LONDON WALL MORTGAGE CAPITAL PLC

Annual report and financial statements

For the year ended 31 December 2022

Registered number 10001337

LONDON WALL MORTGAGE CAPITAL PLC

COMPANY INFORMATION

Directors

L.D.C Securitisation Director No.3 Limited
L.D.C Securitisation Director No.4 Limited
Mark Howard Filer

Company secretary

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London EC2N 4AG

Registered office

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Statutory auditor

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LONDON WALL MORTGAGE CAPITAL PLC

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LONDON WALL MORTGAGE CAPITAL PLC
STRATEGIC REPORT

The directors present their strategic report for London Wall Mortgage Capital Plc (the "Company") for the year ended 31 December 2022.

General Company Information
The Company was incorporated in England and Wales on 11 February 2016 as a public limited company with the registered number of 10001337.

Principal activity, Objective, Business Model and Review of the Year
The Company was set up as a special purpose vehicle to establish a residential mortgage-backed securities programme whereby it may from time-to-time issue floating and fixed rate Loan Notes (the "Notes)" in separate segregated Series (each being a "Series"). There is no cross collateralisation or comingling between any of the Series issued, or to be issued, under the programme, and each Series has its own separate features as indicated in the relevant Series Prospectus (including, without limitation, its own assets, Notes and Deferred Consideration Instruments ("DCIs"), credit structure and cash flows) which are able to be separately enforced. There is no limit to the programme size. The proceeds of each Series Note issuance are currently used to acquire the beneficial interest in residential buy-to-let mortgage loans (the "loans") from London Wall Capital Investments LLP (the "LLP" or the "Seller") or from one of the LLP's Investment Members directly.

The financial assets and liabilities of Series 2018-01, which was originated in 2018, was measured at amortized cost at the initial recognition. The Fair Value Through Profit and Loss (FVTPL) election was not made at initial measurement, hence these series are not eligible to opt this option and the Company will continue to measure the financial assets and liabilities of Series 2018-01 at amortized cost at year end. However, Series 2021-01 and Series 2021-02 were originated in 2021 and are therefore able to avail this option and to measure financial instruments at fair value on initial recognition if these Series meet the required criteria. The Company has entered into interest rate swaps (IRS) specifically to economically hedge the interest rate risk on the fixed rate mortgages within each Series. Instruments such as derivatives must be measured at FVTPL. In addition, the Series issuance resulted in the recognition of the DCI at fair value through profit or loss. Measuring the mortgage loan and notes liabilities within each Series at amortised cost results in an accounting mismatch between the financial instruments measured at FVTPL and the instruments measured at amortised cost within the individual Series. In order to reduce the measurement mismatch, the company has elected to designate all the other assets and liabilities at FVTPL in accordance with IFRS 9.

For Series 2018-1, the mortgage loans legally purchased by the Company fail to meet the de-recognition criteria under IFRS 9: "Financial Instruments" ("IFRS 9") because the LLP, by simultaneously purchasing the residual Notes or DCI, failed to transfer substantially all the risks and rewards of ownership. Accordingly, the beneficial interest in the residential mortgages underlying that Series is recognised as a deemed loan in the Company's financial statements (the "deemed loans"). The R2 and R3 DCIs are the lowest ranking Notes in the priority of payments. They are entitled to the quarterly residual income, after paying the related expenses and Note holder interest for that Series. The residual income is payable to the relevant Series investment member either directly or through the LLP.

STRATEGIC REPORT (continued)

Principal activity, Objective, Business Model and Review of the Year (continued)

For Series 2021-1 and 2021-2, the residual Notes are not held by the LLP but instead held by the investment member, Continental Structured Ventures Limited (CSV). The underlying mortgages loans therefore meet the de-recognition criteria under IFRS 9 and are recognised on the Company's Statement of financial position at fair value.

Details of the Series Notes in issue at 31 December 2022, all of which are listed on the London Stock Exchange, are summarised below with further details set out in note 14. Also see note 8 – "Deemed loan" for the net presentation of mortgage loans less the impediments to de-recognition for Series 2018-1 which were already in existence before 1 January 2022. The Investment Member of Series 2017-1 exercised their call rights in August 2022 and this Series was terminated and the Loan Notes repaid.

Series	Date Notes issued	Principal amount of A to X Notes (excluding S and Z Notes)	Principal amount of residual Notes	Maturity date	Call option date
		£000	£000		
Series 2018-1*	6 Feb 2018	55,921	16,104	15 May 2050	15 Feb 2023
Series 2021-1	17 May 2021	245,320	18,458	15 May 2051	15 May 2026
Series 2021-2	30 November 2021	237,833	5,098	15 May 2052	15 May 2026

In addition to the Series Notes issued, the Company has also issued DCIs for each Series as shown below. The DCIs have a nil par value (2021: £nil) except for the Series 2018-1 R2 DCIs which had an initial par value of £12.7m. As at the year-end the amount outstanding to R2 DCI is £nil (2021: £2m). R1 DCI payments are amounts payable to the servicer assuming no Mortgage in the Series Portfolio is ever in arrears during the relevant period and there are no overpayments or early repayments in respect of any such Mortgage during the relevant period, up to a maximum of £735,000. R1 DCI payments have been settled in previous years meaning no future payments are expected on these Notes. The R2 DCIs for all the series (except Series 2018-1), and the R3 DCI for series 2018-1 are the residual Notes as defined above.

*Series 2018-1 was fully redeemed on 15th February 2023.

Details of the DCIs outstanding at 31 December 2022 are shown below.

Series	Number of R2 DCIs outstanding
Series 2021-1	1,000,000
Series 2021-2	1,000,000

All the DCIs for Series 2018-1 are held by the LLP except for the Series 2018-1 R2 DCIs which are held by the respective investment member. The respective investment members of Series 2021-1 and Series 2021-2 hold all the DCIs for the respective Note issuances. They also hold some of the A-E Notes for risk retention purposes.

Principal activity, Objective, Business Model and Review of the Year (continued)

During the year, £216,099,000 (2021: £122,552,000) of the Loan Notes were redeemed in line with the redemption of the underlying mortgage loans. Interest income and expense also reduced accordingly. The results for the year are set out on page 20 and the key results for the year are summarised in the KPI section below.

Key Performance Indicators (KPIs)

Financial KPIs
Recoverability of the deemed loans is linked to the underlying performance of the mortgage loans and therefore the recoverability of the mortgage loans are key performance indicators. The quarterly investor reports contain a range of data on the performance of the mortgage portfolio including payment arrears, Loan to Value percentages and restructured mortgages. As at 31 December 2022, the KPIs for the Company as a whole, are shown in the table below:

	2022	**2022**	2021	2021
	Number of mortgages	**£000**	Number of mortgages	£000
Mortgage loan in arrears	**6**	**1,341**	4	633
Mortgage loans in default	**1**	**299**	1	786
Mortgage loans restructured	**-**	**-**	-	-

Due to the highly collateralised buy-to-let mortgages and the availability of £24.7m (2021: £44.6m) credit enhancements (see Note 1 – "Key areas of estimation uncertainty section" and Note17 – "Credit risk section"), the Company is unlikely to incur a loss in the event of default.

Financial risk management and objectives
The main risks that could affect the Company are credit, interest, price, liquidity and operational risks. These include the correct and timely receipt of interest and principal on the deemed loans and mortgage loans.

Credit risk
Credit risk is the risk that the borrowers of the underlying mortgage loans will not be able to meet their obligations as they fall due.

For each Series, the underlying mortgage loans are required to adhere to specific lending criteria and late payments are subject to regular reviews by Fleet Mortgages Limited (the originator and servicer of the mortgages) to ensure credit risks are identified on a timely basis and losses are minimised. The Company has appointed Citibank as the Cash Manager to produce quarterly portfolio performance reports for each Series.

Market risk
Market risk is the risk that changes in market prices will affect the Company's income or the value of the financial instruments. Market risk comprises foreign currency risk, interest rate risk and price risk.

Foreign currency risk
All transactions and financial instruments are denominated in the Company's functional currency (pound sterling) and consequently no currency exposure arises.

Financial risk management and objectives (continued)

Interest rate risk
Interest rate risk exists where assets and liabilities have interest rates set under different bases or which reset at different times. The Company has issued various Series of floating rate Notes and the underlying mortgage loans are both fixed and floating rate loans. The Company hedges its interest rate risk on the underlying fixed rate mortgage loans by entering into swap agreements with suitably rated counterparties. As a result, the Company does not have a material net interest rate risk exposure.

To conform to the LIBOR reform, the reference for the floating rate interest on the notes, derivative financial instruments and the underlying mortgage loans changed from LIBOR to SONIA. This was adopted at inception for Series 2021-1 and 2021-2 and for Series 2017-1 and 2018-1, it was adopted in February 2022.

Price risk
Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its seller, or factors affecting similar financial instruments traded in the market. The Company is exposed to price risk because of changes in the market values of the underlying mortgage loans. The Notes issued by the Company are Limited recourse in nature and the Company is only expected to pay its Noteholders to the extent of the income it receives. The Company therefore has no material price risk because it can only pay out what it receives.

The fair value of the mortgages loans is the net fair value of all financial instruments which gives the Company a net asset value of nil. As a result, any change in fair value of the Loan Notes or derivatives will have an equal but opposite effect on the fair value of the mortgage loans, resulting in no impact on the Company.

Liquidity risk
Liquidity risk is the risk that the Company will default on its obligations to its creditors. For the purposes of managing this risk, the cash manager ensures that all monies received are paid in accordance with an agreed Series waterfall. The Company is structured so that its assets and liabilities are organised into separate Series, reflecting a "protected cell" approach where assets are allocated to specified pools which secure liabilities owing to specified secured creditors which can be separately enforced. The Company maintains Series specific reserve funds to cover any revenue or principal shortfalls.

