

**Company Registration Number: 3702189**

**Honours Plc**

**Annual Report and Financial Statements  
For the year ended 31 March 2021**



**ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2021**

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## **Honours Plc**

### **Officers and independent auditors**

#### **Directors**

Wilmington Trust SP Services (London) Limited  
Daniel Wynne

#### **Company Secretary**

Wilmington Trust SP Services (London) Limited  
Third Floor  
1 King's Arms Yard  
London  
EC2R 7AF

#### **Registered office**

Wilmington Trust SP Services (London) Limited  
Third Floor  
1 King's Arms Yard  
London  
EC2R 7AF

#### **Independent auditors**

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

## **STRATEGIC REPORT**

### **FOR THE YEAR ENDED 31 MARCH 2021**

The Directors present their strategic report of Honours Plc (“the Company”) for the year ended 31 March 2021.

#### **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 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 (see LIBOR Transition within the Directors’ Report and note 6).

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 £1,000,008,000 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 2021, there were £109,946,000 (2020: £124,649,000) floating rate Notes outstanding excluding accrued expenses.

During the year, the Company’s total equity decreased by 2% driven mainly through an increase in the impairment provision held on student loans (£1,917,000) as the portfolio trends and remaining life were reassessed at year end. During the prior year, a reversal of loan impairment (£1,584,000) and increase in interest income contributed to an increase of 21% in total equity.

Following the calculation period for the month ending 31 March 2021 there was an outstanding balance of £3,160,955 (2020: £2,943,843) on the principal deficiency ledger for the securitisation issuance, indicating that there is a carry forward of loan losses which need to be covered out of available income. The Directors are of the opinion that over the period to maturity of the Notes, on the basis of their best estimate, 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.

## **STRATEGIC REPORT (CONTINUED)**

### **FOR THE YEAR ENDED 31 MARCH 2021**

#### **Section 172 (1) statements**

As a special purpose vehicle, the governance structure of the Company is such that the key policies have been predetermined at the time of issuance. The Directors have had regards to the matters set out in section 172(1) of the Companies Act 2006 as follows:

- with reference to subsection (a) concerning the likely consequences of any decision in the long term: the Transaction Documents have been formulated to achieve the Company's purpose and business objectives, safeguard the assets and promote the success of the Company with a long term view and in accordance with relevant securitisation legislation the Company is only permitted to retain minimal profit.
- the matters set out in subsections (b)–(f) have limited or no relevance to the Company and therefore they are not strategically important.

#### **Political donations**

No political donations were made by the Company during the current or prior year.

#### **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 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.

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 financial assets at amortised cost 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 financial assets at amortised cost 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 risks. The Directors have adopted policies for managing each of these risks and they are summarised below.

## **STRATEGIC REPORT (CONTINUED)**

### **FOR THE YEAR ENDED 31 MARCH 2021**

#### ***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 6d) 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 where the payments from the Authority may be delayed or withheld, or where the portfolio might need to be sold back to the Student Loans 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 14.0% (2020: 8.8%) in the year from £112,111,000 to £96,442,000. 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.

#### ***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 (see LIBOR Transition below and note 6).

#### ***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.

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 £3,312,000 (2020: £2,587,000).

#### ***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 to have a reliable loan monitoring system and credit control procedures to mitigate this credit risk. The Company also has legal options in pursuing potentially delinquent loans. See note 6d) 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.

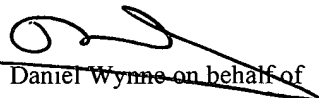
**STRATEGIC REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 31 MARCH 2021**

***COVID-19***

During 2021, the UK continued to be impacted by COVID-19 and lockdowns. This brought with it a slowdown in the economy and put many jobs at risk whilst forcing the UK into recession. The Company instituted payment holidays for those that requested them allowing them to defer as many payments as they needed. The uptake of this was low however as the standard 12-month deferment scheme in place was preferable to a shorter tailor-made solution. In total 8 people opted into the COVID-19 scheme with the largest deferment being 3 months. The total impact of the COVID-19 payment holidays was 15 payments for a total of £2,102.

The Company has undertaken a risk analysis with regards to the potential impact of COVID-19 in the future and the impairment of the student loans portfolio considers this accordingly. The Company believes that it is well placed to mitigate the economic shock of COVID-19 due to the Government backed nature of the loan portfolio. Any future impact of COVID-19 is expected to have minimal impact on the Company.

Approved by the Board of Directors on 22 February 2022 and signed on behalf of the Board



Daniel Wynne on behalf of

Wilmington Trust SP Services (London) Limited

Director

## **DIRECTORS' REPORT**

### **FOR THE YEAR ENDED 31 MARCH 2021**

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 2021.

