EMH Treasury PLC

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2021

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COMPANY INFORMATION

FOR THE YEAR ENDED 31 MARCH 2021

Board of Directors	
	Chan Kataria
	Andrew Kilby (retired March 2021)
	David Russell
Secretary:	**Joanne Tilley**
Auditor:	**KPMG LLP**
	One Snowhill
	Snow Hill Queensway
	Birmingham
	B4 6GH
Banker:	**Barclays Bank PLC**
Registered Head Office:	**Memorial House**
	Whitwick Business Park
	Stenson Road
	Coalville
	Leicestershire
	LE67 4JP

Registered under the Companies Act 2006
Company Number 8727722

STRATEGIC REPORT

FOR THE YEAR ENDED 31 MARCH 2021

The Directors are pleased to present the strategic report of EMH Treasury plc ("The Company") for the year ended 31 March 2021.

Principal Objective

The principal objective of the company is to ensure that funds are raised through the capital markets in accordance with the requirements of the parent company.

Principal Activities

The Company was set up in October 2013 with the principal activity to act as the capital markets issuance vehicle for East Midlands Housing Group Limited.

On 27 January 2014, the Company successfully completed its first own name bond issue. The £200 million 30-year Sterling bond with a maturity date of January 2044 was priced at 4.596% and demonstrated the strong credit rating of East Midlands Housing Group Limited.

EMH Treasury plc on lends all of its proceeds from capital market transactions to EMH Housing & Regeneration Limited, a fellow subsidiary of East Midlands Housing Group Limited, under a separate loan agreement. The underlying assets used to secure the issuance belong to EMH Housing & Regeneration Limited and are secured through a Security Trust arrangement with Prudential Trustee Company Limited.

All of the Company costs relating to providing funding services are billed to EMH Housing & Regeneration Limited.

Business Review

The proceeds of the bond were used by EMH Housing & Regeneration Limited to refinance existing bank debt and fund their development programme.

The bond issue was originally assigned an AA minus rating by Standard & Poors'; this was derived from the AA minus rating assigned to the East Midlands Housing Group Limited which acted as guarantor to the transaction. In 2016, Standard & Poors' downgraded their unsolicited sovereign credit rating on the United Kingdom from AAA to AA following the results of the referendum on the UK's membership of the EU. As a result, the one notch uplift previously factored into the Group's credit rating for extraordinary government support was removed, lowering the credit rating of both the Group and the long-term issue rating on the £200 million bond to A+.

Standard & Poor's have since reviewed and reaffirmed this rating several times and confirmed the rating of A+ for both the Group and the long-term bond issue in early 2021. They stated that "We affirmed our A+ rating on EMH because of its strength of strategy, management, liquidity coverage and limited exposure to market-related sales activities compared with peers. We think that the group's financial performance will be affected by increased capitalised repairs but S&P Global Ratings adjusted EBITDA will remain above 30% of revenue. Debt will remain moderate, albeit rising over the forecast period".

The bond is secured by a mixed portfolio of social housing which was independently valued. The properties were valued either as Existing Use Value subject to Tenancies (EUV-SH) or Market Value subject to Tenancies (MV-T). The asset cover required was 105% using EUV-SH or 115% using MV-T. This is the only covenant on the borrowing.

Business Review (continued)

East Midlands Housing Group achieved total surplus of £16.1 million for the year ended 31 March 2021 (2020: £21.7m).

The bond included £50m retained element which was sold for £53.3m in January 2016.

Financial Review

Interest receivable for the year was £9.3m (2020: £9.3m).

The company made a profit before tax of £196k in the year (2020: £199k). Interest is charged to EMH Housing & Regeneration Limited at a fixed rate of interest on the full amount of funds on-lent. emh Treasury therefore made a small profit due the difference in interest received and interest paid and from the amortisation of the bond premium which is systematically released to income over the life of the bond.

