

**SUNDERLAND (SHG) FINANCE PLC**

**Annual Report**

**For the year ended 31 December 2019**

**Companies House no: 04226284**

# SUNDERLAND (SHG) FINANCE PLC

## Annual report and financial statements for the year ended 31 December 2019

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### Directors

C. Burke  
F. Edge  
D. Stokes (appointed 1st November 2019)  
P. Williamson

### Company Secretary

C. Apthorpe (appointed 12<sup>th</sup> November 2019)

### Registered Office

3<sup>rd</sup> Floor  
17 St Swithin's Lane  
London  
EC4N 8AL

### Company Number

04226284

### Independent Auditor

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

# SUNDERLAND (SHG) FINANCE PLC

## DIRECTORS' REPORT

Year ended 31 December 2019

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The directors submit their Directors' report, Strategic report and audited financial statements for the year ended 31 December 2019.

## RESULTS AND DIVIDEND

Sunderland (SHG) Finance Plc (the **company**) made neither a profit nor a loss for the year (2018: £Nil). The directors do not propose the payment of a dividend (2018: £Nil).

## SHARE CAPITAL AND COMPANY STRUCTURE

Sunderland (SHG) Finance Plc is a public limited company incorporated and domiciled in England and Wales. The entire issued share capital of the company is owned by Prudential Trustee Company Limited.

## DIRECTORS

The directors of the company who served throughout the year and up to the date of signing the financial statements were:

C. Burke  
F. Edge  
D. Stokes (appointed 1st November 2019)  
P. Williamson

## CORPORATE GOVERNANCE

As an issuer of asset-backed securities (the **secured bonds**), the operations of the company are conducted by an administrator, T.H.F.C. (Services) Limited, in accordance with the requirements of a corporate services agreement and the trust deed. This arrangement is monitored by the board of directors who are also directors of the administrator. There is no requirement for a separate audit committee.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (**IFRSs**) as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;

**DIRECTORS' REPORT (continued)**

**Year ended 31 December 2019**

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- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of any information published on the administrator's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**DISCLOSURE OF INFORMATION TO AUDITOR**

In the case of each director in office at the date the Directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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

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



Colin Burke

**Director**

10 March 2020

**STRATEGIC REPORT**

**Year ended 31 December 2019**

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**PRINCIPAL ACTIVITIES**

The principal activity of the company is to provide finance for housing associations to registered providers of social housing, registered social landlords and registered housing associations, in England, Wales, Scotland and Northern Ireland (**HAs**) through the issue of bonds ultimately secured on the assets of the company (the **secured bonds**).

The company issued its first secured bonds to provide such finance on 26 June 2001. The company on-lent the proceeds to Gentoo Group Limited (**GGL**) via T.H.F.C. (Capital) Plc (**THFCC**) (the **borrower**) which is an aggregating intermediary for loans to GGL.

All the company's operating costs, net of interest earned, are recoverable from the borrower.

Prudential Trustee Company Limited acts as the trustee on behalf of all secured bondholders, under the terms of a trust deed, and has the benefit of a fixed charge over certain assets of GGL and a floating charge over all the assets of the issuer.

The bond trustee may exercise certain powers in predetermined circumstances in the event of default by the borrower.

The company expects to continue its principal activity for the life of the secured bonds, which have a final repayment date of 2042.

The company does not use derivative financial instruments in its risk management procedures.

**REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS**

The company has fulfilled its obligations under the bonds. Given the straight forward nature of the business, the company's directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance or position of the business. The directors consider the position of the company at the year end to be satisfactory.

**FINANCIAL RISK MANAGEMENT**

The key financial risks of the company and how they are minimised are explained in note 3.

**SECTION 172(1) STATEMENT**

**Long-term consequences**

The Board's objective is to have a long-term beneficial impact on the company and the wider affordable housing sector through the delivery of cost-effective funding to T.H.F.C. (Capital) Plc (**THFCC**). THFCC on-lends the proceeds of its funding from the company to Gentoo.

The length and secured nature of the loan to THFCC requires the company to ensure that both the borrower and the company will continue to meet their respective legal and other obligations to both the company and bondholders as detailed in the relevant transaction documents.

The loan agreement stipulates that all on going costs of the issuer are recoverable from the borrower. All expenses of the company are funded before they are incurred.

Material risks of the borrower are monitored by its board on a regular basis. The majority of Board members of the issuer are also Board members of the borrower.

### **Interests of employees**

Due to the nature of the activities of the business the only employees are the Board of Directors. Each of these employees has a say over the decisions of the business and has full knowledge of all decisions taken throughout the year. There are no plans for the business to hire further employees in the foreseeable future.

