Wheatley Housing Group

Treasury Management Policy

Contents

ABBREVIATIONS

The following abbreviations are used in this report:

Care	Wheatley Care
Cube	Cube Housing Association
DCH	Dunedin Canmore Housing
DGHP	Dumfries and Galloway Housing Partnership
EIB	European Investment Bank
FRA	Forward Rate Agreement
GHA	Glasgow Housing Association
ISDA	International Swap Dealers Association
LHA	Loretto Housing Association Ltd
LHL	Lowther Homes Ltd
SPV	Special Purpose Vehicle
The Group	Wheatley Housing Group
WFL1	Wheatley Funding No.1 Ltd (WFL1)
WFL2	Wheatley Funding No.2 Ltd (WFL2)
WGC	Wheatley Group Capital plc
WHG	Wheatley Housing Group
WLHP	West Lothian Housing Partnership
YourPlace	YourPlace Property Management Ltd

1. Introduction

1.1 Wheatley Housing Group

Wheatley Housing Group ("the Group") is the largest housing, community regeneration and care provider in Scotland with owned and managed housing stock of 98,000 units across eighteen local authority areas in central and south-west Scotland.

The Group provides, through its subsidiaries, an extensive range of high-quality stock and services to the social housing, mid and full-market rental sectors, as well as specialist care services and property management services.

1.2 Group Governance

Wheatley Group Board
The Wheatley Group Board is responsible for overseeing the strategic direction of the entire Group, the subsidiaries and the subsidiary Boards. It is responsible for oversight of all of our Group funding arrangements, risk management processes, and control systems.

The Wheatley Board has the ability to exercise constitutional control over its subsidiaries through provisions contained in each subsidiary's constitution.

Subsidiary Boards
Each subsidiary within the group has its own Board of Directors. The subsidiary Boards oversee the delivery of their own subsidiary strategies which contribute to the overall Group strategy. Each subsidiary must also enter into an Intra-Group Agreement with Wheatley Housing Group Limited. This Agreement governs the parent/subsidiary relationship and the various obligations on each party.

RSL Borrowing Group
With the exception of DGHP, all RSLs (GHA, Cube, WLHP, Loretto, DCH) are funded as one RSL Borrowing Group through WFL1. The RSL Borrowing Group pools all assets in a single security trust deed for funding purposes, with each RSL cross guaranteeing each other's obligations to WFL1. Care has access to a total £1m standby facility via the RSL Borrowing Group. It is intended that DGHP will join the RSL Borrowing Group in due course, and their main debt facilities (with M&G and RBS) have been structured to allow this to occur, subject to the lenders' final credit approval along with all internal governance approvals from the WHG Board and all of the RSL Subsidiary Boards, and WFL1 Board.

Commercial Activities
The group's commercial activities are funded through WFL2. In 2011, £30m of funding was put in place via a £30m loan from GHA to Lowther Homes. It is anticipated that this loan will be increased to £45m in 2020/21. There is no additional funding of commercial subsidiaries from the charitable RSLs. No guarantees shall be provided by the charitable RSLs over the liabilities of commercial subsidiaries.

1.3 Corporate strategy – long term platform for growth

he Wheatley Group corporate strategy for 2015-20, "*Investing in our Futures*" was successfully delivered, with Treasury focused on diversifying the funding base, maintaining a strong credit rating and providing a strong and stable long-term platform for growth; all of which were delivered.

The launch of the new strategy for 2020-25, has been delayed pending revision resulting from the business interruption caused by Covid-19.

The key objectives for the Group's financial and treasury management will be the maintenance of a strong platform for the Group to build on its existing strengths, facilitating efficient growth, delivering on its strategic ambitions in the medium to long term and maintaining a strong credit rating from S&P.

2. Policy objectives

In order to achieve its ambitious strategic objectives, the Group needs clear financial and treasury management principles as well as robust controls in place.

Treasury management is the management of the Group's cash flows, funding, banking, investments, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.

The Group maintains and operates a Treasury Management Policy (GTMP) in line with the CIPFA guidance on Treasury Management in the Public Services (most recently updated in 2017). In 2015, the Scottish Housing Regulator placed an ongoing requirement on housing associations to comply with this document. This GTMP sets out the framework for managing the Group's overall financial position as well as investing and managing its cash, raising loans and managing financial risks.

Key objectives of this policy are to:

- define the Group's financial objectives and set out a clear set of Golden Rules for management of treasury activities

- ensure that the Group's loan portfolio represents the optimum balance of risk in interest rate, loan maturity, flexibility and fixed rate exposure

- ensure that the Group's officers have the authority to take the necessary action as and when required in response to changes in the financial markets

The overriding objective of this policy is to be risk averse, whilst allowing the Group to achieve its strategic objectives within agreed financial parameters.

In order to ensure that the Group's treasury objectives are achieved, this policy is to be reviewed at least every three years, to bring it in line with changes in the financial markets, economic environment, changes in the housing sector as well as changes in the group's strategic direction. Any changes to this policy will be approved by the Wheatley Group Board.

This policy is accompanied by the Group Treasury Operational Framework, which sets out the detailed mechanical arrangements for how the group's funding and liquidity arrangements will work in practice, including securing and drawing down funding at subsidiary level, cash management and management of financial risks, including compliance with funding agreements.

3. Delegation of Responsibilities

The Board of WHG has the overall responsibility for WHG's funding and investment strategy and the approach to managing financial risk, via a variety of mechanisms such as approval of the Group business plan, setting of treasury policies, appointment of the Group Chief Executive (who appoints other senior officers, e.g. the Group Director of Finance) and delegation of duties to execute policy objectives.

The Board of WHG has responsibility for:

- setting out the financial direction for the Group, including principles of Group financial management such as key financial ratios the Group is required to meet
- raising of finance for the Group and signing off any new borrowing facilities via Group funding vehicles, WFL1 and WFL2
- setting treasury policies in relation to cash investments, intra-group borrowing and management of financial risks
- management of strategic financial risks for the Group, including interest rate risk, inflation risk, funding risk, liquidity and counterparty risk
- interest rate hedging using financial instruments
- monitoring overall cash flow and financial performance across the Group, including compliance with funding agreements and Golden Rules at WFL1 and WFL2 level

The subsidiary Boards are responsible for:

- setting their own financial plans within the parameters set out by the Group Board
- managing their cash flow to ensure delivery of objectives by drawing down funding from Group funding vehicles, WFL1 and WFL2, in line with their approved business plans
- ensuring compliance with intra-group funding conditions as agreed with WFL1 and WFL2
- management of operational financial risks in line with this policy and approved subsidiary business plans

The Group Treasury Management Policy sets out the framework for all treasury activities and no activity can be undertaken unless specifically authorised within the policy.