Operational risk
Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems within one or more of the Company's third party providers or from external events. For all Series, the Company appointed Fleet Mortgages Limited ("Fleet") as its mortgage servicer and Citibank as its cash manager and bank account provider. Mortgage servicer operational risk is mitigated by having a back-up servicer in place. The cash manager has adequate back-up facilities in case of operational failure and where the Company finds the need to terminate the services of the cash manager, a grace period is given to find a suitable replacement under the terms of the transaction documents.

Financial risk management and objectives (continued)

Cost of living crisis and Ukraine War

UK inflation is at a very high level and interest rates have increased from 0.25% at 31 December 2021 to 4.25% in April 2023 resulting in a lot of households experiencing a cost of living crisis. While the extent and duration of the effect of this economic uncertainty remains unclear, there is a risk of financial instability for the Company as this may impact the borrowers' ability to repay the loans, or on the servicer's ability to continue to effectively service the loans. However, as at the report date there has been no material impact from these macroeconomic factors on the Company's financial performance or cash flows.

The Russia/Ukraine conflict has affected the global economic markets and is exacerbating ongoing economic challenges, including inflation and global supply chain disruption. The Directors believe that the Company's performance is not directly affected by the economic implications of the conflict.

Due to the nature of the Company the Directors are of the opinion that climate change has a negligible impact on the Company.

Capital Structure

The capital structure of the Company consists of the debt and equity comprising of issued share capital and retained earnings as disclosed in the Statement of Financial Position, attributable to the note trustee and the share trustee (The Law Debenture Intermediary Corporation plc), respectively. The Company's objectives when managing share capital are to safeguard its ability to continue as a going concern in order to maintain an optimal capital structure to reduce the cost of capital. This was considered at the onset of the transaction by issuing the underlying mortgages for all Series to prime borrowers who are expected to have a lower risk of default. The cost of capital was also considered by agreeing most of the Series fees upfront. The Company is not subject to any external capital requirements except the minimum requirement for issued share capital for a plc under the Companies Act 2006. The Company has not breached the minimum requirement.

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of at least 12 months from the date of this report. Further detail is set out in note 1.

Derivatives and other financial instruments

The Company's financial instruments comprise the deemed loans, mortgage loans, balance guarantee swaps (BGS), interest rate swaps, the Loan Notes, cash and other liquid resources, and various other items, such as trade and other receivables and payables that arise directly from its operations. The swaps are entered into for managing interest rate and prepayment risk and not for trading.

STRATEGIC REPORT (continued)

Future developments

The Company's business model is set out above. The Company intends to issue further Note Series in due course. This will be dependent upon the securitisation market and continued availability of suitable mortgage portfolios to acquire, accepting that the market for new mortgages may fluctuate according to factors beyond the Company's control, such as interest rates, unemployment, house prices and inflation amongst other factors.

All the underlying property collateral backing the mortgage assets in the Company are in the UK and hence the Company's prospects are closely linked to economic conditions in the UK. Monthly borrower repayments are monitored closely by the servicer to ensure any potential or actual borrower defaults are identified and managed closely to mitigate losses to the Company.

By order of the board,

Mark Filer
Director
Date: 28 April 2023

LONDON WALL MORTGAGE CAPITAL PLC
DIRECTORS' REPORT

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2022.

Business review for the year

The business review for the year can be found in the Strategic Report on page 1 and forms part of this report by cross-reference.

Dividends

During the current year, the directors do not recommend the payment of a dividend (2021: £ nil).

Directors

The directors who held office during the year and up to the date of signing these financial statements are:

L.D.C Securitisation Director No.3 Limited
L.D.C Securitisation Director No.4 Limited
Mark Howard Filer

The Company has no employees (2021: none).

The directors are not subject to retirement by rotation.

Directors' interests

During the year none of the directors held any beneficial interests in the shares of the Company (2021: none).

Director indemnities

Adequate qualifying third-party indemnity provisions for the benefit of the directors were in place during the year and remain in force at the date of this report.

Political and charitable contributions

The Company made no political or charitable donations during the year (2021: none).

Financial risk management and objectives

Details of financial risk management objectives and policies can be found in the Strategic Report and form part of this report by cross-reference.

Future developments

Details of future developments can be found in the Strategic Report and form part of this report by cross reference.

Events after Statement of Financial Position date

Please see note 20 for details of significant events after the Statement of Financial Position date.

Going concern

Details of the Company's ability to continue as a going concern can be found in the strategic report and note 1 and form part of this report by cross reference.

Corporate governance

The directors have been charged with governance in accordance with the transaction documents detailing the mechanism and structure of the Company. The structure of the Company is such that the key policies have been predetermined at the time of issuance of the various Note Series and the operational roles have been assigned to third parties and these are strictly governed by the transaction documents.

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

Due to the nature of all of the Note Series issued (excluding the DCIs), each of which is listed on the London Stock Exchange, the Company is exempt from the provisions of UK Corporate Governance Code and the Disclosure and Transparency Rules (DTR) of the Financial Conduct Authority with the exception of DTR 7.2.5. The directors are therefore satisfied that there is no requirement for an audit committee or to publish a corporate governance statement.

As a special purpose vehicle, the Company has no physical presence or operations and accordingly has minimal impact on the community and the environment.

Section 172(1) statement

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

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

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

- the transaction documents have been formulated to achieve the Company's purpose and business objectives, safeguard the assets and promote the success of the Company with a long term view and as disclosed in note 1 in accordance with relevant securitisation legislation the Company is only permitted to retain minimal profit;
- the Company has no employees;

DIRECTORS' REPORT (continued)

Section 172(1) statement (continued)

- the Company is a securitisation vehicle and therefore a key stakeholder are the noteholders. The transaction documents determine the nature and quality of assets that can be securitised and how the cash flows from securitised assets are distributed. Relationships are also fostered with suppliers and other via professional third parties who have been assigned operational roles and their strictly governed by the transaction documents and fee arrangements agreed in advance. The Company has no customers;
- as a securitisation vehicle the Company has no physical presence or operations and accordingly has minimal impact on the community and the environment;

The Company maintains a reputation for high standards of business conduct via professional third parties who have been assigned operational roles. Fee arrangements have been agreed in advance and supplier invoices paid in accordance with the transaction documents including a priority of payments, if applicable.

Task Force on Climate-related Financial Disclosures (TCFD)

The Company is exempt from the TCFD disclosures because it is not trading company, a bank nor an insurance company.

Capital structure

Details of the capital structure can be found in the Strategic Report and form part of this report by cross reference.

Auditor

Deloitte LLP has expressed their willingness to continue in office and a resolution for its reappointment as auditor to the Company will be proposed at the forthcoming Annual General Meeting.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself 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.

By order of the board,

Mark filer
Director
Date: 28 April 2023

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

Directors' responsibilities statement

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 accounting standards as adopted by the UK in conformity with the requirements of the Companies Act 2006. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 International Financial Reporting Standards (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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON WALL MORTGAGE CAPITAL PLC

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of London Wall Mortgage Capital Plc (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards; 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 financial position;
- the statement of comprehensive income;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 20.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards.

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 we have not provided any non-audit services prohibited by the FRC's Ethical Standard 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

Key audit matters	The key audit matter that we identified in the current year was: • Valuation of fair value of loan notes

	Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used in the current year was £8.3m (2021: £7.4m) which was determined on the basis of 1.5% of the Loan notes (2021: 1% of the gross loan asset).
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the engagement team.
Significant changes in our approach	We have changed our benchmark from gross loan asset to the Loan notes balance. The revised benchmark more accurately represents the expected return to the noteholders. In prior year, we considered both fair value of loan notes and mortgage loan as key audit matter. In the current year, we have refined our key audit matter based on our reassessment of the risk and concluded that the significant judgement and estimates specifically lies within the fair value of loan notes only. Further, we have not considered deemed loan impairment as a key audit matter in the current year as there is no reasonable likelihood that impairment exists on the deemed loan due to sufficient credit enhancements in place. There were no other significant changes in our approach since the prior year.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Assessing the facility agreements to identify the triggers that could have impact on the company's ability to continue as a going concern;
- Assessing the cash flows of the company, considering the limited recourse features of the notes and assessing the credit enhancement in place;
- Assessing the appropriateness of the assumptions applied by management in arriving at their conclusions on going concern;
- Assessing the impact of the current uncertain UK economic environment on the underlying mortgage portfolio and;
- Evaluating the going concern disclosures included within the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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.

5.1. Valuation of fair value of loan notes

Key audit matter description	Included within Long term borrowings of £545 million (2021: £775 million) are loan notes held at fair value through profit and loss (FVTPL) of £489 million (2021: £589 million. Further details of these loan notes are as disclosed in Note 14. The fair value estimation process involves various assumptions around the discount rate and prepayment rates. Given the significant level of judgement involved in determining the fair value of loan notes, we identified this as an area susceptible to potential fraud. Further details are disclosed within critical accounting judgements in Note 1 of the financial statements.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the process and tested the relevant controls in relation to valuation of the loan notes. We evaluated the appropriateness of the methodologies and the reasonableness of management's assumptions such as discount rate and prepayment rates used in the valuation process with the help of our valuation specialists. With the assistance of our valuation specialists, we performed an independent valuation of loan notes using independent inputs and method.
Key observations	Based on the work performed, we concluded with that the valuation of fair value of the loan notes is appropriate.

