

HARBOUR FUNDING PLC
Annual Report and Financial Statements
For the year ended 31 December 2016
Companies House no: 04865683

HARBOUR FUNDING PLC

Annual report and Financial Statements for the year ended 31 December 2016

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Directors

C. Burke
F. Edge
I. Peacock
P. Williamson

Company Secretary

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

Registered Office

4th Floor
107 Cannon Street
London
EC4N 5AF

Company Number

04865683

Independent Auditor

Nexia Smith & Williamson Audit Limited
Chartered Accountants and Statutory Auditor
25 Moorgate
London
EC2R 6AY

HARBOUR FUNDING PLC

DIRECTORS' REPORT

Year ended 31 December 2016

The directors submit their Directors' report, Strategic report and audited financial statements for the year ended 31 December 2016.

RESULTS AND DIVIDEND

Harbour Funding Plc ("the company") made neither a profit nor a loss for the year. The directors do not propose the payment of a dividend (2015: £Nil). The directors consider the position of the company at the year end to be satisfactory.

SHARE CAPITAL AND COMPANY STRUCTURE

Harbour Funding Plc is a public limited company incorporated and domiciled in the England and Wales. 49,999 shares of the company are held by Harbour Funding (Holdings) Limited. One share is held by T.H.F.C. (Services) Limited on a fiduciary basis for the benefit of qualified charities.

DIRECTORS

The directors of the company who served throughout the year and up to the date of signing the financial statements were:

C. Burke
F. Edge
I. Peacock
P. Williamson

CORPORATE GOVERNANCE

As an issuer of asset-backed securities (the secured bonds), the operations of the company are conducted by an administrator, T.H.F.C. (Services) Limited, in accordance with the requirements of a corporate services agreement and the trust deed. This arrangement is monitored by the board of directors who are also directors of the administrator. There is no requirement for a separate audit committee.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and

HARBOUR FUNDING PLC

DIRECTORS' REPORT (continued) Year ended 31 December 2016

- 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 are responsible for the maintenance and integrity of any information published on the administrator's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DISCLOSURE OF INFORMATION TO AUDITOR

In the case of each director in office at the date the Directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is 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 auditor is aware of that information.

This report was approved by the board and signed on its behalf by:



Colin Burke
T.H.F.C. (Services) Limited
Company Secretary
9 June 2017

HARBOUR FUNDING PLC

STRATEGIC REPORT

Year ended 31 December 2016

PRINCIPAL ACTIVITIES

The company was incorporated on 13 August 2003. The principal activity of the company is to provide finance for housing associations ("HAs") registered under The Housing Act 1996 through the issue of bonds secured on the assets of the company ("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 of which were lent to HAs ("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 HAs of the company are:

First Wessex

The Guinness Partnership Limited (formerly known as Hermitage Housing Association Limited)

North Hertfordshire Homes Limited

Prudential Trustee Company Limited acts as the trustee on behalf of all secured bondholders, under the terms of a trust deed, and has the benefit of a fixed charge over certain assets of the borrowers and a floating charge over all the assets of the company.

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, which have a final repayment date of 2044.

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

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The company has fulfilled its obligations under the bonds. Given the straight forward nature of the business, the company's directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance or position of the business. The directors consider the position of the company at the year end to be satisfactory.

FINANCIAL RISK MANAGEMENT

. The key financial risks of the company and how they are managed are explained in note 3.

This report was approved by the board and signed on its behalf by:



Colin Burke
T.H.F.C. (Services) Limited
Company Secretary
9 June 2017

HARBOUR FUNDING PLC

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HARBOUR FUNDING PLC Year ended 31 December 2016

We have audited the financial statements of Harbour Funding Plc for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 pages 1 to 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC'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 FRC's website at 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 December 2016 and of its result for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with those financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

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.

HARBOUR FUNDING PLC

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HARBOUR FUNDING PLC
(continued)

Year ended 31 December 2016

Nexia Smith & Williamson

Guy Swarbreck
Senior Statutory Auditor, for and on behalf of
Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants

25 Moorgate
London
EC2R 6AY
12 June 2017

HARBOUR FUNDING PLC**STATEMENT OF COMPREHENSIVE INCOME**

Year ended 31 December 2016

	Note	2016 £	2015 £
OPERATING INCOME			
Interest receivable	4	10,903,759	11,061,318
Costs receivable from borrowers		116,343	116,073
		<u>11,020,102</u>	<u>11,177,391</u>
OPERATING EXPENDITURE			
Interest payable	5	10,903,759	11,061,318
Operating expenses	6	116,343	116,073
		<u>11,020,102</u>	<u>11,177,391</u>
RESULT BEFORE AND AFTER TAXATION	7	-	-
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>-</u>	<u>-</u>

