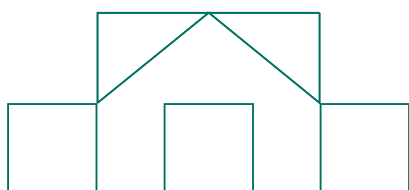


The Housing Finance Corporation Limited
Annual Report and Financial Statements **2013**



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 acts as an aggregating financial intermediary 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.

£3,124m (2012: £2,882M)
THFC GROUP’S LOAN BOOK

£4,173k (2012: £3,251K)
GROUP TOTAL INCOME*

£1,854k (2012: £1,238K)
GROUP PRE-TAX SURPLUS

26 YEAR 100%
CUSTOMER REPAYMENT RECORD

*(includes all fees and investment income on short-term deposits)

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Chairman's Statement

2012/13 was a year which has seen its challenges, but one which shows the Group in sound health, with a record surplus and, for the first time in its history, a loan book exceeding £3bn.

I am delighted to present these financial statements at the close of the year in which THFC marked its 25th year in business. In October 2012 we held our 25th anniversary event at LSO St Lukes. We were both able to welcome over 200 friends old and new and to celebrate THFC's core values. The anniversary was a good time to reflect on, and restate, what makes THFC different:

- THFC is the longest established source of funding for housing associations, with a continuous record of supporting the social and affordable housing sector for over 25 years. No other sector funding provider has so long a continuous record, or a greater range of bonds outstanding.
- We do not conduct our business with the objective of making profits for shareholders. One hundred percent of our surpluses are reinvested into the capital base of our lending business.
- Our management and Board are specialists in the field of housing finance.
- By managing our business prudently and consistently over many years and through different economic conditions, we maintain the reputation of THFC and help our customers sustain their own credit-worthiness, thus preserving the sector's undoubted status in the eyes of investors.
- As the most frequent and largest bond issuer in the social housing market we bring our customers flexibility and efficiency: they can come to market quickly, when market conditions are attractive, frequently, to manage their treasury efficiently, and cheaply by sharing costs.
- When a borrower needs help, with covenants or security, we are straightforward to deal with.
- We believe in fair trading: we deliver what we promise.
- We value the trust of the sector THFC was created to serve.

The fact that the Homes and Communities Agency, which both funds and regulates the housing association sector, and the National Housing Federation continue as

shareholders of THFC, and to appoint directors to our Board, reinforces the unique role of THFC. We greatly value their continuing stewardship.

This was a year which brought challenges, but also showed the Group to be in sound health, with a record surplus and, for the first time in its history, a loan book exceeding £3bn.

The housing association sector has, in general, responded well to the challenging economic environment. However, at a time when the UK's sovereign debt rating has been down-graded for the first time, the sector is not immune to factors affecting the rest of the economy. The reduced grant rate available to support the delivery of new affordable homes has placed a greater reliance on debt to fund development programmes. At the same time, the introduction of various measures under the Welfare Reform Act has the potential to weaken – albeit over a comparatively long time period – the income and cash flows that form the basis of housing associations' business models and funding.

To meet long-term financing needs, housing associations have increasingly looked to the bond market for financing, raising a record amount of £3.1bn in public debt alone in 2012/13. I am pleased to report that THFC played its part, raising £257.6m (including £15m of retained bonds) in the year on behalf of 24 housing associations as well as placing into the market a total of £30m of previously issued retained bonds. THFC's activity has not been confined to the bond market, and we have continued to develop innovative ways to source long-term funds efficiently for the benefit of a very broad range of housing associations. During the year we negotiated a further line of long-term credit from the European Investment Bank: at £400 million this is the largest to date. In addition, several months of work in preparing a comprehensive tender have recently been rewarded by THFC's appointment as exclusive manager of the Government's new Affordable Housing Guarantee Scheme. These highly efficient funding schemes will enable THFC to channel even greater funds into the development of housing across the UK and will assure a high level of lending for the next three years.

Chairman's Statement continued

With the weight of bond issuance completed in 2012/13, we believe that the majority of the Government's Affordable Rents programme has now been funded. We look forward to the outcome of the forthcoming Comprehensive Spending Review (due in June 2013) and the potential for certainty on a rent settlement formula for housing associations for a 10 year period from 2015. This certainty will permit them to plan beyond 2015 and to create vital investment and much needed jobs in construction.

2012/13 saw the first full year of activity of the HCA Regulation Committee, the successor to the Tenant Services Authority ("TSA") as regulator of housing associations. I am pleased to report that THFC's Chief Executive, Piers Williamson, has been appointed a member of the Committee. Our close ties with the HCA continue to be maintained through Jonathan Walters' presence as the HCA nominated representative on the THFC Board. Of course, we manage any conflict of interest that could arise: Jonathan does not serve on our credit committee and Piers stands aside from any case work by the HCA where THFC is a creditor.

The Regulator played an important part in facilitating the most complex rescue of a housing association in the year: Cosmopolitan Housing Association (not a THFC client) was ultimately rescued by Sanctuary Housing Association just before the 2012/13 year end. While the orderly rescue took some months to facilitate, it was important that the nature of the risks to be absorbed were well understood. We believe that this successful outcome will further enhance investors' confidence in the sector.

The year also marked the 9th successive year when THFC's A+ Stable rating from Standard and Poor's was renewed, unchanged. Given the period of massive turbulence in markets during which this has been achieved, we firmly believe the rating is an endorsement of our prudent and consistent lending policies to the sector.

2013 also marks the end of my term as Chairman of THFC. My six years have been a period of intense activity marked by a strong growth in lending – but not growth at any cost. We have invested a great deal of time in our credit underwriting and monitoring processes. In order to develop

our credit management skills further I am particularly pleased to welcome David Stokes to the Executive team in the newly created post of Credit and Risk Manager. David joins THFC from being Head of Corporate Risk at Santander UK.

I am also pleased to report that, following a thorough search process, I am to be succeeded as Chairman by Ian Peacock. Ian's background is detailed elsewhere in the Report and Financial Statements. Suffice it is to say that he brings with him a great pedigree, both as a Chairman and from the two most important areas of expertise for THFC: banking and social housing.

I would like to close by thanking all staff and current and former Board colleagues for their support throughout my six years as Chairman of THFC. It has been a fascinating and hugely constructive period for THFC. I am proud to have played a role in continuing to deliver on the purpose for which the sector established THFC in 1987.

Roger Mountford
Chairman

Chief Executive's Review

2012/13 was another record year for the Group with the surplus after tax reaching a 5 year high of £1.4m, strengthening our balance sheet for the significant growth in our lending book that we expect to see in 2013/14. Through its largest issuing vehicle, T.H.F.C. (Funding No. 3) PLC, THFC issued a total of nearly £290m of long term A+ rated debt in the year, a year which in itself was by far the strongest year for capital markets issuance by housing associations to date. THFC's issuance took its group loan book to over £3bn for the first time: a fitting benchmark in our 25th year of business.

The investment environment became progressively more benign throughout the year as investors sought to put money to work. Credit spreads contracted significantly in the year, reflecting the perceived relative merits of investing in the sector, and since December 2012, lack of housing association bond supply. While the Bank of England did not announce further Quantitative Easing (QE), other unconventional QE, such as so-called 'Funding for Lending' was announced and it is widely assumed that the incoming Governor of the Bank of England, Mark Carney, will continue to support such measures. Hence, long-term interest rates remained very low throughout the year.

We were also successful in obtaining THFC's largest line of credit to date from the European Investment Bank (EIB). The £400m long-term facility was negotiated in 2012/13 but will be allocated throughout 2013/14 to fund the development of Energy Efficient Social Housing. In tandem with this long-term funding, THFC was also appointed as the 'fund manager' for the Greener Affordable Housing Development Fund which is part of the 'JESSICA' initiative. This stands for 'Joint European Support for Sustainable Investment in City Areas', and is an initiative of the European Commission developed in co-operation with the EIB and the Council of Europe Development Bank (CEB) to improve the application of EU Structural Funds. It supports sustainable urban development and regeneration through financial engineering mechanisms – in this case the provision of long-term secured debt. The Fund which THFC manages is part of the JESSICA London Green Fund which applies London's EU Structural Funds along with match funding from the Greater London Authority. THFC's JESSICA funding makes investments in energy efficient retro-fit measures for social housing in London and is used in conjunction with part of the EIB debt facility to invest in energy efficient social housing development in London.

We have worked in conjunction with a number of the larger housing associations to invest EIB's funding and, once this funding is completed, four out of five of our largest customer relationships will be with members of the G15 group of London housing associations.

During the year, we also provided incremental funding to a diverse range of housing associations, throughout the UK. Our two tap transactions along with associated sales of retained bonds delivered cost effective, flexible financing for a total of 25 housing associations. It was particularly pleasing to see £61m of the funding supporting Welsh housing associations and £40m supporting development of social housing in Northern Ireland.

Our long-term credit rating from Standard and Poor's (S&P) was affirmed for the 9th year running at A+ (Stable). Following the downgrade of the vast majority of individual housing associations by the other major rating agency, Moody's (from whom THFC has not sought a rating), there is now more consistency between sector ratings provided by the two largest rating agencies.

THFC's three issuing vehicles: 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 all components in the leading index of non-Gilt Sterling public debt issues, published by iBoxx. T.H.F.C. (Funding No. 3) PLC is the largest single social housing Bond in this index (£488.6m at financial year end, increased by a further tap transaction in April 2013 to £543.8m). Despite the weight of issuance in the year, housing associations still only make up approximately 2% of the iBoxx index. In contrast, utility companies represent 15% of the iBoxx index. Hence we believe that there is scope for significant incremental commitment of long-term capital by the UK annuity, insurance and pension funds that tend to invest in the sector.

Institutional investors have traditionally taken comfort from a number of credit fundamentals when investing or considering investing in the Housing Association Sector. These can be described as four pillars of support:

- the historic injection of significant grant (£43.8Bn to date, according to the Homes and Communities Agency's ("HCA") 2012 Global Accounts)
- Statutory regulation of registered housing associations "Registered Providers" by the HCA Regulation Committee

Chief Executive's Review continued

- The vast majority of investment in the sector is long-term secured finance, backed by mortgages over social and affordable housing stock.
- Broadly between 60 and 70% of rental payments have been supported by Housing Benefit and paid direct by Local Authorities to housing associations.

As a result of a number of specific measures by the UK Government seeking to eliminate the national structural budget deficit, the first and fourth of these pillars have been or will to some degree be weakened. The Affordable Rents development programme has switched subsidy from grant to a revenue-based approach. This does not undermine existing grant, but it means that developing housing associations require a much higher proportion of private finance to develop (albeit in a generally benign interest rate environment). The flexibility to charge Affordable Rents is relatively new and housing associations are still collating data on conversion and arrears rates. The associated new Affordable Rents units are expected to be available to tenants mostly in 2014 and 2015.

This will be supplemented by two features impacting the build for sale market and announced in the Chancellor's March Budget. So-called 'Help to Buy' equity loans and mortgage guarantees, available for a fixed period and combined with the Bank of England's Funding for Lending Scheme, should underpin larger housing associations' build for sale schemes

although neither scheme can currently be used on shared ownership. There is a danger that Help to Buy will have a more fundamental impact on prices, rather than volume of housing output, and developing housing associations should be mindful to learn the lessons of the last development cycle by not committing to large-scale for-sale development late in the current cycle.

The Government is currently considering measures to both encourage the output of an incremental 30,000 homes as well as reach a basis of settlement for an Affordable and Social Rents formula to be in force between 2015 and 2025. The latter will be an important underpin for the financial strength of housing associations in the medium and long-term.

At the same time, all housing associations are coming to terms with the implementation of Government's Welfare Reform Act. The wholesale reform of a suite of different benefits will have a variable impact both regionally and by tenure type and is being phased in over an extended period between 2013 and 2017. Over working-age and vulnerable tenants are deemed outside scope, which should ease the potential impact on housing associations somewhat. However there has been significant concern expressed in the year on the potential impact of under-occupation provisions and the switch to 'benefit direct' (the majority of in-scope tenants will receive their Universal Credit payment directly, once a month). The majority of housing associations have completed their impact studies and have

identified at-risk tenants. Where possible, under-occupying tenants are being encouraged to down-size. The Government is undertaking a series of demonstration projects to test particular features of Universal Credit. However, the scale and complexity of the associated IT systems is of continuing concern and we would view a longer term phasing of the introduction of Universal Credit as permitting both Government and housing associations to prepare adequately.

