Company Registration Number: 06101090

# RESLOC UK 2007-1 PLC

# ANNUAL REPORT AND FINANCIAL STATEMENTS

# FOR THE YEAR ENDED 31 MARCH 2019

## RESLOC UK 2007-1 PLC

## FOR THE YEAR ENDED 31 MARCH 2019

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# RESLOC UK 2007-1 PLC

## COMPANY INFORMATION

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| **The board of directors** | Wilmington Trust SP Services (London) Limited<br>Mr D J Wynne |
| **Company secretary** | Wilmington Trust SP Services (London) Limited |
| **Registered office** | c/o Wilmington Trust SP Services (London) Limited<br>Third Floor<br>1 King's Arms Yard<br>London<br>EC2R 7AF |
| **Auditor** | Deloitte LLP<br>Statutory Auditor<br>London<br>United Kingdom |
| **Banker** | HSBC Bank Plc<br>8 Canada Square<br>London<br>E14 5HQ |

# RESLOC UK 2007-1 PLC

# STRATEGIC REPORT

# FOR THE YEAR ENDED 31 MARCH 2019

The directors present their strategic report for ResLoC UK 2007-1 PLC (the "Company") for the year ended 31 March 2019 with comparatives for the year ended 31 March 2018.

### GENERAL

The Company is a special purpose company established in order to issue floating rate loan notes due December 2043 ("the loan notes"), to acquire the beneficial interest in a mortgage portfolio from Morgan Stanley ("the Mortgage Loans"), to create security and receive interest in respect thereof, and to enter into certain related transactions as described in the Offering Circular dated 16 May 2007. On 17 May 2007, the Company issued floating rate loan notes for proceeds of £909,948,388 (£485,795,000, €395,500,000 and $303,700,000) in accordance with the Offering Circular. The loan notes are listed on the Irish Stock Exchange. The directors have no plans to expand the existing operations of the Company.

### KEY PERFORMANCE INDICATORS

The key performance indicator of the business is considered to be the gross margin. During 2019, the Company had a gross margin (net interest income divided by interest income) of 7.8% (2018: 44.6%). At the year end, the Company had a deficit of £6,187,811 (2018 Net assets: £3,259,388), due to the implementation of IFRS 9 and a fair value loss on the swap derivative.

On 1 April 2018, The Company implemented IFRS 9 "Financial Instruments", which involved obtaining information necessary to understand the effect of the IFRS 9 First Time Adoption ("FTA") impact on the Company's Statement of Financial Position as at 1 January 2018.

As at 1 April 2018 the IFRS 9 FTA impact on the mortgage loans was an increase in the impairment allowance of £5,981,665. The equity was also reduced by the same amount. Please refer to Note 1 for more details on the IFRS 9 FTA impact.

### RESULTS

The trading results for the year and the Company's financial position at the end of the year are shown in the attached financial statements.

The loss of the Company for the year after tax amounted to £8,116,704 (2018: £1,407,595 profit). The Company is subject to foreign exchange gains and losses on financial instruments and as such the Company has experienced losses in the current year resulting in an overall loss. There have been no significant events during the year to report. The directors have not recommended a dividend and as such no dividend has been paid (2018: nil).

### FUTURE DEVELOPMENTS

The directors expect that the present level of activity will be sustained in the near future and the activities of the Company are limited to those of the holding and management of the mortgage portfolio acquired from Morgan Stanley.

### CAPITAL STRUCTURE

Details of the issued share capital are shown in Note 10. The Company has one class of ordinary shares which carries no right to fixed income.

There are no special restrictions on the size of the holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and the prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

No person has any special rights of control over the Company's share capital and all shares are fully paid.

### FINANCIAL INSTRUMENTS, RISK MANAGEMENT POLICIES AND PRINCIPAL RISKS AND UNCERTAINTIES

The Company's financial instruments, other than derivatives, comprise mortgage loans, cash and cash equivalents, interest-bearing loan notes and various receivables and payables that arise directly from its operations. The main purpose of the interest bearing borrowings is to finance a mortgage portfolio acquired from Morgan Stanley.

The Company also enters into derivative transactions. The purpose of such transactions is to manage the interest rate and currency risk arising from the Company's operations and its sources of finance.

The Board reviews and agrees policies for managing risks arising on the Company's financial instruments and they are summarised below. Further information on the Company's financial instruments is set out in Note 13.

**Currency risk**
Currency risk exists where assets and liabilities are denominated in more than one currency. The Company uses currency swaps to reduce its exposure to currency risk. The Company's main assets represent a portfolio of residential mortgages based in the United Kingdom. The Company has issued loan notes denominated in Euro, US Dollar and Pound Sterling. As at 31 March 2019, the vast majority of the currency risk is mitigated through the use of currency swaps.

**Interest rate risk**
Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar; where this is not possible the Company uses interest rate swaps to mitigate any residual interest rate risk.

**Credit risk**
The principal credit risk to the Company is that the borrowers will not be able to meet their obligations as they fall due. The mortgage loans are secured on a number of UK residential properties which are geographically diverse. Please refer to Note 13 for the mortgage loan disclosures related to loan to value ratio ("LTV"), occupancy status and repayment and interest types and to note 1 for additional information in relation IFRS 9 implementation.

At 31 March 2019, the total mortgage loans asset, net of estimated credit losses ("ECL") of £5,755,264 was £301,049,676 (2018: £334,517,831). At 31 March 2019, the mortgage loan portfolio consisted of 2,752 (2018: 3,061) mortgage loans secured over residential properties located across the UK. Refer to Note 7 for further information.

With regards to credit risk on derivatives, the directors monitor the credit rating of the swap provider and in the case of any downgrade may require the swap provider to provide sufficient collateral or transfer its obligations to another bank of the same credit rating. During the year ended 31 March 2012 the swap counterparties, Barclays and Morgan Stanley, were downgraded and, as a result, swap collateral amounts were received. Amounts received and held as at year end were £43,631,546 (2018: £45,484,548) and £16,280,000 (2018: £21,900,000) from Barclays and Morgan Stanley respectively. Swap counterparties are posting collateral amounts as per the terms of transaction documents and the positions as at year end are fully collateralised. Further Information is set out in Note 12.

**Liquidity risk**
A facility provided by Lloyds Bank Plc (London Branch) has been established which will be available, subject to certain criteria and circumstances, in the event of the Company being unable, on a temporary basis, to meet its financial commitments. The liquidity facility was renewed for the period from 24 April 2020 to 23 April 2021. The directors expect this facility to be renewed annually.

**Going concern risk**
The Company's business activities, together with the factors likely to affect its future development, performance and position and its principal uncertainties are set out in the above. In addition, Note 13 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk interest rate risk and liquidity risk. At the year end, the Company had a deficit of £10,851,483 (2018 net assets: £3,259,388) as a result of the ECL provision and the FV movement of the swaps.

The Company holds a liquidity facility, with Lloyds Bank Plc totalling £49,532,086 (2018: £49,532,086), which is sufficient to cover any short-term liquidity issues. No amounts have been drawn under the facility throughout the year ended 31 March 2019. The liquidity facility was renewed for the period from 24 April 2020 to 23 April 2021. The directors expect this facility to be renewed annually. Additionally, as at year end the Company holds a reserve fund amount of £12,157,876 (2018: £12,157,876).

The terms of the loan notes issued by the Company are such that amounts due are only payable to the extent that there are sufficient receipts from the Company's assets. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. It is the intention of the directors of the Company to continue operations until such time as the amounts due from the mortgage loans have been fully realised.

**Going concern risk (continued)**

The Directors have assessed the impact of the COVID-19 pandemic crisis and are continually reviewing the UK economic environment. The servicer has confirmed that in accordance with guidance issued by the UK Government and the FCA, forbearance has been offered to the loan holders in the form of payment holidays of up to 3 months. At the start, 535 borrowers out of 2,477 borrowers requested a payment holiday for up to 3 months. As of 30 June 2020, 278 borrowers remain on payment holidays while the remaining have decided to capitalise the missed payments and are repaying the amounts over the period of the mortgage terms This is expected to result in reduced collections for a limited time period however the impact is not considered to be material and the Company has sufficient cash to continue to meet its obligations with respect to the interest and principal payments due on the Loan notes. Additionally, the Servicer has confirmed that during the UK lockdown phase the loans continue to be serviced as normal.

The Company is obliged to redeem the Notes at their principal amount outstanding upon maturity. However, due to the limited recourse nature of the Notes, the Company's ability to pay amounts due on the Notes are, in substance, limited to the application of the receipts from the Mortgage Loans under the terms of the priority of payments as set out in the Offering Circular and Trust Deed dated 17 May 2007. However, as described in clause 9 of the Trust Deed, certain criteria, including non-payment of the required payments to the Noteholders per the priority of payments, would lead to an Event of Default and may result in the Trustee issuing an Enforcement Notice. At this point, the Company would not be a going concern.

Therefore, the Directors have performed an sensitivity analysis and have concluded that taking into account payment holidays they expect there will be no time within the next 12 months where the required payments to Noteholders in the priority of payments set out in the securitisation transaction agreements will not be made and therefore there is a very low likelihood of an Event of Default will occur. A sensitivity analysis was also performed and shows that the reserve fund held by the Company will be able to cover the required payments to the Noteholders over the next 12 months. As such the Directors have prepared the financial statement have been prepared on a going concern basis.

On 23 June 2016, the UK voted to exit the European Union. The UK left the EU on 31 January 2020 and entered a transitional phase which is due to end on 31 December 2020. No exit deal has been currently reached, it is difficult to determine the likely economic financial impact at this stage however, general market conditions may slow down in the short to medium term. At the date of signing these accounts the Directors do not foresee any immediate risks crystallising, however, they acknowledge the uncertainty that now exists. The directors will continue to keep this under review.