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

HARBOUR FUNDING PLC

STATEMENT OF FINANCIAL POSITION As at 31 December 2016

ASSETS	Note	2016 £	2015 £
Non-current assets			
Loans to borrowers	9	206,041,129	206,031,303
Current assets			
Other receivables	10	2,802,679	2,799,504
Cash and cash equivalents		23,071	23,698
TOTAL ASSETS		<u>208,866,879</u>	<u>208,854,505</u>
EQUITY AND LIABILITIES			
Current liabilities			
Other payables	11	2,813,250	2,810,702
Non-current liabilities			
Financial liabilities – secured bonds	12	206,041,129	206,031,303
TOTAL LIABILITIES		<u>208,854,379</u>	<u>208,842,005</u>
Equity attributable to owners of the parent			
Share capital	13	12,500	12,500
Retained earnings		-	-
TOTAL EQUITY		<u>12,500</u>	<u>12,500</u>
TOTAL EQUITY AND LIABILITIES		<u>208,866,879</u>	<u>208,854,505</u>

The accompanying notes on pages 9 - 19 are an integral part of these financial statements.

These financial statements on pages 6 - 19 were approved by the board and signed on its behalf by:



Piers Williamson
Director
9 June 2017

Harbour Funding Plc

Registered number 04865683

HARBOUR FUNDING PLC**STATEMENT OF CASH FLOWS**
Year ended 31 December 2016

	Note	2016 £	2015 £
NET CASH FLOW FROM OPERATING ACTIVITIES			
Cash (used in) operations	14	(627)	(183)
Interest received on loans		10,903,759	11,107,141
Interest paid on bonds		(10,903,759)	(11,107,141)
		<u>(627)</u>	<u>(183)</u>
NET CASH (USED IN) OPERATING ACTIVITIES			
		(627)	(183)
NET DECREASE IN CASH AND CASH EQUIVALENTS IN THE YEAR			
CASH AND CASH EQUIVALENTS AT 1 JANUARY		<u>23,698</u>	<u>23,881</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		<u><u>23,071</u></u>	<u><u>23,698</u></u>

1 GENERAL INFORMATION

Harbour Funding Plc (“the company”) provides finance for housing associations (“HAs”). The company is a public limited company, limited by shares which has secured bonds listed on the Main Market of the London Stock Exchange. It is incorporated under the Companies Act 2006 and domiciled in England and Wales. The address of the registered office is 4th Floor, 107 Cannon Street, London, EC4N 5AF.

The company on-lent the proceeds of the issue of the secured bonds to HAs (“the borrowers”).

2 ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, applied in accordance with the provisions of the Companies Act 2006.

The financial statements have been prepared under the historical cost convention.

Changes in accounting policies and disclosures

(a) New and amended Standards and Interpretations adopted by the company

In the current year, the following new and amended Standards and Interpretations have been adopted by the company:

- **Amendments to IAS 1: Presentation of Financial Statements:** The amendments address some of the concerns expressed about existing presentation and disclosure requirements relating to the use of judgement when preparing their financial statements.

The adoption of these amendments has not had a material impact on the reported results or financial position of the company and has not given rise to any additional disclosure requirements.

(b) New and amended Standards and Interpretations mandatory for the first time for the financial year beginning 1 January 2016 but not currently relevant to the company

Other standards effective or amended in the year have not had a material impact on the reported results or financial position of the company.

(c) New and amended Standards and Interpretations issued but not effective for the financial year beginning 1 January 2016.

- **IAS 7 Statement of Cash Flows Disclosure Initiative (Effective 1 January 2017, not yet endorsed by EU):** The amendments respond to requests from investors for improved disclosures about changes in liabilities arising from financing activities by introducing a reconciliation of debt balances.
- **IFRS 9 Financial Instruments (Effective 1 January 2018):** This deals with the classification, measurement and impairment of financial assets and financial liabilities.

- IFRS 15 Revenue from Contracts with Customers (Effective 1 January 2018): The standard represents a single revenue recognition standard to be applied across various industries. The standard replaces IAS 18 Revenue.

The directors are currently assessing the impact and timing of adoption of these Standards on the company's results and financial position.

The effect of all other new and amended Standards and Interpretations which are in issue but not yet mandatorily effective is not expected to be material.

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 main critical accounting judgement in preparing these financial statements is the evaluation as to whether the loans to HAs are impaired. The directors have concluded there is no objective evidence of any such impairment in the current year. As the company is not subject to any net credit risk any impairment would be matched by a similar adjustment to the gross liability.