### **Foster business relationships**

The company has one borrower which is a related party of the company and the majority of the company's Board also serve on the borrower's Board.

The administrator provides relationship management services (for liaison with THFCC and Gentoo) including query resolution and general assistance with loan agreements and any special transactions), regular engagement with bondholders (including periodic publication of financial and compliance information), financial services (which includes management of relationships with suppliers and ensuring the efficient collection and distribution of coupons between the borrowers and investors (or their duly appointed agent)) and secretarial services to manage compliance obligations of the issuer and borrowers.

Lending requires a constant focus on maintaining stakeholder relationships and the administrator's team has a wealth of experience in all relevant areas.

### **Impact of operations on community and environment**

Our corporate objective, and that of our related party borrower, is to deliver cost-effective funding to housing associations. In so doing, we aim to boost the provision and quality of affordable housing for the benefit of tenants and communities throughout the UK. The company operates on a not-for-profit basis and makes no surplus or loss after cost recoveries.

The company ensures its employees are aware of the changing landscape of regulation and best practice, whether environmental or social in nature. Every effort is made to consider the environmental impact of decisions taken, although due to the nature of its activities the company's direct environmental impact is limited.

### **Maintaining reputations**

The intention of the Board is to operate the business responsibly and in line with the good industry practice and governance expected of a lending business and in so doing, will contribute to the delivery of our plan. The ongoing operations of the business are conducted by an administrator under a corporate services agreement. This arrangement is monitored by the Board of the administrator through periodic reporting.

### **Acting fairly between members of the company**

As a Board of Directors, we have a responsibility to act fairly between members of the company.

The entire issued share capital of the company is held by the Prudential Trustee Company Limited (PTCL) on a fiduciary basis on behalf of qualifying charities as defined in the Declaration of Trust. PTCL also acts as bond trustee on behalf of bondholders.

**SUNDERLAND (SHG) FINANCE PLC**

**STRATEGIC REPORT (continued)**

**Year ended 31 December 2019**

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

A handwritten signature in black ink, appearing to read 'Colin Burke', written in a cursive style.

Colin Burke

**Director**

10 March 2020

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SUNDERLAND (SHG) FINANCE PLC**

**Year ended 31 December 2019**

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**Opinion**

We have audited the financial statements of Sunderland (SHG) Finance Plc (the **company**) for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows and the 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 International Financial Reporting Standards (**IFRSs**) as adopted by the European Union.

**In our opinion, the financial statements:**

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its result for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**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.

**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.

**Other information**

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. 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 work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.



## **SUNDERLAND (SHG) FINANCE PLC**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SUNDERLAND (SHG) FINANCE PLC (continued)** **Year ended 31 December 2019**

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We have nothing to report in this regard.

#### **Opinion 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 Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

#### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

#### **Responsibilities of directors**

As explained more fully in the Statement of Directors' Responsibilities set out on pages 1 to 2, 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**SUNDERLAND (SHG) FINANCE PLC**

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SUNDERLAND (SHG) FINANCE  
PLC (continued)  
Year ended 31 December 2019**

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**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.

*Nexia Smith & Williamson*

Guy Swarbreck  
Senior Statutory Auditor, for and on behalf of  
**Nexia Smith & Williamson**  
Statutory Auditor  
Chartered Accountants

25 Moorgate  
London  
EC2R 6AY

12 March 2020

**SUNDERLAND (SHG) FINANCE PLC****STATEMENT OF COMPREHENSIVE INCOME****Year ended 31 December 2019**

	Note	2019 £	2018 £
<b>OPERATING INCOME</b>			
Interest receivable	4	13,574,222	13,574,373
Costs receivable from borrower		<u>27,705</u>	<u>25,592</u>
		<u>13,601,927</u>	<u>13,599,965</u>
<b>OPERATING EXPENDITURE</b>			
Interest payable	5	13,574,222	13,574,373
Operating expenses		<u>27,705</u>	<u>25,592</u>
		<u>13,601,927</u>	<u>13,599,965</u>
<b>RESULT BEFORE AND AFTER TAXATION</b>	6	<u>-</u>	<u>-</u>
Other comprehensive income		<u>-</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<u><u>-</u></u>	<u><u>-</u></u>

There have been no changes in equity or reserves in the current or prior year, therefore no separate statement of changes in equity has been prepared.

