

**SUNDERLAND (SHG) FINANCE PLC**

**Annual Report and Financial Statements**

**For the year ended 31 December 2015**

# SUNDERLAND (SHG) FINANCE PLC

## Annual report and financial statements for the year ended 31 December 2015

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### Directors

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

### Company Secretary

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

### Registered Office

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

### Company Number

04226284

### Independent Auditor

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

## **SUNDERLAND (SHG) FINANCE PLC**

### **DIRECTORS' REPORT** **Year ended 31 December 2015**

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The directors submit their Directors' report, Strategic report and audited financial statements for the year ended 31 December 2015.

#### **RESULTS AND DIVIDEND**

Sunderland (SHG) Finance Plc (the "Company") made neither a profit nor a loss for the year. The directors do not propose the payment of a dividend.

#### **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. One share is held by Prudential Trustee Company Limited on a fiduciary basis.

#### **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. There is no requirement for a separate audit committee.

The administrator and its parent have established an organisational structure with clearly defined levels of authority and division of responsibility; a comprehensive system of budgeting and reporting; and policies and procedures relating to managing credit and liquidity risks. The Board of Directors of the Company monitors the application of this framework to the Company's financial reporting process.

#### **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;

## SUNDERLAND (SHG) FINANCE PLC

### DIRECTORS' REPORT (continued)

Year ended 31 December 2015

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- 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
- 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 the Company'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.

By order of the board



Colin Burke  
of T.H.F.C. (Services) Limited  
**Company Secretary**  
28 April 2016

## SUNDERLAND (SHG) FINANCE PLC

### STRATEGIC REPORT

Year ended 31 December 2015

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#### PRINCIPAL ACTIVITIES

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 ultimately secured on the assets of the Company (the “Secured Bonds”). The Company issued its first Secured Bonds to provide such finance on 26 June 2001. The Company on-lent the proceeds to Gentoo Group Limited (“GGL”) via T.H.F.C. (Capital) Plc (“THFCC”) (the “Borrower”) which is an aggregating intermediary for loans to GGL.

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, which have a final repayment date of 2042.

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 and expects to do so for the foreseeable future. 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 principal risks and uncertainties facing the Company relate to financial risks. The key financial risks of the Company and how they are minimised are explained in Note 3.

By order of the board



Colin Burke  
of T.H.F.C. (Services) Limited  
**Company Secretary**  
28 April 2016

## SUNDERLAND (SHG) FINANCE PLC

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SUNDERLAND (SHG) FINANCE PLC

Year ended 31 December 2015

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We have audited the financial statements of Sunderland (SHG) Finance Plc for the year ended 31 December 2015 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 18. 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 Directors' Responsibilities Statement set out on pages 1-2, 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](http://www.frc.org.uk/auditscopeukprivate).

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 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 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 the financial statements.

#### **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.



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

25 Moorgate  
London  
EC2R 6AY

29 April 2016

**SUNDERLAND (SHG) FINANCE PLC**

**STATEMENT OF COMPREHENSIVE INCOME**  
**Year ended 31 December 2015**

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	Note	2015 £	2014 £
<b>OPERATING INCOME</b>			
Interest receivable	4	13,641,483	13,577,323
Costs receivable from borrower		<u>23,267</u>	<u>28,378</u>
		<u>13,664,750</u>	<u>13,605,701</u>
<b>OPERATING EXPENDITURE</b>			
Interest payable	5	13,640,927	13,576,768
Operating expenses		<u>23,823</u>	<u>28,933</u>
		<u>13,664,750</u>	<u>13,605,701</u>
<b>RESULT BEFORE AND AFTER TAXATION</b>	6	<u>-</u>	<u>-</u>
Other comprehensive income		-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<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.

# SUNDERLAND (SHG) FINANCE PLC

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Note	2015 £	2014 £
<b>ASSETS</b>			
<b>Non-current assets</b>			
Loan to Borrower	8	212,864,044	212,802,000
<b>Current assets</b>			
Other receivables	9	3,435,617	3,436,534
Cash and cash equivalents		12,500	12,500
<b>TOTAL ASSETS</b>		<b>216,312,161</b>	<b>216,251,034</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Current liabilities</b>			
Other payables	10	3,435,617	3,436,534
<b>Non-current liabilities</b>			
Financial liabilities – Secured Bonds	11	212,864,044	212,802,000
<b>TOTAL LIABILITIES</b>		<b>216,299,661</b>	<b>216,238,534</b>
<b>Equity</b>			
Share capital	12	12,500	12,500
Retained earnings		-	-
<b>TOTAL EQUITY</b>		<b>12,500</b>	<b>12,500</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>216,312,161</b>	<b>216,251,034</b>

The accompanying notes on pages 8-18 are an integral part of these financial statements.

