Clarion Treasury Limited

Annual Report and Financial Statements
For the year ended 31 March 2021

Companies House No. 06133979

CONTENTS

BOARD AND ADVISERS

Board

Tom Smyth	(Chair, appointed 1 April 2020)
Mark Hattersley	
Kwok Liu	
Aruna Mehta	
Clare Miller	
Maxim Sinclair	

Company Secretary

Louise Hyde

Registered office

Level 6
6 More London Place
Tooley Street
London
SE1 2DA

Principal Solicitors

Devonshires Solicitors LLP
30 Finsbury Circus
London
EC2M 7DT

Allen & Overy LLP
One Bishops Square
London
E1 6AD

Bankers

Natwest Bank PLC
45 London Street
Norwich
NR2 1HX

Auditors

KPMG LLP
15 Canada Square
London
E14 5GL

STRATEGIC REPORT

Clarion Treasury Limited ("CTL"), registered company no. 06133979, presents its annual report and audited financial statements for the year ended 31 March 2021.

Principal Activities

The principal activity of the Company is to provide funding to members of Clarion Housing Group to enable them to support their development activity. CTL is a borrowing vehicle, it enters into loan arrangements and hedging activities on behalf of the Group, on-lending funds to Clarion Housing Association Limited ("the Association"). It also obtains funding indirectly from the capital markets through intercompany treasury vehicles; Circle Anglia Social Housing Plc, Circle Anglia Social Housing 2 Plc and Clarion Funding Plc. CTL is a wholly owned subsidiary of Clarion Housing Group Limited.

Principal Risks and Uncertainties

The key business risk is default risk. As CTL on-lends all of its debt to the Association the default risk is that the Association fails to pay interest or repay loans when they fall due. This risk is mitigated by security arrangements whereby all borrowings and hedging liabilities of CTL are guaranteed by the Association which also provides security for these funding arrangements through fixed charges over its properties. CTL also takes comfort from the strong investment grade credit ratings of Clarion Housing Group assigned by Moody's Investors Service (A3 with a stable outlook) and S&P Global Ratings (A- with a stable outlook).

As CTL is not obliged to provide incremental funding to the Association, it is not at risk if it cannot obtain further funding. All of the Company's costs related to providing funding services are billed to the Association.

Brexit

The Group has been managing risks arising from the British government's deal on Brexit including supply chain concerns, exposure to market sales and managing risks around its funding requirements. The Group has relatively low commercial exposure and has some protection from downturns because of the counter-cyclical nature of its rented properties. During the year the Group also raised £450 million of new capital market funding, and has secured additional revolving bank facilities, in order to maintain high levels of liquidity in excess of its medium-term cash flow implied requirements.

The Audit and Risk Committee has reviewed the Business's preparation and response to Brexit, including its regular stress tests of the business plan. Those stress tests show that the Group's strong financial position means it is well placed to withstand any potential fall-out from Brexit as it further unfolds.

Covid-19

In March 2020, major restrictions in activity were implemented by the British government in response to the Covid-19 crisis. The restrictions have continued in varying forms over the year and remain an area of on-going uncertainty.

The Group actively manages risks associated with downturns in income and many of the mitigations in place for Brexit are also being utilised for Covid-19. The Group Executive and Group Board has updated business plans for the organisation after adjustment for the impacts of Covid-19 in terms of development activity and predicted cash flows.

STRATEGIC REPORT (CONTINUED)

Operationally, the Group has been able to continue functioning due to modern working practices and, after an initial period of service disruption, is now focussed on returning to normal service levels and recovering backlogs. In fact the Group ended the year outperforming its Covid-19 revised outlook. The financial position of the organisation continues to be strong and the availability of high liquidity allows the Group to be confident of absorbing further shocks associated with lower economic activity.

Building Safety and Zero Carbon Emission

Following the Grenfell Tower fire in June 2017, the Group has undertaken a detailed review of all the fire risks in its housing portfolio and remediated all ACM cladding risks in its high-rise buildings. Nevertheless, new guidance and regulation on fire and building safety is regularly issued, which might lead to increased fire risk and building safety assessments and costs.

In addition to increased building safety, the UK has announced new carbon emission targets, setting it on the path to zero carbon emissions by 2050. In order to comply with this new target, the Group may need to make a substantial investment in the energy efficiency of its housing properties.

In its updated business plans, the Group has planned for potential higher investments in fire and building safety and in energy efficiency. It considers it is financially robust to absorb these future costs.

Review of the Year

The Company's key performance indicators are based around the five main financial covenants in its contracts with external funders. These are:

- The Association meets a minimum one year interest cover percentage;
- The Association meets a minimum three year interest cover percentage;
- The Association does not exceed a maximum gearing percentage;
- A minimum asset cover ratio is met; and
- CTL does not incur an aggregate deficit as shown under 'profit for the year'.

These covenants were all met throughout the year and at the year-end and the Company expects that compliance to continue.

The Company has also sustainability targets embedded in its sustainability-linked loan agreements. Subject to meeting these annual targets, which was the case for the previous year, the Company benefits from a margin discount for these loans.

The Statement of Comprehensive Income shows a £nil profit for the year after taxation (2020: £nil). This position is in line with the Company's role as a special purpose funding vehicle for the Group.

As at the reporting date, the Company's notional borrowings totalled £3,769.2 million, an increase of £299.2 million compared to 2020 (£3,470.0 million). The notional borrowings of the Company consist of Group undertakings and external debt. The amounts due from Group undertakings predominantly originate from funding sourced indirectly from the debt capital markets through intercompany treasury vehicles.

At the reporting date, amounts due to Group undertakings: loans and cash pooling stood at £2,400.4 million (2020: £1,923.4 million). During the year £450.0 million of notes were issued by Clarion Funding PLC ("CFP") through the Group's Euro Medium Term Note ("EMTN") programme. The proceeds are collected by CFP and on-lent to the Association with the interest requirement flowing in the opposite direction. One fixed rate note was issued by CFP on 13 November 2020 for £300.0 million. In addition, two further note issuances from existing bond series were made, the first on 30 July 2020 for £100.0 million and the second on 18 January 2021 for £50.0 million.

STRATEGIC REPORT (CONTINUED)

The Company's notional external borrowings at the reporting date stood at £1,534.2 million (2020: £1,685.0 million), a reduction of £150.8 million. The largest contributing factor to the reduction in external borrowings is a result of the above note issuance. The proceeds from these issuances were used to repay some of the Company's external loan facilities.

Alongside the reduction in notional external borrowings there has been a £11.3 million increase in the Company's accounting adjustments driven by changes in fair value of a fixed-rate liability, which is accounted for at fair value through profit or loss due to hedge accounting. These adjustments bring total borrowings to £1,507.1 million (2020: £1,669.2 million).

