The Housing Finance Corporation Limited
Annual Report and Accounts **2012**

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.

£2,882m (2011: £2,469M)
THFC GROUP'S LOAN BOOK

£3,251k (2011: £3,067K)
TOTAL FEE INCOME

£1,238k (2011: £1,195K)
PRE-TAX SURPLUS

25 YEAR 100%
CUSTOMER REPAYMENT RECORD

Contents

Chairman's Statement

2011/12 marks THFC's 24th year in business, and the results represent one of its most successful financial performances to date. The bond market, to which THFC gives its customers access, continues to be one of the most liquid and active sources of long-term funds available. At times when the banks were expanding credit we faced tough competition, but in the current climate access to the bond market is of vital importance to the funding of Housing Associations (HAs) – and therefore to the development of badly-needed low-cost housing and, indeed, to the UK's hard-pressed construction industry.

The strong defensive characteristics of the HA sector continue to be recognised both by institutional investors and by the rating agencies. THFC continues to enjoy a strong credit rating, with Standard & Poor's maintaining an A+ rating for our current long term issuing vehicle, T.H.F.C. (Funding No.3) Plc ("Funding 3"), and an A+ rating for THFC itself.

Total revenues (net of interest expense) in excess of £3.2m and a surplus after tax of £1.0m in the year represent another strong outcome for THFC, particularly in relation to new business generation. The latter brings the Group's reserves to £11.6m. During the year we advanced £475.7m to a broad range of HAs throughout the UK. Group loans outstanding increased to £2.88bn (£2.47bn).

Our business model is to lend to HAs on a secured basis with relatively conservative lending criteria. The principal strengths underpinning our credit rating remain our matched borrowing/lending policy combined with conservative over-collateralisation from the security charged to us, and bespoke liquidity enhancement for our rated bonds. By maintaining a successful and well-understood model we are able to make regular issues, extending the benefits of long-term, efficient funding to a wide range of customers. The market acknowledges THFC as the most regular issuer of HA-backed bonds, so that our issues quickly become constituents of the most important Fixed Income indices: thus, all our borrowers can achieve very competitive pricing while achieving efficient treasury management by tapping the market as and when they need to.

Funding 3 issued a total of £231m of long-term bonds in the year, all on-lent to THFC, to fund 17 HA borrowers. Five of these were new customers to THFC. During the year we introduced a new feature into these issues – setting aside £45.5m in retained bonds, issued for three customers, which they can decide to sell into the market at short notice, giving them even better capacity to manage their cash flows and to tap into strong market conditions. Since the year end we have been able to place retained bonds achieving a cost of funds for our clients as low as 4.84%. Since March 2012, Funding 3 has undertaken a further £130.5m tap transaction, for 13 customers. Altogether we now have loans outstanding to some 144 HAs spread across England, Scotland, Wales and Northern Ireland.

Continued low interest rates impact upon THFC's ability to generate earnings on month-early interest receipts from our customers and reserves. However, the size of the lending book (and associated annual fees), mean that, even in this low rate environment, the business has been able to generate an operating surplus. We predict that this will continue to grow in the current year and permit us to recruit additional staff to support the growth in both our customer base and loan book.

We have also viewed it prudent to review our new business fees in the year. As a not-for-profit our reserves would only be distributable to our customers on a winding up of THFC. In the normal course of business, our reserves act as a cushion against any difficulty in collecting loans when due. Whilst we have never had cause to call on our reserves, we believe that our customers will face a more complex market than in the past, and that it is prudent for THFC to consistently build its reserves so as to be able to serve our customers from a strong base.

It was a particularly strong year for bond origination. We believe this resulted from a general lack of capacity among the banks to lend long-term and the marked impact of the

Chairman's Statement continued

Bank of England's Quantitative Easing (QE) programme on Gilt yields. Total public bond issuance by HAs and THFC in the 12 months to March 31 2012 was £1,501m (+50%) giving THFC a slightly increased market share of 15% (11%) in the year. Our core (long-term general obligations) rating by Standard and Poor's remains unchanged for the seventh successive year at A+, confirming the Group as a predictable alternative source of long-term finance in highly uncertain times. Cumulative issuance since THFC first obtained its rating in December 2004 exceeds £850m and, with the benefit of the April 2012 tap transaction, will exceed £1bn in the 2012/13 financial year.

The end of the financial year also saw the orderly transfer of responsibility for regulating the sector from the Tenant Services Authority to the Regulation Committee of the Homes and Communities Agency (HCA). This Committee has a revised responsibility confined to Economic Regulation but has inherited the full statutory tool kit to facilitate appropriate interventions, via the Localism Act which came into force in January 2012. As part of this transfer, I am pleased to say that the THFC share held by the TSA has been transferred to the HCA, ensuring the continuity of regulatory stewardship of THFC.

Gill Rowley has served with distinction as the TSA's (and previously the Housing Corporation's) representative on our Board since 2006, but stood down on 29 February 2012. The whole Board would like to thank Gill for her outstanding contribution to THFC. In her place we welcome Jonathan Walters, the HCA's Deputy Director of Regulatory Operations. We are delighted to welcome Jonathan, who brings a wealth of regulatory experience to the THFC Board.

Towards the end of the year, our Senior Non-Executive Director, David Orr conducted a governance review, to ensure that the Board continues to follow best practice. The short term result of this review is that the Members of THFC have approved a change in THFC's Rules amending the term of office of the Chairman. Best practice is currently that a Chair should be able to serve for up to two three year terms of office. Until the change of Rules, THFC's Chair was restricted to a maximum of five years. The Board has invited me to serve as Chairman for a sixth year, during which we will conduct a recruitment exercise to identify a successor. We fully expect there to be both strong internal and external candidates for the post.

2012 not only marks the Diamond Jubilee and the year of the London Olympics, but it also marks THFC's 25th anniversary. Delivering sustainable investment in the social and affordable housing market is above all a long term business. Many investors and customers have been with us throughout that 25 years and it is credit to all those involved in the creation and management of THFC over that period that it enters its second quarter-century in such great shape. As ever, this is due largely to the dedicated hard work and skill of our entire executive team, which has been led with great distinction by Piers Williamson for the last ten years. I would like to pay tribute to their contribution to another successful year and to the sound financial position that enables THFC to continue to support the social housing sector.

Roger Mountford
Chairman

Chief Executive’s Review

2011/12 was a year of significant Capital Markets activity for the HA Sector, both for own name issuance and for THFC. The £1.5bn of issuance (of which THFC issued £231m, through a new issuing vehicle: T.H.F.C. (Funding No.3) PLC) represented a 50% uplift from issuance volumes seen in prior years.

For English Housing Associations, taking part in the HCA’s affordable housing programme, lower capital grants available (coupled with more flexibility on rent) mean a potential increased requirement for private finance. Given the continued balance sheet and liquidity pressures on the large UK banks and building societies, as they rebuild the strength of their capital ratios, HAs increasingly look to the capital markets as the natural source of long term funding. In many ways this takes THFC back to its roots when, 25 years ago, it was the primary source of long term institutional funding for HAs.

In the main we have seen a cautious early response from HAs to the Affordable Rents regime. As independent, prudently run organisations, learning the lessons of the last property cycle, we see HAs testing out more cash-flow dependent development. Government policy and economic activity around HAs has changed in many areas: the planning regime has been radically altered, welfare reform is likely to have a significant future impact on cash-flows, and policies towards regional regeneration have also changed. From April 2012, HAs are also subject to a new economic regulatory regime. HAs are responding prudently to this changed world. The financially strongest are helping to deliver the aspirations of Government on housing output. At the same time, and where possible, HAs are working hard to preserve value in long term financings negotiated at fine credit margins in the period up to the onset of the credit crunch.

The second half of the financial year saw the second and third round of the Bank of England Monetary Policy Committee’s Quantitative Easing (QE) programme, totalling an additional £125bn of Gilt Purchases by the Central Bank. Whilst the primary driver of the programme has been to increase the availability of liquidity in the wholesale markets, it also acted to reduce Gilt yields to levels last seen almost 200 years ago. This potential cost advantage for long term borrowing acted as a major stimulus for new issuance by Housing Associations, both as own name issues and via THFC.

£956m of the £1.5bn issuance in the financial year was completed in Q4 when Gilt yields were at their lowest. THFC was successful in issuing a sub 5% tranche (4.94%) for 10 borrowers in January 2012. Nine long term HA bonds have priced below 5% in the last 25 years and I am pleased to say that THFC is now responsible for originating three of these transactions.

For the ten deals completed by all issuers in the year credit spreads were in a range between 1.20% and 2.15%, excluding one smaller issue made by a sole-name issuer at a spread of 2.75%. Undoubtedly, credit spreads have widened significantly in the period. This reflects general lack of liquidity and uncertainty arising principally from uncertainties over the €, rather than sector-specific concerns. That said, since March we believe we have returned to a more normalised market, with credit spreads stabilising.

Aggregation has a particularly important role to play in this environment. Because of the weight of demand for their funding, institutional investors are able to be increasingly selective about what they buy. Hence they have been able to demand significant premia for investing in sub-index size bond transactions. Many funds invest in the constituents of the iBoxx Non Gilt UK Fixed income index, where the threshold for inclusion is currently £250m. As an aggregator, THFC is able quickly to grow its deals to feature in this index (THFC Funding 1, 2 and 3 are all iBoxx constituents). Of the eight own name HA issues completed in the financial year, only four were large enough to be index constituents.

As HAs raise a significantly greater proportion of their funding in the Capital Markets, so it is important that they optimise economies of scale. Their objective should be to be regarded as an alternative investment to the Utility Companies which have been consistent borrowers for much of the last decade and currently represent c 15% of the iBoxx Index (in contrast, HAs only currently represent 1%).

THFC Bond lending activity translated into a first rate financial outcome for the year. Total Group Revenues were at a record level of £3.29m. This is the third year in a row that THFC has achieved revenues in excess of £3m, and the first year where the new business element has been achieved almost exclusively from bond origination. With the corresponding growth in its loan book, THFC is producing a consistent operating surplus, even while investment earnings are still constrained by the low interest rate environment. All bond business written in the year had the benefit of a one year debt-service reserve. As a non-profit distributing entity, retained earnings are our only source of loss-absorbing capital. Whilst we have not suffered a credit loss in 25 years of business, we are mindful of the need to have an adequate capital base. Hence we are formulating our budgets for this and future years to generate increases in revenue reserves of circa £1m per annum.

The broad spread of customers who made up the demand for the £231m of bonds issued in the year was particularly gratifying. The Chairman has noted that the two tranches of issuance included a significant number of new customers for THFC. There were two particular participants of note, one of whom was new and one was a very old customer.

First was a participation by one of the largest Large Scale Voluntary Transfer (LSVT) organisations in Scotland: Dumfries and Galloway Housing borrowed a total of £40m. THFC has not historically funded a significant number of LSVTs. However, as an increasing number of their business plans mature, so significant latent growth potential exists within these organisations. This was set out in the most recent set of Global Accounts for the sector, published by the Tenant Services Authority (TSA) in March 2012 where they highlighted the surpluses being generated by (mature) LSVTs. Whilst the TSA study covers English HAs, latent capacity is a common theme nationally.

