Clarion Treasury Limited
(previously Circle Anglia Treasury Limited)

Annual Report and Financial Statements
For the year ended 31 March 2018

Companies House No. 06133979

CONTENTS

BOARD AND ADVISERS

Board

Tania Brisby (Chair)	(appointed 28 March 2018)
Ruth Cooke	(appointed 3 April 2018)
Aruna Mehta	(appointed 28 March 2018)
Kwok Liu	(appointed 28 March 2018)
Maxim Sinclair	(appointed 28 March 2018)
Angela Drum	(resigned 2 June 2017)
Gareth Francis	(resigned 28 March 2018)
Austen Reid	(resigned 28 March 2018)
Mark Washer	(resigned 15 June 2018)

Company Secretary

Clare Miller

Registered office

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

Principal Solicitors

Devonshires Solicitors LLP
30 Finsbury Circus
London
EC2M 7DT

Allen & Overy LLP
One Bishops Square
London
E1 6AD

Bankers

Natwest Bank PLC
45 London Street
Norwich
NR2 1HX

Auditors

KPMG LLP
15 Canada Square
London
E14 5GL

STRATEGIC REPORT

Clarion Treasury Limited ("CTL" (previously Circle Anglia Treasury Limited)), registered company no. 06133979, presents its annual report and audited financial statements for the year ended 31 March 2018.

Principal Activities

The principal activity of the company is to provide funding to members of Clarion Housing Group Limited ("Clarion Housing Group") to enable them to support their development activity. CTL is a borrowing vehicle, it enters into loan arrangements and hedging activities on behalf of the Group, on-lending funds to Clarion Housing Association Limited ("the Association"). CTL is a wholly owned subsidiary of Clarion Housing Group.

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 through secured fixed charges over its properties. CTL also takes comfort from the strong credit rating of Clarion Housing Group which is rated as investment grade by Moody's Investors Service.

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

Review of the Year

Over the course of the year, the Group has continued its programme of "Resurgence", working with its Partner Boards to simplify its governance structure. On 8 May 2017, 1 June 2017 and 1 November 2017, Mole Valley Housing Association Limited, Merton Priory Homes and Russet Homes Limited respectively transferred their engagements to Circle Thirty Three Housing Limited. On 2 January 2018, Circle Thirty Three Housing Limited and Affinity Sutton Homes Limited amalgamated to form Clarion Housing Association Limited. This was then followed by the transfer of engagements of Old Ford Housing Association Limited on 1 March 2018. The result is one combined single Housing Association and therefore one asset-owning member of CTL's Guarantor Group. This restructure has not resulted in any change to CTL's externally facing loan facilities or derivatives.

As part of the Group's restructuring, the company was also renamed to Clarion Treasury Limited (previously Circle Anglia Treasury Limited) on 31 July 2017.

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

- The Guarantor Group meets a minimum one year interest cover percentage;
- The Guarantor Group meets a minimum three year interest cover percentage;
- The Guarantor Group meets a maximum gearing percentage;
- The Guarantor Group meets a minimum asset cover ratio; and
- CTL has a no deficit position.

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

STRATEGIC REPORT (CONTINUED)

The Statement of Comprehensive Income shows a £0.4 million profit for the year after taxation (2017: £0.3 million). This position is in line with the company's role as a special purpose funding vehicle for the Group. A small profit is generated as a result of a margin charged on a small number of specified historic loans made to the Association which were initialised prior to the Resurgence project. This profit is then substantially paid via Gift Aid to the Association.

During the prior year, Affinity Sutton Funding Limited transferred all its facilities with banks and building societies, and all its interest-rate swaps, to CTL which in turn were lent to Affinity Sutton Homes Limited (now amalgamated with Circle Thirty Three Housing Limited to form Clarion Housing Association Limited). As a result, interest receivable and interest payable for the year have increased to £137.8 million and £137.4 million, respectively (2017: £105.5 million and £105.2 million). At the reporting date the company's borrowings stood at £2,201.7 million (2017: £1,939.8 million).

In order to manage interest rate risk, CTL uses a mixture of fixed rate borrowings and Interest Rate Swaps to fix between 80% and 100% of interest payments. Hedging of interest rate risk on floating rate borrowings from banks is achieved with Interest Rate Swaps of 1 month, 3 month and 6 month LIBOR and Hedge Accounting is used where appropriate in order to manage the accounting impact of these swaps. The effect of this accounting treatment is also "on-lent" to the Association. A single £25 million swap has matured within the year and no further swap relationships were entered into. The net fair value of its derivative portfolio at 31 March 2018 is £320.3 million (2017: £374.4 million).

