

Clarion Treasury Limited

**Annual Report and Financial Statements
For the year ended 31 March 2020**

Companies House No. 06133979

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BOARD AND ADVISERS

Board

Tom Smyth (Chair)	(appointed 1 April 2020)
Mark Hattersley	
Kwok Liu	
Aruna Mehta	
Clare Miller	
Maxim Sinclair	
Tania Brisby	(resigned 2 March 2020)

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" (previously Circle Anglia Treasury Limited)), registered company no. 06133979, presents its annual report and audited financial statements for the year ended 31 March 2020.

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 arrangement 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 and S&P Global Ratings.

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 potential risks arising from 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 down-turns because of the counter-cyclical nature of rented stock. During the year the Group also raised £500 million of new capital market funding, and secured an additional £200 million of 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 for Brexit, including its regular stress-tests of the business plan. Those stress tests showed that the Group's strong financial position means it is well placed to withstand the shocks of any Brexit scenario.

Covid-19

In March 2020, major restrictions in activity were implemented by the British Government in response to the Covid-19 crisis. 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. 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.

The Group Executive and Group Board has reviewed updated Business Plans for the organisation after adjustment for the expected impacts of Covid-19 in terms of development activity and predicted cash flows. The Financial Position of the Group continues to be strong and the availability of high liquidity allows the Group to be confident of absorbing the shocks associated with lower economic activity.

STRATEGIC REPORT (CONTINUED)

Review of the Year

The company's key performance indicators are 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 at the year-end and the company expects that compliance to continue.

The Statement of Comprehensive Income shows a £nil profit for the year after taxation (2019: £nil). This position is in line with the company's role as a special purpose funding vehicle for the Group.

Interest receivable and interest payable for the year have both increased to £155.7 million, (2019: £148.2 million). At the reporting date the company's external borrowings stand at £1,685.0 million (2019: £2,042.6 million). The largest contributing factor to the reduction in external borrowings and increase in interest payable and interest receivable are as a result of the issue of two notes during the year through a Euro Medium Term Note ("EMTN") programme.

The Group's EMTN programme issues notes through a separate company, Clarion Funding plc ("CFP") incorporated on 18 August 2017, to the capital markets. The proceeds are collected and passed through CTL to the Association with the interest requirement flowing in the opposite direction. One fixed rate note was issued during the year, on 22 January 2020 for £350 million. In addition, two further issues of notes from existing bond series were made, the first on 23 July 2019 for £100 million and the second on 18 February 2020 for £50 million. New issues throughout the year totalled £500 million.

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. The effect of this accounting treatment is also "on-lent" to the Association. £1.2 million of notional value of interest rate swaps amortised during the year and no further swap relationships were entered into. The net fair value of the derivative portfolio at 31 March 2020 is £381.6 million (2019: £328.3 million).

As at 31 March 2020 the Group had an uncharged security pool at an estimated value of £1,543 million (2019: £1,000 million) with a further £1,122 million (2019: £1,334 million) of assets charged but unallocated in a security trust numerical apportionment arrangement. £115.4 million has been deposited as security as at the reporting date (2019: £111.8 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

9 July 2020

REPORT OF THE BOARD

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 2018/19 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 2020 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 2019 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 (2019: £nil).

Charitable and Political Contributions

Apart from gift aid payments to the Association - which are treated as dividends under company law - the company made no charitable contributions during the year (2019: £nil) and no political contributions (2019: £nil).

Disclosure of Information to Auditor

The Directors who held office at the date of approval of this Director's report confirm that so far they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director 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 Annual General Meeting.

Tom Smyth

Chair

9 July 2020

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 2020 which comprise the Statement of Comprehensive Income, Statement of Financial Position and 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 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 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 Board 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").

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. In our evaluation of the Board's 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 have nothing to report in these respects.

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.

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

Strategic report and the report of the Board

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

Our responsibility is to read the strategic report and the 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 the strategic report and the report of the Board;
- 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.

