

Registration Number: 03230346

H.A Funding Limited

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2020**

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H.A FUNDING LTD

COMPANY INFORMATION

Directors	Apex Corporate Services (UK) Limited Apex Trust Corporate Limited Sean Martin
Company secretary	Apex Trust Corporate Limited
Registered number	03230346
Registered office	125 Wood Street London, United Kingdom EC2V 7AN
Independent auditor	Mazars LLP Chartered Accountants and Statutory Auditor Tower Bridge House St Katharine's Way London E1W 1DD

H.A FUNDING LTD

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H.A FUNDING LIMITED

GROUP STRATEGIC REPORT

FOR THE YEAR ENDED 31 MAY 2020

INTRODUCTION

The Directors present their Strategic Report for the year ended 31 May 2020.

BUSINESS REVIEW

The Company is registered in England & Wales No. 03230346 and is a holding company whose only investment is the entire issued share capital of Housing Association Funding plc ("HAF"). This subsidiary is a special purpose company whose only activity is to advance loans to certain Housing Associations and to service notes (the "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 Group and its subsidiary are otherwise referred to as the "Group".

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

The Group operated as expected during the year with demand for social housing remaining very high. The rent collection performance of the property portfolio over the year to 31 May 2020 was 99.9% (2019: 99.7%) of the £26 million (2019: £25 million) 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. The net rental income was 144% (2019: 142%) of the amount required by the Group to service its debt obligations on the long-term notes. The notes and the loans continued to redeem during the year. The balance of the notes at year end was £68.5 million (2019: £75.3 million) and that of the loans was £68.5million (2019: £75.3 million). The cash balance at year end was at £18 million (2019: £18 million), the Group continues to operate an additional liquidity facility originally set up by Barclays held at BNY Mellon. The Group has not been required to make any drawdowns from this facility during the year.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's business is predicated on demand for rented housing. Therefore the principal risk facing the Group is based on changes in demographic conditions leading to a significant reduction in the demand to rent the housing which is security for its loan. Demand could reduce if there was an oversupply of housing, if the housing was not kept in a good and tenable condition, if the rents for the housing were uncompetitive or, if the housing were located in an undesirable or dangerous area. Management mitigate these risks by ensuring that the dwellings are let and kept in a good and tenable condition. It does this by checking monthly reports of rental collection, which reflect occupancy, against the targets laid down in the loan agreements and by examining the triennial stock condition surveys

The Directors do not currently consider credit risk to be a significant risk to the Group. The reason is that if there is a default by a borrower, the transaction is structured to transfer the management of the charged dwellings allowing the rents to continue to be collected and the dwellings to continue to be managed and maintained and the debt to be serviced out of the rental cash flow. There has not been a default by a borrower in the past eighteen years

The Directors consider the Company's overall exposure to interest rate risk to be immaterial for the purposes of these financial statements.

For more information on the principal risks and how they are managed, please see note 15.

INTERNAL CONTROL AND RISK MANAGEMENT

Each of the borrowers is obliged under its loan agreement to provide the Group with monthly and quarterly reports about the performance of the dwellings which are charged as security for its borrowing. The administration team monitors the receipt of these investor reports.

Borrowers are also obliged to provide the Group with a solvency certificate every 6 months and an annual certificate confirming the income and rent which has been reported over the preceding year. It is a requirement that the annual certificate be verified by an accompanying Independent auditor's certificate. The administration team also reviews these certificates and any irregularities are immediately followed up.

FINANCIAL KEY PERFORMANCE INDICATORS

The loans made to Housing Associations by the Group are serviced out of the rental income generated by a portfolio of social housing properties owned and managed by the Housing Associations. The targets in the Loan Agreements represent the measure to which the Group monitors its business. The rent collection performance of the property portfolio over the year to 31 May 2020 was 99.9% (2019: 99.7%) of the £26 million (2019: £25 million) 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 2019 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 the Group was 144% (2019: 142%) of the amount required by the Group 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 between the Group and the relevant Housing Associations.

H.A FUNDING LIMITED
GROUP STRATEGIC REPORT (continued)
FOR THE YEAR ENDED 31 MAY 2020

STRATEGY AND FUTURE DEVELOPMENT

The strategy of the Group 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.

FINANCIAL INSTRUMENTS

The Group's principal financial instruments comprise the lending to Housing Associations and borrowings that arise directly from its operations. The main purpose of these borrowings is to raise finance for the Group's operations. Further information regarding the risks arising from the use of all the Group's financial instruments is included within note 15. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments is undertaken. The Board reviews and agrees the policy for managing the financial risk profile of the Group.