The Group Director of Finance has authority, within the parameters of this policy, to:

- drawdown and repay loans at WFL1 and WFL2 level under any committed debt facility and incur associated fees and interest costs as set out in the related funding documentation

- enter into negotiations on new borrowings and incur reasonable costs such as loan arrangement fees in doing so in line with the Scheme of Financial Delegation.

- manage the Group's funding relationships

- monitor compliance with WHG's loan covenant obligations and Board-approved Golden Rules and take remedial actions as appropriate

The Group's commitment to any new borrowing and any material changes to existing borrowing facilities must be approved by the Wheatley Board.

Based on the approved business plan for each subsidiary (within the overall Group business plan), the debt drawdown and repayment profile for the year will be agreed for each subsidiary, subject to any subsequent changes approved by their Boards. The Director of Treasury has authority to manage subsidiary borrowings within the Group funding arrangements and in line with agreed subsidiary debt profiles.

Under guidance from Group Director of Finance, designated treasury staff are authorised to place surplus cash balances with the institutions approved in accordance with this policy.

Should the Group Director of Finance propose to undertake a transaction which is not in accordance with this policy, the proposed transaction and reasons for it will be presented to the Wheatley Board for its approval before the transaction is carried out.

Given the Group's dynamic business plan, pace of growth and the related impact on the funding requirement, the Group Director of Finance will review the size, relevance and cost of the Group's debt facilities at least annually.

The Group will maintain clear Board approved mandates for all debt and banking transactions.

4. Financial Management

4.1 The Group will operate subject to the following key financial principles:

- Each subsidiary will be financially viable in its own right (any subsidiary transactions will be subject to intra-group dealing principles set out in section 9 of this policy).

- There is a clear differentiation between charitable activities of the Group, which are run for the benefit of customers, and the Group's commercial activities, which are focused on maximising surpluses which can be re-invested in the Group's charitable activities

- The Group will deliver value for its customers by being as efficient as possible, by sharing services, using economies of scale and robust contract management

- Any investment decisions will be supported by a strong business case

- The Group will operate in accordance with Board approved set of financial Golden Rules, which will help ensure we remain financially strong and sustainable as a Group.

The Golden Rules are derived from key measures used by the credit rating agencies to assess the Group's financial strength as well as financial covenants agreed with the Group's funders. These have been developed to fit our specific financial profile and circumstances and are comparable with similar approaches adopted by other large English Registered Social Housing Providers. These will be subject to annual review by the Wheatley Group Board.

Financial covenants are a key focus of management and Board-level reporting and are closely monitored to ensure any necessary actions can be taken as soon as possible.

To ensure the financial sustainability of the Group as a whole, the Wheatley Group Board will also annually approve a Group and subsidiary business plans and a Group-wide range for rent increases in the following year.

Each subsidiary will also approve their own financial plans within the parameters set by the Group Board, taking account of local markets and priorities.

Robust treasury management practices, as set out in this policy, will ensure that the Group can monitor compliance with the Golden Rules, manage any associated risks and implement mitigating actions as appropriate to ensure long term financial strength of the Group.

5. Liquidity Management

The Group will ensure that it has enough cash available in the right place and at the right time to meet all payment needs, by:

- Understanding cash needs across the Group through detailed cash flow forecasting
- Ensuring minimum cash balances are maintained and any surplus cash is invested in line with key agreed investment principles
- Ensuring sufficient committed liquidity lines are available to be drawn as required to meet payment needs
- Maximising, as far as possible, the transparency and efficiency of cash positions across legal entities, taking account of any regulatory requirements
- Identifying and establishing diverse contingent funding sources

5.1 Understanding cash flow

WHG will ensure at all times that for the RSL Borrowing Group, DGHP and Lowther/YourPlace, the following cash flow forecasts are available:

- An annual, in-year cash flow forecast, based on approved business plan projections
- a rolling 12-week cash flow forecast (in-year, but supplemented by daily cash data as we approach year-end)
- a detailed daily cash flow forecast for the immediate 4-week period

A variance analysis on projected figures is also to be produced and reported to the Group and subsidiary Boards on a quarterly basis to validate actual cash position against business plan projections and agree corrective actions as appropriate.

The 12 month rolling cash flow forecast for subsidiaries will be consolidated to produce Group cash flow projections – for the RSL Borrowing Group, the commercial subsidiaries and the whole of the Wheatley Housing Group.

Detailed cash flow projections and past trends will then be used to identify the size and timing of cash requirements across the Group to ensure that cash can be made available as required.

5.2 Managing cash

The Group will maintain cash levels that reflect its liquidity requirements (as set out in the Golden Rules).

The Group will work within the following cash limits:

- an amount within each RSL subsidiary, or as pooled RSL Borrowing Group cash, which covers the total sum to cover a minimum of one months' cash requirement, being day-to-day running costs as well as any planned refurbishment costs and development activities
- an amount within each commercial subsidiary to cover a minimum of 2 weeks' cash requirement at any time.

Grants from the Scottish Government will be used for their defined purpose and in priority to interest-bearing debt finance.

5.3 Committed credit lines

At all times the Group will ensure that it has access to committed credit lines that when taken together with any cash balances, mean there is sufficient available funding to meet the Group's liquidity Golden Rule.

This will be achieved through the Group having in place committed term and revolving loans as well as flexible access to overdraft facilities.

However, the objective will be to maintain a minimum of £10m intra-group positive cash position and only utilise these overdraft and credit line facilities when necessary or when it is financially beneficial, so as to minimise annual interest costs and to ensure day to day cash management can be managed efficiently.

5.4 Managing working capital

The Group will pay suppliers promptly, and in line with its legislative obligations as a Contracting Authority under Scottish procurement regulations.

The Group and all its subsidiaries will pursue a debt control policy, particularly with regard to rental income, service charges and recharges to owner-occupiers. This will include maintaining an effective sales ledger system where outstanding debts are followed up regularly.

As at end-May 2020, for subsidiary RSLs within the Group, c.60% of their tenants rely on housing benefit, with a further c.15 – 20% receiving Universal Credit (UC) for some or all of their rental payment. The rate of tenants moving onto UC has accelerated as a result of the Covid-19 pandemic. Rental income will continue to be impacted by a migration to UC, reflecting the intent of HM Government to simplify the benefits regime into one system by 2023.

There are different implications for the Group's working capital requirements depending on what benefit regime the tenant receives.

Housing benefit is paid directly from the relevant local authority to the Group, the receipt of which is crucial in allowing WHG to manage its cash flow. A system is to be maintained to allow for all outstanding housing benefit payments to be followed up as and when due.

