

Company Registration No. 02042968 (England and Wales)

CAPITA MORTGAGE ADMINISTRATION LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

CAPITA MORTGAGE ADMINISTRATION LIMITED

COMPANY INFORMATION

Directors	A P Brown	
	T F Vanoverschelde	(Appointed 25 February 2019)
	E G Kelly	(Appointed 4 December 2019)
Secretary	Capita Group Secretary Limited	
Company number	02042968	
Registered office	30 Berners Street	
	London	
	England	
	W1T 3LR	
Auditor	KPMG LLP	
	15 Canada Square	
	London	
	E14 5GL	

CAPITA MORTGAGE ADMINISTRATION LIMITED

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CAPITA MORTGAGE ADMINISTRATION LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors present their strategic report and financial statements for the year ended 31 December 2019.

Review of the business

Capita Mortgage Administration Limited ("the Company") is a wholly owned subsidiary of Capita plc (indirectly held). Capita plc along with all its subsidiaries is hereafter referred to as "the Group". The Company operates within the Capita Specialist Services division of the Group.

The principal activity of the Company is the provision of third party mortgage administration and outsourcing services to clients within the regulated financial services sector. There have not been any significant changes in the Company's principal activities in the period under review. The Directors are not aware at the date of this report of any likely changes in the Company's activities in the next year.

As shown in the Company's income statement on page 10, revenue has decreased from £12,487k in 2018 to £10,624k in 2019. The operating loss of £5,573k in 2018 has decreased to a loss of £826k in 2019. During 2018, changes in IT systems costs and the wider Group client base triggered a full review of the contract lifetime and the Company's liabilities in contractual exit scenarios. As a result, an onerous contract provision charge of £4,745k was booked in 2018, this resulted in the higher loss in 2018 compared to 2019.

A contract variation agreement signed with client in April 2019 extended the original contract for 1 year, until February 2021. No further extension is anticipated. Onerous Contract Provision at 31st December 2018 was based on expected view at that time that contract and losses could be extended until December 2022 under the possible exit scenarios in the original contract, so assumed a best estimate of future losses for 4 years from that point. The signed variation agreement removed the exit scenarios and fixed the contract term to February 2021, which means that at 31st December 2019, the Onerous Contract Provision only needs to consider 14 months of future losses to February 2021, instead of 3 years to December 2022. On the other hand, the 31st December 2018 view assumed future margins on operational activity continuing at same level as 2018 under the original contract term. Operational activity however declined during 2019 which resulted in increased total annual losses compared to the view at 31st December 2018. As a result, the release of onerous contract provision in 2019 is driven by the net effect of the reduced future term and the revised annual loss view to match 2019 actual operation losses and the utilisation of the onerous contract provision in 2019 is driven by the utilisation of the provision against the actual loss in 2019. In July 2020, the client Lloyds Bank, advised its intention to exit its contract with the Company in November 2020 instead of February 2021. There is no material impact on Financial statements though as some activity is expected to continue until at least February 2021.

The Company adopted IFRS 16 Leases during the year which sets out the principles for the recognition, measurement, presentation and disclosure of leases. The Company has applied IFRS 16 using modified retrospective approach, the effect of which is explained in notes 9, 18, 19 & 20.

The balance sheet on page 11 of the financial statements shows the Company's financial position at the year end. Net assets have decreased from £12,930k in 2018 to £11,975k in 2019 which is mainly due to the loss incurred during the year. Details of amounts owed by/ to its parent company and fellow subsidiary undertakings are shown in notes 12 and 14 to the financial statements.

Key performance indicators used by Capita plc are operating margins, free cash flow and return on capital employed. Capita plc and its subsidiaries manage their operations on a divisional basis and as a consequence, some of these indicators are monitored only at a divisional level. The performance of the Capita Specialist Services division of Capita plc is discussed in the Group's annual report which does not form part of the report.

Capital adequacy

Capita Mortgage Administration Limited is authorised and regulated by the Financial Conduct Authority and is directly owned by Capita plc. The requirements of these regulations apply to Capita Mortgage Administration Limited only and it does not consolidate at a group level.

The Company has adequate capital resources and there are no foreseen events which may cause an adverse impact on capital requirement. Capital requirement calculation shown in table below:

CAPITA MORTGAGE ADMINISTRATION LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

MIPRU 4.2.19	£'000
Revenue from home finance administration	8,730
Minimum Capital Requirement, higher of: Minimum Capital Requirement	100
10% of annual income	873
Actual requirement	873
MIPRU 4.2.11	
Revenue from home finance mediation and insurance mediation	8,730
Minimum Capital Requirement, higher of: Minimum Capital Requirement	5
2.5% annual income	218
Actual requirement	218
Total actual capital requirement	1,091
Shareholder Funds	11,975
Less : Intangibles	-
Total new assets less intangibles (including goodwill)	11,975
Surplus	10,884
Coverage	11x

The company assess amount of Regulated Capital and Restricted Cash that it requires to hold on a quarterly basis. It does so by reviewing its forecast future cash flow along with current Restricted Cash balance to ensure it has sufficient capital for foreseeable trading period. The Company also assesses its capital requirements based on risks identified as part of the risk management processes detailed below. The management have assessed that there is minimal risk from any other source and no additional capital is required to cover any other risks.

The risks faced by the Company can be summarised as follows:

Strategic:

Changes in economic and market conditions such as contract pricing and competition.

Financial:

Significant failures in internal systems of control and lack of corporate stability.

Operational:

Including recruitment and retention of staff, maintenance of reputation and strong supplier and customer relationships, operational IT risk, and failures in information security controls.

Compliance:

Non-compliance with laws and regulations. The Company must comply with an extensive range of requirements that govern and regulate its business, and decisions by regulators can affect the Company's business and operations and these effects are often adverse.

CAPITA MORTGAGE ADMINISTRATION LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Credit and residual risk

Credit risk is not considered to be significant for the Company. Credit exposure is limited to routine working capital related balances primarily with its key commercial partner.

Market and securitisation risk

Capita Mortgage Administration Limited is not authorised to trade as principal and has no trading book. The Company has no Foreign Exchange risk. Securitisation risk is not applicable to the Company.

