Company Registration Number: 3702189

Honours Plc

Annual Report and Financial Statements

For the year ended 31 March 2019

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

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Officers and independent auditors

Directors

Wilmington Trust SP Services (London) Limited
Daniel Jonathan Wynne

Company secretary

Wilmington Trust SP Services (London) Limited
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London
EC2R 7AF

Registered office

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London
EC2R 7AF

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
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SE1 2RT

STRATEGIC REPORT

FOR THE YEAR ENDED 31 MARCH 2019

The directors present their strategic report of Honours Plc ("the company") for the year ended 31 March 2019.

Principal activities

The principal activity of the company is to own a beneficial interest in a student loan portfolio held in trust for it by Honours Trustee Limited ("HTL"). The loans pay a floating rate of interest linked to RPI. Under the terms of the purchase of the loans from the Student Loans Company Limited, HTL also receives a subsidy from the UK Government and the devolved administrations of Scotland and Northern Ireland (together the "Authority") in an amount which fluctuates to match the RPI based interest rate to a monthly floating rate set by reference to LIBOR.

The company funds its activities from issued floating rate debt securities. The debt securities are issued in Sterling and are listed on the Irish Stock Exchange. No changes in activity are envisaged. The activities of the company are governed by the legal securitisation agreements of the company. Honours Plc is a limited company by shares, registered in England.

Review of developments and Key Performance Indicators

On 23 March 1999 Honours Plc commenced operations by drawing £1,000,007,082 on a warehouse facility agreement to acquire its beneficial interest in the loan portfolio. HTL acquired the portfolio of student loans (in which the company owns a beneficial interest) from the Student Loans Company Limited, a company wholly owned at that time by the Secretary of State for Education and Employment and the Secretary of State for Scotland. As the company does not retain all the risks and rewards arising from the loan portfolio, this beneficial interest has been recognised as a loan to a third party, secured by the underlying loan portfolio.

On 10 May 1999 the company issued £1,030,000,000 floating and fixed rate asset backed notes and used the proceeds to repay the warehouse facility and fund the payment of stamp duty on the purchase.

In November 2006 all outstanding floating and fixed notes were redeemed and refinanced by new floating notes issued for £418,200,000. As at 31 March 2019, there were £140,546,858 (2018: £151,903,959) floating rate notes outstanding excluding accrued expenses.

As shown in the Statement of Comprehensive Income, the company showed an increased net interest income compared with the prior year, and the deficit on the company's total equity decreased by 67% over the year (2018 – increased by 10%). This variance was driven by a reduction to the provision for liabilities and charges which caused a write back to the income statement of £28.45m. This provision for liabilities and charges arose from potential non-compliance with certain aspects of the Consumer Credit Act 1974 (the "CCA") in relation to certain arrears notices sent to borrowers is recognised in the financial statements in the current and previous financial year (2019: £4,500,000 and 2018 £33,250,000).

The Company terminated the Administration Agreement with former Loan administration provider, Capita Customer Management Limited ("Capita") on 29 January 2016. Capita informed the Company that particular arrears notices sent to borrowers may not have been in compliance with the CCA, a provision for the financial impact of this event was put in place as mentioned above. On 7 December 2017, the Company entered into a settlement agreement with the Capita, pursuant to which Capita agreed to pay £8,000,000 to the Company in full and final settlement of any claims the Company may have against Capita in relation to the CCA liability mentioned above. The settlement is held in a ring fenced bank account until the final CCA liability has been agreed and issued to impacted customers. On 11 June 2019 and 26 June 2019, the Company issued Regulatory News Service ("RNS") notices, stating that Noteholders of each Class of Notes approved and passed certain extraordinary resolutions in connection with the (i) implementation of the remediation plan proposed by the Issuer (the Company) and (ii) release and application of the cash paid by to the Issuer in full and final settlement of any claims the Issuer may have against Capita for certain regulatory breaches, standing to the credit of a separate account of the Issuer. On 2 December 2019, the Company issued a further RNS notice detailing the financial implication of the CCA remediation. Further details can be found in note 17.

Following the calculation period for the month ending 31 March 2019 there was an outstanding balance of £4,314,212 (2018: £2,300,574) on the principal deficiency ledger for the securitisation issuance. A positive balance on the principal deficiency ledger indicates that there is a carry forward of loan losses which need to be covered out of available income.

STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2019

Review of developments and Key Performance Indicators (continued)

The directors are of the opinion that over the period to maturity of the notes, on the basis of their best estimate as to the underlying performance of future cash receipts from the student loan portfolio will cover the outstanding balance on the principal deficiency ledger. According to the terms of the floating notes, where there are insufficient funds to repay the notes at legal maturity (2029), the Priority of Payments detailed in the offering circular dated 3 November 2006 is followed. Under the terms of this schedule each class of notes is subordinated to the class ranking immediately above it.

The directors believe that further key performance indicators for the company other than those described above are not necessary or appropriate for an understanding of the development, performance or position of the business.

Principal risks and uncertainties

Credit impairment of its borrower base combined with a deterioration in UK economic conditions is a continuous risk for the company, which could result in a decline in borrowers' ability to pay, although the low interest rate on the loans and the deferment and ultimate cancellation provisions contained in their terms, together with the entitlements to income subsidy and indemnity upon cancellation which the company has under its purchase agreement with the Authority, make the company's business less exposed to this than a private sector consumer loan business. Therefore the only exposure of the Group to borrowers in the portfolio is to borrowers whose loans have been in long term arrears and cease to be eligible for indemnity payments.

As a result of its normal business activities, the company is exposed to a number of financial risks, including risks associated with its beneficial interest. In order to manage these risks effectively the company has established clear policies and procedures as set out below which are monitored on an ongoing basis. The company is financed by loan notes secured upon the senior beneficial interest in the portfolio of loans.

Financial instruments

The company's financial instruments comprise loans and receivables and floating rate notes payable. Cash and liquid resources, accrued interest income and accrued interest payable arise directly from the company's operations. Aside from the loans and receivables balance, the main purpose of financial instruments is to raise finance for the company's operations.

It is, and has been throughout the year and the preceding year, the company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the company's financial instruments are credit risk, interest rate risk and liquidity risk. The company is also exposed to operational risk. The Board has adopted policies for managing each of these risks and they are summarised below.

Business risks

The major risk to the business is that the student loans in which the company holds a beneficial interest will not be repaid. In circumstances where the loans are not repaid and are cancelled in compliance with their terms, the business relies on contractual indemnity payments from the Authority to compensate it. Please see note 5d) for examples of where the loan agreement can be cancelled and contractual indemnity from the Authority be exercised. There is a risk that the loan portfolio may experience an increase in defaults or that the Authority might default on its payment obligations.

The purchase agreement with the Authority contemplates certain circumstances (page 34 of the bond prospectus available here: https://www.ise.ie/debt_documents/honours_2337.pdf) where the payments from the Authority may be delayed or withheld, or where the portfolio might need to be sold back to the Student Loan Company at a discount, however none of these circumstances are expected to occur. Economically there will be more income to cover the cost of default if the average life of the portfolio is longer and as such the rapid repayment of the portfolio is a further risk, although it is worth noting that any increase to the length of time it takes to repay the principal balance could also increase the likelihood of default. However there is, at present, no indication that this is occurring: the portfolio of subsidy eligible loans declined by only 8.7% (2018: 10.0%) in the year from £134,624,000 to £122,878,000. The notes which have been issued by the Company are limited recourse to the extent of the Post Enforcement Call Option described in note 2.

STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2019

Operational risks

During the year loans were administered under a contract with Link Financial Outsourcing Limited, a third party debt servicing provider, using the Link Debt Management System (LDMS) a bespoke, internally developed debt management system. There is a risk that the information held on the system is incomplete, inadequate or inaccurate to allow the student loans to be administered correctly. The directors have had no reports in the current period to indicate this has occurred.

Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. The company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar.