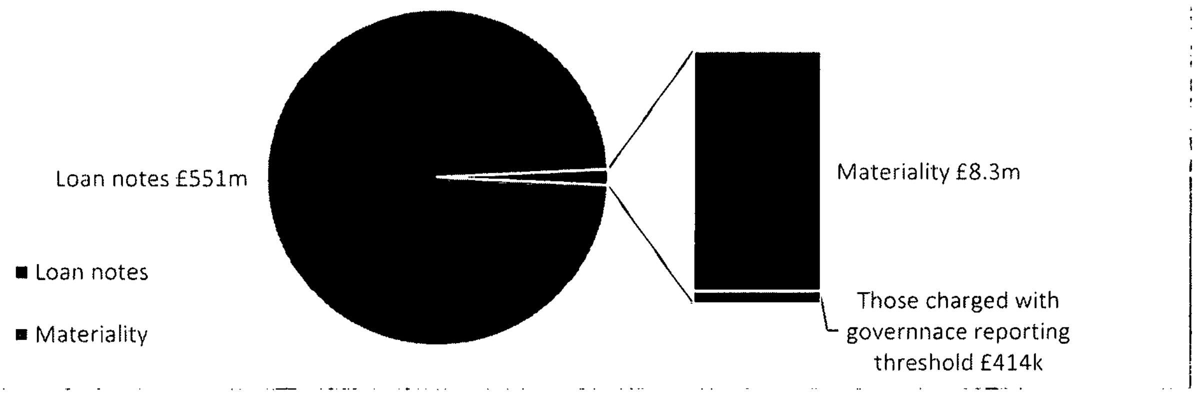
6. Our application of materiality

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:

Materiality	£8.3m (2021: £7.4m)
Basis for determining materiality	1.5% of Loan notes (2021: 1% of the gross loan asset.)
Rationale for the benchmark applied	Loan notes, consisting of both loan notes held at fair value and loan notes at amortized cost reflects the amounts due to the noteholders of the entity. As such Loan notes were used as the basis for materiality as it directly represents the expected return to the noteholders.



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 2022 audit (2021: 70%). In determining performance materiality, we considered the following factors:

a. the quality of the control environment with no reliance placed on controls ;
b. the low of number of corrected and uncorrected misstatements identified in the prior year; and
c. the lack of significant changes in the business.

6.3. Error reporting threshold

We agreed with those charged with governance that we would report all audit differences in excess of £414k (2021: £373k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to those charge 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 engagement team.

7.2. Our consideration of the control environment

We assessed the control environment, by obtaining an understanding of the relevant business processes, performing walkthroughs and testing the relevant controls on the key processes. The company has engaged service organisations for the financial reporting and loan servicing process. We have obtained an understanding of the nature of the services provided by these service organisations and the significance of those services to the company, including the effect thereof on the company's internal controls. We have tested the relevant controls implemented by the service provider for the financial reporting process, and we have obtained an understanding of relevant controls at the loan servicer.

8. Other information

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

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

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.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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, the directors, and those charged with governance about their own identification and assessment of the risks of irregularities including those that are specific to the company's sector;
- 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, 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 following area: valuation of fair value of loan notes due to the potential bias of management estimate. 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 frameworks 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, Listing Rules and Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296).

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

11.2. Audit response to risks identified

As a result of performing the above, we identified valuation of fair value of loan notes 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 reviewing correspondence with HMRC; 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 which we are required to address

14.1. Auditor tenure

Following the recommendation of those charged with governance, we were appointed by the company on 1 December 2016 to audit the financial statements for the year ending 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 7 years, covering the years ending 31 December 2016 to 31 December 2022.

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

Our audit opinion is consistent with the additional report to 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.

Chris Hunter

Chris Hunter, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

28 April 2023

STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Note	2022 £000	2021 £000
Non-current assets			
Deemed loans	8	**40,454**	161,017
Mortgage loans	9	**454,847**	588,339
Derivative financial instruments	13	**32,320**	4,810
		527,621	754,166
Current assets			
Trade and other receivables	10	**171**	236
Cash and cash equivalents	11	**45,008**	42,303
Total current assets		**45,179**	42,539
Total assets		**572,800**	796,705
Current liabilities			
Trade and other payables	12	**20,846**	11,809
Non-current liabilities			
Long-term borrowings	14, 15	**545,117**	774,794
R2 DCI	15	**6,705**	8,267
Derivative financial instruments	13	**-**	1,705
		551,822	784,766
Total liabilities		**572,668**	796,575
Equity			
Share capital	16	**50**	50
Retained earnings		**82**	80
Total equity		**132**	130
Total equity and liabilities		**572,800**	796,705

These financial statements were approved and authorised for issue by the board of directors on [ ] and were signed on its behalf by:

Mark Filer
Director
Date: 28 April 2023

The notes on pages 23 to 53 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Note	**Year Ended 31 December 2022 £000**	Year ended 31 December 2021 £000
Interest receivable and similar income	3	**14,582**	4,973
Interest payable and similar charges	4	**(14,187)**	(5,503)
Net interest income		**395**	(530)
Net gain from Loan Notes held at fair value		**13,578**	3,935
Net loss from R2 DCIs held at fair value		**(405)**	(482)
Net loss from Mortgage Loans held at fair value		**(41,827)**	(3,453)
Net gain from derivative financial instruments held at fair value	6	**30,036**	4,256
Other operating expenses	5	**(1,775)**	(3,656)
Profit before taxation		**2**	70
Taxation	7	**-**	-
Profit for the year		**2**	70
Other comprehensive income		**-**	-
Total comprehensive income for the year		**2**	70

All the Company's results are derived from continuing activities.

The notes on pages 23 to 53 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2022

	Share capital	Retained earnings	Total equity
	£000	£000	£000
Balance at 1 January 2021	50	10	60
Total comprehensive income for the year	-	70	70
Balance as at 31 December 2021	50	80	130
Total comprehensive income for the year	-	2	2
Balance as at 31 December 2022	**50**	**82**	**132**

The notes on pages 23 to 53 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Note	**Year ended 31 December 2022 £000**	Year ended 31 December 2021 £000
Operating activities			
Profit on ordinary activities before taxation		**2**	70
Adjustments:			
Fair value movement on mortgage loans	9	**42,867**	3,453
Fair value movement on loan notes	15	**(13,578)**	(3,935)
Fair value movement on derivative financial instruments	13	**(29,215)**	(4,116)
Additions to R2 DCI	15	**-**	5,818
Fair value movement on R2 DCI	15	**405**	482
Bank interest	3	**(632)**	-
Note interest	4	**14,187**	5,503
Reversal of interest EIR adjustment		**(357)**	(180)
Payments on R2DCIs held at amortised cost	8	**2,011**	3,015
Movement in deferred consideration on deemed loans	8	**(138)**	495
		15,552	10,604
Changes in operating assets and liabilities			
Decrease in trade and other receivables	10	**65**	62
Increase in trade and other payables	12	**7,005**	10,713
Net cash generated from operating activities before tax		**22,622**	21,379
Tax paid		**(1)**	-
Net cash generated from operating activities after tax		**22,621**	21,379
Investing activities			
Deemed loan repaid	8	**119,091**	101,916
Mortgage loans advanced	9	**-**	(604,209)
Mortgage loans repaid	9	**90,624**	12,417
Bank interest	3	**632**	-
Net cash generated from/ (used in) investing activities		**210,347**	(489,876)
Financing activities			
Loan Notes issued	14,15	**-**	605,668
Loan Notes repaid	14,15	**(216,099)**	(122,552)
R2 DCI repaid	15	**(2,011)**	(3,016)
General facility repaid	14,15	**-**	(345)
Loan Note interest paid	4	**(12,153)**	(4,975)
Net cash (used in) /generated from financing activities		**(230,263)**	474,780
Net increase in cash and cash equivalents		**2,705**	6,284
Cash and cash equivalents at the beginning of the year		**42,303**	36,019
Cash and cash equivalents at the end of the year	11	**45,008**	42,303

The interest received on the deemed loan and mortgage loans during the year was £2.2m (2021:£8.9m).

The notes on pages 23 to 53 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

1. Accounting policies

The following accounting policies, unless otherwise stated, have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of accounting

The financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006, and with International Financial Reporting Standards (IFRS) as issued by the IASB. The financial information for Series 2017-1 and 2018-1 has been prepared on the historical cost basis as modified for the revaluation of financial instruments. The financial information for Series 2021-1 and 2021-2 has been prepared on a fair value basis.

The financial assets and liabilities of Series 2017-01 and Series 2018-01, which were originated in 2017 and 2018 respectively, were measured at amortized cost at the initial recognition. The Fair Value Through Profit and Loss (FVTPL) election was not made at initial measurement, hence these series are not eligible to opt for this option and the Company will continue to measure the financial assets and liabilities of Series 2018-01 at amortized cost at year end. Series 2017-01 was terminated during the year and therefore didn't exist at year end. However, Series 2021-01 and Series 2021-02 were originated in 2021 and are therefore able to avail this option and to measure financial instruments at fair value on initial recognition if these Series meet the required criteria. The Company has entered into interest rate swaps (IRS) specifically to economically hedge the interest rate risk on the fixed rate mortgages within each Series. Instruments such as derivatives must be measured at FVTPL. In addition, the Series issuance resulted in the recognition of the DCI at fair value through profit or loss. Measuring the mortgage loan and notes liabilities within each Series at amortised cost results in an accounting mismatch between the financial instruments measured at FVTPL and the instruments measured at amortised cost within the individual Series. In order to reduce the measurement mismatch, the company has elected to designate all the other assets and liabilities at FVTPL in accordance with IFRS 9.