Liquidity risk

The Company has developed a Liquidity Management Framework to formalise the monitoring and control processes in place to ensure Capita Mortgage Administration Limited has sufficient liquid resources to meet its liabilities as they come due. This risk is therefore considered to be minimal.

Insurance risk

This is not applicable as the Company does not write insurance.

Interest rate risk

Capita Mortgage Administration Limited has no material exposure to interest rate risk.

Business risk

Business risk, or procyclicality (the risk of deterioration in business or economic conditions requiring a firm to raise capital), is not believed to be significant in Capita Mortgage Administration Limited due to the type of activities it is engaged in.

Concentration risk

The Company has a significant reliance on the Mortgage services contract with the Tesco Bank, with novation expected to Lloyds Banking Group. This contract has a current end date of February 2021. Commercial discussions are ongoing regarding opportunities beyond this date.

Group risk

It is not considered that there are any significant risks to the Company of being part of Capita plc.

Leverage risk

The Company currently has no borrowing.

To mitigate the effect of these risks and uncertainties, the Company adopts a number of systems and procedures, including:

- Regularly reviewing operating/business conditions to be able to respond quickly to changes in market conditions.
- Applying procedures and controls to manage compliance, financial and operational risks, including adhering to a strict internal control framework.

Capita plc has also implemented appropriate controls and risk governance techniques across all of its businesses which are discussed in the Group's annual report which does not form part of this report.

Section 172 statement

The Company forms part of the Specialist Services division of the Group and Capita plc's section 172 statement applies to both the Division and the Company to the extent it relates to the Company's activities. Common policies and practices are applied throughout the Group via divisional management teams and a common governance framework. The following disclosure describes how the Directors have had regard to the matters set out in section 172(1a) to (f) and forms the Directors' statement required under section 414CZA of the Companies Act 2006.

CAPITA MORTGAGE ADMINISTRATION LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Further details of the Group approach to each stakeholder are provided in Capita plc's section 172 statement which can be found on page 39 of Capita plc's Annual Report.

Stakeholder	Strategic issue	Engagement	Outcome	Principal decision*
Our people	Workforce engagement; organisational culture; employee net promoter score	People surveys; regular all-employee communications	Established managers' commitments; research into future of work	Application of standard Capita plc policies and procedures; refreshed purpose, values and behaviours
Clients and customers	Net promoter score; quality and sustainability; additional value	Client survey; regular meetings with key clients and customers	Receipt of regular detailed feedback summaries; application of standard Capita plc policies and procedures which includes the establishment of Group contract review committee to ensure delivery against contractual obligations	Collaboration with clients and customers on key contracts
Suppliers and partners	Payment practices	Capita plc holds regular meetings with Federation of Small Businesses; account management meetings with large suppliers	Application of Group payment policies including supplier charter; signatory to UK Prompt Payment Code (target 95% of supplier payments within 60 days)	
Society	Operating responsibly	Meetings, memberships and surveys of non-governmental organisations and charities	Group established responsible business strategy and responsible business committee; approval of third-party transaction guidelines; commitment to real living wage in 2020; enhanced family pay policies; Fair Tax Mark accreditation	Approval of new code of conduct

* Principal decisions are those that are material to the Group and/or significant to any of our key stakeholder groups.

On behalf of the Board

T F Vanoverschelde
Director

15 September 2020

CAPITA MORTGAGE ADMINISTRATION LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors present their annual report and financial statements for the year ended 31 December 2019.

Results and dividends

The results for the year are set out on page 10.

No dividend was paid during the year (2018: £nil).

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

JD Vincent	(Resigned 7 May 2019)
A P Brown	
T F Vanoverschelde	(Appointed 25 February 2019)
E G Kelly	(Appointed 4 December 2019)

Political donations

The Company made no political donations and incurred no expenditure during the year (2018: £nil).

Employees

Details of the number of employees and related costs can be found in note 22 to the financial statements.

Disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment within the Company continues and that the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee involvement

The Company participates in the Group's policies and practices to keep employees informed on matters relevant to them as employees through regular meetings, newsletters, email notices and intranet communications. These communication initiatives enable employees to share information within and between business units and employees are encouraged, through an open-door policy, to discuss with management matters of interest to the employee and subjects affecting day to day operations of the Company. The Group's share incentive plan is designed to promote employee share ownership and to give employees the opportunity to participate in the future success of the Group.

Auditor

In accordance with section 487(2) of the Companies Act 2006, the auditors, KPMG LLP, will be deemed to be reappointed and therefore continue in office.

CAPITA MORTGAGE ADMINISTRATION LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Statement of Directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

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

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

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

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

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of disclosure to auditor

So far as each person who was a Director at the date of approving this report is aware, There is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the Company's auditor is not aware. Having made enquiries of fellow Directors and the Company's auditor, each Director has taken all the steps he/she might reasonably be expected to take as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Qualifying third party indemnity provisions

The Company has granted an indemnity to the Directors of the Company against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' report.

On behalf of the Board

T F Vanoverschelde

Director

15 September 2020

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CAPITA MORTGAGE ADMINISTRATION LIMITED

Opinion

We have audited the financial statements of Capita Mortgage Administration Limited ("the company") for the year ended 31 December 2019 which comprise the Income Statement, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Material uncertainty related to going concern

We draw attention to note 1.1 to the financial statements which indicates that the company is reliant on its ultimate parent undertaking, Capita plc, in regard to its ability to continue as a going concern. Under a severe but plausible downside scenario Capita plc may require completion of its planned disposal programme, which requires shareholder approval and approval from the group's lenders. These agreements with third parties constitute a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF CAPITA MORTGAGE ADMINISTRATION LIMITED

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 6 the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF CAPITA MORTGAGE ADMINISTRATION LIMITED

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

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

Simon Weaver (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

15 September 2020

CAPITA MORTGAGE ADMINISTRATION LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 £'000	2018 £'000
Revenue	3	10,624	12,487
Cost of sales		(10,985)	(11,778)
Gross (loss)/profit		(361)	709
Administrative expenses		(465)	(6,282)
Operating loss	4	(826)	(5,573)
Other income	5	514	-
Net finance cost	6	(42)	-
Loss before tax		(354)	(5,573)
Income tax credit/(expense)	7	(601)	1,277
Total comprehensive expense for the year		(955)	(4,296)

The income statement has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the income statement.