The company finances its operations entirely through the issue of floating rate notes and drawings on a floating rate loan facility. At the year end, all of the company's borrowings were at floating rates set by reference to one month LIBOR, which is in line with the company's policy. The underlying student loan assets have an interest rate set by reference to RPI. Under the terms of the purchase of the loans a subsidy is also payable by the Authority which fluctuates to match the RPI interest rate to a monthly floating rate set by reference to one month LIBOR.

Liquidity risk

The company's liquidity policy throughout the year has been to seek to ensure sufficient liquid resources to cover its financial commitments. This is achieved as a result of payments on the floating rate notes liabilities being contingent on cash available.

The Company previously had in place a liquidity facility provided by Danske Bank. Danske Bank terminated the facility on 25 April 2019, after the annual request for renewal was not submitted in time due to an administrative error.

Management has made attempts to obtain a replacement for the liquidity facility but has not (and is unlikely to) find one. In the event that the Company cannot cover the cost of operations and administration through payments received from customers, it can draw on cash reserves of £5m which is enough to cover average interest and administration expenses for twelve months.

Credit Risk

The principal credit risk to the company is that repayments on the portfolio of loans in which the company has a beneficial interest will not be met as they fall due. The repayments on the portfolio of loans are being administered by Link Financial Outsourcing Limited which the directors consider has a reliable loans monitoring system and credit control procedures to mitigate this credit risk. The company also has legal options in pursuing potentially delinquent loans. See note 5d) for a full explanation as to the impact of credit risk on the company.

Foreign exchange risk

All amounts are denominated in sterling and therefore there is no currency exposure.

No dividends were paid by the Company during the year or the preceding year.

Approved by the Board of Directors on 3 February 2020 and signed on behalf of the Board

Ioannis Kyriakopoulos, for and on behalf of

Wilmington Trust SP Services (London) Limited

Director

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2019

The directors present their report on the affairs of Honours Plc ("the company") together with the audited financial statements for the year ended 31 March 2019.

Going concern

In the current economic climate all companies are impacted by increased risks and uncertainties. Despite accumulated losses of £13,844,000 the Directors are of the opinion that the company will generate sufficient cash to operate under the terms of the securitisation and has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements. Further consideration of going concern is included in note 2 of the notes to the financial statements.

Future prospects

The directors believe the current level of activity will continue and the portfolio will continue to redeem.

The notes issued by the company contain an optional redemption clause which permits their redemption in full at the company's option on any interest payment date after 10 November 2011. There is no legal obligation to do so. To date the company has not sought to exercise this option notwithstanding the step-up in the interest margins payable on the notes and the directors do not expect the option to be exercised in the foreseeable future.

LIBOR Transition

On 27 July 2017, the Financial Conduct Authority, tasked with overseeing LIBOR, announced the benchmark will be phased out by 2021. The Company is heavily reliant on the fluctuation of LIBOR as it is linked directly to the subsidy it receives from the Authority as well as for interest calculation on the floating rate notes outstanding, therefore LIBOR's abolition will mean the Company will have to seek a replacement. Management are actively preparing for the cessation of LIBOR and the adoption of alternative risk-free rate but as yet have not finalised a transition plan.

Brexit

A certain level of uncertainty exists around what the post-Brexit trading environment will look like. However, the directors believe that the impact on the Company will not be significant since the vast majority of outstanding loans are with customers based in the UK.

The directors will continue to monitor the situation on a regular basis, and will put in place a robust contingency plan, where appropriate.

Employees

The company has had no employees during the year (2018: none).

Results and dividends

The audited financial statements for the year ended 31 March 2019 are set out on pages 15 to 37. The profit for the year after taxation was £28,439,000 (2018: £4,503,000).

Risk management

Key risks are described in the Strategic Report with financial risk management disclosed in Note 5.

Corporate Governance

The directors are responsible for the company's internal control environment and for reviewing its effectiveness. The governance structure of the company is also such that some key policies have been predetermined at the time of issuance and the operational roles have been assigned to third parties with their roles strictly governed by the respective transaction documents. The governance structure of the company provides for procedures that have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, errors, losses or fraud. The procedures enable the company to comply with any regulatory obligations. For further details, refer to the notes to the financial statements particularly note 5 on risk management.

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2019

Directors and their interests

The directors of the company are nominated and provided by Wilmington Trust SP Services (London) Limited under the terms of a corporate services agreement. The directors who served throughout the year and up to the date of signing this report were:

Wilmington Trust SP Services (London) Limited

Daniel Jonathan Wynne

None of the directors hold any interest in the company. Wilmington Trust SP Services (London) Limited holds the two shares in Honours (Holdings) Limited, the parent company, under a declaration of trust for charitable purposes.

Wilmington Trust SP Services (London) Limited maintains Directors' and Officers' liability insurance in respect of itself and those persons it nominates and provides as directors.

Statement of Directors' Responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) 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 of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

Directors' confirmations

Each of the directors, whose names and functions are listed in the Directors' report confirm that, to the best of their knowledge:

- the company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2019

Directors indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force.

Independent auditors

Following the recommendation of the board of directors, PricewaterhouseCoopers LLP were appointed by them on 22 April 2010 to audit the financial statements for the year ended 31 March 2011 and subsequent financial periods. The period of total uninterrupted engagement is 9 years, covering the years ended 31 March 2011 to 31 March 2019.

A resolution to re-appoint PricewaterhouseCoopers LLP was signed on 30 January 2019 by the board of Directors. A resolution to re-appoint PricewaterhouseCoopers LLP will be proposed by the members at the forthcoming Annual General Meeting of the company.

Statement of disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given, and should be interpreted, in accordance with the provisions of section 418 of the Companies Act 2006.

Approved by the Board of Directors on 3 February 2020 and signed on behalf of the Board

Ioannis Kyriakopoulos, for and on behalf of

Wilmington Trust SP Services (London) Limited

Date: 3 February 2020

Director

Independent auditors' report to the members of Honours Plc

Report on the audit of the financial statements

Our opinion

In our opinion, Honours plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 March 2019; the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

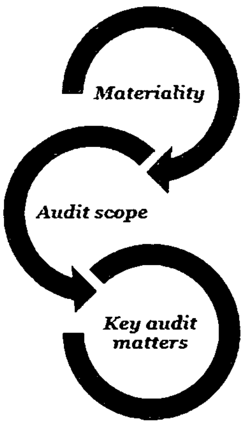
Other than those disclosed in note 9 to the financial statements, we have provided no non-audit services to the company in the period from 1 April 2018 to 31 March 2019.

Independent auditors' report to the members of Honours Plc (continued)

Report on the audit of the financial statements (continued)

Our audit approach

Overview



- Overall materiality: £1,329,461 (2018: £1,367,860), based on 1% of total assets.
- We tailored the scope of our audit to ensure that we performed sufficient work to enable us to opine on the Annual Report and Financial Statements, ensuring audit procedures were performed in respect of every material financial statements line item.
- In establishing the overall approach to the audit, we determined the type of work that needed to be performed by us, taking into consideration the accounting processes in place, and the industry in which the company operates.
- IFRS 9 adoption – provision for credit losses
- Accounting for the secured loan and associated interest income
- Accounting for potential non-compliance with the Consumer Credit Act 1974

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Companies Act, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- making inquiries of those charged with governance in relation to known or suspected instances of non-compliance with laws and regulations and fraud;
- testing the priority of payments has been applied in accordance with the transaction documents;
- agreement of the financial statements disclosures to underlying supporting documentation.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Independent auditors' report to the members of Honours Plc (continued)

Report on the audit of the financial statements (continued)

Our audit approach (continued)

Key audit matters (continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>IFRS 9 adoption – provision for credit losses

Calculating impairment provisions in respect of the secured loan on a forward looking basis are a new judgement this year with the adoption of IFRS 9. This represents management's best estimate of the expected credit losses in the loan portfolios underlying the secured loan.

