Registered number: 09329495

Kensington Holdco Limited

Report and consolidated financial statements

31 March 2021

Kensington Holdco Limited

Contents

	Page
Company information	1
Strategic report	2
Directors' report	7
Statement of directors' responsibilities	12
Independent auditor's report to the members of Kensington holdco Limited	13
Consolidated statement of comprehensive income	16
Consolidated statement of financial position	17
Company statement of financial position	18
Consolidated statement of changes in equity	19
Company statement of changes in equity	20
Consolidated statement of cash flows	21
Notes to the consolidated financial statements	22

Company information

Directors	J D Almond D S Miller M J Preston S Q Abbas D J Adams N Albert M J Howard-Cairns M J O'Hanlon R Singhal M J Arnold R Gupta (Resigned 17 August 2020) A Filshie (Appointed 4 February 2021) A J Maddox A S Mehr
Registered number	09329495
Registered office	Ascot House Maidenhead Office Park Maidenhead SL6 3QQ
Independent auditor	KPMG LLP 15 Canada Square Canary Wharf London E14 5GL

Strategic report
for the year ended 31 March 2021

The directors present their strategic report together with the audited consolidated financial statements of Kensington Holdco Limited (the “Company” or “Group”) for the year ended 31 March 2021.

Principal activities

The Company was incorporated on 26 November 2014 in England, United Kingdom and is registered in England and Wales under the Companies Act 2006. The Company is a wholly owned subsidiary of Koala (Cayman) Limited, a company registered in the Cayman Islands. The Company is ultimately owned by funds managed by Blackstone Tactical Opportunities Advisors LLC and TPG Sixth Street Partners LLP. The largest group in which the results of the Company are consolidated is Koala (Cayman) Limited (the “Koala (Cayman) Group”).

Formation of the Group:

- Prior to 27 February 2020, the Company was a holding company for Elevate Bidco Limited and it held an investment of £101 in its subsidiary and had £1 of equity.
- On 27 February 2020, the Company disposed of its investment in Elevate Bidco Limited to Koala (Cayman) Limited for consideration of £107 settled in the form of an intercompany receivable from Koala (Cayman) Limited.
- On 12 March 2020, the Company received equity funding from Koala (Cayman) Limited in the form of the issue of a new share of £1, share premium of £1m and capital contribution of £104m, funded by intercompany loan, and acquired 100% of the issued capital of Kensington Mortgage Company Limited (“KMC”) from The Northview Group Limited (a fellow Koala (Cayman) Group company) for consideration of £105m, funded by an intercompany payable to The Northview Group Limited.
- On 30 March 2020, the Company acquired the beneficial interest in all of the mortgages held by Koala Warehouse Limited (a fellow Koala (Cayman) Group company) for consideration of £212m, and immediately sold the beneficial interest in these mortgages to a newly-formed warehouse funding company, KMC Sloane Square Limited (“Sloane Square”). As part of this transaction the Company subscribed for subordinated notes in Sloane Square of £21m.
- On 1 April 2020, the Company received equity funding from Koala (Cayman) Limited in the form of a capital contribution of £69.1m, funded by intercompany loan, and acquired notes and deferred consideration certificates in eight residential mortgage backed securitisations from Koala Warehouse Limited for consideration of £69.1m, funded by an intercompany payable to Koala Warehouse Limited.
- On 25 March 2021, the company acquired 100% of the shares in Cell A52 of Harlequin Insurance PCC Limited, a fellow Koala (Cayman) Group company incorporated and registered in Guernsey for consideration of £1.1m.

As a result of the transactions described above, from 12 March 2020 the principal activity of the Group became the origination and servicing of mortgage assets secured by first charges over residential properties in the United Kingdom. The Group is also responsible for providing mortgage servicing activities to third parties through its subsidiary company, KMC. KMC is authorised by the Financial Conduct Authority for regulated activities. The group also provides management services to other, fellow subsidiaries of the Koala (Cayman) Group of companies. Further details of the Group’s activities are explained in the Business review section.

As a result of the timing of the above transactions and changes to the composition of the group, the results and financial position of the company are not readily comparable to prior year figures.

Business review

The results for the year ended 31 March 2021 are set out on page 16.

The Group made a profit after taxation of £30,008,000 (2020: loss of £4,565,000) for the year.

During the year, the Group continued to execute its strategy, values and brand proposition despite the headwinds caused by the COVID-19 pandemic, particularly in the following areas:

- The Group has successfully adapted resourcing (people, cash, funding, etc.) to the circumstances and built a go forward business model that allows for significant flexibility and expansion. The Group invested and equipped the workforce to work efficiently from home.
- During the COVID-19 pandemic last year a large proportion of customers experienced significant reduction in their incomes, resulting in them taking payment holidays. Payment holidays for mortgages serviced by the Group peaked at c. 6,000 customers in June 2020. As of 31 March 2021, the Group held 372 mortgages under mortgage payment holiday arrangements. Subsequent to the year end, all these arrangements have ended. The Group retrained team members from different departments to the servicing team and also recruited new employees in an effort to support its customers through challenging times.

- The Group continues to invest in building its digital capabilities. This will, over time, enable the Group to both streamline and simplify customer experience and to offer propositions aligned with evolving customer expectations. The new online broker and underwriter portal, delivered through a SOPRA platform, went live in October 2020 after 24 months of development and is already delivering an improved broker experience, greater underwriter productivity and the ability to launch new products that were not supported by the previous platform.
- The Group sees environmental, social and governance ("ESG") factors as key to its long-term performance and as a result, ESG has been integrated into its business strategy. In the last year, ESG impact has become more integral to the Group's strategy, its lending operations, its funding programs and most importantly, to its culture. In August 2020, The Group published its first set of ESG targets for its 2020/2021 financial year. In February 2021 the Group issued its first social bond and in June 2021 issued its first Green bond. The Group will support these targets and will be measuring them on an annual basis so that it can report publicly on the progress in each area.

Despite the uncertainties created by the UK's exit from the European Union and the COVID-19 global crisis, the Group delivered mortgage originations of £817.5m (2020: £1.480bn) excluding retentions. This result is attributed to the Group's ability to maintain a continuous product offering to customers throughout the pandemic, significant past experience with complex underwriting, re-allocation of resource, investment in technology, proactive management, strong cash management processes and the benefits of the Stamp duty freeze on demand.

At the year end, the gross mortgages balance before provisions for impairment was £3,657,341,000 (2020: £316,601,000). The mortgage assets consist of first charge United Kingdom mortgage loans.

After considering property values, expected credit loss and future income streams associated with the mortgage assets, over and above the gross balance figure shown above, the directors consider the mortgage assets together with other related assets of the Group such as cash to be adequate to repay all loans funding these mortgages. Before accounting adjustments, the weighted average funding costs on liabilities secured against mortgage assets are 1.24% (2020: 1.08%) above SONIA and the weighted average interest on mortgage assets is 4.01% (2020: 3.61%).

At the year end, the Group held the following outstanding principal amounts of mortgage assets:

	2021 Current balance £'000	**2021 Number of loans**	2020 Current balance £'000	2020 Number of loans
First charge mortgages	3,591,357	21,936	309,884	1,818
	3,591,357	21,936	309,884	1,818

The principal amount does not include arrears of interest or fees that may be included in the total gross mortgage balance. These mortgages provide security against loans payable of £3,098,963,000 (2020: nil) as at the year end.

The directors have concluded that the Group will continue as a going concern and set out the basis for this conclusion in the going concern section of the directors' report.

Key performance indicators

The key performance indicators of the Group are detailed in the table below:

	2021 £'000	2021 £'000
Gross mortgage balance as at year end	3,657,341	316,601
Equity	83,732	47,809

Delinquencies days	**Mar-21 %**	Mar-20 %
Current	96.36	99.74
>30<=60	1.00	0.06
>60<=90	0.52	0.00
>90<=120	0.44	0.12
>120	1.68	0.08
Total	100.00	100.00

The value of mortgages in repossession at the year end is £578,000 (2020: nil).

In March 2020, following the commencement of the COVID-19 crisis, the FCA and PRA issued guidance to all lenders that borrowers impacted by the virus are entitled to a 6 month payment deferral (Mortgage Payment Holiday, "MPH"). As of 31 March 2021, 372 loans remain that have taken up MPH, which represents 1.70% of the total loans. All MPH arrangements have come to an end as at the date of these financial statements.

Principal risks and uncertainties

Whilst the directors have overall responsibility for the establishment and oversight of the Group’s risk management framework, this obligation has been allocated and managed in accordance with the transaction documents. Further details of financial risk management are outlined in note 28 of the financial statements.

COVID-19

The Board has considered the potential implications of the COVID-19 pandemic in its assessment of the financial and operational viability of the Group and has a reasonable belief that the Group retains adequate levels of financial resources (capital and liquidity). In assessing the viability of the Group, the Board has considered the potential impact and risks facing the Company with respect to the virus. The key short term risk relates to when the MPH ends as an increased proportion of underlying mortgage customers may be impacted through unemployment and reduced income which creates uncertainty around the ability of these customers to recommence their monthly payment obligations. The key long-term risk remains related to a deterioration in the ability of customers to make monthly contractual payments caused by an increase in the unemployment rates and reduced income. A knock-on effect of an increase in unemployment could be a potential reduction in the level of collateral held by the Group should house prices decrease. The potential impact of the pandemic on the economy and the Group’s operations is subject to continuous monitoring by the servicer with appropriate escalation to the Board. The operational impact on the business has been minimised by the ability of all staff to work from home utilising cloud-based software. In this respect the business can function normally.

Brexit

The Group’s business model is focused in the UK and the business does not have any direct exposure to the European Union (“EU”). However, the Company is exposed to secondary impacts, particularly any volatility in the UK economy and financial markets. The UK left the EU on 31 January 2020. Following the agreement of the UK and EU Trade Deal on 24 December 2020 the UK withdrew from the EU single market and customs union on 1 January 2021.

The Group has not experienced any adverse impact or identified any additional risks as a result of these developments. Depending on how the UK government manages to negotiate new trade deals, there is a risk of financial instability which would manifest itself through movements in interest rates which would in turn result in movement in the net interest margin, however the housing market is relatively well insulated from Brexit compared to other parts of the economy.

The Group will continue to closely monitor and analyse political, economic and regulatory developments to ensure it remains well positioned to respond to any potential shocks and minimise any disruption for customers.

Risk management

The financial instruments held by the Group comprise a portfolio of residential mortgage assets, loans, cash and various other items (such as receivables and payables or trade creditors) that arise directly from its operations.

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

The main risks arising from the Group’s operations are credit risk, liquidity risk, interest rate risk, market risk, operational risk and conduct risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Credit risk

Credit risk is the risk that borrowers of the mortgages will not be able to meet their obligations as they fall due. All mortgage assets purchased by the Group were required to adhere to specific lending criteria. The ongoing credit risk of the mortgage portfolio (and particularly in respect of accounts in arrears) is closely monitored through an assessment of each customer and the prevailing macroeconomic environment. Probability of default of the customer and the loss given default is calculated and impairment provisions raised where necessary.

Receivables from fellow Koala (Cayman) Group companies have been assessed and are believed to be fully recoverable and therefore credit risk is minimal.

Performance and level of arrears continues to be closely monitored and any relevant corrective action is taken as appropriate. Arrears management and recovery processes have continued with the aim of maximising customer rehabilitation.

The directors continue to closely monitor the economic landscape to ensure the Group is best placed to respond to any pressures that may impact portfolio performance and proactively consider strategies to mitigate any adverse portfolio impact should these pressures occur.

IFRS 9 is applicable and the Group closely monitors IFRS 9 impairment coverage levels:

	Gross carrying amount £'000	Provisions £'000	Coverage ratio %
At 31 March 2021			
Stage 1	3,363,531	525	0.02
Stage 2	195,719	932	0.48
Stage 3	98,091	1,561	1.59
Total	3,657,341	3,018	0.08
At 31 March 2020			
Stage 1	310,923	258	0.08
Stage 2	4,953	14	0.28
Stage 3	725	29	4.00
Total	316,601	301	0.10

Liquidity risk

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

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

Interest rate risk

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

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.

Financial instruments affected by market risk include loans receivable from and payable to fellow Koala (Cayman) Group companies, cash, other assets and derivative financial instruments. The Group maintains a policy on market risk and any items where there could be risk are hedged accordingly.

Operational risk

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

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

Operational risk is currently heightened by the impact of COVID-19 which has driven the need for home working and changes in processes to meet new regulatory requirements, including the provision of payment holidays. However, the nature of the risks to which the Group is exposed remain similar to those when all staff were working from the office locations prior to COVID-19. Additional focus has been required on the controls appropriate for the altered working environment caused by COVID-19. The technology solutions required for all staff to function from home continue to be reviewed with additional controls implemented and guidance provided to staff with regard to the technology. The focus on the technology and working environment will continue as the Group responds to the ongoing challenges of the COVID-19 environment.

The customer response to COVID-19 has driven more interaction with the Group, whether implementing full payment holidays or other measures as customers respond to the impact of COVID-19 on their financial situation. The Group has undertaken a variety of activities to support the customers with consistent implementation of payment holidays and to manage their experience as they end their payment holiday. Monitoring of customer service quality has been maintained to mitigate the operational risks associated with the increased customer interaction and new processes related to payment holidays.

Conduct risk

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

Refer to note 28 for the Risk management disclosures.

Future business development and strategy

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

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

Statement under section 172 of the Companies Act 2006

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

Matters identified that may affect the Group’s performance in the long term are set out in the principal risks disclosed in the strategic report under principal risks and uncertainties section.

The Group has engaged with key stakeholders as described in the strategic report under engagement with stakeholders section and the feedback from the engagement has been considered by the directors during the decision making process.

The principal decisions taken by the directors during the year included among other related matters, the extension of working from home arrangements and planning for future hybrid working arrangements. To support these new arrangements, a new lease was entered into during the year to take a reduced floorplan at the Maidenhead office and appropriate refurbishment carried out. A review of office arrangements in London is currently underway. In making their decision, the directors considered the impact and benefits to employees along with potential impacts on our customers. It was concluded that there were no such impacts.

Events after statement of financial position date

There are no significant events occurring after the statement of financial position date, up to the date of approval of the consolidated financial statements that would meet the criteria to be disclosed or adjusted in the consolidated financial statements as at 31 March 2021.

This report was approved by the Board on 8 October 2021 and signed on its behalf by:

Director Mark Arnold

Date: 8 October 2021

Directors' report
for the year ended 31 March 2021

The directors present their directors' report together with the audited consolidated financial statements of Kensington Holdco Limited (the "Company" or "Group") for the year ended 31 March 2021.

Results and dividends

The profit for the year, after taxation, amounted to £30,008,000 (2020: loss of £4,565,000).

The directors do not recommend the payment of a dividend (2020: nil).

Future developments

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

Financial instruments

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

Directors

The directors who held office during the year and up to the date of the approval and signing of these consolidated financial statements, except as stated below, were as follows:

Independent non-executive directors
J D Almond
D S Miller
M J Preston

Shareholder non-executive directors
S Q Abbas
D J Adams
N Albert
M J Howard-Cairns
M J O'Hanlon
R Singhal

Executive directors
M J Arnold
A Filshie (Appointed 4 February 2021)
R Gupta (Resigned 17 August 2020)
A J Maddox
A S Mehr

None of the above mentioned directors are directors of the ultimate parent company or had a beneficial interest in the share capital of the Company during the year ended 31 March 2021. There are no directors' interests requiring disclosure under the Companies Act 2006.

Company secretary

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

Going concern

The Group has reported a profit of £30,008,000 for the year and is in a net asset position of £83,732,000 as at 31 March 2021.

In assessing the appropriateness of the going concern basis, the directors have taken account of all relevant information available and the risks highlighted in the directors' report.

Under the Group's Asset & Liability Management framework, the Group maintains minimum cash balances across various companies within the Group including the Company, which are monitored daily and updated monthly to consider next 3 months cash requirements by each company within the Group.

The Group also prepared a budget and forecast for the two years to 31 March 2023, against which have been conducted a variety of stress scenarios on the Group's profitability, liquidity and capital positions.