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.

Interest

Interest receivable on loans to HAs and interest payable on the secured bonds is accounted for using the effective interest rate method. Any premiums/discounts on issue are added to/deducted from the original loan amount or secured bond nominal value and charged/credited to the statement of comprehensive income over the expected life of the loan or bond using the effective interest rate method so that the interest receivable and payable, as adjusted for the amortisation of premiums/discounts, gives a constant yield to maturity.

Cash and cash equivalents

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

Loans to borrowers ('loans')

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

Secured bonds

Secured bonds are stated at amortised cost. Any premium or discount on issue is added to/deducted from the nominal value of the secured bonds and charged or credited to the statement of comprehensive income over the expected life of the secured bonds so that the interest charge as adjusted for the amortisation of premium/discount gives a constant yield to maturity. Secured bonds are recognised in the financial statements as a liability when the proceeds are received.

Netting

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

Fair Values

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

IFRS 13 *Fair value measurement* requires an entity to classify for disclosure purposes its financial instruments held at amortised cost according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

Quoted market prices – Level 1

Financial instruments are classified as Level 1 if their value is observable in an active market. Fair values for such instruments are reported by reference to unadjusted quoted prices for identical assets or liabilities where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis.

Valuation technique using observable inputs – Level 2

Financial instruments classified as Level 2 are fair valued using models whose inputs (for example, interest rates and credit spreads) are observable in an active market.

Valuation technique using significant unobservable inputs – Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data. The company has no instruments classified in Level 3 (2015: none).

The company's secured bonds are tradable but the markets are not considered to be active. Accordingly market prices of the reference gilts have been adjusted for an appropriate credit spread to arrive at a fair value (Level 2 valuation). The fair value of the associated fixed rate loan is similarly adjusted for appropriate credit spreads (Level 2 valuation).

Prepayment

It is expected that each loan will run to maturity however 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 company by way of prepayment of the borrower's loan in an amount equal to the outstanding balance of the bonds being surrendered. The prepaid amount of the loan and the equivalent bond nominal amount is removed from the statement of financial position on delivery of the Deed of Surrender.

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 HAs. Other relevant segmental information is given in note 19.

3 FINANCIAL RISK MANAGEMENT

The proceeds from the issue of the 5.28% secured bonds due 2044 were used to make loans to HAs.

Credit risk

The company is subject to gross credit risk on its loans but no net risk.

The ability of the company to make payments of interest, principal and any other sums due in respect of the bonds will depend on the issuer receiving like amounts from the borrowers under their loan agreements.

To the extent that the company does not receive sufficient amounts in respect of such loan agreements (whether in the ordinary course of business, following the enforcement of its security obtained in respect of each loan agreement or otherwise) then the company will not have sufficient monies to pay interest, principal or other sums due in respect of the bonds. Non-payment by the company may not necessarily constitute an event of default under the bonds.

The carrying value of the loans represents the maximum exposure to gross credit risk. No loans are past due or impaired at 31 December 2016 (2015: None).

Gross credit risk on the loans is mitigated by the collateral arrangements described below:

The secured bonds are rated "A1/AA-" by Moody's Investor Service and Standard & Poor's at 31 December 2016 (2015: "A1/AA").

On 28 April 2017 Standard & Poor's placed the rating of the bonds on credit watch with negative implications. This arose from changes in the housing association sector, both in terms of economic fundamentals and government policies, which puts potential pressure on cash flow generation from the social housing assets secured to the bond.

Collateral arrangements

The company's gross credit risk is mitigated by the following factors. The loans are secured by way of a fixed charge over certain assets of the borrowers. All borrowers are subject to external regulation by the Homes and Communities Agency.

Each borrower has provided a first legal mortgage over property owned or leased by the borrower to ensure that the debt is adequately serviced from the relevant assets through to maturity in the event of a default.

As the on-going cash flow from the underlying security is the key component to securing the transaction, measurement of the book value and fair value of the secured properties is not required by the transaction documentation. For this reason it would not be practical or cost effective to obtain this information on an annual basis.

Prudential Trustee Company Limited acts as the trustee on behalf of all secured bondholders (the bond trustee), under the terms of a trust deed, and has the benefit of a fixed charge over certain assets of the borrowers and a floating charge over all the assets of the company.

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 which amounts to a minimum of 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. The maturity analysis of financial liabilities is given in note 12.

As with credit risk to the extent that the company does not receive sufficient amounts in respect of the loan agreements (whether in the ordinary course of business, following the enforcement of its security obtained in respect of each loan agreement or otherwise) then the company will not have sufficient monies to pay interest, principal or other sums due in respect of the bonds. Non-payment by the company may not necessarily constitute an event of default under the bonds.