As we move into a higher risk part of the credit cycle for housing associations, THFC has been keen to reinforce its credit underwriting and portfolio monitoring resources. Hence I join the Chairman in welcoming David Stokes to a new position as THFC's Credit and Risk Manager. David Stokes joined THFC in December and brings considerable senior experience of assessing credit and risk to the team. We have also added a further person to our Finance Team in the year, Sean Bathe-Taylor, and he becomes the fourth member of staff that THFC is supporting towards obtaining a professional qualification.

Finally, at the end of the year in which we marked our 25th year in business, I would like to add my personal thanks to THFC's entire staff for their continued commitment and good humour in producing another year's first rate result. 2014 is set to be a busy and successful year for THFC.

Piers Williamson
Chief Executive

Business and Financial Review

The five-year table on page 47 gives a comparative history of the THFC Group and shows that our loan book has increased by 64.6% while total costs have increased by 47.2% and our total revenues (net of interest expense) by 38.5% over the period.

The THFC Group achieved a pre-tax surplus of £1,854,000 (2012: £1,238,000). 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 2013, as a consequence of another successful year, the Group's reserves have risen from £11.6m to £12.9m. 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 £316.5m (2012: £475.7m) of new money sourced from bond issues and other funders was advanced to housing associations by members of the Group during the year. These loans, prepayments and other changes to our existing loans, produced net lending of £315.4m (2012: £412.5m), before adjustment for indexation and amortisation of premiums and discounts.

As a result the THFC Group loan book stands at £3,124m (2012: £2,882m). 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 147 borrowers (2012: 144).

Our operating expenses were 0.07% (2012: 0.07%) of the £3.1bn (2012: £2.8bn) 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 another strong surplus before and after tax and maintained the ratio of expenses to the loan book.

Group Report

The Housing Finance Corporation Limited (“THFC”) and its subsidiaries (together “the Group”) carry 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 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 (together the “issuing companies”), have between them issued a variety of financial instruments including 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 companies, 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 housing association borrowers on an on-going basis, including measurement against covenant undertakings. All housing association 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 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 14 borrowers who have an element of floating charge security on 29 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-six 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 companies.

UK Rents (No.1) Plc (“UK Rents”)

UK Rents is a subsidiary company established in 1994 solely for purpose of issuing bonds with ratings of AAA (Fitch Ratings) and Aa1 (Moody’s Investor Services) 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.

Affordable Housing Finance Plc (AHF)

AHF, a subsidiary of THFCS, was incorporated during the year as the proposed licensee under the Group’s tender for the Government’s Affordable Housing Guarantee Scheme. This Company did not trade in the period to 31 March 2013.

Reserves

All the issuing companies 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 £12.9m (2012: £11.6m).

Taxation

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

Administration services to related companies

Our service company, THFCS, provides administration and management services to certain related companies. All the related companies lend to the social housing sector. These companies have some common directors with THFC and are regarded as related parties for accounting disclosure purposes.

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 £129,301 (2012: £125,501).

The related companies 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 originally carrying a 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 short-term rating of the liquidity provider (currently Royal Bank of Scotland Plc) which was downgraded during the year to A-1. Funding No. 1’s liquidity facility was renewed in the year and it’s long-term rating assigned A+ to reflect the downgrade of RBS.

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 2013 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 2013 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 to four large-scale voluntary transfer housing associations.

At 31 March 2013 Harbour Funding Plc had loans outstanding of £214,388,676 (nominal).

Directors' Report

The directors present their report and the audited consolidated financial statements of The Housing Finance Corporation Limited and its subsidiaries ("the Group") for the year ended 31 March 2013.

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 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 2013 was £1,854,000 (2012: £1,238,000).

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 and we continue to keep the range of counterparties with whom we are willing to deposit under active review.

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.

Details of directors' terms of office are given on page 10.

Certain restrictions applicable to share capital are detailed in Note 17.

At the forthcoming Annual General Meeting, John Parker, having completed his first

three-year term, will resign and offer himself for re-election.

As a Director appointed to the Board since the last Annual General Meeting, Ian Peacock 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 having completed his six-year term, will not offer himself for re-election. Ian Peacock will offer himself for election as Chairman.

Directors' Remuneration

Details of directors' remuneration are given on page 10.

Management

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

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 2013 | THFC Shareholdings at 31 March 2013 |
|--|-----------------------------------|--|
| Charlie Arbuthnot | Full Year | £1 |
| David Orr | Full Year | NIL |
| Deborah Shackleton | Full Year | £1 |
| Fenella Edge | Full Year | NIL |
| John Parker | Full Year | £1 |
| Jonathan Walters | Full Year | NIL |
| Keith Exford | Full Year | £1 |
| Piers Williamson | Full Year | NIL |
| Roger Mountford | Full Year | £1 |
| Ian Peacock (appointed 1 April 2013) | N/A | NIL |
| Other shareholders | | |
| Homes and Communities Agency (transferred from the TSA 1 April 2012) | | £1 |
| The National Housing Federation | | £1 |
| Total issued share capital at 31 March 2013 | | £7 |

Pension Scheme

All THFC Group employees, but not non-executive Directors, are eligible to 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 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.

Since 1 April 2013 THFC has offered membership of the SHPS scheme on a defined contribution basis.

As a participant in an indivisible multi-employer scheme, it is currently impossible for THFCS to identify its share of the current scheme deficit. Accordingly, no element of the scheme deficit is accounted for in the Group balance sheet. THFCS's share of the deficit on a discontinuance basis would be material, but THFCS has no present intention of leaving the SHPS Scheme. The Board of THFC regularly reviews the risks associated with membership of SHPS, including the possible size of future

contribution requirements and the 'last man standing' and discontinuance risks.

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 THFC's 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 surplus or deficit 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 the Group and THFC will continue in business.

The Directors are responsible for keeping proper 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 ensuring that a satisfactory system of control over transactions has been maintained and 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 THFC'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 THFC'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.

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
Ian Peacock (Chairman designate)
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.

Jonathan Walters is nominated by the Homes and Communities Agency and David Orr 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 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 holds six scheduled meetings each year which cover both standard and ad hoc 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 six 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 approval of all borrowing loan agreements and the standard form of all lending loan agreements.

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, Group Treasurer and the Credit and Risk Manager. 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, Ian Peacock and Charlie Arbutnot as non-executive Directors and Piers Williamson, Fenella Edge and David Stokes, Chief Executive, Group Treasurer and Credit and Risk Manager respectively 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) Jonathan Walters and Keith Exford. The Group Chairman attends by invitation. The Chief Executive and other 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 was convened under the chairmanship of David Orr with Keith Exford, Charlie Arbutnot and Jonathan Walters as non-executive members to recruit the chairman designate, Ian Peacock, who was appointed to the board on 1 April 2013 and offers himself for election as Chairman at the Annual General Meeting.

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 thirteen. Since April 2010, the accounting firm of Smith and Williamson Limited has been appointed to undertake periodic reviews of internal controls.

Directors' Report continued

The Directors considered periodic reports on the effectiveness of internal controls during the period to 26 June 2013 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, Colin Burke and David Stokes, the Chief Executive, Group Treasurer, Company Secretary and Credit and Risk Manager respectively, held those positions throughout the year except for David Stokes who was appointed 19 November 2012. 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 Homes and Communities Agency (Jonathan Walters) were remitted to their employers. The fees of the non-executive Directors were increased by 2.75% on the annual review date of 1 April 2013. 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 (2012: 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.

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.

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
26 June 2013

Directors' Attendance at Meetings

| | Main Board (6) | Special Board (8) | Audit Committee (4) | Credit Committee (14) |
|--------------------|----------------|-------------------|---------------------|-----------------------|
| Charlie Arbutnot | 4 | 2 | - | 11 |
| Fenella Edge | 6 | 8 | - | 14 |
| Keith Exford | 6 | 4 | 4 | - |
| Roger Mountford | 6 | 7 | - | 6 |
| David Orr | 6 | 3 | - | 10 |
| John Parker | 5 | 6 | 4 | 14 |
| Deborah Shackleton | 5 | 2 | - | 9 |
| Jonathan Walters | 5 | 3 | 4 | - |
| Piers Williamson | 6 | 6 | - | 14 |

- 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.



Ian Peacock

Ian brings a wealth of financial experience to THFC, including extensive periods running the Financing Division of Kleinwort Benson and the Merchant Banking operation of Barclays in North America. He was a specialist advisor to the Bank of England between 1998 and 2000. Amongst a number of other non-executive positions, Ian is currently a Non-executive Director of C. Hoare & Co. and Chair of one of the South East's leading Housing Associations: Family Mosaic. Having completed six years as Chair of Family Mosaic, Ian plans to step down from this position later this year.

Ian has had a long and successful career in international financial services. Ian has excellent customer service experience gained as a former Chairman of Mothercare and Deputy Chairman of a software company that develops systems to assess market risk, credit risk and management reporting. He was also a Trustee to a volunteer based charitable organisation with 60,000 volunteers. Ian was appointed to the Board in April 2013.



Charlie Arbuthnot

Charlie Arbuthnot currently works as a financial consultant principally in the social housing 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 social housing sector having arranged borrowings for registered providers 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.



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 4,000 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 and Fenella Edge are the only Executive Directors of the Group.

Directors continued



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.



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.



Deborah Shackleton CBE

Deborah Shackleton was appointed to the Board on 1 April 2011. She is Chairman of The Grainger

Trust, one of the first for-profit Registered Providers. Deborah was, until her retirement, Chief Executive of The Riverside Group, a major housing association serving over 50,000 tenants and has been involved in housing and regeneration for over 30 years. Her other interests include Trustee and Chair of Audit at National Museums Liverpool, and Governor and Chair of Audit at Liverpool John Moores University.



Jonathan Walters

As Deputy Director of Strategy and Performance Jonathan leads the HCA Regulation's Strategy and Performance Team, with

responsibility for a wide range of areas including strategic planning, sector analysis, supporting the supply of private finance as well as registrations and regulation of for profit organisations. 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.



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.

Piers has been a Non-Executive member of the Regulation Committee of the HCA since April 2012.