Determination of the appropriate provisions required under IFRS 9 involves complex calculations and an increased level of judgement including:
The modelling methodology adopted including how to calculate the probability of default, exposure at default and loss given default;
The definition of what constitutes a significant increase in credit risk.
The incorporation of forward-looking information and economic scenarios or if such information is not modelled, being able to evidence why this is appropriate.
Further details are provided in Notes 3, 4, 5 11 and 18.</td><td>We focused our audit work on testing the completeness and accuracy of the underlying data used for impairment provisioning purposes, and assessing the reasonableness of key methodologies, assumptions and judgements made by management, including those described to the left.

We assessed the methodology applied for compliance with IFRS 9. While there are certain simplifications in the modelling applied, the impact of these was not material, and we considered the overall approach adopted to be compliant.

In addition, we performed procedures including:
Utilised modelling specialists to review the methodology;
A mix of controls-based and substantive testing covering data attributes used in the impairment model and expected credit loss calculation, including historic defaults and delinquency status;
Reconciliation of expected credit loss per the model to the general ledger;
Re-performed the calculation of the expected credit loss provision; and
Assessed the appropriateness of management's assertion that model overlays with regards to forward looking economic scenarios were not material, owing to the ability of borrowers to defer and the Government subsidies received in respect of cancelled loans.
Based on the evidence obtained, we found that the methodologies, modelled assumptions, management judgements and data used within the allowance to be appropriate and in line with the requirements of IFRS 9.</td></tr>
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Independent auditors' report to the members of Honours Plc (continued)

Report on the audit of the financial statements (continued)

Our audit approach (continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>

Accounting for secured loan and associated interest income

The initial sale of the student loans portfolio was accounted for as a secured loan rather than a "true sale" of the student loan portfolio, given the Department for Business, Innovation and Skills (the "BIS") was deemed to retain significantly all of the risks and rewards associated with ownership of the portfolio.

The effective interest rate (the "EIR") on the secured loan is derived from a model in accordance with IFRS 9 such that stamp duty and other initial costs associated with the secured loan are spread over the expected life. This rate is then applied to the opening book value of the portfolio after adjusting for residual interest.

The modelling requires an expectation of future expected cash flows associated with the secured loan (and therefore the underlying student loans) to be formed.

Further details are provided in Notes 4, 5, 7, 11, 13 and 18.

</td><td>

We focused our testing on the completeness and accuracy of inputs into the EIR model as well as the overall reasonableness of judgments made in respect of future cash flows. Additionally, we tested the portfolio movements that feed into the overall movements of the secured loan such as repayments, write offs and deferments.

We assessed the ongoing accounting for the student loans portfolios in the context of a secured loan and found it to be in compliance with IFRS 9.

We performed procedures on the movements in the secured loan during the year as well as the year end position, including:

- Tested the movement in the secured loan including qualifying loan receipts, subsidy claims and write-offs to supporting documentation as well as reconciling the brought forward to closing positions.
- Testing the ageing of the underlying student loans.
- Tested the bank reconciliation process between the loan system and the cash received into bank.
- Reviewed the complaints log for persistent issues or those indicative of material issues.
- Agreement of appropriate documentation in respect of loans classified as deferred.

With respect to the audit of the EIR model, we performed the following:

- Identified the key inputs to the EIR model and substantiated with appropriate supporting evidence.
- Employed sensitivity analysis to challenge the assumptions used in the model.
- Re-performed the EIR calculation and confirmed consistency of the calculation mechanics from prior year.

No material differences or exceptions were noted in performing the above procedures.

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Accounting for potential non-compliance with the Consumer Credit Act 1974

In June 2015, the administrator of the loans informed Honours Plc that certain notices and statements sent to student loan borrowers may have been in breach of the strict wording requirements of the Consumer Credit Act 1974 ("CCA").

Provisions for the expected liabilities and charges, as well as reimbursement assets received, were estimated by management when this issue came to light. Subsequent to 31 March 2019 a formal plan for remediation was approved by management, based on recently completed work from specialist advisers contracted by management, resulting in greater certainty of the provision required to be held for this matter.

Management consider this as a post balance sheet adjusting event since, whilst the information was only fully confirmed post year end, all evidence of the conditions existed at year-end.

Further details are provided in Notes 4, 17, 18 and 25.

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We have performed the following procedures in order to determine whether the director's assessment of the provision is appropriate, given the formulation of the formal remediation plan after the balance sheet date, under IAS 37:

- We have reviewed management's remediation plan that supports its announcement to the market and tested the base data back to supporting information.
- By sampling the affected borrower base, we have confirmed management's implementation of this remediation plan.
- We have reviewed borrower complaints and certain other correspondence in direct response to the remediation plan.
- On a sample basis, tested borrower settlements back to cash payments.
- We ensured that management have treated the post-year end plan in the accounts according to the relevant accounting standards with respect to post-balance sheet events.

Based on the procedures above and the information made available to us we have determined that the provision is reasonable and in compliance with IAS 37.

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Independent auditors' report to the members of Honours Plc (continued)

Report on the audit of the financial statements (continued)

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£1,329,461 (2018: £1,367,860).
How we determined it	1% of total assets.
Rationale for benchmark applied	As an Special Purpose Entity ("SPE") is established as a not for profit entity, funded almost entirely by debt, it would follow that users focus their attention on the SPE's total assets as suggested by ISA (UK) 320 paragraph A3.

We agreed with the board of directors that we would report to them misstatements identified during our audit above £66,473 (2018: £68,393) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 and ISAs (UK) require us also to report certain opinions and matters as described below.

Independent auditors' report to the members of Honours Plc (continued)

Report on the audit of the financial statements (continued)

Reporting on other information (continued)

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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 an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent auditors' report to the members of Honours Plc (continued)

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the directors on 22 April 2010 to audit the financial statements for the year ended 31 March 2011 and subsequent financial periods. The period of total uninterrupted engagement is 9 years, covering the years ended 31 March 2011 to 31 March 2019.

Iain Wright

Iain Wright (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
3 February 2020

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2019

	Note	2019 £'000	2018 £'000
Revenue			
Interest receivable and similar income	7	6,158	3,380
Interest payable and similar charges	8	(2,176)	(1,833)
Net interest income		3,982	1,547
Other expense		(26)	-
Decrease in value of secured loan due to impairment	11	(1,887)	(1,952)
Administrative expenses	9	(2,076)	(3,092)
Operating loss		(7)	(3,497)
Provisions for other liabilities and charges	17	28,446	8,000
Profit before tax for the year		28,439	4,503
Tax on profit from ordinary activities	10	-	-
Profit and total comprehensive income for the year	20	28,439	4,503

The results above arose wholly from continuing operations. The company operates in a single business segment and all the company's activities are in the UK.

The accompanying notes form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
As at 31 March 2019

	Note	2019 £'000	2018 £'000
Non-current assets			
Secured loan to third party	11	122,878	134,624
Current assets			
Trade and other receivables	12	560	731
Reimbursement asset	17	4,500	8,000
Cash and cash equivalents	13	5,008	1,432
Total current assets		10,068	10,163
Total assets		132,946	144,787
Current liabilities			
Provision for other liabilities and charges	14	(4,500)	-
Financial liabilities	14	(1,159)	(883)
Trade and other payables		(571)	(403)
Total current liabilities		(6,230)	(1,286)
Non-current financial liabilities	15	(140,547)	(185,154)
Total liabilities		(146,777)	(186,440)
Net liabilities		(13,831)	(41,653)
Equity			
Share capital	19	13	13
Accumulated losses	20	(13,844)	(41,666)
Total equity	21	(13,831)	(41,653)

The accompanying notes form an integral part of these financial statements.

