

Housing Association Funding plc

Report and Financial Statements for the Year Ended 31st May 2009



Registered in England & Wales No.: 3194469

Registered Office: 7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE

HOUSING ASSOCIATION FUNDING PLC

REPORT OF THE DIRECTORS

Directors' report for the year ended 31 May 2009

The Directors present their report and the audited financial statements for the year ended 31 May 2009.

Business review and principal activities

The Company is a special purpose company whose only activity is to advance loans to certain housing associations and to service notes and bank borrowings issued or raised to finance such advances and is likely to remain so in the foreseeable future. The Housing Association Loans have been pledged to Royal Exchange Trust Company Limited as security for the Notes.

Results and dividends

The Company made a profit of £8,218 (2008: profit of £9,045) during the period and the directors do not recommend the payment of a dividend.

Business environment

The Company only operates in the UK and provides funding only to social housing providers.

The social housing sector provides affordable housing for those without means or access to suitable housing. Registered Social Landlords ("RSLs"), principally Housing Associations, provide rented accommodation on a not-for-profit basis. RSLs are regulated by the Tenant Services Authority. Social housing rents are usually well below market rates. As well as the strong framework of regulation and government support, the sector continues to maintain stable revenue streams which reflect strong demand, sound management, flexible maintenance spending, and manageable debt levels.

Strategy and future development

The strategy of Housing Association Funding plc is to ensure that it continues to service its debt obligations under the Notes in a full and timely manner up to and including the final maturity of the Notes in June 2027. This requires it to maintain the existing AAA/Aaa rating of the issued Notes.

Principal risks and uncertainties

The Company's financial instruments comprise lendings to Housing Associations and borrowings that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Company's operations.

It is and has been throughout the period under review the Company's policy that no trading in financial instruments shall be undertaken. The Board reviews and agrees the policy for managing the financial risk profile of the Company. An analysis of the key business risks and the management's approach to those risks is set out in note 4.

HOUSING ASSOCIATION FUNDING PLC

REPORT OF THE DIRECTORS (CONTINUED)

Key Performance Indicators (“KPIs”)

The loans made to Housing Associations by the Company are serviced out of the rental income generated by a portfolio of social housing properties owned and managed by the Housing Associations. The rent collection performance of the property portfolio over the 52 weeks to 31 May 2009 was 97 per cent (2008: 98 per cent) of the £36.1 million (2008: £34.2million) collectible if the properties had been fully occupied and all rents paid on their due date. Overall rent collection performance remains significantly better than the 95% level specified under the loan agreements.

As at 31 May 2009 the net rental income (being gross rent less provision for management, maintenance, services and credit losses primarily from empty dwellings) of the properties charged to HAF was 142% (2008: 134%) of the amount required by the Company to service its debt obligations on the long-term notes. Overall debt service remains significantly higher than the 105% level specified under the loan agreements.

Going Concern

The Company has not suffered any adverse effects from the current recession. It is also unaffected by the current downturn in house prices. The Company continues to satisfy all its key performance indicators and to make its payments to noteholders in full and on time without recourse to its additional facility.

Suppliers’ payment policy

The Company complies with the CBI Code of Conduct for the prompt payment of suppliers in accordance with the normal terms of trade. A copy of the Code of Conduct can be obtained from the Company Secretary at the registered office of the Company.

Directors and directors’ interests

The directors who held office during the period were as follows:

Capita Trust Company Limited

Capita Trust Corporate Services Limited

None of the directors who held office at the end of the financial period had any disclosable interest in the shares of the Company.

Statement of directors’ responsibilities

The directors are responsible for preparing 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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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.

HOUSING ASSOCIATION FUNDING PLC

REPORT OF THE DIRECTORS (CONTINUED)

Statement of directors' responsibilities (continued)

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 applicable UK accounting standards 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, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for maintaining adequate accounting records which disclose, with reasonable accuracy at any time, the financial position of the Company and to enable them to ensure 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.