THFC Group Loans

Loans Portfolio as at 31 March 2013

Fixed Charge Security

| Association borrower (legal entity) | Area | The Housing Finance Corp Limited Loans £000 | T.H.F.C. (Indexed) Limited Loans £000 | T.H.F.C. (Indexed 2) Limited Loans £000 | T.H.F.C. (First Variable) Limited Loans £000 | T.H.F.C. (Social Housing Finance) Limited Loans £000 | T.H.F.C. (Capital) PLC Loans £000 | UK Rents (No. 1) PLC Loans £000 | Total Loan Value £000 |
|--|------------------------|---|---|---|--|--|---|--|--------------------------------|
| A2Dominion Homes Limited | South East | 79,378 | - | - | - | - | - | - | 79,378 |
| A2Dominion South Limited | South East | 2,500 | - | 2,242 | - | - | - | - | 4,742 |
| Accent Foundation Limited | National | - | 9,898 | - | - | - | - | - | 9,898 |
| Accent Nene Limited | East Anglia | 1,733 | - | - | - | - | - | - | 1,733 |
| Accent Peerless Limited | National | 10,000 | - | - | - | - | - | - | 10,000 |
| Accord Housing Association Limited | Midlands | 3,050 | - | 2,712 | 1,242 | - | - | - | 7,004 |
| Adactus Housing Association Limited | North West | 7,064 | - | - | - | - | - | - | 7,064 |
| Affinity Sutton Homes Limited | National | - | - | 2,242 | - | - | - | - | 2,242 |
| Agudas Israel Housing Association Limited | London | 185 | - | 560 | - | - | - | - | 745 |
| Aldwyck Housing Group Limited | South East | 2,347 | 1,090 | - | - | - | - | - | 3,437 |
| AmicusHorizon Limited | London | 28,500 | 12,169 | - | - | - | - | - | 40,669 |
| Apex Housing Association | Northern Ireland | 35,000 | - | - | - | - | - | - | 35,000 |
| Arcon Housing Association Limited | North West | 4,000 | - | - | - | - | - | - | 4,000 |
| Arena Housing Group Limited | North West | - | - | - | - | 6,000 | - | - | 6,000 |
| Asra Housing Association Limited | London | 3,000 | - | - | 3,098 | - | - | - | 6,098 |
| Axiom Housing Association Limited | East Anglia | 21,752 | - | - | - | - | - | - | 21,752 |
| Bournville Village Trust | Midland | 20,000 | - | - | - | - | - | - | 20,000 |
| Cadwyn Housing Association Limited | Wales | 5,000 | - | - | - | - | - | - | 5,000 |
| Cambridge Housing Society Limited | East Anglia | 4,200 | - | - | - | - | - | - | 4,200 |
| Cardiff Community Housing Association Limited | Wales | 7,500 | 235 | - | - | - | - | - | 7,735 |
| Castle Rock Edinvar Housing Association Limited | Scotland | 5,500 | - | - | - | - | - | - | 5,500 |
| Catalyst Housing Limited | London | 3,832 | 1,090 | - | - | - | - | - | 4,922 |
| Charter Housing Association Limited | Wales | 25,000 | - | - | - | - | - | - | 25,000 |
| 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 | 2,097 | - | - | - | - | - | 9,097 |
| Coastal Housing Group Limited | Wales | 35,000 | - | - | - | - | - | - | 35,000 |
| Connect Housing Association Limited | North East | 2,750 | - | - | - | 5,000 | - | - | 7,750 |
| Connswater Homes Limited | Northern Ireland | 4,000 | - | - | - | - | - | - | 4,000 |
| Contour Homes Limited | North West | 2,500 | - | - | - | 6,873 | - | - | 9,373 |
| Cornerstone Housing Limited | South West | 5,000 | - | - | - | - | - | - | 5,000 |
| Cotman Housing Association Limited | East Anglia | 1,500 | - | - | - | - | - | - | 1,500 |
| Cymdeithas Tai Clwyd Limited | Wales | 1,500 | - | - | - | - | - | - | 1,500 |
| Cymdeithas Tai Eryri Limited | Wales | 7,500 | - | - | - | - | - | - | 7,500 |
| De Montfort Housing Society Limited | Midland | 5,550 | - | - | - | - | - | - | 5,550 |
| Derwent Housing Association Limited | East Midlands | 10,000 | - | - | - | - | - | - | 10,000 |
| Devon & Cornwall Housing Limited | South West | 26,646 | 4,501 | - | - | - | - | - | 31,147 |
| Ducane Housing Association Limited | London | 5,000 | - | - | - | - | - | - | 5,000 |
| Dunfries & Galloway Housing Partnership | Scotland | 40,000 | - | - | - | - | - | - | 40,000 |
| Dunedin Canmore Housing Limited | Scotland | 16,500 | - | - | - | - | - | - | 16,500 |
| East Homes Limited | London | 1,364 | - | - | - | - | - | - | 1,364 |
| East Midlands Housing Association Limited | Midlands | 27,000 | - | - | 1,242 | - | - | - | 28,242 |
| Eildon Housing Association Limited | Scotland | 10,000 | - | - | - | 3,900 | - | - | 13,900 |
| Equity Housing Group Limited | North West | 23,055 | 294 | - | 2,018 | - | - | - | 25,367 |
| Estuary Housing Association Limited | East Anglia | 12,363 | 545 | - | - | - | - | - | 12,908 |
| Family Housing Association (Birmingham) Limited | Midlands | 8,500 | - | - | - | 3,653 | - | - | 12,153 |
| Family Mosaic Housing | London | 43,242 | 1,426 | - | - | - | - | - | 44,668 |
| Friendship Care and Housing Limited | Midland | 2,000 | - | - | - | 5,500 | - | - | 7,500 |
| First Wessex | South East | 6,875 | - | - | - | - | - | - | 6,875 |
| Fold Housing Association Limited | Northern Ireland | 18,000 | - | - | - | - | - | - | 18,000 |
| Gateway Housing Association Limited | London | 1,250 | - | - | - | 6,292 | - | - | 7,542 |
| 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 | - | - | - | - | 2,631 | - | - | 2,631 |
| Gravesend Churches Housing Association Limited | South East | - | - | - | - | 1,750 | - | - | 1,750 |
| Great Places Housing Association | North West | 24,980 | - | 560 | 468 | - | - | - | 26,008 |
| Habinteg Housing Association Limited | National | 5,438 | - | - | - | 3,000 | - | - | 8,438 |
| Hafod Housing Association Limited | Wales | 10,000 | - | - | - | - | - | - | 10,000 |
| Harrogate Families Housing Association Limited | Yorkshire & the Humber | 2,000 | - | - | - | - | - | - | 2,000 |
| Heantun Housing Association Limited | Midland | 12,000 | - | - | - | - | - | - | 12,000 |
| Helm Housing Limited | Ireland | 15,000 | - | - | - | - | - | - | 15,000 |
| Hexagon Housing Association Limited | London | 1,500 | 210 | 3,923 | - | - | - | - | 5,633 |
| Hightown Praetorian and Churches Housing Association Limited | South East | 31,100 | 839 | - | - | - | - | - | 31,939 |
| Home Group Limited | National | 2,089 | 8,338 | 10,928 | - | - | - | - | 21,355 |
| Home (Scotland) Limited | Scotland | 20,000 | - | - | - | - | - | - | 20,000 |
| Hyde Housing Association Limited | South East | 4,545 | - | 10,848 | - | 1,500 | - | - | 16,893 |
| Innisfree Housing Association Limited | London | 3,000 | - | - | - | - | - | - | 3,000 |
| Irwell Valley Housing Association Limited | North West | - | - | 2,242 | - | - | - | - | 2,242 |
| Islington & Shoreditch Housing Association Limited | London | 2,990 | - | - | - | 3,295 | - | - | 6,285 |
| Isos Housing Limited | North East | - | - | - | - | 5,500 | - | - | 5,500 |
| Johnnie Johnson Housing Trust Limited | North West | 26,000 | 587 | - | - | - | - | - | 26,587 |
| Knightstone Housing Association Limited | South West | 23,305 | 9,014 | - | - | - | - | - | 32,319 |
| Leeds Federated Housing Association Limited | North East | 14,300 | - | - | - | - | - | - | 14,300 |
| Leeds & Yorkshire Housing Association Limited | North East | 4,250 | - | - | - | - | - | - | 4,250 |
| Leicester Housing Association Limited | Midland | 20,863 | - | - | - | 3,000 | - | - | 23,863 |
| Liverpool Housing Trust Limited | North West | 7,000 | - | - | - | 4,897 | - | - | 11,897 |
| London & Quadrant Housing Trust | London | 31,119 | 839 | - | - | - | - | - | 31,958 |
| Longhurst & Havelok Homes Limited | East Anglia | 9,400 | - | - | - | - | - | - | 9,400 |
| Manningham Housing Association Limited | North East | 26,077 | - | - | - | 2,000 | - | - | 28,077 |
| Melin Homes Limited | Wales | 22,000 | - | - | - | - | - | - | 22,000 |
| Mercian Housing Association Limited | Midland | 10,974 | - | - | - | - | - | - | 10,974 |
| Metropolitan Housing Trust Limited | London | 30,759 | - | 1,681 | - | - | - | - | 32,440 |
| Mid Wales Housing Association Limited | Wales | - | - | 1,233 | - | - | - | - | 1,233 |

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 |
|---|------------------|---|---|---|--|--|---|--|--------------------------------|
| Midland Heart Limited | Midland | 42,864 | 7,608 | - | - | - | - | - | 50,472 |
| Moat Homes Limited | South East | 3,500 | 5,259 | - | - | - | - | - | 8,759 |
| Mossclare Housing Limited | North West | 34,656 | - | - | - | - | - | - | 34,656 |
| Network Stadium Housing Association Limited | London | 114,327 | - | - | - | - | - | - | 114,327 |
| New Gorbals Housing Association Limited | Scotland | 14,000 | - | - | - | - | - | - | 14,000 |
| Newlon Housing Trust | London | 24,982 | - | - | - | - | - | - | 24,982 |
| 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 | 335 | - | - | 5,000 | - | - | 7,835 |
| Notting Hill Housing Trust | London | 15,000 | - | - | - | - | - | - | 15,000 |
| Nottingham Community Housing Association Limited | Midland | 13,400 | - | - | - | - | - | - | 13,400 |
| Oaklee Homes Group Limited | Northern Ireland | 25,000 | - | - | - | - | - | - | 25,000 |
| Octavia Housing | London | 2,000 | - | - | - | 3,500 | - | - | 5,500 |
| One Housing Group Limited | London | 44,114 | - | - | - | - | - | - | 44,114 |
| Origin Housing Limited | South East | 5,600 | - | - | - | - | - | - | 5,600 |
| Oxford Citizens Housing Association Limited | South East | 7,600 | - | - | 931 | - | - | - | 8,531 |
| Paradigm Homes Charitable Housing Association Limited | South East | 60,000 | - | - | - | - | - | - | 60,000 |
| Pembrokeshire Housing Association Limited | Wales | 1,000 | - | - | - | - | - | - | 1,000 |
| Places for People Homes Limited | National | 21,991 | - | - | - | - | - | - | 21,991 |
| 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 | - | 3,254 | - | 2,000 | - | - | 8,254 |
| Riverside Group Limited | National | 43,623 | 587 | - | - | - | - | - | 44,210 |
| Sadeh Lok Housing Group Limited | North East | 650 | - | - | - | - | - | - | 650 |
| Salvation Army Housing Association | London | 3,000 | - | - | - | - | - | - | 3,000 |
| Sanctuary Housing Association | National | 15,035 | 1,510 | - | - | - | - | - | 16,545 |
| Sanctuary (Scotland) Housing Association Limited | Scotland | 10,000 | - | - | - | - | - | - | 10,000 |
| Sentinel Housing Association | South East | 10,000 | - | - | - | - | - | - | 10,000 |
| Soho Housing Association Limited | London | 10,000 | - | - | - | 1,500 | - | - | 11,500 |
| South Yorkshire Housing Association Limited | North East | 4,101 | - | - | - | - | - | - | 4,101 |
| Southern Housing Group Limited | London | 147,142 | 2,466 | - | - | 10,000 | - | - | 159,608 |
| St Vincent's Housing Association Limited | North West | 2,855 | - | - | - | 4,000 | - | - | 6,855 |
| Staffordshire Housing Association Limited | 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 | 29,534 | - | - | - | - | - | - | 29,534 |
| Thenue Housing Association Limited | Scotland | 5,000 | - | - | - | - | - | - | 5,000 |
| Three Rivers Housing Association Limited | North East | 12,550 | - | - | - | 1,243 | - | - | 13,793 |
| Trident Housing Association Limited | Midland | 5,000 | 2,265 | - | - | - | - | - | 7,265 |
| Trinity Housing Limited | Northern Ireland | 20,000 | - | - | - | - | - | - | 20,000 |
| Tuntum Housing Association Limited | Midland | 7,000 | - | - | - | - | - | - | 7,000 |
| 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 | 36,500 | - | - | - | - | - | - | 36,500 |
| Wandle Housing Association Limited | London | 21,418 | - | - | - | - | - | - | 21,418 |
| Waterloo Housing Association Limited | Midland | 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 | Midlands | 12,500 | - | - | - | - | - | - | 12,500 |
| Wiltshire Rural Housing Association Limited | South West | 900 | - | - | - | - | - | - | 900 |
| Wirral Methodist Housing Association Limited | North West | 5,200 | - | - | - | - | - | - | 5,200 |
| Womens Pioneer Housing Limited | London | 10,000 | - | - | - | - | - | - | 10,000 |
| Worthing Homes | South East | 10,000 | - | - | - | - | - | - | 10,000 |
| Yorkshire Housing Limited | North East | 40,500 | - | - | - | - | - | - | 40,500 |
| Total Fixed Charge Security | | 2,136,217 | 73,202 | 42,425 | 8,999 | 108,084 | - | - | 2,368,927 |

