

Company Registration Number: 06992513

**Sovereign Housing Capital plc
Annual Report and Financial Statements
For the year ended 31 March 2024**

Sovereign Housing Capital plc

Directors and Advisers

Directors

Graeme Gilbert
Mark Washer
Ken Youngman
Peter Benz

Resigned 30 September 2023
Appointed 1 October 2023

Company Secretary

Charlotte Ferris

Registered Office

Sovereign House
Basing View
Basingstoke
Hampshire
RG21 4FA

Auditor

KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Principal Solicitor

Trowers & Hamlins LLP
3 Bunhill Row
London
EC1Y 8YZ

Principal Banker

National Westminster Bank plc
Abbey Gardens
4 Abbey Street
Reading
RG1 3BA

Strategic Report

Principal Activities and Business Performance

The principal activity of Sovereign Housing Capital plc (the “Company”) is to issue bonds to investors and to hold the issue proceeds until these are on-lent to Sovereign Advances Limited or Sovereign Housing Association, trading as Sovereign Housing Association, trading as Sovereign Network Group (the “Parent Undertaking” or the “Group”). The registered office of the Parent Undertaking is Sovereign House, Basing View, Basingstoke, Hampshire RG21 4FA. The Company has no other business operations. Consolidated financial statements incorporating the Company can be obtained from this address.

The Company has issued four bonds. Bond 1 for £175m was issued at a specific denomination of £50k and is repayable on 10th September 2039 at par with interest payable at a fixed rate of 5.705%. Bond 2 for £250m was issued at a specific denomination of £100k and is repayable on 1st June 2043 at par with a fixed interest rate of 4.768%. Bond 3 for £375m was issued at a specific denomination of £100k and is repayable on 4th November 2048 at par with a fixed interest rate of 2.375%. Bond 4 for £400m was issued at a specific denomination of £100k and is repayable on 24th January 2057 at par with a fixed interest rate of 5.5%. The bonds are secured by a first fixed charge on properties owned by Sovereign Housing Association, trading as Sovereign Network Group.

The Company has no employees but has available to it the treasury and business resources of the Group to enable it to administer its business and perform its obligations.

Due to the nature of the Company’s operations, there are no environmental matters to report on.

Principal Risks

Financial Risk Management

The Group’s treasury function is responsible for the management of funds and control of associated risks. Its activities are governed by the Group’s board which is responsible for treasury issues in all the legal entities of the Group. The treasury function does not operate as a profit centre. The Group has met its covenant compliance measures. The Company meets its objectives in managing its capital by on-lending within the Group, minimising any exposure.

Interest Rate Risk Hedging

The Company currently borrows funds on a fixed rate basis from the capital markets and then on-lends these funds to the Group and Sovereign Advances Limited on a similar fixed rate basis. The Company does not bear any interest rate risk, apart from the underlying credit risk to the Group and Sovereign Advances Limited which is discussed below. The Company does not undertake any hedging activities and it does not have any derivatives.

Credit Risk

All of the Company’s capital markets financing proceeds are on-lent to the Group, which represents the only credit risk to the Company. The maximum credit risk to the Company is £1,200m. The Group generates positive cash flows from operating activities. The credit risk is mitigated by a number of factors, including the housing asset security which stands behind the loans, the overall creditworthiness of the Group and its subsidiaries as borrowers, the guarantees which the Group as borrowers have issued to the Company and the contractual protections in the loan agreement itself. The Company is also not obliged to source further funding from the capital markets for on-lending to the Group unless it continues to be satisfied with the Group’s creditworthiness. It should be noted that the Group benefits from strong credit ratings with Moody’s Investor services (A3) at October 2023 and Standard & Poor’s (A) at November 2023.

Sovereign Housing Capital plc

Strategic Report

Going Concern

As a result of their inquiries the Board has a reasonable expectation that the Company will have sufficient funds to continue to meet its liabilities as they fall due for a period of 12 months after the date on which the financial statements are approved. For this reason, it continues to adopt the going concern basis in the financial statements.