Auditors and disclosure of information to auditors

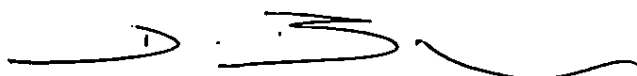
The directors confirm that:

- (a) so far as each director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- (b) the directors have taken all the steps they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the Annual General Meeting.

By order of the board



Capita Trust Corporate Services Limited

Company Director

DATE: 18 November 2009

HOUSING ASSOCIATION FUNDING PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HOUSING ASSOCIATION FUNDING PLC

We have audited the financial statements of Housing Association Funding Plc for the year ended 31 May 2009 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 2 and 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 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 31 May 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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.

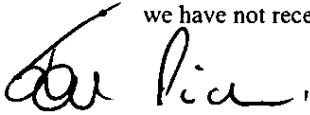
Matters on which we are required to report by exception

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:

HOUSING ASSOCIATION FUNDING PLC

- 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.



Jeff Picton (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
18 November 2009

HOUSING ASSOCIATION FUNDING PLC

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31st MAY 2009

	Notes	2009 £	2008 £
Interest receivable on Housing Association loans and bank balances		12,602,004	12,948,139
Interest payable on debt in issue		<u>(12,587,502)</u>	<u>(12,931,994)</u>
Net Interest Income		14,502	16,145
 Fees Receivable		 119,910	 117,464
Administrative Expenses		<u>(124,009)</u>	<u>(122,280)</u>
Net Operating Expenses	3	<u>(4,099)</u>	<u>(4,816)</u>
 Profit on ordinary activities before taxation		 10,403	 11,329
Tax on profit on ordinary activities	6	<u>(2,185)</u>	<u>(2,284)</u>
Retained profit for the financial year	13	<u>8,218</u>	<u>9,045</u>

These accounts have been prepared assuming all operations are continuing.

There were no recognised gains or losses in the period other than those shown in the profit and loss account.

These accounts have been prepared on the historical cost basis. Accordingly, no statement of historical cost profits and losses has been presented.

The notes on pages 8 to 16 form part of these financial statements.

HOUSING ASSOCIATION FUNDING PLC

BALANCE SHEET

AS AT 31st MAY 2009

	Notes	2009 £	2008 £
Fixed Assets			
Housing Association Loans	7	173,530,002	178,511,419
Current Assets			
Debtors	8	13,804,386	13,811,585
Cash At Bank and in hand		<u>9,917,630</u>	<u>9,949,157</u>
		<u>23,722,016</u>	<u>23,760,742</u>
TOTAL ASSETS		<u>197,252,018</u>	<u>202,272,161</u>
 Creditors: Amounts falling due within one year	9	 (20,992,848)	 (20,859,237)
TOTAL ASSETS LESS CURRENT LIABILITIES		176,259,170	181,412,924
 Creditors Amounts falling due after more than one year	10	 <u>(176,110,357)</u>	 <u>(181,272,329)</u>
NET ASSETS		<u>148,813</u>	<u>140,595</u>
Capital and Reserves			
Called up share capital	11	50,000	50,000
Profit and Loss account	12	<u>98,813</u>	<u>90,595</u>
 Equity Shareholders' Funds	13	 <u>148,813</u>	 <u>140,595</u>

These financial statements on pages 6 to 16 were approved by the Board of Directors on 18 November 2009 and were signed on its behalf by:

 Capita Trust Corporate Services Limited

The notes on pages 8 to 16 form part of these financial statements.

HOUSING ASSOCIATION FUNDING PLC

NOTES TO THE FINANCIAL STATEMENTS

1) GENERAL INFORMATION

The Group's ultimate parent company is H A Funding Ltd, which is registered in England and Wales with registration number 03230346. The address of its registered office is:

H. A. Funding Limited

7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE

2) PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material to the financial statements of the Company:

(a) Accounting convention

The financial statements are prepared under the historical cost convention in accordance with the Companies Act 2006 and applicable UK accounting standards. The principal accounting policies, which have been applied consistently, are set out below.