**CORPORATE GOVERNANCE STATEMENT**

The Directors are responsible for internal control at the Company and for reviewing the effectiveness of the controls in place. Procedures have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, errors, losses or fraud. The procedures enable the Company to comply with the regulatory obligations. For further details, refer to Notes to the financial statements particularly Note 13 on financial risk management.

Signed by order of the directors

Daniel Wynne
**Director**
31 July 2020

# DIRECTORS' REPORT

## FOR THE YEAR ENDED 31 MARCH 2019

The directors present their report and the audited financial statements of ResLoc UK 2007-1 PLC (the "Company") with registered number 06101090 for the year ended 31 March 2019 with comparatives for the year ended 31 March 2018.

### THE DIRECTORS

The directors who served the Company during the year and up to the date of signing the financial statements were as follows:

Wilmington Trust SP Services (London) Limited
Mr D J Wynne

None of the directors has any beneficial interest in the ordinary share capital of the Company (2018: None). None of the directors had any interest during the year in any material contract or arrangement with the Company (2018: None).

### DIVIDENDS

The directors have not recommended a dividend and as such no dividend has been paid (2018: nil).

### THIRD PARTY INDEMNITIES

Qualifying third party indemnity provisions, of up to £10,000,000, for the benefit of the directors 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.

### COMPANY SECRETARY

The Company secretary during the year, and subsequently was Wilmington Trust SP Services (London) Limited.

### CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for the shareholder and benefits for other stakeholders. The Company is not subject to any external capital requirements except for the minimum requirement under the Companies Act 2006. The Company has not breached the minimum requirement.

### FINANCIAL INSTRUMENTS

The Company's financial instruments comprise mortgage loans, cash and liquid resources, derivatives, interest-bearing loan notes and various receivables and payables that arise directly from its operations. These financial instruments are classified in accordance with the principles of IFRS 9, Financial Instruments as described Note 1.

### FUTURE DEVELOPMENTS AND SUBSEQUENT EVENTS

The Directors have assessed the impact of the COVID-19 pandemic crisis and are continually reviewing any changes in the UK economic environment. The servicer has confirmed that in accordance with guidance issued by the UK Government and the FCA, forbearance has been offered to the loan holders in the form of payment holidays of up to 3 months. This is expected to reduce Mortgage Loan collections for a limited time period however the impact is not considered to be material. Furthermore due to the limited-recourse nature of the Company's debt obligations, it is directly dependent primarily upon the receipt of principal and interest from the borrowers of the Mortgage Loans and is not expected to have any other funds available to it. However the Company does have sufficient cash to continue to meet its obligations with respect to the interest and principal payments due on the Loan notes for a period of 12 months.

### DONATIONS

The Company made no political or charitable donations during the period under review (2018: nil).

### CAPITAL STRUCTURE

The capital structure is discussed in detail in the strategic report and Note 10.

**AUDITOR**

Pursuant to section 489 of the Companies Act 2006 a resolution to re-appoint Deloitte LLP as auditor for the ensuing year will be proposed at the annual general meeting. Deloitte LLP have expressed their willingness to continue in office as auditor.

**STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR**

The directors confirm that:

- so far as the directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each of the directors have taken all steps that they ought to have as directors in order to make themselves 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 s418 of the Companies Act 2006.

**Signed by order of the directors**

Daniel Wynne
**Director**
31 July 2020

## DIRECTORS' RESPONSIBILITIES STATEMENT

## FOR THE YEAR ENDED 31 MARCH 2019

The directors are responsible for preparing the Annual 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 the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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 also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Signed by order of the directors**

Daniel Wynne
**Director**
31 July 2020

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RESLOC UK 2007-1 PLC**

# Report on the audit of the financial statements

## 1. Opinion

In our opinion the financial statements of Resloc UK 2007-1 plc (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 March 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 17.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

## 2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## 3. Summary of our audit approach

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| • **Key audit matters** | The key audit matter that we identified in the current year was loan loss provisioning on mortgage loans.<br><br>Within this report, key audit matter is identified as follows:<br>Newly identified<br>Increased level of risk<br>Similar level of risk<br>Decreased level of risk |

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| • **Materiality** | The materiality that we used in the current year was £4.5m which was determined on the basis of 1.5% of Mortgage loans asset. |
| • **Scoping** | All of the work to respond to the risks of material misstatement was performed directly by the audit engagement team. |
| • **Significant changes in our approach** | There is no significant change in our approach. |

## 4. Conclusions relating to going concern

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| We are required by ISAs (UK) to report in respect of the following matters where:<br><br>• the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or<br>• the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue. | We have nothing to report in respect of these matters. |

## 5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

*Loan Loss Provisioning on Mortgage Loans*

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| **Key audit matter description** | As disclosed in Strategic Report on page 2 and Note 7 of the financial statements, the Company's mortgage loan balance of £301.0m (2018: £334.5m), net of an expected credit loss ("ECL") of £5.8m (2018: £1.2m), is secured by first charges over residential properties in the United Kingdom.<br><br>Loan loss provisioning is one of the most significant estimates made by the Company's directors and management in preparing the financial statements. Refer to the accounting policy Note 1 in relation to the impairment of these loans on page 24 (Accounting policies) and Note 2 for Critical accounting judgements and key sources of estimation uncertainty. The significant judgements include whether an expected credit loss provision is required or not, and the level of provision required for loans that are considered to be credit impaired. These are considered on a case-by-case basis, and therefore, there is an inherent degree of subjectivity, and a corresponding increased risk of material misstatement.<br><br>The Company adopted IFRS - 9 in the current period. This replaces the "incurred loss" model under IAS 39 with a forward looking ECL model. Based on the financial asset's classification under the three stage impairment model, expected credit loss provision is recognised either through a 12 month ECL, or a loss allowance based |

on the lifetime expected losses is calculated where there is a significant increase in credit risk. This also includes assessment of forward looking factors on the expected credit loss provision.

With the implementation of the expected loss model under IFRS 9 and limited historic data available, we have identified a key audit matter around the valuation of collateral, in particular, the forced sale discount factor as an area of focus in the ECL calculation. A misstatement in collateral valuations and the forced sale discount factor may result in a material error, either due to fraud or error, in the ECL provision recognised.

Management assessed the impact of COVID 19 on the expected credit loss on Mortgage Loans as a non – adjusting post balance sheet event. This covered an assessment of whether the post balance sheet disclosures gave sufficient transparency over the uncertainty surrounding the measurement of the ECL, particularly in the light of changes in the macroeconomic environment subsequent to the reporting date as a result of COVID 19 pandemic.

**How the scope of our audit responded to the key audit matter**

To respond to this key audit matter :

- We have obtained an understanding of the key controls related to the Company's impairment assessment process and provisioning calculation;
- We reviewed the inputs and challenged the key assumptions and mechanics of the ECL model to test that these are consistent with the IFRS 9 methodology and appropriate for the Company's portfolio;
- We independently recalculated the market value of the collaterals using the applicable house price index;
- We challenged the forced sale discount factor used in the ECL calculation by comparing it with actual discount rates experienced on the Company's property sales in the last three years;
- We performed industry benchmarking on the forced sale discount rate and other Loss Given Default (LGD)assumptions (such as cost to sell and enforcement cost assumptions) used in the collateral valuations;
- For a sample of loan, we traced the collateral valuation at origination to the original valuation report;
- We recalculated the current collateral values using the house price index under the Bank of England Annual Cyclical Scenario included in its Stress testing report issued in May 2019 to challenge the appropriateness of management's forced sale discount factor and its impact on the ECL provision; and
- We reviewed management's assessment of COVID 19 on expected credit loss on Mortgage Loans as a non – adjusting post balance sheet event.

**Key observations**

From the work performed, we concluded that the loan loss provisioning on Mortgage loans as at 31 March 2019 is reasonable.

# 6. Our application of materiality

### 6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

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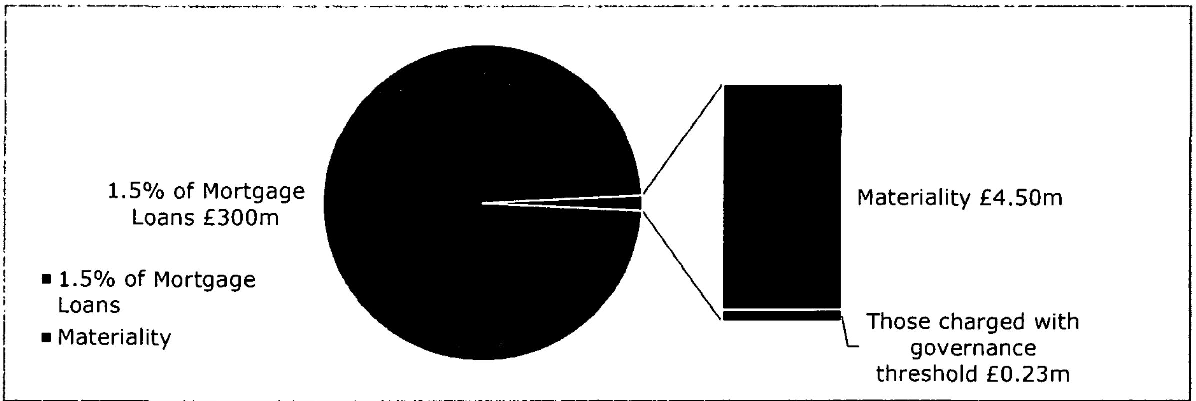
| **Materiality** | £4.5million (2018: £5.02million) |
| **Basis for determining materiality** | 1.5% (2018: 1.5%) of Mortgage loans |
| **Rationale for the benchmark applied** | The key elements of the financial statements of Resloc UK 2007-1 plc is the Mortgage Loans balance as it is both the driver of the key Income Statement balance of Interest Income, as well as the security for the Loan Note liabilities. |




### 6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the following factors:

a. our risk assessment, including our assessment of the company's overall control environment;
b. our past experience of the audit, and the level of corrected and uncorrected misstatements identified in our prior periods.

