Registered number: 05798184

Landmark Mortgage Securities No. 1 plc

Reports and audited financial statements

for the year ended 31 March 2022

Landmark Mortgage Securities No. 1 plc

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Landmark Mortgage Securities No. 1 plc

Company information

Directors	Intertrust Directors 1 Limited Intertrust Directors 2 Limited D M R Jaffe
Company secretary	Intertrust Corporate Services Limited
Registered office	1 Bartholomew Lane London EC2N 2AX
Independent auditor	KPMG LLP 15 Canada Square London E14 5GL
Registered number	05798184
Trustee	BNY Mellon Corporate Trustee Services Limited One Canada Square London E14 5AL

Landmark Mortgage Securities No. 1 plc

Strategic report
for the year ended 31 March 2022

The directors present their strategic report on Landmark Mortgage Securities No. 1 plc (the "Company" or "Issuer") for the year ended 31 March 2022.

Principal activities

The Company, a public company limited by shares was incorporated on 27 April 2006 in England, United Kingdom and is registered in England and Wales under the Companies Act 2006. The Company is a special purpose vehicle which acts as an issuer in a residential mortgage backed securitisation transaction. The principal activity of the Company is the investment in mortgage assets secured by first charges over properties within the United Kingdom.

On 26 July 2006, the Company purchased £200,000,000 of mortgage assets from Investec Bank plc, a fellow group company. Further consideration in the form of deferred consideration may be payable to the beneficial owners of the mortgages dependent on their future performance. The acquisition of these mortgage assets has been accounted for as detailed in note 2.5. of the financial statements. To facilitate the purchase, the Company issued a series of loan notes on 26 July 2006. These loan notes are issued on Euronext Dublin and are due in 2038.

The mortgage servicing, cash bond administration and accounting services are provided by Kensington Mortgage Company Limited ("KMC"), a fellow group company.

Business review

The results for the year ended 31 March 2022 are set out on page 19. Both the level of business during the year and the financial position of the Company at the end of the year were satisfactory given the nature of the Company and its limited recourse liability.

At the year end, the mortgage assets balance after the effective interest rate adjustment, expected credit loss and unamortised discount and premium on acquisition was £28,803,000 (2021: £32,737,000) on 232 (2021: 264) mortgages. The estimated weighted average remaining life of the mortgage assets is 4.8 years (2021: 5.5 years).

After considering property values, anticipated future losses and future income associated with the mortgage assets, over and above the principal figure shown above, the directors consider the mortgage assets together with the other related assets of the Company such as cash, to be adequate collateral against the loan notes in issue. The subordinated loan, included in the loan notes, is unlikely to be repaid in full.

At year end, the Company held the following principal balances of mortgage assets:

	2022 Principal balance £'000	**2022 Number of loans**	2021 Principal balance £'000	2021 Number of loans
First charge mortgages	26,911	232	30,585	264
	26,911	232	30,585	264

These mortgages provide security against loan notes in issue totalling £9,892,000 and €24,914,000 (2021: £11,541,000 and €28,071,000) as at the year end excluding accrued interest.

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

Key performance indicators

The key performance indicator of the Company is the quarterly arrears profile of the mortgage assets:

	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Delinquencies days	%	%	%	%	%
Current	81.13	83.43	81.49	80.15	81.19
>30<=60	3.41	1.57	5.55	6.81	6.04
>60<=90	1.45	2.04	1.43	2.22	2.20
>90<=120	1.71	1.31	0.81	1.87	3.34
>120	12.30	11.65	10.72	8.95	7.23
Total	100.00	100.00	100.00	100.00	100.00

The value of mortgages in repossession at the year end is £131,000 (2021: £nil).

Cash flow calculations are prepared to determine the extent to which deferred consideration will be payable and a creditor is recognised and classified at amortised cost. Interest payable on this creditor is recognised on an effective interest rate basis. Under the terms of the waterfall payments, any deferred consideration would only be paid when there are sufficient revenue funds available and all other liabilities in the waterfall have been satisfied. Based on these calculations, the directors have determined that £nil (2021: £nil) consideration was payable at the year end.

Principal risks and uncertainties

Whilst the directors have overall responsibility for the establishment and oversight of the Company's risk management framework, this obligation has been allocated and managed in accordance with the transaction documents. Further details of financial risk management are outlined in note 17 of the financial statements.

Political and economic risk

The impact of political and economic matters that have arisen, in particular the Russian invasion of Ukraine in February 2022 and rising inflation, on the regional and global economy remains uncertain and is difficult to assess in terms of duration and severity. The effect on markets and cost of living may have an adverse impact on the Company including future cash flows, however the potential impact at this stage is not known. The Company will continue to monitor market conditions and to evaluate the potential impact, if any, on its operations going forward.

COVID-19

The Board has continued to monitor the potential implications of the COVID-19 pandemic in its assessment of the financial and operational viability of the Company and has a reasonable expectation that the Company retains adequate levels of financial resources (capital and liquidity). In assessing the viability of the Company, the Board has considered the potential impact and risks facing the Company with respect to the virus. The servicer, KMC, undertook a variety of activities in the year to support consistent implementation of payment holidays and to manage the customer experience as those payment holidays came to an end. The key long-term risk remains the deterioration in the ability of customers to make monthly contractual payments caused by an increase in the unemployment rates and reduced income. A knock-on effect of an increase in unemployment could be a potential reduction in the level of collateral held by the Company should house prices decrease. The potential impact of the pandemic on the economy and the Company's operations is subject to continuous monitoring by the servicer, KMC, with appropriate escalation to the Board.

Brexit

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

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

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

Financial instrument risk

The financial instruments held by the Company comprise mortgage assets, borrowings, cash and various other items (such as other debtors and other creditors) that arise directly from its operations.

The Company also enters into derivative transactions where necessary to manage its interest rate and currency risk. Details of any derivatives held by the Company are disclosed in note 17.

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

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, foreign exchange risk, interest rate risk and operational risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Strategic report
for the year ended 31 March 2022

(a) Credit risk

Credit risk is the risk that borrowers will not be able to meet their obligations as they fall due. All mortgage assets were required to adhere to specific lending criteria. The ongoing credit risk of the mortgage portfolio (and particularly in respect of accounts in arrears) is closely monitored through an assessment of each customer and the prevailing macroeconomic environment. Probability of default of the customer and the loss given default is calculated and impairment provisions raised where necessary. The mortgage portfolio is recognised as collateralised non-recourse mortgage loans as explained in note 2.

In addition, where derivatives are held by the Company, there is a credit risk associated with the ability of the swap counterparty to meeting its obligations under the swap agreement. In some instances, this may be mitigated by the payment of cash collateral to the Company. Details of any cash collateral held by the Company are included in note 15.

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

The Company continues to closely monitor IFRS 9 impairment coverage levels:

	Gross carrying amount £'000	Provisions £'000	Coverage ratio %
At 31 March 2022			
Stage 1	8,382	1	0.01
Stage 2	13,366	21	0.16
Stage 3	3,339	34	1.02
POCI	3,772	—	0.00
Total	28,859	56	0.19
At 31 March 2021			
Stage 1	11,331	1	0.01
Stage 2	11,904	20	0.17
Stage 3	5,482	68	1.24
POCI	4,109	—	0.00
Total	32,826	89	0.27

(b) Liquidity risk

The Company's policy is to manage liquidity risk by matching the timing of the cash receipts from the mortgage assets with those of the cash payments due on the loan notes. In addition the Company holds a minimum cash balance to manage short term liquidity requirements.

(c) Foreign exchange risk

Foreign exchange risk exists where the loan notes are denominated in a currency which is different to the underlying Sterling mortgage loans. Where this exists, the Company minimises its exposure to foreign currency risk by ensuring that the currency characteristic of its assets and liabilities are similar. Where this is not possible the Company has used derivative financial instruments to mitigate any foreign exchange risk. Details of foreign exchange exposures and any related derivatives held by the Company are disclosed in note 17.

(d) Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under different bases or which reset at different times. The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar. Where this is not possible the Company has used derivative financial instruments to mitigate any residual interest rate risk. Details of interest rate risk exposures and any related derivatives held by the Company are disclosed in note 17.

(e) Operational risk

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

The Company operates under a controls and governance framework provided by KMC, the servicer of the mortgage assets. This includes regulatory and compliance functions and internal audit. The business is covered by the servicer's business continuity management capability.

Over the last two years operational risk has been impacted by COVID-19. This has led to changes to working practices by the Company's servicer, KMC, in particular increased working from home, and changes in processes to meet new regulatory requirements, including the provision of payment holidays. However, the nature of the risks to which the Company is exposed remain similar to those prior to COVID-19, but additional focus has been given to the controls appropriate for the altered working environment. The technology required for KMC's staff has been adapted to allow employees to work either from home or from the office with additional controls implemented and guidance provided with regard to the technology. The focus on technology and working environment will continue to be monitored as KMC continues to adjust to the new way of working.

