The Housing Finance Corporation Limited
Annual Report and Financial Statements **2011**

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.

£2,469M (2010: £2,135M)
THFC GROUP'S LOAN BOOK

£3,067K (2010: £3,235K)
TOTAL FEE INCOME

£1,195K (2010: £1,457K)
PRE-TAX SURPLUS

24 YEAR 100%
CUSTOMER REPAYMENT RECORD

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Chairman’s Statement

2010/11 has proved a year of substantial political and economic change for the housing association sector, but one in which I am pleased to report THFC has, once again, achieved a very solid financial performance.

A surplus after tax of £1.05m represents another very strong outcome for THFC and the group’s reserves now exceed £10m for the first time in THFC’s twenty-four year history. Group loans outstanding increased to £2.469bn (2010: £2.135bn) as a result of both new loans agreed in the year and the continued drawdown of loans written in the prior year.

As a not-for-profit enterprise there is always a balance to be struck between passing through funding benefits to our customers and a level of prudence in the growth in our reserves. The £1.05m addition to reserves was particularly notable, given the historically very low level of interest rates that persisted throughout the year, suppressing investment earnings. Base Rate has now been at a 317 year record low of 0.5% for 26 months. When interest rates do eventually rise to more normal levels, the Group’s annual investment earnings should increase substantially, given the increased loan book now in place.

For our customers, the fact that inflation is currently forecast to reach 5% this year and remain above the Bank of England’s target of 2% throughout 2012 will strengthen their financial position ahead of a period of change in the environment in which housing associations operate. Their core rent settlement will continue to be based on RPI until 2015.

The year was marked by a great deal of political uncertainty until the appointment of the Coalition Government in May 2010, and the subsequent Emergency Budget and announcement of the Comprehensive Spending Review (CSR) in mid-October. It was only following the CSR that many of our customers felt confident to commit to new investment and funding decisions. In the wake of this I am pleased to report that THFC wrote a very creditable £108m of long term bond business, at very fine rates, in the second half of the year. The two tap transactions that priced in the year included participations from four Northern Irish and Scottish borrowers new to THFC and bring the outstanding amount of bonds issued by the principal issuing vehicle T.H.F.C. (Funding No. 2) Plc to £371m, making it one of the largest Housing Association (HA) issues in the market.

Public bond issuance by the sector in the 12 months to 31 March 2011 totalled £968m and THFC funding via this source represented 11% of market share. Credit spreads for the seven deals completed were in a tight range between 1.1% and 0.99%.

It would be pleasing to think that these rates and the continuing appetite for HA bonds effectively mark the end of the credit crunch for our borrowers. However the concentrated group of seven large banks and a building society who remain the predominant lenders to the sector face continued capital and liquidity pressures. We see this as an opportunity for THFC in the coming years as one of the few continuing providers of long term funding to the sector.

At the same time, the risk profile for developing HAs is once again changing. The CSR settlement for housing marks the first concerted shift back to a revenue-based regime to promote new housing development since 1992. HAs have been offered potential new freedoms in setting affordable rents up to 80% of market. To use these freedoms effectively, the HAs will have to be able to negotiate both effective local settlements and manage their stock portfolios more efficiently than hitherto.

Chairman's Statement continued

The Government has also announced its intention to shift the variety of claimant benefits to one Universal Benefit over time. Whilst the Department of Work and Pensions has signalled that it does not wish to undermine the financial viability of HAs, there is concern that a potential shift to the payment of housing benefit direct to claimants could both have a detrimental impact on HA cash flows and materially increase the cost of rent collection. As a member of the Council of Mortgage Lenders' Social Housing Panel, THFC continues to press the case for direct payment, in order to defend the financial viability of housing associations and hold down their cost of funding. It also successfully argued the case for the continued presence of a statutory regulator. Whilst the Tenant Services Authority (TSA) is to be abolished in 2012, a ring-fenced statutory regulatory committee is to be established within the Homes and Communities Agency (HCA). The Committee will have a narrower brief than the TSA, but all statutory regulatory powers are expected to be preserved along with the oversight of financial viability and governance of HAs.

Our core (long-term general obligations) rating by Standard and Poor's remains unchanged for the sixth successive year 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 completing such a successful financial outcome in 2010/11. They bring innovation to the funding of affordable housing but without ever jeopardising our high credit and security standards or prudent approach to funding. It is this combination of innovation and stability that makes THFC a reliable long-term funding vehicle for the social housing sector.

In closing I would also like, on behalf of the entire Board, to record our thanks to two long serving non-executive directors, Pam Alexander and Sadru Visram, who stepped down at the end of March 2011 after 9 years' service. They both made an extremely valuable contribution to the development of THFC over that period. I am pleased to report that, after conducting a recruitment exercise which saw over 100 applications, we have recruited two leaders of the housing sector: Keith Exford, Chief Executive of Affinity Sutton Housing Group and Deborah Shackleton C.B.E., who is the Chief Executive of Riverside Group. We look forward to the significant contribution which both will bring to the Board's deliberations.

Roger Mountford
Chairman

Chief Executive's Review

To borrow the sporting reference, 2010/11 was a year of two halves. The first half of the year was dominated by the substantial task of completing the contractual documentation for the 33 downstream customers who participated in our record breaking £345m UK wide EIB financing the year before. Along with our significant bond business last year, this new business-flow contributed to a 20% uplift in annual fees in 2010/11.

The associated large amount of security charging is progressing well and 12 downstream EIB loans were drawn in the year at all-in rates between 3.13% and 4.68%. The combination of continued low long-term interest rates and our policy of passing through EIB's lending rates to all our customers should mark these loans out as some of the most cost effective long-term loans taken by HAs in recent years.

Not surprisingly, in the period up to and after the UK General Election in May, HAs were reticent to commit to substantial new investment. Although THFC received general expressions of interest throughout the year, a firm appetite to take on investment and the associated debt only arose post the CSR in October. All of the £108m of bond business we priced in the financial year was undertaken in two tap transactions of T.H.F.C. (Funding No. 2) Plc, priced in January and March 2011.

The two tap transactions were undertaken for a wide variety of 12 HAs located throughout the United Kingdom. These included the first two bond borrowings in Scotland to take advantage of the removal of the so called '20 year rule' (a feature of leasehold law unique to Scotland). The removal now permits these HAs to borrow for the same ultimate term as English, Welsh and Northern Irish Associations. THFC was closely involved in briefing the Scottish Government in the lead up to this change.

As commented on in the Chairman's report, initial credit spreads of all new long-term public HA bonds, regardless of rating, have been in a relatively tight range throughout the year (from 1.10% to 0.99%), reflecting continued good investor demand and the sound credit fundamentals of the HA Sector. The year was marked by a number of own-name issues by HAs, alongside our own issuance. We continue to believe that THFC's proven track record and price execution, combined with our speed to market, make us an important alternative to own-name issuance. Indeed we have recently acted as an additional source of funding for one own-name issuer.

THFC's January tap was particularly noteworthy, breaking the psychological 100bp spread over Gilts for the first time since March 2007, prior to the onset of the credit crunch. However, more recent spreads have been just in excess of these levels as investors assess the impact of potential changes in Government policy to the sector and also wait to see whether some local authorities might utilise the Capital Markets to refinance Housing Revenue Account debt.

Financial performance for THFC for the year has been first rate. An addition of £1.05m to reserves represents the best annual performance in our 24 year history. Strength of earnings has been particularly of note in new issue fees and annual fees with other classes of income also making useful contributions in the year. This is the second year when total earnings for the THFC Group have exceeded £3m. This is an exceptional level of earnings and reflects the large amount of EIB related new business written in the last two years. One of our goals through the credit crunch has been to grow the loan book in such a way that, even in an ultra low interest rate environment, the costs of servicing the business can be covered by annuity earnings from the long-term loan book. We achieved this on a quarterly basis towards the end of 2010/11 and forecast a small operating surplus for the full 2011/12 year even if ultra low interest rates persist throughout the year.

The group loan book stood at £2.469bn (£2.135bn) at year end, reflecting the completion of part of the pipeline business anticipated last year. However, there is still pipeline of circa £235m of loans yet to complete. This increase in match funded long-term loans is in contrast to a number of the bank lenders to the sector who are increasingly only prepared to lend on terms typically up to 5 years.

Investment earnings recovered 33% to £315,000 (2010: £236,000) reflecting higher volumes of interest due a month

Chief Executive's Review continued

early (THFC's traditional source of interest earnings), and marginally more attractive rates paid by UK Banks as a result of the competitive market for wholesale deposits amongst a shrinking group of credit-worthy banks. THFC's deposit counterparty policy means it confines itself to only investing relatively short-term with the strongest banks and building societies, in order to ensure our reserves are freely accessible should liquid funds be required. Under the terms of loans funded through issuance by T.H.F.C. (Funding No. 2) Plc borrowers are required to maintain a debt service reserve equivalent to one year's interest.

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. In the year we gained support from the ABI and concluded a modification of core terms, permitting one of our funding subsidiaries (T.H.F.C. (Social Housing Finance) Limited) ("SHF") the flexibility to waive the requirement for downstream financial covenants in return for higher minimum asset cover levels and security withdrawal levels, more in line with THFC's own (conservative) criteria. Additional corporate covenants (coupled with a lower asset cover requirement) were a feature SHF first tried in the mid 1990's as a response to increased bank competition. Fifteen years on, these covenants have become increasingly outmoded, yet at least one potential competitor funder to THFC is today promoting precisely this formula. It remains to be seen how attractive/ sustainable this alternative may prove.

That said it is evident that the capital markets are increasingly seen as the prime source of future capital funding for HAs. 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 this conclusion.

At the time of writing, the HCA is collating development submissions for the new affordable rents programme. The Government's target of 150,000 new homes over the course of the current four year CSR period is predicated upon a significant shift in development (and potentially re-lets) by HAs to rental of up to 80% of market rent. In the context of the total HA stock being circa 2.5m units, the incremental impact of financing 150,000 units with reducing grant is not likely to impact materially the financial standing of the sector in the long term. However, it remains to be seen how sustainable such a radical shift in policy will be. We predict that the majority of HAs will enter into the new regime cautiously. We are mindful that there may be more potential volatility in local rents and that some HAs may see the new regime as a way to engineer growth without necessarily having the requisite skills to assess new risks. Consequently, our Credit Committee affords close scrutiny to the development aspirations of all potential THFC borrowers.

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 London Mayor's Sustainable Development Commission. We continue to enjoy a close dialogue with our two corporate shareholders, the National Housing Federation and the Tenant Services Authority, and the HCA as well as holding periodic discussions with HM Treasury and Communities and Local Government (CLG), the Government department that sponsors the TSA and HCA. We expect to have significant dialogue in the year ahead with the Department of Work and Pensions (DWP) in the context of squaring away the political desire to introduce Universal Benefit, with the underlying financial viability issues of modifying the current regime whereby the majority of HA tenants authorise the payment of Housing Benefit direct to their landlord.

