

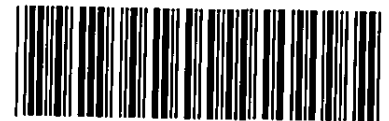
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HARBOUR FUNDING (HOLDINGS) LIMITED

Group Financial Statements

For the year ended 31 December 2009

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HARBOUR FUNDING (HOLDINGS) LIMITED

Annual report and financial statements for the year ended 31 December 2009

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Directors

C Burke
F Edge
R Mountford
P Williamson

Secretary

T H F C (Services) Limited

Registered Office

4th Floor
107 Cannon Street
London
EC4N 5AF

Company Number

4788323

Auditors

PricewaterhouseCoopers LLP
80 Strand
London
WC2R 0AF

HARBOUR FUNDING (HOLDINGS) LIMITED

DIRECTORS' REPORT

Year ended 31 December 2009

The directors submit their report and financial statements for the year ended 31 December 2009

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 period. The directors do not propose the payment of a dividend.

PRINCIPAL ACTIVITY

The company is the parent company of Harbour Funding Plc, of which it owns 100% of the issued share capital. The principal activity of Harbour Funding Plc is to provide finance for Registered Social Landlords (RSLs) registered under The Housing Act 1996 through the issue of bonds secured on the borrowings of the RSLs ("the Secured Bonds"). Harbour Funding (Holdings) Limited did not trade in the year.

On 28 August 2003 Harbour Funding plc (the lender) made an initial issue of Secured Bonds to a nominal value of £180,885,761, the proceeds from which were lent to RSLs (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 company's operating costs, net of interest earned, are recoverable from borrowers.

The borrowing RSLs of the group are

Hermitage Housing Association Limited
Maidenhead & District Housing Association Limited
North Hertfordshire Homes Limited
Pavilion Housing Association 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 the issuer.

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.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

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

SHARE CAPITAL

The entire issued share capital of the company is held by T H F C (Services) Limited under a Declaration of Trust.

DIRECTORS

The directors who served during the period are as follows:

C Burke
F Edge
R Mountford
P Williamson

HARBOUR FUNDING (HOLDINGS) LIMITED

DIRECTORS' REPORT (continued) **Year ended 31 December 2009**

The directors have no beneficial interest in the share capital of the company. The directors received no remuneration during the period in respect of qualifying services.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departure 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 confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the company and to 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each director

- so far as the director is aware, there is no relevant audit information of which the group's auditors are unaware, and
- he/she has taken all the 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 group's auditors are aware of that information.

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's policy is to pay all other creditors within 60 days of receipt of invoice.

HARBOUR FUNDING (HOLDINGS) LIMITED

DIRECTORS' REPORT (continued) **Year ended 31 December 2009**

FINANCIAL RISK MANAGEMENT

The key financial risks of the Group and how they are minimised are explained in note 2

AUDITORS

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution to be re-appoint them as auditors will be proposed at the annual general meeting

On behalf of the board



Colin Burke

For and on behalf of

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

Secretary

10 March 2010

HARBOUR FUNDING (HOLDINGS) LIMITED

INDEPENDENT AUDITORS' REPORT

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

We have audited the Group and Company financial statements (the 'financial statements') of Harbour Funding (Holdings) Limited for the year ended 31 December 2009 which comprise the Group Income Statement, Group and Company Balance Sheets, Group Cash flow Statement 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.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement 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 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 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.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Group's and Company's affairs as at 31 December 2009 and of the Group's income and expenditure and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union and, as regards the group financial statements, Article 4 of the IAS Regulation, and
- 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 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 Company, or returns adequate for our audit have not been received from branches not visited by us, or

HARBOUR FUNDING (HOLDINGS) LIMITED

INDEPENDENT AUDITORS' REPORT (continued)

- the Group and parent 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



David Braithwaite (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
18 March 2010

HARBOUR FUNDING (HOLDINGS) LIMITED

GROUP INCOME STATEMENT

Year ended 31 December 2009

	Note	2009 £	2008 £
OPERATING INCOME			
Interest receivable and similar items	3	14,596,261	14,567,108
Costs recoverable from borrowers		89,849	83,010
		14,686,110	14,650,118
OPERATING EXPENDITURE			
Operating charges		89,960	94,320
Interest payable and similar items	4	14,596,150	14,555,798
		14,686,110	14,650,118
PROFIT BEFORE AND AFTER TAXATION	5	0	0

