

**Clarion Funding PLC**

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

**Companies House No. 10922187**

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## **BOARD AND ADVISERS**

### **Board**

Mark Hattersley (Chair)  
Clare Miller

### **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 Funding PLC ("CFP"), registered company no. 10922187, presents its annual report and audited financial statements for the year ended 31 March 2022.

### **Principal Activities**

CFP is 100% owned by Clarion Housing Group Limited ("Clarion Housing Group").

CFP is a special purpose funding vehicle, ("SPV") which is used to secure funding for Clarion Housing Group through its Euro Medium Term Note (EMTN) Programme. Funding is obtained by CFP directly from the capital markets which is then on-lent to Clarion Treasury Limited ("CTL", another SPV) and from there to Clarion Housing Association Limited ("the Association").

### **Principal Risks and Uncertainties**

As CFP on-lends all of its proceeds from capital market transactions to CTL (which in turn on-lends these proceeds to the Association), the main risk facing CFP is the recoverability of interest and principal payments from CTL and/or the Association as they fall due.

This risk is mitigated in a number of ways:

- First, CFP on-lends funding to CTL under a secured loan agreement, which is backed by housing assets of the Association. If there are any payments which are not made to CFP (or if CTL is in breach of its loan agreement with CFP), then CFP can enforce the security under the loan;
- Second, the obligations of CTL are guaranteed by the Association; and
- Third, CFP 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 CFP is not obliged to provide incremental funding to CTL, CFP is not at risk if it cannot obtain further funding for CTL. All of CFP's costs related to the provision of funding services are also billed to CTL.

CFP currently borrows funds on a fixed-rate basis from the capital markets and then on-lends these funds to CTL on a fixed-rate basis. As such, the company does not bear any interest-rate risk and so does not undertake any hedging activities, nor does it hold any derivatives.

### **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)

### Section 172 statement

S172 of the Companies Act requires the directors of a company to act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- the likely consequences of any decision in the long term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and the environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the company.

CFP is owned by Clarion Housing Group Limited, a registered provider of social housing. When fulfilling responsibilities in accordance with s172, the Directors have regard to what is in the best interests of the company and Group, including the matters set out above.

Consequences of decisions	The Board promotes a strong culture of governance within the company. Through the Group's Treasury Management Function, the Board pursues optimum performance within parameters agreed by the Treasury Committee and within the contractual obligations covenanted in funding arrangements. Long-term sustainability of the Group is one of the cornerstones in the regulation of the Group and is embedded in the Group's Long Term Financial Plan and Corporate Strategy that includes the activity of its treasury vehicles and related covenant compliance. Detail of the Group's Corporate Strategy can be found on the Clarion Group website - <a href="http://www.clarionhg.com">www.clarionhg.com</a>
Employees	The company does not directly employ any staff but instead makes use of the employees of the Association. The Group and its subsidiaries are committed to ensuring people enjoy working with us, in an inclusive environment where they can thrive and fulfil potential.
Business relationships	<p>The company's key stakeholders are its investors and regulatory bodies. The Directors, through the Group's Treasury Management Function, manage the principal risks facing the company by engaging with and fostering a successful business relationship with these key stakeholders. Engagement has included:</p> <ul style="list-style-type: none"> <li>• Investor roadshows</li> <li>• Quarterly RNS investor updates</li> <li>• Dedicated investor webpage on the Clarion website</li> <li>• Interim and annual reporting</li> <li>• Regular meetings with regulatory bodies.</li> <li>• Completion of returns and surveys to regulatory bodies.</li> </ul>

STRATEGIC REPORT (CONTINUED)

	<p>The outcome from engagement on the Group's strategic, financial and non-financial plans are a key driver for decision making and help shape the Group's Investment Strategy and Treasury Management Policy.</p> <p>The company has entered into back-to-back loan agreements with its relevant Group members.</p>
Community and environment	<p>Our commitment is underpinned by our mission, values and embedded within our Corporate Strategy. We work alongside our residents and our partners to create and sustain communities where people can thrive.</p> <p>Sustainability permeates our entire approach and is centered on making our homes and communities fit for the future.</p> <p>From a treasury perspective, our funding policies reflect our sustainable commitments. Our reputation of being a respected and ethical organisation that delivers for people and their communities makes us an attractive proposition for investors looking for more than just a financial return. This is illustrated by the success of our sustainable bond issues to fund the development of new affordable energy efficient homes. We have also taken out a sustainability linked loan where the interest rate will be discounted as long as we reach certain ESG targets which relate to the social value generated by our supply chain and the number of apprentices on our construction sites.</p>
High standard of conduct	<p>The Company adopts the values and culture of the Group in its decision making process.</p> <p>Clarion Housing Group is regulated by the Regulator of Social Housing, promoting a culture of financial responsibility and corporate governance. The Group has the highest possible rating of G1/V1 for governance and financial viability.</p> <p>For 2021/22, the Group adopted the NHF Code of Governance 2020 and is working towards full compliance by April 2023. The Group routinely self-examines performance against the main requirements of the Code and regularly reviews its effectiveness.</p> <p>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 Group Chief Executive and executive directors of subsidiaries annually review the Group's internal control and assurance arrangements.</p>
Act fairly between members	<p>CFP is owned by Clarion Housing Group Limited.</p> <p>We encourage honest conversations between staff and managers at all levels, and through these conversations we work together even more effectively.</p>

