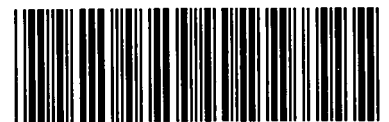


**T.H.F.C. (FUNDING) HOLDINGS LIMITED**

**Annual Report and Financial Statements**

**For the year ended 31 December 2013**

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# **T.H.F.C. (FUNDING) HOLDINGS LIMITED**

## **Annual Report and Financial Statements for the year ended 31 December 2013**

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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**

4954968

### **Independent Auditors**

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

# **T.H.F.C. (FUNDING) HOLDINGS LIMITED**

## **DIRECTORS' REPORT**

**Year ended 31 December 2013**

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The directors submit their directors' report, strategic report and audited consolidated financial statements for the year ended 31 December 2013.

### **RESULTS AND DIVIDEND**

T.H.F.C. (Funding) Holdings Limited (the 'Company') and its subsidiaries, T.H.F.C. (Funding No.1) Plc and T.H.F.C. (Funding No.2) Plc (together the 'Group') made neither a profit nor a loss for the year. The directors do not propose the payment of a dividend (2012: nil).

### **PRINCIPAL ACTIVITIES**

The Company is the parent company of T.H.F.C. (Funding No.1) Plc and T.H.F.C (Funding No.2) Plc ("the issuers") and owns 100% of the issued share capital. T.H.F.C. (Funding) Holdings Limited was incorporated on 6 November 2003.

The principal activity of the issuers is to provide finance to The Housing Finance Corporation Limited ("THFC") for on-lending to Housing Associations ("HAs") ("the Bond Issuance Authorised Borrowers" as defined in the loan agreements between the issuers and THFC) registered under The Housing Act 1996 through the issue of bonds secured on the borrowing of the HAs (the "Secured Bonds").

The Law Debenture Trust Corporation p.l.c. acts as the Trustee on behalf of all Secured Bond holders, under the terms of a Trust Deed, and has the benefit of a floating charge over certain assets of the borrowers.

The occurrence of an event of default under the Bonds entitles the Trustee to accelerate the maturity of the Bonds and to enforce the security for the Bonds (including converting the floating charge granted by the Company into a fixed charge). However, an event of default under the Bonds will not, by itself, be an event of default under the Loan Agreement and accordingly acceleration of the maturity of the Bonds and enforcement of security for the Bonds will not, by itself, entitle the Trustee to accelerate the maturity of the Loan Agreement or to enforce the security given by THFC under the Loan Agreement except in pre-determined circumstances.

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

The proceeds were on-lent by THFC to the HAs noted below:

A2 Dominion London Limited  
Apex Housing Limited  
Axiom Housing Association Limited  
Cherwell Housing Trust Limited  
Community Housing Association Limited  
Connswater Homes Limited  
East Midlands Housing Association Limited  
Equity Housing Group Limited  
Heantun Housing Association Limited  
Glen Oaks Housing Association Limited  
Heantun Housing Association Limited  
Helm Housing Limited  
Hightown Housing Association Limited  
Johnnie Johnson Housing Trust Limited  
Knightstone Housing Association Limited  
Leeds Federated Housing Association Limited  
Manningham Housing Association Limited

## **T.H.F.C. (FUNDING) HOLDINGS LIMITED**

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

**Year ended 31 December 2013**

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Mosscafe Housing Limited  
New Gorbals Housing Association Limited  
Paridigm Homes Charitable Housing Association Limited  
Portal Housing Association Limited  
Southern Housing Group Limited  
Staffordshire Housing Association  
Trinity Housing Association Limited  
Taff Housing Association Limited  
Wales and West Housing Association Limited  
Wandle Housing Association Limited  
West Country Housing Association Limited  
Wirral Methodist Housing Association Limited  
Yorkshire Housing Limited

The Group expects to continue its principal activity for the life of the Secured Bonds, which have a final repayment date of 2041.

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

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

The entire issued share capital of the Company is held by T.H.F.C. (Services) Limited as Share Trustee under a Declaration of Trust for the benefit of selected charities as defined in the declaration of trust.

### **DIRECTORS**

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

C. Burke  
F. Edge  
R. Mountford (Resigned 26 June 2013)  
I. Peacock (Appointed 01 April 2013)  
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.

## **T.H.F.C. (FUNDING) HOLDINGS LIMITED**

### **DIRECTORS' REPORT (continued)** **Year ended 31 December 2013**

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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.

