

Orbit Treasury Limited

**FINANCIAL STATEMENTS**

For The Year Ended 31 March 2016

Company Registration Number 06264601

## Orbit Treasury Limited

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## Orbit Treasury Limited

### Executive Officers and Auditors

#### Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

| Name            |                              |                        |
|-----------------|------------------------------|------------------------|
| David Young     | Non-Executive Director/Chair |                        |
| Richard Berratt | Non-Executive Director       | Resigned 9 July 2016   |
| Lynn Dexter     | Non-Executive Director       | Resigned 10 March 2016 |
| Stuart Fisher   | Non-Executive Director       | Appointed 1 April 2015 |
| Lorne Williams  | Non-Executive Director       |                        |
| Dina Shah       | Non-Executive Director       | Appointed 1 April 2015 |
| Paul Tennant    | Executive Director           |                        |
| Anne Turner     | Executive Director           | Resigned 31 March 2016 |
| Suzanna Forster | Group Finance Director       | Appointed 1 April 2016 |
| Richard Wright  | Secretary                    |                        |

#### Executive Officers

The Company had no employees during the year other than Directors (2015: Nil). The Executive Officers and staff of the parent association provide services to Orbit Treasury Limited through a Service Agreement. The Executive Officers of Orbit Group Limited, the parent association, are listed in their financial statements.

|         | Independent Auditor   | Principal Solicitor                                      |
|---------|---|--|
| Address | KPMG LLP<br>One Snowhill<br>Snow Hill Queensway<br>Birmingham<br>B4 6GH | Towers and Hamlin<br>3 Bunhill Row<br>London<br>EC1Y 8YZ |

|         | Registered Office   |
|---------|---|
| Address | Garden Court<br>Harry Weston Road<br>Binley Business Park<br>Coventry<br>West Midlands<br>CV3 2SU |

## Orbit Treasury Limited

### Strategic Report

The Directors present their Strategic Report on Orbit Treasury Limited for the year ended 31 March 2016.

#### Review of the Business

Orbit Treasury Limited was set-up in September 2007 as a wholly owned subsidiary of Orbit Group Limited to provide cost-effective treasury management to the operating associations. Orbit Treasury Limited has loan agreements in place with a number of banks, building societies and other financial institutions and draws down funds to on-lend to those Orbit subsidiaries that have entered into an Intra-group loan agreement, which sets out the basis of the relationship as well as how loans will be drawn and distributed and the basis of charging and repayment.

Orbit Treasury Limited has access to all assets of these subsidiaries, which are not subject to fixed charges to other lenders as all parties have entered into a cross guarantee structure. Loans drawn are secured on properties charged to a security trustee.

Orbit Treasury Limited supports members of Orbit in our aim to make our organisation great by continuing to provide a cost-effective treasury management service. Financial performance in the year was in line with plan. The charge made to operating associations is set at a level sufficient to recover interest payable, commitment fees and treasury operational costs, resulting in a breakeven position. The average interest rate payable for the top 20 housing associations (excluding Orbit) in the year ended March 2015 was 4.59% which was 0.27% higher than Orbit Treasury's rate of 4.32%. If this benefit were to be maintained in 2016-17, with average balances of £727 million, the saving in interest cost would amount to £2 million per annum.

The Group continued to make strong progress in the implementation of its 2020 strategy and the delivery of 12,000 new homes with a significant increase in development activity during the year. In support of this strategy, Orbit Treasury Limited:

1. Commenced negotiations with all of its funders for an increase in the Debt per Unit covenant from £35k to £47.5k in order to increase funding capacity in support of the development programme. Agreement was reached with 7 funders during the year and negotiations with the 2 remaining funders were at an advanced stage at 31 March 2016. The margins and repayment profile of certain loans were re-negotiated.
2. Repaid the £12.25m Dexia loan on 31 July 2015.
3. Concluded a new £75 million 5 year revolving facility with HSBC plc.
4. Concluded an additional £50m 5 year facility with RBS bringing the total facility to £150m.

#### Treasury Policy

The Board recognises that its high degree of debt makes it important to regularly review its Treasury policy. The Treasury function operates within a framework of clearly defined Orbit Board approved policies, procedures and delegated authorities. The fundamental principle underlying the Company's approach is to treat treasury activities as a means of controlling risk rather than for profit generation. For Orbit Treasury Limited this is reflected in a Value for Money (VFM) approach to all activities undertaken in ways such as minimising loans drawn and cash held at bank, and removing and reallocating excess loan security.

The following derivative transactions are currently included in the policy – interest rate swaps, forward rate agreements, interest rate options and cap and collar transactions. In relation to derivatives, Orbit Treasury Limited:

- Currently does not have any collar arrangements
- Will not write any hedging transactions itself but will always transact derivatives from a counterparty
- May also use interest rate swaps combining options (e.g. extendible/callable/cancellable swaps)

The Mark to Market exposure on interest rate swaps is monitored at least weekly, and more frequently where necessary in response to movements in market rates. Property is used as security against adverse movements in the Mark to Market exposure and the consequent risk of cash calls. Treasury policy requires sufficient security at any time to cover the risk of a 0.5% reduction in interest rates.

