



Registered in England and Wales

Company number 07984573

## **EAST FINANCE plc**

# **REPORT AND FINANCIAL STATEMENTS**

**For the year ended 31 March 2015**

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## **Company Information**

**Registered Company Number:** 07984573

### **Directors**

Duncan Beardsley	(Chair)
Yvonne Arrowsmith	Appointed [1 October 2014]
Terence Price	Resigned [1 July 2014]
June Barnes	Resigned [30 September 2014]
Simon Bass	
Calum Mercer	
Brian Mulholland	

### **Company Secretary**

Henry Potter

### **Registered Office**

29-35 West Ham Lane  
London  
E15 4PH

### **Bankers**

Barclays Bank plc  
Business Banking  
1 Churchill Place  
London  
E14 5HP

### **Solicitors**

Trowers & Hamlins  
3 Bunhill Row  
London EC1Y 8YZ

### **Auditors**

Grant Thornton UK LLP  
Kingfisher House  
1 Gilders Way  
St. James Palace  
Norwich  
Norfolk. NR3 1UB

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## Strategic Report including the Operating & Financial Review

The Board of East Finance plc is pleased to present its report together with the audited financial statements for the year ended 31 March 2015.

### Principal activity

The Company's principal activity is to act as an onward lender of bond monies to provide finance for the growth and development activities of East Homes Limited, a charitable subsidiary undertaking of East Thames Group Limited (the Company's ultimate and immediate parent undertaking).

### Business and financial review

The company continues to maintain the £250,000,000 Bond which it issued in June 2012 paying a fixed coupon semi-annually in arrears of 5.486%. The whole amount remains on-lent to East Homes Limited under a facility agreement between the Company and East Homes Limited.

A continued arrangement is in place under the terms of the Bond Loan Agreement such that East Homes Limited is required to reimburse the Company all expenditure incurred in respect of the 2042 Bond, including transaction costs. The Bond Loan Agreement contains a provision for the Company to recover from East Homes Limited the difference between the interest payable to 2042 Bond investors and the interest receivable from amounts on-lent to East Homes Limited under the Bond Loan Agreement. During the year under review, the Company had no surplus funds or investments.

Since incorporation, the Company has not carried on any business or activities other than incidental to the financing of East Homes Limited. The Company is expected to break even each year. The profit for the year, both before and after taxation, was £nil.

### Principal risks and uncertainties

The principal risks facing the Company continue to be:

- the inability to meet its obligations in respect of the 2042 Bond Trust Deed, in particular the covenants placed on the Company as the issuer of the 2042 Bond;
- the inability of the Company or East Homes Limited to meet their respective obligations under the Bond Loan Agreement, in particular payments, warranties and covenants;
- that East Homes Limited's financial performance deteriorates as a result of external influences such as Welfare Reform, the housing market or general economic conditions, which potentially threaten the ability to service debt or compliance with the interest cover covenant;

These risks are managed and mitigated through the governance and financial disciplines adopted by the Company and East Homes Limited. This includes the implementation and monitoring of internal controls, adherence to group governance principles, regular assessments of actual and prospective covenant compliance and reporting to the Board of Directors. This is further supported through various security and contractual arrangements that are described in Note 10 to these financial statements.

The Company continues to comply with its obligations under the Bond Loan Agreement.

## Strategic Report including the Operating & Financial Review (continued)

### Principal risks and uncertainties (continued)

The Company operates as a group funding vehicle. Its performance against key performance indicators, which are the financial covenants, is as follows:

<u>Key performance indicator</u>	<u>Actual performance</u>	<u>Target performance</u>
Annual interest cover covenant	199%	Must exceed 95%
Rolling three year interest cover covenant	163%	Must exceed 105%
Asset value cover	£352.6 million	Must exceed £250 million

### Future developments

The Directors do not anticipate any change in the Company's principal activity.

Signed on behalf of the Board of Directors



**Yvonne Arrowsmith - Director**

2<sup>nd</sup> September 2015

East Finance plc

Registered in England and Wales - No 07984573

## Report of the Directors

### Results and dividends

The profit for the year amounted to £nil. The Company's performance is monitored against original expectations and is expected to break even.

The Directors do not recommend payment of a dividend in respect of the year ended 31 March 2015.

