

**UN-AUDITED INTERIM FINANCIAL STATEMENTS**

**MBA Community Loans plc**

**Directors' Report and Financial Statements**

**For the period ending  
31 December 2011**

**Registered No. 486917**

## MBA Community Loans plc

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## MBA Community Loans plc

### DIRECTORS AND OTHER INFORMATION

<b>Company Number</b>	486917
<b>Directors</b>	Ralph MacDarby Orlagh Doherty (Resigned 10th October 2011) Joanne McEnteggart (Appointed 7th October 2011)
<b>Secretary</b>	Capita Trust Company (Ireland) Limited Block C Second Floor Maynooth Business Campus Co. Kildare Ireland
<b>Registered Office</b>	Block C Second Floor Maynooth Business Campus Co. Kildare Ireland
<b>Independent Auditor</b>	KPMG 1, Harbourmaster Place IFSC Dublin 1 Ireland
<b>Bank</b>	HSBC Bank Plc City of London Commercial Centre 28 Borough High Street London SE1 1YB England
<b>Trustee</b>	Capita Trust Company Limited 4th Floor 40 Dukes Place London EC3A 7NH England
<b>Loan Servicer, Transfer Agent and Calculation Agent</b>	Prodigy Finance Limited Palladium House 1-4 Argyll Street London W1F 7LD England
<b>Legal Advisors</b>	LK Shields Solicitors 39/40 Upper Mount Street Dublin 2
<b>Listing Agent</b>	NCB Stockbrokers 3 Georges Quay IFSC Dublin 1

**MBA Community Loans plc**

**DIRECTORS' REPORT  
6 month period ending 31/12/11**

The Directors present their interim financial statements of MBA Community Loans Plc ("the Company") for the six month period ending 31 December 2011.

**INCORPORATION**

The Company was incorporated on 22nd July 2010 as MBA Community Loans Plc.

**PRINCIPAL ACTIVITY AND FUTURE DEVELOPMENTS**

The principal activity of the Company is to invest in Student Loan assets, the acquisition of which, is funded by the issue of notes to investors. These notes are issued in separate series. The Company does not undertake any business other than the acquisition, holding, financing, selling, hedging and granting of security over its assets. As at 31 December 2011, MBA Community Loans Plc had issued notes to the value of €14.775 million.

The principal risks for the Company are dealt with in note 16 to the accounts.

**RESULTS AND DIVIDENDS**

The Company made a profit for the period ending 31 December 2011 of €29,019.

No dividend has been proposed by the directors for the 6 month interim financial period ending 31 December 2011.

**DIRECTORS' AND SECRETARY'S INTERESTS**

The Directors and Secretary who held office on 31 December 2011 did not hold shares in the Company at that date or during the period. There were no contracts of any significance in relation to the business of the Company in which the Directors had any interest, as defined in Companies Act 1990, at any time during the period.

The Directors of the Company who served during the period were as follows:

Orlagh Doherty (resigned 10th October 2011)  
Ralph MacDarby  
Joanne McEntegart (appointed 7th October 2011)

Orlagh Doherty has been appointed as an alternate Director for Ralph MacDarby with effect from 26th October 2011.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

The condensed set of financial statements have been prepared in accordance with the Accounting Standards Board Statement on 'Half Yearly Financial Reports'.

The Company's financial statements are required by law to give a true and fair view of the state of affairs of the Company and of its profit or loss for that period.

In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Acts 1963 to 2009.

They are also responsible 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 also responsible for preparing a Directors' Report that complies with the requirements of the Companies Acts 1963 to 2009.

**MBA Community Loans plc**

**DIRECTORS' REPORT (continued)**  
**6 month period ending 31/12/11**

**BOOKS OF ACCOUNT**

The Directors believe that they have complied with the requirements of section 202 of the Companies Act, 1990 with regard to the keeping of proper books of account by employing a service provider with the appropriate expertise and by providing adequate resources to the financial function. The books of account of the Company are maintained at Block C, Second Floor, Maynooth Business Campus, Co Kildare, Ireland.


