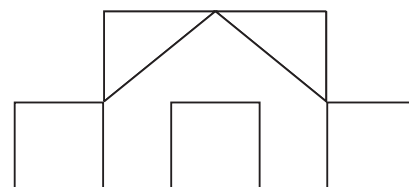

The Housing Finance Corporation Limited
Annual Report and Accounts **2010**

THFC
Creating loans for affordable homes



Highlights

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.

£2,135M (2009: £1,898M)

THFC GROUP’S LOAN BOOK

£3,235K (2009: £2,849K)

TOTAL REVENUES (EXC. INTEREST)

£1,457K (2009: £1,158K)

PRE-TAX SURPLUS

23 YEAR 100%

CUSTOMER REPAYMENT RECORD

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Chairman's Statement

2009/10 has proved to be another year of significant growth for THFC. Twenty-three years of corporate history allows the organisation to benefit from the lessons of the past whilst at the same time focussing on the future. One strong lesson from the past is that THFC's asset growth tends to be counter-cyclical, we enjoy our most rapid growth at a time when banks' and building societies' balance sheets are most constrained – a lesson last learned in 1992.

In the 12 months to March 2010 THFC originated new customer loans in excess of £600m, the strongest top line performance we have ever produced. In Group terms this represents circa 33% year on year loan growth. A significant proportion of these loans will not be added to the balance sheet until next financial year, because of the period it takes for security to be perfected. Nevertheless this represents significant progress for the business and the 2009/10 financial year end marks the first occasion in its history when THFC Group loans surpass £2bn. The long-term, steady growth of assets brings with it regular annual fee income to cover the Group's long-term operating costs, and helps counter-act lower short term investment income due to current ultra-low short-term UK interest rates.

Asset growth in the year has been achieved in two ways: via our important relationship as an originator for UK housing regeneration loans for the European Investment Bank (EIB) and through further issues of long-term sterling bonds. The £345m regional facility we signed with EIB in December 2009 at the first meeting of all of the UK's Housing Ministers, in Newcastle County Down, was notable as the largest ever housing regeneration loan completed by EIB in Europe to date. Our distribution of this loan focussed on Welsh, Northern Irish and Scottish borrowers, bringing many new customers to THFC. Completion of this new facility makes EIB THFC's largest source of funds – testimony to the faith that EIB puts in THFC's conservative loan aggregation business.

In July 2009, we completed THFC's largest single financing transaction in our twenty-three year history, using the proceeds of a new bond structure issued and on-lent by a related party. A tap issue in March 2010 quickly grew this to in excess of £260m with onward loans to a number of Northern Irish housing associations: this was the first time that any Northern Irish housing associations had accessed the bond markets. Since the onset of the credit crunch in August 2007, THFC has on-lent in excess of £375m from the proceeds of four public bond transactions undertaken by related parties, proving the continuing attractiveness of investment in the housing association sector for major pension, annuity and life funds. This makes THFC by far the most frequent and well known sterling capital markets issuer in the UK affordable housing sector.

During the year we added some seven new borrowers, and we now fund housing association developments across the entire UK. All our loans are fully secured on housing stock, which is regularly revalued, and protected by income and value covenants that we monitor continually. Nonetheless we take very seriously our responsibility to assess the overall creditworthiness of every borrower, and to review this regularly. In 2009 we built a new credit alert model, based largely on borrowers' own long-term plans, and substantially enhanced our credit approval system. We believe that a thorough dialogue with each of our customers, identifying potential sensitivities or risks, builds a close working relationship for the benefit of all.

Chairman's Statement continued

Turning to the broader picture, the defensive qualities of the sector were emphasised in the year by further targeted investments by the Government's Homes and Communities Agency ("HCA") through Rent to Homebuy schemes and the Kickstart housing delivery programme. This investment facilitated alternative medium term use for many different types of newly developed housing given the continuing problems first time buyers face in sourcing competitive mortgage offers. Additionally, the majority of volume house-builders have been able to complete equity rights issues in the year and there are early signs of a number of them once more beginning to grow their land-banks.

Nevertheless, despite the correction in house prices, low interest rates and availability of stock, affordability for first time buyers and key workers continues to be an issue in many parts of the country. We predict this will become a significant political and economic issue earlier in the next economic cycle than hitherto.

The period ahead, including the Comprehensive Spending Review, is widely forecast to be challenging for the

Housing Association sector. In 2009/10 we saw accelerated capital spend by Government that is unlikely to be repeated at this point in the economic cycle despite affordability issues and growing housing need. The mantra for the future will be: 'produce more with less'. Given the unparalleled cuts likely in unprotected Government departmental expenditure, we may face a period of some years of relatively low development output in the Housing Association sector.

Taking into account these uncertainties, the Group has positioned itself defensively to make an important continuing contribution to funding the sector. It has a well founded reputation for consistently producing cost-effective financing solutions for its customers and its views on funding innovation are widely sought. At the same time we continue to review and analyse the risk profile of our customers.

Our core (long-term general obligations) rating by Standard and Poor's remains unchanged at A+ confirming the Group as a predictable alternative source of long-term finance in highly uncertain times.

I would like to pay tribute to the hard work of the entire THFC team in achieving such a successful financial outcome in 2009/10. They bring innovation to the funding of affordable housing, but without ever jeopardising our high credit and security standards or prudent approach to funding.

In closing I would also like, on behalf of the entire Board, to record our thanks to our longest serving Non-Executive Director, Michael Boohan, who stepped down at the end of March 2010 after 15 years' service. I am pleased to report that after conducting a recruitment exercise which saw over 100 applications, we have been successful in recruiting John Parker, an accountant and ex Chairman of the Building Societies Association, as Michael's successor.

Roger Mountford
Chairman

Chief Executive's Review

2009/10 has been another year of significant growth and activity for the THFC team. We have ended the year with a Group loan book of over £2bn for the first time in the Company's history, with a further £400m of growth already committed from last year's transactions. As a result of this record business origination, post-tax earnings in 2009/10 were almost £1.5m, a 26% uplift from 2008/9, itself a very strong year.

Strong growth has not been at the expense of conservative loan underwriting. THFC has maintained its minimum loan criteria throughout the year and they continue to represent some of the most conservative criteria in the sector. It has been the slower growth and in some cases withdrawal of a number of our competitor banks and building societies from the sector, coupled with their desire to re-negotiate what in retrospect appear to be loss-leading long-term lending portfolios that has increasingly drawn customers to THFC. In the short term we believe that some limited competition has returned from a small number of banks, particularly those nationalised institutions which have been given formal gross lending targets by the Government. However, in the medium term, as the new FSA liquidity regime is introduced later this year, we expect banks and building societies to be progressively less inclined to make the long-term, 20-30 year, loans needed by housing associations to fund their developments. This in turn should prove an opportunity for a greater proportion of future long term investment in the sector to come from the capital markets.

Turning to THFC's growth this year, this has been in two principal product areas: EIB lending and long-term public bond business.

In relation to EIB, we have had great success in the regional placement of a further £345m tranche of long term funding – the largest ever housing regeneration loan EIB have completed in Europe to date.

In Northern Ireland (where we made a joint presentation with EIB to the first meeting of five Housing Ministers under the auspices of the Anglo-Irish Council) working closely with five local Housing Associations we were able to identify local regeneration projects across the entire Province which matched EIB's criteria. This allowed us later in the year to identify a further requirement for long-term bond financing in the Province. In March 2010 we completed the first ever such long-term financing for local housing associations, delivering them a cost of funding priced competitively when compared with the largest recent own-name housing association bond issuers in the UK mainland.

In Wales we worked in conjunction with Principality Building Society to leverage further EIB funding and were successful in placing £98m of funding across 11 borrowers. This has also latterly led to spin-off bond financing opportunities.

Although the Group has lent to a small number of Scottish housing associations for a number of years, it has not until now been particularly active. The failure of Dunfermline Building Society in the year meant that our EIB product filled a real void and we made significant progress in developing new lending relationships with eight Scottish housing associations in the year. We have been latterly involved in consultation with the Scottish Government to make the case to modify the so called Twenty-Year Rule in Scotland, which has inhibited the widespread offering of long-



Tom Hackett and Pierre Emmanuel Noel from EIB together with Piers Williamson and Roger Mountford from THFC celebrating placing £30m of EIB investment in Northern Ireland, with Margaret Ritchie, MLA, Minister for Social Development and leader of the SDLP.

Chief Executive's Review continued

term bond finance to Scottish HAs. To help familiarise us with this new market we have opted to recruit a highly experienced banker to act as our local consultant on Scottish local market conditions. Alan West formally joined THFC in January 2010 to perform this role and we are delighted to welcome him to the team.

In sourcing funds from the capital markets, speed to market and simple downstream documentation were viewed as two key positive differentiators of our product. In the year we raised a total of £263m from the bond markets sourced via a related party, the on-lending of which included participation from three large London HAs that might have otherwise considered their own bond programmes.

The year has been highly unusual where the operation of the Bank of England's £200bn Quantitative Easing programme has exerted unprecedented influence to depress the gilt yields used to price long dated public sterling fixed rate bonds. Housing association bond credit spreads as a whole have benefited significantly from their 'no-frills' reputation along with a lack of suitable alternative long-term options for investors. This is demonstrated by the shift in credit spreads from March 2009, where an Aa2 single name HA issued at Gilts +2.6% contrasted with T.H.F.C. (Funding No.2) Plc (A+) issuing a tap transaction in March 2010 at Gilts +1.05%.

In the nearly eight 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.

Nevertheless, investment income in 2009/10, at £236k, was significantly below the £979k earned in 2008/9 owing to the unprecedented low rates of return that prevailed throughout the financial year.

The Group regularly places funds on term deposit to generate investment income and carefully manages counterparty risk through strict adherence to minimum credit ratings and has not been exposed to any failures or potential failures of financial institutions 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 well down, but counter-balanced by fees earned both from arranging new transactions and strong growth in our long-term loan book.