## STRATEGIC REPORT (CONTINUED)

### Review of the Year

The Company's key performance indicator is the main covenant in its external funding contracts. This is:

- That sufficient security is in place.

This covenant was met at the year-end and the company expects that compliance to continue.

CFP has made £1,750 million of bond issuances and note issuances (often referred to as a "tap") on the capital markets through its EMTN programme:

- On 19 April 2018, a £250 million, 30 year, fixed-rate bond with a coupon of 3.125% due 2048;
- On 18 January 2019, a £250 million, 10 year, fixed-rate bond with a coupon of 2.625% due 2029;
- On 23 July 2019, a further issue of notes from the 3.125% bond series due 2048 of £100 million;
- On 22 January 2020, a £350 million, 15 year, fixed-rate bond with a coupon of 1.875% due 2035;
- On 18 February 2020, a further issue of notes from the 2.625% bond series due 2029 of £50 million;
- On 30 July 2020, a further issue of notes from the 3.125% bond series due 2048 of £100 million;
- On 13 November 2020, a £300 million, 12 year, fixed-rate bond with a coupon of 1.250% due 2032;
- On 18 January 2021, a further issue of notes from the 3.125% bond series due 2048 of £50 million; and
- On 7 September 2021, a £300 million, 30 year, fixed-rate bond with a coupon of 1.875% due 2051.

£1,450 million of funding from prior years continues to be on-lent to CTL via a secured loan. £300 million of funding has been raised in the current financial year and has also been on-lent to CTL via a secured loan.

Interest receivable and interest payable for the year were both £36.6 million (2021: £28.9 million), and the company produced a result of £nil (2021: £nil). This break-even result is in line with the company's role as a special purpose funding vehicle which does not seek to generate significant financial returns.

Due to the limited nature of the company's operations, there are no other KPIs which the Board consider 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.



Mark Hattersley  
Chair  
5 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 include:

- 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 and 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, which 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.

### Statement on Business Relationships

Our default position is to be transparent, collaborate and build strong inclusive relationships. Further detail on our business relationships is provided in the Section 172 statement.

### Energy and Carbon Reporting

The company did not consume more than 40,000 kWh of energy in the year and is therefore exempt from making this disclosure.

## REPORT OF THE BOARD (CONTINUED)

### Going Concern

On the basis of its assessment of the company's financial position and resources, the Board believes that the company is well placed to manage its business risks. Therefore the company's Board has a reasonable expectation that the company will have sufficient funds to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of the financial statements.

### Directors

The Directors holding office during the year 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 (2021: £nil).

### Charitable and Political Contributions

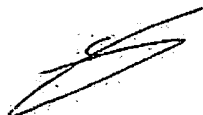
The company made no charitable contributions during the year (2021: £nil) and no political contributions (2021: £nil).

### 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 Annual General Meeting.



Mark Hattersley  
Chair  
5 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 FUNDING PLC

### 1. Our opinion is unmodified

We have audited the financial statements of Clarion Funding Plc ("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 the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 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 believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit and Risk Committee.

We were appointed as auditor by the directors on 7 February 2018. The period of total uninterrupted engagement is for the 5 financial years ended 31 March 2022. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

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

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter (unchanged from 2021) in arriving at our audit opinion above, together with our key audit procedures to address this matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

#### Recoverability of Long term Debtors

*Debtors (amounts falling due after more than one year) £1,775m (2021: £1,484m)*

*Refer to page 4 to 7 for the Strategic Report, pages 20 to 22 for the accounting policy and page 24 for the financial disclosures.*

#### The risk – low risk high value

The Company's primary activity is to issue bonds, source investor financing and on-lend all of the proceeds from capital market transactions to its immediate Parent (Clarion Treasury Limited) which in turn on-lends these proceeds to Clarion Housing Association Limited (the Association). It therefore has long term liabilities which relate to the bonds issued and long-term intercompany debtors which relate to the loans provided to the Association through its immediate Parent.