Further details of Orbit's risk management framework can be found in Orbit Group Limited's financial statements which are published on the Orbit website [www.orbit.org.uk](http://www.orbit.org.uk).

## Orbit Treasury Limited

### Strategic Report

#### Financial risk management

The Company's operations expose it to a variety of financial risks. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company and Group by monitoring levels of debt finance and related finance costs. The key risks are as follows:

##### *Interest rate risk*

At 31 March 2016, 85% of the Company's debt was fixed or hedged. There is no intention to repay any term debt other than in accordance with the terms of each agreement. The Group has £151m of variable debt funding which could be exposed to rises in LIBOR rates. If LIBOR was to increase by 0.50%, then the impact would be additional interest costs of £0.8m to the Statement of Comprehensive Income. Any such costs can be recovered from the associations.

##### *Liquidity risk*

The Company actively lends the full amount of the loans it has itself borrowed, thus the entity has assets to fully offset its liabilities and interest receivable to offset its interest payable.

##### *Credit risk*

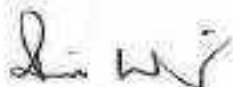
The liabilities to funders are secured by a legal charge over property assets owned by the associations with a value in excess of total borrowings. The associations have entered into a guarantee with the Company over future interest payments and the property security. The carrying amount of the funding liabilities represents the maximum value exposed to credit risk. At the end of the financial year the credit rating of A1 from Moody's remained in place.

#### Key Performance indicators (KPIs)

The performance of Orbit Treasury Limited is closely scrutinised by Orbit Group Limited, the parent company. In addition, the board receives a report each quarter comparing the actual position against internal and covenant limits for a range of key indicators including liquidity, interest cover, debt per unit, swap mark to market exposure, security and funding costs.

The Group's KPI's are included in the Operating & Financial Review Statement in the Orbit Group Financial Statements.

Approved by the Board of Directors and signed by the order of the Board:



**Richard Wright**  
Company Secretary

14 July 2016



## **Orbit Treasury Limited**

### **Directors' Report**

The Directors present their annual report on the affairs of Orbit Treasury Limited (the Company) and the audited financial statements for the year ended 31 March 2016.

### **Results and Dividends**

The operating loss for the financial year was £192k and for 2015 was a restated operating profit of £2,612k following the adoption of FRS102. The Directors do not recommend payment of a dividend. (2015: nil)

### **Charitable Donations**

There were no donations in the year. In the year ended 31 March 2015 a provision was made for a Gift Aid donation of £2,174k payable to the parent company, Orbit Group Limited.

### **Directors**

The Directors who served during the year and up to the date of signing the financial statements are shown on page 1. The Directors benefit from a qualifying third party indemnity provision indemnifying them against legal claims from third parties that has been in place throughout the financial year and up to and including the date the financial statements are signed. The Company is a wholly owned subsidiary of Orbit Group Limited.

### **Statement of Directors' responsibilities**

The Directors are responsible for preparing the Strategic Report, 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 the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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/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 accounting 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business;

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 the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Disclosure of information to auditors**

Each of the persons who is a Director at the date of approval of this report confirms that:

- (1) so far as the Director is aware, there is no relevant audit information of which the Company's auditors is unaware; and
- (2) each Director has taken all the steps he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

## **Orbit Treasury Limited**

### **Directors' Report**

#### **Going Concern**

The financial statements are prepared on a going concern basis.

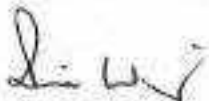
Orbit Treasury Ltd is the funding vehicle for Orbit Group. An intra group loan agreement has been entered into by all of the operating associations which provide a commitment to Orbit Treasury to pay interest on intra group loans. The group's financial plan and cash flow forecasts demonstrate there are sufficient committed facilities to meet forecast expenditure for the foreseeable future. The directors have concluded the going concern basis of preparation is appropriate to enable the Company to continue trading for at least one year from the date of signing these financial statements.

#### **Independent Auditor**

KPMG LLP were appointed as the company's auditor for the year ended 31 March 2016.

A resolution to re-appoint the auditors for external audit services will be proposed at the Annual General Meeting.

Approved by the Board of Directors and signed by the order of the Board:



**Richard Wright**  
**Company Secretary**

**14 July 2016**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ORBIT TREASURY LIMITED FOR THE YEAR ENDED 31 MARCH 2016**

We have audited the financial statements of Orbit Treasury Limited for the year ended 31 March 2016 set out on pages 7 to 21. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

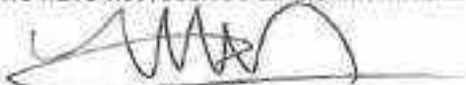
### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