**SUNDERLAND (SHG) FINANCE PLC****STATEMENT OF FINANCIAL POSITION**  
**As at 31 December 2019**

	Note	2019 £	2018 £
<b>ASSETS</b>			
<b>Non-current assets</b>			
Loan to borrower	8	<b>212,854,135</b>	212,856,854
<b>Current assets</b>			
Other receivables	9	<b>3,437,837</b>	3,438,223
Cash and cash equivalents		<b>12,500</b>	12,500
<b>TOTAL ASSETS</b>		<b>216,304,472</b>	216,307,577
<b>EQUITY AND LIABILITIES</b>			
<b>Current liabilities</b>			
Other payables	10	<b>3,437,837</b>	3,438,223
<b>Non-current liabilities</b>			
Financial liabilities – secured bonds	11	<b>212,854,135</b>	212,856,854
<b>TOTAL LIABILITIES</b>		<b>216,291,972</b>	216,295,077
<b>Equity</b>			
Share capital	12	<b>12,500</b>	12,500
Retained earnings		-	-
<b>TOTAL EQUITY</b>		<b>12,500</b>	12,500
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>216,304,472</b>	216,307,577

The accompanying notes on pages 12-26 are an integral part of these financial statements.

These financial statements on pages 9-26 were approved by the board and signed on its behalf by:



Fenella Edge  
**Director**  
10 March 2020

Sunderland (SHG) Finance Plc

Registered No. 04226284

**SUNDERLAND (SHG) FINANCE PLC****STATEMENT OF CASH FLOWS****Year ended 31 December 2019**

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	Note	2019 £	2018 £
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash generated from/(used in) operations	13	-	-
Interest received on loan		<b>13,576,768</b>	13,576,768
Interest paid on secured bonds		<b>(13,576,768)</b>	(13,576,768)
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>		<u>-</u>	<u>-</u>
<b>NET MOVEMENT IN CASH AND EQUIVALENTS IN THE YEAR</b>		-	-
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>		<u>12,500</u>	<u>12,500</u>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>		<u>12,500</u>	<u>12,500</u>

## 1 GENERAL INFORMATION

Sunderland (SHG) Finance Plc (the **company**) provides finance for registered providers of social housing, registered social landlords and registered housing associations, in England, Wales, Scotland and Northern Ireland (HAs ). The company is a public limited company limited by shares which has issued secured bonds listed on the Professional Securities Market of the London Stock Exchange. It is incorporated and domiciled in England and Wales. The address of the registered office is 3<sup>rd</sup> Floor, 17 St Swithin's Lane, London, EC4N 8AL.

The company on-lent the proceeds of the issue of the secured bonds to T.H.F.C. (Capital) Plc (**THFCC**) (**the borrower**). THFCC on-lent the proceeds to Gentoo Group Limited (**GGL**) under a loan agreement.

## 2 ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

### **Basis of preparation**

The financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards (**IFRSs**) as adopted by the European Union, applied in accordance with the provisions of the Companies Act 2006.

The financial statements have been prepared under the historical cost convention.

### **Going concern**

In determining the going concern basis for the company the directors considered the credit risk of the borrowers and their expected likelihood of making interest payments for the foreseeable future.

In addition all of the company's operating costs are recoverable from GGL throughout the life of the bonds and on this basis the directors are of the opinion that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

### **Changes in accounting policies and disclosures**

#### *(a) New and amended Standards and Interpretations adopted by the company*

In the current year, the following new and amended Standards and Interpretations have been adopted by the company:

- Amendments to IFRS 9. Prepayment Features with Negative Compensation (Effective: 1 January 2019): These amendments to IFRS 9 Financial Instruments are designed to enable, if certain conditions are met, companies to measure at amortised cost certain prepayable financial assets with so-called negative compensation and also clarifies the accounting for non-substantial modifications of financial liabilities should follow the same process as financial assets in similar circumstances.

The adoption of these amendments has not had a material impact on the reported results or financial position of the company and has not given rise to any additional disclosure requirements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2019

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(b) *New and amended Standards and Interpretations mandatory for the first time for the financial year beginning 1 January 2019 but not currently relevant to the company*

Other standards effective or amended in the year have not had a material impact on the reported results or financial position of the company.

(c) *New and amended Standards and Interpretations issued but not mandatory for the financial year beginning 1 January 2019.*

- Amendments to IAS 1 and IAS 8: Definition of Material. Effective for periods beginning on or after 1 January 2020. The amendments to both IAS 1 and IAS 8 refine the definition of 'material' and clarify its application. The amendments improve understanding of the existing requirements, but because they are based on existing guidance, they do not significantly affect how materiality judgements are made in practice or significantly affect entities' financial statements.
- Conceptual Framework for Financial Reporting. Effective for periods beginning on or after 1 January 2020. The amendments build upon the existing Conceptual Framework to provide a comprehensive set of concepts for financial reporting. There have been new concepts added for measurement, presentation and disclosure and derecognition. Updated concepts for definitions and recognition and clarifications to concepts for stewardship, measurement uncertainty, substance over form and the return of a clarified concept of prudence.

