

**SUNDERLAND (SHG) FINANCE HOLDINGS LIMITED**

**Annual Report and Financial Statements**

**For the year ended 31 December 2016**

**Companies House no: 04165694**

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# **SUNDERLAND (SHG) FINANCE HOLDINGS LIMITED**

**Annual report and financial statements for the year ended 31 December 2016**

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## **Directors**

C. Burke  
F. Edge  
I. Peacock  
P. Williamson

## **Company Secretary**

T.H.F.C. (Services) Limited

## **Registered Office**

4th Floor  
107 Cannon Street  
London  
EC4N 5AF

## **Company Number**

04165694

## **Independent Auditor**

Nexia Smith & Williamson Audit Limited  
Chartered Accountants and Statutory Auditor  
25 Moorgate  
London  
EC2R 6AY

# **SUNDERLAND (SHG) FINANCE HOLDINGS LIMITED**

## **DIRECTORS' REPORT**

**Year ended 31 December 2016**

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The directors submit their Directors' report, Strategic report and audited consolidated financial statements for the year ended 31 December 2016.

### **RESULTS AND DIVIDEND**

Sunderland Finance (SHG) Holdings Limited ("the company") and its subsidiary, Sunderland (SHG) Finance Plc (together "the group") made neither a profit nor a loss for the year. The directors do not propose the payment of a dividend.

### **SHARE CAPITAL AND COMPANY STRUCTURE**

Sunderland (SHG) Finance Holdings limited is a private limited company incorporated and domiciled in England and Wales. The entire issued share capital of the company is held by Prudential Trustee Company Limited under a declaration of trust for the benefit of qualified charities.

### **DIRECTORS**

The directors who served during the year and up to the date of signing the financial statements are as follows:

C. Burke  
F. Edge  
I. Peacock  
P. Williamson

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Annual 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 prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards to the parent company's financial statements as applied in accordance with the provisions of the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company 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 judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union 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 and the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's 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.

## SUNDERLAND (SHG) FINANCE HOLDINGS LIMITED

### **DIRECTORS' REPORT (continued)** **Year ended 31 December 2016**

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The directors are responsible for the maintenance and integrity of any information published on the administrator's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

#### **DISCLOSURE OF INFORMATION TO AUDITORS**

In the case of each director in office at the date the Directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- he/she has taken all reasonable steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This report was approved by the board and signed on its behalf by



Colin Burke  
T.H.F.C. (Services) Limited  
**Company Secretary**  
9 June 2017

# **SUNDERLAND (SHG) FINANCE HOLDINGS LIMITED**

## **STRATEGIC REPORT**

**Year ended 31 December 2016**

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### **PRINCIPAL ACTIVITIES**

The company is the parent company of Sunderland (SHG) Finance Plc, of which it owns 49,999 ordinary shares. The remaining share is held by Prudential Trustee Company Limited on a fiduciary basis. The principal activity of the company is to provide finance for housing associations (HAs) registered under The Housing Act 1996 through the issue of bonds ultimately secured on the borrowings of the HAs ("the secured bonds"). The group issued its first secured bonds to provide such finance on 26 June 2001. The group on-lent the proceeds to Gentoo group Limited ("GGL") via T.H.F.C. (Capital) Plc ("THFCC") (the "borrower") which is an aggregating intermediary for loans to GGL.

Sunderland (SHG) Finance Holdings Limited did not trade in the year.

All the group's operating costs, net of interest earned, are recoverable from the borrower.

Prudential Trustee Company Limited ("the bond trustee") acts as the trustee on behalf of all secured bond holders, under the terms of a Trust Deed, and has the benefit of a fixed charge over certain assets of the ultimate borrower and a floating charge over all the assets of the issuer.

The group expects to continue its principal activity for the life of the secured bonds, which have a final repayment date of 2042.

### **REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS**

The group has fulfilled its obligations under the bonds. Given the straight forward nature of the business, the company's directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance or position of the business. The directors consider the position of the company at the year end to be satisfactory.

### **FINANCIAL RISK MANAGEMENT**

The key financial risks of the group and how they are minimised are explained in note 3.