The second customer of note was in fact also THFC's very first customer back in 1987. Network Housing Association (one of the 'G15' largest HAs in London) chose to refinance through THFC in the year, agreeing to a £100m bond facility whereby it can participate in a flexible number of transactions to better match its future cash-flow requirements. The initial 32 year drawdown, coupled with the 25 year original Network transaction make for continuous funding over 57 years, showing THFC is capable of delivering innovative financing and at a time of severe market funding pressure,within a long and close customer-lender relationship.

There has been considerable focus in the year on the scope for delivery of new homes under the Government's Affordable Homes programme (up to 150,000 quoted in HM Treasury's 2010 Comprehensive Spending Review). This focus is understandable, but the primary strength of the HA sector remains its 'back book' of 2.5m owned, social rented homes. The rent settlement for 2011/12 was relatively modest. However, core social housing rents for 2012/13 will see a significant uplift, with the September 2011 Retail Price Index (RPI) calculation delivering a potential rental uplift of 6.1%. RPI is set to be the reference for rent setting throughout the period of the current CSR. However, as in the private sector rented market, the Government may elect to adopt Consumer Price Index (CPI) as a measure in future spending reviews. It is clear that, in the future, potentially declining grant rates mean that core rental cash-flow will be even more important for the sector.

Our objective remains measured growth in support of our HA customers. Whilst, in the short term, we see the HA sector traversing a relatively benign risk landscape, we are mindful that all our business is long term and we need to ensure the long-term sustainability of the loans we make. Consequently we have further emphasised prudent credit underwriting in the year. We have adopted a discipline of continuous learning in the operation of THFC's Credit Committee and we are once more in the process of re-tuning our credit scoring methodology so the weightings better reflect the future risk environment.

Through its membership of the Council of Mortgage Lenders (CML) Social Housing Committee THFC was extensively involved in lobbying Government on features of the Welfare Reform Act in the year. The measures around the Universal Benefit regime which encourage the long term unemployed back to work are generally applauded. However, there are elements of the Universal Benefit system that may adversely affect the timeliness of payments to HAs under the proposed system (so called 'benefit-direct') and the quantum of benefit payments (particularly potential under-occupation cuts) could chip away at HAs' financial capacity to deliver new housing over the next two or three years. The Department for Work and Pensions has been at pains to emphasise that it will not adopt measures which undermine the financial viability of the HA sector and it is currently in the process of launching half a dozen 'demonstration projects' to fine-tune benefit-direct. We are promised that both retired and vulnerable tenants (measure to be defined) fall outside the scope of Universal Benefit. HAs will also be able to revert to direct collection where persistent rent arrears are evident. Nevertheless both the extent and the nature of the systems change required are unprecedented in recent years. Economically rational HAs faced with both a development regime where cash-flow generation is exponentially more important and at the same time having cash payment of rents constrained ought naturally to rein back development. We estimate that the potential adverse impact will be most marked in early-stage LSVTs (where THFC does not typically lend at all) and outside London – particularly in areas of relatively low housing demand. The picture may be further complicated where devolved Government may choose to adopt a different approach to the application of the Welfare Reform Act.

Finally, this year not only represents THFC's 25th anniversary, but my own tenth anniversary as Chief Executive of THFC. In that time both THFC and the market segment we serve have been transformed. I would like to pay my personal thanks to the entire THFC team and to the many market professionals who continue to support us in delivering an important alternative to bank financing for HAs.

Piers Williamson
Chief Executive

Business and Financial Review

The five-year table on page 48 gives a comparative history of the THFC Group and shows that our loan book has increased by 61.0% while total costs have increased by 23.3% and our total revenues (net of interest expense) by 29.8% over the period.

The THFC Group achieved a pre-tax surplus of £1,238,000 (2011: £1,195,000). 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 2012, as a consequence of a another successful year, the Group's reserves have risen from £10.6m to £11.6m. 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 £475.7m (2011: £371.4m) of new money sourced from bond issues and other funders was advanced to housing associations by members of the THFC Group during the year. These loans, prepayments and other changes to our existing loans, produced net lending of £412.5m (2011: £333.9m), before adjustment for indexation and amortisation of premiums and discounts.

As a result the THFC Group loan book stands at £2,882m (2011: £2,469m). Details of borrowings by the THFC Group to fund its loan book are shown on page 18.

At the year-end the Group was the provider of funds to 144 borrowers (2011: 133).

Our operating expenses were 0.07% (2011: 0.08%) of the £2.8bn (2011: £2.5bn) 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 47). The Group achieved strong surplus before and after tax and reduced the ratio of expenses to the loan book.

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.

Group Report

The Housing Finance Corporation Limited ("THFC") and its 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 (the "issuing companies"), 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 three related parties, all 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 issuing company'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.
- THFC monitors the financial position of its HA borrowers on an on-going basis, including measurement against convenant undertakings. All HA borrowers are subject to external regulation by the social housing regulator in the relevant jurisdiction.

Security Offered to Investors

The security which issuing companies offer to investors is illustrated on pages 15 to 17. Lenders to each issuing company benefit from a floating charge over that company's assets, which are primarily its secured loans to housing associations. All the stocks, bonds and loans within each issuing Company 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.

As the investors are secured by a floating charge on the whole of the relevant issuing Company's pooled undertakings it is not practical or cost effective to obtain a measure of the book or fair value of this collateral.

Property Security

The majority of borrowers continue to prefer to provide fixed charge security on specified properties and most new borrowers choose to adopt this option from the outset although the issuing companies can offer housing associations the ability to secure their loans by way of floating charges, subject to appropriate asset cover tests. There are 16 borrowers who have an element of floating charge security on 38 loans. Each issuing company is required to obtain a charge over the assets of borrowers which, at all times during the life of each loan, covers at least 150% (135% for loans made by T.H.F.C. (Social Housing Finance)Limited) of the outstanding loan balance. For loans secured by fixed charges, formal property valuations of the specific security are undertaken at least every five years. For loans secured by floating charge, compliance is measured by reference to the balance sheet of the borrower. 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.

Loans Administration

The Group's exemplary record of prompt collection and payment of interest and principal has remained intact over its twenty-five 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 its 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 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.

The credit rating model is regularly updated to take account of emerging risks.

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 £11.6m (2011: £10.6m).

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.

THFCS is the largest provider of bond administration services to the housing association sector and its income in the year from related party contracts was £125,501 (2011: £127,547).

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.

T.H.F.C. (Funding No. 3) Plc ("Funding No. 3")
Funding No. 3 is also a non-consolidated company. The entire issued share capital of its holding company, T.H.F.C. Funding (Holdings No.3) Limited, is held by THFCS under a declaration of trust. It was incorporated in September 2011 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, Funding No. 2 and Funding No. 3 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 2012 these companies had loans totalling £348.6m (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 2012 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 as 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.

Directors' Report

The directors present their report and the audited consolidated financial statements of the Group for the year ended 31 March 2012.

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 2012 was £1,238,000 (2011: £1,195,000).

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.

THFC made no charitable or political donations during the year.

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 table below. The biographies of the current Directors appear on pages 13 and 14.

All non-executive directors are limited to nine years' service on the Board. Independent directors are normally elected for terms of three years and may offer themselves for re-election at the conclusion of the first and second terms.

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

Gill Rowley retired from the Board on 29 February 2012.

As a Director appointed to the Board since the last Annual General Meeting, Jonathan Walters is required to resign and will offer himself for re-election at the forthcoming meeting.

The Chairman is required to retire annually at the Annual General Meeting and accordingly Roger Mountford will retire and offer himself for re-election.

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 (Homes and Communities Agency ("HCA") since 1 April 2012) (Gill Rowley) were remitted to their employers. The fees of the non-executive Directors, in accordance with Board approved policy, were increased by RPI (3.57%) on the annual review date of 1 April 2012. The non-executive Directors do not receive any pension benefits, bonuses or benefits-in-kind.

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

The directors of the Group who were in office during the year and up to the date of signing the financial statements were:

Director	Period Served to 31 March 2012	THFC Shareholdings at 31 March 2012
Charlie Arbuthnot	Full Year	£1
David Orr	Full Year	NIL
Deborah Shackleton	Full Year	£1
Fenella Edge	Full Year	NIL
Gill Rowley (retired 29 February 2012)	11 months	NIL
John Parker	Full Year	£1
Jonathan Walters (appointed 1 March 2012)	1 month	–
Keith Exford	Full Year	£1
Piers Williamson	Full Year	NIL
Roger Mountford	Full Year	£1
Other shareholders		
Tenant Services Authority (transferred to the HCA 1 April 2012)		£1
The National Housing Federation		£1
Total issued share capital at 31 March 2012		£7
THFC's Rules prescribe that all shareholdings are non-beneficial.		

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 £2.06bn and an actuarial deficit of £1.04bn (based on the provisional results of the triennial valuation as of 30 September 2011) 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.

The Scheme’s 30 September 2011 valuation is currently in progress and will be finalised by 31 December 2012.

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.

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 prepared 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.

Directors' Report continued

Corporate Governance Statement

The 2010 UK Corporate Governance Code issued by the FRC ("The Code")

Introduction

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 not-for-profit entity operating as an Industrial and Provident Society, without a market in its shares.

This report explains key features of the Group's governance structure how it applies the principles set out in the code and the extent to which the company has complied with the provisions of the code.

During the year we undertook a further review of governance to ensure that our governance framework continues to reflect best practice.

As a result of this review the rules of THFC were amended to restrict the maximum term for Independent Directors to nine years (albeit this is already current practice contained in the Group's Principles of Tenure) and increasing the maximum term that can be served by a Chairman to 6 years.

Board

The Board of directors of THFC comprises:

Roger Mountford (Chairman)
David Orr (Senior Non-Executive Director and Chairman of Credit Committee)
Charlie Arbuthnot
Fenella Edge (Executive Director)
Keith Exford
John Parker (Chairman of Audit Committee)
Deborah Shackleton
Jonathan Walters
Piers Williamson (Executive Director).

The directors biographies can be found on pages 13 to 14.

The Board of THFC also comprises the Boards of its subsidiaries.

All Board service contracts are available for inspection at the registered office.

Senior Non-Executive Director

The Board appoints a Senior Non-Executive Director. The appointed Senior Non-Executive Director is David Orr.

Directors' Independence

All directors are non-executive with the exception of Piers Williamson, the Chief Executive, and Fenella Edge, the Group Treasurer.

All non-executive directors are Independent Directors with the exception of Jonathan Walters, who is nominated by the Homes and Communities Agency, and David Orr, who is nominated by the National Housing Federation.

With the exceptions mentioned above the Board has determined that all remaining non-executive directors are independent and free from any material relationship that could interfere with their ability to discharge their duties.

Terms of Office

All non-executive directors are limited to nine years' service on the Board. Independent directors are normally elected for terms of three years and may offer themselves for re-election at the conclusion of the first and second terms.

The Chairman may serve for a maximum term of six years and is subject to re-election annually at the Annual General Meeting. The Board will select each chairman in accordance with the rules of THFC.

Details of directors retiring and offering themselves for re-election at the next Annual General Meeting are given in the Directors' report on page 8.

Directors' Attendance at Meetings

Directors' attendance at THFC Board and Board committee meetings during the year is shown in the table on page 15. 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 principally 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.

