

SUNDERLAND (SHG) FINANCE PLC

Financial Statements

**Year ended
31 December 2008**

SUNDERLAND (SHG) FINANCE 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

4th Floor
107 Cannon Street
London
EC4N 5AF

Company Number

4226284

Auditors

PricewaterhouseCoopers LLP
80 Strand
London
WC2R 0AF

SUNDERLAND (SHG) FINANCE PLC

DIRECTORS' REPORT

Year ended 31 December 2008

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 borrowings of the RSLs ("the secured Bonds"). The company issued its first Secured Bonds to provide such finance on 26 June 2002. The borrowing RSL of the company is Sunderland Housing Company Limited. The loan to Sunderland Housing Company is made through T.H.F.C. (Capital) PLC which acts as an aggregating intermediary for loans to Sunderland Housing Company.

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

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

Sunderland (SHG) Finance Plc is a public limited company incorporated and domiciled in the United Kingdom. 49,999 shares of the company are held by Sunderland (SHG) Finance Holdings Limited. 1 share is held by Prudential Trustee Company Limited.

The directors have no beneficial interest in the share capital of Sunderland (SHG) Finance Holdings Limited.

DIRECTORS

The directors who served during the period are as follows:

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

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

SUNDERLAND (SHG) FINANCE PLC

DIRECTORS' REPORT (continued)

Year ended 31 December 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year 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) 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 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.

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.

FINANCIAL RISK MANAGEMENT

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

SUNDERLAND (SHG) FINANCE PLC

DIRECTORS' REPORT (continued)

Year ended 31 December 2008

AUDITORS

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution that they be reappointed 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

SUNDERLAND (SHG) FINANCE PLC

REPORT OF THE INDEPENDENT AUDITORS

Year ended 31 December 2008

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SUNDERLAND (SHG) FINANCE PLC

We have audited the financial statements of Sunderland (SHG) Finance Plc for the year ended 31st 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 31st December 2008 and of its income and expenditure and cash flows for the year then ended; and

SUNDERLAND (SHG) FINANCE PLC

REPORT OF THE INDEPENDENT AUDITORS (continued)
Year ended 31 December 2008

- 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
29 June 2009

SUNDERLAND (SHG) FINANCE PLC

INCOME STATEMENT

Year ended 31 December 2008

	Note	2008 £	2007 £
OPERATING INCOME			
Interest receivable and similar items	3	15,290,507	15,294,526
Costs receivable from borrower		<u>8,381</u>	<u>5,816</u>
		<u>15,298,888</u>	<u>15,300,342</u>
OPERATING EXPENDITURE			
Operating charges		18,788	20,242
Interest payable and similar items	4	<u>15,280,100</u>	<u>15,280,100</u>
		<u>15,298,888</u>	<u>15,300,342</u>
PROFIT BEFORE AND AFTER TAXATION	5	<u>-</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.

SUNDERLAND (SHG) FINANCE PLC

BALANCE SHEET

Year ended 31 December 2008

	Note	2008 £	2006 £
ASSETS			
Non-current assets			
Loan	7	239,500,000	239,500,000
Current assets			
Other receivables	8	3,862,354	3,862,136
Cash and cash equivalents		12,500	12,500
TOTAL ASSETS		243,374,854	243,374,636
LIABILITIES			
Current liabilities			
Other payables	9	3,862,354	3,862,136
Non-current liabilities			
Financial liabilities – secured bonds	10	239,500,000	239,500,000
CAPITAL AND RESERVES			
Share capital	11	12,500	12,500
Profit and loss account		-	-
TOTAL CAPITAL, RESERVES AND LIABILITIES		243,374,854	243,374,636

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

SUNDERLAND (SHG) FINANCE PLC

CASHFLOW STATEMENT
Year ended 31 December 2008

	Note	2008 £	2007 £
NET CASH FLOW FROM OPERATING ACTIVITIES			
Cash used in operations	12	(10,407)	(14,426)
Interest received		15,290,507	15,294,526
Interest paid on bond		(15,280,100)	(15,280,100)
NET CASH FLOW FROM OPERATING ACTIVITIES		<u>-</u>	<u>-</u>
NET INCREASE IN CASH IN THE YEAR		<u>-</u>	<u>-</u>
CASH AT BANK AT 1 JANUARY		12,500	12,500
CASH AT BANK AT 31 DECEMBER		<u><u>12,500</u></u>	<u><u>12,500</u></u>

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.

(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.