As at 31 March 2018 the Group had an uncharged security pool at an estimated value of £1.2 billion (2017: £1.2 billion) with a further £1,343 million (2017: £700 million) of assets charged but unallocated in a security trust numerical apportionment arrangement. £110.5 million has been deposited as security as at 31 March (2017:£107.8 million).

The Group has established a Euro Medium Term Note ("EMTN") programme which will issue notes through a separate company, Clarion Funding plc ("CFP") incorporated on 18 August 2017, to the capital markets. The proceeds will be collected and passed through CTL to the Association with the interest requirement flowing in the opposite direction. The first fixed rate note was issued on 19 April 2018 for £250 million and has been on-lent to the Association.

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

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

Tania Brisby

Chair

12 July 2018

REPORT OF THE BOARD

The Group's System of Internal Controls Responsibility

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

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

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

- Corporate governance arrangements;
- Written Group-wide financial regulations and delegated authorities, which were subject to review during the year;
- Policies and procedures for all key areas of the business. These are reviewed periodically to ensure their continued appropriateness;
- A Group-wide Internal Audit function, structured to deliver the Audit and Risk Committee's risk-based audit plan. As well as having an in-house team, the Group uses the services of professional firms of auditors and other specialists as necessary. All audit reports are reviewed by the Audit and Risk Committee, which also receives updates on the implementation of agreed external and internal audit recommendations. Detailed reports on the Group's and subsidiaries' activities are also presented to senior managers so that recommendations for strengthened controls and improvement can be implemented promptly;
- A Group-wide Health and Safety function;
- Management structures providing balance and focus within the Group;
- A Group-wide risk management process, which enables management to manage risk so that residual risk, after appropriate mitigation, can be absorbed without serious permanent damage to the Group or its subsidiaries. This includes a formal risk management approach to new business and major development initiatives and action plans to mitigate the worst effects of the risks. Risk management is considered at each Audit and Risk Committee meeting, through reviews of individual risk areas and/or risk maps, as well as considered regularly by the Board;
- The Group and its subsidiaries have annual budgets and long-term business plans. Throughout the year, Boards and managers regularly monitored performance against budgets, value for money and other quality indicators. An important tool in this process is the Group's Balanced Scorecard which identifies performance against key performance indicators, underpinned by supporting performance indicators and management information;
- Regulatory requirements and service objectives with managers ensuring that variances are investigated and acted upon;
- An anti-fraud and anti-bribery culture which is supported by a policy and procedure for dealing with suspected fraud, bribery and whistleblowing. The Group participated in the 2016/17 National Fraud Initiative, sponsored by the Cabinet Office;
- All housing investment decisions and major commitments were subject to appraisal and approval by the Investment Committee and, when appropriate, the Group Executive Team and the relevant Board, in accordance with the Group's financial regulations; and
- A Group-wide treasury management function reporting at least three times a year to the Treasury Committee.

REPORT OF THE BOARD (CONTINUED)

The Group Chief Executive and senior subsidiary managers have reviewed the internal control and assurance arrangements by reference to checks on the above and a report has been made to the respective Boards on the effectiveness of the control systems for the year ended 31 March 2018 and up to the date of approval of the Annual Report and the Financial Statements. The Audit and Risk Committee and the Group Board have expressed their satisfaction with these arrangements.

Going Concern

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

Directors

The Directors holding office during the period and at the date of this report are listed on page 2.

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 (2017: £nil).

Charitable and Political Donations

Apart from gift aid payments to the Association - which are treated as dividends under company law - the company made no charitable contributions during the year (2017: £nil) and no political contributions (2017: £nil).

Disclosure of Information to Auditor

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

Auditor

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

By order of the Board

Tania Brisby

Chair

12 July 2018

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 its profit or loss 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 2018 which comprise the Statement of Comprehensive Income, Statement of Financial Position and Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its profit 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

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and the Report of the Board

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

Our responsibility is to read the strategic report and the report of the Board and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the report of the Board;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company 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.

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

Board's responsibilities

As explained more fully in their statement set out on page 7, the Board is responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at g / p .

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.

