

HARBOUR FUNDING (HOLDINGS) LIMITED

Annual Report and Financial Statements

For the year ended 31 December 2014

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HARBOUR FUNDING (HOLDINGS) LIMITED

Annual report and financial statements for the year ended 31 December 2014

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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

04788323

Independent Auditors

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

HARBOUR FUNDING (HOLDINGS) LIMITED

DIRECTORS' REPORT

Year ended 31 December 2014

The directors submit their directors' report, strategic report and audited consolidated financial statements for the year ended 31 December 2014.

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 (2013: £Nil). The Directors consider the position of the Company at the year end to be satisfactory.

SHARE CAPITAL AND COMPANY STRUCTURE

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.

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
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. 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.

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.

HARBOUR FUNDING (HOLDINGS) LIMITED

DIRECTORS' REPORT (continued)

Year ended 31 December 2014

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.

By order of the board



Colin Burke
T.H.F.C. (Services) Limited
Company Secretary
24 June 2015

HARBOUR FUNDING (HOLDINGS) LIMITED

STRATEGIC REPORT

Year ended 31 December 2014

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 for the benefit of qualified charities. 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

The Guinness Partnership Limited (formerly known as Hermitage Housing Association Limited)

Housing Solutions Limited (Prepaid its loan on 14 May 2015)

North Hertfordshire Homes Limited

Prudential Trustee Company Limited acts as the Trustee on behalf of all Secured Bondholders, 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.

The Group does not use derivative financial instruments in its risk management procedures.

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 14 May 2015 Housing Solutions Limited purchased Secured Bonds in aggregate principal amount of £8,052,315 and surrendered these to the Company to effect prepayment of its loan.

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

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

Company Secretary

24 June 2015

HARBOUR FUNDING (HOLDINGS) LIMITED

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

Year ended 31 December 2014

We have audited the financial statements of Harbour Funding (Holdings) Limited for the year ended 31 December 2014 which comprise the Group Statement of Comprehensive Income, the Group and Parent Company Statements of Financial Position, the Group Statements of Cash Flows and the related notes 1 to 20. 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 Directors' Responsibilities Statement 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.

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 2014 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 the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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.

HARBOUR FUNDING (HOLDINGS) LIMITED

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HARBOUR FUNDING
(HOLDINGS) LIMITED (continued)**
Year ended 31 December 2014

Nexia Smith & Williamson

24/6/2015

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

25 Moorgate
London
EC2R 6AY
24 June 2015

HARBOUR FUNDING (HOLDINGS) LIMITED**GROUP STATEMENT OF COMPREHENSIVE INCOME****Year ended 31 December 2014**

	Note	2014 £	2013 £
OPERATING INCOME			
Interest receivable	4	11,327,607	11,479,427
Costs recoverable from borrowers		<u>117,480</u>	<u>113,352</u>
		<u>11,445,087</u>	<u>11,592,779</u>
OPERATING EXPENDITURE			
Interest payable	5	11,327,607	11,479,427
Operating expenses	6	<u>117,480</u>	<u>113,352</u>
		<u>11,445,087</u>	<u>11,592,779</u>
RESULT BEFORE AND AFTER TAXATION	7	<u>-</u>	<u>-</u>
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<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 2014**

	Note	2014 £	2013 £
ASSETS			
Non-current assets			
Loans to borrowers	9	214,072,188	214,063,749
Current assets			
Other receivables	10	2,909,985	2,908,135
Cash and cash equivalents		23,882	24,584
TOTAL ASSETS		<u>217,006,055</u>	<u>216,996,468</u>
EQUITY AND LIABILITIES			
Current liabilities			
Other payables	11	2,933,866	2,932,718
Non-current liabilities			
Financial liabilities - Secured Bonds	12	214,072,188	214,063,749
TOTAL LIABILITIES		<u>217,006,054</u>	<u>216,996,467</u>
Equity			
Share capital	13	1	1
Retained earnings		-	-
TOTAL EQUITY		<u>1</u>	<u>1</u>
TOTAL EQUITY AND LIABILITIES		<u>217,006,055</u>	<u>216,996,468</u>

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:



Fenella Edge
Director
24 June 2015

HARBOUR FUNDING (HOLDINGS) LIMITED

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Note	2014 £	2013 £
ASSETS			
Non-current assets			
Investments	9	12,500	12,500
Current assets			
Cash and cash equivalents		1	1
TOTAL ASSETS		<u>12,501</u>	<u>12,501</u>
EQUITY AND LIABILITIES			
Non-current liabilities			
Other payables	11	12,500	12,500
Equity			
Share capital	13	1	1
Retained earnings		-	-
TOTAL EQUITY AND LIABILITIES		<u>12,501</u>	<u>12,501</u>

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:



Fenella Edge
Director
24 June 2015

Harbour Funding (Holdings) Limited

Registered Number 04788323

HARBOUR FUNDING (HOLDINGS) LIMITED**GROUP STATEMENT OF CASH FLOWS****Year ended 31 December 2014**

