

**T.H.F.C. (FUNDING NO. 2) PLC**  
**Annual Report and Financial Statements**  
**For the year ended 31 December 2015**

## **T.H.F.C. (FUNDING NO. 2) 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**

6923641

#### **Independent Auditor**

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

## **T.H.F.C. (FUNDING NO. 2) 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**

T.H.F.C. (Funding No.2) 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**

T.H.F.C. (Funding No.2) Plc is a public limited company incorporated and domiciled in the United Kingdom. 49,999 shares of the Company are owned by T.H.F.C. (Funding) Holdings Limited. 1 share is held by T.H.F.C. (Services) Limited on a fiduciary basis on behalf of selected 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. There is no requirement for a separate audit committee.

The servicing agent 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;
- 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

**DIRECTORS' REPORT (continued)**  
**Year ended 31 December 2015**

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- 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.

This report was approved by the Board and signed on its behalf



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

**STRATEGIC REPORT**

**Year ended 31 December 2015**

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**PRINCIPAL ACTIVITIES**

The Company was incorporated on 3 June 2009. The principal activity of the Company is to provide finance to The Housing Finance Corporation Limited (“THFC”) (“the Borrower”) for on-lending to Housing Associations (“HAs”) (the “Bond Issuance Authorised Borrowers”, as defined in the Loan Agreement between the Company and THFC) registered under The Housing Act 1996 through the issue of bonds ultimately secured on the assets of the Company (the “Secured Bonds”).

On 8 July 2009 the Company made an initial issue of Secured Bonds to a nominal value of £191,000,000, the proceeds of which were on-lent to THFC on terms that ensured the Company was not exposed to any risk in changes of interest rates. A second issue of Secured Bonds to a nominal value of £72,250,000 was made on 22 March 2010 and a third and fourth issue of Secured Bonds of £76,600,000 and £31,000,000 respectively was made on 21 January 2011 and 4 April 2011.

All the Company’s operating costs, net of interest earned, are recoverable from the Borrower.

The proceeds were on-lent by THFC to the HAs noted below:

A2Dominion Homes Limited  
Apex Housing Limited  
Connswater Homes Limited  
East Midlands Housing Association Limited  
Genesis Housing Association Limited  
Glen Oaks Housing Association Limited  
Heantun Housing Association Limited  
Helm Housing Association Limited  
Hightown Praetorian and Churches Housing Association Limited (formerly known as Hightown Housing Association Limited)  
Leeds Federated Housing Association Limited  
New Gorbals Housing Association Limited  
Choice Housing Ireland Limited (formerly known as OakleeTrinity Limited)  
Paradigm Homes Charitable Housing Association Limited  
Portal Housing Association Limited  
Southern Housing Group Limited  
Staffordshire Housing Association Limited  
Taff Housing Association Limited  
Westcountry Housing Association Limited  
Wirral Methodist Housing Association Limited

The Law Debenture Trust Corporation Plc acts as the Trustee on behalf of all Secured Bond holders, under the terms of a Trust Deed, and has the benefit of a floating charge over certain assets of the Borrower.

The occurrence of an event of default under the Secured Bonds entitles the Trustee to accelerate the maturity of the Secured Bonds and to enforce the security for the Secured Bonds (including converting the floating charge granted by the Company into a fixed charge). However, an event of default under the Secured Bonds will not, by itself, be an event of default under the Loan Agreement and accordingly acceleration of the maturity of the Secured Bonds and enforcement of security for the Secured Bonds will not, be itself, entitle the Trustee to accelerate the maturity of the Loan agreement or to enforce the security given by THFC under the Loan Agreement except in predetermined circumstances.

The Company expects to continue its principal activity for the life of the Secured Bonds, which have a final repayment date of 2041.

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 straightforward 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 mitigated are explained in note 3.