Given the unprecedented amount of business origination this year we have focussed carefully on our internal credit processes. THFC's Credit Committee has met frequently throughout the year to discuss and challenge management's assessment of credit. The role of Credit Committee continues not just to approve new business, but also to review existing credit compliance and any areas of identified higher risk. THFC has used for a number of years a credit scoring model rather akin to the credit risk models adopted by banks and larger building societies. We have continued to modify the model where we see risk factors changing in the market although there were no defaults or serious problem cases arising in the year.

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. They continue to report sales of shared ownership units, albeit at low levels. 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 their covenants.

Outside THFC 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 continue to contribute to the Audit Commission's Housing and Regeneration Advisory Group as well as the London Mayor's Sustainable Development Commission. We continue to enjoy a close dialogue with our shareholders, the National Housing Federation and the Tenant Services Authority ("TSA"), and the HCA as well as holding periodic discussions with HM Treasury and the Department for Communities and Local Government ("CLG"), which sponsors the TSA and HCA. Given our extensive activity across the UK, we have also enjoyed an excellent dialogue this year with the devolved governments. We continue to be asked to address the Boards of our customers on the impact of the credit crunch and developments in funding markets.

Turning to the THFC team, as a relatively small group of specialists it is not always apparent to the outside world what we are able to achieve in competition with some of the largest financial institutions in the world. This year, when much accepted financial wisdom has been turned on its head, the team decided (in addition to raising in excess of £600m of incremental long-term finance for our customers) to accept a team challenge to complete the National Three Peaks in July (completing ascents of Ben Nevis, Scafell Pike and Snowdon) in aid of the Breast Cancer Campaign. A joint team of 10 members, drawn 50/50 from THFC and our lawyers, Trowers & Hamlins, successfully completed the challenge and raised in excess of £15,000. Our grateful thanks go to all of the very generous sponsors (you can see us in the picture below proudly wearing Southern Housing Group tops on top of Britain (the summit of Ben Nevis). All members of the THFC team played an important part in our success, and I hope this goes some way to show the pride and esprit-de-corps that we all display in helping our customers achieve their own important challenges.

**Piers Williamson
Chief Executive**



The THFC and Trowers & Hamlins team on top of the UK at the summit of Ben Nevis during their Three Peaks Challenge in July 2009. The team raised over £15,000 for the Breast Cancer Campaign.

Business and Financial Review

The five-year table on page 43 gives a comparative history of the THFC Group and shows that our loan book has increased by 32.9% while total costs have increased by 9.9% and our total revenues by 43.6% over the period.

The THFC Group achieved a pre-tax surplus of £1,457,000 (2009: £1,158,000). This was primarily as a result of the fees we received for arranging new loans for our customers. Our objective remains that of generating a sufficient surplus each year to achieve a steady progression in the Group's financial reserves. The Group's reserves are non-distributable and held to provide cash flow cover in the event of a borrower default. For the year ended 31 March 2010 as a consequence of a sound year the Group's reserves have risen from £8.5m to £9.5m. 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 £267.9m (2009: £152.8m) of new money sourced primarily from bond issues 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, produced net lending of £237.5m (2009: £139.6m), before adjustment for indexation and amortisation of premiums and discounts.

As a result the THFC group loan book stands at £2,135.3m (2009: £1,897.8m). Details of borrowings by the THFC Group to fund its loan book are shown on page 17.

One borrower, for operational reasons and in accordance with underlying loan documentation, deferred drawdown of the net proceeds of their loan until 1 April 2010. This accounts for the Group's unusually high cash balance at 31 March 2010. The Group also held an investment in gilts at year end that was purchased out of the loan proceeds and transferred to the borrower's sinking fund to form part of its Interest Service Reserve on 1 April 2010. The borrower accrued interest on the nominal value of the loan from date of deferment until the date of drawing.

At the year-end the Group was the provider of funds to 123 borrowers (2009: 118).

Our operating expenses were held to 0.08% (2009: 0.09%) of the £2.1bn (2009: £1.9bn) of outstanding loans at the year-end.

The Group regards its Key Performance Indicators to be growth in pre-tax surplus, reserves and Group loan book together with the ratio of operating expenses to year end loan book. The Group achieved a record surplus before and after tax and reduced the ratio of expenses to the loan book by 0.01%.

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 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 rest of the Group and to related party companies. The structure of the Group is set out in the diagram on the inside back cover.

Group Financing Principles

THFC and a number of its 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 two related parties, both of which issue rated public Eurobonds.

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

- Funds are raised solely for on-lending to housing association groups.
- Funds are on-lent on a substantially identical maturity, interest and repayment profile thus ensuring that no material mismatch risk is taken on interest rate movements.

- No currency risk in relation to its funds is taken by the Group or passed on to its borrowers.
- Loans are fully secured and covenanted in accordance with the terms of the relevant individual Group member’s governing Trust Deed.
- The Group makes and maintains its own independent credit assessment of its borrowers, using its own credit rating system, and approves applications for funding only after a careful review by the Group’s credit committee.

Security Offered to Investors

The security which THFC offers to investors is illustrated on pages 14 to 16. Lenders to each THFC organisation benefit from a floating charge over that organisation’s assets, which are primarily its secured loans to housing associations. 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 seven borrowers have switched fourteen 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-three 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, review of the borrowers’ own risk register and an assessment of management capabilities. New or increased credit exposures are reviewed and approved or rejected by THFC’s credit committee, which is a Board committee.

The Group’s bespoke credit rating model reflects 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 entities are structured differently from the issuing subsidiaries.

UK Rents (No. 1) Plc (“UK Rents”)

UK Rents is a subsidiary company established in 1994 solely for the purpose of issuing bonds, with an AAA rating achieved through a rental securitisation, and using the funds raised to purchase rent receivables from housing associations.

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

THFC Capital is a subsidiary company established in 2001 to act as a conduit for funds raised for the transfer of housing stock from Sunderland City Council to Gentoo Group (formerly Sunderland Housing Group). The loans to Gentoo are structured on a non-recourse (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 £9.5m (2009: £8.5m).

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 related parties are:

T.H.F.C. (Funding No.1) Plc (“Funding No.1”)

Funding No.1 is a non-consolidated 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 currently carrying an AA- rating from Standard & Poor's rating agency. Funding No.1's rating is achieved partly through the addition of a bespoke liquidity facility. Funding No.1's rating is therefore linked to the rating of the liquidity provider (currently Royal Bank of Scotland Plc). Funding No.1's liquidity facility was renewed in the year and its AA-long-term rating was affirmed.

T.H.F.C. (Funding No.2) Plc (“Funding No. 2”)

Funding No.2 is also a non-consolidated 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 June 2009 to act as the issuing company for secured bonds currently carrying an A+ rating from Standard & Poor's rating agency.

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 and Funding No.2 have a pari-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 2010 these companies had loans totalling £361.9m (nominal) made to 18 housing associations funded by bond issues arranged by a third party investment bank.

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 2010 had £239.5m (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 £276.3m (nominal) to four large-scale voluntary transfer housing associations.

THFCS is the largest provider of administration services to the regulated housing association sector and its income in the year from related party contracts was £134,098 (2009: £106,000).

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 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 each of the companies within 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 2010 was £1,457,000 (2009: £1,158,000).

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 under 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 5.

Directors and Shareholders

Details of Directors, their service periods for the year and the shareholders of THFC are set out in the adjacent table. The biographies of the current Directors appear on pages 12 and 13.

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, Pam Alexander and Roger Mountford will resign and offer themselves for re-election.

As a Director appointed to the Board since the last Annual General Meeting, John Parker 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 and Shareholders

Director	Period Served to 31 March 2010	THFC Shareholdings at 31 March 2010
Pam Alexander	Full Year	£1
Charlie Arbuthnot	Full Year	£1
Michael Boohan	Full Year	NIL
Fenella Edge	Full Year	NIL
Roger Mountford	Full Year	£1
David Orr	Full Year	NIL
Gill Rowley	Full Year	NIL
Sadru Visram	Full Year	£1
Piers Williamson	Full Year	NIL
Other shareholders		
Tenant Services Authority		£1
The National Housing Federation		£1
Total issued share capital at 31 March 2010		£6
THFC's Rules prescribe that all shareholdings are non-beneficial.		

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, 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 the National Housing Federation (David Orr) and the Tenant Services Authority (Gill Rowley) were remitted to their employers. The fees of the non-executive Directors, in accordance with Board approved policy, were increased by 4.45% on the annual review date of 1 April 2010. 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

The Credit Committee is a committee of the Board. It comprises a minimum of four independent non-executive Directors appointed by the Board of THFC, together with the chief executive and group treasurer. The chairman of the credit committee is Mr David Orr, a 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 (until his retirement when he was replaced by John Parker) and Charlie Arbuthnot as non-executive independent Directors and Piers Williamson and Fenella Edge, chief executive and group treasurer of THFC.

Audit Committee

The Audit Committee reviews internal controls, financial reporting, annual financial statements, the performance and recommendations of external auditors, the independence of the 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 (until his retirement when he was replaced by John Parker) and Gill Rowley. The Chairman attends by invitation and Piers Williamson and senior members of staff attend when required.

Nominations Committee

The Nominations Committee meets as required to consider potential nominees to the Board, both executive and non-executive. During its meetings in the year its membership comprised: Michael Boohan (chairman), Charlie Arbuthnot, Roger Mountford and Sadru Visram.

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

Directors' Attendance at Meetings

Directors' attendance at THFC Board and Board committee meetings during the year is shown in the table below. Where a Director was unable to attend a meeting he or she was scheduled to attend, the Chairman received a sound reason for the non-attendance. Special Board meetings are those called 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.

Directors' Attendance at Meetings

	Main Board (6)	Special Board (4)	Audit Committee (3)	Credit Committee (17)
Piers Williamson	6	3	-	16
Fenella Edge	6	4	-	15
Roger Mountford	5	4	-	12
Michael Boohan	6	4	3	13
Pam Alexander	6	-	-	-
Gill Rowley	5	-	3	-
Sadru Visram	6	2	3	12
David Orr	6	1	-	10
Charlie Arbuthnot	6	1	-	11

- indicates not a member or not required to attend

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

There was one meeting of the Nominations Committee which all members attended.

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 on completion of the maximum allowed term, 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.