Currency presentation

The functional currency of the Company is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. The financial information is presented in pounds sterling and amounts have been presented in round thousands ("£000s") unless otherwise stated.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

1. Accounting policies (continued)

Going concern
At 31 December 2022 the Company had the following 3 Series in issue:

Series	Date securitised	Carrying value of deemed loan		Carrying value of Note at amortised cost	
		31/12/2022 £'000	31/12/2021 £'000	**31/12/2022 £'000**	31/12/2021 £'000
2018-1	February 2018	**40,454**	97,545	**55,921**	106,835

Series	Date securitised	Fair value of mortgage assets		Fair value of Note issued	
		31/12/2022 £'000	31/12/2021 £'000	**31/12/2022 £'000**	31/12/2021 £'000
2021-1	May 2021	**236,041**	320,677	**253,732**	319,999
2021-2	November 2021	**218,806**	267,662	**235,464**	269,393

The Company issues floating rate loan Notes in separate segregated Series. There is no cross collateralisation or comingling of funds between any of the Series issued, or to be issued, under the programme. Each Series has its own separate features as indicated in the relevant Series Prospectus (including, without limitation, its own bank account, assets, Notes and deferred consideration instruments ("DCIs"), credit structure and cash flows) and is able to be separately enforced. Transactions are made to and from specific bank accounts as per Series issue documents and there is a priority of payments in place for paying expenses.

The proceeds of each Series Note issuance are used to acquire the beneficial interest in buy-to-let mortgage loans. Management's intention is to issue more Notes and use the proceeds to purchase more beneficial interests in mortgage loans.

Key factors in determining going concern include cash flows and mortgage payment arrears. The legal structure of the Notes means that for each Series, the Company is only required to pay out funds to the extent that it has received them from the underlying mortgage loans attributable to that Note Series. These funds are paid out in accordance with a priority of payments as defined in each Series prospectus. During the year the Company incurred deferred consideration expenses of £11.1m (2021: £3.9 m) to the residual Note holders. Deferred consideration was only payable to the Noteholders for Series 2017-1 and 2018-1. For Series 2021-1 and 2021-2, the residual notes are held by the investment members. Deferred consideration is only payable to them after the repayment of the principal on the X Notes.

Call rights exist within the residual tranches of Notes. These positions with call rights are beneficially owned by the LLP or directly by the respective investment member of the LLP and can be executed at the discretion of the Investment Member of the applicable investment series that owns the position with call right. The Investment Member of Series 2017-1 exercised their call rights in August 2022 and this Series was terminated and the Loan Notes repaid. This did not have an impact on the ability of the Company to continue as a going concern because of the existence of the other Series that continue with their programme.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

1. Accounting policies (continued)

Going Concern (continued)

UK inflation is at a very high level and interest rates have increased from 0.25% at 31 December 2021 to 4.25% in April 2023 resulting in a lot of households experiencing a cost of living crisis. While the extent and duration of the effect of this economic uncertainty remains unclear, there is a risk of financial instability for the Company as this may impact the borrowers' ability to repay the loans, or on the servicer's ability to continue to effectively service the loans. However, as at the report date there has been no material impact from these macroeconomic factors on the Company's financial performance or cash flows.

The Russia/Ukraine conflict has affected the global economic markets and is exacerbating ongoing economic challenges, including inflation and global supply chain disruption. The Directors believe that the Company's performance is not directly affected by the economic implications of the conflict.

The Company reviewed the cash on-hand and cash reserves of each Series and believes each Series has sufficient cash funding available to cover annual operating expenses for the next 12 months from the date of issuing these financial statements.

Segmental reporting

The Company operates in one business sector and generates all income in the United Kingdom and therefore no separate segmental reporting information is presented.

New standard or amendments in issue but not yet effective

A number of new accounting standards and amendments to accounting standards which have been issued by the IASB are not yet effective and have not been early adopted by the Company. None of these are relevant to the Company.

Effective interest rate method

The effective interest rate ("EIR") is the rate that effectively discounts estimated future cash receipts or payments (including all fees and 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 instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income

The Company's principal source of income is interest income. Interest income is accrued on a time basis, by reference to the principal outstanding of the deemed loan and mortgage assets and at the applicable EIR. Although the interest income on the mortgage loans is recognised at EIR, it equates to the interest receivable on an accrual basis. The Company has opted to present interest income on mortgage assets held at FVTPL separately from the change in fair value, in the income statement.

Interest payable

Interest expense is accrued on a time basis, by reference to the principal outstanding of the Loan Notes and at the applicable EIR. For the Loan Notes held at fair value, the interest at EIR equates to the interest payable on an accrual basis.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

1. Accounting policies (continued)

Issuer profit
Under the terms of the transaction documentation, the Company retains an annual issuer profit of £7,812.50 for its first 2 financial years and £2,000 thereafter. Any actual profit or loss in excess or deficit of this amount is attributable to the R2 DCI holders for Series 2017-1 and the R3 DCI holders for Series 2018-1. For Series 2021-1 and 2021-1, the excess profit is only payable to the R2 DCI holder once the principal on the X Note has been paid.

Taxation
The Company operates under the permanent tax regime for securitisation companies (The Taxation of Securitisation Companies Regulation 2006). The directors are satisfied that the Company meets the definition of a 'securitisation company' as defined by both the Finance Act 2005 and subsequent secondary legislation. As a result, the Company is subject to tax on its issuer profit as determined in the securitisation documents.

Cash and cash equivalents
Cash and cash equivalents comprise cash, short-term bank deposits and the reserve accounts that are highly liquid.

Financial instruments
Financial assets and financial liabilities are recognised in the Company's Statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

1. Accounting policies (continued)

Financial assets

In line with IFRS 9, all financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as FVTPL where transaction costs directly attributable to the acquisition of financial assets are recognised immediately in profit or loss.

IFRS 9 requires the classification of financial assets to be determined by a contractual cash flows test referred to as solely payment of principal and interest ("SPPI") and the nature of the underlying financial asset and the business model under which it is being held. Financial assets that fail the SPPI test are measured at fair value through the profit and loss net of any expected credit losses.

During the current and previous financial year there was no change in the business model under which the Company holds financial assets and therefore no reclassifications were made. (See Principal activities set out on page 1). However, Series 2021-01 and Series 2021-02 were originated in 2021 and are therefore able to avail this option and to measure financial instruments at fair value on initial recognition if these Series meet the required criteria. The Company has entered into interest rate swaps (IRS) specifically to economically hedge the interest rate risk on the fixed rate mortgages within each Series. Instruments such as derivatives must be measured at FVTPL. In addition, the Series issuance resulted in the recognition of the DCI at fair value through profit or loss. Measuring the mortgage loan and notes liabilities within each Series at amortised cost results in an accounting mismatch between the financial instruments measured at FVTPL and the instruments measured at amortised cost within the individual Series. In order to reduce the measurement mismatch, the company has elected to designate all the other assets and liabilities at FVTPL in accordance with IFRS 9.

Derecognition

A financial asset is derecognised when the rights to receive cash flows from the asset have expired.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

1. Accounting policies (continued)

Financial instruments (continued)

Deemed loans

The deemed loans are classified as financial assets. Their contractual terms give rise to cash flows that are considered Solely Payments of Principal and Interest ("SPPI") and the Company also has the benefit of credit enhancements in place which means there is less variability in cash flows. The Company's business model with regards the deemed loans is to hold them to collect their contractual cash flows, rather than selling them to generate cash flows. Although Series 2017-1 was terminated during the year, this has no impact on the business model objective of the Company because according to IFRS 9, the Company does not need to hold the financial assets to maturity if it can explain the reasons for the sale and demonstrate why the sale does not reflect a change in the entity's business model or if the sale is made close to the maturity of the financial assets and the proceeds from the sale approximates the collection of the remaining contractual cash flows. The deemed loans are measured at amortised cost. Deemed loan accounting only applies to series that existed before January 2021 as explained in the basis of accounting on Page 22.

For Series 2018-1, the mortgage loans legally purchased by the Company fail to meet the de-recognition criteria under IFRS 9: "Financial Instruments" ("IFRS 9") because the LLP, by simultaneously purchasing the residual Notes, failed to transfer substantially all the risks and rewards of ownership. Accordingly, the beneficial interest in the residential mortgages underlying each Series is recognised as a deemed loan in the Company's financial statements (the "deemed loans"). The deemed loans initially represent the consideration paid by the Company in respect of the acquisition of the legal ownership of the mortgage loans. They are subsequently adjusted for repayments made by the LLP to the Company. The deemed loans are the cash consideration less the impediments to recognition for the LLP. As such the reserve funds, Z Notes, S Notes and the R3 DCI for Series 2018-1 have not been separately recognised in the financial statements and are netted off against the deemed loans.

Impairment

Impairment of the deemed loan is determined by assessing the impairment of the underlying mortgages, taking into account the effect of any credit enhancements (please see the credit risk section of note 17 for details of credit enhancements) in place.

IFRS 9 introduced a forward-looking impairment model that requires the recognition of expected credit losses on all financial assets at amortised cost or at fair value through other comprehensive income. Expected credit losses are estimated based on the repayment profiles of underlying mortgage loans. This assessment is performed monthly and identifies any instances where a borrower has gone into arrears. This is then monitored and resolved as appropriate.

Significant Increase in Credit Risk

For the purposes of the Company's credit risk oversight, a significant increase in credit risk is identified when an underlying mortgage goes into arrears exceeding 30 days. This period is reasonable given that the repayment cycle for the underlying buy-to-let mortgages in the portfolio is 30 days.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

1. Accounting policies (continued)

Impairment (continued)

Definition of Default

An event of default is defined as when an underlying mortgage borrower goes into payment arrears in excess of 90 days or it is determined that the underlying mortgage can no longer be repaid. The primary evidence of an event of default is the borrower going into default on account of missed payments in excess of 90 days. One such instances exist as at the Statement of Financial Position date (2021: 1).

Credit risk is monitored through the monthly repayments. On a monthly basis, the timely repayment of loans is monitored to identify any underlying mortgages that have gone into arrears. Any borrowers of an underlying mortgage who goes into arrears are contacted by the mortgage servicer and actively managed to ensure that the account is brought up-to-date. If an indicator of impairment exists then recognition of lifetime expected credit losses may be required.