This report was approved by the Board and signed on its behalf



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

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF T.H.F.C. (FUNDING NO. 2) PLC**  
**Year ended 31 December 2015**

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We have audited the financial statements of T.H.F.C. (Funding No.2) 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 19. 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

**T.H.F.C. (FUNDING NO. 2) PLC****STATEMENT OF COMPREHENSIVE INCOME**

Year ended 31 December 2015

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	Note	2015 £	2014 £
<b>OPERATING INCOME</b>			
Interest receivable	4	<b>23,200,388</b>	23,143,903
Costs receivable from borrower		<b>30,674</b>	28,252
		<u><b>23,231,062</b></u>	<u>23,172,155</u>
<b>OPERATING EXPENDITURE</b>			
Interest payable	5	<b>23,200,388</b>	23,143,903
Operating expenses	6	<b>30,674</b>	28,252
		<u><b>23,231,062</b></u>	<u>23,172,155</u>
<b>RESULT BEFORE AND AFTER TAXATION</b>	7	<u>-</u>	<u>-</u>
Other comprehensive income		-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<u><u>-</u></u>	<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.



T.H.F.C. (FUNDING NO. 2) PLC

STATEMENT OF FINANCIAL POSITION  
As at 31 December 2015

	Note	2015 £	2014 £
<b>ASSETS</b>			
<b>Non-current assets</b>			
Loan to borrower	9	391,238,969	391,612,042
<b>Current assets</b>			
Other receivables	10	11,823,598	11,799,351
Cash and cash equivalents		12,500	12,500
<b>TOTAL ASSETS</b>		<u>403,075,067</u>	<u>403,423,893</u>
<b>EQUITY &amp; LIABILITIES</b>			
<b>Current liabilities</b>			
Other payables	11	11,823,598	11,799,351
<b>Non-current liabilities</b>			
Financial liabilities – Secured Bonds	12	391,238,969	391,612,042
<b>TOTAL LIABILITIES</b>		<u>403,062,567</u>	<u>403,411,393</u>
<b>EQUITY</b>			
Share capital	13	12,500	12,500
Retained earnings		-	-
<b>TOTAL EQUITY</b>		<u>12,500</u>	<u>12,500</u>
<b>TOTAL EQUITY &amp; LIABILITIES</b>		<u>403,075,067</u>	<u>403,423,893</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



Fenella Edge  
Director  
28 April 2016

**T.H.F.C. (FUNDING NO. 2) PLC**

**STATEMENT OF CASH FLOWS**

**Year ended 31st December 2015**

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	Note	2015 £	2014 £
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash (used in) / generated from operations	14	-	(149)
Interest paid on bonds		<b>(23,548,975)</b>	(23,548,975)
Interest received on loan		<b>23,548,975</b>	23,548,975
		<u>                    </u>	<u>                    </u>
<b>NET CASH (OUTFLOW) / INFLOW FROM OPERATING ACTIVITIES</b>		-	(149)
		<u>                    </u>	<u>                    </u>
<b>NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS IN THE YEAR</b>		-	(149)
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>		<b>12,500</b>	12,649
		<u>                    </u>	<u>                    </u>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>		<b>12,500</b>	12,500
		<u>                    </u>	<u>                    </u>

## 1 GENERAL INFORMATION

T.H.F.C. (Funding No. 2) Plc (the “Company”) provides finance to The Housing Finance Corporation Limited (“THFC”) (“the Borrower”) for on-lending to Housing Associations (“HAs”) (the Bond Issuance Authorised Borrowers”, as defined in the Loan Agreement between the company and THFC) registered under The Housing Act 1996. The Company is a public limited company which has Secured Bonds listed on the Professional Securities Market of the London Stock Exchange. It is incorporated and domiciled in the United Kingdom.

The Company on-lent the proceeds of the issue of the Secured Bonds to The Housing Finance Corporation Limited (THFC), which on-lent the funds to certain HAs being the Bond Issuance Authorised Borrowers (as defined in the 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 loans to HAs, and therefore potentially the loan to the Borrower, are 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, which have been applied consistently, are set out below.