Directors' Report continued

- 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. Following the retirement of Michael Boohan as Senior Non-Executive and Non-Executive Director to the Board on 31 March 2010, David Orr was appointed Senior Non-Executive Director.

Management

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

Pension Scheme

All THFC Group employees, but not non-executive Directors, participate in the Social Housing Pension Scheme ("SHPS"). This scheme, 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 2008 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 where these are relevant to THFC as 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 sufficient income to offset the Group's operating costs. 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 ten. Up until 31 March 2010 the internal audit function was undertaken by Michael Boohan, a non-executive Director and Chartered Accountant, who reviewed adherence to financial controls and the collation of management accounts on a quarterly basis. Following Michael Boohan's retirement on 31 March 2010, the accounting firm of Smith and Williamson has been appointed to undertake quarterly reviews of internal controls.

The Directors considered periodic reports on the effectiveness of internal controls during the period to 28 June 2010 and no significant weaknesses have been identified.

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) and the Directors are responsible for the maintenance and integrity of that website. However there is currently uncertainty regarding the legal requirements in publishing information on websites, and information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of THFC and the Group

and to enable them to ensure that the financial statements comply with the Industrial and Provident Societies Acts 1965 to 2002. 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

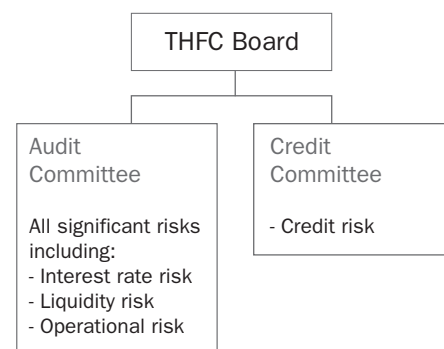
The Board is responsible for approving THFC's strategy and the level of acceptable risks. The Board has established an audit committee and a credit committee reporting periodically to the Board to administer a risk management process which identifies the key risks facing the business and the Board reviews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

The Group derives income from three principal sources; arrangement fees on new lending, annual fees accruing on the existing loan book and investment income on cash balances.

The level of arrangement fees is subject to market conditions, competition from other lenders and demand from borrowers and therefore creates a certain amount of volatility in this income stream. Annual fees are contractual and for the most part subject to indexation using the Retail Price Index which can cause year on year receipts to remain unchanged or decrease. Investment income is subject to interest rate risk although on occasions rates are locked in on the Group reserves investment income using swap transactions.

Subject to the risks to income outlined above the Group endeavours to cover operating costs from investment income and contractual annual fees.

Risk management structure



For further information on financial risk management see note 21.

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
28 June 2010

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 and the Civil Aviation Authority. He is chairman of HgCapital Trust PLC, the Port of Dover 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 became SEEDA's Chief Executive in January 2004. She leads for all nine Regional Development Agencies on

relations with the Department for Business, Innovation & Skills (BIS) on innovation and skills.

Pam chairs the Margate Renewal Partnership, the Hastings & Bexhill TaskForce, and is Deputy Chair of Ashford's Future. She also chairs the South East Partnership for 2012 and was co-chair of the Women's Enterprise Task Force 2006-2009.

Outside SEEDA Pam is a non-executive Director of Brighton Dome and Festival Ltd and of the Academy of Urbanism. She was Chair of Peabody from 2004-2009 and a non-executive Director of Quintain Estates & Development Plc prior to joining SEEDA.

Pam was previously Chief Executive of English Heritage and Deputy Chief Executive of the Housing Corporation. As a civil servant in the Department of the Environment from 1975 to 1994, she worked on local government finance, transport, inner city regeneration and housing policies and in Brussels.

Pam was appointed to the Board in 2002.



Charlie Arbuthnot

Charlie Arbuthnot currently works as a financial consultant principally in the RSL 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 RSL sector having arranged RSL 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.



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 Centrepont, in Soho.

David completed a one-year secondment to the Scottish Executive in October 2001, as Community Ownership Manager. He was formerly President of CECODHAS-Housing Europe, the European network of housing federations. He joined the Board in 2005.



John Parker

John Parker was appointed to the Board on 1 April 2010. John is a qualified chartered accountant. He was Chief Executive of the

Stroud and Swindon Building Society for 13 years until retiring in December 2005. Prior to that he has worked as a business economist for Morgan Grenfell, Chief Internal Auditor for the Chelsea Building Society, and in successive financial roles for Burmah Oil plc. John was a member of the Building Societies Association Council for 6 years and was Chairman in 2004. More recently he has been a director of English Partnerships, and Finance Director to the Company of the Proprietors of Stroudwater Navigation. He now chairs the investment committee of the Department of Work and Pensions and is Vice Chairman of the Newbury Building Society.



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 LHA – Asra.



Piers Williamson

Piers has over 25 years' experience of the UK, US and European financial markets specialising in Bank Treasury risk

management and securitisation.

Prior to THFC, Piers was the Treasurer and then the Director of Corporate Finance of HFC Bank (Now part of HSBC). 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 Cooperative Bank, Cooperative Insurance Society and CIS (General Insurance) Limited, since July 2005, where he is currently Chair of the Risk Management Committee.

He is also a member of the Audit Commission Housing and Regeneration Advisory Group and a Commissioner of the London Sustainable Development Commission.

THFC Group Loans

Loans Portfolio as at 31 March 2010

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	74,933	-	-	-	-	-	-	74,933
A2Dominion North Limited	South East	5,000	-	-	-	-	-	-	5,000
A2Dominion South Limited	South East	2,500	-	2,289	-	-	-	-	4,789
Accent Foundation Limited	National	-	11,313	-	-	-	-	-	11,313
Accent Nene Housing Society Limited	National	1,811	-	-	-	-	-	-	1,811
Adactus Housing Association Limited	North West	-	-	-	-	1,850	-	-	1,850
Agudas Israel Housing Association Limited	London	199	-	573	-	-	-	-	772
Aldwyck Housing Association Limited	South East	2,676	1,246	-	-	-	-	-	3,922
AmicusHorizon Group Limited	London	28,500	13,910	-	-	-	-	-	42,410
Asra Greater London Housing Association Limited	London	3,000	-	-	3,901	-	-	-	6,901
Axiom Housing Association Limited	East of England	21,786	-	-	-	-	-	-	21,786
Belfast Community Housing Association Limited	Northern Ireland	1,000	-	-	-	-	-	-	1,000
Beth Johnson Housing Association Limited	National	4,000	-	-	-	-	-	-	4,000
Cambridge Housing Society Limited	East of England	4,200	-	-	-	-	-	-	4,200
Catalyst Communities Housing Association Limited	London	4,192	1,246	-	-	-	-	-	5,438
Cardiff Community Housing Association Limited	Wales	-	268	-	-	-	-	-	268
Cheviot Housing Association Limited	North East	-	-	-	-	3,000	-	-	3,000
Clwyd Alyn Housing Association Limited	Wales	2,000	2,397	-	-	-	-	-	4,397
Cymdeithas Tai Clwyd	Wales	1,500	-	-	-	-	-	-	1,500
Community Housing Association Limited	London	43,573	-	-	-	-	-	-	43,573
Connect Housing Association Limited	North East	2,750	-	-	-	5,000	-	-	7,750
Contour Homes Limited	Yorks/Humber	2,500	-	-	-	7,924	-	-	10,424
Cotman Housing Association Limited	National	1,500	-	-	-	-	-	-	1,500
Cymdeithas Tai Eryri Limited	Wales	2,500	-	-	-	-	-	-	2,500
Devon & Cornwall Housing Association Limited	South West	2,453	5,146	-	-	-	-	-	7,599
De Montfort Housing Society Limited	West Midlands	5,550	-	-	-	-	-	-	5,550
East Homes Limited	London	1,395	-	-	-	-	-	-	1,395
Eildon Housing Association Limited	Scotland	-	-	-	-	3,900	-	-	3,900
English Churches Housing Group Limited	National	19,561	671	-	-	-	-	-	20,232
Equity Housing Group Limited	North West	8,209	336	-	2,537	-	-	-	11,082
Estuary Housing Association Limited	East of England	7,650	623	-	-	-	-	-	8,273
Family Housing Association (Birmingham) Limited	West Midlands	6,000	-	-	-	3,763	-	-	9,763
Family Mosaic Housing	London	43,471	1,630	-	-	-	-	-	45,101
Friendship Care Housing Association Limited	East Midlands	2,000	-	-	-	5,500	-	-	7,500
Gateway	London	1,250	-	-	-	6,839	-	-	8,089
Grampian Housing Association Limited	Scotland	-	-	-	-	3,088	-	-	3,088
Gravesend Churches Housing Association Limited	South East	-	-	-	-	1,750	-	-	1,750
Great Places Housing Association Limited	North West	5,404	-	573	587	-	-	-	6,564
Heantun Housing Association Limited	West Midlands	10,000	-	-	-	-	-	-	10,000
Helm Housing Association Limited	Northern Ireland	10,000	-	-	-	-	-	-	10,000
Hexagon Housing Association Limited	London	1,500	240	4,006	-	-	-	-	5,746
Hightown Praetorian and Churches Housing Association Limited	South East	1,100	959	-	-	-	-	-	2,059
Home Group Limited	National	2,453	9,530	11,159	-	-	-	-	23,142
Hyde Housing Association Limited	South East	-	-	11,077	-	-	-	-	11,077
Innisfree Housing Association Limited	London	3,000	-	-	-	-	-	-	3,000
Inwell Valley Housing Association Limited	North West	-	-	2,289	-	-	-	-	2,289
Islington & Shoreditch Housing Association Limited	London	3,045	-	-	-	3,843	-	-	6,888
Johnnie Johnson Housing Trust Limited	North West	18,500	671	-	-	-	-	-	19,171
Knightstone Housing Association Limited	South West	8,791	10,303	-	-	-	-	-	19,094
Leeds Federated Housing Association Limited	Yorks/Humber	9,000	-	-	-	-	-	-	9,000
Leeds & Yorkshire Housing Association Limited	Yorks/Humber	5,000	-	-	-	-	-	-	5,000
Leicester Housing Association Limited	London	1,533	-	-	-	3,000	-	-	4,533
Livability Housing	National	-	-	-	-	3,000	-	-	3,000
Liverpool Housing Trust Limited	North West	7,000	-	-	-	5,724	-	-	12,724
London & Quadrant Housing Trust	London	31,417	959	-	-	-	-	-	32,376
Longhurst Homes Limited	East Midlands	9,400	-	-	-	-	-	-	9,400
Manningham Housing Association Limited	Yorks/Humber	14,914	-	-	820	2,000	-	-	17,734
Mercian Housing Association Limited	London	2,143	-	-	-	-	-	-	2,143
Metropolitan Housing Trust Limited	London	29,643	-	1,717	-	-	-	-	31,360
Mid Wales Housing Association Limited	Wales	-	-	1,259	-	-	-	-	1,259
Midland Heart Limited	West Midlands	37,369	8,696	-	-	-	-	-	46,065
Minster General Housing Association Limited	South East	5,215	-	-	-	1,500	-	-	6,715
Moat Homes Limited	South East	3,500	6,011	-	-	-	-	-	9,511
Moseley & District Churches Housing Association Limited	West Midlands	3,050	-	2,769	1,562	-	-	-	7,381
Mosscares Housing Limited	North West	33,112	-	-	-	-	-	-	33,112
Newlon Housing Trust	London	5,032	-	-	-	-	-	-	5,032
NomadE5 Housing Association Limited	North East	-	-	-	-	5,500	-	-	5,500
North & West Housing Association Limited	Northern Ireland	10,000	-	-	-	-	-	-	10,000
North London Muslim Housing Association Limited	London	1,000	-	-	-	1,500	-	-	2,500
North Wales Housing Association Limited	Wales	2,500	383	-	-	5,000	-	-	7,883
Notting Hill Housing Trust	London	15,000	-	-	-	-	-	-	15,000
Nottingham Community Housing Association Limited	East Midlands	13,400	-	-	-	-	-	-	13,400
Octavia Housing and Care	London	2,000	-	-	-	3,500	-	-	5,500
Oxford Citizens Housing Association Limited	South East	1,500	-	-	1,171	-	-	-	2,671
Paddington Churches Housing Association	London	27,500	-	-	-	2,000	-	-	29,500
Pembrokeshire Housing Association Limited	Wales	1,000	-	-	-	-	-	-	1,000
Penwith Housing Association Limited	South West	5,223	-	-	-	-	-	-	5,223
Places for People Homes Limited	National	22,149	-	-	-	-	-	-	22,149