This report was approved by the Board on 26 February 2021 and signed on its behalf.



Sean Martin
For and on Behalf of
Apex Trust Corporate Limited
Director

H.A FUNDING LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MAY 2020

The Directors present their report and the audited financial statements for the year ended 31 May 2020.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £nil (2019: £6,487).

The Directors do not recommend the payment of a dividend for the current year (2019: £nil).

DIRECTORS

The Directors who served during the year were as follows:

Sean Martin
Apex Trust Corporate Limited
Apex Corporate Services (UK) Limited

EVENTS SINCE THE END OF THE YEAR

There are no significant events since the year end that require disclosure or adjustment in the financial statement.

CORPORATE GOVERNANCE STATEMENT

The Directors have a supervisory role in overseeing the business, strategic direction, organisational structure and risk management activities of the Group. The Director membership represents an appropriate mix of experience and knowledge relevant to the Group's business lines. Board meetings are held at least four times a year, and additional meetings can be held at any time to discuss urgent issues. The day-to-day activities of the Group are controlled by Apex Trust Corporate Limited.

GOING CONCERN

Brexit

The Company is continuing to evaluate the likely economic, political and regulatory risks arising from June 2016 referendum in relation to the UK's membership of the European Union ("EU") on the entity's business strategy and business risks in the short, medium and long term. The UK left the EU at the end of January 2020. In the short term, there has been no significant impact on the entity's business activities, there is no immediate change in its business strategy and there is no effect on the going concern position of the entity. The Directors will continue to monitor developments closely and make appropriate changes to its business as required. Potential risks arising because of the UK's exit from the European Union include:

- falling property prices because of a recession that fails to recover;
- an increase in borrower defaults because of a UK recession which could be triggered by an increase in interest rates and an increase in unemployment; and
- changes in the regulatory regime in the UK could negatively affect the efficiency of existing securitisation structures and the appetite of investors to use these.

The strength of the UK economy and possible Brexit implications could undermine or support the ability for the Housing Association borrowers to continue collecting rents from credit borrowers. Details of how credit risk is managed is disclosed in Note 13.

Despite there being a challenging economic environment for the housing association sector, compounded by the uncertainty of Covid-19 discussed below, the Company continues to satisfy all its key performance indicators and to make payments to Noteholders in full and on time without recourse to its additional facility. Additionally, the Housing Associations underlying the structured deal have seen increases in rental collection rates and there is no evidence that the Housing Associations are experiencing higher default rates than usual and all covenants under the original loan agreements being consistently met. As with previous years the Company continues to hold a £9.4 million 364-day additional fund, 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) if this is required. To date there have been no requirements to utilise the funds drawn down on this facility and the directors have no reason to believe the Company will not meet its liabilities as they fall due.

Overall, the housing market is continually supported by Government initiatives which underpin demand for new and existing properties. To this extent house prices are, generally speaking, continuing to rise across the United Kingdom and there has not been any material events to date that would reverse

Covid-19 Impact

Since the beginning of the coronavirus outbreak in January 2020, the coronavirus has spread cross the world, causing ongoing disruption to businesses and economic activity worldwide. Global markets have reacted sharply to this pandemic, with concerns regarding the economic impact this may have on a global scale. Due to the evolving nature of the pandemic, it is not possible at the date of issue of these financial statements to estimate its financial impact, if any, on the Company's activities, and on its Notes and Loans. The Board will continue to monitor the impact on the Company's activities. The recoverability of loan receivables is dependent on the ability of the Housing Associations to service the Loans from the rents they receive on their properties.

H.A FUNDING LIMITED
DIRECTORS' REPORT (continued)
FOR THE YEAR ENDED 31 MAY 2020

GOING CONCERN (continued)
Covid-19 Impact(continued)

If there is a reduction in rental income received from the Housing Associations, then this may have an impact on the ability of the company to meet its obligations. If rental receipts were to decline, the directors have considered the point at which payment obligations cannot be met through repayments generated solely by rental receipts alone. It is estimated that rental receipts would have to fall by greater than 25% before the company would have to seek recovery through recourse to the respective Housing Associations and where necessary utilise liquidity funds to deal with any short term timing differences between rental receipts and interest payments.

The Directors consider the likelihood of rentals falling by greater than 25% to be remote and that combined with the actions that can be taken in the event of that happening, the directors are satisfied that the company is able to meet its obligations as they fall due.

