

**Clarion Treasury Limited**

**Annual Report and Financial Statements  
For the year ended 31 March 2022**

**Companies House No. 06133979**

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**BOARD AND ADVISERS**

**Board**

Tom Smyth (Chair)  
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

**Auditors**

KPMG LLP  
15 Canada Square  
London  
E14 5GL

## **STRATEGIC REPORT**

Clarion Treasury Limited ("CTL") ("the Company"), registered company no. 06133979, presents its annual report and audited financial statements for the year ended 31 March 2022.

### **Principal Activities**

The principal activity of the company is to provide funding to members of Clarion Housing Group 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.

### **Building Safety and Zero Carbon Emission**

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 response to the recent Building Safety Act, Clarion has developed a Building Safety Strategy and appointed a Senior Building Safety Manager and a team of Building Safety Managers. We have also developed a pilot safety case for existing high risk buildings and are currently ahead of requirements in the Fire Safety Act in terms of external wall assessments.

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, building safety and in energy efficiency. It considers it is financially robust to absorb these future costs.

## STRATEGIC REPORT (CONTINUED)

### 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 (2021: £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 £3,903.7 million, an increase of £134.5 million compared to 2021 (£3,769.2 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 £2,687.0 million (2021: £2,400.4 million). On 7 September 2021, a £300.0 million note was 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 via CTL with the interest requirement flowing in the opposite direction.

The Company's notional external borrowings at the reporting date stood at £1,368.7 million (2021: £1,534.2 million), a reduction of £165.5 million. The proceeds from the above note issuance were used to repay some of the Company's external loan facilities.

Alongside the reduction in notional external borrowings there has been a £2.1 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. These adjustments bring total external borrowings to £1,339.5 million (2021: £1,507.1 million).

Net interest cost payable for the year has increased to £150.4 million (2021: £141.8 million). The above increase in borrowings has led to higher interest costs, although this is partially offset by a reduction in weighted average interest rates (2022: 3.59%; 2021: 3.71%). All interest and breakage costs payable or receivable are passed through to the Association resulting in a £nil profit for the year (2021: £nil).

In order to manage interest rate risk, CTL uses a mixture of fixed rate borrowings and Interest Rate Swaps to fix between 70% and 100% of interest payments across the Group. This was previously between 80% and 100% but has been amended during the year to give more flexibility. CTL uses Interest Rate Swaps of SONIA with 1 month, 3 month and 6 month credit adjustment spreads applied and hedge accounting is used where appropriate in order to manage the accounting impact of these swaps.

£266.2 million (2021: £1.2 million) of notional value of interest rate swaps amortised during the year and no new swap relationships were entered into (2021: two new swap relationships were entered into, one swap with a notional value of £50.0 million and a swap option with a notional value of £50.0 million). Six swap relationships matured during the year with a notional value of £265.0 million (2021: seven relationships with a notional value of £415.0 million). One swap which was a forward starting swap in the year ended 31 March 2021, with a notional value £25.0 million, is now part of an active hedge relationship. The net fair value of the derivative portfolio at 31 March 2022 is £211.1 million

## STRATEGIC REPORT (CONTINUED)

(2021: £314.8 million), a reduction of £103.7 million. £72.1 million (2021: £52.5 million) of this movement has been recognised within Other Comprehensive Income as a result of the Company's hedge accounting arrangements and £31.6 million (2021: £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 previously used LIBOR were transitioned to SONIA, due to the cessation of LIBOR and interest rate benchmark reform. Hedge accounting procedures were updated in line with this change

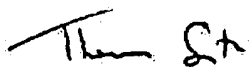
As at 31 March 2022 the Group had an uncharged security pool at an estimated value of £1,276.2 million (2021: £1,457.9 million) with a further £1,862.4 million (2021: £967.7 million) of assets charged but unallocated in a security trust numerical apportionment arrangement. Additionally, £108.1 million has been deposited as security as at the reporting date (2021: £111.6 million).

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

On 18th June 2022, Clarion Housing Group was subject to a cyber attack, which is still being investigated at the time of signing these subsidiary accounts. Whilst this impacts across the Group and its subsidiaries, there is no indication from the investigations being undertaken and commissioned by management that there has been any impact on these financial statements for the year ended 31 March 2022.

This report has been prepared in accordance with the small companies regime.