Role of Board

The Board sets the strategic objectives of the Group, determines investment policies, and agrees performance criteria and delegates to management the detailed planning and implementation of those objectives and policies in accordance with appropriate risk parameters. The Board monitors compliance with policies and achievement against objectives by holding management accountable for its activities through quarterly performance reporting and budget updates.

The Board has six scheduled meetings each year which cover both standard and adhoc business. Standard business is tracked via a Board diary and determines the standard section of the agenda and details the key items of business that are considered by the Board. A rolling agenda is maintained to record emerging issues that will require Board consideration at future scheduled meetings. Two of the 6 scheduled meetings focus specifically on strategic issues. Adhoc meetings are convened as when required where Board approval is required outside of the scheduled meetings.

Certain matters are dealt with exclusively by the Board. These include approval of financial statements, strategy, major capital projects, changes to the Group's management and control structure and all lending decisions.

All key decisions are taken by the Board or its committees. Exceptionally a Board or committee will delegate certain decisions to management within clearly defined parameters which are minuted. However there is no standing delegation to management beyond that required for the day to day running of the business.

The roles of Chairman and Chief Executive are not fulfilled by the same individual. The Board reviews and approves the Chief Executive's operational authorities on an annual basis. This document also determines which items are reserved for Chairman’s or non-executive approval. All other decisions require Board approval.

All directors may call upon independent professional advice at the expense of the company.

Committees of the Board

The Board governs through clearly mandated Board committees. Each Board committee has specific written terms of reference which are approved annually by the Board and committee. Committee chairmen report orally on the proceedings of their committees at the next following Board meeting and the minutes of all committee meetings are included in papers distributed to Board members in advance of the next Board meeting.

The Board and committees meet at regular intervals to cover all on-going business and ad hoc meetings are convened as necessary.

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, Deborah Shackleton, David Orr, John Parker and Charlie Arbuthnot as non-executive 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 and internal 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 John Parker (Chairman) Gill Rowley (until her retirement when she was replaced by Jonathan Walters) and Keith Exford. 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 independent directors.

When required by the Board the nominations committee evaluates the balance of skills, experience, independence and knowledge on the Board and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment.

All new directors participate in a tailored induction, programme involving professional advisors where required.

During the year the Committee’s membership comprised: Roger Mountford (Chairman), Charlie Arbuthnot and David Orr.

The Committee was not convened during the year.

Training and Development

New non-executive directors are provided with a tailored induction shortly after their appointment. They are asked to submit requests for additional training as part of the annual performance evaluation process.

Emerging issues that require greater understanding are covered by a presentation to the Board by an appropriate expert in the area concerned.

Performance evaluation

The Board conducts a critical evaluation of its activities on an annual basis. A questionnaire based peer review of the performance of the Chairman, the Board and its Committees is conducted by the Company Secretary. The results of the evaluation are reviewed and discussed by the Board and a list of action points drawn up where appropriate.

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, treasury operations, financial reporting and preparation of consolidated accounts.

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.

Internal Audit

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 27 June 2012 and no significant weaknesses have been identified.

Continuing Resources

After making enquiries, the Directors have formed a judgment 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.

Senior Management

Piers Williamson, Fenella Edge and Colin Burke, the 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 that 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 RPI (3.57%) on the annual review date of 1 April 2012. The non-executive Directors do not receive any pension benefits, bonuses or benefits-in-kind.

Details of directors' remuneration is given on page 33.

Shareholders

The shareholders of THFC are listed in the table on page 8. All shareholders of THFC are non-executive directors except for the Homes and Communities Agency and the National Housing Federation who nominate Board members.

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. Investment income is subject to interest rate risk although on occasions rates are fixed on the Group reserves investment income using swap transactions. No swap transactions were entered into during the year (2011: None).

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

The Board is ultimately responsible for reviewing and managing all risks facing the Group. The Audit Committee will initially review and report to the Board on all key significant risks including operational, financial and interest rate risk. The Credit Committee addresses specifically, and reports to the Board on, credit and liquidity risk.

For further information on financial risk management see note 22 to the Financial Statements.

Independent 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 2012

Directors' Attendance at Meetings

	Main Board (6)	Special Board (4)	Audit Committee (2)	Credit Committee (13)
Piers Williamson	6	4	2	13
Fenella Edge	6	4	-	12
Roger Mountford	6	3	1	9
John Parker	5	1	2	7
Keith Exford	6	3	2	-
Gill Rowley	6	1	2	-
Deb Shackleton	5	0	-	7
David Orr	4	2	-	12
Charlie Arbuthnot	6	4	-	10

- indicates not a member or not required to attend
Figures in brackets are the total number of meetings the Director could have attended.

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 and the Port of Dover. He is also Chairman of the CAA Pension Scheme and a member of the Church of England Pensions Board. 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 was, until her retirement in December 2011, 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 was involved in housing and regeneration for over 30 years and her other interests include membership of the North West Regional Leaders Board, Lay Advisor to 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 Non-Executive 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.

Directors continued

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 was also Chair of the Investment Committee of the Department for Work and Pensions and is Vice Chairman of the Newbury Building Society.

Jonathan Walters

Jonathan leads the HCA Regulation’s operational approach to the social housing sector. He is responsible for the four front line regulation teams: Information and Analysis, Financial Analysis & Assurance, Regulatory Engagement and Investigation & Enforcement, ensuring that they work in a coordinated and collaborative manner to deliver effective, timely and proportionate regulation. He has previously worked in both the public and private sectors, including Ernst and Young and social housing consultancy. In addition to his financial expertise, Jonathan holds an MSc in Urban and Regional studies from the University of Birmingham, with a particular interest in regeneration and economic development. Jonathan was appointed to the Board in March 2012.

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 58,000 affordable homes in over 100 local authorities. It is also a major affordable house builder with over 6,000 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 and Chair of the G15 Group of London’s largest housing associations. He is also a Fellow of the Royal Society of Arts and is a trustee of CLIC Sargent, the leading childhood cancer charity.

Piers Williamson
Chief Executive

Piers Williamson was appointed Chief Executive of THFC in October 2002 and joined its Board in 2003. He has nearly 30 years of experience of the UK, US and European financial markets specialising in bank treasury risk management and securitisation.

He holds professional qualifications in both treasury and banking and in addition to his duties at THFC has recently completed a seven year spell as a non executive director of Cooperative Bank and Cooperative Insurance, where he was Chair of the Risk Management Committee. Amongst other matters, Piers oversaw the merger with Britannia between 2009 and 2011.

Piers has also recently been appointed a Non-Executive member of the Regulation Committee of the HCA.

THFC Group Loans

Loans Portfolio as at 31 March 2012

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	London	79,574	-	-	-	-	-	-	79,574
A2Dominion South Limited	South East	2,500	-	2,289	-	-	-	-	4,789
Accent Foundation Limited	National	-	10,598	-	-	-	-	-	10,598
Accent Nene Limited	National	1,762	-	-	-	-	-	-	1,762
Adactus Housing Association Limited	North West	1,665	-	-	-	-	-	-	1,665
Affinity Sutton Homes Limited	National	-	-	2,289	-	-	-	-	2,289
Agudas Israel Housing Association Limited	London	190	-	572	-	-	-	-	762
Aldwyck Housing Group Limited	South East	2,471	1,168	-	-	-	-	-	3,639
AmicusHorizon Limited	London	28,500	13,030	-	-	-	-	-	41,530
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	-	-	3,366	-	-	-	6,366
Axiom Housing Association Limited	East of England	21,764	-	-	-	-	-	-	21,764
Bournville Village Trust	West Midlands	10,000	-	-	-	-	-	-	10,000
Cadwyn Housing Asociation	Wales	2,000	-	-	-	-	-	-	2,000
Cambridge Housing Society Limited	East of England	4,200	-	-	-	-	-	-	4,200
Cardiff Community Housing Association Limited	Wales	7,500	251	-	-	-	-	-	7,751
Castle Rock Edinvar Housing Association Limited	Scotland	5,500							5,500
Catalyst Communities Housing Association Limited	London	3,965	1,168	-	-	-	-	-	5,133
Charter Housing Association Limited	Wales	20,000							20,000
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	7,000	2,245	-	-	-	-	-	9,245
Coastal Housing Group Limited	Wales	15,000	-	-	-	-	-	-	15,000
Connect Housing Association Limited	North East	2,750	-	-	-	5,000	-	-	7,750
Connswater Housing Association Limited	Northern Ireland	4,000	-	-	-	-	-	-	4,000
Contour Homes Limited	North West	2,500	-	-	-	7,243	-	-	9,743
Cotman Housing Association Limited	National	1,500	-	-	-	-	-	-	1,500
Cymdeithas Tai Clwyd Limited	Wales	1,500	-	-	-	-	-	-	1,500
Cymdeithas Tai Eryri Limited	Wales	4,500	-	-	-	-	-	-	4,500
De Montfort Housing Society Limited	West Midlands	5,550	-	-	-	-	-	-	5,550
Derwent Housing Association Limited	East Midlands	10,000	-	-	-	-	-	-	10,000
Devon & Cornwall Housing Limited	South West	22,225	4,820	-	-	-	-	-	27,045
Ducane Housing Association Limited	London	5,000	-	-	-	-	-	-	5,000
Dunfries & Galloway Housing Partnership	Scotland	40,000							40,000
Dunedin Canmore Housing Association Limited	Scotland	16,500							16,500
East Homes Limited	London	1,375	-	-	-	-	-	-	1,375
East Midlands Housing Association Limited	East Midlands	15,000	-	-	-	-	-	-	15,000
Eildon Housing Association Limited	Scotland	-	-	-	-	3,900	-	-	3,900
Equity Housing Group Limited	North West	8,112	314	-	2,192	-	-	-	10,618
Estuary Housing Association Limited	East of England	7,468	584	-	-	-	-	-	8,052
Family Housing Association (Birmingham) Limited	West Midlands	6,000	-	-	-	3,692	-	-	9,692
Family Mosaic Housing	London	43,327	1,527	-	-	-	-	-	44,854
Friendship Care and Housing Limited	East Midlands	2,000	-	-	-	5,500	-	-	7,500
First Wessex	South East	6,963	-	-	-	-	-	-	6,963
Fold Housing Association	Northern Ireland	18,000							18,000
Gateway Housing Association Limited	London	1,250		-	-	6,485	-	-	7,735
Genesis Housing Association Limited	London	56,500				2,000			58,500
Glen Oaks Housing Association Limited	Scotland	14,300	-	-	-	-	-	-	14,300
Grampian Housing Association Limited	Scotland	-	-	-	-	2,792	-	-	2,792
Gravesend Churches Housing Association Limited	South East	-	-	-	-	1,750	-	-	1,750
Great Places Housing Association	North West	25,130	-	572	507	-	-	-	26,209
Habinteg Housing Association Limited	National	-	-	-	-	3,000	-	-	3,000
Hafod Housing Association Limited	Wales	10,000							10,000
Heantun Housing Association Limited	West Midlands	12,000	-	-	-	-	-	-	12,000
Helm Housing Association Limited	Northern Ireland	10,000	-	-	-	-	-	-	10,000
Hexagon Housing Association Limited	London	1,500	225	4,006	-	-	-	-	5,731
Hightown Praetorian and Churches Housing Association Limited	South East	31,100	898	-	-	-	-	-	31,998
Home Group Limited	National	2,225	8,927	11,159	-	-	-	-	22,311
Home (Scotland) Limited	Scotland	20,000	-	-	-	-	-	-	20,000
Hyde Housing Association Limited	London	4,770	-	11,077	-	1,500	-	-	17,347
Innisfree Housing Association Limited	London	3,000	-	-	-	-	-	-	3,000
Irwell Valley Housing Association Limited	North West	-	-	2,289	-	-	-	-	2,289
Islington & Shoreditch Housing Association Limited	London	3,010	-	-	-	3,487	-	-	6,497
Isos Housing Limited	North East	-	-	-	-	5,500	-	-	5,500
Johnnie Johnson Housing Trust Limited	North West	18,500	629	-	-	-	-	-	19,129
Knightstone Housing Association Limited	South West	23,486	9,650	-	-	-	-	-	33,136
Leeds Federated Housing Association Limited	Yorkshire and the Humber	14,300	-	-	-	-	-	-	14,300
Leeds & Yorkshire Housing Association Limited	Y&H*	4,500	-	-	-	-	-	-	4,500
Leicester Housing Association Ltd	East Midlands	20,941	-	-	-	3,000	-	-	23,941
Liverpool Housing Trust Limited	North West	7,000	-	-	-	5,189	-	-	12,189
London & Quadrant Housing Trust	London	31,229	898	-	-	-	-	-	32,127
Longhurst Homes Limited	East Midlands	9,400	-	-	-	-	-	-	9,400
Manningham Housing Association Limited	Yorkshire and the Humber	26,523	-	-	-	2,000	-	-	28,523
Melin Homes Limited	Wales	12,000	-	-	-	-	-	-	12,000
Mercian Housing Association Limited	London	11,448	-	-	-	-	-	-	11,448
Metropolitan Housing Trust Limited	London	54,595	-	1,717	-	-	-	-	56,312
Mid Wales Housing Association Limited	Wales	-	-	1,259	-	-	-	-	1,259
Midland Heart Limited	West Midlands	59,477	8,146	-	-	-	-	-	67,623
Moat Homes Limited	South East	3,500	5,631	-	-	-	-	-	9,131
Moseley & District Churches Housing Association Limited	West Midlands	3,050	-	2,769	1,349	-	-	-	7,168
Mosscare Housing Limited	North West	34,816	-	-	-	-	-	-	34,816
Network Stadium Housing Association Limited	London	69,615	-	-	-	-	-	-	69,615
New Gorbals Housing Association Limited	Scotland	14,000							14,000