#### **EVENT AFTER THE REPORTING PERIOD**

Since the year end the rating of the provider of the T.H.F.C. (Funding No.1) Plc £24.1m Liquidity Facility has been downgraded. The downgrade constitutes a Downgrade Event and a Liquidity Facility Event under the terms of the Liquidity Facility Agreement between T.H.F.C. (Funding No.1) Plc and the provider and as such T.H.F.C. (Funding No.1) Plc has made a Standby Drawing of the entire Liquidity Facility Commitment.

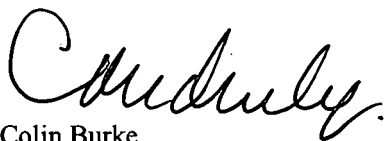
The Standby Drawing is repayable on the earlier of the provider being upgraded to the Requisite Rating or the Legal Maturity Date of the secured bonds.

#### **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/she has taken all reasonable steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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



Colin Burke  
T.H.F.C. (Services) Limited  
**Company Secretary**  
26 June 2014

**T.H.F.C. (FUNDING) HOLDINGS LIMITED**

**STRATEGIC REPORT**

**Year ended 31 December 2013**

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**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.

The Directors consider the position of the Group at the year end to be satisfactory.

**FINANCIAL RISK MANAGEMENT**

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

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



Colin Burke  
T.H.F.C. (Services) Limited  
**Company Secretary**  
26 June 2014

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF T.H.F.C. (FUNDING) HOLDINGS LIMITED**

**Year ended 31 December 2013**

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We have audited the group and parent company financial statements (the "financial statements") of T.H.F.C. Funding (Holdings) Limited for the year ended 31 December 2013 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 Directors' Responsibilities Statement set out on page 1-2, 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2013 and of the Group's result and 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.

**T.H.F.C. (FUNDING) HOLDINGS LIMITED**

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF T.H.F.C. (FUNDING) HOLDINGS LIMITED (continued)**  
**Year ended 31 December 2013**

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

In our opinion the information given in the Strategic Report and 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 June 2014



**T.H.F.C. (FUNDING) HOLDINGS LIMITED****GROUP STATEMENT OF COMPREHENSIVE INCOME**  
**Year ended 31 December 2013**

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|  | Note | 2013<br>£         | 2012<br>£         |
|--|------|-------------------|-------------------|
| <b>OPERATING INCOME</b>                        |      |                   |                   |
| Interest receivable                            | 4    | 35,383,360        | 35,393,698        |
| Costs recoverable from borrower                |      | 182,655           | 174,039           |
|  |      | <u>35,566,015</u> | <u>35,567,737</u> |
| <b>OPERATING EXPENDITURE</b>                   |      |                   |                   |
| Interest payable                               | 5    | 35,383,360        | 35,393,698        |
| Operating expenses                             |      | 182,655           | 174,039           |
|  |      | <u>35,566,015</u> | <u>35,567,737</u> |
| <b>RESULT BEFORE AND AFTER TAXATION</b>        | 7    | -                 | -                 |
| Other comprehensive income                     |      | -                 | -                 |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b> |      | <u>-</u>          | <u>-</u>          |

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

**T.H.F.C. (FUNDING) HOLDINGS LIMITED****GROUP STATEMENT OF FINANCIAL POSITION****As at 31 December 2013**

|                                       | Note | 2013<br>£          | 2012<br>£          |
|---------------------------------------|------|--------------------|--------------------|
| <b>ASSETS</b>                         |      |                    |                    |
| <b>Non-current assets</b>             |      |                    |                    |
| Loans to Borrower                     | 9    | 619,551,033        | 619,781,214        |
| <b>Current assets</b>                 |      |                    |                    |
| Other receivables                     | 10   | 12,401,393         | 12,351,434         |
| Cash and cash equivalents             |      | 25,150             | 25,000             |
| <b>TOTAL ASSETS</b>                   |      | <b>631,977,576</b> | <b>632,157,648</b> |
| <b>EQUITY AND LIABILITIES</b>         |      |                    |                    |
| <b>Current liabilities</b>            |      |                    |                    |
| Other payables                        | 11   | 12,426,542         | 12,376,433         |
| <b>Non-current liabilities</b>        |      |                    |                    |
| Financial liabilities – Secured Bonds | 12   | 619,551,033        | 619,781,214        |
|                                       |      | <b>631,977,575</b> | <b>632,157,647</b> |
| <b>Equity</b>                         |      |                    |                    |
| Share capital                         | 13   | 1                  | 1                  |
| <b>TOTAL EQUITY</b>                   |      | <b>1</b>           | <b>1</b>           |
| <b>TOTAL EQUITY AND LIABILITIES</b>   |      | <b>631,977,576</b> | <b>632,157,648</b> |

The accompanying notes on pages 11-24 are an integral part of these financial statements.

