

Swan Housing Capital PLC
Year Ended: 31 March 2022

Registered Company No: 09362244

SWAN HOUSING CAPITAL PLC

Annual Report and Accounts

Year ended: 31 March 2022



Swan Housing Capital PLC
Year Ended: 31 March 2022

Contents

	Page
Directors, Advisors and Bankers	3
Strategic Report	4
Report of the Directors	7
Corporate Governance Statement	8
Independent Auditor's Report to the Members of Swan Housing Capital PLC	11
Statement of Comprehensive Income	20
Statement of Changes in Equity	20
Statement of Financial Position	21
Notes to the Financial Statements	22



Swan Housing Capital PLC
Year Ended: 31 March 2022

Directors, Advisors and Bankers

Directors

Paul Phillips (appointed 2 March 2022)
Elizabeth Sipiery (appointed 1 October 2022)
Jeremy Vickers (appointed 24 December 2021,
resigned 30 September 2022)
John Synnuck (resigned 2 March 2022)
James King (resigned 24 December 2021)

Secretary

Susan McBride

Registered Office

Pilgrim House
High Street
Billericay
Essex
CM12 9XY

Company Registration Number

09362244

External Auditor

Grant Thornton UK LLP
30 Finsbury Square UK LLP
London
EC2A 1AG

Internal Auditor

RSM Risk Assurance Services LLP
25 Farringdon Street, 6th Floor
London
EC4A 4AB

Solicitor

Devonshires
30 Finsbury Circus
London
EC2M 7DT

Banker

National Westminster Bank PLC
29 East Walk
Basildon
Essex
SS14 1HD

Swan Housing Capital PLC
Year Ended: 31 March 2022

Strategic Report

Business review and principal activity

Swan Housing Capital PLC's (the 'Company') principal activity is to procure funding for the group headed by Swan Housing Association Limited (the 'Group', the 'Original Borrower') of which this Company is a member.

On 6 March 2015, the Company issued a fixed rate secured bond, denominated in Sterling, maturing 5 March 2048 (the "2048 Bond") of £250,000,000 to the Debt Capital Market paying a fixed coupon semi-annually in arrears of 3.625%. £100,000,000 of the 2048 Bond was retained. The yield on issue was 3.682% resulting in proceeds from the issue of £148,445,135. Costs associated with the issue were £1,810,009.

On 8 July 2016, the Company issued £60,000,000 of the retained Bond. The yield on this issue was 3.33%. The bid / offer premium was £3,298,200 and issue costs were £105,000.

On 5 March 2020, the Company issued £25,000,000 of the retained Bond. The yield on this issue was 2.74%. The bid / offer premium was £4,058,750 and issue costs were £90,600.

The total Bond value is £250,000,000 with £235,000,000 issued.

Under the terms of the Bond Loan Agreement, the proceeds of the 2048 Bond and subsequent retained bond issues, net of costs, are recognised as the amount lent to Swan Housing Association Limited. The bid / offer premium and fees relating to the transaction are amortised over the life of the bond.

The profit for the year, both before and after taxation, was £nil (2021: £nil). Reflecting the nature and purpose of this Company, the results include interest receivable from Swan Housing Association Limited of £8.5 million (2021: £8.5 million) and interest payable to the bondholders of £8.5 million (2021: £8.5 million), which include amortisation of issue costs, discount and premium.

Principal risks and uncertainties

The principal risks facing the Company are:

- the inability to meet its obligations in respect of the Bond Trust Deed; and
- counterparty risk.

The risks facing Swan Housing Association Limited could also have a material effect on the performance of the Company. A list of the principal risks can be found in the Original Borrower's Consolidated Financial Statements.

The Group has encountered significant challenges during the year in its commercial operations, largely as the result of poor investment decisions, poor management and cost overruns. This has resulted in impairment charges and provisions against development schemes and other undertakings of £206 million, with £169 million recorded in the commercial subsidiaries and £37 million in the Original Borrower. The Original Borrower, who was the primary source of funding for the commercial subsidiaries, has consequently forgiven £150 million of debt owed to it by the commercial subsidiaries.

The Group began merger discussions with Orbit Group in December 2021, and these ended in September 2022. New merger discussions with Sanctuary Group ('Sanctuary') are now at an advanced stage and would see Swan join Sanctuary on 8 February 2023. Significant changes have been made to the Board as set out on page 3.

The Regulator of Social Housing published on its website a Regulatory Judgement in December 2021, issuing non-compliant ratings of G3 and V3. S&P Global Ratings placed Swan's BBB rating on CreditWatch in December 2021. This was maintained following a review in March 2022 and June 2022. These are published on the Swan website, the rating on the Bonds issued by the Company follow the rating on the Original Borrower. The rating was downgraded to BB- (CreditWatch Developing) on 7 October 2022 following the end of partnership discussions with Orbit Group.

Aspects of the Group's underlying charitable housing operations are strong, with low levels of voids and bad debts. At the same time, the level of investment in stock has been low and issues have been identified in property compliance. Following self-referral by Swan, the Regulator of Social Housing issued a Regulatory Notice on 25 May 2022 of a breach in the Homes Standard. This concerned outstanding remedial actions under fire risk assessments, management of asbestos in communal areas, maintenance of records of water testing, and the quality of data. A robust improvement plan is in place to remedy these shortcomings and improvements have been reported to the Regulator.

Swan Housing Capital PLC
Year Ended: 31 March 2022

Strategic Report (continued)

Credit risk

The Company is dependent on receipt of funds from the Original Borrower in order to meet its contractual obligations under the Bond Loan Agreement. The credit risk is that the Original Borrower, as the main counterparty, fails to reimburse the Company. Despite the challenges faced by the Group during the year the Directors consider the credit risk to be low, owing to the fact that Swan Housing Association Limited is an established business with a continuing strong asset base, operating in a regulated industry. It has improved its budgetary, business planning and scenario testing processes and procedures. The Original Borrower is in advanced merger discussions with Sanctuary. The Bond Loan Agreement also provides security in the form of charges over certain social housing property assets of the Original Borrower. The gross value of secured assets is £270.0 million with security value of £249.0 million, exceeding the full value of the loan.

The credit risk for bank deposits and money market funds is considered negligible.

No impairment loss has been recorded in relation to the fixed asset investment.

