Registered number: 03049877

Kensington Mortgage Company Limited

Annual report and audited financial statements for the year ended 31 March 2022

Contents

Company information

Directors	J D Almond M J Preston D S Miller M J Arnold A Filshie
Registered office	Ascot House Maidenhead Office Park Maidenhead SL6 3QQ
Independent auditor	KPMG LLP 15 Canada Square Canary Wharf London E14 5GL
Registered number	03049877

Kensington Mortgage Company Limited

Strategic report
for the year ended 31 March 2022

The directors present their strategic report for the year ended 31 March 2022.

Introduction

The principal activity of Kensington Mortgage Company Limited (the "Company") is originating mortgages and providing mortgage administration services. The Company is headquartered in Maidenhead with a further office in London.

The Company is authorised by the Financial Conduct Authority (the "FCA") for regulated activities including:

- entering into regulated mortgage contracts as a lender
- administering and arranging regulated mortgage contracts

The Company is a wholly owned subsidiary of KHL Mortgage Services Limited ("KHL"), previously known as Kensington Holdco Limited, and the results of the Company will be included in the consolidated financial statements of KHL (the "Group"). KHL is in turn a wholly owned subsidiary of Koala (Cayman) Limited, a company incorporated in the Cayman Islands, and is ultimately owned by funds managed Blackstone Tactical Opportunities Advisors L.L.C. and Sixth Street Partners LLC. The largest group in which the results of the Company are consolidated is Koala (Cayman) Limited (the "Koala (Cayman) Group").

Business review

During the year, the Company continued to execute its strategy, values and brand proposition. In particular:

- New lending for the year almost doubled that achieved in the 2020/2021 year as our sales team restarted face to face visits with brokers and we launched a range of new products targeted at the post COVID-19 environment.

- During the year, we also launched our first product that was not funded through the securitisation markets. Our new and innovative Flexi Fixed for Term mortgage offers borrowers the opportunity to fix their monthly payments for the full term of the loan and is funded by Rothesay Life. Over the summer we also rolled off the last customers still on payment holidays from the COVID-19 pandemic.

- We continued to invest in building our digital capabilities with a range of enhancements made to the online broker and underwriter portal launched in 2020, and the launch of a new digital process for offering customers coming to the end of their fixed rate period the opportunity to switch into a new fixed rate product.

- We enhanced the operating business model built in 2020/2021 to allow for greater employee flexibility and expansion with the opening of our upgraded Maidenhead office and a new, more flexible London office. The new working model also allows us to recruit from a national talent pool and over 20% of employees are now homebased. Employee engagement remains very high at 95% in the January 2022 survey.

- The Company sees environmental, social and governance ("ESG") factors as key to its long-term performance and as a result, ESG has been integrated into its business strategy. In August 2020, the Company and the Group published its first set of ESG targets for its 2020/2021 financial year. To date all of these targets were achieved.

Kensington Mortgage Company Limited

Strategic report
for the year ended 31 March 2022

The Company delivered mortgage originations of £1,611.0m (2021: £817.5m) excluding retentions. This result is attributed to the Company's ability to maintain a continuous product offering to customers throughout the pandemic, significant past experience with complex underwriting, re-allocation of resource, investment in technology, proactive management, strong cash management processes and the benefits of the Stamp duty freeze on demand.

The Company originates mortgages primarily on behalf of KHL and immediately passes on the risks and rewards of those mortgages to KHL, earning an origination fee based on a percentage of the face value of mortgages originated. Previously, until 12 March 2020, the risks and rewards of the mortgages were passed on to another related Koala (Cayman) Group company, Koala Warehouse Limited ("KWL"). In the year to 31 March 2022, the fees received on mortgage originations totalled £33,672,000 (2021: £24,814,000)..

Mortgage administration fee income of £28,272,000 (2021: £32,811,000) has decreased due to lower fees being charged on new deals compared to those charged on older deals, which are reducing as a proportion of serviced assets. As of 31 March 2022, total serviced assets were £9.4bn (2021: £10.4bn).

The results for the year ended 31 March 2022 are set out on page 18 and the financial position of the Company at the end of the year is deemed satisfactory.

The profit for the year, after taxation, amounted to £6,646,000 (2021: profit of £220,000). The statement of financial position on page 19 shows the Company's financial position at the year end.

Principal risks and uncertainties

The Company originates mortgage loans and immediately transfers the risks and rewards of these mortgages to its parent company, KHL. The Company is dependent on the liquidity of other Group companies in providing the funds for the mortgage loans and reimbursing the Company for any costs incurred in connection with their origination together with the related origination fee. The Company is exposed to the risk of non-performance of the Group in reimbursing the amounts owed on the sale of these loans. These risks are mitigated through daily settlement of originated mortgage balances, continuous Group-wide cash flow management and periodic review and settlement of intercompany positions.The residential property market was adversely impacted at the start of the COVID-19 global crisis, which led to a substantial reduction in mortgage originations. However, since mid-2020, the market has re-bounded, underpinned by rising house prices, and originations have recovered strongly during the year. The Group carefully monitors and controls the level of new originations in order to ensure that service levels and liquidity levels are maintained. As of 31 March 2022, the Group had over £1.2bn unutilised warehouse funding capacity and the Company held cash of £36.7m. On the same date, the Company had £465m of committed offers to customers. The warehouse capacity and the unencumbered cash resources give the Group sufficient capacity to meet its obligations to customers, suppliers, employees and other third parties. Whilst liquidity availability in the market continues to be resilient, management continue to calibrate origination volumes and cost commitments taking into account available liquidity.

The impact of political and economic matters that have arisen, in particular the Russian invasion of Ukraine in February 2022 and rising inflation, on the regional and global economy remains uncertain and is difficult to assess in terms of duration and severity. The effect on markets and cost of living may have an adverse impact on the Company including future cash flows, however the potential impact at this stage is not known. The Company will continue to monitor market conditions and to evaluate the potential impact, if any, on its operations going forward.

Risk management

Risk management is carried out consistent with the Group's risk management framework. The Group's risk management approach seeks to minimise the potential adverse effects of these risks on the financial performance of the Company.

