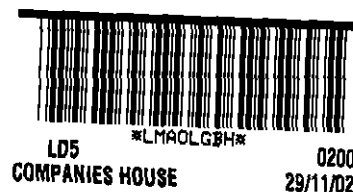


# HOUSING ASSOCIATION FUNDING PLC

REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MAY 2002

Registered in England and Wales No. 3194469  
Registered Office: 200 Aldersgate Street,  
London EC1A 4JJ



# **HOUSING ASSOCIATION FUNDING PLC**

## **REPORT OF THE DIRECTORS**

The Directors present their Report and the audited financial statements for the year ended 31 May 2002.

## **PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

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 £7,644 (2001: profit of £6,400) during the period and the directors do not recommend the payment of a dividend.

## **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:

B. D. Needham

P. M. Hills

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

# HOUSING ASSOCIATION FUNDING PLC

## REPORT OF THE DIRECTORS

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing those financial statements the directors are required to:

- (1) select suitable accounting policies and then apply them consistently;
- (2) make judgements and estimates that are reasonable and prudent;
- (3) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- (4) 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 maintaining proper 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 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.

### AUDITORS

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

### BY ORDER OF THE BOARD



B D Needham

Company Director

DATE: 28/11 2002

# **HOUSING ASSOCIATION FUNDING PLC**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HOUSING ASSOCIATION FUNDING PLC**

We have audited the financial statements on pages 4 to 12 which have been prepared under the historical cost convention and the accounting policies set out on page 6.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities on page 2.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

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 also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual 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 auditing standards 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 company's circumstances, 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 of the state of the company's affairs at 31 May 2002 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers**  
Chartered Accountants and Registered Auditors  
London

DATE: 28 Nov 2002

# HOUSING ASSOCIATION FUNDING PLC

## PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31st MAY 2002

	Notes	2002 £	2001 £
Net Interest Income	2	18,290	9,616
Fees Receivable		80,549	74,744
Administrative Expenses		(89,304)	(76,335)
Net Operating Expenses		(8,755)	(1,591)
<b>Profit on ordinary activities before taxation</b>	3	9,535	8,025
Tax on profit on ordinary activities	5	(1,891)	(1,625)
<b>Retained profit for the financial year</b>		<u>7,644</u>	<u>6,400</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 6 to 12 form part of these financial statements.

# HOUSING ASSOCIATION FUNDING PLC

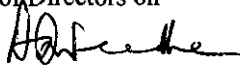
## BALANCE SHEET

AS AT 31st MAY 2002

	Notes	2002 £	2001 (restated) £
<b>Fixed Assets</b>			
Housing Association Loans	6	162,233,077	152,951,076
<b>Current Assets</b>			
Debtors	7	8,378,438	6,858,083
Cash At Bank and in hand		<u>9,166,721</u>	<u>8,178,662</u>
<b>TOTAL ASSETS</b>		179,778,236	167,987,821
Creditors: Amounts falling due within one year	8	(17,363,061)	(14,862,550)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		162,415,175	153,125,271
Creditors Amounts falling due outside of one year	9	(162,331,639)	(153,049,379)
<b>NET ASSETS</b>		<u>83,536</u>	<u>75,892</u>
<b>Capital and Reserves</b>			
Called up share capital	10	50,000	50,000
Profit and Loss account	11	<u>33,536</u>	<u>25,892</u>
Equity Shareholders' Funds	12	<u>83,536</u>	<u>75,892</u>

These financial statements were approved by the Board of Directors on  
signed on its behalf by:

2002 and were

  
B D Needham Director  
Date: 28/11 2002

The notes on pages 6 to 12 form part of these financial statements.

# HOUSING ASSOCIATION FUNDING PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1) 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 and applicable UK accounting standards.

(b) **Interest**

Interest receivable and payable are accounted for on an accruals basis.

(c) **Cash Flow Statement**

The company is a wholly owned subsidiary of H. A. Funding Limited, a company registered in England and Wales. 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.

