Clarion Treasury Limited

Annual Report and Financial Statements
For the year ended 31 March 2023

Companies House No. 06133979

CONTENTS

GENERAL CORPORATE INFORMATION

Board

Tom Smyth	Chair
Mark Hattersley	
Kwok Liu	
Clare Miller	
Maxim Sinclair	
Aruna Mehta	(resigned 19 November 2022)

Company Secretary

Louise Hyde

Registered Office

Level 6
6 More London Place
London
SE1 2DA

Auditors

KPMG LLP
15 Canada Square
London
E14 5GL

STRATEGIC REPORT

Clarion Treasury Limited ("CTL"), registered company no. 06133979, presents its annual report and audited financial statements for the year ended 31 March 2023.

Principal Activities

The company is a wholly-owned subsidiary of Clarion Housing Group Limited and its principal activity is to provide funding to members of the Clarion Housing Group to support their development activity.

CTL is a borrowing vehicle, it enters into loan arrangements and hedging activities on behalf of the Group, on-lending funds to Clarion Housing Association Limited ("the Association").

It also obtains funding indirectly from the capital markets through intercompany treasury vehicles: Circle Anglia Social Housing Plc, Circle Anglia Social Housing 2 Plc and Clarion Funding Plc ("CFP").

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 in a number of ways:

1. Security arrangements are in place whereby all borrowings and hedging liabilities of CTL are guaranteed by the Association which also provides security for these funding arrangements through fixed charges over its properties.
2. CTL takes comfort from the strong investment-grade credit ratings of Clarion Housing Group assigned by Moody's Investors Service (A3 with a negative outlook) and S&P Global Ratings (A- with a stable outlook).

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

Review of the Year

Key Performance Indicators

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

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

During the year the company took the decision to simplify and restructure some of its external debt. The company has agreed with its counterparties to exclude the associated breakage costs from its 2022/23 covenant calculation. The covenants were all met throughout the year regardless of whether breakage costs were excluded or not.

STRATEGIC REPORT (CONTINUED)

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

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

Statement of Financial Position

As at the reporting date, the company's notional borrowings totalled £3,963.3 million, an increase of £59.6 million (2022: £3,903.7 million). These notional borrowings consist of amounts due to Group undertakings as well as external debt:

- amounts due to Group undertakings predominantly originate from funding sourced indirectly from the debt capital markets through other Clarion treasury vehicles. At the reporting date, the notional amount borrowed in this manner stood at £2,535.0 million (2022: £2,535.0 million). This includes £1,750.0 million (2022: £1,750.0 million) of notes issued by CFP through the Group's Euro Medium Term Note ("EMTN") programme. 98% (2022: 98%) of this intercompany debt is fixed. The proceeds are collected by the other treasury vehicles and on-lent to the Association via CTL with the interest due flowing in the opposite direction; and
- the notional value of the company's external borrowings at the reporting date stood at £1,428.3 million (2022: £1,368.7 million). 60% of this debt is fixed through SONIA interest rate swaps (2022: 66% fixed through a mixture of fixed-rate borrowings and SONIA interest rate swaps).

The book value of the company's debt at the reporting date differs from the notional amounts above as a result of accounting adjustments for issue costs, premiums and discounts, as well as a fixed-rate liability which is accounted for at fair value through profit or loss. At the reporting date, these adjustments reduce the book value of the company's debt by £25.0 million (2022: £29.2 million).

In order to manage interest rate risk, CTL uses a mixture of fixed-rate borrowings and SONIA interest rate swaps to fix between 70% and 100% of interest payments across the Group. Hedge accounting is used where appropriate in order to manage the accounting effect of these swaps.

The notional value of swaps held at the reporting date totals £956.6 million (2022: £884.9 million). As part of the project to restructure some of its external debt, CTL entered into four new swaps during the year, with a total notional value of £173.0 million (2022: no new swaps). This was partly offset by the exercising of a £50.0 million swap option during the year.

At 31 March 2023, the net fair value of the company's derivative portfolio is £80.7 million (2022: £211.1 million), a reduction of £130.4 million. £92.1 million (2022: £70.4 million) of this movement has been recognised within Other Comprehensive Income as a result of the company's hedge accounting arrangements and £38.4 million (2022: £33.3 million) has been recognised within the company's Income Statement for fair value movements in derivatives not hedged at an entity level, derivatives treated as fair value hedging instruments and ineffective movement on cash flow hedging instruments. The effect of this accounting treatment is all "on-lent" to the Association.