Excluding an extraordinary breakage receipt of £15.5 million in 2020, net interest cost payable for the year has slightly increased to £141.8 million (2020: £155.7 million, but £140.2 million excluding the one-off receipt of £15.5 million). The Group's weighted average interest rate for borrowings was 3.81%, down from 4.15% in 2020. Lower interest rates have partially offset the increased interest payable resulting from the higher borrowings. All interest and breakage costs payable or receivable are passed through to the Association resulting in a £nil profit for the year (2020: £nil).

In order to manage interest rate risk, CTL uses a mixture of fixed rate borrowings and Interest Rate Swaps to fix between 80% and 100% of interest payments across the Group. Hedging of interest rate risk on floating rate borrowings from banks is achieved with Interest Rate Swaps of 1 month, 3 month and 6 month LIBOR and hedge accounting is used where appropriate in order to manage the accounting impact of these swaps. £1.2 million of notional value of interest rate swaps amortised during the year (2020: £1.2 million) and two new swap relationships were entered into, one swap with a notional value of £50.0 million and a swap option ("swaption") with a notional value of £50.0 million (2020: no new relationships). Seven swap relationships matured during the year with a notional value of £415.0 million (2020: one relationship with a notional value of £20.0 million). One swap which was a forward starting swap in the year ended 31 March 2020, with a notional value £75.0 million, is now part of an active hedge relationship. The net fair value of the derivative portfolio at 31 March 2021 is £314.8 million (2020: £381.6 million), a reduction of £66.8 million, of which. £52.5 million of this movement has been recognised within Other Comprehensive Income as a result of the Company's hedge accounting arrangements and. £26.0 million has been recognised within the Company's Income Statement. The effect of this accounting treatment is all "on-lent" to the Association.

In the year ending 31 March 2022, CTL's debt facilities and interest rate swaps that currently use LIBOR will transition to use SONIA, and hedge accounting procedures will be updated in line with this change

As at 31 March 2021 the Group had an uncharged security pool at an estimated value of £1,457 million (2020: £1,543 million) with a further £968 million (2020: £1,122 million) of assets charged but unallocated in a security trust numerical apportionment arrangement. Additionally, £111.6 million has been deposited as security as at the reporting date (2020: £115.4 million).

Due to the limited nature of the Company's operations, there are no other KPIs which the Board considers to be relevant.

The strategic report was approved and authorised for issue by the Board of Directors and signed on its behalf by:

Tom Smyth
Chair
6 July 2021

The Group's System of Internal Controls Responsibility

The Board of Clarion Housing Group Limited is the ultimate governing body for the Group and is committed to the highest standards of business ethics and conduct, and seeks to maintain these standards across all of its operations.

The Board is responsible for ensuring that sound systems of internal control exist across the Group which focus on the significant risks that threaten the Group's ability to meet its objectives, and provide reasonable - but not absolute - assurance against material misstatement or loss.

The key means of identifying, evaluating and managing the systems of internal control are:

- Corporate governance arrangements;
- Written Group-wide financial regulations and delegated authorities, which were subject to review during the year;
- Policies and procedures for all key areas of the business. These are reviewed periodically to ensure their continued appropriateness;
- A Group-wide Internal Audit function, structured to deliver the Audit and Risk Committee's risk-based audit plan. As well as having an in-house team, the Group uses the services of professional firms of auditors and other specialists as necessary. All audit reports are reviewed by the Audit and Risk Committee, which also receives updates on the implementation of agreed external and internal audit recommendations. Detailed reports on the Group's and subsidiaries' activities are also presented to senior managers so that recommendations for strengthened controls and improvement can be implemented promptly;
- A Group-wide Health and Safety function;
- Management structures providing balance and focus within the Group;
- A Group-wide risk management process, which enables management to manage risk so that residual risk, after appropriate mitigation, can be absorbed without serious permanent damage to the Group or its subsidiaries. This includes a formal risk management approach to new business and major development initiatives and action plans to mitigate the worst effects of the risks. Risk management is considered at each Audit and Risk Committee meeting, through reviews of individual risk areas and/or risk maps, as well as considered regularly by the Board;
- The Group and its subsidiaries have annual budgets and long-term business plans. Throughout the year, Boards and managers regularly monitored performance against budgets, value for money and other quality indicators. An important tool in this process is the Group's Balanced Scorecard which identifies performance against key performance indicators, underpinned by supporting performance indicators and management information;
- Regulatory requirements and service objectives with managers ensuring that variances are investigated and acted upon;
- An anti-fraud and anti-bribery culture which is supported by a policy and procedure for dealing with suspected fraud, bribery and whistleblowing. The Group has participated in the 2020/21 National Fraud Initiative, sponsored by the Cabinet Office;
- All housing investment decisions and major commitments were subject to appraisal and approval by the Investment Committee and, when appropriate, the Group Executive Team and the relevant Board, in accordance with the Group's financial regulations; and
- A Group-wide treasury management function reporting at least three times a year to the Treasury Committee.

REPORT OF THE BOARD (CONTINUED)

We have kept our internal control framework under review as the current Covid-19 situation develops and adapted and strengthened controls as required.

The Group Chief Executive and senior subsidiary managers have reviewed the internal control and assurance arrangements by reference to checks on the above and a report has been made to the respective Boards on the effectiveness of the control systems for the year ended 31 March 2021 and up to the date of approval of the Annual Report and the Financial Statements. The Audit and Risk Committee and the Group Board have expressed their satisfaction with these arrangements.

Status

No weaknesses were found in internal controls which resulted in material losses, contingencies or uncertainties that require disclosure in the financial statements, for the year ended 31 March 2021 and up to the date of approval of the financial statements.

Going Concern

In accordance with its role as the Group's borrowing vehicle, and after reviewing CTL's strategic business planning and control procedures, the Board has a reasonable expectation that it has adequate resources to continue operating for at least twelve months from the date of approval of the financial statements.

Directors

The Directors holding office during the period and at the date of this report are listed on page 3.

Directors' and Officers' Liability

Directors' and officers' liability insurance has been purchased by the Group during the year, and covers the company.

Dividends

No dividend was paid during the year and none is proposed (2020: £nil).

Charitable and Political Contributions

The company made no charitable contributions during the year (2020: £nil) and no political contributions (2020: £nil).

Disclosure of Information to Auditor

The Board members who held office at the date of approval of this Report of the Board confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each Board member has taken all the steps that they ought to have taken as a Board member to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

REPORT OF THE BOARD (CONTINUED)

Auditor

KPMG LLP have expressed their willingness to continue in office as the Group's auditor. Accordingly, a resolution to reappoint them as auditor will be proposed at the forthcoming Board Meeting.

Tom Smyth
Chair
6 July 2021

STATEMENT OF BOARD'S RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE REPORT OF THE BOARD AND THE FINANCIAL STATEMENTS

The Board is responsible for preparing the Strategic Report, the Report of the Board and the financial statements in accordance with applicable law and regulations.