A three-stage approach to impairment has been applied as follows:

Stage 1 - Performing underlying mortgages - the recognition of 12 month Expected Credit Loss ("ECL"), that is the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, if credit risk has not increased significantly since initial recognition;

Stage 2 – Underperforming underlying mortgages – Loans that are more than 30 days in arrears as at the Statement of financial position date, lifetime expected credit losses are recognised reflecting the increased credit risk since initial recognition; and

Stage 3 - Non-performing underlying mortgages - lifetime expected credit losses for loans that are in default and a repossession is required reflecting the impairment of the asset.

Underlying mortgages move back from Stage 2 or Stage 3 to Stage 1 when the account is no longer in arrears. An ECL is only recognised if it is material. Expected credit losses are calculated by multiplying three main components, those being the probability of default ("PD"), loss given default ("LGD") and the exposure at default ("EAD").

For the impairment assessment, benchmark portfolios were derived from the European Data Warehouse loan level data. Given the low number of default events within the benchmark portfolios, we adopted the low default portfolio method by Pluto and Tasche to come up with a PD upper bound. The ECL drivers of LGD are modelled at an account level which considers the balance outstanding, the monthly repayment amounts and the individual indexed underlying collateral values.

An impairment on the deemed loan would only be recognised where impairment on the underlying mortgages exceeds the credit enhancement in place

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

1. Accounting policies (continued)

Mortgage Loans
The mortgage loans are recognised at fair value through profit and loss. Because of the economic offset that exists between the mortgage loans, the derivative financial instruments and the Loan Notes of each Series, the fair value of the mortgage loans is derived from the fair value of all financial instruments to give the Series a nil Net Asset Value (NAV). See strategic report page 1.

Derivative financial instruments
The Company enters into derivative financial contracts to manage its exposure to interest rate risk and prepayment risk. Further details of derivative financial instruments are disclosed in note 13.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each Statement of Financial Position date. The resulting gain or loss is recognised in profit or loss immediately.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months.

Financial liabilities and equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Other financial liabilities
Other financial liabilities, including borrowings and Loan Notes, are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The Company has elected to measure the Series 2021-1 and 2021-2 Notes at fair value through profit or loss (see strategic report for more details). The change in fair value for these liabilities primarily reflect changes in fair value of the assets and is considered asset-specific performance risk. As such, all fair value movements will go through fair value through profit or loss.

R2 DCI liability
The R2 DCI liability represents deferred consideration that has been given up in favour of the Series 2018-1 investment member. It is recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

1. Accounting policies (continued)

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expense, in particular the estimation of future cash flows on the portfolio of mortgage loans in order to determine the amortised cost balance of these investments.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements on carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates used in the financial statements.

The estimates and underlying assumptions are reviewed on an ongoing 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 the current and future periods.

Critical accounting judgements

The key areas where critical accounting judgements have been made in the financial statements are:

Fair Value of mortgage loans

Series 2021-01 and Series 2021-02 were originated in 2021 and are therefore able to avail this option and to measure financial instruments at fair value on initial recognition if these Series meet the required criteria. The Company has entered into interest rate swaps (IRS) specifically to economically hedge the interest rate risk on the fixed rate mortgages within each Series. Instruments such as derivatives must be measured at FVTPL. In addition, the Series issuance resulted in the recognition of the DCI at fair value through profit or loss. Measuring the mortgage loan and notes liabilities within each Series at amortised cost results in an accounting mismatch between the financial instruments measured at FVTPL and the instruments measured at amortised cost within the individual Series. In order to reduce the measurement mismatch, the company has elected to designate all the other assets and liabilities at FVTPL in accordance with IFRS 9.

The fair value of the mortgage loans is derived from the fair value of all financial instruments to give the Series a nil Net Asset Value. The fair value of the Loan Notes is derived from vendor prices and the fair value of the interest rate swaps is based on discounted future cash flows. The fair value of all other current assets and liabilities approximates their carrying amount.

Key sources of estimation uncertainty

The key areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the financial statements are:

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

1. Accounting policies (continued)

Critical accounting judgements and key sources of estimation uncertainty (continued)
Key sources of estimation uncertainty (continued)

Impairment of deemed loans – expected credit losses – although this is currently not a key source of estimation uncertainty, it includes some element of uncertainty and it has the potential to be a key source of estimation uncertainty in future.

Due to highly collateralised buy-to-let mortgages underlying the deemed loan and the availability of £24.7m (2021: £44.6m) credit enhancements (see Note 17), the Company is unlikely to incur a loss in the event of default based on current property values that have been indexed using the Company's methodology as explained in note 17. However, the Company has performed a sensitivity analysis on changes to the collateral valuation to calculate the potential impact on ECL. For the current period, it was important to consider the impact that the cost of living crisis and market turmoil and any cladding issues might have on the value of properties within the underlying mortgage loans. This has been factored into the assumptions used in ECL calculations. The risk of deterioration due to cladding and market turmoil contribute to extreme scenario assumptions of a 25% forced sale discount, a 2.5% cost to sell, a default rate of 0.17% and a reduction in property values of 31% at the lowest, based on the Bank of England (BoE) stress scenario, used in ECL calculations. At the lower point described, the base shows an increase in property value of 8%. Therefore, assuming a 25% forced sale discount, 2.5% cost to sell and 0.17% as a default rate, the impact of which would be as follows:

Reduction in collateral value	ECL 2022 £'000
-31%	629

Reduction in collateral value	ECL 2021 £'000
-10%	659
-25%	1,184
-40%	1,750

The above table shows that any potential ECL from the extreme scenario of a fall in collateral value of 31% would be £629k. The Company however, would not be expected to suffer this credit loss because the fall in collateral values could be absorbed by the company's credit enhancements of £24.7m (see note 17, 2021: £44.6m).

2. Directors' remuneration and employees

The Company has no employees (2021: none). No director received any remuneration during the year (2021: none). The directors are all provided by Law Debenture Corporate Services Limited who received a corporate services fee for the provision of certain services (see note 18).

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

3. Interest receivable and similar income

	2022 £000	2021 £000
Other income	**2**	2
Bank interest	**632**	-
	634	2
Early Repayment Charge (ERC) income	**525**	345
Interest income on deemed loan and mortgage assets	**24,488**	8,969
Deferred consideration payable	**(11,065)**	(4,343)
	13,948	4,971
	14,582	4,973

4. Interest payable and similar charges

	2022 £000	2022 £000
Interest expense on loan Notes	**14,187**	5,503
	14,187	5,503

5. Other operating expenses

Other operating expenses include audit fees. The audit fees for Series 2017-1 and 2018-1 are paid by the LLP and this is charged in aggregate of the whole structure (including London Wall Investment Warehouse and London Wall Capital Investments LLP). Series 2021-1 and 2021-2, pay their own audit fees. The analysis of the auditor's fees for the year is described below.

There were no fees or expenses paid in respect of other assurance, or non-audit services provided by the statutory auditor for the year-ended 31 December 2022.

	2022 £000	2021 £000
Audit fees payable by LLP for Series 2017-1 & 2018-1	**78**	161
Audit fees payable by Series 2021-1 & 2021-2	**81**	61
	159	222

6. Net gain from derivative financial instruments held at fair value

	2021 £000	2021 £000
Settlement of derivatives	**821**	140
Fair value movement on swaps	**29,215**	4,116
	30,036	4,256

7. Taxation

	2022	2021
	£000	£000
Current tax:		
UK corporation tax on taxable profit for the year	-	-

Factors affecting the tax charge for the year:
The tax assessed for the year is the same as the standard rate of corporation tax in the UK of 19% (2021: 19%). A reconciliation of the charge that would result from applying the standard UK corporation tax rate to the profit before tax to the actual tax charge for the year is given below:

	2022	2021
	£000	£000
Profit before tax	**2**	70
Current tax charge at 19% (2021: 19%)	-	13
Factors affecting charge:		
Accounting profits not taxed in accordance with the regulations	-	(13)
Tax on cash retained profit taxed in accordance with the regulations	-	-
Current tax charge for the year	-	-

For UK corporation tax purposes, the Company has been considered as a securitisation company under the 'Taxation of Securitisation Companies Regulations'. Therefore, the Company is not required to pay corporation tax on its accounting profit. Instead, the Company is required to pay tax on its retained profits as specified in the documentation governing the securitisation transaction into which the Company has entered. In October 2022, the Chancellor of the Exchequer confirmed that, in line with the previously enacted legislation, the UK corporation tax rate will increase to 25% from 1 April 2023.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

8. Deemed loans

	2022 £000 Series 2017-1	2022 £000 Series 2018-1	2022 £000 Total	2021 £000 Total
Balance at 1 January - amortised cost:	**63,472**	**97,545**	**161,017**	266,279
Mortgage redemptions	**(11,648)**	**(55,135)**	**(66,783)**	(101,916)
Mortgages transferred out	**(52,308)**	**-**	**(52,308)**	-
R2DCI Amortisation	**-**	**44**	**44**	(16)
R2 DCI asset side	**-**	**(2,011)**	**(2,011)**	(3,015)
Movement in deferred consideration	**484**	**(346)**	**138**	(495)
EIR adjustment	**-**	**357**	**357**	180
Balance at 31 December	**-**	**40,454**	**40,454**	161,017

Presented as:

	2022 £000 Total	2021 £000 Total
Due in one year	**-**	-
Due after more than one year	**40,454**	161,017
Total	**40,454**	161,017

The Company has charged by way of security to the Loan Notes Trustee, its rights to receive principal and interest on the deemed loan. The interest on the deemed loans is linked to the interest on the underlying mortgage portfolios which contain both fixed and floating rate mortgage loans.