The Company originates mortgages on behalf of the Group and immediately transfers the risks and rewards of originated mortgages to KHL. As such, the Company does not recognise mortgages on its statement of financial position and is not exposed to their risks, but instead earns a fee from KHL for their origination. The success of these origination activities is dependent on the economic climate supporting the environment for new mortgages. The Company, however, remains exposed to conduct risk over originated mortgages. The statement of financial position contains other financial instruments that are detailed below. The Company does not use derivative products.

The main risks arising from the Company's operations related to those other financial instruments are operational risk, liquidity risk, market risk and credit risk. Due to the nature of the Company's activities, it is the opinion of the directors that the Company is not exposed to significant financial instruments risk. However, the directors review and agree policies for managing each of these risks and they are summarised below.

a) Conduct risk

Conduct risk is the risk of not delivering fair customer outcomes. As the originator, FCA-regulated administrator and lender of record in relation to the Group's new mortgage activity, the Company will be exposed to the financial costs and regulatory consequences of the need to take action to remedy any customer detriment arising from failures in areas such as designing products to meet customer needs, ensuring products are clearly and fairly described and are administered and perform in line with the way they have been marketed and sold to customers. The conduct risk is managed in line with the overall risk management framework as described in the operational risk section below. The management of conduct risk has been factored into processes developed for supporting customers impacted by COVID-19. This has included taking account of regulatory guidance relating to the provision of payment holidays and the suspension of repossession activity.

b) Operational risk

Operational risk is defined as any instance where there is potential or actual impact to the Company resulting from inadequate or failed internal processes, people, systems or from external events. The impacts can be financial as well as non-financial such as the costs of remedial actions or reputational consequences..

Whilst the Company is exposed to operational risks, it operates under the controls and governance framework enshrined in its risk management framework. This includes an industry standard three lines of defence model including an outsourced independent internal audit function and tested business continuity plans. The Company's operational functions operate under the oversight of the Risk Committee, Audit Committee and the Board.

c) Liquidity risk

The Company is exposed to liquidity risk to the extent that it is unable to meet its daily payment obligations.

To support its liquidity requirements, the Group operates cash flow management processes and maintains adequate cash reserves both at the Company and Group level. In order to manage the overall liquidity risk, the Company undertakes a stress testing exercise on an annual basis to review minimum cash requirements and the cash position is monitored against these minimum cash requirements on a daily basis. In the COVID-19 environment, management has developed a daily cash flow forecasting model and COVID-19 idiosyncratic stress tests and are updating the models and reviewing the outputs from such analysis on a frequent basis at ALCO (Asset and Liability Committee).

d) Market risk

Market risk would exist for the Company if the costs of origination of mortgages exceeds the rate at which these costs are reimbursed. As appropriate, in line with transfer pricing guidelines, the Company is permitted to earn a market level of return on its origination activities and the fees charged to KHL are monitored and reset periodically. The Company retains the option to review transfer pricing or to ask the Group to make good the costs of capacity retention for the benefit of the overall Group through structures including capital infusion.

e) Credit risk

Credit risk is the risk of potential loss from a counterparty default. Debtors primarily consist of receivables from fellow Koala (Cayman) Group companies and under certain third-party servicing contracts. These receivables are payable primarily by securitisation companies and are senior to AAA rated note interest in the hierarchy of securitisation payment flows and therefore the company has very low exposure to credit risk.

Future business development and strategy

The directors expect the business will continue in its principal activities described above for the foreseeable future and will ensure that customers continue to be serviced on a business as usual basis.

The business is subject to a number of risks detailed under the principal risks and uncertainties section, which could adversely affect the business in future years, and the directors will continue to monitor and manage those risks.

Statement under section 172 of the Companies Act 2006

When taking decisions, the directors have access to functional assurance support to identify matters which may have an impact on the proposed decision including, where relevant, the likely consequences of the decision in the long term, the interests of the Company's employees, the need to foster the Company's business relationships with suppliers, customers and others, the impact of the Company's operations on the community and the environment, the desirability of the Company maintaining a reputation for high standards of business conduct and the need to act fairly as between members of the Company.

Matters identified that may affect the Company's performance in the long term are set out in the principal risks disclosed in the strategic report set out under "Principal risks and uncertainties".

Kensington Mortgage Company Limited

Strategic report
for the year ended 31 March 2022

The Company has engaged with key stakeholders as described under "Engagement with stakeholders" and the feedback from the engagement has been considered by the directors during the decision making process.

The principal decisions taken by the directors during the year included among other related matters, the decision taken to operate a fully hybrid working model on an ongoing basis. The Maidenhead office was already reconfigured to support this arrangement, and an agreement was entered into for a new Serviced office in London. The impact and benefits to employees along with potential impacts on our customers will continue to be monitored however there were no reported negative impacts.

A full communications programme was developed, ahead of the announcement of the acquisition by Barclays Bank UK PLC (see below), to meet the needs of both internal and external audiences. We have committed to keeping stakeholders informed as we go through the period to completion and a schedule of communication activity is in place to achieve this. For employees we have already confirmed that they will remain employees of the Company, there are no redundancies planned because of the transaction and working patterns and terms and conditions will remain the same.

Events after the statement of financial position date

On 24 June 2022, it was announced that Barclays Bank UK PLC will be acquiring 100% of the shares in the Company and mortgages originating by the Company from October 2021 to completion of the acquisition. The transaction is subject to regulatory approval.

Apart from the above, there have been no matters that warrant adjustment to the Company's financial statements as at 31 March 2022 and for the year then ended.

This report was approved by the Board on 13 July 2022 and signed on its behalf by:

M J Arnold
Director

Date: 13 July 2022

Kensington Mortgage Company Limited

Directors' report
for the year ended 31 March 2022

The directors present their report and the audited financial statements for the year ended 31 March 2022.

Results and dividends

The profit for the year, after taxation, amounted to £6,646,000 (2021: profit of £220,000).

The directors do not recommend the payment of a dividend (2021: £nil).

