	18,224
Mercian Housing Association Limited	Midlands	2,244	-	-	-	-	-	-	2,244
Metropolitan Housing Trust Limited	London	5,300	-	1,796	-	-	-	-	7,096
Mid Wales Housing Association Limited	Wales	-	-	1,317	-	-	-	-	1,317
Midland Heart Limited	Midlands	24,633	9,423	-	-	-	-	-	34,056
Minster General Housing Association Limited	East Anglia	5,435	-	-	-	1,500	-	-	6,935
Moat Homes Limited	South East	3,500	6,514	-	-	-	-	-	10,014
Moseley & District Churches Housing Association Limited	Midlands	3,050	-	2,896	-	-	-	-	5,946
Mosscares Housing Limited	North West	33,247	-	-	-	-	-	-	33,247
Newlon Housing Trust	London	5,046	-	-	-	-	-	-	5,046
NomadE5 Housing Association Limited	North East	-	-	-	-	5,500	-	-	5,500
North London Muslim Housing Association Limited	London	1,000	-	-	-	1,500	-	-	2,500
North Wales Housing Association Limited	Wales	2,500	416	-	-	5,000	-	-	7,916
Nottingham Community Housing Association Limited	Midlands	17,633	-	-	-	-	-	-	17,633
Octavia Housing and Care	London	2,000	-	-	-	3,500	-	-	5,500
Oxford Citizens Housing Association Limited	South East	-	-	-	617	-	-	-	617
Paddington Churches Housing Association	London	2,500	-	-	-	2,000	-	-	4,500
Pembrokeshire Housing Association Limited	Wales	1,000	-	-	-	-	-	-	1,000
Penwith Housing Association Limited	South West	5,418	-	-	-	-	-	-	5,418
Places for People Homes Limited	National	26,451	-	-	-	-	-	-	26,451
Portal Housing Association Limited	South West	11,000	-	-	-	-	-	-	11,000
Sadeh Lok Housing Group Limited	North East	650	-	-	-	-	-	-	650

# Group Loans continued

## Fixed Charge Security continued

Association borrower (legal entity)	Area	The Housing Finance Corp Limited Loans £000	T.H.F.C. (Indexed) Limited Loans £000	T.H.F.C. (Indexed 2) Limited Loans £000	T.H.F.C. (First Variable) Limited Loans £000	T.H.F.C. (Social Housing Finance) Limited Loans £000	T.H.F.C. (Capital) PLC Loans £000	UK Rents (No.1) PLC Loans £000	Total Loan Value £000
Sanctuary Housing Association Limited	National	13,481	-	-	-	-	-	-	13,481
Shaftesbury Housing Association Limited	National	-	1,871	-	-	-	-	-	1,871
Soho Housing Association Limited	London	-	-	-	-	1,500	-	-	1,500
South Yorkshire Housing Association Limited	North East	4,676	-	-	-	-	-	-	4,676
Southern Housing Group Limited	London	33,599	3,055	-	-	10,000	-	-	46,654
Spirita Limited	Midlands	2,490	-	-	-	-	-	-	2,490
Springboard Housing Association Limited	London	6,000	-	-	-	-	-	-	6,000
Stadium Housing Association Limited	London	43,510	-	-	-	-	-	-	43,510
Staffordshire Housing Association Limited	Midlands	-	-	-	-	5,300	-	-	5,300
St Pancras & Humanist Housing Limited	South East	5,600	-	-	-	-	-	-	5,600
St Vincent's Housing Association 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 Housing Association Limited	Wales	500	-	-	-	1,000	-	-	1,500
Thames Valley Charitable Housing Association Limited	South East	14,915	-	-	-	-	-	-	14,915
Three Rivers Housing Association Limited	North East	3,000	-	-	-	1,541	-	-	4,541
Toynbee Housing Association Limited	London	1,100	-	-	-	-	-	-	1,100
Trident Housing Association Limited	Midlands	5,000	2,805	-	-	-	-	-	7,805
United Welsh Housing Association Limited	Wales	4,500	-	-	-	-	-	-	4,500
Venture Housing Association Limited	North West	-	-	-	-	3,250	-	-	3,250
Wales and West Housing Association Limited	Wales	9,000	-	-	-	-	-	-	9,000
Wandle Housing Association Limited	London	21,418	-	-	-	-	-	-	21,418
Waterloo Housing Association Limited	Midlands	6,000	-	-	-	-	-	-	6,000
Westcountry Housing Association Limited	South West	37,000	-	-	-	-	-	-	37,000
West Mercia Homes Limited	Midlands	12,500	-	-	-	-	-	-	12,500
West Pennine Housing Association Limited	North West	3,000	-	3,476	-	2,000	-	-	8,476
William Sutton Housing Association Limited	National	-	-	2,394	-	-	-	-	2,394
Wiltshire Rural Housing Association Limited	South West	1,050	-	-	-	-	-	-	1,050
Wirral Methodist Housing Association Limited	North West	1,200	-	-	-	-	-	-	1,200
Womens Pioneer Housing Limited	London	1,000	-	-	-	-	-	-	1,000
Wycombe Friendship Housing Association Limited	South East	618	-	-	-	-	-	-	618
Yorkshire Housing Limited	North East	40,500	-	-	-	-	-	-	40,500
<b>Total Fixed Charge Security</b>		<b>822,727</b>	<b>89,325</b>	<b>45,314</b>	<b>8,890</b>	<b>106,714</b>	-	-	<b>1,072,970</b>

