

HOUSING ASSOCIATION FUNDING PLC

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MAY 2001

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 2001.

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. The Company had no employees at any time during the year.

RESULTS AND DIVIDENDS

The Company made a profit of £6,400 (2000: profit of £5,929) 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: 5/11 2001

Housing Association Funding Plc

AUDITORS' 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 are responsible for the preparation of the Annual Report. As described on page 2, this includes the responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

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 United Kingdom Companies Act. 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.

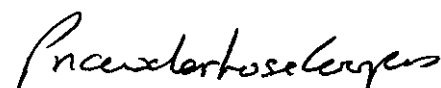
BASIS OF AUDIT OPINION

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 affairs of the Company as at 31st May 2001 and of its profit 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: 6 Nov 2001

Housing Association Funding Plc

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31st MAY 2001

	Notes	2001 £	2000 £
Net Interest Income	2	9,616	9,946
Fees Receivable		74,744	72,254
Administrative Expenses		(76,335)	(74,636)
Profit on ordinary activities before taxation	3	8,025	7,564
Tax on profit on ordinary activities	5	(1,625)	(1,635)
Retained profit for the financial year		<u>6,400</u>	<u>5,929</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 2001

	Notes	2001 £	2000 £
Fixed Assets			
Housing Association Loans	6	152,951,076	141,072,038
Current Assets			
Debtors	7	9,826,703	9,830,976
Cash At Bank and in hand		<u>8,178,662</u>	<u>7,174,258</u>
TOTAL ASSETS		170,956,441	158,077,272
Creditors: Amounts falling due within one year	8	<u>(14,984,840)</u>	<u>(13,868,645)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		155,971,601	144,208,627
Creditors Amounts falling due outside of one year	9	<u>(155,895,709)</u>	<u>(144,139,135)</u>
NET ASSETS		<u>75,892</u>	<u>69,492</u>
Capital and Reserves			
Called up share capital	10	50,000	50,000
Profit and Loss account	11	<u>25,892</u>	<u>19,492</u>
Equity Shareholders' Funds	12	<u>75,892</u>	<u>69,492</u>

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

2001 and were


B D Needham Director
Date: 5/11 2001

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) **Note issue expenses**

Expenses relating to the issue of Notes are amortised over the life of the underlying Notes.

2. NET INTEREST INCOME

	2001 £	2000 £
Interest receivable on Housing Association loans	11,263,111	10,743,967
Interest payable on debt in issue	(11,253,495)	(10,734,021)
Total	<u>9,616</u>	<u>9,946</u>

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging auditors' remuneration of £5,288 including VAT (2000: £5,288) which amount together with other running expenses the Company is entitled to recover by way of fees charged to its borrowers.

Housing Association Funding Plc

NOTES TO THE FINANCIAL STATEMENTS

(continued)

4. DIRECTORS AND EMPLOYEES

Directors

The directors of the Company received no remuneration for the period ended 31 May 2001.

Employees

No employees were employed by the Company during the period ended 31 May 2001.

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2001	2000
	£	£
UK Corporation tax at 20% (2000: 20%)	1,605	1,513
Prior year adjustment	<u>20</u>	<u>122</u>
	<u>1,625</u>	<u>1,635</u>

6. HOUSING ASSOCIATION LOANS - Amounts falling due outside one year

	2001	2000
	£	£
Balance as at 1 June 2000	141,072,038	135,617,904
Acquired during the period	13,520,000	6,948,333
Became payable in less than 1 year	<u>(1,640,962)</u>	<u>(1,494,199)</u>
Balance as at 31 May 2001	<u>152,951,076</u>	<u>141,072,038</u>
Repayable		
In more than one year but not more than five years	28,390,787	14,295,361
In more than five years	<u>124,560,289</u>	<u>126,776,677</u>
	<u>152,951,076</u>	<u>141,072,038</u>

Housing Association Funding Plc

NOTES TO THE FINANCIAL STATEMENTS

(continued)

7. DEBTORS – Amounts falling due within one year

	2001	2000
	£	£
Accrued Interest	5,052,907	5,137,317
Deferred loan issue expenses	2,968,620	3,087,719
Housing Association loans	1,640,962	1,494,199
Amounts recoverable from Housing Associations	126,716	74,243
Share capital due (refer note 10)	<u>37,498</u>	<u>37,498</u>
	<u>9,826,703</u>	<u>9,830,976</u>

8. CREDITORS – Amounts falling due within one year

	2001	2000
	£	£
Amounts due to Housing Associations	8,178,987	7,140,059
Debt in issue	1,743,426	1,606,260
Accrued interest	4,950,670	5,023,525
Corporation tax	1,604	1,635
Other creditors	<u>110,153</u>	<u>97,166</u>
	<u>14,984,840</u>	<u>13,868,645</u>

9. CREDITORS – Amounts falling due outside of one year

	2001	2000
	£	£
Debt in issue	<u>155,895,709</u>	<u>144,139,135</u>
Repayable		
In more than one year but not more than two years	22,375,468	1,743,426
In more than two years but not more than five years	6,507,345	13,048,708
In more than five years	<u>127,012,896</u>	<u>129,347,001</u>
	<u>155,895,709</u>	<u>144,139,135</u>

Housing Association Funding Plc

NOTES TO THE FINANCIAL STATEMENTS

(continued)

10. SHARE CAPITAL

	2001	2000
	£	£
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 2001	<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

	2001	2000
	£	£
At 1 June 2000	19,492	13,563
Profit for the period	<u>6,400</u>	<u>5,929</u>
At 31 May 2001	<u>25,892</u>	<u>19,492</u>

12. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2001	2000
	£	£
Profit for the period	<u>6,400</u>	<u>5,929</u>
Net change in shareholder's funds	6,400	5,929
Opening shareholders' funds at 1 June 2000	<u>69,492</u>	<u>63,563</u>
Closing shareholders' funds as at 31 May 2001	<u>75,892</u>	<u>69,492</u>

Housing Association Funding Plc

NOTES TO THE FINANCIAL STATEMENTS

(continued)

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.

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 (2000: £6,948,334), 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.

Housing Association Funding Plc

NOTES TO THE FINANCIAL STATEMENTS

(continued)

14. FRS 13 NUMERICAL DISCLOSURE (continued)

Maturity profile

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

	2001	2000
	£	£
In one year or less, or on demand	14,872,531	13,805,774
In more than one year, but not more than two years	22,237,677	1,640,962
In more than two years, but not more than five years	6,153,110	12,654,399
In more than five years	<u>124,560,289</u>	<u>126,776,677</u>
	<u>167,823,607</u>	<u>154,877,812</u>

At 31st May 2001 the Company had a commitment to lend a further £9.5 million (2000: £23 million) to four of its borrowers and a right to borrow any amount lent on matching terms.

Fair value of financial assets and financial liabilities

	2001		2000	
	£		£	
	Book value	Fair value	Book value	Fair value
	£	£	£	£
Financial assets				
Housing Association loans	154,592,038	-	142,566,237	-
Accrued interest	5,052,907	-	5,137,317	-
Cash at bank and in hand	8,178,662	-	7,174,258	-
Financial liabilities				
Debt in issue	157,639,135	176,492,470	145,745,395	155,334,393
Amounts due to Housing Associations	8,178,987	-	7,140,059	-
Accrued interest	4,950,670	-	5,023,525	-

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. SUBSEQUENT EVENT

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.

Housing Association Funding Plc

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 IRG Trustees Limited subject to a declaration of trust ultimately for charitable purposes.