This report was approved by the board and signed on its behalf by



Colin Burke  
T.H.F.C. (Services) Limited  
**Company Secretary**  
9 June 2017

## **SUNDERLAND (SHG) FINANCE HOLDINGS LIMITED**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SUNDERLAND (SHG) FINANCE HOLDINGS LIMITED**

**Year ended 31 December 2016**

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We have audited the financial statements of Sunderland (SHG) Finance Holdings Limited for the year ended 31 December 2016 which comprise the group Statement of Comprehensive Income, the group and parent company Statements of Financial Position, the group Statement of Cash Flows and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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.

#### **Respective responsibilities of directors and auditor**

As explained more fully in the Statement of Directors' Responsibilities set out on page 1, 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 and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the FRC's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

#### **Opinion on financial statements**

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 31 December 2016 and of the group's result for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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, 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 those financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

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

**SUNDERLAND (SHG) FINANCE HOLDINGS LIMITED**

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SUNDERLAND (SHG) FINANCE HOLDINGS LIMITED (continued)**  
**Year ended 31 December 2016**

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**Matters on which we are required to report by exception**

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

- adequate accounting records have not been kept 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.

*Nexia Smith & Williamson*

Guy Swarbreck  
Senior Statutory Auditor, for and on behalf of  
**Nexia Smith & Williamson**  
Statutory Auditor  
Chartered Accountants

25 Moorgate  
London  
EC2R 6AY  
12 June 2017

**SUNDERLAND (SHG) FINANCE HOLDINGS LIMITED****GROUP STATEMENT OF COMPREHENSIVE INCOME****Year ended 31 December 2016**

	Note	2016 £	2015 £
<b>OPERATING INCOME</b>			
Interest receivable	4	13,574,953	13,641,483
Costs recoverable from borrower		23,607	23,267
		<u>13,598,560</u>	<u>13,664,750</u>
<b>OPERATING EXPENDITURE</b>			
Interest payable	5	13,574,653	13,640,927
Operating expenses	6	23,907	23,823
		<u>13,598,560</u>	<u>13,664,750</u>
<b>RESULT BEFORE AND AFTER TAXATION</b>	7	-	-
Other comprehensive income		-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<u>-</u>	<u>-</u>

There have been no changes in equity in the current or prior year, therefore no separate statement of changes in equity for the group or the parent company have been prepared.



**SUNDERLAND (SHG) FINANCE HOLDINGS LIMITED**

**GROUP STATEMENT OF FINANCIAL POSITION**

**As at 31 December 2016**

	Note	2016 £	2015 £
<b>ASSETS</b>			
<b>Non-current assets</b>			
Loan to borrower	9	212,861,795	212,864,044
<b>Current assets</b>			
Other receivables	10	3,435,943	3,435,617
Cash and cash equivalents		12,501	12,501
<b>TOTAL ASSETS</b>		<b>216,310,239</b>	<b>216,312,162</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Current liabilities</b>			
Other payables	11	3,448,443	3,448,117
<b>Non-current liabilities</b>			
Financial liabilities – secured bonds	12	212,861,795	212,864,044
<b>TOTAL LIABILITIES</b>		<b>216,310,238</b>	<b>216,312,161</b>
<b>Equity</b>			
Share capital	13	1	1
Retained earnings		-	-
<b>TOTAL EQUITY</b>		<b>1</b>	<b>1</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>216,310,239</b>	<b>216,312,162</b>

The accompanying notes on pages 10-20 are an integral part of these financial statements.

These financial statements on pages 6-20 were approved by the board and signed on its behalf by:



Piers Williamson  
**Director**  
 9 June 2017

**SUNDERLAND (SHG) FINANCE HOLDINGS LIMITED**

**COMPANY STATEMENT OF FINANCIAL POSITION**

**As at 31 December 2016**

<b>ASSETS</b>	<b>Note</b>	<b>2016 £</b>	<b>2015 £</b>
<b>Non-current assets</b>			
Investments	9	12,500	12,500
<b>Current assets</b>			
Cash and cash equivalents		1	1
<b>TOTAL ASSETS</b>		<b>12,501</b>	<b>12,501</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Non-current liabilities</b>			
Other payables	11	12,500	12,500
<b>Equity</b>			
Share capital	13	1	1
Retained earnings		-	-
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>12,501</b>	<b>12,501</b>

The accompanying notes on pages 10-20 are an integral part of these financial statements.

