

Clarion Funding PLC

**Annual Report and Financial Statements
For the year ended 31 March 2021**

Companies House No. 10922187

CONTENTS

Board and Advisers	3
Strategic Report	4-8
Report of the Board	9-11
Statement of Board's Responsibilities In Respect of the Strategic Report, the Report of the Board and the Financial Statements	12
Independent Auditor's Report to the Members of Clarion Funding PLC	13-17
Statement of Comprehensive Income	18
Statement of Financial Position	19
Statement of Changes in Equity	20
Notes to the Financial Statements	21-27

BOARD AND ADVISERS

Board

Mark Hattersley (Chair, appointed 20 January 2021)
Clare Miller

Gareth Francis (resigned 19 January 2021)

Company Secretary

Louise Hyde

Registered Office

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

Principal Solicitors

Devonshires Solicitors LLP
30 Finsbury Circus
London
EC2M 7DT

Allen & Overy LLP
One Bishops Square
London
E1 6AD

Bankers

Natwest Bank PLC
143 High Street
Bromley
Kent
BR1 1JH

Auditors

KPMG LLP
15 Canada Square
London
E14 5GL

STRATEGIC REPORT

Clarion Funding PLC ("CFP"), registered company no. 10922187, presents its annual report and audited financial statements for the year ended 31 March 2021.

Principal Activities

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

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

Principal Risks and Uncertainties

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

This risk is mitigated in a number of ways:

- First, CFP on-lends funding to CTL under a secured loan agreement, which is backed by housing assets of the Association as well as a guarantee from the Association of all CTL liabilities to CFP under the loan agreement. If there are any payments which are not made to CFP (or if CTL is in breach of its loan agreement with CFP), then CFP can enforce the security under the loan;
- Second, as evidenced by the Group's investment grade credit ratings from Moody's Investor Service and S&P Global Ratings, the financial performance of the guarantor is deemed to be strong, as is its capacity to meet interest and principal payments as it falls due.

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

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

Brexit

The Group has been managing risks arising from the British government's deal on Brexit including supply chain concerns, exposure to market sales and managing risks around its funding requirements. The Group has relatively low commercial exposure and has some protection from downturns because of the counter-cyclical nature of its rented properties. During the year the Group also raised £450 million of new capital market funding, and has secured additional revolving bank facilities, in order to maintain high levels of liquidity in excess of its medium-term cash flow implied requirements.

The Audit and Risk Committee has reviewed the Business's preparation and response to Brexit, including its regular stress tests of the business plan. Those stress tests show that the Group's strong financial position means it is well placed to withstand any potential fall-out from Brexit as it further unfolds.

STRATEGIC REPORT (CONTINUED)

Covid-19

In March 2020, major restrictions in activity were implemented by the British government in response to the Covid-19 crisis. The restrictions have continued in varying forms over the year and remain an area of on-going uncertainty.

The Group actively manages risks associated with downturns in income and many of the mitigations in place for Brexit are also being utilised for Covid-19. The Group Executive and Group Board has updated business plans for the organisation after adjustment for the impacts of Covid-19 in terms of development activity and predicted cash flows.

Operationally, the Group has been able to continue functioning due to modern working practices and, after an initial period of service disruption, is now focussed on returning to normal service levels and recovering backlogs. In fact the Group ended the year outperforming its Covid-19 revised outlook. The financial position of the organisation continues to be strong and the availability of high liquidity allows the Group to be confident of absorbing further shocks associated with lower economic activity.

Building safety and zero carbon emission

Following the Grenfell Tower fire in June 2017, the Group has undertaken a detailed review of all the fire risks in its housing portfolio and remediated all ACM cladding risks in its high-rise buildings. Nevertheless, new guidance and regulation on fire and building safety is regularly issued, which might lead to increased fire risk and building safety assessments and costs.

In addition to increased building safety, the UK has announced new carbon emission targets, setting it on the path to zero carbon emissions by 2050. In order to comply with this new target, the Group may need to make a substantial investment in the energy efficiency of its housing properties.

In its updated business plans, the Group has planned for potential higher investments in fire and building safety and in energy efficiency. It considers it is financially robust to absorb these future costs.

Section 172 statement

S172(1) of the Companies Act requires Directors of a company to act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, taking into account:

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

The Company is a 100% owned subsidiary of Clarion Housing Group Limited- a registered provider of social housing. When fulfilling responsibilities in accordance with S172 the Directors have regard to what is in the best interests of the Company and what is in the best interests of the Group.