### **Interest**

Interest receivable on the loan to THFC, and interest payable on the Secured Bonds is accounted for using the effective interest rate method. Any premium/discounts on issue are added to/deducted from the original loan amount or Secured Bond nominal value using the effective interest rate method and charged/credited to the statement of comprehensive income over the expected life of the loan or bonds 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 borrowers ("Loan")**

The Loan is stated at amortised cost less allowance for impairment. 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. Additional loan amounts are recognised in the financial statements as the 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 Bond 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. 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 (2014: none).

The Company's Secured Bonds are tradable and the markets are considered to be active and the Secured Bonds are therefore classified as Level 1. Accordingly quoted market prices at, or close to, the balance sheet date have been used to evaluate the fair value of the Secured Bonds. The fair value of the associated fixed rate loan to THFC is based on the same quoted market price on the basis that the Standard and Poor's credit rating of the Company is dependent on that of THFC.

### **Prepayment**

It is expected that each Loan will run to maturity however THFC, or any Bond Issuance Authorised Borrower, may at any time purchase bonds and, following such purchase, THFC, or any Bond Issuance Authorised Borrower, may surrender the bonds to the Company for cancellation. An amount equal to the outstanding principal amount of the bonds being surrendered shall be deemed prepaid under the Loan Agreement. 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 THFC for on-lending to HAs. Therefore 100% of interest income is receivable from THFC.

## 3 FINANCIAL RISK MANAGEMENT

The proceeds from the issue of the 6.35% Secured Bonds due 2039/41 were used to make a loan to the Borrower.

### Credit risk

The Company faces credit risk on its loan to THFC which is subject to the collateral arrangements described below.

THFC has general obligations A+ rating from Standard and Poor's. THFC only makes loans to HAs registered with, and regulated by, the Homes and Communities Agency for the purposes of funding social housing. The Homes and Communities Agency has a range of statutory powers as set out in chapter 6 of Housing and Regeneration Act 2008 as amended by the Localism Act 2011. These include enforcement powers and the ability to call a moratorium in certain circumstances.

The carrying value of the Loan represents the maximum exposure to credit risk. No part of the Loan is past due or impaired at 31 December 2015 (2014: none).

### Collateral arrangements

THFC has granted security to the Company under the Loan Agreement in the form of a floating charge over its undertaking, property and assets. This floating charge ranks *pari passu* with a number of existing floating charges previously granted by THFC to secure other existing borrowings. THFC's undertakings, property and assets largely consist of its existing loan book together with some accumulated reserves.

HAs who borrow money from THFC create either a first floating charge over the whole or an identifiable part of its property, undertaking and assets in favour of THFC or a fixed first charge in favour of THFC. All of the THFC's assets, including the loans to the HAs, and the security granted in respect of its assets are pooled rather than being allocated to specific liabilities of THFC. As such, the loan to THFC is indirectly secured by the properties owned by the HA borrowers.

THFC is required to obtain a charge over the assets of HAs which, at all times during the life of each loan, covers at least 150% of the outstanding loan balance. For loans secured by fixed charges formal property valuations of the specific security are undertaken at least every five years. For loans secured by floating charge compliance is measured by reference to the balance sheet of the underlying HA. In addition THFC monitors the financial position of its HA borrowers on an on-going basis, including measurement against covenant undertakings. The large number of borrowing HAs assists in diversification of the credit risks inherent in the loan to THFC. All HA borrowers are subject to external regulation by the relevant Authority.

The obligations of the Company to the holders of the Secured Bonds are secured by a first floating charge on the whole of the Company's undertaking, property and assets, and a first ranking assignment by way of security of the benefit of the floating charge granted to the Company by THFC as described above.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2015

**Liquidity risk**

To mitigate liquidity risk to the Company, the Borrower collects interest and capital repayments from the Bond Issuance Authorised Borrowers one month prior to the scheduled date of payment by the Company. Additionally Bond Issuance Authorised Borrowers are required to maintain an Interest Service Reserve Fund with THFC, amounting to a minimum of one year's worth of interest, that can be drawn upon in the event of a late payment.

