Midland Heart Capital plc

Directors' Report, Strategic Report
and
Financial Statements

Year ended 31 March 2020

Company Number: 8159931

Contents

Board of Directors

Name	Appointed	Resigned
Glenn Harris MBE	27/07/2012	
Joe Reeves	01/08/2017	
Anna Simpson	18/01/2019	29/05/2020
David Taylor	29/05/2020	

Company Secretary		
Anna Simpson	20/04/2019	31/03/2020
Sarah Scott	01/04/2020	

Registered Office:	20 Bath Row, Birmingham, B15 1LZ
VAT Registration Number:	880 9861 74.
Auditors:	KPMG LLP One SnowHill SnowHill Queensway Birmingham B4 6GH
Principal Bankers:	Lloyds TSB Plc 125 Colmore Row Birmingham B3 2DS
Treasury Advisors:	TradeRisks Limited 21 Great Winchester Street London EC2N 2JA

Registered under Companies Act 2006 on 27 July 2012.

Strategic Report

Principal Activities

The principal activity of the Company is to act as the capital markets issuance vehicle for Midland Heart Limited.

The maturity date of our £150m 32 year Sterling bond is September 2044. The bond continues to benefit from the strong credit rating of Midland Heart Limited.

Midland Heart Capital plc on-lends all of its proceeds from capital market transactions to Midland Heart Limited under a guarantee and security trust basis. The underlying assets of the issuance belong to Midland Heart Limited through a Security Trust arrangement with Prudential Trustee Company Limited.

All of the Company's costs relating to providing funding services are billed to Midland Heart Limited.

Business Review

The proceeds of the fixed-rate 32-year bullet bond are expected to be used to fund Midland Heart Limited's development programme and for general corporate purposes.

As at 31 March 2020, Midland Heart Limited, the parent company, held an A1 stable rating from Moody's Investors Services, maintaining our leading credit status as one of the highest in the sector.

The bond is secured by a portfolio of largely social housing properties owned by Midland Heart Limited. Most of the properties are valued at Market Value subject to Tenancies (MV-T) at an asset-coverage ratio of 1.15x.

A valuation based on MV-T is one where the units are capable of being let at a Market Rent and disposed of free from restrictions. The valuation may only be attainable by a Mortgagee in Possession, selling the properties tenanted, outside of the RP sector. The bond issue contains an asset cover ratio of 1.15x meaning that any properties based on a MV-T valuation must cover the loan by 115%. Asset cover is the only covenant on the borrowing.

Midland Heart Limited achieved a record surplus before tax of £63.6m for 2019/20. The key ingredients of this were higher disposal profits from the government's pilot Voluntary Right to Buy programme and reduced costs of funding. This was partially offset by increased investment in our homes particularly around our digital offering and building safety. This investment is part of Midland Hearts plan to improve its services and systems and invest more in its homes and the safety of our tenants. Customer satisfaction improved to 90% from 84% during the year. During 19/20 we completed 570 homes and our current aspirations are to increase this, so that we can build c600 social homes a year plus reinvesting any Voluntary Right to Buy proceeds in new affordable stock. As at 31 March 2020, Midland Heart Limited had c£236m in cash and immediately available loan facilities.

Financial risk management objectives and policies

The Company's operations expose it to a variety of financial risks that include the effects of cash flow risk, credit risk and liquidity risk. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company by monitoring levels of debt finance and related finance costs.

Credit Risk

All of the Company's capital market financing proceeds are immediately on-lent to Midland Heart Limited, its regulated social housing subsidiary which represents the only credit risk to the Company. The credit risk is mitigated through a number of factors, including the housing asset security that stands behind the loan to Midland Heart Limited, the overall creditworthiness of the Group, the guarantees that Midland Heart Limited has issued to the Company and the contractual protections in the loan agreement itself. The underlying credit of the group is monitored by the Board.

The Company actively lends the full amount of the loans it has itself borrowed, thus the entity has assets to fully offset its liabilities and interest receivable to offset its interest payable.

Cash flow risk

In order to ensure the stability of cash outflows and hence manage interest rate risk, the Company has a policy of matching interest payable on its borrowing to the interest receivable on its loan debtors. At 31 March 2020 100% of the Company's debt was on fixed rate terms. The Company does not use derivative financial instruments to manage interest rate costs. The underlying cash flow risks of the group are monitored by the Board.