Financial Instruments and Risks

- **Financial risk management objectives and policies**
  The Group operates a risk management programme that aims to limit the potentially adverse impact of changes in the wider economy as well as sector specific risks. The risk management programme includes the activities of the Company.

- **Credit Risk**
  The only credit risk to the Company is the on-lending to EMH Housing & Regeneration Limited. The credit risk is mitigated through the housing assets used as security for the loan, this is supported by the contractual protection of the loan agreement as well as the overall credit worthiness of the Group. There is also a guarantee from the group parent, East Midlands Housing Group Limited, whose credit rating of A+ with a stable outlook from Standard & Poor's was reaffirmed in early 2021.

- **Liquidity Risk**
  The Company lends the full amount of the proceeds of the bond; thus, the entity has assets to fully offset liabilities and interest receivable to offset interest payable.

- **Cash flow Risk**
  In order to ensure the stability of cash outflows the company has a policy of matching interest payable on its borrowing with interest receivable on loan debtors. At 31 March 2021, 100% of the Company's debt was on fixed rate terms. The Company does not use derivative financial instruments to manage interest rate costs.

Key Performance Indicators

As the Group funding vehicle there are no specific key performance indicators. The Company is expected to achieve at least a break-even position.

Health and Safety

The ultimate parent company, East Midlands Housing Group Limited, ensures the responsibilities of the Company under Health and Safety legislation are met.

Going Concern

The Directors have prepared cash flow forecasts covering a period of 30 years from the date of approval of these financial statements which indicate that, taking account of severe but plausible downsides, the Company will have sufficient funds to meet its liabilities as they fall due for that period. In order to settle its own financial obligations and meet the compliance requirements of its external borrowings the Company is dependent on EMH Housing & Regeneration Limited, generating sufficient cashflows to settle the payments of principal and interest on the onward loan of the funding which the Company raised. Those forecasts are dependent on EMH Housing & Regeneration Limited having adequate resources to continue in business for the foreseeable future.

In making this assessment the Directors have considered the potential impact of the emergence and spread of COVID-19.

As well as considering the impact of a number of scenarios on the business plan the Board also adopted a stress testing framework to use four main types of sensitivity testing against the base plan. The stress testing impacts were measured against loan covenants and peak borrowing levels compared to agreed facilities, with potential mitigating actions identified to reduce expenditure. Following the outbreak of Covid-19 the Group has undertaken a series of further scenario testing including severe but plausible downsides in the worst-case assessment.

The board, after reviewing the group and company budgets for 2021/22 and the group's medium-term financial position as detailed in the 30-year business plan including changes arising from the Covid-19 pandemic, is of the opinion that, taking account of severe but plausible downsides, the group and company have adequate resources to continue in business for the foreseeable future. In order to reach this conclusion, the Board have considered:

- the property market – budget and business plan scenarios have taken account of delays in handovers, lower numbers of property sales, reductions in sales values and potential conversion of market sale to social homes;
- Maintenance costs – budget and business plan scenarios have been modelled to take account of cost increases and delays in maintenance expenditure, with major works being phased into future years;
- Rent and service charge receivable – arrears and bad debts have been increased to allow for customer difficulties in making payments and budget and business plan scenarios to take account of potential future reductions in rents;
- Liquidity – current available cash and unutilised loan facilities of £190m which give significant headroom for any cash flows that arise;
- The group's ability to withstand other adverse scenarios such as higher interest rates and number of void properties.

The board believe the group and company has sufficient funding in place and expect the group to be in compliance with its debt covenants even in severe but plausible downside scenarios.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Long Term Viability

The directors have also considered the long-term viability of the company, its current position and principal risks.

The principal objective and activities of the company, as set out on page 3 of this report, are to ensure that funds are raised through the capital markets in accordance with the requirements of the parent company and then on lend all of the proceeds from capital market transactions to EMH Housing & Regeneration Limited, a fellow subsidiary of East Midlands Housing Group Limited, under a separate loan agreement. The underlying assets used to secure the issuance belong to EMH Housing & Regeneration Limited and are secured through a Security Trust arrangement with Prudential Trustee Company Limited.