Given our extensive activity in the regions, we have also enjoyed an excellent dialogue this year with regional Government. 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, the increased book size has meant that we have this year modestly expanded the team to address the substantial additional workload of monitoring our loan and security portfolio. We have now reached the heady heights of employing more than ten staff for the first time in THFC's history. I am pleased to report as part of that process, we employed our first graduate trainee on a full time basis in the year and this now brings us up to three staff undertaking professional exams sponsored by THFC. Although we are a small team, the expertise and professionalism of the entire group of staff is part of the differentiation we seek to make. The fact that we were able to attract two of the leading Chief Executives in the Housing Association sector to act as Non Executive Directors, is a strong indicator that the message is getting through.

I would like to thank the entire team for their hard work and diligence in my ninth year as Chief Executive and I very much look forward to another year of steady growth and achievement.

Piers Williamson
Chief Executive

Business and Financial Review

The five-year table on page 44 gives a comparative history of the THFC Group and shows that our loan book has increased by 47.7% while total costs have increased by 15.8% and our total revenues by 42.8% over the period.

The THFC Group achieved a pre-tax surplus of £1,195,000 (2010: £1,457,000). 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 2011 as a consequence of a sound year the Group's reserves have risen from £9.5m to £10.6m passing the £10m barrier for the first time. 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 £371.4m (2010: £267.9m) 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 £333.9m (2010: £237.5m), before adjustment for indexation and amortisation of premiums and discounts.

As a result the THFC group loan book stands at £2,469m (2010: £2,135.3m). Details of borrowings by the THFC Group to fund its loan book are shown on page 17.

At the year-end the Group was the provider of funds to 133 borrowers (2010: 123).

Our operating expenses were held to 0.08% (2010: 0.08%) of the £2.5bn (2010: £2.1bn) 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 (see Five Year Financial Record on page 44). The Group achieved strong surplus before and after tax and reduced the ratio of expenses to the loan book.

Group Report

The Housing Finance Corporation Limited ("THFC") and it subsidiaries ("the 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 THFC in 1987 various subsidiaries have been created within 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. There are 17 borrowers who have an element of floating charge security on 39 loans. 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-four 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 £10.6m (2010: £9.5m).

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 2011 these companies had loans totalling £352.1m (nominal) made to 17 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 2011 had £212.8m (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 £127,547 (2010: £134,098).

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 financial statements 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 2011 was £1,195,000 (2010: £1,457,000).

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 our lenders. 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 a charitable donation of £881 to a local school. There were no 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, Piers Williamson and Fenella Edge will resign and offer themselves for re-election.

As Directors appointed to the Board since the last Annual General Meeting, Keith Exford and Deborah Shackleton are required to resign and will offer themselves for re-election at the forthcoming meeting.

Senior Management

Piers Williamson, Fenella Edge and Colin Burke, chief executive, group treasurer and company secretary respectively, held those positions throughout the year. The chief executive has defined powers of authority and responsibility which are delegated to him and reviewed annually by the Board. The company secretary is responsible for ensuring Board procedures are followed.

Directors' Remuneration

The Directors' remuneration is established by the Board in the light of periodic advice from advisers. In addition to salaries and bonuses, the executive Directors, 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 5.35% on the annual review date of 1 April 2011. 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,

Directors and Shareholders at 31 March 2011

Director	Period Served to 31 March 2011	THFC Shareholdings at 31 March 2011
Pam Alexander (retired 31 March 2011)	Full Year	NIL
Charlie Arbuthnot	Full Year	£1
John Parker	Full Year	£1
Fenella Edge	Full Year	NIL
Roger Mountford	Full Year	£1
David Orr	Full Year	NIL
Gill Rowley	Full Year	NIL
Sadru Visram (retired 31 March 2011)	Full Year	NIL
Piers Williamson	Full Year	NIL
Other shareholders		
Tenant Services Authority		£1
The National Housing Federation		£1
Total issued share capital at 31 March 2011		£5

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

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 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 (until his retirement when he was replaced by Deborah Shackleton), David Orr, 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, the level of any non-audit services provided by them 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 (until his retirement when he was replaced by Keith Exford), John Parker (Chairman from 1 April 2011) and Gill Rowley. The Group 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: Roger Mountford (chairman), Charlie Arbuthnot and David Orr.

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

Directors' Attendance at Meetings

Directors' attendance at THFC Board and Board committee meetings during the year is shown in the 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.

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' Attendance at Meetings

	Main Board (6)	Special Board (6)	Audit Committee (3)	Credit Committee (11)
Piers Williamson	6	4	-	9
Fenella Edge	6	5	-	10
Roger Mountford	6	4	-	8
John Parker	5	4	3	8
Pam Alexander	6	2	-	-
Gill Rowley	5	1	1	-
Sadru Visram	5	2	3	7
David Orr	6	1	-	5
Charlie Arbuthnot	4	2	-	8

- 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.

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. The appointed Senior Non-Executive Director is David Orr.

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.

Corporate Governance Statement

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 explain certain corporate governance procedures. 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 eleven. Since April 2010, the accounting firm of Smith and Williamson Limited 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 2011 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 directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

The Industrial and Provident Societies Acts 1965 to 2002 (including the Friendly and Industrial and Provident Societies Act 1968) requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and The Housing Finance Corporation Limited ('THFC') financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Also under that law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and THFC and of the profit or loss of the group and THFC for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that THFC will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain THFC's transactions and disclose with reasonable accuracy at any time the financial position of the group and THFC and enable them to ensure that the financial statements comply with the The Industrial and Provident Societies Acts 1965 to 2002 (including the Friendly and Industrial and Provident Societies Act 1968). They are also responsible for safeguarding the assets of the group and THFC and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In the case of each director in office at the date the directors' report is approved:

(a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

(b) he/she has taken all the reasonable steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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

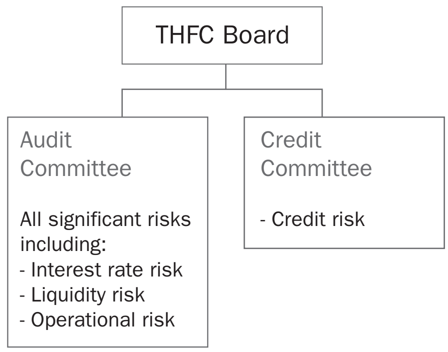
The Board is responsible for approving THFC's strategy and the level of acceptable risks. The Board has established an audit committee and a credit committee reporting periodically to the Board to administer a risk management process which identifies the key risks facing the business and the Board reviews 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 22 to the Financial Statements.

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 2011

Directors

Roger Mountford
Non-Executive Chairman

Roger Mountford was a merchant banker in London and Hong Kong. Since his retirement he has served on a number of boards including Thames Valley Housing Association 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.

Deborah Shackleton CBE

Deborah Shackleton was appointed to the board on 1 April 2011. Deborah is Group Chief Executive of the Riverside Group, one of the most prominent social purpose regeneration companies in the UK, serving over 50,000 tenants and leading regeneration work in neighbourhoods throughout England. She has been involved in housing and regeneration for over 30 years and her other interests include membership of the North West Regional Leaders Board, Board member NHS Sefton, Trustee National Museums Limited (NML) and Governor Liverpool John Moores University.

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 over 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 six years. He was appointed to the Board in November 2008.

Fenella Edge
Group Treasurer

Fenella Edge joined THFC in 2002 having previously spent eleven 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
Senior Independent Director

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

David completed a one-year secondment to the Scottish Executive in October 2001, as Community Ownership Manager. He was formerly President of CECODHAS-Housing Europe, the European network of housing federations. He is a Director of My Home Finance, a social enterprise which provides affordable credit for people unable to access mainstream credit. He joined the Board in 2005.

Piers Williamson and Fenella Edge are the only Executive Directors of the Group.

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.

Keith Exford

Keith Exford was appointed to the board on 1 April 2011. Keith is Chief Executive of the Affinity Sutton Group which is one of the largest housing association groups in England with more than 55 000 affordable homes in over 100 local authorities. It is also a major affordable house builder with 4000 new homes in its development pipeline. Keith's career in housing spans over 30 years. He is a member of the Chartered Institute of Housing, a Fellow of the Royal Society of Arts and Vice Chair of the G15 group of London's largest housing associations.

Piers Williamson
Chief Executive

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 Commissioner of the London Sustainable Development Commission. Piers was appointed to the board in 2003.