STRATEGIC REPORT (CONTINUED)

<p>Consequences of decisions</p>	<p>The Board promotes a strong culture of governance within the Company. Through the Group's Treasury Management Function, the Board pursues optimum performance within parameters agreed by the Treasury Committee and within the contractual obligations covenanted in funding arrangements. Long-term sustainability of the Group is one of the cornerstones in the regulation of the Group and is embedded in the Group's Long Range Plan and Corporate Strategy that includes the activity of its treasury vehicles and related covenant compliance. Detail of the Group's Corporate Strategy can be found on the Clarion Group website - www.clarionhg.com</p>
<p>Employees</p>	<p>The company does not directly employ any staff but instead makes use of the employees of the Clarion Housing Group. The Group and its subsidiaries are committed to ensuring people enjoy working with us, in an inclusive environment where they can thrive and fulfil potential.</p>
<p>Business relationships</p>	<p>The Company's key stakeholders are its investors and regulatory bodies. The Directors, through the Group's Treasury Management Function, manage the principal risks facing the Company by engaging with and fostering a successful business relationship with these key stakeholders. Engagement has included:</p> <ul style="list-style-type: none"> • Investor roadshows • Quarterly RNS investor updates • Dedicated investor webpage on the Clarion website • Interim and annual reporting • Regular meetings with regulatory bodies. • Completion of returns and surveys to regulatory bodies. <p>The outcome from engagement on the Group's strategic, financial and non-financial plans are a key driver for decision making and help shape the Group's Investment Strategy and Treasury Management Policy.</p> <p>The Company has entered into back-to-back loan agreements with its relevant Group members.</p>
<p>Community and environment</p>	<p>Our commitment is underpinned by our mission, values and embedded within our Corporate Strategy. We work alongside our residents and our partners to create and sustain communities where people can thrive.</p> <p>Sustainability permeates our entire approach and is centred on making our homes and communities fit for the future. We are redefining investor value to benefit society. Our reputation of being a respected and ethical organisation that delivers for people and their communities makes us an attractive proposition for investors looking for more than just a financial return. This is illustrated by the success of our sustainable bond issue to fund the development of new affordable energy efficient homes. We have also taken out a sustainability linked loan where the interest rate will be discounted as long as we reach certain ESG targets which relate to the social value generated by our supply chain and the number of apprentices on our construction sites.</p>

STRATEGIC REPORT (CONTINUED)

<p>High standard of conduct</p>	<p>The Company adopts the values and culture of the Group in its decision making process.</p> <p>Clarion Housing Group is regulated by the Regulator of Social Housing, promoting a culture of financial responsibility and corporate governance. In December 2020 the Regulator reaffirmed our highest possible rating of G1/V1 for governance and financial viability.</p> <p>For 2020/21, the Group adopted the NHF Code of Governance 2015. The Group routinely self-examines performance against the main requirements of the Code and regularly reviews its effectiveness.</p> <p>The Board of Clarion Housing Group Limited is the ultimate governing body for the Group and is committed to the highest standards of business ethics and conduct, and seeks to maintain these standards across all of its operations. The Group Chief Executive and executive directors of subsidiaries annually review the Group's internal control and assurance arrangements.</p>
<p>Act fairly between members</p>	<p>The Company is a wholly owned subsidiary of Clarion Housing Group Limited. We encourage honest conversations between staff and managers at all levels, and through these conversations we work together even more effectively.</p>

Review of the Year

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

- That sufficient security is in place.

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

CFP has made £1,450 million of bond issuances and note issuances (often referred to as a "tap") on the capital markets through its EMTN programme:

- On 19 April 2018, a £250 million, 30 year, fixed-rate bond with a coupon of 3.125% due 2048;
- On 18 January 2019, a £250 million, 10 year, fixed-rate bond with a coupon of 2.625% due 2029;
- On 23 July 2019, a further issue of notes from the 3.125% bond series due 2048 of £100 million;
- On 22 January 2020, a £350 million, 15 year, fixed-rate bond with a coupon of 1.875% due 2035;
- On 18 February 2020, a further issue of notes from the 2.625% bond series due 2029 of £50 million;

£1,000 million of funding in prior years continues to be on-lent to CTL via a secured loan.

- On 30 July 2020, a further issue of notes from the 3.125% bond series due 2048 of £100 million;
- On 13 November 2020, a £300 million, 12 year, fixed-rate bond with a coupon of 1.250% due 2032; and
- On 18 January 2021, a further issue of notes from the 3.125% bond series due 2048 of £50 million.

£450 million of funding has been raised in the current financial year and has also been on-lent to CTL via a secured loan.

STRATEGIC REPORT (CONTINUED)

Interest receivable and interest payable for the year were both £28.9 million (2020: £18.4 million), and the Company produced a result of £nil (2020: £nil). This break-even result is in line with the Company's role as a special purpose funding vehicle which does not seek to generate significant financial returns.

