The Housing Finance Corporation Limited
Annual Report and Financial Statements **2014**

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 providing standardised loan terms, ease of access to funders and value for money for those housing associations that borrow from the Group.

Unlike banks, the Group does not trade with the objective of distributing profits and does not pay dividends to shareholders. Surpluses are retained in order to support additional lending to housing associations.

£3,368m (2013: £3,124m)
THFC GROUP'S LOAN BOOK

£8,288k (2013: £4,173k)
GROUP TOTAL INCOME*

£4,654k (2013: £1,854k)
GROUP PRE-TAX SURPLUS

27 YEAR 100%
CUSTOMER REPAYMENT RECORD

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

Contents

THFC Core Values

At a time when many banks are retrenching, we believe that THFC has assembled a highly professional team, dedicated to delivering capital markets products to housing associations. Set out below are some of the attributes which make the THFC brand unique.

- Rapid, easy and consistent access to the bond market for our customers
- Excellent investor relationships underpinned by regular dialogue
- A longer, stronger track record than any other sector issuer
- Cost-effective, flexible lending, as and when customers need it at the same low rates at which funds are borrowed
- Easy to work with
- Accessible, candid and transparent in all our dealings
- Delivery of what we promise
- Optimising the financial interests of the sector are key to our own success
- Low risk, simple, robust business model
- Durable, consistent, sustainable model, even in times of financial crisis
- Trusted and supported by major institutions
- A+ stable credit rating from S&P consistently for the last 10 years
- Excellent long-term relationships with the UK government, European Investment Bank, Homes and Communities Agency, NHF and other key stakeholders. Our trustworthiness creates new lending opportunities and better terms

Chairman's Statement

These financial statements represent my first as Chairman of THFC. I would like to thank my predecessor, Roger Mountford, for all his work over the last six years and in particular in leading the Board to a position where we can this year announce a significantly enhanced addition to reserves for the year at £3.57m.

As a profit-for-purpose Industrial and Provident Society, THFC cannot distribute any surpluses. Instead surpluses are added to reserves. In addition, and unlike a bank, THFC passes the benefit of the relatively low funding margins it negotiates to its customers. This means that THFC is relatively thinly capitalised versus a bank. Its strong and stable long-term credit rating (A+ S&P since we first obtained a rating in 2004) is then partly derived from THFC's strong level of over-collateralisation as a secured lender. Total asset cover stood at over 200% at 31 March and THFC lends to 152 registered housing association customers across the entire United Kingdom.

Growth in reserves for the year was primarily driven by front end fees from £137m of long-term bonds issued by T.H.F.C. (Funding No.3) Plc, along with £403.5m loan origination under our Green European Investment Bank long-term funding line for energy efficient housing regeneration.

Whilst this debt origination was responsible for the bulk of earnings in the year, the majority of 2013/14 was expended in the THFC team developing our latest venture, Affordable Housing Finance Plc ("AHF"). This wholly owned subsidiary of the Group is the intended debt issuer under the £3.5bn Affordable Housing Guarantee Scheme announced by the Chief Secretary to the Treasury, Danny Alexander, in September 2012. AHF bid for and won the licence to offer long-term debt with the benefit of a "full faith" Secretary of State Guarantee in June 2013. Eligible housing associations wishing to borrow under the AHF Guarantee scheme have to show that the investment will deliver incremental affordable housing output.

Since the signing of the Licence on 19 June 2013, THFC (Services) Limited ("THFCS"), under the terms of a management services agreement, has created the team and processes to support the issuance and on-going monitoring of long-term debt under the licence. This has involved the recruitment of four dedicated staff and the design of bespoke credit processes. Whilst the AHF contract is serviced by THFCS, THFC and AHF lending are entirely discrete, with distinct underwriting criteria for each entity.

AHF also has additional Board members appointed by the Department of Communities and Local Government as Guarantor. as well as those appointed by THFC.

As its first form of committed funding AHF negotiated a £500m 30 year facility from the European Investment Bank ("EIB"). This was launched by the Housing Minister, Kris Hopkins, in January 2014. The first on-loan to a housing association was signed prior to financial year end, but no drawdown was made.

We expect that in the short-term, the majority of debt origination for the Group will come via this important Government sponsored initiative, although our intention is to keep the THFC name active in the markets by continuing to tap our current bond, T.H.F.C. (Funding No.3) Plc, which at £625m is already the largest social housing bond in the UK capital markets.

The Government has announced further capital grant availability for Affordable Housing in its 2015/18 Grant round along with a 10 year rent formula settlement of CPI + 1%, to run from 2015. Both developments are welcome. However, its intention is for the HA sector to prove "value for money" partly through bidding for lower grant per unit. Lower coupon debt from the Affordable Housing Guarantee Scheme is one way to achieve this.

Welfare reform continues to impact the sector, with the removal of the "spare-room subsidy" being the most significant reform to impact HAs in the year. Many customers have successfully adapted their processes and policies to encourage down-sizing and efficient budgeting. Benefit counselling has been a feature of many HAs' approach to controlling the impact along with prudent provisioning.

The longer term potential impact of the application of Universal Credit appears less certain, with limited evidence from HA demonstration projects to date. The continuing scale of the UK's structural deficit coupled with an apparent lack of will to impose tax rises means that the scale of the welfare bill will be a burden for whichever party forms the next UK Government after the 2015 general election. We also await with interest the shorter term result of the Scottish independence referendum in September. While THFC has 11 Scottish HA clients and £155m of lending, three of those customers are Scottish subsidiaries of English HAs and all THFC loans are written under English law.

Overall public and private capital markets issuance by HAs was slightly down in calendar year 2013 (£3.0bn 2013 v £4.39bn 2012). This does not reflect any lack of appetite for HA bonds amongst institutional investors. In the year, Moody's downgraded all but one of its HA long-term ratings, reflecting the aftermath of the Cosmopolitan HA rescue reported on last year (THFC was not a lender to Cosmopolitan). In spite of this, most HA credit spreads tightened, reflecting scarcity of suitable long-term Sterling bonds for UK insurance and annuity funds. We have seen no significant change in the creditworthiness of the sector over the last year, although the reduction in grant available, (and the increased use of guarantees instead of grant) has led and will lead to increases in gearing ratios.

The scale of appetite amongst annuity funds in particular was recently cast into doubt following the March 2014 Budget and the granting of new potential flexibilities to retiring pensioners in their choice of pension vehicle. Early reaction amongst institutional investors has ranged widely, with some funds seeing the change as an opportunity, whilst existing scale annuity providers have potentially more to lose. THFC has a very wide range of institutional investors, taking in both ends of the spectrum. In the context of the scale of both THFC and AHF bond issuance, we do not see this potential change in appetite as representing a material change.

At the end of this very busy year for THFC, I would like to extend my thanks to the whole team and my Board, Credit Committee and Audit Committee colleagues for their continued professionalism, dedication and good humour in engineering substantial solid growth for the Group. We look forward to another important year in partnership with Government and the EIB, helping our HA customers deliver more vitally needed affordable housing across the UK.

Finally on behalf of the entire Board and executive I would like to record our sincere thanks to David Orr who stepped down from the THFC Board in June 2014 after 9 years' service. David's contribution in his roles on the Board and Credit Committee has been instrumental in the Group's success to date and he will be greatly missed.

I am pleased to report however that David will be remaining on the Board and Credit Committee of the recently established Affordable Housing Finance Plc where we will continue to benefit from his expertise.

David Orr was nominated by the National Housing Federation and I am delighted to welcome Stuart Ropke as the new nominee who joined the Board on 17 June 2014.

Ian Peacock
Chairman

Chief Executive's Review

2013/14 was a significant year for the Group, both in recording the highest post tax surplus in our 27 year history of £3.57m and the successful negotiation of the Affordable Housing Guarantee Scheme Licence with the Department for Communities and Local Government (DCLG).

The surplus was driven from two principal sources of revenue: completions of the majority of downstream loans to housing associations (HAs) under our £400m long-term funding line for energy efficient housing from the European Investment Bank, and the issue of two tap transactions via our issuing vehicle, T.H.F.C. (Funding No. 3) Plc. The transactions of £55.2m and £81.5m were respectively issued at: 4.31% and 4.5% and represent very competitive long-term funding for the broad range of participating HAs. Credit spreads for THFC and for the market as a whole compressed for the majority of the year, with a return to more stable markets as the UK economy moves beyond what has now been termed the "Great Recession".

Since the original T.H.F.C. (Funding No.3) Plc transaction of £100m in October 2011, we have been able to grow the overall size via five tap transactions to £625m. This is now by far the largest HA bond in the marketplace, with 49 participants, principally English HAs, but including some from Scotland, Wales and Northern Ireland.

Both the public and private capital markets continued to represent an attractive alternative source of very long-term finance for a wide variety of HAs with a total of £3bn issuance in the financial year. As well as THFC, the year saw a wider variety of borrowers go to market. Mature Large Scale Voluntary Transfers (LSVTs) have demonstrated their ability to refinance their original bank debt. Forward starting transactions and the widespread use of retained bonds were both in evidence. Despite being an issuer of bonds for 27 years, THFC has still been able to attract new interest with significant new investors in both 2013 tap transactions.

The bond market for HAs has matured significantly in 2013. The size and variety of issuers (there are now approaching 40 HAs with individual ratings) as well as THFC's in excess of 150 HA customers now mean that a significant amount of research is conducted by institutional investors into a wide spectrum of HAs. From a position as little as two years ago where there was a bias amongst investors towards large and south-east based associations, more detailed research and market competition has led to investment in a much more diverse range of borrowers. That, of course, means more competition for THFC, but at the same time diversified investment is the sign of a healthy market and choice for HAs.

Completions of the downstream allocations of our £400m EIB Energy Efficient Social Housing facility marked a major benchmark for THFC: total lending from EIB reached £1bn for the first time in our history. THFC's relationship with EIB goes back to 1998 when THFC first introduced lending for housing regeneration to EIB. Since that time we have acted as the lending intermediary for seven different lines of EIB credit, making their "AAA" funding levels available to circa 64 HAs. The latest of these facilities was for energy efficient new-build housing development and retro-fit. In total these facilities were made available to 13 HAs, including five of the so called "G15" largest London HAs. THFC estimate that this line will help deliver over 1,890 units of new social and affordable housing at lower costs than the HAs could themselves access.