#### **Going concern**

In the current economic climate, all companies are impacted by increased risks and uncertainties. Despite accumulated losses of £11,213,000 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. 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 6d) for examples of where the loan agreement can be cancelled and contractual indemnity from the Authority be exercised. For these reasons, 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**

The Directors were aware of the need to transition away from LIBOR due to its cessation on 31 December 2021. To that end a bondholders' meeting took place on 11 October 2021 to agree the novation from LIBOR to SONIA. The meetings were inquorate and as such an adjourned meeting took place on 25 October 2021. At the adjourned meeting, sufficient votes were received to approve the novation of the Class A1, Class A2, Class B and Class E Notes but Classes C and D Notes were not approved. Therefore, none of the Notes were approved. The two options available to Honours Plc were:

- a) Synthetic LIBOR; or
- b) The Terms and Conditions of the Honours PLC Notes, (specifically Condition 4(c) (v) ) states that when the reference rate is not available, the LIBOR shall be the same as it was for the preceding interest period.

Honours Plc informed the Noteholders of its intention to adopt synthetic LIBOR if the new Critical Benchmarks (References and Administrators' Liability) Bill was passed before 31 December 2021. This bill was given Royal assent on the 15 December 2021. Accordingly, the interest period commencing 10 December 2021 was the last interest period where the interest rate will be calculated on the basis of LIBOR in its present form, and for each interest period commencing from and including 10 January 2022, the interest rate will be calculated on the basis of synthetic LIBOR.

#### **Employees**

The Company has had no employees during the year (2020: none).

#### **Results and dividends**

The audited financial statements for the year ended 31 March 2021 are set out on pages 15 to 36. The loss for the year after taxation was £258,000 (2020: profit of £2,889,000). No dividend was made to the shareholders (2020: Nil).

#### **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 6 on risk management.

## **DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2021**

### **Risk management**

Key risks are described in the Strategic Report with financial risk management disclosed in note 6.

### **Streamlined Energy and Carbon Reporting**

The Company is out of the scope of the Streamlined Energy and Carbon Reporting ("SECR"), as it does not meet the numerical thresholds in relation to turnover and number of employees.

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

Wilmington Trust SP Services (London) Limited

Daniel 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 accounting standards in conformity with the requirements of the Companies Act 2006.

The Company has also prepared financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in 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 international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in 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' REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 MARCH 2021**

**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 international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Company; and
- the Strategic 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 indemnities**

As permitted by the Articles of Association, the Directors have the benefit of an indemnity provision, which constitute a qualifying third-party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force during the financial year and also at the date of approval of the financial statements.

**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. During 2021, the Directors carried out a selection process concerning the auditor in accordance with 489B of Companies Act 2006 and PricewaterhouseCoopers LLP were re-appointed.

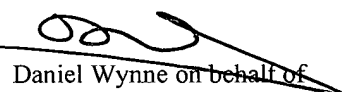
The period of total uninterrupted engagement is 11 years, covering the years ended 31 March 2011 to 31 March 2021.

**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 22 February 2022 and signed on behalf of the Board

  
Daniel Wynne on behalf of

Wilmington Trust SP Services (London) Limited

Director

# ***Independent auditors' report to the members of Honours Plc***

## **Report on the audit of the financial statements**

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### **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 2021 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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 2021; the statement of comprehensive income, the statement of cash flows, the statement of changed 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.

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### **Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union**

As explained in note 4 to the financial statements, the Group and Company, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, have also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the group and Company financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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### **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.

Other than those disclosed in note 10 to the financial statements, we have provided no non-audit services to the Company in the period under audit.

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

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## **Our audit approach**

### *Overview*

### *Audit scope*

- 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 statement 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.

### *Key audit matters*

- Accounting for the interest income on the secured loan (effective interest rate)
- Provision for expected credit losses

### *Materiality*

- Overall materiality: £1,015,207 (2020: £1,167,636) based on 1% of total assets.
- Performance materiality: £761,405 (2020: £875,727).

### *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.

### *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.

The impact of COVID-19, which was a key audit matter last year, is no longer included because it is no longer considered to be of most significance in the audit of the financial statements. Otherwise, the key audit matters below are consistent with last year.