Key Performance Indicators and Capital Management

The Company operates as a Group funding vehicle and as such has no specific key performance indicators. The entity is monitored against the original performance model and is thus expected to break even. Its capital management focuses on maintaining the relationship between its borrowings and its debtors.

Directors Report

The Directors present their report and the audited financial statements of Midland Heart Capital plc ("The Company") for the year ended 31 March 2020.

Midland Heart Capital plc is a company limited by shares registered under Companies Act 2006 (No. 8159931). The Company is a subsidiary of Midland Heart Limited, and a member of the Midland Heart Group ("The Group").

Directors

The Directors who held office during the period were as follows:

Glenn Harris MBE
Anna Simpson
David Taylor
Joe Reeves

As at 31 March 2020 no qualifying third party indemnity provisions were granted to any directors.

Statement as to disclosure of information to auditors

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditor

KPMG LLP are auditors to the Group. The auditors' fees for audit and non-audit work are disclosed in note 7 to the financial statements.

Health & Safety

Midland Heart Limited ensures, as ultimate parent, that the responsibilities of the Company under Health and Safety legislation are met and ensures regular inspections and reviews as part of its compliance procedures.

Long Term Viability

As required by the provisions of the Corporate Governance Code, the Directors have assessed the long term viability of the company for a period of 5 years. To assist in this, the group manage the business with regard to 3 golden rules. These are as follows:

- Interest cover to be at least 150% (covenant min 116% - currently 411%);
- Gearing to be below 70% (covenant minimum 75% currently 43%); and
- Liquidity at least 18 months.

This allows the Group to have headroom over its operating, debt and liquidity positions and be comfortable that it can meet all its liabilities as they fall due.

In the short term for the group we prepare budgets and other key performance indicators so that the Board can note up to date performance including any corrective action that needs to be taken.

As well as this, the thirty-year business plan is subjected to severe stress testing, including varying assumptions as well as multi-variate testing that are designed to break the plan. If these scenarios took place, mitigation strategies are modelled that would be employed to deal with the adverse scenarios e.g. cutting development, selling low performing assets and reducing management costs.

It is on the basis of this that the Directors have a reasonable expectation that based on known risks they will be able to continue in operation and meets its liabilities to Midland Heart Capital plc as they fall due.

Going Concern

The board, after reviewing the company budgets for 2020/21 and the group's medium term financial position as detailed in the 30-year business plan including changes arising from the Covid-19 pandemic, is of the opinion that, taking account of severe but plausible downsides, the group and company have adequate resources to continue in business for the foreseeable future. The Board therefore continues to adopt the going concern basis in preparing the annual financial statements.

Dividends

The Directors do not recommend the payment of a dividend for the period (2019: Nil).

Political and charitable contributions

The Company made no political or charitable donations or incurred any political expenditure during the period (2019: Nil).

Statement of Directors' responsibilities in respect of the Directors' Report, Strategic Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and 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 are required to prepare the financial statements in accordance with UK accounting standards 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 its profit or loss 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 relating 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 its financial statements comply with the Companies Act 2006. They are responsible for such internal controls 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 fraud and other irregularities.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Corporate Governance Statement

The Directors of Midland Heart Capital plc are responsible for operating the Company within its Rules. The Company must maintain a minimum of two directors.

The Directors delegate the day-to-day operation of the Company to the Midland Heart Executive Board. The Directors have overall responsibility for ensuring that systems of internal control are established and maintained. Such systems can only provide reasonable assurance against material financial misstatement or loss.

The process adopted by the Directors in reviewing the effectiveness of the system of internal control, together with some of the key elements of the control framework includes:

- Formal policies and procedures are in place. This includes Standing Orders which document the key systems and rules relating to the delegation of authority, which allow the monitoring of controls and prohibit the unauthorised use of assets.
- Experienced and suitably qualified staff take responsibility for important business functions. Annual appraisal procedures are well established to maintain standards of performance.
- Internal audits are carried out on any risk areas within the business to identify and implement corrective actions in relation to any areas of weakness in the control framework.