As well as being a record year for surplus, the steady underlying growth in THFC's asset base, together with the associated fees it earns, has driven a healthy increase in operating income which will grow further in 2014 with expected loan completions. The business plan for the Affordable Housing Guarantee Scheme has given us scope to recruit further staff to service both the existing and new portfolios. In particular we have been able to recruit more staff with significant sector-specific lending and business appraisal skills. Over time this will assist us both in business origination, and portfolio analysis/monitoring.

The post tax surplus of £3.57m is after the creation of a one-time provision of £768,000 being the present value of T.H.F.C. (Services) Limited's contractually due past-service pension deficit payments as required by IAS19 "Employee Benefits". The provision reflects the adoption of current accounting policy and the profit impact will reverse out over the next 12 years.

In June 2013 T.H.F.C. (Services) Limited (“THFCS”) was successful in a bid to set up a new aggregation vehicle, “Affordable Housing Finance Plc” to issue Government guaranteed debt, up to £3.5bn under the DCLG sponsored Affordable Housing Guarantee Scheme. AHF, a wholly owned subsidiary of THFCS was formed, with additional Board representation from both the Homes and Communities Agency (“HCA”) and a representative of DCLG. AHF’s lending criteria differ from those of THFC and are set out by DCLG as a condition of the licence. To date its initial source of finance was a record £500m long-term line of credit from EIB. This facility was launched by the Housing Minister, Kris Hopkins and our chairman, Ian Peacock in January 2014. Working in close conjunction with DCLG, a bespoke credit process was designed and implemented. In the year, the AHF team identified underlying financing requirements from 16 HAs based in England, Scotland and Wales. On 30 May 2014 AHF issued its first guaranteed long-term bond carrying a “AAA” rating from Standard and Poors’. The effective interest rate of 3.76% is believed to be the tightest priced public bond transaction in the sector’s 26 year history.

Under the terms of the licence, AHF may issue up to 30 year guaranteed debt in an aggregate amount of up to £3.5bn. Applications for individual guarantees have to be made by March 2016. As at 31 May 2014, AHF approved pipeline lending exceeds £630m. To be eligible for funding under the AHF scheme, HAs must be able to show that they are delivering additional housing over and above DCLG’s 2011-15 development programme. To date AHF estimates that over 5,800 units have been identified as incremental output.

THFC’s long-term credit rating from S&P was reaffirmed for the 10th year running at A+ (Stable). Just prior to the year end, Royal Bank of Scotland, the liquidity provider for T.H.F.C. (Funding No.1) Plc had its short-term credit rating from S&P downgraded to A2. This required the Issuer to make a standy-by liquidity drawing of £24.1m which has been placed with an A1 rated financial institution.

In last year’s review I highlighted the fact that we could be moving into a higher risk part of the credit cycle for HAs. In the intervening year the Government has lengthened the availability of “Help-to-Buy One” (equity loans for new-build homes), but at the same time the Bank of England Financial Policy Committee (“FPC”) has removed the so called “Funding for Lending” Scheme from the mortgage market and the Financial Conduct Authority has introduced tighter mortgage underwriting via the mortgage Market Review (“MMR”). There are further constraints (such as Loan to Value, Loan to Income ratios) that could be imposed by the Bank of England, short of increasing Base Rate. While the management of existing affordable housing is not directly impacted by these measures, build for sale and shared ownership development programmes (which in turn cross-subsidise the production of new affordable homes) may be impacted. In the short-term, HAs (particularly those in London and the SE) are more likely to be net beneficiaries of the buoyant market conditions. Government has further sought to underpin this by announcing the availability of up to £3.3bn of grant between 2015-18. However, the HCA remains focussed on value for money and controlling grant per unit. The corollary is higher gearing and growth in the proportion of housing stock subject to affordable rather than social rents. Dependent on the scope and timing of rises in Base Rate, we now see the increased period of risk for HAs to be from three years from now.

The primary risk to HAs will be a combination of cash-flow strain driven by development spend, combined with welfare cuts biting. To date the latter have been limited principally to the impact of the imposition of the “spare room subsidy”. However, relatively prudent management by HAs combined with the availability of Discretionary Housing Payments have softened the impact. The roll-out of Universal Credit has so far been very limited and is likely to remain so until after the General Election in 2015.

As in prior years we continue to monitor our back book and maintain a watch-list of potentially vulnerable HA customers. At present, we do not see any material change in the status of that list, given our relatively prudent lending guidelines.

Returning to the year ahead, we expect to complete more loans under the Affordable Housing Guarantee Scheme and at the same time, markets permitting, to complete further THFC bond business. We now have a staff complement of 17 and I would like to take this opportunity to welcome the new members of the team for what will prove another eventful and exciting year for the Group.

Piers Williamson
Chief Executive

Business and Financial Review

The five-year table on page 51 gives a comparative history of the THFC Group and shows that our loan book has increased by 57.8% while total costs have increased by 102.1% and our total revenues (net of interest expense) by 154.5% over the period.

The THFC Group achieved a pre-tax surplus of £4,654,000 (2013: £1,854,000). 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 2014, as a consequence of another successful year, the Group's reserves have risen from £12.9m to £16.6m. This continuing trend, combined with historically conservative over-collateralisation of our loan assets, allows the Group to position itself to meet the requirements of a broad range of housing associations as they look to diversify their funding by borrowing in capital markets and, through THFC, from the European Investment Bank.

A total of £302.8m (2013: £316.5m) 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 £245.9m (2013: £244.2m), before adjustment for indexation and amortisation of premiums and discounts.

As a result the THFC Group loan book stands at £3,368m (2013: £3,124m). 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 152 borrowers (2013: 147).

Our operating expenses were 0.11% (2013: 0.07%) of the £3.4bn (2013: £3.1bn) of outstanding loans at the year-end.

The increase in operating expenses was attributable to additional staff recruited to service the Affordable Housing Finance Plc Licence and a one-off pension provision of £768,000 required in respect of future contractually due past-service pension deficit contributions.

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 51). The Group achieved another strong surplus before and after tax although the ratio of expenses to the loan book increased on account of the increase in operating expenses referred to above.

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 convenant 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 16 to 18. 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 among themselves 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 certain 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-seven 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 in 2013. On 19 June 2013 AHF was awarded the licence to provide guaranteed funding under the Government's Affordable Housing Guarantee Scheme. As at 31 March 2014 AHF had bank facilities in place amounting to £500m but no drawings had been made by borrowers as at that date.

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 £16.6m (2013: £12.9m).

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 £153,235 (2013: £129,301).

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 currently carrying an A+ rating from Standard & Poor's rating agency. Funding No. 1's rating is achieved partly through the addition of a bespoke liquidity facility provided by Royal Bank of Scotland Plc (RBS). Funding No. 1's rating is therefore linked to the short-term rating of the liquidity provider (currently Royal Bank of Scotland Plc). Funding No. 1's liquidity facility was renewed in December 2013. In January 2014 the rating of RBS was downgraded and, under the terms of the liquidity facility agreement between Funding No.1 and RBS, Funding No.1 has made a standby drawing of the entire liquidity facility commitment.

The standby drawing is repayable on the earlier of the provider being upgraded to the requisite rating or the legal maturity date of the secured bonds.

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 2014 these companies had loans totalling £327.4m (nominal) made to 16 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 2014 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 2014 Harbour Funding Plc had loans outstanding of £214.4m (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 2014.

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 2014 was £4,654,000 (2013: £1,854,000).

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 6.

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 14 and 15.

Details of Directors' terms of office are given on page 11.

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

At the forthcoming Annual General Meeting, Keith Exford and Deborah Shackleton, each having completed their first three-year term in office, will be required to resign and offer themselves for re-election.

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

Directors' Remuneration

Details of directors' remuneration are given on page 12.

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.

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

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 2014	THFC Shareholdings at 31 March 2014
Charlie Arbuthnot	Full Year	£1
Fenella Edge	Full Year	NIL
Keith Exford	Full Year	£1
Roger Mountford (retired 26 June 2013)	3 months	NIL
David Orr (resigned 17 June 2014)	Full Year	NIL
John Parker	Full Year	£1
Ian Peacock (appointed 1 April 2013)	Full Year	£1
Stuart Ropke (appointed 17 June 2014)	N/A	NIL
Deborah Shackleton	Full Year	£1
Jonathan Walters	Full Year	NIL
Piers Williamson	Full Year	NIL
Other shareholders		
Homes and Communities Agency		£1
The National Housing Federation		£1
Total issued share capital at 31 March 2014		£7

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 related earnings ("CARE") basis.

Since 1 April 2013 THFC has offered membership of the SHPS scheme to new members on a defined contribution basis in addition to the CARE structure.

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.

Corporate Governance Statement

The 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 non-profit distributing 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 THFC has complied with the provisions of the Code.

Board

The Board of directors of THFC comprises:

Ian Peacock (Chairman)
Charlie Arbuthnot (Chairman of Credit Committee)
Fenella Edge (Executive Director)
Keith Exford
Roger Mountford (resigned 26 June 2013)
David Orr (resigned 17 June 2014)
John Parker (Chairman of Audit Committee and Senior Independent Director)
Stuart Ropke (appointed 17 June 2014)
Deborah Shackleton
Jonathan Walters
Piers Williamson (Executive Director).

The directors biographies can be found on pages 14 to 15.

The Board of THFC also comprises the Boards of its subsidiaries except for AHF which has two additional nominated Directors.

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 John Parker.

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 Stuart Ropke 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 9.

Directors’ Attendance at Meetings

Directors’ attendance at THFC Board and Board committee meetings during the year is shown in the table on page 13. 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 adhoc business. Standard business is tracked via a Board diary and determines the standard section of the agenda and details the key items of business that are considered by the Board. A rolling agenda is maintained to record emerging issues that will require Board consideration at future scheduled meetings. Two of the 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. Where necessary the Board or committee will delegate certain decisions to management within clearly defined parameters which are minuted.

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 THFC.

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 Credit Committee, up until his retirement from the Board on 17 June 2014, was David Orr. Charlie Arbuthnot was appointed Chairman of the Committee from this date.

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 Charlie Arbuthnot (Chairman), John Parker, Ian Peacock, Stuart Ropke and Deborah Shackleton 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.

The nominations Committee was not convened during the year.