Liquidity risk

Liquidity risk is the risk that the Company might be unable to meet its obligations. Expected cash flows from financial assets, in particular its cash resources and trade receivables, are used by the Directors in assessing and managing liquidity risk. The risk is managed via the Bond Loan Agreement into which the Company has entered with the Original Borrower. The interest receivable and similar income mechanism described in Note 3 is in place to ensure that the liquidity risk within the Company is minimised. However, liquidity risk is heightened due to the current position of the Original Borrower, where material uncertainty casts doubt over its ability to continue as a going concern.

Various security and contractual arrangements, as described in Notes 10 and 11 to these financial statements, are in place to mitigate these risks.

Going concern

At 31 March 2022 the Company had net assets of £50,000 (2021: £50,000) and net current assets of £50,000 (2021: £50,000). Swan Housing Association Limited, the ultimate parent undertaking, holds the long-term loans due to the Company amounting to £238.7 million (2021: £238.8 million) which are due for repayment in March 2048.

The Company receives regular updates on the financial position of the Group, which are reviewed by the Group's management to assess its ability to meet its obligations to the Company, along with the Group's forecast and projections, which take account of reasonable possible changes in trading performance. In December 2021 the Group was downgraded by the Regulator of Social Housing to a non-compliant position and in May 2022 a breach of the Homes Standard was issued. For the year ended 31 March 2022 significant impairment of assets has been recorded and covenant waivers agreed with the Group's bankers. The Group is in advanced merger discussions with Sanctuary, scheduled to complete on 8 February 2023.

Despite the challenges faced by the Group during the year the Company's directors consider the credit risk to be low owing to the proposed merger and continuing strong asset base where the Bond Loan Agreement provides security in the form of charges over certain social housing property assets of the Original Borrower. At the same time, liquidity risk is heightened due to the material uncertainty faced by the Original Borrower. Further security and contractual arrangements to mitigate these risks are described in Notes 10 and 11 to these financial statements.

In January 2023 Swan Housing Capital PLC obtained the consent of bondholders to waive the failure of Swan Housing Association to deliver audited financial statements in respect of the financial year ended 31 March 2022.

The directors have concluded that the combination of these circumstances represent a material uncertainty that casts significant doubt upon the Company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the ordinary course of business.

Nevertheless, after making enquiries and considering the uncertainties described above, the directors have reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For these reasons they continue to adopt the going concern basis in preparing the annual report and accounts.

Future developments

The Directors do not anticipate any changes in the Company's principal activity and no events have occurred since the end of the financial year which materially affect the Company apart from those set out above.

Swan Housing Capital PLC
Year Ended: 31 March 2022

Strategic Report (continued)

Summary of key performance indicators

The Directors have monitored the progress of the overall strategy and the individual strategic elements by reference to the following non-financial indicator described below:

- The Board of Directors ensure that the Company fulfils its obligations under the Bond Trust Deed which in turn ensures it is compliant with Listing Regulations and under the Bond Loan Agreement its commitments to Bond investors.

The Company is primarily a conduit for accessing the Debt Capital Markets therefore the Board of Directors monitor the availability of cashflows to and from the Original Borrower as the financial key performance indicator.

During the financial year and despite the challenges faced all cash flows were readily available to and from the Original Borrower and therefore showed a favourable performance against this objective.

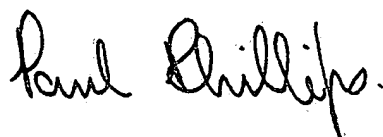
Section 172 statement

The Directors acknowledge their duties owed to the Company which include to promote its success by having regard to the consequences of any decisions in the long term, fostering relationships with stakeholders including its Bond holders, maintaining a reputation for high standards of business conduct, considering the impact of the Company's operations on the community and environment and to act fairly.

These factors are demonstrated by the Company fulfilling its obligations under the Bond Trust Deed which the Directors consider to be its key success factor in the long term. The continued monitoring of the Company's key risks including those of its primary stakeholder, Swan Housing Association Limited, remain important duties in promoting the Company's success.

As part of a Group headed by a Registered Provider the Company has due regard for the local communities in which it operates and the environment. Social purpose is embedded in the Group's mission and values and includes investment in activities to engage the communities in which it serves. The Group's wider regeneration projects, which target deprived geographical areas and estates, deploy innovative solutions widely regarded as environmentally efficient and sustainable.

Signed on behalf of the Board of Directors



Paul Phillips

7 February 2023

Swan Housing Capital PLC
Year Ended: 31 March 2022

Report of the Directors

The Directors submit their Report and the Audited Financial Statements of Swan Housing Capital PLC (the 'Company') for the year ended 31 March 2022. In respect of compliance with all aspects of Corporate Governance, see the separate Corporate Governance Statement on pages 9-10, which forms part of this Report of the Directors.

Results and dividends

The profit for the year amounted to £nil (2021: £nil).

The Directors do not recommend the payment of a dividend in respect of the year ended 31 March 2022 (2021: £nil).

Strategic Report

The Strategic Report includes the following disclosures that would otherwise have been included in the Report of the Directors:

- Future developments

Financial risk management objectives

The Directors' approach to financial risk management objectives and exposures have been set out in Notes 10 and 11 of these financial statements.

Directors and their interests

At the year end, the Board comprised one Executive Director and one non-Executive Director as detailed on page 3 of these financial statements.

In accordance with the Company's Articles of Association, none of the Directors are required to retire. None of the Directors who held office at the beginning or end of the year and at the date of approving these financial statements had any interest in the shares of the Company.

Directors Indemnity

The Directors are covered by Swan Housing Association Limited directors' and officers' indemnity insurance policy.

Post balance sheet events

As at the date of signing these financial statements, the Company had no adjusting or non-adjusting post balance sheet events.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, the Report of the Directors, the Corporate Governance Statement 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 elected to prepare financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'). 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 and profit or loss of the Company for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and 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.

Swan Housing Capital PLC
Year Ended: 31 March 2022

Report of the Directors (continued)

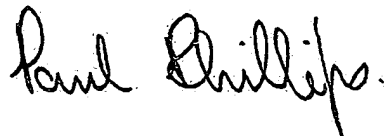
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies 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 confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company website. Legislation in the United Kingdom governs the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Signed on behalf of the Board of Directors

A handwritten signature in black ink, appearing to read 'Paul Phillips', with a stylized flourish at the end.

Paul Phillips
7 February 2023

Registered in England – No 09362244

Swan Housing Capital PLC
Year Ended: 31 March 2022

Corporate Governance Statement

The Company has a listed security in issue and is required to comply with the applicable sections DTR 7.1 and DTR 7.2 of the Financial Conduct Authority ("FCA") handbook.

