

Clarion Funding PLC

**Annual Report and Financial Statements
For the year ended 31 March 2020**

Companies House No. 10922187

CONTENTS

| | |
|--|-------|
| Board and Advisers | 3 |
| Strategic Report | 4-5 |
| Report of the Board | 6-8 |
| Statement of Board's Responsibilities In Respect of the Strategic Report, the Report of the Board and the Financial Statements | 9 |
| Independent Auditor's Report to the Members of Clarion Funding PLC | 10-13 |
| Statement of Comprehensive Income | 14 |
| Statement of Financial Position | 15 |
| Statement of Changes in Equity | 16 |
| Notes to the Financial Statements | 17-23 |

BOARD AND ADVISERS

Board

Gareth Francis (Chair)
Clare Miller

Company Secretary

Louise Hyde

Registered Office

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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 2020.

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 potential risks arising from 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 down-turns because of the counter-cyclical nature of rented stock. During the year the Group also raised £500 million of new capital market funding, and secured an additional £200 million of 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 for Brexit, including its regular stress-tests of the business plan. Those stress tests showed that the Group's strong financial position means it is well placed to withstand the shocks of any Brexit scenario.

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 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. 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.

The Group Executive and Group Board has reviewed updated Business Plans for the organisation after adjustment for the expected impacts of Covid-19 in terms of development activity and predicted cash flows. The Financial Position of the Group continues to be strong and the availability of high liquidity allows the Group to be confident of absorbing the shocks associated with lower economic activity.

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's financial performance relates to three bond issuances and two further 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; and
- On 18 February 2020, a further issue of notes from the 2.625% bond series due 2029 of £50 million.

This £1,000 million of funding has been on-lent to CTL via a secured loan.

Interest receivable and interest payable for the year were both £18.4 million (2019: £9.1 million), and the company produced a result of £nil (2019: £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.



Gareth Francis
Chair
9 July 2020

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 2018/19 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 2020 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 2020 and up to the date of approval of the financial statements.

Going Concern

After reviewing CFP's strategic business planning and control procedures, the Board has a reasonable expectation that it has adequate resources to continue operating for the long term (i.e. at least three years) 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 (2019: £nil).

Charitable and Political Contributions

The company made no charitable contributions during the year (2019: £nil) and no political contributions (2019: £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.

A handwritten signature in black ink that reads "G. Francis". The signature is written in a cursive, slightly slanted style.

Gareth Francis
Chair
9 July 2020

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 2020 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 2020 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 three financial years ended 31 March 2020. 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 judgment, 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 matters (unchanged from 2019), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were 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 these matters.

Recoverability of Long Term Debtors

Long Term Debtors (amounts falling due in more than one year) £1,003m (2019: £492m)

Refer to page 4 for the Strategic Report, page 17 to 19 for the accounting policy and page 21 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 to the Parent. 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 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 there are small amounts of financial income and financial expense during the loan period, the risk mainly stems from the expectation of the ability of the Group to repay the loans in 9, 15 and 28 years.

Our response

Our procedures included:

- i. **Tests of detail:** Assessing 100% of intercompany long term debtors owed by the Group (2019: 100%) to identify, with reference to the Housing Association's financial draft balance sheet, whether they have a positive net asset value and therefore coverage of the debt owed.
- ii. **Assessing the performance of the Group:** 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 Group to fund repayment of the receivable. We critically assessed the directors' going concern assessment, including the reasonableness of the key assumptions used by the Group in their 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 (2019 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 £4.1m (2019: £2.4m), as communicated by the Group audit team, has been applied to the audit of the Company.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.6m, 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 all completed remotely.

4. We have nothing to report on going concern

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

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. 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 absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

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

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information 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 other information.

Strategic report and directors' report

Based solely on our work on the other information:

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

6. 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.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 9, the Directors are 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 other irregularities (see below), 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, other irregularities 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.

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

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

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors (as required by auditing standards) and discussed with the directors the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those 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.

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 (irregularities) 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 irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. 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

15 July 2020

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2020

| | Notes | 2020 £'000 | 2019 £'000 |
|--|-------|-----------------|---------------|
| Interest receivable | 4 | 18,447 | 9,085 |
| Interest payable and financing costs | 5 | (18,447) | (9,085) |
| 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 2020

| | Notes | 2020 £'000 | 2019 £'000 |
|--|-------|------------------|----------------|
| Current assets | | | |
| Debtors: amounts falling due within one year | 8 | 8,534 | 5,225 |
| Debtors: amounts falling due after more than one year | 8 | 1,003,033 | 492,483 |
| Cash at bank and in hand | | 12 | 12 |
| | | <u>1,011,579</u> | <u>497,720</u> |
| Current liabilities | | | |
| Creditors: amounts falling due within one year | 9 | (8,534) | (5,225) |
| | | <u>1,003,045</u> | <u>492,495</u> |
| Net current assets | | | |
| Creditors: amounts falling due after more than one year | 10 | (1,002,995) | (492,445) |
| 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:



Gareth Francis
Chair
9 July 2020

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2020

| | Share capital £'000 | Profit and loss account £'000 | Total equity £'000 |
|--|---------------------------|--|--------------------------|
| At 1 April 2018 | 50 | - | 50 |
| Result for the year ending 31 March 2019 | - | - | - |
| At 31 March 2019 | 50 | - | 50 |
| Result for the year ending 31 March 2020 | - | - | - |
| At 31 March 2020 | 50 | - | 50 |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

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 has adequate resources to continue in operational existence for 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.