Future developments

An assessment of the Company's future developments is described in the strategic report under the future business developments and strategy section.

Financial instruments

An assessment of the Company's financial instruments is described in the strategic report under the principal risks and uncertainties section.

Directors

The directors who held office during the year and up to the date of signing of the financial statements (except as noted below), are given below:

J D Almond
M J Preston
D S Miller
M J Arnold
A Filshie

None of the above mentioned directors are directors of the ultimate parent company, or had beneficial interests in the share capital of the Company during the year ended 31 March 2022. There are no directors' interests requiring disclosure under the Companies Act 2006.

Company secretary

Company secretarial duties are undertaken on behalf of the Company by a service provider who is overseen and monitored by employees of the Company.

Directors' indemnity and directors' and officers' liability insurance

The Koala (Cayman) Group maintains a directors' and officers' liability insurance policy including for the benefit of the Company. In accordance with the Company's Articles of Association, the Board may also indemnify a director against any costs or liabilities incurred as a result of their office, to the extent permitted by law. Neither the insurance policy nor any indemnities that may be provided by the Koala (Cayman) Group for the Company provide cover for fraudulent or dishonest actions by the directors. However, costs may be advanced to directors for their defence in investigations or legal actions. This indemnity provision remains in force as at the date of approving the directors' report.

Directors' report
for the year ended 31 March 2022

Corporate and social responsibilities

The Company operates in accordance with the Group policies described in the KHL Mortgage Services Limited ("KHL"), previously known as Kensington Holdco Limited, consolidated financial statements which does not form part of this report.

Going concern

In order to assess the strength of the Company's capital and cash resources, the directors considered a forecast base case and downside scenario reducing the future origination volumes by a substantial amount versus current expectations for the period from April 2022 to July 2023. This scenario reduces the profitability of the Company and thus also reduces its cash resources before borrowing. Under both the base case and the downside scenarios, the Company is expected to maintain a significant buffer over its regulatory capital requirements and to maintain adequate cash resources to meet its obligations. The directors note that the Company has a £250m loan facility from its parent, KHL, of which, £1.5m has been drawn down as of the statement of financial position date. The directors understand that the ability for the Company to meet its obligations under both the base case and the downside scenario is predicated on its ability to access funds from KHL. Consideration of the financial resources of KHL was undertaken to support the going concern analysis of the Company, which has both adequate warehousing capacity and adequate funding line headroom to support the planned future origination volumes during the period considered. The directors note that the governance structures within the Group, namely KHL ALCO and KHL Board monitor the level of warehouse and funding line capacity to ensure that KHL can meet its obligations to the Company under the conditions of the forward mortgage sale agreement.

Subsequently to year end, Barclays Bank UK PLC have agreed to acquire the Company as a going concern, subject to regulatory approval. As at the point of sale, the current sources of funding will be replaced by funding from the new parent company. The directors expect that this will increase the level of funding available to the Company.

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

Creditor payment policy

The Company agrees terms and conditions with its suppliers on behalf of other Koala (Cayman) Group companies in connection with its activities as their agent. Payment is then made on the terms agreed, subject to the appropriate terms and conditions being met by the supplier. The trade creditor days have not been stated as the measure is not appropriate to the business.

Events after the statement of financial position date

On 24 June 2022 it was announced that Barclays Bank UK PLC will be acquiring 100% of the shares in the Company and mortgages originating by the Company from October 2021 to completion of the acquisition. The transaction is subject to regulatory approval.

Apart from the above, there have been no matters that warrant adjustment to the Company's financial statements as at 31 March 2022 and for the year then ended.

Principal risks and uncertainties

The business is subject to a number of risks, described in the strategic report under the principal risks and uncertainties section, which could adversely affect the business in future years and the directors will continue to monitor and manage those risks.

Employees

Attracting, developing and retaining the skills we needed to deliver on our strategy was a key imperative for the Company. Where changes to working practices or structure affected staff, they were consulted and given appropriate support.

All employees were provided with information on matters of concern to them in their work, through regular briefing meetings and internal publications.

A range of methods are used to ensure all employees receive the information they need to perform their roles effectively and drive their engagement within the business. In addition to companywide activities including virtual town halls, intranet site, Microsoft Teams channels, VLOGs, employees are encouraged to be actively involved in team meetings, focus groups and insight sessions. These communications cover a range of subjects including business updates, performance results, key projects, future plans and recognition of employee achievements. All these activities encourage two-way communication and feedback. The Company has also encouraged employees to become actively involved in matters such as Diversity, Inclusion and Wellbeing, and these groups take ownership for raising awareness, and agreeing and delivering actions to drive these subjects forward.

Regular pulse surveys take place to seek feedback from all employees on a range of employee experiences including Leadership, Management, Communication and Wellbeing. The results are shared with employees and actions plans are agreed, implemented and monitored to address any areas requiring improvement. The results and action plans are also presented to the directors.

The Company Purpose and Values provide the framework for all employee practices - recruitment, induction, training, communication, performance management, reward and recognition. All practices are reviewed on a regular basis to ensure they remain relevant and that they continue to drive the engagement, commitment and performance of all employees.

At 31 March 2022, the Company had 609 employees (2021: 561). Further information on employees can be found in note 6.

Disabled employees

Applications for employment by disabled persons were always properly considered, including taking into account any reasonable workplace adjustments. In the event of employees becoming disabled during employment every effort was made to support their return to work including making appropriate adjustments to facilities and working practices. It was the policy of the Group that the training, career development and promotion opportunities for disabled persons should, as far as reasonably practicable, be identical with that of other employees.

Issued capital and capital contribution

Details of the share capital are set out in note 19 to the financial statements. The issued share capital consists of £10,110,001 comprising 10,110,001 ordinary shares of £1 each.