### Directors and their interests

The Directors of the Company who held office during the year are as follows:

Yvonne Arrowsmith	(Appointed 1 October 2014)
Terence Price	(Resigned 1 July 2014)
June Barnes	(Resigned 30 September 2014)
Simon Bass	
Duncan Beardsley	
Calum Mercer	
Brian Mulholland	

In accordance with the Company's Articles of Association, all of its initial Directors were required to retire at the first annual general meeting and thereafter retire by rotation. None of the Directors who held office at the beginning or end of the year had any interest in the shares of the Company.

With the exception of Yvonne Arrowsmith, Simon Bass and June Barnes, who are or were executive officers of the Company's parent undertaking, all directors are deemed to be 'independent' in the context of the parent undertaking's independence criteria, which are drawn from the UK Corporate Governance Code, applied by East Thames Group Limited.

The Company does not have an appointed Senior Independent Director. However, all Directors within the East Thames Group have access to the nominated Senior Independent Director of East Thames group Limited who is the Chair of the Governance and Remuneration Committee.

### Financial risk management objectives

The Directors' approach to financial risk management objectives and exposures have been set out in Note 10 of these financial statements.

The Directors have monitored the progress of the overall strategy and the individual strategic elements by reference to the following non-financial indicator.

The Board of Directors ensure that the Company fulfils its obligations under the Bond Trust Deed which in turn ensures it is compliant with Listing Regulations and, under the Bond Loan Agreement, its commitments to the Bond investors and East Homes Limited. The Company is primarily a conduit for accessing the Debt Capital Markets; therefore the Board of Directors monitor the compliance with the interest cover covenant and the availability of cash flows to and from East Homes Limited as the key financial performance indicators.

## Report of the Directors (continued)

### Going Concern

In certain adverse market conditions, the principal risks and uncertainties detailed above, or other liquidity issues, could impact upon the Company's ability to effectively operate as a going concern. The Directors are not aware of any material uncertainties and have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future given its context as a member of East Thames Group Limited which includes the Company and East Homes Limited. For this reason, the Company continues to adopt the going concern basis in the financial statements. Further details on credit risk and liquidity risk are set out in Note 10 to these financial statements.

### Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report including the Operating & Financial Review and the Report of the Directors 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 elected to prepare financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). 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 and profit or loss of the Company for the year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards 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 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 enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that:

- so far as each director is aware there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

## Report of the Directors (continued)

### Statement of Directors' responsibilities (continued)

To the best of our knowledge:

- the Financial Statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws), give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Strategic Report including the Operating & Financial Review and the Report of the Directors includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

### Corporate Governance Statement

The Company has a listed security in issue and is required to comply with sections 7.1 and 7.2 of the Disclosure and Transparency Rules (DTR) of the Financial Conduct Authority ("FCA") handbook.

#### The Board and its Directors

The Company is led by a Board of Directors ("Board"). The appointment of the Directors is pursuant to the Articles of Association dated 9 March 2012. Each Director is of equal standing. Owing to the size and nature of the Company, there is no appointed Chief Executive. There is also no distinction drawn between executive and non-executive Directors. The Company arranges formal induction for new Directors and arranges training as necessary. The Company has not arranged insurance cover since suitable legal insurance cover is provided by East Thames Group Limited for the Directors and Officers in respect of potential legal action against them. The Board acknowledges that it is collectively responsible for the success of the Company by providing leadership, setting the Company's strategic aims, ensuring that the necessary financial and human resources are in place and reviewing management performance. In order to discharge these responsibilities, the Directors met on a regular basis throughout the year. Since the issuance of the 2042 Bond, the Directors have held regular Board meetings at which it discussed the activities of the Company. The Management and Board Meetings are also attended by key members of the Company's management team. The table below indicates the number of meetings held and the number of meetings attended by each Director.

Four Board meetings were held in the year ended 31 March 2015. The attendances were as follows:

<u>Director</u>	<u>Meetings attended (and dates)</u>
Yvonne Arrowsmith	2 (6 November 2014, 3 February 2015)
June Barnes	2 (12 May 2014, 31 July 2014)
Simon Bass	4 (12 May 2014, 31 July 2014, 6 November 2014, 3 February 2015)
Duncan Beardsley	4 (12 May 2014, 31 July 2014, 6 November 2014, 3 February 2015)
Calum Mercer	4 (12 May 2014, 31 July 2014, 6 November 2014, 3 February 2015)
Brian Mulholland	4 (12 May 2014, 31 July 2014, 6 November 2014, 3 February 2015)

## **Report of the Directors (continued)**

All Directors receive appropriate and timely information and briefing papers in advance of Board Meetings. Whilst day-to-day management of the Company is delegated to the management team, there is a formal schedule of matters reserved for decisions by the Board. These include such matters as the provision of guarantees or indemnities in respect of any liability and approval of the annual budget or engagement in any other activity. Appointments to the Board are made in line with the Articles of Association. East Thames Group Limited has a Governance and Remuneration committee that provides oversight for the Group, which includes the Company. The Company does not have a separate and dedicated Governance and Remuneration committee as the size and nature of the Company does not warrant a dedicated committee.