There is also a two year maturity mis-match between expected and legal maturity of the Secured Bonds. This means if the Borrower has insufficient funds to repay the principal amount outstanding of its loan on the expected maturity date than repayment of the loan and bond will be postponed to the legal maturity date.

The loan agreements provide that the Bond Issuance Authorised Borrowers must repay their loans in full to THFC, three business days before 8 July 2039 (expected maturity) or 8 July 2041 (legal maturity). Interest is receivable half yearly in arrears. The maturity profile of liabilities is given in note 12.

**Interest rate risk**

The interest charged on the Loan is fixed and 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.

**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 £
On loan to borrower	23,548,975	23,548,975
Amortisation of premium	(348,587)	(405,072)
	<u>23,200,388</u>	<u>23,143,903</u>

**5 INTEREST PAYABLE**

	2015 £	2014 £
On 6.35% Secured Bonds due 2039/41	23,548,975	23,548,975
Amortisation of premium	(348,587)	(405,072)
	<u>23,200,388</u>	<u>23,143,903</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2015

**6 OPERATING EXPENSES**

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

**7 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>

**8 EMPLOYEES**

There were no employees during the year (2014: None) other than the directors. 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.

**9 LOAN TO BORROWER**

	2015 £	2014 £
Loan amount	370,850,000	370,850,000
Unamortised premium	<u>20,840,950</u>	<u>21,189,537</u>
Amortised cost	391,690,950	392,039,537
Premium due within one year	<u>(451,981)</u>	<u>(427,495)</u>
<b>Non-current amortised cost</b>	<u><b>391,238,969</b></u>	<u><b>391,612,042</b></u>

Collateral arrangements are set out in Note 3



**10 OTHER RECEIVABLES**

	<b>2015</b>	2014
	<b>£</b>	£
Premium on loan due within one year	<b>451,981</b>	427,495
Interest receivable	<b>11,355,122</b>	11,355,122
Other receivables	<b>16,495</b>	16,734
	<u><b>11,823,598</b></u>	<u>11,799,351</u>

**11 OTHER PAYABLES**

	<b>2015</b>	2014
	<b>£</b>	£
Premium on Secured Bonds due within one year	<b>451,981</b>	427,495
Interest payable	<b>11,355,122</b>	11,355,122
Accruals	<b>16,495</b>	16,734
	<u><b>11,823,598</b></u>	<u>11,799,351</u>

**12 FINANCIAL LIABILITIES – SECURED BONDS**

	<b>2015</b>	2014
	<b>£</b>	£
Nominal amount	<b>370,850,000</b>	370,850,000
Premium at 1 January	<b>21,189,537</b>	21,594,609
Premium amortised	<b>(348,587)</b>	(405,072)
Amortised cost	<u><b>391,690,950</b></u>	<u>392,039,537</u>
Premium due within one year	<u><b>(451,981)</b></u>	<u>(427,495)</u>
<b>Non-current amortised cost</b>	<u><b>391,238,969</b></u>	<u>391,612,042</u>

Details of security are set out in note 3.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2015

The 6.35% Secured Bonds are listed and repayable between 2039 and 2041 and were issued in the following tranches:

	<b>Nominal Value £</b>	<b>Premium £</b>
8 July 2009	191,000,000	76,400
22 March 2010	72,250,000	7,951,112
21 January 2011	76,600,000	10,504,158
4 April 2011	31,000,000	4,255,370
	<u>370,850,000</u>	<u>22,787,040</u>

The net premium and cumulative amortisation at the beginning of the year was £21,189,537 and £1,597,503 (2014: £21,594,609 and £1,192,431) respectively. Amortisation charged during the year was £348,587 (2014: £405,072).

All premiums have been added to the value of the Secured Bonds and are amortised through the statement of comprehensive income over the life of the Secured Bonds, this includes an amount that was previously written off on the original issue and has been reinstated during the year.

The net proceeds of the above issues were used to make loans to the Borrower, THFC. The Secured Bonds are repayable in full between 8 July 2039 and 8 July 2041. Interest on the Secured Bonds is payable half yearly in arrears. All issue costs relating to the Secured Bonds are borne by the Borrower, THFC.