Streamlined Energy and Carbon Reporting (SECR)

Following the Government announcing the replacement of the CRC Energy Efficient Scheme and extension of the scope of the Mandatory Carbon Reporting, we now report in line with new SECR regulations, which are provided below:

	2022	2021
Total scope 1 emissions (tCO2e)	19.5	7.4
Total scope 2 emissions (tCO2e)	195.8	300.7
Carbon intensity ratio (tCO2e)/m2	0.073	0.062
Total energy use (kWh) of electricity, gas and biomass use	897,872	1,207,055

Methodology

Latest carbon emission factors from the UK Greenhouse Gas Inventory have been applied to the calculated activity data in order to determine the annual quantity of emissions in tonnes of carbon dioxide equivalent (tCO2e). All conversion factors are based on gross calorific values for each kWh of energy reported.

Where verifiable data is not available, a pro-rata adjustment has been made to account for invoice dates that do not coincide with the reporting period.

Energy efficient actions taken during the year

In the summer of 2019, the Company commissioned a detailed Energy Audit at Ascot House, the Company's largest operating site, in order to analyse the energy performance of the building and identify potential energy conservation measures. The outcome report set out energy reduction ambitions to 2025, along with strategic opportunities to reduce both energy consumption and carbon emissions. The Company still continues to consider the implementation of some of the identified energy conservation measures, but this will also be dependent on landlord consent where such initiatives impact the whole of Ascot House.

Notwithstanding, the Company continues to promote the behavioural changes as outlined in the audit. Since the beginning of 2021, the activities within Ascot House have been consolidated to one floor given the low occupancy rates due to hybrid working patterns emerging since the COVID-19 pandemic. This measure is anticipated to halve the energy consumption associated with this building compared to normal operation. The Company is also continuing to ensure that the air conditioning units run in line with the building's occupational hours in relation to the area that it now occupies.

Statement of engagement with suppliers, customers and others in a business relationship

The Company aims to build enduring relationships with governments, customers, partners, suppliers and communities in the countries where it operates. The Company works with its business partners in an honest, respectful and responsible way and seeks to work with others who share the Company's commitment to ethics and compliance.

The Company's activities affect a wide variety of individuals and organisations. The Company engages with these stakeholders and listens to their differing needs and priorities as an everyday part of its business and uses the input and feedback to inform its decision making.

Kensington Mortgage Company Limited

Directors' report
for the year ended 31 March 2022

The Company participates in industry associations that offer opportunities to share good practices and collaborate on issues of importance. Additionally, the Company works with the Government and regulators on a range of issues that are relevant to its business.

The Company conducts regular reviews of its suppliers, including site visits to monitor how work is being carried out. Site visits are intended to be mutually beneficial in terms of improvement and learning opportunities.

In respect of its loan originations, the Company seeks to engage with its brokers through social media, focus groups and in-depth reviews to better understand broker's needs and seek their feedback.

Disclosure of information to the auditor

Each of the persons who are directors at the time when this directors' report is approved has confirmed 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 to make himself or herself 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 section 418(2) of the Companies Act 2006.

Auditor

The auditor, KPMG LLP, has indicated its willingness to continue in office and pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

This report was approved by the Board on 13 July 2022 and signed on its behalf by:

M J Arnold
Director
Ascot House
Maidenhead Office Park
Maidenhead
SL6 3QQ

Date: 13 July 2022

Kensington Mortgage Company Limited

Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KENSINGTON MORTGAGE COMPANY LIMITED

Opinion

We have audited the financial statements of Kensington Mortgage Company Limited ("the Company") for the year ended 31 March 2022 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

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

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KENSINGTON MORTGAGE COMPANY LIMITED

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit and the management and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.

- Reading Board and audit committee minutes.

- Using analytical procedures to identify any unusual or unexpected relationships.

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

Taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that revenue is recorded in the wrong period and the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements.

We also identified a fraud risk related to misstatement of regulatory and conduct risk provisions in response to possible pressures to meet profit targets and to the risk of bias due to the subjective nature of the balance.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included manual journals entries posted over weekends and those posted with specific key words and those posted by senior finance management;

- Cut-off testing of revenue transactions either side of the period end to assess whether revenue has been recorded the correct period; and

- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and other conduct matters. through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KENSINGTON MORTGAGE COMPANY LIMITED

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably. Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of Company's license to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity, conduct issues and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KENSINGTON MORTGAGE COMPANY LIMITED

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 12, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KENSINGTON MORTGAGE COMPANY LIMITED

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Richard Rawstron (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

15 July 2022

Statement of comprehensive income for the year ended 31 March 2022

	Notes	2022 £'000	2021 £'000
Turnover	4	70,631	65,929
Administrative expenses	5	(62,658)	(63,531)
Operating profit		7,973	2,398
Interest receivable and similar income	7	-	938
Interest payable and similar expense	8	(436)	(2,830)
Profit before taxation		7,537	506
Tax expense on profit	9	(891)	(286)
Profit and total comprehensive income for the financial year		6,646	220

All amounts relate to continuing operations.

There were no items of other comprehensive income for the year and therefore no separate statement of other comprehensive income has been presented.

The notes on pages 21 to 39 form an integral part of these financial statements.

Kensington Mortgage Company Limited

Registered number: 03049877

Statement of financial position as at 31 March 2022

	Notes	2022 £'000	2021 £'000
Non-current assets			
Intangible assets	10	14,313	13,741
Tangible fixed assets	11	2,703	2,664
Deferred tax assets	9	2,162	1,952
		19,178	18,357
Current assets			
Debtors: amounts falling due within one year	12	14,361	22,952
Cash and cash equivalents	13	36,679	25,399
		51,040	48,351
Current liabilities			
Creditors: amounts falling due within one year	15	(24,724)	(27,602)
Provisions	16	(977)	(2,270)
		(25,701)	(29,872)
Net current assets		25,339	18,479
Non-current liabilities			
Creditors: amounts falling due after more than one year	17	(1,839)	(804)
		(1,839)	(804)
Net assets		42,678	36,032
Capital and reserves			
Called up share capital	19	10,110	10,110
Capital contribution	19	1,861	1,861
Retained earnings		30,707	24,061
Total equity		42,678	36,032

The notes on pages 21 to 39 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 13 July 2022 and signed on its behalf by:

M J Arnold
Director

Date: 13 July 2022

Kensington Mortgage Company Limited

Statement of changes in equity for the year ended 31 March 2022

	Called up share capital £'000	Capital contribution £'000	Retained earnings £'000	Total equity £'000
Balance at 1 April 2020	10,110	1,861	23,841	35,812
Profit and total comprehensive income for the financial year	-	-	220	220
Balance at 31 March 2021	10,110	1,861	24,061	36,032
Profit and total comprehensive income for the financial year	-	-	6,646	6,646
Balance at 31 March 2022	10,110	1,861	30,707	42,678

The notes on pages 21 to 39 form an integral part of these financial statements.

