

Registered Number: 9051219

HM Treasury UK Sovereign Sukuk PLC

Annual Report and Account

For the period 21 May 2014 to 31 March 2015

HM Treasury UK Sovereign Sukuk PLC

CONTENTS

	Page
Corporate information	3
Directors' report	4
Strategic report	5
Statement of directors' responsibilities	7
Independent auditor's report	8
Statement of Comprehensive Income	10
Statement of Financial Position	11
Statement of Changes in Equity	12
Statement of Cash Flows	13
Notes to the Financial Statements	14

Corporate Information

Date of incorporation

21 May 2014

Registered number

9051219

Directors

James Richardson

James Neilson

Directors' third party indemnity provision

HM Treasury ("the Treasury") has provided the directors of HM Treasury UK Sovereign Sukuk PLC with a third party indemnity provision which can be regarded as qualifying under section 234 of the Companies Act 2006.

Company secretary

Olivia Halliday and Elemental CoSec

Registered office

27 Old Gloucester Street

London

WC1N 3AX

External auditor

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

London

SW1W 9SP

Directors' Report

The directors present their report and financial statements for the accounting period of HM Treasury UK Sovereign Sukuk PLC (the "Company") from 21 May 2014 to 31 March 2015. The directors of the Company, who served throughout the period, are James Richardson, Director of Fiscal Group and Deputy Chief Economic Adviser, HM Treasury and James Neilson, Deputy Director, General and Public Service Pensions Team, Treasury Legal Advisors, Government Legal Department.

Where there is an election to set out information in either the Strategic or Directors' Report, the directors have chosen the Strategic Report. This information, required under sections 414c and 417 of the Strategic and Directors' Report respectively, includes a fair review of the development and performance of the business of the company, a description of the principal risks and uncertainties facing the company, the position at the period-end and an analysis using financial key performance indicators. It also includes an indication of likely future developments in the business.

Principal activity

The Company was incorporated on 21 May 2014 as HM Treasury UK Sovereign Sukuk PLC. Its sole activity is to issue and service £200 million of Sukuk certificates due in 2019. Issuance occurred on 2 July 2014.

Governance

The Company draws its staff resource from HM Treasury and the Government Legal Department and operates in general under the governance and control arrangements in place for the Treasury. These arrangements are described in the Treasury Annual Report and Accounts and have not been duplicated in this report. The HM Treasury Annual Report and Accounts are published at <https://www.gov.uk/government/collections/hmt-annual-report>.

In addition to providing staff resources free of charge to the Company, the Treasury also reimburses the Company's other minor administrative costs.

Dividend

The directors have recommended that no dividend be paid for the period.

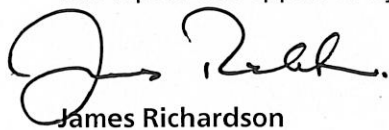
Audit

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor 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.

This report was approved by the board on 16 September 2015 and signed on its behalf.



James Richardson
Director

Registered company number: 9051219

Strategic Report

In preparing this strategic report, the directors have complied with s414c of the Companies Act 2006.

HM Treasury UK Sovereign Sukuk PLC (the "Company") was incorporated in May 2014. It was created to enable the UK government to issue the UK's first sovereign Sukuk (the sharia-compliant equivalent of bonds). The Company successfully issued the Sukuk on 2 July 2014, thereby meeting the key strategic objective for the company.

Each Certificate represents undivided beneficial ownership interest in a Head Lease on the Trust Assets, which comprise three central government properties. The Certificates, with a total value of £200 million, entitle investors to Periodic Distributions twice a year (22 January and 22 July) at a fixed rate of 2.036% per annum, until the Certificates mature on 22 July 2019.

The £200 million proceeds from the issuance of the Sukuk, is held in the National Loans Fund (NLF), on behalf of the Secretary of State for Communities and Local Government (DCLG). In return, DCLG has granted the Company a 99-year Head Lease on the Trust Assets. The Trust Assets are held on Trust by the Company for the investors.