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

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p><i>Accounting for the interest income on the secured loan (effective interest rate)</i></p> <p>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 a number of data inputs and assumptions to derive an expectation of future expected cash flows associated with the secured loan (and therefore the underlying student loans).</p> <p>Further details are provided in notes 4,5,6,8 and 12.</p>	<p>We focused our testing on the completeness and accuracy of inputs into the EIR model as well as the overall reasonableness of judgements made in respect of future cash flows. We performed the following:</p> <ul style="list-style-type: none"> <li>• Identified the key data inputs to the EIR model and substantiated these with appropriate supporting evidence and substantive testing performed on the underlying loan book;</li> <li>• Re-performed the EIR calculation, ensuring the utilisation of appropriate formulas and data inputs;</li> <li>• Employed sensitivity analysis to determine and challenge the assumptions used in the model; and</li> <li>• Confirmed consistency of the calculation mechanics from prior year.</li> </ul> <p>No material differences or exceptions were noted in performing the above procedures.</p>
<p><i>Provision for expected credit losses</i></p> <p>The impairment provision in respect of the secured loan required under IFRS 9 represents management's best estimate of the expected credit losses in the loan portfolios underlying the secured loan. This Expected Credit Loss ("ECL") provision involves complex calculations and is based on management's assumptions and judgements including:</p> <ul style="list-style-type: none"> <li>• The modelling methodology adopted including how to calculate the probability of default, exposure at default, and loss given default;</li> <li>• The definition of what constitutes a significant increase in credit risk; and</li> <li>• The incorporation of forward-looking information and economic scenarios or if such information is not modelled, being able to evidence why this is appropriate.</li> </ul> <p>We also noted that management has revised the methodology in estimating the ECL in the current year using a more extensive data set to support the reasonableness of the assumptions applied.</p> <p>Further details are provided in notes 4,5,6 and 12.</p>	<p>We focused our audit work on:</p> <ul style="list-style-type: none"> <li>• Assessing the reasonableness of key methodologies, assumptions and judgements made by management; and</li> <li>• Assessing the methodology applied for compliance with IFRS 9.</li> </ul> <p>While there are certain simplifications in the modelling applied, the impact of these were not material, and we considered the overall approach adopted to be compliant.</p> <p>In addition, we performed the following procedures on the calculations, assumptions and judgements involved in the ECL provision model to ensure accuracy and completeness:</p> <ul style="list-style-type: none"> <li>• Discussed with modelling specialists when reviewing and testing management's updated methodology to ensure compliance with IFRS 9;</li> <li>• Substantive testing covering data attributes used in the impairment model and expected credit loss calculation, including projections of customer behaviour based on historical data and delinquency statuses;</li> <li>• Re-performed the calculation of the expected credit loss provision;</li> <li>• Reconciliation of expected credit loss per the model to the general ledger; and</li> <li>• We considered the impact of COVID-19 and payment holidays granted in relation to the ECL impairment provision; and</li> <li>• 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 the borrowers to defer and the Government subsidies received in respect of cancelled loans.</li> </ul> <p>Based on the evidence obtained, we found that the provision for expected credit losses is appropriate and in line with the requirements of IFRS 9.</p>

## ***Independent auditors' report to the members of Honours Plc (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.

The purpose of the Company as a securitisation vehicle is to raise and repay funds as dictated by the underlying legal documentation. A third-party cash manager is contracted to manage all such payments made by the Company. We identified all material financial statement line items and disclosures, including those that were considered qualitatively material. The procedures performed provided sufficient evidence over all material classes of transactions, account balances and disclosures in the financial statements.

### *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:

<b>Overall Company materiality</b>	£1,015,207 (2020: £1,167,636)
<b>How we determined it</b>	1% of total assets
<b>Rationale for benchmark applied</b>	As an SPE is established as a not for profit entity, funded almost entirely by debt, it would follow that users may focus their attention on the SPE's total assets as suggested by ISA (UK) 320 paragraph A3

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £761,405 (2020: £875,727) for the Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount in the upper end of our normal range was appropriate.

We agreed with the Directors that we would report to them misstatements identified during our audit above £50,767 (2020: £58,382) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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### **Conclusions relating to going concern**

Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- We reviewed the Directors' going concern assessment and note that the Directors believe that the Company will continue in operational existence for the foreseeable future and anticipate that the Company will have adequate funds available to meet its obligation as they fall due;
- Inspection of transaction documents to verify that the Notes are limited recourse instruments and that certain expenses can be deferred if there are insufficient funds;
- Reviewed historic levels of non-deferrable expenses and payments and compared this to the year-end cash at bank balance with a view to its sufficiency to cover such expenses and assessed sensitivity to potential reductions in future cash receipts from the underlying loans;
- Confirmed the closing cash position;
- Considered historic and expected write offs on the secured loan when assessing the future potential impact on receipts;
- Inspection of post year-end investor reports for pertinent changes in cash flows, such as deterioration in the performance of the underlying loans; and
- Review of the events of default in the transaction set out in the transaction documents and checked that no trigger breaches had occurred that would impact the going concern assertion directly.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

