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**HARBOUR FUNDING (HOLDINGS) LIMITED**

**Annual Report and Financial Statements**

**For the year ended  
31 December 2012**

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## **HARBOUR FUNDING (HOLDINGS) LIMITED**

**Annual report and financial statements for the year ended 31 December 2012**

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### **Directors**

C Burke  
F Edge  
R Mountford  
P Williamson

### **Company Secretary**

T H F.C (Services) Limited

### **Registered Office**

4<sup>th</sup> Floor  
107 Cannon Street  
London  
EC4N 5AF

### **Company Number**

4788323

### **Independent Auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
7 More London Riverside  
London  
SE1 2RT

## **HARBOUR FUNDING (HOLDINGS) LIMITED**

### **DIRECTORS' REPORT**

**Year ended 31 December 2012**

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The directors submit their report and audited consolidated financial statements for the year ended 31 December 2012

### **RESULTS AND DIVIDEND**

Harbour Funding (Holdings) Limited (the "Company") and its subsidiary, Harbour Funding Plc (together the "Group") made neither a profit nor a loss for the year. The Directors do not propose the payment of a dividend.

### **PRINCIPAL ACTIVITIES**

Harbour Funding (Holdings) Limited is the parent Company of Harbour Funding Plc, of which it owns 49,999 ordinary shares. The remaining share is held by T H F C (Services) Limited on a fiduciary basis. The principal activity of Harbour Funding Plc is to provide finance for Housing Associations (HAs) registered under The Housing Act 1996 through the issue of bonds secured on the borrowings of the HAs ("the Secured Bonds"). Harbour Funding (Holdings) Limited did not trade in the year.

On 28 August 2003 Harbour Funding Plc made an initial issue of Secured Bonds to a nominal value of £180,885,761, the proceeds of which were lent to HAs (the "borrowers") on terms that ensured the Group was not exposed to any risk on changes of interest rates. Further issues of Secured Bonds to a nominal value of £75,000,000 and £20,450,600 were made on 25 March 2004 and 30 September 2005 respectively. All the Group's operating costs, net of interest earned, are recoverable from borrowers.

The borrowing HAs of the Group are

First Wessex Housing Group  
Hermitage Housing Association Limited  
Housing Solutions Limited  
North Hertfordshire Homes Limited

Prudential Trustee Company Limited acts as the Trustee on behalf of all Secured Bond holders, under the terms of a Security Agreement, and has the benefit of a fixed charge over certain assets of the borrowers and a floating charge over all the assets of Harbour Funding Plc.

The bond trustee may exercise certain powers in predetermined circumstances in the event of default by the borrowers.

The Group expects to continue its principal activity for the life of the Secured Bonds which have a final repayment date of 2044.

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

The Group has fulfilled its obligations under the bonds and expects to do so for the foreseeable future. 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.

On 17 January 2013, Housing Solutions Limited purchased bonds to a nominal value of £61,947,685 and surrendered them to Harbour Funding Plc to effect partial prepayment of their loan in the same amount.

### **SHARE CAPITAL**

The entire issued share capital of the Company is held by T H F C (Services) Limited under a Declaration of Trust for the benefit of Qualified Charities.

## **HARBOUR FUNDING (HOLDINGS) LIMITED**

### **DIRECTORS' REPORT (continued)**

**Year ended 31 December 2012**

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#### **DIRECTORS**

The directors of the Company who served throughout the year and up to the date of signing the financial statements were as follows

C Burke  
F Edge  
R. Mountford  
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. 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,
- 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.

The directors are responsible for the maintenance and integrity of the Company'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

- (a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- (b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

## **HARBOUR FUNDING (HOLDINGS) LIMITED**

### **DIRECTORS' REPORT (continued)**

**Year ended 31 December 2012**

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#### **CREDITOR PAYMENT POLICY**

The Group's principal creditors are the holders of the Secured Bonds. Payments to the holders of the Secured Bonds are made in accordance with the underlying issue documents. Interest is payable on the bonds on 31 March and 30 September each year and hence no amounts were due for payment to the bond holders at the financial year end. The company had no trade creditors at 31 December 2012 (2011: Nil).