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 consider these risks to be sufficiently mitigated.

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 2020 (CONTINUED)

1. Accounting policies (continued)

Impairment

Loss allowances for trade receivables 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, with the exception that the impairment of goodwill

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

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 2020 (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 2020 (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 and Clare Miller are employees of Clarion Housing Group Limited or Clarion Housing Association Limited and are 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

| | 2020 | 2019 |
|---|---------------|-------|
| | £'000 | £'000 |
| Interest receivable from Group undertakings | 18,447 | 9,085 |

5. Interest payable and financing costs

| | 2020 | 2019 |
|---------------------------|---------------|-------|
| | £'000 | £'000 |
| Interest payable on bonds | 18,283 | 9,085 |
| Other charges | 164 | - |
| | 18,447 | 9,085 |

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; £70,000 of auditors' remuneration relating to assurance work over the EMTN programme has been included in other charges (see note 5) and recharged to CTL (2019: £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 2020 (CONTINUED)

7. Taxation

| | 2020 £'000 | 2019 £'000 |
|--------------------------------------|---------------|---------------|
| Analysis of charge in period | | |
| <u>Current tax:</u> | | |
| Current tax on income for the period | - | - |
| | <u>-</u> | <u>-</u> |
| Recognised in profit and loss | - | - |
| | <u>-</u> | <u>-</u> |

The company's tax charge for the period is equal to 19% (2019: equal to 19%), the rate of corporation tax in the UK:

| | 2020 £'000 | 2019 £'000 |
|--|---------------|---------------|
| Reconciliation of tax recognised in profit and loss | | |
| Result on ordinary activities before taxation | - | - |
| | <u>-</u> | <u>-</u> |
| Tax at 19% (2019: 19%) | - | - |
| | <u>-</u> | <u>-</u> |

Maintaining the rate of UK corporation tax at 19% from 1 April 2020 was substantively enacted by the reporting date.

8. Debtors

| | 2020 £'000 | 2019 £'000 |
|--|------------------|----------------|
| Amounts falling due within one year | | |
| Amounts due from Group undertakings: loans | 166 | 324 |
| Amounts due from Group undertakings: trading | 8,368 | 4,901 |
| | <u>8,534</u> | <u>5,225</u> |
| Amounts falling due after one year | | |
| Amounts due from Group undertakings: loans | 1,002,879 | 492,279 |
| Amounts due from Group undertakings: trading | 38 | 38 |
| Prepayments and accrued income | 116 | 166 |
| | <u>1,003,033</u> | <u>492,483</u> |

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 relate to bond issuance costs on notes to be issued. As these costs will relate to notes which are expected to be of long-term maturity, the fees balance is presented as long

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

9. Creditors: amounts falling due within one year

| | 2020 £'000 | 2019 £'000 |
|--------------------------------------|---------------|---------------|
| Bonds | 166 | 324 |
| Trade creditors | 247 | - |
| Accruals and deferred income | 43 | - |
| Interest payable and financing costs | 8,078 | 4,901 |
| | <u>8,534</u> | <u>5,225</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

| | 2020 £'000 | 2019 £'000 |
|--|------------------|----------------|
| Bonds are repayable on the dates specified: | | |
| Series Issue: 19/04/2048 3.125% (notional £250m) | 245,940 | 245,594 |
| Series Issue: 19/04/2048 3.125% (notional £100m) 2nd Issue | 107,442 | - |
| Series Issue: 18/01/2029 2.625% (notional £250m) | 247,559 | 246,851 |
| Series Issue: 18/01/2029 2.625% (notional £50m) 2nd Issue | 53,921 | - |
| Series Issue: 22/01/2035 1.875% (notional £350m) | 348,133 | - |
| | <u>1,002,995</u> | <u>492,445</u> |

All bond issuances have semi-annual coupons.

Bonds are secured on properties held by the Association.

The fair value of the company's long term borrowing is £1,038.4 million (2019: £514.5 million).

11. Share capital

| | 2020 £'000 | 2019 £'000 |
|---|---------------|---------------|
| Shares of £1 allotted, issued and fully paid | | |
| At the beginning and the end of the year | <u>50</u> | <u>50</u> |

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

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

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.