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 2022

## REPORT OF THE BOARD

### **Board statement on the effectiveness of the system of internal control for the period ending 31 March 2022**

#### **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 has overall responsibility for establishing and maintaining a sound system of internal control and risk management across the Group. Our internal control systems are designed to focus on the significant risks to which the Group is exposed – those which threaten the Group's ability to meet its objectives. The Board recognises that the controls provide reasonable - but not absolute - assurance against material misstatement or loss.

The Board performs a review of the effectiveness of Clarion's risk management and internal control systems at least annually.

#### **Control framework elements**

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

- Corporate governance arrangements;
- Management structures providing balance and focus within the Group;
- Adoption of the principles of the NHF Code of Governance 2020, which the Group is currently working towards compliance with;
- A Group-wide risk management process, which enables threats to be managed 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, with periodic reviews of individual risk areas and/or risk registers, as well as considered regularly by the Board;
- A Group-wide Internal Audit function, structured to provide independent and objective assurance to the Audit and Risk Committee and the Board through the delivery of a risk based Internal Audit plan. In addition to the in-house team, the Group partners with Ernst & Young and uses the services of other specialists as necessary. Regular reporting is delivered to the Audit and Risk Committee highlighting progress on the delivery of the plan and the outcomes of internal audit activities. Audit recommendations are tracked and followed up, so that recommendations for strengthened controls and improvement can be implemented promptly;
- Policies and procedures for all key areas of the business. These are reviewed periodically to ensure their continued appropriateness;
- A Group-wide Health and Safety function which provides technical guidance, support and strategy for ongoing assurance of Clarion's safety practices;
- 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;
- Written Group-wide financial standards framework and delegated authorities. The internal financial standards were subject to update during the year and are reported to the Group Executive and Board on a minimum quarterly basis, in line with the full year budget and forecast updates;

## REPORT OF THE BOARD (CONTINUED)

- A process to ensure all housing investment decisions and major commitments are 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;
- A Group-wide treasury management function reporting at least three times a year to the Treasury Committee; and
- Annual budgets and long-term business plans for the Group and its subsidiaries prepared and regularly monitored by Boards and managers. 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. The measures are reviewed by the Group Executive Team on a monthly basis and are reported up through the governance structure, through to the Board, as appropriate.

### Continuous improvement

We continually keep our internal control framework under review. To further strengthen assurance and controls, second line risk activities are being enhanced to support Clarion in its ongoing maintenance and assessment of internal control, risk management and governance systems and processes.

### Review and status

The Board has considered a range of evidence, including the outcomes of externally led assessments. To further support the Board in their review of the effectiveness of internal controls, the Group Executive performed an assessment of how well systems of governance, internal control and risk management practices are operating across Clarion for the year ended 31 March 2022. No significant weaknesses were highlighted through the assessment. Where gaps were identified, these were considered to be minor, with measures being undertaken to address them.

The Audit and Risk Committee have reviewed the Chief Executive's annual review of the effectiveness of Clarion's risk management and internal control systems for the year ended 31 March 2022. A report has been made to the respective Boards on the effectiveness of the control systems in place and any changes needed to ensure the ongoing effectiveness of controls and assurance arrangements. 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 2022 and up to the date of approval of the financial statements.

### Going Concern

In accordance with its role as a Group 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.

## REPORT OF THE BOARD (CONTINUED)

### 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 (2021: £nil).

### Charitable and Political Contributions

The company made no charitable contributions during the year (2021: £nil) and no political contributions (2021: £nil).

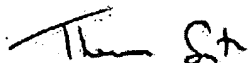
### Disclosure of Information to Auditor

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.

### Auditor

The Group's statutory audit contract was put out to tender during 2022, with the new auditor appointed in time to audit the annual report and financial statements for the year ended 31 March 2023. KPMG LLP, the Group's current auditors, have been successful in their tender. Accordingly, a resolution to reappoint them as auditor will be proposed at the forthcoming Board Meeting.

This report has been prepared in accordance with the small companies regime.



Tom Smyth  
Chair  
6 July 2022

## 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 2022 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 2022 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 deemed high risk journal entries in the period to supporting documentation. These included those posted to unusual accounts combination and other high risk journal characteristics.

