

Company Registration Number: 06992513

**Sovereign Housing Capital Plc
Annual Report and Financial Statements
For the Year Ended 31 March 2011**

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COMPANIES HOUSE

Executives and Advisers

Directors

Martin Huckerby
William Champion
Ann Santry

Secretary

Valerie Lynch

Registered Office

Woodlands
90 Bartholomew Street
Newbury
Berkshire
RG14 5EE

Auditors

KPMG LLP
Arlington Business Park
Theale
Reading
Berks RG7 4SD

Principal Solicitors

Trowers & Hamlins
Sceptre Court
40 Tower Hill
London
EC3N 4DX

Devonshires Solicitors
30 Finsbury Circus
London
EC2M 7DT

Bankers

National Westminster Bank Plc
30 Market Place
Newbury
RG14 5AJ

Report of the Directors

The Board of Directors (the Board) are pleased to present the report and audited financial statements for the year ended 31 March 2011. This report gives an overview of the financial affairs of Sovereign Housing Capital Plc ("the Company") during the year to 31 March 2011.

Directors

The Directors are listed on Page 1.

None of the Directors held, at any time during the year, any beneficial interest in the shares of the Company.

Principal Activities and Objectives

The principal activity of Sovereign Housing Capital Plc is to issue bonds to investors and to hold the issue proceeds until these are on-lent to Sovereign Advances Ltd.

In order to issue bonds to the public it is a legal requirement that the issuer is a public limited company (Plc). Sovereign Housing Capital Plc is wholly owned by The Sovereign Housing Group Ltd and has authorised share capital of 50,000 ordinary £1 shares, of which issued capital is £12,500 made up of 50,000 shares of £0.25.

Performance during the year

During the year, Sovereign Housing Capital Plc has continued to on-lend the bond proceeds received in 2009 to Sovereign Advances Ltd.

Gift Aid

During the year, gift aid payments were made to Sovereign Housing Group Limited of £953 (2010 £116).

Going Concern

As a result of their enquiries the Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, being a period of 12 months after the date on which the report and Financial Statements are signed. For this reason, it continues to adopt the going concern basis in the Financial Statements.

Statement of Responsibilities of Directors for the Report of the Directors and Financial Statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for the year. In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Disclosure of Information to Auditors

The Directors who held office at the date of approval of this Report confirm that, so far as they are aware, there is no relevant audit information of which the auditors are unaware, and the Directors have taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Each of the persons who is a director at the date of approval of this report confirms that

- a) So far as each director is aware, there is no relevant audit information of which the group's auditor is unaware, and
- b) Each director has taken all the steps that he ought to have taken in his duty as a director in order to make him aware of any relevant audit information and to establish that the group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Internal Control Assurance Statement

The Directors have overall responsibility for establishing and maintaining the whole system of internal control and for reviewing its effectiveness

The Directors recognise that no system of internal control can provide absolute assurance or eliminate all risk. The system of internal control is designed to manage risk and to provide reasonable, but not absolute, assurance that key business objectives and expected outcomes will be achieved. It also exists to give reasonable assurance about the preparation and reliability of financial information and the safeguarding of the Company's assets and interests.

In meeting its responsibilities, the Directors have adopted a risk-based approach to internal controls which are embedded within the normal management and governance process.

In particular the Company has adopted the same rigorous authorisation and control procedures for commitments, expenditure, bank accounts and accounting transactions as that of the parent companies, and is in the process of implementing an internal audit schedule to ensure these procedures are being complied with.