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 its statement set out on page 9, the Board is responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; 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 it either intends to liquidate the company or to cease operations, or has 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 LATIMER DEVELOPMENTS 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

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2020

	Notes	2020 £'000	2019 £'000
Interest receivable	4	155,710	148,216
Interest payable and financing costs	5	(155,710)	(148,216)
Movement in fair value of financial instruments	6	-	-
Result/profit on ordinary activities before taxation	7	<u>-</u>	<u>-</u>
Tax charge on profit on ordinary activities	8	-	-
Result/profit for the year		<u>-</u>	<u>-</u>
Other comprehensive income			
Change in fair value of financial instruments	6	-	-
Total comprehensive income for the year		<u><u>-</u></u>	<u><u>-</u></u>

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

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2020

	Notes	2020 £'000	2019 £'000
Current assets			
Debtors: amounts falling due within one year	9	160,012	205,340
Debtors: amounts falling due after more than one year	9	3,759,683	3,487,936
Current asset investments	10	115,432	111,840
Cash and cash equivalents		25	-
		4,035,152	3,805,116
Current liabilities			
Creditors: amounts falling due within one year	11	(274,889)	(316,131)
Net current assets		3,760,263	3,488,985
Creditors: amounts falling due after more than one year	12	(3,760,086)	(3,488,808)
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
9 July 2020

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2020

	Share capital £'000	Cash flow hedge reserve £'000	Profit and loss account £'000	Total equity £'000
At 1 April 2018	-	-	177	177
Profit for the year ending 31 March 2019	-	-	-	-
Movement in cash flow hedge reserve due to hedged derivatives	-	2,824	-	2,824
Intercompany movement in cash flow hedge reserve due to hedged derivatives	-	(2,824)	-	(2,824)
<u>Contributions by and distributions to other Group entities</u>				
Gift Aid payment to Clarion Housing Group Ltd	-	-	-	-
At 31 March 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
<u>Contributions by and distributions to other Group entities</u>				
Gift Aid payment to Clarion Housing Association Ltd	-	-	-	-
At 31 March 2020	-	-	177	177

£nil of Gift Aid relates to the current year, approved by written resolution and recognised as a liability (2019: £nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

1. Accounting Policies (continued)

Impairment

Loss allowances for trade receivables 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 a charitable member of the Group, in relation to the year's profits, is recognised as a liability at the reporting date as a result of a shareholder-approved Companies Act s288 written resolution. Payment will be made within nine months of the reporting date and the amount may differ as the corporation tax computation for the year is finalised.

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. Deferred tax is

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

1. Accounting Policies (continued)

calculated using the tax rates and laws which have been enacted (given Royal Assent) or substantively enacted (passed by the House of Commons) 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 2020 (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.

Accounting for fair value hedges:

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.

Accounting for cash flow hedges:

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

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 £381.6 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 0.07% to 0.36%. Decreasing this curve by 100 basis points would increase the net liability by £132.1 million.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)**3. Directors' remuneration**

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

	2020	2019
	£	£
Remuneration by director was as follows:		
Tania Brisby	21,083	23,000
Aruna Mehta	10,000	9,000
Kwok Liu	9,000	9,000
Maxim Sinclair	9,000	9,000
Clare Miller	-	-
Mark Hattersley	-	-
	49,083	50,000

Clare Miller and Mark Hattersley are/were 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

Tania Brisby resigned during the year.

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

4. Interest receivable

	2020	2019
	£'000	£'000
Interest receivable from Group undertakings	139,260	147,286
Interest from investments	950	930
Breakage receipts	15,500	-
	155,710	148,216

5. Interest payable and financing costs

	2020	2019
	£'000	£'000
Interest payable on loans	35,028	51,765
Interest payable on derivatives	37,490	38,751
Interest payable to Group undertakings	80,309	55,287
Other charges	2,883	2,413
	155,710	148,216