These financial statements on pages 5-18 were approved by the board and signed on its behalf by:



Fenella Edge  
**Director**  
28 April 2016

Sunderland (SHG) Finance Plc

Registered No. 04226284



**SUNDERLAND (SHG) FINANCE PLC**

**STATEMENT OF CASH FLOWS**

**Year ended 31 December 2015**

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	Note	2015 £	2014 £
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash (used in) operations	13	(556)	(555)
Interest received on Loan		13,577,324	13,577,323
Interest paid on Secured Bonds		(13,576,768)	(13,576,768)
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>		<u>-</u>	<u>-</u>
<b>NET INCREASE IN CASH AND EQUIVALENTS IN THE YEAR</b>		-	-
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>		12,500	12,500
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>		<u>12,500</u>	<u>12,500</u>

## 1 GENERAL INFORMATION

Sunderland (SHG) Finance Plc (“the Company”) provides finance for housing associations. The Company is a public limited company which has issued Secured Bonds which are listed on the Main Market of the London Stock exchange.

The Company on-lent the proceeds of the issue of the Secured Bonds to T.H.F.C. (Capital) Plc (“THFCC”) (“the Borrower”). THFCC on-lent the proceeds to Gentoo Group Limited (“GGL”) under a loan agreement.

## 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:

- IFRS 13 Fair Value Measurement: the amendments clarify the scope of portfolio exemptions and the measurement requirements for short-term receivables and payables.
- IAS 24 Related Party Disclosures: the amendments clarify the meaning of key management personnel and the disclosure requirements when key management personnel services are provided by a management entity.

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 2015 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 2015*

- IFRS 9 Financial Instruments (Effective 1 January 2018 not yet endorsed by EU): This deals with the classification, measurement and impairment of financial assets and financial liabilities.

- IFRS 15 Revenue for Contracts with Customers (Effective 1 January 2018 not yet endorsed by EU):  
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 loan to THFCC is impaired. The directors have concluded there is no such impairment in the current year.

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 the loan to the Borrower 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 Bonds 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 deposit at commercial banks.

### **Loan to borrower ('Loan')**

The Loan is stated at amortised cost less allowance for loan losses. Any premium or discount on issue is added to/deducted from the nominal value of the Loan and charged or credited to the statement of comprehensive income over the expected life of the Loan so that the interest income as adjusted for the amortisation of premium/discount gives a constant yield to maturity.

### **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 Bond so that the interest charge as adjusted for the amortisation of premium/discount gives a constant yield to maturity.

### **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 (2014: none).

The Company's Secured Bonds are tradable and 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 the loan agreement between THFCC and GGL provides that GGL may at any time purchase the Secured Bonds. Bonds purchased must be surrendered to the Company and an amount of the outstanding balance of the loan between THFCC and GGL equal to the outstanding balance of the bonds surrendered shall be deemed to be prepaid. Following any such purchase a corresponding amount of the outstanding loan between the Company and THFCC equal to the amount of the bonds surrendered shall also be deemed to be prepaid. The prepaid amounts 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 THFCC. Therefore 100% of interest income receivable from THFCC.

### 3 FINANCIAL RISK MANAGEMENT

The proceeds from the issue of the 6.38% Secured Bonds 2042 were used to make a Loan to the Borrower.

#### **Credit risk**

The Company faces credit risk on its loan to THFCC which is subject to the collateral arrangements described below. The carrying value of the Loan represents the maximum exposure to credit risk. The loan is not past due or impaired at 31 December 2015 (2014: Nil). The Secured Bonds are rated "Aa3/AA-" by Moodys Investor Service and Standard & Poor's at 31 December 2015 (2014: "Aa3/AA-") which the directors consider reflects the credit quality of the underlying Loans. Fitch Ratings withdrew their rating during the year for commercial reasons.

#### **Collateral arrangements**

The Company's credit risk is mitigated by the following factors. The Loan is secured by way of a fixed charge over certain assets of the underlying borrower (GGL). The underlying borrower is subject to external regulation by the Homes and Communities Agency. The underlying 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.