(d) **Value added tax**

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

(e) **Debt in issue**

Debt in issue is initially recognised in the balance sheet net of expenses relating to the issue of Notes. The premium received on issue of the bonds and issue expenses are amortised over the life of the underlying Notes. This represents a change in accounting policy from prior year and has resulted in a reclassification between balance sheet headings. The change has had no effect on net assets or the profit and loss. The change has had the following effect on the prior year balance sheet headings;

	2001 (as previously reported)	2001 (restated)
	£	£
<b>Debtors – Deferred Loan Issue Expenses</b>	2,968,620	-
<b>Creditors</b>		
Debt in issue (amounts falling due within one year)	1,743,426	1,621,136
Debt in issue (amounts falling due outside one year)	155,895,709	153,049,379

# HOUSING ASSOCIATION FUNDING PLC

## 2) NET INTEREST INCOME

	2002	2001
	£	£
Interest receivable on Housing Association loans and bank balances	12,144,211	11,263,111
Interest payable on debt in issue	<u>(12,125,921)</u>	<u>(11,253,495)</u>
Total	<u>18,290</u>	<u>9,616</u>

## 3) PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging auditors' remuneration of £4,700 including VAT (2001: £4,700) which amount together with other running expenses the Company is entitled to recover by way of fees charged to its borrowers.

## 4) DIRECTORS AND EMPLOYEES

### Directors

The directors of the Company received no remuneration for the period ended 31 May 2002.

### Employees

No employees were employed by the Company during the period ended 31 May 2002.

## 5) TAX ON PROFIT ON ORDINARY ACTIVITIES

	2002	2001
	£	£
<b>(a) Analysis of charge in period</b>		
UK Corporation tax on profits of the period	1,891	1,605
Adjustment in respect of previous periods	<u>-</u>	<u>20</u>
	<u>1,891</u>	<u>1,625</u>
<b>(b) Factors affecting tax charge for period</b>		
Profit on ordinary activities before tax	<u>9,535</u>	<u>8,025</u>
Profit on ordinary activities multiplied by small companies' rate of corporation tax of 19.83% (2001: 20%)	1,891	1,605
Effects of:		
Adjustment to tax charge in respect of earlier period	<u>-</u>	<u>20</u>
	<u>1,891</u>	<u>1,625</u>



**HOUSING ASSOCIATION FUNDING PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

**6) HOUSING ASSOCIATION LOANS - Amounts falling due outside one year**

	<b>2002</b>	<b>2001</b>
	<b>£</b>	<b>£</b>
Balance as at 1 June 2001	152,951,076	141,072,038
Acquired during the period	11,582,734	13,520,000
Became payable in less than 1 year	<u>(2,300,733)</u>	<u>(1,640,962)</u>
Balance as at 31 May 2002	<u>162,233,077</u>	<u>152,951,076</u>
<b>Repayable</b>		
In more than one year but not more than five years	11,025,639	28,390,787
In more than five years	<u>151,207,438</u>	<u>124,560,289</u>
	<u>162,233,077</u>	<u>152,951,076</u>

**7) DEBTORS – Amounts falling due within one year**

	<b>2002</b>	<b>2001</b>
	<b>£</b>	<b>(restated)</b>
		<b>£</b>
Accrued Interest	5,972,055	5,052,907
Housing Association loans	2,300,733	1,640,962
Amounts recoverable from Housing Associations	68,152	126,716
Share capital due (refer note 10)	<u>37,498</u>	<u>37,498</u>
	<u>8,378,438</u>	<u>6,858,083</u>

**8) CREDITORS – Amounts falling due within one year**

	<b>2002</b>	<b>2001</b>
	<b>£</b>	<b>(restated)</b>
		<b>£</b>
Amounts due to Housing Associations	9,144,556	8,178,987
Debt in issue	2,301,452	1,621,136
Accrued interest	5,846,859	4,950,670
Corporation tax	1,891	1,604
Other creditors	<u>68,303</u>	<u>110,153</u>
	<u>17,363,061</u>	<u>14,862,550</u>