Audit & Risk Committee Statement

The Audit & Risk Committee is responsible for six key areas, delegated by the Board:

- Monitoring the integrity and effectiveness of financial reporting and external profit;
- Agreeing and monitoring the delivery of the Group's internal audit programme;
- Monitoring the effectiveness of the Group's risk management and internal control systems;
- Overseeing the effective implementation of the Group's health and safety policy;
- Oversight of the compliance with whistle blowing and fraud policies and procedures; and
- Compliance with regulatory standards and NHF code of governance.

In addition to exercising oversight of these areas, the Committee also considers items related to information governance / General Data Protection Regulations (GDPR), resilience and review of the Governance and Control Framework (Midland Heart's Standing Orders).

At the March 2020 meeting of the Committee, the Committee considered the external auditor's (KPMG), audit plan and strategy for the consolidated financial statements of Midland Heart Limited and subsidiaries for the year ending 31 March 2020. The Committee heard the external auditor's assessment of the key audit matter risks relevant to Midland Heart Capital's plc operations, notably the risk of the group's inability to service the debt, as well as other areas of focus, and sought assurances from management as to how these would be addressed during the audit process. Based on review of management information received during the year, the Committee is satisfied that the Group is able to service its debt to Midland Heart Capital plc.

The Committee also assessed the effectiveness of the external audit process at the same meeting by receiving details of the seniority and experience of the engagement team as well as details of the auditor's audit quality framework.

The Committee reappointed KPMG as external audit provider in March 2018 for a period of three years from 1 April 2018.

The Committee received assurances on how the external auditor's objectivity and independence is safeguarded in the provision on non-audit services. The Committee were advised at their March 2020 meeting by the external auditor, that in 2019/20, the ratio of non-audit fees to audit fees to date was 0.41:1. The external auditor assured the Committee that they did not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to the external audit firm (KPMG) as a whole.

An Enterprise-wide Risk Management Framework has been implemented across the Group under which each functional area of the business (including the Company) reports on its major risks and how these are being managed/eliminated on a quarterly basis to the Committee.

On behalf of the Directors, the Midland Heart Audit and Risk Committee has reviewed the effectiveness of the system of internal controls in existence in the Group for the year ended 31 March 2020. No significant weaknesses were found in the internal controls that resulted in material losses, contingencies, or uncertainties that require disclosure in the financial statements or in the auditor's report on the financial statements.

On this basis of the above, the Committee have received sufficient assurance on the key audit matter raised.

By Order of the Directors

S. Scott

Sarah Scott
Secretary

23 July 2020

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MIDLAND HEART CAPITAL PLC

1. Our opinion is unmodified

We have audited the financial statements of Midland Heart Capital Plc ("the Company") for the year ended 31 March 2020 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 2020 and of its result 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 committee.

We were appointed as auditor by the directors on 22 April 2013. The period of total uninterrupted engagement is for the 7 financial years ended 31 March 2020. 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 judgment, 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 matters (unchanged from 2019), in decreasing order of audit significance, 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. These matters were 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) £157m (2019: £157m)
Refer to page 8 (Audit Committee's Report), pages 17 to 19 (accounting policy) and pages 19 to 23 (financial disclosures)]
<u>The risk – low risk high value</u>

The Company's primary activity is to issue bonds, source investor financing and on-lend to the Parent. 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.

The carrying amount of the long term intercompany debtor balance represents 99.8% 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.

Whilst there are small amounts of financial income and financial expense during the loan period, the risk mainly stems from the expectation of the ability of the Parent to repay the loan in 26 years.

Our response

Our procedures included:

i. **Tests of detail:** Assessing 100% of group long term debtors owed by the Parent (2019: 100%) to identify, with reference to the Parent's draft balance sheet, whether they have a positive net asset value and therefore coverage of the debt owed as well as assessing whether the Parent has historically been profit-making.

ii. **Assessment of Parent:** Assessing the work performed by the Group audit team, and considering the results of that work, on those net assets. We critically assessed the directors' going concern assessment, including the reasonableness of the key assumptions used by the Parent in their cash flow forecasts and the level of downside sensitivities applied using our knowledge of Covid-19 scenarios.

Our results

We found the Company's assessment of the recoverability of the long term debtor balance to be acceptable (2019 result: acceptable).

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

Midland Heart Capital Plc is part of a Group headed by Midland Heart Limited. Materiality of £1.5m (2019: £1.5m), as communicated by the Group audit team, has been applied to the audit of the Company.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £75k, 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 all performed by a single audit team.