Viability Statement

Sovereign Housing Capital plc's long-term viability is assessed as part of the Sovereign Housing Association, trading as Sovereign Network Group's financial viability assessment. Based on the results of this analysis the directors confirm that they have reasonable expectation that the Group and Sovereign Housing Capital plc will be able to continue in operation and meet its liabilities as they fall due over the next 5 years. Details of the Group's financial strength and long-term strategy are included in the Group's consolidated financial statements.

The Strategic Report was approved on 10 July 2024 and signed on behalf of the Board by:



Peter Benz
Director

Sovereign Housing Capital plc

Directors' Report

Directors' Report

The Board of Directors (the "Board") is pleased to present the report and audited financial statements for the year ended 31 March 2024. This report gives an overview of the financial affairs of Sovereign Housing Capital plc (the "Company") during the year ended 31 March 2024.

The Directors are listed on page 1. None of the Directors held, at any time during the year, any beneficial interest in the shares of the Company.

Proposed Dividend

The directors do not recommend the payment of a dividend (2023: £nil).

Gift Aid

Gift aid of £37k (2023: £37k) is committed at the year end and will be paid prior to 31 December 2024.

Political and Charitable Contributions

The Company made no donations for political or charitable purposes (2023: £nil).

Annual General Meeting

An Annual General meeting will be held on 10 July 2024.

Auditor

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the company is to be proposed at the forthcoming Annual General Meeting.

Sovereign Housing Capital plc**Statement of Directors' Responsibilities**

Statement of Responsibilities of Directors for the Strategic Report, the Directors' Report and Financial Statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law the directors must not approve the financial statements unless they are satisfied that they *give a true and fair view of the state of affairs 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 estimates that are reasonable and prudent
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, and Corporate Governance Statement that complies with that law and those regulations.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Strategic Report and Directors' Report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.

Sovereign Housing Capital plc

Statement of Directors' Responsibilities

Disclosure of Information to Auditor

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

- a) so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- b) each director has taken all the steps that they ought to have taken in their duty as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

Internal Control Assurance Statement

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

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

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

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

The Directors' Report was approved on 10 July 2024 and signed on its behalf by:

BY ORDER OF THE BOARD



Charlotte Ferris
Company Secretary

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

1 Our opinion is unmodified

We have audited the financial statements of Sovereign Housing Capital PLC ("the Company") for the year ended 31 March 2024 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Movements in Equity, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2024 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; 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 are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit and risk committee.

We were appointed as auditor by the directors on 30 March 2010. The period of total uninterrupted engagement is for the 14 financial years ended 31 March 2024. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter (unchanged from 2023), in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Recoverability of Long-Term Debtors

Long Term Debtors (amounts falling due in more than one year) £1,215,010 (2023: £811,123k).

Refer to page 2 (Strategic Report), page 15 (accounting policy) and pages 19 to 20 (financial disclosures).

The risk – low risk high value

The Company's primary activity is to issue bonds, source investor financing and on-lend to its fellow group entities. It therefore has long term liabilities which relate to the bonds issued and long term intercompany debtors which relate to the loans provided to the Parent.

During the year the Company has issued a further bond of £400k, which was subsequently subject to onward lending to fellow group entities.

The carrying amount of the long-term intercompany debtor balance represents 99.9% of the Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the Company financial statements, this is considered to be the area that had the greatest effect on our overall Company audit.

Independent Auditor's Report

Our response

We performed the tests below rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our procedures included:

- i. **Tests of detail:** Assessing to identify, with reference to the relevant debtors' financial statements, whether they have a positive net asset value and therefore coverage of the debt owed, as well as assessing whether those debtor companies have historically been profit-making.
- ii. **Assessment of group debtors:** Assessing the work performed by the Group audit team, and considering the results of that work, on those net assets. This included assessment of the fair value headroom available on those net assets, and therefore the ability of the group debtors to fund repayment of the receivable. We critically assessed the directors' going concern assessment, including the reasonableness of the key assumptions used by the group debtors in their cash flow forecasts and the level of downside sensitivities applied.