## Floating 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
Adactus Housing Association Limited	North West	5,500	-	-	-	-	-	-	5,500
Aldwyck Housing Association Limited	South East	1,699	1,350	5,986	-	-	-	-	9,035
Arena Housing Group Limited	North West	5,000	-	8,380	-	6,000	-	-	19,380
Asra Greater London Housing Association Limited	London	7,000	-	-	-	-	-	-	7,000
Barnsbury Housing Association Limited	London	-	-	-	1,029	-	-	-	1,029
Black Country Group Limited	Midlands	7,000	-	-	-	-	-	-	7,000
Bromford Carinthia Housing Association	South West	4,500	-	1,796	-	-	-	-	6,296
Cheviot Housing Association Limited	North East	12,607	1,974	-	-	-	-	-	14,581
Connect Housing	North East	2,750	-	-	-	-	-	-	2,750
De Montfort Housing Society Limited	Midlands	6,250	727	-	-	-	-	-	6,977
East Midlands Housing Association Limited	Midlands	19,120	-	1,377	1,647	-	-	-	22,144
Family Housing Association (Birmingham) Limited	Midlands	6,000	-	-	-	3,796	-	-	9,796
Habinteg Housing Association Limited	National	6,048	-	-	-	-	-	-	6,048
Islington & Shoreditch Housing Association Limited	London	1,059	-	-	-	-	-	-	1,059
Leicester Housing Association Ltd	Midlands	22,769	727	-	1,152	-	-	-	24,648
Manningham Housing Association Limited	North East	12,500	-	-	-	-	-	-	12,500
Mercian Housing Association Limited	Midlands	9,489	1,039	-	-	-	-	-	10,528
Metropolitan Housing Trust Limited	London	29,351	2,390	-	-	-	-	-	31,741
Midland Heart Limited	Midlands	23,939	-	-	-	-	-	-	23,939
Moseley & District Churches Housing Association Limited	Midlands	-	-	-	1,647	-	-	-	1,647
Oxford Citizens Housing Association Limited	South East	1,500	-	-	617	-	-	-	2,117
Portsmouth Housing Association Limited	South East	7,178	-	-	-	-	-	-	7,178
Staffordshire Housing Association Limited	Midlands	3,800	-	-	-	-	-	-	3,800
Tuntum Housing Association Limited	Midlands	7,000	-	-	-	-	-	-	7,000
Three Rivers Housing Association Limited	North East	3,000	-	-	-	-	-	-	3,000
<b>Total Floating Charge Security</b>		<b>205,059</b>	<b>8,207</b>	<b>17,539</b>	<b>6,092</b>	<b>9,796</b>	-	-	<b>246,693</b>

## Income 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
A2Dominion London Limited	London	-	-	-	-	-	-	4,659	4,659
Cheviot Housing Association Limited	North East	-	-	-	-	-	-	6,921	6,921
London & Quadrant Housing Trust	London	-	-	-	-	-	-	7,184	7,184
Mercian Housing Association Limited	Midlands	-	-	-	-	-	-	5,228	5,228
Portico Housing Association Limited	North West	-	-	-	-	-	-	5,172	5,172
Portsmouth Housing Association Limited	South East	-	-	-	-	-	-	5,169	5,169
<b>Income Cover</b>		-	-	-	-	-	-	<b>34,333</b>	<b>34,333</b>

## Fixed Charge Security - Cash Flow Covenants

Gentoo Group Limited	North East	-	-	-	-	-	531,500	-	531,500
<b>Total</b>		-	-	-	-	-	<b>531,500</b>	-	<b>531,500</b>

<b>Grand Total</b>		<b>1,027,786</b>	<b>97,532</b>	<b>62,853</b>	<b>14,982</b>	<b>116,510</b>	<b>531,500</b>	<b>34,333</b>	<b>1,885,496</b>
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<b>Premium 31 March 2009</b>									<b>12,387</b>
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<b>Total at 31 March 2009</b>		<b>1,027,786</b>	<b>97,532</b>	<b>62,853</b>	<b>14,982</b>	<b>116,510</b>	<b>531,500</b>	<b>34,333</b>	<b>1,897,883</b>
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# Group Source of Funds

Debenture Stocks, Eurobonds, Bank and Other Loans as at 31 March 2009

	Date	Nominal Amount £000	Outstanding Principal Amount £000		
<b>THFC Debenture Stocks</b>					
Discounted:	Zero Coupon 2012	08.12.87	93,502	61,424	
	5% 2027	08.12.87	50,954	27,535	
	7% 2009 (series I)	20.05.88	10,114	9,918	
	7% 2009 (series II)	08.07.88	4,350	4,260	
Stepped Coupon:	6.58% to 19.60% 2019	02.03.89	9,273	14,103	
	7.91% to 19.75% 2019	28.06.89	4,630	6,898	
	7.55% to 17.61% 2019	17.08.89	7,860	11,060	
	8.44% to 15.98% 2019	11.10.89	2,900	3,687	
Conventional Fixed Rate:	12.04% 2021 (Annuity)	02.07.91	15,000	12,752	
	11.5% 2016 (Bullet)	tranche 1	27.11.91	66,450	66,450
		tranche 2	27.05.92	32,500	32,500
		tranche 3	20.10.92	75,500	75,500
	8.625% 2023 (Bullet)	tranche 1	13.10.93	121,100	121,100
		tranche 2	24.05.94	31,500	31,500
		tranche 3	16.06.99	12,200	12,200
		tranche 4	29.02.00	9,500	9,500
		tranche 5	05.12.01	14,800	14,800
	8.8% 2023 (Annuity)	05.11.93	8,000	6,823	
	10.0938% 2024 (Annuity)	14.07.95	13,000	9,096	
	9.625% 2025 (Bullet)	tranche 1	04.07.95	40,850	40,850
		tranche 2	12.11.97	8,600	8,600
<b>THFC Bank Loans</b>					
5 year £5m variable 2000 - extended to 2010		21.3.95	5,000	5,000	
5 year £5m variable 2000 - extended to 2010		29.3.95	2,000	2,000	
25 year £2.75m variable repayable 2021		08.03.96	750	450	
25 year £26.5m fixed rate loan 2023 - EIB (Annuity)		26.11.98	22,360	17,404	
25 year £10m fixed rate loan 2024 - EIB (Annuity)		02.09.99	31,000	24,638	
25 year £20m fixed rate loan 2025 - EIB (Annuity)		08.09.00	10,500	8,700	
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	5,000	
25 year £1.7m variable repayable 2026		09.11.01	11,000	10,450	
25 year £9.86m sterling facility repayable 2028 (Annuity)		08.09.03	6,740	6,740	
25 year £15m sterling fixed loan 2029 (Annuity)		16.06.04	15,000	13,735	
25 year £15m revolver into term		14.03.05	15,000	6,300	
5 year £20m revolving facility		27.05.05	20,000	2,920	
20 year £100m Fixed and Variable rate loan 2025 - EIB (Bullet)		22.12.05	100,000	100,000	
<b>THFC Loan from T.H.F.C. (Funding No.1) Plc</b>					
Long term - 5.125% due 2035 (Bullet)		tranche 1	13.12.04	53,572	53,572
		tranche 2	21.12.06	32,000	32,000
		tranche 3	28.02.07	37,000	37,000
		tranche 4	28.11.07	32,633	32,633
		tranche 5	30.07.08	80,000	80,000
<b>T.H.F.C. (First Variable) Bank Loans</b>					
30 year variable 2023 (Annuity)		tranche 1	30.04.93	3,500	2,875
		tranche 2	21.07.93	7,950	6,528
		tranche 3	17.12.93	4,750	3,901
		tranche 4	30.06.94	2,000	1,643
<b>T.H.F.C. (Indexed) Limited Index Linked Debenture Stocks</b>					
5.65% 2020 (Annuity)		tranche 1	13.11.90	58,840	61,135
		tranche 2	31.03.93	30,824	36,396
<b>T.H.F.C. (Indexed 2) Limited Index Linked Debenture Stocks</b>					
5.50% 2024 (Annuity)		tranche 1	16.12.94	27,750	33,222
		tranche 2	28.12.95	24,750	29,631
<b>T.H.F.C. (Social Housing Finance) Limited Debenture Stocks</b>					
8.75% Debenture Stock 2016/21 (Bullet)		tranche 1	05.12.96	18,300	18,300
		tranche 2	09.06.97	8,000	8,000
		tranche 3	11.09.97	9,900	9,900
		tranche 4	03.12.97	34,750	34,750
		tranche 5	01.07.98	15,350	15,350
<b>T.H.F.C. (Social Housing Finance) Limited Bank Loans</b>					
25 year £17.7m fixed rate loan 2023 - EIB (Annuity)			26.11.98	4,500	3,477
25 year £40m fixed rate loan 2024 - EIB (Annuity)			02.09.99	18,500	14,738
25 year £18.9m fixed rate loan 2025 - EIB (Annuity)			08.09.00	14,900	11,995
<b>UK Rents (No.I) Plc Rental Securitisation</b>					
9.10% 2025 (Eurobond)			06.01.95	36,143	34,333
<b>T.H.F.C. (Capital) Plc Loans</b>					
Long term loan - 6.38% due 2042			26.03.01	239,500	239,500
Fixed variable rate loans			26.03.01	375,000	292,000
<b>Total</b>				<b>2,037,118</b>	<b>1,885,472</b>
<b>Premium at 31 March 2009</b>					<b>12,387</b>
<b>Grand Total</b>					<b>£1,897,859</b>