The Board undertakes an internal annual evaluation of its performance and that of its Directors. This evaluation is undertaken externally on a three year basis. The Board operates a policy on the appointment, re-election and retirement of Directors which is consistent with East Thames Group Limited. The Directors ensure that the Board is structured in such a way that each member of the Board is able to bring different experiences and skills to the operation of the Company and encourages and supports each Director to regularly update and refresh their skills and knowledge.

### **Internal control and risk management systems**

The Board has established processes for identifying, evaluating and managing the significant risks the Company faces. The Board annually reviews these processes, which have been in place from the commencement of trading to the date of approval of this report. Key high level risks are also reviewed quarterly at the Group's Risk Management and Audit Committee meetings. The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management to ensure it meets the requirements of DTR 7.1.3. It is based principally on reviewing financial and operational reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied or indicate a need for more extensive monitoring.

As part of the requirements of DTR 7.1.3 the Board specifically monitors the financial reporting process and the statutory audit of the annual accounts through reports provided by management. Furthermore, the Board reviews and monitors the independence of the statutory auditor and considers the relationship with the Group as part of its assessment. This is monitored within the East Thames Group Limited Board meetings which consider the relationship with the statutory auditor and all group subsidiaries. At each Company Board meeting Directors review whether the existing internal controls to monitor the requirements of DTR 7.1.3 are sufficient and take appropriate action as necessary. The Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant during the course of its review of the systems of internal control. The Board considers the existing internal controls to be sufficient and does not consider there to be a requirement for a specific East Finance plc Internal Audit function as the East Thames Group Limited Internal Audit function provides sufficient support and expertise. The requirement for a dedicated Internal Audit function is considered annually.

East Finance plc

Report and Financial Statements for the year ended 31 March 2015

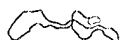
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## Report of the Directors (continued)

### Auditors

Grant Thornton UK LLP have expressed their willingness to continue in office. Accordingly a resolution in accordance with section 489(4) of the Companies Act 2006 is to be proposed for the re-appointment of Grant Thornton UK LLP.

Signed on behalf of the Board of Directors



**Yvonne Arrowsmith - Director**

2<sup>nd</sup> September 2015

East Finance plc

Registered in England and Wales - No 07984573

Registered Office: 29-35 West Ham Lane, Stratford, London E15 4PH

## **Independent auditor's report to the members of East Finance plc**

We have audited the financial statements of East Finance plc for the year ended 31 March 2015 which comprises the profit and loss account, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, 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.

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

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

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2015 and of its results for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

In our opinion:

- the information given in the Strategic Report including the Operating & Financial Review and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 7 to 8 with respect to internal control and risk management systems in relation to financial reporting processes is consistent with the financial statements.

**Independent auditor's report to the members of East Finance plc (continued)**

**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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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; or
- a Corporate Governance Statement has not been prepared by the Company.



Tobias Wilson  
Senior Statutory Auditor  
For and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
Norwich, England  
16 September 2015

**Profit and Loss Account**

For the year ended 31 March 2015

	Note	2015 £'000	2014 £'000
Turnover		-	-
Administrative expenses	2	-	-
<b>Operating income before financing costs</b>		-	-
Interest receivable	4	13,747	13,746
Interest payable and other finance costs	4	(13,747)	(13,746)
Profit on ordinary activities before taxation		-	-
Taxation	5	-	-
<b>Profit for the financial year</b>		-	-

The Company's results relate wholly to continuing activities.

There is no difference between the result on ordinary activities before taxation and the result for the year stated above and their historic cost equivalent.

The Company has no recognised gains and losses other than the result stated above and therefore no separate statement of total recognised gains and losses has been presented.

The notes on pages 15 to 21 form an integral part of these financial statements.