Company law requires the Board to prepare financial statements for each financial year. Under that law the Board has 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 Board must not approve the financial statements unless it is 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 Board is 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 it either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The Board is 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 the Board to ensure that the financial statements comply with the Companies Act 2006. The Board is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CLARION TREASURY LIMITED

Opinion

We have audited the financial statements of Clarion Treasury Limited ("the company") for the year ended 31 March 2021 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and 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 2021 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 have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

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 company's financial resources or ability to continue operations over the going concern period.

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.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CLARION TREASURY LIMITED (CONTINUED)

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 as to Clarion Housing Group's policies and procedures to prevent and detect fraud that apply to the company as well as enquiring whether the directors have knowledge of any actual, suspected or alleged fraud.

As required by auditing standards, 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 there are no revenue transactions. We did not identify any additional fraud risks.

We performed procedures including agreeing all high risk accounting entries in the period to supporting documentation

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 (as required by auditing standards), and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

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.

This company is not subject to other laws and regulations where the consequences of non-compliance 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CLARION TREASURY LIMITED (CONTINUED)

Strategic report and the report of the Board

The directors are responsible for the report of the Board. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read the report of the Board 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 report of the Board;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006.

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, 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.

Board's responsibilities

As explained more fully in their statement set out on page 10, the directors are responsible for: the preparation of the financial statements and for 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.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CLARION TREASURY LIMITED (CONTINUED)

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.

Fleur Nieboer (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL

13 July 2021

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2021

	Notes	**2021** **£'000**	2020 £'000
Interest receivable	4	**141,842**	155,710
Interest payable and financing costs	5	**(141,842)**	(155,710)
Movement in fair value of financial instruments	6	**-**	-
Result/profit on ordinary activities before taxation	7	**-**	-
Tax charge on profit on ordinary activities	*8*	**-**	-
Result/profit for the year		**-**	-
Other comprehensive income			
Change in fair value of financial instruments	6	**-**	-
Total comprehensive income for the year		**-**	-

The results included in the profit and loss account relate wholly to continuing activities.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2021

	Notes	2021 £'000	2020 £'000
Current assets			
Debtors: amounts falling due within one year	9	**165,319**	160,012
Debtors: amounts falling due after more than one year	9	**4,006,083**	3,759,683
Current asset investments	10	**111,599**	115,432
Cash and cash equivalents		**-**	25
		4,283,001	4,035,152
Current liabilities			
Creditors: amounts falling due within one year	11	**(276,742)**	(274,889)
Net current assets		**4,006,259**	3,760,263
Creditors: amounts falling due after more than one year	12	**(4,006,082)**	(3,760,086)
Net assets		**177**	177
Capital and reserves			
Share capital	15	**-**	-
Profit and loss account		**177**	177
Cash flow hedge reserve		**-**	-
Equity shareholder's funds		**177**	177

The financial statements were approved by the Board and were signed on their behalf by:

Tom Smyth

Chair

6 July 2021

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2021

	Share capital £'000	Cash flow hedge reserve £'000	Profit and loss account £'000	Total equity £'000
At 1 April 2019	-	-	177	177
Result for the year ending 31 March 2020	-	-	-	-
Movement in cash flow hedge reserve due to hedged derivatives	-	(37,569)	-	(37,569)
Intercompany movement in cash flow hedge reserve due to hedged derivatives	-	37,569	-	37,569
At 31 March 2020	-	-	177	177
Result for the year ending 31 March 2021	-	-	-	-
Movement in cash flow hedge reserve due to hedged derivatives	-	52,505	-	52,505
Intercompany movement in cash flow hedge reserve due to hedged derivatives	-	(52,505)	-	(52,505)
At 31 March 2021	**-**	**-**	**177**	**177**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

1. Accounting Policies

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including FRS 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (March 2018) ("FRS 102") and the Companies Act 2006.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to Clarion Treasury Limited's ("the company") financial statements.

Basis of preparation

The financial statements are prepared on an accruals basis and under the historical cost convention, except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

Going concern

In accordance with its role as the Group's borrowing vehicle, and on the basis of their assessment of the company's financial position and resources, the Board believe that the company is well placed to manage its business risks. Therefore the company's Board have a reasonable expectation that the company has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

The worldwide pandemic due to Covid-19 has presented challenges for the company. The Board has considered the impact of the pandemic on the company and actions have been put in place to manage these risks and the Board consider these risks to be sufficiently mitigated.

Disclosure exemptions

The company has taken advantage of the exemptions in FRS 102 in respect of the following:

a. the requirement to present a statement of cash flows and related notes; and

b. financial instrument disclosures, including: categories of financial instruments; items of income, expense, gains or losses in respect of financial instruments; and, exposure to, and management of, financial risks.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the reporting date and the gains or losses on translation are included in the Income Statement.

Value Added Tax (VAT)

The company's VAT affairs are dealt with under a Group registration in the name of Clarion Housing Group Limited. Income is shown net of any VAT charged. As most of the Group's income comes from renting out residential property, which is exempt from VAT, the Group only recovers a small proportion of the input VAT it incurs, and the company's expenditure is shown inclusive of irrecoverable VAT.

1. Accounting Policies (continued)

Impairment

Loss allowances for debtors are always measured at an amount equal to lifetime expected credit losses (“ECL”).

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company’s historical experience and informed credit assessment and including forward-looking information.

For other assets an impairment review is undertaken when there is an indication that an asset may be impaired. Impairment is recognised when it is assessed that the carrying amount of that asset (or the cash generating unit, including goodwill, it belongs to) is higher than the recoverable amount, which is the higher of fair value less costs to sell and value in use. Where this is the case the higher of these two values is taken to be the new book value, and the difference is the impairment loss.

After an impairment loss has been recognised, the recoverable amount of an asset or cash-generating unit may increase because of changes in: economic conditions; the circumstances that previously caused the impairment; or, the expected use of the asset(s). As a result, the carrying amount is adjusted to the lower of the new recoverable amount and the carrying amount that would have been determined had the original impairment not occurred, with the exception that the impairment of goodwill is not reversed.

Interest receivable, interest payable and financing costs

Interest receivable is only recognised to the extent that it is probable that it will be recoverable when due.

Interest payable is recognised over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount.

Transaction costs relating to the refinancing of existing debt are expensed as incurred unless there is a substantial modification of the terms. Transaction costs relating to financial instruments held at fair value are also expensed as incurred.

Corporation tax and Gift Aid

The company is liable to corporation tax, and the charge is based on the profit for the year taking into account differences between certain items for taxation and accounting purposes.

A Gift Aid donation to the company's charitable parent, in relation to the year's taxable profits, will probably be made within nine months of the reporting date. Gift Aid will be accounted for in the year of payment unless a shareholder-approved Companies Act 2006 s288 written resolution is made prior to the reporting date, in which case it will be recognised as a liability at the reporting date.