As at 31 March 2023 the Group had an uncharged security pool with an estimated value of £1,411.1 million (2022: £1,276.2 million) with a further £2,883.6 million (2022: £1,862.4 million) of assets charged but unallocated in a security trust numerical apportionment arrangement. Additionally, £101.2 million of cash was deposited as security (2022: £108.1 million). The security pool value has increased following a revision to valuation methodology.

Statement of Comprehensive Income

Profit for the year was £nil (2022: £nil). This position is in line with the company's role as a special purpose funding vehicle for the Group, with all interest and breakage costs payable or receivable passed through to the Association.

As noted previously, the company took the decision to restructure some of its external debt during the year in order to simplify the overall portfolio and reduce reporting complexity. £173 million of fixed rate debt at historically high interest rates was changed to floating rate debt, and in order to manage the resultant interest rate risk the same amount was re-fixed at current market rates using interest rate swaps. As the fixed rate debt was held at legacy high rates of interest, this resulted in £37.6 million of breakage costs in the year; it will, however, result in an interest saving in future years. Largely as a result of these breakage costs, net interest cost payable for the year has increased to £194.3 million (2022: £150.4 million) and the weighted average interest cost of interest incurred during the year increased to 4.95% (2022: 3.89%). Excluding these breakage costs, the weighted average interest rate incurred during the year would be 3.98%. The remaining £6 million increase is a result of an increase in payments to group undertakings, passing through to the Association the impact of increased SONIA rates on the variable element of the private placement held in CASH2, EMTN issuances in CFP issued in 2022 that were held for a full year in 2023 and increased income received from cash collateral held in CTL that is paid to the Association.

Other Events

On 18 June 2022, Clarion Housing Group was subject to a cyber security incident. We rapidly engaged the services of our cyber security partner and other external experts to help bring our systems back in a safe and secure way. Restoration of our systems concluded during the financial year. A forensic investigation into the incident has been completed and the Group is in the process of implementing its recommendations.

The Group's treasury contingency plans operated effectively and the incident did not have any impact on the financial performance reported in this set of financial statements. Due to our accounting systems being offline for a period of time during the investigation, waivers were received from banks for the first two quarter's compliance reporting. In practice, compliance reporting fully resumed from quarter two and there were no material operational impacts.

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

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

Tom Smyth
Chair
6 July 2023

REPORT OF THE BOARD

Board statement on the effectiveness of the system of internal control for the period ending 31 March 2023

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 routinely self-examines performance against;
- 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. 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;

- 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;
- 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; and
- Annual internal controls assessment of how well systems of governance, internal control and risk management practices are operating across Clarion.

Continuous improvement

We continually keep our internal control framework under review. Further work is being undertaken to identify, prioritise and make key enhancements to service delivery and make positive impacts for both customers and colleagues. Furthermore, we have an ongoing programme of work to heighten our cyber resilience and 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.

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 2023. A report has been made to the respective Boards on the effectiveness of the control systems in place and they would be made aware of 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

No significant 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 2023 and up to the date of approval of the financial statements.

Going Concern

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

Directors

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

Directors' and Officers' Liability

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

REPORT OF THE BOARD (CONTINUED)

Dividends

No dividend was paid during the year and none is proposed (2022: £nil).

Charitable and Political Contributions

The company made no charitable contributions during the year (2022: £nil) and no political contributions (2022: £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

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

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

Tom Smyth
Chair
6 July 2023

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

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

Company law requires the Board to prepare financial statements for each financial year. Under that law the Board has elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the Board must not approve the financial statements unless it is satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless it either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The Board is responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable the Board to ensure that the financial statements comply with the Companies Act 2006. The Board is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

Opinion

We have audited the financial statements of Clarion Treasury Limited ("the Company") for the year ended 31 March 2023 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2023 and of its results for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Board have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the Board's conclusions, we considered the inherent risks to the Company's business model and analyzed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the 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.

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.

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 the Board, the Audit and Risk Committee, and internal audit as to whether they have knowledge of any actual, suspected or alleged fraud;
- reading Board and Audit and Risk Committee meeting minutes; and
- using analytical procedures to identify any unusual or unexpected relationships.

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

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, 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.

We did not identify any additional fraud risks.

In determining the audit procedures, we took into account the results of our evaluation and testing of the operating effectiveness of the fraud risk management controls.