THFC Group Loans continued

Fixed Charge Security continued

Association borrower (legal entity)	Area	The Housing Finance Corp Limited Loans £000	T.H.F.C. (Indexed) Limited Loans £000	T.H.F.C. (Indexed 2) Limited Loans £000	T.H.F.C. (First Variable) Limited Loans £000	T.H.F.C. (Social Housing Finance) Limited Loans £000	T.H.F.C. (Capital) PLC Loans £000	UK Rents (No. 1) PLC Loans £000	Total Loan Value £000
Newlon Housing Trust	London	25,000	-	-	-	-	-	-	25,000
Newport Housing Trust Limited	Wales	1,500							1,500
Newydd Housing Association (1974) Limited	Wales	5,000	-	-	-	-	-	-	5,000
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	359	-	-	5,000	-	-	7,859
Notting Hill Housing Trust	London	15,000	-	-	-	-	-	-	15,000
Nottingham Community Housing Association Limited	East Midlands	13,400	-	-	-	-	-	-	13,400
Oaklee Homes Group Limited	Northern Ireland	5,000							5,000
Octavia Housing and Care	London	2,000	-	-	-	3,500	-	-	5,500
One Housing Group Limited	London	44,312	-	-	-	-	-	-	44,312
Origin Housing Limited	South East	5,600	-	-	-	-	-	-	5,600
Oxford Citizens Housing Association Limited	South East	1,500	-	-	1,012	-	-	-	2,512
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	4,792	-	-	-	-	-	-	4,792
Places for People Homes Limited	National	22,050	-	-	-	-	-	-	22,050
Places for People Homes Individual Support Limited	London	4,000	-	-	-	-	-	-	4,000
Portal Housing Association Limited	South West	21,000	-	-	-	-	-	-	21,000
Regenda Limited	North West	3,000	-	3,323	-	2,000	-	-	8,323
Riverside Group Limited	National	18,963	629	-	-	-	-	-	19,592
Sadeh Lok Housing Group Limited	Yorkshire and the Humber	650	-	-	-	-	-	-	650
Salvation Army Housing Association	National	3,000							3,000
Sanctuary Housing Association	National	15,699	1,617	-	-	-	-	-	17,316
Sanctuary (Scotland) Housing Association Limited	Scotland	10,000	-	-	-	-	-	-	10,000
Sentinel Housing Association	South East	10,000	-	-	-	-	-	-	10,000
Soho Housing Association Limited	London	-	-	-	-	1,500	-	-	1,500
South Yorkshire Housing Association Limited	Yorkshire and the Humber	4,257	-	-	-	-	-	-	4,257
Southern Housing Group Limited	London	147,554	2,640	-	-	10,000	-	-	160,194
St Vincent's Housing Association Limited	North West	2,920	-	-	-	4,000	-	-	6,920
Staffordshire Housing Association Limited	West Midlands	8,800	-	-	-	5,300	-	-	14,100
Sutton Housing Society Limited	South East	250	-	-	-	-	-	-	250
Swaythling Housing Society Limited	South West	22,500	-	-	-	-	-	-	22,500
Taff Housing Association Limited	Wales	5,500	-	-	-	1,000	-	-	6,500
Tenants First Housing Co-operative Limited	Scotland	5,000							5,000
Thames Valley Charitable Housing Association Limited	South East	29,647	-	-	-	-	-	-	29,647
Thenue Housing Association Limited	Scotland	5,000							5,000
Three Rivers Housing Association Limited	North East	2,700	-	-	-	1,323	-	-	4,023
Trident Housing Association Limited	West Midlands	5,000	2,425	-	-	-	-	-	7,425
Trinity Housing Limited	Northern Ireland	20,000	-	-	-	-	-	-	20,000
United Welsh Housing Association Limited	Wales	34,500	-	-	-	-	-	-	34,500
Venture Housing Association Limited	North West	3,000	-	-	-	3,250	-	-	6,250
Wales and West Housing Association Limited	Wales	16,500	-	-	-	-	-	-	16,500
Wandle Housing Association Limited	London	21,418	-	-	-	-	-	-	21,418
Waterloo Housing Association Limited	West Midlands	6,000	-	-	-	-	-	-	6,000
Westcountry Housing Association Limited	South West	47,000	-	-	-	-	-	-	47,000
West Kent Housing Association	South East	25,000							25,000
West Mercia Homes Limited	West Midlands	12,500	-	-	-	-	-	-	12,500
Wiltshire Rural Housing Association Limited	South West	938	-	-	-	-	-	-	938
Wirral Methodist Housing Association Limited	North West	5,200	-	-	-	-	-	-	5,200
Womens Pioneer Housing Limited	London	5,000	-	-	-	-	-	-	5,000
Worthing Homes	South East	10,000							10,000
Yorkshire Housing Limited	Yorkshire and the Humber	40,500	-	-	-	-	-	-	40,500
Total Fixed Charge Security		**1,869,676**	**78,379**	**43,321**	**8,426**	**109,411**	**-**	**-**	**2,109,213**

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	-	-	5,723	-	-	-	-	5,723
Arena Housing Group Limited	North West	5,000	-	8,012	-	-	-	-	13,012
Asra Greater London Housing Association Limited	London	7,000	-	-	-	-	-	-	7,000
Barnsbury Housing Association Limited	London	-	-	-	843	-	-	-	843
Black Country Housing Group Limited	West Midlands	7,000	-	-	-	-	-	-	7,000
Bromford Housing Association Limited	West Midlands	4,500	-	1,717	-	-	-	-	6,217
Cheviot Housing Association Limited	North East	14,879	1,706	-	-	-	-	-	16,585
De Montfort Housing Society Limited	West Midlands	4,250	629	-	-	-	-	-	4,879
East Midlands Housing Association Limited	East Midlands	18,000	-	1,316	1,348	-	-	-	20,664
Habinteg Housing Association Limited	National	5,614	-	-	-	-	-	-	5,614
Leicester Housing Association Ltd	East Midlands	-	629	-	943	-	-	-	1,572
Manningham Housing Association Limited	Yorkshire and the Humber	8,000	-	-	-	-	-	-	8,000
Metropolitan Housing Trust Limited	London	6,225	2,066	-	-	-	-	-	8,291
Three Rivers Housing Association Limited	North East	3,000	-	-	-	-	-	-	3,000
Tuntum Housing Association Limited	East Midlands	7,000	-	-	-	-	-	-	7,000
Total Floating Charge Security		**95,968**	**5,030**	**16,768**	**3,134**	**-**	**-**	**-**	**120,900**

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	-	-	-	-	-	-	4,322	4,322
Cheviot Housing Association Limited	North East	-	-	-	-	-	-	6,420	6,420
Contour Homes Limited	North West	-	-	-	-	-	-	4,798	4,798
First Wessex	South East	-	-	-	-	-	-	4,794	4,794
London & Quadrant Housing Trust	London	-	-	-	-	-	-	6,664	6,664
Mercian Housing Association Limited	London	-	-	-	-	-	-	4,849	4,849
Income Cover		**-**	**-**	**-**	**-**	**-**	**-**	**31,847**	**31,847**

Fixed Charge Security – Cash Flow Covenants

Sunderland Housing Company Limited	North East	-	-	-	-	-	583,802	-	583,802
Total		**-**	**-**	**-**	**-**	**-**	**583,802**	**-**	**583,802**
Grand Total		**1,965,744**	**83,409**	**60,088**	**11,561**	**109,411**	**583,802**	**31,847**	**2,845,761**
Premium 31 March 2011									**35,984**
Total at 31 March 2011		**1,965,744**	**83,409**	**60,088**	**11,561**	**109,411**	**583,802**	**31,847**	**2,881,745**