Deferred tax is provided for in full on differences between the treatment of certain items for taxation and accounting purposes, unless the company is able to control the reversal of the timing difference and it is probable that the timing difference will not reverse in the foreseeable future.

1. Accounting Policies (continued)

Deferred tax is calculated using the tax rates and laws which have been enacted (given Royal Assent) or substantively enacted (passed by the House of Commons, or under the Provisional Collection of Taxes Act 1968) by the reporting date and are expected to apply to the reversal of the timing difference.

With the exception of changes arising on the initial recognition of a business combination, the tax charge(/credit) is presented either in the Income Statement, Other Comprehensive Income or equity depending on the transaction that resulted in the tax charge(/credit).

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax assets and liabilities are offset only where allowed by FRS 102, and likewise they are not discounted.

Non-derivative financial instruments

The company applies the recognition and measurement provisions of IFRS 9 *Financial Instruments*, as allowed by FRS 102.

All investments, short-term deposits and loans held by the company are initially measured at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price.

On initial recognition, a financial asset is classified as measured at either amortised cost, fair value through other comprehensive income ("FVOCI") debt investment, FVOCI equity investment or fair value through profit and loss ("FVTPL").

Financial assets are not reclassified subsequent to their initial recognition unless the company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

i. it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
ii. its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions:

i. it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
ii. its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

Where loans and other financial instruments are redeemed during the year, a redemption penalty is recognised in the Income Statement of the year in which the redemption takes place, where applicable.

Other debtors and creditors are initially recognised at the transaction price, unless the arrangement constitutes a financing transaction and does not qualify for treatment as a concessionary loan, in which case the present value of the future receipts discounted at a market rate of interest is used.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (CONTINUED)

1. Accounting Policies (continued)

Cash and cash equivalents include cash balances and call deposits, as well as short-term investments with an original maturity of three months or shorter. It also includes those overdrafts which are repayable on demand and form an integral part of the company's cash management strategy.

Derivative financial instruments and hedge accounting

To manage interest rate risk, the company manages its proportion of fixed to variable rate borrowings within approved limits and where appropriate, utilises interest rate swap agreements. Amounts payable and receivable in respect of these agreements are recognised as adjustments to interest payable over the period of the agreement.

These derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Where considered appropriate, the company applies hedge accounting and has designated each of the swaps against either existing drawn debt or against highly probable future debt. Hedges are classified as either:

a. fair value hedges when hedging exposure to changes in the fair value of a recognised asset or liability; or

b. cash flow hedges when hedging exposure to variability in cash flows that are attributable to either a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

Hedge relationships are formally designated and documented at inception, together with the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, and how the company will assess the hedging instrument effectiveness in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risk.

<u>Accounting for fair value hedges:</u>

The change in fair value of a hedging derivative is recognised in the Income Statement. The change in the fair value of the hedged item attributable to the risk being hedged is recorded as part of the carrying value of the hedged item and is also recognised in the Income Statement. The company applies fair value hedge accounting when hedging interest rate risk on fixed rate borrowings. If the criteria for hedge accounting are no longer met, the accumulated adjustment to the carrying amount of a hedged item at such time is then amortised to the Income Statement over the remaining period to maturity.

<u>Accounting for cash flow hedges:</u>

To the extent the hedge is effective, movements in fair value adjustments, other than adjustments for own or counterparty credit risk, are recognised in Other Comprehensive Income and presented in a separate Cash Flow Hedge Reserve. Any movements in fair value relating to ineffectiveness and adjustments for own or counterparty credit risk are recognised in the Income Statement.

Where hedge accounting for a cash flow hedge is discontinued and the hedged future cash flows are still expected to occur, the amount that has been accumulated in the cash flow hedge reserve remains there until those future cash flows occur. If the hedged future cash flows are no longer expected to occur, that amount is immediately reclassified to the Income Statement.

1. Accounting Policies (continued)

Fair value:

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 prices.

Fair value is determined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. To calculate fair value, the company uses:

a. where they exist, quoted market prices in an active market for an identical asset or liability; or
b. if a market for a financial instrument is not active, the company uses a valuation technique that makes maximum use of market inputs and includes recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, and option pricing models where in each case it is an acceptable valuation technique that incorporates all factors that market participants would consider in setting a price.

Derivative financial instruments are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. As required by IFRS 13, there is also a bilateral credit valuation adjustment made in order to adjust for the credit worthiness of the counterparties involved in the trade.

2. Significant judgements and accounting estimates

Significant judgements

With the exception of those relating to accounting estimates and uncertainty, no significant judgements have been made in applying the company's accounting policies.

Accounting estimates

The nature of estimation means that actual outcomes could differ from the estimates made. The following accounting estimate has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities - and therefore the income and expenses recognised - within the next financial year:

1. The fair value of derivative financial instruments.

   At the reporting date, the company has a £314.8 million net liability in respect of interest rate swaps. These have been valued using discounted cash flow models, for which the main assumption is the interest rate yield curve used.

   The curve used has been based on the government yield curve at the reporting date plus an appropriate credit spread, giving a range of 0.05% to 0.81%. Decreasing this curve by 100 basis points would increase the net liability by £108.1 million.

   Note: as most of the Company's derivatives are accounted for as cash flow hedges, almost all of the in-year impact of any change would be included in other comprehensive income, depending on the effectiveness of the hedging relationship.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (CONTINUED)

3. Directors' remuneration

The amounts shown below reflect the total remuneration received from the Clarion Housing Group, and also include any amounts received in respect of other directorships held within the Group as well as any amounts received in respect of membership of Group committees.

Remuneration by director was as follows:

	2021	2020
	£	£
Current Board members		
Tom Smyth	**22,500**	-
Aruna Mehta	**10,000**	10,000
Kwok Liu	**9,000**	9,000
Maxim Sinclair	**9,000**	9,000
Clare Miller	**-**	-
Mark Hattersley	**-**	-
Resigned in the prior year		
Tania Brisby	**-**	21,083
	50,500	49,083

Clare Miller and Mark Hattersley are employees of Clarion Housing Group Limited or Clarion Housing Association Limited and are/were representatives of these entities. Their remuneration is disclosed there as appropriate.

The directors are considered the key management personnel for the purposes of FRS 102.