THFC Group Loans

Loans Portfolio as at 31 March 2011

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 Homes Limited	South East	79,758	-	-	-	-	-	-	79,758
A2Dominion South Limited	South East	2,500	-	2,285	-	-	-	-	4,785
Accent Foundation Limited	National	-	11,000	-	-	-	-	-	11,000
Accent Nene Housing Society Limited	East Anglia	1,788	-	-	-	-	-	-	1,788
Adactus Housing Association Limited	North West	1760	-	-	-	-	-	-	1,760
Agudas Israel Housing Association Limited	London	195	-	571	-	-	-	-	766
Aldwyck Housing Group Limited	South East	2,579	1,212	-	-	-	-	-	3,791
AmicusHorizon Limited	London	28,500	13,524	-	-	-	-	-	42,024
Apex Housing Association	Northern Ireland	10,000	-	-	-	-	-	-	10,000
Arena Housing Group Limited	North West	-	-	-	-	6,000	-	-	6,000
Asra Greater London Housing Association Limited	London	3,000	-	-	3,634	-	-	-	6,634
Axiom Housing Association Limited	East Anglia	21,776	-	-	-	-	-	-	21,776
Belfast Community Housing Association Limited	Ireland	1,000	-	-	-	-	-	-	1,000
Beth Johnson Housing Association Limited	Midland	4,000	-	-	-	-	-	-	4,000
Cambridge Housing Society Limited	East Anglia	4,200	-	-	-	-	-	-	4,200
Cardiff Community Housing Association Limited	Wales	-	261	-	-	-	-	-	261
Catalyst Communities Housing Association Limited	London	4,085	1,212	-	-	-	-	-	5,297
Cheviot Housing Association Limited	North East	-	-	-	-	3,000	-	-	3,000
Clanmill Housing Association Limited	Northern Ireland	15,000	-	-	-	-	-	-	15,000
Clwyd Alyn Housing Association Limited	Wales	2,000	2,330	-	-	-	-	-	4,330
Coastal Housing Group	Wales	15,000	-	-	-	-	-	-	15,000
Community Housing Association Limited	London	43,398	-	-	-	-	-	-	43,398
Connect Housing Association Limited	North East	2,750	-	-	-	5,000	-	-	7,750
Connswater Housing Association Limited	Northern Ireland	3,000	-	-	-	-	-	-	3,000
Contour Homes Limited	North West	2,500	-	-	-	7,592	-	-	10,092
Cotman Housing Association Limited	East Anglia	1,500	-	-	-	-	-	-	1,500
Cymdeithas Tai Clwyd	Wales	1,500	-	-	-	-	-	-	1,500
Cymdeithas Tai Eryri Limited	Wales	4,500	-	-	-	-	-	-	4,500
De Montfort Housing Society Limited	Midland	5,550	-	-	-	-	-	-	5,550
Derwent Housing Association Limited	East Midlands	9,000	-	-	-	-	-	-	9,000
Devon & Cornwall Housing Association Limited	South West	2,346	5,003	-	-	-	-	-	7,349
Ducane Housing Association Limited	London	5,000	-	-	-	-	-	-	5,000
East Homes Limited	London	1,385	-	-	-	-	-	-	1,385
East Midlands Housing Association Limited	Midlands	15,000	-	-	-	-	-	-	15,000
Eildon Housing Association Limited	Scotland	-	-	-	-	3,900	-	-	3,900
Equity Housing Group Limited	North West	8,163	326	-	2,365	-	-	-	10,854
Estuary Housing Association Limited	East Anglia	7,564	606	-	-	-	-	-	8,170
Family Housing Association (Birmingham) Limited	Midlands	6,000	-	-	-	3,729	-	-	9,729
Family Mosaic Housing	London	43,403	1,585	-	-	-	-	-	44,988
Friendship Care Housing Association Limited	Midland	2,000	-	-	-	5,500	-	-	7,500
First Wessex	South East	7,042	-	-	-	-	-	-	7,042
Gateway Housing Association Limited	London	1,250	-	-	-	6,668	-	-	7,918
Glen Oaks Housing Association Limited	Scotland	14,300	-	-	-	-	-	-	14,300
Grampian Housing Association Limited	Scotland	-	-	-	-	2,944	-	-	2,944
Gravesend Churches Housing Association Limited	South East	-	-	-	-	1,750	-	-	1,750
Great Places Housing Association	North West	5,271	-	571	547	-	-	-	6,389
Habinteg Housing Association Limited	National	-	-	-	-	3,000	-	-	3,000
Heantun Housing Association Limited	Midland	12,000	-	-	-	-	-	-	12,000
Helm Housing Association Limited	Ireland	10,000	-	-	-	-	-	-	10,000
Hexagon Housing Association Limited	London	1,500	233	3,999	-	-	-	-	5,732
Hightown Praetorian and Churches Housing Association Limited	South East	31,100	932	-	-	-	-	-	32,032
Home Group Limited	National	2,346	9,266	11,137	-	-	-	-	22,749
Home (Scotland) Limited	Scotland	20,000	-	-	-	-	-	-	20,000
Hyde Housing Association Limited	South East	-	-	11,057	-	-	-	-	11,057
Innisfree Housing Association Limited	London	3,000	-	-	-	-	-	-	3,000
Irwell Valley Housing Association Limited	North West	-	-	2,285	-	-	-	-	2,285
Islington & Shoreditch Housing Association Limited	London	3,028	-	-	-	3,670	-	-	6,698
Johnnie Johnson Housing Trust Limited	North West	18,500	653	-	-	-	-	-	19,153
Knightstone Housing Association Limited	South West	23,647	10,017	-	-	-	-	-	33,664
Leeds Federated Housing Association Limited	North East	14,300	-	-	-	-	-	-	14,300
Leeds & Yorkshire Housing Association Limited	North East	4,750	-	-	-	-	-	-	4,750
Leicester Housing Association Ltd	Midland	1,464	-	-	-	3,000	-	-	4,464
Liverpool Housing Trust Limited	North West	7,000	-	-	-	5,464	-	-	12,464
London & Quadrant Housing Trust	London	31,328	932	-	-	-	-	-	32,260
Longhurst Homes Limited	East Anglia	9,400	-	-	-	-	-	-	9,400
Manningham Housing Association Limited	North East	14,469	-	-	-	2,000	-	-	16,469
Melin Homes Limited	Wales	12,000	-	-	-	-	-	-	12,000
Mercian Housing Association Limited	Midland	11,909	-	-	-	-	-	-	11,909
Metropolitan Housing Trust Limited	London	37,750	-	1,714	-	-	-	-	39,464
Mid Wales Housing Association Limited	Wales	-	-	1,257	-	-	-	-	1,257
Midland Heart Limited	Midland	37,880	8,455	-	-	-	-	-	46,335
Minster General Housing Association Limited	East Anglia	4,993	-	-	-	1,500	-	-	6,493
Moat Homes Limited	South East	3,500	5,845	-	-	-	-	-	9,345
Moseley & District Churches Housing Association Limited	Midlands	3,050	-	2,764	1,455	-	-	-	7,269
Mosscare Housing Limited	North West	32,968	-	-	-	-	-	-	32,968
Newlon Housing Trust	London	5,017	-	-	-	-	-	-	5,017
Newydd Housing Association Limited	Wales	5,000	-	-	-	-	-	-	5,000
NomadE5 Housing Association Limited	North East	-	-	-	-	5,500	-	-	5,500
North Glasgow Housing Association Limited	Scotland	8,000	-	-	-	-	-	-	8,000
North London Muslim Housing Association Limited	London	1,000	-	-	-	1,500	-	-	2,500
North Wales Housing Association Limited	Wales	2,500	373	-	-	5,000	-	-	7,873
Notting Hill Housing Trust	London	15,000	-	-	-	-	-	-	15,000
Nottingham Community Housing Association Limited	Midland	13,400	-	-	-	-	-	-	13,400

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
Octavia Housing and Care	London	2,000	-	-	-	3,500	-	-	5,500
Origin Housing Limited	South East	5,600	-	-	-	-	-	-	5,600
Oxford Citizens Housing Association Limited	South East	1,500	-	-	1,091	-	-	-	2,591
Paddington Churches Housing Association	London	27,500	-	-	-	2,000	-	-	29,500
Paradigm Homes Charitable Housing Association Limited	South East	60,000	-	-	-	-	-	-	60,000
Pembrokeshire Housing Association Limited	Wales	1,000	-	-	-	-	-	-	1,000
Penwith Housing Association Limited	South West	5,014	-	-	-	-	-	-	5,014
Places for People Homes Limited	National	22,103	-	-	-	-	-	-	22,103
Places for People Homes Individual Support	London	4,000	-	-	-	-	-	-	4,000
Portal Housing Association Limited	South West	21,000	-	-	-	-	-	-	21,000
Riverside Group Limited	National	19,275	653	-	-	-	-	-	19,928
Sadeh Lok Housing Group Limited	North East	650	-	-	-	-	-	-	650
Sanctuary Housing Association Limited	National	12,327	-	-	-	-	-	-	12,327
Sanctuary (Scotland) Housing Association Limited	Scotland	10,000	-	-	-	-	-	-	10,000
Sentinel Housing Association	South East	10,000	-	-	-	-	-	-	10,000
Shaftesbury Housing Association Limited	National	-	1,678	-	-	-	-	-	1,678
Soho Housing Association Limited	London	-	-	-	-	1,500	-	-	1,500
South Yorkshire Housing Association Limited	North East	4,404	-	-	-	-	-	-	4,404
Southern Housing Group Limited	London	147,932	2,740	-	-	10,000	-	-	160,672
Spirita Limited	Midland	2,490	-	-	-	-	-	-	2,490
Springboard Housing Association Limited	London	11,000	-	-	-	-	-	-	11,000
St Vincent's Housing Association Limited	North West	2,985	-	-	-	4,000	-	-	6,985
Stadium Housing Association Limited	London	51,708	-	-	-	-	-	-	51,708
Staffordshire Housing Association Limited	Midlands	3800	-	-	-	5,300	-	-	9,100
Sutton Housing Society Limited	South East	250	-	-	-	-	-	-	250
Swaythling Housing Society Limited	South West	22,500	-	-	-	-	-	-	22,500
Taff Housing Association Limited	Wales	5500	-	-	-	1,000	-	-	6,500
Thames Valley Charitable Housing Association Limited	South East	29,747	-	-	-	-	-	-	29,747
Three Rivers Housing Association Limited	North East	2,850	-	-	-	1,400	-	-	4,250
Toynbee Housing Association Limited	London	1,100	-	-	-	-	-	-	1,100
Trident Housing Association Limited	Midland	5,000	2,517	-	-	-	-	-	7,517
Trinity Housing Limited	Northern Ireland	7,000	-	-	-	-	-	-	7,000
United Welsh Housing Association Limited	Wales	19,500	-	-	-	-	-	-	19,500
Venture Housing Association Limited	North West	-	-	-	-	3,250	-	-	3,250
Wales and West Housing Association Limited	Wales	9,000	-	-	-	-	-	-	9,000
Wandle Housing Association Limited	London	21,418	-	-	-	-	-	-	21,418
Waterloo Housing Association Limited	Midland	6,000	-	-	-	-	-	-	6,000
Westcountry Housing Association Limited	South West	37,000	-	-	-	-	-	-	37,000
West Mercia Homes Limited	Midlands	12,500	-	-	-	-	-	-	12,500
West Pennine Housing Association Limited	North West	3,000	-	3,317	-	2,000	-	-	8,317
William Sutton Housing Association Limited	National	-	-	2,285	-	-	-	-	2,285
Wiltshire Rural Housing Association Limited	South West	975	-	-	-	-	-	-	975
Wirral Methodist Housing Association Limited	North West	3,200	-	-	-	-	-	-	3,200
Womens Pioneer Housing Limited	London	1,000	-	-	-	-	-	-	1,000
Yorkshire Housing Limited	North East	40,500	-	-	-	-	-	-	40,500
Total Fixed Charge Security		**1,445,690**	**81,353**	**43,242**	**9,092**	**110,667**	**-**	**-**	**1,690,044**