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
Places for People Homes Individual Support	National	4,000	-	-	-	-	-	-	4,000
Portal Housing Association Limited	South West	16,000	-	-	-	-	-	-	16,000
Portsmouth Housing Association Limited	South East	7,115	-	-	-	-	-	-	7,114
Sadeh Lok Housing Group Limited	Yorks/Humber	650	-	-	-	-	-	-	650
Sanctuary Housing Association Limited	National	12,920	-	-	-	-	-	-	12,920
Sentinel	South East	10,000	-	-	-	-	-	-	10,000
Shaftesbury Housing Association Limited	National	-	1,726	-	-	-	-	-	1,726
Soho Housing Association Limited	London	-	-	-	-	1,500	-	-	1,500
South Yorkshire Housing Association Limited	Yorks/Humber	4,545	-	-	-	-	-	-	4,544
Southern Housing Group Limited	London	133,280	2,819	-	-	10,000	-	-	146,099
Spirita Limited	London	2,490	-	-	-	-	-	-	2,490
Springboard Housing Association Limited	London	11,000	-	-	-	-	-	-	11,000
Stadium Housing Association Limited	London	47,394	-	-	-	-	-	-	47,393
Staffordshire Housing Association Limited	West Midlands	3,800	-	-	-	5,300	-	-	9,100
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	1,750	-	-	-	1,000	-	-	2,750
Thames Valley Charitable Housing Association Limited	South East	14,835	-	-	-	-	-	-	14,835
Three Rivers Housing Association Limited	North East	3,000	-	-	-	1,473	-	-	4,473
Toynbee Housing Association Limited	London	1,100	-	-	-	-	-	-	1,100
Trident Housing Association Limited	West Midlands	5,000	2,589	-	-	-	-	-	7,589
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	21,419	-	-	-	-	-	-	21,418
Waterloo Housing Association Limited	West Midlands	6,000	-	-	-	-	-	-	6,000
Westcountry Housing Association Limited	South West	37,000	-	-	-	-	-	-	37,000
West Mercia Homes Limited	West Midlands	12,500	-	-	-	-	-	-	12,500
West Pennine Housing Association Limited	North West	3,000	-	3,323	-	2,000	-	-	8,323
William Sutton Housing Association Limited	National	-	-	2,289	-	-	-	-	2,289
Wiltshire Rural Housing Association Limited	South West	1,014	-	-	-	-	-	-	1,013
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	National	609	-	-	-	-	-	-	609
Yorkshire Housing Limited	Yorks/Humber	40,501	-	-	-	-	-	-	40,500
Total Fixed Charge Security		1,118,074	83,672	43,323	10,578	107,704	-	-	1,363,351

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	-	-	5,723	-	-	-	-	5,723
Arena Housing Group Limited	North West	5,000	-	8,012	-	6,000	-	-	19,012
Asra Greater London Housing Association Limited	London	7,000	-	-	-	-	-	-	7,000
Barnsbury Housing Association Limited	London	-	-	-	976	-	-	-	976
Black Country Group Limited	West Midlands	7,000	-	-	-	-	-	-	7,000
Bromford Carinthia Housing Association	West Midlands	4,500	-	1,717	-	-	-	-	6,217
Cheviot Housing Association Limited	North East	13,286	1,822	-	-	-	-	-	15,108
De Montfort Housing Society Limited	West Midlands	4,250	671	-	-	-	-	-	4,921
East Midlands Housing Association Limited	East Midlands	17,000	-	1,316	1,562	-	-	-	19,878
Habinteg Housing Association Limited	National	5,917	-	-	-	-	-	-	5,917
Leicester Housing Association Limited	London	19,550	671	-	1,092	-	-	-	21,313
Manningham Housing Association Limited	Yorks/Humber	12,500	-	-	-	-	-	-	12,500
Mercian Housing Association Limited	London	15,180	959	-	-	-	-	-	16,139
Metropolitan Housing Trust Limited	London	6,453	2,205	-	-	-	-	-	8,658
Midland Heart Limited	West Midlands	6,440	-	-	-	-	-	-	6,440
Tuntum Housing Association Limited	East Midlands	7,000	-	-	-	-	-	-	7,000
Three Rivers Housing Association Limited	North East	3,000	-	-	-	-	-	-	3,000
Total Floating Charge Security		139,576	6,328	16,768	3,630	6,000	-	-	172,302

THFC Group Loans continued

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
London & Quadrant Housing Trust	London	-	-	-	-	-	-	7,034	7,034
Cheviot Housing Association Limited	North East	-	-	-	-	-	-	6,776	6,776
A2 Dominion London Limited	South East	-	-	-	-	-	-	4,562	4,562
Mercian Housing Association Limited	London	-	-	-	-	-	-	5,118	5,118
Contour Homes Limited	Yorks/Humber	-	-	-	-	-	-	5,065	5,065
Portsmouth Housing Association Limited	South East	-	-	-	-	-	-	5,060	5,060
Income Cover		-	-	-	-	-	-	33,615	33,615

Fixed Charge Security – Cash Flow Covenants

Gentoo Group Limited	North East	-	-	-	-	-	552,500	-	552,500
Total		-	-	-	-	-	552,500	-	552,500

Grand Total	1,257,650	90,000	60,091	14,208	113,704	552,500	33,614	2,121,768
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Premium at 31 March 2010								13,568
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Total at 31 March 2010								2,135,336
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Group Source of Funds

