

**UK RENTS (NO.1) PLC**  
**Company Number: 2974635**  
**REPORTS AND ACCOUNTS**  
**FOR THE YEAR ENDED 6 APRIL 2010**

TUESDAY



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The Directors present their annual report together with financial statements for the year ended 6 April 2010

**Principal Activity**

The company 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

The company 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

The company 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 2010 was £5,000 (2009 - £11,000) The Directors do not recommend the payment of a dividend (2009 NIL)

**Directors**

Directors who served during the year are set out below and, except where indicated, served throughout the year

Pam Alexander  
Charlie Arbuthnot  
Michael Boohan (resigned 31 March 2010)  
Fenella Edge  
Roger Mountford  
David Orr  
John Parker (appointed 1 April 2010)  
Gill Rowley  
Sadru Visram  
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**

Company Law requires the Directors to prepare financial statements for each financial year which 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 those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether the financial statements comply with International Financial Reporting Standards, as adopted by the European Union, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

In the case of each director

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

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for the safeguarding of the assets of the company and hence for taking reasonable steps for the prevention of fraud and other irregularities.

**Financial Risk Management**

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

**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

A handwritten signature in black ink, appearing to read 'Colin Burke', with a large, stylized initial 'C'.

**Colin Burke**  
Company Secretary  
28 June 2010

<b>Independent Auditors' report to the Members of UK Rents (No.1) PLC</b>
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We have audited the financial statements of UK Rents (No 1) PLC for the year ended 6 April 2010 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Required Income and Expense and 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 Statement of Directors' Responsibilities 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 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 Sections 495 and 496 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.

**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 2010 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.



David Braithwaite (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
28 June 2010

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

<b>Statement of Comprehensive Income</b>	<b>2010</b>	<b>2009</b>	
<b>For the year ended 6 April 2010</b>	<b>£000</b>	<b>£000</b>	<b>Notes</b>
<b>Operating Income</b>			
Income from securitised assets	3,076	3,139	
Interest receivable	1	6	
Fees receivable	86	33	
	<u>3,163</u>	<u>3,178</u>	
<b>Operating Expenditure</b>			
Interest on bonds	3,076	3,139	3
Operating expenses	80	25	
	<u>3,156</u>	<u>3,164</u>	
<b>Profit before taxation</b>	7	14	4
Taxation	(2)	(3)	5
<b>Profit for the year</b>	<u>5</u>	<u>11</u>	
Other comprehensive income for the year	-	-	
<b>Total comprehensive income for the year</b>	<u>5</u>	<u>11</u>	12

<b>UK Rents (No.1) PLC</b>	<b>Accounts</b>
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<b>Statement of Financial Position at 6 April 2010</b>	<b>2010 £000</b>	<b>2009 £000</b>	<b>Notes</b>
<b>Assets</b>			
Securitised assets (non-current)	32,333	33,267	6
Securitised assets (current)	882	719	6
Cash at bank and in hand	863	859	
<b>Total Assets</b>	<b>34,078</b>	<b>34,845</b>	
<b>Liabilities</b>			
Eurobonds and subordinated loan (non-current)	33,056	33,990	8
Other payables	882	719	7
Current tax liabilities	2	3	
<b>Capital and reserves</b>			
Called up share capital	13	13	9
Profit and loss account	125	120	12
<b>Total capital and reserves</b>	<b>138</b>	<b>133</b>	
<b>Total capital, reserves and liabilities</b>	<b>34,078</b>	<b>34,845</b>	

Approved by the Board of Directors on 28 June 2010 and signed on its behalf by



**Roger Mourifford**  
Chairman

<b>UK Rents (No.1) PLC</b>	<b>Accounts</b>
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<b>Statement of Recognised Income and Expense</b>	<b>2010</b>	<b>2009</b>
For the year ended 31 March 2010	<b>£000</b>	<b>£000</b>