Group Source of Funds

Debenture Stocks, Eurobonds, Bank and Other Loans as at 31 March 2012

			Date	Nominal Amount £000	Outstanding Principal Amount £000
THFC Debenture Stocks					
Discounted:	Zero Coupon 2012		08.12.87	42,257	38,043
	5% 2027		08.12.87	50,954	28,985
Stepped Coupon:	6.58% to 19.60% 2019		02.03.89	9,273	13,205
	7.91% to 19.75% 2019		28.06.89	4,630	6,494
	7.55% to 17.61% 2019		17.08.89	7,860	9,889
	8.44% to 15.98% 2019		11.10.89	2,900	3,546
Conventional Fixed Rate:	12.04% 2021 (Annuity)		02.07.91	15,000	11,135
	11.5% 2016 (Bullet)	tranche 1	27.11.91	64,450	64,450
		tranche 2	27.05.92	32,500	32,500
		tranche 3	20.10.92	74,500	74,500
	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	5,963
	10.0938% 2024 (Annuity)		14.07.95	13,000	8,228
	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 variable repayable 2021			08.03.96	750	338
25 year fixed rate loan 2023 - EIB (Annuity)			26.11.98	24,860	16,638
25 year fixed rate loan 2024 - EIB (Annuity)			02.09.99	33,000	22,792
25 year fixed rate loan 2025 - EIB (Annuity)			08.09.00	10,500	7,672
25 year fixed rate loan - (Bullet)			02.04.01	8,700	8,700
25 year variable repayable 2026			09.11.01	11,000	9,460
25 year sterling facility repayable 2028 (Annuity)			08.09.03	6,740	6,740
25 year sterling fixed loan 2029 (Annuity)			16.06.04	15,000	11,773
25 year revolver into term			14.03.05	15,000	13,500
20 year Fixed and Variable rate loan 2025 - EIB (Bullet)			22.12.05	100,000	100,000
30 year Fixed and Variable rate loan 2040 - EIB (Bullet)			14.11.08	100,000	100,000
20/30 year Fixed and Variable rate loan 2040 - EIB (Bullet)				172,500	162,500
20/30 year Fixed and Variable rate loan 2040 - EIB (Bullet)				172,500	172,500
5 year revolving credit facility variable, repayable 2015			23.03.10	5,000	0
5 year revolving credit facility variable, repayable 2016			28.09.11	10,000	6,000
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
		tranche 4	04.04.11	31,000	31,000
THFC Loan from T.H.F.C. (Funding No.3) Plc					
Long term - 5.2% due 2043 (Bullet)		tranche 1	05.10.11	100,000	69,500
		tranche 2	18.01.12	131,000	116,000
T.H.F.C. (First Variable) Bank Loans					
30 year variable 2023 (Annuity)		tranche 1	30.04.93	2,750	1,847
		tranche 2	21.07.93	7,650	5,135
		tranche 3	17.12.93	4,750	3,189
		tranche 4	30.06.94	2,000	1,343
T.H.F.C. (Indexed) Limited Index Linked Debenture Stocks					
5.65% 2020 (Annuity)		tranche 1	13.11.90	57,840	51,948
		tranche 2	31.03.93	35,000	31,461
T.H.F.C. (Indexed 2) Limited Index Linked Debenture Stocks					
5.50% 2024 (Annuity)		tranche 1	16.12.94	27,750	31,761
		tranche 2	28.12.95	24,750	28,331
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 fixed rate loan 2023 - EIB (Annuity)			26.11.98	2,000	1,323
25 year fixed rate loan 2024 - EIB (Annuity)			02.09.99	16,500	11,423
25 year fixed rate loan 2025 - EIB (Annuity)			08.09.00	14,900	10,364
UK Rents (No.I) Plc Rental Securitisation					
9.10% 2025 (Eurobond)			06.01.95	36,143	31,848
Subordinated Loan			06.01.95	723	723
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	371,000
Total				**3,072,334**	**2,846,455**
Premium at 31 March 2012					**35,984**
Grand Total					**2,882,439**

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 2012 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 9, 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 and Financial Statements 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 2012 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 the Industrial and Provident Societies (Group Accounts) Regulations 1969 and, as regards the Group financial statements, 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.

PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors

London
28 June 2012

Group Statement of Comprehensive Income

For the year ended 31 March 2012

	Notes	2012 £000	2011 £000
Operating Income			
On loans to housing associations			
Interest		**150,409**	135,663
Discount amortised	11	**6,910**	8,231
Premium amortised	11	**(1,965)**	(1,382)
Income from securitised assets	16	**2,920**	3,003
Indexation on investments	11	**7,391**	6,856
Premiums receivable on prepayments		**5,574**	298
Other interest		**343**	315
Fees receivable and other income		**2,908**	2,752
		174,490	155,736
Operating Expenses			
On debenture stocks, secured bonds, bank loans and other loans			
Interest	6	**153,295**	138,637
Discount amortised	14	**6,910**	8,231
Premium amortised	14	**(1,965)**	(1,382)
Indexation on loans payable	14	**7,391**	6,856
Premiums payable on prepayments		**5,574**	298
Administration expenses	3	**2,047**	1,901
		173,252	154,541
Surplus before taxation		**1,238**	1,195
Taxation	7	**(231)**	(142)
Surplus for the year		**1,007**	1,053
Other comprehensive income for the year		**-**	-
Total comprehensive income for the year		**1,007**	1,053

Group Statement of Financial Position

at 31 March 2012

	Notes	2012 £000	2011 £000
Assets			
Non-current assets			
Loans	11	**2,764,546**	2,394,580
Intangible assets	8	**-**	3
Property, plant and equipment	9	**9**	12
Current assets			
Loans	11	**117,199**	74,664
Other receivables	12	**30,077**	30,686
Short-term deposits		**12,530**	10,934
Cash and cash equivalents		**19,010**	11,412
Total assets		**2,943,371**	2,522,291
Liabilities			
Non-current liabilities			
Financial liabilities – borrowings	14	**2,765,240**	2,399,274
Current liabilities			
Deferred tax liabilities	15	**1,099**	2,467
Financial liabilities – borrowings	14	**117,199**	74,664
Trade and other payables	13	**47,377**	35,135
Current tax liabilities		**873**	175
Total Liabilities		**2,931,788**	2,511,715
Equity			
Called up share capital	17	**-**	-
Retained earnings	18	**11,583**	10,576
Total equity		**11,583**	10,576
Total equity and liabilities		**2,943,371**	2,522,291

The financial statements on pages 21 to 48 were approved by the Board of directors on 28 June 2012 and signed on its behalf by:

Roger Mountford
Chairman

Piers Williamson
Director

Colin Burke
Company Secretary

Group Statement of Changes in Equity

For the year ended 31 March 2012

	Called up Share Capital £	Retained earnings £000	Total Equity £000
Balance as at 1 April 2011	5	10,576	10,576
Shares issued in year	2		
Shares redeemed in year	-		
Surplus for the year		1,007	1,007
Other comprehensive income		-	-
Balance as at 31 March 2012	**7**	**11,583**	**11,583**
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

Group Statement of Cash Flows

For the year ended 31 March 2012

	Notes	2012 £000	2011 £000
Cash flows from operating activities			
Cash generated from operations	19	**4,862**	4,421
Interest received on loans to housing associations		**156,444**	132,235
Interest paid on debenture stocks, secured bonds, bank loans and other loans		**(147,216)**	(135,567)
Loans to housing associations		**(475,713)**	(371,449)
Repayment of loans by housing associations		**74,800**	50,480
New borrowings		**471,713**	320,115
Repayment of amounts borrowed		**(74,795)**	(50,651)
Tax paid		**(901)**	(50)
Net cash generated from/(used in) operating activities		**9,194**	(50,466)
Cash flows from investing activities			
Purchase of fixed assets		**-**	(12)
Disposal of available for sale financial asset		**-**	4,005
Movement on short-term deposits		**(1,596)**	(2,646)
Net cash (used in)/generated from investing activities		**(1,596)**	1,347
Net increase/(decrease) in cash and cash equivalents		**7,598**	(49,119)
Cash and cash equivalents at beginning of year		**11,412**	60,531
Cash and cash equivalents at end of year	20	**19,010**	11,412

THFC Statement of Comprehensive Income

For the year ended 31 March 2012

	Notes	2012 £000	2011 £000
Operating income			
On loans to housing associations			
Interest		**108,474**	94,063
Discount amortised	11	**6,898**	8,231
Premium amortised	11	**(1,246)**	(705)
Premiums receivable on prepayments		**5,207**	298
Other interest		**278**	270
Fees receivable and other income		**2,418**	2,258
Dividend from subsidiary undertaking		**350**	-
		122,379	104,415
Operating expenses			
On debenture stocks, bank loans and other loans			
Interest	6	**108,456**	94,049
Discount amortised	14	**6,898**	8,231
Premium amortised	14	**(1,246)**	(705)
Premiums payable on prepayments		**5,207**	298
Administration expenses	3	**2,211**	1,544
		121,526	103,417
Surplus before taxation		**853**	998
Taxation	7	**(38)**	(89)
Surplus for the year		**815**	909
Other comprehensive income		**-**	-
Total comprehensive income for the year		**815**	909

THFC Statement of Financial Position

at 31 March 2012

	Notes	2012 £000	2011 £000
Assets			
Non-current assets			
Loans	11	**1,942,074**	1,578,031
Investment in subsidiaries	10	**350**	-
Current assets			
Loans	11	**50,856**	11,339
Other receivables	12	**26,198**	26,920
Short-term deposits		**6,828**	7,975
Cash and cash equivalents		**8,973**	6,452
Total assets		**2,035,279**	1,630,717
Liabilities			
Non-current liabilities			
Financial liabilities – borrowings	14	**1,942,086**	1,582,040
Current liabilities			
Deferred tax liabilities	15	**1,113**	2,482
Financial liabilities – borrowings	14	**50,856**	11,339
Trade and other payables	13	**32,955**	27,977
Current tax liabilities		**694**	119
Total Liabilities		**2,027,704**	1,623,957
Equity			
Called up share capital	17	**-**	-
Retained earnings	18	**7,575**	6,760
Total equity		**7,575**	6,760
Total equity and liabilities		**2,035,279**	1,630,717

The financial statements on pages 21 to 48 were approved by the Board of directors on 28 June 2012 and signed on its behalf by:

Roger Mountford	Piers Williamson	Colin Burke
Chairman	Director	Company Secretary

THFC Statement of Changes in Equity

For the year ended 31 March 2012

	Called up Share Capital £	Retained earnings £000	Total Equity £000
Balance as at 1 April 2011	5	6,760	6,760
Shares issued in year	2		-
Shares redeemed in year	-		-
Surplus for the year		815	815
Other comprehensive income		-	-
Balance as at 31 March 2012	**7**	**7,575**	**7,575**
Balance as at 1 April 2010	6	5,851	5,851
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**

THFC Statement of Cash Flows

For the year ended 31 March 2012

	Notes	2012 £000	2011 £000
Cash flows from operating activities			
Cash generated from operations	19	**818**	1,282
Interest received on loans to housing associations		**109,054**	90,324
Interest paid on debenture stocks, bank loans and other loans		**(103,668)**	(90,636)
Loans to housing associations		**(453,963)**	(330,199)
New borrowings		**449,963**	278,865
Repayment of amounts borrowed		**(55,305)**	(10,595)
Repayment of loans by housing associations		**55,307**	10,428
Tax paid		**(832)**	-
Net cash generated from/(used in) operating activities		**1,374**	(50,531)
Cash flows from investing activities			
Disposal of available for sale financial asset		**-**	4,005
Movement on short-term deposits		**1,147**	(2,671)
Net cash generated from investing activities		**1,147**	1,334
Net increase/(decrease) in cash and cash equivalents		**2,521**	(49,197)
Cash and cash equivalents at beginning of year		**6,452**	55,649
Cash and cash equivalents at end of year	20	**8,973**	6,452

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 domiciled in the United Kingdom and incorporated under the Industrial and Provident Societies Acts 1965 to 2002 also in the United Kingdom. Funding to housing associations is sourced through issuing debenture stocks, secured bonds, 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 on the going concern basis and under the historical cost convention. A summary of the more important Group accounting policies is set out below.