Stress tests included the following scenarios:

i) additional significant redress payments of £2.5m per year
ii) the government extends payment holidays for 12 months from June 2021 and the level of take up is similar to 2020
iii) a stressed macroeconomic environment as per the BoE Solvency Stress assumptions published in January 2021, resulting in stressed mortgage loan performance and assuming that the Group cannot access the securitisation capital markets for funding
iv) combined stress of i), ii) and iii).

The stress scenarios indicate that after taking controllable management actions, including restricting new originations, the Group would maintain sufficient liquidity and capital throughout the forecast period.

Considering these scenarios and the Group cash management framework, including the minimum cash balances and the availability of committed funding lines to the Group, the directors have made an assessment of the Group and the Company's ability to continue as a going concern and have a reasonable expectation that the Group and the Company has adequate resources to continue in operational existence for the foreseeable future covering a period up to and beyond 31 March 2023.

Hence the consolidated financial statements have been prepared on a going concern basis.

Events after statement of financial position date

There are no significant events occurring after the statement of financial position date, up to the date of approval of the consolidated financial statements that would meet the criteria to be disclosed or adjusted in the consolidated financial statements as at 31 March 2021.

Principal risks and uncertainties

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

Fair value

Note 28 discloses the fair values of the mortgage assets and loans and borrowings. The fair value of the loans has been based upon prices interpolated using latest available market data. The fair values of the mortgage assets has been based upon the fair values of the associated mortgage backed loan notes and expected residual cash flows.

Employees

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

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

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

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

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

At 31 March 2021, the Group had 561 employees (2020: 510). Further information on employees can be found in note 11.

Directors' report
for the year ended 31 March 2021

Disabled employees

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

Directors' Indemnity and Directors' and Officers' Liability Insurance

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

Qualifying third party indemnity provisions

Qualifying third party indemnity provisions for the benefit of the directors, in accordance with section 234 of the Companies Act 2006, were in force during the year under review and remain force as at the date of approval of the consolidated financial statements.

Creditor payment policy

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

Research and development

In the ordinary course of business, the Group does not undertake any research or development.

Issued capital and capital contributions

Details of the share capital are set out in note 27 to the consolidated financial statements. The authorised share capital at 31 March 2021 consists of 2 ordinary shares of £1.00 and associated share premium of £1,000,000. During the year, a capital contribution of £69,105,000 (2020: £104,000,000) was made by the parent company Koala (Cayman) Limited.

Streamlined Energy and Carbon Reporting (SECR)

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

	2021	**2020**
Total scope 1 emissions (tCO2e)	7.4	92.9
Total scope 2 emissions (tCO2e)	300.7	471.0
Carbon intensity ratio (tCO2e)/m2	0.062	0.101
Total energy use (kWh) of electricity, gas and biomass use)	1,207,055	1,932,254

Methodology

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

Where verifiable data is not available, a pro-rata adjustment has been made to account for invoice dates that do not coincide with the reporting period. Notably, the Group was responsible for the electricity for the whole of Ascot House up to 24 December 2020 and the landlord cannot yet provide any consumption data since this time. As a result, the average electricity usage for 25 December 2020 to 31 March 2021 has been estimated based on the consumption data for the rest of the financial year as well as the reduced occupied floor area.

Energy efficient actions taken during the year

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

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

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

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

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

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

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

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

The Group also engages with local communities through donations to charities and other schemes of public benefit.

Directors' statement as to the disclosure of information to the auditors

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's and the Group's auditor is unaware, and

- the director has taken all the steps that ought to have been taken to make himself or herself aware of any relevant audit information and to establish that the Company's and the Group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418(2) of the Companies Act 2006.

Directors' report
for the year ended 31 March 2021

Auditor

The auditor, KPMG LLP, has indicated its willingness to continue in office and pursuant to section 487 of the Companies Act 2006, a resolution concerning its re-appointment will be considered at the forthcoming Annual General Meeting.

This report was approved by the Board on 8 October 2021 and signed on its behalf by:

Director Mark Arnold

Date: 8 October 2021

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

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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 group and parent company and of the group's profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- selected suitable accounting policies and applied them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KENSINGTON HOLDCO LIMITED

Opinion

We have audited the financial statements of Kensington Holdco Limited ("the company") for the year ended 31 March 2021 which comprise the Consolidated statement of comprehensive income; the Consolidated statement of financial position; the Consolidated statement of changes in equity; the Consolidated statement of cash flows; the Company statement of financial position; the Company statement of changes in equity; and the related notes including the accounting policies in note 2.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of, and as applied in accordance with the provisions of, the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

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

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

Our conclusions based on this work:

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

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

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

- Enquiring of directors, the audit committee, internal audit and senior management and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board meeting minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

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

As required by auditing standards and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that Group management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements. On this audit we do not believe there is a fraud risk related to revenue recognition because the revenue recognition is highly automated and does not involve any complexities or judgements.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test for group level based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted with specific key words such as restatement, reclassification and fraud; and
- Assessing significant accounting estimates for bias.

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

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

As one of the Group's subsidiaries is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

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

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

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

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

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

Strategic report and directors' report

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KENSINGTON HOLDCO LIMITED

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

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

Auditor's responsibilities

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

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

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

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

Richard Rawstron (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL
11 October 2021

Consolidated statement of comprehensive income year ended 31 March 2021

	Notes	2021 £'000	2020 £'000
Interest and similar income	7	130,630	29
Interest and similar expense	8	(69,072)	(3,394)
Net interest income/(expense)		61,558	(3,365)
Fees and commissions income	9	27,909	2,676
Other income		6	-
Fair value gains/(losses) on derivatives and hedging	10	10,336	(94)
Total operating income/(loss)		99,809	(783)
Impairment credit/(losses) on loans and advances to customers	17	4,097	(301)
Net operating income/(loss)		103,906	(1,084)
Personnel expenses	11	(39,499)	(2,232)
Operating expenses	12	(26,306)	(1,161)
Total operating expenses		(65,805)	(3,393)
Profit/(loss) before taxation		38,101	(4,477)
Income tax expense	13	(8,093)	(88)
Profit/(loss) after taxation and total comprehensive income/(expense)		30,008	(4,565)

The transactions in the current year and in the prior year were derived from continuing operations. There were no items of other comprehensive income or expense for the current year or the prior year and therefore no statement of other comprehensive income has been prepared.

The notes on pages 22 to 69 form an integral part of these consolidated financial statements.

Consolidated statement of financial position
at 31 March 2021

	Notes	2021 £'000	2020 £'000
Assets			
Cash at bank	14	199,083	95,204
Derivative financial instruments	15	4,377	-
Other financial assets	16	82,860	-
Loans and advances to customers	17	3,654,323	316,300
Fair value adjustment on hedged assets	18	11,419	-
Other assets	21	14,210	60,691
Tangible assets	22	2,664	2,560
Intangible assets and goodwill	23	25,697	21,598
Deferred tax assets	13	19,050	1,945
Total assets		4,013,683	498,298
Liabilities			
Loans and borrowings	25	(3,872,949)	(425,860)
Derivative financial instruments	15	(20,092)	(1,459)
Current tax liabilities		(10,859)	(1,169)
Deferred tax liabilities	13	(2,169)	(884)
Other liabilities and provisions	26	(23,882)	(21,117)
Total liabilities		(3,929,951)	(450,489)
Net assets		83,732	47,809
Equity			
Share capital	27	-	-
Share premium	27	1,000	1,000
Capital contribution	27	173,105	104,000
Accumulated losses		(90,373)	(57,191)
Total equity		83,732	47,809

The Company has issued share capital of 2 ordinary shares with nominal value, fully paid up, of £1.00. This rounds down to zero and has been shown as such in these consolidated financial statements.

The notes on pages 22 to 69 form an integral part of these consolidated financial statements.

This report was approved by the Board of Directors on 8 October 2021 and signed on its behalf by:

Director Mark Arnold

Date: 8 October 2021

Company statement of financial position
at 31 March 2021

	Notes	2021 £'000	2020 £'000
Assets			
Cash at bank	14	29,089	9,650
Derivative financial instruments	15	2,572	-
Loans and advances to customers	17	1,477,537	311,558
Financial investments	19	77,948	-
Other assets	21	170,884	71,168
Investments in subsidiaries	24	106,100	105,000
Total assets		1,864,130	497,376
Liabilities			
Loans and borrowings	25	(1,649,866)	(392,713)
Current tax liabilities		(8,248)	-
Other liabilities and provisions	26	(2,094)	(20)
Total liabilities		(1,660,208)	(392,733)
Net assets		203,922	104,643
Equity			
Share capital	27	-	-
Share premium	27	1,000	1,000
Capital contribution	27	173,105	104,000
Retained earnings/(accumulated losses)		29,817	(357)
Total equity		203,922	104,643

The Company has issued share capital of 2 ordinary shares with nominal value, fully paid up, of £1.00. This rounds down to zero and has been shown as such in these financial statements.

In accordance with section 408(1)(b) of the Companies Act 2006, the statement of comprehensive income of the Company is not presented. The profit for the year of the Company is £30,174,000 (2020: loss of £357,000).

The notes on pages 22 to 69 form an integral part of these financial statements.

This report was approved by the Board of Directors on 8 October 2021 and signed on its behalf by:

Director Mark Arnold

Date: 8 October 2021

Consolidated statement of changes in equity year ended 31 March 2021

	Notes	Share capital £'000	Share premium £'000	Capital contribution £'000	Accumulated losses £'000	Total equity £'000
Opening balance 1 April 2019		-	-	-	(13,230)	(13,230)
Issue of shares	27	-	1,000	-	-	1,000
Capital contribution	27	-	-	104,000	-	104,000
Disposal of entity under common control	5	-	-	-	16,078	16,078
Acquisition of entity under common control	6	-	-	-	(55,474)	(55,474)
Loss for the year		-	-	-	(4,565)	(4,565)
As at 31 March 2020		-	1,000	104,000	(57,191)	47,809
Capital contribution	27	-	-	69,105	-	69,105
Acquisition of entities under common control	6	-	-	-	(63,190)	(63,190)
Profit for the year		-	-	-	30,008	30,008
As at 31 March 2021		-	1,000	173,105	(90,373)	83,732

The Company has issued share capital of 2 ordinary shares with nominal value, fully paid up, of £1.00. This rounds down to zero and has been shown as such in these consolidated financial statements.

During the year ended 31 March 2020, the Company issued 1 share of £1.00 at a premium of £1,000,000 to its parent company, Koala (Cayman) Limited.

During the year, a capital contribution of £69,105,000 (2020: £104,000,000) was made by the parent company Koala (Cayman) Limited.

The notes on pages 22 to 69 form an integral part of these consolidated financial statements.

Company statement of changes in equity
year ended 31 March 2021

	Notes	Share capital £'000	Share premium £'000	Capital contribution £'000	Retained earnings/ (Accumulated losses) £'000	Total equity £'000
Opening balance 1 April 2019		-	-	-	-	-
Issue of shares	27	-	1,000	-	-	1,000
Capital contribution	27	-	-	104,000	-	104,000
Loss for the year		-	-	-	(357)	(357)
As at 31 March 2020		-	1,000	104,000	(357)	104,643
Capital contribution	27	-	-	69,105	-	69,105
Profit for the year		-	-	-	30,174	30,174
As at 31 March 2021		-	1,000	173,105	29,817	203,922

The Company has issued share capital of 2 ordinary shares with nominal value, fully paid up, of £1.00. This rounds down to zero and has been shown as such in these financial statements.

During the year ended 31 March 2020, the Company issued 1 share of £1.00 at a premium of £1,000,000 to its parent company, Koala (Cayman) Limited.

During the year, a capital contribution of £69,105,000 (2020: £104,000,000) was made by the parent company Koala (Cayman) Limited.

The notes on pages 22 to 69 form an integral part of these financial statements.

Consolidated statement of cash flows
year ended 31 March 2021

	Note	2021 £'000	2020 £'000
Operating activities			
Profit/(loss) before tax		38,101	(4,477)
Deduct: items shown below within investing and financing activities			
Interest income on loans and advances		(130,630)	(29)
Interest expense on loans and borrowings		69,072	3,394
Adjustments for non-cash items and other adjustments included within the statement of comprehensive income			
Depreciation of tangible assets	22	876	42
Amortisation of intangible assets	23	2,101	79
Impairment of loans and advances	17	(4,097)	301
Write off of tangible assets	22	908	-
Write off of intangible assets	23	301	-
Unrealised fair value (gains)/losses on derivatives	10	(9,878)	1,459
Change in operating assets		44,233	(43,953)
Change in operating liabilities		(1,470)	9,351
Income tax paid		678	(724)
Net cash flows generated from/(used in) operating activities		10,195	(34,557)
Investing activities			
Purchase of tangible and intangible fixed assets	23	(6,811)	(1,536)
Originations in the year		(817,885)	(105,156)
Purchase of mortgages in the year		-	(212,258)
Repayments of loans and advances to customers		578,370	813
Reserve funds received		17,515	-
Repayments of reserve funds		(20,500)	-
Interest received on loans and advances to customers		252,436	29
Acquisition of entities under common control	6	85,144	27,907
Disposal of entities under common control	5	-	(1,667)
Net cash flows generated from/(used in) investing activities		88,269	(291,868)
Financing activities			
Repayments of loans and borrowings		(793,260)	-
Issuance of loans and borrowings		861,450	417,512
Interest paid on loans and borrowings		(62,498)	(3,394)
Repayment of lease liabilities		(277)	-
Net cash flows generated from financing activities		5,415	414,118
Net increase in cash at bank		103,879	87,693
Cash at bank at the beginning of the year		95,204	7,511
Cash at bank at end of the year		199,083	95,204

The notes on pages 22 to 69 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements at 31 March 2021

1. Company information

The Company was incorporated on 26 November 2014 and is domiciled in England, United Kingdom. Its principal place of business is its registered office located at Ascot House, Maidenhead Office Park, Maidenhead, SL6 3QQ.

The principal activity of the Group is the origination and servicing of mortgage assets secured by first charges over residential properties in the United Kingdom. The Group is also responsible for providing mortgage servicing activities to third parties through its subsidiary company, Kensington Mortgage Company Limited ("KMC"). KMC is authorised by the Financial Conduct Authority for regulated activities. The group also provide management services to other, fellow subsidiaries of the Koala (Cayman) Group of companies.

2. Significant accounting policies

2.1. Statement of compliance and basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 ("IFRS").

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. The consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments and financial assets and liabilities designated at fair value through profit or loss, all of which have been measured at fair value.

The accounting policies have been consistently applied, except for changes arising from adoption of new or revised IFRSs. The consolidated financial statements are presented in Pounds Sterling and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

The consolidated financial statements comprise the accounts of the Company and its subsidiaries as at 31 March 2021.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgement in the process of applying the 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 2.4 (u).

The Company has taken advantage of the exemption in section 408 of the Companies Act from presenting its individual statement of comprehensive income or any related notes to that statement. The Company has also elected not to present a statement of cash flows.

The consolidated financial statements on pages 16 to 69 were approved by the Board of Directors on 8 October 2021.

2.1.1 Formation of the Group

Prior to 27 February 2020, the Company was a holding company for Elevate Bidco Limited and it held an investment of £101 in its subsidiary and had £1 of equity.

On 27 February 2020, the Company disposed of its investment in Elevate Bidco Limited to Koala (Cayman) Limited for consideration of £107 settled in the form of an intercompany receivable from Koala (Cayman) Limited.

On 12 March 2020, the Company received equity funding from Koala (Cayman) Limited in the form of the issue of a new share of £1, share premium of £1m and capital contribution of £104m, funded by intercompany loan, and acquired 100% of the issued capital of Kensington Mortgage Company Limited ("KMC") from The Northview Group Limited (a fellow Koala (Cayman) Group company) for consideration of £105m, funded by an intercompany payable to The Northview Group Limited.

On 30 March 2020, the Company acquired the beneficial interest in all of the mortgages held by Koala Warehouse Limited (a fellow Koala (Cayman) Group company) for consideration of £212m, and immediately sold the beneficial interest in these mortgages to a newly-formed warehouse funding company, KMC Sloane Square Limited ("Sloane Square"). As part of this transaction the Company subscribed for subordinated notes in Sloane Square of £21m.

