SUNDERLAND (SHG) FINANCE PLC

Annual Report

For the year ended 31 December 2023

Companies House no: 04226284

SUNDERLAND (SHG) FINANCE PLC

Annual report and financial statements for the year ended 31 December 2023

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Directors

J. Coetzee (Appointed 07 February 2023)
P. Nair (Appointed 01 April 2024)
A. Poobalasingam (Appointed 28 July 2023)
D. Stokes
P. Williamson (Resigned 01 April 2024)

Company Secretary

J. Coetzee (Appointed 07 February 2023)
T.H.F.C. (Services) Limited

Registered Office

3rd Floor
17 St Swithin's Lane
London
EC4N 8AL

Company Number

04226284

Independent Auditor

CLA Evelyn Partners Limited
Chartered Accountants and Statutory Auditor
45 Gresham Street
London
EC2V 7BG

The directors submit their Directors' report, Strategic report and audited financial statements for the year ended 31 December 2023.

RESULTS AND DIVIDEND

Sunderland (SHG) Finance Plc ("the company") made neither a profit nor a loss for the year (2022: £Nil). The directors do not propose the payment of a dividend (2022: £Nil).

SHARE CAPITAL AND COMPANY STRUCTURE

The company is a public limited company incorporated and domiciled in England and Wales. The entire issued share capital of the company is owned by M&G Trustee Company Limited ("MGTCL"), formerly Prudential Trustee Company Limited.

DIRECTORS

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

J. Coetzee (Appointed 07 February 2023)
F. Edge (Resigned 27 July 2023)
P. Nair (Appointed 01 April 2024)
A. Poobalasingam (Appointed 28 July 2023)
D. Stokes
P. Williamson (Resigned 01 April 2024)

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 ("THFCS"), in accordance with the requirements of a corporate services agreement and the trust deed. This arrangement is monitored by the board of directors, three of whom 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 accounting standards in conformity with the requirements 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;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 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 s.418 of the Companies Act 2006.

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

J Coetzee

Julie Coetzee
Director
26 June 2024

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.

M&G Trustee Company Limited ("MGTCL"), formerly 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 and the borrower.

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 4.

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 THFCC. THFCC on-lends the proceeds of its funding from the company to GGL.

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 ongoing 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 there are no employees. There are no plans for the business to hire 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, T.H.F.C. (Services) Limited ("THFCS"), provides relationship management services (for liaison with THFCC and GGL) 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. This arrangement is monitored by the board of directors.

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.

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, 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 MGTCL on a fiduciary basis on behalf of qualifying charities as defined in the Declaration of Trust. MGTCL also acts as bond trustee on behalf of bondholders.

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

Julie Coetzee
Director
26 June 2024

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SUNDERLAND (SHG) FINANCE PLC
Year ended 31 December 2023

Opinion

We have audited the financial statements of Sunderland (SHG) Finance Plc (the "company") for the year ended 31 December 2023 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 significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2023 and of its result for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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 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 contained within the Annual Report. 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 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 in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

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.

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

We obtained an understanding of the company’s legal and regulatory framework through enquiry of management regarding their understanding of the relevant laws and regulations, the company’s policies and procedures regarding compliance and how they identify, evaluate and rectify any instances of non-compliance. We also drew on our existing understanding of the company’s industry and regulation.

We understand that the company complies with requirements of the framework through:

- The directors overseeing the operation of the company’s management services agreement with the THFC Group, which requires T.H.F.C. (Services) Limited to implement, monitor and update operating procedures, manuals and internal controls as legal and regulatory requirements change.
- The directors’ close involvement in the day-to-day running of the business, meaning that any litigation or claims would come to their attention directly.

In the context of the audit, we considered those laws and regulations which determine the form and content of the financial statements, which are central to the company’s ability to conduct business and where failure to comply could result in material penalties. We have identified the following laws and regulations as being of significance in the context of the company:

- The Companies Act 2006 and international accounting standards in conformity with the Companies Act 2006 in respect of the preparation and presentation of the financial statements; and
- The Listing Rules as applicable to the Professional Securities Market (“PSM”) ("the PSM Rules”), in relation to the listing of secured bonds.