### *Conclusions relating to going concern (continued)*

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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### **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 our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

#### *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 2021 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.

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### **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, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

## Honours Plc

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

### *Auditors' responsibilities for the audit of the financial statements (continued)*

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to any breach of the listing requirements of the Euronext Dublin (formerly known as the Irish Stock Exchange) under which the offering circular dated 3 November 2006 was issued or of the transaction documents, 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 financial statements such as the applicable financial reporting frameworks and Companies Act. 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 the posting of inappropriate journal entries. Audit procedures performed by the engagement team included:

- Making inquiries with those charged with governance in relation to known or suspected instances of non-compliance with laws and regulations and fraud;
- Testing that the priority of payments has been applied in accordance with the transaction documents;
- Review of the financial statement disclosures to underlying supporting documentation; and
- Review of board meeting minutes occurred during the year.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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](http://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.

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## **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 obtained 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 are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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### **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 eleven years, covering the years ended 31 March 2011 to 31 March 2021.

*Christopher J Dalton*

Christopher Dalton (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
22 February 2022

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 MARCH 2021**

	<b>Note</b>	<b>2021 £'000</b>	<b>2020 £'000</b>
Interest receivable and similar income	8	4,445	6,335
Interest payable and similar charges	9	(1,255)	(2,154)
<b>Net interest income</b>		<u>3,190</u>	<u>4,181</u>
Other income/(expenses)		274	(69)
Increase/(decrease) in value of secured loan due to impairment	12	(1,917)	1,584
Administrative expenses	10	(1,805)	(2,863)
<b>Operating profit/(loss)</b>		<u>(258)</u>	<u>2,833</u>
Other interest income		-	56
<b>Profit/(loss) before tax for the year</b>		<u>(258)</u>	<u>2,889</u>
Tax on profit/(loss)	11	-	-
<b>Profit/(loss) and total comprehensive income/(expense) for the year</b>	20	<u><u>(258)</u></u>	<u><u>2,889</u></u>

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 on pages 19 to 34 form an integral part of these financial statements.

**STATEMENT OF FINANCIAL POSITION**  
**As at 31 March 2021**

	Note	2021 £'000	2020 £'000
<b>Non-current assets</b>			
Secured loan to third party	12	77,798	82,224
<b>Current assets</b>			
Trade and other receivables	13	1,085	833
Reimbursement asset	18	682	752
Secured loan to third party	12	18,644	29,887
Cash and cash equivalents	14	3,312	2,587
<b>Total current assets</b>		23,723	34,059
<b>Total assets</b>		101,521	116,283
<b>Current liabilities</b>			
Provision for other liabilities and charges	15	(682)	(752)
Financial liabilities	15	(1,605)	(1,416)
Trade and other payables	15	(488)	(408)
Floating rate Notes in issue	15	(18,644)	(29,887)
<b>Total current liabilities</b>		(21,419)	(32,463)
<b>Non-current financial liabilities</b>	16	(91,302)	(94,762)
<b>Total liabilities</b>		(112,721)	(127,225)
<b>Net liabilities</b>		(11,200)	(10,942)
<b>Equity</b>			
Share capital	19	13	13
Accumulated losses	20	(11,213)	(10,955)
<b>Total equity</b>	21	(11,200)	(10,942)

The accompanying notes on page 19 to 34 form an integral part of these financial statements.

These financial statements on pages 15 to 34 were approved by the Board of Directors on 22 February 2022 and signed on its behalf by



Daniel Wynne 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 2021**

	<b>Share Capital £'000</b>	<b>Accumulated losses £'000</b>	<b>Total equity £'000</b>
At 1 April 2019	13	(13,844)	(13,831)
Profit and total comprehensive income for the year (note 20)	-	2,889	2,889
At 31 March 2020	13	(10,955)	(10,942)
At 1 April 2020	13	(10,955)	(10,942)
Loss and total comprehensive expenses for the year (note 20)	-	(258)	(258)
At 31 March 2021	13	(11,213)	(11,200)

The accompanying notes on pages 19 to 34 form an integral part of these financial statements.

