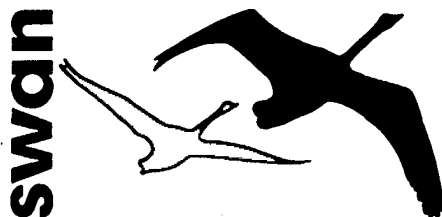


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Swan Housing Capital Plc
Year Ended: 31 March 2019

Registered Company No: 09362244



SWAN HOUSING CAPITAL PLC

Annual Report and Financial Statements

Year ended: 31 March 2019



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Directors, Advisors and Bankers

Directors

John Synnuck
Jamie Smith

Secretary

Sue McBride

Registered Office

Pilgrim House
High Street
Billericay
Essex
CM12 9XY

Company Registration Number

09362244

External Auditor

Grant Thornton UK LLP
101 Cambridge Science Park
Milton Road
Cambridge
CB4 0FY

Internal Auditor

RSM Risk Assurance Services LLP
25 Farringdon Street
London
EC4A 4AB

Solicitor

Devonshires
30 Finsbury Circus
London
EC2M 7DT

Banker

Royal Bank of Scotland Plc
29 East Walk
Basildon
Essex
SS14 1HD

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') of which this Company is a member.

On 5 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 £148,435,135. Costs associated with the issue were £1,932,009.

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.

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 spread 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 (2018: £nil). Reflecting the nature and purpose of this Company, the results include interest receivable from Swan Housing Association Limited of £7.6m (2018: £7.6m) and interest payable to the bondholders of £7.6m (2018: £7.6m)

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.

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

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

The impact of the United Kingdom's decision to leave the European Union in June 2016 continues to be monitored by the Group at a consolidated level.

Going concern

At the balance sheet date the Company had net assets of £50,000 (2018: £50,000) and net current assets of £50,000 (2018: £50,000). Swan Housing Association Limited, the ultimate parent undertaking, holds the long term loans due to the Company amounting to £209.9m (2018: £209.9m) 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.

Notes 10 and 11 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposure to credit and liquidity risk.

After making enquiries the Directors have a reasonable expectation that the total assets of £210.5m are recoverable and that the Company has adequate resources to continue in operational existence for the foreseeable future being a period of no less than 12 months from the date of approval of these financial statements and are satisfied that the Company is able to meet its debt covenants and liabilities as they fall due.

Accordingly the Directors continue to adopt the going concern basis in the preparation of these financial statements.

Future developments

The Directors do not anticipate any changes in the Company's principal activity.

Strategic Report (continued)

Summary of key performance indicators

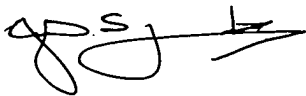
The Directors have monitored the progress of the overall strategy and the individual strategic elements by reference to the following non-financial indicator described below:

- 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 all cash flows were readily available to and from the Original Borrower and therefore showed a favourable performance against this objective.

Signed on behalf of the Board of Directors



John D Synnuck
11 July 2019

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 2019.

Results and dividends

The profit for the year amounted to £nil (2018: £nil).

The Directors do not recommend the payment of a dividend in respect of the year ended 31 March 2019 (2018: £nil).

Strategic Report

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

- Business review;
- Future developments;
- Key performance indicators; and
- Principal risks and uncertainties (including financial risk management policies and objectives).

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 two Executive Director members 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 had any interest in the shares of the Company.

Report of the Directors (cont)

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, the Report of the Directors 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 Generally Accepted 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.

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:

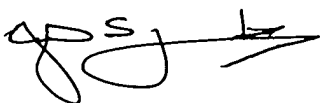
- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's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

Auditor

Grant Thornton UK LLP have expressed their willingness to continue in office. Accordingly, a resolution in accordance with section 489(4) of the Companies Act 2006 is to be proposed for the re-appointment of Grant Thornton UK LLP.

Signed on behalf of the Board of Directors



John D Synnuck
11 July 2019

Registered in England – No 09362244

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 common with other companies within the Group, the Company has adopted the National Housing Federation's 2015 Code of Governance: Promoting Board Excellence for Housing Associations.

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.

Each Director is of equal standing. There is also no distinction drawn between Executive and Non-Executive Directors.

As the Board all have considerable experience within the Social Housing sector, and also act as Directors of Swan Housing Association Limited and its subsidiaries, the Company does not arrange any formal induction or training for new Directors. This arrangement is reviewed on an on-going basis to consider its appropriateness.

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

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.

In order to discharge these responsibilities, the Directors met 6 times in the year. Board meetings are also attended by key members of the Company's management team.