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 Group Limited	South East	-	-	5,712	-	-	-	-	5,712
Arena Housing Group Limited	North West	5,000	-	7,997	-	-	-	-	12,997
Asra Greater London Housing Association Limited	London	7,000	-	-	-	-	-	-	7,000
Barnsbury Housing Association Limited	London	-	-	-	910	-	-	-	910
Black Country Group Limited	Midlands	7,000	-	-	-	-	-	-	7,000
Bromford Carinthia Housing Association	South West	4,500	-	1,714	-	-	-	-	6,214
Cheviot Housing Association Limited	North East	14,041	1,771	-	-	-	-	-	15,812
De Montfort Housing Society Limited	Midlands	4,250	653	-	-	-	-	-	4,903
East Midlands Housing Association Limited	Midlands	17,000	-	1,314	1,455	-	-	-	19,769
Habinteg Housing Association Limited	National	5,773	-	-	-	-	-	-	5,773
Leicester Housing Association Ltd	Midlands	19,550	653	-	1,017	-	-	-	21,220
Manningham Housing Association Limited	North East	12,500	-	-	-	-	-	-	12,500
Mercian Housing Association Limited	Midlands	-	932	-	-	-	-	-	932
Metropolitan Housing Trust Limited	London	6,346	2,144	-	-	-	-	-	8,490
Midland Heart Limited	Midlands	6,230	-	-	-	-	-	-	6,230
Tuntum Housing Association Limited	Midland	7,000	-	-	-	-	-	-	7,000
Three Rivers Housing Association Limited	North East	3,000	-	-	-	-	-	-	3,000
Total Floating Charge Security		**124,690**	**6,153**	**16,737**	**3,382**	**-**	**-**	**-**	**150,962**

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
A2 Dominion Homes Limited	London	-	-	-	-	-	-	4,450	4,450
Cheviot Housing Association Limited	North East	-	-	-	-	-	-	6,610	6,610
Contour Homes Limited	North West	-	-	-	-	-	-	4,940	4,940
First Wessex	South East	-	-	-	-	-	-	4,936	4,936
London & Quadrant Housing Trust	London	-	-	-	-	-	-	6,861	6,861
Mercian Housing Association Limited	Midland	-	-	-	-	-	-	4,992	4,992
Income Cover		**-**	**-**	**-**	**-**	**-**	**-**	**32,789**	**32,789**

Fixed Charge Security – Cash Flow Covenants

Sunderland Housing Company Limited	North East	-	-	-	-	-	567,052	-	567,052
Total		**-**	**-**	**-**	**-**	**-**	**567,052**	**-**	**567,052**
Grand Total		**1,570,380**	**87,506**	**59,979**	**12,474**	**110,667**	**567,052**	**32,789**	**2,440,847**
Premium 31 March 2011									**28,396**
Total at 31 March 2011		**1,570,380**	**87,506**	**59,979**	**12,474**	**110,667**	**567,052**	**32,789**	**2,469,243**

Group Source of Funds

Debenture Stocks, Eurobonds, Bank and Other Loans as at 31 March 2011

			Date	Nominal Amount £000	Outstanding Principal Amount £000
THFC Debenture Stocks					
Discounted:	Zero Coupon 2012		08.12.87	93,502	75,783
	5% 2027		08.12.87	50,954	28,450
Stepped Coupon:	6.58% to 19.60% 2019		02.03.89	9,273	13,546
	7.91% to 19.75% 2019		28.06.89	4,630	6,644
	7.55% to 17.61% 2019		17.08.89	7,860	10,093
	8.44% to 15.98% 2019		11.10.89	2,900	3,598
Conventional Fixed Rate:	12.04% 2021 (Annuity)		02.07.91	15,000	11,738
	11.5% 2016 (Bullet)	tranche 1	27.11.91	66,450	64,450
		tranche 2	27.05.92	32,500	32,500
		tranche 3	20.10.92	75,500	75,500
	8.625% 2023 (Bullet)	tranche 1	13.10.93	121,100	121,100
		tranche 2	24.05.94	31,500	31,500
		tranche 3	16.06.99	12,200	12,200
		tranche 4	29.02.00	9,500	9,500
		tranche 5	05.12.01	14,800	14,800
	8.8% 2023 (Annuity)		05.11.93	8,000	6,275
	10.0938% 2024 (Annuity)		14.07.95	13,000	8,546
	9.625% 2025 (Bullet)	tranche 1	04.07.95	40,850	40,850
		tranche 2	12.11.97	8,600	8,600
THFC Bank Loans					
25 year £2.75m variable repayable 2021			08.03.96	750	375
25 year £26.5m fixed rate loan 2023 - EIB (Annuity)			26.11.98	24,860	17,589
25 year £10m fixed rate loan 2024 - EIB (Annuity)			02.09.99	33,000	24,006
25 year £20m fixed rate loan 2025 - EIB (Annuity)			08.09.00	10,500	8,035
25 year £9.35m fixed rate loan - ANTS (from Sep 2003) (Bullet)			02.04.01	8,700	8,700
5 year £5m revolving credit facility variable, repayable 2006			01.10.01	5,000	5,000
25 year £17m variable repayable 2026			09.11.01	11,000	9,790
25 year £9.86m sterling facility repayable 2028 (Annuity)			08.09.03	6,740	6,740
	a) 25 year variable repayable 2028 (Annuity)				
	b) 10 year fixed repayable 2013 (Bullet)				
	c) 10 year fixed repayable 2013 (Bullet)				
	g) 25 year fixed repayable 2028 (Annuity)				
	h) 25 year variable repayable 2028 (Annuity)				
	g) 25 year variable repayable 2028 (Annuity)				
25 year £15m sterling fixed loan 2029 (Annuity)			16.06.04	15,000	12,427
25 year £15m revolver into term			14.03.05	15,000	14,250
20 year £100m Fixed and Variable rate loan 2025 - EIB (Bullet)			22.12.05	100,000	100,000
30 year £100m Fixed and Variable rate loan 2040 - EIB (Bullet)			14.11.08	100,000	100,000
30 year £100m Fixed and Variable rate loan 2040 - EIB (Bullet)				172,500	44,000
30 year £100m Fixed and Variable rate loan 2040 - EIB (Bullet)				172,500	72,750
5 year £5m revolving credit facility variable, repayable 2015			23.03.10	5,000	0
THFC Loan from T.H.F.C. (Funding No.1) Plc					
Long term - 5.125% due 2035 (Bullet)		tranche 1	13.12.04	53,572	53,572
		tranche 2	21.12.06	32,000	32,000
		tranche 3	28.02.07	37,000	37,000
		tranche 4	28.11.07	32,633	32,633
		tranche 5	30.07.08	80,000	80,000
THFC Loan from T.H.F.C. (Funding No. 2) Plc					
Long term - 6.35% due 2041 (Bullet)		tranche 1	02.07.09	191,000	191,000
		tranche 2	24.03.10	72,250	72,250
		tranche 3	21.01.11	76,600	76,600
T.H.F.C. (First Variable) Bank Loans					
30 year variable 2023 (Annuity)		tranche 1	30.04.93	2,750	1,994
		tranche 2	21.07.93	7,650	5,544
		tranche 3	17.12.93	4,750	3,443
		tranche 4	30.06.94	2,000	1,450
T.H.F.C. (Indexed) Limited Index Linked Debenture Stocks					
5.65% 2020 (Annuity)		tranche 1	13.11.90	42,734	54,851
		tranche 2	31.03.93	28,490	32,655
T.H.F.C. (Indexed 2) Limited Index Linked Debenture Stocks					
5.50% 2024 (Annuity)		tranche 1	16.12.94	29,025	31,760
		tranche 2	28.12.95	22,988	28,219
T.H.F.C. (Social Housing Finance) Limited Debenture Stocks					
8.75% Debenture Stock 2016/21 (Bullet)		tranche 1	05.12.96	18,300	18,300
		tranche 2	09.06.97	8,000	8,000
		tranche 3	11.09.97	9,900	9,900
		tranche 4	03.12.97	34,750	34,750
		tranche 5	01.07.98	15,350	15,350
T.H.F.C. (Social Housing Finance) Limited Bank Loans					
25 year £17.7m fixed rate loan 2023 - EIB (Annuity)			26.11.98	2,000	1,400
25 year £40m fixed rate loan 2024 - EIB (Annuity)			02.09.99	16,500	12,029
25 year £18.9m fixed rate loan 2025 - EIB (Annuity)			08.09.00	14,900	10,938
UK Rents (No.I) Plc Rental Securitisation					
9.10% 2025 (Eurobond)			06.01.95	36,143	32,789
T.H.F.C. (Capital) Plc Loans					
Long term loan - 6.38% due 2042			26.03.01	212,802	212,802
Fixed variable rate loans			26.03.01	475,000	354,250
Total				**2,857,756**	**2,444,814**
Premium at 31 March 2011					**28,396**
Grand Total					**2,473,210**

Auditors' Report

Independent Auditors' Report to the Members of The Housing Finance Corporation Limited

We have audited the group and The Housing Finance Corporation Limited ('THFC') financial statements (the ''financial statements'') for the year ended 31 March 2011 which comprise the group and THFC Statements of Comprehensive Income, the group and THFC Statements of Financial Position, the group and THFC Statements of Changes in Equity and the group and THFC Statements of Cash Flows, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for THFC's members as a body in accordance with Section 9 (1) of the Friendly and Industrial and Provident Societies Act 1968 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group and THFC's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and THFC's affairs as at 31 March 2011 and of the group's and THFC's surplus and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Industrial and Provident Societies Acts 1965 to 2002 and, as regards the group financial statements, the Industrial and Provident Societies (Group Accounts) Regulations 1969 and Article 4 of the IAS Regulation.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Industrial and Provident Societies Acts 1965 to 2002 require us to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- THFC has not kept proper accounting records; or
- the financial statements are not in agreement with the books of account; or
- we have not received all the information and explanations we need for our audit.

Other matter

The directors have requested, (because THFC applies Listing Rules 9.8.6R (5) of the Financial Services Authority as if it were a listed company), that we review the parts of the Corporate Governance Statement relating to THFC's compliance with the nine provisions of the June 2008 Combined Code specified for our review by the Listing Rules of the Financial Services Authority. We have nothing to report in respect of this review.

PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors

London
28 June 2011

Group Statement of Comprehensive Income

For the year ended 31 March 2011

	Notes	2011 £000	2010 £000
Operating Income			
On loans to housing associations			
Interest		**135,663**	123,935
Discount amortised	11	**8,231**	7,707
Premium amortised	11	**(1,382)**	(1,449)
Income from securitised assets	16	**3,003**	3,076
Indexation on investments	11	**6,856**	(1,638)
Premiums receivable on prepayments		**298**	-
Other interest		**315**	236
Fees receivable and other income		**2,752**	2,999
		155,736	134,866
Operating Expenses			
On debenture stocks, bank loans and other loans			
Interest	6	**138,637**	126,977
Discount amortised	14	**8,231**	7,707
Premium amortised	14	**(1,382)**	(1,449)
Indexation on loans payable	14	**6,856**	(1,638)
Premiums payable on prepayments		**298**	-
Administration expenses	3	**1,901**	1,812
		154,541	133,409
Surplus before taxation		**1,195**	1,457
Taxation	7	**(142)**	(418)
Surplus for the year		**1,053**	1,039
Other comprehensive income for the year		**-**	-
Total comprehensive income for the year		**1,053**	1,039

Group Statement of Financial Position

at 31 March 2011

	Notes	2011 £000	2010 £000
Assets			
Intangible assets	8	**3**	19
Property, plant and equipment	9	**12**	-
Loans (non-current)	11	**2,394,580**	2,080,570
Loans (current)	11	**74,664**	54,766
Available for sale financial asset		**-**	4,005
Other receivables	12	**30,686**	27,347
Short-term deposits		**10,934**	8,288
Cash and cash equivalents		**11,412**	60,531
Total assets		**2,522,291**	2,235,526
Liabilities			
Financial liabilities – borrowings (non-current)	14	**2,399,274**	2,136,767
Deferred tax liabilities	15	**2,467**	2,498
Financial liabilities – borrowings (current)	14	**74,664**	54,766
Trade and other payables	13	**35,135**	31,922
Current tax liabilities		**175**	50
Total Liabilities		**2,511,715**	2,226,003
Equity			
Ordinary shares	17	**-**	-
Retained earnings	18	**10,576**	9,523
Total equity		**10,576**	9,523
Total equity and liabilities		**2,522,291**	2,235,526

Approved by the Board of Directors on 28 June 2011 and signed on its behalf by:

Roger Mountford	David Orr	Colin Burke
Chairman	Director	Company Secretary

Group Statement of Changes in Equity

For the year ended 31 March 2011

	Share Capital £	Retained earnings £000	Total Equity £000
Balance as at 1 April 2010	6	9,523	9,523
Shares issued in year	1		
Shares redeemed in year	(2)		
Surplus for the year		1,053	1,053
Other comprehensive income		-	-
Balance as at 31 March 2011	**5**	**10,576**	**10,576**
Balance as at 1 April 2009	7	8,484	8,484
Shares issued in year	-		
Shares redeemed in year	(1)		
Surplus for the year		1,039	1,039
Other comprehensive income		-	-
Balance as at 31 March 2010	6	9,523	9,523

Group Statement of Cash Flows

For the year ended 31 March 2011

	Notes	2011 £000	2010 £000
Cash flows from operating activities			
Cash generated from operations	19	**4,421**	4,127
Interest received on loans to housing associations		**132,235**	122,060
Interest paid on debenture stocks, bonds, bank loans and other loans		**(135,567)**	(124,174)
Loans to housing associations		**(371,449)**	(270,442)
Repayment of loans by housing associations		**50,480**	37,019
New borrowings		**320,115**	325,944
Repayment of amounts borrowed		**(50,651)**	(37,023)
Tax paid		**(50)**	(167)
Net cash used in/generated from operating activities		**(50,466)**	57,344
Cash flows from investing activities			
Purchase of fixed assets		**(12)**	-
Disposal of available for sale financial asset		**4,005**	(4,005)
Movement on short-term deposits		**(2,646)**	3,475
Net cash generation from/used in investing activities		**1,347**	(530)
Net decrease/increase in cash and cash equivalents		**(49,119)**	56,814
Cash and cash equivalents at beginning of period		**60,531**	3,717
Cash and cash equivalents at end of period	20	**11,412**	60,531

THFC Statement of Comprehensive Income

For the year ended 31 March 2011

	Notes	2011 £000	2010 £000
Operating income			
On loans to housing associations			
Interest		**94,063**	81,406
Discount amortised	11	**8,231**	7,707
Premium amortised	11	**(705)**	(613)
Premiums receivable on prepayments		**298**	-
Other interest		**270**	179
Fees receivable and other income		**2,258**	2,522
		104,415	91,201
Operating expenses			
On debenture stocks, bank loans and other loans			
Interest	6	**94,049**	81,392
Discount amortised	14	**8,231**	7,707
Premium amortised	14	**(705)**	(613)
Premiums payable on prepayments		**298**	-
Administration expenses	3	**1,544**	1,448
		103,417	89,934
Surplus before taxation		**998**	1,267
Taxation	7	**(89)**	(370)
Surplus for the year		**909**	897
Other comprehensive income		**-**	-
Total comprehensive income for the year		**909**	897

THFC Statement of Financial Position

at 31 March 2011

	Notes	2011 £000	2010 £000
Assets			
Loans (non-current)	11	**1,578,031**	1,247,407
Loans (current)	11	**11,339**	13,728
Available for sale financial asset	25	**–**	4,005
Other receivables	12	**26,920**	23,532
Short-term deposits		**7,975**	5,304
Cash and cash equivalents		**6,452**	55,649
Total assets		**1,630,717**	1,349,625
Liabilities			
Financial liabilities – borrowings (non-current)	14	**1,582,040**	1,302,917
Deferred tax liabilities	15	**2,482**	2,512
Financial liabilities – borrowings (current)	14	**11,339**	13,728
Trade and other payables	13	**27,977**	24,617
Current tax liabilities		**119**	-
Total Liabilities		**1,623,957**	1,343,774
Equity			
Ordinary shares	17	**-**	-
Retained earnings	18	**6,760**	5,851
Total equity		**6,760**	5,851
Total equity and liabilities		**1,630,717**	1,349,625

Approved by the Board of Directors on 28 June 2011 and signed on its behalf by:

Roger Mountford	David Orr	Colin Burke
Chairman	Director	Company Secretary

THFC Statement of Changes in Equity

For the year ended 31 March 2011

	Share Capital £	Retained earnings £000	Total Equity £000
Balance as at 1 April 2010	6	5,851	5851
Shares issued in year	1		-
Shares redeemed in year	(2)		-
Surplus for the year		909	909
Other comprehensive income		-	-
Balance as at 31 March 2011	**5**	**6,760**	**6,760**
Balance as at 1 April 2009	7	4,954	4,954
Shares issued in year			
Shares redeemed in year	(1)		
Surplus for the year		897	897
Other comprehensive income		-	-
Balance as at 31 March 2010	**6**	**5,851**	**5,851**

THFC Statement of Cash Flows

For the year ended 31 March 2011

	Notes	2011 £000	2010 £000
Cash flows from operating activities			
Cash generated from operations	19	**1,282**	942
Interest received on loans to housing associations		**90,324**	79,115
Interest paid on debenture stocks, bonds, bank loans and other loans		**(90,636)**	(78,140)
Loans to housing associations		**(330,199)**	(251,008)
New borrowings		**278,865**	306,510
Repayment of amounts borrowed		**(10,595)**	(25,627)
Repayment of loans by housing associations		**10,428**	25,627
Net cash generated from operating activities		**(50,531)**	57,419
Cash flows from investing activities			
Disposal of available for sale financial asset		**4,005**	(4,005)
Movement on short-term deposits		**(2,671)**	1,438
Net cash generated from/(used in) investing activities		**1,334**	(2,567)
Net decrease in cash and cash equivalents		**(49,197)**	54,852
Cash and cash equivalents at beginning of period		**55,649**	797
Cash and cash equivalents at end of period	20	**6,452**	55,649

Notes to the Financial Statements

1. General Information

The Housing Finance Corporation Limited (“THFC”) provides funding for Housing Associations (“HAs”). THFC is a private limited company incorporated under the Industrial and Provident Societies Acts 1965 to 2002 in the United Kingdom. Funding to housing associations is sourced through issuing debenture stocks, bank funding and long-term loans from related parties. The debenture stocks of THFC and certain subsidiaries are listed on the London Stock Exchange.

2. Accounting policies

The principal accounting policies adopted in the preparation of these financial statements 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

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 available for sale financial assets. A summary of the more important Group accounting policies is set out below.

There are no new or amended standards which have been adopted for the first time for the financial year starting 1 April 2010.

New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 April 2010 but not currently relevant to the group and parent company (although they may affect the accounting for future transactions and events).

- IFRS 1 (revised) ‘First-time adoption’ (effective 1 July 2009)
- IFRS 3 (revised) ‘Business combinations’ (effective 1 July 2009)
- IAS 27 (revised) ‘Consolidated and separate financial statements’ (effective 1 July 2009)
- Annual improvements 2009 (effective 1 January 2010)
- Amendment to IAS 39, ‘Financial instruments: Recognition and measurement’, on Eligible hedged items (effective 1 July 2009)
- Amendment to IFRS 2, ‘Share based payments – Group cash-settled share-based payment transactions’ (effective 1 January 2010)
- Amendments to IFRS 1 for additional exemptions (effective 1 January 2010)
- Amendments to IAS 32 Financial Instruments: Presentation on classification of rights issues. (effective 1 February 2010)
- IFRIC 17, ‘Distributions of non cash assets to owners’ (effective 1 July 2009)
- IFRIC 18, ‘Transfer of assets from customers’ (effective 1 July 2009)

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2010 and not early adopted.

- IFRS 9, ‘Financial instruments’ (effective 1 January 2013, however, the standard has not yet been endorsed by the EU). This standard is the first step in the process to replace IAS 39, ‘Financial instruments: recognition and measurement’. IFRS 9 introduces new requirements for classifying and measuring financial assets. The group is yet to assess the full impact of IFRS 9, however initial indications are that it is likely to have little or no effect as the group only holds financial instruments with basic loan features that are managed on a contracted yield basis
- Revised IAS 24 (revised), ‘Related party disclosures’ (effective 1 January 2011, however, the standard has not yet been endorsed by the EU)
- Amendment to IFRS 1, First time adoption on financial instrument disclosures (effective 1 January 2011)
- IFRIC 19, ‘Extinguishing financial liabilities with equity instruments’ (effective 1 July 2010)
- Amendments to IFRIC 14 ‘Prepayments of a minimum funding requirement’ (effective 1 January 2011)
- Annual improvements 2010 (effective 1 January 2011)
- IFRS 10, ‘Consolidated financial statements’ (effective 1 January 2013, however, the standard has not yet been endorsed by the EU). This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. This new standard might impact the entities that a group consolidates as its subsidiaries. The Group is yet to assess the full impact of IFRS 10, however initial indications are there may be some implications on the Group’s control decisions and consolidated financial statements.

2. Accounting policies continued

- IFRS 11, 'Joint arrangements' (effective 1 January 2013, however, the standard has not yet been endorsed by the EU)
- IFRS 12, 'Disclosure of interests in other entities' (effective 1 January 2013, however, the standard has not yet been endorsed by the EU)
- IFRS 13, 'Fair value measurement' (effective 1 January 2013, however, the standard has not yet been endorsed by the EU)
- IAS 27 (revised), 'Separate financial statements' (effective 1 January 2013, however, the standard has not yet been endorsed by the EU)
- IAS 28 (revised), 'Investments in associates and joint ventures' (effective 1 January 2013, however, the standard has not yet been endorsed by the EU)

Except for where noted, the new standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2010, outlined above, are currently expected to have little or no effect in future accounting periods.

Critical Accounting Judgements
The preparation of financial statements in accordance with IFRSs requires the use of certain critical accounting judgements. 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) the non consolidation of related party companies in which the group has a non-beneficial minority shareholding and b) the evaluation as to whether the loans to borrowers are impaired. The directors have concluded there is no such impairment in the current period.