The directors are currently assessing the impact and timing of adoption of these Standards on the company's results and financial position.

The effect of all other new and amended Standards and Interpretations which are in issue but not yet mandatorily effective is not expected to be material.

**Critical accounting judgements and key sources of estimation uncertainty**

The preparation of financial statements in accordance with IFRSs requires the use of certain critical accounting adjustments; these require management's judgement in applying the accounting policies. The area involving a higher degree of judgement or complexity or where assumptions are significant to the financial statements is the evaluation as to whether the loan to THFCC is impaired.

*Impairment of Loans to Borrower (Note 8)*

The directors have concluded that no impairment provision is required in relation to the loan to THFCC in accordance with IFRS9 (2018: £Nil). This is for a number of reasons which includes, but is not limited to, the credit quality of THFCC's borrower and the company's zero loss experience to date. As the company is not subject to any net credit risk any incurred loss impairment would be matched by a similar adjustment to the gross liability. At December 2019, the carrying value of the loans to borrowers is £212,856,854 (2018: £212,859,400).

**Interest**

Interest receivable on the loan to the borrower and interest payable on the secured bonds is accounted for using the effective interest rate method. Any premiums/discounts on issue are added to/deducted from the original loan amount or secured bonds nominal value and charged/credited to the statement of comprehensive income over the expected life of the loan or bond using the effective interest rate method so that the interest receivable and payable, as adjusted for the amortisation of premiums/discounts, gives a constant yield to maturity.

### **Costs recoverable**

All operating costs are recovered from the borrower in line with contractual arrangements. All recovered costs are recognised within operating income over the period in which costs are recovered.

Issue costs incurred during the issue of the loans to borrowers are recovered from the borrower and recognised within operating income on the completion of the loan transaction.

Fees are measured at the transaction price received or receivable allocated to the performance obligation satisfied and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes. As the expected period between transfer of a promised good or service and payment from the borrower is one year or less then no adjustment for a financing component has been made.

### **Financial Instruments**

#### *Initial recognition and measurement*

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Net transaction costs that are directly attributable to the acquisition or issue of the financial assets and financial liabilities (other than financial assets and financial liabilities at FVPL) are respectively added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. The company recovers all transaction costs from its borrower, so they do not form part of the fair value at recognition.

### **Financial assets**

#### *Classification and measurement*

The company applies IFRS 9 and classifies its financial assets in the following measurement categories:

- fair value through profit or loss (FVPL); or
- fair value through other comprehensive income (FVOCI); or
- amortised cost.

The classification requirements for debt instruments are described below. Classification and subsequent measurement of debt instruments depend on:

- 1) the company's business model for managing the asset; and
- 2) the cash flow characteristics of the asset ("SPPI test").

1) *Business model*: The business model reflects how the company manages the assets in order to generate cash flows. That is, whether the company's objective is:

- solely to collect the contractual cash flows from the assets ("Hold to collect"); or
- to collect both the contractual cash flows and cash flows arising from sale of the assets ("Hold to collect and sell"); or
- neither of these ("Other").



NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2019

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Factors considered by the company in determining the business model for a group of assets include past experience of how the cash flows for these assets were collected, how the assets' performance is evaluated and reported to key management personnel, the likely future experience of cash flows, and how credit risks are assessed and managed.

2) *SPPI test*: Where the business model is "Hold to collect" or "Hold to collect and sell", the company assesses whether the financial instruments' contractual cash flows represent solely payment of principal and interest on that principal ("SPPI"). In making this assessment, the company considers whether those cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk and other basic lending risks that are consistent with a basic lending arrangement) or reflect exposure to risk or volatility that are inconsistent with a basic lending arrangement.

Based on these factors, the company classifies its debt instruments into one of the measurement categories detailed above. All of the company's financial assets have been assessed as falling within a "Hold to collect" business model whose contractual cash flows are SPPI and therefore measured at amortised cost.

Amortised cost is the amount at which the financial asset is measured at initial recognition minus the principal repayments, adjusted for the cumulative amortisation using the effective interest rate method, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of an asset.

Interest income from these financial assets is calculated by applying the effective interest rate to the gross carrying amount of the financial asset and is included in the statement of comprehensive income within 'operating income'.

*Reclassification*

The company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change.

The company holds the following debt instrument under financial assets:

*Loan receivable*

Loans receivable represents monies lent to THFCC under loan agreements and held at amortised cost.