9. Mortgage loans

	2022 £000 Series 2021-1	2022 £000 Series 2021-2	2022 £000 Total	2021 £000 Total
Balance at 1 January	**320,677**	**267,662**	**588,339**	-
Mortgage purchases	**-**	**-**	**-**	604,209
Mortgage redemptions	**(62,793)**	**(27,831)**	**(90,624)**	(12,417)
Reversal of 2021 LLP creditor	**(1,041)**	**-**	**(1,041)**	-
Movement in fair value	**(20,802)**	**(21,025)**	**(41,827)**	(3,453)
Balance at 31 December	**236,041**	**218,806**	**454,847**	588,339

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

9. Mortgage loans (continued)

Presented as:

	2022 £000 Total	2021 £000 Total
Due in one year	-	-
Due after more than one year	**454,847**	588,339
Total	**454,847**	588,339

Series 2021-01 and Series 2021-02 were originated in 2021 and are therefore able to avail this option and to measure financial instruments at fair value on initial recognition if these Series meet the required criteria. The Company has entered into interest rate swaps (IRS) specifically to economically hedge the interest rate risk on the fixed rate mortgages within each Series. The derivatives within each new 2021 Series share the same risk, interest rate risk, with the mortgage assets which gives rise to opposite changes in fair value across the two financial assets that tend to offset each other. Instruments such as derivatives must be measured at FVTPL. Designating the mortgage assets as at FVTPL will avoid a measurement mismatch in accordance with IFRS 9.

In addition, measuring the financial liabilities within each Series at amortised cost will also result in an accounting mismatch. As a result, the Company has also elected to measure the financial liabilities of Series 2021-01 and Series 2021-2 at fair value through profit or loss in order to reduce the accounting mismatch.

10. Trade and other receivables

	2022 £000	2021 £000
Interest receivable	**81**	136
Other receivables	**52**	62
Unpaid share capital	**38**	38
	171	236

11. Cash and cash equivalents

	2022 £000	2021 £000
Cash at bank	**33,160**	22,312
Reserve accounts	**11,848**	19,991
	45,008	42,303

The reserve funds are restricted funds and can only be used as set out in the 'Liquidity risk' section of note 17.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

12. Trade and other payables

	2022	2021
	£000	£000
Corporation tax payable	**-**	1
Other payables	**17,548**	9,249
Interest payable	**3,024**	990
Creditors	**274**	528
Repayment due to LLP	**-**	1,041
	20,846	11,809

The repayment due to LLP is interest free, unsecured and payable on demand.

13. Derivative financial instruments

	2022	2021	**Notional 2022**	Notional 2021
	£000	£000	**£000**	£000
Derivative financial assets	**32,320**	4,810	**388,945**	285,932
Derivative financial liabilities	**-**	(1,705)	**-**	180,526
	32,320	3,105	**388,945**	466,458

The Balance guarantee swap for Series 2018-1 was issued to economically hedge against interest rate risk and prepayment of the underlying mortgages and the interest rate swaps for Series 2021-1 and 2021-2 were issued to economically hedge against the difference in interest rates between the fixed and floating rate mortgage loans and the floating rate Loan Notes. The Company is the swap contract fixed rate payer. The terms of the swap contracts are detailed in the table below:

	2018-1*	**2021-1**	**2021-2**
Fixed interest rate	1.21%	0.3735%	1.25%
Maturity date	15 November 2023	15 May 2026	15 November 2026

* The Balance guarantee swap for Series 2018-1 was terminated on the first call date of 15 February 2023, when the Series was redeemed. See Note 20.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

14. Long term borrowings

	2022	2021
	£000	£000
Loan Notes held at amortised cost	**55,921**	185,402
Loan Notes held at FVTPL	**489,196**	589,392
	545,117	774,794

For all new series established from 1 January 2021, the Company irrevocably elected to designate all financial assets and liabilities at fair value through profit and loss to eliminate an accounting mismatch that would exist between the mortgage loans, the Loan Notes and the interest rate swaps if any of these financial instruments were not measured at fair value. There is also an innate link between the mortgage loans, the loan notes and the DCI instruments created by the quarterly waterfall, both in terms of valuation and performance. As a result, the Loan Notes are reflected at fair value for Series 2021-1 and 2021-2.

The Company has charged by way of security to the Note Trustee its rights to receive principal and interest on the deemed loans.

All Series Note issuances are denominated in GBP pounds sterling.

The terms of the Loan Notes for each Series are listed below.

Class of Notes	Initial principal amount £000	Issue Price	Interest	Annual margin prior to step-up	Step-up date	Annual margin after step-up	Maturity
Series 2018-1							
A	265,032	100%	SONIA	0.72%	Feb 2023	1.08%	May 2050
B	19,440	100%	SONIA	1.00%	Feb 2023	1.50%	May 2050
C	21,060	100%	SONIA	1.40%	Feb 2023	2.10%	May 2050
D	8,748	100%	SONIA	1.80%	Feb 2023	2.70%	May 2050
Z1	9,720	100%	n/a	n/a	n/a	n/a	May 2050
Z2	6,480	100%	n/a	n/a	n/a	n/a	May 2050
S*	2,100	100%	n/a	n/a	n/a	n/a	May 2050

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

14. Long term borrowings (continued)

Class of Notes	Initial principal amount £000	Issue Price	Interest	Annual margin prior to step-up	Step-up date	Annual margin after step-up	Maturity
Series 2021-1							
A	276,709	100%	SONIA	0.75%	May 2026	1.125%	May 2051
B	15,458	100%	SONIA	1.20%	May 2026	1.800%	May 2051
C	4,637	100%	SONIA	1.55%	May 2026	2.325%	May 2051
Z1	6,183	100%	n/a	n/a	May 2026	n/a	May 2051
Z2	6,183	100%	n/a	n/a	May 2026	n/a	May 2051
Z3	3,092	100%	n/a	n/a	May 2026	n/a	May 2051
X	20,096	100%	SONIA	4%	May 2026	4%	May 2051
S	3,000	100%	n/a	n/a	May 2026	n/a	May 2051
Series 2021-2							
A	223,047	100%	SONIA	0.80%	May 2026	1.200%	May 2052
B	17,207	100%	SONIA	1.20%	May 2026	1.800%	May 2052
C	8,285	100%	SONIA	1.35%	May 2026	2.025%	May 2052
D	3,824	100%	SONIA	2.00%	May 2026	3.000%	May 2052
E	2,549	100%	SONIA	3.50%	May 2026	4.500%	May 2052
Z	2,549	100%	n/a	n/a	May 2026	5.000%	May 2052
X	10,300	100%	SONIA	3.90%	May 2026	3.900%	May 2052
S	2,549	100%	SONIA	3.25%	May 2026	3.250%	May 2052

The Z and S Notes in Series 2018-1 are part of the impediments to de-recognition of the underlying mortgage loans held by the LLP. Accordingly, they have not been separately recognised in the financial statements and are netted off against the deemed loan.

*The S Notes in Series 2018-1 were all fully repaid by 31 December 2018.

The Investment Member of Series 2018-1 exercised their call rights and the series was terminated and the Loan Notes repaid on 15 February 2023.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

15. Reconciliation of opening and closing balance of financial liabilities arising from financing activities

	2022 £000	2021 £000
Loan Notes at amortised cost		
Opening balance at 1 January	**185,402**	295,613
Notes redeemed	**(129,481)**	(110,211)
Closing balance at 31 December	**55,921**	185,402
Loan Notes at fair value		
Opening balance at 1 January	**589,392**	-
Notes issued	-	605,668
Notes redeemed	**(86,618)**	(12,341)
Movement in fair value	**(13,578)**	(3,935)
Closing balance at 31 December	**489,196**	589,392
		-
Total Loan Notes		
Opening balance at 1 January	**774,794**	295,613
Notes issued	-	605,668
Notes redeemed	**(216,099)**	(122,552)
Movement in fair value	**(13,578)**	(3,935)
Closing balance at 31 December	**545,117**	774,794

	2022 £000	2021 £000
R2 DCI liability **		
Opening balance	**8,267**	4,999
R2 DCI repaid	**(2,011)**	(3,016)
Amortisation for the year	**44**	(16)
Additions during the year	-	5,818
Fair value movement on R2 DCI	**405**	482
Closing balance	**6,705**	8,267
Presented as:		
Current liabilities	-	1,967
Non-current liabilities – R2 DCI	**6,705**	6,300
	6,705	8,267

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

15. Reconciliation of opening and closing balance of financial liabilities arising from financing activities (continued)

	2022 £000	2021 £000
General facility		
Opening balance	-	345
General facility repaid	-	(345)
Closing balance	-	-
Presented as:		
Trade and other payables	-	-
Long-term borrowings	-	-
	-	-

** The investment member in Series 2018-1 opted to have £15 million paid directly to them from the Company. The R2 DCI liability represents the outstanding part of this £15 million. It is repayable quarterly on each interest payment date from May 2018 according to the priority of payments set out in the transaction documents, until the full £15 million has been paid to the extent there are sufficient funds available. It therefore has no predetermined final maturity date and it doesn't bear interest. The R2 DCI liability ranks senior to the R3 DCI but junior to all other Notes and secured creditors.

The fair value movement on R2 DCI relates to Series 2021-1 and 2021-2 which have their financial assets and liabilities measures at fair value. This is the fair value of the expected residual payments in future. It therefore has no predetermined final maturity date and it doesn't bear interest. It ranks junior to all other Notes and secured creditors.

16. Share capital

	2022 £000	2021 £000
Authorised		
50,000 £1 shares	**50**	50
Allotted and called up		
50,000 £1 shares £0.25 paid	**13**	13
50,000 £1 shares £0.75 unpaid	**37**	37
	50	50

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

17. Financial Instruments

The Company's financial instruments are summarised in the table below including their classification in accordance with IFRS 9. It is and has been throughout the year the Company's policy that no trading in financial instruments shall be undertaken.