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

9 August 2016



**Orbit Treasury Limited****Statement of Comprehensive Income****For the year ended 31 March 2016**

|   | <b>Notes</b> | <b>2016</b><br><b>£000</b> | <b>[Restated]</b><br><b>2015</b><br><b>£000</b> |
|---|--------------|----------------------------|---|
| <b>Turnover</b>                                     |              | <b>38,759</b>              | 36,250  |
| Cost of sales                                       |              | <b>(38,951)</b>            | (33,638)  |
| <b>Operating (Loss)/Profit</b>                      |              | <b>(192)</b>               | 2,612   |
| Interest Receivable and Similar Income              | <b>2</b>     | -                          | 75  |
| Interest Payable and Similar Charges                | <b>3</b>     | <b>(2,979)</b>             | -   |
| Movement in fair value of Financial Instruments     | <b>4</b>     | <b>(1,962)</b>             | (16,947)  |
| <b>(Loss) before Tax</b>                            |              | <b>(5,133)</b>             | (14,260)  |
| Tax on profit/(loss) on Ordinary Activities         |              | -                          | -   |
| <b>(Loss) for the Financial Year</b>                |              | <b>(5,133)</b>             | (14,260)  |
| Gift Aid  |              | -                          | (2,174)   |
| <b>Retained Loss</b>                                |              | <b>(5,133)</b>             | (16,434)  |
| <b>Other Comprehensive Income</b>                   |              |                            |   |
| Change in Fair Value of Hedged Financial Instrument |              | (6,487)                    | (44,414)  |
| <b>Total Comprehensive Income for the Year</b>      |              | <b>(11,620)</b>            | <b>(60,848)</b>                                 |

All activities derive from continuing operations.


**Orbit Treasury Limited**

**Statement of Financial Position**

**For the Year Ended 31 March 2016**

|  | Notes | 2016<br>£000 | [Restated]<br>2015<br>£000 |
|--|-------|--------------|----------------------------|
| <b>Debtors: Amounts falling due after more than one year</b>   | 6     | 781,253      | 643,563                    |
| <b>Current Assets</b>  |       |              |                            |
| Debtors  | 6     | 30,772       | 29,414                     |
| Investments  |       | -            | -                          |
| Cash at Bank and in Hand                                       | 7     | 2,401        | 1,357                      |
|  |       | 33,173       | 30,771                     |
| <b>Creditors: Amounts falling due within one year</b>          | 8     | (15,122)     | (16,857)                   |
| <b>NET CURRENT ASSETS</b>                                      |       | 18,051       | 13,914                     |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                   |       | 779,304      | 657,477                    |
| <b>Creditors: Amounts falling due after more than one year</b> | 8     | (895,915)    | (762,468)                  |
| <b>NET LIABILITIES</b>   |       | (116,611)    | (104,991)                  |
| <b>Capital and Reserves</b>                                    |       |              |                            |
| Called up share capital  |       | -            | -                          |
| Cash Flow Hedge Reserve  |       | (62,108)     | (55,621)                   |
| Revenue Reserves   |       | (54,503)     | (49,370)                   |
| <b>TOTAL SHAREHOLDERS' FUNDS DEFICIT</b>                       |       | (116,611)    | (104,991)                  |

The financial statements on pages 7 to 21 were approved by the Board of Directors and signed on its behalf by

  
**David Young**  
**Orbit Treasury Limited**  
**CHAIR**

**14 July 2016**

Company Registration Number 06284601

Orbit Treasury Limited

Statement of Changes in Equity

For the Year Ended 31 March 2016

|  | Called Up<br>Share<br>Capital<br>£000 | Revaluation<br>Reserve<br>£000 | Cash Flow<br>Hedge<br>Reserve<br>£000 | Revenue<br>Reserve<br>£000 | Total Equity<br>£000 |
|--|---------------------------------------|--------------------------------|---------------------------------------|----------------------------|----------------------|
| Balance at 1 April 2014 as<br>previously reported    | -                                     | -                              | -                                     | 6                          | 6                    |
| Effects of Adoption of FRS102                        | -                                     | -                              | (11,207)                              | (32,942)                   | (44,149)             |
| Balance at 1 April 2014 (Restated)                   | -                                     | -                              | (11,207)                              | (32,936)                   | (44,143)             |
| <b>Total Comprehensive Income for<br/>the period</b> |                                       |                                |                                       |                            |                      |
| (Loss) for the Year                                  | -                                     | -                              | -                                     | (14,260)                   | (14,260)             |
| Gift Aid Payment                                     | -                                     | -                              | -                                     | (2,174)                    | (2,174)              |
| Loss Recognised                                      | -                                     | -                              | -                                     | -                          | -                    |
| Change in fair value                                 | -                                     | -                              | (44,414)                              | -                          | (44,414)             |
| <b>Balance at 31 March 2015</b>                      | -                                     | -                              | (55,621)                              | (49,370)                   | (104,991)            |

|  | Called Up<br>Share<br>Capital<br>£000 | Revaluation<br>Reserve<br>£000 | Cash Flow<br>Hedge<br>Reserve<br>£000 | Revenue<br>Reserve<br>£000 | Total Equity<br>£000 |
|--|---------------------------------------|--------------------------------|---------------------------------------|----------------------------|----------------------|
| Balance at 1 April 2015                              | -                                     | -                              | (55,621)                              | (49,370)                   | (104,991)            |
| <b>Total Comprehensive Income for<br/>the period</b> |                                       |                                |                                       |                            |                      |
| (Loss) for the Year                                  | -                                     | -                              | -                                     | (5,133)                    | (5,133)              |
| Gift Aid Payments                                    | -                                     | -                              | -                                     | -                          | -                    |
| Loss Recognised                                      | -                                     | -                              | -                                     | -                          | -                    |
| Change in fair value                                 | -                                     | -                              | (6,487)                               | -                          | (6,487)              |
| <b>Balance at 31 March 2016</b>                      | -                                     | -                              | (62,108)                              | (54,503)                   | (116,611)            |

