

**HARBOUR FUNDING PLC**

**Financial Statements**

**For the year ended 31 December 2007**

# **HARBOUR FUNDING PLC**

**Annual report and financial statements for the year ended 31 December 2007**

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## **Directors**

C. Burke  
F. Edge  
R. Mountford  
P. Williamson

## **Secretary**

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

## **Registered Office**

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

## **Company Number**

4865683

## **Auditors**

PricewaterhouseCoopers LLP  
80 Strand  
London  
WC2R 0AF

## **HARBOUR FUNDING PLC**

### **DIRECTORS' REPORT**

**Year ended 31 December 2007**

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The directors submit their report and financial statements for the year ended 31 December 2007.

#### **RESULTS AND DIVIDEND**

The income statement is set out on page 6 and shows the results of the company for the period. The directors do not propose the payment of a dividend.

#### **PRINCIPAL ACTIVITY**

The principal activity of the company is to provide finance for Registered Social Landlords (RSLs) registered under The Housing Act 1996.

On 28 August 2003 the company made an initial issue of Secured Bonds to a nominal value of £180,885,761, the proceeds from which were lent to RSLs ("the borrowers") on terms that ensured the company was not exposed to any risk on changes of interest rates. Further issues of Secured Bonds to a nominal value of £75,000,000 and £20,450,600 were made on 25 March 2004 and 30 September 2005 respectively.

The borrowing RSLs of the company are:

Hermitage Housing Association Limited  
Maidenhead & District Housing Association Limited  
North Hertfordshire Homes Limited  
Pavilion Housing Association Limited

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

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

The company expects to continue its principal activity for the life of the Secured Bonds.

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

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

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

Harbour Funding Plc is a public limited company incorporated and domiciled in the United Kingdom. 49,999 shares of the company are held by Harbour Funding (Holdings) Limited. 1 share is held by T.H.F.C. (Services) Limited.

#### **DIRECTORS**

The directors who served during the year are as follows:

C. Burke  
D. Creed (resigned 14<sup>th</sup> June 2007)  
F. Edge  
R. Mountford (appointed 6<sup>th</sup> July 2007)  
P. Williamson

## **HARBOUR FUNDING PLC**

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

**Year ended 31 December 2007**

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The directors have no beneficial interest in the share capital of the company. The directors received no remuneration from the company.

#### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departure disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The company's financial statements are published on The Housing Finance Corporation's ("THFC's") website ([www.thfcorp.com](http://www.thfcorp.com)) and the directors are responsible for the maintenance and integrity of the website. However there is currently uncertainty regarding the legal requirements in publishing information on websites, compounded because information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.

The directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each director:

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

#### **CREDITOR PAYMENT POLICY**

The company's principal creditors are the holders of the Secured Bonds. Payments to the holders of the Secured Bonds are made in accordance with the underlying issue documents. As at the financial year end, no amounts due for payment to the holders of the Secured Bonds were outstanding.

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

**HARBOUR FUNDING PLC**

**DIRECTORS' REPORT (continued)**  
**Year ended 31 December 2007**

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**FINANCIAL RISK MANAGEMENT**

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

**AUDITORS**

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

**On behalf of the board**



For and on behalf of  
**T.H.F.C. (Services) Limited**  
Secretary

25 March 2008

## HARBOUR FUNDING PLC

### REPORT OF THE INDEPENDENT AUDITORS

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#### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HARBOUR FUNDING PLC

We have audited the financial statements of Harbour Funding Plc for the year ended 31<sup>st</sup> December 2007, which comprise the Income Statement, the Balance Sheet, the Cash Flow Statements, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

The maintenance and integrity of the website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors Report and consider the implications for our report if we become aware of any apparent misstatements within it.

#### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

#### **Opinion**

In our opinion:

## HARBOUR FUNDING PLC

### REPORT OF THE INDEPENDENT AUDITORS (continued)

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- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31<sup>st</sup> December 2007 and of its income and expenditure and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London  
25 March 2008

# HARBOUR FUNDING PLC

## INCOME STATEMENT

Year ended 31 December 2007

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		31 December 2007	31 December 2006
	Note	£	£
<b>OPERATING INCOME</b>			
Interest receivable and similar items	3	<b>14,608,399</b>	14,879,374
Costs receivable from borrowers		<b>71,523</b>	47,218
		<u><b>14,679,922</b></u>	<u>14,926,592</u>
<b>OPERATING EXPENDITURE</b>			
Operating charges		<b>84,503</b>	56,466
Interest payable	4	<b>14,595,419</b>	14,870,126
		<u><b>14,679,922</b></u>	<u>14,926,592</u>
<b>PROFIT BEFORE AND AFTER TAXATION</b>	5	<u><b>-</b></u>	<u>-</u>

The accompanying notes are an integral part of these financial statements.

All amounts relate to continuing activities.

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

There have been no changes in equity in the year, therefore no separate statement of changes in equity has been prepared.