NLF, on behalf of DCLG, pays a fixed rate of return of 2.0385% per annum equal to the Periodic Distributions plus Excess Rent. The rate represents income from the five year sublease on the Trust Assets awarded by the Company to DCLG. On 22 July 2019, the sublease will expire and this arrangement will terminate. The Company's administrative costs and staff resources are provided for by HM Treasury.

On 22 January 2015, the Company paid its first Periodic Distributions totalling £2.26 million, funded from its return on investments of £2.263 million. The Company recognises income and expenditure on an accruals basis, and for the period ended 31 March 2015, it made a small profit after tax of £2,983, in line with expectations.

Note 12 in the accounts outlines the nature and extent of financial instrument risk arising from the Company's activities.

The Company's key performance indicators are the rates of return paid on the investment and the Certificates. These indicators are straightforward to manage as the rates are fixed. The Company monitors the rates by confirming that the returns have been calculated correctly.

The Directors have completed an assessment and have concluded that the Company is a going concern. The financial statements have therefore been prepared on a going concern basis.

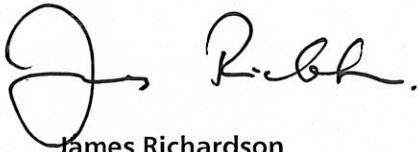
The following points were key in forming this conclusion:

- the Company is expected to continue to accomplish its objectives and fund its liabilities and contractual obligations as they fall due;
- no items were identified that cast a substantial doubt on the Company's ability to continue as a going concern;
- the Company does not have any notable business risks as fixed rates of return are paid to the Company for the investment, and subsequently paid to investors for the certificates.
- the investment is deemed to be secure, given it was made in a central government body, in exchange for a Head Lease on Trust Assets comprising three central government properties; and
- the Company's arrangements with HM Treasury to continue to meet insignificant costs as detailed in Note 15 and the Company's liability to certificate holders for the duration of its life.

Future developments

The directors expect the general level of activity to remain consistent with 2015 in the forthcoming years until the maturity of the Certificates. This is as a result of the nature of the business with fixed determinable finance payments and receipts. There will be no other business, and no change is expected until redemption of the Certificates.

This report was approved by the board on 16 September 2015 and signed on its behalf.

A handwritten signature in black ink, appearing to read 'J Richardson'.

James Richardson
Director

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss for the period.

In preparing the financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This report has been approved by the Board of Directors and is signed by the Accounting Officer, also Director, on behalf of the Board of Directors.

The Accounting Officer of HM Treasury has designated one of the Directors as Accounting Officer of the Company. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Company's assets, are set out in Managing Public Money, published by HM Treasury.



James Richardson
Director
16 September 2015

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF HM TREASURY UK SOVEREIGN SUKUK PLC

I have audited the financial statements of HM Treasury UK Sovereign Sukuk plc for the financial period ended 31 March 2015 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

Respective responsibilities of the directors and the auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My 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 me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Directors' Report and Strategic Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2015 and of the profit for the period then ended; and
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- the financial statements have been prepared in accordance with the Companies Act 2006.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which I report by exception

I have nothing to report in respect of the following matters where the Companies Act 2006 requires me to report to you if, in my opinion:

- adequate accounting records have not been kept; 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
- I have not received all of the information and explanations I require for my audit.



Matthew Kay (Senior Statutory Auditor)
16 September 2015

For and on behalf of the
Comptroller and Auditor General (Statutory Auditor)
National Audit Office
157-197 Buckingham Palace Road
London
SW1W 9SP

HM Treasury UK Sovereign Sukuk PLC

Statement of Comprehensive Income
For the period 21 May 2014 to 31 March 2015

	Note	2014-15 £000
Net operating (income)/expenditure	15	-
Return on investments	2.1	(3,040)
Periodic distributions	2.2	3,036
Net (income)/expenditure before tax		(4)
Taxation	6	1
Net (income)/expenditure after tax		(3)

All income and expenditure are derived from continuing operations.