Notes to the financial statements for the year ended 31 March 2022

1. General information

The principal activity of the Company is arranging mortgages and providing mortgage administration services.

The Company is a private company limited by shares and was incorporated in and is domiciled in England, United Kingdom. Its principal place of business is its registered office located at Ascot House, Maidenhead Office Park, Maidenhead, SL6 3QQ.

The Company's financial statements are presented in Sterling, which is also the Company's functional currency and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

2. Significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements:

2.1. *Basis of preparation and statement of compliance with FRS 101*

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). In preparing these financial statements, the Company applies the recognition and measurement requirements of International Financial Reporting Standards as adopted by the UK (UK-adopted international accounting standards), amended where necessary in order to comply with the Companies Act 2006 and to take advantage of FRS 101 disclosure exemptions.

On 31 December 2020, EU-adopted IFRS was brought into UK law and became UK-adopted international accounting standards, with future changes to IFRS being subject to endorsement by the UK Endorsement Board. In preparing these financial statements in accordance with FRS 101, the Company financial statements transitioned to UK-adopted international accounting standards (as described above) on 1 April 2021. There is no impact on recognition, measurement or disclosure in the period reported as a result of this change.

The company has taken advantage of the following disclosure exemptions under FRS 101:

a) The requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;

b) The requirements of IFRS 7 Fair Value Disclosures;

c) The requirement of IAS 7 Statement of Cash Flows;

d) The requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:

   i. paragraph 79(a)(iv) of IAS 1; and
   ii. paragraph 73(e) of IAS 16 Property, Plant and Equipment.

e) The requirements of paragraphs 10(d), 10(f), 16, 38(c)-(d), 40(a)-(d), 111 and 134-136 of IAS 1 Presentation of Financial Statements;

f) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; and

g) The Company has taken advantage of the exemptions conferred by FRS 101: 8 (j) & (k) Related party disclosures, the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures, and transactions with other wholly owned Koala (Cayman) Group companies are not disclosed separately.

The preparation of financial statements in conformity with FRS 101 requires the use of certain significant accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Where relevant, equivalent disclosures have been given in the consolidated financial statements of KHL Mortgage Services Limited ("KHL"), previously known as Kensington Holdco Limited, and Koala (Cayman) Limited. The consolidated financial statements of these companies are available to the public and can be obtained as set out in note 21.

2.1.1. Going concern

In order to assess the strength of the Company's capital and cash resources, the directors considered a forecast base case and downside scenario reducing the future origination volumes by a substantial amount versus current expectations for the period from April 2022 to July 2023. This scenario reduces the profitability of the Company and thus also reduces its cash resources before borrowing. Under both the base case and the downside scenarios, the Company is expected to maintain a significant buffer over its regulatory capital requirements and to maintain adequate cash resources to meet its obligations. The directors note that the Company has a £250m loan facility from its parent, KHL, of which, £1.5m has been drawn down as of the statement of financial position date. The directors understand that the ability for the Company to meet its obligations under both the base case and the downside scenario is predicated on its ability to access funds from KHL. Consideration of the financial resources of KHL was undertaken to support the going concern analysis of the Company, which has both adequate warehousing capacity and adequate funding line headroom to support the planned future origination volumes during the period considered. The directors note that the governance structures within the Group, namely KHL ALCO and KHL Board monitor the level of warehouse and funding line capacity to ensure that KHL can meet its obligations to the Company under the conditions of the forward mortgage sale agreement.

Subsequently to year end, Barclays Bank UK PLC have agreed to acquire the Company as a going concern, subject to regulatory approval. As at the point of sale, the current sources of funding will be replaced by funding from the new parent company. The directors expect that this will increase the level of funding available to the Company.

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

2.1.2. New standards, amendments and IFRIC interpretations

There are no new accounting standards, other amendments to accounting standards, or IFRIC interpretations that are effective from 1 April 2021 that have had a material impact on the Company.

2.2. Turnover

The Company receives fees for the provision of mortgage administration services for fellow Koala (Cayman) Group companies and external entities. The Company also receives fees from a fellow Group company for originating mortgages and receives fees for the provision of services to other Koala (Cayman) Group companies. Turnover is recognised in line with contractual arrangements when performance obligations have been met.

Mortgages are originated in the name of the Company, but the risks and rewards are immediately transferred to KHL. Since the Company is at no time exposed to the risks or rewards of the mortgages, the mortgages are not recognised in the financial statements of the Company and origination fee income is recognised.

The Company received fees equivalent to 2.06% (2021: 3.0%) of the face value of mortgages originated during the year. These fees are recognised in the statement of comprehensive income as mortgages are originated.

Charges are made to other Koala (Cayman) Group companies for services provided to them based on costs that have been incurred plus an appropriate mark-up by the Company depending on the nature of those services.

2.3. Interest receivable

Interest receivable and similar income comprises interest earned on loans advanced to fellow Group companies and is recognised using the effective interest rate method.

2.4. Interest payable

Interest payable and similar expense comprises interest incurred on loans received from fellow Group companies, loans received from banks and leases entered into determined using the effective interest rate method.

2.5. Intangible assets

Computer software is stated at cost less accumulated amortisation and accumulated impairment losses. Software is amortised over its estimated useful life of 3-7 years on a straight line basis.

Amortisation of software is presented within administrative expenses.

Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Assets under development are not amortised.

Where factors such as technological advancement or changes in market price indicate that residual value or useful life have changes, these are amended prospectively to reflect the new circumstances.