These financial statements on pages 7-24 were approved by the board and signed on its behalf by:



**Fenella Edge**  
Director  
26 June 2014

**T.H.F.C. (FUNDING) HOLDINGS LIMITED****PARENT COMPANY STATEMENT OF FINANCIAL POSITION**  
**As at 31 December 2013**

|                                     | Note | 2013<br>£     | 2012<br>£     |
|-------------------------------------|------|---------------|---------------|
| <b>ASSETS</b>                       |      |               |               |
| <b>Non-current assets</b>           |      |               |               |
| Investments                         | 9    | 25,000        | 25,000        |
| <b>Current assets</b>               |      |               |               |
| Cash and cash equivalents           |      | 1             | 1             |
| <b>TOTAL ASSETS</b>                 |      | <u>25,001</u> | <u>25,001</u> |
| <b>EQUITY AND LIABILITIES</b>       |      |               |               |
| <b>Non-current liabilities</b>      |      |               |               |
| Other payables                      | 11   | 25,000        | 25,000        |
| <b>Equity</b>                       |      |               |               |
| Share capital                       | 13   | 1             | 1             |
| <b>TOTAL EQUITY AND LIABILITIES</b> |      | <u>25,001</u> | <u>25,001</u> |

The accompanying notes on pages 11-24 are an integral part of these financial statements.

These financial statements on pages 7-24 were approved by the board and signed on its behalf by:



**Fenella Edge**  
Director  
26 June 2014

T.H.F.C. (Funding) Holdings Limited

Registration Number 4954968

**T.H.F.C. (FUNDING) HOLDINGS LIMITED****GROUP STATEMENT OF CASH FLOWS****For the year ended 31 December 2013**

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|  | Note | 2013<br>£     | 2012<br>£     |
|--|------|---------------|---------------|
| <b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>               |      |               |               |
| Cash generated from operations                               | 14   | 150           | 2             |
| Interest paid on bonds                                       |      | (35,603,231)  | (35,603,231)  |
| Interest received on loan                                    |      | 35,603,231    | 35,603,231    |
| Loans advanced   |      | -             | -             |
|  |      | <u>150</u>    | <u>2</u>      |
| <b>NET CASH USED IN OPERATING ACTIVITIES</b>                 |      | <b>150</b>    | <b>2</b>      |
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>                   |      |               |               |
| Net proceeds from issue of bonds                             |      | -             | -             |
|  |      | <u>-</u>      | <u>-</u>      |
| <b>NET CASH INFLOW FROM FINANCING ACTIVITIES</b>             |      | <b>-</b>      | <b>-</b>      |
|  |      | <u>-</u>      | <u>-</u>      |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS IN THE YEAR</b> | 14   | <b>150</b>    | <b>2</b>      |
| <b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>                |      | <b>25,000</b> | <b>24,998</b> |
|  |      | <u>25,000</u> | <u>24,998</u> |
| <b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>              |      | <b>25,150</b> | <b>25,000</b> |
|  |      | <u>25,150</u> | <u>25,000</u> |

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

**1 GENERAL INFORMATION**

T.H.F.C. (Funding) Holdings Limited (“the Company”) provides finance for Housing Associations (“HAS”) through its subsidiaries, T.H.F.C. (Funding No.1) Plc and T.H.F.C. (Funding No.2) Plc (the “issuers”, together the “Group”), which issue Secured Bonds the proceeds of which are lent to The Housing Finance Corporation Limited (“THFC”) (“the Borrower”) for on-lending to Housing Associations (the “Bond Issuance Authorised Borrowers”, as defined in the Loan Agreement between the issuers and THFC) registered under The Housing Act 1996.

The Secured Bonds are listed on the Professional Securities Market of the London Stock Exchange.

The Company is incorporated and domiciled in the United Kingdom.

**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*

The following new standard and an amendment to an existing standard have been applied for the first time in the current reporting period:

- Amendment to IFRS 7, ‘Financial instruments: Disclosure on offsetting financial assets and financial liabilities’ which requires additional disclosures on the use of offset in the statement of financial position and collateral available further to mitigate risks. This information has been included in Note 3 to the financial statements.
- IFRS 13, ‘Fair value measurement’ which requires entities to provide additional information concerning fair value disclosures where financial instruments are carried at amortised cost. This information has been included in the summary of accounting policies under ‘Fair values’ and in Note 15 to the financial statements.