As the Company does not have a Premium Listing the Directors are not required to apply the UK Corporate Governance Code (formerly the Combined Code) which sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders.

In December 2020 Swan Housing Association Limited ("Swan") adopted the National Housing Federation (NHF) Code of Governance 2020 effective 1 April 2021. The code is sector specific and produced for Registered Providers and is applied and monitored at a Group level. Further details are included in the group financial statements of Swan Housing Association Limited.

In light of the matters raised by the Regulator as set out in its Regulatory Judgement, the Parent's Board has identified non-compliance elements under the NHF Code of Governance 2020 within Principle 2 – Strategy and Delivery, and Principle 4 – Control and Assurance.

The Group has made significant changes to the Board and Executive and worked closely with the Regulator and external advisers to address the internal control and risk management weaknesses that were identified, however the non-compliant ratings remain in place at the date of approval of these financial statements.

The Board and its Directors

The Company is led by a Board of Directors (the "Board"). The appointment of Directors is pursuant to the Articles of Association dated 19 December 2014. The Company is also a party to an Intra Group Agreement in place between Swan Housing Association Limited as Parent and its subsidiaries, which sets out the responsibilities and obligations of the parties.

Under the Intra Group Agreement, the power to appoint Directors of the Company vests with the Parent; the Board currently comprises an experienced Non-Executive and the Group Finance Director of Swan Housing Association Limited. This arrangement is reviewed on an on-going basis to consider its appropriateness.

The Board acknowledges that it is collectively responsible for the success of the Company by providing leadership, setting the Company's strategic aims, ensuring that the necessary financial and human resources are in place and reviewing management performance.

The Board does not undertake a formal annual evaluation of its performance and that of its Directors and there is no formal policy on re-election of Directors. The Parent ensures that the Board is structured in such a way that the Directors of the Board can bring requisite experiences and skills to the operation of the Company.

Internal control and risk management systems

The Board has established processes for identifying, evaluating and managing the significant risks the Company faces. The Board annually reviews these processes, which have been in place from the commencement of trading to the date of approval of this report. As the Company is part of the Swan Housing Association Limited Group its risks are reviewed quarterly during the Group's Audit and Risk Committee meetings.

The Group Audit and Risk Committee consists of five members, two of which are Board members of the Parent and three are independent. It receives reports from the external and internal auditors and reviews the processes for audit and risk management. It is chaired by a member of the Parent's Board who is a chartered accountant.

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives; and can only provide reasonable and not absolute assurance against material misstatement or loss.

Swan Housing Capital PLC
Year Ended: 31 March 2022

Corporate Governance Statement (continued)

The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management to ensure it meets the minimum requirements of DTR 7.1.3. It is based principally on reviewing financial and operational reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied or indicate a need for more extensive monitoring.

As part of the requirements of DTR 7.1.3 the Board specifically monitors the financial reporting process and the statutory audit of the annual accounts through reports provided by management. Furthermore, the Board reviews and monitors the independence of the statutory external auditor and considers the relationship with Swan Housing Association Limited as part of its assessment. This is monitored as part of the Swan Housing Association Limited Board meetings which consider the relationship with the statutory external auditor and all Group subsidiaries.

At each Company management meeting the Board reviews whether the existing internal controls to monitor the requirements of DTR 7.1.3 are sufficient and take appropriate action as necessary.

The Board has been advised of the Group's weaknesses during the year and has closely monitored the steps put in place to rectify them on a timely basis.

The Board considers the improved internal controls to be sufficient and does not consider there to be a requirement for a specific Swan Housing Capital PLC Internal Audit function as the Swan Housing Association Limited's Internal Audit function provides sufficient support and expertise. The requirement for a dedicated Internal Audit function is considered annually.

Capital structure

At 31 March 2022 and at the date of this report, 50,000 ordinary shares of £1 each have been issued and are fully paid up. The shares provide a right to vote at general meetings. All the shares in issue are held by Swan Housing Association Limited. There are no special rights attached to the shares.

Swan Housing Capital PLC
Year Ended: 31 March 2022

Independent Auditor's Report to the Members of Swan Housing Capital PLC

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Swan Housing Capital Plc (the 'Company') for the year ended 31 March 2022, which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2022 and of its result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1.3 in the financial statements, which indicates that there is a heightened liquidity risk in the Company due to the director's assessment of the financial position of the Original Borrower (the Company's parent undertaking and sole borrower), Swan Housing Association Limited. As stated in note 1.3, these events or conditions, along with the other matters as set forth in note 1.3, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of management's assessment of the entity's ability to continue as a going concern

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included, but was not restricted to:

- Obtaining and evaluating management's assessment of going concern, which includes management's assessment of the ability of the Company's parent undertaking, Swan Housing Association Limited to meet its obligations under the terms of the Original Loan Agreement with the Company;
- Assessing whether there are indicators of events and circumstances which may cast doubt on the Company's ability to continue as a going concern beyond management's period of assessment;
- Checking the accounting policies and disclosures in respect of going concern given in the financial statements for appropriateness.

Swan Housing Capital PLC


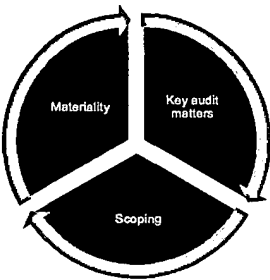
Year Ended: 31 March 2022

Our responsibilities

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to cease to continue as a going concern.

The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

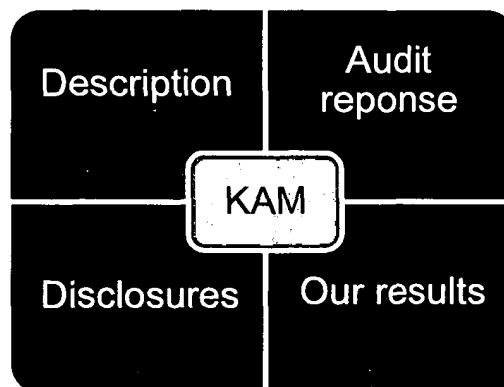
Our approach to the audit

 Grant Thornton 	Overview of our audit approach
	Overall materiality: £598,000, which represents approximately 0.25% of the Company's total assets as at 31 March 2022.
	Key audit matters were identified as: <ul style="list-style-type: none"> • Existence and recoverability of the fixed asset investment (change in scope); and • Material uncertainty related to going concern (new this year). Our current year's audit report includes one key audit matter that is different in scope to that reported in the prior year and one key audit matter which is new this year. In the prior year, we included the existence of the fixed asset investment as a key audit matter. For the year ended 31 March 2022, the key audit matter includes both the existence and recoverability of the fixed asset investment. In the current year management have identified a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. This is a key audit matter and is reported on above.
	We performed a full scope audit of the financial statements of the Company.