4 We have nothing to report on 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").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. 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 absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

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 Company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information 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 the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports 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.

6 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.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 7, 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 other irregularities (see below), 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, other irregularities 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.

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

Irregularities – ability to detect

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 (as required by auditing standards) and discussed with the directors the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those 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.

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 (irregularities) 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 irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8 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.

SBrown

Sarah Brown (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

One Snowhill, Snow Hill, Queensway

Birmingham B4 6GH

24 July 2020

Statement of Comprehensive Income

	Notes	2020	2019
		£'000	£'000
Interest receivable		7,879	7,883
Interest payable	6	(7,879)	(7,883)
Operating Profit		-	-
Other operating income	4	52	52
Other operating expenses	5	(52)	(52)
Surplus before tax		-	-
Tax on profit on ordinary activities	8	-	-
Surplus for the year and Comprehensive Income		-	-

The results for the period are in respect of continuing operations.

Statement of Financial Position

	Notes	2020 £'000	2019 £'000
Current Assets			
Debtors - due within one year	9	249	253
Debtors - due after more than one year	9	157,102	157,398
Cash at bank and in hand		13	13
		157,364	157,664
Creditors: amounts falling due within one year	10	(249)	(253)
Net Current Assets		**157,115**	**157,411**
Creditors: amounts falling due after more than one year	11	(157,102)	(157,398)
Net Assets		**13**	**13**
Shareholders' Funds:			
Share capital	13	13	13
Reserves		-	-
Equity Shareholders' Funds		**13**	**13**

These financial statements were approved at a meeting of the Directors held on 23 July 2020 and signed on its behalf by:

G.W.Harris

Glenn Harris
Director

Joe Reeves
Director

S. Scott

Sarah Scott
Secretary

Company number: 8159931

Statement of Movement on Reserves

	Income and Expenditure Reserves £'000	Total Reserves £'000
As at 1 April 2019	-	-
Surplus for the year	-	-
At 31 March 2020	-	-

Notes to the Financial Statements

1. LEGAL STATUS

Midland Heart Capital plc is a company limited by shares registered in England under the Companies Act 2006 (registration number 8159931). The company is a subsidiary of Midland Heart Limited, and a member of the Midland Heart Group.

2. ACCOUNTING POLICIES

a) Basis of Accounting

The financial statements of the company are prepared in accordance with Financial Reporting Standard 102 – The applicable financial reporting standard in the UK and Republic of Ireland (FRS102), and the Companies Act 2006.

The presentation currency of these financial statements is £ sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The exemption available to a subsidiary undertaking in relation to the publication of a Cash Flow Statement and related notes given under FRS 102 has been taken in these financial statements. The consolidated financial statements of the Midland Heart Group are available from Midland Heart, 20 Bath Row, Birmingham B15 1LZ.

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

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Current Assets: The recoverability of rental and trade debtors is assessed based on the likelihood of collection, on a portfolio basis for rental debtors and an individual basis for sales debtors.

(b) Measurement convention

The financial statements are prepared on the historical cost basis except that financial instruments are measured at amortised cost.

(c) Going concern

The Company is a wholly owned subsidiary of Midland Heart Limited (a company registered in England), and participates in the Midland Heart Group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries.

The Directors have prepared cash flow forecasts covering a period of 30 years from the date of approval of these financial statements which indicate that, taking account of severe but plausible downsides, the Company will have sufficient funds to meet its liabilities as they fall due for that period. In order to settle its own financial obligations and meet the compliance requirements of its external borrowings the Company is dependent on Midland Heart Limited, the parent entity, generating sufficient cashflows to settle the payments of principal and interest on the onward loan of the funding which the Company raised. Those forecasts are dependent on Midland Heart Limited having adequate resources to continue in business for the foreseeable future.

In making this assessment the Directors have considered the potential impact of the emergence and spread of COVID-19.

As well as considering the impact of a number of scenarios on the business plan the Board also adopted a stress testing framework to use four main types of sensitivity testing against the base plan. The stress testing impacts were measured against loan covenants and peak borrowing levels compared to agreed facilities, with potential mitigating actions identified to reduce expenditure. Following the outbreak of Covid-19 the Group has undertaken a series of further scenario testing including severe but plausible downsides in the worst case assessment.