These financial statements on pages 6-20 were approved by the board and signed on its behalf by:



Piers Williamson  
**Director**  
9 June 2017

Sunderland (SHG) Finance Holdings Limited

Registration Number 04165694

**SUNDERLAND (SHG) FINANCE HOLDINGS LIMITED****GROUP STATEMENT OF CASH FLOWS****Year ended 31 December 2016**

		<b>2016</b>	<b>2015</b>
	<b>Note</b>	<b>£</b>	<b>£</b>
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash (used in) operations	14	(300)	(556)
Interest received from borrower		13,577,068	13,577,324
Interest paid on bonds		(13,576,768)	(13,576,768)
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>-</b>	<b>-</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS IN YEAR</b>		<b>-</b>	<b>-</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>		<b>12,501</b>	<b>12,501</b>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>		<b>12,501</b>	<b>12,501</b>

There were no cash flows in the parent company during the current and prior year.

# SUNDERLAND (SHG) FINANCE HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

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### 1 GENERAL INFORMATION

Sunderland (SHG) Finance Holdings Limited ("the company") and its subsidiary, Sunderland (SHG) Finance Plc (together "the group"), provide finance for housing associations ("HAS"). The company is a private limited company, limited by shares. It is incorporated and domiciled in England and Wales. The address of the registered office is 4<sup>th</sup> floor, 107 Cannon street, London, EC4N 5AF. The subsidiary has issued secured bonds listed on the Main Market of the London Stock Exchange.

The subsidiary on-lent the proceeds of the issue of the secured bonds to T.H.F.C. (Capital) Plc ("THFCC") ("the borrower"). THFCC on-lent the proceeds to Gentoo Group Limited ("GGL") under a loan agreement.

### 2 ACCOUNTING POLICIES

#### **Basis of preparation**

The financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, applied in accordance with the provisions of the Companies Act 2006.

The financial statements have been prepared under the historical cost convention.

#### **Changes in accounting policies and disclosures**

##### *a) New and amended Standards and Interpretations adopted by the group*

In the current year, the following new and amended Standards and Interpretations have been adopted by the group:

- IAS 27 Separate Financial Statements: This allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.
- Amendments to IAS 1: Presentation of Financial Statements: The amendments address some of the concerns expressed about existing presentation and disclosure requirements relating to the use of judgement when preparing their financial statements.

The adoption of these amendments has not had a material impact on the reported results or financial position of the company and has not given rise to any additional disclosure requirements.

##### *b) New and amended Standards and Interpretations mandatory for the first time for the financial year beginning 1 January 2016 but not currently relevant to the company*

Other standards effective or amended in the year have not had a material impact on the reported results or financial position of the company.

##### *c) New and amended Standards and Interpretations issued but not effective for the financial year beginning 1 January 2016*

- IAS 7 Statement of Cash Flows Disclosure Initiative (Effective 1 January 2017, not yet endorsed by EU): The amendments respond to requests from investors for improved disclosures about changes in liabilities arising from financing activities by introducing a reconciliation of debt balances.

## **SUNDERLAND (SHG) FINANCE HOLDINGS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

**Year ended 31 December 2016**

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- IFRS 9 Financial Instruments (Effective 1 January 2018): This deals with the classification, measurement and impairment of financial assets and financial liabilities.
- IFRS 15 Revenue from Contracts with Customers (Effective 1 January 2018): The standard represents a single revenue recognition standard to be applied across various industries. The standard replaces IAS 18 Revenue.

The directors are currently assessing the impact and timing of adoption of these Standards on the company's results and financial position.

The effect of all other new and amended Standards and Interpretations which are in issue but not yet mandatorily effective is not expected to be material.

#### **Critical Accounting Judgements**

The preparation of financial statements in accordance with IFRSs requires the use of certain critical accounting adjustments which require management's judgement in applying the accounting policies. The main critical accounting judgement in preparing these financial statements is the evaluation as to whether the loan to THFCC is impaired. The directors have concluded that there is no objective evidence of any such impairment in the current year. As the group is not subject to any net credit risk any impairment would be matched by a similar adjustment to the gross liability.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

#### **Basis of consolidation**

The group financial statements fully consolidate the results of the subsidiary undertaking from the date on which control is acquired. The purchase method of accounting is used to account for the acquisition of subsidiaries by the group.

The company is the parent company of Sunderland (SHG) Finance Plc and it owns 100% of its issued share capital.

#### **Investments in the subsidiary**

Investments in the subsidiary are held at cost less provision for impairment where appropriate.