The principal financial, credit, liquidity and cash flow risks to the company are set out on page 4 of this report along with the management policies undertaken to mitigate these risks.

Given these conditions the key consideration of the long-term viability of the company is the business plan forecasts of the Group and in particular EMH Housing & Regeneration Limited. Detailed 30-year financial plans are prepared for both EMH Housing and Regeneration Limited and the Group as a whole and considered by the group and subsidiary boards. These plans demonstrate the ability of the group to service the debt over the period of the forecasts and have been stress tested for various scenarios.

The directors therefore have reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the long term.

Statement of Internal Controls Assurance

The Group Board is the ultimate governing body for the emh group and is committed to the highest standards of business ethics and conduct across all the operating businesses. The Group has a robust culture of internal controls. The Group's risk management and control culture is further supported by the adoption of the National Housing Federation's Code of Governance.

The Group Board has overall responsibility for ensuring that a sound and comprehensive system of internal controls exists across the group and for reviewing its effectiveness. Control systems have been designed to proactively manage, rather than eliminate the risks of failure to achieve business objectives and provide reasonable, but not absolute assurance against misstatement or loss.

The Group Chief Executive and Directors have reviewed the effectiveness of the internal control and assurance arrangements and have confirmed to the Board that they all relevant regulations, policies and procedures have been complied with during the year. The Group Audit Committee has also expressed its satisfaction with these arrangements in its review of the effectiveness of internal control systems.

By Order of the Directors

Joanne Tilley (Sep 18, 2021 09:18 GMT+1)

JOANNE TILLEY
Secretary

17 September 2021

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2021

The Directors present their report and audited financial statements of EMH Treasury plc ("The Company") for the year ended 31 March 2021.

Registration Details

EMH Treasury plc is a company limited by shares under the Companies Act 2006 (no 8727722). The company is a subsidiary of East Midlands Housing Group Limited ("The Group") and was incorporated on 10 October 2013.

Directors

The directors who held office during the year were as follows:

Chan Kataria

Andrew Kilby (retired March 2021)

David Russell

Statement as to disclosure of information to auditors

The directors who held office at the date of approval of this Directors Report confirm that, so far as they are each aware, there is no relevant information which the Company's auditors are unaware, and each director has taken steps that they ought to have taken as a director to make themselves aware of any relevant information and to establish that the Company's auditors are aware of this information.

Auditor

KPMG LLP were re-appointed as the Company's auditor for the period.

Dividends

The directors do not recommend the payment of a dividend for the period (2020: £nil)

Political and Charitable contributions

The Company made no political or charitable donations or incurred any political expenditure during the period (2020: £nil)

Corporate Governance Statement

Page 6 of the Strategic Report describes the company's internal control and risk management systems in relation to financial reporting processes about share capital structures.

By Order of the Directors

J.Tilley

Joanne Tilley (Sep 18, 2021 09:18 GMT+1)

JOANNE TILLEY
Secretary

17 September 2021

AUDIT COMMITTEE STATEMENT

FOR THE YEAR ENDED 31 MARCH 2021

The audit committee works at a Group level and discharges its responsibilities across the group for all subsidiary companies through regular meetings and consideration of risks and mitigation.

The audit committee is responsible for assessing the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor. KPMG LLP have been the Groups external auditors for several years and were reappointed in 2019/20 to provide external audit services for 4 years with an option to extend for 2 further years. KPMG LLP also provide permissible non-audit services to the Group in line with EU rules on the provision of non-audit services and as a result the committee monitors the auditor's objectivity and independence in regard to the external audit.

Significant issues considered by the committee

The committee is responsible for considering significant issues in relation to the financial statements and in addressing these issues through their regular meetings and through discussions with the external auditors. The only significant issue for the company, considered by the committee is;

The Recoverability of Long-Term Debtors.