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

16 July 2018

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2018

	Notes	**2018** **£'000**	Restated 2017 £'000
Interest receivable	4	137,811	105,509
Interest payable and financing costs	5	(137,444)	(105,152)
Movement in fair value of financial instruments	6	-	-
Profit on ordinary activities before taxation	7	**367**	357
Tax charge on profit on ordinary activities	8	-	(14)
Profit for the year		**367**	343
Other comprehensive income			
Change in fair value of financial instruments	6	-	-
Total comprehensive income for the year		**367**	343

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

See the "Corporation tax" section of note 1 for an explanation of the restatement.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2018

	Notes	2018 £'000	Restated 2017 £'000
Current assets			
Debtors: amounts falling due within one year	9	**83,872**	96,540
Debtors: amounts falling due after more than one year	9	**3,241,102**	3,013,917
Current asset investments	10	**110,530**	107,817
		3,435,504	3,218,274
Current liabilities			
Creditors: amounts falling due within one year	11	**(194,930)**	(201,916)
Net current assets		**3,240,574**	3,016,358
Creditors: amounts falling due after more than one year	12	**(3,240,397)**	(3,016,181)
Net assets		**177**	177
Capital and reserves			
Share capital	15	**-**	-
Profit and loss account		**177**	177
Cash flow hedge reserve		**-**	-
Equity shareholder's funds		**177**	177

See notes 9 and 11 for an explanation of the restatement.

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

Tania Brisby

Chair

12 July 2018

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2018

	Share capital £'000	Cash flow hedge reserve £'000	Profit and loss account £'000	Total equity £'000
At 1 April 2016	-	-	192	192
Profit for the year ending 31 March 2017 (restated)	-	-	343	343
Movement in cash flow hedge reserve due to hedged derivatives	-	(5,868)	-	(5,868)
Intercompany movement in cash flow hedge reserve due to hedged derivatives	-	5,868	-	5,868
<u>Contributions by and distributions to other Group entities</u>				
Gift Aid payment to Clarion Housing Group Ltd	-	-	(358)	(358)
At 31 March 2017	-	-	177	177
Profit for the year ending 31 March 2018	-	-	367	367
Movement in cash flow hedge reserve due to hedged derivatives	-	44,720	-	44,720
Intercompany movement in cash flow hedge reserve due to hedged derivatives	-	(44,720)	-	(44,720)
<u>Contributions by and distributions to other Group entities</u>				
Gift Aid payment to Clarion Housing Association Ltd	-	-	(367)	(367)
At 31 March 2018	**-**	**-**	**177**	**177**

£367,000 of Gift Aid relates to the current year, approved by written resolution and recognised as a liability (2017: £358,000).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

1. Accounting Policies

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

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

Basis of preparation

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

Going concern

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

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

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 2018 2018 (CONTINUED)

1. Accounting Policies (continued)

Impairment

Debtors are assessed for recoverability at each reporting date.

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 recoveroble when due.

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

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

Corporation tax and Gift Aid

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

A Gift Aid donation to other group entities, in relation to the year's profits, is recognised as a liability at the reporting date as a result of a shareholder-approved Companies Act s288 written resolution. Payment will be made within nine months of the reporting date and the amount may differ as the corporation tax computation for the year is finalised. Previously, a current tax charge was recognised for Gift Aid accrued but not paid at the reporting date, with an opposing credit in the Statement of Changes in Equity ("SOCE"); these were reversed in the following year when the Gift Aid was paid. The company has now adopted the December 2017 amendment to FRS 102 for the tax effect of Gift Aid payments, and neither this tax charge nor credit in the SOCE are recognised. Comparatives have been restated where necessary for the resulting changes in accounting policy: this is limited to a £72,000 net credit to the current tax charge and the corresponding £72,000 net tax debit in the SOCE - there is no net impact on the company's net assets.

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) by the reporting date and are expected to apply to the reversal of the timing difference.

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.

Where contractual cash flows meet the recognition requirements of IFRS 9, investments, short-term deposits and loans are subsequently measured at amortised cost, unless the difference between the historical cost and amortised cost basis is deemed immaterial. Amortised cost is calculated using the effective interest method which applies a rate of interest that exactly discounts estimated future cash payments or receipts (including any associated premium, discount or transaction costs) through the expected life of the financial instruments to the net carrying amount of the financial asset or liability. The current rate of LIBOR at the reporting date is used and assumed to be constant for the life of the loan. Loans and investments that are payable or receivable in one year are not discounted.

Where contractual cash flows do not meet the recognition requirements of IFRS 9, loans, investments and short-term deposits are subsequently measured at fair value with gains or losses taken to the Income Statement.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 2018 (CONTINUED)

1. Accounting Policies (continued)

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 is attributable to either a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

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

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

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

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

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

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

1. Accounting Policies (continued)

Fair value:

All financial assets or liabilities at fair value are calculated using measurements based on inputs that are observable for the asset either directly or indirectly from prices.