The notes on page 13 to 35 form an integral part of financial statements.

CAPITA MORTGAGE ADMINISTRATION LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2019

	Notes	2019 £'000	2018 £'000
Non-current assets			
Property, plant and equipment	8	3	4
Right of use asset	9	731	-
Investments in subsidiaries	11	-	-
Total non-current assets		734	4
Current assets			
Financial assets	10	240	-
Trade and other receivables	12	1,409	3,067
Income tax receivable		913	1,292
Cash	13	22,355	16,699
Total current assets		24,917	21,058
Total assets		25,651	21,062
Current liabilities			
Trade and other payables	14	8,279	2,037
Deferred income	15	1,578	1,315
Lease liabilities	19	706	-
Provisions	16	2,128	4,750
Total current liabilities		12,691	8,102
Non-current liabilities			
Deferred income	15	-	30
Lease liabilities	19	545	-
Provisions	16	440	-
Total non-current liabilities		985	30
Total liabilities		13,676	8,132
Net assets		11,975	12,930
Capital and reserves			
Issued share capital	17	8,101	8,101
Share premium		14,892	14,892
Retained deficit		(11,018)	(10,063)
Total equity		11,975	12,930

The notes on pages 13 to 35 form an integral part of financial statements.

Approved by Board and authorised for issue on 15 September 2020

T F Vanoverschelde

Director

Company Registration No. 02042968

CAPITA MORTGAGE ADMINISTRATION LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital	Share premium	Retained deficit	Total equity
	£'000	£'000	£'000	£'000
At 1 January 2018	8,101	14,892	(5,767)	17,226
Total comprehensive expense for the year	-	-	(4,296)	(4,296)
At 31 December 2018	8,101	14,892	(10,063)	12,930
Total comprehensive expense for the year	-	-	(955)	(955)
At 31 December 2019	8,101	14,892	(11,018)	11,975

Share capital -The balance classified as share capital is the nominal proceeds on issue of the Company's equity share capital, comprising 8,101,001 ordinary shares.

Share premium -The amount paid to the Company by shareholders, in cash or other consideration, over and above the nominal value of shares issued to them.

Retained deficit - The balance pertains to net losses accumulated in the Company.

The notes on pages 13 to 35 form an integral part of the financial statements.

CAPITA MORTGAGE ADMINISTRATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

1.1 Basis of preparation

Capita Mortgage Administration Limited is a Company incorporated and domiciled in the UK.

The Company is a wholly owned subsidiary of Capita plc and operates within the group's Capita Specialist Services division. The financial statements are prepared under the historical cost basis except where stated otherwise and in accordance with applicable accounting standards.

The Company has sufficient financial resources together with long standing relationships with clients and suppliers. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully.

The Directors as a group have considered carefully the information available to them, from both the individual perspective of the Company and from the perspective of the Company being a subsidiary of Capita plc. The Directors believe that it is appropriate to use the going concern basis in preparing the accounts for the year ended 31 December 2019 and have a reasonable expectation that this method will be adopted for the foreseeable future. The current contract extends to February 2021 for mortgage operational administration services to client, and will be on-going afterwards for IT support services until client serves notice. After February 2021 it is expected that all IT Support billing to client will continue via the Company, being the only contractual client relationship. This ongoing contract is on a "cost plus" basis and it is expected this mark-up will be shared between the Company and its sub-contractors. This will allow the Company to cover its expenses in ensuring on-going billing, maintaining a strong client relationship and meeting regulatory obligations. In July 2020, the client Lloyds Bank, advised its intention to exit its contract with the Company in November 2020 instead of February 2021. There is no material impact on Financial statements though as some activity is expected to continue until at least February 2021.

In determining the appropriate basis of preparation for the annual report and financial statements for the year ended 31 December 2019, the Directors are required to consider whether the Company will be able to operate within the level of available facilities and cash for the foreseeable future, being a period of at least 12 months following the approval of these accounts. The Directors have concluded that it is appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts, key uncertainties and sensitivities, including the potential impact of COVID-19 as set out below.

Since late March 2020, the Group and the Company have faced challenges and uncertainties due to the COVID-19 pandemic.

These challenges were mainly operational and have all been overcome, with services now being stable. The revenue of the Company is linked to the administration of a closed book and on a cost plus basis. In combination with the the expected exit of the client Lloyds Bank, the Directors do not see any significant financial risk linked to the COVID-19 pandemic. The Company's performance is not linked with the wider Group's transformation programme.

The Directors also reviewed the extent to which the Company is reliant on the Group.

CAPITA MORTGAGE ADMINISTRATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.1. Basis of preparation (continued)

The Company is reliant on the Group in respect of the following:

- provision of certain services, such as administrative support services and should the Group be unable to deliver these services, the Company may have difficulty in continuing to trade;
- participation in the Group's notional cash pooling arrangements, of which £23,475,484 was held at 31 July 2020. In the event of a default by the Group, the Company may not be able to access its cash balance within the pooling arrangement; and
- key contracts that may be terminated in the event of a default by the Group mainly linked to the provision of IT Services.

Ultimate parent undertaking – Capita plc

The Capita plc Board ('the Board') concluded that it was appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts, key uncertainties and sensitivities, including the potential impact of COVID-19, when preparing the Group's consolidated financial statements for the six months to 30 June 2020. These financial statements were approved by the Board on 17 August 2020 and are available on the Group's website (www.capita.com/investors).

To address the medium-term resilience of the Group, the Board have announced the planned disposal of the Education Software Services business ('ESS'). It is the Board's expectation that these funds will provide the necessary liquidity headroom to address any potential shortfalls arising in the downside scenarios evaluated, albeit with potentially limited covenant headroom as at 30 June 2021. It is also the Board's expectation that these funds will provide for compliance with all covenants although in certain circumstances this headroom is potentially limited at June 2021. The Board has confidence in the robustness of its primary mitigation (the ESS disposal) against the downside scenarios considered. The Board has several other options which are being actively pursued to provide further resilience in the event of a downside scenario. These include additional disposals and a refinancing of short-term maturities.