**Orbit Treasury Limited****Cash Flow Statement****For the Year Ended 31 March 2016**

|  | 2016<br>£000        | 2015<br>£000    |
|--|---------------------|-----------------|
| <b>Cash flows from operating activities</b>      |                     |                 |
| (Loss)/Profit for the year                       | (192)               | 2,812           |
| Adjustments for:                                 |                     |                 |
| Change to Amortised Loan and Swap Costs          | 439                 | 624             |
| Gift Aid   | -                   | (2,174)         |
| (Increase)/decrease in trade and other debtors   | (119,048)           | 47,174          |
| (Decrease)/increase in trade and other creditors | (1,735)             | 1,512           |
| <b>NET CASH FROM OPERATING ACTIVITIES</b>        | <b>14 (120,536)</b> | <b>49,748</b>   |
| <b>Cash flows from financing activities</b>      |                     |                 |
| Cash outflow/(inflow) from increase in debt      | 14 121,580          | (49,537)        |
| <b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>   | <b>121,580</b>      | <b>(49,537)</b> |
| Net increase in cash and cash equivalents        | 1,044               | 211             |
| Cash and cash equivalents at 1 April             | 1,357               | 1,146           |
| <b>CASH AND CASH EQUIVALENTS AT 31 MARCH</b>     | <b>2,401</b>        | <b>1,357</b>    |

1. Accounting Policies

**Basis of accounting**

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 in the financial statements have been rounded to the nearest £1,000.

An explanation of how the transition to FRS 102 has affected financial position and financial performance of the Company is provided in note 16.

The principal accounting policies, which have been consistently applied unless otherwise stated throughout the year, are set out below.

Orbit Treasury Ltd has taken the exemption of not to disclose related party transactions under FRS102, and no other exemptions have been taken.

**Going Concern**

The financial statements are prepared on a going concern basis.

Orbit Treasury Ltd is the funding vehicle for Orbit Group. An intra group loan agreement has been entered into by all of the operating associations which provide a commitment to Orbit Treasury to pay interest on intra group loans. The group's financial plan and cash flow forecasts demonstrate there are sufficient committed facilities to meet forecast expenditure for the foreseeable future. The directors have concluded the going concern basis of preparation is appropriate to enable the Company to continue trading for at least one year from the date of signing these financial statements.

**Turnover**

Turnover results from interest and other charges to members of Orbit to cover the cost of securing and managing the loan portfolio.

**Cost of Sales**

Costs of sales includes interest payable and similar charges on the bank and other loans on-lent to members of the Orbit Group and administrative costs including legal costs, valuation fees, treasury staff and other costs.

**Taxation**

The charge for the year is based on profits arising on activities that are liable to tax. Taxable members of the Group have adopted the accounting standard for deferred tax (FRS 102, section 29).

Deferred Tax is provided in full, at the tax rates expected to apply to the period when the asset is realised or the liability is settled, on any timing differences, although deferred tax assets are only recognised to the extent it is regarded as more likely than not they will be recovered. Timing differences arising from the revaluation of fixed assets are only recognised where there is a binding agreement to sell the revalued assets.

Deferred tax assets and liabilities are not discounted.

**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.

Loan classifications and subsequent valuations are the key areas of judgement applied in the financial statements. Fixed rate and variable loans have been classified as basic instruments. Fixed rate loans are stated at amortised cost using the effective interest rate method. Variable rate loans are disclosed at carrying value due to the short term interest period.

Advice has been sought from external treasury advisors on fair value judgements and estimates.



**1. Accounting Policies (continued)**

**Derivative financial instruments**

Orbit uses derivative financial instruments to reduce exposure to interest rate movements. Orbit does not hold or issue derivative financial instruments for speculative purposes. For an interest rate swap to be treated as a hedge the instrument must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts.

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the Statement of Comprehensive Income. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

*Fair value hedges*

Where a derivative financial instrument is designated as a hedge of the exposure to a fixed interest risk or foreign exchange risk of a debt instrument measured at amortised cost or the commodity price risk in a firm commitment or of a commodity held, all changes in the fair value of the derivative are recognised immediately in profit or loss. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (and any gains or losses on re-measurement are recognised in the Statement of Comprehensive Income).

If hedge accounting is discontinued and the hedged financial asset or liability has not been derecognised, any adjustments to the carrying amount of the hedged item are amortised into the Statement of Comprehensive Income using the effective interest method over the remaining life of the hedged item.

*Cash flow hedges*

Where the hedged risk is the variable interest rate risk in a debt instrument measured at amortised cost, the interest rate risk in a firm commitment or a highly probable forecast transaction, the Company recognises the effective part of any gain or loss on the derivative financial instrument in other comprehensive income (OCI). Any ineffective portion of the hedge is recognised immediately in the Statement of Comprehensive Income.