*(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2013 but not currently relevant to the Group (although they may affect the accounting for future transactions and events).*

- Amendment to IAS 1, ‘Financial statement presentation’ regarding other comprehensive income (effective 1 July 2012)
- Amendment to IAS 12, ‘Income taxes’ on deferred tax on investment properties (effective 1 January 2012 and EU endorsed from 1 January 2013)
- IAS 19 (revised 2011), ‘Employee benefits’ (effective 1 July 2012)

## T.H.F.C. (FUNDING) HOLDINGS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2013

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*(c) New standards, amendments and interpretations issued which could be relevant for the Group but which are not effective for the financial year beginning 1 January 2013 and have not been early adopted*

- 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.
- IFRS 9, 'Financial instruments' (effective date not final) addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010 and further updates in November 2013. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments and establishes a more principle-based approach to hedge accounting. 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 current version 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. The changes to hedge accounting will not affect the Group. The final implementation date for this standard has not been determined by the IASB and it also remains 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 EU endorsed)
- 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)

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Year ended 31 December 2013**

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- 'Annual Improvements to IFRSs 2010 -2012 cycle' and 'Annual Improvements to IFRSs 2011 - 2013 cycle' contain several minor amendments to IFRS. The amendments are largely effective for annual periods beginning on or after 1 July 2014 but are not yet endorsed by the EU. No material changes to accounting policies will arise as a result of these amendments.

Except where noted, IFRSs or IFRIC interpretations that are not yet effective are not 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 THFC 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 periods 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 T.H.F.C. (Funding No.1) Plc and T.H.F.C. (Funding No.2) Plc and owns 100% of the issued share capital of both subsidiary companies.

**Investment in subsidiaries**

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

**Interest**

Interest receivable on the loans to the borrower, THFC, and interest payable on the bonds are accounted for on an accruals basis. 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 interest payable, as adjusted for the amortisation of premiums/discounts, give a constant yield to maturity.

**Cash and cash equivalents**

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

**Loans to Borrower ("Loans")**

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

## T.H.F.C. (FUNDING) HOLDINGS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2013

---

#### Secured Bonds

Secured Bonds are stated at amortised cost.

Any premium or discount on issue is added to/deducted from the nominal value of the secured 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.

#### 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 (2012: none).

The Group's Secured Bonds are tradable and the markets are considered to be active and the Secured Bonds are therefore classified level 1. Accordingly quoted market prices at, or close to, the balance sheet date have been used to evaluate the fair value of the Secured Bonds. The fair value of the associated fixed rate loan to THFC is based on the same quoted market price on the basis that the Standard and Poor's credit rating of the Group is dependent on that of THFC.

#### Prepayment

It is expected that the loans will run to maturity, however THFC or any Bond Issuance Authorised Borrower (As defined in the Loan Agreement) may at any time purchase bonds and, following such purchase, THFC or any Bond Issuance Authorised Borrower may surrender the bonds to the issuer for cancellation. An amount equal to the outstanding principal amount of the bonds being surrendered shall be deemed prepaid under the loan agreement. 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 the Borrower for on-lending to Housing Associations HAs, therefore no segmental information is prepared by management.

## **3 FINANCIAL RISK MANAGEMENT**

The proceeds from the issue of the 5.125% Secured Bonds due 2035/37 and the 6.35% Secured Bonds 2039/41 were used to make loans to the borrower, THFC. The interest charged on the loans to the borrower is equal to the interest payable on the related secured bonds.

### **Credit risk**

The Company faces credit risk on its loan to THFC which is subject to the collateral arrangements described below. The carrying value of the loan represents the maximum exposure to credit risk. No part of the loan is past due or impaired at 31 December 2013 (2012: none)

### **Collateral arrangements**

THFC has granted security to the Issuing Subsidiaries of the Company under the Loan Agreement in the form of a floating charge over its undertaking, property and assets. This floating charge ranks *pari passu* with a number of existing floating charges previously granted by THFC to secure other existing borrowings. THFC's undertakings, property and assets largely consist of its existing loan book together with some accumulated reserves.

HAs who borrow money from THFC create either a first floating charge over the whole or an identifiable part of its property, undertaking and assets in favour of THFC or a fixed first charge in favour of THFC. All of the THFC's assets, including the loans to the HAs, and the security granted in respect of its assets are pooled rather than being allocated to specific liabilities of THFC. As such, the loan to THFC is indirectly secured by the properties owned by the HA borrowers.