We performed the following specific procedures to gain evidence about compliance with the significant laws and regulations above:

- Discussions with management including consideration of known or suspected non-compliance with the PSM Rules;
- Confirming through review of the company’s engagement letter with legal advisors that they are engaged to provide ongoing updates and advice to ensure ongoing compliance with the PSM Rules;
- Performing a review of board minutes to identify any indicators of known or suspected non-compliance with significant laws and regulations; and
- Performing a review of any legal correspondence with the company’s legal advisors.

The senior statutory auditor led a discussion with senior members of the engagement team regarding the susceptibility of the entity’s financial statements to material misstatement, including how fraud might occur. The key area identified as part of the discussion was with regard to the manipulation of the financial statements through manual journals. This was communicated to the other members of the engagement team who were not present at the discussion.

The procedures carried out to gain evidence in the above areas included;

i. Testing a sample of manual journal entries, selected through applying specific risk assessments based on the company’s processes and controls surrounding manual journals.

A further description of our responsibilities is available on the Financial Reporting Council’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

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.

L Manson

Lindsay Manson	45 Gresham Street
Senior Statutory Auditor, for and on behalf of	London
CLA Evelyn Partners Limited	EC2V 7BG
Statutory Auditor	
Chartered Accountants	26 June 2024

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2023

	Note	**2023**	2022
		£	£
OPERATING INCOME			
Interest on loans receivable		13,063,480	13,409,654
Amortisation of premium on loans receivable	8	(3,032)	(3,001)
Amortisation of discount on loans receivable	8	-	-
Interest on bank deposits		-	-
Other income		54,692	29,832
		13,115,140	13,436,485
OPERATING EXPENDITURE			
Interest payable on secured bonds		13,063,480	13,409,654
Amortisation of premium on secured bonds	9	(3,032)	(3,001)
Amortisation of discount on secured bonds	9	-	-
Interest on drawn liquidity facility		-	-
Operating expenses	5	50,000	29,832
		13,110,448	13,436,485
RESULT BEFORE TAXATION	6	**4,692**	-
Taxation - Current	14	(4,692)	-
RESULT AFTER TAXATION	6	-	-
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		-	-

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 2023

ASSETS	Note	**2023** £	2022 £
Non-current assets			
Loans to borrowers at carrying value	8	196,025,467	201,989,543
Current assets			
Loans to borrowers at carrying value	8	5,964,076	5,601,214
Interest receivable on loans		3,247,518	3,337,543
Prepayments		6,098	5,557
Other receivables		37,492	12,198
Cash and cash equivalents		12,500	12,500
TOTAL ASSETS		205,293,151	210,958,555
EQUITY AND LIABILITIES			
Non-current liabilities			
Financial liabilities – secured bonds at carrying value	9	196,025,467	201,989,543
Current liabilities			
Financial liabilities – secured bonds at carrying value	9	5,964,076	5,601,214
Interest payable on secured bonds		3,247,518	3,337,543
Accruals		38,898	17,755
Current tax liabilities		4,692	-
TOTAL LIABILITIES		205,280,651	210,946,055
Equity			
Share capital	10	12,500	12,500
Retained earnings		-	-
TOTAL EQUITY		12,500	12,500
TOTAL EQUITY AND LIABILITIES		205,293,151	210,958,555

The accompanying notes on pages 13-27 are an integral part of these financial statements.