All Directors receive appropriate and timely information and briefing papers in advance of the Management and Board meetings. Whilst day-to-day management of the Company is delegated to the management team, there is a formal schedule of matters reserved for decisions by the Board. These include such matters as the provision of guarantees or indemnities in respect of any liability and approval of the annual budget or engagement in any other activity.

Appointments to the Board are made in line with the Articles of Association. Swan Housing Association Limited has a Remuneration and Appointments committee that provides oversight for the Group, which includes Swan Housing Capital Plc. The Company does not have separate and dedicated Nominations and Remuneration committees as the size and nature of the Company does not warrant dedicated committees.

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. However, the Board of Swan Housing Association Limited completed its annual review of combined and individual member performance during the year. The Directors ensure that the Board is structured in such a way that each member of the Board is able to bring different experiences and skills to the operation of the Company and encourages and supports each Director to regularly update and refresh their skills and knowledge.

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 four members, two of which are Board members and two 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 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.

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 not identified nor been advised of any failings or weaknesses which it has determined to be significant during the course of its review of the systems of internal control.

The Board considers that the existing 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 2019 and at the date of this report, 50,000 ordinary shares of £1 each have been issued. At the year end, the shares remain partly paid at £0.25 per 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.

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 2019, 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 2019 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 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



Grant Thornton

Overview of our audit approach

- Overall materiality: £526,000, which represents 0.25% of the Company's total assets;
- There were no key audit matters identified during the course of the audit; and
- We performed full scope audit procedures over the financial statements of the Company, which included 100% coverage of the Company's assets, liabilities, income and expenditure.

Independent Auditor's Report to the Members of Swan Housing Capital Plc (Cont)

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.

We have determined that there are no key audit matters to communicate in our report.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our work and in evaluating the results of that work.

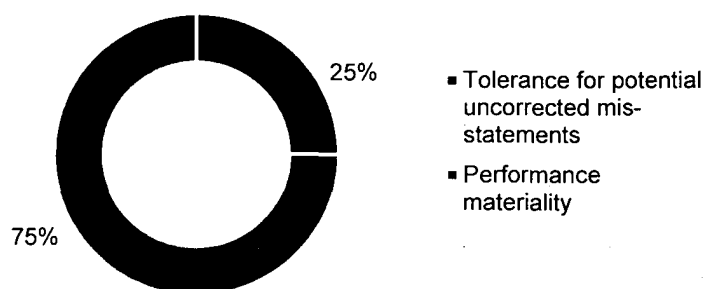
We determined materiality for the audit of the financial statements as a whole to be £526,000, which is 0.25% of the Company's total assets. This benchmark is considered the most appropriate as the Company does not actively trade and therefore total assets are monitored as the Company's ability to pay its obligations from finance raising activity is driven by its ability to recover its assets.

Materiality for the current year is the same as the level that we determined for the year ended 31 March 2018 to reflect that the Company does not generate profits, and recharges costs to the ultimate parent undertaking, Swan Housing Association Limited.

We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality.

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

Overall materiality



We also determine a lower level of specific materiality for certain areas such as Directors' remuneration and related party transactions.

We determined the threshold at which we will communicate misstatements to the Audit and Risk committee to be £26,300. In addition, we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

Independent Auditor's Report to the Members of Swan Housing Capital Plc (Cont)

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the Company's business, its environment and risk profile and in particular included:

- performing full scope audit procedures over the financial statements of the Company, which included 100% coverage over the Company's assets, liabilities, income and expenditure; and
- our audit approach in the current year is consistent with the audit approach adopted for the year ended 31 March 2018 being substantive in nature.

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

The objectives of our audit are to identify and assess the risks of material misstatement of the financial statements due to fraud or error; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud or error; and to respond appropriately to those risks. 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).

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- We obtained an understanding of the legal and regulatory frameworks applicable to the Company. We determined that the following laws and regulations were most significant: FRS 102, Companies Act 2006, UK Corporate governance code and taxation laws.
- We understood how the Company is complying with those legal and regulatory frameworks by, making inquiries to management and internal auditors. We corroborated our inquiries through our review of board minutes and papers provided to the Audit and Risk Committee.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the engagement team included:
 - identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud;
 - understanding how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process;
 - identifying and testing unusual journal entries; and
 - assessing the extent of compliance with the relevant laws and regulations.
- We did not identify any key audit matters relating to irregularities, including fraud.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements, 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 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.

Independent Auditor's Report to the Members of Swan Housing Capital Plc (Cont)

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 Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

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 Report of the Directors; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

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; or
- a Corporate Governance Statement has not been prepared by the Company.

Responsibilities of Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, 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.

Independent Auditor's Report to the Members of Swan Housing Capital Plc (Cont)

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.

Other matters which we are required to address

We were reappointed by the Audit and Risk Committee on 7 November 2017. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is five years.