**POST BALANCE SHEET EVENTS**

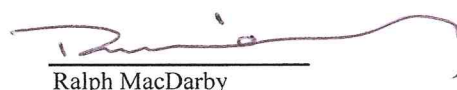
Since the balance sheet date, there have been further investments in Student Loan assets funded by the issue of notes to the value of €2.9 million. There have been no additional post balance sheet events that require disclosure in the financial statements.

**POLITICAL DONATIONS**

The company made no political donations during the period ending 31st December 2011.

Approved by the Board of Directors and signed on behalf of the Board

  
\_\_\_\_\_  
Joanne McEntegart  
Director

  
\_\_\_\_\_  
Ralph MacDarby  
Director

Date: 27 February 2012

## MBA Community Loans Plc

### Interim Management Report - period ending 31 December 2011

#### Business Review

During the 6 month period ending 31 December 2011, the Company purchased an additional portfolio of student loan assets. The acquisition of these assets was funded by the issue of notes to investors. These notes were issued in four additional series. The Company has not undertaken any business other than the acquisition, holding, financing, selling, hedging and granting of security over its assets. As at 31 December 2011, MBA Community Loans Plc had issued notes to the value of €14.775 million.

The profit of the Company for the 6 month period ending 31 December 2011 was €29,019. The net asset value of the Company as at 31st December 2011 was €70,008.

The Company's existing loan tranches are holding up well to the tightening of the general economy which may have put pressure on the borrower's ability to repay the loans. However, no major impact has been seen by the Company on its existing portfolio.

The Directors believe that the company is viable and will continue to operate as a going concern.

#### Principal risks and uncertainties

The underlying business of the Company, being the purchase of student loan assets and the issuance of notes to investors, is expected to continue in an orderly, consistent manner over the coming year. The principal risk exposures for the Company relate to default by the borrowers, credit risk in dealings with counterparties and interest rate movements. The loan platform has been designed and developed to minimise the risk of arrears and default rates for MBA and EMBA loans to international students and risk management framework is in place in order to manage & mitigate remaining risks.

#### Post Balance Sheet Events

Since the balance sheet date, there has been further investment in Student Loan assets funded by the issue of notes to the value of €2.9 million. There have been no additional post balance sheet events that require disclosure in the financial statements.

#### Major related parties' transactions

The directors of the Company, the corporate secretary and the security trustee are either employed by or are provided by companies whose ultimate parent is the Capita Group plc, a company listed on the London Stock Exchange. These operating companies provide directors, company administration, trustee and secretarial services to the Company at normal commercial rates. No fees were paid to Capita for the provision of these services during the interim period to 31 December 2011

The Loan Servicer, Prodigy Finance Limited provides loan servicing, transfer agent and collection agent services to the Company. Fees charged by Prodigy Finance Limited in respect of these services totalled €197,822 in the financial period to 31 December 2011.

#### Responsibility Statement

The Financial Statements, which have been prepared in accordance with with Generally Accepted Accounting Practice in Ireland, comprising applicable law and the accounting standards issued by the Accounting Standards Board and promulgated by the Institute of Chartered Accountants in Ireland.

Signed:



Joanne McEnteggart  
Director

Date: 27 February 2012



Ralph MacDarby  
Director

Date: 27 February 2012

**MBA Community Loans plc**  
**Unaudited**  
**Profit and Loss Account**  
**For the 6 month period ending 31 December 2011**

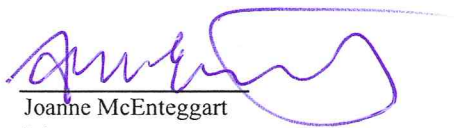
	Note	For the 6 month period ended 31 Dec 2011 €	For the period ended 30 June 2011 €
<b>Income from loans and receivables</b>	3	502,515	520,299
<b>Finance expense on debt securities issued</b>	4	<u>(337,457)</u>	<u>(324,558)</u>
<b>Net interest income</b>		165,058	195,741
<b>Other income</b>	5	78,624	100,821
<b>Administrative expenses</b>	6	(204,990)	(295,243)
<b>Profit on ordinary activities before taxation</b>		<u>38,692</u>	<u>1,319</u>
Tax on profit on ordinary activities	7	<u>(9,673)</u>	<u>(330)</u>
<b>Retained profit for the period</b>		<u><u>29,019</u></u>	<u><u>989</u></u>


The Company had no recognised gains or losses for the current period, other than those shown above.