These financial statements on pages 15 to 37 were approved by the Board of Directors on 3 February 2020 and signed on its behalf by

Ioannis Kyriakopoulos, for and on behalf of

Wilmington Trust SP Services (London) Limited

Director

Company registration number 3702189

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2019

	Share Capital £'000	Accumulated losses £'000	Total equity £'000
At 31 March 2018	13	(41,666)	(41,653)
Effect of change in accounting policy	-	(617)	(617)
At 1 April 2018	13	(42,283)	(42,270)
Profit and total comprehensive income for the year	-	28,439	28,439
At 31 March 2019	13	(13,844)	(13,831)
At 1 April 2017	13	(46,169)	(46,156)
Profit and total comprehensive income for the year	-	4,503	4,503
At 31 March 2018	13	(41,666)	(41,653)

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 March 2019

	Note	2019 £'000	2018 £'000
Operating activities			
Cash in/(out) from operations	22	12	(1,686)
Income tax paid		-	-
Net cash received from/(used in) operating activities		12	(1,686)
Investing activities			
Interest received		6,158	3,380
Repayments on secured loan		10,663	11,916
Net cash generated from investing activities		16,821	15,296
Financing activities			
Interest paid		(2,176)	(1,833)
Note repayments		(11,081)	(11,786)
Net cash used in financing activities		(13,257)	(13,619)
Net change in cash and cash equivalents		3,576	(9)
Cash and cash equivalents at beginning of year		1,432	1,441
Cash and cash equivalents at end of year	13	5,008	1,432

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

1. GENERAL INFORMATION

Honours Plc is a public limited company incorporated under the Companies Act 2006 and domiciled in the United Kingdom. The address of the registered office is given on page 1. The nature of the company's operations and its principal activities are set out in the strategic report.

The activities of Honours Plc are entirely undertaken in the UK and all its activities are sterling denominated.

2. GOING CONCERN

The directors are of the opinion that over the period to maturity of the notes, on the basis of their best estimate as to the underlying performance of future cash receipts from the student loan portfolio, the company will continue to generate sufficient cash to operate under the terms of the securitisation as a going concern. According to the terms of the floating notes, where there are insufficient funds to repay the notes at legal maturity (2029), the Priority of Payments detailed in the offering circular dated 3 November 2006 is followed. Under the terms of this schedule each class of notes is subordinated to the class ranking immediately above it.

The notes are full recourse obligations of the company and are issued subject to an option of the company's parent to acquire the notes for nominal consideration, the Post Enforcement Call Option, should any of the notes remain outstanding following enforcement of their rights and realisation of the assets of the company. Following the purchase of such remaining note obligations by the company's parent, the directors of the company would rely on the parent to support the continued operation of the company through the cancellation of the notes. The notes are therefore viewed as being "without recourse" and the company will only be liable to make any payments to the extent that it has received sufficient funds to enable it to do so.

On the basis of the above, the directors consider the company able to meet its liabilities as they fall due for the foreseeable future and accordingly, that the financial statements should continue to be prepared on a going concern basis.

3. ADOPTION OF NEW AND REVISED STANDARDS

The company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

Standard/Interpretation	**Effective for periods commencing on or after**
IFRS 9 *Financial Instruments*	1 January 2018
IFRS 15 *Revenue from Contracts with Customers*	1 January 2018
Annual improvements 2014-2016 cycle	1 January 2018

The company had to change its accounting policies and make certain adjustments following the adoption of IFRS 9, this is disclosed in note 11. The introduction of IFRS15 did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

3. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

Certain new accounting standards and interpretations have been published that do not have a material impact on the financial statements of the company and have not been adopted:

Standard/Interpretation	Effective for periods commencing on or after
Amendments to IFRS 4, Amendments regarding implementation of IFRS 9	1 January 2018
Amendments to IFRS 9, 'Financial instruments', on general hedge accounting	1 January 2018
Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2	1 January 2018
Transfers to Investment Property – Amendments to IAS 40	1 January 2018
Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendment to IFRS 1, 'First-time Adoption of IFRS' regarding short-term exemptions covering transition provisions of IFRS 7, IAS 19 and IFRS 10	1 January 2018
Amendments to IAS 28 'Investments in associates and joint ventures' regarding measuring their investments in associates or joint ventures at fair value through profit or loss (FVTPL)	1 January 2018

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared under the historical cost convention in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRS Interpretations Committee and the Companies Act 2006 applicable to companies reporting under IFRS.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. 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 18.

The principal accounting policies which have been disclosed below have been consistently applied throughout the year.

Share Capital

Ordinary shares are classified in equity. Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders. Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent events note.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products and services within a particular economic environment that are subject to risk and returns that are different from those segments operating in other economic environments.

The Directors consider that the entity has only one geographical and one business segment and therefore is not required to produce additional segmental disclosures.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest receivable and payable

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the Statement of Comprehensive Income using the effective interest method.

Financial instruments

The Company's financial instruments comprise a secured loan to a third party, cash and liquid resources, floating rate notes and various receivables and payables that arise from its ongoing operations as a securitisation special purpose entity. These financial instruments are classified and measured as described below in accordance with IFRS 9.

The Company has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

a) *Secured loan and other financial assets*

Recognition, measurement and classification

Upon an asset transfer, if the transferor retains substantially all the risks and rewards associated with the asset, the transaction does not qualify for derecognition under IFRS 9 and is therefore accounted for as a financing transaction. In respect of the student loans portfolios sold to the Company by the UK Government, this was adjudged to fail the derecognition criteria of IFRS 9, on the basis the Government had been deemed not to transfer the significant risk and reward associated with the portfolios, owing to the requirement to pay the Company interest rate subsidies, cancellation indemnities and an initial first loss guarantee of 4.75% of the initial portfolio size (that has since been utilised). Accordingly, the student loans have not been deemed to transfer to the balance sheet of the Company and instead the transaction is accounted for, in substance, as a collateralised loan to the UK Government as seller, where recourse is limited to the cash flows from the underlying student loans and the other credit enhancement provided by the UK Government as described above.

On the basis that the secured loan to the Originator is to be held for collection of the underlying contractual cash flows and the cash flows are deemed to represent solely payments of principal and interest ("SPPI"), it is measured initially at fair value and then subsequently at amortised cost using the effective interest rate method that includes the unwind of directly attributable transaction costs initially capitalised as part of the secured loan. The effective interest rate is determined based upon the total collections expected to be received in respect of the secured loan, estimated on a systematic basis reflecting the characteristics and quality of the underlying portfolio and credit enhancements based on collections experience since acquisition.

The measurement at initial recognition did not change on adoption of IFRS 9, see description above. Prior to the adoption of IFRS 9, the secured loan was accounted for as "loans and receivables" under IAS 39, which still required amortised cost accounting using the effective interest rate method in the same manner.

For disclosure purposes the secured loan has been classified as a non-current asset as, while it is expected that repayments will be received in the next year, the amount of repayments received is dependent on the income and behavioural profile of borrowers in the underlying portfolio of student loans which cannot be reliably estimated.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Impairment

The secured loan is regularly assessed for impairment on a forward-looking basis in respect of Expected Credit Losses ("ECL") associated with the underlying receivables. In arriving at this ECL in respect of the underlying receivables, a three-stage model is adopted:

- Stage 1: 12 month ECL calculated at initial recognition covering expected defaults over the next 12 months;
- Stage 2: Lifetime ECL (not credit impaired) calculated following a significant deterioration in credit quality relative to initial recognition (assumed by the Company to be when a loan is in arrears by over 30 days); and
- Stage 3: Lifetime ECL (credit impaired) calculated once deemed to be credit impaired (assumed to be over 90 days in arrears) and interest revenue recognised on the revised receivable balance, net of the lifetime loss allowance (as opposed to gross).