We performed procedures including:

- We performed the procedures on identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included journal entries posted to unusual account combinations.
- assessing significant accounting estimates for bias.

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 who have delegated responsibility for the day-to-day management of the Company (as required by auditing standards).

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.

Firstly, the company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies' legislation), distributable profits legislations, 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.

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety and data protection laws.

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 noncompliance with all laws and regulations.

Report of the Board

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Board's responsibilities

As explained more fully in their statement set out on page 10, the 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 inan auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee thatan 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 takenon the basis of the financial statements.

www.frc.org.uk/auditorsresponsibilities.

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

19 July 2023

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2023

	Notes	**2023** **£'000**	2022 £'000
Interest receivable	5	**194,266**	150,381
Interest payable and financing costs	6	**(194,266)**	(150,381)
Movement in fair value of financial instruments	7	**-**	-
Result on ordinary activities before taxation	8	**-**	-
Tax charge on result on ordinary activities	9	**-**	-
Result for the year		**-**	-
Movement in fair value of financial instruments	7	**-**	-
Total comprehensive income for the year		**-**	-

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

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2023

	Notes	**2023** **£'000**	2022 £'000
Current assets			
Debtors: amounts falling due within one year	10	**73,457**	70,590
Debtors: amounts falling due after more than one year	10	**4,013,138**	4,108,611
Current asset investments	11	**101,157**	108,078
Cash at bank and in hand		-	-
		4,187,752	4,287,279
Current liabilities			
Creditors: amounts falling due within one year	12	**(174,437)**	(178,491)
Net current assets		**4,013,315**	4,108,788
Creditors: amounts falling due after more than one year	13	**(4,013,138)**	(4,108,611)
Net assets		**177**	177
Capital and reserves			
Share capital	16	-	-
Cash flow hedge reserve		-	-
Profit and loss account		**177**	177
Equity shareholder's funds		**177**	177

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

Tom Smyth
Chair
6 July 2023

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2023

	Share capital £'000	Cash flow hedge reserve £'000	Profit and loss account £'000	Total equity £'000
At 1 April 2021	-	-	177	177
Result for the year ending 31 March 2022	-	-	-	-
Movement in cash flow hedge reserve due to hedged derivatives		71,111		
Intercompany movement in cash flow hedge reserve due to hedged derivatives		(71,111)		
At 31 March 2022	-	-	177	177
Result for the year ending 31 March 2023	-	-	-	-
Movement in cash flow hedge reserve due to hedged derivatives		92,727		
Intercompany movement in cash flow hedge reserve due to hedged derivatives		(92,727)		
At 31 March 2023	**-**	**-**	**177**	**177**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

1. Accounting policies

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Section 1A of FRS 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (January 2022) ("FRS 102") and the Companies Act 2006.

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

Basis of preparation

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

Going concern

In accordance with its role as the Group's borrowing vehicle, and 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 twelve months from the date of approval of the financial statements. Thus it continues to adopt the going concern basis in preparing the annual financial statements.

Current high inflation and the cost of living crisis, as well as the long-term impact from Covid-19 have presented challenges for the company. The Board has considered their impact on the company and actions have been put in place to manage these risks and the Board considers these risks to be sufficiently mitigated.

Disclosure exemptions

The company has taken advantage of the exemptions in Section 1A of 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.

Foreign currencies

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

Value Added Tax (VAT)

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

1. Accounting policies (continued)

Impairment

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

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

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

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

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

Impairment relating to debtors is included in financing costs.

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, such as breakage costs, 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

1. Accounting policies (continued)

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 2023 (CONTINUED)

1. Accounting policies (continued)

Non-derivative financial instruments

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

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

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

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

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

i. it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

ii. its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

i. it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

ii. its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

1. Accounting policies (continued)

Derivative financial instruments and hedge accounting

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

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

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

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

b. cash flow hedges when hedging exposure to variability in cash flows that 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.

Accounting for fair value hedges:

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

Accounting for cash flow hedges:

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

1. Accounting policies (continued)

Derivative financial instruments and hedge accounting (continued)

Interest rate benchmark reform

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

Fair value:

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

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

a. where they exist, quoted market prices in an active market for an identical asset or liability; or

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (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.

1 The fair value of derivative financial instruments.

At the reporting date, the company has a £80.7 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 2.60% to 4.55%. Decreasing this curve by 100 basis points would increase the net liability by £73.9 million.