Consequently the going concern basis continues to be appropriate in preparing the financial statements.

MATTERS COVERED IN THE STRATEGIC REPORT

As permitted in paragraph 1A of Schedule 7 to large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 certain matters which are required to be disclosed in the Directors' Report have been omitted as they are included in the Strategic Report on pages 1 and 2. These matters relate to the business review, financial instruments, future developments and financial risk management and policies.

CORPORATE GOVERNANCE

The Directors have a supervisory role in overseeing the business, strategic direction, organisational structure and risk management activities of the Group. The Director membership represents an appropriate mix of experience and knowledge relevant to the Group's business lines. Board meetings can be held at any time to discuss urgent issues. The day-to-day activities of the Group are controlled by Apex Trust Corporate Limited.

The Group's issued debt securities have a standard listing on the FCA's Main Issuer List. Accordingly, only requirement 7.2.5 of the Disclosure and Transparency Rules is applicable to the Group. The Group is exempt from the other requirements of Disclosure and Transparency Rules 7.2 Corporate governance statements, which would otherwise require the Group to include a corporate governance statement in the Directors' report. In accordance with 7.2.5 of the Disclosure and Transparency Rules, the Directors confirm that the Group's Financial Statements are prepared by an external accountant and reviewed separately for, and by, the Directors' to ensure the requirements of the Directors responsibilities as set out on page 6 are met.

DISCLOSURE OF INFORMATION TO AUDITOR

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Group and Group's auditor is unaware, and
- the Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Group and Group's auditor is aware of that information.

INDEPENDENT AUDITOR

The auditor, Mazars LLP, will be proposed for reappointment in accordance with section 487(2) of the Companies Act 2006.

This report was approved by the Board on 26th February 2021 and signed on its behalf.



Sean Martin
For and on behalf of
Apex Trust Corporate Limited
Director

H.A FUNDING LIMITED
DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 MAY 2020

The Directors are responsible for preparing the Group Strategic Report, 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under Company law the Directors must not approve the financial statements unless satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting 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 Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the shareholders of H.A Funding Limited

Opinion

We have audited the financial statements of H.A Funding Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31st May 2020 which comprise the Consolidated Income Statement, the Consolidated Statement of Financial Position, Company Statement of Financial Position, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Statement of Cashflow and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31st May 2020 and of the group's results 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent auditor's report to the shareholders of H.A Funding Limited(continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Independent auditor's report to the shareholders of H.A Funding Limited(continued)

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of the audit report

This report is made solely to the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.



David Allen (Senior Statutory Auditor)

for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor

Mazars LLP

Tower Bridge House

St. Katharine's Way

London

E1W 1DD

26th February 2021

H.A FUNDING LIMITED
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 MAY 2020

		Financial year ended 31-May-20 £	Financial year ended 31-May-19 £
	Note		
Interest receivable on Housing Association loans and bank balances	4	4,793,222	5,360,855
Interest payable on Loan notes		(4,747,593)	(5,352,847)
Gross profit		45,629	8,008
Administrative expenses		(396,515)	(369,307)
Fees receivable		350,886	369,307
Profit on ordinary activities before taxation	5	-	8,008
Tax on profit on ordinary activities	7	-	(1,521)
Profit for the year		-	6,487
Profit for the year attributable to:			
Owners of the parent		-	6,487
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		-	6,487

There were no recognised gains and losses for 2020 or 2019 other than those included in the consolidated income statement.

The notes on pages 16 to 23 form an integral part of the financial statements.

H.A FUNDING LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MAY 2020

	Note	31-May-20 £	31-May-19 £
Non Current Assets			
Housing Association loans	8	61,273,958	68,491,920
Current Assets			
Debtors	10	9,573,428	9,316,582
Cash at bank and in hand	11	18,297,639	18,368,503
		<u>27,871,067</u>	<u>27,685,085</u>
Creditors: amounts falling due within one year	12	(27,724,286)	(27,549,418)
Net Current Assets		<u>146,781</u>	<u>135,667</u>
Total Assets Less Current Liabilities		61,420,739	68,627,587
Creditors: amounts falling due after more than one year	13	<u>(61,243,237)</u>	<u>(68,450,085)</u>
Net Assets		<u>177,502</u>	<u>177,502</u>
Capital and Reserves			
Called up share capital	14	2	2
Profit and loss account		<u>177,500</u>	<u>177,500</u>
Shareholder's Equity		<u>177,502</u>	<u>177,502</u>

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 26 February 2021



Sean Martin
For and on behalf of
Apex Trust Corporate Limited
Director

The notes on pages 16 to 23 form an integral part of the financial statements.