THFC is required to obtain a charge over the assets of HAs which, at all times during the life of each loan, covers at least 150% of the outstanding loan balance. For loans secured by fixed charges formal property valuations of the specific security are undertaken at least every five years. For loans secured by floating charge compliance is measured by reference to the balance sheet of the underlying HA. In addition THFC monitors the financial position of its HA borrowers on an on-going basis, including measurement against covenant undertakings. The large number of borrowing HAs assists in diversification of the credit risks inherent in the loan to THFC. All HA borrowers are subject to external regulation by the Homes and Communities Agency (or other relevant authority for housing associations based outside of England).

The obligations of the Group to the holders of the Secured Bonds are secured by a first floating charge on the whole of the Group's undertaking, property and assets, and a first ranking assignment by way of security of the benefit of the floating charge granted to the Group by THFC as described above.

### **Liquidity risk**

To mitigate liquidity risk to the Group, the borrower collects interest and capital repayments from the HA borrowers one month prior to payment to the Group. The T.H.F.C. (Funding No.1) Plc bonds have a £24.1m liquidity facility attached to them that is renewed annually. The T.H.F.C.(Funding No.2) Plc HA borrowers maintain an Interest Service Reserve Fund with the borrower, that approximates to one year's worth of interest that can be drawn upon in the event of a late payment. There is a two year maturity mismatch between expected and legal maturity in respect of all issued bonds.

## T.H.F.C. (FUNDING) HOLDINGS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2013

The loan agreements provide that the HA borrowers must repay their loans in full to THFC, the Borrower, three business days before the expected maturity date. Interest is receivable half yearly in arrears.

#### Interest rate risk

The interest charged on the loans to the Borrower 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

|                             | 2013<br>£         | 2012<br>£         |
|-----------------------------|-------------------|-------------------|
| On loans to borrower        | 35,603,231        | 35,603,231        |
| Amortisation of net premium | (219,871)         | (209,533)         |
|                             | <u>35,383,360</u> | <u>35,393,698</u> |

#### 5 INTEREST PAYABLE

|  | 2013<br>£         | 2012<br>£         |
|--|-------------------|-------------------|
| On 5.125% and 6.35% Secured Bonds due 2035/37 and 2039/2041 respectively | 35,603,231        | 35,603,231        |
| Amortisation of net premium  | (219,871)         | (209,533)         |
|  | <u>35,383,360</u> | <u>35,393,698</u> |

#### 6 OPERATING EXPENSES

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

**T.H.F.C. (FUNDING) HOLDINGS LIMITED****NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Year ended 31 December 2013****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:

|   | 2013<br>£     | 2012<br>£     |
|---|---------------|---------------|
| Fees paid to auditors for:                          |               |               |
| Annual audit of financial statements – current year | 15,228        | 13,680        |
| - prior year  | -             | 1,726         |
|   | <u>15,228</u> | <u>15,406</u> |

**8 EMPLOYEES**

There were no employees during the year other than the directors (2012: Nil). The directors received no remuneration during the year in respect of their qualifying services (2012: £Nil).

**9 LOANS TO BORROWER AND INVESTMENTS**

| <b>Company</b>               | 2013<br>£     | 2012<br>£     |
|------------------------------|---------------|---------------|
| Investment in subsidiaries   |               |               |
| At 1 January and 31 December | <u>25,000</u> | <u>25,000</u> |

The Company owns the entire share capital of T.H.F.C (Funding No.1) Plc and T.H.F.C (Funding No.2) Plc both of whom are incorporated in England. The principal activity of both subsidiaries is to provide finance to THFC for on lending to HAs ("the borrowers") registered under The Housing Act 1996. The net assets of T.H.F.C. (Funding No.1) Plc at 31 December 2013 were £12,500 (2012: £12,500). The net assets of T.H.F.C. (Funding No.2) Plc at 31 December 2013 were £12,500 (2012: £12,500).

| <b>Group</b>                      | 2013<br>£          | 2012<br>£          |
|-----------------------------------|--------------------|--------------------|
| <b>Loans to borrower</b>          |                    |                    |
| Loan amount                       | 606,055,000        | 606,055,000        |
| Unamortised premium               | 23,900,662         | 24,342,014         |
| Unamortised discount              | (10,173,919)       | (10,395,400)       |
| <b>Amortised cost</b>             | 619,781,743        | 620,001,614        |
| Net premium due within one year   | (230,710)          | (220,400)          |
| <b>Non-current amortised cost</b> | <u>619,551,033</u> | <u>619,781,214</u> |

Collateral arrangements are set out in Note 3.