All items dealt with in arriving at the profit for the 6 month period to 31 December 2011 are related to continuing operations.

The notes on pages 8 to 15 form part of these financial statements.

The financial statements were approved by the Board of Directors and signed on its behalf by:

  
 Joanne McEnteggart  
 Director

  
 Ralph MacDarby  
 Director

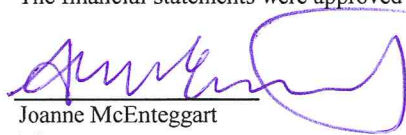
Date: 27 February 2012


**MBA Community Loans plc**  
**Unaudited**  
**Balance Sheet**  
**As at 31 December 2011**

	Note	31.12.2011 €	30.06.2011 €
<b>Financial fixed assets</b>			
Loans and receivables	8	<u>12,996,224</u>	<u>9,729,208</u>
<b>Current assets</b>			
Debtors	9	1,441,135	522,385
Cash and cash equivalents	10	<u>453,062</u>	<u>446,785</u>
<b>Total Assets</b>		<u>14,890,421</u>	<u>10,698,378</u>
<b>Creditors : amounts falling due within one year</b>	11	<u>(746,915)</u>	<u>(420,181)</u>
		(746,915)	(420,181)
<b>Total assets less current liabilities</b>		14,143,506	10,278,197
<b>Debt securities issued</b>	12	(14,073,498)	(10,237,208)
<b>Net Assets</b>		<u><u>70,008</u></u>	<u><u>40,989</u></u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	13	40,000	40,000
Retained earnings	14	30,008	989
<b>Equity Shareholder funds</b>		<u><u>70,008</u></u>	<u><u>40,989</u></u>

The notes on pages 8 to 15 form part of these financial statements.

The financial statements were approved by the board of Directors and signed on its behalf by:

  
 Joanne McEnteggart  
 Director

  
 Ralph MacDarby  
 Director

Date: 27 February 2012

**MBA Community Loans plc**  
**Unaudited**  
**Cash Flow Statement**  
**For the 6 month period ending 31 December 2011**

	Note	31.12.2011 €	30.06.2011 €
<b>Cash flow from operating activities</b>			
Profit on ordinary activities		29,019	989
Increase in debtors		(918,750)	(522,385)
Increase in creditors		326,734	420,181
<b>Net cash outflow from operating activities</b>		<u>(562,997)</u>	<u>(101,215)</u>
<b>Cash flow from investing activities</b>			
Purchase of loans and receivables	8	(4,254,768)	(4,645,872)
Principal payments received from loans and receivables		987,752	602,455
<b>Cash flow from financing activities</b>			
Issuance of debt securities	12	4,537,568	4,682,582
Principal repayments on debt securities		(701,278)	(131,165)
Issue of share capital		-	40,000
<b>Increase in cash and cash equivalents during the period</b>		<u>6,277</u>	<u>446,785</u>
<b>Cash and cash equivalents at the start of the period</b>		446,785	-
<b>Cash and cash equivalents at the end of the period</b>		<u>453,062</u>	<u>446,785</u>

**Supplementary information to cash flow statement**

During the financial 6 month period ending 31st December 2011, actual interest received and paid in cash was as follows:

Interest received on loans	193,510	95,737
Interest paid on debt securities issued	<u>-</u>	<u>4,653</u>

**Reconciliation of net cash inflow to movement in net debt for the 6 month period ending 31 December 2011**

Increase in cash and cash equivalents during the year	6,277	446,785
Increase in total debt	<u>(3,836,290)</u>	<u>(10,237,208)</u>
Increase in net debt	(3,830,013)	(9,790,423)
Net debt at the beginning of the period	(9,790,423)	-
Net debt at the end of the period	<u>(13,620,436)</u>	<u>(9,790,423)</u>

The notes on pages 8 to 15 form part of these financial statements.