Interest rate risk

The interest charged on the loans 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 gross 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 loans and 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.

4 INTEREST RECEIVABLE

	2016 £	2015 £
On loans to borrowers	10,894,560	11,050,647
Amortisation of net discount	9,199	10,671
	<u>10,903,759</u>	<u>11,061,318</u>

HARBOUR FUNDING PLC

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2016

5 INTEREST PAYABLE

	2016 £	2015 £
On 5.28% secured bonds due 2034/2044	10,894,560	11,050,647
Amortisation of net discount	9,199	10,671
	<u>10,903,759</u>	<u>11,061,318</u>

6 OPERATING EXPENSES

Operating charges comprise management fees payable to T.H.F.C. (Services) Limited and other professional services fees.

7 RESULT BEFORE AND AFTER TAXATION

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

	2016 £	2015 £
Fees paid to current auditor for annual audit of financial statements – current year	<u>7,374</u>	<u>7,230</u>

8 EMPLOYEES

There were no employees during the year other than the directors (2015: Nil). The directors received no remuneration during the year directly from the company in respect of their qualifying services (2015: £Nil). All directors are remunerated by T.H.F.C. (Services) Limited for their services to the company. It is not practicable to obtain the relevant data to accurately disclose the company's share of this cost.

9 LOANS TO BORROWERS

	2016 £	2015 £
Loan amount	206,336,361	206,336,361
Unamortised discount	(1,093,793)	(1,131,474)
Unamortised premium	<u>788,736</u>	<u>817,218</u>
Amortised cost	206,031,303	206,022,105
Net discount due within one year	<u>9,826</u>	<u>9,198</u>
Non-current amortised cost	<u>206,041,129</u>	<u>206,031,303</u>

Collateral arrangements are set out in note 3.

HARBOUR FUNDING PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)
Year ended 31 December 2016

10 OTHER RECEIVABLES

	2016 £	2015 £
Net discount on loans due within one year	9,826	9,198
Interest receivable	2,746,026	2,746,026
Other receivables	7,884	7,740
Prepaid expenses	38,943	36,540
	<u>2,802,679</u>	<u>2,799,504</u>

11 OTHER PAYABLES

	2016 £	2015 £
Net discount on secured bonds due within one year	9,826	9,198
Interest payable	2,746,026	2,746,026
Other payables	10,571	11,198
Accruals	46,827	44,280
	<u>2,813,250</u>	<u>2,810,702</u>

12 FINANCIAL LIABILITIES – SECURED BONDS

	2016 £	2015 £
5.28% secured bonds due 2034/ 2044		
Nominal amount	206,336,361	206,336,361
Unamortised discount	(1,093,794)	(1,131,474)
Unamortised premium	788,736	817,218
Amortised cost	<u>206,031,303</u>	<u>206,022,105</u>
Net discount due within one year	9,826	9,198
Non-current amortised cost	<u>206,041,129</u>	<u>206,031,303</u>

Details of security are set out in note 3.

HARBOUR FUNDING PLC

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2016

The 5.28% secured bonds are listed and are repayable 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>
Prepayment	(70,000,000)	-
	<u><u>206,336,361</u></u>	<u><u>(422,954)</u></u>

The net discount and cumulative amortisation at the beginning of the year was £314,257 and £108,697 (2015: £324,927 and £98,027) respectively. Amortisation charged during the year was £9,199 (2015: £10,670).

The discount arising on 28 August 2003 was charged to the statement of comprehensive income on issue because the amount was not significant in relation to nominal value and had no impact on the effective interest rate. The other discount/premium has been deducted from/added to the value of the secured bonds and is amortised through the statement of comprehensive income over the life of the secured bonds.

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

Interest on the secured bonds is payable half yearly in arrears.

Contractual cash flows on secured bonds

2016	Due within one year £	Due within one to two years £	Due within two to five years £	Due in over five years £	Total 2016 £
Principal	-	-	-	206,336,361	206,336,361
Interest	<u>10,894,560</u>	<u>10,894,560</u>	<u>32,683,680</u>	<u>136,181,998</u>	<u>190,654,798</u>
Total	<u><u>10,894,560</u></u>	<u><u>10,894,560</u></u>	<u><u>32,683,680</u></u>	<u><u>342,518,359</u></u>	<u><u>396,991,159</u></u>

HARBOUR FUNDING PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)
Year ended 31 December 2016

2015	Due within one year £	Due within one to two years £	Due within two to five years £	Due in over five years £	Total 2015 £
Principal	-	-	-	206,336,361	206,336,361
Interest	10,894,560	10,894,560	32,683,680	147,076,558	201,549,358
Total	10,894,560	10,894,560	32,683,680	353,412,919	407,885,719

13 SHARE CAPITAL

	2016 £	2015 £
<i>Allotted and part paid</i> 50,000 (2015: 50,000) ordinary shares of £1 each quarter paid	<u>12,500</u>	<u>12,500</u>

The company's capital comprises only its share capital which the directors consider adequate for its ongoing working capital requirements in relation to its obligations under the bonds. The company is not subject to externally imposed capital requirements.