As detailed in the Strategic Report the principal objective and activities of the company are to ensure that funds are raised through the capital markets in accordance with the requirements of the parent company and then on lend all of the proceeds from capital market transactions to EMH Housing & Regeneration Limited. This creates significant long-term inter-company debtors for the company.

In addressing the recoverability of this long-term debt, the committee considered the long-term viability of the Group and in particular EMH Housing and Regeneration Limited. As also detailed in the Strategic Report financial plans demonstrate the ability of the Group to service the debt over the period of the forecasts and the committee therefore believes the debts are recoverable. The Audit Committee has reviewed the financial plan and have not identified any issues with the long-term recoverability of the debtors.

TBrown.

Timothy Brown (Sep 18, 2021 10:49 GMT+1)

TIM BROWN
Chair – Group Audit Committee

17 September 2021

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

FOR THE YEAR ENDED 31 MARCH 2021

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have 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 directors must not approve the financial statements unless they are 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 directors are 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; and
- 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 they either intend to liquidate the company or to cease operations or have no realistic alternative but to do so.

The directors are 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 them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Joanne Tilley (Sep 18, 2021 09:18 GMT+1)

JOANNE TILLEY
Secretary

17 September 2021

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EMH TREASURY PLC

FOR THE YEAR ENDED 31 MARCH 2021

1 Our opinion is unmodified

We have audited the financial statements of EMH Treasury Plc ("the Company") for the year ended 31 March 2021 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Movements in Equity, and the related notes, including the accounting policies in note 2.

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 profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matter was as follows:

Recoverability of Amounts due from group undertakings

Amounts due from group undertakings (amounts falling due in more than one year) £201.7m (2020: £201.7m)

Refer to page 8 (audit committees report), pages 19 to 21 (accounting policies) and pages 22 to 26 (financial disclosures)

<u>The risk – low risk high value</u>

The Company's primary activity is to issue bonds, source investor financing and on-lend to the related company EMH Housing & Regeneration Limited. It therefore has long term liabilities which relate to the bonds issued and long-term intra group receivables which relate to the loans provided to the related company.

The carrying amount of the long-term intra-group debtor balance represents 99.9 % 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.

2 Key audit matters: our assessment of risks of material misstatement (continued)

Whilst there is financial income during the loan period, the risk mainly stems from the expectation of the ability of the related company to repay the loan in 23 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 group long term debtors owed by the related company (2020: 100%) to identify, with reference to the related company's financial draft balance sheet, whether they have a positive net asset value and therefore coverage of the debt owed.

ii. **Assessment of related company**: Assessing the work performed by the Group audit team, and considering the results of that work, on those net assets. We critically assessed the directors' going concern assessment, including the reasonableness of the key assumptions used by the related company 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 (2020 result: acceptable).

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

Materiality for the financial statements as a whole was set at £1.5m (2020:£1.5m), determined with reference to a benchmark of gross assets, of which it represents 0.75% (2020: 0.75%).

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% of materiality for the financial statements as a whole, which equates to £1.1m (2020:£1.1m).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £76k (2020: £76k), 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 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").

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

- Recoverability of long term debtors

We considered whether these risks 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 these risks individually and collectively.

Our procedures are also inherently linked with our key audit matter in relation to the recoverability of the long term debtor; the related company'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 considerations noted above took into account the financial forecasts of the Parent.

Our conclusions based on this work:

- we consider that the directors' 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 directors' 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 2 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, the audit committee and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and Audit Committee meeting minutes.
- Using analytical procedures to identify any usual or unexpected relationships.

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

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

We did not identify any additional fraud risks.

- We performed procedures including the identification of journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included journals posted to unusual and seldom used accounts.

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.

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

5 Fraud and breaches of laws and regulations – ability to detect (continued)

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 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 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.

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

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, 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.

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.