MBA Community Loans plc

Notes to the Interim Financial Statements

For the 6 month period ending 31 December 2011

**1 Accounting policies**

(a) *Basis of preparation*

(i) *Statement of compliance*

The condensed financial statements are prepared in accordance with pronouncements on half yearly reports issued by the Accounting Standards Board.

Due to the nature of the Company's business and the type of transactions the Company is engaged in, the Directors have adapted the profit and loss account to suit the circumstances of the business in accordance with Section 4(13) of the Companies (Amendment) Act, 1986. The format and certain wording of the financial statements have been adapted from those contained in the Companies (Amendment) Act 1986 and FRS 3 "Reporting Financial Performance" so that, in the opinion of the Directors, they more appropriately reflect the nature of the Company's business. In the opinion of the Directors, the financial statements with the noted changes provide the information required by the Companies Acts, 1963 to 2009.

MBA Community Loans Plc is required, under the 'EU Transparency Directive' to produce Interim management statements, half-yearly reports and annual financial reports which are due four months from year-end date.

The financial statements are expressed in Euro (€) and have been prepared on a going concern basis.

(b) *Basis of measurement*

The financial statements have been prepared on an historical cost basis

(c) *Functional and presentation currency*

These financial statements are presented in Euro which is the Company's functional currency. Functional currency is the currency of the primary economic environment in which the entity operates. The issued share capital of the Company is denominated in Euro and the Directors of the Company believe that Euro most faithfully represents the economic effects of the underlying transactions, events and conditions.

(d) *Use of estimates and judgements*

The preparation of the financial statements requires management to make judgements, estimates and assumptions that may affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

(e) *Interest Income*

Bank interest and income from loans and receivables is accounted for on an effective yield basis.

(f) *Finance expense on debt securities issued*

Finance expense derives from the interest due on the debt securities and is recognised as it accrued using the effective interest method.

(g) *Other income and expense recognition*

All operating income and expenses are accounted for on an accrual basis.

(h) *Taxation*

Corporation tax is provided on taxable profits at the current rate. Full provision is made for deferred tax arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in tax computations, where future payment or receipt is more likely than not to occur.

Notes to the Interim Financial Statements

For the 6 month period ending 31 December 2011

**1 Accounting policies (continued)**

**(i) Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of less than three months which are subject to insignificant risk of changes in their fair value, and are used by the Company for the management of its short term commitments.

**(j) Financial instruments**

**(i) Recognition**

The Company initially recognises all financial assets and liabilities on the trade date at which the Company becomes a party to the contractual provisions of the instruments. A financial asset or liability is measured initially at fair value plus, for an item not at fair value through the profit and loss, transaction costs that are directly attributable to its acquisition or issuance.

Financial assets and liabilities not categorised as at fair value through the profit or loss are subsequently measured at amortised cost.

**(ii) Classification**

The Company has classified financial assets and financial liabilities into the following categories:

- Financial assets at amortised costs - loans and receivables
- Financial liabilities at amortised costs - debt securities in issue

**(iii) Amortised cost**

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, minus any reduction (directly or through the use of an allowance account) for the impairment or uncollectability.

**(iv) Derecognition**

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

**(v) Impairment**

Financial assets that are stated at amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indications exist, an impairment loss is recognised in the profit and loss account as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective rate.

If in subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the

**(vi) Offsetting**

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Company has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

MBA Community Loans plc

Notes to the Interim Financial Statements

For the 6 month period ending 31 December 2011

**1 Accounting policies (continued)**

(k) *Loans and receivables*

The loans and receivables are initially measured at fair value.