Training and Development

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

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

Performance evaluation

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

Internal Control

The Board is responsible for the Group’s system of internal control and for the regular review of its effectiveness. It should be recognised that the internal control system has been designed to manage rather than eliminate the specific business risks faced by the Group and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board discharges its responsibilities for internal control through the following key procedures:

- the establishment of an organisational structure with clearly defined levels of authority and division of responsibility;
- a comprehensive system of reporting, budgeting and planning against which performance is monitored;
- the formulation of policies and of approval procedures in key areas such as loan administration, treasury operations, financial reporting and preparation of consolidated financial statements.

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

The Directors considered periodic reports on the effectiveness of internal controls during the period to 22 July 2014 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.
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 until 17 June 2014 and Stuart Ropke from that date) and the Homes and Communities Agency (Jonathan Walters) were remitted to their employers. The fees of the non-executive Directors were increased by 2.45% on the annual review date of 1 April 2014. The non-executive Directors do not receive any pension benefits, bonuses or benefits-in-kind except for certain travel expenses.

Details of directors’ remuneration is given on page 34.

Shareholders

The shareholders of THFC are listed in the table on page 9. 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 or Consumer 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 (2013: 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

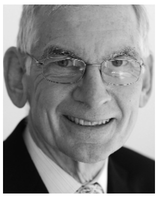
Colin Burke
Company Secretary
The Housing Finance Corporation Limited
22 July 2014

Directors' Attendance at Meetings

	Main Board (6)	Special Board (6)	Audit Committee (3)	Credit Committee (7)
Charlie Arbuthnot	6	2	-	6
Fenella Edge	6	6	3	7
Keith Exford	6	-	3	-
Roger Mountford	2	2	-	2
David Orr	5	-	-	5
John Parker	6	1	3	5
Ian Peacock	6	3	-	3
Deborah Shackleton	6	1	-	6
Jonathan Walters	5	2	3	-
Piers Williamson	6	3	3	6

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

Directors



Ian Peacock
Non-Executive Chairman

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 its Audit Committee. Until last year he was Chair of one of the South East's leading Housing Associations: Family Mosaic.

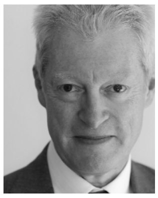
Ian has had a long and successful career in international financial services. Ian has excellent customer service experience gained as a former Chairman of Mothercare, Chairman of Howdens Joinery plc and Deputy Chairman of a software company that develops systems to assess market risk, credit risk and 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 and became Chairman from June 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

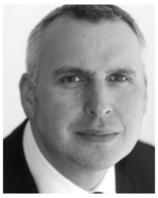
Keith Exford was appointed to the Board on 1 April 2011. Keith is Chief Executive of the Affinity Sutton Group which is one of the largest housing association Groups in England with more than 58,000 affordable homes in over 100 local authorities. It is also a major affordable house builder with over 9,000 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, 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.

David Orr

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

David completed a one-year secondment to the Scottish Executive in October 2001, as Community Ownership Manager. He 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 and has recently become Chair of Homeless International. He stepped down from the Board of THFC in June 2014 but remains on the Board of Affordable Housing Finance Plc.



Stuart Ropke

Stuart is Assistant Director of Policy and Research at the National Housing Federation where he has worked since 2005 in a variety of roles. As Assistant Director he leads the Federation's Policy and Research work, and is responsible for shaping the Federation's futures and thought leadership work. He is the co-author of the Federation's think piece "Facing the Future: Evolution or Revolution" which argued for creative ways to finance affordable housing.

Prior to joining the National Housing Federation, Stuart worked for both local authorities and housing associations across housing management, supported housing and policy and strategy. Stuart joined the Board in June 2014.

John Parker Senior Non-Executive Director

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, Chair of Career Connect, and Deputy Chair 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, 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 2014

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	83,171	-	-	-	-	-	-	83,171
A2Dominion South Limited	South East	2,500	-	2,174	-	-	-	-	4,674
Accent Foundation Limited	National	-	9,081	-	-	-	-	-	9,081
Accent Nene Limited	East Anglia	1,701	-	-	-	-	-	-	1,701
Accent Peerless Limited	National	10,000	-	-	-	-	-	-	10,000
Accord Housing Association Limited	Midlands	3,050	-	2,630	1,130	-	-	-	6,810
Adactus Housing Association Limited	North West	6,957	-	-	-	-	-	-	6,957
Affinity Sutton Homes Limited	National	-	-	2,174	-	-	-	-	2,174
Agudas Israel Housing Association Limited	London	179	-	544	-	-	-	-	723
Aldwyck Housing Group Limited	South East	2,210	1,000	-	-	-	-	-	3,210
AmicusHorizon Limited	London	28,500	11,165	-	-	-	-	-	39,665
Apex Housing Association	Northern Ireland	35,000	-	-	-	-	-	-	35,000
Arches Housing Limited	Yorkshire & the Humber	5,100	-	-	-	-	-	-	5,100
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	10,000	-	-	2,816	-	-	-	12,816
Axiom Housing Association Limited	East Anglia	21,738	-	-	-	-	-	-	21,738
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	215	-	-	-	-	-	7,715
Castle Rock Edinvar Housing Association Limited	Scotland	5,500	-	-	-	-	-	-	5,500
Catalyst Housing Limited	London	3,685	1,000	-	-	-	-	-	4,685
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	30,000	-	-	-	-	-	-	30,000
Clwyd Alyn Housing Association Limited	Wales	7,000	1,924	-	-	-	-	-	8,924
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	-	-	-	6,481	-	-	8,981
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	10,000	-	-	-	-	-	-	10,000
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	26,243	4,130	-	-	-	-	-	30,373
Ducane Housing Association Limited	London	5,000	-	-	-	-	-	-	5,000
Dumfries & Galloway Housing Partnership	Scotland	40,000	-	-	-	-	-	-	40,000
Dunedin Canmore Housing Limited	Scotland	16,500	-	-	-	-	-	-	16,500
East Homes Limited	London	1,351	-	-	-	-	-	-	1,351
East Midlands Housing Association Limited	Midlands	27,000	-	1,250	1,130	-	-	-	29,380
Eildon Housing Association Limited	Scotland	10,000	-	-	-	3,900	-	-	13,900
Equity Housing Group Limited	North West	22,991	269	-	1,836	-	-	-	25,096
Estuary Housing Association Limited	East Anglia	32,247	500	-	-	-	-	-	32,747
Family Housing Association (Birmingham) Limited	Midlands	8,500	-	-	-	3,612	-	-	12,112
Family Mosaic Housing	London	93,148	1,308	-	-	-	-	-	94,456
Friendship Care and Housing Limited	Midland	2,000	-	-	-	5,500	-	-	7,500
First Wessex	South East	6,776	-	-	-	-	-	-	6,776
Fold Housing Association Limited	Northern Ireland	35,000	-	-	-	-	-	-	35,000
Gallions Housing Association	London	14,000	-	-	-	-	-	-	14,000
Gateway Housing Association Limited	London	1,250	-	-	-	6,087	-	-	7,337
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	-	-	-	-	2,461	-	-	2,461
Gravesend Churches Housing Association Limited	South East	-	-	-	-	1,750	-	-	1,750
Great Places Housing Association	North West	24,823	-	544	426	-	-	-	25,793
Greenoak Housing Association Limited	South East	3,500	-	-	-	-	-	-	3,500
Habinteg Housing Association Limited	National	5,244	-	-	-	3,000	-	-	8,244
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	14,000	-	-	-	-	-	-	14,000
Helm Housing Limited	Ireland	15,000	-	-	-	-	-	-	15,000
Hexagon Housing Association Limited	London	1,500	192	3,806	-	-	-	-	5,498
Hightown Praetorian and Churches Housing Association Limited	South East	31,100	770	-	-	-	-	-	31,870
Home Group Limited	National	45,936	7,650	10,601	-	-	-	-	64,187
Home in Scotland Limited	Scotland	20,000	-	-	-	-	-	-	20,000
Hyde Housing Association Limited	South East	4,318	-	10,523	-	1,500	-	-	16,341
Innisfree Housing Association Limited	London	3,000	-	-	-	-	-	-	3,000
Inquilab Housing Association Limited	London	10,000	-	-	-	-	-	-	10,000
Irwell Valley Housing Association Limited	North West	-	-	2,175	-	-	-	-	2,175
Islington & Shoreditch Housing Association Limited	London	2,967	-	-	-	3,092	-	-	6,059
Isos Housing Limited	North East	-	-	-	-	5,500	-	-	5,500
Johnnie Johnson Housing Trust Limited	North West	26,000	539	-	-	-	-	-	26,539
Joseph Rowntree Housing Trust	Yorkshire & the Humber	15,000	-	-	-	-	-	-	15,000
Knightstone Housing Association Limited	South West	23,102	8,270	-	-	-	-	-	31,372
Leeds Federated Housing Association Limited	North East	14,300	-	-	-	-	-	-	14,300
Leeds & Yorkshire Housing Association Limited	North East	4,000	-	-	-	-	-	-	4,000
Leicester Housing Association Limited	Midland	20,781	-	-	-	3,000	-	-	23,781
Liverpool Housing Trust Limited	North West	7,000	-	-	-	4,588	-	-	11,588
London & Quadrant Housing Trust	London	30,997	770	-	-	-	-	-	31,767
Longhurst & Havelok Homes Limited	East Anglia	9,400	-	-	-	-	-	-	9,400
Manningham Housing Association Limited	North East	25,631	-	-	-	2,000	-	-	27,631
Melin Homes Limited	Wales	22,000	-	-	-	-	-	-	22,000
Mercian Housing Association Limited	Midland	10,487	-	-	-	-	-	-	10,487
Metropolitan Housing Trust Limited	London	30,721	-	1,631	-	-	-	-	32,352
Mid Wales Housing Association Limited	Wales	3,000	-	1,196	-	-	-	-	4,196

