

UK RENTS (NO.1) PLC
Company Number: 2974635
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 6 APRIL 2011

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The Directors present their annual report together with the audited financial statements for the year ended 6 April 2011

Principal Activities

UK Rents (No 1) PLC ("UKR1") is a wholly owned subsidiary of the ultimate holding company The Housing Finance Corporation Limited ("THFC") and is a special purpose vehicle established for the purpose of purchasing rent receivables from housing associations by means of the issue of Eurobonds

UKR1 has issued a Financial Instrument, in the form of Eurobonds financing the rental securitisation (see Note 10 for details) The Eurobonds are rated AAA by Fitch Ratings and Aaa by Moody's Investor Services The Eurobonds have a fixed rate of interest, and rents remitted by the housing associations are structured to cover interest payments and capital repayments when due, thus minimising interest and liquidity risks

UKR1 expects to continue its principal activity for the life of the Eurobonds

Results for the Year

The profit after taxation for the year to 6 April 2011 was £5,000 (2010 - £5,000) The Directors do not propose the payment of a dividend (2010 NIL)

Directors

Directors who served during the year and up to the date of signing the financial statements are set out below

Pam Alexander (resigned 31 March 2011)
Charlie Arbuthnot
Fenella Edge
Keith Exford (appointed 1 April 2011)
Roger Mountford
David Orr
John Parker
Gill Rowley
Deborah Shackleton (appointed 1 April 2011)
Sadru Visram (resigned 31 March 2011)
Piers Williamson

No Director had, during or at the end of the year, any interest in any contract with the company The directors receive no remuneration from the company

Creditor Payment Policy

The company's principal creditors are the holders of the Eurobonds Payments to the holders of the Eurobonds are made in accordance with the underlying issue documents As at the financial year end, no amounts due for payment to the holders of the Eurobonds were outstanding

All other creditors are paid within 60 days of receipt of invoice

Statement of Directors' responsibilities

The directors are responsible for preparing the Directors' 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 Under company 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 company and of the profit or loss of the company 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 International Financial Reporting Standards (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 company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. 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.

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

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

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

Financial Risk Management

The key financial risks of the company and how they are minimised are explained in note 2.

Given the straightforward nature of the business, the directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance and position of the business.

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the Board



Colin Burke
Company Secretary
28 June 2011

	Independent Auditors' report to the Members of UK Rents (No.1) PLC
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We have audited the financial statements of UK Rents (No 1) PLC for the year ended 6 April 2011 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 2 to 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 6 April 2011 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

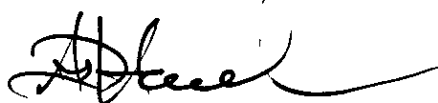
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Andrew Hawkins (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

28 June 2011

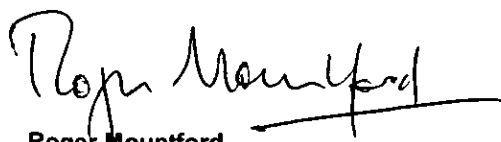
UK Rents (No.1) PLC**Accounts**

Statement of Comprehensive Income	2011	2010	
For the year ended 6 April 2011	£000	£000	Notes
Operating Income			
Income from securitised assets	3,003	3,076	
Interest receivable	1	1	
Fees receivable	77	86	
	<u>3,081</u>	<u>3,163</u>	
 Operating Expenditure			
Interest on bonds	3,003	3,076	3
Administration expenses	71	80	4
	<u>3,074</u>	<u>3,156</u>	
 Profit before taxation	7	7	
 Taxation	(2)	(2)	5
 Profit for the year	<u>5</u>	<u>5</u>	
 Other comprehensive income for the year	-	-	
 Total comprehensive income for the year	<u>5</u>	<u>5</u>	12

UK Rents (No.1) PLC	Accounts
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Statement of Financial Position at 6 April 2011	2011 £000	2010 £000	Notes
Assets			
Non-Current Assets			
Securitised assets	31,329	32,333	6
Current Assets			
Securitised assets	1,004	882	6
Cash at bank and in hand	868	863	
Total Assets	33,201	34,078	
Liabilities			
Non-Current Liabilities			
Eurobonds and subordinated loan	32,052	33,056	8
Current Liabilities			
Other payables	1,004	882	7
Current tax liabilities	2	2	
Total Liabilities	33,058	33,940	
Equity attributable to owners of the parent			
Called up share capital	13	13	9
Profit and loss account	130	125	12
Total equity	143	138	
Total equity and liabilities	33,201	34,078	