	Note	2014 £	2013 £
NET CASH FLOW FROM OPERATING ACTIVITIES			
Cash (used in) operations	14	(702)	(324)
Interest received on loans		11,319,722	11,319,722
Interest paid on loans		(11,319,722)	(11,319,722)
		<u>(702)</u>	<u>(324)</u>
NET CASH FLOW (USED IN) OPERATING ACTIVITIES		<u>(702)</u>	<u>(324)</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS IN THE YEAR		<u>(702)</u>	<u>(324)</u>
CASH AND CASH EQUIVALENTS AT 1 JANUARY		<u>24,584</u>	<u>24,908</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		<u><u>23,882</u></u>	<u><u>24,584</u></u>

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 2014

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 Main Market of 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 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 and Company

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

- IFRS 10 Consolidated Financial Statements: IFRS 10 addresses 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 circumstances may make it otherwise difficult to assess.
- Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance: Amendments to IFRS 10, IFRS 11 and IFRS 12.
- IAS 32 Offsetting Financial Assets and Financial Liabilities: The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'.

The accounting policy of the Group in respect of determining when control over another entity is achieved has been amended to reflect the requirements of IFRS 10. However the adoption of IFRS 10 and the other standards listed above has not had a material impact on the reported results or financial position of the Group and has not given rise to any additional disclosure requirements.

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

- Revisions to IAS 27 Separate Financial Statements

HARBOUR FUNDING (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2013

The adoption of this revised standard has not had a material impact on the reported results or financial position of the Company. However the standard does require additional disclosure of the principal place of business of significant subsidiaries and this has been included in Note 9.

(b) New and amended Standards and Interpretations mandatory for the first time for the financial year beginning 1 January 2014 but not currently relevant to the Group

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 2014.

- IFRS 9 Financial Instruments (Effective 1 January 2018 not yet endorsed by EU): This deals with the classification, measurement and impairment of financial assets and financial liabilities. The directors are currently assessing the impact and timing of adoption of this Standard on the Group'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 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.

Investments in the subsidiary

Investments in the subsidiary 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. 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

HARBOUR FUNDING (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2014

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.

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.

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 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 (2013: none).

HARBOUR FUNDING (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2014

The Group's Secured Bonds are tradable but the markets are not considered to be active. Accordingly market prices of the reference gilt have been adjusted for an appropriate credit spread to arrive at a fair value (Level 2 valuation). The fair value of the associated fixed rate Loans is similarly adjusted for appropriate credit spreads (Level 2 valuation).

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 prepaid amount of the loan and the 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 HAs. Other segmental information is given in Note 19.

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 2014 (2013: none). The Secured Bonds are rated "A1/AA-/AAsf" by Moodys Investor Service, Standard & Poor's and Fitch Ratings at 31 December 2014 (2013: "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 Bondholders (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 2014

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 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.

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

	2014 £	2013 £
On loans to borrowers	11,319,722	11,472,062
Amortisation of net discount	7,885	7,365
	<u>11,327,607</u>	<u>11,479,427</u>

HARBOUR FUNDING (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2014

5 INTEREST PAYABLE

	2014 £	2013 £
On 5.28% Secured Bonds due 2034/2044	11,319,722	11,472,062
Amortisation of net discount	7,885	7,365
	<u>11,327,607</u>	<u>11,479,427</u>

6 OPERATING EXPENSES

Operating charges comprise management fees payable to 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:

	2014 £	2013 £
Fees paid to current auditors for annual audit of financial statements		
- current year	7,020	-
Fees paid to previous auditors for annual audit of financial statements		
- prior year	2,529	7,614
	<u>9,549</u>	<u>7,614</u>

8 EMPLOYEES

There were no employees of the Group or Company during the year other than the directors (2013: Nil). The directors received no remuneration during the year in respect of their qualifying services (2013: £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.

9 LOANS TO BORROWERS AND INVESTMENTS

Company	2014 £	2013 £
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 Housing Associations registered under The Housing Act 1996. The net assets of Harbour Funding Plc at 31 December 2014 were £12,500 (2013: £12,500).

HARBOUR FUNDING (HOLDINGS) LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)**
Year ended 31 December 2014

Group	2014 £	2013 £
Loans to borrowers		
Loan amount	214,388,676	214,388,676
Unamortised discount	(1,175,873)	(1,209,236)
Unamortised premium	850,946	876,424
Amortised cost	214,063,749	214,055,864
Net discount due within one year	8,439	7,885
Non-current amortised cost	214,072,188	214,063,749

Collateral arrangements are set out in Note 3.