Key audit matters

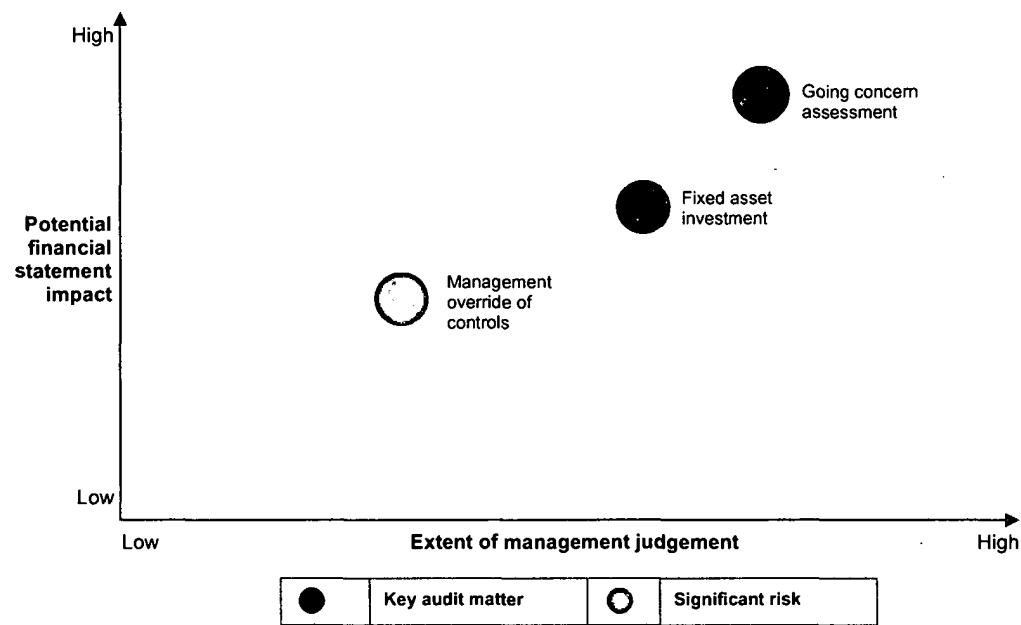
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matter described below to be the key audit matter to be communicated in our report.



Swan Housing Capital PLC
Year Ended: 31 March 2022

In the graph below, we have presented the key audit matters, significant risks and other risks relevant to the audit.



Swan Housing Capital PLC
Year Ended: 31 March 2022

Key Audit Matter	How our scope addressed the matter
<p>The existence and recoverability of the fixed asset investment</p> <p>We identified the existence and recoverability of the fixed asset investment as one of the most significant assessed risks of material misstatement due to error.</p> <p>As at 31 March 2022, the entire proceeds from the Company's listed bonds of £235m had been on-lent to its parent undertaking, Swan Housing Association Limited, under the terms of the Original Loan Agreement. The fixed asset investment as at 31 March 2022 had a carrying value of £238.7m (2021: £238.8m).</p> <p>The existence and recoverability of the loan receivable asset arising under the terms of the Original Loan Agreement is considered to be a significant risk and key audit matter as it is the right to a return conferred under the terms of this agreement, which substantiates the repayment of the listed bonds. If the asset did not exist or was not recoverable, then the Company would not be able to repay the debt owed to the bond holders at the end of the agreement.</p>	<p>In responding to the key audit matter, we performed the following audit procedures:</p> <ul style="list-style-type: none"> • Updated our understanding of the systems and controls relevant to the existence of the fixed asset investment and performed a walkthrough test to confirm our understanding; • Inspected the Bond Trust Deed and the Original Loan Agreement to confirm the on-lent of the proceeds from the bond issues is consistent with the terms therein; • Inspected the Original Loan Agreement between the Company and Swan Housing Association Limited to confirm the existence of the Company's rights to a return; • Agreed the year-end balance per the financial statements of the Company of £238.7m to the financial statements of Swan Housing Association Limited; and • Challenged management's assessment of the recoverability of the investment and considered the impact of the material uncertainty related to the going concern identified by management as noted above.
<p>Relevant disclosures in the Annual Report and Financial Statements 2022</p> <ul style="list-style-type: none"> • Financial statements: Principal Accounting Policies, Note 1.15, Fixed asset investments; and • Financial statements: Note 6, Fixed asset investment. 	<p>Our results</p> <p>Our audit work did not identify any material misstatements of the fixed asset investment.</p>

Swan Housing Capital PLC
Year Ended: 31 March 2022

Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

Materiality was determined as follows:

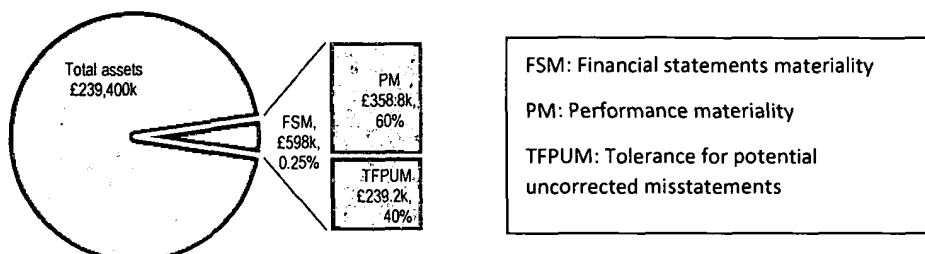
Materiality measure	
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.
Materiality threshold	£598,000 which is approximately 0.25% of the Company's total assets as at 31 March 2022.
Significant judgements made by auditor in determining the materiality	<p>In determining materiality, we made the following significant judgements:</p> <p>We determined total assets to be the most appropriate benchmark as the Company does not actively trade and therefore total assets are monitored by the Board as the Company's ability to pay its obligations from finance raising activity is driven by its ability to recover its assets.</p> <p>Materiality for the current year is similar to the level that we determined for the year ended 31 March 2021.</p>
Performance materiality used to drive the extent of our testing	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.
Performance materiality threshold	£358,800 which is 60% of financial statement materiality.
Significant judgements made by auditor in determining the performance materiality	<p>In determining materiality, we made the following significant judgements:</p> <ul style="list-style-type: none"> Few misstatements have been identified in the Company in prior years; There were a number of changes in senior personnel at the Company's parent undertaking during the year; The Company's parent undertaking has encountered significant challenges in its commercial operations; and There Company's parent undertaking received a regulatory downgrade in the year. <p>Therefore, the performance materiality percentage has been lowered to take into consideration the impact of the above factors on our risk assessment.</p>
Communication of misstatements to the Board	We determine a threshold for reporting unadjusted differences to the Board.
Threshold for communication	£30,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

Swan Housing Capital PLC

Year Ended: 31 March 2022

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality



An overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the Company's business and in particular matters related to:

Understanding the Company its environment, including the controls

- We obtained an understanding of Company, including the controls, and assessed the risks of material misstatement; and
- We evaluated the internal control environment including the IT systems and controls.