*Cash and bank balances*

Cash and cash equivalents comprise cash balances that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

*Short term deposits*

Short-term deposits consist of term deposits whose original maturity dates are greater than three months or less from the investment date, but not more than twelve months.

*Trade and other receivables*

Other receivables are recognised at transaction price and are subsequently measured at amortised cost.

*Impairment*

The company assesses on a forward-looking basis the expected credit losses (ECL) associated with any debt instruments carried at amortised cost. The company may recognise a loss allowance for such losses at each reporting date.

The IFRS 9 impairment model has three stages – Stage 1, Stage 2 and Stage 3 (default).

The company may recognise a 12-month expected credit loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk (stage 2) that would no longer render the instrument low risk. Stage 3 requires objective evidence that an asset is credit impaired.

The measurement of ECL reflects:

- (a) Probability-weighted amounts of loss given default using an agreed methodology;
- (b) the time value of money; and
- (c) reasonable and supportable information on the social housing sector that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of the future operating environment.

The company operates within a default free sector and its sole borrower – T.H.F.C. (Capital) Plc and its underlying borrower (GGL) – have complied with their performance and payment obligations in accordance with their respective loan agreements since inception. For these reasons the company does not use a complex expected loan loss model and bases its assessment of 12-month expected credit loss solely on its loss experience in the period since the loans were made. Loss experience to date is zero so management's assessment of the 12-month expected credit loss is also zero.

Collateral arrangements are described in note 3 on page 19.

*Significant Increase in Credit Risk (movement from stage 1 to stage 2)*

The company has identified a number of early warning indicators (EWIs) against which assets are monitored. If any of the events occur, internal consideration is given as to whether an individual loan should move to stage 2 classification.

EWIs include but are not restricted to, the following:

- a) unexpected adverse changes in the executive and management structure of the borrower or underlying borrower;
- b) annual financial statements of borrower or underlying borrower carry an auditor's qualification;
- c) government action which negatively impacts on the borrower's or underlying borrower's business;
- d) significant adverse changes in the business or financial condition of the borrower or underlying borrower;
- e) failure of semi-annual performance tests by the underlying borrower;
- f) regulatory down grade to a non-compliant financial grading of the underlying borrower;
- g) payment of interest and capital after due date but within grace period;
- h) early warning signs of cash flow/ liquidity problems;
- i) decline in credit grading of underlying borrower to a level below an equivalent investment grade;

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Year ended 31 December 2019**

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- j) borrower records an impairment loss.

*Definition of default (movement to stage 3)*

The company has identified a series of quantitative and qualitative criteria that will be used to determine if an account meets the definition of default, and therefore should move to stage 3:

- a) Payment default;
- b) Cross default;
- c) Breach of covenant(s).

*Derecognition*

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either:

- The company transfers substantially all the risks and rewards of ownership; or
- The company neither transfers nor retains substantially all the risks and rewards of ownership and the company has not retained control.

**Financial liabilities**

*Classification and measurement*

Financial liabilities are recognised where the substance of the contractual arrangement results in the company having an obligation to either deliver cash or another financial asset to the holder.

Financial liabilities include borrowings and trade and other payables.

*Initial recognition and subsequent measurement*

Financial liabilities (other than derivatives) are initially recognised at the fair value of consideration less directly attributable net transaction costs and subsequently at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method.

*Derecognition*

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

**Secured bonds**

Secured bonds are stated at amortised cost. Any premium or discount on issue is added to/deducted from the nominal value of the secured bonds and charged or credited to the statement of comprehensive income over the expected life of the secured bond so that the interest charge as adjusted for the amortisation of premium/discount gives a constant yield to maturity.

**Netting**

The company does not net financial assets and liabilities and has no other enforceable offsets.

### **Fair Values**

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

IFRS 13 *Fair value measurement* requires an entity to classify for disclosure purposes its financial instruments held at amortised cost according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

#### *Quoted market prices – Level 1*

Financial instruments are classified as Level 1 if their value is observable in an active market. Fair values for such instruments are reported by reference to unadjusted quoted prices for identical assets or liabilities where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis.

#### *Valuation technique using observable inputs – Level 2*

Financial instruments classified as Level 2 are fair valued using models whose inputs (for example, interest rates and credit spreads) are observable in an active market.

#### *Valuation technique using significant unobservable inputs – Level 3*

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data. The company has no instruments classified in Level 3 (2018: none).

The company's secured bonds are tradable but the markets are not considered to be active. Accordingly market prices of the reference gilt have been adjusted for an appropriate credit spread to arrive at a fair value (Level 2 valuation). The fair value of the associated fixed rate loans is similarly adjusted for appropriate credit spreads (Level 2 valuation).