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 |
|---|---------------|---|---|---|--|--|---|--|--------------------------------|
| Aldwyck Housing Group Limited | South East | - | - | 5,604 | - | - | - | - | 5,604 |
| Arena Housing Group Limited | North West | 5,000 | - | 7,846 | - | - | - | - | 12,846 |
| Asra Housing Association Limited | London | 7,000 | - | - | - | - | - | - | 7,000 |
| Barnsbury Housing Association Limited | London | - | - | - | 776 | - | - | - | 776 |
| Black Country Housing Group Limited | Midlands | 7,000 | - | - | - | - | - | - | 7,000 |
| Bromford Housing Association Limited | South West | 4,500 | - | 1,681 | - | - | - | - | 6,181 |
| Cheviot Housing Association Limited | North East | 6,974 | 1,594 | - | - | - | - | - | 8,568 |
| De Montfort Housing Society Limited | Midlands | 4,250 | 587 | - | - | - | - | - | 4,837 |
| East Midlands Housing Association Limited | Midlands | 3,000 | - | 1,289 | - | - | - | - | 4,289 |
| Leicester Housing Association Ltd | Midlands | - | 587 | - | 868 | - | - | - | 1,455 |
| Manningham Housing Association Limited | North East | 8,000 | - | - | - | - | - | - | 8,000 |
| Metropolitan Housing Trust Limited | London | 6,089 | 1,929 | - | - | - | - | - | 8,018 |
| Midland Heart Limited | West Midlands | 5,000 | - | - | - | - | - | - | 5,000 |
| Three Rivers Housing Association Limited | North East | 3,000 | - | - | - | - | - | - | 3,000 |
| Total Floating Charge Security | | 59,813 | 4,697 | 16,420 | 1,644 | - | - | - | 82,574 |

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 | - | - | - | - | - | - | 4,178 | 4,178 |
| Cheviot Housing Association Limited | North East | - | - | - | - | - | - | 6,205 | 6,205 |
| Contour Homes Limited | North West | - | - | - | - | - | - | 4,633 | 4,633 |
| First Wessex | South East | - | - | - | - | - | - | 4,637 | 4,637 |
| London & Quadrant Housing Trust | London | - | - | - | - | - | - | 6,440 | 6,400 |
| Mercian Housing Association Limited | London | - | - | - | - | - | - | 4,686 | 4,686 |
| Income Cover | | - | - | - | - | - | - | 30,779 | 30,779 |

Fixed Charge Security – Cash Flow Covenants

| | | | | | | | | | |
|----------------------|------------|---|---|---|---|---|----------------|---|----------------|
| Gentoo Group Limited | North East | - | - | - | - | - | 604,802 | - | 604,802 |
| Total | | - | - | - | - | - | 604,802 | - | 604,802 |

| | | | | | | | | | |
|--------------------|--|------------------|---------------|---------------|---------------|----------------|----------------|---------------|------------------|
| Grand Total | | 2,196,030 | 77,899 | 58,845 | 10,643 | 108,084 | 604,802 | 30,779 | 3,087,082 |
|--------------------|--|------------------|---------------|---------------|---------------|----------------|----------------|---------------|------------------|

| | | | | | | | | | |
|------------------------------|--|--|--|--|--|--|--|--|---------------|
| Premium 31 March 2013 | | | | | | | | | 36,910 |
|------------------------------|--|--|--|--|--|--|--|--|---------------|

| | | | | | | | | | |
|-------------------------------|--|------------------|---------------|---------------|---------------|----------------|----------------|---------------|------------------|
| Total at 31 March 2013 | | 2,196,030 | 77,899 | 58,845 | 10,643 | 108,084 | 604,802 | 30,779 | 3,123,992 |
|-------------------------------|--|------------------|---------------|---------------|---------------|----------------|----------------|---------------|------------------|

Group Source of Funds

Debenture Stocks, Eurobonds, Bank and Other Loans as at 31 March 2013

| | Date | Nominal Amount £000 | Outstanding Principal Amount £000 | | |
|---|-------------------------|------------------------|--------------------------------------|------------------|---------|
| THFC Debenture Stocks | | | | | |
| Discounted: | 5% 2027 | 08.12.87 | 50,954 | 29,579 | |
| Stepped Coupon: | 6.58% to 19.60% 2019 | 02.03.89 | 9,273 | 12,813 | |
| | 7.91% to 19.75% 2019 | 28.06.89 | 4,630 | 6,323 | |
| | 7.55% to 17.61% 2019 | 17.08.89 | 7,860 | 9,661 | |
| | 8.44% to 15.98% 2019 | 11.10.89 | 2,900 | 3,489 | |
| Conventional Fixed Rate: | 12.04% 2021 (Annuity) | 02.07.91 | 15,000 | 10,456 | |
| | 11.5% 2016 (Bullet) | tranche 1 | 27.11.91 | 60,250 | 60,250 |
| | | tranche 2 | 27.05.92 | 28,500 | 28,500 |
| | | tranche 3 | 20.10.92 | 72,600 | 72,600 |
| | 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 | 5,623 | |
| | 10.0938% 2024 (Annuity) | 14.07.95 | 13,000 | 7,877 | |
| | 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 | 300 | |
| 25 year fixed rate loan 2023 - EIB (Annuity) | | 26.11.98 | 24,860 | 15,633 | |
| 25 year fixed rate loan 2024 - EIB (Annuity) | | 02.09.99 | 33,000 | 21,506 | |
| 25 year fixed rate loan 2025 - EIB (Annuity) | | 08.09.00 | 10,500 | 7,288 | |
| 25 year fixed rate loan - ANTS (from Sep 2003) (Bullet) | | 02.04.01 | 8,700 | 8,700 | |
| 25 year variable repayable 2026 | | 09.11.01 | 11,000 | 9,130 | |
| 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 | 11,119 | |
| 25 year revolver into term | | 14.03.05 | 15,000 | 12,750 | |
| 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 | |
| 30 year Fixed and Variable rate loan 2040 - EIB (Bullet) | | 04.12.09 | 172,500 | 172,500 | |
| 30 year Fixed and Variable rate loan 2040 - EIB (Bullet) | | 04.12.09 | 172,500 | 172,500 | |
| 5 year revolving credit facility variable, repayable 2015 | | 23.03.10 | 5,000 | 5,000 | |
| 5 year revolving credit facility variable, repayable 2016 | | 28.09.11 | 10,000 | 3,000 | |
| 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 | 139,500 | 124,000 | |
| | tranche 2 | 18.01.12 | 144,000 | 129,000 | |
| | tranche 3 | 18.04.12 | 93,000 | 93,000 | |
| | tranche 4 | 20.09.12 | 112,100 | 112,100 | |
| T.H.F.C. (First Variable) Bank Loans | | | | | |
| 30 year variable 2023 (Annuity) | tranche 1 | 30.04.93 | 2,750 | 1,699 | |
| | tranche 2 | 21.07.93 | 7,650 | 4,725 | |
| | tranche 3 | 17.12.93 | 4,750 | 2,935 | |
| | tranche 4 | 30.06.94 | 2,000 | 1,236 | |
| T.H.F.C. (Indexed) Limited Index Linked Debenture Stocks | | | | | |
| 5.65% 2020 (Annuity) | tranche 1 | 13.11.90 | 41,734 | 48,517 | |
| | tranche 2 | 31.03.93 | 28,490 | 29,385 | |
| T.H.F.C. (Indexed 2) Limited Index Linked Debenture Stocks | | | | | |
| 5.50% 2024 (Annuity) | tranche 1 | 16.12.94 | 29,025 | 31,162 | |
| | tranche 2 | 28.12.95 | 22,988 | 27,685 | |
| 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 | 1,243 | |
| 25 year fixed rate loan 2024 - EIB (Annuity) | | 02.09.99 | 16,500 | 10,782 | |
| 25 year fixed rate loan 2025 - EIB (Annuity) | | 08.09.00 | 14,900 | 9,758 | |
| UK Rents (No. 1) Plc Rental Securitisation | | | | | |
| 9.10% 2025 (Eurobond) | | 06.01.95 | 36,143 | 30,779 | |
| Subordinated Loans | | | 723 | 723 | |
| T.H.F.C. (Capital) Plc Loans | | | | | |
| Long term loan - 6.38% due 2042 | | 26.03.01 | 212,802 | 212,802 | |
| Fixed and variable rate loans | | 26.03.01 | 475,000 | 392,000 | |
| Total | | | 3,275,477 | 3,087,773 | |
| Premium at 31 March 2013 | | | | 36,910 | |
| Grand Total | | | | 3,124,683 | |

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 2013 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 Statement of Directors' Responsibilities 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 & 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 2013 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
26 June 2013

Group Statement of Comprehensive Income

For the year ended 31 March 2013

| | Notes | 2013 £000 | 2012 £000 |
|--|-------|----------------|--------------|
| Operating Income | | | |
| On loans to housing associations | | | |
| Interest receivable | | 168,193 | 150,409 |
| Discount amortised | 11 | 5,215 | 6,910 |
| Premium amortised | 11 | (2,332) | (1,965) |
| Income from securitised assets | 16 | 2,826 | 2,920 |
| Indexation on investments | 11 | 4,687 | 7,391 |
| Premiums receivable on prepayments | | - | 5,574 |
| Other interest | | 407 | 343 |
| Fees receivable and other income | | 3,766 | 2,908 |
| | | 182,762 | 174,490 |
| Operating Expenses | | | |
| On debenture stocks, secured bonds, bank loans and other loans | | | |
| Interest payable | 6 | 170,997 | 153,295 |
| Discount amortised | 14 | 5,215 | 6,910 |
| Premium amortised | 14 | (2,332) | (1,965) |
| Indexation on loans payable | 14 | 4,687 | 7,391 |
| Premiums payable on prepayments | | - | 5,574 |
| Administration expenses | 3 | 2,341 | 2,047 |
| | | 180,908 | 173,252 |
| Surplus before taxation | | 1,854 | 1,238 |
| Taxation | 7 | (444) | (231) |
| Surplus for the year | | 1,410 | 1,007 |
| Other comprehensive income for the year | | - | - |
| Total comprehensive income for the year | | 1,410 | 1,007 |

Group Statement of Financial Position

at 31 March 2013

| | Notes | 2013 £000 | 2012 £000 |
|-------------------------------------|-------|------------------|--------------|
| Assets | | | |
| Non-current assets | | | |
| Loans | 11 | 3,031,804 | 2,764,546 |
| Intangible assets | 8 | - | - |
| Property, plant and equipment | 9 | 3 | 9 |
| Current assets | | | |
| Loans | 11 | 92,188 | 117,199 |
| Other receivables | 12 | 31,124 | 30,077 |
| Short-term deposits | | 16,175 | 12,530 |
| Cash and cash equivalents | | 22,068 | 19,010 |
| Total assets | | 3,193,362 | 2,943,371 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Financial liabilities – borrowings | 14 | 3,032,495 | 2,765,240 |
| Deferred tax liabilities | 15 | 124 | 1,099 |
| Current liabilities | | | |
| Financial liabilities – borrowings | 14 | 92,188 | 117,199 |
| Trade and other payables | 13 | 54,827 | 47,377 |
| Current tax liabilities | | 735 | 873 |
| Total Liabilities | | 3,180,369 | 2,931,788 |
| Equity | | | |
| Called up share capital | 17 | - | - |
| Retained earnings | 18 | 12,993 | 11,583 |
| Total equity | | 12,993 | 11,583 |
| Total equity and liabilities | | 3,193,362 | 2,943,371 |

The financial statements on pages 21 to 48 were approved by the Board of directors on 26 June 2013 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 2013

| | Called up Share Capital £ | Retained earnings £000 | Total Equity £000 |
|------------------------------------|------------------------------------|------------------------------|-------------------------|
| Balance as at 1 April 2012 | 7 | 11,583 | 11,583 |
| Shares issued in year | - | | |
| Shares redeemed in year | - | | |
| Surplus for the year | | 1,410 | 1,410 |
| Other comprehensive income | | - | - |
| Balance as at 31 March 2013 | 7 | 12,993 | 12,993 |
| | | | |
| 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 |