**HARBOUR FUNDING PLC**

**BALANCE SHEET**  
**31 December 2007**

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<b>ASSETS</b>	Note	<b>2007</b> <b>£</b>	<b>2006</b> <b>£</b>
Loans	7	<b>275,971,307</b>	275,966,095
Other receivables	8	<b>3,771,508</b>	3,765,383
Cash and cash equivalents		<b>17,630</b>	31,993
<b>TOTAL ASSETS</b>		<b>279,760,445</b>	<b>279,763,471</b>
<b>LIABILITIES</b>			
Other payables	9	<b>3,776,638</b>	3,784,876
Financial liabilities – secured bonds	10	<b>275,971,307</b>	275,966,095
<b>CAPITAL AND RESERVES</b>			
Share capital	11	<b>12,500</b>	12,500
Profit and loss account		-	-
<b>TOTAL CAPITAL, RESERVES AND LIABILITIES</b>		<b>279,760,445</b>	<b>279,763,471</b>

The accompanying notes are an integral part of these financial statements.

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



Director

25 March 2008

# HARBOUR FUNDING PLC

## CASH FLOW STATEMENT Year ended 31 December 2007

	Note	Year to 31 December 2007 £	31 December 2006 £
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash used in operations	12	(27,343)	(10,839)
Interest received		14,603,540	14,599,808
Interest paid		(14,590,560)	(14,590,560)
Loans advanced		-	-
		<hr/>	<hr/>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>		<b>(14,363)</b>	<b>(1,591)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Net proceeds from issue of secured bonds		-	-
Net proceeds from issue of share capital		-	-
		<hr/>	<hr/>
<b>NET CASH GENERATED FROM FINANCING ACTIVITIES</b>		<b>-</b>	<b>-</b>
<b>NET (DECREASE) IN CASH IN THE PERIOD</b>		<b>(14,363)</b>	<b>(1,591)</b>
<b>CASH AT BANK AT 1 JANUARY</b>		<b>31,993</b>	<b>33,584</b>
		<hr/>	<hr/>
<b>CASH AT BANK AT 31 DECEMBER</b>		<b>17,630</b>	<b>31,993</b>
		<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

**1 ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

**Basis of accounting**

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and IFRIC interpretations and with those parts of the Companies Act, 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

**Segmental Analysis**

All operating income and expenditure is derived from activities undertaken in the United Kingdom.

**Interest**

Interest receivable on loans to RSLs and interest payable on the bonds is accounted for on an accruals basis.

**Cash and cash equivalents**

Cash and cash equivalents represent amounts on demand deposit.

**Loans to borrowers (“Loan”)**

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

**Secured Bonds**

Secured Bonds are stated at amortised cost.

**Prepayment**

Each loan agreement provides that any borrower may at any time purchase bonds at any price and following such a purchase the borrower is required to surrender the bonds to the issuer by way of prepayment of the borrower’s loan in an amount equal to the outstanding balance of the bonds being surrendered

**2 FINANCIAL RISK MANAGEMENT**

**Credit risk**

The company’s credit risk is mitigated by the following factors: The bonds have a strong investment grade rating, based upon the ability of the borrowers to meet their obligations under the bond. These ratings are subject to annual review and have remained at “AA-/Aa3” since inception. The bonds are secured on certain assets of the borrowers. All borrowers are subject to external regulation by The Housing Corporation. The trustee has the power to take control of the charged properties in certain pre-determined circumstances to protect cash flows to be used to satisfy obligations under the bonds.

**Liquidity risk**

To mitigate liquidity risk the company collects interest from borrowers four business days prior to payment to bondholders. Additionally borrowers maintain a debt service reserve fund with the bond trustee that approximates to one year's worth of interest payments that can be drawn upon in the event of a late payment.

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

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

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

**Interest rate risk**

The proceeds of the issue of the bonds were on-lent to the borrowers on terms that ensured the company was not exposed to any risk in changes of interest rates.

**3 INTEREST RECEIVABLE**

	<b>2007</b>	<b>2006</b>
	<b>£</b>	<b>£</b>
Bank interest	12,980	9,248
On loans to borrowers	14,590,560	14,865,685
Amortisation of net discount	4,859	4,441
	<u>14,608,399</u>	<u>14,879,374</u>

**4 INTEREST PAYABLE**

	<b>2007</b>	<b>2006</b>
	<b>£</b>	<b>£</b>
On 5.28% Secured Bonds due 2044	14,590,560	14,865,685
Amortisation of net discount	4,859	4,441
	<u>14,595,419</u>	<u>14,870,126</u>