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	42,554	6,980	-	-	-	-	-	49,534
Moat Homes Limited	South East	3,500	4,825	-	-	-	-	-	8,325
Mosscare Housing Limited	North West	34,486	-	-	-	-	-	-	34,486
Network Stadium Housing Association Limited	London	130,063	-	-	-	-	-	-	130,063
New Gorbals Housing Association Limited	Scotland	14,000	-	-	-	-	-	-	14,000
Newlon Housing Trust	London	24,961	-	-	-	-	-	-	24,961
Newport Housing Trust Limited	Wales	1,500	-	-	-	-	-	-	1,500
Newydd Housing Association (1974) Limited	Wales	8,000	-	-	-	-	-	-	8,000
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	12,500	308	-	-	5,000	-	-	17,808
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	43,903	-	-	-	-	-	-	43,903
Origin Housing Limited	South East	9,600	-	-	-	-	-	-	9,600
Oxford Citizens Housing Association Limited	South East	7,600	-	-	847	-	-	-	8,447
Paradigm Homes Charitable Housing Association Limited	South East	65,000	-	-	-	-	-	-	65,000
Pembrokeshire Housing Association Limited	Wales	1,000	-	-	-	-	-	-	1,000
Places for People Homes Limited	National	21,925	-	-	-	-	-	-	21,925
Places for People Individual Support Limited	London	4,000	-	-	-	-	-	-	4,000
Portal Housing Association Limited	South West	21,000	-	-	-	-	-	-	21,000
Regenda Limited	North West	3,000	-	3,157	-	2,000	-	-	8,157
Riverside Group Limited	National	43,253	539	-	-	-	-	-	43,792
Sadeh Lok Housing Group Limited	North East	650	-	-	-	-	-	-	650
Salvation Army Housing Association	London	3,000	-	-	-	-	-	-	3,000
Sanctuary Housing Association	National	14,331	1,385	-	-	-	-	-	15,716
Sanctuary Scotland Housing Association Limited	Scotland	10,000	-	-	-	-	-	-	10,000
Sentinel Housing Association	South East	10,000	-	-	-	-	-	-	10,000
Soho Housing Association Limited	London	15,000	-	-	-	1,500	-	-	16,500
South Yorkshire Housing Association Limited	North East	3,935	-	-	-	-	-	-	3,935
Southern Housing Group Limited	London	146,693	2,263	-	-	10,000	-	-	158,955
St Vincent's Housing Association Limited	North West	2,790	-	-	-	4,000	-	-	6,790
Staffordshire Housing Association Limited	Midlands	14,800	-	-	-	5,300	-	-	20,100
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	29,408	-	-	-	-	-	-	29,408
Thenue Housing Association Limited	Scotland	5,000	-	-	-	-	-	-	5,000
Three Rivers Housing Association Limited	North East	12,400	-	-	-	1,157	-	-	13,557
Trident Housing Association Limited	Midland	5,000	2,078	-	-	-	-	-	7,078
Trinity Housing Limited	Northern Ireland	20,000	-	-	-	-	-	-	20,000
Tuntum Housing Association Limited	Midland	7,000	-	-	-	-	-	-	7,000
United Welsh Housing Association Limited	Wales	39,500	-	-	-	-	-	-	39,500
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	35,000	-	-	-	-	-	-	35,000
West Mercia Homes Limited	Midlands	12,500	-	-	-	-	-	-	12,500
Westfield Housing Association	North West	6,000	-	-	-	-	-	-	6,000
Wiltshire Rural Housing Association Limited	South West	863	-	-	-	-	-	-	863
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
York Housing Association	Yorkshire & the Humber	4,000	-	-	-	-	-	-	4,000
Yorkshire Housing Limited	Yorkshire & the Humber	40,500	-	-	-	-	-	-	40,500
Total Fixed Charge Security		**2,415,387**	**67,161**	**42,405**	**8,185**	**106,678**	**-**	**-**	**2,639,816**

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	-	-	5,437	-	-	-	-	5,437
Arena Housing Group Limited	North West	5,000	-	7,611	-	-	-	-	12,611
Barnsbury Housing Association Limited	London	-	-	-	706	-	-	-	706
Black Country Housing Group Limited	Midlands	7,000	-	-	-	-	-	-	7,000
Bromford Housing Association Limited	South West	4,500	-	1,631	-	-	-	-	6,131
Cheviot Housing Association Limited	North East	7,029	1,462	-	-	-	-	-	8,491
De Montfort Housing Society Limited	Midlands	4,250	539	-	-	-	-	-	4,789
Leicester Housing Association Ltd	Midlands	-	539	-	789	-	-	-	1,328
Manningham Housing Association Limited	North East	10,600	-	-	-	-	-	-	10,600
Metropolitan Housing Trust Limited	London	5,936	1,770	-	-	-	-	-	7,706
Three Rivers Housing Association Limited	North East	3,000	-	-	-	-	-	-	3,000
Total Floating Charge Security		**47,315**	**4,310**	**14,679**	**1,495**	**-**	**-**	**-**	**67,799**

THFC Group Loans continued

Income Security

Association borrower (legal entity)	Area	The Housing Finance Corp Limited Loans £000	T.H.F.C. (Indexed) Limited Loans £000	T.H.F.C. (Indexed 2) Limited Loans £000	T.H.F.C. (First Variable) Limited Loans £000	T.H.F.C. (Social Housing Finance) Limited Loans £000	T.H.F.C. (Capital) PLC Loans £000	UK Rents (No. 1) PLC Loans £000	Total Loan Value £000
A2 Dominion Homes Limited	London	-	-	-	-	-	-	4,013	4,013
Cheviot Housing Association Limited	North East	-	-	-	-	-	-	5,961	5,961
Contour Homes Limited	North West	-	-	-	-	-	-	4,455	4,455
First Wessex	South East	-	-	-	-	-	-	4,451	4,451
London & Quadrant Housing Trust	London	-	-	-	-	-	-	6,188	6,188
Mercian Housing Association Limited	London	-	-	-	-	-	-	4,502	4,502
Income Cover		**-**	**-**	**-**	**-**	**-**	**-**	**29,570**	**29,570**

Fixed Charge Security – Cash Flow Covenants

Gentoo Group Limited	North East	-	-	-	-	-	574,274	-	574,274
Total		**-**	**-**	**-**	**-**	**-**	**574,274**	**-**	**574,274**
Grand Total		**2,462,702**	**71,471**	**57,084**	**9,680**	**106,678**	**574,274**	**29,570**	**3,311,459**
Premium 31 March 2014									**56,285**
Total at 31 March 2014		**2,462,702**	**71,471**	**57,084**	**9,680**	**106,678**	**574,274**	**29,570**	**3,367,744**

Group Source of Funds

Debenture Stocks, Eurobonds, Bank and Other Loans as at 31 March 2014

			Date	Nominal Amount £000	Outstanding Principal Amount £000
THFC Debenture Stocks					
Discounted:	5% 2027		08.12.87	50,954	30,239
Stepped Coupon:	6.58% to 19.60% 2019		02.03.89	9,273	12,367
	7.91% to 19.75% 2019		28.06.89	4,630	6,135
	7.55% to 17.61% 2019		17.08.89	7,860	9,408
	8.44% to 15.98% 2019		11.10.89	2,900	3,423
Conventional Fixed Rate:	12.04% 2021 (Annuity)		02.07.91	15,000	9,694
	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	5,253
	10.0938% 2024 (Annuity)		14.07.95	13,000	7,489
	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	263
25 year fixed rate loan 2023 - EIB (Annuity)			26.11.98	24,860	14,571
25 year fixed rate loan 2024 - EIB (Annuity)			02.09.99	33,000	20,142
25 year fixed rate loan 2025 - EIB (Annuity)			08.09.00	10,500	6,880
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	8,690
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	10,465
25 year revolver into term			14.03.05	15,000	12,000
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 year revolving credit facility variable, repayable 2016			28.09.11	10,000	-
30 year Fixed and Variable rate loan 2045 - EIB (Annuity)			19.12.12	400,000	104,000
30 year Fixed rate loan 2045 - EIB (Annuity)			28.02.13	12,000	12,000
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	142,100	142,100
		tranche 2	18.01.12	161,000	161,000
		tranche 3	18.04.12	100,500	100,500
		tranche 4	20.09.12	132,100	132,100
		tranche 5	15.04.13	45,100	43,100
		tranche 6	15.10.13	44,500	44,500
T.H.F.C. (First Variable) Bank Loans					
30 year variable 2023 (Annuity)		tranche 1	30.04.93	2,750	1,546
		tranche 2	21.07.93	7,650	4,295
		tranche 3	17.12.93	4,750	2,668
		tranche 4	30.06.94	2,000	1,123
T.H.F.C. (Indexed) Limited Index Linked Debenture Stocks					
5.65% 2020 (Annuity)		tranche 1	13.11.90	41,734	44,515
		tranche 2	31.03.93	28,490	26,959
T.H.F.C. (Indexed 2) Limited Index Linked Debenture Stocks					
5.50% 2024 (Annuity)		tranche 1	16.12.94	29,025	30,173
		tranche 2	28.12.95	22,988	26,912
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	1,157
25 year fixed rate loan 2024 - EIB (Annuity)			02.09.99	16,500	10,102
25 year fixed rate loan 2025 - EIB (Annuity)			08.09.00	14,900	9,118
UK Rents (No. 1) Plc Rental Securitisation					
9.10% 2025 (Eurobond)			06.01.95	36,143	29,570
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	361,472
Total				**3,824,177**	**3,312,149**
Premium at 31 March 2014					**56,285**
Grand Total					**3,368,434**

Auditors' Report

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

Report on the financial statements

Our Opinion
In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Group's and The Housing Finance Corporation Limited's (THFC's) affairs as at 31 March 2014 and of the Group's and THFC's surplus and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited
The Group financial statements and THFC financial statements (the "financial statements"), which are prepared by THFC, comprise:

- the Group and THFC Statements of Financial Position as at 31 March 2014;
- the Group and THFC Statements of Comprehensive Income for the year then ended;
- the Group and THFC Statements of Changes in Equity for the year then ended;
- the Group and THFC Statements of Cash Flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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's 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matters on which we are required to report by exception

Adequacy of books of account, maintenance of system of control and information and explanations received
Under the Industrial and Provident Societies Acts, 1965 to 2002 we are required 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 books of account; or
- the THFC financial statements are not in agreement with the books of account; or
- we have not received all the information and explanations we require for our audit.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the Statement of Directors' Responsibilities set out on page 10, 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 ISAs (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) and Section 13(5) 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.

PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors

London
22 July 2014

Group Statement of Comprehensive Income

For the year ended 31 March 2014

	Notes	2014 £000	2013 £000
Operating Income			
On loans to housing associations			
Interest receivable		**176,901**	168,193
Discount amortised	11	**1,095**	5,215
Premium amortised	11	**(2,618)**	(2,332)
Income from securitised assets	16	**2,719**	2,826
Indexation on investments	11	**4,275**	4,687
Other interest		**311**	407
Fees receivable and other income		**7,977**	3,766
		190,660	182,762
Operating Expenses			
On debenture stocks, secured bonds, bank loans and other loans			
Interest payable	6	**179,592**	170,997
Discount amortised	14	**1,095**	5,215
Premium amortised	14	**(2,618)**	(2,332)
Indexation on loans payable	14	**4,275**	4,687
Administration expenses	3	**3,662**	2,341
		186,006	180,908
Surplus before taxation		**4,654**	1,854
Taxation	7	**(1,082)**	(444)
Surplus for the year		**3,572**	1,410
Other comprehensive income for the year		**-**	-
Total comprehensive income for the year		**3,572**	1,410

Group Statement of Financial Position

at 31 March 2014

	Notes	2014 £000	2013 £000
Assets			
Non-current assets			
Loans	11	**3,308,606**	3,031,804
Intangible assets	8	**8**	-
Property, plant and equipment	9	**16**	3
Deferred tax asset	15	**161**	-
Current assets			
Loans	11	**59,138**	92,188
Other receivables	12	**31,339**	31,124
Short-term deposits		**16,404**	16,175
Cash and cash equivalents		**23,488**	22,068
Total assets		**3,439,160**	3,193,362
Liabilities			
Non-current liabilities			
Financial liabilities – borrowings	14	**3,309,296**	3,032,495
Deferred tax liabilities	15	**124**	124
Provision for other liabilities and charges	23	**768**	-
Current liabilities			
Financial liabilities – borrowings	14	**59,138**	92,188
Trade and other payables	13	**52,693**	54,827
Current tax liabilities		**576**	735
Total Liabilities		**3,422,595**	3,180,369
Equity			
Called up share capital	17	**-**	-
Retained earnings	18	**16,565**	12,993
Total equity		**16,565**	12,993
Total equity and liabilities		**3,439,160**	3,193,362

The financial statements on pages 21 to 51 were approved by the Board of directors on 22 July 2014 and signed on its behalf by:

Ian Peacock
Chairman

Piers Williamson
Director

Colin Burke
Company Secretary

Group Statement of Changes in Equity

For the year ended 31 March 2014

	Called up Share Capital £	Retained earnings £000	Total Equity £000
Balance as at 1 April 2013	**7**	**12,993**	**12,993**
Shares issued in year	1		
Shares cancelled in year	(1)		
Surplus for the year		3,572	3,572
Other comprehensive income		-	-
Balance as at 31 March 2014	**7**	**16,565**	**16,565**
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**

Group Statement of Cash Flows

For the year ended 31 March 2014

	Notes	2014 £000	2013 £000
Cash flows from operating activities			
Cash generated from operations	19	**8,188**	4,265
Interest received on loans to housing associations		**176,790**	167,634
Interest paid on debenture stocks, secured bonds, bank loans and other loans		**(181,900)**	(163,637)
Loans to housing associations		**(302,757)**	(316,448)
Repayment of loans by housing associations		**60,805**	80,927
New borrowings		**302,757**	316,515
Repayment of amounts borrowed		**(60,807)**	(80,994)
Tax paid		**(1,402)**	(1,559)
Net cash generated from operating activities		**1,674**	6,703
Cash flows from investing activities			
Movement on short-term deposits		**(229)**	(3,645)
Purchase of property, plant and equipment	9	**(17)**	-
Purchase of intangible assets	8	**(8)**	-
Net cash (used in) investing activities		**(254)**	(3,645)
Net increase in cash and cash equivalents		**1,420**	3,058
Cash and cash equivalents at beginning of year		**22,068**	19,010
Cash and cash equivalents at end of year	20	**23,488**	22,068

THFC Statement of Comprehensive Income

For the year ended 31 March 2014

	Notes	2014 £000	2013 £000
Operating income			
On loans to housing associations			
Interest receivable		**135,509**	126,029
Discount amortised	11	**1,082**	5,201
Premium amortised	11	**(1,783)**	(1,529)
Other interest		**239**	309
Fees receivable and other income		**6,913**	3,291
Dividend from subsidiary undertaking		**2,000**	350
		143,960	133,651
Operating expenses			
On debenture stocks, bank loans and other loans			
Interest payable	6	**135,492**	126,019
Discount amortised	14	**1,082**	5,201
Premium amortised	14	**(1,783)**	(1,529)
Administration expenses	3	**5,383**	2,387
		140,174	132,078
Surplus before taxation		**3,786**	1,573
Taxation	7	**(399)**	(287)
Surplus for the year		**3,387**	1,286
Other comprehensive income		**-**	-
Total comprehensive income for the year		**3,387**	1,286

THFC Statement of Financial Position

at 31 March 2014

	Notes	2014 £000	2013 £000
Assets			
Non-current assets			
Loans	11	**2,503,354**	2,208,205
Investment in subsidiaries	10	**2,700**	700
Current assets			
Loans	11	**8,547**	16,826
Other receivables	12	**27,358**	27,414
Short-term deposits		**9,987**	8,799
Cash and cash equivalents		**18,350**	12,987
Total assets		**2,570,296**	2,274,931
Liabilities			
Non-current liabilities			
Financial liabilities – borrowings	14	**2,503,365**	2,208,216
Deferred tax liabilities	15	**124**	136
Current liabilities			
Financial liabilities – borrowings	14	**8,547**	16,826
Trade and other payables	13	**45,962**	40,220
Current tax liabilities		**50**	672
Total Liabilities		**2,558,048**	2,266,070
Equity			
Called up share capital	17	**-**	-
Retained earnings	18	**12,248**	8,861
Total equity		**12,248**	8,861
Total equity and liabilities		**2,570,296**	2,274,931

The financial statements on pages 21 to 51 were approved by the Board of directors on 22 July 2014 and signed on its behalf by:

Ian Peacock
Chairman

Piers Williamson
Director

Colin Burke
Company Secretary

THFC Statement of Changes in Equity

For the year ended 31 March 2014

	Called up Share Capital £	Retained earnings £000	Total Equity £000
Balance as at 1 April 2013	7	8,861	8,861
Shares issued in year	1		-
Shares redeemed in year	(1)		-
Surplus for the year		3,387	3,387
Other comprehensive income		-	-
Balance as at 31 March 2014	**7**	**12,248**	**12,248**
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**

THFC Statement of Cash Flows

For the year ended 31 March 2014

	Notes	2014 £000	2013 £000
Cash flows from operating activities			
Cash generated from operations	19	**3,146**	412
Interest received on loans to housing associations		**135,323**	125,430
Interest paid on debenture stocks, bank loans and other loans		**(130,886)**	(118,571)
Loans to housing associations		**(302,757)**	(290,450)
Repayment of loans by housing associations		**14,234**	61,174
New borrowings		**302,757**	290,451
Repayment of amounts borrowed		**(14,234)**	(61,174)
Tax paid		**(1,032)**	(1,287)
Net cash generated from operating activities		**6,551**	5,985
Cash flows from investing activities			
Movement on short-term deposits		**(1,188)**	(1,971)
Net cash (used in) investing activities		**(1,188)**	(1,971)
Net increase in cash and cash equivalents		**5,363**	4,014
Cash and cash equivalents at beginning of year		**12,987**	8,973
Cash and cash equivalents at end of year	20	**18,350**	12,987

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.

The following new standard and an amendment to an existing standard have been applied for the first time in the current reporting period:

- Amendment to IFRS 7, "Financial instruments: Disclosure on offsetting financial assets and financial liabilities" which requires additional disclosures on the use of offset in the statement of financial position and collateral available further to mitigate risks. This information has been included in Note 26 to the financial statements.
- IFRS 13, "Fair value measurement" which requires entities to provide additional information concerning fair value disclosures where financial instruments are carried at amortised cost. This information has been included in the summary of accounting policies under "Fair values" and in Note 25 to the financial statements.

(ii) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 April 2013 but not currently relevant to the Group (although they may affect the accounting for future transactions and events).

- Amendment to IAS 1, "Financial statement presentation" regarding other comprehensive income (effective 1 July 2012).
- Amendment to IAS 12, "Income taxes" on deferred tax on investment properties (effective 1 January 2012 and EU endorsed from 1 January 2013).
- IAS 19 (revised 2011), "Employee benefits" (effective 1 July 2012).

(iii) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2013 and not early adopted.

- 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 IAS 19 (revised 2011), "Employee benefits" (effective 1 July 2014 but not yet EU endorsed) on defined benefit plans.
- IFRS 9, "Financial instruments" (effective 1 January 2018) addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010 and further updated in November 2013. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments and establishes a more principles-based approach to hedge accounting. 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 current version 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. The changes to hedge accounting will not affect the Group. The final standard remains subject to endorsement by the EU.

2. Accounting policies continued

- 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 for the accounting period beginning on 1 April 2014.
- 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).
- 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).
- Annual Improvements to IFRSs 2012-2013 contain several minor amendments to IFRS. The amendments are largely effective for annual periods beginning on or after 1 July 2014 but are not yet endorsed by the EU. 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 financial statements 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.

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 2013 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 2013 Harbour Funding (Holdings) Limited Group had loans and receivables of £214,055,864 (2013: as at 31 December 2012 £275,996,184), T.H.F.C. (Funding) Holdings Limited Group had loans and receivables of £619,781,743 (2013: as at 31 December 2012 £620,001,614) and T.H.F.C. (Funding No.3) Holdings Limited had loans and receivables of £652,287,851 (2013: as at 31 December 2012 £454,981,033).

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 classified 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) Fair Values
The fair value of a financial instrument is the amount an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

IFRS 13 **Fair value measurement** requires an entity to classify for disclosure purposes its financial instruments held at amortised cost according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

Quoted market prices – Level 1

Financial instruments are classified as Level 1 if their value is observable in an active market. Fair values for such instruments are reported by reference to unadjusted quoted prices for identical assets or liabilities where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis.

Valuation technique using observable inputs – Level 2

Financial instruments classified as Level 2 are fair valued using models whose inputs (for example, interest rates and credit spreads) are observable in an active market.

Valuation technique using significant unobservable inputs – Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data. The Company has no instruments classified in Level 3 (2013: none).

i) Securitised assets and related income
Securitised assets are recorded in the financial statements at amortised cost. Income arising from the assets is accounted for on an effective interest rate basis.