UC was introduced in staged rollouts from late 2013, and now covers all of Scotland. UC replaces six benefits, including housing benefit, and merges them into one monthly sum paid in arrears. The 5-week delay in receipt of the initial UC payment leads to all tenants being in arrears once their benefits have moved from housing benefit to UC. Mitigating actions are in place with a Group Universal Credit team set up in 2019 to support customers and staff to meet the challenges of the new benefit regime.

Any further changes to the benefits system, e.g. as a result of UK Government's Welfare Reforms, will be closely monitored so that their potential impact on rent arrears can be well understood and mitigating actions put in place to maintain stability of the Group's income.

For all commercial subsidiaries, effective debt control policy is crucial with any late payments followed up promptly and appropriate action taken to safeguard income as early as possible.

6. Borrowing policy

The Group's borrowing policy sets out the parameters within which the Group and all of its subsidiaries can raise and manage funding from any sources to facilitate delivery of their objectives, including growth, whilst ensuring that that the overall cost of funds is optimised.

6.1 Sources and types of funding

a) Public subsidy

Around 95% of the Group's operations are in the affordable housing market, with any new developments supported by public subsidy from the Scottish Government. Furthermore, there may be other grants available for specific purposes, such as for implementation of green measures as part of new housing design (or retro-fitted to existing housing) or for wider regeneration and community benefit initiatives.

The Group will ensure that any available public subsidy is fully explored and utilised as appropriate before private finance is used to fund capital improvements, new developments and wider community benefit activities of the Group.

Equally, if there are any grants or other forms of government support (e.g. guarantees) available for any parts of the commercial activities of the group, these will be fully explored and implemented alongside any private finance.

b) Private finance

The key method of financing the Group's activities in the long term will be finance in the form of approved debt instruments, methods and techniques, as set out in this policy. In general, our funding is on a secured basis, but we will explore unsecured debt where this is available and cost effective, delivering value for money.

The following debt instruments are approved methods of long-term private finance for the Group:

- banks and building societies; authorised and regulated by the Financial Conduct Authority (FCA), or their EU equivalent for European banks;

- the capital markets by way of issuing bonds either via an intermediary or in WHG's own name;

- Pension Funds / Insurance Companies – via issuance of bonds or a direct placement of debt instruments;

- not for profit borrowing vehicle companies/intermediaries such as The Housing Finance Corporation;

- Leasing Companies;

- Public bodies such as the Scottish Government or Scottish National Investment Bank;

- Bank of England / HM Treasury funding schemes, including the Covid Corporate Financing Facility or "CCFF"; and

- syndicated loans where there is a syndicate of lenders drawn from the above.

Each debt counterparty, such as banks and financial institutions, will be assessed with reference to their credit quality as part of the borrowing decision process. This will include assessment of counter-party credit ratings, level of government support (if any) and any other market information available at the time.

Any new sources of long-term funding and funding structures involving any of the subsidiaries will be subject to prior approval by Wheatley Group Board.

As a result of onerous capital requirements for banks following the credit crisis in 2008, their ability to provide long-term funding remains constrained. Capital market funding and direct lending from pension funds and insurance companies are the key sources of long-term funding (> 10 years) for the RSL Borrowing Group, supplemented by flexible shorter-term bank funding (≤ 10 years).

In addition to long term funding, to ensure liquidity of the group, short- and medium-term funding such as bank overdrafts as well as term loans and revolving credit facilities will also be put in place alongside long term bond and our legacy bank financing.

Furthermore, project specific funding arrangements may be put in place to fund the Group's wider activities in line with its strategic objectives and alongside any public funding options available for specific projects to create optimum funding solutions.

The mix of different forms of funding will be selected and maintained to meet the specific business needs of the Group and all its subsidiaries.

We will maintain diversity of funders, and types of funders, to minimise reliance on single lenders and/or single sectors of the financial markets.

6.2 Group funding structure

The Group's funding structure has been developed giving consideration to the following factors:

- Registered Social Landlord regulation and charities law,
- appropriate intra-group lending arrangements,
- requirement for guarantees
- security considerations
- interaction with existing funding facilities and compliance requirements
- risk profile and overall funding costs to the group

The Group funding structure is set out below. The structure recognises the requirement to separate the funding for our regulated charitable activities from any commercial activities.

1. **Wheatley Funding No. 1 Limited** (WFL1)

WFL1 funds the regulated, charitable RSLs in the Group (with the current exception of DGHP) through a structure known as the RSL Borrowing Group. New partners joining the Group main accede to the RSL Borrowing Group arrangement from time to time. WFL1 allows the these RSLs to be funded collectively, within a cross-guarantee structure which allows all RSL assets to be pooled for security purposes. In this structure financial covenants and other funding conditions will be tested at the RSL Borrowing Group level, however, each RSL will also monitor and report funding compliance at the subsidiary level.

2. **Bilateral agreements**

There are a small number of bilateral loan agreements in place for the Wheatley RSLs. While the presumption is that all new lending will be put in place for the RSLs via WFL 1, from time to time direct bilateral loans may be considered if they provide value for money or advantageous commercial terms. Bilateral arrangements may also exist if they have been inherited as part of new partnership arrangements. In such cases the presumption will be these will be novated, where possible and subject to value for money, to the WFL1 RSL Borrowing Group structure.

3. **Wheatley Funding No. 2 Limited** (WFL2)

WFL2 funds the commercial activities of the Group, which currently include Lowther Homes Limited and YourPlace. There is a security trust deed in place for WFL2, and the assets are secured to WFL2 lenders. There is no cross-guarantee between WFL1 and WFL2.

6.3 Balanced debt portfolio

In order to create a loan portfolio that is complementary to WHG's overall objectives, our aim is to ensure that the Group's debt portfolio has the right balance of:

- Fixed and variable
- long-, medium- and short-term debt
- term and revolving loans
- secured and unsecured loans
- funding costs and funding conditions/restrictions

a) <u>Interest rate management</u>

In determining the mix of the loan portfolio and the split between different interest rate bases (fixed or variable), the Group will include the following areas in its assessment:

- The shape of the yield curve, to give an indication of where short-term and long-term rates are expected to move in the future.
- The sensitivity of the annual surplus to movement in interest rates in line with the approved Business Plan.
- The availability, and cost, of financial derivatives to allow the Group to manage the mix between the various rate types effectively.
- The loan offers, particularly via the capital markets and/or private placement markets, which are generally only available on fixed rate terms.
- The effect on the Group and its subsidiaries' ability to meet their financial covenants and ratios.