On 1 April 2020, the Company received equity funding from Koala (Cayman) Limited in the form of a capital contribution of £69.1m, funded by intercompany loan, and acquired notes and deferred consideration certificates in eight residential mortgage backed securitisations from Koala Warehouse Limited for consideration of £69.1m, funded by an intercompany payable to Koala Warehouse Limited.

On 25 March 2021, the company acquired 100% of the shares in Cell A52 of Harlequin Insurance PCC Limited, a fellow Koala (Cayman) Group company incorporated and registered in Guernsey for consideration of £1.1m.

As a result of the transactions described above, from 12 March 2020 the principal activity of the Group became the origination and servicing of mortgage assets secured by first charges over residential properties in the United Kingdom. The Group is also responsible for providing mortgage servicing activities to third parties through its subsidiary company, KMC. KMC is authorised by the Financial Conduct Authority for regulated activities. The group also provides management services to other, fellow subsidiaries of the Koala (Cayman) Group of companies.

The transactions required to create the Group in its current form, described above have all been accounted for as acquisitions or disposals of entities or businesses under common control, the accounting for which is described in note 2.4.b).

2.1.2 Going concern

The Group has reported a profit of £30,008,000 for the year and is in a net asset position of £83,732,000 as at 31 March 2021.

In assessing the appropriateness of the going concern basis, the directors have taken account of all relevant information available and the risks highlighted in the directors' report.

Under the Group's Asset & Liability Management framework, the Group maintains minimum cash balances across various companies within the Group including the Company, which are monitored daily and updated monthly to consider next 3 months cash requirements by each company within the Group.

The Group also prepared a budget and forecast for the two years to 31 March 2023, against which have been conducted a variety of stress scenarios on the Group's profitability, liquidity and capital positions.

Stress tests included the following scenarios:

i) additional significant redress payments of £2.5m per year
ii) the government extends payment holidays for 12 months from June 2021 and the level of take up is similar to 2020
iii) a stressed macroeconomic environment as per the BoE Solvency Stress assumptions published in January 2021, resulting in stressed mortgage loan performance and assuming that the Group cannot access the securitisation capital markets for funding
iv) combined stress of i), ii) and iii).

The stress scenarios indicate that after taking controllable management actions, including restricting new originations, the Group would maintain sufficient liquidity and capital throughout the forecast period.

Considering these scenarios and the Group cash management framework, including the minimum cash balances and the availability of committed funding lines to the Group, the directors have made an assessment of the Group and the Company's ability to continue as a going concern and have a reasonable expectation that the Group and the Company has adequate resources to continue in operational existence for the foreseeable future covering a period up to and beyond 31 March 2023.

Hence the consolidated financial statements have been prepared on a going concern basis.

2.2. New standards, amendments and IFRIC interpretations

The Group has adopted the Phase 1 amendments to IFRS 9, IAS 39 and IFRS 7 for interest rate benchmark reform. The main impact of these amendments on the Group is to facilitate the continuation of hedge accounting as the use of LIBOR as an interest rate benchmark is replaced with SONIA.

The Group applies fair value hedge accounting to the fixed rate element of the mortgage portfolio. Prior to December 2020, the part of the portfolio funded by LIBOR-based debt was designated as hedged with reference to the LIBOR benchmark and the part of the portfolio funded by SONIA-based debt was designated as hedged with reference to the SONIA benchmark. In December 2020, these hedging relationships were discontinued and a new single hedging relationship was designated based on the SONIA reference rate. To the extent that ineffectiveness arises as a result of certain hedging instruments retaining exposure to LIBOR, this is recognised within fair value gains and losses in profit and loss.

There are no new accounting standards, other amendments to accounting standards, or IFRIC interpretations that are effective from 1 April 2020 that have had a material impact on the Group.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 March 2021 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods or on foreseeable future transactions.

In October 2000, the IASB published Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 for interest rate benchmark reform, effective for accounting periods starting on or after 1 January 2021. The main impact of these amendments will be to facilitate the Group's transition to use of the SONIA reference rate to those parts of its mortgage portfolio that continue to be based on the LIBOR reference rate without the requirement for remeasurement of the carrying value of the portfolio that might otherwise be required as a result of a contractual change.

2.3. Basis of consolidation

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group’s voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profits or losses are attributed to the equity holders of the parent of the Group. When necessary, adjustments are made to the accounts of subsidiaries to bring their accounting policies into line with the Group’s accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Transactions between consolidating entities such as interest income and expense, mortgage administration fee income and expense are eliminated from the Group consolidation. Similarly, an investment in subsidiary is eliminated against the reserves of the subsidiary investment, adjusted for goodwill.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in the consolidated statement of comprehensive income. Any investment retained is recognised at fair value.

2.4. Summary of significant accounting policies

a) Business combinations

Business combinations that do not involve entities or businesses under common control are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at the acquisition date fair value and the amount of any prior non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed immediately in the consolidated statement of comprehensive income.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and the designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at each acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated statement of comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating unit ("CGU") that is expected to benefit from the combination, irrespective of whether the other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

b) Acquisition and disposal of entities or businesses under common control

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party both before and after the combination and where that control is not transitory. Entities that form part of the Koala (Cayman) Group are under common control.

Where the Group acquires entities or businesses that are under common control, the assets and liabilities acquired are recognised in the consolidated accounts of the Group at the book values at which they appear in the Koala (Cayman) Group financial statements. The difference between the fair value of the consideration paid and the book value of the assets and liabilities recognised is recorded as an adjustment to the retained earnings of the Group. The results of the acquired entity or business are recognised in the consolidated statement of comprehensive income of the Group from the date of acquisition by the Group.

Where the Group disposes of entities or businesses as part of a common control transaction for little or no consideration, this is accounted for as a demerger using book values. No profit or loss is recognised and the difference between the fair value of the consideration paid (if any) and the book value of the assets and liabilities derecognised is recorded as an adjustment to the retained earnings of the Group.

c) Foreign currency transactions

For each entity, the Group determines the functional currency and items included in the accounts of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group’s entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Pounds Sterling at the rate of exchange prevailing at the reporting date. The consolidated statement of comprehensive income is translated at the average exchange rate for the financial period. Capital, reserves and goodwill are translated using historical rate. The exchange differences arising on translation for consolidation are recognised in the consolidated statement of comprehensive income.

d) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the date in the principal or, in its absence, measurement the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The Group classifies disclosed fair values according to a hierarchy that reflects the significance of observable market inputs. A transfer is made between the hierarchy when the inputs have changed or there has been a change in the valuation method.

e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest and similar income and expense

For all financial instruments measured at amortised cost, interest income and expense are recorded using the effective interest rate ("EIR"). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

Fee and commission income and expenses

Income and expenses from mortgage administration and securitisation services is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for providing the services or when the performance obligation related to the transaction is fulfilled.

Investment income

Investment income consists of proprietary trading income and other gains and losses arising from balance sheet management.

f) Pension costs

The Group operates defined contribution pension schemes. For defined contribution schemes, the expense is charged to the consolidated statement of comprehensive income as incurred.

g) Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

h) Investment in subsidiaries

The Company classifies controlling interests in corporate entities as investments in subsidiaries. These are stated at cost less any provision for impairment if, in the opinion of the directors, there has been a permanent diminution in value of the investment.

Balances arising from interests in special purpose entities, which may also be consolidated as subsidiaries in the accounts of the Group are accounted for as financial instruments in accordance with IFRS 9 in the accounts of the Company, as more fully explained in section k) below.

i) Tangible assets

Tangible assets are stated at cost less accumulated depreciation and provisions for impairment losses, if required.

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

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

The carrying values of tangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Impairment of tangible assets is in accordance with IAS 36, ‘Impairment of assets’ and is only tested for impairment in the event that a triggering event is identified.

j) Intangible assets

Computer software is stated at cost less accumulated amortisation and accumulated impairment losses. Software is amortised over its estimated useful life of 3-7 years on a straight line basis. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

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

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

Assets under development are not amortised.

k) Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument and are derecognised on the date it ceases to be a party or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction such that substantially all the risks and rewards of ownership of the financial asset are transferred.

The Group's financial instruments are classified as described below:

Financial assets

Financial assets are recognised, at initial recognition, as either financial assets at fair value through profit or loss, loans and advances to customers or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group classifies financial assets based on the business model and contractual cash flow characteristics of the financial assets. Under IFRS 9, the Group classifies financial assets into one of three measurement categories:

a) *Amortised cost* - assets held in a business model to hold financial assets in order to collect contractual cash flows, where the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

b) *Fair value through other comprehensive income (FVOCI)* - assets held in a business model in which the assets are realised either by collecting the contractual cash flows or by the sale of the assets and where the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal amount outstanding. The Group currently does not measure any financial assets at FVOCI.

c) *Fair value through profit or loss (FVTPL)* – assets not measured at amortised cost or fair value through other comprehensive income.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment by investment basis.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss and those financial assets not measured at amortised cost or fair value through other comprehensive income. The Group measures derivative financial instruments in this category and has not designated any financial assets at fair value through profit or loss upon initial recognition.

Financial assets at fair value through profit or loss are recognised in the consolidated statement of financial position at fair value with net changes in fair value presented within total operating income in the consolidated statement of comprehensive income.

Loans and advances to customers

Loans and advances to customers include loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs and are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment.

Amortised cost is the amount at which the financial asset is measured at initial recognition, plus or minus the cumulative amortisation using the EIR method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

For new originations post acquisition and mortgage assets purchased, amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest income in the consolidated statement of comprehensive income. The losses arising from impairment are recognised in the consolidated statement of comprehensive income in impairment losses.

Financial investments

The residual income of the acquired deferred consideration certificates represents a financial asset which is initially measured at fair value. On the basis that the residual certificates represent a residual interest in the SPVs and so introduce exposure to risks or volatility in the contractual cash flows unrelated to a basic lending arrangement, the financial assets will not meet the SPPI criterion. The residual certificates therefore will subsequently be measured at fair value through profit or loss.

Impairment of financial assets

The Group recognises losses for expected credit loss (ECL) on debt financial instruments not measured at fair value through profit or loss and uses the IFRS 9 three stage expected credit loss (ECL) approach for measuring impairment. The three impairment stages under IFRS 9 are as follows:

At initial recognition, allowance is made for expected credit losses resulting from default events that are possible within the next 12 months (12 - month expected credit losses). In the event of a significant increase in credit risk since origination, allowance (or provision) is made for expected credit losses resulting from possible default events over the expected life of the financial instrument (lifetime expected losses).

Financial assets where 12 - month expected credit losses are recognised are considered to be stage 1; financial assets which are considered to have experienced a significant increase in credit risk since initial recognition are in stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to stage 3.

The Group measures impairment through the use of modelled assessments as follows:

i. Measurement of ECL

The assessment of credit risk and estimation of ECL are unbiased and probability weighted. ECL is measured on either a 12 month (stage 1) or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition (stage 2) or where an account meets the Group's definition of default (stage 3).

The ECL calculation is a product of an individual loan's probability of default (PD), exposure at default (EAD), and loss given default (LGD) discounted at the effective interest rate (EIR). The ECL drivers of PD, EAD and LGD are modelled at an account level. The assessment of whether a significant increase in credit risk has occurred is based on the lifetime PD estimate.

ii. Significant increase in credit risk (movement to stage 2)

The Group's transfer criteria determines what constitutes a significant increase in credit risk, which results in an exposure being moved from stage 1 to stage 2.

At the point of recognition, a loan is assigned a lifetime PD estimate. For each monthly reporting date thereafter, an updated lifetime PD estimate is computed for the life of the loan. The Group's transfer criteria analyses relative changes in lifetime PD versus the origination lifetime PD, where if prescribed thresholds are met, an account will be transferred from stage 1 to stage 2.

IFRS 9 includes a rebuttable presumption that if an account is more than 30 days past due it has experienced a significant increase in credit risk. The Group considers more than 30 days past due to be an appropriate back stop measure and therefore has not rebutted this presumption.

A borrower will move back to stage 1 where a significant increase in credit risk is no longer satisfied.

iii. Definition of default (movement to stage 3)

The Group uses a number of quantitative and qualitative criteria to determine whether an account meets the definition of default and therefore moves to stage 3. The criteria currently include:

- the rebuttable presumption that more than 90 days past due is an indicator of default. The Group has not rebutted this presumption and therefore deems more than 90 days past due as an indicator of default. This also ensures alignment between the Group's Internal Ratings Based (IRB) models and the Basel/Regulatory definition of default.
- the Group has also deemed it appropriate to classify accounts that have moved into an unlikeliness to pay position, which includes forbearance, repossession and interest only term expiry.

A borrower will move out of stage 3 when their credit risk improves such that they no longer meet the 90 days past due and unlikeliness to pay criteria and following this have completed an internally approved probation period. The borrower will move to stage 1 or stage 2 depending on whether the significant increase in credit risk applies.

iv. Forward looking macroeconomic scenarios

In ensuring an unbiased, probability-weighted outcome, the Group uses a number of economic scenarios which include a base case as well as a range of upside and downside scenarios. These scenarios include the forecast of the macroeconomic variables that have been identified as relevant to the Group's exposures. The average values for these variables over the next 5 years under the different scenarios are shown below:

	Base case	**Upside 4th percentile**	**Upside 10th percentile**	**Downside 75th percentile**	**Downside 90th percentile**	**Downside 96th percentile**	**Slower Growth**	**Stagflation**
Regional UK House Prices	3.2%	6.0%	5.2%	2.3%	1.4%	0.4%	1.9%	1.7%
3-month GBP LIBOR.	0.8%	1.3%	1.1%	0.3%	0.2%	0.3%	0.2%	0.5%
UK GDP	4.4%	5.2%	4.8%	4.2%	3.8%	3.4%	3.4%	3.9%
UK Unemployment Rate	5.9%	4.4%	5.2%	6.8%	7.7%	8.4%	6.8%	7.7%
Scenario weighting	50.0%	3.0%	7.5%	18.7%	7.5%	3.0%	3.0%	7.3%

The economic scenarios used are sourced externally and probability weights, shown above, have been reviewed internally to ensure that they are plausible and consistent with economic forecasts used for other purposes.

v. Expected life

IFRS 9 requires lifetime expected credit losses to be measured over the expected life. Currently the Group considers the loan's behavioural life is equal to the full mortgage term. This approach will continue to be monitored and enhanced if and when deemed appropriate.

vi. Purchased or originated credit impaired (POCI)

Acquired loans that meet the Group's definition of default at acquisition are treated as POCI assets. These assets will attract a lifetime ECL allowance over the full term of the loan, even when the loan no longer meets the definition of default post acquisition. The Group does not originate credit impaired loans.

vii. Presentation of allowance for ECL in the statement of financial position

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the consolidated statement of comprehensive income. Interest income (recorded as finance income in the consolidated statement of comprehensive income) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no reasonable expectation of recovering the financial asset or a portion thereof and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the consolidated statement of comprehensive income.

Derecognition of financial assets

When the Company or the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership.

If a transferor retains substantially all the risks and rewards associated with the transferred assets, the transaction is accounted for as a financing transaction not withstanding that it is a sale transaction from a legal perspective. Where mortgages acquired by the Company are subject to transfers not qualifying for derecognition, the Company's beneficial interest in the mortgage assets continues to be recognised by the Company with the consideration received recognised as a deemed loan liability.

Other financial assets

Other financial assets are initially measured at fair value less provisions made for impairment.

Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments.

Trade and other creditors

Creditors with no stated interest rate and due within one year are recorded at transaction price.

Other financial liabilities (Loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the consolidated statement of comprehensive income when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included within interest expense in the consolidated statement of comprehensive income.

This category generally applies to interest-bearing loans and borrowings. For more information refer to note 25.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

l) Mortgage commitments

The Group measures mortgage commitments arising since 1 January 2020 at fair value through profit or loss in order to alleviate an accounting mismatch which would otherwise arise from recognising only the movements in the fair value of associated derivatives. The fair value of mortgage commitments is included within other financial assets or other financial liabilities. Movements in the fair value are included within gains/losses from derivatives and hedge accounting in the consolidated statement of comprehensive income, to offset the fair value movements of the derivatives. At the time the offer converts into a live loan, the amount is recognised as an adjustment to the initial carrying value of the loan and therefore amortised over the life of the loan.

The Company measures mortgage commitments arising since 1 April 2020 at fair value through profit or loss, following the same approach as described above.