31 December 2022	Financial assets/liabilities at amortised cost	Financial assets/liabilities at fair value through profit and loss
Financial assets	**£000**	**£000**
Deemed loan	40,454	-
Mortgage loans	-	454,847
Derivative financial assets	-	32,320
Trade and other receivables	171	-
Cash and cash equivalents	45,008	-
	85,633	487,167
Financial liabilities		
Trade and other payables	20,846	-
Loan Notes	55,921	489,196
R2 DCI liability	-	6,705
Derivative financial liabilities	-	-
	76,767	495,901

For all new series established from 1 January 2021 the Company irrevocably elected to designate all financial assets and liabilities at fair value through profit and loss to eliminate an accounting mismatch that would exist between the mortgage loans, the loan notes and the interest rate swaps if any of these financial instruments were not measured at fair value. There is also an innate link between the mortgage loans, the loan notes and the DCI instruments created by the quarterly waterfall, both in terms of valuation and performance.

IFRS 9 requires that changes in the fair value of a non-derivative financial liability designated at FVTPL that are attributable to changes in the credit risk of that liability should be recognized in other comprehensive income (OCI), not profit or loss, except in limited circumstances. The movement on the loan notes is directly related to the performance of the mortgage assets, and therefore deemed to be related to asset-specific performance risk, not credit risk, enabling it to be recognised in the profit and loss and not OCI. As a result, all the financial assets and liabilities for Series 2021-1 or 2021-2 are at fair value.

Cash and cash equivalents and short-term trade receivables/payables have been shown above at amortised cost because their carrying amount approximates their fair value.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

17. Financial Instruments (continued)

31 December 2021	Financial assets/liabilities at amortised cost	Financial assets/liabilities at fair value through profit and loss
Financial assets	£000	£000
Deemed loan	161,017	-
Mortgage loans	-	588,339
Derivative financial assets	-	4,810
Trade and other receivables	236	-
Cash and cash equivalents	42,303	-
	203,556	593,150
Financial liabilities		
Trade and other payables	11,809	-
Loan Notes	185,402	589,392
R2 DCI liability	-	8,267
Derivative financial liabilities	-	1,705
	197,211	599,364

The main risks arising from the Company's financial instruments are credit risk, market risk, liquidity risk and operational risk.

Credit risk
Credit risk is the risk that the borrowers of the underlying mortgage loans will not be able to meet their obligations as they fall due.

For each Series, the underlying mortgage loans are required to adhere to specific lending criteria and late payments are subject to regular reviews by Fleet Mortgages Limited (the originator and servicer of the mortgages) to ensure credit risks are identified on a timely basis and losses are minimised. The Company has appointed Citibank as the Cash Manager to produce quarterly portfolio performance reports for each Series.

Credit Scorecard *(applicable to each Series)*

At the reporting date, 99.95% of the underlying mortgages were neither past due nor impaired.

There has been 1 instances of default during the year (see definition of default in note 1) (2021: 1). As at the Statement of Financial Position date, 6 underlying mortgages are considered to be underperforming but not in default, and in arrears exceeding 30 days (2021: 4). Further details are set out in note 1.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

17. Financial Instruments (continued)

Credit risk (continued)

Key lending criteria and scoring characteristics

Typical Lending Criteria	Up to 80% Loan-to-Value Rental Cover down to 120% Lending in England and Wales properties
Customer Profile	Private investors Professional & Semi-professional landlords
Exclusion	No Credit Bureau Data Credit Bureau Score <200 Northern Ireland & Scotland properties

The current Loan-to Value ("LTV") for all the underlying mortgages ranges from 0%-82%. For the tables below, an indexed valuation (using regional HPI data to 31 December 2022) of the underlying collateral property has been used to provide a more representative valuation as at the Statement of financial position date and to account for average regional price movements since the individual loan was originated.

All series			
LTV	**Percentage**	**Number**	**Value £000**
>80%	**0%**	**36**	**6,034**
>75% <80%	**5%**	**1,020**	**257,533**
>50% <75%	**11%**	**1,204**	**310,550**
>25% <50%	**1%**	**92**	**19,683**
<25%	**83%**	**1,782**	**1,312**
Total	**100%**	**4,134**	**595,113**

If the current collateral value for the buy-to-let mortgages decreased by 31% at the least, based on the BoE stress scenario lowest level, this would cause the LTV range to be in the range of 19% to 92%. There has been 1 instance (2021: 1) of borrower default during the year on the underlying mortgages therefore, it is unlikely that the deemed loan would not be recoverable. Additionally, we are not aware of any instances where the underlying mortgages have been restructured, similar to prior year. Any potential ECL from this extreme scenario of a fall in collateral value of 31% would likely be £629k. The Company however, would not be expected to suffer this credit loss because the fall in collateral values could be absorbed by the company's credit enhancements of £24.7m (see note 17, 2021: £44.6m).

The Statement of financial position carrying amounts represent the Company's maximum exposure to credit risk. As the Company recognises deemed loans in the statement of financial position, the impairment assessment considers the effective credit enhancements below which suffer any first loss incurred on the underlying mortgage loans.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

17. Financial Instruments (continued)
Credit risk (continued)

Credit enhancements

	2022 £000 Series 2018-1	2022 £000 Series 2021-1	2022 £000 Series 2021-2	2022 £000 Total	2021 £000 Total
S Notes	2,100	2,429	2,376	6,905	9,304
Z Notes (reserve funds)	16,200	2,048	1,713	19,961	40,098
	18,300	4,477	4,088	26,866	49,402
Less Notes repaid to LLP	(2,196)	-	-	(2,196)	(4,796)
Balance of credit enhancements	16,104	4,477	4,088	24,670	44,606

The Company has Series specific reserve funds to fund any cash flow deficits (see liquidity risk section below for more details)

The table below provides further information on the mortgage loans by payment due status as at the last Interest Payment Date on 31 October 2022. These figures have not changed materially as at 31 December 2022.

Gross mortgage loans	**2022 £000**	**2022 %**	2021 £000	2021 %
Not impaired				
Stage 1*	**542,610**	**99.70**	756,165	99.81
Impaired				
Stage 2	**1,341**	**0.25**	633	0.09
Stage 3	**299**	**0.05**	786	0.10
Repossessions	-	-	-	-
	544,250	**100**	757,584	100

*The value shown above is that of the underlying mortgages at cost and not that of the deemed loans nor the underlying mortgages at fair value.

Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems within one or more of the Company's third-party providers or from external events. For all Series, the Company appointed Fleet Mortgages Limited ("Fleet") as its mortgage servicer and Citibank as its cash manager and bank account provider. Mortgage servicer operational risk is mitigated by having a back-up servicer in place. The cash manager has adequate back-up facilities in case of operational failure and where the Company finds the need to terminate the services of the cash manager, a grace period is given to find a suitable replacement under the terms of the transaction documents.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

17. Financial instruments (continued)

Market risk
Market risk is the risk that changes in market prices will affect the Company's income or the value of the financial instruments. Market risk comprises foreign currency risk, interest rate risk and price risk.

Foreign currency risk
All transactions and financial instruments are denominated in the Company's functional currency (pound sterling) and consequently no currency exposure arises.

Interest rate risk
Interest rate risk exists where assets and liabilities have interest rates set under different bases or which reset at different times. The Company has issued various Series of floating rate Notes and the underlying mortgage loans are both fixed and floating rate loans. The Company economically hedges its interest rate risk by entering into swap agreements with suitably rated counterparties and the directors closely monitor the impact of any remaining exposure.

To conform to the LIBOR reform, the reference for the floating rate interest on the notes, derivative financial instruments and the underlying mortgage loans changed from LIBOR to SONIA. This was adopted at inception for Series 2021-1 and 2021-2 and for Series 2017-1 and 2018-1, it was adopted in February 2022. Series 2017-1 terminated in August 2022.

The interest rate risk profile of the Company's financial assets and liabilities is shown below:

31 December 2022	Total Non-interest bearing £000	Total variable £000	Total fixed £000	Weighted average interest rate %
Financial assets				
Deemed loan	-	40,277	177	4.83
Mortgage loans	-	72,240	382,607	3.82
Derivative financial assets	-	32,320	-	4.63
Trade and other receivables	171	-	-	-
Cash and cash equivalents	-	45,008	-	1.45
	171	189,845	382,784	
Financial liabilities				
Trade and other payables	20,846	-	-	-
Loan Notes	-	545,117	-	2.35
R2 DCI liability	-	6,705	-	14.05
	20,846	551,822	-	

The fixed rate mortgages were taken for a maximum of 5 years from origination. They will revert to variable rate in a few years' time, at which point the interest rate risk on the assets and liabilities will be matched. In the meantime, the risk is managed by having interest rate swap contacts in place.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

17. Financial instruments (continued)

Interest rate risk (continued)

31 December 2021	Total Non-interest bearing £000	Total Variable £000	Total fixed £000	Weighted average interest rate %
Financial assets				
Deemed loan	-	112,719	48,298	4.44
Mortgage loans	-	91,552	496,788	(0.17)
Derivative financial assets	-	4,810	-	0.48
Trade and other receivables	236	-	-	-
Cash and cash equivalents	-	42,303	-	0.01
	236	251,384	545,086	
Financial liabilities				
Trade and other payables	11,809	-	-	-
Loan Notes	-	774,794	-	1.09
Derivative financial liabilities	-	1,705	-	0.48
R2 DCI liability	-	8,267	-	7.59
	11,809	784,766	-	

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its seller, or factors affecting similar financial instruments traded in the market. The Company is exposed to price risk because of changes in the market values of the Loan Notes and derivatives. The Loan Notes issued by the Company are Limited recourse in nature and the Company is only expected to pay its Noteholders to the extent of the income it receives. The Company therefore has no material price risk because it can only pay out what it receives.