**Balance Sheet**

As at 31 March 2015

	Note	2015 £'000	2014 £'000
<b>Fixed asset investment</b>	6	<u>247,949</u>	<u>247,916</u>
<b>Current assets</b>			
Debtors	7	4,021	4,021
Cash at Bank		<u>13</u>	<u>13</u>
		4,034	4,034
<b>Creditors: amounts falling due within one year</b>	8	<u>(4,021)</u>	<u>(4,021)</u>
<b>Net current assets</b>		<u>13</u>	<u>13</u>
<b>Total assets less current liabilities</b>		<b>247,962</b>	<b>247,929</b>
<b>Creditors: amounts falling due after more than one year</b>	9	<u>(247,949)</u>	<u>(247,916)</u>
		<u>13</u>	<u>13</u>
<b>Capital and reserves</b>			
Share capital	11	13	13
Revenue reserves		-	-
		<u>13</u>	<u>13</u>

The financial statements were approved by the Board on 2<sup>nd</sup> September 2015 and signed on its behalf by:



Yvonne Arrowsmith  
Director



Simon Bass  
Director

East Finance plc, company registration number: 07984573

The notes on pages 15 to 21 form an integral part of these financial statements.

## **Notes to the Financial Statement**

### **1. Accounting Policies**

#### **1.1 Basis of preparation**

The financial statements have been prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are presented in Sterling rounded to the nearest thousand. The adopted accounting policies are unchanged from the previous year.

#### **1.2 Going Concern**

On the basis of their assessment of the Company's financial position and resources, the Company's directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. Thus they adopt the going concern basis of accounting in the preparation of the annual financial statements.

#### **1.3 Cash flow statement**

The Company is exempt from the requirements of FRS 1 (Revised) to prepare a cash flow statement as its results are included in the consolidated financial statements of East Thames Group Limited which includes a cash flow statement.

#### **1.4 Investment income**

Income receivable from investments is recognised as income accrues, using the effective interest method (that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

#### **1.5 Taxation**

The current tax charge is based on the results for the year and is measured at the amounts expected to be paid based on the tax rates and laws substantially enacted by the balance sheet date. Current tax is recognised in the profit and loss account for the year.

#### **1.6 Financial instruments**

The Company has adopted FRS 26 Financial Instruments Measurement and FRS 29 Financial Instruments Disclosures. Financial Instruments are initially recorded at fair value plus transaction costs. Subsequent measurement is at amortised cost using the effective interest rate to allocate the issuance transaction costs. The 2042 Bonds are classified as other liabilities and accrued interest is also classified as other liabilities due within one year.

The loan advanced to East Homes Limited is classified as a fixed asset investment and held at amortised cost using the effective interest rate to allocate the issuance transaction costs. Accrued interest receivable under the loan to East Homes Limited is classified as a short term debtor.

**Notes to the financial statements (continued)****1.7 Bond issuing costs**

All the Company's costs relating to providing funding services, including the bond issuing costs, are covered by East Homes Limited. In East Homes Limited, the costs are deferred and written off over the expected life of the bond.

**2. Administrative Expenses**

During the year, the Company recharged interest paid on loans to East Homes Limited. The Company has no directly employed personnel. Audit fees of £8,801 (2014: £6,695) and other administrative expenses are borne by East Thames Group Limited, the ultimate parent undertaking.

**3. Directors Emoluments**

The directors are appointed by East Thames Group Limited. The directors do not receive any remuneration for their duties as directors of the Company. Any employment costs are borne by East Thames Group Limited and disclosed as appropriate.

**4. Interest receivable/payable and similar income/charges**

	2015 £'000	2014 £'000
Interest on the 2042 Bond	13,747	13,746

The Company has lent the entire 2042 Bond proceeds to East Homes Limited on the same interest rate basis as the 2042 Bond. The £13,747,000 (2014: £13,746,000) interest receivable from East Homes Limited under the Bond Loan Agreement matches the interest payable to the bondholders.

Under the terms of the Bond Loan Agreement East Homes Limited is required to reimburse the Company all expenditure incurred in respect of the 2042 Bond. Immediately after the issuance of the 2042 Bond the Company on-lent the full bond proceeds to East Homes Limited.

**5. Taxation**

The results for the year do not give rise to a tax charge.

**6. Fixed asset investment**

	2015 £'000	2014 £'000
Fixed asset investment:		
Long term debtor due from other Group undertakings	250,000	250,000
Unamortised transaction costs	(2,051)	(2,084)
	247,949	247,916

**Notes to the financial statements (continued)****6. Fixed asset investment (continued)**

Under the terms of the Bond Loan Agreement, all transaction costs in relation to the 2042 Bond are borne by East Homes Limited. All transaction costs have been capitalised and will be amortised over the life of the 2042 Bond.