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

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

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

2. Significant judgements and accounting estimates

Significant judgements

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

Accounting Estimates

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

1. The fair value of derivative financial instruments.

   At the reporting date, the company has a £320.8 million net liability in respect of interest rate swaps. These have been valued using discounted cash flow models, for which the main assumption is the interest rate yield curve used.

   The curve used has been based on the government yield curve at the reporting date plus an appropriate credit spread, giving a range of 2.09% to 6.13%. Decreasing this curve by 100 basis points would increase the net liability by £135.7 million.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 2018 (CONTINUED)

3. Directors' remuneration

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

	2018	2017
	£	£
Tania Brisby	**23,000**	-
Aruna Mehta	**9,000**	-
Kwok Liu	**6,623**	-
Maxim Sinclair	**6,626**	-
	45,249	-

Ruth Cooke, Mark Washer, Angela Drum, Gareth Francis and Austen Reid are/were employees of Clarion Housing Group Limited and are representatives of that entity. Their remuneration is disclosed there as appropriate

Angela Drum, Gareth Francis and Austen Reid resigned during the year.

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

4. Interest receivable

	2018	2017
	£'000	£'000
Interest receivable from Group undertakings	**137,131**	105,303
Interest from investments	**680**	206
	137,811	105,509

5. Interest payable and financing costs

	2018	2017
	£'000	£'000
Interest payable on loans	**44,369**	20,607
Interest payable on derivatives	**44,212**	33,613
Interest payable to Group undertakings	**45,976**	46,810
Other charges	**2,887**	4,122
	137,444	105,152

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 2018 (CONTINUED)

6. Movement in fair value of financial instruments

	2018 £'000	2017 £'000
Included in profit and loss		
Fair value gains on		
Derivatives not in hedging relationships	**15,290**	447
Borrowings treated as fair value hedging item	**2,225**	-
Ineffectiveness on derivatives treated as cash flow hedging instruments	**435**	-
Recognition of new borrowings at merger	-	65,932
Derivatives treated as fair value hedging instruments	-	3,437
Intercompany fair value gains	**5,162**	132,610
Fair value losses on		
Derivatives treated as fair value hedging instruments	**(3,438)**	-
Derivatives not in hedging relationships	**(1,059)**	(8,256)
Ineffectiveness on derivatives treated as cash flow hedging instruments	**(665)**	(1,257)
Borrowings treated as fair value hedging item	-	(4,645)
Recognition of new derivatives at merger	-	(118,452)
Intercompany fair value losses	**(17,950)**	(69,816)
	-	-

	2018 £'000	2017 £'000
Included in other comprehensive income		
Fair value movement on derivatives treated as cash flow hedging instruments - effective	**44,720**	5,868
Intercompany cash flow hedge movement	**(44,720)**	(5,868)
	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 2018 (CONTINUED)

7. Profit on ordinary activities before taxation

	2018	2017
Profit on ordinary activities before taxation is stated after charging:	**£000**	£000
Auditor's remuneration (exclusive of VAT):		
- for audit services	**-**	-
- non-audit fees	**45**	-

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

		Restated
	2018	2017
Analysis of charge in period	**£'000**	£'000
Current tax		
Current tax on income for the period	-	14
Recognised in profit and loss	-	14

The tax assessed for the year is lower (2017: lower) than the profit shown in the Statement of Comprehensive Income multiplied by the standard rate of corporation tax in the UK - 19% (2017: 20%). Differences are explained below.

	2018	2017
Reconciliation of tax recognised in profit and loss	**£'000**	£000
Profit on ordinary activities before taxation	**367**	357
Tax at 19% (2017: 20%)	**70**	71
Effects of:		
Adjustment in respect of Gift Aid expected to be paid	(70)	(72)
Other adjustments in respect of prior periods	-	15
	-	14

The change in the rate of UK corporation tax to 17% from 1 April 2020, was substantively enacted by the reporting date.

9. Debtors

Amounts falling due within one year	**2018**	Restated 2017
	£'000	£'000
Amounts due from Group undertakings: trading	**23,813**	21,287
Amounts due from Group undertakings: loans and cash pooling	**58,939**	72,677
Amounts due from Group undertakings: derivatives	**-**	1,227
Prepayments and accrued income	**1,119**	1,349
Other debtors	**1**	-
	83,872	96,540

Amounts falling due after one year

Derivative financial assets	**7,330**	11,828
Amounts due from Group undertakings: loans and cash pooling	**2,906,192**	2,617,080
Amounts due from Group undertakings: derivatives	**327,580**	385,009
	3,241,102	3,013,917

The comparatives have been restated to gross out amounts due to/from different Group undertakings. As a result, *Amounts due from Group undertakings: trading* has increased by £12.8 million with a corresponding increase in *Amounts due to Group undertakings: loans and cash pooling* (see note 11. *Creditors: amounts falling due within one year*).