It is recognised that the Group has legacy fixed rate arrangements on the majority of the Syndicate and EIB debt in place (embedded in the Group's funding arrangements) and terminating these may incur significant breakage costs. All long-term funding arranged since 2014 (bond issuance in 2014, retained bond issuance in 2015, private placements with BlackRock in 2017 and 2018, private placement with M&G in 2019) has all been on a fixed rate/coupon basis, resulting in a high proportion of fixed rate debt for the Group.

It is common for RSLs to have a higher percentage of fixed rate funding than other real estate operators which tend to have a 70% fixed / 30% floating to allow for asset disposals and the resultant repayment of debt without incurring breakage costs on associated fixed rates or other hedging agreements. Due to the long-term nature of asset-ownership RSLs do not commonly make material asset disposals and therefore the certainty of fixed interest costs, particularly where the cost of funds is below the assumed rates in the business plan, allows for potential financial outperformance.

Due to existing fixed rate arrangements and availability of current long-term funding being primarily on a fixed rate basis only, the Group's debt portfolio has a very high proportion of fixed rate debt (at the target maximum amount). However, as a long-term policy objective, the Group will endeavour to achieve the following interest rate split target for its debt portfolio over the three-year period of this policy:

	Target minimum %	Target maximum %
Fixed	75	95
Variable	5	25

To do this, the Group will frequently monitor the market and the associated termination costs on existing fixed rate arrangements and look for opportunities to restructure and/or break these when market conditions allow, to reduce the proportion of fixed rate bank loans over time. Due to the fluid nature of the Group's business plan and timing of income receipts e.g. grants and housing benefit, the targets above will be reviewed every three years in line with this policy being updated.

In addition, in aiming to achieve these target proportions, the Group will consider the market environment and the market's expectations for future interest rate movements. The actual position may vary from target, on the basis that the variance may be justified due to an improvement in funding costs (versus the business plan assumptions) and/or to reduce risk given the market conditions.

The Group's hedging arrangements will be reviewed at least annually as part of the approval of the business plan and following any changes to the Group's debt profile. Ongoing Treasury reporting will assess the risks associated with the hedge profile being outside the targets set out above and consideration will be given, where appropriate, to aligning the fixed:floating loans ratio, considering market conditions and associated costs at the time. Throughout the year the Director of Treasury will monitor the arrangements in relation to the ongoing funding requirements and current level of market interest rates.

Use of derivatives

The use of derivatives such as Swaps, Forward Rate Agreements (FRAs), Collars, and Caps and Rate Locks is permitted for the sole purpose of managing interest rate risk (hedging). The use of derivatives requires to be approved by the governing body of the entity for which they will be used as well as the Wheatley Group Board. WHG will not use derivative instruments to maximise return but to protect its risk exposure and to control interest costs. This means that derivatives may only be used to hedge a loan, or loans, and that there should be no scope to make profits or losses as a result of such derivatives. From time to time this may have a significant cash flow cost, or benefit, to the Group (which will be offset by a corresponding benefit, or cost, on the underlying loan instrument) and any such impact will be assessed over the full period of the hedging instrument in question.

Stand-alone derivatives create the potential for the hedge counterparties (most likely, the lending bank(s)) to demand a cash collateral amount to cover current and future exposure under the contract, the terms of which would be negotiated under a Credit Support Agreement. Any decision to enter into stand-alone derivatives at WFL1 or subsidiary level would be subject to prior Group Board approval.

b) <u>Debt maturity profile</u>

The Group will be funded by a combination of:

- long dated capital markets or institutional funding (via private placements) with bullet repayment – our core source of long-term funding for the Group going forward

- legacy long dated bank funding with a pre-agreed repayment profile – expected to reduce over time as loans mature and long-term bank funding is replaced with other forms of finance

- shorter dated bank loans, primarily via revolving credit facilities which can be drawn, repaid and redrawn without penalty, with maturities between 5 and 10 years, providing operational liquidity, development funding facilities and project specific funding

The Group will ensure that its loan portfolio is sufficiently balanced in relation to the maturity (i.e. date of repayment) of its loans so that there is no undue pressure on cash flow to make debt repayments and refinancing risk can be managed in a timely manner.

To achieve that objective, the Group will endeavour to ensure that no more than 10% of its total loan maturities fall due for repayment in the immediate 18 month period and no more than 25% within the immediate 5 years unless such higher repayments (e.g. when bonds mature) can be supported by latest approved business plan cash flows.

In order to minimise any potential liquidity problem this could present, the Group will endeavour to negotiate loans and/or access capital markets for new funding to allow for refinancing to take place as and when necessary and in good time of any loan maturity. In addition, the Group will run a continuous charging programme over new build assets (known as the 'Build to Secure' programme) to provide availability of security to support new fund-raising.

Maturing bonds will be refinanced no less than 18 months in advance of their maturity date, unless otherwise approved by Group Board. Extreme market conditions may lead to an extension of this timetable; the Director of Treasury will update the Board in the event that funding market conditions deteriorate. The Group can utilise any agreed overdraft facilities or short-term working capital facilities as required to ensure that liquidity is always maintained. Significant refinancing risks will be reported to the Boards of WHG, WFL 1 and WFL 2 through the rolling 12-month cash flow and treasury reporting.

c) Term and revolving loans

In order to ensure sufficient liquidity for the Group and to help manage the overall cost of borrowing, the Group will ensure that its overall debt portfolio has sufficient revolving credit line facilities alongside term debt.

The Group will endeavour to have at least 10% of its overall bank loan facilities as revolving loans at any time. As at 31 March 2020, RCF committed funds stood at 15.7% of total funding availability. This will allow it to repay some of its bank debt if the cash flow allows it to minimise interest costs, whilst maintaining access to liquidity as and when required.

d) Secured and unsecured debt

In line with the nature of the Group's core activities the Group will raise long term funding for RSL activities mostly on a secured basis, where the RSLs' affordable housing assets will be used for debt security purposes.

Similarly, funding for asset based commercial activities, such as development or acquisition of new housing for market rental will be raised mostly on a secured basis.

The Group may also raise, where appropriate, funding on unsecured basis, however, this will be considered on a case by case basis by reference to funding strategy, cost of funds, and other funding conditions.

e) <u>Cost of funds and funding terms</u>

The main objective is to maintain the lowest average cost of funds that is possible for the Group to achieve whilst ensuring that loan covenants and security requirements allow sufficient flexibility for the Group to achieve its strategic objectives.