(b) Interest

Interest income is recognised in interest receivable, and interest expense in interest payable in the profit and loss account on interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability (or group of assets and liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the instrument. The application of the method has the effect of recognising income (and expense receivable or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

(c) Cash Flow Statement

The company is a wholly owned subsidiary of H. A. Funding Limited, a company registered in England and Wales and is included in the consolidated financial statements of that company. Accordingly the company is not required to produce a cash flow statement as prescribed in paragraph 8 (c) of the Financial Reporting Standard 1 (Revised), Cash Flow Statements.

HOUSING ASSOCIATION FUNDING PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

2) PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Value added tax

Value added tax is not recoverable by the company and is included with its related cost.

(e) Financial Assets and Liabilities

The Group classifies its financial assets and liabilities in the following categories: loans and receivables and financial liabilities. Management determines the classification of financial assets and liabilities at initial recognition.

i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available-for-sale. They arise when the Group provides money or services directly to a customer with no intention of trading the loan. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost, using the effective interest method. They are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership. The Loans are recognised as fixed assets on the Company's balance sheet as they are "intended for use on a continuing basis in the Company's activities".

ii) Financial liabilities

The Company's financial liabilities include debt in issue comprising notes listed on the London Stock Exchange with final maturity of June 2027. The notes are non-derivative financial liabilities with fixed or determinable payments. Liabilities are initially measured at fair value and subsequently measured at amortised cost, using the effective interest method.

(f) Changes in Accounting Standards

i. Amendment to published standards effective in 2009

There are no amendments to standards that are effective in the current year.

ii. Standards or Interpretation early adopted by the Company

The Company has not early adopted any Standard or Interpretation.

iii. Standards, amendments and interpretations to existing standards that are not yet effective

There has been an amendment to FRS29 published and mandatory for the Company's accounting periods beginning on or after 1 January 2010 or later periods. The Company has not early adopted this.

HOUSING ASSOCIATION FUNDING PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

3) OPERATING PROFIT

Operating profit is stated after charging:

	2009	2008
	£	£
Nature of services:		
Audit services		
Audit of annual accounts	9,200	9,400

Definition of nature of services:

'Audit of annual accounts' relates to the audit of the annual financial statements of the Company.

4) FINANCIAL RISK MANAGEMENT

Interest rate risk: The risk of a shortfall in the amount payable to the Company's creditors from the amounts receivable from its debtors as a consequence of changes in the general level of interest rates. The Company has securitised receivables which consist of a portfolio of fixed rate loans to Housing Associations. The Company finances its operations through the issue of long term notes. The notes are denominated in sterling at fixed rates. The repayment profile of the notes matches the receivables with the directors' intention being to reduce interest rate risk to a minimum.

Foreign currency risk: The risk of exposure to changes in exchange rates. All assets and liabilities of the Company are denominated in sterling.

Credit risk: The risk of non-payment of the Company's creditors due to a default by one or more of its debtors. The notes issued by the Company are rated AAA/Aaa by Standard & Poor's and Moody's Investors Service Ltd respectively. The ratings reflect the high credit quality of the underlying collateral rather than the credit standing of each of the participating Housing Associations.

The Company has no significant concentrations of credit risk.

As at 31 May 2009 the net rental income (being gross rent less provision for management, maintenance, services and credit losses primarily from empty dwellings) of the properties charged to HAF was 142% (2008: 134%) of the amount required by the Company to service its debt obligations on the long-term notes.

HOUSING ASSOCIATION FUNDING PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

4) FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk: The risk that the Company is unable to make payment to its creditors in full and on time. The Company has the benefit of a £9.435 million 364-day additional facility, equivalent to more than six months' debt service for the Company (and equivalent to more than two years' debt service for any one of the Housing Associations). Maturity profile and fair value of financial instruments are noted in note 14.

5) DIRECTORS AND EMPLOYEES

Directors

The directors of the Company received no remuneration for the period ended 31 May 2009. Capita in the same period received a fee of £6,721 (2008: £6,868) for the provision of the services of two directors based on a schedule set out in 1997. The relationship between the directors Capita Trust Company Limited, Capita Trust Corporate Services Limited and the trustee RETCO Ltd is explained in note 16 below.