10. Current investments

	2018	2017
	£'000	£'000
Collateral deposits	**110,530**	107,817

The collateral deposits represent a cash deposit that the hedging counterparty requires where the mark to market value of the outstanding derivatives exceeds the credit support threshold provided within the individual ISDA agreements and any other form of collateral in place.

11. Creditors: amounts falling due within one year

	2018	Restated 2017
	£'000	£'000
Bank loans and borrowing (note 13)	**58,305**	70,354
Derivative financial liabilities	**-**	1,227
Amounts due to Group undertakings: trading	**16,369**	15,742
Amounts due to Group undertakings: loans and cash pooling	**111,747**	104,851
Corporation tax	**-**	86
Other creditor	**5**	-
Other accruals and deferred income	**8,504**	9,656
	194,930	201,916

Refer to note 9 for an explanation of the restatement.

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

	2018	2017
	£'000	£'000
Bank loans and borrowing (note 13)	**2,100,851**	1,809,708
Derivative financial liabilities	**327,580**	385,009
Amounts due to Group undertakings: loans and cash pooling	**804,636**	809,636
Amounts due to Group undertakings: derivatives	**7,330**	11,828
	3,240,397	3,016,181

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 2018 (CONTINUED)

13. Debt analysis

Debt is repayable as follows:	**2018**	2017
	£'000	£'000
Due within one year	**64,300**	70,354
Between one and two years	**167,583**	44,823
Between two and five years	**357,387**	378,883
Due after more than five years	**1,612,432**	1,445,769
	2,201,702	1,939,829
Accounting Adjustments	**(42,546)**	(59,767)
Total	**2,159,156**	1,880,062

The difference between the gross amount of bank loans repayable and the carrying value represents the amortisation of fees and fair value adjustments relating to the loans held.

All of the above loans are drawn from total committed bank facilities of £2,668.9 million (2017: £2,751.6 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 participating Group member and a series of cross guarantees.

The above debt does not include £635 million which represents the £275 million bond issue through Circle Anglia Social Housing Plc that was placed in November 2008, further tapped in November 2010 for an additional £110 million and a new bond placed in March 2012 for £250 million. The above debt also does not include £150 million which represents the private placement through Circle Anglia Social Housing 2 Plc that was placed in November 2015.

Interest is payable at rates varying between 0.74% and 9.92%. The weighted average rate of interest at 31 March 2018 inclusive of interest rate swaps but exclusive of bonds was 3.59% (2017: 2.33%).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 2018 (CONTINUED)

14. Financial Instruments

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

- Credit risk
- Liquidity risk
- Currency risk
- Market risk

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

Risk management framework

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

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

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

Credit Risk

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 2018 (CONTINUED)

14. Financial Instruments (continued)

Exposure to credit risk

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

	2018	2017
External:-	**£'000**	£'000
Cash and cash equivalents – collateral*	**110,530**	107,817
Undrawn committed loan facilities	**467,174**	811,793
External Exposures	**577,704**	919,610

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

	2018	2017
Internal:-	**£'000**	£'000
Intercompany loans	**2,965,131**	2,689,195
Intercompany derivative mark-to-market	**320,250**	374,408
Internal Exposures	**3,285,381**	3,063,603

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.

Trade and other receivables

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 2018 (CONTINUED)

14. Financial Instruments (continued)

Cash and cash equivalents

The company held cash and cash equivalents of £nil million at 31 March 2018 (31 March 2017: £nil million). The company also held collateral cash and cash equivalents of £110.5 million at 31 March 2018 (31 March 2017: £107.8 million), which collaterised out-of-the money mark-to-market positions reducing the counterparties' exposures to Clarion Treasury Limited. These represent its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated A1/P1/F1 with one or more of the three main rating agencies, except where the investments are held as collateral by the financial institution to offset liabilities from the Group.

Derivatives

The derivatives are entered into with bank and financial institution counterparties, which have long term credit ratings between Baa3 to Aa3 (Moody's), BBB to A (Standard & Poor's) and BBB+ to AA (Fitch), with the weakest ISDA counterparty currently being rated Baa3 (Moody's), BBB (Standard & Poor's), BBB+ (Fitch). Only one of the ISDA agreements supports two-way collateral requirements. Four of the ISDA CSA's allow for the use of property and cash security and two only allow the use of cash.