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

Mark Hattersley
Chair
6 July 2021

REPORT OF THE BOARD

The Group's System of Internal Controls Responsibility

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

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

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

- Corporate governance arrangements;
- Written Group-wide financial regulations and delegated authorities, which were subject to review during the year;
- Policies and procedures for all key areas of the business. These are reviewed periodically to ensure their continued appropriateness;
- A Group-wide Internal Audit function, structured to deliver the Audit and Risk Committee's risk-based audit plan. As well as having an in-house team, the Group uses the services of professional firms of auditors and other specialists as necessary. All audit reports are reviewed by the Audit and Risk Committee, which also receives updates on the implementation of agreed external and internal audit recommendations. Detailed reports on the Group's and subsidiaries' activities are also presented to senior managers so that recommendations for strengthened controls and improvement can be implemented promptly;
- A Group-wide Health and Safety function;
- Management structures providing balance and focus within the Group;
- A Group-wide risk management process, which enables management to manage risk so that residual risk, after appropriate mitigation, can be absorbed without serious permanent damage to the Group or its subsidiaries. This includes a formal risk management approach to new business and major development initiatives and action plans to mitigate the worst effects of the risks. Risk management is considered at each Audit and Risk Committee meeting, through reviews of individual risk areas and/or risk maps, as well as considered regularly by the Board;
- The Group and its subsidiaries have annual budgets and long-term business plans. Throughout the year, Boards and managers regularly monitored performance against budgets, value for money and other quality indicators. An important tool in this process is the Group's Balanced Scorecard which identifies performance against key performance indicators, underpinned by supporting performance indicators and management information;
- Regulatory requirements and service objectives with managers ensuring that variances are investigated and acted upon;
- An anti-fraud and anti-bribery culture which is supported by a policy and procedure for dealing with suspected fraud, bribery and whistleblowing. The Group has participated in the 2020/21 National Fraud Initiative, sponsored by the Cabinet Office;
- All housing investment decisions and major commitments were subject to appraisal and approval by the Investment Committee and, when appropriate, the Group Executive Team and the relevant Board, in accordance with the Group's financial regulations; and
- A Group-wide treasury management function reporting at least three times a year to the Treasury Committee.

REPORT OF THE BOARD (CONTINUED)

We have kept our internal control framework under review as the current Covid-19 situation develops and adapted and strengthened controls as required.

The Group Chief Executive and executive directors of subsidiaries 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 2021 and up to the date of approval of the Annual Report and the Financial Statements. The Audit and Risk Committee and the Group Board have expressed their satisfaction with these arrangements.

Status

No weaknesses were found in internal controls which resulted in material losses, contingencies or uncertainties that require disclosure in the financial statements, for the year ended 31 March 2021 and up to the date of approval of the financial statements.

Going Concern

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

Directors

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

Directors' and Officers' Liability

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

Dividends

No dividend was paid during the year and none is proposed (2020: £nil).

Charitable and Political Contributions

The Company made no charitable contributions during the year (2020: £nil) and no political contributions (2020: £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.

REPORT OF THE BOARD (CONTINUED)

Auditor

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

Mark Hattersley
Chair
6 July 2021

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CLARION FUNDING PLC

1. Our opinion is unmodified

We have audited the financial statements of Clarion Funding Plc ("the Company") for the year ended 31 March 2021 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2021 and of its result for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors on 7 February 2018. The period of total uninterrupted engagement is for the 4 financial years ended 31 March 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

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

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter (unchanged from 2020) in arriving at our audit opinion above, together with our key audit procedures to address this matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

Recoverability of Long Term Debtors

Debtors (amounts falling due in more than one year) £1,484m (2020: £1,003m)

Refer to page 4 for the Strategic Report, pages 21 to 23 for the accounting policy and page 25 for the financial disclosures.

The risk – low risk high value

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

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

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

Whilst financial income and financial expenses are recognised during the loan period, the risk mainly stems from the ability of the Association to repay the loan principal in 8, 11, 14 and 27 years.

Our response

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

Our procedures included:

- i. **Tests of detail:** Assessing 100% of intercompany long term debtors owed by the Association through the immediate Parent (2020: 100%) to identify, with reference to the Association's draft balance sheet, whether they have a positive net asset value and therefore coverage of the debt owed.
- ii. **Assessment of Association:** Assessing the work performed by the Group audit team, and considering the results of that work, on those net assets. This included assessment of the fair value headroom available on those net assets, and therefore the ability of the Association to fund repayment of the receivable. We critically assessed the Board's going concern assessment, including the reasonableness of the key assumptions used by the Group in its cash flow forecasts and the level of downside sensitivities applied using our knowledge of Covid-19 scenarios being applied by other entities.