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 MARCH 2021**

	Note	2021 £'000	2020 £'000
<b>Operating activities</b>			
Cash (used in)/generated from operations	22	(985)	(3,137)
Income tax paid		-	-
<b>Net cash (used in)/generated from operating activities</b>		<u>(985)</u>	<u>(3,137)</u>
<b>Investing activities</b>			
Other interest received		-	56
Interest received on secured loan		4,614	6,335
Repayments received on secured loan		12,865	12,120
<b>Net cash generated from investing activities</b>		<u>17,479</u>	<u>18,511</u>
<b>Financing activities</b>			
Interest paid		(1,066)	(1,897)
Note repayments		(14,703)	(15,898)
<b>Net cash used in financing activities</b>		<u>(15,769)</u>	<u>(17,795)</u>
<b>Net change in cash and cash equivalents</b>		<u>725</u>	<u>(2,421)</u>
<b>Cash and cash equivalents at beginning of year</b>		<u>2,587</u>	<u>5,008</u>
<b>Cash and cash equivalents at end of year</b>	14	<u>3,312</u>	<u>2,587</u>

The accompanying notes on pages 19 to 34 form an integral part of these financial statements.

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021**

### **1. GENERAL INFORMATION**

Honours Plc is a public limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006. 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 Honours (Holdings) Limited, 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**

There are no 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 in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The preparation of financial statements 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 5.

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Basis of preparation (continued)

##### 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.

##### Interest receivable and payable

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest receivable and similar income' and 'interest payable and similar charges' 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.

##### 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 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.

For disclosure purposes the amount of repayments to be received within one year has been estimated using an effective interest model this has then been classified as current. Estimation has been used since the amount of repayments received from the underlying student loans is dependent on the income and behavioural profile of the borrowers which cannot be known in advance.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

### 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 or if in deferment); 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 1 April 2020	(3)	(440)	(3,925)	(4,368)
Income statement credit/(charge)	(16)	(2,181)	280	(1,917)
Loss allowance at 31 March 2021	(19)	(2,621)	(3,645)	(6,285)

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 utilises 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. There has been no differentiation between accounts using the usual deferment options or those using COVID-19 deferment options due to the small number of COVID-19 deferments.

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.

#### 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 current liability has been estimated using the effective interest model. This is because 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 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 18.

#### 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. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Certain assets and liability amounts reported in the financial statements are based on management estimates and assumptions. All of the following are examples of management estimates:

#### *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 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 note holders, 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. The model for the calculation of the impairment of the secured loan was revised during 2021, by taking into account further available customer behaviour based on historical data. 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

### 5. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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.

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 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.

#### *Apportionment of current/non-current of secured loan and floating loan Notes*

The expected future cash flows in relation to the secured loan have been modelled using the effective interest rate model described above to determine the split between current and non-current assets. An assumption has been made that all available cash from the secured loan will be used to pay off the floating loan Notes in determining the current and non-current split for the floating loan Notes.

### 6. 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 6d), 6f), 6g) and 6h) 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 the Company 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.

#### c) *Foreign exchange risk*

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

### 6. RISK & CAPITAL MANAGEMENT AND CONTROL (CONTINUED)

#### 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 £3,994,000 (2020: £3,339,000) 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 accounts 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 2021 there were 20,740 live debit balance borrower accounts within the non-charged off portfolio (2020: 25,008). The largest borrower balance was £20,821 (2020: £20,314). Large balances are not common and balances over £8,000 accounted for £31,347,084 (2020: £30,467,638), 29.8% (2020: 26.1%) of the portfolio balance.

The tables below disclose the maximum exposure to credit risk as at 31 March 2021 for financial assets with exposure to credit risk:

#### At 31 March 2021

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Impairment allowance £'000	Total £'000
Underlying student loan debtors	5,209	91,584	5,934	(6,285)	96,442
UK Government	1,085	-	-	-	1,085
Financial institutions – ring fenced*	682	-	-	-	682
Financial institutions	3,312	-	-	-	3,312
Total	10,288	91,584	5,934	(6,285)	101,521

#### At 31 March 2020

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Impairment allowance £'000	Total £'000
Underlying student loan debtors	6,355	104,028	6,096	(4,368)	112,111
UK Government	833	-	-	-	833
Financial institutions – ring fenced*	752	-	-	-	752
Financial institutions	2,587	-	-	-	2,587
Total	10,527	104,028	6,096	(4,368)	116,283

\*Settlement agreement proceeds held in escrow in a named account to be used for the sole purpose of part-settling the CCA provision in note 18.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

### 6. RISK & CAPITAL MANAGEMENT AND CONTROL (CONTINUED)

#### d) *Credit risk (continued)*

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 £30,646 per annum from 1 September 2020, 2019: £32,347). Providing that borrowers keep their account up to date, they may also ultimately be entitled to have their loan cancelled. In such circumstances the Company 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 2.5% (2020: 2.8%). 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.

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 where the payments from the Authority may be delayed or withheld, or where the portfolio might need to be sold back to the Student Loans 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.