**T.H.F.C. (FUNDING) HOLDINGS LIMITED****NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Year ended 31 December 2013****10 OTHER RECEIVABLES**

| <b>Group</b>                             | <b>2013</b><br><b>£</b>  | <b>2012</b><br><b>£</b>  |
|--|--------------------------|--------------------------|
| Premium and discount due within one year | <b>579,434</b>           | 547,250                  |
| Interest receivable                      | <b>11,685,376</b>        | 11,685,376               |
| Other receivables                        | <b>136,583</b>           | 118,808                  |
|  | <b><u>12,401,393</u></b> | <b><u>12,351,434</u></b> |

**11 OTHER PAYABLES**

| <b>Group</b>                             | <b>2013</b><br><b>£</b>  | <b>2012</b><br><b>£</b>  |
|--|--------------------------|--------------------------|
| Premium and discount due within one year | <b>579,434</b>           | 547,250                  |
| Interest payable                         | <b>11,685,376</b>        | 11,685,376               |
| Other payables                           | <b>25,000</b>            | 25,000                   |
| Accruals                                 | <b>136,732</b>           | 118,807                  |
|  | <b><u>12,426,542</u></b> | <b><u>12,376,433</u></b> |

| <b>Company</b> | <b>2013</b><br><b>£</b> | <b>2012</b><br><b>£</b> |
|----------------|-------------------------|-------------------------|
| Other payables | <b><u>25,000</u></b>    | <b><u>25,000</u></b>    |

**T.H.F.C. (FUNDING) HOLDINGS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Year ended 31 December 2013**

**12 FINANCIAL LIABILITIES – SECURED BONDS**

|                                   | 2013<br>£                 | 2012<br>£                 |
|-----------------------------------|---------------------------|---------------------------|
| 5.125% Secured Bonds 2035/37      | 235,205,000               | 235,205,000               |
| 6.35% Secured Bonds 2039/41       | 370,850,000               | 370,850,000               |
|                                   | <u>606,055,000</u>        | <u>606,055,000</u>        |
| Unamortised premium               | 23,900,662                | 24,342,014                |
| Unamortised discount              | (10,173,919)              | (10,395,400)              |
|                                   | <u>619,781,743</u>        | <u>620,001,614</u>        |
| Amortised cost                    | 619,781,743               | 620,001,614               |
| Net premium due within one year   | (230,710)                 | (220,400)                 |
| <b>Non-current amortised cost</b> | <u><u>619,551,033</u></u> | <u><u>619,781,214</u></u> |

Details of security are set out in Note 3.

The 5.125% secured bonds are repayable in 2035/37 and were issued in the following tranches:

|                  | Nominal<br>Value<br>£     | (Discount)<br>/Premium<br>£ |
|------------------|---------------------------|-----------------------------|
| 21 December 2004 | 67,376,000                | (30,993)                    |
| 21 December 2006 | 32,000,000                | 1,352,320                   |
| 5 March 2007     | 37,000,000                | 1,303,880                   |
| 5 December 2007  | 32,633,000                | (2,227,202)                 |
| 7 August 2008    | 80,000,000                | (9,036,800)                 |
|                  | <u>249,009,000</u>        | <u>(8,638,795)</u>          |
| Prepaid          | (13,804,000)              | -                           |
| <b>Total</b>     | <u><u>235,205,000</u></u> | <u><u>(8,638,795)</u></u>   |

The bonds are listed and are repayable in full between 21 December 2035 and 21 December 2037. The bonds are secured by a fixed charge over the related loans to HAs granted by the borrower.

Interest on the bonds is payable half yearly in arrears.

**T.H.F.C. (FUNDING) HOLDINGS LIMITED****NOTES TO THE FINANCIAL STATEMENTS (continued)****Year ended 31 December 2013**

The 6.35% secured bonds are repayable between July 2039 and July 2041 and were issued in the following tranches:

|                 | Nominal<br>Value<br>£ | (Discount)<br>/Premium<br>£ |
|-----------------|-----------------------|-----------------------------|
| 8 July 2009     | 191,000,000           | 76,400                      |
| 24 March 2010   | 72,250,000            | 7,951,113                   |
| 21 January 2011 | 76,600,000            | 10,504,158                  |
| 4 April 2011    | 31,000,000            | 4,255,370                   |
|                 | <u>370,850,000</u>    | <u>22,787,041</u>           |

The bonds are listed and are repayable in full between 8 July 2039 and 8 July 2041. The bonds are secured by a fixed charge over the related loans to HAs granted by the borrower and a floating charge over the assets of the issuer.

Interest on the bonds is payable half yearly in arrears.