4. Interest receivable

	2021	2020
	£'000	£'000
Interest receivable from Group undertakings	**141,581**	139,260
Interest from investments	**261**	950
Breakage receipts	**-**	15,500
	141,842	155,710

5. Interest payable and financing costs

	2021	2020
	£'000	£'000
Interest payable on loans	**23,231**	35,028
Interest payable on derivatives	**40,797**	37,490
Interest payable to Group undertakings	**74,276**	80,309
Other charges	**3,538**	2,883
	141,842	155,710

Interest payable to Group undertakings included onlent breakage receipts of £15.5 million in 2020.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (CONTINUED)

6. Movement in fair value of financial instruments

	2021	2020
	£'000	£'000
Included in profit and loss		
Fair value gains on		
Derivatives not in hedging relationships	**21,491**	-
Derivatives treated as fair value hedging instruments	**-**	5,908
Borrowings treated as a fair value hedging item	**11,698**	-
Ineffectiveness on derivatives treated as cash flow hedging instruments	**-**	1,635
Intercompany fair value gains	**7,197**	30,207
Fair value losses on		
Derivatives not in hedging relationships	**-**	(22,611)
Derivatives treated as fair value hedging instruments	**(4,990)**	-
Borrowings treated as a fair value hedging item	**-**	(6,904)
Amortisation of cash flow hedge reserve relating to a prematured derivative	**(639)**	(692)
Ineffectiveness on derivatives treated as cash flow hedging instruments	**(1,568)**	-
Intercompany fair value losses	**(33,189)**	(7,543)
	-	-

Included in other comprehensive income		
Fair value gains on amortisation of cash flow hedge reserve relating to a prematured derivative	**639**	692
Fair value movement on derivatives treated as cash flow hedging instruments - effective	**51,866**	(38,261)
Intercompany cash flow hedge movement	**(52,505)**	37,569
	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (CONTINUED)

7. Result on ordinary activities before taxation

Result on ordinary activities before taxation is stated after charging:	**2021 £'000**	2020 £'000
Auditor's remuneration (exclusive of VAT):		
- for audit services	**-**	-
- non-audit fees	**-**	-

Auditors' remuneration has been expensed in the accounts of Clarion Housing Group Limited and no audit fees are re-charged to Clarion Treasury Limited. There are no staff employed by the company and hence no staff costs.

8. Taxation

Analysis of charge in period	**2021 £'000**	2020 £'000
Current tax		
Current tax on income for the period	**-**	-
Recognised in profit and loss	**-**	-

The tax assessed for the year is the same as (2020: same as) the profit shown in the Statement of Comprehensive Income multiplied by the standard rate of corporation tax in the UK - 19% (2020: 19%).

	2021	2020
Reconciliation of tax recognised in profit and loss	**£'000**	£'000
Profit on ordinary activities before taxation	**-**	-
Tax at 19% (2020: 19%)	**-**	-
Effects of:		
Adjustment in respect of Gift Aid expected to be paid	-	-
Other adjustments in respect of prior periods	-	-
	-	-

Increasing the rate of UK corporation tax to 25% from 1 April 2023 was not yet substantively enacted by the reporting date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (CONTINUED)

9. Debtors

Amounts falling due within one year	**2021**	2020
	£'000	£'000
Amounts due from Group undertakings: trading	**31,820**	30,219
Amounts due from Group undertakings: loans and cash pooling	**126,034**	121,709
Amounts due from Group undertakings: derivatives	**6,485**	7,091
Prepayments and accrued income	**980**	993
	165,319	160,012

Amounts falling due after more than one year		
Derivative financial assets	**13,977**	15,010
Amounts due from Group undertakings: loans and cash pooling	**3,669,831**	3,355,171
Amounts due from Group undertakings: derivatives	**322,275**	389,502
	4,006,083	3,759,683

Amounts due from Group undertakings: trading relates to accrued interest on loans held by CTL where interest payments are funded by Clarion Housing Association.

10. Current investments

	2021	2020
	£'000	£'000
Collateral deposits	**111,599**	115,432

The collateral deposits represent cash deposits that mitigate the counterparties' exposure to CTL including where, for example, the mark to market value of the outstanding derivatives exceeds the credit support threshold provided within the individual International Swaps and Derivatives Association (ISDA) agreements and any other form of collateral in place.

11. Creditors: amounts falling due within one year

	2021	2020
	£'000	£'000
Bank loans and borrowing (note 13)	**124,481**	120,872
Derivative financial liabilities	**6,485**	7,091
Trade creditors	**16**	25
Amounts due to Group undertakings: trading	**25,252**	22,324
Amounts due to Group undertakings: loans and cash pooling	**113,152**	116,269
Other creditors	**-**	5
Other accruals and deferred income	**7,356**	8,303
	276,742	274,889

12. Creditors: amounts falling due after more than one year

	2021	2020
	£'000	£'000
Bank loans and borrowing (note 13)	**1,382,620**	1,548,351
Derivative financial liabilities	**322,275**	389,502
Amounts due to Group undertakings: loans and cash pooling	**2,287,210**	1,807,223
Amounts due to Group undertakings: derivatives	**13,977**	15,010
	4,006,082	3,760,086

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (CONTINUED)

13. Debt analysis

Debt is repayable as follows:	2021 £'000	2020 £'000
Due within one year	**126,799**	125,801
Between one and two years	**46,002**	91,799
Between two and five years	**156,361**	136,770
Due after more than five years	**1,205,072**	1,330,664
	1,534,234	1,685,034
Accounting adjustments	**(27,133)**	(15,811)
Total	**1,507,101**	1,669,223

The difference between the gross amount of bank loans repayable of £1,534.2 million and the carrying value of £1,507.1 million represents the amortisation of fees and fair value adjustments relating to the loans held, and is shown above as accounting adjustments. Within note 11, £2.3 million (2020: £4.9 million) of these accounting adjustments are presented within bank loans and borrowing due within one year and £24.8 million (2020: £10.8 million) within amounts due to Group undertakings: loans and cash pooling due after more than one year.

All of the above loans are drawn from total committed bank facilities of £2,488.6 million (2020: £2,473.4 million) provided by various banks and other institutions and are repayable at various dates through to 2046. Under the facilities, the loans are secured by fixed charges over the completed housing properties of the Association, as well as a guarantee and indemnity.

The above debt does not include the following, which are funded through the Group's bond vehicles and are disclosed within amounts due to Group undertakings: loans and cash pooling:

- £635 million which represents the £275 million bond issued through Circle Anglia Social Housing Plc that was placed in November 2008, further tapped in November 2010 for an additional £110 million and a bond placed in March 2012 for £250 million.
- £150 million which represents the private placement through Circle Anglia Social Housing 2 Plc that was placed in November 2015.
- £1,450 million which represents the Euro Medium Term Note ("EMTN") issued through Clarion Funding Plc that was placed in April 2018 for £250 million, further tapped in July 2019 for an additional £100 million, in July 2020 for an additional £100 million and in January 2021 for an additional £50 million, an EMTN issue in January 2019 for £250 million, further tapped in February 2020 for £50 million, an EMTN issue in January 2020 for £350 million and an EMTN issue in November 2020 for £300 million.

To manage the Group's exposure to market risk, £100 million of the private placement through Circle Anglia Social Housing 2 Plc is hedged for fair value variability through the use of an interest rate swap. Changes in fair value of this £100 million proportion are recognised immediately and this is included in the accounting adjustments disclosed above. In the current year, the fair value of this £100 million proportion was £110 million (2020: £115 million).