# 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 2009 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 the group financial statements, Article 4 of the IAS Regulation.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This 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.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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 2006 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 2009 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 2009 and of its profit and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002 (including the Friendly and Industrial and Provident Societies Act 1968) and, as regards the group financial statements, Article 4 of the IAS Regulation.

**PricewaterhouseCoopers LLP**  
**Chartered Accountants and**  
**Registered Auditors**

London  
24 June 2009

# Group Income Statement

For the year ended 31 March 2009

	Notes	2009 £000	2008 £000
<b>Operating Income</b>			
On loans to registered social landlords			
Interest		<b>123,163</b>	121,485
Discount amortised	11	<b>7,216</b>	6,358
Premium amortised	11	<b>(2,550)</b>	(3,700)
Income from securitised assets	15	<b>3,139</b>	3,194
Indexation on investments	11	<b>7,224</b>	6,739
Premiums receivable on prepayments		<b>783</b>	1,095
Other interest		<b>979</b>	1,088
Fees receivable and other income		<b>1,839</b>	1,374
		<b>141,793</b>	137,633
<b>Operating Expenses</b>			
On debenture stocks and bank loans			
Interest	10	<b>126,260</b>	124,581
Discount amortised	14	<b>7,216</b>	6,358
Premium amortised	14	<b>(2,550)</b>	(3,700)
Indexation on loans payable	14	<b>7,224</b>	6,739
Premiums payable on prepayments		<b>794</b>	1,125
Other expenses		<b>1,691</b>	1,663
		<b>140,635</b>	136,766
<b>Profit before taxation</b>	2	<b>1,158</b>	867
Taxation	6	<b>(317)</b>	(107)
<b>Profit for the year</b>		<b>841</b>	<b>760</b>
Retained profit brought forward		<b>7,643</b>	6,883
<b>Retained profit carried forward</b>	17	<b>8,484</b>	7,643

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 2009

	Notes	2009 £000	2008 £000
<b>Assets</b>			
Intangible assets	7	36	55
Property, plant and equipment	8	-	29
Loans (non-current)	11	1,830,019	1,753,183
Deferred tax assets	5	703	880
Loans (current)	11	67,864	37,351
Other receivables	12	24,784	24,778
Short-term deposits		11,763	11,214
Cash and cash equivalents		3,717	3,178
<b>Total assets</b>		<b>1,938,886</b>	1,830,668
<b>Liabilities</b>			
Financial liabilities – borrowings (non-current)	14	1,830,718	1,753,889
Deferred tax liabilities	5	2,832	2,859
Financial liabilities – borrowings (current)	14	67,864	37,351
Trade and other payables	13	28,821	28,813
Current tax liabilities		167	113
<b>Total Liabilities</b>		<b>1,930,402</b>	1,823,025
<b>Capital and reserves</b>			
Ordinary shares	16	-	-
Retained earnings	17	8,484	7,643
<b>Total capital, reserves and liabilities</b>		<b>1,938,886</b>	1,830,668

Approved by the Board of Directors on 23 June 2009 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 2009

	Notes	2009 £000	2008 £000
<b>Cash flows from operating activities</b>			
Cash generated from operations	18	<b>4,334</b>	4,043
Interest received on loans to registered social landlords		<b>123,652</b>	121,214
Interest paid on debenture stocks, bonds and bank loans		<b>(126,778)</b>	(132,417)
Loans to registered social landlords		<b>(140,541)</b>	(197,048)
Repayment of loans by registered social landlords		<b>14,963</b>	85,660
New borrowings		<b>140,541</b>	197,048
Repayment of amounts borrowed		<b>(14,970)</b>	(85,660)
Tax paid		<b>(113)</b>	(69)
<b>Net cash generated from/(used in) operating activities</b>		<b>1,088</b>	(7,229)
<b>Cash flows from investing activities</b>			
Purchase of intangible assets		-	(7)
Movement on short-term deposits		<b>(549)</b>	9,970
<b>Net cash (used in)/generated from investing activities</b>		<b>(549)</b>	9,963
<b>Net increase in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of period		<b>3,178</b>	444
<b>Cash and cash equivalents at end of period</b>	19	<b>3,717</b>	3,178

# THFC Income Statement

for the year ended 31 March 2009

	Notes	2009 £000	2008 £000
<b>Operating income</b>			
On loans to registered social landlords			
Interest		<b>75,175</b>	73,150
Discount amortised	11	<b>7,216</b>	6,358
Premium amortised	11	<b>(2,004)</b>	(1,588)
Premiums receivable on prepayments		<b>783</b>	1,095
Other interest		<b>730</b>	788
Fees receivable and other income		<b>1,428</b>	789
		<b>83,328</b>	80,592
<b>Operating expenses</b>			
On debenture stocks and bank loans			
Interest	10	<b>75,161</b>	73,089
Discount amortised	14	<b>7,216</b>	6,358
Premium amortised	14	<b>(2,004)</b>	(1,588)
Premiums payable on prepayments		<b>794</b>	1,125
Operating expenses		<b>1,608</b>	1,118
		<b>82,775</b>	80,102
<b>Profit before taxation</b>	2	<b>553</b>	490
Taxation	6	<b>(155)</b>	(5)
<b>Profit for the year</b>		<b>398</b>	485
Retained profit brought forward		<b>4,556</b>	4,071
<b>Retained profit carried forward</b>	17	<b>4,954</b>	4,556