They are classified as loans and receivables and are carried at amortised cost adjusted for any permanent diminution in value. Provisions are made to reduce the value of the loans and debt securities by the amount that the Directors consider likely to be a permanent impairment in the value of the loans and the debt securities and are written off where there is no longer any likelihood of further recovery of the balance.

(l) *Debt securities issued*

The debt securities issued are initially measured at fair value. They are carried at amortised cost.

All finance costs are charged to the profit and loss account reported under interest payable and similar charges. The carrying amount of debt is increased by the finance cost in respect of the reporting period and reduced by payments in respect of the debt in that period. Accrued finance costs are included in accruals rather than in the carrying amount of the debt to the extent that the finance costs have accrued in one accounting period and will be paid in cash in the next.

(m) *Going Concern*

The financial statements have been prepared on a going concern basis because the Directors consider, in the circumstances of the arrangement established when the Company was formed and the limited nature of its activities, that this is a fair basis for presenting the results of the accounting period and the state of the affairs at the end of the period.

(n) *Segmental reporting*

An operating segment is a component of the Company that engages in business activities from which it may earn revenue and incur expenses. The Company has been established to issue debt securities, the proceeds of which have been applied to acquire loans. See note 18 (b) for further details. Accordingly the Directors believe that the Company operates in only one distinct class of business and has only one reportable class of business operating segment. On this basis, no further segmental reporting analysis has been provided.

**2 Directors and employees**

The Directors received no remuneration in respect of the period under review. There were no employees during the period.

**3 Interest Income on financial assets at amortised cost**

	Period ended 31 December 2011	Period ended 30 June 2011
	€	€
Interest receivable on loans and advances to customers	502,515	517,946
Bank Interest Received	-	2,353
	<u>502,515</u>	<u>520,299</u>

**4 Finance expense on debt securities issued valued at amortised cost**

	Period ended 31 December 2011	Period ended 30 June 2011
	€	€
Interest payable on debt securities issued	337,457	324,558
	<u>337,457</u>	<u>324,558</u>

MBA Community Loans plc

Notes to the Interim Financial Statements

For the 6 month period ending 31 December 2011

5 Other income	Period ended 31 December 2011 €	Period ended 30 June 2011 €
Reimbursement of administration & other fees by Loan Servicer	78,124	98,795
Profit Fee	500	1,000
Other miscellaneous income	-	1,026
	<u>78,624</u>	<u>100,821</u>

6 Administrative expenses	Period ended 31 December 2011 €	Period ended 30 June 2011 €
Administration Fees	71,625	85,271
Management Fees	126,197	196,138
Other	7,168	13,834
	<u>204,990</u>	<u>295,243</u>

SI 220 requirements for the period ended 31 December are as follows:

	Period ended 31 December 2011 €	Period ended 30 June 2011 €
Statutory Audit	6,750	13,500
Other assurance services	-	-
Tax advisory services	-	-
Total	<u>6,750</u>	<u>13,500</u>

7 Tax on profit on ordinary activities

Corporation tax has been calculated based on the results for the year and the resulting taxation charge is as follows :

	Period ended 31 December 2011 €	Period ended 30 June 2011 €
Profit on ordinary activities before tax	<u>38,692</u>	<u>1,319</u>
Corporation tax at 25%	9,673	330
Effect of : Unutilised tax losses arising during the period	-	-
Current tax charge	<u>9,673</u>	<u>330</u>

8 Loans and receivables

During the period, the Company purchased €4.255m of loan assets. The purchase price in respect of these loans was settled by the issue of debt securities. These assets consist of portfolios of student loans. Please refer to Note 12. The Fair Value of the loans as at 31 December 2011 is € 13m.