H.A FUNDING LIMITED
COMPANY STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MAY 2020

	Note	31-May-20 £	31-May-19 £
FIXED ASSETS			
Investments	9	50,000	50,000
CURRENT ASSETS			
Debtors	10	-	19,415
TOTAL ASSETS		<u>50,000</u>	<u>69,415</u>
CREDITORS: amounts falling due within one year	12	-	(19,415)
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>50,000</u>	<u>50,000</u>
CREDITORS: amounts falling due after more than one year	13	<u>(37,498)</u>	<u>(37,498)</u>
NET ASSETS		<u><u>12,502</u></u>	<u><u>12,502</u></u>
CAPITAL AND RESERVES			
Called up share capital	14	2	2
Profit and loss account		<u>12,500</u>	<u>12,500</u>
SHAREHOLDERS' EQUITY		<u><u>12,502</u></u>	<u><u>12,502</u></u>

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 26 February 2021



Sean Martin
For and on behalf of
Apex Trust Corporate Limited
Director

The notes on pages 16 to 23 form part of these financial statements

H.A FUNDING LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MAY 2020

	Share capital	Retained earnings	Total equity
	£	£	£
Balance as at 1 June 2018	2	171,013	171,015
Total comprehensive income for the financial year			
Profit for the year	-	6,487	6,487
Balance as at 31 May 2019	2	177,500	177,502
Balance as at 1 June 2019	2	177,500	177,502
Total comprehensive income for the financial year			
Profit for the year	-	-	-
Balance as at 31 May 2020	2	177,500	177,502

This reserve represents cumulative profits and losses of the Company.

The notes on pages 16 to 23 form part of these financial statements

H.A FUNDING LIMITED
COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MAY 2020

	Share capital	Retained earnings	Total equity
	£	£	£
Balance as at 1 June 2018	2	12,500	12,502
Total comprehensive income for the financial year			
Profit for the year	-	-	-
Balance as at 31 May 2019	2	12,500	12,502
Balance as at 1 June 2019	2	12,500	12,502
Total comprehensive income for the financial year			
Profit for the year	-	-	-
Balance as at 31 May 2020	2	12,500	12,502

The notes on pages 17 to 23 form part of these financial statements

H.A FUNDING LIMITED
STATEMENT OF CASHFLOW
FOR THE YEAR ENDED 31 MAY 2020

	Financial year ended 31-May-20 £	Financial year ended 31-May-19 £
Operating activities		
Profit before taxation	-	8,008
Decrease in debtors	209,893	691,913
Decrease in creditors	(164,977)	(1,789,273)
Net cash outflow from operating activities before tax	44,916	(1,089,351)
Cash flow from investing activities		
Repayment of loans	6,751,223	18,537,790
Net cash inflow from investing activities	6,751,223	18,537,790
Cash flow from financing activities		
Repayment of loans notes	(6,867,003)	(18,564,842)
Net cash outflow from financing activities	(6,867,003)	(18,564,842)
Net decrease in cash and cash equivalents	(70,864)	(1,116,402)
Cash and cash equivalents at the beginning of the year	18,368,503	19,484,905
Cash and cash equivalents at end of year	18,297,639	18,368,503

H.A FUNDING LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2020

1 GENERAL INFORMATION

The Group is registered in England and Wales with registration number 03230346. It is a holding company whose only investment is the entire issued share capital of Housing Association Funding plc ("HAF"). The subsidiary's debt is listed on the London Stock Exchange. The address of its registered office and principal place of business is:

125 Wood St, London EC2V 7AN

2 ACCOUNTING POLICIES

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below:

2.1 Basis of preparation

These financial statements have been prepared in accordance with FRS 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland ("FRS 102") and applicable legislation, as set out in the Companies Act 2006. These financial statements have been prepared under the historical cost convention.

The Directors have adapted the arrangement of certain headings in the profit and loss account to reflect more accurately the nature of the Company's activities. A summary of important and material accounting policies is set out below.

2.2 Basis of consolidation

The consolidated financial statements present the results of Group and its own subsidiaries ("the Group") as they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the Statement of Financial Position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Consolidated Income Statement from the date on which control is obtained. They are deconsolidated from the date control ceases.