Employees

No employees were employed by the Company during the period ended 31 May 2009.

6) TAX ON PROFIT ON ORDINARY ACTIVITIES

	2009	2008
	£	£
(a) Analysis of charge in period		
UK Corporation tax on profits of the period	<u>2,185</u>	<u>2,284</u>
	<u>2,185</u>	<u>2,284</u>
(b) Factors affecting tax charge for period		
Profit on ordinary activities before tax	<u>10,403</u>	<u>11,329</u>
Profit on ordinary activities multiplied by:		
small companies rate of corporation tax of 21.0% (20.16%)	<u>2,185</u>	<u>2,284</u>

HOUSING ASSOCIATION FUNDING PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

7) HOUSING ASSOCIATION LOANS - Amounts falling due outside one year

	2009	2008
	£	£
Balance as at 1 June	178,511,419	183,135,598
Became payable in less than 1 year	<u>(4,981,417)</u>	<u>(4,624,179)</u>
Balance as at 31 May	<u>173,530,002</u>	<u>178,511,419</u>
Repayable		
In more than one year but not more than five years	23,616,633	22,074,855
In more than five years	<u>149,913,369</u>	<u>156,436,564</u>
	<u>173,530,002</u>	<u>178,511,419</u>

8) DEBTORS – Amounts falling due within one year

	2009	2008
	£	£
Accrued Interest	6,067,807	6,255,824
Deferred loan issue expenses	2,652,128	2,828,918
Housing Association loans	4,981,417	4,624,179
Amounts recoverable from Housing Associations	65,536	65,166
Share capital due (refer note 11)	<u>37,498</u>	<u>37,498</u>
	<u>13,804,386</u>	<u>13,811,585</u>

9) CREDITORS – Amounts falling due within one year

	2009	2008
	£	£
Amounts due to Housing Associations	9,838,630	9,859,167
Debt in issue	5,161,972	4,823,012
Accrued interest	5,918,724	6,086,436
Corporation tax	2,185	2,284
Other creditors	<u>71,337</u>	<u>88,338</u>
	<u>20,992,848</u>	<u>20,859,237</u>

HOUSING ASSOCIATION FUNDING PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

10) CREDITORS – Amounts falling due after more than one year

	2009	2008
	£	£
Debt in issue	<u>176,110,357</u>	<u>181,272,329</u>
Repayable		
In more than one year but not more than two years	5,510,800	5,161,972
In more than two years but not more than five years	18,864,839	17,665,715
In more than five years	<u>151,734,718</u>	<u>158,444,642</u>
	<u>176,110,357</u>	<u>181,272,329</u>

The debt in issue is repayable by equal semi-annual instalments of principal and interest on 7th June and 7th December in each year up to and including 7th June 2027 at an effective rate of interest of 6.80% p.a. (2008: 6.80% p.a.).

11) SHARE CAPITAL

	2009	2008
	£	£
Authorised Share Capital		
Ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
Issued Share Capital		
- allotted and fully paid	2	2
- allotted and partially paid	<u>49,998</u>	<u>49,998</u>
At 31 May	<u>50,000</u>	<u>50,000</u>

The company was incorporated on 3 May 1996, with authorised capital of 50,000 ordinary shares of £1 each. On 16 December 1996, 2 fully paid shares were issued and a further 49,998 shares were issued and partly paid to 25 pence.

12) PROFIT AND LOSS ACCOUNT

	2009	2008
	£	£
At 1 June	90,595	81,550
Profit for the period	<u>8,218</u>	<u>9,045</u>
At 31 May	<u>98,813</u>	<u>90,595</u>

HOUSING ASSOCIATION FUNDING PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

13) RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2009	2008
	£	£
Profit for the period	<u>8,218</u>	<u>9,045</u>
Net change in shareholder's funds	8,218	9,045
Opening shareholders' funds at 1 June	<u>140,595</u>	<u>131,550</u>
Closing shareholders' funds as at 31 May	<u>148,813</u>	<u>140,595</u>

14) FINANCIAL INSTRUMENTS

FINANCIAL ASSETS

Loans to Housing Associations

The financial assets of the Company comprise loans to Housing Associations (including accrued interest) and cash at bank balances. All of the Company's financial assets are interest bearing and are at fixed rates (with the exception of the cash at bank balances which bear interest at variable rates). The cash at bank balances are all due on demand.