The customer response to COVID-19 drove more interaction with KMC, whether implementing full payment holidays or other measures as customers responded to the impact of COVID-19 on their financial situation. KMC undertook a variety of activities to support consistent implementation of payment holidays and to manage the customer experience as those payment holidays came to an end. Monitoring of customer service quality continues to be maintained to mitigate the operational risks associated with increased customer interaction and processes related to forbearance activities.

Future business developments and strategy

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

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

The directors' report on page 9 provides details of significant events occurring after the statement of financial position date, up to the date of approval of the financial statements that would meet the criteria to be disclosed or adjusted in the financial statements as at 31 March 2022.

Landmark Mortgage Securities No. 1 plc

Strategic report
for the year ended 31 March 2022

Section 172 statement

Section 172(1) of Companies Act 2006 requires the directors to act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

a) the likely consequences of any decision in the long term;
b) the interests of the Company's employees;
c) the need to foster the Company's business relationships with suppliers, customers and other;
d) the impact of the Company's operations on the community and the environment;
e) the desirability of the Company maintaining a reputation for high standards of business conduct; and
f) the need to act fairly as between members of the Company.

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

With reference to the likely consequences of any decision in the long term, the transaction documents have been formulated to achieve the Company's purpose and business objectives, safeguard the assets and promote the success of the Company with a long term view and in accordance with relevant securitisation legislation.

The matters set out in subsections (b)–(f) have limited or no relevance to the Company for the following reasons:

- the Company has no employees;
- the Company has appointed various professional third parties to perform certain roles governed by the transaction documents;
- as a special purpose vehicle, the Company has no physical presence or operations and accordingly has minimal impact on the community and the environment; and
- the Company has a sole member with the issued shares all held on a discretionary trust basis for charitable purposes.

In accordance with section 426B of the Companies Act 2006, a copy of this statement is available at https://www.intertrustgroup.com/our-services/capital-markets-services/public-transactions/landmark-mortgage-securities-no-1-plc/.

This report was approved by the Board on 27 October 2022 and signed on its behalf by:

Helena Whitaker
Per pro Intertrust Directors 1 Limited
As Director
Date: 27 October 2022

Landmark Mortgage Securities No. 1 plc

Directors' report
for the year ended 31 March 2022

The directors present their report together with the audited financial statements of the Company for the year ended 31 March 2022.

Results and dividends

The loss for the year, after taxation, amounted to £392,000 (2021: loss of £536,000).

The directors do not recommend the payment of a dividend (2021: £nil).

Future developments

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

Financial instruments

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

Directors

The directors who held office during the year and up to the date of the approval of the financial statements, except as noted, are given below:

Intertrust Directors 1 Limited
Intertrust Directors 2 Limited
D M R Jaffe

None of the above directors have any interest in the shares of the Company. There are no directors' interests requiring disclosure under the Companies Act 2006.

Company secretary

Intertrust Corporate Services Limited continued to act as company secretary for the year ended 31 March 2022 and up to the date of signing the financial statements.

Landmark Mortgage Securities No. 1 plc

Directors' report
for the year ended 31 March 2022

Going concern

The Company has reported a loss after taxation for the current year and is in a net liability position as at 31 March 2022.

The financial statements have been prepared on the going concern basis, which the directors believe to be appropriate for the following reasons.

The directors have prepared a going concern assessment for a period of 12 months from the date of approval of these financial statements which includes reasonably possible downsides concerning the impact of COVID-19 and reasonably possible changes in trading performance and funding availability.

A call option exists over the loan notes issued by the Company which may be exercised at the sole discretion of the Issuer once the outstanding mortgage backed loan notes reach 10% of the original issued amount. At this point, the call option permits the Issuer, at any interest payment date, to repay all of the outstanding external borrowings at their carrying value at the time.

In order for the call option to be exercised the directors must certify to the Trustee of the loan notes that the Issuer will be able to repay all amounts due and payable on the interest payment date on which the option would take effect.

The exercise of the call option would result in the effective cessation of the Company's trade, followed by the orderly settlement of any remaining assets and liabilities and ultimately the dissolution of the Company.

As at 31 March 2022, the Company had net liabilities of £3,175,000 and as a result, it may not be able to repay all of its liabilities when the Company's principal liabilities, the floating rate notes, reach their final repayment date. However, the repayment of the principal liabilities of the Company, the floating rate notes, are limited to available principal cash received on the Company's loan portfolio until the final repayment date. Should the total cash flows be insufficient at this date, the Company may default on loan note payments due. In such circumstances, the Trustee may choose to dispose of the Company's assets, and, potentially wind up the Company.

The cash currently held by the Company, together with other structural features of the borrowing arrangements, gives the Company the ability to pay any interest actually due in cash over the next 12 months. Therefore, the directors have a reasonable expectation that the Company has adequate resources to continue in existence and satisfy any liabilities as they fall due for the next 12 months from the date of signing these financial statements.

On this basis, the directors have concluded that it is appropriate to continue to adopt the going concern basis in the preparation of these financial statements.

Post statement of financial position date events

In May 2022, LIBOR transition to SONIA was completed (see note 17d for details).

On 1 August 2022, the entire issued share capital of KAYL Parent Limited, a higher parent undertaking of Koala Warehouse Limited was acquired by Eucalyptus Mortgages 2022 Limited, a company incorporated in England and Wales, with the effect that the Company ceased to be part of the Koala (Cayman) Limited group from that point.

Apart from the above, there are no significant events occurring after the statement of financial position date, up to the date of approval of the financial statements that would meet the criteria to be disclosed or adjusted in the financial statements as at 31 March 2022.

Principal risks and uncertainties

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

Fair value

Note 17 discloses the fair values of the mortgage assets and loan notes. The directors noted that as at 31 March 2022 the respective fair values of the mortgage assets were lower than and loan notes were lower than the carrying values recorded in the statement of financial position.

As no liquid market exists for either the mortgage assets or loan notes, the directors have ascribed an approximate fair value based on an internal discounted cash flow model that is used to value non-securitised mortgage loan receivables. This model takes into account expected prepayment rates, arrears levels, house price movements, level of repossessions, losses and discount rates based on the most recent available information.

Corporate governance

The directors have been charged with governance in accordance with the transaction documents describing the structure and operation of the Company. The governance structure of the Company is such that the key policies have been predetermined at the time of the transaction documents issuance and the operational roles have been assigned to third parties with their roles strictly governed by the transaction documents.

The transaction documents provide for procedures that have been designed for safeguarding assets against unauthorised use or disposition, for maintaining proper accounting records, and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage, rather than eliminate the risk of failure to achieve business objectives, whilst enabling them to comply with the regulatory obligations.

Due to the nature of the securities which have been issued on Euronext Dublin, the directors are satisfied that there is no requirement to publish a corporate governance statement and that the Company is largely exempt from the requirements of the Irish Corporate Governance Annex and the provisions of the UK Corporate Governance Code do not apply to the Company.

Employees

The Company does not have any employees (2021: none). Primary and Special servicing of the mortgage assets is carried out by Kensington Mortgage Company Limited, a direct subsidiary of KHL Mortgage Services Limited and a fellow subsidiary of Koala (Cayman) Limited. Kensington Mortgage Company Limited acts as the cash bond administrator.

Issued capital and capital contribution

Details of the share capital are set out in note 18 to the financial statements. The issued share capital consists of £12,501 comprising 50,000 ordinary shares of £1 each with 1 ordinary share being fully paid and 49,999 ordinary shares being quarter paid up.

Qualifying third party indemnity provisions

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

Landmark Mortgage Securities No. 1 plc

Directors' report
for the year ended 31 March 2022

Disclosure of information to the auditor

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

Auditor

The auditor, KPMG LLP, has indicated its willingness to continue in office and pursuant to section 489 of the Companies Act 2006, a resolution concerning its re-appointment will be considered at the Annual General Meeting.

This report was approved by the Board on 27 October 2022 and signed on its behalf by:

Helena Whitaker
Per pro Intertrust Directors 1 Limited
As Director
1 Bartholomew Lane
London
EC2N 2AX

Date: 27 October 2022

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, 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 the 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.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report and a directors' report that complies with that law and those regulations.