The movement in the impairment on the secured loan by IFRS 9 staging is shown below:

	Stage 1 12-month ECL £'000	Stage 2 Lifetime ECL £'000	Stage 3 Lifetime ECL £'000	Total £'000
Loss allowance at 31 March 2018	-	(562)	(5,165)	(5,727)
Movements with income statement impact				
Credit/(Charge)	-	(113)	(1,774)	(1,887)
Total net income statement (charge)/release	-	(113)	(1,774)	(1,887)
Movements with no income statement impact				
Net recoveries	-	151	2,128	2,278
IFRS 9 first time application	(2)	95	(710)	(617)
Total	(2)	(429)	(5,521)	(5,952)

The ECL allowance on the secured loan references that on the underlying student loans and is calculated using probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD") and utilise a variety of measurement models and other relevant judgements exercised by the Company. These models incorporate historical experience of credit losses and recoveries, the specific composition of the underlying receivables portfolio and risk evaluation at the time of origination and a forecast of future economic conditions.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. There was no material impact on the measurement of the impairment of trade receivables.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) *Financial liabilities at amortised cost*

All financial liabilities held by the company are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

For disclosure purposes the floating rate notes have been classified as non-current liabilities as the principal redemptions on the notes are dependent on the repayments received from the portfolio of student loans underlying the secured loan and therefore principal repayments on the notes do not fall due until repayments have been received. The amount of repayments received from the underlying student loans is dependent on the income and behavioural profile of the borrowers, as described above.

Any premium and discounts are amortised over the period to expected maturity as part of the effective interest rate method.

c) *Cash and cash equivalents*

Cash and cash equivalents are comprised of cash at the bank and short term treasury term deposits.

Provisions for liabilities and charges

A provision is recognised where there is a present legal or constructive obligation as a result of a past event, it is probable that the obligation will be settled and it can be reliably estimated. This includes management's best estimate of the expenditure required to settle the liabilities as at the balance sheet date. Provisions for liabilities and charges comprise amounts set aside in relation to potential non-Compliance with the CCA as detailed further in note 17.

Taxation

Under the powers conferred by the Finance Act 2005 (the "Act"), legislation was enacted in 2006 which ensures that, subject to certain conditions being met and an election being made, for periods commencing on or after 1 January 2007, corporation tax for a 'securitisation company' will be calculated by reference to the profit of the securitisation company required to be retained in accordance with the relevant capital market arrangement.

The directors are satisfied that the company meets the definition of a 'securitisation company' as defined by both the Finance Act 2005 and the subsequent secondary legislation and that no incremental unfunded tax liabilities will arise. Additionally, no deferred tax amounts are recognised by the company.

5. RISK & CAPITAL MANAGEMENT AND CONTROL

As a result of its normal business activities, the company is exposed to a range of risks, the most significant being interest rate risk, liquidity risk, credit risk and operational risk.

a) *Capital management*

The Company's objective when managing capital is to enable the ongoing trade of its operations and to safeguard its ability to continue as a going concern in order to provide returns for shareholders, provide benefits for other stakeholders and to maintain an optimal capital structure.

Capital employed by the Company is equity from shareholders and working capital management through trade receivables and payables. There were no changes in the Company's approach to capital management during the year. The funding requirements of the Company are met by cash generated from operations.

Please refer to sections 5d), 5f), 5g) and 5h) for quantitative data about what the Company manages as Capital.

b) *Operational risk*

Operational risk is defined by the company as the potential risk of financial loss, or impairment to reputation, as a result of internal process failures, or from the inappropriate actions of employees or management. The board of directors has ultimate responsibility for establishing the framework in which operational risk is managed. A substantial part of the operations of HTL and those that are concerned with its borrowers are contracted to Link Financial Outsourcing Limited. The company actively manages its contractual relationship with its administrators to ensure that all potential operational issues are identified, mitigated or resolved at the earliest opportunity.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

5. RISK & CAPITAL MANAGEMENT AND CONTROL (CONTINUED)

c) *Foreign exchange risk*

All amounts are denominated in sterling and therefore there is no currency exposure.

d) *Credit risk*

Credit risk is defined by the company as the potential for loss as a result of the non-payment of receivables by their obligors in accordance with the terms of those receivables. The company's main asset is a beneficial interest in the assets of HTL, which comprise a static portfolio of student loans which is no longer accepting new loans, rights to receive subsidy and other payments from the Authority under the terms of the purchase agreement and cash balances held with financial institutions totalling £5,008,000 (2018: £1,432,000) at the year end. Over time the percentage of loans in deferment in the portfolio is increasing and the credit profile of the portfolio is becoming less exposed to borrower payment risk and more to the Authority indemnity obligations.

The principal credit exposures of the group are the UK Government and the Authority, and the borrowers in the portfolio. The credit exposure of the company to the borrowers in the portfolio is limited due to the indemnity provided by the Authority which means that the only exposure of the company to borrowers in the portfolio is to borrowers whose loans have been in long term arrears and cease to be eligible for indemnity payments. The credit risk of borrowers who have kept their financial statements up to date through repayments or deferment of their payments, or whose loans are in arrears but have not yet ceased to be eligible for the indemnity is borne by the Authority. As at 31 March 2019 there were 29,740 live debit balance borrower accounts within the non-charged off portfolio (2018 – 34,014). The largest borrower balance was £19,750 (2018 - £19,527). Large balances are not common and balances over £8,000 accounted for £26,070,688 (2018 - £25,877,458), 21.22% (2018 – 19.23%) of the portfolio balance.

The tables below disclose the maximum exposure to credit risk as at 31 March 2019 for financial assets with exposure to credit risk:

At 31 March 2019	Stage 1	Stage 2	Stage 3	Impairment allowance	Total
	£'000	£'000	£'000	£'000	£'000
Underlying student loan debtors	8,073	112,377	8,380	(5,952)	122,878
UK Government	560	-	-		560
Financial institutions – ring fenced*	4,500	-	-	-	4,500
Financial institutions	5,008	-	-	-	5,008
Total	18,141	112,377	8,380	(5,952)	132,946

*Settlement agreement proceeds held in escrow in a named account to be used for the sole purpose of part-settling the CCA provision in notes 15 and 17.

At 31 March 2018	Unimpaired assets not past due	Amounts less than 90 days past due but not impaired	Amounts more than 90 days past due but not impaired	Impaired assets	Impairment allowance	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Underlying student loan debtors	131,400	-	-	8,951	(5,727)	134,624
UK Government	731	-	-	-	-	731
Financial institutions – ring fenced*	8,000	-	-	-	-	8,000
Financial institutions	1,432	-	-	-	-	1,432
Total	141,563	-	-	8,951	(5,727)	144,787

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

5. **RISK & CAPITAL MANAGEMENT AND CONTROL (CONTINUED)**

d) *Credit risk (continued)*

The movement in the loss allowance is shown below:

	Stage 1 12-month ECL £'000	Stage 2 Lifetime ECL £'000	Stage 3 Lifetime ECL £'000	Total £'000
Loss allowance at 31 March 2018	-	(562)	(5,165)	(5,727)
Movements with income statement impact				
Credit/(Charge)	-	(113)	(1,774)	(1,887)
Total net income statement (charge)/release	-	(113)	(1,774)	(1,887)
Movements with no income statement impact				
Net recoveries	-	151	2,128	2,278
IFRS 9 first time application	(2)	95	(710)	(617)
Total	(2)	(429)	(5,521)	(5,952)

The student loans themselves are written on favourable terms to the borrowers who may defer repayments if they earn less than the current deferment threshold (which was £32,347 per annum from 1 September 2019, 2018: £29,219). Providing that borrowers keep their account up to date, they may also ultimately be entitled to have their loan cancelled. In such circumstances HTL will receive an indemnity payment from the Authority. Interest on the loans is below market rate and set at a rate equivalent to the annual rate of change in the retail prices index. During the year interest on the loans was charged at an average rate of 3.22% (2018: 2.48%). A loan can be cancelled in compliance with the terms if one of the following events occurs:

- The borrower has died;
- The borrower has become disabled;
- 25 years has passed since the inception of the most recent loan agreement entered by the borrower (subject to no breach in contractual terms)
- Where the borrower has reached 50 years of age and no less than 10 years has passed since they received the loan agreement (subject to there being no breach in loan obligations)
- Where the borrower has reached 60 years of age (subject to there being no breach in loan obligations)

The HTL declaration of trust defines cash proceeds from the portfolio and the Authority as either principal receipts or income receipts and the company is entitled to receive all the principal receipts on the trust property together with as much of the income receipts as are required by the company to meet its expense obligations and to make good any credit losses. In the first instance the Second Beneficiary (Nationwide Building Society) of the HTL declaration of trust will bear credit losses.