Note: as the company's derivatives are on-lent to Clarion Housing Association Limited, all of the in-year impact of any change would be offset by a corresponding intercompany gain/loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

3. Employees

The company does not directly employ any staff but instead makes use of the employees of Clarion Housing Association Limited, who then includes a proportion of the cost of these employees in the management recharge to the company. There was no management recharge in either the current or prior year.

4. Key management personnel

Key management personnel is defined as the members of the Board.

Amounts disclosed 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 receivable in respect of membership of Group committees.

Remuneration by director was as follows:	**2023** **£**	2022 £
Tom Smyth	**22,500**	22,500
Kwok Liu	**9,000**	9,000
Aruna Mehta	**6,361**	10,000
Maxim Sinclair	**9,000**	9,000
	46,861	50,500

The remaining Board members (Mark Hattersley and Clare Miller) did not specifically receive remuneration in respect of their services to the company during the year (2022: £nil). They are employees of Clarion Housing Association Limited and are remunerated by that entity (see note 3).

5. Interest receivable

	2023 **£'000**	2022 £'000
Interest receivable from Group undertakings	**191,797**	150,121
Interest receivable on investments	**2,469**	260
	194,266	150,381

Included in 'Interest Receivable from Group undertakings' is £37.6 million (2022: nil) in respect of breakage costs which have been recharged.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

6. Interest payable and financing costs

	2023 £'000	2022 £'000
Interest payable on loans	**48,983**	27,611
Interest payable on derivatives	**16,636**	34,884
Interest payable to Group undertakings	**87,242**	81,891
Loan breakage costs	**37,575**	-
Other charges	**3,830**	5,995
	194,266	150,381

7. Movement in fair value of financial instruments

Included in income and expenditure	2023 £'000	2022 £'000
Fair value gains on		
Borrowings treated as fair value hedging item	**11,942**	9,066
Derivatives treated as cash flow hedging instruments - ineffective	**287**	4,113
Derivatives not in hedging relationships	**49,946**	38,245
On-lending of derivatives to Clarion Housing Association Limited	**12,546**	9,761
	74,721	61,185
Fair value losses on		
Derivatives treated as fair value hedging instruments	**(11,881)**	(9,096)
Amortisation of cash flow hedge reserve relating to a prematured derivative	**(665)**	(665)
On-lending of derivatives to Clarion Housing Association Limited	**(62,175)**	(51,424)
	(74,721)	(61,185)
	-	-

Included in other comprehensive income	2023 £'000	2022 £'000
Derivatives treated as cash flow hedging instruments - effective	**92,062**	70,446
Amortisation of cash flow hedge reserve relating to a prematured derivative	**665**	665
On-lending of derivatives to Clarion Housing Association Limited	**(92,727)**	(71,111)
	-	-

8. Result on ordinary activities before taxation

Auditors' remuneration was expensed in the accounts of Clarion Housing Group Limited and no audit or non-audit fees were recharged to the company.

9. Taxation

Analysis of charge in period	**2023 £'000**	2022 £'000
<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% (2022: equal to 19%), the rate of corporation tax in the UK:

Reconciliation of tax recognised in profit and loss	**2023 £'000**	2022 £'000
Result on ordinary activities before taxation	-	-
Tax at 19% (2022: 19%)	-	-

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

10. Debtors

Amounts falling due within one year	**2023 £'000**	2022 £'000
Amounts due from Group undertakings: loans	**41,277**	36,796
Amounts due from Group undertakings: derivatives	**115**	-
Amounts due from Group undertakings: interest	**30,470**	30,388
Prepayments and accrued income	**173**	1,006
Amounts due from Group undertakings: other	**1,422**	2,400
	73,457	70,590

Amounts falling due after more than one year		
Amounts due from Group undertakings: loans	**3,928,595**	3,881,567
Derivative financial assets	**1,999**	7,984
Amounts due from Group undertakings: derivatives	**82,544**	219,060
	4,013,138	4,108,611

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

11. Current asset investments

	2023	2022
	£'000	£'000
Collateral deposits	**101,157**	108,078

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

12. Creditors: amounts falling due within one year

	2023	2022
	£'000	£'000
Bank loans (see note 14)	**39,835**	35,404
Amounts due to Group undertakings: loans	**102,599**	109,470
Trade creditors	**80**	23
Derivative financial liabilities	**115**	-
Interest creditor	**4,415**	5,844
Amounts due to Group undertakings: interest	**26,228**	25,550
Other accruals and deferred income	**1,162**	2,059
Amounts due to Group undertakings: other	**3**	141
	174,437	178,491