	31 December 2011 €	30 June 2011 €
Balance at beginning of period	9,729,208	-
Loans purchased	4,254,768	10,331,663
Less principle repayments	(987,752)	(602,455)
Principal at end of period	<u>12,996,224</u>	<u>9,729,208</u>

Maturity Analysis

	€	€
< 1 year	-	-
1 to 2 years	-	-
2 to 5 years	585,073	408,343
> 5 years	<u>12,411,151</u>	<u>9,320,865</u>
	<u>12,996,224</u>	<u>9,729,208</u>

MBA Community Loans plc

Notes to the Interim Financial Statements

For the 6 month period ending 31 December 2011

<b>9 Debtors</b>	31 December 2011	30 June 2011
	€	€
Due within one year:		
Interest income receivable	731,595	422,590
Receivables from Loan Servicer	709,540	99,795
	<u>1,441,135</u>	<u>522,385</u>
<b>10 Cash and cash equivalents</b>	31 December 2011	30 June 2011
	€	€
HSBC Bank	413,062	406,785
Barclays Bank	40,000	40,000
	<u>453,062</u>	<u>446,785</u>
The Company's cash balances are held with HSBC Bank and Barclays Bank at their London branches.		
<b>11 Creditors - Amount falling due within one year</b>	31 December 2011	30 June 2011
	€	€
Interest payable on debt securities issued	654,203	316,746
Payable to Loan Servicer	58,712	99,830
Taxation payable	10,003	330
Other creditors	23,997	3,275
	<u>746,915</u>	<u>420,181</u>
<b>12 Debt securities issued</b>	31 December 2011	30 June 2011
	€	€
<b>Notes Issued</b>		
Net Debt Securities at start of period	10,237,208	-
Series 1	-	4,243,830
Series 2	-	1,967,600
Series 3	-	3,494,595
Series 4	-	662,348
Series 5	208,287	-
Series 6	3,451,700	-
Series 7	581,881	-
Series 8	295,700	-
	<u>14,774,776</u>	<u>10,368,373</u>
Less Series 1 principal repayment	(661,689)	(131,165)
Less Series 4 principal repayment	(39,589)	-
Net Debt Securities	<u>14,073,498</u>	<u>10,237,208</u>
Each Series of notes is backed by a diversified pool of loans to MBA and EMBA students. Interest payment will be referenced to three-month EURIBOR or three-month LIBOR (for Series 7 notes). The noteholders are also affected by the grace period of 18 months extended to students: during this period no payment will be made by the issuer in respect of notes.		
The Notes of each Series are direct, limited recourse and secured obligations of the Company and rank pari passu and without preference among themselves and ahead of all unsecured obligations of the Company.		
<b>13 Share capital</b>	31 December 2011	30 June 2011
	€	€
<i>Authorised share capital</i>		
40,000 Ordinary shares of €1 each	<u>40,000</u>	<u>40,000</u>
<i>Allotted, called up and fully paid</i>		
40,000 Ordinary shares of €1 each	<u>40,000</u>	<u>40,000</u>
93% of the issued shares in the Company are owned by Capita Trust Nominees No.1 Limited (the Share Trustee), which is a company incorporated in England and Wales and the remaining shares are held by 7 nominee shareholders, who hold the shares on trust for the Share Trustee. The Share Trustee holds the benefit of the shares on trust for charity. The Share Trustee has no beneficial interest in, and derives no benefit other than its fees for acting as Share Trustee, from its holding of the shares.		
<b>14 Retained earnings</b>	31 December 2011	30 June 2011
	€	€
At the beginning of the period	989	-
Profit for the financial period	29,019	989
At end of the period	<u>30,008</u>	<u>989</u>

MBA Community Loans plc

Notes to the Interim Financial Statements

For the 6 month period ending 31 December 2011

15 Reconciliation of movements in shareholders' fund	31 December 2011	30 June 2011
	€	€
Shareholders' funds at the beginning of the period	40,989	-
Transactions with shareholders - shares issued at par	-	40,000
Profit for the financial period	29,019	989
Shareholders funds at the end of the period	<u>70,008</u>	<u>40,989</u>

16 Financial risk management

**Introduction and overview**

As at 31 December 2011, the Company issued Notes to the value of €14,774,776.

The underlying transaction of the Company was to acquire a portfolio of student loan in respect of students attending INSEAD and Vlerick originated by the Loan Servicer in accordance with Eligibility Criteria. Notes of each Series will accrue interest from their interest Commencement Date. Interest is calculated by applying an IRR to the Note coupon payment streams of principal and interest.