The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

2.6. Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any provisions for impairment.

The carrying values of tangible fixed assets are reviewed for impairment in case events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments (beginning the month following acquisition) over their estimated useful economic lives as follows:

Furniture, fixtures and office equipment	-	lesser of 10 years or lease term
Leasehold improvements	-	lesser of 10 years or lease term
Computer equipment and systems	-	3-5 years

Depreciation of tangible fixed assets is presented within administrative expenses.

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income.

Assets under development are transferred to other fixed asset categories upon completion.

2.7. Financial instruments

Initial recognition

The Company recognises financial assets and liabilities when it becomes a party to the terms of the contract.

Classification and measurement

Financial assets and liabilities are initially classified as financial assets or liabilities at fair value through profit or loss and amortised cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition.

All financial assets are recognised initially at fair value plus directly attributable costs for those not at fair value through profit and loss.

Financial assets are subsequently measured at amortised cost as they meet the following criteria:

i) the asset is held within a business model whose objective is to collect the contractual cash flows; and
ii) the contractual terms give rise to cash flows that are solely payments of principal and interest.

Financial liabilities are recognised initially at fair value and in the case of loans and borrowings payables, net of directly attributable transaction costs.

Derecognition

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, and retained control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Financial assets

Debtors

Debtors including amounts owed by Koala (Cayman) Group undertakings and other debtors, with no stated interest rate and receivable within one year are initially recorded at fair value and subsequently measured at amortised cost using the effective interest rate method.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

Provisions are made specifically where there is evidence of a risk of non-payment, taking into account ageing, previous losses experienced and general economic conditions.

Financial liabilities

Trade and other creditors

Creditors including amounts owed to Koala (Cayman) Group undertakings, other creditors and accruals, with no stated interest rate and due within one year, are recognised initially at fair value. Creditors are subsequently carried at amortised cost using the effective interest rate method.

Leases

The Company applies IFRS 16 as a result of entering into a lease.

At inception, the Company assesses whether a contract is or contains a lease. This assessment involves exercising judgement whether a contract conveys the right to control the use of an identified asset and the right to obtain substantially all of the economic benefits from this asset, for a period of time.

The Company recognises right of use assets and lease liabilities for most leases over 12 months long. Right of use assets and lease liabilities are initially recognised at the net present value of future lease payments, discounted, at the rate implicit in the lease, or where not available, the Company's incremental borrowing cost. Subsequent to initial recognition, the right of use asset is depreciated on a straight line basis over the term of the lease. Future rental payments are deducted from the lease liability, with interest charged on the lease liability, using the incremental borrowing cost at the time of initial recognition.

The Company assesses the likely impact of early terminations in recognising the right of use asset and lease liability where an option to terminate early exists.

Leases with terms less than 12 months are recognised on an accruals basis directly to profit and loss.

Offsetting of financial assets and liabilities

In accordance with IAS 32 Financial Instruments: Presentation, the presentation of financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

2.8. Segmental analysis

The Company's income and trade are wholly within the UK and within a single market sector and therefore no segmental analysis has been presented.

2.9. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

2.10. Share capital and capital contributions

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction net of tax from the proceeds. Capital contributions are classified as equity.

2.11. Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.12. Current and deferred tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in total equity. In this case the tax is also recognised in other comprehensive income or directly in total equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns in respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on deductible temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3. Significant accounting estimates and judgements

The preparation of financial statements in accordance with FRS 101 requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

There is, therefore, a potential risk that they may be subject to change in future periods. The most significant of these are:

Provisions

When assessing provisions that need to be made in relation to customer redress, many assumptions are made in relation to the amount of provision that will be required based on customer identification, timing of redress activity and reimbursement. The key assumptions made in the other conduct related activities include population of accounts requiring redress (including client identification and materiality threshold) and time taken to redress. Further details are contained in note 16.

Taxation

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of current and future tax planning strategies. Further details are contained in note 9.

3.1. Significant accounting judgements

There are no significant accounting judgements in respect of the year ended 31 March 2022.

Kensington Mortgage Company Limited

Notes to the financial statements for the year ended 31 March 2022

4. Turnover

Turnover was derived from the principal activity of the Company and arose in the United Kingdom.

	2022	2021
	£'000	£'000
Mortgage administration fees	28,272	32,811
Mortgage origination fees	33,672	24,814
Management fees	8,687	8,304
	70,631	65,929

5. Administrative expenses

	2022	2021
	£'000	£'000
Administrative expenses comprise the following:		
Administration fees	6,350	7,399
IT and premises expenses	8,199	10,091
Irrecoverable VAT	2,125	1,672
Depreciation of tangible fixed assets	1,037	876
Amortisation of intangible assets	2,692	2,101
Provisions	(430)	1,893
Personnel expenses	42,685	39,499
	62,658	63,531

Auditor remuneration for the audit of the Company's financial statements for the year ended 31 March 2022 is £140,000 (2021: £60,000).

Statutory information on remuneration for other services provided by the Company's auditors to the Koala (Cayman) Group is given on a consolidated basis in the consolidated financial statements of Koala (Cayman) Limited which is the largest group into which the results of this Company are consolidated.

6. Directors and employees

At 31 March 2022, the Company had 609 (2021: 561) employees.

The directors' remuneration for the year was £894,000 (2021: £682,000). The remuneration paid to the highest paid director was £469,000 (2021: £343,000).

No entity contributions were paid for the year to a pension scheme in respect of directors' qualifying services (2021: £nil). No entity contribution was paid in relation to the highest paid director (2021: £nil).

At year end there was a loan outstanding from a director of £39,000 (2021: £37,000). The loan incurs an annual rate of interest of 2.5% and is undated.