Independent auditor's report to the members of Landmark Mortgage Securities No. 1 plc

1 Our opinion is unmodified

We have audited the financial statements of Landmark Mortgage Securities No. 1 plc ("the Company") for the year ended 31 March 2022 which comprise the:

- Statement of comprehensive income;
- Statement of financial position;
- Statement of changes in equity; and
- Related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 March 2022 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 as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. In arriving at our audit opinion above, the key audit matter was as follows (unchanged from 2021):

Independent auditor's report to the members of Landmark Mortgage Securities No. 1 plc

ECL on mortgage assets Risk vs 2021: ▼ (£56,000; 2021: £89,000) *Refer to the accounting policy note 10, 11 and note 12 (financial disclosures).* **The risk:** Subjective estimate: The risk associated with a material misstatement of ECL has reduced from prior year primarily due to an increase in UK property prices which has reduced the average loan-to-value on the mortgage assets portfolio (and the likelihood of a credit loss). Nonetheless, the ECL estimate is ultimately dependent upon the cash flows from the loans and advances to customers and/or underlying collateral, and when considering the following factors we still determine ECL to be a key audit matter: a) Estimation of ECL involves judgement and estimation uncertainty; b) Users of the financial statements consider credit risk to be one of the areas of greatest focus, subjectivity and complexity; and c) Due to the extent of judgement involved, we invest a considerable amount of time in forming our audit approach, allocation of resources and performing audit testing and reaching an opinion. The key areas where we identified greater levels of management judgement and therefore increased levels of focus in relation to ECL were: Model estimations Inherently judgemental modelling is used to estimate the ECL which involves determining the Probabilities of Default ('PD') and Loss Given Default ('LGD'). Economic scenarios IFRS 9 requires the measurement of ECLs on an unbiased forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied in determining the economic scenarios used and the probability weightings applied to them especially when considering the current uncertain economic environment.	Our procedures included: – Test of details: • agreeing key inputs and assumptions impacting the ECL allowance to corroborative evidence to assess the reasonableness of this estimate. • challenging the key assumptions used in the PD and LGD, based on our knowledge of the Company and experience of the industry in which they operate. • for the relevant data elements used in the model to compute the ECL allowance (e.g., original collateral valuation) by agreeing the data elements to corroborative evidence (e.g., original collateral valuation reports).

Independent auditor's report to the members of Landmark Mortgage Securities No. 1 plc

3 Our application of materiality and an overview of the scope of our audit

Materiality for the Company financial statements as a whole was set at £265,000 (2021: £250,000), determined with reference to a benchmark of Company total assets (of which it represents 0.75% (2021: 0.75%)).

To respond to aggregation risk from individually immaterial misstatements, we design our procedures to detect misstatements at a lower level. As a result, our performance materiality was set at 65% (2021: 65%) of materiality for the financial statements as a whole, which equals to £172,000 (2021: £160,000) for the company. The reduced performance materiality is predominantly on account of the control deficiencies and audit misstatements (corrected and uncorrected) identified in the prior years.

We agreed to report to Those Charged with Governance any corrected or uncorrected identified misstatements exceeding £13,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was performed by a single audit team.

The scope of audit work performed was fully substantive as we placed limited reliance upon the company's internal control over financial reporting.

4 Going concern

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

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The key risk that we considered most likely to adversely affect the Company's available financial resources or ability to continue operations over this period was:

- The call option on the loan notes issued by the Company becoming exercisable significantly earlier than expected.

We considered whether these risks could plausibly affect the liquidity in the going concern period by considering downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Company's financial forecasts. Our procedures included the following, which were designed to address the going concern matter from the perspective of call option triggers as this is the only event that, in case of materialisation, can cast significant doubt on the Company's ability to continue as a going concern.

- Evaluation of how the directors' risk assessment process identifies events or conditions that are likely to trigger the exercise of the call option with a consequential impact on the going concern assessment for the Company;
- Evaluation of whether the directors' assessment has failed to identify relevant events or conditions that may trigger the exercise of the call option and cast significant doubt on the Company's ability to continue as a going concern and whether the methods used by directors are appropriate; and
- Assessment of the appropriateness of the going concern disclosure.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 2.1.1 to be acceptable.

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

5 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

- Enquiring of directors and management and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including any actual, suspected or alleged fraud.
- Using our own judgement and knowledge of the company and the circumstances of the company to identify potential fraud risks.

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

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that the company's management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as loan impairment. On this audit we do not believe there is a fraud risk related to revenue recognition because there is limited complexity in the calculation and recognition of revenue.

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

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

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

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

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

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

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

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

6 We have nothing to report on the Strategic Report and the Directors' Report

The directors are responsible for the Strategic Report and the Directors' Report presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover those reports and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion 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 those reports;
- 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.

7 We have nothing to report on the other 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.

Independent auditor's report to the members of Landmark Mortgage Securities No. 1 plc

8 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 12, the directors are responsible for: the preparation of the financial statements including 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.

Auditor's responsibilities

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

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

9 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.

Karl Pountney (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
United Kingdom

23 October 2022

Landmark Mortgage Securities No. 1 plc

Statement of comprehensive income for the year ended 31 March 2022

	Note	2022 £'000	2021 £'000
Interest receivable and similar income	4	829	820
Interest payable and similar expenses	5	(506)	(579)
Net interest receivable		323	241
Operating expenses		(491)	(408)
Other operating income	6	3	16
		(165)	(151)
Net fair value loss on derivatives		(514)	(1,016)
Unrealised exchange gain on retranslation of loan notes		287	631
Loss before taxation	7	(392)	(536)
Tax on loss	8	—	—
Loss and total comprehensive expense for the financial year		(392)	(536)

All amounts relate to continuing operations.

There were no items of other comprehensive income for 2022 or 2021 and therefore no separate statement of other comprehensive income has been presented.

The notes on pages 22 to 54 are an integral part of these financial statements.

Registered number: 05798184

Landmark Mortgage Securities No. 1 plc

Statement of financial position as at 31 March 2022

	Note	2022 £'000	2021 £'000
Non-current assets			
Debtors: amounts falling due after more than one year	11	28,329	32,105
Current assets			
Debtors: amounts falling due within one year	12	488	696
Derivative financial instruments	17	3,958	4,707
Cash and cash equivalents	14	3,218	3,294
Total current assets		7,664	8,697
Current liabilities			
Creditors: amounts falling due within one year	15	(271)	(414)
Derivative financial instruments	17	(19)	(45)
Total assets less current liabilities		35,703	40,343
Non-current liabilities			
Creditors: amounts falling due after more than one year	16	(38,878)	(43,126)
Net liabilities		(3,175)	(2,783)
Capital and reserves			
Called up share capital	18	13	13
Accumulated losses		(3,188)	(2,796)
Total deficit		(3,175)	(2,783)

These financial statements were approved and authorised for issue by the Board on 27 October 2022 and were signed on its behalf by:

Helena Whitaker
Per pro Intertrust Directors 1 Limited
As Director
Date: 27 October 2022

The notes on pages 22 to 54 are an integral part of these financial statements.

Landmark Mortgage Securities No. 1 plc

Statement of changes in equity for the year ended 31 March 2022

	Called up share capital £'000	Accumulated losses £'000	Total deficit £'000
Balance at 1 April 2020	13	(2,260)	(2,247)
Loss for the financial year	—	(536)	(536)
Balance at 31 March 2021	13	(2,796)	(2,783)
Balance at 1 April 2021	13	(2,796)	(2,783)
Loss for the financial year	—	(392)	(392)
Balance at 31 March 2022	13	(3,188)	(3,175)

The notes on pages 22 to 54 are an integral part of these financial statements.

Notes to the financial statements for the year ended 31 March 2022

1 General information

The principal activity of the Company is the investment in mortgage assets secured by first charges over properties within the United Kingdom.

The Company is a public limited company and was incorporated on 27 April 2006 and is domiciled in England, United Kingdom. Its principal place of business is its registered office located at 1 Bartholomew Lane, London, EC2N 2AX.

2 Significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements:

2.1. Basis of preparation and statement of compliance with FRS 101

The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared on a going concern basis, under the historical cost convention as modified by the financial assets and liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006. The disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows:

- The requirements of IAS 7 Statement of Cash Flows;
- The requirements of paragraphs 10(d), 10(f), 16, 38(c)-(d), 40(a)-(d), 111 and 134-136 of IAS 1 Presentation of Financial Statements;
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; and
- The Company has taken advantage of the exemptions conferred by FRS 101: 8 (j) & (k) Related party disclosures, the requirements of paragraph 17 and 18A of IAS 24 Related party disclosures, and transactions with other wholly owned group companies are not disclosed separately.

The preparation of financial statements in conformity with FRS 101 requires the use of certain significant accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

2.1.1 Going concern

The Company has reported a loss after taxation for the current year and is in a net liability position as at 31 March 2022.

The financial statements have been prepared on the going concern basis, which the directors believe to be appropriate for the following reasons.

The directors have prepared a going concern assessment for a period of 12 months from the date of approval of these financial statements which includes reasonably possible downsides concerning the impact of COVID-19 and reasonably possible changes in trading performance and funding availability.

A call option exists over the loan notes issued by the Company which may be exercised at the sole discretion of the Issuer once the outstanding mortgage backed loan notes reach 10% of the original issued amount. At this point, the call option permits the Issuer, at any interest payment date, to repay all of the outstanding external borrowings at their carrying value at the time.

In order for the call option to be exercised the directors must certify to the Trustee of the loan notes that the Issuer will be able to repay all amounts due and payable on the interest payment date on which the option would take effect.

The exercise of the call option would result in the effective cessation of the Company's trade, followed by the orderly settlement of any remaining assets and liabilities and ultimately the dissolution of the Company.