2.3 Going concern

Brexit

The Company is continuing to evaluate the likely economic, political and regulatory risks arising from June 2016 referendum in relation to the UK's membership of the European Union ("EU") on the entity's business strategy and business risks in the short, medium and long term. The UK left the EU at the end of January 2020. In the short term, there has been no significant impact on the entity's business activities, there is no immediate change in its business strategy and there is no effect on the going concern position of the entity. The Directors will continue to monitor developments closely and make appropriate changes to its business as required. Potential risks arising because of the UK's exit from the European Union include:

falling property prices because of a recession that fails to recover;

an increase in borrower defaults because of a UK recession which could be triggered by an increase in interest rates and an increase in unemployment; and

changes in the regulatory regime in the UK could negatively affect the efficiency of existing securitisation structures and the appetite of investors to use these.

The strength of the UK economy and possible Brexit implications could undermine or support the ability for the Housing Association borrowers to continue collecting rents from credit borrowers. Details of how credit risk is managed is disclosed in Note 13.

Despite there being a challenging economic environment for the housing association sector, compounded by the uncertainty of Covid-19 discussed below, the Company continues to satisfy all its key performance indicators and to make payments to Noteholders in full and on time without recourse to its additional facility. Additionally, the Housing Associations underlying the structured deal have seen increases in rental collection rates and there is no evidence that the Housing Associations are experiencing higher default rates than usual and all covenants under the original loan agreements being consistently met. As with previous years the Company continues to hold a £9.4 million 364-day additional fund, 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) if this is required. To date there have been no requirements to utilise the funds drawn down on this facility and the directors have no reason to believe the Company will not meet its liabilities as they fall due.

H.A FUNDING LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MAY 2020

2 ACCOUNTING POLICIES (continued)

2.3 Going concern (continued)

Brexit(continued)

Overall, the housing market is continually supported by Government initiatives which underpin demand for new and existing properties. To this extent house prices are, generally speaking, continuing to rise across the United Kingdom and there has not been any material events to

Covid-19 Impact

Since the beginning of the coronavirus outbreak in January 2020, the coronavirus has spread cross the world, causing ongoing disruption to businesses and economic activity worldwide. Global markets have reacted sharply to this pandemic, with concerns regarding the economic impact this may have on a global scale. Due to the evolving nature of the pandemic, it is not possible at the date of issue of these financial statements to estimate its financial impact, if any, on the Company's activities, and on its Notes and Loans. The Board will continue to monitor the impact on the Company's activities

If there is a reduction in rental income received from the Housing Associations, then this may have an impact on the ability of the company to meet its obligations. If rental receipts were to decline, the directors have considered the point at which payment obligations cannot be met through repayments generated solely by rental receipts alone. It is estimated that rental receipts would have to fall by greater than 25% before the company would have to seek recovery through recourse to the respective Housing Associations and where necessary utilise liquidity funds to deal with any short term timing differences between rental receipts and interest payments.

The directors consider the likelihood of rentals falling by greater than 25% to be remote and that combined with the actions that can be taken in the event of that happening, the directors are satisfied that the company is able to meet its obligations as they fall due.

Consequently the going concern basis continues to be appropriate in preparing the financial statements.

2.4 Investments

Investments held as fixed assets are shown at cost less provision for impairment.

2.5 Value added tax

Value added tax is not recoverable by the Company or the Group and is included with its related cost.

2.6 Interest

Interest receivable and interest payable are recognised in the profit and loss account using the effective interest method.

The effective interest method is a method of allocating the interest income or interest expense evenly in proportion to the amount outstanding over the period to maturity or repayment. 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.

2.7 Fees receivable

Fees recognised in the financial statements relate to the recharge of administrative costs incurred by the Group. These costs are recharged to the Housing Associations. Fees receivable are recognised on an accruals basis in the year in which the costs have been incurred.

2.8 Taxation

The Group has elected to be taxed under the Taxation for Securitisation Companies 2006 (Regulations) i.e., the permanent regime. Corporation tax is therefore calculated by reference to the profit of the securitisation company required to be retained in accordance with the relevant capital market arrangements.

2.9 Segmental analysis

The Group only operates in the UK and there are no reportable segments which are managed separately based on the Company's management and internal reporting structure.

2.10 Financial instruments

Financial assets and liabilities are recognised when the Company becomes party to the contractual provisions of the financial instrument. The Group holds only basic financial instruments, which comprise cash and cash equivalents, trade and other debtors, and trade and other creditors. The Group has chosen to apply the measurement and recognition provisions of Section 11 Basic Financial Instruments and Section 12 Other Financial Instrument Issues in full.