As far as possible, the Group will seek to utilise the cheapest source of funds, however each offer will be assessed in a holistic manner, considering not just the headline cost of funds, but will evaluate all aspects of the funding (arrangement fees, non-utilisation fees, covenants, security requirements, prepayment terms, anticipated drawdown cycle from the business plan, consent requirements etc.).
The Group will also ensure that funding terms relating to its debt facilities are not too onerous, in particular:

- that there is sufficient headroom in financial covenant targets when tested against latest business plan projections

- other funding conditions, including funders' consent requirements allow the Group to achieve its strategic objectives

The overriding objective in terms of loan covenants is to ensure that any existing covenants, and their associated Golden Rules, are met comfortably. The definitions used to arrive at these ratios will be negotiated to the Group's best advantage.

Business plans at subsidiary level and across the whole group are presented 6-monthly to the Boards (in February and August Board cycles). This analysis includes anticipated funding requirements and the corresponding impacts on covenants and Golden Rules.

Compliance with loan/bond covenants is of critical importance and is monitored on a monthly basis in relation to actual covenant ratios achieved and future projections, so any corrective actions can be taken as soon as possible.

Additionally, WHG will avoid onerous covenants on new (and existing) facilities, even if this is at the price of a marginal increase in the borrowing rate. The aim will be to reduce (if not eliminate) any negative covenants that will restrict the Group in carrying on its normal business.

f) <u>Currency Risk</u>

WHG is not permitted to take on direct currency risk (i.e. to enter into a loan denominated in a currency other than GBP). Board approval is required in the event of indirect currency exposure associated with fundraising (i.e. for a USD private placement whereby WHG may be required to indemnify currency losses in the event of an early redemption of the debt).

6.4 *Asset security*

The Group will aim to maximise the use of its property stock for the purpose of security to support its debt facilities. In so doing, it will seek to achieve a valuation type that will maximise the valuation arrived at and a loan to value covenant that will optimise the amount that can be drawn on any given level of property security.

Release of property security as a result of revaluations in line with the loan documentation will happen as a matter of course where permitted by lenders (notwithstanding security to cover mark-to-market exposures on embedded fixed rate loans on the syndicate position). Housing stock released will therefore be available for supporting additional loans on new properties or other schemes the Group may wish to undertake where possible.

The Build to Secure programme will continue to charge new build assets such that these become available for security purposes within 24 months of completion.

Affordable housing assets of the RSLs in the RSL Borrowing Group will be pooled for asset security purposes to the extent required to support borrowings and cross-guarantees will be in place between the RSLs to facilitate the pooling of security. All RSLs in the Borrowing Group will be required to have sufficient assets to support their debts. A Build-to-Secure programme is in place with the Wheatley Development team to accelerate the timing between completion of homes and those assets becoming available for security purposes.

The Group will avoid granting floating charges to its lenders wherever possible.

6.5 *Management of funding relationships*

The Group will have a number of funding relationships:

- with banks, either on syndicated or bilateral basis
- with bond investors and credit rating agencies
- with any other institutional investors
- with the Scottish Government, via a capital markets intermediary

It is crucial that all funding relationships are managed effectively. The Group will ensure that:

- all financial and management information is prepared to a high standard and provided promptly to all funders
- compliance with all financial covenants is monitored regularly as part of monthly management accounts and any issues resolved in good time
- all other funding conditions, as set out in funding agreements, are monitored and any requirements met as appropriate

The Group will endeavour to maintain close relationship with its funders, in particular, on key strategic issues, as appropriate, to ensure continued support of the Group's strategy.

6.6 Credit Rating Agencies

The Group has had credit ratings in place for the following legal entities with Standard & Poor's ('S&P') since 2014:

- Wheatley Housing Group Limited
- The Glasgow Housing Association Ltd
- Wheatley Group Capital PLC

The management of the on-going relationship with S&P is critical due to their continual assessment of the creditworthiness of the Group and that of the affordable housing sector in the UK on behalf of bond investors. S&P, and any successor or additional credit rating agency, are recognised as a key stakeholder for the Group and are managed according to the same principles as any of the Group's funders. Meetings (via telephone or in person) are held quarterly, with an annual review held in person in the Group's Head Office with S&P representatives and senior Group management.

While some external issues (sovereign downgrades and sector-wide impacts resulting from governmental change) remain outside the control of the Group, the Group maintains strategic focus on maintaining and, where possible, improving credit rating and outlook across the three rated entities.

The Group will also manage and maintain relationships with bond investors, with updates in the form of meetings, webinars and/or material provided in our Investor Relations section of the Group's website on at least an annual basis to explain the Group's latest performance, plans and Environmental, Social & Governance (ESG) reporting.

As at our May 2020 review, the three entities are rated as A+ Stable.

7. Investment policy

As a general principle, the Group will ensure that any surplus funds are invested without risk exposure to the capital invested, whilst at the same time maximising the return on investment and allowing ease of access in terms of liquidity. The bulk of short-term liquidity for the Group is provided by way of Revolving Credit Facilities ('RCFs') rather than via cash deposits, to avoid the inefficiency of drawing term debt to place it on deposits prior to use.

7.1 Principles of investment

WHG will follow these key principles in the order stated before any investment decision is made:

- Security of Capital - Protection of sum invested. The key aim will be to ensure that the capital amount invested is not put at risk. Investments that could see the erosion of the capital value are prohibited. The return received on the funds invested is the only aspect of the investment that will fluctuate in line with market movements.

- Investment Liquidity - Allowing ease of access to funds particularly in the early years to meet ongoing investment and development expenditure. To achieve this, the Group will invest a proportion of available surplus funds in products that allow easy access, so that surplus cash can be utilised, as far as possible, to meet liquidity requirements before debt drawdown. As set out above, the majority of investment liquidity will be provided via RCFs to ensure we meet our Golden Rule on liquidity requirements.

- Investment Return – Total return on investment (including interest income). This is to ensure that a sufficient financial return to reduce net funding costs. The current low interest rate environment versus the Group's legacy average cost of funds means that any net investment return is negative, thus the preference for the Group to have liquidity provided via RCFs rather than holding cash on deposit.

- Diversification of Investment Portfolio – Ensuring that funds are invested in different instruments, with different high-quality counterparties and for different maturities to reduce investment risk.

7.2 Approved investment instruments

The following investment instruments are approved for the purposes of investing surplus funds:

- Short term money market deposits (up to 12 months) and with Weighted Average Maturity (WAM) of no more than 90 days

- Bank and Building Society Deposits with institutions approved for investment in line with this policy

- Triple 'A' Rated Money Market Funds (AAA) – only where the Net Asset Value is constant (i.e. the principal amount is guaranteed)

- UK Government Securities (Gilts & Treasury Bills) – directly or via a government securities fund

These instruments will allow for the Group's key investment principles of protecting the capital sum whilst at the same time maintaining liquidity, investment diversification and achieving a reasonable return at all times.

The Group will not invest in Money Market Funds where the capital repayment is at risk as a result of market volatility (Variable NAV funds are not permitted).