Our results

We found the Company's assessment of the recoverability of the long-term debtor balance to be acceptable (2023 result: acceptable).

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £9.00m (2023: £4.40m), determined with reference to a benchmark of total assets, of which it represents 0.7% (2023: 0.5%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75% (2023: 75%) of materiality for the financial statements as a whole, which equates to £6.75m (2023: £3.30m).

We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £450k, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was performed by a single audit team.

4 Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources over this period was the fellow group entities' inability to meet their obligations to the Company during the going concern assessment period, which would result in the inability of the Company to meet its own external debt obligations as they fall due.

We considered whether this risk could plausibly affect liquidity in the going concern period by assessing the directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Company's financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively.

Independent Auditor's Report

Our procedures are also inherently linked with our key audit matter in relation to the recoverability of the long term debtor; the Parent's inability to meet their obligation to the Company would result in the inability of the Company to meet its own obligations as they fall due. Consequently, our considerations noted above took into account the financial forecasts of the Group.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

5 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, internal audit and legal as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Using analytical procedures to identify any usual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the revenue of the Company (being interest receivable) is a balance with minimal judgement involved in its calculation, and so lacking in opportunities for fraudulent revenue recognition.

We did not identify any additional fraud risks.

We performed procedures including the identification of journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included journals posted to unusual and seldom used accounts.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards) and from inspection of the Company's regulatory and legal correspondence; and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Independent Auditor's Report

The Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the Company is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6 We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, 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.

We have nothing to report in these respects.

8 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Independent Auditor's Report

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9 The purpose of our audit work and to whom we owe our responsibilities

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.



Mark Dawson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Date: 13 September 2024

Sovereign Housing Capital plc

Statement of Comprehensive Income

Statement of Comprehensive Income

For the Year Ended 31 March 2024

	Note	2024 £'000	2023 £'000
Operating expenses		(7)	(6)
Operating loss	3	(7)	(6)
Interest receivable and similar income	4	34,745	30,858
Interest payable and similar expenses	5	(34,701)	(30,815)
Profit before taxation		37	37
Tax on profit	6	-	-
Profit for the year		37	37

The notes on pages 15 to 22 form part of the financial statements.

Sovereign Housing Capital plc

Company Registration Number: 06992513
Statement of Financial Position

Statement of Financial Position

As at 31 March 2024

	Note	2024 £'000	2023 £'000
Current assets			
Debtors	8	12,139	8,149
Cash at bank and in hand	9	103	100
		12,242	8,249
Creditors: amounts falling due within one year	10	(12,190)	(8,197)
Net current assets		52	52
Debtors: amounts falling due after more than one year	8	1,202,871	802,974
Creditors: amounts falling due after more than one year	11	(1,202,871)	(802,974)
Net assets		52	52
Capital and reserves			
Called up share capital	13	50	50
Profit and loss account	13	2	2
Equity shareholder's funds		52	52

The notes on pages 15 to 22 form part of the financial statements.

These financial statements were approved by the Board on 10 July 2024 and were signed on its behalf by:



Peter Benz
Director

Company registration no. 06992513

Sovereign Housing Capital plc

Statement of Changes in Equity

Statement of Changes in Equity
As at 31 March 2024

	Share capital £'000	Profit and loss account £'000	Total equity £'000
Balance at 1 April 2022	50	-	50
Total comprehensive income for the year			
Profit for the year to 31 March 2023	-	37	37
<i>Effect of Gift Aid:</i>			
Gift Aid adjustment for prior period		2	2
Gift Aid payment	-	(37)	(37)
Balance at 31 March 2023	50	2	52
Total comprehensive income for the year			
Profit for the year to 31 March 2024	-	37	37
<i>Effect of Gift Aid:</i>			
Gift Aid adjustment for prior period		-	-
Gift Aid payment	-	(37)	(37)
Balance at 31 March 2024	50	2	52

The notes on pages 15 to 22 form part of the financial statements.