As at 31 March 2022, the Company had net net liabilities of £3,175,000 and as a result, it may not be able to repay all of its liabilities when the Company's principal liabilities, the floating rate notes, reach their final repayment date. However, the repayment of the principal liabilities of the Company, the floating rate notes, are limited to available principal cash received on the Company's loan portfolio until the final repayment date. Should the total cash flows be insufficient at this date, the Company may default on loan note payments due. In such circumstances, the Trustee may choose to dispose of the Company's assets, and, potentially wind up the Company.

The cash currently held by the Company, together with other structural features of the borrowing arrangements, gives the Company the ability to pay any interest actually due in cash over the next 12 months. Therefore, the directors have a reasonable expectation that the Company has adequate resources to continue in existence and satisfy any liabilities as they fall due for the next 12 months from the date of signing these financial statements.

On this basis, the directors have concluded that it is appropriate to continue to adopt the going concern basis in the preparation of these financial statements.

2.1.2. New standards, amendments and IFRIC interpretations

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 March 2022 which have had a material impact on the Company.

In October 2020, the IASB published Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 for interest rate benchmark reform, effective for accounting periods starting on or after 1 January 2021. The main impact of these amendments will be to facilitate the Company's transition to use of the SONIA reference rate for its mortgage portfolio and for its LIBOR-based loan notes without the requirement for remeasurement of the carrying value of these assets and liabilities that might otherwise be required as a result of a contractual change.

2.2. Interest recognition

Interest income on mortgage assets, together with the interest expense on the loan notes, is recognised in the statement of comprehensive income on an EIR basis. The EIR basis recognises revenue and expenses equivalent to the rate that effectively discounts estimated future cash flows throughout the expected life to the net carrying value of the mortgage assets or loan notes.

2.3. Current and deferred tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in total equity. In this case the tax is also recognised in other comprehensive income or directly in total equity, respectively.

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns in respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on deductible temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.4. Foreign currencies

The financial statements are presented in pounds Sterling (£), which is the functional and presentation currency of the Company. All amounts in these financial statements have been rounded to the nearest thousand, unless otherwise indicated.

Transactions in foreign currency are initially converted to Sterling at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at rates of exchange prevailing at the reporting date. All differences on exchange are taken to the statement of comprehensive income.

2.5. Financial instruments

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

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

Financial assets

Mortgage assets

Mortgage assets are classified within debtors. The initial measurement is at fair value plus transaction costs that are directly attributable to the acquisition of the mortgage assets, with subsequent measurement being amortised cost using the EIR method. The effective interest on the mortgage assets is calculated with reference to the interest earned on the mortgage assets.

Mortgage assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on lending and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest receivable and similar income in the statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

Financial assets at fair value through profit or loss

At initial recognition, the Company has designated certain financial assets at fair value through profit or loss (FVTPL) because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise. Financial assets at FVTPL include derivative financial instruments held for risk management purposes. Financial assets at FVTPL are measured at fair value in the statement of financial position with changes in fair value recognised in finance revenue or finance expense in the statement of comprehensive income.

Debtors

Debtors including amounts owed by group undertakings and other debtors, with no stated interest rate and receivable within one year are initially recorded at fair value and subsequently measured at amortised cost using the effective interest method.

Provisions for receivables are made specifically where there is evidence of a risk of non-payment, taking into account ageing, previous losses experienced and general economic conditions.

Impairment of financial assets

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

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

Unlike other financial instruments, the mortgage assets is, by its construction, an instrument that incorporates credit enhancement.

The interest due on mortgage assets is only due to the extent it matches the obligations of the Company. All securitisation programmes incorporate credit enhancement in the form of excess spread along with various reserve funds for use in the event the excess spread for a particular payment period is insufficient. Expected losses for the mortgage assets would only therefore be recognised where the expected credit losses on the underlying assets were large enough that no credit enhancement remained.

Financial liabilities

Trade and other creditors

Creditors including amounts owed to group undertakings, other creditors and accruals, with no stated interest rate and due within one year, are recorded at transaction price.

Loan notes

All loan notes were initially recognised at fair value, which was their transaction price at the date of issue less directly attributable transaction costs. All loan notes are subsequently re-measured at amortised cost taking into account repayments at interest payment dates where applicable.

Interest payable is recognised using the EIR method with the directly attributable transaction costs being amortised over the expected average life of the facility. Any unamortised issue costs are disclosed in note 16.

Interest payable on the notes during the year and any associated EIR adjustments are included in interest payable and similar expenses.

The repayment of the loan notes is dependent on principal and interest collections on the mortgage loans.

Deferred consideration

Deferred consideration is initially recognised at fair value and is then subsequently measured at amortised cost under the effective interest rate method.

Under the terms of the securitisation the Company earns a maximum annual profit for the year ended 31 March 2022 in an amount equal to 0.01% of revenue ledger.

Cash flow calculations are prepared to determine the extent to which deferred consideration will be payable and a creditor is recognised and classified at amortised cost. Interest payable on this creditor is recognised on an effective interest rate basis. Under the terms of the waterfall payments, any deferred consideration would only be paid when there are sufficient revenue funds available and all other liabilities in the waterfall have been satisfied. Based on these calculations, the directors have determined that £nil (2021: £nil) consideration was payable at the year end.

Offsetting of financial assets and liabilities

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

Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date in the principal or, in its absence, the most advantageous market to which the Company has access at that date.

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

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

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

Where applicable, the following methods are used to estimate the fair values of the financial instruments:

i. cash, trade receivables and payables - the carrying value is a good approximation of the fair value;
ii. fixed and variable rate borrowings - valued as detailed in note 17;
iii. derivatives - net present value of the future cash-flows, calculated using market data at the statement of financial position date (principally exchange rates and yield curves); and
iv. mortgage assets - valued as detailed in note 17.

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

These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to the valuation technique used.

The different levels are identified as follows:

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

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

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

Derivative financial instruments

Where applicable the Company may use derivative financial instruments to hedge its exposure to interest rate risk and foreign exchange risk arising from financing and investment activities. The Company does not hold or issue derivative financial instruments for trading purposes. None of the economic hedge relationships held by the Company qualify for hedge accounting.

All derivative financial instruments are held at fair value through profit or loss. Subsequent to initial recognition, derivatives are remeasured to fair value. Where the value of the derivative is positive, it is carried as a derivative asset and, where negative, as a derivative liability. The gain or loss on remeasurement to fair value is recognised immediately in the statement of comprehensive income.

The fair value of the derivative financial instruments is the estimated amount that the Company would receive or pay to terminate the derivative contract at the statement of financial position date. Where derivative contracts contain collateral agreements which reduce counterparty risk the collateral is held in cash and recorded within creditors: amounts falling due within one year (see note 15).

The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit value adjustment (CVA). The Company's own risk of default is also incorporated into the fair value of derivative positions. This adjustment is known as the debit value adjustment (DVA). Neither adjustment has a material impact on the fair value of derivative positions.

Basis rate swaps

Amortising basis rate swaps may be entered into in order to manage the Company's basis rate exposure that may arise from a difference in reset dates of the loan notes and the mortgage assets. Where applicable, the net interest payable and receivable on the swaps is recorded on an accruals basis and included within interest payable and receivable within the statement of comprehensive income.

Currency swaps

Where the Company holds non-Sterling denominated loan notes, the Company may enter into currency swaps in order to manage the Company's currency rate exposure. Where applicable, the derivative contracts are designed to match the expected profile of the run-off of the non-Sterling denominated loan notes.

Details of any derivatives held by the Company are disclosed in note 17.

2.6. Premium paid on mortgage assets

A premium is recognised where mortgage assets are acquired at amounts in excess of their carrying values. Where this occurs the premium is capitalised by the Company and amortised over the expected repayment period of the mortgage assets. The amortised balance is added to the mortgage assets balance with the costs amortised in the period included in interest receivable and similar income. Details of any unamortised premiums paid on the mortgage assets are disclosed in note 13.

2.7. Segmental analysis

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

2.8. Share capital and capital contributions

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

3 Significant accounting estimates and judgements

The preparation of financial statements in accordance with FRS 101 requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

3.1. Significant accounting judgements

Derecognition of mortgage assets

The Company has made a significant accounting judgement in the assessment of the mortgage assets. The Company performed an assessment of the risks and rewards associated with the financial assets acquired, and concluded that the financial assets qualify for derecognition for the originator. In making this assessment the Company considered the retained risks of the seller, in the form of credit enhancement paid in, and rewards, in the form of deferred purchase consideration to be paid out, of that financial asset. This follows the accounting treatment adopted in the sellers' financial statements.

3.2. Significant accounting estimates and assumptions

The Company has identified the following significant accounting policies that involve significant accounting estimates and assumptions:.

Impairment of mortgage assets

Significant increase in credit risk for classification in stage 2

The Company's transfer criteria determines what constitutes a significant increase in credit risk ("SICR"), which results in an exposure being moved from stage 1 to stage 2. At the point of recognition, a loan is assigned a lifetime PD estimate. For each monthly reporting date thereafter, an updated lifetime PD estimate is computed for the life of the loan. The Company's transfer criteria analyses relative changes in lifetime PD versus the origination lifetime PD, where if prescribed thresholds are met, an account will be transferred from stage 1 to stage 2.