H.A FUNDING LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MAY 2020

2 ACCOUNTING POLICIES (continued)

Financial instruments(continued)
Financial assets - classified as basic financial instruments

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

Trade and other debtors and investments

Trade and other debtors and investments are initially recognised at the transaction price, including any transaction costs, and are subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Amounts that are receivable within one year are measured at the undiscounted amount expected to be receivable, net of any impairment. Where a financial asset constitutes a financing transaction it is initially and subsequently measured at the present value of the future payments, discounted at a market rate of interest.

At each reporting date, the Group assesses whether there is objective evidence that any financial asset may be impaired. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the financial asset. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows. The amount of the provision is recognised immediately in profit or loss.

Financial liabilities - classified as basic financial instruments

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity. Financial liabilities are initially measured at their transaction price, including any transaction costs and are subsequently amortised cost using the effective interest rate method.

The Group's financial liabilities include 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 (including principal) or are legally released from primary responsibility for the liability (or part of it) either by process of law or by the Noteholders.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Group and Company financial statements in accordance with FRS 102 requires management to make judgements, estimates and assumptions in applying accounting policies that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and based on historical experience and factors, including expectations of future events that are believed to be reasonable under the circumstances. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty in these financial statements, which together are deemed critical to the Group's results and financial position, are as follows:

- (i) *Provision for impairment of loans receivable*
- To the extent it is necessary to impair a financial asset as a result of having received objective evidence of impairment significant judgement may be needed to estimate the amount and timing of cash flows that would be recovered from the asset.

H.A FUNDING LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MAY 2020

ACCOUNTING POLICIES (continued)

4 INTEREST INCOME

	2020	2019
	£	£
Interest income comprises:		
Interest on Housing Association loans	4,792,066	5,357,189
Bank interest	1,156	3,666
	<u>4,793,222</u>	<u>5,360,855</u>

5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	Group 2020	Group 2019	Company 2020	Company 2019
	£	£	£	£
Audit of the annual financial statements	27,540	27,540	-	3,000
Administrative expenses	<u>306,659</u>	<u>341,767</u>	<u>-</u>	<u>-</u>

The administrative expenses decreased significantly during the year due to legal work not continuing from prior year.

6 DIRECTORS' REMUNERATION

Directors

The following were Directors of the Group during the year, Apex Corporate Services (UK) Limited (formerly Link Corporate Services Limited), Apex Trust Corporate Limited (formerly Link Trust Corporate Limited) and Sean Martin. Apex Corporate Services (UK) Limited received £11,054 (2019:£9,218) for the provision of the services of two Directors based on a schedule set out in 1997. No other remuneration was paid to the Directors for the year ended 31 May 2020 (2019: £nil).

Employees

No employees were employed by the Group during the year ended 31 May 2020 (2019: none).

TAX ON PROFIT ON ORDINARY ACTIVITIES

	2020	2019
	£	£
UK corporation tax charge on profit for the year	<u>-</u>	<u>1,521</u>

7 Factors affecting tax charge on profit for the year

The tax assessed for the year is the same as the standard rate of corporation tax in the UK of 19%. In 2020 the applicable rate of corporation tax in the UK changed to 19% (2019: 19%):

	2020	2019
	£	£
Tax on profit		
Profit on ordinary activities before tax	-	8,008
Profit on ordinary activities multiplied by standard rate of corporation in the UK of 19% (2019: 19%)	<u>-</u>	<u>1,521</u>
Total tax charge for the year	<u>-</u>	<u>1,521</u>

The Group has elected to enter the permanent tax regime for securitisation companies. The Directors are satisfied that the Group meets the definition of a 'securitisation company' as defined by both. The Finance Act 2005 and subsequent secondary legislation confirms that no incremental unfunded tax liabilities will arise.

The Directors are satisfied that the Group currently satisfies the conditions to be taxed under the permanent regime.

H.A FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 MAY 2020

8 GROUP HOUSING ASSOCIATION LOANS - Amounts falling due after one year

	2020	2019
	£	£
Balance as at 1 June 2019	75,305,067	86,552,774
HA loans receivable less than 1 year	(7,279,886)	(6,813,147)
Capital repayments from Housing Associates	(6,751,023)	(11,247,707)
Balance as at 31 May 2020	61,273,958	68,491,920
Repayable as follows:		
In more than one year but not more than five years		
In more than five years	34,511,879	32,246,050
Balance as at 31 May 2020	26,762,079	36,245,870
	61,273,958	68,491,920

The Directors continue to consider the maturity profile of the housing association loans to follow the current contractual repayment profile.