Our results

We found the Company's assessment of the recoverability of the long term debtor balance to be acceptable (2020 result: acceptable).

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

Clarion Funding Plc is part of a Group headed by Clarion Housing Group Limited. Materiality of £7m (2020: £4.1m), as communicated by the Group audit team, has been applied to the audit of the Company. This is lower than the materiality we otherwise have determined by reference to total assets, and represents 0.5% of the Company's total assets (2020: 0.4%).

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

Performance materiality was set at 75% (2020: 75%) of materiality for the financial statements as a whole, which equates to £5.3m (2020: £3.1m).

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

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

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

4. Going concern

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

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

In our evaluation of the Board's conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Company's available financial resources over this period was:

- Recoverability of long term debtors

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

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

Our conclusions based on this work:

- we consider that the Board's use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Board's assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 to be acceptable.

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

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

Identifying and responding to risks of material misstatement due to fraud

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

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

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

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

We did not identify any additional fraud risks.

We performed procedures including the identification of journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation.

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

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

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

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

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

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

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

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

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

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

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

6. We have nothing to report on the strategic report and the Report of the Board

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

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

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

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

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

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

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

We have nothing to report in these respects.

8. Respective responsibilities

Board's responsibilities

As explained more fully in their statement set out on page 12, the Board is responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

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

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

13 July 2021

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2021

	Notes	2021 £'000	2020 £'000
Interest receivable	4	28,884	18,447
Interest payable and financing costs	5	(28,884)	(18,447)
Result on ordinary activities before taxation	6	-	-
Tax charge on result on ordinary activities	7	-	-
Result for the year		-	-

All operations are continuing.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2021

	Notes	2021 £'000	2020 £'000
Current assets			
Debtors: amounts falling due within one year	8	12,323	8,534
Debtors: amounts falling due after more than one year	8	1,483,612	1,003,033
Cash at bank and in hand		12	12
		<u>1,495,947</u>	<u>1,011,579</u>
Current liabilities			
Creditors: amounts falling due within one year	9	(12,323)	(8,534)
		<u>1,483,624</u>	<u>1,003,045</u>
Net current assets			
Creditors: amounts falling due after more than one year	10	(1,483,574)	(1,002,995)
Net assets		<u>50</u>	<u>50</u>
Capital and reserves			
Share capital	11	50	50
Profit and loss account		-	-
Equity shareholder's funds		<u>50</u>	<u>50</u>

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

Mark Hattersley
Chair
6 July 2021

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2021

	Share capital £'000	Profit and loss account £'000	Total equity £'000
At 1 April 2019	50	-	50
Result for the year ending 31 March 2020	-	-	-
At 31 March 2020	50	-	50
Result for the year ending 31 March 2021	-	-	-
At 31 March 2021	50	-	50

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

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

Basis of preparation

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

Going concern

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

The worldwide pandemic due to Covid-19 has presented challenges for the company. The Board has considered the impact of the pandemic on the company and actions have been put in place to manage these risks and the Board considers these risks to be sufficiently mitigated. Consequently it continues to adopt the going concern basis of accounting in preparing the annual financial statements.

Segmental reporting

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

Disclosure exemptions

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

- a. the requirement to present a statement of cash flows and related notes; and
- b. financial instrument disclosures, including: categories of financial instruments; items of income, expense, gains or losses in respect of financial instruments; and, exposure to, and management of, financial risks.

Value Added Tax (VAT)

The company is not registered for VAT.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (CONTINUED)

1. Accounting policies (continued)

Impairment

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

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

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

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

Interest receivable, interest payable and financing costs

Interest receivable is only recognised to the extent that it is probable that it will be recoverable when due.

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

Transaction costs relating to the refinancing of existing debt are expensed as incurred unless there is a substantial modification of the terms.

Corporation tax

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

Deferred tax is provided for in full on differences between the treatment of certain items for taxation and accounting purposes, unless the company is able to control the reversal of the timing difference and it is probable that the timing difference will not reverse in the foreseeable future. Deferred tax is calculated using the tax rates and laws which have been enacted (given Royal Assent) or substantively enacted (passed by the House of Commons, or under the Provisional Collection of Taxes Act 1968) by the reporting date and are expected to apply to the reversal of the timing difference.

With the exception of changes arising on the initial recognition of a business combination, the tax charge(/credit) is presented either in the Income Statement, Other Comprehensive Income or equity depending on the transaction that resulted in the tax charge(/credit).