### 6.3. Error reporting threshold

We agreed with those charged with governance that we would report to them all audit differences in excess of £0.23m (2018: £0.25m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to those charged with governance on disclosure matters that we identified when assessing the overall presentation of the financial statements.

# 7. An overview of the scope of our audit

### 7.1. Scoping

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team. We performed our scoping on the basis of whether we determined the balance to be material, whether quantitatively or qualitatively. The company utilises a service organisation for the maintenance of its accounting records and day-to-day management. In performing the audit we assessed the system of internal control at the service organisation.

# 8. Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

# 9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

# 10. Auditor's responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

# 11. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

### 11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the those charged with governance about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including valuations, Centre of Credit Excellence ('CCE') and IT specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the loan loss provisining on mortgage loans. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Irish Stock Exchange Listing Rules and Taxation of Securitisation Regulations 2006 (SI 2006/3296).

### 11.2. Audit response to risks identified

As a result of performing the above, we identified loan loss provisioning on mortgage loans as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management and those charged with governance concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

# Report on other legal and regulatory requirements

## 12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

## 13. Matters on which we are required to report by exception

### 13.1. Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

### 13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

# 14. Other matters

### 14.1. Auditor tenure

Following the recommendation of those charged with governance, we were appointed by board of directors in 2009 to audit the financial statements for the year ending 31 March 2008 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 12 years, covering the years ending 31 March 2008 to 31 March 2019.

### 14.2. Consistency of the audit report with the additional report to the those charged with governance

Our audit opinion is consistent with the additional report to the those charged with governance we are required to provide in accordance with ISAs (UK).

# 15. Use of our report

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

Simon Stephens

Simon Stephens FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
31 July 2020

## RESLOC UK 2007-1 PLC

## STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 31 MARCH 2019

| Continuing operations | Notes | 2019<br>£ | 2018<br>£ |
|---|---|---|---|
| Interest income | 3 | **16,671,029** | 19,031,203 |
| Interest expense | 4 | **(15,378,035)** | (10,538,989) |
| **Net interest income** | | **1,292,994** | 8,492,214 |
| | | | |
| Other operating expenses | 5 | **(2,248,006)** | (2,598,296) |
| Impairment credit on mortgage portfolio | 7 | **1,443,757** | 227,000 |
| Mortgage loan (write-offs) | 7 | **(488,505)** | (888,209) |
| Fair value loss on derivative financial instruments | 14 | **(7,303,018)** | (5,362,729) |
| Foreign exchange (loss)/gain on loan notes | | **(813,880)** | 1,537,660 |
| | | | |
| **(Loss)/ profit before tax for the year** | | **(8,116,659)** | 1,407,640 |
| | | | |
| Total tax charge | 6 | **(46)** | (45) |
| | | | |
| **(Loss)/ profit for the year and total comprehensive (loss)/ profit for the year** | | **(8,116,704)** | 1,407,595 |

The notes on pages 20 to 37 form part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

## AS AT 31 MARCH 2019

| | Notes | 2019 £ | 2018 £ |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Mortgage loans | 7 | 266,297,016 | 301,401,831 |
| **Current assets** | | | |
| Mortgage loans | 7 | 34,752,660 | 33,116,000 |
| Derivative financial instruments | 14 | 48,323,364 | 55,626,381 |
| Trade and other receivables | 8 | 7,715 | 1,882,925 |
| Cash and cash equivalents | 9 | 70,592,545 | 78,503,959 |
| | | 153,676,284 | 169,129,265 |
| **Total assets** | | 419,973,300 | 470,531,096 |
| **Equity** | | | |
| Share capital | 10 | 12,502 | 12,502 |
| Retained earnings | 10 | (10,851,483) | 3,246,886 |
| **Total equity** | | (10,838,981) | 3,259,388 |
| **Non-current liabilities** | | | |
| Interest-bearing loan notes | 11 | 308,690,147 | 347,650,930 |
| **Total non-current liabilities** | | 308,690,147 | 347,650,930 |
| **Current liabilities** | | | |
| Interest-bearing loan notes | 11 | 34,752,660 | 33,116,000 |
| Accrued interest | 11 | 152,207 | 134,085 |
| Trade and other payables | 12 | 87,217,170 | 86,370,596 |
| Tax liability | | 97 | 97 |
| **Total current liabilities** | | 122,122,134 | 119,620,778 |
| **Total liabilities** | | 430,812,281 | 467,271,708 |
| **Total equity and liabilities** | | 419,973,300 | 470,531,096 |

These financial statements of ResLoC UK 2007-1 Plc, registration number 06101090, on pages 16 to 37 were approved and authorised for issue by the directors on 31 July 2020 and are signed on their behalf by:

Daniel Wynne
**Director**

The notes on pages 20 to 37 form part of these financial statements.

# RESLOC UK 2007-1 PLC

# STATEMENT OF CHANGES IN EQUITY

# FOR THE YEAR ENDED 31 MARCH 2019

| | Retained earnings | Share capital | Total equity |
|---|---|---|---|
| | £ | £ | £ |
| At 1 April 2017 | 1,839,291 | 12,502 | 1,851,793 |
| Total comprehensive income for the year | 1,407,595 | - | 1,407,595 |
| At 31 March 2018 | 3,246,886 | 12,502 | 3,259,388 |
| Impact of IFRS 9 transition adjustment | (5,981,665) | - | (5,981,665) |
| Restated balance as at 1 April 2018 | (2,734,779) | 12,502 | (2,722,277) |
| **Total comprehensive loss for the year** | **(8,116,704)** | **-** | **(8,116,704)** |
| **Closing deficit at 31 March 2019** | **(10,851,483)** | **12,502** | **(10,838,981)** |

The notes on pages 20 to 37 form part of these financial statements.

# RESLOC UK 2007-1 PLC

## STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 31 MARCH 2019

| | Notes | 2019 | 2018 |
|---|---|---|---|
| **Cash flows from operating activities** | | **£** | **£** |
| Profit / (loss) before tax for the year before taxation | | **(8,116,659)** | 1,407,640 |
| *Adjustments for:* | | | |
| Interest income | 3 | **(16,671,029)** | (19,031,202) |
| Interest expense | 4 | **15,378,035** | 10,538,989 |
| Fair value loss on derivative financial instruments | | **7,303,018** | 5,362,729 |
| Unrealised foreign exchange translation gain on loan notes | | **813,880** | (1,537,204) |
| Impairment reversal on mortgages | 7 | **(1,443,757)** | (227,000) |
| Written off on mortgage loans | 7 | **488,505** | 888,209 |
| Deferred consideration | | **(3,734,343)** | (4,115,607) |
| Increase in trade and other receivables | 8 | **-** | (1,643) |
| Increase in trade and other payables | 12 | **163,053** | 8,337 |
| Decrease in cash collateral | 12 | **(7,473,002)** | (17,555,379) |
| **Net cash used in operating activities before tax** | | **(13,292,299)** | (24,262,131) |
| Tax paid | | **(45)** | (54) |
| **Net cash used in operating activities after tax** | | **(13,292,344)** | (24,262,185) |
| | | | |
| **Investing activities** | | | |
| Interest income received | | **9,427,127** | 9,393,827 |
| Repayments during year | | **32,421,803** | 32,221,341 |
| Bank interest received | | **84,362** | 33,530 |
| **Net cash from investing activities** | | **41,933,292** | 41,648,698 |
| | | | |
| **Financing activities** | | | |
| Interest paid | | **(3,653,188)** | (2,757,163) |
| Principal Repayments during the year | | **(32,899,174)** | (33,115,497) |
| **Net cash used in financing activities** | | **(36,552,362)** | (35,872,660) |
| | | | |
| **Net decrease/increase in cash and cash equivalents** | | **(7,911,414)** | (18,486,147) |
| Cash and cash equivalents at beginning of year | | **78,503,959** | 96,990,106 |
| **Cash and cash equivalents at 31 March** | 9 | **70,592,545** | 78,503,959 |

As explained in the accounting policies on page 21, the cash is not freely available to be used.

## 1. SIGNIFICANT ACCOUNTING POLICIES

ResLoC UK 2007-1 Plc (the "Company") is a Public Limited Company limited by shares incorporated and domiciled in England and Wales under the Companies Act 2006. The address of the registered office is c/o Wilmington Trust SP Services (London) Limited, Third Floor, 1 King's Arms Yard, London, EC2R 7AF.

**Basis of preparation**
The Company's financial statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the EU, as they apply to the financial statements of the Company for the year ended 31 March 2019.

The accounting policies set out below have been applied in respect of the financial year ended 31 March 2019.

The financial statements have been prepared on the historical cost basis as modified for the revaluation of certain financial instruments under IFRS 9 Financial Instruments.

The financial statements are presented in Pounds Sterling.

Due to the fact that the nature of the business is to provide finance, the directors are of the opinion that it is more appropriate to use interest income and interest expense rather than revenue and cost of sales in preparing the Statement of Comprehensive Income.

**Basis of preparation - going concern**
The Company's business activities, together with the factors likely to affect its future development, performance and position and its principal uncertainties are set out in the Strategic Report on pages 2 to 4. In addition, Note 13 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk. At the year end, the Company had a net deficit of £10,838,981 (2018: Net assets £3,259,388) as a result of the increase in the ECL impairment charge and the fair value loss on the swap derivative.

The Company holds a liquidity facility, with Lloyds Bank Plc totalling £49,532,086 (2018: £49,532,086), which is sufficient to cover any short-term liquidity issues. No amounts have been drawn under the facility throughout the year ended 31 March 2019. The liquidity facility was renewed for the period from 24 April 2018 to 23 April 2019. The directors expect this facility to be renewed annually. Additionally, as at year end the Company holds a reserve fund amount of £12,157,876 (2018: £12,157,876).