Loans which are 24 or more months past due have been written off in the company's financial statements and this is reflected in the valuation of the secured loan. The impairment is calculated based on the observed likelihood of loans meeting the write-off criteria once they have moved into the relevant arrears grouping.

The purchase agreement with the Authority contemplates certain circumstances (page 34 of the bond prospectus available here: https://www.ise.ie/debt_documents/honours_2337.pdf) where the payments from the Authority may be delayed or withheld, or where the portfolio might need to be sold back to the Student Loan Company at a discount, however none of these circumstances are expected to occur.

e) *Market value risk*

Market value risk is the potential movement in the fair value of the portfolios purchased. Due to the non-recourse nature of the notes, the fair market value of the notes in general moves in line with this. Moreover the absence of any accounting driven covenants or capital requirements means that any such movement does not pose a risk to the going concern status of the company.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

5. RISK & CAPITAL MANAGEMENT AND CONTROL (CONTINUED)

f) *Interest rate risk*

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. The company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar.

The company finances its operations entirely through the issue of floating rate notes. The assets also earn interest on their outstanding balance at a floating rate taking into account the income subsidy paid by the Authority which converts the RPI interest basis of the loans into a rate varying with the LIBOR rate on the floating rate notes. At 31 March 2019 the effective interest rate on the loans and receivables was 4.74% (2018 – 2.29%) and the interest rate on issued floating rate notes is between 0.7% and 4.5% (2018 - 0.70% and 4.2%).

The following tables provide a summary of the interest rate re-pricing profile of the company's assets and liabilities. Assets and liabilities have been allocated to periods by reference to the earlier of the next interest rate reset date and the contractual maturity date.

	31 March 2019							
£000s	Less than 3 months	3 to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	No re-price date	Non-interest bearing	Total
Non-current assets								
Secured Loan to third party	122,878	-	-	-	-	-	-	122,878
Current assets								
Trade and other receivables	-	-	-	-	-	-	560	560
Reimbursement asset	-	-	-	-	-	-	4,500	4,500
Cash and cash equivalents	5,008	-	-	-	-	-	-	5,008
Total assets	127,886	-	-	-	-	-	5,060	132,946
Current liabilities								
Provision for liabilities and charges	-	-	-	-	-	-	(4,500)	(4,500)
Financial liabilities	(1,159)	-	-	-	-	-	-	(1,159)
Trade and other payables	-	-	-	-	-	-	(571)	(571)
Total	126,727	-	-	-	-	-	(11)	126,716
Non-current financial liabilities	(140,547)	-	-	-	-	-	-	(140,547)
Net liabilities	(13,820)	-	-	-	-	-	(11)	(13,831)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

5. RISK & CAPITAL MANAGEMENT AND CONTROL (CONTINUED)

f) *Interest rate risk (continued)*

£000s	31 March 2018							
	Less than 3 months	3 to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	No re-price date	Non-interest bearing	Total
Non-current assets								
Secured Loan to third party	134,624	-	-	-	-	-	-	134,624
Current assets								
Trade and other receivables	-	-	-	-	-	-	731	731
Reimbursement asset	-	-	-	-	-	-	8,000	8,000
Cash and cash equivalents	1,432	-	-	-	-	-	-	1,432
Total assets	136,056	-	-	-	-	-	8,731	144,787
Current liabilities								
Financial liabilities	(883)	-	-	-	-	-	-	(883)
Trade and other payables	-	-	-	-	-	-	(403)	(403)
Total	135,173	-	-	-	-	-	8,328	143,501
Non-current financial liabilities	(151,904)	-	-	-	-	-	(33,250)	(185,154)
Net liabilities	(16,731)	-	-	-	-	-	(24,922)	(41,653)

Interest rate sensitivity analysis

In general terms the company has limited exposure to movements in interest rates since the subsidy paid by the Authority on the eligible loans within HTL's loan portfolio (which is fixed with reference to 1 month sterling LIBOR) matches the interest rate charged on the company's borrowings. However differences between the balance of floating rate assets and the balance of floating rate liabilities do exist which combined with the discount at which the floating rate assets are held in the company's Statement of Financial Position will give rise to variances in the company's profit and loss.

If interest rates had been 1% higher / lower and all other variables were held constant, the company's profit for the year ended 31 March 2019 would increase / decrease by £401 (2018: increase / decrease by £21,013).

The sensitivity analysis is an indication of how movements in interest rates may impact the company's financial performance. Future movements in market interest rates are unpredictable.

The company has no interest rate swap contracts in place (2018: none).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

5. RISK & CAPITAL MANAGEMENT AND CONTROL (CONTINUED)

g) *Liquidity risk*

The table below analyses the company's liabilities into relevant maturity groupings based upon the remaining period between the financial year end and the contractual maturity date:

31 March 2019

£000	Weighted average effective interest rate £'000	Less than 3 months £'000	Less than 5 years £'000	5+ years £'000	Total £'000
Trade and other Payables	-	571	-	-	571
Provisions for liabilities and charges	-	-	4,500	-	4,500
Financial Liabilities	1.5873%	1,159	-	164,607	165,766
Total		1,730	4,500	164,607	170,837

31 March 2018

£000	Weighted average effective interest rate £'000	Less than 3 months £'000	Less than 5 years £'000	5+ years £'000	Total £'000
Trade and other Payables	-	403	-	-	403
Provisions for liabilities and charges	-	-	33,250	-	33,250
Financial Liabilities	1.3281%	883	-	175,730	176,613
Total		1,286	33,250	175,730	210,266

The interest rates assumed are the 1 month LIBOR rate at each financial year end.

Floating rate notes are not due to be repaid in full until their final maturity date of 10 April 2029.

Interest is capitalised and paid at final maturity as the earliest date on which the company is obliged to pay interest.

h) *Fair value of financial assets and financial liabilities measured at amortised cost*

The directors have estimated the fair value of the floating rate notes as displayed in the table below based on prices quoted to them by traders in these securities and, in the absence of such quoted prices, an estimate of value based on the implied credit spreads of the transactions for the floating rate notes which have traded and the average lives of each class of floating rate notes. These estimation techniques are necessarily subjective in nature and involve a number of assumptions. The secured loan to third party represents an interest in the underlying student loans materially equivalent to the floating rate notes and therefore the directors consider that it is consistent to value this in the same way, adjusting for any further claims of the company on the assets and timing differences.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

5. RISK & CAPITAL MANAGEMENT AND CONTROL (CONTINUED)

h) *Fair value of financial assets and financial liabilities measured at amortised cost (continued)*

	31 March 2019	
	Fair Value	**Carrying Value**
	£'000	**£'000**
Secured loan to third party	110,626	122,878
Trade and other receivables	560	560
Reimbursement asset	4,500	4,500
Cash and cash equivalents	5,008	5,008
Total assets	120,694	132,946
Non-current financial liabilities	(110,626)	(140,547)
Current financial liabilities	(5,659)	(5,659)
Trade and other payables	(571)	(571)
Total financial liabilities	(116,856)	(146,777)

	31 March 2018	
	Fair Value	**Carrying Value**
	£'000	**£'000**
Secured loan to third party	123,275	134,624
Trade and other receivables	731	731
Reimbursement asset	8,000	8,000
Cash and cash equivalents	1,432	1,432
Total assets	133,438	144,787
Non-current financial liabilities	(156,525)	(185,154)
Current financial liabilities	(883)	(883)
Trade and other payables	(403)	(403)
Total financial liabilities	(157,811)	(186,440)

At the reporting date, the carrying amounts of the company's financial assets and liabilities for which fair values were determined directly, in full or part, by reference to price quotations and determined using valuation techniques are below. The carrying values of cash and cash equivalents, reimbursement asset, trade and other receivables, current financial liabilities and trade and other payables are a reasonable approximation of the fair values of these instruments.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

5. RISK & CAPITAL MANAGEMENT AND CONTROL (CONTINUED)

h) *Fair value of financial assets and financial liabilities measured at amortised cost (continued)*

31 March 2019

Hierarchy levels, assets	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Assets at amortised cost whose fair value is disclosed.				
Secured Loan to third Party	-	-	110,626	110,626

Hierarchy levels, liabilities	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Liabilities at amortised cost whose fair value is disclosed.				
Non-current financial liabilities	-	-	110,626	11,626

31 March 2018

Hierarchy levels, assets	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Assets at amortised cost whose fair value is disclosed.				
Secured Loan to third Party	-	-	123,275	123,275

Hierarchy levels, liabilities	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Liabilities at amortised cost whose fair value is disclosed.				
Non-current financial liabilities	-	-	156,525	156,525

6. DIRECTORS AND EMPLOYEES

	2019 £'000	**2018 £'000**
Wilmington Trust SP Services (London) Limited		
Corporate services fee	53	191

Wilmington Trust SP Services (London) Limited provides corporate services to the company. Corporate services provided include making available the services of the directors to the company.