These financial statements on pages 10-27 were approved by the board and signed on its behalf by:

J Coetzee

Julie Coetzee
Director
26 June 2024

Sunderland (SHG) Finance Plc Registered No. 04226284

STATEMENT OF CASH FLOWS
Year ended 31 December 2023

	Note	**2023**	2022
		£	£
Result before taxation		4,692	-
Adjustments for:			
Interest income net of amortisation – loans receivable		(13,060,448)	(13,406,653)
Interest expense net of amortisation – secured bonds payable		13,060,448	13,406,653
Changes in working capital:			
(Increase) in receivables		(25,835)	(1,807)
Increase in payables		21,144	1,807
NET CASH GENERATED FROM OPERATIONS		-	-
Interest paid on secured bonds		(13,153,504)	(13,494,200)
Interest received on loans		13,153,504	13,494,200
Principal received from borrowers	8	5,598,182	5,257,486
Principal repaid on secured bonds	9	(5,598,182)	(5,257,486)
NET CASH GENERATED FROM OPERATING ACTIVITIES		-	-
CASH AND CASH EQUIVALENTS AT 1 JANUARY		12,500	12,500
MOVEMENT IN THE YEAR		-	-
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		12,500	12,500

1 GENERAL INFORMATION

Sunderland (SHG) Finance Plc ("the company") provides finance through lending to T.H.F.C. (Capital) Plc ("THFCC") 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 3rd Floor, 17 St Swithin's Lane, London, EC4N 8AL.

The company on-lent the proceeds of the issue of the secured bonds to 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 UK-adopted international accounting standards in conformity with the provisions of the Companies Act 2006.

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

Going concern

The company has made a loan to THFCC which has on-lent the proceeds of the loan to GGL, a registered provider of social housing. The company's viability is dependent on the ongoing receipt of interest and principal from its borrower, THFCC, in accordance with its loan agreement (and who is dependent on the ongoing receipt of interest from its borrower, GGL) thereby ensuring that the company is able to meet its obligations under the terms of its funding arrangements in addition to covering operating costs.

The company has concluded that there are sufficient mitigants in place to ensure there is no material impact on GGL's business such that it would encounter difficulty in meeting its loan obligations with THFCC and hence the company. These mitigants include government measures to support tenant incomes, the high proportion of tenant rental income payable by housing benefit and the strong liquidity position of the sector in general.

At the date of signing the accounts there is no evidence to suggest that the borrower will be unable to meet its covenants in the foreseeable future.

As such, the Board has a reasonable expectation that the company has adequate resources to continue in operation for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing the financial statements.

ACCOUNTING POLICIES (continued)

Changes in accounting policies and disclosures

(a) Standards and interpretations effective for the Company in these financial statements

The following new and amended Standards and Interpretations are effective for periods beginning on or after 1 January 2023, but were adopted early by the company in the prior year:

- IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of accounting estimates
- IAS 1 Presentation of Financial Statements: Disclosure initiative – accounting policies

In addition, the Company adopted Disclosure of Accounting Policies (Amendments to IAS1 and IFRS Practice Statement 2) from 1 January 2023. The amendments require the disclosure of 'material', rather than 'significant' accounting policies. The amendments did not result in any changes to the accounting policies themselves or the accounting policy information disclosed in this note.

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.

(b) Standards and interpretations effective for the Company in future periods

i. Effective for periods beginning on or after 1 January 2024
   - IAS 1 Presentation of Financial Statements: Classification of Liabilities
   - IAS 7/IFRS 7 Supplier Finance Arrangements
   - IFRS 16 Lease Liability in a Sale and Leaseback

ii. Effective for periods beginning on or after 1 January 2025
   - IAS 21 Lack of Exchangeability

These changes to standards effective on or after 1 January 2024 or 1 January 2025 are not expected to have a material effect on the financial statements.

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 premium/discount on issue is 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, as other income, in the period in which costs are recovered.

Issue costs incurred during the issue of the loans to borrowers are recovered from the borrower on completion of the loan transaction.

ACCOUNTING POLICIES (continued)

Fees are measured at the transaction price received or receivable allocated to the performance obligation satisfied and represent 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 fair value through profit or loss (“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”).

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.

ACCOUNTING POLICIES (continued)

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 are therefore subsequently 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:

Loans receivable

Loans receivable represents monies lent to THFCC under a loan agreement 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.