The carrying amount of the long-term intercompany debtor balance represents 99% of the Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the Company financial statements, this is considered to be the area that had the greatest effect on our overall Company audit.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CLARION FUNDING PLC (CONTINUED)

Whilst financial income and financial expenses are recognised during the loan period, the risk mainly stems from the ability of the Association to repay the loan principal in 7, 10, 13, 26 and 29 years.

### Our response

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

Our procedures included:

- i. **Test of detail:** Assessing 100% of intercompany long term debtors owed by the Association through the immediate Parent (2021: 100%) to identify, with reference to the Association's draft balance sheet, whether they have a positive net asset value and therefore coverage of the debt owed.
- ii. **Assessment of Association:** Assessing the work performed by the Group audit team, and considering the results of that work, on those net assets. This included assessment of the fair value headroom available on those net assets, and therefore the ability of the Association to fund repayment of the receivable. We critically assessed the Board's going concern assessment, including the reasonableness of the key assumptions used by the Group in its cash flow forecasts and the level of downside sensitivities applied using our knowledge of Covid-19 scenarios being applied by other entities.

### Our results

We found the Company's assessment of the recoverability of the long term debtor balance to be acceptable (2021 result: acceptable).

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

Clarion Funding Plc is part of a Group headed by Clarion Housing Group Limited. Materiality of £7.9m (2021: £7m), as communicated by the Group audit team, has been applied to the audit of the Company. This is lower than the materiality we otherwise have determined by reference to total assets, and represents 0.4% of the Company's total assets (2021: 0.5%).

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

Performance materiality was set at 75% (2021: 75%) of materiality for the financial statements as a whole, which equates to £5.9m (2021: £5.3m).

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

We agreed to report to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £0.4m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The scope of the audit work performed was fully substantive as we did not rely upon the Company's internal control over financial reporting.

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

### **4. Going concern**

The Board has 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").

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CLARION FUNDING PLC (CONTINUED)

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 Group's and Company's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Company's available financial resources over this period was:

- Recoverability of long term debtors

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

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

We assessed the completeness of the going concern disclosure.

Our conclusions based on this work:

- we consider that the Board's 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 Board's assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 to be acceptable.

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

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

#### *Identifying and responding to risks of material misstatement due to fraud*

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

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

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

As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the Company does not generate revenue as part of its activities.

We did not identify any additional fraud risks.

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

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CLARION FUNDING PLC (CONTINUED)**

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

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

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

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

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

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

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

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

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

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

## **6. We have nothing to report on the strategic report and the 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 those reports;
- in our opinion the information given in the strategic report and the report of the Board 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.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CLARION FUNDING PLC (CONTINUED)**

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

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

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

### **8. Respective responsibilities**

#### ***Board's responsibilities***

As explained more fully in their statement set out on page 11, the Board is responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

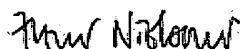
#### ***Auditor's responsibilities***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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).

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

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



**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**

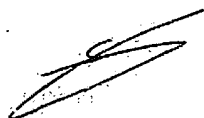
	Notes	2022 £'000	2021 £'000
Interest receivable	4	36,607	28,884
Interest payable and financing costs	5	(36,607)	(28,884)
<b>Result on ordinary activities before taxation</b>	6	-	-
Tax charge on result on ordinary activities	7	-	-
<b>Result for the year</b>		-	-

All operations are continuing.

## 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	8	12,476	12,323
Debtors: amounts falling due after more than one year	8	1,774,636	1,483,612
Cash at bank and in hand		12	12
		<u>1,787,124</u>	<u>1,495,947</u>
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	9	(12,476)	(12,323)
<b>Net current assets</b>		<u>1,774,648</u>	<u>1,483,624</u>
<b>Creditors: amounts falling due after more than one year</b>	10	<u>(1,774,598)</u>	<u>(1,483,574)</u>
<b>Net assets</b>		<u><u>50</u></u>	<u><u>50</u></u>
<b>Capital and reserves</b>			
Share capital	11	50	50
Profit and loss account		-	-
<b>Equity shareholder's funds</b>		<u><u>50</u></u>	<u><u>50</u></u>

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



Mark Hattersley  
Chair  
5 July 2022

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

	Share capital £'000	Profit and loss account £'000	Total equity £'000
At 1 April 2020	50	-	50
Result for the year ending 31 March 2021	-	-	-
At 31 March 2021	50	-	50
Result for the year ending 31 March 2022	-	-	-
<b>At 31 March 2022</b>	<b>50</b>	<b>-</b>	<b>50</b>

## 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 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 Funding PLC's ("the company") financial statements.

#### Basis of preparation

The financial statements are prepared on an accruals basis and under the historical cost convention.

#### Going concern

On the basis of its assessment of the company's financial position and resources, the Board believes that the company is well placed to manage its business risks. Therefore the company's Board has a reasonable expectation that the company will have sufficient funds to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of the 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 considers these risks to be sufficiently mitigated. Consequently it continues to adopt the going concern basis of accounting in preparing the annual financial statements.