#### **FINANCIAL RISK MANAGEMENT**

The principal risks and uncertainties facing the Group relate to financial risks. The key financial risks of the Group and how they are minimised are explained in note 3.

By order of the board



Colin Burke  
By order of the board of  
T H F C (Services) Limited  
Company Secretary  
26 March 2013

## **HARBOUR FUNDING (HOLDINGS) LIMITED**

### **INDEPENDENT AUDITORS' REPORT**

**Year ended 31 December 2012**

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### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HARBOUR FUNDING (HOLDINGS) LIMITED**

We have audited the Group and parent company financial statements (the "financial statements") of Harbour Funding (Holdings) Limited for the year ended 31 December 2012 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. 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.

#### **Respective responsibilities of directors and auditors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 2, 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 Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **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 2012 and of the Group's result and the Group's and parent Company's cash flows 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.

## **HARBOUR FUNDING (HOLDINGS) LIMITED**

### **INDEPENDENT AUDITORS' REPORT (continued)**

**Year ended 31 December 2012**

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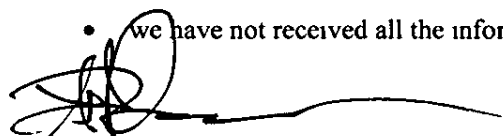
#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

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

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

- 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



Andrew Hawkins (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
26 March 2013

**HARBOUR FUNDING (HOLDINGS) LIMITED****GROUP STATEMENT OF COMPREHENSIVE INCOME****Year ended 31 December 2012**

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	Note	2012 £	2011 £
<b>OPERATING INCOME</b>			
Interest receivable	4	14,597,437	14,596,979
Costs recoverable from borrowers		<u>112,151</u>	<u>109,782</u>
		<u>14,709,588</u>	<u>14,706,761</u>
<b>OPERATING EXPENDITURE</b>			
Interest payable	5	14,597,437	14,596,979
Operating charges	6	<u>112,151</u>	<u>109,782</u>
		<u>14,709,588</u>	<u>14,706,761</u>
<b>PROFIT BEFORE AND AFTER TAXATION</b>	7	<u>-</u>	<u>-</u>
Other comprehensive income		-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<u><u>-</u></u>	<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

**HARBOUR FUNDING (HOLDINGS) LIMITED****GROUP STATEMENT OF FINANCIAL POSITION****As at 31 December 2012**

<b>ASSETS</b>	<b>Note</b>	<b>2012 £</b>	<b>2011 £</b>
<b>Non-current assets</b>			
Loans to borrowers	9	276,003,549	275,996,184
<b>Current assets</b>			
Other receivables	10	3,731,870	3,727,628
Cash and cash equivalents		24,908	25,047
<b>TOTAL ASSETS</b>		<b>279,760,327</b>	<b>279,748,859</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Current liabilities</b>			
Other payables	11	3,756,777	3,752,674
<b>Non-current liabilities</b>			
Financial liabilities - Secured Bonds	12	276,003,549	275,996,184
<b>TOTAL LIABILITIES</b>		<b>279,760,326</b>	<b>279,748,858</b>
<b>Equity</b>			
Share capital	13	1	1
Profit and loss account		-	-
<b>TOTAL EQUITY</b>		<b>1</b>	<b>1</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>279,760,327</b>	<b>279,748,859</b>

The accompanying notes on pages 10 to 19 are an integral part of these financial statements

These financial statements were approved by the board and signed on its behalf by



Fenella Edge  
**Director**  
26 March 2013

**HARBOUR FUNDING (HOLDINGS) LIMITED****COMPANY STATEMENT OF FINANCIAL POSITION  
As at 31 December 2012**

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	Note	2012 £	2011 £
<b>ASSETS</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>		<u>12,501</u>	<u>12,501</u>
<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
Profit and loss account		-	-
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>12,501</u>	<u>12,501</u>

The accompanying notes on pages 10 to 19 are an integral part of these financial statements

These financial statements were approved by the board and signed on its behalf by