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.

ACCOUNTING POLICIES (continued)

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 – THFCC 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 4.

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;
j) borrower records an impairment loss.

ACCOUNTING POLICIES (continued)

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 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).

Taxation

Corporation taxation payable on profits is recognised as an expense based on the applicable tax laws in the period in which profits arise. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities using tax rates (and laws) that have been enacted by the balance sheet date.

Netting

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

ACCOUNTING POLICIES (continued)

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. The company has no instruments classified in Level 2 (2022: none).

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 (2022: 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).

The fair values of financial instruments is disclosed in note 12.

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 the date that the bonds are surrendered to the issuer for cancellation.

ACCOUNTING POLICIES (continued)

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 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in accordance with international accounting standards 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.

Critical accounting judgement

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 (2022: £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 2023, the carrying value of the loans to borrowers is £201,989,543 (2022: £207,590,757).

4 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 2023 (2022: 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 2023 (2022: "A3/A-").

FINANCIAL RISK MANAGEMENT (continued)

On 13 July 2023 and 20 November 2023 Standard & Poor's and Moody's Investor Services respectively affirmed their ratings.

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. GGL has provided a first legal mortgage over property owned or leased by 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.

M&G Trustee Company Limited ("MGTCL"), formerly 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 GGL 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.

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 9.

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.

FINANCIAL RISK MANAGEMENT (continued)

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.

5 OPERATING EXPENSES

	2023	2022
	£	£
Annual audit fee	13,394	11,688
Management fees paid to T.H.F.C. (Services) Limited	5,500	9,288
Other professional fees	31,106	8,856
	50,000	29,832

Operating expenses comprise fees paid to the current auditor for annual audit of the financial statements and other professional service fees.

6 RESULT BEFORE AND AFTER TAXATION

The result before taxation is wholly attributable to the company's principal activity, which arose wholly within the United Kingdom.

7 EMPLOYEES

There were no employees during the year (2022: Nil). The directors received no remuneration during the year directly from the company in respect of their qualifying services (2022: £Nil). All directors are remunerated by THFCS 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

2023	Nominal Value	Loan Premium	Carrying Value
	£	**£**	**£**
At beginning of year	207,544,514	46,243	207,590,757
Repayments	(5,598,182)	-	(5,598,182)
Amortisation in year	-	(3,032)	(3,032)
Total	201,946,332	43,211	201,989,543
Ageing of loans to borrowers			
Due within 1 year	5,961,010	3,066	5,964,076
Due after 1 year	195,985,322	40,145	196,025,467
Total	201,946,332	43,211	201,989,543

2022	Nominal Value	Loan Premium	Carrying Value
	£	**£**	**£**
At beginning of year	212,802,000	49,244	212,851,244
Repayments	(5,257,486)	-	(5,257,486)
Amortisation in year	-	(3,001)	(3,001)
Total	207,544,514	46,243	207,590,757
Ageing of loans to borrowers			
Due within 1 year	5,598,182	3,032	5,601,214
Due after 1 year	201,946,332	43,211	201,989,543
Total	207,544,514	46,243	207,590,757

9 FINANCIAL LIABILITIES – SECURED BONDS

2023	Nominal Value	Loan Premium	Carrying Value
	£	**£**	**£**
At beginning of year	207,544,514	46,243	207,590,757
Repayments	(5,598,182)	-	(5,598,182)
Amortisation in year	-	(3,032)	(3,032)
Total	201,946,332	43,211	201,989,543
Due within 1 year	5,961,010	3,066	5,964,076
Due after 1 year	195,985,322	40,145	196,025,467
Total	201,946,332	43,211	201,989,543

2022	Nominal Value	Loan Premium	Carrying Value
	£	**£**	**£**
At beginning of year	212,802,000	49,244	212,851,244
Repayments	(5,257,486)	-	(5,257,486)
Amortisation in year	-	(3,001)	(3,001)
Total	207,544,514	46,243	207,590,757
Due within 1 year	5,598,182	3,032	5,601,214
Due after 1 year	201,946,332	43,211	201,989,543
Total	207,544,514	46,243	207,590,757

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
	239,500,000	94,363
Prepayments and amortisation to date	(37,553,668)	(10,519)
	201,946,332	83,844

FINANCIAL LIABILITIES – SECURED BONDS (continued)

The net premium and cumulative amortisation at the beginning of the year was £46,243 and £37,600 respectively (2022: £49,244 and £34,599). Amortisation charged during the year was £3,032 (2022: £3,001).