Maturity profile

The maturity profile of the Company's financial assets at 31 May is as follows:

	2009	2008
	£	£
In one year or less, or on demand	20,966,853	20,829,160
In more than one year, but not more than two years	5,328,023	4,981,417
In more than two years, but not more than five years	18,288,610	17,093,438
In more than five years	<u>149,913,369</u>	<u>156,436,564</u>
	<u>194,496,855</u>	<u>199,340,579</u>

HOUSING ASSOCIATION FUNDING PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

14) FINANCIAL INSTRUMENTS (continued)

Book Value and Fair value of financial assets

	2009	2009	2008	2008
	Book value	Fair value	Book value	Fair value
				Restated
	£	£	£	£
Financial assets				
Housing Association loans	178,511,419	211,356,224	183,135,598	200,967,263
Accrued interest	6,067,807	6,067,807	6,255,824	6,255,824
Cash at bank and in hand	9,917,630	9,917,630	9,949,157	9,949,157

The fair value of the loans equals its present value discounted at the same rate as the fair value of the notes. The fair value of the loans for 2008 has been updated accordingly.

FINANCIAL LIABILITIES

Debt in issue

The financial liabilities of the Company comprise debt in issue (including accrued interest) together with certain amounts held on behalf of the Housing Associations. All of the financial liabilities of the Company are interest bearing. The interest basis of the Company's financial liabilities exactly matches that of its financial assets.

Maturity profile

The maturity profile of the Company's financial liabilities at 31 May is as follows:

	2009	2008
	£	£
In one year or less, or on demand	20,919,326	20,768,615
In more than one year, but not more than two years	5,510,800	5,161,972
In more than two years, but not more than five years	18,864,839	17,665,715
In more than five years	<u>151,734,718</u>	<u>158,444,642</u>
	<u>197,029,683</u>	<u>202,040,944</u>

HOUSING ASSOCIATION FUNDING PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

14) FINANCIAL INSTRUMENTS (continued)

Book Value and Fair value of financial liabilities

	2009	2009	2008	2008
	Book value	Fair value	Book value	Fair value
	£	£	£	£
Debt in issue	181,272,329	211,197,312	186,095,342	200,804,297
Amounts due to Housing Associations	9,838,630	9,838,630	9,859,167	9,859,167
Accrued interest	5,918,724	5,918,724	6,086,436	6,086,436

The Fair Value of debt in issue is derived from the price quoted on the notes at the Balance Sheet date.

15) ULTIMATE PARENT UNDERTAKING

The company is a wholly owned subsidiary of H. A. Funding Limited which is registered in England and Wales with registered number 3230346. The issued share capital of the parent company is held by Royal Exchange Trust Company Limited subject to a declaration of trust ultimately for charitable purposes.

16) RELATIONSHIP OF CORPORATE DIRECTOR TO CORPORATE TRUSTEE

Royal Exchange Trust company Limited (RETCo Ltd) sold its corporate trustee business to IRG Trustee Limited on 7 February 2000. On 1 July 2000 IRG Trustees Limited changed its name to Capita IRG Trustees Limited following the sale of IRG Plc to The Capita Group Plc in April 2000. The Corporate Trustee remains RETCo Ltd.

Capita Trust Company Limited is a subsidiary of The Capita Group plc.

Capita Trust Corporate Services Limited is a subsidiary of Capita Trust Company Limited.

17) RELATED PARTY TRANSACTIONS

The directors of the Company are shown on page 2 of this Annual Report.

As well as the fees received for director services, Capita Trust Company Limited provided administration manager services during the year to Housing Association Funding Plc. The fees received in relation to these services were £24,256 (2008: £24,782).