The Group measures mortgage commitments that arose prior to 1 January 2020 at cost. The Company measures mortgage commitments that arose prior to 1 April 2020 at cost.

m) Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and futures to manage its exposure to foreign currency risk and interest rate risk respectively. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading.

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value as detailed per note 2.4 (d). Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. If a derivative is cancelled, it is derecognised from the consolidated statement of financial position. The derivative contracts contain collateral agreements which reduce counterparty risk. The collateral is held in cash and recorded as Loans and borrowings (see note 25).

n) Hedge accounting

With effect from 1 April 2020, the Group has elected, as a policy choice under IFRS 9, to apply the hedge accounting requirements of IAS 39 instead of the requirements in Chapter 6 of IFRS 9 and uses fair value hedge accounting as part of its risk management strategy.

When transactions meet the criteria specified in IAS 39, the Group can apply three types of hedge accounting: either hedges of the changes in the fair value of the financial asset or liability (fair value hedge accounting) or hedges of the variability in cash flows of the financial asset or liability (cash flow hedge accounting) or net investment hedging. The Group currently applies fair value hedge accounting.

Transactions entered into in accordance with the Group's hedging objectives but which do not qualify for hedge accounting, are referred to in these consolidated financial statements as economic hedge relationships.

At inception, the Group formally documents how the hedging relationship meets the hedge accounting criteria. It also records the economic relationship between the hedged item and the hedging instrument, including the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship at inception and on an ongoing basis.

In order to qualify for hedge accounting, a hedge relationship must be expected to be highly effective on a prospective basis and it needs to be demonstrated that it was highly effective in the previous designated period (range of 80%-125%). The hedge accounting documentation includes the method and results of the hedge effectiveness assessments.

Fair value hedge accounting

The Group applies fair value hedge accounting to keep interest rate risk within its established limits. From a hedge accounting point of view, the Group designates the hedged risk as the exposure to changes in the fair value of a recognised financial asset or liability or an unrecognised firm commitment, or an identified portion of such financial assets, financial liabilities and firm commitments that is attributable to a particular risk and could impact profit and loss.

Fair value hedge accounting results in the carrying value of the hedged item being adjusted to reflect fair value changes attributable to the risk being hedged. This creates an offset to the fair value movements of the hedging instrument. For designated and qualifying fair value hedges, the cumulative change in the fair value of the hedging derivative, and the cumulative change in the fair value of the hedged item with respect to the hedged risk are both recognised in fair value gain or loss on derivatives and hedging within the consolidated statement of comprehensive income. The resulting net amount includes any hedge ineffectiveness.

Portfolio hedge accounting allows for hedge effectiveness testing and accounting over an entire portfolio of financial assets or liabilities. To qualify for hedge accounting at inception, the hedge relationship is clearly documented and the derivative must be expected to be highly effective in offsetting the hedged risk. In addition, the effectiveness must be tested throughout the life of the hedge relationship.

The Group applies portfolio fair value hedge accounting with respect to the fixed interest element of its mortgage portfolio. Fixed rate mortgage loans are allocated to repricing buckets based on expected, rather than contractual repricing dates. The hedging instruments (interest rate swaps) are designated appropriately to those repricing time buckets. Hedge effectiveness is measured on a monthly basis, by comparing fair value movements of the designated proportion of the bucketed loans with respect to the hedged risk, against the fair value movements of the designated hedging derivatives, to demonstrate that the hedge remains highly effective.

The Group considers the following as key sources of ineffectiveness:

- the mismatch in maturity date of the hedging instrument and hedged item, as hedging instruments with a given maturity date cover a portfolio of hedged items which may mature throughout the month;
- the actual behaviour of the of the hedged item differing from expectations, such as early repayments or redemptions and arrears;
- minimal movements in the yield curve leading to ineffectiveness where hedge relationships are sensitive to small value changes; and
- the transition relating to IBOR reforms whereby some hedging instruments and hedged items are based on different benchmark rates.

Where there is an effective hedge relationship for fair value hedges, the Group recognises the change in fair value of the hedged loans as an item in profit or loss with the cumulative movement in their value being shown separately in the consolidated statement of financial position as fair value adjustments on hedged assets and liabilities. The fair value changes of both the hedging instrument and the hedged item substantially offset each other to reduce profit volatility. Should hedge effectiveness testing highlight that a particular hedge relationship is no longer highly effective, no fair value hedging adjustment is recorded for the period for that particular relationship.

The Group discontinues hedge accounting when the hedging derivative ceases through expiry, when the hedging derivative is cancelled and not replaced by a new hedging derivative or the underlying hedged item matures, is sold or repaid.

If a derivative no longer meets the criteria for hedge accounting or is cancelled whilst still effective, the fair value adjustment relating to the hedged assets or liabilities within the hedge relationship prior to the derivative becoming ineffective or being cancelled remains on the consolidated statement of financial position and is amortised over the remaining life of the hedged assets or liabilities. Each reporting period the unamortised adjustment is compared to the related hedge item with an accelerated run off applied where the two diverge by more than set parameters.

The impact of IBOR reform on the Group's hedge accounting is explain further in note 2.2.

o) Impairment of non-financial assets

At each statement of financial position date, the Group reviews the carrying value of non-financial assets, for indication of impairment. The recoverable amount, being the higher of fair value less costs to sell of disposal and value in use, is determined for any assets for which an indication of impairment is identified or for assets where annual impairment testing is required. If the recoverable amount of an asset is less than its carrying value, the asset is considered impaired and the carrying value of the asset is reduced to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses are recognised as an expense in the consolidated statement of comprehensive income in the period in which they are identified. Reversals of impairment losses are recognised when the reversals are identified, to the extent that the carrying value of the asset does not exceed the amount that would have been calculated without impairment. Impairment losses relating to goodwill are not reversed in future periods.

p) Cash at bank

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

Cash at bank is carried at amortised cost in the consolidated statement of financial position.

For the purpose of the consolidated statement of cash flows, cash at bank consists of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

Cash excludes certain restricted funds held with third party banks which is not available to meet short term commitments.

q) Leases

The Group applied IFRS 16 for the first time during the year as a result of entering into a lease.

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

Right of use assets and lease liabilities are initially recognised at the net present value of future lease payments, discounted, at the rate implicit in the lease, or where not available, the Group's incremental borrowing cost. Subsequent to initial recognition, the right of use asset is depreciated on a straight line basis over the term of the lease. Future rental payments are deducted from the lease liability, with interest charged on the lease liability, using the incremental borrowing cost at the time of initial recognition. The Group recognises lease liability payments within financing activities in the consolidated statement of cash flows.

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

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

r) Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the consolidated statement of comprehensive income net of any reimbursement. Contingent assets and contingent liabilities are not recognised on the consolidated statement of financial position.

s) Share capital and capital contributions

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

Dividends on ordinary shares are recognised in equity in the period in which they are paid.

t) Segmental analysis

The Group's income and trade is predominantly within the United Kingdom and is wholly within a single market sector and therefore no segmental analysis has been presented.

u) Significant accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. For the year ended 31 March 2021, this evaluation has considered the potential impacts of COVID-19 where relevant.

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

Accounting judgements

i. Consolidation of structured entities

The Group makes investments in associated securitisation vehicles by retaining a 5% horizontal strip of the total notes issued by a securitisation vehicle in addition to retaining the rights to residual income from mortgage loans held in the securitisation vehicles. The Group is exposed to a variable return from these investments. The Group holds the legal title to the mortgages held on the securitisation vehicles' statement of financial position and therefore makes management decisions on their behalf including, but not limited to, advising on the finance structure of the initial issuance of loan notes, setting of variable mortgage interest rates and defining mortgage collections strategy. The power of the Group over the management and variable return of the vehicles has resulted in the structured entities being consolidated into the Group in line with the policy described in note 2.3. There are no contractual arrangements for the Group to provide financial assistance to the securitisation vehicles and there hasn't been any financial assistance in the current year.

ii. Recognition of financial assets

The Company has made a significant accounting judgement in the assessment of the mortgage assets for all new mortgage originations initiated from 12 March 2020. The Company performed an assessment of the risks and rewards associated with the financial assets acquired, and concluded that the financial assets qualify for recognition in the Company's and Group's accounts. In making this assessment the Company considered substantially all risks and rewards of ownership of the financial assets were transferred to the Company.

iii. Accounting for acquired interests in SPVs

The Company has made a significant accounting judgement in the assessment of the deferred consideration certificates acquired from Koala Warehouse Limited. The Company performed an assessment of the risks and rewards associated with the certificates acquired and concluded that the residual income due to the Company represents a financial asset, however the mortgage assets do not qualify for recognition in the Company's standalone accounts. In making this assessment the Company considered that it does not have a contractual right to the cash flows from the mortgage loans themselves, however the mortgage assets held by the SPVs are recognised by the Group in its consolidated statement of financial position.

Accounting estimates and assumptions

i. Impairment losses

Significant increase in credit risk for classification in stage 2

The Group's transfer criteria determines what constitutes a significant increase in credit risk ("SICR"), which results in an exposure being moved from stage 1 to stage 2.

At the point of recognition, a loan is assigned a lifetime PD estimate. For each monthly reporting date thereafter, an updated lifetime PD estimate is computed for the life of the loan. The transfer criteria analyses relative changes in lifetime PD versus the origination lifetime PD, where if prescribed thresholds are met, an account will be transferred from stage 1 to stage 2.

IFRS 9 includes a rebuttable presumption that if an account is more than 30 days past due it has experienced a significant increase in credit risk. The Group considers more than 30 days past due to be an appropriate back stop measure and therefore has not rebutted this presumption.

A borrower will move back to stage 1 where a significant increase in credit risk is deemed to no longer be satisfied.

Probation period for classification from stage 3 into stage 1 or 2

The Group has set a minimum probation period for which an account must perform before returning to non-defaulted status. The probation period is set judgmentally to ensure that only a limited number of accounts default soon after returning to a non-defaulted status, whilst also allowing permanent cures to return to non-default as commensurate with the risk status of the respective assets.

Probability of Default ("PD") models

The Group developed a number of PD models to assess the likelihood of a default event occurring within the next 12 months, utilising historical credit risk information. The Group also computes a lifetime PD estimate for each loan exposure once recognised, underpinned by the 12 month PD estimate.

Loss Given Default ("LGD") model

The Group developed a LGD model, which includes a number of estimated assumptions including propensity of possession given default ("PPGD"), forced sale discount ("FSD") and time to sale. and sale cost estimates. The LGD is sensitive to the application of the HPI.

Forward-looking macroeconomic scenarios

The forward-looking macroeconomic scenarios affect both the PD and LGD estimates. Therefore, the expected credit loss calculations are sensitive to both the scenarios utilised and their associated probability weightings. As the Group does not have an in-house economics function it sources economic forecasts from an appropriately qualified third party. The Group considers eight probability weighted scenarios, including base, upside and downside scenarios as well as other adverse scenarios.

In the downside 96th percentile scenario, the mortgage impairment provision increases to £4,380,000 (2020: £441,000) from £3,018,000 (2020: £301,000), an increase of £1,362,000 (2020: £140,000).

ii. Effective interest rate methods

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit loss. The cash flows used to calculate the EIR in this analysis include directly attributable transaction costs, premiums, discounts and the impact of changes from introductory to reversionary interest rates.

The book value of the mortgage assets is measured at amortised cost using the EIR method, with a provision made for impairment. The current model used to estimate future cash flows in the EIR is sensitive to certain key assumptions, the most important of which is the customer prepayment rate ("CPR").

Where mortgages were deemed to be credit impaired at the date of acquisition, cash flows relating to those mortgages have been adjusted accordingly, with credit losses being reflected.

An increase of 1% in the CPR assumed would result in a reduction in the carrying value of loans and receivables and a reduction of interest receivable by £387,000 (2020: £7,000).

iii. Fair value measurement

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

Where applicable, the Group measures financial instruments, such as derivatives, at fair value at each statement of financial position date (note 15). For the valuation of derivative financial instruments, a discounted cash flow model is used based on a current interest rate yield curve. The yield curve is the primary determinant of the valuation and is constructed by benchmarking to generic instruments in the market that are sensitive to overnight index swap ("OIS") movements. Details of the fair value measurement of any derivative financial instruments held by the Group are included in note 15.

The Company measures the fair value of deferred consideration certificates in SPVs where these are recognised as financial investments, based on a discounted cash flow model that considers the expected cash flows of the underlying mortgages and payment of related note liabilities and other SPV costs in accordance with the payment priority of the securitisations in order to determine expected cash flows of the certificates. These are then discounted at the estimated rate that the market rate would demand for such instruments.

iv. Hedge accounting

The Group has designated a portfolio of interest rate swaps as a fair value hedge of the fixed interest element of its mortgage portfolio. The Group’s hedge accounting policies contain an element of judgement and estimation, in particular, in respect of the projected behaviour of mortgage prepayments in portfolio fair value hedges. Estimates of future interest rates and the general economic environment will influence the availability and timing of suitable hedged items, with an impact on the effectiveness of the hedged relationships.

v. Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax-planning strategies (see note 13).

vi. Provisions and other contingent liabilities

The Group operates in a regulatory environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, in the ordinary course of the Group’s business, it can be involved in various litigation, arbitration and regulatory proceedings in the UK.

When the Group can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Group takes into account a number of factors including legal and regulatory advice, the stage of the matter and historical experience from similar incidents. Significant judgement is required to conclude on these estimates.

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

For further details on provisions and other contingencies see note 2.4 (r) of the Summary of significant accounting policies and notes 26 and 33.

vii. Impairment assessment of goodwill

Goodwill is attributed at acquisition to only the particular cash-generating unit (“CGU”) acquired. When testing a goodwill balance for impairment, the future cash flows of that CGU is forecast and the net present value ("NPV") of the cash flows is compared to the original cost price of the CGU. Where the NPV is lower than the cost price, the goodwill associated to the CGU will be impaired by the difference between the NPV and the cost price and an impairment expense will be shown in the consolidated statement of comprehensive income. The discount rate used to discount the future cash flows of the CGU is 13% being the intercompany lending rate (10%) with an additional factor to take into consideration the risk around future growth assumptions made on mortgage asset book.

3. Capital Management

The Group's objectives in managing capital are:

- To ensure that the Group has sufficient capital to meet its operational requirements and strategic objectives;
- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders;
- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk; and
- To ensure that sufficient regulatory capital is available to meet any externally imposed requirements.

For the purpose of the Group's capital management, capital includes issued share capital, share premium and all other equity reserves. The primary objective of the Group's capital management is to maximise the shareholders' value. The Group sets the amount of capital in proportion to risk, availability and cost. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets, having particular regard to the relative costs and availability of debt and equity finance at any given time. In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, issue or redeem other capital instruments, such as retail or corporate bonds, or sell assets to reduce debt.

There is one entity in the Group, Kensington Mortgage Company Limited which is regulated by the Financial Conduct Authority and therefore has to maintain specified levels of capital. There have been no breaches of these regulated capital limits in the year.

4. Group information

The principal activity of the Group is the origination and servicing of mortgage assets secured by first charges over residential properties in the United Kingdom. The Group is also responsible for providing mortgage servicing activities to third parties through its subsidiary company, Kensington Mortgage Company Limited ("KMC"). KMC is authorised by the Financial Conduct Authority for regulated activities. The group also provides management services to other, fellow subsidiaries of the Koala (Cayman) Group of companies.

Subsidiaries of the Group

The subsidiaries of the Group are:

Name	Date of incorporation /acquisition	Principal activities	Country of incorporation	Type of Shares held	Company's Ultimate % equity interest	Status
Held directly by the Company						
Kensington Mortgage Company Limited	12 March 2020	Residential lending	England, UK	Ordinary	100	Active
Kensington Mortgage Services Limited	21 October 2020	Corporate services	England, UK	Ordinary	100	Active
Cell A52 of Harlequin Insurance PCC Limited	25 March 2021	Insurance activities	Guernsey	Ordinary	100	Active

All of the above subsidiary undertakings are included in the consolidated financial statements.

Consolidated structured entities

The Group has no equity interest in the following structured entities which are consolidated. Typically, a structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. The judgements to assess whether the Group has control over these structures include assessing the purpose and design of the entity, considering whether the Group or another involved party with power over the relevant activities is acting as a principal in its own right or as an agent on behalf of others and for their benefit.