As the premium on issue in 2009 was immaterial to the loan value it was charged to the statement of comprehensive income on issue rather than amortised over the life of the bond

**Contractual cash flows on secured bonds:**

| <b>2013</b>  | Due within<br>one year<br>£ | Due within<br>one to two<br>years<br>£ | Due within<br>two and five<br>years<br>£ | Due in over<br>five years<br>£ | Total<br>2013<br>£   |
|--------------|-----------------------------|--|--|--------------------------------|----------------------|
| Principal    | -                           | -                                      | -  | 606,055,000                    | 606,055,000          |
| Interest     | 35,603,231                  | 35,603,231                             | 106,809,693                              | 687,676,344                    | 865,692,499          |
| <b>Total</b> | <u>35,603,231</u>           | <u>35,603,231</u>                      | <u>106,809,693</u>                       | <u>1,293,731,344</u>           | <u>1,471,747,499</u> |
| <b>2012</b>  | Due within<br>one year<br>£ | Due within<br>one to two<br>years<br>£ | Due within<br>two and five<br>years<br>£ | Due in over<br>five years<br>£ | Total<br>2012<br>£   |
| Principal    | -                           | -                                      | -  | 606,055,000                    | 606,055,000          |
| Interest     | 35,603,231                  | 35,603,231                             | 106,809,693                              | 782,152,013                    | 960,168,168          |
| <b>Total</b> | <u>35,603,231</u>           | <u>35,603,231</u>                      | <u>106,809,693</u>                       | <u>1,388,207,013</u>           | <u>1,566,223,168</u> |

**T.H.F.C. (FUNDING) HOLDINGS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Year ended 31 December 2013**

**13 SHARE CAPITAL**

**Group and Company**

|   | <b>2013</b>     | <b>2012</b>     |
|---|-----------------|-----------------|
|   | <b>£</b>        | <b>£</b>        |
| <i>Allotted, called up and fully paid</i> |                 |                 |
| 1 (2012: 1) ordinary share of £1          | <u><u>1</u></u> | <u><u>1</u></u> |

The allotted share is held by T.H.F.C (Services) Limited as Share Trustee under a Declaration of Trust dated 13 December 2004 for the benefit of Qualifying Charities. Accordingly the Share Trustee has no beneficial interest in the Group.

The Group's capital comprises only its 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 Company and the Group are not subject to externally imposed capital requirements.

**14 RECONCILIATION OF RESULT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS**

|                                     | <b>2013</b>         | <b>2012</b>     |
|-------------------------------------|---------------------|-----------------|
|                                     | <b>£</b>            | <b>£</b>        |
| Result before taxation              | -                   | -               |
| Adjustments for:                    |                     |                 |
| Interest receivable                 | <b>(35,383,360)</b> | (35,393,698)    |
| Interest payable                    | <b>35,383,360</b>   | 35,393,698      |
| (Increase)/ decrease in receivables | <b>(17,775)</b>     | 215,794         |
| Increase/ (decrease) in payables    | <b>17,925</b>       | (215,792)       |
| Cash generated from operations      | <u><u>150</u></u>   | <u><u>2</u></u> |

**T.H.F.C. (FUNDING) HOLDINGS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Year ended 31 December 2013**

**15 FAIR VALUES OF FINANCIAL INSTRUMENTS**

**Group**

The Level 1 fair value of the 5.125% Secured Bonds due 2035/2037, the 6.35% Secured Bonds due 2039/2041, and the Level 2 fair value of the associated loans, as at 31 December 2013 are shown below. The fair value is derived from the market value of the bonds at that date. There is no difference between the fair value and carrying value of all other financial assets and liabilities.

