

FINANCE FOR HIGHER EDUCATION LIMITED

Annual Report and Financial Statements

For the year ended 31 March 2009



FINANCE FOR HIGHER EDUCATION LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2009

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FINANCE FOR HIGHER EDUCATION LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2009

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Capita Trust Corporate Services Limited
Capita Trust Company Limited

SECRETARY

Clifford Chance Secretaries LLP

COUNTRY OF INCORPORATION

Great Britain

REGISTERED OFFICE

10 Upper Bank Street
London
E14 5JJ

BANKERS

The Royal Bank of Scotland Plc

AUDITORS

Deloitte LLP
London

FINANCE FOR HIGHER EDUCATION LIMITED

DIRECTORS' REPORT

The directors present their annual report on the affairs of Finance for Higher Education Limited ("the Company") together with the financial statements and independent auditors' report for the year ended 31 March 2009.

ACTIVITIES

The objective of the Company is to profit from the efficient financing and administration of the student loan portfolio.

There has been no change in the activities of the Company and no changes are foreseen in the future.

REVIEW OF DEVELOPMENTS

During the year £35,487,000 (2008 - £48,321,000) worth of the secured loan notes issued were repaid to The Higher Education Securitised Investments Series No.1 Plc ("THESIS"), and as at 31 March 2009 the principal balance of secured loan notes issued was £123,500,000 (2008 - £158,987,000). The Company has drawn an additional £9,102,000 on the committed borrowing facility with Student Loan Asset Funding Inc. and the undrawn balance as at 31 March 2009 was £145,946,000 (2008 - £136,844,000).

Link Financial Ltd took over from Student Loans Company Limited as Sub-Administrators of the loan portfolio from 1 October 2008.

ENHANCED BUSINESS REVIEW

Investment income, a key performance indicator of the Company, decreased by 35% mainly due to a decline in aggregate amounts received from borrowers as well as HM Government subsidy. Similarly, interest expense for the year, a key performance indicator of the Company, decreased by 33% on the prior year due to the reduction in the outstanding balances of the loan notes in issue and the decrease in LIBOR in the year.

Other operating expense has decreased by 10% on the prior year as this is linked to the loan portfolio which decreases on a monthly basis.

Following an updated assessment of the expected future losses at the end of the year (in relation to the student loan portfolio), there has been an increase in the provision of £916,000 (2008 - £830,000). On the advice of the Student Loan Company, £3.1 million (2008 - £3.7 million) of the amounts previously provided for have been written off as it is not considered that these debts will be recovered.

	2009	2008
	£'000	£'000
Provision at the start of the year	25,738	28,594
Increase in provision	916	830
Amounts written off previously provided for	(3,161)	(3,686)
Provision at the end of the year	<u>23,493</u>	<u>25,738</u>

The level of the provision will continue to be reviewed annually by the directors and financial statement amounts adjusted accordingly (please refer to note 8 of the financial statements on page 14 for further information).

The Company is funded via secured floating rate notes. According to the terms of these notes, where there are insufficient funds to repay the notes at maturity, the Company shall only be obliged to make payments in respect of principal and interest to the extent that it has received funds representing amounts due from and referable to the portfolio of student loans including interest capitalised on loans in deferment.

Therefore, although we note the significant dislocation in financial markets since August 2007, this is not expected to impact the ability of the entity to continue as a going concern. As such, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

FINANCE FOR HIGHER EDUCATION LIMITED

DIRECTORS' REPORT

RESULTS AND DIVIDENDS

The loss for the year before taxation is shown on page 6 of the financial statements.

No dividends were declared or paid by the Company during the year and the directors do not propose a final dividend (2008 - £nil).

DIRECTORS

The directors who served during the year are as follows:

Capita Trust Company Limited
Capita Trust Corporate Services Limited

EMPLOYEES

The Company has no employees. The Royal Bank of Scotland Plc performs cash management services for the Company. First National Tricity Finance (formerly Lombard Tricity Finance), the administrator of the loans portfolio, has appointed Link Financial as Sub Administrators, effective 1 October 2008. Clifford Chance Secretaries Limited performs the Company's secretarial function.