Kensington Mortgage Company Limited

Notes to the financial statements for the year ended 31 March 2022

	2022 No.	2021 No.
Average employees by category		
Operations	430	371
Administration	150	157
	580	528

	2022 £'000	2021 £'000
Staff costs during the year (including directors)		
Wages and salaries	35,326	32,705
Social security costs	3,849	3,769
Pension fund contributions	2,267	2,035
Other personnel costs	1,243	990
	42,685	39,499

7. Interest receivable and similar income

	2022 £'000	2021 £'000
Interest on loans to fellow Koala (Cayman) Group companies	-	938
	-	938

8. Interest payable and similar expense

	2022 £'000	2021 £'000
Interest on loans from fellow Koala (Cayman) Group companies	392	2,800
Interest expense on lease liabilities	44	14
Bank interest	-	5
Other interest	-	11
	436	2,830

9. Taxation

	2022	2021
	£'000	£'000
Analysis of tax expense in the year		
Corporation tax expense at 19% (2021: 19%)	1,248	629
Adjustments in respect of prior periods	(147)	46
Tax expense on profit	1,101	675
Deferred tax		
Origination and reversal of timing differences	190	(353)
Adjustments in respect of prior periods	119	(36)
Rate changes in respect of timing differences	(519)	-
Total deferred tax credit	(210)	(389)
Tax expense on profit	891	286

Factors affecting taxation

The tax assessed for the year is lower than (2021: higher than) the standard rate of corporation tax in the United Kingdom of 19% (2021: 19%).

	2022	2021
	£'000	£'000
Profit before taxation	7,537	506
UK corporation tax expense at 19% (2021: 19%)	1,432	96
Effects of:		
Expenses not deductible for tax purposes	6	180
Adjustments in respect of prior periods - deferred tax	119	(36)
Adjustments in respect of prior periods - current tax	(147)	46
Effect of tax rate change	(519)	-
Total tax expense for the year	891	286

Changes to UK corporation tax rates were substantively enacted by the Finance Bill 2021 (on 24 May 2021). These included an increase in the corporation tax rate from 19% to 25% from 1 April 2023. Deferred tax balances have been remeasured accordingly where appropriate.

Notes to the financial statements for the year ended 31 March 2022

Deferred tax relates to the following:	**2022**	2021
	£'000	£'000
Deferred tax assets		
Decelerated capital allowances	1,446	1,495
Late paid remuneration	690	436
Dilapidations	26	21
	2,162	1,952
Deferred tax liabilities	-	-
Total deferred tax assets and liabilities	2,162	1,952

Reconciliation of deferred tax	**2022**	2021
	£'000	£'000
Opening deferred tax balance	1,952	1,563
Origination and reversal of timing differences	(190)	353
Adjustments in respect of prior periods	(119)	36
Effect of tax rate change	519	-
Closing deferred tax balance	2,162	1,952

It is the opinion of the directors that it is probable that there will be sufficient taxable profit in future periods against which the temporary differences can be offset.

Kensington Mortgage Company Limited

Notes to the financial statements for the year ended 31 March 2022

10. Intangible assets

	Assets under development £'000	Software £'000	Total £'000
Cost			
At 1 April 2020	5,188	5,905	11,093
Additions	6,811	-	6,811
Disposals	-	(711)	(711)
Transfers (to)/from	(7,769)	7,459	(310)
At 31 March 2021	4,230	12,653	16,883
Additions	4,402	-	4,402
Disposals	-	(40)	(40)
Transfers (to)/from	(6,949)	5,820	(1,129)
At 31 March 2022	1,683	18,433	20,116
Depreciation			
At 1 April 2020	-	1,451	1,451
Charge for year	-	2,101	2,101
Disposals	-	(410)	(410)
At 31 March 2021	-	3,142	3,142
Charge for year	-	2,692	2,692
Disposals	-	(31)	(31)
At 31 March 2022	-	5,803	5,803
Net book value			
At 31 March 2022	1,683	12,630	14,313
At 31 March 2021	4,230	9,511	13,741

During the year ended 31 March 2022 £6,949,000 of assets under development were transferred as complete. Of these completed assets, £5,820,000 were capitalised as software and £1,129,000 as tangible fixed assets (note 11).

Notes to the financial statements for the year ended 31 March 2022

11. Tangible assets

	Furniture, fixtures and office equipment £'000	Leasehold improvements £'000	Computer equipment and systems £'000	Right of use assets £'000	Total £'000
Cost					
At 1 April 2020	153	1,610	1,559	-	3,322
Additions	-	-	-	1,578	1,578
Disposals	(37)	(1,289)	(44)	-	(1,370)
Transfers (to)/from	-	19	291	-	310
At 31 March 2021	116	340	1,806	1,578	3,840
Disposals	-	-	(110)	-	(110)
Transfers (to)/from	149	713	267	-	1,129
At 31 March 2022	265	1,053	1,963	1,578	4,859
Depreciation					
At 1 April 2020	33	236	493	-	762
Charge for year	31	192	522	131	876
Disposals	(17)	(412)	(33)	-	(462)
At 31 March 2021	47	16	982	131	1,176
Charge for year	48	188	275	526	1,037
Disposals	-	-	(57)	-	(57)
At 31 March 2022	95	204	1,200	657	2,156
Net book value					
At 31 March 2022	170	849	763	921	2,703
At 31 March 2021	69	324	824	1,447	2,664

Notes to the financial statements for the year ended 31 March 2022

12. Debtors: amounts falling due within one year

	2022	2021
	£'000	£'000
Amounts due from Koala (Cayman) Group companies	5,859	14,619
Other debtors	8,419	8,333
Corporation tax receivable	83	-
	14,361	22,952

Amounts due from Koala (Cayman) Group companies are interest free and repayable on demand.

13. Cash and cash equivalents

	2022	2021
	£'000	£'000
Cash at bank and in hand	36,679	25,399
	36,679	25,399

14. Leases

The Company, as a lessee, leases office space and premises under a lease arrangement entered into during the prior financial year. The lease has a fixed period of 3 years from December 2020, with an option to extend to 2025. For the purposes of accounting for the lease, it has not been assumed that this option will be exercised.