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.



Tobias Wilson, BA (Hons), FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Norwich

27 August 2019

Statement of Comprehensive Income for the year ended 31 March 2019

	Notes	2019 £'000	2018 £'000
Interest receivable and similar income	3	7,640	7,640
Interest payable and similar charges	4	(7,640)	(7,640)
Profit on ordinary activities before taxation	2	-	-
Tax on profit on ordinary activities	5	-	-
Profit 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.

The accompanying accounting policies and notes form part of these financial statements.

Statement of Changes in Equity

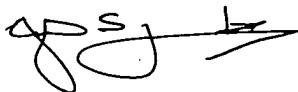
	Called up share capital £ '000	Income and expenditure reserve £ '000	Total £ '000
Balance as at 31 March 2017	13	-	13
Profit in the year being total comprehensive income for the year	-	-	-
Adjustment for partially paid share capital previously issued	37	-	37
Balance as at 31 March 2018	50	-	50
Profit in the year being total comprehensive income for the year	-	-	-
Balance as at 31 March 2019	50	-	50

Statement of Financial Position as at 31 March 2019

	Notes	2019 £'000	2018 £'000
Fixed asset investment	6	<u>209,884</u>	<u>209,855</u>
Current assets			
Debtors	7	579	579
Cash at bank and in hand		<u>13</u>	<u>13</u>
		592	592
Creditors: amounts falling due within one year	8	(542)	(542)
Net current assets		<u>50</u>	<u>50</u>
Total net assets less current liabilities		209,934	209,905
Creditors: amounts falling due after more than one year	9	(209,884)	(209,855)
Net assets		<u>50</u>	<u>50</u>
Capital and reserves			
Called up share capital	12	50	50
Income and expenditure reserve		-	-
Equity shareholders' funds		<u>50</u>	<u>50</u>

The accompanying accounting policies and notes 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 11 July 2019



John D Synnuck
Director

Company Registration Number: 09362244

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 2019 were authorised for issue by the Board of Directors on 11 July 2019. Swan Housing Capital Plc is incorporated and domiciled in England and Wales. 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 Judgements and key sources of estimation uncertainty

The preparation of 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 (apart from those involving estimates) has the most significant impact on the amounts recognised in the financial statements.

Financial instrument classification

The Loans to 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.

The terms of the Loans to the Original Borrower included a non-utilisation clause whereby the Directors have an accounting policy choice 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 existed 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 basic financial instruments as their terms match those of the Loans to the Original Borrower (except for the non-utilisation clause).

1.4 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 company. 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.

1.5 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).

Notes to the Financial Statements (Cont)

1.6 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 substantially 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.

1.7 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 under the Loans to the Original Borrower agreement. 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 2018 and 2019 there is no non utilised element of the bond.

1.8 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.

1.9 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.

1.10 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 using discount of 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.

Notes to the Financial Statements (Cont)

1.11 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.

1.12 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.

1.13 Fixed asset investments

Fixed asset investments are recognised at amortised cost 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 £6,000 (2018: £6,000) were borne by Swan Housing Association Limited, along with other administrative expenses, as per the Bond Loan Agreement.

3. Interest receivable and similar income

	2019 £'000	2018 £'000
Interest receivable from ultimate parent undertaking	<u>7,640</u>	<u>7,640</u>

Under the terms of the Bond Loan Agreement the ultimate parent company 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 ultimate parent company 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

	2019 £'000	2018 £'000
Interest payable and other charges relating to the Bond	<u>7,640</u>	<u>7,640</u>

5. Tax on profit on ordinary activities

	2019 £'000	2018 £'000
Current tax		
UK corporation tax on profit for the year at 19% (2018: 19%)	<u>-</u>	<u>-</u>
Tax charge on profit on ordinary activities recorded in the Statement of Comprehensive Income	<u>-</u>	<u>-</u>

There are no differences between the profit on ordinary activities before tax multiplied by the tax rate of 19% (2018: 19%) and the tax charge on profit on ordinary activities.

There are no unrecognised deferred tax assets or liabilities at either 31 March 2019 or 2018.

Factors impacting future taxes

The UK Government has announced that the rate of UK Corporation tax will reduce to 17% with effect from 1 April 2020.