10 OTHER RECEIVABLES

Group	2014 £	2013 £
Net discount on Secured Bonds due within one year	8,439	7,885
Interest receivable	2,853,190	2,853,190
Other receivables	12,223	11,896
Prepaid expenses	36,133	35,164
	2,909,985	2,908,135

11 OTHER PAYABLES

Group	2014 £	2013 £
Net discount on Loans due within one year	8,439	7,885
Interest payable	2,853,190	2,853,190
Other payables	23,881	24,583
Accruals	48,356	47,060
	2,933,866	2,932,718
Company		
Other payables	12,500	12,500

HARBOUR FUNDING (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2014

12 FINANCIAL LIABILITIES – SECURED BONDS

Group	2014	2013
5.28% Secured Bonds due 2044	£	£
Nominal amount	214,388,676	214,388,676
Unamortised discount	(1,175,873)	(1,209,236)
Unamortised premium	850,946	876,424
Amortised cost	214,063,749	214,055,864
Net discount due within one year	8,439	7,885
Non-current amortised cost	214,072,188	214,063,749

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:

	Nominal Value	Premium/ (Discount)
	£	£
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
	276,336,361	(422,954)
Prepayment	(61,947,685)	-
	214,388,676	(422,954)

On 14 May 2015 Housing Solutions Limited purchased Secured Bonds in aggregate principal amount of £8,052,315 and surrendered them to the Company to effect prepayment of its loan. This has no effect on premium/ discount as the amount prepaid was part of the original issue on 28 August 2003.

The net discount and cumulative amortisation at the beginning of the year was £332,812 and £90,142 (2013: £340,177 and £82,777) respectively. Amortisation charged during the year was £7,885 (2013: £7,365).

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.

The net proceeds of the above issue were used to make Loans to the borrowing HAs of Harbour Funding Plc. The Secured Bonds are repayable in full between 31 March 2034 and 31 March 2044.

Interest on the Secured Bonds is payable half yearly in arrears.

HARBOUR FUNDING (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2014

Contractual cash flows on Secured Bonds

2014	Due within one year £	Due within one to two years £	Due within two to five years £	Due in over five years £	Total 2014 £
Principal	-	-	-	214,388,676	214,388,676
Interest	11,319,722	11,319,722	33,959,166	164,135,971	220,734,581
Total	11,319,722	11,319,722	33,959,166	378,524,647	435,123,257

2013	Due within one year £	Due within one to two years £	Due within two to five years £	Due in over five years £	Total 2013 £
Principal	-	-	-	214,388,676	214,388,676
Interest	11,319,722	11,319,722	33,959,166	181,115,553	237,714,163
Total	11,319,722	11,319,722	33,959,166	395,504,229	452,102,839

13 SHARE CAPITAL

Group and Company

	2014 £	2013 £
<i>Allotted, called up and fully paid</i>		
1 ordinary share of £1 each (2013: 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 2014

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

	2014 £	2013 £
Result before taxation	-	-
Adjustments for:		
Interest receivable	(11,327,607)	(11,479,427)
Interest payable	11,327,607	11,479,427
Changes in working capital:		
(Increase) in receivables	(1,296)	(176)
Increase / (decrease) in payables	594	(148)
Cash (used in) operations	<u>(702)</u>	<u>(324)</u>

15 FAIR VALUES OF FINANCIAL INSTRUMENTS

Group

The Level 1 fair value of the 5.28% Secured Bonds due 2034/2044 and associated Loans, as at 31 December 2014 are shown below. The fair value is derived from the market value of the reference gilts at that date. There is no difference between the fair value and carrying value of all other financial assets and liabilities.

	2014 Carrying value £	2014 Fair value £	2013 Carrying value £	2013 Fair value £
Financial assets:				
<i>Classified as Loans & Receivables</i>				
Loans to borrowers				
Non-current	214,072,188		214,063,749	
Current	8,439		7,885	
Total	214,080,627	268,348,485	214,071,634	239,422,033
Interest receivable	2,853,190	2,853,190	2,853,190	2,853,190
Other receivable	12,223	12,223	11,896	11,896
Total financial assets	216,946,040	271,213,898	216,971,884	242,287,239
Financial liabilities:				
<i>Classified as Financial Liabilities at Amortised Cost</i>				
Secured Bonds				
Non-current	214,072,188		214,063,749	
current	8,439		7,885	
Total	214,080,627	268,348,485	214,071,634	239,422,033
Interest payable	2,853,190	2,853,190	2,853,190	2,853,190
Other payables and accruals	72,237	72,237	71,643	71,643
Total financial liabilities	217,006,054	271,273,912	216,983,967	242,346,866

HARBOUR FUNDING (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2014

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 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 £74,717 (2013: £72,555). Amounts due from T.H.F.C. (Services) Limited at 31 December 2014 amounted to £19,029 (2013: £18,563).

The Group has granted security in favour of Prudential Trustee Company Limited ("the Trustee") to secure the bonds and other monies 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 £7,500 (2013: £7,286). Amounts due from the Trustee at 31 December 2014 amounted to £5,083 (2013: £4,958).

18 TAXATION

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

19 SEGMENTAL INFORMATION

Details of borrowers whose total interest payable to the Group exceeds 10% of the total interest receivable for the year are given below.

Borrower	2014	2013
	%	%
North Hertfordshire Housing Association Limited	40	40
First Wessex	35	35
The Guinness Partnership Limited	21	21
Housing Solutions Limited	4	4
Total	100	100

20 EVENT AFTER REPORTING PERIOD

Since the year end Housing Solutions Limited purchased Secured Bonds in aggregate principal amount of £8,052,315 and surrendered these to the Company to effect prepayment of its loan as shown in Note 12.