

Registered Company No: 11284173

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SWAN HOUSING FINANCE LIMITED
Annual Report and Financial Statements
Year ended 31 March 2022



Swan Housing Finance Limited
Year ended 31 March 2022

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Swan Housing Finance Limited
Year ended 31 March 2022

Directors, Advisors and Bankers

Directors	Susan Hickey (appointed 10 January 2022) Elizabeth Sipiery (appointed 1 October 2022) Jeremy Vickers (appointed 24 December 2021, resigned 30 September 2022) John Synnuck (resigned 10 January 2022) James King (resigned 24 December 2021)
Secretary	Susan McBride
Registered Office	Pilgrim House High Street Billericay Essex CM12 9XY
Company Registration Number	11284173
External Auditor	Grant Thornton UK LLP 30 Finsbury Square UK London EC2A
Solicitor	Devonshires 30 Finsbury Circus London EC2M 7DT
Banker	Royal Bank of Scotland Plc 29 East Walk Basildon Essex SS14 1HD

Swan Housing Finance Limited
Year ended 31 March 2022

Report of the Directors

The Directors submit their report and the audited financial statements for the year ended 31 March 2022.

Principal activity

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

The Company commenced operation on 29 March 2019 when it drew down funding from the Homes and Communities Agency ('HCA') under a loan facility agreement for £30 million which it agreed with the HCA on 31 January 2019 (the 'Homes England Loan Facility').

The Company advances funds to Swan New Homes Limited and Swan Commercial Services Limited, both fellow group undertakings (together referred to herein as the 'Borrowers'), under a facility agreed on 29 March 2019 (the 'Operating Facility').

Results and dividends

The profit for the year to 31 March 2022 amounted to £nil (2021: £nil).

The Directors are satisfied with the operation and progress of the Company during the year and do not recommend the payment of a dividend in respect of the period ended 31 March 2022.

Principal risks and uncertainties

The risks facing Swan Housing Association Limited could have a material effect on the performance of the Company. A list of the principal risks can be found in the Group'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 £125 million in Swan New Homes Limited (including £55m as a prior period adjustment) and £44 million in Swan Commercial Services Limited. Swan Housing Association, 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 discussions with Sanctuary are now at an advanced stage and would see Swan join the Sanctuary Group 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 Group. The rating was downgraded to BB- (CreditWatch Developing) on 7 October 2022 following the end of partnership discussions with Orbit and was upgraded to BB- (CreditWatch Positive) on 1 December as the business combination with Sanctuary progressed.

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.

Credit risk

The Company is dependent on receipt of funds from the Borrowers in order to meet its contractual obligations under the Homes England Loan Facility. The credit risk is that the Borrowers fail to reimburse the Company. The loans are secured by fixed charge over the funded development sites of the Borrowers. The wider Group is an established business with a continuing strong asset base, has financially supported the Borrowers during the year, operates in a regulated industry, and has improved budgetary, business planning and scenario testing processes and procedures. The Group is in advanced discussions to join the Sanctuary Group.

The Directors therefore consider the credit risk to be low. No impairment loss has been recorded in relation to the fixed asset investment.

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Strategic Report (continued)

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 Operating Facility into which the Company has entered with the Borrowers. 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 Group, where material uncertainty casts doubt over its ability to continue as a going concern.

Various security and contractual arrangements, as described in Notes 9 and 10 to these financial statements, are in place to mitigate these risks.

Going Concern

At the balance sheet date, the Company had net assets of £1 and net current assets of £1 (2021 net assets £1 and net current assets £1). At 31 March 2022, the Company had provided funds to Swan New Homes Limited and Swan Commercial Services Limited, fellow group companies, for the purposes of the development of properties for sale at its Beechwood and Laidon sites. The loans due to the Company amount to £30 million excluding accrued interest and are due for repayment proportionally as sales of properties are achieved by the Borrower or 30 June 2025, if earlier. These terms correspond with the terms upon which the Company is due to repay amounts owed under the Homes England Loan Facility.