#### *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 strategic report and 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 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 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 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**

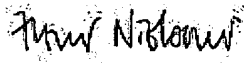
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit 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](http://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

14 July 2022

**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2022**

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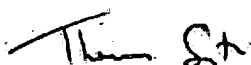
	Notes	2022 £'000	2021 £'000
Interest receivable	4	150,381	141,842
Interest payable and financing costs	5	(150,381)	(141,842)
Movement in fair value of financial instruments	6	-	-
<b>Result on ordinary activities before taxation</b>	7	-	-
Tax charge on result on ordinary activities	8	-	-
<b>Result for the year</b>		-	-
<b>Other comprehensive income</b>			
Change in fair value of financial instruments	6	-	-
<b>Total comprehensive income for the year</b>		-	-

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

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2022

	Notes	2022 £'000	2021 £'000
<b>Current assets</b>			
Debtors: amounts falling due within one year	9	70,590	165,319
Debtors: amounts falling due after more than one year	9	4,108,611	4,006,083
Current asset investments	10	108,078	111,599
Cash and cash equivalents		-	-
		<u>4,287,279</u>	<u>4,283,001</u>
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	11	(178,491)	(276,742)
<b>Net current assets</b>		<u>4,108,788</u>	<u>4,006,259</u>
Creditors: amounts falling due after more than one year	12	(4,108,611)	(4,006,082)
<b>Net assets</b>		<u><u>177</u></u>	<u><u>177</u></u>
<b>Capital and reserves</b>			
Share capital	15	-	-
Profit and loss account		177	177
Cash flow hedge reserve		-	-
<b>Equity shareholder's funds</b>		<u><u>177</u></u>	<u><u>177</u></u>

The financial statements have been prepared in accordance with the small companies regime, and were approved by the Board and were signed on their behalf by:



Tom Smyth

Chair

5 July 2022

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2022**

	Share capital £'000	Cash flow hedge reserve £'000	Profit and loss account £'000	Total equity £'000
At 1 April 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
Result for the year ending 31 March 2022	-	-	-	-
Movement in cash flow hedge reserve due to hedged derivatives	-	71,111	-	71,111
Intercompany movement in cash flow hedge reserve due to hedged derivatives	-	(71,111)	-	(71,111)
At 31 March 2022	-	-	177	177

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

### 1. Accounting Policies

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Section 1A of FRS 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (January 2022) ("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 and other cost pressures 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 2022 (CONTINUED)

### 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

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.

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 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

### 1. Accounting Policies (continued)

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.

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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

### 1. Accounting Policies (continued)

#### 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 2022 (CONTINUED)

### 1. Accounting Policies (continued)

#### Interest rate benchmark reform:

A number of the company's financial instruments and hedge relationships were originally indexed to Sterling LIBOR. For the year ending 31 March 2021, the company adopted the *Interest Rate Benchmark Reform* (Sep-19) amendment to IFRS 9, exempting it from the requirement to apply specific hedge accounting requirements to hedge relationships affected by the ongoing reform. For the year ending 31 March 2022, the company has adopted *Interest Rate Benchmark Reform – Phase 2* (Aug-20), which enables the company to reflect the effects of transitioning to alternative benchmark interest rates, such as SONIA, without giving rise to accounting impacts which would not provide useful information to the users of the financial statements.

#### 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

### 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 £211.1 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 0.69% to 2.01%. Decreasing this curve by 100 basis points would increase the net liability by £89.3 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 2022 (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:

	2022 £	2021 £
<u>Current Board members</u>		
Tom Smyth	22,500	22,500
Aruna Mehta	10,000	10,000
Kwok Liu	9,000	9,000
Maxim Sinclair	9,000	9,000
Clare Miller	-	-
Mark Hattersley	-	-
	<u>50,500</u>	<u>50,500</u>

Clare Miller and Mark Hattersley are employees of Clarion Housing Association Limited and are 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**

	2022 £'000	2021 £'000
Interest receivable from Group undertakings	150,121	141,581
Interest from investments	260	261
	<u>150,381</u>	<u>141,842</u>

**5. Interest payable and financing costs**

	2022 £'000	2021 £'000
Interest payable on loans	27,611	23,231
Interest payable on derivatives	34,884	40,797
Interest payable to Group undertakings	81,891	74,276
Other charges	5,995	3,538
	<u>150,381</u>	<u>141,842</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