14 RECONCILIATION OF RESULT BEFORE TAXATION TO CASH (USED IN) OPERATIONS

	2016 £	2015 £
Result before tax		
Adjustments for:		
Interest receivable	(10,903,759)	(11,061,318)
Interest payable	10,903,759	11,061,318
Changes in working capital:		
(Increase) / decrease in receivables	(2,547)	4,076
Increase / (decrease) in payables	1,920	(4,259)
Cash (used in) operations	<u>(627)</u>	<u>(183)</u>

15 FAIR VALUES OF FINANCIAL INSTRUMENTS

The Level 2 fair value of the 5.28% secured bonds due 2034/2044 and associated loans, as at 31 December 2016 are shown below. The fair value is derived from the market value of the reference gilts at that date. There is no difference between the fair value and carrying value of all other financial assets and liabilities.

	2016		2015	
	Carrying value	Fair value	Carrying value	Fair value
	£	£	£	£
Financial assets:				
<i>Classified as loans & receivables</i>				
Loans to borrower(s)				
Non-current	206,041,129		206,031,303	
Current	(9,826)		(9,198)	
Total	206,031,303	267,896,763	206,022,105	238,380,709
Interest receivable	2,746,026	2,746,026	2,746,026	2,746,026
Other receivables	7,884	7,884	7,740	7,740
Total financial assets	208,785,213	270,650,673	208,775,871	241,134,475
Financial liabilities:				
<i>Classified as financial liabilities at amortised cost</i>				
Secured bonds				
Non-current	206,041,129		206,031,303	
Current	(9,826)		(9,198)	
Total	206,031,303	267,896,763	206,022,105	238,380,709
Interest payable	2,746,026	2,746,026	2,746,026	2,746,026
Other payables and accruals	57,398	57,398	55,478	55,478
Total financial liabilities	208,834,727	270,700,187	208,823,609	241,182,213

16 ULTIMATE PARENT COMPANY

At 31 December 2016 the company's immediate and ultimate parent company was Harbour Funding (Holdings) Limited, a company incorporated in the United Kingdom. Harbour Funding (Holdings) Limited is the only company to prepare consolidated financial statements which include the company. The entire share capital of Harbour Funding (Holdings) Limited is held by a share trustee under a declaration of trust on behalf of qualified charities. Copies of the group financial statements may be obtained from the Company Secretary's office c/o T.H.F.C. (Services) Limited, 4th Floor, 107 Cannon Street, London EC4N 5AF.

HARBOUR FUNDING PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2016

17 RELATED PARTY TRANSACTIONS

All administrative services are provided under a management agreement with T.H.F.C. (Services) Limited, a subsidiary of The Housing Finance Corporation Limited. The directors are employees of T.H.F.C. (Services) Limited. Management fees payable to T.H.F.C. (Services) Limited during the year amounted to £77,253 (2015: £76,311). Amounts due from T.H.F.C. (Services) Limited at 31 December 2016 amounted to £19,581 (2015: £19,224).

The company has granted security in favour of Prudential Trustee Company Limited (“the bond trustee”) to secure the bonds and other monies under the terms of a trust deed dated 28 August 2003 (as amended by supplemental agreements). Fees payable to the trustee for the year amounted to £7,750 (2015: £7,651). Amounts due from the bond trustee at 31 December 2016 amounted to £5,230 (2015: £5,135).

18 TAXATION

The company has incurred no tax liability in the current year or prior year.

19 SEGMENTAL INFORMATION

Details of borrowers whose total interest payable to the company exceeds 10% of the total interest receivable for the year are given below.

Borrower	2016	2015
	%	%
North Hertfordshire Housing Association Limited	42	42
First Wessex	36	36
The Guinness Partnership Limited	22	22
Total	100	100

20 SECURITY OFFERED TO INVESTORS

Harbour Funding Plc is a special purpose vehicle and the security offered to investors is limited only to the assets of the company being principally the secured loans and share capital. The shareholders of the company’s parent, Harbour Funding (Holdings) Limited, cannot be held liable for the debts of the company in the event of insolvency.