Work to be performed on financial information of the Company (including how it addressed the key audit matters)

- We performed full scope audit procedures on the financial statements of the Company; and
- We identified the existence and valuation of the fixed asset investment and the material uncertainty related to going concern as key audit matters and the audit procedures performed in respect of these have been included in the key audit matters and material uncertainty related to going concern sections of our report, respectively.

Performance of our audit

- The audit work and procedures were performed both on-site at the Company's premises and remotely.

Changes in approach from previous period

- Our audit approach in the current year is consistent with the audit approach adopted for the year ended 31 March 2021, being fully substantive in nature.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the

Swan Housing Capital PLC
Year Ended: 31 March 2022

work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinions on other matters prescribed by the Companies Act 2006 are unmodified

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 the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report under the Companies Act 2006

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 in relation to which 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.

Responsibilities of directors for the financial statements

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities,

Swan Housing Capital PLC

Year Ended: 31 March 2022

including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company. We determined that the most significant laws and regulations were FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', the Companies Act 2006, the National Housing Federation Code of Governance 2020, and the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority;
- We enquired of management and the Board of Directors about the Company's policies and procedures relating to the identification, evaluation and compliance with laws and regulations and the detection and response to the risks of fraud and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations;
- We enquired of management whether they were aware of any instances or non-compliance with laws and regulations and whether they had any knowledge of actual, suspected or alleged fraud;
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur and the risk of management override of controls. Audit procedures performed by the engagement team included:
 - Identifying and assessing the design and implementation of controls management has in place to prevent and detect fraud;
 - Challenging assumptions and judgements made by management in its significant accounting estimates;
 - Identifying and testing journal entries; and
 - Identifying and testing related party transactions.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it;
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Company's operations, including the nature of its income sources and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement; and
 - the Company's control environment, including management's knowledge of relevant laws and regulations and how the Company is complying with those laws and regulations, the adequacy of procedures for authorisation of transactions, and procedures to ensure that possible breaches of law and regulations are appropriately resolved.
- The engagement partner's assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's understanding of, and practical experience with, audit engagements of a similar nature and complexity, through appropriate training and participation.

Other matters which we are required to address

We were appointed by the Board on 30 September 2022 to audit the financial statements for the period ended 31 March 2022.

Our total uninterrupted period of engagement is seven years, covering the periods ended 31 March 2016 to 31 March 2022.

Swan Housing Capital PLC
Year Ended: 31 March 2022

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit and risk committee.

Use of our report

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.

Grant Thornton UK LLP

Joanne Love
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
Date: 7/2/2023

Swan Housing Capital PLC
Year Ended: 31 March 2022

Statement of Comprehensive Income for the year ended 31 March 2022

	Notes	2022 £'000	2021 £'000
Interest receivable and similar income	3	8,452	8,454
Interest payable and similar charges	4	(8,452)	(8,454)
Profit on ordinary activities before taxation	2	-	-
Tax on profit on ordinary activities	5	-	-
Profit and total comprehensive income for the financial year		-	-

All activities related wholly to continuing operations.

The Company has no other comprehensive income in either the current or previous financial year.

Statement of Changes in Equity

	Called up share capital £ '000	Income and expenditure reserve £ '000	Total £ '000
Balance as at 31 March 2020	50	-	50
Profit in the year being total comprehensive income for the year	-	-	-
Balance as at 31 March 2021	50	-	50
Profit in the year being total comprehensive income for the year	-	-	-
Balance as at 31 March 2022	50	-	50

The accompanying accounting policies and notes on pages 22 to 31 form part of these financial statements.

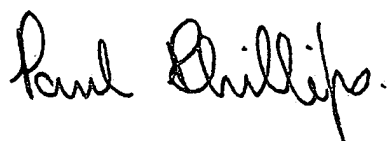
Swan Housing Capital PLC
Year Ended: 31 March 2022

Statement of Financial Position as at 31 March 2022

	Notes	2022 £'000	2021 £'000
Fixed asset investment	6	<u>238,743</u>	<u>238,810</u>
Current assets			
Debtors	7	610	608
Cash at bank and in hand		<u>47</u>	<u>49</u>
		657	657
Creditors: amounts falling due within one year	8	(607)	(607)
Net current assets		<u>50</u>	<u>50</u>
Total net assets less current liabilities		238,793	238,860
Creditors: amounts falling due after more than one year	9	(238,743)	(238,810)
Net assets		<u>50</u>	<u>50</u>
Capital and reserves			
Called up share capital	12	50	50
Income and expenditure reserve	13	-	-
Equity shareholders' funds		<u>50</u>	<u>50</u>

The accompanying accounting policies and notes on pages 22 to 31 form part of these financial statements.

The financial statements were approved and authorised for issue by the Board of Directors and signed on its behalf on 7 February 2023.



Paul Phillips
Director

Company Registration Number: 09362244

Swan Housing Capital PLC
Year Ended: 31 March 2022

Notes to the Financial Statements

1. Principal Accounting Policies

1.1 Corporate information

The financial statements of Swan Housing Capital PLC for the year ended 31 March 2022 were authorised for issue by the Board of Directors on 7 February 2023. Swan Housing Capital PLC is incorporated and domiciled in England and Wales with a registered office at Pilgrim House, High Street, Billericay, Essex CM12 9XY. The Company's principal activity is to procure funding for the group headed by Swan Housing Association Limited.

1.2 Basis of preparation

The financial statements have been prepared on the going concern basis, under the historical cost convention, in accordance with the Companies Act 2006 and applicable accounting standards (United Kingdom Generally Accepted Accounting Practice) including Financial Reporting Standard 102 (FRS 102).

The financial statements are presented in Sterling rounded to the nearest thousand (£000s) unless stated otherwise.