#### **Interest**

Interest receivable on the loan and interest payable on the secured bonds is accounted for using the effective interest rate method. Any premiums/discounts on issue are added to/deducted from the original loan amount or secured bond nominal value and charged/credited to the statement of comprehensive income over the expected life of the loan or bond using the effective interest rate method so that the interest receivable and payable, as adjusted for the amortisation of premiums/discounts, gives a constant yield to maturity.

#### **Cash and cash equivalents**

Cash and cash equivalents represent amounts on demand deposit at commercial banks.

## SUNDERLAND (SHG) FINANCE HOLDINGS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2016

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#### **Loan to borrower ("loan")**

The loan is stated at amortised cost less allowance for impairment. Any premium or discount on issue is added to/deducted from the nominal value of the loan and charged or credited to the statement of comprehensive income over the expected life of the loan so that the interest income as adjusted for the amortisation of premium/discount gives a constant yield to maturity.

#### **Secured bonds**

Secured bonds are stated at amortised cost. Any premium or discount on issue is added to/deducted from the nominal value of the secured bonds and charged or credited to the statement of comprehensive income over the expected life of the secured bonds so that the interest charge as adjusted for the amortisation of premium/discount gives a constant yield to maturity. Secured bonds are recognised in the financial statements when the proceeds are received.

#### **Netting**

The company does not net financial assets and liabilities and has no other enforceable offsets.

#### **Fair Values**

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

IFRS 13 *Fair value measurement* requires an entity to classify for disclosure purposes its financial instruments held at amortised cost according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

##### *Quoted market prices – Level 1*

Financial instruments are classified as Level 1 if their value is observable in an active market. Fair values for such instruments are reported by reference to unadjusted quoted prices for identical assets or liabilities where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis.

##### *Valuation technique using observable inputs – Level 2*

Financial instruments classified as Level 2 are fair valued using models whose inputs (for example, interest rates and credit spreads) are observable in an active market.

##### *Valuation technique using significant unobservable inputs – Level 3*

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data. The group has no instruments classified in Level 3 (2015: none).

The company's secured bonds are tradable and the markets are considered to be active and the secured bonds are therefore classified as Level 1. Accordingly quoted market prices at, or close to, the statement of financial position date have been used to evaluate the fair value of the secured bonds.

### **Prepayment**

It is expected that the loan will run to maturity however the loan agreement between THFCC and GGL provides that GGL may at any time purchase the secured bonds. Bonds purchased must be surrendered to the subsidiary and an amount of the outstanding balance of the loan between THFCC and GGL equal to the outstanding balance of the bonds surrendered shall be deemed to be prepaid. Following any such purchase a corresponding amount of the outstanding loan between the subsidiary and THFCC equal to the amount of the bonds surrendered shall also be deemed to be prepaid. The prepaid amount of the loan and equivalent bond nominal amount is removed from the statement of financial position on delivery of the Deed of Surrender.

### **Segmental Analysis**

All operating income and expenditure is derived from activities undertaken in the United Kingdom. The group's only activity is to provide finance to GGL. Therefore 100% of interest income is receivable from THFCC.

## **3 FINANCIAL RISK MANAGEMENT**

The proceeds from the issue of the 6.38% secured bonds 2042 were used to make a loan to the borrower.

### **Credit risk**

The group is subject to gross credit risk on its loan to THFCC but no net risk.

The ability of the group to make payments of interest, principal and any other sums due in respect of the bonds will depend on the group receiving like amounts from THFCC under its loan agreement and by THFCC receiving the like amounts from GGL under its loan agreement with GGL.

To the extent that the group does not receive sufficient amounts in respect of the loan agreement (whether in the ordinary course of business, following the enforcement of its security obtained in respect of the loan agreement or otherwise) then the company will not have sufficient monies to pay interest, principal or other sums due in respect of the bonds. Non-payment by the group may not necessarily constitute an event of default under the bonds.

The carrying value of the loan represents the maximum exposure to gross credit risk. The loan is not past due or impaired at 31 December 2016 (2015: None).

Gross credit risk on the loan is mitigated by the collateral arrangements described below:

The secured bonds are rated "Aa3/AA-" by Moody's Investor Service and Standard & Poor's at 31 December 2016 (2015: "Aa3/AA").