Material uncertainty

The disposal of ESS is subject to shareholder and lender approval, both of which are outside the control of the Company. Accordingly, this gives rise to material uncertainty, as defined in auditing and accounting standards, relating to events and circumstances which may cast significant doubt about the Group's ability to continue as a going concern.

The Board is confident that the ESS disposal will be approved by shareholders and lenders, and based on this expectation believes that, even in a plausible but severe downside scenario, the Group will continue to have adequate financial resources to realise its assets and discharge their liabilities as they fall due over the period to 31 December 2021.

Conclusion

Although the Company has a reliance on the Group detailed above, even in a severe but plausible downside for both the Company and the Group, the Directors are confident the Company will continue to have adequate financial resources to realise its assets and discharge its liabilities as they fall due over the period to 31 December 2021. Consequently, the annual report and financial statements have been prepared on the going concern basis and do not include any adjustments which would be required if the going concern basis of preparation were to be deemed inappropriate. However, as the Group's disposal of ESS is subject to shareholder and lender approval, both of which are outside the control of the Group, this gives rise to a material uncertainty relating to events and circumstances which may cast significant doubt about the Group and therefore also the Company's ability to continue as a going concern.

CAPITA MORTGAGE ADMINISTRATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.2 Compliance with accounting standards

The Company has prepared and presented these financial statements by applying the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but made amendments, where necessary, in order to comply with the Companies Act 2006. The Company has applied FRS101 - Reduced Disclosure Framework in the preparation of its financial statements.

The Company's ultimate parent undertaking, Capita plc, includes the Company in its consolidated statements. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU (EU-IFRS) and are available to the public and may be obtained from company's website on <http://investors.capita.com>.

In these financial statements, the Company has applied the disclosure exemptions available under FRS 101 in respect of the following disclosures:

- A cash flow statement and related notes;
- Comparative period reconciliations for share capital, property, plant and equipment and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures required by IFRS 15 Revenue from Contracts with Customers;
- Disclosures in respect of the compensation of key management personnel; and
- Disclosures as required by IFRS 16 Leases.

As the consolidated financial statements of Capita plc include equivalent disclosures, the Company has also taken the disclosure exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 2 Share Based Payments in respect of group settled share based payments;
- Certain disclosures required by IAS 36 Impairments of assets in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 3 Business Combinations in respect of business combinations undertaken by the Company, in the current and prior periods including the comparative period reconciliation for goodwill; and
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

CAPITA MORTGAGE ADMINISTRATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.3 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of IFRS 16 Leases. In addition, the Company has adopted the new amendments to standards and new IFRIC as detailed below.

Initial adoption of IFRS 16 Leases

IFRS 16 (effective 1 January 2019) replaces IAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The Company applied IFRS 16 using the modified retrospective approach, under which the right of use asset has been recognised which is equal to lease liabilities representing its obligation to make lease payments. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported under IAS 17 and related interpretations. The policy on IFRS 16 is set out in note 1.6. The Company has applied IFRS 16 using modified retrospective approach, the effect of which is explained in notes 9,18,19 & 20.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 (effective 1 January 2019) addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. The Company has initially applied IFRIC 23 Uncertainty over Income Tax Treatments at 1 January 2019. The Company applies judgement in quantifying uncertainties over income tax treatments and has considered whether it should adjust its uncertain tax provisions in line with this new criteria.

There is no impact on the Company's financial statements due to the application of IFRIC 23 (2018: fnil).

In addition, the Company has adopted the new amendments to standards detailed below but they do not have a material effect on the Company's financial statements.

New amendments or interpretation	Effective date
Prepayment features with negative compensation (Amendments to IFRS 9)	1 January 2019
Plan amendment, curtailment or settlement (Amendments to IAS 19)	1 January 2019
Annual improvements to IFRS Standards 2015-2017 cycle (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)	1 January 2019

CAPITA MORTGAGE ADMINISTRATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.4 Revenue recognition

Revenue is earned within the United Kingdom.

Revenue recognition is based on the principles set out in IFRS 15.

The revenue and profits recognised in any period are based on the delivery of performance obligations and an assessment of when control is transferred to the customer.

In determining the amount of revenue and profits to record, and related balance sheet items (such as contract fulfilment assets, capitalisation of costs to obtain a contract, trade receivables, accrued income and deferred income) to recognise in the period, management is required to form a number of key judgements and assumptions. This includes an assessment of the costs the Company incurs to deliver the contractual commitments and whether such costs should be expensed as incurred or capitalised. Revenue is recognised either when the performance obligation in the contract has been performed (so 'point in time' recognition) or 'over time' as control of the performance obligation is transferred to the customer.

The Company enters into contracts which contain extension periods, where either the customer or both parties can choose to extend the contract or there is an automatic annual renewal, and/or termination clauses that could impact the actual duration of the contract. Judgement is applied to assess the impact that these clauses have when determining the appropriate contract term.

The term of the contract impacts both the period over which revenue from performance obligations may be recognised and the period over which contract fulfilment assets and capitalised costs to obtain a contract are expensed.

The Company has multiple components to be delivered such as transformation and the delivery of outsourced services, and management has applied judgement in accounting for these as separate performance obligations.

At contract inception, the total transaction price is estimated, being the amount to which the Company expects to be entitled and has rights to under the present contract. This includes an assessment of any variable consideration where the Company's performance may result in additional revenues based on the achievement of agreed KPIs. Such amounts are only included based on the expected value or the most likely outcome method, and only to the extent that it is highly probable that no revenue reversal will occur.

The transaction price does not include estimates of consideration resulting from change orders for additional goods and services unless these are agreed.

Once the total transaction price is determined, the Company allocates this to the identified performance obligations in proportion to their relative stand-alone selling prices and recognises revenue when (or as) those performance obligations are satisfied. The Company sells a customer bespoke solution, and in these cases the Company typically uses the expected cost-plus margin or a contractually stated price approach to estimate the standalone selling price of each performance obligation.

For each performance obligation, the Company determines if revenue will be recognised over time or at a point in time. Where the Company recognises revenue over time for long term contracts, this is in general due to the Company performing and the customer simultaneously receiving and consuming the benefits provided over the life of the contract.