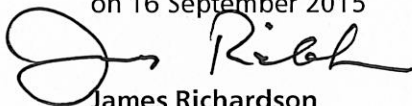
The notes on pages 14 to 20 form part of these financial statements.

HM Treasury UK Sovereign Sukuk PLC

Statement of Financial Position as at 31 March 2015

	Note	At 31 March 2015 £000
Non-current assets		
Investments	3	200,000
Other receivables		50
		<u>200,050</u>
Current assets		
Accrued income		777
Cash and cash equivalents		3
		<u>780</u>
Total assets		<u>200,830</u>
Current liabilities		
Accrued distributions		(776)
Current tax liabilities	6	(1)
Total current liabilities		<u>(777)</u>
Non-current liabilities		
Sukuk certificates	4	(200,000)
		<u>(200,777)</u>
Total liabilities		<u>(200,777)</u>
Net assets		<u>53</u>
Equity		
Share capital	8	50
Retained earnings	9	3
Total equity		<u>53</u>

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 16 September 2015



James Richardson
Director

The notes on pages 14 to 20 form part of these financial statements.

HM Treasury UK Sovereign Sukuk PLC

Statement of Changes in Equity
For the period 21 May 2014 to 31 March 2015

	Share capital £000	Retained earnings £000	Total £000
Opening position	-	-	-
Issue of share capital	50	-	50
Profit for the period	-	3	3
At 31 March 2015	50	3	53

The notes on pages 14 to 20 form part of these financial statements.

HM Treasury UK Sovereign Sukuk PLC

Statement of Cash Flows
For the period 21 May 2014 to 31 March 2015

	Note	2014-15 £000
Operating activities		
Net operating (income)/expenditure	SoCI	-
Increase in receivables		(777)
Increase in payables		777
Net cash flow from operating activities		<u>-</u>
Investing activities		
Purchase of investments		(200,000)
Investment income		2,263
Net cash outflow from investing activities		<u>(197,737)</u>
Financing activities		
Issuance of Sukuk		200,000
Periodic Distribution Payments		(2,260)
Net cash inflow from financing activities		<u>197,740</u>
Net increase/(decrease) in cash and cash equivalents	10	3
Cash and cash equivalents at beginning of period	SoFP	-
Cash and cash equivalents at end of period	10	<u>3</u>

The notes on pages 14 to 20 form part of these financial statements.

Notes to the Financial Statements

1. Statement of accounting policies

HM Treasury UK Sovereign Sukuk PLC (the Company) is a public limited company incorporated on 21 May 2014 and domiciled in the United Kingdom. These are the first financial statements of the Company and cover the period from 21 May 2014 to 31 March 2015.

These financial statements were authorised for issue by the Board of directors on 16 September 2015 and the Statement of Financial Position was signed on the board's behalf by James Richardson.

These financial statements are prepared in accordance with EU adopted IFRS and Interpretations. They also take account of requirements in the Government Financial Reporting Manual (FRoM) where these are material and do not conflict with EU adopted IFRS.

The Company's financial statements are presented in Pound Sterling and all values are rounded to the nearest thousand pounds (£000). The Company's results are included in the consolidated financial statements of the HM Treasury Group which are available at:

<https://www.gov.uk/government/collections/hmt-annual-report>.

1.1 IFRS in issue but not yet effective

These financial statements apply the EU adopted IFRS and Interpretations in place with an effective date of application of periods starting 21 May 2014 or earlier. Standards, amendments, and interpretations issued but not yet effective that have not been early adopted, and which are relevant to the Company, are:

- IFRS 9 *Financial Instruments* is effective for reporting periods starting on or before 1 January 2018 but has not been adopted by the EU. If adopted it is not expected to have a material impact on the disclosures or on the amounts recognised in the Company's financial statements.