RISK MANAGEMENT POLICIES

The directors acknowledge that the global macro-economic indicators and general business environment have deteriorated during 2008, and remain uncertain during the first half of 2009. Market liquidity constraints, limited availability of credit and difficult trading conditions continue to pose significant challenges to all underlying businesses and borrowers to whom the Company has exposure. Conditions may deteriorate further due to the continued global financial and economic uncertainty.

The principal risks facing the Company are liquidity risk, interest rate risk and credit risk. These risks have been monitored on an on-going basis during the period and the Company has policies in place to mitigate these risks. The Company's risk management policies are set out in note 14.

AUDITORS

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

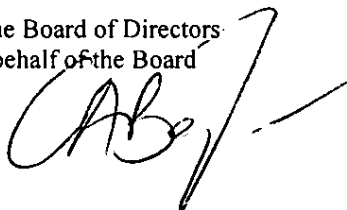
STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that:

- (1) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- (2) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Approved by the Board of Directors
and signed on behalf of the Board



Director

2 November 2009

FINANCE FOR HIGHER EDUCATION LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to be properly prepared in accordance with IFRSs as adopted by the European Union and the Companies Act 1985.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FINANCE FOR HIGHER EDUCATION LIMITED

We have audited the financial statements of Finance for Higher Education Limited for the year ended 31 March 2009 which comprise the income statement, the statement of change in shareholders' deficit, the balance sheet, the cash flow statement and the related notes 1 to 16. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding the directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

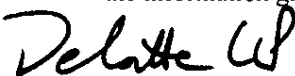
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 March 2009 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.



Deloitte LLP

Chartered Accountants and Registered Auditors

London, United Kingdom

Date

2nd November 2009

FINANCE FOR HIGHER EDUCATION LIMITED

INCOME STATEMENT

For the year ended 31 March 2009

	Notes	2009 £'000	2008 £'000
REVENUE			
Investment income	3	16,979	26,256
Interest expense	4	(14,634)	(21,694)
GROSS PROFIT		2,345	4,562
Other operating expenses	5	(4,308)	(4,792)
Write down of asset values	8	(916)	(830)
OPERATING LOSS		(2,879)	(1,060)
Bank interest income		93	167
LOSS BEFORE TAXATION	6	(2,786)	(893)
Tax charge	7	-	-
LOSS FOR THE YEAR		(2,786)	(893)

The accompanying notes are an integral part of this income statement.

The results above arose wholly from continuing operations.

STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIT

For the year ended 31 March 2009

	Share capital £'000	Accumulated deficit £'000	Total £'000
Balance as at 1 April 2007	-	(51,378)	(51,378)
Loss for the year	-	(893)	(893)
Balance as at 1 April 2008	-	(52,271)	(52,271)
Loss for the year	-	(2,786)	(2,786)
Balance as at 31 March 2009	-	(55,057)	(55,057)

FINANCE FOR HIGHER EDUCATION LIMITED

BALANCE SHEET

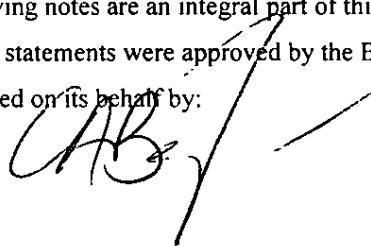
As at 31 March 2009

	Notes	2009 £'000	2008 £'000
NON-CURRENT ASSETS			
Loans maturing after one year	8	205,428	226,810
CURRENT ASSETS			
Loans maturing within one year	9	23,479	29,606
Trade and other receivables	9	-	736
Cash and cash equivalents		4,632	5,093
		28,111	35,435
TOTAL ASSETS		233,539	262,245
CURRENT LIABILITIES			
Loan notes issued maturing within one year	10	(17,458)	(24,723)
Accrued interest payable	10	(354)	(861)
Other creditors	10	(378)	(429)
		(18,190)	(26,013)
NET CURRENT ASSETS		9,921	9,422
NON-CURRENT LIABILITIES			
Loan notes issued maturing after more than one year	11	(270,406)	(288,503)
TOTAL LIABILITIES		(288,596)	(314,516)
NET LIABILITIES		(55,057)	(52,271)
EQUITY			
Share capital	13	-	-
Retained losses		(55,057)	(52,271)
TOTAL SHAREHOLDERS' DEFICIT		(55,057)	(52,271)

The accompanying notes are an integral part of this balance sheet.