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 2009

	Notes	2009 £000	2008 £000
<b>Assets</b>			
Loans (non-current)	11	<b>995,597</b>	970,239
Deferred tax asset	5	<b>690</b>	872
Loans (current)	11	<b>33,657</b>	7,596
Other receivables	12	<b>21,071</b>	20,401
Short-term deposits		<b>6,742</b>	6,234
Cash and cash equivalents		<b>797</b>	466
<b>Total assets</b>		<b>1,058,554</b>	<b>1,005,808</b>
<b>Liabilities</b>			
Financial liabilities – borrowings (non-current)	14	<b>995,605</b>	970,246
Deferred tax liabilities	5	<b>2,832</b>	2,859
Financial liabilities – borrowings (current)	14	<b>33,657</b>	7,596
Trade and other payables	13	<b>21,506</b>	20,551
<b>Total Liabilities</b>		<b>1,053,600</b>	<b>1,001,252</b>
<b>Capital and reserves</b>			
Ordinary shares	16	–	–
Retained earnings	17	<b>4,954</b>	4,556
<b>Total capital, reserves and liabilities</b>		<b>1,058,554</b>	<b>1,005,808</b>

Approved by the Board of Directors on 23 June 2009 and signed on its behalf by:

Roger Mountford  
Chairman

Michael Boohan  
Director

Colin Burke  
Company Secretary

# THFC Cash Flow Statement

For the year ended 31 March 2009

	Notes	2009 £000	2008 £000
<b>Cash flows from operating activities</b>			
Cash generated from operations	18	829	269
Interest received on loans to registered social landlords		75,428	71,743
Interest paid on debenture stocks, bonds and bank loans		(75,418)	(72,130)
Loans to registered social landlords		(84,429)	(144,132)
New borrowings		84,429	144,132
Repayment of amounts borrowed		(4,296)	(48,772)
Repayment of loans by registered social landlords		4,296	48,773
<b>Net cash generated from/(used in) operating activities</b>		<b>839</b>	<b>(117)</b>
<b>Cash flows from investing activities</b>			
Movement on short-term deposits		(508)	359
<b>Net cash (used in)/generated from investing activities</b>		<b>(508)</b>	<b>359</b>
<b>Net increase in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of period		466	224
<b>Cash and cash equivalents at end of period</b>	19	<b>797</b>	466

# 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 The Industrial and Provident Societies Acts 1965 to 2002. The financial statements have been prepared under the historical cost convention as modified by the revaluation of indexed financial instruments. A summary of the more important group accounting policies is set out below.

The following interpretations are mandatory for accounting periods beginning on or after 1 January 2008:

IFRIC 11, IFRS 2 ‘Group and treasury share transactions’ is not relevant to the group’s operations because the group does not operate any share schemes;

IFRIC 12, ‘Service concession arrangements’ is not relevant to the group’s operations because the group does not provide public sector services; and

IFRIC 14, IAS 19 ‘The limit on a defined benefit asset’ is not relevant to the group’s operations because the group accounts for its pension scheme as a defined contribution scheme due to the inability to identify their underlying share of the assets and liabilities in a multi-employer plan.

No amendments to existing standards have been early adopted by the group during this period. IAS 32 (amendment) ‘Financial instruments: presentation’ and IAS 1 (amendment), ‘Presentation of financial statements’ (effective for accounting periods starting from 1 January 2009).

IFRIC 16 ‘Hedges of a net investment in a foreign operation’ (effective for accounting periods starting from 1 October 2008).

IAS 31 (amendment) ‘Interests in joint ventures’ (effective for accounting periods starting from 1 January 2009).

IFRIC 15 ‘Agreements for construction of real estates’ (effective for accounting periods starting 1 January 2009).

IFRS 2 (amendment), ‘Share-based payment’ (effective for accounting periods starting from 1 January 2009).

IFRS 3 (revised) ‘Business combinations’ (effective for accounting periods starting from 1 July 2009).

IFRIC 13, ‘Customer loyalty programmes’ (effective for accounting periods starting from 1 July 2009).

There were also another 23 amendments made to different IAS’s or IFRS’s by the IASB in May 2008. These all had an effective date for accounting periods starting from 1 January 2009 or 1 July 2009. None of these are expected to have a material impact on the group.

### Critical Accounting Judgements

The preparation of financial statements in accordance with IFRSs requires the use of certain critical accounting adjustments. It also requires management to exercise judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity or where assumptions are significant to the consolidated financial statements are a) recording loans and receivables at amortised cost and b) the non-consolidation of related party companies in which the group has a non-beneficial minority share holding.

### 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.

# Notes to the Accounts continued

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 2008 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 2008 Harbour Funding plc had loans and receivables of £275,971,307 and T.H.F.C. (Funding No.1) Plc had loans and receivables of £226,609,689.

## **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.

Loans to RSLs are stated at amortised cost. The 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 or payable, as adjusted for the amortisation of discounts or premiums, gives a constant yield to maturity.

The related debenture stocks are stated at amortised cost.

Other types of loan

### **(i) Stepped coupon loans and debenture stocks**

Stepped coupon loans to RSLs (and the associated stepped coupon debenture stock) 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.

### **(ii) Indexed-linked loans and debenture stocks**

The indexed-linked loans to borrowers and the associated indexed-linked bonds 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.

Indexed 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.

### **Prepayment**

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.

### **Impairment of loans**

The group assesses at each balance sheet date whether there is evidence that the loans and receivables are impaired. Impairment losses are incurred if, and only if, there is evidence of impairment as a result of an event that has occurred after the initial recognition of the asset and prior to the balance sheet date and that the event or events has an impact on the estimated future cash flows of the financial asset and that the impact can be reliably estimated.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

## 1 Accounting policies continued

### **d) Derivatives**

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 2009.

### **e) Cash and cash equivalents**

Cash and cash equivalents consist of term deposits (being deposits whose maturity date is three months or less from the investment date), demand deposits, current account balances and cash in hand. Part of the prior year balance of cash and cash equivalents has been reclassified from short-term deposits as it only included deposits whose maturity date from the investment date was one month or less.

### **f) Short-term deposits**

Short term deposits consist of term deposits whose maturity dates are greater than three months from the investment date.