The accompanying notes are an integral part of these financial statements

All amounts relate to continuing activities

All recognised gains and losses are included in the group income statement

There were no movements in shareholders' funds in the year

HARBOUR FUNDING (HOLDINGS) LIMITED

GROUP BALANCE SHEET 31 December 2009

		2009 £	2008 £
ASSETS	Note		
Non-current assets			
Loans	7	275,982,888	275,976,897
Current assets			
Other receivables	8	3,725,790	3,712,128
Cash and cash equivalents	13	25,773	32,749
TOTAL ASSETS		<u>279,734,451</u>	<u>279,721,774</u>
LIABILITIES			
Current liabilities			
Other payables	9	3,751,562	3,744,876
Non-current liabilities			
Financial liabilities - secured bonds	10	275,982,888	275,976,897
CAPITAL AND RESERVES			
Share capital	11	1	1
Profit and loss account		-	-
TOTAL CAPITAL, RESERVES AND LIABILITIES		<u>279,734,451</u>	<u>279,721,774</u>

The accompanying notes 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
10 March 2010

HARBOUR FUNDING (HOLDINGS) LIMITED

COMPANY BALANCE SHEET 31 December 2009

		2009 £	2008 £
ASSETS	Note		
Non-current assets			
Investments	7	12,500	12,500
Current assets			
Cash and cash equivalents		<u>1</u>	<u>1</u>
TOTAL ASSETS		<u>12,501</u>	<u>12,501</u>
LIABILITIES			
Non-current liabilities			
Other payables	9	12,500	12,500
Share capital	11	1	1
Profit and loss account		-	-
TOTAL CAPITAL, RESERVES AND LIABILITIES		<u>12,501</u>	<u>12,501</u>

The accompanying notes 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
10 March 2010

HARBOUR FUNDING (HOLDINGS) LIMITED

GROUP CASH FLOW STATEMENT

Year ended 31 December 2009

	Note	2009 £	2008 £
NET CASH FLOW FROM OPERATING ACTIVITIES			
Cash (used in)/generated from operations	12	(7,087)	3,808
Interest paid		14,590,671	14,601,870
Interest received		(14,590,560)	(14,590,560)
NET CASH FLOW (USED IN)/GENERATED FROM OPERATING ACTIVITIES		(6,976)	15,118
CASH FLOW FROM FINANCIAL ACTIVITIES			
Net proceeds from issue of Bonds		0	0
NET CASH GENERATED FROM FINANCING ACTIVITIES		0	0
(DECREASE)/INCREASE IN CASH IN THE YEAR		(6,976)	15,118
CASH AT BANK AT 1 JANUARY		32,749	17,631
CASH AT BANK AT 31 DECEMBER		25,772	32,749

The accompanying notes are an integral part of these financial statements

There were no cash flows in the parent company during the year

HARBOUR FUNDING (HOLDINGS) LIMITED

NOTES ON THE FINANCIAL STATEMENTS Year ended 31 December 2009

1 ACCOUNTING POLICIES

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 accounting

These financial statements have been prepared 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) Standards, amendments and interpretations effective on or after 1 January 2009

The following standards, amendments and interpretations, which became effective in 2009 are relevant to the Group.

- Amendments to IFRS 7, 'Financial instruments: Disclosures'. The IASB published amendments to IFRS 7 in March 2009. The amendments require enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the income of the Group. This disclosure will not impact on the Group as all the financial instruments are held at amortised cost.
- IFRS 8, 'Operating segments'. IFRS 8 was issued in November 2006 and excluding early adoption would first be required to be applied to the Group's accounting period beginning on 1 January 2009. The standard replaces IAS 14, 'Segment reporting', with its requirement to determine primary and secondary reporting segments. Under the requirements of the revised standard, the Group's external segment reporting will be based on the internal reporting to the Group executive board (in its function as the chief operating decision-maker), which makes decisions on the allocation of resources and assess the performance of the reportable segments. The application of IFRS 8 does not have any material effect for the Group as reporting to the Board is not segmented.
- IAS 23, 'Borrowing costs'. A revised version of IAS 23 was issued in March 2007. It eliminates the option of immediate recognition of borrowing costs as an expense for assets that require a substantial period of time to get ready for their intended use. The application of the IAS 23 amendment does not have a material impact on the consolidated result or items of the consolidated balance sheet.
- IAS 32 and IAS 1, 'Puttable financial instruments and obligations arising on liquidation'. The IASB amended IAS 32 in February 2008. It now requires some financial instruments that meet the definition of a financial liability to be classified as equity. The Group has no such instruments which need reclassification.