On 28 April 2017 Standard & Poor's placed the rating of the bonds on credit watch with negative implications. This arose from changes in the housing association sector, both in terms of economic fundamentals and government policies, which puts potential pressure on cash flow generation from the social housing assets secured to the bond.

### **Collateral arrangements and netting**

The group's gross credit risk is mitigated by the following factors. The loan is secured by way of a fixed charge over certain assets of the underlying borrower (GGL). The underlying borrower is subject to

## **SUNDERLAND (SHG) FINANCE HOLDINGS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

**Year ended 31 December 2016**

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external regulation by the Homes and Communities Agency. The underlying borrower has provided a first legal mortgage over property owned or leased by the borrower to ensure that the debt is adequately serviced from the relevant assets through to maturity in the event of a default.

As the on-going cash flow from the underlying security is the key component to securing the transaction, measurement of the book value and fair value of the secured properties is not required by the transaction documentation. For this reason it would not be practical or cost effective to obtain this information on an annual basis.

The Prudential Trustee Company Limited acts as the trustee on behalf of all secured bond holders (the bond trustee), under the terms of a Security Trust Deed, and has the benefit of a fixed charge over certain assets of the borrower and a floating charge over all the assets of the Sunderland (SHG) Finance Plc.

The bond trustee has the power to take control of the charged properties in certain pre-determined circumstances to protect cash flows to be used to satisfy obligations under the bonds.

#### **Liquidity risk**

To mitigate liquidity risk the borrower collects interest from GGL four business days prior to payment to bondholders. Additionally GGL maintains a debt service reserve fund with the bond trustee which amounts to a minimum of one year's worth of interest payments that can be drawn upon in the event of a late payment.

The loan repayments by GGL to the borrower commence four business days before 31 March 2022. The repayments are calculated on an annuity basis with the final repayment being made four business days before 31 March 2042. Interest is receivable half yearly in arrears at an amount equal to the interest falling due for payment by the company on the secured bonds.

Interest on the bonds is payable half yearly in arrears. As from 31 March 2022, each half yearly payment will be increased to include a capital element in order to redeem part of the principal amount of the bonds.

As with credit risk to the extent that the group does not receive sufficient amounts in respect of the loan agreement (whether following the enforcement of its security obtained in respect of each loan agreement or otherwise) then the group will not have sufficient monies to pay interest, principal or other sums due in respect of the bonds. Non-payment by the group may not necessarily constitute an event of default under the bonds.

#### **Interest rate risk**

The interest charged on the loan is fixed and is equal to the interest payable on the related secured bonds and hence there is no cash flow risk between the receipt and payment of interest. Accordingly, the directors consider that the group is not subject to any risk on the fluctuation of interest rates.

#### **Fair value risk and market price risk**

There is a gross fair value risk on the loans and secured bonds but there is no net risk. Market price risk is not expected to impact on the group because (i) the loans and secured bonds are held at amortised cost in the financial statements and (ii) the group expects to hold them until maturity.



# SUNDERLAND (SHG) FINANCE HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2016

### Currency risk

All financial assets and liabilities are denominated in sterling and hence there is no currency risk.

### Company

The company has no significant financial instruments.

### 4 INTEREST RECEIVABLE

	2016 £	2015 £
Bank interest	300	556
On loan to borrower	13,576,768	13,576,768
Amortisation of premium	(2,115)	64,159
	<u>13,574,953</u>	<u>13,641,483</u>

### 5 INTEREST PAYABLE

	2016 £	2015 £
On 6.38% secured bonds 2042	13,576,768	13,576,768
Amortisation of premium	(2,115)	64,159
	<u>13,574,952</u>	<u>13,640,927</u>

### 6 OPERATING EXPENSES

Operating expenses comprise management fees from T.H.F.C. (Services) Limited and other professional services fees.

### 7 RESULT BEFORE AND AFTER TAXATION

The result before taxation is wholly attributable to the group's principal activity, arose wholly within the United Kingdom and is stated after charging:

	2016 £	2015 £
Fees paid to current auditor for annual audit of financial statements		
– current year	<u>7,374</u>	<u>7,230</u>

### 8 EMPLOYEES

There were no employees of the company or group during the year other than the directors (2015: Nil). The directors received no remuneration during the year directly from the company in respect of their qualifying services (2015: £Nil). All directors are remunerated by T.H.F.C. (Services) Limited for their services to the company. It is not practicable to obtain the relevant data to accurately disclose the company's share of this cost.