No other fees or emoluments other than those disclosed above were paid to any directors. The company does not have any employees (2018 – nil).

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	2019 £'000	**2018 £'000**
Effective interest receivable from third party loan	6,158	3,380
	6,158	3,380

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2019 £'000	2018 £'000
Effective interest payable on floating rate notes and start-up loan	(2,176)	(1,833)
	(2,176)	(1,833)

9. ADMINISTRATIVE EXPENSES

	2019 £'000	2018 £'000
Administration fees	1,579	1,845
Other fees – legal & professional and treasury management	378	1,048
Amounts paid to auditors of these financial statements		
- The audit of the individual Financial statements (provided by PWC)	95	151
- Other assurance services (provided by PWC)	24	48
	2,076	3,092

10. TAX ON PROFIT FROM ORDINARY ACTIVITIES

	2019 £'000	2018 £'000
UK corporation tax on the profit for the year	-	-

Factors affecting the Company current tax charge for the year:

The tax charge for the year is lower (2018: lower) than the standard rate of corporation tax in the UK of 19% (2018: 19%). The difference is explained below:

	2019 £'000	2018 £'000
Profit before tax for the year	28,439	4,503
Current tax charge at 19% (2018: 19%)	(5,403)	(856)
Adjustment for cash retained profit taxed in accordance with SI 2006/3296	5,403	856
Actual current tax charge	-	-

11. SECURED LOAN TO THIRD PARTY

	2019 £'000	2018 £'000
As at 1 April	134,624	149,803
Interest income accrued	6,158	3,380
Loan amounts received or written off	(15,400)	(16,607)
Decrease in value of secured loan due to impairment	(1,887)	(1,952)
IFRS 9 restatement of 2018 comparative	(617)	-
As at 31 March	122,878	134,624

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

11. SECURED LOAN TO THIRD PARTY (CONTINUED)

The following table shows the gross loans and advances to customers movement over the period:

Secured loan to third party

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 April 2018	9,841	121,737	8,773	140,351
Transfers to Stage 1	2,390	-	-	2,390
Transfers from Stage 2	-	(4,949)	-	(4,949)
Transfers to Stage 3	-	-	2,558	2,558
Decrease to secured loan to third party	(4,144)	(4,246)	(92)	(8,482)
Written off during the year	(14)	(165)	(2,859)	(3,038)
As at 31 March 2019	8,073	112,377	8,380	128,830

Non-Current assets	2019 £'000	2018 £'000
Secured loan to third party	128,830	140,351
Impairment allowance	(5,952)	(5,727)
	122,878	134,624

Please refer to Note 5 for a breakdown of the movement in impairment provision.

12. TRADE AND OTHER RECEIVABLES

	2019 £'000	2018 £'000
Other receivables	560	731
	560	731

Other receivables are comprised of the proceeds of payments of subsidy and other amounts accrued but unpaid by the Authority at the financial year end together with cash held by the administrator of the portfolio on trust for the company and other beneficiaries.

13. CASH AND CASH EQUIVALENTS

	2019 £'000	2018 £'000
Cash on deposit subject to Guaranteed Investment contract	5,008	1,432
	5,008	1,432

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

13. CASH AND CASH EQUIVALENTS (CONTINUED)

All cash and cash equivalents of the company and in the account of Honours Trustee Limited of which the company is the principal beneficiary are held subject to the terms of a Guaranteed Investment Contract entered into with Deutsche Bank.

£1,500,000 of cash included in cash and cash equivalents is ring-fenced for use meeting any potential future liability, costs, claims, expenses or losses to the Honours structure as a result of any borrower and/or the Authority making any claim or demand or taking any action against the Issuer and/or the Purchaser in connection with the Remediation Plan (as described in note 17) or arising as a result of the non-compliance issues in relation to the CCA. The funds will be held for a reserve period of 36 months and upon completion of which it will be released down the waterfall to the bond holders.

14. CURRENT FINANCIAL LIABILITIES

	2019 £'000	2018 £'000
Accrued interest payable	1,159	883
Provisions for liabilities and charges (see note 17)	4,500	-
	5,659	883

15. NON-CURRENT FINANCIAL LIABILITIES

	2019 £'000	2018 £'000
Floating rate notes (see note 16)	140,547	151,904
Provisions for liabilities and charges (see note 17)	-	33,250
	140,547	185,154

The company has pledged all its assets including its interest in the student loan portfolio, receivables under the sale and purchase agreement and any cash balances from time to time as security to support its financial liabilities pursuant to a Deed of Charge.

16. FLOATING RATE NOTES

There are six classes of floating rate notes issued, all due in 2029:

	2019 £'000	2018 £'000
Series 2 Class A1 asset backed floating rate notes	34,608	45,311
Series 2 Class A2 asset backed floating rate notes	54,200	54,200
Series 2 Class B asset backed floating rate notes	23,949	24,251
Series 2 Class C asset backed floating rate notes	12,926	13,089
Series 2 Class D asset backed floating rate notes	8,581	8,690
Series 2 Class E asset backed floating rate notes	6,283	6,363
	140,547	151,904

The Series 2 notes were issued at par on 10 November 2006.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

16. FLOATING RATE NOTES (CONTINUED)

The Class A issuer notes rank, respective of series, with preference or priority among themselves. Subject to the relevant scheduled and/or, as applicable, permitted redemption dates or other payment conditions of the issuer notes, payments of principal and interest due and payable on the Class A1 issuer notes respective of series will rank ahead of payments of principal and interest due and payable on the Class A2, B issuer notes, the Class C issuer notes, the Class D issuer notes and the Class E issuer notes subject to the terms and conditions of the issuer notes, the Issuer Cash Management Agreement, the Issuer Deed of Charge, the Honours Plc Deed of Charge and the other issuer transaction documents. Similarly, payments of principal and interest due and payable on the Class B issuer notes will rank ahead of payments of principal and interest due and payable on the Class C issuer notes, Class D issuer notes and Class E issuer notes, payments of principal and interest due and payable on the Class C issuer notes will rank ahead of payments of principal and interest due and payable on the Class D issuer notes and Class E issuer notes, and payments of principal and interest due and payable on the Class D issuer notes will rank ahead of payments of principal and interest due and payable on the Class E issuer notes.

Following the contractual margin step-up from in November 2011, the interest rates payable on the floating rate notes are as follows:

Class A1 asset backed floating rate notes	LIBOR +0.22%
Class A2 asset backed floating rate notes	LIBOR +0.28%
Class B asset backed floating rate notes	LIBOR +1.00%
Class C asset backed floating rate notes	LIBOR +1.60%
Class D asset backed floating rate notes	LIBOR +3.75%
Class E asset backed floating rate notes	LIBOR +3.00%

17. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

Prior to the company moving to a new loan administration service provider it was identified that the company may not be in compliance with certain aspects of the CCA. Specifically, the company identified certain historical borrower communications in respect of particular arrears notices sent to borrowers were not in compliance with the CCA. A provision was therefore recognised in the statement of financial position based on the directors' best estimate at the time (Note 15 2018: £33,250,000) of the expenditure required to meet the liabilities deemed probable from putting the customer back to a the position they would have been had these notices not been sent, plus interest and any professional advice required on the matter.