Information about leases for which the Company is a lessee are presented below:

Leasing amounts recognised in the statement of comprehensive income

	2022	2021
	£'000	£'000
Interest expense	(44)	(14)
Depreciation and impairment of right of use assets	(526)	(131)
	(570)	(145)

Leasing amounts recognised in the statement of financial position

	2022	2021
	£'000	£'000
Right of use assets (note 11)	921	1,447
Lease liabilities (note 15 and 17)	(804)	(1,315)
	117	132

Additions to the right of use assets during the year ended 31 March 2022 were £nil (2021: £1,578,000).

The total cash outflow, including VAT, for leases during the year ended 31 March 2022 was £555,000 (2021: £277,000).

Future undiscounted minimum payments under lease liabilities are as follows:

	2022	2021
	£'000	£'000
Amounts falling due:		
Within one year	555	555
Between one and two years	277	555
Between two and three years	-	277
	832	1,387

The Company applies the short-term lease exemption under IFRS 16 for leases under 12 months. The Company made lease payments of £99,000 in relation to a short-term office lease in the year.

15. Creditors: amounts falling due within one year

	2022	2021
	£'000	£'000
Amounts due to Koala (Cayman) Group companies	7,924	7,397
VAT payable	432	570
Accruals	14,687	15,239
Other taxation and social security	457	433
Corporation tax payable	-	2,598
Unallocated cash	486	526
Lease liabilities	531	511
Other creditors	207	328
	24,724	27,602

Amounts due to Koala (Cayman) Group companies are interest free and repayable on demand.

Notes to the financial statements for the year ended 31 March 2022

Unallocated cash represents amounts received by the Koala (Cayman) Group, but which could not be linked to a mortgage account. Where the source of the money can be identified, it is returned. Where the source cannot be identified, the money is held separately and may be identified by subsequent information or customer enquiries. Sums that remain unidentified for a number of years may be used for charitable donations. Donations made during the year ended 31 March 2022 amounted to £1,480,000 (2021: £1,510,000).

16. Provisions

	PPI	Delayed interest rate reductions	Other conduct provisions	Total
	£'000	£'000	£'000	£'000
Balance at 1 April 2020	116	-	776	892
Charged to statement of comprehensive income	184	1,095	614	1,893
Utilised	-	-	(515)	(515)
Balance at 31 March 2021	300	1,095	875	2,270
(Credited) / charged to statement of comprehensive income	(184)	(309)	63	(430)
Utilised	-	(702)	(161)	(863)
Balance at 31 March 2022	116	84	777	977

PPI

A provision is held for a PPI-related claim from the Official Receiver. The extent of any liability in respect of this claim is yet to be determined, however, the provision was reduced during the year based on management's assessment of the most recently available information.

Delayed interest rate reductions

Due to the limitations of the servicing system, certain reductions in interest rate for one of the Company's serviced portfolios could not be passed on to customers immediately. The provision was reduced during the year following an amount being recovered from a third party, and management's assessment of the most recently available information.

Other conduct provisions

The amounts provided above represent provisions for refunds to customers and corrections to customer accounts as a result of a range of smaller issues in the administration of the customers' mortgage accounts. These are investigated and corrections and refunds are made in accordance with a formal framework of governance.

17. Creditors: amounts falling due after more than one year

	2022	2021
	£'000	£'000
Amounts due to Koala (Cayman) Group companies	1,566	-
Lease liabilities	273	804
	1,839	804

Amounts due to Koala (Cayman) Group companies relate to a loan with KHL which is repayable on 27 February 2050 and incurs interest at 4%.

18. Contingent liabilities

The Company is party to a Forward Sale Mortgage Agreement with its parent company, KHL, whereby the Company transfers to KHL the risks and rewards of all mortgages originated on its behalf on the same day that the mortgages are originated by the Company. This agreement was entered into on 12 March 2020 for an agreement term of three years to 12 March 2023.

At 31 March 2022, the Company had £465m (2021: £251m) of committed offers to customers. The Company has no other contracted commitments requiring disclosure, nor has it any other contingent liabilities at 31 March 2022 (2021: £nil).

19. Share capital and capital contribution

	2022	2021
	£	£
Allotted and fully paid		
10,110,001 (2021: 10,110,001) ordinary shares of £1 each fully paid	10,110,001	10,110,001

	2022	2021
	£'000	£'000
Capital contribution		
As at 1 April and 31 March	1,861	1,861

On 29 March 2019, the former parent company, The Northview Group Limited, made a capital contribution of £1,861,000 to the Company, with £1,611,000 of this relating to the transfer of a deferred tax asset to the Company.

20. Related party transactions

During the year the Company entered into transactions, in the ordinary course of business, with other related parties. Those transactions with directors are disclosed in note 6. The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with wholly owned members of the Koala (Cayman) Group. Transactions entered into, and trading balances outstanding at 31 March 2022 with other related parties are as follows:

	Amounts credited/ (expensed)	**Amounts owed by related parties**	**Amounts owed to related parties**
	2022	**2022**	**2022**
	£'000	**£'000**	**£'000**
Immediate parent company	50,071	8	(1,572)
Other Koala (Cayman) Group companies	3,160	4,565	(380)
Other entities not wholly owned by Koala (Cayman) Group	11,746	1,286	(7,536)
At 31 March 2022	64,977	5,859	(9,488)

	Amounts credited/ (expensed)	Amounts owed by related parties	Amounts owed to related parties
	2021	2021	2021
	£'000	£'000	£'000
Immediate parent company	35,065	8,573	-
Other Koala (Cayman) Group companies	874	4,116	(1,633)
Other entities not wholly owned by Koala (Cayman) Group	18,965	1,930	(5,764)
At 31 March 2021	54,904	14,619	(7,397)

The Company provides mortgage administration, cash / bond administration and special servicing services to associated securitisation vehicles. Outstanding balances with other Koala (Cayman) Group companies are unsecured and interest free except for loans receivable and payable to Koala (Cayman) Group companies as disclosed in note 12, 15 and 17. Terms and conditions for transactions with Koala (Cayman) Group companies are the same, with the exception that balances are placed on intercompany accounts with no specified credit period. The Company has not provided or benefited from any guarantees for any related party receivables or payables. During the year ended 31 March 2022, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2021: £nil).