### **g) 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.

### **h) 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.

### **i) 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.

### **j) 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.

### **k) 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
---------------------	---------------

### **l) Leased assets**

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

### **m) Taxation**

- i) Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities using the tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date.
- ii) Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred tax is determined using the tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

### **n) 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.

### **o) Segmental Analysis**

All operating income and expenditure is derived from activities undertaken in the United Kingdom. The company's only activity is to provide finance to Registered Social landlords ("RSLs").

# Notes to the Accounts continued

## 2 Profit before taxation is stated after charging:

	Group 2009 £000	Group 2008 £000
Depreciation of intangible fixed assets	19	16
Depreciation of tangible fixed assets	29	39
Fees paid to auditors for:		
group's annual audit	56	55
other services	-	-
Operating lease rentals		
plant and machinery	3	6
other	57	57

None of the above costs were incurred by THFC as all administrative services for the group are provided under management agreements with THFC.

## 3 Staff numbers and cost

	Group 2009	Group 2008
Average number of persons (including directors) employed during the year (monthly average):		
Non-executive Directors	6	6
Executive Directors	2	2
Management and administrative	7	7

	£000	£000
The aggregate employee costs amounted to:		
Directors' fees	101	91
Salaries	732	611
Social security costs	80	67
Other benefit costs	88	86
	<b>1,001</b>	855

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

## 4 Directors' remuneration

	Group 2009 £000	Group 2008 £000
Non-executive directors:		
Fees	101	91
Executive directors:		
Salaries	289	276
Pension contributions	40	38
Bonuses	42	40
Benefits	10	10
	<b>482</b>	455
Highest paid executive director:		
Salary	162	153
Pension contributions	23	22
Bonus	23	23
Benefits	8	8
	<b>216</b>	206

The fees of the chairman were £25,672. Each non-executive director received fees at the rate of £16,100 per annum except the nominee of the Tenant Services Authority (formerly the Housing Corporation) whose fee was waived until 1 December 2008. All directors' costs were incurred by THFCS and recharged to THFC.

Fees of £21,467 in respect of two non-executive directors were paid to those directors' employers.

No pension contributions were made by the group in respect of non-executive directors.

There are no long-term incentive schemes.

The chief executive receives fees of £53,849 per annum for services as a non-executive director to Co-operative Financial Services Limited and certain subsidiaries.

## 5 Deferred tax

	Group 2009 £000	THFC 2009 £000	Group 2008 £000	THFC 2008 £000
The potential liability for deferred taxation is as follows:				
Difference between accounting and taxation treatment of discounts	2,832	2,832	2,859	2,859
Less: taxation losses available for future relief	(690)	(690)	(880)	(872)
Other timing differences	(13)	-	-	-
<b>Amount provided</b>	<b>2,129</b>	<b>2,142</b>	1,979	1,987

## 6 Taxation

	Group 2009 £000	THFC 2009 £000	Group 2008 £000	THFC 2008 £000
U.K. Corporation tax at 28%	167	-	111	-
Deferred taxation	150	155	(4)	5
	<b>317</b>	<b>155</b>	107	5

### Reconciliation of tax charge

Profit before tax	1,158	553	867	490
Tax charge at standard UK corporation tax rate of 28.0% (2008: 30%)	325	155	260	147
Reduction in corporation tax rate	-	-	(142)	(142)
Timing differences between accountancy and taxation treatment of expenditure	(21)	-	(19)	-
Lower rate and marginal rate relief	(1)	-	(12)	-
Permanently dis-allowable items	14	-	20	-
Overall tax charge	317	155	107	5
Effective tax rate	27.4%	28.0%	12.3%	1.0%

## 7 Intangible assets

	Group 2009 £000	THFC 2009 £000
Implementation costs of software		
<b>Cost</b>		
At beginning and end of year	71	-
<b>Depreciation</b>		
At beginning of year	16	-
Charge for the year	19	-
At end of year	35	-
<b>Net book value at 31 March 2009</b>	<b>36</b>	-
Net book value at 31 March 2008	55	-

## 8 Property, plant and equipment

	Group 2009 £000	THFC 2009 £000
Fixtures, fittings and equipment		
<b>Cost</b>		
At beginning and end of year	174	-
<b>Depreciation</b>		
At beginning of year	145	-
Charge for the year	29	-
At end of year	174	-
<b>Net book value at 31 March 2009</b>	<b>-</b>	-
Net book value at 31 March 2008	29	-

# Notes to the Accounts continued

## 9 Investments

	THFC 2009	THFC 2008
Shares held in subsidiary undertakings		
THFCIL - 4 ordinary shares of £1 each	<b>£4</b>	£3
THFCFV - 4 ordinary shares of £1 each	<b>£4</b>	£3
THFCS - 92 ordinary shares of £1 each	<b>£92</b>	£92
THFCIL2 - 4 ordinary shares of £1 each	<b>£4</b>	£3
SHF - 5 ordinary shares of £1 each	<b>£5</b>	£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. (See group structure on inside back cover)

## 10 Interest payable

	Group 2009 £000	THFC 2009 £000	Group 2008 £000	THFC 2008 £000
On debenture stocks, bank borrowings and other borrowings				
Repayable wholly in more than five years				
Interest payable	<b>89,245</b>	<b>66,434</b>	88,036	63,939
Interest deferred	<b>(815)</b>	<b>(815)</b>	(262)	(262)
Repayable within five years	<b>37,830</b>	<b>9,542</b>	36,807	9,412
	<b>126,260</b>	<b>75,161</b>	124,581	73,089

## 11 Loans and receivables

	Group 2009 £000	THFC 2009 £000	Group 2008 £000	THFC 2008 £000
Loans to registered social landlords				
At beginning of year	<b>1,755,578</b>	<b>977,835</b>	1,637,005	880,195
Discount on new issues	<b>(9,037)</b>	<b>(9,037)</b>	(2,227)	(2,227)
Loans repaid during the year	<b>(46,883)</b>	<b>(33,600)</b>	(85,383)	(48,773)
Loans advanced during the year	<b>152,817</b>	<b>89,659</b>	197,048	144,132
	<b>1,852,475</b>	<b>1,024,857</b>	1,746,443	973,327
Discount amortised for the year	<b>7,216</b>	<b>7,216</b>	6,358	6,358
Premium amortised for the year	<b>(2,550)</b>	<b>(2,004)</b>	(3,700)	(1,588)
Interest deferred for the year	<b>(815)</b>	<b>(815)</b>	(262)	(262)
Indexation for the year	<b>7,224</b>	-	6,739	-
At end of year	<b>1,863,550</b>	<b>1,029,254</b>	1,755,578	977,835
Less: repayable within one year	<b>(67,145)</b>	<b>(33,657)</b>	(36,729)	(7,596)
	<b>1,796,405</b>	<b>995,597</b>	1,718,849	970,239
Securitised assets				
At beginning of year (Note 15)	<b>34,956</b>	-	35,233	-
Loans repaid during the year	<b>(623)</b>	-	(277)	-
At end of year	<b>34,333</b>	-	34,956	-
Less: repayable within one year	<b>(719)</b>	-	(622)	-
	<b>33,614</b>	-	34,334	-
Total falling due after more than one year at 31 March 2009	<b>1,830,019</b>	<b>995,597</b>	1,753,183	970,239