SBrown

Sarah Brown (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill, Snow Hill Queensway
Birmingham B4 6GH

24 September 2021

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2021

	Note	2021 £'000	2020 £'000
Interest Receivable		9,306	9,336
Interest Payable	6	(9,092)	(9,122)
Gross Profit		**214**	**214**
Other Operating Income	4	64	67
Other Operating Expenses	5	(82)	(82)
Profit on ordinary activities before tax	**7**	**196**	**199**
Tax on profit on ordinary activities	8	-	-
Total comprehensive income for the year		**196**	**199**

The results for the year are in respect of continuing activities.

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2021

	Note	2021 £'000	2020 £'000
Current Assets			
Debtors (of which £200,214k is due greater than 1 year)	9	201,697	201,721
Cash and cash equivalents		187	159
		201,884	201,880
Creditors: amounts falling due within 1 year	10	(2,510)	(2,501)
Net current assets		199,374	199,379
Creditors: amounts falling due after more than 1 year	11	(199,240)	(199,241)
Net assets		**134**	**138**
Capital and Reserves			
Called up share capital	13	12	12
Revenue reserves		122	126
Total equity		**134**	**138**

These financial statements for company registration number 8727722 were approved at a meeting of the Directors held on 17 September 2021 and signed on its behalf by:

CHANDRAKANT KATARIA Chan Kataria Director

DAVID RUSSELL D.M. Russell Professor David Russell (Sep 19, 2021 19:23 GMT+1) Director

JOANNE TILLEY J. Tilley Joanne Tilley (Sep 18, 2021 09:18 GMT+1) Secretary

EMH TREASURY PLC

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2021

	Share capital £'000	Revenue reserves £'000		Total equity £'000
Balance at 1 April 2020	12	126		138
Total comprehensive income for the period				
Profit for the year	-	196		196
Gift Aid	-	(200)		(200)
Balance at 31 March 2021	12	122	-	134
Balance at 1 April 2019	12	127		139
Total comprehensive income for the period				
Profit for the year	-	199		199
Gift Aid	-	(200)		(200)
Balance at 31 March 2020	12	126	-	138

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

1 LEGAL STATUS

EMH Treasury PLC is registered under the Companies Act 2006. The company registration number is 8727722. Its principal place of business is Memorial House, Stenson Road, Whitwick Business Park, Coalville.

2 PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("FRS 102").

The presentation currency of these financial statements is sterling. All amounts have been rounded to the nearest £1,000.

The Company's ultimate parent undertaking, East Midlands Housing Group Limited includes the company in its consolidated financial statements. The consolidated financial statements of East Midlands Housing Group are available to the public and may be obtained at www.emhgroup.org. In these financial statements, the company is considered to be a qualifying entity and has applied the exemptions available under FRS 102 in respect of the following disclosures:

Cash Flow Statement and related notes;
and
Related Parties note.

As the consolidated financial statements of East Midlands Housing Group include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instruments, in respect of financial instruments not falling within the fair value accounting rules of paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Measurement convention

The financial statements are prepared on historical cost basis.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Going concern

The Directors have prepared cash flow forecasts covering a period of 30 years from the date of approval of these financial statements which indicate that, taking account of severe but plausible downsides, the Company will have sufficient funds to meet its liabilities as they fall due for that period. In order to settle its own financial obligations and meet the compliance requirements of its external borrowings the Company is dependent on EMH Housing & Regeneration Limited, generating sufficient cashflows to settle the payments of principal and interest on the onward loan of the funding which the Company raised. Those forecasts are dependent on EMH Housing & Regeneration Limited having adequate resources to continue in business for the foreseeable future.

In making this assessment the Directors have considered the potential impact of the emergence and spread of COVID-19.

As well as considering the impact of a number of scenarios on the business plan the Board also adopted a stress testing framework to use four main types of sensitivity testing against the base plan. The stress testing impacts were measured against loan covenants and peak borrowing levels compared to agreed facilities, with potential mitigating actions identified to reduce expenditure. Following the outbreak of Covid-19 the Group has undertaken a series of further scenario testing including severe but plausible downsides in the worst case assessment.