Notes to the Financial Statements (Cont)

6. Fixed asset investments

	2019 £'000	2018 £'000
Amounts owed by Original Borrower	210,000	210,000
Less: issue costs	(1,789)	(1,853)
Less: bond discount and premium	1,673	1,708
	<u>209,884</u>	<u>209,855</u>

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 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

	2019 £'000	2018 £'000
Unpaid called up share capital	37	37
Amounts receivable from ultimate parent undertaking	542	542
	<u>579</u>	<u>579</u>

8. Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Other creditors (accrued bond coupon)	<u>542</u>	<u>542</u>

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

	2019 £'000	2018 £'000
Amounts due to the Bond investors	210,000	210,000
Less: issue costs	(1,789)	(1,853)
Less: bond discount and premium	1,673	1,708
	<u>209,884</u>	<u>209,855</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. None of the retained bond was issued during the year (2018: £nil). Security is provided to bond holders in the form of housing properties. The Bond pays a fixed rate of interest at 3.625% semi-annually.

10. Financial instruments

The Company's financial instruments comprise 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.

Notes to the Financial Statements (Cont)

10. Financial instruments (cont)

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. The Directors consider the credit risk to be very low owing to the fact that the Swan Housing Association Limited is an established business, with a strong asset base, operates in a regulated industry and has well understood budgetary, business planning and scenario testing processes and procedures.

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 Swan Housing Capital Plc 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.

The Company's financial instruments are summarised as follows:

	2019 £'000	2018 £'000
Financial assets:		
classified as debt instruments (amortised cost)		
Loans to Original Borrowers	209,884	209,855
Amounts receivable from Group undertakings	542	542
Cash and cash equivalents	13	13
	<u>210,439</u>	<u>210,410</u>
	2019 £'000	2018 £'000
Financial liabilities:		
classified as basic financial liabilities (amortised cost)		
Other creditors (accrued bond coupon)	542	542
Amounts due to the Bond investors	209,884	209,855
	<u>210,426</u>	<u>210,397</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
2019					
Amounts due to the Bond investors	-	7,612	30,450	392,157	430,219
	<u>-</u>	<u>7,612</u>	<u>30,450</u>	<u>392,157</u>	<u>430,219</u>
2018					
Amounts due to the Bond investors	-	7,612	30,450	399,770	437,832
	<u>-</u>	<u>7,612</u>	<u>30,450</u>	<u>399,770</u>	<u>437,832</u>

Amounts due to the Bond Investors reflect the gross payments due on the £210,000,000 of the Bond that was issued to external investors less the unamortised issue costs and bond discount/premium.

Notes to the Financial Statements (Cont)

10. Financial instruments (cont)

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:

	2019 £'000	2018 £'000
Fixed rate borrowings	210,000	210,000

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 £210,000,000 issued leaving the Company £40,000,000 available and undrawn.

Fair values

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

	At Fair Value 2019 £'000	Book Value 2019 £'000
Financial asset		
Loans to Original Borrowers	247,101	209,884
Loans and receivables	542	542
Cash and cash equivalents	13	13
At 31 March 2019	247,656	210,439
	2019 £'000	2019 £'000
Financial liabilities		
Other creditors	542	542
Fixed rate secured bonds	247,101	209,884
At 31 March 2019	247,643	210,426
	At Fair Value 2018 £'000	Book Value 2018 £'000
Financial asset		
Loans to Original Borrowers	241,494	209,855
Loans and receivables	542	542
Cash and cash equivalents	13	13
At 31 March 2018	242,049	210,410
	2018 £'000	2018 £'000
Financial liabilities		
Other creditors	542	542
Fixed rate secured bonds	241,494	209,855
At 31 March 2018	242,036	210,397

Notes to the Financial Statements (Cont)

10. Financial instruments (cont)

Fair values (cont)

The fair value of the loans to Original Borrowers is based on the market value of similar debt instruments at 31 March 2019. The terms of the loan to the Original Borrowers are fixed therefore no adjustment has been made to align the book value to fair value.

The fair value of the fixed rate secured the Bond is based on market value at 31 March 2019. The terms of the Bond are fixed therefore no adjustment has been made to change the book 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.

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 and its subsidiaries which receive a significant proportion of their rents from the public sector.

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 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:

	2019 £'000	2018 £'000
Fixed asset investment	209,884	209,855
Cash and cash equivalents	13	13
Equity	50	50
Total capital	<u>209,947</u>	<u>209,918</u>

The Company has honoured all its covenant obligations since the Bond issuance to the Debt Capital Markets on 5 March 2015.

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

12. Called up share capital

	2019 £000	2018 £'000
Allocated, issued and partially paid		
50,000 ordinary shares of £1 each, 25p paid	13	13
50,000 ordinary shares of £1 each, 75p unpaid	37	37
	<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.

13. 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.

Notes to the Financial Statements (Cont)

14. 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 under the Co-operative and Community Benefit Societies Act 2014. Consolidated financial statements of Swan Housing Association Limited can be obtained from the Company Secretary at Pilgrim House, High Street, Billericay, Essex, CM12 9XY.

15. 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 which at 31 March 2019 were £369,521 (2018: £nil).