## 11 Loans and receivables continued

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

Each loan is secured by a combination of:

- either a floating charge secured on the undertakings of the relevant RSL, or a fixed charge on other assets to provide a minimum of one and a half times cover (except in the case of SHF where the minimum is 1.15 times cover), and
- a first fixed charge over cash and investments representing monies lent by the group pending investment in assets and a first fixed charge over any assets acquired by the relevant registered social landlord with those monies and,
- for discounted loans, a sinking fund comprising monies paid by the relevant RSL and held by a trustee (Law Debenture Trustees Limited) towards the payment to THFC of the amount required to redeem the loan.

For securitised loans see Note 15.

Other financial assets being other receivables, short-term deposits and cash and cash equivalents are dealt with in notes 12 and 19.

Interest rate risk is covered in the Directors' Report.

## 12 Other receivables

	Group 2009 £000	THFC 2009 £000	Group 2008 £000	THFC 2008 £000
Accrued interest income	<b>24,142</b>	<b>20,141</b>	24,246	19,987
Other receivables	<b>642</b>	<b>368</b>	532	248
Amounts due from subsidiary undertaking	-	<b>562</b>	-	166
	<b>24,784</b>	<b>21,071</b>	24,778	20,401

## 13 Trade and other payables

	Group 2009 £000	THFC 2009 £000	Group 2008 £000	THFC 2008 £000
Other creditors	<b>3,054</b>	<b>109</b>	50	82
Accruals and deferred income	<b>25,767</b>	<b>20,264</b>	28,763	20,105
Amounts due to subsidiary undertakings	-	<b>1,133</b>	-	364
	<b>28,821</b>	<b>21,506</b>	28,813	20,551

## 14 Financial liabilities - Borrowings

	Group 2009 £000	THFC 2009 £000	Group 2008 £000	THFC 2008 £000
Eurobonds (Note 15)				
At beginning of year	<b>34,956</b>	-	35,233	-
Repaid during the year	<b>(623)</b>	-	(277)	-
At end of year	<b>34,333</b>	-	34,956	-
Less: falling due within one year	<b>(719)</b> <sup>(1)</sup>	-	(622) <sup>(1)</sup>	-
	<b>33,614</b>	-	34,334	-
Debenture Stocks				
At beginning of year	<b>1,102,010</b>	<b>603,408</b>	1,131,938	611,051
Repaid during the year	<b>(25,305)</b>	<b>(17,130)</b>	(39,090)	(12,178)
Discount amortised	<b>7,046</b>	<b>7,046</b>	6,341	6,341
Premium amortised	<b>(2,504)</b>	<b>(1,958)</b>	(3,656)	(1,544)
Deferred interest	<b>(815)</b>	<b>(815)</b>	(262)	(262)
Indexation	<b>7,224</b>	-	6,739	-
At end of year	<b>1,087,656</b>	<b>590,551</b>	1,102,010	603,408
Less: falling due within one year	<b>(25,299)</b> <sup>(1)</sup>	<b>(15,739)</b> <sup>(1)</sup>	(10,166) <sup>(1)</sup>	(1,482) <sup>(1)</sup>
	<b>1,062,357</b>	<b>574,812</b>	1,091,844	601,926

# Notes to the Accounts continued

## 14 Financial liabilities - Borrowings continued

	Group 2009 £000	THFC 2009 £000	Group 2008 £000	THFC 2008 £000
Bank borrowings				
At beginning of year	<b>484,161</b>	<b>205,044</b>	366,039	130,139
Borrowed during the year	<b>72,817</b>	<b>9,659</b>	164,415	111,499
Repaid during the year	<b>(7,781)</b>	<b>(2,665)</b>	(46,293)	(36,594)
At end of year	<b>549,197</b>	<b>212,038</b>	484,161	205,044
Less: falling due within one year	<b>(41,978)<sup>(1)</sup></b>	<b>(18,050)<sup>(1)</sup></b>	(26,552) <sup>(1)</sup>	(6,103) <sup>(1)</sup>
	<b>507,219</b>	<b>193,988</b>	457,609	198,941
Loan from T.H.F.C. (Funding No. 1) Plc				
At beginning of year	<b>169,390</b>	<b>169,390</b>	139,011	139,011
Loans during the year	<b>80,000</b>	<b>80,000</b>	32,633	32,633
Repaid during the year	<b>(13,804)</b>	<b>(13,804)</b>	-	-
Discount on issue	<b>(9,037)</b>	<b>(9,037)</b>	(2,227)	(2,227)
Premium amortised	<b>(46)</b>	<b>(46)</b>	(44)	(44)
Discount amortised	<b>170</b>	<b>170</b>	17	17
At end of year	<b>226,673</b>	<b>226,673</b>	169,390	169,390
Less: premium falling due within one year	<b>(47)<sup>(1)</sup></b>	<b>(47)<sup>(1)</sup></b>	(46) <sup>(1)</sup>	(46) <sup>(1)</sup>
Add: discount falling due within one year	<b>179<sup>(1)</sup></b>	<b>179<sup>(1)</sup></b>	35 <sup>(1)</sup>	35 <sup>(1)</sup>
	<b>226,805</b>	<b>226,805</b>	169,379	169,379
Subordinated loans (Note 15)	<b>723</b>	<b>-</b>	723	-
Total falling due after more than one year at 31 March 2009	<b>1,830,718</b>	<b>995,605</b>	1,753,889	970,246

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

The above are repayable as follows:

	Group 2009 £000	THFC 2009 £000	Group 2008 £000	THFC 2008 £000
Between one and two years	<b>23,062</b>	<b>5,122</b>	42,261	25,277
Between two and five years	<b>142,609</b>	<b>80,243</b>	127,233	71,792
In five years or more	<b>1,665,047</b>	<b>910,240</b>	1,584,395	873,177
	<b>1,830,718</b>	<b>995,605</b>	1,753,889	970,246

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.

Other financial liabilities being trade and other payables are dealt with in note 13.

Interest rates on financial liabilities are listed on the Group Source of Funds on page 15.

## 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 2009 was £723,000 (2008: £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.

The net income from securitised assets in the year amounted to £3,139,000 and is included in other operating income in the group income statement. This income supports payment of the interest on the bonds to the same value.