The report of the Directors was approved on 16 September 2011 and signed on its behalf by

BY ORDER OF THE BOARD



Valerie Lynch
Secretary

Report of the Independent Auditor's to Members of Sovereign Housing Capital Plc

We have audited the financial statements of Sovereign Housing Capital Plc for the year ended 31 March 2011 set out on pages 7 to 12. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 3 and 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 March 2011 and of its result for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or

Report of the Independent Auditor's

- 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



Chris Wilson (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Arlington Business Park
Theale
Reading
Berkshire
RG7 4SD

20 September 2011

Profit and Loss Account

For the Year Ended 31 March 2011

	Note	2011 £'000	2010 £'000
Turnover		-	-
Operating costs		(5)	(4)
Operating loss	3	<u>(5)</u>	<u>(4)</u>
Interest receivable and similar income		10,032	5,530
Interest payable and similar charges		<u>(10,027)</u>	<u>(5,526)</u>
Profit on ordinary activities before taxation		-	-
Tax on profit on ordinary activities	4	-	-
Profit for the year	11	<u>-</u>	<u>-</u>

The results relate wholly to continuing activities

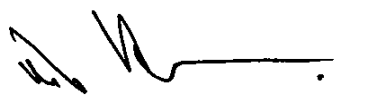
The Company has no recognised gains or losses other than those included in the income and expenditure account and therefore no separate statement of total recognised gains and losses has been presented

The notes on pages 9 to 12 form part of the financial statements

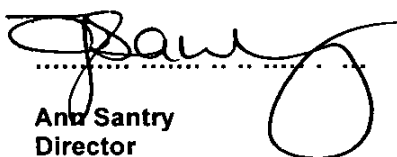
Balance Sheet**As at 31 March 2011**

	Note	2011 £'000	2010 £'000
Current assets			
Debtors amounts falling due after more than one year	6	175,000	175,000
Debtors amounts falling due within one year	6	578	537
Cash at bank and in hand	7	17	12
		<u>175,595</u>	<u>175,549</u>
Creditors amounts falling due within one year	8	(583)	(537)
Net current assets		<u>175,012</u>	<u>175,012</u>
Creditors amounts falling due after more than one year	9	(175,000)	(175,000)
Net assets		<u>12</u>	<u>12</u>
Capital and reserves			
Called up share capital	10	12	12
Profit and loss account		-	-
Total equity shareholders' funds	11	<u>12</u>	<u>12</u>

The financial statements were approved by the Board on 16 September 2011 and were signed on its behalf by



Martin Huckerby
Director



Ann Santry
Director



Valerie Lynch
Secretary

The notes on pages 9 to 12 form part of the financial statements

Notes to the Financial Statements

For the Year Ended 31 March 2011

1. Legal Status

The Company is a Public Limited Company registered in England and Wales under the Companies Acts

2. Principal Accounting Policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies that have been applied consistently, unless otherwise stated, is set out below

(a) Basis of accounting

The financial statements are prepared on the historical cost basis. The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Report of the Directors. The financial position of the company, its cash flows, liquidity position and borrowing facilities are directly related to the position of the overall Sovereign Housing Group Limited. As such, details of this Group wide position are described in the consolidated financial statements of Sovereign Housing Group Limited, available to the public from the address in note 13.

The company meets its day-to-day working capital requirements through intergroup borrowings. Taking account of reasonably possible changes in trading performance, the company will be able to operate within the level of its currently available funding.

The directors have concluded there is no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of this parent undertaking to continue as a going concern or the Sovereign Housing Group Limited's ability to continue with the current banking arrangements.

On the basis of their assessment of the company's financial position and support from the intermediate parent undertaking the company's directors have no reason to expect that the company will not be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

(b) Deferred Tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more or a right to pay less, tax in the future have occurred at the balance sheet date, with the following exception:

Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable surplus from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or subsequently enacted at the balance sheet date

(c) Cash Flow Statement

The Company is a wholly owned subsidiary of Sovereign Housing Group Limited. The cash flows of the Company are included in the consolidated Group cash flow statement of The Sovereign Housing Group Limited. Consequently the Company is exempt under the terms of Financial Reporting Standard 1 from publishing a cash flow statement.

(d) Financial instruments

The Company has adopted the Financial Reporting Standards pertaining to financial instruments. These were effective for the year ended 31st March because the company has a listed bond. The company has adopted FRS 25 Financial Instruments: Disclosure and Presentation, FRS 26 Financial Instruments: Measurements and FRS 29 Financial Instruments: Disclosures. Further details are given in note 9.