Net income recognised directly in equity	-	-
Profit for the period	5	11
Total recognised income and expense for the period	<u>5</u>	<u>11</u>

See note 9 for details of share capital movements

<b>UK Rents (No.1) PLC</b>	<b>Accounts</b>
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<b>Statement of Cash Flows</b>	<b>2010</b>	<b>2009</b>	
For the year ended 6 April 2010	<b>£000</b>	<b>£000</b>	<b>Notes</b>

**Cash flows from operating activities**

Cash generated from operations	<b>3,083</b>	<b>3,147</b>	<b>15</b>
Interest received	<b>1</b>	<b>6</b>	
Interest paid	<b>(3,077)</b>	<b>(3,139)</b>	
Sale of securitised assets	<b>1,440</b>	<b>670</b>	
Tax paid	<b>(3)</b>	<b>(3)</b>	
<b>Net cash flow generated from operating activities</b>	<b>1,444</b>	<b>681</b>	

**Cash flows from financing activities**

Repayment of amounts borrowed	<b>(1,440)</b>	<b>(670)</b>	
<b>Net cash used in financing activities</b>	<b>(1,440)</b>	<b>(670)</b>	

**Net increase in cash and cash equivalents**

	<b>4</b>	<b>11</b>	
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**Cash and cash equivalents at beginning of period**

	<b>859</b>	<b>848</b>	
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**Cash and cash equivalents at end of period**

	<b>863</b>	<b>859</b>	
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**Notes to the Accounts****1 Accounting policies**

The principal accounting policies adopted in the preparation of these financial statements of UK Rents (No 1) PLC ("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.

The following standards, amendments and interpretations, which became effective in 2009 are relevant to the Company.

- **Amendments to IFRS 7, 'Financial instruments Disclosures'**

The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in some additional disclosures, but does not have an impact on the financial position or the comprehensive income of the Company.

- **IFRS 8, 'Operating segments'**

The standard replaces IAS 14, 'Segment reporting', with its requirement to determine primary and secondary reporting segments. Under the requirements of the revised standard, the Company's external segment reporting will be based on the internal reporting to the Company executive Board (in its function as the chief operating decision-maker), which makes decisions on the allocation of resources and assesses the performance of the reportable segments. The application of IFRS 8 does not have any effect on the Company, as the Company does not operate in different segments.

- **IAS 1 (revised), 'Presentation of financial statements'**

According to the amendment of IAS 1 in January 2008, each component of equity, including each item of other comprehensive income, should be reconciled between carrying amount at the beginning and the end of the period. The change only impacts on presentation.

Standards and interpretations issued but not yet effective

The following standards and interpretations have been issued and are mandatory for the Company's accounting periods beginning on or after 1 July 2009 or later periods and are expected to be relevant to the Company.

IFRS 1 and IAS 27 – Cost of an investment in a subsidiary, jointly controlled entity or associate 1 July 2009

IFRS 3 Business combinations 1 July 2009

IAS 27 Consolidated and separate financial statements 1 July 2009

IAS 39 Financial instruments Recognition and measurement – eligible hedged items 1 July 2009

IFRIC 17 Distribution of non-cash assets to owners 1 July 2009

IFRIC 18 Transfers of assets from customers 1 July 2009

IFRS 9 Financial instruments part 1 Classification and measurement 1 January 2013

The Company is considering the implications of these standards, the impact on the Company and the timing of their adoption by the Company.

UK Rents (No.1) PLC	Notes
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**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 loan value and charged to the statement of comprehensive income over the expected life of the loan so that the interest receivable, 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 £3,076,000. 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.

**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.

**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 £811.

**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.

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.

UK Rents (No.1) PLC	Notes
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#### Fair value risk and market price risk

There is a fair value risk on the loans 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 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.