1.3 Going concern

At 31 March 2022 the Company had net assets of £50,000 (2021: £50,000) and net current assets of £50,000 (2021: £50,000). Swan Housing Association Limited, the ultimate parent undertaking, holds the long-term loans due to the Company amounting to £238.7 million (2021: £238.8 million) which are due for repayment in March 2048.

The Company receives regular updates on the financial position of the Group, which are reviewed by the Group's management to assess its ability to meet its obligations to the Company, along with the Group's forecast and projections, which take account of reasonable possible changes in trading performance. In December 2021 the Group was downgraded by the Regulator of Social Housing to a non-compliant position and in May 2022 a breach of the Homes Standard was issued. For the year ended 31 March 2022 significant impairment of assets has been recorded and covenant waivers agreed with the Group's bankers. The Group is in advanced merger discussions with Sanctuary, scheduled to complete on 8 February 2023.

Despite the challenges faced by the Group during the year the Company's directors consider the credit risk to be low owing to the proposed merger and continuing strong asset base where the Bond Loan Agreement provides security in the form of charges over certain social housing property assets of the Original Borrower. At the same time, liquidity risk is heightened due to the material uncertainty faced by the Original Borrower. Further security and contractual arrangements to mitigate these risks are described in Notes 10 and 11 to these financial statements.

In January 2023 Swan Housing Capital PLC obtained the consent of bondholders to waive the failure of Swan Housing Association to deliver audited financial statements in respect of the financial year ended 31 March 2022.

The directors have concluded that the combination of these circumstances represent a material uncertainty that casts significant doubt upon the Company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the ordinary course of business.

Nevertheless, after making enquiries and considering the uncertainties described above, the directors have reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For these reasons they continue to adopt the going concern basis in preparing the annual report and accounts.

1.4 Judgements and key sources of estimation uncertainty

The preparation of these financial statements requires management to make judgements, estimates and assumptions that impact the amounts reported for assets and liabilities at the Statement of Financial Position date and the amounts reported for revenues and expenses during the year. However, the nature of estimates means that actual outcomes could differ from those estimates.

The following judgement has the most significant impact on the amounts recognised in the financial statements.

Financial instrument classification

The Loans to Swan Housing Association Limited (the "Original Borrower"), presented within fixed asset investment, are required to be classified as either a basic or non-basic financial instrument in accordance with the conditions set out under FRS102 section 11.9.

Swan Housing Capital PLC
Year Ended: 31 March 2022

Notes to the Financial Statements (continued)

1.4 Judgements and key sources of estimation uncertainty (continued)

The terms of the Loans to the Original Borrower included a non-utilisation clause whereby the Directors are required to exercise a key judgement over whether there are one or two units of account which will determine whether the financial instrument is accounted for as a basic or non-basic financial instrument.

The Directors have concluded that there were two units of account at the time of issue being the Loans to the Original Borrower and a separate derivative and therefore reported as a basic financial instrument. The derivative exists for a short period between the date that the bond was issued and the date that the funds were on-lent to Swan Housing Association Limited. As such the Loans to the Original Borrower are recognised at amortised cost in the Statement of Financial Position using the effective interest rate method.

The associated bond is also classified as a basic financial instrument and its terms match those of the Loans to the Original Borrower (except for the non-utilisation clause).

Recoverability of fixed asset investment

The Loans to Swan Housing Association Limited (the "Original Borrower"), presented within fixed asset investment, are financial assets required to be stated at amortised cost, making due allowance for impairment or uncollectability, as set out under FRS102 section 11.15.

The Directors have concluded, after making enquiries, there is a reasonable expectation that the fixed asset investment is recoverable, and no allowance is required for impairment or uncollectability.

1.5 Statement of cash flows

The Company is a wholly owned subsidiary undertaking of a Group headed by Swan Housing Association Limited, and its results are included in the consolidated financial statements of that entity. As a qualifying entity Swan Housing Capital PLC has taken advantage of the exemption within FRS 102 from preparing a statement of cash flows. The consolidated financial statements of Swan Housing Association Limited are publicly available from the Company Secretary at Pilgrim House, High Street, Billericay, Essex, CM12 9XY.

1.6 Interest receivable and similar income

Interest receivable is recognised as interest accrues, using the effective interest method (that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

1.7 Interest payable and similar charges

Interest payable is recognised as interest accrues, using the effective interest method (that is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument to the net carrying amount of the financial liability).

1.8 Taxation

Current tax

Current tax is recognised for corporation tax payable in respect of the taxable profit for the current or past reporting period using the taxation rates and laws that have been enacted or substantively enacted at the reporting date.

Deferred taxation

Deferred tax is recognised in respect of all timing differences at the reporting date, except as indicated. Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or future taxable profits.

Deferred tax is calculated using the rates and laws enacted or substantively enacted at the reporting date that are expected to apply to the reversal of the timing difference. Deferred tax liabilities are presented in provisions for liabilities and deferred tax assets in debtors. Such assets and liabilities are only offset where the Company has a legal right of set off.

Swan Housing Capital PLC
Year Ended: 31 March 2022

Notes to the Financial Statements (continued)

1.9 Non-utilisation fee

The Loans to the Original Borrower agreement contains a provision for the Company to recover from Swan Housing Association Limited the difference between the interest payable to the Bond investors and the interest receivable from amounts on-lent to Swan Housing Association Limited. If there was a non-utilised element of the bond, then the difference would be recognised as an asset in the Statement of Financial Position. As at 31 March 2021 and 2022 there is no non utilised element of the bond.

1.10 Financial instruments – initial recognition

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured in accordance with FRS 102 Section 11.

1.11 Financial assets

Amounts classed by the Company as financial assets are loans, other receivables and cash.

Financial assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Intercompany debtors are classified as loans and other receivables. Subsequent to initial recognition, financial assets are measured at amortised cost, discounted at a rate equal to the original effective rate, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the Statement of Comprehensive Income.

1.12 Financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are recorded initially at fair value, net of direct issue costs, unless they are measured at fair value through the Statement of Comprehensive Income.

Subsequent to initial recognition, financial liabilities are measured at amortised cost, discounted using the original effective rate, with interest-related charges recognised as an expense in finance cost in the Statement of Comprehensive Income. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the Statement of Comprehensive Income on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Financial liabilities are derecognised only when the obligation is extinguished, that is, when the obligation is discharged.

1.13 Bond issue costs

Costs in relation to the issuance of basic debt instruments are amortised over the life of the instrument. Costs in relation to non-basic debt instruments are expensed as incurred. The discount/premium arising on bond issues are spread evenly over the remaining life of the bond, with a resulting movement in finance costs each year.