6. Movement in fair value of financial instruments

	2022 £'000	2021 £'000
<b>Included in profit and loss</b>		
<b><u>Fair value gains on</u></b>		
Derivatives not in hedging relationships	38,245	21,491
Borrowings treated as a fair value hedging item	9,066	11,698
Ineffectiveness on derivatives treated as cash flow hedging instruments	4,113	-
Intercompany fair value gains	9,761	7,197
<b><u>Fair value losses on</u></b>		
Derivatives treated as fair value hedging instruments	(9,096)	(4,990)
Amortisation of cash flow hedge reserve relating to a prematured derivative	(665)	(639)
Ineffectiveness on derivatives treated as cash flow hedging instruments	-	(1,568)
Intercompany fair value losses	(51,424)	(33,189)
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>
<b>Included in other comprehensive income</b>		
Fair value gains on amortisation of cash flow hedge reserve relating to a prematured derivative	665	639
Fair value movement on derivatives treated as cash flow hedging instruments - effective	70,446	51,866
Intercompany cash flow hedge movement	(71,111)	(52,505)
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

## 7. Result on ordinary activities before taxation

Result on ordinary activities before taxation is stated after charging:	2022 £'000	2021 £'000
Auditor's remuneration (exclusive of VAT):		
- for audit services	-	-
- non-audit fees	-	-
	<u>-</u>	<u>-</u>

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	2022 £'000	2021 £'000
<u>Current tax</u>		
Current tax on income for the period	<u>-</u>	<u>-</u>
Recognised in profit and loss	<u>-</u>	<u>-</u>

The tax assessed for the year is the same as (2021: same as) the profit shown in the Statement of Comprehensive Income multiplied by the standard rate of corporation tax in the UK - 19% (2021: 19%).

Reconciliation of tax recognised in profit and loss	2022 £'000	2021 £'000
Result on ordinary activities before taxation	<u>-</u>	<u>-</u>
<b>Tax at 19% (2021: 19%)</b>	<u>-</u>	<u>-</u>

Increasing the rate of UK corporation tax to 25% from 1 April 2023 was substantively enacted in May 2021

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

## 9. Debtors

Amounts falling due within one year	2022 £'000	2021 £'000
Amounts due from Group undertakings: interest	30,388	30,169
Amounts due from Group undertakings: loans and cash pooling	36,796	126,034
Amounts due from Group undertakings: derivatives	-	6,485
Amounts due from Group undertakings: other	2,400	1,651
Prepayments and accrued income	1,006	980
	<b>70,590</b>	<b>165,319</b>

## Amounts falling due after one year

Derivative financial assets	7,984	13,977
Amounts due from Group undertakings: loans and cash pooling	3,881,567	3,669,831
Amounts due from Group undertakings: derivatives	219,060	322,275
	<b>4,108,611</b>	<b>4,006,083</b>

## 10. Current investments

	2022 £'000	2021 £'000
Collateral deposits	108,078	111,599

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.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)**

**11. Creditors: amounts falling due within one year**

	<b>2022</b>	2021
	<b>£'000</b>	£'000
Bank loans and borrowing (note 13)	<b>35,404</b>	124,481
Derivative financial liabilities	-	6,485
Trade creditors	<b>23</b>	16
Interest creditor	<b>5,844</b>	6,063
Amounts due to Group undertakings: interest	<b>25,550</b>	25,081
Amounts due to Group undertakings: loans and cash pooling	<b>109,470</b>	113,152
Amounts due to Group undertakings: other	<b>141</b>	171
Other accruals and deferred income	<b>2,059</b>	1,293
	<b>178,491</b>	276,742

**12. Creditors: amounts falling due after one year**

	<b>2022</b>	2021
	<b>£'000</b>	£'000
Bank loans and borrowing (note 13)	<b>1,304,078</b>	1,382,620
Derivative financial liabilities	<b>219,060</b>	322,275
Amounts due to Group undertakings: loans and cash pooling	<b>2,577,489</b>	2,287,210
Amounts due to Group undertakings: derivatives	<b>7,984</b>	13,977
	<b>4,108,611</b>	4,006,082

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

## 13. Debt analysis

Debt is repayable as follows:	2022 £'000	2021 £'000
Due within one year	39,847	126,799
Between one and two years	38,729	46,002
Between two and five years	154,295	156,361
Due after more than five years	1,135,814	1,205,072
	<b>1,368,685</b>	<b>1,534,234</b>
Accounting adjustments	(29,203)	(27,133)
<b>Total</b>	<b>1,339,482</b>	<b>1,507,101</b>

The difference between the gross amount of bank loans repayable of £1,368.7 million and the carrying value of £1,339.5 million represents the amortisation of fees and fair value adjustments relating to the loans held, shown above as accounting adjustments. Within note 11, £4.4 million (2021: £2.3 million) of these accounting adjustments are presented within bank loans and borrowing due within one year and £24.8 million (2021: £24.8 million) within bank loans and borrowings due after one year.