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


Roger Mountford
 Chairman

Registered No 2974635

Statement of Changes in Equity

For the year ended 6 April 2011

	Note	Share Capital £000	Retained earnings £000	Total Equity £000
Balance as at 7 April 2010		13	125	138
Shares issued in year		-	-	-
Shares redeemed in year		-	-	-
Surplus for year		-	5	5
Other comprehensive income		-	-	-
Balance as at 6 April 2011	9	13	130	143
Balance as at 7 April 2009		13	120	133
Shares issued in year		-	-	-
Shares redeemed during the year		-	-	-
Surplus for the year		-	5	5
Other comprehensive income		-	-	-
Balance as at 6 April 2010		13	125	138

UK Rents (No.1) PLC	Accounts
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Statement of Cash Flows	2011	2010	
For the year ended 6 April 2011	£000	£000	Notes
Cash flows from operating activities			
Cash generated from operations	3,009	3,083	15
Interest received	1	1	
Interest paid	(3,003)	(3,077)	
Sale of securitised assets	882	719	
Repayment of amounts borrowed	(882)	(719)	
Tax paid	(1)	(3)	
Net cash flow generated from operating activities	6	4	
Net increase in cash and cash equivalents	6	4	
Cash and cash equivalents at beginning of period	863	859	
Cash and cash equivalents at end of period	869	863	

UK Rents (No.1) PLC	Notes
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Notes to the Accounts

General Information

UK Rents (No 1) Plc ("UKR1") provides funding to Housing Associations through the securitisation of rental income which is financed through the issue of secured bonds. UKR1 is a public limited company registered in the United Kingdom.

1 Accounting policies

The principal accounting policies adopted in the preparation of these financial statements of UKR1 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. The financial statements have been prepared under the historical cost convention. A summary of the more important Company accounting policies is set out below.

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

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

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

- IFRS 9, 'Financial instruments' (effective 1 January 2013, however, the standard has not yet been endorsed by the EU). This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets. The group is yet to assess the full impact of IFRS 9, however initial indications are that it is likely to have little or no effect as the group only holds financial instruments with basic loan features that are managed on a contracted yield basis.
- Revised IAS 24 (revised), 'Related party disclosures' (effective 1 January 2011, however, the standard has not yet been endorsed by the EU)
- Amendment to IFRS 1, First time adoption on financial instrument disclosures (effective 1 January 2011)
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments' (effective 1 July 2010)
- Amendments to IFRIC 14 'Prepayments of a minimum funding requirement' (effective 1 January 2011)
- Annual improvements 2010 (effective 1 January 2011)
- IFRS 10, 'Consolidated financial statements' (effective 1 January 2013, however, the standard has not yet been endorsed by the EU)
- IFRS 11, 'Joint arrangements' (effective 1 January 2013, however, the standard has not yet been endorsed by the EU)

UK Rents (No.1) PLC	Notes
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- IFRS 12, 'Disclosure of interests in other entities' (effective 1 January 2013, however, the standard has not yet been endorsed by the EU)
- IFRS 13, 'Fair value measurement' (effective 1 January 2013, however, the standard has not yet been endorsed by the EU)
- IAS 27 (revised), 'Separate financial statements' (effective 1 January 2013, however, the standard has not yet been endorsed by the EU)
- IAS 28 (revised), 'Investments in associates and joint ventures' (effective 1 January 2013, however, the standard has not yet been endorsed by the EU)

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

Critical accounting judgements

The preparation of financial statements in accordance with IFRSs requires the use of certain critical accounting adjustments, these require management's judgement in applying the accounting policies. The main critical accounting adjustment in preparing these financial statements is the evaluation as to whether the securitised assets are impaired. The directors have concluded there is no such impairment in the current period.

b) Securitised assets and related income

Securitised assets are recorded in the accounts at amortised cost. Income arising from the assets is accounted for on an accruals basis. Premiums on issue are added to the original asset value and charged to the statement of comprehensive income over the expected life of the asset so that the income from securitised assets, as adjusted for the amortisation of premiums, gives a constant yield to maturity.

