

**HARBOUR FUNDING PLC**

**Financial Statements**

**For the year ended 31 December 2008**

**HARBOUR FUNDING PLC**  
**Annual report and financial statements for the year ended 31 December 2008**

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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 2008**

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The directors submit their report and financial statements for the year ended 31 December 2008.

### **RESULTS AND DIVIDEND**

The company made neither a profit nor a loss 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 through the issue of bonds secured on the borrowers of the RSLs ("the Secured Bonds").

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.

All the company's operating costs, net of interest earned, are recoverable from borrowers. 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 throughout the period are as follows:

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

## **HARBOUR FUNDING PLC**

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

**Year ended 31 December 2008**

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

#### **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. Interest is payable on the bonds on 31 March and 30 September each year and hence no amounts were due for payment to the bond holders at the financial year end.

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

## HARBOUR FUNDING PLC

### DIRECTORS' REPORT (continued)

Year ended 31 December 2008

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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

29 June 2009

# 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 2008, 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.

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:

- 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 2008 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

**HARBOUR FUNDING PLC**

**REPORT OF THE INDEPENDENT AUDITORS (continued)**

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- the information given in the Directors' Report is consistent with the financial statements.

*PricewaterhouseCoopers LLP*  
PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London  
29 June 2009

# HARBOUR FUNDING PLC

## INCOME STATEMENT

Year ended 31 December 2008

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		31 December 2008	31 December 2007
	Note	£	£
<b>OPERATING INCOME</b>			
Interest receivable and similar items	3	<b>14,567,108</b>	14,608,399
Costs receivable from borrowers		<b>83,010</b>	71,523
		<b>14,650,118</b>	14,679,922
<b>OPERATING EXPENDITURE</b>			
Operating charges		<b>94,320</b>	84,503
Interest payable	4	<b>14,555,798</b>	14,595,419
		<b>14,650,118</b>	14,679,922
<b>PROFIT BEFORE AND AFTER TAXATION</b>	5	<b>-</b>	<b>-</b>

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 2008

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		2008	2007
		£	£
<b>ASSETS</b>	Note		
<b>Non-current assets</b>			
Loans	7	275,976,897	275,971,307
<b>Current assets</b>			
Other receivables	8	3,712,128	3,771,508
Cash and cash equivalents		32,748	17,630
<b>TOTAL ASSETS</b>		<b>279,721,773</b>	<b>279,760,445</b>
		<u><u>279,721,773</u></u>	<u><u>279,760,445</u></u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Other payables	9	3,732,376	3,776,638
<b>Non-current liabilities</b>			
Financial liabilities – secured bonds	10	275,976,897	275,971,307
<b>CAPITAL AND RESERVES</b>			
Share capital	11	12,500	12,500
Profit and loss account		-	-
<b>TOTAL CAPITAL, RESERVES AND LIABILITIES</b>		<b>279,721,773</b>	<b>279,760,445</b>
		<u><u>279,721,773</u></u>	<u><u>279,760,445</u></u>

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

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



Director

29 June 2009

# HARBOUR FUNDING PLC

## CASH FLOW STATEMENT Year ended 31 December 2008

	Note	Year to 31 December 2008 £	31 December 2007 £
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash (Generated from) operations	12	3,808	(27,343)
Interest received		14,601,870	14,603,540
Interest paid		(14,590,560)	(14,590,560)
Loans advanced		-	-
<b>NET CASH (GENERATED FROM) OPERATING ACTIVITIES</b>		<b>15,118</b>	<b>(14,363)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Net proceeds from issue of secured bonds		-	-
Net proceeds from issue of share capital		-	-
<b>NET CASH GENERATED FROM FINANCING ACTIVITIES</b>		<b>-</b>	<b>-</b>
<b>NET INCREASE IN CASH IN THE PERIOD</b>		<b>15,118</b>	<b>(14,363)</b>
<b>CASH AT BANK AT 1 JANUARY</b>		<b>17,630</b>	<b>31,993</b>
<b>CASH AT BANK AT 31 DECEMBER</b>		<b>32,748</b>	<b>17,630</b>

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, as adopted by the European Union, 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.

(a) Interpretations effective from 1 January 2008.

The following interpretations are mandatory for accounting periods beginning on or after 1 January 2008:

IFRIC 11, IFRS 2 – 'Company and treasury share transactions' is not relevant to the Company's operations because the Company does not operate any share schemes;

IFRIC 12, 'Service concession arrangements' is not relevant to the Company's operations because the Company does not provide public sector services; and

IFRIC 14, 'IAS 19 - The limit on a defined benefit asset' is not relevant to the Company's operations because the Company does not operate any defined benefit pension plans.

(b) Amendments to existing standards early adopted by the Company.

No amendments to existing standards have been early adopted by the Company in 2008.

(c) Standards, amendments and interpretations to existing standards that are not yet effective and are not considered material to the Company.

IAS 32 (amendment), 'Financial instruments: presentation' and IAS 1 (amendment), 'Presentation of financial statements' (effective from 1 January 2009).

IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective for accounting periods starting from 1 October 2008).

IAS 31 (amendment), 'Interests in joint ventures' (effective from 1 January 2009).

IFRIC 15, 'Agreements for construction of real estates' (effective from 1 January 2009).

IFRS 2 (amendment), 'Share-based payment' (effective from 1 January 2009).

IFRS 3 (revised), 'Business combinations' (effective for accounting periods starting from 1 July 2009).

IFRIC 13, 'Customer loyalty programmes' (effective for accounting periods starting from 1 July 2009).

There were also another 23 amendments made to different IAS's or IFRS's by the IASB in May 2008.