Each Series of Notes will be secured by the first ranking fixed security over: (i) The Student Loans backing the Series; (ii) The issuer's security interest in Borrowers' life policies; (iii) Any Financial Guarantee relating to the at Series and lastly (iv) The Accounts established in respect of that Series.

**Risk management framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company is exposed to a variety of financial risks as a result of its activities.

(a) Default Risk

Default risk refers to the risk that a loan counterparty will default on its contractual obligations resulting in financial loss to the Company. The ability of the issuer to meet its payment obligations under the Notes will be affected by defaults in the underlying Students Loans. The loan platform has been designed and developed to minimise the risk of arrears and default rates for MBA and EMBA loans to international student.

The Loan Servicer, 'Prodigy Finance' has developed comprehensive risk and background vetting procedures that are used to screen every applicant as well as a proprietary scorecard which assesses each applicant's expected ability (post-graduation) to repay the loan.

No loan payment is required during the study period and for approximately 6 months post-graduation which in total gives a grace period of 18 months. Equally important, the community nature of the platform and the sources of funding provide a significant degree of social pressure for borrowers to meet all their loan repayments.

(b) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and securities prices will affect the Company's income or the value of its holding of financial instruments. Market risk includes interest rate risk and currency risk.

(i) Currency risk

The Series 7 loans and debt securities are denominated in sterling. All other Series loans and debt securities are denominated in euro. Therefore, the Company faces no foreign currency risk as at 31 December 2011.

(ii) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. Interest rate risk exists where assets and liabilities have interest rates under a different basis or which reset at a different time.

The Notes bear interest at a rate based on three-month EURIBOR as determined on the relevant EURIBOR Determination Date which is paid subject to available cashflows from the Student loans. The Company's assets also bear interest at a rate based on three-month EURIBOR

	31 December 2011	
	Amount	Weighted Average Rate
Variable rate instruments	€	%
Loans and receivables	12,996,224	7.92%
Debt securities issued	14,073,498	4.67%

MBA Community Loans plc

Notes to the Interim Financial Statements

For the 6 month period ending 31 December 2011

16 Financial risk management (continued)

- (b) Market risk (continued)  
(ii) Interest rate risk (continued)

*Sensitivity Analysis*

The interest receivable on the Series 7 loans and receivables and the interest payable on the Series 7 Debt Securities are issued at the 3 month Libor plus a margin. For all other Series, the interest receivable on the Loans and receivables and the interest payable on the Debt Securities issued are 3 month Euribor plus a margin. Therefore the Company does not believe it is subject to any interest rate risk resulting from these arrangements and therefore no sensitivity analysis is provided.

(c) *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company matches the properties of its financial liabilities to its assets to avoid significant elements of risk generated by mismatches of investment performance against its obligations.

The notes are tradable and are listed on the Irish Stock Exchange but no established secondary market exists for the notes. However, the Loan Servicer will assist in finding potential buyers in the secondary market where possible. Also the amortizing nature of the notes and the fact that many borrowers repay early means that the majority of principal is repaid long before final maturity.

The following are the contractual maturities of financial liabilities including interest payments :

2011:

	Carrying amount	Gross contractual cash flows	Less than one year	One to two years	Two to five years	More than five years
Debt securities issued	14,073,498	18,894,586	648,531	1,297,062	1,943,821	15,005,172
Creditors	746,790	746,790	746,790	-	-	-
	<u>14,820,288</u>	<u>19,641,376</u>	<u>1,395,321</u>	<u>1,297,062</u>	<u>1,943,821</u>	<u>15,005,172</u>

The Company's obligation to the Noteholders of a particular series is limited to the net proceeds upon realisation of the asset backed debt securities of that series or it having any funds to make the repayment. Should the net proceeds be insufficient to make all payments, the other assets of the Company will not be available for payment and the deficit is instead borne by the Noteholders according to the established priorities.