The hedging gain or loss recognised in OCI is reclassified to the Statement of Comprehensive Income when the hedged item is recognised in the Statement of Comprehensive Income or when the hedging relationship ends.

Orbit Treasury Limited accounting policy for derivatives is to recognise in the Statement of Comprehensive Income gains and losses on hedges of revenues or operating payments only as they crystallise. Treasury Policy states clearly all transactions will be in Sterling or hedged to Sterling.

## Orbit Treasury Limited

### Notes to the Financial Statements

#### For the Year Ended 31 March 2016

##### 2. Other interest receivable and similar income

|  | 2016 | 2015 |
|--|------|------|
|  | £000 | £000 |
| Net gain on financial liabilities measured at fair value through Statement of Comprehensive Income (excluding derivatives used in hedging relationships) | -    | 75   |

##### 3. Interest payable and similar charges

|  | 2016  | 2015 |
|--|-------|------|
|  | £000  | £000 |
| Net loss on financial liabilities measured at fair value through Statement of Comprehensive Income (excluding derivatives used in hedging relationships) | 2,979 | -    |

##### 4. Expenses and auditor's remuneration

|  | 2016         | 2015          |
|--|--------------|---------------|
|  | £000         | £000          |
| Included in the Statement of Comprehensive Income are the following: |              |               |
| Change in Fair Value of derivatives through income and expenditure   | 1,962        | 16,947        |
|  | <b>1,962</b> | <b>16,947</b> |
|  |              |               |
|  | 2016         | 2015          |
|  | £000         | £000          |
| Auditor's Remuneration:  |              |               |
| Audit of these Financial Statements                                  | 15           | 25            |

##### 5. Directors' and Executive Officers' Emoluments

Payments to Non Executive Directors are shown below except for those who have roles as directors of other Orbit companies. Their payments are disclosed in the consolidated financial statements of Orbit Group Limited. The Executive Directors are employed by the parent company, Orbit Group Limited, and their emoluments are disclosed within the consolidated financial statements. The remuneration paid by the parent in respect of the Executive Directors' services to Orbit Treasury Limited is shown below. No compensation was paid to Directors for loss of office.

|  | 2016 | 2015 |
|--|------|------|
|  | £000 | £000 |
| Aggregate emoluments paid to or received by Directors who are not executive staff members including salaries, honoraria and other benefits | 14   | 6    |
| Aggregate emoluments paid to or received by Directors who are executive staff members including salaries, honoraria and other benefits     | 62   | 63   |

## Orbit Treasury Limited

### Notes to the Financial Statements

For the Year Ended 31 March 2016

#### 6. Debtors

|                                     | 2016<br>£000   | 2015<br>£000   |
|-------------------------------------|----------------|----------------|
| Amounts due from Group Undertakings | 792,025        | 672,977        |
| Due within one year                 | 30,772         | 29,414         |
| Due after more than one year        | 761,253        | 643,563        |
|                                     | <b>792,025</b> | <b>672,977</b> |

#### 7. Cash and cash equivalents/bank overdrafts

|                          | 2016<br>£000 | 2015<br>£000 |
|--------------------------|--------------|--------------|
| Cash at Bank and in Hand | 2,401        | 1,357        |

#### 8. Creditors: Amounts Falling Due Within One Year

|                                    | 2016<br>£000  | 2015<br>£000  |
|------------------------------------|---------------|---------------|
| Bank Loans and Overdrafts          | 9,200         | 9,200         |
| Amounts owed to Group Undertakings | 88            | 2,490         |
| Accruals and deferred income       | 5,834         | 5,167         |
| <b>Total</b>                       | <b>15,122</b> | <b>16,857</b> |

#### 9. Creditors: Amounts falling due after more than one year

|   | 2016<br>£000   | 2015<br>£000   |
|---|----------------|----------------|
| Bank Loans and Overdrafts                 | 788,400        | 665,650        |
| Less: amortised Loan/Swap costs           | (9,348)        | (8,617)        |
| Loan fair value adjustments               | 6,299          | 3,320          |
| Other financial liabilities (see note 11) | 110,564        | 102,115        |
|   | <b>895,915</b> | <b>762,468</b> |

Bank loans are shown gross of loan arrangement fees of £3,536k (2015: £2,498k) and Swap buy-out cancellation fees of £5,812k (2015: £8,119k). Additional loan arrangement fees have been incurred in the year for new loans.

## Orbit Treasury Limited

### Notes to the Financial Statements

#### For the Year Ended 31 March 2016

#### 10. Interest-bearing Loans and Borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. All loans and borrowings are measured at amortised cost, including those that have embedded derivative financial instruments attached to them whereby the embedded derivative is deemed to be closely related to the host contract.