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

6. Movement in fair value of financial instruments

	2020 £'000	2019 £'000
Included in profit and loss		
<u>Fair value gains on</u>		
Derivatives treated as fair value hedging instruments	5,908	2,301
Ineffectiveness on derivatives treated as cash flow hedging instruments	1,635	-
Intercompany fair value gains	30,207	11,315
<u>Fair value losses on</u>		
Derivatives not in hedging relationships	(22,611)	(4,068)
Borrowings treated as fair value hedging item	(6,904)	(4,165)
Amortisation of cash flow hedge reserve relating to a prematured derivative	(692)	(665)
Ineffectiveness on derivatives treated as cash flow hedging instruments	-	(2,417)
Intercompany fair value losses	(7,543)	(2,301)
	-	-
Included in other comprehensive income		
Fair value gains on amortisation of cash flow hedge reserve relating to a prematured derivative	692	665
Fair value movement on derivatives treated as cash flow hedging instruments - effective	(38,261)	2,159
Intercompany cash flow hedge movement	37,569	(2,824)
	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)**7. Profit on ordinary activities before taxation**

Result/profit on ordinary activities before taxation is stated after charging:	2020 £'000	2019 £'000
Auditor's remuneration (exclusive of VAT):		
- for audit services	-	-
- non-audit fees	-	3

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	2020 £'000	2019 £'000
<u>Current tax</u>		
Current tax on income for the period		
Recognised in profit and loss		

The tax assessed for the year is the same as (2019: same as) the profit shown in the Statement of Comprehensive Income multiplied by the standard rate of corporation tax in the UK - 19% (2019: 19%).

Reconciliation of tax recognised in profit and loss	2020 £'000	2019 £'000
Profit on ordinary activities before taxation		
Tax at 19% (2019: 19%)	-	-

Effects of:

Adjustment in respect of Gift Aid expected to be paid	-	-
Other adjustments in respect of prior periods	-	-
	-	-

Maintaining the rate of UK corporation tax at 19% from 1 April 2020 was substantively enacted by the reporting date

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

9. Debtors

Amounts falling due within one year	2020	2019
	£'000	£'000
Amounts due from Group undertakings: trading	30,219	27,723
Amounts due from Group undertakings: loans and cash pooling	121,709	175,525
Amounts due from Group undertakings: derivatives	7,091	1,089
Prepayments and accrued income	993	1,003
	160,012	205,340

Amounts falling due after more than one year

Derivative financial assets	15,010	9,102
Amounts due from Group undertakings: loans and cash pooling	3,355,171	3,142,539
Amounts due from Group undertakings: derivatives	389,502	336,295
	3,759,683	3,487,936

10. Current investments

	2020	2019
	£'000	£'000
Collateral deposits	115,432	111,840

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 ISDA agreements and any other form of collateral in place.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

11. Creditors: amounts falling due within one year

	2020	2019
	£'000	£'000
Bank loans and borrowing (note 13)	120,872	174,508
Derivative financial liabilities	7,091	1,089
Trade Creditors	25	-
Amounts due to Group undertakings: trading	22,324	18,911
Amounts due to Group undertakings: loans and cash pooling	116,269	112,857
Other creditors	5	6
Other accruals and deferred income	8,303	8,760
	274,889	316,131

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

	2020	2019
	£'000	£'000
Bank loans and borrowing (note 13)	1,548,351	1,846,179
Derivative financial liabilities	389,502	336,295
Amounts due to Group undertakings: loans and cash pooling	1,807,223	1,297,232
Amounts due to Group undertakings: derivatives	15,010	9,102
	3,760,086	3,488,808

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)**13. Debt analysis**

Debt is repayable as follows:	2020	2019
	£'000	£'000
Due within one year	125,801	178,824
Between one and two years	91,799	194,586
Between two and five years	136,770	207,685
Due after more than five years	1,330,664	1,461,548
	1,685,034	2,042,643
Accounting Adjustments	(15,811)	(21,956)
Total	1,669,223	2,020,687

The difference between the gross amount of bank loans repayable of £1,685.0 million and the carrying value of £1,669.2 million represents the amortisation of fees and fair value adjustments relating to the loans held, and is shown above as accounting adjustments.