Interest is payable at rates varying between 0.74% and 9.92%. The weighted average rate of interest at 31 March 2021 inclusive of interest rate swaps but exclusive of bonds was 3.71% (2020: 3.99%).

13. Debt analysis (continued)

Group debt analysis

The majority of the Group's borrowings are arranged and structured through Clarion Treasury Limited and Affinity Sutton Funding Limited (together, considered as the "Group Funding Vehicles"), which provide funds to the Association as required.

At 31 March 2021, Group borrowings amounted to £4,323.7 million (2020: £4,040.6 million) which includes the amounts shown above, against committed facilities (inclusive of the Association's facilities) of £5,278.6 million (2020: £4,831.7 million).

Repayment of loans received from Group Funding Vehicles follow the long term debt repayment profile of the Group Funding Vehicles. Of the committed facilities available to the Association as at 31 March 2021, the earliest facility maturity is one year (2020: one year) and the weighted average expiry period is 14.9 years (2020: 15.3 years).

The Group's weighted average interest rate for general borrowings was 3.81% (2020: 4.15%).

The Association guarantees all the liabilities of the Group Funding Vehicles and makes all of its property assets available as property collateral to support the financing and interest rate risk management arrangements that the Group Funding Vehicles enter into.

As at 31 March 2021, the Group's main security pool was valued at £6,209.3 million (2020: £5,961.3 million), based on standard security valuation methodologies. £5,241.6 million (2020: £4,840.7 million) was allocated to the Group's funders and derivative counterparties as security against loan facilities and out-of-the-money derivative positions. This left £967.7 million (2020: £1,121.6 million) as charged unallocated security within the security pool. Cash collateral is also used as a form of security, with £111.6 million (2020: £115.4 million) in use at year-end.

As part of the Group's risk management policy a certain amount of excess security is allocated to funders to provide headroom against unfavourable movements in interest rates and property values. As at 31 March 2021, of the £5,241.6 million allocated, £371.0 million was allocated to protect against such adverse movements (2020: £317.0 million of the £4,839.7 million total allocated).

14. Financial Instruments

The Group must manage exposure to the following risks arising from financial instruments:

A. Credit risk

B. Liquidity risk

C. Currency risk

D. Market risk

This note presents information about Clarion Treasury Limited's exposure to each of the above risks, and the Group's and the company's objectives, policies and processes for managing risk.

Risk management framework

The Board of Clarion Housing Group Limited has overall responsibility for the establishment and oversight of the Group's treasury risk management framework. The Treasury Committee is responsible for developing and monitoring the Group's treasury risk management policies.

The Group's treasury risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Treasury risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (CONTINUED)

14. Financial Instruments (continued)

The Audit and Risk Committee oversees how management monitors compliance with the Group's treasury risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit and Risk Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Committee.

A. Credit Risk

Credit risk is the risk of financial loss to Clarion Treasury Limited if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the internal lending and derivative arrangements and its external investments and undrawn facilities.

Exposure to credit risk - external

Externally, there is risk that the money the company has deposited will not be returned and that the undrawn facilities that the company expects to rely on will not be delivered. The maximum exposure to credit risk at the end of the reporting period was as follows;

External:-	**2021** **£'000**	2020 £'000
Cash and cash equivalents – collateral*	**111,599**	115,432
Undrawn committed loan facilities	**954,400**	788,385
External Exposures	**1,065,999**	903,817

** For accounting purposes, these are shown as current investments*

Cash and cash equivalents

The company held cash and cash equivalents of £nil at 31 March 2021 (2020: £0.02 million). The company also held collateral cash and cash equivalents of £111.6 million at 31 March 2021 (31 March 2020: £115.4 million), which collateralised the counterparties' exposures to Clarion Treasury Limited. These represent its maximum credit exposure on these assets.

Exposure to credit risk – internal

As Clarion Treasury Limited is a funding special purpose vehicle for the Association, all borrowing and derivative activity is at the request of this business. As a result of this it is exposed to the underlying financial performance and credit of the Association. However, it should be noted that the Association secures all the external relationships that the company has with their property assets and has issued guarantees to the financial beneficiaries of Clarion Treasury Limited's liabilities.

The carrying amount of financial assets represents the maximum credit exposure. Due to the highly collateralised nature of the derivative portfolio and the net liability position, the maximum exposure due to credit risk does not significantly differ from the mark-to-market. .

Internal:-	**2021** **£'000**	2020 £'000
Intercompany loans	**3,795,865**	3,476,880
Intercompany derivative mark-to-market	**314,783**	381,583
Internal Exposures	**4,110,648**	3,858,463

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (CONTINUED)

14. Financial Instruments (continued)

Trade and other receivables

The company's exposure to credit risk is influenced mainly by the individual characteristics of each counterparty and asset class. The assets of Clarion Treasury Limited fall into two distinct groups; external deposits for collateral purposes and internal loans and derivatives.

The treasury risk management policy sets a series of credit criteria, including minimum short-term credit ratings and ranges for counterparty credit default swap pricing levels, for the placement of external deposits and investments.

As Clarion Treasury Limited acts as the funding special purpose vehicle for the Group's Association, all loans or debt funding it receives is on-lent to the Association. Under the funding structure the Association guarantees the liabilities of Clarion Treasury Limited to the banks and investors. In addition, the loans, funding and ISDA exposures provided to Clarion Treasury Limited are secured on the property assets of the Association.

Derivatives

The derivatives are entered into with bank and financial institution counterparties, which have long term credit ratings between A3 to Aa3 (Moody's), BBB+ to A+ (Standard & Poor's) and BBB+ to AA- (Fitch), with the weakest ISDA counterparty currently being rated A3 (Moody's), BBB+ (Standard & Poor's), BBB+ (Fitch). Only one of the ISDA agreements supports two-way collateral requirements. Four of the ISDA Credit Support Annex's (CSA's) allow for the use of property and cash security whilst one only allows the use of cash.

2021	**Number**	**Net Threshold**	**Margin Call**	**Property collateral**	**Cash collateral**
	No.	**£'000**	**£'000**	**£'000**	**£'000**
Property and Cash ISDA Agreement	4	25,000	290,282	369,291	-
Cash only ISDA Agreement	1	-	10,175	-	11,599
Total	**5**	**25,000**	**300,457**	**369,291**	**11,599**

2020	Number	Net Threshold	Margin Call	Property collateral	Cash collateral
	No.	£'000	£'000	£'000	£'000
Property and Cash ISDA Agreement	4	24,500	378,184	482,114	-
Cash only ISDA Agreement	1	-	14,211	-	15,432
Total	5	24,500	392,395	482,114	15,432

Guarantees

The company's policy is to limit the use of financial guarantees. At 31 March 2021 the company had £nil million of bank issued guarantees outstanding (2020: £nil million).