The Company receives regular updates on the financial position of the Borrowers, including forecast cashflows and development programmes under the Operating Facility. These forecasts enable the Company to monitor the ability of the Borrowers to meet their obligations to the Company. The Homes England Loan Facility is secured on the assets of Swan New Homes Limited and Swan Commercial Services Limited. As at 31 March 2022, drawn funds for Swan New Homes Limited are £16.5 million (2021: £16.5 million) and for Swan Commercial Services Limited £13.5 million (2021: £13.5 million).

During the year the Borrowers have made impairment and contract provisions totalling £169 million which have been met from reserves and £150 million forgiveness of debt by Swan Housing Association Limited. Lending within the Group is subject to a limit which has needed to be temporarily increased due to cost overruns and delays in scheme completions. The necessary increase, along with a stand-still period during which covenant compliance is either not assessed or for which measurement requirements have been relaxed, has been agreed with relevant lenders on a short-term basis, until the planned acquisition by Sanctuary Affordable Housing Limited in February 2023.

The financial plans on which the Board has made its assessment of Going Concern, are predicated on the completion of the acquisition of the Swan Group by Sanctuary Affordable Housing Limited. The continued operational existence of the Company is dependent on the completion of the acquisition, scheduled for 8 February 2023. The required refinancing of Swan Housing Association during the going concern assessment period, renegotiation of covenants and the fact that the plans will be implemented by a new board and management team are considered individually and in aggregate to represent material uncertainties, which may cast significant doubt on 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 a 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.

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 Operating Facility agreed with the HCA

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Report of the Directors (cont.)

The Company is primarily a conduit for procuring funding therefore the Board of Directors monitor the availability of cashflows to and from its Borrowers as the key performance indicator.

During the period all cash flows were readily available to and from its Borrowers and therefore showed a favourable performance against this objective.

Financial risk management objectives

The Directors' approach to financial risk management objectives and exposures have been set out in Notes 9 and 10 of these financial statements.

Directors

The Directors who held office during the year and at the date of this report are noted on page 3.

Directors' Indemnity Insurance

The Company maintains directors' and officers' liability insurance for its Board members and officers, which is renewed annually.

Statement of Directors' responsibilities

The Directors are responsible for preparing 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 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 period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting 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.

Disclosure of information

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.

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.

In preparing this report, the Directors have taken advantage of the small companies' exemption Part 15 of the Companies Act 2006.

Approved by the Board of Directors and signed on their behalf by:

Susan Hickey
7 February 2023



Swan Housing Finance Limited
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Independent Auditor's Report to the Members of Swan Housing Finance Limited

Opinion

We have audited the financial statements of Swan Housing Finance Limited (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, 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 notes the required refinancing of its parent undertaking, Swan Housing Association Limited, during the going concern assessment period, renegotiation of covenants and the fact that the continued operational existence of the Company is dependent on the completion of the acquisition of the Swan Group by Sanctuary Affordable Housing Limited and that the plans will be implemented by a new board and management team. 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 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 company to cease to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, 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

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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.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matter 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 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; or
- The directors were not entitled to take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 6, 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, 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).

Swan Housing Finance Limited
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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' and the Companies Act 2006;
- We enquired of management 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;
- 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;
- 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.
- 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.

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 7/2/2023
 Date:

Swan Housing Finance Limited
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Statement of Comprehensive Income for the year ended 31 March 2022

	Notes	2022 £'000	2021 £'000
Interest receivable and similar income	3	1,455	1,240
Interest payable and similar charges	4	(1,455)	(1,240)
Profit on ordinary activities before taxation	2	-	-
Tax on profit on ordinary activities	5	-	-
Profit for the financial year being total comprehensive income		-	-

All activities related wholly to continuing operations.

The Company has no other comprehensive income in the current or prior years.