**5 PROFIT BEFORE AND AFTER TAXATION**

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

**HARBOUR FUNDING PLC****NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**31 December 2007**

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	2007	2006
	£	£
Auditors' remuneration - audit services	4,759	5,709
	<u>4,759</u>	<u>5,709</u>
<b>6 EMPLOYEES</b>		
There were no employees during the year other than the directors.		
<b>7 LOANS</b>		
	2007	2006
	£	£
Original amount	276,336,361	276,336,361
Unamortised discount	(1,375,983)	(1,398,941)
Unamortised premium	1,005,717	1,023,816
Amortised cost	275,966,095	275,961,236
Current element of unamortised net discount	5,212	4,859
<b>Non-current amortised cost</b>	<u>275,971,307</u>	<u>275,966,095</u>
<b>8 OTHER RECEIVABLES</b>		
	2007	2006
	£	£
Interest receivable	3,717,595	3,717,595
Other debtors	21,483	23,861
Prepayments	27,218	19,068
Current element of unamortised net discount	5,212	4,859
	<u>3,771,508</u>	<u>3,765,383</u>
<b>9 OTHER PAYABLES</b>		
	2007	2006
	£	£
Interest payable	3,717,595	3,717,595
Other creditors	12,981	19,492
Accruals & deferred income	40,850	42,930
Current element of unamortised net discount	5,212	4,859
	<u>3,776,638</u>	<u>3,784,876</u>

## HARBOUR FUNDING PLC

### NOTES TO THE FINANCIAL STATEMENTS (continued) 31 December 2007

#### 10 FINANCIAL LIABILITIES – SECURED BONDS

	2007 £	2006 £
5.28% Secured Bonds due 2044		
Nominal	276,336,361	276,336,361
Unamortised discount	(1,375,983)	(1,398,941)
Unamortised premium	<u>1,005,717</u>	<u>1,023,816</u>
Amortised cost	275,966,095	275,961,236
Current element of unamortised net discount	<u>5,212</u>	<u>4,859</u>
<b>Non-current amortised cost</b>	<b><u><u>275,971,307</u></u></b>	<b><u><u>275,966,095</u></u></b>

The 5.28 % Secured Bonds are due between 2034 and 2044 and were issued in the following tranches:

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

The discount arising on 28 August 2003 was written off. The other discount/premium has been deducted from/added to the value of the loans and is amortised through the income statement over the period of the loans.

The net proceeds of the above issues were used to make loans to the borrowers. The bonds are repayable in full between 31 March 2034 and 31 March 2044.

Interest on the Bonds is payable half yearly in arrears.

#### 11 SHARE CAPITAL

	2007 £	2006 £
<i>Authorised</i>		
50,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
<i>Allotted, called up and part paid</i>		
50,000 ordinary shares of £1 each quarter paid	<u>12,500</u>	<u>12,500</u>

# HARBOUR FUNDING PLC

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2007

### 12 RECONCILIATION OF PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2007 £	2006 £
Net profit (loss)	-	-
Adjustments for:		
Interest receivable	(14,608,399)	(14,879,374)
Interest payable	14,595,419	14,870,126
Changes in working capital:		
Decrease/(increase) in debtors	(5,772)	8,504
(Decrease)/increase in creditors	(8,591)	(10,095)
	<u>(27,343)</u>	<u>(10,839)</u>

### 13 RECONCILIATION OF MOVEMENT IN NET FUNDS

	At 1 January 2007 £	Cash flow £	Non-cash Items £	At 31 December 2007 £
Cash at bank	31,993	(14,363)	-	17,630
Loans to borrowers	275,961,236	-	4,859	275,966,095
Secured bonds	(275,961,236)	-	(4,859)	(275,966,095)
	<u>31,993</u>	<u>(14,363)</u>	<u>-</u>	<u>17,630</u>

### 14 FINANCIAL INSTRUMENTS

The proceeds from the issue of the 5.28% Secured Bonds due 2044 were used to make loans to the borrowing RSLs. The interest charged on these loans to the borrowers is equal to the interest payable on the related Secured Bonds. Accordingly, the directors consider that the company is not subject to any risk on the fluctuation of interest rates.

The fair value of the 5.28% Secured Bonds due 2044, and associated loans, as at 31 December 2007 was £265,421,075 (2006: £292,391,504).

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

### 15 ULTIMATE PARENT COMPANY AND INCORPORATION

At 31 December 2007 the company's immediate and ultimate parent company was Harbour Funding (Holdings) Limited.

Neither the holding company nor any other person or entity has the power to amend the financial statements after issue.

Harbour Funding PLC is incorporated in the United Kingdom.

## HARBOUR FUNDING PLC

### NOTES TO THE FINANCIAL STATEMENTS (continued) 31 December 2007

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#### 16 CAPITAL COMMITMENTS

As at 31 December 2007 the company had no capital commitments (2006: £NIL).

#### 17 RELATED PARTY TRANSACTION

All administrative services are provided under a management agreement with T.H.F.C. (Services) Limited. The directors are employees of T.H.F.C. (Services) Limited. Management fees payable to T.H.F.C. (Services) Limited during the period amounted to £58,809 (2006: £55,580)

#### 18 TAXATION

The company incurred no tax liability in the year.