Group Statement of Cash Flows

For the year ended 31 March 2013

| | Notes | 2013 £000 | 2012 £000 |
|--|-------|------------------|--------------|
| Cash flows from operating activities | | | |
| Cash generated from operations | 19 | 4,265 | 4,862 |
| Interest received on loans to housing associations | | 167,634 | 156,444 |
| Interest paid on debenture stocks, secured bonds, bank loans and other loans | | (163,637) | (147,216) |
| Loans to housing associations | | (316,448) | (475,713) |
| Repayment of loans by housing associations | | 80,927 | 74,800 |
| New borrowings | | 316,515 | 471,713 |
| Repayment of amounts borrowed | | (80,994) | (74,795) |
| Tax paid | | (1,559) | (901) |
| Net cash generated from operating activities | | 6,703 | 9,194 |
| Cash flows from investing activities | | | |
| Movement on short-term deposits | | (3,645) | (1,596) |
| Net cash (used in) investing activities | | (3,645) | (1,596) |
| Net increase in cash and cash equivalents | | | |
| Cash and cash equivalents at beginning of year | | 19,010 | 11,412 |
| Cash and cash equivalents at end of year | 20 | 22,068 | 19,010 |

THFC Statement of Comprehensive Income

For the year ended 31 March 2013

| | Notes | 2013 £000 | 2012 £000 |
|---|-------|----------------|--------------|
| Operating income | | | |
| On loans to housing associations | | | |
| Interest receivable | | 126,029 | 108,474 |
| Discount amortised | 11 | 5,201 | 6,898 |
| Premium amortised | 11 | (1,529) | (1,246) |
| Premiums receivable on prepayments | | - | 5,207 |
| Other interest | | 309 | 278 |
| Fees receivable and other income | | 3,291 | 2,418 |
| Dividend from subsidiary undertaking | | 350 | 350 |
| | | 133,651 | 122,379 |
| Operating expenses | | | |
| On debenture stocks, bank loans and other loans | | | |
| Interest payable | 6 | 126,019 | 108,456 |
| Discount amortised | 14 | 5,201 | 6,898 |
| Premium amortised | 14 | (1,529) | (1,246) |
| Premiums payable on prepayments | | - | 5,207 |
| Administration expenses | 3 | 2,387 | 2,211 |
| | | 132,078 | 121,526 |
| Surplus before taxation | | 1,573 | 853 |
| Taxation | 7 | (287) | (38) |
| Surplus for the year | | 1,286 | 815 |
| Other comprehensive income | | - | - |
| Total comprehensive income for the year | | 1,286 | 815 |

THFC Statement of Financial Position

at 31 March 2013

| | Notes | 2013 £000 | 2012 £000 |
|-------------------------------------|-------|------------------|--------------|
| Assets | | | |
| Non-current assets | | | |
| Loans | 11 | 2,208,205 | 1,942,074 |
| Investment in subsidiaries | 10 | 700 | 350 |
| Current assets | | | |
| Loans | 11 | 16,826 | 50,856 |
| Other receivables | 12 | 27,414 | 26,198 |
| Short-term deposits | | 8,799 | 6,828 |
| Cash and cash equivalents | | 12,987 | 8,973 |
| Total assets | | 2,274,931 | 2,035,279 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Financial liabilities – borrowings | 14 | 2,208,216 | 1,942,086 |
| Deferred tax liabilities | 15 | 136 | 1,113 |
| Current liabilities | | | |
| Financial liabilities – borrowings | 14 | 16,826 | 50,856 |
| Trade and other payables | 13 | 40,220 | 32,955 |
| Current tax liabilities | | 672 | 694 |
| Total Liabilities | | 2,266,070 | 2,027,704 |
| Equity | | | |
| Called up share capital | 17 | - | - |
| Retained earnings | 18 | 8,861 | 7,575 |
| Total equity | | 8,861 | 7,575 |
| Total equity and liabilities | | 2,274,931 | 2,035,279 |

The financial statements on pages 21 to 48 were approved by the Board of directors on 26 June 2013 and signed on its behalf by:

Roger Mountford
Chairman

Piers Williamson
Director

Colin Burke
Company Secretary

THFC Statement of Changes in Equity

For the year ended 31 March 2013

| | Called up Share Capital £ | Retained earnings £000 | Total Equity £000 |
|------------------------------------|------------------------------------|------------------------------|-------------------------|
| Balance as at 1 April 2012 | 7 | 7,575 | 7,575 |
| Shares issued in year | - | | - |
| Shares redeemed in year | - | | - |
| Surplus for the year | | 1,286 | 1,286 |
| Other comprehensive income | | - | - |
| Balance as at 31 March 2013 | 7 | 8,861 | 8,861 |
| 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 |

THFC Statement of Cash Flows

For the year ended 31 March 2013

| | Notes | 2013 £000 | 2012 £000 |
|---|-------|----------------|--------------|
| Cash flows from operating activities | | | |
| Cash generated from operations | 19 | 412 | 818 |
| Interest received on loans to housing associations | | 125,430 | 109,054 |
| Interest paid on debenture stocks, bank loans and other loans | | (118,571) | (103,668) |
| Loans to housing associations | | (290,450) | (453,963) |
| Repayment of loans by housing associations | | 61,174 | 55,307 |
| New borrowings | | 290,451 | 449,963 |
| Repayment of amounts borrowed | | (61,174) | (55,305) |
| Tax paid | | (1,287) | (832) |
| Net cash generated from operating activities | | 5,985 | 1,374 |
| Cash flows from investing activities | | | |
| Movement on short-term deposits | | (1,971) | 1,147 |
| Net cash (used in)/generated from investing activities | | (1,971) | 1,147 |
| Net increase in cash and cash equivalents | | | |
| Cash and cash equivalents at beginning of year | | 8,973 | 6,452 |
| Cash and cash equivalents at end of year | 20 | 12,987 | 8,973 |

Notes to the Financial Statements

1. General Information

The Housing Finance Corporation Limited (“THFC” or “the Company”) provides funding for housing associations. THFC is a private limited company domiciled and incorporated in the United Kingdom under the Industrial and Provident Societies Acts 1965 to 2002. Funding to housing associations is sourced through issuing debenture stocks, secured bonds, bank funding and long-term loans from related companies. 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.

There are no new standards or interpretations or amendments to existing standards that have been applied for the first time in the current reporting period.

(ii) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 April 2012 but not currently relevant to the Group (although they may affect the accounting for future transactions and events).

- Amendment to IAS 12, ‘Income taxes’ on deferred tax on investment properties (effective 1 January 2012).
- Amendment to IFRS 7, ‘Financial instruments: Transfers of financial instruments’ (effective 1 July 2011).

(iii) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2012 and not early adopted.

- Amendment to IAS 1, ‘Financial statement presentation’ regarding other comprehensive income (effective 1 July 2012).
- IAS 19 (revised 2011), ‘Employee benefits’ (effective 1 January 2013).
- Amendment to IAS 32, ‘Financial instruments: Presentation on offsetting financial assets and financial liabilities’ (effective 1 January 2014 and EU endorsed) clarifies the situations where offsetting should or should not be used but this is not expected to have significant impact on the Group.
- Amendment to IFRS 7, ‘Financial instruments: Disclosure on offsetting financial assets and financial liabilities’ (effective 1 January 2013 and EU endorsed) requires additional disclosures on the use of offset in the statement of financial position and collateral available further to mitigate risks. The Group intends to adopt this amendment in the next accounting period.
- 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 does not believe that the new standard will necessitate a change to its current amortised cost treatment for all financial instruments but this will be kept under review pending further changes to the standard which is expected to be adopted no later than the accounting period beginning on or after 1 April 2015, subject to endorsement by the EU.
- IFRS 10, ‘Consolidated financial statements’ (effective 1 January 2013 and EU endorsed from 1 January 2014, with earlier adoption permitted) 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 in the process of assessing the full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 April 2014.

2. Accounting policies continued

- IFRS 11, 'Joint arrangements' (effective 1 January 2013 and EU endorsed from 1 January 2014, with earlier adoption permitted).
- IFRS 12, 'Disclosures of interests in other entities' (effective 1 January 2013 and EU endorsed from 1 January 2014, with earlier adoption permitted).
- Amendment to IFRS 10, 11, 12 'Transitional Guidance' (effective 1 January 2013 and EU endorsed).
- IFRS 13, 'Fair value measurement' (effective 1 January 2013 and EU endorsed from 1 January 2013).
- IAS 27 (revised 2011), 'Separate financial statements' (effective 1 January 2013 and EU endorsed from 1 January 2014, with earlier adoption permitted).
- IAS 28 (revised 2011), 'Associates and joint ventures' (effective 1 January 2013 and EU endorsed from 1 January 2014, with earlier adoption permitted).
- Amendment to IFRS 10, 12 and IAS 27 'Consolidation for investment entities' (effective 1 January 2014 and not yet EU endorsed).
- Amendment to IFRS 1, 'First time adoption', on hyperinflation and fixed dates (effective 1 July 2011 and EU endorsed from 1 January 2013).
- Amendment to IFRS 1 'First time adoption' on government loans (effective 1 January 2013 and EU endorsed).
- 'Annual Improvements 2011' contain several other amendments to IFRS, which the IASB considers non-urgent but necessary. The amendments are effective for annual periods beginning on or after 1 January 2013 and were endorsed by the EU in March 2013. No material changes to accounting policies arise as a result of these amendments.

Except where noted, IFRSs or IFRIC interpretations that are not yet effective are not 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 companies in which the Group 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, T.H.F.C. (Capital) PLC ("THFCC") and Affordable Housing Finance PLC ("AHF") 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, AHF and UKRH, and UKRH owns all of the shares of both UKRT and UKR1 so THFCS, THFCC, AHF, 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.

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.

Notes to the Financial Statements continued

2. Accounting policies continued

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 for 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 2012 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 2012 Harbour Funding (Holdings) Limited Group had loans and receivables of £275,996,184 (2012: as at 31 December 2011 £275,989,307), T.H.F.C. (Funding) Holdings Limited Group had loans and receivables of £620,001,614 (2012: as at 31 December 2011 £620,519,464) and T.H.F.C. (Funding No.3) Holdings Limited had loans and receivables of £454,981,033 (2012: as at 31 December 2011 £69,811,210).

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 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 housing associations 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 housing associations 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, bank borrowings and other borrowings are also stated at amortised cost.

Specific types of loan

(i) Stepped coupon loans and debenture stocks

Stepped coupon loans to housing associations and the related debenture stocks 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 housing associations and the related indexed-linked debenture stocks were issued with a fixed, pre-indexation schedule of semi-annual payments over the life of the instrument. After an initial period during which the payments include no amortisation of principal, subsequent payments are of a constant amount for the rest of the term of the instrument, with no additional final repayment at the end of the term.

Indexation is applied to each semi-annual payment by adjusting the payment amount by the percentage rise in the retail prices index (RPI), published eight months before the payment date, over the RPI published eight months before the instrument's issue date.

Certain of the bonds and their associated loans were issued at a premium to the instrument's nominal value. This did not affect the semi-annual payments.

For accounting purposes any initial issue premium is amortised over the term of the instrument and credited semi-annually to the statement of comprehensive income. Each semi-annual payment is divided into an interest payment and a repayment of principal, so that the amounts credited semi-annually to the statement of comprehensive income as interest and amortisation of premium, as adjusted for inflation, together give a constant yield to maturity on the outstanding indexed amortised principal at each payment date over the life of the instrument.

Indexed loans to borrowers and liabilities to bond investors are stated in the balance sheet at the indexed, amortised amount as at the latest semi-annual payment date plus an amount equal to any indexed unamortised premium at that date.

2. Accounting policies continued

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 and the Company assess 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 housing associations 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.