2018	**Number**	**Net Threshold**	**Margin Call**	**Property collateral**	**Cash collateral**
	No.	**£'000**	**£'000**	**£'000**	**£'000**
Property and Cash ISDA Agreement	4	24,500	555,824	419,209	-
Cash only ISDA Agreement	2	4,900	39,508	-	10,530
Total	**6**	**29,400**	**595,332**	**419,209**	**10,530**

2017	Number	Net Threshold	Margin Call	Property collateral	Cash collateral
	No.	£000	£000	£000	£000
Property and Cash ISDA Agreement	4	24,500	381,794	502,004	-
Cash only ISDA Agreement	2	9,900	3,825	-	7,564
Total	6	34,400	385,619	502,004	7,564

Guarantees

The company's policy is to limit the use of financial guarantees. At 31 March 2018 the company had £nil million of bank issued guarantees outstanding (2017: £nil million).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 2018 (CONTINUED)

14. Financial Instruments (continued)

Liquidity Risk

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

Treasury will ensure that the Group holds sufficient liquidity to cover the Group's requirements over the next 18 months.

Liquidity defined as immediately available cash plus undrawn secured committed credit facilities.

Treasury will ensure that at all times the Group's gross committed development spend for a minimum of 3 months is held in immediately available cash subject to an absolute minimum operational cash balance of £150 million.

The Group currently has £4,105 million of secured and available funding, of which £3,454 million is secured by Clarion Treasury Limited on behalf of the Association, this is derived from:

2018	**Facility**	**Amount Drawn**	**Amount undrawn**
	£'000	**£'000**	**£'000**
Bank Term	1,054,403	1,054,403	-
Bank Revolver	1,614,473	1,147,299	467,174
Capital Markets issuance (1)	635,000	635,000	-
Private Placements (2)	150,000	150,000	-
Total	**3,453,876**	**2,986,702**	**467,174**

2017	Facility	Amount Drawn	Amount undrawn
	£000	£000	£000
Bank Term	1,102,120	1,102,120	-
Bank Revolver	1,649,503	837,710	811,793
Capital Markets issuance (1)	635,000	635,000	-
Private Placements (2)	150,000	150,000	-
Total	3,536,623	2,724,830	811,793

(1) Issued through Circle Anglia Social Housing PLC (CASH) and on-lent in full to Clarion Treasury Limited.
(2) Issued through Circle Anglia Social Housing 2 PLC (CASH 2) and on-lent in full to Clarion Treasury Limited.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 2018 (CONTINUED)

14. Financial Instruments (continued)

Issuer	Issue Date	Interest Rate %	Collateral	Maturity Date	2018 £'000	2017 £'000
CASH	Nov 12, 2008	7.25%	Yes	Nov 12, 2038	**385,000**	385,000
CASH	March 2, 2012	5.20%	Yes	March 2, 2044	**250,000**	250,000
Total CASH					**635,000**	635,000
CASH 2	Nov 2, 2015	3.78%	Yes	Nov 2, 2030	**100,000**	100,000
CASH 2	Nov 2, 2015	Variable	Yes	Nov 2, 2025	**50,000**	50,000
Total CASH 2					**150,000**	150,000

Cashflows related to borrowings

The company constantly monitors the risk of loss of its secured financing facilities arising from a failure of a lending counterparty against the same credit parameters it applies to its cash investments. The following are the remaining external contractual maturities at the end of the reporting period of financial liabilities, including estimated interest payments for the company.

2018	**Loans at amortised cost**	**Interest on loans at amortised cost**	**Interest on derivative financial instruments**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Due within one year:	64,300	45,309	40,738	**150,347**
Between one and two years	167,583	53,877	36,893	**258,353**
Between two and five years	357,387	170,657	79,268	**607,312**
After five years	1,612,432	564,952	248,566	**2,425,950**
Gross cash flows	**2,201,702**	**834,795**	**405,465**	**3,441,962**

2017	Loans at amortised cost	Interest on loans at amortised cost	Interest on derivative financial instruments	Total
	£'000	£'000	£'000	£'000
Due within one year:	70,354	31,815	43,719	145,888
Between one and two years	44,823	45,309	40,738	130,870
Between two and five years	378,883	168,505	93,321	640,709
After five years	1,445,769	620,981	272,407	2,339,157
Gross cash flows	1,939,829	866,610	450,185	3,256,624

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 2018 (CONTINUED)

14. Financial Instruments (continued)

The above flows include the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes and which are usually not closed before contractual maturity. As disclosed the company has secured bank and debt facilities which contain various debt covenants. A future breach of a covenant may require the Group to repay the loan earlier than indicated in the above table. The interest payments on variable interest rate loans and private placements in the table above reflect market forward interest rates at the period end and these amounts may change as market interest rates change. The future cash flows on derivative instruments may be different from the amount in the above table as interest rates change. Except for these financial liabilities, it is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Currency risk

Clarion Treasury Limited was previously exposed to currency risk on one loan that was denominated in Euro. This borrowing was repaid on 19 April 2017 such that the Group has no further exposure to foreign currency.