The fair value of the mortgages loans is the net fair value of all financial instruments which gives the Company a net asset value of nil. As a result, any change in fair value of the Loan Notes or derivatives will have an equal but opposite effect on the fair value of the mortgage loans, resulting in no impact on the Company.

The Company uses the hierarchy below for determining and disclosing the fair value of financial instruments by valuation technique.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

17. Financial instruments (continued)

Price risk (continued)

Fair value hierarchy

Quoted market prices - Level 1

Financial instruments, the valuations of which are determined by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Valuation technique using observable inputs - Level 2

Financial instruments that have been valued using inputs other than quoted prices as described for level 1 but which are observable for the asset or liability, either directly or indirectly.

Valuation technique using significant unobservable inputs - Level 3

Financial instruments, the valuation of which incorporates significant inputs for the asset or liability that are not based on observable market data (unobservable inputs). Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product. These inputs are generally determined based on observable inputs of a similar nature, historic observations on the level of the input or analytical techniques.

Financial instruments recognised at fair value in the statement of financial position:

31 December 2022	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets				
Mortgage loans	-	-	454,847	454,847
Derivative financial instruments – IRS	-	32,320	-	32,320
Financial liabilities				
Loan notes	-	489,196	-	489,196
R2 DCI at fair value	-	-	6,705	6,705

17. Financial instruments (continued)

Price risk (continued)

Financial instruments recognised at fair value in the statement of financial position:

31 December 2021	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Mortgage loans	-	-	588,339	588,339
Derivative financial instruments - IRS	-	4,810	-	4,810
Financial liabilities				
Loan notes	-	589,392	-	589,392
R2 DCI at fair value	-	-	6,300	6,300
Derivative financial instruments - IRS		1,545	-	1,545
Derivative financial instruments - BGS	-	-	160	160

Financial instruments not recognised at fair value in the statement of financial position

31 December 2022	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial assets				
Deemed loans	-	-	**59,019**	**59,019**
Financial liabilities				
Loan Notes	-	**56,121**	-	**56,121**

31 December 2021	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Deemed loans	-	-	202,589	202,589
Financial liabilities				
Loan Notes	-	185,772	-	185,772
R2 DCI at amortised cost	-	-	1,950	1,950

The balances above exclude cash and cash equivalents and short-term trade receivables/payables as the carrying amount of such instruments approximates their fair value.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

17. Financial instruments (continued)

Price risk (continued)

The table below shows the movement in level 3 financial instruments during the year:

	Opening balance	Additions during the year	Disposals/ transfers during the year	Change in fair value/ amortisation	Transfer from level 2	Closing balance
	£000	£000	£000	£000	£000	£000
Mortgage loans	588,339	-	(91,665)	(41,827)	-	454,847
R2 DCI	6,300	-	-	405	-	6,705
BGS	160	-	-	(160)	-	-

The impact of a change in the fair value of the mortgage loans if different levels of the spread were applied is set out below:

	Impact of a + 10% increase in discount rate	Impact of a - 10% decrease in discount rate
	£000	£000
2021-1	7,492	- 7,492
2021-2	8,567	- 8,567

Liquidity risk

The Company maintains Series specific Main Reserve Funds to cover any revenue and principal shortfalls. There are also balance guarantee swaps in place to mitigate against prepayment risk which could affect liquidity if not mitigated.

The reserves are funded from proceeds of the class Z Notes of each Series. In the event that the Series reserves fall below their target amount, they will be topped up from the Series revenue receipts after the Class C, D or E interest according to the Series revenue priority of payments. The Series reserves will remain in place until such time as the class C, D or E Notes have been redeemed in full, when they will be released as a principal receipt. The Company also maintains Series Liquidity Reserve Funds. These reserves will be built up through principal receipts as the most senior items in the principal priority of payments. Once fully funded to the various levels stated in each Series prospectus, the reserves will be topped up from collections income to the extent necessary to maintain their balance at the target amounts. They are available to cover senior fees and interest shortfalls on the class A and B Notes for all Series. The target amount will fall to zero once the class B Notes have been paid in full, with any balance released and paid in accordance with the Series principal priority of payments. In the event of a shortfall, the residual Note holders will suffer the loss.

The table below shows discounted expected cash flows of financial liabilities of the company at the statement of the financial position date based on terms of the notes. This presentation is considered by the Company to appropriately reflect the liquidity risk arising from those financial liabilities, presented in a way that is consistent with how the liquidity risk on these financial statements is managed by the Company.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

17. Financial Instruments (continued)

Liquidity risk (continued)

31 December 2022

	Less than 1 year	1-2 Years	2-5 Years	More than 5 years	Total
	£000	£000	£000	£000	£000
Financial assets					
Deemed loans	40,454	-	-	-	40,454
Mortgage loans	-	-	454,847	-	454,847
Derivative financial assets	-	-	32,320	-	32,320
Trade and other receivables	171	-	-	-	171
Cash and cash equivalents	45,008	-	-	-	45,008
Financial liabilities					
Trade and other payables	(20,846)	-	-	-	(20,846)
Loan Notes	-	(55,921)	(489,196)	-	(545,117)
Derivative financial liabilities	-	-	-	-	-
R2 DCI liability at fair value	(6,705)	-	-	-	(6,705)

31 December 2021

	Less than 1 year	1-2 Years	2-5 Years	More than 5 years	Total
	£000	£000	£000	£000	£000
Financial assets					
Deemed loans	63,472	97,545	-	-	161,017
Mortgage loans	-	-	588,339	-	588,339
Derivative financial assets	-	-	4,810	-	4,810
Trade and other receivables	236	-	-	-	236
Cash and cash equivalents	42,303	-	-	-	42,303
Financial liabilities					
Trade and other payables	(11,809)	-	-	-	(11,809)
Loan Notes	(78,567)	(106,835)	(589,392)	-	(774,794)
Derivative financial liabilities	-	(160)	(1,545)	-	(1,705)
R2 DCI liability at fair value	(8,267)	-	-	-	(8,267)

The notes are subject to mandatory redemption on their respective final maturity dates. If borrower repays any amount due on the loans earlier than the contractual loan terms, any such amount would need to be paid to noteholders.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

17. Financial Instruments (continued)

Fair values

The fair values of the Company's financial assets and liabilities are shown below.	**Carrying value 2022 £000**	**Fair value 2022 £000**	Carrying value 2021 £000	Fair value 2021 £000
Financial assets				
Deemed loans	**40,454**	**59,019**	161,017	202,589
Mortgage loans	**454,847**	**454,847**	588,339	588,339
Derivative financial assets	**32,320**	**32,320**	4,810	4,810
Trade and other receivables	**171**	**171**	236	236
Cash and cash equivalents	**45,008**	**45,008**	42,303	42,303
	572,800	**591,365**	796,705	838,278
Financial liabilities				
Trade and other payables	**20,846**	**20,846**	11,809	11,809
Loan Notes - at amortised cost	**55,921**	**56,121**	185,402	185,772
Loan Notes at fair value	**489,196**	**489,196**	589,392	589,392
Derivative financial liabilities	**-**	**-**	1,705	1,705
R2 DCI Liability at amortised cost	**-**	**-**	1,967	1,950
R2 DCI liability at FVTPL	**6,705**	**6,705**	6,300	6,300
	572,668	**572,668**	302,535	301,908

The fair values of the deemed loans and mortgage loans are derived from the fair value of all their financial instruments to give the Company a nil net asset value. The fair value of the balance guaranteed swap agreements is based on the interest rate curve and prepayment profile of the underlying fixed rate mortgages and the fair value of the Loan Notes is based on vendor prices. The interest rate swap, general facility and the R2 DCIs are valued on the basis of discounted future cash flows.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

18. Related party transactions

The LLP is the holder of the Z and S Loan Notes as well as the and R3 DCIs (for Series 2018-1). The LLP is also the programme servicer for the Company, charged with the overall responsibility for the running of the programme. Law Debenture Corporate Services Limited ("Law Deb") charges a management fee for the provision of a range of services including provision of all of the directors.

The related party transactions between the Company and its related parties are summarised as follows:

	Related party	**2022 £000**	2021 £000
Statement of comprehensive income			
Interest income on deemed loans	LLP	**4,603**	8,418
Deferred consideration expense	LLP	**(1,714)**	(4,141)
Corporate service fee	Law Deb	**(84)**	(87)
Statement of financial position			
Deemed loans from LLP	LLP	**40,454**	161,017
Collections due from LLP	LLP	**27**	73
Share capital receivable	Holdings	**37**	37
R2 DCI liability	LLP	-	(1,967)
Accrued corporate service fee	Law Deb	**(27)**	(26)

19. Ultimate parent undertaking

The Company's immediate parent company is London Wall Mortgage Capital Holdings Limited ("Holdings"), a Company registered in England and Wales. The entire share capital of Holdings is held on trust for discretionary charitable purposes by The Law Debenture Intermediary Corporation plc. Both investment members of the different series, (CSV and LLP) can exercise call options and can wind up the individual series but they cannot wind up the company. Furthermore, the trustees are not entitled to any economic benefits from the Company and the beneficiaries do not have any decision-making power, and they do not control the Company. The Company therefore, has no ultimate controlling party.

20. Post balance sheet events

Since the date of the Statement of Financial Position, repayments for the mortgage assets have continued in line with expectations. Although any wider macroeconomic implications on the Company are harder to quantify at the moment, the Directors are continuing to monitor the situation.

The Investment Member of Series 2018-1 exercised their call rights and the series was terminated and the Loan Notes repaid on 15 February 2023.