The terms of the loan notes issued by the Company are such that amounts due are only payable to the extent that there are sufficient receipts from the Company's assets. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. It is the intention of the directors of the Company to continue operations until such time as the amounts due from the mortgage loans have been fully realised.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

**Financial instruments**
The Company's financial instruments comprise mortgage loans, cash and liquid resources, derivatives, interest-bearing loan notes and various receivables and payables that arise directly from its operations. These financial instruments are classified in accordance with the principles of IFRS 9 Financial Instruments as described below.

**Mortgage loans**
The mortgage loans are initially measured at fair value with subsequent measurement being at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Cash and cash equivalents**
Cash and cash equivalents in the balance sheet comprise cash at banks and in hand, swap collateral and short-term deposits with an original maturity of three months or less. All withdrawals from the Company's bank accounts are restricted by the detailed priority of payments set out in the securitisation agreements and as such the cash and cash equivalents are not freely available to be used for other purposes.

**Derivative financial instruments and hedging activities**
The Company uses derivative financial instruments to reduce its exposure to interest rate risk and currency risk arising from operational, financing and investment activities. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes. Derivatives are initially recognised at their fair value at the date the derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date.

IFRS 9 requires all financial assets and liabilities to be recognised initially at fair value on the balance sheet. Subsequent to initial recognition, any changes in fair value of the derivatives held are recognised in the statement of comprehensive income.

The fair value of currency swaps and interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date, taking into account current exchange rates, interest rates and the current creditworthiness of the swap counterparties.

Interest income receivable or interest expense payable on the interest rate swap is accounted for on the accruals basis within interest income or interest expense in the statement of comprehensive income.

**Interest-bearing loan notes**
Interest-bearing loans are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of comprehensive income over the period of the borrowings on an effective interest basis.

**Embedded derivatives**
Certain derivatives are embedded within other non-derivative host financial instruments to create a hybrid instrument. Where the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host instrument, and where the hybrid instrument is not measured at fair value, the embedded derivative is separated from the host instrument with changes in fair value of the embedded derivative recognised in the statement of comprehensive income. Depending on the classification of the host instrument, the host is then measured in accordance with IFRS 9.

**Interest income and expense**
Interest income and expense is accounted for on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability to that asset's or liability's net carrying amount. Under IFRS 9, interest income on credit impaired loans are calculated based on the net carrying amount of the loans using the effective interest rate method.

**Deferred consideration**
A deferred consideration charge is included in interest expense. Deferred consideration is payable to the Residual Certificate Holders dependent on the extent to which the surplus income, in excess of the agreed margin, generated by the mortgage loans in which the Company has purchased an interest, exceeds the administration costs of the mortgage loans. The deferred consideration is recognised at fair value.

**Value added tax**
Value added tax is not recoverable by the Company and is included with its related cost.

**Income tax expense**
The Company has elected to be taxed under the "permanent" tax regime for securitisation companies (contained in Statutory Instrument 2006/3296), under which the Company is taxed broadly by reference to its net cash flows during the period, and not by reference to its accounting profits, to the extent that these differ.

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Functional and presentational currency**
The functional currency is the currency of the primary economic environment in which the Company operates. The Company's mortgage loans, and a large proportion of the issued notes, and the associated cash flows are denominated in Sterling, which therefore constitutes the Company's functional currency. The presentational currency of the Company's financial statements is Sterling.

**Creditor payment policy**
The Company's policy concerning payment of its trade creditors is to pay in accordance with its contractual and other legal obligations. Due to the nature of the business, the main creditors are the noteholders. Principal and interest is repaid quarterly in accordance with the agreements in place. The Company does not follow any other code or standard on payment practice.

**Standards affecting presentation and disclosure**
On 1 April 2018, the Company implemented IFRS 9 "Financial Instruments". As permitted by IFRS 9 comparative information for previous periods has not been restated. A number of other new standards listed below are also effective from 1 April 2018 but they do not have a material effect on the Company's financial statements.

| Description | Effective date |
|---|---|
| IFRS 15: Revenue from contracts with customers | 1 April 2018 |
| Clarifications to IFRS 15: Revenue from Contracts with Customers | 1 April 2018 |
| Amendments to IFRS 2: Classification and measurement of share-based payment transactions | 1 April 2018 |
| Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts | 1 April 2018 |
| IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration | 1 April 2018 |
| Amendments to IAS 40: Transfers of Investment Property | 1 April 2018 |

The impact of new standards that are issued but not yet effective including IFRS 16: Lease is not considered to have a material impact on the Company's financial statements in the period of initial application.

***Changes in accounting policies***
On 1 April 2018, the Company implemented IFRS 9 'Financial Instruments'. As permitted by IFRS 9, comparative information for previous periods has not been restated. The impact on the Company's financial position of applying IFRS 9 requirements is set out in note 1.

Additionally, the Company has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures, which are applied to disclosures in 2018 but have not generally been applied to comparative information.

The adoption of IFRS 9 decreased the equity of the Company by £5,981,665.

***Classification and measurement of financial assets and financial liabilities***
IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

On 1 April 2018 (the date of initial application of IFRS 9), the Company's management has assessed the financial instruments held by the Company and determined whether reclassification was needed under IFRS 9. Financial assets and financial liabilities of the Company comprise of the mortgage loans, derivative financial instruments, other receivables cash, interest bearing loan notes and trade and other payables. These are measured at amortised cost with the exception of the derivative financial instruments which are measured at fair value through profit and loss ("FVTPL"). There is no change in classification from IAS 39 under IFRS 9.

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Impact on the financial statements**

IFRS 9 has been adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are not reflected in the balance sheet as at 31 March 2018, but are recognised in the opening balance sheet on 1 April 2018. As prior periods have not been restated, changes in impairment of financial assets in the comparative periods remain in accordance with IAS 39 and are not necessarily comparable to the loss provisions reported for the current period.

Considering the data limitation on the Mortgage Portfolio at origination date, management was unable to determine probability of default at origination. According, the directors have elected to take the transition exemption available under IFRS 9 and recognised expected credit loss on the Mortgage Portfolio on Lifetime basis at the transition date. The Mortgage Portfolio has been classified in following categories in line with the ECL policy:

- Lifetime ECL but not credit impaired; and
- Lifetime ECL and credit impaired

Implementation of IFRS 9 impacted the mortgage loans and total equity by a decrease of £5,981,665. There has been no change in the carrying amount of financial instruments on the basis of their measurement categories. All adjustments have arisen solely due to a replacement of the IAS 39 incurred loss impairment approach with an expected credit loss (ECL) approach.

**Statement of financial position**

| | 31 March 2018 As originally presented* | IFRS 9 adjustment – Classification and measurement | IFRS 9 adjustment – Lifetime expected credit losses | 1 April 2018 Restated |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| **Assets** | | | | |
| Mortgage loans | 334,517,831 | - | (5,981,665) | 328,536,166 |
| **Total** | **334,517,831** | - | **(5,981,665)** | **328,536,166** |

**IFRS 9 Financial Instruments – Impact of adoption**

The adoption of IFRS 9 from 1 April 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in above. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. The Company does not use hedge accounting.

The total impact on the Company's retained profit as at 1 January 2018 is as follows:

| | 1 April 2018 | 31 March 2018 |
|---|---|---|
| | £ | £ |
| Opening retained profits 1 April 2018 – IAS 39 | **3,246,888** | 3,246,888 |
| Increase in ECL due to IFRS FTA | **(5,981,665)** | - |
| **Opening retained (losses)/ profit 1 April 2018 - IFRS 9** | **(2,734,777)** | 3,246,888 |

**Financial assets**

Financial assets are measured on initial recognition at fair value. Under IFRS 9, the classification and subsequent measurement of financial assets is principally determined by the Company's business model and their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest'). The standard sets out three types of business model:

**Financial assets**

- Hold to collect: the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These assets are accounted for at amortised cost.

**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- Hold to collect and sell: this model is similar to the hold to collect model, except that the entity may elect to sell some or all of the assets before maturity as circumstances change. These assets are accounted for at fair value through other comprehensive income (FVOCI).

- Hold to sell: the entity originates or purchases an asset with the intention of disposing of it in the short or medium term to benefit from capital appreciation. These assets are held at fair value through profit or loss (FVTPL). An entity may also designate assets at FVTPL upon initial recognition where it reduces an accounting mismatch. An entity may elect to measure certain holdings of equity instruments at FVOCI, which would otherwise have been measured at FVTPL.

The Company has assessed its business models in order to determine the appropriate IFRS 9 classification for its financial assets. Financial assets are held to collect contractual cash flows and therefore meet the criteria to remain at amortised cost. In order to be accounted for at amortised cost, it is necessary for individual instruments to have contractual cash flows that are solely payments of principal and interest. These financial assets meet this criteria and are therefore subsequently measured at amortised cost.

Financial assets and liabilities measured at amortised cost are accounted for under the effective interest rate ('EIR') method. This method of calculating the amortised cost of a financial asset or liability involves allocating interest income or expense over the relevant period. The EIR rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability, or where appropriate, a shorter period, to the gross carrying amount on initial recognition.

**Impairment losses on Mortgage loans**

The Company's Mortgage loans are subject to IFRS 9's new expected credit loss model.

The Company recognises expected credit loss impairment on the mortgage loans when it is estimated that it will not be in a position to receive all payments due. Under IFRS 9, at each reporting date, an impairment loss equal to 12-month expected credit losses is recognised for all financial assets for which there is no significant increase in credit risk ("SICR") since initial recognition. For financial assets where there is a SICR since their initial recognition, and those that are credit impaired an impairment loss equal to lifetime expected credit losses will be recognised.