Fenella Edge  
Director  
26 March 2013

Harbour Funding (Holdings) Limited

Registered Number 478832

**HARBOUR FUNDING (HOLDINGS) LIMITED****GROUP STATEMENT OF CASH FLOWS****Year ended 31 December 2012**

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	Note	2012 £	2011 £
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash (used in)/ generated from operations	14	(139)	1,627
Interest received on loans		14,590,560	14,590,560
Interest paid on loans		(14,590,560)	(14,590,560)
		<hr/>	<hr/>
<b>NET CASH FLOW (USED IN)/ GENERATED FROM OPERATING ACTIVITIES</b>		<b>(139)</b>	<b>1,627</b>
<b>NET (DECREASE)/ INCREASE IN CASH AND EQUIVALENTS IN THE YEAR</b>		<b>(139)</b>	<b>1,627</b>
<b>CASH AND EQUIVALENTS AT 1 JANUARY</b>		<b>25,047</b>	<b>23,420</b>
		<hr/>	<hr/>
<b>CASH AND EQUIVALENTS AT 31 DECEMBER</b>		<b>24,908</b>	<b>25,047</b>
		<hr/>	<hr/>

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

## HARBOUR FUNDING (HOLDINGS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2012

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#### 1 GENERAL INFORMATION

Harbour Funding (Holdings) Limited ("the Company") and its subsidiary, Harbour Funding Plc (together the "Group") provides finance for Housing Associations ("HAs"). The company is a private limited company which has a subsidiary which is incorporated and domiciled in the United Kingdom. The subsidiary has issued Secured bonds listed on the London Stock Exchange.

The subsidiary on-lent the proceeds of the issue of the Secured Bonds to HAs (the "Borrowers").

#### 2 ACCOUNTING POLICIES

##### **Basis of accounting**

These financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS") and IFRIC interpretations, as adopted by the European Union, and with those parts of the Companies Act, 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

##### *(a) New and amended standards adopted by the Group*

There are no new standards or interpretations or amendments to existing standards that have been applied for the first time in the current reporting period.

##### *(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2012 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)*

- Amendment to IAS 12, 'Income taxes' on deferred tax on investment properties (effective 1 January 2012)
- Amendment to IFRS 7, 'Financial instruments: Transfers of financial instruments' (effective 1 July 2011)

##### *(c) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2012 and not early adopted*

- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income (effective 1 July 2012)
- IAS 19 (revised 2011), 'Employee benefits' (effective 1 July 2012)
- Amendment to IAS 32, 'Financial instruments: Presentation on offsetting financial assets and financial liabilities' (effective 1 January 2014 and EU endorsed) clarifies the situations where offsetting should or should not be used but this is not expected to have significant impact on the Group.
- Amendment to IFRS 7, 'Financial instruments: Disclosure on offsetting financial assets and financial liabilities' (effective 1 January 2013 and EU endorsed) requires additional disclosures on the use of offset in the statement of financial position and collateral available further to mitigate risks. The Group intends to adopt this amendment in the next accounting period.

## **HARBOUR FUNDING (HOLDINGS) LIMITED**

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

**Year ended 31 December 2012**

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- IFRS 9, 'Financial instruments' (effective 1 January 2015) addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group does not believe that the new standard will necessitate a change to its current amortised cost treatment for all financial instruments but this will be kept under review pending further changes to the standard which will be adopted no later than the accounting period beginning on or after 1 January 2015, subject to endorsement by the EU.
- IFRS 10, 'Consolidated financial statements' (effective 1 January 2013 and EU endorsed from 1 January 2014, with earlier adoption permitted) builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is in the process of assessing the full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2014.
- IFRS 11, 'Joint arrangements' (effective 1 January 2013 and EU endorsed from 1 January 2014, with earlier adoption permitted).
- IFRS 12, 'Disclosures of interests in other entities' (effective 1 January 2013 and EU endorsed from 1 January 2014, with earlier adoption permitted).
- Amendment to IFRS 10, 11, 12 'Transitional Guidance' (effective 1 January 2013 and not yet EU endorsed).
- IFRS 13, 'Fair value measurement' (effective 1 January 2013 and EU endorsed from 1 January 2013).
- IAS 27 (revised 2011), 'Separate financial statements' (effective 1 January 2013 and EU endorsed from 1 January 2014, with earlier adoption permitted).
- IAS 28 (revised 2011), 'Associates and joint ventures' (effective 1 January 2013 and EU endorsed from 1 January 2014, with earlier adoption permitted).
- Amendment to IFRS 10, 12 and IAS 27 'Consolidation for investment entities' (effective 1 January 2014 and not yet EU endorsed).
- Amendment to IFRS 1, 'First time adoption', on hyperinflation and fixed dates (effective 1 July 2011 and EU endorsed from 1 January 2013).
- Amendment to IFRS 1 'First time adoption' on government loans (effective 1 January 2013 and not yet EU endorsed).
- 'Annual Improvements 2011' contain several other amendments to IFRS, which the IASB considers non-urgent but necessary. The amendments are effective for annual periods.