Notes to the Financial Statements

For the Year Ended 31 March 2024

1. Legal Status

Sovereign Housing Capital plc (the “Company”) is a public limited company and incorporated and domiciled in England in the United Kingdom.

2. Principal Accounting Policies

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (“FRS 102”).

The Company’s ultimate parent undertaking, Sovereign Housing Association, trading as Sovereign Network Group, includes the Company in its consolidated financial statements. The consolidated financial statements of Sovereign Housing Association, trading as Sovereign Network Group are available to the public and may be obtained from the address given in note 15. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the Statement of Cash Flows and related notes, disclosures of transactions with key management personnel and related party transactions with wholly owned group entities.

The Directors have not made any judgements in application of these accounting policies that have significant effect on the financial statements with a significant risk of material adjustments in the next year.

The financial statements are presented in pounds sterling and rounded to the nearest £1,000.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

(a) Basis of accounting

The financial statements are prepared on the historical cost basis.

The Company’s business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are directly related to the overall position of Sovereign Housing Association, trading as Sovereign Network Group (the “Group” or the “Parent Undertaking”). As such, details of this Group wide position are described in the Group’s consolidated financial statements, available to the public from the address in note 15.

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

The Directors have concluded there is no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Parent Undertaking to continue as a going concern or its ability to continue with the current banking arrangements.

Management have reviewed an operational model for the Group which is able to test future possible scenarios and the ability to continue within the requirements of funders and therefore not affect current or future borrowing. This work has enforced the belief the Company will continue to trade with little disruption. The Board therefore has a reasonable expectation that the Company will have sufficient funds to continue to meet its liabilities as they fall due for a period of 12

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

months after the date on which the financial statements are approved. For this reason, it continues to adopt the going concern basis in the financial statements.

(b) Interest Income and Expense

Interest is recognised on an accruals basis and included in the year to which it relates.

(c) Taxation

Corporation tax is provided on the Company's taxable profits at the current rate.

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Profits are gift aided to the Parent Undertaking, a charitable organisation, to minimise the tax liability to the Company.

(d) Gift Aid Payment Presented Within the Statement of Changes in Equity

Gift Aid payment is only recognised in the statement of changes in equity at the year end to the extent that there is a deed of covenant prior to the year-end or a Companies Act s288 written resolution has been approved by the shareholder in the year to pay the taxable profit for the year to its parent by a certain payment date.

(e) Deferred Tax

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

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

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

Sovereign Housing Capital plc**Notes to the Financial Statements****(f) Financial Instruments**

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Cash and cash equivalents comprise cash balances.

The Company chooses to account for its financial instruments in line with the provisions of Section 11 and Section 12 of FRS102

3. Operating Loss

	Note	2024 £'000	2023 £'000
Operating loss is stated after charging:			
Auditor's remuneration			
- in their capacity as auditor		-	-
		<hr/>	<hr/>

4. Interest Receivable and Similar Income

	2024 £'000	2023 £'000
In respect of intragroup loans	34,745	30,858
	<hr/>	<hr/>
	34,745	30,858

5. Interest Payable and Similar Expenses

	2024 £'000	2023 £'000
In respect of capital markets bonds		
Repayable on bonds due after 5 years	(34,701)	(30,815)
	<hr/>	<hr/>
	(34,701)	(30,815)

Sovereign Housing Capital plc**Notes to the Financial Statements****6. Taxation**

	2024 £'000	2023 £'000
Current tax on income for the period	-	-
Total current tax	-	-
Reconciliation of effective tax rate:		
Profit before taxation	37	37
Tax using the UK corporation tax rate of 25% (2023: 19%)	9	7
Effect of current year Gift Aid to be paid by 31 December (included in the statement of changes in equity)	(9)	(7)
Total tax expense included in profit and loss	-	-

7. Staff Numbers and Costs

No emoluments were paid to the directors who served during the current or prior year. These costs were borne by Sovereign Housing Association. Remuneration costs of £3k (2023: £3k) relating to these individuals were recharged in the year.