Loans to East Homes Limited are considered to be fixed asset investments as they are intended for use on a continuing basis in the Company's activities. The Directors consider such loans are held for the long term over the life of the related debt.

The amounts stated above are all due in more than one year (refer to Note 7 for amounts due within one year).

**7. Debtors**

	<b>2015</b> <b>£'000</b>	<b>2014</b> <b>£'000</b>
Debtors: amounts due within one year:		
Intercompany account with Group undertakings (interest receivable)	4,021	4,021

**8. Creditors - amount falling due within one year**

	<b>2015</b> <b>£'000</b>	<b>2014</b> <b>£'000</b>
Amounts due to 2042 Bondholders	4,021	4,021

**9. Creditors - amounts falling due after more than one year**

	<b>2015</b> <b>£'000</b>	<b>2014</b> <b>£'000</b>
Amounts due to 2042 Bondholders	250,000	250,000
Transaction costs	(2,051)	(2,084)
	<b>247,949</b>	<b>247,916</b>

Under the terms of the Bond Loan Agreement, East Homes Limited is committed to repay the £250,000,000 in full at maturity on 15 June 2042 to enable the Company to reimburse the 2042 Bondholders.

## Notes to the financial statements (continued)

## 10. Financial instruments

The maturity profile of anticipated future cash flows including interest in relation to the Company's financial liabilities is shown in the table below:

	2015 Interest- bearing loans and borrowings £'000	2014 Interest- bearing loans and borrowings £'000
Within one year	17,702	17,704
In one to two years	13,679	13,681
In two to three years	13,677	13,679
In three to four years	13,675	13,677
In four to five years	13,673	13,675
In more than five years	552,687	566,360
Effect of financing rates	(373,123)	(386,839)
At 31 March 2015	251,970	251,937

The Company issued a £250,000,000 secured 30 year bond (15 June 2012) at par with an interest coupon of 5.486%, payable semi-annually in arrears. The security in support of the bond was provided through housing properties owned by East Homes Limited that were put into charge with Prudential Trustee Company. The value of security provided at 31 March 2015 was £352.6m. The set-up costs are being borne by East Homes Limited.

**Credit risk**

The Company is dependent on receipt of funds from East Homes Limited in order to meet its contractual obligations under the Bond Loan Agreement in relation to the 2042 Bond. The credit risk is that East Homes Limited, as the main counterparty, fails to reimburse the Company. The Directors consider the credit risk to be very low owing to the fact that East Homes Limited is a strong business, with a strong asset base, that consistently generates a surplus and is supported by a regulator that has strong oversight and ensures the financial viability of the business.

The maximum credit risk currently faced by the Company is £254,021,000 being the total amount of funds raised from external bondholders through the 2042 Bond issuance plus accrued interest. No impairment loss has been recorded in relation to the fixed asset investment.

## Notes to the financial statements (continued)

### 10. Financial instruments (continued)

#### Liquidity risk

Liquidity risk is the risk that the Company might be unable to meet its obligations. Expected cash flows from financial assets, in particular its cash resources, are used by the Directors in assessing and managing liquidity risk. The risk is managed via the Bond Loan Agreement into which the Company has entered with East Homes Limited.

The terms of the 2042 Bond include an interest cover covenant (the "Interest Cover Test") that is subject to testing against the performance of East Homes Limited, the ultimate borrower of the 2042 Bond. This interest cover covenant requires East Homes Limited's annual operating surplus to be at least 95% of each year's interest costs, or 105% for every three successive years. The actual outturn figures for the Interest Cover Test at 31 March 2015 were 199% under the yearly test and 163% under the successive three year test.

A breach of the Interest Cover Test will not constitute a default by East Homes Limited or the Company. Instead, within 30 days of the Company becoming aware of any failure of East Homes Limited to comply with the Interest Cover Test, the Company shall convene a meeting of Bondholders to consider, by Extraordinary Resolution, whether or not to approve the ability of the Bondholders to exercise a bond put option (the "Bondholder Put Option"). If the Bondholder Put Option is approved, then any Bondholder may, within 30 days of such approval, give irrevocable notice to the Company of Bondholder's decision to require the Company to procure that a member of the East Thames Group purchases all of the 2042 Bond owned by such Bondholder on the day falling 45 days after the date on which the Extraordinary Resolution was so approved. Such purchase shall be at the principal amount of the bonds together with any accrued interest. Exercise of the Bondholder Put Option will need to be funded from available cash reserves, undrawn debt facilities or new borrowings. This could adversely impact the liquidity of the Company, East Homes Limited and East Thames Group Limited.