**HOUSING ASSOCIATION FUNDING PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

**9) CREDITORS – Amounts falling due outside of one year**

	2002	2001
	£	(restated)
		£
Debt in issue	<u>162,331,639</u>	<u>153,049,379</u>
<b>Repayable</b>		
In more than one year but not more than two years	2,456,330	22,257,839
In more than two years but not more than five years	8,571,513	6,153,106
In more than five years	<u>151,303,796</u>	<u>124,638,434</u>
	<u>162,331,639</u>	<u>155,895,709</u>

The debt in issue is repayable by equal semi-annual instalments of principal and interest on 7<sup>th</sup> June and 7<sup>th</sup> December in each year up to and including 7<sup>th</sup> June 2027 at an effective rate of interest of 7.47% p.a (2001: 7.75% p.a).

**10) SHARE CAPITAL**

	2002	2001
	£	£
Authorised Share Capital		
Ordinary shares of £1 each	50,000	50,000
Issued Share Capital		
- allotted and fully paid	2	2
- allotted and partially paid	<u>49,998</u>	<u>49,998</u>
At 31 May 2002	<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.

**11) PROFIT AND LOSS ACCOUNT**

	2002	2001
	£	£
At 1 June 2001	25,892	19,492
Profit for the period	<u>7,644</u>	<u>6,400</u>
At 31 May 2002	<u>33,536</u>	<u>25,892</u>

# HOUSING ASSOCIATION FUNDING PLC

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

### 12) RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2002	2001
	£	£
Profit for the period	<u>7,644</u>	<u>6,400</u>
Net change in shareholder's funds	7,644	6,400
Opening shareholders' funds at 1 June 2001	<u>75,892</u>	<u>69,492</u>
Closing shareholders' funds as at 31 May 2002	<u>83,536</u>	<u>75,892</u>

### 13) FRS 13 FINANCIAL RISK PROFILE

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 and this is summarised below.

#### Interest rate risk

The Company has securitised receivables which consist of a portfolio of fixed and floating rate loans to Housing Associations. The Company finances its operations through the issue of long term notes. The notes are in sterling mostly 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

All assets and liabilities of the Company are denominated in sterling.

**HOUSING ASSOCIATION FUNDING PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

**14) FRS 13 NUMERICAL DISCLOSURE**

**Interest rate risk profile**

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 (except as to £20,468,333 in 2001) 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.

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 assets at 31 May 2002 is as follows:

	2002	2001
	£	£
In one year or less, or on demand	11,467,454	14,872,531
In more than one year, but not more than two years	2,473,303	22,237,677
In more than two years, but not more than five years	8,552,336	6,153,110
In more than five years	<u>151,207,438</u>	<u>124,560,289</u>
	<u>173,700,531</u>	<u>167,823,607</u>

At 31st May 2001 the Company had a commitment to lend a further £9.5 million to four of its borrowers and a right to borrow any amount lent on matching terms. At 31<sup>st</sup> May 2002 the Company had no such commitment or right.

# HOUSING ASSOCIATION FUNDING PLC

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

### 14) FRS 13 NUMERICAL DISCLOSURE (continued)

#### Fair value of financial assets and financial liabilities

	2002	2002	2001	2001
	Book value	Fair value	Book value	Fair value
	£	£	£	£
<b>Financial assets</b>				
Housing Association loans	164,533,810	-	154,592,038	-
Accrued interest	5,972,055	-	5,052,907	-
Cash at bank and in hand	9,166,721	-	8,178,662	-
<b>Financial liabilities</b>				
Debt in issue	164,633,091	190,321,416	154,670,515	176,492,470
Amounts due to Housing Associations	9,144,556	-	8,178,987	-
Accrued interest	5,846,858	-	4,950,670	-

Fair values have been shown for items where there is a liquid and active market and have been calculated based upon quoted market prices.

### 15) CHANGE IN MATURITY PROFILE

On 10th September 2001 the company issued a further £28.1m nominal of 8.25% secured loan-backed notes due June 2027. The company repaid borrowings due in December 2002 with a portion of the proceeds.

### 16) ULTIMATE PARENT COMPANY

The company is a wholly owned subsidiary of H. A. Funding Limited which is incorporated 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.