A settlement agreement between the Company and Capita was entered into on 7 December 2017, with Capita pledging £8,000,000 to fund settlements with customers and reimbursement of related advisory costs. Funds are being held in escrow in a designated, ring fenced bank account to be distributed to borrowers

On 2 December 2019, a regulatory news service ("RNS") announcement to the London Stock Exchange confirmed that the company has remediated customers by £3.1m split between actual cash payments and balance reductions for those affected by non-compliance with the CCA with £1m pledged for costs incurred before 31 March 2019. The remaining balance being held as follows:

- circa £0.64 million is being held pending Honours obtaining payment instructions from the Authority in order to be able to pay to the Authority the cash refund still owing to the Authority;
- £1,500,000 will be held for a period of 36 months to be used to meet any potential future liability, costs, claims, expenses or losses to the Honours structure as a result of any borrower and/or the Authority making any claim or demand or taking any action against the Issuer and/or the Purchaser in connection with the Remediation Plan or arising as a result of the non-compliance issues in relation to the CCA, and after the Reserve Period will be released down the waterfall;

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

17. PROVISIONS FOR OTHER LIABILITIES AND CHARGES (CONTINUED)

- £1,500,000 held for costs incurred after 31 March 2019 for the completion of the remediation; and
- the balance remaining, after deducting the amounts referred above, being used to pay any amounts incurred in connection with the implementation of the Remediation Plan and not yet paid for as described above or otherwise retained in the Settlement Account and after the Reserve Period released down the waterfall.

As the provision for remediation with customers and incurred expenses post year end does not exceed £4,500,000 as per the RNS mentioned above, the original settlement balance held in current assets has also been reduced from £8,000,000 to £4,500,000 under IAS 37, with £3,500,000 now being released from the reimbursement asset arising from the settlement and recognised in cash and cash equivalents.

18. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Certain assets and liability amounts reported in the financial statements are based on management estimates and assumptions, in particular:

Measurement of the secured loan

It has been concluded that the secured loan should be measured at amortised cost under IFRS 9 having assessed the business model and underlying cash flows against the relevant criteria below.

Given the nature of the Company's activities, the applicable business model was identified as being one that holds to collect the cash flows of the secured loan. It was then necessary to confirm that cash flows received in respect of the secured loan represent payments of solely principal and interest ("SPPI").

IFRS 9 does not provide specific guidance on assessing the SPPI criterion for secured loan assets such as the secured loan. Furthermore a secured loan does not have a single contract which sets out its contractual terms, but instead is formed from elements of different contracts that give rise to the secured loan. It is therefore necessary to determine what the contractual terms of the secured loan are by considering the various contractual rights and obligations that the secured loan asset represents. This requires consideration of the terms of the underlying assets and of the notes purchased by the Originator, as well as any associated instruments and which of the cash flows of those underlying assets are included in the secured loan.

It was concluded that all amounts received in respect of the secured loan are reflective of the time value of money whilst any enforcement events or clean-up calls on the underlying student loans would not expose the Company to any additional market upside or downside, given the limited recourse nature of the floating rate notes. As such, amortised cost measurement in the context of IFRS 9 requirements is deemed appropriate.

Impairment of the secured loan

The company also reviews its secured loan to assess impairment, in determining whether an impairment loss should be recorded in the income statement. In undertaking this review, the company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio. As per IFRS 9, management use a three stage model for impairment based on changes in credit quality since initial recognition.

Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have a low credit risk at the reporting date. For these assets, 12-month expected credit losses ('ECL') are recognised and an impairment provision is calculated on the gross carrying value of the asset. The 12-month ECL is the expected losses that result from defaults in the next 12 months.

Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. Expected credit losses are the weighted average credit losses with the probability of default ('PD') as the weight.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

18. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Impairment of the secured loan (continued)

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognised and an impairment provision calculated based on the cure rates of assets that are in default at the balance sheet date.

IFRS 9 requires management, when determining whether the credit risk on a financial instrument has increased significantly, to consider reasonable and supportable information available, in order to compare the risk of a default occurring at the reporting date with the risk of a default occurring at initial recognition of the financial instrument.

Effective interest rate on the secured loan

the beneficial interest in the student loan portfolios, which is calculated on an effective interest basis. The effective interest is calculated with reference to expected cash flows and future performance of the underlying student loan portfolio. There is therefore a risk of significant changes to the carrying amounts for these assets and liabilities within the next financial year.

Provisions for other liabilities and charges

The provision recognised is respect of potential non-compliance with the CCA as described in note 17 is based on the Remediation Plan as finalised and agreed by management, Deloitte LLP (as advisors) and Link Financial Outsourcing Limited (as servicer) which was completed on 2 December 2019.

19. SHARE CAPITAL

There are 10,000,000 authorised shares of £1 each (2018: 10,000,000) of which 2 (2018: 2) are called up and fully paid and 49,998 (2018: 49,998) are called up and partly paid at 25p per share.

The company is not subject to externally imposed capital requirements in either the current or prior year.

20. ACCUMULATED LOSSES

	2019 £'000	2018 £'000
Loss brought forward	(41,666)	(46,169)
Adjustment for IFRS 9	(617)	-
Profit for the year	28,439	4,503
Accumulated loss at end of year	(13,844)	(41,666)

21. RECONCILIATION OF MOVEMENTS IN TOTAL SHAREHOLDERS' DEFICIT

	2019 £'000	2018 £'000
Opening total equity	(41,653)	(46,156)
Adjustment for IFRS 9	(617)	-
Profit for the financial year	28,439	4,503
Closing total equity	(13,831)	(41,653)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

22. CASH FLOW FROM OPERATIONS

	2019 £'000	2018 £'000
Profit before tax for the year	28,439	4,503
Decrease/(increase) in receivables	3,671	(13)
Increase in payables	168	108
Interest receivable	(6,158)	(3,380)
Interest payable	2,176	1,833
Decrease in value of secured loan due to impairment	1,887	1,952
Decrease to provision for liabilities and charges	(28,750)	(8,000)
Effective interest receivable from secured loan	(1,421)	1,311
Net cash inflow/(outflow) from operating activities	12	(1,686)

The movement in interest payable is included in repayments in the Statement of Cash Flows.

23. RELATED PARTY TRANSACTIONS

During the year the Company paid Wilmington Trust SP Services (London) Limited, a Director of the Company, £52,858 in administration fees (2018: £190,625).

24. ULTIMATE PARENT UNDERTAKING

The immediate and ultimate parent undertaking is Honours (Holdings) Limited, a company incorporated in England & Wales. This is the smallest and largest group in which the results of the company are consolidated. The ultimate controlling party is Honours (Holdings) Limited. Wilmington Trust SP Services (London) Limited, a company incorporated in England & Wales, holds the shares of Honours (Holdings) Limited under the terms of a discretionary trust for charitable purposes. The financial statements of Honours (Holdings) Limited are available from Wilmington Trust SP Services (London) Limited, Third Floor, 1 King's Arms Yard, London EC2R 7AF.

25. EVENTS AFTER THE REPORTING PERIOD

Customer Remediation

On 2 December 2019, a regulatory news service ("RNS") announcement to the London Stock Exchange confirmed that the company has remediated customers by £3.1m split between actual cash payments and balance reductions for those affected by non-compliance with the CCA with £1m pledged for costs incurred before 31 March 2019.

In relation to the CCA provision the financial effect of this event has been recognised in these financial statements.

Loss of the Liquidity Facility

The Company previously had a liquidity facility in place provided by Danske Bank. Danske Bank terminated the facility on 25 April 2019, after the annual request for renewal was not submitted in time due to an administrative error.

Management has made attempts to obtain a replacement for the liquidity facility but has not (and is unlikely to) find one. In the event that the Company cannot cover the cost of operations and administration through payments received from customers, it can draw on cash reserves.