<b>3</b>	<b>Interest payable</b>	<b>2010</b>	<b>2009</b>
		<b>£000</b>	<b>£000</b>
	On Eurobond repayable wholly or partly in more than five years	<b>3,076</b>	<b>3,139</b>
<b>4</b>	<b>Profit before taxation</b>	<b>2010</b>	<b>2009</b>
		<b>£000</b>	<b>£000</b>
	Profit before taxation is stated after charging		
	Management fee payable	<b>81</b>	<b>25</b>
	UKR1 employed no staff during the year. All administrative services, including audit and Directors' services, are provided under a management agreement with T H F C (Services) Limited.		
<b>5</b>	<b>Tax on operating profit</b>	<b>2010</b>	<b>2009</b>
		<b>£000</b>	<b>£000</b>
	UK Corporation tax at 21% (2009: 21%)	<b>2</b>	<b>3</b>

UK Rents (No.1) PLC	Notes	
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<b>6</b>	<b>Securitised assets</b>	<b>2010</b>	<b>2009</b>
		<b>£000</b>	<b>£000</b>
	At beginning of year	33,986	34,656
	Disposed of in the year	(771)	(670)
	At end of year	33,215	33,986
	Less repayable within one year	(882)	(719)
	Due after more than one year	32,333	33,267
	The amounts are repayable as follows		
	Between one and two years	1,004	825
	Between two and five years	3,865	3,219
	In five years or more	27,464	29,223
		32,333	33,267

For details of the securitised assets see Note 10

<b>7</b>	<b>Other payables</b>	<b>2010</b>	<b>2009</b>
		<b>£000</b>	<b>£000</b>
	Eurobond repayment (current)	882	719

<b>8</b>	<b>Financial Liabilities – secured eurobond and subordinated loan</b>	<b>2010</b>	<b>2009</b>
		<b>£000</b>	<b>£000</b>
	9 10% Eurobond due 2025 (Note 10)		
	At beginning of year	33,986	34,656
	Repaid in year	(771)	(670)
	At end of year	33,215	33,986
	Subordinated loans from housing associations	723	723
		33,938	34,709
	Less repayable within 1 year	(882)	(719)
		33,056	33,990

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	1,004	825
	Between two and five years	3,865	3,219
	In five years or more	28,187	29,946
		33,056	33,990

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	2
	2 ordinary shares of £1 each		
	Allotted, called up and one quarter paid	12,500	12,500
	50,000 ordinary shares of £1 each		
	At beginning of year	12500	12500
	Issued	-	-
	Redeemed	-	-
	At end of year	<u>12500</u>	<u>12500</u>

#### 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 2010 was £723,000 (2009: £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 £41,913,431 (2009: £40,317,242).

Financial assets and liabilities all carry fixed and matching rates of interest. The weighted average interest rate is 9.26% and the weighted average period for which interest rates are fixed is 9.71 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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	2010 £000	2009 £000
<b>12 Reserves</b>		
Opening reserves	120	109
Profit for the year	5	11
Closing reserves	<u>125</u>	<u>120</u>

### 13 Ultimate parent undertaking and incorporation

UKR1's ultimate parent undertaking is The Housing Finance Corporation Limited ("THFC"), which is incorporated in Great Britain and registered in England and Wales. 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 T H F C (Services) Limited, a fellow subsidiary. Management fees payable to T H F C (Services) Limited during the year amounted to £80,656 (2009: £25,300).

The directors of T H F C (Services) Limited are also directors of the company.

### 15 Reconciliation of profit to net cash inflow from operating activities

	2010 £000	2009 £000
Profit before taxation	7	14
Interest receivable	-	(6)
Interest payable	3,076	3,139
Increase in creditors	-	-
<b>Net cash inflow from operating activities</b>	<u>3,083</u>	<u>3,147</u>

### 16 Contractual cash flows

The table below summarises the cash flows payable by the Company from 31 March 2010 until contractual maturity of its bond liabilities as at the same date.

	Within 1 year £000	Between 1 and 5 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
<b>Total Contractual cash flows</b>	<u>3,866</u>	<u>3,904</u>	<u>11,950</u>	<u>44,747</u>

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