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

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

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

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

Probability of Default ("PD") models

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

Loss Given Default ("LGD") model

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

Forward-looking macroeconomic scenarios

The forward-looking macroeconomic scenarios affect both the PD and LGD estimates. Therefore the expected credit losses calculations are sensitive to both the scenarios utilised and their associated probability weightings. As the Company does not have an in-house economics function it sources economic forecasts from an appropriately qualified third party. The Company considers eight probability weighted scenarios, including base, upside and downside scenarios as well as a "protracted slump" scenario which would cover eventualities due to Brexit and COVID-19 uncertainty.

Under the "protracted slump" scenario, the mortgage impairment provision increases by £63,000 to £92,000.

In ensuring an unbiased, probability-weighted outcome, the Company uses a number of economic scenarios which include a base case as well as a range of upside and downside scenarios. These scenarios include the forecast of the macroeconomic variables that have been identified as relevant to the Company's exposures, including, but not limited to:

- Regional UK House Prices
- 3-month GBP LIBOR
- UK GDP
- UK Unemployment Rate

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

Effective Interest Rate ("EIR")

The EIR is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The cash flows used to calculate the EIR in this analysis include directly attributable transaction costs, premiums, discounts and the impact of changes from introductory to reversionary interest rates. Further details are disclosed in note 4.

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

An increase of 1% in the CPR assumed would result in a debit of £5,000 to the statement of comprehensive income.

Fair value measurement

Where applicable, the Company measures financial instruments, such as derivatives, at fair value at each statement of financial position date. For the valuation of derivative financial instruments, a discounted cash flow model is used based on a current interest rate yield curve. The yield curve is the primary determinant of the valuation and is constructed by benchmarking to generic instruments in the market that are sensitive to overnight index swap ("OIS") movements. Details of the fair value measurement of any derivative financial instruments held by the Company are included in note 17.

Notes to the financial statements for the year ended 31 March 2022

4 Interest receivable and similar income

	2022 £'000	2021 £'000
Interest receivable on mortgage assets	1,053	1,157
Amortisation of premium on mortgage assets	(205)	(324)
Other interest	(19)	(13)
	829	820

Interest has accrued for the year in relation to impaired financial assets at 4.12% (2021: 3.65%) of the principal balance.

5 Interest payable and similar expenses

	2022 £'000	2021 £'000
Interest expense	506	579
	506	579

Within interest payable on mortgage backed loan notes £nil (2021: £nil) relates to amounts due to group companies.

6 Other operating income

	2022 £'000	2021 £'000
Sundry fee income	3	16
	3	16

7 Loss before taxation

	2022 £'000	2021 £'000
Loss before taxation is stated after charging/(crediting):		
Auditor's remuneration for statutory audit	33	27
Impairment credit on mortgage assets	(33)	(127)
Mortgage administration fees	194	141

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

The Company's operations are managed by Kensington Mortgage Company Limited ("KMC"), a fellow group company.

8 Taxation

	2022 £'000	2021 £'000
Analysis of tax expense for the year		
Current tax		
UK corporation tax expense on loss for the year	—	—
Total current tax	—	—

Factors affecting taxation

The tax assessed for the year is higher than (2021: higher than) the standard rate of corporation tax in the United Kingdom of 19% (2021: 19%).

	2022 £'000	2021 £'000
Loss before taxation	(392)	(536)
Loss multiplied by the standard rate of corporation tax in the UK of 19% (2021: 19%)	(74)	(102)
Effects of:		
Application of Statutory Instrument No. 3296 The Taxation of Securitisation Companies Regulations 2006	74	102
Tax for the year at the small companies rate of corporation tax of 19% (2021: 19%) on the actual retained profit for the year	—	—
Tax expense for the year	—	—

Changes to UK corporation tax rates were substantively enacted by the Finance Bill 2021 (on 24 May 2021). These included an increase in the corporation tax rate from 19% to 25% from 1 April 2023. Deferred tax balances have been remeasured accordingly where appropriate.

The Company is taxed in accordance with Statutory Instrument No. 3296 The Taxation of Securitisation Companies Regulations 2006 which requires that tax is charged on the profits 'retained by the Issuer'. The Issuer required profit for the year amounted to £135 (2021: £285).

9 Directors and employees

The Company does not have any employees other than the directors (2021: none). The directors did not receive any remuneration for the year (2021: £nil).

During the year, fees of £77,000 (2021: £39,000) were paid and accrued to Intertrust Management Limited in respect of corporate services provided to the Company, this included the provision of the directors to the Company.

10 Mortgage assets

	Mortgage assets £'000	Impairment £'000	Mortgage assets, net of impairment £'000
At 1 April 2020	36,134	(216)	35,918
Movement in the year	(3,308)	127	(3,181)
At 31 March 2021	32,826	(89)	32,737
Movement in the year	(3,967)	33	(3,934)
At 31 March 2022	28,859	(56)	28,803

The mortgage assets are denominated in Sterling and bear interest at a variable rate. They are secured on the beneficial interest in the portfolio of residential mortgage loans.

The current mortgage loans in the pool have contractual loan periods of between 1 to 168 (2021: 1 to 180) months remaining with current interest rates ranging from 1.75% to 5.35% (2021: 1.35% to 4.85%) per annum.

Gross carrying amount

	2022 Buy to let £'000	**2022 Residential £'000**	**2022 Total £'000**	2021 Buy to let £'000	2021 Residential £'000	2021 Total £'000
Stage 1	1,092	7,290	8,382	1,743	9,588	11,331
Stage 2	594	12,772	13,366	301	11,603	11,904
Stage 3	101	3,238	3,339	248	5,234	5,482
POCI	84	3,688	3,772	84	4,025	4,109
Total	1,871	26,988	28,859	2,376	30,450	32,826

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	POCI	Total £'000
At 1 April 2020	18,514	8,000	5,240	4,380	36,134
Originations					
Repayments and write-offs	(2,317)	(620)	(100)	(271)	(3,308)
Transfers:					
- To stage 1	445	(409)	(36)	—	—
- To stage 2	(5,311)	5,907	(596)	—	—
- To stage 3	—	(974)	974	—	—
At 31 March 2021	11,331	11,904	5,482	4,109	32,826
Repayments and write-offs	(1,266)	(1,086)	(1,278)	(337)	(3,967)
Transfers:					
- To stage 1	140	(22)	(118)	—	—
- To stage 2	(1,718)	2,661	(943)	—	—
- To stage 3	(105)	(91)	196	—	—
At 31 March 2022	8,382	13,366	3,339	3,772	28,859

Expected credit loss

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

	2022 Buy to let £'000	**2022 Residential £'000**	**2022 Total £'000**	2021 Buy to let £'000	2021 Residential £'000	2021 Total £'000
Stage 1	—	1	1	—	1	1
Stage 2	3	18	21	1	19	20
Stage 3	5	29	34	9	59	68
POCI	—	—	—	—	—	—
Total	8	48	56	10	79	89

The table below shows the movement in the ECL by IFRS 9 stage during the year. ECL on originations reflect the IFRS 9 stage of loans originated during the year as at 31 March 2022 and not the date of origination.

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 April 2020	4	64	148	216
Repayments and write-offs	2	(46)	(83)	(127)
Transfers:				
- To stage 2	(5)	8	(3)	—
- To stage 3	—	(6)	6	—
At 31 March 2021	1	20	68	89
Repayments and write-offs	1	(1)	(33)	(33)
Transfers:				
- To stage 2	(1)	4	(3)	—
- To stage 3	—	(2)	2	—
At 31 March 2022	1	21	34	56

The book value of the mortgage assets are measured at amortised cost using the EIR method, with a provision made for impairment. The impairment model used to estimate future cash flows in the impairment calculation is sensitive to certain key assumptions as detailed in the accounting policies section.

The ECL model has three stages. Entities are required to recognise a 12 month expected loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk since initial recognition (stage 2). Stage 3 requires objective evidence that an asset is credit-impaired.

11 Debtors: amounts falling due after more than one year

	2022 **£'000**	2021 £'000
Mortgage assets net of impairment (note 10)	28,329	32,105
	28,329	32,105

12 Debtors: amounts falling due within one year

	2022	2021
	£'000	£'000
Mortgage assets net of impairment (note 10)	474	632
Amounts due from group companies	—	51
Other debtors	14	13
	488	696

Mortgage assets, net of impairment represent the portion of the mortgage book expected to be receivable over the next 12 months based on behavioural assumptions.

Amounts due from group undertakings are interest free and repayable on demand.

13 Premium on mortgage assets

	2022	2021
	£'000	£'000
Premium on mortgage assets		
At the beginning of the year	1,167	1,491
Movement in the year	(205)	(324)
At the end of the year	962	1,167

The premium paid on mortgage assets is amortised in line with the amortisation profile of the mortgage assets. The amortisation charges are recognised within interest receivable in the statement of comprehensive income.

14 Cash and cash equivalents

	2022	2021
	£'000	£'000
Cash at bank and in hand	3,218	3,294
	3,218	3,294

The expected credit loss of the Cash at bank and in hand is deemed to be zero.