7.3 Investment counterparties

The key policy objective is for the Group to avoid the risk of dealing with a counterparty with a less than acceptable credit rating. The counterparty credit rating is based on a set of recognised credit criteria which will allow the Group to make an informed decision on the creditworthiness of any investment counterparty and level of any potential exposure involved.

It is therefore essential that the Group maintains an objective credit policy, which is based on independent professional opinion. In assessing the credit quality of the organisations it is to invest in, the Group will therefore rely on the following credit rating agencies:

- Fitch Ratings,
- Moody's Investor Service, and
- Standard & Poor's

The credit ratings of counterparties should only be considered as a starting point in analysing the credit quality of any counterparty and other credit risk factors will be considered before a decision is made. Other credit factors which will be taken into account include market data, financial press, financial support from the government, etc.

We may have to consider placing deposits with existing lenders or operational bankers to the Group (or any other lender or banking provider which may in future join the group funding arrangements through a sell down of debt in the market or as a lender to the Group's new partners), even where they do not meet the minimum threshold as set out in the table below for relationship reasons. In these exceptional circumstances, we would only be permitted to place investments with the Group's existing or future lenders and/or operational bankers if the credit rating is two notches lower than our minimum threshold.

Other than with its lenders, as a policy objective, WHG will seek to invest funds with the financial institutions which have the following credit ratings:

Short Term	Fitch	F1+, F1, F2
	Moody's	P-1, P-2
	S&P	A-1+, A-1, A-2
Long Term	Fitch	AAA, AA+, AA, AA-,A+
	Moody's	Aaa, Aa1, Aa2, Aa3, A1
	S&P	AAA, AA+, AA, AA-,A+, A

It should be noted however, that in the current financial environment these ratings may not be achieved. Therefore, an exception may be considered to allow investments with major UK clearing banks which have a large amount of UK Government support (e.g. Royal Bank of Scotland), provided Wheatley Group Board approval is obtained in advance of any such deposit being placed.

Using external treasury advisers as necessary, the investees / borrowers list will regularly be reviewed and updated. In so doing, the Group will consider the length of time the investment is to be outstanding with any one counterparty, based on their credit rating at the time. It will also fully consider the minimum credit quality of the counterparty in comparison to that of its group position. This will mean that, if the counterparty concerned forms part of a wider group structure, the rating to be considered may extend to the wider group in relation to the nature of support given by the parent to that subsidiary counter party. In particular, the legal obligations within the group will need to be fully considered.

The Director of Treasury is responsible for monitoring credit ratings of the Group's borrowing and investment counterparties and reporting any material changes in their credit quality as part of the quarterly treasury report to the Wheatley Group Board.

7.4 Amounts invested with any one institution

The Group will diversify its investment portfolio by investing funds with high quality counterparties to prevent over-reliance on a small number of counterparties. The following amounts are across the entire group (i.e. in relation to funds held by WFL1, RSL Borrower Group, WFL2 including the commercial subsidiaries and DGHP).

The following principles will be applied in determining the amount to be invested with any one institution:

- The maximum investment amount allowed with the Group's key relationship and account bank (currently RBS) will be the higher of £125m or 70% of the total amount available to be invested.

- The maximum investment amount allowed with each of the Group's key relationship banks will be the higher of £100m or 50% of the total amount available to be invested.

- The maximum investment amount allowed with the Group's other relationship banks or any one counterparty other than the relationship banks will be the higher of £75m or 40% of the total amount available to be invested.

- To further minimise the risk of exposure to any one investor, the maximum term any investment can be made for is limited to 6 months, after which time the counterparty credit risk needs to be reviewed.

Should there be a need to invest outside of these terms, the approval of the Board of the relevant funding entity (WFL 1 for our RSLs and WFL 2 for our non-RSL entities) will be sought. In such a case, the Board will be required to approve the method of investment, having sought suitable independent professional advice as necessary.

It is possible that interest could be 'rolled over', with accrued interest on the investment, when it matures with any one counterparty. In such circumstances accrued interest on the deposit is realised and consequently a breach of the credit limit for the counterparty may occur. Therefore, rollovers of principal plus interest are permitted subject to a limit excess of 10% of the maximum permitted amount to be invested with any one institution. However, the Group is to ensure at all times that interest left to accrue on the capital sum will not be at the expense of drawing down loan funds to meet the costs of the business plan.

As a general principle, the Group is not permitted to invest surplus funds if this would result in drawing down debt funding to meet business plan requirements as in a normal market borrowing rates are higher than investment rates and would result in "negative arbitrage". Therefore the Group will aim to have liquidity provided via Revolving Credit Facilities, rather than drawn funds placed on deposit.

7.5 Investment return

The Group will ensure at all times that the rate received for invested funds is the best possible rate available in the market at the time for that type of investment, taking account of ease of access, maturity and credit quality of the investment counterparty.

To achieve this, the Group will use available market information and, if necessary, investment brokers to obtain market quotes and benchmark the total return on any proposed investments. For the purpose of this calculation, the total investment return will include the cost of transfer of funds and any administration charge involved in investing with an institution other than the Group's main bankers. The Group's main bankers will therefore act as a benchmark to other financial institutions meeting the Group's investment criteria.

8. Financial risk management

Effective management of financial risks is key to the long-term financial viability of the Group and its ability to achieve its strategic objectives.

The principal financial risks the Group is exposed to and key mitigating actions the Group will employ to manage these are:

Risk	Risk description	Category	Risk management
Liquidity risk	Risk that the Group may have insufficient financial resources to meet day to day fluctuation in working capital and cash flow (e.g. insufficient cash available to pay staff salaries or supplier invoices when they become due), which may result in breach of contracts	Low	− Robust cash flow forecasting and management − Working capital management − Sufficient cash and committed credit lines available to cover Golden Rules on liquidity − Alternative contingent funding sources available (overdraft)
Funding risk	Risk that the Group may be unable to raise the required finance in the market or pay too high a price for its finance and thus reduce overall resources available to deliver its objectives. Risk that funding information requirements are not met, and if unable to be resolved within specified remediation periods, will result in a breach. Risk that covenants are breached Risk of insufficient security availability to meet minimum asset cover requirements	Medium	− Robust financial management in line with Golden Rules − Strong relationship with lenders, bond investors and rating agencies − New funding arranged at least 18 months before maturity of existing funding subject to 'normal' market liquidity − Notification and reporting processes across the Group in the Treasury and Finance teams − Projections of covenants prepared with mitigation actions taken in advance to avoid forecast breaches − Build to Secure asset charging programme to provide security availability for the Group on a continuous basis
Interest rate risk	Risk that the Group's interest costs on its borrowings may be unaffordable if market interest rates rise or that in the environment of falling interest rates, the Group may not be able to take advantage of lower market	Medium	− Interest rate exposure monitored and understood − High proportion of fixed rate debt − Regular assessment of market projections for short- and long-term interest rates − Existing hedges monitored for effectiveness