Debenture and secured bank loans are secured by way of a first fixed charge over housing properties and include an asset cover test based on the ratio on the value of properties secured to the carrying value of the loan. Secured bank loans include interest cover and gearing covenants each of which is tested on an annually against relevant disclosures within the profit and loss and balance sheet of the financial statements.

|   | 2016<br>£000   | 2015<br>£000   |
|---|----------------|----------------|
| <b>Creditors falling due more than one year</b>     |                |                |
| Bank Loans and Overdrafts                           | 788,400        | 665,650        |
| <b>Creditors falling within less than one year</b>  |                |                |
| Secured bank loans                                  | 9,200          | 9,200          |
|   | <b>797,600</b> | <b>674,850</b> |
| <b>The debt is repayable as follows:</b>            |                |                |
|   | 2016<br>£000   | 2015<br>£000   |
| <b>In one year or less, on demand</b>               | 9,200          | 9,200          |
| <b>Repayable by instalments:</b>                    |                |                |
| More than one year but not more than two years      | 16,280         | 12,740         |
| In more than two years but not more than five years | 94,170         | 79,120         |
| In more than five years                             | 527,950        | 446,540        |
|   | <b>638,400</b> | <b>538,400</b> |
| <b>Repayable other than by instalments:</b>         |                |                |
| In more than two years but not more than five years | 40,000         | 12,250         |
| In more than five years                             | 110,000        | 115,000        |
|   | <b>150,000</b> | <b>127,250</b> |
| <b>Net Debt at 31 March</b>                         | <b>797,600</b> | <b>674,850</b> |

The bank loans are repaid in instalments at fixed and variable rates of interest. The final instalments fall to be repaid in the period 2037 to 2038. Loans repayable other than by instalment have bullet repayments between 2021 and 2038.

Orbit Treasury Limited

Notes to the Financial Statements

For the Year Ended 31 March 2016

11. Other Financial Liabilities

|  | 2016<br>£000   | 2015<br>£000   |
|--|----------------|----------------|
| <b>Amounts Falling Due after more than one year</b>                |                |                |
| Financial liabilities held for trading (including all derivatives) | 110,564        | 102,115        |
| <b>Creditors falling due within one year</b>                       | -              | -              |
|  | <b>110,564</b> | <b>102,115</b> |

12. Capital and reserves

Other Comprehensive Income

|   | 2016                         |                                |                                       |   |  |
|---|------------------------------|--------------------------------|---------------------------------------|---|--|
|   | Own share<br>reserve<br>£000 | Revaluation<br>Reserve<br>£000 | Cash Flow<br>Hedge<br>Reserve<br>£000 | Statement of<br>Comprehensive<br>Income<br>£000 | Total Other<br>Comprehensive<br>Income<br>£000 |
| Other Comprehensive Income  | -                            | -                              | -                                     | -   | -  |
| Effective portion of changes in<br>fair value of cash flow hedges | -                            | -                              | (6,487)                               | -   | (6,487)  |
| <b>Total Other Comprehensive<br/>Income</b>                       | -                            | -                              | (6,487)                               | -   | (6,487)  |

|   | 2015                         |                                |                                       |   |  |
|---|------------------------------|--------------------------------|---------------------------------------|---|--|
|   | Own share<br>reserve<br>£000 | Revaluation<br>Reserve<br>£000 | Cash Flow<br>Hedge<br>Reserve<br>£000 | Statement of<br>Comprehensive<br>Income<br>£000 | Total Other<br>Comprehensive<br>Income<br>£000 |
| Other Comprehensive Income  | -                            | -                              | -                                     | -   | -  |
| Effective portion of changes in<br>fair value of cash flow hedges | -                            | -                              | (44,414)                              | -   | (44,414)                                       |
| <b>Total Other Comprehensive<br/>Income</b>                       | -                            | -                              | (44,414)                              | -   | (44,414)                                       |



Orbit Treasury Limited

Notes to the Financial Statements

For the Year Ended 31 March 2016

13. Financial Instruments

(a) Carrying amount of financial instruments

|  | 2016<br>£000   | 2015<br>£000   |
|--|----------------|----------------|
| <b>The carrying amounts of the financial assets and liabilities include:</b> |                |                |
| Liabilities measured at fair value through profit or loss                    | 116,863        | 104,435        |
| Liabilities measured at amortised cost                                       | 797,600        | 674,850        |
| Loan commitments at amortised cost   | (9,348)        | (8,617)        |
|  | <b>905,115</b> | <b>770,668</b> |

(b) Hedge accounting

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur as required by FRS 102.29(a) for the cash flow hedge accounting models

|                             | Carrying amount<br>£'000 | Expected cash flows<br>£'000 | 2016                    |                            |                            |                     |
|-----------------------------|--------------------------|------------------------------|-------------------------|----------------------------|----------------------------|---------------------|
|                             |                          |                              | 1 year or less<br>£'000 | 1 to < 2<br>years<br>£'000 | 2 to < 5<br>years<br>£'000 | 5 years<br>and over |
| <b>Interest rate swaps:</b> |                          |                              |                         |                            |                            |                     |
| Assets                      |                          | 62,705                       | 1,813                   | 2,060                      | 8,785                      | 50,047              |
| Liabilities                 | 62,108                   | (154,381)                    | (10,414)                | (10,359)                   | (30,724)                   | (102,884)           |
|                             | 62,108                   | (91,676)                     | (8,601)                 | (8,299)                    | (21,939)                   | (52,837)            |