These all had an effective date from 1 January 2009 or 1 July 2009. None of these are expected to have a material impact on the Company.

### **Critical Accounting Judgements**

The preparation of financial statements in accordance with IFRSs requires the use of certain critical accounting adjustments, these require management's judgement in applying the accounting policies. The critical accounting judgement is deemed to be the recording of Secured Bonds and related Loans at amortised cost.

### **Segmental Analysis**

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

**Interest**

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

**Cash and cash equivalents**

Cash and cash equivalents represent amounts on demand deposit.

**Loans to borrowers (“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 loans are secured on certain assets of the borrowers. All borrowers are subject to external regulation by the Tenant Services Authority. The bond trustee has the power to take control of the charged properties in certain pre-determined circumstances to protect cash flows to be used to satisfy obligations under the bonds.

**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.

# HARBOUR FUNDING PLC

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2008

### Interest rate risk

The interest charged on the loans to the borrowers is fixed and is equal to the interest payable on the related Secured Bonds and hence there is no cash flow risk between the receipt and payment of interest. Accordingly, the directors consider that the company 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 company because (i) the Secured Bonds are held at amortised cost in the financial statements and (ii) the company expects to hold them until maturity.

### Currency risk

All financial assets and liabilities are denominated in sterling and hence there is no currency risk.

## 3 INTEREST RECEIVABLE

	2008 £	2007 £
Bank interest	11,310	12,980
On loans to borrowers	14,550,586	14,590,560
Amortisation of net discount	5,212	4,859
	<u>14,567,108</u>	<u>14,608,399</u>

## 4 INTEREST PAYABLE

	2008 £	2007 £
On 5.28% Secured Bonds due 2044	14,550,586	14,590,560
Amortisation of net discount	5,212	4,859
	<u>14,555,798</u>	<u>14,595,419</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:

	2008 £	2007 £
Auditors' remuneration for the audit of the company's annual accounts	<u>4,940</u>	<u>4,759</u>

# HARBOUR FUNDING PLC

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2008

### 6 EMPLOYEES

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

### 7 LOANS

	2008 £	2007 £
Original amount	276,336,361	276,336,361
Unamortised discount	(1,351,765)	(1,375,983)
Unamortised premium	<u>986,711</u>	<u>1,005,717</u>
Amortised cost	275,971,307	275,966,095
Current element of unamortised net discount	<u>5,590</u>	<u>5,212</u>
<b>Non-current amortised cost</b>	<b><u><u>275,976,897</u></u></b>	<b><u><u>275,971,307</u></u></b>

### 8 OTHER RECEIVABLES

	2008 £	2007 £
Interest receivable	3,677,621	3,717,595
Other debtors	-	21,483
Prepayments	28,917	27,218
Current element of unamortised net discount	<u>5,590</u>	<u>5,212</u>
	<b><u><u>3,712,128</u></u></b>	<b><u><u>3,771,508</u></u></b>

### 9 OTHER PAYABLES

	2008 £	2007 £
Interest payable	3,677,621	3,717,595
Other creditors	6,185	12,981
Accruals & deferred income	42,980	40,850
Current element of unamortised net discount	<u>5,590</u>	<u>5,212</u>
	<b><u><u>3,732,376</u></u></b>	<b><u><u>3,776,638</u></u></b>

# HARBOUR FUNDING PLC

## NOTES TO THE FINANCIAL STATEMENTS (continued) 31 December 2008

### 10 FINANCIAL LIABILITIES – SECURED BONDS

	2008 £	2007 £
5.28% Secured Bonds due 2044		
Nominal	276,336,361	276,336,361
Unamortised discount	(1,351,765)	(1,375,983)
Unamortised premium	986,711	1,005,717
Amortised cost	275,971,307	275,966,095
Current element of unamortised net discount	5,590	5,212
<b>Non-current amortised cost</b>	<b>275,976,897</b>	<b>275,971,307</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
	276,336,361	(422,954)

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

	2008 £	2007 £
<i>Authorised</i>		
50,000 ordinary shares of £1 each	50,000	50,000
<i>Allotted, called up and part paid</i>		
50,000 ordinary shares of £1 each quarter paid	12,500	12,500

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

	2008 £	2007 £
Net profit (loss)	-	-
Adjustments for:		
Interest receivable	(14,561,896)	(14,608,399)
Interest payable	14,550,586	14,595,419
Changes in working capital:		
Decrease/(increase) in debtors	19,784	(5,772)
(Decrease)/increase in creditors	(4,666)	(8,591)
	<u>19,784</u>	<u>(5,772)</u>
Cash (used in)/generated from operations	<u>3,808</u>	<u>(27,343)</u>

**13 RECONCILIATION OF MOVEMENT IN NET FUNDS**

	At 1 January 2008 £	Cash flow £	Non-cash Items £	At 31 December 2007 £
Cash at bank	17,630	15,118	-	32,748
Loans to borrowers	275,966,095	-	5,212	275,971,307
Secured bonds	(275,966,095)	-	5,212	(275,971,307)
	<u>17,630</u>	<u>(15,118)</u>	<u>-</u>	<u>32,748</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 2008 was £221,759,930 (2007: £265,421,075). Fair value is derived from the market value of the bonds at that date.

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

**15 ULTIMATE PARENT COMPANY AND INCORPORATION**

At 31 December 2008 the company's immediate and ultimate parent company was Harbour Funding (Holdings) Limited.

## **HARBOUR FUNDING PLC**

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

**31 December 2008**

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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.

#### **16 CAPITAL COMMITMENTS**

As at 31 December 2008 the company had no capital commitments (2007: £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 £60,921 (2007: £58,809)

#### **18 TAXATION**

The company incurred no tax liability in the year.