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 Risk Management policy and Treasury Strategy approved by the Group Management 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 policy to manage its exposure to fluctuations in interest rates with a view to containing net interest costs. To manage this risk the Group assesses the impact that adverse interest rates would have on the Group's financial position in the short (1 year), medium (up to 5 years) and long term (over 5 years) and sets individual strategies each year to manage these risks. The strategy as approved by the Group Management Board is to ensure that 90 (+/-10%) percent, of its exposure to changes in interest rates on borrowings is on a fixed-rate basis. The Group enters into and designates interest rate swaps as hedges of the variability in cash flows attributable to interest rate risk through Clarion Treasury Limited on behalf of the Association.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 2018 (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 as reported to the management of Clarion Treasury Limited was as follows:

2018	**Fixed Debt**	**Interest rate swaps (pay fixed)**	**Interest rate swaps (receive fixed)**	**Net fixed**
	£'000	**£'000**	**£'000**	**£'000**
Due within one year:	72,666	42,166	(1,428)	113,404
Between one and two years	72,608	38,091	(1,198)	109,501
Between two and five years	217,434	81,682	(2,414)	296,702
After five years	1,213,533	251,069	(2,504)	1,462,098
Gross contractual cash flows	**1,576,241**	**413,008**	**(7,544)**	**1,981,705**

2017	Fixed Debt	Interest rate swaps (pay fixed)	Interest rate swaps (receive fixed)	Net fixed
	£'000	£'000	£'000	£'000
Due within one year:	73,850	45,367	(1,648)	117,569
Between one and two years	73,905	42,166	(1,428)	114,643
Between two and five years	221,995	96,305	(2,984)	315,316
After five years	1,255,791	275,538	(3,132)	1,528,197
Gross contractual cash flows	1,625,541	459,376	(9,192)	2,075,725

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 2018 (CONTINUED)

14. Financial Instruments (continued)

Fair value sensitivity analysis for fixed rate instruments

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

	Notional 2018 £'000	Notional 2017 £'000
Fair Value hedges	**100,000**	100,000

Cash flow sensitivity analysis for variable rate instruments

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

Interest rate swaps	Mark-to-Market		Impact on mark-to-market	
	2018	**2017**	**2018**	**2017**
	£'000	**£'000**	**£'000**	**£'000**
100bp increase	**(185,044)**	(217,918)	**135,736**	156,829
100bp decrease	**(456,516)**	(531,576)	**(135,736)**	(156,829)

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.

14. Financial Instruments (continued)

Derivative assets and liabilities

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

Cash flow derivatives hedge the required cash flows of Group variable debt. Under FRS102 and IFRS 9, we have 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).

During the prior year, Affinity Sutton Group Limited merged with Circle Anglia Limited to form Clarion Housing Group Limited and this resulted in a transfer of derivatives that were held within Affinity Sutton Funding Limited to Clarion Treasury Limited. Of the £327.6 million derivative financial liabilities held externally, £111.4 million are derivatives that have been transferred from Affinity Sutton Funding Limited which are not hedge accounted for under IFRS 9. 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.

	2018	2017
	£'000	£'000
Derivative financial assets	**7,330**	11,828
Derivative financial liabilities	**(327,580)**	(386,236)
	(320,250)	(374,408)

	2018	2017
	£'000	£'000
Intercompany derivative financial assets	**327,580**	386,236
Intercompany derivative financial liabilities	**(7,330)**	(11,828)
	320,250	374,408
Net Derivative financial instruments	**-**	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 2018 (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:

2018

	Fair Value		Notional
	Asset	Liability	
	£'000	£'000	£'000
Swaption			
In five years or more	**529**	-	-
Interest rate swaps			
Due within one year	-	-	-
Between one and two years	-	**(2,469)**	**(85,000)**
Between two and three years	-	**(7,881)**	**(235,500)**
Between three and five years	-	**(21,064)**	**(445,000)**
In five years or more	**6,801**	**(296,166)**	**(795,200)**
	7,330	**(327,580)**	**(1,560,700)**