Cash at bank earns interest at the rates specified in note 17.

Notes to the financial statements for the year ended 31 March 2022

15 Creditors: amounts falling due within one year

	2022 **£'000**	2021 £'000
Accruals and deferred income	45	31
Note interest accruals	15	83
Other creditors	39	6
Amounts owed to group undertakings	172	168
Discount Reserve Swap	—	126
	271	414

Amounts due to group undertakings are interest free and payable on demand.

Cash flow calculations are prepared to determine the extent to which deferred consideration will be payable and a creditor is recognised and classified at amortised cost. Interest payable on this creditor is recognised on an effective interest rate basis. Under the terms of the waterfall payments, any deferred consideration would only be paid when there are sufficient revenue funds available and all other liabilities in the waterfall have been satisfied. Based on these calculations, the directors have determined that £nil (2021: £nil) consideration was payable at the year end.

The Discount Reserve Swap (DRS) is a cash flow instrument that was entered into when the Company was incorporated to subsidise cash received while mortgages were in their initial fixed rate period. The cash flow received from this swap during that period is now payable to the DRS provider as a cash flow in the Interest priority of payments ranking junior to the Class D note interest shown in note 16.

16 Creditors: amounts falling due after more than one year

	2022 **£'000**	2021 £'000
GBP Denominated Mortgage backed loan notes due 2038 - Class Aa	2,100	2,918
EUR Denominated Mortgage backed loan notes due 2038 - Class Ac	1,129	1,584
EUR Denominated Mortgage backed loan notes due 2038 - Class B	16,744	18,691
GBP Denominated Mortgage backed loan notes due 2038 - Class Ca	3,163	3,500
EUR Denominated Mortgage backed loan notes due 2038 - Class Cc	3,258	3,636
GBP Denominated Mortgage backed loan notes due 2038 - Class D	4,629	5,123
Total loan notes	31,023	35,452
Subordinated loans	7,855	7,674
	38,878	43,126

The loan notes due in 2038 are secured over the portfolio of mortgage assets secured by first charges over residential properties in the United Kingdom.

The mortgage backed loan notes are repaid as the underlying portfolio redeems. The terms and conditions of the mortgage backed loan notes provide that the loan note holders will receive interest and principal only to the extent that sufficient funds are generated from the mortgage assets.

None (2021: none) of the loan notes are owed to a related party.

Notes to the financial statements
for the year ended 31 March 2022

Whilst the mortgage backed loan notes are subject to mandatory redemption in part at each Interest Payment Date in an amount equal to the principal received or recovered in respect of the mortgage assets, the mortgage backed loan notes are classified and presented as amounts falling due after one year in accordance with the contractual maturity dates due to the uncertainty in the expected principal repayments or recoveries of the mortgages. If not otherwise redeemed or purchased and cancelled, the mortgage backed loan notes will be redeemed at their principal amount outstanding on the Interest Payment Date falling in 2038.

The priority and amount of claims on the portfolio proceeds are determined in accordance with a strict priority of payments. The mortgage backed loan notes are repayable out of capital receipts from the mortgage assets, with the Class A Notes ranking in priority to the Class B Notes, which rank in priority to the Class C Notes, which rank in priority to the Class D Notes.

Interest on the loan notes is payable quarterly in arrears at the following annual rates for three month deposits:

Class Aa	Sterling LIBOR + 0.22%
Class Ac	EURIBOR + 0.22%
Class B	EURIBOR + 0.60%
Class Ca	Sterling LIBOR + 1.00%
Class Cc	EURIBOR + 1.00%
Class D	Sterling LIBOR + 4.25%

A call option exists over the loan notes issued by the Company which may be exercised at the sole discretion of the Issuer once the outstanding mortgage backed loan notes reach 10% of the original issued amount. At this point, the call option permits the Issuer, at any interest payment date, to repay all of the outstanding external borrowings at their carrying value at the time.

In order for the call option to be exercised the directors must certify to the Trustee of the loan notes that the Issuer will be able to repay all amounts due and payable on the interest payment date on which the option would take effect.

17 Financial instruments and risk management

Nature and extent of risks arising from financial statements

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, foreign currency risk, interest rate risk and operational risk as explained in the strategic report. Financial instruments used by the Company for risk management purposes include derivative instruments. Such instruments are used only for commercial hedging purposes, not for trading or speculative purposes. The principal derivative instruments used by the Company in managing its risks are basis rate swaps and foreign currency swaps. The maturity profile of the derivative instruments reflects the nature of exposures arising from underlying business activities. All of the Company's derivatives activities are contracted with financial institutions.

During the year, the Company recognised a loss of £227,000 (2021: loss of £385,000) due to the movements in the fair value of derivatives and exchange rate movements on the loan notes.

a) Credit risk

Credit risk is the risk that borrowers of the mortgage assets will not be able to meet their obligations as they fall due. All mortgage assets are required to adhere to specific lending criteria. The payments in respect of the financial instruments are dependent upon the performance of the mortgage assets. The ongoing credit risk of the mortgage portfolio (and particularly in respect of accounts in arrears) is closely monitored by the directors.

The level of arrears in the mortgage portfolio has largely stabilised, which the directors consider is consistent with the improvement in the market conditions experienced in the past few years in the United Kingdom mortgage market. Arrears management and recovery processes are performed with the aim of maximising customer rehabilitation. Whilst there has been strong arrears performance, the directors acknowledge that market conditions, resulting in a benign interest rate environment, has partly contributed to the strong portfolio performance. With this in mind, the directors continue to closely monitor the economic landscape to ensure the Company is best placed to respond to any pressures that may impact portfolio performance and proactively consider strategies to mitigate any adverse portfolio impact should these pressures occur.

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

Before taking account of any collateral, the maximum exposure to credit risk as at 31 March 2022 was:

	2022	2021
	£'000	£'000
Mortgage assets	28,859	32,826
Cash and cash equivalents	3,218	3,294
Derivative financial instruments	3,958	4,707
	36,035	40,827

The Company reviews the mortgage assets to assess impairment at least on a yearly basis. The credit quality of the financial assets is also reviewed on a monthly basis by the Company.

Notes to the financial statements for the year ended 31 March 2022

Mortgage assets and asset credit quality

All mortgage assets are categorised, as either 'stage 1', 'stage 2' or 'stage 3'. A loan is considered past due when the borrower has failed to make a payment when due under the terms of the loan contract.

	2022 Gross carrying amount £'000	2022 Capped collateral held £'000	2021 Gross carrying amount £'000	2021 Capped collateral held £'000
Stage 1	8,382	8,382	11,331	11,331
Stage 2	13,366	13,366	11,904	11,904
Stage 3	3,339	3,339	5,482	5,482
POCI	3,772	3,769	4,109	4,093
	28,859	28,856	32,826	32,810

Credit risk profile by internal PD grade for mortgage assets at amortised cost:

2022

		Gross carrying amount				
	PD range %	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	POCI £'000	Total £'000
Credit quality description						
Very strong	0%-1%	2,734	—	—	37	2,771
Strong	1%-5%	5,076	44	—	45	5,165
Satisfactory	5%-10%	572	952	—	—	1,524
Higher risk	10%-99.9%	—	12,370	—	1,643	14,013
Credit impaired	100%	—	—	3,339	2,047	5,386
Total		8,382	13,366	3,339	3,772	28,859

		Allowance for ECL				
	PD range %	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	POCI £'000	Total £'000
Credit quality description						
Strong	1%-5%	1	—	—	—	1
Higher risk	10%-99.9%	—	21	—	—	21
Credit impaired	100%	—	—	34	—	34
Total		1	21	34	—	56

Credit quality description	PD range %	Net exposure £'000	ECL coverage %
Very strong	0%-1%	2,771	0.00
Strong	1%-5%	5,164	0.02
Satisfactory	5%-10%	1,524	0.00
Higher risk	10%-99.9%	13,992	0.15
Credit impaired	100%	5,352	0.63
Total		28,803	0.19

2021

		Gross carrying amount				
	PD range	Stage 1	Stage 2	Stage 3	POCI	Total
	%	£'000	£'000	£'000	£'000	£'000
Credit quality description						
Very strong	0%-1%	6,664	—	—	—	6,664
Strong	1%-5%	3,826	568	—	91	4,485
Satisfactory	5%-10%	749	1,780	—	—	2,529
Higher risk	10%-99.9%	92	9,556	—	1,544	11,192
Credit impaired	100%	—	—	5,482	2,474	7,956
Total		11,331	11,904	5,482	4,109	32,826

		Allowance for ECL			
	PD range	Stage 1	Stage 2	Stage 3	Total
	%	£'000	£'000	£'000	£'000
Credit quality description					
Strong	1%-5%	1	—	—	1
Higher risk	10%-99.9%	—	20	—	20
Credit impaired	100%	—	—	68	68
Total		1	20	68	89