13. Creditors: amounts falling due after one year

	2023	2022
	£'000	£'000
Bank loans (see note 14)	**1,363,527**	1,304,078
Amounts due to Group undertakings: loans	**2,565,068**	2,577,489
Derivative financial liabilities	**82,544**	219,060
Amounts due to Group undertakings: derivatives	**1,999**	7,984
	4,013,138	4,108,611

14. Debt analysis

Bank loans are repayable as follows:	2023 £'000	2022 £'000
Notional amounts drawn		
Due within one year	**42,979**	39,847
Between one and two years	**43,979**	38,729
Between two and five years	**193,534**	154,295
After five years	**1,147,845**	1,135,814
	1,428,337	1,368,685
Accounting adjustments	**(24,975)**	(29,203)
	1,403,362	1,339,482

The book value of the company's bank loans differs from the notional amounts as a result of accounting adjustments for issue costs and fair values on recognition. £3.2 million (2022: £4.4 million) of these accounting adjustments are included in Bank loans due within one year (see note 12) and £21.8 million (2022: £24.8 million) in Bank loans due after one year (see note 13).

All of the above loans are drawn from total committed bank facilities of £2,370.2 million (2022: £2,366.6 million) provided by various banks and other institutions and are repayable at various dates through to 2046. Under the facilities, the loans are secured by fixed charges over the completed housing properties of the Association, as well as a guarantee and indemnity.

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

- £635 million from Circle Anglia Social Housing Plc ("CASH"): £275 million bond issued in November 2008, tapped in November 2010 for an additional £110 million, and a £250 million bond issued in March 2012;

- £150 million from Circle Anglia Social Housing 2 Plc ("CASH2"): two private placements - £100 million fixed-rate and £50 million floating-rate - both issued in November 2015; and

- £1,750 million from Clarion Funding plc ("CFP"): Euro Medium Term Note ("EMTN") issues and taps which started with a £250 million issue in April 2018, and most recently a £300 million issue in September 2021.

To manage the Group's exposure to market risk, the £100 million fixed-rate private placement through CASH2 is hedged for fair value variability through the use of an interest-rate swap. In line with IFRS9, changes in the fair value in respect of the hedged risk of this private placement are recognised immediately. In the current year, the fair value in respect of the hedged risk of this private placement was £89.0 million (2022: £101.0 million).

Interest was payable at rates varying between 0.67% and 9.92% (2022: 0.28% and 9.92%). Largely as a result of breakage costs related to the decision to simplify and restructure some of its external debt, the weighted average cost of interest incurred during the year to 31 March 2023 increased to 4.95% (2022: 3.89%). Excluding breakage costs, the weighted average cost for interest incurred in the year is 3.98%.

14. Debt analysis (continued)

Group debt analysis

The majority of the Group's borrowings are arranged and structured through the company, Affinity Sutton Funding Limited ("ASFL"), and their respective subsidiaries (together, the "Group Funding Vehicles"), which provide funds to other Group members as required.

At 31 March 2023, the Group has committed notional facilities of £5,413 million (2022: £5,450.0 million). Borrowings through the Group Funding Vehicles amounted to a notional £4,463.3 million (2022: £4,403.7 million), which includes the company's bank loans, the amounts relating to CASH, CASH2 and CFP, as well as £500 million for bonds issued through Affinity Sutton Capital Markets PLC, a subsidiary of ASFL.

Repayment of loans received from Group Funding Vehicles follow the long-term debt repayment profile of the Group Funding Vehicles. Of the committed facilities available to the Group as at 31 March 2023, the earliest facility maturity is 3 years (2022: one year) and the weighted average expiry period is 14.5 years (2022: 15.4 years).

The Group's current weighted average interest rate for general borrowings at 31st March is 3.96% (2022: 3.64%).

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

As at 31 March 2023, the Group's main security pool was valued at £7,338.9 million (2022: £7,078.9 million), based on standard security valuation methodologies. Of this, £4,505.3 million (2022: £5,216.5 million) was allocated to the Group's funders and derivative counterparties as security against loan facilities and out-of-the-money derivative positions. This left £2,883.6 million (2022: £1,862.4 million) as charged unallocated security within the security pool. Cash collateral is also used as a form of security, with £101.2 million in use at year-end (2022: £108.1 million).