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

2. Accounting policies continued

k) Intangible assets

Intangible fixed assets held for operational use are valued at historical cost and are amortised over the estimated life of the asset on a straight line basis. Intangible assets are subject to impairment reviews annually.

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.

l) 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

m) Leased assets

Operating lease costs are accounted for on a straight line basis over the lease term through the statement of comprehensive income.

n) Taxation

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

ii) Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

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

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

o) Pension fund

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

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. The Group also provided for the present value of contractually agreed past-service deficit recovery contributions.

3. Administration expenses

	Group 2014 £000	THFC 2014 £000	Group 2013 £000	THFC 2013 £000
Amortisation of intangible fixed assets	**-**	**-**	-	-
Depreciation of property, plant and equipment	**4**	**-**	6	-
Fees paid to auditors for:				
auditing of the financial statements	**54**	**54**	51	51
auditing of the financial statements (prior year)	**-**	**-**	12	12
auditing of the financial statements of subsidiaries	**45**	**-**	17	-
other assurance services	**6**	-	3	-
tax advisory services	**2**	-	-	-
Operating lease rentals				
plant and machinery	**4**	**-**	4	-
other	**62**	**-**	62	-
Staff costs (note 4)	**1,817**	**-**	1,375	-
Pension provision	**768**	**-**	-	-
Other	**900**	**5,329**	811	2,324
Total administration expenses	**3,662**	**5,383**	2,341	2,387

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 2014	Group 2013
Average number of persons (including directors) employed during the year (monthly average):		
Non-executive Directors	**7**	7
Executive Directors	**2**	2
Management and administrative	**12**	10
	21	19

The aggregate employee costs amounted to:	£000	£000
Directors' fees	**170**	140
Wages & salaries	**1,340**	998
Social security costs	**157**	121
Other pension costs	**150**	116
	1,817	1,375

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

	2014 £000	2013 £000
Non-executive directors:		
Fees	**170**	140
Executive directors:		
Salaries	**389**	345
Bonuses	**77**	48
Benefits	**10**	10
Aggregate emoluments	**646**	543
Pension contributions	**55**	49
Total	**701**	592
Highest paid executive director:		
Salary	**229**	209
Bonus	**46**	27
Benefits	**9**	9
Aggregate emoluments	**284**	245
Pension contributions	**33**	29
Total	**317**	274

The fees of the chairman were £30,538 (2013: £29,256). Each other non-executive director received fees at the rate of £18,848 from THFC (2013: £18,344) per annum and £3,281 from AHF (2013: Nil).

All directors' costs, except those paid by AHF, were incurred by THFCS and recharged to THFC.

Fees of £43,165 (2013: £36,688) 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 (2013: Nil).

Two non-executive directors received benefits-in-kind in respect of certain travel expenses.

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 Regulation Committee of the Homes and Communities Agency ("HCA"). He received fees for this, and other services to the HCA, amounting to £11,000 (2013: £12,375).

6. Interest payable

	Group 2014 £000	THFC 2014 £000	Group 2013 £000	THFC 2013 £000
On debenture stocks, bank				
borrowings and other borrowings				
Repayable wholly in more than five years				
Interest payable	**123,447**	**109,871**	114,250	100,635
Interest deferred	**(952)**	**(952)**	(848)	(848)
Repayable within five years	**57,097**	**26,573**	56,434	25,071
On loans repaid in the year	**-**	**-**	1,161	1,161
	179,592	**135,492**	170,997	126,019

7. Taxation

	Group 2014 £000	THFC 2014 £000	Group 2013 £000	THFC 2013 £000
U.K. Corporation tax at 23% (2013: 24%) on taxable surplus for year	**1,244**	**411**	1,419	1,264
Deferred taxation	**(162)**	**(12)**	(975)	(977)
	1,082	**399**	444	287
Reconciliation of tax charge				
Profit before tax	**4,654**	**3,786**	1,854	1,573
Tax charge at standard UK corporation tax rate of 23% (2013: 24%)	**1,070**	**871**	444	377
Reduction in corporation tax rate – deferred	**1**	**(12)**	(6)	(6)
Intra Group dividend – non taxable	-	**(460)**	-	(84)
Lower rate and marginal rate relief	**-**	**-**	(1)	-
Permanently dis-allowable items and other timing differences	**11**	**-**	7	-
Overall tax charge	**1,082**	**399**	444	287
Effective tax rate	**23.26%**	**10.49%**	24.0%	18.3%

8. Intangible assets

	Group 2014 £000	THFC 2014 £000	Group 2013 £000	THFC 2013 £000
Implementation costs of software				
Cost				
At beginning of year	**71**	**-**	71	-
Additions	**8**	**-**	-	-
At end of year	**79**	**-**	71	-
Accumulated amortisation				
At beginning of year	**71**	**-**	71	-
Charge for the year	**-**	**-**	-	-
At end of year	**71**	**-**	71	-
Net book value at end of year	**8**	**-**	-	-
Net book value at beginning of year	**-**	**-**	-	-

9. Property, plant and equipment

	Group 2014 £000	THFC 2014 £000	Group 2013 £000	THFC 2013 £000
Fixtures, fittings and equipment				
Cost				
At beginning of year	**186**	**-**	186	-
Additions	**17**	**-**	-	-
At end of year	**203**	**-**	186	-
Accumulated depreciation				
At beginning of year	**183**	**-**	177	-
Charge for the year	**4**	**-**	6	-
At end of year	**187**	**-**	183	-
Net book value at end of year	**16**	**-**	3	-
Net book value at beginning of year	**3**	**-**	9	-

10. Investments

	THFC 2014 £	THFC 2013 £
Shares held in subsidiary undertakings		
THFCIL – 6 ordinary shares of £1 each (2013: 6)	**6**	6
THFCFV – 5 ordinary shares of £1 each (2013: 5)	**5**	5
THFCS – 92 ordinary shares of £1 each (2013: 92)	**92**	92
THFCS – 2,700,000 preference shares of £1 each (2013: 700,000)	**2,700,000**	700,000
THFCIL2 – 5 ordinary shares of £1 each (2013: 5)	**5**	5
SHF – 5 ordinary shares of £1 each (2013: 5)	**5**	5
	2,700,113	700,113

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 2,000,000 redeemable preference shares (2013: 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 2014 £000	THFC 2014 £000	Group 2013 £000	THFC 2013 £000
Loans to housing associations				
At beginning of year	**3,093,213**	**2,225,031**	2,849,897	1,992,930
Discount on new issues	**-**	**-**	(3,115)	(3,115)
Premium on new issues	**21,557**	**21,557**	5,966	5,966
Loans repaid during the year	**(59,596)**	**(14,234)**	(79,858)	(61,174)
Loans advanced during the year	**281,200**	**281,200**	313,600	287,600
	3,336,374	**2,513,554**	3,086,490	2,222,207
Discount amortised for the year	**1,095**	**1,082**	5,215	5,201
Premium amortised for the year	**(2,618)**	**(1,783)**	(2,332)	(1,529)
Interest deferred for the year	**(952)**	**(952)**	(847)	(848)
Indexation for the year	**4,275**	**-**	4,687	-
At end of year	**3,338,174**	**2,511,901**	3,093,213	2,225,031
Securitised assets				
At beginning of year (Note 16)	**30,779**	**-**	31,848	-
Loans repaid during the year	**(1,209)**	**-**	(1,069)	-
At end of year	**29,570**	**-**	30,779	-
Total loans and receivables	**3,367,744**	**2,511,901**	3,123,992	2,225,031
Due within one year	**59,138**	**8,547**	92,188	16,826
Due after more than one year	**3,308,606**	**2,503,354**	3,031,804	2,208,205
Total	**3,367,744**	**2,511,901**	3,123,992	2,225,031

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:

(a) 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);

(b) a first fixed charge over cash and investments representing monies lent by the Group pending investment in assets and a first fixed charge over any assets acquired by the relevant housing association with those monies; and

(c) for discounted loans, a sinking fund comprising monies paid by the relevant 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 2014 £000	THFC 2014 £000	Group 2013 £000	THFC 2013 £000
Due within one year:				
Accrued interest income	**29,953**	**26,377**	29,842	26,191
Other receivables	**1,386**	**614**	1,282	955
Amounts due from subsidiary undertaking	**-**	**367**	-	268
	31,339	**27,358**	31,124	27,414

13. Other payables

	Group 2014 £000	THFC 2014 £000	Group 2013 £000	THFC 2013 £000
Due within one year:				
Accruals and deferred income	**48,642**	**43,770**	50,950	39,163
Other creditors	**4,051**	**203**	3,877	463
Amounts due to subsidiary undertakings	**-**	**1,989**	-	594
	52,693	**45,962**	54,827	40,220

14. Financial liabilities – Borrowings

	Group 2014 £000	THFC 2014 £000	Group 2013 £000	THFC 2013 £000
Eurobonds (Note 16)				
At beginning of year	**30,779**	**-**	31,848	-
Repaid during the year	**(1,209)**	**-**	(1,069)	-
At end of year	**29,570**	**-**	30,779	-
Debenture Stocks				
At beginning of year	**936,858**	**493,099**	994,979	543,682
Repaid during the year	**(13,987)**	**(1,522)**	(65,162)	(53,726)
Discount amortised	**825**	**812**	4,961	4,947
Premium amortised	**(1,737)**	**(902)**	(1,759)	(956)
Deferred interest	**(951)**	**(952)**	(848)	(848)
Indexation	**4,275**	**-**	4,687	-
At end of year	**925,283**	**490,535**	936,858	493,099

	Group 2014 £000	THFC 2014 £000	Group 2013 £000	THFC 2013 £000
Bank borrowings				
At beginning of year	**1,070,543**	**646,163**	1,044,241	638,612
Borrowed during the year	**116,000**	**116,000**	41,000	15,000
Repaid during the year	**(45,611)**	**(12,712)**	(14,698)	(7,449)
At end of year	**1,140,932**	**749,451**	1,070,543	646,163

14. Financial liabilities – Borrowings continued

	Group 2014 £000	THFC 2014 £000	Group 2013 £000	THFC 2013 £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	**1,085,780**	**1,085,780**	810,648	810,648
Loans during the year	**165,200**	**165,200**	272,600	272,600
Premium on issue	**21,557**	**21,557**	5,966	5,966
Discount on issue	**-**	**-**	(3,115)	(3,115)
Premium amortised	**(881)**	**(881)**	(573)	(573)
Discount amortised	**270**	**270**	254	254
At end of year	**1,271,926**	**1,271,926**	1,085,780	1,085,780
Subordinated loans (Note 16)	**723**	**-**	723	-
Total borrowings at 31 March 2014	**3,368,434**	**2,511,912**	3,124,683	2,225,042

	Group 2014 £000	THFC 2014 £000	Group 2013 £000	THFC 2013 £000
Amounts falling due within one year	**59,138**	**8,547**	92,188	16,826
Amounts falling due after one year	**3,309,296**	**2,503,365**	3,032,495	2,208,216
Total	**3,368,434**	**2,511,912**	3,124,683	2,225,042

Amounts falling due after one year are repayable as follows:

	Group 2014 £000	THFC 2014 £000	Group 2013 £000	THFC 2013 £000
Between one and two years	**35,052**	**9,078**	38,729	8,084
Between two and five years	**294,287**	**203,059**	312,289	188,082
In five years or more	**2,979,957**	**2,291,228**	2,681,477	2,012,050
	3,309,296	**2,503,365**	3,032,495	2,208,216

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 2014 T.H.F.C. (Funding No.3) Plc had retained bonds of £2m (nominal) (2013: £32.5m (nominal)). Retained bonds are bonds that the issuer immediately purchased on closing of the original issue, or a subsequent issue, which can be sold into the market at a future date to fund further draw downs of loans by THFC.