Credit quality description	PD range %	Net exposure £'000	ECL coverage %
Very strong	0%-1%	6,664	0.00
Strong	1%-5%	4,484	0.02
Satisfactory	5%-10%	2,529	0.00
Higher risk	10%-99.9%	11,172	0.18
Credit impaired	100%	7,888	0.85
Total		32,737	0.27

As at 31 March 2022, the ageing analysis of mortgage assets is as follows:

2022	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	POCI £'000	Total £'000
Not past due	7,930	10,116	617	1,517	20,180
Past due < 1 month	452	2,174	210	84	2,920
Past due 1 to 3 months	—	1,076	703	279	2,058
Past due 3 to 6 months	—	—	1,003	520	1,523
Past due 6 to 12 months	—	—	424	889	1,313
Past due over 12 months	—	—	186	483	669
Possessions	—	—	196	—	196
Total mortgage assets before provisions	8,382	13,366	3,339	3,772	28,859

2021	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	POCI £'000	Total £'000
Not past due	10,717	9,208	1,245	1,522	22,692
Past due < 1 month	614	1,570	371	254	2,809
Past due 1 to 3 months	—	1,126	796	535	2,457
Past due 3 to 6 months	—	—	1,391	72	1,463
Past due 6 to 12 months	—	—	623	707	1,330
Past due over 12 months	—	—	1,009	1,019	2,028
Possessions	—	—	47	—	47
Total mortgage assets before provisions	11,331	11,904	5,482	4,109	32,826

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

LTV analysis by band for all loans:

	2022 £'000	2022 %	2021 £'000	2021 %
0%-10%	143	0.50	122	0.37
10%-20%	836	2.90	644	1.96
20%-30%	2,341	8.11	1,160	3.53
30%-40%	3,701	12.82	4,531	13.80
40%-50%	8,133	28.18	5,255	16.01
50%-60%	8,609	29.83	8,982	27.37
60%-70%	4,352	15.08	7,434	22.65
70%-80%	384	1.33	3,898	11.87
80%-90%	218	0.76	450	1.37
90%-100%	—	—	213	0.65
>100%	142	0.49	137	0.42
Total mortgage assets before provisions	28,859	100.00	32,826	100.00

Notes to the financial statements for the year ended 31 March 2022

Geographic analysis by region

	2022 £'000	2022 %	2021 £'000	2021 %
Region				
East of England	3,348	11.60	4,002	12.19
East Midlands	1,948	6.75	2,319	7.06
London	6,101	21.14	6,165	18.79
North East	352	1.22	391	1.19
North West	2,701	9.36	3,369	10.26
Northern Ireland	208	0.72	228	0.69
South East	5,483	19.00	6,075	18.51
South West	1,319	4.57	1,338	4.08
Wales	1,030	3.57	1,071	3.26
West Midlands	2,837	9.83	3,436	10.47
Yorkshire and the Humber	3,532	12.24	4,432	13.50
Total mortgage assets before provisions	28,859	100.00	32,826	100.00

Forbearance measures undertaken

	2022 Number of accounts	At 31 March 2022 £'000	2021 Number of accounts	At 31 March 2021 £'000
Forbearance type				
Payment holiday	—	—	5	581
None	232	28,859	259	32,245
Total	232	28,859	264	32,826

	2022 Number of accounts	At 31 March 2022 £'000	2021 Number of accounts	At 31 March 2021 £'000
Loan type				
First charge owner occupier	218	26,988	245	30,450
Buy to let	14	1,871	19	2,376
Total	232	28,859	264	32,826

Notes to the financial statements for the year ended 31 March 2022

b) Liquidity risk

The undiscounted estimated cash flows associated with financial liabilities were as follows:

As at 31 March 2022	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years	Total
Financial liabilities	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loan notes	3,755	4,168	21,881	4,430	—	—	34,234
Subordinated loan	229	195	7,415	—	—	16	7,855
Derivative financial instruments	—	—	—	—	19	—	19

As at 31 March 2021	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years	Total
Financial liabilities	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loan notes	3,170	3,166	4,242	2,930	19,553	—	33,061
Subordinated loan	463	225	163	84	6,739	—	7,674
Derivative financial instruments	—	—	—	—	45	—	45

There is no contractual obligation to pay down the loan notes other than as set out in note 16.

The estimated future cash flows are sensitive to certain key assumptions being the expected probability of default, the expected time to move through the arrears/repossession cycle and expected recovery rates on losses incurred. Future cash flows have been estimated using a combination of macro environmental factors, including market observable data, and individual borrower data. However, it is not expected that the loans will repay at a constant rate until maturity, that all of the loans will prepay at the same rate or that there will be no defaults or delinquencies on the loans, therefore the amounts disclosed above are only estimates of the possible future cash outflows on the loan notes.

In addition, the Company holds a minimum cash balance to manage short term liquidity requirements which can be used in certain circumstances. The undiscounted cash flows have been estimated by previously applying a constant (per annum) prepayment rate to the principal balance of the mortgage loans and using the weighted average interest rate prevailing at the statement of financial position date.

The loan notes in the above table will not agree to the liability in statement of financial position as the table incorporates both principal and interest payments on an undiscounted basis (see note 16 for maturity dates). For the current and the prior year, all loan notes are due in more than 5 years, and all other non-derivative creditors are repayable on demand.

The Company's policy is to manage liquidity risk by matching cash payments due on the loan notes to cash receipts from the mortgage assets.

c) Foreign currency risk

With the exception of certain mortgage backed loan notes and cross currency swaps, as shown below, all financial instruments are denominated in Sterling. The outstanding mortgage backed loan notes include the following foreign currency denominated balances:

	2022 Notional amount €'000	2021 Notional amount €'000
EUR Denominated Mortgage backed loan notes due 2038 - Class Ac	1,331	1,860
EUR Denominated Mortgage backed loan notes due 2038 - Class B	19,742	21,942
EUR Denominated Mortgage backed loan notes due 2038 - Class Cc	3,841	4,269
	24,914	28,071

A series of currency swaps have been entered into, in order to manage the Company's currency rate exposure in relation to non-Sterling denominated backed loan notes.

The following is the profile of the Company's currency swaps:

	2022 Notional amount €'000	2021 Notional amount €'000
Euro denominated currency swaps	24,914	28,071

The Company is not materially exposed to foreign exchange risk as the currency swap notional amount matches the notional amount of the euro denominated mortgage backed loan notes.

The fair value of the currency swaps are disclosed in note 17 (this note) Fair value of derivatives. The maturity profile of the foreign currency swaps is consistent with the mortgage backed loan notes.

d) Interest rate risk

The Company has exposure to interest rates based on LIBOR and EURIBOR reference rates.

On the assets side, certain mortgages were linked to LIBOR. A programme to transfer all such mortgages to a SONIA-based reference rate was completed during the year. The necessary adjustments to customer contracts was based on the rate adjustments published by ISDA, following the FCA's announcement regarding the cessation of LIBOR as a reliable benchmark.

On the liabilities side, the Company is exposed to both LIBOR and EURIBOR reference rates, as set out in note 16. The Company has entered into currency swap agreements which allows the Company to settle its EURIBOR note liability obligations with reference to LIBOR. For the purposes of these contracts, until May 2022, LIBOR was used. An exercise to replace the LIBOR-based reference rates with equivalent term SONIA-based reference rates for both the loan notes liabilities and the LIBOR-based legs of the currency swap agreements completed in May 2022. The necessary adjustments to these contracts will again be based on the rate adjustments published by ISDA

Since a methodology change in 2019, EURIBOR is expected to continue beyond 2022 and there is no current indication it will cease to be available in the near future.

Interest rate risk profile of financial assets

	Total	Total variable rate	Total fixed rate	Weighted average interest rate*	Weighted average time for which rate is fixed
	£'000	£'000	£'000	%	Years
2022					
Mortgage assets	28,859	28,859	—	3.88	—
Cash and cash equivalents	3,218	—	3,218	—	0.25
2021					
Mortgage assets	32,826	32,826	—	3.46	—
Cash and cash equivalents	3,294	—	3,294	0.00	0.25
Currency swaps	4,707	4,707	—	—	—

* This is the weighted average spread above LIBOR.

The derivatives are shown at fair value. The corresponding notional amounts are disclosed in note 17 (this note) Fair value of derivatives.

Interest rate sensitivity analysis on financial assets

	Increase in basis points	Effect on equity	Effect on result before tax
		£'000	£'000
2022			
Mortgage assets	25	72	72
Cash and cash equivalents	25	8	8
2021			
Mortgage assets	25	82	82
Cash and cash equivalents	25	8	8

The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market conditions. In assessing the effect on financial assets of interest rate sensitivity, management have used a benchmark of 25 bps.

Notes to the financial statements for the year ended 31 March 2022

Interest rate risk profile of financial liabilities

	Total	Total variable rate	Swap receive rate	Swap paying rate	Weighted average interest rate
	£'000	£'000	%	%	%
2022					
Loan notes	31,023	31,023	—	—	1.19
Subordinated loans	7,855	7,855	—	—	4.00
Basis rate swaps	19	19	1.72	0.10	—
2021					
Loan notes	35,452	35,452	—	—	1.21
Subordinated loans	7,674	7,674	—	—	4.00
Basis rate swaps	45	45	0.08	0.30	—

Basis rate swaps are used to manage the interest rate risk on the mortgage book.