The Directors were unable to determine if a SICR has taken place due to limited credit risk information. Therefore the ECL has been calculated on a lifetime basis even though the mortgage loans are primarily performing loans.

The recoverability of the mortgage loans is dependent on the collections received. The key assumptions for recoverability relate to estimates of the probability of any account going into default, the timing of payments received and expected proceeds from the sale of repossessed collateral. These key assumptions are based on macro economic conditions and observed data from historical patterns and are updated regularly as new data becomes available.

IFRS 9 does not include a definition of what constitutes an SICR. An assessment of whether credit risk has increased significantly since the initial recognition of the mortgage loans is performed at each reporting period by considering primarily the change in the risk of default occurring over the remaining life of the mortgage loans. The Company assess whether an SICR has occurred since the initial recognition based on qualitative and quantitative, reasonable and supportable forward-looking information that includes a degree of management judgment. A default refers to a loan which is 90 days in arrears and loans which are past the maturity date.

In determining the ECL, the Directors considered GDP to be the most appropriate macro economic indicator ("MEI") to incorporate into the probability of default ("PD") analysis on the basis it is closely correlated to non performing loan and therefore the PD. The Bank of England GDP forecast was used to reflect future UK growth expectations. The ECL model incorporates the result of regression calculations of these macro-economic factors vs the level of NPLs in the UK.

Other key macro-economic scenarios were considered for use in the ECL model, being house price index ("HPI") and a combination of HPI, GDP, and long term interest rates. Using 1) HPI and 2) a mix of HPI, GDP, and interest rates results in a far less statistically significant result. The regression results are summarized in the table below, with the very insignificant test statistics highlighted in red. As such, GDP remains the most robust macro-economic factor in this case, and the Directors therefore believe that it is the most reasonable option

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Impairment losses on Mortgage loans (continued)**

Loans with no arrears, 'Current loans' and those with arrears greater than 30 days and less than 90 are classified as not credit impaired. Loans with arrears greater than 90 days are considered to be in default and therefore classified as credit impaired. Loans will transfer between categories dependant on their arrear's status.

The accuracy of impairment calculations would be affected by the probability of default, significant increase in credit risk, loss given default and the macroeconomic factors. The assessment on the probability of default is performed on each reporting period taking into account the movement in their arrears history, GDP growth rate and other qualitative factors. Loss given default is the percentage of the total exposure that the Company estimates as unlikely to recover at the time of the default. A default refers to a loan which is 90 days in arrears.

The macroeconomic factors such as GDP, historical data on non-performing loans, future real GDP growth rates, house price index and account management policies and practices that are incorporated into the risk parameter models are used to calculate the ECL of the mortgage loans and assessed against the income statement.

**Segmental reporting**
The principal asset of the Company is the beneficial interest in the mortgage portfolio originated in the United Kingdom which is funded by floating rate notes issued in the United Kingdom. The directors do not consider it necessary to provide a further analysis of the results of the Company from those already disclosed in these financial statements as there is only one segment identified.

## 2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The adoption of IFRS 9 on 1 April 2018 required application of significant judgement and resulted in additional critical accounting estimates in comparison to those applied in 2018. Actual results may differ from these estimates.

The most important areas where the directors use critical accounting estimates and judgements in applying its accounting policies are as follows:

**Critical accounting judgements**

*Significant increase in credit risk*
The expected credit losses ("ECL") measurement for impairment requires the Company to apply a high degree of judgment in determining the allowance for impairment losses. The key judgement used in determining ECL is the definition of default.

**Key sources of estimation uncertainty**

The use of estimates and assumptions is an integral part of recognising amounts in the financial statements and mostly relates to the following:

*Expected credit loss*

- Loss given default (LGD): The percentage of the total exposure that the Company estimates as unlikely to recover at the time of the default. This includes estimation of future market value of repossessed collateral property, forced sale discount factor, costs of enforcing forced sales and the transaction costs.

## 2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

*Measurement of fair values*
The Company's accounting policies and disclosures require measurement of fair values with regard to presentation of financial assets and liabilities. When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

**Key sources of estimation uncertainty (Continued)**

*Measurement of fair values (Continued)*

- *Level 1:* quoted prices (unadjusted) in active markets for identical assets and liabilities;
- *Level 2:* inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- *Level 3:* inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## 3. INTEREST INCOME

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Income from mortgage loans | 11,535,745 | 14,099,810 |
| Currency swap receivable | 5,054,689 | 4,896,250 |
| Bank interest received | 80,595 | 35,143 |
| | 16,671,029 | 19,031,203 |

At 31 March 2019, the weighted average interest rate on the mortgage loans was 3.1% (2018: 2.81%).

## 4. INTEREST EXPENSE

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Interest on loan notes | 3,442,758 | 2,451,229 |
| Amortisation of issue costs | 44,412 | 47,404 |
| Interest rate swap payable | - | 1,161 |
| RC Holders | 11,890,865 | 8,039,195 |
| | 15,378,035 | 10,538,989 |

For further analysis on the interest rates that apply to the loan notes please see Note 11.

## 5. OTHER OPERATING EXPENSES

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Fees payable to the Company's auditor for the audit of the Company's annual accounts | 80,516 | 68,599 |
| Administration and cash management fees | 1,700,409 | 1,570,285 |
| Exchange loss/(gain) on translation of foreign currency bank account | 438,741 | 931,088 |
| Corporate service fee | 13,940 | 13,924 |
| Accountancy services fee | 14,400 | 14,400 |
| | 2,248,006 | 2,598,296 |

The directors received no emoluments for their services as directors to the Company during the year (2018: nil). The directors had no material interest in any contract of significance in relation to the business of the Company (2018: nil). The Company did not have any employees in the current year (2018: none).

## 6. TAX CHARGE

### (a) Analysis of charge for the year:

| | 2019 | 2018 |
|---|---|---|
| **Current tax:** | £ | £ |
| Corporation tax charge for the year at a rate of 19% (2018: 19%) | 46 | 45 |
| Total income tax charge in the statement of comprehensive income | 46 | 45 |

## 6. TAX CHARGE (CONTINUED)

The UK corporation tax rate was reduced from 20% to 19% effective from 1 April 2017. Further reductions to 18% (effective 1 April 2020) were substantively enacted at the reporting date. This will reduce current tax charges accordingly. Subsequently the UK government announced that the UK corporation tax rate will reduce further to 17%

from 1 April 2020. It has not been possible to quantify the full anticipated effect of the announced further rate reduction, although this will reduce the Company's future current tax charge accordingly.

### (b) Reconciliation of effective tax rate

The tax assessed on the profit on ordinary activities for the period is equal to the standard rate of corporation tax in the UK of 19% (2018: 19%).

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| (Loss)/profit on ordinary activities before tax | **(8,116,704)** | 1,407,640 |
| Accounting losses/(profits) not taxed in accordance with SI 2006/3296 | **8,116,944** | (1,407,403) |
| Adjusted profits | **240** | 237 |
| Current tax charge at 19% (2018:19%) | **46** | 45 |

The directors are satisfied that this Company meets the definition of a 'Securitisation Company' as defined by both the Finance Act 2005 and the subsequent secondary legislation and that no incremental unfunded tax liabilities will arise.

## 7. MORTGAGE LOANS

| **Gross Mortgage loans** | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| At start of year | **334,517,831** | 362,871,556 |
| Redemptions | **(30,550,360)** | (32,398,499) |
| Mortgage loan (write-offs) | **(488,505)** | (888,209) |
| Accrued interest receivable | **401,438** | - |
| Effective interest adjustment | **1,707,180** | 4,705,983 |
| Movement in impairment provision | **(4,537,908)** | 227,000 |
| At 31 March | **301,049,676** | 334,517,831 |
| The balance can be analysed as follows: | | |
| Current assets | **34,752,660** | 33,116,000 |
| Non-current assets | **266,297,016** | 301,401,831 |
| | **301,049,676** | 334,517,831 |

| **Mortgage Loan Portfolio** | **12 month ECL** | **Lifetime ECL but not credit impaired** | **Lifetime ECL and credit impaired** | **Total** |
|---|---|---|---|---|
| Carrying amount as at 1 April 2018 | - | 317,003,582 | 13,045,526 | 330,049,108 |
| IFRS ECL transition adjustment | - | (5,143,902) | (2,055,119) | (7,199,021) |
| Changes in the gross carrying amount attributable to: | | | | |
| - Transfer from not credit impaired to credit impaired | - | (5,149,823) | 5,149,823 | - |
| - Transfer from credit impaired to not credit impaired | - | 4,274,331 | (4,274,331) | - |
| - Write offs | | - | (488,505) | (488,505) |
| Redemptions | - | (28,315,879) | (2,234,481) | (30,550,360) |
| **Gross carrying value before ECL impairment** | - | **282,688,309** | **9,142,913** | **291,811,222** |
| ECL provision reversal | - | 555,630 | 888,127 | 1,443,757 |
| **Balance as at 31 March 2019** | - | **283,223,939** | **10,031,040** | **293,254,979** |

## 7. MORTGAGE LOANS (CONTINUED)

The non-current mortgage loans are due for repayment by December 2043. At 31 March 2019, the weighted average interest rate on the mortgage loans was 3.1% (2018: 2.81%). The mortgage loans are secured over residential properties in the United Kingdom. For further analysis on the mortgage loans see Note 13. Write offs represent the losses incurred following forced sale of repossessed collateral.

## 8. TRADE AND OTHER RECEIVABLES

| | **2019** | 2018 |
|---|---|---|
| | **£** | £ |
| Other debtors | - | 1,877,386 |
| Prepayments and accrued income | 7,715 | 5,539 |
| | 7,715 | 1,882,925 |

The directors consider that the carrying value of trade and other receivables approximates to their fair value. The other debtors amount relates to mortgage receipts collected by the servicer but not yet paid into the Company's bank account.