1.2 Basis of preparation

These financial statements have been prepared on an accruals basis using the historical cost convention in accordance with EU adopted IFRS, IFRIC interpretations issued by the IFRS Interpretations Committee and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. A summary of the significant accounting policies is set out below. The preparation of the financial statements in conformity with these accounting policies and generally accepted accounting principles requires the use of estimates and assumptions that affect the reported values of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amounts, events or actions, actual results ultimately may differ from those estimates.

The going concern assumption has been applied in the preparation of these financial statements for the reasons stated in the Strategic Report.

No statement of other comprehensive expenditure has been prepared as all income and expenditure is reported in the statement of comprehensive income.

1.3 Revenue recognition

All income is accounted for in line with IAS 18 Revenue Recognition.

Income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. It is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

1.4 Expenditure

Expenditure is recognised in profit or loss in the period in which it is incurred.

1.5 Taxation

1.5.1 Value added tax

The company is not registered for VAT. VAT on purchases is not recovered and is charged to the statement of comprehensive income included under the heading relevant to the type of expenditure.

1.5.2 Corporation tax

Corporation Tax is charged on the Profit before Tax at a rate of 20% for the year. There are no additional adjustments to this. There is no deferred tax in the entity.

1.6 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and other financial institutions. These are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value and have an original maturity of three months or less. The carrying amount of these assets approximates their fair value. Bank overdraft amounts will be identified separately in the Statement of Financial Position.

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

1.7.1 Categories of financial instruments

In accordance with IAS 39 Financial Instruments Recognition and Measurement, financial instruments are classified at initial recognition into the following categories: (i) financial assets at fair value through profit or loss; (ii) available-for-sale financial assets; (iii) loans and receivables; (iv) held-to-maturity financial assets; (v) financial liabilities at fair value through profit or loss; or (vi) financial liabilities at amortised cost. The Company holds loans and receivables and financial liabilities at amortised cost.

Loans and receivables are non-derivative financial assets and liabilities with fixed or determinable payments that are not quoted in an active market.

Financial liabilities at amortised cost are the default category for financial liabilities that do not meet the definition of financial liabilities at fair value through profit or loss.

Amortised cost is the amount measured at initial recognition, adjusted for subsequent principal and other payments, less cumulative amortisation calculated using the effective interest rate (EIR) method at the rate applicable at the date of recognition. Amortisation is taken to income or expense depending on whether the instrument is an asset or a liability. For assets, the amortised cost balance is reduced where appropriate by an allowance for amounts which are considered to be impaired or uncollectible.

1.7.2 Measurement of financial instruments

Loans and receivables are carried at amortised cost at the rate applicable at the date of recognition, less any impairment, with any impairment being charged to the Statement of Comprehensive Income.

Financial liabilities at amortised cost are measured at amortised cost using the effective interest method, allocating the expense over the relevant period.

Transactions are accounted for on trade date.

1.7.3 Impairment of financial assets

Financial assets carried at amortised cost are reviewed for indications of possible impairment throughout the year and at each published reporting date. Generally, an impairment loss is recognised if, and only if,

there is objective evidence that a loss event (or events) has occurred after initial recognition and before the reporting date and has a reliably measurable impact on the estimated future cash flows of the financial asset or group of financial assets. Losses that are incurred as a result of events occurring after the reporting date are not recognised.

1.7.4 De-recognition of financial instruments

Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or where HM Treasury has transferred substantially all risks and rewards of ownership.

Financial liabilities are de-recognised when they are extinguished. That is, when the obligation is discharged, cancelled or expires.

2. Income and Expenditure

2.1 Return on investments

The £200 million proceeds from the issuance of the Sukuk, is held in the National Loans Fund (NLF) on behalf of the Secretary of State for Communities and Local Government (DCLG). In return, DCLG has granted the Company a 99-year Head Lease on the Trust Assets. The Trust Assets are held on Trust by the Company for the investors.