All of the above loans are drawn from total committed bank facilities of £2,473.4 million (2019: £2,617.4 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.

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 balance sheet amount is £15.0 million (2019: £14.8 million).

The above debt does not include the following, which are funded through the Group's bond vehicles :

- £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 billion 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, an EMTN issue in January 2019 for £250 million, further tapped in February 2020 for £50 million and an EMTN issue in January 2020 for £350 million.

Interest is payable at rates varying between 0.74% and 9.92%. The weighted average rate of interest at 31 March 2019 inclusive of interest rate swaps but exclusive of bonds was 3.99% (2019: 3.61%).

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

13. Debt analysis (continued)

At 31 March 2020, Group borrowings through the Group Funding Vehicles amounted to £3,970 million (2019: £3,828 million) which included the amounts shown above, against committed facilities (inclusive of Association facilities) of £4,758 million (2019: £4,461 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 2020, the earliest facility maturity is 1 year and the weighted average expiry period is 13.7 years.

The Group's weighted average interest rate for general borrowings was 4.15% (2019: 4.20%).

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 2020, the Group's main security pool was valued at £5,961 million, based on standard security valuation methodologies. £4,840 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 £1,122 million as charged unallocated security within the security pool. Cash collateral is also used as a form of security, with £115 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 2020, of the £4,840 million allocated, £317 million was allocated to protect against such adverse movements.

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.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

14. Financial Instruments (continued)

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;

	2020 £'000	2019 £'000
External:-		
Cash and cash equivalents – collateral*	115,432	111,840
Undrawn committed loan facilities	788,385	574,800
External Exposures	903,817	686,640

* For accounting purposes, these are shown as current investments

Cash and cash equivalents

The company held cash and cash equivalents of £0.02 million at 31 March 2020 (31 March 2019: £nil million). The company also held collateral cash and cash equivalents of £115.4 million at 31 March 2020 (31 March 2019: £111.8 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.

	2020 £'000	2019 £'000
Internal:-		
Intercompany loans	3,476,880	3,318,064
Intercompany derivative mark-to-market	381,583	328,282
Internal Exposures	3,858,463	3,646,346

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (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 AAA to AAA (Moody's), AAA to AAA (Standard & Poor's) and AAA to AAA (Fitch), with the weakest ISDA counterparty currently being rated AAA (Moody's), AAA (Standard & Poor's), AAA (Fitch). Only one of the ISDA agreements supports two-way collateral requirements. Four of the ISDA CSA's allow for the use of property and cash security and whilst one only allows the use of cash.

2020	Number	Net	Margin Call	Property	Cash
	No.	Threshold		collateral	collateral
		£'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

2019	Number	Net	Margin Call	Property	Cash
	No.	Threshold		collateral	collateral
		£'000	£'000	£'000	£'000
Property and Cash ISDA Agreement	4	29,400	322,755	443,200	-
Cash only ISDA Agreement	1	-	10,578	-	11,840
Total	5	29,400	333,333	443,200	11,840

Guarantees

The company's policy is to limit the use of financial guarantees. At 31 March 2020 the company had £nil million of bank issued guarantees outstanding (2019: £nil million).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)**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 meet 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 2020 was £896.5m, which is made up of £108.1 million of operational cash and £788.4 million of undrawn bank revolver facilities.

Furthermore, the Group targets an operational cash balance of £100m, subject to maintaining an absolute minimum balance of £75m 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.

2020	Loans at amortised cost £'000	Interest on loans at amortised cost £'000	Interest on derivative financial instruments £'000	Total £'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
2019	Loans at amortised cost £'000	Interest on loans at amortised cost £'000	Interest on derivative financial instruments £'000	Total £'000
Due within one year:	178,824	49,582	36,584	264,990
Between one and two years	194,586	69,861	29,229	293,676
Between two and five years	207,685	187,727	65,577	460,989
After five years	1,461,548	521,658	225,275	2,208,481
Gross cash flows	2,042,643	828,828	356,665	3,228,136

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (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 Troup 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (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:

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

2019	Fixed Debt	Interest rate swaps (pay fixed)	Interest rate swaps (receive fixed)	Total
	£'000	£'000	£'000	£'000
Due within one year	82,244	37,763	(1,179)	118,828
Between one and two years	82,046	29,971	(742)	111,275
Between two and five years	244,684	67,227	(1,650)	310,261
After five years	1,335,094	227,391	(2,116)	1,560,369
Gross contractual cash flows	1,744,068	362,352	(5,687)	2,100,733

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

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 2020 £'000	Notional 2019 £'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	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
100bp increase	(249,450)	(200,126)	132,133	128,156
100bp decrease	(513,716)	(456,438)	(132,133)	(128,156)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (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 types 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 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 £337.4 million derivative financial liabilities held externally, £115.3 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.

	2020	2019
	£'000	£'000
Derivative financial assets	15,010	9,102
Derivative financial liabilities	(396,593)	(337,384)
	(381,583)	(328,282)
	2020	2019
	£'000	£'000
Intercompany derivative financial assets	396,593	337,384
Intercompany derivative financial liabilities	(15,010)	(9,102)
	381,583	328,282
Net Derivative financial instruments	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (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:

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)
	<u>15,010</u>	<u>(396,593)</u>	<u>(1,467,796)</u>
	<u>15,010</u>	<u>(396,593)</u>	<u>(1,467,796)</u>
2019	Fair Value		Notional
	Asset	Liability	
	£'000	£'000	£'000
Interest rate swaps			
Due within one year	-	(1,089)	(85,000)
Between one and two years	-	(12,510)	(415,500)
Between two and three years	-	(11,741)	(265,000)
Between three and five years	-	(5,164)	(26,900)
In five years or more	9,102	(306,880)	(761,570)
	<u>9,102</u>	<u>(337,384)</u>	<u>(1,553,970)</u>
	<u>9,102</u>	<u>(337,384)</u>	<u>(1,553,970)</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (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 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)

As at 31 March 2019	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	111,840	-	-	111,840	111,840
Intercompany loans	-	-	3,318,064	3,318,064	3,217,075
Interest rate swaps used for hedging	-	9,102	-	9,102	9,102
Intercompany derivatives	-	337,384	-	337,384	337,384
Trade and other receivables	-	-	28,726	28,726	28,726
	111,840	346,486	3,346,790	3,805,116	3,704,127
Financial liabilities					
Secured bank loans	-	-	(2,020,687)	(2,020,687)	(1,707,422)
Secured internal loans from SPVs	-	-	(1,410,089)	(1,410,089)	(1,509,653)
Interest rate swaps used for hedging	-	(337,384)	-	(337,384)	(337,384)
Intercompany derivatives	-	(9,102)	-	(9,102)	(9,102)
Trade and other payables	-	-	(27,677)	(27,677)	(27,677)
	-	(346,486)	(3,458,453)	(3,804,939)	(3,591,238)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (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:

	2020	2019
Derivatives	0.07% to 0.36%	0.68% to 1.11%

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 2018.

2020	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Derivative financial instruments				
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)
2019	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Derivative financial instruments				
Designated as cash flow hedges	-	(222,126)	-	(222,126)
Designated as fair value hedges	-	9,102	-	9,102
Not in hedge relationship	-	(115,258)	-	(115,258)
Swaption	-	-	-	-
Total as at 31 March 2019	-	(328,282)	-	(328,282)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (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 assumes that the benchmark interest rate is not altered as a result of IBOR reform

15. Equity share capital

	2020	2019
	£	£
Authorised share capital		
100 ordinary shares of £1 each	100	100
	2020	2019
	No.	No.
Issued, called up and fully paid share capital		
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.

The Group has a cash pooling arrangement whereby cash held by subsidiaries is pooled into the ultimate parent's bank accounts. As a result the Group's subsidiaries generally hold very little cash and instead have an interest-bearing intercompany balance with the ultimate parent. During the year, the subsidiaries which are party to this arrangement were reviewed by the Group and the company was withdrawn.

No other related party transactions require disclosure.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (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.