## 9. CASH AND CASH EQUIVALENTS

| | **2019** | 2018 |
|---|---|---|
| | **£** | £ |
| Cash and cash equivalents | 70,592,545 | 78,503,959 |

The directors consider that the carrying value of cash and cash equivalents approximates to their fair value.

The Company has deposits in bank accounts held in the Company's name which meet the definition of cash and cash equivalents but their use is restricted by a detailed priority of payments set out in the securitisation transaction agreements. As the cash can only be used to meet certain specific liabilities and is not available to be used with discretion, it is viewed as restricted cash. The cash and cash equivalents include balances relating to swap collateral amounts of £43,631,546 (2018: £45,484,548) and £16,280,000 (2018: £21,900,000) from Barclays and Morgan Stanley respectively, as a result of the downgrading of these swap counterparties in 2012. The cash receipts are held in the Company's bank account, with corresponding creditors back to respective counterparties, and will be utilised as per the swap agreements. All withdrawals from the Company's bank accounts are restricted by the detailed priority of payments set out in the securitisation agreements and as such the cash and cash equivalents are not freely available to be used for other purposes.

## 10. TOTAL EQUITY

| | **Issued capital** | **Retained (losses) / earnings** | **Total** |
|---|---|---|---|
| | **£** | **£** | **£** |
| As on 1 April 2017 | 12,502 | 1,839,291 | 1,851,793 |
| Profit for the year | - | 1,407,595 | 1,407,595 |
| Balance at 31 March 2018 | 12,502 | 3,246,886 | 3,259,388 |
| Impact of IFRS 9 transition adjustment | - | (5,981,665) | (5,981,665) |
| Restated balance as at 1 April 2018 | 12,502 | (2,734,779) | (2,722,277) |
| Loss for the year | **-** | **(8,116,704)** | **(8,116,704)** |
| Balance at 31 March 2019 | **12,502** | **(10,851,483)** | **(10,838,981)** |

There are 50,000 authorised ordinary shares of £1 each. The issued share capital comprises two fully paid £1 shares, and 49,998 ordinary shares quarter paid. Wilmington Trust SP Services (London) Limited holds one fully paid £1 share under a declaration of trust for charitable purposes.

## 11. INTEREST-BEARING LOANS

This note provides information about the contractual terms of the Company's interest-bearing loan notes. For more information about the Company's exposure to interest rate risk, see Note 13.

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| At start of year | **380,766,930** | 420,605,155 |
| Repayments | **(32,724,921)** | (33,115,497) |
| Gain/(loss) on exchange | **(4,643,614)** | (6,770,133) |
| Unamortised issue cost | **44,412** | 47,405 |
| | **343,442,807** | 380,766,930 |
| Accrued interest receivable | **152,207** | 134,085 |
| | **343,595,014** | 380,901,015 |

Current liabilities due within one year are paid when cash is available after other commitments have been fulfilled in order of priority in accordance with the Offering Circular.

On 31 March 2019 an agreement was in place with Lloyds Bank Plc for the provision of a liquidity facility for the Company until 25 April 2019 (Note 13). The liquidity facility was renewed for the period from 24 April 2020 to 23 April 2021. The facility is in place to allow the Company to meet its obligations should there be a shortfall in the revenue or principal received from the mortgage loans. At the balance sheet date, the limit on this facility was £49,532,086 (2018: £49,532,086). No amounts have been drawn under the facility since inception.

The interest bearing loans are secured by way of fixed and floating charges over the Company's assets.

On 17 May 2007, the Company issued following Notes:

| Class of note | Notes issued | Margin | Maturity date | Principal outstanding 2019 | Principal outstanding 2018 |
|---|---|---|---|---|---|
| Class A1a notes | €42,900,000 | 3 month EURIBOR plus 0.06% | due December 2043 | - | - |
| Class A1b notes | £60,000,000 | 3 month STERLING LIBOR plus 0.06% | due December 2043 | - | - |
| Class A1c notes | $109,900,000 | 3 month USD LIBOR plus 0.06% | due December 2043 | - | - |
| Class A2a notes | €32,000,000 | 3 month EURIBOR plus 0.10% | due December 2043 | - | - |
| Class A2b notes | £100,000,000 | 3 month STERLING LIBOR plus 0.12% | due December 2043 | - | - |
| Class A2c notes | $43,800,000 | 3 month USD LIBOR plus 0.10% | due December 2043 | - | - |
| Class A3a notes | €197,300,000 | 3 month EURIBOR plus 0.16% | due December 2043 | **€87,980,253** | €97,678,058 |
| Class A3b notes | £203,100,000 | 3 month STERLING LIBOR plus 0.16% | due December 2043 | **£90,566,596** | £100,549,486 |
| Class A3c notes | $150,000,000 | 3 month USD LIBOR plus 0.16% | due December 2043 | **$66,888,015** | $74,260,935 |
| Class M1a notes | €23,600,000 | 3 month EURIBOR plus 0.18% | due December 2043 | **€13,586,132** | €15,083,697 |
| Class M1b notes | £64,800,000 | 3 month STERLING LIBOR plus 0.22% | due December 2043 | **£37,304,297** | £41,416,257 |
| Class B1a notes | €41,800,000 | 3 month EURIBOR plus 0.25% | due December 2043 | **€24,063,575** | €26,716,041 |
| Class B1b notes | £12,500,000 | 3 month STERLING LIBOR plus 0.25% | due December 2043 | **£7,196,039** | £7,989,243 |
| Class C1a notes | €29,500,000 | 3 month EURIBOR plus 0.45% | due December 2043 | **€16,982,665** | €18,854,622 |
| Class C1b notes | £8,750,000 | 3 month STERLING LIBOR plus 0.45% | due December 2043 | **£5,037,232** | £5,592,469 |

## 11. INTEREST-BEARING LOANS (CONTINUED)

| | | | | | |
|---|---|---|---|---|---|
| Class D1a notes | €28,400,000 | 3 month EURIBOR plus 1.2% | due December 2043 | **€16,349,414** | €18,151,571 |
| Class D1b notes | £19,000,000 | 3 month STERLING LIBOR plus 1.2%. | due December 2043 | **£10,937,989** | £12,143,656 |
| Class E1b notes | £8,280,000 | 3 month STERLING LIBOR plus 4.0% | due December 2043 | **£4,766,661** | £5,292,080 |
| Class E2b notes | £7,835,000 | 3 month STERLING LIBOR plus 3.5% | due December 2043 | **-** | - |
| Class F1b notes | £1,530,000 | 3 month STERLING LIBOR plus 6.0% | due December 2043 | **-** | - |

Interest-bearing loans and borrowings are repayable as follows:

| **2019** | **Total** | **Less than 1 year** | **1-2 years** | **2-5 years** | **More than 5 years** |
|---|---|---|---|---|---|
| | **£** | **£** | **£** | **£** | **£** |
| **Liabilities** | | | | | |
| Floating rate notes | **343,442,807** | **34,752,660** | **34,752,660** | **104,257,980** | **169,679,507** |
| Interest payable | **152,207** | **152,207** | **-** | **-** | **-** |
| | **343,595,014** | **34,904,867** | **34,752,660** | **104,257,980** | **169,679,507** |

| 2018 | Total | Less than 1 year | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| Liabilities | | | | | |
| Floating rate notes | 380,766,930 | 33,116,000 | 33,116,000 | 99,348,000 | 215,186,930 |
| Interest payable | 134,085 | 134,085 | - | - | - |
| | 380,901,015 | 33,250,085 | 33,116,000 | 99,348,000 | 215,186,930 |

The maturity profile above is estimated using the earliest expected date that the Company expects to repay the notes based on the expected maturity profile of the underlying mortgage assets on which repayment of the notes is driven. The loan notes are denominated in Euro, Sterling and Dollar.

## 12. TRADE AND OTHER PAYABLES

| | **2019** | 2018 |
|---|---|---|
| **Current liabilities** | **£** | £ |
| Deferred consideration payable | **26,987,939** | 18,831,416 |
| Cash collateral held – Morgan Stanley and Barclays | **59,911,546** | 67,384,548 |
| Accruals and deferred income | **317,685** | 154,632 |
| | **87,217,170** | 86,370,596 |

Current liabilities due within one year are paid when cash is available after other commitments have been fulfilled, in order of priority in accordance with the Offering Circular.

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

During the year ended 31 March 2012 the swap counterparties, Barclays and Morgan Stanley, had their credit ratings downgraded by Moody's and, as a result, swap collateral amounts were received. Amounts received and held as at year end were £43,631,546 (2018: £45,484,548) and £16,280,000 (2018: £21,900,000) from Barclays and Morgan Stanley respectively (see also Note 9). Swap counterparties are posting collateral amounts as per the terms of transaction documents and the positions as at year end are fully collateralised.

## 13. FINANCIAL RISK MANAGEMENT

The principal risks and uncertainties are set out in the Strategic Report on pages 2 to 4.

The Company's financial instruments, other than derivatives, comprise mortgage loans, cash and liquid resources, interest-bearing loan notes and various receivables and payables that arise directly from its operations. The Company also enters into derivative transactions (interest rate swaps and currency swaps). The purpose of such transactions is to manage the interest rate risks and currency exchange risk arising from the Company's operations and its sources of finance.

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

The directors have considered the financial risks affecting the Company and have included the relevant disclosures of interest rate, credit, liquidity and currency risks in the Strategic Report.