### **Prepayment**

It is expected that each loan will run to maturity, however the loan agreement between THFCC and GGL provides that GGL may at any time purchase the secured bonds. Bonds purchased must be surrendered to the company and an amount of the outstanding balance of the loan between THFCC and GGL equal to the outstanding balance of the bonds surrendered shall be deemed to be prepaid. Following any such purchase a corresponding amount of the outstanding loan between the company and THFCC equal to the amount of the bonds surrendered shall also be deemed to be prepaid. The prepaid amounts of the loan and the equivalent bond nominal amount is removed from the statement of financial position on delivery of the Deed of Surrender.

### **Segmental Analysis**

All operating income and expenditure is derived from activities undertaken in the United Kingdom. The company's only activity is to provide finance to THFCC. Therefore 100% of interest income is receivable from THFCC.

## **3 FINANCIAL RISK MANAGEMENT**

The proceeds from the issue of the 6.38% secured bonds 2042 were used to make a loan to the borrower.

### **Credit risk**

The company is subject to gross credit risk on its loan to THFCC but no net risk.

The ability of the company to make payments of interest, principal and any other sums due in respect of the bonds will depend on the company receiving like amounts from THFCC under its loan agreement and by THFCC receiving the like amounts from GGL under its loan agreement with GGL.

To the extent that the company does not receive sufficient amounts in respect of the loan agreement (whether in the ordinary course of business, following the enforcement of its security obtained in respect of the loan agreement or otherwise) then the company will not have sufficient monies to pay interest, principal or other sums due in respect of the bonds. Non-payment by the company may not necessarily constitute an event of default under the bonds.

The carrying value of the loan represents the maximum exposure to gross credit risk. The loan is not past due or impaired at 31 December 2019 (2018: None).

Gross credit risk on the loan is mitigated by the collateral and security arrangements described below:

The secured bonds are rated “A3/A-” by Moody’s Investor Service and Standard & Poor’s at 31 December 2019 (2018: “A3/BBB+”).

On 11 July 2019 Standard & Poor’s raised their rating to A- from BBB+ to match their rating of Gentoo Group.

### **Collateral and security arrangements**

The company’s gross credit risk is mitigated by the following factors. The loan is secured by way of a fixed charge over certain assets of GGL. GGL is subject to external regulation by the Regulator of Social Housing. The GGL has provided a first legal mortgage over property owned or leased it to ensure that the debt is adequately serviced from the relevant assets through to maturity in the event of a default.

As the on-going cash flow from the underlying security is the key component to securing the transaction, measurement of the book value and fair value of the secured properties is not required by the transaction documentation. For this reason, it would not be practical or cost effective to obtain this information on an annual basis.

Prudential Trustee Company Limited acts as the trustee on behalf of all secured bondholders (the bond trustee), under the terms of a Trust Deed, and has the benefit of a fixed charge over certain assets of the borrower and a floating charge over all the assets of the company and THFCC.

The bond trustee has the power to take control of the charged properties in certain pre-determined circumstances to protect cash flows to be used to satisfy obligations under the bonds.

Collateral, unless subject to enforcement, is not recorded on the company’s statement of financial position.

### **Liquidity risk**

To mitigate liquidity risk the borrower collects interest from GGL four business days prior to payment to bondholders. Additionally GGL maintains a debt service reserve fund with the bond trustee which is a minimum of one year’s worth of interest payments that can be drawn upon in the event of a late payment.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Year ended 31 December 2019**

The loan repayments by GGL to the borrower commence four business days before 31 March 2022. The repayments are calculated on an annuity basis with the final repayment being made four business days before 31 March 2042. Interest is receivable half yearly in arrears at an amount equal to the interest falling due for payment by the company on the secured bonds.

Interest on the secured bonds is payable half yearly in arrears. As from 31 March 2022, each half yearly payment will be increased to include a capital element in order to redeem part of the principal amount of the secured bonds.

The maturity analysis of financial liabilities is given in note 11.

As with credit risk to the extent that the company does not receive sufficient amounts in respect of the loan agreement (whether in the ordinary course of business, following the enforcement of its security obtained in respect of the loan agreement or otherwise) then the company will not have sufficient monies to pay interest, principal or other sums due in respect of the bonds. Non-payment by the company may not necessarily constitute an event of default under the bonds.

**Interest rate risk**

The interest charged on the loan is fixed and is equal to the interest payable on the related secured bonds and hence there is no cash flow risk between the receipt and payment of interest. Accordingly, the directors consider that the company is not subject to any risk on the fluctuation of interest rates.