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.

The group financial statements fully consolidate the results of subsidiary undertakings from the date on which control is acquired. The purchase method of accounting is used to account for the acquisition of subsidiaries of the group.

THFCS holds shares on a fiduciary basis in the companies listed below and THFC does not consolidate their results. These companies report to 31 December 2010 and the summary information relates to that period end:

	Net assets	Profit for period
Harbour Funding (Holdings) Limited Group	Nil	Nil
T.H.F.C. (Funding) Holdings Limited Group	Nil	Nil

At 31 December 2010 Harbour Funding (Holdings) Limited Group had loans and receivables of £275,982,888 and T.H.F.C. (Funding) Holdings Limited Group had loans and receivables of £498,018,791

c) Loans to housing associations, debenture stocks, secured bonds and bank borrowings
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, secured bonds and bank borrowings are stated at amortised cost.

2. Accounting policies continued

Specific types of loan

(i) Stepped coupon loans and debenture stocks

Stepped coupon loans to HAs are stated at amortised cost including 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.

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.

d) Impairment losses

The Group assesses at each financial year end whether there is evidence that the loans and receivables are impaired either individually or collectively for a particular borrower. 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.

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 included in the surplus for the year. 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 original maturity dates are greater than three months from the investment date, but not more than twelve months.

2. Accounting policies continued

h) Interest
Interest receivable on loans to HAs and interest payable on debenture stocks, bonds and bank borrowings is accounted for on an effective interest rate basis. Premiums/discounts on issue are added/deducted from the original loan or bond value and charged/credited to the Statement of Comprehensive Income over the expected life of the loan or bond using the effective interest rate method so that the interest receivable and interest payable, as adjusted for the amortisation of premiums and discounts, gives a constant yield to maturity. If, and when, prepayments take place 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 financial statements at amortised cost. Income arising from the assets is accounted for on an effective interest rate basis.

j) Fees receivable
Fees receivable are recognised on an effective interest rate basis except for front-end fees that are not considered to form an integral part of the effective interest rate and are therefore taken to income when earned.

k) Intangible assets
Intangible fixed assets held for operational use are valued at historical cost and are amortised 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.

There are no internally generated intangible assets.

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 a straight line basis over the lease term 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 IAS 19 represents the employer contribution payable.

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

3. Administration expenses

	Group 2011 £000	**THFC 2011 £000**	Group 2010 £000	THFC 2010 £000
Amortisation of intangible fixed assets	**16**	**-**	17	-
Depreciation of tangible fixed assets	-	-	-	-
Fees paid to auditors for:				
Group's annual audit	**62**	**46**	59	44
other services	**22**	**-**	26	-
Operating lease rentals				
plant and machinery	**4**	**-**	4	-
other	**62**	**-**	56	-
Staff costs (note 4)	**1,176**	**-**	1,109	-
Other	**559**	**1,498**	600	1,404
Total administration expenses	**1,901**	**1,544**	1,812	1,448

None of the above costs were incurred by THFC as all administrative services for the Group are provided under management agreements with T.H.F.C. (Services) Limited.

4. Staff numbers and cost

	Group 2011	**Group 2010**
Average number of persons (including directors) employed during the year (monthly average):		
Non-executive Directors	**7**	7
Executive Directors	**2**	2
Management and administrative	**8**	8
The aggregate employee costs amounted to:	**£000**	**£000**
Directors' fees	**129**	122
Salaries	**838**	794
Social security costs	**94**	86
Other benefit costs	**115**	107
	1,176	1,109

THFC employed no staff during the year and so had no employee related costs. All staff are employed by THFCS.

5. Directors' remuneration

	2011 £000	2010 £000
Non-executive directors:		
Fees	**129**	122
Executive directors:		
Salaries	**306**	296
Pension contributions	**56**	45
Bonuses	**45**	45
Benefits	**10**	10
	546	518
Highest paid executive director:		
Salary	**172**	172
Pension contributions	**32**	27
Bonus	**25**	25
Benefits	**9**	9
	238	233

The fees of the chairman were £26,816. Each non-executive director received fees at the rate of £16,816 per annum.

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

Fees of £33,632 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.

The two executive directors are members of the SHPS defined benefit pension scheme (see note 23). There are no long-term incentive schemes.

The chief executive receives fees of £60,640 per annum for services as a non-executive director to Co-operative Financial Services Limited and certain subsidiaries.

6. Interest payable

	Group 2011 £000	THFC 2011 £000	Group 2010 £000	THFC 2010 £000
On debenture stocks, bank				
borrowings and other borrowings				
Repayable wholly in more than five years				
Interest payable	**109,055**	**87,539**	96,838	74,007
Interest deferred	**(667)**	**(667)**	(594)	(594)
Repayable within five years	**30,195**	**7,123**	30,108	7,354
On loans repaid in the year	**54**	**54**	625	625
	138,637	**94,049**	126,977	81,392

7. Taxation

	Group 2011 £000	THFC 2011 £000	Group 2010 £000	THFC 2010 £000
U.K. Corporation tax at 28%	**173**	**119**	50	-
Deferred taxation	**(31)**	**(30)**	368	370
	142	**89**	418	370
Reconciliation of tax charge				
Profit before tax	**1,195**	**998**	1,457	1,267
Tax charge at standard UK corporation tax rate of 28% (2010: 28%)	**335**	**280**	408	355
Reduction in corporation tax rate – deferred	**(191)**	**(191)**	-	-
Timing differences between accountancy and taxation				
treatment of expenditure	**(8)**	**-**	5	15
Lower rate and marginal rate relief	**(1)**	**-**	(1)	-
Permanently dis-allowable items	**7**	**-**	6	-
Overall tax charge	**142**	**89**	418	370
Effective tax rate	**11.9%**	**8.9%**	28.7%	29.2%

8. Intangible assets

	Group 2011 £000	THFC 2011 £000	Group 2010 £000	THFC 2010 £000
Implementation costs of software				
Cost				
At beginning and end of year	**71**	**-**	71	-
Amortisation				
At beginning of year	**52**	**-**	35	-
Charge for the year	**16**	**-**	17	-
At end of year	**68**	**-**	52	-
Net book value at end of year	**3**	**-**	19	-
Net book value at beginning of year	**19**	**-**	36	-

9. Property, plant and equipment

	Group 2011 £000	THFC 2011 £000	Group 2010 £000	THFC 2010 £000
Fixtures, fittings and equipment				
Cost				
At beginning of year	**174**	**-**	174	-
Additions	**12**	**-**	-	-
At end of year	**186**		174	-
Depreciation				
At beginning and end of year	**174**	**-**	174	-
Net book value at end of year	**12**	**-**	-	-
Net book value at beginning of year	-	-	-	-

10. Investments

	THFC 2011	THFC 2010
Shares held in subsidiary undertakings		
THFCIL – 4 ordinary shares of £1 each	**£4**	£5
THFCFV – 3 ordinary shares of £1 each	**£3**	£4
THFCS – 92 ordinary shares of £1 each	**£92**	£92
THFCIL2 – 3 ordinary shares of £1 each	**£3**	£4
SHF – 3 ordinary shares of £1 each	**£3**	£4

THFC beneficially owns directly or indirectly 100% of the ordinary share capital of THFCIL, THFCIL2, THFCFV, SHF, THFCC, THFCS, UKRH, UKRT and UKR1 which are incorporated in Great Britain and registered in England & Wales. (See group structure on inside back cover.)

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 was classified as an "Available for sale" asset and recorded at fair value in the balance sheet at 31 March 2010.

Notes to the Accounts continued

11. Loans and receivables

	Group 2011 £000	THFC 2011 £000	Group 2010 £000	THFC 2010 £000
Loans to housing associations				
At beginning of year	**2,101,722**	**1,261,135**	1,863,550	1,029,254
Discount on new issues	**-**	**-**	-	-
Premium on new issues	**16,017**	**16,017**	2,449	2,449
Loans repaid during the year	**(49,598)**	**(10,428)**	(36,296)	(25,627)
Loans advanced during the year	**355,432**	**315,942**	267,993	248,559
	2,423,573	**1,582,666**	2,097,696	1,254,635
Discount amortised for the year	**8,231**	**8,231**	7,707	7,707
Premium amortised for the year	**(1,382)**	**(705)**	(1,449)	(613)
Interest deferred for the year	**(822)**	**(822)**	(594)	(594)
Indexation for the year	**6,855**	**–**	(1,638)	–
At end of year	**2,436,455**	**1,589,370**	2,101,722	1,261,135
Less: repayable within one year	**(73,723)**	**(11,339)**	(53,941)	(13,728)
	2,362,732	**1,578,031**	2,047,781	1,247,407
Securitised assets				
At beginning of year (Note 16)	**33,614**	**-**	34,333	-
Loans repaid during the year	**(825)**	**-**	(719)	-
At end of year	**32,789**	**-**	33,614	-
Less: repayable within one year	**(941)**	**-**	(825)	-
Total falling due after more than one year at 31 March 2011	**31,848**	**-**	32,789	-
	2,394,580	**1,578,031**	2,080,570	1,247,407

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:

(a) 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);

(b) 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

(c) 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 16.

Other financial assets being other receivables, available for sale assets, short-term deposits and cash and cash equivalents are dealt with in notes 12 and 20.

Interest rate risk is covered in note 22.