## **HARBOUR FUNDING (HOLDINGS) LIMITED**

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

**Year ended 31 December 2012**

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beginning on or after 1 January 2013 but are not yet EU endorsed. No material changes to accounting policies arise as a result of these amendments.

Except for where noted, there are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

#### **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 loans to HAs are impaired. The directors have concluded that there is no such impairment in the current year.

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 subsidiary undertakings 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 Harbour Funding Plc and it owns 49,999 of its ordinary shares. The remaining share is held by T H F C (Services) Limited on a fiduciary basis.

#### **Investment in subsidiaries**

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

#### **Interest**

Interest receivable on loans to HAs and interest payable on the Secured Bonds is accounted for using the effective interest rate method. 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.

#### **Loans to borrowers ("loans")**

The loans are stated at amortised cost less allowance for loan 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. Additional loan assets are recognised in the financial statements when proceeds are drawn down.

#### **Secured Bonds**

Secured Bonds are stated at amortised cost.

## **HARBOUR FUNDING (HOLDINGS) LIMITED**

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

**Year ended 31 December 2012**

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Any premium or discount on issue is added to/deducted from the carrying value of the Secured Bond and charged or credited to the statement of comprehensive income over the expected life of the secured bond 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 as a liability when the proceeds are received.

#### **Prepayment**

It is expected that the loans will run to maturity, however each loan agreement provides that any borrower may at any time purchase bonds at any price and following such a purchase the borrower is required to surrender the bonds to Harbour Funding Plc by way of prepayment of the borrower's loan in an amount equal to the outstanding balance of the bonds being surrendered. The loan and the equivalent bond amounts are removed from the statement of financial position.

#### **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 HAs. Therefore no segmental information is prepared by management.

### **3 FINANCIAL RISK MANAGEMENT**

The proceeds from the issue of the 5 28% Secured Bonds due 2044 were used to make loans to HAs.

#### **Credit risk**

The Group faces credit risk on its loans to HAs which are subject to the collateral arrangements described below. The carrying value of the loans represents the maximum exposure to credit risk. No loans are past due or impaired at 31 December 2012 (2011: none). The Secured Bonds are rated "Aa3/AA-/AAsf" by Moodys Investor Service, Standard & Poor's and Fitch Ratings at 31 December 2012 (2011: "Aa3/AA-/AAsf") which the directors consider reflects the credit quality of the underlying loans.

#### **Collateral arrangements**

The Group's credit risk is mitigated by the following factors. The loans are secured by way of a fixed charge over certain assets of the borrowers. All borrowers are subject to external regulation by the Homes and Communities Agency. Each 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.

Prudential Trustee Company Limited acts as the Trustee on behalf of all Secured Bond holders (the Bond Trustee), under the terms of a Security Agreement, and has the benefit of a fixed charge over certain assets of the borrowers and a floating charge over all the assets of Harbour Funding 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.

## HARBOUR FUNDING (HOLDINGS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2012

#### Liquidity risk

To mitigate liquidity risk, the Group collects interest from borrowers four business days prior to payment to bondholders. Additionally borrowers maintain 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.

Interest is receivable half yearly in arrears at an amount equal to the relevant borrower's proportionate share of all interest falling due for payment by the company on the Secured Bonds.

Each loan agreement provides that each borrower must repay its loan in full four business days prior to 31 March 2034. The Group will upon receipt of such repayments, redeem the whole, or the outstanding balance, of the bonds as appropriate.

Should a borrower default under the repayment obligation in its loan on 31 March 2034 there are provisions within the operation of the security for the loan whereby sufficient income is trapped with the intention of repaying the loan and associated bonds over a period of amortisation not exceeding 31 March 2044. The maturity analysis of financial liabilities is given in note 12.