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

	2009	2008
7 (2008 – 6) ordinary shares of £1 each	<b>£7</b>	£6

## 17 Retained earnings

	Group 2009 £000	THFC 2009 £000	Group 2008 £000	THFC 2008 £000
Opening reserves	<b>7,643</b>	<b>4,556</b>	6,883	4,071
Profit for the year	<b>841</b>	<b>398</b>	760	485
Closing reserves	<b>8,484</b>	<b>4,954</b>	7,643	4,556

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 2009 were £1,939,000 (2008: £1,935,000).

## 18 Reconciliation of profit to net cash flow from operating activities

	Group 2009 £000	THFC 2009 £000	Group 2008 £000	THFC 2008 £000
Profit before taxation	<b>1,158</b>	<b>553</b>	867	490
Interest receivable	<b>(123,163)</b>	<b>(75,175)</b>	(121,485)	(73,150)
Interest payable	<b>126,260</b>	<b>75,161</b>	124,581	73,089
Premium receivable	<b>(783)</b>	<b>(783)</b>	(1,095)	(1,095)
Premium payable	<b>794</b>	<b>794</b>	1,125	1,125
Adjustment for:				
Depreciation charges	<b>48</b>	-	55	-
(Increase)/decrease in debtors	<b>(112)</b>	<b>(519)</b>	22	(60)
Increase/(decrease) in creditors	<b>132</b>	<b>798</b>	(27)	(130)
Net cash inflow from operating activities	<b>4,334</b>	<b>829</b>	4,043	269

## 19 Analysis of changes in net funds

	At 1 April 2008 £000	Cash Flows £000	Other Non-cash Changes £000	At 31 March 2009 £000
Group				
Cash and cash equivalents	3,178	539	-	<b>3,717</b>
Debt due after 1 year	(1,753,889)	(125,571)	48,745	<b>(1,830,715)</b>
Debt due within 1 year	(37,351)	-	(30,513)	<b>(67,864)</b>
Short-term deposits	11,214	549	-	<b>11,763</b>
	(1,776,848)	(124,483)	18,232	<b>(1,883,099)</b>

# Notes to the Accounts continued

## 19 Analysis of changes in net funds continued

	At 1 April 2008 £000	Cash Flows £000	Other Non-cash Changes £000	At 31 March 2009 £000
THFC				
Cash and cash equivalents	466	331	-	<b>797</b>
Debt due after 1 year	(970,246)	(54,068)	28,717	<b>(995,597)</b>
Debt due within 1 year	(7,596)	-	(26,061)	<b>(33,657)</b>
Short-term deposits	6,234	508	-	<b>6,742</b>
	(971,142)	(53,229)	2,656	<b>(1,021,715)</b>

## 20 Commitments

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

	Group 2009 £000	Group 2008 £000
Operating lease expiring:		
In the 2nd to 5th year inclusive	<b>3</b>	78
Over 5 years	<b>72</b>	-
	<b>75</b>	78

## 21a) Maturity profile of financial assets

	Group 2009 £000	Group 2008 £000
Loans to RSLs	<b>1,863,550</b>	1,755,578
Securitised assets	<b>34,333</b>	34,956
	<b>1,897,883</b>	1,790,534
Due within one year	<b>67,864</b>	37,351
Due between one and two years	<b>23,062</b>	42,261
Due between two and five years	<b>142,609</b>	127,233
Due in over five years	<b>1,664,348</b>	1,583,689
	<b>1,897,883</b>	1,790,534

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

	2009 Financial Liabilities £000	2009 Financial Assets £000	2008 Financial Liabilities £000	2008 Financial Assets £000
Fixed rate	<b>1,630,052</b>	<b>1,630,044</b>	1,589,787	1,589,775
Floating rate	<b>267,807</b>	<b>267,839</b>	200,730	200,759
No interest payable	<b>723</b>	-	723	-
	<b>1,898,582</b>	<b>1,897,883</b>	1,791,240	1,790,534

The effective interest rates during the year were between 0% and 19.75%. The weighted average interest rate on both fixed financial liabilities and fixed financial assets is 7.26%.

The weighted average period for which interest rates are fixed is 16.37 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.

As interest rates on assets and liabilities are substantially matched no sensitivity analysis on interest rate exposure is required.

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.

## 21b) Interest rate risk profile of financial assets and financial liabilities continued

Undrawn committed borrowing facilities are as follows:

	2009 £000	2008 £000
Within one year	-	-
Between one and two years	<b>117,080</b>	-
Over two years	<b>76,700</b>	168,358
	<b>193,780</b>	168,358

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 £79,236 (2008: £80,128).

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 2008 by a professionally qualified actuary using the Projected Unit Method. The market value of the Scheme's assets at the valuation date was £1,527 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £663 million, equivalent to a past service funding level of 70%.

# Notes to the Accounts continued

## 22 Pensions continued

The financial assumptions underlying the valuation as at 30 September 2008 were as follows:

	% pa
– Investment return pre-retirement	7.8
– Investment return post retirement	6.2
– Investment return non-pensioner post retirement	5.6
– Rate of salary increases	4.7
– Rate of pension increases	3.0
– Rate of price inflation	3.2

Expenses for death in service insurance, administration and PPF levy are included in the contribution rate.

The valuation was carried out using the following demographic assumptions:

Mortality pre-retirement: PA92 Year of Birth, long cohort projection, minimum improvement 1% per annum.

Mortality post-retirement: 90% S1PA Year of Birth, long cohort projection, minimum improvement 1% per annum.

The long-term joint contribution rates that will apply from April 2010 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	17.8
Final salary with a 1/70th accrual rate	15.4
Career average revalued earnings with a 1/60th accrual rate	14.9

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 £663 million would be dealt with by the payment of deficit contributions of 7.5% of pensionable salaries, increasing each year in line with salary growth assumptions, from 1 April 2010 to 30 September 2020, dropping to 3.1% from 1 October 2020 to 30 September 2023. Pensionable earnings at 30 September 2008 are used as the reference point for calculating these deficit contributions. 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.

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.

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. A copy of the recovery plan in respect of the September 2008 valuation will be forwarded to the regulator in due course.

The next full actuarial valuation will be carried out as at 30 September 2011.

## 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 related 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 £106,000 for providing these services and had amounts owing from these companies at 31 March 2009 of £56,699 (2008: £69,056).

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 £6,138 (2008: £6,273) in relation to this arrangement. None of this cost was borne directly by THFC.