15. Deferred tax

	Group 2014 £000	THFC 2014 £000	Group 2013 £000	THFC 2013 £000
At beginning of the year	**124**	**136**	1,099	1,113
Credit/charge against surplus	**(162)**	**-**	(969)	(971)
Change in tax rate	**1**	**(12)**	(6)	(6)
At end of the year	**(37)**	**124**	124	136

	Group 2014 £000	THFC 2014 £000	Group 2013 £000	THFC 2013 £000
The asset/liability for deferred taxation at the end of the year is as follows:				
Difference between accounting and taxation treatment of discounts	**124**	**124**	136	136
Less: taxation losses available for future relief	**-**	**-**	-	-
Timing differences on pension provision	**(161)**	-	-	-
Other timing differences	**-**	**-**	(12)	-
Amount provided	**(37)**	**124**	124	136

Deferred taxation at 31 March 2013 was provided for at the then enacted rate of 23%. This rate was effective from 1 April 2013. During the year further reductions in the UK tax rate were announced and subsequently enacted. As a result of these reductions, the tax rate from 1 April 2014 is 21% and from 1 April 2015 will be 20%.

Deferred tax assets have been recognised at the tax rate that is expected to apply to the period when the asset is realised.

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 2014 was £723,000 (2013: £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 £2,719,000 (2013: £2,826,000) 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

	2014 £	2013 £
At beginning of year	**7**	7
Issued in year	**1**	-
Cancelled in year	**(1)**	-
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 2014 £000	THFC 2014 £000	Group 2013 £000	THFC 2013 £000
Opening reserves	**12,993**	**8,861**	11,583	7,575
Surplus for the year	**3,572**	**3,387**	1,410	1,286
Closing reserves	**16,565**	**12,248**	12,993	8,861

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 2014 were £1,959,000 (2013: £1,955,000).

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 regulatory capital requirement.

19. Reconciliation of surplus to net cash flow from operations

	Group 2014 £000	THFC 2014 £000	Group 2013 £000	THFC 2013 £000
Surplus before taxation	**4,654**	**3,786**	1,854	1,573
Interest receivable	**(176,901)**	**(135,509)**	(168,193)	(126,029)
Interest payable	**179,592**	**135,492**	170,997	126,019
Dividend receivable	**-**	**(2,000)**	-	(350)
Adjustment for:				
Depreciation and amortisation	**5**	**-**	6	-
Increase in pension provision	**768**	**-**	-	-
(Increase)/decrease in other receivables	**(104)**	**242**	(486)	(618)
Increase/(decrease) in other payables	**174**	**1,135**	87	(183)
Net cash inflow from operating activities	**8,188**	**3,146**	4,265	412

20. Analysis of changes in net funds

	At 1 April 2013 £000	Cash Flows £000	Other Non-cash Changes £000	At 31 March 2014 £000
Group				
Cash and cash equivalents	22,068	1,420	-	**23,488**
Debt due after 1 year	(3,032,495)	(274,202)	(2,599)	**(3,309,296)**
Debt due within 1 year	(92,188)	32,250	800	**(59,138)**
Short-term deposits	16,175	229	-	**16,404**
	(3,086,440)	(240,303)	(1,799)	**(3,328,542)**

	At 1 April 2013 £000	Cash Flows £000	Other Non-cash Changes £000	At 31 March 2014 £000
THFC				
Cash and cash equivalents	12,987	5,363	-	**18,350**
Debt due after 1 year	(2,208,216)	(296,522)	1,373	**(2,503,365)**
Debt due within 1 year	(16,826)	8,000	279	**(8,547)**
Short-term deposits	8,799	1,188	-	**9,987**
	(2,203,256)	(281,971)	1,652	**(2,483,575)**

21. Commitments

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

	Group 2014 £000	Group 2013 £000
Due within 1 year	**31**	67
In the 2nd to 5th year inclusive	**-**	36
Over 5 years	**-**	-
	31	103

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.

(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 2015 each 0.5% increase/decrease in interest rates gives rise to a £156,507 (2013: £119,582) increase/decrease in income for the Group and £122,350 (2013: £80,200) 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 represented by 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 2014 (2013: 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 13 borrowers who have an element of floating charge security on 28 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 certain 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. It is neither practical nor cost effective to obtain a measure of the fair value of the group's entire pool of collateral at a single date.

(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 which is fully drawn as at 31 March 2014 (2013: Nil) 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 2014 (2013: None).

22. Financial risk management continued

The maturity profile of financial assets

	Group 2014 £000	THFC 2014 £000	Group 2013 £000	THFC 2013 £000
Loans to housing associations	**3,338,174**	**2,511,901**	3,093,213	2,225,031
Securitised assets	**29,570**	**-**	30,779	-
	3,367,744	**2,511,901**	3,123,992	2,225,031
Due within one year	**59,138**	**8,547**	92,188	16,826
Due between one and two years	**35,052**	**9,078**	38,729	8,084
Due between two and five years	**294,287**	**203,059**	306,176	184,606
Due in over five years	**2,979,267**	**2,291,217**	2,686,899	2,015,515
	3,367,744	**2,511,901**	3,123,992	2,225,031

Interest rate risk profile of loans and borrowings

	Group 2014 Financial Liabilities £000	Group 2014 Financial Assets £000	Group 2013 Financial Liabilities £000	Group 2013 Financial Assets £000
Fixed rate	**2,934,504**	**2,934,488**	2,743,805	2,743,789
Floating rate	**433,207**	**433,256**	380,155	380,203
No interest payable	**723**	**-**	723	-
	3,368,434	**3,367,744**	3,124,683	3,123,992

	THFC 2014 Financial Liabilities £000	THFC 2014 Financial Assets £000	THFC 2013 Financial Liabilities £000	THFC 2013 Financial Assets £000
Fixed rate	**2,304,809**	**2,304,798**	2,067,482	2,067,471
Floating rate	**207,103**	**207,103**	157,560	157,560
	2,511,912	**2,511,901**	2,225,042	2,225,031

The effective interest rates during the year for the Group and THFC were between 0.74% and 12.04%. The weighted average interest rate on both fixed financial liabilities and fixed financial assets of the Group is 6.15% and the weighted average period for which interest rates are fixed is 17.92 years. The corresponding figures for THFC are 6.069% and 19.89 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 to the Group and THFC are as follows:

	Group 2014 £000	THFC 2014 £000	Group 2013 £000	THFC 2013 £000
Within one year	**5,000**	**5,000**	-	-
Between one and two years	**500,000**	**-**	-	-
Over two years	**375,250**	**303,000**	497,500	449,500
	880,250	**308,000**	497,500	449,500

Facilities will only be drawn down when corresponding drawdowns are requested by the relevant borrower under matching committed facilities granted to them by the Group and THFC.

Contractual cash flows

The table below summarises the cash flows payable by the Group from 31 March 2014 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 2014 remain unchanged until the contract maturity. Similarly, on indexed liabilities it has been assumed that the liability is fixed from 31 March 2014.

22. Financial risk management continued

Group

As at 31 March 2014	Within 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000	Total £000
Contractual interest cash flows	185,185	183,703	500,904	2,199,652	3,069,444
Contractual principal cash flows	56,716	32,530	287,244	2,962,171	3,338,661
Total contractual cash flows	241,901	216,233	788,148	5,161,823	6,408,105

As at 31 March 2013	Within 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000	Total £000
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

THFC

31 March 2014	Within 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000	Total £000
Contractual interest cash flows	141,617	141,313	383,921	1,896,687	2,563,538
Contractual principal cash flows	7,017	7,449	198,666	2,276,817	2,489,949
Total contractual cash flows	148,634	148,762	582,587	4,173,504	5,053,487

31 March 2013	Within 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000	Total £000
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

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. Since 1 April 2013 employees have also been able to join a defined contribution scheme contributing up to 7% of their salary which is matched by the employer.

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 twelve active members of the scheme employed by THFCS. The annual pensionable payroll in respect of these members was £1,007,882. 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 £150,236 (2013: £116,149). Contributions due and payable at 31 March 2014 amounted to £23,958 (31 March 2013: £17,454). The Group also provided £768,000 (2013:Nil) being the present value of contractually agreed past-service deficit recovery contributions.

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.

23. Pensions continued

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)

(*) 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 next formal valuation of the Scheme will begin later this year and will give an update on the financial position as at 30 September 2014. The results of this valuation will be available in Spring 2016.

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).

The Scheme Actuary has prepared an Actuarial Report that provides 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 market value of the Scheme's assets at the date of the Actuarial Report was £2,718m. The Actuarial Report revealed a shortfall of assets compared with the value of liabilities of £1,151m, equivalent to a past-service funding level of 70%.

In accordance with IAS19 THFCS provides for the net present value of agreed future deficit contributions. The amount provided at 31 March 2014 was £768,000 (2013: Nil).