CAPITA MORTGAGE ADMINISTRATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.4 Revenue recognition (continued)

For each performance obligation to be recognised over time, the Company applies a revenue recognition method that faithfully depicts the Company's performance in transferring control of the goods or services to the customer. This decision requires assessment of the real nature of the goods or services that the Company has promised to transfer to the customer.

The Company recognises revenue on the basis of direct measurements of the value to the customer of the goods and services transferred to date relative to the remaining goods and services under the contract using a method of time elapsed which requires minimal estimation.

If performance obligations in a contract do not meet the overtime criteria, the Company recognises revenue at a point in time (see below for further details).

Transactional (Point in time) contracts

The Company delivers a range of goods or services that are transactional services for which revenue is recognised at the point in time when control of the goods or services has transferred to the customer. This may be at the point of physical delivery of goods and acceptance by a customer or when the customer obtains control of an asset or service in a contract with customer-specified acceptance criteria.

The nature performance obligations categorised within this revenue type includes fees received in relation to delivery of professional services.

Long term contractual - greater than 2 years

The Company provides a range of services in various segments under customer contracts with a duration of more than two years.

The nature of contracts or performance obligations categorised within this revenue type is diverse and includes (i) long term outsourced service arrangements in the public and private sectors; and (ii) active software licence arrangements (see definition below).

The Company considers that the services provided meet the definition of a series of distinct goods and services as they are (i) substantially the same and (ii) have the same pattern of transfer (as the series constitutes services provided in distinct time increments (e.g., daily, monthly, quarterly or annual services)) and therefore treats the series as one performance obligation. Even if the underlying activities performed by the Company to satisfy a promise vary significantly throughout the day and from day to day, that fact, by itself, does not mean the distinct goods or services are not substantially the same.

The Company recognises revenue using the output method as it best reflects the nature in which the Company is transferring control of the goods or services to the customer.

CAPITA MORTGAGE ADMINISTRATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.4 Revenue recognition (continued)

Contract modifications

The Company's contracts can be amended for changes in contract specifications and requirements. Contract modifications exist when the amendment either creates new or changes the existing enforceable rights and obligations.

The effect of a contract modification on the transaction price and the Company's measure of progress for the performance obligation to which it relates, is recognised as an adjustment to revenue in one of the following ways:

- a. prospectively as an additional separate contract;
- b. prospectively as a termination of the existing contract and creation of a new contract;
- c. as part of the original contract using a cumulative catch up; or
- d. as a combination of (b) and (c).

For contracts for which the Company has decided there is a series of distinct goods and services that are substantially the same and have the same pattern of transfer where revenue is recognised over time, the modification will always be treated under either (a) or (b); (d) may arise when a contract has a part termination and a modification of the remaining performance obligations.

The facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract by contract and may result in different accounting outcomes.

Judgement is applied in relation to the accounting for such modifications where the final terms or legal contracts have not been agreed prior to the period end as management need to determine if a modification has been approved and if it either creates new or changes existing enforceable rights and obligations of the parties. Depending upon the outcome of such negotiations, the timing and amount of revenue recognised may be different in the relevant accounting periods. Modification and amendments to contracts are undertaken via an agreed formal process. For example, if a change in scope has been approved but the corresponding change in price is still being negotiated, management use their judgement to estimate the change to the total transaction price. Importantly any variable consideration is only recognised to the extent that it is highly probable that no revenue reversal will occur.

Principal versus agent

The Company acts as a principal for provision of IT and Software services, with revenue recorded on a gross basis. The Company acts as a principal if it controls a promised good or service before transferring that good or service to the customer. Factors considered in making this assessment are most notably the discretion the Company has in establishing the price for the specified good or service and whether the Company is primarily responsible for fulfilling the promise to deliver the service or good. This assessment of control requires judgement in particular in relation to certain service contracts.

CAPITA MORTGAGE ADMINISTRATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.4 Revenue recognition (continued)

Contract related assets and liabilities

As a result of the contracts which the Company enters into with its customers, a number of different assets and liabilities are recognised on the Company's balance sheet. These include but are not limited to:

Property, plant and equipment
Intangible assets
Contract fulfilment assets
Trade receivables
Accrued income
Deferred income

Onerous contracts

The Group reviews its long-term contracts to ensure that the expected economic benefits to be received are in excess of the unavoidable costs of meeting the obligations under the contract. The unavoidable costs are the lower of the net costs of termination or the costs of fulfilment of the contractual obligations. The Group recognises the excess of the unavoidable costs over economic benefits due to be received as an onerous contract provision.

Deferred and accrued income

The Company has a range of payment schedules dependent upon the nature and type of services being provided. Payments for these services may be at delivery date, in arrears or part payment in advance. Where payments made are greater than the revenue recognised at the period end date, the Company recognises a deferred income contract liability for this difference. Where payments made are less than the revenue recognised at the period end date, the Company recognises an accrued income contract asset for this difference.

1.5 Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Computers	3 - 5 years
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CAPITA MORTGAGE ADMINISTRATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.6 Leasing

The Company leases assets, comprising land and buildings.

The determination whether an arrangement is, or contains, a lease is based on whether the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The following sets out the Company's lease accounting policy for all leases with the exception of leases with low value and term of 12 months or less which we have taken the exemption in the standard. These are expensed to the income statement.

At the inception of the lease, the Company recognises a right-of-use asset and a lease liability. A right-of-use asset is capitalised in the balance sheet at cost, which comprises the present value of minimum lease payments determined at the inception of the lease. A lease liability of equivalent value is also recognised. Right-of-use assets are depreciated using the straight-line method over the shorter of estimated life or the lease term. Depreciation is included within the line item administrative expenses in the income statement.

The Company as a lessee - Right-of-use assets and lease liabilities

Right-of-use assets are measured at cost, which comprised the initial amount of the lease liability adjusted for any lease payments made at or before the adoption date, less any lease incentives received at or before the adoption date and less any onerous lease provisions (reclassified on the opening balance sheet). Depreciation is included within administrative expenses in the income statement. Right-of-use assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be fully recoverable. Right-of-use assets exclude leases with a low value and term of 12 months or less. These leases are expensed to the income statement as incurred.