**Fair values**

The fair values together with the carrying amounts shown in the balance sheet are as follows:

| | Note | Carrying amount 2019 | Fair value 2019 | Carrying amount 2018 | Fair value 2018 |
|---|---|---|---|---|---|
| | | £ | £ | £ | £ |
| Derivative financial instruments | 14 | 48,323,364 | 48,323,364 | 55,626,381 | 55,626,381 |
| Mortgage loans | 7 | 301,049,676 | 277,645,859 | 334,517,831 | 298,626,381 |
| Trade and other receivables | 8 | 7,715 | 7,715 | 1,882,925 | 1,882,925 |
| Cash and cash equivalents | 9 | 70,592,545 | 70,592,545 | 78,503,959 | 78,503,959 |
| | | 419,973,300 | 419,973,300 | 470,531,096 | 434,639,646 |
| | | | | | |
| Interest-bearing loan notes | 11 | 343,442,807 | 313,851,277 | 380,766,930 | 347,905,563 |
| Interest payable | 11 | 152,207 | 152,207 | 134,085 | 134,085 |
| Trade and other payables | 12 | 87,217,170 | 87,217,170 | 86,370,596 | 86,370,596 |
| | | 430,812,184 | 401,220,654 | 467,271,611 | 434,410,244 |

**Fair value hierarchy**

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset or liability as follows:

Level 1 - valued using quoted prices in active markets for identical assets or liabilities;

Level 2 - valued by reference to valuation techniques using observable inputs other than quoted prices included within Level 1; and

Level 3 - valued by reference to valuation techniques using inputs that are not based on observable market data.

The valuation techniques used by the company are explained in the accounting policies note.

The only financial instruments held at fair value on the balance sheet are derivatives. The derivatives all fall within the level 2 fair value hierarchy (2018: level 2). The fair value of the derivatives are determined by discounting the future cash flows using the applicable yield curves derived from quoted interest rates and management's estimate of the amortisation of the derivative notional amounts.

The fair value of the mortgage loans is estimated as the fair value of the loan notes less that of the derivatives, adjusted for the fair value of the remaining current assets and liabilities. The fair value of the loan notes and derivatives are estimated by discounting future cash flows using publicly available market information, hence they are classified at Level 2. Therefore, the mortgage loans fair value is also classified at Level 2.

**Capital risk management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for the shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company is not subject to any external capital requirements except for the minimum requirement under the Companies Act 2006. The Company has not breached the minimum requirement.

## 13. FINANCIAL RISK MANAGEMENT (CONTINUED)

**Interest rate risk**

Interest rate risk exists where assets and liabilities have interest rates under a different basis or which reset at a different time. The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of assets and liabilities are similar. Interest rate swaps have been entered into with Morgan Stanley to manage the Company's exposure to the interest rate risk associated with the loan originator. The swaps reduce interest rate risk as a result of the variance between the fixed rate of interest receivable on the mortgage loans and the variable rate of interest payable on the floating rate loan notes.

After taking into consideration the Company's derivative instruments, the administered interest rate nature of the Company's mortgage loans, the regular re-pricing of the Company's floating rate notes, together with the nature of the Company's other assets and liabilities, the directors do not believe that the Company has any significant interest rate re-pricing exposure. As such, no sensitivity analysis has been presented.

**Effective interest rates and repricing analysis**

The following table details the Company's exposure to interest rate risk by the earlier of contractual maturities or re-pricing:

| **At 31 March 2019** | **Weighted average effective interest rate %** | **1 to 3 months £** | **Non-interest bearing £** | **Total £** |
|---|---|---|---|---|
| **Assets** | | | | |
| Trade and other receivables | - | - | 7,715 | 7,715 |
| Mortgage loans | 3.08% | 301,049,676 | - | 301,049,676 |
| Derivative financial instruments | - | 48,323,364 | - | 48,323,364 |
| Cash and cash equivalents | - | 70,592,545 | - | 70,592,545 |
| Total assets | | 419,965,585 | 7,715 | 419,973,300 |
| **Liabilities** | | | | |
| Current liabilities | - | - | 87,217,168 | 87,217,168 |
| Interest bearing loan notes | 0.94% | 343,442,807 | - | 343,442,807 |
| Total liabilities | | 343,442,807 | 87,217,168 | 430,659,975 |

| At 31 March 2018 | Weighted average effective interest rate % | 1 to 3 months £ | Non-interest bearing £ | Total £ |
|---|---|---|---|---|
| Assets | | | | |
| Trade and other receivables | - | - | 1,882,925 | 1,882,925 |
| Mortgage loans | 2.81% | 334,517,831 | - | 334,517,831 |
| Derivative financial instruments | - | 55,626,381 | - | 55,626,381 |
| Cash and cash equivalents | - | 78,503,959 | - | 78,503,959 |
| Total assets | | 468,648,171 | 1,882,925 | 470,531,096 |
| Liabilities | | | | |
| Current liabilities | - | - | 86,370,596 | 86,370,596 |
| Interest bearing loan notes | 0.61% | 380,766,930 | - | 380,766,930 |
| Total liabilities | | 380,766,930 | 86,370,596 | 467,137,526 |

**Liquidity risk**

A facility provided by Lloyds Bank Plc has been established which will be available, subject to certain criteria and circumstances, in the event of the Company being unable, on a temporary basis, to meet its financial commitments. At the balance sheet date, the limit on this facility was £49,532,086 (2018: £49,532,086).

## 13. FINANCIAL RISK MANAGEMENT (CONTINUED)

At 31 March 2019 this facility was not used and has not been used during the year (2018: nil). The liquidity facility was renewed for the period from 24 April 2019 to 23 April 2020. The directors expect this facility to be renewed annually.

As at year end the company held a reserve fund amount of £12,157,876 (2018: £12,157,876).

The following table details the Company's liquidity analysis for its financial liabilities at 31 March 2019 showing the undiscounted contractual cash flows to maturity. The maturity profile is estimated using the earliest expected date that the Company expects to repay the notes based on the expected maturity profile of the underlying mortgage assets on which repayment of the notes is driven. The interest payable on the loan notes is estimated based on the outstanding principal and interest rates at the year-end calculated up to the expected redemption date.

| At 31 March 2019<br>Liabilities | Less than 1 month<br>£ | 1 to 3 months<br>£ | 3 to 12 months<br>£ | 1 to 2 years<br>£ | 2 to 5 years<br>£ | More than 5 years<br>£ | Total<br>£ |
|---|---|---|---|---|---|---|---|
| Floating rate notes due 2043 | - | 3,141,963 | 9,425,889 | 12,567,852 | 37,703,556 | 281,012,206 | 343,851,466 |
| Interest payable | - | 1,221,196 | 3,663,589 | 4,706,246 | 13,047,497 | 45,919,095 | 68,557,623 |
| **Total liabilities** | - | 4,363,159 | 13,089,478 | 17,274,098 | 50,751,053 | 326,931,301 | 412,409,089 |

| At 31 March 2018<br>Liabilities | Less than 1 month<br>£ | 1 to 3 months<br>£ | 3 to 12 months<br>£ | 1 to 2 years<br>£ | 2 to 5 years<br>£ | More than 5 years<br>£ | Total<br>£ |
|---|---|---|---|---|---|---|---|
| Floating rate notes due 2043 | - | 4,249,290 | 12,747,870 | 15,807,359 | 47,422,076 | 300,993,406 | 381,220,001 |
| Interest payable | - | 1,043,987 | 3,131,961 | 3,989,758 | 10,930,335 | 39,895,366 | 58,991,407 |
| Total liabilities | - | 5,293,277 | 15,879,831 | 19,797,117 | 58,352,411 | 340,888,772 | 440,211,408 |

### Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of the portfolio of Loans and Notes (its principal assets and liabilities) are similar; where this is not possible the Company uses derivative financial instruments to mitigate any residual interest rate risk.

Due to the Company's interest rate hedging strategy, the Company considers that it has no significant net interest rate risk exposure and therefore has not presented a sensitivity analysis.

### Credit risk

The ECL model is based on the weighted probability of three macro-economic scenarios. The macroeconomic variables affecting the level of expected credit losses are the Gross Domestic product (GDP) growth forecasts and forced liquidation discount based on historical repossession data of the Mortgage Loans. The Company recalculated the ECLs under the reported figures and under two alternative macro economic scenarios (an upside and adverse) by adjusting the weightings of the mid case GDP growth rate by +/- 25% and the forced liquidation discount by +/- 2.5%. The upside scenario resulted in a decrease in the ECL of £915,118 while the adverse scenario an increase in the ECL of £1,051,319.

Credit risk on the mortgage loans arises where the mortgage loans are secured on underlying residential properties located across the UK. The maximum exposure to credit risk is the balance sheet amount. The Company held a reserve fund amount of £12,157,876 (2018: £12,157,876). The table below represents the gross value of the portfolio excluding any accounting adjustments and shows the credit quality of the mortgages:

## 13. FINANCIAL RISK MANAGEMENT (CONTINUED)

| | 12 month ECL | Lifetime ECL but not credit impaired | Lifetime ECL and credit impaired | Total |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Not Past Due | - | 278,709,975 | - | 278,709,975 |
| Past due (loan in arrears) | - | 13,874,990 | 6,426,253 | 20,300,269 |
| Carrying amount (before provision for impairment losses) | - | 292,583,990 | 6,426,253 | 299,010,243 |
| Expected credit losses | - | (5,158,772) | (596,492) | (5,755,264) |
| Net carrying amount | - | 287,425,218 | 5,829,761 | 293,254,979 |

| | 2018 |
|---|---|
| | £ |
| Not past due | 313,408,888 |
| Past due (loans in arrears) | 22,326,300 |
| | 335,735,188 |
| Less: allowance for impairment | (1,217,357) |
| | 334,517,831 |

The Company has exercised the option not to restate comparatives for the prior year as allowed by IFRS 9 and as a result the above analysis is not disclosed for the year ended 31 March 2018.