2017

	Fair Value		Notional
	Asset	Liability	
	£'000	£'000	£'000
Swaption			
In five years or more	1,589	-	-
Interest rate swaps			
Due within one year	-	(1,227)	(25,000)
Between one and two years	-	-	-
Between two and three years	-	(5,065)	(85,000)
Between three and five years	-	(49,330)	(680,500)
In five years or more	10,239	(330,614)	(795,200)
	11,828	(386,236)	(1,585,700)

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 2018	**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	110,530	-	-	**110,530**	110,530
Intercompany loans	-	-	2,965,131	**2,965,131**	2,734,291
Interest rate swaps used for hedging	-	7,330	-	**7,330**	7,330
Intercompany derivatives	-	327,580	-	**327,580**	327,580
Trade and other receivables	-	-	24,933	**24,933**	24,933
	110,530	**334,910**	**2,990,064**	**3,435,504**	**3,204,664**
Financial liabilities					
Secured bank loans	-	-	(2,159,156)	**(2,159,156)**	(1,742,802)
Secured internal loans from SPVs	-	-	(915,789)	**(915,789)**	(991,489)
Interest rate swaps used for hedging	-	(327,580)	-	**(327,580)**	(327,580)
Intercompany derivatives	-	(7,330)	-	**(7,330)**	(7,330)
Trade and other payables	-	-	(25,472)	**(25,472)**	(25,472)
Bank overdraft	-	-	-	-	-
	-	**(334,910)**	**(3,100,417)**	**(3,435,327)**	**(3,094,673)**

As at 31 March 2017	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	107,817	-	-	107,817	107,817
Intercompany loans	-	-	2,689,195	2,689,195	2,944,772
Interest rate swaps used for hedging	-	11,828	-	11,828	11,828
Intercompany derivatives	-	386,236	-	386,236	386,236
Trade and other receivables	-	-	22,636	22,636	10,389
	107,817	398,064	2,711,831	3,217,712	3,461,042
Financial liabilities					
Secured bank loans	-	-	(1,880,062)	(1,880,062)	(1,737,629)
Secured internal loans from SPVs	-	-	(914,487)	(914,487)	(1,314,841)
Interest rate swaps used for hedging	-	(386,236)	-	(386,236)	(386,236)
Intercompany derivatives	-	(11,828)	-	(11,828)	(11,828)
Trade and other payables	-	-	(25,398)	(25,398)	(9,742)
Bank overdraft	-	-	-	-	-
	-	(398,064)	(2,819,947)	(3,218,011)	(3,460,276)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 2018 (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:

	2018	2017
Derivatives	2.09% to 6.13%	1.6% to 4.35%

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 2017.

2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial instruments	**£'000**	**£'000**	**£'000**	**£'000**
Designated as cash flow hedges	-	(216,219)	-	(216,219)
Designated as fair value hedges	-	6,801	-	6,801
Not in hedge relationship	-	(111,361)	-	(111,361)
Swaption	-	529	-	529
Total as at 31 March 2018	**-**	**(320,250)**	**-**	**(320,250)**

2017	Level 1	Level 2	Level 3	Total
Derivative financial instruments	£'000	£'000	£'000	£'000
Designated as cash flow hedges	-	(260,745)	-	(260,745)
Designated as fair value hedges	-	10,239	-	10,239
Not in hedge relationship	-	(125,491)	-	(125,491)
Swaption	-	1,589	-	1,589
Total as at 31 March 2017	-	(374,408)	-	(374,408)

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.

15. Equity share capital

	2018	2017
	£	£
Authorised share capital		
100 ordinary shares of £1 each	**100**	100

	2017	2016
Issued, called up and fully paid share capital	**No.**	No.
100 ordinary shares of £1 each	**100**	100

16. Related Party Disclosures

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

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

The Group has a cash pooling arrangement whereby cash held by subsidiaries is pooled into the ultimate parent's bank accounts. As a result the Group's subsidiaries generally hold very little cash and instead have an interest-bearing intercompany balance with the ultimate parent.

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 ______ g____. Clarion Housing Group Limited's registered office is: Level 6, 6 More London Place, Tooley Street, London, SE1 2DA.

18. Events after the end of the reporting period

The Group has established a Euro Medium Term Note ("EMTN") programme which will issue notes through a separate company, Clarion Funding plc ("CFP") incorporated on 18 August 2017, to the capital markets. The proceeds will be collected and passed through CTL to the Housing Association with the interest requirement flowing in the opposite direction. The first fixed rate note was issued on 19 April 2018 for £250 million.