|                             | Carrying amount<br>£'000 | Expected cash flows<br>£'000 | 2015                    |                            |                            |                     |
|-----------------------------|--------------------------|------------------------------|-------------------------|----------------------------|----------------------------|---------------------|
|                             |                          |                              | 1 year or less<br>£'000 | 1 to < 2<br>years<br>£'000 | 2 to < 5<br>years<br>£'000 | 5 years<br>and over |
| <b>Interest rate swaps:</b> |                          |                              |                         |                            |                            |                     |
| Assets                      |                          | 64,375                       | 1,670                   | 1,813                      | 7,555                      | 53,337              |
| Liabilities                 | 55,621                   | (164,760)                    | (10,379)                | (10,414)                   | (31,100)                   | (112,867)           |
|                             | 55,621                   | (100,385)                    | (8,709)                 | (8,601)                    | (23,545)                   | (59,530)            |

## Notes to the Financial Statements

## For the Year Ended 31 March 2016

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to affect profit or loss:

|                      | 2016                     |                              |                         |                         |                         |                  |
|----------------------|--------------------------|------------------------------|-------------------------|-------------------------|-------------------------|------------------|
|                      | Carrying amount<br>£'000 | Expected cash flows<br>£'000 | 1 year or less<br>£'000 | 1 to < 2 years<br>£'000 | 2 to < 5 years<br>£'000 | 5 years and over |
| Interest rate swaps: |                          |                              |                         |                         |                         |                  |
| Assets               | -                        | 15,096                       | 286                     | 325                     | 1,410                   | 13,075           |
| Liabilities          | 48,456                   | (37,806)                     | (1,824)                 | (1,818)                 | (5,458)                 | (28,706)         |
|                      | 48,456                   | (22,710)                     | (1,538)                 | (1,493)                 | (4,048)                 | (15,631)         |

|                      | 2015                     |                              |                         |                         |                         |                  |
|----------------------|--------------------------|------------------------------|-------------------------|-------------------------|-------------------------|------------------|
|                      | Carrying amount<br>£'000 | Expected cash flows<br>£'000 | 1 year or less<br>£'000 | 1 to < 2 years<br>£'000 | 2 to < 5 years<br>£'000 | 5 years and over |
| Interest rate swaps: |                          |                              |                         |                         |                         |                  |
| Assets               | -                        | 15,359                       | 262                     | 286                     | 1,192                   | 13,619           |
| Liabilities          | 46,494                   | (39,628)                     | (1,823)                 | (1,824)                 | (5,454)                 | (30,527)         |
|                      | 46,494                   | (24,269)                     | (1,561)                 | (1,538)                 | (4,262)                 | (16,908)         |

## (c) Fair values

The fair values of all financial assets and financial liabilities by category together with their carrying amounts shown in the statement of financial position are as follows:

|               | 2016                     |                     | 2015                     |                     |
|---------------|--------------------------|---------------------|--------------------------|---------------------|
|               | Carrying amount<br>£'000 | Fair Value<br>£'000 | Carrying amount<br>£'000 | Fair Value<br>£'000 |
| Loan          | 451,975                  | 670,581             | 329,225                  | 485,231             |
| Bond          | 95,000                   | 110,048             | 95,000                   | 102,162             |
| Embedded Swap | 250,625                  | 96,510              | 250,625                  | 84,892              |
|               | <b>797,600</b>           | <b>877,137</b>      | <b>674,850</b>           | <b>672,285</b>      |

## Financial risk management

The Company's operations expose it to a variety of financial risks. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company and Group by monitoring levels of debt finance and related finance costs. The key risks are as follows:

*Interest rate risk*

At 31 March 2016, 85% of the Company's debt was fixed or hedged. There is no intention to repay any term debt other than in accordance with the terms of each agreement. The Group has £151m of variable debt funding which could be exposed to rises in LIBOR rates. If LIBOR was to increase by 0.50%, then the impact would be additional interest costs of £0.8m to the Statement of Comprehensive Income. Any such costs can be recovered from the associations.

## Orbit Treasury Limited

### Notes to the Financial Statements

#### For the Year Ended 31 March 2016

##### Liquidity risk

The Company actively lends the full amount of the loans it has itself borrowed, thus the entity has assets to fully offset its liabilities and interest receivable to offset its interest payable.

##### Credit risk

The liabilities to funders are secured by a legal charge over property assets owned by the associations with a value in excess of total borrowings. The associations have entered into a guarantee with the Company over future interest payments and the property security. The carrying amount of the funding liabilities represents the maximum value exposed to credit risk. At the end of the financial year the credit rating of A1 from Moody's remained in place.