With regards to credit risk on derivatives, the directors monitor the credit rating of the swap provider and in the case of any downgrade may require the swap provider to provide sufficient collateral or transfer its obligations to another bank of the same credit rating. During 2012 the swap counterparties, Barclays and Morgan Stanley, were downgraded and, as a result, swap collateral amounts were received. Amounts received and held as at year end were £43,631,546 (2018: £45,484,548) and £16,280,000 (2018: £21,900,000) from Barclays and Morgan Stanley respectively. Swap counter parties are posting collateral amounts as per the terms of transaction documents and the positions as at year end are fully collateralised.

| | 12 month ECL | Lifetime ECL but not credit impaired | Lifetime ECL and credit impaired | Total |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Performing balance | - | 278,709,975 | - | 278,709,975 |
| Past due 1 – 89 days | - | 11,204,517 | - | 11,204,517 |
| Past due 90 – 179 days | - | 2,669,498 | 2,128,723 | 4,798,221 |
| Past due 180 > days | - | - | 4,297,530 | 4,297,530 |
| **TOTAL** | - | 6,199,556 | 6,426,253 | 299,010,243 |

The Company has exercised the option not to restate comparatives for the prior year as allowed by IFRS 9 and as a result the above analysis is not disclosed for the year ended 31 March 2018.

| **Ageing analysis of mortgages** | 2018 |
|---|---|
| | £ |
| Performing balance | 312,191,532 |
| Past due 1 – 89 days | 15,063,964 |
| Past due 90 – 179 days | 2,505,167 |
| Past due > 180 days | 4,757,168 |
| | 334,517,831 |

## 13. FINANCIAL RISK MANAGEMENT (CONTINUED)

Analysis of the mortgage loans by LTV, occupancy status, interest type and repayment type are shown below as an indication of the credit quality. A significant proportion of the mortgages are interest only loans which results in an increased risk of the borrower defaulting on the repayment of the principal payment at the end of the term. The servicer monitors these accounts and complies with the FCA guidelines on keeping the borrower informed at specific intervals to ensure the risk is highlighted. These have not been adjusted by applying house price indexation to the last valuation of the collateral:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| LTVs | Amount £ | % of Amount | Amount | % of Amount |
| ≤50% | 25,869,357 | 8.7% | 26,801,926 | 8.0% |
| >50-≤60% | 22,130,979 | 7.4% | 25,368,364 | 7.6% |
| >60-≤70% | 25,510,177 | 8.5% | 34,918,889 | 10.4% |
| >70-≤80% | 38,035,884 | 12.7% | 54,094,288 | 16.2% |
| >80-≤90% | 90,390,513 | 30.2% | 125,539,900 | 37.5% |
| >90-≤100% | 87,571,482 | 29.3% | 62,240,910 | 18.6% |
| 100%+ | 9,501,851 | 3.2% | 5,553,554 | 1.7% |
| Total | 299,010,243 | 100.0% | 334,517,831 | 100.0% |

| | 2019 | | 2018 | |
|---|---|---|---|---|
| Occupancy Status | Amount £ | % of Amount | Amount | % of Amount |
| Buy-to-let | 37,453,371 | 12.5% | 40,507,089 | 12.1% |
| Owner | 261,556,872 | 87.5% | 294,010,742 | 87.9% |
| Total | 299,010,243 | 100.0% | 334,517,831 | 100.0% |

| | 2019 | | 2018 | |
|---|---|---|---|---|
| Interest Type | Amount £ | % of Amount | Amount | % of Amount |
| SVR | 293,900,908 | 98.3% | 329,146,601 | 98.4% |
| Tracker | 5,109,335 | 1.7% | 5,371,230 | 1.6% |
| Total | 299,010,243 | 100.0% | 334,517,831 | 100.0% |

| | 2019 | | 2018 | |
|---|---|---|---|---|
| Repayment type | Amount £ | % of Amount | Amount £ | % of Amount |
| Principal & Interest | 43,053,795 | 14.4% | 52,818,596 | 15.8% |
| Interest-only | 255,459,640 | 85.4% | 280,810,589 | 83.9% |
| Part & part | 496,808 | 0.2% | 888,646 | 0.3% |
| Total | 299,010,243 | 100.0% | 334,517,831 | 100.0% |

## 13. FINANCIAL RISK MANAGEMENT (CONTINUED)

**Currency and exchange risk**

Currency and exchange risk exists where assets and/or liabilities are denominated in more than one currency. The Company has an exposure to currency and exchange risk as the notes are denominated in Sterling, Euros and Dollars. The Company's total exposure in foreign currency exchange rates at the balances sheet date were as follows:

| | **Sterling** | **Euro** | **Dollar** | **Total** |
|---|---|---|---|---|
| **At 31 March 2019** | **£** | **£** | **£** | **£** |
| **Assets** | | | | |
| Trade and other receivables | **7,715** | **-** | **-** | **7,715** |
| Mortgage loans | **301,049,676** | **-** | **-** | **301,049,676** |
| Derivative financial instruments | **48,323,364** | **-** | **-** | **48,323,364** |
| Cash and cash equivalents | **70,592,545** | **-** | **-** | **70,592,545** |
| Total assets | **419,973,300** | **-** | **-** | **419,973,300** |
| **Liabilities** | | | | |
| Current liabilities | **87,217,170** | **-** | **-** | **87,217,170** |
| Interest bearing loan notes | **155,623,639** | **136,595,517** | **51,223,651** | **343,442,807** |
| Total liabilities | **242,840,809** | **136,595,517** | **51,223,651** | **430,659,977** |

| | Sterling | Euro | Dollar | Total |
|---|---|---|---|---|
| At 31 March 2018 | £ | £ | £ | £ |
| Assets | | | | |
| Trade and other receivables | 1,882,925 | - | - | 1,882,925 |
| Mortgage loans | 334,517,831 | - | - | 334,517,831 |
| Derivative financial instruments | 55,626,381 | - | - | 55,626,381 |
| Cash and cash equivalents | 78,503,959 | - | - | 78,503,959 |
| Total assets | 470,531,096 | - | - | 470,531,096 |
| Liabilities | | | | |
| Current liabilities | 86,370,596 | - | - | 86,370,596 |
| Interest bearing loan notes | 172,777,604 | 155,051,956 | 52,937,370 | 380,766,930 |
| Total liabilities | 259,148,200 | 155,051,956 | 52,937,370 | 467,137,526 |

The Company is exposed to movements in foreign exchange rates and reduces this exposure using currency swaps entered into with Barclays and Morgan Stanley. More specifically, the Company is exposed to exchange risk due to Notes issued in Euros and Dollars. This risk exposure is reduced using currency swaps that are taken out on inception of the securitisation. As at 31 March 2019, the vast majority of the currency risk is mitigated through the use of currency swaps. As such, no sensitivity analysis has been presented.

## 14. DERIVATIVE FINANCIAL INSTRUMENTS

The net fair values of derivative financial instruments at the balance sheet date were:

| | Total | Currency swaps | Interest rate swaps |
|---|---|---|---|
| | £ | £ | £ |
| Balance as at 1 April 2017 | 60,989,110 | 60,990,571 | (1,461) |
| Movement during the year | (5,362,729) | (5,364,190) | 1,461 |
| Balance as at 31 March 2018 | 55,626,381 | 55,626,381 | - |
| Movement during the year | **(7,303,017)** | **(7,303,017)** | - |
| Balance as at 31 March 2019 | **48,323,364** | **48,323,364** | - |

## 14. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The notional principal amount of all the outstanding currency swaps and interest rate swap contracts at 31 March 2019 was £170,409,009 (2018: £182,009,763) and nil (2018: £nil) respectively.

In accordance with IFRS 9 Financial instruments, the Company has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard.

The Company has the ability to redeem the floating rate notes in full or part at their then principal amount outstanding, together with interest accrued to the date of redemption, on any interest payment date. The Company effectively has a call option on the floating rate notes exercisable on certain dates. The option constitutes an embedded derivative; however, as this is closely related to the underlying host contract (the floating rate notes) consistent with IFRS 9, the option does not require separation. A similar hybrid instrument arises on the mortgage loan whereby the Company has effectively sold a put option on the mortgage loans exercisable on certain dates. As this option is considered to be closely related to the underlying host contract, it does not require separation.

## 15. RELATED PARTY TRANSACTIONS

The Company is a special-purpose company controlled by its Board of directors, which comprises two directors; Wilmington Trust SP Services (London) Limited and Mr D J Wynne. Mr D J Wynne, a director of the Company is also a director of Wilmington Trust SP Services (London) Limited. The Company pays a corporate service fee to Wilmington Trust SP Services (London) Limited in connection with corporate services received on an arms length basis. The Corporate Services and Accountancy Services fees payable to Wilmington Trust SP Services (London) Limited for the year ended 31 March 2019 amounted to £13,940 (2018: £13,924) and £14,400 (2018: £14,400) respectively including irrecoverable VAT. At year end £2,791 (2018: £2,791) of Corporate Services included within prepayment. At year end £14,400 (2018: £14,400) of Accountancy Services fee was included within accruals.

## 16. ULTIMATE PARENT UNDERTAKING

ResLoC UK 2007-1 Plc is a company incorporated in the United Kingdom and registered in England and Wales.

ResLoC UK Holdings Limited holds 49,999 shares in the Company. This shareholding does not confer any power to control the operations of the Company. Wilmington Trust SP Services (London) Limited holds one share in ResLoC UK 2007-1 Plc and the entire share capital in ResLoC UK Holdings Limited under a declaration of trust for charitable purposes. The registered office of Wilmington Trust SP Services (London) Limited is given on page 1.

The Company is not consolidated into ResLoc UK Holdings Limited or any other entity.

The directors consider that ResLoC UK 2007-1 Plc has no ultimate controlling party.

## 17. POST BALANCE SHEET EVENT

The risks arising from the outbreak of Coronavirus (Covid-19) which has occurred since the balance sheet date are disclosed on page 3. In view of its currently evolving nature, the Directors will continue to closely monitor the impact of the decision on the market and therefore on the Company.