The proceeds of the above issue of £239,594,363 were used to make loans to GGL via THFCC. All issue costs relating to the issue of these secured bonds were met directly by GGL.

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

Contractual cash flows on secured bonds

2023	**Due within one year**	**Due within one to two years**	**Due within two to five years**	**Due in over five year**	**Total 2023**
	£	**£**	**£**	**£**	**£**
Principal	5,961,010	6,347,458	21,619,406	168,018,458	201,946,332
Interest	12,790,591	12,404,210	34,635,671	85,126,068	144,956,540
Total	18,751,601	18,751,668	56,255,077	253,144,526	346,902,872

2022	**Due within one year**	**Due within one to two years**	**Due within two to five years**	**Due in over five year**	**Total 2022**
	£	**£**	**£**	**£**	**£**
Principal	5,598,182	5,961,010	20,303,439	175,681,883	207,544,514
Interest	13,153,451	12,790,591	35,951,688	96,214,262	158,109,992
Total	18,751,633	18,751,601	56,255,127	271,896,145	365,654,506

10 SHARE CAPITAL

	2023	2022
	£	£
Alloted and part paid		
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 of 50,000 (2022: 50,000) ordinary shares 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.

11 CONTROL

The share capital of the company is held by MGTCL on a fiduciary basis on behalf of qualifying charities as defined in the Declaration of Trust and hence no group financial statements are prepared.

12 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 2023 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.

	2023 Carrying Value £	**2023 Fair Value £**	2022 Carrying Value £	2022 Fair Value £
Loans and secured bonds				
Loans to borrower	201,989,543	221,914,564	207,590,757	217,101,373
Secured bonds	201,989,543	221,914,564	207,590,757	217,101,373
Other financial assets & liabilities				
Other financial assets:				
Interest receivable	3,247,518	3,247,518	3,337,543	3,337,543
Sundry receivables	37,492	37,492	12,265	12,265
	3,285,010	3,285,010	3,349,808	3,349,808
Other financial liabilities:				
Interest payable	3,247,518	3,247,518	3,337,543	3,337,543
Other payables	43,590	43,590	17,755	17,755
	3,291,108	3,291,108	3,355,298	3,355,298

13 RELATED PARTY TRANSACTIONS

All administrative services are provided under a management agreement with THFCS, a subsidiary of The Housing Finance Corporation Limited ("THFC"). The current directors are employees of THFCS. Management fees payable to THFCS during the year amounted to £10,191 (2022: £9,288). Amounts prepaid in respect of the next period to THFCS at 31 December 2023 are £2,601 (2022: to £2,389).

The company has granted security in favour of MGTCL to secure the bonds and other moneys under the terms of a trust deed dated 27 June 2001. Fees payable to the bond trustee for the year amounted to £7,427 (2022: £7,183). Amounts prepaid in respect of the next period to the trustee at 31 December 2023 are £3,232 (2022: £2,903).

14 TAXATION

	2023	2022
	£	£
UK Corporation tax at 19% (2022: 19%)	4,692	-

Result before taxation	4,692	-
Result before tax multiplied by the standard rate of corporation tax in the UK of 19% (2022: 19%)	892	-
Effects of:		
Permanently disallowable items and other timing differences	3,800	-
Total tax expense for the year	4,692	-

15 SECURITY OFFERED TO INVESTORS

The company 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, MGTCL, cannot be held liable for the debts of the company in the event of insolvency.