3. Operating Loss

	2011 £'000	2010 £'000
Operating loss is stated after charging:		
Auditors remuneration		
- in their capacity as auditors (incl VAT)	2	2
Gift aid	1	-
	<hr/>	<hr/>

4. Taxation

	2011 £'000	2010 £'000
Corporation tax payable	<hr/> -	<hr/> -

5. Payments to members and employees

No fees, expenses or benefits were paid to any Director. The Company has no employees.

6. Debtors

Sovereign Housing Capital Plc**Notes to the Financial Statements**

	2011 £'000	2010 £'000
Amounts falling due after more than one year:		
Amount owed by Group Undertaking	<u>175,000</u>	<u>175,000</u>
Amounts falling due within one year:		
Amount due from other group undertakings	<u>578</u>	<u>537</u>

7. Cash at Bank and in Hand

	2011 £'000	2010 £'000
Cash at bank	<u>17</u>	<u>12</u>
	<u>17</u>	<u>12</u>

8. Creditors – Amounts falling due within 1 year

	2011 £'000	2010 £'000
Accruals and deferred income	<u>583</u>	<u>537</u>
	<u>583</u>	<u>537</u>

9. Creditors – Amounts falling due after more than 1 year

	2011 £'000	2010 £'000
Housing loans	<u>175,000</u>	<u>175,000</u>
Analysis of debt Repayable by instalments in more than five years	<u>175,000</u>	<u>175,000</u>

Financial Risk Management

The Sovereign Housing Group's treasury function is responsible for the management of funds and control of associated risks. Its activities are governed by the group board which is responsible for treasury issues in all Sovereign Group legal entities. The treasury function does not operate as a profit centre.

Interest Rate Risk Hedging

The company currently borrows funds on a fixed rate basis from the capital markets and then on lends these funds to Sovereign Advances Limited (Sov Adv) on a similar fixed rated basis. As such the company does not bear any credit risk, apart from the underlying credit risk to Sov Adv which is discussed below. The company does not undertake any hedging activities and it does not have any derivatives.

Credit Risk

All of the company's capital markets financing proceeds are immediately on lent to Sov Adv, which represents the only credit risk to the company. The credit risk is mitigated through a number of factors, including the housing asset security which stands behind the loan to Sov Adv, the overall creditworthiness of Sov Adv borrowers, the guarantees which Sov Adv borrowers have issued to Sov Adv and the contractual protections in the loan agreement itself. The company is also not obliged to source further funding from the capital markets for on lending to Sov Adv unless it continues to be satisfied with Sov Adv credit worthiness. It should be noted that the Sovereign Group, which comprises Sov Adv and the Sov Adv borrowers, benefits from strong credit ratings with Moody's Investor services (Aa2) and Standard & Poor's (AA-).

10. Called Up Share Capital

	2011 £'000	2010 £'000
Authorised 50,000 ordinary shares of £1	50	50
Allotted called up and partly paid @ 25p each		
At 1 April	12	-
Issued during the year	-	12
As at 31 March	12	12

11. Reconciliation of Movements in Shareholders Funds

At the year end, there were no movements on the shareholders funds (2010 Nil)

12. Related Party Transactions

The Company has utilised the exemption under Financial Reporting Standard 8, as a wholly owned subsidiary undertaking not to disclose transactions with other entities that are part of, or investees in The Sovereign Housing Group Limited.

13. Parent Undertaking

The Company's ultimate parent undertaking is The Sovereign Housing Group Limited, which is incorporated in Great Britain as an Industrial and Provident Society. The results of the Company

are consolidated in the Group headed by The Sovereign Housing Group Limited and the consolidated financial statements for the Group are available from the registered office of the parent at Woodlands, 90 Bartholomew Street, Newbury, Berkshire RG14 5EE