The board, after reviewing the group and company budgets for 2020/21 and the group's medium term financial position as detailed in the 30-year business plan including changes arising from the Covid-19 pandemic, is of the opinion that, taking account of severe but plausible downsides, the group and company have adequate resources to continue in business for the foreseeable future. In order to reach this conclusion, the Board have considered through multi-variant stress testing:

- the property market – budget and business plan scenarios have taken account of delays in handovers, lower numbers of property sales, reductions in sales values and potential conversion of market sale to social homes;
- Maintenance costs – budget and business plan scenarios have been modelled to take account of cost increases and delays in maintenance expenditure, with major works being phased into future years;
- Rent and service charge receivable – arrears and bad debts have been increased to allow for customer difficulties in making payments and budget and business plan scenarios to take account of potential future reductions in rents;
- Liquidity – current available cash and unutilised loan facilities of £Xm which give significant headroom for any cash flows that arise;
- The group's ability to withstand other adverse scenarios such as higher interest rates and number of void properties.

The board believe the group and company has sufficient funding in place and expect the group to be in compliance with its debt covenants even in severe but plausible downside scenarios.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Cash equivalents comprise term deposits which are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value; of less than one year (other than cash), government securities and investments in money market managed funds.

(e) Turnover

The Company does not generate any trading income. It receives interest from other Group entities.

(f) Interest receivable

Interest receivable is accrued over the term of the related loan so as to recognise the total income evenly over the life of the deposit.

(g) Expenses

Interest payable

Interest payable is accrued over the term of the related borrowing so as to recognise the total cost evenly over the life of the loan.

Value Added Tax

The Group charges Value Added Tax (VAT) on some of its income and is able to recover part of the VAT it incurs on its expenditure. The financial statements include VAT to the extent that it is suffered by the Group and not recoverable from HM Revenue and Customs. The balance of VAT payable or recoverable at the year-end is included as a current liability or asset as appropriate.

(h) Related Party Transactions

The Association is exempt from the requirement of FRS102 to disclose transactions between Group undertakings as all companies are controlled and managed by Governing Bodies and an Executive Board appointed by the Board of Management of the Parent Company.

(i) Financial Instruments

The company accounts for its financial instruments under FRS 102.

Financial Instruments which meet the criteria of a basic financial instrument as defined in Section 11 of FRS102 are accounted for under an amortised cost model.

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. 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.

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. 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.

Non-basic financial instruments include all non-basic instruments and derivatives such as swaps and are accounted for under section 12 of FRS102 and measured at fair value through income and expenditure unless hedge accounting is applied.

All financial assets or liabilities at fair value are calculated using measurements based on inputs that are observable for the asset either directly or indirectly from quoted prices. Loans and Bonds are valued at amortised cost and market values for the stand alone swaps are obtained by discounting the cash flows at the prevailing swap curve. All other assets and liabilities are shown at historical book value.

Impairment

Financial assets are assessed at each reporting date to determine whether there is any objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss immediately.

The following financial instruments are assessed individually for impairment:

(a) All equity instruments regardless of significance; and

(b) Other financial assets that are individually significant.

Other financial instruments are assessed for impairment either individually or grouped on the basis of similar credit risk characteristics.

3. DIRECTORS' EMOLUMENTS AND EMPLOYEE INFORMATION

None of the directors receive remuneration for their services as a director of Midland Heart Capital plc. Those directors who also serve on the Midland Heart Limited Board are remunerated for their services by Midland Heart Limited.

Midland Heart Capital plc has no direct employees. Those employees who perform duties for Midland Heart Capital plc are remunerated by the parent company, Midland Heart Limited.

4. OTHER OPERATING INCOME

	2020 £'000	2019 £'000
Arrangement fee charges due from Group undertakings	52	52

5. OTHER OPERATING EXPENSES

	2020 £'000	2019 £'000
Arrangement fees due to external bodies	52	52

6. INTEREST AND FINANCING COSTS

All interest payable relates to interest paid on loans.

7. SURPLUS BEFORE TAX

	2020 £'000	2019 £'000
Surplus before tax is stated after charging:		
Auditors' remuneration:		
As auditors	-	-

The audit fee is borne by the parent company, Midland Heart Limited.

The Group accounts of the parent, Midland Heart Limited, disclose the non-audit fees paid to the Group's auditors.