## 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 Fair values

The fair values of the group's assets and liabilities at 31 March 2009 are as follows:

	Fair value 2009 £000	Book value 2009 £000	Fair value 2008 £000	Book value 2008 £000
<b>Assets</b>				
Loans receivable	<b>2,054,721</b>	<b>1,897,883</b>	2,034,095	1,790,534
Deferred tax asset	<b>703</b>	<b>703</b>	880	880
Trade and other receivables	<b>24,784</b>	<b>24,784</b>	24,778	24,778
Short term cash deposits	<b>11,763</b>	<b>11,763</b>	11,214	11,214
Cash and cash equivalents	<b>3,717</b>	<b>3,717</b>	3,178	3,178
	<b>2,095,688</b>	<b>1,938,850</b>	2,074,145	1,830,584
<b>Liabilities</b>				
Financial liabilities-borrowings	<b>2,055,417</b>	<b>1,898,582</b>	2,034,801	1,790,240
Trade and other payables	<b>28,821</b>	<b>28,821</b>	28,813	28,813
Deferred and current tax liabilities	<b>2,999</b>	<b>2,999</b>	2,972	2,972
	<b>2,087,237</b>	<b>1,930,402</b>	2,066,586	1,822,025

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.

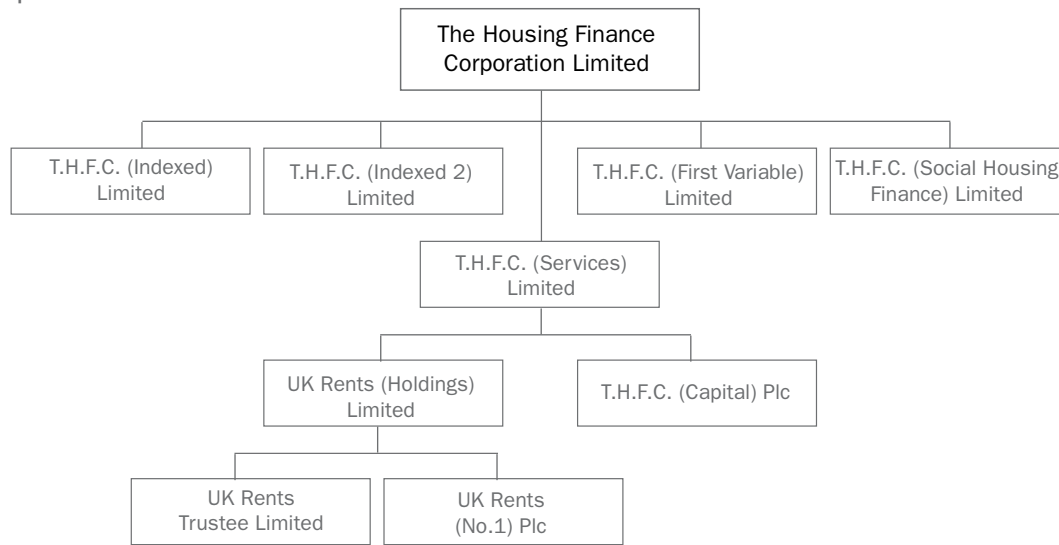
The fair value of bank loans, debenture stocks and bonds issued is based on estimate market value at 31 March 2009. The matched assets are estimated to have the same fair value.

# Five Year Financial Record

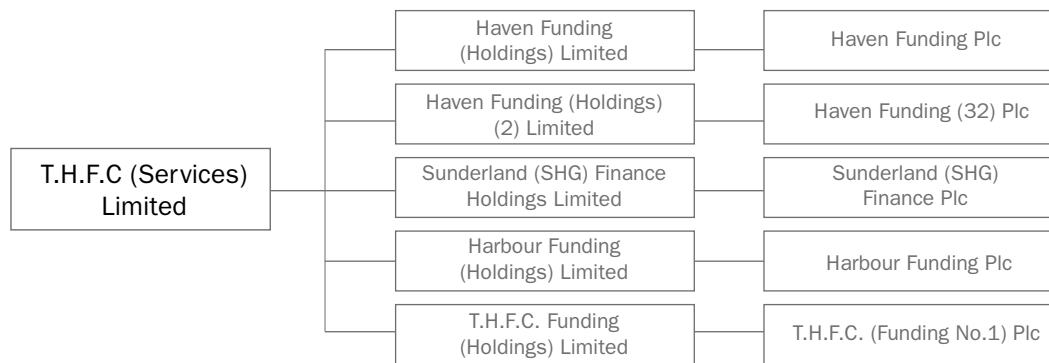
Excluding loan interest and similar items

Year to 31 March	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000
Fees	951	1,349	1,123	1,215	<b>1,693</b>
Investment income	733	766	877	1,088	<b>979</b>
Other income	169	161	169	227	<b>177</b>
<b>Total revenues</b>	<b>1,853</b>	<b>2,276</b>	<b>2,169</b>	<b>2,530</b>	<b>2,849</b>
Staff costs	742	797	779	856	<b>900</b>
Non-executive directors costs	98	102	99	97	<b>109</b>
Legal/trustees and registrars	236	301	303	230	<b>223</b>
Premises	102	104	111	107	<b>125</b>
Other	306	343	338	370	<b>334</b>
<b>Total costs</b>	<b>1,484</b>	<b>1,647</b>	<b>1,630</b>	<b>1,660</b>	<b>1,691</b>
Surplus before tax	369	629	539	867	<b>1,158</b>
Tax	103	176	152	107	<b>317</b>
Surplus after tax	266	453	387	760	<b>841</b>
<b>Accumulated reserves</b>	<b>6,043</b>	<b>6,496</b>	<b>6,883</b>	<b>7,634</b>	<b>8,484</b>
	£m	£m	£m	£m	£m
<b>Loans outstanding</b>	<b>1,585</b>	<b>1,607</b>	<b>1,672</b>	<b>1,790</b>	<b>1,898</b>

## THFC Group Structure



## THFC Related Companies



	Haven Funding Plc	Haven Funding (32) Plc	Harbour Funding Plc	Sunderland (SHG) Finance Plc	T.H.F.C (Funding No.1) Plc	
	Nominal Value <b>£273,300,000</b> Issue Date <b>11.03.97</b>	Nominal Value <b>£90,000,000</b> Issue Date <b>12.02.98</b>	Nominal Value <b>£276,336,361</b> Issue Date <b>28.08.03</b>	Nominal Value <b>£239,500,000</b> Issue Date <b>27.06.01</b>	Nominal Value <b>£235,205,000</b> Issue Date <b>21.12.04</b>	<b>Managed Companies</b> <b>= Total Nominal outstanding</b> <b>£1,114,341,361</b>
<b>Business Activity</b>	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 16 borrowers via T.H.F.C	
<b>Management Activity</b>	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	

T.H.F.C (Services) Limited provides management services to all the above companies.

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