Lease liabilities are measured at amortised cost using the effective interest rate method. Lease payments are apportioned between a finance charge and a reduction of the lease liability based on the constant interest rate applied to the remaining balance of the liability. Interest expense is included within the line item net finance costs in the consolidated income statement.

The lease payments comprise fixed payments, including in-substance fixed payments such as service charges and variable lease payments that depend on an index or a rate, initially measured using the minimum index or rate at inception date. The payments also include any lease incentives and any penalty payments for terminating the lease, if the lease term reflects the lessee exercising that option. Lease liability is adjusted for any prepayment.

The lease term determined comprises the non-cancellable period of the lease contract. Periods covered by an option to extend the lease are included if the Company has reasonable certainty that the option will be exercised and periods covered by the option to terminate are included if it is reasonably certain that this will not be exercised.

The lease liability is subsequently remeasured (with a corresponding adjustment to the related right-of-use asset) when there is a change in future lease payments due to a renegotiation or market rent review, a change of an index or rate or a reassessment of the lease term. Payments associated with leases that have a term of less than 12 months or are of low value are recognised as an expense in the income statement as incurred.

The Company as a lessor

The Company acts as an intermediate lessor of *property assets and equipment*. When the Company acts as a lessor, it determines at lease commencement whether the lease is a finance lease or an operating lease. To classify each lease, the Company makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership in relation to the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. The Company recognises lessor payments under operating leases as income on a straight-line basis over the lease term. The Company accounts for finance leases as finance lease receivables, using the effective interest rate method.

CAPITA MORTGAGE ADMINISTRATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.7 Pensions

The Company participates in defined contribution pension schemes and contributions are charged to the profit and loss account in the year in which they are due. These schemes are funded and the payment of contributions is made to separately administered trust funds. The assets of these schemes are held separately from the Company. The Company remits monthly pension contributions to Capita Business Services Limited, a fellow subsidiary undertaking, which pays the Group liability centrally. Any unpaid contributions at the year-end have been accrued in the accounts of that Company.

1.8 Taxation

Tax on the profit or loss for year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of goodwill;
- except where the deferred tax liability 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; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where 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, carry-forward of unused tax assets and unused tax losses, 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 assets and unused tax losses can be utilised, except where the deferred income 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet 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 income tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to 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 balance sheet date.

CAPITA MORTGAGE ADMINISTRATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.9 Group Accounts

The financial statements present information about the Company as an individual undertaking and not about its Group. The Company has not prepared Group accounts as it is fully exempt from the requirement to do so by section 400 of the Companies Act 2006 as it is a subsidiary undertaking of Capita plc, a company incorporated in England and Wales, and is included in the consolidated accounts of that company.

1.10 Share-based payments

The Company participates in various share option and share save schemes operated by Capita plc, the ultimate parent undertaking. Details of these schemes are contained in the Group's annual report.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an option pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense, attributable to the Company, since the previous balance sheet date is recognised in the profit and loss account and settled with Capita plc, the ultimate parent undertaking.

In accordance with IFRS 2, share option awards of the ultimate parent company's equity instruments in respect of settling grants to employees of the Company are disclosed as a charge to the profit and loss account and a credit to equity. The Company's policy is to reimburse its ultimate parent company through the inter-company account for charges that are made to it. Hence the credit to equity has been eliminated, rather reflecting a credit to inter-company which better describes the underlying nature of the transaction.

CAPITA MORTGAGE ADMINISTRATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.11 Financial instruments

Investments and other financial assets

Classification

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date (that is, the date on which the Company commits to purchase or sell the asset). Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Impairment

The Company assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, resulting in trade receivables recognised and carried at original invoice amount less an allowance for any uncollectible amounts based on expected credit losses.

Trade and other receivables

The Company assesses on a forward-looking basis the expected credit losses associated with its receivables carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Company applies the simplified approach permitted by IFRS 9, resulting in trade receivables recognised and carried at original invoice amount less an allowance for any uncollectible amounts based on expected credit losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of 3 months or less.

CAPITA MORTGAGE ADMINISTRATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.12 Impairment of non-financial assets

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the company makes a formal estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use is determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

1.13 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event and 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. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

2 Significant accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires the Directors to make judgements and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported income and expense during the reported periods. Although these judgements and assumptions are based on the Directors' best knowledge of the amount, events or actions, actual results may differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year is the measurement of provisions on certain contractual arrangements and measurement of impairment of investments. The measurement of provisions reflects management's assessment of the probable outflow of economic benefits resulting from the existing obligation. Provisions are calculated on a case to case basis and involve judgement as regards the final timing and outcome of any financial outlay. The measurement of revenue and resulting profit recognition – there are judgements applied, including the measurement and timing of revenue recognition and the recognition of related balance sheet items (such as accrued income and deferred income) that result from the performance of the contract. For the majority of contracts, clients assess the Company's performance on output measures rather than input which drives the basis on which delivery of performance obligations are determined. This inherently leads to more judgement.

3 Revenue

The total revenue of the Company for the year has been derived from its principal activity wholly undertaken in the United Kingdom.

CAPITA MORTGAGE ADMINISTRATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

4 Operating profit

	2019 £'000	2018 £'000
Operating loss for the year is stated after charging/(crediting):		
Depreciation of property, plant and equipment	2	4
Amortisation of intangible assets	-	128
Impairment of intangible assets	-	456
Impairment of contract fulfilment assets	-	352
Utilisation of contract fulfilment assets	-	302
Depreciation of ROUA - property, plant and equipment	381	-
Operating lease rentals - plant and machinery	33	4
Onerous contract provision (release)/charge*	(2,177)	4,745
	<u> </u>	<u> </u>

*The release of onerous contract provision in 2019 is driven by the net effect of reduced future term and the revised annual loss view to match 2019 actual operation losses. Refer note 16.

Audit fees are borne by the ultimate parent undertaking, Capita plc. The audit fee for the current period was £2,781 (2018: £2,800). The Company has taken advantage of the exemption provided by regulations 6(2)(b) of The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 not to provide information in respect of fees for other (non-audit) services as this information is required to be given in the Company accounts of the ultimate parent undertaking, which it is required to prepare in accordance with the Companies Act 2006.