Name of principal structured entities	Type of structured entity
Finsbury Square 2017-2 plc *	Securitised Residential Mortgages (UK)
Finsbury Square 2018-1 plc	Securitised Residential Mortgages (UK)
Gemgarto 2018-1 plc	Securitised Residential Mortgages (UK)
Finsbury Square 2018-2 plc	Securitised Residential Mortgages (UK)
Finsbury Square 2019-1 plc	Securitised Residential Mortgages (UK)
Finsbury Square 2019-2 plc	Securitised Residential Mortgages (UK)
Finsbury Square 2019-3 plc	Securitised Residential Mortgages (UK)
Finsbury Square 2020-1 plc	Securitised Residential Mortgages (UK)
Finsbury Square 2020-2 plc	Securitised Residential Mortgages (UK)
Gemgarto 2021-1 plc	Securitised Residential Mortgages (UK)
Finsbury Square 2021-1 plc	Securitised Residential Mortgages (UK)
KMC Sloane Square Limited	Warehoused Residential Mortgages (UK)

* indicates entities that are in the process of liquidation.

5. Disposal of entity under common control

On 27 February 2020, the Company disposed of its investment in Elevate Bidco Limited to Koala (Cayman) Limited for consideration of £107 settled in the form of an intercompany receivable from Koala (Cayman) Limited. As explained in note 2.4.b), in accordance with the Group's accounting policy for disposals of entities under common control for little or no consideration, the transaction has been accounted for as a demerger in the accounts of the Group and no profit or loss has been recognised.

A summary of the assets and liabilities disposed of, the consideration received and the effect on retained earnings is given below:

	£'000
Cash at bank	1,667
Other assets	531
Loans and borrowings	(10,854)
Current tax liabilities	(1,986)
Other liabilities and provisions	(5,436)
Net liabilities	(16,078)
Consideration received	-
Effect on retained earnings	16,078

6. Acquisition of entities under common control

As explained in note 2.4.b), in accordance with the Group's accounting policy for acquisitions of entities under common control, for the following transactions, the assets and liabilities acquired have been recognised in the consolidated financial statements of the Group at the book values at which they appear in the Koala (Cayman) Group financial statements. The difference between the fair value of the consideration paid and the book value of the assets and liabilities recognised have been recorded as adjustments to the retained earnings of the Group.

On 12 March 2020, as part of a group re-organisation, the Company acquired 100% of the issued capital of KMC from a fellow Group subsidiary, The Northview Group Limited, for consideration of £105m, funded by the issue of 1 new share of £1 for a premium of £1m to its parent company Koala (Cayman) Limited and receiving a capital contribution of £104m.

A summary of the assets and liabilities acquired, the consideration paid and the effect on retained earnings is given below:

	£'000
Cash at bank	27,907
Other assets	11,867
Tangible assets	2,378
Intangible assets and goodwill	20,365
Deferred tax assets	987
Loans and borrowings	(1,718)
Current tax liabilities	(1,791)
Other liabilities and provisions	(10,469)
Net assets	49,526
Consideration paid	(105,000)
Effect on retained earnings	(55,474)

On 1 April 2020, the Company received equity funding from Koala (Cayman) Limited in the form of a capital contribution of £69.1m, funded by intercompany loan, and acquired notes and deferred consideration certificates in eight residential mortgage backed securitisations (the "SPVs") from Koala Warehouse Limited for consideration of £69.1m, funded by an intercompany payable to Koala Warehouse Limited.

A summary of the assets and liabilities acquired, the consideration paid and the effect on retained earnings is given below:

	Net assets of SPVs acquired £'000	Consolidation adjustments £'000	Balances recognized by the Group £'000
Cash at bank	83,713	-	83,713
Other financial assets	79,875	-	79,875
Loans and advances to customers	3,252,792	(36,575)	3,216,217
Fair value adjustment on hedged assets	-	20,971	20,971
Other assets	1,077	(100)	977
Deferred tax assets	-	18,905	18,905
Loans and borrowings	(3,380,646)	6,182	(3,374,464)
Derivative financial instruments	(33,686)	-	(33,686)
Current tax liabilities	(19)	-	(19)
Deferred tax liabilities	-	(3,985)	(3,985)
Other liabilities and provisions	(2,868)	-	(2,868)
Total net assets	238	5,398	5,636
Consideration paid			(69,105)
Effect on retained earnings			(63,469)

On 25 March 2021, the company acquired 100% of the shares in Cell A52 of Harlequin Insurance PCC Limited ("PCC"), a fellow Koala (Cayman) Group company incorporated and registered in Guernsey for consideration of £1.1m.

A summary of the assets and liabilities acquired, the consideration paid and the effect on retained earnings is given below:

	£'000
Cash at bank	1,431
Other liabilities and provisions	(52)
Net assets	1,379
Consideration paid	(1,100)
Effect on retained earnings	279

7. Interest and similar income

	2021 £'000	2020 £'000
Interest receivable on loans and advances to customers	129,658	12
Interest receivable on loans to fellow Koala (Cayman) Group companies	972	17
	130,630	29

Included within interest income on loans and advances to customers are stage 3 financial assets earning interest at 4.72% per annum (2020: 3.99%).

8. Interest and similar expense

	2021 £'000	2020 £'000
Securitised note interest expense	39,243	-
Interest expense on bank loans	3,949	52
Funding cost amortisation	6,560	-
Commitment fees	3,839	201
Interest expense on loans to fellow Koala (Cayman) Group companies	15,467	3,080
Interest expense on lease liabilities	14	-
Other interest expense	-	61
	69,072	3,394

9. Fees and commissions income

	2021 £'000	2020 £'000
Mortgage related fees	27,909	2,676
	27,909	2,676

10. Fair value gains/(losses) on financial instruments

	2021 £'000	2020 £'000
Gains/(losses) on derivatives designated as fair value hedges	17,376	(1,459)
(Losses)/gains from fair value movements attributable to hedged risk	(9,552)	-
Ineffective portion of fair value hedges	7,824	(1,459)
(Losses)/gains from fair value movements attributable to mortgage pipeline commitments	(1,076)	1,365
Gains on futures related to mortgage pipeline commitments	3,588	-
	10,336	(94)

Amortisation is recognised on an effective interest rate (EIR) basis over the life of the mortgages.

11. Personnel expenses

	2021 £'000	2020 £'000
Wages and salaries	32,705	1,870
Social security costs	3,769	195
Pension contribution costs	2,035	103
Other employee costs	990	64
	39,499	2,232

	2021 Number
Average employees by category	
Operations	371
Administration	157
	528

The number of employees as at 31 March 2021 was 561 (2020: 510). The Group had no employees before 12 March 2020.

12. Operating expenses

	2021 **£'000**	2020 £'000
IT and premises expenses	10,091	518
Provisions/(reversals)	223	2
Amounts written off in relation to loans and advances to customers	276	-
Irrecoverable VAT	1,847	113
Amortisation of intangible assets	2,101	79
Depreciation of tangible fixed assets	876	42
Other operating expenses	10,892	407
	26,306	1,161

Auditor's remuneration for the audit of the Group's financial statements for the year ended was as follows, excluding VAT:

	2021 **£'000**	2020 £'000
Audit of consolidated financial statements	70	27
Audit of subsidiary entity financial statements	197	42
	267	69

Statutory information on remuneration for other services provided by the Company's and the Group's auditors to the Group is given in the consolidated financial statements of Koala (Cayman) Limited, which is the largest group into which the results of the Company are consolidated. There are no non-audit services specific to the Company in the current year or prior year.

13. Income tax expense/(credit)

	2021 **£'000**	2020 £'000
The components of income tax expense are:		
Current tax		
Current income tax expense	8,896	156
Adjustments in respect of prior years	97	6
	8,993	162
Deferred tax		
Origination and reversal of timing differences	(813)	76
Effect of tax rate change	-	(184)
Adjustments in respect of prior years	(87)	34
	(900)	(74)
Taxation expense on profit/(loss)	8,093	88

Reconciliation of the total tax (expense)/credit:

A reconciliation between the tax expense/(credit) and the accounting profit multiplied with the domestic tax rate is as follows:

	2021 **£'000**	2020 £'000
Profit/(loss) before tax	38,101	(4,477)
Expected tax expense/(credit) at the statutory rate of parent jurisdiction (19%)	7,239	(851)
Application of Statutory Instrument No. 3296 The Taxation of Securitisation Companies Regulations 2006	(13)	-
Tax for the year at the small companies rate of corporation tax of 19% (2020:19%) on the actual retained profit for the year	19	-
Income not taxable in determining taxable profit	-	(56)
Expenses not deductible in determining taxable profit	838	1,139
Prior year adjustments – current tax	97	6
Prior year adjustments – deferred tax	(87)	34
Effect of tax rate change on deferred tax	-	(184)
Total tax expense for the year	8,093	88

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the statement of financial position date, its effects are not included in these financial statements.

However, it is likely the overall effect of the change, had it been substantively enacted by the statement of financial position date, would be to reduce the tax expense for the period by £2,718,000 and increase the net deferred tax assets by £2,718,000.

Deferred tax

	Group 2021 £'000	Group 2020 £'000	**Company 2021 £'000**	Company 2020 £'000
Deferred tax assets				
Decelerated capital allowances	1,496	1,276	-	-
Late paid remuneration	436	303	-	-
Mortgage recognition basis	12,596	-	-	-
Other short term timing differences	21	-	-	-
Deferred tax relating to origination costs	4,501	366	-	-
	19,050	1,945	-	-
Deferred tax liabilities				
Pensions	-	(16)	-	-
Mortgage recognition basis	-	(868)	-	-
Derivatives and hedge accounting	(2,169)	-	-	-
	(2,169)	(884)	-	-
Total deferred tax assets and liabilities	16,881	1,061	-	-

The movement on deferred tax is shown below:

	Group 2021 £'000	Group 2020 £'000	**Company 2021 £'000**	Company 2020 £'000
Balance at beginning of year	1,061	-	-	-
Deferred tax on acquisition of entities under common control	14,920	987	-	-
Origination and reversal of timing differences	813	(76)	-	-
Effect of tax rate change	-	184	-	-
Adjustment in respect of prior years	87	(34)	-	-
Balance at end of year	16,881	1,061	-	-

Deferred taxation has been recognised at 19% (2020: 19%) being the UK corporation tax rate enacted at the statement of financial position date.

14. Cash at bank

	Group 2021 £'000	Group 2020 £'000	**Company 2021 £'000**	Company 2020 £'000
Cash at bank held in securitisation vehicles	104,827	-	-	-
Other cash at bank	94,256	95,204	29,089	9,650
	199,083	95,204	29,089	9,650

Management does not expect any losses from non-performance by the counterparties holding cash and short-term deposits, and there are no material differences between their book and fair values.

15. Derivative financial instruments

The Group enters into derivatives for interest rate risk management purposes. Hedge accounting is applied in relation to all interest rate swaps detailed in the table below, as explained in note 2.4.n). Hedge accounting is not applied in relation to exchange traded futures. However, potential accounting mismatches are reduced by the accounting policy for the related mortgage commitments, as explained in note 2.4.l).

The table below shows the fair value of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset and liability, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the period end and are indicative of neither the market risk nor the credit risk.

Group

31 March 2021	**Notional amounts £'000**	**Positive fair value £'000**	**Negative fair value £'000**
Interest rate derivatives			
Swaps	2,922,770	1,805	20,092
Exchange traded futures	468,000	2,572	-
	3,390,770	4,377	20,092
31 March 2020			
Interest rate derivatives			
Swaps	194,379	-	1,459
	194,379	-	1,459

Company

31 March 2021	**Notional amounts £'000**	**Positive fair value £'000**	**Negative fair value £'000**
Interest rate derivatives			
Exchange traded futures	468,000	2,572	-
	468,000	2,572	-
31 March 2020			
Interest rate derivatives			
Exchange traded futures	-	-	-
	-	-	-

Interest rate swaps with a negative fair value of £9,134,000 (2020: nil) and notional amount of £957,077,000 (2020: nil) have exposure to LIBOR and will be replaced with SONIA-based interest rate swaps as part of IBOR reform.

For the valuation of derivative financial instruments, a discounted cash flow model is used based on a current interest rate yield curve. The yield curve is the primary determinant of the valuation and is constructed by benchmarking to generic instruments in the market that are sensitive to Overnight Index Swap ("OIS") movements. Consequently, the Group deems all its interest derivative financial instruments to be Level 2 (refer note 30).

At inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the consolidated statement of comprehensive income of the Group. Market risk sensitivity is described in note 28.

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specific notional amounts, in relation to movements in a specified underlying index such as interest rate, foreign currency or equity index.

Interest rate swaps relate to contracts taken on by the Group with other financial institutions in which the Group either receives or pays a floating rate of interest, respectively, in return for paying or receiving a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

Futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Futures are transacted at standardised amounts on regulated exchanges and are subject to daily cash margin requirements. The credit risk related to futures contracts is considered low because the cash margin requirements of the exchange help ensure that these contracts are always honoured and are settled on a net basis.

16. Other financial assets

	Group 2021 £'000	Group 2020 £'000	**Company 2021 £'000**	Company 2020 £'000
Reserve funds	82,860	-	-	-
	82,860	-	-	-

Reserve funds represent cash within securitisation vehicles that is required to be maintained for the protection of noteholders in accordance with the terms of the securitisation. This is not available to meet short term commitments of the group and is not presented within cash.

17. Loans and advances to customers

	Group 2021 £'000	Group 2020 £'000	**Company 2021 £'000**	Company 2020 £'000
Loans and advances to customers	3,657,341	316,601	1,478,396	311,859
Allowance for impairment losses	(3,018)	(301)	(859)	(301)
	3,654,323	316,300	1,477,537	311,558

Gross carrying amount

Group

	2021 Buy to let £'000	**2021 Residential £'000**	**2021 Total £'000**	2020 Buy to let £'000	2020 Residential £'000	2020 Total £'000
Stage 1	986,213	2,377,318	3,363,531	103,826	207,097	310,923
Stage 2	27,146	168,573	195,719	-	4,953	4,953
Stage 3	12,939	85,152	98,091	96	629	725
Total	1,026,298	2,631,043	3,657,341	103,922	212,679	316,601

Company

	2021 Buy to let £'000	**2021 Residential £'000**	**2021 Total £'000**	2020 Buy to let £'000	2020 Residential £'000	2020 Total £'000
Stage 1	385,436	1,025,934	1,411,370	102,271	203,995	306,266
Stage 2	7,278	36,609	43,887	-	4,879	4,879
Stage 3	3,002	20,137	23,139	-	-	-
POCI	-	-	-	95	619	714
Total	395,716	1,082,680	1,478,396	102,366	209,493	311,859

Group

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 April 2019	-	-	-	-
Originations/transfers to Group (stage at time of transfer)	310,923	4,953	725	316,601
At 31 March 2020	310,923	4,953	725	316,601
Net transfers to/(from) Group (stage at time of transfer)	2,396,023	81,444	51,699	2,529,166
Originations	815,823	-	-	815,823
Accounting adjustments	51,921	1,765	1,120	54,806
Repayments, disposals and write-offs	(56,611)	(3,635)	1,191	(59,055)
Transfers:				
- To stage 1	22,141	(20,035)	(2,106)	-
- To stage 2	(139,365)	144,393	(5,028)	-
- To stage 3	(37,324)	(13,166)	50,490	-
At 31 March 2021	3,363,531	195,719	98,091	3,657,341

Company

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	POCI £'000	Total £'000
At 1 April 2019	-	-	-	-	-
Originations/transfers to Company (stage at time of transfer)	306,266	4,879	-	714	311,859
At 31 March 2020	306,266	4,879	-	714	311,859
Net transfers to/(from) Company (stage at time of transfer)	298,443	35,085	18,994	(714)	351,808
Originations	815,823	-	-	-	815,823
Interest added less repayments and write-offs	(1,896)	(1,279)	2,081	-	(1,094)
Transfers:					
- To stage 2	(5,310)	5,310	-	-	-
- To stage 3	(1,956)	(108)	2,064	-	-
At 31 March 2021	1,411,370	43,887	23,139	-	1,478,396

Expected credit loss

The Group's ECL by segment and IFRS 9 stage is shown below:

Group

	2021 Buy to let £'000	**2021 Residential £'000**	**2021 Total £'000**	2020 Buy to let £'000	2020 Residential £'000	2020 Total £'000
Stage 1	50	475	525	28	230	258
Stage 2	112	820	932	-	14	14
Stage 3	175	1,386	1,561	8	21	29
Total	337	2,681	3,018	36	265	301

Company

	2021 Buy to let £'000	2021 Residential £'000	2021 Total £'000	2020 Buy to let £'000	2020 Residential £'000	2020 Total £'000
Stage 1	20	182	202	28	230	258
Stage 2	25	210	235	-	14	14
Stage 3	42	380	422	-	-	-
POCI	-	-	-	8	21	29
Total	87	772	859	36	265	301

The table below shows the movement in the ECL by IFRS 9 stage during the year.