All of the above loans are drawn from total committed bank facilities of £2,366.6 million (2021: £2,488.6 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.
- £1,750 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, an EMTN issue in November 2020 for £300 million and an EMTN issue in September 2021 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 £101 million (2021: £110 million).

Interest is payable at rates varying between 0.28% and 9.92%. The weighted average rate of interest at 31 March 2022 inclusive of interest rate swaps but exclusive of bonds was 3.59% (2021: 3.71%).

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

### 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 2022, Group borrowings amounted to £4,452.1 million (2021: £4,323.7 million) which includes the amounts shown above, against committed facilities (inclusive of the Association's facilities) of £5,450.0 million (2021: £5,278.6 million).

Repayment of loans received from Group Funding Vehicles follows the long term debt repayment profile of the Group Funding Vehicles. Of the committed facilities available to the Association as at 31 March 2022, the earliest facility maturity is one year (2021: one year) and the weighted average expiry period is 15.4 years (2021: 14.9 years).

The Group's weighted average interest rate for general borrowings was 3.64% (2021: 3.81%).

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 2022, the Group's main security pool was valued at £7,078.9 million (2021: £6,209.3 million), based on standard security valuation methodologies. £5,216.5 million (2021: £5,241.6 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 £1,862.4 million (2021: £967.7million) as charged unallocated security within the security pool. Cash collateral is also used as a form of security, with £108.1 million (2021: £111.6 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 2022, of the £5,216.5 million allocated, £280.7 million was allocated to protect against such adverse movements (2021: £371.0 million of the £5,241.6 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 2022 (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 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:

	2022 £'000	2021 £'000
<b>External:-</b>		
Cash and cash equivalents – collateral*	108,078	111,599
Undrawn committed loan facilities	997,950	954,400
<b>External Exposures</b>	<b>1,106,028</b>	<b>1,065,999</b>

\* 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 2022 (2021: £nil). The company held collateral cash and cash equivalents of £108.1 million at 31 March 2022 (31 March 2021: £111.6 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.

	2022 £'000	2021 £'000
<b>Internal:-</b>		
Intercompany loans	3,918,363	3,795,865
Intercompany derivative mark-to-market	211,076	314,783
<b>Internal Exposures</b>	<b>4,129,439</b>	<b>4,110,648</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (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 a 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. Six 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.

2022	Number	Net Threshold	Margin Call	Property collateral	Cash collateral
	No.	£'000	£'000	£'000	£'000
Property and Cash ISDA Agreement	6	43,000	183,242	260,971	-
Cash only ISDA Agreement	1	-	7,718	-	8,078
<b>Total</b>	<b>7</b>	<b>43,000</b>	<b>190,960</b>	<b>260,971</b>	<b>8,078</b>

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
<b>Total</b>	<b>5</b>	<b>25,000</b>	<b>300,457</b>	<b>369,291</b>	<b>11,599</b>

## Guarantees

The company's policy is to limit the use of financial guarantees. At 31 March 2022 the company had £nil of bank issued guarantees outstanding (2021: £nil).

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

## 14. Financial Instruments (continued)

## B. Liquidity Risk

Liquidity risk is the risk that the Group and its companies 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 2022 was £1,122.2 million (2021: £1,071.9 million) which is made up of £124.2 million (2021: £117.5 million) of operational cash and £998.0 million (2021: £954.4 million) of undrawn bank revolver facilities.

Furthermore, the Group targeted an operational cash balance of £100 million, subject to maintaining an absolute minimum balance of £75 million at all times, during the year. Following review by the Treasury Committee and approval by the Group Board on 30<sup>th</sup> March 2022, this was changed to target an operational cash balance of £60m, subject to maintaining an absolute minimum balance of £30 million at all times, going forwards.