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

Statement of Changes in Equity

	Called up share capital £	Profit and loss reserve £	Total £
Balance at 31 March 2020	1	-	1
Profit in the year being total comprehensive income for the year	-	-	-
Balance as at 31 March 2021	1	-	1
Profit in the year being total comprehensive income for the year	-	-	-
Balance as at 31 March 2022	1	-	1

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Statement of Financial Position as at 31 March 2022

	Notes	2022 £'000	2021 £'000
Fixed asset investment	6	<u>33,029</u>	<u>31,574</u>
Current assets			
Debtors	7	12	-
Cash at bank and in hand		<u>-</u>	<u>-</u>
		12	-
Creditors: amounts falling due within one year	8	(12)	-
Net current assets		<u>-</u>	<u>-</u>
Total net assets less current liabilities		33,029	31,574
Creditors: amounts falling due after more than one year	9	(33,029)	(31,574)
Net assets		<u>-</u>	<u>-</u>
Capital and reserves			
Called up share capital	11	-	-
Income and expenditure reserve	12	-	-
Equity shareholders' funds		<u>-</u>	<u>-</u>

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

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

Susan Hickey
Director



Company Registration Number: 11284173

Swan Housing Finance Limited
Year ended 31 March 2022

Notes to the Financial Statements

1. Principal Accounting Policies

1.1 Company information

The financial statements of Swan Housing Finance Limited for the year ended 31 March 2022 were authorised for issue by the board of directors on 7 February 2023. Swan Housing Finance Limited is incorporated and domiciled in England and Wales. The Company's principal activity is to procure funding for a group headed by Swan Housing Association Limited (the 'Group').

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 Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS102, as it is a qualifying entity and its financial statements are included in the consolidated financial statements of its ultimate parent company, Swan Housing Association Limited (see note 12).

- the requirements of Section 4 Statement of Financial Position 4.12 (a)(iv);
- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c); and
- requirements of Section 33 Related Party Disclosures paragraph 33.7.

The Company has taken advantage of the exemption, under FRS 102 paragraph 1.12(b), from preparing a statement of cash flows, on the basis that it is a qualifying entity and its ultimate parent undertaking, Swan Housing Association Limited, includes the Company's cash flows in its consolidated financial statements.

1.3 Going concern

At the balance sheet date, the Company had net assets of £1 and net current assets of £1 (2021 net assets £1 and net current assets £1). At 31 March 2022, the Company had provided funds to Swan New Homes Limited and Swan Commercial Services Limited, fellow group companies, for the purposes of the development of properties for sale at its Beechwood and Laindon sites. The loans due to the Company amount to £30 million excluding accrued interest and are due for repayment proportionally as sales of properties are achieved by the Borrower or 30 June 2025, if earlier. These terms correspond with the terms upon which the Company is due to repay amounts owed under the Homes England Loan Facility.

The Company receives regular updates on the financial position of the Borrowers, including forecast cashflows and development programmes under the Operating Facility. These forecasts enable the Company to monitor the ability of the Borrowers to meet their obligations to the Company. The Homes England Loan Facility is secured on the assets of Swan New Homes Limited and Swan Commercial Services Limited. As at 31 March 2022, drawn funds for Swan New Homes Limited are £16.5 million (2021: £16.5 million) and for Swan Commercial Services Limited £13.5 million (2021: £13.5 million).

During the year the Borrowers have made impairment and contract provisions totalling £169 million which have been met from reserves and £150 million forgiveness of debt by Swan Housing Association Limited. Lending within the Group is subject to a limit which has needed to be temporarily increased due to cost overruns and delays in scheme completions. The necessary increase, along with a stand-still period during which covenant compliance is either not assessed or for which measurement requirements have been relaxed, has been agreed with relevant lenders on a short-term basis, until the planned acquisition by Sanctuary Affordable Housing Limited in February 2023.

The financial plans on which the Board has made its assessment of Going Concern, are predicated on the completion of the acquisition of the Swan Group by Sanctuary Affordable Housing Limited. The continued operational existence of the Company is dependent on the completion of the acquisition, scheduled for 8 February 2023. The required refinancing of Swan Housing Association during the going concern assessment period, renegotiation of covenants and the fact that the plans will be implemented by a new board and management team are considered individually and in aggregate to represent material uncertainties, which may cast significant doubt on 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.

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Notes to the Financial Statements (cont.)