## 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>
Principal	-	-	-	370,850,000	370,850,000
Interest	23,548,975	23,548,975	70,646,925	447,430,525	565,175,400
<b>Total</b>	<u>23,548,975</u>	<u>23,548,975</u>	<u>70,646,925</u>	<u>818,280,525</u>	<u>936,025,400</u>

**T.H.F.C. (FUNDING NO. 2) PLC**

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

**Year ended 31 December 2015**

2014	Due within one year £	Due within one to two years £	Due within two to five years £	Due in over five years £	Total 2014 £
Principal	-	-	-	370,850,000	370,850,000
Interest	23,548,975	23,548,975	70,646,925	459,205,013	576,949,888
<b>Total</b>	<b>23,548,975</b>	<b>23,548,975</b>	<b>70,646,925</b>	<b>830,055,013</b>	<b>947,799,888</b>

**13 SHARE CAPITAL**

	2015 £	2014 £
<i>Allotted and quarter paid</i> 50,000 (2014: 50,000) ordinary shares of £1 each	<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.

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

	2015 £	2014 £
Result before taxation	-	-
Adjustments for:		
Interest receivable	<b>(23,200,388)</b>	(23,143,903)
Interest payable	<b>23,200,388</b>	23,143,903
Changes in working capital:		
Decrease in receivables	<b>239</b>	13,203
(Decrease) in payables	<b>(239)</b>	(13,352)
Cash (used in) / generated from operations	-	(149)

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2015

**15 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Level 1 fair value of the 6.35% Secured Bonds due 2039/2041 and the Level 2 fair value of the associated Loan, as at 31 December 2015 are shown below. The fair value is derived from the market value of the Secured Bonds 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(s)				
Non-current	391,238,969		391,612,042	
Current	451,981		427,495	
<b>Total</b>	<b>391,690,950</b>	<b>489,919,115</b>	392,039,537	532,644,743
Interest receivable	11,355,122	11,355,122	11,355,122	11,355,122
Other receivable	16,495	16,495	16,734	16,734
<b>Total financial assets</b>	<b>403,062,567</b>	<b>501,290,732</b>	403,411,393	544,016,599
<b>Financial liabilities:</b>				
<i>Classified as Financial Liabilities at Amortised Cost</i>				
Secured Bonds				
Non-current	391,238,969		391,612,042	
current	451,981		427,495	
<b>Total</b>	<b>391,690,950</b>	<b>489,919,115</b>	392,039,537	532,644,743
Interest payable	11,355,122	11,355,122	11,355,122	11,355,122
Other payables and accruals	16,495	16,495	16,734	16,734
<b>Total financial liabilities</b>	<b>403,062,567</b>	<b>501,290,732</b>	403,411,393	544,016,599

**16 ULTIMATE PARENT COMPANY**

At 31 December 2015 the Company's immediate and ultimate holding company was T.H.F.C. (Funding) Holdings Limited, a company incorporated in the United Kingdom. T.H.F.C. Funding (Holdings) Limited is the only company to prepare consolidated financial statements which include the Company. The entire issued share capital of T.H.F.C. (Funding) Holdings Limited is held by T.H.F.C. (Services) Limited on a fiduciary basis on behalf of selected 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.

**17 RELATED PARTY TRANSACTION**

All administrative services are provided under a management agreement with T.H.F.C. (Services) Limited. The directors are employees of T.H.F.C. (Services) Limited. Management fees payable to T.H.F.C. (Services) Limited during the year amounted to £Nil (2014: £Nil). T.H.F.C. (Services) Limited reserves the right to charge such fees in the future.

THFC, the Borrower, is the parent of T.H.F.C. (Services) Limited. Transactions with and balances due from the Borrower are set out in Notes 4, 9 and 10 of these financial statements.

**18 TAXATION**

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

**19 SECURITY OFFERED TO INVESTORS**

T.H.F.C. (Funding No.2) 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, T.H.F.C. (Funding) Holdings Limited, cannot be held liable for the debts of the Company in the event of insolvency.