(i) New and amended standards adopted by the Group for the first time for the financial year starting 1 April 2011

The amendment to IAS 24, 'Related party disclosures' (EU-endorsed 19 July 2010), clarifies the definitions of a related party. The new definition clarifies in which circumstances persons and key management personnel affect related party relationships of an entity. The amendment also introduces an exemption from the general related-party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IFRS 7 (amendment) 'Financial instruments: Disclosures' (EU-endorsed 18 February 2011). This amendment was part of the IASB's annual improvement project published in May 2010. The amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. This amendment requires additional disclosures about collateral held over all financial assets for accounting periods beginning on or after 1 January 2011. Adoption of this amendment did not have any other significant impact on the Group's financial statements.

There are no other standards, interpretations or amendments to existing standards that are effective that would be expected to have a significant impact on the Group.

'Improvements to IFRS' were issued in May 2010 and contain several other amendments to IFRS, which the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2011 and were EU-endorsed on 18 February 2011. No material changes to accounting policies arose as a result of these amendments.

New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2011, but not currently relevant to the Group (although they may affect the accounting for future transactions and events):

- Amendment to IAS 32,'Financial instruments: Presentation – Classification of rights issues' (effective 1 February 2010 and EU-endorsed 23 December 2009).
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments' (effective 1 July 2010 and EU-endorsed 23 January 2010).
- Amendment to IFRS 1, 'First-time adoption of IFRS – Limited exemption from comparative IFRS 7 disclosures for first-time adopters' (effective 1 July 2010 and EU-endorsed 30 June 2010).
- Amendment to IFRIC 14, 'IAS 19 – The limit on defined benefit assets, minimum funding requirements and their interaction' (effective 1 January 2011 and EU-endorsed 19 July 2010).

(ii) New standards, amendments and interpretations issued but not yet endorsed by the EU and not effective for the financial year beginning 1 January 2011 and not early adopted.

- Amendments to IFRS 7,'Financial instruments: Disclosures' on derecognition (effective 1 July 2011).
- Amendment to IFRS 1, 'First time adoption', on fixed dates and hyperinflation (effective 1 July 2011).
- Amendment to IAS 12, 'Income taxes' on deferred tax (effective 1 January 2012).

2. Accounting policies continued

- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income (effective 1 July 2012).
- Amendment to IAS 19, 'Employee benefits' (effective 1 July 2012).
- IFRS 9, 'Financial instruments' (effective 1 January 2015) addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015, subject to its endorsement by the EU.
- IFRS 10, 'Consolidated financial statements' (effective 1 January 2013) 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 of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013, subject to its endorsement by the EU.
- IFRS 11, 'Joint arrangements' (effective 1 January 2013).
- IFRS 12, 'Disclosures of interests in other entities' (effective 1 January 2013).
- IFRS 13, 'Fair value measurement' (effective 1 January 2013).
- IAS 27 (revised 2011), 'Separate financial statements' (effective 1 January 2013).
- IAS 28 (revised 2011), 'Associates and joint ventures' (effective 1 January 2013).

Except where noted, there are no other IFRSs or IFRIC interpretations that are not yet effective and which would be expected to have a material impact on the Group.

Critical Accounting Judgements

The preparation of financial statements in accordance with IFRSs requires the use of certain critical accounting 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 company has a non-beneficial 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. The Company has effective control of the financial and operating policies of all subsidiaries. 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 shares of THFCS are owned by 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 company. Subsidiaries are de-consolidated from the date that control ceases.

2. Accounting policies continued

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the company.

When the Group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting or the retained interest as an associate joint venture or financial asset. In addition any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

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 2011 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
T.H.F.C. (Funding No.3) Holdings Limited Group	Nil	Nil

At 31 December 2011 Harbour Funding (Holdings) Limited Group had loans and receivables of £275,989,307 (2011: £275,982,888), T.H.F.C. (Funding) Holdings Limited Group had loans and receivables of £620,519,464 (2011: £498,018,791) and T.H.F.C. (Funding No.3) Holdings Limited had loans and receivables of £69,811,210 (2011: Nil).

Investments in subsidiaries are stated at cost less provision for impairment where necessary.

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, bank borrowings and other borrowings and hence both loans and funds borrowed are accounted for on a similar basis as set out below:

Loans to HAs are expected to run to contractual maturity and are classified as loans and receivables. Debenture stocks, secured bonds, bank borrowings and other long term 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.

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.

2. Accounting policies continued

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 (or earlier if there is an indication of impairment) whether there is evidence that the loans and receivables are impaired either individually for a particular borrower or collectively across the portfolio. 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) 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.

f) 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.

g) 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 to/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.

h) 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.

i) 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. Fees for services are recognised as the service is provided.

j) 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.

Implementation costs of software are capitalised as intangible fixed assets. They are amortised over the shorter of the term of the licence and their useful economic lives. Their estimated useful economic lives are four years.

There are no internally generated intangible assets.

k) Property, plant and equipment
Property, plant and equipment are stated at cost less depreciation. Cost includes the original purchase price of the asset and the costs attributable to bring the asset to its working condition for its intended use. Depreciation is calculated on a straight line basis to write the assets down to residual value evenly over their estimated useful lives. Residual values and estimated useful lives are reviewed annually.

Plant and equipment 25% per annum

l) Leased assets
Operating lease costs are accounted for on a straight line basis over the lease term through the Statement of Comprehensive Income.

2. Accounting policies continued

m) 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.

n) Pension fund

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

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 IAS 19 represents the employer contribution payable.

3. Administration expenses

	Group 2012 £000	THFC 2012 £000	Group 2011 £000	THFC 2011 £000
Amortisation of intangible fixed assets	**3**	**-**	16	-
Depreciation of property, plant and equipment	**3**	**-**	-	-
Fees paid to auditors for:				
auditing of the financial statements	**49**	**49**	46	46
auditing of the financial statements of subsidiaries	**17**	**-**	16	-
Operating lease rentals				
plant and machinery	**4**	**-**	4	-
other	**62**	**-**	62	-
Staff costs (note 4)	**1,233**	**-**	1,161	-
Other	**676**	**2,162**	596	1,498
Total administration expenses	**2,047**	**2,211**	1,901	1,544

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.

THFC's other costs increased in the year principally due to an additional management charge levied by THFCS in connection with its membership of the SHPS pension scheme.

4. Staff numbers and cost

	Group 2012	Group 2011
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
	17	17

The aggregate employee costs amounted to:

	£000	£000
Directors' fees	**135**	129
Wages & salaries	**892**	838
Social security costs	**101**	94
Other pension costs	**105**	100
	1,233	1,161

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

5. Directors' remuneration

	2012 £000	2011 £000
Non-executive directors:		
Fees	**135**	129
Executive directors:		
Salaries	**309**	306
Bonuses	**46**	45
Benefits	**10**	10
Aggregate emoluments	**500**	490
Pension contributions	**50**	56
Total	**550**	546
Highest paid executive director:		
Salary	**177**	172
Bonus	**26**	25
Benefits	**9**	9
Aggregate emoluments	**212**	206
Pension contributions	**28**	32
Total	**240**	238

The fees of the chairman were £28,428 (2011: £26,816). Each non-executive director received fees at the rate of £17,712 (2011: £16,816) per annum.

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

Fees of £35,424 (2011: £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 (2011: Nil).

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 received fees of £31,089 for services as a non-executive director of Co-operative Financial Services Limited and certain of its subsidiaries for the period up to 30 September 2011.

One non-executive director received additional fees of £1,800 for providing consultancy services to the Group (2011: Nil).

6. Interest payable

	Group 2012 £000	THFC 2012 £000	Group 2011 £000	THFC 2011 £000
On debenture stocks, bank borrowings and other borrowings				
Repayable wholly in more than five years				
Interest payable	**95,981**	**82,404**	109,055	87,539
Interest deferred	**(752)**	**(747)**	(667)	(667)
Repayable within five years	**58,047**	**26,780**	30,195	7,123
On loans repaid in the year	**19**	**19**	54	54
	153,295	**108,456**	138,637	94,049

7. Taxation

	Group 2012 £000	THFC 2012 £000	Group 2011 £000	THFC 2011 £000
U.K. Corporation tax at 26% on surplus for year	**1,599**	**1,407**	173	119
Deferred taxation	**(1,368)**	**(1,369)**	(31)	(30)
	231	**38**	142	89
Reconciliation of tax charge				
Profit before tax	**1,238**	**853**	1,195	998
Tax charge at standard UK corporation tax rate of 26% (2011: 28%)	**322**	**222**	335	280
Reduction in corporation tax rate – deferred	**(93)**	**(93)**	(191)	(191)
Timing differences between accountancy and taxation treatment of expenditure	**(3)**	**-**	(8)	-
Intra Group dividend – non taxable		**(91)**		
Lower rate and marginal rate relief	**(1)**	**-**	(1)	-
Permanently dis-allowable items	**6**	**-**	7	-
Overall tax charge	**231**	**38**	142	89
Effective tax rate	**18.7%**	**4.5%**	11.9%	8.9%

8. Intangible assets

	Group 2012 £000	THFC 2012 £000	Group 2011 £000	THFC 2011 £000
Implementation costs of software				
Cost				
At beginning and end of year	**71**	**-**	71	-
Accumulated amortisation				
At beginning of year	**68**	**-**	52	-
Charge for the year	**3**	**-**	16	-
At end of year	**71**	**-**	68	-
Net book value at end of year	**-**	**-**	3	-
Net book value at beginning of year	**3**	**-**	19	-

9. Property, plant and equipment

	Group 2012 £000	THFC 2012 £000	Group 2011 £000	THFC 2011 £000
Fixtures, fittings and equipment				
Cost				
At beginning of year	**186**	**-**	174	-
Additions	**-**	**-**	12	-
At end of year	**186**	**-**	186	-
Accumulated depreciation				
At beginning of year	**174**	**-**	174	-
Charge for the year	**3**		-	
At end of year	**177**		174	
Net book value at end of year	**9**	**-**	12	-
Net book value at beginning of year	**12**	**-**	-	-

10. Investments

	THFC 2012	THFC 2011
Shares held in subsidiary undertakings		
THFCIL – 6 ordinary shares of £1 each (2011: 4)	**£6**	£4
THFCFV – 5 ordinary shares of £1 each (2011: 3)	**£5**	£3
THFCS – 92 ordinary shares of £1 each (2011: 92)	**£92**	£92
THFCS – 350,000 preference shares of £1 each (2011: Nil)	**£350,000**	-
THFCIL2 – 5 ordinary shares of £1 each (2011: 3)	**£5**	£3
SHF – 5 ordinary shares of £1 each (2011: 3)	**£5**	£3

The Directors believe that the carrying value of its investments is supported by their underlying net assets.

THFCS declared a dividend in the year in the form of 350,000 redeemable preference shares.

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.)

11. Loans and receivables

	Group 2012 £000	THFC 2012 £000	Group 2011 £000	THFC 2011 £000
Loans to housing associations				
At beginning of year	**2,436,455**	**1,589,370**	2,101,722	1,261,135
Discount on new issues	**-**	**-**	-	-
Premium on new issues	**9,213**	**9,213**	16,017	16,017
Loans repaid during the year	**(73,859)**	**(55,307)**	(49,598)	(10,428)
Loans advanced during the year	**466,500**	**444,750**	355,432	315,942
	2,838,309	**1,988,026**	2,423,573	1,582,666
Discount amortised for the year	**6,910**	**6,898**	8,231	8,231
Premium amortised for the year	**(1,965)**	**(1,246)**	(1,382)	(705)
Interest deferred for the year	**(748)**	**(748)**	(822)	(822)
Indexation for the year	**7,391**	**-**	6,855	–
At end of year	**2,849,897**	**1,992,930**	2,436,455	1,589,370
Securitised assets				
At beginning of year (Note 16)	**32,789**	**-**	33,614	-
Loans repaid during the year	**(941)**	**-**	(825)	-
At end of year	**31,848**	**-**	32,789	-
Total loans and receivables	**2,881,745**	**1,992,930**	2,469,244	1,589,370
Due within one year	**117,199**	**50,856**	74,664	11,339
Due after more than one year	**2,764,546**	**1,992,430**	2,394,580	1,578,031
Total	**2,881,745**	**1,992,930**	2,469,244	1,589,370

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, short-term deposits and cash and cash equivalents are dealt with in notes 12 and 20.