1.3 Going concern (continued)

Nevertheless, after making enquiries, and considering the uncertainties described above, the directors have a 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 Significant judgements and estimates

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. Significant judgements are:

Financial instrument classification

The Company's borrowing and loans 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 Directors have concluded that these should both be reported as a basic financial instrument as there are no terms or conditions that indicate they should be reported as a non-basic financial instrument and as such is recognised at amortised cost in the Statement of Financial Position using the effective interest rate method.

Recoverability of fixed asset investment

The Directors have assessed the credit risk that the Borrowers fail to reimburse the Company. The loans are secured by fixed charge over the funded development sites of the Borrowers. The wider Group is an established business with a continuing strong asset base, has financially supported the Borrowers during the year, operates in a regulated industry, and has improved budgetary, business planning and scenario testing processes and procedures. The Group is in advanced discussions to join the Sanctuary Group. The Directors therefore consider the credit risk to be low and no impairment loss has been recorded in relation to the fixed asset investment.

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 Company. As a qualifying entity Swan Housing Finance Limited 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/payable

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

1.7 Current Taxation

Current tax is recognised for the amount of 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.

1.8 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.

1.9 Non-utilisation fee

The Homes England Loan Facility contains a provision for the Company to recover from its Borrowers any difference between the interest payable to Homes England and the interest receivable from amounts on-lent to Swan New Homes Limited and Swan Commercial Services Limited under the Operating Facility. If there was a non-utilised element of the loan facility, then the difference would be recognised as an asset in the Statement of Financial Position. As at 31 March 2022 there is no non utilised element of the loan facility.

Swan Housing Finance Limited
Year ended 31 March 2022

Notes to the Financial Statements (cont.)

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. Financial assets are measured subsequent to initial recognition 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.

Financial liabilities are measured subsequent to initial recognition 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.

1.13 Homes England Loan Facility issue and set up costs

Costs in relation to the issuance of basic debt instruments are amortised over the life of the instrument.

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.

2. Profit on ordinary activities before taxation

None of the Directors received any remuneration for their qualifying services as Directors from the Company during the current year (2021 – nil). The Company has no directly employed personnel in the current year.

Auditor's remuneration for audit services to the Company amounting to £9,000 (2021 - £5,000) were borne by Swan Housing Association Limited.

3. Interest receivable and similar income

	2022	2021
	£'000	£'000
Interest receivable from fellow subsidiary undertaking	<u>1,455</u>	<u>1,240</u>

Under the terms of the Operating Loan Facility the Borrowers are required to reimburse the Company all expenditure incurred in respect of the issue of the Homes England Loan Facility. Immediately after the first draw down under the Homes England Loan Facility the Company on-lent the proceeds to Swan New Homes Limited, which gave rise to interest receivable during the period; the terms of the on-lending agreement (the Operating Facility) mirror the terms of the Homes England Loan Facility.

Swan Housing Finance Limited
Year ended 31 March 2022

Notes to the Financial Statements (cont.)

4. Interest payable and similar charges

	2022 £'000	2021 £'000
Interest payable and other charges relating to the Homes England Loan Facility	1,388	1,157
Issue costs	67	83
	<u>1,455</u>	<u>1,240</u>

5. Tax charge 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 (2021: nil) 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 31 March 2022 (2021: nil).

Factors impacting future taxes

In the 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 substantially enacted at that time.

Swan Housing Finance Limited
Year ended 31 March 2022

Notes to the Financial Statements (cont.)

6. Fixed asset investment

	Amounts owed by Borrowers £'000	Issue costs £'000	Total £'000
Cost			
At 1 April 2021	31,883	(433)	31,450
Additions	1,388	-	1,388
	<hr/>	<hr/>	<hr/>
At 31 March 2022	33,271	(433)	32,838
	<hr/>	<hr/>	<hr/>
Amortisation			
At 1 April 2021	-	124	124
Charge for the year	-	67	67
	<hr/>	<hr/>	<hr/>
At 31 March 2022	-	191	191
	<hr/>	<hr/>	<hr/>
Net Book Value			
At 31 March 2022	33,271	(242)	33,029
	<hr/>	<hr/>	<hr/>
At 31 March 2021	31,883	(309)	31,574
	<hr/>	<hr/>	<hr/>

Loans to the Borrowers are considered to be fixed asset investments as they are intended for use on a continuing basis in the Borrower's activities. The Directors consider such loans to be held for the long term, they carry interest at EC Base Rate plus 4% and are repayable as proceeds are generated from the sale of properties at the development sites of the Borrowers funded by the loans or 30 June 2025 if earlier.