#### Segmental reporting

As the company's debt instruments are publicly traded, it is required to apply IFRS 8 Operating Segments. However, as the company's sole purpose is to obtain funding from the capital markets for on-lending to Clarion Treasury Limited, it has only one operating segment and no further disaggregation of the company's results, or assets and liabilities, is made.

#### Disclosure exemptions

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

- 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.

#### Value Added Tax (VAT)

The company is not registered for 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.

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.

#### 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.

#### 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.

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.

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

### 1. Accounting policies (continued)

#### 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)

### 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. No accounting estimates have been made which have 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.

### 3. Directors' remuneration

Mark Hattersley and Clare Miller are employees of Clarion Housing Association Limited and are representatives of that entity. 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	<u>36,607</u>	<u>28,884</u>

### 5. Interest payable and financing costs

	2022 £'000	2021 £'000
Interest payable on bonds	36,283	28,678
Other charges	<u>324</u>	<u>206</u>
	<u>36,607</u>	<u>28,884</u>

### 6. Result on ordinary activities before taxation

Auditors' remuneration was expensed in the accounts of Clarion Housing Group Limited and not recharged to the company; £36,000 of auditors' remuneration relating to assurance work over the EMTN programme has been included in other charges (see note 5) (2021: £36,000). There are no staff employed by the company and hence no staff costs.

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

## 7. Taxation

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

The company's tax charge for the period is equal to 19% (2021: equal to 19%), the rate of corporation tax in the UK:

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

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

## 8. Debtors

	2022 £'000	2021 £'000
<b>Amounts falling due within one year</b>		
Amounts due from Group undertakings: loans	646	845
Amounts due from Group undertakings: interest	11,689	11,307
Amounts due from Group undertakings: other	141	171
	<b>12,476</b>	<b>12,323</b>
<b>Amounts falling due after more than one year</b>		
Amounts due from Group undertakings: loans	1,774,598	1,483,574
Amounts due from Group undertakings: other	38	38
	<b>1,774,636</b>	<b>1,483,612</b>

Amounts falling due after one year primarily relate to the on-lending of borrowings to Clarion Treasury Limited, as described in the Strategic Report. The amounts falling due within one year primarily relate to interest accrued on these loans, as well as accounting adjustments (see note 9).



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

## 9. Creditors: amounts falling due within one year

	2022 £'000	2021 £'000
Bonds	646	845
Trade creditors	-	42
Interest payable and financing costs	11,689	11,307
Other accruals and deferred income	141	129
	<u>12,476</u>	<u>12,323</u>

Bonds due within one year is an accounting adjustment relating to the company's borrowings (see note 10). The amount above represents the amount of premium or discount which will be unwound, and transaction costs which will be amortised, in the following year.

## 10. Creditors: amounts falling due after more than one year

	2022 £'000	2021 £'000
Bonds are repayable on the dates specified:		
Series Issue: 19/04/2048 3.125% (notional £250m)	246,135	246,035
Series Issue: 19/04/2048 3.125% (notional £100m) 2nd Issue	107,059	107,253
Series Issue: 19/04/2048 3.125% (notional £100m) 3rd Issue	120,029	120,632
Series Issue: 19/04/2048 3.125% (notional £50m) 4th Issue	63,508	63,929
Series Issue: 18/01/2029 2.625% (notional £250m)	248,136	247,844
Series Issue: 18/01/2029 2.625% (notional £50m) 2nd Issue	52,961	53,445
Series Issue: 22/01/2035 1.875% (notional £350m)	348,374	348,252
Series Issue: 13/11/2032 1.250% (notional £300m) - annual coupon	296,520	296,184
Series Issue: 07/09/2051 1.875% (notional £300m)	291,876	-
	<u>1,774,598</u>	<u>1,483,574</u>

All bond issuances have semi-annual coupons, unless otherwise indicated.

Bonds are secured on properties held by the Association.

The fair value of the company's long term borrowing is £1,628.6 million (2021: £1,536.5 million).

## 11. Share capital

	2022 £'000	2021 £'000
<b>Shares of £1 allotted and issued</b>		
At the beginning and the end of the year	<u>50</u>	<u>50</u>

£12,500 of shares are paid up, and the remaining £37,500 is due after one year (see note 8).

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

### 12. 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, share capital 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.

### 13. 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 which is regulated by the Regulator of Social Housing. Clarion Housing Group Limited's registered office is Level 6, 6 More London Place, Tooley Street, London, SE1 2DA. Group accounts have been prepared by Clarion Housing Group Limited and are available from [www.clarionhg.com](http://www.clarionhg.com).