Group

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 April 2019	-	-	-	-
Originations/transfers to Group (stage at time of transfer)	258	14	29	301
At 31 March 2020	258	14	29	301
Net transfers to/(from) Group (stage at time of transfer)	4,288	745	1,536	6,569
Originations	199	-	-	199
Increase/(decrease) in provision	(2,790)	(375)	(886)	(4,051)
Transfers:				
- To stage 1	15	(14)	(1)	-
- To stage 2	(781)	813	(32)	-
- To stage 3	(664)	(251)	915	-
At 31 March 2021	525	932	1,561	3,018

Company

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	POCI £'000	Total £'000
At 1 April 2019	-	-	-	-	-
Originations/transfers to Company (stage at time of transfer)	258	14	-	29	301
At 31 March 2020	258	14	-	29	301
Net transfers to/(from) Company (stage at time of transfer)	150	171	378	(29)	670
Increase/(decrease) in provision	(140)	31	(3)	-	(112)
Transfers:					
- To stage 2	(33)	33	-	-	-
- To stage 3	(33)	(14)	47	-	-
At 31 March 2021	202	235	422	-	859

18. Hedge accounting

Hedge accounting was adopted by the group from 1 April 2020 onwards. There was no hedge accounting in the prior year.

The table below analyses the Group's fair value hedge accounting for fixed rate loans and advances to customers:

Group	Carrying amount of hedged items Assets £'000	Accumulated amount of fair value adjustments on hedged items Assets £'000
2021		
Portfolio fair value hedges		
Fixed rate mortgage loans	2,929,561	11,419

The cumulative fair value adjustments of the hedging instruments comprise £17,376,000 (2020: nil) which are recognised within derivative liabilities.

The below table sets out the outcome of the Group's hedging strategy, in particular to changes in the fair value of the hedged items and hedging instruments in the current year since the inception of hedge accounting from 1 April 2020, used as a basis for recognising ineffectiveness:

Group:

Group	**Hedging instrument**	**Gains/(losses) attributable to hedged risk Hedged items £'000**	**Gains/(losses) attributable to hedged risk Hedging instruments £'000**	**Hedge ineffectiveness £'000**
2021				
Portfolio fair value hedges				
Fixed rate mortgage loans	Interest rate swaps	(9,552)	17,376	7,824

The impact of IBOR reform on hedge accounting is explained in note 2.2.

19. Financial investments

Company	**2021 £'000**	2020 £'000
Gemgarto 2018-1 plc	1,794	-
Finsbury Square 2018-2 plc	13,067	-
Finsbury Square 2019-1 plc	14,475	-
Finsbury Square 2019-2 plc	14,232	-
Finsbury Square 2019-3 plc	10,495	-
Finsbury Square 2020-1 Plc	23,885	-
	77,948	-

On 1 April 2020, the Company acquired notes and deferred consideration certificates in residential mortgage backed securitisations from Koala Warehouse Limited, a fellow Koala (Cayman) Group company.

20. Leases

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

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

Leasing amounts recognised in the consolidated statement of comprehensive income

Group	**2021 £'000**	2020 £'000
Interest expense	(14)	-
Depreciation and impairment of right of use assets	(131)	-
	(145)	-

Leasing amounts recognised in the consolidated statement of financial position

Group	**2021 £'000**	2020 £'000
Right of use assets (note 22)	1,447	-
Lease liabilities (note 26)	(1,315)	-
	132	-

Carrying amounts of lease liabilities and the movements during the year:

Group	**2021 £'000**	**2020 £'000**
As at 1 April	-	-
Additions	1,578	-
Accretion of interest	14	-
Payments	(277)	-
As at 31 March	1,315	-

Leasing commitments

Future undiscounted minimum payments under lease liabilities were as follows:

Group	**2021 £'000**	2020 £'000
Amounts falling due:		
Within one year	555	-
Between one and two years	555	-
Between two and three years	277	-
	1,387	-

21. Other assets

	Group 2021 £'000	Group 2020 £'000	**Company 2021 £'000**	Company 2020 £'000
Amounts due from Koala (Cayman) Group companies	5,863	47,165	170,859	71,168
Other assets	1,153	1,927	25	-
Fee debtor	1,162	2,076	-	-
Prepayments and accrued income	6,032	7,668	-	-
Fair value of loan commitments	-	1,855	-	-
	14,210	60,691	170,884	71,168

22. Tangible assets

Group

	Computer equipment, software and systems £'000	Furniture, fixtures and office equipment £'000	Leasehold Improvements £'000	Right of use assets £'000	Total £'000
Cost					
At 1 April 2019	-	-	-	-	-
Acquisition of entity under common control	1,335	153	1,610	-	3,098
Transfers from assets under development within intangible assets	224	-	-	-	224
At 31 March 2020	1,559	153	1,610	-	3,322
Additions	-	-	-	1,578	1,578
Disposals	(44)	(37)	(1,289)	-	(1,370)
Transfers from assets under development within intangible assets	291	-	19	-	310
At 31 March 2021	1,806	116	340	1,578	3,840
Accumulated depreciation and impairment:					
At 1 April 2019	-	-	-	-	-
Acquisition of entity under common control	466	31	223	-	720
Charge for the year	27	2	13	-	42
At 31 March 2020	493	33	236	-	762
Charge for the year	522	31	192	131	876
Disposals	(33)	(17)	(412)	-	(462)
At 31 March 2021	982	47	16	131	1,176
Net carrying value					
At 31 March 2020	1,066	120	1,374	-	2,560
At 31 March 2021	824	69	324	1,447	2,664

23. Intangible assets

Group

	Assets under development £'000	Software £'000	Goodwill £'000	Total £'000
Cost				
At 1 April 2019	-	-	-	-
Acquisition of entity under common control	4,570	5,211	11,956	21,737
Additions	1,536	-	-	1,536
Transfers from assets under development and tangible assets	(918)	694	-	(224)
At 31 March 2020	5,188	5,905	11,956	23,049
Additions	6,811	-	-	6,811
Disposals	-	(711)	-	(711)
Transfers from assets under development and tangible assets	(7,769)	7,459	-	(310)
At 31 March 2021	4,230	12,653	11,956	28,839
Accumulated depreciation and impairment:				
At 1 April 2019	-	-	-	-
Acquisition of entity under common control	-	1,372	-	1,372
Charge for the year	-	79	-	79
At 31 March 2020	-	1,451	-	1,451
Charge for the year	-	2,101	-	2,101
Disposals	-	(410)	-	(410)
At 31 March 2021	-	3,142	-	3,142
Net carrying value				
At 31 March 2020	5,188	4,454	11,956	21,598
At 31 March 2021	4,230	9,511	11,956	25,697

Impairment testing of goodwill

In June 2015, the Group completed the acquisition of 100% of the share capital of Acenden Limited and all of its subsidiaries: New Street Mortgages (Ireland) Limited, New Street Mortgages Limited, and Cell A52 Harlequin Insurance PCC Limited, from Storm Funding Limited. Goodwill was recognised on acquisition of £11,956,000.

Prior to 1 April 2019, the majority of the trade and assets of these businesses had been transferred to KMC, a member of the wider Koala (Cayman) Group but not, at that time, a member of the Group. On 27 February 2020, the remaining parts of these businesses and the related corporate entities were sold to Koala (Cayman) Limited, as part of the Elevate Bidco disposal. On 12 March 2020, substantially all of the revenue generating activities of these businesses were re-acquired by the Group as part of the acquisition of KMC, along with the associated goodwill of £11,956,000.

The goodwill has been assessed for impairment as at 31 March 2021. The external mortgage administration business of the Group is a Cash Generating Unit ("CGU") and, following the corporate simplification exercise undertaken in the year, is all held within the Group.

The valuation methodology used considers the expected profit run rate after 5 years when the business is thought to be at scale. The discount rate used to discount the future cash flows of the CGU is 13% being the intercompany lending rate (10%) with an additional factor to take into consideration the risk around future growth assumptions made on the mortgage asset book. The value in use calculated is greater than the carrying value of goodwill and no impairment has been recognised for the year ended 31 March 2021.

24. Investments in subsidiaries

Company	**2021** **£**	2020 £
Kensington Mortgage Company Limited	105,000,000	105,000,000
Kensington Mortgage Services Limited	1,100,000	-
	106,100,000	105,000,000

	2021 **£**	2020 £
Opening balance	105,000,000	1
Acquisitions	1,100,000	105,000,000
Disposals	-	(1)
Closing balance	106,100,000	105,000,000

On 27 February 2020, the Company disposed of its investment in Elevate Bidco Limited to Koala (Cayman) Limited for consideration of £107 settled in the form of an intercompany receivable from Koala (Cayman) Limited.

On 12 March 2020, the Company acquired 100% of the issued capital of KMC from a fellow Group subsidiary, The Northview Group Limited for deemed consideration of £105m, by issuing 1 new share of £1 and share premium of £1m to its parent company Koala (Cayman) Limited and receiving a capital contribution of £104m.

On 21 October 2020, a new entity, Kensington Mortgage Services Limited, was incorporated which is 100% owned by the Company.

On 25 March 2021, the company acquired 100% of the shares in Cell A52 of Harlequin Insurance PCC Limited, a fellow Koala (Cayman) Group company incorporated and registered in Guernsey for consideration of £1.1m.

25. Loans and borrowings

	Group 2021 £'000	Group 2020 £'000	**Company 2021 £'000**	Company 2020 £'000
Mortgage backed loan notes	3,098,963	-	-	-
Loans from banks	436,526	309,189	-	-
Deemed loans from SPVs	-	-	1,451,996	310,050
Amounts due to Koala (Cayman) Group companies	337,460	116,671	197,870	82,663
	3,872,949	425,860	1,649,866	392,713

The mortgage backed loan notes are secured over a portfolio of mortgage assets secured by first and second charges over residential properties in the United Kingdom. The liabilities arising on securitisation of other assets have a contractual maturity date between 2065 and 2070 and a range of interest rates from 0.59% to 5.50% above SONIA.

The bank loans are secured over a portfolio of mortgage assets secured by first and second charges over residential properties in the United Kingdom. The Group's warehouse funding facility has an overall capacity of £1,300,000,000 maturing in 2023 and accrue interest at SONIA +1.09% (2020: +1.08%).

As a consequence of the transfer of beneficial ownership of mortgages not qualifying for derecognition, the Company's beneficial interest in the mortgage assets has continued to be recognised with funding treated as deemed loans from Sloane Square and the SPVs respectively.

The Group has an interest bearing loan payable to Kayl Holdco S.à r.l. of £339,999,000 (2020: £81,620,000), including accrued interest at 4.00% and with a maturity of 2050. Other amounts due to fellow Koala (Cayman) Group companies are interest free and repayable on demand.

26. Other liabilities and provisions

	Group 2021 £'000	Group 2020 £'000	**Company 2021 £'000**	Company 2020 £'000
Lease liabilities (note 20)	1,315	-	-	-
Other creditors and accruals	7,052	9,694	104	20
Staff creditors	10,628	8,846	-	-
Unallocated cash	526	1,685	-	-
Fair value of loan commitments	2,091	-	1,990	-
Provisions	2,270	892	-	-
	23,882	21,117	2,094	20

Unallocated cash represents amounts received by the Koala (Cayman) Group, but which could not be linked to a mortgage account. Where the source of the money can be identified, it is returned. Where the source cannot be identified, the money is held separately and may be identified by subsequent information or customer enquiries. Sums that remain unidentified for a number of years may be used for charitable donations.

Provisions

Group

	PPI £'000	**Delayed interest rate reductions £'000**	**Other conduct provisions £'000**	**Total £'000**
Balance at 1 April 2019	-	-	37	37
Disposal of entity under common control	-	-	(37)	(37)
Acquisition of entity under common control	116	-	776	892
Balance at 31 March 2020	116	-	776	892
Charged/(credited) to statement of comprehensive income	184	1,095	614	1,893
Utilised	-	-	(515)	(515)
Balance at 31 March 2021	300	1,095	875	2,270

PPI

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

Delayed interest rate reductions

Due to the limitations of the servicing system, certain reductions in interest rate for one of the Company's serviced portfolios could not be passed on to customers immediately. Management have concluded that it is unlikely that cost of refunds and corrections to customers' accounts will be recoverable by the Group and therefore a provision for the expected cost has been recognised. The functionality of the system has recently been enhanced and it is expected that these corrections will be processed in the coming months.

Other conduct provisions

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

None of the provisions are held directly by the Company.

27. Issued share capital, share premium and capital contribution

The Company has issued share capital of 2 ordinary shares with nominal value, fully paid up, of £1.00. This rounds down to zero and has been shown as such in these consolidated financial statements.

On 12 March 2020, share capital of £1.00 was issued to the parent company, Koala (Cayman) Limited. The proceeds received from the issue of share capital of £1,000,000 comprising £1 of issued capital and £1,000,000 allocated to the share premium reserve. These were used to acquire the issued share capital of Kensington Mortgage Company Limited as part of a Group re-organisation.

The balance of the fair value of the acquired company of £105,000,000 was recognised as a capital contribution of £104,000,000.

On 1 April 2020, the Company received equity funding from Koala (Cayman) Limited in the form of a capital contribution of £69.1m, funded by intercompany loan, and acquired notes and deferred consideration certificates in eight residential mortgage backed securitisations from Koala Warehouse Limited for consideration of £69.1m.

No dividends were proposed or paid by the Group during the year (2020: £nil).

28. Risk management

Financial risk management objectives and policies

The Group's principal financial liabilities, other than derivatives, comprise loans and borrowings and trade and other payables. The main purpose of these liabilities is to finance the Group's operations. The Group's principal financial assets include mortgage assets, trade and other receivables, and cash and short-term deposits that derive directly from its operations.

The Group uses derivative financial instruments to manage its financial risks. Derivative financial instruments (derivatives) are financial instruments whose value changes in response to changes in underlying variables such as interest rates. The most common derivatives are futures, forwards and swaps. Derivatives are used by the Group solely to reduce the risk of loss arising from changes in market rates. Derivatives are not used for speculative purposes.

Types of derivatives and uses

The derivative instruments used by the Group in managing its risk exposures are foreign currency forwards, interest rate swaps and futures.

Interest rate swaps convert fixed interest rates to floating and vice versa. As with other derivatives, the underlying product is not sold and payments are based on notional principal amounts.

The Group uses interest rate swaps to convert its instruments such as mortgages from fixed rates to LIBOR or SONIA linked variable rates. This ensures a guaranteed margin between the interest income and interest expense, regardless of changes in the market rates.

The Group uses futures to manage changes in interest rates during the period between a loan offer being made and the loan originated. To reduce the risk of volatility on futures MTM and cash settlements, the Group has adopted loan commitment accounting, which measures these loan commitments at fair value through profit of loss. At the time the offer converts into a live loan, the amount is recognised as an adjustment to the initial carrying value of the loan and therefore amortised over the life of the loan. This policy was adopted from 1 January 2020 in the Group financial statements and from 1 April 2020 in the Company financial statements.

Types of risk

The Group is exposed to credit risk, liquidity risk, interest rate risk, market risk, operational risk, conduct risk and foreign currency risk. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below:

Credit risk

Credit risk is the risk that borrowers of the mortgages will not be able to meet their obligations as they fall due. All mortgage assets originated by the Group are required to adhere to specific lending criteria. The ongoing credit risk of the mortgage portfolio (and particularly in respect of accounts in arrears) is closely monitored through an assessment of each customer and the prevailing macroeconomic environment. Probability of default of the customer and the loss given default is calculated and impairment provisions raised where necessary.