#### 14. Reconciliation of net cash flow to movement in net debt

|   | 2016<br>£000     | 2015<br>£000     |
|---|------------------|------------------|
| Cash (inflow) / outflow from increase in debt | (122,750)        | 49,200           |
| Other cash changes                            | 1,170            | 337              |
| <b>Movement in net funds in the year</b>      | <b>(121,580)</b> | <b>49,537</b>    |
| Increase in cash in the year                  | 1,044            | 211              |
| <b>Cash movements</b>                         | <b>(120,536)</b> | <b>49,748</b>    |
| Other movements                               | (439)            | (624)            |
| Net Debt at 1 April                           | (664,876)        | (714,000)        |
| <b>Net Debt at 31 March</b>                   | <b>(785,851)</b> | <b>(664,876)</b> |

#### 15. Analysis of Changes in Net Debt

|                                   | 2016                        |                        |                           | At 31 March<br>2015<br>£'000 |
|-----------------------------------|-----------------------------|------------------------|---------------------------|------------------------------|
|                                   | At 1 April<br>2015<br>£'000 | Cash<br>Flows<br>£'000 | Other<br>Changes<br>£'000 |                              |
| Cash at bank and in hand          | 1,357                       | 1,044                  | -                         | 2,401                        |
| Housing loans due within one year | (9,200)                     | -                      | -                         | (9,200)                      |
| Housing loans due after one year  | (685,650)                   | (122,750)              | -                         | (788,400)                    |
| Loan arrangement fees             | 8,617                       | 1,170                  | (439)                     | 9,348                        |
|                                   | (664,876)                   | (120,536)              | (439)                     | (785,851)                    |

|                                   | 2015                        |                        |                           | At 31 March<br>2015<br>£'000 |
|-----------------------------------|-----------------------------|------------------------|---------------------------|------------------------------|
|                                   | At 1 April<br>2014<br>£'000 | Cash<br>Flows<br>£'000 | Other<br>Changes<br>£'000 |                              |
| Cash at bank and in hand          | 1,146                       | 211                    | -                         | 1,357                        |
| Housing loans due within one year | (9,200)                     | -                      | -                         | (9,200)                      |
| Housing loans due after one year  | (714,850)                   | 49,200                 | -                         | (665,650)                    |
| Loan arrangement fees             | 8,904                       | 337                    | (624)                     | 8,617                        |
|                                   | (714,000)                   | 49,748                 | (624)                     | (664,876)                    |

## Orbit Treasury Limited

### Notes to the Financial Statements

#### For the Year Ended 31 March 2016

#### 16. Related Party Transactions

Orbit Treasury Ltd is a wholly owned subsidiary of Orbit Group Limited. As permitted by FRS 102 para 33.1A (Related Party Disclosures), the company has taken advantage of the exemption for wholly owned subsidiaries not to disclose related party transactions with group entities. There were no other related party transactions disclosable under FRS8.

#### 17. Explanation of Transition to FRS 102 from UK GAAP

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS 102.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 March 2016 and the comparative information presented in these financial statements for the year ended 31 March 2015.

In preparing its FRS 102 Statement of Financial Position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP).

An explanation of how the transition from UK GAAP to FRS 102 has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

#### Movement in Fair Value of Financial Instruments

##### Hedge Accounting

The principle of hedge accounting applies only to standalone swaps, which have to be fair valued at each period end. However, RPI swaps and swaps with cancellable options do not meet the criteria of hedging instruments (S12.17C). The movement in fair value is therefore taken directly to the Statement of Comprehensive Income.

For the remaining vanilla interest rate swaps an assessment must be made of the hedge effectiveness. The MTM movement during the accounting period on each vanilla swap is analysed between effective and ineffective, with the Effective element posted to the cash flow hedge reserve and the ineffective element charged/credited to the Statement of Comprehensive Income.

##### Debt Instruments (Loan Portfolio)

External loans also need to be categorised either as basic or other. The basic approach results in a requirement to report interest costs using the EIR (Effective Interest Rate) method. This necessitates modelling on a loan by loan basis averaging (via an EIR calculation) all elements of income and expenditure relating to the loan (margin, including future step ups, arrangement fees)

The EIR for fixed rate instruments will be calculated as the rate which exactly discounts the instrument's future cash flows to the carrying amount (section 11.15). Arrangement fee amortisation will be calculated separately and netted off against the carrying value of the debt liability.

Due to the short term of our floating rate instruments the carrying amount will be set equal to the nominal loan amount less unamortised fee.

**Orbit Treasury Limited**

**Notes to the Financial Statements**

**For the Year Ended 31 March 2016**

**Restated Statement of Financial Position**

|  | <u>£'000</u>     |
|--|------------------|
| Reserves as at 1 April 2014  | 6                |
| Movement in Fair Value of Financial Instruments (EIR)                      | (3,395)          |
| Change in fair value of hedged financial instrument                        | (29,547)         |
| Effective element of hedged financial instrument (Cash flow Hedge Reserve) | (11,207)         |
| <b>Restated reserves at 1 April 2014</b>                                   | <b>(44,143)</b>  |
| Restated loss  | (16,434)         |
| Effective element of hedged financial instrument (Cash flow Hedge Reserve) | (44,414)         |
| <b>Reserves as at 31 March 2015</b>  | <b>(104,991)</b> |

**Restated (Loss) for the year ended 31 March 2015**

|   | <u>£'000</u>    |
|---|-----------------|
| Original profit for the year                          | -               |
| Movement in Fair Value of Loan Arrangement Fees (EIR) | 438             |
| Change in Fair Value of Financial Instruments (EIR)   | 75              |
| Change in Fair Value of hedged financial instrument   | (16,947)        |
|   | <b>(16,434)</b> |