9 FIXED ASSET INVESTMENTS

	Investments in subsidiary companies
	£
Net book value	
At 31 May 2019	50,000
At 1 June 2019	50,000
At 31 May 2020	50,000

The Group owns 100% of the issued share capital of Housing Association Funding plc, a company incorporated in the United Kingdom. Housing Association Funding plc 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 advance.

10 DEBTORS

	Group 2020	Group 2019	Company 2020	Company 2019
	£	£	£	£
Accrued interest on loans	2,270,476	2,484,020	-	-
HA loans receivables less than 1 year	7,279,886	6,813,147	-	-
Amounts recoverable from Has	-	19,415	-	19,415
Prepayments	23,066	-	-	-
	9,573,428	9,316,582	-	19,415

11 CASH AT BANK AND IN HAND

	2020	2019
	£	£
Amounts held on behalf of Has	8,464,123	8,529,929
Operating account	382,188	387,246
Liquidity facility	9,451,328	9,451,328
Total	18,297,639	18,368,503

Amounts held on behalf of Housing Associations can only be used to pay the interest due on the notes on each interest payment date. Any balance left after payment of the note interest is repaid to the Housing Associations.

H.A FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 MAY 2020

12 CREDITORS: Amounts falling due within one year

	Group 2020	Group 2019	Company 2020	Company 2019
	£	£	£	£
Amounts held on behalf of HAs	8,219,253	8,530,209	-	-
Additional Facility Provider	9,447,777	9,447,777	-	-
Corporation tax	5,588	5,588	-	-
Loan note payable less than 1 year	7,206,848	6,867,003	-	-
Accounts payable and other creditors	602,531	279,949	-	19,415
Accrued interest on loan notes	2,242,289	2,418,892	-	-
	27,724,286	27,549,418	-	19,415

13 CREDITORS: Amounts falling due after more than one year

	Group 2020	Group 2019	Company 2020	Company 2019
	£	£	£	£
Debt in issue	61,243,237	68,450,085	-	-
Unpaid share capital	-	-	-	37,498
	61,243,237	68,450,085	-	37,498

Repayable	Group 2020	Group 2019	Company 2020	Company 2019
	£	£	£	£
In more than one year but not more than five years	34,511,879	32,501,472	-	-
In more than five years	26,731,358	35,948,613	37,498	37,498
	61,243,237	68,450,085	37,498	37,498

The Notes are 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 the effective interest rates shown in note 15. The debt is secured against the loans to the Housing Associations.

14 SHARE CAPITAL

	2020	2019
	£	£
Allotted, called up and fully paid		
2 Ordinary shares of £1 each	2	2

15 FINANCIAL INSTRUMENTS

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because the payment and receipt of interest on the Notes and Loans respectively is matched and the expenses are received upfront or reimbursed by the borrowers, there is limited interest rate risk. Movements in interest rates set by the BoE affecting the price of the bond will not impact on the Group's ability to continue.

The Group has securitised receivables which consist of a portfolio of fixed rate loans to Housing Associations. The Group finances its operations through the issue of long term notes. The notes are denominated in sterling at fixed rates. The Directors believe that the Group's exposure to both fair value and cash flow interest rate risk has been minimised due to the loans and notes being at fixed interest rates and same repayment terms.

Notes

Interest on the fixed rate liabilities is determined and payable on a semi-annual basis at the following rate:

	Carrying value 2020	Carrying value 2019	Effective rate
	£	£	
1997: 68,250,000 8.25% notes	18,556,283	21,333,104	8.28%
1998: 64,600,000 8.25% notes	21,076,291	23,168,504	6.81%
2001: 28,100,000 8.25% notes	11,056,910	12,189,599	6.10%
2005: 31,320,000 8.25% notes	17,760,602	18,625,881	4.84%

The difference between the coupon rate and effective rate on the notes is due to the notes being issued at a premium/discount.