#### 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 predominantly 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 2021 the effective interest rate on the secured loan to third party was 4.05% (2020: 5.14%) and the interest rate on issued floating rate Notes is between 0.28% and 3.80% (2020: 0.70% and 4.30%).

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

### 6. RISK & CAPITAL MANAGEMENT AND CONTROL (CONTINUED)

#### f) Interest rate risk (continued)

31 March 2021 £'000	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
<b>Non-current assets</b>								
Secured loan to third party	77,798	-	-	-	-	-	-	77,798
<b>Current assets</b>								
Trade and other receivables	-	-	-	-	-	-	1,085	1,085
Reimbursement asset	682	-	-	-	-	-	-	682
Secured loan to third party	18,644	-	-	-	-	-	-	18,644
Cash and cash equivalents	3,312	-	-	-	-	-	-	3,312
<b>Total assets</b>	<b>100,436</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,085</b>	<b>101,521</b>
<b>Current liabilities</b>								
Provision for liabilities and charges	-	-	-	-	-	-	(682)	(682)
Financial liabilities	(1,605)	-	-	-	-	-	-	(1,605)
Trade and other payables	-	-	-	-	-	-	(488)	(488)
Floating rate Notes in issue	(18,644)	-	-	-	-	-	-	(18,644)
<b>Total</b>	<b>80,187</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(85)</b>	<b>80,102</b>
<b>Non-current financial liabilities</b>	<b>(91,302)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(91,302)</b>
<b>Net liabilities</b>	<b>(11,115)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(85)</b>	<b>(11,200)</b>
<b>31 March 2020 £'000</b>	<b>Less than 3 months</b>	<b>3 to 6 months</b>	<b>6 months to 1 year</b>	<b>1 year to 5 years</b>	<b>More than 5 years</b>	<b>No re- price date</b>	<b>Non- interest bearing</b>	<b>Total</b>
<b>Non-current assets</b>								
Secured Loan to third party	82,224	-	-	-	-	-	-	82,224
<b>Current assets</b>								
Trade and other receivables	-	-	-	-	-	-	833	833
Reimbursement asset	752	-	-	-	-	-	-	752
Secured loan to third party	29,887	-	-	-	-	-	-	29,887
Cash and cash equivalents	2,587	-	-	-	-	-	-	2,587
<b>Total assets</b>	<b>115,450</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>833</b>	<b>116,283</b>
<b>Current liabilities</b>								
Provision for liabilities and charges	-	-	-	-	-	-	(752)	(752)
Financial liabilities	(1,416)	-	-	-	-	-	-	(1,416)
Trade and other payables	-	-	-	-	-	-	(408)	(408)
Floating rate Notes in issue	(29,887)	-	-	-	-	-	-	(29,887)
<b>Total</b>	<b>84,147</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(327)</b>	<b>83,820</b>
<b>Non-current financial liabilities</b>	<b>(94,762)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(94,762)</b>
<b>Net liabilities</b>	<b>(10,615)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(327)</b>	<b>(10,942)</b>

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 one-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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

### 6. RISK & CAPITAL MANAGEMENT AND CONTROL (CONTINUED)

#### f) Interest rate risk (continued)

##### Interest rate sensitivity analysis

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 2021 would decrease by up to £3,309 (2020: £2,837). 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 (2020: none).

#### 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 2021			
£'000	Weighted average effective interest rate	Less than 3 months £'000	More than 3 months to less than 5 years £'000	5+ years £'000	Total £'000
Trade and other Payables	-	488	-	-	488
Provisions for liabilities and charges	-	-	682	-	682
Financial Liabilities	1.0635%	4,273	50,850	64,575	119,698
Total		4,761	51,532	64,575	120,868

		31 March 2020			
£'000	Weighted average effective interest rate	Less than 3 months £'000	More than 3 months to less than 5 years £'000	5+ years £'000	Total £'000
Trade and other Payables	-	408	-	-	408
Provisions for liabilities and charges	-	-	752	-	752
Financial Liabilities	1.4895%	3,525	42,957	95,976	142,458
Total		3,933	43,709	95,976	143,618

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

Floating rate Notes have a final maturity date of 10 April 2029.