The Company has no employees (2023: nil). Work is performed on the Company's behalf by employees of the parent undertaking and the cost of these services is charged to the Company by the parent undertaking.

Sovereign Housing Capital plc**Notes to the Financial Statements****8. Debtors**

	2024 £'000	2023 £'000
Amount owed by other Group undertakings	1,215,010	811,123
	<u>1,215,010</u>	<u>811,123</u>
Amounts falling due in more than one year	1,202,871	802,974
Amounts falling due within one year	12,139	8,149
	<u>1,215,010</u>	<u>811,123</u>

Amounts due from group undertakings falling due in more than one year are interest bearing loan balances. Interest is charged at 5.71% (2023: 5.71%) on a loan of £175m to Sovereign Advances Limited, at 4.77% (2023: 4.77%) on a loan of £250m issued in 2011/12 is charged to Sovereign Housing Association, and 2.38% on further loan of £375m issued to Sovereign Housing Association, (£250m in 2019/20 and £125m in 2020/21). Finally, Interest is charged at 5.5% on a loan of £400m issued in 2023/24.

9. Cash at Bank and in Hand

	2024 £'000	2023 £'000
Cash at bank	103	100
	<u>103</u>	<u>100</u>

10. Creditors – Amounts falling due within one year

	2024 £'000	2023 £'000
Interest payable accrual	12,190	8,197
	<u>12,190</u>	<u>8,197</u>

Sovereign Housing Capital plc**Notes to the Financial Statements****11. Creditors – Amounts falling due after more than one year**

	2024 £'000	2023 £'000
Capital markets bonds	1,202,871	802,974
	<u>1,202,871</u>	<u>802,974</u>
Analysis of debt:		
Repayable other than by instalments in more than five years	<u>1,202,871</u>	<u>802,974</u>

The repayment profile of the Company's gross undiscounted liabilities including interest is as follows:

	On demand £'000	Less than 12 months £'000	1 to 5 years £'000	More than 5 years £'000	Total £'000
March 2024					
Amounts due to 2009 bond investors	-	9,986	39,942	279,848	329,775
Amounts due to 2012 bond investors	-	11,920	47,680	422,840	482,440
Amounts due to 2019 bond investors	-	8,906	35,625	553,125	597,656
Amounts due to 2024 bond investors	-	22,000	88,000	1,027,000	1,137,000
Total	-	52,812	211,247	2,282,813	2,546,872

The Company has issued four bonds. Bond 1 for £175m was issued at a specific denomination of £50k and is repayable on 10th September 2039 at par with interest payable at a fixed rate of 5.705%. Bond 2 for £250m was issued at a specific denomination of £100k and is repayable on 1st June 2043 at par with a fixed interest rate of 4.768%. Bond 3 for £375m was issued at a specific denomination of £100k and is repayable on 4th November 2048 at par with a fixed interest rate of 2.375%. Bond 4 for £400m was issued at a specific denomination of £100k and is repayable on 24th January 2057 at par with a fixed interest rate of 5.5%. The bonds are secured by a first fixed charge on properties owned by Sovereign Housing Association.

Financial Risk Management

The Group's treasury function is responsible for the management of funds and control of associated risks. Its activities are governed by the Group's board which is responsible for treasury issues in all the legal entities of the Group. The treasury function does not operate as a profit centre. The Group has met its covenant compliance measures. The Company meets its objectives in managing its capital by on-lending within the Group, minimising any exposure.

11. Creditors - Amounts falling due after more than one year (continued)

Interest Rate Risk Hedging

The Company currently borrows funds on a fixed rate basis from the capital markets and then on-lends these funds to the Group and Sovereign Advances Limited on a similar fixed rate basis. The Company does not bear any credit risk, apart from the underlying credit risk to the Group and Sovereign

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

Advances Limited which is discussed below. The Company does not undertake any hedging activities and it does not have any derivatives.