**Fair value risk and market price risk**

There is a gross fair value risk on the loan and secured bonds but there is no net risk. Market price risk is not expected to impact on the company because (i) the loan and secured bonds are held at amortised cost in the financial statements and (ii) the company expects to hold them until maturity.

**Currency risk**

All financial assets and liabilities are denominated in sterling and hence there is no currency risk.

**4 INTEREST RECEIVABLE**

	2019 £	2018 £
On loan to borrower	13,576,768	13,576,768
Amortisation of premium	<u>(2,546)</u>	<u>(2,395)</u>
	<u>13,574,222</u>	<u>13,574,373</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Year ended 31 December 2019**

**5 INTEREST PAYABLE**

	2019 £	2018 £
On 6.38% secured bonds 2042	13,576,768	13,576,768
Amortisation of premium	<u>(2,546)</u>	<u>(2,395)</u>
	<u>13,574,222</u>	<u>13,574,373</u>

**6 RESULT BEFORE AND AFTER TAXATION**

The result before taxation is wholly attributable to the company's principal activity, arose wholly within the United Kingdom and is stated after charging:

	2019 £	2018 £
Fees paid to current auditor for annual audit of financial statements – current year	<u>7,416</u>	<u>8,112</u>

**7 EMPLOYEES**

There were no employees during the year other than the directors (2018: Nil). The directors received no remuneration during the year directly from the company in respect of their qualifying services (2018: £Nil). All directors are remunerated by T.H.F.C. (Services) Limited for their services to the company. It is not practicable to obtain the relevant data to accurately disclose the company's share of this cost.

**8 LOAN TO BORROWER**

	2019 £	2018 £
Loan value at 1 January	212,802,000	212,802,000
Unamortised premium at 1 January	<u>57,400</u>	<u>59,795</u>
	212,859,400	212,861,795
Premium amortised in the year	<u>(2,546)</u>	<u>(2,395)</u>
Amortised Cost at end of year	212,856,854	212,859,400
Premium due within one year	<u>(2,719)</u>	<u>(2,546)</u>
Non-current amortised cost	<u>212,854,135</u>	<u>212,856,854</u>

Collateral arrangements are set out in note 3.

# SUNDERLAND (SHG) FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2019

### 9 OTHER RECEIVABLES

	2019 £	2018 £
Premium on loans due within one year	2,719	2,546
Interest receivable	3,422,089	3,422,089
Prepayments	5,103	4,966
Other receivables	7,926	8,622
	<u>3,437,837</u>	<u>3,438,223</u>

### 10 OTHER PAYABLES

	2019 £	2018 £
Premium on secured bonds due within one year	2,719	2,546
Interest payable	3,422,089	3,422,089
Accruals	13,029	13,588
	<u>3,437,837</u>	<u>3,438,223</u>

### 11 FINANCIAL LIABILITIES – SECURED BONDS

	2019 £	2018 £
6.38% secured bonds 2042		
Loan value at 1 January	212,802,000	212,802,000
Unamortised premium at 1 January	57,400	59,795
	<u>212,859,400</u>	<u>212,861,795</u>
Premium amortised in the year	(2,546)	(2,395)
Amortised cost at end of year	212,856,854	212,859,400
Premium due within one year	(2,719)	(2,546)
Non-current amortised cost	<u>212,854,135</u>	<u>212,856,854</u>

Details of security are set out in note 3.

The 6.38% secured bonds are listed and are repayable between 31 March 2022 and 31 March 2042 and were issued as follows:

	Nominal Value £	Premium £
26 June 2001	239,500,000	94,363
Prepayment 18 June 2010	(26,698,000)	(10,519)
	<u>212,802,000</u>	<u>83,844</u>



## NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2019

The net premium and cumulative amortisation at the beginning of the year was £57,400 and £26,444 respectively (2018: 59,795 and £24,049). Amortisation charged during the year was £2,546 (2018: £2,395).

The proceeds of the above issue of £239,594,363 were used to make loans to GGL via T.H.F.C. (Capital) Plc. All issue costs relating to the issue of these secured bonds were met directly by the GGL.

The premium on issue has been added to the value of the secured bonds and are amortised through the statement of comprehensive income over the life of the secured bonds.