The Company has drawn the entire £250,000,000 under the 2042 Bond and therefore has nil available but undrawn facilities.

#### Interest rate risk

The Company currently borrows funds on a fixed rate basis of 5.486% from the capital markets under the 2042 Bond and then on-lends these to East Homes Limited at the same fixed rate of interest. This provides a highly effective hedge for the Company due, firstly to the fixed rate of

#### Interest rate risk (continued)

interest for the entire term of the 2042 Bond, secondly the matching of interest rate terms for the 2042 Bond and the loan on-lent to East Homes Limited and thirdly the 2042 Bond being accounted for at amortised cost so that any movements in fair value do not impact the income statement. As such the Company does not bear any interest rate risk, apart from the underlying credit risk with East Homes Limited, which is discussed above. The Company does not undertake any hedging activities and it does not have any derivatives. No sensitivity analysis is provided as the terms of the bond are matched with the terms of the investment from East Homes, so there is no significant effect on the company.

#### Foreign currency risk

The Company has no foreign currency transactions. All of the Company's borrowings and coupon payments are denominated in Sterling.

**Notes to the financial statements (continued)****10. Financial instruments (continued)****Fair Values**

Set out below is a comparison of the book values and fair values of the Company's financial instruments.

	Fair Value 2015 £'000	Fair Value 2014 £'000	Book Value 2015 £'000	Book Value 2014 £'000
<b>Financial assets:</b>				
Classed as loans and receivables (at amortised cost)				
Receivables from East Homes Limited	4,021	4,021	4,021	4,021
Loans to East Homes Limited	335,140	282,095	247,949	247,916
Cash	13	13	13	13
At 31 March	339,174	286,129	251,983	251,950
<b>Financial liabilities:</b>				
Classed as other financial liabilities (at amortised cost)				
Payables to Bondholders	4,021	4,021	4,021	4,021
2042 Bond	335,140	282,095	247,949	247,916
At 31 March	339,161	286,116	251,970	251,937

The fair value of the loan to East Homes Limited is based on the market value of similar debt instruments at 31 March 2015. The terms of the loan to East Homes Limited are fixed; therefore no adjustment has been made to align the book value to fair value.

The fair value of the 2042 Bond is based on the market value at 31 March 2015. The terms of the 2042 Bond are fixed therefore no adjustment has been made to reduce the book value to fair value.

**Capital risk management**

The Company's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns to the 2042 Bond investors and benefits for other stakeholders, in particular East Homes Limited who benefit from using the monies from the 2042 Bond. The risk of interruption of cash inflows by the Company (which are required to service and repay the debt) is low owing to these ultimately being receivable from East Homes Limited which receives a significant proportion of its rents from the public sector.

In order to maintain or adjust the capital structure, the Company may issue new shares to reduce debt.

**Notes to the financial statements (continued)****10. Financial instruments (continued)****Capital risk management (continued)**

The Company monitors capital on the basis of the carrying amount of equity plus its assets as presented on the face of the balance sheet. Capital for the year under review is summarised as follows:

	2015 £'000	2014 £'000
Fixed asset investment	247,949	247,916
Cash and cash equivalents	13	13
Equity	13	13
Total capital	247,975	247,942

The Company has honoured all its covenant obligations since the 2042 Bond issuance to the capital markets on 15 June 2012. See Liquidity risk under this note 10 for details of these covenants.

The Company has complied with all externally imposed capital requirements during the year.

**11. Called up share capital****Authorised**

50,000 ordinary shares of £1 each.

**Allocated, issued and fully paid**

50,000 ordinary shares of £1 each partly paid at 25 pence.

Upon incorporation the Company issued the partly paid shares to provide £12,500 to provide working capital to establish the business. All shares rank pari passu in all regards.

**12. Related party transactions**

The company takes advantage of the FRS 8 "Related Party Disclosures" exemption permitting it not to disclose transactions with Group undertakings where 100% of the voting rights are controlled within the group and consolidated group accounts are prepared.

**13. Ultimate parent undertaking**

East Finance plc is a wholly owned subsidiary of East Thames Group Limited, which is the ultimate parent and ultimate controlling entity. East Thames Group Limited is registered in England and Wales and is a registered charity.

Consolidated financial statements of East Thames Group Limited can be obtained from the Company Secretary at 29-35 West Ham Lane, Stratford, London E15 4PH.