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 2014 was £5,275,529 (2013: £2,299,780). The amount due from THFCS at 31 March 2014 was £223,177 (2013: £182,501).

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 £153,235 (2013: £129,301) for providing these services and had amounts owing from these companies at 31 March 2014 of £4,259 (2013: £18,978). These companies share some common directors with THFC.

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 2,000,000 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 £12,054,256, £23,548,975 and £29,828,838 respectively (2013: £12,021,230, £23,484,458 and £19,293,107 respectively).

25. Fair values of financial instruments

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

The fair value of the debenture stocks, secured bonds, bank and other borrowings and associated loans are shown below. The fair value is derived from observable attributes in an active market.

Group

	Book value 2014 £000	Fair value 2014 £000	Book value 2013 £000	Fair value 2013 £000
Assets				
Loans receivable	**3,367,744**	**3,837,629**	3,123,992	3,728,904
Trade and other receivables	**31,353**	**31,353**	31,124	31,124
Short-term cash deposits	**16,404**	**16,404**	16,175	16,175
Cash and cash equivalents	**23,488**	**23,488**	22,068	22,068
	3,438,989	**3,908,874**	3,193,359	3,798,271
Liabilities				
Financial liabilities-borrowings	**3,368,434**	**3,837,580**	3,124,683	3,728,856
Trade and other payables	**52,707**	**52,707**	54,827	54,827
	3,421,141	**3,890,287**	3,179,510	3,783,683

THFC

	Book value 2014 £000	Fair value 2014 £000	Book value 2013 £000	Fair value 2013 £000
Assets				
Loans receivable	**2,511,901**	**2,877,953**	2,225,031	2,711,717
Investments	**2,700**	**2,700**	700	700
Trade and other receivables	**27,358**	**27,358**	27,414	27,414
Short-term cash deposits	**9,987**	**9,987**	8,799	8,799
Cash and cash equivalents	**18,350**	**18,350**	12,987	12,987
	2,570,296	**2,936,348**	2,274,931	2,761,617
Liabilities				
Financial liabilities-borrowings	**2,511,912**	**2,877,953**	2,225,042	2,711,717
Trade and other payables	**45,976**	**45,976**	40,220	40,220
	2,557,888	**2,923,929**	2,265,262	2,751,937

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.

26. Netting of financial instruments

Group

	2014		2013	
	Loans to borrowers £	Secured bonds and other borrowings £	Loans to borrowers £	Secured bonds and other borrowings £
Gross book value – non-current	**3,308,606**	**3,309,296**	3,031,804	3,032,495
– current – principal	**56,715**	**56,715**	90,217	90,217
– current – discount	**(469)**	**(469)**	(435)	(435)
– current – premium	**2,892**	**2,892**	2,406	2,406
– total current	**59,138**	**59,138**	92,188	92,188
Accrued interest	**29,953**	**48,642**	29,842	50,950
Gross carrying value of loans/ secured bonds	**3,397,697**	**3,417,076**	3,153,834	3,175,633
On-balance netting under IAS 32	**-**	**-**	-	-
Carrying values included in statement of financial position	**3,397,697**	**3,417,076**	3,153,834	3,175,633
Other enforceable offsets:				
Collateral received	**(3,397,697)**	**-**	(3,153,834)	-
Collateral pledged	**-**	**(3,417,076)**	-	(3,175,633)
Net exposure on loans to borrowers	**-**	**-**	-	-
Uncollateralised liability on secured borrowings	**-**	**-**	-	-

THFC

	2014		2013	
	Loans to borrowers £	Secured bonds and other borrowings £	Loans to borrowers £	Secured bonds and other borrowings £
Gross book value – non-current	**2,503,354**	**2,503,365**	2,208,205	2,208,216
– current – principal	**7,017**	**7,017**	15,735	15,735
– current – discount	**(453)**	**(453)**	(422)	(422)
– current – premium	**1,983**	**1,983**	1,513	1,513
– total current	**8,547**	**8,547**	16,826	16,826
Accrued interest	**26,377**	**43,770**	26,191	39,163
Gross carrying value of loans/ secured bonds	**2,538,278**	**2,555,682**	2,251,222	2,264,205
On-balance netting under IAS 32	**-**	**-**	-	-
Carrying values included in statement of financial position	**2,538,278**	**2,555,682**	2,251,222	2,264,205
Other enforceable offsets:				
Collateral received	**(2,538,278)**	**-**	(2,251,222)	-
Collateral pledged	**-**	**(2,555,682)**	-	(2,264,205)
Net exposure on loans to borrowers	**-**	**-**	-	-
Uncollateralised liability on secured borrowings	**-**	**-**	-	-

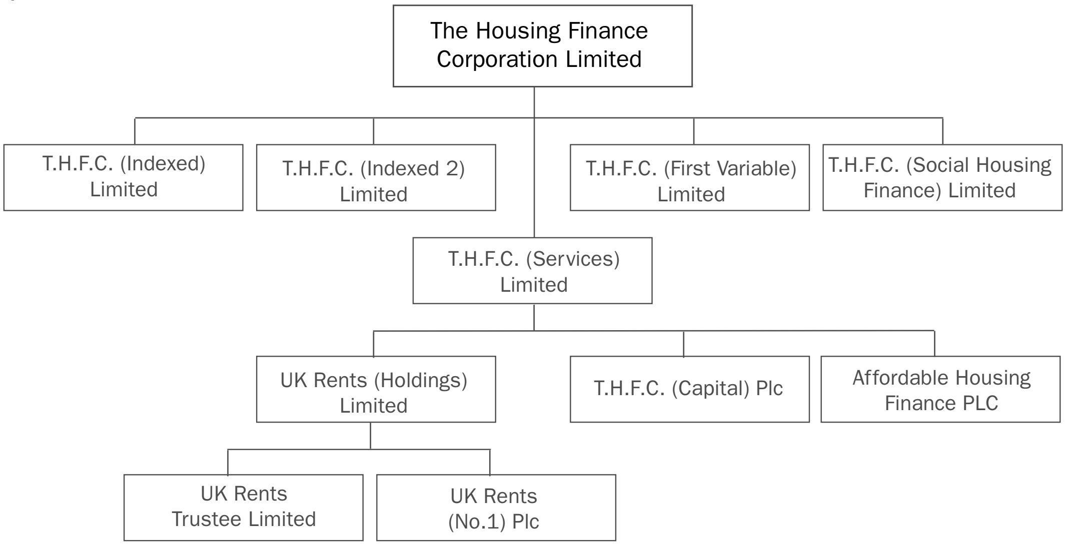
As explained in Note 22, collateral received always exceeds 100% of loan amounts however, for the purposes of disclosure above, the value of collateral received and pledged has been restricted to the book value of the underlying loans and related funding.

Five Year Financial Record

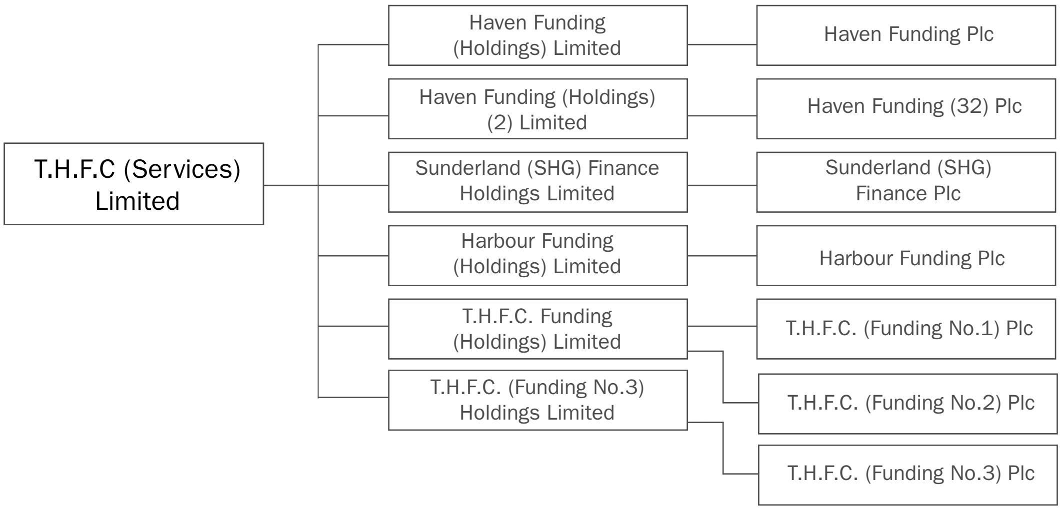
Excluding loan interest and similar items

Year to 31 March	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000
Fees	2,743	2,483	2,697	3,550	**7,675**
Investment income	236	316	343	406	**310**
Other income	255	268	211	217	**302**
Interest margin	34	29	34	22	**29**
Total revenues (after interest expense off-set)	3,268	3,096	3,285	4,195	**8,316**
Staff costs	993	1,048	1,114	1,256	**1,731**
Pension provision	-	-	-	-	**768**
Non-executive directors costs	131	143	149	156	**167**
Legal/trustees and registrars	234	250	270	312	**299**
Premises	121	114	127	130	**178**
Other	333	346	387	487	**519**
Total operating expenses	1,812	1,901	2,047	2,341	**3,662**
Surplus before tax	1,456	1,195	1,238	1,854	**4,654**
Tax	418	142	231	444	**1,082**
Surplus after tax	1,038	1,053	1,007	1,410	**3,572**
Accumulated reserves	9,523	10,576	11,583	12,993	**16,565**
	£m	£m	£m	£m	£m
Loans outstanding	2,135	2,469	2,882	3,124	**3,368**
	%	%	%	%	%
Ratio of operating expenses to loan book	0.08	0.08	0.07	0.07	**0.11**

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 **£259,783,095** Issue Date **11.03.97**	Nominal Value **£67,600,000** Issue Date **12.02.98**	Nominal Value **£214,388,676** Issue Date **28.08.03**	Nominal Value **£212,802,000** Issue Date **27.06.01**	Nominal Value **£235,205,000** Issue Date **21.12.04**	Nominal Value **£370,850,000** Issue Date **08.07.09**	Nominal Value **£623,300,000** Issue Date **11.10.11**
Business Activity	Quoted Eurobonds, proceeds on-lent to 10 borrowers	Quoted Eurobonds, proceeds on-lent to 6 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 49 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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