(b) Standards and interpretations issued but not yet effective

The following standards and interpretations have been issued and are mandatory for the Group's accounting periods beginning on or after 1 July 2009 or later periods and are expected to be relevant to the Group.

HARBOUR FUNDING (HOLDINGS) LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2009

-
- IAS 39, 'Financial instruments Recognition and measurement – Eligible hedged items' The amendment 'Eligible hedged items' was issued in July 2008. It provides guidance for two situations. On the designation of a one-sided risk in a hedged item, IAS 39 concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted unless in particular situations. This will not give rise to any changes to the Group's financial statements and the Group currently has no hedging items.
 - 'Improvements to IFRS' were issued in May 2008 (endorsed by the EU on 23 January 2009) and April 2009 (not yet endorsed). They contain numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009 and 1 January 2010, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.
 - IFRS 9, 'Financial instruments part 1 Classification and measurement' IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:
 - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be 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.
 - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.
 - While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group's financial instruments are held at amortised cost and this is consistent with the business model. No material changes to accounting policies are expected as a result of these amendments.

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 critical accounting judgement is deemed to be the recording of Secured Bonds and related Loans at amortised cost.

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 100% of its issued share capital.

Investment in subsidiaries

Investments in subsidiaries are held at cost.

HARBOUR FUNDING (HOLDINGS) LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued) **Year ended 31 December 2009**

Interest

Interest receivable on loans to RSLs and interest payable on the bonds is accounted for on an accruals basis. Premiums on issue are added to the original loan value and charged to the income statement over the expected life of the loan using the effective interest method so that the interest receivable and payable, as adjusted for the amortisation of premiums, gives a constant yield to maturity.

Cash and cash equivalents

Cash and cash equivalents represent amounts on demand deposit.

Loans to borrowers ("Loans")

The loans are stated at amortised cost less allowance for loan losses.

Any discount or premium on issue is deducted from/added to the carrying value of the loan and charged or credited to the income statement over the expected life of the loan so that the interest charge as adjusted for the amortisation of premium/discount gives a constant yield to maturity.

Secured Bonds

Secured Bonds are stated at amortised cost.

Any discount or premium on issue is deducted from/added to the carrying value of the secured bond and charged or credited to the income statement 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.

Prepayment

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 the issuer by way of prepayment of the borrower's loan in an amount equal to the outstanding balance of the bonds being surrendered.

Segmental Analysis

All operating income and expenditure is derived from activities undertaken in the United Kingdom. The company's only activity is to provide finance to Registered Social landlords ("RSLs").

2 FINANCIAL RISK MANAGEMENT

Credit risk

The Group's credit risk is mitigated by the following factors. The loans are secured on certain assets of the borrowers and all borrowers are subject to external regulation by the Tenant Services Authority. 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 ON THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2009

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 that approximates to 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.

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.

3 INTEREST RECEIVABLE

	2009 £	2008 £
Bank interest	111	11,310
On loans to borrowers	14,590,560	14,550,586
Amortisation of net discount	5,590	5,212
	<u>14,596,261</u>	<u>14,567,108</u>

HARBOUR FUNDING (HOLDINGS) LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2009

4 INTEREST PAYABLE

	2009 £	2008 £
On 5 28% Secured Bonds 2044	14,590,560	14,550,586
Amortisation of net discount	5,590	5,212
	<u>14,596,150</u>	<u>14,555,798</u>

5 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

	2009 £	2008 £
Fees paid to the auditors for		
- Annual audit of group and subsidiary	5,875	4,940
- Other services	-	-
	<u>-</u>	<u>-</u>

6 EMPLOYEES

There were no employees during the year other than the directors. The directors received no remuneration during the period in respect of their qualifying services

7 LOANS AND INVESTMENTS

Company	2009 £	2008 £
Investment in subsidiary undertaking at cost	<u>12,500</u>	<u>12,500</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 Registered Social Landlords registered under The Housing Act 1996. The net assets of Harbour Funding Plc at 31 December 2009 were £12,500 (2008 £12,500)

Group	2009 £	2008 £
Loans to borrowers		
Original amount	276,336,361	276,336,361
Unamortised discount	(1,326,219)	(1,371,765)
Unamortised premium	<u>966,755</u>	<u>986,711</u>
Amortised cost	275,976,897	275,971,307
Current element of unamortised net discount	<u>5,591</u>	<u>5,590</u>
Non-current amortised cost	<u>275,982,888</u>	<u>275,976,897</u>