The board, after reviewing the group and company budgets for 2021/22 and the group's medium term financial position as detailed in the 30-year business plan including changes arising from the Covid-19 pandemic, is of the opinion that, taking account of severe but plausible downsides, the group and company have adequate resources to continue in business for the foreseeable future. In order to reach this conclusion, the Board have considered:

- the property market – budget and business plan scenarios have taken account of delays in handovers, lower numbers of property sales, reductions in sales values and potential conversion of market sale to social homes;

- Maintenance costs – budget and business plan scenarios have been modelled to take account of cost increases and delays in maintenance expenditure, with major works being phased into future years;

- Rent and service charge receivable – arrears and bad debts have been increased to allow for customer difficulties in making payments and budget and business plan scenarios to take account of potential future reductions in rents;

- Liquidity – current available cash and unutilised loan facilities of £190m which give significant headroom for any cash flows that arise;

- The group's ability to withstand other adverse scenarios such as higher interest rates and number of void properties.

The board believe the group and company has sufficient funding in place and expect the group to be in compliance with its debt covenants even in severe but plausible downside scenarios.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Classification of financial instruments by the Company

In accordance with FRS102.22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

Basic financial instruments

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Turnover

The Company generated a small amount of income from interest receivable from the bank and other Group entities in the period.

Interest Payable and Receivable

Interest payable and receivable is accrued over the term of the related borrowing or loan so as to recognise the total income or cost evenly over the life of the loan or deposit.

Corporation Tax

Tax expenses comprises current tax. Current tax is recognised in profit, and is the expected tax payable or receivable on the taxable income or loss for the period, and any adjustment to tax payable in respect of previous periods.

Gift Aid

A gift aid payment is recognised as a liability at the year-end upon approval by the shareholders in the year to pay the taxable profit for the year to its parent within 9 months of the year-end. No liability is recognised to the extent that it has been paid prior to the year end.

3 DIRECTORS EMOLUMENTS AND STAFF COSTS

None of the Directors received remuneration for their services as Director of EMH Treasury plc. Those Directors who also serve on the East Midlands Housing Group Board are remunerated for their services by East Midlands Housing Group Limited.

EMH Treasury plc has no direct employees. Those employees who perform duties for EMH Treasury plc are remunerated by the parent company, East Midlands Housing Group Limited.

	2021	2020
	£'000	£'000
4 OTHER OPERATING INCOME		
Fee charges due from Group undertakings	64	67
5 OTHER OPERATING EXPENDITURE		
Fees due to external bodies	82	82

6 INTEREST PAYABLE

All interest payable related to interest paid on all other loans.

7 PROFIT ON ORDINARY ACTIVITY BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging:

	2021	2020
Auditor's remuneration:		
Audit of these financial statements	6	6

	2021	2020
	£'000	£'000

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

Total tax expense recognised in the profit and loss account, other comprehensive income and equity.

Reconciliation of effective rate

	2021 £'000	2020 £'000
Profit before taxation	196	199
Total tax expense	-	-
Tax using the UK corporation tax rate of 19% (2020 19%)	37	39
Tax credit on gift aid payment	(38)	(39)
Group relief	1	-
Current tax expense included in the profit	-	-

As at 31 March 2021 there is no liability for deferred taxation.

9 DEBTORS

	2021 £'000	2020 £'000
Amounts owed by Group undertakings	201,697	201,721
Due within one year	1,483	1,390
Due after more than one year	200,214	200,331
	201,697	201,721

10 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2021 £'000	2020 £'000
Accruals and deferred income	1,537	1,537
Amounts owed to Group undertakings	856	847
Bond premium	117	117
	2,510	2,501

	2021	2020
	£'000	£'000
11 CREDITORS: AMOUNTS FALLING DUE AFER MORE THAN ONE YEAR		
Bonds	200,000	200,000
Less deferred arrangement fees	(1,532)	(1,569)
Less issue price discount	(1,774)	(1,852)
Plus issue price premium	2,546	2,662
	199,240	199,241

Bonds

On 27 January 2014, the Company issued £200m of bonds at a specified denomination of £150m. On 8 December 2015 the retained £50m was sold. The full £200m has a fixed interest rate of 4.596% and is repayable in full on 27 January 2044.