1.14 Share capital

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument.

1.15 Fixed asset investments

Fixed asset investments are recognised at amortised cost less provision for impairment and comprise of amounts lent to Swan Housing Association Limited (the "Original Borrower"), less issue costs and bond discount/premium, as the amounts are intended for use on a continuing basis in the Original Borrower's activities and repayable on 5 March 2048.

2. Profit on ordinary activities before taxation

None of the Directors received any remuneration for their qualifying services as Directors from the Company during both the current year and the prior year. The Company has no directly employed personnel in either the current year or the prior year.

Auditor's remuneration for audit services to the Company amounting to £30,000 (2021: £23,000) were recharged via the effective interest rate to Swan Housing Association Limited, along with other administrative expenses, as per the Bond Loan Agreement.

Swan Housing Capital PLC
Year Ended: 31 March 2022

Notes to the Financial Statements (continued)

3. Interest receivable and similar income

	2022 £'000	2021 £'000
Interest receivable from ultimate parent undertaking	8,519	8,519
Amortisation of issue costs	72	70
Amortisation of discount and premium	(139)	(135)
	<u>8,452</u>	<u>8,454</u>

Under the terms of both the Original Borrower and the Bond Loan Agreements the ultimate parent undertaking is required to reimburse the Company all expenditure incurred in respect of the Bond issue. Immediately after the issuance of the original Bond and the retained Bond the Company immediately on-lent the proceeds to the Original Borrower which gave rise to interest receivable during the year; the terms of the on-lending agreement mirror the bond terms.

4. Interest payable and similar charges

	2022 £'000	2021 £'000
Interest payable and other charges relating to the Bond	8,519	8,454
Amortisation of issue costs	72	70
Amortisation of discount and premium	(139)	(135)
	<u>8,452</u>	<u>8,454</u>

5. Tax on profit on ordinary activities

	2022 £'000	2021 £'000
Current tax		
UK corporation tax on profit for the year at 19% (2021: 19%)	-	-
Tax charge on profit on ordinary activities recorded in the Statement of Comprehensive Income	-	-

There are no differences between the profit on ordinary activities before tax multiplied by the tax rate of 19% (2021: 19%) and the tax charge on profit on ordinary activities. There are no unrecognised deferred tax assets or liabilities at either 31 March 2022 or 2021.

Factors impacting future taxes

In the Spring Budget 2021, the Government announced that from 1 April 2023, the corporation tax rate will increase to 25%. The change would have no impact on the overall tax charge for the year or on the corporation and deferred tax provisions at the balance sheet date, had it been substantively enacted at that time.

Swan Housing Capital PLC
Year Ended: 31 March 2022

Notes to the Financial Statements (continued)

6. Fixed asset investment

	Amounts owed by Original Borrower £'000	Issue costs £'000	Bond discount and premium £'000	Total £'000
Cost				
At 1 April 2021	235,000	(2,006)	5,802	238,796
At 31 March 2022	235,000	(2,006)	5,802	238,796
Amortisation				
At 1 April 2021	-	263	(249)	14
Charge for the year	-	72	(139)	(67)
At 31 March 2022	-	335	(388)	(53)
Net Book Value				
At 31 March 2022	235,000	(1,671)	5,414	238,743
At 31 March 2021	235,000	(1,743)	5,553	238,810

Loans to the Original Borrower are considered to be fixed asset investments as they are intended for use on a continuing basis in the Original Borrower's activities. The Directors consider such loans to be held for the long term and are repayable on maturity on 5 March 2048. The Original Borrower has provided the Company with security over the loan balance in the form of housing properties.

7. Debtors

	2022 £'000	2021 £'000
Amounts receivable from ultimate parent undertaking	610	608
	<u>610</u>	<u>608</u>

8. Creditors: amounts falling due within one year

	2022 £'000	2021 £'000
Other creditors (accrued bond coupon)	607	607
	<u>607</u>	<u>607</u>

Swan Housing Capital PLC
Year Ended: 31 March 2022

Notes to the Financial Statements (continued)

9. Creditors: amounts falling due after more than one year

	2022 £'000	2021 £'000
Amounts due to the Bond investors	235,000	235,000
Less: issue costs	(1,671)	(1,743)
Less: bond discount and premium	5,414	5,553
	<u>238,743</u>	<u>238,810</u>

Under the terms of the Bond Loan Agreement the Original Borrower is committed to repay its indebtedness to the Company in full at maturity on 5 March 2048 to enable the Company to reimburse the bond holders. The total Bond value is £250,000,000 with £235,000,000 issued leaving the Company £15,000,000 available and undrawn. Security is provided to bond holders in the form of housing properties owned by Swan Housing Association Limited. The Bond pays a fixed rate of interest at 3.625% semi-annually.

10. Financial instruments

The Company's financial instruments primarily comprise of borrowings and loans receivable. The sole purpose of these financial instruments is to raise finance for the growth and development activities of the Original Borrower and other Group entities as they meet the criteria to accede to the borrowing structure ("Additional Borrowers").

The Company does not actively engage in the trading of financial assets for speculative purposes. The Company has not entered into any derivative contracts.

The most significant financial risks to which the Company is exposed are credit risk and liquidity risk. The Board's policy for managing these risks is summarised below.

Credit risk

The Company is dependent on receipt of funds from the Original Borrower in order to meet its contractual obligations under the Bond Loan Agreement in relation to the Bond. The credit risk is that the Original Borrower, as the main counterparty, fails to reimburse the Company. Despite the challenges faced by the Group during the year the Directors consider the credit risk to be low, owing to the fact that Swan Housing Association Limited is an established business with a continuing strong asset base, operates in a regulated industry, and has improved budgetary, business planning and scenario testing processes and procedures, and is in advanced merger discussions with Sanctuary. The Bond Loan Agreement provides security in the form of social housing property assets of the Original Borrower. The gross value of secured assets is £270.0 million with security value of £249.0 million, exceeding the full value of the loan.

The credit risk for bank deposits and money market funds is considered negligible.

No impairment loss has been recorded in relation to the fixed asset investment.

Liquidity risk

Liquidity risk is the risk that the Company might be unable to meet its obligations. Expected cash flows from financial assets, in particular its cash resources and trade receivables, are used by the Directors in assessing and managing liquidity risk. The risk is managed via the Bond Loan Agreement into which the Company has entered with the Original Borrower. The interest receivable and similar income mechanism described in Note 3 is in place to ensure that the liquidity risk within the Company is minimised. However, liquidity risk is heightened due to the current position of the Original Borrower, where material uncertainty casts doubt over its ability to continue as a going concern.