Interest is paid in full monthly in arrears where applicable based on the rights of the note holder otherwise 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 2021

### 6. RISK & CAPITAL MANAGEMENT AND CONTROL (CONTINUED)

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

	31 March 2021	
	Fair Value £'000	Carrying Value £'000
Secured loan to third party	98,771	96,442
Trade and other receivables	1,085	1,085
Reimbursement asset	682	682
Cash and cash equivalents	3,312	3,312
Total financial assets	103,850	101,521
Floating Notes payable	(98,771)	(109,946)
Current financial liabilities	(1,605)	(1,605)
Provision for other liabilities and charges	(682)	(682)
Trade and other payables	(488)	(488)
Total financial liabilities	(101,546)	(112,721)

	31 March 2020	
	Fair Value £'000	Carrying Value £'000
Secured loan to third party	106,281	112,111
Trade and other receivables	833	833
Reimbursement asset	752	752
Cash and cash equivalents	2,587	2,587
Total financial assets	110,453	116,283
Floating Notes payable	(106,281)	(124,649)
Current financial liabilities	(1,416)	(1,416)
Provision for other liabilities and charges	(752)	(752)
Trade and other payables	(408)	(408)
Total financial liabilities	(108,857)	(127,225)

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.

		31 March 2021		
Hierarchy levels	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<i>Assets at amortised cost whose fair value is disclosed</i>				
Secured Loan to third party	-	-	98,771	98,771
<i>Liabilities at amortised cost whose fair value is disclosed</i>				
Floating Notes payable	-	-	98,771	98,771
		31 March 2020		
Hierarchy levels	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<i>Assets at amortised cost whose fair value is disclosed</i>				
Secured Loan to third party	-	-	106,281	106,281
<i>Liabilities at amortised cost whose fair value is disclosed</i>				
Floating Notes payable	-	-	106,281	106,281

Level 1 is quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 is inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 are inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

## 7. DIRECTORS AND EMPLOYEES

	2021 £'000	2020 £'000
Wilmington Trust SP Services (London) Limited Corporate services fee	140	100

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 (2020: nil).

## 8. INTEREST RECEIVABLE AND SIMILAR INCOME

	2021 £'000	2020 £'000
Effective interest receivable from third party loan	4,445	6,335

## 9. INTEREST PAYABLE AND SIMILAR CHARGES

	2021 £'000	2020 £'000
Effective interest payable on floating rate Notes	(1,255)	(2,154)

## 10. ADMINISTRATIVE EXPENSES

	2021 £'000	2020 £'000
Administration fees	1,467	2,586
Other fees – legal & professional and treasury management	145	144
Amounts paid to auditors of these financial statements (including VAT)		
- The audit of the individual Financial statements (provided by PricewaterhouseCoopers LLP)	168	108
- Other assurance services (provided by PricewaterhouseCoopers LLP)	25	25
	1,805	2,863

## 11. TAX ON PROFIT/(LOSS) FROM ORDINARY ACTIVITIES

	2021 £'000	2020 £'000
UK corporation tax on the profit/(loss) for the year	-	-

Factors affecting the Company current tax charge for the year:

The tax on the Company's loss (2020: profit) before tax is different to the theoretical amount that would arise using the weighted average tax rate applicable to (loss)/profit of the Company as follows:

	2021 £'000	2020 £'000
Profit/(loss) before tax for the year	(258)	2,889
Accounting profit/(loss) before tax multiplied by the standard rate of corporation tax of 19% (2020: 19%)	49	(549)
Accounting profit/(loss) not taxed in accordance with SI 2006/3296	(49)	549
Total tax charge	-	-

For UK corporation tax purposes, the Company has been considered as a securitisation company under the 'Taxation of Securitisation Companies Regulations 2006' (SI 2006/3296). Therefore, the Company is not required to pay corporation tax on its accounting profit or loss. Instead, the Company is required to pay tax on its retained profits as specified in the documentation governing the transaction.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

### 12. SECURED LOAN TO THIRD PARTY

	2021 £'000	2020 £'000
As at 1 April	112,111	122,878
Interest income accrued	4,445	6,335
Loan amounts received	(16,008)	(16,126)
Loan amounts written off	(2,189)	(2,560)
Increase/(decrease) in value of secured loan due to impairment credit/(charge)	(1,917)	1,584
As at 31 March	<u>96,442</u>	<u>112,111</u>

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

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Secured loan to third party				
Balance at 1 April 2019	8,073	112,377	8,380	128,830
Transfers to Stage 1	1,420	-	-	1,420
Transfers from Stage 2	-	(1,887)	-	(1,887)
Transfers to Stage 3	-	-	467	467
Decrease to secured loan to third party	(3,110)	(6,274)	(407)	(9,791)
Written off during the year	(28)	(188)	(2,344)	(2,560)
As at 31 March 2020	<u>6,355</u>	<u>104,028</u>	<u>6,096</u>	<u>116,479</u>
Transfers to Stage 1	443	-	-	443
Transfers from Stage 2	-	(2,331)	-	(2,331)
Transfers to Stage 3	-	-	1,888	1,888
Decrease to secured loan to third party	(1,580)	(9,850)	(133)	(11,563)
Written off during the year	(9)	(263)	(1,917)	(2,189)
As at 31 March 2021	<u>5,209</u>	<u>91,584</u>	<u>5,934</u>	<u>102,727</u>