As part of the Group's risk management policy a certain amount of excess security is allocated to funders to provide headroom against unfavourable movements in interest rates and property values. As at 31 March 2023, £345.1 million of the £4,505.3 million total allocated was to protect against such adverse movements (2022: £280.7 million of the £5,216.5 million total allocated).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

15. Financial instruments

Risks

The Group must manage exposure to the following risks which may arise from financial instruments:
A. Credit risk
B. Liquidity risk
C. Currency risk
D. Market risk

This note presents information about the company'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.

A. Credit risk

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

External credit risk

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

External exposures	**2023 £'000**	2022 £'000
Cash and cash equivalents – collateral	**101,157**	108,078
Derivative financial assets	**1,999**	7,984
Undrawn committed loan facilities	**941,895**	997,950
	1,045,051	1,114,012

For accounting purposes, the collateral is shown as current asset investments.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

15. Financial instruments (continued)

The company held cash and cash equivalents of £nil at 31 March 2023 (2022: £nil). The company held collateral cash and cash equivalents of £101.2 million at 31 March 2023 (31 March 2022: £108.1 million), which collateralised the counterparties' exposures to Clarion Treasury Limited. These represent its maximum credit exposure on these assets.

Internal credit risk

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

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

	2023	2022
Internal exposures	**£'000**	£'000
Amounts due from Group undertakings: loans	**3,969,872**	3,918,363
Amounts due from Group undertakings: derivatives	**82,659**	219,060
Amounts due from Group undertakings: interest	**30,470**	30,388
Amounts due from Group undertakings: other	**1,422**	2,400
	4,084,423	4,170,211

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.

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

15. Financial instruments (continued)

Derivatives

Derivatives are entered into with bank counterparties which have long term credit ratings of at least A3 (Moody's), A- (Standard & Poor's) or A- (Fitch), with the lowest rating being taken. Currently Clarion Treasury Limited has one legacy derivative in place with a counterparty which has been downgraded to BBB+ with Fitch. Given the implications of novating this derivative an exemption to policy has been authorised; this position remains under constant review.

One of the ISDA agreements supports two-way collateral requirements. Six of the ISDA Credit Support Annex's (CSA's) allow for the use of property and cash security whilst one only allows the use of cash.

2023

	Number	**Net threshold £'000**	**Margin call £'000**	**Property collateral £'000**	**Cash collateral £'000**
Property and cash ISDA agreement	6	43,000	45,337	184,722	-
Cash-only ISDA agreement	1	-	46	-	1,157
	7	**43,000**	**45,383**	**184,722**	**1,157**

2022

	Number	Net threshold £'000	Margin call £'000	Property collateral £'000	Cash collateral £'000
Property and cash ISDA agreement	6	43,000	183,242	260,971	-
Cash-only ISDA agreement	1	-	7,718	-	8,078
	7	43,000	190,960	260,971	8,078

Guarantees

The company's policy is to limit the use of financial guarantees. At 31 March 2023 the company had £nil of bank-issued guarantees outstanding (2022: £nil).

B. Liquidity risk

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

The Group's policy is at all times to hold sufficient liquidity (liquidity defined as immediately available undrawn committed credit facilities and cash) to cover the Group's requirements over the next 18 months. The Group liquidity position at 31 March 2023 was £1,017.2 million (2022: £1,122.2 million) which is made up of £75.3 million (2022: £124.2 million) of operational cash and £941.9 million (2022: £998.0 million) of undrawn bank revolving credit facilities.

The Group targets an operational cash balance of £60 million, subject to maintaining an absolute minimum balance of £30 million at all times.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

15. Financial instruments (continued)

Cash flows relating to borrowings

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

2023	**Loans at amortised cost £'000**	**Interest on loans at amortised cost £'000**	**Interest on derivative financial instruments £'000**	**Total £'000**
Due within one year	42,979	77,514	3,062	**123,555**
Between one and two years	43,979	72,406	4,748	**121,133**
Between two and five years	193,534	194,095	28,611	**416,240**
Due after five years	1,147,845	494,129	77,235	**1,719,209**
	1,428,337	**838,144**	**113,656**	**2,380,137**

2022	Loans at amortised cost £'000	Interest on loans at amortised cost £'000	Interest on derivative financial instruments £'000	2022 Total £'000
Due within one year	39,847	45,106	20,835	105,788
Between one and two years	38,729	45,576	14,274	98,579
Between two and five years	154,295	135,745	50,912	340,952
Due after five years	1,135,814	367,349	167,413	1,670,576
	1,368,685	593;776	253,434	2,215,895

C. Exposure to currency risk

The company does not hold any financial instruments denominated in a foreign currency, and so is not exposed to foreign currency risk.