These financial statements were approved by the Board of Directors and authorised for issue on 2 November 2009.

They were signed on its behalf by:



Director

2 NOVEMBER 2009

FINANCE FOR HIGHER EDUCATION LIMITED

CASH FLOW STATEMENT

For the year ended 31 March 2009

	Notes	2009 £'000	2008 £'000
Operating activities			
Operating loss before tax		(2,879)	(1,060)
Add back: non cash items			
Change in impairment provision	8	916	830
Changes in deferred interest	12	1,024	4,979
Changes in operating assets	9	736	679
Changes in operating liabilities	10	(558)	(222)
Cash flow (used in)/from operating activities before tax		(761)	5,206
Income taxes paid		-	-
Cash flow (used in)/from operating activities		(761)	5,206
Investing activities			
Bank interest received		93	167
Redemption of student loan portfolio	8	26,593	33,460
Net cash from investing activities		26,686	33,627
Financing activities			
Redemption of floating rate notes	12	(35,488)	(48,321)
Drawdown of borrowing facility	11	9,102	8,055
Net cash flow used in financing activities		(26,386)	(40,266)
Net decrease in cash		(461)	(1,433)
Cash and cash equivalents at beginning of year		5,093	6,526
Cash and cash equivalents at end of year		4,632	5,093

The accompanying notes are an integral part of this cash flow statement.

FINANCE FOR HIGHER EDUCATION LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 March 2009

1. ACCOUNTING POLICIES

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and in the prior year, are set out below:

General information

Finance for Higher Education Limited ("the Company") is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Directors' Report.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

• IFRS 1(amended)	<i>First-time Adoption of International Financial Reporting Standards - oil and gas assets and determining whether an arrangement contains a lease</i>
• IFRS 2 (amended)	<i>Share-based Payment – cash-settled share-based payment transactions</i>
• IFRS 3 (revised 2008)	<i>Business Combinations</i>
• IFRS 5	<i>Non-Current Assets Held For Sale And Discontinued Operations</i>
• IFRS 8	<i>Operating Segments</i>
• IAS 1(revised 2009)	<i>Presentation of Financial Statements</i>
• IAS 7(revised 2009)	<i>Statement of Cashflows</i>
• IAS 17(revised 2009)	<i>Leases</i>
• IAS 18(revised 2008)	<i>Revenue</i>
• IAS 19(revised 2008)	<i>Employee Benefits</i>
• IAS 23 (revised 2007)	<i>Borrowing Costs</i>
• IAS 28 (revised 2008)	<i>Investments in Associates</i>
• IAS 31 (revised 2008)	<i>Interests in Joint Ventures</i>
• IAS 36 (revised 2009)	<i>Impairment of Assets</i>
• IAS 38 (revised 2009)	<i>Intangible Assets</i>
• IAS 39 (revised 2009)	<i>Financial Instruments: Recognition and Measurement</i>
• IFRIC 17	<i>Distributions of Non-cash Assets to Owners</i>
• IFRIC 18	<i>Transfers of Assets from Customers</i>

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company for periods commencing on or after 1 April 2009.

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments in accordance with International Accounting Standard 39 "Financial Instruments: Recognition and Measurement" ("IAS 39").

Due to the fact that the nature of the business is to provide finance, the directors are of the opinion that it is more appropriate to use investment income and interest expense rather than turnover and cost of sales in preparing the income statement.

FINANCE FOR HIGHER EDUCATION LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 March 2009

1. ACCOUNTING POLICIES (CONTINUED)

Basis of accounting – going concern

The Company's business activities, performance and position, as well as principal risks and uncertainties are set out in the Directors' Report. In addition note 14 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to interest rate risk, credit risk and liquidity risk.

The Company shall only be obliged to make payments in respect of principal and interest on the loan notes, and payments will only become due on any interest payment date and on any date following acceleration of the loan notes, to the extent that it has received funds representing amounts due from and referable to the portfolio of student loans including interest capitalised on loans in deferment.

After making enquiries, and considering the uncertainties described above, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

Investment income

The sources of income are cash receivable from loans issued by the Student Loans Company Limited and a subsidy receivable from the Department of Education. Income is accounted for on a time basis and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's carrying amount.