Swan Housing Capital PLC
Year Ended: 31 March 2022

Notes to the Financial Statements (continued)

10. Financial instruments (continued)

The Company's financial instruments are summarised as follows:

	2022 £'000	2021 £'000
Financial assets:		
classified as debt instruments (amortised cost)		
Loans to the Original Borrower	238,743	238,810
Amounts receivable from Original Borrower	610	608
Cash at bank and in hand	47	49
	<u>239,400</u>	<u>239,467</u>
	2022 £'000	2021 £'000
Financial liabilities:		
classified as basic financial liabilities (amortised cost)		
Other creditors (accrued bond coupon)	607	607
Amounts due to the Bond investors	238,743	238,810
	<u>239,350</u>	<u>239,417</u>

The following shows the maturity analysis of the contractual cashflows of the financial liabilities, calculated on an undiscounted basis. The cashflows include the repayment of principal together with the associated interest payments over the term of the financial liabilities.

	On demand £'000	Less than 12 months £'000	1 to 5 years £'000	More than 5 years £'000	Total £'000
2022					
Amounts due to the Bond investors	-	8,519	34,075	413,287	455,881
2021					
Amounts due to the Bond investors	-	8,519	34,075	421,805	464,399

Amounts due to the Bond Investors reflect the gross payments due on the £235,000,000 of the Bond that was issued to external investors less the unamortised issue costs and bond discount/premium.

Interest rate risk

The Company has no exposure to interest rate risk as all amounts owed to external Bond investors are at a fixed rate of interest as are the interest receivable amount due from the Original Borrower on amounts lent under the Bond Loan Agreement.

There are no other interest-bearing assets or liabilities.

The interest rate profile of the Company's financial liabilities is as follows:

	2022 £'000	2021 £'000
Fixed rate borrowings	<u>235,000</u>	<u>235,000</u>

The Bond pays a fixed rate of interest at 3.625% semi-annually on 5 March and 5 September each year commencing on 5 March 2015. The final maturity date is 5 March 2048.

The total Bond value is £250,000,000 with £235,000,000 issued leaving the Company £15,000,000 available and undrawn.

Swan Housing Capital PLC
Year Ended: 31 March 2022

Notes to the Financial Statements (continued)

10. Financial instruments (continued)

Fair values

Set out below is a comparison of book values and fair values of the Company's financial instruments:

	At Fair Value 2022 £'000	Book Value 2022 £'000
Financial asset		
Loans to Original Borrower	259,618	238,743
Amounts receivable from Original Borrower	610	610
Cash and bank in hand	47	47
At 31 March 2022	260,275	239,400
	2022 £'000	2022 £'000
Financial liabilities		
Other creditors	607	607
Fixed rate secured bonds	260,234	238,743
At 31 March 2022	260,841	239,350
	At Fair Value 2021 £'000	Book Value 2021 £'000
Financial asset		
Loans to Original Borrower	283,341	238,810
Amounts receivable from Original Borrower	608	608
Cash and bank in hand	49	49
At 31 March 2021	283,998	239,467
	2021 £'000	2021 £'000
Financial liabilities		
Other creditors	607	607
Fixed rate secured bonds	283,998	238,810
At 31 March 2021	284,605	239,417

The fair value of the loans to Original Borrowers is based on the market value of similar debt instruments at 31 March 2022. The terms of the loan to the Original Borrower is fixed and meets the definition of a basic financial instrument and is therefore measured at amortised cost.

The fair value of the Bond is based on market value at 31 March 2022. The terms of the Bond are fixed therefore no adjustment has been made to change the amortised cost value to fair value.

Foreign currency risk

The Company has no foreign currency transactions. All of the Company's borrowings and coupon payments are denominated in Sterling.

Swan Housing Capital PLC
Year Ended: 31 March 2022

Notes to the Financial Statements (continued)

11. Capital risk management

The Company's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for the Bond investors and benefits for other stakeholders. The risk of interruption of cash inflows by the Company (which are required to service and repay the debt) is low owing to these ultimately being receivable from Swan Housing Association Limited which receives a significant proportion of its rents from the local authorities in the form of housing benefit.

In order to maintain or adjust the capital structure, the Company may issue new shares.

The Company monitors capital on the basis of the carrying amount of fixed asset investment, equity, plus its cash and cash equivalents as presented on the face of the Statement of Financial Position. Capital for the reporting period under review is summarised as follows:

	2022 £'000	2021 £'000
Fixed asset investment	238,743	238,810
Cash at bank and in hand	47	49
Equity shareholders fund	50	50
Total capital	<u>238,840</u>	<u>238,909</u>

The Company has honoured all its covenant obligations since the Bond issuance to the Debt Capital Markets on 6 March 2015.

The Company has complied with all externally imposed capital requirements during the year.

12. Called up share capital

	2022 £000	2021 £'000
Allocated, issued, partially and fully paid		
50,000 ordinary shares of £1 each, fully paid	50	50
	<u>50</u>	<u>50</u>

Upon incorporation the Company issued 50,000 shares to provide working capital to establish the operations of the Company. There is only one class of share. The shares provide a right to vote at general meetings. All of the shares in issue are held by Swan Housing Association Limited. There are no special rights attached to the shares.

13. Reserves

Income and expenditure reserve

The Income and expenditure reserve includes all current and prior period retained profits and losses.

14. Related party transactions

The Company takes advantage of the FRS 102 (33.11) "Related Party Disclosures" exemption permitting it not to disclose transactions with Group undertakings where 100% of the voting rights are controlled within the Group and consolidated financial statements are prepared. There are no other related party transactions that require disclosure.

15. Ultimate parent undertaking

Swan Housing Capital PLC is a wholly owned subsidiary of Swan Housing Association Limited, which is the ultimate parent and ultimate controlling entity. Swan Housing Association Limited is the smallest and largest entity in the Group that produces consolidated financial statements. Swan Housing Association Limited is a Registered Provider of Social Housing and is incorporated under the Co-operative and Community Benefit Societies Act 2014. Consolidated financial statements of Swan Housing Association Limited are published on the Group's web site.

Swan Housing Capital PLC
Year Ended: 31 March 2022

Notes to the Financial Statements (continued)

16. Contingencies

As a member of a VAT group, whose representative member is Swan Housing Association Limited, the Company has joint and several liability for amounts owing. At 31 March 2022, the VAT group had a liability of £126k (2021: £431k liability).