D. Exposure to 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 still ensuring optimal returns within those parameters.

The company enters into derivative transactions, incurs financial liabilities, and places cash deposits, in order to manage market risks. All transactions are carried out within the guidelines set by the Treasury Policy approved by the Group Board. The Group applies hedge accounting where appropriate in order to manage volatility in the Statement of Comprehensive Income.

Interest rate risk

The Group adopts a strategy to manage its exposure to fluctuations in interest rates with a view to achieving some certainty over net interest costs. The current approved strategy for the Group is to have between 70% and 100% of its net interest rate exposure on a fixed rate or otherwise hedged basis. Clarion Treasury Limited enters into and designates interest rate swaps as hedges of the variability in cash flows attributable to interest rate risk on behalf of the Group.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

15. Financial instruments (continued)

Profile

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

2023	**Fixed debt £'000**	**Interest rate swaps: pay fixed £'000**	**Interest rate swaps: receive fixed £'000**	**Group Total £'000**
Due within one year	113,386	901	2,161	**116,448**
Between one and two years	113,261	2,276	2,472	**118,009**
Between two and five years	331,615	23,655	4,956	**360,226**
Due after five years	1,343,533	73,739	3,496	**1,420,768**
	1,901,795	**100,571**	**13,085**	**2,015,451**

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

Fair value sensitivity analysis for fixed rate instruments

The company 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. Movements in the fair value of the swap are also through profit and loss, partially offsetting the movements in the fair value of the liability. A change in interest rates at the end of the reporting period would affect the fair values of both instruments and therefore profit and loss.

Notional value	**2023 £'000**	2022 £'000
Fair value hedges	**100,000**	100,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

15. Financial instruments (continued)

Cash flow sensitivity analysis for variable rate instruments

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

	2023	2022
	£'000	£'000
Fair value as a result of 100 basis point increase	**(6,774)**	(121,811)
Impact of 100 basis point increase	**73,886**	89,265
Fair value	**(80,660)**	(211,076)
Impact of 100 basis point decrease	**(73,886)**	(89,265)
Fair value as a result of 100 basis point decrease	**(154,546)**	(300,341)

Derivative assets and liabilities

Derivatives held within the Group portfolio are held by Clarion Treasury Limited and then on-lent to the Association. There are two classes of derivative used to manage interest-rate risk within the entity.

A fair value derivative hedges the fair value movements of the £100 million fixed-rate private placement in issuance from CASH2. The company has elected to apply hedge accounting as appropriate to the fair value hedge derivative currently held.

Cash flow derivatives hedge the required cash flows of the Group's variable debt. The company has elected to apply hedge accounting to the majority of 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 within Clarion Treasury Limited, as the effective gains and losses are passed on to the Association (along with the gains and losses due to ineffectiveness).

The gains and losses due to both the effectiveness and ineffectiveness of these hedging relationships are shown as a fair value movement (see note 7).

In November 2016, Affinity Sutton Group Limited merged with Circle Anglia Limited to form Clarion Housing Group and this resulted in Affinity Sutton Funding Limited transferring the derivatives it held to the company. At the reporting date, the fair value of derivative financial liabilities totals £80.7 million (2022: £211.1 million), of which £28.2 million (2022: £78.2 million) relates to these transferred derivatives. Although hedge accounting is applied to these derivatives at a Group level, the company does not apply hedge accounting, and so the fair value movement is accounted for in profit and loss. This profit and and loss is then "on-lent" to the Association so that there is no net fair value movement in the company.

In May 2020, the company entered into a new hedge and sold a 2-year swaption with identical terms and conditions as the hedge. Combined, these instruments formed a callable swap and this was not hedge accounted. The swaption was exercised in May 2022.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

15. Financial instruments (continued)

In March 2023, the company entered into 4 new cash flow derivatives with a total notional of £173 million. The company has elected to apply hedge accounting to these new derivatives.