Notes to the Financial Statements continued

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 2013 £000 | THFC 2013 £000 | Group 2012 £000 | THFC 2012 £000 |
|--|-----------------------|----------------------|-----------------------|----------------------|
| Amortisation of intangible fixed assets | - | - | 3 | - |
| Depreciation of property, plant and equipment | 6 | - | 3 | - |
| Fees paid to auditors for: | | | | |
| auditing of the financial statements | 51 | 51 | 49 | 49 |
| auditing of the financial statements (prior year) | 12 | 12 | - | - |
| auditing of the financial statements of subsidiaries | 17 | - | 17 | - |
| Operating lease rentals | | | | |
| plant and machinery | 4 | - | 4 | - |
| other | 62 | - | 62 | - |
| Staff costs (note 4) | 1,375 | - | 1,233 | - |
| Other | 814 | 2,324 | 676 | 2,162 |
| Total administration expenses | 2,341 | 2,387 | 2,047 | 2,211 |

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

4. Staff numbers and cost

| | Group 2013 | Group 2012 |
|---|---------------|---------------|
| Average number of persons (including directors) employed during the year (monthly average): | | |
| Non-executive Directors | 7 | 7 |
| Executive Directors | 2 | 2 |
| Management and administrative | 10 | 8 |
| | 19 | 17 |
| The aggregate employee costs amounted to: | | |
| | £000 | £000 |
| Directors' fees | 140 | 135 |
| Wages & salaries | 998 | 892 |
| Social security costs | 121 | 101 |
| Other pension costs | 116 | 105 |
| | 1,375 | 1,233 |

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

| | 2013 £000 | 2012 £000 |
|---|--------------|--------------|
| Non-executive directors: | | |
| Fees | 140 | 135 |
| Executive directors: | | |
| Salaries | 345 | 309 |
| Bonuses | 48 | 46 |
| Benefits | 10 | 10 |
| Aggregate emoluments | 543 | 500 |
| Pension contributions | 49 | 50 |
| Total | 592 | 550 |
| Highest paid executive director: | | |
| Salary | 209 | 177 |
| Bonus | 27 | 26 |
| Benefits | 9 | 9 |
| Aggregate emoluments | 245 | 212 |
| Pension contributions | 29 | 28 |
| Total | 274 | 240 |

The fees of the chairman were £29,256 (2012: £28,428). Each non-executive director received fees at the rate of £18,344 (2012: £17,712) per annum.

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

Fees of £36,688 (2012: £35,424) 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 (2012: Nil).

One non-executive director received additional fees of £Nil (2012: £1,800) for providing consultancy services to the Group.

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

On 1 April 2012 Piers Williamson was appointed to the Regulatory Committee of the Homes and Communities Agency ("HCA"). He received fees for this, and other services to the HCA, amounting to £12,375.

6. Interest payable

| | Group 2013 £000 | THFC 2013 £000 | Group 2012 £000 | THFC 2012 £000 |
|---|-----------------------|----------------------|-----------------------|----------------------|
| On debenture stocks, bank borrowings and other borrowings | | | | |
| Repayable wholly in more than five years | | | | |
| Interest payable | 114,250 | 100,635 | 95,981 | 82,404 |
| Interest deferred | (848) | (848) | (752) | (747) |
| Repayable within five years | 56,434 | 25,071 | 58,047 | 26,780 |
| On loans repaid in the year | 1,161 | 1,161 | 19 | 19 |
| | 170,997 | 126,019 | 153,295 | 108,456 |

Notes to the Financial Statements continued

7. Taxation

| | Group 2013 £000 | THFC 2013 £000 | Group 2012 £000 | THFC 2012 £000 |
|---|-----------------------|----------------------|-----------------------|----------------------|
| U.K. Corporation tax at 24% (2012: 26%) on taxable surplus for year | 1,419 | 1,264 | 1,599 | 1,407 |
| Deferred taxation | (975) | (977) | (1,368) | (1,369) |
| | 444 | 287 | 231 | 38 |
| Reconciliation of tax charge | | | | |
| Profit before tax | 1,854 | 1,573 | 1,238 | 853 |
| Tax charge at standard UK corporation tax rate of 24% (2012: 26%) | 444 | 377 | 322 | 222 |
| Reduction in corporation tax rate – deferred | (6) | (6) | (93) | (93) |
| Timing differences between accountancy and taxation | | | | |
| treatment of expenditure | 3 | - | (3) | - |
| Intra Group dividend – non taxable | - | (84) | - | (91) |
| Lower rate and marginal rate relief | (1) | - | (1) | - |
| Permanently dis-allowable items | 4 | - | 6 | - |
| Overall tax charge | 444 | 287 | 231 | 38 |
| Effective tax rate | 24.0% | 18.3% | 18.7% | 4.5% |

8. Intangible assets

| | Group 2013 £000 | THFC 2013 £000 | Group 2012 £000 | THFC 2012 £000 |
|--------------------------------------|-----------------------|----------------------|-----------------------|----------------------|
| Implementation costs of software | | | | |
| Cost | | | | |
| At beginning and end of year | 71 | - | 71 | - |
| Accumulated amortisation | | | | |
| At beginning of year | 71 | - | 68 | - |
| Charge for the year | - | - | 3 | - |
| At end of year | 71 | - | 71 | - |
| Net book value at end of year | - | - | - | - |
| Net book value at beginning of year | - | - | 3 | - |

9. Property, plant and equipment

| | Group 2013 £000 | THFC 2013 £000 | Group 2012 £000 | THFC 2012 £000 |
|--------------------------------------|-----------------------|----------------------|-----------------------|----------------------|
| Fixtures, fittings and equipment | | | | |
| Cost | | | | |
| At beginning and end of year | 186 | - | 186 | - |
| Accumulated depreciation | | | | |
| At beginning of year | 177 | - | 174 | - |
| Charge for the year | 6 | - | 3 | - |
| At end of year | 183 | - | 177 | - |
| Net book value at end of year | 3 | - | 9 | - |
| Net book value at beginning of year | 9 | - | 12 | - |

10. Investments

| | THFC 2013 £ | THFC 2012 £ |
|--|-------------------|-------------------|
| Shares held in subsidiary undertakings | | |
| THFCIL – 6 ordinary shares of £1 each (2012: 6) | 6 | 6 |
| THFCFV – 5 ordinary shares of £1 each (2012: 5) | 5 | 5 |
| THFCS – 92 ordinary shares of £1 each (2012: 92) | 92 | 92 |
| THFCS – 700,000 preference shares of £1 each (2012: 350,000) | 700,000 | 350,000 |
| THFCIL2 – 5 ordinary shares of £1 each (2012: 5) | 5 | 5 |
| SHF – 5 ordinary shares of £1 each (2012: 5) | 5 | 5 |
| | 700,113 | 350,113 |

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 (2012: 350,000 redeemable preference shares).

THFC beneficially owns directly or indirectly 100% of the ordinary share capital of THFCIL, THFCIL2, THFCFV, SHF, THFCC, THFCS, AHF, 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 2013 £000 | THFC 2013 £000 | Group 2012 £000 | THFC 2012 £000 |
|---------------------------------|-----------------------|----------------------|-----------------------|----------------------|
| Loans to housing associations | | | | |
| At beginning of year | 2,849,897 | 1,992,930 | 2,436,455 | 1,589,370 |
| Discount on new issues | (3,115) | (3,115) | - | - |
| Premium on new issues | 5,966 | 5,966 | 9,213 | 9,213 |
| Loans repaid during the year | (79,858) | (61,174) | (73,859) | (55,307) |
| Loans advanced during the year | 313,600 | 287,600 | 466,500 | 444,750 |
| | 3,086,490 | 2,222,207 | 2,838,309 | 1,988,026 |
| Discount amortised for the year | 5,215 | 5,201 | 6,910 | 6,898 |
| Premium amortised for the year | (2,332) | (1,529) | (1,965) | (1,246) |
| Interest deferred for the year | (847) | (848) | (748) | (748) |
| Indexation for the year | 4,687 | - | 7,391 | - |
| At end of year | 3,093,213 | 2,225,031 | 2,849,897 | 1,992,930 |
| Securitised assets | | | | |
| At beginning of year (Note 16) | 31,848 | - | 32,789 | - |
| Loans repaid during the year | (1,069) | - | (941) | - |
| At end of year | 30,779 | - | 31,848 | - |
| Total loans and receivables | 3,123,992 | 2,225,031 | 2,881,745 | 1,992,930 |
| Due within one year | 92,188 | 16,826 | 117,199 | 50,856 |
| Due after more than one year | 3,031,804 | 2,208,205 | 2,764,546 | 1,942,074 |
| Total | 3,123,992 | 2,225,031 | 2,881,745 | 1,992,930 |

Loans have been made to housing associations on similar interest rate and repayment terms as those on which the Group was able to raise the finance. Each loan is secured by a combination of:

- either a floating charge secured on the undertakings of the relevant housing association, 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 1.35 times cover);
- a first fixed charge over cash and investments representing monies lent by the Group pending investment in assets and a first fixed charge over any assets acquired by the relevant housing association with those monies; and
- for discounted loans, a sinking fund comprising monies paid by the relevant housing association 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.

The maturity profile of the above loans is detailed in Note 22.

Collateral arrangements on the Group's loans are included in Note 22.

Notes to the Financial Statements continued

12. Other receivables

| | Group 2013 £000 | THFC 2013 £000 | Group 2012 £000 | THFC 2012 £000 |
|---|-----------------------|----------------------|-----------------------|----------------------|
| Due within one year: | | | | |
| Accrued interest income | 29,842 | 26,191 | 29,281 | 25,592 |
| Other receivables | 1,282 | 955 | 796 | 518 |
| Amounts due from subsidiary undertaking | - | 268 | - | 88 |
| | 31,124 | 27,414 | 30,077 | 26,198 |

13. Other payables

| | Group 2013 £000 | THFC 2013 £000 | Group 2012 £000 | THFC 2012 £000 |
|--|-----------------------|----------------------|-----------------------|----------------------|
| Due within one year: | | | | |
| Accruals and deferred income | 50,950 | 39,163 | 43,590 | 31,715 |
| Other creditors | 3,877 | 463 | 3,787 | 642 |
| Amounts due to subsidiary undertakings | - | 594 | - | 598 |
| | 54,827 | 40,220 | 47,377 | 32,955 |

14. Financial liabilities – Borrowings

| | Group 2013 £000 | THFC 2013 £000 | Group 2012 £000 | THFC 2012 £000 |
|------------------------|-----------------------|----------------------|-----------------------|----------------------|
| Eurobonds (Note 16) | | | | |
| At beginning of year | 31,848 | - | 32,789 | - |
| Repaid during the year | (1,069) | - | (941) | - |
| At end of year | 30,779 | - | 31,848 | - |
| Debenture Stocks | | | | |
| At beginning of year | 994,979 | 543,682 | 1,040,567 | 584,571 |
| Repaid during the year | (65,162) | (53,726) | (57,384) | (46,007) |
| Discount amortised | 4,961 | 4,947 | 6,707 | 6,695 |
| Premium amortised | (1,759) | (956) | (1,550) | (830) |
| Deferred interest | (848) | (848) | (752) | (747) |
| Indexation | 4,687 | - | 7,391 | - |
| At end of year | 936,858 | 493,099 | 994,979 | 543,682 |

| | Group 2013 £000 | THFC 2013 £000 | Group 2012 £000 | THFC 2012 £000 |
|--------------------------|-----------------------|----------------------|-----------------------|----------------------|
| Bank borrowings | | | | |
| At beginning of year | 1,044,241 | 638,612 | 814,711 | 423,660 |
| Borrowed during the year | 41,000 | 15,000 | 246,000 | 224,250 |
| Repaid during the year | (14,698) | (7,449) | (16,470) | (9,298) |
| At end of year | 1,070,543 | 646,163 | 1,044,241 | 638,612 |

14. Financial liabilities – Borrowings continued

| | Group 2013 £000 | THFC 2013 £000 | Group 2012 £000 | THFC 2012 £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 | 810,648 | 810,648 | 585,148 | 585,148 |
| Loans during the year | 272,600 | 272,600 | 216,500 | 216,500 |
| Premium on issue | 5,966 | 5,966 | 9,213 | 9,213 |
| Discount on issue | (3,115) | (3,115) | - | - |
| Premium amortised | (573) | (573) | (416) | (416) |
| Discount amortised | 254 | 254 | 203 | 203 |
| At end of year | 1,085,780 | 1,085,780 | 810,648 | 810,648 |
| Subordinated loans (Note 16) | 723 | - | 723 | - |
| Total borrowings at 31 March 2013 | 3,124,683 | 2,225,042 | 2,882,439 | 1,992,942 |

| | Group 2013 £000 | THFC 2013 £000 | Group 2012 £000 | THFC 2012 £000 |
|-------------------------------------|-----------------------|----------------------|-----------------------|----------------------|
| Amounts falling due within one year | 92,188 | 16,826 | 117,199 | 50,856 |
| Amounts falling due after one year | 3,032,495 | 2,208,216 | 2,765,240 | 1,942,086 |
| Total | 3,124,683 | 2,225,042 | 2,882,439 | 1,992,942 |

Amounts falling due after one year are repayable as follows:

| | Group 2013 £000 | THFC 2013 £000 | Group 2012 £000 | THFC 2012 £000 |
|----------------------------|-----------------------|----------------------|-----------------------|----------------------|
| Between one and two years | 38,729 | 8,084 | 33,746 | 8,803 |
| Between two and five years | 312,289 | 188,082 | 306,641 | 197,116 |
| In five years or more | 2,681,477 | 2,012,050 | 2,424,853 | 1,736,167 |
| | 3,032,495 | 2,208,216 | 2,765,240 | 1,942,086 |

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.