The NLF, on behalf of DCLG, pays the Company a fixed rate of return of 2.0385% per annum equal to the Periodic Distributions plus Excess Rent, recognised in these accounts using the effective interest method, which allocates expense over the full accounting period based on contractual rates. The rate represents income from the five year sublease on the Trust Assets awarded by the Company to DCLG. On 22 July 2019, the sublease will expire and this arrangement will terminate.

2.2 Periodic Distributions

The Company pays Periodic Distributions twice a year (22 January and 22 July) at a fixed rate of 2.036% per annum, until the Sukuk Certificates mature on 22 July 2019. The Periodic Distributions represent income in relation to the Trust Assets and are recognised in these accounts using the effective interest method, which allocates income over the full accounting period based on contractual rates.

On 22 January 2015, the Company paid its first Periodic Distribution totalling £2,260,000, funded from its return on investments of £2,262,776.

3. Investments

The Company has financial assets which are investments comprising of £200 million held with the NLF on behalf of DCLG, in return for the 99-year Head Lease on the Trust Assets. The £200 million earns a fixed rate of return of 2.0385% (with respect to the 5 year sublease of the Trust Assets back to DCLG by the Company) per annum, equal to the Periodic Distributions plus Excess Rent, payable biannually. On 22 July 2019, the sublease will expire and this arrangement will terminate.

4. Sukuk certificates

The Company has financial liabilities as it has issued Certificates of £200 million. The Certificates were issued on 2 July 2014 and are due for redemption in full on 22 July 2019. The Certificates pay Periodic Distributions to investors at a rate of 2.036% per annum.

5. Auditor's remuneration

HM Treasury pay fees to the National Audit Office for the audit of the company's annual accounts on behalf of the Company. The fees were £22,800. This is the first year of account, and no audit fee was payable relating to the prior year.

6. Taxation

	2014-15 £000
Corporation Tax charge for the year	1

The corporation tax charge is based on the profit before tax arising for the period 21 May 2014 to 31 March 2015 at 20%.

7. Deferred tax

There are no deferred tax assets or liabilities for the period 21 May 2014 to 31 March 2015.

8. Share capital

	2014-15 £000
Authorised equity: 50,000 ordinary shares issued at £1 each	50
Authorised equity: Allotted, issued and fully paid up	50

In accordance with the Companies Act 2006, the Company does not have authorised capital other than its issued capital.

The Ordinary shares rank equally in respect of rights attached to voting, dividends and in the event of a winding up. The shares carry no right to fixed income. No dividends were declared or paid in 2014-15 on the Company's Ordinary shares.

9. Retained earnings

	2014-15 £000
Balance at 1 April 2014	-
Net profit for the year	3
Balance at 31 March 2015	<u>3</u>

10. Notes to the cash flow statement

	2014-15 £000
Opening balance	-
Cash and bank balances	3
Balance at 31 March 2015	<u>3</u>

11. Financial instruments

	Note	At 31 March 2015 £000 Carrying value	At 31 March 2015 £000 Fair value
Financial assets			
Investments	3	200,000	208,720
Other receivables		50	50
Accrued income		777	777
Cash and cash equivalents		3	3
Total financial assets		200,830	209,550
Financial liabilities			
Accrued distributions		(776)	(776)
Current tax liabilities	6	(1)	(1)
Sukuk certificates	4	(200,000)	(208,720)
Total financial liabilities		(200,777)	(209,497)

All the financial assets fall within the category of 'loans and receivables' and all the financial liabilities fall within the category of 'financial liabilities at amortised cost' as defined in 'IAS 39 Financial Instruments Recognition and Measurement'. Further information on the accounting for financial instruments under IAS 39 is given in Note 1.

The fair value of the Certificates has been calculated by reference to the market price as at 31 March 2015. The fair value of the investment is considered to be the same given it has materially the same return, same payment profile and same maturity date.

12. Financial instruments risk

This section looks at the nature and extent of risk arising from the financial instruments.