Debenture Stocks, Eurobonds, Bank and Other Loans as at 31 March 2010

		Date	Nominal Amount £000	Outstanding Principal Amount £000
THFC Debenture Stocks				
Discounted:	Zero Coupon 2012	08.12.87	93,502	68,226
	5% 2027	08.12.87	50,954	27,968
Stepped Coupon:	6.58% to 19.60% 2019	02.03.89	9,273	13,845
	7.91% to 19.75% 2019	28.06.89	4,630	6,778
	7.55% to 17.61% 2019	17.08.89	7,860	10,886
	8.44% to 15.98% 2019	11.10.89	2,900	3,645
Conventional Fixed Rate:	12.04% 2021 (Annuity)	02.07.91	15,000	12,274
	11.5% 2016 (Bullet)	tranche 1 tranche 2 tranche 3	66,450 27,059 75,500	66,450 32,500 75,500
	8.625% 2023 (Bullet)	tranche 1 tranche 2 tranche 3 tranche 4 tranche 5	121,100 24,059 12,200 9,500 14,800	121,100 31,500 12,200 9,500 14,800
	8.8% 2023 (Annuity)	05.11.93	8,000	6,561
	10.0938% 2024 (Annuity)	14.07.95	13,000	8,834
	9.625% 2025 (Bullet)	tranche 1 tranche 2	40,850 8,600	40,850 8,600
THFC Bank Loans				
	25 year £2.75m variable repayable 2021	08.03.96	750	413
	25 year £26.5m fixed rate loan 2023 – (Annuity)	26.11.98	22,360	16,639
	25 year £10m fixed rate loan 2024 – (Annuity)	02.09.99	33,000	25,153
	25 year £20m fixed rate loan 2025 – (Annuity)	08.09.00	10,500	8,377
	25 year £9.35m fixed rate loan – (Bullet)	02.04.01	8,700	8,700
	5 year £5m revolving credit facility variable, repayable 2006	01.10.01	5,000	5,000
	25 year £17m variable repayable 2026	09.11.01	11,000	10,120
	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	13,081
	25 year £15m revolver into term	14.03.05	15,000	15,000
	5 year £20m revolving facility	27.05.05	20,000	2,963
	20 year £100m Fixed and Variable rate loan 2025 – (Bullet)	22.12.05	100,000	100,000
	30 year £100m Fixed and Variable rate loan 2040 – (Bullet)	14.11.08	100,000	25,000
	5 year £5m revolving credit facility variable, repayable 2015	23.03.10	5,000	-
THFC Loan from T.H.F.C. (Funding No.1) Plc				
Long term - 5.125% due 2035 (Bullet)	tranche 1 tranche 2 tranche 3 tranche 4 tranche 5	13.12.04 21.12.06 28.02.07 28.11.07 30.07.08	53,572 32,000 37,000 32,633 80,000	53,572 32,000 37,000 32,633 80,000
THFC Loan from T.H.F.C. (Funding No. 2) Plc				
Long term - 6.35% due 2041 (Bullet)	tranche 1 tranche 2	02.07.09 24.03.10	191,000 72,250	191,000 72,250
T.H.F.C. (First Variable) Bank Loans				
30 year variable 2023 (Annuity)	tranche 1 tranche 2 tranche 3 tranche 4	30.04.93 21.07.93 17.12.93 30.06.94	3,500 7,950 4,750 2,000	2,725 6,187 3,698 1,557
T.H.F.C. (Indexed) Limited Index Linked Debenture Stocks				
5.65% 2020 (Annuity)	tranche 1 tranche 2	13.11.90 31.03.93	42,734 28,490	56,414 33,586
T.H.F.C. (Indexed 2) Limited Index Linked Debenture Stocks				
5.50% 2024 (Annuity)	tranche 1 tranche 2	16.12.94 28.12.95	29,025 22,988	31,767 28,329
T.H.F.C. (Social Housing Finance) Limited Debenture Stocks				
8.75% Debenture Stock 2016/21 (Bullet)	tranche 1 tranche 2 tranche 3 tranche 4 tranche 5	05.12.96 09.06.97 11.09.97 03.12.97 01.07.98	18,300 8,000 9,900 34,750 15,350	18,300 8,000 9,900 34,750 15,350
T.H.F.C. (Social Housing Finance) Limited Bank Loans				
25 year £17.7m fixed rate loan 2023 - (Annuity)		26.11.98	4,500	3,323
25 year £40m fixed rate loan 2024 - (Annuity)		02.09.99	16,500	12,601
25 year £18.9m fixed rate loan 2025 - (Annuity)		08.09.00	14,900	11,481
UK Rents (No.1) Plc Rental Securitisation				
9.10% 2025 (Eurobond)		06.01.95	36,143	33,614
T.H.F.C. (Capital) Plc Loans				
Long term loan – 6.38% due 2042		26.03.01	239,500	239,500
Fixed variable rate loans		26.03.01	375,000	313,000
Total			2,383,904	2,171,740
Premium at 31 March 2010				19,070
Grand Total				2,190,810

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') and its subsidiaries for the year ended 31 March 2010 which comprise the Group and Parent Company Statements of Comprehensive Income, the Group and Parent Company Statements of Financial Position, the Group and Parent Company Statements of Cash Flows, the Group and Parent Company Statements of Recognised Income and Expense 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 information on pages 1 to 17. 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 2008 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 2010 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 2010 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
28 June 2010

Group Statement of Comprehensive Income

For the year ended 31 March 2010

	Notes	2010 £000	2009 £000
Operating Income			
On loans to housing associations			
Interest		123,935	123,163
Discount amortised	11	7,707	7,216
Premium amortised	11	(1,449)	(2,550)
Income from securitised assets	15	3,076	3,139
Indexation on investments	11	(1,638)	7,224
Premiums receivable on prepayments		-	783
Other interest		236	979
Fees receivable and other income		2,999	1,839
		134,866	141,793
Operating Expenses			
On debenture stocks and bank loans			
Interest	10	126,977	126,260
Discount amortised	14	7,707	7,216
Premium amortised	14	(1,449)	(2,550)
Indexation on loans payable	14	(1,638)	7,224
Premiums payable on prepayments		-	794
Other expenses		1,812	1,691
		133,409	140,635
Profit before taxation		1,457	1,158
Taxation	6	(418)	(317)
Profit for the year		1,039	841
Other comprehensive income for the year		-	-
Total comprehensive income for the year		1,039	841

Group Statement of Financial Position

at 31 March 2010

	Notes	2010 £000	2009 £000
Assets			
Intangible assets	7	19	36
Property, plant and equipment	8	-	-
Loans (non-current)	11	2,080,570	1,830,019
Deferred tax assets	5	175	703
Loans (current)	11	54,766	67,864
Available for sale financial asset		4,005	-
Other receivables	12	27,347	24,784
Short-term deposits		8,288	11,763
Cash and cash equivalents		60,531	3,717
Total assets		2,235,701	1,938,886
Liabilities			
Financial liabilities – borrowings (non-current)	14	2,136,767	1,830,718
Deferred tax liabilities	5	2,673	2,832
Financial liabilities – borrowings (current)	14	54,766	67,864
Trade and other payables	13	31,922	28,821
Current tax liabilities		50	167
Total Liabilities		2,226,178	1,930,402
Capital and reserves			
Ordinary shares	16	-	-
Retained earnings	17	9,523	8,484
Total capital and reserves		9,523	8,484
Total capital, reserves and liabilities		2,235,701	1,938,886

Approved by the Board of Directors on 28 June 2010 and signed on its behalf by:

Roger Mountford
Chairman

Sadru Visram
Director

Colin Burke
Company Secretary

Group Statement of Recognised Income and Expense

For the year ended 31 March 2010

	2010 £000	2009 £000
Net income recognised directly in equity	-	-
Profit for the period	1,039	841
Total recognised Income and Expense for the period	1,039	841

See note 16 for details of share capital movements.

Group Statement of Cash Flows

For the year ended 31 March 2010

	Notes	2010 £000	2009 £000
Cash flows from operating activities			
Cash generated from operations	18	4,127	4,334
Interest received on loans to housing associations		122,060	123,652
Interest paid on debenture stocks, bonds and bank loans		(124,174)	(126,778)
Loans to housing associations		(270,442)	(140,541)
Repayment of loans by housing associations		37,019	14,963
New borrowings		325,944	140,541
Repayment of amounts borrowed		(37,023)	(14,970)
Tax paid		(167)	(113)
Net cash generated from operating activities		57,344	1,088
Cash flows from investing activities			
Purchase of available for sale financial asset		(4,005)	-
Movement on short-term deposits		3,475	(549)
Net cash used in investing activities		(530)	(549)
Net increase in cash and cash equivalents		56,814	539
Cash and cash equivalents at beginning of period		3,717	3,178
Cash and cash equivalents at end of period	19	60,531	3,717

THFC Statement of Comprehensive Income

For the year ended 31 March 2010

	Notes	2010 £000	2009 £000
Operating income			
On loans to housing associations			
Interest		81,406	75,175
Discount amortised	11	7,707	7,216
Premium amortised	11	(613)	(2,004)
Premiums receivable on prepayments		-	783
Other interest		179	730
Fees receivable and other income		2,522	1,428
		91,201	83,328
Operating expenses			
On debenture stocks and bank loans			
Interest	10	81,392	75,161
Discount amortised	14	7,707	7,216
Premium amortised	14	(613)	(2,004)
Premiums payable on prepayments		-	794
Operating expenses		1,448	1,608
		89,934	82,775
Profit before taxation		1,267	553
Taxation	6	(370)	(155)
Profit for the year		897	398
Other comprehensive income for the year		-	-
Total comprehensive income for the year		897	398

THFC Statement of Financial Position

at 31 March 2010

	Notes	2010 £000	2009 £000
Assets			
Loans (non-current)	11	1,247,407	995,597
Deferred tax asset	5	161	690
Loans (current)	11	13,728	33,657
Available for sale financial asset	25	4,005	-
Other receivables	12	23,532	21,071
Short-term deposits		5,304	6,742
Cash and cash equivalents		55,649	797
Total assets		1,349,786	1,058,554
Liabilities			
Financial liabilities – borrowings (non-current)	14	1,302,917	995,605
Deferred tax liabilities	5	2,673	2,832
Financial liabilities – borrowings (current)	14	13,728	33,657
Trade and other payables	13	24,617	21,506
Total Liabilities		1,343,935	1,053,600
Capital and reserves			
Ordinary shares	16	-	-
Retained earnings	17	5,851	4,954
Total capital and reserves		5,851	4,954
Total capital, reserves and liabilities		1,349,786	1,058,554

Approved by the Board of Directors on 28 June 2010 and signed on its behalf by:

Roger Mountford
Chairman

Sadru Visram
Director

Colin Burke
Company Secretary

THFC Statement of Recognised Income and Expense

For the year ended 31 March 2010

	2010 £000	2009 £000
Net income recognised directly in equity	-	-
Profit for the period	897	398
Total recognised Income and Expense for the period	897	398

See note 16 for details of share capital movements.

THFC Statement of Cash Flows

For the year ended 31 March 2010

	Notes	2010 £000	2009 £000
Cash flows from operating activities			
Cash generated from operations	18	942	829
Interest received on loans to housing associations		79,115	75,428
Interest paid on debenture stocks, bonds and bank loans		(78,140)	(75,418)
Loans to housing associations		(251,008)	(84,429)
New borrowings		306,510	84,429
Repayment of amounts borrowed		(25,627)	(4,296)
Repayment of loans by housing associations		25,627	4,296
Net cash generated from operating activities		57,419	839
Cash flows from investing activities			
Purchase of available for sale financial asset		(4,005)	-
Movement on short-term deposits		1,438	(508)
Net cash (used in) investing activities		(2,567)	(508)
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of period		797	466
Cash and cash equivalents at end of period	19	55,649	797

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”) and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations as adopted by the European Union 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 and available for sale financial assets. A summary of the more important Group accounting policies is set out below.

The following standards, amendments and interpretations, which became effective in 2009 are relevant to the Group:

• Amendments to IFRS 7, ‘Financial instruments: Disclosures’

The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in some additional disclosures, but does not have an impact on the financial position or the comprehensive income of the Group.

• IFRS 8, ‘Operating segments’

The standard replaces IAS 14, ‘Segment reporting’, with its requirement to determine primary and secondary reporting segments. Under the requirements of the revised standard, the Group’s external segment reporting will be based on the internal reporting to the Group executive Board (in its function as the chief operating decision-maker), which makes decisions on the allocation of resources and assesses the performance of the reportable segments. The application of IFRS 8 does not have any effect on the Group, as the Group does not operate in different segments.