H.A FUNDING LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MAY 2020

FINANCIAL INSTRUMENTS(continued)

Interest rate risk(continued)

Loans

	Carrying value 2020 £	Carrying value 2019 £	Effective rate
1997: 68,250,000 8.25% notes	19,208,971	20,942,693	8.57%
1998: 64,600,000 8.25% notes	20,801,932	22,817,374	7.03%
2001: 28,100,000 8.25% notes	10,950,291	12,053,531	6.31%
2005: 31,320,000 8.25% notes	17,592,650	19,491,469	4.94%

Interest on the fixed rate assets is determined and payable on a semiannual basis at the following rates:

The Directors believe that the Group's overall exposure to interest rate risk is insignificant and therefore interest rate sensitivity analysis has not been performed.

Foreign currency risk

Foreign currency risk is the risk of exposure to changes in exchange rates. The Group is not exposed to any foreign exchange risk as all assets and liabilities of the Company are denominated in sterling and the Group does not carry out any transactions in foreign denominated currencies.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Under its Loan Agreement, each Housing Association has granted security in respect of its own obligations to Housing Association Funding Plc. The underlying security of each Housing Association includes a legal charge over its property portfolio. This constitutes a first priority legal mortgage, an assignment by way of security of the benefit of all insurance monies arising in respect of the relevant borrower's title to the portfolio and a charge on the relevant buildings insurance monies. The net rental income of the properties charged to Housing Association Funding Plc is monitored on a monthly and quarterly basis to ensure that the Housing Associations are able to service their debt on the loans. If there is a default by a borrower, the transaction is structured to transfer the management of the charged dwellings allowing the rents to continue to be collected and the dwellings to continue to be managed and maintained and the debt to be serviced out of the rental cash flow. Consequently, management assess the quality of the underlying security of each Housing Association rather than performing credit checks on the Housing Associations when arranging the Loan Agreements.

Assets

The maximum exposure to credit risk arising on the Group's financial assets at 31 May 2020 is disclosed in the table below:

	Carrying value 2020 £	Maximum exposure 2020 £
Loans	68,553,844	68,553,844
Other receivables	2,307,448	2,307,448
Cash at bank and in hand	18,297,639	18,297,639

Assets

The maximum exposure to credit risk arising on the Group's financial assets at 31 May 2019 is disclosed in the table below:

	Carrying value 2019 £	Maximum exposure 2019 £
Loans	75,305,067	75,305,067
Other receivables	2,503,435	2,503,435
Cash at bank and in hand	18,368,503	18,368,503

HOUSING ASSOCIATION FUNDING PLC
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MAY 2020

15 FINANCIAL INSTRUMENTS (continued)

Liquidity risk

The table below reflects the undiscounted contractual cash flows of financial liabilities at the reporting date.

	2020	2019
	£	£
In one year or less, or on demand	23,644,242	39,257,577
In more than one year, but no more than two years	11,822,121	11,875,984
In more than two years, but not more than five years	35,466,363	35,627,952
In more than five years	29,555,320	41,565,945
Total	100,488,046	128,327,458

16 PROFITS OF THE COMPANY

As provided by Section 408(2) of the Companies Act 2006 the Income Statement for the Company is not presented with the financial statements.

17 CAPITAL COMMITMENTS

There was no capital or operating lease commitments

18 CAPITAL MANAGEMENT

The Group considers its capital to comprise its ordinary share capital and its accumulated retained earnings. The primary objective of HAF is to ensure the obligations to the Noteholders are met and to monitor the cash flows from the borrowing Housing Associations. In order to achieve its objectives in this area, the Group seeks to maintain a capital structure appropriate to its size and the underlying risk of the entity.

19 RELATIONSHIP OF DIRECTOR'S AND SECRETARY

The Directors of the Group and the corporate secretary are either employed by, or are provided by, companies whose ultimate parent is Genstar VIII GP AIV Ltd. The fees for these services are borne by the Housing Associations.

RELATED PARTY TRANSACTIONS

- 20** The Directors of the Group are shown in the Directors' Report of this Annual Report. As well as the fees received for Director services £11,054 (2019: £9,218), Apex Trust Corporate Limited provided the following services during the year to the Group: administration manager services for £21,519 (2019: £20,938), services relating to the provision of Note Trustee £15,188 (2019: £14,979), and additional services of £61,958 (2019: £93,600). The total amount paid to Apex Trust Corporate Limited during the year was £109,719 (2019: £138,737). At year-end, £23,066 was pre-paid (2018: £37,616) and £nil was accrued (2019: £nil). The Directors of the Group and Company received no remuneration for the year ended 31 May 2020 (2019: nil).

GENERAL INFORMATION

- 21** The issued share capital of the Group is held by Royal Exchange Trust Company Limited subject to a declaration of trust ultimately for charitable purposes.