**Contractual cash flows on secured bonds**

2019	Due within one year £	Due within one to two years £	Due within two to five years £	Due in over five years £	Total 2019 £
Principal	-	-	16,816,678	195,985,322	212,802,000
Interest	13,576,768	13,576,768	39,438,270	132,165,950	198,757,756
<b>Total</b>	<b>13,576,768</b>	<b>13,576,768</b>	<b>56,254,948</b>	<b>328,151,272</b>	<b>411,559,756</b>

2018	Due within one year £	Due within one to two years £	Due within two to five years £	Due in over five years £	Total 2018 £
Principal	-	-	10,855,668	201,946,332	212,802,000
Interest	13,576,768	13,576,768	40,224,446	144,956,540	212,334,522
<b>Total</b>	<b>13,576,768</b>	<b>13,576,768</b>	<b>51,080,114</b>	<b>346,902,872</b>	<b>425,136,522</b>

**12 SHARE CAPITAL**

	2019 £	2018 £
<i>Allotted and part paid</i>		
50,000 (2018: 50,000) ordinary shares of £1 each of which 25p per share is paid	12,500	12,500

The company's capital comprises only its share capital which the directors consider adequate for its ongoing working capital requirements in relation to its obligations under the bonds. The company is not subject to externally imposed capital requirements.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Year ended 31 December 2019**

**13 RECONCILIATION OF RESULT BEFORE TAXATION TO CASH GENERATED FROM/(USED IN) OPERATIONS**

	2019 £	2018 £
Result before taxation	-	-
Adjustments for:		
Interest receivable	(13,574,222)	(13,574,373)
Interest payable	13,574,222	13,574,373
Changes in working capital:		
Decrease / (increase) in receivables	559	(2,216)
(Decrease) / increase in payables	(559)	2,216
Net cash generated from/(used in) operations	-	-

**14 ULTIMATE PARENT COMPANY**

At 31 December 2019 the company's immediate and ultimate parent company was the Prudential Trustee Company Limited, a company incorporated in England and Wales. The share capital of the company is held by the Prudential Trustee Company Limited on a fiduciary basis on behalf of qualifying charities as defined in the Declaration of Trust and hence no group financial statements are prepared.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2019

## 15 FAIR VALUES OF FINANCIAL INSTRUMENTS

The Level 2 fair value of the 6.38% secured bonds due 2042 and associated loan, as at 31 December 2019 are shown below. The fair value is derived from the market value of the reference gilts at that date. There is no difference between the fair value and carrying value of all other financial assets and liabilities.

	2019		2018	
	Carrying value	Fair value	Carrying value	Fair value
	£	£	£	£
<b>Financial assets:</b>				
<i>Classified as loans &amp; receivables</i>				
Loan to borrower				
Non-current	212,854,135		212,856,854	
Current	2,719		2,546	
Total	212,856,854	303,661,837	212,859,400	287,316,515
Interest receivable	3,422,089	3,422,089	3,422,089	3,422,089
Other receivables	7,926	7,926	8,622	8,622
<b>Total financial assets</b>	<b>216,286,869</b>	<b>307,091,852</b>	<b>216,290,111</b>	<b>290,747,226</b>
<b>Financial liabilities:</b>				
<i>Classified as financial liabilities at amortised cost</i>				
Secured bonds				
Non-current	212,854,135		212,856,854	
current	2,719		2,546	
Total	212,856,854	303,661,837	212,859,400	287,316,515
Interest payable	3,422,089	3,422,089	3,422,089	3,422,089
Other payables and accruals	13,029	13,029	13,588	13,588
<b>Total financial liabilities</b>	<b>216,291,972</b>	<b>307,096,955</b>	<b>216,295,077</b>	<b>290,752,192</b>

## 16 RELATED PARTY TRANSACTIONS

All administrative services are provided under a management agreement with T.H.F.C. (Services) Limited, a subsidiary of The Housing Finance Corporation Limited. The current directors are employees of T.H.F.C. (Services) Limited. Management fees payable to T.H.F.C. (Services) Limited during the year amounted to £7,953 (2018: £7,748). Amounts prepaid in respect of the next period to T.H.F.C. (Services) Limited at 31 December 2019 amounted to £4,988 (2018: to £4,853).

The company has granted security in favour of The Prudential Trustee Company Limited ("the trustee") to secure the bonds and other moneys under the terms of a trust deed dated 27 June 2001. Fees payable to the trustee for the year amounted to £5,889 (2018: £4,772). Amounts due to the trustee at 31 December 2019 amounted to £Nil (2018: £Nil).

## **SUNDERLAND (SHG) FINANCE PLC**

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

**Year ended 31 December 2019**

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#### **17 TAXATION**

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

#### **18 SECURITY OFFERED TO INVESTORS**

Sunderland (SHG) Finance Plc is a special purpose vehicle and the security offered to investors is limited only to the assets of the company being principally the secured loans and share capital. The shareholder of the company's parent, the Prudential Trustee Company Limited cannot be held liable for the debts of the company in the event of insolvency.