Receivables from fellow Koala (Cayman) Group companies have been assessed and are believed to be fully recoverable and therefore credit risk is minimal.

Performance and level of arrears continue to be closely monitored and any relevant corrective action is taken as appropriate. Arrears management and recovery processes have continued with the aim of maximising customer rehabilitation.

The directors continue to closely monitor the economic landscape to ensure the Group is best placed to respond to any pressures that may impact portfolio performance and proactively consider strategies to mitigate any adverse portfolio impact should these pressures occur.

Credit quality of the mortgages is assessed by an extensive assessment of each customer and the prevailing macroeconomic environment. Probability of default of the customer and the loss given default is calculated and impairment provisions raised where necessary.

All loans and advances are categorised as either 'stage 1', 'stage 2' or 'stage 3'.

Before taking account of any collateral, the maximum exposure to credit risk at year end was:

Group

	2021	2020
	£'000	£'000
Loans and advances to customers	3,657,341	316,601
Amounts due from Koala (Cayman) Group companies	5,863	47,165
Cash at bank	199,083	95,204
Derivative financial instruments	4,377	-
Other financial assets	82,860	-
	3,949,524	458,970

Company

	2021	2020
	£'000	£'000
Loans and advances to customers	1,478,396	311,859
Amounts due from Koala (Cayman) Group companies	170,859	71,168
Cash at bank	29,089	9,650
Derivative financial instruments	2,572	-
	1,680,916	392,677

The Group holds first and second charges over UK properties with an estimated valuation of £5,761,617,000 (2020: £448,251,000) equating to a weighted average loan to value ratio of 66.84% (2020: 74.03%).

A loan is considered past due when the borrower has failed to make a payment when due under the terms of the loan contract. As at 31 March, mortgage assets held consist of:

Group

	2021	2020
	£'000	£'000
Current	3,336,275	314,757
In arrears 0-60 days	224,660	1,216
In arrears 60-90 days	18,920	-
In arrears >90 days	76,908	628
In possession	578	-
	3,657,341	316,601

Company

	2021 £'000	2020 £'000
Current	1,405,026	310,042
In arrears 0-60 days	52,350	1,198
In arrears 60-90 days	4,177	-
In arrears >90 days	16,701	619
In possession	142	-
	1,478,396	311,859

Group

	2021 Gross carrying amount £'000	**2021 Capped collateral held £'000**	2020 Gross carrying amount £'000	2020 Capped collateral held £'000
Stage 1	3,363,531	3,363,531	310,923	310,923
Stage 2	195,719	195,719	4,953	4,953
Stage 3	98,091	98,091	725	725
	3,657,341	3,657,341	316,601	316,601

Company

	2021 Gross carrying amount £'000	**2021 Capped collateral held £'000**	2020 Gross carrying amount £'000	2020 Capped collateral held £'000
Stage 1	1,411,370	1,306,288	306,266	306,266
Stage 2	43,887	40,385	4,879	4,879
Stage 3	23,139	21,329	-	-
POCI	-	-	714	714
	1,478,396	1,368,002	311,859	311,859

Credit risk profile by internal PD grade for loans and advances to customers at amortised cost:

Group

2021

			Gross carrying amount		
	PD range %	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Credit quality description					
Very strong	0%-1%	2,676,588	225	-	2,676,813
Strong	1%-5%	550,577	4,983	-	555,560
Satisfactory	5%-10%	81,012	7,021	-	88,033
Higher risk	10%-99.9%	55,354	183,490	-	238,844
Credit impaired	100%	-	-	98,091	98,091
Total		3,363,531	195,719	98,091	3,657,341

	PD range %	Allowance for ECL Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Credit quality description					
Very strong	0%-1%	101	-	-	101
Strong	1%-5%	161	-	-	161
Satisfactory	5%-10%	87	1	-	88
Higher risk	10%-99.9%	176	931	-	1,107
Credit impaired	100%	-	-	1,561	1,561
Total		525	932	1,561	3,018

	PD range %	Net exposure £'000	ECL coverage %
Credit quality description			
Very strong	0%-1%	2,676,712	0.00
Strong	1%-5%	555,399	0.03
Satisfactory	5%-10%	87,945	0.10
Higher risk	10%-99.9%	237,737	0.46
Credit impaired	100%	96,530	1.59
Total		3,654,323	0.08

2020

	PD range %	Gross carrying amount Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Credit quality description					
Very strong	0%-1%	200,949	151	-	201,100
Strong	1%-5%	86,642	1,600	-	88,242
Satisfactory	5%-10%	18,429	225	-	18,654
Higher risk	10%-99.9%	4,903	2,977	-	7,880
Credit impaired	100%	-	-	725	725
Total		310,923	4,953	725	316,601

	PD range %	Allowance for ECL Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Credit quality description					
Very strong	0%-1%	34	-	-	34
Strong	1%-5%	108	-	-	108
Satisfactory	5%-10%	61	-	-	61
Higher risk	10%-99.9%	55	14	-	69
Credit impaired	100%	-	-	29	29
Total		258	14	29	301

	PD range %	Net exposure £'000	ECL coverage %
Credit quality description			
Very strong	0%-1%	201,066	0.02
Strong	1%-5%	88,134	0.12
Satisfactory	5%-10%	18,593	0.33
Higher risk	10%-99.9%	7,811	0.88
Credit impaired	100%	696	4.00
Total		316,300	0.10

Company

2021

	PD range	Gross carrying amount			
		Stage 1	Stage 2	Stage 3	Total
	%	£'000	£'000	£'000	£'000
Credit quality description					
Very strong	0%-1%	1,123,415	-	-	1,123,415
Strong	1%-5%	240,297	729	-	241,026
Satisfactory	5%-10%	32,107	962	-	33,069
Higher risk	10%-99.9%	15,551	42,196	-	57,747
Credit impaired	100%	-	-	23,139	23,139
Total		1,411,370	43,887	23,139	1,478,396

	PD range	Allowance for ECL			
		Stage 1	Stage 2	Stage 3	Total
	%	£'000	£'000	£'000	£'000
Credit quality description					
Very strong	0%-1%	37	-	-	37
Strong	1%-5%	93	-	-	93
Satisfactory	5%-10%	31	-	-	31
Higher risk	10%-99.9%	41	235	-	276
Credit impaired	100%	-	-	422	422
Total		202	235	422	859

	PD range	Net exposure	ECL coverage
	%	£'000	%
Credit quality description			
Very strong	0%-1%	1,123,378	0.00
Strong	1%-5%	240,933	0.04
Satisfactory	5%-10%	33,038	0.09
Higher risk	10%-99.9%	57,471	0.48
Credit impaired	100%	22,717	1.82
Total		1,477,537	0.06

2020

	PD range	Gross carrying amount			
		Stage 1	Stage 2	POCI	Total
	%	£'000	£'000	£'000	£'000
Credit quality description					
Very strong	0%-1%	197,938	149	-	198,087
Strong	1%-5%	85,345	1,576	-	86,921
Satisfactory	5%-10%	18,153	222	-	18,375
Higher risk	10%-99.9%	4,830	2,932	-	7,762
Credit impaired	100%	-	-	714	714
Total		306,266	4,879	714	311,859

	PD range	Allowance for ECL			
		Stage 1	Stage 2	POCI	Total
	%	£'000	£'000	£'000	£'000
Credit quality description					
Very strong	0%-1%	34	-	-	34
Strong	1%-5%	108	-	-	108
Satisfactory	5%-10%	61	-	-	61
Higher risk	10%-99.9%	55	14	-	69
Credit impaired	100%	-	-	29	29
Total		258	14	29	301

	PD range %	Net exposure £'000	ECL coverage %
Credit quality description			
Very strong	0%-1%	198,053	0.02
Strong	1%-5%	86,813	0.12
Satisfactory	5%-10%	18,314	0.33
Higher risk	10%-99.9%	7,693	0.89
Credit impaired	100%	685	4.06
Total		311,558	0.10

As at 31 March, the ageing analysis of loans and advances to customers is as follows:

Group

		2021	
	Buy to let £'000	Residential £'000	Total £'000
Stage 1			
Not past due	972,112	2,293,455	3,265,567
Past due < 1 month	14,101	83,863	97,964
	986,213	2,377,318	3,363,531
Stage 2			
Not past due	8,496	58,047	66,543
Past due < 1 month	11,812	74,046	85,858
Past due 1 to 3 months	6,838	36,480	43,318
	27,146	168,573	195,719
Stage 3			
Not past due	1,449	2,716	4,165
Past due < 1 month	1,212	2,997	4,209
Past due 1 to 3 months	824	11,406	12,230
Past due 3 to 6 months	4,233	34,295	38,528
Past due 6 to 12 months	3,590	22,135	25,725
Past due over 12 months	1,631	11,025	12,656
Possessions	-	578	578
	12,939	85,152	98,091
Total	1,026,298	2,631,043	3,657,341

		2020	
	Buy to let £'000	Residential £'000	Total £'000
Stage 1			
Not past due	103,826	206,379	310,205
Past due < 1 month	-	718	718
	103,826	207,097	310,923
Stage 2			
Not past due	-	4,552	4,552
Past due < 1 month	-	212	212
Past due 1 to 3 months	-	189	189
	-	4,953	4,953
Stage 3			
Past due < 1 month	96	-	96
Past due 3 to 6 months	-	482	482
Past due 6 to 12 months	-	147	147
	96	629	725
Total	103,922	212,679	316,601

Company

	2021		
	Buy to let £'000	**Residential £'000**	**Total £'000**
Stage 1			
Not past due	380,484	1,010,195	1,390,679
Past due < 1 month	4,952	15,739	20,691
	385,436	1,025,934	1,411,370
Stage 2			
Not past due	625	7,426	8,051
Past due < 1 month	4,984	20,301	25,285
Past due 1 to 3 months	1,669	8,882	10,551
	7,278	36,609	43,887
Stage 3			
Not past due	295	689	984
Past due < 1 month	223	454	677
Past due 1 to 3 months	246	2,579	2,825
Past due 3 to 6 months	1,355	9,007	10,362
Past due 6 to 12 months	806	5,227	6,033
Past due over 12 months	77	2,039	2,116
Possessions	-	142	142
	3,002	20,137	23,139
Total	395,716	1,082,680	1,478,396

	2020		
	Buy to let £'000	**Residential £'000**	**Total £'000**
Stage 1			
Not past due	102,271	203,288	305,559
Past due < 1 month	-	707	707
	102,271	203,995	306,266
Stage 2			
Not past due	-	4,484	4,484
Past due < 1 month	-	208	208
Past due 1 to 3 months	-	187	187
	-	4,879	4,879
POCI			
Past due < 1 month	95	-	95
Past due 3 to 6 months	-	475	475
Past due 6 to 12 months	-	144	144
	95	619	714
Total	102,366	209,493	311,859

The mortgage assets have the following loan to value ("LTV") profile based on indexed valuations of the underlying properties, giving an indication of their credit quality:

LTV analysis by band for all loans:

Group

2021	**Buy to let £'000**	**Residential £'000**	**Total £'000**	**%**
0%-60%	208,999	610,368	819,367	22.41
61%-80%	814,164	1,620,054	2,434,218	66.55
81%-90%	3,135	399,363	402,498	11.01
>90%	-	1,258	1,258	0.03
Total	1,026,298	2,631,043	3,657,341	100.00

2020	**Buy to let £'000**	**Residential £'000**	**Total £'000**	**%**
0%-60%	10,435	51,460	61,895	19.54
61%-80%	87,672	88,187	175,859	55.56
81%-90%	5,815	65,236	71,051	22.44
>90%	-	7,796	7,796	2.46
Total	103,922	212,679	316,601	100.00

Company

2021	**Buy to let £'000**	**Residential £'000**	**Total £'000**	**%**
0%-60%	76,011	210,789	286,800	19.40
61%-80%	319,104	699,086	1,018,190	68.87
81%-90%	601	172,686	173,287	11.72
>90%	-	119	119	0.01
Total	395,716	1,082,680	1,478,396	100.00

2020	**Buy to let £'000**	**Residential £'000**	**Total £'000**	**%**
0%-60%	10,212	50,690	60,902	19.53
61%-80%	86,426	86,866	173,292	55.57
81%-90%	5,728	63,694	69,422	22.26
>90%	-	8,243	8,243	2.64
Total	102,366	209,493	311,859	100.00

Geographic analysis by region

Group

Region	**2021 £'000**	**2021 %**	2020 £'000	2020 %
London	639,364	17.50	66,434	20.99
Rest of England	2,748,377	75.14	230,557	72.82
Northern Ireland	130	0.00	-	0.00
Scotland	109,115	2.98	8,424	2.66
Wales	160,355	4.38	11,186	3.53
Total	3,657,341	100.00	316,601	100.00

Company

Region	**2021 £'000**	**2021 %**	2020 £'000	2020 %
London	254,179	17.19	65,441	20.98
Rest of England	1,121,558	75.87	227,102	72.83
Northern Ireland	132	0.01	-	-
Scotland	39,082	2.64	8,297	2.66
Wales	63,445	4.29	11,019	3.53
Total	1,478,396	100.00	311,859	100.00

Forbearance measures undertaken

Group

	2021 Number of accounts	**At 31 March 2021 £'000**	2020 Number of accounts	At 31 March 2020 £'000
Forbearance type				
Capitalisation	1	64	17	2,810
Interest only switch	-	-	4	566
Payment holiday	372	67,796	420	84,051
Term extension	14	2,871	-	-
None	21,549	3,586,610	1,377	229,174
Total	21,936	3,657,341	1,818	316,601

Company

	2021 Number of accounts	**At 31 March 2021 £'000**	2020 Number of accounts	At 31 March 2020 £'000
Forbearance type				
Capitalisation	1	64	17	2,768
Interest only switch	-	-	4	558
Payment holiday	136	25,051	420	82,792
Term extension	4	1,181	-	-
None	8,351	1,452,100	1,377	225,741
Total	8,492	1,478,396	1,818	311,859

Group

	2021 Number of accounts	**At 31 March 2021 £'000**	2020 Number of accounts	At 31 March 2020 £'000
Loan type				
First charge owner occupier	15,352	2,631,043	1,237	212,679
Buy to let	6,584	1,026,298	581	103,922
Total	21,936	3,657,341	1,818	316,601

Company

	2021 Number of accounts	**At 31 March 2021 £'000**	2020 Number of accounts	At 31 March 2020 £'000
Loan type				
First charge owner occupier	6,095	1,082,680	1,237	209,493
Buy to let	2,397	395,716	581	102,366
Total	8,492	1,478,396	1,818	311,859

Liquidity risk

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

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

The table below has been prepared based on expected cash flows for liabilities that are dependent on mortgage asset cash flows:

Group

	< 1 mth £'000	1-3 mths £'000	3-12 mths £'000	1-5 yrs £'000	5+ yrs £'000	Total £'000
2021						
Loans and borrowings	407	689,128	1,180,160	1,965,004	337,460	4,172,159
Derivative financial instruments	-	2,883	6,645	10,564	-	20,092
Other liabilities and provisions	1,028	11,829	10,264	832	-	23,953
	1,435	703,840	1,197,069	1,976,400	337,460	4,216,204

	< 1 mth £'000	1-3 mths £'000	3-12 mths £'000	1-5 yrs £'000	5+ yrs £'000	Total £'000
2020						
Loans and borrowings	328	667	304,413	4,985	116,671	427,064
Derivative financial instruments	1	509	949	-	-	1,459
Other liabilities and provisions	937	7,909	12,271	-	-	21,117
	1,266	9,085	317,633	4,985	116,671	449,640

Company

	< 1 mth £'000	1-3 mths £'000	3-12 mths £'000	1-5 yrs £'000	5+ yrs £'000	Total £'000
2021						
Loans and borrowings	-	-	-	-	1,647,990	1,647,990
Other liabilities and provisions	-	1,990	104	-	-	2,094
	-	1,990	104	-	1,647,990	1,650,084

	< 1 mth £'000	1-3 mths £'000	3-12 mths £'000	1-5 yrs £'000	5+ yrs £'000	Total £'000
2020						
Loans and borrowings	1,438	5,472	18,301	196,266	159,502	380,979
Other liabilities and provisions	-	-	20	-	-	20
	1,438	5,472	18,321	196,266	159,502	380,999

The Group's policy is to manage liquidity risk by matching cash payments due on the interest bearing borrowings to cash receipts from the mortgage assets. The method of estimation of the cash flows had been refined in the prior year using a combination of macro environmental factors including market observable data and individual borrower data resulting in a more accurate reflection of the estimated cash flows used for computing liquidity. However, it is not expected that the mortgage assets will repay at a constant rate until maturity, that all of the loans will pre-pay at the same rate or that there will be no defaults or delinquencies on the loans, therefore the amounts disclosed above are only estimates of the possible future cash outflows on the loan notes.