HARBOUR FUNDING (HOLDINGS) LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2009

8 OTHER RECEIVABLES

	2009	2008
Group	£	£
Interest receivable	3,677,621	3,677,621
Other debtors	8,059	-
Prepayments	34,119	28,917
Current element of unamortised net discount	5,991	5,590
	<u>3,725,790</u>	<u>3,712,128</u>

9 OTHER PAYABLES

	2009	2008
Group	£	£
Interest payable	3,677,621	3,677,621
Other creditors	25,772	18,685
Accruals and deferred income	42,178	42,980
Current element of unamortised net discount	5,991	5,590
	<u>3,751,562</u>	<u>3,744,876</u>
Company		
Other creditors	<u>12,500</u>	<u>12,500</u>

10 FINANCIAL LIABILITIES – SECURED BONDS

Group	2009	2008
	£	£
5 28% Secured Bonds due 2044		
Nominal	276,336,361	276,336,361
Unamortised discount	(1,326,219)	(1,351,765)
Unamortised premium	966,755	986,711
Amortised cost	<u>275,976,897</u>	<u>275,971,307</u>
Current element of unamortised net discount	5,991	5,590
Non-current amortised cost	<u>275,982,888</u>	<u>275,976,897</u>

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

HARBOUR FUNDING (HOLDINGS) LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2009

	Nominal Value £	Discount/ (Premium) £
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 income statement on issue. The other discount/premiums have been added to the value of the loan and are amortised through the income statement over the period of the loan.

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

The bonds are listed and are repayable in full between 31 March 2034 and 31 March 2044.

Interest on the Bonds is payable half yearly in arrears.

Contractual cash flows on secured bonds

	Due within one year	Due within one to two years	Due within two and five years	Due in over five years	Total
Principal	-	-	-	276,336,361	276,336,361
Interest	<u>14,590,560</u>	<u>14,590,560</u>	<u>43,771,680</u>	<u>408,835,680</u>	<u>481,488,480</u>
Total	<u><u>14,590,560</u></u>	<u><u>14,590,560</u></u>	<u><u>43,771,680</u></u>	<u><u>684,872,041</u></u>	<u><u>757,824,841</u></u>

11 SHARE CAPITAL

	2009 £	2008 £
<i>Authorised</i>		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>
<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. Distributions may only be made to a Qualified Charity at the discretion of the Trustee. Accordingly the Trustee has no beneficial interest in the group.

HARBOUR FUNDING (HOLDINGS) LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2009

12 RECONCILIATION OF PROFIT TO CASH USED BY OPERATIONS

	2009 £	2008 £
Net profit (loss)	-	-
Adjustments for		
Interest receivable	(14,596,261)	(14,561,896)
Interest payable	14,596,150	14,550,586
Changes in working capital		
(Increase)/decrease in debtors	(13,261)	19,784
Increase/(decrease) in creditors	6,285	(4,666)
Cash (used in)/generated from operations	<u>(7,087)</u>	<u>3,808</u>

13 RECONCILIATION OF MOVEMENT IN NET FUNDS

	At 31 December 2008 £	Cash flow £	Non-cash Items £	At 31 December 2009 £
Cash at bank	32,749	(6,976)	-	25,773
Secured bonds	(275,971,307)	-	(5,590)	(275,976,897)
	<u>(275,938,558)</u>	<u>(6,976)</u>	<u>(5,590)</u>	<u>(275,951,124)</u>

14 FINANCIAL INSTRUMENTS

The proceeds from the issue of the 5 28% Secured Bonds due 2044 were used to make loans to the borrowing RSLs. The interest charged on these loans to the borrowers is equal to the interest payable on the related Secured Bonds. Accordingly, the directors consider that the group is not subject to any risk on the fluctuation of interest rates.

The fair value of the 5 28% Secured Bonds due 2044, and associated loans, as at 31 December 2009 was £260,242,531 (2008 £221,759,930). 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.

15 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 income statement 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.

HARBOUR FUNDING (HOLDINGS) LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2009

16 INCORPORATION

Harbour Funding (Holdings) Limited is incorporated in the United Kingdom

17 RELATED PARTY TRANSACTION

Administrative services are provided under a management agreement by T H F C (Services) Ltd. The directors are employees of T H F C (Services) Limited. Management and trustee fees payable to T H F C (Services) Limited during the year amounted to £61,975 (2008 £60,921).

The issuer has granted security in favour of The 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 £6,265.

18 TAXATION

The company has incurred no tax liability in the year.