14. Financial Instruments (continued)

B. Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meets its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's policy is at all times to hold sufficient liquidity (liquidity defined as immediately available undrawn committed credit facilities and cash) to cover the Group's requirements over the next 18 months. The Group liquidity position at 31 March 2021 was £1,071.9 million (2020: £896.5m) which is made up of £117.5 million (2020: £108.1 million) of operational cash and £954.4 million (2020: £788.4 million) of undrawn bank revolver facilities.

Furthermore, the Group targets an operational cash balance of £100 million, subject to maintaining an absolute minimum balance of £75 million at all times.

Cashflows related to borrowings

The following are the remaining undiscounted external contractual maturities at the end of the reporting period of financial liabilities, including estimated interest payments for the company.

2021	**Loans at amortised cost**	**Interest on loans at amortised cost**	**Interest on derivative financial instruments**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Due within one year:	126,799	41,118	35,036	**202,953**
Between one and two years	46,002	41,883	28,588	**116,473**
Between two and five years	156,361	134,359	74,403	**365,123**
After five years	1,205,072	301,071	211,390	**1,717,533**
Gross cash flows	**1,534,234**	**518,431**	**349,417**	**2,402,082**

2020	Loans at amortised cost	Interest on loans at amortised cost	Interest on derivative financial instruments	Total
	£'000	£'000	£'000	£'000
Due within one year:	125,801	50,095	38,643	214,539
Between one and two years	91,799	43,864	34,112	169,775
Between two and five years	136,770	118,235	81,519	336,524
After five years	1,330,664	357,222	280,962	1,968,848
Gross cash flows	1,685,034	569,416	435,236	2,689,686

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (CONTINUED)

14. Financial Instruments (continued)

C. Currency risk

Clarion Treasury Limited does not hold any financial instruments denominated in a foreign currency, and so is not exposed to foreign currency risk.

D. Market Risk

Market risk is the risk that changes in market prices, such as interest rates will affect Clarion Treasury Limited's income or value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Clarion Treasury Limited buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All transactions are carried out within the guidelines set by the Treasury Policy approved by the Group Board. Generally the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

Interest rate risk

The Group adopts a strategy to manage its exposure to fluctuations in interest rates with a view to containing net interest costs. The current approved strategy for the Group is to seek a range of between 80% and 100% of its drawn funds on a fixed rate or otherwise hedged basis (with debt measured on a net debt rather than gross debt basis). The Group enters into and designates interest rate swaps as hedges of the variability in cash flows attributable to interest rate risk through Clarion Treasury Limited on behalf of the Association. In the year ending 31 March 2022, CTL's debt facilities that use LIBOR currently will transition to using SONIA and interest rate swaps will continue to be used to manage interest rate risk after this transition.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (CONTINUED)

14. Financial Instruments (continued)

Profile

At the end of the reporting period the interest rate maturity profile of the Group's interest-bearing financial instruments was as follows:

2021	**Fixed Debt**	**Interest rate swaps (pay fixed)**	**Interest rate swaps (receive fixed)**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Due within one year	105,148	36,853	(1,817)	140,184
Between one and two years	105,508	30,533	(1,945)	134,096
Between two and five years	316,500	79,998	(5,595)	390,903
After five years	1,396,309	219,800	(8,410)	1,607,699
Gross contractual cash flows	**1,923,465**	**367,184**	**(17,767)**	**2,272,882**

2020	Fixed Debt	Interest rate swaps (pay fixed)	Interest rate swaps (receive fixed)	Total
	£'000	£'000	£'000	£'000
Due within one year	96,184	40,034	(1,391)	134,827
Between one and two years	96,903	35,685	(1,573)	131,015
Between two and five years	291,699	86,243	(4,724)	373,218
After five years	1,511,217	289,516	(8,554)	1,792,179
Gross contractual cash flows	1,996,003	451,478	(16,242)	2,431,239

14. Financial Instruments (continued)

Fair value sensitivity analysis for fixed rate instruments

Clarion Treasury Limited accounts for one fixed-rate liability at fair value through profit or loss, and designates one interest rate swap as hedging under a fair value hedge accounting model. Therefore a change in interest rates at the end of the reporting period would affect profit and loss but be offset by this.

	Notional 2021 £'000	Notional 2020 £'000
Fair Value hedges	**100,000**	100,000

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the end of the reporting period would have increased/(decreased) the mark-to-market position of the company's derivative portfolio by the amounts shown below. Due to the hedging relationships that the derivatives are in, the effect of the impact would be seen within the Statement of Comprehensive Income dependent on effectiveness of the hedging relationships.

Interest rate swaps	**Mark-to-Market**		**Impact on mark-to-market**	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
100bp increase	**(206,651)**	(249,450)	**108,132**	132,133
100bp decrease	**(422,915)**	(513,716)	**(108,132)**	(132,133)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (CONTINUED)

14. Financial Instruments (continued)

Derivative assets and liabilities

Derivatives held within the Group portfolio are held by Clarion Treasury Limited and then on-lent to the Association. There are two classes of derivative used to manage interest rate risk within the entity. A fair value derivative hedges the variations of the fair value movements of £100 million (of a total of £150 million) proportion of the private placement in issuance from Circle Anglia Social Housing 2 PLC. The company has elected to apply hedge accounting as appropriate to the fair value hedge derivative currently held.

Cash flow derivatives hedge the required cash flows of Group variable debt. The company has elected to apply hedge accounting as appropriate to the cash flow hedge derivatives presently held.

This results in a cashflow hedge reserve into which the effective gains and losses on these derivatives are transferred. The hedging relationships are on-lent to the Association and so the cashflow hedge nets to £nil million within Clarion Treasury Limited with the effective gains and losses passed on to the Association along with the gains and losses due to ineffectiveness.

Gains and losses due to both the effectiveness and ineffectiveness of these hedging relationships are shown as fair value movement (see note 6).

In May 2020, the Group entered into a new hedge and sold a 2-year swaption with identical terms and conditions as the hedge. Combined, these instruments form a callable swap. This is not hedge accounted.

In November 2016, Affinity Sutton Group Limited merged with Circle Anglia Limited to form Clarion Housing Group and this resulted in a transfer of derivatives that were held within Affinity Sutton Funding Limited to Clarion Treasury Limited. Of the derivative financial liabilities held externally with fair value of £313.9 million, £111.0 million are derivatives that have been transferred from Affinity Sutton Funding Limited which are not hedge accounted for under FRS 102. In this case, the fair value movement is "on-lent" to the Association such that there are no net movements remaining in Clarion Treasury Limited.