Interest expense

Interest expense is accrued on a time basis by reference to the loan outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash payments through the expected life of the loan's carrying amount.

Other interest income

Other interest income relates to interest receivable on cash at bank. This is accounted for on an accruals basis.

Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Investments

Investments consist of a portfolio of student loans that includes interest capitalised on loans in deferment. These loans are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits.

Floating rate notes

The secured loan notes were issued on 23 March 1998 to THESIS. Loan notes are measured at fair value on initial recognition, and are subsequently measured at amortised cost using the effective interest rate method.

FINANCE FOR HIGHER EDUCATION LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 March 2009

1. ACCOUNTING POLICIES (CONTINUED)

Fees

Other expenses are measured on an accruals basis at the fair value of the consideration paid or payable and represent amounts payable to THESIS in respect of issuer facility fees.

Taxation

Provision is made for taxation at current enacted rates on taxable profits, arising in income or in equity, taking into account relief for overseas taxation where appropriate.

Deferred taxation is accounted for in full for all temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expense, in particular the estimation of future cash flows on the portfolio of student loans in order to determine the amortised cost balance of these investments. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements on carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates used in the financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both the current and future periods.

2. DIRECTORS AND EMPLOYEES

The directors received no emoluments for their services to the Company during the current or preceding year.

The directors had no material interest in any contract of significance in relation to the business of the Company in the current or preceding year.

The Company did not have any employees in the current or preceding year.

FINANCE FOR HIGHER EDUCATION LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 March 2009

3. INVESTMENT INCOME

	2009	2008
	£'000	£'000
Interest income on loans	395	2,568
HM Government subsidy	5,747	13,047
Interest income on deferred loans	9,102	8,055
Recovery of loan balances previously written off	1,735	2,586
	<u>16,979</u>	<u>26,256</u>

HM Government subsidy

As the loans pay significantly below market rate, HM Government pays an enhancement to the coupon to bring the combined yield to a market rate of return. These subsidies continue even if a loan is in arrears for up to 24 months.

The subsidy is calculated by the Student Loans Company Limited on a monthly basis and paid monthly by the Department of Education and Skills to the Company. The amount paid during the year to the Company was £6,568,463 (2008: £13,725,688) and the amount owed for at the year end was £85,513 (2008 accrued: £736,163).

4. INTEREST EXPENSE

	2009	2008
	£'000	£'000
Class A2 secured loan notes at LIBOR +0.50%	2,959	5,502
Class A3 secured loan notes at LIBOR +0.78%	1,533	2,152
Class A4 secured loan notes at LIBOR +1.50%	564	1,727
Class B1 secured loan notes at LIBOR	1,259	1,743
Class B2 secured loan notes at LIBOR	1,259	1,742
	<u>7,574</u>	<u>12,866</u>
Other interest expense	7,060	8,828
	<u>14,634</u>	<u>21,694</u>

5. OTHER OPERATING EXPENSES

	2009	2008
	£'000	£'000
Administration fees	3,972	4,493
Other fees	336	299
	<u>4,308</u>	<u>4,792</u>

FINANCE FOR HIGHER EDUCATION LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 March 2009

6. OPERATING LOSS BEFORE TAX

The operating loss before taxation is stated after charging auditors' remuneration as follows:	2009	2008
	£'000	£'000
Auditors' fees for audit of the Company's statutory accounts	47	46
Auditors' fees for non-audit services	61	-
Provision for impairment against loans held	916	830

Audit fees include £61,100 relating to non-audit services in relation to the subsidy calculations of the Student Loans Company for the years 2002 – 2008.

7. TAXATION ON LOSS ON ORDINARY ACTIVITIES

Analysis of tax charge on ordinary activities

Tax is based on the results for the year and comprises:

	2009	2008
	£'000	£'000
Current taxation:		
Charge for the year	-	-

Factors affecting the tax charge for the current period

The actual tax charge differs from the expected tax charge computed by applying the standard rate of UK corporation tax of 28% (2008: 30%) as follows:

Loss on ordinary activities	(2,786)	(893)
Expected tax charge	(780)	(268)
Effect of:		
Non-deductible interest under IFRS	(44)	(15)
Loss relief carried forward	811	271
Small companies rate	-	4
Group relief	13	8
Actual tax charge for the year	-	-

Factors that may affect the future tax charge

Deferred tax assets of £16.86 million (2008: £16.07m) have not been recognised in respect of tax losses carried forward of £60.30 million (2008: £57.41million) as it is not considered probable that taxable profits will arise against which the Company can utilise the benefits. The balance of tax losses have no expiry date.