5 Other income

	2019 £'000	2018 £'000
Rental income	514	-
Total	<u>514</u>	<u>-</u>

6 Net finance costs

	2019 £'000	2018 £'000
Interest on lease liabilities	42	-
	<u>42</u>	<u>-</u>

CAPITA MORTGAGE ADMINISTRATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

7 Income tax

The major components of income tax expense for the years ended 31 December 2019 and 2018 are:

	2019 £'000	2018 £'000
Current tax		
UK corporation tax	(66)	(1,514)
Adjustments in respect of prior periods	667	237
	<u>601</u>	<u>(1,277)</u>
Deferred tax		
Origination and reversal of temporary differences	-	-
	<u>-</u>	<u>-</u>
Total tax charge/(credit) reported in the income statement	<u>601</u>	<u>(1,277)</u>

The reconciliation between tax charge/(credit) and the accounting profit multiplied by the UK corporation tax rate for the years ended 31 December 2019 and 2018 is as follows:

	2019 £'000	2018 £'000
Loss before tax	<u>(354)</u>	<u>(5,573)</u>
Profit/(loss) before taxation multiplied by standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	<u>(67)</u>	<u>(1,059)</u>
Taxation impact of factors affecting tax charge:		
Expenses not deductible for tax purposes	1	1
Adjustments in respect of current income tax of prior periods	667	237
Current year deferred income tax unrecognised	-	(408)
Impact of changes in statutory tax rates	-	(48)
	<u>668</u>	<u>(218)</u>
Total adjustments	<u>668</u>	<u>(218)</u>
Total tax charge/(credit) reported in the income statement	<u>601</u>	<u>(1,277)</u>

A deferred tax asset of £3.35m (2018: £2.75m) has been unrecognised in the statutory accounts due to the uncertainty of future use. A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset/(liability) as at 31 December 2019 has been calculated based on this rate. In the 11 March 2020 Budget it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020. This will have a no effect on the company's future tax charge assuming we continue to derecognise the deferred tax asset. The unrecognised deferred tax asset would increase by £0.4m.

CAPITA MORTGAGE ADMINISTRATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

8 Property, plant and equipment

	Computers £'000
Cost	
At 1 January 2019	376
Additions	1
	<u>377</u>
At 31 December 2019	<u>377</u>
Depreciation	
At 1 January 2019	372
Charge for the year	2
	<u>374</u>
At 31 December 2019	<u>374</u>
Net book value	
At 31 December 2018	4
	<u>3</u>
At 31 December 2019	<u>3</u>

9 Right of use assets

	Property £'000
Net book value	
At 1st January 2019	
Adoption of IFRS 16 (Refer note 20)	1,554
Impairment	(442)
Depreciation charged during the year	(381)
	<u>731</u>
At 31st December 2019	<u>731</u>

10 Financial assets

	2019 £'000	2018 £'000
Current financial assets		
Finance lease receivable	240	-
	<u>240</u>	<u>-</u>
	<u>240</u>	<u>-</u>

CAPITA MORTGAGE ADMINISTRATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

11 Investment in subsidiaries

	£'000
Cost	
As at 1 January 2019	1,233
At 31 December 2019	1,233
Impairment	
At 1 January 2019	1,233
At 31 December 2019	1,233
Net book value	
At 31 December 2019	-
At 31 December 2018	-

Details of the company's direct subsidiaries at 31 December 2019 are as follows:

Company	Country of registration or incorporation	Ordinary shares held (%)	Nature of business
Capita Mortgage Software Solutions Limited	30 Berners Street, London, W1T 3LR	100	Outsourcing services

12 Trade and other receivables

Current	2019 £'000	2018 £'000
Trade receivables	692	2,247
Other receivables	-	31
Accrued income	688	756
Prepayments	1	9
Other taxes and social security	25	15
Amounts due from parent & fellow subsidiary undertaking	14,895	14,901
Less : Impairment allowance	(14,892)	(14,892)
Total	1,409	3,067

CAPITA MORTGAGE ADMINISTRATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

13 Cash

	2019 £'000	2018 £'000
Cash at bank and in hand	22,355	16,699
	<u>22,355</u>	<u>16,699</u>

14 Trade and other payables

Current	2019 £'000	2018 £'000
Trade payables	11	36
Accruals	245	206
Amounts due to parent and fellow subsidiary undertaking	8,023	1,795
Total	<u>8,279</u>	<u>2,037</u>

15 Deferred income

	2019 £'000	2018 £'000
Current		
Deferred income	1,578	1,315
	<u>1,578</u>	<u>1,315</u>
Non-current		
Deferred income	-	30
	<u>-</u>	<u>30</u>

The deferred income balances solely relates to revenue from contracts with customers. Movements in the deferred income balances were driven by transactions entered into by the Company within the normal course of business in the year.

CAPITA MORTGAGE ADMINISTRATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

16 Provisions

	Business exit and restructuring £'000	Onerous contract provision £'000	Total £'000
Current			
As at 1 January 2019	5	4,745	4,750
Release	-	(241)	(241)
Utilised	(5)	(1,936)	(1,941)
Reclass from current to non-current	-	(440)	(440)
	<u>-</u>	<u>-</u>	<u>-</u>
As at 31 December 2019	<u>-</u>	<u>2,128</u>	<u>2,128</u>
		Onerous contract provision £'000	Total £'000
Non-current			
As at 1 January 2019		-	-
Reclass from current to non-current		440	440
		<u>440</u>	<u>440</u>
As at 31 December 2019		<u>440</u>	<u>440</u>

Onerous contract provision - During 2018, changes in IT systems costs and the wider Group client base triggered a full review of the contract lifetime and the Company's liabilities in contractual exit scenarios. As a result, an onerous contract provision of £4.75m was booked and £2.18m out of the provision created in 2018 was later utilised during 2019.

Onerous Contract Provision at 31st December 2018 was based on the original contract continuing for 4 years, but at 31st December 2019 it now only reflects future losses to Feb 2021. The 31st December 2018 view assumed future margins on operational activity continuing at same level as 2018 under the original contract term. Operational activity however declined during 2019 which resulted in increased total annual losses compared to the view at 31st December 2018. As a result, the release of onerous contract provision in 2019 is driven by the net effect of the utilisation of the provision against the actual loss in the year and the reassessment of the onerous position at the year-end as a result of the reduced future term and the revised annual loss view to match 2019 actual operation losses.