	2023	2022
	£'000	£'000
Derivative financial assets	**1,999**	7,984
Derivative financial liabilities	**(82,659)**	(219,060)
Net derivative financial instruments	**(80,660)**	(211,076)
Amounts due from Group undertakings: derivatives	**82,659**	219,060
Amounts due to Group undertakings: derivatives	**(1,999)**	(7,984)
	80,660	211,076
	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

15. 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:

2023	**Fair value**		
	Asset	**Liability**	**Notional**
	£'000	**£'000**	**£'000**
Swaption			
After five years	-	-	-
	-	-	-
Interest rate swaps			
Due within one year	-	(115)	(26,100)
Between one and two years	-	-	-
Between two and three years	-	-	-
Between three and five years	793	-	(53,000)
After five years	1,206	(82,544)	(877,520)
	1,999	**(82,659)**	**(956,620)**
	1,999	**(82,659)**	**(956,620)**

2022	Fair value		
	Asset	Liability	Notional
	£'000	£'000	£'000
Swaption			
After five years	-	(7,009)	(50,000)
Interest rate swaps			
Due within one year			
Between one and two years	-	(1,481)	(26,300)
Between two and three years			
Between three and five years			
After five years	7,984	(210,570)	(808,570)
	7,984	(212,051)	(834,870)
	7,984	(219,060)	(884,870)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

15. Financial instruments (continued)

Fair values versus book values

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

2023	**Loans and receivables or payables £'000**	**Hedging instruments at fair value £'000**	**Trading £'000**	**Total Book value £'000**	**Fair value £'000**
Financial assets					
Amounts due from Group: loans	3,969,872	-	-	**3,969,872**	**3,321,573**
Derivative financial assets	-	1,999	-	**1,999**	**1,999**
Amounts due from Group: derivatives	-	82,659	-	**82,659**	**82,659**
Other debtors	32,065	-	-	**32,065**	**32,065**
Cash and cash equivalents – collateral	-	-	101,157	**101,157**	**101,157**
	4,001,937	**84,658**	**101,157**	**4,187,752**	**3,539,453**
Financial liabilities					
Bank loans	(1,403,362)	-	-	**(1,403,362)**	**(1,370,897)**
Amounts due to Group: loans	(2,667,667)	-	-	**(2,667,667)**	**(1,950,676)**
Derivative financial laibilities	-	(82,659)	-	**(82,659)**	**(82,659)**
Amounts due to Group: derivatives	-	(1,999)	-	**(1,999)**	**(1,999)**
Other creditors	(31,888)	-	-	**(31,888)**	**(31,888)**
	(4,102,917)	**(84,658)**	**-**	**(4,187,575)**	**(3,438,119)**

2022	Loans and receivables or payables £'000	Hedging instruments at fair value £'000	Trading £'000	Book value £'000	Fair value £'000
Financial assets					
Amounts due from Group: loans	3,918,363	-	-	3,918,363	3,895,927
Derivative financial assets	-	7,984	-	7,984	7,984
Amounts due from Group: derivatives	-	219,060	-	219,060	219,060
Other debtors	33,794	-	-	33,794	33,794
Cash and cash equivalents – collateral	-	-	108,078	108,078	108,078
	3,952,157	227,044	108,078	4,287,279	4,264,843
Financial liabilities					
Bank loans	(1,339,482)	-	-	(1,339,482)	(1,319,427)
Amounts due to Group: loans	(2,686,959)	-	-	(2,686,959)	(2,576,500)
Derivative financial laibilities	-	(219,060)	-	(219,060)	(219,060)
Amounts due to Group: derivatives	-	(7,984)	-	(7,984)	(7,984)
Other creditors	(33,617)	-	-	(33,617)	(33,617)
	(4,060,058)	(227,044)	-	(4,287,102)	(4,156,588)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

15. 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:

	2023	2022
Derivatives	**2.60% to 4.55%**	0.69% to 2.01%

Fair value hierarchy

Derivative financial instruments are held at fair value. All fair values are classified as Level 2 (as defined by the fair value hierarchy contained within IFRS 13) and are consistent with those applied during the year ended 31 March 2023.

Derivative asset/(liability)	Level 2 2023 £'000	Level 2 2022 £'000
Treated as fair value hedging instruments	(10,957)	924
Treated as cash flow hedging instruments	(41,550)	(133,900)
Not in hedging relationships	(28,153)	(71,091)
Swaption	-	(7,009)
	(80,660)	(211,076)

Fair value measurement

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

Capital management

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

16. Share capital

	2023 £	2022 £
Allotted, called up and fully paid:		
Ordinary shares of £1 each	**100**	100

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

17. 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, fair values in respective of intra-Group derivative contracts, unpaid 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.

18. 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.