	interest rates in relation to its borrowings (opportunity cost)		− Action taken as opportunities arise to align hedging position with policy
Inflation risk	Risk that the Group's cash flow will be adversely affected either through reduction in income or increase in costs as a result of movement in general inflation rates	Medium	− Monitoring of net inflation exposure − Matching of inflation linked income and expenditure − Robust procurement
Counterparty credit risk	Risk that the Group may incur financial losses if a counterparty to treasury transactions fails and is unable to fulfil their obligations.	Low	− regular monitoring of counterparty credit ratings − counterparty exposure and credit rating limits − diversification of investments − monitoring of financial health of counterparty banks, using CDS data where appropriate
Risk of fraud	Risk that the Group's employees involved in treasury transactions and transactions involving cash may act fraudulently to their personal benefit Risk that criminals target the Group's payment systems and/or send fraudulent invoices for processing or instruct payments over the telephone (Phishing, email cloning or other fraud approaches) Risk that the Group's employees with payment cards spend the Group's money on personal transactions	Low	− clear procedures for dual authorisation of treasury transactions − segregation of duties − regular audit of Group Treasury − external training (from our relationship banks and/or law enforcement) to keep updated on new fraud approaches − limits on individual payment cards with maximum £200 per transaction and monthly limit of £1000 as standard. Higher limits require sign-off from Executive Team member or senior manager as appropriate.
Credit rating downgrade risk	Risk that the Group is downgraded to BBB+ or lower by S&P / BBB+ by Fitch / Baa1 by Moody's (if more than one rating is in place, the lowest rating will apply), will trigger a cancellation of availability and a demand to prepay all drawn debt after a 30-day consultation period on the EIB facilities Risk that a prepayment event on EIB facilities will	Medium	− while the Group is in control of the various internal financial disciplines which influence the credit rating agencies (liquidity, gearing, strategy & management, financial performance, asset quality), there are external factors (UK and Scottish Government benefit regimes; UK and Scottish sovereign ratings) which remain outside of the Group's control − we have quarterly updates

	trigger cross-default provisions for other WFL facilities		with S&P with the credit rating agency being a key relationship for the Group − Clear strategic objective to maintain credit rating at least at A+ stable

Implementation of the key principles of this Treasury and Financial Management Policy is central to managing financial risks.

In order to manage the above risks effectively, the Group will:

- Maintain an up to date Risk Register (note the Treasury sections form part of the Finance Risk Register reporting) to identify, record and measure all financial risk
- Implement strategies for dealing with specific risks
- Regularly report on effectiveness of these risk mitigation/management strategies
- Annually re-evaluate the whole risk management approach and process taking into account treasury policies and linkages between different risks

The Group will have a focused and cohesive reporting framework in place for Board members as well as the Senior Management team. This will include the following:

- Compliance with this policy
- Reporting on the Group's interest rate, inflation and credit risk exposure and how they are managed
- The actual position of the Group's financial covenants and forward covenant projections
- Sensitivity tests highlighting the effect on the Group's financial results and ability to meet the financial covenants and ratios.

9. Inter-company dealing

9.1 Key principles

As the Group comprises charitable regulated RSLs and commercial subsidiaries it is crucial that any financial inter-company transactions are carried out in accordance with clear principles, any applicable law, regulatory guidance, and Golden Rules approved by the Wheatley Group Board.

The financial inter-company transactions covered by this policy fall into the following key categories:

- Funding transactions within the Group funding arrangements

- Financial support between group companies – inter-company loans other than from Group funding vehicles WFL1 and WFL2

- Financial investment in Group companies – e.g. equity investment

- Any cash pooling arrangements for the purpose of maximising return on surplus cash

As a general principle, all inter-company dealings (e.g. loans, deposits, equity investments etc.) between a charity and non-charity may only be allowed if they are for the "benefit of the charity". It will be for the relevant governing body of those involved in the dealings to formally approve any such arrangements. To satisfy this requirement, the following factors need to be present:

- any inter-company loans/deposits are adequately secured

- a commercial rate of interest is charged on loans/deposits

- there is a proper agreement showing the terms of the loan/deposit e.g. repayments

- the right balance of risk and return can be demonstrated on any inter-company investments, such as equity investments

In particular, for any inter-company loans, where a charity is funding a non-charitable Group entity, the charity will have sufficient documentary evidence showing careful and proper due diligence was carried out on the financial viability of the that entity prior to making a loan.

Based on the above, any inter-company investments and borrowings between Group entities will always be carried out on an arm's length basis. In each case, detailed legal and tax advice will be sought to ensure that the optimal arrangements can be put in place, to meet any and all applicable legal, regulatory and taxation requirements.

To ensure that the return on surplus cash balances of the RSL Borrowing Group can be optimised, the Group will endeavour to pool any cash surpluses of charitable RSLs within the Group, subject to satisfying any legal and taxation requirements (based on specialist external advice).

Similarly, any cash surpluses of commercial subsidiaries will be pooled for investment purposes.

The Group will seek legal, tax and financial risk management advice as appropriate as to the most efficient method of managing surplus funds across the Group to maximise the benefit of the potential group arrangements within any known restrictions.

9.2 Group funding arrangements

The Group will operate funding arrangements which recognise the different credit profiles of the charitable and non-charitable group activities and allow associated risks to be adequately ring-fenced:

- Charitable regulated activities of the Group RSLs will be funded as one RSL Borrowing Group through Wheatley Funding No.1 Limited ('WFL1') or stand-alone for DGHP, to allow a degree of flexibility in how funding is used by the RSLs and so that charitable assets can be used most effectively for security purposes. New RSL partners may operate outwith this RSL Borrowing Group for a period, but there will be a general presumption that (subject to value for money and their continued ability to meet their strategic objectives) any such partners will seek to accede to the RSL Borrowing Group arrangement.

- Activities of commercial subsidiaries will be funded separately through Wheatley Funding No.2 Limited ('WFL2') with funding terms appropriate to their credit profile.

There will be no cross guarantees between the charitable and non-charitable parts of the Group funding structure.

a) <u>Funding charitable RSL Borrowing Group</u>

For funding purposes, the RSL Borrowing Group will therefore be seen as one entity, with all affordable housing assets of the RSLs pooled for debt security and financial covenants set on the combined financial results of the RSL Borrowing Group. To achieve this, all of the charitable RSLs will provide cross-guarantees for each other's obligations to WFL1.