Interest payable on the loan notes and receivable on the mortgage assets are both based on LIBOR while interest rate swaps hedge differences in timing. Whilst certain mortgage backed loan notes are denominated in foreign currency and incur interest based on EURIBOR (EUR notes) the Company has entered into currency swap agreements which allows the Company to settle its note liability obligations with reference to LIBOR. The Company thus has limited exposure to interest rate risk.

The interest rate risk profile of the loan notes in issue can be found in note 16. The Company's approach to managing interest rate risk is included in the principal risks and uncertainties section of the strategic report.

The derivatives are shown at fair value. The corresponding notional amounts are disclosed in note 17 (this note) Fair value of derivatives.

Interest rate sensitivity analysis on financial liabilities

	Increase in basis points	Effect on equity	Effect on result before tax
		£'000	£'000
2022			
GBP loan notes and subordinated debt	25	(44)	(44)
EUR loan notes	25	(53)	(53)
2021			
GBP loan notes and subordinated debt	25	(48)	(48)
EUR loan notes	25	(60)	(60)

In assessing the effect on financial liabilities of interest rate sensitivity, management have used a benchmark of 25 bps.

The Company also has certain financial instruments included within debtors (note 12) and creditors (note 15) which are not subject to interest rate risk as they bear no interest.

Interest income and expense on financial instruments that are not at fair value through profit and loss

	2022	2021
	£'000	£'000
Interest receivable on mortgage assets	1,053	1,157
Interest expense	(506)	(579)
	547	578

e) Operational risk

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

The Company operates under a controls and governance framework provided by KMC, the servicer of the mortgage assets. This includes regulatory and compliance functions and internal audit. The business is covered by the servicer's business continuity management capability.

Over the last two years operational risk has been impacted by COVID-19. This has led to changes to working practices by the Company's servicer, KMC, in particular increased working from home, and changes in processes to meet new regulatory requirements, including the provision of payment holidays. However, the nature of the risks to which the Company is exposed remain similar to those prior to COVID-19, but additional focus has been given to the controls appropriate for the altered working environment. The technology required for KMC's staff has been adapted to allow employees to work either from home or from the office with additional controls implemented and guidance provided with regard to the technology. The focus on technology and working environment will continue to be monitored as KMC continues to adjust to the new way of working.

The customer response to COVID-19 drove more interaction with KMC, whether implementing full payment holidays or other measures as customers responded to the impact of COVID-19 on their financial situation. KMC undertook a variety of activities to support consistent implementation of payment holidays and to manage the customer experience as those payment holidays came to an end. Monitoring of customer service quality continues to be maintained to mitigate the operational risks associated with increased customer interaction and processes related to forbearance activities.

f) Fair values of financial assets and liabilities

	2022 Book value £'000	2022 Fair value £'000	2021 Book value £'000	2021 Fair value £'000
Financial assets				
Mortgage assets	28,803	27,607	32,737	29,300
Cash and cash equivalents				
Reserve and contingency funds	3,000	3,000	3,000	3,000
Other cash balances	218	218	294	294
	3,218	3,218	3,294	3,294
Derivative financial instruments	3,958	3,958	4,707	4,707
	35,979	34,783	40,738	37,301
Financial liabilities				
Mortgage backed loan notes	31,023	30,443	35,452	34,078
Derivative financial instruments	19	19	45	45
Subordinated loan	7,855	2,932	7,674	2,815
	38,897	33,394	43,171	36,938

All financial assets and liabilities are held at amortised cost, except for derivative financial instruments that are held at fair value. There were no transfers between categories in both periods. Management have assessed all other assets and liabilities and consider book value to be equal to fair value.

Management does not expect any losses from non-performance by the counterparties holding cash and cash equivalents. There are no material differences between their book values and fair values.

The directors have considered the fair values of the Company's main financial instruments which are mortgage assets, loan notes, derivative financial instruments and cash.

The fair value of the loan notes has been based upon their quoted prices; where available, or prices interpolated using latest available market data. The fair value of the mortgage assets has been based upon the fair value of the mortgages underlying the loan notes, and expected residual cash flows. It is the opinion of the directors that this methodology is appropriate as the market is more liquid than in prior years. The fair value of reserve and contingency funds and other cash balances approximates to book value.

As part of the process of assessing fair value, management have refined the assumptions used. This has been achieved using a combination of macro environmental factors including market observable data and individual borrower data resulting in a more accurate reflection of the estimated cash flows used for computing fair value.

Loan notes and mortgage assets are classified as level 2 and level 3 respectively.

Notes to the financial statements for the year ended 31 March 2022

Fair value of derivatives

	2022	**2022**	**2022**	2021	2021	2021
	Notional amount	**Assets**	**Liabilities**	Notional amount	Assets	Liabilities
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Currency swaps	17,360	3,958	—	19,473	4,707	—
Basis rate swaps	6,926	—	19	11,269	—	45
		3,958	19		4,707	45

The Company recognised a loss on the fair value of derivatives of £514,000 during the year (2021: loss of £1,016,000).

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

The Company does not have other financial instruments held at fair value and there have been no transfers between levels within the fair value hierarchy.

The rates of interest receivable and payable on variable rate financial instruments, with the exception of the non-Sterling denominated loan notes, are set with reference to LIBOR. The rates of interest payable on loan notes are set as detailed in note 16.

The basis rate swap has a contractual maturity of 17 March 2038.

18 Share capital

	2022	2021
	£	£
Allotted, issued and fully paid:		
1 ordinary 100% issued and fully paid share of £1 each	1	1
Allotted, issued and partly paid:		
49,999 ordinary 25% issued and paid shares of £1 each	12,500	12,500

Notes to the financial statements for the year ended 31 March 2022

19 Related party transactions

The transactions and outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing. None of the outstanding balances have been impaired.

	Amount expensed 2022 £'000	**Amount outstanding 2022 £'000**	Amount expensed 2021 £'000	Amount outstanding 2021 £'000
Intertrust Management Limited				
Corporate administration services	(77)	—	(39)	—
Kayl Holdco S.à r.l.				
Subordinated notes	—	—	(148)	—
Kensington Mortgage Company Limited				
Amounts due from group undertakings	—	—	—	51
Amounts due to group undertakings	—	(172)	—	(168)
Mortgage administration fees	(5)	—	(2)	—
Koala Warehouse Limited				
Discount reserve swap	—	—	—	(126)
Subordinated notes	(285)	(7,855)	(26)	(7,674)
	(367)	(8,027)	(215)	(7,917)

Details of loan notes and interest accrued on the loan notes is shown in note 16 and note 5.

20 Parent undertaking and control

The Company's immediate parent undertaking is Landmark Mortgage Securities No.1 Holdings Limited which is registered in England, United Kingdom and has its registered office located at 1 Bartholomew Lane, London, EC2N 2AX. The entire issued share capital of Landmark Mortgage Securities No.1 Holdings Limited is held by the legal parent company Intertrust Corporate Services Limited, a company incorporated in England, United Kingdom, which holds the shares of the Company on trust for charitable purposes.

An affiliate company, Koala Warehouse Limited, retains an interest in the cash flows and profits of the Company. The Company's operations are managed by Kensington Mortgage Company Limited, a fellow group company.

The largest and smallest group in which the results of the Company are consolidated is Koala (Cayman) Limited, a Company incorporated in the Cayman Islands. The consolidated financial statements of Koala (Cayman) Limited are available to the public and may be obtained from 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, the Cayman Islands.

During the year, the Company's ultimate controlling party was Koala (Cayman) Limited, which is incorporated in the Cayman Islands, and was the ultimate parent undertaking of Koala Warehouse Limited.

21 Capital management

The Company is not subject to any externally proposed capital requirements except for the minimum requirement under the Companies Act 2006. The Company has not breached the minimum requirement.

The Company's capital consists of share capital contributed by investors. Due to the structural features of the securitisation process, where cash paid out to noteholders cannot exceed cash received, and where the holder of the deferred consideration certificate is entitled to any excess deferred consideration, the amount of share capital is not expected to fluctuate over time. Accordingly, the objective of capital management is to hold constant the amount of share capital, and this objective is achieved by the structural features of the securitisation transaction documented in the offering circular and other legal documentation.

22 Post statement of financial position date events

In May 2022, LIBOR transition to SONIA was completed (see note 17d for details).

On 1 August 2022, the entire issued share capital of KAYL Parent Limited, a higher parent undertaking of Koala Warehouse Limited was acquired by Eucalyptus Mortgages 2022 Limited, a company incorporated in England and Wales, with the effect that the Company ceased to be part of the Koala (Cayman) Limited group from that point.

Apart from the above, there are no significant events occurring after the statement of financial position date, up to the date of approval of the financial statements that would meet the criteria to be disclosed or adjusted in the financial statements as at 31 March 2022.