8. TAX ON SURPLUS

	2020 £'000	2019 £'000
Charge for the period	-	-

Factors affecting tax charge:

Profit for the period	-	-
Tax payable at 20% thereon	-	-

As at 31 March 2020 there is no liability for deferred taxation (2019: nil).

9. DEBTORS

	2020 £'000	2019 £'000
Due within one year		
Amounts owed by Group undertakings	249	253
Assets measured at amortised cost		
Due after more than one year		
Amounts owed by Group undertakings	150,000	150,000
Premium on bond issues	8,345	8,693
less: Deferred loan arrangement fees	(1,243)	(1,295)
	157,102	157,398

10. CREDITORS: Amounts falling due within one year

	2020 £'000	2019 £'000
Accruals and deferred income	249	253
	249	**253**

11. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2020 £'000	2019 £'000
Liabilities measured at Amortised cost		
Bonds	150,000	150,000
Premium on bond issues	8,345	8,693
less: Deferred loan arrangement fees	(1,243)	(1,295)
	157,102	157,398

12. FINANCIAL INSTRUMENTS

Financial risk management

Risk management objectives and policies

The Treasury team is responsible for the management of funds and control of associated risks. Its activities are governed by the Group Board and the Board of Midland Heart Limited, which is responsible for treasury issues in all Midland Heart legal entities, which include this Company.

Credit risk

All of the Company's capital market financing proceeds are immediately on-lent to Midland Heart Limited which represents the only credit risk to the Company. The credit risk is mitigated through a number of factors, including the housing asset security that stands behind the loan to Midland Heart Limited, the overall creditworthiness of the Group, the guarantees that Midland Heart Limited has issued to the Company and the contractual protections in the loan agreement itself.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company actively lends the full amount of the loans it has itself borrowed, thus the entity has assets to fully offset its liabilities and interest receivable to offset its interest payable.

The contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements, are in 25 years.

The debt is repayable as follows:

	2020	2019
Lump Sum Repayments:		
In five years or more	150,000	150,000
	150,000	150,000

FINANCIAL INSTRUMENTS (CONTINUED)

The above figure is repayable as a lump sum in 2044. Interest is charged at a fixed rate of 5.09%. The loan is secured upon 3,315 housing properties owned by the Company's parent, Midland Heart Limited.

Interest rate risk

The Company currently borrows on a fixed rate basis from the capital market and then on-lends these funds to Midland Heart Limited on a similar fixed rate basis. As such the Company does not bear any interest rate risk, apart from the underlying credit risk to Midland Heart Limited, as discussed above.

The Company does not have any hedging activities and it does not have any derivatives.

The interest rate on all borrowings is fixed at 5.09% until 2044.

Fair Values of Financial Instruments

The fair values of financial assets and liabilities by class together with their carrying values are as follows:

	2020	2020	2019	2019
	£'000	£'000	£'000	£'000
Financial Assets:	Carrying Value	Fair Value	Carrying Value	Fair Value
Other loans and receivables	150,000	224,395	150,000	210,767
Financial Liabilities measured at amortised cost:	150,000	224,395	150,000	210,767
Other interest bearing loans and borrowings				

The fair value of both the financial assets and the financial liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the date of the Statement of Financial Position if the effect is material. Midland Heart 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 (loans and receivables) qualify to be held at amortised cost, therefore the requirement to disclose the effect of changing the inputs in calculation of fair values is not considered applicable.

13. CALLED UP SHARE CAPITAL

	2020 £'000	2019 £'000
Allotted, issued and fully paid ordinary shares of £1 each on incorporation and at 31 March 2020	13	13

14. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS FUNDS

	2020	2019
	£'000	£'000
Share capital at the beginning and end of the year	13	13
Profit for the period	-	-
At 31 March 2020	13	13

15. CONTINGENT LIABILITIES

There are no contingent liabilities at 31 March 2020 (31 March 2019: nil).

16. DISCLOSURE OF GROUP ACTIVITY

The Company is a wholly owned subsidiary of Midland Heart Limited, and has taken advantage of the exemption contained within FRS102 and therefore not disclosed transactions or balances with entities which form part of the Group.

The ultimate parent of Midland Heart Capital plc is Midland Heart Limited.

The Group accounts of Midland Heart Limited for the year ended 31 March 2020 can be obtained from the registered office at: 20 Bath Row, Birmingham, B15 1LZ.