In addition, the Group holds a minimum cash balance to manage short-term liquidity requirements which can be used in certain circumstances. The Group's funding model is currently reliant on the Capital Markets and any dislocation in this area impacts directly both the ability to fund new originations and the cost of funding. Liquidity in the Capital Markets is therefore monitored closely within the Group to pro-actively deal with any changes to the underlying environment.

Interest rate risk

The table below sets out the impact of a 25bps increase in interest rates. This benchmark is intended to reflect potential changes to UK interest rates.

The impact for loans and advances to customers shows the estimated increase in income over 1 year for those loans with variable interest rates. The impact for loans and borrowings shows the estimated increase in interest rate expense over 1 year. The impact for derivatives shows the estimated change in fair value of derivatives.

The Group uses derivatives for management of financial risks relating to its asset and liability portfolios.

Group

	Change in basis points	Effect on equity £'000	Effect on profit before tax £'000
2021			
Loans and advances to customers	25	1,789	1,789
Fair value adjustment on hedged assets	25	(12,893)	(12,893)
Loans and borrowings	25	(9,682)	(9,682)
Derivatives	25	16,314	16,314
		(4,472)	(4,472)
2020			
Loans and advances to customers	25	75	75
Loans and borrowings	25	(1,065)	(1,065)
Derivatives	25	103	103
		(887)	(887)

Company

	Change in basis points	Effect on equity £'000	Effect on profit before tax £'000
2021			
Loans and advances to customers	25	260	260
Loans and borrowings	25	(4,125)	(4,125)
Derivatives	25	3,421	3,421
		(444)	(444)
2020			
Loans and advances to customers	25	75	75
Loans and borrowings	25	(982)	(982)
Derivatives	25	103	103
		(804)	(804)

The Group has exposure to interest rates based on LIBOR and SONIA reference rates. On the assets side, all mortgages that have reached the end of their initial fixed interest rate period are linked to LIBOR. A program to transfer all mortgages to a SONIA based reference rate in the latter part of 2021 is in progress. The necessary adjustments to customer contracts will be based on the rate adjustments published by ISDA, following the FCA's announcement regarding the cessation of LIBOR as a reliable benchmark.

The majority of the Group's funding is based on SONIA and the remaining LIBOR-based loan notes with a carrying value of £909,981,000 at 31 March 2021 are expected to be repaid by the end of 2021, as the related securitisations are called and unwound. As a precaution, should this not occur, the step up reference rates for these securitisations have now been amended to use SONIA as a reference rate.

The interest rate risk associated with the initial fixed rate period of the mortgage portfolio is now entirely designated as being with reference to SONIA for the purposes of fair value hedge accounting.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.

Financial instruments affected by market risk include loans receivable from and payable to fellow Koala (Cayman) Group companies, cash, other assets and derivative financial instruments. The Group maintains a policy on market risk and any items where there could be risk are hedged accordingly.

Operational risk

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

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

Operational risk is currently heightened by the impact of COVID-19 which has driven working from home and changes in processes to meet new regulatory requirements, including the provision of payment holidays. However, the nature of the risks to which the Group is exposed remain similar to those when all staff were working from the office locations prior to COVID-19. Additional focus has been required on the controls appropriate for the altered working environment caused by COVID-19. The technology solutions required for all staff to function from home continue to be reviewed with additional controls implemented and guidance provided to staff with regard to the technology. The focus on the technology and working environment will continue as the Group responds to the adjusted way of working during the remainder of the COVID-19 situation and afterwards.

The customer response to COVID-19 has driven more interaction with the Group, whether implementing full payment holidays or other measures as customers respond to the impact of COVID-19 on their financial situation. The Group has undertaken a variety of activity to support consistent implementation of payment holidays and to manage the customer experience as they end their payment holiday. Monitoring of customer service quality has been maintained to mitigate the operational risks associated with the increased customer interaction and new processes related to payment holidays.

Conduct risk

Conduct risk is the risk of not delivering fair customer outcomes. The Group will be exposed to the financial costs and regulatory consequences of the need to take action to remedy any customer detriment arising from failures in areas such as designing products to meet customer needs, ensuring products are clearly and fairly described and are administered and perform in line with the way they have been marketed and sold to customers. Conduct risk is managed in line with the overall risk management framework as described in the operational risk section above. The impact of COVID-19 has increased the risk associated with treating customers fairly. The management of conduct risk has been factored into processes developed for supporting customers impacted by COVID-19. This has included taking account of regulatory guidance relating to the provision of payment holidays and the suspension of repossession activity. Proactive conversations with the regulator, making sure policies are aligned to supervisory guidelines, on-going monitoring and deep dive reviews as required, support mitigation of this heightened risk.

29. Fair value of financial assets and financial liabilities

Group

	Book value 2021 £'000	**Fair Value 2021 £'000**	Book value 2020 £'000	Fair Value 2020 £'000
Financial assets				
Cash at bank	199,083	199,083	95,204	95,204
Derivative financial instruments	4,377	4,377	-	-
Other financial assets	82,860	82,860	-	-
Loans and advances to customers	3,654,323	3,706,829	316,300	316,300
Fair value adjustment on hedged assets	11,419	11,419	-	-
Other assets	14,210	14,210	60,691	60,691
	3,966,272	4,018,778	472,195	472,195
Financial liabilities				
Loans and borrowings	3,872,949	3,874,882	425,860	425,860
Derivative financial instruments	20,092	20,092	1,459	1,459
Other liabilities and provisions	23,882	23,882	21,117	21,117
	3,916,923	3,918,856	448,436	448,436

Company

	Book value 2021 £'000	**Fair Value 2021 £'000**	Book value 2020 £'000	Fair Value 2020 £'000
Financial assets				
Cash at bank	29,089	29,089	9,650	9,650
Derivative financial instruments	2,572	2,572	-	-
Loans and advances to customers	1,477,537	1,502,040	311,558	311,558
Financial investments	77,948	77,948	-	-
Other assets	170,884	171,052	71,168	71,168
	1,758,030	1,782,701	392,376	392,376
Financial liabilities				
Loans and borrowings	1,649,866	1,672,405	392,713	392,713
Other liabilities and provisions	2,094	2,094	20	20
	1,651,960	1,674,499	392,733	392,733

Except for derivative financial instruments, financial investments and fair value adjustments on hedged assets, which are held at fair value, all other financial assets and liabilities are held at amortised cost. There were no transfers between categories in the current and prior year.

The directors have considered the fair values of the Group's and Company's main financial assets and liabilities, which are loans and advances to customers, mortgage backed loan notes and deferred consideration certificates.

The fair value of the mortgage backed loan notes held within loans and borrowings has been based upon their quoted prices, where available, or prices interpolated using latest available market data. The fair value of the loans and advances to customers has been based upon the fair value of the associated mortgage backed loan notes and expected residual cash flows. It is the opinion of the directors that this methodology is appropriate as the market is more liquid than in prior years.

The fair value of deferred consideration certificates, held as financial investments by the Company, has been based upon a discounted cash flow model that considers the expected cash flows of the underlying mortgages and payment of related note liabilities and other SPV costs in accordance with the payment priority of the securitisations in order to determine expected cash flows of the certificates. These are then discounted at the estimated rate that the market rate would demand for such instruments.

The directors have assessed all other assets and liabilities and consider fair value not to be significantly different from book value, given the short term nature of these instruments.

30. Fair value hierarchy

The Group analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to the valuation technique used.

The different levels are identified as follows:

Level 1 – Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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

The Group uses industry standard derivative pricing models, including Black-Scholes, as the principal valuation technique at 31 March 2021 for determining the fair value of its derivative assets and liabilities that are classified within level 2 of the fair value hierarchy. The material inputs to this valuation technique includes the discount rate, risk free rate, volatilities, foreign exchange forward points and spot rates, interest rate swap curves and credit curves.

There have been no transfers between categories in either period.

Group

2021	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Cash at bank	-	199,083	-	199,083
Derivative financial instruments	-	4,377	-	4,377
Other financial assets	-	82,860	-	82,860
Loans and advances to customers	-	-	3,654,323	3,654,323
Fair value adjustment on hedged assets	-	-	11,419	11,419
Other assets	-	-	14,210	14,210
	-	286,320	3,679,952	3,966,272
Financial liabilities				
Loans and borrowings	-	3,098,963	773,986	3,872,949
Derivative financial instruments	-	20,092	-	20,092
Other liabilities and provisions	-	-	23,882	23,882
	-	3,119,055	797,868	3,916,923

2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Cash at bank	-	95,204	-	95,204
Loans and advances to customers	-	-	316,300	316,300
Other assets	-	-	60,691	60,691
	-	95,204	376,991	472,195
Financial liabilities				
Loans and borrowings	-	-	425,860	425,860
Derivative financial instruments	-	1,459	-	1,459
Other liabilities and provisions	-	-	21,117	21,117
	-	1,459	446,977	448,436

Company

2021	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Cash at bank	-	29,089	-	29,089
Derivative financial instruments	-	2,572	-	2,572
Loans and advances to customers	-	-	1,477,537	1,477,537
Financial investments	-	-	77,948	77,948
Other assets	-	-	170,884	170,884
	-	31,661	1,726,369	1,758,030
Financial liabilities				
Loans and borrowings	-	-	1,649,866	1,649,866
Other liabilities and provisions	-	-	2,094	2,094
	-	-	1,651,960	1,651,960

2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Cash at bank	-	9,650	-	9,650
Loans and advances to customers	-	-	311,558	311,558
Other assets	-	-	71,168	71,168
	-	9,650	382,726	392,376
Financial liabilities				
Loans and borrowings	-	-	392,713	392,713
Other liabilities and provisions	-	-	20	20
	-	-	392,733	392,733

31. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed based on expected repayment behaviour:

Group

2021	Within 12 months £'000	After 12 months £'000	Total £'000
Assets			
Cash at bank	199,083	-	199,083
Derivative financial instruments	1,002	3,375	4,377
Other financial assets	82,860	-	82,860
Loans and advances to customers	954,344	2,699,979	3,654,323
Fair value adjustment on hedged assets	1,286	10,133	11,419
Other assets	8,347	5,863	14,210
Tangible assets	-	2,664	2,664
Intangible assets and goodwill	-	25,697	25,697
Deferred tax assets	-	19,050	19,050
Total assets	1,246,922	2,766,761	4,013,683

	Within 12 months £'000	After 12 months £'000	Total £'000
Liabilities			
Loans and borrowings	-	3,872,949	3,872,949
Derivative financial instruments	9,528	10,564	20,092
Current tax liabilities	10,859	-	10,859
Deferred tax liabilities	-	2,169	2,169
Other liabilities and provisions	23,882	-	23,882
Total liabilities	44,269	3,885,682	3,929,951
Net assets/(liabilities)	1,202,653	(1,118,921)	83,732

2020	Within 12 months £'000	After 12 months £'000	Total £'000
Assets			
Cash at bank	95,204	-	95,204
Loans and advances to customers	8,770	307,530	316,300
Other assets	13,526	47,165	60,691
Tangible assets	-	2,560	2,560
Intangible assets and goodwill	-	21,598	21,598
Deferred tax assets	-	1,945	1,945
Total assets	117,500	380,798	498,298

	Within 12 months £'000	After 12 months £'000	Total £'000
Liabilities			
Loans and borrowings	-	425,860	425,860
Derivative financial instruments	1,459	-	1,459
Current tax liabilities	1,169	-	1,169
Deferred tax liabilities	-	884	884
Other liabilities and provisions	21,117	-	21,117
Total liabilities	23,745	426,744	450,489
Net assets/(liabilities)	93,755	(45,946)	47,809

Company

2021	Within 12 months £'000	After 12 months £'000	Total £'000
Assets			
Cash at bank	29,089	-	29,089
Derivative financial instruments	200	2,372	2,572
Loans and advances to customers	8,770	1,468,767	1,477,537
Financial investments	27,542	50,406	77,948
Other assets	25	170,859	170,884
Investments in subsidiaries	-	106,100	106,100
Total assets	65,626	1,798,504	1,864,130

	Within 12 months £'000	After 12 months £'000	Total £'000
Liabilities			
Loans and borrowings	-	1,649,866	1,649,866
Current tax liabilities	8,248	-	8,248
Other liabilities and provisions	2,094	-	2,094
Total liabilities	10,342	1,649,866	1,660,208
Net assets	55,284	148,638	203,922

2020	Within 12 months £'000	After 12 months £'000	Total £'000
Assets			
Cash at bank	9,650	-	9,650
Loans and advances to customers	8,770	302,788	311,558
Other assets	-	71,168	71,168
Investments in subsidiaries	-	105,000	105,000
Total assets	18,420	478,956	497,376

	Within 12 months £'000	After 12 months £'000	Total £'000
Liabilities			
Loans and borrowings	-	392,713	392,713
Other liabilities and provisions	20	-	20
Total liabilities	20	392,713	392,733
Net assets	18,400	86,243	104,643

32. Events after statement of financial position date

There are no significant events occurring after the statement of financial position date, up to the date of approval of the consolidated financial statements that would meet the criteria to be disclosed or adjusted in the consolidated financial statements as at 31 March 2021.

33. Commitments and contingent liabilities

The Group has no off-balance sheet contracted commitments, nor has it any other contingent liabilities at 31 March 2021 (31 March 2020: nil).

34. Related party disclosures

Note 4 provides information about the Group's structure, including details of the subsidiaries and the Company.

During the year the Group entered into transactions, in the ordinary course of business, with other related parties. Transactions between the Company and its subsidiaries are eliminated on consolidation and are not disclosed. Transactions entered into, and trading balances outstanding at 31 March 2021 with other related parties, are as follows:

	Amounts credited/ (expensed) 2021 £'000	Amounts owed by related parties 2021 £'000	Amounts owed to related parties 2021 £'000
Immediate parent company	-	3,846	-
Other Koala (Cayman) Group companies	(78,260)	838	(337,447)
Other entities not wholly owned by Koala (Cayman) Group	86,779	1,179	(13)
	8,519	5,863	(337,460)

	Amounts credited/ (expensed) 2020 £'000	Amounts owed by related parties 2020 £'000	Amounts owed to related parties 2020 £'000
Immediate parent company	(2,864)	107	-
Other Koala (Cayman) Group companies	571	44,383	(111,465)
Other entities not wholly owned by Koala (Cayman) Group	1,398	2,675	(5,206)
	(895)	47,165	(116,671)

The Group is responsible for providing mortgage servicing activities to third parties through its subsidiary company, Kensington Mortgage Company Limited ("KMC"). Outstanding balances with other Koala (Cayman) Group companies are unsecured and interest free except for loans payable to Koala (Cayman) Group companies as disclosed in note 25. The Company has not provided or benefited from any guarantees for any related party receivables or payables. During the year ended 31 March 2021, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2020: nil).

No dividends were proposed or paid by the Group during the year (2020: £nil).

Directors' interests

The directors' remuneration for the year was £2,413,000 (2020: £242,000). The remuneration paid to the highest paid director was £686,000 (2020: £61,000).

Entity contributions paid for the year to a pension scheme in respect of two (2020: two) directors' qualifying services was £64,000 (2020: £5,000). No entity contribution was paid in relation to the highest paid director (2020: nil).

Prior year figures reflect the period for which the directorship was held.

At year end there was an outstanding loan to a director of £37,000 (2020: £37,000). The loan incurs an annual rate of interest of 2.5% and is undated.

35. Parent undertaking and control

The Company's immediate and ultimate parent company is Koala (Cayman) Limited, a company incorporated in the Cayman Islands. Koala (Cayman) Limited is owned by funds managed by Blackstone Tactical Opportunities Advisors LLC and TPG Sixth Street Partners LLP.