The Prudential Trustee Company Limited acts as the Trustee on behalf of all Secured Bond holders (the Bond Trustee), under the terms of a Security Trust Deed, and has the benefit of a fixed charge over certain assets of the borrower 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 Borrower collects interest from GGL four business days prior to payment to bondholders. Additionally GGL maintains a debt service reserve fund with the bond trustee which is a minimum of one year's worth of interest payments that can be drawn upon in the event of a late payment.

The loan repayments by GGL to the Borrower 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 Secured 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 Secured Bonds.

The maturity analysis of financial liabilities is given in Note 11.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2015

**Interest rate risk**

The interest charged on the Loan 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 Loan and Secured Bonds but there is no net risk. Market price risk is not expected to impact on the Company because (i) the Loan 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**

	2015 £	2014 £
Bank interest	556	555
On loan to borrower	13,576,768	13,576,768
Amortisation of premium	64,159	-
	<u>13,641,483</u>	<u>13,577,323</u>

**5 INTEREST PAYABLE**

	2015 £	2014 £
On 6.38% Secured Bonds 2042	13,576,768	13,576,768
Amortisation of premium	64,159	-
	<u>13,640,927</u>	<u>13,576,768</u>

**6 RESULT BEFORE AND AFTER TAXATION**

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

	2015 £	2014 £
Fees paid to current auditor for annual audit of financial statements – current year	7,230	7,020
Fees paid to previous auditor for annual audit of financial statements - prior year	-	2,529
	<u>7,230</u>	<u>9,549</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2015

**7 EMPLOYEES**

There were no employees during the year other than the directors (2014: Nil). The directors received no remuneration during the year directly from the Company in respect of their qualifying services (2014: 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.

**8 LOAN TO BORROWER**

	2015 £	2014 £
Loan Amount	212,802,000	212,802,000
Unamortised premium	64,159	-
Amortised Cost	<u>212,866,159</u>	<u>212,802,000</u>
Premium due within one year	(2,115)	-
Non-current amortised cost	<u>212,864,044</u>	<u>212,802,000</u>

Collateral arrangements are set out in Note 3.

**9 OTHER RECEIVABLES**

	2015 £	2014 £
Premium due within one year	2,115	-
Interest receivable	3,422,089	3,422,089
Prepayments	3,673	2,744
Other receivables	7,740	11,701
	<u>3,435,617</u>	<u>3,436,534</u>

**10 OTHER PAYABLES**

	2015 £	2014 £
Premium on Secured Bonds due within one year	2,115	-
Interest payable	3,422,089	3,422,089
Accruals	11,413	14,445
	<u>3,435,617</u>	<u>3,436,534</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Year ended 31 December 2015**

**11 FINANCIAL LIABILITIES – SECURED BONDS**

	2015 £	2014 £
6.38% Secured Bonds 2042		
Amortised cost	212,802,000	212,802,000
Unamortised premium	64,159	-
Amortised cost	<u>212,866,159</u>	<u>212,802,000</u>
Premium due within one year	(2,115)	-
Non-current amortised cost	<u><u>212,864,044</u></u>	<u><u>212,802,000</u></u>

Details of security are set out in Note 3.

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

	Nominal Value £	Premium £
26 June 2001	239,500,000	94,363
Prepayment 18 June 2010	<u>(26,698,000)</u>	<u>(10,519)</u>
	<u><u>212,802,000</u></u>	<u><u>83,844</u></u>

The net premium and cumulative amortisation at the beginning of the year was £66,140 and £17,704 respectively. Amortisation charged during the year was £1,981.

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

The premium on issue is immaterial to the Secured Bonds carrying value and was originally credited to the statement of comprehensive income on issue rather than amortised over the life of the bonds. However this treatment was reviewed during the year and an amount equal to the unamortised element of the premium has been added back to the carrying value of the Secured Bonds in line with the Company's accounting policy.