12. Other receivables

	Group 2011 £000	THFC 2011 £000	Group 2010 £000	THFC 2010 £000
Accrued interest income	**29,743**	**26,171**	26,018	22,430
Other receivables	**943**	**721**	1,329	1,074
Amounts due from subsidiary undertaking	**-**	**28**	-	28
	30,686	**26,920**	27,347	23,532

13. Trade and other payables

	Group 2011 £000	THFC 2011 £000	Group 2010 £000	THFC 2010 £000
Other creditors	**3,183**	**270**	3,353	502
Accruals and deferred income	**31,952**	**26,942**	28,569	23,514
Amounts due to subsidiary undertakings	**-**	**765**	-	601
	35,135	**27,977**	31,922	24,617

14. Financial liabilities – Borrowings

	Group 2011 £000	THFC 2011 £000	Group 2010 £000	THFC 2010 £000
Eurobonds (Note 15)				
At beginning of year	**33,614**	**-**	34,333	-
Repaid during the year	**(825)**	**-**	(719)	-
At end of year	**32,789**	**-**	33,614	-
Less: falling due within one year	**(941)**[(1)]	**-**	(825)[(1)]	-
	31,848	**-**	32,789	-
Debenture Stocks				
At beginning of year	**1,067,431**	**581,455**	1,087,656	590,551
Repaid during the year	**(39,720)**	**(3,561)**	(24,119)	(15,464)
Discount amortised	**8,039**	**8,039**	7,526	7,526
Premium amortised	**(1,217)**	**(540)**	(1,400)	(564)
Deferred interest	**(822)**	**(822)**	(594)	(594)
Indexation	**6,856**	**-**	(1,638)	-
At end of year	**1,040,567**	**584,571**	1,067,431	581,455
Less: falling due within one year	**(12,858)**[(1)]	**(1,899)**[(1)]	(11,678)[(1)]	(1,721)[(1)]
	1,027,709	**582,672**	1,055,753	579,734

	Group 2011 £000	THFC 2011 £000	Group 2010 £000	THFC 2010 £000
Bank borrowings				
At beginning of year	**591,759**	**237,184**	549,197	212,038
Borrowed during the year	**234,760**	**193,510**	54,743	35,309
Repaid during the year	**(11,808)**	**(7,034)**	(12,181)	(10,163)
At end of year	**814,711**	**423,660**	591,759	237,184
Less: falling due within one year	**(60,724)**[(1)]	**(9,299)**[(1)]	(42,290)[(1)]	(12,034)[(1)]
	753,987	**414,361**	549,469	225,150

	Group 2011 £000	THFC 2011 £000	Group 2010 £000	THFC 2010 £000
Loan from T.H.F.C. (Funding No. 1) Plc				
At beginning of year	**226,805**	**226,805**	226,673	226,673
Loans during the year	**-**	**-**	-	-
Repaid during the year	**-**	**-**	-	-
Discount on issue	**-**	**-**	-	-
Premium amortised	**(51)**	**(51)**	(49)	(49)
Discount amortised	**192**	**192**	181	181
At end of year	**226,946**	**226,946**	226,805	226,805
Less: premium falling due within one year	**(53)**[(1)]	**(53)**[(1)]	(51)[(1)]	(51)[(1)]
Add: discount falling due within one year	**203**[(1)]	**203**[(1)]	192[(1)]	192[(1)]
	227,096	**227,096**	226,946	226,946

14. Financial liabilities – Borrowings continued continued

	Group 2011 £000	THFC 2011 £000	Group 2010 £000	THFC 2010 £000
Loan from T.H.F.C. (Funding No.2) Plc				
At beginning of year	**271,201**	**271,201**	-	-
Loans during the year	**76,600**	**76,600**	263,250	263,250
Repaid during the year	**-**	**-**	-	-
Premium on issue	**10,515**	**10,515**	7,951	7,951
Premium amortised	**(114)**	**(114)**	-	-
Discount amortised	-	-	-	-
At end of year	**358,202**	**358,202**	271,201	271,201
Less: premium falling due within one year	**(291)**[1]	**(291)**[1]	(114)[1]	(114)[1]
Add: discount falling due within one year	**-**	**-**	-	-
	357,911	**357,911**	271,087	271,087
Subordinated loans (Note 16)	**723**	**-**	723	-
Total falling due after more than one year at 31 March 2011	**2,399,274**	**1,582,040**	2,136,767	1,302,917

[1] amounts falling due within one year total £74,664 for the Group and £11,339 for THFC.

The above are repayable as follows:

	Group 2011 £000	THFC 2011 £000	Group 2010 £000	THFC 2010 £000
Between one and two years	**102,338**	**82,466**	24,833	6,065
Between two and five years	**113,461**	**24,936**	163,427	90,573
In five years or more	**2,183,475**	**1,474,638**	1,948,507	1,206,279
	2,399,274	**1,582,040**	2,136,767	1,302,917

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. Deferred tax liabilities

	Group 2011 £000	THFC 2011 £000	Group 2010 £000	THFC 2010 £000
At beginning of the year	**2,498**	**2,512**	2,129	2,142
Charge against surplus	**160**	**161**	(369)	(370)
Change in tax rate	**(191)**	**(191)**	-	-
At end of the year	**2,467**	**2,481**	2,498	2,512

	Group 2011 £000	THFC 2011 £000	Group 2010 £000	THFC 2010 £000
The liability for deferred taxation at the end of the year is as follows:				
Difference between accounting and taxation treatment of discounts	**2,482**	**2,482**	2,673	2,673
Less: taxation losses available for future relief	**-**	**-**	(161)	(161)
other timing differences	**(15)**	**-**	(14)	-
Amount provided	**2,467**	**2,482**	2,498	2,512

During the year, as a result of the change in the UK mainstream corporation tax rate from 28% to 26% that was substantively enacted on 20 July 2010 and that was effective from 1 April 2011, the relevant deferred tax balances have been re-measured.

Further reductions to the UK corporation tax rate were announced in the June 2010 Budget. The changes, which are expected to be enacted separately each year, propose to reduce the rate by 1% per annum to 24% by 1 April 2014. The changes had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements.

16. 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 £36.143 million. To finance the purchase of the rent receivables UKR1 issued £36.143 million 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 2011 was £723,000 (2010: £723,000).

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 £3,003,000 (2010: £3,076,000) and is included in 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.

17. Called up share capital

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

	2011 £	2010 £
At beginning of year	**6**	7
Issued in year	**1**	-
Redeemed in year	**(2)**	(1)
At end of year	**5**	6

18. Retained earnings

	Group 2011 £000	THFC 2011 £000	Group 2010 £000	THFC 2010 £000
Opening reserves	**9,523**	**5,851**	8,484	4,954
Surplus for the year	**1,053**	**909**	1,039	897
Closing reserves	**10,576**	**6,760**	9,523	5,851

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 2011 were £1,947,000 (2010: £1,943,000).

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 and this is the amount that is managed as the Group's capital.

19. Reconciliation of profit to net cash flow from operations

	Group 2011 £000	THFC 2011 £000	Group 2010 £000	THFC 2010 £000
Surplus before taxation	**1,195**	**998**	1,457	1,267
Interest receivable	**(135,663)**	**(94,063)**	(123,935)	(81,406)
Interest payable	**138,637**	**94,049**	126,977	81,392
Premium receivable	**(298)**	**(298)**	-	-
Premium payable	**298**	**298**	-	-
Adjustment for:				
Depreciation charges	**16**	**-**	17	-
Decrease/(increase) in debtors	**389**	**354**	(687)	(174)
(Decrease)/increase in creditors	**(153)**	**(55)**	298	(137)
Net cash inflow from operating activities	**4,421**	**1,283**	4,127	942

20. Analysis of changes in net funds

	At 1 April 2010 £000	Cash Flows £000	Other Non-cash Changes £000	At 31 March 2011 £000
Group				
Cash and cash equivalents	60,531	(49,119)	-	**11,412**
Debt due after 1 year	(2,136,761)	(269,522)	7,009	**(2,399,274)**
Debt due within 1 year	(54,766)	-	(19,898)	**(74,664)**
Short-term deposits	8,288	2,646	–	**10,934**
	(2,122,708)	(315,995)	(12,889)	**(2,451,592)**

	At 1 April 2010 £000	Cash Flows £000	Other Non-cash Changes £000	At 31 March 2011 £000
THFC				
Cash and cash equivalents	55,649	(49,197)	-	**6,452**
Debt due after 1 year	(1,302,917)	(277,064)	(2,059)	**(1,582,040)**
Debt due within 1 year	(13,728)	-	2,389	**(11,339)**
Short-term deposits	5,304	2,671	-	**7,975**
	(1,255,692)	(323,590)	330	**(1,578,952)**

21. Commitments

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

	Group 2011 £000	Group 2010 £000
Due within 1 year	**64**	51
In the 2nd to 5th year inclusive	**155**	217
Over 5 years	**-**	-
	219	268

22. 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.

Based on the investment income budget for the year ended 31 March 2012 each 0.5% movement in the overall rate of return gives rise to a £99,652 (2010: £106,000) movement in income for the Group and £75,189 (2010: £79,978) for THFC.

(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 loan agreement. 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. There are no financial assets of the Group or THFC that are past due or otherwise impaired at 31 March 2011 (2010: None).

Individual exposures to borrowers which represents maximum credit exposures are included in the tables on pages 14 to 16.

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 carrying value of short-term deposits and cash and cash equivalents represents the maximum credit exposure. No amounts are past due or otherwise impaired at 31 March 2011 (2010: None) in either the Group or THFC.

The maturity profile of financial assets is given below.

(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 although none are held at 31 March 2011 (2010: None).

The maturity profile of financial assets

	Group 2011 £000	THFC 2011 £000	Group 2010 £000	THFC 2010 £000
Loans to HAs	**2,436,455**	1,589,370	2,101,721	1,261,135
Securitised assets	**32,789**	-	33,614	-
	2,469,244	1,589,370	2,135,335	1,261,135
Due within one year	**74,664**	11,339	54,766	13,728
Due between one and two years	**102,338**	82,466	24,833	11,065
Due between two and five years	**113,461**	24,936	163,427	90,573
Due in over five years	**2,178,781**	1,470,629	1,892,309	1,145,769
	2,469,244	1,589,370	2,135,335	1,261,135

22. Financial risk management continued

Interest rate risk profile of financial assets and financial liabilities

	Group 2011 Financial Liabilities £000	Group 2011 Financial Assets £000	Group 2010 Financial Liabilities £000	Group 2010 Financial Assets £000
Fixed rate	**2,158,356**	**2,154,342**	1,926,908	1,871,392
Floating rate	**314,859**	**314,902**	263,902	263,943
No interest payable	**723**	**-**	723	-
	2,473,938	**2,469,244**	2,191,533	2,135,335

	THFC 2011 Financial Liabilities £000	THFC 2011 Financial Assets £000	THFC 2010 Financial Liabilities £000	THFC 2010 Financial Assets £000
Fixed rate	**1,451,212**	**1,447,202**	1,220,922	1,170,913
Floating rate	**123,178**	**123,178**	86,736	86,736
No interest payable	-	**-**	-	-
	1,574,390	**1,570,380**	1,307,658	1,257,649

The effective interest rates during the year for the Group and THFC were between 0% and 19.75. The weighted average interest rate on both fixed financial liabilities and fixed financial assets of the Group is 6.74% and the weighted average period for which interest rates are fixed is 20.33 years. The corresponding figures for THFC are 6.85% and 17.65 years respectively.

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 disclosed within Note 16. 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 granted are as follows:

	Group 2011 £000	THFC 2011 £000	Group 2010 £000	THFC 2010 £000
Within one year	**-**	-	17,080	17,080
Between one and two years	**-**	-	-	-
Over two years	**329,000**	233,250	467,000	425,000
	329,000	233,250	484,080	442,080

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

Contractual cash flows

The table below summarises the cash flows payable by the group from 31 March 2011 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 2011 remain unchanged until the contract maturity. Similarly on indexed liabilities it has been assumed that the liability is fixed from 31 March 2011.