12.1 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company is exposed to credit risk in relation to the £200 million investment held by the NLF on behalf of DCLG and the annual return on investments of 2.0385%. The £200 million investment is to be returned to the Company on maturity of the Sukuk. Under Sukuk's legal structure, these are payment obligations of DCLG, but will be paid by the NLF. The NLF is the Government's main borrowing and lending account, and in consideration of the Government's high credit rating, default on payments is considered extremely unlikely. In addition, the Treasury has entered into a Procurement Undertaking in favour of the certificate holders of the Sukuk, in which the Treasury undertakes to procure the payment of any payment obligation of DCLG on its behalf. Consequently the credit risk that the Company is exposed to is deemed to be insignificant.

As detailed in Note 15, related party transactions, the NLF is administered by the Treasury, who is in turn the ultimate controlling party of the Company.

12.2 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Company is exposed to liquidity risk in relation to the £200 million investment and Periodic Distributions, as described in the credit risk section above. However, the exposure to liquidity risk is insignificant given the

timing of payments of periodic distributions are matched with the timing of receipts from the return on investments.

The following table shows the remaining contractual maturities (nominal) of the financial liabilities:

Year	Certificates £000
Due within 1 year	4,072
Due between 1 and 5 years	214,252
	<hr/> 218,324 <hr/>

12.3 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The fair value of the certificates does fluctuate as a result of factors such as market interest rates, which may expose certificate holders to some market risk, as usual with most investments. The Company is not exposed to market risk, as it receives a fixed rate of return on its investments, the amount payable under periodic distributions to certificate holders is also fixed, and it will redeem the certificates at face value.

13. Capital management

The companies' objectives when managing capital are:

- To safeguard the entity's ability to continue as a going concern so that it can continue to meet its financial obligations as and when they fall due.
- To provide fixed returns to investors by ensuring the existing revenue stream is maintained, and by effectively collecting its receivables.

The company has a straightforward method for managing capital, as returns are fixed and therefore profits stable. In order to maintain the capital structure, which comprises of share capital and retained earnings, the company regulates the amount of dividends paid to shareholders.

The company is not subject to any externally imposed capital requirements.

14. Parent company

As at 31 March 2015, the Company is a wholly owned subsidiary of HM Treasury, owned by the Treasury Solicitor as nominee shareholder. In the opinion of the directors, the company's ultimate parent company and ultimate controlling party is HM Treasury. It is registered in England and Wales and operates in the United Kingdom. Its principal place of business is:

1 Horse Guards Road
London SW1A 2HQ

Consolidated accounts of the HM Treasury Group can be obtained from the above address or via <https://www.gov.uk/government/collections/hmt-annual-report>

15. Related party transactions

HM Treasury as the ultimate controlling party of the Company, is a related party. An arrangement exists between HM Treasury and the Company, whereby the Treasury meets the operating costs of the Company, such as transaction costs or audit costs. As a result the Company is not expected to incur any costs other than the Periodic Distributions and corporation tax.

As detailed in the strategic report, the £200 million received from investors for issuance of certificates, is held in the NLF, on behalf of DCLG, a central government body. (DCLG is not consolidated into the Treasury

Group.) Each Certificate represents undivided beneficial ownership interest in a Head Lease on the Trust Assets, which comprise three central government properties. In return, DCLG has granted the Company a 99-year Head Lease on the Trust Assets. The Trust Assets are held on Trust by the Company for the investors.

The NLF is administered by HM Treasury and is a related party of the Company. NLF, on behalf of DCLG, pays a fixed rate of return to HM Treasury of 2.0385% per annum equal to the Periodic Distribution Amounts plus Excess Rent in respect of the deposit. The rate represents income from the five year sublease on the Trust Assets awarded by the Company to DCLG. During the year, NLF paid £2.263 million to the Company in relation to the sublease.

There have been no transactions between the Company and key members of the management (or any other HM Treasury staff).

16. Events after the balance sheet date

There were no events after balance sheet date material to the financial statements.

17. Date of authorisation for issue of the financial statements

These financial statements were authorised for issue by a Director of the company on 16 September 2015.