**SUNDERLAND (SHG) FINANCE HOLDINGS LIMITED****NOTES TO THE FINANCIAL STATEMENTS (continued)**

Year ended 31 December 2016

**9 LOAN TO BORROWER AND INVESTMENTS**

<b>Company</b>	<b>2016</b> <b>£</b>	<b>2015</b> <b>£</b>
Investment in subsidiary undertaking at cost	<u><b>12,500</b></u>	<u><b>12,500</b></u>

The company owns 49,999 shares in Sunderland (SHG) Finance Plc which is incorporated in the United Kingdom. The principal activity of Sunderland (SHG) Finance Plc is to provide finance for Registered Providers registered under The Housing Act 1996. The net assets of Sunderland (SHG) Finance Plc at 31 December 2016 were £12,500 (2015: £12,500).

<b>Group</b>	<b>2016</b> <b>£</b>	<b>2015</b> <b>£</b>
Loan to borrower		
Amortised cost	<b>212,802,000</b>	212,802,000
Unamortised premium	<u><b>62,044</b></u>	<u>64,159</u>
Amortised Cost	<b>212,864,044</b>	212,866,159
Premium due within one year	<u><b>(2,249)</b></u>	<u>(2,115)</u>
Non-current amortised cost	<u><b>212,861,795</b></u>	<u>212,864,044</u>

Collateral arrangements are set out in note 3.

**10 OTHER RECEIVABLES**

<b>Group</b>	<b>2016</b> <b>£</b>	<b>2015</b> <b>£</b>
Premium due within one year	<b>2,249</b>	2,115
Interest receivable	<b>3,422,089</b>	3,422,089
Prepayments	<b>3,721</b>	3,673
Other receivables	<u><b>7,884</b></u>	<u>7,740</u>
	<u><b>3,435,943</b></u>	<u>3,435,617</u>

**11 OTHER PAYABLES**

<b>Group</b>	<b>2016</b> <b>£</b>	<b>2015</b> <b>£</b>
Premium due within one year	<b>2,249</b>	2,115
Interest payable	<b>3,422,089</b>	3,422,089
Other payables	<b>12,500</b>	12,500
Accruals	<u><b>11,605</b></u>	<u>11,413</u>
	<u><b>3,448,443</b></u>	<u>3,448,117</u>

<b>Company</b>	<b>2016</b> <b>£</b>	<b>2015</b> <b>£</b>
Other payables	<u><b>12,500</b></u>	<u>12,500</u>

# SUNDERLAND (SHG) FINANCE HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2016

### 12 FINANCIAL LIABILITIES – SECURED BONDS

Group	2016 £	2015 £
6.38% secured bonds 2042		
Amortised cost	212,802,000	212,802,000
Unamortised premium	62,044	64,159
Amortised Cost	212,864,044	212,866,159
Premium due within one year	(2,249)	(2,115)
Non-current amortised cost	212,861,795	212,864,044

Details of security are set out in note 3.

Details of the issue of the secured bonds are as follows:

	Nominal Value £	Premium £
26 June 2001	239,500,000	94,363
Prepayment 18 June 2010	(26,698,000)	(10,519)
	212,802,000	83,844

The net premium and cumulative amortisation at the beginning of the year was £64,159 and £19,685 respectively (2015: £66,140 and £17,704). Amortisation charged during the year was £2,115 (2015: £1,981).

The proceeds of the above issue of £239,594,363 were used to make a loan to GGL via T.H.F.C. (Capital) Plc. All issue costs relating to the issue of these secured bonds were met directly by the GGL.

The premium on issue has been added to the value of the secured bonds and are amortised through the statement of comprehensive income over the life of the secured bonds.