As at 31 March 2013 T.H.F.C. (Funding No.3) Plc had retained bonds of £32.5m (nominal) (2012: £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.

Notes to the Financial Statements continued

15. Deferred tax liabilities

| | Group 2013 £000 | THFC 2013 £000 | Group 2012 £000 | THFC 2012 £000 |
|-------------------------------|-----------------------|----------------------|-----------------------|----------------------|
| At beginning of the year | 1,099 | 1,113 | 2,467 | 2,482 |
| Credit/charge against surplus | (969) | (971) | (1,275) | (1,276) |
| Change in tax rate | (6) | (6) | (93) | (93) |
| At end of the year | 124 | 136 | 1,099 | 1,113 |

| | Group 2013 £000 | THFC 2013 £000 | Group 2012 £000 | THFC 2012 £000 |
|---|-----------------------|----------------------|-----------------------|----------------------|
| The liability for deferred taxation at the end of the year is as follows: | | | | |
| Difference between accounting and taxation treatment of discounts | 136 | 136 | 1,113 | 1,113 |
| Less: taxation losses available for future relief | - | - | - | - |
| other timing differences | (12) | - | (14) | - |
| Amount provided | 124 | 136 | 1,099 | 1,113 |

Deferred taxation at 31 March 2012 was provided at the then enacted corporation tax rate of 24%, effective from 1 April 2012. During the year there were further reductions in rates such that at 31 March 2013 the enacted rate for the period after 1 April 2013 became 23%, and deferred taxation at 31 March 2013 has therefore been provided at 23%.

Further reductions to 21% from 1 April 2014 and 20% from 1 April 2015 have been announced but have not yet been enacted and are therefore not recognised in these financial statements.

16. Securitisation transaction

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

Each housing association which sold rent receivables has provided UKR1 with a subordinated loan to act as a reserve for its obligations. The total of such loans outstanding at 31 March 2013 was £723,000 (2012: £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 £2,826,000 (2012: £2,920,000) 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

| | 2013 £ | 2012 £ |
|----------------------|-----------|-----------|
| At beginning of year | 7 | 5 |
| Issued in year | - | 2 |
| At end of year | 7 | 7 |

The Board of THFC may in its discretion admit to membership any individual or entity including nominees of unincorporated bodies. Shares cannot be withdrawn but upon a member ceasing to be a director the share is cancelled and the paid up amount added to reserves. The rules of THFC prescribe that surpluses cannot be distributed to members. All members enter into a declaration of trust in respect of their shares in favour of THFC.

18. Retained earnings

| | Group 2013 £000 | THFC 2013 £000 | Group 2012 £000 | THFC 2012 £000 |
|----------------------|-----------------------|----------------------|-----------------------|----------------------|
| Opening reserves | 11,583 | 7,575 | 10,576 | 6,760 |
| Surplus for the year | 1,410 | 1,286 | 1,007 | 815 |
| Closing reserves | 12,993 | 8,861 | 11,583 | 7,575 |

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 2013 were £1,955,000 (2012: £1,951,000).

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. THFC is not subject to any capital requirement.

19. Reconciliation of surplus to net cash flow from operations

| | Group 2013 £000 | THFC 2013 £000 | Group 2012 £000 | THFC 2012 £000 |
|---|-----------------------|----------------------|-----------------------|----------------------|
| Surplus before taxation | 1,854 | 1,573 | 1,238 | 853 |
| Interest receivable | (168,193) | (126,029) | (150,409) | (108,474) |
| Interest payable | 170,997 | 126,019 | 153,295 | 108,456 |
| Premium receivable on prepayments | - | - | (5,574) | (5,207) |
| Premium payable on prepayments | - | - | 5,574 | 5,207 |
| Dividend receivable | - | (350) | - | (350) |
| Adjustment for: | | | | |
| Depreciation and amortisation | 6 | - | 6 | - |
| (Increase)/decrease in other receivables | (486) | (618) | 147 | 143 |
| (Decrease)/increase in other payables | 87 | (183) | 585 | 190 |
| Net cash inflow from operating activities | 4,265 | 412 | 4,862 | 818 |

Notes to the Financial Statements continued

20. Analysis of changes in net funds

| | At 1 April 2012 £000 | Cash Flows £000 | Other Non-cash Changes £000 | At 31 March 2013 £000 |
|---------------------------|-------------------------------|-----------------------|--------------------------------------|--------------------------------|
| Group | | | | |
| Cash and cash equivalents | 19,010 | 3,058 | - | 22,068 |
| Debt due after 1 year | (2,765,240) | (235,521) | (31,734) | (3,032,495) |
| Debt due within 1 year | (117,199) | - | 25,011 | (92,188) |
| Short-term deposits | 12,530 | 3,645 | - | 16,175 |
| | (2,850,899) | (228,818) | (6,723) | (3,086,440) |

| | At 1 April 2012 £000 | Cash Flows £000 | Other Non-cash Changes £000 | At 31 March 2013 £000 |
|---------------------------|-------------------------------|-----------------------|--------------------------------------|--------------------------------|
| THFC | | | | |
| Cash and cash equivalents | 8,973 | 4,014 | - | 12,987 |
| Debt due after 1 year | (1,942,086) | (229,277) | (36,853) | (2,208,216) |
| Debt due within 1 year | (50,856) | - | 34,030 | (16,826) |
| Short-term deposits | 6,828 | 1,971 | - | 8,799 |
| | (1,977,141) | (223,292) | (2,823) | (2,203,256) |

21. Commitments

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

| | Group 2013 £000 | Group 2012 £000 |
|----------------------------------|-----------------------|-----------------------|
| Due within 1 year | 67 | 67 |
| In the 2nd to 5th year inclusive | 36 | 98 |
| Over 5 years | - | - |
| | 103 | 165 |

Undrawn committed facilities from lenders are given in Note 22.

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 investing of THFC's reserves is also approved by the Board.

Based on the investment income budget for the year ended 31 March 2014 each 0.5% increase/decrease in interest rates gives rise to a £119,582 (2012: £108,932) increase/decrease in income for the Group and £80,200 (2012: £81,783) increase/decrease 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.

Individual exposures to borrowers which represents maximum credit exposures are included in the tables on pages 15 to 17 and represent the carrying values in the statement of financial position.

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 2013 (2012: None).

The maturity profile of financial assets is given below.

Collateral arrangements

The majority of borrowers provide fixed charge security on specified properties although the lending companies offer housing associations the ability to secure their loans by way of floating charges, subject to appropriate asset cover tests. There are 14 borrowers who have an element of floating charge security on 29 loans. Each lending 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.

(c) Liquidity risk

The Group mitigates liquidity risk in a number of ways. In general borrowers' payments are received one month prior to the Group's obligation to pay lenders, 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 companies 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 holds an interest service reserve, as Trustee, 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 2013 (2012: None).

Notes to the Financial Statements continued

22. Financial risk management continued

The maturity profile of financial assets

| | Group 2013 £000 | THFC 2013 £000 | Group 2012 £000 | THFC 2012 £000 |
|--------------------------------|-----------------------|----------------------|-----------------------|----------------------|
| Loans to housing associations | 3,093,213 | 2,225,031 | 2,849,897 | 1,992,930 |
| Securitised assets | 30,779 | - | 31,848 | - |
| | 3,123,992 | 2,225,031 | 2,881,745 | 1,992,930 |
| Due within one year | 92,188 | 16,826 | 117,199 | 50,856 |
| Due between one and two years | 38,729 | 8,084 | 33,746 | 8,803 |
| Due between two and five years | 306,176 | 184,606 | 306,641 | 197,116 |
| Due in over five years | 2,686,899 | 2,015,515 | 2,424,159 | 1,736,155 |
| | 3,123,992 | 2,225,031 | 2,881,745 | 1,992,930 |

Interest rate risk profile of loans and borrowings

| | Group 2013 Borrowings £000 | Group 2013 Loans £000 | Group 2012 Borrowings £000 | Group 2012 Loans £000 |
|---------------------|-------------------------------------|--------------------------------|-------------------------------------|--------------------------------|
| Fixed rate | 2,743,805 | 2,743,789 | 2,500,422 | 2,500,451 |
| Floating rate | 380,155 | 380,203 | 381,294 | 381,294 |
| No interest payable | 723 | - | 723 | - |
| | 3,124,683 | 3,123,992 | 2,882,439 | 2,881,745 |

| | THFC 2013 Financial Liabilities £000 | THFC 2013 Financial Assets £000 | THFC 2012 Financial Liabilities £000 | THFC 2012 Financial Assets £000 |
|---------------------|--|---|--|---|
| Fixed rate | 2,067,482 | 2,067,471 | 1,789,162 | 1,789,150 |
| Floating rate | 157,560 | 157,560 | 203,780 | 203,780 |
| No interest payable | - | - | - | - |
| | 2,225,042 | 2,225,031 | 1,992,942 | 1,992,930 |

The effective interest rates during the year for the Group and THFC were between 0.75% and 12.04%. The weighted average interest rate on both fixed financial liabilities and fixed financial assets of the Group is 6.29% and the weighted average period for which interest rates are fixed is 18.15 years. The corresponding figures for THFC are 6.225% and 20.05 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 2013 £000 | THFC 2013 £000 | Group 2012 £000 | THFC 2012 £000 |
|---------------------------|-----------------------|----------------------|-----------------------|----------------------|
| Within one year | - | - | - | - |
| Between one and two years | - | - | - | - |
| Over two years | 497,500 | 449,500 | 138,500 | 64,500 |
| | 497,500 | 449,500 | 138,500 | 64,500 |

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

Contractual cash flows

The table below summarises the cash flows payable by the Group from 31 March 2013 until contractual maturity of all its bond, debenture stock 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 2013 remain unchanged until the contract maturity. Similarly, on indexed liabilities it has been assumed that the liability is fixed from 31 March 2013.

22. Financial risk management continued

| Group | Within 1 year £000 | Between 1 and 2 years £000 | Between 2 and 5 years £000 | Over 5 years £000 | Total £000 |
|-------------------------------------|-----------------------------------|---|---|----------------------------------|-----------------------|
| As at 31 March 2013 | | | | | |
| Contractual interest cash flows | 174,099 | 172,558 | 486,628 | 2,054,424 | 2,887,709 |
| Contractual principal cash flows | 90,217 | 36,681 | 306,176 | 2,668,550 | 3,101,624 |
| Total contractual cash flows | 264,316 | 209,239 | 792,804 | 4,722,974 | 5,989,333 |
| As at 31 March 2012 | | | | | |
| Contractual interest cash flows | 163,168 | 161,944 | 475,788 | 1,826,508 | 2,627,408 |
| Contractual principal cash flows | 117,199 | 33,746 | 306,641 | 2,424,130 | 2,881,716 |
| Total contractual cash flows | 280,367 | 195,690 | 782,429 | 4,250,638 | 5,509,124 |
| THFC | | | | | |
| 31 March 2013 | | | | | |
| Contractual interest cash flows | 129,860 | 129,435 | 366,832 | 1,732,319 | 2,358,446 |
| Contractual principal cash flows | 15,735 | 6,917 | 184,606 | 2,003,359 | 2,210,617 |
| Total contractual cash flows | 145,595 | 136,352 | 551,438 | 3,735,678 | 4,569,063 |
| 31 March 2012 | | | | | |
| Contractual interest cash flows | 117,689 | 117,299 | 349,221 | 1,467,117 | 2,051,326 |
| Contractual principal cash flows | 54,073 | 7,735 | 193,420 | 1,728,963 | 1,984,191 |
| Total contractual cash flows | 171,762 | 125,034 | 542,641 | 3,196,080 | 4,035,517 |

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

23. Pensions

THFCS participates in the Social Housing Pension Scheme ('SHPS'). The Scheme is funded and is contracted out of the state pension 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.

Notes to the Financial Statements continued

23. Pensions continued

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.