• IAS 1 (revised), ‘Presentation of financial statements’

According to the amendment of IAS 1 in January 2008, each component of equity, including each item of other comprehensive income, should be reconciled between carrying amount at the beginning and the end of the period. The change only impacts on presentation.

Standards and interpretations issued but not yet effective

The following standards and interpretations have been issued and are mandatory for the Group’s accounting periods beginning on or after 1 July 2009 or later periods and are expected to be relevant to the Group:

IFRS 1 and IAS 27 – Cost of an investment in a subsidiary, jointly controlled entity or associate 1 July 2009

IFRS 3 Business combinations 1 July 2009

IAS 27 Consolidated and separate financial statements 1 July 2009

IAS 39 Financial instruments: Recognition and measurement – eligible hedged items 1 July 2009

IFRIC 17 Distribution of non-cash assets to owners 1 July 2009

IFRIC 18 Transfers of assets from customers 1 July 2009

IFRS 9 Financial instruments part 1: Classification and measurement 1 January 2013

The Group is considering the implications of these standards, the impact on the Group and the timing of their adoption by 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 shareholding.

Notes to the Accounts continued

1 Accounting policies continued

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 2006. 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.

THFCS holds shares on a fiduciary basis in all companies listed below and THFC does not therefore consolidate their results. These companies report to 31 December 2009 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
T.H.F.C. (Funding No.2) Plc	Nil	Nil

At 31 December 2009 Harbour Funding Plc had loans and receivables of £275,976,897, T.H.F.C. (Funding No.1) Plc £226,737,805 and T.H.F.C. (Funding No.2) Plc £191,000,000.

c) Loans to housing associations and debenture stocks

The terms of the loans to housing associations (“HAs”) 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 HAs are classified as loans and receivables. Debenture stocks, secured bonds and bank borrowings are defined as financial liabilities.

Loans to HAs 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 statement of comprehensive income 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 HAs 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 statement of comprehensive income 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.

1 Accounting policies continued

For accounting purposes any initial issue premium is amortised over the term of the instrument and credited semi-annually to the statement of comprehensive income. Each semi-annual payment is divided into an interest payment and a repayment of principal, so that the amounts credited semi-annually to the statement of comprehensive income 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.

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 losses

The Group assesses at each financial year end 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.

d) Derivatives

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 statement of comprehensive income.

There were no derivative financial instruments in existence at 31 March 2010.

e) Available for sale assets

Available for sale assets are non-derivative financial assets that are designated as available for sale and are not categorised into any of the other categories described above or below. They are initially and subsequently recognised at fair value.

Gains and losses arising from changes in fair value are included as a separate component of other comprehensive income.

Impairment losses and translation differences on available for sale assets are recognised in the statement of comprehensive income. The assets are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership.

f) 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.

g) Short-term deposits

Short-term deposits consist of term deposits whose maturity dates are greater than three months from the investment date, but not more than twelve months.

h) Interest

Interest receivable on loans to HAs 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 statement of comprehensive income in the period in which the prepayment takes place.

i) 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.

j) 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.

Notes to the Accounts continued

1 Accounting policies continued

k) 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.

l) 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

m) Leased assets

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

n) Taxation

- i) Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities using tax rates (and laws) that have been 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 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.

o) 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 charge for the period under IAS19 represents the employer contribution payable.

p) Segmental Analysis

All operating income and expenditure is derived from activities undertaken in the United Kingdom. The company's primary activity is to provide finance to housing associations. The Group does not operate in other segments.

2 Profit before taxation is stated after charging:

	Group 2010 £000	Group 2009 £000
Depreciation of intangible fixed assets	17	19
Depreciation of tangible fixed assets	-	29
Fees paid to auditors for:		
Group's annual audit	59	56
other services	26	11
Operating lease rentals		
plant and machinery	4	3
other	56	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 2010	Group 2009
Average number of persons (including Directors) employed during the year (monthly average):		
Non-executive Directors	7	6
Executive Directors	2	2
Management and administrative	8	7
	£000	£000
The aggregate employee costs amounted to:		
Directors' fees	122	101
Salaries	794	732
Social security costs	86	80
Other benefit costs	107	88
	1,109	1,001

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

4 Directors' remuneration

	2010 £000	2009 £000
Non-executive Directors:		
Fees	122	101
Executive Directors:		
Salaries	296	289
Pension contributions	45	40
Bonuses	45	42
Benefits	10	10
	518	482
Highest paid executive Director:		
Salary	172	162
Pension contributions	27	23
Bonus	25	23
Benefits	9	8
	233	216

The fees of the chairman were £25,672. Each non-executive Director received fees at the rate of £16,100 per annum.

All Directors' costs were incurred by THFCS and recharged to THFC.

Fees of £32,200 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 £54,236 per annum for services as a non-executive director to Co-operative Financial Services Limited and certain subsidiaries.

5 Deferred tax liabilities

	Group 2010 £000	THFC 2010 £000	Group 2009 £000	THFC 2009 £000
The liability for deferred taxation is as follows:				
Difference between accounting and taxation treatment of discounts	2,673	2,673	2,832	2,832
Less: taxation losses available for future relief	(161)	(161)	(690)	(690)
other timing differences	(14)	-	(13)	-
Amount provided	2,498	2,512	2,129	2,142

Notes to the Accounts continued

6 Taxation

	Group 2010 £000	THFC 2010 £000	Group 2009 £000	THFC 2009 £000
U.K. Corporation tax at 28%	50	-	167	-
Deferred taxation	368	370	150	155
	418	370	317	155
Reconciliation of tax charge				
Profit before tax	1,456	1,267	1,158	553
Tax charge at standard UK corporation tax rate of 28% (2009: 28%)	408	355	325	155
Reduction in corporation tax rate	-	-	-	-
Timing differences between accountancy and taxation treatment of expenditure	5	15	(21)	-
Lower rate and marginal rate relief	(1)	-	(1)	-
Permanently dis-allowable items	6	-	14	-
Overall tax charge	418	370	317	155
Effective tax rate	28.7%	29.2%	27.4%	28.0%

7 Intangible assets

	Group 2010 £000	THFC 2010 £000	Group 2009 £000	THFC 2009 £000
Implementation costs of software				
Cost				
At beginning and end of year	71	-	71	-
Depreciation				
At beginning of year	35	-	16	-
Charge for the year	17	-	19	-
At end of year	52	-	35	-
Net book value at 31 March 2010	19	-	36	-

8 Property, plant and equipment

	Group 2010 £000	THFC 2010 £000	Group 2009 £000	THFC 2009 £000
Fixtures, fittings and equipment				
Cost				
At beginning and end of year	174	-	174	-
Depreciation				
At beginning of year	174	-	145	-
Charge for the year	-	-	29	-
At end of year	174	-	174	-
Net book value at 31 March 2010	-	-	-	-

9 Investments

	THFC 2010	THFC 2009
Shares held in subsidiary undertakings		
THFCIL – 5 ordinary shares of £1 each	£5	£4
THFCFV – 4 ordinary shares of £1 each	£4	£4
THFCS – 92 ordinary shares of £1 each	£92	£92
THFCIL2 – 4 ordinary shares of £1 each	£4	£4
SHF – 4 ordinary shares of £1 each	£4	£5

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 and Wales. (See Group structure on inside back cover)

9 Investments continued

On 24 March 2010 the Group acquired a gilt investment that was disposed of to a borrower on 1 April 2010 in connection with a lending transaction. The investment is classified as an "available for sale" asset and recorded at fair value in the balance sheet.

10 Interest payable

	Group 2010 £000	THFC 2010 £000	Group 2009 £000	THFC 2009 £000
On debenture stocks, bank borrowings and other borrowings Repayable wholly in more than five years				
Interest payable	96,838	74,007	89,245	66,434
Interest deferred	(594)	(594)	(815)	(815)
Repayable within five years	30,108	7,354	37,830	9,542
On loans repaid in the year	625	625		
	126,977	81,392	126,260	75,161

11 Loans and receivables

	Group 2010 £000	THFC 2010 £000	Group 2009 £000	THFC 2009 £000
Loans to housing associations				
At beginning of year	1,863,550	1,029,254	1,755,578	977,835
Discount on new issues	-	-	(9,037)	(9,037)
Premium on new issues	2,449	2,449	-	-
Loans repaid during the year	(36,296)	(25,627)	(46,883)	(33,600)
Loans advanced during the year	267,993	248,559	152,817	89,659
	2,097,696	1,254,635	1,852,475	1,024,857
Discount amortised for the year	7,707	7,707	7,216	7,216
Premium amortised for the year	(1,449)	(613)	(2,550)	(2,004)
Interest deferred for the year	(594)	(594)	(815)	(815)
Indexation for the year	(1,638)	-	7,224	-
At end of year	2,101,722	1,261,135	1,863,550	1,029,254
Less: repayable within one year	(53,941)	(13,728)	(67,145)	(33,657)
	2,047,781	1,247,407	1,796,405	995,597
Securitised assets				
At beginning of year (Note 15)	34,333	-	34,956	-
Loans repaid during the year	(719)	-	(623)	-
At end of year	33,614	-	34,333	-
Less: repayable within one year	(825)	-	(719)	-
Total falling due after more than one year at 31 March 2010	32,789	-	33,614	-
	2,080,570	1,247,407	1,830,019	995,597

Loans have been made to HAs 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 HA, 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 housing association with those monies and,
- for discounted loans, a sinking fund comprising monies paid by the relevant HA 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, available for sale assets, short-term deposits and cash and cash equivalents are dealt with in notes 9, 12 and 19.

Interest rate risk is covered in note 21.