Group

As at 31 March 2011	Within 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
Contractual interest cash flows	143,529	142,378	418,606	1,581,277
Contractual principal cash flows	74,664	120,057	113,461	2,182,747
Total contractual cash flows	218,193	262,435	532,067	3,764,024

As at 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	184,016	1,886,227
Total contractual cash flows	176,030	155,412	560,080	3,302,500

22. Financial risk management continued

THFC

31 March 2011	Within 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
Contractual interest cash flows	99,334	98,989	294,497	1,192,096
Contractual principal cash flows	11,338	100,185	24,936	1,474,640
Total contractual cash flows	110,672	199,174	319,433	2,666,736

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	81,044	81,143	244,569	971,974
Contractual principal cash flows	8,144	10,437	113,650	1,150,703
Total contractual cash flows	89,188	91,580	358,219	2,122,677

All the above cash flows are substantially matched by cash flows receivable on the Group's and THFC'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.

23. 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".

Up until 31 March 2007 the Scheme operated a single benefit structure based on final salary with a 1/60th accrual rate. From 1 April 2007 three defined benefit structures have been 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 a further two defined benefit structures have been available, namely:

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

A defined contribution structure was 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 defined benefit structure at any one time. An open benefit structure is one which new entrants are able to join.

THFCS has operated 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.

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.

23. Pensions continued

During the accounting period THFCS paid contributions at the rate of 7.8% to 8.01%, member contributions varied between 7.1% and 9.79%.

As at the balance sheet date there were nine active members of the scheme employed by THFCS. The annual pensionable payroll in respect of these members was £683,655. 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 out of total scheme assets. Accordingly due to the nature of the scheme, the accounting charge for the period under IAS19 represents the employer contribution payable. The amount charged to the Statement of Comprehensive Income was £99,938 (2010: £94,929)

The last formal valuation of the Scheme was performed as at 30 September 2008 by a professionally qualified actuary using the Projected Unit Method. The market value of the Scheme's assets at the valuation date was £1,527 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £663 million, equivalent to a past service funding level of 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	5.6
– Investment return non-pensioner post retirement	6.2
– 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 applied 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)
Final salary with a 1/60th accrual rate	17.8
Final salary with a 1/70th accrual rate	15.4
Career average revalued earnings with a 1/60th accrual rate	14.9

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

Following consideration of the results of the actuarial valuation it was agreed that the shortfall of £663 million would be dealt with by the payment of deficit contributions of 7.5% of pensionable salaries, increasing each year in line with salary growth assumptions, from 1 April 2010 to 30 September 2020, dropping to 3.1% from 1 October 2020 to 30 September 2023. Pensionable earnings at 30 September 2008 are used as the reference point for calculating these deficit contributions. These deficit contributions are in addition to the long-term joint contribution rates set out in the table above.

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

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

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

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

23. Pensions continued

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 recovery plan for SHPS in respect of the September 2008 actuarial valuation has been submitted to the Regulator.

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30 September 2010. 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 £1,985 million and indicated a decrease in the shortfall of assets compared with liabilities to approximately £497 million, equivalent to a past service funding level of 80%.

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

24. 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. THFC and each subsidiary will settle the charge in cash as and when required by THFCS. The total service charge payable by THFC to THFCS during the year ended 31 March 2011 was £1,475,426 (2010: £1,360,204).

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 £127,547 (2010: £134,098) for providing these services and had amounts owing from these companies at 31 March 2011 of £13,365 (2010: £78,054).

During the year ended 31 March 2010 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 ended 31 March 2010 the Group was charged £6,541 (2011: Nil) in relation to this arrangement. None of this cost was borne directly by THFC. This arrangement ceased on 31 March 2010.

Details of key management compensation relating to the group's directors are included in note 5 to the financial statements.

25. Fair values

The fair values of the Group's and THFC's assets and liabilities at 31 March 2011 are as follows:

Group	Fair value 2011 £000	Book value 2011 £000	Fair value 2010 £000	Book value 2010 £000
Assets				
Loans receivable	**2,769,013**	**2,469,244**	2,433,282	2,135,335
Available for sale asset	**-**	**-**	4,032	4,005
Trade and other receivables	**30,686**	**30,686**	27,348	27,348
Short term cash deposits	**10,934**	**10,934**	8,288	8,288
Cash and cash equivalents	**11,412**	**11,412**	60,531	60,531
	2,822,045	**2,522,276**	2,533,481	2,235,507
Liabilities				
Financial liabilities-borrowings	**2,773,707**	**2,473,938**	2,489,480	2,191,533
Trade and other payables	**35,310**	**35,310**	31,922	31,922
Deferred and current tax liabilities	**2,467**	**2,467**	2.548	2,548
	2,811,484	**2,511,715**	2,523,950	2,226,003

THFC	Fair value 2011 £000	Book value 2011 £000	Fair value 2010 £000	Book value 2010 £000
Assets				
Loans receivable	**1,804,004**	**1,589,370**	1,432,071	1,261,135
Available for sale asset	**-**	**-**	4,032	4,005
Trade and other receivables	**26,920**	**26,920**	23,532	23,532
Short term cash deposits	**7,975**	**7,975**	5,304	5,304
Cash and cash equivalents	**6,452**	**6,452**	55,649	55,649
	1,845,351	**1,630,717**	1,520,588	1,349,625
Liabilities				
Financial liabilities-borrowings	**1,808,013**	**1,593,379**	1,492,540	1,316,645
Trade and other payables	**27,977**	**27,977**	24,617	24,617
Deferred and current tax liabilities	**2,601**	**2,601**	2,512	2,512
	1,838,591	**1,623,957**	1,519,669	1,343,774

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.

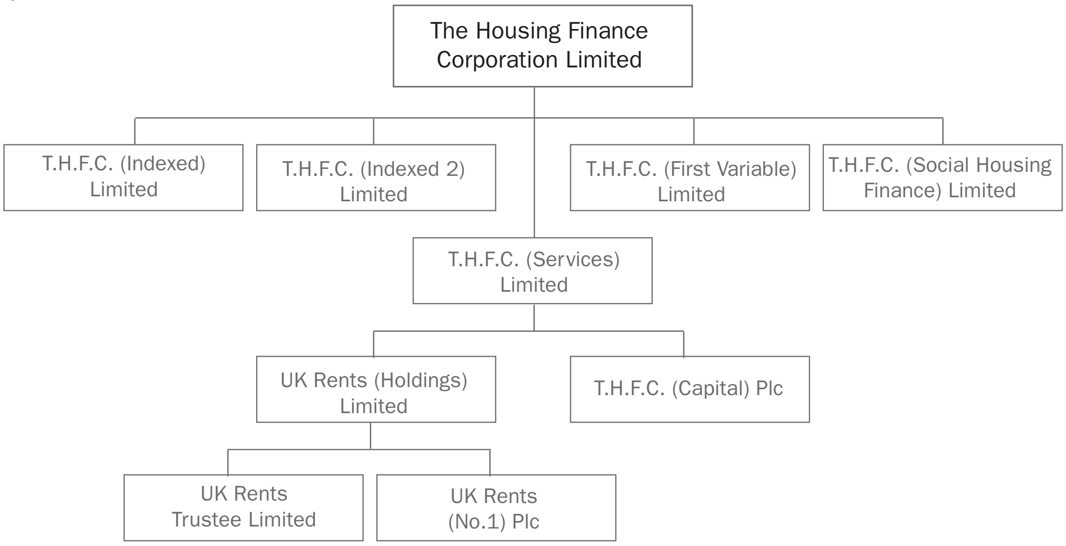
The fair value of bank loans, debenture stocks and bonds issued is based on estimated market value at 31 March 2011.

Five Year Financial Record

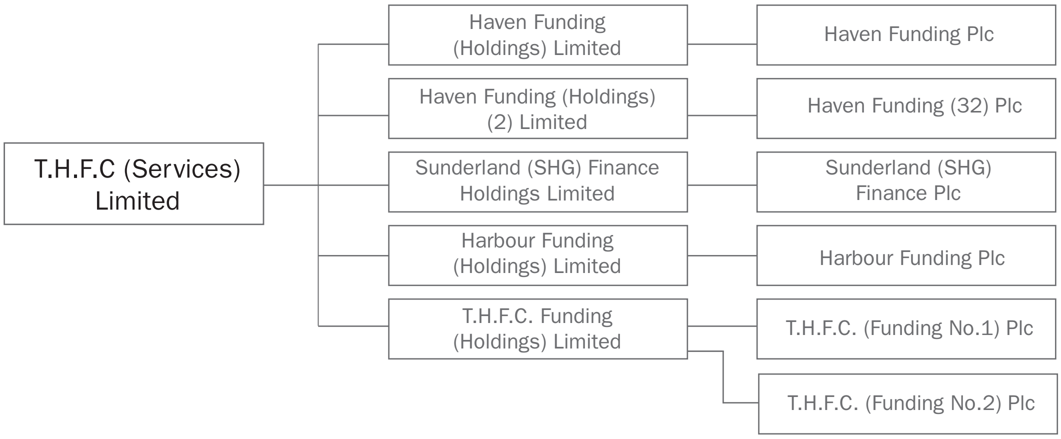
Excluding loan interest and similar items

Year to 31 March	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000
Fees	1,123	1,215	1,693	2,777	**2,512**
Investment income	877	1,088	979	236	**203**
Other income	169	227	177	255	**381**
Total revenues	2,169	2,530	2,849	3,268	**3,096**
Staff costs	779	856	900	993	**1,048**
Non-executive directors costs	99	97	109	131	**143**
Legal/trustees and registrars	303	230	223	234	**250**
Premises	111	107	125	121	**114**
Other	338	370	334	333	**346**
Total costs	1,630	1,660	1,691	1,812	**1,901**
Surplus before tax	539	867	1,158	1,456	**1,195**
Tax	152	107	317	418	**142**
Surplus after tax	387	760	841	1,038	**1,053**
Accumulated reserves	6,883	7,634	8,484	9,523	**10,576**
	£m	£m	£m	£m	£m
Loans outstanding	1,672	1,790	1,898	2,135	**2,469**

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
	Nominal Value **£273,300,000** Issue Date **11.03.97**	Nominal Value **£78,750,000** Issue Date **12.02.98**	Nominal Value **£276,336,361** Issue Date **28.08.03**	Nominal Value **£212,802,000** Issue Date **27.06.01**	Nominal Value **£235,205,000** Issue Date **21.12.04**	Nominal Value **£339,850,000** Issue Date **08.07.09**
Business Activity	Quoted Eurobonds, proceeds on-lent to 10 borrowers	Quoted Eurobonds, proceeds on-lent to 7 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 19 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

= **Related Companies Total Nominal outstanding**

£1,416,243,361

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

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