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 ten active members of the scheme employed by THFCS. The annual pensionable payroll in respect of these members was £820,805. 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 £116,149 (2012: £104,554)

The last formal valuation of the Scheme was performed as at 30 September 2011 by a professionally qualified actuary using the Projected Unit Method. The market value of the Scheme's assets at the valuation date was £2,062 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £1,035 million, equivalent to a past service funding level of 67.0%.

The financial assumptions underlying the valuation as at 30 September 2011 were as follows:

| | % pa |
|--|------|
| – Investment return pre-retirement | 7.0 |
| – Investment return post retirement | 4.2 |
| – Investment return non-pensioner post retirement | 4.2 |
| – Rate of pensionable earnings growth (2.5% per annum for 3 years then 4.4%) | 2.5 |
| – Rate of pension increases | 2.4 |
| – Rate of price inflation (RPI) | 2.9 |

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 – 41% SAPS S1 Male/Female All Pensioners (amounts), Year of Birth, CMI_2009 projections with long-term improvement rates of 1.5% p.a. for Males and 1.25% p.a. for Females.

Mortality post retirement – 97% SAPS S1 Male/Female All Pensioners (amounts), Year of Birth, CMI_2009 projections with long-term improvement rates of 1.5% p.a. for Males and 1.25% p.a. for Females.

The long-term contribution rates applied from April 2013 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 | 19.4 |
| Career average revalued earnings with a 1/60th accrual rate | 18.1 |

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

Following consideration of the results of the actuarial valuation it was agreed that the shortfall of £1,035 million would be dealt with by the payment of deficit contributions as shown in the table below:

| | |
|--|--|
| From 1 April 2013 to 30 September 2020 | A cash amount(*) equivalent to 7.5% of Members' Earnings per annum (payable monthly and increasing by 4.7% per annum each 1 April) |
| From 1 October 2020 to 30 September 2023 | A cash amount(*) equivalent to 3.1% of Members' Earnings per annum (payable monthly and increasing by 4.7% per annum each 1 April) |
| From 1 April 2013 to 30 September 2026 | £30,640,000 per annum(**) (payable monthly and increasing by 3% per annum each 1 April; first increase on 1 April 2014) |

23. Pensions continued

(*) The contributions of 7.5% will be expressed in nominal pound terms (for each Employer), increasing each year in line with the Earnings growth assumption used in the 30 September 2008 valuation (i.e. 4.7% per annum). The contributions of 3.1% will be calculated by proportioning the nominal pound payment at the time of the change. Earnings at 30 September 2008 (for each Employer) will be used as the reference point for calculating these contributions.

(**) THFCS' share of this deficit contribution is £28,188 per annum.

These deficit contributions are in addition to the long-term joint contribution rates as set out above.

The Scheme Actuary will provide an approximate update on the funding position of the Scheme as at 30 September 2013. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The results of this approximate update will be available in Spring 2014 and 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 2.5% 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.

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). A response regarding the September 2011 valuation is awaited.

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30 September 2012. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The market value of the Scheme's assets at the date of the Actuarial Report was £2,327m. The Actuarial Report revealed a shortfall of assets compared with the value of liabilities of £1,241m, equivalent to a past service funding level of 65%.

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 2013 was £2,299,780 (2012: £2,123,528). The amount due from THFCS at 31 March 2013 was £182,501 (2012: £56,534).

THFC deposits subsidiaries' cash in its own bank account as agent for these subsidiary undertakings.

The Group provides administrative services to the following related companies 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 £129,301 (2012: £125,501) for providing these services and had amounts owing from these companies at 31 March 2013 of £18,978 (2012: £35,773). These companies share some common directors with THFC.

During 2012 THFCS procured the services of one of its Directors, Charlie Arbutnot, to provide financial consultancy services in relation to a specific project, outside his duties as a Director. During the year ended 31 March 2012 THFCS was charged £1,800 in relation to this arrangement, there was no charge in the year ended 31 March 2013.

Notes to the Financial Statements continued

24. Related party transactions continued

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, if such dividend is declared.

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. Total interest charged by these companies during the year was £12,087,281, £24,055,731 and £2,793,753 respectively (2012: £12,021,230, £23,484,458 and £19,293,107 respectively).

25. Fair values

All the Group's and THFC's financial instruments are measured at amortised cost.

The fair values of the Group's and THFC's financial assets and liabilities at 31 March 2013 are as follows:

| Group | Book value | Fair value | Book value | Fair value |
|----------------------------------|------------------|------------------|------------|------------|
| | 2013 | 2013 | 2012 | 2012 |
| | £000 | £000 | £000 | £000 |
| Assets | | | | |
| Loans receivable | 3,123,992 | 3,641,382 | 2,881,745 | 3,258,435 |
| Trade and other receivables | 31,124 | 31,124 | 30,077 | 30,077 |
| Short term cash deposits | 16,175 | 16,175 | 12,530 | 12,530 |
| Cash and cash equivalents | 22,068 | 22,068 | 19,010 | 19,010 |
| | 3,193,359 | 3,710,749 | 2,943,362 | 3,320,052 |
| Liabilities | | | | |
| Financial liabilities-borrowings | 3,124,683 | 3,642,073 | 2,882,439 | 3,259,129 |
| Trade and other payables | 54,827 | 54,827 | 47,377 | 47,377 |
| | 3,179,510 | 3,696,900 | 2,929,816 | 3,306,506 |
| THFC | | | | |
| | Book value | Fair value | Book value | Fair value |
| | 2013 | 2013 | 2012 | 2012 |
| | £000 | £000 | £000 | £000 |
| Assets | | | | |
| Loans receivable | 2,225,031 | 2,606,563 | 1,992,930 | 2,225,816 |
| Investments | 700 | 700 | 350 | 350 |
| Trade and other receivables | 27,414 | 27,414 | 26,198 | 26,198 |
| Short term cash deposits | 8,799 | 8,799 | 6,828 | 6,828 |
| Cash and cash equivalents | 12,987 | 12,987 | 8,973 | 8,973 |
| | 2,274,931 | 2,656,463 | 2,035,279 | 2,268,165 |
| Liabilities | | | | |
| Financial liabilities-borrowings | 2,225,042 | 2,606,574 | 1,992,942 | 2,225,828 |
| Trade and other payables | 40,220 | 40,220 | 32,955 | 32,955 |
| | 2,265,262 | 2,646,794 | 2,025,897 | 2,258,783 |

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 debenture stocks and bonds issued, are held at amortised cost using the effective interest method.

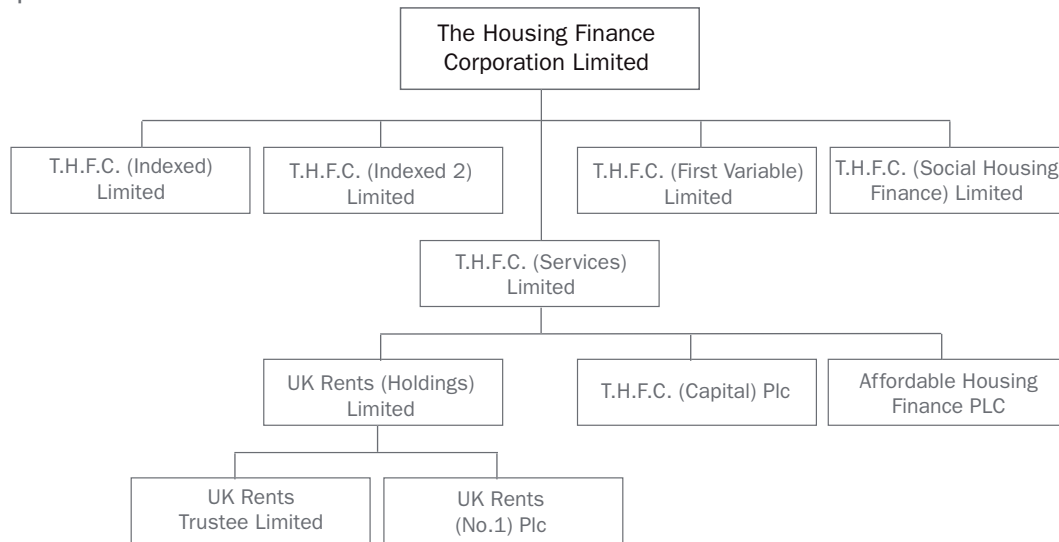
The fair value of bonds, debenture stocks issued and other loans is based on estimated market value, or management's best estimate of market value, at 31 March 2013.

Five Year Financial Record

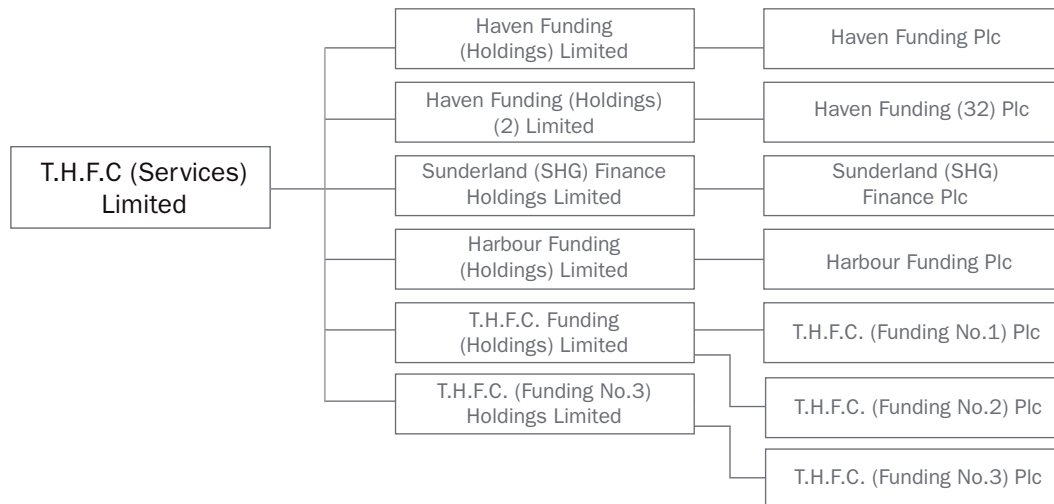
Excluding loan interest and similar items

| Year to 31 March | 2009 £000 | 2010 £000 | 2011 £000 | 2012 £000 | 2013 £000 |
|--|--------------|--------------|---------------|---------------|---------------|
| Fees | 1,651 | 2,743 | 2,483 | 2,697 | 3,550 |
| Investment income | 979 | 236 | 316 | 343 | 406 |
| Other income | 177 | 255 | 268 | 211 | 217 |
| Interest margin | 42 | 34 | 29 | 34 | 22 |
| Total revenues (after interest expense off-set) | 2,849 | 3,268 | 3,096 | 3,285 | 4,195 |
| Staff costs | 900 | 993 | 1,048 | 1,114 | 1,256 |
| Non-executive directors costs | 109 | 131 | 143 | 149 | 156 |
| Legal/trustees and registrars | 223 | 234 | 250 | 270 | 312 |
| Premises | 125 | 121 | 114 | 127 | 130 |
| Other | 334 | 333 | 346 | 387 | 487 |
| Total operating expenses | 1,691 | 1,812 | 1,901 | 2,047 | 2,341 |
| Surplus before tax | 1,158 | 1,456 | 1,195 | 1,238 | 1,854 |
| Tax | 317 | 418 | 142 | 231 | 444 |
| Surplus after tax | 841 | 1,038 | 1,053 | 1,007 | 1,410 |
| Accumulated reserves | 8,484 | 9,523 | 10,576 | 11,583 | 12,993 |
| | £m | £m | £m | £m | £m |
| Loans outstanding | 1,898 | 2,135 | 2,469 | 2,882 | 3,124 |
| | % | % | % | % | % |
| Ratio of operating expenses to loan book | 0.09 | 0.08 | 0.08 | 0.07 | 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 | Nominal Value £75,340,000 | Nominal Value £214,388,676 | Nominal Value £212,802,000 | Nominal Value £235,205,000 | Nominal Value £370,850,000 | Nominal Value £456,100,000 |
| | Issue Date 11.03.97 | Issue Date 12.02.98 | Issue Date 28.08.03 | Issue Date 27.06.01 | Issue Date 21.12.04 | Issue Date 08.07.09 | Issue Date 11.10.11 |
| 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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