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax assets and liabilities are offset only where allowed by FRS 102, and likewise they are not discounted.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (CONTINUED)

1. Accounting policies (continued)

Financial instruments

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

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

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

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

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

- i. it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- ii. its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- i. it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- ii. its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (CONTINUED)

2. Significant judgements and accounting estimates**Significant judgements**

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

Accounting estimates

The nature of estimation means that actual outcomes could differ from the estimates made. No accounting estimates have been made which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities - and therefore the income and expenses recognised - within the next financial year.

3. Directors' remuneration

Gareth Francis, Mark Hattersley and Clare Miller are, or were, employees of Clarion Housing Group Limited or Clarion Housing Association Limited and are, or were, representatives of those entities. Their remuneration is disclosed there as appropriate.

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

4. Interest receivable

	2021	2020
	£'000	£'000
Interest receivable from Group undertakings	28,884	18,447

5. Interest payable and financing costs

	2021	2020
	£'000	£'000
Interest payable on bonds	28,678	18,283
Other charges	206	164
	28,884	18,447

6. Result on ordinary activities before taxation

Auditors' remuneration has been expensed in the accounts of Clarion Housing Group Limited and not charged to Clarion Funding PLC; £36,000 of auditors' remuneration relating to assurance work over the EMTN programme has been included in other charges (see note 5) and recharged to CTL (2020: £70,000). There are no staff employed by the company and hence no staff costs.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (CONTINUED)

7. Taxation

	2021 £'000	2020 £'000
Analysis of charge in period		
<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% (2020: equal to 19%), the rate of corporation tax in the UK:

	2021 £'000	2020 £'000
Reconciliation of tax recognised in profit and loss		
Result on ordinary activities before taxation	-	-
Tax at 19% (2020: 19%)	-	-

Increasing the rate of UK corporation tax to 25% from 1 April 2023 was not yet substantively enacted by the reporting date.

8. Debtors

	2021 £'000	2020 £'000
Amounts falling due within one year		
Amounts due from Group undertakings: loans	845	166
Amounts due from Group undertakings: trading	11,478	8,368
	12,323	8,534
Amounts falling due after one year		
Amounts due from Group undertakings: loans	1,483,574	1,002,879
Amounts due from Group undertakings: trading	38	38
Prepayments and accrued income	-	116
	1,483,612	1,003,033

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

Prepayments and accrued income include prepayments for bond issuance costs on notes to be issued. As these costs relate to notes which are expected to be of long-term maturity, the fees balance is presented as long-term.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (CONTINUED)

9. Creditors: amounts falling due within one year

	2021 £'000	2020 £'000
Bonds	845	166
Trade creditors	42	247
Accruals and deferred income	129	43
Interest payable and financing costs	<u>11,307</u>	<u>8,078</u>
	<u><u>12,323</u></u>	<u><u>8,534</u></u>

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

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

	2021 £'000	2020 £'000
Bonds are repayable on the dates specified:		
Series Issue: 19/04/2048 3.125% (notional £250m)	246,035	245,940
Series Issue: 19/04/2048 3.125% (notional £100m) 2nd Issue	107,253	107,442
Series Issue: 19/04/2048 3.125% (notional £100m) 3rd Issue	120,632	-
Series Issue: 19/04/2048 3.125% (notional £50m) 4th Issue	63,929	-
Series Issue: 18/01/2029 2.625% (notional £250m)	247,844	247,559
Series Issue: 18/01/2029 2.625% (notional £50m) 2nd Issue	53,445	53,921
Series Issue: 22/01/2035 1.875% (notional £350m)	348,252	348,133
Series Issue: 13/11/2032 1.250% (notional £300m) - annual coupon	296,184	-
	<u><u>1,483,574</u></u>	<u><u>1,002,995</u></u>

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

Bonds are secured on properties held by the Association.

The fair value of the company's long term borrowing is £1,536.5 million (2020: £1,038.4 million).

11. Share capital

	2021 £'000	2020 £'000
Shares of £1 allotted, issued and fully paid		
At the beginning and the end of the year	<u><u>50</u></u>	<u><u>50</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (CONTINUED)

12. Related Party Disclosures

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

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

No other related party transactions require disclosure.

13. Immediate and ultimate parent undertaking

The company's immediate and ultimate parent undertaking is Clarion Housing Group Limited, a registered society under the Co-operative and Community Benefit Societies Act 2014 and which is regulated by the Regulator of Social Housing. Clarion Housing Group Limited's registered office is Level 6, 6 More London Place, Tooley Street, London, SE1 2DA. Group accounts have been prepared by Clarion Housing Group Limited and are available from www.clarionhg.com.