Interest rate risk is covered in note 22.

Collateral arrangements on the Group’s loans are included in the Group Report on pages 6 and 7.

Notes to the Accounts continued

12. Other receivables

	Group 2012 £000	THFC 2012 £000	Group 2011 £000	THFC 2011 £000
Due within one year:				
Accrued interest income	**29,281**	**25,592**	29,743	26,171
Other receivables	**796**	**518**	943	721
Amounts due from subsidiary undertaking	**-**	**88**	-	28
	30,077	**26,198**	30,686	26,920

13. Other payables

	Group 2012 £000	THFC 2012 £000	Group 2011 £000	THFC 2011 £000
Due within one year:				
Other creditors	**3,787**	**642**	3,198	285
Accruals and deferred income	**43,590**	**31,715**	31,937	26,927
Amounts due to subsidiary undertakings	**-**	**598**	-	765
	47,377	**32,955**	35,135	27,977

14. Financial liabilities – Borrowings

	Group 2012 £000	THFC 2012 £000	Group 2011 £000	THFC 2011 £000
Eurobonds (Note 16)				
At beginning of year	**32,789**	**-**	33,614	-
Repaid during the year	**(941)**	**-**	(825)	-
At end of year	**31,848**	**-**	32,789	-
Debenture Stocks				
At beginning of year	**1,040,567**	**584,571**	1,067,431	581,455
Repaid during the year	**(57,384)**	**(46,007)**	(39,720)	(3,561)
Discount amortised	**6,707**	**6,695**	8,039	8,039
Premium amortised	**(1,550)**	**(830)**	(1,217)	(540)
Deferred interest	**(752)**	**(747)**	(822)	(822)
Indexation	**7,391**	**-**	6,856	-
At end of year	**994,979**	**543,682**	1,040,567	584,571

	Group 2012 £000	THFC 2012 £000	Group 2011 £000	THFC 2011 £000
Bank borrowings				
At beginning of year	**814,711**	**423,660**	591,759	237,184
Borrowed during the year	**246,000**	**224,250**	234,760	193,510
Repaid during the year	**(16,470)**	**(9,298)**	(11,808)	(7,034)
At end of year	**1,044,241**	**638,612**	814,711	423,660

14. Financial liabilities – Borrowings continued

	Group 2012 £000	THFC 2012 £000	Group 2011 £000	THFC 2011 £000
Loans from T.H.F.C. (Funding No.1) Plc, T.H.F.C. (Funding No.2) Plc and T.H.F.C. (Funding No.3) Plc				
At beginning of year	**585,148**	**585,148**	498,006	498,006
Loans during the year	**216,500**	**216,500**	76,600	76,600
Premium on issue	**9,213**	**9,213**	10,515	10,515
Premium amortised	**(416)**	**(416)**	(165)	(165)
Discount amortised	**203**	**203**	192	192
At end of year	**810,648**	**810,648**	585,148	585,148
Subordinated loans (Note 16)	**723**	**-**	723	-
Total borrowings at 31 March 2012	**2,882,439**	**1,992,942**	2,473,938	1,593,379

	Group 2012 £000	THFC 2012 £000	Group 2011 £000	THFC 2011 £000
Amounts falling due within one year	**117,199**	**50,856**	74,664	11,339
Amounts falling due after one year	**2,765,240**	**1,942,086**	2,399,274	1,582,040
Total	**2,882,439**	**1,992,942**	2,473,938	1,593,379

The above are repayable as follows:

	Group 2012 £000	THFC 2012 £000	Group 2011 £000	THFC 2011 £000
Between one and two years	**33,746**	**8,803**	102,338	82,466
Between two and five years	**306,641**	**197,116**	113,461	24,936
In five years or more	**2,424,853**	**1,736,167**	2,183,475	1,474,638
	2,765,240	**1,942,086**	2,399,274	1,582,040

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 18.

As at 31 March 2012 T.H.F.C. (Funding No.3) Plc had retained bonds of £45.5m (nominal). Retained bonds are bonds that the issuer immediately purchased on closing of the original issue, or a subsequent issue, which can be sold into the market at a future date to fund further draw downs of loans by THFC.

15. Deferred tax liabilities

	Group 2012 £000	THFC 2012 £000	Group 2011 £000	THFC 2011 £000
At beginning of the year	**2,467**	**2,482**	2,498	2,512
Credit/charge against surplus	**(1,275)**	**(1,276)**	160	161
Change in tax rate	**(93)**	**(93)**	(191)	(191)
At end of the year	**1,099**	**1,113**	2,467	2,482

	Group 2012 £000	THFC 2012 £000	Group 2011 £000	THFC 2011 £000
The liability for deferred taxation at the end of the year is as follows:				
Difference between accounting and taxation treatment of discounts	**1,113**	**1,113**	2,482	2,482
Less: taxation losses available for future relief	**-**	**-**	-	-
other timing differences	**(14)**	**-**	(15)	-
Amount provided	**1,099**	**1,113**	2,467	2,482

Deferred taxation at 31 March 2011 was provided at the then enacted corporation tax rate of 26%, down from 28%, effective from 1 April 2011. During the year there were further reductions in rates such that at 31 March 2012 the enacted rate for period after 1 April 2012 became 24%, and deferred taxation at 31 March 2012 has therefore been provided at 24%.

Further reductions to 23% from 1 April 2013 and 22% from 1 April 2014 have been announced but have not yet been enacted and are therefore not recognised in their 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 2012 was £723,000 (2011: £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 £2,920,000 (2011: £3,003,000) 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

	2012 £	2011 £
At beginning of year	**5**	6
Issued in year	**2**	1
Redeemed in year	**-**	(2)
At end of year	**7**	5

18. Retained earnings

	Group 2012 £000	THFC 2012 £000	Group 2011 £000	THFC 2011 £000
Opening reserves	**10,576**	**6,760**	9,523	5,851
Surplus for the year	**1,007**	**815**	1,053	909
Closing reserves	**11,583**	**7,575**	10,576	6,760

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 2012 were £1,951,000 (2011: £1,947,000).

THFC Group's reserves represent its capital and 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 the Group's operations.

19. Reconciliation of surplus to net cash flow from operations

	Group 2012 £000	THFC 2012 £000	Group 2011 £000	THFC 2011 £000
Surplus before taxation	**1,238**	**853**	1,195	998
Interest receivable	**(150,409)**	**(108,474)**	(135,663)	(94,063)
Interest payable	**153,295**	**108,456**	138,637	94,049
Premium receivable on prepayments	**(5,574)**	**(5,207)**	(298)	(298)
Premium payable on prepayments	**5,574**	**5,207**	298	298
Dividend receivable	**-**	**(350)**	-	-
Adjustment for:				
Depreciation and amortisation	**6**	**-**	16	-
Decrease in other receivables	**147**	**143**	389	354
Increase/(decrease) in other payables	**585**	**190**	(153)	(55)
Net cash inflow from operating activities	**4,862**	**818**	4,421	1,283

20. Analysis of changes in net funds

	At 1 April 2011 £000	Cash Flows £000	Other Non-cash Changes £000	At 31 March 2012 £000
Group				
Cash and cash equivalents	11,412	7,598	-	**19,010**
Debt due after 1 year	(2,399,274)	(396,916)	30,950	**(2,765,240)**
Debt due within 1 year	(74,664)	-	(42,535)	**(117,199)**
Short-term deposits	10,934	1,596	-	**12,530**
	(2,451,592)	(387,722)	(11,585)	**(2,850,899)**

	At 1 April 2011 £000	Cash Flows £000	Other Non-cash Changes £000	At 31 March 2012 £000
THFC				
Cash and cash equivalents	6,452	2,521	-	**8,973**
Debt due after 1 year	(1,582,040)	(392,260)	32,214	**(1,942,086)**
Debt due within 1 year	(11,339)	-	(39,517)	**(50,856)**
Short-term deposits	7,975	(1,147)	-	**6,828**
	(1,578,952)	(390,886)	(7,303)	**(1,977,141)**

21. Commitments

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

	Group 2012 £000	Group 2011 £000
Due within 1 year	**67**	64
In the 2nd to 5th year inclusive	**98**	155
Over 5 years	**-**	-
	165	219

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. These specific risks are reviewed within THFC's governance structure as outlined under Risk Management Structure on page 12.

(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 short-term deposits and 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 2013 each 0.5% movement in interest rates gives rise to a £108,932 (2011: £99,652) movement in income for the Group and £81,783 (2011: £75,189) movement 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 expected loss, given default. There are no financial assets of the Group or THFC that are past due or otherwise impaired at 31 March 2012 (2011: None).

Individual exposures to borrowers which represents maximum credit exposures are included in the tables on pages 15 to 17.

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 in either the Group or THFC at 31 March 2012 (2011: None).

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 T.H.F.C. (Funding No. 1) Plc, T.H.F.C. (Funding No. 2) Plc and T.H.F.C. (Funding No. 3) Plc. In connection with T.H.F.C. (Funding No. 2) Plc and T.H.F.C. (Funding No. 3) Plc, THFC, as Trustee, 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 2012 (2011: None).

The maturity profile of financial assets

	Group 2012 £000	THFC 2012 £000	Group 2011 £000	THFC 2011 £000
Loans to HAs	**2,849,897**	**1,992,930**	2,436,455	1,589,370
Securitised assets	**31,848**	**-**	32,789	-
	2,881,745	**1,992,930**	2,469,244	1,589,370
Due within one year	**117,199**	**50,856**	74,664	11,339
Due between one and two years	**33,746**	**8,803**	102,338	82,466
Due between two and five years	**306,641**	**197,116**	113,461	24,936
Due in over five years	**2,424,159**	**1,736,155**	2,178,781	1,470,629
	2,881,745	**1,992,930**	2,469,244	1,589,370

22. Financial risk management continued

Interest rate risk profile of financial assets and financial liabilities

	Group 2012 Financial Liabilities £000	Group 2012 Financial Assets £000	Group 2011 Financial Liabilities £000	Group 2011 Financial Assets £000
Fixed rate	**2,500,422**	**2,500,451**	2,158,356	2,154,342
Floating rate	**381,294**	**381,294**	314,859	314,902
No interest payable	**723**	**-**	723	-
	2,882,439	**2,881,745**	2,473,938	2,469,244

	THFC 2012 Financial Liabilities £000	THFC 2012 Financial Assets £000	THFC 2011 Financial Liabilities £000	THFC 2011 Financial Assets £000
Fixed rate	**1,789,162**	**1,789,150**	1,470,202	1,466,192
Floating rate	**203,780**	**203,780**	123,178	123,178
No interest payable	-	**-**	-	-
	1,992,942	**1,992,930**	1,593,380	1,589,370

The effective interest rates during the year for the Group and THFC were between 0.62% and 12.04%. 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 25.23 years. The corresponding figures for THFC are 6.82% and 19.18 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 2012 £000	THFC 2012 £000	Group 2011 £000	THFC 2011 £000
Within one year	**-**	-	-	-
Between one and two years	**-**	-	-	-
Over two years	**138,500**	64,500	329,000	233,250
	138,500	64,500	329,000	233,250

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

Contractual cash flows

The table below summarises the cash flows payable by the Group from 31 March 2012 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 2012 remain unchanged until the contract maturity. Similarly, on indexed liabilities it has been assumed that the liability is fixed from 31 March 2012.