(d) *Credit Risk*

The credit risk is the risk of financial loss to the Company if counterparty to a financial instrument fails to meet its contractual obligation, and arises principally from loans and receivables.

The Company limits its exposure to credit risk by investing only with counterparties that have a credit rating defined in the documentation of the relevant series. The risk of default on these assets is borne either by the Financial Guarantor (for those Securities with the benefit of a Financial Guarantee and Indemnity, the swap counterparty (if any) (in the event of a concurrent default by the Financial Guarantor) and/or by the holders of the debt securities of the relevant series, as applicable.

The policy of the Company in relation to credit risk is to expose itself to the credit risk in relation to the financial assets only. The Directors consider the risk to be of an acceptable nature.

The Loan Servicer, 'Prodigy Finance' has developed comprehensive risk and background vetting procedures that are used to screen every applicant as well as a proprietary scorecard which assesses each applicant's expected ability (post-graduation) to repay the loan.

The Loan Servicer carries out ongoing monitoring of the loans with regard to repayment frequency and tracking of loans in default. The Loan Servicer also leverages the school community network in order to ensure that borrowers are motivated to repay and contribute back to future students.

At the 31 December 2011, the company's financial assets exposed to credit risk amounted to the following:

	31 December 2011	30 June 2011
	€	€
Loans and receivables	12,996,224	9,729,208
Cash and cash equivalents	453,062	446,785
Debtors	1,441,135	522,385
	<u>14,890,421</u>	<u>10,698,378</u>

(e) *Concentration Risk*

All of the loans are issued to students and this presents a concentration risk to the Company. However, controls in place by Prodigy Finance Ltd as it relates to the vetting and on going monitoring procedures identified above mitigate this risk. The entire loan platform has been designed to minimise defaults and it is expected that default levels will remain low.

MBA Community Loans plc

Notes to the Interim Financial Statements

For the 6 month period ending 31 December 2011

**16 Financial risk management (continued)**

(f) Re-investment risk

The notes will be subject to prepayment risk. Prepayment risk is the risk associated with early unscheduled return on a fixed income security. The timing of principal payments in respect of the notes will depend principally on payments received by the issuer under the Student Loans and Financial Guarantee. Investors in Notes may bear the risk that, when they receive a principal payment in respect of the Notes, they may not be able to reinvest the amount of the principal payment in alternative investments that bear a yield or return equal to or greater than the interest rate on the Notes.

*(f) Operational risk exposure*

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risk arises from all the company's operations.

**17 Post balance sheet events**

Since the balance sheet date, there have been further investments in Student Loan assets funded by the issue of notes to the value of €2.9 million. There have been no additional post balance sheet events that require disclosure in the financial statements.

**18 Ownership of the Company**

Capita Trust Nominee No.1 Limited (the Share Trustee), which is a company incorporated in England and Wales owns 93% of the issued shares and the remaining shares are held by 6 nominee shareholders who hold the shares on the trust for the Share Trustee.

The Board of Directors have considered the issue as to who is the controlling party of the Company. It has determined that the day to day activities of the company rests with the Board.

**19 Related party transactions**

The directors of the Company, the corporate secretary and the security trustee are either employed by or are provided by companies whose ultimate parent is the Capita plc, a company listed on the London Stock Exchange. These operating companies provide directors, company administration, trustee and secretarial services to the Company at normal commercial rates.

During the period to 31 December 2011, there were no fees paid to Capita in respect of corporate secretary & trustee services.

The Loan Servicer, Prodigy Finance Limited provides loan servicing, transfer agent and collection agent services to the Company. Fees paid to Prodigy Finance Limited in respect of these services totalled €197,822 in the financial period to 31 December 2011. Refer to note 6 above. Included in this figure is an accrual at period end 31 December 2011 of €53,360.

**20 Comparatives**

The comparative figures in the financial statements are from the period of incorporation 22 July 2010 to 30 June 2011.

**21 Approval of financial statements**

The Board of Directors have approved these interim unaudited financial statements.