|  | <b>2013</b>           |                    | <b>2012</b>           |                   |
|--|-----------------------|--------------------|-----------------------|-------------------|
|  | <b>Carrying value</b> | <b>Fair value</b>  | <b>Carrying value</b> | <b>Fair value</b> |
|  | <b>£</b>              | <b>£</b>           | <b>£</b>              | <b>£</b>          |
| <b>Financial assets:</b>                                     |                       |                    |                       |                   |
| <i>Classified as Loans &amp; Receivables</i>                 |                       |                    |                       |                   |
| Loans to Borrower  |                       |                    |                       |                   |
| Non-current  | <b>619,202,309</b>    |                    | 619,454,364           |                   |
| Current  | <b>579,434</b>        |                    | 547,250               |                   |
| <b>Total</b>   | <b>619,781,743</b>    | <b>729,831,978</b> | 620,001,614           | 715,693,007       |
| Interest receivable  | <b>11,685,376</b>     | <b>11,685,376</b>  | 11,685,376            | 11,685,376        |
| Other receivable   | -                     | -                  | -                     | -                 |
| <b>Total financial assets</b>                                | <b>631,467,119</b>    | <b>741,517,354</b> | 631,686,990           | 727,378,383       |
| <b>Financial liabilities:</b>                                |                       |                    |                       |                   |
| <i>Classified as Financial Liabilities at Amortised Cost</i> |                       |                    |                       |                   |
| Secured bonds  |                       |                    |                       |                   |
| Non-current  | <b>619,202,309</b>    |                    | 619,454,364           |                   |
| current  | <b>579,434</b>        |                    | 547,250               |                   |
| Premium/(discount)   |                       |                    |                       |                   |
| <b>Total</b>   | <b>619,781,743</b>    | <b>729,831,978</b> | 620,001,614           | 715,693,007       |
| Interest payable   | <b>11,685,376</b>     | <b>11,685,376</b>  | 11,685,376            | 11,685,376        |
| Other payables and Accruals                                  | <b>161,732</b>        | <b>161,732</b>     | 143,808               | 143,808           |
| <b>Total financial liabilities</b>                           | <b>631,628,851</b>    | <b>741,679,086</b> | 631,830,798           | 727,522,191       |

**Company**

The Company has no significant financial instruments.



# T.H.F.C. (FUNDING) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2013

### 16 NETTING OF FINANCIAL INSTRUMENTS

| Group  | 2013                       |                       | 2012                       |                       |
|--|----------------------------|-----------------------|----------------------------|-----------------------|
|  | Loans to<br>borrowers<br>£ | Secured<br>bonds<br>£ | Loans to<br>borrowers<br>£ | Secured<br>bonds<br>£ |
| Gross book value – non-current   | 619,202,309                | 619,202,309           | 619,454,364                | 619,454,364           |
| – current – principal  | -                          | -                     | -                          | -                     |
| – current – discount   | (234,728)                  | (234,728)             | (220,257)                  | (220,257)             |
| – current – premium  | 465,438                    | 465,438               | 440,657                    | 440,657               |
| – total current  | 230,710                    | 230,710               | 220,400                    | 220,400               |
| Accrued interest   | 11,685,376                 | 11,685,376            | 11,685,376                 | 11,685,376            |
| <b>Gross carrying value of loans /<br/>secured bonds</b>               | <b>631,118,395</b>         | <b>631,118,395</b>    | <b>631,360,140</b>         | <b>631,360,140</b>    |
| On-balance netting under IAS 32  | -                          | -                     | -                          | -                     |
| <b>Carrying values included in<br/>statement of financial position</b> | <b>631,118,395</b>         | <b>631,118,395</b>    | <b>631,360,140</b>         | <b>631,360,140</b>    |
| Other enforceable offsets:   |                            |                       |                            |                       |
| Collateral received  | (631,118,395)              |                       | (631,360,140)              |                       |
| Collateral pledged   |                            | (631,118,395)         |                            | (631,360,140)         |
| Net exposure on loans to borrowers                                     | -                          |                       | -                          |                       |
| Uncollateralised liability on secured<br>bonds                         |                            | -                     |                            | -                     |

No on- or off-balance sheet netting arrangements apply to any other financial assets or liabilities.

#### Company

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

### 17 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 undertakings since the parent company did not recognise any income or expenditure in the financial year.

### 18 RELATED PARTY TRANSACTION

All 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 and trustee fees payable to T.H.F.C. (Services) Limited during the year amounted to £Nil (2012: £Nil). T.H.F.C. (Services) Limited reserves the right to charge such fees in the future.

## **T.H.F.C. (FUNDING) HOLDINGS LIMITED**

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

**Year ended 31 December 2013**

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The Law Debenture Trust Corporation plc acts as trustee for the benefit of the bond holders of both issues under the terms of trust deed dated 21 December 2004 and 8 July 2009. Fees payable to the Trustee for the year were paid directly by the borrower.

#### **19 TAXATION**

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

#### **20 EVENT AFTER THE REPORTING PERIOD**

Since the year end the rating of the provider of the T.H.F.C. (Funding No.1) Plc £24.1m Liquidity Facility has been downgraded. The downgrade constitutes a Downgrade Event and a Liquidity Facility Event under the terms of the Liquidity Facility Agreement between the T.H.F.C. (Funding No.1) Plc and the provider and as such T.H.F.C. (Funding No.1) Plc has made a Standby Drawing of the entire Liquidity Facility Commitment.

The Standby Drawing is repayable on the earlier of the provider being upgraded to the Requisite Rating or the Legal Maturity Date of the secured bonds.