Group

As at 31 March 2012	Within 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
Contractual interest cash flows	163,168	161,944	475,788	1,826,508
Contractual principal cash flows	117,199	33,746	306,641	2,424,130
Total contractual cash flows	280,367	195,690	782,429	4,250,638

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

22. Financial risk management continued

THFC

31 March 2012	Within 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
Contractual interest cash flows	117,689	117,299	349,221	1,467,117
Contractual principal cash flows	54,073	7,735	193,420	1,728,963
Total contractual cash flows	171,762	125,034	542,641	3,196,080

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

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

Collateral arrangements on the Group's loans are included in the Group Report on pages 6 and 7.

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".

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 benefit 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.

During the year THFCS continued to provide pension benefits based on final salary with a 1/60th accrual rate benefit structure for active members as at 31 March 2007 and on career average revalued earnings with a 1/60th accrual rate benefit structure for new entrants since 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. Since 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. Since 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% and 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 £700,653. 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 £104,554 (2011: £99,938)

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 pensionable earnings growth	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.

The Scheme's 30 September 2011 valuation is currently in progress and will be finalised by 31 December 2012. The results of the 2011 valuation will be included in next year's disclosure note.

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.

23. Pensions continued

New employers 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 new employers joining the Scheme between valuations up until 1 April 2010 do not contribute towards the deficit until two valuations have been completed after their date of joining. New employers joining the Scheme after 1 April 2010 will be liable for past service deficit contributions from the valuation following joining. Contribution rates are changed on the 1 April that falls 18 months after the valuation date.

A copy of the recovery plan, setting out the level of deficit contributions payable and the period for which they will be payable, must be sent to the Pensions Regulator. The Regulator has the power under Part 3 of the Pensions Act 2004 to issue scheme funding directions where it believes that the actuarial valuation assumptions and/or recovery plan are inappropriate. For example, the Regulator could require that the Trustee strengthens the actuarial assumptions (which would increase the scheme liabilities and hence impact on the recovery plan) or impose a schedule of contributions on the Scheme (which would effectively amend the terms of the recovery plan). The Regulator provided a response in respect of the September 2008 actuarial valuation in August 2011, stating that it does not propose to take any scheme funding action under Part 3 of the Pensions Act 2004.

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 reduction in the shortfall of assets compared with liabilities to approximately £497 million, equivalent to a past service funding level of 80%.

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 2012 was £2,123,528 (2011: £1,475,426).

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
T.H.F.C. (Funding No. 3) Plc

The Group earned fees of £125,501 (2011: £127,547) for providing these services and had amounts owing from these companies at 31 March 2012 of £35,773 (2011: £13,365).

During the year THFCS procured the services of one of its Directors, Charlie Arbuthnot, to provide financial consultancy services in relation to a specific project, outside his duties as a Director. During 2012 THFCS was charged £1,800 in relation to this arrangement.

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

THFC received a dividend from THFCS during the year in the form of 350,000 redeemable Preference Shares which carry interest at 2% per annum.

Total loan balances due to T.H.F.C. (Funding No.1) Plc, T.H.F.C. (Funding No.2) Plc and T.H.F.C. (Funding No.3) Plc are disclosed in note 14.

25. Fair values

The fair values of the Group's and THFC's financial assets and liabilities at 31 March 2012 are as follows:

Group	Fair value 2012 £000	Book value 2012 £000	Fair value 2011 £000	Book value 2011 £000
Assets				
Loans receivable	**3,258,435**	**2,881,745**	2,769,013	2,469,244
Trade and other receivables	**30,077**	**30,077**	30,686	30,686
Short term cash deposits	**12,530**	**12,530**	10,934	10,934
Cash and cash equivalents	**19,010**	**19,010**	11,412	11,412
	3,320,052	**2,943,372**	2,822,045	2,522,276
Liabilities				
Financial liabilities-borrowings	**3,259,129**	**2,882,439**	2,773,707	2,473,938
Trade and other payables	**47,377**	**47,377**	35,310	35,310
Deferred and current tax liabilities	**1,972**	**1,972**	2,467	2,467
	3,308,478	**2,931,788**	2,811,484	2,511,715

THFC	Fair value 2012 £000	Book value 2012 £000	Fair value 2011 £000	Book value 2011 £000
Assets				
Loans receivable	**2,225,816**	**1,992,930**	1,804,004	1,589,370
Investments	**350**	**350**	-	-
Trade and other receivables	**26,198**	**26,198**	26,920	26,920
Short term cash deposits	**6,828**	**6,828**	7,975	7,975
Cash and cash equivalents	**8,973**	**8,973**	6,452	6,452
	2,268,165	**2,035,279**	1,845,351	1,630,717
Liabilities				
Financial liabilities-borrowings	**2,225,828**	**1,992,942**	1,808,013	1,593,379
Trade and other payables	**32,955**	**32,955**	27,977	27,977
Deferred and current tax liabilities	**1,807**	**1,807**	2,601	2,601
	2,260,590	**2,027,704**	1,838,591	1,623,957

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.

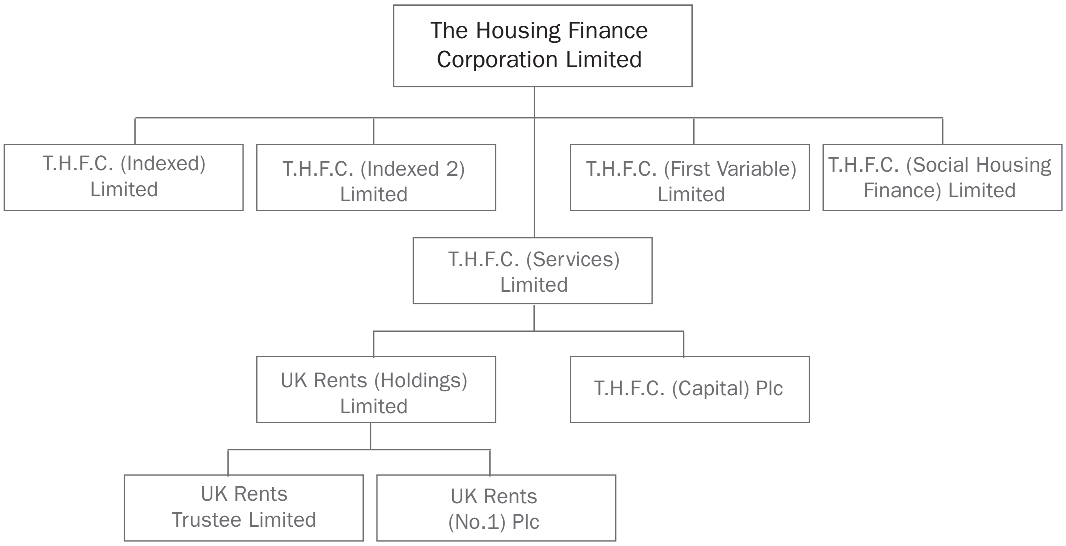
The fair value of debenture stocks, bank loans, other loans and bonds issued is based on estimated market value, or management's best estimate of market value, at 31 March 2012.

Five Year Financial Record

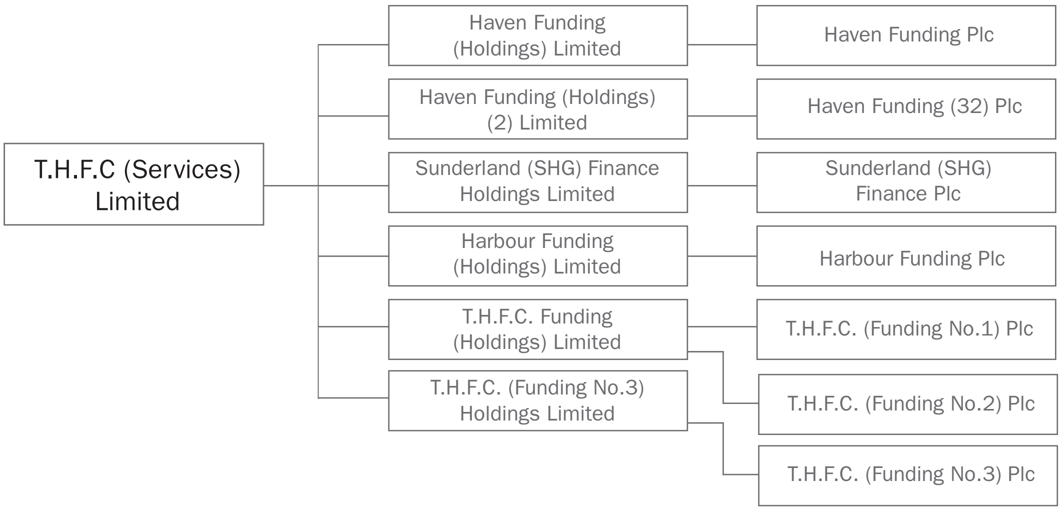
Excluding loan interest and similar items

Year to 31 March	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000
Fees	1,215	1,693	2,777	2,512	**2,731**
Investment income	1,088	979	236	316	**343**
Other income	227	177	255	268	**211**
Total revenues (after interest expense off-set)	2,530	2,849	3,268	3,096	**3,285**
Staff costs	856	900	993	1,048	**1,114**
Non-executive directors costs	97	109	131	143	**149**
Legal/trustees and registrars	230	223	234	250	**270**
Premises	107	125	121	114	**127**
Other	370	334	333	346	**387**
Total operating expenses	1,660	1,691	1,812	1,901	**2,047**
Surplus before tax	867	1,158	1,456	1,195	**1,238**
Tax	107	317	418	142	**231**
Surplus after tax	760	841	1,038	1,053	**1,007**
Accumulated reserves	7,643	8,484	9,523	10,576	**11,583**
	£m	£m	£m	£m	£m
Loans outstanding	1,790	1,898	2,135	2,469	**2,882**
	%	%	%	%	%
Ratio of operating expenses to loan book	0.09	0.09	0.08	0.08	**0.07**

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	T.H.F.C (Funding No.3) Plc		
	Nominal Value **£273,300,000** Issue Date **11.03.97**	Nominal Value **£75,340,000** 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 **£370,850,000** Issue Date **08.07.09**	Nominal Value **£185,500,000** Issue Date **11.10.11**	**=**	**Related Companies Total Nominal outstanding** **£1,629,333,361**
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	Quoted Eurobonds, proceeds on-lent to 17 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	Company Secretariat Finance function Administration		

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

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Provident Society at the FSA
(The Registrar for Friendly Societies)
I+P Registered No: 25862R

Designed and printed by Perivan 225416