Notes to the Accounts continued

12 Other receivables

	Group 2010 £000	THFC 2010 £000	Group 2009 £000	THFC 2009 £000
Accrued interest income	26,018	22,430	24,142	20,141
Other receivables	1,329	1,074	642	368
Amounts due from subsidiary undertaking	-	28	-	562
	27,347	23,532	24,784	21,071

13 Trade and other payables

	Group 2010 £000	THFC 2010 £000	Group 2009 £000	THFC 2009 £000
Other creditors	3,353	502	3,054	109
Accruals and deferred income	28,569	23,514	25,767	20,264
Amounts due to subsidiary undertakings	-	601	-	1,133
	31,922	24,617	28,821	21,506

14 Financial liabilities – borrowings

	Group 2010 £000	THFC 2010 £000	Group 2009 £000	THFC 2009 £000
Eurobonds (Note 15)				
At beginning of year	34,333	-	34,956	-
Repaid during the year	(719)	-	(623)	-
At end of year	33,614	-	34,333	-
Less: falling due within one year	(825)⁽¹⁾	-	(719) ⁽¹⁾	-
	32,789	-	33,614	-
Debenture Stocks				
At beginning of year	1,087,656	590,551	1,102,010	603,408
Repaid during the year	(24,119)	(15,464)	(25,305)	(17,130)
Discount amortised	7,526	7,526	7,046	7,046
Premium amortised	(1,400)	(564)	(2,504)	(1,958)
Deferred interest	(594)	(594)	(815)	(815)
Indexation	(1,638)	-	7,224	-
At end of year	1,067,431	581,455	1,087,656	590,551
Less: falling due within one year	(11,678)⁽¹⁾	(1,721)⁽¹⁾	(25,299) ⁽¹⁾	(15,739) ⁽¹⁾
	1,055,753	579,734	1,062,357	574,812
Bank borrowings				
At beginning of year	549,197	212,038	484,161	205,044
Borrowed during the year	54,743	35,309	72,817	9,659
Repaid during the year	(12,181)	(10,163)	(7,781)	(2,665)
At end of year	591,759	237,184	549,197	212,038
Less: falling due within one year	(42,290)⁽¹⁾	(12,034)⁽¹⁾	(41,978) ⁽¹⁾	(18,050) ⁽¹⁾
	549,469	225,150	507,219	193,988

14 Financial liabilities – borrowings continued

	Group 2010 £000	THFC 2010 £000	Group 2009 £000	THFC 2009 £000
Loan from T.H.F.C. (Funding No.1) Plc				
At beginning of year	226,673	226,673	169,390	169,390
Loans during the year	-	-	80,000	80,000
Repaid during the year	-	-	(13,804)	(13,804)
Discount on issue	-	-	(9,037)	(9,037)
Premium amortised	(49)	(49)	(46)	(46)
Discount amortised	181	181	170	170
At end of year	226,805	226,805	226,673	226,673
Less: premium falling due within one year	(51)⁽¹⁾	(51)⁽¹⁾	(47) ⁽¹⁾	(47) ⁽¹⁾
Add: discount falling due within one year	192⁽¹⁾	192⁽¹⁾	179 ⁽¹⁾	179 ⁽¹⁾
	226,946	226,946	226,805	226,805
Loan from T.H.F.C. (Funding No.2) Plc				
At beginning of year	-	-	-	-
Loans during the year	263,250	263,250	-	-
Repaid during the year	-	-	-	-
Premium on issue	7,951	7,951	-	-
Premium amortised	-	-	-	-
Discount amortised	-	-	-	-
At end of year	271,201	271,201	-	-
Less: premium falling due within one year	(114)⁽¹⁾	(114)⁽¹⁾	-	-
	271,087	271,087	-	-
Subordinated loans (Note 15)	723	-	723	-
Total falling due after more than one year at 31 March 2010	2,136,767	1,302,917	1,830,718	995,605

⁽¹⁾ amounts falling due within one year totalling £54,766 for the Group and £13,728 for THFC.

The above are repayable as follows:

	Group 2010 £000	THFC 2010 £000	Group 2009 £000	THFC 2009 £000
Between one and two years	24,833	6,065	23,062	5,122
Between two and five years	163,427	90,573	142,609	80,243
In five years or more	1,948,507	1,206,279	1,665,047	910,240
	2,136,767	1,302,917	1,830,718	995,605

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 17.

15 Securitisation transaction

UK Rents (No.1) Plc ("UKR1") owns a pool of rent receivables of six housing associations which it purchased in January 1995. The cost of the rental pool was £36.143m. To finance the purchase of the rent receivables UKR1 issued £36.143m of Eurobonds. The housing associations' obligation to repurchase part of the rental stream, started in October 2005 and concludes in 2025.

Each housing association 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 2010 was £723,000 (2009: £723,000).

Notes to the Accounts continued

15 Securitisation transaction continued

Under the terms of the transaction each housing association 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 housing association has given first fixed charges over the underlying properties.

UK Rents Trustee Limited ("UKRT") receives the rental flow and holds it on trust for UKR1 and thereafter the housing associations 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 housing associations.

The income from securitised assets in the year amounted to £3,076,000 (2009: £3,139,000) and is included in other operating income in the group statement of comprehensive income. 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 housing associations in meeting their obligations under the terms of the various agreements.

16 Called up share capital

Authorised, allotted, called up and fully paid ordinary shares of £1 each

	2010	2009
At beginning of year	7	6
Issued in year	-	1
Redeemed in year	1	-
At end of year	6	7

17 Retained earnings

	Group 2010 £000	THFC 2010 £000	Group 2009 £000	THFC 2009 £000
Opening reserves	8,484	4,954	7,643	4,556
Profit for the year	1,039	897	841	398
Closing reserves	9,523	5,851	8,484	4,954

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 2010 were £1,943,000 (2009: £1,939,000).

The THFC Group's reserves are non-distributable. The Group makes loans only on a fully secured basis and against matching funding. Reserves are therefore primarily held to provide liquidity while security is realised, in the event that a borrower defaults. The level of reserves is considered to be adequate for the nature of operations of the Group.

18 Reconciliation of profit to net cash flow from operations

	Group 2010 £000	THFC 2010 £000	Group 2009 £000	THFC 2009 £000
Profit before taxation	1,457	1,267	1,158	553
Interest receivable	(123,935)	(81,406)	(123,163)	(75,175)
Interest payable	126,977	81,392	126,260	75,161
Premium receivable	-	-	(783)	(783)
Premium payable	-	-	794	794
Adjustment for:				
Depreciation charges	17	-	48	-
(Increase) in debtors	(687)	(174)	(112)	(519)
Increase/(decrease) in creditors	298	(137)	132	798
Net cash inflow from operating activities	4,127	942	4,334	829

19 Analysis of changes in net funds

	At 1 April 2009 £000	Cash Flows £000	Other Non-cash Changes £000	At 31 March 2010 £000
Group				
Cash and cash equivalents	3,717	56,814	-	60,531
Debt due after 1 year	(1,830,718)	(289,537)	(16,506)	(2,136,761)
Debt due within 1 year	(67,864)	-	13,098	(54,766)
Short-term deposits	11,763	(3,475)	-	8,288
	(1,883,102)	(236,198)	(3,408)	(2,122,708)
THFC				
Cash and cash equivalents	797	54,852	-	55,649
Debt due after 1 year	(995,597)	(306,510)	(810)	(1,302,917)
Debt due within 1 year	(33,657)	-	19,929	(13,728)
Short-term deposits	6,742	(1,438)	-	5,304
	(1,021,715)	(253,096)	19,119	(1,255,692)

20 Commitments

At the end of the year the Group had future minimum lease payments under non-cancellable operating leases as follows:

	Group 2010 £000	Group 2009 £000
Due within 1 year	51	33
In the 2nd to 5th year inclusive	217	5
Over 5 years	-	-
	268	38

21 Financial Risk Management

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 chart on page 11 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 cash balances. The policy and periodic strategy for the hedging of THFC's reserves is also approved by the Board.

At year end there was no interest rate mismatch in relation to the deferred drawdown referred to on page 5 as the borrower is accruing interest from 24 March 2010 which matches the Group's liability.

Based on the investment income budget for the year ended 31 March 2011 each 0.5% movement in the overall rate of return gives rise to a £106,000 movement in income.

(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 14 to 16.

Notes to the Accounts continued

21 Financial Risk Management continued

(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 bonds issued by related parties to the Group have liquidity enhancements comprising a dedicated liquidity facility in the case of T.H.F.C. (Funding No.1) Plc and a two-year maturity mismatch between the expected and legal maturity dates in the case of both T.H.F.C. (Funding No.1) Plc and T.H.F.C. (Funding No.2) Plc. In connection with the latter THFC holds an interest service reserve as a first call in the event of a borrower default. 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 approval by the credit committee and Board and such approval is limited to financial institutions with a suitable minimum 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.

The maturity profile of financial assets is given below.

a) The maturity profile of financial assets

	Group 2010 £000	Group 2009 £000
Loans to HAs	2,101,721	1,863,550
Securitised assets	33,614	34,333
	2,135,335	1,897,883
Due within one year	54,766	67,864
Due between one and two years	24,833	23,062
Due between two and five years	163,427	142,609
Due in over five years	1,892,309	1,664,348
	2,135,335	1,897,883

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

	2010 Financial Liabilities £000	2010 Financial Assets £000	2009 Financial Liabilities £000	2009 Financial Assets £000
Fixed rate	1,926,908	1,871,392	1,630,052	1,630,044
Floating rate	263,902	263,943	267,807	267,839
No interest payable	723	-	723	-
	2,191,533	2,135,335	1,898,582	1,897,883

The effective interest rates during the year were between 0% and 23.1%. The weighted average interest rate on fixed financial liabilities is 6.90% and the weighted average period for which interest rates are fixed is 18.89 years. The weighted average interest rate on fixed financial assets is 6.96% and the weighted average period for which interest rates are fixed is 18.02 years.

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

All assets and liabilities are denominated in £ sterling.

The financial liability of £723,000 represents the obligation to repay, at maturity, the six subordinated loans provided to the Group in connection with the asset securitisation as disclosed in note 15.

The liability is matched by an equivalent level of short-term deposit with the interest thereon being returned to the housing associations.