Interest

Interest receivable on the loan to the RSL 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.

Loan to borrower (“Loan”)

The loan is 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 the ultimate borrower four business days prior to payment to bondholders. Additionally the borrower maintains 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.

The loan repayments by the borrowing RSL commence four business days before 31 March 2022. The repayments are calculated on an annuity basis with the final repayment being made four business days before 31 March 2042. Interest is receivable half yearly in arrears at an amount equal to the interest falling due for payment by the company on the Secured Bonds.

Interest on the Bonds is payable half yearly in arrears. As from 31 March 2022, each half yearly payment will be increased to include a capital element in order to redeem part of the principal amount of the Bonds.

NOTES ON 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	10,407	14,426
On loan to borrower	15,280,100	15,280,100
	<u>15,290,507</u>	<u>15,294,526</u>

4 INTEREST PAYABLE

	£	£
On 6.38% Secured Bonds 2042	<u>15,280,100</u>	<u>15,280,100</u>

5 PROFIT BEFORE AND AFTER TAXATION

The profit before 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>

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.

SUNDERLAND (SHG) FINANCE PLC

NOTES ON THE FINANCIAL STATEMENTS (continued)
31 December 2008

7 LOAN

Amortised cost	£
At 31 December 2008 and at 31 December 2007	<u>239,500,000</u>

8 OTHER RECEIVABLES

	2008 £	2007 £
Interest receivable	3,851,422	3,851,422
Prepayments	2,053	2,086
Other debtors	8,879	8,628
	<u>3,862,354</u>	<u>3,862,136</u>

9 OTHER PAYABLES

	2008 £	2007 £
Interest payable	3,851,422	3,851,422
Accruals & deferred income	10,932	10,714
	<u>3,862,354</u>	<u>3,862,136</u>

10 FINANCIAL LIABILITIES – SECURED BONDS

	2008 £	2007 £
6.38% Secured Bonds 2042	<u>239,500,000</u>	<u>239,500,000</u>

The 6.38% secured bonds which are repayable between 31 March 2022 and 31 March 2042 were issued as follows:

	Nominal Value £	Premium £
26 June 2001	<u>239,500,000</u>	<u>94,363</u>

The proceeds of the above issue of £239,594,363 were used to make loans to the borrowing RSL via T.H.F.C. (Capital) PLC. All issue costs relating to the issue of these Secured Bonds were met directly by the borrowing RSL.

As the premium on issue was immaterial to the loan value it was credited to the profit and loss account on issue rather than amortised over the life of the loan.

SUNDERLAND (SHG) FINANCE PLC

NOTES ON THE FINANCIAL STATEMENTS (continued)

31 December 2008

11 SHARE CAPITAL

	2008 £	2007 £
<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 of which 25p per share is paid	<u>12,500</u>	<u>12,500</u>

12 RECONCILIATION OF PROFIT TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2008 £	2007 £
Net profit/(loss)	-	-
Adjustments for:		
Interest receivable	(15,290,507)	(15,294,526)
Interest payable	15,280,100	15,280,100
Changes in working capital:		
Decrease in debtors	(219)	5,127
(Increase) in creditors	219	(5,127)
Cash (used in) operations	<u>(10,407)</u>	<u>(14,426)</u>

13 RECONCILIATION OF MOVEMENT IN NET FUNDS

	At 1 January 2008 £	Cash flow £	At 31 December 2008 £
Cash at bank	12,500		12,500
Loan to borrower	239,500,000	-	239,500,000
Debt due after one year	<u>(239,500,000)</u>	-	<u>(239,500,000)</u>
	<u>12,500</u>	-	<u>12,500</u>

14 ULTIMATE PARENT COMPANY AND INCORPORATION

At 31 December 2008 the company's immediate and ultimate parent company was Sunderland (SHG) Finance Holdings Limited, a company incorporated in the United Kingdom.

14 ULTIMATE PARENT COMPANY AND INCORPORATION *(continued)*

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

Sunderland (SHG) Finance PLC is incorporated in the United Kingdom.

15 FINANCIAL INSTRUMENTS

As referred to in note 10, the proceeds from the issue of the 6.38% Secured Bonds 2042 were used to make a loan to the borrowing RSL. The interest charged on the loan to the borrower 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 6.38% Secured Bonds 2042, and associated loan, as at 31 December 2008 was £224,866,550 (2007: £271,027,780). 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.

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 current 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 £5,669 (2007: £5,440).

18 TAXATION

The company has incurred no tax liability in the year.