#### Interest rate risk

The interest charged on the loans to the borrowers 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 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.

#### 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

	2012 £	2011 £
On loans to borrowers	14,590,560	14,590,560
Amortisation of net discount	6,877	6,419
	<u>14,597,437</u>	<u>14,596,979</u>

## **HARBOUR FUNDING (HOLDINGS) LIMITED**

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

**Year ended 31 December 2012**

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#### **5 INTEREST PAYABLE**

	<b>2012</b>	<b>2011</b>
	<b>£</b>	<b>£</b>
On 5 28% Secured Bonds 2044	<b>14,590,560</b>	14,590,560
Amortisation of net discount	<b>6,877</b>	6,419
	<b><u>14,597,437</u></b>	<b><u>14,596,979</u></b>

#### **6 OPERATING EXPENSES**

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

#### **7 PROFIT BEFORE AND AFTER TAXATION**

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

	<b>2012</b>	<b>2011</b>
	<b>£</b>	<b>£</b>
Fees paid to auditors for		
Annual audit of financial statements – current year	<b>6,840</b>	6,490
- prior year	<b>1,310</b>	-
	<b><u>8,150</u></b>	<b><u>6,490</u></b>

#### **8 EMPLOYEES**

There were no employees of the Group or Company during the year other than the directors (2011 Nil)  
The directors received no remuneration during the year in respect of their qualifying services (2011 £Nil)

**HARBOUR FUNDING (HOLDINGS) LIMITED****NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Year ended 31 December 2012****9 LOANS TO BORROWER AND INVESTMENTS**

<b>Company</b>	<b>2012</b>	<b>2011</b>
	<b>£</b>	<b>£</b>
Investment in subsidiary undertaking at cost	<u><b>12,500</b></u>	<u><b>12,500</b></u>

The Company owns all the share capital of Harbour Funding Plc which is incorporated in England. The principal activity of Harbour Funding Plc is to provide finance for Housing Associations registered under The Housing Act 1996. The net assets of Harbour Funding Plc at 31 December 2012 were £12,500 (2011: £12,500).

<b>Group</b>	<b>2012</b>	<b>2011</b>
	<b>£</b>	<b>£</b>
Loans to borrowers		
Loan amount	<b>276,336,361</b>	<b>276,336,361</b>
Unamortised discount	<b>(1,240,864)</b>	<b>(1,270,848)</b>
Unamortised premium	<u><b>900,687</b></u>	<u><b>923,794</b></u>
Amortised cost	<b>275,996,184</b>	<b>275,989,307</b>
Net discount due within one year	<u><b>7,365</b></u>	<u><b>6,877</b></u>
<b>Non-current amortised cost</b>	<u><b>276,003,549</b></u>	<u><b>275,996,184</b></u>

Collateral arrangements are set out in note 3.

**10 OTHER RECEIVABLES**

<b>Group</b>	<b>2012</b>	<b>2011</b>
	<b>£</b>	<b>£</b>
Net discount on Secured Bonds due within one year	<b>7,365</b>	<b>6,877</b>
Interest receivable	<b>3,677,621</b>	<b>3,677,621</b>
Other receivables	<b>12,337</b>	<b>9,490</b>
Prepaid expenses	<u><b>34,547</b></u>	<u><b>33,640</b></u>
	<u><b>3,731,870</b></u>	<u><b>3,727,628</b></u>

**HARBOUR FUNDING (HOLDINGS) LIMITED****NOTES TO THE FINANCIAL STATEMENTS (continued)****Year ended 31 December 2012****11 OTHER PAYABLES**

<b>Group</b>	<b>2012 £</b>	<b>2011 £</b>
Net discount on Loans due within one year	7,365	6,877
Interest payable	3,677,621	3,677,621
Other payables	24,907	25,046
Accruals	46,884	43,130
	<u>3,756,777</u>	<u>3,752,674</u>
<b>Company</b>		
Other payables	<u>12,500</u>	<u>12,500</u>