FINANCE FOR HIGHER EDUCATION LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 March 2009

8. NON-CURRENT ASSETS

	2009 £'000	2008 £'000
Opening loan balance	282,154	319,300
Subsidy received for loans written off during the year	(4,213)	(3,506)
Amounts written off during the year	(3,161)	(3,686)
Repayments of loans	(22,380)	(29,954)
	<hr/>	<hr/>
Beneficial interest in student loan portfolio	252,400	282,154
	<hr/>	<hr/>
Provision for impairment at start of the year	(25,738)	(28,594)
Utilisation of provision for the year	3,161	3,686
Provision for the year	(916)	(830)
	<hr/>	<hr/>
Provision for impairment at end of the year	(23,493)	(25,738)
	<hr/>	<hr/>
Net investment value	228,907	256,416
	<hr/>	<hr/>
Loans due within one year	23,479	29,606
Loans due after more than one year	205,428	226,810
	<hr/>	<hr/>
	228,907	256,416
	<hr/>	<hr/>

The loan provision has been based upon an updated assessment of the expected future losses compared with the first loss level anticipated by the Government when the loan notes were acquired.

First loss is the amount outstanding at the point when a loan becomes twenty four months or more in arrears. The first loss agreement allows the Company to claim 50% of any subsequent recoveries made on loans that have defaulted (over twenty four months overdue) within a maximum of £48.5 million. The loans on which first loss has been taken are immediately written-off and any subsequent recoveries are taken as income. Any recoveries in respect of losses not claimed under the first loss of £48.5m are due to the Company in full. The provision for impairment above represents expected future losses above the first loss level.

It is estimated that approximately £205.4 million (2008: £226.8 million) of the net investment value will mature after more than one year.

9. CURRENT ASSETS

	2009 £'000	2008 £'000
Accrued interest	-	736
Loans due within one year (see note 8)	23,479	29,606
	<hr/>	<hr/>
	23,479	30,342
	<hr/>	<hr/>

FINANCE FOR HIGHER EDUCATION LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 March 2009

10. CURRENT LIABILITIES

	2009 £'000	2008 £'000
Secured loan notes (note 12)	17,458	24,723
Accrued interest payable	354	861
Other creditors	378	429
	<u>18,190</u>	<u>26,013</u>

11. NON-CURRENT LIABILITIES

	2009 £'000	2008 £'000
Secured loan notes and capitalised interest (note 12)	124,460	151,659
Utilisation of borrowing facility	145,946	136,844
	<u>270,406</u>	<u>288,503</u>

The Company has also entered into a committed borrowing facility with Student Loan Asset Funding Inc. This facility is in place to fund any cash shortfall caused by loans in deferment. The facility is for £172,497,852 (2008: £172,497,852) of which £145,945,758 (2008: £136,843,520) had been drawn at the year end. The final maturity date of the borrowing facility is March 2028.

Creditors due after five years are disclosed in Note 14.

12. LOAN NOTES

	2009 £'000	2008 £'000
There are five types of secured loan notes issued and outstanding:		
Class A2 secured loan notes	44,920	73,054
Class A3 secured loan notes	29,445	29,445
Class A4 secured loan notes	7,935	15,289
Class B1 secured loan notes	20,600	20,600
Class B2 secured loan notes	20,600	20,600
Class B1 capitalised interest	9,209	7,950
Class B2 capitalised interest	9,209	7,950
Class A3 capitalised interest	-	1,494
	<u>141,918</u>	<u>176,382</u>
Loan notes due within one year	17,458	24,723
Loan notes due after more than one year	124,460	151,659
	<u>141,918</u>	<u>176,382</u>

According to the terms of the floating and fixed rate notes, where there are insufficient funds to repay the notes at maturity, the priority payment schedule detailed in the offering circular (dated 23 March 1998) is followed.