UK Rents Trustee Limited receives the rental flow and holds it on trust for the company and thereafter the housing associations so that rent is firstly used to meet the interest and administrative expenses of the company with any surpluses (after meeting the obligations of the company) returned to the housing associations. The income from securitised assets in the year amounted to £3,003,000. This income supports payment of the interest on the bonds to the same value. T H F C (Services) Limited provides all management and administrative services to the company and monitors the performance of the housing associations in meeting their obligations under the terms of the various agreements.

c) Eurobond

The secured Eurobond is held at amortised cost. Interest payable on the Eurobond is accounted for on an accruals basis. Premiums on issue are added to the original bond value and charged to the statement of comprehensive income over the expected life of the bond so that the interest payable, as adjusted for the amortisation of premiums, gives a constant yield to maturity.

d) Cash and cash equivalents and short-term deposits

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. Short-term deposits consist of term deposits whose maturity dates are greater than three months, but not more than 12 months from the investment date.

e) Taxation

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

f) Segmental Analysis

All operating income and expenditure is derived from activities undertaken in the United Kingdom. The company's only activity is to provide finance to housing associations.

2. Financial risk management

UKR1's operations and significant debt financing expose it to a variety of potential financial risks including interest rate risk, credit risk and liquidity risk.

UK Rents (No.1) PLC	Notes
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Interest rate risk

UKR1 issues debt and securitised assets on a substantially identical maturity, interest and repayment profile thus ensuring that no material mis-match risk is taken in interest rate movements. The form of all contractual agreements is approved by the Board.

The company is subject to interest rate risk on its investment income. Investment income in the year was £764.

Liquidity and Credit risk

UK Rents Trustee Limited (UKRT), a subsidiary of UKR1, is the Receivables Trustee under the asset securitisation and holds the beneficial interest in all rents transferred to it under the Rent Sale agreement by the participating housing associations. These funds are held on trust for the issuer and each of the housing associations and are first applied to discharge issuer obligations and costs with any surplus being returned to the participating housing associations. Additionally, each housing association has deposited funds with the issuer by way of subordinated loan which is available to be applied to cover debt service payments if the rents received fall short of the amount required. As a AAA rated transaction these arrangements have, and continue to be, subject to periodic review by Moody's Investor Services and Fitch Ratings.

Credit monitoring includes estimates of the probability of loss and of the loss, given default. There are no financial assets that are past due or otherwise impaired at 6 April 2011 (2010: None).

The book value of the securitised assets represents the maximum credit exposure.

Deposit counterparties are subject to pre-approval by the Board and such approval is limited to financial institutions with a suitable minimum long term rating in accordance with THFC treasury policy. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by the Board.

A table of the Company's contractual cash flows payable until maturity of the subordinated loans and bonds issued is given in note 16.

Fair value risk and market price risk

There is a fair value risk on the assets and Secured Bonds but there is no net risk. Market price risk is not expected to impact on the company because (i) the Secured Bonds and the assets are held at amortised cost in the financial statements and (ii) the company expects to hold them until maturity.

Currency risk

All financial assets and liabilities are denominated in sterling and hence there is no currency risk.

Operational Risk

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, contingency planning and documentation of procedures.

3	Interest payable	2011	2010
		£000	£000
	On Eurobond repayable wholly or partly in more than five years	<u>3,003</u>	<u>3,076</u>
4	Administration Expenses	2011	2010
		£000	£000
	Management fee payable	70	81
	Other expenses	<u>1</u>	<u>-</u>
		<u>71</u>	<u>81</u>

The audit fee included in the management fee amounted to £2,000 (2010: £2,000).

UKR1 employed no staff during the year. All administrative services, including audit and Directors' services, are provided under a management agreement with THFC (Services) Limited.

UK Rents (No.1) PLC	Notes	
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5	Tax on operating profit	2011	2010
		£000	£000
	UK Corporation tax at 21% (2010 21%)	<u>2</u>	<u>2</u>
<hr/>			
6	Securitised assets	2011	2010
		£000	£000
	At beginning of year	33,215	33,986
	Disposed of in the year	(882)	(771)
	At end of year	<u>32,333</u>	<u>33,215</u>
	Less repayable within one year	<u>(1,004)</u>	<u>(882)</u>
	Due after more than one year	<u>31,329</u>	<u>32,333</u>
	The amounts are repayable as follows		
	Between one and two years	1,137	1,004
	Between two and five years	4,348	3,865
	In five years or more	25,844	27,464
		<u>31,329</u>	<u>32,333</u>
<hr/>			
For details of the securitised assets see Note 10			
7	Other payables	2011	2010
		£000	£000
	Eurobond repayment (current)	<u>1,004</u>	<u>882</u>
<hr/>			
8	Financial Liabilities – secured eurobond and subordinated loan	2011	2010
		£000	£000
	9 10% Eurobond due 2025 (Note 10)		
	At beginning of year	33,215	33,986
	Repaid in year	(882)	(771)
	At end of year	<u>32,333</u>	<u>33,215</u>
	Subordinated loans from housing associations	<u>723</u>	<u>723</u>
		<u>33,056</u>	<u>33,938</u>
	Less repayable within 1 year	<u>(1,004)</u>	<u>(882)</u>
		<u>32,052</u>	<u>33,056</u>
	The Eurobond is secured by a first ranking fixed security interest over UKR1's beneficial interest in UK Rents Trustee Limited together with further security over all of UKR1's other assets, and the above amounts are repayable as follows		
	Between one and two years	1,137	1,004
	Between two and five years	4,348	3,865
	In five years or more	26,567	28,187
		<u>32,052</u>	<u>33,056</u>