The bonds are secured by a first fixed charge on properties owned by EMH Housing and Regeneration Limited.

12 FINANCIAL INSTRUMENTS

Fair values of financial instruments

The fair values of all financial instruments and liabilities by class together with their carrying amounts shown on the Statement of Financial Position are as follows:

	Carrying amount	Fair value
	£'000	£'000
Financial liabilities measured at amortised cost		
Other interest bearing loans and borrowing	200,000	278,760

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at a market rate of interest at the statement of financial position date if the effect is material.

EMH Treasury has no financial instruments measured at fair value so fair value hierarchy disclosure requirements do not apply. All financial assets held by the Company (loans and receivables) qualify to be held at amortised cost, therefore the requirement to disclose the effect of changing the inputs in calculation of fair values is not considered applicable.

At 31 March 2021, the fair value of the Company's long term debt was £278,760k. (2020 £277,820k).

The fair value of financial liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the statement of financial position date if the effect is material.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

12 FINANCIAL INSTRUMENTS
(CONTINUED)

Financial risk management

Risk management objectives and policies
The Treasury team is responsible for the management of funds and control of associated risks. Its activities are governed by the Group Board and the Group Treasury Committee which is responsible for all treasury issues in all group companies including EMH Treasury plc.

Credit risk
The only credit risk to the company is the on-lending to EMH Housing & Regeneration Limited. The credit risk is mitigated through the housing assets used as security for the loan, this is supported by the contractual protection of the loan agreement as well as the overall credit worthiness of the Group.

In January 2021, Standard and Poors reaffirmed our stand-alone credit rating of A+ and the rating of the bond. The outlook for the Group remains stable with the majority of its revenues from traditional sources, keeping exposure to care services and sales-related activities low.

Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due.

The company lends the full amount of the proceeds of the bond, thus the entity has assets to fully offset liabilities and interest receivable to offset interest payable.

The contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements, are in 24 years.

The debt is repayable as follows:

	2021	**2020**
	£'000	**£'000**
In five years or more	200,000	200,000

The above figure is repayable as a lump sum in 2044. Interest is charge at a fixed rate of 4.596%. The loan is secured upon housing properties owned by EMH Housing & Regeneration Limited.

Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holding financial instruments.

Interest rate risk
The Company currently borrows on a fixed rate basis from the capital market and then on-lends these funds to EMH Housing & Regeneration Limited on a similar fixed rate basis. As such the Company does not bear any interest rate risk. The Company does not have any hedging activities and it does not have any derivatives.
The interest rate on all borrowings is fixed at 4.596% until 2044.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

	2021	2020
	£'000	£'000
13 CALLED UP SHARE CAPITAL		
Allotted, issued and 25% paid		
50,000 ordinary shares of £1 each at 1 April 2020 and 31 March 2021	12	12

14 CONTINGENT LIABILITIES

There are no contingent liabilities at 31 March 2021 or 31 March 2020.

15 RELATED PARTIES

During the year emh Treasury had the following intercompany recharge transactions with regulated entities within the emh group.

	2021	2020
Interest charges to		
emh Housing & Regeneration Ltd	9,306	9,336

These interest charges are made at cost.

At the end of the year emh Treasury had the following intercompany balances with regulated entities within the emh group

	2021	2020
Debtors		
emh Housing & Regeneration Ltd	201,697	201,721
Creditors		
East Midlands Housing Group Limited	856	847

16 ULTIMATE PARENT COMPANY

The company is a subsidiary undertaking of East Midlands Housing Group, which is regarded by the Board of Management as the ultimate parent organisation of the company. The consolidated financial statements of East Midlands Housing Group are available at www.emhgroup.org.uk