	2021	2020
	£'000	£'000
Derivative financial assets	**13,977**	15,010
Derivative financial liabilities	**(328,760)**	(396,593)
	(314,783)	(381,583)

	2021	2020
	£'000	£'000
Intercompany derivative financial assets	**328,760**	396,593
Intercompany derivative financial liabilities	**(13,977)**	(15,010)
	314,783	381,583
Net derivative financial instruments	**-**	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (CONTINUED)

14. Financial Instruments (continued)

The following table indicates the periods in which the expected maturities associated with the derivative portfolio are expected to occur and the fair values of the related hedging instruments:

2021	**Fair Value**		**Notional**
	Asset	**Liability**	
	£'000	**£'000**	**£'000**
Swaption			
In five years or more	**-**	**(3,935)**	**(50,000)**
Interest rate swaps			
Due within one year	**-**	**(6,485)**	**(265,000)**
Between one and two years	**-**	**-**	**-**
Between two and three years	**-**	**(3,653)**	**(26,500)**
Between three and five years	**-**	**-**	**-**
In five years or more	**13,977**	**(314,687)**	**(809,594)**
	13,977	**(328,760)**	**(1,151,094)**

2020	Fair Value		Notional
	Asset	Liability	
	£'000	£'000	£'000
Interest rate swaps			
Due within one year	-	(7,091)	(415,500)
Between one and two years	-	(10,773)	(265,000)
Between two and three years	-	-	-
Between three and five years	-	(4,761)	(26,700)
In five years or more	15,010	(373,968)	(760,596)
	15,010	(396,593)	(1,467,796)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (CONTINUED)

14. Financial Instruments (continued)

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the Statement of Financial Position, are as follows:

As at 31 March 2021	**Trading**	**Fair value - hedging instruments**	**Loans and receivables**	**Total carrying amount**	**Fair value**
Financial assets	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cash and cash equivalents - collateral	111,599	-	-	**111,599**	111,599
Intercompany loans	-	-	3,795,865	**3,795,865**	3,959,152
Interest rate swaps used for hedging	-	13,977	-	**13,977**	13,977
Intercompany derivatives	-	328,760	-	**328,760**	328,760
Trade and other receivables	-	-	32,800	**32,800**	32,800
	111,599	**342,737**	**3,828,665**	**4,283,001**	**4,446,288**
Financial liabilities					
Secured bank loans	-	-	(1,507,101)	**(1,507,101)**	(1,366,300)
Secured internal loans from SPVs	-	-	(2,400,362)	**(2,400,362)**	(2,592,852)
Interest rate swaps used for hedging	-	(328,760)	-	**(328,760)**	(328,760)
Intercompany derivatives	-	(13,977)	-	**(13,977)**	(13,977)
Trade and other payables	-	-	(32,624)	**(32,624)**	(32,624)
	-	**(342,737)**	**(3,940,087)**	**(4,282,824)**	**(4,334,513)**

As at 31 March 2020	Trading	Fair value - hedging instruments	Loans and receivables	Total carrying amount	Fair value
Financial assets	£'000	£'000	£'000	£'000	£'000
Cash and cash equivalents - collateral	115,457	-	-	115,457	115,457
Intercompany loans	-	-	3,476,880	3,476,880	3,598,591
Interest rate swaps used for hedging	-	15,010	-	15,010	15,010
Intercompany derivatives	-	396,593	-	396,593	396,593
Trade and other receivables	-	-	31,212	31,212	31,212
	115,457	411,603	3,508,092	4,035,152	4,156,863
Financial liabilities					
Secured bank loans	-	-	(1,669,223)	(1,669,223)	(1,530,334)
Secured internal loans from SPVs	-	-	(1,923,492)	(1,923,492)	(2,068,257)
Interest rate swaps used for hedging	-	(396,593)	-	(396,593)	(396,593)
Intercompany derivatives	-	(15,010)	-	(15,010)	(15,010)
Trade and other payables	-	-	(30,657)	(30,657)	(30,657)
	-	(411,603)	(3,623,372)	(4,034,975)	(4,040,851)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (CONTINUED)

14. Financial Instruments (continued)

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the end of the reporting period plus an appropriate credit spread, and were as follows:

	2021	2020
Derivatives	**0.05% to 0.81%**	0.07% to 0.36%

Fair value hierarchy

The Group's derivative financial instruments are held at fair value. Fair values are classified as Level 2 [IFRS 13.81] as defined by the fair value hierarchy contained within IFRS 13 and are consistent with those applied during the year ended 31 March 2021.

2021	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial instruments	**£'000**	**£'000**	**£'000**	**£'000**
Designated as cash flow hedges	-	(208,459)	-	(208,459)
Designated as fair value hedges	-	10,020	-	10,020
Not in hedge relationship	-	(112,409)	-	(112,409)
Swaption	-	(3,935)	-	(3,935)
Total as at 31 March 2021	**-**	**(314,783)**	**-**	**(314,783)**

2020	Level 1	Level 2	Level 3	Total
Derivative financial instruments	£'000	£'000	£'000	£'000
Designated as cash flow hedges	-	(258,757)	-	(258,757)
Designated as fair value hedges	-	15,010	-	15,010
Not in hedge relationship	-	(137,836)	-	(137,836)
Swaption	-	-	-	-
Total as at 31 March 2020	-	(381,583)	-	(381,583)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (CONTINUED)

14. Financial Instruments (continued)

Fair value Measurement

Derivative financial instruments are calculated measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. As required by IFRS 13, there is also a bilateral credit valuation adjustment made in order to adjust for the credit worthiness of the counterparties involved in the trade.

Capital management

Capital consists of total equity, less amounts accumulated related to cash flow hedges. As a special purpose funding vehicle the capital requirements for Clarion Treasury Limited are minimal, with all amounts accumulated in relation to cash flow hedges offset by equal positions with the Association.

Managing interest rate benchmark reform and any risks arising due to reform

The Group's hedged items and hedging instruments continue to be indexed to Sterling LIBOR. The Group applies the amendments to IFRS 9 issued in September 2019 to those hedging relationships directly affected by IBOR reform and the amendments to FRS 102 issued in December 2019 for the disclosure of such relationships. For the purpose of evaluating whether there is an economic relationship between the hedged items and the hedging instruments, the Group deems that the benchmark interest rate is not altered as a result of IBOR reform.

15. Equity share capital

	2021	2020
	£	£
Authorised share capital		
100 ordinary shares of £1 each	**100**	100

	2021	2020
Issued, called up and fully paid share capital	**No.**	No.
100 ordinary shares of £1 each	**100**	100

16. Related Party Disclosures

The company has taken advantage of the exemption in FRS 102 to not disclose transactions with other wholly owned members of the Clarion Housing Group.

Debtor and creditor balances with other members of the Group are either debt subject to a market rate of interest or trading balances which are non-interest bearing and are due to be settled within one year of their recognition.

No other related party transactions require disclosure.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (CONTINUED)

17. Immediate and ultimate parent undertaking

The company's immediate and ultimate parent undertaking is Clarion Housing Group Limited, a registered society under the Co-operative and Community Benefit Societies Act 2014 and regulated by the Regulator of Social Housing. Group accounts have been prepared by Clarion Housing Group Limited and are available from www.clarionhg.com. Clarion Housing Group Limited's registered office is: Level 6, 6 More London Place, Tooley Street, London, SE1 2DA.