17 Issued share capital	2019 Numbers £'000	2018 Numbers £'000	2019 £'000	2018 £'000
Allotted, called up and fully paid				
An ordinary share of £1 each				
At 1 January	8,101	8,101	8,101	8,101
	<u>8,101</u>	<u>8,101</u>	<u>8,101</u>	<u>8,101</u>
At 31 December	<u>8,101</u>	<u>8,101</u>	<u>8,101</u>	<u>8,101</u>

CAPITA MORTGAGE ADMINISTRATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

18	Leases under IFRS 16	2019
		£'000
	Interest expense on lease liabilities	42
	Expenses relating to short-term leases	33
	Rental income	(514)
		==

19	Lease liabilities	2019	2018
		£'000	£'000
	Current	706	-
	Non-current	545	-
		==	==
		1,251	-
		==	==

In calculating the lease liability to be recognised on adoption, the Company used a weighted average incremental borrowing rate at 1 January 2019 of 3.31%.

Lease liabilities	2019
	£'000
Operating lease commitments at 31 December 2018 disclosed under IAS 17	1,772
Operating lease commitment restated for 1 January 2019	261
Discounted using the incremental borrowing rate at 1 January 2019	(97)
	==
Lease liabilities recognised as at 1 January 2019	1,936
	==
<i>out of which</i>	
Current	685
Non current	1,251
	==

	At 31 December	At 1 January
	2019	2019
Maturity analysis - Contractual undiscounted cash flows	£'000	£'000
Less than one year	739	739
One to two years	554	739
More than two years	-	554
	==	==
Total undiscounted lease liabilities	1,293	2,032
	==	==

CAPITA MORTGAGE ADMINISTRATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

20 Reconciliation of opening balance as at 1 January 2019

The following is a reconciliation of the extract of the balance sheet line items from IAS 17 to IFRS 16 at 1 January 2019:

	Notes	Carrying amount - 31 December 2018	Impact on Adoption of IFRS 16	IFRS 16 carrying amount as at 1 January 2019
		£'000	£'000	£'000
Non-current assets				
Right-of-use assets	A	-	1,554	1,554
Financial assets	B	-	240	240
Current assets				
Financial assets	B	-	312	312
Non-current liabilities				
Lease liabilities	D	-	1,251	1,251
Current liabilities				
Trade payables	C	2,037	170	2,207
Lease liabilities	D	-	685	685

A) Right-of-use assets: non-current assets have been impacted due to recognition of right-of-use assets on 1 January 2019. The right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the adoption date less any lease incentives received at or before the adoption date (reclassified on the opening balance sheet).

B) Finance lease receivable: Financial assets have been impacted by recognition of finance lease receivables where the Company acts as an intermediate lessor and has classified the sub lease as a finance lease because the sub-lease is for a substantial amount of the remaining term of the head lease. The finance lease receivables have been classified between current and non-current.

C) Reclassification of balance sheet items: As noted above in a, the right-of-use asset is initially measured at cost plus lease payments made at or before the adoption date (prepayments), less any lease incentives received (rent free accruals) and less onerous provisions existing at the adoption date. These balances have been reclassified to right-of-use asset on adoption.

D) Lease liabilities: Financial liabilities have been impacted due to the recognition of lease liabilities. This liability is initially measured at the present value of the lease payments that are not paid at the adoption date, discounted using the Company's incremental borrowing rate. The lease payments comprise fixed payments, including in-substance fixed payments such as service charges and variable lease payments that depend on an index or a rate, initially measured using the minimum index or rate at commencement date. The lease liabilities have been classified between current and non-current.

21 Pensions and other post-retirement benefit commitments

The pension charge for the defined contribution pension schemes for the year is £218k (2018: £222k).

CAPITA MORTGAGE ADMINISTRATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

22 Employees

The average monthly number of employees (including non-executive directors) year were:

	2019 Number	2018 Number
Operations	121	160
Sales and administration	-	3
	<u>121</u>	<u>163</u>

Their aggregate remuneration comprised:

Employment costs	2019 £'000	2018 £'000
Wages and salaries	3,073	4,301
Social security costs	281	394
Pension costs	218	222
	<u>3,572</u>	<u>4,917</u>

23 Directors' remuneration

	2019	2018
Remuneration for qualifying services	26	-
Company pension contributions to defined contribution schemes	-	-
	<u>26</u>	<u>-</u>

The Directors were paid by another subsidiary of Capita plc. For qualifying services provided by these Directors on the Company affairs, Directors' remuneration has been allocated to the Company during the period. The number of Directors for whom retirement benefits are accruing under the defined contribution scheme amounted to 1 (2018: nil). In addition to the above, the Directors of the Company were reimbursed for the expenses incurred by them whilst performing business responsibilities.

24 Controlling party

The Company is a wholly owned subsidiary undertaking of Capita plc, a company incorporated in England & Wales. The financial statements of Capita plc are available from the registered office at 30 Berners Street, London, England, W1T 3LR.

The immediate controlling party is Capita Financial Services Holdings Limited, a company incorporated in England & Wales.

CAPITA MORTGAGE ADMINISTRATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

25 Post balance sheet events

On 11 March 2020, the World Health Organization declared the Coronavirus (COVID-19) outbreak to be a pandemic in recognition of its rapid spread across the globe, with over 150 countries now affected. Many governments are taking increasingly stringent steps to help contain or delay the spread of the virus. Currently, there is a significant increase in economic uncertainty which the Directors have assessed in considering the going concern assumption.

For the Company's 31 December 2019 financial statements, the Coronavirus outbreak and the related impacts are considered as non-adjusting events. The Directors have assessed that there is no impact on the recognition and measurement of assets and liabilities due to economic uncertainty associated with COVID-19.

In July 2020, the client Lloyds Bank, advised its intention to exit its contract with the Company in November 2020 instead of February 2021. There is no material impact on Financial statements though as some activity is expected to continue until at least February 2021.

This document was delivered using electronic communications and authenticated in accordance with the registrar's rules relating to electronic form, authentication and manner of delivery under section 1072 of the Companies Act 2006.