Current assets	2021 £'000	2020 £'000
Secured loan to third party	<u>18,644</u>	<u>29,887</u>

Non-Current assets	2021 £'000	2020 £'000
Secured loan to third party	84,083	86,592
Impairment allowance	<u>(6,285)</u>	<u>(4,368)</u>
	<u>77,798</u>	<u>82,224</u>

Please refer to note 4 for a breakdown of the movement in impairment provision.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

### 13. TRADE AND OTHER RECEIVABLES

	2021	2020
	£'000	£'000
Other receivables	1,085	833

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.

### 14. CASH AND CASH EQUIVALENTS

	2021	2020
	£'000	£'000
Cash on deposit subject to Guaranteed Investment contract	3,312	2,587

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.

### 15. CURRENT FINANCIAL LIABILITIES

	2021	2020
	£'000	£'000
Provisions for liabilities and charges	682	752
Accrued interest payable	1,605	1,416
Trade and other payables	488	408
Floating rate Notes (see note 17)	18,644	29,887
	<u>21,419</u>	<u>32,463</u>

### 16. NON-CURRENT FINANCIAL LIABILITIES

	2021	2020
	£'000	£'000
Floating rate Notes (see note 17)	91,302	94,762

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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

### 17. FLOATING RATE NOTES

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

	2021	2020
	£'000	£'000
Series 2 Class A1 asset backed floating rate Notes	5,482	19,870
Series 2 Class A2 asset backed floating rate Notes	54,200	54,200
Series 2 Class B asset backed floating rate Notes	23,266	23,412
Series 2 Class C asset backed floating rate Notes	12,557	12,636
Series 2 Class D asset backed floating rate Notes	8,337	8,388
Series 2 Class E asset backed floating rate Notes	6,104	6,143
	<u>109,946</u>	<u>124,649</u>

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

The Class A issuer Notes rank, irrespective of series, without 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 irrespective 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%

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

### 18. PROVISION 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 of the expenditure required to meet the liabilities deemed probable from putting the customer back to a position they would have been in 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 were 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 had remediated customers by £3,100,000 split between actual cash payments and balance reductions for those affected by non-compliance with the CCA with £1,000,000 pledged for costs incurred before 31 March 2019 and £1,500,000 for costs relating to the remediation plan.

A cash balance of £682,000 at the year-end is being held pending Honours obtaining payment instructions from the Authority in order to be able to pay the cash refund still owing to them. The balance is held as current and will be paid once instruction is received.

	2021 £'000	2020 £'000
Reimbursement asset as at 1 April	752	4,500
Utilised in the year	(70)	(3,748)
As at 31 March	<u>682</u>	<u>752</u>

### 19. SHARE CAPITAL

There are 10,000,000 authorised shares of £1 each (2020: 10,000,000) of which 2 (2020: 2) are called up and fully paid and 49,998 (2020: 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

	2021 £'000	2020 £'000
Accumulated losses at beginning of year	(10,955)	(13,844)
Profit/(loss) for the year	(258)	2,889
Accumulated losses at end of year	<u>(11,213)</u>	<u>(10,955)</u>

### 21. TOTAL EQUITY

	2021 £'000	2020 £'000
Opening total equity	(10,942)	(13,831)
Total comprehensive income/(expense)	(258)	2,889
Closing total equity	<u>(11,200)</u>	<u>(10,942)</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

### 22. CASH FLOW (USED IN)/GENERATED FROM OPERATIONS

	2021 £'000	2020 £'000
Profit/(loss) before tax for the year	(258)	2,889
(Increase)/decrease in trade and other receivables	(274)	(273)
(Decrease)/increase in trade and other payables	269	(163)
Interest receivable	(4,445)	(6,391)
Interest payable	1,255	2,154
(Increase)/decrease in value of secured loan due to impairment	1,917	(1,584)
Finance costs	551	231
Decrease to provision for liabilities and charges	(71)	(3,748)
Cash released from reimbursement asset	71	3,748
<b>Cash flow (used in)/generated from operating activities</b>	<b>(985)</b>	<b>(3,137)</b>

The movement in interest payable is included in interest paid 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, £140,098 in administration fees (2020: £100,390).

### 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

There are no events after the reporting period requiring disclosure.