Undrawn committed borrowing facilities are as follows:

	2010 £000	2009 £000
Within one year	17,080	-
Between one and two years	-	117,080
Over two years	467,000	76,700
	484,080	193,780

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

21 Financial Risk Management continued

Contractual cash flows

The table below summarises the cash flows payable by the Group from 31 March 2010 until contractual maturity of all its bond and loan liabilities as at the same date. On variable rate facilities it has been assumed that the interest rate and drawn amount as at 31 March 2010 remain unchanged until the contract maturity. Similarly, on indexed liabilities it has been assumed that the liability is fixed from 31 March 2010.

	Within 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
Contractual interest cash flows	127,652	127,022	376,064	1,416,273
Contractual principal cash flows	48,378	28,390	158,740	1,886,227
Total contractual cash flows	176,030	155,412	534,804	3,302,500

All the above cash flows are substantially matched by cash flows receivable on the Group's loan assets.

(d) Operational risk

This arises from the potential for key systems failures, breaches in internal controls or from external events resulting in financial loss or reputational damage. Key operational risks include outsourced contracts, payments systems, information systems and over-dependence on key personnel. Operational risk is controlled and mitigated through comprehensive, ongoing risk management practices which include formal internal control procedures, training, segregation of duties, delegated authorities and contingency planning and documentation of procedures.

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.

From April 2010 there are a further two benefit structures available:

Final salary with a 1/80th accrual rate.

Career average revalued earnings with a 1/80th accrual rate.

A defined contribution benefit structure will be made available from 1 October 2010.

An employer can elect to operate different benefit structures for their active members 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. This does not reflect any benefit structure changes made from 1 April 2010.

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. From 1 April 2010 the requirement for employers to pay at least 50% of the total contribution rate no longer applies.

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.

Notes to the Accounts continued

22 Pensions continued

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 eight THFCS employees were active members of the Scheme. THFCS continues to offer membership of the Scheme to its employees.

It is not possible in the normal course of events to identify on a consistent and reasonable basis the share of underlying assets and liabilities belonging to individual participating employers. This is because the scheme is a multi-employer scheme where the scheme assets are co-mingled for investment purposes, and benefits are paid from total scheme assets. Accordingly, due to the nature of the scheme, the accounting charge for the period under FRS17 represents the employer contribution payable. The amount charged to the statement of comprehensive income was £94,929 (2009: £79,236)

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 £1,527m. The valuation revealed a shortfall of assets compared with the value of liabilities of £663m, equivalent to a past service funding level of 69.7%.

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:

	Long-term joint contribution rate (% of pensionable salaries)
Benefit structure	
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 £663m 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.

22 Pensions continued

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

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 is currently in the process of reviewing the recovery plan for SHPS in respect of the September 2008 actuarial valuation. A response from the regulator is expected in due course.

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30 September 2009. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The funding update revealed an increase in the assets of the Scheme to £1,723m and indicated a decrease in the shortfall of assets compared with liabilities to approximately £738m, equivalent to a past service funding level of 70%.

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
- T.H.F.C. (Funding No.2) Plc

The Group earned fees of £134,098 for providing these services and had amounts owing from these companies at 31 March 2010 of £78,054 (2009: £56,699).

During the year the Group procured the services of one of its Directors, M. Boohan, in a financial consultancy capacity. Payments for the services provided were made to a private limited company of which the Director is the sole shareholder. During the year the Group was charged £6,541 (2009: £6,138) 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.

Notes to the Accounts continued

25 Fair values

The fair values of the Group's assets and liabilities at 31 March 2010 are as follows:

	Fair value 2010 £000	Book value 2010 £000	Fair value 2009 £000	Book value 2009 £000
Assets				
Loans receivable	2,433,282	2,135,335	2,054,721	1,897,883
Deferred tax asset	175	175	703	703
Available for sale asset	4,032	4,005	-	-
Trade and other receivables	27,348	27,348	24,784	24,784
Short-term cash deposits	8,288	8,288	11,763	11,763
Cash and cash equivalents	60,531	60,531	3,717	3,717
	2,533,656	2,235,682	2,095,688	1,938,850
Liabilities				
Financial liabilities-borrowings	2,489,480	2,191,533	2,055,417	1,898,582
Trade and other payables	31,922	31,922	28,821	28,821
Deferred and current tax liabilities	2,723	2,723	2,999	2,999
	2,524,125	2,226,178	2,087,237	1,930,402

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 estimated market value at 31 March 2010. The matched assets are estimated to have the same values except for the item detailed below.

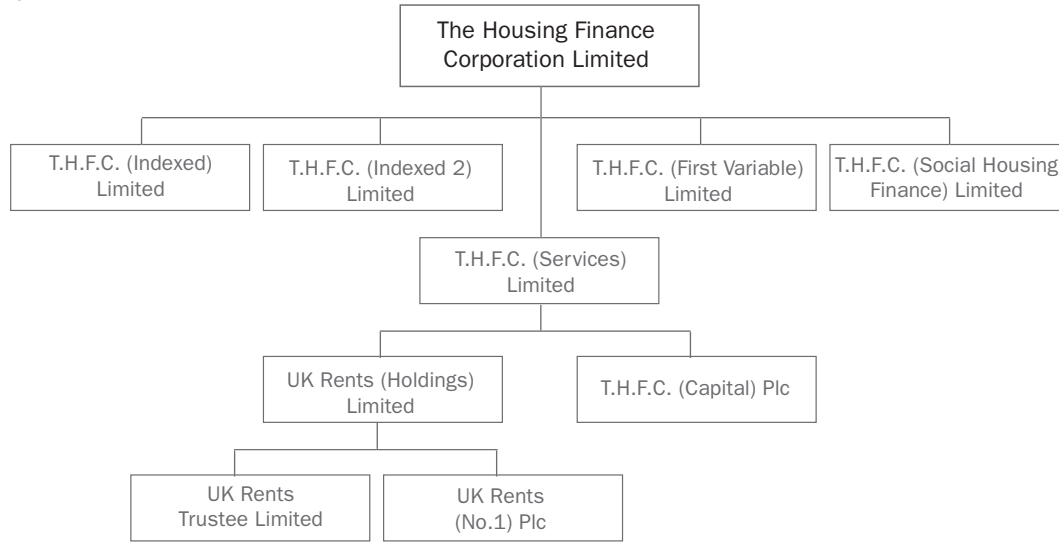
On 24 March 2010, the Group raised funds of £80.2m for on-lending to borrowers. At the year end, the Group still held £55m of this balance of which £4m was invested in gilts pending drawdown of the loan on 1 April 2010. The gilt is classified as an available for sale asset. This is the only fair value asset held by the Group and its value is based on its quoted price in an active market, which is equivalent to level 1 under IFRS 7 fair value hierarchy.

Five Year Financial Record

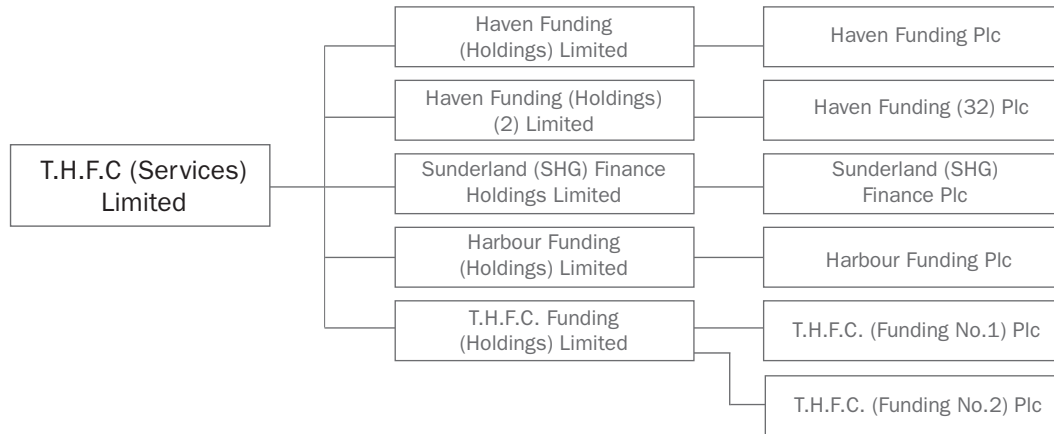
Excluding loan interest and similar items

Year to 31 March	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000
Fees	1,349	1,123	1,215	1,693	2,777
Investment income	766	877	1,088	979	236
Other income	161	169	227	177	255
Total revenues	2,276	2,169	2,530	2,849	3,268
Staff costs	797	779	856	900	993
Non-Executive Directors' costs	102	99	97	109	131
Legal/trustees and registrars	301	303	230	223	234
Premises	104	111	107	125	121
Other	343	338	370	334	332
Total costs	1,647	1,630	1,660	1,691	1,811
Surplus before tax	629	539	867	1,158	1,457
Tax	176	152	107	317	418
Surplus after tax	453	387	760	841	1,039
Accumulated reserves	6,496	6,883	7,643	8,484	9,523
	£m	£m	£m	£m	£m
Loans outstanding	1,607	1,672	1,790	1,898	2,135

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	T.H.F.C (Funding No.2) Plc	Related Companies = Total Nominal outstanding
	Nominal Value £273,300,000 Issue Date 11.03.97	Nominal Value £90,000,000 Issue Date 12.02.98	Nominal Value £276,336,361 Issue Date 28.08.03	Nominal Value £239,500,000 Issue Date 27.06.01	Nominal Value £235,205,000 Issue Date 21.12.04	Nominal Value £263,250,000 Issue Date 08.07.09	
Business Activity	Quoted Eurobonds, proceeds on-lent to 11 borrowers	Quoted Eurobonds, proceeds on-lent to 9 borrowers	Quoted Eurobonds, proceeds on-lent to 4 borrowers	Quoted Eurobonds, dedicated issue to Gentoo Group on-lent via T.H.F.C (Capital) Plc	Quoted Eurobonds, proceeds on-lent to 16 borrowers via T.H.F.C	Quoted Eurobonds, proceeds on-lent to 11 borrowers via T.H.F.C	
Management Activity	Company Secretariat Finance function Administration Credit monitoring	Company Secretariat Finance function Administration Credit monitoring	Company Secretariat Finance function Administration Credit monitoring	Company Secretariat Finance function Administration	Company Secretariat Finance function Administration	Company Secretariat Finance function Administration	

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

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