#### Contractual cash flows on secured bonds

2016	Due within one year £	Due within one to two years £	Due within two to five years £	Due in over five years £	Total 2016 £
Principal	-	-	-	212,802,000	212,802,000
Interest	13,576,768	13,576,768	40,730,303	171,604,219	239,488,058
Total	13,576,768	13,576,768	40,730,303	384,406,219	452,290,058

**SUNDERLAND (SHG) FINANCE HOLDINGS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Year ended 31 December 2016**

2015	Due within one year £	Due within one to two years £	Due within two to five years £	Due in over five years £	Total 2015 £
Principal	-	-	-	212,802,000	212,802,000
Interest	13,576,768	13,576,768	40,730,303	185,180,987	253,064,826
<b>Total</b>	<b>13,576,768</b>	<b>13,576,768</b>	<b>40,730,303</b>	<b>397,982,987</b>	<b>465,866,826</b>

**13 SHARE CAPITAL**

**Group and company**

	2016 £	2015 £
<i>Allotted and fully paid</i>		
1 (2015: 1) ordinary share of £1 each	<u>1</u>	<u>1</u>

The allotted share is held under a declaration of trust dated 31 May 2001 by Prudential Trustee Company Limited on behalf of qualified charities. Accordingly the bond trustee has no beneficial interest in the group.

The group's capital comprises only its share capital which the directors consider adequate for its ongoing working capital requirements in relation to its obligations under the bonds. The group is not subject to externally imposed capital requirements.

**14 RECONCILIATION OF RESULT BEFORE TAXATION TO CASH (USED IN) OPERATIONS**

	2016 £	2015 £
Result before taxation	-	-
Adjustments for:		
Interest receivable	(13,574,953)	(13,641,483)
Interest payable	13,574,653	13,640,927
Changes in working capital:		
(Increase) / decrease in receivables	(192)	3,032
(Decrease) in payables	192	(3,032)
<b>Cash (used in) operations</b>	<b>(300)</b>	<b>(556)</b>

# SUNDERLAND (SHG) FINANCE HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2016

### 15 FAIR VALUES OF FINANCIAL INSTRUMENTS

The Level 1 fair value of the 6.38% secured bonds due 2042 and associated loan, as at 31 December 2016 are shown below. The fair value is derived from the market value of the secured bonds at that date. There is no difference between the fair value and carrying value of all other financial assets and liabilities.

Group	2016		2015	
	Carrying value £	Fair value £	Carrying value £	Fair value £
<b>Financial assets:</b>				
<i>Classified as loans &amp; receivables</i>				
Loan to borrower				
Non-current	212,861,795		212,864,044	
Current	2,249		2,115	
<b>Total</b>	<b>212,864,044</b>	<b>297,062,847</b>	<b>212,866,159</b>	<b>283,984,273</b>
Interest receivable	3,422,089	3,422,089	3,422,089	3,422,089
Other receivables	11,605	11,605	7,740	7,740
<b>Total financial assets</b>	<b>216,297,738</b>	<b>300,496,541</b>	<b>216,295,988</b>	<b>287,414,102</b>
<b>Financial liabilities:</b>				
<i>Classified as financial liabilities at amortised cost</i>				
Secured bonds				
Non-current	212,861,795		212,864,044	
Current	2,249		2,115	
<b>Total</b>	<b>212,864,044</b>	<b>297,062,847</b>	<b>212,866,159</b>	<b>283,984,273</b>
Interest payable	3,422,089	3,422,089	3,422,089	3,422,089
Other payables and accruals	24,106	24,106	23,913	23,913
<b>Total financial liabilities</b>	<b>216,310,239</b>	<b>300,509,042</b>	<b>216,312,161</b>	<b>287,430,275</b>

### Company

The company has no significant financial instruments.

### 16 RESULTS FOR THE FINANCIAL YEAR

The company has taken advantage of the exemption allowed under Section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The group results for the financial year arise solely from the subsidiary undertaking as the parent company did not trade in the financial year.

## **SUNDERLAND (SHG) FINANCE HOLDINGS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)** **Year ended 31 December 2016**

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#### **16 RELATED PARTY TRANSACTIONS**

All administrative services are provided under a management agreement with T.H.F.C. (Services) Limited, a subsidiary of The Housing Finance Corporation Limited. The directors are employees of T.H.F.C. (Services) Limited. Management fees payable to T.H.F.C. (Services) Limited during the year amounted to £7,260 (2015: £7,123). Amounts due to T.H.F.C. (Services) Limited at 31 December 2016 amounted to £Nil (2015: £Nil).

The group has granted security in favour of The Prudential Trustee Company Limited ("the trustee") to secure the bonds and other monies under the terms of a trust deed dated 27 June 2001. Fees payable to the trustee for the year amounted to £5,392 (2015: £6,206). Amounts due from the trustee at 31 December 2016 amounted to £Nil (2015: £Nil).

#### **17 TAXATION**

The company and the group have incurred no tax liability in the current or prior year.