FINANCE FOR HIGHER EDUCATION LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 March 2009

12. LOAN NOTES (CONTINUED)

The Company shall only be obliged to make payments in respect of principal and interest on the loan notes, and payments will only become due on any interest payment date and on any date following acceleration of the loan notes, to the extent that it has received funds representing amounts due from and referable to the portfolio of student loans including interest capitalised on loans in deferment.

13. SHARE CAPITAL

	2009 £	2008 £
Authorised		
100 ordinary shares of £1 each	100	100
Allotted, called up and fully paid		
2 ordinary shares of £1 each	2	2

The fully paid shares were issued on incorporation. All the shares of the Company are held by The Higher Education Securitised Investments Services (Holdings) Limited or its nominees.

14. FINANCIAL INSTRUMENTS

The Company's financial instruments comprise principally amounts due from a portfolio of student loans and various tranches of secured loan notes issued to and held by THESIS. Additional funding has been obtained through other loan agreements. Cash, accrued interest income, accrued interest payable and other items arise directly from the Company's operations.

It is, and has been throughout the year, the Company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk and credit risk. The Board reviews and agrees policies for managing each of these risks and these are summarised below. These policies have remained unchanged since the Company commenced operations on 23 March 1998. All transactions and financial instruments are denominated in the Company's functional currency (Sterling) and consequently no currency exposure arises.

Capital risk management

The company manages its capital to ensure it will be able to continue as a going concern.

The capital structure of the Company primarily comprises issued secured loan notes (see note 12) and a borrowing facility (see note 11). Other sources of funding consist of equity attributable to equity holders of the parent, comprising issued share capital and retained earnings. The Company has in place a number of borrowing and credit loss facilities to ensure it is able to meet its capital requirements. In addition, the loan notes issued are secured over a portfolio of student loans.

Interest rate risk

The Company finances its operations through borrowed funds and the issue of secured loan notes. At the year end, all of the Company's borrowings were at floating rates, excluding accruals. The secured loan notes earn interest based on one-month LIBOR plus a margin.

As the student loans pay below a market rate of return, HM Government pays an enhancement to the coupon (effectively an interest subsidy) to bring the combined yield to a market rate of return. This subsidy is tied to one-month LIBOR. As a result, the Company has no material net exposure to interest rate risk and therefore no sensitivity analysis has been presented.

FINANCE FOR HIGHER EDUCATION LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 March 2009

14. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with financial liabilities as they fall due.

Funding has been obtained through the issue of secured loan notes. The Company has in place a number of borrowing and credit loss facilities to ensure that sufficient liquidity is maintained to meet its obligations on the secured loan notes. These include an undrawn committed borrowing facility and a guarantee for losses on the portfolio up to a certain level, however this level has been exceeded.

The table below details the expected maturity of the Company's material liabilities as at the balance sheet date. The table has been drawn up based on the undiscounted contractual cash flows of these liabilities.

As at 31 March 2009	Carrying value £'000	Gross cash flows £'000	In less than 1 month £'000	After 1 month but within 3 months £'000	After 3 months but within 1 year £'000	After 1 year but within 5 years £'000	After 5 years £'000
Loan notes	141,918	141,918	1,214	6,088	10,156	27,461	96,999
Utilisation of borrowing facility	145,946	145,946	-	-	-	-	145,946
Interest payable	268	1,921	427	423	405	374	292
	<u>288,132</u>	<u>289,785</u>	<u>1,641</u>	<u>6,511</u>	<u>10,561</u>	<u>27,835</u>	<u>243,237</u>

FINANCE FOR HIGHER EDUCATION LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 March 2009

14. FINANCIAL INSTRUMENTS (CONTINUED)

As at 31 March 2008	Carrying value £'000	Gross cash flows £'000	In less than 1 month £'000	After 1 month but within 3 months £'000	After 3 months but within 1 year £'000	After 1 year but within 5 years £'000	After 5 years £'000
Loan notes	176,382	176,382	6,996	3,713	14,014	55,645	96,014
Utilisation of borrowing facility	136,844	136,844	-	-	-	-	136,844
Interest payable on loan notes	861	3,706	861	827	809	740	469
	<u>314,087</u>	<u>316,932</u>	<u>7,857</u>	<u>4,540</u>	<u>14,823</u>	<u>56,385</u>	<u>233,327</u>

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's student loan receivables.