7. Debtors

	2022 £'000	2021 £'000
Amounts due from group undertakings	<hr/> 12	<hr/> -

The amounts due from group undertakings for valuation fees

8. Creditors: amounts falling due within one year

	2022 £'000	2021 £'000
Amounts due to Group Undertakings	<hr/> 12	<hr/> -

The amounts owed to group undertakings for valuation fees.

Swan Housing Finance Limited
Year ended 31 March 2022

Notes to the Financial Statements (cont.)

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

	2022 £'000	2021 £'000
Amounts due to Homes England	30,000	30,000
Add: Interest accrued	3,271	1,883
Less: Issue costs	(242)	(309)
	<u>33,029</u>	<u>31,574</u>

Under the terms of the Loan Facility Agreements the Borrowers are committed to repay their indebtedness to the Company to enable the Company to reimburse Homes England. The loans advanced to the Company of £30,000k (2021: £30,000k) carry interest at EC Base Rate plus 4% and are repayable (including accrued interest) as proceeds are generated from the sale of properties at the development sites of the Borrowers funded by the loans or 30 June 2025, if earlier. Interest payable of £3,271k has been capitalised (2021: £1,883k). The total loan facility was for £30,000,000 leaving no further funds to withdraw. The loans are secured by fixed charge over the funded development sites of the Borrowers under the on-lending agreements referred to in note 6 above and floating charge over the assets of the Borrowers. The security is subject to an intercreditor deed which sets out the relevant priorities of the Company taken together with other lenders to the Borrowers.

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 Borrowers and other Group entities.

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 Borrowers in order to meet its contractual obligations under the Homes England Loan Facility. The credit risk is that the Borrowers fail to reimburse the Company. The loans are secured by fixed charge over the funded development sites of the Borrowers. The wider Group is an established business with a continuing strong asset base, has financially supported the Borrowers during the year, operates in a regulated industry, and has improved budgetary, business planning and scenario testing processes and procedures. The Group is in advanced discussions to join the Sanctuary Group.

The Directors therefore consider the credit risk to be low. 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 Operating Facility into which the Company has entered with the Borrowers. 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 Group, where material uncertainty casts doubt over its ability to continue as a going concern.

Various security and contractual arrangements, as described in Notes 9 and 10 to these financial statements, are in place to mitigate these risks.

Swan Housing Finance Limited
Year ended 31 March 2022

Notes to the Financial Statements (cont.)

10. Financial instruments (cont.)

The Company's financial instruments are summarised as follows:

	2022 £'000	2021 £'000
Financial assets:		
classified as debt instruments (amortised cost)		
Loans to Borrowers net of issue costs	33,029	31,574
Amounts due from group undertakings	12	-
	<u>33,041</u>	<u>31,574</u>
Financial liabilities:		
classified as basic financial liabilities (amortised cost)		
Amounts due to Homes England net of issue costs	33,029	31,574
Amounts due from group undertakings	12	-
	<u>33,041</u>	<u>31,574</u>

Interest rate risk

The Company has no exposure to interest rate risk as all amounts owed to Homes England are at the same rate of interest as the interest receivable on amounts due from the Borrowers on amounts lent under the Operating Loan Facility.

There are no other interest-bearing assets or liabilities.

Foreign currency risk

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

11. Called up share capital

	2022 £	2021 £
Allocated, issued and fully paid		
1 Ordinary shares of £1 each	<u>1</u>	<u>1</u>

Upon incorporation the Company issued 1 share to provide working capital to establish the operations of the Company. There is only one class of share. All of the shares in issue are held by Swan Housing Association Limited. There are no special rights attached to the shares.

12. Reserves

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

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.

14. Ultimate parent undertaking

Swan Housing Finance Limited 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. At 31 March 2022, the VAT group had a liability of £126k (2021: £431k liability).