Credit Risk

All of the Company's capital markets financing proceeds are on-lent to the Group and its subsidiaries, which represents the only credit risk to the Company. The maximum credit risk to the Company is £1,200m. The Group generates positive cash flows from operating activities. The credit risk is mitigated by a number of factors, including the housing asset security which stands behind the loans, the overall creditworthiness of the Group as borrowers, the guarantees which the Group as borrowers have issued to the Company and the contractual protections in the loan agreement itself. The Company is also not obliged to source further funding from the capital markets for on-lending to the Group unless it continues to be satisfied with the Group's creditworthiness. It should be noted that the Group benefits from strong credit ratings with Moody's Investor services (A3) at October 2023 and Standard & Poor's (A) at November 2023.

12. Financial Instruments

The fair values of all financial assets and liabilities by class together with their carrying amounts shown in the balance sheet are as follows:

	2024		2023	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Financial assets measured at amortised cost				
Other loans and receivables	<u>1,212,139</u>	<u>1,002,461</u>	<u>808,186</u>	<u>681,338</u>
Financial liabilities measured at amortised cost				
Other interest bearing loans and borrowings	<u>1,212,190</u>	<u>1,002,513</u>	<u>808,092</u>	<u>681,244</u>

Sovereign Housing Capital plc has no financial instruments measured at fair value, so fair value hierarchy disclosure requirements do not apply. All financial assets held by the Company qualify to be held at amortised cost, therefore the requirements to disclose the effect of changing inputs in the calculation of fair values is not considered applicable. The terms of the loan to the Group are fixed and it is intended that the loan will be in place until maturity. Therefore, no adjustment has been made to align the book value to fair value.

The fair value of financial liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material. The terms of both Bond issues are fixed, and it is intended that they will be in place until maturity. Therefore, no adjustment has been made to align the book value to fair value.

Sovereign Housing Capital plc**Notes to the Financial Statements****13. Capital and Reserves**

	2024	2023
	£'000	£'000
Authorised 50,000 ordinary shares of £1 each	<u>50</u>	<u>50</u>
Allotted, called up and partly paid at 25p each		
At 31 March	<u>50</u>	<u>50</u>

Each share has equal voting rights.

The statement of changes in equity shows the accumulated gains and losses for the Company.

14. Related Party Transactions

The Company recorded interest receivable from Sovereign Advances Limited of £9,973k (2023: £10,055k) and £611k was due to the Company from Sovereign Advances Limited at the year-end (2023: £632k). The Company recorded interest receivable from Sovereign Housing Association, trading as Sovereign Network Group of £24,771k (2023: £23,304k) and £11,565k (2023: £7,517k) was due to the Company from Sovereign Housing Association, trading as Sovereign Network Group at the year end.

There are no other related party disclosures to report.

15. Parent Undertaking

The Company is a 99% owned subsidiary of Sovereign Advances Limited, a company registered in England and Wales with 1% owned by Sovereign Housing Association, trading as Sovereign Network Group, registered in England in the United Kingdom under the Co-operative and Community Benefit Societies Act 2014. The registered office of Sovereign Advances Limited and Sovereign Housing Association, trading as Sovereign Network Group is Sovereign House, Basing View, Basingstoke, Hampshire RG21 4FA. The Company's ultimate Parent Undertaking is Sovereign Housing Association, trading as Sovereign Network Group. The results of the Company are consolidated with those of the Group and the consolidated financial statements are contained in the financial statements for the Group, which are available from the Group's registered office at Sovereign House, Basing View, Basingstoke, Hampshire RG21 4FA.

16. Estimates and Judgements**Discounted items**

Assets and liabilities with cash flow implications of more than one year are initially recognised in the accounts at fair value which is arrived at by applying a discount rate that reflects the level of risk relevant to those items.

Judgement on the risk level and rate is informed by expert opinion and items with similar risk profile. Discounted items include long term debtor and financial instrument.

Debtors

Debtor balances are reviewed, and a provision applied if it is believed there is a risk to recoverability. Management do not believe there is such a risk arising from amounts due to the Company.