UK Rents (No.1) PLC	Notes	
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9 Called up share capital	2010 £	2009 £
Authorised 100,000 ordinary shares of £1 each	100,000	100,000
Allotted, called up and fully paid 2 ordinary shares of £1 each	2	2
Allotted, called up and one quarter paid 50,000 ordinary shares of £1 each	12,500	12,500
Total	<u>12,502</u>	<u>12,502</u>

Management of capital

UKR1's capital comprises only its share capital and reserves which the directors consider adequate for the nature and scale of UKR1's operations and the risks to which it is subject as set out in note 2. UKR1 is not subject to externally imposed capital requirements.

10 Securitisation transaction

UKR1 owns a pool of rent receivables of six housing associations which it bought 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 are obliged to repurchase part of the rental stream, starting in 2005 and concluding 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 6 April 2011 was £723,000 (2010: £723,000).

Under the terms of the transaction, each housing association undertakes to collect rent from and to manage and maintain the portfolio of rent receivables sold to UKR1. As security for these performance obligations and the repurchase obligations, each housing association has given a first fixed charge over the underlying property.

A separate company (UK Rents Trustee Limited) receives the gross rental flow and holds it on trust for UKR1 and thereafter the housing associations so that the rent is firstly used to meet the interest and administrative expenses of UKR1, with surpluses (after meeting the obligations of UKR1) returned to the housing associations.

T H F C (Services) Limited (a wholly owned subsidiary of the ultimate holding company) 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.

11. Financial Instruments

The fair value of the 9.1% Eurobond due 2025 and associated secured asset is £43,583,374 (2010: £41,913,431).

Financial assets and liabilities all carry fixed and matching rates of interest. The weighted average interest rate is 9.288% and the weighted average period for which interest rates are fixed is 8.95 years.

There is no difference between the fair value and book value of all other financial assets and liabilities.

The financial liability of £723,000 represents the subordinated loan disclosed within Note 10. The liability is matched by an equivalent level of short-term deposit with the interest thereon being returned to the housing associations.

UK Rents (No.1) PLC	Notes	
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	2011 £000	2010 £000
12 Reserves		
Opening reserves	125	120
Profit for the year	5	5
Closing reserves	130	125

13 Ultimate parent undertaking and incorporation

UKR1's immediate parent undertaking is UK Rents (Holdings) Limited ("UKRH"), which is incorporated in the United Kingdom and registered in England and Wales. The ultimate parent undertaking is The Housing Finance Corporation ("THFC") and THFC is the only company to prepare consolidated financial statements which include UKR1. The consolidated accounts of THFC may be obtained from the Company Secretary, The Housing Finance Corporation Limited, 107 Cannon Street, London, EC4N 5AF.

UK Rents (No. 1) PLC is incorporated in the United Kingdom.

14 Related Party Transactions

All administrative services are provided under a management agreement by THFC (Services) Limited, a fellow subsidiary. Management fees payable to THFC (Services) Limited during the year amounted to £70,491 (2010: £80,656).

The directors of THFC (Services) Limited are also directors of the company.

15 Reconciliation of profit to net cash inflow from operating activities

	2011 £000	2010 £000
Profit before taxation	7	7
Interest receivable	(1)	-
Interest payable	3,003	3,076
Increase in creditors	-	-
Net cash inflow from operating activities	3,009	3,083

16. Contractual cash flows

The table below summarises the cash flows payable by the Company from 6 April 2011 until contractual maturity of its bond liabilities as at the same date.

2011	Within 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
Contractual interest cash flows	2,920	2,826	7,781	12,792
Contractual principal cash flows	1,004	1,137	4,348	26,567
Total Contractual cash flows	3,924	3,963	12,129	39,359
 2010	 Within 1 year £000	 Between 1 and 2 years £000	 Between 2 and 5 years £000	 Over 5 years £000
Contractual interest cash flows	3,041	2,963	8,310	16,539
Contractual principal cash flows	825	941	3,640	28,208
Total contractual cash flows	3,866	3,904	11,950	44,747

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