**12 FINANCIAL LIABILITIES – SECURED BONDS**

<b>Group</b>	<b>2012 £</b>	<b>2011 £</b>
5 28% Secured Bonds due 2044		
Nominal amount	276,336,361	276,336,361
Unamortised discount	(1,240,864)	(1,270,848)
Unamortised premium	900,687	923,794
<b>Amortised cost</b>	<u>275,996,184</u>	<u>275,989,307</u>
Net discount due within one year	7,365	6,877
<b>Non-current amortised cost</b>	<u>276,003,549</u>	<u>275,996,184</u>

Details of security are set out in note 3

The 5 28 % Secured Bonds are listed and repayable between 2034 and 2044 and were issued in the following tranches

	<b>Nominal Value £</b>	<b>Discount/ (Premium) £</b>
28 August 2003	180,885,761	12,844
25 March 2004	75,000,000	1,451,250
30 September 2005	20,450,600	(1,041,140)
	<u>276,336,361</u>	<u>422,954</u>

The discount arising on 28 August 2003 was credited to the statement of comprehensive income on issue because the amount was not significant in relation to the nominal value and had no impact on the effective interest rate. The other discount/premiums have been added to the nominal value of the loan and are amortised through the statement of comprehensive income over the period of the loan.

## HARBOUR FUNDING (HOLDINGS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2012

The net proceeds of the above issue were used to make loans to the borrowers

Interest on the Bonds is payable half yearly in arrears

#### Contractual cash flows on Secured Bonds

2012	Due within one year £	Due within one to two years £	Due within two and five years £	Due in over five years £	Total 2012 £
Principal	-	-	-	276,336,361	276,336,361
Interest	14,590,560	14,590,560	43,771,680	364,764,000	437,716,800
<b>Total</b>	<b>14,590,560</b>	<b>14,590,560</b>	<b>43,771,680</b>	<b>641,100,361</b>	<b>714,053,161</b>

2011	Due within one year £	Due within one to two years £	Due within two and five years £	Due in over five years £	Total 2011 £
Principal	-	-	-	276,336,361	276,336,361
Interest	14,590,560	14,590,560	43,771,680	379,354,560	452,307,360
<b>Total</b>	<b>14,590,560</b>	<b>14,590,560</b>	<b>43,771,680</b>	<b>655,690,921</b>	<b>728,643,721</b>

## 13 SHARE CAPITAL

#### Group and Company

	2012 £	2011 £
<i>Allotted, called up and fully paid</i>		
1 ordinary share of £1	<u>1</u>	<u>1</u>

The allotted share is held under a declaration of trust dated 26 August 2003 by T H F C (Services) Limited on behalf of Qualified Charities. Accordingly the Bond Trustee has no beneficial interest in the Group.

The Group's capital comprises only the Company's share capital which the Directors consider adequate for the nature and scale of the Group's operations and the risks to which it is subject as set out in Note 3. The Group is not subject to externally imposed capital restrictions.

## HARBOUR FUNDING (HOLDINGS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2012

#### 14 RECONCILIATION OF PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS

	2012 £	2011 £
Net profit (loss)	-	-
Adjustments for		
Interest receivable	(14,597,437)	(14,596,979)
Interest payable	14,597,437	14,596,979
Changes in working capital		
(Increase)/decrease in receivables	(3,754)	2,045
Increase/(decrease) in payables	3,615	(418)
Cash (used in)/ generated from operations	<u>(139)</u>	<u>1,627</u>

#### 15 FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value of the 5 28% Secured Bonds due 2044, and associated loans, as at 31 December 2012 was £334,872,692 (2011 £314,427,154) Fair value is derived from the market value of the bonds at that date

There is no difference between the fair value and book value of all other financial assets and liabilities in the Group and the Company

#### 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 since the parent company did not trade in the financial year

#### 17 RELATED PARTY TRANSACTION

Administrative services are provided under a management agreement by 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 £70,180 (2011 £66,908) Amounts due from T H F C (Services) Limited at 31 December 2012 amounted to £17,998 (2011 £17,394)

The Group has granted security in favour of Prudential Trustee Company Limited ("the Trustee") to secure the bonds and other moneys under the terms of a Trust Deed dated 28 August 2003 (as amended by supplemental agreements) Fees payable to the Trustee for the year amounted to £7,074 (2011 £6,690) Amounts due from the Trustee at 31 December 2012 amounted to £4,807 (2011 £4,670)

#### 18 TAXATION

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