However, in accordance with the Group's key financial management principles and Golden Rules, each RSL will need to demonstrate financial viability in its own right. This means each RSL must be from able to support any debt from WFL1 from their own assets and cash flows.

Whilst overall lender financial covenants will be set at the RSL Borrowing Group level, each subsidiary will also be required to operate within a business plan, with prior agreement from the Wheatley Group Board as well as agreed by its own Board.

Within the RSL Group funding arrangements, total funding costs of WFL1, including interest costs (taking account of any fixed rate arrangements), commitment fees and any other related fees, will be shared between the RSLs based on their individual proportion of the overall WFL1 funding. This will be done through an all-in funding rate on borrowing, which will be equal for all RSLs which will be subject to monthly review and notified via the issue of a monthly loan statement. This statement sets out:

- Interest rate

- Loan amounts (opening, closing and drawdowns/repayments)

- Year-to-date interest paid and current month interest due

b) Funding non-charitable activities

Non-charitable activities of the Group, in particular the development/acquisition of market rented housing, will be funded through WFL2 and be subject to separate asset cover and financial covenant requirements agreed with commercial lenders.

Lowther Homes will be funded by a combination of equity investment from GHA and commercial debt.

10. Treasury Controls & Compliance with Policy

Internal control procedures over treasury activities will be maintained so that any material fraud or error is either prevented entirely, identified and reported as soon as it occurs in line with the Group's Risk Management Framework.

To achieve this the following principal controls will be applied:

- Segregation of duties between treasury dealing and related accounting and recording. All dealing activity (over the phone or on-line) will be undertaken within the Treasury department whilst any related recording of treasury transactions will be performed independently within the Financial Reporting department

- Controls over disbursement of funds will include dual authorisation for all payments, documented for each bank in a formal bank mandate. The bank mandates will always be kept up to date and apart from listing all bank signatories will also identify individuals authorised to transact money market deals on behalf of WHG

- All term deposit transactions will be accompanied by a dealing ticket, authorised by two signatories as per the relevant bank mandates

- All relevant treasury limits will be monitored for headroom prior to any deals being transacted and any breaches reported to the Board as soon as practicable after they are identified.

In order for WHG to ensure compliance with all its funding agreements, there are delegated controls in place between the treasury team and other key officers within the organisation (primarily in the new build development team, asset team, property legal, governance and procurement).

The areas for monitoring by these officers include asset disposals / acquisitions, fulfilling the terms of public grant obligations, arranging corporate reorganisations, the granting or release of security, entering into third party agreements in relation to payment or other financial products and changes in key management roles such that Treasury can manage any consent requirements and/or information undertakings proactively with our lenders.

While Treasury undertakes an overview monitoring role, it is the responsibility of the key officers to provide timely information in respect of the areas set out above. The Board will be advised of any issues which may lead to default under these agreements.

A detailed treasury report, covering all aspects of treasury activities as set out in this policy, will be submitted to the Group Board at least quarterly. This will include:

- analysis of cash flow and borrowing requirement together with an explanation of variances to previous forecast
- analysis of group debt position, including debt drawn to date, any repayments due, cost of borrowing and forecast borrowing position for the next 24 months
- compliance with funding agreements, including financial covenants
- management of financial risks, including review of hedging arrangements, counterparty exposures and credit ratings where term deposits have been placed

There will be ongoing training for all staff in the Group Treasury function to ensure they keep abreast of all latest treasury developments. The Group Treasury function will be subject to regular review by internal audit.

11. SHR Annual Assurance Statement

In February 2019, the SHR published its guidelines on Annual Assurance Statements ("AAS"). These statements represent a key part of the SHR's regulatory risk assessment and are intended to provide assurance to stakeholders, including the SHR, that the Group's RSL's comply with relevant requirements of Chapter 3 of the Regulatory Framework, including:

- all relevant standards and outcomes in the Scottish Social Housing Charter;
- all relevant legislative duties; and
- the Standards of Governance and Financial Management.

The AAS is required to cover and include the following:

- areas of material non-compliance, describing how the RSL planning to improve in those areas
- timeframe for improvement
- confirm that the RSL has seen and considered appropriate evidence to support the level of assurance
- confirm the date of the meeting of the governing body or committee at which the Statement was considered and agreed

This Treasury Management Policy (TMP) is intended to support compliance with relevant regulatory requirements including the Standards of Governance and Financial Management, including the Standards of Governance and Financial Management.

The TMP supports the Board(s) and Officers in fulfilling their responsibilities and providing assurance and evidence to support compliance with relevant regulatory requirements within the Annual Assurance Statement or identify or assess areas where Wheatley and its subsidiary RSLs does not materially comply with the relevant regulatory requirements.

Glossary

Bond	A bond is a debt instrument issued in the capital markets. The issuer (in this case, the Group) borrows the principal amount of the bond from capital markets investors (generally pension funds, insurance companies, other long-term institutional investors), attracts a rate of interest (either on-going or rolled-up to the maturity date) with the principal amount becoming repayable on a single maturity date.
Capital market	A financial market where participants can issue new debt or buy and sell debt instruments (usually in the form of bonds).
Counterparty	Institutions such as Banks and institutional investors (such as pension funds, insurance companies etc.)
Credit rating	An evaluation of the credit worthiness of a counterparty, i.e. their ability to repay debt made by a credit rating agency. A summary table of all credit ratings has been included in Appendix 3.
Credit Rating Agencies	Companies that evaluate, assess and then rate the financial standing of Corporations and Institutions. There are three main credit rating agencies; Moody's, Standard & Poor and Fitch.
Derivatives	Financial Instruments that provides the opportunity of reducing risk exposures such as interest rate, inflation rate and exchange rate
Forward Rate Agreement (FRA)	A Legally binding agreement between two parties committing to swap related payments from variable rate into fix rates (or vice versa) at a Future Date
Interest Rate Cap	An agreement under which a maximum interest rate is agreed between the Bank and the borrower, known as the strike rate. This allows the borrower to take advantage of low interest rates up to the agreed strike rate in return for a premium. This premium is similar to an insurance premium, in that it allows for the borrower to be protected against increases in interest rate above the strike rate.
Interest Rate Collar	Where an interest rate cap is an agreement for a maximum interest rate exposure, and an interest rate floor agrees a minimum interest rate cost, an interest rate collar is a contract combining an interest rate cap and an interest rate floor and hence sets a lower and upper limit on the interest rate exposure of the borrower. The borrower therefore **buys** a cap and **sells** a floor
Interest Rate Swaps	Legally binding agreement between two parties to exchange (swap) interest streams with different characteristics i.e. fix to variable and variable to fix, on the same principle amount.