**Contractual cash flows on secured bonds**

<b>2015</b>	<b>Due within one year</b>	<b>Due within one to two years</b>	<b>Due within two to five years</b>	<b>Due in over five years</b>	<b>Total 2015</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Principal	-	-	-	212,802,000	212,802,000
Interest	13,576,768	13,576,768	40,730,303	185,180,987	253,064,826
<b>Total</b>	<b>13,576,768</b>	<b>13,576,768</b>	<b>40,730,303</b>	<b>397,982,987</b>	<b>465,866,826</b>
<b>2014</b>	<b>Due within one year</b>	<b>Due within one to two years</b>	<b>Due within two to five years</b>	<b>Due in over five years</b>	<b>Total 2014</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Principal	-	-	-	212,802,000	212,802,000
Interest	13,576,768	13,576,768	40,730,303	198,757,754	266,641,593
<b>Total</b>	<b>13,576,768</b>	<b>13,576,768</b>	<b>40,730,303</b>	<b>411,559,754</b>	<b>479,443,593</b>

**12 SHARE CAPITAL**

	<b>2015</b>	<b>2014</b>
	<b>£</b>	<b>£</b>
<i>Allotted and part paid</i> 50,000 (2014: 50,000) ordinary shares of £1 each of which 25p per share is paid	<b>12,500</b>	12,500

The Company's capital comprises only its share capital which the directors consider adequate for the nature and scale of the Company's operations and the risks to which it is subject as set out in Note 3. The Company is not subject to externally imposed capital requirements.

## SUNDERLAND (SHG) FINANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2015

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#### 13 RECONCILIATION OF RESULT BEFORE TAX TO CASH (USED IN) OPERATIONS

	2015	2014
	£	£
Result before taxation	-	-
Adjustments for:		
Interest receivable	(13,641,483)	(13,577,323)
Interest payable	13,640,927	13,576,768
Changes in working capital:		
Decrease in receivables	3,032	2,338
(Decrease) in payables	(3,032)	(2,338)
	<u>          </u>	<u>          </u>
Net cash (used in) operations	<u>(556)</u>	<u>(555)</u>

#### 14 ULTIMATE PARENT COMPANY

At 31 December 2015 the Company's immediate and ultimate parent Company was Sunderland (SHG) Finance Holdings Limited, a company incorporated in the United Kingdom. Sunderland (SHG) Finance Holdings Limited is the only company to prepare consolidated financial statements which include the Company. The entire share capital of Sunderland (SHG) Finance 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, 4<sup>th</sup> Floor, 107 Cannon Street, London EC4N 5AF.

**15 FAIR VALUES OF FINANCIAL INSTRUMENTS**

The Level 2 fair value of the 6.38% Secured Bonds due 2042 and associated Loan, as at 31 December 2015 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.

	2015		2014	
	Carrying value £	Fair value £	Carrying value £	Fair value £
<b>Financial assets:</b>				
<i>Classified as Loans &amp; Receivables</i>				
Loan to borrower				
Non-current	212,864,044		212,802,000	
Current	2,115		-	
<b>Total</b>	<b>212,866,159</b>	<b>283,984,273</b>	<b>212,802,000</b>	<b>292,182,118</b>
Interest receivable	3,422,089	3,422,089	3,422,089	3,422,089
Other receivable	7,740	7,740	11,701	11,701
<b>Total financial assets</b>	<b>216,295,988</b>	<b>287,414,102</b>	<b>216,235,790</b>	<b>295,235,790</b>
<b>Financial liabilities:</b>				
<i>Classified as Financial Liabilities at Amortised Cost</i>				
Secured Bonds				
Non-current	212,864,044		212,802,000	
current	2,115		-	
<b>Total</b>	<b>212,866,159</b>	<b>283,984,273</b>	<b>212,802,000</b>	<b>292,182,118</b>
Interest payable	3,422,089	3,422,089	3,422,089	3,422,089
Other payables and accruals	11,413	11,413	14,445	14,445
<b>Total financial liabilities</b>	<b>216,299,661</b>	<b>287,417,775</b>	<b>216,283,384</b>	<b>295,618,652</b>

**16 RELATED PARTY TRANSACTION**

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 current 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 £7,123 (2014: £9,640). Amounts due to T.H.F.C. (Services) Limited at 31 December 2015 amounted to £Nil (2014: £1,770).

The Company has granted security in favour of The Prudential Trustee Company Limited ("the Trustee") to secure the bonds and other moneys under the terms of a Trust Deed dated 27 June 2001. Fees payable to the Trustee for the year amounted to £6,206 (2014: £5,227). Amounts due to the Trustee at 31 December 2015 amounted to £Nil (2014: £2,644).

## **SUNDERLAND (SHG) FINANCE PLC**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)** **Year ended 31 December 2015**

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#### **17 TAXATION**

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

#### **18 SECURITY OFFERED TO INVESTORS**

Sunderland (SHG) Finance 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, Sunderland (SHG) Finance Holdings Limited, cannot be held liable for the debts of the Company in the event of insolvency.