The carrying amount of financial assets represents the maximum credit exposure.

The Company is exposed to credit risk on its student loan portfolio. This loan balance has been written down based on an updated assessment of the expected losses as outlined in note 8. The Company monitors its credit exposure on a monthly basis.

Maturity of financial assets and liabilities

The maturity profile of the Company's financial assets at 31 March was as follows:

	2009 £'000	2008 £'000
In one year or less, or on demand	28,111	35,435
In more than one year but not more than two years	58,455	73,587
In more than two years but not more than five years	96,975	118,274
In more than five years	49,998	34,949
	<u>233,539</u>	<u>262,245</u>

FINANCE FOR HIGHER EDUCATION LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 March 2009

14. FINANCIAL INSTRUMENTS (CONTINUED)

The maturity profile of the Company's financial liabilities at 31 March was as follows:

	2009 £'000	2008 £'000
In one year or less, or on demand	18,190	26,013
In more than one year but not more than two years	19,019	26,394
In more than two years but not more than five years	8,443	29,251
In more than five years	242,944	232,858
	<u>288,596</u>	<u>314,516</u>

The maturity profile of the Company's financial assets and liabilities is an estimate, since loans may be repaid at different times at the option of the borrower.

Borrowing facilities

The Company has an undrawn committed borrowing facility with Student Loan Asset Funding Inc. This undrawn facility available at 31 March 2009, in respect of which all conditions precedent had been met, was as follows:

	2009 £'000	2008 £'000
In more than five years	26,552	35,654
	<u>26,552</u>	<u>35,654</u>

At 31 March 2009 £145,945,758 (2008: £136,843,520) of the original £172,497,852 (2008: £172,497,852) facility has been drawn down.

Fair values

The following table shows the carrying values and, where different, the fair values of financial instruments on the Company's balance sheet.

	2009 £'000	2009 £'000	2008 £'000	2008 £'000
	Carrying value	Fair value	Carrying value	Fair value
Loan notes issued	141,918	73,397	176,382	108,777

The fair value in 2009 is stated at the carrying value of the loan notes, based on an assessment of expected losses detailed in Note 8. This is due to the market prices being unavailable in an illiquid market at the balance sheet date.

The fair values of financial assets are not determinable due to the unique characteristics of those underlying assets.

FINANCE FOR HIGHER EDUCATION LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 March 2009

15. RELATED PARTY TRANSACTIONS

The Royal Bank of Scotland Plc performs cash management services for the Company for which it receives a monthly cash management fee. During the year, £19,423 (2008 - £21,921) was paid in respect of these services and £1,711 (2008 - £1,906) was accrued at the year end.

The Royal Bank of Scotland Plc receives an annual broking fee. During the year £1,825,480 (2008 - £2,060,468) was paid in respect of these fees and £160,741 (2008 - £179,068) was accrued at the year end.

The portfolio of student loans is administered by First National Tricity Finance who have employed Link Financial as Sub-Administrators of the portfolio, effective 1 October 2008. During the year £1,826,983 (2008 - £2,073,445) was paid in respect of these services and £158,350 (2008 - £180,240) was accrued at the year end.

The Company's secured loan notes issued and outstanding (note 12) were issued to THESIS, a fellow subsidiary undertaking. The interest expense on these notes is detailed in note 4 above.

THESIS receives issuer fees on an annual basis. During the year £123,950 (2008 - £121,544) was paid in respect of these services and £11,591 (2008 - £10,578) was accrued at the year end.

16. ULTIMATE AND IMMEDIATE PARENT UNDERTAKING

Capita Trust Company Limited holds the entire share capital of the immediate parent and ultimate controlling party, The Higher Education Securitised Investments Series (Holdings) Limited, a company incorporated and registered in England and Wales. The registered address of The Higher Education Securitised Investments Series (Holdings) Limited is 10 Upper Bank Street, London, E14 5JJ. The Higher Education Securitised Investments Series (Holdings) Limited prepares consolidated financial statements and this is the smallest and largest group into which the results of the Company are consolidated.