*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.

	Loans at amortised cost £'000	Interest on loans at amortised cost £'000	Interest on derivative financial instruments £'000	Total £'000
<b>2022</b>				
Due within one year:	39,847	45,106	20,835	<b>105,788</b>
Between one and two years	38,729	45,576	14,274	<b>98,579</b>
Between two and five years	154,295	135,745	50,912	<b>340,952</b>
After five years	1,135,814	367,349	167,413	<b>1,670,576</b>
<b>Gross cash flows</b>	<b>1,368,685</b>	<b>593,776</b>	<b>253,434</b>	<b>2,215,895</b>
	Loans at amortised cost £'000	Interest on loans at amortised cost £'000	Interest on derivative financial instruments £'000	Total £'000
<b>2021</b>				
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
<b>Gross cash flows</b>	<b>1,534,234</b>	<b>518,431</b>	<b>349,417</b>	<b>2,402,082</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (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 70% 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 Group. In the year ending 31 March 2022, CTL's debt facilities that previously used LIBOR transitioned 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 2022 (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:

		Interest rate swaps (pay fixed)	Interest rate swaps (receive fixed)	
2022	Fixed Debt			Total
	£'000	£'000	£'000	£'000
Due within one year	111,261	21,950	(1,115)	132,096
Between one and two years	111,386	14,034	240	125,660
Between two and five years	331,907	50,337	575	382,819
After five years	1,427,164	168,894	(1,481)	1,594,577
<b>Gross contractual cash flows</b>	<b>1,981,718</b>	<b>255,215</b>	<b>(1,781)</b>	<b>2,235,152</b>

		Interest rate swaps (pay fixed)	Interest rate swaps (receive fixed)	
2021	Fixed Debt			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
<b>Gross contractual cash flows</b>	<b>1,923,465</b>	<b>367,184</b>	<b>(17,767)</b>	<b>2,272,882</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (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.

	<b>Notional 2022 £'000</b>	<b>Notional 2021 £'000</b>
Fair Value hedges	<b>100,000</b>	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.

<b>Interest rate swaps</b>	<b>Mark-to-Market</b>		<b>Impact on mark-to-market</b>	
	<b>2022 £'000</b>	<b>2021 £'000</b>	<b>2022 £'000</b>	<b>2021 £'000</b>
100bp increase	<b>(121,811)</b>	(206,651)	<b>89,265</b>	108,132
100bp decrease	<b>(300,341)</b>	(422,915)	<b>(89,265)</b>	(108,132)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (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 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 £219.1 million, £78.2 million are derivatives that have been transferred from Affinity Sutton Funding Limited which are not hedge accounted for under FRS 102 within CTL (although hedge accounting is applied at the Clarion Group level). 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.

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

	2022 £'000	2021 £'000
Derivative financial assets	7,984	13,977
Derivative financial liabilities	(219,060)	(328,760)
	<u>(211,076)</u>	<u>(314,783)</u>
	2022 £'000	2021 £'000
Intercompany derivative financial assets	219,060	328,760
Intercompany derivative financial liabilities	(7,984)	(13,977)
	<u>211,076</u>	<u>314,783</u>
Net derivative financial instruments	<u>-</u>	<u>-</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (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:

2022	Fair Value		Notional
	Asset	Liability	
	£'000	£'000	£'000
<b>Swaption</b>			
In five years or more	-	(7,009)	(50,000)
<b>Interest rate swaps</b>			
Due within one year	-	-	-
Between one and two years	-	(1,481)	(26,300)
Between two and three years	-	-	-
Between three and five years	-	-	-
In five years or more	7,984	(210,570)	(808,570)
	<u>7,984</u>	<u>(219,060)</u>	<u>(884,870)</u>
	<u><u>7,984</u></u>	<u><u>(219,060)</u></u>	<u><u>(884,870)</u></u>
2021	Fair Value		Notional
	Asset	Liability	
	£'000	£'000	£'000
<b>Swaption</b>			
In five years or more	-	(3,935)	(50,000)
<b>Interest rate swaps</b>			
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)
	<u>13,977</u>	<u>(328,760)</u>	<u>(1,151,094)</u>
	<u><u>13,977</u></u>	<u><u>(328,760)</u></u>	<u><u>(1,151,094)</u></u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (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 2022	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	108,078	-	-	108,078	108,078
Intercompany loans	-	-	3,918,363	3,918,363	3,895,927
Interest rate swaps used for hedging	-	7,984	-	7,984	7,984
Intercompany derivatives	-	219,060	-	219,060	219,060
Trade and other receivables	-	-	33,794	33,794	33,794
	<b>108,078</b>	<b>227,044</b>	<b>3,952,157</b>	<b>4,287,279</b>	<b>4,264,843</b>
<b>Financial liabilities</b>					
Secured bank loans	-	-	(1,339,482)	(1,339,482)	(1,319,427)
Secured internal loans from SPVs	-	-	(2,686,959)	(2,686,959)	(2,576,500)
Interest rate swaps used for hedging	-	(219,060)	-	(219,060)	(219,060)
Intercompany derivatives	-	(7,984)	-	(7,984)	(7,984)
Trade and other payables	-	-	(33,617)	(33,617)	(33,617)
	-	<b>(227,044)</b>	<b>(4,060,058)</b>	<b>(4,287,102)</b>	<b>(4,156,588)</b>
<b>As at 31 March 2021</b>	<b>Trading</b>	<b>Fair value - hedging instruments</b>	<b>Loans and receivables</b>	<b>Total carrying amount</b>	<b>Fair value</b>
<b>Financial assets</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
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
	<b>111,599</b>	<b>342,737</b>	<b>3,828,665</b>	<b>4,283,001</b>	<b>4,446,288</b>
<b>Financial liabilities</b>					
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)
	-	<b>(342,737)</b>	<b>(3,940,087)</b>	<b>(4,282,824)</b>	<b>(4,334,513)</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (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:

	2022	2021
Derivatives	0.69% to 2.01%	0.05% to 0.81%

## 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 2022.

2022	Level 1	Level 2	Level 3	Total
Derivative financial instruments	£'000	£'000	£'000	£'000
Designated as cash flow hedges	-	(133,900)	-	(133,900)
Designated as fair value hedges	-	924	-	924
Not in hedge relationships	-	(71,091)	-	(71,091)
Swaption	-	(7,009)	-	(7,009)
<b>Total as at 31 March 2022</b>	<b>-</b>	<b>(211,076)</b>	<b>-</b>	<b>(211,076)</b>
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 relationships	-	(112,409)	-	(112,409)
Swaption	-	(3,935)	-	(3,935)
<b>Total as at 31 March 2021</b>	<b>-</b>	<b>(314,783)</b>	<b>-</b>	<b>(314,783)</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (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**

Following the cessation of LIBOR on 31 December 2021, all of the Group's financial instruments that were previously indexed to Sterling LIBOR are now indexed to SONIA. The Group applies the amendments to IFRS 9 issued in August 2020 to those hedging relationships directly affected by IBOR reform and the amendments to FRS 102 issued in December 2020 for the disclosure of such relationships. The Group has also updated its hedge documentation in order to designate the new benchmark.

In order to ensure the change is done on an economically equivalent basis, a credit adjustment spread has been added to the SONIA rate for instruments previously indexed to LIBOR. In doing so, Clarion applies the following reliefs in IFRS 9:

- The carrying amounts of assets and liabilities are not affected by the change in benchmark.
- Hedge relationships can be re-designated to the new benchmark without discontinuing the hedge relationship.
- Amounts accumulated in the cash flow hedge reserve are deemed to be based on the new benchmark.

Following the completion of the transition, there is no further uncertainty from the reforms and this uncertainty is no longer a possible source of ineffectiveness. The Group will continue to manage interest rate risk using interest rate swaps as described above.

**15. Equity share capital**

	<b>2022</b>	2021
	<b>£</b>	<b>£</b>
<b>Authorised share capital</b>		
100 ordinary shares of £1 each	<b>100</b>	100
	<hr/>	<hr/>
	<b>2022</b>	2021
	<b>No.</b>	<b>No.</b>
<b>Issued, called up and fully paid share capital</b>		
100 ordinary shares of £1 each	<b>100</b>	100
	<hr/>	<hr/>

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)**

### **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.

### **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](http://www.clarionhg.com). Clarion Housing Group Limited's registered office is: Level 6, 6 More London Place, Tooley Street, London, SE1 2DA.